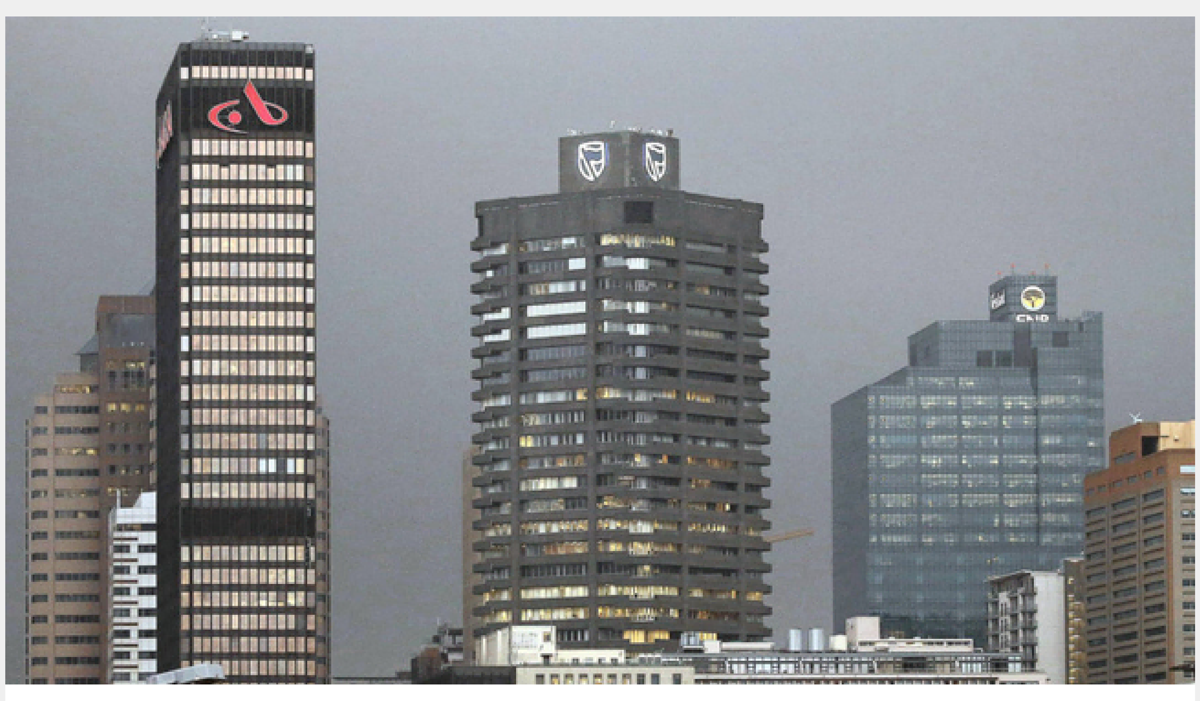


The logos of three of South Africa's biggest banks - Absa, Standard Bank and First National Bank - adorn buildings in Cape Town. Picture: Mike Hutchings

This is how the banks are assisting Covid-19 economic relief

By Supplied Aug 17, 2020

South African banks have provided a cumulative R45.56 billion – in financial relief and loan guarantees – to South African businesses and individuals who are financially distressed due to the Covid-19 pandemic and national lockdown, up to August 1, 2020.

Banks have voluntarily offered financial relief of R19.34bn to individuals and of R12.96 billion to commercial and small and medium enterprises. Separately, R13.26bn in loans were extended by banks under the Covid-19 Loan Guarantee Scheme.

Since March 2020, banks offered payment breaks, worth a combined R32.30bn, to individuals and small, medium and commercial businesses to help keep them afloat through the lockdown. Over 84% of individuals and 95% of businesses who requested help, received assistance.

The R32.30bn is the cumulative amount of monthly instalments for assets and loans, which have been deferred. The combined value of the actual assets is R537bn. This includes R229.27bn for home loans, R52.06bn in business mortgages and R47.52bn in asset-based finance for companies.

Cash flow relief for eligible individuals and businesses is critical to the preservation of quality of life, jobs, businesses and a functioning economy.

Deep cuts in interest rates by the SARB is providing further relief to individuals and businesses.

The period of relief initially extended to some companies and businesses expired from end of June 2020. A number of banks have announced details of further bespoke relief on offer to their customers. The offering of each bank depends on their capacity and risk management policies.

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.

The primary guiding principal of commercial banks is the protection of depositor's funds. Banks are not able to write-off credit they have extended, because they hold in trust the savings and salaries of South African workers, professionals and companies.

