



HONG KONG MONETARY AUTHORITY
香港金融管理局

Our Ref : B1/15C
B9/67C

20 July 2022

The Chief Executive
All Authorized Institutions

Dear Sir / Madam,

Payment Arrangements for Property Transactions

I am writing to welcome the expansion of pilot arrangements for providing an alternative means of payments of funds in respect of mortgage refinancing transactions under the Payment Arrangements for Property Transactions (“PAPT”), as announced by The Hong Kong Association of Banks (“HKAB”) today. The initiative is strongly supported and endorsed by the Hong Kong Monetary Authority (“HKMA”).

The PAPT

The PAPT aims to better protect residential mortgage customers and reduce the credit and operational risks faced by Authorized Institutions (“AIs”) in their mortgage business against any disruption of the operation of a law firm handling mortgage transactions. Further to the HKMA circular of 29 December 2021, the HKMA has continued to closely work with the banking industry and relevant stakeholders with a view to enabling mortgage customers to effect transfer of sizable payments of funds required in a residential property transaction from bank to bank, as an alternative means to the current practice of routing such payments through the client accounts of the law firms involved in the transactions.

Following the smooth completion of a series of pilot mortgage refinancing transactions using the PAPT by selected banks in the second quarter of this year, HKAB has today announced an expansion of the pilot run under the PAPT through the provision of alternative means of payments of funds in respect of mortgage refinancing transactions by all licensed banks offering residential mortgage loans. The applicant for a refinancing facility will be given the option to use direct bank-to-bank transfer under the PAPT as an alternative means to the current payment practice. The expansion should enable more banks, customers and other stakeholders to try out and get acquainted with the PAPT.

In general terms, when the alternative means of using direct bank-to-bank transfer is adopted in respect of a mortgage refinancing transaction under the PAPT, the mortgage loan proceeds will be directly transferred from the mortgage institution providing the refinancing (“RMI”) to the original mortgage institution (“OMI”) through the Clearing House Automated Transfer System (i.e. CHATS) on the loan drawdown day. If the loan proceeds of the refinancing mortgage loan exceed the outstanding amount of the existing mortgage loan (i.e. refinancing with a cash out amount), the RMI will credit the excess amount to the borrower’s account maintained with it. For mortgage refinancing transactions involving a remaining balance to be paid by the borrower of the existing mortgage loan to the OMI, such payment will be made by means of cashier’s order to be arranged by the borrower or by debit from the borrower’s account.

Provision of Alternative Means to Customers

To enable the expanded pilot run to operate smoothly, all licensed banks offering mortgage loans for residential properties in Hong Kong (“Mortgage Banks”) should take immediate steps to get ready and provide customers who are seeking mortgage refinancing (preferably at the time of making the loan application) with the option of transferring funds directly from bank to bank under the PAPT as soon as practicable before the end of the year. Mortgage Banks should be ready to explain to their refinancing customers (including prospective customers) the features of the PAPT from the perspective of customer protection, with a view to encouraging customers to try out the PAPT where appropriate. As part of the preparation, Mortgage Banks should familiarise themselves with the operational details of the PAPT, arrange the necessary changes to their internal operational processes and systems, engage with their panel solicitor firms and conduct any required system and interbank transfer testing. They should also provide staff training and put in place

customer communication plans, including procedures for addressing enquiries of customers. Meanwhile, we note that HKAB has drawn up a timeline to guide Mortgage Banks on their preparations and Mortgage Banks are expected to follow the timeline.

In order to enable a meaningful assessment to be made on the effectiveness of the expanded pilot run across the industry, Mortgage Banks should set a target adoption rate in respect of the usage of the alternative for the first 6-month period upon joining the pilot run, and assess the usage and experience gained after this period. The HKMA anticipates that operational experience gained in the use of the PAPT for mortgage refinancing transactions may lead to refinements in the processing and procedures underpinning the PAPT.

Should you have any questions regarding this circular, please contact Mr Kevin Sham at 2878 1594 or Ms Cora Ching at 2878 8211. For questions on the operation of the PAPT, please contact the industry associations.

Yours faithfully,

Arthur Yuen
Deputy Chief Executive

c.c. The Hong Kong Association of Banks (Attn: Ms Boey Wong, Secretary)
The DTC Association (Attn: Mr P C Lund, Association Secretary)
Secretary for Financial Services and the Treasury (Attn: Mr Desmond Wu, Principal Assistant Secretary (Financial Services))
The Law Society of Hong Kong (Attn: Ms Heidi Chu, Secretary General)
Consumer Council (Attn: Ms Gilly Wong, Chief Executive)
Estate Agents Authority (Attn: Ms Ruby Hon, Chief Executive Officer)