

# CLIENT ALERT

## Coronavirus Business Interruption Loan Scheme – Key Points

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On March 20, 2020, the Chancellor of the Exchequer, Rishi Sunak, unveiled the U.K. government's further £350bn package of fiscal measures to mitigate the severe economic downturn caused by the COVID-19 outbreak. One of the most significant measures is the launch of the Coronavirus Business Interruption Loan Scheme (the **Scheme**) which went live on March 23.

This note offers some guidance on the Scheme and how businesses and lenders can participate.

### What is the Scheme?

The Scheme enables businesses to access facilities of up to £5,000,000, backed by an 80% government guarantee, and is intended to assist U.K. smaller businesses which are experiencing an interruption in cash flow/revenues as a result of the COVID-19 outbreak.

The Scheme is managed by the British Business Bank on behalf of, and with the financial backing of the U.K. Secretary of State for Business, Energy and Industrial Strategy.

The Scheme will run for an initial period of six months. Businesses which take advantage of it remain liable, notwithstanding the government guarantee, to repay 100% of the amount borrowed in full over the applicable periods stated in the Scheme. However, the government will make a business interruption payment to cover the first 12 months of interest payments and any lender-levied fees.

A variety of products are available under the Scheme, including term loans, invoice finance, asset finance and overdrafts. Each product is supported by an 80% government guarantee, which is intended to facilitate credit approval within financial institutions, which might not otherwise have been forthcoming due to the lack of security (see further details below). However if the lender is able to offer finance on standard commercial terms without the need to avail of the Scheme, the lender should do so.

### Key Features of the Scheme

- Facility amounts of up to £5,000,000 per business
- Repayment terms are up to six years for term loans/asset finance facilities or up to three years for invoice finance facilities/overdrafts
- Facilities are government-backed by a partial guarantee of 80%
- Zero guarantee fees for SMEs to access the scheme
- Lenders pay a fee to access the scheme

- The U.K. Government will pay a Business Interruption Payment to cover the first 12 months of interest and lender fees, thus reducing the immediate amounts payable by a business
- At the lender's discretion, loans of up to £250,000 may be made on an unsecured basis; loans above £250,000 require the lender to verify the lack of security from the borrower before accessing the Scheme
- The borrower remains 100% liable for the debt notwithstanding the 80% government guarantee

### **Business Eligibility**

In order to qualify for the Scheme, the business must be based in the United Kingdom with an annual turnover of less than £45,000,000. Businesses are also required to have a business proposal which, if it were not for the COVID-19 outbreak, would be considered by the lender as a viable proposal for the business to obtain funding to trade in the short-to-medium term.

Self-employed individuals (including sole traders, freelancers and limited partnerships) are also entitled to apply to the Scheme, provided they do not exceed the annual turnover threshold, operate through a business bank account and generate more than 50% of their turnover from trading activity.

However, banks, building societies, insurers and reinsurers, public sector primary and secondary schools, and employer, professional, religious or political membership organisations or trade unions are prohibited from accessing the Scheme.

To apply for a loan under the Scheme, a business should first contact its own provider through the lender's website (assuming the lender is participating in the Scheme); if not, the business can approach another participating lender. A list of the lenders participating can be found on the [British Business Bank's website](#).

### **Lender Eligibility**

In order to participate, a lender must be accredited with the Scheme. There are currently 40+ lenders signed up to the Scheme. These lenders range from high-street banks, to challenger banks, asset-based lenders and smaller specialist local lenders. Those lenders who wish to become accredited must submit an 'Expression of Interest' form to the British Business Bank via its Enterprise Finance Guarantee (EFG) programme. To be eligible, a lender must:

- Demonstrate a track record of secured term loans, overdrafts, asset finance or invoice finance to SMEs or demonstrate a clear intention and strategy to lend to SMEs
- Lend on a secured basis
- Look to provide a minimum of £500,000 of new lending in each of the three years following accreditation (with the option for this amount to be lower for lenders new to the market)
- Demonstrate readily available capital to meet lending forecasts or show evidence that capital will be available for the three years following accreditation
- Have a viable business model with satisfactory operations and systems in place
- Be appropriately regulated and licensed and have all required permits and authorisations
- Enter into a legal agreement with the EFG which will include key terms, such as: (i) the guarantee to be provided; (ii) administration and policies to be put in place by the lender; and (iii) data and record management

## **We are Here to Help**

If you would like to discuss or obtain guidance on any of the points raised in this Alert, please contact any of our lawyers whose details appear below.

For more information, please contact the professional(s) listed below, or your regular Crowell & Moring contact.

### **Andrew J. Knight**

Partner – London

Phone: +44.20.7413.1366, +44.7908.648722

Email: [aknight@crowell.com](mailto:aknight@crowell.com)

### **Paul Muscutt**

Partner – London

Phone: +44.20.7413.1327

Email: [pmuscutt@crowell.com](mailto:pmuscutt@crowell.com)

### **Robert Weekes**

Partner – London

Phone: +44.20.7413.1320

Email: [rweekes@crowell.com](mailto:rweekes@crowell.com)

### **Cathryn Williams**

Partner – London

Phone: +44.20.7413.1345, +44.07775.900050

Email: [cewilliams@crowell.com](mailto:cewilliams@crowell.com)

### **Beth Bradley**

Associate – London

Phone: +44.20.7413.1338

Email: [bebradley@crowell.com](mailto:bebradley@crowell.com)

### **Mark Forster**

Associate – London

Phone: +44.20.7413.1309

Email: [mforster@crowell.com](mailto:mforster@crowell.com)

### **Seye Olufunwa**

Associate – London

Phone: +44.20.7413.1316

Email: [solufunwa@crowell.com](mailto:solufunwa@crowell.com)