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BRIEFING PAPER

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Coronavirus: Business loans schemes

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Summary

In early 2020, the Government established three business loans schemes in response to the pandemic:

- the Coronavirus Business Interruption Loans Scheme (CBILS)
- the Coronavirus Larger Business Interruption Loans Scheme (CLBILS)
- the Bounce Back Loans Scheme (BBLS).

The schemes were part of the Government's £330 billion package to support the economy through the pandemic. Their launch received wide political and business support.

The British Business Bank oversees the schemes. A range of accredited lenders make decisions on applications made to them.

By 13 December 2020, the three schemes had disbursed £68 billion through loans and similar facilities. BBLS accounted for 94.5% of loans made and 64% of funds disbursed.

The original CBILS was quickly modified in response to concerns about difficulty of access to and speed of funding. It already offered an 80% Government guarantee to lenders.

But the BBLS increased that guarantee to 100% and further simplified application processes. The scheme immediately proved to be particularly popular. Some accredited lenders have sought to manage demand – for instance, by only accepting applications from existing customers. Others, such as challenger banks and fintech lenders, have found it difficult to get hold of funds to lend to businesses.

To simplify the application process, the Government relaxed consumer protection provisions for BBLS. Although all the schemes rely on 'know your customer' and anti-fraud checks, there have been concerns that the schemes are open to abuse by fraudsters.

The three schemes are due to close at the end of March 2021. Most borrowers benefit from not having to repay anything for the first year. No interest will be charged over that period either.

Many businesses have certainly survived with the help of the schemes. But many face an uncertain future. The Office for Budget Responsibility has suggested that up to 40% of BBLS borrowers may default. Given the Government guarantee, this could lead to losses of as much as £33.7 billion.

There has been some discussion about managing defaults and slow repayment. Proposals include setting up 'bad bank' structures or developing wider initiatives to allow businesses to pay off debts more slowly.

1. Coronavirus business loans: doing whatever it takes?

On 17 March 2020, the Chancellor, Rishi Sunak, set out a package of financial measures worth £330 billion ("equivalent to 15% of GDP") and "promised to do whatever it takes to support our economy through this [coronavirus] crisis." He continued, noting that "if demand is greater than the initial £330 billion I'm making available today, I will go further and provide as much capacity as required. I said whatever it takes – and I meant it."[1]

A central part of the strategy was to offer businesses comparatively easy access to credit that they might otherwise have found difficult to obtain. To this end, the Government launched the Coronavirus Business Interruption Loans Scheme (CBILS) on 23 March, offering businesses loans and other facilities backed by an 80% Government guarantee, low interest rates and no interest payments for the first year.

On 25 March, the Chancellor, the Governor of the Bank of England, and CEO of the Financial Conduct Authority together wrote to Britain's banking sector with a warning not to allow fundamentally viable companies to collapse because of the crisis:

> The priority for all of us - banks, building societies, government and the financial authorities - should now be to take all action necessary to ensure that the benefits of the measures outlined above are passed through to businesses and consumers. This will require a willingness to maintain and extend lending despite the uncertain economic conditions. We must ensure that firms whose business models were viable before this crisis remain viable once it is over.[2]

In line with the Chancellor's stated commitment and wider business and political reaction, the original CIBLS scheme was itself swiftly modified and complemented by two further programmes – the Coronavirus Larger Business Interruption Loans Scheme, launched on 20 April, and, most significantly, the Bounce Back Loans scheme, which launched on 4 May. (Another, somewhat different scheme, the Future Fund, was launched in May.[3]) Both CBILS and BBLS were developed and launched quickly.

All of the developments served to widen access to the scheme, removing restrictions and making them even more attractive to potential borrowers. In the case of the Bounce Back loans scheme, this included offering a 100% Government guarantee to lenders.

1 HM Treasury, Chancellor of the Exchequer, Rishi Sunak on COVID19 response, 17 March 2020

2 HM Treasury, Letter from Chancellor, Governor of Bank of England, CEO of FCA: COVID and Bank lending, 25 March 2020

3 The Future Fund is aimed at "innovative" businesses "that rely on equity investment and are unable to access other government business support programmes because they are either pre-revenue or pre-profit". Its focus is rather different and relies on match funding from investors. For that reason and because of its small scale it is not the focus of this briefing paper.

It was not until 15 July 2020 that the Treasury, BEIS and the British Business Bank agreed overall objectives for the three main schemes, as set out below:[4]

Objectives for the three COVID-19 business loan support schemes

Timescale	Objective
Short term COVID-19 restrictions place significant restrictions on business operations	1. Guarantee schemes complement other government support and initiatives. 2. Unlock finance at scale and pace such that businesses disrupted by COVID-19 still have access to finance.
Medium term COVID-19 restrictions lifted	3. Businesses receive the maximum opportunity to maintain liquidity until lockdown measures are lifted (given what was known about the pandemic at the scheme launch date). 4. Scheme design should incentivise appropriate risk-taking by lenders.
Long term Over the life of the loan	5. Debt structure should take account of long-term business survival. 6. Debt structure should allow firms with long-term growth potential to continue to grow. 7. Long-term economic benefits realised from 5) and 6) exhibit value for money against any government-incurred losses.

Source: Adapted from National Audit Office, Investigation into the Bounce Back Loans Scheme, Figure 5, p20.

The schemes have proved to be very popular and have been welcomed across the political spectrum. By 13 December, the three schemes had provided £68 billion through over 1.5 million loans, with 560,000 applications outstanding. Indeed, BBLS received over 300,000 applications during its first week of operation.[5]

In late October the Government extended the closing date for all three schemes to the end of November 2020[6]; on 2 November it further extended the closing date to 31 January 2021,[7] and on 17 December to 31 March 2021.[8]

Nevertheless, the steps taken to make funding available quickly and simply are likely to have increased the risk of loan default and repayment difficulties for businesses facing a period of severe recession.

4 National Audit Office, Investigation into the Bounce Back Loans Scheme, 7 October 2020, p17
5 HM Treasury, HM Treasury coronavirus (COVID-19) business loan scheme statistics, accessed 28 August 2020
6 HM Treasury, Policy paper: Winter Economy Plan, 24 September 2020, accessed 3 November 2020
7 HM Treasury, National restrictions: Financial support for joss and businesses, Monday 2 November 2020, accessed 3 November 2020
8 HM Treasury, Chancellor extends furlough and loan schemes, 17 December 2020, accessed 18 December 2020

These risks were recognised from the earliest stages – at least for Bounce Back loans – and the Government accepted responsibility for the risks through Ministerial Direction.[9]

This briefing paper considers the development of the main loan schemes and how they have reflected the Chancellor's commitment to do "whatever it takes", as well as outlining the challenges and early consideration of how best to manage the consequences of bad debt that are likely to arise over the coming years.

