

Italy Expands and Updates its Credit Guarantee Programs

By Kaleb Nyegaard

Original Program and its Expansion

Amount of total committed funds

On March 17, the Italian government set aside EUR 100 billion for loan guarantees. This amount proved insufficient to meet the demand, so in two communications on [April 9](#) and [April 10](#), the EC approved an increase in the amount of funds available for the guarantees of EUR 400 billion. It indicated that the guarantees would be [administered](#) by two groups within the state lender Cassa Depositi e Prestiti. The state SME-guarantee-fund Fondo di garanzia per le PMI would administer 60%, targeting domestic companies, and the state export agency Servizi Assicurativi del Commercio Estero (SACE) would administer the remaining 40%, targeting companies working in international markets.

Guarantee structure and credit analysis

In both the initial allotment as well as the addition, the government [created](#) a tiered system of guarantee ratios based on company size. This complex structure (outlined below) [allows](#) the government to more narrowly target the support, but some market participants say it has also [increased](#) the loan origination time and burden for the banks.

- 100% for loans up to EUR 25,000
- 90% for companies with less than 5,000 employees and turnover less than EUR 1.5 billion
- 80% for companies with more than 5,000 employees and between EUR 1.5 billion and EUR 5 billion in turnover
- 70% for companies with turnover of more than EUR 5 billion

The cost of the guarantee also changes based on the size of the company, reaching as high as 2% for larger companies.

Although state agencies administer the guarantees, the banking system ultimately is responsible for making lending decisions for new and refinanced loans. Since a large portion of the loans are not 100% guaranteed, banks take on a portion of the credit risk and therefore conduct extensive due diligence reviews before issuing the loans.

New Program for Small Businesses

Although the programs outlined above are open to companies of all sizes, on April 14, the EC [approved](#) an additional, much more generous, Italian credit guarantee program specifically targeting the self employed and small businesses with up to 500 employees. This program includes grants in the form of waivers on the guaranteed loan application fees. For loans up to EUR 800,000 the program guarantees 100%, for loans larger than this amount the program guarantees 90%. The program's EUR 800,000 threshold for a full guarantee is significantly higher than the previous EUR 25,000. Italy now has three major guarantee programs: (1) for entrepreneurs and small businesses, (2) for medium and large businesses in domestic markets, (3) for medium and large businesses in international markets.

Usefulness of Loans

[Many businesses](#) simply cannot afford to take on debt, even inexpensive debt. For them, revenue lost during the economic shutdown may never be recovered and new revenue generated after the economy is reopened may not be enough to cover regular expenses and additional debt repayments. One Italian restaurant owner's [open letter](#) to the prime minister explaining this dilemma has received a lot of attention. Other countries provide direct cash grants to small businesses instead of or in conjunction with credit guarantees