

LCQ19: Various demand-side management measures for the property market

Following is a question by the Hon Tony Tse and a written reply by the Secretary for Transport and Housing, Mr Frank Chan Fan, in the Legislative Council today (November 21):

Question:

In order to address the overheated property market and maintain financial stability, the Government (including the Hong Kong Monetary Authority) has implemented a series of demand-side management measures since 2010. There are comments that the continuous fall in property prices in the past two months is reflective of the gradual emergence of the impacts of factors such as the trade war between China and the United States and the setting off of a cycle of rising interest rates, and property prices may drop by 30 per cent to 70 per cent from their peaks. It is therefore recommended that the Government expeditiously relax the various demand-side management measures (commonly referred to as "reduce the 'curb' measures"). However, there are other comments that if the timing, strength, priority or management of public expectation is inappropriate when reducing the curb measures, such a move might instead exacerbate the drop in property prices, thereby causing members of the public with lower risk appetite to become owners of properties with negative equity. In this connection, will the Government inform this Council:

(1) of the respective (i) dates of introduction and (ii) contents of the various demand-side management measures, as well as (iii) the respective amounts of taxes collected (if any) so far under such measures (set out in a table);

(2) whether it has formulated objective criteria for reducing the curb measures; if so, of the considerations in formulating the criteria and the details of the criteria; if not, the reasons for that; and

(3) whether it has assessed the timing, strength, priority and public expectation in reducing the curb measures and made preparation accordingly (including the formulation of contingency plans); if so, of the details?

Reply:

President,

Maintaining the healthy development of the private residential property market is one of the important objectives of Government's housing policies. In the past few years, due to tight housing demand-supply balance and the continued ultra-low interest rate environment, local property prices have been on the rise, with heightened risk of a bubble. The Government has

adopted a two-pronged approach by striving to increase land and housing supply to meet demand, and introducing several rounds of demand-side management measures as and when necessary to suppress external demand, short-term speculative demand and investment demand, with a view to stabilising the property market and preventing adverse consequences arising from an exuberant market. The Hong Kong Monetary Authority (HKMA) has also introduced several rounds of counter-cyclical macro-prudential measures to strengthen risk management of banks and resilience of the banking sector to cope with any possible impact in the event of a fall in property prices.

Having consulted the Financial Services and the Treasury Bureau, the Inland Revenue Department (IRD) and HKMA, I set out my consolidated reply to various parts of the question raised by the Hon Tony Tse as follows:

(1) Various demand-side management measures introduced by the Government since 2010 (including dates of introduction, contents of the measures, as well as amount of stamp duties collected by the Government so far) are set out at Table 1. Counter-cyclical macro-prudential measures introduced by HKMA since 2009 (including dates of introduction and contents of the measures) are set out at Table 2.

(2) and (3) The escalating trade conflicts between the United States and the Mainland have cast increasing uncertainties on the global and local macroeconomic outlook. In addition, as the monetary policy normalisation in the United States continues to proceed, local interest rates will rise further under the Linked Exchange Rate System. The Government has from time to time reminded the public to manage risks prudently. Prior to making home purchase decision, one should carefully assess various risks, particularly the impact of increasing interest rates on individual's repayment ability.

Faced with the changes in the local and global economy, the Government will remain vigilant as usual and make reference to a series of indicators, including property prices, home purchase affordability ratio (Note 1), transaction volume, housing supply, etc., and closely monitor the developments of the property market and the evolving external environment. The Government will take appropriate actions as and when necessary in response to market changes, with a view to ensuring a healthy development of the property market.

Although prices and transaction volume of private flats have subsided in recent months (Note 2), local housing is still in the state of demand-supply imbalance and the current property price level remains out of line with economic fundamentals and the general public's affordability. The home purchase affordability ratio in the third quarter of 2018 stayed high at 74 per cent, well above the 20-year long-term average of 44 per cent from 1998 to 2017. The Government has no intention to relax or withdraw any demand-side management measures at the moment, lest this would send a wrong message to the market and make the property market more exuberant.

