

## **The financial sector and the federal government are making efforts to attenuate the financial impact of the coronavirus pandemic on businesses and households**

### **Q&As for credit institutions**

These Q&As were drawn up to the best of our ability on the basis of current knowledge and information. It is only the final legal texts that will be binding. The final texts may deviate from these Q&As.

The federal government, the National Bank of Belgium and the Belgian financial sector have agreed on the provision of temporary support for businesses, self-employed persons and households. Individuals experiencing payment problems as a result of the coronavirus crisis will be able to delay their mortgage loan payments. Sound businesses and self-employed persons will also be able to request postponement of their loan repayments. In their case, a guarantee scheme will also be implemented for all new loans and credit lines with a maximum term of 12 months.

In addition to these Q&As, reference is made to the charters (in French and in Dutch), as well as to the related Q&As in which banks have set out their commitments concerning the arrangements for postponing payments on [mortgages](#) and [business loans](#) respectively.

#### **1. General (high level principles agreement and background)**

##### **1.1 What is in the agreement?**

The agreement comprises two pillars:

1. The financial sector undertakes to allow viable non-financial businesses, SMEs, self-employed persons and non-profit organisations, and likewise mortgage borrowers, with payment problems due to the coronavirus crisis to delay payments (hereunder moratoria).
2. The government will activate a guarantee scheme for all new loans and credit lines (but not refinancing loans) with a maximum term of 12 months, granted by banks to viable non-financial businesses, SMEs, self-employed persons and non-profit organisations from 1 April 2020 until 30 September 2020.

##### **1.2 Why did the federal government (supported by the National Bank of Belgium) conclude this agreement with the financial sector?**

The coronavirus does not only threaten our health, it also has a particularly severe impact on our economy. Despite the range of exceptional measures already taken by the federal government under the Federal Plan for Social and Economic Protection to cope with the economic shock<sup>1</sup>, many businesses, self-employed persons and individuals still face substantial fixed costs. They have to repay loans, pay rent and settle invoices, resulting in cash flow problems. We need to prevent sound businesses from going under, and households from encountering payment problems. That would trigger a negative spiral and make the current crisis even more serious. The agreement is intended to maintain the financing of the economy.

##### **1.3 When will the agreement come into effect?**

1 April 2020.

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<sup>1</sup> Examples include delayed payment of personal income tax, payroll tax, VAT and social contributions. The rules on temporary lay-offs on account of force majeure were also relaxed, and a bridging entitlement was introduced for the self-employed.

#### **1.4 Does the scheme also apply to listed companies?**

Yes. The scheme applies equally to all viable Belgian non-financial businesses and SMEs.

## **2. Moratorium**

### **a. Scope in the case of businesses (business loans)**

#### **2.1 Who is this scheme aimed at?**

The target public of the moratorium encompasses all permanently in Belgium based viable non-financial businesses, SMEs, self-employed persons (including unincorporated self-employed persons) and non-profit organisations, i.e. those without payment arrears on 1 February 2020 or those less than 30 days in payment arrears on 29 February 2020, who have fulfilled all their contractual credit obligations with all banks during the last 12 months prior to 31 January 2020 and not undergoing active debt restructuring; and in so far as they are experiencing payment problems due to the coronavirus crisis.

The payment arrears referred to include arrears on both outstanding loans and tax and social security contributions.

A postponement of payment can be requested for one of the following business loans:

- loans with a fixed repayment plan
- cash credits
- fixed advances

Public authorities cannot request a postponement of payment.

#### **2.2 What is meant by “payment problems due to the coronavirus crisis”?**

The banking sector has drawn up a uniform approach for determining “payment problems due to the coronavirus crisis” for (segments of) individuals and businesses in two Charters ([individuals](#) - [businesses](#)).

### **b. Scope in the case of individuals (mortgage loans)**

#### **2.3 Who is this scheme aimed at?**

Mortgage borrowers (individuals) experiencing payment problems due to the coronavirus crisis. The scheme does not apply to borrowers who, before the outbreak of the coronavirus crisis (on 1 February 2020), were already in arrears on the mortgage for which a delay is requested. The mortgage loan must have been taken out for the sole and principal residence in Belgium of the borrower(s) at the time of the request for postponement. At the time of the request for postponement of payment, the total movable assets in current and savings accounts and in an investment portfolio with the borrower's own bank or another bank must be less than EUR 25,000. Pension savings are not taken into account for this calculation.

#### **2.4 What is meant by “payment problems due to the coronavirus crisis”?**

The banking sector has drawn up a uniform approach for determining “payment problems due to the coronavirus crisis” for (segments of) individuals and businesses in two Charters ([individuals](#) - [businesses](#)). The banking sector has also set out the practical arrangements for dealing with postponed interest payments in these Charters.

### c. Operation of the payment delay

#### **2.5 Does the banks' undertaking not to convert any more mortgage mandates into mortgage registrations during the term of the guarantee scheme apply only to performing customers? Does it also apply to businesses and self-employed persons?**

The undertaking applies only to individuals in so far as they were not in arrears before the coronavirus crisis.

#### **2.6 Is the payment delay granted automatically?**

No. Businesses and households will have to demonstrate that they are affected by the coronavirus crisis and have to ask their bank for a payment delay. Each case will be assessed individually. A uniform approach was devised in the Charters ([individuals](#) - [businesses](#)) so that all banks would apply this in the same way.

