

# Countercyclical macroprudential measures for property mortgage loans

The following is issued on behalf of the Hong Kong Monetary Authority:

The Hong Kong Monetary Authority (HKMA) today (October 16) issued guidelines to banks adjusting the countercyclical macroprudential measures for property mortgage loans.

Following the abolition of the demand-side management measures for residential properties by the Government and the adjustments of the supervisory measures for property mortgage loans by the HKMA in February 2024, sentiment in the residential property market has improved. The average monthly housing transaction volume rose from 3 300 units in the first quarter of 2024 to 6 000 units in the second quarter. As market sentiment subsequently softened, the average monthly transaction volume fell back to 3 400 units in the third quarter. Official residential property prices declined by 6.2 per cent in the first eight months of 2024, with a cumulative correction of 26.6 per cent from their peak in 2021. The non-residential property market remained sluggish. In the first eight months of 2024, the prices of offices, flatted factories and retail premises eased further by 17.5 per cent, 11.8 per cent and 13.0 per cent respectively. Meanwhile, the external environment is still facing uncertainties including the pace of US interest rate cuts.

The aim of the countercyclical macroprudential measures for property mortgage loans is to introduce appropriate measures in the light of changes in market conditions to ensure that, on the one hand, banks maintain effective risk management and, on the other hand, the measures minimise as far as possible the impact on the public in buying and selling properties. Taking all relevant factors into account, the HKMA considers that there is room to further adjust the countercyclical macroprudential measures, while continuing to maintain banking stability and ensuring the proper risk management of property mortgage loans:

1. The maximum loan-to-value (LTV) ratio for all residential properties will be set at 70 per cent, regardless of the value of the property and whether it is for self-occupation.

2. For mortgage loans assessed based on the net worth of mortgage applicants, the maximum LTV ratio will be adjusted from 60 per cent to 70 per cent, which will be the same as the maximum LTV ratio for mortgage loans assessed based on the debt servicing ability of mortgage applicants. This adjustment is applicable to both residential properties and non-residential properties (including offices, retail shops and industrial buildings).

3. The debt servicing ratio (DSR) limit for non-self-use properties will be adjusted from 40 per cent to 50 per cent, which will be the same as the

DSR limit for self-use properties. This adjustment is applicable to both residential properties and non-residential properties.

4. The requirement to lower the applicable maximum LTV ratio and DSR limit by 10 percentage points for mortgage applicants who have borrowed or guaranteed other outstanding mortgage(s) at the time of making a mortgage application will be lifted.

After these adjustments, the maximum LTV ratio will be standardised at 70 per cent and the DSR limit will be standardised at 50 per cent for all residential properties and non-residential properties.

These adjustments will take effect from today and apply to property transactions with provisional sale and purchase (S&P) agreements signed today or subsequently. The adjustments are also applicable to mortgage applications for properties under construction where the provisional S&P agreements were signed previously and the properties are scheduled for completion on or after today.

The Chief Executive of the HKMA, Mr Eddie Yue, said, "Taking into account the latest market developments, the HKMA has decided to adjust the countercyclical macroprudential measures for property mortgage loans and revert the maximum LTV ratio and DSR limit to the pre-2009 levels before the countercyclical macroprudential measures were first introduced. Even with these adjustments announced today, the Hong Kong banking sector has ample buffers to cope with any challenges from a sharp correction in property prices. Once again, I would like to remind the public that buying a property is a long-term financial commitment. Prospective buyers should carefully assess the risks involved and their ability to afford a property."

The HKMA will continue to monitor market developments closely and introduce measures to safeguard banking stability as conditions in the property market evolve.