# “Something Has Gone Wrong”: UK Government, Banks Screw Up Coronavirus Loans, Small Firms Near Collapse. Better Results in Other Countries

Part of the problem is cultural: big banks in the UK don’t like lending to small businesses, especially not at 1.5%.

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Global Research, April 16, 2020
Wolf Street 14 April 2020

Region: Europe
Theme: Global Economy

*Thanks to its Brexit planning, the UK should have been better positioned to help its small businesses through the coronavirus crisis than most of its European peers. In early 2019, the UK treasury, together with the business department and the state-owned British Business Bank, laid the groundwork for a loan guarantee system for small businesses in the event of a chaotic Brexit. This meant that when the Covid-19 lockdown began, all the government needed to do was dust off those plans and put them into action. It should have been smooth sailing. Instead, it’s been an unmitigated disaster.*

On March 19, the day the economy went into lockdown, the government unveiled £330 billion of emergency measures to help shuttered businesses weather the storm. Those measures included the Coronavirus Business Interruption Loan Scheme (CBILS), which the Chancellor of Exchequer Rishi Sunak said would be made available to “any good business in financial difficulty who needs access to cash to pay their rent, the salaries of their employees, pay suppliers, or purchase stock”. Yet almost four weeks later, just 4,000 of the 300,000 companies that have applied for the funds have actually received them.

“Something has gone wrong,” warned former Bank of England governor Mervyn King on Sunday. Due to a combination of voluminous government red tape, complex eligibility criteria, massive roadblocks erected by the participating banks and the temporary closure of a large number of bank branches, the amount of money so far lent out by UK lenders to small or mid-sized businesses is just £800 million pounds. That’s less than 0.25% of the total £330 billion pledged in loans for businesses, small and large.

In Switzerland, with a population roughly one eighth the size as the UK’s, 76,000 small businesses had received emergency loans worth more than CHF15 billion ($15 billion) as of April 6. Since then, the Swiss government has doubled the facility from CHF20 billion ($20.8 billion) to CHF40 billion ($41.6 billion). The much-lauded loan scheme’s success appears to rest on two basic pillars:

*One, simplicity and speed*. To qualify for a loan of up half a million francs, small business owners merely have to fill in a one-page form containing six basic questions, which they must answer honestly. Once the form is sent to the bank, the application is approved or rejected within no more than 24 hours. If approved, the loan is interest free, does not include penalties and is repayable in five years.

*Two, zero risks for banks*. All loans of up to CHF500,000 are 100% guaranteed by the state, meaning the banks have nothing to lose and are therefore less worried about the risk of providing financial lifelines to businesses whose future is far from certain, even with the loans.

In the UK, by contrast, 80% of each loan is guaranteed by the state, which means banks must assume 20% of the risk of non-payment. Even before this crisis began, large UK banks were already reticent about lending to small businesses. Worse still, many of the small firms they *have* lent to ended up being lumbered with dodgy financial products such as payment protection insurance (PPI) or interest rate swaps, which had an annoying tendency to harm or destroy the business' financial health while making the bank bucket loads of money,

A large part of the problem is cultural: most big banks in the UK just don't like lending to small businesses anymore, especially if the interest rate they stand to earn on the loan is as low as 1.5%. Yet in other European countries where emergency business loans are not fully backed by government and the interest on loans is also pretty low, large amounts of funding are already flowing to businesses.

Even in Spain, which is not exactly famed for the speed of its bureaucracy and where the government is also guaranteeing up to 80% of emergency loans and loan renewals, some €30 billion has been disbursed by the banks in the past month, many of them to SMEs. Just one lender, Caixabank, says it has so far granted €8 billion to businesses — ten times more than the whole of the UK banking sector. It's not all wines and roses, of course. Some banks are breaking the spirit, if not the letter, of Spain's emergency loan legislation by green-lighting loans only if a borrower agrees to take out another financial product such as life insurance.

Other countries have also had their share of problems. In Germany the emergency loans system got so overloaded at its launch that it bogged down, while in France many companies are buried under mountains of paperwork.

But nowhere has the approach been so poorly designed and implemented than in the UK. The system has already been through one major overhaul in which banks were banned from demanding personal guarantees from borrowers of loans of less than £250,000. The banks were also prevented from requiring small firms to apply for a commercial product before being considered for an emergency loan. Despite these changes, the system is still failing to get anywhere near enough money to the millions of businesses that need it.

Many business owners have said that without an emergency loan they will not be able to pay staff at the end of this month. A network of accountants serving more than 12,000 SMEs called the Corporate Finance Network recently warned that as many as a fifth of small businesses in the UK will go out of business in the next three weeks if they don't receive the emergency cash.

"The economy will recover quickly only if we can keep the businesses that existed at the beginning of it still functioning and still able to pick up the reins when the epidemic is over," Mervyn King said in his interview with Sky on Sunday. For that to happen, both the UK government and UK banks will have to get their act together and their priorities straight pretty quickly.

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