

REVERSE
MORTGAGE
PROGRAMME
Information
Pack



Reverse Mortgage
**Brightens Up
Your Retired Life**

Purpose

This Information Pack aims to provide interested parties with a general understanding of the Reverse Mortgage Programme. The information contained in this Information Pack is not comprehensive. Any person interested in applying for a reverse mortgage loan should obtain further details from a bank.



Reverse Mortgage Programme

The Reverse Mortgage Programme is operated by HKMC Insurance Limited (HKMCI), a wholly-owned subsidiary of The Hong Kong Mortgage Corporation Limited, which enables people aged 55 or above to use their residential properties in Hong Kong as security to obtain reverse mortgage loans from lenders. Although the property has been mortgaged in favour of the lender, the borrower remains as the owner of the property and is entitled to stay in the property for the rest of his life¹.

Under a reverse mortgage loan, the borrower can opt to receive monthly payouts either over a fixed period of 10, 15 or 20 years or throughout his entire life, and may also borrow lump-sum payouts for specific purposes when needed.

In general, the borrower does not need to repay the reverse mortgage loan during his lifetime, unless the loan is terminated under specific circumstances.

When a reverse mortgage loan is terminated, the property owner (or his personal representative) will have the preferential right to redeem the mortgaged property by repaying in full the outstanding loan amount, otherwise the lender will dispose of the mortgaged property to repay the outstanding loan amount. If there is any shortfall, it will be borne by the HKMCI under an insurance arrangement between the lender and the HKMCI. Any surplus will be passed to the property owner.

¹ The lender has the right to terminate a reverse mortgage loan under specific circumstances. If the reverse mortgage loan is terminated and the outstanding loan amount is not repaid in full, the lender is entitled to take possession of and dispose of the property, in which case all occupants of the property will need to move out. Please refer to the Important Notice for further information.

Application Eligibilities and Application Flow

What are the Eligibilities for Applying a Reverse Mortgage Loan?

Joint application for a reverse mortgage loan by up to three borrowers is allowed². The borrower must:

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

The property offered as security for a reverse mortgage loan must:

- be a residential property in Hong Kong (property acquired by deed of gift may be considered);
- be owned by:
 - (i) the borrower as sole and beneficial owner or as joint tenants (if there is more than one borrower); or
 - (ii) a limited company, incorporated in Hong Kong, wholly and directly held by the borrower (or if there is more than one borrower, all borrowers);
- not exceed 50 years of age³;
- not be subject to any resale restrictions (except for the alienation restriction of subsidised sale flats⁴ imposed by the relevant authority provided written consent from the relevant authority is obtained); and
- not be rented out
(The borrower may apply to rent out the mortgaged property⁵ if it has been owned for at least one year and all the borrowers have:
 - (i) declared that they have retired; or
 - (ii) moved out to obtain elderly or medical care.)

² All borrowers must satisfy the relevant eligibility criteria.

³ Property exceeding 50 years of age will be considered on a case-by-case basis and subject to building inspection.

⁴ 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 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.

⁵ If the property is a subsidised sale flat with unpaid land premium, the borrower must obtain a written consent from the relevant authority for renting it out.

What is the Application Flow?

Step 1: Pre-application

- Any person who is interested in applying for a reverse mortgage loan should enquire with a bank which will explain details of the Reverse Mortgage Programme and conduct a preliminary eligibility assessment. There is no need to apply for a reverse mortgage loan through other intermediaries (except banks) under any circumstances. Based on the information provided, the bank will prepare an Information Sheet which contains, amongst other things, the Indicative Loan Schedules showing the amount of monthly payouts, interest expenses and mortgage insurance premium under different payment terms based on the age of the interested person and the value of the property.
- The interested person should study the Information Sheet, the Important Notice and the Indicative Loan Schedules carefully and go through them with family and any persons whom he believes would assist in making an appropriate decision. For any queries, please contact the bank or call the **Reverse Mortgage Programme Hotline at 2536 0136**.

Point to Note:

For subsidised sale flats with unpaid land premium, lenders have obtained approval from the HA or the HS for creation of mortgage under the Reverse Mortgage Programme. In other words, there is no need to apply for a separate consent from the relevant authority. However, the interested persons are required to sign and return the “Authorisation to Provide and Release Information” form to proceed with their applications.

