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Circular to all Commercial Banks and Credit Institutions

Guidance Note on Mortgage Banking Class

Following requests from some commercial banks regarding the provision of mortgage banking, Bank of Uganda wishes to make the following clarifications:

1. According to the second schedule of the Financial Institutions Act 2004, the main financial services that are provided by mortgage banks are:
   - Receiving deposits of participation in mortgage loans and in special accounts;
   - Granting of loans for the acquisition, construction, enlargement repair, improvement and maintenance of urban or rural real estate, and for the substitution of mortgages taken out for that purpose;
   - Giving of guarantees, bonds or other forms of collateral connected with the operations in which they may take part;
   - Obtaining of foreign loans and acting as intermediary in loans extended in local and foreign currency, having the previous authorization of the Central Bank for such loans exceeding a specified limit as prescribed by the Central Bank.

2. Commercial banks which would like to carry out some activities in the mortgage banking class should specifically state which activities they would seek to draw from that class. In this case, no separate licence will be required. Instead, a bank will be required to apply to Bank of Uganda for an amendment to the current commercial banking licence to include those activities of mortgage banking. Bank of Uganda will then conduct an assessment of that commercial bank, especially, with regard to source of funding risk management processes and capacity to carry out such activities.

3 The source of funding is very crucial if a commercial bank is to carry out mortgage banking because prudent management of the balance sheet is by matching assets with liabilities. The current balance sheet structures of commercial banks are composed mainly of short term assets and short term liabilities.

4. Statutory Instrument No. 46 (Financial Institutions (Liquidity) Regulations 2005) requires banks to bucket their deposits liabilities under various maturity ladders using both **contractual** and **anticipated** approach. The purpose of this two tier reporting system is to capture such core deposits that can be lent over a short to medium term as stipulated under the main financial services conducted by commercial banks (***Provision of overdrafts and short to medium term loans***). Any commercial bank that intends to carry out some activities under a mortgage banking class will have to prove with certainty to Bank of Uganda what constitutes the core deposits.

5. On the other hand, if a commercial bank intends to do full blown mortgage banking, i.e. to do everything that a mortgage bank can do, such a bank will be required to set up another entity or subsidiary whose business will be assessed and licenced by Bank of Uganda as a standalone mortgage banking business.

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