Circulars

20 Dec 2002

# The 70% guideline on residential mortgage lending

Our Ref: B1/15C

20 December 2002

The Chief Executive
All authorized institutions

Dear Sir / Madam,

## The 70% guideline on residential mortgage lending

There have recently been calls for the 70% guideline to be relaxed. In response, the HKMA has made it clear that the 70% guideline is intended to limit the risk exposure of authorized institutions (AIs) to a maximum of 70% of the property value, rather than to restrict the amount that homebuyers can borrow. It is possible, for example, for AIs to lend up to 90% of the value of the property with the extra portion insured under the Mortgage Insurance Programme.

The idea that AIs should limit their risk to 70% of the property value continues to attract widespread support in the industry. However, for this to be an effective means of controlling risk, it is important that the property in question is properly valued.

A feature of current market conditions is that some property developers are offering optional payment terms to homebuyers as part of their marketing strategy. In some cases, homebuyers are offered a significant cash rebate or other discount on the listed price. Under such circumstances, the listed price may not provide a realistic basis for determining the true value of the property. Generally speaking, the HKMA would expect AIs to use the discounted price (i.e. after deducting the cash rebate or other discount offered by the property developer) to determine their risk exposure for the purposes of the 70% guideline. In exceptional cases where an institution considers that a value higher than the discounted price should be used as the basis for determining the value of the property, this should be properly documented with a clear explanation of the reasons why the value so adopted is a realistic reflection of the true value of the property. HKMA's examiners will ascertain whether the value adopted by the institution is acceptable or not during their onsite examinations.

In case you have any questions concerning this letter, please do not hesitate to approach your usual contact at the HKMA for assistance.

Yours faithfully,

D T R Carse
Deputy Chief Executive

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