

THE HONG KONG HOUSING AUTHORITY

Memorandum for the Home Ownership Committee

**Refinancing Of the Home Ownership Scheme (HOS)/
Private Sector Participation Scheme (PSPS) Flats**

PURPOSE

To inform Members of the extension of the existing criteria for refinancing of HOS and PSPS flats to cover financial hardship cases arising from business or commercial activities.

BACKGROUND

2. Under paragraph 4(a) of the schedule to the Housing Ordinance, the approval by the Director of Housing is required for any mortgage or charge over HOS/PSPS flats for refinancing by owners. The power of approval has been delegated to Assistant Director/Applications & Home Ownership.

3. Members approved Paper No. HOC 17/92 on 27 March 1992 that refinancing of HOS and PSPS flats should be permitted for cases of genuine financial hardship. The financial institutions providing refinancing loans are restricted to the list of licensed banks and deposit-taking companies approved by the Hong Kong Monetary Authority.

4. Under the guidelines as laid down in Paper No. HOC 36/93, refinancing will be permitted if owner suffers from genuine financial hardship and it is necessary to provide finance for medical care, funeral costs, education expenses, etc. However, refinancing for business or commercial activities will not be allowed.

5. To safeguard the interest of the Authority, the approval of the refinancing will normally be subject to the following conditions -

- (a) the refinancing mortgage will not be guaranteed by the Authority;
- (b) the original mortgage to finance the purchase of the flat as guaranteed by the Authority will have priority of claim over the refinancing mortgage; and
- (c) the total of the original and the refinancing amounts cannot exceed 80% of the estimated price payable by the Authority in case the flat is offered for sale to the Authority.

FINANCIAL HARDSHIP CAUSED BY NATURAL DISASTERS

6. Subsequent to the serious Red Tide outbreak in April 1998, the Government saw the need to financially assist affected mariculturists to resume production and decided to implement a special loan scheme under the Kadoorie Agricultural Aid Loan Fund (KAALF) to make available loans to these people. Loans (the Loan) exceeding \$100,000 up to a maximum of \$500,000 may be granted by the Director of Agriculture & Fisheries (DAF) upon the security of providing a charge on the property of the loan recipient. According to DAF, there are several applications for the Loan from HOS/PSPS flat owners who will need to charge their property to DAF in securing the loan.

7. Apart from refinancing applications from mariculturists, the Department has received several similar cases concerning Government loans for people directly affected by the bird-flu virus.

BUSINESS FINANCIAL HARDSHIP

8. The current local economic downturn has exerted tremendous pressure on business operations in Hong Kong and the number of business financial hardship cases has been on an increase.

RECOMMENDATIONS

9. The prevailing policy of disallowing refinancing application for business or commercial activities may increase the financial hardship of owners of HOS and PSPS flats when their business is at risk. Extension of the refinancing criteria to include the above activities is in line with Government's efforts in strengthening the economic well-being of Hong Kong. As the refinancing loan will not be guaranteed by the Authority, it will not expose the Authority to more financial risks. It is therefore recommended to support the extension of the criteria to cover financial hardship cases arising from business or commercial activities.

10. For loans granted to mariculturists under the KAALF, the lender will be DAF who acts as the Trustee of the KAALF under the Kadoorie Agricultural Aid Loan Fund Ordinance (Cap. 1080).

11. Although the loans are not provided by licensed banks or deposit taking companies, no abuse is anticipated. It is therefore recommended to accept refinancing for HOS/PSPS flats with the loan being provided by Government.

FINANCIAL IMPLICATION

12. The proposals will have no adverse financial implications on the Authority as the refinancing mortgage is not guaranteed by the Authority.

PUBLIC REACTION

13. The proposals will allow greater flexibility for HOS/PSPS owners in refinancing HOS/PSPS flats to tide over the financial difficulties caused by natural disasters or by other mishapening related to business or commercial activities. This is expected to be welcomed by owners.

INFORMATION

14. This paper is issued for Members' information

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