THE BANKING ASSOCIATION SOUTH AFRICA

10 October 2020

Covid-19 Financial Relief Update

As at 26 September 2020, banks had provided R49,69 billion in financial relief – R33,61 billion in payment breaks on credit agreements and R16,08 billion under the loan guarantee scheme – to South African businesses and individuals who are financially distressed due to the Covid-19 pandemic and national lockdown.

The Covid-19 Loan Guarantee Scheme is a partnership between the National Treasury, South African Reserve Bank (SARB) and commercial banks to provide support for enterprises, in the form of loans to meet certain operating expenses, until they can resume normal economic activity. Banks are encouraged to extend credit – to be used to preserve jobs and restart operations - to companies that will be able to repay their debts once they can resume business. The scheme does not extend non-repayable grants to companies in financial difficulties.

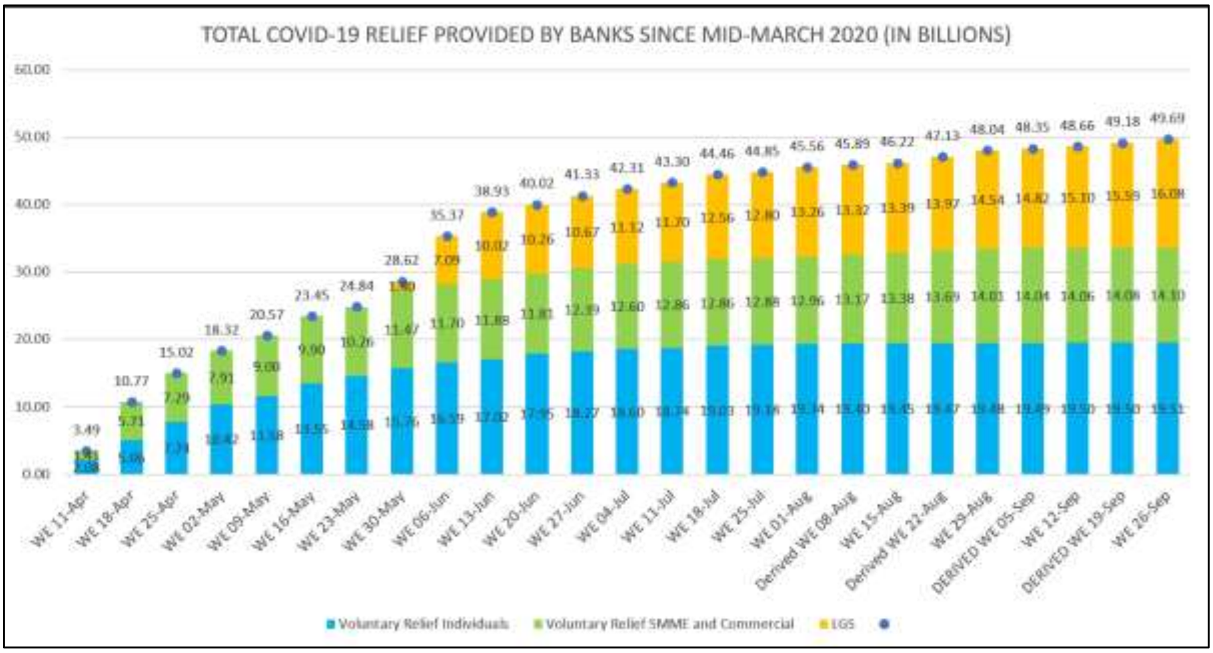
Since the beginning of August 2020, banks have been granted more flexibility to assess the ability of businesses to repay their loans as economic activity resumes. As a result, the take-up of the loan guarantee scheme increased by just under R1 billion in the two weeks to 26 September 2020, to R16,08 billion. However demand for the scheme remains below original expectations.
The Reserve Bank and National Treasury agreed with individual commercial banks to enable loans totalling a maximum of R67 billion under the scheme. They had announced that the scheme could be extended to R200 billion, if required. But, based on present trends, banks expect to probably extend R24,41 billion in Covid-19 loans to enterprises by January 2021, largely due to the prevailing weakness in business and economic conditions. Business owners are reluctant to incur more debt, while uncertain business conditions and a weak economic outlook hamper their ability to generate sustainable income, from which they need to repay their loans. The slow pace of economic reform, an unreliable electricity supply and lack of inclusive growth, with the resulting weak consumer and business confidence, has also reduced opportunities for enterprise and the need for credit.

To date, participating banks had received 44 912 applications for loans from the guarantee scheme. Of these, 26% have been approved by banks and taken-up by businesses, while 20% are in the process of being assessed. Thirty-six percent of applications were rejected because they did not meet the eligibility criteria for the loan, as set out by the Treasury and the Reserve Bank or because they did not meet banks' risk criteria. The main reasons, so far, for the rejections was that the businesses did not have a good record of paying their debt, or the requested loan value was too high and the repayments unaffordable for the business. Banks along with the Reserve Bank and National Treasury are continuing to review the reasons for the rejection of loan applications, with a view to making the scheme more accessible, while ensuring that taxpayers' funds are not exposed to undue risk as a result of loans not being repaid.
Because of the criteria for the scheme and the need to balance protecting taxpayers with sustainable banking practices, banks are unfortunately not able to assist everyone who applied. Those businesses that feel their Covid-19 Loan Guarantee Scheme application was unfairly rejected, can lodge a complaint at the Ombudsman for Banking Services (OBS). The OBS can investigate and adjudicate complaints from businesses, involving amounts up to R10 million.

Separately from the loan guarantee scheme, since March 2020 banks have offered payment breaks, worth a combined R33,61 billion, to individuals and small, medium and commercial businesses to assist them during the national lockdown. Over 83% of individuals and 95% of businesses who requested help, received assistance.

The R33,61 billion is the cumulative amount of the monthly instalments for assets and loans, which have been deferred. The aggregate value of the loans affected by this restructuring is R543 billion. This includes R232 billion for home loans, R93 billion for vehicle finance, R70 billion for personal loans, overdrafts and credit cards for individuals. It also includes R53 billion in business mortgages, R47 billion in asset-based finance, R28 billion in credit facilities and R20 billion for term loans for businesses. Cash flow relief for eligible individuals and businesses is critical to the preservation of quality of life, jobs, businesses and a functioning economy. These payment breaks are not debt 'write-offs' and interest and fees on credit agreements will continue to accumulate, despite any necessary adjustment in terms. Banks must continue paying interest to customers who have deposited funds with them and must recover their operating costs to remain sustainable businesses.

The assistance that banks were first able to offer their customers in financial distress because of the Covid-19 pandemic has started to expire. However, it is standard practice for banks to assist customers in good standing experiencing temporary financial distress in the normal course of business. The bespoke assistance of each bank depends on their risk management policies and consumers that may require assistance are encouraged to contact their respective banks.



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