

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

**Income and Asset Limits for White Form Applicants
under “Sale of Home Ownership Scheme Flats 2024” and
“White Form Secondary Market Scheme 2024”**

PURPOSE

This paper seeks Members’ endorsement of the proposed income and asset limits for White Form (WF) applicants under “Sale of Home Ownership Scheme (HOS) Flats 2024” (HOS 2024) and “White Form Secondary Market Scheme (WSM) 2024” (WSM 2024).

RECOMMENDATION

2. Members are recommended to approve –
- (a) the following income and asset limits for WF applicants under HOS 2024 and WSM 2024 (paragraphs 12 to 15 below) –

Household Size	Income Limit ^{Note 1}	Asset Limit
Two persons and above	\$60,000 (\$63,150)	\$1,230,000
One person	\$30,000 (\$31,570)	\$615,000

and

- (b) declassifying this paper (paragraph 21 below).

Note 1 Statutory contributions under the Mandatory Provident Fund Scheme (MPF) are deductible from a household’s income for the purpose of determining the WF applicants’ eligibility for HOS. In other words, the HOS income limits are applicable to household income net of MPF contributions. The bracketed limits serve as a reference to show the effective income limits before netting of the statutory MPF contribution of 5% (i.e. income limits ÷ 95%).

BACKGROUND

3. Members endorsed in September 2012 (Paper No. **SHC 53/2012** refers) the use of the established methodology to calculate the income and asset limits for WF applicants for HOS flats. In addition, at the meeting on 30 November 2017, Members agreed that the same set of eligibility criteria (including the income and asset limits) would be adopted for both the HOS and WSM launched in the same year. HOS 2024 and WSM 2024 are scheduled to be launched in 2024, and we need to set the income and asset limits for WF applicants for these two exercises.

4. According to the established methodology, the amount of total household expenditure required to purchase a reasonably sized flat in the private sector (i.e. the reference flat) constitutes the basis for assessing the WF income and asset limits. Households with income and assets below the limits are deemed to be less able to afford home ownership in the private sector and therefore eligible to apply for the HOS flats put up for sale and WSM launched by the Hong Kong Housing Authority (HA).

PROPOSED INCOME AND ASSET LIMITS

Income limit

5. In working out the WF income limit, we adopt a “household expenditure” approach, which comprises both housing and non-housing expenditure, plus a 5% contingency.

6. On **housing expenditure**, it comprises (a) mortgage payment; and (b) rates, Government rent and management fee. The main variable is the mortgage payment, which is worked out based on the prevailing market value of the reference flat and mortgage interest rate, with the assumptions that the reference flat will be mortgaged for a term of 20 years at either the average mortgage interest rate in the past 12 months or prevailing rate, whichever is higher, and at a specified mortgage loan-to-price ratio.

7. To derive the reference flat price, data were drawn from the transactions of private residential units of about 40 square metres (m²) (in terms of saleable area) in the Extended Urban Area and the New Territories from March to May 2024. The average unit price per m² is multiplied by 40m² to derive the reference flat price.

8. The reference flat price and mortgage interest rate based on the latest data from March to May 2024 are set out below –

	December 2022 to February 2023 <i>(parameters for HOS/WSM 2023)</i>	March to May 2024 <i>(parameters for HOS/WSM 2024)</i>
(a) Price of the reference flat (price of a flat of about 40m ² saleable area in the Extended Urban Area and the New Territories ^{Note 2})	\$5,520,000	\$4,980,000
(b) Mortgage interest rate ^{Note 3} (average rate for the past 12 months or prevailing rate, whichever is higher)	3.5%	4.0%

9. On mortgage loan-to-price ratio, we have been adopting the maximum mortgage loan-to-price ratio under the Hong Kong Mortgage Corporation Limited (HKMCL)'s Mortgage Insurance Programme (MIP). The prevailing maximum mortgage loan-to-price ratio for properties with value above \$4 million and up to \$10 million is 90% ^{Note 4}. Hence, a mortgage loan-to-price ratio of 90% is adopted in deriving the WF income and asset limits for HOS 2024 and WSM 2024.

Note 2 The districts covered are Sha Tin, Tsuen Wan and Kwai Tsing, Tseung Kwan O, Tai Po, North (Fanling and Sheung Shui), Tuen Mun, Yuen Long and Islands.

Prior to the review conducted in 2019, reference flats were restricted to those that were about ten years old. At its meeting on 15 March 2019, the Subsidised Housing Committee (SHC) agreed to remove this restriction, given the wide spread of building age among reference flats of about 40m² in the Extended Urban Area and the New Territories.

