LC Paper No. CB(1)379/08-09(01)

For discussion
on 10 December 2008

Legislative Council Panel on Commerce and Industry
Special Loan Guarantee Scheme

Purpose

This paper seeks Members' views on the proposed enhancement to the Special Loan Guarantee Scheme for Small and Medium Enterprises (SMEs), which will be renamed as Special Loan Guarantee Scheme (SpGS), with a view to further strengthening support for business establishments in Hong Kong in obtaining immediate cashflow relief from the commercial lending market amidst the current global financial crisis.

Background

2. The Finance Committee (FC) of the Legislative Council (LegCo) approved on 14 November 2008 our proposal to set up a time-limited Special Loan Guarantee Scheme for SMEs with a total loan guarantee commitment of $7 billion and an expected maximum expenditure of $700 million. Major features of the SpGS are summarized in the **Annex**. The scheme was set to commence operation in December 2008.

Proposal

3. We now propose to enhance the SpGS to address further concerns of the trade and some LegCo Members that the loan ceiling of $1 million may not be adequate, and that establishments in the services sector that employ more than 50 persons, particularly the retail, catering and logistics sectors, would not benefit from the SpGS.

4. Specifically, we propose –

(a) to increase the Government's total loan guarantee commitment under the SpGS from $7 billion to $100 billion. With 70% Government guarantee, this would help make available loans of up to about $142 billion in the commercial lending market;

(b) to extend, as an exceptional arrangement, the scheme to all business establishments in Hong Kong, except listed companies[1], irrespective of size, industry or type of business;

(c) to increase the maximum amount of loan that each enterprise may obtain from $1 million to $6 million. Within this ceiling, a maximum of $3 million may be used for a revolving credit line[2]. Government will continue to provide 70% guarantee for the loans approved by the participating lending institutions (PLIs). In other words, the maximum amount of guarantee for each enterprise will be increased to $4.2 million, within which Government may guarantee a revolving credit of up to $2.1 million;

(d) to extend the maximum guarantee period for each loan from 30 months to 36 months, or up to 30 June 2012, whichever is earlier. A grace period of six months will continue to be allowed, during which the borrower may repay interest only. Thereafter, the loan should be repaid over a maximum of 30 months; and

(e) to provide PLIs with more flexibility in granting loans[3].

In other words, the original SpGS approved by the FC on 14 November 2008 will not be rolled out, but will be replaced by this enhanced SpGS. Apart from the enhancement measures mentioned above, the other features of the SpGS will remain unchanged.

5. For risk management and better utilization of the SpGS, we shall

---

1 Companies that are listed in or outside Hong Kong at the time of application are not eligible.

2 Under a revolving credit line, a company may use the credit repeatedly up to a certain limit as long as payments are made. It may include overdraft facilities, revolving letters of credit line in support of trade finance, etc.

3 This will include the following measures –
(a) PLIs do not have to stop further lending to delinquent borrowers under the revolving credit line within a grace period of 30 days after the due date for debt repayment;
(b) PLIs may make reference to financial information other than audited financial statements of latest financial year in making credit assessment, if this is consistent with prudent credit risk management principles as specified by HKMA in its guidelines and circulars;
(c) PLIs may provide credit facilities to existing customers whose original unused credit line outside the scheme has been cut for one reason or another. Repackage or restructuring of loans already drawn down would still not be permitted in line with Audit's recommendation on the loan guarantee scheme introduced during the Asian financial crisis in 1998.

set an indicative guarantee exposure ceiling for PLIs[4]. The ceiling for individual PLIs will be subject to review, having regard to their utilization of the SpGS.

6. Other features of the SpGS, as well as the various safeguard measures[5] put in place to prevent abuse, will remain unchanged. Depending on the actual loan size, we expect the enhanced SpGS to benefit about 40 000 enterprises.

Financial and Staffing Implications

7. FC's approval is required to give effect to the proposals in paragraph 4 above. Government's total guarantee commitment will be up to $100 billion. With an assumed default rate of 10%, the expected maximum expenditure is estimated to be $10 billion, which will likely spread over three or more financial years starting from 2010-11.

8. The Trade and Industry Department will require, even with redeployment of resources, about 20 additional staff at various non-directorate ranks or non-civil service contract staff of comparable ranks to implement the enhanced SpGS during the application period. Thereafter, some of the staff will continue to be required to service the scheme. The additional expenditure will be met from internal resources.

Implementation

9. Subject to Members' views, we would proceed to seek the approval of the FC at the earliest possible opportunity. Upon completion of the necessary procedures and legal documentation, the enhanced SpGS is expected to come into operation before Christmas.

Commerce and Economic Development Bureau
Trade and Industry Department
December 2008

---

[4] Having regard generally to their sizes of operation in Hong Kong, the initial indicative guarantee exposure ceiling for banks and restricted licensed banks/deposit taking companies is set at $4 billion and $2 billion respectively.

[5] The following safeguard measures will continue to be imposed to ensure that only enterprises with genuine need and a reasonable business prospect would benefit from the scheme –

(a) personal guarantee is required from the company owner or, in the case of a limited company, shareholders together holding more than 50% of the equity interest of the company;
(b) the company must have been in operation for at least one year on the date of implementation;
(c) the company must have no default in other banks; and
(d) the loans should not be used for repaying, restructuring or repackaging other loans.

Annex

Major features of the Special Loan Guarantee Scheme for SMEs as approved by the Finance Committee on 14 November 2008

(a) The Government will provide 70% guarantee to the loans granted by the participating lending institutions (PLIs). The Government's total loan guarantee commitment will be $7 billion.

(b) The maximum amount of loan that each SME may obtain is $1 million. In other words, the maximum amount of guarantee for each SME is $700,000.

(c) Within this ceiling, an SME may obtain from the PLI a revolving credit line of up to $500,000, subject to the maximum guarantee ratio of 70% and a sub-ceiling of $350,000, whichever is lower.

(d) All SMEs registered and with substantive business in Hong Kong are eligible to apply.

(e) The application is open for six months starting from the date of implementation, which may be extended subject to review.

(f) A grace period of six months would be allowed, during which the borrower may repay 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.

(g) The interest rate will be determined by individual PLIs in accordance with commercial principle.