Jersey Financial Services Commission

GUIDANCE NOTE ON CRITERIA FOR CLASSIFICATION AS A RETAIL EXPOSURE AND / OR AS A RESIDENTIAL MORTGAGE – ISSUED OCTOBER 2007

Retail Exposures

To be included in the "Regulatory Retail Portfolio", claims must meet the following four criteria:

- Orientation criterion: The exposure is to an individual person or persons or to a small business (less than £2m turnover and balance sheet footings);
- Product criterion: The exposure takes the form of any of the following: revolving credits and lines of credit (including credit cards and overdrafts), personal term loans and leases (e.g. instalment loans, auto loans and leases, student and educational loans, personal finance) and small business facilities and commitments. Securities (such as bonds and equities), whether listed or not, are specifically excluded from this category. Mortgage loans are excluded to the extent that they qualify for treatment as claims secured by residential property (see below).
- Granularity criterion: The Commission must be satisfied that the "Regulatory Retail Portfolio" is sufficiently diversified to a degree that reduces the risks in the portfolio, warranting the 75% risk weight. Accordingly, in defining what constitutes a significant number of *retail exposures* (for diversification), a reporting institution need only satisfy itself that the number of *retail exposures* is sufficiently large to diversify away idiosyncratic risk. This assessment will be subject to supervisory review and part of a reporting institution's SREP. The Commission requires each bank to set out its criteria and may, where necessary, require changes to be made if the bank is to be allowed to utilise the 75% risk weight.
- Low value of individual exposures. The maximum aggregated retail exposure to one counterparty or connected counterparties cannot exceed an absolute threshold of £750,000.

Residential mortgages

The Commission has set the following criteria:

- The security may be indirect – an example of this would be where the security held comprised shares where the share ownership conferred ownership of a property e.g. share transfer ownership;
- The lending may either be directly to an individual or to a corporate structure.
- If the lending is to a corporate structure, the reporting institution must have recourse to the beneficial owner in the event of default.
- The properties must be either occupied by the borrower or rented to natural persons. In the case of the latter, a property (or property portfolio) should not comprise more than 10 rental units / properties.
- For claims secured by residential properties with loan-to-value ratios of up to 80% a risk weight of 35% will apply. For higher LTVs a risk weight of 75% will apply on that portion above 80% LTV.
- If a bank does not hold information regarding LTVs for individual exposures, a risk weighting of 50% will apply to the whole of those exposures.
- LTVs should be assessed on a regular basis, making use of relevant indices and market information where appropriate.