Memorandum for the Subsidised Housing Committee of the Hong Kong Housing Authority

Income and Asset Limits for the New Round of the Interim Scheme to Extend the Home Ownership Scheme Secondary Market to White Form Buyers

PURPOSE

This paper seeks Members’ endorsement of the proposed income and asset limits for applicants of the new round of the Interim Scheme to Extend the Home Ownership Scheme Secondary Market to White Form Buyers (the Interim Scheme).

BACKGROUND

2. In response to the home ownership aspirations of low to middle-income families, the Subsidised Housing Committee (SHC) decided in September 2012 to launch the Interim Scheme (Paper No. SHC 54/2012 refers). The Interim Scheme allows buyers with White Form (WF) status to purchase Home Ownership Scheme (HOS) flats with premium not yet paid under the HOS Secondary Market Scheme. Approval letters were issued to 5,000 successful applicants in two batches in May 2013 and December 2013. Among them, 3,968 applied for a Certificate of Eligibility to Purchase (CEP). A total of 2,411 Letters of Nomination were issued to applicants upon the conclusion of the first round of the Interim Scheme in end April 2015.

3. In considering the initial assessment of the Interim Scheme (Paper No. SHC 72/2014 refers) on 24 November 2014, Members were of the view that with only one round of the Interim Scheme, there were still uncertainties about the full and exact impact on flat prices to enable a decision to be made on the future of the Interim Scheme. Coupled with the strong demand for subsidised sale flats from WF applicants, SHC decided to implement one more round of the Interim Scheme in mid-2015 with a reduced quota of 2,500 to better test out the effect of the Interim Scheme before conducting a full review.
4. To follow up with Members’ decision, we now plan to launch the new round of the Interim Scheme around late August 2015 and need to work out the income and asset limits for WF applicants.

INCOME AND ASSET LIMITS

5. SHC decided in September 2012 that the income and asset limits for applicants under the Interim Scheme should be calculated using the established methodology applicable to HOS. According to the established methodology (details at Annex A), the amount of total household expenditure (i.e. both housing and non-housing expenditure) required to purchase a reasonably sized flat in the private sector constitutes the basis for assessing the income and asset limits. Households with income and assets below the prescribed limits are deemed to be unable to afford home ownership in the private sector and therefore eligible to apply for the Interim Scheme. For family applicants of larger household size, it is possible that the HOS income and/or asset limits derived in accordance with the established methodology will be lower than the public rental housing (PRH) income and/or asset limits applicable to that household size. In such case, the higher PRH limits will be adopted as the HOS income limit and/or HOS asset limits for the relevant household size.

Income limit

6. We follow the established “household expenditure” approach, which comprises both housing and non-housing expenditure, plus a 5% contingency, in working out the income limit. On housing expenditure, mortgage payment (which is dependent on the prevailing property price and mortgage interest rate) is the main variable. Non-housing expenditure is calculated with reference to the average household expenditure of the middle one-third expenditure group of four-person households amongst tenant households in the private sector, using the findings of the latest Household Expenditure Survey (HES) conducted by the Census and Statistics Department (C&SD), and adjusted to the current price level according to the movement in the relevant Consumer Price Index (CPI) over the period.
7. The prevailing position of property prices, mortgage interest rate and non-housing costs based on the latest data from January to March 2015 is set out below –

<table>
<thead>
<tr>
<th></th>
<th>January to March 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>(a)</strong> Price of a 10-year old 40 m² saleable area flat in Extended Urban Area and New Territories Note 1 (the reference flat)</td>
<td>$4,570,000</td>
</tr>
<tr>
<td><strong>(b)</strong> Mortgage interest rate Note 2 (average rate for the past 12 months or prevailing rate, whichever is higher)</td>
<td>2.35%</td>
</tr>
<tr>
<td><strong>(c)</strong> Non-housing expenditure (the average household expenditure of the middle one-third expenditure group of four-person households amongst tenant households in the private sector)</td>
<td>$21,900</td>
</tr>
</tbody>
</table>

8. Before the Sale of Surplus HOS Flats Phase 6, mortgage payment was calculated on the assumption that the mortgage loan-to-price ratio was 70%. To provide for more relaxed income limits and hence higher liquidity for WF buyers, and noting that it was possible to arrange for a mortgage up to 90% (or even a higher percentage) of the value of the flat under the Hong Kong Mortgage Corporation Limited’s Mortgage Insurance Programme (MIP), the mortgage loan-to-price ratio of 90% has been adopted since the Sale of Surplus HOS Flats Phase 6. However, with effect from

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**Note 1** The districts covered are Sha Tin, Tsuen Wan, Kwai Tsing, Tseung Kwan O, Tai Po, North District (Fanling and Sheung Shui), Tuen Mun, Yuen Long and Islands.

