

SUPPORTING BUSINESS DURING CORONAVIRUS

# CORONAVIRUS BUSINESS INTERRUPTION LOAN SCHEME



**PREPARED BY**

OPTIMAL COMPLIANCE  
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# CORONAVIRUS BUSINESS INTERRUPTION LOAN SCHEME

The Government has released various measures which aim to support Small and Medium Enterprises (SMEs) through the financial uncertainty caused by Coronavirus.

## What is available?

One of the measures which the Government has put in place for SMEs is the Coronavirus Business Interruption Loan Scheme (CBILS), which makes available a borrowing facility of up to £5million per business.

**The government will guarantee 80% of the loan, the aim being to allow more loans to be approved. However, it is important to remember that the loan is 100% the responsibility of the borrower.**

All upfront fees and charges will be covered by the government, as will the interest for the first 12 months. However, interest will be charged at a rate agreed with your lender for the remainder of the lending term. This can be a maximum of six years, which includes the interest free 12 months.

As well as loans, there are other types of finance supported by the scheme, such as asset finance facilities, overdrafts and invoice finance facilities (overdrafts and invoice finance only on three year terms).

Full details are [available](#) from each lender, however we have set out here the practical steps which clients can take to prepare and apply for the CBILS.

## Eligibility criteria

To be eligible for a facility under CBILS, an SME must answer YES to the following statement:

**Is your business in need of financial help to supplement the loss of trading income due to Coronavirus?**

Some business sectors are not eligible to claim, equally if you have received state aid or funding you should double check the eligibility rules on the [British Business Bank](#) website.

Having answered **YES** to the above statement, you should approach your current business bank to discuss a CBILS loan. Some lenders will look to offer the loan on normal commercial terms, which may not have the benefits of the CBILS loan, so it is worth confirming with the lenders what they are offering you. However commercial loans will not be available to all businesses, at which point the CBILS loan will be an additional option.

# OVERVIEW OF THE SCHEME

CBILS temporarily replaces the existing Enterprise Finance Guarantee (EFG) scheme, the aim of which was to support SMEs, who may have limited or insufficient security to raise additional financing. The aim of CBILS is to operate in a similar way to EFG with a guarantee and 12 months of interest payments provided to the lender by the British Business Bank.

## ENTERPRISE FINANCE GUARANTEE (TEMPORARILY SUSPENDED)

Government-backed guarantee of 75% for the lender, subject to overall portfolio cap.

2% guarantee fee for smaller businesses to access EFG. No fee for lenders.

Funding to enable guarantees of up to £500m of additional facilities to smaller businesses per year.

Maximum value of the facility provided was £1.2m.

Repayment terms were a maximum of five years for facilities up to £1.2m, and between 5-10 years for facilities up to £600,000.

No fee from the Government to cover fees or interest payments.

Every application had to demonstrate a lack of sufficient security.

Available for UK-based businesses with annual turnover of up to £41m per year.

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Government-backed guarantee of 80% for the lender, subject to overall portfolio cap.

No guarantee fee for smaller businesses to access CBILS. Lenders charged a fee to use this scheme.

Government has said it will resource the scheme in accordance with demand.

Maximum value of the facility provided is £5m.

Repayment terms limited to a maximum of six years for term loans and asset finance facilities up to £5m. For overdrafts and invoice finance facilities, terms will be up to three years.

So smaller businesses can benefit from no upfront costs and lower initial repayments, the Government will issue a Business Interruption Payment to cover the interest and any lender-levied fees in the first 12 months of any CBILS facility. Some lenders have indicated that they will waive arrangement fees and early repayment charges.

At the discretion of the lender, some offer unsecured lending for loans of £250,000 and under. For facilities above £250,000, the lender must establish a lack or absence of security prior to using CBILS. In cases where the lender can offer finance on normal commercial terms, they will do so without relying on the CBILS scheme.

Available for UK-based businesses with annual turnover of up to £45m per year.

# PRACTICAL STEPS

There are **40 accredited lenders**, however, some only work with existing clients. The British Business Bank suggests that you should approach your existing bank first, before talking to other lenders. OC has spoken to some of the largest banks in the UK and found out that most banks will only deal with their existing clients. The benefit of this is that the bank already has access to much of the business's information, making the approval process quicker.

However, there are some smaller accredited lenders, mostly focussing on a particular sector or area in the UK. Businesses can visit the accredited lender's webpage for more details on how to apply and the type of finance packages they offer. Nonetheless, we would advice that businesses speak to their current banking provider first.

