Business loans in lockdown and beyond: How SMEs are funding their future

An analysis of how business support is evolving through the CBILS and BBLS programmes, and the sectors that can expect a boost from consumers' post-pandemic spending

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Introduction

The start of the UK's coronavirus lockdown on 23 March 2020 was also the start of the largest ever contraction of the UK economy.

Month-on-month GDP figures from the Office for National Statistics show that the economy shrank by a record 20.4% in April - a catastrophic but perhaps unsurprising fall.

April was the first full month of lockdown, when the general population were confined to their households, most UK businesses were shuttered and trading results fell off a cliff.

Every industry has felt the effects of the COVID-19 pandemic, and many businesses have had to look to emergency funding to keep going.

The unprecedented financial squeeze has also affected traditional lending, and the government has stepped in with a package of financial support and business loan schemes, to help small and medium-sized enterprises (SMEs) in particular.

SMEs form the backbone of the economy, making up more than 99% of the 5.9 million private sector businesses in the UK. They accounted for 60% of the employment and 52% of the turnover in the private sector in 2019, according to data from the Federation of Small Businesses (FSB).

This paper examines the two main government-backed business loan schemes for SMEs (CBILS and BBLS) and how these financial measures are shaping the business loans industry. We've spoken to experts across the sector and you'll find their predictions for the loans industry on p11. And we've shared the latest research from Finder, which has uncovered the spending intentions of UK consumers as the country eases out of lockdown - something that will be of paramount importance to businesses as the economy reopens.

Contents

Sector by sector: Furloughed staff

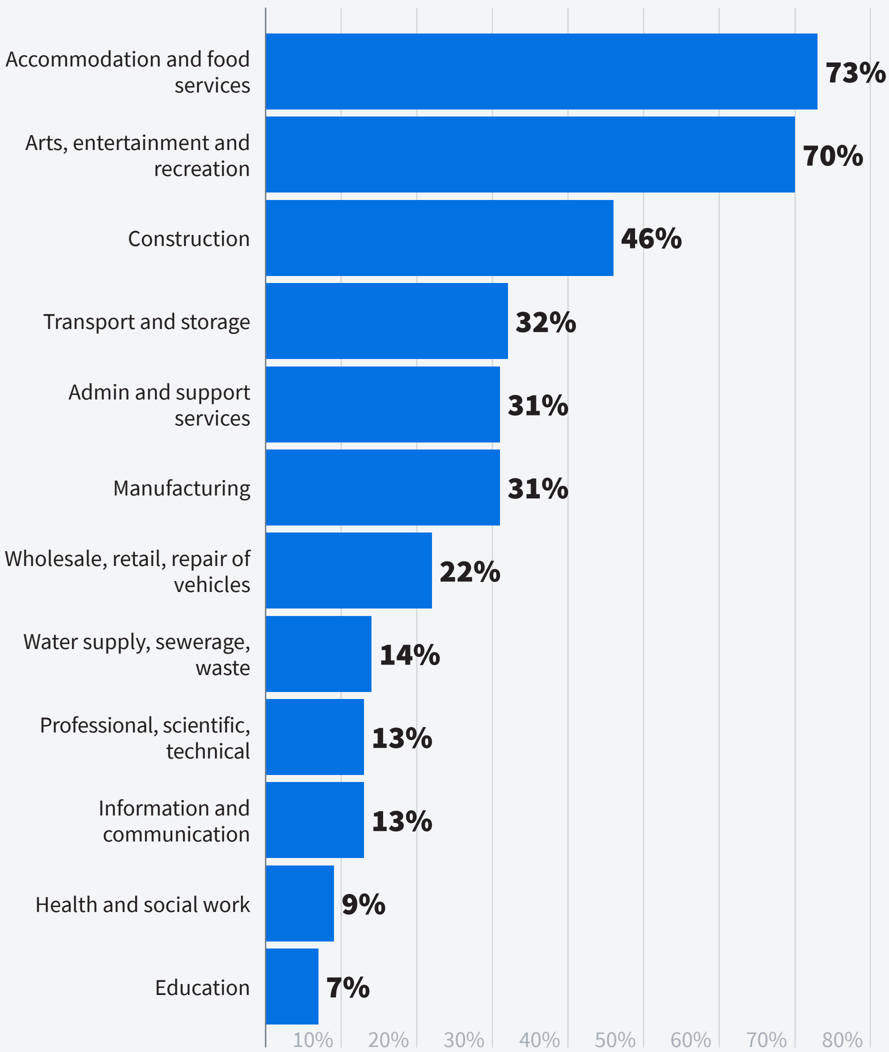
As shutdown began, the government announced economic support worth £330 billion. Financial support for UK businesses has included:

