

## TaxWise

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## Supporting the Flow of Credit

The Government, the Reserve Bank of Australia and the Australian Prudential Regulation Authority have taken coordinated action to ensure the flow of credit in the Australian economy. Timely access to credit is vital for businesses to manage the impacts of the Coronavirus.

### Government guarantee on new loans

Under the Coronavirus SME Guarantee Scheme, the Government will provide a guarantee of 50 per cent to SME lenders to support new short-term unsecured loans to SMEs. The Scheme will guarantee up to \$40 billion of new lending. This will provide businesses with funding to meet cash flow needs, by further enhancing lenders' willingness and ability to provide credit. This will assist otherwise viable businesses across the economy who are facing significant challenges due to disrupted cash flow to meet existing obligations.

The Coronavirus SME Guarantee Scheme will provide support for these businesses. Under the Scheme, the Government will provide a guarantee of 50 per cent to SME lenders for new unsecured loans to be used for working capital. This will enhance these lenders' willingness and ability to provide credit, which will result in SMEs being able to access additional funding to help support them through the upcoming months.

SMEs with a turnover of up to \$50 million will be eligible to receive these loans.

The Government will provide eligible lenders with a guarantee for loans with the following terms:

- Maximum total size of loans of \$250,000 per borrower.
- The loans will be up to three years, with an initial six month repayment holiday.
- The loans will be in the form of unsecured finance, meaning that borrowers will not have to provide an asset as security for the loan.

Loans will be subject to lenders' credit assessment processes with the expectation that lenders will look through the cycle to sensibly take into account the uncertainty of the current economic conditions.

As part of the loan products available, the Government will encourage lenders to provide facilities to SMEs that only have to be drawn if needed by the SME. This will mean that the SME will 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 in the future should they need to.

The Scheme will commence by early April 2020 and be available for new loans made by participating lenders until 30 September 2020.

### Easier access to credit

The Government is providing an exemption from responsible lending obligations for lenders providing credit to existing small business customers. This exemption is for six months, and applies to any credit for business purposes, including new credit, credit limit increases and credit variations and restructures. Responsible lending obligations do not currently apply to lending which is predominantly for a business purpose, but it can take time and effort for lenders to be satisfied that the money borrowed meets this test. By providing a temporary exemption from responsible lending obligations, this reform will help small businesses get access to credit quickly and efficiently.

### RBA interest rate reduction

The Reserve Bank of Australia (RBA) announced a package on 19 March 2020 that will put downward pressure on borrowing costs for households and businesses. This will help mitigate the adverse 2 consequences of the Coronavirus on businesses and support their day-to-day trading operations. The RBA is supporting small businesses as a particular priority.

The RBA has announced a term funding facility for the banking system. Banks will have access to at least \$90 billion in funding at a fixed interest rate of 0.25 per cent. This will reinforce the benefits of a low cash rate by reducing funding costs for banks, which in turn will help reduce interest rates for borrowers. To encourage lending to businesses, the facility offers additional low-cost funding to

banks if they expand their business lending, with particular incentives applying to new loans to SMEs.

In addition, the RBA announced a further easing in monetary policy by reducing the cash rate to 0.25 per cent. It is also extending and complementing the interest rate cut by taking active steps to target a 0.25 per cent yield on 3-year Australian Government Securities.

### Access to credit from smaller lenders

The Government is providing the Australian Office of Financial Management (AOFM) with \$15 billion to invest in structured finance markets used by smaller lenders, including non-Authorised Deposit-Taking Institutions (Non-ADI) and smaller Authorised Deposit-Taking Institutions (ADI). This support will be provided by making direct investments in primary market securitisations by these lenders and in warehouse facilities.

AOFM's investment will not be limited to residential mortgage backed securities. AOFM will also be purchasing assets that support small business (unsecured and secured loans) and consumer lending (including credit cards, automobiles and personal loans).

This program will assist smaller lenders, who will not benefit from the RBA's term funding facility, to maintain access to funding and support competition in the lending market. This in turn will help keep mortgages and other borrowing costs for businesses low.

### APRA making it easier for banks to lend

The Australian Prudential Regulation Authority (APRA) has announced temporary changes to its expectations regarding bank capital ratios. The changes will support banks' lending to customers, particularly if they wish to take advantage of the new facility being offered by the RBA.

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