

24th March 2020



Coronavirus Business Interruption Loan Scheme (CBILS)

Further details have been released on the Coronavirus Business Interruption Loan Scheme and lenders can now receive applications.

Since it was announced last week, most of our clients have been trying to find out further information about the Coronavirus Business Interruption Loan Scheme (CBILS); however, there were no substantive details released until Monday 23 March 2020. We have been in extensive discussions with many lenders over the last week, and the British Business Bank itself and the details are in line with expectations from those discussions. In addition, we have had many discussions with clients who are hoping to access the scheme.

The purpose of this note is to brief clients on what we understand so far about how the scheme will work and how it may be accessed. Whilst we expect some clients will apply to their existing bank and be able to deal with the application process themselves, others will want assistance; whichever category you fall into we will be happy to discuss the application process with you. However, it will be helpful for you to consider the summary set out below in advance of such discussions.

What is CBILS?

“CBILS” is an initiative where-in the government will provide lenders with a guarantee of 80% on loans to businesses with a turnover of up to £45m; a separate initiative has also been made available by the Bank of England for larger corporates. Loans will be from £1,000 to £5,000,000 and will be delivered by the British Business Bank through its participating providers, which include the main banks and a variety of other lenders.

The range of products supported include Term facilities, Overdrafts, Invoice Finance, and Asset finance facilities.

The scheme provides the lender with a government-backed guarantee, potentially enabling a ‘no’ credit decision from a lender to become a ‘yes,’ i.e. the borrower has a sound borrowing proposal, but insufficient security to meet the lender’s requirements. The scheme will initially run for 6 months from today.

Scheme features

- Loans from £1,000 to £5,000,000.
- Available to all qualifying UK companies with a turnover of up to £45m.
- The government will provide the lender with a guarantee of 80% on CBILS facilities.
- Lenders are encouraged to take, and may still require, additional security for the facility.
- The Government will cover the first 12 months of interest payments.
- Repayment terms up to six years for term loans and asset finance. For overdrafts and invoice finance facilities, terms will be up to three years.
- There is no “guarantee” fee for eligible businesses to access the scheme.
- We understand that for facilities with a proposed maturity after 31 December 2020, the maximum loan amount will be the lower of twice the annual wage bill of the beneficiary for 2019 (or for the last year available) and 25% of its turnover in 2019.
- Prior to considering a CBILS facility, lenders will first consider if they can lend on normal commercial terms using existing borrower security.
- Depending on the lender’s policy, it is possible for a proportion of a CBILS facility to be used to re-finance out an existing non-CBILS facility.
- It’s important to stress that the borrower will always remain 100% liable for the debt. The CBILS guarantee is to the lender, not the borrower. CBILS is supporting debt funding and is not a grant.

How are lenders likely to respond to CBILS applications

We understand that Lenders have been working very closely with the British Business Bank and Government and that there is a desire from all quarters for this scheme to work effectively and quickly. It is important to remember that despite the guarantee, the lender will always be at risk in the event of a default (for 20% of the amount not recovered through normal recovery procedures). Therefore, whilst we expect the credit process to be very streamlined, we do still expect it to be quite considered.

Given the expected volume of applications, lenders are likely to prioritise their own clients first – incumbent lenders are also likely to be further up the curve on existing clients businesses, and therefore better able to act quickly. However, there is no reason why a number of lenders could not be approached to help borrowers to fully understand the options that the wider market has to offer.

How long is the process likely to take?

It is too early to be able to conclude on this. We have already started helping clients with applications and so we hope to have a clearer view soon. Our understanding is that lenders themselves are understandably still getting up to speed with the scheme and internal processes are still being agreed and put in place to process applications.

At the discretion of the lender, the scheme may be used for unsecured lending for facilities of £250,000 and under. For facilities above £250,000, the scheme requires the lender to establish a lack or absence of security prior to businesses using CBILS. We would expect these smaller overdrafts to be made available relatively quickly but inevitably, as the lender risk increases, so will the timeline to get credit approval – that being said it will still be much faster than a “traditional” funding process.

If the need is urgent, we understand that initial facilities can be provided as an Overdraft which can then be converted to Term Loans later. This is worth considering.

What should be prepared for the application

If a company is interested in exploring a CBILS facility, the first port of call should be to your existing bank/ lender contact. They should be able to guide you through their own specific process requirements. Alternatively, please feel free to contact UNW (details below) and we will help with these conversations.

Given the risk to lenders highlighted above, there are two key questions that need to be addressed in an application –

- Were it not for the current COVID-19 pandemic, would the lending application be considered viable by the lender?
- Is it reasonable to believe that the provision of finance will enable the business to trade out of any short-to-medium term difficulty?

Given the significant number of applications expected, we would strongly advise that applications are structured in such a way that they look professional and are easy for the banks to deal with and process. They do not need to be excessive in length. The risk otherwise is that things will get held up in the system or left in the “too difficult” pile.

Information requirements will vary depending upon the size and complexity of the lend, each lender will also have its own requirements and process. Notwithstanding this, some things to consider preparing would include –

- Outline of the business activities and its operations.
- Historic financial information to demonstrate that the business was a viable lending prospect before being impacted by the Coronavirus (last 2 to 3 years Accounts and monthly management accounts, if available). Include a high-level commentary of key business drivers and performance indicators across this period.
- Latest Balance Sheet and details of any existing facilities in place
- Details of the funding requirement and application of funds.
- Details of any security available.
- Forecasts showing the expected impact of Coronavirus on company cash flows (weekly rolling for at least 12 weeks) and the assumptions linked in to the post-coronavirus recovery going out further. Make these as flexible as possible to allow for various scenarios to be modelled through with a key focus on the levers that impact cash.
- Forecast debt serviceability.
- Details of the senior management team highlighting any experience they have in dealing with challenging events.
- Actions taken to date to ensure the business is protecting its cash position and planned further measures.
- Future business prospects and employment benefits of receiving funding.

We would be happy to help companies work through their funding requirements and options. We can also support in the preparation of the detailed forecasts and funder information pack. If you would like assistance, please let us know as soon as possible.

Are there any other options worth considering?

It has been acknowledged that there is a population of companies who are too small to apply for the Bank of England "Covid Commercial Financing Facility" (CCFD), and for whom the maximum £5m of lending through CBILS is an insufficient cash injection. We understand another scheme is being considered which may bridge this gap.

In addition to CBILS and the CCFD there is also, in some cases, an option for businesses to consider applying for funding from alternate lenders and/or equity funders. Equity funding from Private Equity or, if the company is eligible, Venture Capital Trusts, can be expensive in the longer term, but has the benefit of not being repayable in the short term.

If structured correctly this could take the pressure off companies when it comes to servicing future debt repayments in an uncertain trading period. The challenge with equity funding today will be around company valuation at a time where the path to recovery is far from certain. There is also a large population of local and national alternative funders who can be engaged with. Do let us know if you would like to discuss these wider alternatives.

If you would like to discuss any of this information in more detail, please get in touch.



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