

ITEM FOR FINANCE COMMITTEE

**HEAD 148 – GOVERNMENT SECRETARIAT :
FINANCIAL SERVICES AND THE TREASURY BUREAU
(FINANCIAL SERVICES BRANCH)
Subhead 700 General non-recurrent
New item “100% Personal Loan Guarantee Scheme”**

Members are invited to approve a new commitment of \$15 billion under Head 148 Government Secretariat: Financial Services and the Treasury Bureau (Financial Services Branch) Subhead 700 General non-recurrent for introducing a new 100% Personal Loan Guarantee Scheme.

PROBLEM

Hong Kong's economy has been facing significant downward pressure since the outbreak of Coronavirus Disease 2019 (COVID-19) in early 2020. As the labour market deteriorates following the fourth wave of local outbreak, individuals suffering from cessation of main recurrent incomes face financial pressure.

PROPOSAL

2. We propose to introduce a time-limited 100% Personal Loan Guarantee Scheme (PLGS) with a total commitment of \$15 billion by the Government with a view to providing 100% guarantee for concessionary low-interest loans taken out by eligible borrowers.

/JUSTIFICATION

JUSTIFICATION

3. The unemployment rate in Hong Kong surged to a 17-year high of 7% between November 2020 and January 2021 due to the outbreak of COVID-19. Unemployment increased across almost all the major economic sectors. In particular, the retail, accommodation and food services sectors and the construction industry saw an unemployment rate of above 10%. To cater for the needs of individuals suffering from cessation of main recurrent incomes from employment due to the pandemic and provide them with a supplementary financing option to tide them over the interim difficulty, the Financial Secretary announced in the 2021-2022 Budget the proposal of introducing a time-limited PLGS.

The 100% Personal Loan Guarantee Scheme

4. Under the proposed PLGS, the Government will provide 100% guarantee for concessionary low-interest loans taken out by eligible borrowers. The application period will last for six months counting from the launch of the PLGS, and may be extended if necessary. Details of the PLGS are set out below.

Eligibility

5. Hong Kong permanent residents aged 18 or above may apply for loans under the PLGS provided they have been unemployed for at least two months at the time of loan application and can produce proof of cessation of their main recurrent incomes from employment in Hong Kong. Self-employed individuals (only for those who currently do not have any loans or credit facilities guaranteed under the SME Financing Guarantee Scheme), free-lancers, gig or casual workers are also eligible upon the production of a declaration of unemployment and proof of a loss of main recurrent incomes. As the PLGS aims to assist persons with genuine need, applicants are required to provide proof of their previous employment and main recurrent incomes for at least three months during the period from January 2020 to the scheme's announcement in February 2021¹.

/Loan

¹ Given that loan applicants who became unemployed in the first quarter of 2020 may not be able to provide proof of employment and main recurrent income for at least three months during the specified period, the participating lending institutions will deal with such cases with discretion by considering the applicants' proof of employment and main recurrent incomes prior to unemployment.

Loan Ceiling and Maximum Repayment Period

6. Under the PLGS, an eligible applicant may receive a loan of up to six times the average monthly income for any three months from January 2020 to the scheme's announcement in February 2021, or six times the average monthly assessable income as calculated with reference to the tax demand note for the financial year 2019-20, subject to a ceiling of \$80,000, whichever is the lower.

7. The maximum repayment period is six years counting from the drawdown of the loan. To alleviate the immediate repayment burden on borrowers, an option of principal moratorium for the first 12 months will be offered, under which borrowers will only be required to make repayments of principal and interest in the remaining five-year repayment period.

Interest Rate and Guarantee Fee

8. An effective fixed interest rate of 1% per annum will be charged under the PLGS. Guarantee fee will be waived.

9. A borrower will receive a full rebate of the interest payment after the loan and interest are fully repaid by the end of the repayment period despite any interim delinquencies.

