



## Briefing: take-up rates of covid-19 business loans

April 2020

### Overview:

- In response to the social distancing and 'lockdown' measures put in place to combat covid-19, the chancellor introduced the coronavirus business interruption loan scheme (CBILS).
- It was set up to offer loans to small and medium-sized enterprises (SMEs), for firms with annual turnover of up to £45 million. 80 per cent of the loan is guaranteed by the government, in order to ease the concerns of lenders.
- While support for SMEs is welcome, there have been concerns that access to cash has been too slow.
- The financial situation for UK businesses is grave: 59 per cent are estimated to have less than three months' cash in reserve.<sup>1</sup> This has been exacerbated by the slow approval of loans by the 40 accredited UK lenders.
- Increasing the guarantee from the government to 100 per cent has been much discussed as a means to speed up access to finance. It may well help, but without changes to the lending criteria, this ambition may not materialise.
- Other OECD countries can serve as a model for quick approval of loans and limiting potential taxpayer liability. In Switzerland, loans are often paid within 30 minutes.

### United Kingdom:

- CBILS has so far delivered 16,624 loans to businesses with a total value of £2.8 billion. 46 per cent of applications have been approved as of 22 April 2020.<sup>2</sup>
- The 40 accredited lenders have the authority to decide whether finance can be offered in the form of a term loan, overdraft, invoice finance or asset finance. The maximum facility is £5 million for SMEs. For facilities above £250,000, personal guarantees may still be required.<sup>3</sup>
- A variety of supporting documents may be needed to access a CBILS loan, including management accounts, cash flow forecasts, business plans, historic accounts and details of assets.<sup>4</sup>
- A clear estimate of the time period for approval has not been provided by the government, but one finance broker suggests a four to six week approval process.<sup>5</sup>

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<sup>1</sup> British Chambers of Commerce, *BCC Coronavirus Business Impact Tracker: More than 70 per cent of firms surveyed have furloughed staff as scheme goes live*, 22 April 2020, [www.britishchambers.org.uk/news/2020/04/bcc-coronavirus-business-impact-tracker-more-than-70-per-cent-of-firms-surveyed-have-furloughed-staff-as-scheme-goes-live](http://www.britishchambers.org.uk/news/2020/04/bcc-coronavirus-business-impact-tracker-more-than-70-per-cent-of-firms-surveyed-have-furloughed-staff-as-scheme-goes-live), (accessed 24 April 2020).

<sup>2</sup> UK Finance, *£2.8 billion provided to SMEs through Coronavirus lending scheme*, 22 April 2020, [www.ukfinance.org.uk/press/press-releases/billions-provided-to-smes-through-coronavirus-lending-scheme](http://www.ukfinance.org.uk/press/press-releases/billions-provided-to-smes-through-coronavirus-lending-scheme), (accessed 24 April 2020).

<sup>3</sup> British Business Bank, *Coronavirus Business Interruption Loan Scheme (CBILS) – for SMEs and advisors*, 2020, [www.british-business-bank.co.uk/ourpartners/coronavirus-business-interruption-loan-scheme-cbils-2/for-businesses-and-advisors/](http://www.british-business-bank.co.uk/ourpartners/coronavirus-business-interruption-loan-scheme-cbils-2/for-businesses-and-advisors/), (accessed 24 April 2020).

<sup>4</sup> Ibid.

<sup>5</sup> Adler, T., *How do I apply for a Coronavirus Business Interruption Loan?*, [smallbusiness.co.uk](http://smallbusiness.co.uk), 14 April 2020, <https://smallbusiness.co.uk/how-do-i-apply-for-a-coronavirus-business-interruption-loan-2549863/>, (accessed 24 April 2020).

