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ESTATE AGENTS AUTHORITY

Dear Licensees,

Re: Latest prudential measures for property mortgage loans

The Estate Agents Authority (“EAA”) is writing to draw your attention to the new round of supervisory measures on property mortgage made by the Hong Kong Monetary Authority (“HKMA”) on 27 February and 2 March 2015 respectively. These measures include:

- (1) The maximum loan-to-value (“LTV”) ratio for self-use residential properties with value below HK\$7 million is lowered by a maximum of 10 percentage points. For example, the maximum LTV ratio applicable to properties with value at HK\$6 million or below and subject to the LTV cap of 70% is lowered to 60%.
- (2) The maximum debt-servicing ratio (“DSR”) for borrowers who buy a second residential property for self-use is lowered to 40% from 50%, and the stressed-DSR cap is lowered to 50% from 60%.
- (3) The maximum DSR of mortgage loans for all non-self-use properties, including residential properties, commercial and industrial properties and car park spaces, is lowered to 40% from 50%, and the stressed-DSR cap is lowered to 50% from 60%.

The above three countercyclical measures have already come into effect. However, mortgage applications for properties with Provisional Agreement of Sale and Purchase (“PASP”) signed on or before 27 February 2015 will not be affected.

- (4) Starting from 2 March 2015, where mortgage applicants seek Additional Financing (through either co-financing or mortgage insurance schemes) that results in total mortgage finance amounting to more than 20 percentage points over the normal permissible LTV ceilings, Authorized Institutions should apply a 5-percentage-point knock down on the applicable DSR caps. For example, for properties with a maximum permissible LTV of 60%, the normal DSR cap is 50% and a stressed-DSR cap is 60%. However, if the mortgage applicants seek Additional Financing to



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bring the total LTV to above 80%, then the applicable DSR cap will need to be reduced to 45% and the stressed DSR cap to 55%.

Besides, The Hong Kong Mortgage Corporation Limited (“HKMC”) also announced on 27 February 2015 that revisions will be made to the Mortgage Insurance Programme (“MIP”) so that the maximum MIP cover for eligible properties would be reduced from 90% LTV ratio to 80% LTV ratio, except for those first time homebuyers with regular salary and stronger repayment ability. However, homebuyers who have executed the PASP on or before 27 February 2015 will not be affected.

All of the aforementioned measures have taken effect already. The EAA would like to remind licensees to be fully conversant with the new measures, so as to be able to advise their clients in a responsible manner and to refrain from making any misrepresentation.

Licensees may refer to the websites of HKMA (www.hkma.gov.hk) and HKMC (www.hkmc.com.hk) for more details of the new measures.

Estate Agents Authority

6 March 2015