

CB(1)1122/09-10(01)

**Hong Kong Mortgage Corporation  
("HKMC")**

**Visit of  
LegCo Panel On Financial Affairs**

8 February 2010

## **Role of the HKMC**

- To promote Hong Kong's banking and financial stability by offering a reliable source of liquidity to banks via asset acquisition
- To promote wider home ownership in Hong Kong through the Mortgage Insurance Programme
- To facilitate the growth and development of debt and mortgage-backed securities markets in Hong Kong

## **Corporate Governance**

Shareholders	<ul style="list-style-type: none"><li>• The Financial Secretary, as Controller of the Exchange Fund, beneficially owns all the shares of the HKMC</li></ul>
Board of Directors	<ul style="list-style-type: none"><li>• Provides leadership and effective control on the HKMC's development policy, business performances and financial results</li><li>• Clear division of responsibilities between the Board and the executive functions of Management team</li></ul>
Audit Committee	<ul style="list-style-type: none"><li>• Plays a central role in assisting the Board to fulfil oversight responsibilities and appoints the Chief Internal Auditor to assist the Committee to conduct periodic reviews on internal control framework, monitoring procedures and accounting operations</li></ul>

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## Comparison of HKMC with US Agencies

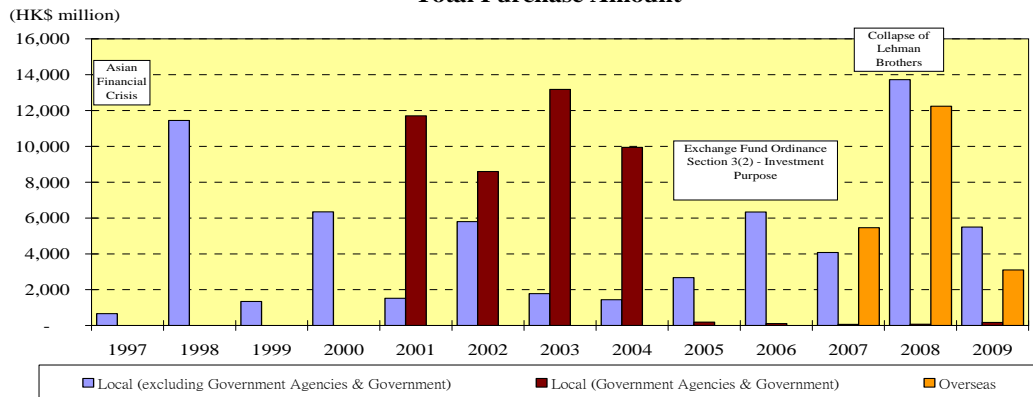
	The HKMC	Fannie Mae / Freddie Mac
<i>Ownership and Business priority</i>	Full government ownership aiming at financial stability over profitability	Listed companies pursuing profit maximization
<i>Business Model</i>	Deal-by-deal basis with critical assessment of credit quality	Originate-and-sell business model
<i>Risk Appetite</i>	Prudent eligibility criteria, underwriting standard and premium pricing	Purchase subprime mortgages
<i>Capital Structure (at end-07)</i>	Prudent capital structure with 7.4x gearing ratio	Highly leveraged capital structure with 66x and 79x gearing ratios respectively
<i>Asset Quality of Residential Mortgage Loans (at Nov-09)</i>	Low delinquency ratio (> 90 days) of 0.08%	Delinquency ratio (> 90 days) of 5.3% and 3.7% respectively

## **Prudent Business Development Strategy**

- Scope of business development and investment policies approved by the Board of Directors
- All business activities fully compliant with Sections 3(1A) and 3(2) of the Exchange Fund Ordinance
- All business development and investment projects reported regularly to the Board of Directors and published in the annual reports

