

**LegCo Panel on Financial Affairs  
Meeting on 5 November 2001  
Supplementary paper on Residential Mortgage Loans in Negative Equity**

In response to a letter dated 1 November 2001 from the Clerk to Panel, this paper provides further information on residential mortgages in negative equity.

(a) **Detailed breakdown of the residential mortgage loans in negative equity by the different interest rates being charged on these loans**

On the basis of the results of the HKMA's ad hoc survey on residential mortgage loans (RMLs) in negative equity, the following table gives a breakdown of the interest rates currently being charged on those homeowners in negative equity :

	<u>Number of cases</u>		<u>Outstanding</u>
	<u>Number</u>	<u>Percentage</u>	<u>balance</u> (HK\$ billion)
(i) >BLR + 2%	200	0.3%	0.3
(ii) >BLR to BLR + 2%	19,800	30.4%	37.8
(iii) BLR	10,100	15.6%	17.5
(iv) <BLR to BLR - 1%	10,500	16.1%	20.0
(v) <BLR - 1%	22,600	34.7%	48.5
(vi) Others (e.g. fixed rate)	1,800	2.9%	2.9
	<b>65,000</b>	<b>100%</b>	<b>127.0</b>

*BLR = Best lending rate*

Overall, the average rate (based on simple weighted average calculation) of the above loans was approximately BLR- 0.27%.

**(b) Information on second mortgages (co-financing loans) taken out by property owners with negative equity**

The information requested is not readily available but the HKMA is aware from its regular survey that there are some 21,400 loans associated with co-financing schemes<sup>1</sup>. In theory, a number of these loans should have already been included in the 65,000 cases estimated to be in negative equity. Therefore, to add the 21,400 cases associated with co-financing schemes onto the number of RMLs in negative equity would result in an element of double-counting. The HKMA is currently collecting information from the banks on the number of RMLs in negative equity which are associated with co-financing schemes. We hope to be able to report the results to the Panel at the meeting on 5 November.

**(c) Information on RMLs in negative equity taken out with all financial institutions, including but not limited to banks and licensed money lenders**

The HKMA's recent survey results have been statistically extrapolated to cover the RMLs of the entire banking sector including RMLs made by banks, restricted licence banks and deposit-taking companies. The HKMA does not have statistics on RMLs that have been taken out with lenders not regulated by the HKMA.

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<sup>1</sup> Co-financing schemes refer to those schemes which involve the provision of top-up loans by the property developers or other co-financiers in addition to the mortgage loans granted by the authorised institution.

**(d) Information on loans pledged against a residential property which is currently in negative equity**

Apart from RMLs<sup>2</sup>, the HKMA does not have information on other types of loans secured by a residential property which is in negative equity.

The HKMA's recent survey was carried out with a sample of 7 banks which were chosen because they are major active lenders in the residential mortgage market. Their aggregate market share is about 75% in terms of number of loans and 72% in terms of amount. Given their significant market share, we are satisfied that the figures are representative enough to provide a good basis for estimating the position in relation to the banking sector as a whole.

Hong Kong Monetary Authority

2 November 2001

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<sup>2</sup> RMLs are loans (which include refinancing loans) to private individuals for the purchase of residential properties including uncompleted flats, but other than flats under the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme.

**Residential Mortgage Loans in Negative Equity**  
**Results of Survey on Loans Associated with Co-financing Schemes**

	<b>No. of cases (Number)</b>	<b>Outstanding Balance (HK\$ billion)</b>
Total RMLs in negative equity	<u>65,000</u>	<u>127.0</u>
RMLs associated with co-financing schemes <sup>1</sup> included above	5,400	10.0
RMLs associated with co-financing schemes <sup>1</sup> not included above	<u>16,000</u>	<u>25.8</u>
Total RMLs associated with co-financing schemes <sup>1</sup>	<u>21,400</u>	<u>35.8</u>

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<sup>1</sup> Co-financing schemes refer to those schemes which involve the provision of top-up loans by the property developers or other co-financiers in addition to the mortgage loans granted by the authorised institution.