

POLICY  
REVERSE  
MORTGAGE  
PROGRAMME  
Information  
Pack



Policy Reverse Mortgage  
**Enriches Your Retired Life**



香港按揭證券有限公司  
The Hong Kong Mortgage Corporation Limited



投資者及理財教育獎  
Investor and Financial  
Education Award 2023

## INTRODUCTION

**The Policy Reverse Mortgage Programme is operated by HKMC Insurance Limited (HKMCI), a wholly-owned subsidiary of The Hong Kong Mortgage Corporation Limited (HKMC), for people who are aged 55 or above to apply for policy reverse mortgage loans.**

The purpose of this Information Pack is to provide a general understanding of policy reverse mortgage. The information contained in this Information Pack is not comprehensive. If you wish to apply for a policy reverse mortgage loan, you should obtain further detailed information from an institution which is participating in the Policy Reverse Mortgage Programme as a lender or referrer (participating institution).



## WHAT IS A POLICY REVERSE MORTGAGE?

Policy reverse mortgage is a loan arrangement. It enables you to use your life insurance policy as collateral to borrow from a lender. You can opt to receive monthly payouts either over a fixed period of 5, 10, 15 or 20 years or throughout your entire life until the maturity of your life insurance policy. You may also apply for lump-sum payouts to suit personal needs.

In general, you do not need to repay your policy reverse mortgage loan during your lifetime, unless your policy reverse mortgage loan is terminated under specific circumstances.

There is no limit on the number of policy reverse mortgage loans to be taken out by a borrower, but each loan can only have one life insurance policy as collateral. The aggregate amount of death benefits of all your life insurance policies assigned or to be assigned as collateral under the programme is capped at HK\$15 million. For any application with the aggregate amount of death benefits exceeding such capped amount, such application will be considered on a case-by-case basis.

In most cases, your policy reverse mortgage loan will become due and payable when you pass away. The lender will enforce your life insurance policy within a specified timeframe to repay in full the outstanding loan amount. The amount recoverable from your life insurance policy to be used for repayment of your policy reverse mortgage loan will be the death benefits of your life insurance policy.

If the amount of the death benefits exceeds the outstanding loan amount under the policy reverse mortgage loan, the lender will pass the surplus to you (or your personal representative) after repaying the outstanding loan amount in full. If there is any shortfall, it will be borne by the HKMCI under an insurance arrangement between the lender and the HKMCI.

## AM I ELIGIBLE AND HOW MAY I APPLY?

### Am I eligible for a policy reverse mortgage loan?

#### You must:

- be aged 55 or above and a holder of a valid Hong Kong identity card; and
- not be an undischarged bankrupt or otherwise subject to bankruptcy petition or individual voluntary arrangement (except if the indebtedness under the relevant individual voluntary arrangement is to be repaid in full at closing by way of lump-sum payout).

#### In general, your life insurance must:

- be taken out by you as both the policyholder and the insured
- be issued by an authorized insurer in Hong Kong
- be denominated in Hong Kong Dollars or United States Dollars
- not be associated with any investment features (such as Investment-Linked Assurance Schemes regulated by the Securities and Futures Commission of Hong Kong)
- have the premium fully paid up
- be assignable and not contain any restriction on change of beneficiary

Furthermore, it is necessary that the beneficiary of your life insurance policy be yourself or your estate<sup>1</sup>. You are required to arrange with your insurance company to change the beneficiary as necessary.

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<sup>1</sup> Please refer to the Important Notice for further information.



## How should I proceed if I am interested?

Please enquire with a participating institution which will explain details of the Policy Reverse Mortgage Programme and conduct a preliminary eligibility assessment. Based on the information you provide, the participating institution will prepare an Information Sheet which contains your personal particulars, and the Indicative Loan Schedules which show the amount of monthly payouts, interest expenses and mortgage insurance premium under different payment terms based on a number of factors including your age, gender and the death benefits of your life insurance policy.

