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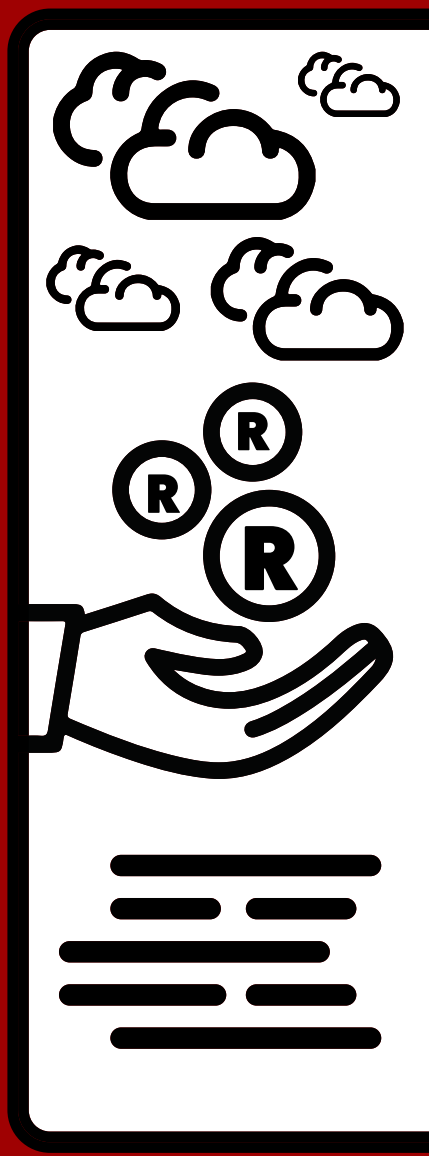
Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

South African Reserve Bank

THE BANKING ASSOCIATION SOUTH AFRICA



Answering your questions about the COVID-19 LOAN GUARANTEE SCHEME

Issued by the National Treasury, South African Reserve Bank and Banking Association of South Africa on 26 July 2020

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The Covid-19 Loan Guarantee Scheme provides loans, substantially guaranteed by government, to eligible businesses to assist them during the COVID-19 pandemic. Funds borrowed from this scheme, through the banking industry, can be used for operational expenses, such as salaries, rent and lease agreements and contracts with suppliers.

The loans are granted at a preferential rate (prime) and repayment may be deferred for a maximum of one year after taking out the loan. Businesses will then be required to repay the loan over five years. Banks are not permitted to profit from these loans and any surpluses generated will accrue to National Treasury.

Government and commercial banks are sharing the risk of non-repayment of these loans. The National Treasury initially provided R100 billion to the banking industry through the South African Reserve Bank, with the option to extend the scheme to R200 billion if required.

1. WHAT HAS CHANGED?

- **Business restart loans** will now be available, to assist businesses that are able to begin operating as the economy opens up.

- **Clients can now access the loan over a longer period.** The draw down period has been extended from three months to a maximum of six months. For example, a R6 million loan can be drawn down over six months, at R1 million a month if the business qualifies. The size of the loan is still calculated on operating expenses.

- **The interest and capital repayment holiday has been extended.** The interest and capital repayment holiday has been extended from three months to a maximum of six months after the final draw down. For example, in the case of the same R6 million loan, drawn down at R1 million a month for six months, repayments will only be required from month 13.

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- **The turnover cap has been replaced with a maximum loan amount of R100 million.** Banks may also provide syndicated loans for loans larger than R50 million.

- **The test for good standing has been made easier.** This has now moved back to 31 December 2019 from 29 February 2020, which will accommodate firms which were already experiencing cash-flow problems in February.

- **Sole proprietorships are now explicitly included.** For sole proprietorships and small companies, salary-like payments to the owners (drawings) are included in the use of proceeds. Security, suretyships or guarantees are not explicitly required.

  Eligible businesses should contact their primary or main banker for further information on the scheme and the qualifying criteria.

