

Press Release

LCQ20: Young people acquiring properties with support from parents

Wednesday, November 1, 2017

Following is a question by the Hon Paul Tse and a written reply by the Secretary for Financial Services and the Treasury, Mr James Lau, in the Legislative Council today (November 1):

Question:

The results of a survey reveal that in recent years, property prices in Hong Kong have repeatedly hit record high and have risen to a level way beyond the purchasing power of members of the public. Hence, 45 per cent of young respondents intend to acquire properties through the mode of "hinging on father's deed", i.e. parents who have retired or will soon retire make down payments for their children acquiring properties (in particular the new developments for which developers offer mortgage loans with high loan-to-value (LTV) ratios) by using the proceeds obtained from remortgaging or topping up the mortgages of their self-occupied properties, in respect of which the mortgage loans have been fully or almost fully repaid. It has been reported that some banks allow customers who have reached the age of 55 to extend their mortgage repayment periods to 30 years, which is tantamount to encouraging soon-to-retire people to remortgage or top up the mortgages of their self-occupied properties. In addition, some developers offer buyers high interest rate mortgage loans with LTV ratios as high as 90 per cent to 120 per cent of the prices of the properties concerned. As such, buyers may acquire properties without having to raise sufficient amount of money for the down payments. The LTV ratio of the mortgage loans offered by developers is generally pitched at 80 per cent, which is higher than the 60 per cent LTV ratio generally offered by banks. On the other hand, the Consumer Council has used a unit costing HK\$8,480,000 as an example to illustrate that the interests payable for a mortgage loan taken out from a developer exceed that for a bank mortgage loan by more than \$5 million. Moreover, according to the information provided by the Hong Kong Monetary Authority (HKMA), the growth rate of the total residential mortgage loans of Hong Kong rose from 3.1 per cent in the second half of last year to 4.1 per cent in the first half of this year, and the ratio of household indebtedness to the gross domestic product also rose to 68 per cent in the second quarter of this year, representing a rise of 2.5

per cent over the same period last year. Some commentators on current affairs and veteran practitioners in the real estate industry have expressed concern about the situation where more and more young people acquire properties through the mode of hinging on father's deed because once mortgage rates rise and the property market takes a downturn, both generations will become property owners in negative equity. In this connection, will the Government inform this Council:

(1) whether it has assessed the current total mortgage loans involving acquisition of properties through the mode of hinging on father's deed;

(2) whether it has studied the adverse impact on the two generations of mortgage borrowers once the cycle of rising mortgage rates and falling property prices comes around; if so, of the details; if not, whether it will commence such a study immediately;

(3) of the policy in place to alert members of the public (i) of the high risks associated with acquiring properties through the mode of hinging on father's deed, and (ii) to be cautious about the possible risks arising from mortgage loans with excessively high LTV ratios offered by developers, which are not regulated by HKMA, amidst soaring property prices;

(4) as it has been reported that the numbers of cases concerning repossessed residential properties and forfeitures of preliminary deposits in property transactions have increased in the recent half-year, indicating a risk of downward adjustment of property prices, and the possibility of a spate of cases in which both generations of mortgage borrowers are unable to repay mortgage loans with high LTV ratios offered by developers, of the policy put in place by the Government to consistently monitor the practice of developers offering high interest rate mortgage loans with high LTV ratios to buyers; and

(5) as the Secretary for Transport and Housing stated clearly at a Legislative Council meeting that HKMA was aware of the trend of young people acquiring properties through the mode of hinging on father's deed, and that HKMA would implement suitable measures when necessary to ensure that the relevant risks were properly managed by banks, of the details of and implementation schedule for such measures?

Reply:

President,

In respect of the phenomenon of parents helping their children's property purchases, the Hong Kong Monetary Authority (HKMA) has been monitoring market developments and analysing the impact on the banking sector.

If parents provide support to their children's property purchases with their own savings, the impact on banking stability will not be significant. However, if the support comes from proceeds of re-mortgages or top-up mortgages of the parents' existing properties from banks, the risks of the banking sector may increase. Should interest rates rise or property prices fall, both the parents and their children will face financial risk.

Based on the HKMA's monthly residential mortgage survey, the average monthly refinancing mortgage loans (which include top-up mortgages) increased from 2 200 cases in 2016 to 3 100 cases in the first nine months of 2017. However, based on what the HKMA has learnt from major banks, the increase is mainly due to a reduction of mortgage interest rates and banks' offering of other incentives to mortgage borrowers as a result of heightened market competition, which have attracted mortgage borrowers to refinance their existing mortgage loans to reduce their interest expenses. Only a small part of mortgage refinancing relates to cases with top-up mortgages.

The HKMA's existing supervisory guidelines on mortgage lending include requirements for banks to strengthen their risk management for mortgage refinancing. If banks assess parents' applications for refinancing mortgage loans based on net worth instead of income level (e.g. retired borrowers without a stable income), the loan-to-value (LTV) ratios of the relevant mortgages will have to be reduced by 10 - 20 per cent. If parents having existing mortgages were to act as guarantors for the mortgage loans of their children's newly purchased properties, the LTV ratios of the new mortgage loans will need to be reduced by 10 per cent and the debt servicing ratio cap will have to be reduced by 10 percentage points, following the requirements applicable to multiple mortgages.

The HKMA also notices that in order to attract buyers, property

developers have launched a great variety of mortgage plans and incentives, which include interest holiday, no requirements for income proof and mortgage loans with LTV ratios of as high as 80 per cent or more. The HKMA does not regulate property developers. Nevertheless, as banks do lend to property developers, in order to ensure that banks are managing the relevant risks properly, the HKMA introduced supervisory measures in May this year, under which banks have to set aside an adequate amount of capital for credit risk exposure to the property developers concerned, as well as to lower the financing ratios applicable to construction loans.

The HKMA has reminded the public repeatedly on different occasions that buying a property is not only one of the most important decisions in life, it is also a financial transaction entailing significant leverage through borrowing. They must be mindful of their ability to cope with the potential risk that may arise from possible changes in the economic and market conditions as well as mortgage interest rates and do not overstretch themselves. In particular, prospective buyers should ensure that they fully understand the detailed terms and conditions if they opt for the mortgage plans offered by property developers. While the incentives may look attractive in the short term, prospective buyers should take into account any changes that may occur in the future, assess carefully their repayment ability and make a shrewd and prudent decision.

The HKMA will continue to monitor the property and mortgage markets closely, and will adjust the relevant supervisory measures as and when necessary to ensure that banks are managing their risk properly.

Ends