



# Hong Kong Mortgage Market

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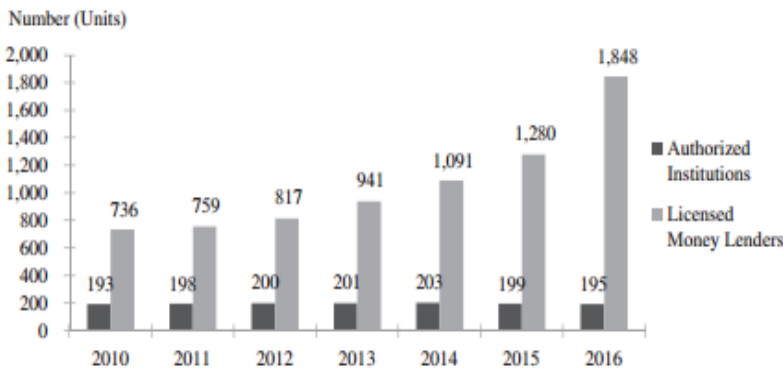


## SUMMARY

According to the Demographia International Housing Affordability Survey, Hong Kong has been the most unaffordable housing market in the world for the seventh year. Hong Kong's property prices skyrocketed by 134% from 2008 to 2013. In wake of a steep upward trend in housing prices, the number of mortgage loan approved in Hong Kong has been increased considerably since the 2008-09 global financial crisis. A document from Hong Kong Monetary Authority (HKMA) showed the household debt-to- GDP ratio was 67.1% in the first quarter of 2017, rising from 54.3% in 2005. Most household debt is residential mortgage loan as local banks are seeking to boost mortgages. Thus, the Hong Kong government and the HKMA have tightened lending rules and imposed anti-speculation measures to strengthening bank's risk management and protect banking stability. This research aims to explore the mortgage market and money lending business in Hong Kong.

# Overview of Hong Kong mortgage market

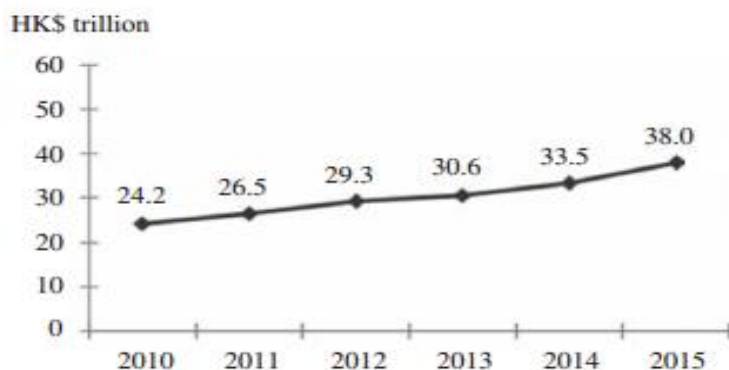
The money lending industry in Hong Kong can be classified as two categories: authorized institutions including licensed banks, restricted banks and deposit-taking companies, regulated by the HKMA and subject to the Banking Ordinance; and other licensed lenders consist of money lenders and pawnbrokers. Money lenders are governed under the Money Lender Ordinance and the jurisdiction of the Hong Kong Police Force. Money lenders play a significant role in supporting the credit needs of small-medium businesses and individuals.



Sources: HKMA; Companies Registry; Ipsos research and analysis

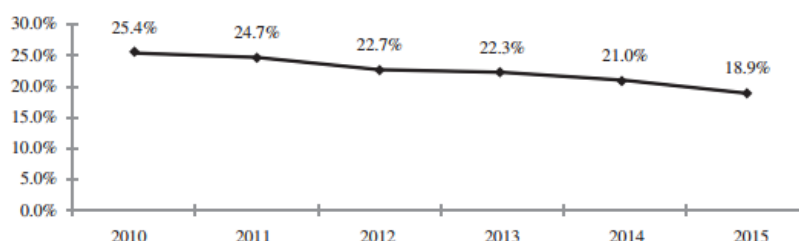
According to the Ipsos report, the number of licensed money lenders rose significantly from 736 in 2010 to 1,848 in 2016, showing a CAGR of about 16.6%. Data from HKMA also showed 156 licensed banks; 22 restricted licensed banks and 17 deposit-taking companies are registered. The number of authorized institutions has increased moderately and showed a CAGR of 0.2%. The latest list from Companies Registry<sup>1</sup>, there are 1,890 money lender licensees as at 30 April 2017.

