

**Forty-second Meeting of
the Business Facilitation Advisory Committee**

***Agenda Item 3 : Further Enhancements to
the SME Financing Guarantee Scheme***

Purpose

This paper briefs Members on the further enhancements introduced to the various loan guarantee products under the SME Financing Guarantee Scheme (SFGS) to help ease the cash flow problem of Hong Kong enterprises which have been severely hit by the COVID-19 infections.

Background and Proposal

2. The Hong Kong Mortgage Corporation Limited (HKMC) ¹ launched the market-based SFGS on 1 January 2011 with a view to helping Hong Kong enterprises, particularly small and medium enterprises (SMEs), to obtain financing to meet their needs. In May 2012, the Government provided a total loan guarantee commitment of \$100 billion for the HKMC to launch the special concessionary measures under the SFGS by providing 80% guarantee on loans at a substantially reduced guarantee fee (the 80% Guarantee Product).

3. Since 2018, various enhancements have been implemented to the 80% Guarantee Product, including reducing the annual guarantee fee rates by 50%, increasing the maximum loan amount per enterprise from \$12 million to \$15 million; and lengthening the maximum loan guarantee period from 5 years to 7 years. The application period of the 80% Guarantee Product and the associated enhancement measures have also been extended to 30 June 2022.

4. In December 2019, we further introduced the 90% Guarantee Product under the SFGS, aiming to help smaller-sized enterprises and

¹ To cope with the business development of the HKMC, effective from 1 May 2018, the SFGS business has been transferred to and carried out by the HKMC Insurance Limited (HKMCI), a wholly owned subsidiary of the HKMC.

businesses with relatively less operating experience and professionals seeking to set up their own practices. The Government provides a total loan guarantee commitment of \$33 billion for the 90% Guarantee Product, with an application period up to 30 June 2022. The maximum loan amount is \$6 million per enterprise, and the maximum loan period is 5 years.

5. On 20 March 2020, we sought approval from the Finance Committee (FC) for a Budget initiative to introduce a concessionary low-interest² loan under the SFGS, for which the Government will provide 100% guarantee for approved loans. Loan applicants need to provide proofs that they have suffered at least a 30% decline in sales turnover in any month since February 2020 compared with the monthly average of any quarter in 2019. The application period will be for six months from launch, which may be reviewed and extended if necessary. The Government will provide a total loan guarantee commitment of \$20 billion, with an expected maximum expenditure of \$5.625 billion. The maximum loan amount per enterprise is up to the total amount of employee wages and rents for six months, or \$ 2 million, whichever is the lower; and the maximum loan period is 3 years.

6. With the rapid deterioration of the business environment following the outbreak and spread of the COVID-19, there is an urgent need for the Government to further enhance the various loan guarantee products under the SFGS to provide our enterprises with the much needed financial support to ease their cash flow problems in the following ways –

- (a) for the 80% Guarantee Product, to –
 - (i) increase the maximum loan amount per enterprise from \$15 million to \$ 18 million;
 - (ii) provide, for a one-year period, interest subsidy for the loans at a level so as to bring the interest rate per annum on par with that of the Special 100% Guarantee Product (i.e. 2.75 % at the moment) subject to a subsidy cap of 3%; and
 - (iii) extend, for a one-year period, the eligibility criteria to cover

² Means an interest rate of the Hong Kong Prime Rate as specified by HKMC from time to time minus 2.5% per annum (or equivalent).

publicly listed companies in Hong Kong subject to personal guarantee by individual shareholder(s) directly or indirectly holding more than 50% of the equity interest of the enterprise;

- (b) for the 90% Guarantee Product, to –
 - (i) increase the maximum loan amount per enterprise from \$6 million to \$8 million;
 - (ii) provide, for a one-year period, interest subsidy for the loans at a level so as to bring the interest rate per annum on par with that of the Special 100% Guarantee Product (i.e. 2.75 % at the moment) subject to a subsidy cap of 3%; and
 - (iii) extend, for a one-year period, the eligibility criteria to cover publicly listed companies in Hong Kong, subject to personal guarantee by individual shareholder(s) directly or indirectly holding more than 50% of the equity interest of the enterprise;
- (c) for the Special 100% Guarantee Product, to –
 - (i) increase the total guarantee commitment from \$20 billion to \$50 billion;
 - (ii) increase the maximum loan amount per enterprise from \$2 million to \$4 million;
 - (iii) extend the application period from 6 months to 12 months; and
 - (iv) provide the option for principal moratorium for the first 12 months instead of first 6 months.

