



## COVID-19 Economic Response Plan July 2020

# Interest Relief Program

## Less financial stress for households and businesses

### Context

The Cook Islands economy is highly reliant on the tourism industry, with an estimated 65 per cent of economic activity driven directly and indirectly by tourism. This makes the economy vulnerable to shocks that directly impact the tourism industry. The COVID-19 pandemic has had a significant negative impact on the economy, with growth forecast to be around negative 35 per cent in 2020/21 without Government support.

In response, the Cook Islands Government has developed the Economic Response Plan to target areas of the economy that are a risk to economic stability, while also looking at avenues to generate growth in the short-term.

The **Interest Relief Program** is designed to assist individuals and businesses throughout the period 1 July 2020 and 30 June 2021, to reduce the financial stress caused by the economic downturn, ensure business continuity and foster new business investment to drive economic growth.

### Summary

The Government is introducing the **Interest Relief Program** to provide support for Cook Island businesses and individuals by reducing the burden of existing debt held with the Cook Islands commercial banks, and in some circumstances, approved mortgages with non-banks. The Government will fund the lenders to cover 70 per cent of interest costs on existing debt held by businesses and individuals during the period 1 July 2020 to 30 June 2021, in the form of a grant payment to the lenders on behalf of the borrower.



### Objective

The overarching objective of this and the other credit initiatives is to support households and businesses during the economic downturn, by reducing financial stress and business closures and improving access to affordable credit so businesses can grow and prosper as the economic situation improves.

The **Interest Relief Program** is intended to provide relief to businesses and individuals who have seen their incomes fall and expect to face hardship resulting from existing debt commitments.

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## Interest Relief Program

The **Interest Relief Program** will work in tandem with the loan repayment deferral currently offered by the commercial banks (if applicable), to assist in reducing the interest burden once the repayment deferral is over. However, borrowers do not need to be receiving a loan repayment deferral from their bank in order to receive the Interest Relief. To deal with the risk of inequity for borrowers with non-bank lenders, registered mortgages with non-bank lenders can also receive relief under the Interest Relief Program (on a case-by-case basis) provided that the non-bank lender also complies with the loan repayment deferral program for those loans on the same basis as the commercial banks. Non-bank borrowers also do not need to be receiving a loan repayment deferral to be approved to receive the Interest Relief.

The commercial banks (and their regulators) have agreed to extend the loan repayment deferral to 12 months (on application), with discussions continuing about the potential for some further extensions, if necessary. The critical components of the bank loan repayment deferral are:

- The arrears status of loans as at 29 February 2020 is quarantined — if you were up to date on 29 February, you will be up to date after the deferral period, and if you were in arrears on that date, you will be no further in arrears.
- Interest will be compounded into the loans over the deferral period (thereby increasing the principal amount), and the terms of the loan (such as the repayment schedule) will be adjusted in consultation with the borrower.

The Interest Relief Program is intended to complement the loan repayment deferral by reducing the amount of interest which is compounded into the loan principal over the repayment deferral period, by the Government covering 70 per cent of the cost of interest over the 2020-21 financial year, under normal circumstances. However receipt of Interest Relief is not conditional on a borrower receiving a loan repayment deferral.

### What happens to the interest due?

This program will provide a one-off grant on behalf of existing debt holders (those with balances as of 30 April 2020) to the principal of the loan, that represents 70 per cent of the interest cost on existing loans over the period. The remaining interest is either paid by the borrower, or compounded – depending on the status of the borrower regarding the repayment deferral.

One aggregate payment will be made by the Ministry of Finance and Economic Management to each lender, on behalf of each borrower (or borrowers in the case of a partnership) to cover the cost of the portion that the government will cover. There is no requirement for an individual application process where debt is with one of the commercial banks. Non-bank borrowers need to apply to the Government for relief (as outlined below).

This payment is made to the principal of the loan, and will not alter the repayment amounts or arrangements directly.

### How about the principal?

Borrowers can apply to their lenders to receive a principal repayment deferral for 12 months from 29 February 2020 (or an alternative date when agreed between the borrower and the particular

lender), with discussions ongoing regarding the potential to extend the ability to defer after 30 June 2021 for individual loans where the circumstances require this.

The debt deferral program is an opt-in program for those who have been impacted by the Covid-19 pandemic, and will continue as such.

