

**Press release**

**LCQ1: 70% loan-to-value ratio cap for residential mortgage**

Wednesday, January 16, 2008

Following is a question by the Hon Lau Kong-wah and a reply by the Secretary for Financial Services and the Treasury, Prof K C Chan, in the Legislative Council today (January 16):

Question:

Regarding the Hong Kong Monetary Authority (HKMA)'s monitoring banks' compliance with the guideline capping the loan-to-value ratio for residential mortgage lending at 70% (70% guideline), i.e. the mortgage loan amount should not exceed 70% of the market value of the residential property concerned, will the Government inform this Council:

(a) whether exception is allowed under the 70% guideline; if so, of those persons eligible for mortgage loans with loan-to-value ratios exceeding 70% (mortgage exceeding 70%), illustrated with actual examples; if not, the actions HKMA will take when it is aware that someone has obtained

a mortgage exceeding 70%, illustrated with actual examples;

(b) given that the aim of HKMA introducing the 70% guideline is to maintain stability in the banking system by avoiding banks from being exposed to excessive risk in mortgage financing, whether senior civil servants who are granted mortgages exceeding 70% by banks are required to make declaration to the Government, in order to avoid undermining the effectiveness of the 70% guideline and prevent any conflict of interests; if declaration is not required, how HKMA ensures strict compliance with the 70% guideline by all parties concerned; and

(c) how the Government has followed up cases in which senior civil servants have obtained mortgages exceeding 70%?

Reply:

Madam President,

Our responses to the questions raised by Hon Lau Kong-wah are as

follows:

(a) The 70% loan-to-value (LTV) ratio cap is not a statutory guideline. It was first initiated by certain leading banks in Hong Kong in November 1991. The practice was then adopted by other banks as a voluntary measure for risk management purposes and evolved into an industry standard.

The Hong Kong Monetary Authority (HKMA) supported the practice and continues to do so. As indicated in the 1995 HKMA Annual Report, the Administration reiterated its support for the maintenance of the 70% ceiling as a long-term policy important for promoting stability in the banking system.

While the 70% LTV ratio cap generally applies to all residential mortgage loan applications, there may be circumstances where authorised institutions can exceed the cap if they have reasonable justifications from risk management perspective. Such circumstances include:

\* The authorised institution has conducted proper risk assessment for the concerned loan and the risk of the excess portion of the mortgage loan is properly managed, such as covered by additional collateral or mortgage insurance programme, etc;

\* Authorised institutions grant residential mortgages to their staff with a LTV ratio higher than 70% as a staff housing benefit; and

\* To facilitate borrowers in negative equity to refinance their residential mortgages with a lower mortgage rate so as to reduce their mortgage repayments, the HKMA has allowed authorised institutions to refinance such residential mortgages by granting up to 100% of the market value of the mortgaged property since October 2001.

(b) Certain civil servants are required to declare private investments in and outside Hong Kong to the Government on an annual or bi-annual basis, depending on their posts, and any single investment transaction in and outside Hong Kong equivalent to or exceeding HK\$200,000 or three

months' salary in value, whichever is the less, within seven days of the transaction. So if a civil servant acquires (or disposes of) an investment in Hong Kong in the form of a property whose value is at or above the specified monetary thresholds, he needs to declare the transaction to the Government within the stipulated period of time. However, there is no requirement for him to declare the mortgage details relating to the acquisition of the property.

The HKMA monitors authorised institutions' compliance with the 70% LTV ratio through its supervision, which includes both on-site examinations and off-site reviews. The supervisory focus is on whether authorised institutions have adequate risk management measures to ensure the effective implementation of the 70% LTV ratio standard in general. The HKMA's supervision of authorised institutions' adherence to the 70% LTV ratio has evolved in response to the developments in the residential mortgage market and products since the practice was turned into an industry standard.

In case of any deviation from the 70% LTV ratio, the HKMA will seek

to understand from the authorised institution concerned in more details about the deviation. If the authorised institution fails to properly justify the deviation, the HKMA will assess the implication for the effectiveness of the risk management system adopted by the authorised institution. To the extent that the risk management standard of the authorised institution concerned is called into question, the HKMA would consider the need for appropriate supervisory measures to help ensure that the authorised institution rectifies the weaknesses identified.

(c) Pursuant to section 3 of the Prevention of Bribery Ordinance (Chapter 201 of the laws of Hong Kong), the Chief Executive (the Governor before July 1997) will, based on the prevailing needs, issue the Acceptance of Advantages (Chief Executive's Permission) Notice (AAN). Under the previous AANs and the latest one issued in 2007, prescribed officers (civil servants included) have the general permission to solicit or accept a loan of money made available to them in their private capacity by a tradesman or company provided that -

\* the loan is equally available on equal terms to persons who are not

prescribed officers; and

\* the offeror of the loan has no official dealings with the prescribed officers.

In accordance with the AAN, if either one of these two conditions is not met, a civil servant is required to apply for special permission from the relevant authority in the Government before soliciting or accepting a loan of money, and only when permission has been given may he solicit or accept the loan. When an application for special permission is received, it will be processed by the relevant authority according to established procedure. In processing the application, one of the key considerations is whether the case would give rise to a conflict of interest.