Our Ref: B1/15C

21 September 2021

The Chief Executive
All Authorized Institutions

Dear Sir / Madam,

Further extension of the Pre-approved Principal Payment Holiday Scheme

I am writing to inform you that the HKMA, after discussion with the Banking Sector SME Lending Coordination Mechanism ("Mechanism"), has decided to further extend the Pre-approved Principal Payment Holiday Scheme ("Scheme") by six months to end-April 2022. The HKMA and the Mechanism also agreed to start the planning for an orderly exit of the Scheme.

Although the economic recovery continues to take hold and cash flow pressure on businesses eases, the HKMA and the Mechanism note that different economic sectors benefit unevenly from the recovery and some are still hard-pressed by the lingering pandemic. The spread of delta variant also poses uncertainties to the recovery. Taking into account views of different stakeholders, the HKMA considers that a further six-month extension of the Scheme is appropriate. The extension has received the full support of the 11 major lenders of the Mechanism.

With this extension, the principal payments of all loans of eligible corporate borrowers (i.e. borrowers with an annual turnover less than HK$800 million and with no loan payment overdue for more than 30 days as at 1 November 2021) falling due between 1 November 2021 and 30 April 2022 should be deferred by six months except for repayments of trade loans, which should be deferred by 90 days. The deferment applies whether or not a loan has previously been on a principal payment holiday.

For a loan which has been extended for 540 days or more successively since it was first drawn down (or a trade loan which has been extended for 270 days or more successively since it was first drawn down), AIs can adopt a flexible approach and consider on a case-by-case basis whether other forms of relief are more suitable to help the customers ride out the current difficulties, subject to prudent risk management principles. The HKMA would like to emphasise that AIs should continue to be accommodative for such cases and actively explore alternative repayment arrangement with the borrowers, such as partial principal repayment over a longer period of time as favoured by some sectors (see below).

In-line with the existing terms of the Scheme:

- AIs may require a borrower to settle trade facilities which are self-liquidating in nature if the borrower receives the underlying payment during the extended deferment period.

- For revolving facilities that are due for credit review between 1 November 2021 and 30 April 2022, AIs should not adjust downward the existing facility limits within six months from the review dates.

As stated in the HKMA's earlier guidance, the extension or other case-by-case arrangement 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". That said, AIs should continue to recognise and classify loans of borrowers who are unable to meet the restructured payment schedule in a timely manner, referencing the HKMA's Guideline on Loan Classification System, and to make adequate provisions as and when needed.

Similar to the previous rounds, AIs need not issue individual notifications to eligible customers regarding the six-month extension of the Scheme. Corporate customers in need of relief should be advised to contact their lending institutions. AIs should handle each eligible customer's case on a pre-approved basis. AIs may seek updated financial or business information from customers, particularly those who have already been granted multiple extensions of payment holidays. All other terms of the Scheme set out in the Annex to the HKMA's circular on 17 April 2020 should continue to apply (https://www.hkma.gov.hk/eng/news-and-media/press-releases/2020/04/20200417-3/).

As the usage of the Scheme has dwindled to a low level on the back of steady economic recovery, the HKMA and the Mechanism consider that planning should be made for the discontinuation of the Scheme, in line with prudent risk management principles. The HKMA will engage the banking industry to discuss the appropriate exit strategy, drawing reference from experience of overseas jurisdictions which are in different stages of withdrawal from pandemic relief measures. Further details will be shared once we are in a position to do so.

As the pandemic continues to exact its toll on the transportation sector, the Mechanism also discussed measures that can further alleviate the cash flow pressure facing borrowers in the sector. Making reference to the practice of upgrading of public light buses (PLBs) to 19 seats, the Mechanism agreed that AIs should exercise greater flexibility in handling the new financing applications from taxi operators for replacing aged vehicles. The HKMA considers that AIs do 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. The Mechanism further agrees that AIs should actively consider extending the maximum tenors for existing taxi and PLB loans from 25 years to 30 years, and for non-franchised buses from 7 years to 10 years, after taking into account the circumstances of individual borrowers. During consultation with the transportation sector, views were floated that, as an alternative to the six-month full principal payment holiday, AIs should offer partial repayment of principal over a longer period of time (such as 20-50% principal repayment over one to two years) which has the merit of greater certainty for the borrowers. The Mechanism encourages AIs to explore such options with their customers. The HKMA will also make reference to these suggestions when planning for the exit of the Scheme.

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

Yours faithfully,

Arthur Yuen
Deputy Chief Executive