

## Legislative Council Panel on Housing

### Mortgage Arrangements for Home Ownership Scheme Flats

#### Reply to Hon LEE Wing-tat's Question

**(I) Terms of mortgage default guarantee for HOS flats and its publication**

The letter from the Housing Department (HD) to the banks and authorised financial institutions participating in the provision of mortgage loans for Home Ownership Scheme (HOS) flats (excluding those sold in the open market after payment of premium to the Housing Authority (HA)) (the participating institutions) dated 2 October 2007 is at **Annex I**.

All along the HD has explained to purchasers of flats under the HOS Secondary Market Scheme (SMS) the maximum repayment period that participating institutions may offer and the related mortgage terms, and reminded them that the final mortgage terms would depend on the final agreements between the purchasers and the participating institutions.

**(II) Information on mortgages for flats purchased under the Secondary Market Scheme**

The maximum repayment period for purchasers of flats under both the HOS and the HOS SMS is 25 years. According to HD's record, the number of cases of mortgages offered by participating institutions for HOS SMS flats in the past three years is as follows:

**Mortgages for HOS SMS flats**

<b>Year</b>	<b>Number of mortgage cases</b>
2005	1 322
2006	1 267
2007(as at October)	1 441
<b>Total</b>	<b>4 030</b>

The repayment period for an HOS flat is part of the commercial agreement between the participating institution and the mortgagor. The HD is not in a position to compile statistics in a systematic way.

**(III) Payment by HA under the mortgage default guarantee**

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 SMS. The details are as follows:

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

**(IV) Proposed extension of the mortgage default guarantee period for the HOS Secondary Market**

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 SMS 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. The HA has no plan at this stage to change the current arrangement concerning the mortgage default guarantee period for HOS flats.

**(V) Breakdown of transactions of HOS flats over 15 years of ages in the Secondary Market**

The volume of transactions in the HOS Secondary Market is influenced by a number of factors, such as the economic situation at different times, the condition of the real estate market, the variation of interest rate, the maintenance conditions and locations of the flats sold in the Secondary Market, etc.

In the past ten years, the number of transactions of HOS flats over 15 years of age in the HOS Secondary Market is tabulated as follows :

<b>Year</b>	<b>Transactions Recorded</b>	<b>Percentage of the Total Number of Transactions in the HOS Secondary Market (%)</b>
1997	2	0
1998	14	1
1999	113	3
2000	131	5
2001	165	6
2002	213	10
2003	237	10
2004	143	7
2005	107	7
2006	165	10
2007	248	10



Our Ref.: L/M (10) in HD(S)HR12/1/8

2 October 2007

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Dear Sir/Madam,

**Provision of Mortgage Finance to  
Purchasers of Home Ownership Scheme (HOS) Flats  
in the Primary and Secondary Markets  
Deed of Guarantee (DOG)**

In order to assist HOS flat purchasers to obtain favourable mortgage loans, the Housing Authority (HA) provides a deficiency guarantee to participating financial institutions for the shortfall in mortgage default cases. I thank you once again for participating in the mortgage financing for the sale of the HA's surplus HOS flats.

Recently before the commencement of the current Phase 2 sale exercise, it has come to our notice that some of the participating banks have expressed that they might only grant a mortgage term co-terminating with the HA's guarantee period, ie. 25 years from the date of the first assignment of individual HOS flats. For returned flats cases, this may mean a mortgage term of less than 25 years.

You will appreciate that it is always the intention of HA to assist the HOS flat purchasers to obtain favourable mortgage terms for the purchase.

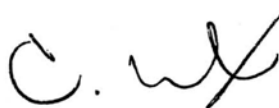
To balance the interest of the participating financial institutions, we have in the DOG extended the maximum repayment period of the mortgage to 25 years to reduce the risk of mortgage default.

We would also like to clarify that Clause 2.2(d) of the DOG only restricts the mortgage term not to exceed 25 years. It is, however, not our requirement nor our intention to confine the mortgage term to co-terminate with the guaranteed period. This is also the case for the Guarantee in respect of the Secondary Market Scheme. Whilst we are respectful to the business decisions of individual participating financial institutions on the tenor of the mortgage term, we hope you will understand that the purpose of our provision of the guarantee for HOS flats is to encourage financial institutions to make loans to HOS flat purchasers and to give an incentive to participating financial institutions to offer mortgage terms to best suit our purchasers.

We therefore sincerely hope that in deciding on the tenor of the mortgage term for the HOS flat purchasers, you can consider all relevant factors other than just having regard to the guarantee by the HA as you will so consider for mortgages other than those for HOS flats.

Thank you for your attention in this matter. Should you have any queries, please feel free to contact Miss Rosaline WONG at 2761 7278.

Yours faithfully,



(Albert K W LEE)  
for Director of Housing

## **Bank Name**

1. AIG Finance (Hong Kong) Limited
2. China Construction Bank (Asia) Corporation Limited
3. Bank of China (Hong Kong) Limited
4. Bank of Communications Co. Ltd. Hong Kong Branch
5. Chiyu Banking Corp., Ltd.
6. Citic Ka Wah Bank
7. Dah Sing Bank, Ltd.
8. DBS Bank (Hong Kong) Limited
9. Fubon Bank (Hong Kong) Ltd.
10. Hang Seng Bank Limited
11. Inchroy Credit Corporation Limited
12. Industrial & Commercial International Capital Ltd.
13. Industrial and Commercial Bank of China (Asia) Limited
14. Chong Hing Bank Ltd.
15. Mevas Bank, Ltd.
16. Nanyang Commercial Bank, Limited
17. Public Bank (Hong Kong) Limited
18. Shanghai Commercial Bank Ltd.
19. Standard Chartered Bank (Hong Kong) Ltd.
20. The Bank of East Asia, Limited
21. The Hongkong and Shanghai Banking Corporation Ltd.
22. Wing Hang Bank
23. Wing Lung Bank Ltd.
24. Wing Lung Finance Limited
25. ABN AMRO Bank N.V.
26. BII FINANCE COMPANY LIMITED
27. China Construction Bank (Asia) Ltd.
28. Chong Hing Finance Ltd.
29. Citibank (Hong Kong) Limited
30. Hang Seng Credit Limited
31. Hang Seng Finance Limited
32. HKCB Finance Limited
33. Nanyang Finance Company Limited
34. ORIX Asia Limited
35. ORIX International Finance Limited
36. United Overseas Bank Ltd.