Credit History of the Borrower

10. Unlike commercial loans, there is no requirement under the PLGS for assessing the repayment ability of loan applicants, including no requirement for satisfying any minimum credit rating or for having no outstanding default. Applicants are required to maintain valid bank accounts, and must not be undischarged bankrupts or subject to any bankruptcy petition or proceedings. Participating lending institutions (PLIs) will report the repayment history of borrowers under the PLGS to the relevant credit reference agencies.

Scheme Structure and Loan Recovery

11. Loans will be originated by the PLIs. As the scheme administrator, the HKMC Insurance Limited (HKMCI) will rely on the professional expertise, judgement and care of PLIs in conducting customer due diligence and verification of loan applicants' eligibility. After drawdowns, the loans will be sold to the Hong Kong Mortgage Corporation Limited (HKMC) without recourse to the PLIs. The Government will provide funding to the HKMC for the purchase of loans.

12. For each loan sold to the HKMC, an originating fee and a loan servicing fee will be provided to the PLI concerned, and an administration fee will be provided to the HKMCI, being the scheme administrator. The aforesaid fees will be borne by the Government. Where a borrower defaults on repayment, as a servicer of the loan, the PLI concerned will initiate recovery actions having regard to its own policy, usual commercial practice, as well as the terms and conditions of the scheme. The associated costs will be borne by the Government.

Encl. 13. Other salient features of the PLGS are at Enclosure.

CONTROL AND SAFEGUARD MECHANISM

14. To ensure proper handling of loans under the PLGS, PLIs will be required to exercise professional expertise, judgement and care in conducting customer due diligence and verification of the eligibility of loan applicants. In addition, the following control and safeguard measures will be applied to the scheme –

- (a) an upfront quality assurance sample check will be conducted by the HKMCI at the application stage;
- (b) PLIs will report the repayment history of borrowers to credit reference agencies; and
- (c) PLIs will initiate debt recovery actions on defaulted loans according to their existing policies and procedures.

15. The HKMCI will be responsible for implementing the PLGS. The Government will sign an agreement with the HKMC and the HKMCI (the Agreement) to set out clearly the rights and obligations of the parties in connection with the implementation of the PLGS. Besides, the Government will stipulate in the Agreement the requirements for the HKMCI to report regularly to the Government on the implementation of the PLGS, including but not limited to the usage of the overall loan guarantee commitment, the number of applications approved, the number of beneficiaries, default claims and the associated expenses incurred. The HKMCI will also be required to submit annual audited accounts prepared by independent auditors to account for the operation of the PLGS. The Government will closely monitor the implementation of the PLGS to ensure the prudent use of public money.

/FINANCIAL

FINANCIAL IMPLICATIONS

16. The Government will provide a total commitment of \$15 billion for the PLGS. As stated in paragraphs 11 and 12 above, the commitment is for funding the purchase of loans from the PLIs concerned by the HKMC and for covering the associated expenses of around \$1.095 billion, including fees payable to the HKMCI and the PLIs², debt recovery costs, and other necessary out-of-pocket expenses (such as the costs of conducting upfront quality assurance sample check at the loan application stage, audit review and legal fees, etc.).

17. As borrowers will receive full interest rebates if the loans are fully repaid by the end of the repayment period, interest income received under the PLGS cannot be set aside to cover the costs.

18. Loan repayments will be credited to the relevant revenue head of the General Revenue Account. On the basis of an overall assumed default rate (ADR) of 25%³, the expected default loss (i.e. revenue forgone by the Government) is estimated to be around \$3.75 billion.

19. For the sake of financial prudence, except with the Finance Committee (FC)'s separate approval in advance, the HKMCI will cease to provide loan purchase commitment when the total commitment is about to exceed \$15 billion such that the PLIs will not be able to originate loans under the PLGS.

EXPECTED BENEFITS

20. The introduction of the PLGS will provide expeditious relief for unemployed persons who are suffering from cessation of main recurrent incomes. The number of beneficiaries will depend on a number of factors, including the financing needs of individual borrowers and their families, as well as the prevailing economic environment.

