

Legislative Council Panel on Housing

Review of the Home Assistance Loan Scheme

Purpose

This paper briefs Members on the proposed termination of the Home Assistance Loan Scheme (HALS), which was endorsed by the Housing Authority (HA)'s Subsidised Housing Committee (SHC) on 2 June 2004.

Background

2. The HA approved in December 2002 the introduction of the new HALS to replace the then Home Purchase Loan Scheme (HPLS) and the Home Starter Loan Scheme (HSLs). The new scheme aims to provide home purchase assistance towards down payment and related expenses, in the form of interest-free loan or monthly mortgage subsidy, to those who cannot afford to buy a reasonable flat¹ in the private market. It will continue to help the HA to recover public rental housing (PRH) flats for re-allocation to needy families. The HALS was launched on 2 January 2003 with an initial quota of 10 000 loans/subsidies, equally split between Green Form (GF) and White Form (WF) applications. There are three forms of assistance², with two in the form of interest-free loans and one in the form of monthly subsidy.

3. As the total number of applications received up to September 2003 had already exceeded the 10 000 quotas approved for the HALS, SHC reviewed the quota provision for 2003/04 and the interim performance of the scheme against its objectives. Some Members had expressed concerns on the need of continuing the scheme given the findings of the interim performance and having regard to the more focused role of the HA to provide PRH flats to those in need. Pending a separate review of the HALS, on 26 November 2003 SHC agreed that the quota should be maintained at the original provision of 10 000 while the application for the HALS for 2003/04 should be closed with immediate effect.

¹ When working out the income cum asset limits and the amount of loan/monthly subsidy for HALS, reference was made to the average price of a 10-year old flat of 40m² saleable area in the extended urban cum NT area, which amounted to \$1.16 million as at 2Q 2002 or \$1.1 million as at 1Q 2004.

² The three forms of financial assistance available under the HALS are as follows -

	Family rate	Singleton rate
(1) Basic loan repayable over 20 years	\$390,000	\$195,000
(2) Higher loan repayable over 13 years	\$530,000	\$265,000
(3) Monthly mortgage subsidy for 48 months	\$3,800	\$1,900

Performance Review

4. Altogether we have received 14 268 applications under the scheme which include 6 402 (13% singletons; 87% families) GF and 7 866 (41% singletons; 59% families) WF applicants. Among the GF applications, 72% are PRH tenants and 28% are Green Form Certificate holders. Up to 31 March 2004, 7 588 loans and subsidies were granted, the number of valid Approval-in-Principle yet to be exercised was 1 117, and about 1 300 applications were being processed. The statistics of the scheme is set out in **Annex A** for reference. We believe that a majority of the remaining successful applicants would eventually join the scheme and the quota of 10 000 for 2003/04 is likely to be exhausted within the year 2004. We have also reviewed the performance of the scheme in terms of its objectives to assist those who cannot afford to buy a reasonable flat in the private market and to recover PRH flats for re-allocation to needy families. The findings of the performance review are set out in **Annex B** for reference.

Consideration

5. The HALS was introduced as a phased process to provide alternative arrangement to low-income families when the HA moved away from the role of a direct provider of homes under the Home Ownership Scheme (HOS) from 2003 onwards. At the time of promulgation, we did recognize that the provision of home purchase assistance under the HALS was a form of market intervention, and that promoting home ownership was no longer one of the HA's policy objectives. We had therefore indicated that we would review the merits of continuing the scheme in due course. The recent improving market sentiments and a highly competitive mortgage finance market coupled with very low interest rates have provided a good opportunity for the HA to review the scheme and decide on the way forward.

6. The scheme appears to have served its purpose as seen by the number of applications submitted. It has provided a form of assistance for applicants to acquire home ownership and has led to the return of some PRH flats for allocation. However, the assistance may not necessarily fall into those who need the loan for down payment and those who cannot afford to purchase 'a reasonable flat' in the private market. Even more importantly, home ownership promotion is no longer our policy objective.

