

Follow up to Finance Committee Meeting on 28 October 2008
Supplementary information relating to item no. FCR (2008-09)42

The following supplementary information is provided as requested at the Finance Committee meeting held on 28 October:

Relevant provisions in the new deed (*provided by TID*)

2. The new deed signed between the Government and participating lending institutions (PLIs) to implement the enhanced SME Loan Guarantee Scheme (SGS) contains provisions to prevent abuse of the scheme, including (but not limited to) the following:

- (a) the Lender shall require the Borrower to, and the Borrower shall, undertake and declare to use, and use, the Facility solely for acquiring business installations and equipment for enhancing the Borrower's productivity and competitiveness / the Lender shall require the Borrower to, and the Borrower shall, undertake and declare to use, and use, the Facility solely for meeting the working capital needs of general business uses of the Borrower;
- (b) The Lender shall not permit any Borrower to use any Facility, whether in whole or in part, for paying, repaying, restructuring or repackaging any loans, credit facilities or payment obligations (including loans that are referred to as classified loans by the Hong Kong Monetary Authority), whether in whole or in part, and whether those liabilities have existed before the date on which the application for the Facility is received by the Lender, or exist at the time of each drawdown of the Facility or otherwise;
- (c) The Lender acknowledges that HKSARG places complete reliance on the Lender in its professional skill, judgement and care as a prudent lender. The Lender also acknowledges that the target beneficiaries of the Scheme are SMEs that are creditworthy, are able to demonstrate business prospects, and have a good track record. Track record may include financial record if applicable. The Lender shall exercise professional skill, judgement and care in processing every Borrower's application for Facility including the audited account(s) and financial statements submitted by the Borrower, and the documentary evidence

obtained. The Lender shall at all times act in accordance with prevailing good banking practice for the banking sector; and

- (d) HKSARG may terminate this Deed and any or all Guarantees forthwith by written notice to the Lender if the Lender is in breach of any of the terms or conditions of this Deed or becomes insolvent.

Statistics on the SGS (provided by TID)

3. The following statistics on SGS (up to 31 October 2008) are provided for FC's information:

Year-by-year breakdown of applications approved under SGS

	2001 ¹	2002	2003	2004	2005	2006	2007	2008 (up to 31 Oct 08)	Total
No. of applications approved	11	3 126	4 743	4 335	3 174	2 761	1 346	1 069	20 565
Amount of guarantee involved \$M	5	1 103	2 003	2 151	1 734	1 505	947	912	10 360

Breakdown by industries

Manufacturing	:	78%
<i>Plastics</i>	:	<i>14%</i>
<i>Metal Products</i>	:	<i>12%</i>
<i>Printing and publishing</i>	:	<i>12%</i>
<i>Textiles and clothing</i>	:	<i>11%</i>
<i>Electronics</i>	:	<i>8%</i>
<i>Toys</i>	:	<i>3%</i>
<i>Others</i>	:	<i>18%</i>
Non-manufacturing	:	22%
<i>Import & Export trade</i>	:	<i>7%</i>
<i>Construction</i>	:	<i>3%</i>
<i>Transportation</i>	:	<i>2%</i>
<i>Wholesale and retail</i>	:	<i>2%</i>
<i>Others</i>	:	<i>8%</i>

¹ The Scheme was introduced in December 2001.

Breakdown by loan types

	Business Installation and Equipment Loan	Working Capital Loan	Associated Working Capital Loan²	Accounts Receivable Loan²	Total
No. of applications approved	17 742	166	1 184	1 473	20 565
Amount of guarantee \$M	9 037	85	285	953	10 360
Amount of loans involved \$M	20 142	169	589	2 027	22 927

Breakdown by number of employees

No. of HK employees	No. of approved cases
<i>1-10</i>	<i>16 603</i>
<i>11-20</i>	<i>2 335</i>
<i>21-49</i>	<i>1 481</i>
<i>50-99</i>	<i>146</i>
<i>Total</i>	<i>20 565</i>

Implementation date (*provided by TID*)

4. The enhancement measures to the SGS were implemented with effect from 6 November.

On-site examinations of AIs participating in the SGS (*provided by HKMA*)

5. During its on-site examinations of authorised institutions (AIs) participating in the SME Loan Guarantee Scheme, the Hong Kong Monetary Authority (HKMA) will conduct appropriate checks to ascertain the AIs' compliance with the provisions in the deed including the prohibition on use of the Scheme to repay, restructure or repackage

² The Associated Working Capital Loan is used to meet SMEs' additional operational expenses arising from or in relation to the business installations and equipment acquired under SGS; while the Accounts Receivable Loan is used to meet the working capital needs of SMEs arising from the provision of credit terms to their customers. These two loans have been replaced by the Working Capital Loan since March 2008. For details, please refer to FCR(2007-08)44.

other loans, credit facilities or payment obligations.

Discussions with AIs on their SME lending policies (*provided by HKMA*)

6. The HKMA is in discussions with AIs on their SME lending policies. From these discussions, the HKMA has ascertained that a majority of banks have not extended their settlement period for credit card transactions and those that have done so have taken the action for risk management purposes to reduce their “charge back risk”, whereby they may be required to reimburse their cardholding customers in cases where a merchant is contracted to deliver a service at some future time but in the event fails to do so.

7. The HKMA issued a circular letter on 29 October to all AIs urging them to adopt a supportive attitude towards their SME customers and to be as accommodative and flexible as possible to their customers’ funding needs within the bounds of prudent credit assessment. AIs are urged to assess individual cases on their merits and avoid hasty and indiscriminate tightening of credit to SMEs, including through the extension of the settlement period for making payments to merchants in respect of credit card transactions.

8. AIs have confirmed that they will assess credit to SMEs on a case by case basis and will not curtail credit to SMEs indiscriminately. One of the AIs which had earlier extended the settlement period relating to credit card transactions in respect of selected merchants has shortened the settlement period from 60 days to 14 days. Several other AIs have indicated their willingness to consider other alternatives (such as collateral or personal guarantee) to address their credit risk concerns.

9. With a view to easing banks’ liquidity so that they can carry out their financial intermediation role more easily, on 6 November the HKMA announced two refinements to its earlier measures for providing liquidity assistance to licensed banks. These measures involve expansion of eligible collateral for access to, and the duration of, liquidity assistance through the Discount Window and the conduct of foreign exchange swaps and term lending against collateral until end March 2009. The two refinements extend the maximum tenor, and provide scope for lower interest rates, in respect of the term-lending. All of these actions (together with the deposit guarantee and the Contingent Bank Capital Facility announced on 14 October) are designed to encourage lending in the interbank bank market. Recently, there has been a gradual easing in

interbank rates which led, on 7 November, to reduction of best lending rate by banks.

10. The HKMA will continue its dialogue with banks with a view to understanding their policies towards lending to SMEs and ascertaining whether there is anything which the government can do to help their lending to SMEs (i.e. potential refinements to the SME Loan Guarantee Scheme and procedures for making claims under it). In case any bank is found to have applied credit tightening policies indiscriminately to SMEs, the HKMA will review the policies with the bank and urge the bank to revise its policies where appropriate.

**Commerce and Economic Development Bureau
Trade and Industry Department
Hong Kong Monetary Authority
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