



HONG KONG MONETARY AUTHORITY
香港金融管理局

Banking Supervision Department

銀行監理部

Our Ref.: B1/15C
B9/25C

2 March 2015

The Chief Executive
All Authorized Institutions

Dear Sir/Madam,

Macprudential Requirements For Mortgage Financing

Further to the letter of 27 February 2015 on “Prudential Measures for Property Mortgage Loans”, the Hong Kong Monetary Authority (HKMA) would like to provide further guidance to Authorized Institutions (AIs) on the application of caps on debt servicing ratio (DSR caps) in respect of mortgage loan applications in which the borrowers require financing, through either co-financing or mortgage insurance schemes (Additional Financing), for properties beyond the normal ceilings of loan-to-value ratio (LTV) prescribed by the HKMA.

Additional Financing Beyond the Normal LTV Ceilings

In the past, the HKMA allowed AIs to apply the standard 50% DSR cap for borrowers who needed mortgage finance that goes beyond the normal LTV ceilings permitted under the HKMA guidelines, e.g. through co-financing or mortgage insurance schemes. However, in view of the latest market conditions and having regard to the fact that mortgage loans with small equity portions tend to be riskier than those with larger equity downpayments, the HKMA considers it appropriate to enhance the application of DSR caps in respect of those mortgages that require Additional Financing.

Where mortgage applicants seek Additional Financing through mortgage co-financing or insurance schemes that results in total mortgage finance amounting to more than 20 percentage points over the normal permissible LTV ceilings, AIs should apply a 5-percentage-point knock down on the applicable DSR caps. It is important to bear in mind that the DSR caps should be applied not only to the mortgage loans under application, but to the total liabilities of the applicants, which include any additional

mortgage finance, from whatever source(s), needed to complete the purchase plus any other forms of debts or liabilities.

For example, for properties with a maximum permissible LTV of 60%, the normal DSR cap is 50% and a stressed-DSR cap is 60%. However, if the mortgage applicants seek Additional Financing to bring the total LTV to above 80%, then the applicable DSR cap will need to be reduced to 45% and the stressed DSR cap to 55%.

In another example, where the mortgage applicants should have been subject to a DSR cap of 40% and a stressed DSR cap of 50% (e.g. non-self-use properties), the caps should be further knocked down to 35% and 45% respectively if Additional Financing results in total mortgage finance amounting to 20 percentage points over the normal permissible LTV.

Lending by AIs to Money Lenders

In order to prevent the dilution of the effects of the countercyclical macroprudential measures, the HKMA has been advising AIs that lend to Money Lenders to require the latter to either comply with the HKMA guidelines in extending mortgage finance to customers or risk losing the credit relationship with the banking sector. In view of the fact that the HKMA has introduced a further round of prudential measures, the AIs are now required, if they have not already done so, to request all money lenders with whom they maintain a credit relationship to confirm that they will not henceforth provide any mortgage finance, i.e. property loans in whatever forms for the purpose of purchasing properties. If the Money Lenders wish to continue to engage in the business of mortgage finance, they must confirm to the AIs concerned their willingness and ability to adhere strictly to the HKMA's prudential guidelines. In this regard, the HKMA will follow up with individual AIs which have substantive credit relationship with Money Lenders on the effective implementation of this requirement.

If your institution has any questions about this letter, please contact Mr Eric Kan at 2878-1096 or Ms Rachel Wan at 2878-8297.

Yours faithfully,

Henry Cheng
Executive Director (Banking Supervision)