The total value of loans and advances granted by money lenders accounted for around 3.8% of the total value of loans granted by authorized institutions and other licensed lender altogether in 2011. Data from the Research Department of Centaline Mortgage Broker indicated that HSBC was the largest mortgage lender in terms of the number of loans for completed units, with a market share of 24.2% in April 2017, followed by Bank of China (Hong Kong) Limited of 20.9%. HSBC also topped the mortgage market for pre-sold unfinished units with a market share of 31.9% in the same month, and Bank of China (Hong Kong) ranked second with a market share of 20.2%.



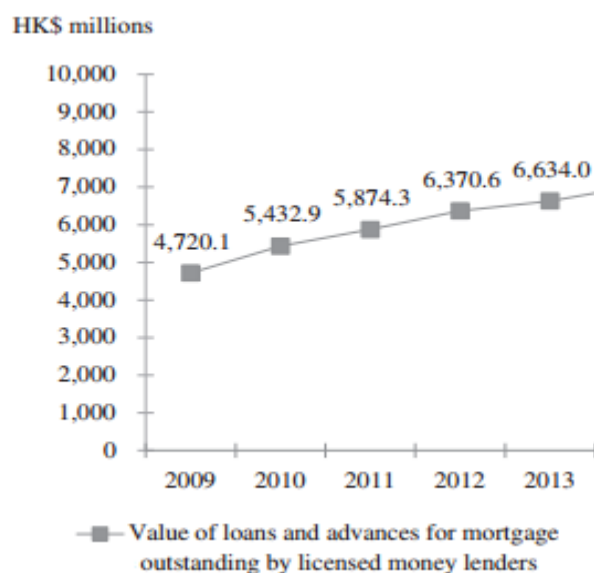
Source: Ipsos research and analysis

Ipsos report showed that the total value of loans and advances outstanding by licensed money lenders grew at a CAGR of 9.5%, from around HK\$24.2 billion in 2010 to approximately HK\$38.0 billion in 2015. The revenue of the top five licensed money lenders in Hong Kong accounted for approximately 46.2% of total revenue in the industry in 2015.



Source: Ipsos research and analysis

The average market lending rate of property mortgage loans, including first and subordinated property mortgage loans offered by licensed money lenders dropped to 18.9% in 2015 from 25.4% in 2010 at a CAGR of 5.7%.



Source: Ipsos Report

In wake of mortgage tightening measures on property mortgage, authorized institutions have limited flexibility in setting interest rates. More property owners may get first property mortgage loans from licensed money lenders. The total value of loans and advances outstanding for mortgage loans offered by licensed money lenders climbed to approximately HK\$6.6 billion in 2013 from around HK\$4.7 billion in 2009, showing a CAGR of 8.9%.

However, authorized institutions still account for more than 99.0% of total outstanding loans in Hong Kong. Data from Fitch Rating pointed out that residential mortgage loans of Hong Kong banks totaled HK\$1.119 trillion at the end of 2016, equivalent to 5% of the banking system's assets, a level that was considered low by international standards.



