

Coronavirus SME Guarantee Scheme

Phase 2- Information for Lenders

[Scheme documentation](#)

[Guarantee of Lending to Small and Medium Enterprises \(Coronavirus Economic Response Package\) Act 2020](#)

[Legislative Rules](#)

[Treasurer's Delegation](#)

[Phase 2 Scheme Rules](#)

[Phase 2 Deed of Guarantee](#)

[Phase 2 Reporting Standard](#)

[Reporting requirements](#)

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).

View the [APRA Reporting Standard for Phase 2](#)

[Allocation principles for the Scheme](#)

Lenders will be required to seek a guaranteed loan allocation through the Expression of Interest process.

The Commonwealth will allocate the guaranteed loan allocation on the basis that some or all of the allocation must be utilised, or expected to be utilised, by a specified date.

For example, if a large lender were to seek an \$8 billion allocation, the Commonwealth may provide an allocation to a lender of:

- \$4.8 billion on an unconditional basis; plus
- \$3.2 billion on a conditional basis, to be available only if the unconditional component is utilised, or expected to be utilised, over a six month period.

The Commonwealth will in its discretion re-allocate unused conditional allocation amounts as required.

Lenders should provide information to Treasury which they consider appropriate to support their application. Treasury may request further information from lenders to support their application. Lenders should be in a position to provide additional information if requested, for instance:

- how the lender proposes to price loans and charge fees under the Scheme, including the breakdown of the annualised interest rate they propose to charge;
- the lender's commitment to strong professional standards and the overall policy objective of the Scheme;
- whether the lender has dispute resolution mechanisms to resolve complaints from borrowers (if they are not an AFCA member);
- the lender's expertise in extending SME credit on an unsecured and secured basis;
- the lender's organisational capacity to quickly extend SME credit (including current business portfolio size and market share);
- the implications of the lender's proposed allocation in terms of percentage and absolute growth in their business lending portfolio;
- the lender's financial strength and the robustness of the lender's credit risk management framework; and
- for mid-sized and smaller banks, and non-bank lenders, the lender's ability to meet underserved regional areas or other specific needs.

Non-bank lenders may submit expressions of interest. However, such applications will be subject to additional scrutiny compared to bank lenders, which are licenced and supervised by the Australian Prudential Regulation Authority (APRA).

The Commonwealth is unlikely to grant an allocation to non-bank lenders or other entities with limited pre-existing SME lending experience.

The Commonwealth will make allocation decisions at its discretion, taking into account:

- the factors referenced above;
- the total quantum of all lenders' requested allocation at that point in time;
- the benefit of promoting competition by mid-sized and smaller banks, and non-bank lenders.

The Commonwealth will consult with APRA, AFCA, ASIC and AOFM in relation to all expressions of interest received.

[Consideration by Australian Financial Complaints Authority \(AFCA\)](#)

The Treasurer has varied the authorisation conditions for the Australian Financial Complaints Authority (AFCA) Scheme to limit the matters that AFCA can consider in relation to certain decisions made by lenders under the Coronavirus SME Guarantee Scheme.

Under the [AFCA Scheme Authorisation \(Additional Condition\) Amendment 2020](#), the AFCA Scheme Rules have been amended to limit AFCA's ability to consider decisions made by the lender about whether to provide a loan (and the amount of the loan) under the Coronavirus SME Guarantee Scheme and ensure that when making assessments or determinations about a complaint, AFCA gives consideration to the impact of the Coronavirus on the economy and the intent and requirements of the Scheme.

The amendments to AFCA's authorisation conditions also apply to decisions made by lenders (all lenders and not only those lenders that are participating lenders under the Scheme) to approve repayment deferrals for businesses in response to the coronavirus crisis. The amendments exclude from AFCA's remit complaints in relation to decisions by lenders to offer repayment deferrals to businesses impacted by the coronavirus, and any consequential change to the amounts payable under the loan or the duration of the loan.

The changes to the AFCA Scheme Rules apply to complaints made from 25 April 2020.

Further information on these changes is available from [AFCA](#).

[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 both principal and interest.

When can loans be issued under Phase 2?

Loans under the Scheme can be issued from 1 October 2020 until 30 June 2021.

Can lenders that participated in Phase 1 offer loans in Phase 2?

An Expression of Interest process is being conducted to consider applications from lenders interested to participate in Phase 2 of the Scheme. All lenders (including Phase 1 participating lenders) will need to apply, and demonstrate they can meet the terms of Phase 2, by Friday 16 October 2020.

Will lenders be charged a fee to participate in Phase 2 of the Scheme?

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

Are there any restrictions on the size of the loans products that can be offered in Phase 2? Can borrowers with Phase 1 loans access loans in Phase 2?

A borrower (as defined by ABN) must not access more than \$1 million under Phase 2. A borrower that has accessed loans in Phase 1 can apply for additional loans of up to \$1 million in Phase 2.

A borrower can take out multiple guaranteed loans with either the same lender or multiple lenders, provided that the total amount does not exceed \$1 million in Phase 2.

Lenders should seek a declaration from the borrower to satisfy themselves that the borrower is within the loan limit.

Are there any restrictions on the types of loan products that can be offered in Phase 2?

Lenders can offer any product deemed suitable for these purposes, with the exception of credit cards, charge cards, debit cards or business cards. Loans issued in Phase 2 may take any other form of credit, provided the Scheme's eligibility criteria are met.

Loans issued in Phase 2 can be used for a broad range of businesses purposes (including to support investment) but **cannot** be used to:

- purchase of residential property;
- purchase of financial products;
- lending to an associated entity; or

- lease, rent, hire, hire-purchase existing assets that are more than half way into their effective life.

Lenders should seek a declaration from the borrower in regards to the purpose of the loan.

Loans issued under the Scheme Loans can be used to refinance Phase 1 loans. Refinancing between different participating lenders during the application period of 1 October 2020 and 30 June 2021 can also be undertaken. Loans cannot be used for any other refinancing purposes.

Are there any restrictions on pricing of loans under Phase 2?

The interest rate on loans will be determined by lenders, but will be capped at around 10 per cent, with some flexibility for interest rates on variable rate loans to increase if market interest rates rise over time.

- Variable rate loans will be subject to a maximum interest rate of 10 per cent per annum over the BBSY rate.
- Fixed rate loan will be subject to a maximum interest rate of 10 per cent per annum.

Lenders must disclose the effective loan interest rate to the borrower at the time of the loan agreement.

Fees will be determined by lenders but can only be charged to the extent they are consistent with fees on similar loans outside the Scheme. No fees are permitted to be applied to undrawn facilities.

Is a repayment holiday required for loans under Phase 2?

Lenders are not required to offer a repayment holiday. Lenders may choose to offer a repayment holiday at any stage and for any duration during the life of the loan (provided that all other requirements of the Scheme are still met).

What forms of security are permitted under Phase 2?

- Both unsecured and secured lending will be permitted under the Scheme.
- Lenders are permitted to take guarantees.
- For secured loans, lenders will be permitted to take any security except residential property.

What lending standard are required under Phase 2?

Lenders should determine lending standards commercially, in accordance with their usual credit assessment processes.

The Government will not set specific lending standards. 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 in Phase 2 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 a lender making claims for losses under the guarantee.

When can losses be claimed under the Government guarantee?

Lenders can claim losses at the earlier of impairment or write off, in line with lenders' standard process.