Further general information about the loans schemes and wider business support is available in our briefing Coronavirus: Support for businesses, while data on spending on relevant schemes is collated in Coronavirus business support schemes: statistics.

9 National Audit Office, op. cit., p20. Reports on the other schemes and their development are forthcoming.

2. The loan schemes

The Government has established three main schemes to provide loans to businesses of different sizes affected by coronavirus:

- Small and medium-sized businesses – the **Coronavirus Business Interruption Loan Scheme** (CBILS, launched on 23 March) offers loans of up to £5m for businesses with a turnover under £45 million. The loans are 80% backed by the Government.
- Large businesses - **Coronavirus Larger Business Interruption Loan Scheme** (CLBILS, launched on 23 March) extends the standard CBILS approach to larger businesses.
- All businesses – **Bounce Back Loans** (BBLS, launched on 4 May) of up to £50,000 or 25% of turnover. The scheme offers streamlined application procedures and loans are 100% backed by the Government.

The three schemes are all overseen by the British Business Bank (BBB), a government-owned business development Bank. The BBB accredits lenders for each of the schemes, and those accredited lenders may vary between programmes, countries and regions.

Businesses may generally apply to any accredited lender, although it is usually most practicable for them to apply to their own provider in the first instance, as lenders will always carry out know your customer (KYC) checks on applicants. Decisions about applications are made by individual lenders.

The following table gives an overview of the main features of the schemes and is adapted from the British Business Bank's description of the schemes[10] and from updates announced in the Chancellor's Winter Economy Plan. Further information about eligibility and applying is available in our briefing paper Coronavirus: Support for businesses.

[10] The features appear under different headings in the guidance, so not all fields are completed in this table.

Main features of the coronavirus business loans schemes			
Feature	**CBILS**	**CLBILS**	**BBLS**
Finance available	The maximum value of a facility provided under the scheme is £5 million.	Term loans and revolving credit facilities over £50m will be offered by CLBILS lenders which have secured additional accreditation. The maximum size for invoice finance and asset finance facilities is £50m.	Loans range from £2,000 up to 25% of a business' turnover. The maximum loan amount is £50,000.
Guarantee to the lender to encourage them to lend	A government-backed, partial guarantee against the outstanding balance. The borrower remains 100% liable for the debt.	A government-backed, partial guarantee (80%) against the outstanding balance. The borrower remains 100% liable for the debt.	A full (100%), government-backed guarantee against the outstanding balance (both capital and interest). The borrower remains 100% liable for the debt.
Government contribution	A Business Interruption Payment to cover the first 12 months of interest payments and any lender-levied charges.		A Business Interruption Payment (BIP) to cover the first 12 months of interest payments. No repayments for the first 12 months.
Interest rate			Set at 2.5% per annum.
Finance terms	For term loans and asset finance facilities: up to six years. For overdrafts and invoice finance facilities: up to three years[11]	From three months to three years.	Ten years but early repayment is allowed, without early repayment fees. Repayment holidays and interest-only repayment periods available.
Security	No personal guarantees for facilities under £250,000. Personal guarantees may still be required, at a lender's discretion, for facilities above £250,000, but they exclude the Principal Private Residence (PPR) and recoveries under these are capped at 20% of the balance.	No personal guarantees are permitted for facilities under £250,000. For facilities of £250,000 and over, claims on personal guarantees cannot exceed 20% of losses after all other recoveries have been applied.	Lenders are not permitted to take personal guarantees or take recovery action over a borrower's personal assets (such as their main home or personal vehicle).
Guarantee fees	There are no guarantee fees for SMEs. Lenders pay a fee to access the scheme.		There is no fee to access the scheme for either businesses or lenders.

Source: Adapted from British Business Bank, Coronavirus Business Interruption Loan Scheme (CBILS), Coronavirus Large Business Interruption Loan Scheme (CLBILS) and Bounce Back Loans Schemes (BBLS), accessed 7 September 2020.

11 From 23 December 2020, terms may be increased to up to ten years if not doing so would compromise the borrower's business and would not increase the Government's risk.

2.1 General eligibility

Most businesses[12] established and operating in the UK can apply for relevant schemes. Specific requirements are available from the British Business Bank and are summarised in our briefing Coronavirus: Support for businesses. There have been various changes to the rules since the schemes launched; the most important of these are discussed later in this briefing.

In general terms, the schemes are meant to support businesses that have been "adversely affected" by the pandemic. Applicants self-certify that this is the case. For CBILS and CLBILS, applicants should present a borrowing proposal "which the lender would consider viable, were it not for the current pandemic".

BBLS applicants should be engaged in trading or commercial activity and have been established by 1 March 2020. With the exception of charities and further education colleges, they should receive more than half their income from trading activity.

BBLS applicants should not be in in "bankruptcy or liquidation or undergoing debt restructuring" when they apply. There are more complex and differing arrangements relating to "undertakings in difficulty" for all programmes. The rules for CBILS changed at the end of July for smaller businesses to take account of changes in EU State Aid Law.

Businesses may only hold loans or other facilities under one of the schemes, although there may be options to transfer loans from one to another. In addition, businesses receiving support from one of these schemes are not eligible for support from the Covid Corporate Financing Facility Scheme (CCFF).

On 2 November 2020 the Government announced that all three schemes would remain open to new applicants until 31 January 2020, and that holders of Bounce Back loans would be permitted to increase the total amount of the loan (as long as they remain within the overall limit).[13] On 17 December the Government extended the closing dates for the schemes to 31 March 2021.[14]

12 BBLS guidance excludes credit institutions falling within the remit of the Bank Recovery and Resolution Directive, insurance companies, public-sector organisations and state-funded primary and secondary schools. CBILS guidance additionally excludes the public sector including state funded primary and secondary schools; and employer, professional, religious or political membership organisation or trade unions, but explicitly includes insurance brokers.

