



Abell Morliss International



Business/Employers questions on the Coronavirus Business Loan Scheme

VERSION 2 CBILS

This was announced by the government amidst much more fanfare after CBILS1 failed two weeks ago.

Unfortunately instead of taking applications direct through the British Business Bank, they have still subbed it out to the usual boys – the banks. ‘Amazingly’ they were sitting on their hands and generally dragging their feet about offering any actual funds through the scheme -very much business as usual in the banking world.

CONTEXT

The Coronavirus Business Interruption Loan Scheme (CBILS) is a response by the government to the ongoing Coronavirus problem in the UK. The scheme is supposed to assist businesses who face financial difficulties due to shutdowns/loss of business due to the Coronavirus restrictions.

The schemes aim is to provide easier access to loans of up to £5m for small businesses in the UK. – the reality was that little happened under scheme 1 as the banks sat on their collective hands.? So now we have version 2, perhaps the GT version, but certainly not the GTX version.

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KEY FEATURES OF THE CORONAVIRUS BUSINESS INTERRUPTION LOAN SCHEME V2 (CBILS)

Loans given under the scheme will be up to £5m to companies which will be made available on repayment terms of up to six years (allegedly).

One of the highlighted elements is that the loan will be backed by the government with an 80% guarantee against the balance owed as an 'encouragement' to banks to do the decent thing and actually help businesses in a time of trouble. This offers security to the lenders (banks), which should make it easier for businesses to secure funding, who otherwise would certainly be denied a loan. The government has been **forced to amend this element** of the scheme so that the borrower will now only be liable for 20% of the debt, should it turn sour.

They have also amended the security rules to **BAN the banks from demanding security** on loans below £250,000.

And further, they have **banned the banks from forcing directors to pledge their houses** as security, so now the banks are restricted to the assets of the business, and perhaps their other personal assets.

NB. Hot tip, make sure that when you apply for CBILS2 that your personal assets are only your house that you live in, plus your shares in your valuable 'Furloughed' business.

Back to the features

There will be no fees payable by businesses to access the CBILS scheme, this allegedly means there will be no upfront cost from the bank to any business seeking a loan under the scheme.

Reality is that it will cost business significant sums to access the scheme - accounts, cashflow, projections, business plan.

Interest and fees incurred in the first 12 months by you will be paid by the Government. This will benefit businesses, as the initial loan repayments will be lower than they would be on a standard loan. The British Business Bank has expressed the fantasy that should a lender be able to offer finance on normal terms, without the need to use the CBILS, they will do so. The Chancellor has now

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changed the terms so that a **business is Entitled to CBILS2**, irrespective of their under-writing status, quite how this will work in practice is still murky - how do you agree with your bank what is a suitable loan value?

Who can apply?

The British Business Bank says a business must meet the criteria outlined below to be eligible.

- J You must be a UK-based business – does this exclude the Google types who pretend much of their business is based in Ireland etc.,?
- J Maximum annual turnover of £45m. in the uk
- J Have a borrowing proposal (paid for by you remember) that would be considered viable by the lender, were it not for the current pandemic. Fascinating to see how this works in reality.

How to apply for a Coronavirus Business Interruption Loan

The scheme allegedly went live on 23rd March, meaning that you are now able to obtain finance under the CIBLS. All you have to do is ring your usual banker.... Hahahahaha..... The loans will be issued by lenders in the usual way – i.e. via your bank. Currently (6.4.20) Barclays and Metro are taking over an hour to answer the phone, which is one way to slow down the applications?.

Banks are slowly releasing details of their process for applying for a loan under the scheme, so check for anything on their website. You'll likely find that your bank has a dedicated Coronavirus page where you can find information on how to apply. If you're unable to locate any relevant information/instructions online, don't call your bank, as they will just say "no idea mate, check our webshite, we know nothing about when it's going live". It's worth noting that phone lines will be busy, and the banks won't use any of the mass unemployment to boost call centre capacity.

The next formal steps will depend on each lender, and their requirements for giving a loan. It is certain you will have to supply a lot of data to support the application.

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Applications for a loan under this scheme must be made via your bank, it is pointless ringing them up until their website shows they are open for CBILs business.

There are a few types of business excluded – banks, insurers, state entities(!) and trade unions.

Please do not get in touch if you would like any further advice on the Coronavirus Business Interruption Loan Scheme and other government support.

Unsure if a Coronavirus Business Interruption Loan is right for you?

We attach a worked example of a small business taking an emergency loan. This may help you decide your strategy.

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VERSION 1 CBILS

This was announced by the government amidst much fanfare two weeks ago.

Unfortunately instead of taking applications direct through the British Business Bank, they have subbed it out to the usual boys – the banks. ‘Amazingly’ they are sitting on their hands and generally dragging their feet about offering any actual funds through the scheme. E.g. on 31st March Metrobank still just had a generic notice on their website saying “we’ve heard about a new loan scheme, but we’re still thinking about how to make it a runner”. - It is very much business as usual in the banking world.

