

## HSBC China Foreign Currency Home Mortgage Loan Risk Disclosure

**Foreign Currency Home Mortgage Loan is a home mortgage loan service offered by HSBC China for non PRC residents (i.e. Holders of foreign passport, valid identity proof for Hong Kong, Macau and Taiwan residents or overseas permanent residence), more suitable for non PRC residents with USD/HKD income, or with sufficient deposit in either currency. This service provides you the opportunity to choose a suitable loan currency and manage your multi-currency exposure in asset allocation.** However, as you choose Foreign Currency Home Mortgage Loan, you also need to take into consideration the impact of loan currency restriction, interest rate, exchange rate fluctuation and etc. on your repayment during the loan life.

### **Repayment Currency Restriction and its Impact**

Both principle and interest of foreign currency home mortgage loan are calculated in foreign currency, that is, all your normal repayments and prepayments need to be in the currency you choose. For example, you choose USD/HKD as your loan currency, while your income is in RMB within the territory of China, according to the current State Administration of Foreign Exchange (SAFE) regulations, you may bring your valid identity document and relevant supporting documents to the bank and exchange your lawful income in RMB into USD/HKD for repayment. Under some specific situations, if you would like to apply for full or partial prepayment, or your residency status has changed or the change of borrower, you also need to take into account the restrictions on foreign currency purchase, as you may not be able to purchase enough USD/HKD for your prepayment. Please refer to specific regulations on foreign currency purchase under the current account for individual at SAFE.

### **Interest Rate Fluctuation and its Impact**

**HSBC China offers floating rate home mortgage loan. The interest rate of USD/HKD home mortgage loan is linked to the HSBC (China) USD/HKD Base Lending Rate published on our website. The foreign currency base rate is not linked to People's Bank of China (PBOC) Base Lending Rate for RMB loans, nor to HSBC Hong Kong's Best Lending Rate; it is decided by HSBC China based on foreign currency cost of funds within China and other factors. The bank reserves the right to change its foreign currency base lending rate at any time, and with immediate effect.** If the base lending rate increases, your monthly repayment amount will increase accordingly, and so will your Debt-to-Income ratio (DTI).

### **Exchange Rate Fluctuation and its Impact**

The exchange rate fluctuation of foreign currency home mortgage loan mainly refers to the fluctuation of the currency of your income or property transaction (i.e. RMB) relative to your loan currency (USD/HKD) under the situation that your income is not in the same currency as your loan currency.

If your income currency is not USD/HKD and you do not have sufficient deposit in the form of the loan currency, you will have to convert your income to the loan currency for monthly repayment or prepayment, which means that your actual DTI ratio (or simply the ratio of your repayment to income) will largely depend on the exchange rate at the time of currency conversion.

**If the income currency appreciates against the loan currency, the loan principle and monthly repayment calculated in terms of the income currency will decrease accordingly, and so will your actual DTI ratio. If the income currency depreciates against the loan currency, the loan principle and monthly repayment calculated in terms of the income currency will increase accordingly, and so will your actual DTI ratio.** In extreme cases, your monthly income might not be enough to support your monthly repayment.

At the time of loan drawdown, the exchange rate of USD/HKD to RMB could be so low that the drawdown amount equivalent in RMB cannot meet the requirement set on Sales and Purchase Contract, and you need to prepare the funding shortfall on your own. Same could occur under contract and the bank executes foreclosure process, the exchange rate of USD/HKD to RMB could be so high that the proceeds from the sale of the property cannot cover the outstanding loan amount, and you need to make up the shortfall through other source.

### **Repayment arrangement and its impact**

**Under Covid-19 or geopolitical tensions situation, you may come across difficulties for FCY fund deposit, conversion, or transfer due to unexpected branch service closure, lockdown of cross-border travel, cross-border capital liquidity restriction and etc. We kindly advise you to prepare for loan currency (HKD/USD) in advance to avoid repayment overdue and transferring to your bank repayment account.**

### **Scenario Analysis**

**Below scenarios are solely hypothetical and are meant to illustrate the impact of foreign currency home mortgage loan in exchange rate fluctuation. This is not a forecast of the actual situation.**

If your income is in RM Band your loan currency is USD, then you will bear the exchange rate risk of RMB (income currency) to USD (loan currency) during the loan life. Let's assume your applied loan amount was RMB 6,000,000 equivalent USD, and the exchange rate of USD/RMB was 6 at the time of drawdown, thus your loan principle in USD was 1,000,000. With the loan tenor of 30 years, interest rate of 4% p.a. and monthly straight line as the repayment method, the monthly instalment was set at USD 4,774.15, or RMB 28,644.90 using the exchange rate at drawdown.

#### *Scenario 1*

After one year, RMB depreciated against USD by 5% to 1 USD = 6.3 RMB, your monthly repayment remains unchanged at USD 4,774.15, while the equivalent RMB amount increases to 30,077.15. From the RMB perspective, your monthly repayment has increased by 5%.

The remaining principle of the loan after one year is USD 982,389.64. If you plan to apply for full

prepayment, without taking into account the prepayment penalty or charge, you will have to sell RMB 6,189,054.73 for full prepayment in USD based on the spot rate when you sell.

*Scenario 2*

After one year, RMB depreciated against USD by 25% to 1 USD = 7.5 RMB, your monthly repayment remains unchanged at USD 4,774.15, while the equivalent RMB amount increases to 35,806.13. From the RMB perspective, your monthly repayment has increased by 25%.

The remaining principle of the loan after one year is USD 982,389.64. If you plan to apply for full prepayment, without taking into account of the prepayment penalty or charge, you will have to sell RMB 7,367,922.30 for full prepayment in USD based on the spot rate when you sell.

*Scenario 3*

After one year, RMB appreciated against USD by 5% to 1 USD = 5.7 RMB, your monthly repayment remains unchanged at USD 4,774.15, while the equivalent RMB amount decreases to 27,212.66. From the RMB perspective, your monthly repayment has decreased by 5%.

The remaining principle of the loan after one year is USD 982,389.64. If you plan to apply for full prepayment, without taking into account of the prepayment penalty or charge, you will have to sell RMB 5,599,620.75 for full prepayment in USD based on the spot rate when you sell.

You are always provided with an opportunity to understand the risks and choose a suitable loan currency before you sign the Mortgage Contract and agree to borrow from HSBC. We also recommend that you seek independent financial and legal advice prior to entering into an agreement for a Foreign Currency Home Mortgage Loan.

We hope this information has helped you to understand the risks involved in Foreign Currency Home Mortgage Loan. For more information regarding HSBC's Home Mortgage Loan you can refer to our website at [www.hsbc.com.cn](http://www.hsbc.com.cn) and visit our Home Loans page or call us on **800 830 2880**.

**Confirmed and signed by:**

**Date:**

\* All the above illustrations are based on the current regulations of State Administration of Foreign Exchange (SAFE) and other related laws, the Bank might change the current practice without additional notice if changes are made to such regulations and laws.