

NOTE FOR FINANCE COMMITTEE

Relief measures for hardship cases under the Home Starter Loan Scheme and the Sandwich Class Housing Loan Scheme

PURPOSE

This paper informs Members of the relief measures to assist loan recipients of the Home Starter Loan Scheme (HSL) and the Sandwich Class Housing Loan Scheme (SCHLS) with proven financial difficulties in repaying their loans.

RELIEF MEASURES

2. Under the HSL and SCHLS, there are loan recipients who have difficulties to repay their loans due to genuine financial hardship. With effect from 2 May 2002, we will introduce the following relief measures to assist these loan recipients with financial difficulties:

- (a) to allow loan recipients to suspend loan repayment for 12 months;
- (b) to allow those loan recipients who wish to sell their flats to reschedule repayment of any shortfall of the outstanding balance of their loans if the sale proceeds, after repayment of their bank mortgages, cannot cover the full outstanding balance of the loans; or
- (c) to allow those loan recipients whose flats have been repossessed and to be sold by mortgagees to reschedule the repayment of any shortfall of the outstanding balance of their loans if the loan recipients have no other financial means, to fully repay the outstanding balance of the loans.

These relief measures will be implemented by the Hong Kong Housing Society which is the implementation agent of the HSL and SCHLS.

/Eligibility

Eligibility criteria

3. To ensure that only those loan recipients in genuine financial hardship are catered for and to prevent abuse, each application for relief measures will be assessed on its individual merits. The following guiding principles will be adopted :

- (a) The applicant's current monthly income has reduced by 15% or more from the income level as stated in the Certificate of Eligibility;
- (b) The total amount of the applicant's current mortgage and HSLs / SCHLS loan payments exceed 50% of the applicant's current monthly income; and
- (c) Net assets (excluding the mortgaged property) of singleton or family applicant should not exceed \$80,000 or \$120,000¹ respectively and there is no other means with which the applicant can continue with the loan repayment.

The Hong Kong Housing Society will be asked to assess the eligibility of each application based on the above guiding principles.

Detailed arrangements*(a) Temporary suspension of loan repayment*

4. Loan recipients satisfying the eligibility criteria in paragraph 3 will be allowed to suspend loan repayment for 12 months with the total loan repayment period remaining at 13 years. Interest will continue to be charged on the outstanding loan amount at the rate stated in the original loan agreement. The outstanding loan and accrued interest will be repaid in equal installments over the remaining repayment period.

/5.

¹ According to the 1999/2000 Household Expenditure Survey, the average monthly household expenditure at the price level of the fourth quarter of 2001 are \$12,779 for one-person families and \$20,091 for three-person families (88% of the HSLs family loan recipients and SCHLS loan recipients are two or three-person families). The asset limits should be sufficient for singleton or family loan recipients to support their household expenditures for six months.

5. The 12-month suspension period should be sufficiently long to assist those recipients with temporary financial hardship to overcome their difficulties. In exceptional circumstances where a loan recipient continues to suffer genuine financial hardship at the end of the suspension period, the loan recipient may apply for an extension of the suspension from 12 to 24 months or an extension of the loan repayment period from 13 to 14 years. Applicants asking for further extension of the suspension period or extension of the total loan repayment period will be subject to the same eligibility test in paragraph 3 and interest will continue to accrue on the outstanding loans during the suspension period at the rate stated in the loan agreements.

(b) Rescheduling of repayment of shortfall of outstanding loans if loan recipients sell their flats and the proceeds cannot cover the outstanding loans after repayment of bank mortgages

6. Flats purchased with HSLs / SCHLS loans are subject to resale restrictions. In the first three years, loan recipients upon resale of their flats have to repay all outstanding loans plus the gain in property value, if any, to the Hong Kong Housing Society. After the three-year resale restriction, loan recipients have to repay all outstanding loans immediately upon the sale of their flats. Under the new arrangements, loan recipients satisfying the eligibility criteria in paragraph 3 will be allowed to reschedule the repayment of any shortfall of the outstanding balance of the loans if the sale proceeds cannot cover the full amount of the outstanding loans after repayment of bank mortgages which are the first legal charges. Eligible loan recipients will however be required to bear all related costs incurred in entering into new loan repayment arrangements for the shortfall.

(c) Rescheduling of repayment of shortfall of outstanding loans if the flats are repossessed and to be sold by mortgagee banks

7. Similar to the arrangement set out in paragraph 6 above, loan recipients satisfying the eligibility criteria in paragraph 3 will be allowed to reschedule the repayment of any shortfall of outstanding balance of the HSLs / SCHLS loans if their flats are repossessed and to be sold by mortgagees and the loan recipients have no other financial means to fully repay the outstanding balance of the loans. This arrangement will help loan recipients who are willing to settle the outstanding loans to avoid bankruptcy proceedings. As similar arrangement has been adopted for beneficiaries of SCHLS since March 2000, the Administration has already directed the Hong Kong Housing Society to implement this arrangement for HSLs loan recipients in November 2001.

FINANCIAL IMPLICATIONS

8. Introduction of the above relief measures to HSLs and SCHLS loan recipients, will result in additional subsidy in the form of interest forgone. As an illustration, the net present value of interest forgone, discounted at the average no-gain-no-loss interest rate² for the period from December 2000 to November 2001, for each \$600,000 loan under the HSLs will approximately rise from \$162,000 to \$169,000 over a 13-year repayment period with a 12-month suspension in the sixth year.

BACKGROUND INFORMATION

Sandwich Class Housing Loan Scheme

9. The SCHLS was introduced in 1993 to provide home purchase assistance to the middle-income group, pending the construction of an adequate number of flats under the Sandwich Class Housing Main Scheme. Loans of \$550,000 or up to 25% of property price, whichever was the lower, were offered to family applicants who met the eligibility criteria. From 1993 to 1999, a total of 5 701 loans amounting to \$2.7 billion were granted. After a review of the various subsidized loan schemes, the Government decided in March 1999 to abolish the SCHLS.

Home Starter Loan Scheme

10. The HSLs was introduced in 1998 to provide low-interest loans to assist first time home buyers, who may lack sufficient financial means to make down-payments, to fulfil their aspiration for home ownership. The Finance Committee approved in January 1998 a commitment of \$18 billion to make loans under the HSLs. Loans of \$600,000 / \$300,000 or up to 30% of property price, whichever is the lower, are offered to family and singleton applicants who satisfy the eligibility criteria.

/11.

² The no-gain-no-loss interest is set based on the principle of the Government not gaining any profit nor incurring any loss through making loans. 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. The average no-gain-no-loss interest rate for December 2000 to November 2001 is 5.9% per annum.

11. We consulted the Legislative Council Panel on Housing on 3 December 2001, 7 and 18 January 2002 on the relief measures and responded to Members' views in end March. Members of the Housing Panel did not indicate any objection to the proposals in this paper.

Housing Bureau
April 2002