



ENHANCEMENT OF CREDIT GUARANTEE SCHEME

PURPOSE OF THE SCHEME

In support of the Government's efforts to bring some measure of relief to those enterprises in the private sector which may be adversely affected by the fallout from the terrorist attack on the U.S.A., The Central Bank of Barbados established an Enhanced Credit Guarantee Scheme for enterprises in the foreign exchange earning sectors, under the following terms:

Any credit institution desirous of participating in the Scheme may apply to the Central Bank to do so and, upon approval, provide credit facilities to eligible borrowers.

ELIGIBILITY

The borrower may be an individual, partnership, a corporate body, or an association of individuals, and must have the ability to contract loans and other credit facilities.

To qualify the borrowers must meet the following criteria:-

- (a) The enterprise must be in the foreign exchange earning sectors, or be a direct supplier to an enterprise earning foreign exchange.
- (b) Sales in foreign currencies must be at least 75% of gross revenue, or at least 75% of gross revenue must be supplied to enterprises earning foreign exchange.

CREDIT FACILITIES GUARANTEED

- Credit facilities to be guaranteed shall be the net amount of new credit advanced to the enterprise.
- The maximum amount of credit facilities to be guaranteed shall not exceed 80% of the loan from the credit institution or BDS\$2.0 million, whichever is lower.
- Guarantees may be provided for working capital facilities up to a maximum maturity of three (3) years.
- Guarantees for medium-term facilities may be provided up to a maximum of ten (10) years.
- Credit facilities which may be guaranteed include demand loans, term loans, overdraft, discounts, letters-of-credit, acceptances, payment guarantees, tender bids and contract bonds.

EXTENT OF GUARANTEE

The Scheme offers commercial banks and other credit institutions protection against losses arising from the failure of borrowers to repay their loans. The risks covered under the guarantee are:

- (1) Insolvency of the borrower.**
- (2) Protracted default by the borrower.**

All advances given under short-term and/or medium-term guaranteed facilities will remain covered. In the event of loss, the Central Bank will indemnify the credit institutions to the extent of 80% of the loss sustained. Thus, credit institutions will only bear 20% of any loss.

HOW TO OBTAIN A GUARANTEE

Commercial banks and other credit institutions approved by the Central Bank, which are desirous of obtaining guarantees for loans to small businesses, should apply, on the prescribed forms, to the Foreign Exchange & Export Credits Department of the Central Bank.

Credit institutions should evaluate loan proposals from applicants and indicate the extent of their loan participation to the Central Bank.

Guarantee applications should be accompanied by all relevant documents and evidence supporting the borrowers financial position and creditworthiness.

Where necessary the borrower should be required to maintain adequate security for the credit facility extended to him. However, in no case would the lack of adequate security be considered by the Central Bank as the prime reason for refusing a guarantee application.

The following credit facilities will not be eligible for guarantee under the Scheme:

- (i) Any credit facility in respect of which risks have already been covered by Government or under any other scheme.
- (ii) Any credit facility which does not conform to the credit regulation policy of the Central Bank of Barbados.
- (iii) Any credit facility granted to the borrower who had defaulted on any other credit facility made available to him under the Scheme.
- (iv) Any credit facility to refinance an existing debt except where the Central Bank is satisfied that such refinancing has not arisen from default or inability of the borrower to repay an existing debt.

OBLIGATIONS

- **Borrowers:** It shall be the responsibility of the borrower to provide the credit institution with reliable and up-to-date information concerning his business in order that a complete assessment of his financial needs may be undertaken and the appropriate guarantee be provided by the Central Bank.

The borrower must provide the credit institution and the Central Bank with timely reports on the operation of his business as may be required from time to time.

Failure by the borrower to meet any of the above-mentioned obligations could result in the revocation of any credit guarantee issued on his behalf by the Central Bank.

- **Credit Institutions:** It will be the responsibility of the credit institutions to ensure that loans granted under the Credit Guarantee Scheme are used for the intended purpose. To this end, the credit institutions should monitor the loans and report to the Central Bank, without delay, any misuse of funds guaranteed under the Scheme.

Credit institutions must comply with the terms and conditions of credit guarantees and ensure that the terms on which credit facilities are given do not in any way conflict with the provisions of the Credit Guarantee Scheme.

The Central Bank's approval must be sought for any modifications to credit facilities guaranteed under the Scheme.

Credit institutions will be required to certify that financial and other data submitted to the Central Bank on behalf of borrowers are relevant and adequately represent the current status of borrowers.

Before extending credit facilities to borrowers under the Credit Guarantee Scheme, credit institutions should obtain adequate proof as to the eligibility of borrowers. The Central Bank should be notified promptly of those borrowers who cease to be "eligible borrowers".

At the end of each month credit institutions will be required to submit, to the Central Bank, details of all credit guarantee applications declined during the month.

Enhancements, renewals and extensions of credit facilities guaranteed under the Credit Guarantee Scheme must be submitted to the Central Bank for approval. Requests for such enhancements, renewals and extensions should reach the Central Bank at least seven (7) days prior to the intended effective date.

Credit institutions will be required to take all normal and reasonable steps to deal with borrowers in default and to notify the Central Bank, in due course, of the necessary action taken against such borrowers.

RATES OF INTEREST AND PREMIUM

Credit institutions shall not charge interest on credit facilities guaranteed under the Scheme at a rate in excess of the average cost of funds plus a margin of 3.5%.

A guarantee premium equivalent to a rate of 1½ percent per annum on the monthly balance of the loan guaranteed shall be payable on approval of the guarantee. In the case of an overdraft facility, the guarantee premium will be the rate of 1½ per cent per annum on the amount of the overdraft facility guaranteed.

BENEFITS

Businesses which make use of the facilities provided under this Scheme could have access to additional financing at competitive rates.

Similarly, credit institutions which participate in this Scheme may derive several benefits, through an increase in their loan portfolio with reduced risks.

ANY FURTHER QUERIES CONCERNING THE SCHEME SHOULD BE DIRECTED TO:

THE FOREIGN EXCHANGE AND EXPORT CREDITS DEPARTMENT

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