#### **2.7 For how long must the banks grant a payment delay?**

It is possible to request a payment delay any time from 1 April 2020; if the liquidity problems are due to the coronavirus crisis, and the conditions laid down in the concerned Charter are met, the delay must always be granted for a maximum of 6 months and ultimately until 31 October 2020. This means:

- All requests up to 30 April 2020: delay for a maximum of 6 months
- Requests after 30 April 2020: delay until ultimately 31 October 2020

#### **2.8 Is a payment delay only possible until 31 October 2020 in the first instance?**

It is possible to grant a payment delay for a longer period but if the delay is applied to the customer's specific situation the bank cannot use the flexible framework drawn up in the EBA statement on COVID-19 measures, published on 25 March 2020 (and further developed in the EBA Guidelines regarding moratoria, published on 2 April 2020).

#### **2.9 Does the payment delay cover both the capital and the interest?**

In the case of mortgage loans to **natural persons** a distinction is made between delay for individuals in the vulnerable group (see the definition in the [Charter](#)) and other individuals.

- Delay of capital and interest for the **vulnerable group**:
  - no payments for a maximum of 6 months (up to 31 October 2020 at the latest). After that, resumption of the same monthly payments as before, but with the term of the loan extended by a maximum of 6 months (in other words, the original loan expiry date is extended by a maximum of 6 months).
- Delay of capital and interest for **other customers**:
  - No payments for a maximum of 6 months (up to 31 October 2020 at the latest);
  - After that, resumption of payments at a slightly higher monthly rate to settle the delayed interest, likewise with the term of the loan extended by a maximum of 6 months.

For **non-financial businesses, SMEs and self-employed persons (including unincorporated self-employed persons) and non-profit organisations**, the delay only applies to the capital repayments as regards their credit for professional purposes.

**2.10 Delayed payment of interest is prohibited by law in the case of credit to individuals: is it agreed that Article VII.145 of the Code of Economic Law will be temporarily breached?**

Yes. It is the responsibility of the Minister of Economic Affairs to devise a solution to this legal problem.

**d. Charges**

**2.11 No charges can be imposed for granting a payment delay. What charges are meant?**

No arrangement nor administrative fees can be charged for postponing payment in the case of natural persons or businesses.

**3. Guarantee scheme**

**a. Scope**

**3.1 Who is this scheme aimed at?**

All non-financial businesses, SMEs, self-employed persons (including unincorporated self-employed persons) and non-profit organisations without payment arrears on 1 February 2020 or less than 30 days in payment arrears on 29 February 2020 and which did not undergo active debt restructuring on 31 January 2020.

The payment arrears referred to include arrears on both bank loans and tax and social security contributions.

**3.2 What is meant by “non-financial businesses”?**

A non-financial business is an undertaking which does not fall within one of the following categories: (i) a financial counterparty within the meaning of Article 3 point (3) of EU Regulation 2015/2365, a payment institution or electronic money institution or a special purpose securitisation vehicle, (ii) a natural person, legal person or group of such persons granting exclusively or in principal loans for their own account as part of their usual commercial or professional activities, or (iii) a natural person, legal person or group of such persons exercising direct control over an entity as referred to under (i) and (ii).

Although the scheme is aimed at a wider public, it is clarified that the following sectors/activities also qualify:

- Non-profit organisations, both social enterprises and others, including hospitals
- Non-financial institutions having a public shareholdership
- Banking and insurance intermediaries (agents and brokers)
- Holding companies whose main activity consists in holding shares in NFCs

Conversely, counterparties connected with government are excluded, including PSEs, associations of local authorities, public social assistance centres, etc.

Apart from large undertakings, the payment delay also applies to SMEs, self-employed persons and those in the liberal professions not operating through a company.

**3.3 Does the scheme apply to foreign businesses?**

The scheme is only available to Belgian residents. Belgian residents could be both undertakings incorporated under Belgian law and branches with a permanent establishment in Belgium. Legal

provisions are introduced to ensure that the guaranteed loans are used for the benefit of the undertakings' Belgian activities and that the loans are not in a large part used for the financing of the foreign activities of the borrower (the loan contract has to exclude such use or limit it to 10% of the guaranteed loan; losses on guaranteed loans which do not exclude such use are not compensated). A provision is also inserted to ensure that in such case local facilities for financing, whether or not under local guarantee schemes, are being exhausted for these foreign activities. However, banks are free to grant loans outside the scope of the guarantee scheme, which contractually state that they can only be used for the non-Belgian activities of the Belgian resident.

### ***3.4 Is there to be a threshold for payment arrears in the case of viable businesses?***

Credit obligations past due, for the purpose of defining non-financial corporations, SMEs, self-employed persons and non-profit organisations who had, on 1 February 2020, no arrears and were in arrears of less than 30 days on 29 February 2020, shall be subject to a materiality threshold as defined in the EBA Final draft RTS on the materiality threshold for credit obligations past due and the ECB regulation (EU) 2018/1845. For non-retail, the absolute threshold is set at 500 euro and the relative threshold at 1%, consistent with the threshold applied for the Definition of Default.

### ***3.5 Does the customer have to confirm the viability condition by signing a "sworn declaration"?***

This must form part of the contractual conditions which the customer undertakes to respect. The sector can draw up standard clauses for use in this connection.

Among other things the contractual conditions must also include confirmation that the total capital sum of the outstanding (taken up and non-repaid) or available (non-taken up) guaranteed loans for the customer or group of associated customers does not exceed the limit of €50 million.

### ***3.6 Exclusion criteria: How does a bank have to provide proof that there were no payment arrears on 1 February 2020, or less than 30 days' payment arrears on 29 February 2020? Or is no proof required?***

The bank does not have to provide any "proof", but the bank needs to check the criteria as far as possible. This should also form part of the contractual conditions which the customer undertakes to respect.