- **Bank credit assessments and loan approvals will be more discretionary and less restrictive, in line with the objectives of the scheme.** Banks may use their discretion on financial information required, for example bank or financial statements, where audited statements are not available. Suretyships or guarantees may also be required. The provisions of the National Credit Act and Financial Intelligence Centre Act remain applicable.

- No security, suretyships or guarantees are explicitly required in terms of the scheme. Banks may require this in terms of their individual credit risk management practices.

- Banks can consider re-applications from clients declined under Phase 1.

- Loans under the Scheme and other loans will not trigger cross default clauses and *vice versa*.

2. WHAT IS THE LOAN GUARANTEE SCHEME?

The Covid-19 loan guarantee scheme is an initiative to provide loans, substantially guaranteed by government, to businesses in order to meet some of their operational expenses. Government and commercial banks are sharing the risks of these loans.

3. HOW IS IT STRUCTURED?

The National Treasury has provided a guarantee to the Reserve Bank. This guarantee is recorded as a contingent liability on the government's account. The Reserve Bank will lend money to commercial banks at the repo rate (currently 3.50 per cent) plus a 0.5 per cent credit premium. Banks will lend this money to small and medium-sized businesses at the repo rate plus a fixed spread of 3.5 per cent (currently 7.75 per cent, equal to the prime lending rate).

The banks are still prohibited from making profit from the scheme and the 3.5% margin will be used to provide funding for losses, before the banks incur losses and before the Treasury incurs losses.

4. WHO MANAGES THE SCHEME?

The National Treasury, South African Reserve Bank (SARB) and commercial banks, represented by The Banking Association South Africa, have agreed on the relevant legal framework, and financial and operational requirements. The SARB is the administrator of the scheme. The SARB will provide the finances for these loans to banks and will keep a record of the amounts owing by each bank as well as default rates. The SARB will publish an annual report setting out how much each bank has used from the scheme and the performance (default rate) of each bank's COVID-19 loan portfolio.

5. WHICH BANKS ARE PARTICIPATING?

All commercial banks can access the guarantee scheme, though the Reserve Bank reserves the right to limit the amount that can be accessed by an individual bank. Participating banks at the moment include Absa, Bidvest Bank, First National Bank (FirstRand), Grindrod Bank, Investec, Mercantile Bank, Nedbank, SASFIN Bank and Standard Bank.

6. WHICH BUSINESSES QUALIFY?

Businesses in good standing with their banks at 31 December 2019, registered with SARS and financially distressed as a result of the Covid-19 outbreak and subsequent lockdowns qualify.

7. MY LOAN WAS DECLINED, MAY I REAPPLY UNDER THE AMENDED SCHEME?

Yes, you may.

8. MAY A BUSINESS WITH A CURRENT LOAN FROM THE LOAN GUARANTEE SCHEME APPLY FOR AN AMENDED OR ANOTHER LOAN UNDER THE SCHEME?

Businesses may contact their bank to apply for the revised deferral in terms of the amended loan guarantee scheme. Where a loan was previously declined, the business may again apply for such a loan.

For example, if the loan was previously declined due to the business not being in good standing with its bank on 29 February 2020 or it was unable to prove its turnover, then the business may apply.

9. HOW WILL LOSSES WORK?

Commercial banks and the National Treasury share the risks of the scheme. The South African Reserve Bank takes no financial risk in the scheme as its loans to banks are guaranteed by the National Treasury.

11. WHAT CONDITIONS DO BANKS HAVE TO MEET?

Banks are required to check the qualifying criteria of applicants. They will use their existing processes and infrastructure to process loan applications. Banks have discretion on whether they wish to extend a loan to an applicant. Banks will cede any loans under this scheme to the Reserve Bank as security, and will report regularly to the Reserve Bank on the performance of the loan portfolios.

12. WHAT HAPPENS IF A BUSINESS THAT HAS TAKEN A COVID-19 LOAN CLOSES DOWN?

If a business that has taken a loan goes into liquidation, the Covid-19 loan is treated as equity and therefore ranks behind other creditors.

13. WHO CAN I CONTACT FOR MORE INFORMATION?

To access the loan guarantee scheme, contact your primary or main banker.