

Message

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**Sent:** 28/03/2020 9:35:33 AM  
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**Subject:** URGENT: Update on CBILS PGs  
**Importance:** High

**NR** **Name Redacted**

HMT officials have been in touch to say CX wants to announce two changes to CBILS rules on Personal Guarantees (PGs) on Monday. **I recommend that, via private office, SoS push back firmly on this to CXO this morning, on the basis that we need more time to properly understand the impacts, and prepare the BBB and the banks to operationalise it effectively.** As we have seen this week, there are risks with launching major schemes like this at pace and without chance to really prepare and test deliverability. Alex has separately emailed Charles to suggest delaying this to Weds.

The changes to PG rules would be:

- No PG allowed for loans <£250k (relatively uncontentious given five major lenders already committed to this)
- For loans >£250k, in event of default: (i) bank recovers what it can from business assets (ii) then looks to PG for max 20% of what is left (iii) then calls on 80/20 govt guarantee for remainder (NB. This is slight tweak from earlier option put to CX and SoS, in that step (ii) happens before the govt guarantee is called, ensuring govt and bank maintain 80/20 split over residual losses and scheme remains state aid compliant)

The issues we need to work through before launch are:

- **Costs and vfm:** these changes increase the likelihood of the govt guarantee being called, and the amount that gets called, as it limits banks' ability to recover losses from PGs. We will only be able to estimate these impacts on a very rough calculation, but it's important SoS has something to draw on to inform his decision to proceed. **Angie will pick this up with BBB economics team.**
- **Delivery plan:** BBB need to update the CBILS term sheet, test this works for the banks, and get themselves and the banks ready to roll out this change smoothly. This includes addressing the issue of facilities already approved or in processing: will we adjust the terms to give them parity? **I will ask the BBB COO to start working on these questions, but we need more than a weekend to get this right.**
- **Impact on the market:** these changes will further enhance the fact CBILS loans have more favourable terms than loans available to similar businesses that can borrow on commercial terms (something we are already getting a lot of noise on). It is important the SoS understands and is comfortable with that. If we were to extend CBILS to larger businesses in the coming weeks, then we will also have created a precedent on PGs that govt may be pressured to match for those larger businesses, where the costs and risks to govt are even greater. **These are issues I have flagged to HMT and I am told the CX is comfortable with the risks but we need to discuss them properly with SoS.**
- **Direction and HMT consent:** we need to establish whether a further direction and HMT consent is required. **NR** would you please pick this up with ToA?