



Our Ref.: B4/1C

22 February 2013

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.

After some slow down in property mortgage transactions following the introduction of the prudential measures by the HKMA in September 2012 and the taxation measures by the Government in October 2012, there have been renewed signs of heating up in the property market recently, with notable increase in property prices and number of transactions observed not only on residential properties, but also commercial and industrial properties. Based on past experience, the quality of commercial and industrial property mortgage loans could face more severe deterioration than residential mortgage loans (RMLs) in property market downturns.

Externally, the decisions of major central banks to further intensify their “quantitative easing” measures have inevitably increased uncertainties and difficulties when they exit from their current policy stances. Upon return of inflationary pressures in advanced economies, the pace and the extent of interest rate rise may be greater than originally expected.

In view of these developments, the HKMA considers it necessary to introduce the following macroprudential measures to further strengthen the risk management of authorized institutions (AIs)’ mortgage lending business, and the ability of mortgage borrowers to cope with the potential impact of interest rate rises in future.

- (I) Increase the mortgage rate upward adjustment for stress testing property mortgage loan applicants’ debt servicing ability from at least 2 percentage points to at least 3 percentage points;**
- (II) Lower the applicable loan-to-value (LTV) ratio limits for non-residential property mortgage loans by 10 percentage points; and**

**(III) Limit the maximum LTV ratio and debt-servicing ratio for standalone car park space mortgage loans to the levels applicable to non-residential property mortgage loans, and the maximum loan tenor to 15 years.**

The above measures take immediate effect. To avoid causing hardship to mortgage applicants who have signed provisional sale and purchase agreements on or before the date of this letter, AIs may assess mortgage loan applications of these applicants based on their existing underwriting criteria.

A summary of the above new measures can be found in **Annex 1** of this letter. For ease of reference, a table summarising the HKMA's prudential measures on LTV ratio limit and debt-servicing ratio limit of property mortgage loans after incorporating the above new measures is at **Annex 2**. The HKMA will monitor AIs' compliance with the prudential measures through its routine onsite examinations and off-site reviews.

In addition, the HKMA has recently conducted a review of the risk-weight levels of RMLs among AIs using Internal Ratings-Based (IRB) Approach. To ensure that AIs maintain a higher level of regulatory capital to cushion the potential risks arising from their RML activities, the HKMA considers it prudent to adopt a 15% risk-weight floor for all RMLs granted by the IRB AIs after 22 February 2013. We will be writing to the affected AIs separately regarding this requirement.

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

Yours faithfully,

Arthur Yuen  
Deputy Chief Executive

Encl.

**Prudential Measures for Property Mortgage Loans introduced on 22 February 2013**

For the avoidance of doubt, in cases where more than one of the prudential measures are applicable, AIs should adopt the lowest loan amount as dictated by the relevant measures.

**(I) Increase the mortgage rate upward adjustment for stress testing property mortgage loan applicants' debt servicing ability from at least 2 percentage points to at least 3 percentage points**

The new measure is applicable to both residential and non-residential property mortgage loans.

**(II) Lower the applicable loan-to-value (LTV) ratio limits for non-residential property mortgage loans by 10 percentage points**

(a) For applicants without outstanding property under mortgage:

- (i) Lower the LTV ratio limit from 50% to 40% for applicants whose income is mainly derived in Hong Kong;
- (ii) Lower the LTV ratio limit from 40% to 30% for applicants whose income is mainly derived from outside Hong Kong; and
- (iii) Lower the LTV ratio limit from 40% to 30% for loans assessed based on the net worth of mortgage applicants.

(b) For applicants with one or more outstanding properties under mortgage:

- (i) Lower the LTV ratio limit from 50% to 40% for applicants whose income is mainly derived in Hong Kong;
- (ii) Lower the LTV ratio limit from 30% to 20% for applicants whose income is mainly derived from outside Hong Kong; and
- (iii) Lower the LTV ratio limit from 30% to 20% for loans assessed based on the net worth of mortgage applicants.

**(III) Limit the maximum LTV ratio and debt-servicing ratio (DSR) for standalone car park space mortgage loans to the levels applicable to non-residential property mortgage loans, and the maximum loan tenor to 15 years**

For the avoidance of doubt, mortgage loans for residential or non-residential properties with car park space under the same title deed are not subject to this prudential requirement. Instead, such loans should be subject to the applicable LTV and DSR requirements with respect to the nature and total value of the properties and car park space concerned.

**HKMA's prudential measures on loan-to-value ratio and debt-servicing ratio for property mortgage loans**  
**As of 22 February 2013**

**Table 1A: Maximum loan-to-value ratio (applicable to applicants without outstanding mortgage)**

Property value	Residential properties				Commercial and industrial properties, standalone car park space	
	Self-use		Non-self-use or company held		Applicants' income mainly derived in HK	Applicants' income mainly derived from outside HK
	Applicants' income mainly derived in Hong Kong (HK)	Applicants' income mainly derived from outside HK	Applicants' income mainly derived in HK	Applicants' income mainly derived from outside HK		

**(A) Debt-servicing ratio (DSR)-based lending**

< HK\$7 million	70% (subject to a loan cap of HK\$4.2 million)	60% (subject to a loan cap of HK\$3.5 million)	50%	40%	Commercial and industrial properties: 50% → <b>40%</b>  Standalone car park space: <b>40%</b>	Commercial and industrial properties: 40% → <b>30%</b>  Standalone car park space: <b>30%</b>
≥ HK\$7 million but < HK\$10 million	60% (subject to a loan cap of HK\$5 million)	50% (subject to a loan cap of HK\$4 million)				
≥ HK\$10 million	50%	40%				

**(B) Net-worth-based lending**

Regardless of property value	40%				Commercial and industrial properties: 40% → <b>30%</b>  Standalone car park space: <b>30%</b>
------------------------------	-----	--	--	--	---

\* New regulatory requirements after the latest round of prudential measures introduced on 22 February 2013 are marked in red for ease of reference.

