Box 3.1

Residential mortgage loans in negative equity

The dip in flat prices since late 1997 has impinged on people’s wealth and hence on their consumption. This has been one of the underlying factors leading to the weak domestic demand in Hong Kong in recent years. Of particular concern is the large number of negative equity home owners, where the value of the residential property has fallen below the corresponding outstanding amount of mortgage loan. The quarterly survey on residential mortgage loans in negative equity conducted by the Hong Kong Monetary Authority, though covers primarily first mortgages, provides some useful indication about the situation.

According to the results of the latest survey, the total number of residential mortgage loans in negative equity amounted to 99,805 at end-September 2003, representing 20% of all residential mortgage borrowers. The corresponding aggregate value of mortgage loans in negative equity was around $155 billion, representing 29% of the total amount of outstanding residential mortgage loans. These improved somewhat from the situation at end-June 2003, thanks to the recent pick-up in the residential property market. Actually, many of the new negative equity cases in the recent quarters were only marginally in negative equity.

Number and total amount of residential mortgage loans in negative equity

Despite the still large number of residential mortgage loans in negative equity, the banks’ delinquency ratio for all outstanding residential mortgage loans, which measures the proportion of the total amount of loans overdue for three months to the overall outstanding amount of such loans, was at a low level of 1.05% at end-September 2003, improved from 1.12% at end-June.

Third Quarter Economic Report 2003