Bungled bank coronavirus loans leave small firms on the brink

Despite the chancellor's promises, desperate entrepreneurs are being starved of cash

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Volcano Coffee Works owner Emma Loisel is still waiting to hear back from her bank about a loan

At the start of last year, officials from the Treasury, the business department and the British Business Bank (BBB) began regular meetings to plan their response to the looming prospect of a hard Brexit. Under the most extreme scenario discussed — a sudden and deep downturn — the state would be forced to save businesses by guaranteeing loans.

It was decided that an existing framework — the Enterprise Finance Guarantee (EFG), set up during the 2008-9 financial crisis — would be used to encourage banks to lend to businesses otherwise deemed too risky.

Those meetings were to form the basis of the Coronavirus Business Interruption Loan Scheme (CBILS), the enormous support package outlined by the chancellor last month as part of a £330bn lifeline for corporate Britain.

So far, the scheme has proved chaotic at best — and, at worst, its complex construction and multiple competing interests have prevented funding from reaching cash-starved businesses. There had been only about 5,000 loans approved by Friday morning, even though more than 300,000 inquiries had been made. The government said last week more than £450m of cash had been secured by companies. Many bosses have warned that failure to secure funding will mean they cannot pay their staff at the end of the month.

At the heart of the process is the BBB, until recently an obscure quango, now thrust into a pivotal role in saving the economy. Interviews with sources inside the BBB and those who have worked closely with it over the past month paint a picture of an agency stretched to its limits at a time of national emergency.

"They're not sleeping," said a member of the BBB's board. "They have a certain amount of resource and they're working within the cost structure they have. Trying to retrofit ideas in the middle of a crisis is a very difficult thing to do."

The BBB is a middleman between the government and the banks. It does not approve loans, but accredits lenders to the emergency scheme. It also registers the loans to ensure they are recognised as holding the government's guarantee to cover 80% of any money loaned.

The organisation, which employs more than 300 staff in London and Sheffield, has been blamed by banks for creating a bottleneck for loan applications, and by alternative finance providers and challenger banks for failing to deliver on promises to add new lenders to the scheme. Ministers have been accused of hiding behind the business bank when the CBILS came under fire.

Its resources are being sorely tested. When the lockdown first started, the bank had just two members in its accreditation team. That has now been bolstered to 25, although the first four new lenders were only announced yesterday.

“The current situation is acute and severe,” said Keith Morgan, BBB chief executive. “It was vital to get something up and running very quickly and that’s what we were able to do.”

The CBILS includes more than 40 lenders, including the high street banks. They are responsible for deciding who is awarded loans. Changes have been made to the scheme since it was launched, including banning personal guarantees for loans under £250,000, and removing a clause that meant small firms had to apply for a commercial product before being considered for an emergency loan.

The changes are having some effect (see below), but on the whole it is still a struggle to increase the flow of capital to businesses that need it to survive.

Emma Loisel is co-founder and chairwoman of Volcano Coffee Works, which roasts coffee from New Zealand at two sites in London and supplies cafes, restaurants and hotels. She applied for a loan from Lloyds bank the day the scheme was announced — but it is yet to be approved. Volcano turned over £4.6m last year and Loisel said the business made a profit on an underlying basis.

“I’ve reached the point where I think: if they don’t fund us, who are they funding?” said Loisel, 47, who has been able to get some cash from the invoice finance provider MarketFinance. “We’re high-growth, profitable and employ 31 people. What would it cost the government if we didn’t get funded and everyone had to go on universal credit?”

It is understood that Volcano will receive a response early this week. Lloyds said: “While relatively few customers have received cash so far, the applications are working their way through the pipeline and we expect the number to increase significantly in the coming days.”

The CBILS has been compared unfavourably with rescue programmes in other countries. In Switzerland, business owners have reported receiving funds within minutes of completing a one-page form. The German government is in some cases offering a 100% guarantee for loans.

The criticism has caused tension. The BBB has often been caught in the middle of two powerful groups: Whitehall and the banking industry.

“The government doesn’t really understand the mechanics of assessing security and valuation of cashflow,” said one bank chairman, who added that the BBB had slowed down the process. “We have taken a hammering for a poorly thought-out scheme that doesn’t get cash into the real economy quickly enough.” The BBB rebuffs the sniping. “If the banks have a problem, they should be blaming ministers,” said one source. “They seem to think we just input data into a spreadsheet all day.”