CONTEXT

The Coronavirus Business Interruption Loan Scheme (CBILS) is a response by the government to the ongoing Coronavirus problem in the UK. The scheme is supposed to assist businesses who face financial difficulties due to shutdowns/loss of business due to the Coronavirus restrictions.

The schemes aim is to provide easier access to loans of up to £5m for small businesses in the UK. – reality?.....

KEY FEATURES OF THE CORONAVIRUS BUSINESS INTERRUPTION LOAN SCHEME (CBILS)

Loans given under the scheme will be up to £5m to companies which will be made available on repayment terms of up to six years (allegedly).

One of the highlighted elements is that the loan will be backed by the government with an 80% guarantee against the balance owed as an ‘encouragement’ to banks to do the decent thing and actually help businesses in a time of trouble. This offers security **to the lenders** (banks), which should make it easier for businesses to secure funding, who otherwise would certainly be denied a loan. It’s **super super important to note**, that the borrower will still remain liable for 100% of the debt.

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This is a massive problem, imagine the following scenario.

You're Mr. Big owning a major restaurant, maybe called Zoronos. You go to your ever helpful bank who will ask for aeons of accounts, forecasts, projections, plans, **and your personal guarantee** from ALL three directors of Zoronos.

Just as you are slipping off the edge of the fiscal cliff, clinging on by your fingernails, the bank cracks and gives you the £1m of loan funds you requested.

Four months elapses and the money has all gone again, so you ask the bank for another sub. This time the bank says "can't see how you're ever going to repay these huge loans, it will take a miracle, and despite Easter, we doubt it will apply to your case", so they say no more loan, and you have to close down, thinking well at least only (!) £200k of the loan spread across three directors is my personal problem. WRONG!

You ring your fellow directors and give them the news, and they casually mention that they no longer have any assets as they binned them all to their gorgeous wives three months ago.

100% of the loan is now your personal problem -all £1m of it. The banks knackers will come round and flog everything of value out of your shuttered business, and recover say £50k (stuff that cost you £500k), they will then ask you for £950k. You realise you are up a large creek with no paddles whatsoever. You declare personal bankruptcy because you've only got assets of £500k (they kindly have said they will leave your house alone).

The bank takes your £500k assets, flogs them for £400k.

So then the bank is £550k plus all their inflated legal fees say £100k, short, and they then go to the government and get a cheque for 80% probably £520k. So on the £1m they recover £50+400k from you, and £520k from government, they only lose a modest amount. And while the loan has run you were paying the interest to them, or maybe no interest if the government statement is true.

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OR

You don't bother with the CBILS at all, declare the business closed/bankrupt now (but **not you yourself personally!**), hopefully taking the landlord for loads of rent arrears, lots of unpaid Rates, and generally creping on your unpaid suppliers, and sacking 30 staff owed a months wages plus redundancy costs to the dole. And save yourself loads of stress.

BUT keeping your personal £500k of investments as you didn't borrow any money from the banks.

In November things are looking up, and the restrictions ease so it's party time as we all start going out again. You form a new LTD using Abell Morliss, and call your ex landlord of the restaurant, which will have sat idle and shuttered as who else would take it on in the middle of the worst recession since the 1920s.

He says "you stiffed me for 9 months rent when you went assets skywards". But you will persuade him with your silky charm that there was nothing fundamentally wrong with the business, it was all the Coronavirus restrictions that put the kybosh on it. You will also say that although he's lost some rent out of it, that you can reopen in weeks as it's all sitting there under dustsheets, just need to smarten it up, and ring the 30 sacked serfs to give them the good news you're ready to restart. He will give in as it's his quickest route to new cash flow to solve all his problems etc.

Which solution would your wife choose for you?

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- ✓ Maximum annual turnover of £45m. in the uk
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Please do not get in touch if you would like any further advice on the Coronavirus Business Interruption Loan Scheme and other government support.

For us at Abell Morliss through Coronavirus:-

- ❖ We have lost staff, and our office can scarcely function
- ❖ Output of staff working remotely is around 60% of when working in the office
- ❖ Accounts STILL have to be filed on time. Coho have done nothing to help ease burdens
- ❖ Corporation tax returns still have to be filed
- ❖ VAT returns every three months STILL have to be prepared and filed

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- ❖ And on top of that everyone is asking US to explain the furlough scheme, the CBIL, self-employed support, small business grant scheme etc.
- ❖ And we are supposed to help all our clients for free to make these applications under the support schemes
- ❖ I can't think of anything that has been put in place that eases anything for us
- ❖ And I can no longer access our coffee machine

I'm just saying.....

Links <http://www.british-business-bank.co.uk/>

Also remember tax payments are now optional for aeons

<https://www.gov.uk/government/organisations/hm-revenue-customs/contact/coronavirus-covid-19-helpline>

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