THE BANKING
ASSOCIATION
SOUTH AFRICA

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The Covid-19 Loan Guarantee Scheme and debt relief for bank customers

South African banks have approved just over R7 billion in loans for 4 800 qualifying small businesses, since the Covid-19 Loan Guarantee Scheme was launched in mid-May. This amount is expected to grow as the number of applications for loans continues to increase. As at 06 June 2020:

- Banks have received 29 700 applications for Covid-19 loans
- 5 200 applications were rejected because they did not meet the eligibility criteria for the loans, as set out by the National Treasury and the South Africa Reserve Bank (SARB)
- 5 400 applications were declined because they did not meet bank risk criteria
- 14 100 applications are in the process of being assessed
- 200 loans were approved, but not taken up by the applicants.

The initial R100 billion Covid-19 Loan Guarantee Scheme is a special facility that is being managed by banks on behalf of SARB and National Treasury, to help small and medium businesses, support the economy and save jobs. The scheme allows qualifying enterprises to apply for loans from their primary bank to fund three months operating costs, such as salaries, rent and supplier payments. In terms of the contract between commercial banks participating in the scheme and the SARB:

- The Covid-19 loan scheme is a commercial arrangement and requires a credit approval process, through which banks must evaluate if the business will likely be able to service all its commitments after the pandemic and lockdown. This is to ensure that banks do not lend recklessly and to protect the fiscus.
- The size of the Covid-19 loan will be calculated on the three-month funding requirement of certain operating expenses of the business, as approved by the bank, to be disbursed in monthly tranches.
- Business owners may be required to sign surety, based on individual bank credit processes.
- Banks will not profit from the provision of the SARB guarantee. However, the administrative cost of facilitating the loans and the cost of capital will be recovered.
- The repayment of shareholder loans or dividends, using these funds, is expressly prohibited.

To qualify for the standardised Covid-19 loan, businesses, including sole proprietors, must inter alia:

- Have a turnover under R300 million per annum
- Be in good standing with their bank, prior to the onset of the Covid-19 pandemic
- Be registered with the tax authority
- Have insufficient normal borrowing capacity to fully fund its monthly operating expenses
- Be adversely impacted by the lockdown.

Risk-sharing mechanisms in the scheme balance the need for government to support qualifying businesses, with ensuring the continued safety and soundness of the banking system. Banks initially fund the Covid-19 loans from their own resources. These loans are then refinanced through the SARB special facility.

A Covid-19 loan must be repaid over five years, at the prime interest rate. Successful applicants are not required to make any payments for the first six months of the loan.

Any losses incurred through the scheme by defaults on the loans will first be offset against any margins earned on the portfolio of Covid-19 loans. Losses thereafter will be offset against a guarantee fee payable to the National Treasury by banks. The guarantee fee is set at 0.5% of the Covid-19 loan.
Any further losses thereafter will be shared, with the first six percent being absorbed by the banks and the balance absorbed by the National Treasury. In the event of default, the Covid-19 loan would be subordinated to all other creditor claims.
If customers are able to honour their Covid-19 loan commitments, then National Treasury will not incur any costs.

Companies that may qualify for a Covid-19 loan, are advised to apply at their primary bank. Banks, along with the National Treasury and SARB, are reviewing some of the criteria for the loans, to make accessing them easier for businesses.

In addition to the Loan Guarantee Scheme, in the two weeks to 06 June 2020, BASA members approved another R2 billion in voluntary debt relief to individual customers experiencing financial distress due to the Covid-19 pandemic and national lockdown. This brings the cumulative amount of relief offered by BASA members since they started assisting individuals with targeted relief to R16,5 billion. Applications for relief have been received from individuals for more than 2,8 million credit agreements. So far, over 2,2 million have been granted.

In the two weeks to 06 June 2020, BASA members provided additional cash flow relief, including payment breaks, to commercial and small and medium enterprises worth R1,4 billion. This brings the cumulative assistance offered by BASA members to commercial and small and medium enterprises to a total to date of R11,7 billion. Of the 131 600 applications received for relief from commercial and small and medium enterprises, over 124 400 have already received assistance.

The cumulative assistance offered to individuals and commercial and small and medium enterprises businesses amounts to R28,2 billion. These amounts will continue to increase as applications are processed. Cash flow relief for eligible businesses and individuals is an important part of keeping the economy functioning and preserving companies and jobs during the Covid-19 pandemic and national lockdown. However, the period of debt relief initially extended to some companies and businesses will expire at the end of June 2020. Customers who require an extension in terms of the relief already granted should contact their credit providers.

It is in the best interests of all bank customers to continue to meet their obligations as best they can. Banks hold in trust the salaries and savings of South Africa's workers, professionals and businesses. Our customers are both depositors and borrowers. Deposits extended as home and personal loans, among others, must be recovered to allow banks to repay, with interest, customers who expect their money on demand. The relief measures granted by banks therefore do not envisage any debt write-off, but rather leniency in terms of the repayment of existing loans. Existing monthly obligations can also be covered by an additional credit agreement, where repayment of the loan commences at the end of the relief period.
BASA will continue to publish industry debt relief data, from time to time, to demonstrate the significant role our members are playing to help their customers and the economy in these challenging times.

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