



# The use of personal loans to compete for residential mortgage business

## Guideline No. 5.9.2

### The use of personal loans to compete for residential mortgage business

We have noticed a growing trend for the use of personal loans (e.g. for decoration purposes) by authorized institutions to compete for residential mortgage business. These loans are often advertised as a package together with residential mortgages to attract customers. Such practice may undermine the integrity of the 70% loan-to-value guideline which has served the banking community very well so far. We are also concerned that individual institutions may lower their loan underwriting standards in order to compete for this business.

The HKMA believes therefore that institutions should exercise care in promoting such personal loans. Specifically, we consider that:

1. the granting of a personal loan to a borrower who is also taking out a residential mortgage loan should be a separate credit decision based on the institutions normal criteria for unsecured loans. Once the institution has agreed to provide a mortgage loan, the personal loan should not be offered as an automatic add-on;
2. institutions should try to ensure, as far as possible, that the personal loan is not being used in effect to finance the downpayment on the property in question;
3. the terms of the personal loan, including loan amount, interest rate and duration should be consistent with the institutions established policies for personal loans for customers in general. In particular, institutions should avoid granting personal loans with a longer than normal maturity which are quasi-mortgage loans;
4. institutions should not offer to provide personal loans which are expressed as a percentage of the value of the property being purchased;
5. the servicing costs of the personal loans, together with those on the borrowers other known financial liabilities, should be taken into account in calculating the debt servicing ratio on the residential mortgage loan.

We would wish to discuss with individual institutions, and in case of need to conduct test checks, to ensure that their underwriting standards and the terms of the personal loans are consistent with their established policies. I would be grateful if you would circulate this letter to your members.

I am writing in similar terms to the Chairman of the Hong Kong Association of Banks.

Last revision date : 01 August 2011