13 HM Treasury, National restrictions: Financial support for joss and businesses, Monday 2 November, accessed 3 November 2020

14 HM Treasury, Chancellor extends furlough and loan schemes, 17 December 2020, accessed 18 December 2020

3. Support offered to date

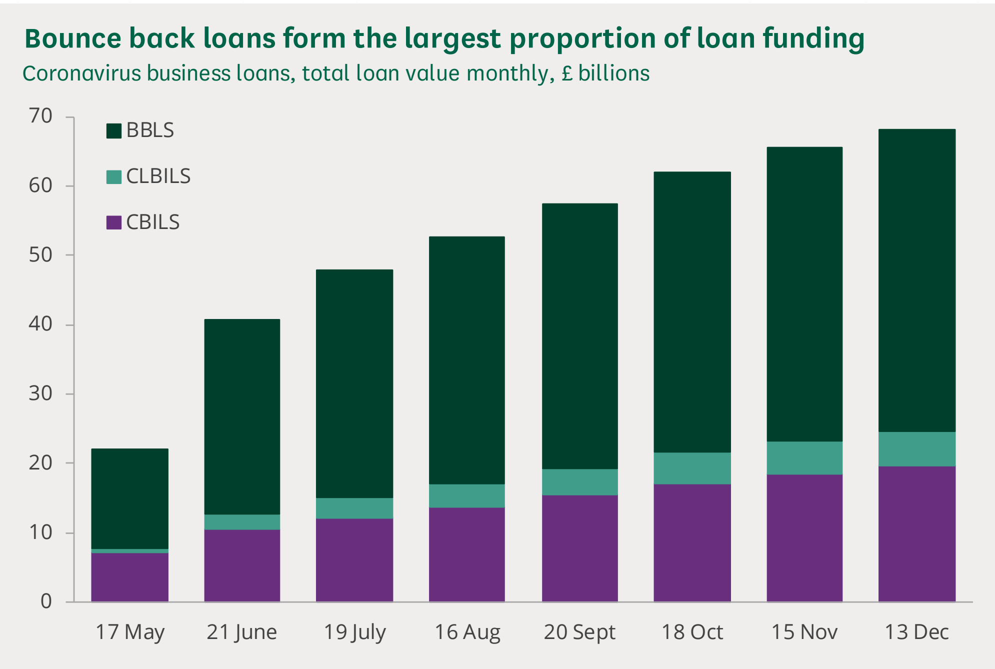
The speed of release of loan funds to businesses was an important issue when CBILS opened in March. As will be seen in the next section, such concerns led both to changes to the way that CBILS operates and the design of the Bounce Back Loans Scheme. By 18 October, the three schemes had disbursed almost £62 billion.

Although CBILS disbursed £450 million through 2500 loans between Friday 3 and Wednesday 8 April, the Financial Times reported delays and frustration on the part of businesses, with some observers contrasting the UK scheme unfavourably with what they described as a much simpler system operating in Switzerland:

> The SFr40bn package of emergency loans — first announced on March 25 with 121 lenders participating — managed to disburse SFr15bn (£12.4bn) to 76,034 businesses in its first week, 28 times as much as the UK equivalent has in three weeks.

On 15 April UK Finance reported that **£1.115 billion** had been allocated through 6,020 loans made under CBILS. Criticism continued, although *The Financial Times* reported similar delays in Germany, France and Italy.

As the chart below demonstrates, the launch of Bounce Back Loans on 4 May led to an immediate acceleration of disbursement. Within a week, the three loans schemes had allocated almost **£15 billion** through over **304,000** "approved facilities". They had received more than 435,000 applications. Bounce Back loans already accounted for over **88%** of applications approved and **56%** of total funds disbursed.[15]



Source: HM Treasury, HM Treasury coronavirus (COVID-19) business loan scheme statistics, data for close of business, accessed 16 December 2020.

[15] HM Treasury, "Chancellor extends furlough scheme until October", 12 May 2020 (accessed 14 May 2020)

The table below sets out total support offered through the three loans schemes to 13 December 2020. By that point, the proportion of Bounce Back funding accounted for **94.5%** of loans approved and **64%** of funds disbursed.

Over 1.5 million businesses have received loans worth over £68 billion

Coronavirus business loan schemes, as at 13 December 2020

	Total value of loans (billion)	Number of loans approved	Total number of applications
Coronavirus Business Interruption Loan Scheme (CBILS)	£19.64	82,618	186,522
Coronavirus Large Business Interruption Loan Scheme (CLBILS)	£4.97	675	1,077
Bounce Back Loan Scheme (BBLS)	£43.54	1,431,987	1,887,967
TOTAL	£68.15	1,515,280	2,075,566

Notes: Includes BBLS loans that have been topped up.
Figures are based on management information supplied to HM Treasury by accredited lenders for CBILS, CLBILS and BBLS and represent their best estimates of the published totals.
The total number of applications includes approved applications, those applications that are still to be processed, applications that have been declined and those applications that may turn out not to be eligible or cases where customers will decide not to proceed. For CBILS, this number will also include a number of applications that have subsequently been converted to applications for BBLS.
Source: HM Treasury coronavirus (COVID-19) business loan scheme statistics, data for close of business, accessed 16 December 2020.

Further details of support offered through these schemes is available in our briefing Coronavirus business support schemes: statistics.

4. Concerns about access to CBILS

CBILS was launched on 16 March 2020, and while it was broadly welcomed, politicians and businesses expressed concern that the scheme was failing to reach enough businesses quickly enough and that the lending rules were too restrictive.

4.1 Personal guarantees and general terms

Business owners and MPs criticised some banks for insisting on **personal guarantees** to support CBILS facilities under the original scheme.[16]

Speaking to the BBC, Chair of the SME Alliance, business owner Andy Keats, said that while business owners were grateful for the recognition that most firms would need help to survive the crisis:

> "Yet again, it is the banks and not businesses who will receive the funds to help SMEs.
>
> We would appreciate some clarity because, as things stand, the proposed loans mean the banks have no risk, the government has a small risk and businesses and their officers have 100% risk." [17]

There were also frustrations about responsibility for delays and policies, and notably that CBILS loans were only offered to businesses ineligible for standard commercial loans. As the BBC reported:

> Many companies have told the BBC that the scheme isn't working for them, with some turned down for a government-backed loan and others told they may have to wait weeks.
>
> The planned rule change follows a furious behind-the-scenes row between the banks and the government over whose fault it is that too few emergency loans have been offered to businesses in need.
>
> Privately, the banks say it's the government's rules that are in the way. They are required to lend to firms on normal commercial terms if they can - and only businesses that can't get a traditional loan qualify for the scheme.
>
> But the Treasury is now reportedly planning to scrap that rule so that banks can lend faster.
>
> Another obstacle has been the demand from banks that company directors put their own assets at risk by signing personal guarantees when borrowing £250,000 or more. That is also expected to be addressed.

On 3 April the Government made changes to the scheme that responded to these concerns, summarised as follows:

- No personal guarantees for facilities under £250k: Personal guarantees of any form cannot be taken under the scheme for any facilities below £250k.
- Personal guarantees for facilities above £250k: Personal guarantees may still be required, at a lender's discretion, but recoveries under these are capped at a maximum of

[16] Andy Verity, Banks under fire for coronavirus loan tactics, *BBC*, 26 Mar 2020
[17] Ibid.

