Banks chiefs to explain why emergency business loans not being issued fast enough

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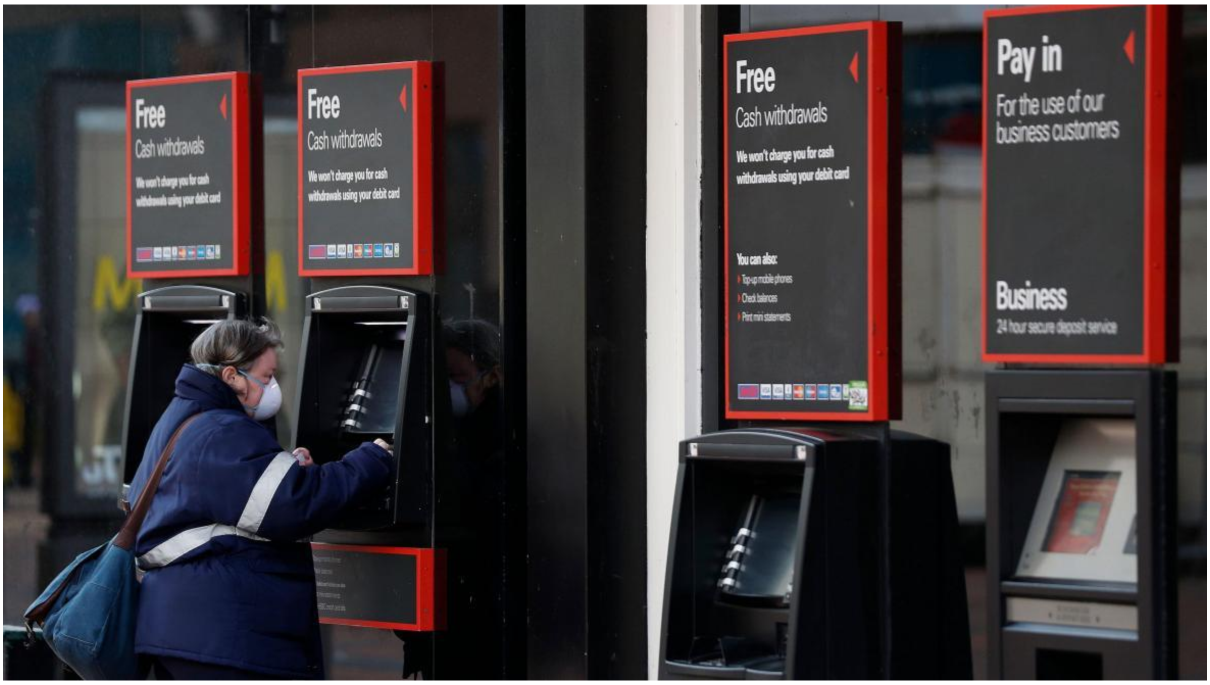
Banks are under increasing pressure to boost the flow of cash to businesses that are struggling during the lockdown



Senior bankers will be questioned by MPs today over the low level of emergency loans extended to businesses during the past six weeks.

Executives from Lloyds, Royal Bank of Scotland, Barclays, HSBC and Starling, a digital bank, also will be put on the spot by the Commons' Treasury select committee about whether they have met the Treasury's deadline of launching new bounce back loans for small businesses of up to £50,000 today.

Lenders have been scrambling to prepare, including setting up new digital systems and trying to win assurances from the government that the 100 per cent state-backed loans would not contravene the Consumer Credit Act and regulatory guidelines over good lending practice.

The Treasury confirmed in a letter on Friday night that the loans would be excluded from consumer protection laws in order to speed up the process of getting money to small businesses. It has set a fee at 2.5 per cent after the interest-free period.

Mel Stride, chairman of the committee, said that its "inbox and mine as a constituency MP suggest the banks are not getting the money out the door quickly enough. The introduction of bounce back loans is extremely welcome, but its success will depend on the action of the lenders. We will press the banks on this during our public inquiry session."

Banks have lent £4.1 billion under the 80 per cent-backed coronavirus business interruption loan scheme, which was launched on March 23, with the total value accelerating in recent weeks. However, approvals have remained low and are well below those of equivalent schemes in countries such as Switzerland, the United States and Germany.

Banks have expressed frustration about the structure of the scheme, which initially required lenders to assess whether borrowers could repay a loan on commercial terms. Coronavirus business interruption loans have been changed several times to extend them to larger companies and to make the process simpler.

Steve Baker, a Conservative member of the select committee, urged the bankers to be forthright about the problems they have encountered from changes of policy. “We know there has been a degree of capriciousness in changing the rules, from requiring the banks not to over-lend to now wanting them to get the money out the door and criticising them when they don’t,” he said.

“The banks are caught in the middle. But important businesses in our constituencies cannot afford to be caught in this Kafkaesque crossfire.”

Ed Miliband, the shadow business secretary, said that businesses that were too big to take out a bounce bank loan still needed help and added that something needed to be done for businesses that swere unable take on more debt.

“There has got to be a second wave of support, otherwise many businesses are going to face an existential threat,” he said.