national treasury
Department: National Treasury REPUBLIC OF SOUTH AFRICA

South African Reserve Bank

THE BANKING ASSOCIATION SOUTH AFRICA

MEDIA STATEMENT

UPDATE ON COVID-19 LOAN GUARANTEE SCHEME

The Covid-19 Loan Guarantee Scheme was set up to help ease some pressure off qualifying businesses negatively affected by low economic activity following the global lockdown imposed to reduce the spread of COVID-19. It has been reviewed to make it easier to access. Some of the changes include that bank credit assessments and loan approvals will be more discretionary and less restrictive, in line with the objectives of the scheme. In addition, clients are now being able to access the loan over a longer period.

The Covid-19 Loan Guarantee Scheme provides loans, substantially guaranteed by government but with some of the risk shared by banks, to eligible businesses to assist them during the COVID-19 pandemic. Funds borrowed from this scheme, through their banks, 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.

Government and commercial banks are sharing the risk of non-repayment of these loans. The National Treasury initially provided a R100 billion guarantee to participating banks through the South African Reserve Bank, with the option to extend the scheme to R200 billion if required. Government is engaging with non-bank lenders in order to possibly extend the scheme.

Following a review of the scheme, the following changes are announced:

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

- 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.

- 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.

- 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.

Whilst this scheme operates through banks willing to take some of the risks of lending to client companies in distress, Government is also exploring the option of working with non-bank lenders willing to share the risks of lending to their client companies in distress.

Ends

Date: 26 July 2020

Contacts:

National Treasury: Ms Cleo Mosana, Head of Communications, Media@treasury.gov.za

SARB: Ms Thoraya Pandy, Head of Communications, media@resbank.co.za

BASA: Dr Y Abba Omar, SGM: Strategy and Communications, naledi.sekoati@ogilvypr.co.za