PRA issues Mortgage Guarantee Scheme statement

20 April 2021

PRA has issued a **statement** on the prudential treatment of residential mortgage loans made under the government's new Mortgage Guarantee Scheme (MGS). Under the MGS the government guarantees a portion of the first losses (net of recoveries) on retail residential mortgage loans eligible for the scheme. As a result of the first loss guarantee, the following securitisation positions are created:

- the guaranteed portion of an MGS loan generates an exposure to the government as guarantor of the first loss on the loan;
- and the remaining part of an MGS loan is an exposure to the borrower, the risks of which are retained by the participating lender.

The tranching of the credit risk of an MGS loan into these two positions will result in firms calculating Risk Weighted Exposure Amounts in accordance with Article 234 and Chapter 5 of Title II of the UK CRR, and the definitions of securitisation and synthetic securitisation in Articles 4(61) and 242(14) of the UK CRR. Because the guaranteed portion of the first loss is provided on individual loans, each MGS loan will itself be treated as a pair of securitisation positions.

The approach a firm uses for credit risk purposes for its UK retail residential mortgage loans – the Standardised Approach or the Internal Ratings Based Approach – will determine how a firm calculates capital requirements for MGS loans.

PRA's full statement provides information on capital, notification, disclosure, and reporting requirements for loans under the MGS.

PRA makes clear in the statement that it does not provide an exhaustive commentary of the regulatory requirements for MGS loans and urges firms to review the relevant legislation and, as necessary, seek independent advice to satisfy themselves that they meet all applicable requirements.