

**Motion on**  
**“Small and Medium Enterprises Financing Guarantee Scheme”**  
**moved by Hon CHUNG Kwok-pan, as amended by**  
**Hon Jeffrey LAM, Hon TANG Ka-piu and Hon Dennis Kwok**  
**at the Legislative Council meeting of 19 December 2012**

**Progress Report**

**Purpose**

At the meeting on 19 December 2012, the Legislative Council passed a motion on “Small and Medium Enterprises Financing Guarantee Scheme”. The wording of the passed motion is at **Annex**. This paper briefs Members on the latest developments.

**Alleviating the loan burden on Small and Medium Enterprises (SMEs)**

2. The special concessionary measures under the Small and Medium Enterprises Financing Guarantee Scheme (SFGS) aim to facilitate enterprises to obtain financing in the commercial lending market by increasing lending institutions’ confidence to grant loans to enterprises through providing loan guarantee. Under the special concessionary measures, the interest rate of each commercial loan is a commercial decision made by the lending institution, which will take into account a basket of factors including the borrower’s operational, financial and repayment capability; type and nature of credit facility; the loan amount and repayment tenor; cost of funds to the bank; the type, quality and marketability of any security pledged; customer’s relationship with the bank, etc.

3. Compared to the application figures of the SFGS before the launch of the special concessionary measures, the average overall interest rate of loans approved with 50%-70% guarantee is 5.3% per annum and the average annual guarantee fee rate is 1.5%. The average total lending cost is therefore 6.8% per annum. Under the special concessionary measures, the average overall interest rate of loans approved is 4.6% per annum and the average annual guarantee fee rate is substantially reduced

to about 0.5%, hence the average total lending cost of loans approved under the special concessionary measures is 5.1% per annum, which is lower than the average total lending cost before the launch of the special concessionary measures. This shows that the special concessionary measures are effective in lowering the lending cost of the enterprises. Considering that the average loan amount under the special concessionary measures is \$4.5 million, \$76,500<sup>1</sup> in terms of lending cost can be saved each year. Overall speaking, the total savings of SMEs under the special concessionary measures are around \$420 million per annum<sup>2</sup>, which helps reduce SMEs' financial burden amidst the uncertain external economic environment.

4. Under normal circumstances, SMEs are not able to provide additional assets as collateral for their loans and lending institutions usually charge them an interest rate higher than the prime lending rate to offset the risk of unsecured loans. Under the special concessionary measures, more than half of the applications approved were of an overall annual interest rate of 5% or less and almost 80% of the applications approved were of an overall annual interest rate of 6% or less. It shows that the majority of the applications approved under the special concessionary measures were granted an interest rate close to the Hong Kong dollars prime lending rate. In addition, there is a cap on the overall interest rate<sup>3</sup> under the SFGS which helps ensure that the financial institutions would not charge an excessively high level of interest rate and fees when they obtain guarantee protection under SFGS.

### **Lowering the approval threshold and relaxing application restrictions**

5. For prudent use of public money, the Hong Kong Mortgage Corporation Limited (HKMC) would continue to apply the existing safeguard measures under the SFGS, so as to ensure that only those enterprises with genuine need and a reasonable business prospect would be able to benefit from the special concessionary measures. The

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<sup>1</sup> Average loan amount of HK\$4.5 million x (6.8%-5.1%) = HK\$76,500

<sup>2</sup> HK\$76,500 x 5 474 approved applications = HK\$420 million

<sup>3</sup> In general, the SFGS mainly covers loans with overall interest rate up to 10% p.a., but it will also consider applications with overall interest rate exceeding 10% p.a. on a case-by-case basis, given that the rate does not exceed 12% p.a. in any case.

participating lending institutions (PLIs) must abide by the “Deed for the HKMC SME Financing Guarantee Scheme” entered with the HKMC. The PLIs are required to exercise professional skill, judgment and care in processing an enterprise’s application for a proposed facility to be covered by a guarantee provided by the HKMC under the SFGS including the special concessionary measures. We consider that the current arrangement can strike a balance between prudent use of public money and helping SMEs. When handling loan guarantee applications, the HKMC may need to further examine individual applications and may request for additional information for further consideration. As at 31 January 2013, the HKMC has received more than 6 000 applications, amongst which more than 5 400 applications were approved. Only 26 applications were rejected and 15 applications were approved with a lower loan amount or a shorter guarantee period, constituting only 0.68% of the total applications received. The reasons include poor repayment capability, financial performance and repayment record; over-lending; poor record of account receivables; and the presence of litigation with huge impact on the company’s financial situation, etc.

### **Strengthening communication with banks and SMEs**

6. Last year, the HKMC participated in more than 20 seminars or discussion forums that were arranged by banks and relevant organisations with more than 2 000 participants. The HKMC will continue to maintain close communication with the lending banks and relevant organisations through various channels. For example, the HKMC will participate in a workshop called “SME One 營商有計系列之融資篇” organised by the Hong Kong Productivity Council for local SMEs in March 2013 to promote the understanding of the SFGS including the special concessionary measures and the application procedures among SMEs in need,.

