

Coronavirus financial support package to businesses is a far cry from what the Government has promised

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Updated By Alan Andrews on 1/4/20

Small and medium sized businesses will have been reassured to hear about the steps that the Government is taking to ensure firms can survive the current coronavirus crisis and will have welcomed the news of the introduction of the Coronavirus Business Interruption Loan Scheme (known as CIBLS). But the reality that has unfolded, since the launch of the scheme last week, is that many companies, who are desperately struggling, find themselves unable to access the financial support promised by the Government.

As companies try to obtain the funding, many are finding that the banks are not making it easy to get the financial help that they so desperately need. With a fifth of UK small businesses at risk of collapsing in the next month, companies need funds now to keep afloat, but the process of actually getting their hands on the money they need seems to be far from straightforward.

Despite Government promises, many businesses are unable to access support

Whilst the Government has heralded the scheme as coming to the rescue of businesses in need, those applying for funds have found that they're required to apply for a standard business loan in the first instance. Only if they then fail to meet the normal criteria will they be able to apply for a loan under the CIBLS.

Despite their assurances that they are investing unprecedented amounts to support businesses to survive the crisis, the Government's requirement for banks to offer their own commercial loans in the first instance, forms part of the scheme rules, as set out by the British Business Bank, who are overseeing the CIBLS. The scheme rules clearly state that:

"The lender has the authority to decide whether to offer you finance. If it can do so on normal commercial terms without having to make use of the scheme, it will".

As interest will be charged at commercial rates from day one and companies won't benefit from the 12 month payment holiday as they would under the Government's scheme, many firms may find that they can't get the support that they so desperately need at this time, despite all the promises by the Government that help is at hand.

Banks demanding additional security

There's also a great deal of uncertainty on exactly what forms of security the banks will be asking for from businesses, if they are considered for a loan under the Coronavirus Business Interruption Loan scheme. Some lenders have been asking for personal guarantees which would place the personal property of business owners at risk if their business were to fold due to the crisis.

The 4 main banks have now confirmed that they won't require a personal guarantee for loans below £250k and lenders can choose to use the scheme for unsecured lending up to £250k but there still remains a great deal of confusion for those trying to apply.

How does the Business Interruption Loan Scheme work?

Under the CBILS companies can apply for a loan of between £25,001 and £5m for up to 6 years to help them survive the current crisis. Those needing financial help over a shorter period can access overdrafts and invoice finance for up to 3 years through the scheme. Loans arranged under the scheme will be interest free for the first 12 months and there's no need to make any repayments for the first year either.

Which businesses are eligible?

With the vast majority of companies being impacted by loss of trade, falling sales and cash flow issues, the ability to access funds on these terms certainly sounds like very welcome news for struggling businesses. So long as their annual turnover is less than £45m and they would be a viable business if it weren't for the impact of the virus, companies will be eligible and will be able to borrow up to the value of 25% of their 2019 turnover or twice their annual wages bill.

How do companies apply?

Loans can be accessed via 40 lenders who are currently part of the scheme and companies are being directed to apply via their normal business bank in the first instance.

Is the Government ensuring that they are delivering on their promises to small businesses?

Given the unprecedented nature of the crisis and the lasting impact that this is likely to have on the UK's economy, offering all affected viable companies access to immediate financial support is essential. What we need to see is a level playing field for all business rather than the current 2 tier arrangement, which sees companies with the required security being forced to choose between a commercial rate business loan or no loan at all. If the Government would support the same 12 month interest and capital repayment free period for normal bank lending during the current crisis all viable business would be able to benefit from the financial support that the Government has so publicly pledged but is currently failing to deliver.

Article by KIS Finance (<https://www.kisbridgingloans.co.uk/>)

If you would like any more information or for us to provide expert comment for an article then don't hesitate to contact us.

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