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**Panel on Financial Affairs**

**Meeting on 7 March 2011**

**Background Brief on  
Reverse Mortgage Pilot Scheme**

**Purpose**

This paper provides background information on the Reverse Mortgage Pilot Scheme to be launched by the Hong Kong Mortgage Corporation Limited<sup>1</sup> (HKMC), and summarizes Members' concerns and views recently expressed on the subject.

**Background**

2. The idea of launching a "reverse mortgage" scheme in Hong Kong was raised by Members from time to time in the past 10 years or so in connection with issues relating to the care for the elderly, but the idea had not been actively pursued by the Administration before 2010. The response of the Administration on the issue in earlier years was that while there should be market demand in general for reverse mortgage products in a society with an ageing population, a commercially viable reverse mortgage product was unlikely to be attractive to elderly people in Hong Kong. It was because the residential properties owned by elderly people who may be interested in reverse mortgage were generally very old, with relatively low market value. In addition, the expected average life expectancy of Hong Kong people was now 80 years. If an elder joined a reverse mortgage scheme at the age of 60, the reverse mortgage term would be rather long and would provide only limited monthly payments for him/her.

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<sup>1</sup> The HKMC was established in 1997 by the Hong Kong Monetary Authority with capital provided by the Exchange Fund. For more details about HKMC, please refer to the paper [CB\(1\)145/09-10\(05\)](#).

## **Discussions in 2010 and 2011**

3. At the meeting of the Panel on Financial Affairs on 1 March 2010, a member enquired whether HKMC would consider providing reverse mortgage services and details of the relevant work plan. The Hong Kong Monetary Authority indicated that HKMC was considering the feasibility of a "reverse mortgage" product and the demand in Hong Kong. The product was quite complex and HKMC needed to draw on international experience and examine the local conditions to ascertain if there was a viable case for introducing such product in Hong Kong.

4. At the Council meeting on 30 June 2010, the Council passed a motion on "Policy on elderly housing", urging the Government to formulate a targeted, comprehensive and long-term planning policy on elderly housing to meet the challenges arising from an ageing population. To this end, Members suggested, among others, that the Government should actively encourage the banking and insurance sectors to explore more financial packages, such as "elderly housing insurance schemes", "reverse mortgage schemes", etc., with a view to helping the elderly improve their living environment and lives in their twilight years.

5. On 16 December 2010, HKMC announced that its Board had approved the corporation to launch a pilot scheme on reverse mortgage in 2011. The pilot scheme would enable the elderly people to use their self-occupied and non-mortgaged residential properties as collateral to enter into reverse mortgage loans in return for a stream of annuity payments while staying at their original residence.

6. At the Council meeting on 5 January 2011, Hon Alan LEONG raised an oral question on the Reverse Mortgage Pilot Scheme. The written reply of the Administration is at the **Appendix**. The issues raised by Mr LEONG and other Members in their follow-up questions include the following –

- (a) the role of the Government in implementing the scheme, and how the insurance provided by HKMC will operate;
- (b) measures to be adopted by the Government to ensure that elderly people eligible for the scheme will be protected in a sustained and reliable manner in the processes of valuation, negotiation and renewal of terms with banks;

- (c) whether the scheme will operate merely on commercial principles;
- (d) whether the Government will consider linking the scheme with inflation;
- (e) whether the annuity payments under the reverse mortgage scheme would affect the eligibility of the elders for the Comprehensive Social Security Assistance and the Old Age Allowance; and
- (f) the references to be drawn from the reverse mortgage schemes in other places.

### **Recent development**

7. The Panel on Financial Affairs will discuss the Reverse Mortgage Pilot Scheme with the Administration and HKMC at the meeting on 21 February 2011.

### **Relevant papers**

8. The relevant papers can be retrieved at the following hyperlinks-

Terms of the motion on "Policy on elderly housing" carried at the Council meeting on 30 June 2010

[http://www.legco.gov.hk/yr09-10/english/legco\\_rpt/legco\\_motion0702-e.pdf](http://www.legco.gov.hk/yr09-10/english/legco_rpt/legco_motion0702-e.pdf)

Administration's progress report on the motion on "Policy on elderly housing" carried at the Council meeting on 30 June 2010

<http://www.legco.gov.hk/yr09-10/english/counmtg/motion/cm0630-m4-prpt-e.pdf>

Press release of the Hong Kong Mortgage Corporation Limited issued on 16 December 2010

[http://www.hkmc.com.hk/eng/ceo/pressrelease/doc/20101216\\_RM\\_e\\_FINAL.pdf](http://www.hkmc.com.hk/eng/ceo/pressrelease/doc/20101216_RM_e_FINAL.pdf)

Oral question raised by Hon Alan LEONG at the Council meeting on 5 January 2011 and the Administration's written reply

<http://www.info.gov.hk/gia/general/201101/05/P201101050150.htm>

**Oral question raised by Hon Alan LEONG on "Reverse Mortgage Pilot Scheme" at the Council meeting on 5 January 2011**

**Question:**

The Hong Kong Mortgage Corporation Limited earlier announced the launching of a pilot scheme on reverse mortgage (reverse mortgage scheme) as a measure to tackle the problem of ageing population. While the banking industry has expressed support for the scheme, some members of the public are worried that the reverse mortgage scheme might not be able to achieve the goal of "making use of residential properties to provide for the twilight years of the elderly". In this connection, will the Government inform this Council:

