

**For discussion on
1 March 2021**

**Legislative Council Panel on Financial Affairs
100% Personal Loan Guarantee Scheme**

PURPOSE

This paper consults Members on the proposal to introduce a 100% Personal Loan Guarantee Scheme (“PLGS”) and invites Members’ support for the funding proposal to be submitted to the Finance Committee (“FC”) of the Legislative Council for approval.

BACKGROUND

2. Hong Kong’s economy has been facing significant downward pressure since the outbreak of Coronavirus Disease 2019 (“COVID-19”) in early 2020. The Government has unprecedentedly rolled out measures of more than HK\$300 billion to relieve people’s burden and smoothen livelihoods, including a HK\$122 billion relief package under the 2020-2021 Budget to stabilise the economy and alleviate the pressure on people’s livelihood.

3. The labour market deteriorated markedly following the fourth wave of local outbreak, to a 17-year high unemployment rate of 7.0% between November 2020 and January 2021. Unemployment surged 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%.

100% PERSONAL LOAN GUARANTEE SCHEME

4. We expect that the labour market will stay under notable pressure in the near term and individuals suffering from cessation of main recurrent incomes may face financial pressure. Pressure on the employment market may ease as the anti-epidemic measures gradually yield results and Hong Kong’s economy improves in the second half of 2021. To provide a supplementary financing option to help

affected individuals tide over the interim difficulty, the Financial Secretary has announced in the 2021-2022 Budget the proposal to introduce a time-limited PLGS, modelling on the Special 100% Loan Guarantee Product introduced in April 2020 under the SME Financing Guarantee Scheme (“SFGS”)¹ administered by the HKMC Insurance Limited (“HKMCI”).

5. 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, which may be reviewed and extended if necessary. The Government will provide a total loan guarantee commitment of HK\$15 billion. The expenditure of the PLGS will depend on the administration arrangements to be worked out with the participating lending institutions (“PLIs”). Details of the PLGS are set out below.

Eligibility

6. 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 demonstrate cessation of 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 SFGS), free-lancers, gig or casual workers are also eligible upon the production of a declaration of unemployment and demonstration of a loss of main recurrent incomes. As the PLGS aims to assist persons who are suffering from cessation of main recurrent incomes and with genuine need, loan applicants also need to provide proofs 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 2021.²

¹ The Hong Kong Mortgage Corporation Limited (“HKMC”) launched the market-based SFGS on 1 January 2011 with a view to helping Hong Kong enterprises, particularly SMEs, to obtain financing to meet their needs. In May 2012, December 2019 and April 2020, the Government launched the 80%, 90% and 100% guarantee products respectively under the SFGS with a total loan guarantee commitment of HK\$183 billion. To cater for the business development of the HKMC, effective from 1 May 2018, the SFGS business has been transferred to and carried out by the 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)).

² In view that loan applicants who became unemployed in the first quarter of 2020 may not be able to provide proof of employment and main current income for at least three months during the specified period, the participating lending institutions will exercise discretion in dealing with such cases by considering the applicants’ proof of employment and main current income in the three months prior to unemployment.

Loan Ceiling and Maximum Repayment Period

7. Under the PLGS, an unemployed person may receive a maximum 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 financial year 2019/2020, or HK\$80,000, whichever is the lower.

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

Interest Rate and Guarantee Fee

9. An effective fixed interest rate of 1% per annum will be charged. Guarantee fee will be waived.

10. A borrower will receive a full rebate of the interest after the loan is fully repaid by the end of the repayment period. Interim delinquencies will not affect the interest rebate as long as the loan is paid off at the end.

Credit History of the Borrower

11. 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. Loan applicants are required to maintain valid bank accounts and must not be subject to any bankruptcy petition or proceedings. PLIs will report the repayment history of borrowers under the PLGS to relevant credit reference agencies.

Scheme Structure and Loan Recovery

12. Under the PLGS, loans will be originated by PLIs. The HKMCI as scheme administrator will rely on the professional expertise, judgement and care of PLIs in conducting customer due diligence and verification of loan applicants' eligibility. After loan drawdowns, the loans will be transferred to the HKMC

without recourse to the PLIs, and the relevant loan repayment is backed by the Government's relevant guarantee in favour of the HKMC.

13. For each loan transferred to the HKMC, an originating fee and an ongoing loan servicing fee will be provided to the PLI concerned and an ongoing administrative fee³ will be provided to the HKMCI. The HKMC will pass on the funding and hedging costs to the Government. Where a borrower defaults on repayment, the PLI as a servicer of the loan will initiate recovery actions having regard to its own policy and usual commercial practice. Necessary enforcement and debt recovery expenses incurred by the PLI in relation to a defaulted loan will be reimbursed via the HKMC.

14. Other salient features of the PLGS are at **Annex**.

FINANCIAL IMPLICATIONS

15. The Government will provide a total guarantee commitment of HK\$15 billion for the PLGS. Overall default rate is assumed to be 25%.⁴ Other costs and necessary out-of-pocket expenses include costs of conducting upfront quality assurance review at loan application stage, audit review, and debt recovery at default stage, etc.

16. For the sake of financial prudence, except with the FC's prior approval, the HKMCI will not provide any loan guarantee beyond the HK\$15 billion loan guarantee commitment.

IMPLEMENTATION TIMETABLE

17. We plan to seek funding approval of the FC in March 2021, with a view to launching the PLGS around one month after FC's approval.

³ All administration costs incurred under the PLGS will be charged by the HKMCI and PLIs, with no expenses relating to government departments. The ongoing administrative fee charged by the HKMCI covers expenditures including but not limited to manpower and management costs, related premises expenditure, and system development and maintenance costs (including, among others, expenses for the development and maintenance of relevant electronic application and administration systems and necessary hardware and software) under the PLGS.

⁴ The assumed default rate ("ADR") for the PLGS is 25%. The HKMCI does not have any experience or basis to estimate ADR for 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.

ADVICE SOUGHT

18. Members are invited to support the above proposal.

**Financial Services and the Treasury Bureau
The Hong Kong Mortgage Corporation Limited
February 2021**

Features of the 100% Personal Loan Guarantee Scheme

	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 COVID-19 pandemic.
(2) Eligible Borrower	<p>Hong Kong permanent residents holding a valid Hong Kong identity card aged 18 or above who have been unemployed for at least two months at the time of application and can demonstrate cessation of main recurrent incomes.</p> <p>Borrowers 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>
(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 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%

	Features
(6) Maximum Repayment Period	Six years
(7) Maximum Loan Amount Per Individual	<p>The maximum amount of loan per unemployed person 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; - six times the average monthly assessable income as calculated with reference to tax demand note for FY 2019/2020; or - HK\$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>Annualised percentage rate is fixed at 1%.</p> <p>A borrower will receive full rebate of the interest after he/she pays off the loan by the end of the repayment period. Interim delinquencies will not affect the interest rebate as long as the loan is paid off at the end.</p>
(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.

	Features
(14)Application Period	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 mechanism will be put in place at 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 Guarantee Commitment as Provided by the Government	HK\$15 billion