20% of the outstanding balance of the CBILS facility after the proceeds of business assets have been applied. A Principal Private Residence (PPR) cannot be taken as security to support a personal guarantee or as security for a CBIL backed facility.

- Security: For all facilities, including those over £250,000, CBILS can now support lending to smaller businesses even where a lender considers there to be sufficient security, making more smaller businesses eligible to receive the business interruption payment.

The Government announced that these changes should be retrospectively applied by lenders for any CBILS facilities offered since 23 March 2020. Applicants initially directed to other products could ask to be transferred onto CBILS, or to have earlier decisions reconsidered.

Later in the month, after the Chancellor announced the new Bounce Back Loans Scheme, UK Finance issued a joint statement with the seven largest SME lenders on 27 April noting that they would relax requirements about viability:

> Lenders are working hard to ensure we provide support swiftly and responsibly and we will continue to work closely with customers to help them identify the finance that is right for their business and financial circumstances. Following the changes to the scheme announced today lenders will only ask businesses for information and data they might reasonably be able to provide at speed and we will not require the provision of forward-looking financial information or business plans from businesses applying for CBILS-backed lending, relying instead on our own information to assess credit and business viability.

This led to some rewording of the eligibility requirements, from noting that businesses should:

- Have a borrowing proposal which, were it not for the COVID-19 pandemic, would be considered viable by the lender, and for which the lender believes the provision of finance will enable your business to trade out of any short-to-medium term difficulty

to:

- Have a borrowing proposal which the lender would consider viable, were it not for the current pandemic.

4.2 Government guarantee

Another area of concern was the **100% government guarantee** for Swiss loans, compared with 80% for CBILS and CLBILS in the UK. The shadow business secretary, Ed Miliband – among others – had called for an expansion of the guarantee so that banks would be more willing to lend:

> ["]T]he CBIL scheme is simply not working well enough. We need change now. The chancellor must move to a 100% guarantee of loans for smaller businesses as other countries have done. In this economic emergency, it is the right thing to do…"

The Chancellor, Rishi Sunak, said that he could "learn and improve" from other countries, as reported by *The Financial Times*:

> The government has faced calls to consider adopting similar schemes to those in Switzerland and Germany, where state guarantees of 100 per cent of loans have sped up help to businesses.
>
> […]
>
> Mr Sunak said there was an argument for looking at this, but he added that this approach might stop banks from doing credit checks, saying that there was an "economic and fiscal question" about whether it was the "right intervention" for the UK. He said that the UK did not necessarily have the "historic systems" that allowed other countries to deliver these schemes.

But on 27 April, he stated that he was not convinced by the arguments to extend the loan guarantee to 100% for CBILS, although he would do so for the new Bounce Back Loans Scheme. He cited the potential future burden on taxpayers and argued that the UK's wider package of support was more generous than those offered elsewhere, including Switzerland.[18]

The Shadow Chancellor, Anneliese Dodds, welcomed the launch of the Bounce Back scheme, but again noted the comparative speed of Switzerland in releasing funds, and that "the UK has an enormous mountain to climb".[19]

18 HC Deb 27 April 2020 c108-111
19 HC Deb 27 April 2020 c109-110

5. Bounce Back Loans: easier access to credit

Although the reforms to CBILS discussed in the previous section had made access to funds easier for many businesses, it was the launch of Bounce Back Loans on 4 May that made far and away the biggest difference. The upper limit for loans was set at £50,000 – a tenth of what was available from CBILS – but the 100% government guarantee would help overcome lenders' apparent reluctance to agree loans, while the simple application process appealed to borrowers in search of emergency funding.

5.1 Design and development of the scheme

The innovations effectively overcame many of the concerns made about access to CBILS and reflected the much-promoted Swiss model more closely. The new scheme was designed in the context of that debate, with details being finalised at short notice before launch.

Indeed, the National Audit Office's first *Investigation into the Bounce Back Loans Scheme* highlights some of the exceptional circumstances in which it was developed. Overall objectives for the three business loans schemes were only agreed in July:

> HM Treasury did not develop a business case for the Scheme, which means, at its launch the Scheme lacked clear objectives beyond the aim of fast financial support for smaller SMEs. In order to allow effective appraisal, planning, monitoring and evaluation, the Bank developed objectives after the Scheme launch, in consultation with HM Treasury and the Department. The Bank combined the objectives for the three COVID-19 debt programmes because of the similarity of the objectives to provide financial support in the form of loans. The Bank felt it was not "proportionate […] to produce a unique set of objectives for each product" owing to the likely evolution of the three programmes, together with the uncertain economic outlook. HM Treasury, the Department and the Bank agreed the objectives on 15 July. The Department and the Bank told us that they are in the process of developing metrics for measuring the performance of the individual loan support schemes. (p17)

The focus on speed of launch and release of funds meant that civil servants in BEIS sought a Ministerial Direction to proceed, while the British Business Bank raised similar concerns with the Department through a Reservation Notice:

> The Chancellor launched the Scheme on 4 May, within two weeks of proposing it to the Department and the Bank. The Bank was able to move quickly because it amended the reporting system (the portal) of an existing programme (Enterprise Finance Guarantee scheme) to support the Scheme. In its Reservation Notice, the Bank raised concerns around the "compressed timetable" which has created "huge operational challenges for delivery partners". The Bank explained that given the pace at which decisions were being made, it would not be feasible to put in place "robust controls and governance" to ensure public funds are used appropriately. The Department recognised the

> restrictions and limitations imposed on the Bank in its Ministerial Direction to proceed with the Scheme on 3 May. The Department recognised the restrictions and limitations imposed on the Bank in its Ministerial Direction to proceed with the Scheme on 3 May. (p20)

5.2 Demand for Bounce Back loans

The launch of BBLS immediately led to a huge level of demand, as summarised in section 3. Individual lenders were flooded with applications.

Kate Dickins, a senior Natwest manager, reported on 11 May that the bank had received an "unprecedented…65,000 applications in the first 48 hours" and that call centres had had at least double their normal level of traffic.

The backlog continued to develop. By 9 June, *The Guardian* was reporting continued delays and decisions by banks only to accept applications from existing customers:

> While around 81% of the fast-track BBLS applications have been approved so far, there are signs of a major backlog in demand. Most of the 16 accredited lenders are restricting BBLS to existing customers, leaving many small businesses locked out.
>
> HSBC and digital upstart Starling Bank are among the only banks accepting external applicants for the emergency cash loans, but they are still prioritising their own account holders.
>
> Starling was forced to block sole traders from opening new accounts for a second time last week, and has set up a lengthy waiting list for its own customers amid a surge in demand for BBLS.

