

Coronavirus Business Interruption Loan Scheme



CBILS Summary

Please note this is not a legally binding document and is provided to give guidance only

22nd March 2020

Overview of CBILS

- On Wednesday the 11th of March during the Budget the Chancellor of the Exchequer announced the new Coronavirus Business Interruption Loan Scheme (CBILS), managed by British Business Bank, to support the UK SMEs during the Covid-19 outbreak.
- This scheme will be run on the Enterprise Finance Guarantee (EFG) Scheme's documents and processes for an origination period of six months. CBILS will be available to existing EFG accredited lenders and in due course to newly accredited lenders.
- The scheme offers attractive terms to SMEs such as a Business Interruption Payment (BIP) to be paid by government to cover the SME borrower funding costs and fees for a 12 month period.
- The lenders will benefit from a guarantee with a 60% net portfolio cap from HMG and will be charged a fee in line with State aid pricing.
- We intend to offer an expedited accreditation process for the CBILS overdraft variant to allow for rapid alleviation of working capital issues.
- There is currently no maximum set for the amount of total lending to be supported through the new scheme.
- Timing: the scheme is expected to be made available to SMEs on the 23rd March 2020. **Until you have received your CBILS Lenders Letter you will not be authorised to originate under the CBIL Scheme.**

Key differences between CBILS and EFG

	CBILS	EFG
Eligibility criteria	EFG plus Covid-19 impacted businesses (additional lending only, see slide 6 for more detail)	Standard EFG criteria
Maximum amount	£5.0m for up to 6 years	£1.2m for up to 5 years £0.6m for 5 to 10 years
State aid	Notified	De-minimis
Guarantee fee	No fee for the borrower Lender pays: 25bps pa (maturities up to one year) 50bps pa (maturities of 2 to 3 years) 100bps pa (maturities of 3 to 5 years)	2% pa for the borrower
Documentation	EFG documentation plus amendments	EFG documentation

Key differences between CBILS and EFG

	CBILS	EFG
Interest & fees for SME borrowers	<p>SME will receive the benefit of a BIP which will be used to offset the first 12 months of interest and fees,</p> <p>subject to the BIP not exceeding EUR800k equivalent except for the fishery and aquaculture sector where the BIP must not exceed EUR120k or for primary production of agricultural products sector where the BIP must not exceed EUR100k.</p>	SME does pay interest and fees to the lender
Guaranteed amount, subject to annual claim limit	80%	75%
Annual claim limit (please refer to letter for lender with allocations below £2m)	Net 60% (=gross cap of 75% times 80% coverage)	Net 15% (gross cap of 20% times 75% coverage)
Operational process	EFG portal (BIP separate from Portal)	EFG portal

EFG Eligibility criteria will be modified appropriately to deliver CBILS

To expedite delivery, CBILS will be delivered on the same documents and process as the EFG Scheme. However, some of the existing eligibility will be modified. Please refer to next slide for eligibility criteria marked with an*.

1. Does the SME have a viable business proposition?*
2. Having assessed all available security, does the Lender consider there to be inadequate security to support a Commercial Facility?*
3. Is the Borrower an SME?
4. Does the SME (or SME's group, if applicable) generate more than 50% of its turnover from trading activity?
5. Does the SME trade in the UK and will the EFG Facility be used to support trading in the UK?
6. Is the SME a Business in Difficulty?*
7. Is the SME's activity eligible for EFG support? **(expanded, please refer to letter for change)**
8. Will the funding be used in an eligible sector? **(expanded, please refer to letter for change)**
9. Does the SME have turnover < £41m pa? **(will be £45m for CBILS)**
10. Is the EFG Facility amount within the Scheme terms? **(expanded, please refer to letter for change)**
11. Is the EFG Facility for an eligible term? **(please refer to letter for change)**
12. Is the EFG Facility in £ sterling?
13. Is the SME within the State aid threshold? **(expanded, please refer to letter for change)**
14. Is the EFG Facility being used for an eligible purpose?
15. Is the EFG Facility being used to finance a specific Export Order?