It is important to fully understand the ramifications that a policy reverse mortgage loan has on you. Therefore, please study the Information Sheet, the Important Notice and the Indicative Loan Schedules carefully and go through them with your family and any persons whom you believe would assist you in making an appropriate decision. You do not need to apply for a policy reverse mortgage loan through other intermediaries. If you have any queries, please contact the participating institution or call the **HKMC Retire 3<sup>2</sup> Hotline at 2536 0833**. The list of participating institutions is available on the website of the HKMC.

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<sup>2</sup> HKMC Retire 3 refers to the Reverse Mortgage Programme and the Policy Reverse Mortgage Programme operated by HKMCI and the HKMC Annuity Plan underwritten by HKMC Annuity Limited (HKMCA). The HKMCI and the HKMCA are the wholly-owned subsidiaries of the HKMC.

## General Application Flow

Anyone who is interested in applying for a policy reverse mortgage loan should observe the following application flow:

### Step 1: Pre-assessment

Enquire with a participating institution which will explain details of the Policy Reverse Mortgage Programme (including the Information Pack, Important Notice, Indicative Loan Schedules and Information Sheet) and conduct a preliminary eligibility assessment.

### Step 2: Application

After completion of the preliminary assessment, you may approach a participating institution to make an application.

Meanwhile, you are required to complete a health questionnaire before closing. The result of the health questionnaire does not have any bearing on the approval terms of a policy reverse mortgage loan (e.g. monthly payouts, interest rate and mortgage insurance premium). However, you must answer all questions in the health questionnaire before drawdown of the policy reverse mortgage loan.

After the application is approved, execution of relevant legal documents will take place.

## KEY PRODUCT FEATURES AND BENEFITS

### Flexible payment term

You can choose to receive monthly payouts either over a fixed period of 5, 10, 15 or 20 years or throughout your entire life (until the maturity of your life insurance policy). You have the flexibility, at any time during your payment term, to apply to switch to another payment term.

### Two options of mortgage plans

To meet your financial needs, you can choose either a floating-rate or fixed-rate mortgage plan. In general, a fixed-rate mortgage plan offers higher payout amounts than a floating-rate mortgage plan.

### Monthly payout amount

The monthly payout amount of your policy reverse mortgage loan is solely determined by the HKMCI on a case-by-case basis, with reference to a number of factors including your age, gender, payment term and the death benefits of your life insurance policy at the time of loan application. In general, the higher is the death benefits of your life insurance policy, the higher will be the monthly payout amount. The older you are at the time of loan application and the shorter is the payment term, the higher will also be the amount of the monthly payout. You may choose to use an amount lower than the death benefits of your life insurance policy (i.e. specified policy value) for the payout calculation.

The mortgage plan you choose will also affect the amount of monthly payout. In general, the payout amounts offered under a fixed-rate mortgage plan are higher than those under a floating-rate mortgage plan.

In general, the monthly payout amount will remain constant or increase over the payment term, depending on the annual review of the death benefits of your life insurance policy.

## Example of monthly payout amounts (HK\$)

Age of borrower				65	
Gender of borrower				Male	
Death benefits of life insurance policy				\$2 million	
Monthly payout amounts*					
Payment term	5-year	10-year	15-year	20-year	Life
Floating-rate mortgage plan <sup>α</sup>	\$7,786	\$5,088	\$3,986	\$3,516	\$3,234
Fixed-rate mortgage plan <sup>β</sup>	\$8,984	\$5,750	\$4,426	\$3,852	\$3,498

\* All information and figures are for reference and illustration purposes only and should not be relied upon as an accurate indication of the actual amounts of payouts. They are generated based on certain assumptions and may vary based on the relevant policy documents and other applicable terms and conditions.

α The above monthly payout under the floating-rate mortgage plan is calculated at the interest rate as at 31 July 2023 (i.e. the Hong Kong Prime Rate minus 2.5% p.a.), and is for reference only. The floating interest rate and the Hong Kong Prime Rate will be determined by the HKMCI and the HKMC from time to time respectively.

β The above monthly payout under the fixed-rate mortgage plan is calculated at the interest rate of 4% p.a. for the first 25 years and the Hong Kong Prime Rate minus 2.5% p.a. thereafter, and is for reference only. The fixed interest rate and the Hong Kong Prime Rate will be determined by the HKMCI and the HKMC from time to time respectively.

