

Pre-approved Principal Payment Holiday Scheme for Corporate Customers (Exit)

About the Scheme

Considering the challenges brought about by the COVID-19 outbreak to the economy and operations of corporates, the Hong Kong Monetary Authority (HKMA), together with the Banking Sector SME Lending Coordination Mechanism (Mechanism) announced on 17 April 2020 the launch of a Pre-approved Principal Payment Holiday Scheme for eligible corporate customers (the Scheme) on 1 May 2020. Under the Scheme, banks in Hong Kong offered principal payment holidays to covered corporate borrowers on a pre-approval basis. The Scheme was extended in November 2020, May 2021, November 2021, May 2022, November 2022 and February 2023 to end-July 2023.

Under the announcement on 20 October 2022, to facilitate financially capable corporates to gradually transition to normal repayment, the Mechanism enhanced the partial principal repayment option introduced in May 2022. A two-year 50% principal repayment option was offered under the Scheme, on top of the existing one-year 20% principal repayment option.

HDFC Bank Limited, Hong Kong Branch, offered principal payment holidays to its covered corporate borrowers on a pre-approval basis.

Orderly exit from the Pre-approved Principal Payment Holiday Scheme

The 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.

Original Launch Date / Latest Extension Date / Expiry Date

1 May 2020 / 27 Apr 2023 / 31 July 2023

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 shall generally be extended correspondingly.

- For trade facilities, loans with bullet payment falling due within 12 months and outstanding balances of revolving facilities, Bank 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, Bank 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

Bank shall 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, Bank shall 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 the Bank by the end of October 2023, or they will need to resume normal repayment from the end of October 2023 unless otherwise agreed by the Bank.
- Corporates which have had their principal repayments deferred to after the end of October 2023 should advise the Bank 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 the Bank before the end of October 2023.

Apart from the 20% and 50% partial principal repayment options, Bank 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, considering the customers' individual circumstances. Unless requested by the customers, the terms of the alternative repayment arrangement shall be no less favorable than the partial principal repayment options set out above. In addition, Bank 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, Bank 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.

Contact

For further details, corporate customers are requested to contact the bank.

Kindly get in touch with:

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