Press Release

The Hong Kong Mortgage Corporation Limited

Mortgage Insurance Programme

The Board of Directors of the Hong Kong Mortgage Corporation (HKMC) approved today (24 February 1999) the detailed design of the mortgage insurance product to be offered to the Approved Sellers to enable home buyers to secure mortgage loans up to 85% loan-to-value (LTV) ratio. (See the technical note at Annex I for details of the mortgage insurance product). The product was developed in consultation with Approved Sellers on the Consultative Group on the Mortgage Insurance Programme and prospective mortgage reinsurers.

The Board of Directors has also approved an adjustment of the selection criteria for Approved Reinsurers in respect of locally incorporated insurance companies. The minimum credit rating requirement for such companies is adjusted to single A, in line with Hong Kong's sovereign credit rating. The minimum credit rating requirement for overseas incorporated insurance companies remains unchanged at double A. In accordance with the selection criteria, the Board has approved in principle the appointment of four Approved Reinsurers for the Mortgage Insurance Programme, including three international and one local insurance companies. These Approved Reinsurers were selected based on their financial strength, experience in underwriting insurance related to residential properties and long-term commitment to the business relationship with the HKMC. Subject to their internal clearance and signing of the Master Mortgage Reinsurance Policy, the HKMC will announce the list of Approved Reinsurers in March prior to the launch of the Programme. The Corporation continues to welcome applications to become Approved Reinsurers from qualified insurance companies.

The Board has also approved the levels of premium for the mortgage insurance (see Annex I). For a mortgage loan of $1.5 million (which is the average size of mortgages in HKMC's portfolio) with a repayment period of 20 years, the details of the insurance premiums under the single payment and annual payment methods are shown in Annex II.

Some Approved Sellers have indicated that they are prepared to offer financing of the single premium over the life of the mortgage. The additional monthly payments for the standard mortgage mentioned above would be $192 (up to 80% LTV) and $295 (up to 85% LTV) for floating rate mortgages, and $185 (up to 80% LTV) and $268 (up to 85% LTV) for fixed rate mortgages.

To prepare for the launch of the Programme, the HKMC will conduct a series of briefing and training sessions for the Approved Sellers to help them familiarise with the Mortgage Insurance Operational Manual and the related application/claim settlement procedures. The Master Mortgage Insurance Policy and Master Mortgage Reinsurance Policy are being finalised for signing with the Approved Sellers and Approved Reinsurers respectively in March prior to the formal launch of the Mortgage Insurance Programme.

"I am glad to see that the preparatory work has proceeded smoothly and the Mortgage Insurance Programme is ready for a formal launch in March as scheduled. With the flexible payment methods, in particular the financing option, the mortgage insurance should be affordable to the majority of homebuyers. The modification to the selection criteria for Approved Reinsurers in respect of locally incorporated insurance companies will provide an opportunity for the local insurance industry to benefit from the Programme," said Mr. Donald Tsang, Chairman of the HKMC.

Mr. Joseph Yam, Deputy Chairman of the HKMC added, "the owner-occupancy requirement, which is important in ensuring that the Programme will only benefit genuine homebuyers and a low default rate, will be strictly enforced by the HKMC. The borrowers will be required to certify on an annual basis that they continue to occupy the insured property as the place of residence. The Approved Sellers will be required to report non-complying cases to the HKMC. For non-conforming mortgages, the HKMC may increase the premium of the insurance to reflect the higher risk. The Corporation also reserves the right to require the borrower through the lending bank to reduce the size of the mortgage and cancel the mortgage insurance."

Note: Supplementary information can be found in Annex IIIa and Annex IIIb.

Hong Kong Mortgage Corporation Limited

24 February 1999

<u>Annex I</u>

MORTGAGE INSURANCE PROGRAMME

Framework

The HKMC will provide mortgage insurance to Approved Sellers for an amount up to 15% of the value of the property, thereby allowing banks to lend up to 85% of LTV ratio without taking an additional risk. Approved Sellers are required to obtain pre-approval from the HKMC on a loan-by-loan basis. These mortgages may be sold to the HKMC at the Approved Sellers' discretion subject to the mortgage purchasing criteria stipulated in the HKMC's Mortgage Sale & Purchase Manual. To hedge the risk, the HKMC will reinsure the exposure with Approved Reinsurers on a back-to-back basis.

