

HONG KONG HOUSING SOCIETY**PAPER FOR LEGISLATIVE COUNCIL HOUSING PANEL****SECOND MORTGAGE LOAN ARRANGEMENTS
FOR SANDWICH CLASS HOUSING SCHEME OWNERS****BACKGROUND**

As property prices continued to rise in the early 90's, middle-income families not eligible for Public Rental Housing and Home Ownership Scheme found it difficult to purchase their own homes. To assist these families to do so, the Government, in 1994, invited the Housing Society (HS) to implement the Sandwich Class Housing Scheme ("the Scheme"). Under the Scheme, the HS is required to pay land premium at half of full market value for land acquisition and to use its own funds and resources to pay for construction costs of the projects. The HS is then required to sell flats under the Scheme to eligible families at concessionary prices below prevailing market prices. Since the inception of the Scheme, 10 projects totaling 8,920 units have been completed (See Appendix I).

Following the Asia financial crisis, property prices in Hong Kong began to drop in mid-1998. Flats under the Scheme that were pre-sold in 1997 were mostly completed for occupation in 1998/1999. The prevailing interest rate for mortgage loans at the time amounted to Prime Rate (P) + 1% and above. To help ease the mortgage loan repayment burden of owners, the HS initiated a 3-year interest subsidy scheme for owners of the Park Belvedere project.

With the continued decline in property prices, banks became even more cautious in granting mortgage loans. Some owners who purchased flats under the Scheme found it difficult to obtain sufficient mortgage financing. To assist such owners to obtain the necessary mortgage financing, in 1998 (starting with the Marina Habitat project), the HS offered top-up loans in the form of second mortgages. This

provided another choice for owners in addition to the 3-year interest subsidy arrangement as mentioned above. Under the terms of the second mortgage loan, borrowers enjoyed a 5-year interest free repayment holiday, thereafter, the loans would be charged interest at P with a maximum repayment period of 15 years (Please see Appendix II for a summary of the terms and conditions of the second mortgage loan). Although the interest rate was set at P, however, including the 5-year interest free repayment holiday, the effective interest rate for the whole duration of the loan was below P-2.12%. As interest rates for first mortgage loans granted by banks and the top-up mortgage loans offered by property developers at the time were generally P+1% and P+2% respectively, most owners found the terms of the second mortgage loan very preferential and this arrangement was well received by owners.

SALE OF SECOND MORTGAGE LOANS TO HONG KONG MORTGAGE CORPORATION

In order to release more capital resources to fund further mortgage loans for other unsold projects and for HS to undertake other new housing initiatives, HS sold most of the second mortgage loans (5,499 loans) to the Hong Kong Mortgage Corporation (HKMC). The sale of the second mortgage loans has no impact on the borrowers as the terms and conditions of the loan including interest rate, five-year interest free repayment holiday and the repayment period remained unchanged.

SPECIAL ARRANGEMENT FOR HARDSHIP CASES

For hardship cases, HS agreed that they should be treated sympathetically. Individual cases of genuine hardship would be considered on a case-by-case basis for rescheduling of repayment arrangements. Both HKMC and HS consider that such would be a fair way to take care of individuals under different financial circumstances and with different repayment ability.

25 April 2003

List of Sandwich Class Housing Scheme Projects

Estate (No. of units)	Date of Application (Date of Re- application)	Sales Date (Re-sale Date)	Occupation Date	Remarks
Tivoli Garden (Tsing Yi) (1,024)	01/95	04/95	01/96	
Park Belvedere (Ma On Shan) (882)	12/95 (06/99) (01/00)	04/96 (08/99) (03/00)	07/98	Upon assignment, HS provided interest subsidy to purchasers for the first 3 years
Radiant Towers (Tseung Kwan O) (704)	07/96 (01/00) (05/00)	12/96 (03/00) (07/00)	04/99	Upon assignment, HS provided second loan mortgage or interest subsidy to purchasers for the first 3 years
Marina Habitat * (Ap Lei Chau) (992)	07/96 (01/00) (05/00) (11/00-09/01)	12/96 (03/00) (07/00) (01/01-08/01)	09/98	Upon assignment, HS provided second loan mortgage or interest subsidy to purchasers for the first 3 years
Hibiscus Park (Kwai Chung) (420)	04/97 (05/00)	08/97 (07/00)	11/98	Upon assignment, HS provided second loan mortgage or interest subsidy to purchasers for the first 3 years
Sunshine Grove (Shatin) (508)	04/97 (05/00)	08/97 (07/00)	03/99	Upon assignment, HS provided second loan mortgage or interest subsidy to purchasers for the first 3 years
The Pinnacle* (Tseung Kwan O) (1,424)	04/97	08/97	04/99	Upon assignment, HS provided second loan mortgage or interest subsidy to purchasers for the first 3 years
Highland Park* (Kwai Chung) (1,456)	09/97 (11/00- 09/01)	04/98 (01/01-10/01)	06/99	Upon assignment, HS provided second loan mortgage or interest subsidy to purchasers for the first 3 years
Cascades* (Homantin) (712)	09/97 (11/00- 09/01)	04/98 (01/01-10/01)	06/99	Upon assignment, HS provided second loan mortgage or interest subsidy to purchasers for the first 3 years
Bel Air Heights (Diamond Hill) (798)	06/99 (05/00)	08/99 (07/00-08/00)	08/99	Upon assignment, HS provided second loan mortgage

* Projects with unsold units due to Government policy to suspend the sale of the subsidized flats since September 2001.

Appendix II

Summary of Terms and Conditions of the Second Mortgage Loan

1. The maximum loan amount shall not exceed 20% of the selling price of the property.
2. The 5-year interest-free repayment holiday shall be effective upon receipt of the loan. Thereafter, the loan was repaid over a maximum of 15-year period with interest at Prime.
3. An administrative fee equivalent to 5% of the loan amount will be charged for early repayment.