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17 APRIL 2020

# Liquidity Decree and credit access for companies: the SACE guarantee and the enhancing of the SME Central Guarantee Fund

On 6 April 2020, the Italian Government approved the Law Decree No. 23 containing urgent provisions to support liquidity during the emergency caused by the spread of the Covid-19 epidemic (the "Liquidity Decree"). In particular, the Liquidity Decree, until 31 December 2020, has introduced a State guarantee through SACE S.p.A. and has increased the support for SMEs under the SME Central Guarantee Fund (*Fondo Centrale di Garanzia per le PMI*). The total budget of the measures approved by the Italian Government is up to Euro 200 billion, of which at least Euro 30 billion to support SMEs, as well as self-employed and professionals registered for VAT purposes.

On 14 April 2020, the European Commission approved the measures set out under the Liquidity Decree. This note is aimed at summarising the main provisions of the Liquidity Decree.

## "SACE" GUARANTEE

### Which are the main characteristics of this guarantee?

This State guarantee is a **first demand, express, unconditional, irrevocable guarantee** and complies with the prudential regulations for risk mitigation. It is granted in favour of banks, national and international financial institutions and other entities authorised to lend in Italy and it covers the repayment of principal, interest and ancillary costs up to the maximum secured amount. **All the new loans granted after 9 April 2020 are eligible for the SACE Guarantee, to the extent that:**



- as at 31 December 2019, the borrower does not qualify as an entity "in difficulty" (*impresa in difficoltà*) and, as at 29 February 2020, it was not included as a "non-performing exposure" of the bank (as defined under European legislation);
- the borrower, also on behalf of any other company belonging to the same group and based in Italy, shall undertake for the whole 2020 not to approve dividend distributions or the repurchase of own shares;
- the borrower shall undertake to manage employment levels through trade union agreements.

### Which loans can be secured and what is the maximum secured amount?

In order to benefit of the SACE Guarantee, the loans shall have the following requirements:

- a **final maturity of up to 6 years** (with a pre-amortisation period of up to 24 months);
- the total amount of the secured loan is **the higher between 25% of the annual gross turnover and twice the employees' costs**, both referred to FY 2019;
- the secured loan shall have the following purposes: support the employees' costs, the investments or working capital relating to business facilities and activities located in Italy (as certified by a legal representative of the borrower).

With reference to the total amount of the loan, the **SACE Guarantee covers:**

- 90% of the loan for borrowers with less than 5,000 employees and with an annual gross turnover up to Euro 1,5 billion;

- 80% of the loan for borrowers with more than 5,000 employees and with an annual gross turnover between Euro 1.5 billion and Euro 5 billion;
- 70% of the loan for borrowers with an annual gross turnover exceeding Euro 5 billion.

## ENHANCED SUPPORT FOR THE SME CENTRAL GUARANTEE FUND

The Liquidity Decree broadened the beneficiaries of the guarantee issued by the Central Fund. In particular, the following companies can now access to the Fund:

- the so-called mid-caps (i.e. companies with fewer than 500 employees);
- companies that, as at the date of the guarantee application, have exposures to the lender classified as “unlikely to pay” or “past due or impaired”, provided that such exposures were not so classified prior to 31 January 2020;
- companies that, after 31 December 2019, (i) have concluded composition with creditors on a going concern basis (*concordato con continuità aziendale*), (ii) have entered into restructuring agreements or submitted a certified plan pursuant to the Italian Bankruptcy Law.

## Which are the percentage of coverage and what are the new eligible financial transactions?

The Liquidity Decree has also increased the secured amount and has included new financial transactions that can benefit of the guarantee. In particular:

- 90% by direct guarantee (up to 100% by reinsurance) for the financial transactions having a maturity of up to 72 months and with a total amount not exceeding, with regard to the borrower, alternatively (i) twice the employee costs referred to FY 2019, (ii) 25% of total turnover referred to FY 2019, and (iii) capital assets and investment costs in the following 18 months for SMEs, and in the following 12 months, for companies with less than 500 employees;

- 100% guarantee for the new loans of up to Euro 25,000 granted by banks and financial intermediaries authorised to lend in Italy in favour of SMEs and individuals whose business activity has been damaged by the Covid-19 emergency, provided that the loan shall have a maturity of up to 72 months (with a pre-amortisation period of 24 months) and the total amount shall not exceed 25% of total turnover of the borrower;
- with respect to companies with revenues not exceeding Euro 3,2 million, the guarantee is up to 100% (90% by direct guarantee and 10% by an additional guarantee granted by Confidi or other entity authorised), provided that the business activity of the borrower has been damaged by the Covid-19 emergency (as resulting from a self-certification) and the total amount of the loan shall not exceed 25% of the beneficiary’s revenues (up to Euro 800,000);
- 80% by direct guarantee (up to 90% by reinsurance) for debt rescheduling transactions, provided that the lender grants new financing for at least 10% of the outstanding amount;
- the Fund guarantee may also be granted to lending transactions already completed and disbursed after 31st January 2020 but not earlier than 3 months before the date of the guarantee application.

On a final note, it is important to underline that the guarantee is granted free of charges and the maximum amount covered by the Fund is increased of up to Euro 5 million.

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