



Residential mortgage

Figure 1 – New mortgage loans approved⁽¹⁾

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total no. (‘000) ⁽²⁾ & value
	(‘000) ⁽²⁾												
2017	7.8	7.5	10.0	8.3	10.9	11.7	9.0	8.1	7.9	7.9	9.5	7.3	105.8 HK\$402 bln
2018	9.9	8.4	10.1	9.6	11.2	10.4	11.1	12.0	7.9	7.6	7.5	5.9	111.6 HK\$451 bln
2019	7.1	6.5	9.2	9.8	12.3	10.8	11.4	11.3	8.7	7.8	6.6	6.2	107.8 HK\$452 bln
2020	5.7 (-20%)	5.6 (-14%)	7.6 (-18%)	7.4 (-25%)	8.7 (-29%)								

Notes: (1) RMLs in the survey are loans (including refinancing loans) of authorized financial institutions to private individuals for the purchase of residential properties, including uncompleted units, but other than those properties under the Home Ownership Scheme, the Private Sector Participation Scheme and the Tenants Purchase Scheme. These loans represent about 99% of the overall RMLs of the banking sector.

(2) Figures rounded to the nearest hundred.

Figure 2 – Loan-to-value ratio and contractual life of new mortgage loans approved

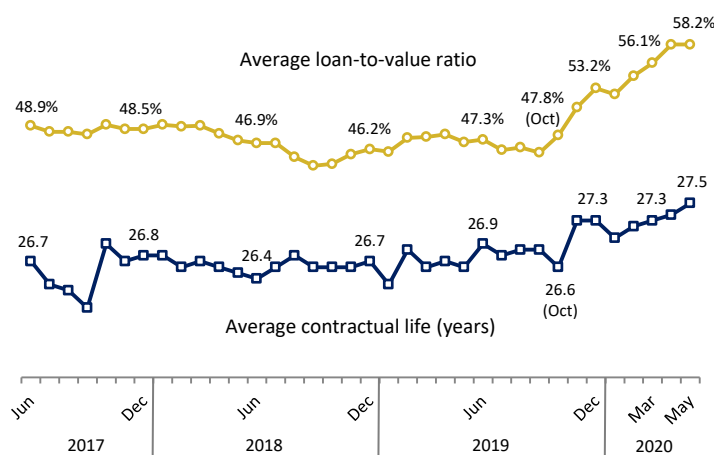
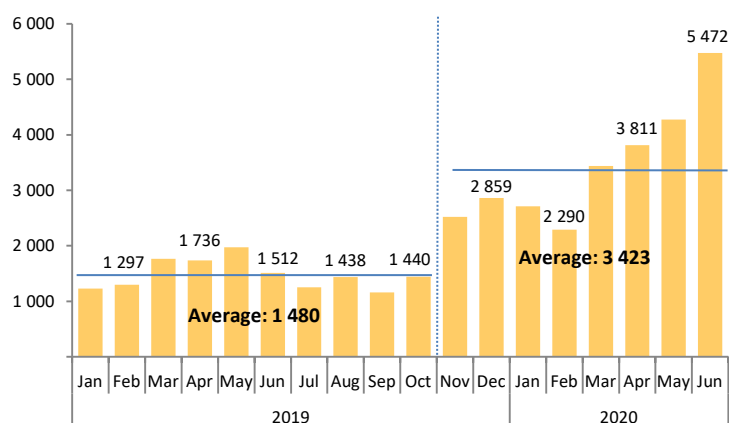


Figure 3 – Number of approved applications under MIP



Highlights

- Residential mortgage loans ("RMLs") are one of the major bank loan assets in Hong Kong. At end-2019, the total outstanding value amounted to HK\$1,435 billion, representing one-fifth of the total loans of all authorized financial institutions in Hong Kong. In 2019, the total number of newly approved mortgage loans was 107 800, a slight drop of 3% compared to 2018. In the face of global spread of the Coronavirus Disease 2019 and economic uncertainties, the mortgage loan activities in the first few months of 2020 have apparently slowed down. While there are signs of recovery since March 2020, the monthly number of new mortgage loans approved still recorded a double-digit year-on-year drop (Figure 1).

- As part of the risk management measures to strengthen the resilience of the banking sector, HKMA introduced eight rounds of countercyclical macro-prudential measures for property mortgage loans (e.g. lowering the caps on loan-to-value ratios and applying stress testing on mortgage applicants' repayment ability in the face of rising interest rates) between October 2009 and May 2017. Probably as a result of the tightened measures, the average loan-to-value ratio of the newly approved loans had been staying below 50%. Since late 2019, however, the ratio has trended upward reaching 58.2% in May 2020 (Figure 2). Meanwhile, the average contractual life of the newly approved loans has also lengthened to 27.5 years in May 2020.

- The recent increase in the average loan-to-value ratio and average contractual life of the newly approved loans was likely stimulated by the upward adjustment of the caps on the value of the residential properties eligible for higher loan-to-value mortgages under the Mortgage Insurance Programme ("MIP"), effective since mid-October 2019. In particular, for mortgage loans with the maximum cover of 90% loan-to-value ratio applicable to first-time homebuyers, the maximum property value was raised from HK\$4 million to HK\$8 million. Since relaxation of the measures, the monthly number of approved applications under MIP increased noticeably, reaching 5 472 in June 2020 (Figure 3).

