Press Release

The Hong Kong Mortgage Corporation Limited

Signing Ceremony of the Fixed Rate Mortgage Pilot Scheme

The Hong Kong Mortgage Corporation Limited (HKMC) signed an agreement with Chase Manhattan Bank and Dao Heng Bank today (Wednesday) to launch a pilot scheme for promoting fixed rate mortgages.

Under the pilot scheme, the HKMC agrees to purchase from each of the two participating banks up to $250 million of the eligible fixed rate mortgages during the 6-month pilot scheme period. Mortgage loans offered by the two participating banks will be fixed for the first three years and the interest rate is presently fixed at 10.5%. The borrower will be given a choice at the end of the 3-year period either to re-fix the mortgage rate for another term at the then prevailing fixed rate specified by the HKMC or to convert the mortgage loan to a floating rate basis. The fixed mortgage rate may be changed from time to time by HKMC having regard to changes of the market interest rates.

At today's signing ceremony, Mr. Donald Tsang, Chairman of the HKMC, said, "fixed rate mortgage products will bring significant benefits to Hong Kong. To the home buyers, it provides an additional choice of mortgage finance that can protect them from adverse movements in interest rates. To the investors, the HKMC debt securities provide an additional source of high quality and liquid Hong Kong dollar assets with an attractive enhancement of yield above those of Exchange Fund Notes. To the originating banks, their partnership with the Mortgage Corporation provides an extra source of steady fee income and a new avenue for marketing their banking products to the mortgage borrowers."

Both the Mortgage Corporation and the participating banks will not be exposed to the risk of adverse movements in interest rates. "HKMC will make use of the fixed rate funds from debt issuance to purchase fixed rate mortgages originated by the banks and hence will not be exposed to the risk of interest rate mismatch. The participating banks also will not be exposed as the Mortgage Corporation will buy the fixed rate mortgages from them soon after origination on a loan by loan basis," said Mr. Joseph Yam, Deputy Chairman of the HKMC.

The HKMC has made some modifications to its mortgage purchase criteria to cater for the purchase of fixed rate mortgages. In recognition of the lower credit risk of fixed rate mortgages and in line with the practice in the US, the existing 6-month

seasoning requirement for floating rate mortgages will not be applied to the fixed rate mortgages originated under the pilot scheme. On the other hand, the HKMC will adopt a lower maximum original loan size of $4 million.

The pilot scheme will last for six months. If it is successful, and subject to favourable funding conditions, the HKMC may extend the arrangement by increasing the amount available for fixed rate loans and appointing additional participating banks.

The Hong Kong Mortgage Corporation Limited

18 March 1998

Pilot Scheme to Promote Fixed Rate Mortgages

Participating Banks

- Chase Manhattan Bank
- Dao Heng Bank

Duration

Six months starting from 18 March 1998.

Framework of the Pilot Scheme

Pre-commitment to Purchase

The HKMC has given a pre-commitment to the two participating banks to purchase from each of them up to $250 million of the 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.

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 10.5%. At the end of the 3-year period, the borrower can choose either:

i. to re-fix the mortgage rate for another term at the then prevailing fixed rate specified by HKMC; or
ii. to convert the mortgages to floating rate at Prime plus 1.5%.

Tenor

- Maximum - 25 years
- Minimum - 10 years

Prepayment Fee

Borrowers will be offered two options:

Option 1: Fixed scale fee

Time of Prepayment	Prepayment Fee
Within one year of origination date	3% of the original principal balance
Between first and second year since origination date	2% of the outstanding loan balance
Between second and third year since	1% of the outstanding loan

origination date balance

Option 2: Reinvestment loss fee

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

Original fixed rate minus Prevailing fixed rate	X	Outstanding principal balance of the mortgage	X	Remaining fixed term of the mortgage

A comparison of the prepayment charges under the two options is at Annex A. The borrowers must decide on which option they will take at the origination of the fixed rate mortgages and the option, once chosen, is irrevocable.

Eligibility Criteria

HKMC's mortgage purchasing criterion for the fixed rate mortgages originated under the pilot scheme are as follows:

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

Annex A

Comparison of Prepayment Fees

For comparison, using the following assumptions, the prepayment fees for the two options would be as follows:

Original Principal Balance	$1,000,000
Origination Date:	April 1, 1998
Fixed Rate at Origination	10.50%
Date of Prepayment	October 1, 1998

Scenario 1

	Rate falls by	
	1%	2%
Option 1 (Fixed scale fee)	$30,000	$30,000
Option 2 (Reinvestment loss fee)	$24,810	$49,620

Scenario 2

	Rate increases by	
	1%	2%
Option 1 (Fixed scale fee)	$30,000	$30,000
Option 2 (Reinvestment loss fee)	0	0