**Table 1B: Maximum loan-to-value ratio (applicable to applicants with outstanding mortgage(s))**

Property value	Residential properties				Commercial and industrial properties, standalone car park space	
	Self-use		Non-self-use or company held		Applicants' income mainly derived in HK	Applicants' income mainly derived from outside HK
	Applicants' income mainly derived in HK	Applicants' income mainly derived from outside HK	Applicants' income mainly derived in HK	Applicants' income mainly derived from outside HK		

**(A) DSR-based lending**

< HK\$7 million	70% (subject to a loan cap of HK\$4.2 million)	50% (subject to a loan cap of HK\$2.8million)	50%	30%	Commercial and industrial properties: 50% → <b>40%</b>  Standalone car park space: <b>40%</b>	Commercial and industrial properties: 30% → <b>20%</b>  Standalone car park space: <b>20%</b>
≥ HK\$7 million but < HK\$10 million	60% (subject to a loan cap of HK\$5 million)	40% (subject to a loan cap of HK\$3 million)				
≥ HK\$10 million	50%	30%				

**(B) Net-worth-based lending**

Regardless of property value	30%			Commercial and industrial properties: 30% → <b>20%</b>  Standalone car park space: <b>20%</b>		
------------------------------	-----	--	--	---	--	--

\* New regulatory requirements after the latest round of prudential measures introduced on 22 February 2013 are marked in red for ease of reference.

**Table 2A: Maximum debt-servicing ratio (applicable to applicants without outstanding mortgage)**

Debt Servicing Ratio (DSR)	Residential properties				Commercial and industrial properties, standalone car park space	
	Self-use		Non-self-use or company held			
	Applicants' income mainly derived in HK	Applicants' income mainly derived from outside HK	Applicants' income mainly derived in HK	Applicants' income mainly derived from outside HK	Applicants' income mainly derived in HK	Applicants' income mainly derived from outside HK
Base-DSR cap	50%					
Stressed-DSR cap			60% based on 200 bps interest rate hike	60% → <b>based on 300 bps interest rate hike</b>		

**Table 2B: Maximum debt-servicing ratio (applicable to applicants with outstanding mortgage(s))**

Debt Servicing Ratio (DSR)	Residential properties				Commercial and industrial properties, standalone car park space	
	Self-use		Non-self-use or company held			
	Applicants' income mainly derived in HK	Applicants' income mainly derived from outside HK	Applicants' income mainly derived in HK	Applicants' income mainly derived from outside HK	Applicants' income mainly derived in HK	Applicants' income mainly derived from outside HK
Base-DSR cap	40%					
Stressed-DSR cap			50% based on 200 bps interest rate hike	50% → <b>based on 300 bps interest rate hike</b>		

\* New regulatory requirements after the latest round of prudential measures introduced on 22 February 2013 are marked in red for ease of reference.

**Table 3: Summary of exemption arrangements**

**(A) Loan-to-value (LTV) ratio limit reduction**

<b>Prudential requirement</b>	<b>Exemption arrangements</b>
For applicants whose income is mainly derived from <b>outside</b> Hong Kong, the applicable LTV ratio limits will be <b>reduced</b> by:  (i) 10 percentage points for those <b>without</b> outstanding mortgage; and  (ii) 20 percentage points for those <b>with</b> outstanding mortgage(s)	Mortgage applicants will not be subject to the requirement if they can demonstrate having a close connection with Hong Kong, e.g.  (i) the applicants are seconded by local employers to work outside Hong Kong with documentary proof provided by the employers; or  (ii) the applicants' immediate family members (i.e. parents, spouse, and descendants) are residing in Hong Kong

**(B) Debt-servicing ratio (DSR) limit reduction**

<b>Prudential requirement</b>	<b>Exemption arrangements</b>
For applicants <b>with</b> outstanding mortgages, the applicable base-DSR limits and stressed-DSR limits will be <b>reduced</b> by 10 percentage points.	Mortgage applicants will not be subject to the requirement under the following circumstances:  (i) Applicants with <b>one</b> outstanding property under mortgage at the time of mortgage loan application and the new mortgage loan is for:  - financing the purchase of a new property as a replacement of the existing mortgaged property, and the outstanding mortgage loans of the existing property will be repaid in full within 6 months upon the drawdown of the mortgage loan for the new property;  - financing the purchase of a new self-use property <sup>#</sup> ;  - cash-out refinancing loans secured by the existing mortgaged property; or  - refinancing loans on the existing mortgaged property with no cash-out.  (ii) Applicants with <b>two or more</b> outstanding properties under mortgage at the time of mortgage loan application and the new mortgage loan is for refinancing loans on the existing mortgaged properties with no cash-out.

<sup>#</sup> "Self-use" refers to occupancy by owners or their immediate family members (i.e. parents, spouse, children and siblings), or by the majority shareholder or his/her immediate family members if the property is held through a shell company.