

HONG KONG MORTGAGE CORPORATION
PAPER FOR LEGISLATIVE COUNCIL HOUSING PANEL
SANDWICH CLASS HOUSING LOANS

BACKGROUND

The Hong Kong Mortgage Corporation

The Hong Kong Mortgage Corporation Limited (“HKMC”), a fully owned subsidiary of the HKSARG through the Exchange Fund, was established in 1997. The HKMC is a public limited company and is required by its Memorandum and Articles of Association to operate on prudent commercial principles.

2. The core businesses of the HKMC include:
 - (a) Mortgage Purchase - purchase mortgage portfolios from banks, Government bodies and related organizations (such as Housing Authority and Housing Society).
 - (b) Debt issuance - raise funds for the purchase of mortgage loans through the issuance of debt securities to institutional and retail investors.
 - (c) Mortgage-backed securitization – securitize mortgage portfolios by issuing mortgage-backed securities (“MBS”) to institutional investors.
 - (d) Mortgage insurance - provide mortgage insurance to banks to allow them to originate mortgage loans up to a loan-to-value (“LTV”) ratio of 90% without taking additional credit risk.

3. Through these core businesses, the HKMC plays an important intermediary role in the financial market by channelling funds from the debt market to the housing market and diversifying the concentration risk of mortgage loans through reinsurance arrangements.

4. The size of the HKMC’s current mortgage portfolio exceeds HK\$28 billion and is expected to increase further by HK\$15 billion in 2003. The Corporation relies heavily on the issuance of debt securities to fund its mortgage

purchases. It is currently the most active corporate issuer in the Hong Kong dollar debt market with the total amount of debt securities outstanding exceeding HK\$32 billion. Strong credit ratings are therefore vital in maintaining the Corporation's access to the capital market and its overall viability. Any departure from prudent commercial principles will adversely affect market perception on the credit-worthiness of the Corporation, resulting in a deterioration of its credit ratings and a rise in the cost of funds. Hence, all of the HKMC's transactions with banks and public bodies must be conducted on a commercial basis.

Loans originated by the Hong Kong Housing Society

5. The mortgage loans acquired by the HKMC from the Hong Kong Housing Society were originated under the Sandwich Class Housing Scheme, Flat-for-Sale Scheme and Urban Improvement Scheme. They provided supplementary mortgage finance on top of mortgages extended by banks. The key features of these loans are summarized as follows:

Year of Origination	Majority in 1998/1999
Repayment holiday	No repayment of principal and interest in the first 5 years Note: total savings in interest payments during the repayment holiday exceed 35% of the value of the loan
Mortgage rate after repayment holiday	Best Lending Rate or Prime Rate Note: taking into account the savings in interest payments due to the repayment holiday, the effective mortgage rate is Prime – 2.12%, which is lower than the prevailing mortgage rate for top-up loans of around Prime + 2% in 1998/1999 and the current mortgage rate for negative equity loans that are covered under mortgage insurance arrangements (i.e. Prime – 0.5% for loans above 130% LTV ratio)
Repayment period	15 years
Average size of loan	HK\$439,000

HKMC's acquisition of the mortgage portfolio from the Housing Society

6. The HKMC has acquired a total of HK\$2.4 billion of top-up mortgage loans from the Housing Society. The transaction was settled in two lots in September 2001 and July 2002. The portfolio was purchased by the HKMC at par value (i.e. the Corporation paid the full amount of the principal of the portfolio to the Housing Society without any discount). The transaction was undertaken and priced on the basis that the terms and conditions in the top-up loan contracts will remain intact.

Measures to help borrowers in financial difficulties

7. The HKMC adopts a sympathetic and pragmatic approach in assisting mortgage borrowers in genuine financial hardship through arranging debt restructuring on a case-by-case basis. This approach applies to mortgage loans in the Corporation's HK\$28 billion retained portfolio, including those acquired from the Housing Society. It will be contrary to prudent commercial principles for the Corporation to grant across-the-board adjustments to a particular category of borrowers without regard to their actual financial circumstances or repayment ability. To do so will have a negative impact on the Corporation's credit ratings and funding cost.

8. In respect of the top-up loans acquired from the Housing Society, the HKMC has taken the initiative of instructing its agent bank, Standard Chartered Bank, to set up a telephone hotline (which has been in operation since 22 January 2003) to handle enquiries and requests for debt-restructuring from borrowers. Individual borrowers who are facing genuine hardship may contact Standard Chartered Bank for assistance. Details of the hotline are as follows:

Hotline Number : 2282 3426

Operating Hours

Monday to Friday : 9:00 am to 5:30 pm
Saturday : 9:00 am to 12:30 pm
Sunday & Public Holiday : Closed

Up to 25 April 2003, the Standard Chartered Bank has received 12 enquiries on loan account information and procedures for loan re-structuring from the borrowers.

9. In line with the general practice of banks, the HKMC is prepared to consider requests for debt restructuring, on a case-by-case basis in conjunction with the first mortgagee banks. Involvement of the first mortgagee bank is important as the bank loan is substantially larger than the top-up loan. For individual cases of genuine hardship, the HKMC is prepared to consider the full range of relief measures commonly adopted by commercial banks such as extension of loan tenor, allowing repayment of interest only or a reduced repayment amount for an agreed period of time.

The Hong Kong Mortgage Corporation Limited
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