CORONAVIRUS

Banks give way on rescue loans after outcry over terms

James Hurley, Enterprise Editor
Friday March 27 2020, 12.01am, The Times

Barclays apologised after customers were quoted interest rates of as much as 12 per cent

High street banks have backed down after criticism of onerous terms being asked of directors trying to access loans meant to rescue businesses.

Yesterday Barclays, HSBC and Lloyds Banking Group all set out new terms for the state-backed emergency credit scheme after concerns that business owners would be personally liable for bank debts underwritten by the taxpayer.

The new approach will mean that any director who secures up to £250,000 via the coronavirus business interruption loan scheme from one of the four biggest retail banks will not have to sign a personal guarantee.

Royal Bank of Scotland had already said it would not ask for personal guarantees to secure the loans.

Barclays apologised after customers were quoted interest rates of as much as 12 per cent for the credit, despite the fact that Bank of England rates are at record lows. Barclays said it was reviewing all applications made this week to “ensure no errors are made” and said no successful applicant would have to pay more than 5 per cent for one of the loans.

Under the coronavirus business interruption loan scheme, the state will underwrite 80 per cent of the risk of bank loans of up to £5 million. However, borrowers are liable for the entire debt, as the taxpayer guarantee is purely for the banks’ benefit, intended to give them confidence to lend to businesses they might otherwise avoid.

The banking industry and the government have faced criticism after business owners were told they may have to put personal assets at risk to secure money intended to rescue jobs.

The rules of the scheme were only finalised in the small hours of Monday morning, just before its launch, leading to confusion among bankers and frustration among prospective borrowers.

This has been compounded by staff shortages. Barclays has been hit by the closure of its call centres in Noida and Mumbai, India. This meant a pricing table was not updated and customers were quoted incorrect rates, Barclays said. A spokeswoman said: “We sincerely apologise for the mistake.”

Yesterday Downing Street said that no lender was allowed to “take a guarantee against the borrower’s home . . . We will take all action necessary to ensure that the benefits of the measures are passed on.”

However, second homes and other personal and business assets could be at risk. Despite the improved terms being offered by some lenders, directors of companies seeking more than £250,000 could still be asked to sign personal guarantees by banks including Barclays, Lloyds and HSBC.

Banks are obliged to exhaust all recovery action against borrowers before they can claim on the state guarantee.

There are also concerns over the lending criteria and whether the scheme will get money quickly enough to businesses whose revenues have collapsed. Experts have warned that some applications could take weeks or even months to process.

The SME Alliance, a small-business group, has written to Andrew Bailey, governor of the Bank of England, saying the scheme “will not work”.