

CORONAVIRUS

Lenders take hit on fees to support new loan scheme

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Banks will pay millions of pounds in fees to the government as part of the emergency coronavirus loans programme to help small businesses after a last-minute intervention by Brussels.

The lenders have agreed to pay the fees for the guarantee the government is providing for 80 per cent of the loans. If lenders did not pay the fees themselves, they would have to pass on the charge to the firms seeking funds.

Small businesses can apply for loans of up to £5 million from about 40 lenders listed on the website of the government-owned British Business Bank. The loans will be interest-free for 12 months and are aimed at businesses with turnover of up to £45 million deemed to be viable before the virus struck. The scope of the scheme also has been increased from an initial £1.2 billion mentioned in the budget to being “demand-led” and so potentially is much larger than first envisaged.

Banks agreed to meet the cost in a scramble to get the scheme ready to launch. Many were not happy about the last-minute financial burden, which emerged only in a state aid framework for coronavirus published by the European Commission last week.

The Treasury and other countries battling to limit the economic impact of the virus are understood to have complained to Brussels and said that its measures had caused “profound frustration” at a time when multiple countries were facing an escalating crisis.

However, British banks decided on Friday to pay the fees to avoid delays in launching the coronavirus business interruption loan scheme, which will be interest-free for 12 months and are expected to be key lifeline for small and medium-sized businesses.

Despite leaving the European Union on January 31, Britain will follow its rules until December 31.

The business interruption scheme and the Bank of England’s covid corporate financing facility, aimed at helping bigger companies by buying their short-term debt, are yet to be formally approved by the commission.

Banks have appealed to individual and small business customers to go online first and to avoid contacting call centres because systems are creaking under the pressure of customers’ queries. Banks have been forced to close scores of branches as staff take time off.