

Date: 21/04/2020
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COVID-19: CORONAVIRUS SMALL BUSINESS INTERRUPTIONS LOAN SCHEME (CSBILS), AND POTENTIAL AMENDMENTS TO CBILS

Summary

1. The Coronavirus Business Interruptions Loan Scheme (CBILS) is the vehicle for distributing Government-backed debt finance to small businesses, offering loans of up to £5m with a guarantee of 80%.
2. Press coverage of CBILS has focussed on an initial slow rate of progress (although recent figures have shown a substantial improvement). This has led to, featuring negative comparisons to international equivalents which feature a 100% guarantee (although recent figures have shown a substantial improvement).
3. Consequently, the Chancellor has asked for advice on establishing a new scheme with a 100% guarantee for smaller value loans, targeting and therefore a subset of businesses who can currently access CBILS but may be struggling to do so. He would like to see this introduced as soon as possible – preferably sooner than the mid-May date suggested to him by officials.
4. This advice explains the potential benefits and risks of creating a new Coronavirus Small Business Interruption Loan Scheme (CSBILS), as well as the challenges of delivering another new scheme at pace. Because of the latter, we could not recommend committing to a date at this point, and would caution against an announcement until we have done further work on delivery options.
5. The Chancellor also wants further changes to CBILS to speed up lending, including removal of the portfolio cap and forward-looking business viability test. There could be benefits to these measures, which could enable banks to more quickly lend to good businesses – however there are also several significant risks. There are also other routes that could be used to address the perceived problems regarding speed of processing applications, which should also be considered.

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6. Given the degree of uncertainty and risk involved in creating a new 100% guarantee scheme, and adapting CBILS to facilitate more lending at higher risk, it is possible a further ministerial direction will be required.

Timing

7. Urgent. The Chancellor has asked that the BBB move at pace to implement these changes and so it is essential we get your views as swiftly as possible.

Recommendations

8. We recommend that you note:
 - That criticism of CBILS has been primarily focussed on the time taken to process applications, but that the rate and volume of lending is now increasing;
 - That the provision of a new scheme (CSBILS) offering 100% guarantee for small loans would likely enable faster processing of smaller value loans by lenders, but at the cost of elevated risk on a per loan basis to Government as compared to the main CBILS;
 - That the Chancellor is separately pressing for changes to CBILS to remove the portfolio cap and simplify the viability test, which has implications for the liability incurred by BEIS;
 - That there are several other routes which could be explored to further simplify the scheme or otherwise increase pace – these could be delivered instead of, or alongside, a new scheme;
 - That there are significant doubts about the capacity of the British Business Bank to implement a new scheme at the pace proposed, and a range of delivery options which merit exploration in pursuit of the policy objective to deliver lending to smaller businesses; and
 - Delivering the new scheme would require amendments to the Consumer Credit Act, and Financial Services and Markets Act. HMT want to use the Insolvency Bill for this which carries some risk.
9. **Bearing in mind these points and noting the risks explored further in this advice, do you agree Government should devise a new 100% guarantee scheme for smaller loans (CSBILS?).** If you wish to proceed:
 - a. we will work with HMT and BBB to further assess costs, VfM and risks;
 - b. we recommend you write to the Chancellor to stress the need to work to a timetable which recognises the pressures on the BBB and uncertainties about delivery; and
 - c. in doing so provide conditional support for using the Insolvency Bill as a vehicle for necessary legislative changes, subject to further advice on the impact on the Bill timeline and scope.

10. Regarding the proposed changes to CBILS, we recommend:

- a. removing the forward-looking viability test, which although increasing risk to Government, can be justified given the difficulty of applying this test meaningfully at the present time;
- b. encouraging lenders to accept more use of self-certification for the undertaking in difficulty test; and
- c. writing to lenders to give comfort that Government would not seek to disapply the guarantee in relation to a defaulted loan where it was clear that the lender had acted in good faith.

11. We do not recommend removing the portfolio cap until we have greater evidence that this will unlock more lending. Do you agree?

12. We will do further, urgent work with HMT, BBB, and lenders to assess the costs, risks, and extent to which these changes will facilitate greater lending through the scheme.

Performance of CBILS

13. CBILS has been the subject of significant media scrutiny, focussed on the low level of loans granted compared to number of applications and enquiries. Media coverage (and, to some extent, comments from lenders) has suggested that the complexity of the UK system is at fault.

