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COVID-19 Update

Banking and Finance

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Covid-19: Swiss liquidity programme

On March 25, 2020, the Swiss Federal Council adopted the Covid-19-Surety-Ordinance, which aims at providing liquidity to companies affected by the Corona pandemic. The liquidity programme enables banks to issue loans with credit support from the Swiss Federal Government in a quick and straightforward manner.

The Swiss Federal Government has implemented various measures aimed at mitigating the impact of the Corona pandemic on the Swiss economy.[1]

In addition to such other measures already in place, the Swiss Federal Council adopted the Covid-19-Surety-Ordinance on March 25, 2020, thereby approving a surety package in the amount of up to CHF 20 billion (subsequently increased to CHF 40 billion).

Based on the Covid-19-Surety-Ordinance, companies in need of liquidity are granted access to loans in a very quick and straightforward manner.

The CovidCovid-19-Surety-Ordinance distinguishes between two types of loans: A **Covid-19 loan** (loan amount of up to CHF 500,000) and a **Covid-19 Plus loan** (loan amount of up to CHF 20,000,000).

Experience during the past few days has shown that Covid-19 loans are available within a few hours (for existing customers) and Covid-19 Plus loans within a few days (again for existing customers). Some extra time is required for new customers which need to be onboarded in a first step.

As a result of the liquidity programme, liquidity is available very quickly. Experience has shown that there is a high demand for the loans and that the banking system is able to meet the demands, including on timing.

The below Q&A addresses some of the key aspects in connection with Covid-19 loans and Covid-19 Plus loans.

Who can apply?

Covid-19 loans: A borrower is eligible for a Covid-19 loan if it:

- is organized either as a sole proprietorship, a partnership or a legal entity;
- is domiciled in Switzerland;

[1] See, for instance, https://www.lenzstaehelin.com/news-events/covid-19 for an overview.

- was formed or incorporated before March 1, 2020;
- is not subject to any insolvency or liquidation proceedings as of the date of the application;
- is materially affected by the economic impact of the Corona pandemic;
- has not been granted any other liquidity assistance based on the Covid-19 Sports Ordinance or the Covid-19 Culture Ordinance; and
- has not generated revenues exceeding CHF 500 million in 2019.

Covid-19 Plus loans: Same as for Covid-19 loan, plus:

- An application for a Covid-19 loan has been submitted;
- the borrower has an enterprise identification number (UID); and
- the bank has conducted a customary credit check, taking into account that the loans will be covered by a surety.

With whom should application be made?

Generally, application should be made with the relationship bank of the borrower. Applying with another bank is also possible, but subject to standard KYC procedures (and resulting delays). The application forms can be found here: https://covid19.easygov.swiss/

What information is required from the borrower?

Covid-19 loans: The borrower is required to make certain representations on eligibility requirements, including that it has neither received nor applied for another Covid-19 loan, that it will use the proceeds only for the purpose of securing liquidity and that it is aware that making false statements on the application constitutes a criminal offence.

Covid-19 Plus loans: Same as for Covid-19 loans. In addition, the bank may require additional information to pursue the credit check.

What is the permissible use of Covid-19 loans and what restrictions are there?

The borrower may use a Covid-19 loan to secure its liquidity needs solely.

It may, in particular, not use the proceeds for new long-term investments and distributions and capital repayments to shareholders cannot be made by the borrower for as long as a Covid-19 loan is outstanding.

Also, repayment of intragroup loans and transfers of liquidity to non-Swiss group companies (including under cash pool arrangements) are prohibited.

Payments based on pre-existing contractual obligations necessary to maintain business operations are permissible (e.g. ordinary interest payments and payments for goods and services).

A prohibited use of proceeds is subject to a liability regime.

How will the Covid-19 loan be treated on the balance sheet?

