

NOTE FOR FINANCE COMMITTEE

SME Financing Guarantee Scheme – Special 100% Guarantee Product

PURPOSE

This note briefs Members on the new enhancement measures for the Special 100% Guarantee Product under the SME Financing Guarantee Scheme (SFGS).

ENHANCEMENTS TO THE SPECIAL 100% GUARANTEE PRODUCT

2. The Government launched on 20 April 2020 the Special 100% Guarantee Product under the SFGS for one-year until 19 April 2021 to provide low-interest loans for small and medium enterprises (SMEs) hard hit by the coronavirus disease-2019 (COVID-19) pandemic. The Special 100% Guarantee Product has been well-received by enterprises since its implementation. As at 28 February 2021, a total of \$45.3 billion of loans were approved, benefitting over 21 000 enterprises, which involved over 260 000 employees.

3. As the pandemic has been lingering on for over one year, in order to continue to relieve the cash flow pressure of SMEs, the Financial Secretary announced in the 2021-22 Budget to –

- (a) extend the application period of the Special 100% Guarantee Product to 31 December 2021^{Note};
- (b) increase the maximum loan amount per enterprise from the total amount of employee wages and rents for 12 months to that for 18 months, subject to a ceiling of \$6 million (originally \$5 million);

/(c)

^{Note} Eligible enterprises should have been operating for at least three months as at 30 June 2020, and have suffered at least a 30% decline in sales turnover in any month since February 2020 compared with the monthly average of any preceding quarter from early 2019 to mid-2020. Prior to the implementation of the enhancement measures, eligible enterprises should have been operating for at least three months as at the end of 2019, and have suffered at least a 30% decline in sales turnover in any month since February 2020 compared with the monthly average of any quarter in 2019.

- (c) extend the maximum repayment period from five years to eight years; and
- (d) extend the maximum duration of principal moratorium from 12 months to 18 months.

4. We briefed the Legislative Council Panel on Commerce and Industry on the enhancement measures on 16 March 2021. Members generally expressed support.

FINANCIAL IMPLICATIONS

5. We estimate that the Government's total commitment for guaranteeing loans under the SFGS will remain within the overall approved commitment of \$183 billion after implementation of the new enhancement measures.

IMPLEMENTATION TIMETABLE

6. The new enhancement measures for the Special 100% Guarantee Product came into effect on 29 March 2021. The application period will be extended to 31 December 2021.

SME LOAN GUARANTEE SCHEME (SGS)

7. Since the SFGS has effectively assisted SMEs in obtaining financing loans, the market demand for the SGS (details set out in paragraph 8 below) has gradually declined, with 111 applications received in 2020, down substantially by 84% as compared with 2019. The SFGS received over 31 000 applications during the same period. In view of the above, the SGS will cease to receive applications from 1 April 2021 onwards. Approved applications under the SGS will continue to be covered by loan guarantees until the end of the guarantee period.

BACKGROUND

8. The Government has been providing guarantees to assist SMEs in obtaining commercial loans to cope with cash flow problems. The SGS, launched in 2001 and administered by the Trade and Industry Department, provides 50% guarantee for enterprises' loans for acquiring business installations and equipment and meeting working capital needs.

9. Subsequently, the Government launched the SFGS, and introduced the 80% and 90% Guarantee Products under the SFGS in May 2012 and December 2019 to provide 80% and 90% loan guarantees respectively. To help enterprises hard hit by the COVID-19 pandemic cope with cash flow problems, the Government launched the Special 100% Guarantee Product on 20 April 2020 to provide 100% loan guarantee, for one year until 19 April 2021, for enterprises that have suffered at least a 30% decline in sales turnover. The HKMC Insurance Limited is responsible for administering the three guarantee products under the SFGS.

10. With a view to providing further support and assistance to SMEs, we enhanced the Special 100% Guarantee Product in September 2020 by increasing the maximum loan amount per enterprise from the total amount of employee wages and rents for six months to that for 12 months, or \$5 million (originally \$4 million), whichever is lower; and increasing the maximum repayment period from three years to five years.

