UK Expands Support for Small Businesses After Limited Impact of Initial Program

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Original post here.

The UK is no longer requiring would-be borrowers in its crisis-lending program to confirm that they tried and failed to find funding from a commercial bank. This requirement slowed loan approvals during the first two weeks of the program.

On April 3, the United Kingdom announced updates to the Coronavirus Business Interruption Loan Scheme (CBILS) for small and medium-sized enterprises (SMEs) after the initial program failed to provide widespread liquidity support. On the date of the announced updates, over 130,000 inquiries had been submitted, but only 983 loans had been granted. The updated scheme became operational on April 6.

The amendment opens the scheme to more borrowers. Initially, the program was limited to small businesses that were unable to receive standard commercial financing. The guarantee was designed to incentivize lenders to provide financing to these small businesses. As originally designed, firms that met a lender's requirements to receive standard commercial financing were unable to participate in CBILS, but the government eliminated this requirement as part of the update, expanding the number of borrowers who can benefit. This appears to alleviate some of the administrative burden on lenders, as banks considered the process of determining eligibility to be difficult.

UK based firms with annual turnover less than GBP 45 million are eligible for CBILS. The program excludes banks, insurers and reinsurers, public sector bodies, grant-funded educational institutions, and state-funded primary and secondary schools. Firms must certify that they have been adversely impacted by COVID-19 and have a borrowing proposal that the lender would consider viable during normal times.

The British Business Bank (BBB), a government-owned business development bank, operates CBILS through more than 40 accredited lenders. These include traditional banks, but also asset-based lenders, challenger banks (small, recently-created banks competing with longer-established institutions), and smaller specialist local lenders. On April 11, the BBB announced the addition of four new lenders under the program. It will continue to review applications to accredit more lenders under CBILS.

CBILS provides 80% guarantees on credit facilities up to GBP 5 million. Lending can be in the form of term loans, overdrafts, invoice finance, and asset finance. Loans can have terms of up to 6 years.

The government made other changes. First, the amendment prohibits lenders from taking personal guarantees on loans less than GBP 250,000. For loans greater than GBP 250,000, personal guarantees are permitted based on the lender's discretion but are capped at a maximum of 20% of the facility after applying the proceeds of the business assets. Principal private residences cannot be taken as security for the facility. Second, lenders are to retroactively apply the updates to firms that received CBILS facilities prior to April 6. The government also requested that lenders bring non-CBILS facilities offered since March 23 onto CBILS when possible.

The government will make a Business Interruption Payment to cover the first 12 months of interest payments and any lender fees. However, this does not include principal repayments. In addition, the Treasury has not capped the interest that banks can charge. For some SMEs, specifically those that have been forced to temporarily close, a loan increases the debt burden at a time when no revenue is collected.

By April 15, more than GBP 1.1 billion was lent to approximately 6,000 small businesses under CBILS. UK Finance reported that state backed lending to SMEs had risen by GBP 700 million (150% increase) and loan approvals doubled in the week leading up to April 15.

Despite the updates and increase in lending, some remain concerned that the scale and speed of the rollout are not sufficient, given delays, administrative complexity, and demand for liquidity.

In addition to updating CBILS, the government announced the creation of a new credit guarantee scheme for larger businesses, the Coronavirus Large Business Interruption Loan Scheme (CLBILS) on April 3. Under CLBILS, the government provides an 80% guarantee to banks for lending to firms with an annual turnover between GBP 45 million and 500 million. Loans will be capped at GBP 25 million and offered at commercial interest rates. However, this program remains limited to borrowers that are unable to secure regular commercial financing. The Treasury announced that the program will begin lending on April 20.

In addition to credit guarantee schemes, the Bank of England (BOE) announced on April 6 that the Term Funding Scheme with additional incentives for Small and Medium-sized Enterprises (TFSME) would begin operations on April 15, which is earlier than anticipated. As of the BOE's April 15 Weekly Report, no lending under the facility had been recorded on the bank's balance sheet. The TFSME allows eligible banks and building societies to access four-year funding at rates very close to the bank rate to incentivize credit provision to businesses and households. For more information on the TFSME, see Central Banks Launch Funding for Lending Programs.