

## LCQ19: Special 100% Loan Guarantee

Following is a question by the Hon Adrian Ho and a written reply by the Secretary for Commerce and Economic Development, Mr Algernon Yau, in the Legislative Council today (May 21):

Question:

The Government launched the Special 100% Loan Guarantee (Special Loan) under the SME Financing Guarantee Scheme to assist small and medium enterprises in tiding over the difficulties. In this connection, will the Government inform this Council:

(1) of the criteria for classifying default cases under the Special Loan; the respective cumulative default rates of the 80% Guarantee Product, the 90% Guarantee Product and the Special 100% Guarantee Product under the Special Loan as at the end of last month;

(2) given that the representative of the Hong Kong Monetary Authority (HKMA) indicated at the meeting of the Panel on Financial Affairs of this Council on February 3 this year that the HKMA noted an upward trend in the latest default rate of the Special Loan, and that recovery actions had been taken against enterprises which had been in malicious default, of the specific work plan of the authorities to deal with cases which had been in default to minimise the occurrence of defaults; the success rate of the recovery actions concerned;

(3) regarding the cases involving failure to make repayments, of the estimates of the required provision coverage as confirmed by the authorities; as it is learnt that the HKMA has been, in conjunction with the banks, discussing with the borrowing enterprises to assist those borrowing enterprises which have become unable to make repayments in terms of their repayment arrangement, as well as to reach a debt restructuring arrangement in an endeavour to restore the loan quality of the relevant cases to a favourable level, whether it knows the number of successful cases; and

(4) as it is learnt that the HKMC Insurance Limited has taken appropriate actions in respect of cases which may involve illegal acts, including issuing clear guidelines to lending institutions participating in the Special Loan, taking legal actions through lending institutions and reporting to law enforcement agencies, of the number of cases which needed to be reported to law enforcement agencies as at the end of last month?

Reply:

President,

The Special 100% Guarantee Product of the SME Financing Guarantee Scheme (SFGS) was launched in 2020 and its application period ended in end-March

2024. The consolidated reply of the Government to the question is as follows:

Under the SFGS, a defaulted loan overdue for more than 90 days, with its default claim process commenced or completed, will be considered as a bad debt. As at end-April 2025, the cumulative default rates of the 80%, 90% and Special 100% Guarantee Products under the SFGS were about 5.2 per cent, 4.2 per cent and 15.6 per cent respectively, lower than the assumed overall default rates (12 per cent, 16 per cent and 25 per cent respectively).

The HKMC Insurance Limited (HKMCI) has been working closely with lending institutions on properly handling the default cases. In the event that a borrowing enterprise defaults on repayments, the lending institution will first discuss a feasible repayment plan with the borrowing enterprise, e.g. repaying only the interest or part of the principal during a transition period, so that the borrowing enterprise can continue its operation while making a debt restructuring arrangement as soon as possible, with a view to gradually resuming normal repayments. If the lending institution and the borrowing enterprise could not reach agreement on the repayment or the latter refuses to co-operate, the lending institution will consider taking appropriate recovery/legal actions in accordance with its policy and prevailing commercial practice, including requesting the enterprise and guarantor to repay the loan, filing a petition for winding-up and/or bankruptcy with the court, etc with a view to reducing the loss of the Government.

As at end-April 2025, lending institutions (including through their debt collection agencies) have been taking recovery actions against around 5 400 default cases of the Special 100% Guarantee Product, and have already taken or are taking legal actions against around 3 500 cases (including cases where the relevant creditors have applied for liquidation/bankruptcy against the borrowing enterprises due to the latter's default on debts other than the Special 100% Guarantee Product). The outstanding amounts have been recovered in full or in part from more than 30 per cent of the approximately 8 900 cases mentioned above upon taking relevant recovery actions.

The SFGS is administered and managed by the HKMCI. The Hong Kong Monetary Authority is not involved in the implementation of the SFGS. The Government needs to budget for the various expenses for implementing the SFGS every year, including payments of servicing fee in respect of the Special 100% Guarantee Product to the participating lending institutions, payments to the HKMCI to cover the administrative costs and the necessary out-of-pocket expenses as well as the default claim payments. In the 2024-25 financial year, the relevant revised estimates were \$12.5 billion. Nevertheless, the actual default rates of the SFGS are subject to change having regard to the overall economic environment and the operational situation of individual borrowing enterprises, etc. The Government and the HKMCI will continue to monitor the situation closely, and duly adjust the annual estimates for implementing the SFGS.

As at end-April 2025, 3 519 applications of the Special 100% Guarantee Product, involving around \$10.5 billion of loans, are suspected to have

involved illegal activities, including using false instruments, providing false information or declarations, etc. Among them, 1 512 cases (involving around \$5 billion of loans) were already rejected by the HKMCI and/or the lending institutions during application assessment, while the other 2 007 cases (involving around \$5.5 billion of loans) were found after loan drawdown. The HKMCI and/or the lending institutions have taken appropriate actions, including reporting the cases that may have involved illegal activities to law enforcement agencies (LEAs), and providing relevant information in accordance with the actions of the LEAs.