- Coronavirus Job Retention Scheme (CJRS). The government pays 80% of furloughed employees' wages, up to £2,500 a month, until the end of August.
- Self-Employment Income Support Scheme (SEISS). These government grants for people who are self-employed or in a partnership are worth up to £14,070 per person over 6 months.
- Bounce Back Loan Scheme (BBLS). Small businesses can get government-backed loans of up to £50,000 through approved lenders.
- Coronavirus Business Interruption Loan Scheme (CBILS). Approved lenders can offer from £50,000 to £5 million to SMEs with a turnover below £45 million.
- Coronavirus Large Business Interruption Loan Scheme (CLBILS). This facilitates loans of between £50 million and £200 million for large firms and groups with a turnover of more than £45 million.
- Covid Corporate Financing Facility (CCFF). Under this, the Bank of England lends to very large businesses; it involves the purchase of short-term corporate debt.

By mid-June, 11.7 million UK workers had been furloughed through CJRS and SEISS, costing the Treasury an estimated £28.4 billion.

Some industries have had to furlough far more than others. While the online retail and grocery sectors have seen demand soar, hospitality, travel and leisure have inevitably slumped, with pubs, restaurants, hotels, cinemas and museums all shut. The accommodation and food services sector has been worst hit - compelled to furlough nearly three in four staff at the height of lockdown in mid-April, according to global management consultancy McKinsey. Also badly hit was the arts, recreation and entertainment sector (around two in three furloughed) and construction (nearly half furloughed).

Which sectors are furloughing the most staff?



Source: McKinsey, figures for mid-April 2020

The Coronavirus Business Interruption Loan Scheme (CBILS) was the first business loans programme to be unveiled by the government as a result of the shutdown, inviting applications from 23 March onwards.

Businesses that are losing revenue or seeing their cashflow disrupted as a result of the COVID-19 outbreak can apply for finance worth between £50,000 and £5 million through an approved lender.

The British Business Bank (BBB) has now authorised more than 70 lenders - including high-street banks, challenger banks and specialist lenders - to provide CBILS finance in the form of loans, overdrafts, invoice finance and asset finance.

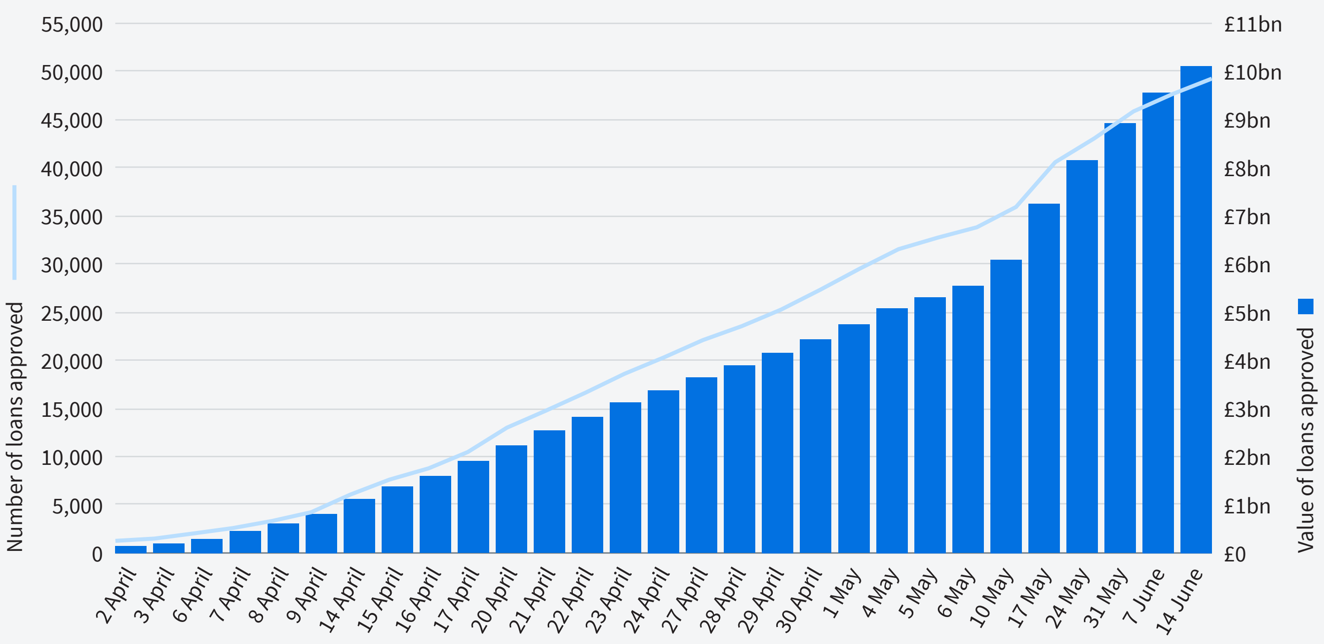
The scheme is open to SMEs with a turnover of up to £45 million, and personal guarantees - where business owners have to use their own assets as security for their business loan - are not required for amounts up to £250,000.

