

CIRCULAR LETTER

Intended to

ALL COMMERCIAL BANKS
IN INDONESIA

Concerning: The Implementation of Risk Management at Banks that Lend Housing Loan and Auto Loan

Referring to Bank Indonesia Regulation Number 5/8/PBI/2003 concerning the Implementation of Risk Management for Commercial Banks (State Gazette of the Republic of Indonesia Year 2003 Number 56, Supplement to the State Gazette of the Republic of Indonesia Number 4292), as amended by Bank Indonesia Regulation Number 11/25/PBI/2009 (State Gazette of the Republic of Indonesia Year 2009 Number 103, Supplement to the State Gazette of the Republic of Indonesia Number 5029) and in order to increase the prudential manner of Banks that lend Housing Loan and Auto Loan, it is deemed necessary to regulate the lending Housing Loan and Auto Loan by Banks in Bank Indonesia Circular Letter as follows:

I. GENERAL PROVISIONS

- A. In line with the increasing of Housing Loan (KPR) and Auto Loan (KKB) as well as considering that the excessive growth of KPR and KKB has the potential to raise Risks, therefore Banks need to enhance their prudential principle in KPR and KKB lending.
- B. The excessive growth of KPR may lead to the rise of property asset prices that does not reflect the real price (bubble), which in turn can increase Credit Risk for banks with large exposure of property credit.

- C. To be able to keep an economy that is productive and face the challenges of the financial sector in the future, it is deemed necessary to have policies that can strengthen the resilience in financial sector to minimize sources of crisis that may occur, including the exceeding growth of KPR and KKB.
- D. Policy in order to increase the prudence of Banks in giving KPR and KKB as well as to strengthen resilience in financial sector is performed through the determination of the amount of Loan to Value (LTV) for KPR and Down Payment (DP) for KKB.

II. IMPLEMENTATION OF RISK MANAGEMENT AND PRUDENTIAL PRINCIPLES IN GIVING OF KPR AND KKB

Banks that distribute KPR and KKB are obliged to:

- A. implement Risk Management in accordance to Bank Indonesia Regulation Number 5/8/PBI/2003 dated 19th May 2003 concerning Implementation of Risk Management for Commercial Bank as amended by Bank Indonesia Regulation Number 11/25/PBI/2009, considering the existence of various Risks inherent in the referred activity, in particular Credit Risk and Liquidity Risk;
- B. prepare written policy and procedures that will become a reference in giving KPR and KKB by holding to the:
 - 1. Bank Indonesia Regulation Number 5/8/PBI/2003 dated 19th May 2003 concerning Implementation of Risk Management for Commercial Banks as amended by Bank Indonesia Regulation Number 11/25/PBI/2009;
 - 2. Decree of The Board of Managing Directors of Bank Indonesia Number 27/162/KEP/DIR dated 31st March 1995 concerning Obligation of Preparing and Performing of Bank Credit Policy for Commercial Banks;
 - 3. Bank Indonesia Circular Letter Number 12/38/DPNP dated 31st December 2010 concerning Guidelines for Preparing the Standard Operating Procedure of Home Mortgage Administration in Order of Securitization;

4. Bank Indonesia Circular Letter Number 13/6/DPNP dated 18 February 2011 concerning Guidelines for the Calculation of Risk Based Weighted Assets for Credit Risk by Using Standardized Approach; and
5. This Bank Indonesia Circular Letter.

III. THE SETTING OF LOAN TO VALUE (LTV) ON KPR

- A. The scope of KPR that is governed in this Bank Indonesia Circular Letter covers the consumption credit on residential ownership, including flat or apartment but excluding home office and home store, with the size of building more than 70m² (seventy meters square), which is lent by Bank to individual debtors with loan value that is determined by the collateral value.
- B. Ratio of Loan to Value (LTV) in this Bank Indonesia Circular Letter is the ratio between the loan value that can be disbursed by Banks and collateral value at the beginning of the loan period.
- C. The calculation of LTV ratio is performed as follows:
 1. Loan value is determined based on the loan ceiling that is received by debtors as mentioned in the loan agreement; and
 2. Collateral value is determined based on the value of collateral as approved by Banks.
- D. LTV ratio for KPR as governed in this Circular Letter is set at maximum of 70% (seventy percent).
- E. The LTV ratio as referred to in the article D is excluded from KPR under the Indonesian government housing program.

The Indonesian government housing program is the housing program as referred to in the prevailing legislations.

