Press Release

The Hong Kong Mortgage Corporation Limited

The Hong Kong Mortgage Corporation (HKMC) made the following announcements today (20 December 2001):

Expansion of the Mortgage Purchase Programme

2. The HKMC has decided to modify its Mortgage Purchasing Criteria:

(a) to include mortgage loans refinanced at loan-to-value ("LTV") ratio greater than 70% and up to 100%; and

(b) to extend the maximum combined age of property and loan tenor from 40 years to 50 years.

3. **Mortgage loans refinanced at above 70% LTV ratio**: the extension of the mortgage purchasing criteria is intended to complement the efforts of the HKMA and the banks to alleviate the financial burden of homeowners with mortgage loans in negative equity. The option of offloading risk exposure of mortgage loans to the HKMC when required will encourage more banks to offer refinancing to borrowers in negative equity.

4. The new measure is not expected to affect the asset quality of the HKMC's retained portfolio. The HKMA's guidelines require Authorized Institutions to adhere to normal prudent lending criteria, including the 50% debt-to-income ratio, in the origination of the refinancing loans. Furthermore, the refinanced loans are re-underwritten by banks based on an updated assessment on the repayment ability of the borrower.

5. **Extension of the maximum combined age of property and loan tenor from 40 to 50 years:** the relaxation of this criterion will help homebuyers interested in acquiring older residential properties to obtain mortgage financing from banks. The measure is in recognition of the fact that residential properties aged over 30 years account for a significant portion of the housing stock and the percentage is expected to increase further as more property developments fall into this age bracket.

6. It will help to promote homeownership by reducing the monthly mortgage repayment amount through extending the tenor of the mortgage period. General adoption of a 50-year combined tenor by banks will enable a buyer of a 30-year old property to take out a 20-year instead of a 10-year mortgage. For a HK$1 million loan with a mortgage rate of Prime – 2.25% (currently 2.875%), the monthly repayment amount will be significantly reduced by 43% from HK$9,598 to HK$5,484. This would enable homebuyers who just meet the 50% debt-to-income ratio under a 20-year mortgage to obtain mortgage finance from banks. The extension will therefore widen the choice of properties for homebuyers and enhance the liquidity of the older housing stock in the market.

7. To guard against the dilapidation risk of the older properties, the Approved Sellers will be required to provide a satisfactory valuation report by a qualified valuer confirming that the underlying property is free of any material negative findings or unauthorized structural modifications.

8. The results of a survey conducted by the HKMC show that all the Approved Sellers support the above modifications to the Corporation's Mortgage Purchasing Criteria.

9. **Expansion of the Fixed Adjustable Rate Mortgage Programme:** The HKMC'S Fixed Adjustable Rate Mortgage ("FARM") Programme currently offers three fixed-rate periods to the borrowers, namely, 1-year, 2-year and 3-year. At the end of the fixed-rate period, the borrower can choose either to refix the mortgage rate for another fixed term at the then prevailing FARM rates or to convert the loan to a floating rate mortgage.

10. Market conditions have turned more favourable for fixed rate mortgage products as interest rates are expected to bottom-out in the near term. The Board of Directors have approved in principle an expansion of the FARM Programme to include loans with tenor of up to 10 years. This is expected to generate the following additional benefits:

(a) it would strengthen the effectiveness of the Programme in achieving the objective of enhancing the stability of the monetary and banking system as both the banks and the borrowers will be better protected from interest rate fluctuations;

(b) it would offer more choices to homebuyers with different interest rate expectations and risk appetite; and

(c) it would further enrich the available product range in the Hong Kong mortgage market.

11. The HKMC will work closely with the banks to devise FARM products that would best suit the needs of homebuyers. Depending on market conditions and the demand of homebuyers, the HKMC intends to introduce, on an incremental basis, new FARM products with an initial fixed rate period beyond 3 years in 2002.

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