



HONG KONG MONETARY AUTHORITY
香港金融管理局

Circulars

14 Nov 2002

Tax Loans

Our Ref : B9/64C

14 November 2002

The Chief Executive
All Authorized Institutions

Dear Sir/Madam,

Tax Loans

As the tax loan season is approaching it may be opportune to highlight key prudent practices that institutions should be adopting in relation to this type of unsecured personal lending.

In the past the loan loss record on tax loans has generally been good, including in relation to other forms of unsecured personal lending. However, in the current environment, with bankruptcies and credit card write-offs at a historically high level, a more cautious approach to such lending may be prudent. In particular, institutions should endeavour to satisfy themselves that the customer is not taking on a disproportionate amount of debt, and that he has the stable means to service the debt. Such principles, of course, apply to all forms of lending, but are of particular relevance in the case of tax loans firstly because they are unsecured and secondly because they are generally made at finer margins than general personal loans.

Indeed, if a tax loan is for an amount greater than the tax bill, or the repayment period is longer than twelve months (both of which factors may suggest that the loan is more akin to a general personal loan than a pure tax loan) institutions should consider whether it might not be more appropriate to underwrite them as general personal loans.

Such matters as these, of course, are a matter for institutions' own commercial judgement, provided that they take due account of the risks. But, as noted above, it may be advisable for institutions to exercise particular care in this area this tax season.

Yours faithfully,

D T R Carse
Deputy Chief Executive

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