Is a charity eligible to apply for the Bounce Back Loan Scheme? If so, how does it do it?

Morgan Lewis

In light of the rapidly developing situation and government response, this memorandum is current as at 06 May 2020.

What is the Bounce Back Loan Scheme?

The Bounce Back Loan Scheme ("**BBLS**") launched on 4 May 2020. It forms part of the UK government support package to help UK businesses and charities continue to operate during the coronavirus pandemic, by facilitating access to additional liquidity. It is administered by the British Business Bank via certain accredited lenders. It is aimed at the smallest of entities, so it may be the most appropriate means by which small not-for-profit organisations can mitigate loss of revenue and cash flow disruptions by borrowing an amount which is most appropriate for them. BBLS is initially open until 4 November 2020, but the Government may extend the scheme beyond this date.

What are the key features of the BBLS?

An accredited lender may make a loan to a charity of between £2,000 and up to 25% of its turnover, with a maximum of £50,000.

The loan must be fully repaid six years later, but the lender may require partial repayments of principal after the falling due during the first 12 months. Early repayment of the loan is permitted, without early repayment fees.

The interest rate is fixed at 2.5%, and the UK Government will pay the interest on the loan for the first 12 months.

The UK Government will guarantee the payment of all principal and interest.

The borrower is not required to provide security and/or personal guarantees.

Lenders are not permitted to levy any charges, and charities do not have to pay a fee to access the BBLS.

The borrower remains responsible for repaying 100% of the loan, including interest after the first year.

Which charities are eligible for a Business Interruption Loan?

The charity must meet the following eligibility criteria:

- it was operational on 1 March 2020;

- it must be trading or carrying out commercial activity in the UK on the date the application is made;
- it has been adversely affected by coronavirus;
- it must declare if it was a "business in difficulty" as at 31 December 2019 (see below);
- it is a UK limited company or partnership, or tax resident in the UK;
- it is not bankrupt, involved in debt restructuring proceedings, in liquidation or similar financial difficulty when they submit the application;
- it will only use the loan to provide economic benefit to the charity and not for personal purposes; and
- it must declare that it understands the costs associated with the loan and it is able and intends to repay the loan on time.

Different criteria apply to the agriculture, aquaculture or fisheries sector.

The charity will not be eligible for a BBLS loan if it (or any of its wider group) has obtained a loan through the Coronavirus Business Interruption Loan Scheme ("**CBILS**") or the Coronavirus Large Business Interruption Loan Scheme ("**CLBILS**"). However, a charity that has received a CBILS loan or CLBILS loan can apply for a loan under the BBLS, if the BBLS will refinance the other loan in full. The charity should note that borrower protections under these schemes are different, and so they should discuss these with their lender if they are considering switching to a loan under a different scheme.

A charity is a "business in difficulty" if, as at 31 December 2019, it had:

- accumulated losses of more than half of its equity capital (this test does not apply to trusts or unincorporated associations); or
- started, or had fulfilled the criteria to be put into, insolvency proceedings; or
- not reimbursed or terminated other rescue aid, or was under a restructuring plan; or
- (where it does not meet the SME criteria) has fallen below solvency ratios for the previous two years.

For the purposes of the "business in difficulty test", a charity will be defined as an SME if it has fewer than 250 employees and either a turnover of less than £44.45 million or a balance sheet of less than £38.22 million.

How can a charity apply for a loan under the BBLS?

BBLS loans are provided by accredited lenders. The list of accredited lenders is updated as new lenders undergo accreditation.[1]

The charity should review details of BBLS on the websites of the accredited lenders to determine which is the most suitable. The charity should contact the lender via the lender's website to make an application for financing. The charity should, in the first instance, contact the bank at which it has a bank account or an existing loan.

The charity must then complete a short online application form which requires information such as bank account details and turnover. The lender may request

[1] https://www.british-business-bank.co.uk/ourpartners/coronavirus-business-interruption-loan-schemes/bounce-back-loans/current-accredited-lenders-and-partners/

additional information, such as an HMRC self-assessment tax return. The charity must also self-declare that it satisfies the eligibility criteria.

It is expected that the lender will assess the application forms quickly, generally within a matter of days. Eligible charities will undergo standard customer fraud, anti-money laundering and know your customer checks.

If a lender offers a BBLS loan to the charity, the lender will not take any form of personal guarantee or take security over personal assets, such as a primary residence or personal vehicle.

If the selected lender rejects the BBLS application, the charity may approach another accredited lender and make another loan application.

Issues for charities to consider

Charities must consider whether a loan is appropriate. Many charities in this difficult period are facing “lost”, rather than “deferred” revenue, and it may be the case that such charities are not willing to assume borrowing liabilities under a loan.

In any event, charities should check their governing documents for any provisions which restrict their ability to borrow.

BBLS or CBILS?

Charities may also consider their eligibility for CBILS.[2] This scheme enables charities to borrow up to £5 million. The maximum term is six years for term loans and asset finance facilities, and three years for overdrafts and invoice finance facilities.

The UK Government will provide lenders with a guarantee of 80% against the outstanding principal only, subject to the lender’s annual claim limit. The Government will pay the interest (at a commercial rate) and lender-levied fees for the first 12 months.

However, it is often more difficult for smaller non-profit organisations to qualify for a loan under the CBILS, and much more information and documentation is required. Due to the straightforward nature of the BBLS, it is expected that charities will be able to access much-needed finance more quickly, and they will be better equipped to manage their ongoing costs if they were to apply for a loan under the BBLS rather than the CBILS.

See https://www.morganlewis.com/topics/coronavirus-covid-19

[2] See also: http://www.lawworks.org.uk/sites/default/files/files/LW-NFPP-C19-CORP-Business-Interruption-Loan-rev1.1.pdf