IV. ARRANGEMENT ON CREDIT DOWN PAYMENT OR DOWN PAYMENT OF KKB

- A. The scope of KKB in this Bank Indonesia Circular Letter covers credit that is given by Banks to debtors for the purchasing of the vehicle.
- B. What refers to Down Payment, hereinafter called as DP in this Bank Indonesia Circular Letter is payment in front or down payment in cash which the source of fund is from the debtors (self-financing) in term of purchasing the vehicle using credit.
- C. DP is determined by a certain percentage from the purchasing price of the vehicle that is going to be financed by the Bank.

DP for Banks that give KKB as governed in this Circular Letter is determined as follows:

- 1. The lowest DP is 25% (twenty five percent), for the purchasing of two-wheeled vehicles.
- 2. The lowest DP is 30% (thirty percent), for the purchasing of four-wheeled vehicles for non-productive usage.
- 3. The lowest DP is 20% (twenty percent), for the purchasing of four-or more-wheeled vehicles for productive usage, which is if fulfilling one of the following requirements:
 - a. is a vehicle that has the license for human or goods transportation that is issued by an authorized party; or
 - b. proposed by individual or legal entity that has certain business license that is issued by an authorized party and is used for supporting the operational activities of the owned business.

V. PROCEDURE OF SANCTION IMPOSITION

- A. Banks that violate the provisions as referred to in point III.D and/or point IV.C are penalized with the administrative sanction as referred to in Article 34 of Bank

Indonesia Regulation Number 5/8/PBI/2003 concerning Implementation of Risk Management for Commercial Banks as amended by Bank Indonesia Regulation Number 11/25/PBI/2009, in the form of written reprimand.

B. Aside from being penalized with administrative sanctions in the form of written reprimand as referred to in letter A, Banks are required to submit an action plan in a certain time limit that is determined by Bank Indonesia which includes the following:

1. commitment not to perform another violation toward the provisions as referred to in point III.D and/or point IV.C;
2. improvement/evaluation plan on Standard Operating Procedure (SOP) including time limit of the improvement/evaluation; and/or
3. Bank's action plan towards employees that perform the violation of the provisions as referred in point III.D and/or point IV.C.

C. Banks which:

1. do not submit the action plan or do not accomplish the action plan as referred to in letter B; and/or
2. perform another violation as referred to in point III.D and/or point IV.C after the action plan as referred to in point B is submitted,

are penalized with administrative sanction as referred to in Article 34 of Bank Indonesia Regulation Number 5/8/PBI/2003 concerning Implementation of Risk Management for Commercial Banks as amended by Bank Indonesia Regulation Number 11/25/PBI/2009.

D. Administrative sanction as referred to in letter C is:

1. Decrease of Bank soundness level;

Decrease in Bank soundness level as referred to in this Circular Letter includes the decrease of Bank soundness level assessment factors, such as risk profile factor and/or Good Corporate Governance (GCG) factor;
2. Suspension on certain business activities;

Suspension on certain business activities as referred to in this Circular Letter includes restrictions on giving KPR and/or KKB for a certain time period in Bank/branch/certain unit; and/or

3. Listing of member of management, employees, Bank and/or shareholder in the list of parties that has the predicate of not passing the proper and fit test or in Bank Indonesia administrative note as referred to in the applicable Bank Indonesia provisions.
- E. Violation on the obligation to submit the policy and procedures adjustment as referred to in point VII is penalized with sanction as referred to in Article 33 of Bank Indonesia Regulation Number 5/8/PBI/2003 dated 19th May 2003 concerning Implementation of Risk Management for Commercial Banks as amended by Bank Indonesia Regulation Number 11/25/PBI/2009 dated 1st July 2009.

VI. OTHER PROVISIONS

- A. LTV ratio for KPR as referred to in point III.D and the amount of DP for KKB as referred to in point IV.C can be adjusted from time to time in accordance to Indonesia economy condition.
- B. Bank Indonesia performs monitoring towards the performing of this Bank Indonesia Circular Letter such as through reporting of Debtor Information System (SID) by Banks as well as through Bank supervision and checking.

VII. TRANSITIONAL PROVISION

Banks that have written policy and procedures concerning the giving of KPR and KKB before this Circular Letter comes into force, are obliged to adjust the referred policy and procedure also reporting it to Bank Indonesia the latest of 3 (three) months after this Bank Indonesia Circular Letter comes into force.

VIII. CLOSURE PROVISION

The provisions of the LTV ratio for KPR and DP for KKB as referred to in point III.D and point IV.C shall come into effect on 15 June 2012.

This Bank Indonesia Circular Letter shall come into effect on 15 March 2012.

For public cognizance, it is ordered that this Bank Indonesia Circular Letter be published by placing it in Official Gazette of the Republic of Indonesia.

Please be informed accordingly.

BANK INDONESIA,

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MULIAMAN D. HADAD

DEPUTY GOVERNOR