

Hargreaves, 2020

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COVID-19 Timeline

24 March
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NEWS



RBNZ loosens rules so banks can give coronavirus-affected mortgage holders a 6-month payment holiday; Govt stumps up \$6.25 billion to guarantee business loans



24th Mar 20, 3:43pm by David Hargreaves



Story updated by Jenée Tibshraeny

The Government has announced two new schemes to take some of the pressure off mortgage holders and help small-to-medium-sized enterprises (SMEs) get credit.

• Mortgage holiday scheme

Banks have agreed to give mortgage holders whose incomes have been affected by COVID-19, a six-month payment holiday on both the interest and principal of their mortgages.

Finance Minister Grant Robertson said banks will provide their customers with more details, including around the criteria, in coming days. He asked mortgage holders not to swarm banks with inquiries in the meantime.

The Reserve Bank (RBNZ) has agreed to help banks put this in place with appropriate capital rules.

In addition, it is reducing banks' Core Funding Ratio from 75% to 50%. The **Core Funding Ratio** requires banks to meet a minimum share of their funding from retail deposits, long-term wholesale funding and/or capital.

Robertson couldn't provide a ballpark figure around how many mortgage holders he expected would take holidays, and what the total value of the payment holiday would be.

• Business Finance Guarantee Scheme

The second scheme announced is a \$6.25 billion Business Finance Guarantee Scheme.

The Government will underwrite 80% of individual bank loans to eligible SMEs. Banks will underwrite the remaining 20%. So in the event of a loan default, 80% of the losses will be borne by Government and 20% will be borne by banks.

The scheme sees the Government take a large portion of risk off banks in an attempt to encourage them to keep lending.

Banks will continue using their own lending criteria when lending to SMEs. This won't be dictated by the Government.

The scheme will include a limit of \$500,000 per loan and will apply to firms with a turnover of between \$250,000 and \$80 million per annum.

The loans will be for a maximum of three years. Robertson expected banks to provide loans at competitive, transparent rates.

RBNZ Governor Adrian Orr said: "Banks remain well capitalised and liquid. They also remain highly connected to New Zealand's business sector and almost every household in New Zealand.

"Their ability to extend credit to firms to bridge the difficult times created by COVID-19 is critical and made more possible with today's announcements.

"We will monitor banks' behaviour over coming months to assess the effectiveness of the risk-sharing scheme."

'Necessary, appropriate and proportional'

Westpac chief economist Dominick Stephens viewed the measures as "necessary, appropriate and proportional".

"The Government cannot prevent a massive decline in economic activity, but it can limit the ongoing financial damage by preventing unnecessary insolvencies and debt defaults," he said.

"These measures shouldn't stress the Government's balance sheet too much."

In terms of the business guarantee scheme, Stephens said: "The Government was always going to have to take some credit risk in order to backstop the economy, but leaving some credit risk with banks allows the Government to leverage off banks' credit expertise.

"Essentially, Government is co-opting the banks to help it determine which businesses will remain in a strong enough position to get through the COVID-19 disruption...

"So long as COVID-19 eventually passes, most those loans will be repaid."

On the mortgage payment holiday (which Stephens is yet to see detail on), he said it will "prevent disruption and fire sales in the housing market, which is important for financial stability".

As for the RBNZ lowering the Core Funding Ratio to 50%, Stephens said: "This will allow banks to access short-term funding markets if needed, in turn ensuring that banks can continue to provide credit smoothly."

This is the announcement from the Government:

The Government, retail banks and the Reserve Bank are today announcing a major financial support package for home owners and businesses affected by the economic impacts of COVID-19.

The package will include a six month principal and interest payment holiday for mortgage holders and SME customers whose incomes have been affected by the economic disruption from COVID-19.

The Government and the banks will implement a \$6.25 billion Business Finance Guarantee Scheme for small and medium-sized businesses, to protect jobs and support the economy through this unprecedented time.

"We are acting quickly to get these schemes in place to cushion the impact on New Zealanders and businesses from this global pandemic," Finance Minister Grant Robertson said.

"These actions between the Government, banks and the Reserve Bank show how we are all uniting against COVID-19. We will get through this if we all continue to work together.

"A six-month mortgage holiday for people whose incomes have been affected by COVID-19 will mean people won't lose their homes as a result of the economic disruption caused by this virus," Grant Robertson said.

The specific details of this initiative are being finalised and agreed urgently and banks will make these public in the coming days.

The Reserve Bank has agreed to help banks put this in place with appropriate capital rules. In addition, it has decided to reduce banks 'core funding ratios' from 75 percent to 50 percent, further helping banks to make credit available.

We are announcing this now to give people and businesses the certainty that we are doing what we can to cushion the blow of COVID-19.

The Business Finance Guarantee Scheme will provide short-term credit to cushion the financial distress on solvent small and medium-sized firms affected by the COVID-19 crisis.

This scheme leverages the Crown's financial strength, allowing banks to lend to ease the financial stress on solvent firms affected by the COVID-19 pandemic.

The scheme will include a limit of \$500,000 per loan and will apply to firms with a turnover of between \$250,000 and \$80 million per annum. The loans will be for a maximum of three years and expected to be provided by the banks at competitive, transparent rates.

The Government will carry 80% of the credit risk, with the other 20% to be carried by the banks.

Reserve Bank Governor Adrian Orr, said: "Banks remain well capitalised and liquid. They also remain highly connected to New Zealand's business sector and almost every household in New Zealand. Their ability to extend credit to firms to bridge the difficult times created by COVID-19 is critical and made more possible with today's announcements. We will monitor banks' behaviour over coming months to assess the effectiveness of the risk-sharing scheme."

The Government, Reserve Bank and the Treasury continue to work on further tailor-made support for larger, more complex businesses, Grant Robertson said.

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