## No. of Mortgage Registration for Completed Units & Pre-sold Unfinished Units

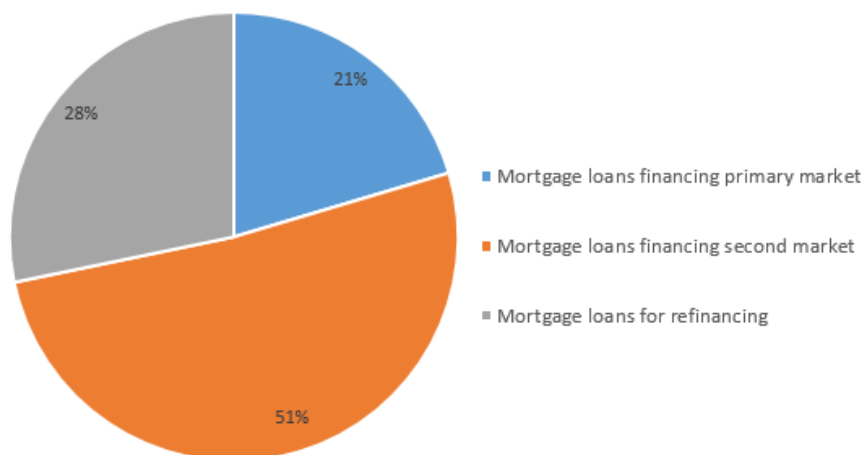


Source: Land Registry and Centaline Mortgage Broker Research

According to the Statistical Analysis on the Mortgage Registration conducted by Research Department of Centaline Mortgage Broker, the total number of new mortgages for complete units reduced 30.1% year on year in the first half of 2016, while the number of mortgages for unfinished flats was down 35.1% year on year. Mortgage loans approved increased by 3.3% in 2016 compared with previous year amid a surge in mortgage loans for refinancing and those financing secondary market.

Time		New Loans Drawn Down		New Loans Approved		New Applications	No. of Mortgage Deed	
Year	Month	Number	Value (M)	Number	Value (M)	Number	Completed Units	Incompleted Units
2017	Jan	6,933	25,162	7,678	28,280	9,914	9,405	1,553
	Feb	5,922	21,140	7,404	27,601	9,904	6,921	844
	Mar	6,875	24,910	9,940	36,964	15,603	7,237	881
	Apr						7,193	687

Source: Hong Kong Monetary Authority, The Land Registry & Centaline Mortgage Broker Research Department.



The results of the residential mortgage survey released by the HKMA<sup>2</sup> also suggest an upward trend in the market. The number of mortgages surged month-on-month by 57.5% to 15,603 in March 2017, while the number of loans approved jumped 33.9% compared with February. Mortgage loans financing primary market transactions grew by 9%

to HK\$7.5 billion, while those financing secondary market transactions increased by 46.5% to HK\$19 billion. Mortgage loans for refinancing also climbed 35% to HK\$10.4 billion. The outstanding value of mortgage loans was up month-on-month by 0.6% to HK\$1,137.1 billion at end-March. In wake of the tightening regulatory policy on bank-issued mortgage loans, applications for property mortgage loans through licensed money lenders are expected to grow.

However, the number of subordinated mortgage loan may be affected by the launch of Land Registry's mortgage e-Alert Service. The HKMA has issued a circular requiring banks to subscribe to the Land Registry's e-Alert Service for banks in respect of all new mortgage loans. Under the services, whenever a further mortgage document in respect of a mortgaged property is lodged for registration with the Land Registry, the original mortgagee bank of the relevant property will receive an electronic notification from the Land Registry, according to the HKMA. Mortgage borrowers who have further mortgaged the same properties from other financial institutions without seeking prior consent from the original mortgagee banks are in breach of their mortgage contracts with the original mortgagee banks.

## Licensed Money Lenders in Hong Kong

Due to a surge in demand on money lending services and the ease of applying a money lenders license, the number of licensed money lenders has been rising. There are 1,890 licensed money lender as at 30 April 2017, offering personal loans, corporate loans and mortgage loans. Besides using residential property as collaterals, licensed money lenders are also accepting other collaterals such as permanent carpark, cars, industrial properties, stores and luxury handbags.

Rank	Name of company	Headquarter location	Number of branches in Hong Kong (2015)	Revenue in 2015 (HK\$ million)	Share of total industry revenue	Major service scope
1	Company A	Hong Kong	49	2,268.3	27.3%	Mortgage loan Personal loan Business loan
2	Company B	Japan	39	825.5	9.9%	Personal loan
3	Company C	Japan	25	374.7	4.5%	Mortgage loan Personal loan Business loan
4	Company D	Hong Kong	28	244.4	2.9%	Mortgage loan Personal loan Business loan
5	Company E	Hong Kong	1	130.0	1.6%	Mortgage loan
	Our Company	Hong Kong	1	32.0	0.4%	Mortgage loan Personal loan Business loan
	Others	—	—	4,469.9	53.8%	
	<b>Total</b>	—	—	8,312.8	100.0%	

Source: Ipsos research and analysis

The top five licensed money lenders accounted for around 46.2% of the total industry revenues of HK\$8,321.8 million 2015. Some licensed money lenders operates as a subsidiary of a Hong Kong Listed company in credit finance sector such as Hong Kong Finance Company Limited, Oi Wah Pawnshop Credit Limited, First Credit Limited, SHK Finance Limited, Emperor Securities Limited and Global International Credit Limited offering a variety of loan services.

