# Emergency company loans to be pitched with 2.5% interest rate

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Small businesses will be offered loans of up to £50,000 that are interest and repayment-free for a year

Interest rates on the government’s new loan scheme for small businesses are to be as low as 2.5 per cent as it seeks to make emergency credit as attractive as possible.

The precise terms of the bounce back loan scheme, which is due to be launched on Monday, were being thrashed out last night, but lenders were told that they could not charge more than 2.5 per cent once an interest-free period had expired. Some lenders had hoped to charge more amid fears over the affordability of running the scheme, but the government wants it to be as generous as possible after problems with the coronavirus business interruption loan scheme, its existing small business scheme.

The bounce back loan scheme will offer unsecured loans of up to £50,000 that are interest and repayment-free for a year. After that, the same interest rate will apply regardless of the lender. The government provides a 100 per cent guarantee for lenders on each loan, but banks are concerned about costs because the interest rate is so low and defaults are likely to be high.

The coronavirus business interruption loan scheme has provided loans worth more than £4 billion, but has been mired in a cumbersome application process and confusion over eligibility. The new scheme will require borrowers only to fill out a simple online form, with limited credit checks meaning that the vast majority of applications are likely to be approved.

This has given rise to fears that the scheme will be targeted by fraudsters. Banks have been seeking assurances that they will not be accused of reckless lending.

The bounce back scheme will be restricted to one loan per business, with some banks lending only to existing customers to reduce risks. Other issues include formalising exemption from the Consumer Credit Act, which requires affordability checks, and the nature of the state guarantee. The Treasury was approached for comment.