The BBB was created as an economic development bank by the coalition government eight years ago. Backed by an initial £1bn of funding, it was given the task of increasing the supply of finance to small businesses. Its role was enhanced after the vote for Brexit, when Theresa May injected an extra £2.5bn and said the BBB would replace many European Investment Bank functions. It has provided more than £7bn of loans and investments since 2014, the bank said.

Some of the criticism it has received for slowing down loan approvals is unjustified, according to its chief executive.

"Our system does not require a loan-by-loan approval, or any intervention by the bank once the loan has been issued," said Morgan, 56, who was paid £447,000 in 2018. "The constraint on the lenders' processes is their ability to collate eligibility information and enter it onto an electronic portal."

Any gumming up of the system on the BBB's side is being addressed: the bank is working with large lenders to allow them to batch-process electronic information onto the portal. The new process will be operational from this week.

One persistent criticism centres on the failure to expand the number of accredited lenders. The decision not to include challenger banks, alternative finance providers and other non-bank lenders in the initial list of accredited lenders has left the CBILS open to the charge that it is ignoring thousands of small companies with no relationship with a traditional bank. Another is the decision to base the scheme on the EFG scheme, created before many of the new wave of fintech businesses were founded.

"It's an execution problem," said Oliver Prill, chief executive of the digital business bank Tide, which has applied for accreditation. "This has been built on the EFG programme, which is a moderately successful scheme that you could argue at the best of times was a challenge. With the whole country now relying on it, it needs significant improvement. It is not fit for purpose."

Many lenders are willing to step into the breach. Charlotte Crosswell, chief executive of the industry body Innovate Finance, said 40 fintech businesses had applied for accreditation.

"We have to remember that the goal is to get loans out the door," said Crosswell. "And a lot of those loans will have to be there by the end of April to make payroll."

Changes cannot come soon enough, because for thousands of small and medium-sized businesses, time is running out.

LUCKY FIVE THROWN A LIFELINE

Dario Dendi: 'We are able to stabilise'

The pastry boss
Dario Dendi, 44, founded Casa Cannoli in London five years ago to sell Italian pastries in shops and cafes. The business suffered an early hit from the coronavirus outbreak as its Italian suppliers went into lockdown. Dendi was rejected for a loan by his bank, but was able to secure £50,000 using AskIf, one of the smaller accredited lenders on the CBILS scheme.

“We are able to stabilise in the short term, and funding will help to retain four jobs and plan new product development,” he said.

Helen Beere: ‘Being able to access a loan means we still have a business’

The hotelier
Helen Beere, 52, and her husband, Laurence, met while training at the Savoy in London. They bought the Queensberry hotel in Bath 18 years ago. Barclays gave them a £450,000 emergency loan this month. “In the space of seven days, we went from having our most successful year since opening to maybe losing everything we had built up,” Helen said.

“Being able to access a loan means we still have a business, it means we can pay our staff at the end of the month.”

Jo Chidley was asked if she could help with critical supplies for the NHS

The beautician
Jo Chidley, 48, is founder of Glasgow-based Beauty Kitchen, which sells sustainable beauty products. Chidley was asked by the Scottish government if she could help with critical supplies for the NHS and other front-line services. RBS approved a £50,000 overdraft as part of the bank’s response to the pandemic. The extension allowed Beauty Kitchen to start producing hand sanitiser in reusable containers. The Scottish government has ordered 50,000 bottles.

Simon Berry secured a £3m loan from NatWest

Resort owner
Simon Berry, 60, chairs English Lakes Hotels, Resorts & Venues, which runs five hotels in the Lake District. He secured a £3m loan from NatWest. The company employs 420 full-time staff and a further 120 who work part-time.

The loan, which Berry said was approved in 24 hours, will allow the business to keep trading during the crisis, even after being forced to close its hotels and leisure sites.

Sara Caba: ‘We could make investments in our website to move our business online’

The language teacher
Sara Caba, 42, runs Battersea Spanish, a cultural and language centre employing 12 tutors and teaching 500 students in southwest London. It was about to move into new premises when the lockdown started. The business has since secured a loan from HSBC.

“We could pay expenses and make investments in our website and technology to move our business online,” said Caba, who grew up in Costa Rica. “It will also help us to move into the new premises when ready.”