

## **LegCo Panel on Financial Affairs**

### **Information Note on Update Survey on Residential Mortgage Loans in Negative Equity**

#### **Purpose**

This paper provides an update on the information in respect of residential mortgage loans (RMLs) in negative equity<sup>1</sup> for the position of December 2001.

#### **Extent of RMLs in negative equity**

2. Based on the information obtained from an updated survey with a number of banks active in mortgage financing, it is estimated that the total number of RMLs in negative equity was about 73,000 or 16% of total mortgage borrowers as at end-December (65,000 or 14% at end-September). The total value of RMLs in negative equity is estimated to be around HK\$125 billion, or 23% of total outstanding RMLs (HK\$127 billion or 23% at end-September).

3. While the number of RMLs in negative equity increased due to further downward adjustment in property prices after the events of 11 September, the total outstanding amount in negative equity has not risen. This is due to a combination of factors including continued repayments of the loans by homeowners under the prevailing low interest rate environment which has made debt servicing easier, pay-downs by customers who sought refinancing with other banks and partial repayments by homeowners to obtain restructuring at lower interest rates.

#### **Pricing**

4. The survey indicated that 56% of negative equity homeowners were being charged below the best lending rate (BLR), up from 51% at end-September. The average interest rate being charged to negative equity homeowners was 0.57% below the prevailing BLR, substantially lower than the average interest rate of 0.27% below BLR in the September survey.

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<sup>1</sup> Refers to an RML with an authorized institution whose outstanding amount exceeds the current market value of the mortgaged property. This definition does not take into account other loans that a homeowner may have obtained to finance the purchase.

## **Refinancing/Restructuring**

5. The survey also indicated that there were some 2,500 RMLs in negative equity estimated to have been restructured or refinanced in the fourth quarter of 2001. About three-quarters of the loans restructured by banks had interest rates reduced. Of the refinanced loans, 93% of the homeowners were refinanced at lower than 1% below BLR, and 52% at lower than 2% below BLR.

6. In response to the Panel's request for information on (a) the number of applications for loan rescheduling made by residential property owners in negative equity and (b) the number of such applications rejected by banks, while the information is not precisely in this format, the related information given by the banks was that during the period from October to December 2001, 51% of applications for refinancing of RMLs in negative equity from other banks at a loan-to-value ratio in excess of 70% were successfully refinanced and 27% of applications for restructuring of RMLs in negative equity with banks' own customers were successfully restructured, with better mortgage terms.

## **Average loan-to-value ratio**

7. Based on the results of the survey, the average loan-to-value ratio of the aggregate portfolio of RMLs in negative equity is estimated to be 125% at end-December.

## **Co-financing loans**

8. We are aware of some 20,000 RMLs (involving HK\$31 billion) associated with co-financing schemes with the private sector (e.g property developers) at end-December that have not been included in the overall figure of 73,000 cases in negative equity. We are not in a position to tell how many of these 20,000 loans would be in negative equity if the customers' total mortgage obligation were to be taken into account as banks do not have information on customers' outstanding liabilities under the second mortgage.

9. We have also been advised that there are some 66,000 RMLs associated with government-funded co-financing schemes. The extent of negative equity on these loans or the extent of inclusion of such cases in the 73,000 RMLs in negative equity is currently not known. We are revising our forms for regular survey with banks and hope to be able to gather more information on this in due course.

**Conclusion**

10. The main conclusions that can be drawn from the survey are : (a) the total outstanding amount in negative equity is little changed despite a rise in the number of loans in negative equity; and (b) there is an increasing proportion of loans in negative equity being priced at below BLR, reflecting banks' willingness to refinance as well as restructure loans for homeowners in negative equity.

Hong Kong Monetary Authority  
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**Interest rate breakdown of residential mortgage loans in negative equity**

	Number of cases				Outstanding balance	
	As at 31 December 2001		As at 30 September 2001		As at 31 December 2001	As at 30 September 2001
	Number	%	Number	%	HK\$ billion	HK\$ billion
(i) BLR + 2% or above	150	0.2%	200	0.3%	0.3	0.3
(ii) BLR + 1% to below BLR + 2%	2,250	3.1%	3,000	4.6%	3.5	5.3
(iii) Above BLR to below BLR + 1%	17,200	23.6%	16,800	25.8%	29.6	32.5
(iv) BLR	10,300	14.1%	10,100	15.6%	16.8	17.5
(v) Below BLR to BLR – 1%	12,000	16.4%	10,500	16.1%	20.4	20.0
(vi) Below BLR – 1%	28,800	39.4%	22,600	34.7%	51.0	48.5
(vii) Others (e.g. fixed rate)	2,300	3.2%	1,800	2.9%	3.4	2.9
	<b>73,000</b>	<b>100%</b>	<b>65,000</b>	<b>100%</b>	<b>125.0</b>	<b>127.0</b>

BLR = Best lending rate