

## **International Business Committee**

### **Government's Loan Guarantee Schemes for Hong Kong Enterprises**

In response to the global financial crisis, the Government has taken immediate measures to assist Hong Kong enterprises, particularly the small and medium enterprises<sup>1</sup> (SMEs) which are most hard hit by the crisis, in securing loans from the financial market to tide over their liquidity problem.

#### **The Special Loan Guarantee Scheme**

##### *Features*

2. The Special Loan Guarantee Scheme (SpGS) was introduced on 15 December 2008 on a time-limited basis for 6 months to help enterprises secure loans from the participating lending institutions (PLIs) to tide over the liquidity problem during the global financial crisis. Under the scheme, Government has pledged to provide loan guarantee of up to \$100 billion.

3. SpGS is open to all enterprises with substantive business in Hong Kong and registered in Hong Kong under the Business Registration Ordinance (except listed companies), irrespective of size, industry, or source of capital. The loans should be used for meeting the needs of general business use of the applicants. When the scheme was introduced, Government's guarantee ratio was 70% of the approved loan, subject to a maximum loan amount of \$6 million. Within this limit, an enterprise may obtain a revolving credit line<sup>2</sup> of up to \$3 million. The maximum guarantee period for each loan is 3 years or up to 30 June 2012, whichever is earlier.

4. The operation of SpGS is market driven. The intention is to help enterprises which are creditworthy, have a good track record and can demonstrate reasonable business prospects but are unable to obtain adequate financing from lending institutions due to the credit crunch. The Government

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<sup>1</sup> SMEs are defined as any manufacturing businesses which employ fewer than 100 employees in Hong Kong; or any non-manufacturing businesses which employ fewer than 50 employees in Hong Kong.

<sup>2</sup> Under a revolving credit line, the borrower may use the credit repeatedly up to a certain limit as long as payments are made. It may include overdraft facilities, revolving letters of credit line in support of trade finance, etc. A revolving credit line has an advantage over a term loan in that, other than a commitment or arrangement fee, interest is not usually charged on the unused part of the credit line, and that the borrower may draw on the credit line at any time that it needs to.

will rely on the PLIs to exercise their usual professional judgement in assessing the loan applications. All SpGS applications are lodged with and processed by PLIs before submission to the Trade and Industry Department (TID) for approval of the guarantee. Interest rate is determined by individual PLIs in accordance with commercial principles, taking into account factors such as the borrower's financial strength, the type and nature of the credit facility, the loan amount and repayment period, etc. According to the PLIs, the reduction of credit risk as a result of the guarantee provided by Government would normally be suitably reflected in the interest rates.

5. Certain safeguard measures are put in place to prevent abuse. For example, all applying enterprises must be in operation for at least one year when the scheme was launched; the applicant must have no outstanding default; and the owners or major shareholders of the enterprises are required to provide personal guarantee. Also the loans obtained under SpGS cannot be used to repay or restructure other loans.

#### ***Enhancement measures***

6. On 26 May 2009, the Financial Secretary announced a package of relief measures to assist different sectors of the community to ride over the storm brought by the global financial crisis, including the following measures to enhance the SpGS:

- (i) the application period will be extended for 6 months until 31 December 2009;
- (ii) the Government's loan guarantee ratio for new loans approved under the scheme will be increased from 70% to 80%;
- (iii) the maximum amount of loan that each enterprise may obtain will be increased from \$6 million to \$12 million; and within this ceiling, the amount of loan that may be used for a revolving credit line is increased from \$3 million to \$6 million;
- (iv) the maximum guarantee period for new loans approved under the scheme will be extended from 3 years to 5 years, or up to 31 December 2014, whichever is earlier;

7. The above enhancement measures were implemented on 15 June 2009.

#### ***Performance***

8. The response to SpGS has been positive. So far, 41 PLIs have signed up to join the scheme. The number of applications received is growing steadily.

As at end June 2009, TID has received 12,772 applications, of which 11,445 have been approved, involving a total loan amount of about \$22.17 billion. The applications approved cover a wide spectrum of companies and industries in both manufacturing and non-manufacturing sectors, indicating that almost all major industries in Hong Kong are able to benefit from the scheme. About 8,800<sup>3</sup> companies have benefitted under the scheme, covering a total employment of more than 166,000. 95% of the beneficiaries are SMEs, hiring more than 91,000 employees.

### ***Publicity***

9. TID has put in place a comprehensive publicity plan to promote the SpGS, including announcements of public interest (APIs) broadcast on television and radio; posters at MTR and bus stations; interviews with newspapers and radio stations; distribution of promotion leaflets; and publicity through various trade publications and trade-related websites. Representatives from TID have also attended many seminars organized by trade and SME associations, chambers of commerce as well as professional bodies to introduce the SpGS to different business sectors.

10. The highlight of our promotional efforts is a large-scale seminar organized by TID and five major industrial and trade organizations on 15 January 2009 at the Hong Kong Convention and Exhibition Centre. Enquiry counters were set up by 23 PLIs and supporting organizations to answer questions by SMEs. The seminar was well-received with about 400 participants. The PLIs received and handled around 250 enquiries from the participants, with about 50 loan applications lodged on site.

### ***Other supporting measures***

11. The Government has also introduced other measures to help Hong Kong enterprises tide over the liquidity problems during the financial crisis. For example, the Hong Kong Monetary Authority (HKMA) has taken a series of measures to maintain confidence in the banking system, encourage interbank lending and assist authorized institutions in performing their essential financial intermediation role, which includes the provision of credit to SMEs.

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<sup>3</sup> The number of beneficiary enterprises is smaller than the number of approved applications, since each enterprise may submit more than one application within the loan ceiling of \$12m.

12. In addition, as many SMEs may not possess the necessary expertise and knowledge in making loan applications, TID, together with the Hong Kong Association of Banks and the Association of Restricted Licence Banks and Deposit Taking Companies, has published a guideline for SMEs in obtaining business loans in order to provide handy information to help SMEs understand the procedure and documentation requirement of the lending institutions.

### **SME Loan Guarantee Scheme (SGS)**

13. Apart from the SpGS, TID is also running another loan guarantee scheme called the SME Loan Guarantee Scheme (SGS). The SGS, which is an on-going scheme introduced in 2001, aims to help SMEs secure loans from the financial market with the Government acting as guarantor for up to 50% of the approved loans. The loans can be used for acquiring business installations and equipment, or as general working capital. The maximum amount of guarantee for each SME is \$6 million (i.e. the amount of loan involved is \$12 million).

14. To provide greater support to SMEs in the midst of the global financial crisis and to provide them with more flexibility, TID has introduced some enhancement measures to the SGS since November 2008. For example, the use of loan has become more flexible, the maximum guarantee period has been extended, and SMEs are allowed to recycle the guarantee that is fully repaid.

15. Since the SGS was launched in 2001 and up to end June 2009, TID has approved 21,732 applications, involving a total loan amount of \$26.9 billion.

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