

## IMPORTANT NOTICE

**Please read this notice carefully before you proceed with your application for a reverse mortgage loan. This notice only provides additional information about a reverse mortgage loan, and should be read together with the Information Pack and the other materials relating to the Reverse Mortgage Programme of The Hong Kong Mortgage Corporation Limited (HKMC).**

**If you have any questions or require any further information regarding the reverse mortgage loan, please consult your bank and seek independent legal and financial advice as necessary.**

Before you proceed with counselling, we would like to highlight some important features of the Reverse Mortgage Programme for your consideration. If necessary, you should approach your bank for further information before engaging your counsellor.

### **BEFORE DRAWDOWN OF REVERSE MORTGAGE LOAN**

#### **Age requirement**

In general, you can apply for a reverse mortgage loan when you are aged 55 or above. If you would use your subsidised sale flat with unpaid land premium under a housing scheme operated by the Hong Kong Housing Authority or the Hong Kong Housing Society as security for your reverse mortgage loan, you should be aged 60 or above according to the specific age requirement as prescribed by such body.

#### **Initial costs**

Before you submit your formal application for a reverse mortgage loan, you will incur cost for the required counselling service. In addition, if the property<sup>1</sup> purported to be offered as security is over 50 years of age, you will need to obtain a building inspection report **at formal application stage** and at your own cost.

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<sup>1</sup> Unless the context otherwise requires, “property” means any property or properties owned by you.

To avoid incurring any unnecessary costs and expenditures, you should approach your bank for further information before taking any action relating to your application for a reverse mortgage loan, such as changing the title of the property or conducting property inspection.

#### Ownership of your property

Joint application for a reverse mortgage loan by up to 3 borrowers is allowed. You may choose to mortgage more than one property as security under your reverse mortgage loan and such property must be held by all borrowers in joint tenancy.

If you acquired your property at an undervalue (for example, you may have acquired your property by way of gift, for no consideration or for a consideration which is significantly less than the market value), your application for a reverse mortgage loan will not be accepted until 5 years after the date of the relevant legal instrument through which you acquired your property. You should also be mindful of this issue if you wish to change ownership of your property for the purpose of a reverse mortgage loan. Before you take any action or incur any costs and expenditure, you should approach your bank or your solicitors for advice.

#### Undertaking by other occupant(s) of your property and / or any other person(s) who may have an interest in your property

If there is any person residing in your property or any other person who may have an interest in your property, your bank will ask such person(s) to sign an undertaking to agree to move out of your property in the event of the sale of your property, and to disclaim / postpone their interests in your property to that of your bank under the reverse mortgage.

### **MONTHLY AND LUMP-SUM PAYOUTS**

#### Effect on monthly payout after borrowing a lump-sum payout

The amount of monthly payout is determined by reference to a number of factors, including the amount of lump-sum payout you borrow. Generally, the higher the amount of lump-sum payout, the lower will be the subsequent amount of the monthly payout. If at any time you borrow a lump-sum payout up to the maximum amount available to you, you will not be entitled to any further monthly payout even if the payment term of your reverse mortgage loan

has not yet expired. You should carefully consider your financial needs before borrowing any lump-sum payout.

#### Lump-sum payout to fully repay an existing mortgage

While you may borrow a lump-sum payout to fully repay an existing mortgage before proceeding with your reverse mortgage loan, the maximum amount of such lump-sum payout is limited to the outstanding loan balance relating to the original purchase of your property or refinancing of a previous mortgage. If your existing mortgagee bank requires you to repay other amounts secured by the existing mortgage (such as any revolving credit facility granted to you) in order to discharge your existing mortgage, you are required to settle such other amounts using your own funds.

In addition, if you have borrowed any further advance under your existing mortgage within 12 months before the date of your application for a reverse mortgage loan, the original principal loan amount of such further advance will be deducted from the outstanding loan balance of your existing mortgage for determining the maximum amount of your lump-sum payout. You should approach your bank for details of the calculation of the relevant payouts.

### **AFTER DRAWDOWN OF REVERSE MORTGAGE LOAN**

#### Your on-going obligations

Reverse mortgage is a loan arrangement. After taking out a reverse mortgage loan, **you are still the owner of your property** and you will continue to be responsible for meeting all on-going expenses relating to your property, such as management fees, government rents, rates and maintenance costs. You must not rent out your property or any part of it unless with your bank's written approval. You are also required to make a declaration on an annual basis to confirm, among other things, that there is no subsisting lease or tenancy in relation to your property (other than any lease or tenancy approved by your bank).

