

ITEM FOR FINANCE COMMITTEE

LOAN FUND
HEAD 251 – HOUSING
Hong Kong Housing Society
Subhead 116 Home Starter Loan Scheme

Members are invited to delegate to the Secretary for Housing the authority to approve adjustments in the loan quota for non-elderly singletons under the Home Starter Loan Scheme until the expiry of the Scheme in March 2002.

PROBLEM

We need to increase the loan quota for non-elderly singletons¹ under the Home Starter Loan Scheme (HSLs) to meet the demand from non-elderly singletons under the Scheme.

PROPOSAL

2. We propose to delegate to the Secretary for Housing the authority to approve adjustments in the loan quota for non-elderly singletons under the HSLs until the expiry of the Scheme in March 2002.

JUSTIFICATION

Encl. 1 3. Since the HSLs was extended to singletons in December 1999, over 8 600 applications have been received up to August 2000 as shown in Enclosure 1. This has far exceeded the combined quota for 1999-2000 and 2000-01 (i.e. around 1 000). In the light of the demonstrated demand, we have reviewed the quota for non-elderly singletons under the HSLs. We note that –
/(a)

¹ Non-elderly singletons are defined as singletons aged 18 to below 60.

- (a) non-elderly singletons have the same need for housing assistance as family households and suitable measures should be taken to address their needs;
- 3. (b) providing home ownership assistance to non-elderly singletons will assist them to become home-owners;
- (c) the number of applications for HSLs from non-elderly singletons has stabilised at an average of about 350 per month after the overwhelming response in the first few months of the extension of the Scheme to this group; and
- (d) following the extension of the HSLs, other subsidised home ownership schemes have also become accessible to non-elderly singleton applicants. In recent phases launched under these schemes, about half of the applications were received from non-elderly singletons².

4. Taking these factors into account, we estimate that in addition to the approved annual quota of 500, the additional number of loans required in 2000-01 and 2001-02 to satisfy demand for loans to non-elderly singletons are about 2 000 and 600 respectively, making a total of an additional quota of about 2 600 loans for these two years. The detailed calculations are set out in Enclosure 2.

Encl. 2

5. While the above represents our assessment at present, actual demand will vary with short-term fluctuations as the market is dynamic and the take-up pattern of HSLs non-elderly singleton applicants may change. We therefore recommend that the Secretary for Housing be given the authority and the flexibility to approve adjustments in the loan quota for non-elderly singletons until the expiry of the current HSLs in March 2002, having regard to prevailing demand and market conditions and subject to the original intent of the HSLs not being compromised, namely –

- (a) at least 6 000 loans, each not exceeding \$600,000, will be available each year for family applicants under the HSLs;
- (b) no fewer than 500 loans, each not exceeding \$300,000, for non-elderly singleton applicants will be provided each year; and
- (c) the total allocation of \$18 billion for the HSLs will remain unchanged.

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² A singleton applicant may apply for more than one or even all the schemes for which he is eligible. He has an option to apply for a Sandwich Class Housing Scheme flat. He may also be eligible for Home Ownership Scheme/Private Sector Participation Scheme and Home Purchase Loan Scheme if his income is below \$15,500 and asset not exceeding \$350,000.

6. The provision of HSLs loans for non-elderly singletons is subject to an allocation of \$150 million a year. Approval of the Finance Committee is sought to lift this cap so as to enable the proposed adjustments in loan quota by the Secretary for Housing.

7. It is expected that the provision of additional loans to non-elderly singletons under the HSLs over a period of two years will not have a significant impact on the property market.

FINANCIAL IMPLICATIONS

8. No additional funds are required. The approved total commitment for the HSLs under the Loan Fund remains at \$18 billion, which is expected to be drawn down in the four years of 1998-99 to 2001-02 and benefiting up to 12 000 households in 1998-99 and no less than 6 000 households in each of the subsequent years. Under current arrangements, any unspent provision under the HSLs in one year may be carried forward to the following year until the expiry of the Scheme in 2001-02.

9. Although the maximum loan amount for family applicants is capped at \$600,000, the average loan amount drawn by individual family recipients is about \$530,000. As a result, there is an unused balance of \$1,260 million for the years 1998-99 and 1999-2000, which is sufficient to finance additional loans for non-elderly singletons of not exceeding \$300,000 each.

10. As the Government charge borrowers under the HSLs interest at the concessionary rate of 2% per annum, the net present value of interest forgone, discounted at the prevailing no-gain-no-loss interest rate³ for each \$300,000 loan, would be \$120,000 over the loan period.

BACKGROUND INFORMATION

11. The HSLs was introduced in 1998 to provide low-interest loans to assist first-time home buyers, who may lack sufficient financial ability to pay down-payments, to fulfil their aspiration for home ownership.

