Annex 1

Measures to further enhance customer protection and address potential reputation risks to Authorized Institutions (AIs) in the loan application processes

1. Before processing a loan application from retail customers or small and medium-sized enterprises[1] (SMEs), AIs should obtain from prospective borrower confirmation[2] as to whether or not the loan application was referred to AIs by a third party, and information, if any, on the name of the third party and its identifying numbers[3] as well as the amount of fees charged or to be charged by the third party on the prospective borrower for referring such loan application to AIs ("loan-related fees").

2. AIs should not proceed with the loan application if the third party is confirmed not to be an appointed third party[4] of the AI concerned. AIs should explain to the prospective borrower about the reasons for not proceeding with the loan application.

3. It is generally expected that the appointed third party should not charge loan-related fees on prospective borrowers, and thus it is a possible reason for not proceeding with the loan application if an AI is aware that the appointed third party does so. Where exceptional circumstances exist, AIs may proceed with the loan application on a case-by-case basis, while such exceptions should be adequately justified, properly approved and documented. The AI should be able to provide the documented records upon request by the HKMA.

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1 The definition of small and medium-sized enterprises adopted by individual AI should be the same as that being used for internal business segmentation / risk management purposes, OR the definition as agreed with the HKMA where appropriate. In addition, customers to which any granted facilities are being covered by the SME Loan Guarantee Scheme (SGS), SME Financing Guarantee Scheme (SFGS), Special Loan Guarantee Scheme (SpGS), or other similar guarantee schemes should be considered as SMEs.

2 For example, in the form of declaration embedded in the loan application forms, or separate confirmation forms signed off by customers.

3 Including telephone number, business registration or licence numbers, if any, of the third party.

4 AIs should have effective and adequate controls in place to manage the risks associated with the appointment of and engagement with third parties and monitor the business practices of the appointed third parties, including, among others, estate agents in mortgage referral arrangements with AIs. Relevant guidance includes but is not limited to Module SA-2 of the HKMA Supervisory Policy Manual on Outsourcing and HKMA circular dated 20 August 2014 on "Engagement of External Business Referral Service Providers".

4. If an AI intends to proceed with a loan application after checking relevant information provided by the prospective borrower, the AI should also obtain a confirmation[5] from the appointed third party as to whether or not loan-related fees have been or will be charged, and information, if any, on the amount of loan-related fees charged or to be charged on the prospective borrower. This step is for cross-checking with information obtained separately from the prospective borrower. Any inconsistency should be clarified.

5. AIs should also set up and publicise a convenient channel, such as a dedicated hotline, for the public to enquire whether a person is an appointed third party of the AI concerned for sourcing retail customer and SME loans.

6. All advertisements in relation to AIs' lending business to retail customers and SMEs, whether in textual, audio or visual form, must contain the following educational message of responsible borrowing[6] in a clear and prominent manner, so that it is easily legible <u>and</u> clearly audible:

   "借定唔借？還得到先好借！"
   "To borrow or not to borrow? Borrow only if you can repay!"

[5] For example, in written form or audio recording.

[6] Same as that in the HKMA's public education materials on responsible borrowing. (http://www.hkma.gov.hk/eng/key-functions/banking-stability/consumer-corner/strengthening-financial-consumer-protection/consumer-education-programme/responsible-borrowing.shtml)