As regards HKMA's counter-cyclical macro-prudential measures, the intent is to ensure stability of the banking system through implementation of appropriate measures according to the development of the property cycle,

taking into consideration key factors such as the trend of property prices, property transaction volume, economic fundamentals and the external environment. HKMA will consider appropriate relaxation of the counter-cyclical measures if a downward cycle in the property market is confirmed. However, as property prices had risen by more than two times since 2008 and decreased by only about 1.5 per cent in aggregate in the past two months, HKMA has not yet determined that the property market has entered into a downward cycle, and therefore does not consider it appropriate to relax the countercyclical measures at this juncture.

Note 1: Home purchase affordability ratio refers to the ratio of mortgage payment for a 45-square metre flat to median income of households (excluding those living in public housing), at the prevailing mortgage rate for a tenure of 20 years.

Note 2: According to information of the Rating and Valuation Department, the overall price index of private flat has subsided since August 2018, registering a cumulative drop of 1.5 per cent in August and September. Property transactions have also declined in recent months. The monthly average number of sale and purchase agreements for residential property received by the Land Registry from August to October 2018 was about 4 200, below the monthly average of about 5 700 in the first seven months this year.

Effective Exchange Rate Index

The effective exchange rate index for the Hong Kong dollar on Wednesday, November 21, 2018 is 105.7 (up 0.1 against yesterday's index).

LCQ15: Compilation of statistics on mortgage loans

Following is a question by the Hon Wu Chi-wai and a written reply by the Secretary for Financial Services and the Treasury, Mr James Lau, in the Legislative Council today (November 21):

Question:

The Hong Kong Monetary Authority (HKMA) indicated that the debt-servicing ratio (DSR) for the new residential mortgage loans (RMLs) approved in the second quarter of this year was 34 per cent, and that this ratio had

factored in the repayments for all additional mortgage loans obtained by the borrowers from third parties other than banks (third-party mortgages). However, HKMA's data on third-party mortgages were not directly provided by the finance companies offering such mortgage loans, but were estimations based on figures provided by banks and outcome of sampling checks on the land records. In this connection, will the Government inform this Council:

(1) of the number of cases in which the borrowers were granted mortgages on the same residential property both by a bank and by a third party/third parties, the amount of the loans involved and the percentage of such amount in the total amount of new RMLs approved throughout the year, in each of the past three years, as well as the average (i) loan-to-value (LTV) ratio, (ii) loan amount and (iii) DSR in respect of those cases; the average (iv) LTV ratio and (v) loan amount of the third-party mortgages involved in those cases;

(2) in respect of the new RMLs approved in each of the past three years by (i) banks and (ii) finance companies not associated with banks and developers, whether it knows (a) the number of such loans, (b) the total amount of loans involved, (c) the average LTV ratio and loan amount, and (d) the average, the highest and the lowest interest rates charged;

(3) whether it knows the following details of the new RMLs approved in each of the past three years by finance companies under developers:

(i) the number and total amount of such loans, with a breakdown by LTV ratio, interest rate and whether or not income tests were conducted;
(ii) the average, the highest and the lowest interest rates charged; and
(iii) the average DSR;

if not, whether the Government will request the finance companies concerned to submit such information direct or through the banks;

(4) as the interest rates charged on the mortgage loans provided by finance companies under developers will usually be raised substantially after a number of years, whether HKMA has grasped the situation where the borrowers concerned have applied to banks for remortgaging/loan refinancing for full repayments of the mortgage loans provided by such finance companies; if so, of the respective numbers of such applications received, approved and rejected by banks in each of the past three years; if not, whether HKMA will request the banks to compile and provide such statistics; and

(5) of the details of the sampling checks on the land records conducted by HKMA (including the sampling method and proportion); whether HKMA will consider conducting a comprehensive check on all the land records in respect of the transactions in the past three years of newly completed residential properties, so as to fully grasp the data on third-party mortgages; whether it has assessed the impacts of this type of mortgages on the stability of the property market and the banking system; if so, of the outcome; if not, whether it will conduct such an assessment expeditiously?

