

**For information
on 21 April 2010**

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 (SpGS), for the last time, for six months until 31 December 2010.

Background

2. The 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. 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. The maximum guarantee period for each loan is 60 months or up to 30 June 2015, whichever is earlier. Features of the SpGS are set out at **Annex**.

4. As at 19 April 2010, the Trade and Industry Department (TID) has received 33, 273 applications, of which 30,668 have been approved involving a total loan amount of over \$74 billion and a corresponding Government loan guarantee of \$57.3 billion. The SpGS has benefitted over 17,000 enterprises in both manufacturing and non-manufacturing sectors. Some 95% of the beneficiaries are SMEs. The SpGS has helped preserve jobs for about 300,000 employees, thus contributing positively to "supporting enterprises and preserving employment".

Extension of the Scheme

5. Recently, the economic situation in Hong Kong has shown considerable improvement as a result of more stabilized external economic conditions and the various support measures introduced by the Government. The problem of credit crunch has been alleviated. The Government forecast that the Hong Kong

economy will grow at 4% to 5% in 2010 as a whole. It is time to let the credit market gradually resume its normal operation. Nevertheless, considering that the trade may need some time to consolidate their business during the early stage of recovery, the Financial Secretary announced on 21 April 2010 that the SpGS would be extended for the last time, for another six months until 31 December 2010. We will stop receiving new applications from the PLIs with effect from 1 January 2011.

6. As a result of the extension, the maximum guarantee period for each loan will be 60 months or up to 31 December 2015, whichever is earlier. Other features of the scheme will remain unchanged.

7. After the termination of the SpGS, the existing SME Loan Guarantee Scheme¹(SGS) will continue to render assistance to SMEs in obtaining loans from the PLIs. Since November 2008, more flexibility has been introduced in the use of loans and the guarantee period for the SGS has been extended.

Financial and Staffing Implications

8. The Government's total loan guarantee commitment under the SpGS will remain at \$100 billion. Based on the current utilization rate, it should be sufficient to cover the loan guarantee required during the extension period. TID will continue to closely monitor the utilization of the SpGS.

9. We have so far received 64 default claims with a total claim amount of \$73.7 million. The number of default claims is expected to increase with time. Under the assumed default rates², 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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¹ Under the SGS, 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. Both are the same as the SpGS.

² The assumed default rate for loans granted under 70% guarantee is 10% and that for loans granted under 80% guarantee is 12%.

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 to support enterprises in obtaining credit facilities from commercial banks.
- The 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.
- During the initial period, the guarantee ratio was 70% of the approved loan, subject to a maximum loan amount of \$6 million for each enterprise, of which up to \$3 million may be used as a revolving credit line. 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.
- Initially, the maximum guarantee period for each loan was 36 months. With effect from 15 June 2009, the maximum guarantee period for each loan has been extended to 60 months.
- 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 the SpGS cannot be used to repay other loans.