



Coronavirus SME Guarantee Scheme - supporting the flow of credit

Frequently asked questions

For Lenders:

What is the Government guaranteeing?

The Government will guarantee 50 per cent of eligible loans issued by participating lenders under the Coronavirus SME Guarantee Scheme. The guarantee will apply to eligible unsecured loans of up to \$250,000 per borrower (plus interest). The guarantee will apply to both principal and interest.

Which lenders are eligible for the Scheme, and what is the application process?

All banks and non-bank lenders with an existing SME business lending line will be able to apply to participate in the Scheme. The Commonwealth will consult with the Australian Prudential Regulation Authority (APRA) in relation to expressions of interest received from ADIs. The Government is seeking expressions of interest (EOI) from lenders who would like to participate in the scheme from Monday, 30 March 2020. Interested lenders are invited to complete an EOI form. Where participation is approved, lenders will be provided with a Guarantee Agreement outlining the terms of the agreement.

Will lenders be charged a fee to participate in the Scheme?

There are no fees involved in submitting an application or for participating in the Scheme.

What types of businesses will be eligible for loans under the Scheme?

Small and medium businesses with less than \$50 million turnover will be eligible. This will include self-employed individuals and not-for-profits.

To meet the turnover requirement, the business's annual turnover must:

1. Have been less than \$50 million in the previous financial year; and/or
2. Be likely to be less than \$50 million in the current financial year.

Are there any restrictions on the size and term of loan products that can be offered under the Scheme?

A borrower (as defined as by an ABN) must not access more than \$250,000 under the Scheme, and may only access the Scheme through one lender. However, this could include taking out multiple loan products up to \$250,000 in total with one lender. There is no minimum loan size.

Loans issued under the Scheme must have terms of up to three years. Terms for individual loans should be determined by individual lenders. Principal and interest must be repaid by the end of the loan term.

Are there any restrictions on the type of loan products that can be offered under the Scheme and the use of these loans?

Loans issued under the Scheme must be unsecured.

Loans must be used to support current and upcoming cash flow needs (for example, rent and staff expenses). Loans must be used for business purposes only. Lenders should satisfy themselves that this is the case by:

1. Lending through a designated business product;
2. Seeking a declaration from the borrower; or
3. Other means acceptable to the lender.

Lenders can offer any product deemed suitable for these purposes, with the exception of credit cards (including charge cards). In particular, the Government encourages lenders to provide facilities that only have to be drawn if needed by the SME, such as overdrafts. This will mean that the SME would only incur interest on the amount they draw down. If they do not draw down any funds from the facility, no interest will be charged, but they will retain the flexibility to draw down funds should the need arise.

Loans issued under the Scheme cannot be used to refinance any drawn facilities, either with the existing lender or any other lender.

Is a repayment holiday required for loans offered under the Scheme? How will the repayment holiday operate?

All lenders participating in the Scheme must provide an initial six-month repayment holiday to borrowers. Interest will capitalise during the repayment holiday.

Can any form of security be required for loans offered under the Scheme?

Loans issued under the Scheme must be unsecured. The only exception is that recourse through a personal/director guarantee will be permitted.

When can loans be issued under the Scheme?

Loans that meet the eligibility criteria can be issued from 23 March 2020. Loans must be approved by 30 September 2020 in order to be covered by the guarantee.

Are there any restrictions on pricing of loans offered under the Scheme?

Lenders will determine interest rates. However, lenders should take account of the risk share held by the Government in determining interest rates.

Lenders will also determine any other fees. However, no fees are permitted to be applied to undrawn facilities.

Coronavirus SME Guarantee Scheme - supporting the flow of credit

What lending standards are required under the Scheme?

The Government will not set specific lending standards. Lenders should determine lending standards commercially, in accordance with their usual credit assessment processes.

However, the Government expects lenders to look through the cycle to sensibly take into account the uncertainty of the current economic conditions.

How should loans offered under the Scheme be enforced?

Lenders should utilise their normal recovery procedures, including having discretion as to whether to take enforcement action. Enforcement is not a precondition to trigger claims by the lender for losses under the guarantee.

When can losses be claimed under the Government guarantee?

Lenders can claim losses under the Government guarantees at the earlier of impairment or write-off (in line with lenders' standard processes).

All claims under the guarantee must be made within 12 months from the end of the loan term.

What are the reporting requirements for the loans under the guarantee?

Lenders will be required to regularly report to APRA on information related to:

- their portfolio of loans guaranteed under the Scheme, and
- individual loans written (at origination).



Coronavirus SME Guarantee Scheme - supporting the flow of credit

For Businesses:

How will the Scheme help businesses facing cash flow difficulties?

Under the Scheme, the Government will support unsecured loans of up to \$250,000 to small and medium sized businesses. The loans are intended to provide for businesses current and upcoming cash flow needs, including rent and staff expenses.

The loans will be available with a term of up to three years. A six month repayment holiday will be available on all loans.

Am I eligible for the Scheme?

The Scheme is available to all active Australian businesses with turnover of less than \$50 million in the previous financial year, or expected turnover of less than \$50 million in the current financial year. Both self-employed individuals and non-profit businesses are eligible.

Access to the loans is ultimately a decision for participating lenders. Credit assessment processes will be undertaken, however lenders are expected to look through the cycle to sensibly take into account the uncertainty of the current economic conditions.

How do I access the Scheme?

Loans backed by the Scheme will be made available via commercial lenders. The Government is not directly participating in the lending process. Businesses wishing to apply should contact their current financial institution or any other participating lender.

If your current financial institution is not participating, loans will be available via other lenders. Participating lenders are required to consider applications from new customers.

When can I access the Scheme?

Loans backed by the Scheme will be made available through participating bank and non-bank lenders. A list of participating lenders will be available on this website once approved. The Government is not directly participating in the lending process.

If your current financial institution is not participating, loans will be available via other lenders. Participating lenders are required to offer loans under the Scheme to new customers.

Which lenders are offering loans under the Scheme?

The Government is yet to finalise the list of participating lenders. This will be published on this webpage.

What type of loans are available?

Loans must be used for business purposes only, and must be used to support current and upcoming cash flow needs (for example, rent and staff expenses).

The loans will be unsecured, meaning that businesses will not need to provide an asset as security. A range of loan types may be made available, including overdrafts and term loans. Credit card facilities (including charge cards) are not eligible under the Scheme.

In particular, the Government encourages lenders to provide facilities that only have to be drawn if needed by the SME, such as overdrafts. This will mean that the SME would only incur interest on the amount they draw down. If they do not draw down any funds from the facility, no interest will be charged, but they will retain the flexibility to draw down funds should the need arise.

What are the interest rates of the loans?

Interest rates will be determined commercially by lenders. Businesses are encouraged to investigate options before committing to a loan under the Scheme.

What happens if I cannot repay the loan?

Borrowers are fully responsible for repaying the loans made under the Scheme. If the borrower is unable to meet repayments, lenders will follow usual default processes.

I am a not-for-profit. Am I eligible for the Scheme and how do I access it?

Not-for-profits are eligible for the Scheme, provided they have turnover of less than \$50 million and have an ABN. As is the case for other businesses, non-profit bodies will be eligible for loans of up to \$250,000 via commercial lenders participating in the Scheme.

Non-profit bodies seeking to apply for the Scheme should contact their current financial institution or any other participating lender.

My business has been affected by Coronavirus but I do not want to take out a loan. Am I eligible for other assistance?

The Australian Government is supporting Australian businesses to manage cash flow challenges and retain employees. Assistance includes cash flow support to business and temporary measures to provide relief for financially distressed businesses.