

GUIDANCE NOTES

The Government and the Banks released details of the Business Finance Guarantee Scheme in early April. A summary of the Scheme appears below, along with details of the Mortgage Holiday Scheme

BUSINESS FINANCE GUARANTEE SCHEME

Source: www.business.govt.nz

The Government has launched a Business Finance Guarantee Scheme for small and medium-sized businesses, to protect jobs and support the economy. The Crown, in partnership with participating approved Banks (all NZ registered Banks including ANZ, ASB, BNZ, Heartland Bank, HSBC, KiwiBank, SBS Bank, TSB and Westpac), will support targeted new loans (including increases to existing limits) to eligible businesses, as a response to difficulties caused by COVID-19.

Under the scheme, businesses with annual revenue between \$250,000 and \$80 million can apply to their Banks for loans up to \$500,000, for up to three years. The scheme will offer a total of \$6.25 billion in loans to New Zealand businesses.

The Government is guaranteeing 80% of the risk, while the Banks are covering the remaining 20%. A normal lending process will be followed by the Banks, which will make the lending decisions. Further details can be found on each participating Bank's website.

Details

To be eligible to apply for loans under the scheme a business must be New Zealand-based and with an annual turnover as noted above. If the business (or the owners) were on their Bank's credit watch list at the outset of the COVID-19 crisis, they will not be eligible for a loan under the scheme. There are also some 'excluded' activities.

Businesses, with Prime's assistance if required, should talk to their Bank to discuss their financing need. They need to do so before 30 September 2020. The Banks will advise whether the financing can be supported under the Scheme after following normal credit assessment processes which will be modified to enable the Bank to give effect to the scheme and to allow the Bank to look through the economic cycle to sensibly take account of the uncertainty of the current economic conditions caused by COVID-19.

The facility limit for any individual loan will be a maximum of \$500,000 with a maximum term of 3 years. However, the specific maximum amount and term will be determined by the Bank during the credit assessment process.

Loans are intended to provide for businesses' current and upcoming operating cash flow needs, including things like rent and staff expenses. The key criteria will be to

assist businesses that have urgent liquidity and bridging finance requirements caused by disruption resulting from COVID-19.

There is no set interest rate - it be determined by the Banks under their normal lending criteria.

Exclusions

Loans under the scheme will not be available to fund:

- Capital assets/projects other than business as usual expenditure which does not exceed 5% of the principal amount of the loan
- Dividends to be distributed outside the Borrower's guaranteeing group
- Re-financing existing debt advanced before March 16th - **key point!**
- On-lending outside the Borrower's guaranteeing group, or
- Excluded Activities
 - Property development and property investment
 - Manufacture of cluster munitions civilian automatic, semi-automatic firearms, magazines or parts and anti-personnel mines
 - Manufacture or testing of nuclear explosive devices (NEDs)
 - Manufacture of tobacco
 - Processing of whale meat
 - Recreational cannabis
 - Agriculture (but for the avoidance of doubt, agriculture doesn't include horticulture, viticulture, aquaculture or services to agriculture)
 - Any other activity notified by the Crown in writing to the Approved Banks, with the effect from the date of that notification (or such later date as set out in the notification).

Repayments/Government Guarantee

Borrowers are fully responsible for repaying the loans under the scheme. If Borrowers default on payments, Banks will follow their usual default processes. Should default still occur, the Crown will pay 80% of any loss incurred by a Bank on a loan it makes under the scheme, after the Bank has completed its normal enforcement procedures.

MORTGAGE HOLIDAY SCHEME

A Home Repayment Deferral Scheme (Loan Holiday) has also recently been announced by the Government.

This will stop repayments on a Home Loan and may be approved for up to six months. Borrowers will still be charged interest during this time and as a result the Home Loan balance will increase. Although the short-term financial obligations reduce, the lifetime cost of borrowing will increase as any interest accrued during the period of your repayment deferral will be added to the loan balance. In addition the lifetime costs of borrowing will increase as a result of delaying the repayment of principal. At the end of the Home Loan repayment deferral, repayments will usually be adjusted so that borrowers still pay their home loan off over the original loan term, or a term extension

is arranged to keep repayments the same as what they were prior to the repayment deferral.

It's important to note the word "Holiday" is a bit misleading. Essentially, borrowers are capitalising payments onto their loan. So it's no free ride.

Applications can be made to any Bank, via their website initially.