

## NOTE FOR FINANCE COMMITTEE

### Small and Medium Enterprises Financing Guarantee Scheme – Special Concessionary Measures

#### PURPOSE

The Financial Secretary announced in his Budget Speech on 24 February 2016 that to help small and medium enterprises (SME) tide over their liquidity needs, the Government would extend the application period of the special concessionary measures under the SME Financing Guarantee Scheme (SFGS) operated by The Hong Kong Mortgage Corporation Limited (HKMC), reduce the annual guarantee fee rate for the measures by ten per cent and remove the minimum guarantee fee for the measures. This note updates Members on the progress of implementing the above measures.

#### UPDATE

2. Following the announcement of the new measures in 2016-17 Budget, the application period for the special concessionary measures has been extended to 28 February 2017. Starting from 1 June 2016, the annual guarantee fee rate for the measures will be reduced by ten per cent and the existing requirement of a minimum annual guarantee fee rate of 0.5% under the measures will also be removed. These new measures will help SMEs tide over their liquidity needs and further reduce the cost of financing. Details of the new measures are set out in paragraphs 7 to 12 of LC Paper No. CB(1)831/15-16(01) at Enclosure.

Encl.

3. We circulated the information note LC Paper No. CB(1)831/15-16(01) to update the Panel on Commerce and Industry on implementation of the new measures on 20 April 2016. We have not received any comments from Panel members.

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4. From the launching of special concessionary measures under the SFGS in May 2012 up to 31 March 2016, a total guarantee amount of around \$34.93 billion was approved under the Scheme, representing around 35% of the \$100 billion total loan guarantee commitment; while the cumulative expenditure for settling default claims was about \$146.6 million, representing around 1% of the \$11 billion expected maximum expenditure as set out in FCR(2012-13)12. With reference to these historical utilisation data, we expect that the impact of the three new measures would be accommodated within the \$11 billion expected maximum expenditure and \$100 billion total loan guarantee commitment respectively as set out in FCR(2012-13)12.

5. Members are invited to note this paper.

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Commerce and Economic Development Bureau  
May 2016

**For information**

**Legislative Council Panel on Commerce and Industry**

**SME Financing Guarantee Scheme-  
Special Concessionary Measures**

**Purpose**

As announced by the Financial Secretary in his Budget Speech on 24 February 2016, the Government would extend the application period of the special concessionary measures under the SME Financing Guarantee Scheme (SFGS) operated by The Hong Kong Mortgage Corporation Limited (HKMC), reduce the annual guarantee fee rate for the measures by ten per cent and remove the minimum guarantee fee for the measures. This note updates Members of the implementation of the above new measures announced in 2016-17 Budget.

**Background of the Special Concessionary Measures**

2. The HKMC launched the market-based self-financing SFGS on 1 January 2011, with a view to helping Hong Kong enterprises, particularly SMEs, to obtain financing to meet their needs. Under the SFGS, the HKMC acts as guarantor for up to 70% of the approved loans that enterprises obtain from the participating lending institutions (PLIs). A guarantee fee is payable by the PLIs/enterprises. The interest rate of each loan is a commercial decision made by the lending institution.

3. To tide enterprises, particularly SMEs, over a possible credit crunch as a result of credit tightening under the uncertain external economic environment, the Government provided a total loan guarantee commitment of \$100 billion for the HKMC to launch time-limited special concessionary measures under the SFGS on 31 May 2012. In accordance with the special concessionary measures, 80% guarantee is provided at a substantially reduced guarantee fee. The expected maximum expenditure to be incurred by the Government under the special concessionary measures is \$11 billion.

4. The annual guarantee fee rate factor is 0.1 of the annual overall loan interest rate for loans with an annual overall loan interest rate not exceeding 10%; and 0.12 of the annual overall loan interest rate for loans with an annual overall loan interest rate exceeding 10% but not more than 12%<sup>1</sup>. The maximum loan amount to be guaranteed under the special concessionary measures for each enterprise and its

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<sup>1</sup> Subject to a minimum annual guarantee fee rate of 0.5%.

group of related enterprises at any one time is \$12 million (including revolving loans), and the maximum guarantee period for each approved loan is five years.

5. The special concessionary measures were initially open to application for nine months until 28 February 2013. As the uncertainties in the external economic environment prevailed, the application period of the special concessionary measures was extended thrice to 29 February 2016, as announced in the 2013-14, 2014-15 and 2015-16 Budgets.

### **Current Position of the Special Concessionary Measures**

6. As at 31 March 2016, the HKMC has received 12 145 applications under the special concessionary measures, and approved 10 838 applications (overall success rate<sup>2</sup> about 99.3%), involving a total loan amount of around \$43.66 billion and a total guarantee amount of around \$34.93 billion. The utilisation rate, based on the \$100 billion total loan guarantee commitment, is about 34.9%. The special concessionary measures have benefitted 6 810 enterprises (around 92.3% of which are SMEs<sup>3</sup>) and more than 175 000 related employees. The average amount/facility limit of loans approved under the special concessionary measures is around \$4.03 million. As at 31 March 2016, the HKMC has received 519 net default claims and the amount of claim payments made is about \$146.60 million. The default rate<sup>4</sup> is about 3.28%.

