

Property Mortgage Lending

Banks should review their policies to ensure they comply with HKMA's prudential measures

September 2023



The Hong Kong Monetary Authority (HKMA) closely monitors the property market in Hong Kong to identify signs of any asset price bubbles that could undermine the stability of the banking system. To safeguard against this, the HKMA has issued a series of prudential measures on Property Mortgage Lending (PML)¹ to strengthen banks' risk management. In 2015, as part of the Supervisory review of banks' PML portfolio, several deficiencies were found in meeting regulatory requirements for some banks².

In a series of recent reviews, the HKMA has again identified instances of non-compliance, and banks have been asked to take urgent remedial actions where material non-compliance has been observed.

What should banks do?

Remediation for the banks may result in substantial costs, client disruption and missed business opportunities. In view of this, banks should review their own policies, procedures and underwriting standards to confirm they comply with the HKMA's PML prudential measures. Banks should also assess the effectiveness of internal controls to assure compliance. Even if no significant gaps are identified, banks should consider reviewing a reasonable sample of existing lending facilities to companies (including special purpose companies used in structures among private banking clients) secured by property mortgages to confirm the operational efficiency of the process.

Suggested scope for PML review:

Banks can consider the following areas when planning a PML review:

1. Investment products

Banks should review applicability of the latest PML measures¹ to their products; for example, investments (eg insurance, bond, equity) for a sole proprietor, shareholder, director or company are not considered a genuine funding need.

2. Loan purpose for property acquisition

Banks should review whether the loan purpose has been included in the credit assessment, even for property acquisition by a property holding company.

3. Properties acquired by operating companies may still be subject to PML requirements²

Banks should check and ensure that the permissible loan-to-value caps and original debt servicing ratio limits, if applicable, are appropriately applied to loans used for the acquisition of property by operating companies.

¹Compliance with existing prudential measures on property mortgage lending, 01/2015 <https://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2015/20150119e1.pdf>

²Prudential Measures for Property Mortgage Loans, 07/2023 <https://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2023/20230707e1.pdf>



4. Syndicated loans

Banks should be aware of that no automatic exemption from PML measures is provided for syndicated loans secured by property.



5. Special Purpose Vehicle (SPV) in the group

In order to be exempted from PML measures, a loan made to to the SPV needs to be used for genuine working capital of the operating business, and banks should obtain sufficient support and justifications to substantiate that.



6. Property with recent transaction

Banks should ensure that they take the lower value of the purchase price and market fair value for the property valuation, even if the loan is not for completing the transaction.

How KPMG can help

Diagnostic: Quick diagnosis of policy effectiveness, and sample testing of key controls

1. Review the bank's policies, procedures and underwriting standards as compared to the HKMA's PML prudential measures
2. Identify and assess the effectiveness of assurance controls
3. Undertake sample testing of lending facilities secured by property mortgages

Review: Independent assessment

4. Conduct an independent review of all (or a sample of) corporate loans subject to the HKMA's prudential measures for PML
5. Review the adequacy and effectiveness of the policies and controls established by the bank
6. Perform root cause analysis on issues and non-compliance areas identified for final reporting

Remediation: Rectification Verification

7. Support on implementation of remediation tasks and activities
8. Ascertain whether remedial measures have been properly and adequately implemented
9. Support on final reporting

Contact us



Michael Monteforte

Partner,
Financial Risk Management
KPMG China
T: +852 2847 5012
E: michael.monteforte@kpmg.com



Yi-Hsin Wang

Director, Risk Advisory
KPMG China
T: +852 6715 0966
E: yihsin.wang@kpmg.com



Guy Isherwood

Senior Advisor
KPMG China
T: +852 2522 6022
E: guy.isherwood@kpmg.com



Tom Jenkins

Partner, Governance, Risk and
Compliance Services
KPMG China
T: +852 2143 8570
E: tom.jenkins@kpmg.com



Rita Wong

Partner, Audit
KPMG China
T: +852 2978 8172
E: rita.wong@kpmg.com



Anthony Kot

Partner, Audit
KPMG China
T: +852 2143 8699
E: anthony.kot@kpmg.com



kpmg.com/cn/socialmedia

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2023 KPMG, a Hong Kong (SAR) partnership and a member firm of the KPMG global organisation of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. Printed in Hong Kong (SAR).

The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organisation.