



HONG KONG MONETARY AUTHORITY
香港金融管理局

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

26 October 2016

The Chief Executive
All Authorized Institutions

Dear Sir/Madam,

e-Alert Service of Land Registry

The Hong Kong Monetary Authority (HKMA) notices that there have been cases where mortgage borrowers have further mortgaged their properties without seeking prior consent from the original mortgagee Authorized Institutions (AIs). Such practices have increased the risks of the relevant AIs and may pose a threat to banking stability if left unchecked. In order to facilitate AIs to better manage such risks, the HKMA has been working with the Land Registry (LR) to identify a measure which can help AIs detect unauthorised further mortgages.

I am pleased to report that the LR has kindly agreed to provide an e-Alert Service to AIs (the Service), whereby AIs will receive electronic notifications from the LR when further mortgage documents in respect of the properties mortgaged to the AIs concerned are lodged for registration with the LR. The specifications of the Service are being disseminated to AIs through the industry Associations today. The LR will tentatively start to accept applications for the Service from AIs in the first quarter of 2017.

Use of the Service as a risk management enhancement

To enhance AIs' risk management in mortgage lending, the HKMA expects AIs engaging in the business to subscribe to the Service for all new mortgage loan applications received after the launch of the Service by the LR. AIs not subscribing to the Service should demonstrate to the HKMA's satisfaction that they have in place equally effective alternative arrangements to identify unauthorised further mortgages.

To facilitate a smooth implementation of this enhanced risk management

measure, AIs should take immediate actions to enhance their relevant systems and processes so that they are ready to make use of the Service shortly after its launch. AIs should also put in place mechanisms to comply with the applicable data privacy requirements, including obtaining consent from property owners for AIs' subscriptions to the Service in respect of their properties.

Where consent from property owners is not granted, the AIs concerned may still process the mortgage loan applications. However, they should apply more prudent underwriting standards to mitigate the higher potential risks of such mortgage loans. For instance, the AIs may adopt higher interest pricing or lower loan-to-value ratios towards such mortgage loans, compared with those with consent from property owners, and the debt-servicing ratios (DSRs) and the stress DSRs have to be calculated on the basis of the higher interest rates applicable to the mortgage loans. Similarly, AIs should take appropriate risk mitigating measures to deal with cases of withdrawal of such consent from property owners.

Sample checking of pre-existing mortgages

Given the immense operational difficulties involved, the HKMA does not expect AIs engaging in mortgage lending business to subscribe to the Service for existing mortgages. For these mortgages, the HKMA strongly encourages AIs to adopt a risk-based approach to sample check on a regular basis the existence of unauthorised further mortgages. To this end, AIs should put in place proper policies and procedures for their sample checking mechanisms, including parameters used to identify high risk borrowers, sampling methodology, sample size, checking frequency, etc. For the avoidance of doubt, AIs are expected to subscribe to the Service when existing borrowers apply for top-up mortgage loans.

Should your institution have any questions about the Service, please contact Ms Delphine Ma (for general matters) at 2867 5710 or Mr Devin Ho (for IT matters) at 2867 2777 of the LR. For any other questions about this letter, please approach your institution's usual contact at the HKMA.

Yours faithfully,

Raymond Chan
Executive Director (Banking Supervision)

c.c. Ms Doris Ma, Secretary, The Hong Kong Association of Banks
Mr Pui-Chong Lund, Secretary, The DTC Association
Ms Vivian Lee, Business Manager, The Land Registry