These deposits are used to extend credit for investment in productive economic infrastructure and personal loans.

Depositors trust that they are able to withdraw their money on demand, with agreed upon interest.

The Loan Guarantee Scheme provides loans, substantially guaranteed by government, through participating commercial banks to eligible businesses, to help them survive until 'new normal' economic activity can resume.

The South African Reserve Bank (SARB) and National Treasury have agreed with the commercial banks, to guarantee R100bn available for loans under this scheme.

SARB and Treasury have announced that the scheme could be extended to guarantee up to R200bn.

As at August 1, 2020, participating banks had received 39 677 applications for the guarantee scheme. Of these, 23% have been approved by banks and taken-up by businesses, while 36% are in the process of being assessed.

Ten percent were rejected because they did not meet the eligibility criteria for the loan, as set out by the Treasury and the SARB, and 28% were declined because they did not meet banks' risk criteria.

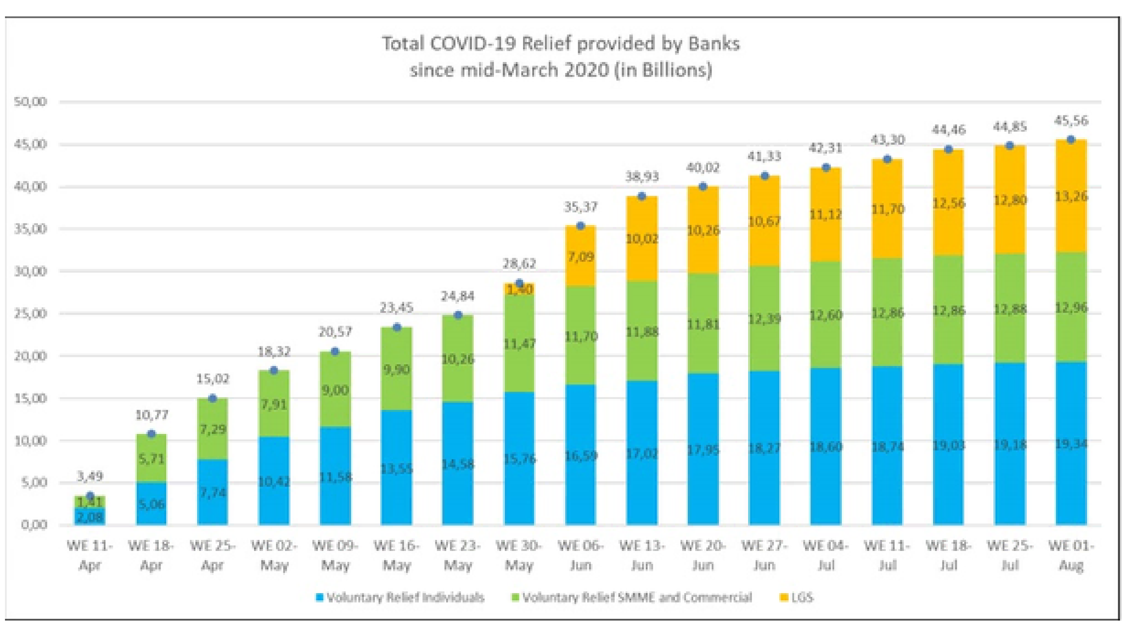
The initial take-up of the scheme has been slower than anticipated and, since August 1, the terms and conditions have been revised to make it easier for small businesses to access the loans meant to cover operating expenses, like salaries and rent.

Key changes to the loan scheme criteria, to make them more accessible, include:

- Business restart loans will now be available to assist businesses that are able to begin operating as economic activity resumes.
- Bank credit assessments and loan approvals will be more discretionary and less restrictive, although banks will still use reasonable lending practices. This is to protect the fiscus by ensuring that taxpayers' money is used responsibly.
- The test for businesses being in "good standing" – having a good record of paying their bills -has been made easier and moved to December 31, 2019 from February 29, 2020, to accommodate businesses already experiencing cash-flow problems before the start of the pandemic. South Africa's economic and jobs crises and credit ratings downgrade predate the pandemic and the national lockdown.
- Full details of the changes to the loan scheme are on the SARB, Treasury and BASA websites.

Going forward, participating banks will use these changes to offer further assistance to businesses that apply for loans under this scheme.

BASA will continue publishing industry relief data to demonstrate the significant role our members are playing to help their customers and the economy in these challenging times.



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