

立法會
Legislative Council

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by the Administration)

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LegCo Panel on Housing

**Minutes of special meeting held on
Friday, 18 January 2002, at 1:00 pm
in Conference Room A of the Legislative Council Building**

Members present : Hon Albert HO Chun-yan (Chairman)
Hon CHAN Kam-lam (Deputy Chairman)
Hon LEE Cheuk-yan
Hon Fred LI Wah-ming, JP
Hon James TO Kun-sun
Hon LEUNG Yiu-chung
Hon SIN Chung-kai
Hon Howard YOUNG, JP
Dr Hon YEUNG Sum
Hon SZETO Wah
Hon Abraham SHEK Lai-him, JP
Hon Albert CHAN Wai-yip
Hon WONG Sing-chi
Hon Frederick FUNG Kin-kee
Hon LAU Ping-cheung

Member absent : Dr Hon David CHU Yu-lin, JP
Hon NG Leung-sing, JP
Hon CHAN Yuen-han, JP
Hon Andrew WONG Wang-fat, JP
Dr Hon LO Wing-lok
Hon IP Kwok-him, JP

Public officers attending : Housing Bureau

Ms Ophelia TSANG
Principal Assistant Secretary (1)

Hong Kong Housing Society

Miss L C WONG
Deputy Executive Director

Clerk in attendance : Miss Becky YU
Chief Assistant Secretary (1)1

Staff in attendance : Miss Lolita SHEK
Senior Assistant Secretary (1)3

As the Chairman was late for the meeting, members agreed that Mr CHAN Kam-lam, Deputy Chairman, should take over the chair.

I Relief measures provided by the Housing Society for owners whose properties have become negative equity

(LC Paper No. CB(1) 429/01-02(07) — Information paper provided by the Administration regarding relief measures adopted by the Housing Society

LC Paper No. CB(1) 724/01-02(04) — Information paper provided by the Administration regarding relief measures adopted by the Housing Society)

2. The Principal Assistant Secretary for Housing(1) (PAS for H(1)) briefed members on the proposed relief measures for flat owners or loan recipients of projects administered by the Hong Kong Housing Society (HS). She said as the proposed suspension of loan repayment by recipients of the Home Starter Loan Scheme (HSLs) and the extension of relief measures to recipients of the Sandwich Class Housing Loan Scheme (SCHLS) would incur additional subsidy to the eligible loan recipients, the Administration would need to inform the Finance Committee after consultation with the Panel, so that the relief measures could be implemented as soon as practicable to provide timely assistance to those flat owners or loan recipients with proven financial difficulties.

(The Chairman took over the chair at this juncture.)

Setting up a secondary market for Sandwich Class Housing Scheme (SCHS) flats

3. Mr CHAN Kam-lam remained of the view that the Administration should expedite the establishment of the secondary market for SCHS flats which could be modelled after that for Home Ownership Scheme (HOS) flats. PAS for H(1) advised that the Administration had an open mind on the proposed secondary market for SCHS flats but would need a few months' time to consider the necessary amendments to relevant legal documents and the possible impact on HOS secondary market.

Temporary suspension of loan repayment of Home Starter Loan

4. As it was unlikely that the property market would recover within a short period of time amid the economic downturn, Dr YEUNG Sum opined that the proposed suspension of loan repayment for 12 months while maintaining the original repayment period at 13 years might not be effective in alleviating the financial hardship of loan recipients. To this end, consideration should be given to extending the repayment period to 14 years with suspension of loan repayment for 24 months. PAS for H(1) explained that the proposed suspension was intended to alleviate short-term genuine financial hardship encountered by loan recipients. It was considered unlikely that they would not regain the ability to repay the outstanding loan within the remaining repayment period. Besides, allowing loan recipients to suspend repayment for 12 months while maintaining the repayment period at 13 years had already involved further subsidy to the loan recipients because of the low interest rate charged on the deferred repayment loans. It was estimated that the net present value of interest forgone, discounted at the average no-gain-no-loss interest rate for each \$600,000 HSLS loan would rise from \$162,000 to \$169,000 over a 13-year repayment period with 12-month suspension. Extending the repayment period to 14 years would entail further subsidy.

5. Given that Hong Kong was undergoing economic restructuring which would take several years, Mr LEE Cheuk-yan pointed out that the financial hardship currently encountered by loan recipients was not a short-term problem. He therefore queried the efficacy of the proposed 12-month suspension, particularly when interest would continue to be charged on the outstanding loan during the suspension period. The outstanding loan and additional interest would be capitalized and repaid by equal installments over the remaining repayment period, which would increase the financial burden of loan recipients unless extension of repayment period was allowed. Mr LEUNG Yiu-chung was also not convinced that the proposed suspension of loan repayment and extension of repayment period would involve further subsidy as the loan recipients would have to repay the loan in full to the Government. Expressing similar concern, Mr Albert CHAN urged the Administration to take into account the needs of loan recipients in formulating the relief measures.