14. CBILS has been negatively compared to schemes in Germany and Switzerland in particular, aimed at the smaller end of the CBILS market. These schemes tend to feature a 100% guarantee – arguably speeding up the process by removing the need for lenders to conduct credit checks.

15. For example, the German scheme offers 100% guarantee backed loans of up to 500,000E for companies with up to 50 employees and 800,000E for larger firms, available for 10 years with interest capped at 3%. Further information on these schemes is attached at Annex A.

16. It is important to note that CBILS rollout is now gathering pace. Loans are now being issued at the rate of around £300m per day, and we are beginning to see the gap between applications and approved loans close, as set out in the table below (all figures are from UK Finance):

Date	14 April	15 April	16 April	17 April	20 April	21 April	22 April
Applications	28,461	33,767	34,933	35,862	37,055	30,890	36,186
Approved Loans	6,016	7,602	8,780	10,473	13,005	14,779	16,624
Total Lending	£1.115bn	£1.375bn	£1.594bn	£1.907bn	£2.229bn	£2.537bn	£2.825bn

Please note that lenders restated the number of applications on 21 April, resulting in a drop.

17. This uptick has been supported by steps Government and the British Business Bank has taken to help banks to process applications quickly. These include:

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- Giving banks a 40-day grace period to upload loan data to the BBB portal, enabling them to focus on applications;
- Confirming that lenders can apply automated credit checks for loans of up to £30,000; and
- Increasing the scope of the scheme to include businesses who could otherwise access commercial loans.

18. Clearly there is still a backlog of applications in the system, and we continue to hear anecdotal evidence of delays or issues with specific applications (although performance varies significantly between lenders especially for lower value loans). However, in considering the case for further action, we should recognise that data on CBILS shows a positive trend developing in terms of processing speed and volume.

19. If you want to take further action, there are two broad approaches: streamlining CBILS itself; and/or developing a complementary scheme along the lines of that in place in Germany and Switzerland for smaller loan sizes. The Chancellor has confirmed that he wants to progress both options simultaneously, including by introducing a new scheme: The Coronavirus Small Business Interruption Loan Scheme (CSBILS).

INTRODUCING CSBILS

20. This new scheme would facilitate faster lending by removing credit check obligations on lenders via a 100% guarantee. We understand that the Chancellor is considering a scheme that would adopt aspects of the Swiss and German models. It would complement CBILS by being targeted at the smaller loan end of the market, and is designed to resolve a perceived weakness in the current system by getting money quickly to the smallest businesses.

21. The proposed terms for CSBILS would seek to address these problems by offering a targeted product with the following features:

- **Range of products:** term loan only to create a simple 'take it or leave it' offer;
- **Maximum loan value:** up to 10% of business turnover, to a maximum of £25,000 – designed to prevent small businesses taking on excessive debt in absence of credit checks;
- **Interest treatment:** No interest in first year (Business Interruption Payment applies). Interest rate capped in future years and likely to be around 2-3% to ensure a standard product and prevent excessive profits by lenders;
- **Guarantee level:** 100%, no portfolio cap to de-risk for banks;
- **Term limit:** between 5-10 years (to be determined but likely to be 6 years to align with CBILS);
- **Personal guarantees:** not permitted;
- **Eligibility:** Business must have been viable before Covid (self-certified) and must have been impacted by Covid (self-certified) – no forward-facing viability checks;

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- **Application process:** a standard, one-page application to ensure speed and remove differentiation between lenders; and
- **Regulatory approach:** borrower would need to waive their Consumer Credit Act rights in relation to the loan – necessary to enable self-certification.

A full draft term sheet is provided at **Annex B**.

Impact on Borrowers of CSBILS

22. We would expect the introduction of a new scheme based on the terms above to have some impact on the speed at which eligible firms could access smaller loans, although this is dependent on capacity at lenders - international comparator schemes including in Germany have also experienced backlogs. By removing all risk from the lender, they would no longer be compelled to conduct additional credit checks beyond checking the self-certification from the borrower – encouraging lenders to ramp up their activity in this market.

