

LCQ3: Maximum coverage for mortgage loans provided under Mortgage Insurance Programme

Following is a question by the Hon Chan Chun-ying and a reply by the Secretary for Financial Services and the Treasury, Mr James Lau, in the Legislative Council today (June 27):

Question:

In February 2015, the Hong Kong Mortgage Corporation Limited tightened the arrangements under the Mortgage Insurance Programme (MIP) by reducing the maximum MIP coverage for eligible residential properties from 90% loan-to-value (LTV) ratio to 80 per cent LTV ratio, and suspending the acceptance of applications for mortgage loans exceeding 80 per cent LTV ratio. However, those first-time home buyers with regular income and stronger repayment ability are still eligible for MIP coverage of 90 per cent LTV ratio. Some members of the public have pointed out that in recent years, developers have calculated the maximum property price affordable to first-time home buyers on the basis of the maximum MIP coverage and the mortgage loan amounts generally approved by banks for first-time home buyers. For instance, when the per-square-foot price is \$10,000, a home buyer who can afford a property price of \$4 million will be able to buy a flat of 400 square feet; when the per-square-foot price rises to \$20,000, he can only buy a flat of 200 square feet. As the price per square foot of flats has been rising incessantly in recent years, the size of the residential flats built by developers according to the price affordable to buyers has become smaller and smaller. In this connection, will the Government inform this Council:

(1) of the number of residential mortgages covered by the MIP each year since the tightening of the arrangements under MIP and, among them, the number and percentage of such mortgages involving flats with saleable floor area less than 20 square metres; how such figures compare with the relevant figures for the two years immediately preceding the revisions;

(2) whether it has conducted studies on the correlation between the tightening of the arrangements under the MIP and the prevalence of nano residential flats; if so, of the details; if not, the reasons for that; and

(3) whether it will consider regulating nano flats, such as stipulating the minimum size of residential flats through administrative measures?

Reply:

President,

The Mortgage Insurance Programme (MIP) was launched by The Hong Kong

Mortgage Corporation Limited (HKMC) in March 1999 to promote home ownership in Hong Kong. According to the guideline issued by the Hong Kong Monetary Authority (HKMA), banks have to comply with loan-to-value (LTV) requirement on owner-occupied residential mortgage lending. The MIP provides mortgage insurance to banks, thereby enabling banks to provide mortgage loans with higher LTV ratio without incurring additional credit risk. Under the MIP, banks are the mortgage loan providers. The mortgage insurance aims to protect participating banks from losses, in general, on the portion of the loan over the 60 per cent LTV threshold due to mortgage default by the borrowers. Therefore, in addition to promoting home ownership, the MIP also contributes to the maintenance of banking stability.

Having consulted the relevant bureaux, my reply to various parts of the question raised by the Hon Chan Chun-ying is as follows:

(1) The numbers of loans drawn down under the MIP of HKMC in the past few years were 4,925 for 2015, 7,145 for 2016 and 8,829 for 2017 respectively. The number of loans drawn down under the MIP for residential properties with a saleable area equal to or under 200 square feet accounts for a small percentage of the total number of loans drawn down. The corresponding numbers of loans drawn down in the past three years were 49 for 2015, 57 for 2016 and 164 for 2017 respectively, accounting for less than two per cent of the total number of loans drawn down. Please refer to Annex for details on the number and ratio of loans drawn down under the MIP in the past five years.

(2) The size of residential properties reflects changes in the supply and demand of the property market. As one of the financing tools, the MIP has no direct correlation with the size of residential properties.

(3) We need to strike a reasonable balance between housing production and average living floor area per person, as both the increase in housing production to address needs for accommodation and the increase in average living floor area per person to improve living standard would require additional land. In view of the imbalance in supply and demand for land and housing, and given the fact that property prices are soaring continuously, our current priority is accorded to increasing housing production to meet the basic accommodation needs of the public. Besides, as a pluralistic society, there are diverse aspirations in respect of flat size. In the longer run, we consider that when the land shortage situation is alleviated, our society will be in a better position to explore whether a standard on average living floor area per person should be set.

The Government has reminded the public repeatedly on different occasions that buying a property is not only one of the most important decisions in life, it is also a financial transaction entailing significant leverage through borrowing. They must be mindful of their ability to cope with the potential risk that may arise from possible changes in the economic and market conditions as well as mortgage interest rates and do not overstretch themselves. In particular, prospective buyers should ensure that they fully understand the detailed terms and conditions if they opt for the mortgage plans offered by property developers. While the incentives may look

attractive in the short term, prospective buyers should take into account any changes that may occur in the future, assess carefully their repayment ability and make a shrewd and prudent decision.

The Government and the HKMA will continue to monitor the property and mortgage markets closely, and will adjust the relevant supervisory measures as and when necessary to ensure that banks are managing their risk properly.