The scheme guidelines are clear that businesses may apply to any accredited lender, but anecdotal evidence suggests that this itself is not straightforward. On 28 September, *City A.M.* reported concerns about banks' treatment of applications, notably that Barclays had "invented" reasons for rejection and that HSBC had taken "nearly six months" to consider applications.

On 28 October, *City A.M.* reported that only one bank was still accepting applications from new customers, and that MPs were increasingly concerned about the risks arising from the impending closure of the scheme at the end of November:

> Kevin Hollinrake, leader of the all-party parliamentary group for fair business banking, told City A.M. the group wanted a replacement scheme to be "rolled out really quickly".
>
> Hollinrake said the BBLS "should not end" as scheduled next month, and should instead be immediately replaced by "a new iteration of the scheme… that takes us through to the middle of next year".
>
> Labour shadow business secretary Ed Miliband said it was "deeply concerning" that businesses on the brink were "being squeezed out" of the scheme, and said that the government should ensure they could still access loans.

Our constituency caseworker article Coronavirus: Problems with Bounce Back Loans sets out some of the challenges businesses have faced in seeking Bounce Back loans and what they might do to overcome them.

> "It's vital that ministers act to unblock the system and ensure finance is available. If they do not, the risk is that we will see more businesses going bust, and further job losses which will undermine our economy, and weaken any recovery."

Nevertheless, BBLS accounts for the overwhelming majority of coronavirus business loans made and – by 13 December – just under two-thirds of the total amount disbursed. Over 76% of applications had been approved. Although this compares favourably with a 44% approval rate for CBILS applications, it still implies a difference of about 456,000 between applications made and those approved – and an increase of about 130,000 since October.[20]

As part of the further measures announced with the new national restrictions in England, the Government extended the deadline for applications for all three loans schemes to 31 January 2020. They would also permit existing Bounce Back loans to be topped up once.[21]

Alternative lenders' access to finance

While the British Business Bank has accredited various 'challenger' and fintech lenders to offer loans, many of these have in turn found it difficult to obtain cheap credit to finance Bounce Back loans. While the Government offers 100% guarantees to the loans, it does not provide finance directly: lenders must seek this themselves. Unlike established banks, the smaller and newer lenders do not have access to cheaper credit offered by the Bank of England through the Term Funding [Scheme (TFS).

One fintech lender – Tide – suspended its involvement in the scheme early in July. According to the fintech news service, *AltFi*:

> Tide initially slowed and then paused its bounce back loans last month after reaching around £50m in lending, at the time Prill [the CEO] said Tide would need to raise over £100m in additional funds to fulfil the volume of loans being requested by the fintech's customers.
>
> Yesterday he informed Tide account holders that this had not been successful.
>
> Speaking to *AltFi* just after the letter went out Prill explained: "Having spoken to a lot of financial institutions it is just the unfortunate fact that at the very low margins that are available [with the BBLS], and even with us giving everything up, commercial funding will not be available for the bounce back loans."
>
> […}
>
> "Our members cannot get bounce back loans from the big banks, because the big banks have effectively stopped opening business current accounts," Prill told *AltFi*.

20 Calculated from figures in HM Treasury, HM Treasury coronavirus (COVID-19) business loan scheme statistics, data for close of business, accessed 16 December 2020.

21 HM Treasury, National restrictions: Financial support for joss and businesses, Monday 2 November, accessed 3 November 2020

> "The conclusion we have reached is that we, and players like us, can only really serve BBLS customers if the funding is provided [by the government]."

While Tide argued in favour of direct government financing (as is the case for the Future Fund), the All-Party Parliamentary Group on Fair Business Banking has called for alternative lenders to be given direct access to the Term Funding Scheme or to be lent funds by banks that do have such access. The Chair of the APPG raised the question in the House on 2 September; the Prime Minister replied that this was a matter for the Bank of England.[22]

The National Audit Office (NAO) found that by 7 September, the five largest UK banks (Barclays, HSBC, Lloyds/Bank of Scotland, NatWest/RBS and and Santander) had made 89% of all Bounce Back loans, while "non-banks" (including building societies and peer-to-peer lenders) had made less than 1%.[23] The NAO report noted:

> This is market-distorting. Bank of England data estimate the total small- and medium-sized enterprise (SME) debt to be £167 billion, with the big banks accounting for 65% of the lending. The [British Business] Bank and [BEIS] raised concerns that the Scheme's terms are making it uncompetitive for smaller lenders to compete with incumbents which, in turn, has a negative impact on competition in the SME lending sector. Although HM Treasury recognised this concern, it believed it to be a commercial decision for individual lenders. One of the [BBB]'s key objectives is to help create a more diverse finance market for smaller businesses, with a greater choice of options and providers.20 The Bank has sought to mitigate this risk by broadening the number of lenders under the Scheme. (p41)

5.3 Relaxation of consumer protection

In order to streamline administrative checks and so release Bounce Back funds more quickly, the Chancellor had written to accredited lenders on 1 May 2020 assuring them of the Government's commitment to making legislative changes that would free them from various consumer credit liabilities. The following changes were implemented:

1. A statutory instrument – The Financial Services and Markets Act 2000 (Regulated Activities) (Coronavirus) (Amendment) Order 2020 – removed Bounce Back Loans of up to £25,000 – and made to sole traders, unincorporated associations or partnerships of fewer than four people – from the scope of the consumer credit regulatory regime. The SI does however maintain provisions relating to debt collection as a regulated activity.
2. Section 12 of the *Business and Planning Act 2020* (which received Royal Assent on 22 July 2020) excluded the Bounce Back Loans Scheme from the "unfair relationships" provisions of the *Consumer Credit Act 1974*. While such provisions are meant to ensure that consumers can afford repayment commitments, their application to Bounce Back loans would require a higher level of review of applications and forecasting, thus inevitably leading to longer decision times and (presumably) lower approval rates. In

22 HC Deb 2 September 2020 c160
23 National Audit Office, Investigation into the Bounce Back Loans Scheme, p33

> line with the commitment in the Chancellor's letter, this change applied retrospectively to the beginning of the Bounce Back loans scheme.

Despite those relaxations, BBLS and the other schemes have maintained fraud and know-your-customer checks.