# Asset Acquisition to Provide Liquidity

## Total Purchase Amount



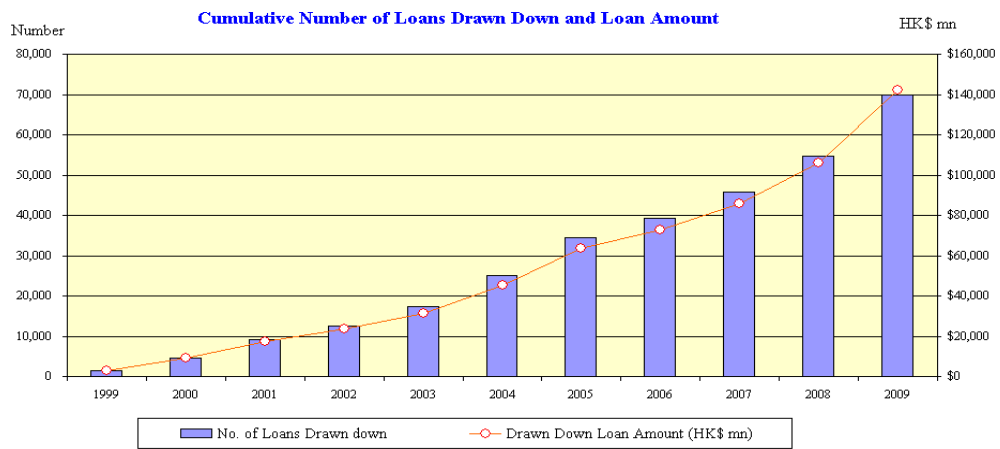
### Normal times:

- Facilitate banks' balance sheet management, enhance liquidity and capital adequacy and reduce concentration risk

### In times of crisis:

- Asian Financial Crisis: HKMC purchased HK\$11.4 billion of mortgage loans in 1998
- Global Financial Tsunami: around HK\$30 billion of mortgage loans were offered by banks and HKMC eventually bought HK\$11.5 billion in late 2008 as market conditions improved
- Important source of emergency liquidity welcomed by banks as no stigma attached

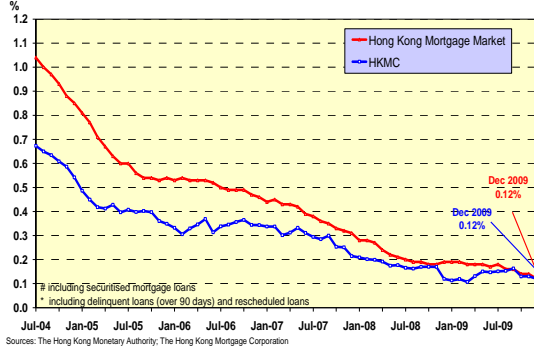
# Mortgage Insurance to Promote Homeownership



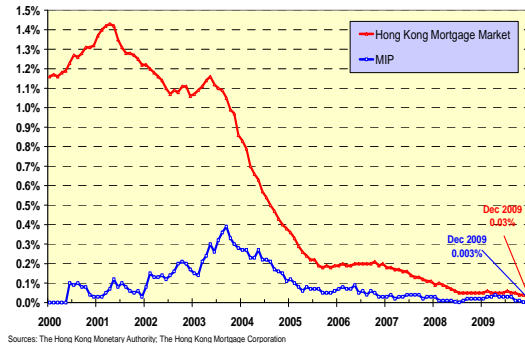
- Since 1999, over 70,000 families enjoyed homeownership with the help of the HKMC's Mortgage Insurance Programme (MIP), with loan drawdown totalling over HK\$144 billion.
- MIP usage rate: 1999: 3%  
2009: 18%
- Average MIP drawdown loan size of HK\$2 million, benefiting first-time homebuyers in particular.

# Excellent Credit Performance

Comparison of Combined Ratio\* between HKMC's Retained Mortgage Portfolio<sup>#</sup> and Hong Kong Mortgage Market



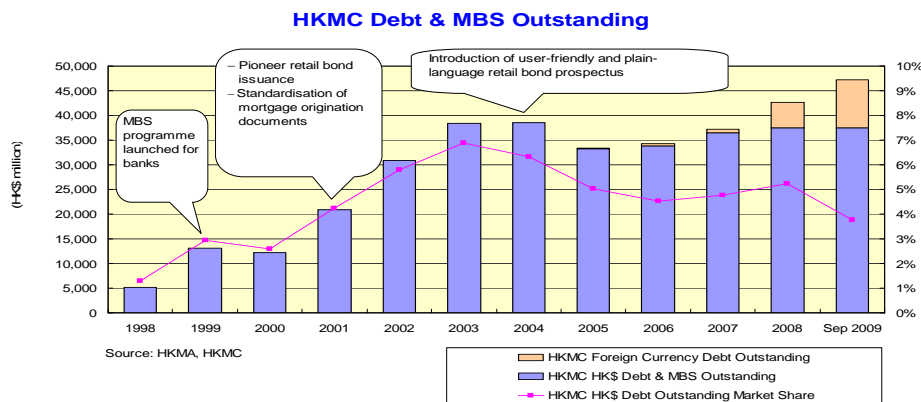
Comparison of Delinquency Ratio between HKMC's MIP Portfolio and Hong Kong Mortgage Market (over 90 days)



- For retained portfolio, low delinquency plus rescheduled loan ratio of 0.12%, same as 0.12% for the market.
- For MIP, low 90-day delinquency ratio of 0.003%, compared to market average of 0.03%.
- HKMC's stringent mortgage underwriting criteria help to maintain banks' mortgage portfolio quality.



