

Coronavirus: Small businesses invited to take loans of up to £50,000

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Tuesday April 28 2020, 9.00am, The Times

Small businesses will be able to access loans of up to £50,000 underwritten by the taxpayer from next week, the chancellor announced yesterday as he admitted that some companies affected by coronavirus were struggling to get support.

In an extension of the government's existing loan scheme, Rishi Sunak said that small firms would be able to apply for a loan worth up to 25 per cent of their annual turnover, with the government paying the interest for the first 12 months.

The application process would be a "simple, quick standard form" and banks would perform only "customary" checks on applicants, Mr Sunak said. "For most firms loans will arrive within 24 hours of approval," he told MPs.

It came as the Treasury revealed that 3.8 million people had been furloughed by their employers and were supported by the government at a cost of £4.5 billion. One in four firms are thought to have stopped trading.

Mr Sunak had been under growing pressure to provide additional support for small businesses after claims that the existing Coronavirus Business Interruption Loan Scheme was failing to provide sufficient help for firms to remain viable.

That programme offers interest-free loans of up to £5 million that are 80 per cent guaranteed by the government. Many companies have called for the state to give 100 per cent backing in the scheme.

But Mr Sunak rejected this, arguing that there was a need to balance "the risk to the taxpayer with the need to support our smallest businesses". He added: "I've heard some calls for government to underwrite all our loan schemes with 100 per cent guarantees. I remain unconvinced by the case for doing that universally.

"We should not ask the ordinary taxpayers of today and tomorrow to bear the entire risk of lending almost unlimited sums to businesses that in some cases may have very little prospect of paying the loans back, and not necessarily because of the impact of the coronavirus," he said.

The scheme was criticised by some after businesses complained that banks were demanding personal guarantees and charging double-digit interest rates. The latest figures from last week stated that 16,600 loans to businesses worth £2.8 billion had been approved through the scheme, an acceptance rate of 46 per cent. Of these, 9,000 loans had been paid out.

Mr Sunak said that the so-called “bounceback” loans for small businesses would help the economy recover faster. “I know that some small businesses are still struggling to access credit,” Mr Sunak said. “If we want to benefit from their dynamism and entrepreneurial spirit as we recover our economy, they will need extra support to get through this crisis.”

Anneliese Dodds, the shadow chancellor, welcomed Mr Sunak’s announcement but said that parts of the government’s economic package were “failing”. She said: “Switzerland has a population of under 9 million, yet it approved four times as many loans within its first week as the UK has done in a month.

“While it’s a relief to hear . . . that there will now be a full guarantee for loans of up to £50,000, we need to know that normal commercial loan requirements will not continue to clog up the system.”