

In conducting the day-to-day supervision of authorised institutions, the Monetary Authority often receives questions on regulatory issues. This column publishes the supervisory response to questions which cover matters of general interest.

Q. There has been a growing trend for the use of personal loans by authorised institutions to compete for residential mortgage business e.g. the so-called decoration loans as a package together with residential mortgages. What has been the HKMA's response to this trend?

A. The HKMA believes that such practice may undermine the integrity of the 70% loan-to-value guideline which has served the banking community very well so far. It is also concerned that individual institutions may lower their loan underwriting standards in order to compete for this business.

Therefore, the HKMA has urged institutions to exercise care in promoting such personal loans. Specifically, the HKMA consider that:

- (a) the credit decision for the personal loan should be independent of the mortgage loan;
- (b) the servicing costs of the personal loan should be taken into account in calculating the debt servicing ratio on the residential mortgage;
- (c) the personal loan should not be expressed as a percentage of the value of the property being purchased; and
- (d) the terms of the personal loan including loan amount, interest rate and duration should be consistent with the institution's established policies for personal loans for customers in general. In particular, institutions should avoid granting personal loans with a longer than normal maturity to make such loans "quasi-mortgage" loans.

Q. What is the HKMA's role in handling customer complaints against banks?

A. As banking regulator, the HKMA does have an interest in encouraging standards of good banking practice whereby banks act fairly and reasonably in relation to their customers. However, the oversight of "consumer issues" (i.e. those relating to the cost and quality of banking services) is not generally seen as being part of the responsibility of banking regulators.

The position of the HKMA on customer complaints can be summarised as follows:

- (a) the HKMA does not have the power, and it is not its practice, to intervene in complaints on behalf of customers or to arbitrate in disputes;
- (b) the HKMA will however be interested to ensure that banks have adequate complaint procedures. It will therefore refer customer complaints to the bank concerned and expect the matter to be fully investigated; and
- (c) where a customer complaint raises supervisory concerns (e.g. where it may indicate inadequate internal controls or improper conduct), the HKMA will investigate the matter. But this would be in order to fulfill its supervisory responsibilities under the Banking Ordinance, and not as a means of obtaining redress for the customer.

Q. What is the HKMA's approach regarding the reporting of undrawn commitments as qualifying liabilities in the liquidity return?

A. The HKMA's liquidity regime provides that irrevocable commitments of authorised institutions to provide funds within a month should be included as qualifying liabilities for the purposes of the liquidity ratio calculation.

However, it has come to the HKMA's notice recently that AIs have different interpretation of what undrawn commitments should be included. An informal survey was conducted on selected AIs and revealed differences in reporting. The key issues identified are: (i) when a commitment is considered to be irrevocable and (ii) whether certain protective clauses incorporated in loan documentation e.g. "material adverse change" clause and "availability of funds" (in both a legal and practical perspective) establish revocability on the part of the authorised institution.

The HKMA is currently conducting further review on the subject and will issue a draft paper on the clarification/modification of the existing policy in due course for industry consultation. In the meantime the HKMA will freeze the situation so that AIs can continue to report on the basis they have been adopting. 🌐