

For information

Legislative Council Panel on Commerce and Industry

SME Financing Guarantee Scheme Special Concessionary Measures

Purpose

This note briefs Members on the implementation as from 19 November 2018 of a number of enhancements to the special concessionary measures under the SME Financing Guarantee Scheme (SFGS) operated by the HKMC Insurance Limited (HKMCI) and the extension of the application period of the special concessionary measures.

2. The enhancements and extension seek to help alleviate the financing burden of local firms and to assist them in obtaining loans from lending institutions amid the unstable and fluctuating international trade environment and intensifying trade dispute between China and the United States (US).

Trade Dispute between China and the US

3. In the past months, the escalating trade dispute between China and the US has markedly increased external uncertainties. Government has been closely monitoring developments and maintaining close liaison with the major local chambers of commerce/trade associations, to ascertain the impact of the US' action on the trade, to exchange views and provide assistance and advice the trade needs at times of these great uncertainties.

4. To assist the trade, Government has taken a number of immediate initiatives from mid-2018 onwards to support enterprises in market development and risk diversification, which include strengthening various funding schemes for small and medium enterprises (SMEs), and implementing special enhanced measures by the Hong Kong Export Credit Insurance Corporation to strengthen the protection for Hong Kong exporters affected by the US tariff measures. As the trade dispute escalates, it will inevitably bring about direct and indirect negative impacts on Hong Kong's economy. There have been calls from chambers of commerce/trade associations for Government to provide further support

measures to the trade, including credit support to tide over the liquidity needs of enterprises, especially SMEs in the difficult times ahead. In response to the calls from the trade, we see a need to introduce enhancements to the special concessionary measures under the SFGS to relieve the financing burden of local enterprises amid the trade dispute.

The SFGS and the Special Concessionary Measures

5. The Hong Kong Mortgage Corporation Limited¹ (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.

6. In around 2012, as a result of credit tightening under the uncertain external economic environment at the time, enterprises particularly SMEs were faced with a possible credit crunch. In May 2012, to tide enterprises over, Government provided a total loan guarantee commitment of \$100 billion for the HKMC to launch the time-limited special concessionary measures under the SFGS. 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 Government under the special concessionary measures is \$11 billion.

7. The annual guarantee rate is determined by the annual overall interest rate of the loan multiplied by a guarantee rate factor. The guarantee rate factor is 0.1 and 0.12 respectively for loans with an annual overall interest rate not exceeding 10%; and for loans with an annual overall interest rate exceeding 10% but not more than 12%. The maximum loan amount to be guaranteed under the special concessionary measures for each enterprise and its 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.

8. In view of the dent in local consumption and investor sentiment

¹ To cope with the business development of HKMC, effective from 1 May 2018, the SFGS business has been transferred to and carried out by HKMCI, a wholly owned subsidiary of the HKMC. The transfer was reported to the Panel on Commerce and Industry on 20 March 2018 (LC Paper No. CB(1)684/17-18(03)).

over the economic uncertainties at the time, Government reduced the annual guarantee fee rate by ten percent and removed the minimum guarantee fee rate of 0.5% per annum with effect from 1 June 2016 to help SMEs tide over their liquidity needs. The current guarantee fee rate factor is 0.09 and 0.108 respectively for loans with an annual overall interest rate not exceeding 10%; and for loans with an annual overall interest rate exceeding 10% but not more than 12%.

9. 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 and to help enterprises grasp economic opportunities, the application period of the special concessionary measures have since been extended six times to 28 February 2019, as announced in the various Budgets over the past years.

