

LCQ10: Income limit for applicants of subsidised sale housing

Following is a question by Hon Alice Mak and a written reply by the Secretary for Transport and Housing, Mr Frank Chan Fan, in the Legislative Council today (June 26):

Question:

The subsidised sale flats (SSFs) put up for sale in recent years have met with overwhelming responses, with oversubscriptions easily reaching dozens of times. As no minimum income requirement has been set in the relevant eligibility criteria, some members of the public have applied for purchasing SSFs in the names of their family members who have no income (e.g. children who have just reached the age of 18 and are students) in order to increase their chances of success in the ballots. However, such "buyers" simply are unable to make the down payments nor repay the mortgage loans by themselves. In this connection, will the Government inform this Council:

(1) of the median monthly household income of the applicants in each sale exercise for the Home Ownership Scheme (HOS) flats in the past three years;

(2) of the number of HOS flats sold in each of the past three years, and set out (i) a breakdown by the group to which the monthly household income of the buyers belonged (as set out in the table below) and (ii) the corresponding percentages;

Monthly household income (\$)	2016		2017		2018	
	(i)	(ii)	(i)	(ii)	(i)	(ii)
5,000 or below						
5,001 to 10,000						
10,001 to 20,000						
20,001 to 30,000						
30,001 to 40,000						
40,001 to 50,000						
50,001 or above						
Total:		100%		100%		100%

(3) whether it knows, among the buyers in each sale exercise since 2014 for flats under HOS, the Green Form Subsidised Home Ownership Scheme and the White Form Secondary Market Scheme, the respective numbers of those whose mortgage loan agreements contained mortgage guarantors;

(4) as the Hong Kong Housing Authority (HA) provides mortgage default

guarantee to financial institutions with whom HA has entered into a Deed of Guarantee so that they can offer more favourable mortgage terms to SSF buyers (e.g. a mortgage loan-to-value ratio of 90 per cent or above), whether the Government has assessed the financial risks posed to HA by the situation that some buyers are unable to repay mortgage loans by themselves; if so, of the outcome; if not, whether it will conduct such an assessment; and

(5) whether it will tighten the eligibility criteria for SSFs by setting a minimum income requirement, so as to ensure that the buyers are able to repay mortgage loans by themselves?

Reply:

President,

My response to the question raised by Hon Alice Mak is as follows –

(1) and (2) In the past three years, the number of Home Ownership Scheme (HOS) flats sold by the Hong Kong Housing Authority (HA) was as follows:

	Number of flats sold
Sale of HOS Flats 2016	2 657
Sale of HOS Flats 2017	2 120*
Sale of HOS Flats 2018	4 431

* Including 63 HOS flats in 2014 for resale

Source: HA's administrative records

Since the Sale of HOS Flats 2017, the survey conducted by HA after each pre-sale of HOS flats covers information on the monthly household income and planned financial arrangements of successful buyers. According to the Major findings of the Survey on Applicants of the Sale of HOS Flats 2017 (Note 1), the distribution of monthly household income of successful buyers is as follows:

Monthly household income	Buyers of the Sale of HOS Flats 2017*		
		< \$20,000	13%
\$20,000 – < \$30,000	23%		
\$30,000 – < \$40,000	31%		
\$40,000 – < \$50,000	22%		
≥ \$50,000	11%		
Total	100%		
Median	\$30,000		

* Including White Form and Green Form buyers

Source: HA's Major findings of the Survey on Applicants of the Sale of HOS Flats 2017

Since flat selection of the Sale of HOS Flats 2018 just completed in May 2019, the survey on HOS applicants has yet to start.

(3) and (4) In order to assist the purchasers of subsidised sale flats (SSFs) in obtaining favourable mortgage loan (Note 2), HA will provide mortgage default guarantee to participating banks or financial institutions. Under the Deed of Guarantee executed by both parties, banks or financial institutions shall not require the purchasers to provide other security.

