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CBILS – important pointers for anyone completing loan applications

There has been much comment recently about businesses struggling to access the Coronavirus Business Interruption Loan Scheme – mostly pointing the finger at lenders. I think this is a little unfair.

From what I have seen already in helping businesses with their applications, there are things that borrowers can do differently, and things they need to be aware of, in order to help the lenders do their jobs and thus speed up the application process. I'm not saying lenders are perfect by any means; I'm just trying to inject a little more balance into the discussion, and help with a few pointers. So here goes:

Firstly, it is crucial that borrowers understand what the scheme is for, its rules, and what they need to do to make a successful application. I am regularly speaking with lenders who are tearing their hair out because borrowers don't properly understand the scheme and are getting their applications hopelessly wrong. Many hold the mistaken belief that lenders are merely dolling out government money, so all they have to do is ask. This is just not the case. They are loans not grants, and lenders are mandated to follow the scheme rules: so if an application doesn't 'tick all the right boxes' then the applicant won't be able to get a loan.

Moreover a CBILS facility is for working capital only. The easiest way to think of it is as a working capital facility but with up to six years to repay it.

Time is short for many businesses and those applying under CBILS maybe need to be a bit more realistic about their options. The key issue for many is simply getting the money. If, instead of a CBIL, your lender offers you a loan on normal commercial terms, it's because the rules say they have to. You aren't 'entitled' to a CBIL: you either qualify or you don't.

CBILS is not a 'one size fits all' scheme either. It has set rules and guidelines but within that there are matters for each lender to decide – such as whether the business is 'viable'. So first off, an applicant has to convince the lender that they are. If they cannot do that, their lender cannot approve it. They have to convince the lender that their business was viable before the crisis and that it has the ability to be viable after it.

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As well as the question of viability, there are other important areas that I would urge borrowers to really focus on in their applications:

- Show that you have already used all other forms of relief applicable/available to you (furloughing employees, VAT deferment, rates relief etc.);
- Show clearly how your difficulties are due to the pandemic;
- Demonstrate that the loan will be used for business critical payments (this is not the same as 'business as usual' – and inevitably there are grey areas as to what constitutes business critical and what doesn't). To coin a Covid analogy: it is to cover the costs of keeping a business's ventilator running while part, or all of the business is mothballed;
- Demonstrate that you can repay the loan, and explain clearly and concisely your reasoning and assumptions;
- Explain how you will get up and running when restrictions are lifted, and how you will recover and generate profits after that.

Another point to stress is that applications need to be as succinct and easy to follow as possible. I know that isn't easy but remember that demand for this scheme is unprecedented and lenders simply do not have the time to wade through pages of expansive text: nor do they have the resources to correct applications themselves. It is worth spending a few days to think about an application and get it right because it will go through much quicker. For example: I submitted an application on Wednesday last week for a client, which took three days to prepare. There were a couple of questions on Thursday, and the client received a call on Good Friday to confirm that the loan had been approved.

Rushed and incomplete applications are likely to just get bogged down in the system and take much longer; or worse still might be declined.

To digress slightly there is some history between lenders and the government that is worth mentioning. This is anecdotal but I have heard it many times when speaking with lenders over the years. There are similarities between CBILS and the Enterprise Finance Guarantee Scheme that was launched in response to the 2008 'Credit Crunch'. The EFG scheme incorporated a government guarantee similar to the CBILS guarantee. However, lenders complain that back then, when they called for payment under the guarantees, it was very difficult to get the government to pay up. I understand that unless lenders could show they had followed the EFG rules to the letter, the guarantee would be voided. If that is in any way true then you have to expect that lenders will apply the CBILS rules carefully this time round. Now, that is not to say that lenders were blameless before; without doubt some of them used the EFG scheme inappropriately. However, it is perhaps another reason for borrowers to make sure their CBILS applications are right before submitting them.

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At this point it might be helpful if I said a few words about security.

- Where there is sufficient security available, it is likely that the lender will take it in support of a CBILS facility;
- However, someone's home cannot be taken as security;
- For loans below £250,000 lenders will not take personal guarantees;
- Above £250,000, personal guarantees are at the lender's discretion;
- The amount recoverable under a guarantee is capped at 20% of the outstanding balance of the CBILS facility, after the proceeds of business assets have been taken in reduction;
- From that last point I interpret this to mean that, where a lender takes personal security from someone in support of their guarantee, the amount secured by it is still capped at 20% as stated above.

Currently, an added difficulty is that, at the time of writing, the banks are not accepting applications from new customers because they are trying first to deal with their existing customers. So for customers of banks, I cannot stress enough how really important it is for them to get their applications right because there is limited ability to shop around right now. As I said earlier, apart from anything else, the better the application is, the quicker it should go through. This will also free up more time for lenders to deal with other cases, so it's in everyone's interest.

Finally, please take this last point in the spirit in which it is intended: it is not my intention to insult anyone in the slightest. Based on what I have learned in the last few weeks, for the majority of borrowers who need to submit a CBILS application, now is perhaps not the right time for a Do-It-Yourself approach. Time is a luxury that many businesses don't have so maybe its time to think about taking help where it is available.

Thank you for reading and I hope there was something useful for you.

Russell Snowdon
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Contact Us

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