



The provision of mortgage finance to end users in conjunction with property developers

Guideline No. 5.8

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A number of authorised institutions have recently approached the Monetary Authority to seek our views on the provision of mortgage finance to end-users in conjunction with property developers. Whilst the schemes vary, they typically involve an authorised institution lending up to 70% of the price of a new property with a developer providing all or some of the remaining finance.

It is our opinion that schemes of this type tend to be of a higher risk than normal mortgage lending, as borrowers are not required to put down a 30% margin against the price of the property. As a result, the borrower incurs a higher indebtedness, increasing the risk of default.

However, we have not objected, and will not object, to such schemes provided they meet the following criteria:

- i. the authorised institution has a first legal charge and does not lend in excess of 70% of the valuation of the property. The property should be assessed by independent valuers;
- ii. there is no relaxation in the authorised institution's normal loan underwriting criteria. In assessing the debt to income ratio, account should be taken of any capital and interest repayments on finance provided by a property developer;
- iii. the authorised institution should not knowingly finance, either directly or indirectly, the property developer to enable the latter to provide finance to the borrower;
- iv. the authorised institution should set a limit on co-financing schemes which should be notified to the Monetary Authority. Such a limit should have regard to the impact on the institution's overall property exposure.

I should be grateful if you would circulate this letter to the members of your Association.

