Press Release

The Hong Kong Mortgage Corporation Limited

The Hong Kong Mortgage Corporation Limited (HKMC) made the following announcements today (27 July 2000):

Half-year financial results

The unaudited interim results show that the operating profit after tax for the six months ending 30 June 2000 was HK$127 million, a reduction of HK$26.4 million, or 17.2%, compared with the same period last year. Annualised return on averaged shareholder's equity was 10.4 % (14.1 % in 1999).

Total assets increased by 18.5%, from HK$10.6 billion to HK$12.5 billion, compared with the corresponding period last year. There was a HK$1.5 million write-back of provisions due to a reduction in the size of the mortgage portfolio and the maintenance of good asset quality. The capital-to-assets ratio remained strong at 11.4%. The interim results and a financial review are attached at Annex A.

Despite the difficult market environment, the HKMC has made good progress in mortgage purchase. The Corporation has purchased a total of HK$1.5 billion of mortgage loans in the first 6 months and has secured firm offers for another $3.6 billion. The aggregate amount of HK$5.1 billion has already exceeded the HK$1.34 billion figure for the whole of 1999 and the business target of HK$4 billion set for 2000.

The Mortgage Insurance Programme has gained wider acceptance by homebuyers as evidenced by the rising trend in the number of applications. During the first half of the year, the Corporation received a total of 1,984 applications from 31 Approved Sellers, involving a total mortgage amount of HK$4,073 million (compared with 2,150 applications and total mortgage amount of HK$4,439 million for the last three quarters of 1999). Secondary market transactions continued to account for about 90% of the applications received so far. This shows that the programme has helped to enhance the liquidity of secondary property market transactions.

Expansion of Mortgage Insurance Programme

The Board of Directors of the HKMC approved today the framework for expanding the Mortgage Insurance Programme ("MIP") to cover mortgage loans with loan-to-value ("LTV") ratio of up to 90%.

The MIP was launched by the HKMC in March 1999 with the aim of promoting home ownership in Hong Kong. Under the current arrangement, the HKMC provides mortgage insurance to Approved Sellers for an amount of up to 15% of the value of the property, thereby allowing banks to lend up to 85% of LTV ratio without incurring additional risk. Details of the current Scheme are set out in the technical note at Annex B.

Building on the experience gained so far with the MIP, and having received the support of the Approved Sellers and Approved Reinsurers, the HKMC is now ready to expand the Programme to cover mortgage loans with LTV ratio of up to 90%.

Experience in other markets indicates that mortgage loans with a higher LTV ratio carry a higher risk of borrower default. It is important that the additional credit risk will be mitigated by more prudent underwriting criteria and be adequately reflected in the insurance premium.

The additional eligibility criteria and the premium rates for the new product are set out in Annexes C and D respectively. For a mortgage loan of HK$1.5 million (which is the average size of mortgages in the HKMC's portfolio) with a repayment period of 20 years, the insurance premiums under the single payment and annual payment methods are as follows:

Product Type	Loan-to-Valuation	Insurance Premium					
		Single Payment Method		Annual Payment Method			
				Initial Year		Until OPB drops to 70% LTV ratio	
		% 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
	Up to 90%	**2.98**	**44,700**	**1.28**	**19,200**	**0.63**	**9,450**
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
	Up to 90%	**2.84**	**42,600**	**1.2**	**18,000**	**0.59**	**8,850**

Many banks are prepared to extend the current arrangement of financing the single premium over the life of the mortgage to the new 90% LTV product. The additional monthly payments for the standard mortgage mentioned above would be HK$172 (up to 80% LTV), HK$265 (up to 85% LTV) and HK$367(up to 90% LTV) for floating rate mortgages; and HK$169 (up to 80% LTV), HK$245 (up to 85% LTV) and HK$356 (up to 90% LTV) for fixed rate mortgages. It is also noted that an increasing number of banks and property developers are offering to pay in part or in full the mortgage insurance premium as a marketing strategy to promote their business.

