

For Discussion
on 1 December 2008

Legislative Council Panel on Commerce and Industry

Progress update on the support measures for small and medium enterprises arising from the global financial turmoil

This paper provides a progress update on the support measures for small and medium enterprises (SMEs) since the last Panel meeting on 18 November 2008.

SME Loan Guarantee Scheme (SGS)

2. We obtained the approval of the Finance Committee on 28 October 2008 to introduce the following enhancement measures to the SGS, with a view to providing greater support and flexibility for SMEs in obtaining loans –

- (a) to remove the sub-ceilings for the Business Installations and Equipment Loan and Working Capital Loan, while maintaining the overall maximum amount of guarantee for each SME at \$6 million;
- (b) to extend the maximum guarantee period for Working Capital Loan from two years to five years;
- (c) to allow each SME to recycle the guarantee once after it has fully paid up the loan backed up by the guarantee (i.e. each SME will be able to obtain a maximum amount of guarantee of \$12 million in its lifetime); and
- (d) to increase the indicative ceiling of guarantee exposure for each participating lending institution (PLI) from \$1.25 billion to \$1.5 billion to provide more “quota” for the PLIs in granting loans.

All the enhancement measures were implemented on 6 November 2008.

3. As at 27 November 2008, 30 PLIs have participated in the enhanced SGS. They are set out at **Annex 1**. Between 6 and

27 November, the Trade and Industry Department (TID) has received 86¹ applications from the PLIs, among which 35 applications have been approved, involving a total loan amount of \$136.6 million approved by the PLIs. The remaining 51 applications are being processed by TID².

4. TID has recently conducted a survey on the number of loan applications received by the PLIs under the SGS. The result is summarised at **Annex 2**.

5. TID has been working closely with the Hong Kong Monetary Authority (HKMA) and the Hong Kong Association of Banks (HKAB) to follow up on PLIs' readiness to grant loans to SMEs and the time and procedures required for processing loan applications. In this regard, a working group has been set up with representatives from PLIs and TID to discuss ways to improve the operation of Government loan guarantee schemes and to streamline the loan application procedure. One of the suggestions being followed up is to draw up a standard guideline to facilitate the SMEs in making loan applications to PLIs. When ready, the guideline will be uploaded to TID's website for SMEs' reference.

6. In addition, HKMA has taken a series of measures to maintain confidence in the banking system, encourage interbank lending, and assist banks in performing their essential financial intermediation role which includes the provision of credit to SMEs. These measures are set out at **Annex 3**.

7. On interest rates, the HKAB has advised that interest rates are determined by individual PLIs in accordance with commercial principles, and that any lowering of credit risk as a result of the guarantee provided by Government would be suitably reflected in the interest rates. Government guarantee aside, in practice, in determining the interest levels, each borrower would be assessed individually against other relevant factors, including the borrower's business, operational and financial strength, type and nature of credit facility, the loan amount and repayment tenor, cost of funds to the bank, the type, quality and marketability of any security pledged and availability of personal guarantees, customer's relationship with the bank etc.

¹ As compared with 55 applications received in October 2008.

² TID pledges to process applications within three working days after receipt of applications with all necessary information from the PLIs. Among the 51 outstanding applications, 26 require submission of further information by the PLIs.

Special SME Loan Guarantee Scheme (SpGS)

8. The Finance Committee approved on 14 November the time-limited SpGS to make available a total amount of \$10 billion in the commercial lending market. The scheme has the following features:-

- (a) the Government will provide 70% guarantee to the loans granted. The maximum amount of loan that each SME may obtain is \$1 million, with the Government providing \$700,000 guarantee. Within this limit, half may be used as a revolving credit line;
- (b) the application is open for six months starting from the date of implementation, which may be extended subject to review; and
- (c) a grace period of six months would be allowed, during which the borrower may repay the interest only. Thereafter, the loan should be repaid over a maximum of 24 months. As such, the maximum guarantee period for each loan should be 30 months, or up to 31 December 2011, whichever is earlier.

TID intends to roll out the scheme as soon as possible. We are also working with prospective lending institutions to explore ways to speed up the processing of loan applications from the SMEs.

