Press Release

The Hong Kong Mortgage Corporation Limited

Mortgage Insurance Programme ("MIP")

During the debate on Mr James Tien's motion on the "The 70% ceiling for residential mortgage loans" in the Legislative Council this afternoon (Wednesday), several Legislative Councillors have commented on the eligibility criteria, application procedures and the level of insurance premium of the Mortgage Insurance Programme operated by the Hong Kong Mortgage Corporation ("HKMC").

Since the introduction of the MIP in 1999, the HKMC has taken active steps to promote the Programme to homebuyers through product diversification, simplification of application procedures and ensuring the insurance premium remains competitive and affordable. The efforts made by the HKMC are set out below.

MIP Eligibility Criteria

The eligibility criteria for the MIP are largely the same as the mortgage underwriting criteria adopted by the majority of banks in Hong Kong. The main difference is that the MIP only covers mortgages on residential properties that are owner-occupied. This reflects the fact that the main purpose of the MIP is to promote homeownership through facilitating mortgage arrangements that are considered helpful to homebuyers. Furthermore, as the credit risk of mortgages on owner-occupied property is lower than that of investment properties, the requirement helps to maintain insurance premium at affordable levels. The Eligibility criteria do not require one of the borrowers to be a first-time homebuyer. Self-employed mortgage borrowers may apply for loans covered by the MIP up to a maximum amount of $5 million and LTV ratio of up to 85%. For regular salaried employees and self-employed professionals such as doctors, lawyers and accountants, the maximum loan amount can be up to $8 million and the maximum LTV ratio is 90%.

The HKMC has taken active steps to expand the product range under the MIP to enable more prospective homebuyers to benefit from the Programme. New products launched under the MIP are set out in Annex.

Through these efforts, the MIP has assisted over 12,300 successful applicants to achieve home ownership since 1999. The HKMC has rejected less than 1% of MIP applications. The common reasons for the rejection include insufficient income proof, debt-to-income ratio exceeding 50% and previous delinquency record of the applicant.

MIP Processing Procedures

The HKMC works closely and constantly with banks to identify ways to enhance efficiency in processing MIP applications through automation and streamlining of procedures. Since the introduction of an e-commerce platform in 2001 linking the HKMC's computer systems with those of participating banks, the submission and processing of MIP applications are conducted over the Internet. In general, MIP applications with the necessary documents are processed within one business day by the HKMC.

With the launch of the streamlined pricing arrangement (commonly known as "one-stop 90% mortgage service") and its adoption by the majority of banks, it is expected that the efficiency in processing the 90% Loan-to-Value ("LTV") mortgages with MIP insurance could be further enhanced as the effective cost of borrowing at different LTV ratios are made more transparent to homebuyers.

Insurance Premium

Under the MIP programme, the HKMC is the insurer and the insured party is the bank not the mortgage borrower. Banks have the full discretion to decide whether and to what extent the insurance premium will be passed on to the borrowers.

The HKMC cedes on average about 80% of the risk exposure under the MIP to a group of five reinsurers. The mortgage premium is not determined solely by the HKMC but on a commercial basis in conjunction with the reinsurers. The insurance premium under the MIP needs to remain competitive as there are other commercial entities offering top-up mortgage financing in Hong Kong, including other mortgage insurance companies and property developers. For a HK$2 million mortgage loans with a 90% LTV ratio, the effective mortgage rate after taking into account the MIP premium is 2.18% below the best lending rate ("BLR"), which is substantially better than the effective mortgage rate of 1.39% below the BLR under the alternative of obtaining top-up mortgage loans from property developers.

The HKMC introduced an incentive scheme in October 2002 to offer banks a premium rebate of up to 10% of the gross premium received based on business volume and the performance of the insured loans. The underwriting incentive, in particular, offers a means to lower the insurance premium to reward banks for achieving a low default rate in respect of the insured loans.

Mr Peter Pang, Chief Executive Officer of the HKMC, said, "the HKMC is committed to working closely with the banks to expanding the product range and enhancing the efficacy of the MIP to assist the public in attaining home ownership and enabling the banks to grant residential mortgages up to 90% LTV ratio without incurring additional credit risk. The Corporation is also mindful of the need to ensure that the insurance premium remains competitive and affordable to the homebuyers."

The Hong Kong Mortgage Corporation Limited
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Annex

MIP Product Development

March 1999	Mortgage loans on completed residential properties with LTV ratio of up to 85% (maximum loan amount of HK$5 million)
August 2000	Mortgage loans on completed residential properties with LTV ratio of up to 90% (maximum loan amount of HK$5 million)
April 2001	Equitable mortgage loans on residential properties under construction with LTV ratio of up to 85% (maximum loan amount of HK$5 million)
July 2001	Equitable mortgage loans on residential properties under construction with LTV ratio of up to 90% (maximum loan amount of HK$5 million)
November 2001	Loan size ceiling increased from HK$5 million to HK$8 million for mortgage loans on completed residential properties with LTV ratio of up to 85%
July 2002	Launch of new product – Deferred Principal Repayment Loans (maximum loan amount of HK$2.5 million)
November 2002	Loan size ceiling increased from HK$5 million to HK$8 million for mortgage loans on residential properties under construction with LTV ratio of up to 85%
November 2002	Launch of new version of Deferred Principal Repayment Loans (maximum loan amount of HK$5 million)
December 2002	Launch of "One-stop 90% Mortgage Service"