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 new product. The HKMC plans to launch the new product before the end of August 2000.

The Hong Kong Mortgage Corporation Limited

27 July 2000

Annex A

THE HONG KONG MORTGAGE CORPORATION LIMITED
(Incorporated in Hong Kong with limited liability under the Companies Ordinance)

INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2000

The Directors of The Hong Kong Mortgage Corporation Limited (the "HKMC") are pleased to announce that the unaudited interim results of the HKMC for the six months ended 30 June 2000, together with the comparative figures for the previous year, are as follows:

	6 months ended	
	30 June 2000	30 June 1999
	HK$'000	HK$'000
Interest income	481,216	487,451
Interest expense	(306,681)	(260,527)
Net interest income	174,535	226,924
Other income, net	20,441	3,857
Operating income	194,976	230,781
Operating expenses	(46,470)	(43,280)
Operating profit before provisions	148,506	187,501
Provisions for bad and doubtful loans	1,501	(5,059)
Profit before taxation	150,007	182,442
Taxation	(23,056)	(29,139)
Profit after taxation	126,951	153,303
Transfer to contingency reserve	(12)	-
Profit after transfer to contingency reserve	126,939	153,303
Retained profit brought forward	357,378	86,146
Retained profit carried forward	484,317	239,449

	At 30 June 2000 HK$'000	At 30 June 1999 HK$'000
Mortgage portfolio, net	7,680,634	10,329,053
Cash and short-term funds	2,951,307	33,153
Investment in debt securities	1,640,813	-
Total assets	12,545,976	10,589,732
Debt securities	9,841,000	6,941,000
Short-term bank loans	-	1,229,500
Shareholder's equity	2,484,329	2,239,449
Capital-to-Assets Ratio	11.4%	11.7%
Return on average shareholder's equity	10.4%	14.1%
Cost-to-income ratio	23.8%	18.8%

Financial Review

For the six months ended 30 June 2000, profit after tax was HK$127 million, a reduction of HK$26.4 million or 17.2% over the corresponding period last year. The return on average shareholder's equity was 10.4% p.a. (1999: 14.1%)

Total interest income only reduced slightly by HK$6.3 million (or 1.3%) from HK$487.5 million to HK$481.2 million, compared to the previous corresponding period. The reduction in interest income was primarily the result of:

(a) a general reduction in interest rates of mortgage loans in the Corporation's retained portfolio arising from rate reduction requests by the borrowers; and

(b) the higher than normal level of prepayment due to intensive price competition in the mortgage market.

The HKMC purchased mortgage loans totaling HK$1.5 billion in the first 6 months of the year. Through pro-active marketing and funding strategies, the HKMC has been successful in securing firm offers of approximately HK$3.6 billion of mortgages which will be settled in the third quarter of 2000. The aggregate amount of HK$5.1 billion has already exceeded the purchase target of HK$4 billion set for the full year. The HKMC is also actively negotiating with some banks on potential asset swap transactions which would likely result in further bookings before the year-end.

The HKMC incurred interest expense of HK$306.7 million (1999: HK$260.5 million) for the six months ended 30 June 2000. In order to minimize the adverse impact of the sharp reduction in mortgage rates on the net interest spread of the retained mortgage portfolio, the HKMC has adopted a proactive approach in capturing sub-HIBOR funding opportunities. During the period under review, the HKMC issued an aggregate of HK$3.1 billion of notes under the Note Issuance Programme and Debt Issuance Programme and successfully achieved a sub-HIBOR average funding cost.

The Mortgage Insurance Programme ("MIP") continues to be well received by the homebuyers. The total outstanding principal balance of the loans with mortgage insurance coverage amounted to HK$5 billion and the number of such mortgage loans stood at 2,450 as at 30 June 2000. The net premium earned was HK$2.9 million with HK$8.3 million retained as unearned premium income in the balance sheet. The demand for mortgage insurance is expected to further increase following the Board's approval to increase the coverage up to 90% of the value of the property.

