Fear of fraud in state-backed loans for smaller companies

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Rishi Sunak is launching the new loans but there are fears his parliamentary colleagues could block legal changes affecting their terms

The government's new loans for small businesses may fail to launch on Monday as planned because of legal problems and the need to create new digital systems, according to senior bankers.

The "bounceback" scheme offering 100 per cent government-backed loans of up to £50,000 is expected to plug unmet demand among micro businesses locked out of existing coronavirus loans.

However, launching the interest and fee-free loans requires legal and regulatory changes, industry figures said. Banks are also scrambling to make the loans available digitally within the next six days in order to make them viable to offer. Noel Quinn, chief executive of HSBC, said: "That's the big challenge. It's going to be a lot of work for all the banks, not just us."

Borrowers will fill in a two-page application form in which they will certify that they have a viable business, lifting obligations on lenders to carry out their own checks.

Simplifying the application has been seen as one of the most important factors in helping small businesses access loans, but banks said that the shift was dramatic and risked a huge rise in fraud. One industry source said it could become a “fraudsters’ charter”.

The bounceback scheme will also require changes to the Consumer Credit Act, particularly over its stipulation that courts can rule a relationship between lender and borrower unfair for a wide range of reasons, banks believe.

New legislation will not be in place by Monday. “Boards will have to decide whether to take that risk,” one banker said.

The Treasury is understood to acknowledge that new legislation is needed, but there are concerns among lenders that if they go ahead and launch the scheme on trust that the legislation will follow, it could be derailed by MPs who do not want to support moves to water down borrowers’ protections. The Consumer Credit Act governs loans to businesses up to £25,000 and lending to individuals.

Banks are concerned that with so little checking on businesses’ viability they may be in a difficult position later if a business struggles and they try to call in the loan.

There has been support for the new scheme after criticism of coronavirus business interruption loans, a scheme that launched five weeks ago but has led to fewer than 17,000 approved loans.

The bounceback loans, which are 100 per cent state backed, are set to be cheaper than CBILs, which are 80 per cent state backed. There is likely to be strong demand for bounceback loans, and they will probably require banks to switch eligible customers, who have taken out a CBIL product, into the new loans.

The British Chambers of Commerce said that its members were wary about taking out loans they may not be able to repay.

Some 57 per cent of firms said they did not intend to apply for CBILs or other finance, according to its latest tracker.

Of the firms that had applied for CBILs, most said they had been turned down or were awaiting a decision, while 13 per cent had been successful.

A UK Finance spokesman said: “This scheme is a vital part of the support provided to help business. The industry has worked closely with the Treasury on the development of the scheme.”