



HONG KONG MONETARY AUTHORITY
香港金融管理局

Our Ref.: B4/1C

22 February 2013

The Chief Executive
All Authorized Institutions

Dear Sir/Madam,

Prudential Measures for Property Mortgage Loans

The Hong Kong Monetary Authority (HKMA) has been closely monitoring the property market in view of the increasing risk of an asset price bubble that may undermine the stability of the banking system in Hong Kong.

After some slow down in property mortgage transactions following the introduction of the prudential measures by the HKMA in September 2012 and the taxation measures by the Government in October 2012, there have been renewed signs of heating up in the property market recently, with notable increase in property prices and number of transactions observed not only on residential properties, but also commercial and industrial properties. Based on past experience, the quality of commercial and industrial property mortgage loans could face more severe deterioration than residential mortgage loans (RMLs) in property market downturns.

Externally, the decisions of major central banks to further intensify their “quantitative easing” measures have inevitably increased uncertainties and difficulties when they exit from their current policy stances. Upon return of inflationary pressures in advanced economies, the pace and the extent of interest rate rise may be greater than originally expected.

In view of these developments, the HKMA considers it necessary to introduce the following macroprudential measures to further strengthen the risk management of authorized institutions (AIs)’ mortgage lending business, and the ability of mortgage borrowers to cope with the potential impact of interest rate rises in future.

- (I) Increase the mortgage rate upward adjustment for stress testing property mortgage loan applicants’ debt servicing ability from at least 2 percentage points to at least 3 percentage points;**
- (II) Lower the applicable loan-to-value (LTV) ratio limits for non-residential property mortgage loans by 10 percentage points; and**

(III) Limit the maximum LTV ratio and debt-servicing ratio for standalone car park space mortgage loans to the levels applicable to non-residential property mortgage loans, and the maximum loan tenor to 15 years.

The above measures take immediate effect. To avoid causing hardship to mortgage applicants who have signed provisional sale and purchase agreements on or before the date of this letter, AIs may assess mortgage loan applications of these applicants based on their existing underwriting criteria.

A summary of the above new measures can be found in **Annex 1** of this letter. For ease of reference, a table summarising the HKMA's prudential measures on LTV ratio limit and debt-servicing ratio limit of property mortgage loans after incorporating the above new measures is at **Annex 2**. The HKMA will monitor AIs' compliance with the prudential measures through its routine onsite examinations and off-site reviews.

In addition, the HKMA has recently conducted a review of the risk-weight levels of RMLs among AIs using Internal Ratings-Based (IRB) Approach. To ensure that AIs maintain a higher level of regulatory capital to cushion the potential risks arising from their RML activities, the HKMA considers it prudent to adopt a 15% risk-weight floor for all RMLs granted by the IRB AIs after 22 February 2013. We will be writing to the affected AIs separately regarding this requirement.

If your institution has any questions about this letter, please approach your usual contacts at the HKMA.

Yours faithfully,

Arthur Yuen
Deputy Chief Executive

Encl.