Press Release

Reverse Mortgage Pilot Scheme

The Hong Kong Mortgage Corporation Limited (HKMC) today (Thursday) announced that its Board has approved the HKMC to launch a pilot scheme on reverse mortgage in 2011.

The decision was reached after extensive consultation with the key stakeholders and a territory-wide survey of the potential users. The survey (conducted in October and November 2010) interviewed 1,005 homeowners aged 60 or above, whose properties were mortgage-free or almost mortgage-free. About 44% of the respondents supported the introduction of reverse mortgage in Hong Kong and almost a quarter of the respondents indicated that they would consider participating in such a scheme.

Given the positive findings of the opinion survey, the HKMC has decided to launch a reverse mortgage pilot scheme in 2011. The pilot scheme will enable the elderly people to use their self-occupied and non-mortgaged residential properties as collateral to enter into reverse mortgage loans in return for a stream of annuity payments while staying at their original residence.

Under the pilot scheme, borrowers can opt to receive monthly annuity payments over a fixed period of 10, 15 or 20 years or over their whole life span, while they will continue to be responsible for the on-going property maintenance as well as the settlement of rates, government rents and management fees, etc. Even when the annuity payment term has expired, the borrowers can continue to stay in the residence for the rest of their lives. Upon the death of all borrowers of a reverse mortgage, the bank could repossess and dispose the underlying property. After disposal, if the realised value of the property (net of disposal expenses) is in

excess of the total outstanding loan balance (principal + accrued interest + insurance premiums), the banks will give the surplus to the borrowers' inheritors. On the contrary, if there is any shortfall, it will be covered by the HKMC's insurance. Alternatively, the borrowers' inheritors may, within a certain period, choose to repay the reverse mortgage loan and redeem the underlying properties.

Details of the key eligibility criteria and proposed annuity payment levels are set out at Annex A and Annex B.

Mr Peter Pang, the Executive Director of the HKMC, said, "The HKMC will actively engage banks interested in participating in the pilot scheme to finalise the detailed arrangements with a view to launching it in the first half of 2011. In particular, an effective pre-sale counselling mechanism will be devised to ensure that the borrowers will have a good understanding of their rights and obligations before drawing reverse mortgage loans. We hope that with the introduction of reverse mortgage, elderly people can have an additional means to obtain steady cash flows to improve their standard of living while staying in their own home."

The Hong Kong Mortgage Corporation Limited
16 December 2010

Annex A

Key Eligibility Criteria

Eligible borrower(s)	Aged 60 or above with self-occupied and non-mortgaged residential properties
Maximum number of co-borrowers	2 (can be spouses, siblings or unrelated parties)
Property ownership status	All owners (as joint tenants) of the subject property must join in as mortgagors and borrowers under the reverse mortgage while all borrowers under the reverse mortgage must be owners of the subject property
Maximum appraised property value for calculation of the loan amount	HK$ 8 million (For properties with appraised value of over HK$ 8 million at origination, the relevant reverse mortgage loan will be calculated same as that for a property of HK$8 million.)
Property age at loan origination	50 years (Properties of over 50 years will be considered on a case-by-case basis.)

Annex B

Proposed Monthly Annuity Payment Reference Levels

For every HK$ 1 million of the appraised property value, the monthly annuity payment levels for borrowers with entry age at 60 to 70 are in general as follows:

Term of annuity payments	Monthly annuity payment amount (HK$)
10 years	3,300 - 4,600
15 years	2,500 - 3,500
20 years	2,100 - 3,000
Life Annuity	1,800 - 2,800

Example:

If the appraised value of a borrower's property is HK$ 2.5 million and the borrower has chosen a reverse mortgage loan of 20-year annuity payment term, the borrower will then receive a monthly annuity payment of HK$5,250-HK$7,500, subject to the borrower's actual age at the loan origination.