## HKMC's Role in Promoting the Debt Market Development



- HKMC takes an active role in promoting the debt market development through pioneering the retail bond issuance, standardisation of mortgage origination and MBS documents
- No crowding out as HKMC's outstanding HKD debt is HK\$37.4 billion, representing around 3.8% of total HKD debt market of HK\$992.5 billion

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### Mortgage-backed Securitisation (MBS)

- Mortgage loans can be easily converted into liquid asset
- MBS can reduce the risk weighting

### Model Documentation

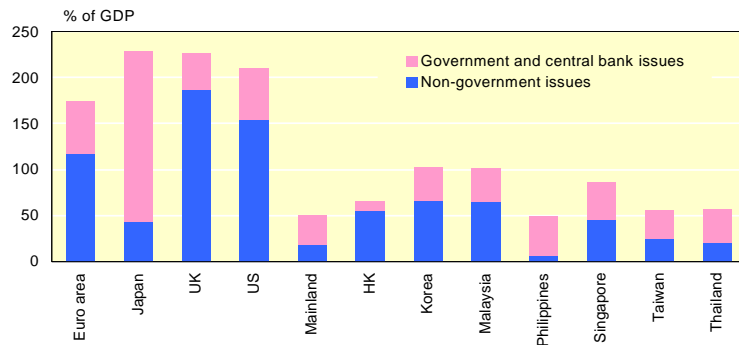
- Model Two-party Mortgage / Model Three-party Mortgage
- Model Deed of Guarantee and Indemnity
- Recommended Core Provisions for Mortgage Loan Application Form
- Recommended Core Provisions for Facility Agreement
- Model Instructions to Solicitors
- Model Solicitors' Completion Certificate

### Issue Prospectus

- Introduction of user-friendly and plain-language retail bond prospectus for investors' thorough review before making their investment decisions

## Hong Kong has Room to Further Develop the Debt Market

### Outstanding amount of debt securities (end-2008)



Sources: HKMA and BIS

- A well-developed local bond market serves as another channel for financial intermediation, complementing the equity market and the banking system
- But HKD debt market is smaller than that of Asian countries and other developed countries. HKD debt market as a proportion of GDP at around 65% (developed market: 150% to 200%; Singapore / Korea / Malaysia: around 100%)
- More high-quality issuers are necessary to meet the growing HK\$ debt market demand from MPF, pensions and insurance companies (HK\$ debt market grew by 149% since 1998)

## **Business Diversification**

- The HKMC's business diversification is pursued following the strategy business review approved by the Board in 2006
- The HKMC's overseas businesses will not change its critical policy role in Hong Kong as liquidity provider to the banking system, especially during times of financial stress
- The business diversification strategy strengthens HKMC's financial position and operational efficiency to execute its policy roles in Hong Kong more effectively

## **Mortgage Purchase in Korea**

- Purchase of Korean mortgages represent prudent and profitable investment; excellent asset quality & no loss incurred so far
- A prudent approach in limiting risk exposure:
  - Purchase of mortgage loans with weighted average current loan-to-value (LTV) ratio around 50% to 60%
  - Stringent Eligibility Criteria on asset quality
  - Purchases in the form of MBS with top credit rating
  - Hedging through currency and interest rate swaps
  - Credit enhancement with substantial credit cushion
- Other risks such as market risk, legal risk, regulatory risk etc, together with appropriate risk-mitigating measures, are duly analysed and managed within the overall risk management framework approved by the Board

## Outlook

The HKMC will continue:

- to be a critical liquidity provider to promote banking and financial stability;
- to promote homeownership for the household of Hong Kong through enhancement of MIP; and
- to maintain high benchmark for mortgage quality at banks through the HKMC's stringent mortgage purchasing criteria and underwriting criteria of MIP.

END OF PRESENTATION

THANK YOU