Getting Urgent Working Capital to UK Micro-Businesses – A Proposed Solution

Proposal for CBILS #2

This is a proposal for a CBILS #2 scheme to resolve problems with CBILS #1 that are becoming more evident by the day. According to UK Finance only 2,000 loans have been made as of Wednesday 7 April, representing just 0.64% of the total number of applications. The proposal is submitted by the Association of Alternative Business Finance (AABF) whose members specialise in lending to UK micro-businesses, i.e. the businesses that are finding it *hardest* to get access to CBILS #1.

CBILS #2 is designed to do two things:

1. Get liquidity into the hands of commercial lenders that specialise in providing essential working capital to micro-businesses; and

2. Provide a distribution mechanism that routes around the over-stretched banks and uses trusted and approved intermediaries to get funds into the hands of micro-businesses before they go bust.

Problems with CBILS #1

A micro-business (MB) is a business that employs 10 or less staff (and usually only one or two). There are 1.6m MBs in the UK that are desperately struggling to access CBILS. The high-street banks have neither the technology nor the resources to process the hundreds of thousands of small loan applications for less than £25,000 that would come from MBs (NB. Most would not be able to afford more than that).

These MBs have insufficient capital reserves to run their business for more than a month without income, which is the situation they currently face. They badly need working capital to cover their fixed-cost payment obligations (i.e. their and their staff's wages, rent, utilities, HP, etc).

If they cannot cover these fixed costs, they will stop paying. This will have an immediate and deleterious knock-on effect on others within both their business and household economic eco-systems (i.e. missed payments on mortgages, utilities, car leases, etc).

This also quickly becomes a problem for Non-Bank Lenders (NBLs). We suffer immediate liquidity issues as a result of non-payments on loan facilities by our MB customers, and the subsequent trading losses mean we will be unable carry out any new lending, thereby compounding the problem.

It will be critical in the post CoVid-19 economy that competition and choice of finance for MBs is maintained. Since the 2008 GFC, this has been provided by NLBs. The following solution will ensure NLBs can continue to service this crucial part of the UK economy.

The Solution: CBILS #2

We propose a solution in two parts:

1. Liquidity

We propose that the British Business Bank (BBB) should be the 'interim' entity that makes and consolidates downstream lending. This would remove the need for an investment rating, which is a requirement of the Term Loan Scheme from BoE, and would enable lower tranche amounts to be lent. There would need to be defined criteria for lending from a 'restricted and ring fenced' pool; and this lending would have to be at the risk of the front-line lender. The BBB would have to be satisfied that they could pull in the assets and create an adequate securitisation with sufficient risk spread for it to be rateable. Consequently, it might need several lenders to commit to taking a certain amount. If BBB could see its way to investing £40m in Funding Circle, we believe this would be a feasible structure.

2. Distribution

The problems with accessing CBILS are already well publicised. There have been only 1,000 approvals so far. The application process is laborious and bureaucratic and the banks simply cannot process the volume.

We propose two potential distribution solutions:

(i) Platforms that are part of the Bank Referral Scheme – i.e. Funding Options and Funding Xchange -- could also be the conduit for all MBs who are declined by current CBIL scheme members (we understand Funding Xchange has already approached the BBB to offer its services). Depending on their own lending criteria, lenders could either lend funds from their own pools, or from the BBB SPV (both distribution platforms could be programmed for the purpose with applications distributed in rotation for fairness).

(ii) The big four accountancy firms, together with the main industry trade bodies (FLA / UKFinance / Innovate Finance), could manage a 'fast track' approval process on behalf of the BBB. These professional bodies can ensure that the necessary checks and balances stipulated by the BBB are carried out. Each participating NBL would pay a fee to the ‘managing party’ for managing the approval and monitoring performance.

The lending criteria would need to be different from CBILS #1 with a greater focus on service-ability, rather than a trading history of profitability and balance sheet strength, and the requirement for Personal Guarantees to protect the funds advanced. This is the current business model of nearly all NBLs lending to the MB sector.

Further Information

For more detail on any of the above, please contact John Davies, Chairman of the Association for Alternative Business Finance on john@thejust-group.com

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