

Press release

LCQ9: Refusal to offer property mortgage loans by banks

Wednesday, January 14, 2009

Following is a question by the Dr Hon Priscilla Leung and a written reply by the Secretary for Financial Services and the Treasury, Professor K C Chan, in the Legislative Council today (January 14):

Question:

I have recently received complaints from quite a number of real estate agents who pointed out that since the latter half of last year, due to the deteriorating economic outlook amid the financial tsunami and the plunge in property prices, banks have tightened the criteria for vetting and approving applications for property mortgage loans and refused in different ways to offer loans (such as deliberately underestimating the property value). In this connection, will the Government inform this Council whether:

(a) it knows the number of cases in the past six months of banks refusing to offer mortgage loans to prospective buyers of first-hand or second-hand residential properties, as well as their reasons for refusing to offer loans;

(b) it knows the respective numbers of cases in the past six months of residential property buyers being refused, after signing the Official Agreements for Sale and Purchase, to be offered mortgage loans by individual banks, such buyers having to defer the date for completing the transaction as they had yet to secure a mortgage loan, as well as buyers having their deposits ultimately forfeited due to failure to secure a mortgage loan;

(c) the Hong Kong Monetary Authority presently has any mechanism in place to handle complaints lodged by the public about banks deliberately refusing to offer property mortgage loans; if so, of the details; if not, the reasons for that; and

(d) it has assessed the impact of the banks tightening the criteria for vetting and approving property mortgage applications on the estate agency trade; if so, whether it has measures in place to assist real estate agents; if not, the reasons for that?

Reply:

President,

The current global financial crisis has had an impact on the local property markets. In such an uncertain environment, it is understandable that authorised institutions (AIs) have become more cautious in their mortgage lending.

Ultimately the question of whether or not to provide mortgage loans to customers is a commercial decision for individual AIs, and the Administration is not in a position to interfere with such commercial decisions. However, in order to encourage AIs to continue lending and performing their vital financial intermediation role despite the current economic situation, the Hong Kong Monetary Authority (HKMA) has introduced a series of measures including, among other things, the injection of ample liquidity into the banking system and the provision of full deposit guarantee (Note 1). The Hong Kong Mortgage Corporation has also lowered the threshold loan-to-value (LTV) ratio at which it offers mortgage insurance from 70% to 60% (subject to a total LTV ratio of 90%).

The HKMA, together with the Estate Agents Authority (EAA), had a meeting on December 17, 2008 with a group of six estate agents' associations to discuss their concerns about banks' practices in relation to mortgage loans. Subsequent to that meeting, the HKMA and the EAA jointly organised a further meeting involving the representatives of the banking industry and the six trade associations on January 7, 2009. At that meeting, the trade associations made suggestions on how banks might improve their mortgage services (e.g. introducing service commitments on the time required for approval of mortgage loans and the provision of a mortgage pre-approval service). The representatives of banking industry present at the meeting agreed to consider these suggestions and implement them where appropriate. The HKMA and the EAA will continue to assist in communication between the banking industry and the estate agents' associations.

The Administration's detailed responses to the questions are set out below.

(a) and (b) The HKMA does not have the statistics requested under questions (a) and (b). The HKMA has been in discussion with major banks on their mortgage lending activities recently. These banks have indicated that they have continued to provide mortgage services. They have not changed their approval criteria (such as LTV ratio and debt-to-income ratio) in relation to mortgages for residential properties generally. However, some banks have tightened the financing criteria for luxury properties. Some have also adopted more prudent practices in assessing borrowers' repayment capability (e.g. by excluding commissions and bonuses on the ground that these are unstable sources of income). These adjustments in lending practices do not appear unreasonable under the current economic situation.

(c) The HKMA has a dedicated unit to handle complaints against AIs. The focus is to ensure that AIs handle their customers' complaints in a fair and efficient manner. The HKMA follows up complaints which raise issues of supervisory concern, such as breaches of the Code of Banking Practice or other guidelines or regulations issued by the HKMA or other relevant authorities. However, it will not be involved generally in the commercial decisions of individual AIs.

(d) Given the impact of the current local economic and property market conditions on the estate agency sector, the EAA has agreed to waive six month's licence fees for all types of licences involving about \$24.3 million under the Estate Agents Ordinance on a one-off basis, with a view to helping the estate agent sector tide over the difficult time. The licence fee concessions are expected to be implemented in the second quarter of 2009.

Note:

1. The guarantee covers all protected deposits as defined in the Deposit Protection Scheme Ordinance (Cap. 581), were the Ordinance to apply to all AIs.

Ends