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³ The no-gain-no-loss interest rate is currently set at two percentage points below the average best lending rate of the note-issuing banks. This formula ensures that the interest rate will move in tandem with the market lending rate. We will review the interest rate at the end of each month and adjust it when the difference between the updated rate and the prevailing rate is one percentage point or more, or when the prevailing rate has remained stationary for over six months. The prevailing no-gain-no-loss interest rate is 7.5% per annum.

12. The Hong Kong Housing Society is the implementation agent of the Scheme. Loans of \$600,000 or up to 30% of property price, whichever is the lower, are offered to qualified applicants. A summary of the eligibility criteria under the HSLs is at Enclosure 3.

Encl. 3

13. The Government decided in 1999 to introduce measures to address the housing needs of non-elderly singletons through the agency of the Hong Kong Housing Authority and the Hong Kong Housing Society. These measures included the provision of no fewer than 500 loans a year to non-elderly singletons under the HSLs. Subsequently, a total loan amount of \$150 million a year was approved by the Finance Committee on 12 November 1999 for this purpose.

14. We consulted the Legislative Council Panel on Housing on 6 November 2000 on the above proposal. Members of the Housing Panel were supportive of the proposal.

Housing Bureau
November 2000

**Home Starter Loan Scheme
Applications Received from Non-elderly Singleton Households**

| Month | Number |
|---------------|---------------|
| December 1999 | 5 318 |
| January 2000 | 999 |
| February 2000 | 370 |
| March 2000 | 362 |
| April 2000 | 313 |
| May 2000 | 372 |
| June 2000 | 354 |
| July 2000 | 218 |
| August 2000 | 378 |
| Total | 8 684 |

} Monthly average is about 350 applications

Enclosure 2 to FCR(2000-01)48

Assessment of the Loans Required for Non-elderly Singletons under the Home Starter Loan Scheme (HSLs) for 2000-01 to 2001-02

A. Estimated no. of loans required up to 31.3.2001

| | |
|---|---|
| (a) Existing no. of applications (as of 31.8.2000) | 8 684 |
| (b) Estimated no. of applications for the remaining months of 2000-01 | 2 450 (350/month x 7 months) |
| (c) Estimated no. of applications up to 31.3.2001 [i.e. (a) + (b)] | 11 134 |
| (d) Eligible applications [i.e. 54% x (c)] | 6 012 (11 134 x 54% (eligibility rate ¹)) |
| (e) Estimated no. of HSLs loans that will be taken up [i.e. 50% x (d)] | 3 006 (say 3 000) (6 012 x 50% (take-up rate ²)) |
| (f) Total loan quota currently available [i.e. combined quota for 1999-2000 and 2000-01] | 1 000 (500 + 500) |
| (g) Additional no. of loans required for 2000-01 [i.e. (e) – (f)] | 2 000 |

/B.

¹ The eligibility rate of the family applicants in the completed Phase One of the HSLs is 54%.

² The take-up rate by non-elderly singleton applicants is about 50%.

B. Estimated no. of loans required for 2001-02

| | |
|---|------------------------------------|
| (h) Estimated no. of applications | 4 200 (350/month x 12 months) |
| (i) Eligible applications [i.e. 54% x (h)] | 2 268 (4 200 x 54%) |
| (j) Estimated no. of HSLs loans that will be taken up [i.e. 50% x (i)] | 1 134 (say 1 100) (2 268 x 50%) |
| (k) Existing loan quota for 2001-02 | 500 |
| (l) Additional no. of loans required for 2001-02 [i.e. (j) – (k)] | 600 |

**C. Total additional no. of loans required for 2000-01
and 2001-02
[A + B] 2 600**

Eligibility Criteria for Home Starter Loan Scheme

Family Applicants

1. Total monthly family income must not exceed \$60,000.
2. The family should not own total disposable assets of more than \$1.2 million.
3. All family members included in the application must not have owned any residential properties in Hong Kong within a period of 120 months prior to the date of application and up to the date of issuance of a “Certificate of Eligibility”.
4. All family members included in the application must not be tenants/owners/authorised occupants of Government subsidised housing units. They must not have enjoyed or are enjoying home purchase assistance offered by the Government.

Non-elderly Singleton Applicants

1. Total monthly income must not exceed \$22,000.
2. Total disposable assets must not exceed \$400,000.
3. The applicant must not have owned any residential properties in Hong Kong within a period of 120 months prior to the date of application and up to the date of issuance of a “Certificate of Eligibility”.
4. The applicant must not be a tenant of a public housing unit or an authorised occupant of Home Ownership Scheme unit. He/She must not have enjoyed or is enjoying home purchase assistance offered by the Government.