Press Releases

The Hong Kong Mortgage Corporation Limited

The Hong Kong Mortgage Corporation Limited (HKMC) made the following announcements today:

Half-year financial results

The unaudited interim results (**Annex A**) show that the operating profit before tax for the six months ended 30 June 1998 was HK$28.2 mn. This has enabled the HKMC to recoup the full amount of the operating loss of HK$20.3 mn incurred in 1997, which largely represented the start-up expenses. Return on shareholder's equity was 5% (annualized).

The outstanding mortgage portfolio held by the HKMC increased from HK$650 mn as at end-December 1997 to HK$4,141 mn as at end-June 1998. A general provision for bad and doubtful debts amounting to HK$6.5 million was charged to the profit & loss account as at 30 June 1998. No specific provision was made for the period, reflecting satisfactory credit quality of the mortgage portfolio. The capital-to-assets ratio remained high at 20.4%.

Quality of asset portfolio

Notwithstanding a correction in property prices, the mortgage portfolio held by the HKMC is of very high quality, helped by the prudent mortgage purchasing criteria. The weighted average Loan to Valuation (LTV) ratio at origination was 63.9% and the current LTV ratio was estimated to be 60.7% as at end-July 1998. The Debt-to-Income ratio remained low at 38%. None of the mortgage loans in the portfolio are behind payment for more than 60 days (see **Annex B**).

Regular Programme for the purchase of Fixed Rate Mortgages

The six-month Pilot Scheme for promoting fixed rate mortgages is due to expire in mid-September. The product has been very well received by the home buyers. As at 10 September 1998, 980 loans involving HK$1,350 million have been approved in principle. Of these, 523 loans involving HK$734 million have been drawn down. The favourable response to the Programme has also stimulated the introduction of similar products in the market by a number of property developers and banks.

In view of the favourable market response, the HKMC has decided to roll the Pilot Scheme into a regular programme and offer fixed rate mortgages as one of its standard products. The number of participating banks will be increased from 2 to 8:

- Bank of East Asia
- Chase Manhattan Bank
- Chekiang First Bank
- Dao Heng Bank
- First Pacific Bank
- Hang Seng Bank
- Hongkong and Shanghai Banking Corporation
- Standard Chartered Bank

The HKMC plans to pre-commit a total of HK$3.5 billion for the purchase of fixed rate mortgages during the six-month period from mid-September 1998 to mid-March 1999 (a technical note on the regular programme is at **Annex C**).

Appointment of Ms Pamela Lamoreaux as Chief Operating Officer

The Board of Directors today appointed Ms Pamela Lamoreaux as the Chief Operating Officer of the HKMC. Ms Lamoreaux joined the Corporation in August 1997 as Senior Vice President (Operations). Before joining the HKMC, she was Director of International Housing Services of Fannie Mae and has over ten years of experience in secondary mortgage business.

In commenting on the recent developments of the HKMC, Mr. Donald Tsang, Chairman of the HKMC, said "I am very pleased with the performance of the HKMC. The interim results are encouraging. Although the Corporation has commenced operation for less than a year, it has clearly established its role as a driving force in Hong Kong's secondary mortgage business."

Mr. Joseph Yam, Deputy Chairman of the HKMC, said, "It is assuring to see that the mortgage portfolio is of very exceptionally high quality with no loans overdue for more than 60 days. Going forward, we will continue to ensure that the Corporation is run on a prudent basis."

Hong Kong Mortgage Corporation

14 September 1998

Annex A

THE HONG KONG MORTGAGE CORPORATION LIMITED
(Incorporated in Hong Kong with limited liability under the Companies Ordinance)

INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 1998

Interim Results

The Directors of The Hong Kong Mortgage Corporation Limited (the "HKMC ") are pleased to announce the unaudited interim results of the HKMC for the six months ended 30 June 1998 together with the audited operating results for the period ended 31 December 1997 as follows:

	Half-year to 30 June 1998	From 3 March 1997 (the date of incorporation) to 31 December 1997
	HK$'000	HK$'000
INTEREST INCOME	116,277	18,354
INTEREST EXPENSES	(47,312)	-
NET INTEREST INCOME	68,965	18,354
Other expenses, Net	(51)	(1)
TOTAL INCOME	68,914	18,353
Operating expenses	(34,159)	(38,605)
OPERATING PROFIT / (LOSS) BEFORE PROVISION	34,755	(20,252)
Provision for bad and doubtful debts	(6,516)	-
OPERATING PROFIT/(LOSS) BEFORE TAXATION	28,239	(20,252)
Taxation (Note 1)	(3,425)	-
OPERATING PROFIT/(LOSS) FOR THE PERIOD	24,814	(20,252)