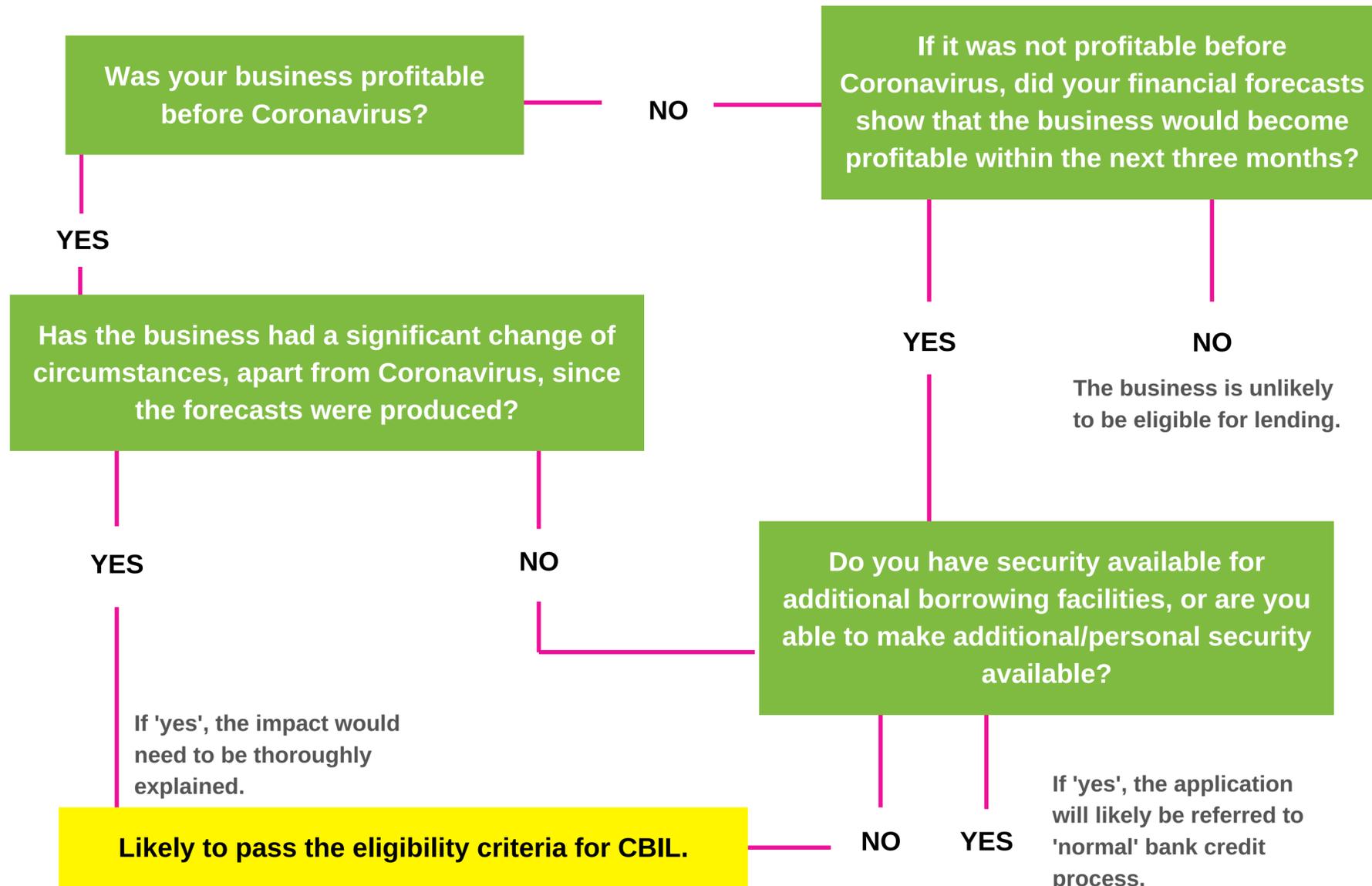
**If you have a current lending facility with the bank you are approaching for the CBILS, it would be sensible to ask them for a payment holiday from that loan to help with cash flow.**

- Give a reason why you need a payment holiday. (Coronavirus)
- Have an idea how long the payment holiday will be (three to six months should be acceptable)

**Before approaching a lender, you should have prepared answers to the following questions:**

- Was your business profitable before Coronavirus, and if not, what steps were you taking to change this?
- Before Coronavirus did your financial forecasts show that the business would be profitable in the future?
- Has the business had a significant change of circumstances, apart from Coronavirus, since the forecasts were produced?
- Do you have security available for additional borrowing facilities, or are you able to make additional/personal security available?
- Do you think that the impact of Coronavirus would be more prolonged for your business/industry than any other?

