Post-CBILS Guarantee Scheme

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This document outlines the Community Development Finance Institution (CDFI) sector's feedback into a permanent guarantee scheme following the end of the Coronavirus Business Interruption Loan Scheme (CBILS).

Background

The precursor to CBILS, the Enterprise Finance Guarantee (EFG) scheme, has been used by Community Development Finance Institutions (CDFIs) since 2009 to successfully support small business access to finance where unable to do so on normal commercial terms due to lack of security. Previous reviews of the EFG scheme report businesses experiencing a significant positive impact as a result of the EFG supported loan, with most being able to meet their original aims relating to surviving or starting up, and often also achieving unplanned impacts such as expansion and upgrading[1]. The impact of the scheme on productivity and the economy were therefore tangible.

EFG and the CBILS have both also supported CDFIs to raise significant additional capital to on-lend to small businesses, enabling them to increase their impact. A follow-on scheme would enable them to leverage further capital from the commercial banking sector and support increased lending to businesses that are viable but unable to access finance on commercial terms. Based on previous funding programmes, **for every additional £100 million the sector raises, CDFIs support 3,000 businesses and create and protect over 13,000 UK jobs[2].** A guarantee is catalytic to CDFIs being able to secure that external finance to lend.

A permanent guarantee scheme

Both EFG and CBILS were successful in supporting a range of bank and non-bank lenders – such as CDFIs – to support small businesses across the country who would otherwise not be able to access finance. A post-CBILS permanent guarantee with the following characteristics will support small businesses through the recovery and into the future, when access to finance from mainstream sources may become more difficult as happened after the 2008 financial crisis.

- **Level of long-term Government-backed guarantee:** Between 75% and 80%. This is consistent with the loan guarantee in EFG and CBILS.

- **Portfolio claim limit:** We believe that a portfolio cap should be reinstated as it encourages lending which is responsible and affordable for the customer. The portfolio claim limit should begin with no cap and taper in line with the economic recovery and decrease in economic uncertainty, finally ending between 20%-30% once the UK is no longer in a recession.

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[1] Tindle et al (2016) Qualitative Research into the Delivery and Operation of EFG Loans, Prepared for the British Business Bank.

[2] Wynne (2020) Regional Growth Fund Impact Report. Responsible Finance.

- **Business Interruption Payment:** This should cease as it is not sustainable for the government to pay for this on a long-term basis.

- **Cost of the guarantee:** The lender should absorb the cost of the guarantee. The cost should be proportionate to the level of guarantee. This will simplify the process for both the customer and the lender.

- **Loan size eligibility:** £5,000+ once the Bounce Back Loan scheme has ended. This will enable lenders to better support small and micro businesses.

- **Refinancing:** Loans backed by the permanent guarantee should be permitted to top up an existing Bounce Back Loan facility, which itself should be retained. This will ensure the borrower can keep the favourable terms of the BBL.

- **Loan pricing:** Lenders should be able to set their own rates of interest to cover reasonable costs of lending. For CDFIs this is key as they have higher overheads due to their personalised approach and the provision of advice alongside finance. As non-profit lenders, they do not seek to maximise profits for shareholders from lending to underserved businesses, but instead reinvest any surpluses into their mission to provide high quality services.

- **Assignability of guarantee:** The mechanism established with CBILS, to enable lenders to assign the guarantee to an investor, should be preserved. This will enable CDFIs to raise additional capital in the long-term to support the start up and growth of underserved businesses.