#### Redemption of property and partial prepayment

In general, you are not allowed to prepay only part of your reverse mortgage loan before it becomes due and payable. However, if you mortgage more than one property as security under your reverse mortgage loan, you may apply to

your bank for the redemption of your property at any time by **partial prepayment** of your reverse mortgage loan. The appraised property value and specified property value of the property which remains subject to the reverse mortgage, as well as the amounts of any subsequent monthly and lump-sum payouts may be adjusted. The required amount of prepayment and the adjustment in such property values and payouts will be assessed and determined by the HKMC on a **case-by-case basis**. For the avoidance of doubt, you will be responsible for the relevant fees charged by your bank and solicitors in connection with such property redemption.

### **Suspension Events**

If you fail to perform any of your on-going obligations in relation to your property or your reverse mortgage loan, or you breach the Government Lease, Deed of Mutual Covenant, or any loan documents you have entered into with your bank (each a **Suspension Event**), your bank will have the right to stop making any more monthly and lump-sum payouts to you if the relevant Suspension Event is not remedied within **3 months**. If more than one property has been mortgaged as security under your reverse mortgage loan, any Suspension Event in relation to any one of your properties will be a Suspension Event for the whole of your reverse mortgage loan. Please refer to Annex I for a full list of the Suspension Events.

### **Maturity Events**

In most cases, a reverse mortgage loan becomes due and payable when you pass away or, if you borrow a reverse mortgage loan together with other borrower(s), when all of you pass away. However, there are other circumstances under which your reverse mortgage loan may become due and payable. For example, if a Suspension Event occurs and is not remedied within **6 months**, your bank is entitled to terminate your reverse mortgage loan. Furthermore, the occurrence of certain events outside your control may also result in your reverse mortgage loan becoming due and payable. These events include:

- the resumption of your property by the Government or any competent authority such as the Urban Renewal Authority;
- the collapse of your property or the building in which your property is located (or a substantial part thereof), or where your property is certified to be no longer to be safely used;

- the completion of the sale of your property by operation of law (for example, sale under the Land (Compulsory Sale for Redevelopment) Ordinance); and
- the termination and non-renewal of the relevant Government Lease.

Under any of the above circumstances (each a **Maturity Event**), you (or your estate, if you have passed away) will have the first right to repay the outstanding loan amount of your reverse mortgage to your bank **in full**.

If the outstanding loan amount is not repaid **in full**, your bank will enforce your reverse mortgage and sell your property. If you have mortgaged more than one property as security under your reverse mortgage loan, your bank will determine at full discretion the priority of enforcement among your property for the repayment of your reverse mortgage loan. If your property is resumed or sold by operation of law, has collapsed, is certified to be no longer be safely used, or the relevant Government Lease is not renewed, then any compensation, sale proceeds or insurance claim which may become payable in respect of your property will be used to repay the outstanding loan amount. Under these circumstances, as applicable, you and any other person(s) residing in your property will need to **move out and arrange for another dwelling place for yourself**. If more than one property has been mortgaged as security under your reverse mortgage loan, any Maturity Event in relation to any one of your properties will be a Maturity Event for the whole of your reverse mortgage loan. Please refer to Annex II for a full list of the Maturity Events.

#### Outstanding loan amount

When your reverse mortgage loan becomes due and payable, you are responsible for repaying the total amount outstanding under your reverse mortgage loan **in full**, and such outstanding amount **may exceed** the property value used for calculation of the amount of monthly and lump-sum payouts.

If you (or your estate if you have passed away) choose to redeem your property instead of letting your bank enforce the reverse mortgage and sell your property, you are required to repay the outstanding loan amount **in full**. In other words, your liability is not limited to the value of your property used for calculation of the amount of monthly and lump-sum payouts at the time of application, nor the then market value of your property when your reverse mortgage loan becomes due and payable.

However, if you (or your estate if you have passed away) choose to let your bank sell the property to recover the outstanding loan amount or do not take any

action to redeem your property before the expiry of the grace period (in general, **9 months** in the case of death of the borrower or **3 months** for other Maturity Events), your bank will dispose of your property in accordance with normal banking practice (including the engagement of an independent qualified valuer to determine the fair market value of your property for reference) and return any surplus to you (or your personal representative if you have passed away). Any shortfall between the sale proceeds from the property and the outstanding loan amount will be borne by the HKMC under an insurance arrangement between your bank and the HKMC.

