

# Coronavirus Business Interruption Loan Scheme launches with amended criteria

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In our client alert titled “Government-backed initiatives to support businesses impacted by the Coronavirus,” we gave an overview of various measures announced by the UK Government to help UK business through the economic shock, one of which was the Coronavirus Business Interruption Loan Scheme (“CBILS”). Since the Chancellor of the Exchequer originally announced the scheme in the Budget on 11 March 2020, the British Business Bank, the entity that is delivering the scheme, has published further details and amended some elements that were previously announced.

## Recap of the Coronavirus Business Interruption Loan Scheme

CBILS is a guarantee scheme for lenders provided by the British Business Bank, the aim of which is to encourage lenders to continue to provide financing to viable UK SMEs during the COVID-19 outbreak. The scheme is being made available to eligible SMEs from 23 March 2020.

CBILS offers accredited lenders a government-backed guarantee on the outstanding balance up to 80 per cent of the facility value, subject to a per-lender annual claim limit at portfolio level. This should give lenders further confidence in continuing to provide financing to SMEs, even in cases where a borrower does not meet a lender’s usual requirements with regards to security.

There are currently more than 40 accredited lenders participating in the scheme, ranging from large institutions to challenger banks and specialist providers of asset or invoice financing. The scheme supports the provision of a range of finance products, including revolving facilities or overdrafts, invoice finance facilities, asset finance facilities and term loans. The tenor of the facilities range from just three months up to six years (not 10 years as previously indicated) in the case of term loans and asset finance, or up to three years for revolving facilities and invoice financing.

## What does CBILS offer SMEs?

The scheme means that borrowers, who would otherwise have struggled to secure financing, should now be able to secure funds of up to a maximum of £5 million via one of the accredited lenders participating in CBILS. In addition to gaining access to facilities that may otherwise have been off-limits, borrowers will also benefit from lower initial interest repayments. The Government, through a Business Interruption Payment, is offering to pay the first 12 months of interest payments, which is an increase on the original proposal that only covered the first six months. In addition, the Government will also pay any lender-levied fees such as arrangement fees, although some, but not all, participating lenders have already stated that they will not charge

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arrangement fees or early repayment fees to SMEs using the scheme. During the one-year interest repayment holiday, borrowers remain liable for making capital repayments.

## Which SMEs are eligible to participate in the scheme?

The full eligibility criteria has now been published. SMEs are required to meet the following criteria:

- Be UK-based in its business activity, with a turnover of no more than £45 million per annum (this is an increase from the previously stated £41 million);
- The business must generate more than 50 per cent of its turnover from trading activity; and
- The SME must have a sound borrowing proposal which, were it not for the COVID-19 pandemic, would be considered viable by the lender, and for which the lender believes the provision of finance will enable the business to trade out of any short-to-medium term difficulty.

## If an SME has previously had *de minimis* state aid, is it precluded from receiving a loan through CBILS?

No. The CBILS website previously stated that in order to participate, an SME had to confirm that it had not received *de minimis* state aid beyond €200,000 equivalent over the current and previous two fiscal years, but this requirement has now been removed. The British Business Bank has confirmed that any previous *de minimis* state aid does not impact an SME's eligibility for CBILS and should not be taken into account by a lender when assessing a borrowing proposal.

## Are SMEs operating in all sectors eligible to borrow under CBILS?

Although the British Business Bank states that SMEs from all sectors can apply for the scheme, it notes that certain trades and organisations are excluded. These excluded entities include banks, building societies, insurers and reinsurers, trade unions, state-funded primary and secondary schools, and religious or political membership organisations. Additionally, although eligible to apply, fishery, aquaculture and agriculture businesses may not qualify for the government's full interest and fee payment.

## What are the fees for borrowing under CBILS?

Unlike the Enterprise Finance Guarantee Scheme, upon which CBILS is based, there is no guarantee fee for SMEs that participate in CBILS and, as previously stated, the government will pay any arrangements fees charged by the lenders to borrowers. Lenders, however, will pay a fee to participate in CBILS.

## Is security needed in order for an SME to participate in CBILS?

At the discretion of an accredited lender, the scheme can be used for unsecured lending for facilities of up to £250,000.

## What type of entity can borrow under CBILS?

The scheme is available to sole trader, freelancers, body corporates, limited partnerships, limited liability partnership and other legal entities that meet the requirements of being a UK-based business activity with annual turnover of no more than £45 million. The business activity of sole traders and freelancers must be operated through a business account.

## Are SMEs excluded from participating in CBILS if they receive other forms of COVID-19-related aid?

No, lenders will not take into account other forms of government support, such as business rate relief or grants.

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## How long will CBILS run for and is there a limit on the amount of government funds available under the scheme?

The British Business Bank announced that the scheme will initially run for six months and the government has confirmed that the amount of funding under the scheme will be demand-led.

## How can a borrower apply for a financing arrangement under CBILS?

In order to take advantage of CBILS, a borrower should apply to one of the accredited lenders participating in the scheme in the same way it would apply for a loan facility. If, upon reviewing the SME's borrowing proposal the accredited lender is able to offer financing on normal commercial terms without making use of CBILS, it will do so. If, on the other hand, the SME has a sound borrowing proposal but insufficient security, then the accredited lender will consider the business for support via CBILS.

There is likely to be considerable demand for facilities in the first weeks of the scheme and it is recommended that borrowers apply via a lender's website in the first instance. Telephone lines are likely to be saturated, and in-branch applications are discouraged as a result of social distancing.

If you have any questions relating to this alert, please reach out to your White & Case contact.

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