Reverse Mortgage Brightens Up Your Retired Life
Introduction

The Reverse Mortgage Programme is operated by HKMC Insurance Limited (HKMCI), a wholly-owned subsidiary of The Hong Kong Mortgage Corporation Limited, for people who are aged 55 or above to apply for reverse mortgage loans.

The purpose of this Information Pack is to provide a general understanding of reverse mortgage. The information contained in this Information Pack is not comprehensive. If you wish to apply for a reverse mortgage loan, you should obtain further detailed information from a bank.
What is a reverse mortgage?

Reverse mortgage is a loan arrangement. It enables you to use your residential property (or more than one residential property) in Hong Kong as security to borrow from a lender. Although you mortgage your property in favour of the lender, you remain as the owner of your property and can continue to stay in your property for the rest of your life\(^1\).

You can opt to receive monthly payouts either over a fixed period of 10, 15 or 20 years or throughout your entire life, and you may also borrow lump-sum payouts for specific purposes when needed.

In general, you do not need to repay your reverse mortgage loan during your lifetime, unless your reverse mortgage loan is terminated under certain specified circumstances.

When your reverse mortgage loan is terminated, you (or your personal representatives) have the preferential right to redeem your property by repaying to the lender \textbf{in full} the outstanding loan amount owed by you under the reverse mortgage. If you (or your personal representatives) do not exercise such a right, the lender will sell your property to recover the outstanding loan amount you owe.

If the sale proceeds from your property exceed the outstanding loan amount owed by you, the lender will pass the surplus to you (or your personal representatives) after paying off such outstanding loan amount \textbf{in full}. If there is any shortfall, you (or your inheritors) need not worry as the shortfall will be borne by HKMCI under an insurance arrangement between the lender and HKMCI.

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\(^1\) You should however note that under certain specified circumstances, the lender has the right to terminate your reverse mortgage loan. If you do not repay the outstanding loan amount owed to the lender in full to redeem your property, the lender will take possession of and sell your property, in which case you can no longer stay in your property. Please refer to the Important Notice for further information.
Am I eligible and how may I apply?

Am I eligible for a reverse mortgage loan?

In general, you must:

- be aged 55 or above (or aged 60 or above for owners of subsidised sale flats with unpaid land premium)\(^2\) and a holder of a valid Hong Kong Identity Card
- not be an undischarged bankrupt or otherwise subject to bankruptcy petition or individual voluntary arrangement

In general, your property, which is to be mortgaged to a lender, must:

- be a residential property in Hong Kong (property acquired by deed of gift may be considered)
- be held in your own name, or in joint names among you and up to two co-borrowers as joint tenants\(^3\)
- not exceed 50 years of age\(^4\)
- not be subject to any resale restrictions (except for the alienation restriction of subsidised sale flat\(^5\) imposed by the relevant authority)
- not be rented out

(You may apply to rent out your property if you own your property for at least one year and all borrowers have:
(i) declared that they have retired; or
(ii) moved out to obtain elderly or medical care.
If your property is a subsidised sale flat with unpaid premium, you must obtain a written consent from relevant authority, in addition to the above requirement of property ownership.)

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\(^2\) If your property is a subsidised sale flat with unpaid land premium, you should be aged 60 or above according to the specific age requirement as prescribed by the Hong Kong Housing Authority (HA) or the Hong Kong Housing Society (HS).

\(^3\) The other joint tenant(s) must become the co-borrower(s) under the same reverse mortgage loan, and must satisfy the relevant eligibility criteria.

\(^4\) Property exceeding 50 years of age will be considered on a case-by-case basis and subject to building inspection.

\(^5\) For a subsidised sale flat with unpaid land premium, it must be under the Home Ownership Scheme, Private Sector Participation Scheme, Tenants Purchase Scheme and Green Form Subsidised Home Ownership Pilot Scheme of the HA, the Flat-For-Sale Scheme, Sandwich Class Housing Scheme and Subsidised Sale Flats Projects of the HS, or any other subsidised housing schemes as accepted by HKMCI from time to time.
How should I proceed if I am interested?

Please enquire at a bank direct which will provide you with details and conduct a preliminary eligibility assessment for you. Based on the information you provide, the bank will prepare an Information Sheet which contains your personal particulars, and Indicative Loan Schedules which show the amount of monthly payouts, interest expenses and mortgage insurance premium under different payment terms based on your age and the value of your property.