	At 30 June 1998	At 31 December 1997
	HK$'000	HK$'000
Mortgage portfolio, net	4,140,626	650,066
Total assets	4,258,277	983,607
Debt securities issued-Notes	1,500,000	-
Shareholder's equity	1,004,562	979,748
Capital-to-Assets Ratio	20.4%	99.6%

NOTE: The provision for Hong Kong profits tax is calculated at 16% of the estimated assessable profits derived from Hong Kong for the period.

Financial Review

The operating profit before tax for the six months ended 30 June 1998 was HK$28.2 million. This has enabled the HKMC to recoup the full amount of the operating loss of HK$20.3 million in 1997.

In the first half of 1998, the HKMC purchased mortgage loans with an aggregate principal value of HK$3.7 billion from 16 approved Sellers, including HK$309 million of fixed adjustable rate mortgages ("FARM"). Interest income comprised interest income from the mortgage portfolio and bank deposits. As a result of the gradual build-up of the mortgage loans to HK$4.1 billion, interest income from the mortgage portfolio increased from HK$5.5 million in 1997 to HK$112 million in the first half of 1998.

To finance the purchase of mortgage loans from the Approved Sellers, the HKMC issued three tranches of fixed rate notes under the Note Issuance Program for an aggregate of HK$1.5 billion with maturity periods of 2 years (HK$0.5 billion) and 3 years (HK$1 billion).

The HKMC earned net interest income of HK$69 million in the first half of 1998.

The total operating expenses amounted to HK$34.2 million for the six months to 30 June 1998. Major expenses included staff costs of HK$21.9 million, office rental and related charges of HK$4.3 million and depreciation charges of HK$3.2 million.

The HKMC made a general provision for bad and doubtful debts amounting to HK$6.5 million. No specific provision for bad and doubtful debts was made as at 30 June 1998, reflecting satisfactory credit quality of the mortgage portfolio.

To ensure that the HKMC is managed in a prudent manner, the Financial Secretary of the Government of the Hong Kong Special Administrative Region issued guidelines in 1997 in respect of the minimum Capital-to-Assets ratio ("CAR") to be maintained by the HKMC. The minimum CAR stipulated in the guidelines is 5%. As at 30 June 1998, the CAR stood at 20.4% (31 December 1997: 99.6%).

Annex B

HONG KONG MORTGAGE CORPORATION

Quality of Mortgage Portfolio

As at end of:

	March	April	May	June	July
Weighted average loan to value ratio at origination	64.5%	64.1%	63.8%	63.9%	63.9%
Estimated weighted average current loan to value ratio	46.6%	49.2%	50.6%	58.7%	60.7%
Weighted average debt to income ratio at origination	38.1%	38.1%	37.5%	38.0%	38.1%
Loans overdue:					
for more than 30 days	Nil	Nil	0.06%	0.05%	0.04%
for more than 60 days	Nil	Nil	Nil	Nil	Nil

Annex C

Regular Programme for Promoting Fixed Rate Mortgages

The Programme

In view of the favourable market reception to the Pilot Scheme to promote fixed rate mortgages, the HKMC has decided to roll the Scheme into a regular programme and offer fixed rate mortgages as one of its standard products.

Participating Banks

Bank of East Asia
Chase Manhattan Bank
Chekiang First Bank
Dao Heng Bank
First Pacific Bank
Hang Seng Bank
Hongkong and Shanghai Banking Corporation
Standard Chartered Bank

Framework of the Programme

Pre-commitment to Purchase

The HKMC will give a pre-commitment to each of the eight participating banks to purchase eligible fixed rate mortgages.

The banks will originate fixed rate mortgages at an interest rate to be specified by the HKMC from time to time. The mortgages will be purchased by the HKMC on a loan by loan basis soon after origination. This will protect the banks from the market risk arising from interest rate changes between the origination of the mortgages and offloading of these mortgages to the HKMC.