## **b. Operation of the guarantee scheme (envelope, calculation of losses, etc.)**

### ***3.7 How big is the guarantee scheme?***

There is provision for a sum of €50 billion. This means that new additional loans up to that amount are eligible for the guarantee scheme. That figure represents roughly 10% of gross domestic product. It concerns the capital sum of the guaranteed loans.

### ***3.8 How exactly does the guarantee scheme work?***

All banks can include part of the envelope in new additional loans and credit lines up to a maximum term of 12 months in proportion to their market share in outstanding loans and credit lines (all loan terms) granted to viable non-financial businesses, SMEs, self-employed persons and non-profit organisations on 31 December 2019. This market share is ascertained on the basis of FINREP (table 20.04) and scheme A (table 02.11) reporting and notified to all institutions by an individual standard NBB letter.

The guarantee does not apply to individual loans but to the whole portfolio of new additional loans granted by the bank concerned to Belgian non-financial businesses, SMEs, self-employed persons and non-profit organisations.

Once the guarantee scheme ends, the amount of losses recorded on loans under the guarantee scheme will be examined.

### **3.9 How long does the guarantee scheme apply?**

In terms of time, the guaranteed loans are those granted between 1 April 2020 and 30 September 2020 for a maximum term of 1 year. The King may, by a decree adopted after consultation in the Council of Ministers, extend this deadline and term if that is necessary owing to the severity and duration of the adverse impact of the coronavirus on the economy.

### **3.10 What is the impact on the allocation if banks refuse their share?**

The system is compulsory for banks (credit institutions under Belgian law and branches of foreign credit institutions) which had more than € 20,000 in outstanding loans and credit lines to non-financial businesses, SMEs, self-employed persons and non-profit organisations on 31 December 2019.

### **3.11 When will the losses be calculated ?**

The total state-guaranteed reference-portfolio will only be known on 1 October 2020, so that, at that time, the final 3% and 5% thresholds can be calculated for each credit institution on the actual total amount of until 30 September 2020 granted loans of maximum 12 months to the before the crisis viable Belgian non-financial undertakings which do not constitute a refinancing or a reinstatement of credit granted before 1 April 2020 to those customers and which do not exclusively serve to finance the foreign activities of the undertaking concerned. This reference-portfolio may be lower than, or at most equal to, the share of the € 50 billion envelope allocated to each bank. From 1 July 2021, and thereafter on the first day of each successive quarter, a bank will be able to submit an application requesting an interim advance from the federal government.

### **3.12 What commitment has the federal government taken on?**

The burden will be shared between the financial sector and the government as follows:

- The first 3% of the losses on the whole reference-portfolio will be borne entirely by the bank.
- For losses between 3% and 5%, the bank and the government will each bear 50% of the losses.
- For losses exceeding 5%, the government will bear 80% of the losses and the bank will bear 20%.

### **3.13 How exactly will the losses guaranteed by the government be calculated?**

The losses will be calculated at the level of the total portfolio of new additional loans for each bank. In practice, this means that if bank X incurs a loss of 4 % on its total reference-portfolio, bank Y incurs a loss of 1% and bank Z a loss of 6%, then the guarantee will be activated for banks X and Z according to the losses suffered (50 % government guarantee for losses between 3% and 5%, and 80% for losses in excess of 5%).

### **3.14 Which banks are covered by the guarantee scheme?**

The guarantee scheme applies to Belgian banks and branches of foreign banks (both those from EU countries and those with their head office in a non-EU country). Institutions which, at the end of 2019, did not have a credit portfolio for businesses, SMEs and non-profit organisations amounting to more than € 20,000 are not covered by the guarantee scheme (*de minimis*). This is without

prejudice to the fact that those banks may be covered by the arrangements concerning payment delays for mortgage borrowers.

### **3.15 Which loans are covered by the guarantee scheme?**

In principle, all new additional loans and credit lines to viable Belgian undertakings for a maximum term of 12 months granted by the bank between 1 April 2020 and 30 September 2020, including the credits which have been repaid before 30 September 2020 must be covered by the guarantee scheme (until the bank's share in the total envelope is reached).

The following credits do not fall within the scope of the guarantee scheme:

1. refinancing loans which serve to repay loans granted before 1 April 2020;
2. reinstatements of credits granted before 1 April 2020;
3. credits granted to persons where the contract states that they can exclusively be used for the non-Belgian activities of this person;
4. credits which have been specifically identified by the bank as deselected credits, for which the bank opts to keep them out of the scope of the guarantee scheme (cf. infra);
5. leasing contracts;
6. factoring contracts;
7. consumer loans and mortgage loans which are governed by Book VII of the Code of Economic Law.

Loans up to a maximum of € 50 million are guaranteed for each business or group of associated businesses (cf. definition of associated company in the Companies Code) on outstanding (reinstated and not repaid) or available (not taken up) amounts. The "rolling stock" principle is used for the calculation of this amount, which means that guaranteed credits which have been repaid partially or in whole before 30 September 2020 can be replaced by new guaranteed loans. For larger amounts, government approval must be obtained. The application procedure for the approval will be governed by a Ministerial Decree.

### **3.16 Does the guarantee scheme apply to all loan products (cash loans, overdraft facilities, investment loans, etc.)?**

The guarantee scheme applies to all new additional loans and credit lines to all before the crisis viable customers with a maximum term of 12 months, except for the credits mentioned in the answer to question 3.15, and taking account of the limit of € 50 million (per counterparty or group of related counterparties), above which government approval must be obtained.

