

COVID-19 LOAN GUARANTEE SCHEME

PRESENTATION BY THE NATIONAL TREASURY

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National Treasury | 26 August 2020



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA



INTRODUCTION

- Background

- Treasury anticipated that the Level 5 Lockdown that started on 26 March 2020 would have a significant economic impact
- Package of COVID tax proposals announced in March and again in April
- President announced R100bn-R200bn credit guarantee in April
 - This is **not a grant**
 - Banks are putting their own balance sheets at risk for their clients, it is not government money
- Treasury has presented details to parliament via SCOF

HOW DOES IT WORK?

- This scheme had to be implementable quickly after lockdown
- So we decided that banks can reach small businesses quickly, and know their customers best
- Govt wanted them to lend beyond what they would normally do, to ensure companies could survive the lockdown, pay their salaries etc, to maintain the productive capacity of the economy
- A small business applies to its own bank
- Bank considers the loan
- We don't want the banks to be reckless, and want to reduce moral hazard, so banks take the first loss (explained on the next slide)
 - Financial sector stability is an important objective, and we do not want banks (esp SIFIs to fail!)
- The initial scheme is available here:
 - http://www.treasury.gov.za/comm_media/press/2020/20200512%20Media%20statement%20-%20Loan%20guarantee%20scheme%20opens.pdf
 - http://www.treasury.gov.za/comm_media/press/2020/COVID-19%20Loan%20Guarantee%20Scheme%20Q&A.pdf

HOW DOES IT WORK?

- Clients apply to their banks
- Banks use own funds
 - Should there be significant defaults from banks' clients, the guarantee will back the losses
 - **First loss** is taken by the lending bank – 205 basis points on each C19 LGS loan
 - **Second loss** is indirectly taken by the lending bank – there is a guarantee fee with the SARB of 50 basis points
 - **Third loss** is also for the lending bank to a maximum of 6% of the C19 LGS loans
 - **Fourth loss** is the guarantee provided
- Due to client confidentiality banks cannot report on individual clients to any third party, not Govt, not NEDLAC, not Parliament (refer to when banks closed down Gupta accounts)
- Aggregated reporting through BASA reporting every 2 weeks

OTHER JURISDICTIONS

Country	Loan intervention
United Kingdom	Business Interruption Loan Scheme to provide loans of up to £5 million, with no interest due for the first six months
China (Hong Kong)	Low-interest, government-guaranteed loans for businesses
Italy	Adding money to a fund guaranteeing loans to SMEs Mortgage payments will be suspended across the whole of Italy and lenders will offer debt moratoriums to small firms and households
Japan	New program of 0% interest loans to increase lending to businesses hurt by the virus \$19.6 billion package of small business loans
Canada	\$7.1 billion in loans to businesses to help them cope with the damage the coronavirus

- SA compares favorably to others
 - Note that, in relative terms, we have one of the largest schemes and never expected the entire scheme to be utilised

COVID-19 loan guarantee scheme

- Phase 1 for SMMEs launched 4 May 2020
 - R100bn available through commercial banks
- Phase 2 launched 27 July 2020

WHAT HAS CHANGED?

	Phase 1	Phase 2
Date launched	4 May 2020	27 July 2020
Turnover limit for the SMME	Less than R300m per annum at group level	Turnover limit abolished, replaced with a maximum loan amount of R100m per loan.
Which banks are participating?	Absa, Mercantile Bank, First National Bank (FirstRand), Investec, Nedbank and Standard Bank	Bidvest Bank, Grindrod Bank, and SASFIN Bank have joined the scheme since it was launched in May 2020.
Date at which the customer had to be in good standing with it's bank	29 February 2020	31 December 2019
What may the loan be used for?	Operational expenses	May now also be used as a “business restart loan” and banks may consider re-applications by clients whose loans were declined under phase 1.
May the loan be with more than 1 bank?	No	Banks are allowed to offer syndicated loans where the loan amount is equal to or in excess of R50m, but only up to a collective limit of R100m.

WHAT HAS CHANGED... continued

	Phase 1	Phase 2
Surety / security	Not a requirement	Clarified that it is not a requirement, but banks may require it based on their own credit risk processes.
Drawdown period	3 months	6 months and the interest and capital repayment deferral has now been extended. The interest and capital repayment deferral may be extended from 3 months to a maximum of 6 months after the final draw down.
Credit assessments		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 other financial statements, where audited statements are not available. Suretyships or guarantees may also be required.