7. The Support and Consultation Centre for SMEs (SUCCESS) of the Trade and Industry Department (TID) provides SMEs with free and reliable information and consultation services. From January 2010 to end of January 2013, SUCCESS has organised nine seminars and workshops on loan financing of SMEs, which discussed topics of loan

financing strategy, financial management skills, credit risk management, etc. Moreover, in order to assist SMEs in financing and obtaining commercial loans, TID, the Hong Kong Association of Banks (the HKAB) and the Hong Kong Association of Restricted Licence Banks and Deposit-taking Companies (the DTC Association) have jointly published the “Guide for SMEs in Obtaining Business Loan from Lending Institutions”, which has set out the general information needed and points-to-note when SMEs file loan applications to banks. The Guide has been uploaded onto the websites of TID, the HKAB and the DTC Association respectively.

### **Relaxing the treatment of applications from “related entities”**

8. Under the SFGS including the special concessionary measures, if there are common shareholders who individually or jointly own 30% or more of the business interest of two enterprises, these two enterprises would be considered to be “related entities”, and their applications under the SFGS including the special concessionary measures would together be subject to the loan ceiling of \$12 million. The Administration understands the concerns of the trade on the issue of “related entities” under the special concessionary measures. The Government will consider the proposal having regard to the need to strike a balance between prudent use of public money and assisting enterprises.

### **Expanding the allowable use of credit facilities**

9. The credit facilities approved under the SFGS including the special concessionary measures must be used to provide general working capital for the enterprise’s business operations, acquisition of equipment or assets (excluding residential properties) in relation to the enterprise’s business, or refinancing of facilities previously guaranteed under the Special Loan Guarantee Scheme (SpGS) or SFGS.

10. The expenses for staff training or premium payments for insurance to support the enterprise’s business operations such as medical insurance for employees, office insurance or professional indemnity insurance are considered to be providing working capital for the enterprise’s business operations. As such, loans for these purposes are

eligible under the SFGS including the special concessionary measures.

### **Relaunching the SpGS**

11. In the light of the global financial crisis at the time, the Government introduced the SpGS in 2008 to help enterprises tackle the financing difficulties due to the credit crunch problem. The SpGS was a time-limited initiative and was an exceptional measure that was introduced during exceptional times. It provided a maximum loan guarantee ratio of 80% without any fee. Therefore, the majority of the risks are borne by taxpayers. However, we should strike a balance between prudent use of public money and assisting enterprises. In view of the prevailing uncertain external economic environment, we considered that the Government could best provide adequate support for enterprises with prudent use of public money through introduction of time-limited special concessionary measures under the SFGS of the HKMC. Although the special concessionary measures charge guarantee fee, the guarantee fee under the special concessionary measures has been substantially reduced by 70% compared to the SFGS. We consider that a limited guarantee fee will help share the default risks amongst the PLIs, enterprises and the Government.

12. In addition, the special concessionary measures under the SFGS are more relaxed than the SpGS in certain aspects. For instance, there is no restriction on the proportion of revolving facilities to be guaranteed under the special concessionary measures; and the enterprises may unlimitedly reuse the guarantee amount after loan repayment, subject to the loan ceiling of \$12 million at any point in time. We consider that there is no need to relaunch the SpGS.

### **Extending the application period of the special concessionary measures**

13. Since the launch of the special concessionary measures on 31 May 2012, the HKMC and the Government have been monitoring the operation and utilisation of the measures, and reviewing the overall effectiveness of the measures. The Administration will continue to monitor the changes in the external economic environment and the

market situation, and consider the need to suitably extend the application period.

**Commerce and Economic Development Bureau**  
**February 2013**

(Translation)

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**Motion as amended by Hon Jeffrey LAM, Hon TANG Ka-piu and Hon Dennis KWOK**

That it is widely known that the uncertain external economy, the slowdown in the Mainland’s economic growth and the tightening of credit probably resulting from economic downturn have made the financing and operation of small and medium enterprises (‘SMEs’) difficult; the Hong Kong Mortgage Corporation Limited, with the support of the SAR Government, introduced the Special Concessionary Measures under the Small and Medium Enterprises Financing Guarantee Scheme (‘the Scheme’) in late May this year to provide 80% guarantee coverage to SMEs at a concessionary level of guarantee fee to respond to their financing needs and enhance enterprises’ productivity and competitiveness; under the Scheme, banks only need to bear 20% of the risks, which enables banks to grant loans at ease and is also conducive to stabilizing the banking system; yet, the persistently high interest rates of loans are unable to really help SMEs to tide over financing difficulties; to further support SMEs, this Council urges the Government to:

- (1) negotiate with banks to lower the interest rates and extend the loan tenor under the Scheme, so as to alleviate the loan burden on SMEs;
- (2) extend the application period of the ‘Special Concessionary Measures’ under the Scheme, relax the application restrictions and lower the approval threshold;
- (3) strengthen the communication between banks and SMEs, and assist enterprises in understanding banks’ criteria for loan vetting and approval; and at the same time, make assessments having regard to the future economic development, regularly review the needs of implementing the Scheme and its adequacy, or accept the proposal long advocated by the industrial and commercial sector to re-launch the Special Loan Guarantee Scheme in a timely manner, so as to assist SMEs in resolving capital flow problems; and
- (4) to allow enterprises’ subsidiaries or related entities, after providing proofs to the Hong Kong Mortgage Corporation Limited, to make

independent applications and be able to obtain the maximum loan amount; and

- (5) allow the loan under the Scheme to be used for taking out various types of insurance and staff training, etc.