Government data released in mid-June 2020 shows CBILS lending has topped £10 billion, with over 49,000 loans approved and the average amount lent around £205,000.

The rate of application approval increased from just 21% in mid-April, to 51% in mid-June.

The graph below shows how the rate of CBILS lending has progressed since the scheme was introduced (the irregular dates on the chart reflect the changing frequency in which the lending figures have been released).

Lending under the Coronavirus Business Interruption Loan Scheme (CBILS)



Source: HM Treasury

BBLS lending

After CBILS was underway, the Bounce Back Loan Scheme (BBLS) launched, aiming to give smaller businesses a route to emergency cash with a turnaround of a few days.

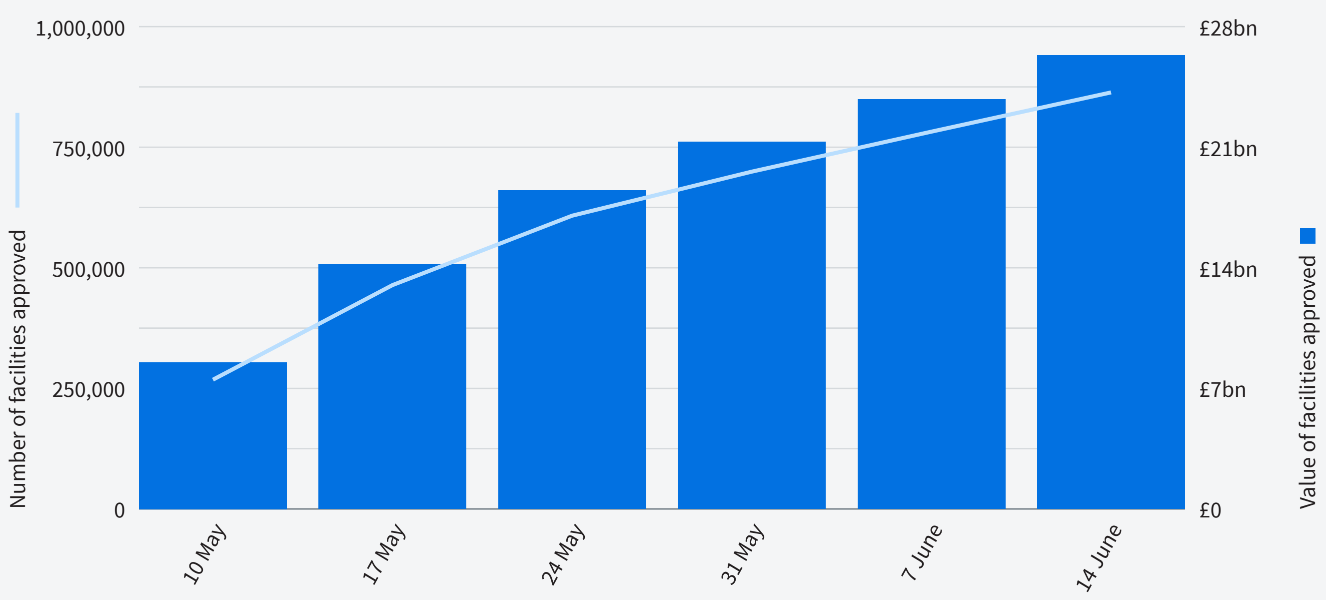
The scheme, which started on 4 May, was designed to offer "quick and easy-to-access loans" ranging from £2,000 to £50,000, up to a maximum of 25% of a company's turnover. These loans, lasting up to 6 years, are 100% guaranteed by the UK government, which also pays the first year's interest on behalf of the borrowing business (and then the business pays interest at a flat rate of 2.5% a year).