## **TRANSFER/DISCLOSURE OF PERSONAL DATA**

### **Personal data**

Your personal data will be collected according to the purposes as set out in the Personal Information Collection Statement in relation to the Reverse Mortgage Programme. If you would use your subsidised sale flat with unpaid land premium as security for your reverse mortgage loan, your bank and the HKMC may pass your personal data and property information (including information relating to the land register of your property) to the relevant authority for checking compliance of the applicable scheme rules, laws and regulations. If necessary, your bank will request you to provide written authority to allow release of such information by sending you an “Authorisation to Provide and Release Information” Form for signature and return. If no response is received from you, it may not be possible for any further action to be taken to process your application.

## **ASSIGNMENT OF LIFE INSURANCE POLICY**

### **Additional collateral**

You may choose to assign your life insurance policy to your bank as additional collateral under your reverse mortgage loan to increase the amount of monthly and lump-sum payouts. However, the option of life insurance policy assignment is not available if the number of borrowers is more than two.

The amount recoverable under a life policy assignment to be used by your bank for repayment of your reverse mortgage loan is **limited to the cash surrender value of your life insurance policy**. There is no limit on the number of life

insurance policies for assignment but the aggregate amount of cash surrender value is capped at the specified property value of the property under your reverse mortgage loan, which may be adjusted in case of property redemption. The assignment of life insurance policy can be made at the time of application for your reverse mortgage loan or at any time before your reverse mortgage loan becomes due and payable. Your life insurance policy will be reviewed by the HKMC to determine whether it is eligible for assignment under the Reverse Mortgage Programme. Please note that disbursement of the monthly and lump-sum payouts will only be made after the completion of your property mortgage and life insurance policy assignment.

#### Payouts under a reverse mortgage loan with assignment of life insurance policy

The amount of monthly and lump-sum payouts of your reverse mortgage loan with assignment of your life insurance policy may vary and will be determined by the HKMC on a **case-by-case basis**, with reference to factors including the cash surrender value of your life insurance policy at the time of application for assignment. Such payout amounts may differ from the indicative levels as shown in the leaflet and Information Pack.

#### Lump-sum payout for repayment of policy loan

You may apply for a lump-sum payout, at the time of application for your reverse mortgage loan or at any time before your reverse mortgage loan becomes due and payable, to reimburse in full the repayment amount of, or repay in full, any outstanding policy loan on your life insurance policy (which will be assigned to your bank under your reverse mortgage loan), provided that such policy loan was granted by your insurance company at least 12 months before the date of formal application of your reverse mortgage loan or the date of application for subsequent life insurance policy assignment under your reverse mortgage loan.

#### Change of beneficiary

In order for your life insurance policy to be eligible for assignment to your bank under a reverse mortgage loan, it is necessary that the beneficiary under your life insurance policy be yourself or your own estate (in case of a single-borrower application) or the co-borrower (in case of a two-borrower application). You are required to arrange with your insurance company to change the beneficiary, as appropriate, before you execute your life insurance policy assignment.

### Consent of beneficiary

In case of a two-borrower application, before you execute the life insurance policy assignment, the solicitor acting for your bank will request the beneficiary under your life insurance policy to sign / execute (i) a consent to subordinate his / her rights, title and interests under your life insurance policy to that of your bank and (ii) the life insurance policy assignment. As a result, your bank will have first priority over any money payable under your life insurance policy and the amount to be used by your bank for repayment of your reverse mortgage loan is **limited to the cash surrender value of your life insurance policy**. Your estate or the beneficiary may not receive the cash surrender value payable under your life insurance policy (which excludes any death benefit after deduction of the cash surrender value) unless the amount of the cash surrender value is not required to repay your reverse mortgage loan in full. You and the beneficiary should consider carefully before deciding whether or not to proceed with the life insurance policy assignment.

### Acknowledgement of assignment

Before your bank disburses the monthly and / or lump-sum payout(s) to you, your bank has to receive from your insurance company an acknowledgement of assignment together with certain confirmations. The date of drawdown or disbursement of payouts will depend on when your insurance company returns such acknowledgement and confirmations to your bank. If the assignment of your life insurance policy cannot be completed (for example, if your insurance company does not provide the necessary acknowledgement and confirmations), you may still consider proceeding with your reverse mortgage loan application but without the assignment of life insurance policy.

### Voluntary release of life insurance policy assignment and partial prepayment

You may apply to your bank for the release of your life insurance policy assignment at any time before your reverse mortgage loan becomes due and payable by **partial prepayment** of your reverse mortgage loan. The appraised property value and specified property value of the property which remains subject to the reverse mortgage, as well as the amounts of any subsequent monthly and lump-sum payouts may be adjusted. The required amount of prepayment and the adjustment in such property values and payouts will be assessed and determined by the HKMC on a **case-by-case basis**. For the avoidance of doubt, you will be responsible for the relevant fees charged by



your bank and solicitors in connection with such release of life insurance policy assignment.