**Note 2** It refers to the effective interest rate charged on new mortgage loans by authorised institutions currently participating in the Hong Kong Monetary Authority’s Monthly Survey of Residential Mortgage Lending (covering over 95% of the residential mortgage lending business in Hong Kong). The higher of either the prevailing rate or the average rate for the past 12 months is used. In this review, the prevailing rate (March 2015) is 2.25% while the average rate for the past 12 months (April 2014 to March 2015) is 2.35%.
28 February 2015 Note 3, the maximum MIP cover has reduced from 90% to 80% mortgage loan-to-price ratio. Hence, we have adopted 80% mortgage loan-to-price ratio in deriving the income and asset limits for the current round of the Interim Scheme.

9. With the reference flat price being $4.57 million, the maximum mortgage covered by the MIP is $3.656 million (i.e. 80% of $4.57 million). The monthly mortgage payment is calculated to be $19,107. Together with the rates, Government rent and management fee ($1,830), non-housing expenditure ($21,900) and salary tax ($2,565), the total household expenditure is calculated to be $45,402. Adding a 5% contingency and rounding to the nearest thousand, the proposed monthly income limit for family applicants is $48,000. Detailed calculation is set out at Annex B. The proposed monthly income limit so calculated is higher than the PRH income limits of all household sizes.

**Asset limit**

10. Under the established methodology, the asset limit is derived from the amount of expenditure required to finance the down payment, the related transaction costs to acquire the reference flat and decoration expenses. With the assumption of a mortgage of $3.656 million (see paragraph 9 above), the down payment expenditure so calculated is $914,000. Together with the related transaction costs and decoration expenses, the proposed asset limit for family applicants is $1,600,000. Detailed calculation is also set out at Annex B. The proposed asset limit so calculated is higher than the PRH asset limits of all household sizes.

**Income and asset limits for one-person applicants**

11. The established practice is to set the income and asset limits for one-person applicants at half of that applicable to family applicants Note 4. In other words, the proposed income limit for one-person applicants for the

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Note 3 Regular salaried first time homebuyers with a maximum debt-to-income ratio of 45% may still be eligible for the maximum MIP cover of 90% mortgage loan-to-price ratio if the value of properties is below $4.5 million, subject to a cap of $3.6 million.

Note 4 The practice has been adopted since November 1999. SHC discussed alternative means of setting the income and asset limits for one-person applicants in November 2014 and considered it prudent to stick to the existing and well-established formula.
Interim Scheme would be $24,000 per month, while the proposed asset limit for one-person applicants for the Interim Scheme is proposed to be $800,000. These proposed income and asset limits are higher than the PRH income and asset limits of one-person applicants.

RECOMMENDATIONS

12. Members are recommended to endorse the following income and asset limits for WF applicants for the new round of the Interim Scheme (paragraphs 9, 10 and 11) –

<table>
<thead>
<tr>
<th>Household size</th>
<th>Income limit Note 5</th>
<th>Asset limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Two persons or above</td>
<td>$48,000 ($50,500)</td>
<td>$1,600,000</td>
</tr>
<tr>
<td>One person</td>
<td>$24,000 ($25,250)</td>
<td>$800,000</td>
</tr>
</tbody>
</table>

NEXT STEPS

13. Upon Members’ endorsement of the proposed income and asset limits (paragraph 12), we will invite eligible WF applicants to apply for the new round of the Interim Scheme around late August 2015. The following streamlined procedures as endorsed in the SHC Meeting on 24 November 2014 vide Paper No. SHC 72/2014 will be implemented -

