

CBILS status update

DRAFT 1 29th 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.

3. Security requirements for CBILS loans up to £250,000

For loans up to £250,000 firms are required to apply their own normal underwriting criteria in determining security requirements for eligible CBILS borrowers. CBILS requires however that no security be requested over the primary residence of business owners. Many firms require personal security, particularly from smaller SMEs, as part of prudent underwriting to ensure there is full alignment of interest between the business owner and the business itself.

Given the marginal value of personal security in value terms in general for non-primary residence assets of the owners of smaller SMEs however, **many accredited lenders have chosen to waive their normal personal security requirements for smaller SMEs and will take no personal security under CBILS.** BBB has confirmed this is acceptable to individual firms [and needs to make this clear to all accredited lenders].

The position of the largest lenders regarding personal security is contained in Appendix 2.

4. Security requirements for loans between £250,000 and £5million

CBILS is unclear about the requirements for personal security for loans above £250,000. On the one hand **accredited lenders must establish a lack of security availability for the SME to be eligible for CBILS as opposed to normal commercial terms lending in the first place. Security must be taken over “all available security”.**

BBB should be asked to ensure that lenders have the discretion as to what they take as security for all loans above £250,000.

Note that in current circumstances perfection of security over property assets is impossible in certain parts of the country with land registries in Scotland and Northern Ireland shut and other operational issues. **Lending firms need confidence that the CBILS guarantee is nevertheless valid if they have taken reasonable steps to perfect security.**

5. Speed of delivery

Just as Dyson cannot deliver respirators manufactured from scratch as fast as the government and the public would like, so **accredited lenders are having to move at great pace to operationalise a scheme the terms of which were only finalised on Sunday 23rd March for launch on Monday 24th March.**

In announcing the scheme, no lag was provided for the time necessary to stand CBILS up fully. There is therefore a significant expectation gap between the political and economic desire for CBILS to be operating at full velocity and the reality of how long it takes for CBILS to be fully understood across all relevant functions in accredited lenders and end-to-end processes to be built which deliver CBILS in as automated and efficient a manner as possible across the SME landscape.

Accredited lenders understand the critical importance of fast execution to as many businesses in need and eligible as quickly as possible. All available resource is being applied to deliver but constraints include available manpower, structural complexity insisted upon by BBB to protect government and this week's lockdown in India which is degrading overall call centre and technology outsourcing for certain firms.

BBB should be instructed by government to look for further ways to simplify the roll-out of CBILS. Accredited lenders should be allowed to accept simple automated underwriting in line with usual process for small loans with documentation sent electronically or available on website as per insurance policies.

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.

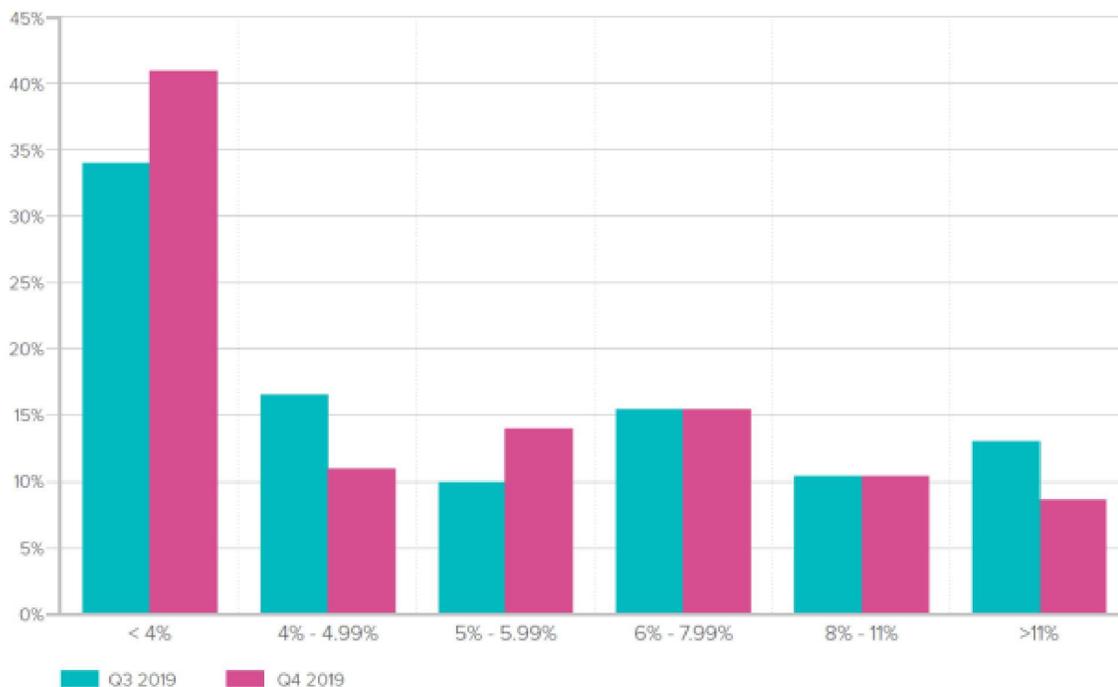
Whilst BBB has increased manpower from 2 to 15 to enable this, **the whole premise of who should be eligible needs to be automatic if government is to increase deployment at pace**, and the compromise from a quality control perspective should be accepted as a necessary risk. UK Finance is seeking to 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.

Appendix 1

Small Business Loans – Representative APRs, unsecured borrowing under £25k. Published rates. Actual rates will vary based on loan size, term, credit rating etc.

Bank	Rate	Comments
HSBC		I&S
San UK		
LBG		
LBG		
Virgin		
Metro		
NatWest		
Barclays		
TSB		

FSB Small Business Index Q4-2019 – FSB members self-reported rates offered



Bank of England Effective Interest rates – new SME loans – 01/20

Total SME	Floating Rate	Fixed
3.37%	3.22%	3.95%

Appendix 2

	Is PG required sub £250k?
Barclays	I&S
Danske	
HSBC	
LBG	
Metro	
Natwest	
San UK	
Virgin CYBG	
ABN AMRO	