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## Client Alert | Banking & Finance

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### Coronavirus and financial aids for Italian enterprises

March 2020

#### Introduction

Due to the health emergency caused by the progressive spread of COVID-19, the Italian Government has implemented several regulations (Decrees of the President of the Council of Ministers of 8, 9 and 11 March 2020) to contain the crisis, which is no longer just a health crisis.

The crisis resulting from the spread of COVID-19 is also an economic crisis that is directly affecting the real economy, but could extend also to banking and financial sector due to difficulties in repaying debts that enterprises may face.

The Italian Government is trying to deal with this imminent risk with further measures to support enterprises, most recently with the Law Decree no. 18 of 17 March 2020 (so called "**Healing Italy Decree**"), and also trade associations has reacted to the crisis, including the Italian Banking Association ("**ABI**") which – on 6 March 2020 - has executed the Addendum to the 2019 Credit Agreement.

#### The *Addendum* to the 2019 Credit Agreement: ABI standstill and the extension of "*Imprese in Ripresa 2.0*" program

On 6 March 2020, ABI has executed an *Addendum* to the 2019 Credit Agreement.

The *Addendum* considerably extends the time frame for applying the measure. Indeed, financing which are in place as at 31 January 2020 and has been granted "*in favour of enterprises damaged by the epidemiological emergency COVID-19*" are now eligible for the application of "*Impresa in Ripresa 2.0*" program.

ABI has therefore reopened an important window to apply suspension or extension measures, within the limits set forth in 2019 Credit Agreement: suspension is allowed up to a 12 months period, while extension may be granted for a period equal to twice the duration of the residual amortization plan (but for short-term loan, extension period cannot exceed 270 days).

Moreover, considering the exceptional scenario faced by undertakings, ABI recommends banks, where possible, to offer better conditions than those indicated in the aforementioned 2019 Credit Agreement, thus opening up the possibility of more favourable concessions than those initially planned for 2019.



More in detail, the “*Imprese in Ripresa 2.0*” program allows banks and financial intermediaries joining it<sup>1</sup> to either suspend principal repayment (*suspension*) or extend maturity date (*extension*) of the relevant financing upon borrower’s request.

Access to the program is only allowed to micro, small and medium-sized enterprises<sup>2</sup> which do not have debt positions classified as non-performing when the application is filed.

Suspension can be applied to both medium-long term financings and leasing on movable and real estate assets, even if granted upon public contribution. Similarly, suspension may be applied to mortgage credit facilities (*apertura di conto corrente ipotecario*), provided that – when the borrower files its application - the repayment of the facility is already scheduled through an amortization plan and due in instalments. Also, as of the date of application, the relevant instalments shall not have been fallen due for more than 90 days, nor the loan suspended or extended in the previous 24 months.

Extension is applicable to loans, even short-term loans, agricultural loans pursuant to art. 43 of the Italian Consolidated Banking Act (*credito agrario di conduzione*), and unpaid receivables (*insoluti*) discounted by the bank.

The measures taken by the Italian Banking Association have been immediately followed by Circular no. 5/2020 of the Guarantee Fund for SMEs (*Fondo di Gaaranzia per le PMI*), which - anticipating the following “Healing Italy” Decree of 16 March 2020 – provides that, with reference to loans to which “*Impresa in Ripresa 2.0*” measures have been applied, the relevant guarantees are automatically confirmed. This means that the guarantee is automatically extended without any assessment of applicant’s creditworthiness. The extension is made upon guaranteed debtor’s request, to be filed using the form available on the Guarantee Fund website.

## The strengthening of the SME Guarantee Fund: public standstill for financing

On 17 March 2020, the Italian Government adopted the Healing Italy Decree (Law Decree no. 18/2020), whose most effective measure (but for *in bonis* SMEs only) is a true State moratorium preventing revocation of credit facilities until 30 September 2020 and suspending loans reimbursement (amortizing or not) also until 30 September 2020. State moratorium is backed by a special section of the Guarantee Fund for SME’s, financially supported with 1.73 billion euros.

In detail, with reference to SMEs’ debt exposures towards banks, financial intermediaries and other entities authorized to provide financings in Italy, the following measures have been taken:

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<sup>1</sup> An updated list of the banks which joined the program is available at the following link:

[https://www.abi.it/DOC\\_Mercati/Crediti/Credito-alle-imprese/Accordo credito 2019/Banche aderenti/Banche aderenti.pdf](https://www.abi.it/DOC_Mercati/Crediti/Credito-alle-imprese/Accordo credito 2019/Banche aderenti/Banche aderenti.pdf)

<sup>2</sup> According to the definition provided in the Commission Recommendation of 6 May 2003 n. 2003/361/CE, are considered SME the enterprises which (i) employ fewer than 250 persons and which have an annual turnover not exceeding Euro 50 million, and/or an annual balance sheet total not exceeding Euro 43 million; instead, a small enterprise is defined as an enterprise which (i) employs fewer than 50 persons and (ii) whose annual turnover and/or annual balance sheet total does not exceed Euro 10 million; at last, a microenterprise is defined as an enterprise which (i) employs fewer than 10 persons and (ii) whose annual turnover and/or annual balance sheet total does not exceed EUR 2 million.