- Listed companies in Credit Finance Sector**

STOCK CODE	COMPANY NAME	MKT CAP (\$M)
145	HK BLDG & LOAN	544.33
172	GOLDBOND GROUP	629.72
626	PUBLIC FIN HOLD	3,886.63
767	PACIFIC PLYWOOD	1,644.79
900	AEON CREDIT	2,491.66
1273	HK FINANCE GP	423.3
1290	CHINA HUIRONG	1,158.52
1319	OIWAHPAWN	1,015.37
1543	JOIN-SHARE	422.4
1669	GIC GROUP	504
3623	C SUCCESS FIN	859.9
3678	HOLLY FUTURES	409.51
3903	HANHUA FIN	760.5
3963	RONGZHONG FIN	528.01
6866	ZUOLI M-FIN	279
8030	FLYING FIN	1,818.00
8215	FIRST CREDIT	2,032.13
8252	TAIHE M-FIN	190.5

Source: <http://hkstock.infocastfn.com/web/guest/sector-comparison>

- Growth Trend of Listed Companies in Credit Finance Sector**

STOCK CODE	COMPANY NAME	YEAR END	LATEST ANNUAL REVENUE (M)	1-YR GROWTH	3-YR GROWTH	5-YR GROWTH
145	HK BLDG & LOAN	31/12/2016	22.08	31.62	53.07	N/A
172	GOLDBOND GROUP	31/03/2016	48.42	28.02	79.62	N/A
626	PUBLIC FIN HOLD	31/12/2016	N/A	N/A	N/A	N/A
767	PACIFIC PLYWOOD	31/12/2016	555.39	441.89	1,770.43	940.65
900	AEON CREDIT	28/02/2017	1,228.10	2.44	5.45	10.01

1273	HK FINANCE GP	31/03/2016	111.27	12.09	67.53	N/A
1290	CHINA HUIRONG	31/12/2016	N/A	N/A	N/A	N/A
1319	OIWAHPAWN	28/02/2017	215.15	15.26	124.55	224.21
1543	JOIN-SHARE	31/12/2016	294.83	16.63	12.94	N/A
1669	GIC GROUP	31/12/2016	130.29	4.8	7.47	317.76
3623	C SUCCESS FIN	31/12/2016	100.86	16.39	47.69	52.69
3678	HOLLY FUTURES	31/12/2016	354.5	6.96	2.61	17.84
3903	HANHUA FIN	31/12/2016	1,652.28	20.99	18.17	53.84
3963	RONGZHONG FIN	31/03/2016	205.01	9.66	12.76	N/A
6866	ZUOLI M-FIN	31/12/2016	271.74	7.31	133.72	2,715.72
8030	FLYING FIN	31/12/2016	322.88	149.23	133.5	201.42
8215	FIRST CREDIT	31/12/2016	81.6	28.98	50.08	77.19
8252	TAIHE M-FIN	31/12/2016	N/A	N/A	N/A	N/A

\*up

\*down

Source: <http://hkstock.infocastfn.com/web/guest/sector-comparison>





## CONCLUSION

The HKMA has been closely monitoring the property and mortgage markets in an attempt to cool down home prices and property mortgage risks. The new measures may affect investors most rather than homebuyers. Authorized institutions are facing higher credit risks of borrowers with multiple mortgages. The launch of e-Alert Service regarding the subordinated mortgage of properties aims to help local banks detect unauthorized further mortgages. It would reduce the market share of second mortgage loan of licensed money lenders. However, licensed money lenders still have a large market opportunity of offering subordinated property mortgage loans and personal loans. With various cooling measures, residential affordability is still the major concern for potential homebuyers and they are likely to become more cautious.

## Endnotes

<sup>1</sup> List of Existing Money Lenders Licensees (as at 30 April 2017), Companies Registry,  
[http://www.cr.gov.hk/en/public/docs/ml\\_licensees2.pdf](http://www.cr.gov.hk/en/public/docs/ml_licensees2.pdf)

<sup>2</sup> Residential Mortgage Survey Results for March 2017,  
<http://www.info.gov.hk/gia/general/201704/28/P2017042800767.htm>

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