WHAT IS CBILS AND CAN MY BUSINESS STILL ACCESS IT?

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Posted by: Oli Ballard

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The Coronavirus Business Interruption Loan Scheme, more commonly referred to as "CBILS", is a government-backed initiative which provides financial support to small and medium enterprises (SMEs) whose cashflows or revenues have been affected by COVID-19.

COVID-19 has evolved from a public health pandemic into an economic crisis, causing great difficulty for SMEs attempting to navigate the volatile landscape. No businesses have been left unaffected by the pandemic, which has seen whole industries close, supply chains disrupted, and restricted millions to working from home.

CBILS should be viewed in the context of several other government initiatives, which include the bounce back loan and furlough schemes, aiming to support viable businesses through the crisis.

The scheme was launched on 23 March 2020 and is overseen by the British Business Bank (BBB), which has worked directly with private sector lenders to distribute the CBILS loans.

CBILS is approaching its first anniversary and has brought liquidity and interest relief to over 800,000 businesses in all sectors, other than banks, insurers and public bodies. The construction sector seems to have benefitted most, having obtained 14% of the £20bn so far deployed. That said, whilst many thousands have benefitted, others complain of red tape or are seemingly unaware of their eligibility.

KEY FEATURES OF CBILS

There are two key components of a CBILS loan. Firstly, the government provides the lender with a guarantee for 80% of the loan. This has encouraged lenders to lend, safe in the knowledge that, despite the uncertainty, their losses were capped at 20%.

Secondly, the borrower is afforded a period of interest relief for the first 12 months of the loan, which is paid by the BBB. This effectively means the loan is temporarily interest free and should prevent borrowers from having to take drastic actions elsewhere that, without the relief, they may have had to consider.

CBILS facilities are for a maximum of £5 million and are available on prepayment terms for up to 6 years. Only enterprises with a group turnover of less than £45m are eligible, and they can borrow, in most cases, up to 25% of turnover.

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Businesses who are classed as a 'in difficulty' as of 31 December 2019 or are subject to insolvency proceedings, will be not meet the CBILS requirements. CBILS loans are available as term loans, overdraft facilities, invoice finance and asset finance. Personal guarantees cannot be taken by lenders for facilities under £250,000 and principal private residences are always protected.

The BBB has accredited over 100 lenders with separate mandates to get CBILS into the economy. Each lender agrees a strict set of lending criteria with the BBB for specific borrower and transaction types that they are able to support.

Is my business eligible for CBILS?

CBILS criteria has been expanded and amended several times since its conception, meaning it is now available to a wider pool of companies than was originally the case. CBILS is officially described as a self-certification scheme, however accredited lenders are reviewing applications diligently and expect applicants to have a considered business plan for the funds.

Sam Le Pard of real estate debt advisory, LEXI Finance, explains the steps to obtaining a CBILS loan in more detail: "There is essentially a two-stage process. Borrowers need to meet the BBB's basic requirements. This means they need to demonstrate how their business was impacted by the coronavirus, and that they were otherwise a viable concern.

"Assuming those points are met, a borrower then needs to apply to an accredited lender with the appropriate product. Given each CBILS lender has their own strict set of CBILS criteria, it is not always a straightforward task in finding the correct lender.

"We have worked with several clients who had clearly been affected by COVID-19 yet had been turned down for CBILS relief by certain lenders. The issue wasn't necessarily the companies' circumstances but was more that their circumstances didn't meet the specific lender's conditions.

"LEXI have been able to help several of these companies by directing them towards the correct lender, who could help in their given situation. Awareness of lender criteria is key.

"The final hurdle" explains Mr. Le Pard, "is liquidity. Each accredited lender has a finite CBILS allocation, which they must deploy before seeking further funds. Given the need for interest relief in the market and the scheme's popularity, we've saw early movers in the CBILS space run out of their lender allocation within days of becoming accredited. This has left some eligible borrowers waiting for lenders to announce they've received further funds before they can apply."

There are countless examples of successful applicants who have benefited from CBILS. This includes those with demonstratable supply chain issues, delays with materials or aborted sales, amongst other examples. Successful applicants demonstrate the effect of COVID-19 on their business, clearly define what the CBILS funds will be used for and find an accredited CBILS lender with the mandate and liquidity to support them.

INDUSTRY RESPONSE TO CBILS

Although the CBILS scheme has been widely commended for supporting many struggling businesses, its roll-out has not always been smooth and the scheme is not without its critics.

Initially, there was a noted time lag between the Chancellor announcing the scheme and the loans actually becoming available. This meant many businesses that were struggling in Spring 2020, who were desperate for support, fell into difficulties they could not recover from. Logistical criticisms continued as CBILS then appeared to be released to the market in waves.

There was a noted pattern of various lenders announcing their CBILS accreditation, only to become overwhelmed with interest and to close their applications within days. This benefitted the fastest movers rather than the neediest and perhaps, could have been resolved if the BBB had provided larger allocations to start with. That said, it is understandable that the government's rapid response to a novel economic crisis would face certain logistical hiccups.

Others have levied criticism that the government has not gone far enough to protect lenders and ensure liquidity, suggesting that a 100% guarantee would have ensured loans quickly reached those who needed them most. Critics of this suggestion argue that a 100% guarantee would inevitably encourage poor underwriting, whilst risking the spectre of thousands of non-performing loans underwritten by the government, causing further headaches around the corner.

Others have criticised the process itself, complaining of red tape and highlighting inconsistencies between CBILS lenders as a cause of frustration for prospective borrowers. On the whole, it seems the BBB has done its best to respond to these criticisms and maintained a constant line of communication with accredited lenders.

This open approach has allowed the BBB to address issues, expand criteria and extend the scheme on several occasions. In reality, it was inevitable that a multi-billion-pound, government funded, self-certification scheme, launched rapidly across 100s of lenders around the country would be far from perfect and would require constant tweaking.

HOW LONG DOES THE SCHEME LAST?

Applications for CBILS loans are currently set to close at the end of March 2021, however the deadline has been extended before.

Questions remain as to whether the scheme will be extended again, as clearly the impacts of COVID-19 will be felt far beyond this deadline. According to a recent McKinsey survey of UK SMEs, 80 percent of businesses say their revenue is declining due to COVID-19, underlining the importance of continued support. Certain industry insiders expect there to be a further extension to the scheme, albeit potentially in a slightly different format, perhaps with less benefits to borrowers.

The scheme's initial aim of ensuring market liquidity and providing a safety net to COVID-19 effected borrowers has clearly been met, however problems will persist.

Mr. Le Pard explains: "The scheme was, and remains vital. In March 2020, we saw liquidity disappear from the market like never before. No one knew what coronavirus meant or how long lockdown would last. Lenders across the board, understandably, pulled up the drawbridge and sat on their funds. CBILS gave lenders the confidence they needed to start lending again and will have saved many bloodied businesses. I certainly hope the scheme is extended."

* Albonico, M., Mladenov, Z., & Sharma, R. (2020). How the COVID-19 crisis is affecting UK small and medium-size enterprises. McKinsey & Company.

Read the article here.

LEXI Finance
58 Broadwick Street, Soho,
London, W1F 7AJ

T. +44 (0)2081 383 284
hello@lexifinance.com