Step 2: Counselling

- The interested person should make an appointment with an eligible counsellor, who is a practising solicitor, for a face-to-face counselling session before making a formal application for a reverse mortgage loan (please refer to the section below on Counselling).
- The purpose of counselling is to help the interested person better understand:
 - (i) the features of a reverse mortgage loan;
 - (ii) the major rights and obligations of a reverse mortgage loan borrower; and
 - (iii) the legal consequences of taking out a reverse mortgage loan.
- A Counselling Certificate will be issued by an eligible counsellor to the interested person who has successfully completed the counselling session.

Step 3: Formal Application

- Any person who is holding a valid Counselling Certificate may approach a bank (which may be different from the one preparing the Information Sheet and Indicative Loan Schedules) to make a formal application.
- If the formal application is approved, execution of the mortgage documents and other related legal documents will take place at the office of the lender's solicitors.

Point to Note:

If there are any persons (other than the property owner) residing in the property or having an interest in the 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 the property in the event of enforcement of the reverse mortgage.

Key Features and Benefits

Flexible Payment Term

Borrower can choose to receive monthly payouts for a fixed period of 10, 15 or 20 years or throughout his entire life, and may apply to switch to another payment term after drawdown of a reverse mortgage loan.

The monthly payout amount will remain unchanged throughout the payment term. Once the amount is determined, it will not be affected by the property price, interest rate, inflation/deflation or any other economic factors. However, if the borrower takes out a lump-sum payout, the amount of the subsequent monthly payouts will be reduced subject to the lump-sum payout amount taken out.

Lump-sum Payout

Borrower may apply to borrow lump-sum payouts at the time of initial loan application and/or any time during the selected payment term for the following purposes⁶:

- refinancing of an existing reverse mortgage or full repayment of other existing mortgage of the borrower's property (not applicable to the property owned by a limited company) at the time of initial loan application
- settlement of land premium payment for subsidised housing property
- payment for home improvement, repairs and maintenance of the property
- payment for medical expenses (treatment outside Hong Kong is acceptable)
- payment for fees payable to solicitors and medical practitioners in connection with an enduring power of attorney, or 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

⁶ Supporting documents are required for each lump-sum payout application. Other purposes not listed above may be considered on a case-by-case basis.

Please contact the lender to find out the maximum amount of lump-sum payout that can be borrowed, from time to time, under a 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 a borrower draws a larger lump-sum payout amount, there will be correspondingly a lower monthly payout amount. If the maximum amount of lump-sum payout has been withdrawn, the borrower will not receive any monthly payouts thereafter.

Flexible Arrangement to Rent out the Property under Specific Circumstances

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

Lifetime Home Residence

After taking out a reverse mortgage loan, property owner is still entitled to stay in the property for the rest of his life, even after the payment term is due (10, 15 or 20 years). However, interest and mortgage insurance premium will be debited to the outstanding loan amount. Lender will have the right to terminate the reverse mortgage loan under specific circumstances. If the outstanding loan amount is not repaid in full, the lender will take possession of and dispose of the property to recover the outstanding loan amount, in which case all occupants of the property will need to move out.

No Repayment during Lifetime

In general, the borrower does not need to repay the outstanding loan amount during his lifetime, unless the reverse mortgage loan is terminated under specific circumstances.

No Penalty for Early Loan Repayment

Full repayment of reverse mortgage loan and redemption of mortgaged property may be made any time without penalty. However, partial repayment is not accepted.

Six-month Cooling-off Period

If the borrower decides to terminate the reverse mortgage loan for whatever reason within the first 6 months and the outstanding loan amount is fully repaid on the proposed repayment date, a refund or waiver of the relevant mortgage insurance premiums will be given. However, the borrower is still required to bear the accrued interest, financed fees (if any) and the relevant fees in relation to the termination of the reverse mortgage loan.

Monthly Payout Amount

In general, the higher the property value, the higher the monthly payout amount will be. The older the borrower at the time of formal application and the shorter the payment term, the higher the amount of monthly payout will be. If there is more than one borrower, for example two borrowers, the scale of the monthly payout amount will be lower than that for a single borrower, and the entry age of the youngest borrower will be used for calculation of the monthly payout amount.