### **3.17 How many loans that are in principle eligible for compensation under the guarantee scheme may be identified by a bank as remaining outside the scope of the guarantee scheme (so-called 'deselected loans')?**

Each bank may exclude up to a maximum of 14,875 rounded off to 15 % of the total loans granted from the scope of the guarantee scheme. In other words, of 100 eligible loans, a minimum of 85 must be included in the guarantee scheme and a maximum of 15 must not be included; hence the draft Royal Decree refers to a deselection factor, which divides the total 'deselected' loans by the total guaranteed loans granted between 1 April 2020 and 30 September 2020, of a maximum of 0,175 (i.e. around 15/85). For the calculation of these amounts, a duration-average volume ratio is applied. For an example to illustrate the calculation of the deselection factor, see question 3.20.

### **3.18 When should a bank choose to keep a loan that is in principle eligible for compensation under the guarantee scheme outside the scope of the guarantee scheme (so called "deselected loan")?**

The choice of whether or not to include a loan in the guarantee scheme is made exclusively when the loan is granted and is irrevocable. In this context, it is possible to grant both guaranteed and non-guaranteed loans to the same borrower.

**3.19 Are the so-called "deselected loans" part of the reference portfolio based on which the amount of State aid is calculated?**

Yes, they are. The deselected loans are not covered by the guarantee and the guarantee fee does not have to be paid, but the loans remain part of the reference portfolio together with the guaranteed loans. Moreover, if banks exceed the deselection factor of 0,175 (i.e. 'deselect' more than 14,875 rounded off to 15 % of the loans eligible under the guarantee scheme, an additional fee has to be paid on the guaranteed loans, while the deselected loans remain outside the scope of the guarantee scheme.

**3.20 What is the sanction if the so-called 'deselected loans' represent more than 15 % of the reference portfolio?**

On 30 September 2020, a deselection factor (exclusion factor) is calculated which is defined as a fraction with the following numerator and denominator:

- the numerator consists of the sum of the maximum available principal amount of each deselected loan on the date of granting, for all (deselected) loans granted from 1 April 2020 until 30 September 2020, multiplied in each case by a factor equal to the duration of the deselected loan, expressed in days. Deselected loans with a contractual maturity date prior to 30 September 2020 are also included in this numerator;
- the denominator consists of the sum of the maximum available principal amount of each guaranteed (not deselected) loan on the date of granting, for all guaranteed (not deselected) loans granted from 1 April 2020 until 30 September 2020, multiplied in each case by a factor equal to the duration of the guaranteed loan, expressed in days. Guaranteed loans with a contractual maturity date prior to 30 September 2020 are also included in this denominator.

If there is a positive difference between the deselection factor and 0,175, the guarantee fee due on the guaranteed (not deselected) loans is multiplied by a factor equal to one plus twice the aforementioned difference.

Example by way of illustration: a bank grants loans between 1 April 2020 and 30 September 2020 for a total amount of 100 on the date of granting:

- on 1 April, a deselected loan of 10 for a term of 30 days
- on 1 May, a loan of 30 for a term of 60 days
- on 1 June, a loan of 55 for a term of 120 days
- on 1 September, a deselected loan of 5 for a term of 360 days

$$\text{Deselection factor} = [(10 * 30) + (5 * 360)] / [(30 * 60) + (55 * 120)] = 0,25$$

In the above example, the reference portfolio on the basis of which the State's intervention is calculated is 100, even if the 'deselected' loans are not covered by the guarantee and the guarantee fee for these credits does not have to be paid. However, given that the deselection factor exceeds 0,175, the guarantee fee payable on the guaranteed (unselected) credits has to be multiplied by a factor of 1,15 (i.e. one plus twice the difference between the deselection factor of 0,25 and 0,175).

**3.21 Can banks request additional securities for loans that were already running on 1 April 2020 or for so-called deselected loans?**

Yes it can, provided that a proportional part of these securities, taking into account the available or outstanding principal amount of all loans concerned, is allocated to the secured loans granted by the bank to that borrower. If not, the guaranteed loss is reduced by all losses on the guaranteed loans granted by the bank to that borrower. A notable exception to this are contractual arrangements that were already in force between the bank and the borrower on 1 April 2020. These include margin calls or the conversion of mortgage mandates. In addition, the above condition does not apply to securities for new loans falling outside the scope of the guarantee scheme, e.g. investment loans with a maturity of more than 12 months.

**3.22 *Can businesses take on guaranteed loans of up to €50 million per bank without government approval?***

No. The guarantee applies to the whole of the outstanding or available amounts on new and additional loans obtained from all Belgian banks up to a maximum of €50 million per business or group of associated businesses. If the aggregate outstanding or available amount of guaranteed new and additional loans exceeds that figure, government approval must be obtained and the bank therefore cannot take the decision alone.

**3.23 *Does the guarantee scheme also apply to syndicated loans?***

Yes, insofar the distinct credit of the participating bank in the syndicate constitutes a sufficiently separated engagement. The guarantee scheme also does not apply to syndicated loans with a maximum duration above 12 months nor to deselected syndicated loans.

**3.24 *If there are also foreign banks in the syndicate, does the Belgian share still qualify for the guarantee?***

Belgian banks in the syndicate are eligible for the guarantee for their share of the loan. The share of the banks concerned must constitute a sufficiently separate commitment per bank.

**3.25 *What about renewal of a loan/credit line already existing on 1 April and expiring before the end of September 2020?***

That is a reinstatement of an existing credit/existing credit line which is not covered by the guarantee scheme.

**3.26 *Is it possible to submit multiple applications for the same counterparty under the guarantee scheme?***

It is possible to grant multiple loans under the guarantee scheme; however, the guaranteed loan limit of € 50 million must be respected. The counterparty must state contractually whether the limit of € 50 million is not exceeded by granting this loan.

