

**363-A LIMITS ON REAL ESTATE EXPOSURES AND OTHER REAL ESTATE PROPERTY OF
UBS/KBS.**

a. *Real Estate Loan Limit.* Total real estate loans of UB/KBs, excluding Items “(1)” to “(4)” below, shall not exceed twenty percent (20%) of the total loan portfolio, net of interbank loans:

- (1) Loans extended to individual households for purposes of financing the acquisition, construction, and/or improvement of housing units and acquisition of any associated land that is or will be occupied by the borrower, regardless of amount;
- (2) Loans extended to land developers/ construction companies for the purpose of development and/or construction of socialized and low-cost residential properties as defined under existing guidelines of the HUDCC for the implementation of government housing programs, which are intended for sale to individual households;
- (3) Loans to the extent guaranteed by the HGC; and
- (4) Loans to the extent collateralized by non-risk assets under existing regulations.

For this purpose, real estate loans shall refer to loans granted to:

- (a) individual households for the acquisition, construction and/or improvement of housing units and acquisition of any associated land that is or will be occupied by the borrower, including loans granted to bank officers and employees for the same purpose which are covered by bank’s fringe benefit plan and which plan was approved by the Monetary Board; and
- (b) land developers/construction companies and other borrowers for the acquisition and development of land and/or construction of buildings and structures, including housing units for sale/lease and/ or for use in retail/wholesale, manufacturing or other income-generating purposes, including loans for the land development and construction of residential properties.

It shall not include loans to finance the construction, rehabilitation and improvement of highways, streets, bridges, tunnels, railways, railroad, transport systems, ports, airports, power plants, hydropower projects, canals, dams, water supply, irrigation, telecommunications, land reclamation projects, industrial estates or townships, government buildings and housing projects, public markets, slaughterhouses, warehouses, civil work components of information technology networks and database infrastructure projects, solid waste management, sewerage,

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flood control, drainage, dredging and other infrastructure projects that are intended for public use.

Purchase by banks of receivables under Contract to Sell (CTS) executed between the real estate developers and home buyers on a with recourse basis shall be considered loans to real estate developers and shall be classified as commercial real estate loans.

Trust departments of UBS/KBs shall be exempted from the prescribed limit on real estate loans.

Under HUDCC guidelines, socialized and low-cost housing units are defined as follows:

Housing Units	Price Ceiling
Low-cost	
Level 1-A (Socialized)	450,000 and below
Level 1-B	Above 450,000 to P500,000
Level 2	Above P500,000 to 1,700,000
Level 3	Above 1,700,000 to P3,000,000

or in such other amounts which HUDCC may prescribe in the future for said housing units.

b. *Real Estate Stress Test (REST) Limits.* A prudential limit is set for real estate exposures and other real estate property of UBS/KBs. Real estate exposures shall refer to:

(1) Real estate loans (RELs), which shall consist of:

(a) Residential real estate loans to individual households for occupancy categorized under the following types of housing segments:

- (i) Socialized Housing;
- (ii) Low-Cost Housing;
- (iii) Mid-End Housing; and
- (iv) High-End Housing; and

(b) Commercial real estate loans, which shall refer to loans granted to the following:

- (i) individuals (including sole proprietorships);
- (ii) land developers/construction companies; and

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(iii) other corporate borrowers, such as

- (aa) real estate brokers;
- (bb) real estate lessors;
- (cc) property management companies;
- (dd) holding companies; and
- (ee) others;

for purposes of financing real estate activities;

- (2) Investments in debt securities issued by land developers/construction companies and other corporate borrowers, such as real estate brokers, real estate lessors, property management companies, for purposes of financing real estate activities; and
- (3) Investments in equity securities issued by land developers/construction companies and other corporate borrowers, such as real estate brokers, real estate lessors and property management companies, for purposes of financing real estate activities. Equity securities issued by holding companies are likewise covered, if proceeds from the issue shall be/has been invested by the holding company in its subsidiary corporation/s that is/are engaged in real estate activities.

Real estate activities shall refer to the acquisition, construction and improvement of real estate; buying and selling of real estate; rental of self-owned or leased real estate; and management of real estate/real property.

Real estate exposures shall not include loans and investments in debt and equity securities the proceeds of which are used to finance infrastructure projects for public use as defined under Item “a” of this Section.

Other real estate property shall include those recorded under Real and Other Properties Acquired and Non-Current Assets Held for Sale.

For this purpose, a stress test will be undertaken on a UB’s/KB’s REEs (Real Estate Exposures) and other real estate property under an assumed write-off of twenty- five percent (25%).

The prudential REST limits, which shall be complied with at all times by UBs/KBs, are six percent (6%) of Common Equity Tier I (CET1) capital ratio and ten percent (10%) of risk-based capital adequacy ratio, on a solo and consolidated basis, under the prescribed write-off rate.

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A UB/KB which does not meet either or both the REST limits shall be directed to explain why its exposures do not warrant immediate remedial action. The Monetary Board, upon the report of the appropriate supervising department of the Bangko Sentral, shall determine whether the UB/KB has been able to render sufficient explanation, otherwise, the UB/KB shall be directed to submit an action plan, within thirty (30) calendar days from date of notification, to meet the REST limits within a reasonable time frame.

A UB/KB which fails to submit an action plan or persistently breaches the REST limits due to non-compliance with the commitments in its submitted action plan may be considered to be engaging in unsafe or unsound banking, to be determined in accordance with Section 56 of R.A. No. 8791 as implemented by Sec. 181, and shall subject the UB/KB to appropriate sanctions.

(Circular Nos. 976 dated 10 October 2017, 890 dated 02 November 2015, and 839 dated 27 June 2014)