LCQ17: Assisting first-time home buyers

Following is a question by the Hon Paul Tse and a written reply by the Secretary for Financial Services and the Treasury, Mr James Lau, in the Legislative Council today (December 4):

Question:

The Chief Executive has indicated in this year's Policy Address that, in order to assist first-time home buyers, the Government would immediately raise the caps on the value of the properties under the Mortgage Insurance Programme of the HKMC Insurance Limited. The maximum value of properties, eligible for insurance coverage for mortgage loans with 90 per cent loan-to-value ratio borrowed by first-time home buyers, was raised from $4 million to $8 million. On the other hand, it is learnt that a professional investor, who is also a member of a committee under the Securities and Futures Commission (SFC), has called for the abolition of the MPF system given his projection that one-third of the returns from the Mandatory Provident Fund (MPF) accounts of members of the public will go into the pockets of fund managers. On assisting first-time home buyers, will the Government inform this Council:

(1) as some members of the property agency trade have pointed out that following the implementation of the aforesaid measure, property prices have rebounded, ending a four-month downward trend, with the transaction prices of some properties even rising by almost 20 per cent, whether the Government has assessed if the aforesaid measure has created the effect that first-time home buyers have to pay more for down payments and mortgage payments; if it has assessed and the outcome is in the affirmative, whether it will consider, through other policies, assisting first-time home buyers in making good use of their personal assets to meet the relevant expenses;

(2) as quite a number of members of the public have indicated that they are unable to purchase their own homes as they cannot afford the substantial down payments to the tune of several hundred thousand dollars, whether the Government will, from the perspectives of protecting the MPF accumulated contributions of members of the public from being nibbled away by fund managers, allowing members of the public to make good use of their personal assets, and alleviating the pressure to be borne by members of the public in purchasing their first homes, consider afresh my suggestion of allowing first-time home buyers to use their MPF accumulated contributions to pay for down payments and the relevant expenses; if not, of the reasons for that;

(3) whether it has studied if the pressing housing problem can be effectively alleviated by allowing first-time home buyers to use their MPF accumulated contributions for home purchases; if it has studied and the outcome is in the affirmative, of the details; if it has not, whether it will conduct such a study and seek the views of the public; and

(4) having regard to the comments that the practice of the Government in compelling members of the public to make MPF contributions for decades, in the clear knowledge that they are being exploited by fund managers, is tantamount to forcing members of the public to "accept discounted salary payments each month" and to "keep making contributions which have no prospect of recovery of losses", which has not only undermined the ability of members of the public in purchasing their first homes, but also resulted in the continuous accumulation of public grievances and public anger, thereby eroding the public's confidence in the Government's implementation of policies, and the former Central Policy Unit even anticipated that a governance crisis similar to "Occupy Central by the elderly" may emerge as a result, whether the Government will seriously review the views and suggestions put forward by members of the public and the aforesaid SFC member by exploring every possible means to compensate members of the public for the MPF accumulated contributions that have been nibbled away by fund managers, or examining the abolition of the MPF system directly?

Reply:

President,

Having consulted the Transport and Housing Bureau, my reply to the various parts of the question is as follows:

(1) The latest amendments to the Mortgage Insurance Programme (MIP) aim at providing more commensurate support to first-time homebuyers, or people wishing to upgrade their homes, who have sufficient repayment abilities but cannot afford the down payment. While the applicable property value caps of the MIP have been adjusted, borrowers are still required to meet a host of specific eligibility criteria for the MIP applications, including meeting a 50 per cent debt-to-income ratio and paying extra premium for risk mitigation purpose. For applicants with mortgage loans exceeding a loan-to-value ratio of 80 per cent, the HKMC Insurance Limited (HKMCI) has imposed additional eligibility criteria, including that borrowers must be first-time homebuyers and regularly salaried.

Fluctuations in the property market are affected by many factors. The Government has time and again reminded potential homebuyers to carefully consider their needs and repayment ability before making a decision on buying a property. The HKMCI will closely monitor the property market condition and evaluate the effectiveness of the MIP in due course.

In assisting home purchase by the public, the Government has spared no effort in increasing public housing supply and building a housing ladder. Aside from launching the Home Ownership Scheme, Green Form Subsidised Home Ownership Scheme and White Form Secondary Market Scheme, etc. to meet the home ownership aspirations of the community (including first-time homebuyers), the Government has also launched the Starter Homes (SH) pilot project targetting Hong Kong residents with higher income who have never owned any residential property in Hong Kong. The first SH pilot project was launched last year and received positive response in the community. In view of this, it was announced in the "The Chief Executive's 2019 Policy Address" that the Government would put up a site on Anderson Road in Kwun Tong for sale in the first quarter of 2020 for the second SH pilot project. In addition to building private housing units, the developer will be required under land sale conditions to offer approximately 1 000 SH units for sale at below-market prices to eligible applicants specified by the Government.

(2) and (3) The objective of the Mandatory Provident Fund (MPF) System is to require the working population to save part of their income for meeting basic retirement needs in the future. Therefore, MPF accrued benefits should be kept in the System as far as possible and should only be withdrawn to meet retirement needs.

Regarding the suggestion to allow withdrawal of MPF for the purpose of home purchase, there have been diverse views in the community, including quite a number of objections and reservations. The Mandatory Provident Fund Schemes Authority (MPFA) has reviewed relevant arrangements in other jurisdictions. Compared with other places, the MPF contribution rate is relatively low in Hong Kong. The low MPF contribution rate is intended to allow flexibility for scheme members to freely use their remaining income to meet their other needs. Allowing scheme members to withdraw MPF for home purchase will greatly reduce the MPF protection available to them upon retirement. The objective of the MPF is to accumulate wealth through long-term and regular mandatory investments with the benefit of cost averaging. As a matter of fact, as at December 2018, the average accrued benefits of MPF members was only $186,000. Therefore, the actual effect of early withdrawal of part of their accrued benefits for helping home purchase is limited. Furthermore, the risk of investing in real estate is much higher than that of MPF funds. If the accrued benefits are used as a lump sum for down payment, when property price drops and property owners become unable to repay their mortgages, scheme members will lose their retirement savings or even run into more debts, which goes against the original objective of the MPF System.

(4) The MPF System has been in place for almost 19 years since its inception on December 1, 2000. Its operation has become more mature and its assets have grown continuously. As at September 2019, total MPF accumulated assets for scheme members amounted to $905 billion. Investment returns accounted for $237.1 billion, net of fees and expenses, or over one-fourth of the total MPF assets. The annualised rate of return since the inception of the MPF System is 3.6 per cent, exceeding the corresponding inflation rate of 1.9 per cent over the same period. Over the years, the MPFA has initiated different measures to drive down MPF fees. The Fund Expense Ratio of MPF funds has dropped from 2.1 per cent in December 2007 to the current rate of 1.5 per cent, representing a reduction of almost 30 per cent.

Apparently, the MPF as a retirement savings channel for the general public has its merits. The Government will work with the MPFA to continuously refine and enhance the MPF System, such as through the establishment of an eMPF Platform and the review of the fee cap of the Default Investment Strategy. We will continue to improve the operating efficiency of MPF schemes and lower fee levels for the benefit of scheme members.