23. A guarantee of 100% would also enable some businesses who are currently unable to access finance to do so, as they would be able to self-certify and would not be weeded out by bank credit scoring processes. Though we are working on this with BBB, we do not yet have an analysis on the number of businesses this would affect. However, there is a risk that relying on 'self-certification' by borrowers could in due course result in large numbers of non-viable businesses being unable to repay their debts. This could have a significantly negative human/social impact on individual business owners in addition to the increased financial costs of the scheme (although it should be seen against a counterfactual that these businesses could fail now without access to finance).

24. This risk is exacerbated by the proposal to ask borrowers to waive their Consumer Credit Act rights in order to be eligible for CSBILS. The CCA (which currently applies to loans made under £25,000 to certain business types including sole traders and some partnerships) requires credit-worthiness checks, ensures that borrowers receive clear information on the terms of the loan, and limits the action that banks can take to recover a debt where a borrower defaults.

25. Without the additional obligations on, for example, provision of information about loans and safeguards for customers who fall into arrears provided by the CCA, there is a risk that business owners could take on unsuitable products which later place them in financial and legal distress. While borrowers would not be forced to take this product, it would be important to make sure they understand the implications of waiving their CCA rights when doing so to mitigate future reputational risk for Government. It may also be possible to reapply some equivalent protections within the loan contract – this is an option which should be explored with lenders.

26. There is a handling challenge that some existing CBILS customers will react negatively to the launch of a new/amended scheme to the extent that it offers preferable terms, such as capped interest rates. We do not think it will be feasible

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to retrospectively apply these terms to existing CBILS facilities of under £25,000 owing to operational complexities.

27. When considering the overall impact on borrowers, it is important to note that the trend in CBILS lending suggests that it is now - albeit slowly - beginning to serve the smaller end of the market more effectively. While a CSBILS could offer specific benefits to borrowers (with BBB analysis suggesting that up to 800,000 businesses could need a loan of under £25k in the next three months), it is difficult to predict the ultimate scale of this intervention, and how much of this demand could be met by a more effectively functioning CBILS programme.

Impact on lenders

28. Banks would have minimal 'skin in the game'; owing to the 100% guarantee they would only incur costs relating to processing and administration of the loan and would be expected to be willing to make loans to businesses who otherwise might fail credit checks.

29. In order to prevent the banks from making excessive profits on these loans, we would need to require that – as with the existing schemes – the benefit of the guarantee should be passed onto the borrower.

30. HMT propose to cap the interest rate that lenders could charge in order to reflect their minimal risks and costs. Government would set a flat rate and there would be no competition between banks – lenders would effectively become distributors. Dependent on the level of this rate, some lenders may be disincentivised to take part in the scheme if small loans are not a large part of their business model.

31. However, given the favourable terms that CSBILS offers, those lenders who are active in this market will likely need to offer CSBILS in order to avoid being excluded. In addition, any lenders who are excluded from the scheme through its design or the fact they are not BBB accredited, may be crowded out of the market, and such competition impacts need to be considered.

32. The 100% guarantee will reduce incentives on banks to assess and monitor loans. This increases the risk that loans are provided to businesses who are not capable of repaying them and makes it less likely that (in the absence of compulsion from Government) lenders will take meaningful steps to recover monies from defaulted loans. This means Government is likely to incur proportionately higher rates of loss on these loans by comparison to existing CBILS and CLBILS products.

33. These impacts would be exacerbated by disapplication of the Consumer Credit Act. Because of the additional risk and costs associated with the restrictions, some major lenders have opted not to offer CBILS facilities under £25,000 – in effect restricting the supply of smaller facilities. Although most of the main lenders have now entered this part of the market, they continue to emphasise that CCA

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restrictions create additional burdens. Disapplication of the Consumer Credit Act (which is an HMT lead) to small CSBILS facilities would make them quicker to process. However, it would further increase the likelihood that facilities were offered to high risk businesses.

34. Scoring the whole of the principal amount of a loan as State aid (rather than the difference between a commercial and a guaranteed loan rate) will also take up more of the small amount of aid limits permitted under Commission de minimis and temporary Framework guidelines, and therefore limit borrowers' ability to benefit from other schemes. However, for the size of lending contemplated under the scheme it is unlikely that the risk of exhausting State aid headroom will be disproportionate to the benefits arising from a faster process.
35. We are aware that banks have already raised the burden that new schemes create in terms of staff training (for example in relation to the recent changes to CBILS and the introduction of CLBILS). We would need to test with them their ability to operationalise a further scheme without impacting on other processes, given that there is still a significant backlog of CBILS applications. A rushed implementation could lead to poor customer experience.