**3.27 *Can a bank give customers a new/higher credit line if they still have scope in their credit line?***

Yes, the difference between the higher line (e.g. € 110,000) and the existing line (€ 100,000) is then a new loan that comes under the guarantee scheme. This new loan must then be structured as a separate new loan (of € 10,000, for example) with additional security where possible.

**3.28 *Can a customer request a new loan or credit line while still having unused scope under an existing credit line?***

Yes, it is up to the bank to decide whether or not to grant it. However, the drawings on the existing credit line do not fall under the guarantee scheme.

### **3.29 Can a bank refuse to grant loans or credit lines to certain customers?**

Yes, in the case of new additional loans or credit lines in relation to the amount of loans and credit lines outstanding on 1 April 2020. The guarantee scheme aims at facilitating the granting of new additional credits or credit lines.

### **3.30 Do loans qualify if they are not used in connection with liquidity problems due to the crisis but are requested for other liquidity or investment needs?**

Yes, all new additional loans that meet the conditions (viable customer, maximum term of 12 months, limit of € 50 million), with the exception of the loans mentioned in question 3.15, must be covered by the guarantee scheme.

In this respect, a clear distinction has to be made between the amount of loans/credit lines on 1 April 2020 (=OLD MONEY) and the additional liquidity needs of the customers (=NEW MONEY).

Specifically:

- If the new loan is used to repay (= refinancing) or reinstate a loan or credit line outstanding at the date of entry into force of the guarantee scheme that has reached maturity, it does not fall under the guarantee scheme, regardless of whether the borrower encounters payment difficulties due to the corona crisis (= OLD MONEY)
- if the new loan is also used to cover additional liquidity needs, it falls under the guarantee scheme, regardless of whether the borrower faces payment difficulties as a result of the corona crisis (=NEW MONEY). Banks are free to grant a limited amount of such credits with a term of maximum 12 months outside the scope of the guarantee scheme (“deselected credits”).

Example: on 1 April 2020, a company has outstanding loans amounting to 100, 50 of which will mature on 1 May 2020,

- a company that has not (or only slightly) been affected by the corona crisis applies for a new loan with a term of maximum 12 months of 60 => 50 does not fall under the guarantee scheme, 10 falls under the guarantee scheme,
- a company that has been affected by the corona crisis benefits from a payment deferral for 50 (moratorium) and applies for a new credit with a term of maximum 12 months of 10 => 10 falls under the guarantee scheme, unless the bank has chosen to “deselect” the credit and to grant it outside the scope of the guarantee scheme.

### **3.31 Can a bank grant new loans which are not covered by the guarantee scheme?**

Yes, the credits enumerated in question 3.15, as well as new additional loans for a term of longer than 12 months or in excess of the € 50 million limit.

### **3.32 If the bank wants to consider delays on a due date or multiple due dates jointly on loans already outstanding on 1 April 2020 and group them in the form of a new loan, is this refinancing or not?**

Yes, that is refinancing which is not covered by the guarantee scheme.

### **3.33 Does the guarantee scheme also apply to existing loans?**

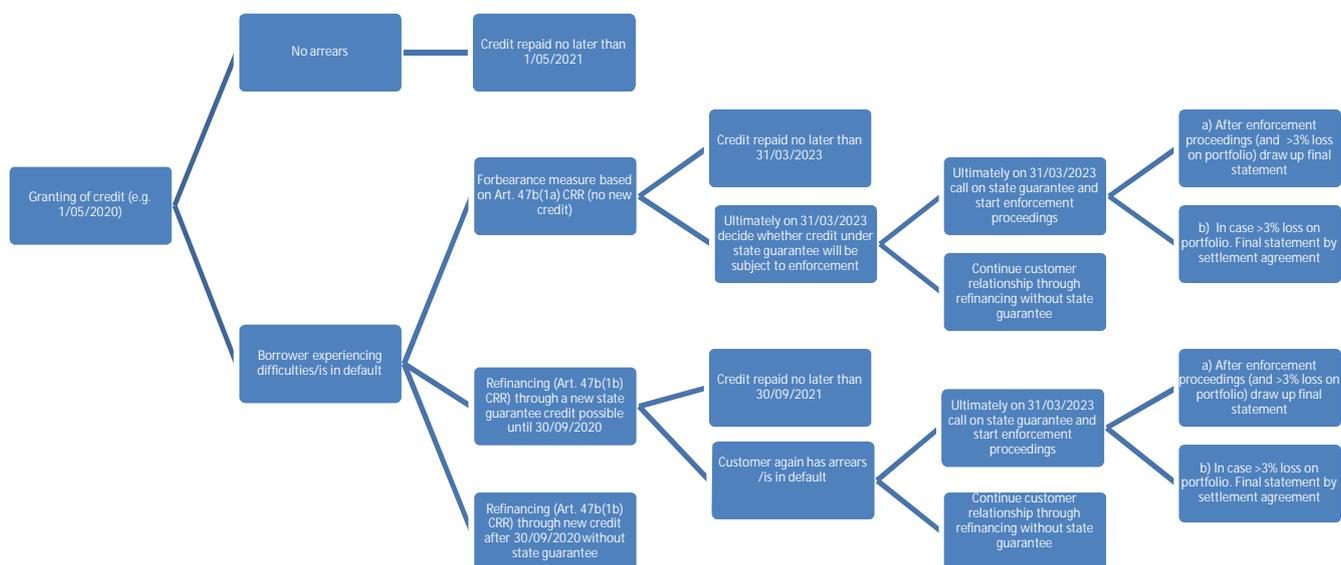
No. The guarantee scheme does not apply to the on 1 April 2020 existing loans, nor to the unused amounts on the on 1 April 2020 existing credit lines.

