Press Release

THE HONG KONG MORTGAGE CORPORATION LIMITED

Home Owner Mortgage Enhancement Programme

The Hong Kong Mortgage Corporation (HKMC) announced today (Friday) the introduction of the Home Owner Mortgage Enhancement (HOME) Programme: a new mortgage insurance programme that aims to reduce the financial burden of homeowners in negative equity and to provide an effective tool for banks to reduce the credit risk of mortgage loans with current LTV ratio above 100%.

The HOME Programme is intended to supplement private sector initiatives that aim to relieve the burden of homeowners in negative equity. According to a survey conducted by the Hong Kong Monetary Authority (HKMA), there were 67,500 residential mortgage loans in negative equity (not including loans with co-financing arrangement) and the mortgage rates of 25,395 (or 38%) of those loans were still maintained at or above the Prime rate as of 31 March 2002.

The HKMC will disperse the credit exposure of the HOME Programme through reinsurance arrangements and the issuance of credit-linked notes. In order to expedite the introduction of the Programme and to cater for possible adjustment of its features in the light of experience, the HKMC has decided to launch the HOME Programme on a pilot basis prior to the introduction of the full Programme. The Corporation will review the demand for the product under the Pilot Programme, the experience gained in the hedging arrangements and the feedback from banks and reinsurers before deciding on possible future expansion of the HOME Programme.

The HOME Programme provides insurance to cover a bank's credit exposure above 90% and up to 140% of the current value of the property at the time of refinancing. This will allow the bank to reduce the mortgage rate charged to the borrower. The Programme will be extended to all Approved Sellers of the HKMC. The key underwriting criteria of the Programme include:

(a) the property is owner-occupied;

(b) the LTV ratio of the loan at the time of refinancing is above 100% and up to 140%;

(c) a debt-to-income ratio upon refinancing of not more than 50%; and

(d) the outstanding mortgage loan amount at the time of refinancing is not more than HK$8 million.

A full set of the underwriting criteria is at Annex A. Other details of the HOME Programme are set out in the technical note at Annex B.

Eligible mortgage borrowers will be expected to pay an upfront premium ranging from 2% to 2.15% of the outstanding principal balance of the loan at the time of refinancing:

Current LTV BAND	**UPFRONT PREMIUM**
100% to 110%	2.00%
111% to 120%	2.10%
121% to 130%	2.15%
131% to 135%	2.15%
136% to 140%	2.15%

Additional on-going premium will be borne by the lending banks. This premium structure will allow the banks to offer mortgage rates ranging from Prime – 1.75% to Prime – 0.5% to match those of similar products being offered in the market.

In order to minimize the financing burden of homeowners, it is expected that the participating banks will offer the borrower the option to amortize the upfront premium into the refinanced mortgage loan for payment as part of the monthly instalment, and to extend the tenor of the refinanced loan up to 30 years.

The borrowers will derive the following benefits from the HOME Programme:

(a) **savings in interest payment** – assuming the upfront premium would be borne by the borrower and the participating banks would offer mortgage rates to match those of similar schemes in the market, the borrowers would derive total interest savings (net of insurance premium) of 6% to 18% of the outstanding principal balance in nominal terms and 5% to 14% in net present value terms, depending on the current LTV ratio of the mortgage loan (see Annex C);

(b) **reduction in monthly repayment amount** – for a loan originated in 1997 with an original maturity of 20 years, a remaining maturity of 15 years, and a current mortgage rate of Prime + 0.5%, an extension of the loan tenor to 25 years under the HOME Programme would substantially reduce the monthly repayment amount by 30% to 39%; and

(c) **no pay-down requirement** – one of the main obstacles for borrowers in negative equity to refinance at lower mortgage rate is their inability to pay down the loan to 100% LTV ratio. The arrangement that allows the upfront premium of the HOME Programme to be amortized as part of the refinanced mortgage loan will remove this obstacle.

The participating banks will also enjoy the following benefits:

(a) through insurance provided by the HOME Programme, a negative equity mortgage loan is effectively converted into a "positive equity" loan and hence the risk of default loss is removed unless property prices fall by more than 10% at the time of default; and

(b) as the arrangement would not require the borrower to pay down the mortgage or the bank to offload the portion of the loan above the 90% LTV ratio, it would not result in a depletion of the banks' mortgage portfolios. On the contrary, by allowing the borrowers to amortize the upfront premium and extend the tenor of the refinanced loans, the banks would benefit from a moderate increase in loan size and a longer cash flow from the loans.