COVID-19 loan guarantee scheme

- As at 23 August 2020
 - R13,39 billion in LGS loans were extended to 9,125 businesses
 - The aggregate value of loans affected by the restructuring is R540 billion, which is additional relief provided by the banks to individuals and businesses
 - Over 84% of individuals and 95% of businesses who approached their respective banks for relief, received assistance
 - Banks are able to provide details on relief and loans granted to their affected customers
 - Average loan size is R1,2m
 - The loans are going to small businesses

COVID-19 loan guarantee scheme

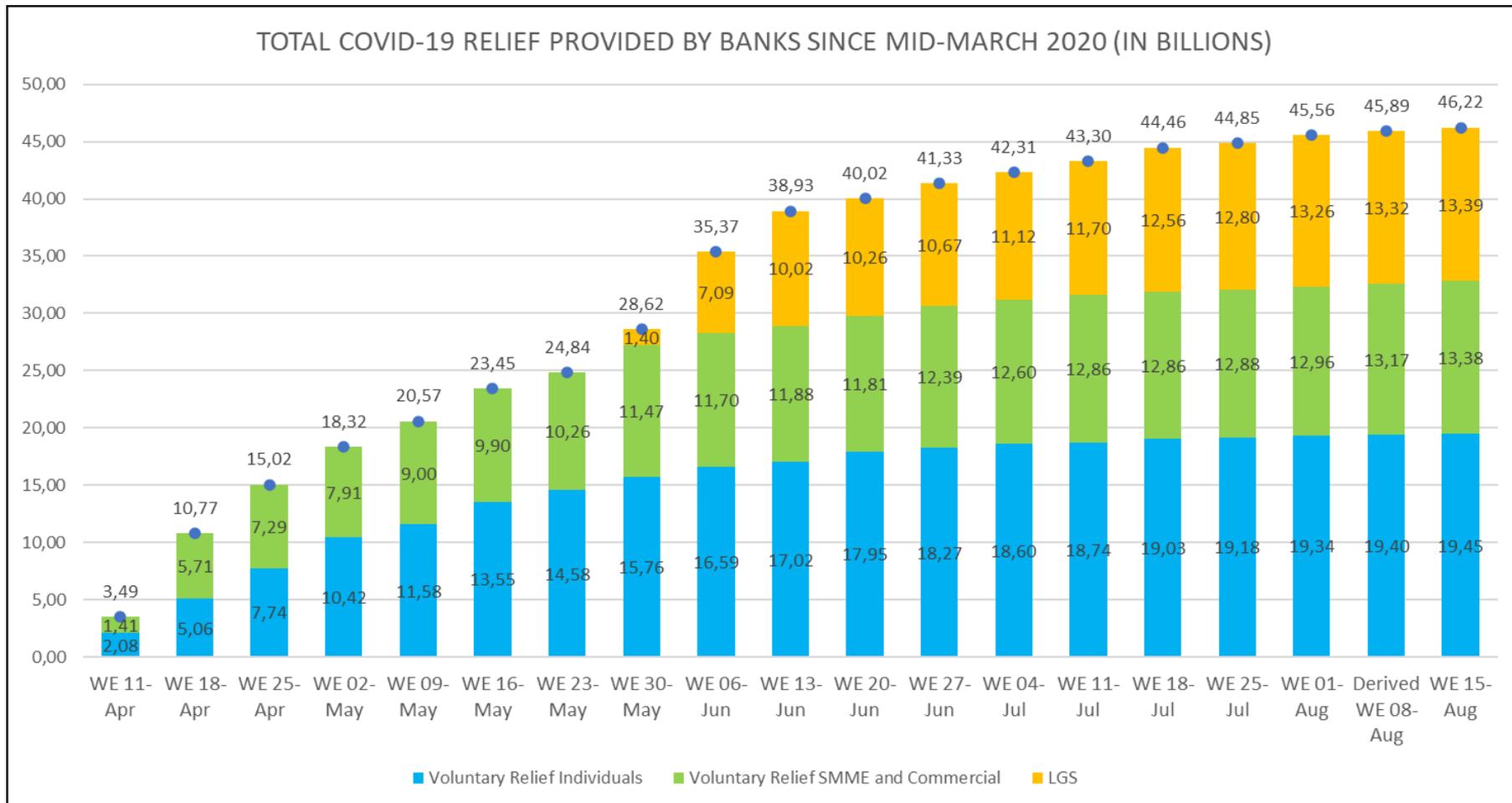


- As at 15 August 2020, participating banks had received 40 292 applications
- 24% have been approved by banks and taken-up by businesses
- while 39% are in the process of being assessed
- 9% were rejected since they did not meet the eligibility criteria for the loan as set out by NT and SARB
- 25% were declined because they did not meet banks' risk criteria
- However, demand for Covid-19 loans is expected to peak soon, due to the prevailing business and economic conditions.

