

Survey on Residential Mortgage Lending

Completion Instructions

A. General instructions

Residential Mortgage Loan

1. Residential mortgage loans (RMLs)¹ are loans to professional and private individuals for the purchase of residential properties, including uncompleted flats, but other than flats under the Home Ownership Scheme (HOS), the Private Sector Participation Scheme (PSPS) and the Tenants Purchase Scheme (TPS) covered by a guarantee from the Housing Authority, regardless of whether the properties are intended for occupation by the borrowers or for other purposes. Other personal loans including those to enhance the properties such as decoration loans should not be included. However, refinancing loans should be included.
2. RMLs in negative equity are those RMLs with an outstanding loan amount with the reporting institution which exceeds the current market value (CMV) of the mortgaged property. This definition does not take into account other loans which a borrower may have obtained from co-financiers such as property developers, Hong Kong SAR Government and money lenders to finance the purchase.

B. Specific instructions

1. Gross RMLs outstanding

Gross RMLs outstanding at the start of the month

3. The reported amount of gross RMLs outstanding at the start of the month should agree with the reported amount of gross RMLs outstanding at the end of the previous month.

Gross RMLs made during the month

4. Gross RMLs made during the month include RMLs (including refinancing loans) as defined in this set of completion instructions, and RMLs purchased from other institutions during the reporting month.
5. Loans to refinance RMLs which were in negative equity are RMLs that have been refinanced at loan-to-value (LTV) ratio of more than 70% and up

¹ As defined in the Completion Instructions of *Quarterly Analysis of Loans and Advances and Provisions* (MA(BS)2A).

to 100% according to the HKMA letter “Refinancing of Residential Mortgage Loans in Negative Equity” of 10 October 2001.

6. For RMLs purchased from institutions other than the Hong Kong Mortgage Corporation (HKMC), information on name(s) of the institution(s), and the relevant number and amount of the transactions should be separately listed under “Supplementary information” in item 6(1).

Gross repayments received during the month

7. “Regular repayments” refer to regular repayments of principal received during the month.
8. Prepayment is defined as any payment that is made in excess of the regularly scheduled principal repayment. “Partial prepayments” refer to partial repayments of principal earlier than the periodic repayment schedule agreed at the time the mortgage loans are approved.
9. “Complete prepayments” refer to full repayments of principal before the maturity date of the mortgage loan. Include in this item full prepayments of principal that take place before a loan matures and payments of the last instalment of maturing loans.
10. RMLs securitised during the month are those RMLs converted to marketable securities through securitisations (commonly known as mortgage-backed securities) for selling to investors.
11. For RMLs sold to institutions other than the HKMC, information on name(s) of the institution(s), and the relevant number and amount of the transactions should be separately listed under “Supplementary information” in item 6(2).
12. Include in “Proceeds recovered from sale of repossessed residential properties” the principal amount of RMLs settled by proceeds recovered from disposal of repossessed residential properties.
13. Report in “Unallocated items” transactions that contribute to the movement of the “Gross RMLs outstanding at the end of the month” but could not be included in other reporting items of this survey. This item should however be used sparingly.

Gross RMLs outstanding at the end of the month

14. The item should tally with “Gross RMLs outstanding at the start of the month” in the following reporting month and should be the same as that of “Loans to professional and private individuals for the purchase of other

residential properties” in the Quarterly Analysis of Loans and Advances and Provisions (M(BS)2A).

2. Information on gross outstanding RMLs

Equitable mortgages and mortgages associated with co-financing schemes

15. Equitable mortgages refer to RMLs for uncompleted flats. Co-financing schemes refer to those schemes which involve the provision of top-up loans by the property developers or other co-financiers in addition to the mortgage loans advanced by the authorized institution for purchasing residential properties.
16. Co-financing schemes should be analysed by type of co-financier, i.e. property developers, Hong Kong SAR Government and others. If a co-financier is connected with a property developer, e.g. a holding company, sister company, subsidiary or associate of any property developer, it should be reported under “property developers”. Public sector entities such as the Hong Kong Housing Society should be treated as “Hong Kong SAR Government”. This reporting principle should also be similarly applied to the reporting of new loans approved during the month in Part 3.

Gross outstanding RMLs in negative equity

17. In reporting the gross outstanding RMLs in negative equity, reporting institutions may use a “best efforts” basis to derive the CMV of the mortgaged property, e.g. by application of available price indices. Reporting institutions are reminded that in line with CRG-7 of the Supervisory Policy Manual, the frequency of revaluation should preferably be at least quarterly. This may need to be increased further (e.g. monthly) if the condition of the property market merits this.

Breakdown of loan-to-value ratio for gross outstanding RMLs in negative equity

18. The LTV ratio is calculated by dividing the outstanding amount of a RML by the CMV of that mortgaged property.

Mortgage rate breakdown for outstanding RMLs in negative equity

19. For analysis of mortgage rates charged on outstanding RMLs in negative equity, the principles for reporting mortgage rates for new loans approved as set out in paragraphs 31 to 33 apply.