Covid-19 loans: For purposes of financial accounting, loans granted under the Covid-19-Surety-Ordinance do not count as debt to calculate a capital loss or over-indebtedness within the meaning of art. 725 para. 1 of the Swiss Code of Obligations. This is important for enterprises with a small balance sheet which may otherwise be forced into insolvency.

Covid-19 Plus loans: The exceptional balance sheet treatment of Covid-19 loans does not apply to Covid-19 Plus loans.

Which form will government support take?

Special authorised surety organisations provide sureties in favour of the banks making the loans. The Swiss Confederation will hold such surety organizations harmless and will also reimburse management costs.

What is the maximum loan amount to be covered by the surety?

Covid-19 loans: The maximum amount available is 10% of the revenues the borrower generated in the last year for which financials are available, capped at CHF 500,000. Given this link to the revenue of the borrower, it is difficult or, based on the relevant facts, impossible for start-up companies to apply for Covid-19 loans, something that has caused criticism in the market. The government is currently considering how to address this.

Covid-19 Plus loans: Same as Covid-19 loans but capped at CHF 20 million.

What percentage rate of the loan will government support cover?

Covid-19 loans: 100% of the principal amount plus interest (currently 0%, see below) for one year is covered by the surety. Interest is also covered for the three-month payment term available to the surety provider to make payment to the bank.

Covid-19 Plus loans: Same as Covid-19 loans for the first CHF 500,000. For the remainder, 85% of the principal amount plus interest for one year is covered by the surety. Interest is also covered for the three-month payment term available to the surety provider to make payment to the bank. The risk allocation between the bank (15%) and the government (85%) also applies in case of a partial default of the borrower.

What interest rate applies?

Covid-19 loans: The interest rate is currently 0% and may be adjusted by the Federal Department of Finance on a yearly basis (first time adjustment as per March 31, 2021).

Covid-19 Plus loans: Same as Covid-19 loans for the first CHF 500,000. For the additional portion of the loan covered by the government surety (85%), the interest rate is currently 0.5 % for both overdrafts and term loans. The interest rate may be adjusted by the Federal Department of Finance on a yearly basis (first time adjustment as per March 31, 2021). For the portion of the loan not covered by the government surety (15%), the interest rate agreed in the relevant loan agreement applies. There is a common understanding among participating banks that such interest rate should be moderate.

Will there be a credit analysis by the bank?

Covid-19 loans: No.

Covid-19 Plus loans: Yes.

May banks request additional collateral?

Covid-19 loans: No.

Covid-19 Plus loans: Yes.

What is the term for the loan?

Covid-19 loans: Loans are to be repaid in full no later than five years after loans have been drawn. Banks may unilaterally request amortisation. Should due repayment lead to an extraordinary hardship for the borrower, the term can be extended by two years with the consent of the surety provider.

Covid-19 Plus loans: Generally, same as for Covid-19 loans. Amortisation to be agreed in the separate loan agreement.

Is there a standard documentation or will each bank use its own forms?

Covid-19 loans: Banks will use the standard loan agreement, as set out in the annex to the Covid-19-Surety-Ordinance. No transaction specific document is required for the surety. Each participating bank will enter into an umbrella agreement with the special surety organisations.

Covid-19 Plus loans: Three types of documents are required: A credit application form and a surety agreement, both attached as annexes to the Covid-19-Surety-Ordinance, and a loan agreement in a form provided by the bank.

What are permissible grounds for early termination?

Covid-19 loans: The borrower may prepay the loan at any time. The bank has limited early termination rights for regulatory or legal reasons (e.g. payment default or violation of AML regulations).

Covid-19 Plus loans: As per the separate loan agreement.

Can a bank assign a Covid-19 loan?

Covid-19 loans: Bank may assign Covid-19 loans (and also other receivables) to the Swiss National Bank as collateral with substantially less stringent formal requirements than would usually apply. This is expected to have a positive effect on overall liquidity in the banking system.

Covid-19 Plus loans: Same as for Covid-19 loans.

Please do not hesitate to contact us in case of any questions.

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