

For information

On 3 December 2001

Legislative Council Panel on Housing
Information paper on relief measures for flat owners or loan
recipients of projects administered by
the Hong Kong Housing Society

Purpose

This paper informs Members of the relief measures taken to assist flat owners or loan recipients of projects administered by the Hong Kong Housing Society (the Housing Society).

Background

2. In the light of the downturn in the economy of Hong Kong in recent years, the Housing Society has introduced a number of measures to assist flat purchasers of the Sandwich Class Housing Scheme to facilitate them to complete the assignment of their properties without involving further government subsidy through public funds. These measures include providing guarantees to banks in case of default in exchange for their provision of mortgage loan up to 90% of the property value, three-year subsidy on interest of the mortgage loan above the prime rate and top-up loans with a five-year interest-free repayment grace period. Details of these measures were reported to the Legislative Council Panel on Housing at its meetings in March and July 1998.

3. In recent months, the Coalition of Sandwich Class Housing requested (i) reducing the discount rate for Sandwich Class Housing Scheme (SCHS) flats; (ii) reducing the interest rate of the top-up loans offered by the Housing Society, out of their own funds, to SCHS flat purchasers to prime minus 2.5%; and (iii) extending the interest-free repayment grace period of the top-up loans to ten years. The Administration understands well the difficult position of negative equity owners. However, as property investment is actually no different from other kinds of investment which can rise or fall in value, home owners should be aware of the risk. In assessing the relief measures proposed

by the Coalition, the Government will consider whether they are fair and whether the risk in property investment of individual owners will be transferred to taxpayers as a result.

Reduction of discount rate of SCHS flats

4. SCHS flats are sold at a discount of full market value to eligible applicants to ensure that the flats are sold at affordable prices. In its submission, the Coalition of Sandwich Class Housing suggested that the discount rate for SCHS flats should be reduced to 7% to 12% across the board. The Administration has studied the proposal but considered that SCHS flats were built on land granted at concessionary land premium and hence are heavily subsidized by the Government. It is important for the Government to ensure that these subsidised housing flats, sold at a discount of full market value, are allocated to those in genuine need. Resale restrictions, including repayment of premium based on the discount rate, are important measures to avoid abuse. Any retrospective downward adjustment of the discount rate will result in reduction in the premium to be paid to the Government by SCHS flats owners upon sale of their properties, and will inevitably involve further subsidy to the SCHS flat owners. Such changes to the discount rate will upset the spirit of contract as the discount rate is stated in the sale and purchase agreements for individual SCHS flats. Retrospective reduction of the discount rate for SCHS flats will also set an undesirable precedent and have serious implications on other subsidised housing schemes. The Administration cannot, therefore, agree to the proposal.

Reduction of interest rate of Top-up loans and extension of repayment period

5. In the light of the downturn of the economy, SCHS and Flat-For-Sale Scheme purchasers encountered difficulties in completing assignment of their flats in 1998. To assist them in home ownership, Housing Society provided top-up loans of not more than 20% of the original price of flats to assist SCHS and FFSS purchasers to complete assignment. Under this arrangement, loan recipients enjoy a five-year interest-free repayment holiday after which they are required to repay the top-up loan at prime rate (P) by a maximum of 180 monthly installments.

Taking into account the five-year interest-free repayment holiday, the effective interest rate of top-up loans is below P-2%. This is substantially lower than the prevailing mortgage rate of around P-1% offered by banks for negative equity loans refinanced at 100% loan-to-value ratio. So far, 5 199 SCHS flat owners and 336 FFSS flat owners have benefited from the top-up loans arrangement.

6. As part of its financial strategy, the Housing Society has sold a majority of its top-up loans to the Hong Kong Mortgage Corporation (HKMC) in September 2001. The funds released from the sale will be used by the Housing Society to implement new housing initiatives and ventures and to finance future top-up loans. Under the sale, the terms and conditions of the top-up loans remain unchanged. Hence, there is no impact on individual loan recipients and would not incur additional financial burden to them. At present, these top-up loans are still under the repayment holiday. The earliest repayment date is September 2003. In response to the request of the Coalition to reduce the interest rate of top-up loans and extend the interest-free repayment grace period, HKMC is prepared to consider devising debt restructuring or shortfall plans for borrowers of top-up loans should they encounter repayment difficulties after the expiry of the five-year repayment holiday in line with the practice generally adopted by banks.

