



# Supporting the flow of credit

The Government, Reserve Bank of Australia and the Australian Prudential Regulation Authority have taken coordinated action to support the flow of credit in the Australian economy, in particular for small and medium enterprises (SMEs). Timely access to cheaper credit is vital to help SMEs get through the impact of the Coronavirus and adapt, grow and create jobs as the economy rebuilds.

## Coronavirus SME Guarantee Scheme

Across the economy, many otherwise viable small and medium sized businesses are facing significant challenges due to disrupted cash flow. At the same time, businesses retain fixed obligations including rent, utilities, and employee expenses.

The Coronavirus SME Guarantee Scheme has provided support for these businesses. Under the Scheme, the Government is providing a guarantee of 50 per cent to SME lenders for new unsecured loans to be used for working capital. This has enhanced 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.

Eligible lenders are currently offering guaranteed loans up to 30 September 2020 on the following terms:

- SMEs, including sole traders and not-for-profits, with a turnover of up to \$50 million
- Maximum total size of loans of \$250,000 per borrower.
- Loans will be up for to three years, with an initial six month repayment holiday.
- Unsecured finance, meaning that borrowers will not have to provide an asset as security for the loan.

As the economy continues to open up, the Government will extend the Scheme to help businesses come out of hibernation and recover. The extended Scheme will continue to support lenders' ability to provide credit and ensure that SMEs benefit through lower interest rates.

From 1 October 2020, eligible lenders will be able to offer loans during this next phase on the same terms as the current Scheme with the following enhancements:

- Loans can be used for a broader range of business purposes, including to support investment.
- The maximum size of the loans will be increased to \$1 million per borrower.
- Loans can be up to 5 years rather than 3 years and whether there will be a six month repayment holiday will be at the discretion of the lender.
- A loan can be either unsecured or secured (excluding commercial or residential property).

These loans will be available for loans made until 30 June 2021.

Loans will continue to 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.

## Quick and efficient access to credit for small businesses

The Government has provided 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. A temporary exemption from responsible lending obligations, will help small businesses get access to credit quickly and efficiently.

## Supporting the flow and Reducing the cost of credit – Reserve bank of Australia

The Reserve Bank of Australia (RBA) announced a package on 19 March 2020 that has put downward pressure on borrowing costs for households and businesses. This will help mitigate the adverse 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 established 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 reinforces 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 loans to SMEs.

## Supporting Non-ADI and smaller ADI Lenders in the Securitisation market

The Government has provided 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). AOFM is providing this support by making direct investments in term securitisations and in warehouse facilities used by these lenders.

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

This program assists 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.

## Ensuring banks are well placed to lend – Australian prudential regulation authority

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.

### For more information

For more information on the Australian Government's Economic Response to the Coronavirus visit [treasury.gov.au/coronavirus](https://treasury.gov.au/coronavirus).

Businesses can visit [business.gov.au](https://business.gov.au) to find out more about how the Economic Response complements the range of support available to small and medium businesses.

For more information on the Reserve Bank of Australia's announcement visit: <https://www.rba.gov.au/mkt-operations/announcements/term-funding-facility-to-support-lending-to-australian-businesses.html> and

<https://www.rba.gov.au/mkt-operations/announcements/rba-purchases-of-government-securities.html>.

For more information on Australia Prudential Regulation Authority's announcement visit: <https://www.apra.gov.au/news-and-publications/apra-adjusts-bank-capital-expectations>.

For more information on the Show Starter Loans and other support measures included in the COVID-19 Creative Economy Support Package visit: <https://www.arts.gov.au/covid-19-update>