Speech by Mr. Norman Chan, JP
Executive Director of the Hong Kong Mortgage Corporation
At the Signing Ceremony to launch
The 90% Fixed Rate Mortgage Scheme

19 January 2004

Dr. David Li, ladies and gentlemen,

Let me first welcome you all to this signing ceremony to launch a composite product that embraces the benefits of both the HKMC's Fixed Adjustable Rate Mortgage Programme ("FARM" Programme in short) and Mortgage Insurance Progromme.

One of the focuses of the HKMC in product development has been the promotion of fixed rate mortgages. The merits of this initiative are compelling as fixed rate mortgage products benefit homebuyers, banks and the HKMC, and help to promote banking stability. To the homebuyers, fixed rate mortgage offers them an additional choice of mortgage financing that provides certainty in the monthly mortgage repayment amount and, more importantly, insulate them from adverse interest rate movements during the fixed rate period. To the originating banks, their partnership with the Mortgage Corporation provides an extra source of steady fee income and an effective avenue for marketing their banking products to the mortgage borrowers. To the Mortgage Corporation, the initiative helps to diversify its mortgage portfolio to include a good mix of floating and fixed rate mortgages.

Demand for fixed rate mortgages depends crucially on the level of fixed mortgage rate in relation to the prevailing floating mortgage rate as well as the borrowers' expectations of the likely movements of interest rates. Conducive

market conditions helped the HKMC to launch the FARM Programme in March 1998 and to acquire HK$1.2 billion of FARM mortgages in that year.

We are seeing market conditions favourable for promoting fixed rate mortgage products reemerging in even stronger magnitude. With interest rate currently at a historical low level and being expected by the market to bottom out and gradually stage an upward reversal, many homebuyers are looking for fixed rate products that will enable them to lock in the current low mortgage rate for an extended period.

The timing is very opportune as the abundance of liquidity in the banking system has enabled the HKMC to secure fixed rate funding at a low cost. This has translated into very attractive fixed mortgage rates to be offered to homebuyers.

Homebuyers taking up the products offered under this package will also enjoy extra benefits under the HKMC's Mortgage Insurance Programme. In terms of coverage, mortgages relating to residential properties transacted in both the primary and secondary markets will be eligible. The maximum loan-to-valuation ratio is set at 90%, same as that under the regular Mortgage Insurance Programme, to reduce the downpayment burden of homebuyers. Furthermore, as the homebuyers will be insulated from adverse movements in interest rate during the fixed rate period, the insurance premia are set at very favourable levels.

The fixed rate mortgage products that we launch today combine the benefits of the HKMC's FARM Programme and the Mortgage Insurance Programme. These benefits will help make home ownership even more affordable to homebuyers.

I would like to take this opportunity to thank the Bank of East Asia for sharing our conviction in promoting fixed rate mortgages under the FARM Programme and in working with our colleagues in the HKMC in designing the fixed rate mortgage products. I am sure the additional privileges and incentives offered by the Bank of East Asia will make the products even more attractive to the homebuyers.

Thank you.