Eligible Mortgage Originators

- All Approved Seller/Servicers of the HKMC.
- HKMC will reserve the right to terminate the arrangement with individual Approved Sellers if their mortgage underwriting standards are considered not satisfactory after the launch of the Programme.

Eligible Mortgages

Mortgages that meet HKMC's eligibility criteria for:

- Floating Rate Mortgages; and
- Fixed Adjustable Rate Mortgages ("FARM").

Eligibility Requirements

Every mortgage applied for insurance under the Programme must meet the eligibility requirements comprising of:

1. Mortgage Conditions as set out in the Mortgage Insurance Operational Manual
2. Core Eligibility Criteria - refer to Appendix A.

Coverage Amount

Eligible claims will cover any loss of principal above 70% property value at origination and a portion of accrued interest and repossession costs from the date of delinquency to the date of the claim settlement. The claim amount applicable to a defaulted mortgage loan is calculated in accordance with the following formula:

(Outstanding Principal Balance at time of claim - 70% x Property Value at origination) x 105%

Coverage Period

An insurance will take effect from the loan drawdown date of the insured mortgage provided that the premium is received by the HKMC on or before that date and will remain in force until:

1. full repayment of the mortgage loan; or
2. the ratio of outstanding principal balance to property value at origination reaches 70% or below.

Insurance Premium

Premium rates vary in accordance with the mortgage type (e.g. floating rate or FARM), level of LTV (two tiers: 80% and 85%), loan tenor and payment method. Please see Appendix B for the indicative premium rates.

Premium Payment Options

Two payment options will be offered to the borrowers via the Approved Sellers:

<u>1. Single Premium Payment</u>

The premium will be paid in one lump sum to the HKMC at the time of the loan drawdown. The premium can be paid by the borrower up-front or financed by the Approved Sellers. In the latter case, the insurance premium will be bundled with the mortgage principal and repayment of the premium will form part of the monthly instalment to be paid by the borrowers to the Approved Sellers over the term of the mortgage.

2. Annual Premium Payment

The first premium payment will be paid to the HKMC at the time of loan drawdown. The subsequent annual payments will be paid on the anniversary date by the Approved Sellers to the HKMC until the expiry or termination of the insurance.

Refund of Premium

Refund of premium is only allowable under Single Premium Payment Method and is subject to the following conditions:

1. The mortgage loan has not been delinquent for more than 60 days from the Instalment Due Date during the 12 months prior to borrowers' request for refund; and
2. No claim has been paid or to be paid in respect of the mortgage.

% of Premium Refundable	Time of Full Repayment of the Mortgage Loan
40%	Within the first year from the loan drawdown date
25%	Within the 13 months to 24 months from the loan drawdown date
10%	Within the 25 months to 36 months from the loan drawdown date
Nil	From the 37 months onward

Application

Approved Sellers will be required to seek HKMC's approval for the mortgage insurance on a loan-by-loan basis. The HKMC will review certain loan documentation and pre-approve each mortgage prior to granting insurance.

Claim

Trigger Event

The HKMC will accept a claim from an Approved Seller within 30 days from the following dates whichever is the earlier:

1. peaceful of possession of the property by the Approved Seller; and
2. application to Court for an 'Order For Possession'.

Owner Occupancy Requirement

The owner-occupancy requirement, which is important in ensuring a low default rate, will be strictly enforced. The mortgagors will be required to certify on an annual basis that they continue to occupy the property as their place of residence.

Treatment of Non-conforming Mortgages

The HKMC may take the following action(s) if a mortgage loan is found to be non-confirming with the HKMC's criteria for the mortgage insurance:

1. increase the insurance premium to reflect the higher risk; or
2. require the borrower through the lending bank to reduce the size of the mortgage and cancel the insurance.