Residential mortgage (cont'd)

Figure 4 – Residential mortgage loans in negative equity⁽¹⁾ and price index of private domestic property market

Residential mortgage loans in negative equity				Price index of private domestic property market	
As at end of period	Number of cases	Aggregate outstanding value (HK\$ billion)	Average outstanding value per case (HK\$ million)	Period	Index (Change from previous quarter)
2018 Q3	0	0.000	0.00	2018 Q3	392.9
2018 Q4	262	1.189	4.54	2018 Q4	368.3 (-24.6)
2019 Q1	44	0.231	5.25	2019 Q1	368.9 (+0.6)
2019 Q2	1	0.003	3.00	2019 Q2	394.3 (+25.4)
2019 Q3	53	0.330	6.23	2019 Q3	387.7 (-6.6)
2019 Q4	128	0.764	5.97	2019 Q4	380.9 (-6.8)
2020 Q1	384	1.867	4.86	2020 Q1	377.0 ⁽²⁾ (-3.9)

Notes: (1) The figures derived from the survey are related only to RMLs provided by authorized financial institutions on the basis of first mortgages and which the reporting institution knows to be in negative equity.
(2) The figure is provisional.

Figure 5 – Cumulative applications under RMP

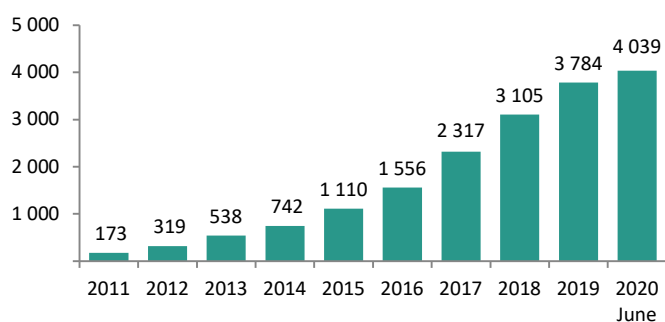
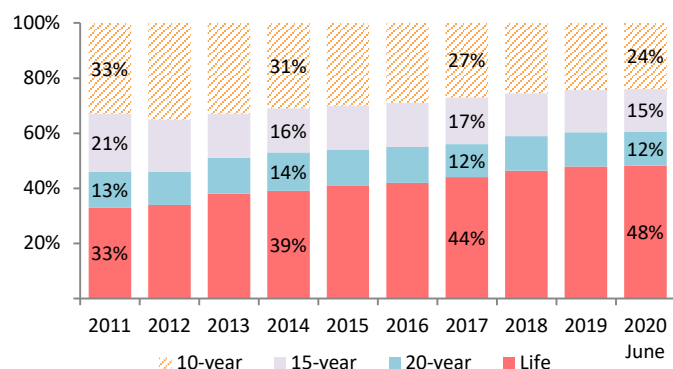


Figure 6 – Payment terms of the cumulative applications under RMP⁽¹⁾



Note: (1) Figures may not add up to 100% due to rounding.

Highlights

- Deterioration of the economy may result in adjustments in property prices, which may in turn lead to RMLs being in negative equity (i.e. the value of the residential property has fallen below the corresponding outstanding amount of mortgage loan). According to the quarterly survey on RMLs in negative equity conducted by HKMA, the estimated number of the RMLs in negative equity has increased from only 1 at end-June 2019 to 384 at end-March 2020 (Figure 4). HKMA explained that these cases were related to bank staff housing loans or RMLs under MIP which generally have a higher loan-to-value ratio. Although the number of negative equity cases is still low compared to the peak of over 10 000 cases during the financial crisis in 2008, the situation may warrant close monitoring amid economic recession with increasing unemployment rate.
- Retirement from jobs often poses financial challenges to the older people. To provide retirees with an additional financial planning option to enhance their quality of life, the Hong Kong Mortgage Corporation Limited ("HKMC") has been launching the Reverse Mortgage Programme ("RMP") since July 2011. Under RMP, borrowers can use their residential properties as security to borrow from banks, in return for a stable stream of monthly payouts over a fixed period or over the remainder of their lifetime. They may also borrow lump-sum payouts for specific purposes (e.g. payment for medical expenses). Over the years, HKMC introduced various enhancement measures (e.g. lowering the minimum age of borrowers from 60 to 55) to promote the programme. Probably reflecting greater public receptiveness or awareness, the cumulative number of applications has steadily increased from 173 at end-2011 to 4 039 at end-June 2020 (Figure 5).
- In general, the longer the payment term is, the lower will be the monthly payout amount under RMP. Having said that, lifetime payment appears to be increasingly popular among applicants. The proportion of those choosing to receive monthly payouts for the entire life has increased from 33% in 2011 to 48% at end-June 2020 (Figure 6). On the contrary, the corresponding proportion choosing the shortest payment term (i.e. 10-year) decreased from 33% to 24% over the same period. To a certain extent, this reflects that more borrowers look for a longer term of protection in their retirement life.

Data sources: Latest figures from Hong Kong Monetary Authority, Hong Kong Mortgage Corporation Limited and Rating and Valuation Department.

Research Office
Information Services Division
Legislative Council Secretariat
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Tel: 3919 3586

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