Size of Pre-commitment

Up to HK$3.5 billion for the next 6 months.

Loan Servicing

The participating banks will service the mortgages in return for a servicing fee.

Product Features

Mortgage Rate

The interest rate of the mortgages will be fixed for the first three years at a rate to be determined by the HKMC and is subject to change by the HKMC from time to time. At the end of the 3-year period, the borrower can choose either:

(i) to refix the mortgage rate for another fixed term at the then prevailing fixed rate specified by the HKMC; or

(ii) to convert the mortgages to floating at Prime plus a margin of not more than 1.5%p.a.

Tenor

Maximum – 25 years
Minimum – 10 years

Full/Partial Prepayment

Full or partial prepayment (which shall be of an amount not less than $50,000) prior to the expiry of each fixed rate period is allowed subject to the payment of a prepayment fee by the borrowers. Borrowers will be offered two options. They must decide on which option they will take at the origination of the fixed rate mortgages and the option, once chosen, is irrevocable.

Option 1: Fixed scale fee

Time of Prepayment	Full Prepayment Fee	Partial Prepayment Fee
Within the first 12 months from origination date	3% of the original principal balance	3% of the prepaid amount
Within the 13 to 24 months from origination date	2% of the outstanding loan balance	2% of the prepaid amount
Within the 25 to 36 months from origination date	1% of the outstanding loan balance	1% of the prepaid amount

Option 2: Reinvestment loss fee

No fee is payable by the borrowers if the prepayment would not result in a reinvestment loss to the HKMC (i.e. the HKMC's prevailing fixed mortgage rate is at the same rate or higher than the original fixed rate of the mortgage). Borrowers will pay a prepayment fee when the HKMC's prevailing fixed rate is lower than the original fixed rate of the mortgage (i.e. the HKMC will suffer a reinvestment loss due to the prepayment). The prepayment fee will be calculated using the following formula:

The applicable fixed rate Minus Prevailing fixed rate	X	Outstanding principal balance of the mortgage or partial prepaid amount	X	Remaining fixed term of the mortgage

A comparison of the prepayment charges under the two options is at Annex I.

Eligibility Criteria

1. Maximum original loan size at origination:	HK$4,000,000
2. Maximum Loan-to-Value ratio (LTV) at origination:	70%
3. Maximum Debt-to-Income ratio (DTI) at origination:	50%
4. Minimum Seasoning:	Nil
5. Maximum original term to maturity:	25 years
6. Minimum original term to maturity:	10 years
7. Maximum sum of "original term" and "age of property at origination:	40 years

Annex I

Comparison of Prepayment Fees (for Full Prepayment)

Assumptions:

1. Original Principal Balance:	$1,000,000
2. Origination Date:	November 1, 1998
3. Fixed Rate at Origination:	10.50%
4. Date of Prepayment:	May 1, 1999 (remaining fixed term: 2.5 years)
5. Outstanding Principal Balance:	$992,433

Scenario 1

If the prevailing Fixed Gross Mortgage Rate falls by:	1%	2%
Option 1: ($1,000,000 x 3%)	$30,000	$30,000
Option 2: ($992,433 x 1% x 2.5) ($992,433 x 2% x 2.5)	$24,811	 $49,622

Scenario 2

If the prevailing Fixed Gross Mortgage Rate increases by:	1%	2%
Option 1: ($1,000,000 x 3%)	$30,000	$30,000
Option 2: (not applicable)	0	0

List of Approved Seller / Servicers

1. ABN AMRO Bank
2. American Express Bank
3. Asia Commercial Bank
4. Bank of East Asia
5. Chase Manhattan Bank
6. Chekiang First Bank
7. Citibank
8. Citic Ka Wah Bank
9. Dah Sing Bank
10. Dao Heng Bank
11. First Pacific Bank
12. Hang Seng Bank
13. Hang Seng Credit Limited
14. Hang Seng Finance Limited
15. Hongkong & Shanghai Banking Corp.
16. Hongkong Chinese Bank
17. International Bank of Asia
18. Kwong On Bank
19. Liu Chong Hing Bank
20. ORIX Asia Limited
21. Overseas Trust Bank
22. Shanghai Commercial Bank
23. SPC Credit Limited
24. Standard Chartered Bank
25. United Chinese Bank
26. Wing Hang Bank
27. Wing Lung Bank