



HONG KONG MONETARY AUTHORITY
香港金融管理局

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

23 September 2022

The Chief Executive
All Authorized Institutions

Dear Sir/Madam,

Property Mortgage Lending

I am writing to update you on an adjustment to the HKMA's interest rate stress testing requirement for property mortgage lending.

Major central banks have recently tightened their monetary policies with a view to bringing inflation back to their target range. The Federal Reserve in the United States, in particular, has raised its federal funds target range five times by a total of 300 basis points since March 2022. Locally, the one-month Hong Kong Interbank Offer Rate (HIBOR) has risen from 0.3% to over 2.5%, causing the effective interest rates of most HIBOR-based mortgage loans to reach their interest rate caps. In response to the rise in funding costs, many banks have earlier raised their interest rate caps for new HIBOR-based mortgages and more recently their prime lending rates.

The HKMA has kept its interest rate stress testing requirement for property mortgage lending under regular review. Under the existing requirement, banks are expected to evaluate a mortgage borrower's debt servicing ability assuming a rise in the mortgage rate of 300 basis points. In the light of latest market developments, and making reference to the historical trend of mortgage rates in Hong Kong, the HKMA considers it appropriate to lower the stress testing requirement from 300 basis points to 200 basis points. This level is considered to be sufficiently prudent from the perspective of effective risk management.

The above adjustment takes effect from today, and should be applied on mortgage loans for all types of properties.

Should your institution have any questions about this circular, please send them to rml_hkma@hkma.gov.hk.

Yours faithfully,

Arthur Yuen
Deputy Chief Executive