CBILS: Guidance for asset finance intermediaries

Summary: This document provides details of the CBILS scheme, how it can be used for asset finance, and what considerations should be made for business customers using CBILS. It draws on information from the British Business Bank (used under the terms of the Open Government License), the FLA's Non-Binding Guidance for Intermediaries, and the FCA's rules on Fair Treatment of Customers.

What are CBILS?

The Coronavirus Business Interruption Loan Scheme (CBILS) provides financial support to smaller businesses (SMEs) across the UK that are losing revenue, and seeing their cashflow disrupted, as a result of the COVID-19 outbreak The scheme is a part of a wider package of government support for UK businesses and employees.

CBILS are loans provided via accredited lenders. Many FLA members are either accredited lenders or are seeking accreditation. Accredited lenders can include high-street or challenger banks, asset finance providers or other specialist lenders.

Lenders can provide up to £5 million of funding, and this can be in the form of asset finance, invoice finance, overdrafts or term loans. The lender receives a government-backed guarantee, but the borrower remains fully liable for the debt.

Under the scheme, personal guarantees of any form cannot be taken for facilities below £250,000.

For facilities above £250,000, personal guarantees may still be required, at a lender's discretion, but in the words of the BBB:

- *recoveries under these are capped at a maximum of 20% of the outstanding balance of the CBILS facility after the proceeds of business assets have been applied;*
- *a Principal Private Residence (PPR) cannot be taken as security to support a personal guarantee or as security for a CBILS-backed facility.*

(Source: British Business Bank (2020))

Who is eligible for CBILS?

The SME must:

- be UK-based in its business activity
- have an annual turnover of no more than £45 million
- have a borrowing proposal which the lender would consider viable, were it not for the current pandemic
- self-certify that it has been adversely impacted by the coronavirus (COVID-19).

The BBB has published [an FAQ] setting out the details of which businesses are eligible for CBILS.

The CBILS scheme has been opened up to those smaller businesses that would have previously met the requirements for a commercial facility but would not have been eligible for CBILS**.** The BBB state ***"Insufficient security is no longer a condition to access the scheme*.**"

This significantly increases the number of businesses eligible for the scheme.

Are there fees for SMEs using CBILs?

There is no guarantee fee for SMEs to access the scheme. The Government will make a Business Interruption Payment to cover the first 12 months of interest payments and any lender-levied fees. SMEs should therefore benefit from **no upfront costs** and lower initial repayments.

The BBB state "some lenders indicated that they would not charge arrangement fees or early repayment charges to SMEs borrowing under the scheme. HM Government **greatly appreciates this approach** by lender"

Intermediaries may wish to approach a similar approach, in line with the Government's vision for CBILS as a product with no upfront costs and limited fees after the initial 12 month period.

Intermediated lending and CBILS:

As a finance broker you may be asked to arrange a CBIL for an existing customer.

CBILS are designed to help businesses that would otherwise be viable survive the impact of the pandemic on their cashflow. Therefore, many funders have taken a proactive approach to helping their customers get CBILS.

It should be remembered that the taxpayer will ultimately bear the cost of these loans and that the highest level of scrutiny, press interest and accountability is likely.

Fees:

There are a variety of approaches an intermediary could take when helping a customer arrange a CBIL. In all cases, intermediaries should be aware of

- The FLA's Non-Binding Guidance for Intermediaries
- The FCA's rules on Fair Treatment of Customers.
- The FCA's rules on commission disclosure and remuneration

Taking into account your obligations under FCA rules and the terms of our non-binding guidance, you may wish to consider the following approaches to fees:

- **Waiving fees entirely** – This would be in line with the Government's expectations of CBILS as a taxpayer-funded support mechanism for businesses, and could be used as a way of ensuring repeat business. CBILS are a vital tool to help companies survive.
- **A low fixed fee –** This would ensure you are compensated for the work done in arranging CBILS, and would be transparent to the customer.
- **Deferring fees for the first 12 months –** This approach would also be in line with Government expectations that CBILS should have no up front fees for the business seeking support.
- **Working with the lender to develop a "fair and justifiable" fee structure** – This could make the already administratively burdensome CBILs process more cumbersome for the lender and less transparent for the customer, but it would ensure that fees can vary to match work done.

This guide does not recommend any particular approach. Approaches **must** be in line with **FCA rules**. If in any doubt you should consider seeking professional advice.

Charging a fee for arranging forbearance may not be in line with FCA rules and could lead to poor customer outcomes. There is a risk that **a misapplied fee structure could result in you acting outside of relevant FCA permissions** and you should consider this carefully when selecting your approach.

Further resources:

In addition to the resources linked to above, you may wish to consider:

- **The terms and conditions for providers of CBILS**
- **The other Government support schemes available to businesses, which may ease their ability to meet other finance commitments.**
- **The newly launched "Bounce Back Loan" Scheme**
- **The National Association of Commercial Finance Brokers' advice on CBILS**