



COVID-19-bridge loans

Who can apply for bridge loans under the Federal guarantee programme?

The measures enacted by the Federal government to combat the coronavirus (SARS-CoV-2) and interrelated diseases, such as the closure of businesses and the prohibition of public events ("Lockdown"), are causing liquidity shortages that threaten the existence of many Swiss enterprises. In order to support small and medium-sized enterprises (SMEs) affected, the Federal government, together with various banks and the Swiss Bankers Association (SBA), has developed a programme for bridge loans totaling CHF 20 billion. On March 24, 2020, the SBA provided information on the procedure for granting such COVID-19-bridge loans and on March 25, 2020, the Federal Council issued the emergency ordinance on the COVID-19 joint sureties, which entered into force on March 26, 2020.

In this Bulletin, we provide information on the purpose, the prerequisites and the procedure for granting COVID-19-bridge loans.

Purpose of the programme

The programme is based on the ordinance on the COVID-19 joint sureties of March 25, 2020, and is designed to provide secured bridge loans to enterprises facing liquidity shortages in a quick and straightforward manner.

The following two types of bridge loans are available:

- **COVID-19-LOAN:** Loans of up to CHF 500,000, which are easily granted by banks and 100% secured by the Federal government by means of a joint surety; and
- **COVID-19-LOAN-PLUS:** Loans in amounts exceeding CHF 500,000 up to a maximum amount of CHF 20 million, 85% of which are secured by the Federal government by means of a joint surety, and which are preceded by a credit check by the lending bank in accordance with standard industry practice.

Both types of credit instruments should be available to the borrower within the shortest possible time: COVID-

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19-LOANS should normally be released within a few hours from submitting the application, whereas COVID-19-LOANS-PLUS should be made available within a few days.

Prerequisites

Who can apply for a COVID-19-bridge loan?

Applicants may be sole proprietorships, partnerships or legal entities with registered office in Switzerland. Swiss group companies belonging to a foreign group of companies can participate in the programme too, although, in any case, certain restrictions with regard to the use of the proceeds apply (see "What can a COVID-19-bridge loan be used for?").

The granting of a COVID-19-bridge loan is excluded if the applicant's aggregate turnover for the year 2019 exceeds the amount of CHF 500 million.

When submitting an application, applicants must declare and warrant that they:

- were established before March 1, 2020;
- are not in bankruptcy or composition proceedings or in liquidation at the time of filing the application;
- are economically significantly affected by the COVID-19-pandemic, notably in terms of turnover; and
- have not already received (other) liquidity guarantees based on the emergency regulations in the areas of sport and culture at the time of filing the application.

Process

An applicant applies either "merely" for a COVID-19-LOAN or, in addition, for a COVID-19-LOAN-PLUS:

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What are the conditions of a COVID-19-LOAN?

The conditions of COVID-19-LOANS are specified in the ordinance on the COVID-19 joint sureties. These are in particular:

- **Interest:** COVID-19-LOANS bear interest of 0.0% *p.a.* The Federal Department of Finance may adjust the interest rates annually in line with market developments, for the first time as of March 31, 2021.
- **Term:** The term of COVID-19-LOANS shall not exceed five years after the granting of the COVID-19-LOAN, although the bank may extend such maximum term for an additional two years with the consent of the Federal government, if repayment after the initial term would result in significant hardship on the borrower.
- **Repayment:** The COVID-19-LOAN is to be repaid in full at the latest at the end of the term together with accrued interest. However, the lending bank reserves the right to introduce amortization payments or limit reductions during the term.
- **Cancellability:** Both the borrower and the bank have the right to cancel the COVID-19-LOAN at any time with immediate effect, whereby the bank may only exercise this right of cancellation for regulatory or legal reasons (e.g., violation of regulatory requirements or the loan agreement). All amounts outstanding under the COVID-19-LOAN immediately become due and payable at the time of cancellation.

How to apply for a COVID-19-LOAN?

For a COVID-19-LOAN an applicant has to fill in a credit agreement (available at: <https://covid19.easygov.swiss>), in which the applicant confirms, among other things, the fulfilment of the above-mentioned prerequisites (see "Who can apply for a COVID-19-bridge loan?") and further warrants that the applicant has neither already received a COVID-19-LOAN nor that another application for a COVID-19-LOAN is pending.

The amount of the COVID-19-LOAN applied for is limited: The credit amount applied for may not exceed 10% of the applicant's turnover according to its standalone financial statements (no consolidated view) in the financial year 2019 or, if this has not yet been determined, in the financial year 2018. Under no circumstances can an

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application for a COVID-19-LOAN be made for a credit amount exceeding CHF 500,000.

The applicant may submit the signed credit agreement electronically, by mail or in person to a bank participating in the programme. The list of participating banks can be found at: <https://covid19.easygov.swiss/banken>.

Upon receipt of the agreement, the bank checks whether the applicant is already a customer and carries out a signature check. New customers must first undergo a complete KYC | account opening process. In all other respects, however, the bank relies on the applicant's self-declaration in the credit agreement and does not carry out any further credit checks, although the bank reserves the right to forego payment of the COVID-19-LOAN without stating any reasons.