## Switzerland:

- Affected companies can apply to banks for bridging credit facilities representing a maximum of 10 per cent of their annual turnover and no more than CHF 20 million (£16.6 million). Credits of up to CHF 500,000 will be fully secured by the Swiss government, paid out quickly and with zero interest charged.<sup>6</sup>
- The process involves filling out a 10-minute, one-page government form.<sup>7</sup> Banks pay out cash almost immediately, and often within 30 minutes.<sup>8</sup>
- Since the scheme was unveiled on 25 March, more than CHF 16 billion (£13.3 billion) was paid to at least 100,000 companies. 121 banks are participating in the scheme.<sup>9</sup>
- Switzerland also benefited from more direct involvement by credit providers before the scheme was launched, rather than a purely government designed scheme.<sup>10</sup>

## Germany:

- Affected companies can apply to the state-owned KfW bank for immediate loans with 100 per cent government guarantee worth up to 25 per cent of 2019 revenue. This is capped at different levels depending on the number of employees, but unlimited liquidity support has been promised.<sup>11</sup>
- €8.5 billion (£7.4 billion) has been paid out, with applications received totalling €26 billion (£22.7 billion).
- 98 per cent of loan applications have been approved from more than 13,000 companies.<sup>12</sup>
- The German system also incorporates cash grants to small businesses and direct stakes in companies.

## Recommendations:

- The UK government is understandably concerned about the moral hazard of offering 100 per cent guarantees.<sup>13</sup> But such concern should not mask other issues with the system, nor exclude reflecting on how to implement better systems from abroad.
- If the evidence required of firms can be reduced, then some of this potential moral hazard must be eliminated in order to expedite loans and avoid potential exploitation of taxpayers' money. Rather than excessive due diligence during the loan application process, there should be greater emphasis on fines or custodial sentences after the loan has been disbursed to discourage abuse.
- The 2006 Fraud Act could be amended to specifically incorporate fraud in relation to CBILS, such as the falsification of documents required to access financing. Fraud by false representation currently carries a maximum sentence of 10 years' imprisonment.<sup>14</sup>

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<sup>6</sup> OECD, *Tackling coronavirus (COVID-19): Contributing to a global effort*, 2020, [www.oecd.org/coronavirus/en/#policy-responses](http://www.oecd.org/coronavirus/en/#policy-responses), (accessed 24 April 2020).

<sup>7</sup> Jones, S., *Swiss lead way with crisis loans to small businesses*, *Financial Times*, 6 April 2020.

<sup>8</sup> Neghaiwi, B., & Hirt., *Swiss business relief scheme during coronavirus attracts international interest*, Reuters, 21 April 2020, <https://uk.reuters.com/article/uk-health-coronavirus-swiss-credit-swiss/swiss-business-relief-scheme-during-coronavirus-attracts-international-interest-idUKKCN2232M1>, (accessed 24 April 2020).

<sup>9</sup> Jones, S., *Swiss lead way with crisis loans to small businesses*, *Financial Times*, 6 April 2020.

<sup>10</sup> Charlton, E., *Switzerland fast-tracks emergency aid for small businesses weathering COVID-19*, World Economic Forum, 14 April 2020, [www.weforum.org/agenda/2020/04/switzerland-covid-19-coronavirus-small-business-loans-recession-economy/](http://www.weforum.org/agenda/2020/04/switzerland-covid-19-coronavirus-small-business-loans-recession-economy/), (accessed 24 April 2020).

<sup>11</sup> Wacket, M., & Nienaber, M., *Germany's KfW pays out 8.5 billion euros in coronavirus aid loans*, Reuters, 21 April 2020, <https://uk.reuters.com/article/uk-health-coronavirus-germany-loans/germanys-kfw-pays-out-8-5-billion-euros-in-coronavirus-aid-loans-idUKKCN2231LS>, (accessed 24 April 2020).

<sup>12</sup> Ibid.

<sup>13</sup> Clark, S., *Britain's Virus Loans Program Has Small Businesses Asking: Where's the Money?*, *Wall Street Journal*, 24 April 2020.

<sup>14</sup> Crown Prosecution Service, *Fraud Act 2006*, *The*, 2020, [www.cps.gov.uk/legal-guidance/fraud-act-2006](http://www.cps.gov.uk/legal-guidance/fraud-act-2006), (accessed 24 April 2020).