Reply:

President,

Since October 2009, the Hong Kong Monetary Authority (HKMA) has introduced eight rounds of countercyclical macroprudential measures for property mortgage loans to strengthen the risk management of banks and the resilience of the Hong Kong banking sector to cope with possible downward adjustments of property prices. These measures include: lowering the caps on loan-to-value (LTV) ratios and limits on debt servicing ratios (DSR) for property mortgage loans; applying stress testing on mortgage applicants' repayment ability in the face of rising interest rates; and requiring banks to hold more capital against their residential mortgage portfolios. Our reply to different parts of the question is as follows:

(1) The HKMA regularly collects from banks data on residential mortgage loans (RMLs), which include the value of the mortgage loans approved by banks and the number of mortgage loans involving co-financing arrangements. However, the HKMA does not collect data on the value of the second mortgages granted by other companies. For example, in the first three quarters of 2018, banks approved a total of 1 913 RMLs involving co-financing arrangements, amounting to 2.2 per cent of total new RMLs approved, with an aggregate value of HK\$10.1 billion, representing 2.8 per cent of total new RMLs approved. Please refer to the Table 1 of the Annex for detailed figures in the past three years.

In respect of RMLs involving co-financing arrangements, the HKMA collects only data on the mortgage loans granted by banks. As such, it is unable to provide data on the overall value of second mortgages. It should be noted that under the HKMA's supervisory guideline, banks are required to take into account all the monthly debt obligations of borrowers when calculating their DSRs, including the total monthly repayment of second mortgages.

Furthermore, the above-mentioned figures reflect only second mortgages which have been reported by the borrowers to banks. There have been cases where mortgage borrowers may have further mortgaged their properties without seeking prior consent from the mortgagee banks. In order to facilitate banks' better management of their risks, the HKMA, in collaboration with the Land Registry (LR), introduced a mortgage e-Alert Service for banks in February 2017. By subscribing to this service, banks will receive electronic notifications from the LR when further mortgage documents in respect of the properties mortgaged to the banks concerned are lodged for registration with the LR. If a bank finds that a customer has breached the mortgage deed by obtaining further mortgage without seeking the bank's prior consent, the bank can follow up with the customer and take appropriate risk mitigating measures.

(2) and (3) Figures on new RMLs approved by banks in the past three years are set out in Table 2 of the Annex.

In general, as property developers and money lenders are not regulated by the HKMA, it does not have information relating to new RMLs approved by

these companies in the past three years. However, to ensure proper risk management by banks and the effectiveness of the HKMA's macroprudential measures, the HKMA has been collecting from banks the outstanding value of mortgage loans extended by property developers and money lenders. These figures show that the outstanding value of mortgage loans extended by property developers and money lenders account for only a very small portion of the outstanding value of RMLs offered by banks. Please see Table 3 of the Annex for details.

(4) Based on RML data regularly collected by the HKMA from banks, the average LTV ratio of newly approved RMLs (including refinanced mortgages and further charges) remains at a level of around 47 per cent. The HKMA therefore has not specifically requested banks to analyse the number of customers who have switched their mortgage loans from finance companies owned by property developers to banks or applied for further charges from banks. The HKMA will review from time to time the need to collect such information having regard to the latest market conditions.

(5) The HKMA has been monitoring second mortgages on properties through different channels, including data on RMLs associated with co-financing arrangements collected from banks, and information from the LR and the Sales of First-hand Residential Properties Electronic Platform.

Currently, the main providers of second mortgages are money lenders and property developers. For money lenders that have a credit relationship with banks, as the value of mortgage loans extended by them accounts for less than 1 per cent of the aggregate outstanding value of RMLs of the banking sector, the impact on banking stability is assessed to be very limited.

