CV 19 Business Interruption Loan Scheme (CBILS)

The new and improved rules regarding CBILS have now been published, and I am pleased to say the Chancellor has listened. Some of the old rules still apply, many do not.

The main drive of the CBILS scheme is to encourage lenders to advance funds to clients at this time of need, it provides the lender with a government backed guarantee potentially enabling a negative credit decision from a lender to become a positive decision.

The Government, in conjunction with the lenders have agreed to waive the requirement for personal guarantees in most cases, reserving this requirement for cases in need of additional support or advances of £250,000.

On the face of it this seems really positive but we believe that some lenders have or are considering pulling out of the scheme as a result. Before we bash the banks, looking at it from their perspective;

- The banks have to lend responsibly, lending has to pass certain credit checks.
- The bank must satisfy themselves that the borrower will be able to repay the debt, that they can 'service' the debt and it is affordable.
- If a bank is going to lend a business money, they are taking a risk and they would argue that the borrower should be prepared to match that risk in some way. Otherwise if we are all given a free hit to borrow money without any recourse, the consequences could be disastrous. Ultimately all of this new money has to be paid back.

Many banks incurred a lot of bad debt following the last major financial crisis in 2008, when they were asked to lend to businesses under a similar scheme, the EFG scheme upon which this new scheme is based.

Therefore taking away the PG may act as a huge disincentive to many banks to lend under this new scheme and they may prefer to lend under traditional methods, with security and guarantees, which could then result in a lot of businesses reaching a dead end,

According to the British Business Bank, the new scheme should be operational with banks and other lenders from Monday 6 April.

https://www.british-business-bank.co.uk/ourpartners/coronavirus-business-interruption-loan-scheme-cbils-2/

The key features of the scheme

The scheme provides the lender with a government-backed, partial guarantee (80%) against the outstanding facility balance, subject to an overall cap per lender.

Finance terms can be up to six years for term loans and asset finance facilities. For overdrafts and invoice finance facilities, terms will be agreed with the lender in line of credit sanctioning.

Security will be at the discretion of the lender, the scheme may be used for unsecured lending for facilities of £250,000 and under. For facilities above £250,000, the lender will require suitable security and Personal Guarantees and a Debenture to be put in place whilst using CBILS.

If the lender can offer finance on normal commercial terms, without the need to make use of the scheme, they will do so.

Note that primary residential property cannot be taken as security under the scheme.

The maximum value of a facility provided under the scheme will be £5 million, available on repayment terms of up to six years or 72 months.

Interest and fees are paid by Government for 12 months. The Government will make a Business Interruption Payment to cover the first 12 months of interest payments and any lender-levied fees, so businesses will benefit from no upfront costs and lower initial repayments.

Fishery, aquaculture and agriculture businesses may not qualify for the full interest and fee payment.

The borrower always remains 100% liable for the debt initially and will have to repay what the business can (any guarantee is to the lender, not the business).

The Government has confirmed that the amount of funding available under CBILs will be demand-led, so funds will not run out. There is no immediate need to approach a lender if you do not need finance in the short term.

In order to qualify for CBILS your business must:

- Be UK based in its business activity. This continues to apply to limited companies, unincorporated businesses, partnerships and sole traders. There is no detailed guidance on what "UK based" means. I expect it will relate to the registered and/or trading address, where the staff are located and where the customers and suppliers are located.
- Have an annual turnover of not more than £45 million. There has been additional guidance for groups of companies, where multiple companies are owned by a common holding company to form a group. The threshold is based on what is referred to as the consolidated group turnover (if you're in a large group you'll know because your audited accounts will be prepared on a consolidated basis), and as long as that threshold is not breached, each group company that meets the other criteria can apply.
- Have a borrowing proposal which the lender would consider viable, were it not for the current pandemic. This remains the crux of the scheme. You must have a sound proposal and business plan in order to qualify.
- Self-certify that it has been adversely impacted by the Coronavirus.

What facilities are available?

This appears to be unchanged from last time. CBILS applies to overdrafts, term loans and asset finance, and the banks are offering a minimum of between £10,000-£25,000 up to a maximum of £5 million. Loans can be for a period of 3 months to 6 years.

