

## Legislative Council Panel on Housing

### Review of Home Ownership Scheme and Waiting List Income and Asset Limits

#### PURPOSE

This paper sets out the rationale of the Housing Authority (HA) to lower the income and asset limits for Home Ownership Scheme (HOS)/Home Purchase Loan Scheme (HPLS) and Waiting List (WL) applicants.

#### BACKGROUND

2. To ensure that public housing is allocated to those in need, applicants for HOS/HPLS and public rental housing (PRH) are required to pass income and asset tests as well as other eligibility criteria laid down by the HA. The relevant income and asset limits are reviewed annually at the beginning of the year to reflect latest market situation.

3. The review is conducted in accordance with a well-established mechanism which examines both the housing and non-housing costs of public housing applicants. The mechanism is clear and objective as relevant empirical data are collected. It has been used for many years and is widely accepted by the community.

4. The HOS income and asset limits are set to cover households who cannot afford to buy a reasonable flat in the private sector, whereas the WL income and asset limits are set to focus on low-income families who cannot afford to rent adequate accommodation in the private sector. A brief description of the methodology in deriving the relevant limits is at **Annex A**.

5. After the Asian financial turmoil, property prices and rentals dropped substantially. These changes improved the affordability of flats in the private sector. Changes to key indicators since 1997 are –

- (a) price index compiled by Rating and Valuation Department on private residential flats in the New Territories of size below 40 m<sup>2</sup> saleable area dropped by 55%;

- (b) the rentals of private flats had dropped by 19%; and
- (c) the new bank mortgage rate had dropped from 11.25% to 7% per annum.

All of these changes have contributed to the need to adjust downward the two sets of income and asset limits in order to ensure that public subsidy continued to be made available to those (and only those) in genuine need.

6. While there was room to adjust the HOS and WL income and asset limits downwards in the last two reviews for 1999/2000 and 2000/01, the HA had adopted a wait-and-see approach by freezing these limits in general <sup>Note 1</sup> given the volatile market situation and signs of economic recovery.

## **REVIEW FOR 2001/02**

7. According to the established review mechanism, given the downward adjustments in property prices and rentals as well as the sustained deflationary trend, the HOS income and asset limits should be reduced by 29% and 21%, while the WL income and asset limits should be reduced by an average of 15% and 13% respectively for 2001/02. The adjustments in this year hence reflect the cumulative differences in the past two years.

8. Having considered the very drastic rates of reduction as well as community aspirations, the HA's Home Ownership Committee and Rental Housing Committee decided at their joint meeting on 8 February 2001 to-

- reduce the HOS income and asset limits by 20% and 14%; and
- reduce the WL income and asset limits by an average of 7.5% and 6.5%.

The reductions represent two-third of the adjustment under the review mechanism for the HOS income and asset limits and half of the adjustment under that for the WL income and asset limits. The two new sets of limits are set out at **Annex B**.

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<sup>Note 1</sup> Except that the HOS income limit was lowered by 6% from \$33,000 to \$31,000 in the 1999/2000 review.

9. In making the decision, the HA has considered the need to preserve the integrity of a clear and objective review mechanism which has been applied and widely accepted for many years.

### **SPECIAL ARRANGEMENTS FOR WL APPLICANTS**

10. In view of the fact that PRH applicants are low income families and that some of them may have been registered on the WL for some time already, the HA has adopted a series of measures to minimize the negative impact on them arising from the reduction of the limits. These measures include-

- (a) adopting a milder rate of reduction than the full adjustment under the established review mechanism. Indeed, the reduction for WL income and asset limits is more lenient than the original proposal put up by the Housing Department;
- (b) exempting the application of the new limits on about 38,000 PRH applicants on the WL, who have successfully gone through the vetting process and are waiting for flat allocation, representing 34% of the total;
- (c) in accordance with existing policies, those applicants who are over-income/assets at the investigation stage can re-instate their position should their income/assets drop within the limits within one year. Besides, they can also make use of the Green Form status to purchase HOS flats if they have been on the WL for two years or more, provided that their income/assets do not exceed the respective HOS limits; and
- (d) granting compassionate rehousing on individual merits to applicants with genuine hardship on the recommendation of the Social Welfare Department.

11. Following the adjustment of the WL income limits, about 122,000 households will still remain eligible for PRH. This target group is still much higher than the clientele of 90,000 to 110,000 households in mid-1990s when the review mechanism was adhered to.

## **THE CASE OF HOS**

12. With substantial fall in property prices and interest rate, as well as sustained deflation, families with income over \$25,000 will be able to purchase a reasonable flat in the private market. Reducing the HOS income and asset limits will enable the HA to focus on those who really need help to become home-owners.

13. After the adjustment, about 83,000 households will be eligible for HOS, compared with 115,000 households under the current limits. Those families with income and assets above the new limits may still apply for the Home Starter Loan Scheme operated by the Housing Society.

## **REVIEW OF MECHANISM**

14. While the established review mechanism has been in place for years, the HA is of the view that there will always be scope to improve the mechanism further. In view of the availability of new findings from the Household Expenditure Survey (a territory-wide survey conducted by the Census and Statistics Department every 5 years) by the middle of this year, the HA has committed to taking the latest findings of this survey into account and to reviewing the established mechanism before reviewing the limits for 2002/03.

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## **Setting of HOS and WL Income and Asset Limits**

### **HOS Income Limit**

The HOS income limit is derived from a “household expenditure” approach which consists of two elements, namely housing costs and non-housing costs:

Housing costs: The monthly expenditure for owning a typical 10-year-old flat of 40 m<sup>2</sup> saleable floor area in the private sector. It covers mortgage payment, Government rent, rates and management fees.

Non-housing costs: The average household expenditure of 4-person households amongst the non-owner-occupied households in the private sector.

### **HOS Asset Limit**

The HOS asset limit is set at a level for a household to finance the downpayment, related transaction costs and decoration expenses for acquiring the above typical flat.

### **WL Income Limits**

The WL income limits are also derived from a “household expenditure” approach which consists of housing costs and non-housing costs:

Housing costs: The rentals of private flats of sizes comparable to the average size of PRH flats allocated to WL applicants.

Non-housing costs: The average household expenditure of the lower expenditure group amongst non-owner-occupied households in the private sector.

### **WL Asset Limits**

The WL asset limits are set at levels for households to finance the housing cost of renting private flats for six years.

**Income and Asset Limits for  
Waiting List Applicants for 2001/02**

<b><u>Household Size</u></b>	<b><u>Income Limits (per month*)</u></b>	<b><u>Asset Limits</u></b>
1 person	\$6,200	\$210,000
2 persons	\$11,000	\$310,000
3 persons	\$13,700	\$360,000
4 persons	\$16,400	\$440,000
5 persons	\$17,800	\$500,000
6 persons	\$19,200	\$560,000
7 persons	\$21,800	\$610,000
8 persons	\$24,300	\$630,000
9 persons	\$26,600	\$660,000
10 or more persons	\$28,400	\$680,000

**Income and Asset Limits for  
Home Ownership Scheme/Home Purchase Loan Scheme  
White Form Applicants for 2001/02**

	<b><u>Income Limits (per month*)</u></b>	<b><u>Asset Limits</u></b>
Family Applicants	\$25,000	\$600,000
Singletons	\$12,500	\$300,000

- \* Mandatory contributions under the Mandatory Provident Fund (MPF) Scheme are not counted as part of the applicants' monthly income when they apply for Home Ownership Scheme or public rental housing under the Waiting List.