COVID-19 loan guarantee scheme

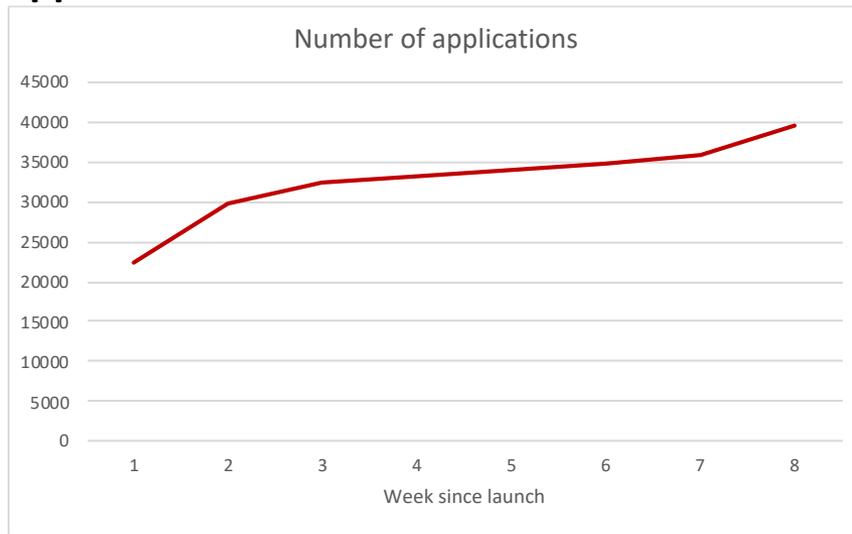
- Take up has been lower than expected at 23,11%
 - Small businesses reluctant to take on more debt, given uncertainty in their income stream under COVID
- However, the recently announced move to level 2 would support the re-opening of significant parts of the economy
- With this in mind, changes have been made to the design of the loan guarantee scheme
 - These include a Business Restart Loan and changes to credit assessment criteria
- NT and SARB never intended for the guarantee to be called in full, and only expect it to be relatively small, given the tight fiscal situation we face, and need to stabilise debt to GDP

TOTAL RELIEF OFFERED BY BANKS AS AT 23 AUGUST 2020

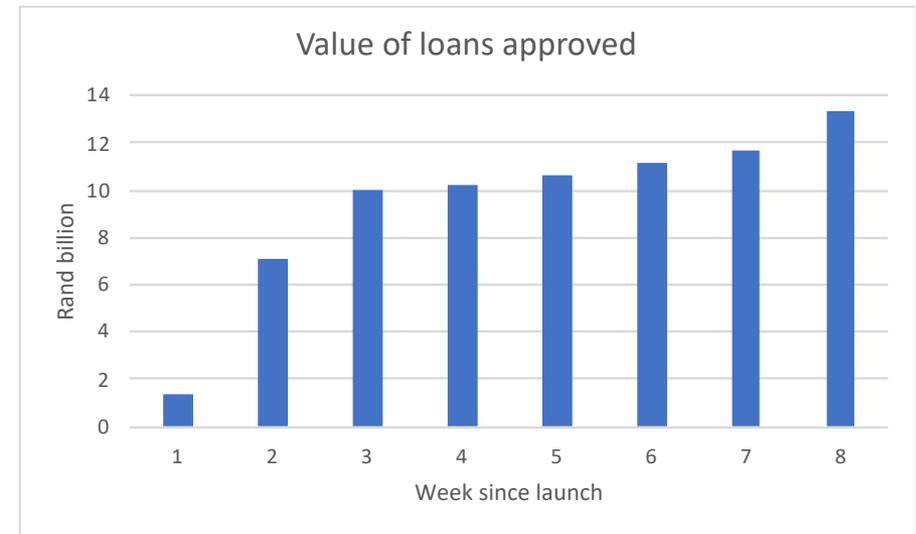


THE FIRST 8 WEEKS OF THE SCHEME

Since the change in rules, the number of applications has risen...



... and the value of loans disbursed has increased



END



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