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Room 525, 5/F., Prince's Building, Central, Hong Kong  
Telephone: 2521 1160, 2521 1169 Facsimile: 2868 5035  
Email: info@hkab.org.hk Web: www.hkab.org.hk

香港中環太子大廈5樓525室  
電話：2521 1160, 2521 1169 圖文傳真：2868 5035  
電郵：info@hkab.org.hk 網址：www.hkab.org.hk

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By fax: 2121 0420

Miss Polly Yeung  
Clerk to Panel on Financial Affairs  
Legislative Council  
Legislative Council Building  
8 Jackson Road, Central  
Hong Kong

Dear Miss Yeung

**Panel on Financial Affairs Meeting to be held on 29 January 2008**

Thank you for your letter dated 4 December 2007.

We appreciate the opportunity of being invited to join the upcoming discussion of the Panel regarding the implementation and regulatory oversight of the “70% mortgage cap on residential property” at the upcoming Panel meeting on 29 January 2008. Since the Hong Kong Association of Banks (HKAB) does not have a specific role in the setting or monitoring of the mortgage cap referred, we would decline to participate in the discussion but would be pleased to provide a written submission as background information to facilitate the Panel’s discussion.

Hong Kong is a free market. Member banks of HKAB have the discretion to determine their business and marketing strategies, and apply appropriate prudent lending policies and practices taking into account the credit worthiness and repayment ability of the borrowers and other aspects relevant to their overall risk management. Member banks’ policies and practices of course are subject to relevant prudential requirements which the Hong Kong Monetary Authority (HKMA) may issue from time to time after consultation with the industry including HKAB where deemed appropriate.

On the specific subject of residential mortgage lending, from our internal records and newspaper articles available to us, the measure of lowering the mortgage financing ratio to 70% was first voluntarily adopted by a number of banks around late 1991, as we understand, based on a number of factors including their view of the property market at that time, their assessment of the commercial and credit risk, their individual appetites for residential mortgages etc. Subsequently, some banks had further lowered the mortgage financing ratio during a brief period of time for similar reasons. This voluntary

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*Chairman* Bank of China (Hong Kong) Ltd  
*Vice Chairmen* Standard Chartered Bank (Hong Kong) Ltd  
The Hongkong and Shanghai Banking Corporation Ltd  
*Secretary* Eva Wong Mei Seong

主席 中國銀行（香港）有限公司  
副主席 渣打銀行（香港）有限公司  
香港上海匯豐銀行有限公司  
秘書 黃美嫦



initiative taken by individual banks in reflection of the prudential management of their exposure to the property market has progressively been adopted across the industry for residential mortgage lending, with the support of the then Commissioner of Banking<sup>1</sup> in June 1992 through his letter to the HKAB. The HKMA, in its circulars to banks on residential mortgage lending policy, also supports the 70% loan-to-value ratio practice and monitors the industry's compliance as part of its prudential supervision. As indicated in the 1995 HKMA Annual Report, the Government reiterated its support for the maintenance of the 70% ceiling as a long-term policy important for promoting the stability of the banking sector.

Through prudent risk management of individual banks, coupled with sound supervision by the HKMA, the delinquency ratio on mortgage loans has stayed at very low levels despite a sharp fall in property prices during the more difficult times. Maintaining banking stability is crucial to Hong Kong and beneficial to all parties: we support member banks of HKAB to continue to adhere to prudent risk management policy.

We hope that Panel members would find the above information helpful in understanding the evolution of the banking practice which has contributed significantly to the soundness of the banking system in Hong Kong.

Yours sincerely

Eva Wong  
Secretary

c.c. Hon CHAN Kam-lam, SBS, JP (Panel Chairman)

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<sup>1</sup> The Office of the Commissioner of Banking was merged with the Office of the Exchange Fund in 1993 to form the Hong Kong Monetary Authority.