Delivery

36. The only realistic, and certainly the fastest, delivery mode for CSBILS would be through the BBB. They already operate the CBILS scheme and have accredited lenders who they could start working through as soon as the scheme is live. However, BBB are currently working at full capacity delivering the existing schemes, and rapidly working up the convertible loan scheme announced on Monday.
37. Delivery of this new scheme would fall to the same team of legal and guarantee experts at the Bank who are already working extremely hard delivering CBILS and CLBILS. Although the BBB have already shown their ability to work at pace, it is unlikely that they could deliver this scheme to the timetable the Chancellor wants on top of everything else they are currently doing (we believe his ambition is for the scheme to be operational around the start of May).
38. BBB cannot give an exact estimate of timing until they understand the scheme they are being asked to deliver, but they are clear that the more closely this scheme is aligned to the existing CBILS scheme the faster it will be to deliver. If the objective is to get money to firms quickly then it would be better to focus on simplicity rather than attractive scheme design.
39. BBB have identified a range of delivery options which could be pursued:
 - a) Run new scheme as a variant of CBILS with existing delivery partners (quick, but risks excluding new players who may be better placed than major banks to offer low value loans; not clear that existing CBILS lenders will all want to offer

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- this product and lenders not accredited under CBILS risk being crowded out of the market)
- b) BBB establish a new accreditation process (level playing field for lenders but will be slower and potentially confusing for SMEs to find appropriate lenders in a large market; BBB accreditation team already dealing with a backlog)
 - c) Use existing HMT bank referral platforms as 'one stop shops' for CSBILS – fast tracking accreditation for lenders who already use those platforms (creates critical mass of lenders quickly but still needs some accreditation and creates pinch points around platform capacity and an additional step in the customer journey)
 - d) Govt delivers scheme through a single agent (simpler but no obvious candidate exists, and would crowd out other lenders operating in this space)
40. We understand that the Chancellor is interested in a combination of c) and d) - having a single portal that businesses apply to, which then allocates out the loans to lenders. Whilst this may simplify the scheme for borrowers it introduces a new level of delivery complexity, as this portal does not currently exist, and therefore will add significant additional time to implementation. If the policy intent is to get money flowing to businesses quickly, then options a) and c) appear to offer the best routes to deliver this based on a very preliminary analysis. Further analysis of the risks of each delivery model, particularly on the effect it may have on future competition in the market, are needed during the next phase of scheme design.
41. There may be alternative routes to deliver the policy objective which work on the basis of a different product. One option could be to offer companies a 'loan' administered by HMRC – repayments could be made via the tax system and could be linked to e.g. increases in turnover as businesses start to recover. This option would likely have its own delivery challenges, but we recommend that this is urgently tested with HMRC so that ministers can make a more informed decision about the best delivery model. **Do you agree?**

Financial Considerations

42. There is currently no estimate of the impact that introducing CSBILS might have on demand (including likely interaction with CBILS and other support already announced by HMG for businesses and self-employed) and therefore both lending and the liability borne by the taxpayer. BBB and BEIS analysts are working to deliver estimates as quickly as possible. However, the number of unregistered companies is estimated at around 3.2 million (2.6m registered). Consequently, it would only take a proportion of these firms to drive a significant liability - and evidence from Germany suggests that a move to 100% guarantee could lead to a major increase in demand.
43. Whilst the scheme might speed up the process for smaller loans there are a considerable number of downside risks also introduced, with fewer controls in place to check on the ability for a borrower to repay. This will reduce both value for money and increase the overall risk (and default) profile of the scheme due to the nature of the businesses in question, with questions of propriety if basic checks and CCA protections are removed.

44. Further work is planned with BBB to estimate the impact of the scheme, which will inform consideration against Accounting Officer standards and likely additional funding requirements. **It is possible a further direction would be required.**

Fraud risk

45. During scheme design it will be important to consider how to minimise fraud risk, including how borrowers should be required to demonstrate that they have a genuine business, and how to deal with multiple applications from individuals with more than one active business. This reflects the fact that by comparison to other countries with similar schemes, setting up a business in the UK is far easier
46. As part of this work Government will need to define a cut-off point for eligibility, with only businesses which were established before that point being eligible to apply (and such a solution will need to be workable for unregistered businesses).