/PUBLIC

² PLIs will charge (i) an originating fee of 0.5% of the loan value (e.g. origination fee is \$400 for a loan of \$80,000); and (ii) an annual loan servicing fee of 0.5% of the loan value (e.g. annual servicing fee is \$400 for a loan of \$80,000). An annual administration fee of 0.2% of the loan value will be charged by the HKMCI covering costs (such as manpower and related premises expenditure) of administering the scheme. For example, the annual administration fee is \$160 for a loan of \$80,000.

³ The HKMCI has no basis to estimate the ADR as it does not have any experience of providing 100% loan guarantee for unemployed persons. Considering that no credit assessment would be carried out and the fact that loan applicants are unemployed, 25% is used as ADR for estimation purpose. The same assumption was adopted under the Special 100% Loan Guarantee Product set up for small and medium enterprises.

PUBLIC CONSULTATION

21. We consulted the Legislative Council Panel on Financial Affairs on the proposal on 1 March 2021. Members in general supported the submission of the funding proposal to FC for approval.

IMPLEMENTATION TIMETABLE

22. Subject to this Committee's approval, we will strive to roll out the PLGS around one month after approval.

Financial Services and the Treasury Bureau
March 2021

Features of the 100% Personal Loan Guarantee Scheme (PLGS)

	Features
(1) Objective	To provide a source of financing to individuals who are suffering from cessation of main recurrent incomes from employment in Hong Kong during the Coronavirus Disease 19 pandemic
(2) Eligible Borrower	<p>Hong Kong permanent residents holding a valid Hong Kong identity card who are aged 18 or above, and have been unemployed for at least two months at the time of application and can produce proof of cessation of main recurrent incomes from employment in Hong Kong.</p> <p>Applicants are required to provide documentary proofs of previous employment and having main recurrent incomes for at least three months during the period from January 2020 to the scheme's announcement in February 2021, as well as a written declaration and proof of unemployment and loss of main recurrent incomes for at least two months.</p> <p>As loan applicants who became unemployed in the first quarter of 2020 may not be able to provide proof of employment and main recurrent income for at least three months during the specified period, the participating lending institutions (PLIs) will deal with such cases with discretion by considering the applicants' proof of employment and main recurrent income prior to unemployment.</p>

	Features
(3) Credit History	<p>No requirement for assessing repayment ability of loan applicants, including no requirement for satisfying any minimum credit rating or for having no outstanding default.</p> <p>Borrowers must not be undischarged bankrupts nor subject to any bankruptcy petition or proceedings at the time of loan application and shall maintain valid bank accounts in Hong Kong.</p>
(4) Approval of Loans	By PLIs based on the relevant eligibility criteria
(5) Loan Guarantee Coverage	100%
(6) Maximum Repayment Period	Six years
(7) Maximum Loan Amount Per Individual	<p>The maximum amount of loan is the lower of –</p> <ul style="list-style-type: none"> - six times the average monthly income for any three months from January 2020 to the scheme’s announcement in February 2021 or six times the average monthly assessable income as calculated with reference to the tax demand note for the financial year 2019-20; or - \$80,000.
(8) Form of Loans	Term loans only
(9) Use of Loan Proceeds by Borrowers	No restriction
(10) Loan Interest Rate and Interest Rebate	<p>An effective fixed interest rate of 1% per annum will be charged.</p> <p>A borrower will receive a full rebate of the interest payment after the loan and interest are fully repaid by the end of the repayment period despite any interim delinquencies.</p>

	Features
(11) Collateral Requirement	Nil
(12) Guarantee Fee	Nil
(13) Principal Moratorium	Borrowers may apply for principal moratorium of up to 12 months from the drawdown of the loans
(14) Application Period	Within six months from the launch of the PLGS
(15) Control and Safeguard Mechanism	<p>PLIs will exercise professional expertise, judgement and care in conducting customer due diligence and verification of the eligibility of loan applicants.</p> <p>An upfront quality assurance sample check will be conducted by the HKMC Insurance Limited at the application stage.</p> <p>PLIs will report the repayment history of borrowers to relevant credit reference agencies.</p> <p>PLIs will follow their existing policies and procedures in debt collection on defaulted loans.</p>
(16) Maximum Commitment Provided by the Government	\$15 billion
