

LCQ17: Special Loan Guarantee Scheme

Following is a written reply by the Secretary for Commerce and Economic Development, Mrs Rita Lau, to a question by Dr the Hon Lam Tai-fai in the Legislative Council today (March 4):

Question:

Regarding the Special Loan Guarantee Scheme (the Scheme) implemented by the Trade and Industry Department (TID) since December 15 last year, will the Government inform this Council:

(a) as the information provided by TID on February 10 indicated that as at February 1 this year, only 134 applications among the 1,235 applications submitted to TID were from new customers (i.e. companies which had never been granted any loan by the lending institutions concerned), which was less than one seventh of the number of applications, whether the Government has ascertained from the lending institutions the reasons for the small proportion of new customers in the number of applications; whether it will consider taking measures to assist new customers in obtaining approval for loans;

(b) of the justifications for the Government's estimation that about 40,000 companies will benefit from the Scheme during its six-month operation period;

(c) whether it knows the average, highest and lowest interest rates charged on the approved loans;

(d) whether it knows how many of the companies whose applications have been approved are the existing customers of and already have credit lines provided by the lending institutions; whether it has assessed if such cases only help to reduce the credit risks of the lending institutions, while Small and Medium Enterprises (SMEs) are not able to benefit from the arrangements of the Scheme;

(e) given that the total amount of loans approved was only around \$3.5 billion as at February 13 this year, which is substantially lower than the ceiling of \$100 billion on the loan guarantee commitment of the Scheme, whether the Government will review the effectiveness of the Scheme immediately;

(f) whether the Government will reconsider lifting the 70% ceiling for loan guarantee, granting loans to SMEs directly, and removing the requirement of personal guarantee from company owners or shareholders

holding more than 50% of the equity interest of a limited company; and

(g) whether it will study inviting mainland banks to participate in the Scheme; if it will, when the study will commence; if not, of the reasons for that?

Reply:

President,

The Government launched the Special Loan Guarantee Scheme on December 15, 2008 to provide 70% guarantee for commercial loans granted to eligible enterprises. The total guarantee commitment is \$100 billion. As at March 2, 2009, we have approved 2,782 applications, involving a total loan amount of around \$5.3 billion.

In response to Dr the Hon Lam Tai-fai's questions, our replies are as follows:

(a) According to the statistics provided by the participating lending institutions (PLIs), as at February 1, 2009, of the 1,235 applications submitted to TID for approval, 174 (14%) are lodged by new customers. All the applications have been approved.

We understand that when companies apply for loans, they would usually first approach the lending institutions with which they have business dealings. Since these lending institutions already have business relationship with the borrowers, they should have some knowledge of the financial status of the borrowers. As a result, the application process should be simpler and faster.

When considering loan applications from new customers, the lending institutions will normally require the applicants to provide sufficient information to enable them to understand the borrower's financial status. In this connection, TID, the Hong Kong Association of Banks (HKAB) and the Hong Kong Association of Restricted Licence Banks and Deposit-taking Companies (DTC Association) have jointly compiled a "Guide for SMEs in Obtaining Business Loan from Lending Institutions", setting out the important points which SMEs should note, and information required of them, when they apply for loans from lending institutions. The Guide has been uploaded onto the websites of TID, HKAB and the DTC Association. It should help SMEs, especially first-time applicants, understand the application procedures and requirements for obtaining loans from the PLIs.

(b) When the Scheme was introduced, we estimated that around 40,000 enterprises could benefit. This estimate was calculated based on the total loan guarantee commitment of \$100 billion and the assumption that the average amount of loan guarantee for each enterprise would be \$2.5 million. It is not a target. The actual number of applications and beneficiaries will depend on factors such as market demand, the amount of loan involved in each application, etc.

(c) PLIs do not have a unified mechanism or method for setting interest rates. Some may use the "best lending rate", Hong Kong Interbank Offered Rate" or "London Interbank Offered Rate" as the basis and apply upward or downward adjustments; some may use a fixed interest rate; and some may use different combinations (e.g. the "best lending rate" or "Hong Kong Interbank Offered Rate", whichever is higher). In addition, as the "best lending rate" differs among PLIs, it is very difficult to conduct a comprehensive statistical analysis of these figures. According to our rough estimation, the interest rates charged for the majority of successful applications lie between the "best lending rate" and two percent over the "best lending rate".

(d) It is estimated that about 80% of the applications submitted to TID by PLIs are lodged by existing customers to whom the PLIs have granted loans before.

The Scheme provides additional flexibilities for PLIs in granting loans, including allowing PLIs to provide credit facilities to existing customers whose original unused credit line have been cancelled or reduced. Hence, the Scheme can provide substantive assistance to these enterprises in improving their cashflow situation.

(e) Under the Scheme, the Government provides a loan guarantee commitment of \$100 billion to invigorate the lending market. The Scheme has been in operation for over two months. Both the number of applications and amount of loans granted are showing steady growth. We will continue to closely monitor the operation of the Scheme, and will review its effectiveness and consider the way forward when appropriate.

(f) One of the major principles of the Scheme is risk sharing between the Government and PLIs. If the Government's guarantee ratio were further increased, the corresponding moral hazards on the part of PLIs would also increase. Since the Scheme involves the use of public funds, we need to strike a balance between facilitating enterprises in obtaining loans and managing the public coffer prudently.

Regarding the proposal that Government should grant loans to companies direct, since the Government does not have the expertise in banking operations and commercial lending activities, and since it lacks experience in maintaining accounts and monitoring the repayment abilities of clients, we have not considered taking over PLIs' role and granting loans to companies direct.

As the default risk of loans granted under Scheme is largely borne by the public coffer, we consider it necessary to put in place adequate safeguard measures to ensure that the beneficiary companies are those with genuine needs and reasonable business prospects. Besides, the responsible persons or owners of beneficiary companies should take some responsibilities for their businesses. Hence, we consider that the requirement for personal guarantee is reasonable. In fact, according to the PLIs, it is a common practice to require personal guarantee in commercial financing. It is also one of the PLIs' considerations in assessing the credit risks and determining the interest rates.

(g) According to the conditions of the Scheme, all authorised institutions under the Banking Ordinance, including banks, restricted licence banks and deposit-taking companies, are eligible to participate in the Scheme. At present, certain Mainland banks have already established branches or offices in Hong Kong. These branches or offices may also participate in the Scheme if they meet the above criteria. In fact, several banks belonging to this category have already joined the Scheme. We have no plans to change the eligibility criteria for PLIs at this stage.

Ends/Wednesday, March 4, 2009