

THE HONG KONG HOUSING AUTHORITY

Memorandum for the Home Ownership Committee

Long Term Housing Strategy Review

Home Purchase Loan Scheme

PURPOSE

This paper seeks Members' views on the proposal to maintain and, where possible, expand the Home Purchase Loan Scheme (HPLS) as a flexible and cost-effective means of encouraging home ownership.

BACKGROUND

2. The Government believes that home ownership is good for both the community and the individual. In order to encourage wider home ownership, the Long Term Housing Strategy (LTHS) Review proposes to maintain and, where possible, expand the existing subsidised home ownership schemes to help eligible families.

3. Further to the Home Ownership Scheme (HOS)/Private Sector Participation Scheme (PSPS), the HPLS was introduced in 1988 as another subsidised home ownership scheme. It aims to assist families with incomes not exceeding the prevailing Home Ownership Scheme Income Limit and public rental housing (PRH) tenants (who are not subject to this income limit) to buy flats in the private sector. Eligible applicants are offered an interest-free loan, repayable over the same period as the bank mortgage on the property, up to a maximum of 20 years. Alternatively, they may opt for a monthly subsidy for 48 months, which need not be repaid.

4. The scheme has been reviewed from time to time since implementation. The current amount of loan and monthly subsidy for Green Form (GF) and White Form (WF) applicants are \$600,000/\$5,100 and \$400,000/\$3,400 respectively. The annual quota for 1996/97 under the scheme is 7,000, consisting of 5,000 for GF and 2,000 for WF applicants. In 1997/98, the total quota is 4,500, comprising 3,000 for GF and 1,500 for WF applicants.

PRESENT POSITION

5. As at 19 February 1997, a total of 5,607 (80.1%) quota for 1996/97 has been taken up, while 2,785 valid letters of Approval-in-principle (AIP) are being held by applicants. Some 7,200 applications are under processing. In addition, an average of 600 applications are received each month.

6. An analysis of the purchase pattern by recipients in relation to size, price, location and age of property is at **Annex**. The majority of recipients have purchased flats with sizes ranging from 40 m² to 69 m² and at prices below \$2.5 million. More than half of the properties purchased are in the New Territories (NT) and 87% are of age below 15 years.

CONSIDERATIONS

7. Earlier analysis has confirmed that HPLS is the cheapest form of housing subsidy. We have from time to time reviewed the HPLS having regard to the prevailing demand, financial and market situations. In reviewing the scheme, Members may wish to consider the following -

(a) **Future Sale of Home Ownership Scheme (HOS)/Private Sector Participation Scheme (PSPS) Flats**

In the years up to 2001/02, about 150,000 HOS/PSPS flats in all districts (including about 60,000 in the NT) will be offered for sale. This almost doubles the total of about 74,000 flats (of which 20,000 were in the NT) sold over the last 5 years. Expansion of the HPLS may shift the interest of the potential applicants, GF applicants in particular, towards the private

market rather than the HOS/PSPS flats, thus affecting the marketability of the latter, especially those in the NT which is the target district of flat purchase by the recipients.

(b) **Impact on Private Market and Loan Amount**

An expansion of the HPLS might further push up the escalating prices of properties up to 69.9m² in size which are the targets for purchase by the recipients. As a result, the loan amount may need to be revised to cater for the price increase. According to the Rating and Valuation Department, the supply of vacant flats up to this size in the private sector was 25,000 as at end 1996, as compared to 28,000 in 1995.

(c) **New Opportunities for PRH Tenants for Home Ownership**

The attractiveness of the HPLS vis-à-vis proposals to allow PRH tenants to apply for the purchase of Sandwich Class Housing flats and to launch a sale of rental flats to sitting tenants has to be evaluated.

(d) **Financial Implications**

The quota of 4,500 for 1997/98 under the HPLS are to be financed by the Housing Authority funds because of exhaustion of the Development Fund. A study of the financial implications and alternative funding arrangements has to be conducted to take into account of any expansion in the quota and loan amount.

DISCUSSION

8. At the next Home Ownership Committee meeting to be held on 17 March 1997, Members will be asked to comment on the proposal to maintain and, where possible, expand the HPLS; following which, the financial implications/arrangements will be proposed for consideration by the Finance Committee.

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