

Legal Alert Covid-19: Chilean banking and credit measures in the context of Coronavirus



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The financial tensions originated as a result of the recent worldwide outbreak of the coronavirus (also known as COVID-19), has motivated the Chilean Government, in conjunction with the Central Bank (“**BC**”) and the Financial Market Commission (“**CMF**”), to put into effect an “**Emergency Economic Plan**”, which seeks to provide support to the most vulnerable workers, companies and families in the country, and will permit to grant new loans in the amount of up to **USD 24,000 million** and complement the capitalization of the Small Business Guarantee Fund (FOGAPE), a state-run fund to support small entrepreneurs.

As part of the contingency plan, the following measures have been adopted and/or announced to date:

Capitalization of Banco Estado: an extraordinary capitalization of *Banco Estado* (the most important public banking institution of the country) for **USD 500 million** within a period of 12 months was approved, which will increase the capacity of Banco Estado to grant loans, reaching **USD 4,400 million** (Law No. 21,225).

CMF Measures: to safeguard the solvency and liquidity of its audited entities, the CMF, among other measures, has announced:

- **Facilities for the Payment of Mortgage Loans.** For the borrowers who were in compliance at the time of the state of emergency was ruled, it was agreed to allow the rescheduling of the payment of up to 3 installments to dates after to the original maturity of the loan, without being treated as renegotiations for banking provision purposes.
- **Softening the Payment of Consumer Loans:** For individuals and PYMES (acronym for “*pequeñas y medianas empresas*”, which is small and medium businesses), the payment dates are extended in up to 6 months, without being treated as renegotiations for banking provision purposes.
- **Extend the Term of Disposal of Goods Received in Payment.** The term for banks to dispose of the assets they receive in payment of past due debts is extended to 18 months, to prevent such assets from being sold at prices lower than the regular prices in the market (CMF Resolution No. 2432, as of March 25)

Central Bank Measures: On April 8, the Central Bank of Chile announced a package of measures to provide liquidity and supporting to the flow of credit, whose main cornerstone is the granting of credit facilities for banks in order to motivate them to continue financing and refinancing loans to individuals and companies. The measures are the following:

- Creation of a Credit Line Conditioned to the Increase of Placements ("FCIC" for its initials in Spanish): consists on a special facility destined for banking entities that have commercial and/or consumer loans placed, for an amount corresponding to 3% of the base portfolio.
- Creation of a Liquidity Credit Line ("LCL"): consists on a credit line in Chilean pesos, limited to the average reserve requirement in pesos of each bank. The access and use of the LCL will be subject to the same conditions associated with the increase in the placements established for the FCIC.

The initial amount of the FCIC and LCL lines is equivalent to **USD 4,800 million**.

- Creation of an Additional Credit Line: the initial amount of the FCIC and LCL lines may increase, since the BC will promote an **additional facility** that grants 4-year loans to banks, depending on the increase they make in their placements, with an additional multiplier effect for loans granted to PYMES. The additional line has a growth margin of four times the initial line, equivalent to USD 19,200 million, which would bring the total closer to **USD 24,000 million**.
- Granting of Loans to Non-Banking Entities: during the next few days, a Law Project will be discussed at the Congress so that the BC can also offer some of these services **to other non-banking entities** (such as Credit Cooperatives), provided they comply with the high standards of regulation and supervision that are applicable in each case.

Credit Lines to PYMES and Individuals: on April 12, the President Sebastián Piñera announced and explained the operation of the loans that banks will be able to provide to PYMES and individuals. Through a bill, the Government proposes to strongly expand the Small Business Guarantee Fund (FOGAPE), with an expansion of state guarantees by up to USD 3,000 million, allowing to finance companies with annual sales up to 1 million UF (approximately USD 33,648 million), considering that the fund currently finances companies with annual sales of up to only 350,000 UF (approximately USD 11,815 million). The central elements of such loans will be the following:

- Amount: value equivalent to 3 months of sales in a normal period (October 2018-October 2019) for companies with annual sales of up to 1 million UF (approximately USD 33,648 million).
- Term: 6 months of grace and will be payable in installments during a period between 24 and 48 months.
- Rate: the loans will have a maximum interest rate (TPM + 3%), which, in the current circumstances, is equivalent to a real interest rate of around 0%.
- Eligibility: that the client is not in a bankruptcy process or is more than 30 days past due as of March 30, 2020, or as of October 30, 2019 for companies with annual sales of less than 25,000 UF (approximately USD 844,000).
- State Guarantee: increase the coverage of current securities to percentages from 60% to 85% of the loan amount (the percentage will be determined according to the amount of annual sales of the company).
- Rescheduling of Preexisting Debts: the participating banks (all local banks have adhered to the framework set by the Government) will postpone installments or maturities of pre-existing debts to relieve the financial burden of companies and maximize the injection of fresh resources into the economy.

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