

ITEM FOR FINANCE COMMITTEE

**LOAN FUND
HEAD 251 – HOUSING
Hong Kong Housing Society
Subhead 116 Home Starter Loan Scheme**

Members are invited to approve extension of the eligibility for the Home Starter Loan Scheme to non-elderly singletons.

PROBLEM

We need to provide assistance to non-elderly singletons aged below 60 to help them acquire their own residential properties in Hong Kong for the first time.

PROPOSAL

2. We propose to extend eligibility for the Home Starter Loan Scheme (HSLs) to non-elderly singletons.

JUSTIFICATION

Home Starter Loan Scheme

3. In 1998, we undertook to address the housing needs of singletons. Following a review, we announced in the 1999 Housing Policy Objective Booklet our policy decision to provide loans to singleton under the HSLs. At present, only households with at least two family members, including the applicant, are eligible for the HSLs.

4. The key features of the HSLs as we propose to apply it to non-elderly singletons are -

- (a) **annual quota** – not less than 500 loans (subject to an allocation of around \$150 million per annum);
- (b) **income of applicants** – there will be no minimum income requirement. The maximum income limit will be set at \$22,000 a month;
- (c) **assets of applicants** – a net asset limit of \$400,000 will be set;
- (d) **property ownership restriction** – as in the case of family applicants for the HSLs, we will impose a condition that applicants must not currently own any residential property in Hong Kong, or have not owned one during the last ten years;
- (e) **loan amount** – the maximum loan amount will be \$300,000, or up to 30% of the purchase price of the property, whichever is lower;
- (f) **permitted value and age of property** – in line with current practice, there will be no limit on the value of property to be purchased. However, the successful applicant should not contribute more than \$400,000 (the asset limit) towards the purchase of the property. The amount of loan obtained under the HSLs and the bank mortgage will not be treated as part of this contribution. The maximum permitted age of the property will be 30 years;
- (g) **loan repayment** – the applicant will repay the loan by 120 equal monthly instalments, starting from the fourth year of drawdown of the loan;
- (h) **interest rate** – the annual interest rate will be set at 2%. Interest will accrue from the day of drawdown;
- (i) **resale restrictions** – we will adopt the same resale conditions as those applying to family applicants. That is, in addition to repaying the loan and any accrued interest on disposal of the property, applicants who sell their property within three years of purchase will have to pay to the Hong Kong Housing Society the amount of appreciation in property value. Applicants who sell after this three-year period will only have to pay an administrative charge; and

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- (j) **change of marital status** – a singleton HSLs loan recipient will be allowed to give up his/her loan entitlement upon marriage and apply for a loan under the “family” quota for the remaining part of his/her entitlement, subject to fulfilling the respective eligibility criteria. If his/her spouse is also a beneficiary under the HSLs, the couple will be allowed to apply for a loan under the “family” quota for the remaining part of their entitlement. Similar arrangements will also apply to singleton beneficiaries of other forms of subsidised housing.

Encl. 5. A table comparing the eligibility criteria of family applicants and the proposed criteria for non-elderly singleton applicants is at the Enclosure. The Government will have the authority to revise from time to time the details of the scheme in the light of changing circumstances.

Impact on property market

6. Assuming an annual production rate in the private sector of 35 000 flats, the additional quota of not less than 500 loans and the estimated total loan amount of \$150 million will not be substantial enough to have a significant impact on the property market. We expect that many beneficiaries will purchase residential properties in the secondary market, especially since the age limit of flats eligible for purchase under the scheme is up to 30 years.

FINANCIAL IMPLICATIONS

7. No additional funds are required. The total commitment for the HSLs under the Loan Fund shall remain at \$18 billion expected to be drawn down in the four years 1998-99 to 2001-02, benefiting up to 12 000 households in 1998-99 and no less than 6 000 in subsequent years. As at end September 1999, a total of \$5.7 billion has been committed. According to the approval given by the Finance Committee of the then Provisional Legislative Council in January 1998, any further unspent provision under the HSLs in one year will be carried forward to the following year until the expiry of the scheme in 2001-02.

8. We have identified sufficient funds under this existing provision to fund the annual quota of not less than 500 loans proposed for non-elderly singletons. Since the launch of the HSLs in April 1998, most loan recipients have drawn down loans below the maximum ceiling of \$600,000. By the end of 1998-99, about \$420 million of the \$3.6 billion actually drawn down for that year remain uncommitted. Similar amount of uncommitted funds each year for the remaining period of the scheme is likely. We proposed to use part of this

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balance to fund the loans for the non-elderly singletons. If all singleton borrowers draw down the maximum amount of \$300,000, the \$150 million will provide a total of 500 loans. There may however be more than 500 loans if some singleton beneficiaries choose to borrow less than the maximum amount.

9. As the Government will charge the borrowers interest at the concessionary rate of 2% per annum, the net present value of maximum interest forgone, discounted at the current no-gain-no-loss interest rate for each \$300,000 loan, would be \$70,000 over the loan period.

BACKGROUND INFORMATION

10. In January 1998, the Finance Committee of the then Provisional Legislative Council approved the setting up of the HSLs with a total commitment of \$18 billion over five years from 1998-99 to provide low-interest, up-front loans to first-time home buyers.

11. Subsequently, in July 1998, the Finance Committee of the Legislative Council approved an increase in drawdown for 1998-99 under the HSLs from \$3.6 billion to \$7.2 billion.

12. Since the launch of the HSLs in April 1998, a total of 11 264 loans (as at 9 October 1999) have been approved and drawn down.

Housing Bureau
November 1999

**Comparison of Eligibility Criteria of Family Applicants
and Proposed Criteria for Non-elderly Singleton Applicants**

	Eligibility criteria of family applicants	Proposed criteria for non-elderly singleton applicants
Income per month	Not exceeding \$60,000	Not exceeding \$22,000
Asset	Not exceeding \$1,200,000	Not exceeding \$400,000
Property ownership restriction	Last ten years	Last ten years
Loan amount	\$600,000	\$300,000