For property developers, while the total outstanding value of mortgage loans extended by them remains small relative to the aggregate outstanding value of RMLs of the banking sector, the HKMA observed that it has been growing quickly. In this connection, the HKMA has, since May 2017, required banks to strengthen their credit risk management with respect to lending to property developers. The requirements include lowering the financing caps for construction loans and requiring banks to set aside additional capital for exposures to property developers offering high LTV mortgages.

[Transcript of remarks by SFH at media session \(with photos\)](#)

Following is the transcript of remarks by the Secretary for Food and Health, Professor Sophia Chan, at a media session after attending the Legislative Council's seasonal influenza vaccination event this morning (November 21):

Reporter: Professor Chan, could you give us an update on how many people have received flu jab this year so far and how are we doing compared to last year? And also, any plan to expand the pilot scheme for primary schools?

Secretary for Food and Health: This year, actually every year, the peak of seasonal influenza is usually from January to March or April. The best prevention method for seasonal influenza is to take the vaccination. The Government has increased the coverage of subsidy. We have the outreach programme to cover primary schools. The Department of Health (DH) has a team going to schools to provide vaccination to the kids. Another extension of the subsidy coverage is for people who are 50 to 64. They are also included in the coverage programme (Vaccination Subsidy Scheme). We appealed to the general public, especially the high-risk groups, such as elderly people, kids, pregnant women and those who have chronic diseases to take seasonal influenza vaccination as soon as possible. As far as the number is concerned, this year so far we have already administered some 590 000 doses of vaccines. Comparing to last year, there is an increase of over 50 per cent. We felt that the awareness of people in Hong Kong has improved. Of course, both the Hospital Authority (HA) and the DH have been doing a lot of promotion. As far as healthcare professional is concerned, every cluster of the HA has been doing a lot of promotional programmes for healthcare professionals to take flu jabs. I understand that there is also an increase in the number of people taking flu jabs this year.

(Please also refer to the Chinese portion of the transcript.)



[LCQ14: Opening and maintenance of bank accounts by enterprises](#)

Following is a question by the Hon Kenneth Leung and a written reply by the Secretary for Financial Services and the Treasury, Mr James Lau, in the Legislative Council today (November 21):

Question:

The Hong Kong Monetary Authority (HKMA) issued guidelines for a number of times in the past two years to request banks to take measures to improve customer interfacing in the account opening processes, including streamlining the account opening processes and adopting customer due diligence (CDD) that is proportionate to the risk level. Besides, HKMA launched a Mystery Shopping Programme (MSP) in December 2017 to assess the effectiveness of such measures and banks' compliance with HKMA's guidelines and requirements. However, some members of the accounting sector have recently complained to me that their customers still encounter quite a number of difficulties in opening and maintaining bank accounts. The process of document submission and CDD involved in the account opening applications are quite complicated and time-consuming, thereby hindering the normal operation of the enterprises concerned. In this connection, will the Government inform this Council:

(1) whether it knows (i) the respective numbers of account opening applications from new enterprise customers received, approved and rejected by banks in each month of the past three years, and (ii) the average processing time in respect of those applications the vetting and approval of which have been completed;

(2) of the total number of complaints received by HKMA in the past three years about banks' (i) refusal to open accounts for new enterprise customers, and (ii) cancellation of accounts of individual or enterprise customers; the major types of enterprises involved in those complaints, and the reasons for refusal to open accounts/cancellation of accounts;

(3) of the details and results of MSP; whether HKMA has, in the light of the results of MSP, (i) given comments, advices or warnings to the banks concerned, and (ii) adjusted the relevant measures and guidelines; and

(4) whether HKMA has plans to issue clearer guidelines to banks to stipulate that banks must formulate arrangements for risk assessments and CDD which are proportionate to the type, business nature, and operation scale of the customers; if so, of the details; if not, the reasons for that?