The Corporation continues to exercise tight control over its operating expenses. Total operating expenses were HK$46.5 million for the first six months (1999: HK$43.3 million). The cost-to-income ratio remained low at 23.8% (1999: 18.8%).

Capital-to-assets ratio ("CAR") stood at 11.4% at 30 June 2000 (1999: 11.7%). This is well above the minimum CAR of 5% stipulated in the guidelines issued by the Financial Secretary.

Annex B

MORTGAGE INSURANCE PROGRAMME

Technical Note

Framework

The HKMC provides 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 on 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.

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.

Eligible Mortgages

Mortgages that meet the 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:

1. Mortgage Conditions as set out in the Mortgage Insurance Operational Manual; and
2. Core Eligibility Criteria – refer to Annex B(i).

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.

Premium Payment Options

Two payment options are offered to the borrowers via the Approved Sellers:

1. Single Premium Payment

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 13th month to 24th month from the loan drawdown date
15%	Within the 25th month to 36th month from the loan drawdown date
Nil	From the 37th month onward

Application

Approved Sellers are 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 possession of the property by the Approved Seller; and
2. application to Court for a "Possession Order".

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-conforming 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.

<u>Annex B(i)</u>

Eligibility Criteria for Mortgage Insurance Programme

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.	
Pursuant to Chapter 3 of the *Mortgage Insurance Operational Manual*, Eligibility Criteria for the Mortgage Insurance Programme comprise the following: 1) Mortgage Conditions 2) Core Eligibility Criteria The Core Eligibility Criteria are summarised below. Please refer to the *Operational Manual* for details.	
Product type	Floating rate mortgages Fixed adjustable rate mortgages (FARM)
Maximum loan size at origination	Floating Rate: HK$5,000,000 FARM: HK$4,000,000
Loan-to-value determination: • Maximum loan-to-value ratio (LTV) at origination • Valuation report	85% (The financed premium may cause LTV to go slightly over 85%) Written valuation report prepared by internal professionals or qualified external surveyors
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	50% immediate family members or relatives
Maximum original term to maturity	30 years
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

Annex C

Additional Eligibility Criteria for the 90% LTV product under the Mortgage Insurance Programme

1. The maximum term of the mortgage loan for the 90% LTV is 25 years.

2. Mortgagors/borrowers who are self-employed are in general not eligible. This criterion does not apply to certain categories of professionals such as doctors, accountants and lawyers.

3. The Authorized Institutions must exercise prudent and professional judgement in evaluating the credit of the borrower. Credit check on the mortgagor/borrower is compulsory for the Authorized Institutions who are subscribers of external credit agencies.

4. Mortgage arrangement that involves the use of bridging loans for financing the funding gap between the sale of an existing property and the purchase of a new property is not eligible for the Mortgage Insurance Programme.

Annex D

Table 1 — Single Payment

Product	**LTV**	**Tenor** (Years)	**Mortgage Insurance Premium** (% of the principal balance of the mortgage at origination)
Floating Rate Mortgage	Up to 90%	10	2.15
		15	2.50
		20	2.98
		25	3.35
Fixed Rate Mortgage	Up to 90%	10	2.01
		15	2.34
		20	2.84
		25	3.18

Table 2 — Annual Payment

Product	**LTV**	**Tenor** (Years)	**Mortgage Insurance Premium**	
			Initial	**Renewal**
			% of the principal balance of the mortgage at origination	
Floating Rate Mortgage	Up to 90%	10	0.90	0.63
		15	1.09	0.63
		20	1.28	0.63
		25	1.46	0.63
Fixed Rate Mortgage	Up to 90%	10	0.85	0.59
		15	1.03	0.59
		20	1.20	0.59
		25	1.31	0.59