State Aid

47. Under the State aid de minimis regulation and the Temporary Framework paragraph 12(a) of the approved UK 'Umbrella Scheme', guarantees can cover 100% of principal amount of up to a nominal value of €200,000 for de minimis aid and €800,000 under the Temporary Framework (with commensurately and significantly lower limits for undertakings active in the agricultural, fishery and aquaculture sector and for haulage companies under the de minimis regulations).
48. Guarantees on loans not exceeding these limits can therefore be made under the de minimis regulation or under the UK 'Umbrella Scheme' and would not require further notification to the Commission, provided that arrangements are in place to ensure that any benefit banks get from the guarantee are passed through to the borrower. To achieve this the terms of any agreements between BBB and the lenders will need to require lenders to reflect the lower risk profile of lending under the guarantees in the costs charged to borrowers. In practice much of this scheme will be capable of being delivered under the de minimis regulation where the undertaking in difficulty rules are more relaxed and more conducive to self-certification by the borrower.
49. Formal advice on State aid risk will be given after the scheme design is completed. CSBILS will need to be differentiated from the CBILS scheme that has bespoke State aid approved conditions that will not be met in this Scheme.

Parliamentary implications

50. Amending the Consumer Credit Act would require legislation. It is likely that HMT would seek approval to use the Corporate Governance and Insolvency Bill to make these changes. The Bill is working to an introduction date in w/c 11

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May, with a target royal assent date of 21 May (or as close to there as possible). The Bill currently only includes measures relating to these two areas, and so OPC advise it is currently a 'two topic Bill' on that basis.

51. We have not taken formal advice on this possible extension of scope, but making amendments to the Consumer Credit Act in particular, is expected to broaden scope significantly. The measures would also make amendments to the Financial Services and Markets Act. HMT have been unable to give an assessment on how long their policy and legal instruction work would be to deliver these measures, and so it would be prudent to consider that these proposals would delay the readiness of the Bill.
52. As with other measures, this measure will need to be negotiated with the opposition and so their support for this measure be crucial. Should you support the Chancellor's wider objectives, you may wish to provide conditional support subject to further advice on the impact on the Bill timeline (with HMT input) and formal advice on scope. This a high priority for HMT and so we expect that all necessary resources would be put towards achieving it.
53. HMT are seeking for this measure to be retrospective and this would require the consent of the Law Officers. We do not yet have advice on whether it is likely they would provide it.

CSBILS recommendation

54. Introducing a new scheme based on a 100% guarantee would be a high impact and high visibility intervention, particularly if combined with disapplication of the CCA for loans under £25,000. However, it comes with significant financial and reputational risk for Government and would add further complexity for delivery. Furthermore, statistics for CBILS are improving and it is difficult to quantify the additional benefit this scheme would provide. We are also concerned about BBB's ability to deliver a new scheme and that banks will still struggle to process loans swiftly despite the streamlined scheme design.
55. **Bearing in mind these points and noting the risks explained above, do you agree Government should devise a new 100% guarantee scheme for smaller loans (CSBILS?).** If you wish to proceed, we will work with HMT and BBB to further assess costs, VfM and risks. **We recommend your office write to the Chancellor's to stress the need to work to a timetable which recognises the pressures on the BBB.**

PROPOSED CHANGES TO CBILS

56. Alongside the proposed CSBILS, the Chancellor wants to implement two changes to CBILS. These are: a) removing the portfolio cap for lenders, and b) simplifying the viability test by removing the criteria that a CBILS facility must enable the business to trade out of any short-term difficulty.
57. Removing the **portfolio cap** would bring CBILS into line both with CLBILS and the proposed new CSBILS scheme. It would make the 80% guarantee more

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generous for lenders (as it could be applied to their entire CBILS loan book) and may provide them with capital relief. This is likely to increase the risk appetite of banks, meaning more loans are granted including to businesses who might previously have been rejected.

