

Countercyclical macroprudential measures for property mortgage loans

The following is issued on behalf of the Hong Kong Monetary Authority:

The Hong Kong Monetary Authority (HKMA) today (February 28) issued guidelines to banks adjusting the countercyclical macroprudential measures for property mortgage loans and other related supervisory requirements.

Property prices continue to adjust recently. Official residential property prices decreased by 7 per cent in 2023, and further declined by 1.6 per cent in January 2024, with a cumulative correction of more than 20 per cent from their peak in 2021. Residential property transaction volume stayed low with an average number of transactions of 3,584 per month in 2023, representing an annual decline of 4.5 per cent. The situation in the non-residential property market is similar. The average prices of offices fell by approximately 7 per cent in 2023, while market data showed that the vacancy rate of Grade A offices rose to about 16 per cent at the end of last year. Meanwhile, the external and domestic economic outlooks are still subject to many uncertainties.

After detailed analyses, the HKMA considers that there is room to adjust the countercyclical macroprudential measures for property mortgage loans and to suitably adjust other related supervisory requirements on property loans, while continuing to maintain banking stability and ensuring the proper risk management of property lending by banks:

1. For residential properties for self-occupation, the maximum loan-to-value (LTV) ratios will be adjusted to 70 per cent for properties valued at HK\$30 million or below; and 60 per cent for properties valued at HK\$35 million or above. To avoid a sudden drop in applicable LTV ratios, ratios for properties valued between HK\$30 million and HK\$35 million will be adjusted downward gradually. For non-self-use residential properties, the maximum LTV ratio will be adjusted from 50 per cent to 60 per cent.
2. The maximum LTV ratio for non-residential properties (including offices, retail shops and industrial buildings) will be adjusted from 60 per cent to 70 per cent.
3. For mortgage loans assessed based on the net worth of mortgage applicants, the maximum LTV ratio will be adjusted from 50 per cent to 60 per cent. This adjustment is applicable to both residential properties and non-residential properties.
4. With the United States (US) Federal Reserve recently expressing that the US rate hike cycle might be approaching an end, the probability of a further increase in mortgage interest rates in Hong Kong in the near future is relatively low. The HKMA therefore considers it appropriate to suspend the interest rate stress testing requirement for property

mortgage lending that assumes a 200-basis-point rise in the mortgage rate.

5. The HKMA tightened the financing caps for property development projects in June 2017. In view of the current property market situation, the HKMA considers it appropriate to raise the relevant financing caps back to the pre-2017 levels – in other words, the overall financing cap will be increased from 50 per cent of the expected value of the completed properties to 60 per cent, within which the financing cap for the value of the property site will be increased from 40 per cent to 50 per cent and the financing cap for the construction cost will be increased from 80 per cent to 100 per cent. In addition, the existing requirement for banks to set aside additional capital for exposures to property developers which offer mortgage financing with high LTV ratios will be lifted.

These adjustments will take effect from today and apply to property transactions with provisional sale and purchase agreements signed today or subsequently.

The HKMA will continue to monitor market developments closely and introduce measures to safeguard banking stability as conditions in the property market evolve.