6. PAS for H(1) responded that the Administration understood well the difficult situation of negative equity owners amid the economic downturn. However, as property investment was no different from other kinds of investment which could rise

or fall in value, home owners should be aware of the risk. In assessing the relief measures for loan recipients, the Administration had to consider whether they were fair and whether the risk in property investment of individual recipients would be consequently transferred to taxpayers. Given that an additional subsidy of \$7,000 would be incurred for each \$600,000 HSLs loan as a result of the 12-month suspension, it was not appropriate to further extend the suspension period. On the proposed extension of the repayment period to 14 years, PAS for H(1) advised that the Administration held the view that any request for extension had to be considered on an individual basis.

7. Mr LEE Cheuk-yan said that it was not unreasonable for the society to share the risk under the current exceptionally difficult economic situation, and that the additional subsidy was worth spending as this would foster a sense of security among those with genuine financial hardship, thereby enhancing social stability. Mr WONG Sing-chi added that with the surge in unemployment rate, it was unlikely that loan recipients could regain the ability to repay the outstanding loan after expiry of the 12-month suspension period. To save the administrative cost, he urged the Administration to seriously consider extending the proposed suspension period from 12 to 24 months with an option for further extension if circumstances warranted. Consideration should also be given to allowing greater flexibility for loan recipients to propose different repayment methods to suit their personal needs. Mr James TO considered that the proposals of extending the suspension period and the repayment period were worth pursuing as these would save some loan recipients from filing for bankruptcy to get round their debts. Besides, the additional interest loss of \$7,000 per HSLs loan as a result of extension of the suspension period from 12 to 14 months was nominal as compared to the total amount of HSLs loans.

8. While acknowledging the Administration's concern on the additional subsidy incurred from extending the suspension period to 24 months, Mr Howard YOUNG said that the Administration might consider allowing loan recipients to repay interest but not the principal for 24 months while extending the repayment period to 14 years with no preferential interest rate being offered for the last two years. This would provide the necessary assistance to the loan recipients without causing too much financial burden on the part of Government. Mr SIN Chung-kai declared that he was a director of the Hong Kong Mortgage Corporation. He also agreed that there was room for further extension of the repayment period. Mr SZETO Wah shared Mr SIN's view that the Administration should work out more flexible repayment options to meet the individual needs of loan recipients. Arrangements such as suspension of loan repayment for 12 months with payment of interest alone in the following 12 months or payment of interest alone for 24 months should be considered. These options should not entail additional subsidy from the Government. Mr Abraham SHEK added that instead of suspending loan repayment for 12 months, the Administration might consider reducing the interest rate in the first two years. The Chairman requested and the Administration undertook to consider the proposals put forward by members.

Rescheduling of repayment of shortfall of outstanding HSLs loan after sale of flats

9. Mr Albert CHAN expressed concern about the rigid resale restriction under HSLs which disallowed loan recipients suffering financial hardship to sell their flats without prior consent of HS. He urged that the Administration should relax the resale restriction so that recipients could dispose of their flats at good time to meet their financial needs. For those recipients who had to sell their flats at a loss and the proceeds of sale could not cover the outstanding HSLs loan after repayment of bank mortgage, the Administration should adopt a sympathetic approach and offer more favourable terms for rescheduling of repayment of shortfall of outstanding HSLs so that they need not file for bankruptcy. The Deputy Executive Director/HS (DED/HS) clarified that there was no resale restriction which prohibited loan recipients to sell their flats. She added that the relief measure as set out in paragraph 3 of the Annex to LC Paper No. CB(1) 429/01-02(07) were intended to cater for the situation referred to by Mr CHAN. Given that banking institutions were reluctant to offer preferential terms for debt restructuring to HSLs loan recipients having regard to the stringent eligibility criteria for the relief measures, Mr CHAN held the view that the Administration should relax the eligibility criteria. PAS for H(1) explained that the current interest rates of 2% and 2 to 3.5% for SCHS and HSLs respectively were much lower than the market rate, further reduction therefore might not be possible. She stressed that the proposed relief measures were aimed at helping those loan recipients in genuine temporary financial hardship. To prevent abuse, loan recipients were required to meet certain criteria to substantiate their eligibility for the relief measures. Besides, there was no restriction under the HSLs which prevented them from negotiating with banks for better mortgage terms or debt restructuring. To ensure that banking institutions were aware of such an arrangement, the Administration was requested to include this in the information paper to be submitted to the Finance Committee.

