



## **CORONAVIRUS COVID-19 – ‘BOUNCEBACK LOANS’ SCHEME**

### **BACKGROUND**

On a similar basis to the CBILS scheme, the ‘Bounceback Loans’ scheme will be delivered through a network of accredited lenders, however this will be a slightly different list of lenders, as a number are not participating in this scheme.

Given the ‘fast track’ nature of this scheme, there is a much reduced level of scrutiny and therefore a higher potential for fraud or bad debts. As a result, many of the lenders are worried they will be blamed for any fraudulent activity and/or for lending to customers who might not end up being able to afford to repay.

To address some of these concerns, a letter is expected to be sent to the industry reassuring banks that they can lend to smaller businesses without falling foul of the Consumer Credit Act.

Given the very short turnaround between the announcement of the scheme and the expected commencement of the scheme (on Monday 4<sup>th</sup> May), there are concerns that there may be some delays to its proposed start date, due not only to the specific guarantees required by the banks, as well as practical issues around the ability to make the online portals available on time.

Again given there is a lack of clear detail on this scheme to date, there are a number of aspects that can only be answered as the scheme develops over time.

### **KEY CRITERIA**

The main details of the ‘Bounceback loan’ scheme are as follows:

- It is expected to be available from Monday 4<sup>th</sup> May 2020
- It is a ‘fast track’ loan facility i.e. funds are expected to be received by businesses within 24 hours of a successful application
- The Government has provided a 100% guarantee for all lending made under the scheme
- The scheme can be applied for through an online facility (via each lender), and small businesses will fill in a two-page application form
- The borrower will certify that they have a viable business, lifting obligations on lenders to carry out their own checks (and speed up loan approvals)
- The online application form will explain the obligations and risks of taking a loan to the borrower, while the banks will just be carrying out normal fraud checks
- The loan amounts made available to businesses under the scheme are capped at a maximum of 25 per cent of turnover (up to an amount of £50,000)
- Banks/lenders will no longer require forecast financials or business plans
- The government will pay the costs of any fees or interest to pay for the first 12 months
- No repayments will be due during the first 12 months of the loan scheme, as a repayment holiday is included as standard
- The Government will also work with lenders to agree a low rate of interest for the remaining period of the loan.
- Loan terms will be up to 6 years



## ELIGIBILITY

You can apply for a loan if your business:

- is based in the UK
- has been negatively affected by coronavirus
- was not an 'undertaking in difficulty' on 31 December 2019

However the following businesses are not eligible to apply:

- banks, insurers and reinsurers (but not insurance brokers)
- public-sector bodies
- further-education establishments, if they are grant-funded
- state-funded primary and secondary schools

It is also understood that:

- Only businesses with a turnover of £200,000 or less and with a maximum of 9 employees are eligible for the scheme
- Only businesses that were not an "undertaking in difficulty" as of 31<sup>st</sup> December 2019 are eligible for the scheme (see below)
- Businesses must be trading as of 1<sup>st</sup> March 2020

## OTHER ISSUES

### Please note

1. that businesses cannot apply for a 'Bounce Back scheme loan if they have already obtained a loan under the CBILS scheme, however it is possible (and likely to be encouraged by the lender), to transfer up to an amount of £50,000 from any CBILS lending into the Bounce Back Loan scheme.
2. In terms of an undertaking in difficulty at 31<sup>st</sup> December 2019, this is understood to mean the following:

***"any company is 'in difficulty' when it meets the criteria for insolvency under the Insolvency Act 1986, such as:***

- *the company is unable to pay its debts as they fall due;*
- *"the balance sheet test" - value of assets < liabilities (including its contingent and prospective liabilities)*

3. It is understood (but not certain) that the Bounceback loans scheme applies to both limited companies and sole traders