

Legislative Council Panel on Housing

Mortgage Arrangements for Home Ownership Scheme Flats

Purpose

This paper aims to brief Members on the mortgage arrangements for the Home Ownership Scheme (HOS) flats of the Hong Kong Housing Authority (HA).

Background

2. When the HOS was introduced some 30 years ago, it was a new form of subsidised housing and there was no precedent of banks and authorised financial institutions providing mortgages for these flats. To encourage banks and authorised financial institutions to provide mortgage loans and better mortgage terms for buyers of HOS flats, the HA provides a mortgage default guarantee for the banks and authorised financial institutions participating in the provision of mortgage loans for HOS flats (the participating institutions). Under this guarantee, the HA undertakes to meet the shortfall in repayment in the event of the borrower's default for a period of not more than 25 years from the date of the first deed of assignment of the HOS flat concerned. This guarantee applies not only to the first transaction of HOS flats, but also to HOS flats sold in the HOS Secondary Market introduced in 1997 (payment of premium to the HA prior to sale is not required for these flats). However, it does not apply to flats sold in the open market after payment of premium to the HA. The mortgage default guarantee periods of various HOS courts are shown below:

	Mortgage Default Guarantee Period	
	First Transaction	Transaction in HOS Secondary Market
Phase 8A (1985) and before (51 courts, about 69 800 flats)	15 years	25 years from the date of the first deed of assignment
From Phase 8B (1986) to Phase 18C (1996) (99 courts, about 160 700 flats)	20 years	
Phase 19A (1997) and thereafter (47 courts, about 83 800 flats)	25 years	

3. Taking into account the general practice of the mortgage market for private property, the affordability of the HOS applicants in general and the need to control the risk borne by the HA at a particular level, the HA currently requires that the mortgage repayment period offered by a participating institution for an HOS flat covered by the mortgage default guarantee should be capped at 25 years.

Present position

4. The HOS Secondary Market Scheme has been operating smoothly since its introduction. The Housing Department (HD) has so far recorded over 24 000 transactions. As at 31 March 2007, the total amount of the outstanding mortgage loans covered by the HA's mortgage default guarantee was \$51.2 billion. A breakdown is as follows:

	Outstanding Mortgage Amount	Number of Mortgage Cases Involved	Average Outstanding Mortgage Amount per Case
Flats sold under the HOS	\$45.241 billion	91 624	\$ 494,000
Flats sold under the HOS Secondary Market Scheme	\$6.001 billion	17 505	\$ 323,000

5. As at 31 March 2007, the HA has paid more than \$700 million to meet the shortfall in repayment of mortgage loans in respect of flats sold under the HOS and the HOS Secondary Market Scheme. The details are as follows:

	Total Amount Paid by the HA	Number of Mortgage Default Cases	Average Amount of HA's payment per Case
Flats sold under the HOS	\$563 million	2 346	\$ 240,000
Flats sold under the HOS Secondary Market Scheme	\$210 million	725	\$ 290,000

Provision of mortgage loans for HOS flats by participating institutions

6. Recently, it has come to the HD's notice that some participating institutions had advised prospective purchasers of surplus HOS flats or HOS Secondary Market flats that they could only grant mortgage loans with repayment periods not longer than the remainder of the HA's mortgage default guarantee period. The fact, however, is that the HA does not require that the mortgage repayment period should co-terminate with the guarantee period. For example, when a participating institution offers a mortgage for an HOS flat purchased from the HOS Secondary Market for which the mortgage default guarantee is to expire in five years' time, it may still offer a mortgage repayment period of a maximum of 25 years, though only the first five years will be covered by the HA's mortgage default guarantee.

7. The HD wrote to all participating institutions in early October 2007 to clarify that the restriction on mortgage repayment period is not related to the expiry date of the mortgage default guarantee period, and call on the participating institutions to offer appropriate mortgage repayment periods based on the merits of individual applications. The HD understands that in the 2007 Phase 2 sale of surplus HOS flats, there were a number of transactions of returned HOS flats with mortgage default guarantee periods expiring in about 15 years, and the participating institutions still offered the buyers of these flats mortgage loans with repayment periods of 25 years.

Conclusion

8. When the HOS was first introduced, the HA, in order to build up the industry's confidence in the scheme, provides a mortgage default guarantee to encourage the participating institutions to offer mortgages to HOS flat buyers. After many years of operation, the mortgage market has established confidence in the HOS. The HOS Secondary Market Scheme has been operating smoothly since its introduction in 1997. We are not aware of any information suggesting that buyers of various types of HOS flats have failed to obtain appropriate mortgages according to their own circumstances simply because the mortgage default guarantee periods for the flats concerned are less than 25 years.