To prepare for the launch of the HOME Programme, the HKMC will conduct a series of briefing and training sessions for the banks to help them familiarize with the eligibility criteria and the related application and claim settlement procedures. The legal documents are being finalized for signing with the banks and the reinsurers prior to the formal launch of the HOME Pilot Programme in July 2002.

"The HOME Programme provides a market-driven solution that will help mortgage borrowers in negative equity to refinance at a lower mortgage rate and the banks to manage the credit risk of their mortgage portfolios. I am very pleased that the HKMC is able to make effective use of its intermediary role to bring this solution to the market," said Mr. Antony Leung, Chairman of the HKMC.

Mr. Norman Chan, Acting Chief Executive of the HKMA, said, "the HKMA supports the HOME Programme as it is expected to contribute towards maintaining the stability of the banking system. The Programme is consistent with the HKMA guidelines under which banks are permitted to refinance mortgages in negative equity up to 100% of the current market value of properties."

The Hong Kong Mortgage Corporation Limited
14 June 2002

Annex A

ELIGIBILITY CRITERIA OF HOME

Eligible Borrowers:	Salaried borrowers and self-employed professionals only. Corporate and partnership borrowers are not eligible	
Eligible Mortgages:	Refinanced negative equity properties only. Property must be self-occupied	
Loan-to-Value ("LTV") ratio:	100% to 140%, plus any further increase in LTV due to the financing of the upfront premium by the lending bank	
Loan Amount:	Up to HK$8 million	
Max. Debt-to-Income ("DTI") ratio:	Up to 50%	
Loan Tenor:	Minimum 10 Years and up to 30 Years	
Maximum Property Age + Loan Tenor:	Up to 50 Years	
Property Valuation:	Valuation performed by professional valuers appointed by the HKMC	
Required Income Proof:	Regular Salaried -	12 months bank statements showing salary deposits **and** the most recent IRD Tax Demand Note
	Non-regular Salaried -	Up to 24 months bank statements showing salary deposits **and** the most recent IRD Tax Demand Note
	Self-employed Professionals -	Up to 24 months bank statements **and** Profit & Loss statements
Repayment History:	Maximum 1 time overdue for more than 7 days (up to 30 days) in the 12 months prior to the refinancing	

Annex B

HOME MORTGAGE INSURANCE PROGRAMME

Framework

The HKMC will provide mortgage insurance to Approved Sellers to cover the Approved Sellers' exposure above 90% of the current value of the property, thereby allowing banks to effectively convert a negative equity mortgage into a positive equity mortgage and hence reduce the mortgage rate charged to the borrowers. Approved Sellers are required to obtain pre-approval from the HKMC on a loan-by-loan basis. To hedge the risk, the HKMC will hedge a significant portion of the exposure with a syndicate of reinsurers and investors of credit-linked notes.

Eligible Mortgage Originators

- All Approved Sellers 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 after the launch of the HOME Programme.

Eligible Mortgage

- Refinanced negative equity properties only. Property must be self-occupied.

Eligibility Requirements

To be eligible for insurance cover under the HOME Programme, every mortgage must comply with the following eligibility requirements:

1. Mortgage Conditions as set out in the HOME Mortgage Insurance Operational Manual;

2. Core Eligibility Criteria – refer to Annex A.

Coverage Amount

The claim amount applicable to a defaulted mortgage loan is calculated in accordance with the following formula:

(Outstanding Principal Balance at time of claim – 90% x Property Value at the time of refinancing)

Coverage Period

An insurance will take effect from the date of loan drawdown or refinancing, 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 refinancing reaches 90% or below.

Insurance Premium

An up-front premium ranging from 2% to 2.15% of the outstanding principal balance ("OPB") of the loan at the time of refinancing and an on-going annual premium based on the remaining OPB. Please see Annex C for the illustration of interest savings to borrowers.

Application

Approved Sellers will be required to seek HKMC's approval for the mortgage insurance on a loan-by-loan basis. The HKMC will review certain loan documentation prior to granting insurance.

Annex C

HOME PROGRAMME
Interest Savings to Borrower

CLTV BAND	Assumed Current GMR	Assumed GMR after refinancing	Interest Savings as % of Outstanding Principal Balance[(1)]	
			Nominal	NPV
100% to 110%	P+0.50%	P-1.75%	18%	14%
111% to 120%		P-1.375%	15%	11%
121% to 130%		P-1.00%	11%	8%
131% to 135%		P-0.75%	9%	6%
136% to 140%		P-0.50%	6%	5%

(1) Assume the upfront premium borne by the Borrower is financed as part of the loan under HOME and the loan amount (premium excluded) is HK$1 million