Other proposed relief measures

Home Starter Loan Scheme

7. Recently, there have been public calls for assistance to loan recipients of the Home Starter Loan Scheme (HSLs) with proven financial difficulties. In response, the Administration proposes that the following relief measures should be adopted to assist HSLs loan recipients with proven financial difficulties:

- (a) to allow HSLs loan recipients to suspend loan repayment for a maximum of 12 months provided that the deferral period does not exceed the original loan repayment period;
- (b) to allow those HSLs loan recipients who wish to sell their

flats to reschedule repayments of any shortfall of the outstanding balance of HSLs loans if the sale proceeds, after repayment of their bank mortgages, cannot cover the full outstanding balance of the HSLs loans; and

- (c) to allow those HSLs loan recipients whose flats have been repossessed and sold by mortgagees to reschedule the repayment of any shortfall of the outstanding balance of HSLs loans if the sale proceeds, after repayment of the bank loans, cannot cover the full outstanding balance of the HSLs loans.

Details of these measures and the eligibility criteria are summarized at Annex.

8. It is expected that these measures will incur additional public funds since further subsidy is provided to HSLs loan recipients as a result of (i) deferred repayment of loans; and (ii) low interest rate charged on the deferred repayment loans. As an arrangement similar to proposal (c) has been adopted for beneficiaries of the Sandwich Class Housing Loan Scheme since March 2000, the Housing Bureau has already directed the Housing Society, the implementation agent of the HSLs, to proceed with this arrangement in November 2001. Subject to views from Members, the Administration will proceed to consult the Finance Committee on proposals (a) and (b) in early 2002.

Housing Bureau
Government Secretariat
November 2001

Proposed measures to assist genuine financial hardship cases under the Home Starter Loan Scheme (HSLs)

Eligibility criteria

To assist HSLs loan recipients in genuine financial hardship, the Administration proposes to introduce the relief measures detailed in the following paragraphs. To ensure that only those in genuine financial hardship are catered for and to prevent abuse, the Housing Society, the implementation agent of the HSLs, will be asked to consider each case on its individual merits. The following are the guiding principles for the Housing Society to consider in assessing the eligibility of applicants:

- (a) The applicant's current monthly income has reduced by 15% or more from the income level as stated in their Certificate of Eligibility;
- (b) The total amount of the applicant's current mortgage and HSLs loan payments exceed 50% of their current monthly income; and
- (c) The applicant has assets (excluding the mortgaged property) not exceeding say \$50 000 and have no other means to continue with the loan repayment.

Proposed measures

(a) Temporary suspension of loan repayment

2. Loan recipients satisfying the eligibility criteria in paragraph 1 will be allowed to defer monthly repayment by a maximum of 12 months provided that the deferral period does not exceed the original loan repayment period. The 12-month deferral period should be sufficiently long to assist those with temporary financial hardship to overcome their difficulties. To discourage any possible abuse, this

arrangement will be allowed once only during the entire loan repayment period. In addition, upon deferral of repayment, interest will continue to be charged on the outstanding loan amount at the rate stated in the original HSLs loan agreement. The outstanding loan and additional interests will be capitalized and repaid by equal installments over the remaining repayment period.

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

3. Flats purchased with HSLs loans are subject to resale restrictions. In the first three years, the HSLs loan recipients have to repay all outstanding loan plus a price appreciation of the flat, if any, to the Housing Society. After three years, loan recipients have to repay all outstanding HSLs loan immediately upon the sale of their flats. Under this proposed arrangement, if the sale proceeds cannot cover the full amount of the outstanding HSLs loan after repayment of bank mortgage which is the first legal charge, loan recipients satisfying the eligibility criteria in paragraph 1 will not be required to repay the full amount of their outstanding loan immediately but to reschedule their repayment with the Housing Society. Eligible loan recipients will be required to bear all related costs incurred in entering into a new loan arrangement.

(c) Rescheduling of repayment of shortfall of outstanding loan if the flats are repossessed and sold by mortgagee bank and the proceeds cannot cover the full amount of the outstanding HSLs loan after repayment of bank mortgage

4. Similar to the proposal in (ii), loan recipients satisfying the eligibility criteria in paragraph 1 will be allowed to reschedule the repayment of any shortfall of outstanding balance of the HSLs loan with the Housing Society if their flats are repossessed and sold by mortgagees and the sale proceeds cannot cover the full outstanding balance of the HSLs loan. The arrangement will help loan recipients who are willing to settle the outstanding loan to avoid bankruptcy proceedings.