

# CBILS status update

DRAFT 1 29<sup>th</sup> March 2020

## 1. What CBILS is not

Under the terms for CBILS negotiated by HM Treasury and the British Business Bank (BBB), accredited lenders are **NOT** able to deliver SME financing to all SMEs with a turnover below £45 million which is 80% guaranteed by government, despite public perception fuelled by inaccurate briefing that this is the essence of the scheme.

CBILS provides accredited lenders the opportunity to offer finance to SMEs to whom normal commercial lending is not available, usually because of inadequate security. Government guarantees 80% of any net losses in the event of default of a CBILS backed loan after all available security has been taken and realised by the lender which bears the residual 20% risk.

**Simplified and inaccurate representation of CBILS as a loan available to all SMES viable immediately before COVID-19, and with 80% of the loan guaranteed by government, has fuelled anger and resentment and made banks an easy by unjustified target.** The FSB described banks as “exploiting SMEs” on a call with the Secretary of State BEIS on Friday as they themselves do not understand what CBILS actually is, even if the Chancellor intended it to be something else.

## 2. Access to CBILS for less impaired SMEs

CBILS has been structured by the British Business Bank (BBB) as a back-up scheme available only for those businesses who cannot access credit from lenders on normal commercial terms.

**BBB conditions of eligibility for the scheme require accredited lenders to make finance available to SMEs on normal commercial terms first. Only if the lender cannot do so is it permitted to consider if the SME in question is eligible for CBILS.**

All SMES would rather receive a loan where they pay no interest and no fees for 12 months as CBILS provides. Inadequate public statements from government and the BBB have resulted in media commentary on eligibility and representations by SME industry trade associations that has created a sense of entitlement to interest and fee-free credit for all SMEs.

**Banks face very difficult and reputationally damaging conversations with SMEs in telling viable businesses that they have to borrow on commercial terms and cannot access CBILS.**

Appendix 1 lists normal commercial rates for smaller business loans immediately before the COVID-19 outbreak.

## 6. Accreditation of new lenders

Some 40 firms are accredited by the BBB, a number of whom are relatively small. Very little money has been lent under the pre-COVID 19 Enterprise Finance Guarantee programme run by the BBB – it is very complicated, poorly understood and bureaucratic in seeking to protect government.

5 new providers were accredited in 2019, with an application process that took an average of 9 months for each. Many potential scale providers are desperate to be accredited at speed in order to aid the CBILS deployment effort to their existing SME customers and to new potential borrowers.

Whilst BBB has increased manpower from 2 to 15 to enable this, **the whole premise of who should be eligible needs to be automatic if government is to increase deployment at pace**, and the compromise from a quality control perspective should be accepted as a necessary risk. UK Finance is seeking to help BBB prioritise the most capable lenders likely to make the biggest difference in the shortest time, but simple qualification criteria for automatic accreditation would be far more potent in the circumstances.