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10. While appreciating the Administration's efforts in helping HSLs loan recipients with genuine financial hardship, Mr LAU Ping-cheung expressed concern about the risk involved in rescheduling of repayment of outstanding HSLs loans after the loan recipients had sold their flats. PAS for H (1) agreed that in the absence of security, the risk involved in loan rescheduling would increase. As such, the Administration had been very cautious in setting the eligibility criteria for the relief measures to minimize the risk. DED/HS assured members that HS, the implementation agent of HSLs, would consider each application for rescheduling of repayment of outstanding HSLs loan on its individual merits taking into account factors such as household income and amount of outstanding loans etc. Mr LAU remained concerned about the high risk of loss of public money in rescheduling of repayment of outstanding HSLs loans after sale of flats and urged the Administration to seriously re-consider the feasibility of such an arrangement. He opined that instead of encouraging loan recipients to sell their flats, consideration should be given to enhancing other relief measures, including the suspension of loan repayment and extension of repayment period. Mr Albert CHAN and Mr James TO did not agree to Mr LAU's views. They cautioned that loan recipients might file for bankruptcy if

they were not allowed to sell their flats and use the proceeds to settle their debts. During the course of bankruptcy proceedings, the Government would not have any priority in the recovery of HSLs loans and the financial loss incurred as a result would be much greater.

Eligibility criteria

11. To provide the necessary assistance to loan recipients with financial difficulties, Mr Albert CHAN urged the Administration to relax the eligibility criteria for the proposed relief measures, which in his view were more stringent than those for the Comprehensive Social Security Assistance Scheme. Mr LEE Cheuk-yan echoed that the eligibility criteria were overly stringent given the nominal level of assistance which the relief measures could provide. He opined that the proposed criteria should only serve as a reference for HS, which should adopt a flexible approach in assessing the eligibility of applicants according to their individual merits. Efforts should also be made to encourage HSLs loan recipients to apply for the relief measures. PAS for H(1) reiterated that to safeguard rational allocation of the scarce public housing resources, only those with proven financial difficulties should be offered additional assistance. The eligibility criteria for the relief measures were set as the guiding principles for assessing the eligibility of applicants to prevent abuse.

12. On *the ratio between income and mortgage/HSLs loan payments*, Mr Albert CHAN pointed out that if the total amount of mortgage and HSLs loan payments exceeded 50% of the monthly household income, the net disposable income left would not be sufficient for the applicants to support their family. As households of different sizes had different expenditure patterns, Mr LEUNG Yiu-chung considered it inappropriate to apply a standard ratio across the board. In this connection, reference should be made to the Waiting List (WL) Income Limit of the Housing Authority which took into account the factor of household sizes. PAS for H(1) explained that under HSLs, the total amount of mortgage and HSLs payments of loan recipients should not exceed 50% of their monthly household income. It was therefore reasonable that relief measures be offered to those whose payments exceeded 50% of their household income.

13. On *the asset limit*, Mr Albert CHAN noted that the proposed limit of \$50,000 for HSLs loan recipients was much lower than that for WL applicants which ranged from \$210,000 to \$680,000 for one to 10-person families respectively. To allow for a sense of security among applicants, Mr LEE Cheuk-yan suggested that the limit be raised to above \$100,000. Mr James TO echoed that that reference should be made to the medium WL asset limit in setting the limit for applicants, and that the negative equity be included in the calculation of the asset limit. Mr CHAN Kam-lam proposed and members agreed that the asset limit be set at \$150,000. PAS for H(1) explained that the asset limit was set at a level sufficient to cover the monthly repayment for a full HSLs loan of \$600,000 for about seven months. As not many of the loan recipients were eligible for the maximum amount of loan, the proposed asset limit of \$50,000 should be sufficient to cover an even longer period. The

Chairman however pointed out that in setting the asset limit, the Administration should take into account the fact that these loan recipients were also subject to mortgage repayments.

Way forward

- Admin 14. Members unanimously agreed that the Administration should -
- (a) relax the eligibility criterion so that applicants who had assets (excluding the mortgaged property) not exceeding \$150,000 instead of \$50,000 as proposed by the Administration and had no other means to continue with the loan repayment could apply for relief measures provided by the Administration;
 - (b) extend the suspension period for repayment of HSLs and SCHLS loans from one to two years; and
 - (c) extend the loan repayment period from 13 to 14 years.

II Any other business

15. There being no other business, the meeting ended at 2:25 pm.

Legislative Council Secretariat
27 February 2002