‘We saved the banks in 2008 — now they are failing us’

Businesses are struggling to prise billions in relief from lenders

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Iglika Ghouse worked in banking. Now she runs a small business — and says firms like hers are suffering from her former bosses’ greed

Working for investment bank Dresdner Kleinwort during the 2008-9 financial crisis, Iglika Ghouse saw some of the worst behaviour of the banking system first-hand. She witnessed the failure of lenders to channel emergency funds provided by central banks to businesses that really needed it. Millions of lives were ruined. Now she fears that history is repeating itself.

“I can tell exactly what’s happening,” said Ghouse, who went on to work for the Swiss bank UBS. “It’s the central bank pumping liquidity into the system and thinking it will trickle down to the real economy. But the banks use it to fatten their own balance sheets, not pass it on to the real economy. It's an age-old story."

Ghouse, 36, left UBS five years ago to start Uspaah, which conducts beauty treatments in Londoners' homes. Last Wednesday, she called her bank, HSBC, to discuss help under the government's emergency loan scheme. The first four people she spoke to could not answer her questions. Eventually, she was told a personal guarantee was required, along with detailed financial projections — "normal requirements for any loan", said the bank. Ghouse hung up without agreeing a deal. HSBC said it would contact her again.

This is the reality of the coronavirus business interruption loan scheme (CBILS), part of chancellor Rishi Sunak's £330bn life-support package for the economy. It had a chaotic first week, sowing confusion among business owners desperate for clarity and leading to accusations that banks were not meeting their commitments at a time of critical need.

If there was a time for the banks to atone for the sins of the past, it is now — yet lenders are facing accusations that they are displaying a lack of flexibility. They argue that the scheme is designed only to provide credit to customers they would otherwise have turned away.

"This has been framed as a critical lifeline for corporate UK," said the director of a retail business who applied for a £2m loan last week, but was told he and his fellow directors would need to provide personal guarantees to secure the cash. "The reality is, the buck has been passed to the directors. It is a complete misrepresentation by the government and the banks."

"It's as if the banks haven't learnt anything from the [last] financial crisis they contributed to," said Rushanara Ali, a Labour MP on the Treasury committee. "The government needs to take action immediately to stop banks profiteering from people's misery."

The loan scheme is just a part of the package. The bulk of the aid takes the form of commercial paper offered to big corporations with strong credit ratings — an elite few, according to ratings agency Fitch, which said only 108 were of the required “investment grade”.

Lynn Maxwell of S&P Global Ratings said the agency had worked with the Bank of England so that private credit ratings and assessments — not usually made public — could be shared with the Bank to allow previously unrated firms to use the commercial paper operations.

Exclusivity at the top end and confusion at the bottom has left a swathe of companies struggling to access the support they need to survive. They include those with turnover of more than £45m, so deemed too big to qualify for the CBILS, but without investment-grade credit ratings.

Theme parks giant Merlin, which operates Alton Towers and Legoland, said it had been rejected for the commercial paper scheme; taken private in a £6bn deal last year, it is too highly leveraged. Marks & Spencer would not appear to qualify: its rating has been cut to junk.

There are signs the various schemes will be widened, as banks cave in to pressure over their demands that small-business bosses provide personal security against the government-backed loans and face repeated calls from Sunak and other policymakers to do the right thing.

No one doubts the need is immediate. Last week’s instruction to the public to stay indoors brought the economy to a near standstill. Sunak’s promise to pay 80% of the wages of furloughed workers — those on leave while the Covid-19 restrictions are in force — is not yet ready.

Almost 500,000 people have applied for universal credit in a fortnight, while the private sector purchasing managers’ index — a closely watched indicator of performance — plunged to a record low.

The banks have been scrambling to get systems ready to handle the CBILS, which is thought to have attracted thousands of applications already. But it is far from clear how many loans have actually been handed out by any of the 30 or so lenders signed up. The British Business Bank, which oversees the scheme, would not disclose any numbers but insisted that some lending had taken place

“We were told the banks would be in a position to offer loans from this week, but we’re hearing from [members] on the front line that the banks are simply not in a position to help small firms,” said Mike Cherry, national chairman of the Federation of Small Businesses.

Banks point out that some businesses are able to draw down credit they had been promised and not yet used, and have also been granted payment holidays on loans. Data from the Bank of England showed that households and corporates had undrawn facilities of about £140bn and £260bn respectively.

Cobbled together in a fast-moving situation, the CBILS also suffers from a misconception about what it is intended to achieve: it is a loan scheme, not a grant, and only available to firms that would otherwise be turned away. Stephen Jones of UK Finance, the banking lobby group, said the government was simply guaranteeing “80% of the loss a bank makes in the event of a default”.

Some business owners have been told by their banks that they must take out a regular commercial loan, because they would qualify for one under normal circumstances. One applied to Barclays for a £250,000 CBILS loan, which would have no personal guarantee and no interest to pay for a year, but was advised he would be eligible for a standard product that required a personal guarantee and immediate interest payments.

After public pressure, many banks pulled demands for security on loans of less than £250,000. For larger sums, however, personal security — but not primary residences — is likely to be sought, as the scheme requires banks to take maximum security.

Bankers say they are doing all they can. Ian Rand, chief executive of Barclays Business Banking, which last week was among those performing a U-turn on personal guarantees for loans under £250,000, said regulators had issued guidelines to make lending decisions easier.

Rather than using projections of future earnings to assess affordability, Rand said: “If the business could have afforded the loan in 2019, we are able to assume it will be able to afford pay it back at the end of the period.”

Some businesses don’t want to borrow because they are concerned it will cripple their prospects for recovery after the economy revives. Emma James, 43, who runs physiotherapy clinics in Hertfordshire, said: “They have offered to lend to us, but I’m not sure I want to borrow.”

Such reluctance has led to calls for a different approach by the government, such as taking equity stakes in struggling firms to shore up balance sheets for the period of the shutdown.

Some remain sceptical about the banks’ motivations. Nikki Turner chaired the SME Alliance, which campaigned against the alleged mistreatment of small businesses. She said any repossession proceedings should be halted immediately: “We can’t have banks putting people out on the streets again.”