Enhanced measures of the Hong Kong Export Credit Insurance Corporation (ECIC)

9. Separately, ECIC launched a series of enhancement measures in October and November. Key ones are:

- (a) *Cover for risks in relation to non-delivery of goods*

ECIC will continue to provide cover for the payment risks arising from buyers' failure to take delivery of goods which are generally not insurable in the market.

- (b) *Free credit checks*

ECIC will offer each exporter a certain number of free buyer credit assessment service.

(c) *Higher cover for exports*

ECIC has agreed to be as accommodating and flexible as possible to the SMEs' requests for export credit insurance and increase the cover, within the bounds of prudent credit assessment and risk management. Furthermore, ECIC has introduced a mechanism under which deductibles for claims and lower-than-usual indemnity ratios for the insurable exports (the usual indemnity ratio being 90%) will apply, if necessary, for sharing out the risks.

(d) *Higher cover for emerging markets*

To assist Hong Kong exporters to develop emerging markets, ECIC has reviewed its country/market ratings of 15 emerging markets and upgraded 6 of them, namely the United Arab Emirates, Kuwait, Chile, Brazil, the Czech Republic and Malaysia. ECIC will provide more country cover for the six markets and will, where risks allow, provide higher credit limits for exporters to these markets. The premium rates for the upgraded markets will also be lowered.

(e) *Expediting the processing of small credit limit applications*

ECIC has expedited the processing of applications for small credit limit of \$0.5 million or below to 2-3 days upon receipt of adequate information (normal processing time is currently 4 days; 5 days before 1 October).

10. In addition, the Government will introduce a motion into the Legislative Council in early 2009 for passing a resolution to increase the Statutory Maximum Liability³ of ECIC from \$15 billion to \$30 billion to enhance its underwriting capacity.

11. Since the introduction of the aforementioned measures, ECIC has received and approved more new policies and credit limit applications. Details are set out at **Annex 4**.

³ The SML is the maximum amount which the ECIC can be contractually liable to indemnify its policyholders if all risks materialize at the same time.

Statistics on the number of SMEs that have winded up their business since October 2008

12. Members have asked for the number of SMEs which have winded up their business since October 2008. We have sought the advice of relevant government departments. The statistics required are not available.

Commerce and Economic Development Bureau
Trade and Industry Department
November 2008

List of Participating Lending Institutions (PLIs) that have signed up to join the enhanced SME Loan Guarantee Scheme

1. AIG Finance (Hong Kong) Limited
2. Allied Banking Corporation (Hong Kong) Limited
3. Bank of China (Hong Kong) Limited
4. Bank of Communications Co., Ltd. Hong Kong Branch
5. Chiyu Banking Corporation Limited
6. Citibank (Hong Kong) Ltd
7. Citibank N.A.
8. Citic Ka Wah Bank Limited
9. Dah Sing Bank, Limited
10. DBS Bank (Hong Kong) Limited
11. Delta Asia Credit Limited
12. Fubon Bank (Hong Kong) Limited
13. Fubon Credit (Hong Kong) Limited
14. Hang Seng Bank Limited
15. Inchroy Credit Corporation Limited
16. Industrial and Commercial Bank of China (Asia) Limited
17. Intesa Sanpaolo S.P.A
18. Nanyang Commercial Bank, Ltd.
19. Orient First Capital Limited
20. ORIX Asia Limited
21. Public Bank (Hong Kong) Limited
22. Public Finance Limited
23. Shanghai Commercial Bank Ltd.
24. Standard Chartered Bank (Hong Kong) Limited
25. The Bank of East Asia, Limited
26. The Hongkong and Shanghai Banking Corporation Limited
27. United Commercial Bank
28. Wing Hang Bank Limited
29. Wing Hang Finance Company Limited
30. Wing Lung Finance Ltd.

**Statistics from Participating Lending Institutions
on Loan Applications under the enhanced SME Loan Guarantee Scheme**

The Trade and Industry Department (TID) has conducted a survey on the number of loan applications¹ received by the participating lending institutions (PLIs) under the enhanced SME Loan Guarantee Scheme (SGS). Sixteen PLIs² have responded to the survey and provided the following statistics -

- (a) 461 loan applications have been received³, comprising 186 written applications and 275 verbal applications ;
- (b) 46 applications were submitted to TID for processing;
- (c) 378 applications were being processed by the PLIs⁴;
- (d) 2 applications were withdrawn by the applicants; and
- (e) 35 loan applications were rejected.