Annex II

Product Type	Loan-to-Valuation	Insurance Premium					
		Single Payment Method		Annual Payment Method			
				Initial Year		2nd to 6th/7th Year	
		% of Loan amount	$	% of Loan amount	$	% of Loan amount	$
Floating Rate Mortgage	Up to 80%	1.40	21,000	0.70	10,500	0.24	3,600
	Up to 85%	2.15	32,250	0.90	13,500	0.45	6,750
Fixed Rate Mortgage	Up to 80%	1.35	20,250	0.65	9,750	0.24	3,600
	Up to 85%	1.95	29,250	0.85	12,750	0.40	6,000

Comparison between Mortgage Insurance Programme versus other financing options

(1) 85% top-up financing

	MIP		*Developer's loan*	*Revolving credit / Overdraft facility*
	Paid upfront	*Paid annual*		
Premium	2.15% on the original loan amount	0.9% p.a. on the outstanding principal balance for the 1st year 0.45% p.a. thereafter	4% on the property price	N/A
Interest rate for the top-up financing	P + 0.5% (9.25%)	P + 0.5% (9.25%)	P + 2% (10.75%)	P + 4% (12.75%) (range from P+4% to P+12% in the market)
Financing amount for the top-up portion	150000 + 850000 x 2.15% = $168,275	$150,000	1000000 x 1.04 x 15% = $156,000	$150,000
Tenor for top-up financing	20 years	20 years	20 years The first payment starts at the 25th month of mortgage instalment	20 years
Premium for top-up financing	$18,275 upfront (from top-up financing)	$7,650 for the 1st year $3,756 for the 2nd year $3,679 for the 3rd year etc.	$40,000 upfront ($6,000 from downpayment, $28,000 from mortgage and $6,000 from top-up financing)	$750 p.a. annual fee (0.5% of credit limit)
Monthly payment for top-up financing	$1,541	$1,374	$0 for the 1st and 2nd year $1,636 thereafter	$1,594 (interest payment only)
Monthly payment for mortgage	$6,411	$6,411	$6,668	$6,411
NPV (net present value) for top-up financing @ Prime + 0.5%	$168,275	$171,434	$169,980	$177,154
APR* (annualised percentage rate) for top-up financing	**11.94%**	**12.65%**	**12.37%**	**13.20%**

Assumption

Prime rate = 8.75%
Mortgage rate = 9.25% p.a. (prime + 0.5%)
Property value = HK$1,000,000

Date of loan origination : 1st January, 1999
Date of full prepayment : 1st January, 2005
Financing situation : 70% mortgage, 15% top-up financing

*APR (annualised percentage rate) is the effective rate of interest that consumer pay for the loan, expressed in a simple annual percentage.

(2) 80% top-up financing

	MIP		*Developer's loan*	*Revolving credit / Overdraft facility*
	Paid upfront	*Paid annual*		
Premium	1.4% on the original loan amount	0.7% p.a. on the outstanding principal balance for the 1st year 0.24% p.a. thereafter	4% on the property price	N/A
Interest rate for the top-up financing	P + 0.5% (9.25%)	P + 0.5% (9.25%)	P + 2% (10.75%)	P + 4% (12.75%) (range from P+4% to P+12% in the market)
Financing amount for the top-up portion	100000 + 800000 x 1.4% = $111,200	$100,000	1000000 x 1.04 x 10% = $104,000	$100,000
Tenor for top-up financing	20 years	20 years	20 years The first payment starts at the 25th month of mortgage instalment	20 years
Premium for top-up financing	$11,200 upfront (from top-up financing)	$5,600 for the 1st year $1,885 for the 2nd year $1,847 for the 3rd year etc.	$40,000 upfront ($8,000 from downpayment, $28,000 from mortgage and $4,000 from top-up financing)	$750 p.a. annual fee (0.5% of credit limit)
Monthly payment for top-up financing	$1,018	$916	$0 for the 1st and 2nd year $1,091 thereafter	$1,063 (interest payment only)
Monthly payment for mortgage	$6,411	$6,411	$6,668	$6,411
NPV (net present value) for top-up financing @ Prime + 0.5%	$111,200	$112,519	$126,653	$119,120
APR* (annualised percentage rate) for top-up financing	**11.88%**	**12.24%**	**16.13%**	**13.43%**