Encl. 11. A comparison of the major features of the products under the SFGS is at Enclosure.

ADVICE SOUGHT

12. Members are invited to note the content of this information paper.

Commerce and Economic Development Bureau
March 2021

Enclosure to FCRI(2020-21)19

**Comparison of the Guarantee Products under
the SME Financing Guarantee Scheme (SFGS)**

Feature	80% Guarantee Product	90% Guarantee Product	Enhanced Special 100% Guarantee Product
(a) Target Segment	Local small and medium enterprises (SMEs) and non-listed enterprises	Local SMEs of smaller-sizes or with relatively less operating experience, as well as professionals seeking to set up their own practices	Local enterprises most affected by the coronavirus disease-2019 (COVID-19) epidemic
(b) Eligible Borrower	<p>Eligible enterprises must have business operation in Hong Kong and be registered in Hong Kong under the Business Registration Ordinance (Chapter 310). Listed companies[^], lending institutions and affiliates of lending institutions are not eligible for the Scheme.</p> <p>[^] Extended, for a one-year period until 31 May 2021, the eligibility criteria to cover publicly listed companies in Hong Kong.</p>	<p>Eligible enterprises must have business operation in Hong Kong and be registered in Hong Kong under the Business Registration Ordinance (Chapter 310). Listed companies[^], lending institutions and affiliates of lending institutions are not eligible for the Scheme.</p> <p>[^] Extended, for a one-year period until 31 May 2021, the eligibility criteria to cover publicly listed companies in Hong Kong.</p>	<p>Eligible enterprises must have business operation in Hong Kong and be registered in Hong Kong under the Business Registration Ordinance (Chapter 310). Listed companies, lending institutions and affiliates of lending institutions are not eligible for the Scheme.</p> <p>Extended to cover enterprises newly set up at the beginning of the outbreak of the COVID-19 pandemic: In addition, applicants need to provide proofs that they have suffered at least a 30% decline in sales turnover in any month since February 2020 compared with the monthly average of any preceding quarter from early 2019 to mid-2020 (previously any quarter in 2019).</p>

Feature	80% Guarantee Product	90% Guarantee Product	Enhanced Special 100% Guarantee Product
(c) Business Operation History	Enterprises must have been operating for at least one year on the date of application of guarantee.	The requirements of operation for at least one year on the date of application of guarantee and submission of a financial statement are removed.	Extended to cover enterprises newly set up at the beginning of the outbreak of COVID-19 pandemic: enterprises must have been operating for at least three months by end June 2020 (previously end December 2019).
(d) Approval of Credit Facility	By the lending institutions	By the lending institutions	By the lending institutions, based on the relevant eligibility criteria
(e) Guarantee Coverage	80%	90%	100%
(f) Maximum Guarantee Period	Seven years	Five years	Extended from five years to eight years

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Feature	80% Guarantee Product	90% Guarantee Product	Enhanced Special 100% Guarantee Product
(g) Maximum Amount of Credit Facility Per Enterprise (including its related companies) at any point in time	\$18 million, including credit facilities guaranteed under any guarantee products, except the Special 100% Guarantee Product, under the SFGS.	\$8 million, including credit facilities guaranteed under any guarantee products, except the Special 100% Guarantee Product, under the SFGS.	<p>Up to the total amount of employee wages and rents for 18 months (previously 12 months), with the loan ceiling raised from \$5 million to \$6 million.</p> <p>Rents can be calculated on the basis of rateable value of business premises.</p> <p>For enterprises that do not have employee(s) and rented office(s), proxy is made to 50% of the highest monthly net income of the enterprise from early 2019 to mid-2020 multiplied by 18.</p> <p>Enterprises are eligible for the Special 100% Guarantee Product up to the maximum of \$6 million regardless of its related companies (whether with the same business nature or otherwise) or its existing credit facilities guaranteed under the 80% or 90% Guarantee Products, if any.</p>

