

1st April 2020



Bank Funding update 1st April 2020

As you are probably aware, the banks are inundated with loan enquiries. It is our view that any loan application will take several weeks to be reviewed and processed. We urge all our clients to consider their cashflow requirements for at least the next three months. It may be prudent to consider a period of six months until we get back to some form of normality.

You may consider making enquiries with multiple lenders to improve your chance of obtaining finance.

Coronavirus Job Retention Scheme Grants

Many of you have furloughed your employees with a view of claiming 80% back from the Government's Coronavirus Job Retention Scheme. We still do not know when the claim portal will be up and running and when the grants will be paid. The uncertainty makes it difficult to estimate likely cashflow requirements.

HMRC are still hoping that the portal will be open mid to late April. We are preparing cashflows projections on grants not being paid until June 2020 as we believe this is the worst-case scenario.

Business Interruption Loan Scheme

We have had some feedback to suggest that the banks are being selective with their application process and are asking for an unrealistic amount of security against the debt.

The British Business Bank have stated under the loan interruption scheme, the Big Four banks will not take personal guarantees as security for lending below £250,000.

If a lender can offer finance on normal commercial terms without making use of the scheme it will do so. We do not consider releasing equity from personal assets to cover a company debt to be a transaction under normal commercial terms.

Primary residential property cannot be taken as security under the loan scheme.

Personal Guarantees

Personal guarantees are to cover the debt of limited companies. For sole trade or partnership businesses, the individuals are personally liable for the full debt.

The big four banks will not take personal guarantees, but there are over 40 other accredited lenders who have signed up for the loan scheme. Some of these lenders may require personal guarantees.

You should carefully consider the implication of agreeing to a personal guarantee. If your business fails and is unable to repay the loan, the personal guarantee will be called in first. The

government guarantee only covers 80% of the shortfall to the bank after the security has been realised.

For example, a bank offers a £100,000 loan and requires a 50% personally guarantee. If the loan cannot be repaid as the company has no assets or ceased trading. The bank will call in the full 50% personal guarantee. The bank will be able to claim 80% of their shortfall, (80% x £50,000 = £40,000) from the government.

Repaying the debt

We urge all clients to consider how they are going to fund the repayment of the loan. There are likely to be capital repayment holidays on loans under the scheme and the Government will cover interest for the first 12 months. But what happens after this period?

Businesses can defer VAT payments and self-assessment payments on account until next year. Will you be able to meet these commitments and loan repayments?

Finance to cover payroll liabilities or for the self employed

It would appear sensible for businesses to consider short term finance for example by way of an overdraft if finance is needed to cover the payroll costs until the job retention scheme grants are paid. The same would apply for the self employed who are unable to work and intend applying for the self-employment income support scheme.

Alternative finance providers, a word of caution

There are many non- mainstream lenders in the marketplace that will be looking to profiteer from desperate business owners in search of finance. Some may falsely claim to be accredited by the British Business Bank.

A list of the accredited partners and lenders can be found on the following link:

<https://www.british-business-bank.co.uk/ourpartners/coronavirus-business-interruption-loan-scheme-cbils-2/current-accredited-lenders-and-partners/>

Commercial loans are not regulated by the Financial Conduct Authority. Many of these loan products are sold by introducers who can take large commission payments from arranging the loans.

We would not wish to see any of our clients sign up to unfavourable loans at unattractive rates.

Although we cannot give any legal advice or opinions on any loans, we are prepared to provide you with some commercial observations on loan agreement that we hope will assist you. Please contact us for further information.

We always welcome any feedback from any applications or experiences that you have with lenders so that we can share it with you all.

If you need any assistance in preparing forecasts, budgets etc. please let us know. The best way to contact us is by e-mail at: info@hrharris.co.uk We will get back to you as soon as we can.