58. From a financial perspective, removing the cap would increase the contingent liability for Government. The previous planning scenarios were for £30bn to £60bn of loans through CBILS. The removal of the portfolio cap would mean the total theoretical liability would increase by £6bn to £12bn. However, planning assumptions are that defaults would be lower than the current cap, and therefore the actual anticipated liability would be relatively unchanged, unless more severe scenarios of a prolonged recession become a reality, driving up defaults. If you were to support this change, we would need HMT to reiterate assurances that they would continue to fund the costs associated with CBILS.
59. The proposed amendment to the **viability test** can be justified on the basis of feedback from lenders that it is difficult for them to make a forward-facing assessment of the viability of a given business given the unpredictability of the Covid-19 pandemic and its impacts. Trying to collect this information is often burdensome on SMEs who are asked to provide business plans and projections, and lenders have argued it is leading to delays and rejections which might otherwise not be necessary.
60. We recognise that this amendment could remove a barrier for businesses seeking to access a CBILS loan, potentially enabling additional businesses to survive who would not have otherwise. However, it comes with risk that some businesses could be approved for lending who have significant concerns about their ongoing viability. As such it will have a negative impact on value for money for Government insofar as it increases the likely default rate for CBILS loans. The banks will still retain 20% of the risk of each loan, which should act as a break on the riskiest lending.
61. Aside from the financial implications, there is some risk that this change results in businesses who were never likely to survive receiving loans they cannot service; with the potential for accusations that Government should have protected them from irresponsible lending. In the context of the crisis, and given Government's stated intention to do whatever it takes to support the economy, this may be considered an acceptable risk.
62. HMT plan to explore these options with lenders before taking a final view. In particular, we think it is necessary to test whether the lifting of the portfolio cap (which transfers risk from lenders to Government) would result in increased levels of lending. **We would not recommend the removal of the portfolio cap without robust evidence** that this would have a material impact on lending behaviour and volumes, otherwise Government takes on greater downside risk with very little upside. **Are you content to test these options with lenders?**

Other ways of streamlining CBILS

63. We have identified two other ways of unlocking CBILS lending that would have lower additional risk for Government: encouraging self-certification on the 'undertaking in difficulty test' and writing a letter of comfort to the banks.

Letter of comfort

64. Through the development and roll-out of CBILS, lenders have sought additional guidance and assurance on elements of the scheme – particularly how they are to apply the criteria on business viability and the 'undertakings in difficulty' test. We suspect that a cautious approach here by lenders may have prevented some businesses from obtaining loans, or at least delayed applications.

65. The BBB has already taken some steps to address this problem, including by clarifying when self-certification of viability and the 'undertaking in difficulty' test is appropriate, and encouraging the use of automated credit checks for smaller facilities.

66. However, it could be possible to go further, for example offering a '**letter of comfort**' to lenders. Such a letter could make it clear that Government would not seek to disapply the guarantee in relation to a defaulted loan where it was clear that the lender had acted in good faith in approving the application. We understand BBB and HMT have each been developing drafts and would be keen to test this approach with the banks to assess its likely impact on behaviour. We support this approach.

Undertaking in difficulty: self-certification

67. State Aid rules require that State aid in excess of the €200,000 de minimis limit over three years¹ is subject to an 'undertaking in difficulty' test on the viability of the business. This is an accounting test and measures whether businesses have accumulated losses greater than half of their subscribed share capital as at 31 December 2019. The test is not applicable to CBILS facilities under £30,000.

68. The test adds time to application processing, and so the BBB have informed lenders that applicants are simply able to self-certify eligibility on this point. However, in practice take-up is patchy, because lenders are worried that Government will disapply the guarantee if it turns out that self-certification by lenders proved unreliable. BBB are preparing to issue new guidance to lenders offering further clarity on how to implement the self-certification, and we should

¹ Strictly speaking there is no UiD test in de minimis aid only where the principal nominal amount of the loan is scored as de minimis aid, Where the de minimis aid is the difference between the guaranteed rate and a commercial rate there is a lighter touch UiD test but which requires only that the lender is not subject to a collective insolvency procedure.

explore with the banks what assurances they might need to take advantage of this provision.

Summary of CBILS recommendations

69. Whilst increasing the risks to Government, we agree that removal of the forward-looking viability test is justified. We also recommend writing to lenders to clarify they may allow self-certification for the undertaking in difficulty test, and giving comfort that Government would not seek to disapply the guarantee in relation to a defaulted loan where it was clear that the lender had acted in good faith. We do not recommend removing the portfolio cap until we have greater evidence that this will unlock more lending. **Do you agree?**

70. We will do further, urgent work with HMT, BBB, and lenders to assess the costs, risks, and extent to which these changes will facilitate greater lending through the scheme.

