

## LegCo Panel on Financial Affairs

### Follow-up to meeting on 5 November 2001 Residential mortgage loans in negative equity

This paper provides further information on residential mortgages in negative equity as requested by the Clerk to Panel in a letter dated 12 November 2001.

**1(a) Breakdown of the cases of residential mortgage loans (RMLs) in negative equity with the interest rate charged at above the Best Lending Rate (BLR) up to BLR+2% (i.e. >BLR up to BLR+2%)**

|                                    | Number of cases |                   |
|------------------------------------|-----------------|-------------------|
|                                    | <u>Number</u>   | <u>Percentage</u> |
| BLR+2% or above                    | 200             | 0.3%              |
| BLR+1% or above up to below BLR+2% | 3,000           | 4.6%              |
| Above BLR up to below BLR+1%       | 16,800          | 25.8%             |
| BLR                                | 10,100          | 15.6%             |
| BLR-1% or above up to below BLR    | 10,500          | 16.1%             |
| Below BLR-1%                       | 22,600          | 34.7%             |
| Others (e.g. fixed rate)           | 1,800           | 2.9%              |
|                                    | <b>65,000</b>   | <b>100%</b>       |

**1(b) Information on co-financing loans for the purchase of residential properties**

According to the results of the Hong Kong Monetary Authority's (HKMA) monthly residential mortgage survey for September 2001, there are some 21,400 RMLs (involving \$35.8 billion) associated with co-financing schemes.

**1(c) Total number of negative equity cases when co-financing loans are also taken into account**

According to a survey conducted by the HKMA, it is estimated that out of the 21,400 cases of RMLs associated with co-financing schemes, there were about 16,000 cases (involving \$25.8 billion) that have not been included in the figure of 65,000 under 1(a) above. As the banks do not possess readily available information on customers' outstanding liabilities with the co-financiers, it is not known to what extent these RMLs are in negative equity taking into account the liabilities under the

second mortgage. If we assume, however, in the worst case situation, all the 16,000 cases are in negative equity, the total number of RMLs in negative equity would be about 81,000 and the total amount involved would be \$153 billion.

**1(d) Degree of negative equity in respect of RMLs in the banking sector**

The degree of negative equity varies from case to case. We do not have available statistics on this.

**1(e) Degree of negative equity when RMLs and co-financing loans are both taken into account**

As in 1(d) above, we do not have statistics on these.

**2. Sandwich Class Housing Scheme (SCHS) homeowners in negative equity**

The HKMA hosted a meeting on 16 November 2001 with representatives from the Hong Kong Association of Banks (HKAB), the Hong Kong Mortgage Corporation Limited (HKMC), the Hong Kong Housing Society (HS) and the Hong Kong Sandwich Class Housing Coalition (the Coalition) to better understand the difficulties faced by the negative equity homeowners of SCHS and hearing their requests on assistance sought by them. In response to various requests raised at the meeting by the Coalition, HKMC and HS agreed to give further consideration to the following:

HS

- guarantee of the SCHS mortgages by HS to enable SCHS homeowners to negotiate a more preferential interest rate from authorised institutions (AIs) on the first mortgages.
- repurchase of flats by HS from those SCHS homeowners who are in severe financial difficulties.

HKMC

- waiver of the 5% early redemption penalty on second mortgages under the SCHS which have been sold to the HKMC.