

BANK OF UGANDA

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SUPERVISION



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Circular to All Chief Executives of Commercial Banks

Loan to Value Ratio on Foreign Currency Loans for Land Purchase

In order to limit the exposure of commercial banks to adverse movements in real estate prices, Bank of Uganda (BOU) has decided to set a limit of **70 percent** on the Loan-to-value (LTV) ratio of foreign currency loans disbursed for land purchase. The application of the limit will be effective from **May 30, 2016**.

The loan-to-value ratio is derived by dividing the loan amount disbursed by the appraised forced sale value of the land and is expressed as a percentage. All foreign currency loans disbursed for land purchase should not exceed 70 percent of the appraised forced sale value of the land or any other real estate offered as collateral.

All commercial banks are again reminded to ensure that any customer who borrows in foreign currency has a defined income in that currency in line with the Financial Institutions (Foreign Exchange Business) Rules, 2010, in which Rule 7 stipulates that;

'Lending in foreign currency shall have a maximum maturity of not more than one year unless the borrower has a clearly defined income stream in the currency being borrowed that matches the longer-term maturity of the loan'.

Please be advised that non-compliance with this directive will attract severe administrative sanctions.

J Bagyenda (Mrs)

Executive Director Supervision