

Prudential Supervisory Measures for Mortgage Lending

The Hong Kong Monetary Authority (HKMA) issued today (Friday) a circular to the banks requiring them to implement the following measures to strengthen risk management in residential mortgage lending business:

1. Lowering the maximum loan-to-value (LTV) ratio for residential properties with a value at HK\$12 million or above from 60% to 50%.
2. Lowering the maximum LTV ratio for residential properties with a value at or above HK\$8 million and below HK\$12 million from 70% to 60%, but the maximum loan amount will be capped at HK\$6 million.¹
3. Maintaining the maximum LTV ratio for residential properties with a value below HK\$8 million at 70%, but the maximum loan amount will be capped at HK\$4.8 million.²
4. Lowering the maximum LTV ratio for all non-owner-occupied residential properties, properties held by a company and industrial and commercial properties to 50%, regardless of property values.

The above measures take effect immediately. But loan applications in respect of transactions where a provisional sale-and-purchase agreement for the property was signed on or before 19 November will not be affected.

Mr Norman Chan, the Chief Executive of the HKMA, said "The global financial environment is now in a rather abnormal state. Under the present environment in which interest rates are exceptionally low and there is a huge amount of excessive liquidity, many investors may easily overlook the fact that the income level of Hong Kong people is increasingly trailing the property prices. We are very concerned that the housing market and consequently the mortgage market will become even more exuberant, thereby exposing the banking system to higher risks. As the gate-keeper of Hong Kong's banking system, the HKMA must introduce appropriate prudential measures in a timely manner to ensure that our banks adopt the necessary risk management standards and practices, and to make our banking system more resilient to shocks, so as to dampen the damage that would be inflicted by the bursting of the asset bubble."

"It is not enough to rely solely on the measures introduced by the Government. The entire community must heighten their awareness of the risks that lie ahead. It is essential that we do not overstretch ourselves by borrowing beyond our means, bearing in mind that interest rates will one day return to more normal, but significantly higher levels. We must learn from the experience of the bursting of the last asset bubble and work together in order to avoid a recurrence of the very difficult situation."

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¹This is to avoid the anomaly that a purchaser of a property with a value slightly below HK\$12 million could borrow a larger amount of loan than a purchaser of a property with a value slightly above HK\$12 million. For example, a purchaser of a property valued at HK\$11 million could borrow HK\$6.6 million (HK\$11 million x 60%), while a purchaser of a property valued at HK\$12.5 million would only be able to borrow HK\$6.25 million (HK\$12.5 million x 50%).

²This is to avoid the anomaly that a purchaser of a property with a value slightly below HK\$8 million could borrow a larger amount of loan than a purchaser of a property with a value slightly above HK\$8 million. For example, a purchaser of a property valued at HK\$7.5 million could borrow HK\$5.25 million (HK\$7.5 million x 70%), while a purchaser of a property valued at HK\$8.5 million would only be able to borrow HK\$5.1 million (HK\$8.5 million x 60%).