In Lords debate about Section 12 (point 2 above), and speaking in favour of an amendment, Baroness Bowles of Berkhamsted expressed strong reservations about the potential implications of the proposed change:

> Apart from for micro-businesses, there is no regulatory protection for business loans or recovery procedures other than the measure the Government now seek to disapply…
>
> […]
>
> Why do I care so much about this, especially when the Government are being generous with loans? I am not disputing good intentions, but the high-profile government publicity surrounding the loans can be misleading. There is constant reiteration of the good things about bounce-back loans: 100% guaranteed by government; try again if the first lender declines you; you cannot be asked for personal guarantees. This is encouragement to apply and gives the impression that the government guarantee is coming into play for the benefit of the borrower.
>
> That is not the story, though. The Government back the lender; they are not a guarantor for the borrower. That is not stated on the GOV.UK website, although I am not sure that everyone would understand the significance even if it were…
>
> […]
>
> Other standard terms also apply, such as that any default, anywhere, on any other loan, with anyone, can trigger default. A bank can also take the view that the position of the borrower has declined since the making of the loan agreement. Given that a loan condition for a bounce-back loan is that the business has suffered from the effects of coronavirus, just about every loan is at risk of being defined as in default.
>
> Of course, not many defaulting people or companies can go to court, so what does it matter if that route is blocked? Well, the principle matters; the deterrent matters; and the comparison matters. It gives away that the Government care little about those that go under; the focus is on the economic benefit of survivors. That view was reinforced during the meeting we had with the Minister and Treasury officials. In the future, the story of bounce-back loans will be one of borrowers thinking that the Government have backed them. The usual debt-recovery operations will be a sorry tale, even without bad behaviour, but in that event the law has been changed and that has consequences.[24]

Replying on behalf of the Government, Baroness Penn reiterated the low costs and charges associated with the scheme, as well as potential intervention by the British Business Bank and ultimately the Government:

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24 HL Deb, 20 July 2020, c2010-2012

> I reassure the noble Baroness that there is also a general, overarching commitment in the guarantee agreement. The lenders have an overarching obligation that they must always act in good faith and not behave in a manner that could reasonably be expected to bring the scheme or the guarantor into disrepute, or in a way that contravenes any applicable law or regulation. This includes all actions in respect of servicing and enforcement of the loan. The lender's performance of such obligations is subject to audit by the British Business Bank, and the obligations of the guarantee agreement are legal, valid, binding and enforceable obligations. Failure to comply with these terms in the guarantee would mean lenders risk not being able to make a claim under it, which would provide an exceptionally strong incentive to firms to conduct themselves properly. I assure the noble Lord, Lord Stevenson, that if such behaviour that contravened the terms of the guarantee agreement were brought to light, the Government would have no qualms about using their power to withdraw the guarantee.[25]

Ultimately, she noted the effect of not fulfilling the commitment made to lenders in May:

> Lenders have made over £30 billion-worth of loans under the scheme in anticipation of Sections 140 to 140C of the Consumer Credit Act 1974 being disapplied. Borrowers have entered into those agreements in the knowledge that the usual protections will not apply. I point out to the noble Lord, Lord German, that over 1 million businesses have benefited from this measure, and that take-up is not insignificant.
>
> Lenders have informed us that, should the amendment be agreed, it is likely that they would cease to offer any new lending under the scheme, thus depriving small businesses of the vital finance they need to weather this crisis. I understand the concerns expressed by noble Lords, but it is not possible to be in favour of the Bounce Back Loan Scheme but not in favour of this part of it—a part that has been crucial in getting the lending going.[26]

5.4 Potential for fraud

Although BBLS maintains fraud and 'know your customer checks', the application process relies largely on self-certification, a situation that some commentators have argued could give rise to organised fraud or misrepresentation (whether intentional or not) by applicants. On 16 June, Transparency International, the Fraud Advisory Panel and Spotlight on Corruption (among others), wrote to the Chancellor warning of the possibility of fraudulent abuse of both CBILS and BBLS, including by "rogue bank insiders", potential "mis-selling bad behaviour akin to the sub-prime mortgage scandal" and intimidation and infiltration of companies already in difficulty.

Nicola O'Connor of Bird & Bird LLP highlighted the importance of internal review and checking to help uncover deliberate or accidental misrepresentation:

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25 HL Deb, 20 July 2020, c2019
26 HL Deb, 20 July 2020, c2020

> it is important to understand that the current level of suspicion and heightened scrutiny will affect **all** businesses and not just those that have deliberately committed fraud.
>
> It is crucial that businesses use this time wisely to carry out checks and conduct investigations to identify mistakes in claiming under the BBLS, and any other Government financial support that the business has accessed. Legitimate businesses should be alive to the risk that they may be infiltrated by criminal gangs in order to access the loans and steal the money. It is possible that this might happen without the knowledge that an application has been made on behalf of the company. It is perhaps most likely that someone within the legitimate business may have assisted, aided and/or abetted a fraudulent application in this scenario.

In response to a Written Question from John McDonnell MP on 3 July 2020, Paul Scully, Parliamentary Under-Secretary (Department for Business, Energy and Industrial Strategy) emphasised that plans were in place:

> …At scheme design level, the rules of the scheme set out minimum standards in relation to fraud which highlight action lenders are expected to take to identify fraudulent applications. The British Business Bank's (BBB) audit function enables BBB to sample portfolios of lending to assess regularity and take action if required.
>
> For the Bounce Back Loan Scheme (BBLS), we continue to work extensively with BBB and the lenders to strengthen the anti-fraud systems in place…[27]

In September 2020, the BBC reported evidence of fraudulent applications, including use of identity theft. It also suggested that loans had been made to companies set up after 1 March, although such companies should be ineligible. UK Finance noted that checks were in place, including "a cross-industry initiative to check if duplicate applications have been made".

The NAO report reviewed the consideration of fraud risk during the development and implementation of the scheme. It warned that the risk of fraud had been "very high" and remained "significant", summarising its findings as follows:

> **Government recognises that the decision to provide funds quickly leaves taxpayers exposed to a significant residual fraud risk, even after lenders have implemented mitigation strategies**…The Bank assessed the Scheme risks before launch, and instructed PricewaterhouseCoopers LLP to conduct a risk review. The review found that, while some risks can be mitigated, there remains a "very high" level of residual fraud risk. Based on feedback from lenders, the adviser summarised the residual external fraud risk causes as: self-certification; multiple applications; lack of legitimate business; impersonation; and organised crime. The nature of the Scheme places the main responsibility for managing fraud risk on the lenders as part of the loan approval process. To support lenders in managing fraud-related risks, the Bank established fraud prevention forums with the lenders and a wider group of stakeholders, to share best practice and aid implementation of additional fraud measures.

[27] UIN 68651, 3 July 2020

> From October 2020, the Bank, alongside the Department and lenders, will utilise the reporting portal to provide a monthly fraud report. This will provide details on: prevented loss; detected loss; errors; and recoveries. The Cabinet Office's Government Counter Fraud Function believes fraud losses are likely to be significantly above the general estimates of public sector fraud levels of 0.5% to 5%. The fraud risks were also highlighted in, and contributed to, the Bank's Reservation Notice and the Department's request for a ministerial direction.