COVID-19-LOANS-PLUS

What are the conditions of a COVID-19-LOAN-PLUS?

In principle, the banks can determine the conditions of COVID-19-LOANS-PLUS independently in the credit agreement, whereby certain requirements of the ordinance on the COVID-19 joint sureties must be observed (e.g., regarding interest rates or the term).

What are the specifications of a COVID-19-LOAN-PLUS pursuant to the ordinance on COVID-19 joint sureties?

The ordinance on COVID-19 joint sureties predefines the following conditions:

- **Interest:** In respect of the amount secured for by the Federal government (i.e., 85% of the credit amount), COVID-19-LOANS-PLUS bear interest of 0.5% p.a. The Federal Department of Finance may annually adjust the interest rates in line with market developments, for the first time as of March 31, 2021. For the remaining credit amount the interest rate set forth in the relevant credit agreement, as individually negotiated and agreed with the bank, applies.
- **Term:** As for the term, the same as for the COVID-19-LOANS applies (i.e., five years with a

possible extension of two years in case of hardship).

How to apply for a COVID-19-LOAN-PLUS?

If, in addition to a COVID-19-LOAN, an applicant also applies for a COVID-19-LOAN-PLUS, it is not sufficient to simply fill out a credit agreement and submit it to a participating bank, the applicant must also fill out a credit application (available at: <https://covid19.easygov.swiss>) and submit it electronically, by mail or in person to a participating bank for examination. In this application the applicant confirms, among other things, the fulfilment of the above-mentioned prerequisites (see "Who can apply for a COVID-19-bridge loan?") and further warrants that the applicant has only received or applied for one (and not several) COVID-19-LOAN.

The amount of a COVID-19-LOAN-PLUS is limited, too: The credit amount applied for may not exceed 10% of the applicant's turnover and in no case exceed CHF 20 million, whereby any COVID-19-LOAN (up to CHF 500,000) already applied for or granted will be deducted from the latter amount. The relevant turnover is determined on the basis of the final or, if applicable, provisional standalone financial statements (no consolidated view) for the financial year 2019. If the figures for the financial year 2019 are not yet available, the figures for the financial year 2018 will be used. In respect of "start-ups", which were only established during the financial year 2019 or later, the triple of the net payroll for a financial year counts as turnover, provided, however, that such amount must at least be CHF 100,000 and not exceed CHF 500,000. Within these guidelines, the applicant is free to choose the credit amount of a COVID-19-LOAN-PLUS.

The bank conducts a limited and accelerated credit approval procedure. For this purpose, applicants must submit further documents, such as in particular financials and accounts. In case of a positive outcome of the credit procedure, the bank concludes a credit agreement with the applicant and a surety agreement with the Federal government (sample contract available at <https://covid19.easygov.swiss>), whereupon the bank grants the COVID-19-LOAN-PLUS. In the case of a

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COVID-19-LOAN-PLUS too, the bank may refuse to grant the loan without stating any reasons.

The COVID-19-CREDIT-PLUS is being considered as secured for from the signing of the surety agreement, whereby the joint surety is in any case limited in amount of 85% of the COVID-19-LOAN-PLUS plus annual interest. Accordingly, the lending bank bears the credit risk in the amount of 15% of the COVID-19-LOAN-PLUS.

Purpose

What can a COVID-19-bridge loan be used for?

COVID-19-bridge loans may not be used for any purpose whatsoever, but exclusively to secure current liquidity requirements, including the refinancing of overdrafts accumulated since March 23, 2020 at a participating bank. The use for new investments in fixed assets, which are not replacement investments, is excluded.

In order to reduce the risk of default under the sureties granted to secure the COVID-19-bridge loans, the borrower is no longer permitted to carry out the following transactions during the term of such surety:

- the distribution of dividends or royalties;
- the reimbursement of capital contributions;
- the granting of loans, the refinancing of personal or shareholder loans;
- the repayment of intra-group loans; and
- the transfer of credit funds to a foreign group company.

Offsetting in case of capital loss and over-indebtedness

For purposes of the calculation of the coverage of capital and reserves pursuant to article 725 para. 1 CO and for purposes of the calculation of an over-indebtedness pursuant to article 725 para. 2 CO, COVID-19-LOANS will not be taken into account up until March 31, 2022. This provision is designed to prevent that companies are imminently threatened with over-indebtedness due to utilizing a COVID-19-LOAN.

Sanctions

For all COVID-19-bridge loans, the applicant must confirm in the credit agreement or in the credit application that the information provided is complete and true and that he is aware that he may be liable to prosecution for fraud (article 146 Criminal Code), forgery of documents (article 251 Criminal Code), etc. by providing incorrect or incomplete information and may be punished with imprisonment for up to five years or a fine. In addition, in accordance with the ordinance on the COVID-19 joint sureties, anyone who deliberately obtains a COVID-19-bridge loan with false information or does not use the corresponding credit funds to secure the above-mentioned liquidity requirements (see "What can a COVID-19-bridge loan be used for?") can be punished with a fine of up to CHF 100,000.

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