As at June, there are only around 20 approved BBLS lenders, but the scheme has lent £26.3 billion so far. This is two-and-a-half times more than the figure for CBILS, although some applications from smaller firms were shifted from CBILS to BBLS when it started.

BBLS has seen strong demand, with more than 863,000 small businesses borrowing an average of £30,500 each. Approval rates are also far higher under this scheme - currently running at 82%.

However, the popularity of BBLS, along with CBILS, means the schemes have not been without controversy. Some applicants have complained about delays, unexpected soft credit checks or being rejected by lenders despite believing that they met the criteria. The initially small number of approved lenders was a likely contributor to problems. We explore the issues further on page 9, where we've covered the industry's current challenges and some potential solutions.

Lending under the Bounce Back Loan Scheme (BBLS)



Source: HM Treasury

The first three months after lockdown saw SMEs borrowing £36.4 billion through CBILS and BBLS. This compares to £56.7 billion in loans issued by the UK's banks to SMEs during the whole of 2019 - a figure which was down 1.7% from the year before, according to Bank of England statistics.

At a time when the tap has been all but turned off for more traditional types of business loan, CBILS and BBLS have been a crucial stream of funding, and they have largely replaced the business loans sector - for the time being at least.

"The availability of low-cost, unsecured funds to small businesses was a needed lifeline, and it makes sense that traditional lending products have currently taken a sideline while these products are available," says Sharif Mohamed, head of business development - partnerships at iwoca, an approved CBILS lender.

"It's the first time, especially for smaller businesses, that larger unsecured amounts have been readily available at low rates, and the take-up speaks to more than just necessity; it indicates an existing demand for this funding."

Successful applicants

Katrin Herrling, CEO of business loans marketplace Funding Xchange, agrees that "the business loans landscape has been at least temporarily transformed" by the coronavirus pandemic and the subsequent introduction of new government-backed finance schemes.

But she believes the appetite for commercial loans of all sizes "has remained largely intact", although the profile of applicants who have successfully secured funding from CBILS-accredited lenders over the past three months has been skewed towards higher quality and more mature businesses.

"Despite the success of the BBLS in providing emergency funding, Funding Xchange data shows that applications for sub-£50,000 funding have not fallen significantly since the launch of the programme, which suggests continued unmet demand," she adds.

However, Herrling also points to another trend: "We are seeing businesses that have shown strong commercial performance during the crisis finding it difficult to access funding. As most schemes are focused on supporting businesses that have been negatively impacted, those performing well don't qualify, and few lenders have provided fresh funding outside the schemes. The good news is that lenders are returning to market and developing solutions to support businesses with strong prospects."

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>
> **Katrin Herrling, CEO, Funding Xchange**

What will consumers be buying?

For SMEs which have survived lockdown, perhaps through a CBILS or BBLS loan, the return of customer spending will be their next focus, to help secure the future.

Finder surveyed 2,000 Brits in June to ask about their spending intentions for the next 12 months, as the UK eases out of lockdown.

Two in three consumers plan to cut their spending in one or more sectors.

Consumers are most wary of sectors where they'll encounter a group of other customers - more than a third plan to spend less at restaurants, followed by clothing shops, pubs, cafes and cinemas.

