



HONG KONG MONETARY AUTHORITY
香港金融管理局

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

7 July 2023

The Chief Executive
All Authorized Institutions

Dear Sir/Madam,

Prudential Measures for Property Mortgage Loans

I am writing to inform you of the adjustments made by the Hong Kong Monetary Authority (HKMA) today to the countercyclical macroprudential measures for property mortgage loans.

Since the countercyclical macroprudential measures for property mortgage loans were implemented in 2009, the HKMA has been assessing conditions in the property market by monitoring factors including property prices and transaction volumes, and the local and external economic environment. The aim is to evaluate the need for appropriate adjustments to these measures to ensure that banks maintain effective risk management in their property mortgage lending business and sufficient capacity to cope with challenges arising from a sharp correction in property prices.

Following the COVID-19 pandemic and with interest rates rising, there has been a correction in residential property prices since 2022. Despite a rebound early this year, market data showed that at the end of June residential property prices were down 13% from their peak in 2021. The situation in the non-residential property market was similar. According to the latest statistics published by the Rating and Valuation Department, the prices of offices, flatted factories and retail premises have fallen by 20%, 8% and 17% respectively from their peaks in 2018-2019. Externally, as major economies continue to face high inflationary pressures, interest rates may remain elevated for some time. Any slow-down in the global economy due to high interest rates would inevitably affect the local economy.

Taking all relevant factors into account, the HKMA considers that there is room to adjust the countercyclical macroprudential measures for property mortgage loans, while continuing to maintain banking stability and ensuring the proper risk management of property mortgage loans:

- (1) For residential properties for self-occupation, the maximum loan-to-value (LTV) ratios will be adjusted to 70% for properties valued at HK\$15 million or below; and 60% for properties with a value of more than HK\$15 million and up to HK\$30 million. The maximum LTV ratio for residential properties for self-occupation valued at more than HK\$30 million will remain unchanged at 50%. To avoid a sudden drop in applicable LTV ratios, ratios for properties in certain value ranges will change gradually. For non-self-use residential properties, the maximum LTV ratio will remain unchanged at 50%.
- (2) The maximum LTV ratio for non-residential properties will be adjusted from 50% to 60%.
- (3) For mortgage loans assessed based on the net worth of mortgage applicants, the maximum LTV ratio will be adjusted from 40% to 50%. This adjustment is applicable to both residential properties and non-residential properties.
- (4) The existing requirements to lower the applicable maximum LTV ratio and debt servicing ratio (DSR) limit by 10 percentage points for mortgage applicants whose incomes are mainly derived from outside of Hong Kong will be lifted. In addition, the existing requirement to apply a 5-percentage-point knock down on applicable DSR limits when mortgage applicants' total mortgage finance exceeds the HKMA's normal permissible LTV ceilings by 20 percentage points will be removed.

These adjustments will take effect from today and apply to property transactions with provisional sale and purchase agreements signed today or subsequently.

An updated table summarising the LTV caps and DSR limits for property mortgage

loans is set out at the **Annex**. Should your institution have any questions about this circular, please send them to rml_hkma@hkma.gov.hk.

Yours faithfully,

Raymond Chan
Acting Deputy Chief Executive

Encl.

**Loan-to-value ratio (LTV) caps and debt servicing ratio (DSR) limits
for property mortgage loans with effect from 7 July 2023**

(Amendments in RED)

Table 1: LTV caps

Property value	Residential properties		Commercial and industrial properties and standalone car parking spaces
	Self-use ^{1,2}	Non-self-use or company held	
Applicants who have <u>not</u> borrowed or guaranteed other outstanding mortgage(s) at the time of making a mortgage application ³			
DSR-based lending			
≤ HK\$15 million	70%	50%	60%
> HK\$15 million and ≤ HK\$17.5 million	60% – 70% (subject to a loan cap of HK\$10.5 million)		
> HK\$17.5 million and ≤ HK\$30 million	60%		
> HK\$30 million and ≤ HK\$36 million	50% – 60% (subject to a loan cap of HK\$18 million)		
> HK\$36 million	50%		
Net worth-based lending			
Regardless of value	50%		50%
Applicants who have borrowed or guaranteed other outstanding mortgage(s) at the time of making a mortgage application			
DSR-based lending or net worth-based lending			
The above applicable LTV caps will be lowered by 10 percentage points.			

**Loan-to-value ratio (LTV) caps and debt servicing ratio (DSR) limits
for property mortgage loans with effect from 7 July 2023**

Table 2: DSR limits

	Residential, commercial and industrial properties, and standalone car parking spaces	
	Self-use^{1,2}	Non-self-use
Applicants who have <u>not</u> borrowed or guaranteed other outstanding mortgage(s) at the time of making a mortgage application³		
Base DSR limit	50%	40%
Stressed DSR limit (assuming a 200-basis point hike in interest rate)	60%	50%
Applicants who have borrowed or guaranteed other outstanding mortgage(s) at the time of making a mortgage application		
Base DSR limit	40%	
Stressed DSR limit (assuming a 200-basis point hike in interest rate)	50%	

Notes:

- 1 “Self-use” refers to occupancy by the owners or their immediate family members (i.e. parents, spouse, children and siblings), or by an individual majority shareholder or his/her immediate family members if the property is held by a shell company.
- 2 The HKMA’s countercyclical macroprudential measures are intended to apply to mortgage loans for the purpose of financing property transactions or the refinancing of existing properties. They are not intended to apply to credit facilities secured by properties for the purpose of financing the business operation of corporates, as these credit facilities are subject to a set of comprehensive credit underwriting standards and regular credit reviews by authorized institutions.
- 3 The limits are applicable to a borrower who has one property under mortgage and is making a mortgage application for either (i) refinancing or (ii) acquiring a new property before disposing the existing one. In the latter case, the applicant has to repay the outstanding mortgage loan for the existing property within 6 months upon the drawdown of the mortgage loan for the new property.