**3.34 Can the guarantee scheme still be used if a customer requests a forbearance measure but the bank consequently decides to classify the customer under pre-litigation in order to monitor the case?**

Yes, but only for new additional loans to that customer (in addition to loans and credit lines outstanding on 1 April 2020), see scope.

**3.35 How does the “recovery” take place in case a guaranteed loan cannot be repaid by the customer?**

Banks must call on the State guarantee by 31 March 2023 at the latest for the guaranteed loans, and this independently of the date of granting or the duration of the loan. Only then should a decision be taken as to whether or not to terminate the customer relationship. In the meantime, forbearance measures can be taken. The diagram below gives an overview of the various possibilities:



**3.36 When it is decided to terminate the customer relationship and to call on the guarantee, what should a bank do to ensure that the losses relating to the guaranteed loans are taken into account in calculating the State guarantee (enforcement privilege)?**

The bank will first have to "enforce" the customer (i.e. draw on all of the customer's funds, collateral, guarantees, etc.) before the residual amount can be considered as a loss for calculating the State guarantee. This enforcement does not have to occur or be finalised at the moment that the State guarantee is called on.

**3.37 Can a bank transfer one or more guaranteed loans?**

In principle it cannot, except as collateral for any financing granted to a bank by the National Bank of Belgium in the context of its legal mission.

### 3.38 How do the different guarantees provided by the Regions and the federal State interact [UNDER CONSTRUCTION]?

Clarification with an example:

A retail business has an outstanding loan of € 500,000 with the bank, with a total interest rate (incl. fee) of 1.5%. This is the only outstanding loan of the borrower with the bank. The term of the loan is 1 year and interest is paid at the end of the year. This loan complies with the conditions of the federal guarantee scheme and was not deselected. When the loan was taken out, the commercial property was also included in the guarantee. The (realisable) value of the property is estimated at 150,000. If the retail business goes bankrupt, there will still be €10,000 cash in the bank and the business owns a van worth €10,000.

**Case (a): no other (e.g. regional) guarantees were provided for this loan.** In this case, the loss is determined by first liquidating all of the business's assets (including the cash, the van) and by selling the trading premises. The estimated value thereof is € 170,000. The remainder of the amount (principal of the loan plus interest)  $€ 500,000 \times (1 + 1.5\%) - € 170,000 = € 337,500$  is included in the Loss eligible for the federal guarantee of the bank in question. Whether this loss will ultimately be (partially) compensated by the State depends on whether the losses of the total portfolio of the bank will exceed 3% (first loss) of the bank's total (relevant) loan portfolio.

**Case (b): In addition to a federal guarantee, the loan also benefits from a regional guarantee covering a loss of €100,000 (without pari passu clause).** In this case, the loss is determined by first liquidating all of the business's assets (including the cash, the van), and by selling the trading premises. In addition, the regional guarantee is also called on for the full amount of the losses covered. The estimated recoverable value of all these operations amounts to €170,000 + €100,000. The remainder of the amount  $€ 500,000 \times (1 + 1.5\%) - € 170,000 - € 100,000 = € 237,500$  is included in the Loss eligible for the federal guarantee of the bank in question. Whether this loss will ultimately be (partially) compensated by the State depends on whether the losses of the total portfolio of the bank will exceed 3% (first loss) of the bank's total (relevant) loan portfolio.

**Case (c): In addition to a federal guarantee, the loan also benefits from a regional guarantee covering a loss of €100,000 (with pari passu clause).** In this case, the loss is determined by first liquidating all of the business's assets (including the cash, the van) and by selling the trading premises. The pari passu arrangement provides that the amounts that cannot be recovered from the Regions due to the pari passu clause are included in the Loss. The pari passu arrangement involves a pro-rata allocation of the losses between the State and the Region. In this case, the double guarantee amounts to €100,000, which implies that this amount is divided between the Region and the State (50%-50%): €50,000 for the Region and an unrecovered loss (due to passu clause) which is included in the Loss (and thus potentially covered by the State guarantee). In the event of pari passu, the regional guarantee will thus be called on for half of the amount of the losses covered (€50,000). The estimated recoverable value of all these operations amounts to €170,000 + € 50,000. The remainder of the amount  $€ 500,000 \times (1 + 1.5\%) - € 170,000 - € 50,000 = € 287,500$  is included in the Loss eligible for the federal guarantee of the bank in question. Whether this loss will ultimately be (partially) compensated by the State depends on whether the losses of the total portfolio of the bank will exceed 3% (first loss) of the bank's total (relevant) loan portfolio.

**Case d): In addition to a federal guarantee, the loan also benefits from a regional guarantee covering a loss of € 100,000 and an additional Credendo guarantee of € 50,000 (both with pari passu clause).** In this case, the loss is determined by first liquidating all of the business's assets (including the cash, the van) and by selling the trading premises. The pari passu arrangement provides that the amount of the loss that cannot be recovered from the Regions (and Credendo) due to the pari passu clause, is included in the Loss. The pari passu arrangement involves a pro-rata allocation of the losses between the different parties. In this case, there is a triple guarantee of € 50,000 (State, Region and Credendo). According to the pari passu arrangement, this involves an equal distribution of € 16,666.66 (for the Region and Credendo) and

an unrecovered loss of € 16,666.66 (for the State). The next € 50,000 is covered by the Region and the Federal State and the (pari passu) distribution is € 25,000 for the Region and € 25,000 for the State (non-recovered loss). The estimated recoverable value of all these operations is € 170,000 + 2\* € 16,666.66 + € 25,000. The remainder of the amount € 500,000\*(1 + 1.5%) - € 170,000 - 2\* € 16,666.66 - € 25,000 = € 279,170 is included in the Loss eligible for the federal guarantee of the bank in question. Whether this loss will ultimately be (partially) compensated by the State depends on whether the losses of the total portfolio of the bank will exceed 3% (first loss) of the bank's total (relevant) loan portfolio.