Overdue and rescheduled RMLs

20. Definitions of overdue and rescheduled RMLs are as per the HKMA's Guidelines on Overdue and Rescheduled Assets.
21. Reported overdue and rescheduled RMLs should be the gross principal outstanding loan amount without deduction of any provisions made. RMLs should be treated as overdue when an instalment payment is overdue and remains unpaid as at the last day of the reporting month. The overdue period should be calculated from the date of default of the loan. Rescheduled loans which have been overdue for more than 3 months under the revised repayment terms should be included under overdue loans and not under rescheduled loans.

RMLs subject to mortgagee's actions at the end of the month

22. Mortgagee actions are actions taken by the reporting institution as a mortgagee to enforce the security of a RML in default. For reporting purpose under this survey, mortgagee actions are any actions of the following nature: appointing a receiver, applying to the court for taking possession of properties, applying to the court for a foreclosure order or exercising the power of sale.

3. New loan applications and approvals

Applications received during the month

23. Applications refer only to formal applications of RMLs received during the reporting month by reporting institutions regardless of whether they are finally be approved or be withdrew by the applicants. Mere inquires of mortgage rates or general terms and conditions of RMLs should not be counted.

New RMLs approved during the month

24. In addition to reporting total new loans approved in the reporting month, the following three categories of breakdown should also be reported:
- property age;
 - mortgages associated with co-financing schemes; and
 - mortgages for refinancing existing RMLs that are in negative equity.

Average loan-to-value ratio

25. In calculating the LTV ratio, the value of a property should be taken to be the lower of the purchase price or the appraised value of the property. For refinancing loans, the appraised value will apply. Please see illustration in paragraph below for calculation of LTV ratio.

Average contractual life

26. The average contractual life of a portfolio of RMLs should be weighted by amount outstanding of individual loans in the portfolio.

	<u>Loan A</u>	<u>Loan B</u>
Value of property	\$2.0 million	\$14.0 million
Loan amount	\$1.4 million	\$8.4 million
Contractual life	240 months	300 months

Average contractual life

$$= (240 \text{ months} \times \$1.4 \text{ mn} + 300 \text{ months} \times \$8.4 \text{ mn}) / (\$1.4 \text{ mn} + \$8.4 \text{ mn})$$
$$= 291.4 \text{ months}$$

Average LTV ratio

$$= \text{total amount of loans} / \text{total value of properties}$$
$$= (\$1.4 \text{ mn} + \$8.4 \text{ mn}) / (\$2.0 \text{ mn} + \$14.0 \text{ mn})$$
$$= 61.25\%$$

Undrawn RML commitments outstanding

27. Include in this item all RML commitments outstanding at the end of the month.

4. RMLs in negative equity on which interest rates have been lowered or other mortgage terms changed during the month

28. Report RMLs in negative equity on which interest rates have been lowered, other than those refinanced as reported under item 1(2)(b).
29. RMLs on which interest rates have been reduced together with other mortgage terms being changed should be reported under item 4(1)(a).
30. Extension of contractual life and offering of a repayment holiday for principal payments are examples of changes in mortgage terms other than interest rates.

5. Mortgage rate analysis for new loans approved (drawn and undrawn) during the month

Mortgage rate for new loans approved

31. For **floating rate mortgages**, reporting institutions should classify the mortgage rate of new loans approved on a time-weighted basis and report under the relevant interest rate categories.

Example: The time-weighted mortgage rate (TWMR) of a 20-year RML granted at the best lending rate (BLR) minus 2% for the first 3 years and at BLR for the remaining mortgage term is:

$$\begin{aligned}\text{TWMR} &= (\text{BLR}-2\%) \times 3/20 + \text{BLR} \times 17/20 \\ &= \text{BLR}-0.3\% \text{ for the entire mortgage term}\end{aligned}$$

32. For a **blended mortgage rate** plan that offers a fixed interest rate for the initial 1 to 11 months, and floating interest rates for the remaining mortgage term, a time-weighted mortgage rate should be applied.

Example: The TWMR of a 20-year RML granted at 6.5% for the initial 6 months, BLR-1% for the seventh month to the sixtieth month, and BLR for the remaining mortgage term is:

$$\begin{aligned}\text{TWMR} &= (\text{BLR}-2.25\%) \times 0.5/20 + (\text{BLR}-1\%) \times 4.5/20 + \text{BLR} \times 15/20 \\ &= \text{BLR}-0.28125\% \text{ for the entire mortgage term}\end{aligned}$$

where (BLR-2.25%) is calculated by transforming 6.5% using the prevailing BLR when the mortgage loan is approved.

33. **Fixed rate mortgages** include those fixed for the initial 12 months or more with the interest rate being re-fixed or becoming floating for the remaining mortgage term.

Rebates for new mortgage loans approved

34. Report in “Rebates” the monetary value of all rebates, which include both cash and non-cash rebates, granted on new loans approved (drawn and undrawn) during the month.
35. Non-cash rebates broadly account for all non-cash cost items incurred by reporting institutions as marketing expenses. Waiver of legal assignment fee, fire insurance policy premium in the initial year, and monthly instalment repayments in the initial month are examples of non-cash rebates.
36. Reporting institutions need not deduct the rebates when calculating the time-weighted mortgage rates.
37. Property purchased from the “primary market” refers to residential flats/units purchased from property developer(s) by mortgagors. Property purchased from the “secondary market” refers to residential flats/units purchased from any title owners other than property developer(s).

Hong Kong Monetary Authority
September 2006