

**THE HONG KONG HOUSING AUTHORITY****Memorandum for the Home Ownership Committee****Second Legal Charges against  
Housing Authority Assisted Housing Scheme Flats  
to Secure Downpayment Loans Offered by  
the Hospital Authority****PURPOSE**

To seek Members' endorsement to the blanket approval by the Housing Authority (HA) on the creation of second legal charges against flats under the Housing Authority Assisted Housing Schemes (HAAHS)\* in favour of the Hospital Authority as a security to the downpayment loans (DPL) granted to the eligible employees of the Hospital Authority under the Hospital Authority Downpayment Loan Scheme (HADPLS).

**BACKGROUND**

2. Mortgage finance to the HAAHS is normally provided by financial institutions (the Lenders) approved for the purpose by the HA. A Deed of Guarantee (Guarantee) is executed between the Lenders and the HA whereby the HA guarantees to the Lenders, subject to certain terms and conditions, any loss arising from defaults of borrowers. In return, the Lenders provide more favourable terms for the mortgages than the average residential mortgage loans in the private sector. According to the Guarantee, the mortgage deed shall be in approved standard form annexed to the Guarantee, whereby approval on mortgage of HAAHS as required under paragraph 4(a) of the Schedule to the Housing Ordinance (the Schedule) is deemed to be given.

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Housing Authority Assisted Housing Schemes include Home Ownership Scheme (HOS), Private Sector Participation Scheme (PSPS), Mortgage Subsidy Scheme, Secondary Market Scheme, Tenants Purchase Scheme and Buy-or-Rent Option Scheme of the Housing Authority.

3. For mortgages not covered by the Guarantee, prior consent of the Director of Housing pursuant to paragraph 4(a) of the Schedule is required. At present, majority of the applications for consent relate to staff housing loans provided by employers as lenders. Since the loans are secured by the first legal charge not in the approved form, the HA does not indemnify the lenders against defaults of borrowers.

4. Similarly, Members have vide Paper No. HOC 70/91 endorsed the blanket approval on second legal charges for HOS/PSPS flats as a security to Government loans offered to civil servants under the Government Loan Scheme (GLS), subject to certain terms and conditions imposed by the HA.

### **HOSPITAL AUTHORITY DOWNPAYMENT LOAN SCHEME**

5. The Hospital Authority has introduced the HADPLS in April 1999 by granting DPL to assist eligible employees to buy their own residential flats. Such DPL shall not be used for the purpose of reducing the outstanding mortgage loan of the flats. The Hospital Authority will secure the loan by the creation of second legal charge against the flats. The Hospital Authority has now applied to the HA for the granting of blanket approval to the second legal charge against flats under the HAAHS.

### **RECOMMENDATIONS**

6. As the HADPLS is similar in nature to the GLS, it is recommended to give similar blanket approval to the Hospital Authority on the second legal charge of flats under the HAAHS as a security against the DPL. It is also recommended that the HA should not indemnify the Hospital Authority against defaults of borrowers.

### **FINANCIAL IMPLICATIONS**

7. The proposal will have no adverse financial implications on the HA as defaults in connection with the second legal charge is not guaranteed by the HA.

## **PRESUMPTION**

8. It is not thought that Members will object to the recommendations in paragraph 6 above. If no objection or request for discussion is received by the Committees' Secretary **by noon on 8 December 2000**, Members' approval will be presumed and appropriate action taken.

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