

**For discussion
on 17 November 2009**

Legislative Council Panel on Commerce and Industry

Special Loan Guarantee Scheme

This paper apprises Members of the Government's decision to extend the application period for the Special Loan Guarantee Scheme for six months until 30 June 2010.

Background

2. The Special Loan Guarantee Scheme (SpGS) is a time-limited initiative introduced to tackle the credit crunch problem arising from the global financial crisis. It aims to help Hong Kong companies with good track record and reasonable business prospects in obtaining financing to carry on their business and to tide over the immediate cashflow problem. The SpGS is open to all companies (except listed companies) registered and with substantive business in Hong Kong. The Government has pledged to provide a total loan guarantee of up to \$100 billion to support companies in obtaining credit facilities from the commercial lending market. So far, 46 participating lending institutions (PLIs) have joined the SpGS.

3. In May 2009, the Government announced the following enhancements to the SpGS:

- (a) With effect from 15 June 2009, the Government guarantee ratio for loans approved by the PLIs is increased from 70% to 80%. The maximum loan amount for each enterprise is raised to \$12 million, out of which up to \$6 million can be used as a revolving credit line; and
- (b) The application period is extended for 6 months until end December 2009. The maximum guarantee period for each loan is 60 months or up to 31 December 2014, whichever is earlier.

Detailed features of the SpGS are set out at **Annex**.

4. As at 8 November 2009, Trade and Industry Department has received 25,059 applications, of which 22,952 have been approved, involving a total loan amount of over \$55 billion and a corresponding Government loan guarantee of \$42 billion. The applications approved cover a wide spectrum of companies and industries in both manufacturing and non-manufacturing sectors. The companies concerned employ over 254,000 persons and 95% of the beneficiaries are SMEs.

Extension of the Scheme

5. It is noted that the economic indicators for the second quarter have improved, as a result of more stabilized external economic situation and the various support measures introduced by the Government. Nevertheless, since considerable uncertainty still remains over future developments, we cannot preclude the possibility that the recovery path ahead could be bumpy. Besides, we are aware that the SpGS is well received by the local enterprises as being an effective measure to enhance availability of trade finance when they are still coping with the impact of the financial tsunami. In order to lay a solid ground to deepen the economic recovery, the Financial Secretary announced on 29 October that the SpGS would be extended for another six months until 30 June 2010 to provide the necessary support for Hong Kong companies.

6. As a result of the extension, the maximum guarantee period for each loan is 60 months or up to 30 June 2015, whichever is earlier. Other features of the scheme will remain unchanged.

7. It should, however, be pointed out that the SpGS is designed at the outset as a time-limited measure to deal with the credit crunch arising from the global financial crisis. Current indications are that following improvement in the second quarter, economic data should continue to improve. The Government has been adopting the approach of “stabilizing the financial system, supporting enterprises and preserving employment” to help ease the impact of the financial tsunami, but if the trend of economic improvement continues, it would be an opportune time to consider letting the credit market resume its normal operation. The Government will, of course, continue to render support to SMEs through the ongoing SME Loan Guarantee Scheme¹, which has been enhanced since November 2008 to provide more flexibility to applicants in the use of the fund.

Financial and Staffing Implications

8. The Government’s total loan guarantee commitment under SpGS will remain at \$100 billion. Based on the current utilization rate, the \$100 billion guarantee commitment should be sufficient to cover the extension period. The Trade and Industry Department will continue to closely monitor the amount of guarantee granted under SpGS.

9. We have so far received 20 default claims with a total claim amount of \$31.9 million. The number of default claims is likely to increase with time. The assumed default rate for loans granted under 70% guarantee is 10% and that for loans granted under 80% guarantee is 12%. Under the assumed default rates,

¹ Under the SME Loan Guarantee Scheme, the Government provides 50% guarantee to the loans approved by the PLIs to SMEs. The maximum amount of guarantee for each SME is \$6 million (i.e. a loan size of \$12 million). The maximum guarantee period is 60 months.

the Government's maximum expenditure exposure is estimated to be around \$11.8 billion. Unless the actual default rate deviates significantly from the assumed rates, the default claims arising from the six-month extension should be within the estimated maximum expenditure exposure.

**Commerce and Economic Development Bureau
Trade and Industry Department
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Detailed features of the Special Loan Guarantee Scheme (SpGS)

- The SpGS commenced operation on 15 December 2008.
- Government has pledged to provide loan guarantee of up to \$100 billion in support of enterprises in obtaining credit facilities from commercial banks.
- SpGS is open to all enterprises (except listed companies) with substantive business in Hong Kong and registered in Hong Kong under the Business Registration Ordinance.
- The loans should be used for meeting the needs of general business use of the applicants.
- The original guarantee ratio is 70% of the approved loan, subject to a maximum loan amount of \$6 million for each enterprise. Within this limit, an enterprise may obtain a revolving credit line of up to \$3 million. With effect from 15 June 2009, the guarantee ratio has been increased to 80% for new loans approved under the scheme, and the maximum loan amount for each enterprise is increased to \$12 million. Within this limit, an enterprise may obtain a revolving credit line of up to \$6 million.
- The original maximum guarantee period for each loan is 36 months or up to 30 June 2012, whichever is earlier. With effect from 15 June 2009, the maximum guarantee period for each loan has been extended to 60 months or up to 31 December 2014, whichever is earlier.
- Certain safeguard measures are put in place to prevent abuse. For example, all applying enterprises must be in operation for at least one year when the scheme was launched; the applicant must have no outstanding default; and the owners or major shareholders of the enterprises are required to provide personal guarantee. Also the loans obtained under SpGS cannot be used to repay other loans.