Overall, the NAO concluded that the scheme had met its initial and "prioritised" objective, but that fraud and debt remained significant risks into the future:

> Once government decided to support small businesses facing cash flow problems owing to the pandemic, it moved very quickly to set up a scheme. It prioritised one aspect of value for money – payment speed – over almost all others and has been prepared to tolerate a potentially very high level of losses as a result. These losses can stem from businesses wanting to pay back loans but finding themselves unable to, through to organised criminals taking out loans with no intention of ever paying them back. The Scheme achieved its initial objective of quickly supporting small businesses, but a lack of more detailed Scheme-specific objectives will make it difficult to measure its ultimate success. Systems and processes have evolved since the Scheme launch but much hard work remains over the coming months and years to ensure that the risks to value for money are minimised. This work must include implementing a robust debt collection plan with lenders and fraud investigation arrangements. Government should also take this opportunity to consider now the controls it would put in place to protect against fraudulent abuse for any future schemes. (p12)

Commenting on the findings, and while noting the scheme's overall success in "shovel[ling] loans to small businesses", *The Guardian* highlighted the Government's overall responsibility for the situation:

> One temptation is to blame the banks, but, for a change, that looks unfair. Lenders were under orders, in effect, to perform only cursory ID checks in the interest of speed. That was the government's choice – indeed, it was made in the face of an explicit warning by the British Business Bank, overseeing the scheme, about fraud.
>
> The main questions are really for the Treasury. First, did it do any pandemic planning at all, and how was the fraud risk assessed? The public accounts committee must demand a clear account.
>
> Second, what's the plan for catching the cheats?... Rishi Sunak, the chancellor, should take note: when you're planning to raise taxes, the perception that the Treasury was taken for a ride by conmen for several billions is not a good look.

6. Managing potential losses

6.1 When will the schemes end?

The original timetables for the end of the schemes have been extended several times.

CBILS was originally due to close to new applicants on 30 September, CLBILS on 20 October and BBLS on 4 November 2020. But on 24 September, as part of his Winter Economy Plan, the Chancellor announced that all schemes would close at the end of November. On 2 November the deadline was further extended to 31 January 2021, and on 17 December, to 31 March 2021.

While the original Coronavirus Business Interruption Loans Scheme and the programmes that evolved from it helped to satisfy business demand and concerns and so to fulfil the Chancellor's earlier promise to "do what it takes", there have also been concerns that the relaxation of normal lending controls will lead to problems, not least in the context of a severe economic recession.

The Winter Economy Plan made some initial adjustments that responded to potential repayment difficulties, summarised as follows:

> Pay as you Grow – The government will give all businesses that borrowed under the BBLS the option to repay their loan over a period of up to ten years. This will reduce their average monthly repayments on the loan by almost half. UK businesses will also have the option to move temporarily to interest-only payments for periods of up to six months (an option which they can use up to three times), or to pause their repayments entirely for up to six months (an option they can use once and only after having made six payments). These changes will provide greater flexibility to repay these loans over a longer period and in a way that better suits businesses' individual circumstances.
>
> CBILS loan extension – The government intends to allow CBILS lenders to extend the term of a loan up to ten years, providing additional flexibility for UK-based SMEs who may otherwise be unable to repay their loans.

The extension to the CBILS loan term was not implemented until 23 December. It is limited to businesses that would be "compromised" if not offered such forbearance.[28] On 17 December, in response to a Question from Thangam Debbonaire MP, the Economic Secretary highlighted caveats to what would be on offer:

> I should be clear that CBILS term extensions will be offered at the discretion of lenders, unlike the "Pay As You Grow" options for Bounce Back loans. Extensions will be limited to those borrowers that lenders assess are in difficulty and will benefit from the extension, and only for the duration required, meaning that lenders may offer an extension to 7 years, for example, rather than the maximum 10 years allowed.[29]

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[28] British Business Bank, "Coronavirus Business Interruption Loans Scheme (CBILS): Final Recoveries Guidance", 23 December 2020

[29] UIN128202, 10 Dec 2020

6.2 What happens next?

In his September speech, the Chancellor also referred to work on a "new, successor loan programme, due to start in January". While there were speculative reports about the new scheme in December,[30] the announcement of the extension of the existing schemes noted that further details of the successor scheme would be included in the Budget update on 3 March.

But as early as 31 May 2020, the *Financial Times* had reported fears of potential large-scale defaults on loans after repayments begin:

> Senior bankers estimated between 40 per cent and 50 per cent of the 608,000 borrowers who have accessed the Bounce Back Loan Scheme, or BBLS, could eventually default on the debt as the prospect of a quick economic recovery fades…
>
> […]
>
> One executive said about a quarter of the loans would not have been made under normal lending practices…
>
> […]
>
> Some Tory MPs share bankers' fears and believe the government could not afford the political fallout of so many small businesses being closed down after being pursued by the state.

In July 2020, the Office for Budget Responsibility estimated that 40% of BBLS borrowers might default, compared with 10% each for CBILS and CLBILS. The central case scenario suggested a total fiscal cost of write-offs of £16.9 billion, of which 95% would come from BBLS. The worst-case scenario suggested losses of £33.7 billion. These estimates were based on learning from schemes operating after the global financial crisis of 2008/9, as well as consideration of the types of businesses concerned and their underwriting arrangements.[31]

On 11 May, Alok Sharma, the Secretary of State for BEIS, had confirmed an initial contingent liability of £27 billion for the Bounce Back Loans Scheme. He noted that this figure might be increased if necessary:

> The percentage of net (post-recovery) losses for each loan that is guaranteed by the Government will be 100 per cent, with no cap on gross Government liability at the level of the lender's whole BBLS portfolio. Personal guarantees are not permitted, although some personal assets could be claimed as part of recovery from sole traders. Sole traders' principal private residence and vehicle may never be claimed as part of recovery.
>
> A Government grant ('the business interruption payment') will be provided for the benefit of businesses, equal to the interest incurred on the facility for the first twelve months. Businesses will not be required to make any repayments on capital during the first twelve months of the facility.

[30] According to The Financial Times, "UK ministers plan new state-backed loan scheme for SMEs", 13 December 2020, the scheme would be launched in January 2021 and offer an 80% guarantee on loans of up to £10 million and interest rates of up to 15%.