### **c. Charges and fees**

#### **3.39 Can the banks charge normal arrangement fees for new loans under the guarantee?**

For new loans, it is permitted to make the usual charges applicable before the coronavirus crisis, such as arrangement fees and commitment fees.

#### **3.40 How will payment of the fees be organised (one shot or pro rata)?**

State guarantee fee for guaranteed loans (not for deselected loans):

- a. pricing = EU minimum for SMEs according the Belgian definition (25 basis points) and large corporates (50 basis points)
- b. pro rata according to the term of the loan (if shorter than 12 months), due on the whole of the capital regardless of whether the loan is actually taken up
- c. payable by the bank to the government; reporting by each bank
  1. line per line details of all qualifying loans granted since 1 April 2020, including those already repaid
  2. the Treasury calculates the premium on the basis of the reporting (capital x term as a fraction of 12 x premium)

Further rules on the procedure for the payment of the fee will be defined by Ministerial Decree.

#### **3.41 What happens if the guarantee fee is unpaid or not paid in full?**

Execution of the State guarantee is suspended if the premium is unpaid or not paid in full.

#### **3.42 What charges must businesses pay on guaranteed loans?**

For a new additional loan or credit line under the guarantee scheme, the nominal maximum interest is 1.25% (excluding the "fee"). This fee comes to 25 basis points for SMEs and 50 basis points for large corporates pro rata according to the term of the loan (12 months). Such a fee is compulsory under the EU rules on State aid. The credit institution can also choose to charge a total interest to the customer, without specifying the part covered by the fee.

#### **3.43 Will all banks charge interest at 1.25% (excluding the fee) on new loans?**

No, this is a maximum; free competition applies here.

#### **3.44 Does the fee form part of the maximum interest that can be charged in the case of non-financial businesses, SMEs and self-employed persons?**

No. The fee of 25 basis points for SMEs and 50 basis points for large corporates is compulsory under the EU rules on State aid and is additional to the maximum 1.25% interest rate.

**3.45 How is the guarantee fee calculated in individual cases, given that the guarantee covers only part of the exposures?**

This fee has to be paid on the whole capital of new additional loans and credit lines, i.e. the whole amount of the loan (including unused amounts on new additional credit lines).

**3.46 Is the guarantee fee also payable for new additional loans expiring earlier than 30/9/2020?**

Yes. The guarantee fee is also payable for loans granted as of 1 April 2020 and repaid before 1 October 2020.

**3.47 Is the guarantee fee also covered by the State guarantee?**

Yes, the State guarantee covers principal and interest, including the guarantee fee.

**3.48 Is the fee also due on deselected loans?**

No, it is not, and nor is the guarantee applicable to those loans.

#### **4. Reporting and monitoring**

**4.1 Who is responsible for monitoring the agreement?**

The National Bank of Belgium will set up a monitoring system with Febelfin to monitor the establishment of moratoria and loans to businesses and individuals in general, and the banks' commitments under the guarantee scheme in particular.

Sanctions will apply if a bank abuses or fails to respect its commitments.

**4.2 How will the monitoring of the guarantee be organised (global cap, cap by bank, cap on counterparty, reporting method (template), information channel,...)?**

By extending the reporting to BECRIS with 2 features: i) credit under guarantee or not, and, if yes, ii) amount of the fee. The NBB shall, on top of that, organise a systemic monitoring of the data that banks report in BECRIS.

**4.3 Should the borrower be recorded in the CICR as defaulting for the duration of the payment delay?**

No. The Minister of Economic Affairs is responsible for arranging an exemption from Article VII.133 of the Code of Economic Law.

**4.4 Is the bank under a declaration/reporting obligation in regard to the guaranteed loans?**

Yes, see question 4.2. the "reporting specification" and "validation checks" that have to be added in the BECRIS reporting have been communicated by the NBB to the sector on 3 April 2020.

**4.5 Regarding the calculation of the € 50 million limit, must each Belgian lender in the syndicate declare its share or should there be overall reporting for the syndicate as a whole?**

Each Belgian lender in the syndicate reports its own share.

**4.6 How will the follow up of the requests with regard to the guaranteed credits, requested by the Parliament, be organized?**

Each bank should keep a register in which all requests with regard to the guaranteed credits are held, including the identity of the business entity formulating the request and the requested amount. The result of each request also needs to be registered. Credit institutions shall have to submit monthly reports to the NBB containing information on the total credit requests received and the result of these requests. Detailed information on the requirements regarding the submission will be communicated in the current of April.

**4.7 Is it possible to obtain an exhaustive overview of the different questions of reporting towards the NBB and the Treasury?**

The fiche "Reporting and Monitoring" will be formalized in a charter between the different parties involved (sector, NBB and Treasury).

**5. Prudential and accounting implications**

**Note:** The answers provided below reflect the views of the NBB based on the factual elements known at the time of redaction, on the statements published by EBA, ECB and ESMA and may need to be revised in light of evolving knowledge on the matter.