7. Against the repositioned policy of providing rental housing to low-income families, minimizing market intervention and maintaining a fair and stable operating environment, we consider the proposed termination of the HALS a move in the right direction to align with the overall housing strategy as follows -

- (a) as home ownership promotion is no longer one of the HA's policy objectives and priorities, the operation of the scheme to facilitate low-income families to acquire home ownership is not consistent with the overall HA's re-positioned policy. To terminate the scheme will enable the HA to concentrate the limited resources on its more focused role of providing PRH flats to those in need; and
- (b) the provision of home purchase assistance under the HALS is a form of market intervention. The proposed termination of the scheme will demonstrate a further withdrawal from the property market after withdrawing from the direct provision of subsidised sale flats and enable the HA to re-affirm a clear and coherent re-positioned policy.

8. For each loan/subsidy case under the scheme, it involves a subsidy of around \$170,000 at net present value provided by the HA. In addition, there are administrative costs and default risk over the term of the loans. The proposed termination of the scheme will relieve the HA from heavy financial burden. The HA will withdraw from allocating the already limited resources in promoting home ownership which is not the policy objective of the HA.

9. In terms of impact on low-income families, the proposed termination of the scheme may affect their desirability for home ownership and the mobility of PRH tenants. We consider that the decision of home ownership should be left to the market, and not swayed by government intervention with the provision of loan scheme. The findings of the performance review has revealed that there has been an abundant supply of very attractive and competitive loan packages available to home buyers as provided by the banks. Most of the potential HALS applicants should have no practical difficulty to seek affordable mortgage loans to finance their home purchase even without the home purchase assistance under the scheme. Those families aspiring to become home owners could resort to mortgage finance in the market, relieving the HA from performing the role of commercial banks and interfering in the private market for mortgage financing.

10. With the cessation of HOS sale, the HALS becomes one of the major channels for recovery of PRH flats from sitting tenants. The performance review has revealed that the scheme has provided a channel to recover some PRH flats from GF applicants, though the appeal of the scheme to better-off households as an exit channel has not been very effective. In this respect, we have a task force in place to prevent abuse of public housing resources. Moreover, sitting tenants can continue to purchase flats in the HOS secondary market for which no payment of premium is required, whereby they are required to surrender the PRH flats to the HA after the purchase.

Proposed Termination of HALS

11. Promoting home ownership is no longer one of the HA's policy objectives and priorities and it is the HA's repositioned policy of withdrawing from the residential property market. Termination of the loan scheme will re-affirm a clear and coherent message of minimizing market intervention and focusing on the provision of PRH flats to those in need. This will also enable the HA to withdraw from performing the role of commercial banks and interfering with the banking sector in providing loan facilities to flat purchasers with the use of public funds. The current timing is appropriate given the favourable mortgage finance in the market. In view of these factors, the HA's Subsidised Housing Committee, at its meeting on 2 June 2004, endorsed the proposal to terminate the HALS. Nonetheless, we will continue to process all the remaining applications that have already been registered.

Impact on Private Residential Market

12. We have considered the possible implications of the proposed termination of the scheme on the private housing market. Among the 7 588 loans and subsidies granted, about 23% of the recipients purchased flats under the HOS Secondary Market Scheme, 53% purchased second-hand flats in the private market and 24% purchased new flats in the private market. Taking into account that the scheme has only constituted about 5.7% of the average monthly residential property transactions³, the overall impact on the private housing market as a result of the proposed termination of the scheme should be minimal.

³ For a period of 6 months in the second half of 2003/04, the average number of sale and purchase agreements for residential properties registered in the Land Registry is about 8 794 per month. The number of loan/subsidy granted under the HALS is about 500 per month, which has constituted about 5.7% of the total number of residential property transactions.

13. Coupled with strengthening economic prospects and supported by a general bullish market sentiment, there have been signs of increased activities in the private housing market. We consider that the proposed termination of the scheme would not bring about adverse impact on the active residential property market.