2. Amongst the cases in (e) above, a breakdown of the reasons for rejection is provided in the table below -

| Reason | Number of Cases |
|---|------------------------|
| 1. The applicants have not provided sufficient documents to facilitate assessment | 16 |
| 2. The applicants do not meet the eligibility criteria for SGS, i.e. the applicants are not registered in Hong Kong under the | - |

¹ For the period from 6 to 25 November 2008.

² Including Bank of China (Hong Kong) Limited, Bank of Communications Co., Ltd. Hong Kong Branch, Chiyu Banking Corporation Limited, Citibank N.A., DBS Bank (Hong Kong) Limited, Fubon Bank (Hong Kong) Limited, Fubon Credit (Hong Kong) Limited, Hang Seng Bank Limited, Inchroy Credit Corporation Limited, Nanyang Commercial Bank, Ltd, Orient First Capital Limited, The Bank of East Asia, Limited, The Hongkong and Shanghai Banking Corporation Limited, Wing Hang Bank Limited, Wing Hang Finance Company Limited, Wing Lung Finance Ltd.

³ It refers to the number of formal applications (i.e. excluding general enquiries), including written applications and applications lodged verbally with the frontline staff at branches.

⁴ Including some oral applications awaiting borrowers' submission in writing.

| Reason | Number of Cases |
|---|------------------------|
| Business Registration Ordinance or do not fall within the SME definition | |
| 3. The applicants have history of default ⁵ | - |
| 4. The applicants' financial status is weak | 16 |
| 5. The applicant cannot demonstrate a reasonable prospect of their businesses | 2 |
| 6. Others (please specify) ⁶ : | 1 |
| Total | 35 |

3. TID is following up with the PLIs to explore how the loan application process may be sped up and to promote among SMEs the importance of providing sufficient financial information in support of loan applications.

Trade and Industry Department
27 November 2008

⁵ "Default" here is defined as failure to make repayment in accordance with the terms and conditions of the approved credit facilities with a lapse of more than 60 days after the due date.

⁶ The borrower intends to use the SGS loan for repaying other loan(s).

Panel on Commerce and Industry
Special Meeting on 1 December 2008

MEASURES TAKEN BY THE HKMA

1. In view of the severity of the current global financial crisis, the HKMA has taken a series of measures to maintain confidence in the banking system, encourage interbank lending and assist authorized institutions (AIs) in performing their essential financial intermediation role, which includes the provision of credit to SMEs. These measures are summarised below.

Two precautionary measures to enhance confidence in the local banking system

2. On 14 October 2008, two precautionary measures to enhance confidence in the local banking system and maintain banking stability were introduced.
3. The first measure is the use of the Exchange Fund to guarantee the repayment of all customer deposits held with AIs in Hong Kong. The guarantee applies to all Hong Kong-dollar and foreign-currency deposits held with AIs in Hong Kong, including those held with the Hong Kong branches of overseas institutions. It will cover the amount of deposits in excess of that protected under the Deposit Protection Scheme.
4. The second measure is the establishment of a contingent bank capital facility for the purpose of making available additional capital to locally incorporated licensed banks, on request and subject to supervisory scrutiny should this become necessary.
5. Both measures will remain in force until the end of 2010 when a decision will be taken in the light of international financial conditions on whether they should be extended.

Measures to inject liquidity into the banking system

6. In addition, measures have been taken to enhance the provision by the HKMA of term liquidity to individual banks, either through the Discount Window or outside of it, if there is adequate collateral of acceptable quality. The interest rate for the provision of such liquidity has also been lowered by one full percentage point through amending the formula for determining the Discount Rate. The HKMA also stands ready to provide more liquidity to the banking system as a whole, through market operations within the Convertibility Zone, and by increasing the Aggregate Balance (through purchasing US dollars in accordance with the Currency Board rules), as long as exchange-rate stability is not affected. All these measures have been taken with a view to encouraging lending in the interbank market thus easing funding and helping banks to continue their essential financial intermediation role, including the provision of credit to their customers. Recently, there has been a gradual easing in interbank rates which led to a reduction of best lending rates by banks, which should in turn benefit their borrowers.

