

SUPPORT FOR BUSINESS AFFECTED BY CORONAVIRUS

WHAT IS THE CORONAVIRUS BUSINESS INTERRUPTION LOAN SCHEME (CBILS)?

It's the loan scheme set up by the Government to get taxpayer-backed cash to small businesses which have seen their cash-flow hit by coronavirus.

HOW DOES IT WORK?

Eligible businesses can borrow up to £5m over six years, with the first year interest free. The business customer is liable for repayment of 100% of the loan. If a business doesn't pay back the loan, the loss is shouldered 80% by the taxpayer and 20% by the bank/lender.

WHO RUNS IT?

The British Business Bank, the business lending arm of the Government which is run by the Department for Business Energy and Industrial Strategy.

WHO SETS THE RULES?

The initial rules were drawn up by HM Treasury and the British Business Bank to make sure the scheme was focused on those businesses in genuine need who had viable business models prior to the COVID-19 crisis.

WHICH BUSINESSES ARE ELIGIBLE?

The Government and the British Business Bank set rules for the scheme from the outset, including:

1. It is open to British businesses with a turnover of up to £45m that were financially healthy ('viable') before coronavirus.
2. Only those that were unable to access normal bank lending could apply originally. The Chancellor changed the rules on Thursday evening to mean that banks are no longer obliged to offer normal lending as a first step, and can now offer CBILS to all eligible businesses.
3. The business generates 50% or more of its income from selling goods or providing services.
4. A small number of industries are not eligible under the British Business Bank scheme rules which can be found on their [website](#).

WHERE DO THE BANKS COME IN?

More than 40 accredited lenders, including the main high street banks, have been licensed to process CBILS applications and hand out the cash. A full list is available on the [British Business Bank's website](#).

HOW WAS IT CREATED?

The scheme was developed by the Government, British Business Bank and the banks and built on an existing government support scheme for businesses – the Enterprise Finance Guarantee Scheme.

WHY ARE BUSINESSES RAISING CONCERNS?

The scheme was announced before the full details were decided and the lending available, hence some businesses were left understandably frustrated about their inability to access financial support quickly. There was also some confusion over eligibility, with many businesses believing the Government had said the scheme was open to all those affected by coronavirus. It took time to implement the scheme and for lenders to train all their front line staff to support customers.

Lenders have seen significant volumes of customers seeking to access funding in a short period of time, while also dealing with the challenges of staff needing to self-isolate or practise social distancing. Coronavirus has affected banks like any other business, resulting in call centre delays and processing backlogs as staff cope with huge demand.

Initially, with banks required by the British Business Bank to apply their own processes to obtain security against the loans, a number of banks had requirements for the owners of businesses to make personal guarantees, for example putting part of their home down as security for the loan in the event that the business itself was unable to repay. This is a routine part of commercial lending to make sure the borrower has an incentive to repay. This requirement has now been removed.

Some businesses have also been left disappointed after being assessed by their lender as not financially viable even before the outbreak of COVID-19. Banks are still required to assess that a business is able to afford the finance costs of any additional borrowing taken.

WHY ARE UNVIABLE BUSINESSES EXCLUDED?

Given the cost of failure is ultimately borne by taxpayers, it was deemed not to be a good use of public funding to support businesses that are inherently not sustainable over the short-to-medium term. Businesses that are already in a weak financial position should not be encouraged to take on more debt.

HOW IS VIABILITY ASSESSED?

The lender must reasonably assess that:

- the finance will help the business to trade-out of any short-to-medium term cash-flow difficulty, and;
- if the facility is granted, the business should not go out of business in the short-to-medium term.
- when normal trading resumes, the business will be able to afford to repay the borrowing.

As with other external finance applications, businesses will need to have a sound borrowing proposal (notwithstanding the disruption caused by COVID-19). The evidence required to demonstrate this will vary by lender but might include providing information such as recent accounts and trading information, as well as cash-flow forecasts.

WHAT'S CHANGED?

Following representations from the banks and the concerns of business groups the Government is now simplifying the scheme so that all eligible businesses seeking support are now considered for the scheme, regardless of whether the business customer meets the lender's normal credit criteria. This means that more businesses will now be able to benefit from the one-year interest free period under the scheme.

Businesses must still however be assessed as viable.

HOW LONG SHOULD IT TAKE?

All banks are facing huge call volumes and all applications need to be processed by both the lender and also the British Business Bank. Smaller requests (less than £250,000) are expected to be processed the fastest.

WHAT OTHER SCHEMES ARE AVAILABLE TO HELP BUSINESSES?

Lenders have put in place a range of different measures to support their customers, including waiving arrangement fees for new overdrafts, overdraft limit increases, new or increased invoice discounting and finance facilities, and loan repayment holidays. The Bank of England has also taken steps to reduce the

cost of bank lending under their normal credit criteria. For larger businesses, the Bank has put in place the Covid Corporate Financing Facility (CCFF) to support such businesses' liquidity needs.

The Government has also announced a range of measures to help reduce (or defer) businesses' costs, including paying a proportion of furloughed workers' salaries and deferring businesses' tax payments.

WHAT ABOUT MID-SIZED BUSINESSES?

The Chancellor has announced a new scheme to help bigger businesses too. Mid-sized companies should benefit from the Coronavirus Large Business Interruption Scheme (CLBILS), although it is not yet ready for applications. This will be aimed at businesses with a turnover of between £45m and £500m which will be able to borrow up to £25m. Loans backed by a guarantee under CLBILS will be offered at commercial rates of interest and further details of the scheme will be announced by the government later this month.

HOW CAN BUSINESSES THAT BANK WITH LLOYDS OR BANK OF SCOTLAND ACCESS CBILS?

Specific guidance for our business customers can be found on the Lloyds Bank and Bank of Scotland websites:

<https://www.lloydsbank.com/business/coronavirus.html#bils>

<https://business.bankofscotland.co.uk/business-home/coronavirus.html#bils>