

Panel on Financial Affairs

Meeting on 1 March 2010

List of follow-up actions

Hong Kong Mortgage Corporation

3 In relation to Hon Regina IP's concern about the operation of the Hong Kong Mortgage Corporation Limited (HKMC), the HKMC is requested to provide information on –

(a) the business projections for HKMC conducted by the Hong Kong Monetary Authority prior to the establishment of HKMC, and how the actual business situation of HKMC compares with those projections; and

(b) whether HKMC would consider providing reverse mortgage service, and if so, details of the relevant work plan.

Response:

Part (a)

1 The Hong Kong Monetary Authority (HKMA) proposed in 1996 the establishment of the HKMC to provide liquidity to banks to help reinforce banking stability and promote homeownership.

2 The proposal was included in a consultation document titled *Mortgage Corporation Proposal* that was circulated to the Panel on Financial Affairs on 15 April 1996. In connection with the objective of promoting homeownership, the study considered a scenario that assessed the potential demand for mortgage finance if the home ownership ratio in Hong Kong continued to rise to the level in the USA or the UK. The projection was based on crude working assumptions on the trend growth of nominal GDP, the supply of mortgage loans by banks and the demand for mortgages. The result showed that under that scenario, there could be a substantial shortfall in mortgage finance. The projection was not intended to be business projections for the HKMC.

3 Following the establishment of the HKMC in March 1997, the onset of the Asian Financial Crisis in mid-1997 saw a substantial fall in the property market turnover, with the local property price plummeting by around 45% within two years and correcting further until 2003 when it was nearly 70% below the mid-1997 price level. The HKMC duly played its liquidity role and made a substantial purchase of HK\$11.5 billion of mortgages from banks in 1998 and made further purchases afterwards. But the banks' liquidity needs shrank substantially due to the market corrections.

4 In the light of the changed market conditions, the HKMC continued to refine its business strategy to achieve the objective of promoting homeownership. Since 2001, the Corporation has purchased a total of HK\$44 billion of mortgage loans from the Government and its housing agencies (the Hong Kong Housing Authority and Hong Kong Housing Society) to help refinancing their housing programmes.

5 In 1999, the HKMC launched the Mortgage Insurance Programme (MIP) to help aspiring homeowners to acquire residential mortgages by substantially reducing their down payment burden as the programme enabled banks to raise the loan-to-value ratio from 70% to 95%. The MIP was well received by the banks and homebuyers. To date, the MIP has helped over 70,000 families realising their dream of homeownership, with mortgage loans totalling HK\$142 billion. The average MIP loan size is HK\$2.1 million, which demonstrates the MIP's role in assisting mainly first-time homebuyers to purchase their home.

Part (b)

6 The HKMC is considering the feasibility of reverse mortgage product and the demand in Hong Kong. The product is quite complex and the HKMC needs to draw on international experience and examine the local conditions to ascertain if there is a viable case for introducing reverse mortgage product in Hong Kong. The study is on-going.