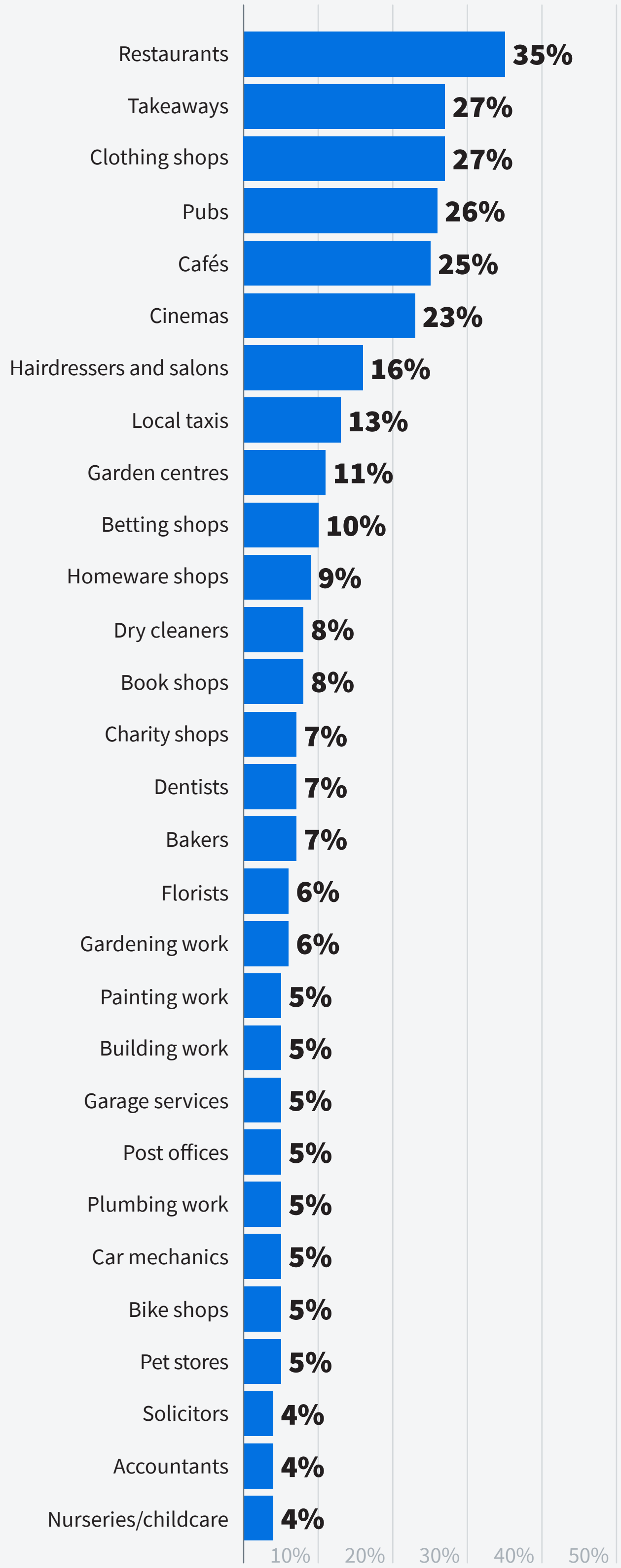
These types of businesses are already facing reopening challenges, as social distancing rules restrict the high footfall they need to start turning a profit again.

Consumers are more confident about one-to-one interaction - only around 1 in 6 plan to visit the hairdresser less often, for example.

The picture looks optimistic for many other local businesses too - only 1 in 20 Brits intend to spend less on work from tradespeople such as plumbers, decorators and gardeners.

These results echo Finder research conducted in April, which found that more than a third of Brits will continue to use their local shops more frequently after lockdown ends. Generation X shoppers (born from 1965 to 1980) have been increasing their visits to local stores the most, with 45% using them more. They are also the age group most likely to continue to go to their neighbourhood shops more frequently after lockdown, at 43%.

Sectors where consumers plan to cut spending: next 12 months



Source: Finder research, June 2020

What will consumers be buying?

Our survey in June also asked consumers about their plans for splurging on big-ticket items such as holidays and appliances during the rest of 2020.

There's at least some promising news for travel businesses; 35% of consumers say they intend to go on holiday in the UK this year, and 24% hope to go abroad.