Circular letter on lending to SMEs

7. While it is recognised that the provision of credit to SMEs and the terms upon which it is provided are commercial decisions of AIs, the HKMA issued a circular to all AIs on 29 October 2008, urging them to be as accommodative and flexible as possible to the funding needs of SMEs, within the bounds of prudent credit assessment. AIs are asked to, among other things, refrain from hasty and indiscriminate withdrawal or reduction of lines of credit, shortening of trust receipt periods or extension of the period for making payments to retail outlets/merchants in respect of credit card transactions. If any tightening in the provision of credit to existing SME customers is considered necessary, AIs should be prepared to explain to the customers the rationale behind the changes and work with customers to identify whether there are other ways in which the AIs' concerns might be addressed. Wherever possible, changes should be introduced in a gradual manner to lessen the immediate impact.
8. The HKMA will where necessary review with AIs the reasonableness of their actions in respect of individual SME sectors or classes of SME customers. In case any AI is found to have applied credit tightening policies indiscriminately to SMEs, the HKMA will review the policies with the AI and urge the AI to

revise its policies where appropriate.

9. Following the issuance of the circular letter, the HKMA has had discussions with AIs active in SME lending. All of them have confirmed that they will assess credit to SMEs on a case by case basis and will not curtail credit to SMEs indiscriminately.
10. During the discussions, some AIs shared their views with the HKMA on how Government may enhance its SME financing schemes to make them more flexible given that SMEs in various industries and of varying sizes may have different financing needs and the credit policies and practices of individual banks may differ. The HKMA has reflected these views to Government. Separately, the Hong Kong Association of Banks submitted, on 13 November 2008, its members' views on Government's various measures to support the SME sector, including the proposed Special SME Loan Guarantee Scheme.

Hong Kong Approach to Corporate Difficulties

11. As the Hong Kong economy continues to be affected by the global economic slowdown, it is likely that an increasing number of corporate customers may encounter difficulties in servicing their debts. In consideration of this, the HKMA issued, on 19 November 2008, a further circular to remind AIs of the need to continue to follow the "Hong Kong Approach to Corporate Difficulties" (Hong Kong Approach) in dealing with customers experiencing financial problems.
12. Where corporate customers experience financial stress, AIs are asked to remain supportive and be prepared to consider customers' requests for temporary relief arrangements, such as extensions of repayment deadlines. In the event that a debt restructuring is necessary, AIs should follow the Hong Kong Approach and cooperate with other institutions involved in identifying a workout plan acceptable to all stakeholders.

Two further measures to encourage banks to continue providing credit

13. On 21 November 2008, the HKMA announced two further measures to encourage banks to continue providing credit.

14. The first relates to AIs' capital adequacy ratio (CAR). Currently, the HKMA requires each locally incorporated bank to maintain a supervisory minimum CAR that is higher than the statutory minimum CAR of 8%, with the "premium" determined according to the situation of individual banks. To help local banks better support economic activity, the HKMA will, on a temporary basis, adopt a flexible approach towards the relevant "premium" of individual banks if necessary, so that there will be more room for them to conduct lending business.

15. The second measure is an arrangement for the provision of renminbi liquidity to Hong Kong banks operating on the Mainland. The HKMA has recently worked out an arrangement with the People's Bank of China (PBoC) such that Hong Kong banks operating on the Mainland can approach the PBoC or the HKMA if they need renminbi liquidity. This arrangement can help Hong Kong corporations operating on the Mainland to continue to obtain financing from Hong Kong banks on the Mainland in the face of a worsening credit environment.

Annex 4

Total number of credit limit applications received:

| Month | No. of applications | |
|--------------------|---------------------|-------|
| | 2007 | 2008 |
| Nov (up to 25 Nov) | 1,948 | 3,328 |
| Oct | 1,939 | 3,579 |

Credit limit applications in respect of exports to emerging markets received:

| Month | No. of applications | |
|--------------------|---------------------|------|
| | 2007 | 2008 |
| Nov (up to 25 Nov) | 179 | 277 |
| Oct | 143 | 265 |