[31] Office for Budget Responsibility, *Fiscal sustainability report*, July 2020, p65-68

> Based on the information described in the paragraphs above, the contingent liability for assumed BBLS lending of £27 billion is £27 billion.
>
> BBLS will be of unlimited size. If the liability is called, provision for any payment will be sought through the normal Supply procedure.[32]

The Telegraph reported on 28 August 2020 that the British Business Bank was to spend £1.1 million on auditing the loans schemes, and as part of this would look for "cases where businesses were wrongly handed support".

The National Audit Office's October 2020 report highlighted the continuing uncertainty about the potential scale of BBLS losses, but – subject to heavy caveats – put the potential risk at anywhere between 35 and 60% of borrowers:

> As a result of credit and fraud risks, the Department and the Bank's preliminary central estimate is that 35% to 60% of borrowers may default on the loans but the estimate is highly uncertain. Government's default estimates at Scheme launch ranged between 30% and 75%. The latest estimates, including those including those by the Bank and the Office for Budget Responsibility, have widened to between 15% and 80% depending on the UK's economic performance. According to the Bank, credit and fraud risks are interrelated and therefore it did not assess them separately. [BEIS]'s 2019-20 annual report and accounts highlights likely total credit and fraud losses of between 35% and 60%, based on historic losses observed in prior programmes which most closely resemble the Scheme. Assuming the Scheme lends £43 billion, this would imply a potential cost to government of £15 billion to £26 billion. However, actual losses may differ from those forecast and indications of the extent of credit losses and fraudulent applications will not become apparent until borrowers are due to start repaying their loans. (p11)

With regard to recovery processes, it warned that much work still needed to be done, and that the 100% backing of the loans weakened incentives to lenders to take action:

> Loans are likely to be written off more quickly than for other COVID-19 related business loan support schemes, but HM Treasury has not finalised yet how lenders should collect overdue loan repayments. Lenders are required to pursue "appropriate recovery processes" in line with their existing standards under the terms of the guarantee agreement. The Scheme terms give lenders a 12-month time limit after they have issued a formal demand on the borrower to pursue outstanding amounts. However, claiming on the government guarantee is not conditional on having completed the recoveries process – lenders are able to make a claim on the government guarantee "within a reasonable time period" following the first formal demand date, or sooner, if lenders believe "no further payment is likely". Government provides a 100% guarantee to lenders owing to the absence of credit checks, but this reduces the lenders' incentives to recover money from borrowers. Moreover, the Scheme does not include actions to recover outstanding debt after the 12-

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[32] Department for Business, Energy and Industrial Strategy, *Notification of the contingent liability arising from the Bounce Back Loans scheme*, UC 36 2019-21, 11 May 2020

> month time limit, for example by requiring lenders to continue recovery processes in exchange for a fee. The recovery process has been agreed with lenders on a principles-level and HM Treasury expects to agree specific operational details by winter 2020-21. (p11)

6.3 What options have been proposed?

In its report of 31 May 2020, *The Financial Times* presented some early thinking on approaches to managing the high costs of default:

> "Some arrangements will have to be made. A lot of them will be written off or converted into something else," said one bank chairman. "In most cases the idea of the government taking equity in these companies is unrealistic — they are simply too small. So the question is what's going to happen to all of these loans?"
>
> Former chancellor Sajid Javid said that while he had no concerns about the stability of the banking system, the sector clearly needed help. "We need them to be able to lend into the recovery," he told the Financial Times. "That's why I think it makes sense to consider a bad-bank type structure," he added, saying this could be done by taking loans off a bank's books in exchange for a commitment to continue lending to sustain a recovery.

Sir Howard Davies, Chairman of the Royal Bank of Scotland (now Natwest),also suggested developing a bad-bank solution, as RBS had done to isolate some of the effects of debt arising from the global financial crisis.

Other stakeholders have put forward proposals that would allow companies to repay debts over a longer period, and in particular when improved economic circumstances allow them to do so. This approach is often compared with student loan repayment schemes. On 21 July, for instance, TheCityUK, a body representing financial services and related professions, published a report, *Supporting UK Economic Recovery: recapitalising businesses post Covid-19*. The report warned that UK businesses might hold £100 billion of unsustainable debt, with £35 billion of that coming from the loan schemes (p10). Summarising their recommendations, the CityUK proposed setting up a government-backed UK Recovery Corporation:

> …This would both, issue and hold, and oversee and manage, the unsustainable debt that is already government-guaranteed, in order to support funding on more manageable terms for businesses, and provide a vehicle in which the private sector could invest in over time.
>
> Through the UK Recovery Corporation, viable SMEs would be offered the opportunity to convert their loans into new products allowing them to manage their debt in a more sustainable way and achieved without being put into default. Depending on the size of their debt, they could either access a 'Business Repayment Plan (BRP)' to convert unmanageable loans into means-tested tax liabilities, or for larger debts, use 'Business Recovery Capital (BRC)' to convert crisis loans into preference shares or long-term subordinated debt. Both products will ensure SMEs do not give up any equity in their business.

The conservative think tank, Onward, has proposed a broadly similar scheme, "New Start, under which HMRC would allow firms to pay down their government-issued debt over a long period, through a surcharge on taxable profits and shareholder salaries, rather than over the next few years when investment and growth are more of a priority".

More recently, Lord Bilmoria, President of the Confederation of British Industry, suggested that it was too soon to predict ultimate default levels on BBLS loans. He called on the Government to "drive the creation of new sources of long-term patient equity funding to ensure more firms realise their growth potential".

Commenting on the wider dilemma, Jonathan Ford wrote in *The Financial Times* on 17 July that the Chancellor essentially had to decide between "forgiveness' and forbearance". Bankruptcies or converting loans into grants might be forms of forgiveness, but would create political risks. Putting off making decisions risked supporting "zombie companies", but forcing them to the wall would just as likely further depress demand. He suggested that monetary policy might offer another approach:

> One option might be for the Bank of England to consider dual interest rates, lending to banks through a special scheme such as the Term Funding Scheme at substantially negative rates (eg minus 3-4 per cent), to finance a period of zero rates for targeted borrowers, such as smaller businesses. Interest and repayment holidays would in effect banish default risk for almost all businesses apart from those that are fundamentally unable to pay their way.

The Government has not yet expressed its intentions for dealing with the potential losses. In July, however, the Chancellor expressed doubt to the Treasury Committee about the wisdom of taking an equity stake in "millions of very small businesses". He added that the Treasury was "open to interesting ideas that we think might help drive the recovery. As you know, many different institutions, bodies and think tanks continue to come up with ideas and send them our way; we will happily take a look at them."[33]

[33] Treasury Committee, *Oral evidence: Economic Impact of Coronavirus*, HC 271, 15 July 2020, Q863

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