# INTERIM PRUDENTIAL SOURCEBOOK FOR BANKS (AMENDMENT NO 3) INSTRUMENT 2003

## Powers exercised

A. The Financial Services Authority makes this instrument in the exercise of the power in section 157(1) of the Financial Services and Markets Act 2000 (Guidance).

## Commencement

B. This instrument comes into force on 1 May 2003.

## Amendments to the Interim Prudential sourcebook for banks

C. The Interim Prudential sourcebook for banks is amended in accordance with the Annex to this instrument.

## Citation

D. This instrument may be cited as the Interim Prudential Sourcebook for Banks (Amendment No 3) Instrument 2003.

By order of the Board
20 March 2003

**Annex**

**Amendments to IPRU(BANK)**

In this Annex, underlining indicates new text and striking through indicates deleted text.

**Chapter BC Section 3**

3 RISK WEIGHTING FRAMEWORK:ON BALANCE SHEET

3.2.5 50% weighting:

7 The following types of asset should attract a 50%weighting:

(a) loans to individuals *fully* ~~and completely~~ *secured* by a first priority charge on residential property that is (or is to be) occupied by the borrower or is rented;

"*fully secured*" means the value of property should be greater than or equal to the value of the loan (ie maximum loan to value of 100%). There is no requirement to revalue properties on a regular basis, but where such a valuation has found that the loan to value ratio exceeds 100% such loans should be weighted at 100%. (However, if the shortfall in the security value is fully covered by a specific provision, the net amount of the exposure may continue to be weighted at 50%). Conversely, where revaluation indicates that the loan to value ratio has fallen to 100% the loan may be weighted at 50%.

(b) Loans to ~~housing associations~~ registered social landlords, registered with the Housing Corporation or ~~Scottish Homes~~ Communities Scotland or the ~~Welsh Office~~ National Assembly for Wales, *fully secured* by a mortgage on residential property that is:

(i) already let; or

(ii) under development and will be let, on condition that the development attracts ~~Housing Association Grant (HAG)~~ Social Housing Grant (SHG) and/or other public subsidy on equivalent terms, of an amount equal to or greater than, 50% of the approved total scheme cost, the security for which is subordinated to the loan, where the funding body has legally committed itself to the full payment of the subsidy.

(c) loans to public universities, *fully secured* by a mortgage on residential property that is:

(i) already let; or

(ii) under development and will be let, on condition that the lender is in possession of a certificate, issued by a quantity surveyor or architect appointed by the bank, showing work to the value of 20% of the projected finished end value of the product (excluding cost of land) has been completed, prior to any draw down under the loan;

and can readily be sold or let in the non-student market.

~~(c)~~(d) mortgage sub-participations, where the risk to the sub-participating bank is fully and specifically secured against residential mortgage loans which would themselves qualify for the 50% weight;

~~(d)~~(e) mortgage-backed securities (MBS), issued by special purpose mortgage finance vehicles, where the following ~~applies~~ conditions are met:

(i) the notes embody an express promise to repay the ~~bearer~~ noteholder;

(ii) the issue documentation contains provisions which would ultimately enable noteholders to initiate legal proceedings directly against the issuer of the MBS. As an example such provisions would allow noteholders to proceed against the issuer where the trustee, having become bound to take steps and/or to proceed against the issuer, fails to do so within a reasonable time and such failing is continuing;

(iii) the documentation contains provisions which would ultimately enable noteholders to acquire the legal title to the security (i.e. the mortgagee's interest in it) and to realise the security in the event of a default by the mortgagor;

(iv) under the issue:

a) the mortgage loans ~~are fully secured against residential mortgages, with a first priority charge~~ themselves qualify for the 50% weight (see Chapter 3.2.5.7(a), (b) and (c) above); and

b) the mortgage loans are not in default at the time at which they are transferred to the vehicle;

(v) the vehicle's activities are restricted by its articles of association to mortgage business. The vehicle may hold assets qualifying for a risk weighting of 50% or less.

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~~value ratio has fallen to 100% the loan may be weighted at 50%.~~

~~(e) loans to public universities, fully secured by a mortgage on residential property that is:~~

~~(i) already let; or~~

~~(ii) under development and will be let, on condition that the lender is in possession of a certificate, issued by a quantity surveyor or architect appointed by the society, showing work to the value of 20% of the projected finished end value of the product (excluding cost of land) has become completed, prior to any draw down under the loan; and~~

~~(iii) can readily be sold or let in the non-student market.~~