Reply:

President,

In recent years, as the international community steps up efforts to combat money laundering and terrorist financing (ML/TF), financial institutions around the world have generally strengthened the related controls, including undertaking more comprehensive due diligence on customers.

The Hong Kong Monetary Authority (HKMA) has been reminding the local banking industry that, in implementing robust anti-money laundering and counter-terrorist financing controls, they should be mindful not to create hurdles for legitimate businesses and ordinary citizens to access banking

services. The HKMA has issued guidance to banks in the past two years, reiterating that banks should apply a risk-based approach in conducting customer due diligence (CDD) and adopt measures which are commensurate with the customer's background, circumstances and ML/TF risk level. Banks should also maintain proper communication with customers throughout the CDD process, and ensure that the process is transparent, reasonable and efficient, in accordance with the "Treat Customers Fairly" principle.

In response to the HKMA guidance, banks have taken measures to improve the account opening process. Apart from the establishment of mechanisms to review unsuccessful applications, all retail banks currently provide a "pre-vetting" service, whereby banks accept submissions of requisite documents for account opening by applicants via email, fax or mail for pre-screening or pre-assessment before arranging face-to-face meetings with the applicants, with a view to providing greater convenience to applicants. Some banks have also set up dedicated hotlines and dedicated branches deployed with properly trained front-line staff to handle account opening matters, so as to improve customer experience.

Our response to each part of the question is as follows:

(1) The retail banking sector currently opens an average of about 10 000 new business accounts every month, of which some 60 per cent to 70 per cent belong to small and medium-sized enterprises (SMEs) and start-up companies. Of the successful cases, on average some 50 per cent to 60 per cent were able to open accounts within two weeks, and some accounts could even be opened as quickly as within a few days. The exact time taken depends on the complexity of individual cases and whether the applicants can provide the requisite information. The average unsuccessful rate of account opening applications for the first nine months of this year is below 5 per cent, which is an improvement from around 10 per cent in early 2016.

(2) In 2016, 2017 and 2018 (up to the end of October), the HKMA received 31, 22 and 17 complaint cases respectively concerning refusal of opening corporate accounts by banks. The corporates involved were mainly engaging in trade or financial services (such as finance or investment companies) business. The number of complaints relating to closure of corporate accounts by banks during the same period was 53, 46 and 70 cases respectively, involving corporates from different industries. The major reasons for unsuccessful account opening or closure of accounts were that the customers concerned could not provide the banks with the relevant information or documents for conducting CDD, or that the relevant accounts were found to be involved in suspicious transactions during banks' ongoing CDD process.

The HKMA requires banks to put in place appropriate mechanism for handling customer complaints in a fair and expeditious manner. Retail banks should have appropriate procedures to review their decisions on refusal of account opening or account closure upon requests of customers. If a customer considers that a bank has not handled his/her case properly, he/she can make a complaint to the bank concerned or the HKMA. The HKMA will follow up on each and every complaint case, and require the bank concerned to handle the

complaint properly and provide feedback to the complainant. In some cases, accounts were subsequently opened or could be maintained after review by banks and provision of supplementary information or documents to the banks by the applicants or customers.

(3) The mystery shopping programme focused on the customer interface aspect of the account opening processes for SME and ethnic minority customers. The service provider engaged by the HKMA has completed the on-site fieldwork at retail banks. The HKMA is now reviewing the preliminary reports submitted by the service provider. Depending on the results, HKMA will appropriately follow up with the banks concerned.

(4) The Guideline on Anti-Money Laundering and Counter-Financing of Terrorism (for Authorised Institutions) issued by the HKMA has stipulated that banks should apply risk-based approach when conducting CDD and the relevant measures taken should be commensurate with the ML/TF risks associated with a business relationship. When assessing the ML/TF risks involved, banks should consider various factors including customer risk, country risk, as well as product, service, transaction or delivery channel risk. Banks should adopt a balanced and reasonable approach when conducting customer risk assessments and CDD, without creating hurdles for legitimate businesses and individuals to access banking services.