Note 3 As per established practice, this rate refers to the effective interest rate charged on new Prime-based mortgage loans by authorised institutions currently participating in the Hong Kong Monetary Authority's Monthly Survey of Residential Mortgage Lending (covering about 99% of the residential mortgage lending business in banking sector of 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 (May 2024) is 4.0% and the average rate for the past 12 months (from June 2023 to May 2024) is 3.90%.

Note 4 With effect from 7 July 2023, the maximum mortgage loan-to-price ratio of 90% under MIP is applicable to properties with value above \$4 million and up to \$10 million for first time home purchasers (i.e. not holding any residential properties in Hong Kong at the time of applying for mortgage insurance) who are regular salaried persons.

10. With the reference flat price of \$4,980,000, the maximum mortgage covered by the MIP is \$4,482,000 (i.e. 90% of the reference flat price). Taking into account the mortgage interest rate (4.0%), the monthly mortgage payment is hence calculated to be \$27,160 over a term of 20 years. Together with the rates, Government rent and management fee (\$2,310), the housing expenditure is **\$29,470**.

11. **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) ^{Note 5} conducted by the Census and Statistics Department (C&SD) and adjusted to the current price level according to the movement in the Consumer Price Index (CPI)(A) for non-housing items over the period. The related expenditure, compiled based on data of HES 2019/20 and adjusted to the March to May 2024 position with reference to CPI(A) of non-housing items, is \$24,500. In addition, we also need to take into account the salaries tax payable for 2024/25, which is \$3,543 per month. The total non-housing expenditure is therefore **\$28,043** (= \$24,500 + \$3,543).

12. By adding up the housing and non-housing expenditure derived in paragraphs 10 and 11 above, the total household expenditure is calculated to be \$57,513 (= \$29,470 + \$28,043). Adding 5% of the total household expenditure as contingency, the **proposed income limit for WF family applicants** for HOS 2024 and WSM 2024 will be **\$60,000**. Detailed calculations are set out at ----- **Annex**.

13. The proposed WF income limit is higher than the prevailing public rental housing (PRH) income limits of households with two to eight persons, but lower than the PRH income limits of households with nine persons and ten persons or above (i.e. \$60,430 and \$65,950 respectively for 2024/25). According to the established practice, if the PRH income limit of a certain household size is higher than the proposed WF income limit, the PRH income limit will be adopted as the WF income limit for the relevant household size. Therefore, the WF income limits for applicants with a household size of nine persons and ten persons and above are proposed to be \$60,430 and \$65,950 respectively.

Note 5 This refers to the 2019/20 HES released in June 2021. C&SD conducts HES once every five years to collect up-to-date information on the expenditure patterns of households in Hong Kong.

Asset limit

14. The WF asset limit is derived from the amount of expenditure required to finance the down payment for acquiring the reference flat, the related transaction costs and decoration expenses. With the assumption of a mortgage of \$4,482,000, the down payment expenditure is estimated to be \$498,000. Together with the related transaction costs and decoration expenses, the **proposed asset limit for WF family applicants** for HOS 2024 and WSM 2024 is **\$1,230,000**. In particular, the calculation covered the premium for MIP^{Note 6} which aimed to provide assistance to home owners to achieve higher loan-to-value (LTV) ratio if necessary. Detailed calculations are set out at **Annex**.

Income and asset limits for one-person applicants and family applicants of large household size

15. As per established practice, the WF income and asset limits for one-person applicants are set at half of those applicable to family applicants^{Note 7}. Accordingly, the **proposed income limit for WF one-person applicants** for HOS 2024 and WSM 2024 will be **\$30,000** per month, while the **proposed asset limit** for WF one-person applicants will be **\$615,000**.

16. Since the proposed WF asset limit for family applicants is higher than the PRH asset limits of all household sizes for 2024/25, it will be applicable to family applicants of all household sizes for HOS 2024 and WSM 2024.

Note 6 MIP provides assistance to homebuyers with housing needs, for eligible properties with property value above \$4 million and up to HK\$10 million, the maximum LTV ratio remains at 90%. Under the MIP, banks are the mortgage loan providers. The mortgage insurance aims to protect the participating banks from losses, in general, on the portion of the loan over the 70% LTV threshold due to mortgage default by the borrowers. Therefore, in addition to helping the promotion of home ownership, the MIP also contributes to the maintenance of the banking stability.

Note 7 The practice has been adopted since November 1999. Members 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.

