

Prudential Measures for Property Mortgage Loans

Measures applicable to owner occupied residential property mortgage loans only

1. **For properties with a value at HK\$10 million or above, the maximum LTV ratio shall be 50%**

This requirement, as well as Requirements 2 to 5 below, expect AIs to apply a LTV ratio lower than 70% under different circumstances. In cases where more than one of the HKMA's prudential requirements are applicable, AIs should apply the lowest LTV ratio dictated by the relevant requirements.

2. **For properties with a value at HK\$7 million or above but below HK\$10 million, the maximum LTV ratio shall be 60%, subject to a loan cap of HK\$5 million**

AIs are required to limit the maximum LTV ratio to 60% for residential properties with a value at or above HK\$7 million but below HK\$10 million. However, to avoid the anomaly that the maximum amount a purchaser of a property with a value of slightly below HK\$10 million could borrow would be higher than that for a property valued at HK\$10 million¹, the maximum loan amount for properties with a value at or above HK\$7 million but below HK\$10 million should be subject to a cap of HK\$5 million.

3. **For properties with a value below HK\$7 million, the maximum LTV ratio shall be 70%, subject to a loan cap of HK\$4.2 million**

In other words, only properties with a value at or below HK\$6 million are eligible for a maximum LTV ratio of 70%, and the maximum mortgage loan amount for residential properties with a value between HK\$6 million and HK\$7 million is HK\$4.2 million.

Measures applicable to residential and non-residential property mortgage loans

4. **Reducing the applicable maximum LTV ratio by 10 percentage points for property mortgages to borrowers whose income is derived mainly from outside Hong Kong**

It is considered prudent for AIs to apply a lower maximum LTV ratio to this group of borrowers whose credit risk may be higher due to the following reasons:

¹ Had there not been a cap of HK\$5 million, a purchaser of a property valued at HK\$9 million would have been able to borrow HK\$5.4 million (HK\$9 million x 60%), whereas a purchaser of a property valued at HK\$10 million would only have been able to borrow HK\$5 million (HK\$10 million x 50%).

- (a) Difficulty in verifying their income derived from outside Hong Kong;
- (b) Difficulty in verifying their indebtedness incurred outside Hong Kong;
and
- (c) Difficulty for AIs to take recourse actions in case of default by these borrowers.

However, borrowers who can demonstrate that they have a close connection with Hong Kong will not be subject to the reduction. Under the following circumstances, a borrower may be regarded as having a close connection with Hong Kong:

- (a) The borrower is on secondment by a local employer to work outside Hong Kong with documentary proof provided by the employer; or
- (b) The borrower's immediate family member (i.e. spouse, parents, and descendants) is residing in Hong Kong.

5. Lowering the maximum LTV ratio for property mortgage loans based on borrowers' net worth (i.e. net worth-based mortgage loans) from 50% to 40%

AIs are required to lower the maximum LTV ratio from 50% to 40% for net-worth based mortgage loans, irrespective of the value of the properties.

6. The impact of the above requirements are summarised in Annex 2.