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Feature	80% Guarantee Product	90% Guarantee Product	Enhanced Special 100% Guarantee Product
(h) Reuse of Guarantee Amount after Loan Repayment	Unlimited reuse of guarantee amount after loan repayment, subject to the loan ceiling of \$18 million at the time of application of each enterprise (including related companies) (per (g)).	Unlimited reuse of guarantee amount after loan repayment, subject to the loan ceiling of \$8 million at the time of application of each enterprise (including related companies) (per (g)).	Not applicable
(i) Form of Credit Facilities	Term loans and revolving credit lines, without any restriction on the proportion between the two.	Term loans only	Term loans only
(j) Use of Credit Facilities	<p>The credit facility must be used for providing general working capital for the enterprise's business operations, or acquisition of equipment or assets (excluding residential properties) in relation to the enterprise's business.</p> <p>The credit facility must not be used for repaying, restructuring or repackaging existing debts (except for allowing refinancing of facilities guaranteed under the SFGS).</p>	<p>Same as the 80% Guarantee Product.</p> <p>Enterprises with credit facilities guaranteed under other guarantee products of the SFGS may make new applications for switching to 90% guarantee coverage for the loans concerned during the application period of the 90% Guarantee Product.</p>	The credit facility must not be used for repaying, restructuring or repackaging existing debts due by the borrower to the relevant lending institution.

Feature	80% Guarantee Product	90% Guarantee Product	Enhanced Special 100% Guarantee Product
(k) Maximum Loan Interest Rate, which will be reviewed from time to time	<p>10% per annum in general (loans with annual interest rate over 10% but not more than 12% will be considered on a case-by-case basis).</p> <p>Subsidy to bring the interest rate per annum on par with Hong Kong Prime Rate announced by The Hong Kong Mortgage Corporation Limited from time to time minus 2.5%, subject to a 3% cap, for a one-year period, covering guarantee applications to be received up to 31 May 2021.</p>	<p>8% per annum for enterprises with operating history of more than three years.</p> <p>10% for enterprises with operating history of three years or less.</p> <p>Subsidy to bring the interest rate per annum on par with Hong Kong Prime Rate announced by The Hong Kong Mortgage Corporation Limited from time to time minus 2.5%, subject to a 3% cap, for a one-year period, covering guarantee applications to be received up to 31 May 2021.</p>	<p>Prevailing floating interest rate is 2.75% per annum</p> <p>(Equivalent to the Hong Kong Prime Rate announced by The Hong Kong Mortgage Corporation Limited from time to time minus 2.5% per annum).</p>
(l) Personal Guarantee by Individual Shareholder(s)	Personal guarantee by individual shareholder(s), directly or indirectly, holding more than 50% of the equity interest of the enterprise is required.	Personal guarantee by individual shareholder(s), directly or indirectly, holding more than 50% of the equity interest of the enterprise is required.	Personal guarantee by individual shareholder(s), directly or indirectly, holding more than 50% of the equity interest of the enterprise is required.
(m) Guarantee Fee	Guarantee fee is payable	Guarantee fee is payable	Nil

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Feature	80% Guarantee Product	90% Guarantee Product	Enhanced Special 100% Guarantee Product
(n) Principal Moratorium Arrangement	Existing and new SME borrowers may apply before 31 December 2021 (previously 31 March 2021) to their lending institutions for principal moratorium of up to 18 months.	Existing and new SME borrowers may apply before 31 December 2021 (previously 31 March 2021) to their lending institutions for principal moratorium of up to 18 months.	Existing and new SME borrowers may apply before 31 December 2021 to their lending institutions for principal moratorium of up to 18 months (previously 12 months).
(o) Application period	Until 30 June 2022	Until 30 June 2022	Until 31 December 2021
(p) Maximum Guarantee Commitment Provided by the Government	\$100 billion	\$33 billion	\$50 billion
	Commitment under the three guarantee products may be used interchangeably, subject to the total commitment remaining within \$183 billion.		
(q) Total Guarantee Committed (as at end February 2021)	\$67.0 billion	\$5.1 billion	\$45.3 billion
	Total remainder of loan guarantee commitment for interchangeable use at \$65.6 billion.		