(a) given that some elderly people are worried that the buildings in which they are residing are too old, the appraised value of their properties will therefore be on the low side, the monthly annuity payments receivable under the reverse mortgage scheme will as a result be very small, coupled with the requirement that they have to bear the maintenance costs of the properties, thus it is difficult for the scheme to effectively support their post-retirement life, in the face of the above concerns of the elderly people, of the role the Government will play in implementing the reverse mortgage scheme so as to build up a reverse mortgage market which is fair and sustainable, and to ensure that the twilight years of the elderly people who participate in the scheme will be provided for;

(b) given that according to experience in foreign countries, quite a number of the elderly people participating in reverse mortgage schemes have fallen victim to investment pitfalls because they are not conversant with financial operations such as mortgage investment, etc. and have become heavily indebted eventually, what measures the Government will adopt to ensure that, in the processes of valuation, negotiation and renewal of terms with banks, elderly people who are eligible for the scheme will be protected in a sustained and reliable manner, so as to prevent them from falling victim to investment pitfalls; and

(c) given that the purchasing power of the annuity payments received by the elderly people under the reverse mortgage scheme will diminish as a result of inflation, whether the Government will consider linking the scheme with inflation, so as to better protect the elderly; if it will, of the details; if not, the reasons for that?

**Reply:**

President,

The reverse mortgage pilot scheme to be launched by the Hong Kong Mortgage Corporation Limited (HKMC) is in essence a financial arrangement. It aims to provide the elderly with an additional choice, so that they can use their properties as collateral to borrow reverse mortgage loans from banks and receive a fixed amount of cash loan every month (i.e. annuity payment) for a fixed period or over their lifetime as supplementary funds to improve their standard of living. Meanwhile, the elderly can continue to live in their properties for the rest of their lives.

According to a survey conducted by the HKMC with 1,005 elderly people a few months ago, about 44% of the respondents supported the introduction of reverse mortgage in Hong Kong and almost a quarter of the respondents indicated that they would consider participating in reverse mortgage. It shows that there is demand for reverse mortgage in Hong Kong.

I will address the three parts of the question raised by Hon Leong one by one.

(a) For part (a), reverse mortgage is a voluntary financial arrangement which provides the elderly with an additional choice. The pilot scheme to be launched by the HKMC will operate on the basis of market orientation and prudent commercial principles. The HKMC will strike a balance between the needs of the elderly and the risks to the banks as well as the insurer (i.e. the HKMC) when developing the details of the reverse mortgage pilot scheme. Apart from examining overseas experience in reverse mortgage, it will take into account the unique circumstances in Hong Kong, including the higher volatility of local property prices, the increasing life expectancy in Hong Kong, the possibility of the currently extremely low interest rate going up, etc. Under the reverse mortgage pilot scheme, the HKMC will act as the insurer to reduce the risks to the banks and the elderly. This can help encourage banks to explore the new market of reverse mortgage.

Under the reverse mortgage pilot scheme, there will be established procedures for conducting property valuation, which will be done by recognised professional surveyors. With regard to property maintenance, the elderly will still have to bear the responsibility and the cost of it even if they do not apply for reverse mortgage. The Government and some other non-government or public organisations (e.g.

the Hong Kong Housing Society and the Urban Renewal Authority) currently provide different schemes to help needy homeowners conduct property maintenance.

The Government will continue to keep a close eye on the housing needs of the elderly, and promote and encourage the implementation of measures and policies on tackling the problem of ageing population and the maintenance as well as renewal of buildings.

(b) For part (b) of the question, first of all, it is necessary to clarify again that reverse mortgage is just a special mortgage loan arrangement which does not incur any investment gain or loss. The amount of the appraised value of the properties will of course affect the amount of annuity payment. However, any surplus after deducting the outstanding loan principal, accrued interest, insurance premium and other applicable fees from the proceeds from the property disposal will be given to the inheritor(s) of the elderly. On the contrary, if the proceeds from the property disposal cannot cover the outstanding loan balance for any reasons, the HKMC will compensate the shortfall to the banks so that the elderly and their families will not have to bear the burden. In addition, once the amount of annuity payment has been confirmed, it will not be reduced or suspended over the term of the reverse mortgage so as to provide a good protection to the elderly. The HKMC is also studying the possibility of engaging independent professionals to offer pre-sale counselling services for the reverse mortgage applicants, so that the elderly can fully understand their rights and obligations before drawing a reverse mortgage loan. The more successful reverse mortgage schemes in other countries also provide such counselling arrangement. The HKMC is now in discussion with the Law Society of Hong Kong on the development of an effective module to engage lawyers to help interested elderly understand the details of the pilot scheme.

(c) For part (c) of the question, in developing the details of the reverse mortgage pilot scheme, the HKMC mainly takes into account the long-term trend and volatility of local property prices, the trend of interest rate, the life expectancy of the elderly population, etc. The amount of annuity payment, once confirmed, will not and should not be increased or decreased over the term of the reverse mortgage. Otherwise, it will be hard to provide a stable and reliable stream of cash loan (i.e. annuity payment) for the elderly to improve their standard of living while remaining in their residence. At the moment, the HKMC has no plan to offer a reverse mortgage scheme with floating annuity payment linked with inflation rate.