

DIRECTORS GUIDE

BOUNCE BACK LOANS IN LIQUIDATION

At DCA Business Recovery, we specialise in providing clear, professional, and tailored insolvency advice to company directors facing financial challenges. As licensed insolvency practitioners, we guide businesses through financial distress, ensuring directors understand their options and legal responsibilities.

One common concern for directors is what happens to a Bounce Back Loan (BBL) in liquidation. While BBLs were government-backed, they were still company debts, and misuse or misrepresentation during the application process can lead to serious consequences—including personal liability and potential director disqualification.

This guide explains how BBLs are treated in liquidation, what a liquidator will investigate, and the risks directors face if the loan was misused or fraudulently obtained. If your company has an outstanding Bounce Back Loan and is struggling financially, it's essential to seek expert advice as early as possible.

At DCA Business Recovery, we offer confidential, no-obligation advice to help you navigate the liquidation process while protecting your interests.

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The Bounce Back Loan Scheme (BBLs) was introduced by the UK Government to support small businesses during the COVID-19 pandemic. While the loans were government-backed, they were still taken out in the company's name—meaning repayment was the company's responsibility.

If your company is now facing liquidation with an unpaid Bounce Back Loan (BBL), you may be wondering:

- ✓ Will I be personally liable?
- ✓ What will the liquidator investigate?
- ✓ Could I face penalties if the loan was misused?

This guide will help you understand your duties as a director, the risks you may face, and what to do next.

What Happens to a Bounce Back Loan in Liquidation?

In a Creditors' Voluntary Liquidation (CVL), all company debts—including Bounce Back Loans—are included in the liquidation process. However, because BBLs were backed by the government:

- The lender (bank) claims repayment from the government after liquidation.
- The loan itself is written off in the company's name.
- The liquidator investigates how the loan was used.

While the government guarantee protects lenders, it does not protect directors if they acted improperly.

What Will the Liquidator Investigate?

When a company enters liquidation, the appointed insolvency practitioner (liquidator) must review all transactions related to the Bounce Back Loan. Key areas of investigation include:

✓ Was the Loan Used for the Business?

- The BLS required funds to be used for the company's economic benefit—not personal use.
- If funds were withdrawn by directors for personal reasons, this could be challenged as misfeasance (misuse of company funds).

✓ Was the Company Already Insolvent?

- If the company was already insolvent before taking out the loan, this could raise wrongful trading concerns.

✓ Was the Application Truthful?

- Directors self-certified their eligibility for a BBL. If false information was provided (e.g., overstating turnover), this could be considered fraud.

Key eligibility criteria included:

- The company had to be **trading as of 1 March 2020**.
- Businesses could borrow **between £2,000 and £50,000**, but the loan amount was capped at **25% of the company's 2019 turnover**.
- The company had to be based in the UK

✓ Were Funds Moved to a Different Company?

- If BBL funds were transferred to another company or used to fund a new business, this could be seen as an attempt to defraud creditors.

✓ Did Directors Repay Themselves?

- If BBL funds were used to repay director loans or personal debts, the liquidator may challenge these transactions and seek repayment from directors.

Am I Personally Liable for a Bounce Back Loan?

Most BBLs do not have personal guarantees, meaning directors are not automatically personally liable if the company cannot repay the loan. However, there are exceptions:

When Directors Can Be Held Personally Liable

- ✗ Fraudulent Application** – If false information was provided (e.g., overstating turnover), the director could be personally pursued.
- ✗ Misuse of Funds** – If funds were withdrawn for personal use, a director may be held accountable.
- ✗ Wrongful Trading** – If the company was already insolvent when the loan was taken out, directors may face personal liability.
- ✗ Illegal Dividends or Repayments** – If the loan was used to repay directors' loans or pay dividends when the company lacked sufficient profits, the liquidator may seek repayment.

Concerned about potential liability?



Arrange a free initial advice meeting

Consequences of a Fraudulent Bounce Back Loan Application

If a director misrepresented information on the BBL application or misused the funds, the consequences can be severe:

✦ **Directors' Disqualification (Up to 15 Years)**

- Directors who misuse government-backed funds are at high risk of disqualification under the Company Directors Disqualification Act 1986.
- The Insolvency Service can seek to ban directors from acting as company directors for 2 to 15 years if misconduct is found.

✦ **Personal Liability for the Loan**

- The liquidator can apply to the court to make the director personally liable for repaying the loan.

✦ **Criminal Investigation & Prosecution**

- If fraudulent activity is identified, directors could face criminal charges, fines, or even imprisonment.

What Should Directors Do?

If your company has an outstanding BBL and is facing liquidation, take the following steps:

- ◆ **Seek Professional Advice Early** – Contact an insolvency practitioner to review your position.
- ◆ **Be Transparent with the Liquidator** – If you used the loan incorrectly, honesty is crucial in reducing penalties.
- ◆ **Avoid Transferring Company Funds** – Do not move money out of the company before liquidation—it could be challenged as a preference payment.
- ◆ **Keep Records of How the Loan Was Used** – Provide evidence that the loan was used for business purposes.

Conclusion: Understanding Your Risks and Next Steps

Key Issue	Risk to Directors?	Potential Consequences
Company cannot repay the BBL	✗ No personal liability (if used correctly)	Loan written off, government repays lender
Loan used for personal expenses	✓ Yes, director may be liable	Liquidator may seek repayment
Company already insolvent before BBL	✓ Yes, wrongful trading risk	Director may be held personally liable
Application contained false info	✓ Yes, risk of fraud investigation	Disqualification, personal liability, or prosecution
Loan repaid directors' loans	✓ Yes, transaction may be reversed	Director may have to repay funds

Final Advice for Directors:

- If your company cannot repay a Bounce Back Loan, liquidation may be the best way to legally close the business.
- If you misused the funds, be prepared for investigation and seek advice from an insolvency professional immediately.
- Acting honestly and transparently can help reduce potential personal liability and legal risks.

 Need expert advice? Contact us today to discuss your situation confidentially.

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