Please study the Information Sheet, the Important Notice and the Indicative Loan Schedules carefully and go through them with your family and any persons whom you believe would assist you in making an appropriate decision. You do not need to apply for a reverse mortgage loan through any intermediary (except banks). If you have any queries, please contact the bank or call the Reverse Mortgage Programme Hotline at 2536 0136. It is important for you to fully understand the ramifications that a reverse mortgage loan has for you.

For subsidised sale flats with unpaid land premium, lenders have obtained consent from the HA or the HS for creation of mortgage under the Reverse Mortgage Programme and you are not required to apply for separate consent from the relevant authority. However, you are required to sign and return the “Authorisation to Provide and Release Information” Form to proceed with your application.

Before making a formal application for a reverse mortgage loan, you must first make an appointment with an eligible counsellor, who is a practising solicitor, for a face-to-face counselling session (please see the section below on Counselling).
The purpose of counselling is to help you better understand:

- the general features of a reverse mortgage loan
- your major rights and obligations under a reverse mortgage loan
- the legal consequence of taking out a reverse mortgage loan

Your counsellor will issue a Counselling Certificate to you if, in your counsellor’s opinion, you successfully completed the counselling session. After obtaining the Counselling Certificate, if you would like to proceed further, you may approach a bank (which may not be the bank which prepares the Information Sheet and the Indicative Loan Schedules for you) to make a formal application. However, if you believe that a reverse mortgage loan is not suitable for you, you should not apply.

If your formal application is approved by the lender, you will be required to execute the mortgage documents at the office of the lender’s solicitors.

If there are any non-borrower occupants residing in your property or other persons having an interest in your property, they will be required to sign an undertaking before drawdown of the reverse mortgage loan to confirm their agreement to defer such interest to that of the lender and move out of your property in the event of enforcement of the reverse mortgage.
Key product features and benefits

**Flexible payment term**

You can choose to receive monthly payouts for a fixed period of 10, 15 or 20 years or throughout your entire life. You have the flexibility, at any time during your payment term, to apply to switch to another payment term.

**Two options of interest rate plan**

To meet your financial needs, you can choose either a floating rate or fixed rate mortgage plan. In general, a fixed rate mortgage plan offers higher payout amounts than a floating rate mortgage plan.

**Monthly payout amount**

In general, the higher is the value of the property, the higher will be the monthly payout amount. The older you are at the time of formal application and the shorter is the payment term, the higher will also be the amount of the monthly payout. If there is more than one borrower, for example two borrowers, the scale of the monthly payout amount will be lower than the scale for a single borrower, and the entry age of the youngest borrower will be used for calculation of the monthly payout amount.
For a subsidised sale flat with unpaid land premium, the appraised property value is determined as the open market value minus the land premium amount.

For any refinancing property with appraised property value at HK$12 million or below, the maximum amount of the specified property value for payout calculation will be 80% of the appraised property value.

The determination of maximum amount of specified property value is subject to the aggregate amount of appraised property value in the case of more than one property as security under a reverse mortgage loan.

For any property valued at HK$25 million or above, the maximum amount of the specified property value for payout calculation will be capped at HK$15 million.

**Table 1 – Maximum amount of specified property value for payout calculation**

<table>
<thead>
<tr>
<th>Appraised property value</th>
<th>Maximum amount of specified property value for payout calculation</th>
</tr>
</thead>
<tbody>
<tr>
<td>HK$8 million or less</td>
<td>100% of appraised property value</td>
</tr>
<tr>
<td>Over HK$8 million to HK$12 million</td>
<td>higher of 80% of appraised property value and HK$8 million</td>
</tr>
<tr>
<td>Over HK$12 million to HK$16 million</td>
<td>higher of 70% of appraised property value and HK$9.6 million</td>
</tr>
<tr>
<td>Over HK$16 million</td>
<td>higher of 60% of appraised property value and HK$11.2 million (capped at HK$15 million)</td>
</tr>
</tbody>
</table>

**Floating rate mortgage plan**

**Table 2 – Monthly payout amount**

(Per HK$1 million of specified property value)

<table>
<thead>
<tr>
<th>Entry age</th>
<th>55 years old</th>
<th>60 years old</th>
<th>70 years old</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payment</td>
<td>One borrower</td>
<td>Two borrowers</td>
<td>Three borrowers</td>
</tr>
<tr>
<td>term</td>
<td>One borrower</td>
<td>Two borrowers</td>
<td>Three borrowers</td>
</tr>
<tr>
<td>10-year</td>
<td>$3,200</td>
<td>$2,800</td>
<td>$2,500</td>
</tr>
<tr>
<td>15-year</td>
<td>$2,400</td>
<td>$2,150</td>
<td>$1,900</td>
</tr>
<tr>
<td>20-year</td>
<td>$2,050</td>
<td>$1,800</td>
<td>$1,600</td>
</tr>
<tr>
<td>Life</td>
<td>$1,650</td>
<td>$1,450</td>
<td>$1,250</td>
</tr>
</tbody>
</table>

6 For a subsidised sale flat with unpaid land premium, the appraised property value is determined as the open market value minus the land premium amount.