#### Maturity Event due to death of borrower

Upon your passing away (as the sole borrower or the last living co-borrower), your reverse mortgage loan will become due and payable. If your estate chooses not to redeem your property, your bank will enforce your reverse mortgage and sell your property to repay your reverse mortgage loan. Any person then residing in your property will be required to move out upon such enforcement. If your reverse mortgage loan is not repaid **in full** with the sale proceeds of your property, your bank will then apply the payment received from your life insurance policy, **up to the amount of the then available cash surrender value**, to recover any shortfall. Any remaining shortfall will be borne by the HKMC under an insurance arrangement between your bank and the HKMC. In any case, any surplus after full repayment of the reverse mortgage loan will be returned to your estate.

#### Maturity Event not due to death of borrower

If a Maturity Event occurs before you (as the sole or last living borrower) pass away, your reverse mortgage loan will become due and payable. Your bank will have full discretion to determine the enforcement priority between your mortgage and life insurance policy assignment. If your life insurance policy assignment is enforced, your bank will determine to make a withdrawal or take out a policy loan from your insurance company or surrender your life insurance policy, as appropriate, to repay your reverse mortgage loan. Your bank will release the life insurance policy to you, or return to you any surplus after repayment of your reverse mortgage loan **in full**.

#### Policy termination before Maturity Event

If your life insurance policy terminates and no Maturity Event has occurred, any payment made by the insurance company as a result of such termination (**up to the amount of the then available cash surrender value**) will be applied towards the repayment of your reverse mortgage loan. Any surplus after the repayment will be returned to you or the beneficiary under your life insurance policy, as appropriate, and any subsequent monthly and lump-sum payouts (if any) may be adjusted accordingly, as determined by the HKMC on a **case-by-case basis**.

### **Suspension Events**

A **Suspension Event** happens when:

- (a) you breach the relevant Government Lease or Deed of Mutual Covenant;
- (b) you fail to pay management fees, rates and government rent etc.;
- (c) you fail to maintain insurance against fire risks and other serious damage affecting your property;
- (d) you fail to keep your property in good repair and condition;
- (e) you fail to comply with any laws, rules and regulations in relation to your property;
- (f) you fail to comply with any order and notice issued by any governmental authority or building manager in respect of your property;
- (g) you fail to provide an annual declaration containing certain confirmations relating to your property and, if applicable, your life insurance policy;
- (h) you create any charge or other interest in your property in favour of any person (other than the bank under the relevant reverse mortgage deed), unless your bank otherwise agrees in writing;
- (i) you do or omit to do anything which has a detrimental effect upon the value of your property, or which is prejudicial to the security created under the relevant reverse mortgage deed; or
- (j) you breach any of your obligations under the relevant facility letter or any security document, or provide any incorrect or misleading information to the bank in connection with your reverse mortgage loan.

Remark:

If more than one property has been mortgaged as security under your reverse mortgage loan, any Suspension Event in relation to any one of your properties will be a Suspension Event for the whole of your reverse mortgage loan.

**Maturity Events**

A **Maturity Event** happens when:

- (a) your property is subject to any subsisting tenancy without your bank's written approval;
- (b) you have passed away, or if you borrow a reverse mortgage loan together with other person(s), all of you have passed away;
- (c) you, or any one of you (if you borrow a reverse mortgage loan together with other borrower(s)), is/are adjudged bankrupt or become(s) the subject of an individual voluntary arrangement;
- (d) a Suspension Event which is capable of being remedied has happened and you fail to cure it within 6 months after it has happened;
- (e) a Suspension Event which is not capable of being remedied has happened;
- (f) your property is resumed by the Hong Kong Government or any other competent authority;
- (g) the Government Lease in respect of your property is terminated and is not renewed;
- (h) a qualified person has advised in writing that your property can no longer safely be used;
- (i) your property or the building in which your property is located has collapsed or substantially collapsed;
- (j) you are being forced to sell your property by law and completion has taken place;
- (k) the joint tenancy ownership in your property has been severed; or
- (l) you voluntarily deliver vacant possession of your property to your bank.

Remark:

If more than one property has been mortgaged as security under your reverse mortgage loan, any Maturity Event in relation to any one of your properties will be a Maturity Event for the whole of your reverse mortgage loan.