NEW RECOVERY LOAN SCHEME

VERSION 3.0

As we reported last month, it had just been announced what is effectively Recovery Loan 3.0, and it formerly launched on 1st August.

However, don't all rush out just yet, as there are only 7 lenders on the list at the moment, and if you consider 4 of the firms belong to 2 groups, then really only 5 firms that currently offer the new Recovery Loan Scheme (RLS). However, I would expect many more to be added in due course.

There are a few changes to the scheme this time:

- No longer have to prove the business was impacted by COVID. Previously had to prove the business had been impacted by COVID.

- Personal Guarantees can be requested by the lender (down to each individual lender) - previously there were no personal guarantees allowed where the debt was below £250k. This is no longer the case.

- Personal Guarantees are no longer capped at 20% of the outstanding amount after any other proceeds are received. Previously had been capped at 20%

The key points of the 3rd iteration of the Recovery Loan Scheme are as follows:

- A single scheme to replace the other loan schemes
- In place for 2 years
- Can cover overdrafts, term loans, asset finance, invoice finance
- Maximum turnover £45m
- There are 7 funders who are currently participating
- £1k to £2m (Min £1k for asset/invoice finance. Min £25,001+ for loans and overdrafts)
- Maximum 6-year term
- A 70% guarantee from the government to the lender
- Personal guarantees can be requested (down to each individual lender) but personal residences cannot be taken as security for any facilities
- There is no requirement to refinance or pay off existing CBILS or BBLs but they will be taken into account to show the business can afford the repayments
- Can be used for property deals in certain circumstances
- No interest free period, no capital repayment holiday and arrangement fees will be charged
- Maximum AER of 14.99% (same as CBILS).
- Can be used for acquisitions and MBOs provided there is economic benefit for the business in doing so. This is very much like the old Enterprise Finance Guarantee Scheme (EFG), a precursor to CBILS

There are several key points to note on the scheme though which businesses need to realise:

1 - A full credit assessment will take place so the business has to be able to prove that they can afford to take out the additional debt

2 - It is unlikely many businesses will benefit from refinancing existing CBILS because the rate is unlikely to be much/if any better and you would have to pay a fee to refinance it too. The security implications regarding personal guarantees may also be worth considering in respect of the previous 20% cap.

3 – The changes mentioned above about personal guarantees as this has attracted virtually no comment in the media.

So, all in all this might be useful for businesses and may make the difference to a funder being able to provide a loan under this scheme which they might not have been prepared to do under normal commercial rules. Last time, some lenders also passed on the benefit of the guarantee in terms of an interest rate reduction so it might be relevant there too. Therefore, it should be considered alongside other options.

If anyone wishes to discuss an application or to see whether it could form part of a funding strategy, please contact us at Snowball.

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