Supplementary Information on

FCR(2012-13)12 : SME Financing Guarantee Scheme – Special Concessionary Measures

for the FC Meeting on 20 April 2012

As requested by the FC Chairman at the pre-meeting briefing with the Administration on 18 April 2012, supplementary information on the above FCai is appended below.

2. The FCai seeks the approval of the Finance Committee to create a new loan guarantee commitment of $100 billion with an expected maximum expenditure of $11 billion for The Hong Kong Mortgage Corporation Limited (HKMC) to provide loan guarantees under the time-limited special concessionary measures introduced under its SME Financing Guarantee Scheme (SFGS) and to meet the contingent liabilities arising from the measures.

3. The estimated maximum expenditure of $11 billion is based on an assumed default rate of 12%, which is the same as the default rate used for the Special Loan Guarantee Scheme (SpGS), which was introduced in 2008 to tide enterprises over the credit crunch problem amidst the then global financial crisis[1]. The assumed default rate of the SpGS is the best available reference we have in estimating the maximum expenditure under the special concessionary measures under the SFGS. Except that the proposed special concessionary measures require payment of a limited guarantee fee but the SpGS did not, the two schemes share common key features: they are time-limited measures introduced at exceptional times to assist eligible enterprises in obtaining finance from the commercial lending market; they offer a loan guarantee ratio of 80% covering both term loans and revolving credit facilities with a maximum guarantee period of 5 years; and the maximum loan amount guaranteed is $12 million[2].

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[1] The SpGS was implemented by the Trade and Industry Department from 15 December 2008 to 31 December 2010. The guarantee ratio was 70% when it was first launched. Pursuant to the enhancement measure introduced on 15 June 2009, the guarantee ratio was increased to 80%, which was applicable until the end of the application period. The assumed default rate was increased from 10% to 12% accordingly.

[2] When the SpGS was launched on 15 December 2008, the maximum amount of credit facility was $6 million. Pursuant to the enhancement measure introduced on 15 June 2009, the maximum amount of credit facility was increased to $12 million, which was applicable until the end of the application period. The amount of revolving credit facilities guaranteed under SpGS was capped at $6 million accordingly. On the other hand, there is no restriction on the proportion between the term loans and revolving credit facilities under the special concessionary measures under SFGS.

4. We have considered whether to use the actual default rate of the SpGS or the SFGS in assuming the default rate for the proposed special concessionary measures but consider that they are not appropriate. As at end of February 2012, the actual default rate of the SpGS was 0.76%. As the SpGS only ceased receiving applications from 1 January 2011 and the maximum guarantee period is five years, the guarantee period of around 30 000 out of the total of around 40 000 approved applications has yet to expire, and hence the default rate is expected to increase with time. As for the SFGS, the default rate as at end of February 2012 was 0.33%. Since SFGS has only been operating since 1 January 2011 and the maximum guarantee period is five years, the actual default rate at this juncture provides limited value of reference. In addition, the SFGS at present only offers loan guarantee ratios of 50%, 60% and 70%, which are different from the proposed 80% guarantee product to be offered under the special concessionary measures. Hence, making reference to the default rate under the current SFGS may not be appropriate.

5. We must also emphasise that the $11 billion is the estimated *maximum* expenditure arising from the special concessionary measures. For prudent use of public money, safeguard and control measures as set out in paragraphs 12 and 13 of FCR(2012-13)12 would be put in place. We will closely monitor the operation of the special concessionary measures.

Commerce and Economic Development Bureau
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