HONG KONG MONETARY AUTHORITY
香港金融管理局

Our Ref: B1/15C

20 October 2022

The Chief Executive
All Authorized Institutions

Dear Sir / Madam,

<u>Further extension of the Pre-approved Principal Payment Holiday Scheme</u>

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 to the end of July 2023, and introduce an enhancement to the partial principal repayment option. The measures have received the unanimous support of the 11 major lenders participating in the Mechanism.

Further to the three-month extension of the Scheme to end-January 2023 announced in September 2022, the HKMA and the relevant Government authorities have completed a review of the way forward of the Scheme. As the external environment and the economic outlook remain complex and uncertain, many business sectors are still facing significant challenges in their operations. The HKMA and the Mechanism therefore consider that a further six-month extension of the Scheme is appropriate at this juncture.

Nevertheless, as the HKMA and the Mechanism have pointed out previously, the Scheme, having been extended five times, will have to come to an end eventually. A protracted principal repayment moratorium may also render it difficult for borrowers to resume normal repayment when the Scheme ends. To encourage financially capable borrowers to gradually transition to normal principal repayment, a new two-year 50% principal repayment option will be offered under the Scheme, on top of the one-year 20% principal repayment option introduced in May 2022. While participation in the partial principal repayment options remains entirely voluntary, AIs are expected to take active steps to encourage their customers to take up the partial principal repayment options to prepare for the eventual exit of the Scheme.

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Scope of application

With the extension of the Scheme, the principal payments of all loans of eligible corporate customers falling due between 1 February and 31 July 2023 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 February and 31 July 2023, AIs should not adjust downward the existing facility limits within six months from the review dates.

Partial principal repayment options

As for the partial principal repayment options, apart from the existing 20% principal repayment option for a period of one year, customers may choose to repay 50% of the scheduled principal repayment amount for a period of two years. Customers currently participating in the Scheme may, at any time, opt to start with any one of the said partial principal repayment options.

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 for one year, or 50% of the original principal repayment amount for two years. The loan tenor should generally be extended correspondingly. Customers currently participating in the 20% principal repayment option may, when the one year period expires, choose to continue to repay 20% of the principal for another one year, or transition to the 50% principal repayment option at any time. The same treatment should be applicable to commercial vehicle loans taken out by personal customers.

- 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.

AIs may tailor-make a specific partial principal repayment arrangement for a particular customer, so long as the terms of the partial principal repayment arrangement are no less favourable than the aforesaid partial principal repayment options and are accepted by the customer, unless the customer explicitly asks for a less favourable arrangement taking into account its own circumstances.

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 options.

Operational details

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/media/eng/doc/key-information/guidelines-and-circular/2020/20200417e1a1.pdf).

Taking part in the full principal payment deferment or the partial principal repayment options 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.

Measures for the transportation sector

In recent years, the HKMA and the Mechanism have introduced a number of relief measures for the transportation sector, such as providing greater flexibility in handling new financing applications for the purchase of new vehicles for taxi operators, and upgrade of vehicles from 16 seats to 19 seats for public light bus (PLB) operators. Participating AIs have 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 taken out by personal customers. These arrangements will remain applicable. In addition, the Mechanism has agreed that AIs should actively consider extending the maximum loan tenors for existing taxi and PLB loans from 25 years to 30 years, and for non-franchised buses from 7 years to 10 years on a case-by-case basis, having regard to the circumstances of individual borrowers.

The HKMA calls 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. 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