7. The application period for the enhancement measures for the 80% and 90% Guarantee Products will last for 12 months from launch.

8. The SFGS is targeted at local non-listed business enterprises, covering all sectors. With the enhancements in paragraph 6 (a) and (b) above, publicly listed companies can also make use of the scheme to help solve their

cash flow problems. In addition, for the enhancements to the 80% and 90% Guarantee Products, business enterprises which have ongoing loans under the SFGS will benefit from the interest subsidy and the increased loan caps.

9. An overview of the guarantee products under the SFGS is at **Annex**.

Implementation

10. The Special 100% Guarantee Product has started receiving applications from 20 April 2020 onwards. The HKMCI is working with the Government and banks on the enhancements to the 80% and 90% Guarantee Products, and will announce the implementation details in due course.

11. Members are invited to note the enhancements to the SFGS set out in this paper.

Commerce and Economic Development Bureau
May 2020

Overview of Guarantee Products under the SME Financing Guarantee Scheme

	80% Guarantee Product	90% Guarantee Product	Special 100% Guarantee Product
Maximum loan amount for enterprises	Raised from \$15 million to \$18 million	Raised from \$6 million to \$8 million	Total sum of employee wages and rents for 6 months, ceiling raised from \$2 million to \$4 million
Government guarantee commitment	\$100 billion	\$33 billion	Raised from \$20 billion to \$50 billion
Maximum guarantee period	7 years	5 years	3 years
Annual loan interest rate	Interest subsidy to bring interest rate on par with Prime Rate minus 2.5%, subject to a subsidy cap of 3% (for 1 year)	Interest subsidy to bring interest rate on par with Prime Rate minus 2.5%, subject to a subsidy cap of 3% (for 1 year)	Floating rate equivalent to 2.5% below the Prime Rate quoted by the Hong Kong Mortgage Corporation Limited (HKMC) from time to time (Note)
Principal moratorium	1 year	1 year	Extended from 6 months to 1 year
Application eligibility	Non-listed local registered enterprises, operated for at least 1 year To be opened for application by listed enterprises, for 1 year	Non-listed local registered enterprises or professionals seeking to set up own practices To be opened for application by listed enterprises, for 1 year	Non-listed local registered enterprises operating for at least 3 months by end December 2019, and suffered at least a 30% decline in sales turnover in any month since February 2020 compared with the monthly average of any quarter in 2019
Application period	Until 30 June 2022	Until 30 June 2022	Extended from 6 months to 1 year (i.e. from 20 April 2020 to 19 April 2021)
Personal guarantee	Personal guarantee by shareholder(s) holding more than 50% of the equity interest	Personal guarantee by shareholder(s) holding more than 50% of the equity interest	Personal guarantee by shareholder(s) holding more than 70% of the equity interest

Note:

The interest rate applicable to loans guaranteed under the 100% guarantee product is equivalent to 2.5% below the Prime Rate quoted by the HKMC from time to time. For reference, the applicable Prime Rate quoted by the HKMC as at the launch date on 20 April 2020 is 5.25% per annum.

Lenders may use its own HKD Prime Lending Rate as the rate index so that the effective interest rate at the time of drawdown is equivalent to Prime Rate quoted by the HKMC minus 2.5% per annum (i.e. the loan interest rate is 2.75% per annum as at 20 April 2020). Going forward after loan drawdown, the loan interest rate will change where there is a change of the lender's HKD Prime Lending Rate which may be different from the Prime Rate quoted by the HKMC.