This week has already seen both the Covid Corporate Financing Facility (CCFF) scheme and the Coronavirus Business Interruption Loan Scheme (CBILS) go live. Now we are into the first week of implementation of these two flagship schemes from the Bank of England and Government respectively, it’s clear that accredited providers, being those who are now in the front line on both schemes, are well-advanced in working through some of the practical questions around their application.

The schemes are both largely sector-agnostic, being open to all but a handful of sectors, notably: banks, building societies and insurance companies. However, there is still concern at the apparent lack of direct support for the mid-cap tier. With CBILS targeted at SMEs with a maximum annual turnover of £45m and the CCFF scheme requiring an investment grade rating or equivalent, there is a large constituency of businesses who are currently falling outside the net. That tier is more likely to have existing revolving facilities in place. Clearly, the Government have introduced a range of other measures that will benefit all businesses including that group.

However, it’s yet not certain whether there is any intention to fill the gap with a new scheme. This could also be achieved to some degree by relaxing the eligibility criteria for the CCFF scheme, notably around ratings for businesses that did not have
an external investment grade rating as at 1 March 2020. As matters stand, the Bank of England has confirmed that it will accept internal bank ratings equivalent to investment grade provided they were consistently held across all the business’s commercial bank counterparties at 1 March 2020 or an assessment of credit quality in the approved form from one of the four approved credit rating agencies.

The CBILS could also be flexed by increasing the £45m maximum turnover limit (itself already increased from £41m last week). Some market participants are arguing it should be doubled. However, to make such an increase meaningful may also require the loan cap of £5m also to be lifted.

On other aspects of the CBILS implementation, there is evidence that accredited lenders are devolving considerable autonomy to relationship bankers to expedite processing applications. Lenders are being careful with their own balance sheets to ensure they favour core client relationships. They are also encouraging clients to look to the full range of support measures provided by the Government alongside any application for CBILS support. Further, there is some concern that by favouring those applicants who are unable to access credit on normal commercial terms, the scheme is effectively penalising past financial discipline.

Finally, there has been some discussion about whether the CBILS criteria apply to individual companies or to a group as a whole. Although the guidelines are silent on this, the general approach accredited lenders seem to be adopting is to assess compliance with the eligibility criteria by looking at businesses on a consolidated basis. This would mean, for example, that entities within a JV structure would be looked at on an individual basis.

No doubt the coming days will see more developments on both schemes.

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