Communications handling

71. If CSBILS goes ahead or if any of the proposed changes to CBILS are implemented, we could expect HMT to lead any announcement. BEIS comms will work with their HMT colleagues to support this and will provide further advice as required.

Next Steps

72. Following your response to this submission, we will draft a letter for you to send to the Chancellor setting out your position and proposing some next steps to be taken jointly by HMT and BBB officials. This will involve exploratory conversations with the main lenders and UK Finance to test their responses to the proposals, and if necessary, agreeing a realistic timetable for delivery of CSBILS. We will then revert with further advice and a full Accounting Officer assessment.

Contributors

- This advice has financial considerations and is agreed with: NR
- This advice has legal implications and is agreed with Gareth Evans
- This advice does have Parliamentary implications as agreed with Angelina Cannizzaro
- This advice has communications considerations and has been agreed with

NR

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Annex A – Comparison of selected European Covid-19 loan schemes

	UK	Germany	Switzerland	Austria
Name	CBILS; CLBILS	Schnellkredit	COVID-19-Kredit	Überbrückungs-garantie
SME eligibility	<ul style="list-style-type: none"> •CBILS: Annual turnover <£45m •CLBILS: Annual turnover £45m - £500m 	SMEs w/ >10 FTE	Any SMEs adversely impacted by COVID-19	SMEs with annual turnover <€50m
Loan size	<ul style="list-style-type: none"> •CBILS: up to £5m •CLBILS: up to £50m 	<ul style="list-style-type: none"> •SMEs with <50 FTE: up to €0.5m •SMEs with >50 FTE: up to €0.8m 	<ul style="list-style-type: none"> •1st facility: up to 10% of annual revenue, capped at CHF 0.5m •2nd facility: up to 10% of annual revenue, capped at CHF 20m 	<ul style="list-style-type: none"> •1st facility: up to €0.5m •2nd facility: up to €27.7m
G'ntee %	<ul style="list-style-type: none"> •CBILS: 80% •CLBILS: 80% 	100%	<ul style="list-style-type: none"> •1st facility: 100% •2nd facility: 85% 	<ul style="list-style-type: none"> •1st facility: 100% •2nd facility: 90%
Interest rates	<ul style="list-style-type: none"> •Up to 1%, facility-dependent •Interest holiday for first year 	<ul style="list-style-type: none"> •Standard market rates (bank-dependent) •2-year repayment holiday 	<ul style="list-style-type: none"> •1st facility: 0% •2nd facility: 0.5% •Government covers banks' admin cost 	<ul style="list-style-type: none"> •1st facility: 3m EURIBOR + 75bps; 2-year int. holiday •2nd facility: 1%
Recent & expected changes	<ul style="list-style-type: none"> •CBILS eligibility criteria widened •CLBILS loan size may double 	Guarantee rate increased to speed up process (no risk reviews required)	N/A	<ul style="list-style-type: none"> •Admin processes simplified •Guarantee rate increased
Go-live	<ul style="list-style-type: none"> •CBILS: 23 Mar •CLBILS: 18 Apr 	23 Mar	25 Mar	12 Mar
Uptake to date	<ul style="list-style-type: none"> •Lending volume: £2.3bn² •13,000 SMEs supported¹ 	<ul style="list-style-type: none"> •Lending volume: €8.7bn³ •15,000 SMEs supported² 	<ul style="list-style-type: none"> •Lending volume: CHF16.1bn⁴ •~103,000 SMEs supported³ 	<ul style="list-style-type: none"> •Lending volume: €890m⁵ •4,700 SMEs supported⁴

² As of 20 Apr – figures rounded

³ As of 21 Apr – figures rounded

⁴ As of 16 Apr – figures rounded

⁵ As of 13 Apr – figures rounded

Overview of wider SME policy responses by country (source: OECD)