Housing Department
June 2004

Statistics on Home Assistance Loan Scheme (HALS)
(as at 31.3.2004)

Breakdown of HALS Applications (from 2.1.2003 to 31.3.2004)

	GF			WF			Total		
	S	F	T	S	F	T	S	F	T
No. of applications	822	5 580	6 402	3 242	4 624	7 866	4 064	10 204	14 268
No. of valid AIPs	73	566	639	206	272	478	279	838	1 117
No. of applications being processed	436	632	1 068	95	137	232	531	769	1 300
No. of loans granted	99	980	1 079	1 084	1 638	2 722	1 183	2 618	3 801
No. of subsidies granted	192	2 186	2 378	380	1 029	1 409	572	3 215	3 787
Total No. of loans/subsidies granted	291	3 166	3 457	1 464	2 667	4 131	1 755	5 833	7 588

Legend : S – Singleton applicants
F – Family applicants

Use of HALS Loans

	GF	WF	Total
No. & % of HALS loans used towards payment of balance of purchase price	965 (25.3%)	2 492 (65.6%)	3 457 (90.9%) ^{Note 1}
No. & % of loan recipients purchasing flats at a price above \$1.16M	463 (12.2%)	1 045 (27.5%)	1 508 (39.7%) ^{Note 1}
No. & % of subsidy recipients purchasing flats at a price above \$1.16M	745 (19.7%)	553 (14.6%)	1 298 (34.3%) ^{Note 2}

Note 1 Out of a total of 3 801 loan cases

Note 2 Out of a total of 3 787 subsidy cases

Performance Review of Home Assistance Loan Scheme (HALS)

Provision of Assistance

1. The banks have continued to render highly competitive residential mortgage loan packages to home buyers in the market as follows -

(a) Down payment : Adopting the reference flat price of \$1.1 million¹ and assuming a mortgage loan of 70% of flat price, the remaining 30% down payment is \$330,000. Additionally, through mortgage insurance programme, residential mortgage loans of up to 90% of the purchase price can be obtained in the market; and

(b) Mortgage repayments : Given the current low mortgage rate, the monthly repayment for a bank loan at 70% of the flat price of \$1.1 million is about \$4,080². In addition to the availability of mortgage loans at low interest rate (about 2.5% below prime rate), some banks offer attractive mortgage loans with interest rate fixed for the first year or up to the third year to redress the concerns of those home owners who are wary of a possible upturn in interest rates.

2. The choice of subsidy by the HALS recipients and their use of loans/subsidies under the scheme are summarised as follows -

(a) Among the 7 588 loans and subsidies granted, about 50% (31% GF; 19% WF) of HALS recipients had opted monthly subsidy, while the remaining 50% (14% GF; 36% WF) recipients had opted interest-free loans. About 91% (25% GF; 66% WF) of the loan recipients used the HALS loan towards payment of the balance of the purchase price; and

¹ When working out the income cum asset limits and the amount of loan/monthly subsidy for HALS, reference was made to the average price of a 10-year old flat of 40m² saleable area in the extended urban cum NT area, which amounted to \$1.16 million as at 2Q 2002 or \$1.1 million as at 1Q 2004.

² Based on the assumption of a mortgage loan of \$770,000 repayable over 20 years at a mortgage rate of 2.5% per annum, the mortgage repayment is calculated at \$4,080 per month.

- (b) About 37% (16% GF; 21% WF) of the HALS recipients have bought flats at a price above \$1.16 million¹, the average price of the reference flat as at 2Q 2002.

Recovery of PRH Flats

3. Up to 31 March 2004, only 540 better-off households (including 14 market-rent payers) applied for the HALS, representing about 3.9% of the current 13 850 better-off households (including 111 market-rent payers). Out of 3 457 loans and subsidies granted to GF applicants, 2 774 come from sitting tenants (including 354 better-off households) who have to surrender their existing PRH flats. The other 683 come from Green Form Certificate holders who are required to give up their right to PRH allocation upon their acquiring a flat under the HALS.