# PRACTICAL STEPS



Knowing how much you will be asking for is important. Any amount below £250,000 could be unsecured, at the discretion of the lender, which might be more attractive to some businesses.

However the loan will only be offered if the business can show that it is viable. The banks are keen to stress this is not a free for all, and will do some due diligence.

## To apply, you will need:

- Up to date management accounts
- The most recent set of statutory accounts
- Total annual payroll costs
- Financial forecasts with and without the effect of Coronavirus
- Details of trade debtors
- Some lenders may ask for a business plan.

## Do you think you qualify for the CBILS?

### Think about how much funding you will need:

- You should calculate the amount you wish to borrow with reference to costs that cannot be covered due to the effects of Coronavirus.
- Over what period can the business realistically repay the loan?

### Speed up the process:

- Which and how many lenders do I approach?
- What information do they require I give?
- How long will the process take from application to funds received?
- How to maximise the chance of a successful application?

# SOME LENDER REQUIREMENTS

We've been in touch with the main lenders to try to find out more details on the different products on the market. As at 24 March these are the details we're been able to find. We'll update this table as and when we find out more info, please let us know if you have any experience to share as part of your application process.

LENDER	HSBC	NATWEST	LLOYDS	SANTANDER	BARCLAYS	BUSINESS ENTERPRISE FUND
<b>Lends to non existing clients.</b>	No	Yes	No	Yes	No	Yes. Term loans of up to £250k in all sectors.
<b>Rates – fixed or variable or both</b>	Both	Both	Both	Both	Both	Both
<b>Offers repayment holiday</b>	Yes	Yes	Yes	Yes	Yes	Yes
<b>Approval time expected</b>	Instant for some overdrafts to 48 hours.	Case by case	Case by case	Case by case	Case by case	Approval and funds within a week.
<b>Business bank statements</b>	Yes	Yes	Yes	Yes	Yes	3 months and Statement of Assets & Liabilities
<b>Cashflow business as usual (BAU)</b>	Yes	Yes	Yes	Yes	Yes	Yes
<b>Cashflow projection</b>	Yes, undisclosed number of months.	Yes, undisclosed number of months.	Yes, undisclosed number of months.	Yes, undisclosed number of months.	Yes, undisclosed number of months.	12 months
<b>Financial statements</b>	Yes	Yes	Yes	Yes	Yes	Yes
<b>Management Accounts</b>	Yes	Yes	Yes	Yes	Yes	Yes
<b>Business Plan</b>	Yes	Yes	Yes	Yes	Yes	Yes
<b>Personal Guarantees</b>	Yes, depending on amount.	No	No	May be required.	No personal guarantees for loans under £250k. £250k-£5m will require all of the above and tangible security.	Yes, depending on amount.

# FINANCIAL FORECAST

These will be the key part of the application as the lenders will want to see that the business was solvent without the effects of Coronavirus, and that the business has the ability, once recovered, to repay the loan. The 'Business As Usual' forecast should be relatively straightforward for most business owners to put together, but please do ask us to assist if you would like us to. The Financial Forecast including the effects of Coronavirus should take the following changes into account as a minimum:

- Reduction to sales resulting from cancelled or delayed orders or sales
- Reduction to cost of sales / direct costs in line with the above
- Increase in costs resulting from home working (e.g. additional software costs)
- Reduction to staff costs where furloughed workers are expected to be paid by the Government.

# PERSONAL GUARANTEES

Having spoken with Barclays it seems that the lenders are requiring a personal guarantee for the CBILS loan.

This is a major difference to EFG loans, which do **NOT** require a personal guarantee. We would want to ensure that all Clients are aware of this before taking out one of the loans. It seems that although the government is guaranteeing 80% of the loan, the banks are still asking business owners to personally guarantee the whole amount of the loan, and not just the remaining 20%. This might be something which as a Director you could negotiate with the banks on, but that will have to be done on a case by case basis.

**If you have any questions please contact Optimal Compliance as we will be happy to assist any client with their application process.**