## **Eligibility**

All loans, excluding overdraft and credit card facilities, which were contracted as of 30 April 2020 held with Cook Islands' commercial banks (BCI, BSP and ANZ) will automatically have the interest relief applied to them, so there is no further eligibility criteria. The eligible balance in the case of bank loans is the total available balance (whether fully drawn or not) as at 28 July 2020.

## **Are private mortgages included?**

There are a small number of people in the Cook Islands who have mortgages through non-bank lenders. Government recognises that these people may have also been impacted by the economic downturn and risk facing material hardship as a result of their existing debt commitment. These mortgages are few in number, but significant to those borrowers and do not differ in nature from a mortgage issued by one of the commercial banks. Where non-bank mortgage borrowers can provide evidence of a comparable mortgage to those given by the commercial banks (in terms of the mortgage details and relevant contracts), these will be eligible for interest relief (by application, as outlined below).

For a non-bank mortgage to be included under the Interest Relief Program, the following criteria must be met:

- The loan relates to a particular property or business interest in the Cook Islands;
- The loan is not part of a hire-purchase arrangement for a vehicle or other similar asset;
- The borrower resides in the Cook Islands.

A non-bank mortgage borrower needs to apply to the Ministry of Finance and Economic Management (MFEM) for relief under the Interest Relief Program and sign an agreement with MFEM.

In the case of non-bank mortgages, the eligible loan balance is the amount specified in the agreement between the borrower and MFEM.

## **Payment of Interest Relief**

In order for the subsidy to be paid:

- in the case of loans held by the commercial banks, following the end of each quarter (that is, the end of September, December, March and June), the bank shall provide a summary of the amount of interest charged to MFEM within 20 working days of the end of the quarter; and
- in the case of non-bank mortgages, the borrower needs to provide a summary to MFEM of the amount of interest charged to MFEM within 5 working days of the end of each Calculation Date provided in their agreement with MFEM.

After quality assurance, payment for eligible loans will be made within 10 working days. The banks will provide an estimate of the interest amount for the 12-month period to the Crown for budgeting purposes. Non-bank mortgage lenders who receive payments under the Interest Relief Program will have similar responsibilities as those required of the banks with regard to changes to interest

rates. In particular, any increases in interest rates do not commit the government to subsidising 70 per cent of the larger interest calculation, and may be calculated on the original rate.

### How to apply

Borrowers with loans at the commercial banks do not need to apply for this program, as they are automatically included if they held debt as at 30 April 2020 provided the loan was not in arrears of 90 days or more on that date.

Non-bank borrowers can apply to MFEM through the email address listed at the bottom of this Fact Sheet. In order to be successful, borrowers will be required to provide details of the loan (such as the mortgage contract, deed of mortgage and statements) and sign an agreement with Government for the relief, if deemed eligible.

### How does the process work?

The process works as follows:

#### Banks

1. Banks and the Government agree on methodology to calculate interest owing on each loan for the period 1 July to 30 June 2021;
2. Government pays the banks 70 per cent of interest owing (as per the agreed calculation).

#### Non-bank borrowers

1. The Borrower applies to the Government for relief;
2. The Government, in its absolute discretion, determines whether the non-bank mortgage is eligible for relief under the Interest Relief Program;
3. The borrower and the non-bank lender sign an agreement with the Government;
4. Government pays the lender 70 per cent of interest owing (as per the calculation provided in the agreement);
5. All applications from non-bank borrowers must be received by 26 February 2021.

#### Example

If a person has a loan with \$100,000 owing at the end of June (on a loan which existed on 29 February 2020, and that loan has an interest rate of 10 per cent (compounding monthly), this would attract \$9,264.69 in interest over the 12-month period between July and June 2021, if principal repayments were being made. Under the **Interest Relief Program**, the Government will pay the bank \$6,488.75 on your behalf, so the loan balance at 30 June 2021 will be \$6,779 lower than it would be without the Interest Relief Program (due to compounding).

### Timing

This initiative will be available from 1 July 2020 and will continue for twelve months to 30 June 2021.

### Cost

The cost of this program is expected to be \$14.2 million for the twelve month period from 1 July to 30 June 2021.

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## For further information contact:

The Director  
Economic Planning Division  
Ministry of Finance and Economic Management  
PO Box 120, Avarua, Rarotonga, Cook Islands.

Telephone: +682 29511 ext. 8314

Email: [mfem.economics@cookislands.gov.ck](mailto:mfem.economics@cookislands.gov.ck)

Website: [www.mfem.gov.ck](http://www.mfem.gov.ck)

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