(a) to fully utilise the quota, if successful applicants do not collect CEP within the prescribed period, one more round of Approval Letters would be issued to top up the unused quota according to the priority of applicants who passed the detailed vetting. In this connection, Paper No. SHC 72/2014 states that successful applicants should collect CEP within six weeks. In working out the operational details for the new round of the Interim Scheme,

Note 5 Under the HOS, statutory contributions under the Mandatory Provident Fund (MPF) Scheme are deductible from a household’s income for the purpose of vetting the applicants’ eligibility. In other words, for households contributing 5% of their income under the MPF, the effective income limits applicable to them are about 5.26% higher. The equivalent income limits with the statutory MPF contribution included are shown in brackets in the table.
we consider that there should be sufficient time for successful applicants to collect the CEP in four weeks’ time. Such arrangement can also facilitate early issue of Approval Letters to applicants who will top up the unused quota;

(b) to lengthen the validity period of CEP from 6 months to 12 months;

(c) to issue CEPs to successful applicants direct upon payment of fees instead of requiring them to make an application after receiving the Letter of Approval; and

(d) to conduct detailed vetting of eligibility only once, before the issue of the Approval Letter. Further checking on income and asset limits at the Letters of Nomination stage will not be conducted.

14. It was mentioned in Paper No. SHC 72/2014 that we would continue to check the records of Land Registry to ensure that no charge had been registered against the property to be purchased at the time of approving the Letter of Nomination. However, in view of the fact that relevant task should have already been undertaken by the purchasers’ appointed solicitors, to avoid duplication of work, we recommend omitting this step in the new round of the Interim Scheme.

FINANCIAL AND STAFFING IMPLICATIONS

15. The recommendations in paragraph 12 should not have any major financial and staffing implications.

PUBLIC REACTION AND PUBLICITY

16. Those eligible for WF status should welcome the new round of the Interim Scheme and the streamlined procedures. As for the calculation of the income and asset limits, while it follows the established mechanism, the relatively big increase in the asset limit (as compared to the asset limit of $1.01M adopted in the sale of the new batch of HOS flats in December 2014), due mainly to the decrease in MIP cover, may draw public attention. There may be concern that more people would then be able to enter the HOS
Secondary Market via the Interim Scheme, hence further raise the prices of flats in the HOS Secondary Market. In response, we will point out that introducing one more round of the Interim Scheme will allow SHC to better assess the situation before deciding on the future of the Interim Scheme. We have also reduced the quota to address potential concern on the possible impact of the Scheme on flat prices.

17. A press release will be issued to announce the endorsed income and asset limits for the new round of the Interim Scheme after the meeting on 11 June 2015.

DECLASSIFICATION

18. We recommend that this paper be declassified after the meeting. The paper will be made available to the public at the Hong Kong Housing Authority homepage, the Department’s library and through the Departmental Access to Information Officer if it is declassified.

ADVICE SOUGHT

19. Members are invited to endorse –

(a) the proposed income and asset limits (paragraph 12);

(b) the revised streamlining procedures (paragraphs 13 (a) and 14); and

(c) declassification of this paper (paragraph 18).

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(Strategy Division)
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Annex A
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Methodology as approved by SHC for setting the HOS income and asset limits

HOS income limits

- The HOS income limits are derived under a “household expenditure” approach. The objective is to determine the amount of household income required to purchase a reasonably sized flat in the private sector. Households with income below the limits are deemed to be eligible for HOS.

- The “household expenditure” approach consists of housing costs and non-housing costs –

  (a) **Housing cost**: The monthly expenditure for owning a 10-year-old private flat of 40 m² saleable area in the Extended Urban area or the New Territories (the reference flat). It covers mortgage payment, Government rent, rates and management fees. In this exercise, the mortgage payment is worked out based on the prevailing assessed market value of the reference flat, with the assumption that the mortgage loan-to-price ratio is 80% \(^1\) and the flat will be mortgaged for a term of 20 years at either the average mortgage interest rate in the past 12 months or the prevailing mortgage interest rate (whichever is the higher).

  (b) **Non-housing cost**: The average household expenditure of the middle one-third expenditure group of four-person households amongst tenant households in the private sector. The data are obtained from the latest HES \(^2\) conducted by the C&SD and adjusted to the current price level according to changes in the CPI(A) of non-housing items.

