Press Release

LCQ14: Countercyclical measures to stabilise property market

Wednesday, April 13, 2016

Following is a question by the Hon James Tien and a written reply by the Acting Secretary for Financial Services and the Treasury, Mr James Lau, in the Legislative Council today (April 13):

Question:

Since 2009, the Hong Kong Monetary Authority (HKMA) has introduced seven rounds of countercyclical measures to tighten the requirements on property mortgage loans. The last round of measures, which was introduced on February 27, 2015, comprise three measures, one of which is the lowering of the maximum loan-to-value (LTV) ratio on mortgage loans to be offered by banks for self-use residential properties with value below $7 million from 70% (a cap which had been in place for over 23 years by then) to 60%. On the same day, the maximum cover under the Mortgage Insurance Programme (MIP) offered by the Hong Kong Mortgage Corporation Limited (HKMCL) was reduced from 90% LTV ratio to 80% LTV ratio accordingly. In this connection, will the Government inform this Council:

(1) of the changes in the average prices and transaction volumes of residential properties following the introduction of each round of countercyclical measures;

(2) whether it has assessed the impacts of the measures taken by HKMA to reduce LTV ratio and by HKMCL to reduce MIP cover on members of the public, particularly the prospective home buyers; if it has assessed, of the details; if not, the reasons for that;

(3) given that the Chief Executive of HKMA said in February this year that although residential property prices had fallen gradually from the peak in September last year coupled with a decline in transaction volumes, the countercyclical measures would be suitably relaxed only when it was certain that the property market had entered a downward cycle, of the criteria adopted by HKMA for affirming that the property market has entered a downward cycle, and the level, to be reached by the falling property prices, at which HKMA has

contemplated relaxing the countercyclical measures; and

(4) whether it will consider first restoring the maximum LTV ratio to 70% for self-use residential properties and the maximum MIP cover to 90% LTV for mortgage loans, so that members of the public with home purchase needs can secure the necessary loans; if it will, of the expected time for such restoration; if not, the reasons for that?

Reply:

President,

(1) The Hong Kong Monetary Authority (HKMA) has introduced seven rounds of countercyclical macroprudential measures since October 2009. Please refer to the Annex for changes in the residential property price index and property transactions.

(2) To maintain banking stability, HKMA's countercyclical macroprudential measures to tighten property mortgages seek to strengthen the resilience of banks and borrowers to cope with any impact in the fall of property prices.

HKMA understands the public aspiration about home ownership, and is mindful that its supervisory measures may impact on some homebuyers. Hence, when HKMA introduced each round of new measures, it would strive to minimise the impact of these measures on users, especially first-time homebuyers. In relation to the first six rounds of countercyclical measures, HKMA had all along strived to allow homebuyers to borrow mortgage loans at a maximum loan-to-value (LTV) ratio of 70% for small and medium-sized residential properties for self-use.

However, the property market, particularly that of small and medium-sized residential units, had become buoyant since the second half of 2014. To safeguard banking stability, HKMA introduced the seventh round of prudential measures in February 2015 to require banks to lower the maximum LTV ratio to 60% for any residential property with a value below HK$7 million.

Meanwhile, the Hong Kong Mortgage Corporation Limited (HKMC), based on its own risk management and commercial considerations, adjusted its Mortgage Insurance Programme (MIP) to reduce the maximum coverage of the MIP for eligible residential properties from 90% to 80% in terms of the LTV ratio. However, a regular-salaried first-time homebuyer with a debt-to-income ratio of 45% or below would remain eligible for the maximum 90% mortgage coverage on a property of a value at HK$4 million or below. Based on the assessment of HKMC at that time (February 2015) with reference to its past experience, about half of the first-time homebuyers would remain eligible for the maximum 90% mortgage coverage.

(3) and (4) Although residential property prices and the transaction volume scaled back in recent months, the demand and supply in the property market remains imbalanced. The current property prices are still not matching homebuyers' affordability. In determining whether the property market has entered into a downward cycle, we will consider various factors, including the risks faced by banks, economic conditions, affordability indicators, changes in prices and the transaction volume of the property market, and supply conditions, etc.

At the moment, HKMA has yet to confirm a downward cycle in the property market. HKMA will continue to monitor the market conditions closely and introduce appropriate measures according to the development of the property market cycle to safeguard banking stability.

In respect of mortgage insurance, HKMC will continue to monitor the market situation closely, and will consider the need to adjust the MIP coverage ratio based on relevant risk management and commercial considerations. HKMC has no intention to adjust the MIP coverage ratio at the moment.

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