## Lump-sum payout

You may apply for lump-sum payouts at the time of policy reverse mortgage loan application and/or any time during the selected payment term to suit your personal needs. For example:

- full repayment of your outstanding policy reverse mortgage loan or an outstanding policy loan on your life insurance policy (only applicable at the time of policy reverse mortgage loan application)



- settlement of unpaid premium of your life insurance policy (only applicable at the time of policy reverse mortgage loan application)
- repayment of personal loans (including revolving credit facilities or credit card balances)
- payment for home improvement, repairs and maintenance of your property
- payment for medical expenses (covering treatment outside Hong Kong)
- payment for fees payable to solicitors and medical practitioners in connection with the enduring power of attorney, or fees in connection with the application for a court order under Part II of the Mental Health Ordinance
- payment for estate planning expenses (such as fees on making wills and setting up trusts)
- purchase of interment right in columbarium and cemetery, as well as expenses for funeral services

You can contact the participating institution to find out the maximum amount of lump-sum payout that you can borrow, from time to time, under your policy reverse mortgage loan. The maximum amount of lump-sum payout is determined at the time of initial loan application and such amount decreases over the payment term.

The maximum lump-sum payout amount is 90% of the actuarial value of the policy reverse mortgage loan.

If you withdraw a larger lump-sum payout amount, there will be a correspondingly lower monthly payout amount. If you withdraw the maximum amount of lump-sum payout, you will not receive any monthly payouts thereafter.

## **No repayment during your lifetime**

In general, you do not need to repay the outstanding loan amount during your lifetime, unless your policy reverse mortgage loan is terminated under specific circumstances. Please refer to the Important Notice for details.

## **No penalty for early full repayment**

You may fully repay the outstanding loan amount and redeem your life insurance policy at any time without penalty. However, you may not repay only a part of the outstanding loan amount.

## **Six-month cooling-off period**

If you terminate your policy reverse mortgage loan for whatever reason, provided that you notify the lender within the first six months and repay in full the outstanding loan amount on the proposed repayment date, you will be given a full refund and waiver of the relevant mortgage insurance premiums. However, you still need to bear any accrued interest and financed fees in the outstanding loan amount.

## COSTS

### Interest expense

Policy reverse mortgage is a loan arrangement and interest is charged by the lender on the outstanding loan amount (including interest) on a compound basis. Please refer to the Indicative Loan Schedules to see how interest builds up over time.

### Mortgage insurance premium

Under the insurance arrangement between the lender and the HKMCI, the lender pays mortgage insurance premiums to the HKMCI for mortgage insurance cover and seeks reimbursement from you. The mortgage insurance premium is divided into two parts and the amount payable by you will be posted to the outstanding loan amount:

- (i) **Upfront Mortgage Insurance Premium** is 1% of the specified policy value, payable by five annual instalments on the 1<sup>st</sup>, 13<sup>th</sup>, 25<sup>th</sup>, 37<sup>th</sup> and 49<sup>th</sup> monthly payout dates respectively. Each annual instalment is calculated at 0.2% of the specified policy value under the policy reverse mortgage loan.
- (ii) **Monthly Mortgage Insurance Premium** is payable on a monthly basis at the annual rate of 1% of the outstanding loan amount.

Please refer to the Indicative Loan Schedules to get an idea of the amount of mortgage insurance premium.

### Handling fee

A handling fee of HK\$1,000 will be charged for each successful application for change of payment term or request for a lump-sum payout, after a policy reverse mortgage loan has been granted. Such handling fee will be debited to the outstanding loan amount.

### Other fees and expense

You may need to pay for the fees and expenses charged by your insurance company of your life insurance policy, if any, for any necessary arrangement relating to the assignment of your life insurance policy.

## Enquiry

For enquiries, please call the HKMC Retire 3 Hotline or email us, or contact a participating institution.

**HKMC Retire 3 Hotline: 2536 0833**

**Email: [hkmcretire3@hkmc.com.hk](mailto:hkmcretire3@hkmc.com.hk)**

**Website: [www.hkmc.com.hk](http://www.hkmc.com.hk)**