



HONG KONG MONETARY AUTHORITY
香港金融管理局

Circulars

20 Mar 2008

Residential mortgage loans (RMLs)

Our Ref.: B1/15C

20 March 2008

The Chief Executive
All Authorized Institutions

Dear Sir/Madam,

Residential mortgage loans (RMLs)

It has come to our notice that there is a growing trend among authorized institutions (AIs) in providing RMLs to customers with a principal repayment holiday of 2 to 3 years. Borrowers of such mortgages are required to service interest payments only during the holiday period, after which the monthly repayments will be restored to the normal level. The HKMA is concerned that this practice may expose the lenders to considerably higher risks in the event of loan default.

Given this concern, the HKMA is of the view that it would not be prudent for AIs to continue providing new RMLs with principal repayment holidays. Therefore, with immediate effect, AIs should not offer RML products with such feature to customers. This should not affect, however, RMLs that have already been approved or committed by your institution. The HKMA will monitor compliance with the above-mentioned requirement through its ongoing supervisory process.

Regarding RML products with interest / principal repayment holidays subsidised by property developers, AIs should follow the requirements set out in the HKMA's circular of 28 February 2005.

We would like to take this opportunity to reiterate the importance for AIs to adhere to prudent lending criteria and practices in underwriting new RMLs. Procedures should be in place to ensure adherence to the 70% loan-to-value ratio, prudent debt-servicing ratio and valuation policies. Any exception to established underwriting criteria must be properly approved and documented. For other banking facilities and trade credits, procedures should be in place to ensure that loan proceeds are used for the stated purposes to guard against the use of such facilities for speculative purposes.

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

Yours faithfully,

Y K Choi
Deputy Chief Executive

c.c. Chairman, Hong Kong Association of Banks
Chairman, DTC Association

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