HONG KONG MONETARY AUTHORITY
香港金融管理局

Banking Policy Department

Our Ref: B1/15C
B9/25/2C, B9/25/4C
B9/75C, B9/188C

29 August 2023

The Chief Executive
All Authorized Institutions

Dear Sir/Madam,

Dedicated 100% Loan Guarantee Scheme for Battery Electric Taxis

The Government is committed to developing green transport as one of the major strategies to achieve Hong Kong's carbon neutrality target. To further promote the use of battery electric taxis, the Financial Secretary proposed in the 2023-24 Budget to put in place a dedicated 100% loan guarantee scheme (**DLGS**) to provide fully guaranteed loans for eligible taxi owners to replace their liquefied petroleum gas, petrol or hybrid taxis with battery electric taxis. The **DLGS** will be administered by HKMC Insurance Limited (**HKMCI**), a wholly owned subsidiary of The Hong Kong Mortgage Corporation Limited **(HKMC)**.

Under the DLGS, the HKMCI will rely on the professional expertise, judgement and care of participating authorized institutions (AIs) in conducting customer due diligence and verification of applicants' eligibility for the loans. After loan drawdowns, the HKMC will purchase the loans without recourse, and such obligation will be backed by the Government. The Government has issued a letter of comfort to the Monetary Authority confirming its commitment under the DLGS.

I am writing to confirm that the regulatory and reporting treatments, and our expectations on credit assessment and approval etc., in respect of eligible loans granted by participating AIs under the DLGS will follow those set out in our circular letter of 20 April 2021 in respect of eligible loans granted by institutions under the 100% Personal Loan Guarantee Scheme. A copy of the letter is attached at **Annex** for ease of reference.

Considering that the credit risk exposures of participating AIs are transitory under the above arrangement, the 85% cap on loan-to-value ratio specified in the HKMA's guidance for taxi financing business does not apply to loans provided under the DLGS.

Yours faithfully,

Daryl Ho
for Monetary Authority

Encl

cc: TLB (Attn: Miss Joyce Kok)
HKMC (Attn: Mr Clement Chan)

Annex

HONG KONG MONETARY AUTHORITY
香港金融管理局

Banking Policy Department

Our Ref: B1/15C, B1/21C
B9/25/2C, B9/25/4C
B9/75C, B9/188C

20 April 2021

The Chief Executive
All Authorized Institutions

Dear Sir/Madam,

100% Personal Loan Guarantee Scheme

The Financial Secretary proposed in the 2021-22 Budget the introduction of a 100% Personal Loan Guarantee Scheme ("PLGS") administered by the HKMC Insurance Limited (HKMCI) to provide a supplementary financing option for individuals suffering from cessation of main recurrent incomes from employment due to the Coronavirus Disease 2019 pandemic. Under the scheme, the HKMCI will rely on the professional expertise, judgement and care of participating lender institutions in conducting customer due diligence and verification of applicants' eligibility for concessionary low-interest loans. After drawdowns, the loans will be sold by the institutions to The Hong Kong Mortgage Corporation Limited (HKMC) without recourse. The Government will provide funding to the HKMC for the purchase of loans. On 26 March 2021, the Finance Committee of the Legislative Council approved a HK$15 billion commitment by the Government for the PLGS. The Government has issued a letter of comfort to the Monetary Authority confirming its commitment under the PLGS.

I am writing to set out the policy intent of the HKMA on the relevant regulatory treatments in respect of a loan granted by any participating authorized institution ("AI") to an eligible borrower under the PLGS in the following paragraphs.

Regulatory and reporting treatments

Based on the arrangement of the PLGS, for the period between the loan drawdown and the money settlement of the loan, an AI is considered to have an exposure to the HKMC which is fully covered by the Government's commitment under the PLGS. It follows that:

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Treatments under Banking (Exposure Limits) Rules ("BELR") and Banking (Capital) Rules ("BCR")

- **BELR** – the letter of comfort referred to above will be approved for the purposes of the BELR Rule 57(1)(d) in respect of an AI's exposure to the HKMC. Accordingly, the amount so covered is deducted from the AI's exposures to the HKMC.

