



Finding the Right Fit as Banks Extend Relief for Borrowers

Australian banks have begun outlining products and facilities they can offer to COVID-19 affected businesses and individuals to provide temporary cash-flow relief.

As the fanfare around taking a holiday from meeting loan repayments settles, it is increasingly clear that accessing relief from your bank can require a detailed application process, and come with some stringent terms.

We urge our clients to seek expert advice at this time to assess what works for their personal situation. Deferral of repayments is not for everyone, and should be considered carefully. Making sound financial decisions, instead of emotional decisions at this point is important because it could have a longer term impact on your finances.

What may seem like an 'easy' solution may not be the best, so it is vital to understand ALL the options available to you, so you can make an educated decision.

If you need support working through the options available, your Crosby Dalwood adviser can assist. Please ring 8362 0466 or send an email and we will get in touch.

Here are some of the relief measures for commercial and residential lenders:

Commercial Lending

Deferral on Loan Repayments

Enables **eligible** businesses impacted by COVID-19 to defer principal and interest payments of business term loans, equipment finance facilities and equipment loans, for six months to help manage their cash flow.

- Eligibility is determined based on your application.
- **For businesses with loans up to \$10M;** and
- Includes commercial property customers, who commit to supporting their tenants throughout the six-month payment deferral period by ensuring

they can continue to operate from their premises even if they are unable to pay their rent;

- Where the business is operated in Australia with less than 20% foreign ownership; and
- For customers with above \$3M total business lending exposure, with current facilities that have not been in arrears in the last 90 days.
- Customers with an overdraft facility are encouraged to utilise their available balance before seeking further support from their bank.
- **Businesses with total loans of more than \$10M** - may also be eligible for relief but this would be considered on a case by case basis.

About the deferment

- Interest deferred will be capitalised
- Any current fixed-rate period will be extended by six months at that fixed-term rate; and
- Your loan term will be extended by at least six months.

SME Guarantee Scheme

SMEs with a turnover of up to \$50M - may be eligible for new unsecured loans to use for fixed costs. The government will provide a guarantee of 50% to SME lenders for these loans.

To apply businesses affected by COVID-19 must:

- Have exhausted existing undrawn loan limits as well as government stimulus packages and deferred repayments and still require further cash flow relief to meet fixed costs.
- Be an Australian businesses with turnover less than \$50M a year.
- Use loans for business purposes only
- Have a clear credit rating
- Be up to date with any statutory payments
- Be able to outline how COVID-19 has impacted the business i.e.: quantify impact on turnover, and
- Must apply to your existing bank, up to 30 September 2020

How it Works

- Eligibility is determined based on an application, then;
- Loan amount is determined by confirming fixed expenses from 1 July 2019 to end Dec 2019
- Loan amount is offered for a three-year term
- The first six months is interest only with interest capitalised, then;
- The resulting loan amount is subject to principal & interest repayments over 2.5 years.
- Interest rate applicable is around 4% – made possible by government support.

Unsecured loans are a product of last resort offered by the banks. Ultimately it is your bank that decides which provision can apply to you and your business.

Retail Banking

The key offering for banks during the COVID-19 crisis is:

A six-month pause on making repayments on home loans, to relieve cash flow pressures for individuals whose earnings have been threatened. Each lender is considering this to varying degrees. Careful consideration needs to be taken when looking at this option and should be understood based on your personal situation.

- It's important to note that the interest is capitalised, which means it continues to accrue on the whole amount of the loan during this time and you will end up paying back more.
- This could mean that your repayments increase after this deferral period, or your loan term will need to be extended
- This option should be carefully considered if you've had a significant impact to your household income. However, there are some alternative options if your household has not been significantly impacted at this time.

Options that may be more suitable include:

- A pricing review on an existing loan, either from your existing bank or understand what other banks are currently offering.
 - With two RBA interest rate cuts in March, not all lenders have passed this savings onto its customers
 - We have seen a significant reduction in fixed rates by many of the lenders, so could be worthwhile seeing if locking in your repayments is something to secure at this time
 - Interest rates are historically low, with the cash rate only 0.25% so unsure whether we will see any further reduction in interest rates in the immediate future
- You may be a candidate to consider extending the loan term to reduce the repayments.
- Or you may consider consolidating debts.
 - e.g.: If you have a home loan, credit card debt, and a personal loan, it may be viable to consolidate the debt and pay just one interest rate, paring back your repayments and saving you interest
- In the investment space, investors, with principal and interest loans may want to consider interest-only repayments for a set period, especially if their tenants are unable to continue paying rent due to job loss.

There are plenty more options beyond putting repayments on hold and your Crosby Dalwood adviser can have a conversation with you about what could work for your personal situation. Please call us on 8362 0466.