**Moratorium - prudential treatment**

**5.1 The covered bond legislation reduces the valuation of loans which are more than 30 days or more than 90 days in arrears to 50% and 0% respectively. If loans for which a bank grants a payment delay have to be recorded as in arrears, what impact will this have on the covered bond valuation?**

- The Royal Decree of 11 October 2012 - *Koninklijk besluit betreffende de uitgifte van Belgische covered bonds door kredietinstellingen naar Belgisch recht* stipulates in article 3, §6 that exposures which defaulted should not be included in the covered pool and according to article 6, §7 the coverage of these exposures is valued at 0. In addition, according to article 6, §7 exposures which are past due for more than 30 days can only be accounted for 50% of the coverage value as determined in article 6.
- However, paragraph 18 of EBA guidelines on the application of default states: "*Where the repayment of the obligation is suspended because of a law allowing this option or other legal restrictions, the counting of days past due should also be suspended during that period. Nevertheless, in such situations, institutions should analyse, where possible, the reasons for exercising the option for such a suspension and should assess the possible indications of unlikeliness to pay*". We refer further to the EBA statement on COVID-19 measures and the EBA Guidelines of 2 April 2020, published on the 25th of March 2020, for the definition of public and private moratorium.
- Hence, the following will apply to exposures that fall under the COVID-19 moratorium and that are at the same time part of the cover pool of a Belgian covered bond.
- Exposures with less than 30 Days past due, at the date the moratorium measures are applied to them, can be taken into account for 100% of their coverage value.
- Exposures with more than 30 Days past due at the date the moratorium measures are applied to them, should be valued at 50% of their coverage value.
- Exposures which are defaulted, at the date the moratorium measures apply to them, shall be valued at 0% of their coverage value.

## **5.2 Does the moratorium lead to forbearance?**

According to the EBA statement published on 25 March 2020, the public and private moratoria, as a response to COVID-19 epidemic to the extent they are not borrower specific but rather addressed to broad ranges of product classes or customers, do not have to be automatically classified as forbearance measures.

## **5.3 How is the moratorium treated in relation to default?**

In terms of counting days past due, the EBA guidelines on the application of the definition of default already explicitly account for the possibility that the counting of days past due should be suspended during the period of public moratoria. As a consequence, counting of days past due will only resume after the moratoria period. Public and private moratoria should be treated similarly to the extent they have similar purpose and characteristics. The EBA will provide criteria to determine under what characteristics such similar treatment may apply.

Institutions are still obliged to assess the debtor's unlikelihood to pay on a case-by-case basis, this assessment refers to the modified schedule of payments, and where there are no concerns in that regard the exposure may remain in performing status.

## **5.4 How does the moratorium impact the PD of an internal model?**

Accurate and timely measurement of risks is not waived by the moratorium. Hence, the normal application under IRB still applies. Losses that might appear, even under the moratorium framework, should be considered for LGD. With regard the PD, there is no direct link with the PD as observed defaults will not appear under the moratorium but afterwards.

### **Moratorium – IFRS 9 treatment**

## **5.5 Will the moratorium lead to a transfer to stage 2?**

The inherent flexibility offered by the principle-based nature of IFRS 9 is considered, which calls for the application of expert judgment instead of strict automatism. According to the EBA statement published on 25 March 2020, the application of public or private moratoria, aimed at addressing the adverse systemic economic impact of the COVID-19 pandemic, should not be considered by themselves as an automatic trigger to conclude that a significant increase in credit risk has occurred. As highlighted by the EBA, it does not remove the obligations for credit institutions to assess the credit quality of the exposures benefiting from these measures and identify any situation of significant increase in credit risk of the exposures accordingly.

When performing this assessment under IFRS 9, it is important to consider all reasonable and supportable information regarding the risk of default over the total lifetime of the exposure.

### **Guarantee scheme - prudential treatment**

## **5.6 How will the RWA's be calculated for exposures subject to the guarantee scheme: can we assume government cover, reducing our RWA?**

The setup of the guarantee scheme is a form of synthetic securitization and hence the securitization framework is applicable. The treatment under this framework is dependent on whether a significant risk transfer is present or not. The guarantee on the bank's portfolio can only be recognized under the securitization framework if a significant risk transfer took place. The secured part of the tranches can receive the same risk weight as direct exposures to the guarantor. If the Significant Risk Transfer condition is not met or the credit institution chooses not to make use of this option on the basis of CRR article 247 (2), exposures should be risk weighted as if no securitization took place, which means that in this case the guarantee cannot be taken into account.

Hence one can conclude that RWA's might be reduced under the securitization framework but will never rise compared to the RWA's of unsecured corporate exposures.

### **Guarantee scheme – IFRS 9 treatment**

#### ***5.7 How to account for the guarantee scheme for new credit?***

The measurement of the ECL allowance would be determined by reflecting the effect of the public guarantee in the measurement of the losses expected on default. From an operational standpoint, and depending on the final arrangements, this would mainly affect the estimate of the LGD parameter used for the purpose of the ECL measurement.

The impact on the institutions' financial position stemming from the recognition of the expected credit losses on these exposures might thus be mitigated by the existence of a collateral or public guarantee provided.

#### ***5.8 How to assess SICR under the new credits under the guarantee scheme and can exposures remain in stage 1 even if there is a significant deterioration of underlying credit risks?***

The existence of a state guarantee as such, does not prevent a credit exposure to be moved from Stage 1 to Stage 2 as collateral should not be considered when assessing whether a significant increase in credit risk (SICR) took place. There should be no automatism in the assessment of a significant increase in credit risk and expert judgment should be applied (considering, for instance, to the sector to which the client belongs).

Yet, if the lifetime of the new credits is limited to 12 months (and not revolving), the impact on the ECL calculation should not lead to a cliff effect as the 12-month ECL should already be the same as the lifetime ECL.

#### ***5.9 In the case of a loan guaranteed by the NBB, should a bank always flag up forbearance in any case, or only in certain clearly defined cases?***

New loans which fall under the guarantee scheme would not fall under the definition of forbearance as no restructuring took place.

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