7 For any refinancing property with appraised property value at HK$12 million or below, the maximum amount of the specified property value for payout calculation will be 80% of the appraised property value.

8 The determination of maximum amount of specified property value is subject to the aggregate amount of appraised property value in the case of more than one property as security under a reverse mortgage loan.

9 For any property valued at HK$25 million or above, the maximum amount of the specified property value for payout calculation will be capped at HK$15 million.
The payment term you choose and the specified property value of your property will affect the calculation of the monthly payout amount. Table 3 below illustrates the calculation of the monthly payout amount for applications with different number of borrower(s), entry age, payment term and property value. Example 1 below shows a straightforward example of a single borrower; whereas, under Example 2 with two borrowers, the entry age of the younger wife is used for the calculation. Under Example 3, the property value of HK$28 million is chosen to illustrate the requirement of an upper limit of HK$15 million on the specified property value9.

Table 3 – Examples of calculation of monthly payout amount (HK$)

<table>
<thead>
<tr>
<th>Borrower(s) and entry age</th>
<th>Example 1</th>
<th>Example 2</th>
<th>Example 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Person aged 70</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Husband aged 70 and wife aged 60</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Husband and wife both aged 70</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payment term</td>
<td>Life</td>
<td>10-year</td>
<td>20-year</td>
</tr>
<tr>
<td>Property value</td>
<td>$2,500,000</td>
<td>$6,000,000</td>
<td>$28,000,000</td>
</tr>
<tr>
<td>Monthly payout amount</td>
<td>$3,100 x 2.5</td>
<td>$3,300 x 6</td>
<td>$3,000 x 15</td>
</tr>
<tr>
<td></td>
<td>= $7,750</td>
<td>= $19,800</td>
<td>= $45,000</td>
</tr>
</tbody>
</table>

Fixed rate mortgage plan

You may enquire with the lenders for the monthly and maximum lump-sum payout amounts under a fixed rate mortgage plan of your reverse mortgage loan. In general, the payout amounts offered under a fixed rate mortgage plan are higher than those under a floating rate mortgage plan.
Lump-sum payout

You may apply to borrow lump-sum payouts at the time of initial loan application and/or at any time during the payment term you choose for the following purposes:

- full repayment of the existing mortgage on your property (applicable only at the time of initial loan application)
- settlement of premium payment for your subsidised housing property
- payment for home improvement, repairs and maintenance of your property
- payment for medical expenses (treatment outside Hong Kong is acceptable)
- payment for the fees payable to the relevant solicitors and medical practitioners in connection with the enduring power of attorney, or the fees in connection with the application for a court order under Part II of the Mental Health Ordinance
- purchase of interment right in columbarium and cemetery, as well as expenses for funeral services

You can contact your lender to find out the maximum amount of lump-sum payout that you can borrow, from time to time, under your reverse mortgage loan. The maximum amount of lump-sum payout is determined at the time of initial loan application and such amount decreases over the payment term.

The maximum lump-sum payout amount is 90% of the actuarial value of the reverse mortgage loan while the minimum lump-sum payout amount is the higher of HK$100,000 or 15% of the maximum lump-sum payout amount.

If you draw a larger lump-sum payout amount, there will be correspondingly a lower monthly payout amount. If you withdraw the maximum amount of lump-sum payout, you will not receive any monthly payouts thereafter.

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10 Supporting documents are required for each lump-sum payout application. Other purposes not listed above may be considered on a case-by-case basis.
Residing in your own home

After taking out a reverse mortgage loan, you are still entitled to continue to stay in your property for the rest of your life and to be responsible for the ongoing property maintenance as well as the settlement of rates, government rents and management fees, etc. However, the lender will have the right to terminate your reverse mortgage loan under specific circumstances. If you do not repay the outstanding loan amount owed by you to the lender in full, your lender will take possession of and sell your property to recover the outstanding loan amount you owe, in which case you can no longer stay in your property.

Flexibility to rent out your property under specific circumstances

Rental income in addition to the monthly and lump-sum payouts of the reverse mortgage loan allows you to enjoy more financial security in planning your retirement life, especially when you need to pay for elderly or medical care services. More details are available on page 3.

