Thank you for your letter of 11 February requesting information from HSBC as part of the House of Commons Science and Technology Committee’s inquiry into Japanese Knotweed and the built environment.

We have addressed each of your points in turn. Please note that the following responses apply to both the HSBC and first direct brands.

- **What's HSBC's policy in relation to Japanese Knotweed in the UK and whether our policy on this has changed in recent months or years.**

  HSBC’s policy regarding Japanese Knotweed reflects the four categories outlined in the Royal Institute of Chartered Surveyors (RICS) framework on influencing distances of plant growth to boundaries and structures, and any evidence of resultant structural damage.

  Our policy last changed in June 2016, when we introduced tabulated distance criteria and relative acceptability to enable us to consider property valuations on a case by case basis. Prior to this, HSBC would only lend in the event of eradication supported by a guarantee which was implemented from August 2010.

  Current HSBC policy classifies any Japanese Knotweed noted closer than seven metres to the property as unacceptable security. In practice, this presumes that Japanese Knotweed is visible and growing in situ (otherwise a valuer would not see it to be able to record its presence). We may consider properties for mortgage where Japanese Knotweed is present under certain policy circumstances subject to provision of an insurance backed treatment plan by an appropriately qualified person or company, being an accredited member of an industry recognised trade association, which must have commenced and been paid for in full. An assignable ten-year guarantee must be also provided upon completion, as the risk is that without the full treatment the infestation is likely to reappear.

  The key factors in whether we will proceed to lend are the distance of the infestation to the mortgaged property, whether any serious damage has been caused as a result and at what stage the treatment is.

- **How your UK policy compares to HSBC's lending policies in other countries in relation to Japanese Knotweed.**

  HSBC’s lending policy in each of the markets where it operates, particularly in respect of physical risks to a security, takes into account local factors and conditions. For example, in Hong Kong, there is no policy provision relating to Japanese Knotweed as, given the high urban density, it is unlikely to be present and, in any event, most residential mortgage lending is in respect of apartments in high rise blocks. However, it is prevalent within the UK, where the majority of residential lending is in respect of houses with gardens or other land, and there is no suggestion of over caution by UK lenders in their approach.
**What HSBC's rationale is for its UK policy.**

UK market practice and typical valuer and lender practice for assessing property as prospective mortgage security is based on the core principles of ready *saleability* (i.e. prospective purchasers would not be deterred by unappealing factors) and *mortgageability* (i.e. the property type and construction would provide acceptable security). These principles can apply separately to the matter of value, although they are usually closely linked.

HSBC policy is therefore designed to safeguard the Bank against the risk of loss due to accepting inadequate loan security. At present, the existence of Japanese Knotweed (dependent on proximity and resultant defect) is likely to affect both of these core principles, as well as value.

These principles are applied consistently across the mortgage industry, and are not specific to HSBC. It should also be noted that the application of a lower value to reflect condition due to the presence of live Japanese Knotweed, a progressive defect, does not in itself protect HSBC from the impacts of being unable to readily dispose of the property in possession, and does not best serve borrowers at future resale or re-mortgage.

**Whether this policy is subject to periodic review.**

As outlined above, this was reviewed in 2016 and whilst we set our own credit policy, HSBC will engage with RICS should they revisit their guidance. Other publications are also considered when they become available.

**What evidence or guidance from others (such as RICS) would prompt HSBC to alter its policy.**

HSBC will consider all relevant guidance on Japanese Knotweed when reviewing our policy, but we rigorously maintain our core lending principles of ready saleability and mortgageability. RICS guidance on Japanese Knotweed has been important to date and we look forward to considering any updated guidance. However, the judgement of the market itself upon the presence of Japanese Knotweed has primacy in HSBC’s assessment of lending security, and so long as the public’s negative perceptions of Japanese Knotweed remain, this must necessarily be adequately reflected in policy.

*February 2019*