Current Position of the Special Concessionary Measures

10. As at 31 August 2018, the HKMCI has received 15 683 applications under the special concessionary measures, and approved 13 974 (overall success rate about 99.3%²), involving a total loan amount of around \$55.9 billion and a total guarantee amount of around \$44.8 billion. The utilisation rate, based on the \$100 billion total loan guarantee commitment, is about 45%. The special concessionary measures have benefitted 8 087 enterprises (around 92% of which are SMEs³) and more than 203 000 employees. The average amount/facility limit of loans approved under the special concessionary measure is around \$4 million. As at 31 August 2018, the HKMCI has received 932 net default claims (excluding the claims withdrawn by PLIs) and the amount of claim payments made and claims under processing are about \$810 million and \$1 160 million respectively. The cumulative default rate is about 4.395%⁴.

Further Enhancements to the Special Concessionary Measures

11. In order to further relieve the financing burden of local enterprises and assist them to obtain financing amid the escalating trade dispute between China and the US, the Government has announced on 4 October

² Success rate = 13 974 applications approved/(15 683 applications received – 1 526 applications expired/withdrawn – 82 applications under processing); figures as at 31 August 2018.

³ 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.

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

2018 the decision of the Financial Secretary to extend the application period of the special concessionary measures under the SFGS to 30 June 2019 and to implement the following three enhancement measures -

- (a) reducing the existing annual guarantee fee rate by 50%;
- (b) increasing the maximum facility amount from \$12 million to \$15 million; and
- (c) lengthening the maximum guarantee period from the current five years to seven years.

These three enhancement measures will be implemented from 19 November 2018 and last till the end of the extended application period.

12. On the measure mentioned in paragraph 11(a), with effect from 19 November 2018, the guarantee fee rate factor for the special concessionary measures will be reduced from 0.09 to 0.045 for loans with an annual overall interest rate not exceeding 10%; and from 0.108 to 0.054 for loans with an annual overall interest rate exceeding 10% but not more than 12%. A loan facility is eligible for the 50% further reduction in annual guarantee rate if –

- (a) the application for an 80% guarantee in respect of such facility is received by the HKMCI before expiry of the extended application period (i.e. 30 June 2019);
- (b) the guarantee fee is due and payable to the HKMCI on or after 19 November 2018; and
- (c) there is no subsisting default claim in respect of the facility.

A comparison of the annual guarantee fees under the existing special concessionary measures and the enhancement measures with further guarantee fee concessions is set out at **Annex**.

13. On the measures mentioned in paragraph 11(b) and (c), a loan facility is eligible for the increased maximum facility amount of \$15 million and lengthened maximum guarantee period of 7 years, if the application for the relevant measures in respect of such facility is received by the HKMCI on or after 19 November 2018 and before expiry of the extended application period.

14. Our estimate is that the number of loans that will benefit from the 50% reduction in guarantee fee rate factor is around 3 900 and the average savings in guarantee fee per applicable loan throughout the whole guarantee period is around \$39,000. The extension, together with the

three enhancement measures, would not incur additional financial resources beyond the \$11 billion expected maximum expenditure for the special concessionary measures. We will issue an information note to Finance Committee separately on the enhancement measures.

15. To prepare for the commencement of the enhancement measures on 19 November 2018, the HKMCI will notify PLIs and trade organisations on the details of the measures. It will also devise a marketing plan to publicise the measures.

ADVICE SOUGHT

16. Members are requested to note the contents of this information paper.

Commerce and Economic Development Bureau
October 2018

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

Scenario

Borrowed Sum : \$2 million (in the form of revolving facility)

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 interest rate						
Guarantee Fee Rate Factor	0.09	0.09	0.108	0.045	0.045	0.054
Annual Guarantee Fee Rate*	4% x0.09 =0.36%	5% x0.09 =0.45%	12% x0.108 =1.296%	4% x0.045 =0.18%	5% x0.045 =0.225%	12% x0.054 =0.648%
Annual Guarantee Fees*	\$2 million x0.36% =\$7,200	\$2 million x0.45% =9,000	\$2 million x1.296% =\$25,920	\$2 million x0.18% =\$3,600	\$2 million x0.225% =\$4,500	\$2 million x0.648% =\$12,960

* 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 interest rate and the Guarantee Fee Rate Factor.