



HONG KONG MONETARY AUTHORITY
香港金融管理局

Our Ref: B1/15C

11 July 2023

The Chief Executive
All Authorized Institutions

Dear Sir / Madam,

Orderly exit from the Pre-approved Principal Payment Holiday Scheme

I am writing to inform you that the Hong Kong Monetary Authority (HKMA), after consultation with the Banking Sector SME Lending Coordination Mechanism (Mechanism), has decided to commence an orderly exit from the Pre-approved Principal Payment Holiday Scheme (Scheme) when it expires at the end of July 2023.

The Scheme was extended six times during the pandemic and has been running for more than three years. The participation rate has declined to 1% of eligible corporates from 16% at the initial stage while the number of corporates opting for partial principal repayment has steadily increased, indicating that the repayment ability of some corporates has improved. As the pandemic has passed and the local economy is recovering, the HKMA considers that the Scheme has fulfilled its purpose and an orderly exit should commence.

The HKMA and the Mechanism agree that the focus of the Scheme will move from tiding corporates over the pandemic to facilitating their return to normal repayment. The arrangements set out below have received unanimous support from the 11 major lending institutions participating in the Mechanism.

Partial principal repayment options

Given that the cash flow conditions of some corporates have yet to fully recover, the existing partial principal repayment options will be further enhanced to facilitate a gradual transition to normal repayment for corporates currently participating in the principal moratorium under the Scheme. The specific treatments for different types of loans under the further enhanced partial principal repayment options are set out below:

- For instalment loans, including mortgage loans and commercial vehicle loans, corporates may choose to repay 20% of the original principal repayment amount, with the duration extended from 12 to 18 months; or 50% of the original principal

repayment amount, with the duration extended from 24 to 30 months. Referencing past practice, the loan tenor should generally be extended correspondingly. Authorized institutions (AIs) should apply the same treatment to commercial vehicle loans taken out by personal customers.

- For trade facilities, loans with bullet payment falling due within 12 months and outstanding balances of revolving facilities, AIs may discuss with corporates having regard to the actual circumstances and allow them to repay the amount due by regular instalments (e.g. monthly or quarterly) over 24 months. For trade facilities which are self-liquidating in nature, AIs may require the loan to be settled when the underlying payment has been received by the customer.

For the avoidance of doubt, loans which have been extended successively for 540 days or more since the first drawdown (or trade loans which have been extended successively for 270 days or more since the first drawdown) are also eligible for the partial principal repayment options.

Transition to partial principal repayment

AIs should contact corporates which are currently participating in the Scheme to enquire if they will opt for the above partial principal repayment arrangement:

- As the principal moratorium periods of some corporates are due to end shortly after the Scheme's expiry at the end of July 2023, AIs should allow these corporates to continue to defer their principal repayments between August and October 2023 to facilitate their transition to partial principal repayment. Corporates wishing to opt for partial principal repayment should inform their AIs by the end of October 2023, or they will need to resume normal repayment from the end of October 2023 unless otherwise agreed by their AIs.
- Corporates which have had their principal repayments deferred to after the end of October 2023 should advise their AIs of their decisions before the expiry of the principal moratorium period.
- Corporates which are currently making partial principal repayments and wish to transition to the new partial principal repayment options should inform their AIs before the end of October 2023.

Apart from the 20% and 50% partial principal repayment options, AIs may adjust the proportion and duration of the partial principal repayment or discuss other repayment arrangements with corporate customers, which are currently participating in the Scheme, taking into account the customers' individual circumstances. Unless requested by the customers, the terms of the alternative repayment arrangement should be no less favourable than the partial principal repayment options set out above. In addition, AIs

may consider offering interest rate reduction or other incentives to encourage customers to choose a higher principal repayment proportion.

Where corporate customers currently participating in the Scheme are still facing challenges despite the end of the pandemic, AIs may consider, on a case-by-case basis, continuing to offer principal moratorium or assisting customers with debt restructuring if they are not financially able to transition to the partial principal repayment options.

Loan classification

Taking part in the partial principal repayment options or other relief arrangements set out above will not by itself result in a loan being downgraded, nor will it cause the loan to be categorised as “rescheduled” as long as the terms of the deferment are commercial. However, AIs should recognise and classify the loans of customers which are unable to meet the rescheduled payments in a timely manner, referencing the HKMA’s Guideline on Loan Classification System, and make adequate provisions as and when needed.

Other relief measures for borrowers facing repayment difficulties

For corporates which have not participated in the Scheme but are facing cash flow pressure due to individual circumstances, AIs are encouraged to be sympathetic in handling their funding needs, subject to prudent risk-management principles. AIs may make reference to the partial principal repayment options set out above when considering the type of credit relief to offer to these corporates.

The earlier relief measures for the transport sector, as recapped in the HKMA’s circular dated 20 October 2022, should remain unchanged until the end of 2025. The measures include extending the maximum loan tenors for taxi, public light bus (PLB) and non-franchised bus operators, and greater flexibility in handling new financing applications for taxi and PLB operators to upgrade their vehicles.

If you have any questions about the circular, please approach your usual contact at the Banking Supervision Department.

Yours faithfully,

Raymond Chan
Executive Director (Banking Supervision)