

Line of guarantees to ensure the liquidity of the self-employed and companies before the COVID-19

27th March 2020

Council of Ministers 24th March agreement

On 26 March, the Official State Gazette published the Agreement that includes the characteristics of the first tranche, for an amount of up to 20,000 million euros, of the Guarantee Line for companies and self-employed workers, included in Royal Decree Law 8/2020 on extraordinary urgent measures to deal with the economic and social impact of COVID-19, which will have a total amount of 100,000 million euros. In this informative note, we extend the content of the one we already issued on March 24, once we had access to the content of said Agreement.

Characteristics of the Guarantee Line

Maximum amount of the approved tranche:

20 billion euros, of which 50% will be reserved to guarantee loans to the self-employed and SMEs (in accordance with Article 2 of Annex I to Commission Regulation (EU) No 651/2014 of 17 June 2014).

Conditions that companies and freelancers must meet in order to apply for guarantees:

- (i) Who have been affected by the economic effects of COVID-19.
- (ii) That they have their registered office in Spain.
- (iii) That they are not in a situation of default on 31 December 2019.
- (iv) That on 17 March they were not subject to bankruptcy proceedings or in the circumstances that would allow a creditor to apply for the necessary insolvency proceedings (briefly, seizure of assets without sufficient assets to pay, general cessation of payment of obligations, existence of generalised embargoes on the debtor's assets, ruinous seizure or liquidation of assets, non-payment of tax, social security or labour debts during the last three months).

Characteristics that a loan must meet in order to be guaranteed:

- (i) Have been formalized or renewed as of March 18, 2020
- (ii) Be intended for liquidity purposes (payment of salaries, invoices, working capital requirements or other liquidity needs, such as financial or tax obligations).



- (iii) The maximum limit that can be guaranteed is set in relation to the European Commission's Temporary Framework for State Aid (19th March 2020 Commission notification), which contains the following limits:
 - a. Double the annual salary costs of the beneficiary.
 - b. 25% of the beneficiary's total turnover in 2019.
 - c. The liquidity required for 18 months from the time of granting in the case of SMEs, or 12 months from the time of granting in the case of large companies. In this case, justification and a liquidity plan are required.
 - d. In the case of loans maturing no later than 31 December 2020, the amount may be increased with appropriate justification and if the proportionality of the aid is ensured.
- (iv) Operations of more than EUR 50 million require prior analysis by the ICO of compliance with the conditions of grant. Those of lesser amount are analysed by the corresponding financial institutions directly.

Conditions under which the guarantees are provided:

- (i) Maximum percentage of the guarantee on the guaranteed operation
 - a. In the case of SMEs or self-employed workers, a maximum of 80% of the operation.
 - b. In the case of companies other than SMEs, 70% of the amount of new operations and 60% of renewal operations.
- (ii) Duration of the guarantee: maximum 5 years.
- (iii) Maximum application period: until 30 September 2020. The deadline may be extended by agreement of the ministers within the limits set by European regulations (the Temporary Framework currently indicates 31 December as the maximum date).
- (iv) Guarantee payment.
 - a. Remuneration according to each guarantee granted, to be paid by the financial institutions benefiting from the guarantees (not the guaranteed party):

Borrower	amount	Transaction type	Remuneration (bps)
All	<1,5 mill	All	20
Self-employed and SMEs	>1,5 mill.	All	20-80
Other than SMEs	>1,5 mill	New funding	30-120
	<1,5 mill	Renewal	25-100

- b. Management fee 0.05% of the total guaranteed portfolio (fee charged by the financial institution).
- (v) The guarantees will be retroactive and may be requested for operations formalized after the entry into force of Royal Decree Law 8/2020, which took place on 18 March.

Other matters of interest:

- (i) Financial institutions commit to keep the costs of new loans and renewals from these guarantees in line with the costs applied before the start of the COVID-19 crisis.
- (ii) The financial institutions undertake to maintain, at least until 30 September 2020, the limits on the working capital lines granted to all customers and those customers whose loans are guaranteed.
- (iii) The ICO has 10 days from 25 March to take measures to implement the guarantee line. The ICO is also expected to sign framework contracts with financial institutions.

We hope the information is useful and interesting for you. At Andersen Tax & Legal we have created a multidisciplinary team to deal with all the questions that may arise on this aspect or in relation to the COVID-19.

For more information please contact:

[Guillermo Yuste](#) | Partner of the Mercantile area
guillermo.yuste@andersentaxlegal.es

[Gonzalo Cerón](#) | Partner of the Mercantile area
gonzalo.ceron@andersentaxlegal.es

[Ignacio Aparicio](#) | Socio del área Mercantil
ignacio.aparicio@AndersenTaxLegal.es

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