



BOUNCEBACK BUSINESS LOANS (BBL's) – BEWARE OF THE RISKS !!

BACKGROUND

The '**Bounceback loan**' scheme was for many businesses a '**life saver**' during the COVID pandemic i.e. additional '**fast track**' financial support to assist during that difficult trading period. Also given the '**fast track**' nature of this scheme, there was a much reduced level of scrutiny by lenders around the recipients of the funding - **and therefore a higher potential for fraud or just higher levels of business failure post Covid !**

Some of the specific criteria in respect of '**Bounceback loans**' were as follows:

1. The Government provided a 100% guarantee for all lending made under the scheme
2. There was a specific exemption for Directors to provide a **Personal Guarantee** to the lender
3. The main obligations of the funding was that it was to be used to support the business activities
4. The loan amounts made available to businesses under the scheme were capped at a maximum of 25 per cent of turnover (up to an amount of £50,000)

As the post COVID period has progressed in recent months _

- some of the fraud related to '**Bounceback loans**' has been uncovered and in some cases, action taken against the individuals

HOWEVER

- for businesses that have failed in the post COVID period (for whatever reason), there is a risk that when the liquidation process is being managed, there may be a review by the Insolvency Service **where there is some doubt on the use of the 'Bounceback loan' funding !!**

Essentially, whereas the '**Bounceback loan**' funding came without the requirement of a '**Personal Guarantee**', the Government and lenders are now focusing on the '**use of the loan funding**' in circumstances where there may be the necessity to try and recover some of those monies.

ARE YOU satisfied that there is NO risk related to your use of your 'Bounceback loan' funding ???

KEY EXAMPLES

1. Personal Use of 'Bounceback Loan' funding

A director claimed a £30,000 bounce back loan he was not entitled to AND spent nearly a third on personal use

During the pandemic, he had applied for a £30,000 bounce back loan on behalf of the company in May 2020, despite the maximum the company was eligible to claim under the scheme being under £13,000.



From the £30,000 **'Bounceback loan'** funding received by the company, nearly £8,000 was spent on personal expenditure, which is a clear breach of the loan terms requiring monies to only be used for legitimate business use.

During the voluntary liquidation process in March 2021, the liquidator passed on concerns regarding the director's conduct to the **Insolvency Service** for further investigation.

The outcome was that the company director loan agreed to a repayment schedule of £650 per month to the liquidator, while he was also disqualified from acting as a director in the UK for 8 years.

Dave Elliott, chief investigator at the **Insolvency Service** said: **'We will not hesitate to take action against directors who have abused Covid-19 financial support, and ultimately the taxpayer.'**

2. Fraudulent Claim of 'Bounceback Loan' funding

Two Yorkshire-based company directors applied for a **'Bounceback loan'** by providing an estimated company turnover of £200,000.

Following the receipt of loan funding of £50,000, the company went into voluntary liquidation in January 2021, and once again the liquidator passed on concerns to the **Insolvency Service**.

The **Insolvency Service** investigation found that the company's turnover had been inflated and did not meet the criteria to apply for a **'Bounceback loan'**. It was also found that the monies had been used to make personal payments to family members, which were not related to genuine business expenses.

The outcome has been that £25,000 was paid to the liquidator to settle claims against the directors and they were disqualified from acting as a director in the UK for 21 years.

Do not hesitate to contact us on 0207 952 1230 or damian@sakurabusiness.co.uk if you want to discuss any aspect of repaying or reviewing the use of any 'Bounceback loan' funding received by your business in more detail.