Furniture was the most popular big-ticket product on the shopping list, with a quarter of respondents intending to buy items such as sofas, tables or beds. Next came tech such as laptops, tablets and mobile phones. One in five have their eye on a new TV, with similar numbers for fresh kitchen appliances, garden renovations, and home projects such as a new kitchen.

Businesses will be hoping that at least some of the savings that consumers made during lockdown - which Finder estimates to be £99 per person per week on average, through not commuting to work or being able to socialise - will result in a higher level of spending to satisfy pent-up shoppers.

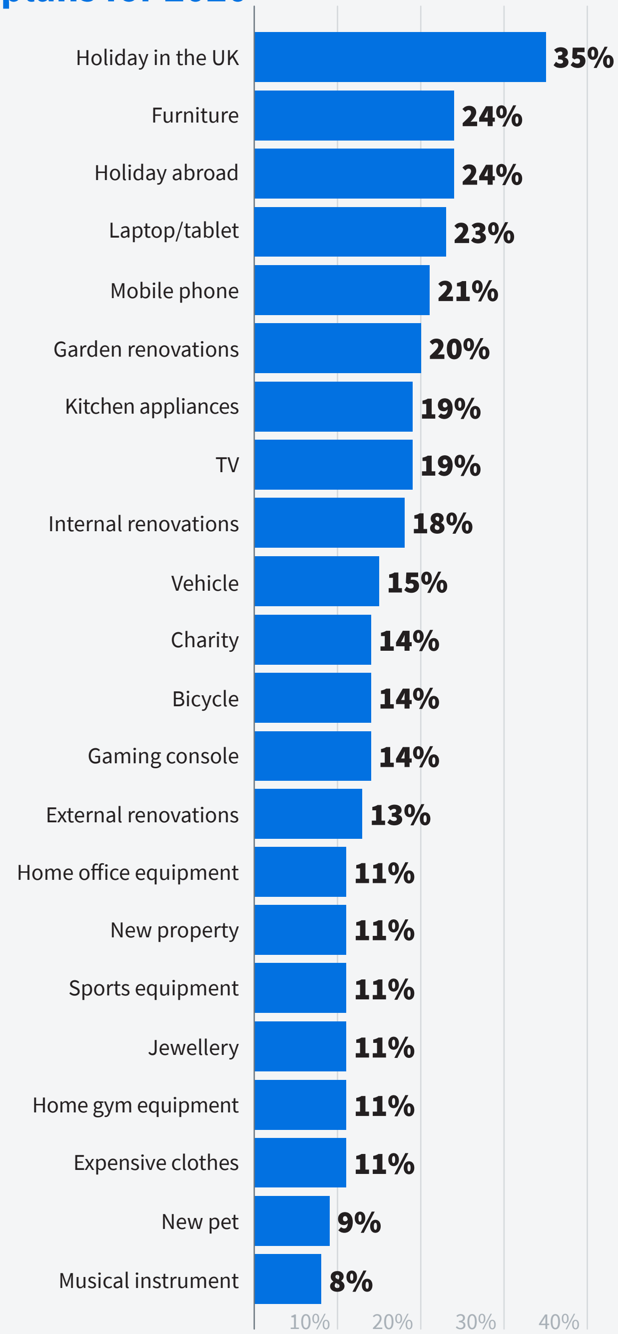
But while lockdown has resulted in certain cost savings, of course there are also many people who've seen their income fall. Separate research conducted by Finder in May found that some Brits will not only have less to spend, but have had to dip into their savings to make ends meet during the lockdown period.

Just over a third (36%) of the 2,000 people canvassed said they'd had to access their saving pots as a result of the coronavirus pandemic. These Brits have used an average of £1,421, which is 21% of the average amount saved in the UK.

Perhaps due to the high cost of living, Londoners have been diving into their savings the most, spending £2,519 each on average. Residents living in Wales have used the least, depleting their savings by £291 each.

Overall, we're likely to see shoppers spending cautiously. As we head into a downturn, our research shows many will be looking to use discount codes - two in five Brits plan to use them more in the coming year.

