



葉劉淑儀議員辦事處  
Office of Hon. IP LAU Suk Yee, Regina

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27 November 2009

Hon CHAN Kam-lam, SBS, JP  
Chairman, Panel on Financial Affairs  
Legislative Council  
8 Jackson Road  
Hong Kong

*Dear Kam Lam*

**Hong Kong Mortgage Corporation (HKMC)**

Thank you for putting HKMC on the agenda of the Panel meeting of 2 November 2009, at which we had some constructive discussion. Yet as Members of the Legislative Council, we have a duty to investigate further whether taxpayers' money has been spent properly in accordance with stringent due diligence standard.

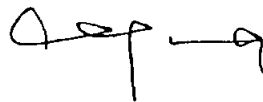
For that purpose, I request that Mr. Peter PANG, Deputy Chief Executive of Hong Kong Monetary Authority (HKMA), and Mr. James LAU, Chief Executive Officer of HKMC, be invited again to the Panel meeting on 4 January 2010 to continue our discussion on the role of HKMC. To facilitate our understanding of HKMC's operations, I would be grateful if you could seek answers to the following questions:

1. HKMC's operating cost:
  - a. What is the operating overhead of HKMC? Could HKMC provide detailed breakdown into staff cost, accommodation, finance charge etc;
  - b. Is its office at Two International Finance Centre the property of the HKMA? If yes, does HKMC occupy the office for "free", or rent it from HKMA and on what terms?
  - c. Does it maintain any other office than above mentioned?
2. HKMC's staff compensation:
  - a. What is the total number of employees?
  - b. Are they hired from the private sector, or seconded from the HKMA?

- c. Could HKMC provide details of the compensation package of its management team (Chief Executive Officer, Senior Vice Presidents, etc), including detailed breakdown into monthly base salary, annual performance-based bonus, end of contract gratuity, housing allowance, and other fringe benefits such as medical insurance?
  - d. Para. 17 of CB(1)2055/08-09(02) mentioned "individual performance ratings" as one of the three determining factors for bonus payment. Please specify how this rating is assessed and why HKMC consider the criteria adopted appropriate;
3. Mortgage Insurance Programme (MIP):
    - a. What is the "licensing" requirement to conduct mortgage insurance business, and how many mortgage insurers are currently operating in Hong Kong?
    - b. HKMC and its competitors' respective market share in mortgage insurance;
    - c. What is the total amount of mortgage loans that HKMC is insuring?
    - d. If "negative equity" becomes so pervasive in Hong Kong that considerable numbers of homes are repossessed by banks, what is the potential amount that HKMC has to indemnify to the banks (assuming the worst case scenario)?
  4. Korean Mortgage-backed-securities (MBS):
    - a. How much MBS did HKMC acquire in total, and in how many stages?
    - b. What is the return on investment (ROI) of these MBS? What sorts of risk management arrangements are in place to minimize HKMC's exposure to the Korean market?
  5. Cagamas HKMC Berhad (CJV):
    - a. How much did HKMC invest for the 50% stake in this joint venture?
    - b. The CJV launched Mortgage Guarantee Programme (MGP) in July 2008. How does this "first Islamic Mortgage Guarantee" programme work and what are the costs and benefits to Hong Kong?
    - c. What other business does the CJV conduct?
    - d. What is the ROI of the CJV so far?
    - e. Has HKMC gained any knowledge or expertise from participating in the CJV that could contribute to the development of Islamic Finance in Hong Kong?
  6. Bauhinia HKMC Corporation (BJV):
    - a. How much did HKMC invest and what is HKMC's stake in this joint venture?
    - b. What business does the BJV conduct?
    - c. What is the ROI of the BJV so far?
  7. Memorandum and Articles of Association:
    - a. How many times have the Memorandum and Articles been amended?
    - b. Please provide the latest copy of each to this Panel;
  8. 2006 "independent strategic review" by "a management consultancy firm" (the Consultancy Study):
    - a. Had LegCo been briefed before, during, or after this consultation?

- b. Please provide a copy of the Consultancy Study to this Panel;
9. The way forward:
- a. Does HKMC have any further plan for overseas expansion and, if so, what are they?

Yours sincerely,



Regina IP LAU Suk-ye