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Repayment of Trade Facilities Deferred by the Banking Sector for Another 90-day Period

The Hong Kong Monetary Authority (HKMA) together with the Banking Sector SME Lending Coordination Mechanism (Mechanism) today announced a 90-day repayment deferment for trade facilities under the Pre-approved Principal Payment Holiday Scheme (Scheme).

Under the Scheme, which was launched in May last year, trade loans have been granted 90-day extension respectively in May, August and November last year. Some of these loans will start to fall due in February 2021. As the evolving COVID-19 pandemic continues to weigh on economic activities, some trade customers are still facing cash-flow pressure. The Mechanism has agreed that corporate customers in need can further extend their trade facilities for another 90-day period. Eligible corporate customers can also apply for a 90-day extension of trade facilities drawn down from November 2020 to end-January 2021. For facilities which are self-liquidating in nature, banks may require the loan to be settled when the underlying payment has been received by the customer.

Given the short-term nature of trade facilities, most of the underlying trade transactions entered into before the Scheme was launched should have been completed by now. In order to strike a balance between catering for the unique circumstances facing individual customers and the need for prudent risk management, the Mechanism has agreed that, for a trade loan which has been extended for 270 days or more cumulatively since it was first drawn down, banks can adopt a flexible approach and consider on a case-by-case basis whether other forms of relief (such as repaying the trade loans by instalments) are more suitable to help the customers ride out the current difficulties, subject to prudent risk-management principles.

Similar to previous extensions of the Scheme, banks will not issue individual notifications to eligible customers regarding the deferment arrangement. Interested corporate customers may contact their banks. Banks will handle deferment requests on a "pre-approved" basis. Banks may request customers to provide up-to-date operational and financial information to better understand their needs when processing their requests.

The Mechanism has also discussed the difficulties facing customers in the transportation sector and the assistance banks can provide. In view of the difficulties of public light bus (PLB) operators in obtaining new financing to upgrade their vehicles from 16 seats to 19 seats, the Mechanism has agreed that banks will be more flexible in handling the relevant new financing applications. The HKMA has also clarified that banks did not need to rigidly adhere to the 85% loan-to-value ratio cap provided that prudent risk management principles are observed and that the new loans are only used for purchase of new vehicles. As regards new loans granted for taxis, PLBs and other non-franchised buses, participating banks agreed that they would actively consider extending the maximum loan tenors for taxis and PLBs to 30 years, and the maximum loan tenors for non-franchised buses to 10 years, on a temporary basis for the next two years. They may provide other forms of relief to help alleviate the repayment burden of relevant commercial vehicle owners, subject to prudent risk management. Participating banks have also agreed to apply the same principles under the Scheme in handling requests for principal payment holiday and extension for taxis, PLBs and relevant commercial vehicles loans held in the name of personal customers.

The HKMA will continue to engage banks and the commercial sectors through the Mechanism to determine as soon as possible the way forward for the Scheme, which is going to expire at end-April.

The Scheme covers all corporate customers that have an annual sales turnover below HK\$800 million and that have no seriously overdue loan payments. For enquiries about the Scheme, please contact the HKMA via the

dedicated email account (ppphs@hkma.gov.hk) or enquiry hotline (2878 1199).

Background

The Banking Sector SME Lending Coordination Mechanism was established by the HKMA in October 2019. Participants include 11 banks that are most active in SME lending. The Hong Kong Association of Banks and the HKMC Insurance Limited are also represented in the Mechanism. Since its establishment, the Mechanism has rolled out several rounds of relief measures for corporate customers, including the Scheme, loan tenor extensions, and the conversion of trade financing lines into temporary overdraft facilities. At the end of December 2020, banks had granted over 58,000 applications for loan tenor extension and other forms of relief, involving an aggregate amount of over HK\$740 billion.

Around 100 banks participate in the Pre-approved Principal Payment Holiday Scheme, which took effect in May 2020. The Scheme covers more than 120,000 eligible corporate customers. During November and December 2020, 4,600 eligible customers participated in the extended Scheme, representing a participation rate of 4%. All corporate loans including mortgages, vehicle loans and trade facilities are covered by the Scheme. The HKMA has also reminded banks to be sympathetic to customers who are not eligible for the Scheme and to help tide them over this difficult time as long as it is consistent with prudent risk management principles to do so.

The HKMA together with the Mechanism announced at the beginning of September last year a 6-month extension of the Scheme to April 2021.