No repayment during your lifetime

In general, you do not need to repay the outstanding loan amount you owe to the lender during your lifetime, unless your reverse mortgage loan is terminated under certain specified circumstances.

No penalty for early full repayment

You may fully repay the outstanding loan amount and redeem your property at any time and there is no penalty for such full repayment. However, you may not repay only a part of the outstanding loan amount.

Six-month cooling-off period

If you wish to terminate your reverse mortgage loan for whatever reason, provided that you notify your lender within the first six months and repay in full the outstanding loan amount on the proposed repayment date, you will be given a refund and waiver of all mortgage insurance premiums. However, you still need to bear any accrued interest and financed fees in the outstanding loan amount and also the relevant legal fees in relation to the termination of your reverse mortgage loan.
Costs

**Interest expense**

Reverse mortgage is a loan arrangement and interest is charged by the lenders on the outstanding loan amount (including interest) on a compound basis. Please refer to the Indicative Loan Schedules to see how interest builds up over time.

**Mortgage insurance premium**

Under the insurance arrangement between the lender and HKMCI, the lender pays mortgage insurance premiums to HKMCI for mortgage insurance cover and seeks reimbursement from you. The mortgage insurance premium is divided into two parts and the amount payable by you will be debited to the outstanding loan amount:

- **Upfront Mortgage Insurance Premium** is 1.96% of the specified property value, payable by 7 annual instalments starting from the 4th until the 10th anniversary. Each annual instalment is calculated at 0.28% of the specified property value under the reverse mortgage loan.

- **Monthly Mortgage Insurance Premium** is payable on a monthly basis at the annual rate of 1.25% of the outstanding loan amount.

Please refer to the Indicative Loan Schedules to get an idea of the amount of mortgage insurance premium.
Counselling fee

You need to pay a fee to your counsellor for the counselling service. If you decide to take out a reverse mortgage loan, you may choose to finance such fee in your reverse mortgage loan.

Legal fees

You will be responsible for the legal fees for execution of the mortgage documents and other relevant legal documents. You may choose to finance such legal fees in your reverse mortgage loan.

Handling fees

A handling fee of HK$1,000 will be charged for each successful application for change of payment term, request for a lump-sum payout or adding/releasing additional property as security after a reverse mortgage loan has been granted. Such handling fees will be debited to the outstanding loan amount.

Other fees and expenses

Where a building inspection report is required (if the age of your property exceeds 50 years), you will need to bear such a cost. You may choose to finance such fees for the building inspection report in your reverse mortgage loan.
Counselling

Finding your own counsellor

Counsellors are practising solicitors and they are independent from the lenders. The role of the counsellor is to explain to you the general features of a reverse mortgage loan, the major rights and obligations as well as the legal consequences of taking out a reverse mortgage loan.

The Law Society of Hong Kong maintains a list of the solicitors who are eligible for providing counselling service. You may contact these eligible counsellors to find out the fee chargeable for the provision of counselling service.

Getting prepared for your counselling session

Once you have identified a suitable counsellor, you may need to provide your counsellor with preliminary information about yourself and your property before scheduling for the counselling session.

If you only speak or understand a particular language/dialect or suffer from any physical disability, you should speak to your counsellor before the counselling session to see if any special arrangement needs to be made. Your counsellor may charge additional fees for any such special arrangement.

Please bring along this Information Pack, the Information Sheet and the Indicative Loan Schedules with you when you attend the counselling session.
Attending the counselling session

You are encouraged to bring along your spouse, children, other next of kin and any person who may be affected by your decision to obtain a reverse mortgage loan, including any occupant in the property, to the counselling session.

During the counselling session, your counsellor will go through a list of questions and statements with you to help you better understand the major features of a reverse mortgage loan, which may significantly affect your rights and obligations or those of your spouse, any other occupants residing with you in the property and your inheritors, and highlight to you matters which you must consider carefully before proceeding further with the reverse mortgage loan application.

After the counselling session

Your counsellor will ask you to sign on the list of questions and statements which he has explained to you, and you should sign only if you understand what you have been explained. If considered appropriate, you will be issued a Counselling Certificate on the same day of your counselling session evidencing the successful completion of counselling.

After obtaining the Counselling Certificate, you may then proceed to make a formal application for a reverse mortgage loan within six months after issuance of the Counselling Certificate.
Enquiry

If you have any enquiries, please contact a bank, your counsellor or call the Reverse Mortgage Programme Hotline for more information.

Reverse Mortgage Programme Hotline: 2536 0136
Website: www.hkmc.com.hk

The programme is subject to relevant terms and conditions.