- The HOS income limit for family households is the sum of the above two major cost items, plus a 5% contingency.

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Note 1  With effect from 28 February 2015, the maximum mortgage loan-to-price ratio is 80% under Hong Kong Mortgage Corporation Limited’s MIP. Regular salaried first time homebuyers with a maximum debt-to-income ratio of 45% may still be eligible for a maximum MIP cover of 90% mortgage loan-to-price ratio if the value of properties is below $4.5 million, subject to a cap of $3.6 million.

Note 2  Based on data from the 2009/10 HES released in mid-2011.
HOS asset limits

- The HOS asset limits are equivalent to the amount of expenditure required to finance the down payment, related transaction costs for acquiring the reference flat and decoration expenses.

Income and asset limits for one-person applicants and large families

- The income and asset limits for one-person HOS applicants are half of those for families.

- For family applicants of larger household size, it is possible that the HOS income and/or asset limits derived according to the above method will be lower than the PRH income and/or asset limits applicable to that household size. In such case, the higher PRH limits will be adopted as the HOS income limit and/or HOS asset limit for the relevant household size.
Calculation of income and asset limits for the Interim Scheme

**Assessment period**

Jan – Mar 2015

**Parameters**

<table>
<thead>
<tr>
<th>Parameter</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assessed average flat price</td>
<td>$4,570,000</td>
</tr>
<tr>
<td>Mortgage loan-to-price ratio</td>
<td>80%</td>
</tr>
<tr>
<td>Mortgage loan</td>
<td>$3,656,000</td>
</tr>
<tr>
<td>Loan repayment period (years)</td>
<td>20</td>
</tr>
<tr>
<td>Mortgage interest rate</td>
<td>2.35%</td>
</tr>
<tr>
<td>CPI(A) for non-housing items (2009/10=100)</td>
<td>120.0</td>
</tr>
</tbody>
</table>

**Income limit**

(1) Housing expenditure

(a) Mortgage payment $19,107
(b) Rates, Government rent and management fee $1,830

$20,937

(2) Non-housing expenditure $21,900

(3) Salary tax $2,565

Total household expenditure $45,402

Contingency (5% of Total Household Expenditure) $2,270

Income requirement $47,672

**Proposed income limit** $48,000

**Asset limit**

(1) Down payment $914,000

(2) Transaction cost:

(a) Stamp duty $137,100
(b) Conveyancing and mortgage deed fees (1.5%) $68,550
(c) Estate agent’s commission (1%) $45,700
(d) Decoration cost and household fittings (8%) $365,600
(e) Mortgage insurance premium $67,636

$684,586

Asset requirement $1,598,586

**Proposed asset limit** $1,600,000
Notes

1 Private flat of around 10 years old and 40 m² saleable area in the Extended Urban Area and the New Territories.

2 The higher of either the prevailing rate in March 2015 (2.25%) or the average rate for the past 12 months from April 2014 to March 2015 (2.35%) is used.

3 Based on latest management fees and rental data of private residential developments.

4 Non-housing expenditure is based on the average of the middle one-third expenditure group of four-person tenant households in private permanent housing and all households in private temporary housing. The expenditure is compiled based on data of the HES 2009/10 conducted by C&SD and adjusted to the January to March 2015 position with reference to CPI(A) of non-housing items.

5 As at 2015/16, a four-person household consisting of a married couple, earning a monthly income of $48,000 and having incurred a mortgage interest of $84,400 per annum is required to pay a salary tax of $2,565. As to whether the household would apply for various types of tax allowances, it would be up to individual family circumstances. It is therefore assumed that the household would only claim the married person’s allowance.

6 The stamp duty on sale of property in Hong Kong with consideration higher than $4,428,570 but not exceeding $6,000,000 is 3.00% of the consideration, if the buyer is a Hong Kong permanent resident who is not a beneficial owner of any other residential property in Hong Kong at the time of acquisition.

7 For the assessment period from January to March 2015, the Mortgage Insurance Premium for 60% up to 80% loan-to-price ratio is 1.85% of the original principle balance, i.e. 1.85% x $3,656,000 = $67,636.