FINANCIAL AND STAFFING IMPLICATIONS

17. The proposed income and asset limits should not have any major financial or staffing implications.

PUBLIC REACTION AND PUBLICITY

18. In recommending the proposed WF income and asset limits, we have already taken into account the latest property market and economic conditions according to the established methodology. Some may question about rationale behind the downward adjustment to the limits. In response, we would explain that it is largely attributable to the drop in property prices, i.e. the reference flat price has registered a drop of 9.8%. We will also emphasise the need to have an objective basis to conduct the review and that the adjustment has already reflected the latest figures in hand. Any change in property prices following the review will be captured and reflected in the next review for WF income and asset limits.

19. In response to the comment that the mechanism may lead to unpredictability, we would explain that while we appreciate WF families would expect a reasonable degree of certainty in respect of their eligibility for HOS, the income and asset limits would need to be adjusted in tandem with the changes in the market conditions to ensure that only those with genuine need will be eligible to apply for subsidised housing.

20. As for publicity, we will announce the approved income and asset limits in a press release to be issued after the SHC meeting on 27 August 2024.

DECLASSIFICATION

21. We recommend that this paper be declassified after the meeting. The paper will be made available to the public at the HA homepage, Housing Department's library and through the Departmental Access to Information Officer when it is declassified.

DISCUSSION

22. At the SHC meeting to be held on 27 August 2024, Members will be invited to consider whether the recommendation in paragraph 2 above should be approved.

Miss Katie CHENG
Secretary, Subsidised Housing Committee
Tel. No.: 2761 5033
Fax No.: 2761 0019

File Ref. : HDCR4-4/SP/10-25/1
(Strategy Division)
Date of Issue : 26 August 2024

**Calculation of WF Income and Asset Limits for
HOS 2024 and WSM 2024**

<u>A. Assessment Period</u>	Mar – May 2024	<u>Notes</u>
<u>B. Parameters</u>		
Assessed average flat price	\$4,980,000	1
Mortgage loan-to-price ratio	90%	
Mortgage loan	\$4,482,000	
Loan repayment period (years)	20	
Mortgage interest rate	4.0%	2
CPI(A) for non-housing items (2019/20 = 100)	109.4	
<u>C. Income limit</u>		
(1) Housing expenditure		
(a) Mortgage payment	\$27,160	
(b) Rates, Government rent and management fee	<u>\$2,310</u>	3
	\$29,470	
(2) Non-housing expenditure	\$28,043	4
Total household expenditure	\$57,513	
Contingency (5% of total household expenditure)	\$2,876	
Income requirement	\$60,389	
Proposed income limit	\$60,000	
<u>D. Asset limit</u>		
(1) Down payment (10% of flat price)	\$498,000	
(2) Transaction cost:		
(a) Stamp duty	\$112,050	5
(b) Conveyancing and mortgage deed fees (1.5%)	\$74,700	
(c) Estate agent's commission (1%)	\$49,800	
(d) Decoration cost and household fittings (8%)	\$398,400	
(e) Mortgage insurance premium	<u>\$93,226</u>	6
	\$728,176	
Asset requirement	\$1,226,176	
Proposed asset limit	\$1,230,000	

Notes

- 1 Private flat of about 40m² saleable area in the Extended Urban Area and the New Territories.
- 2 The higher of either the prevailing rate in May 2024 (4%) or the average rate for the past 12 months from June 2023 to May 2024 (3.90%) is used.
- 3 Based on the latest management fees and rental data of private residential developments.
- 4 The average expenditure of non-housing items for the middle one-third expenditure group of four-person tenant households in private permanent housing and all households in private temporary housing is \$24,500 per month. The figure is compiled based on data the 2019/20 HES conducted by C&SD and adjusted to the March to May 2024 position with reference to the movement in CPI(A) for non-housing items.

In addition, we also need to take into account the salaries tax payable for 2024/25. Assuming a four-person household consisting of a married couple whose monthly earning is at the “Income requirement” level under Item C, who only claims the married person’s allowance, and who pays mortgage interest according to the relevant parameters set out under Section B, the salaries tax payable for 2024/25 is \$42,520 (i.e. \$3,543 per month).

- 5 The stamp duty on sale of property in Hong Kong with consideration higher than \$4,935,481 but not exceeding \$6,000,000 is 2.25% of the consideration, i.e. \$4,980,000 x 2.25% = \$112,050.
- 6 For the assessment period from March to May 2024, the Mortgage Insurance Premium for loan-to-value ratio of 70% up to 90% is 2.08% of the original principal balance, i.e. 2.08% x \$4,482,000 = \$93,226.