

LCQ5: Vetting and approval of Special 100% Loan Guarantee

Following is a question by the Hon Paul Tse and a reply by the Secretary for Commerce and Economic Development, Mr Algernon Yau, in the Legislative Council today (May 31):

Question:

It is learnt that, regarding the Special 100% Loan Guarantee (Special Loan) provided by the Government to assist small and medium enterprises (SMEs), some members of the public have queried cases involving suspected unreasonable rejection of applications by the lending banks and the HKMC Insurance Limited (HKMCI), which have left the applicants with no way of seeking redress of their grievances. Some applicants have pointed out that some lending banks have allegedly gone back on their words by first telling them that their applications have been successfully approved (and even claiming that based on their good records of loan repayment, the banks can increase the amounts of loan), thus spurring the applicants to recruit a large number of staff and make expansion arrangements. However, approvals for the applicants' loans are subsequently denied by the lending banks on the ground of HKMCI's rejection of their applications (in a situation where there is no explanation for the reasons for the rejection and no information on the corresponding parties or responsible officers), making the applicants feel that they have been seriously misled and even fooled. In this connection, will the Government inform this Council:

(1) of the assistance that the Government can provide in respect of the aforesaid situation involving rejection of applications by lending banks or the HKMCI (especially those applications initially approved but subsequently rejected where "the corresponding parties cannot be found"); whether it can assist the applicants in contacting the lending banks concerned and the HKMCI to gain an understanding of the reasons for the rejection, and put in place a review or appeal mechanism by following relief measures such as the Consumption Voucher Scheme and the Employment Support Scheme;

(2) of the number of cases expressing dissatisfaction with the vetting and approval situation and requesting for appeals or reviews which have been received by the authorities since the launch of the Special Loan, together with the follow-up actions taken; and

(3) whether it has assessed if the aforesaid situation involving applications suspected of being initially approved but subsequently rejected will go against the good intention of local banks and the Government to assist SMEs in tidying over the difficulties, and create negative impacts on the Government's popularity?

Reply:

President,

We thank the Hon Tse for the question, which gives the Government an opportunity to explain the details of the scheme. The SME Financing Guarantee Scheme (SFGS) was launched in January 2011. The Government helps businesses obtain commercial loans by providing loan guarantees through the SFGS. To assist enterprises hard hit by the epidemic in coping with cash flow problems, the Government launched in April 2020 the Special 100% Guarantee Product under the SFGS to provide low-interest concessionary loans to small and medium enterprises (SMEs), and has subsequently implemented several rounds of enhancement measures, raising the maximum loan amount per enterprise thrice from initially the total of six months of employee wages and rents to currently the total of 27 months of employee wages and rents, subject to the upper limit of \$9 million. To alleviate the cash flow burden of borrowing enterprises, the maximum repayment period was also extended thrice from originally three years to currently 10 years.

The HKMC Insurance Limited (HKMCI) is responsible for administering the operation of the SFGS. Lending institutions participating in the SFGS check the eligibility of enterprises with their professional knowledge, judgement and due diligence, and submit the verified applications with all the required documents to the HKMCI for final assessment and approval.

The Government's consolidated reply to the three parts of the question is set out below:

The HKMCI has not tightened the eligibility criteria for enterprises since the launch of the Special 100% Guarantee Product. If an application involves an increase in loan amount (e.g. an enterprise with an approved loan applies for a top-up given that it has not reached the maximum loan amount limit), the lending institution will reasonably request the applying enterprise to provide the latest documents of proof to reflect the latest business situation of the enterprise, and ensure that the enterprise continues to meet the eligibility. The lending institution will check the relevant documents and the eligibility of the enterprise, and then submit the application to the HKMCI for assessment and approval.

During the course of application, even if an applying enterprise is unable to provide the necessary documents of proof, or provide reasonable response to the enquiries of the lending institution and the HKMCI, the HKMCI will still give the applying enterprise opportunities to furnish the relevant documents or respond, before making its final decision. For instance, since the launch of the Special 100% Guarantee Product, rejected applications had been given on average more than three opportunities to furnish documents or respond to enquiries before they were rejected. The average processing time was 85 days. These show that the current approval mechanism already provides applying enterprises with ample opportunities to make clarifications to lending institutions or the HKMCI, it is therefore not necessary to establish a separate review mechanism or gather statistics on the number of cases that request a review.

Lending institutions are the main point of contact of applying enterprises, and are responsible for handling applications and responding to applying enterprises' enquiries. Applying enterprises can also direct enquiries to the HKMCI regarding the SFGS and applications through the HKMCI's hotline and email. In the event an application is eventually not approved, the lending institution and the HKMCI will suitably explain the reasons (e.g. ineligibility (such as due to business cessation or adverse credit records, etc.) or inability to provide the necessary documents of proof) having regard to the request of the applying enterprise and circumstances of the case, although it may not be possible to provide a specific explanation in certain situations (e.g. suspicious cases that are subject to investigation).

The Special 100% Guarantee Product has been enhanced several times in the past three years with a view to benefitting more enterprises. These enhancements have been well received by the trade and endorsed by the business sector and SMEs. From the launching of the Special 100% Guarantee Product in April 2020 to end April 2023, 62 031 applications had been approved, involving \$126.42 billion of loans, benefitting over 36 000 enterprises, among which over 25 000 approved applications involved an increase in loan amount. It has been well demonstrated that the SFGS and the enhancement measures are effective and proper. A total of 375 applications were rejected, equivalent to only 0.6 per cent of the applications received.

Hong Kong's economy is clearly improving this year. Yet, the Government is mindful that it takes time for SMEs to consolidate their strengths on the way to recovery, and has therefore announced the extension of the application period of the SFGS from end June 2023 to end March 2024, thus giving SMEs more room to adjust and secure a firm footing. The Government will continue to monitor closely the applications and the operation of the SFGS, and review its effectiveness.