THE CORONAVIRUS BUSINESS INTERRUPTION LOAN SCHEME EXPLAINED

As a result of the disruption and uncertainty caused by the COVID-19 outbreak, businesses are under unprecedented pressure in terms of cashflow and payment obligations. Simon Hore, a partner in Thrings' Banking and Finance team, takes a look at a new Government scheme which offer loans to SMEs of up to £5m.

The first step for any businesses with existing lending facilities is to speak to their lender to establish how those existing facilities may be amended. This may include repayment holidays, increased borrowing or extended repayment periods.

If further funding is needed the Government's new temporary Coronavirus Business Interruption Loan Scheme (CBILS) is likely to be relevant. This is a variation of the Government's Enterprise Finance Guarantee (EFG) arrangements that were made available in 2008 amid the banking crisis, in order to encourage lenders to make business loans.

WHAT IS THE CBILS?

CBILS is a new scheme that has been introduced by the Government to provide small and medium-sized businesses with access to funding during this period of disruption caused by COVID-19.

What are key features of CBILS?

- Facilities up to a maximum of £5 million;
- Term loan and asset finance facilities are repayable over six years or less;
- Overdrafts and invoice finance facilities for a term of three years or less;
- The Government will guarantee 80% of the loan to the lender
- No interest repayments during the first 12 months and capital repayment holidays can be agreed for an initial period.

Who is eligible for a CBILS loan?

CBILS loans are available to businesses across all sectors, with the exception of banks, building societies, insurers and public sector, religious or political membership organisations if a borrower meets the following eligibility criteria:

- It is a company, partnership, LLP or sole traders;
- The business must be UK-based with an annual turnover of no more than £45 million;
- The loan facility would have been commercially viable for the lender if it weren't for the advent of COVID-19.

What fees are payable in order to access a CBILS?

No fees are payable by the borrower to the Government in order to access a CBILS loan.

How do I apply for a CBILS loan?

Businesses must make a normal loan application to one of the 40 approved lenders. This includes traditional clearing banks as well as challenger banks and alternative lenders. A full list of accredited providers can be viewed here.

https://www.british-business-bank.co.uk/ourpartners/coronavirus-business-interruption-loan-scheme-cbils-2/current-accredited-lenders-and-partners/

Other lenders are currently applying to join the scheme.

If the lender feels they are unable to provide the loan on a normal commercial basis due to the COVID-19 virus, the lender shall then consider whether it would provide the loan if the Government provides a guarantee of 80% of the funds that are advanced.

As with all loan applications, we recommend, as far as possible, that you have available up-to-date management accounts, annual accounts from the last three years, cash flow forecasts and any key further information setting out the businesses ongoing financial obligations. Sensitised projections to show divergent assumptions may also be needed.

Is security needed?

The lender will retain discretion as to what security they require. Incumbent lenders would retain any existing security, but for CBILS loans of up to £250,000 no new security is required. For new loans in excess of that sum, security must be provided. Note that pursuant to a CBILS facility, lenders are unable to use the primary residential property of a director or shareholder as security.

Borrower and guarantor beware

As with any borrowing, understanding the full extent of the CBILS facility terms is paramount. In particular, if personal guarantees are required they may well extend to the full amount of the borrowing made available under the CBILS loan. Whether a cap can be renegotiated will be a key consideration for any guarantor.

Whilst the Government is guaranteeing 80% of the loan back to the lender, the borrower, and therefore any guarantor, will remain fully liable for repayment of 100% of the funding provided. The lender is able, and should seek repayment first from the borrower's and guarantor's assets (so far that does not involve realising the matrimonial home). This will therefore extend to other properties owned by a guarantor e.g. buy-to-let properties and investments. The Government's 80% guarantee is intended to provide comfort to the lender in case the borrower and guarantor are ultimately unable to repay the loan.

It is crucial that any borrower and guarantor receives independent legal advice concerning the terms of the borrowing as it is highly likely that such security will be enforced in full by the lender before they are able to seek recourse from the Government guarantee of 80% of funds.

To find out more about anything covered in the article, or to discuss the Coronavirus Business Interruption Loan Scheme in further detail, please contact Simon Hore or another member of Thrings' Banking and Finance team.

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