Business Update - Banking and Bounce Back Loans

Information correct as at 11:00am on 23.04.2021

- Your bank will contact you about repayment options for your Bounce Back Loan before repayments need to start, 12 months after it was taken out (details below).
- Be prepared to tell your bank manager where your Bounce Back Loan went when discussing renewal of your overdraft facility or new loans.
- Your Bounce Back Loan will not affect your credit rating, but the repayments will be included in affordability/serviceability calculations your bank makes regarding other loans which may affect your ability to borrow more money.

Bounce Back Repayment

With the first Bounce Back Loans made available in May 2020, the 12 months free period will soon be coming to an end for many businesses and banks will be contacting customers about starting to make interest and capital repayments.

Originally these were to be repaid over five years, starting one year after taking them out, but more options were announced in September 2020, which are:

1. Extend the capital repayments over 9 years after the free year.
2. Go interest only for six months up to 3 times during the repayment period.
3. Take one six-month repayment holiday during the loan term.

Key Points:

- The options for repayments and holidays can be taken in combination.
- The interest rate is fixed at 2.5% per year from when repayments start.
- The loan may be repaid more quickly, or in full at any time, without any fees.
- The Government guarantees the loan, but the business is fully liable for the debt.

Managing your banking relationship

It is important to arrange the payment structure with your bank and keep your manager informed if you may need to take the interest only or repayment holiday.

Bank managers are concerned about the ability of farmers to repay the additional Bounce Back debt alongside existing loans, particularly when there have been repayment holidays or interest only periods on other farm mortgages and loans.

Bank managers are routinely asking where Bounce Back Loan funds have been spent when renewing overdrafts or dealing with requests for loans for business development. Having a prepared answer for this will be viewed positively, particularly if it strategically benefits the business e.g. capital improvements have been made to benefit cow health, additional cows have been bought or it replaced another loan or HP which would have had a higher interest rate or been over a shorter term. If it has just been absorbed into cashflow or paying long term creditors, expect the bank to challenge how you can afford the repayments if it cannot see how it can be repaid from cash being generated.

Taking out a Bounce Back Loan will not have affected your credit rating. However, it may affect your ability to borrow more, as the repayments will be added to your other loans and HPs when the bank works out what total loan repayments the business can afford to pay from the profits being made. This is referred to as affordability, serviceability or debt service cover.