

The UK Government's Coronavirus Business Interruption Loan Scheme (CBILS)

If your business needs short term cash flow support, you may be eligible for financial support pursuant to the Coronavirus Business Interruption Loan Scheme (CBILS).

CBILS – What is it?

CBILS is a new scheme, announced by The Chancellor at Budget 2020, that can provide borrowing facilities of up to £5m for smaller businesses across the UK who are experiencing lost or deferred revenues, leading to disruption to their cashflow, arising from the COVID-19 pandemic.

CBILS supports a wide range of business finance products, including term loans, overdrafts, invoice finance and asset finance. In essence, the scheme provides the lender with a government-backed guarantee potentially enabling a credit committee proposal to be sanctioned where it might otherwise have been declined.

Importantly however, the borrower always remains 100% liable for the debt. Typically, though not exhaustively, the borrower will be pledging some security in respect of the finance product offered pursuant to the CBILS.

Various criteria apply in respect of the nature of the borrower, its UK presence and the purposes of the loan. See details below.

How CBILS works

The scheme will be delivered through commercial lenders, backed by the government-owned British Business Bank. Decision-making on whether a business is eligible for CBILS is fully delegated to the 40+ accredited CBILS lenders. The lenders range from high-street banks, to challenger banks, asset-based lenders and smaller, specialist or local providers of capital.

In practical terms, businesses should approach their existing finance provider in the first instance. They may also consider approaching other lenders if they are unable to access the finance they need through that primary channel.

Eligibility: The scheme is designed to step in and support smaller to medium size businesses (SMEs) who don't meet a lender's normal funding requirements for a commercial loan or other facility, but who are otherwise considered viable in the longer-term.

Additional criteria includes:



Application must be for business purposes



Applicant's business must generate more than 50% of its turnover from trading activity



Applicant must be a UK-based SME with an annual turnover of up to £45m



The CBILS-backed facility will be used to support a business that is primarily trading in the UK



Applicant must have a borrowing proposal which the lender would consider viable, were it not for the current COVID-19 pandemic term difficulty



The applicant will need to self- certify that it has been adversely impacted by the coronavirus

While CBILS does not apply directly to borrowers who are exclusively real estate owners, without trading businesses, it may assist them indirectly via the support it can provide to the underlying tenants. And of course, owner-occupiers who meet the other eligibility criteria may take advantage of the scheme.

Note, this is not an exhaustive list and lenders will need further information to confirm eligibility. The above points are a quick reference guide.



Key Features of CBILS

- » **Up to £5m facility:** The maximum value of a facility provided under the scheme will be the greater of 25% of the applicant's 2019 turnover or double the annual wage bill, subject in either case to a £5m cap.
- » **80% guarantee:** The scheme provides the lender with a government-backed, partial guarantee (80%) against the outstanding facility balance, subject to an overall cap per lender. The borrower is always 100% liable for repayment of the facility supported by CBILS.
- » **No guarantee fee for SMEs to access the scheme:** No fee for the applicant, however lenders will pay a fee to access the scheme.
- » **Interest and fees paid by Government for 12 months:** In addition to acting as guarantor, the Government will make a Business Interruption Payment (BIP) to cover the first 12 months of interest payments and any lender-levied fees, so applicants will benefit from no upfront costs and lower initial repayments. Up to 12 months capital repayment holidays are also available, meaning eligible borrowers would not need to pay anything for 12 months.
- » It is unclear at the present time whether the BIPs will take the form of a loan or a grant, though a provisional discussion that Colliers has had with the British Business Bank suggests that it will be a grant, thus these payments would not be rechargeable to the borrower at a later time.
- » **Finance terms:** Finance terms are up to six years for term loans and asset finance facilities. For overdrafts and invoice finance facilities, terms will be up to three years.
- » **Security:** At the discretion of the lender, the scheme may be used for unsecured lending for facilities of up to £250,000. For facilities above £250,000, the lender must establish a lack or absence of security prior to allowing a business to access the CBILS. If the lender can offer finance on normal commercial terms without the need to make use of the scheme, they are obliged to do so.
- » **Personal Guarantees ('PG'):** lenders will not seek a PG for loans of less than £250,000 and over that sum can only seek a PG for 20% of the loan. Some may not require a PG at all.

Sources:

<https://www.gov.uk/government/publications/guidance-to-employers-and-businesses-about-covid-19/covid-19-support-for-businesses#support-for-businesses-through-the-coronavirus-business-interruption-loan-scheme>

<https://www.british-business-bank.co.uk/wp-content/uploads/2020/03/British-Business-Bank-CBILS-FAQs-for-SMEs-FINAL.pdf>

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