CBILS Eligibility Criteria

As the aim of the CBIL Scheme is to counteract the potential impact of Coronavirus on business activity, certain provisions in the EFG Agreement will be modified.

- ❖ Facilities which would have been eligible under EFG will still be eligible under the new scheme;
 - Within current risk appetite and insufficient security.

- ❖ In addition, CBILS expanded eligibility will include the following:
 - **Viability** You must still establish that the SME borrower, or the SME borrower's Group has a viable business proposition assessed according to your normal commercial lending criteria. However, where there are some concerns over the short-to-medium term business performance due to the uncertainty and impact of Coronavirus (COVID-19), provided you reasonably believe that (a) the finance will help the SME trade-out of any short-to-medium term cashflow difficulty, and (b) if the facility is granted, the SME should not go out of business in the short-to-medium term, then the proposition may be considered eligible under the CBIL Scheme; and

 - **Lack of Security*** For facilities over **£250k**, the CBIL Scheme still requires you to establish a lack or absence of collateral prior to you using the CBIL Scheme. For facilities of **£250k** and under, the CBIL Scheme may be used for unsecured lending at the discretion of the lender. This is a departure from the EFG Scheme. To use the CBIL Scheme in this way, you must confirm that the use of the CBIL Scheme has enabled you to provide a facility to the applicant that you otherwise would not have been able to provide.

 - **Additional flexibility around industry sectors** such as haulage, agriculture, fisheries and aqua-culture.

CBILS is designed to support **additional** lending which meets State aid requirements but providing the SME meets the viability requirement above then the SME will not be considered to be a **Business in Difficulty**.

* Please refer to the Letter to Lenders for detail.

Seeking accreditation for the CBILS overdraft variant (OD)

- ✓ This process applies only to lenders currently accredited to EFG.
- ✓ We can accredit an existing lender for the OD Variant within 48 hours of receipt of the required information and the legal documents duly executed.
- ✓ An increase in annual allocation for OD plus other variants will need to be dealt within the normal process.

Shortened accreditation process

A written request by the Senior Contact responsible for EFG (or above) asking to be accredited for the Overdraft variant, including:

- Who will be responsible for administering the variant (if it is different to the administration of the Term Loan variant); and
- Details of how the variant will be deployed, including strategy, deployment and training.

For the execution of the legal documents we need to know:

- The full legal name of the entity, its company number and registered office address;
- The address for notices to be sent and to whom it the notice should be addressed; and
- How the document will be signed – (one or two signatories), will this be by authorised signatory or under power of attorney etc. and the names of the person(s) signing.

Business Interruption Payment – treatment of interest and fees

Extract from CBILS Lender Letter:

“Your decision to lend and the interest rate at which you are prepared to lend at, and any associated fees, should be determined in accordance with your normal lending criteria. The interest rate and fees should be reasonable and consistent with equivalent lending outside of the CBIL Scheme. It must also take into account the existence of a Guarantee from HMG and pass the benefit of this guarantee to the borrower. You must provide the British Business Bank with a schedule setting out the fees and interest, which you would typically charge, within one month after receiving this letter and provide an updated schedule if you make any subsequent changes.

Discussions with the banking industry prior to the launch of CBILS scheme lead to assurances to Government that certain members felt it was appropriate that SMEs who borrow under the CBILS should not be subject to arrangement fees or early repayment charges should they chose to repay their financing before its term ends. HMG greatly appreciated this approach and would encourage other lenders to consider it. For the avoidance of doubt, cost reflective security charges and valuation charges on set up within the first 12 months will be paid by the BIP. Any appropriate breakage costs for fixed rate loans after the initial 12 month period should be agreed with and paid by the borrower. HMG also expects that the interest costs charged on CBILS lending will reflect the 80% guarantee by the British Business Bank and any security which is taken.

HMG would expect that the BIP would be applied accordingly, however the pricing of facilities is a matter for the lender but it would be helpful if Individual lenders who do not intend to adopt those broad principles could provide the details of their proposed charging structures to the BBB for discussion whether the BIP can be applied.”

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