### **New Measures announced in 2016-17 Budget**

7. There are 320 000 SMEs in Hong Kong, employing 50 per cent of the private sector workforce. This underscores the role of SMEs as the mainstay of our economy. Recently, local consumption and investor sentiment have been dented by concerns over the uncertainties associated with the US interest rate increases and the dimmer global economic outlook, the lull in external trade and the slowdown in inbound tourism. To help SMEs tide over their liquidity needs, the Financial Secretary announced in 2016-17 Budget the following three further measures –

- (a) extending the application period for the special concessionary measures under the SFGS to 28 February 2017;
- (b) reducing the annual guarantee fee rate for the measures by ten per cent; and
- (c) removing the minimum guarantee fee for the measures.

8. Starting from 1 June 2016, the annual guarantee fee rate factor for the special concessionary measures will be reduced from 0.1 to 0.09 of the annual

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<sup>2</sup> Success rate = 10 838 applications approved / (12 145 applications received – 1 166 applications expired/withdrawn – 63 applications under processing); figures as at 31 March 2016.

<sup>3</sup> A SME is a manufacturing business which employs fewer than 100 persons in Hong Kong; or a non-manufacturing business which employs fewer than 50 persons in Hong Kong.

<sup>4</sup> Default rate = (Net default claim amount - Total amount of subsequent recovery after Government's compensation) / Total amount of guarantees approved x 100%.

overall loan interest rate for loans with an annual overall loan interest rate not exceeding 10%, and from 0.12 to 0.108 of the annual overall loan interest rate for loans with an annual overall loan interest rate exceeding 10% but not more than 12% (para. 7(b) above). The existing requirement of a minimum annual guarantee fee rate of 0.5% under the special concessionary measures will also be removed commencing 1 June 2016, so that those loans with overall interest rate lower than 5% per annum could be benefited from the reduction of guarantee fee (para. 7(c) above).

9. A loan facility is eligible for the abovementioned concessions in guarantee fee under the special concessionary measures if –

- (a) the application for an 80% guarantee in respect of such facility is received by the HKMC before the expiry of the extended application period on 28 February 2017;
- (b) the guarantee fee is due and payable to the HKMC on or after 1 June 2016; and
- (c) no default claim has been submitted to the HKMC in respect of that facility.

10. A comparison of annual guarantee fees under the existing special concessionary measures and the special concessionary measures with further concessions in guarantee fee is set out at Enclosure 1.

11. Our latest estimate is that the number of loans that will be benefitted is around 6 600 and the average saving in guarantee fee per applicable loan is around \$6,000. The three new further measures would not incur additional financial resources beyond the \$11 billion expected maximum expenditure for the special concessionary measures. We will separately issue an information note to Finance Committee on the new measures.

12. To prepare for the commencement of the concessions in guarantee fee on 1 June 2016, the HKMC will notify PLIs and trade organisations on the details of the concessions. It will also devise a marketing plan to publicise the concessions.

**Comparison of Annual Guarantee Fees under the  
Existing Special Concessionary Measures and  
the Special Concessionary Measures with Concessions in Guarantee Fee**

Scenario

Borrowed Sum : \$1 million

Loan Guarantee Ratio : 80%

	Existing Special Concessionary Measures			Special Concessionary Measures with Further Concessions in Guarantee Fee		
	Not exceeding 10% (4%)	Not exceeding 10% (5%)	Exceeding 10% but not more than 12% (12%)	Not exceeding 10% (4%)	Not exceeding 10% (5%)	Exceeding 10% but not more than 12% (12%)
Annual overall loan interest rate	Not exceeding 10% (4%)	Not exceeding 10% (5%)	Exceeding 10% but not more than 12% (12%)	Not exceeding 10% (4%)	Not exceeding 10% (5%)	Exceeding 10% but not more than 12% (12%)
Guarantee Fee Rate Factor	0.1	0.1	0.12	0.09	0.09	0.108
Annual Guarantee Fee Rate	0.5%	5% x 0.1 = 0.5%	12% x 0.12 = 1.44%	4% x 0.09 = 0.36%	5% x 0.09 = 0.45%	12% x 0.108 = 1.296%
Annual Guarantee Fees*	\$1 million x 0.5% = \$5,000	\$1 million x 0.5% = \$5,000	\$1 million x 1.44% = \$14,400	\$1 million x 0.36% = \$3,600	\$1 million x 0.45% = \$4,500	\$1 million x 1.296% = \$12,960
Minimum Annual Guarantee Fee Rate of 0.5%	Applicable	Not applicable	Not applicable	Cancelled	Cancelled	Cancelled

\*The Annual Guarantee Fee is obtained by multiplying the Annual Guarantee Fee Rate and the loan amount. The Annual Guarantee Fee Rate is obtained by multiplying the Annual overall loan interest rate and the Guarantee Fee Rate Factor.