	Labour			Deferral					Financial instruments			Structural policies			
	(Partial) redundancies	Wage subsidies	Self-employed	Income/corporate tax	Value Added Tax (VAT)	Social security and pension contributions	Rent/utilities/local tax	Debt moratorium	Loan guarantees	Direct lending to SMEs	Grants and subsidies	New markets	Televorking/digitalisation	Innovation	Training and redeployment
Austria	✓	✓		✓				✓	✓	✓	✓				
Germany	✓	✓	✓	✓					✓	✓	✓			✓	
Switzerland	✓	✓							✓	✓		✓			
United Kingdom		✓	✓	✓			✓	✓	✓	✓	✓				
United States		✓	✓	✓						✓	✓				

Based on the OECD's regularly updated SME Policy Responses compendium (https://read.oecd-ilibrary.org/view/?ref=119_119680-di6h3qgi4x&title=Covid-19_SME_Policy_Responses), the United Kingdom provides support to SMEs in various areas where other countries do not:

- Support for self-employed workers: While the interventions in the UK, Germany, and the US include measures for the self-employed, there is no support in place in Austria and Switzerland.
- Income tax deferral: There is no income or corporate tax deferral policy in place in Switzerland, as opposed to the other four countries reviewed in this paper.
- Rent/utilities & local tax deferrals: The UK is the only country to offer these.
- Debt moratorium: This is only offered as part of HMG's and the Austrian government's policy measures.
- Loan guarantees: As this paper lays out, these are offered by the UK, Austria, Germany and Switzerland, but not in the US (as the Payment Protection Program constitutes direct lending, fully written off if proven used for payroll purposes).

Grants and subsidies: These are not offered in Switzerland

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Annex B – Draft term sheet for CSBILS

Administration and Distribution	The scheme will be administered by BBB and distributed by accredited lenders. Accredited lenders must be prepared to offer facilities value at £2k upwards.
Self-declaration of Eligibility Criteria	Applicants complete self-declaration that they were not in difficulty at 31 Dec 2019 and that they have been impacted by Covid-19 (in a standardised online form).
Business size	No maximum turnover limit
Business history	Business must have been established before [1 January 2019]
Eligible sectors	All sectors except banks/building societies, insurers/reinsurers, and public sector organisations in line with CBILS.
Amount of finance to be offered	<u>Minimum:</u> £2k <u>Maximum:</u> 10% turnover, up to £25k
Lender pricing	Price of loan to be fixed by government [price to be determined]
Products to be offered	Term loan
Length of loan	6 years. Lenders to allow early repayments without charge.
Interest and product fees paid by the borrower	HMG to cover the first 12 months of interest/fee income through a Business Interruption Payment. After that rate will be fixed by government [price to be determined]
Guaranteed amount per facility, subject to annual claim limit	100% per loan
Portfolio Cap	N/A
Total amount available to lenders	Uncapped, demand driven.
Personal guarantees	No personal guarantees. For sole traders and partnerships, primary residences or vehicles cannot be taken as security against the loan.
Duration of guarantee	Applicable scheme facility offered between [launch date] and [date + 6 months] (option to extend as with other schemes)
Guarantee coverage	Guarantee covers full outstanding balance of loan – i.e. principal and fees/interest
Guarantee fee paid by lender	On the basis that lender would be captured by EU definition of an SME: Year 1: 25 bps Years 2 – 3: 50 bps Years 4 – 6: 100 bps
Refinancing	A maximum of 20% of the total amount of scheme facilities may consist of refinancing.
Recoveries	Banks able to call on guarantee after the loan expires if they attempted recovery and have reason to believe it will not be repaid and are able to pursue loans for up to 12 months after the loan expires.
Syndicated lending	No syndicated lending - not relevant for this facility size

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Standard of care	[Lender must act in a manner consistent with that which would be deemed reasonable by a prudent lender within the parameters of CSBILS, including providing clear information to the customer about the loan.]
Groups	[Entities of the same corporate group are permitted to take out one CSBILS facility each]
Dividend Restriction	Until the loan has been repaid in full, the Borrower must not agree to pay any dividends except for 1) any dividends declared before the loan was drawn up; 2) any payments do not represent an increase to level of equivalent payments in the 12 months before taking out the loan; and 3) any payment would not have a material negative impact on the ability for the borrower to make all payments due under the loan.
Scheme administration	To be based on the web portal used for Enterprise Finance Guarantee and CBILS
Interaction with other UK Government Coronavirus schemes	Borrowers under this scheme must not have used CBILS or CLBILS.