

New homeloan regulations

Q & A



As from 22 March 2017, prospective home loan applicants of second or subsequent residential properties will be required to pay a percentage of the purchasing price or market value of the property as a deposit. In this regard the Bank responds to certain questions regarding this regulation.

What is a Loan to Value ratio (LTV ratio)?

The loan-to-value ratio, is the ratio of the amount of money borrowed from a banking institution to purchase a property in relation to the purchase price of the property or the valuation of the property, whichever is lower.

How will this decision affect me as an individual?

If you are a first-time house buyer, this decision will not affect you as banking institutions will still be allowed to lend you 100% of the value of the house you want to buy. However, as from 22 March 2017, all prospective home loan applicants of a second residential property will be required to pay 20% of the market value of the residential property/home while the commercial bank will only finance 80% of the home loan. For a third loan the commercial bank will fund 70% while you must pay the remaining 30% yourself. A fourth multiple loan, you pay 40% of the value of the property and the commercial bank 60%. All other subsequent home loan applicants (5th, 6th etc.), will be required to pay 50% of the market value of the home.

How will this work in practice?

If you go to the bank asking for a home loan to buy a house costing N\$1 million, you will get the full N\$1 million if you are a qualifying first-time house buyer. If you are a qualifying second-time home loan applicant, you will only qualify for a home loan of N\$800,000.00, and you will have to pay the remaining N\$200,000.00 yourself, and so forth.

Does loan-to-value ratios apply even if my first property has been paid off?

In the event that the first residential property has been paid off completely. The prospective buyer will be treated as a first time buyer and will not be subjected to LTV's. It is important to note that the measure targets persons with multiple home loans or who are applying to own more than one property while still paying off their first, second, third etc. mortgage whichever the case might be.

How will this new regulation be implemented?

By law, banking institutions will be expected to implement the LTV ratios as part of their lending policies and procedures. The Bank of Namibia on the other hand will be responsible for ensuring that banking institutions comply with the regulation.

Is this a new regulation because my bank already asked for a 20% down payment on a second home?

No, in recent years, some commercial banks started implementing LTV ratios and prospective second time buyers of homes were required to pay 20% of the total loan value on a home. There was however no consistency as individual commercial banks used their own discretion. Going forward all commercial banks will be required by law, to enforce LTV ratios.

Is it possible for me to finance my second house using the equity of my first house?

Unfortunately not. Using equity of a first house to finance a second house will worsen the cycle of debt which the Bank of Namibia is discouraging. If you use home equity, you need to repay that amount in addition to your usual mortgage payment, and you might find yourself burdened with large principal and interest payments during the repayment period. This practice may send you deeper into debt.

Another reason why it is prohibited to use equity to finance a second property is that the property values in your area may decline. This may put you in a disadvantaged position, should you sell your house, because the value of your house might have declined in relation to the equity you have taken out to finance your second property.

Does the regulation also apply to commercial property?

LTV's only apply to residential properties.

Does LTV ratios only apply to residential property or does it also apply to undeveloped erven?

Commercial banks already require a LTV ratio of 60% on undeveloped erven regardless of whether you are a first time buyer or not. This is done in an effort to mitigate risk in the event that servicing of land and development does not take place, in order for the banking institution to recover their money. This requirement is beyond the scope of this regulation.

Why is the Bank of Namibia instituting this measure now?

The purpose of the introduction of the LTV is to lower the excessive risk the banking industry is exposed to. The real estate sector constitutes more than half of the total loans and advances. This poses a significant risk to financial stability in Namibia. In addition, the Bank would also like to discourage the practice of buying residential properties for speculative purposes.