Consumers' big-ticket spending plans for 2020



Source: Finder research, June 2020

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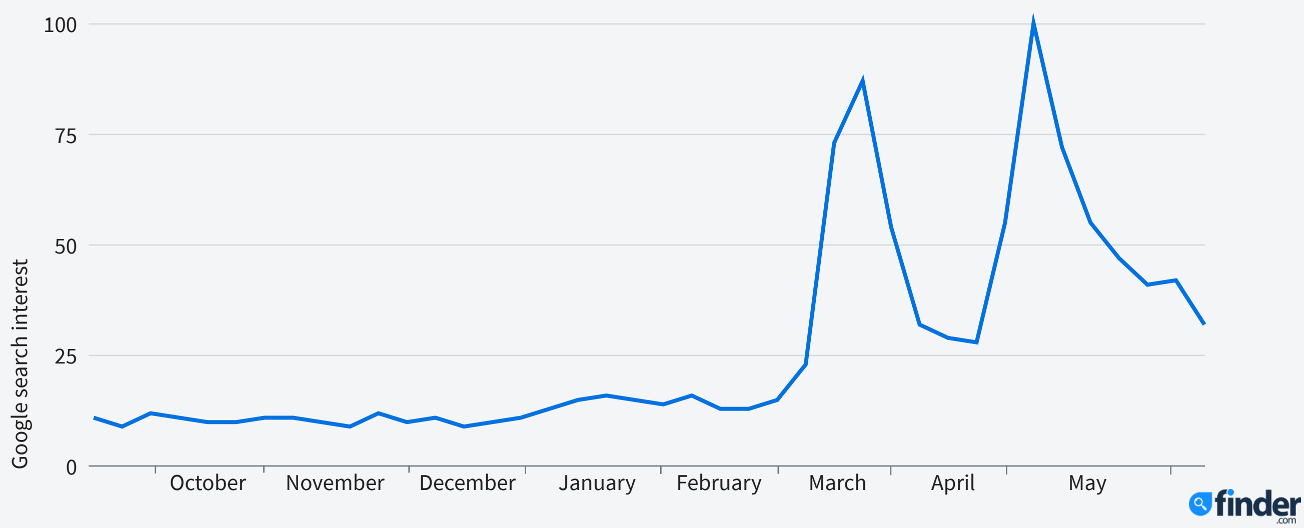
CBILS and BBLS have seen strong take-up, and this Google Trends graph, below, shows that after a very flat six months pre-coronavirus, search volume for the term “business loan” peaked in the third week of March (when CBILS was introduced) and then again at the beginning of May (when BBLS was launched).

Google Trends UK search interest for the term “business loan”
15 September 2019 - 15 June 2020



Access concerns

Some businesses raised concerns about the highly popular loans schemes, including the speed of getting approved and personal guarantees required to secure funding. Other concerns included lenders reportedly not accepting applications for smaller amounts, and a limited number of mainstream lenders being authorised.

Many of these factors appear to have been addressed - more than 70 lenders are now approved for CBILS, and BBLS has speeded up turnaround, on a smaller scale, and without the need for a personal guarantee or an accurate forecast of future trading revenue.

“Many lenders providing both CBILS and BBLS have first focused on their existing customers, which has made accessing funding more challenging for those that have never accessed debt before,” adds Funding Xchange’s Herrling. “But the picture here has improved as new lenders gain accreditation.”

There are still other options beyond the government-backed schemes - traditional business loans, overdrafts and credit line extensions, business credit cards, asset finance or private investment.

“In all cases, the chances of finding funding quickly are improved if relevant documentation is at hand,” she adds. “That includes up to 12 months’ bank statements, annual accounts, VAT statements and, if possible, a cashflow projection.”

Lenders set to be cautious

Many businesses are currently taking on additional debt, including CBILS and BBLS loans. Herrling says: "Lenders will manage their portfolios with caution in the months ahead. Many lenders have provided extensive concessions to existing customers, recognising the changed circumstances. Lenders will want to reassess these concessions as trading restarts – the expectation being they will be gradually removed over the coming months."

This sentiment is echoed by Alex Miles, head of growth at business lender Capital on Tap. "There is always scrutiny on the affordability of a loan, but there will probably be more businesses who have difficulty passing that affordability test if they have high levels of indebtedness elsewhere," he notes. "I think that's something that lenders will be particularly vigilant about, so they don't overburden someone with debt."