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

Appraised property value ⁷	Maximum amount of specified property value for payout calculation ⁸
HK\$8 million or less	100% of appraised property value ⁹
Over HK\$8 million to HK\$12 million	higher of 80% of appraised property value and HK\$8 million ⁹
Over HK\$12 million to HK\$16 million	higher of 70% of appraised property value and HK\$9.6 million
Over HK\$16 million	higher of 60% of appraised property value and HK\$11.2 million (capped at HK\$15 million)

Two Options of Mortgage Plans

To better meet the financial need, the borrower can choose either a floating-rate or a fixed-rate mortgage plan. In general, a fixed-rate mortgage plan offers a **higher** amount in monthly payout and maximum lump-sum payout than a floating-rate mortgage plan.

⁷ 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.

⁸ Determination of the 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 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.

Floating-Rate Mortgage Plan

**Table 2 – Monthly payout amount (HK\$)
(per \$1 million of specified property value)**

Entry age	55 years old			60 years old			70 years old		
	One borrower	Two borrowers	Three borrowers	One borrower	Two borrowers	Three borrowers	One borrower	Two borrowers	Three borrowers
10-year	\$3,200	\$2,800	\$2,500	\$3,700	\$3,300	\$3,000	\$5,100	\$4,600	\$4,200
15-year	\$2,400	\$2,150	\$1,900	\$2,800	\$2,500	\$2,250	\$3,800	\$3,500	\$3,200
20-year	\$2,050	\$1,800	\$1,600	\$2,400	\$2,100	\$1,900	\$3,300	\$3,000	\$2,700
Life	\$1,650	\$1,450	\$1,250	\$2,000	\$1,800	\$1,550	\$3,100	\$2,800	\$2,400

The selected payment term and the specified property value of the 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 an 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 value¹⁰.

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

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

Fixed-Rate Mortgage Plan

Please enquire with the lender for the monthly and maximum lump-sum payout amounts under a fixed-rate mortgage plan. In general, the payout amounts offered under a fixed-rate mortgage plan are higher than those under a floating-rate mortgage plan.

¹⁰ Maximum amount of the specified property value for payout calculation will be capped at HK\$15 million.

Costs

Interest Expense

Reverse mortgage is a loan arrangement and interest will be charged by the lender 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 the HKMCI, the lender pays mortgage insurance premiums to the HKMCI for mortgage insurance cover and seeks reimbursement from the borrower. The mortgage insurance premium is divided into two parts and the amount payable by the borrower 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

Borrower is required to pay to the counsellor a fee for counselling service which may be financed in the reverse mortgage loan.

Legal Fees

Borrower will be responsible for the legal fees for execution of the mortgage documents and other relevant legal documents. Such legal fees can be financed in the reverse mortgage loan.

Handling Fee

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

Other Fees and Expenses

Costs will be incurred if a building inspection report is required (where the age of the property exceeds 50 years). Borrower may choose to finance such cost in the reverse mortgage loan.

Counselling

Finding an Eligible Counsellor

A counsellor is a practising solicitor independent of the lender. The role of the counsellor is to explain to an interested person 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 solicitors who are eligible for providing counselling service. Those who are interested in applying for a reverse mortgage loan may contact these eligible counsellors to find out the fee chargeable for counselling service.

Getting Prepared for the Counselling Session

Once a suitable counsellor is identified, the interested person may need to provide the counsellor with preliminary information about himself and the property before scheduling for a counselling session.

If the interested person only speaks or understands a particular language/dialect or suffers from any physical disability, such information should be communicated to the counsellor before the counselling session for preparation of special arrangement, if needed. The counsellor may charge additional fees for any special arrangement.

Please bring along this Information Pack, Information Sheet and Indicative Loan Schedules when attending the counselling session.

Attending the Counselling Session

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

During the counselling session, the counsellor will go through a list of questions and statements with the interested person to help him better understand the major features of a reverse mortgage loan and explain the consequences of a reverse mortgage loan on him and his spouse. The counsellor will also highlight matters that must be considered carefully by the interested person before proceeding further to formal application of a reverse mortgage loan.

After the Counselling Session

The counsellor will ask the interested person to sign on the list of questions and statements which have been explained. If the counsellor considers it appropriate, a Counselling Certificate will be issued on the same day of the counselling session evidencing the successful completion of counselling.

After obtaining the Counselling Certificate, the interested person may make a formal application for a reverse mortgage loan within six months after issuance of the Counselling Certificate.

Enquiry

For enquiries, please contact a bank, an eligible counsellor or call the Reverse Mortgage Programme Hotline.

Reverse Mortgage Programme Hotline: 2536 0136

Website: www.hkmc.com.hk