



HONG KONG MONETARY AUTHORITY
香港金融管理局

Our Ref.: B4/1C

10 June 2011

The Chief Executive
All Authorized Institutions

Dear Sir/Madam,

Prudential Measures for Property Mortgage Loans

The Hong Kong Monetary Authority (HKMA) has been closely monitoring the property market in view of the increasing risk of an asset price bubble that may undermine the stability of the banking system in Hong Kong. Despite a brief slow down in transactions following the introduction of the measures by the SAR Government in November 2010, property prices in Hong Kong have continued to rise and exceeded the levels in 1997. Given the current exceptionally low interest rate environment and the expectation of higher inflation, we believe that authorized institutions (AIs) will continue to experience increasing risk to their mortgage lending business.

In addition, the HKMA noted in the latest round of onsite examinations that AIs have encountered some difficulties in properly assessing the repayment ability of borrowers whose income is mainly derived from outside Hong Kong.

In view of these developments, the HKMA considers that it would be prudent to introduce further prudential measures for mortgage lending to address the increasing risk to the stability of the Hong Kong banking system. AIs are required to observe the following guidelines in undertaking mortgage business:

Measures applicable to owner occupied residential property mortgage loans only

- (a) For properties with a value at HK\$10 million or above, the maximum LTV ratio shall be 50%;
- (b) For properties with a value at HK\$7 million or above but below HK\$10 million, the maximum LTV ratio shall be 60%, subject to a maximum loan amount of HK\$5 million;
- (c) For properties with a value below HK\$7 million, the maximum LTV ratio shall be 70%, subject to a maximum loan amount of HK\$4.2 million.

Measures applicable to residential and non-residential property mortgage loans

- (d) Reducing the applicable maximum LTV ratio by 10 percentage points for all property mortgages to borrowers whose income is derived mainly from outside Hong Kong. However, borrowers who can demonstrate having a close connection with Hong Kong (e.g. those who are on secondment by a local employer to work outside Hong Kong with documentary proof provided by the employer or those who have their immediate family members¹ residing in Hong Kong) will not be subject to the LTV reduction; and
- (e) Lowering the maximum LTV ratio for property mortgage loans based on borrowers' net worth (i.e. net worth-based mortgage loans) from 50% to 40% irrespective of the value of the properties. In view of the difficulties in verifying borrowers' net worth regularly, it is considered prudent to lower the maximum LTV ratio.

The above guidelines take immediate effect. To avoid causing hardship to borrowers who have signed a provisional sales and purchase agreement on or before the date of this letter, AIs may assess mortgage applications of these borrowers based on their existing underwriting criteria.

With the introduction of positive mortgage data sharing, AIs should consider whether it is necessary to apply more stringent credit underwriting standards when lending to borrowers with multiple outstanding mortgages. Specifically, in view of the higher risk involved in industrial and commercial property mortgages, the HKMA considers that AIs should exercise extra care in granting mortgages to borrowers with multiple mortgages, one of which being related to industrial and commercial property. For example, AIs may consider lowering the LTV ratio, or requiring the borrowers to deposit with the AIs an amount of cash sufficient to cover a sufficient number of monthly instalment payments.

Detailed guidance on the above guidelines can be found in **Annexes 1 and 2** of this letter. The HKMA will monitor AIs' compliance with the guidance in this letter through its routine onsite examinations and off-site reviews.

If your institution has any questions about this letter, please approach your usual contacts at the HKMA.

Yours faithfully,

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¹ Immediate family members include the borrower's spouse, parents, and descendants.