

LCQ22: Impacts of continued decline in property market

Following is a question by the Hon Paul Tse and a written reply by the Secretary for Financial Services and the Treasury, Mr Christopher Hui, in the Legislative Council today (November 15):

Question:

According to the Centa-City Leading Index, Hong Kong property prices have started to fall since the end of 2021, and have so far dropped by more than 15 per cent. In addition, the data from the Hong Kong Monetary Authority show that the number of residential mortgage loans in negative equity in Hong Kong exceeded 11 000 at the end of September this year, involving an aggregate value of \$59.3 billion. On the other hand, it has been reported that in recent months, one after another, owners of private flats have been suddenly demanded by banks or finance companies to repay a portion of their mortgage loans early on the grounds that the valuation of their properties has declined, failing which they will be required to pay a mortgage rate of up to 10 per cent; and those who have pledged their commercial properties as collateral for commercial loans from banks have also been pursued by the latter on the same grounds to make up the shortfall between the loan amount and the latest valuation of their properties. Some members of the public are worried about the emergence of "a wave of banks calling in loans" if the property market continues to hit new lows. In this connection, will the Government inform this Council:

(1) whether it has compiled statistics on the current situation where owners of residential properties across the territory are being demanded to make early repayments on mortgage loans by various financial institutions; if so, of the number of cases and the amount involved; if not, whether it will compile statistics immediately;

(2) whether it is aware of the trend where banks are seeking to recover the shortfall between the loan amount and the latest property valuation from individuals or companies that have pledged their commercial properties as collateral for loans; if so, whether it has compiled statistics on the number of cases and the amount involved;

(3) whether it has formulated corresponding measures to assist owners of residential and commercial properties in tiding over the difficulties in the event of "a wave of banks calling in loans"; and

(4) whether it has assessed if the lowering of the valuations of Hong Kong's residential and commercial properties by local banks or financial institutions will necessitate corresponding downward adjustments of the reserve prices for land by the authorities when putting up new land (whether for residential or commercial use) for auction in the future, thereby further

dampening the revenue from land sales?

Reply:

President,

Regarding the four parts of the question, having consulted the Development Bureau and the Hong Kong Monetary Authority (HKMA), my reply is as follows:

(1) Residential mortgage loans are mainly provided by banks. Although the banking sector saw an increase in the number of residential mortgage loans in negative equity during the third quarter of 2023 as property prices fell, the asset quality of banks' residential mortgage lending portfolio has remained sound. In particular, the overall delinquency ratio for residential mortgage loans increased only slightly from 0.04 per cent at the end of December 2021 to 0.07 per cent at the end of September 2023, while the delinquency ratio for residential mortgage loans in negative equity was even lower, standing at 0.02 per cent at the end of September 2023. The above figures are far below their peaks in the past, reflecting that a vast majority of borrowers are able to continue making payments on their mortgage loans.

Based on the HKMA's understanding, even if there is a decline in the value of the properties that are pledged as collateral, banks in general will not request early repayments so long as the borrowers are able to make payments on their residential mortgage loans according to schedule. Given that the delinquency ratio for residential mortgage loans of banks has remained low in recent years, there is no such situation where banks have on an extensive scale demanded repayment from borrowers in arrears with their residential mortgage payments.

(2) The case of mortgage loans for commercial properties is similar to that of residential mortgage loans. For companies which have obtained mortgage loans from banks for commercial properties, as long as they are able to make payments on the mortgage loans according to schedule, banks in general will not request early repayments from the companies. As for companies that have pledged their commercial properties as collateral for credit lines, banks will review the credit limits periodically, taking into account the companies' credit condition and repayment ability. Banks will not adjust the credit limits simply because of a change in collateral value. If banks need to adjust the credit limits after their reviews, they will notify the customers in advance and communicate with them effectively to provide the customers with sufficient time for preparation.

(3) With the successive rounds of countercyclical macroprudential measures introduced by the HKMA since 2009, banks have long been managing the risks associated with their mortgage business in a prudent manner. The average loan-to-value ratio of new residential mortgage loans was 59 per cent in the first half of 2023, while the average debt servicing ratio of mortgages stayed at a low level of 40 per cent. Borrowers are also subject to the interest rate stress test for mortgage loans. Even though interest rate has

increased recently and there has been an adjustment in property prices, the repayment ability of mortgage borrowers remains generally sound and there has not been a widespread default in mortgage loans taken out with banks. The HKMA will continue to monitor market developments closely and introduce appropriate measures to safeguard banking stability.

If there are individual or corporate customers facing actual repayment difficulties, the HKMA expects banks to follow the approach set out in the "Hong Kong Approach to Consumer Debt Difficulties" and "Hong Kong Approach to Corporate Difficulties" guidelines and adopt a sympathetic stance in handling these cases. Banks should work out a mutually acceptable solution with the customers as far as possible, subject to prudent risk-management principles.

(4) As the Financial Secretary has mentioned, the Government has been taking heed of the market conditions in launching sites for sale. Government land is sold at no less than the reserve price. And when setting the reserve price on the tender closing date, apart from the development conditions of the site, Lands Department's professional surveyors would also consider the market situation including recent land and property transactions and construction cost, economic environment, market outlook, etc.