Our Ref: B1/15C

23 February 2022

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 Hong Kong Monetary Authority ("HKMA"), after consultation 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. In addition, a one-year partial principal repayment option will be offered to those customers who prefer to resume principal payment gradually.

Over the past few months, the HKMA has explored together with the Mechanism the possibility of gradually exiting the Scheme. The recent resurgence of Covid-19 infection cases, however, has necessitated a change in the plan. Given that many corporates have been seriously affected by the latest wave of infections, the HKMA and the Mechanism consider that a further six-month extension of the Scheme is appropriate at this juncture. The HKMA and the Mechanism further note that some customers may actually be financially capable and willing to resume some principal repayment in exchange for greater certainty to their future repayment schedule. In light of this, the HKMA and the Mechanism recommend offering customers an option of repaying 20% of the original principal repayment amount over a period of one year (see below for more details). The extension of the Scheme and the introduction of a one-year partial principal repayment option have received the unanimous support of the 11 major lenders of the Mechanism. All AIs are expected to offer the same treatment to their corporate customers covered by the Scheme.

With the extension of the Scheme, the principal payments of all loans of eligible corporate customers falling due between 1 May and 31 October 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, including but not limited to full principal payment deferment, are more suitable to help the customers ride out the current difficulties, subject to prudent risk management principles.

In-line with the existing terms of the Scheme:

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

- For revolving facilities that are due for credit review between 1 May and 31 October 2022, AIs should not adjust downward the existing facility limits within six months from the review dates.

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 regards the partial principal repayment option, customers currently participating in the Scheme may, at any time, opt to start to resume partial repayment of the original principal repayment amount (i.e. the original payment schedule when the customer first joined the Scheme) over a period of one year. The specific treatments for different types of loans are set out below:

- For instalment loans, such as mortgage loans and commercial vehicle loans, customers may start to repay 20% of the original principal repayment amount within one year. The loan tenor should generally be extended correspondingly. The same treatment should be applicable to commercial vehicle loans taken out by personal customers. The HKMA and the Mechanism will review the arrangement for principal repayment beyond one year at a suitable juncture.

- For trade facilities, loans with bullet payment falling due within one year and outstanding balances of revolving facilities, customers may repay the amount due to be settled by regular instalments (e.g. quarterly or monthly) over a period of two years. 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 for 540 days or more successively since the first drawdown (or trade loans which have been extended for 270 days or more successively since the first drawdown) are also eligible for the above partial principal repayment option.

AIs are encouraged to approach their customers participating in the Scheme to ascertain their interest in the partial principal repayment option. In the process, AIs should emphasize to customers that taking up the option is entirely voluntary for the customers.

Taking part in the full principal payment deferment or the partial principal repayment option 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 customers which are unable to meet the rescheduled payments in a timely manner, referencing the HKMA's Guideline on Loan Classification System, and to make adequate provisions as and when needed.

Given the severity of the prevailing wave of infections, the HKMA would like to call on AIs to continue to adopt a sympathetic attitude to customers in temporary financial difficulties and render assistance to them insofar as it is consistent with prudent risk management principles. This will help to avoid an abrupt curtailment of credit to the SME sector and would be in the best interest of the banking industry as a whole.

Last but not least, the Financial Secretary announced in his latest Budget a series of other initiatives to support SME and individual customers. We expect the banking sector to play its part in assisting the delivery of these initiatives. Specific steps to be taken by AIs will be communicated to the industry once ready.

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

Yours faithfully,

Arthur Yuen
Deputy Chief Executive