Press Release

The Hong Kong Mortgage Corporation Limited

Launch of 10-Year Fixed Rate Mortgage Scheme

The Hong Kong Mortgage Corporation Limited (HKMC) announced today (3 November) the launch of a special 10-year fixed-rate mortgage scheme under the Corporation's Fixed Adjustable Rate Mortgage (FARM) Programme to offer mortgage loans with a fixed-rate period ranging from 1 year to 10 years with six of the participating banks under the Mortgage Insurance Programme, namely Bank of China (Hong Kong), Bank of East Asia, Limited, DBS Bank (Hong Kong), Hang Seng Bank, HSBC and ICBC (Asia) Limited.

The FARM Programme was pioneered by the HKMC in March 1998 for the purpose of promoting fixed-rate mortgage loans with a view to providing an additional choice of mortgage financing to borrowers. The programme is designed to protect borrowers against adverse movement in interest rates. This new scheme is an extension of the loan tenor under the FARM Programme from 5 years to 10 years. Under the scheme, borrowers can apply for mortgage loans with a loan-to-value ratio (LTV) of up to 95% for a designated fixed-rate period of 1, 2, 3, 5, 7 and 10 years with the following rates:

FARM Period	Mortgage Rate (% per annum)	Mortgage Rate after FARM Period
1-year	5.00%	Prevailing FARM Rate or Prime-2.25% per annum
2-year	5.10%	
3-year	5.20%	
5-year	5.40%	
7-year	5.50%	
10-year	5.60%	

The new scheme will enable mortgage borrowers to lock in a predetermined rate that remains fixed during the designated period and be insulated from any future volatility in interest rates during the entire period. At the end of the fixed-rate period, borrowers will have a choice of either re-fixing the mortgage rate for another term at the then prevailing fixed rate offered by the HKMC or converting the mortgage loan to a pre-committed floating rate of Prime - 2.25% per annum. Another attractiveness of the special fixed-rate scheme is that the prepayment penalty period is capped at three years for fixed-rate periods exceeding 3 years and up to 10 years. The other key product features of the special scheme are summarised in Annex A.

The special fixed-rate scheme offers long-term mortgage rates at attractive levels. With the recent rate hike of 50 bp by the banks, assuming that the prime rate in Hong Kong rises to at least 7.5%, a floating mortgage rate of Prime-2.25% would translate to an effective rate of at least 5.25%, which is higher than the fixed mortgage rate up to 3 years offered under the special scheme launched by the HKMC today. It is widely expected that there will be another 25 bp rate hike in December and the prevailing floating rate mortgage will then become at least 5.5%, higher than the fixed mortgage rates on offer for most of the fixed rate products. Borrowers can therefore achieve a positive carry through the use of the special fixed-rate scheme.

Mr. James H. Lau Jr., Chief Executive Officer of the HKMC, said, “the special scheme launched today covering up to 10 years of fixed-rate mortgage will bring significant benefits to the mortgage market and represents a triple-win situation. To the homebuyers, it provides an additional choice of mortgage financing that enables them to lock in an attractive mortgage rate for up to ten years. To the participating banks, their partnership with the HKMC provides an effective avenue for procuring new mortgage businesses and marketing their banking products to the borrowers. To the HKMC, it will help us diversify our mortgage portfolio to include a good mix of floating and fixed-rate mortgage loans.”

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3 November 2005

Annex A

Other Key Features of 10-Year Fixed Rate Mortgage Scheme

a) Prepayment Fee

FARM Period	Prepayment Fee*		
	1st Year	2nd Year	3rd Year
1-year	3%	-	-
2-year	3%	2%	-
3-year	3%	2%	1%
5-year			
7-year			
10-year			

* Prepayment fee is expressed as a % of the prepaid amount.

b) Applicable Period

To benefit from the new fixed-rate mortgage programme, the loans need to be drawn down on or before 31 January 2006.

c) Participating Banks

All the participating banks under the Mortgage Insurance Programme are eligible to participate under the new fixed-rate scheme.