

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 (July 7) issued guidelines to banks adjusting the countercyclical macroprudential measures for property mortgage loans.

Since the countercyclical macroprudential measures for property mortgage loans were implemented in 2009, the HKMA has been assessing conditions in the property market by monitoring factors including property prices and transaction volumes, and the local and external economic environment. The aim is to evaluate the need for appropriate adjustments to these measures to ensure that banks maintain effective risk management in their property mortgage lending business and sufficient capacity to cope with challenges arising from a sharp correction in property prices.

Following the COVID-19 pandemic and with interest rates rising, there has been a correction in residential property prices since 2022. Despite a rebound early this year, market data showed that at the end of June residential property prices were down 13 per cent from their peak in 2021. The situation in the non-residential property market was similar. According to the latest statistics published by the Rating and Valuation Department, the prices of offices, flatted factories and retail premises have fallen by 20 per cent, 8 per cent and 17 per cent respectively from their peaks in 2018-2019. Externally, as major economies continue to face high inflationary pressures, interest rates may remain elevated for some time. Any slow-down in the global economy due to high interest rates would inevitably affect the local economy.

Taking all relevant factors into account, the HKMA considers that there is room to adjust the countercyclical macroprudential measures for property mortgage loans, while continuing to maintain banking stability and ensuring the proper risk management of property mortgage loans:

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\$15 million or below; and 60 per cent for properties with a value of more than HK\$15 million and up to HK\$30 million. The maximum LTV ratio for residential properties for self-occupation valued at more than HK\$30 million will remain unchanged at 50 per cent. To avoid a sudden drop in applicable LTV ratios, ratios for properties in certain value ranges will change gradually. For non-self-use residential properties, the maximum LTV ratio will remain unchanged at 50 per cent.
2. The maximum LTV ratio for non-residential properties will be adjusted

from 50 per cent to 60 per cent.

3. For mortgage loans assessed based on the net worth of mortgage applicants, the maximum LTV ratio will be adjusted from 40 per cent to 50 per cent. This adjustment is applicable to both residential properties and non-residential properties.
4. The existing requirements to lower the applicable maximum LTV ratio and debt servicing ratio (DSR) limit by 10 percentage points for mortgage applicants whose incomes are mainly derived from outside of Hong Kong will be lifted. In addition, the existing requirement to apply a 5-percentage-point knock down on applicable DSR limits when mortgage applicants' total mortgage finance exceeds the HKMA's normal permissible LTV ceilings by 20 percentage points will be removed.

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

This is the first time the HKMA has relaxed the countercyclical macroprudential measures for residential properties since they were implemented in 2009. After the adjustments, the public will be able to take out property mortgage loans at higher LTV ratios. The HKMA would like to remind the public that buying a property is an important life decision. Prospective buyers should carefully assess their own ability to afford a property and prudently manage the financial risks involved in making a property purchase.

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