

Bailout scheme to be overhauled for small businesses

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Thursday April 02 2020, 12.00am, The Times

Rishi Sunak will announce an overhaul of the government's bailout scheme for businesses tomorrow in response to mounting criticism. Banks will be banned from asking small firms for personal guarantees on loans and relax other rules to ensure businesses can access the money they need.

Companies trying to use the emergency loan scheme said banks had been demanding the guarantees and charging double-digit interest rates.

The chancellor announced the scheme last month in which the state underwrites 80 per cent of the risk of bank loans of up to £5 million.

There were reports that one in five small companies would not survive the next month due to the lockdown.

Alok Sharma, the business secretary, warned banks that they must offer people more support. He said: "It would be completely unacceptable if any banks were unfairly refusing funds to good businesses in financial difficulty.

"Just as the taxpayer stepped in to help the banks back in 2008 we will work with the banks to do everything they can to repay that favour to support the businesses and people of the UK in their time of need."

Mr Sunak will announce an overhaul of the legal terms under which banks provide loans. Ministers will ban banks from requiring those taking out loans worth up to £250,000 to provide any form of personal guarantees such as rights to their assets or second homes. Most big banks have already promised that but the government wants to force all lenders to the same standard.

For loans of over £250,000 personal guarantees will be limited to no more than 20 per cent of the outstanding debt. The government will also remove a requirement for businesses to demonstrate that they have no other means of accessing funding. Businesses applying for the loans, however, will have to show they were "creditworthy" before the crisis to ensure the government does not prop up failing businesses.

Mr Sunak has also warned banks against exploiting people by charging double-digit interest rates. The loans are interest-free for 12 months, but some companies say they are being threatened with penal rates after a year.

The chancellor is also drawing up a support package for charities amid warnings that they face a £4 billion black hole. Charities have called on the government to set up a “stabilisation fund”.

Davide, who runs a small food production company in Glasgow and did not want to use his full name, told *The Times* that when he contacted his bank for a loan via the coronavirus scheme it demanded a 39 per cent interest rate. It later reduced it to 21 per cent. “I declined the offer and hung up,” he said.

Alex Harris, who owns the Behind This Wall bar in Hackney, east London, told BBC Radio 4’s *Today* this week that when he spoke to his bank about the scheme he was asked to pay an extortionate interest rate.

Last week Mr Sunak warned banks against ripping off businesses applying for emergency loans and urged them to pass on the benefits to companies.

A report by The Corporate Finance Network of accountants predicted that nearly one in five small companies will not be able to survive the next month due to the lockdown. This could result in nearly four million staff losing their jobs in May, it said. As many as 42 per cent of small firms could go bust if the lockdown lasts for four months or more, it added.