Assumption
Prime rate = 8.75%
Mortgage rate = 9.25% p.a. (prime + 0.5%)
Property value = HK$1,000,000

Date of loan origination : 1st January, 1999
Date of full prepayment : 1st January, 2005
Financing situation : 70% mortgage, 10% top-up financing

*APR (annualised percentage rate) is the effective rate of interest that consumer pay for the loan, expressed in a simple annual percentage.

Appendix A

Eligibility Criteria for Mortgage Insurance Programme

<table>
<tr><td colspan="2">Description: Criteria for Floating Rate mortgages and Fixed Adjustable Rate Mortgages (FARM) with LTV greater than 70% on private residential properties that are eligible for the HKMC Mortgage Insurance Programme.</td></tr>
<tr><td colspan="2">Pursuant to Chapter 3 of the Mortgage Insurance Operational Manual, Eligibility Criteria for the Mortgage Insurance Programme comprise of the following:

(1) Mortgage Conditions
(2) Core Eligibility Criteria
The Core Eligibility Criteria are summarised below. Please refer to the Operational Manual for details.</td></tr>
<tr><td>Product type</td><td>Floating rate mortgages
Fixed adjustable rate mortgages (FARM)</td></tr>
<tr><td>Maximum loan size at origination</td><td>Floating Rate: HK$5,000,000
FARM: HK$4,000,000</td></tr>
<tr><td>Loan-to-value determination:
• Maximum loan-to-value ratio (LTV) at origination
• Valuation report</td><td>85%
(the financed premium may cause LTV to go slightly over 85%)

Written valuation report prepared by internal professionals or qualified external surveyors.</td></tr>
<tr><td>Debt-to-income ratio calculation:
• Maximum Debt-to-Income ratio at <u>origination</u>
• Relationship requirement between Borrowers and Mortgagors, and between Borrowers/Mortgagors and Guarantors</td><td>50%

immediate family members or relatives</td></tr>
<tr><td>Maximum original term to maturity</td><td>30 years</td></tr>
</table>

Minimum original term to maturity	10 years
Maximum sum of “remaining term to maturity” and “age of property at origination”	40 years
Owner Occupancy	At least one of the mortgagor(s)/borrower(s) must occupy the property as a primary residence
Legal Charge	First fixed legal charge
Refinancing	Refinanced mortgages with no cash-out
Insurance required on property	Fire insurance

Appendix B

MORTGAGE INSURANCE PROGRAMME

Rate Sheet*

Mortgage Insurance Premium					
Mortgage Type	**Loan to Value Ratio (LTV)**	**Loan Tenor (Years)**	**Single Premium Payment** (% of the original principal balance)	**Annual Premium Payment**	
				First Year (% of original principal balance)	**Renewal** (% of original principal balance)
FLOATING RATE	**Up to 80%**	10	1.00	0.50	0.24
		15	1.15	0.60	0.24
		20	1.40	0.70	0.24
		25	1.50	0.75	0.24
		30	1.65	0.85	0.24
	Up to 85%	10	1.55	0.70	0.45
		15	1.80	0.80	0.45
		20	2.15	0.90	0.45
		25	2.30	1.00	0.45
		30	2.40	1.10	0.45
FIXED ADJUSTABLE RATE (FARM)	**Up to 80%**	10	0.95	0.45	0.24
		15	1.10	0.55	0.24
		20	1.35	0.65	0.24
		25	1.45	0.70	0.24
		30	1.55	0.80	0.24
	Up to 85%	10	1.40	0.65	0.40
		15	1.70	0.75	0.40
		20	1.95	0.85	0.40
		25	2.05	0.95	0.40
		30	2.20	1.05	0.40

*** (For indicative purpose only)**