



HONG KONG MONETARY AUTHORITY
香港金融管理局

Our Ref.: B1/15C
B9/25C

28 February 2024

The Chief Executive
All Authorized Institutions

Dear Sir/Madam,

Prudential Measures for Property Mortgage Loans and Other Related Supervisory Requirements

I am writing to inform you of the adjustments made by the Hong Kong Monetary Authority (HKMA) today to the countercyclical macroprudential measures for property mortgage loans and other related supervisory requirements.

Property prices continue to adjust recently. Official residential property prices decreased by 7% in 2023, and further declined by 1.6% in January 2024, with a cumulative correction of more than 20% from their peak in 2021. Residential property transaction volume stayed low with an average number of transactions of 3,584 per month in 2023, representing an annual decline of 4.5%. The situation in the non-residential property market is similar. The average prices of offices fell by approximately 7% in 2023, while market data showed that the vacancy rate of Grade A offices rose to about 16% at the end of last year. Meanwhile, the external and domestic economic outlooks are still subject to many uncertainties.

After detailed analyses, the HKMA considers that there is room to adjust the countercyclical macroprudential measures for property mortgage loans and other related supervisory requirements on property loans, while continuing to maintain banking stability and ensuring the proper risk management of property lending by authorized institutions (AIs).

Property mortgage loans

With effect from today, the countercyclical macroprudential measures for property mortgage loans will be adjusted as follows:

- (1) For residential properties for self-occupation, the maximum loan-to-value (LTV) ratios will be adjusted to 70% for properties valued at HK\$30 million or below; and 60% for properties valued at HK\$35 million or above. To avoid a sudden drop in applicable LTV ratios, ratios for properties valued between HK\$30 million and HK\$35 million will be adjusted downward gradually. For non-self-use residential properties, the maximum LTV ratio will be adjusted from 50% to 60%.
- (2) The maximum LTV ratio for non-residential properties (including offices, retail shops and industrial buildings) will be adjusted from 60% to 70%.
- (3) For mortgage loans assessed based on the net worth of mortgage applicants, the maximum LTV ratio will be adjusted from 50% to 60%. This adjustment is applicable to both residential properties and non-residential properties.

With the US Federal Reserve recently expressing that the US rate hike cycle might be approaching an end, the probability of a further increase in mortgage interest rates in Hong Kong in the near future is relatively low. The HKMA therefore considers it appropriate to suspend the interest rate stress testing requirement for property mortgage loans that assumes a 200-basis-point rise in the mortgage rate.

The above-mentioned adjustments will apply to property transactions with provisional sale and purchase agreements signed today or subsequently. An updated table summarising the LTV caps and debt servicing ratio limits for property mortgage loans is set out at the **Annex**.

Lending to property developers

On 12 May 2017, the HKMA issued a circular “Risk management for lending to property developers” which sets out requirements for AIs to tighten the financing caps for property development projects, and to set aside an adequate amount of capital for exposures to property developers which offer mortgage financing with high LTV ratios. In view of the current property market situation, the HKMA considers it appropriate to raise the relevant financing caps back to the pre-2017 levels. Accordingly, the overall financing cap will be increased from 50% of the expected value of the completed properties to 60%, within which the financing cap for the value of the property site will be increased from 40% to 50% and the financing cap for the construction cost will be increased from 80% to 100%. In addition, the requirement for AIs to set aside additional capital for exposures to

property developers offering high LTV mortgages will be lifted. The circular dated 12 May 2017 is henceforth superseded by this circular.

Should your institution have any questions about this circular, please send them to rml_hkma@hkma.gov.hk.

Yours faithfully,

Raymond Chan
Executive Director (Banking Supervision)

Encl.

**Loan-to-value ratio (LTV) caps and debt servicing ratio (DSR) limits
for property mortgage loans with effect from 28 February 2024**

(Amendments in **RED**)

Table 1: LTV caps

Property value	Residential properties		Commercial and industrial properties and standalone car parking spaces
	Self-use ^{1, 2}	Non-self-use or company held	
Applicants who have <u>not</u> borrowed or guaranteed other outstanding mortgage(s) at the time of making a mortgage application ³			
DSR-based lending			
≤ HK\$30 million	70%	60%	70%
> HK\$30 million and ≤ HK\$35 million	60% – 70% (subject to a loan cap of HK\$21 million)		
> HK\$35 million	60%		
Net worth-based lending			
Regardless of value	60%		
Applicants who have borrowed or guaranteed other outstanding mortgage(s) at the time of making a mortgage application			
DSR-based lending or net worth-based lending			
The above applicable LTV caps will be lowered by 10 percentage points.			

**Loan-to-value ratio (LTV) caps and debt servicing ratio (DSR) limits
for property mortgage loans with effect from 28 February 2024**

(Amendments in RED)

Table 2: DSR limits⁴

	Residential, commercial and industrial properties, and standalone car parking spaces	
	Self-use ^{1, 2}	Non-self-use
Applicants who have <u>not</u> borrowed or guaranteed other outstanding mortgage(s) at the time of making a mortgage application³		
Base DSR limit	50%	40%
Applicants who have borrowed or guaranteed other outstanding mortgage(s) at the time of making a mortgage application		
Base DSR limit	40%	

Notes:

- 1 “Self-use” refers to occupancy by the owners or their immediate family members (which include parents, spouse, children, siblings, grandparents, grandchildren and parents-in-law), or by an individual majority shareholder or his/her immediate family members if the property is held by a shell company.
- 2 The HKMA’s countercyclical macroprudential measures are intended to apply to mortgage loans for the purpose of financing property transactions or the refinancing of existing properties. They are not intended to apply to credit facilities secured by properties for the purpose of financing the business operation of corporates, as these credit facilities are subject to a set of comprehensive credit underwriting standards and regular credit reviews by authorized institutions.
- 3 The limits are applicable to a borrower who has one property under mortgage and is making a mortgage application for either (i) refinancing or (ii) acquiring a new property before disposing the existing one. In the latter case, the applicant has to repay the outstanding mortgage loan for the existing property within 6 months upon the drawdown of the mortgage loan for the new property.
- 4 The stress test requirement with a stressed DSR limit assuming a 200-basis-point hike in interest rate is suspended with effect from 28 February 2024.