

Press Release

LCQ19: Household indebtedness

Wednesday, January 21, 2015

Following is a question by the Hon Tang Ka-piu and a written reply by the Secretary for Financial Services and the Treasury, Professor K C Chan, in the Legislative Council today (January 21):

Question:

According to the statistics from the Hong Kong Monetary Authority (HKMA), the ratio of household indebtedness to the gross domestic product (household debt ratio) in Hong Kong has risen from 50.4% at the end of 2007 before the global financial crisis to 63.6% in the second quarter of 2014. In this connection, will the Government inform this Council:

(1) of the latest household debt ratio and the methodology employed by HKMA in collecting data and compiling statistics on household loans;

(2) of the respective annual amounts of the various components of household loans in Hong Kong (namely, residential mortgages, credit card advances and other personal loans) and their percentages in the total amounts, the number of such loans, and their delinquency ratios, in each of the past three years; the specific components of other personal loans, as well as the respective amounts of such components and their percentages in the total amounts of other personal loans, the number of such loans, and their delinquency ratios;

(3) given that in reply to a question raised by a Member of this Council on May 29, 2013, the authorities indicated that the data on household loans included only loans from authorised institutions (AIs), whether such data include loans from licensed money lenders registered with the Money Lenders Registry; whether it knows the total amount of loans from non-AIs in the past three years; whether the authorities have assessed the impact of the loans from non-AIs on the household debt ratio;

(4) of the total amounts of personal loans granted in the past three years by money lending organisations subject to the monitoring of HKMA and the Hong Kong Police Force (HKPF) respectively;

(5) as some members of the public have criticised that the vetting and approval of personal loan applications is lenient at present and quite a number of money lending organisations are involved in unscrupulous money lending and debt collection practices, of the number of complaints involving such practices received by the authorities and the number of money lending organisations penalised for violation of the relevant legislation or codes of practice, in the past three years; whether HKMA and HKPF have regularly reviewed the licensing regime for money lending organisations, conducted inspections on them and conducted investigations into alleged contraventions by these organisations; and

(6) given that some members of the financial sector have pointed out that the Federal Reserve Board of the United States is highly likely to increase the Fed Funds target rate within the current year and the Hong Kong dollar interest rates will rise with the US dollar interest rates, which will result in an economic downturn in Hong Kong, whether the authorities have assessed the impact of the increase in interest rates on local households' ability to repay their debts, and whether this will give rise to a large number of bankruptcy cases; if they have assessed, of the indicators or tools that are used; whether the authorities will consider introducing measures to dampen exceedingly lenient lending activities; if they will, of the details; if not, the reasons for that?

Reply:

President,

(1) Household debt in Hong Kong amounted to HK\$1,415.5 billion, or 64.2% of GDP, as of end-September 2014.

The household debt data are compiled by the Hong Kong Monetary Authority (HKMA) based on prudential returns. Household debt covers the following three types of loans and advances to professional and private individuals-

- (a) loans for the purchase of residential properties;
- (b) credit card advances; and
- (c) loans for other private purposes.

(2) The breakdown of household debt in Hong Kong and the respective amount and share of total household debt from end-2012 to end-September 2014 are set out in Table 1 of Annex. The HKMA does not collect data on the number of such loans or advances.

The delinquency ratios for residential mortgage loans and credit card receivables (repayment overdue for over 3 months) from end-2012 to end-September 2014, as compiled by the HKMA based on the Survey on Residential Mortgage Lending and the Credit Card Lending Survey, are set out in Table 2 of Annex. The HKMA does not collect data on the specific components of loans for other private purposes.

(3) and (4) The household debt data compiled by the HKMA only cover loans and advances extended by authorised institutions (AIs). Please refer to Table 1 of Annex of the reply for question 2 for the figures of each type of personal lending by AIs in the past three years. We do not have the total amount of personal loans granted by licensed money lenders under the Money Lenders Ordinance.

(5) The HKMA supervises the marketing activities, approval process of lending products and debt collection activities of AIs. The HKMA's Supervisory Policy Manual (SPM) on credit approval requires AIs to establish prudent credit approval process to ensure that credit facilities are granted only to credit-worthy customers meeting the prescribed credit acceptance criteria. The Code of Banking Practice (Code) requires AIs to exercise care and restraint when promoting lending products. They should ensure that all advertising and promotional materials are fair and reasonable, do not contain misleading information, and comply with all relevant legislation, codes and rules. In addition, AIs' debt collection practices should be reasonable. The Code includes stringent requirements with respect to debt collection activities of agencies engaged by AIs. In particular, the Code requires that debt collection agencies should act within the law. They must not resort to intimidation or violence, either verbal or physical, against any person in their debt recovery actions, and must not employ harassment or improper debt collection tactics. The HKMA monitors AIs' compliance with the above-mentioned requirements of the SPM and the Code through on-site and off-site supervisory processes, and did not identify major non-compliance issue in the past few years.

The number of complaints received by the HKMA in relation to AIs' credit approval and debt collection on personal loans for the past three years are set out in Table 3 of Annex.

As regards money lenders under the Money Lenders Ordinance, on receipt of any report of alleged unlawful business practices by a money lender, the Police will take appropriate enforcement action, having regard to the individual circumstances of each case and the evidence obtained. Between January 2012 and September 2014, 41 persons were prosecuted under the Money Lenders Ordinance. The cases involved carrying on business as a money lender without a licence, lending money at an excessive interest rate or contravening the restriction on money-lending advertisements, etc. Of the persons prosecuted, 21 persons were convicted. In addition, the Licensing Court, in determination of an application for money lender licence (including an application for renewal), will consider whether the Registrar of Money Lenders (i.e. the Registrar of Companies) or the Commissioner of Police objects to the application. The Police will consider all relevant factors, including the complaint records of the money lenders, when deciding whether to object to an application.

As regards debt collection activities, if a debt collection agency employed by any bank, licensed money lender or other financial institution is collecting debts by alleged improper or illegal means, the Police will, having regard to circumstances of each case, follow up as appropriate, including notifying the regulatory authority concerned, and taking corresponding enforcement action.

(6) To ensure AIs managing properly their risks and prevent borrowers from excessive borrowing, the HKMA provides prudential supervisory guidance to AIs from time to time. For property mortgage lending, the HKMA has introduced six rounds of countercyclical measures since October 2009. Among the measures, AIs are required to tighten the maximum debt servicing ratio (DSR) of property mortgage applicants, and to conduct stress testing on the repayment ability of the applicants based on the assumption of an interest rate hike of 3 percentage points to ensure their repayment ability even when there is an upward adjustment in interest rate. The HKMA also introduced the sharing of positive mortgage data in 2011 to help AIs strengthen their assessment of

borrowers' repayment ability, and alleviate the risks arising from the excessive borrowing by the borrowers.

For personal lending, the HKMA issued a guideline in January 2014 requiring AIs to establish maximum DSR limits, refrain from offering personal loans with long tenors, establish maximum portfolio limit for personal loans, and conduct stress testing on personal loan portfolios.

The Official Receiver's Office will also continue to keep in view the number of new bankruptcy cases.

Ends