- **BCR** –

  a) for the STC approach and the BSC approach – an AI may treat its exposure to the HKMC as covered by the commitment of the Government, and risk-weight the exposure as an exposure guaranteed by the Government; and

  b) for the IRB approach – an AI should seek the Monetary Authority ("MA")'s exemption approval under section 12(1) of the BCR and apply the STC approach for loans granted under the PLGS instead[1]. The HKMA will process the application expeditiously.

- **SPM module CR-G-7** – after taking into account the arrangements in relation to the PLGS, applying the underlying principle of paragraph 3.2.4 of the module, the HKMA would not consider it unreasonable for an AI to regard the cover of the Government's commitment for the PLGS as enabling the AI to treat an exposure to the HKMC under the Scheme as "secured" (in the sense of there being a separate obligation to pay by the Government) for risk management purposes.

Banking return reporting arrangements

- Regarding the Capital Adequacy Ratio return[2],

  a) under the BSC approach, the receivables should be reported as "Loans to or guaranteed by the sovereigns of Tier 1 countries" with a 0% risk weight; and

  b) under the STC approach, the receivables should be reported as "public sector entity exposures" (under the subcategory of "domestic PSEs" before CRM and "sovereign exposures" with a 0% risk weight after CRM; and

[1] The absence of credit assessment on the part of a lender and the irrelevance of repayment ability of borrowers under the PLGS will effectively render the IRB AI unable to derive the required IRB parameters (notably the probability of default associated with borrowers and the loss given default associated with the credit facility) in accordance with applicable requirements of the BCR. The IRB approach is therefore inoperable for this type of exposures.

[2] AIs using the IRB approach for their credit risk should seek the MA's exemption approval under section 12(1) of the BCR and apply the STC approach for such exposures.

- Regarding the Large Exposures return,

  a) for Part I, II and III, if exposure to the HKMC is reported in these parts, any outstanding receivables from the HKMC under the PLGS at quarter-end should be reported in the "Memorandum item: Deductions"; and

  b) for Part IV, any outstanding receivables from the HKMC under the PLGS at quarter-end are treated as an exempted exposure and should be reported as an indirect exposure to the Government.

- For other banking returns, outstanding receivables as at the reporting dates should be reported as exposures to the HKMC as necessary in accordance with the completion instructions.

Credit assessment and approval

A participating AI is expected to check the eligibility of an applicant against the criteria specified under the PLGS. As the loan will be transferred without recourse by the participating AI to the HKMC shortly after it is created, the HKMA considers that the credit risk exposure of the AI is minimal. Accordingly, the HKMA's supervisory requirements on credit assessment and credit risk management set out in the SPM module CR-G-2 do not apply to loans covered by the PLGS.

Considering the policy intent of the PLGS is to tide members of the public over the temporary financial hardship induced by the pandemic, AIs are expected not to take any credit actions which may result in a tightening of existing credit to the borrower, on knowledge of his or her application under the PLGS. The HKMA has established an arrangement with the HKMC to handle complaints and feedback received from the public about unfair treatment of borrowers under the PLGS.

Taking the opportunity, the HKMA would like to express appreciation to AIs once again for the relief measures they have introduced to personal customers since the outbreak of the pandemic, and call on AIs to continue to adopt a sympathetic attitude towards customers facing transient financial difficulties during the pandemic.

Regarding disclosure in respect of consumer protection, please refer to the communications of the HKMC with the participating AIs for details.

If you have any questions on the regulatory treatments in this letter, please feel free to contact Ms Irene Tse on 2878 1870 regarding credit assessment and approval, or Ms Echo Chan on 2878 1558 regarding other policy items.

Yours faithfully,

Daryl Ho
for Monetary Authority

cc: FSTB (Attn: Ms Eureka Cheung)
HKMC (Attn: Mr Clement Chan)