Peer-to-peer lenders anticipate defaults

Peer-to-peer (P2P) lending, also known as marketplace lending, is another sector that has already moved to mitigate potential problems, such as an increase in missed repayments. The UK's largest P2P lender, RateSetter, which offers a range of loans, has implemented a temporary interest rate reduction for investors until the end of 2020, because it expects the number of payment defaults to rise.

This measure sees 50% of the interest normally paid out to investors diverted into its Provision Fund, which covers the cost of borrower defaults.

The P2P lending market in the UK has been growing steadily since Zopa first opened its virtual doors in 2005. In 2019, P2P lenders in the UK managed loans to individuals and businesses worth £5.3 billion, according to research firm 4thWay, but it's still unclear how the pandemic will affect P2P lending in 2020.

Innovation

Maintaining core operations is typically the focus for organisations during a tough economic climate, but lockdown has also provided opportunities for innovation.

Capital on Tap, which traditionally focused on business credit card lending, has expanded its scope to become a CBILS-approved lender for a fixed-term revolving credit facility.

iwoca is using its new OpenLending smart platform - which went live just before the coronavirus outbreak - to make its CBILS loans digitally available to users. The lender has also launched a new payments tool, iwocaPay, which is designed to help small businesses on either side of the accounts ledger with their cashflow. It allows firms to offer their business customers a choice of payment terms of up to 90 days, while the supplier itself is paid immediately through iwoca.

Katrin Herrling, CEO, Funding Xchange

"The government schemes are not serving the whole business loans market, which has created opportunities for lenders to develop new products. There will be heightened competition and innovation as lenders – in particular non-banks whose traditional markets have been disrupted by the pandemic – look to carve out new customer niches in order to remain viable. Competition will be the most fierce for the highest quality businesses, so those customers can expect to have a wider choice of products."

Alex Miles, head of growth, Capital on Tap

"Spending by businesses is going to rise as they start to open again, so as we come out of the summer 'normal' demand for lending will also begin to pick up. However, more companies will have a greater level of indebtedness, as they will have already borrowed funds such as a Bounce Back Loan. When they are looking for new credit, the industry might get to a point where it decides it's not able to lend further to some of these companies, because lenders don't think they'll have the capability to repay."

Mike Cherry, national chair, Federation of Small Businesses

"Many small firms will be moving out of lockdown already burdened by existing debt, so we will be calling on lenders to provide flexibility around existing commercial arrangements. The government should consider further specific interventions needed to support businesses, particularly those in the hardest-hit sectors and those who have fallen through the cracks. Businesses are expected to continue seeking loans under CBILS and BBLS, and generous repayment terms for CBILS facilities should be sought, with an agreed low interest rate across lenders."

Sharif Mohamed, head of business development – partnerships, iwoca

"There will be a period of adjustment post-lockdown. Lenders will still be recovering and taking less risk but this will lead to more innovation in the space, with new products and structures taking the forefront. For businesses looking for funding, I don't think they will see a huge drop-off in availability, but they will hopefully benefit in the long run as lenders begin to create more viable products to help them thrive and grow again."

Conclusion

Government intervention has temporarily transformed business lending during lockdown, but as the economy opens up, demand for all forms of finance will emerge again.

CBILS and BBLS finance has provided a lifeline for many SMEs at this uncertain time, but these facilities will have to be repaid. Finder's latest research shows that two-thirds of consumers plan to reduce their spending in one or more areas - particularly at those businesses that involve social gatherings. So SMEs in these sectors will have to work even harder to boost their bottom line and repay their loans.

About Finder

Finder is a personal finance website which helps consumers compare products online so they can make better-informed decisions. Consumers can visit the website to compare utilities, mortgages, credit cards, insurance products, shopping voucher codes, and so much more before choosing the option that best suits their needs.

finder.com/uk launched in the UK in February 2017 and is privately owned and self-funded by two Australian entrepreneurs – Fred Schebesta and Frank Restuccia – who successfully grew finder.com.au to be Australia's most visited personal finance website (Source: Experian Hitwise).

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About the author

Michelle Stevens is a deputy editor at Finder, specialising in banking, finance and mortgages. She has a journalism degree from the University of Sheffield and has been a journalist for more than 10 years, writing on topics including fintech, payment systems and retail.