- as per open-ended credit facilities (*aperture di credito a revoca*) and advances on receivables (*anticipazioni su crediti*) outstanding as of 29 February 2020 (or for the higher amount outstanding as of the date of publication of the Healing Italy Decree), the amount granted (*importo accordato*), both for the portion drawn (*utilizzato*) and the portion undrawn (*non utilizzato*), cannot be revoked – in whole or in part – until 30 September 2020;
- as per non-amortizing financings elapsing before 30 September 2020, the relevant maturity date is extended until 30 September 2020, at the same terms and conditions, together with the related accessories and without formalities; and
- as per amortizing financings (including *leasing* agreements), repayment of instalments falling due before 30 September 2020 (including *leasing* payments) is suspended until 30 September 2020. Therefore, the relevant amortization plan shall be extended in a manner which avoids any additional burden for both parties, together with accessories and without formalities. Upon request of the applicant, suspension can be limited to the principal amount.

Access to the measures is allowed only to SMEs<sup>3</sup> that apply for them, by means of relevant communication, to which must be attached a self-certification attesting that the company has suffered a temporary liquidity shortage as a direct consequence of the spread of the COVID-19 epidemic.

Another requirement is that applicant SME's shall have no debt exposures classified as *non-performing* as of the date of publication of the Healing Italy Decree.

In respect of these measures, credit institutions will benefit from the support of a special section of the Guarantee Fund, which - as the case may be - will guarantee an amount equal to 33% of the additional utilization of non-revocable credit facilities, of the extended loans or of the amount of instalments whose repayment has been suspended.

The measures also apply to loans granted by means of third parties funds and to subsidised loans (*finanziamenti agevolati*), in the latter case upon specific notice to be sent to the promoting entity.

## The strengthening of the SME Guarantee Fund: standstill for subsidized export financings

For subsidized loans granted for the internationalization of companies (through Fund 394), Healing Italy Decree also provides that – until 31 December 2020 – they may benefit from a suspension for up to twelve months of the repayment of principal and interest on installments falling due during 2020, with a subsequent extension of the relevant amortization plan for a corresponding period.

## The strengthening of the SME Guarantee Fund: support for new financing

Healing Italy Decree also increases resources allocated to the Guarantee Fund for SMEs, on the basis of what was already provided by Law Decree no. 9 of 2 March 2020, whose application was however limited to municipalities located in the "*red areas*" as of 1 March 2020.

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<sup>3</sup> As defined in the Commission Recommendation of 6 May 2003 n. 2003/361/CE. Reference is to footnote no. 2 above.



The Law Decree adopted by the Government for enterprises with registered offices or local units located in the municipalities of the "red areas" provided a strength support of the Guarantee Fund for SMEs, which is now extended to the whole Italian territory for 9 months, starting from the date of entry into force of the Healing Italy Decree. Guarantee Fund's support is granted free of charge, and the amount which can be guaranteed by the Fund has been doubled for each SME (now increased up to Euro 5 million).

There is also a significant increase in the maximum coverage percentage, which:

- as per direct guarantees (*garanzie dirette*) has been raised up to 80% of the total amount of each financing, for a maximum guaranteed amount of Euro 1,5 millions for each SME; and
- as per reinsurance operations (*riassicurazioni*) has been raised up to 90% of the total amount guaranteed by Confidi or any other guarantor, for a maximum guaranteed amount of Euro 1,5 millions for each SME and provided that the guarantees issued do not exceed the maximum coverage percentage of 80%.

Moreover, renegotiation and consolidation carried out with the same bank are now eligible for Fund coverage, provided that the relevant lender grants new financing for at least 10% of the residual outstanding debt; while in case of suspension and extension of loans which were already guaranteed by the Fund, the relevant guarantee is automatically extended.

With respect to *hotellerie* and tourism sectors – which were, and are likely to be, most affected by the outbreak of the COVID-19 pandemic – combination of Fund's guarantee with other kind of guarantees is now allowed, as an exception to the current limits laid down in Fund's regulation, provided that the relevant financing has a duration of at least 10 years and is granted for an amount exceeding Euro 500,000.

Fund's action has been reinforced also with respect to guarantees granted for specific financing portfolios dedicated to SME's damaged by COVID-19 emergency, or – but for an amount at least equal to 60% of the whole portfolio - to specific sectors/supply chains (*filiere*) affected by the same. For these categories, Fund's coverage related to the *junior tranche* of the portfolio has been increased up to 50%, and is increasable by a further 20% in case of multiple guarantors.

## Cassa Depositi e Prestiti guarantee: support to enterprises different from SMEs

The support of enterprises other than SMEs is entrusted to Cassa Depositi e Prestiti S.p.A., backed by a significant State guarantee. The Healing Italy Decree provides that CDP's exposures towards enterprises affected by the COVID-19 emergency may be covered by the State guarantee for a maximum amount equal to 80% of the covered exposure.

The State guarantee covers exposures assumed by CDP towards enterprises that have suffered a reduction in turnover as a result of the epidemiological emergency and which operate in specific sectors to be determined by a decree of the Ministry of the Economy and Finance. In any case, the identification of such areas of activity must ensure complementarity with the categories of firms eligible for Guarantee Fund for SME.

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CDP's action is not limited to certain forms of financing, as it may also involve the granting of first loss guarantees on loan portfolios, and is carried out indirectly, by means of support to banks and other entities authorized to carry out lending activity in Italy.

In any case, the definition of the relevant criteria, modalities and conditions for granting the State guarantee, as well as the economic sectors to which the beneficiary companies shall belong to, is delegated to a further decree of the Minister of Economy and Finance, to be issued in accordance with the Minister of Economic Development.

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