Banks or financial institutions shall exercise due prudence when approving the purchaser's mortgage application pursuant to their commercial operating principles. Accordingly, the Deed of Guarantee stipulates that banks or financial institutions are entitled on prudential grounds to refuse to provide finance to any purchaser. It is understood that banks or financial institutions will take into account all relevant factors, including the applicant's financial position, past credit data and the condition of the property, etc., in vetting mortgage applications.

Besides, if an owner, who has mortgaged the SSF purchased to a bank or financial institution that has entered into a Deed of Guarantee with HA, defaults on mortgage payments before paying off the mortgage loan, the bank or financial institution is required to exhaust all its remedies which includes seeking repayment from the owner and selling the flat before it is entitled to make a claim for payment under the Deed of Guarantee. The guarantee provided by HA is a deficiency guarantee, meaning that should the sale proceeds of the flat fail to cover the full outstanding balance of the mortgage and all the interest, legal costs, administration fees, etc. payable under the mortgage, HA shall then pay the arrears to the bank or financial institution. HA will subsequently seek to recover such payments and interest from the owner.

In addition, HA's Application Guides for SSFs also require purchasers to assess their own financial capability and eligibility for mortgage before proceeding with the purchasing formalities.

(5) The Deed of Guarantee executed by HA and banks or financial institutions has already provided a mechanism to minimise HA's financial risk. In fact, when HA's Subsidised Housing Committee (SHC) discussed the proposed income and asset limits for White Form applicants for the Sale of HOS Flats 2014 (Note 3) at its meeting of November 10, 2014, it also deliberated on whether a minimum income/asset level should be imposed on White Form applicants. SHC took the view that such minimum level should not be imposed for the following considerations:

(i) Imposing a minimum income/asset level may inadvertently affect those with genuine need to purchase HOS flats. Specifically, those with income and asset below the minimum levels will become ineligible for HOS, even if they may have other means to help finance the purchase;

(ii) Since the launch of HOS, it has been a practice for HA to allow HOS buyers to accept financial support from family members/friends. In fact,

according to the Major findings of the Survey on Applicants of the Sale of HOS Flats 2017, about 22 per cent of buyers intended to get financial support from parents, while 11 per cent of buyers planned to get financial support from friends/relatives and children respectively to finance their mortgage down payment (Note 4);

(iii) In Hong Kong, obtaining financial assistance from families/friends for home purchase is a very common arrangement and is generally accepted by the public. Some young people may have difficulties saving sufficient money on their own for the down payment of private flats particularly when property prices are relatively high; and

(iv) Green Form applicants for HOS may also have very low income/asset levels. Therefore, if a minimum income/asset level is imposed on White Form applicants, there may be criticisms from White Form applicants. Such criticisms are expected to be particularly strong among young people who have difficulties buying properties under the current market conditions.

Note 1: Details can be found in HA's Subsidised Housing Committee paper no. 69/2018

(www.housingauthority.gov.hk/en/common/pdf/about-us/housing-authority/ha-paper-library/SHC69-18EN.pdf).

Note 2: Some of the mortgage terms are as follows:

(a) loan amount: for HOS and the Green Form Subsidised Home Ownership Scheme, the maximum loan amount may not exceed the balance of the purchase price after deposit; for the White Form Secondary Market Scheme, the maximum loan amount may not exceed 90 per cent of the purchase price or the assessed value, whichever is less;

(b) repayment period: maximum of 25 years; and

(c) interest rate: the maximum interest rate shall not exceed the Best Lending Rate quoted by the bank or financial institution concerned minus 0.5 per cent per annum.

Note 3: Details can be found in HA's Subsidised Housing Committee paper no. 66/2014

(<https://www.housingauthority.gov.hk/en/common/pdf/about-us/housing-authority/ha-paper-library/SHC66-14.pdf>).

Note 4: Interviewees were allowed to choose more than one source of funding.