Key features of the coronavirus (COVID-19) business disruption loan guarantee schemes in Jersey and Guernsey

Service area / Banking and Finance
Locations / Guernsey and Jersey
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The Governments of Jersey and Guernsey have each implemented a loan guarantee scheme which is designed to provide increased access to liquidity for viable local businesses that may suffer cash flow or near term solvency issues due to the coronavirus (COVID-19) pandemic. Under the terms of its particular scheme, each Government has agreed to partially guarantee 80% of the payment obligations of borrowers in respect of loans granted under the scheme. The Channel Island banks presently participating in the schemes are Barclays, HSBC, Lloyds, RBSI and Santander.

In this note we set out in general terms certain of the eligibility criteria and other key features of the schemes. This note should be read in conjunction with the specific terms of the relevant lending bank participating in the scheme to ensure that you have a complete and accurate understanding of all the terms of the scheme that will be important to your business.

Further and more detailed information on each scheme, and how to make an application under a scheme, is also available from the States of Guernsey and Government of Jersey websites as well as from the Jersey Business website.

Availability period

From the point of implementation of the scheme there will be a limited period within which to apply for a facility under the scheme. The date on which the borrower becomes entitled to draw down under a scheme facility, in accordance with the terms of its relevant scheme facility documents, must be on or before 30 September 2020 (although the Government may extend this date) in Jersey and 31 December 2020 in Guernsey.

Eligibility

An assessment will be made by the lender as to whether or not a borrower is eligible for the scheme and, in particular, whether the business of the borrower is a viable business only finding itself in difficulty due to the COVID-19 outbreak. The criteria include:

- the ability of the borrower's business to meet all liabilities as they fell due and service debt before 9 March 2020 for the Guensey scheme and 10 March 2020 for the Jersey scheme (being the date the first case of COVID-19 was reported in Guernsey and Jersey respectively), and whether it will continue to be able to do so with the benefit of the proposed scheme facility taking into account the anticipated period during which business activity in the Channel Islands will be adversely affected by the impact of COVID-19 in the Channel Islands and elsewhere (which could be 6 months);
- any likely long-term impacts for the borrower's business once the COVID-19 outbreak subsides and the likely severity of those impacts and their ability to jeopardise the ongoing viability of the borrower's business;
- any likely adverse effect of COVID-19 on the customers of and/or suppliers to the borrower; and
- the skills and ability of the management of the borrower to successfully manage the borrower through the immediate impacts of COVID-19.

The lender must be of the opinion that the borrower satisfies each of the criteria set out in the COVID-19 viability assessment on the basis of then current and anticipated circumstances and that the borrower is reasonably likely to satisfy its repayment obligations under the proposed scheme facility.

Local business

The borrower must be undertaking (or propose undertaking) a commercial activity (that is, a "for profit" business) in the island relevant to the scheme being accessed (i.e. in Jersey in relation to the Jersey scheme and in Guernsey in relation to the Guernsey scheme) and the scheme facility must be used to support that commercial activity in the relevant island.In Jersey the borrower must also hold a Jersey Business Licence issued by the Population Office in respect of such commercial activity.

Normal lending must not be available

If the lender can offer a comparable non-scheme facility in accordance with its normal practice to a borrower, it is not permitted to offer a scheme facility. Lenders are not obliged to offer scheme facilities, even if the scheme eligibility criteria are met and it remains within a lender's discretion whether or not to do so.

Accessible schemes

A borrower may participate in only one COVID-19 business interruption loan scheme (by whatever name called), whether operated in the United Kingdom or any other Crown Dependency.

Turnover

The borrower's turnover in relation to the relevant business either shown in the last set of annual accounts or in the twelve month period immediately preceding the anticipated scheme participation date must not have been greater than £10,000,000.

Declaration

A borrower will not be eligible if it has (on a group basis) received more than £100,000 of financial support from any Crown Dependency during the Government's two fiscal years immediately preceding and the borrower will need to make a written declaration to that effect.

Excluded sectors

Businesses in certain sectors will be excluded from accessing the scheme. These include:

- In Jersey: financial or professional services, real estate, property development or property investment (unless the borrower is a trading entity solely providing services to or for the development of property), utility companies and agriculture businesses.
- In Guernsey: licensees under any financial services laws or regulations, authorised or registered collective investment schemes, real estate, property development or property investment (unless the borrower is a trading entity solely providing services to or for the development of property).

The excluded sectors set out above have been summarised for the purposes of this note, as such, please refer to the more detailed information on the scheme as referenced above. As the COVID-19 situation develops, it may be necessary for the Government to add to or remove excluded sectors. No existing loans will be affected, however, before making a new application you should check the latest information.

Types of loans

Only new working capital term loan facilities (of up to six years) and new working capital overdraft facilities (of up to three years) may be provided under the scheme. Scheme loans may not be used to refinance, consolidate, or replace existing lending or debt. Asset financing is also specifically excluded from the scheme.

Loan amounts

The scheme covers loans from £5,000 to £500,000. Loans can only be made in Sterling.

Interest, charges and fees

The maximum interest rate margin that a Lender may charge is 4.5%, rising to 6.5% if that loan is in default. No early repayment penalties, charges or other break costs may be charged by a lender in respect of a scheme facility but subject to certain requirements, the lender may charge an arrangement fee in accordance with its normal practice. No fee is payable to the Government.

Security

Any scheme facility of £250,000 or less can be unsecured but otherwise a borrower must provide security in favour of the lender over all its available business assets. Personal guarantees or equivalent may only be requested and taken by a lender from individuals where the relevant scheme facility is greater than £250,000. In all circumstances though, the primary residence of the borrower or any third party may not be requested or taken by the lender as security and the lender is prohibited from enforcing any debt against, forcing the sale of or taking any similar measures against the primary residence of the borrower or any third party.

Borrower Liability

Borrowers should be clear that repayment of lending made under the schemes remains their responsibility. If a borrower defaults under its scheme facility, the lender must first follow its normal recovery process (including the realisation of any applicable security) before it may claim from the Government under its scheme guarantee. Even once the lender has received payment from the Government under its scheme guarantee, the lender may continue to follow its usual recovery process against the borrower to recover sums outstanding in respect of the relevant scheme facility, but, as stated above, may not enforce against a primary residence in doing so.

This note is designed to provide a general overview of the scheme as it applies to each of Jersey and Guernsey, and as such it is not and is not intended to be a definitive and detailed guide to the relevant scheme. We encourage you to contact a participating lender (if possible, a participating lender that you already bank with) and they will be able to guide you further based on your specific circumstances and answer any further questions that you may have.

Carey Olsen provided advice to the Governments of the Crown Dependencies on the scheme.

Continued

Key contacts

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