

Panel on Financial Affairs

Reply to Letter from Hon Mrs Regina IP LAU Suk-ye, GBS, JP

Below please find the information of the Hong Kong Mortgage Corporation (HKMC) in response to the questions raised by Hon Mrs Regina Ip Lau Suk-ye in her letter dated 5 August 2010:

ABOUT THE HKMC'S ANNUAL REPORT FOR 2009

(a) *Korean Mortgage-backed Securities (MBS): on page 21 HKMC mentioned it purchased HK\$3.1 billion Korean MBS in financial year 2009. So what is the total amount of Korean MBS has HKMC purchased since inception, and how much of them are still outstanding? Has HKMC assessed whether the growing geopolitical tension on the Korean peninsula would increase the risks of holding such securities?*

(a) The HKMC has purchased a total of HK\$20.8 billion of residential mortgage loans in Korea in the form of mortgage-backed securities ("Korean MBS") since 2007. The outstanding balance at the end of 2009 was HK\$15.4 billion (page 48 of the Annual Report for 2009).

The quality of the Korean MBS has been excellent, with no loss incurred so far. It is expected that the HKMC's risk management measures, in the form of credit enhancement and currency and interest rate hedging, together provide a substantial cushion to withstand volatility in the markets, including shocks that might arise from the geopolitical tension on the Korean peninsula.

(b) *Joint venture in Shenzhen (Bauhinia HKMC): has HKMC invested further in this entity since the initial RMB\$90 million? And what business has the Bauhinia HKMC conducted since start-up?*

(b) The HKMC has not made additional investments in Bauhinia HKMC since the initial capital injection of RMB90 million in 2009. The joint venture company provides short-term bridging guarantee of residential mortgage loans in Shenzhen.

(c) *Joint venture in Malaysia (Cagamas HKMC Berhad): has HKMC invested further in this entity since the initial HK\$115 million? And what business has the Cagamas HKMC Berhad conducted since start-up?*

- (c) The HKMC has not increased its investment in Cagamas HKMC Berhad since the initial capital injection of 50 million Malaysian Ringgit in 2008. The joint venture operates a guarantee programme for mortgage loans in Malaysia.
- (d) ***Refinements of Mortgage Insurance Programme (MIP): on page 26 it is mentioned that “With new access to the consumer credit data held by the credit reference agency, TransUnion Limited, the Corporation further expanded the scope of [Risk-based Pricing Scheme] RBPS...” Can HKMC explain how RBPS operate and its advantages? And why does HKMC need to proactively tap into consumer credit data for MIP, as even without access to TransUnion data, relevant banks would still submit sufficient MIP applicants’ credit data to HKMC?***
- (d) Risk-based Pricing Scheme (“RBPS”) enables the HKMC to better relate the premium level to the credit risk of individual applicants under the Mortgage Insurance Programme (“MIP”). RBPS considers a number of credit related information of the applicants, including information contained in the TransUnion credit report, in arriving at a view on the risks associated with the MIP applicants.

The HKMC obtains prior written consent of the MIP applicants before accessing their TransUnion consumer credit data information to make a proper credit assessment. The banks are not allowed to pass the relevant TransUnion credit information to the HKMC.

ABOUT THE PREMIUM LOAN GUARANTEE SCHEME

- (e) ***Separately, according to some media reports in recent weeks, HKMC is planning to insure Home Ownership Scheme’s (HOS) land premium payment with an “installment plan”. Please provide details of this scheme and HKMC’s assessment on how this scheme would affect the housing price of HOS Secondary Market, and whether HKMC has any plans to prevent speculation or even a “bubble”.***
- (e) The HKMC plans to launch the Premium Loan Guarantee Scheme (“PLGS”) in September 2010 to complement the Government’s initiative to revitalise the Home Ownership Scheme (“HOS”) Secondary Market. The PLGS assists HOS owners who wish to take out a bank loan to pay for the premium due to the Hong Kong Housing Authority. The HKMC provides guarantee for the portion of the second mortgage loan that is over the 70% combined current loan-to-value ratio. HOS owners are required to pay an annual guarantee fee for a maximum of three years.

The PLGS is unlikely to fuel speculation or create an asset bubble for HOS flats, as the objective is merely to assist more HOS owners to pay for the premium

before actual sale of the property. Over time the arrangement may facilitate the development of a more active HOS Secondary Market.

ABOUT REVERSE MORTGAGE

- (f) *Last but not least, Mr. Norman CHAN, Chief Executive of the Hong Kong Monetary Authority (HKMA) briefed Members at the Special Panel Meeting of 20 May 2010 that HKMC has been conducting feasibility study on reverse mortgage. What is the progress of the study?*
- (f) The Corporation has conducted several focus group sessions to gather views on the reverse mortgage concept. We are contemplating a market survey to gauge market opinions on the introduction of such a product in Hong Kong.