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

14 June 2024

The Chief Executive
All Authorized Institutions

Dear Sir/Madam,

Refinements to property mortgage lending requirements

Having regard to market trends and developments, I am writing to inform authorized institutions (AIs) of several refinements made by the Hong Kong Monetary Authority (HKMA) today to the supervisory requirements for property mortgage lending.

Residential properties under construction

On 28 February 2024, the HKMA announced adjustments to the countercyclical macroprudential measures for property mortgage loans. The adjustments apply to property transactions with provisional sale and purchase (S&P) agreements signed on 28 February 2024 or subsequently.

The HKMA is aware that the current valuations of residential properties under construction sold in the last few years have come in lower than the purchase price, and as a result, homebuyers who had opted for stage payment plans may find the maximum mortgage loan amount which they can obtain from AIs to be lower than what they had originally expected when entering into the provisional S&P agreements. Although such buyers ought to have assessed and planned for the risks associated with stage payment plans, it has come to the HKMA's attention that there are some buyers with genuine home ownership needs who have difficulties in finding extra funds for the down payment.

The HKMA considers that there is room to assist those cases by broadening the applicability of the countercyclical macroprudential measures announced on 28 February 2024 to include mortgage applications for residential properties under construction for self-occupation where (i) the provisional S&P agreements were signed before 28 February 2024 and (ii) the properties are scheduled for completion on or after 28 February 2024.

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This adjustment will take effect from today. When processing applications from the newly-eligible mortgage applicants, AIs should obtain a declaration from the mortgage applicant that the property is for self-occupation[1].

Calculation of borrowing capacity

AIs are currently required to assess the repayment ability of mortgage applicants based on their debt servicing ratio (DSR) or their net worth. For net worth-based lending, AIs may calculate the mortgage applicant's net worth using either the net asset value (NAV) approach or the asset-to-total debt ratio (ATD) approach in accordance with the formulae set out in the HKMA's circular "Prudential Measures for Property Mortgage Loans" dated 19 November 2010.

As the NAV approach is now more commonly used to calculate a mortgage applicant's net worth position, the HKMA has decided to simplify the benchmark for net worth-based mortgage loans by withdrawing the ATD formula and refining the formula for calculating the NAV position. The revised NAV formula is at the Annex. Notwithstanding the withdrawal of the ATD formula, AIs may, if considered appropriate, continue to adopt the ATD approach to calculate the net worth of mortgage applicants while applying the same definitions of "eligible assets" and "total debt obligations" as the NAV approach.

Haircuts on rental income of investment properties

In accordance with the HKMA's circular "Compliance with existing prudential measures on property mortgage lending" dated 19 January 2015, AIs are required to apply a discount rate of at least 30% to the gross rental income of investment properties for mortgage borrowers with rental income proof, or at least 40% for those without rental income proof, in the computation of the DSR. The discount rate is intended to account for associated expenses of the investment properties such as maintenance cost, government rent and rates, management fees, cost of vacancy and property or profits tax.

Taking into account recent market conditions, the HKMA considers it appropriate to revert back to a discount rate of "at least 20%" of gross rental income that was originally set as a best practice in October 2009. For the avoidance of doubt, this level is a reference point for AIs rather than an across-the-board minimum discount rate to be applied to all types of properties. AIs are allowed to consider applying a different discount rate based on their own assessment of the circumstances of individual borrowers and properties.

[1] Please refer to the definition of "self-use" in the HKMA's circular "Prudential Measures for Property Mortgage Loans and Other Related Supervisory Requirements" dated 28 February 2024.

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

Yours faithfully,

Ying-ying Cheng
Acting Executive Director (Banking Supervision)

Encl.

Annex

Benchmark for Net worth-based Mortgage Loans

Eligibility	Borrowers with a positive NAV position.
NAV	A borrower's total eligible assets (net of the mortgage down payment for the property being acquired) minus his/her total debt obligations.
Eligible assets	• Financial assets: Cash, deposits, stocks, bonds, open-end unit trust, precious metals, etc., net of any credit facilities made against the assets. • Properties located in Hong Kong: 50% of the current market value of the property. • Other assets that satisfy the following criteria: (1) The market price of the asset can be readily and objectively valued and (2) there is an established liquid market in which the asset can be readily liquidated. Examples which might not meet these criteria include art pieces, jewellery and other collectible items.
Total debt obligations	All outstanding debt obligations (including the mortgage loan being applied for and other undrawn credit facilities) of the borrower should be included to avoid multiple loan applications using the same pool of eligible assets.