

LCQ16: Introducing progressive payment mortgage into subsidised sale flat schemes

Following is a question by the Hon Chan Hok-fung and a written reply by the Secretary for Transport and Housing, Mr Frank Chan Fan, in the Legislative Council today (February 16):

Question:

It is reported that the Chief Executive has earlier indicated that efforts would be made to explore the introduction of progressive payment mortgage (PPM) into the sale of subsidised sale flats (SSFs), whereby the down payment and mortgage repayments payable by the flat buyer during the first ten years after the purchase would be settled using only half of the property price as the calculation basis. In this connection, will the Government inform this Council:

(1) whether it has assessed the additional demand for SSFs that PPM may bring about in the coming five years; of the difference between such additional demand together with the public housing demand originally projected in the Long Term Housing Strategy (LTHS) and the actual number of public housing flats to be supplied as estimated in LTHS;

(2) given that Home Ownership Scheme (HOS) flat owners bear less financial burden than private flat owners as HOS flats are currently sold at about 50 per cent discount of the market value with mortgage guarantee offered by the Hong Kong Housing Authority (HA), whether the Government will consider extending the mortgage guarantee period of HOS (to 360 months, for example) instead of introducing PPM;

(3) whether it has assessed the impacts on HA's finance that will be brought about by the introduction of PPM and if HA's cash flow will be affected, thereby creating pressure on the implementation of the housing production programmes set out in LTHS;

(4) whether it has assessed if PPM will have any implication on the integrity of the ownership of SSFs; and

(5) whether it has consulted the Hong Kong Monetary Authority, the Hong Kong Mortgage Corporation Limited and the banking sector on PPM; if so, of the outcomes?

Reply:

President,

My consolidated reply to the Hon Chan Hok-fung's question is as follows:

Enriching the home ownership ladder with a view to helping families buy their own homes is one of the major elements of the current-term Government's housing policies, and the Hong Kong Housing Authority (HA) has all along been supporting and collaborating with the Government to implement various housing policies and measures. Currently, HA has entered into Deeds of Guarantee (DoGs) with certain banks and financial institutions, providing mortgage guarantee for the Home Ownership Scheme (HOS) and Green Form Subsidised Home Ownership Scheme (GSH) flats it puts up for sale. According to the DoGs, HA has been providing these banks and financial institutions with a mortgage guarantee period as long as 30 years (i.e. 360 months), counting from the date of first assignment. Furthermore, when buyers of HOS and GSH flats apply for mortgages, White Form buyers are only required to make a down payment equivalent to 10 per cent of the flat price; while Green Form buyers are only required to make a 5 per cent down payment. Such an arrangement greatly alleviates the financial burden of first-time home buyers.

The progressive payment mortgage (PPM) is proposed by a social enterprise for its development projects. Based on our understanding, that social enterprise proposes that when a flat under its development project is sold, the buyer is only required to draw down mortgage loans, make down payment, and repay the mortgage for half of the flat price; as for the remaining half, the buyer may draw down the mortgage loans and make the relevant repayment by phase within ten years since the purchase. The objective and idea of this proposal is to alleviate home owners' mortgage repayment burden at the early stage of home ownership through progressive mortgage repayment. After purchasing the flats, as the family income increases, the buyers gradually draw down more mortgage loans, and increase the monthly repayment progressively. In other words, at the early stage of home ownership, the monthly mortgage repayment amount will be less than that under the mortgage plan which is widely adopted currently where monthly repayment amount is fixed; while at the later stage of the repayment period, home owners' mortgage burden, including the monthly repayment amount and interest, will increase gradually.

HA has always been open to any suggestions that can help low- to middle-income families achieve home ownership. PPM provides an additional option for home owners, allowing them to choose a mortgage plan based on their individual needs. On the other hand, HA also needs to consider how PPM may affect its finance and cash flow as a result of the delayed receipt of part of its flat sale proceeds, the legal issues pertaining to the title of the properties, and how to deal with the situations when owners have financial difficulties during the repayment period, etc. We will keep in view the implementation details of the proposal closely, and liaise with the relevant stakeholders, including banks, financial institutions, and financial regulatory bodies, so as to explore the feasibility for HA to adopt the same proposal.

The demand for subsidised sale flats (SSFs) is affected by a number of factors, including the economic environment, the home ownership aspiration and affordability of the public, etc. Since PPM is a new suggestion, the details are not yet put into practice. It is difficult to assess its impact

on the future demand of SSFs at the moment.

Thank you, President.