No interest is charged on the loan for the first 12 months, nor are there any arrangement fees or early repayment fees in the first year.

For loans outstanding beyond 12 months, interest will be charged and some fees may apply too. Based on a quick review of the main high street banks' sites, interest rates appear to be attractive. Rumours of the banks gouging customers on interest rates may have been true but this should not be the case anymore.

Security and guarantees

This has changed a great deal. The government guarantee remains a guarantee in favour of the lender, not the borrower. This means that your business remains on the hook for the full amount of the loan, but there have been big changes:

- There are no personal guarantees (PGs) on facilities up to £250,000.
- For facilities above £250,000 the lender can require a PG but this **must exclude your personal residence, your home.**

Recoveries under personal guarantees are capped at a maximum of 20% of the balance on the facility after the proceeds of business assets have been applied. This is a huge change and it is clear the government has upped its game to get the banks to make the loans. Will the banks now follow suit?

This may be easiest explained by setting out a couple of examples;

Adam James is the owner of AJ Widgets Limited. He borrows £150,000 under the CBILS scheme. Sadly, his business does not survive the downturn and goes bust. The bank will have placed charges over the assets of his business, so that whatever is realised in the administration or liquidation of the company, the bank recovers that. The bank will also call on the government for the 80% guarantee. Because of the size of the loan, Adam has not given a PG and he has no further liability to the bank in respect of the CBILS facility. He does not get anything from the business, and he does not owe anything to the bank for the CBILS facility. (If there was other debt in the business with PGs he is still on the hook for that debt but not for the CBILS loan.)

Luke Oliver is the owner of LO Products Limited. He borrows £1 million under the CBILS scheme. Sadly, his business does not survive the downturn and goes bust. The bank will have placed charges over the assets of his business, so that whatever is realised in the administration or liquidation of the company, the bank recovers that. Let's say the recovery was £200,000. That goes straight to the bank and leaves a net amount of £800,000 owing (£1 million less the £200,000 proceeds). Luke's liability under the PG is £160,000 (20% of the £800,000 net amount owed). Luke remains liable to the bank to repay the £160,000 but **the bank cannot place a charge on or force him to sell his main home.** The bank will also call on the government for the remaining £640,000 (the 80% guarantee on the remaining £800,000).

If you can afford to run your business with a loan of up to £249,999.99 then I strongly recommend that you do so. I always advise people to avoid PGs.

Be sensible with the amount of money you are applying for, <u>it has to be paid back in future</u> and business will be challenging for the foreseeable. Look at all other options first and at least try and buy some time. For example, you can furlough your staff to reduce the wages bill, you may be entitled to a rates refund, you can defer your next VAT bill. There are many ways to conserve cash.

What information are the banks looking for?

You will probably need to provide:

- The last 2 years of full accounts (not the abbreviated ones filed at Companies House)
- Your latest management accounts – P&L and balance sheet
- A business plan showing that, in normal circumstances your business was viable – i.e. it would have been able to trade without needing access to funds
- A conservative forecast for the business over the next 12-18 months. Do not be afraid to show the impact of a reduction in sales by 50%, 75% or even 100% because of the Coronavirus. This forecast needs to justify the amount you are seeking to borrow, and to be clear about what costs you need to cover.
- For loans that require a personal guarantee (£250,000 and above) you will need to include a statement of your personal assets and liabilities. Remember, they cannot place a charge on your main home.

Depending on which bank you go with there may be additional requirements, but as a minimum you will need to provide the above.

Three key questions to ask yourself

1. Has the outbreak of COVID-19 caused your business to experience a downturn and loss in trade which has had a direct and visible impact on the organisation?

2. Can you prove that your business would be able to support/afford this lending before the COVID-19 situation?

3. Are you comfortable entering an additional credit agreement at this time and you appreciate the long-term implications of such an arrangement?

If you answer yes to all 3 questions then a loan application may be the way forward.

Please talk to us so that we can run through this with you, discuss what you need to do and what we can do to help.

We have developed a tool to assist with the lending request and estimate the amount of loan that will be required.