Factsheet for case GB-2020-13/521

Coronavirus Business Interruption Loan Scheme for SMEs

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Country	United Kingdom, applies nationwide
Time period	Temporary, 23 March 2020 - 23 March 2026
Type	Legislation or other statutory regulation
Category	Supporting businesses to stay afloat – Access to finance
Case created	12 April 2020 (updated 20 April 2020)

Background information

As part of the Budget 2020 package, the Government announced that it would provide a new Coronavirus Business Interruption Loan Scheme (CBILS) to both SMEs and large companies (see separate case). Loans were initially due to be worth up to £1.2m to support SMEs. On 17 March, this was increased to £5 million. The government will provide lenders with a guarantee of 80% on each loan. The Government has also said the first 12 months of the loan would be offered interest free, with Government meeting the cost of those interest payments. Initially, the interest free period was due to last 6 months. The scheme went live on 23 March 2020.

The background regulation is the Coronavirus Act 2020 (https://www.legislation.gov.uk/ukpga/2020/7/contents), emergency legislation which received Royal Assent on the 25th of March after having been fast-tracked through Parliament in just four days.

Content of measure

This temporary scheme aims to allow small and medium businesses across the UK with an annual turnover of up to £45 million, which are experiencing lost or deferred revenues to access loans, overdrafts, invoice finance and asset finance of up to £5 million for up to 6 years.The government will also make a Business Interruption Payment to cover the first 12 months of interest payments and any lender-levied fees. This means smaller businesses will benefit from no upfront costs and lower initial repayments.The government will provide lenders with a guarantee of 80% on each loan (subject to pre-lender cap on claims) to give lenders further confidence in continuing to provide finance to SMEs.The scheme is delivered through commercial lenders, backed by the government-owned British Business Bank. There are 40 accredited lenders able to offer the scheme, including all the major banks, as well as challenger banks, asset-based lenders and smaller specialist local lenders.

A business is eligible if:

•it is based in the UK•has an annual turnover of up to £45 million•has a borrowing proposal which the lender would consider viable, if not for the coronavirus pandemic.

To access the scheme, businesses should approach their own provider – ideally via the lender's website. They may also consider approaching other lenders if they are unable to access the finance they need. Decision-making on eligibility for CBILS is fully delegated to the accredited CBILS lenders. On 25 March, the Chancellor, Governor of the Bank of England, and CEO of the Financial Conduct Authority together wrote to Britain's banking sector with a warning not to allow fundamentally viable companies to collapse because of the coronavirus crisis.

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. The borrower always remains 100% liable for the debt.

At the discretion of the lender, the scheme may be used for unsecured lending for facilities of £250,000 and under. Initially, the eligibility criteria stated that for facilities above £250,000, the lender must establish a lack or absence of security prior to businesses using CBILS. It also stated that if the lender could offer finance on normal commercial terms without the need to make use of the scheme, they should do so.

However, these were changed as the scheme progressed. Thus, on the 2nd of April 2020, the Government made changes to the scheme, namely:

• No personal guarantees for facilities under £250k: Personal guarantees of any form cannot be taken under the scheme for any facilities below £250k.
• Personal guarantees for facilities above £250k: Personal guarantees may still be required, at a lender's discretion, but recoveries under these are capped at a maximum of 20% of the outstanding balance of the CBILS facility after the proceeds of business assets have been applied. A Principal Private Residence (PPR) cannot be taken as security to support a personal guarantee or as security for a CBIL backed facility.
• Security: For all facilities, including those over £250,000, CBILS can now support lending to smaller businesses even where a lender considers there to be sufficient security, making more smaller businesses eligible to receive the business interruption payment.

The Government announced that these changes should be retrospectively applied by lenders for any CBILS facilities offered since 23 March 2020. For any commercial (non-CBILS) facilities offered since the same date, providing the borrower meets the CBILS eligibility criteria, lenders have been asked to bring these facilities onto CBILS wherever possible (e.g. where the lender is accredited to offer the same facility through CBILS) and changes retrospectively applied as necessary.

Use of measure

Unknown; this is a new measure.

The measure will support up to £1 billion of funding lending to SMEs,

Actors, target groups and funding

Actors	Target groups	Funding
National government	SMEs	National funds

Social partners

Role of social partners	Consulted
Form of involvement	Unknown

Assume that there was discussion/consultation with the small business associations, There was discussion with the banking and finance industry.

Sectors and occupations

This case is not sector-specific.

This case is not occupation-specific.

Sources

- 23 March 2020: UK Government Corona Virus Covid-19 Guidance (www.gov.uk)