



HONG KONG MONETARY AUTHORITY
香港金融管理局

Our Ref: B1/15C

20 December 2023

The Chief Executive
All Authorized Institutions

Dear Sir / Madam,

Lending practices

I am writing to provide the banking industry with guidance on lending practices that seek to strike a balance between prudent risk management and fulfilling banks' financial intermediation function throughout economic cycles.

Against the backdrop of a slower-than-expected economic recovery after the pandemic and a subdued property market, there were rumours circulating earlier that banks were calling in loans due to declining collateral value. To quash these unfounded rumours, the HKMA had made it clear that, even if there were a decline in the value of the underlying property, banks would not demand early repayments so long as the borrower continued to make mortgage payments on schedule. This was indeed the practice followed by banks in Hong Kong during the past property downcycles, including those following the outbreaks of the Asian Financial Crisis and the Great Financial Crisis. It is also in line with the HKMA's supervisory expectation, which extends to all types of property and applies regardless of whether the borrower is a personal or corporate customer.

For businesses with credit facilities (e.g. overdrafts and trade lines) that are backed by properties as collateral, the HKMA understands that when banks perform periodic credit reviews, they would take into account factors such as the borrower's credit demand, overall financial position and repayment ability. Banks would neither rely solely on collateral as the primary source of repayment nor adjust a credit line merely due to a change in the collateral value. In the event that they decide to reduce a corporate customer's credit limit after a credit review, it is their practice to provide an explanation to the customer and allow the customer sufficient time to find alternative financing arrangements.

Moreover, if a corporate customer faces financial difficulty, banks will follow the “Hong Kong Approach to Corporate Difficulties” guidelines issued jointly by the HKMA and The Hong Kong Association of Banks in November 1999 and adopt a sympathetic stance in handling the case. This includes being mindful of not abruptly tightening credit that may exacerbate the customer’s funding stress, and endeavouring to work out a mutually acceptable solution with the customer as far as possible.

The HKMA considers that the above lending practices can help alleviate procyclicality in credit decisions. The HKMA would request all banks to ensure that their lending practices continue to comply with the above-mentioned supervisory expectations.

If you have any questions about this letter, please approach your usual contact at the Banking Supervision Department.

Yours faithfully,

Arthur Yuen
Deputy Chief Executive