KEVIN HOLLINRAKE MP

HOUSE OF COMMONS

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Dear Chris, John and Andrew

31st March 2020

We understand that emergency talks are being held with the banks this week. As you can imagine, we are being inundated with concerns from businesses and individuals across the country (and indeed, MPs on their behalf) who have seen their incomes plummet, in many cases to nothing.

We appreciate the swift action that HM Treasury, the Bank of England and The FCA have taken to deal with this rapidly moving situation the world-leading package of support you have put in place. However, we have some clear concerns that the support offered in practice does not meet expectations:

Businesses:

- CBILS:
    - Personal Guarantees. We welcome the removal of personal guarantees for loans below £250k and thank you for your interventions. Banks are still requiring 100% personal guarantees on loans above this amount.

      Remove or reduce the level of personal guarantees required for loans over £250k.

    - The process is too slow and complex. Businesses are desperate for funds now, they cannot wait days or weeks when they have payroll and supplier payment obligations to meet. The current application scheme is too bureaucratic and time consuming. We have seen requests from banks for cashflow forecasts to include business plans and mitigations based on multiple scenarios including, for example, a 25%, 50% and 75% reduction in revenue. For most businesses, it is impossible to quantify the financial impact of the Covid-19 crisis, hence the need for CBILS. It is perfectly reasonable for banks to require evidence of mitigation measures businesses have taken, such as utilisation of HMRC's Time to Pay Scheme and the Job Retention Scheme, but administrative requirements and application requirements should be minimised.

      Banks should be proactive in helping business complete a simple cashflow forecast. Working together, we think that a bank and business should be able to complete this process in less than 60 minutes.

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- There is a lack of clarity on eligibility for CBILS. Too much emphasis has been given to 'lender's discretion' in terms of whether funds will be made available and a sequential approach is being taken with standard commercial loans being considered and processed first, with consequent inevitable delays occurring whilst security and other checks are conducted. Standard loans also have requirements for fees and personal guarantees and interest-free, PG-free CBILS only being offered to some of those who fail to qualify for commercial loans.

  For anyone whose business has been patently adversely affected by the crisis, CBIL loans should be prioritised over standard commercial lending. A provisional acceptance should be given with an emergency advance of funds.

- Min £25k loan is too high for some small businesses. Banks are stipulating that they will only lend either 25% of your turnover or 2x your payroll. If these figures amount to less than £25k you can't use the scheme.

  The £25k minimum amount should be reduced or waived.

- Bank covenants. Banks apply a debt/EBITDA covenant of around 2x. If an additional loan means you exceeds this you can't borrow.

  CBILS should not be included in the calculation for debt/EBITDA covenants

- Lenders outside scope: OakNorth, Aldermore, FinTech and other alternative lenders have to apply to the British Business Bank to join the scheme so won't have access to funds for weeks at the earliest.

  The Treasury/Bank of England should implement a direct scheme for these lenders as a matter of priority with lending to commence within days

- Venture Capital Trust investment limits – double the current annual (£5m to £10m) and lifetime investment limits (£12m to £24m) for individual businesses in order to allow capital injections into businesses supported by VCTs
- Insolvency reform/moratoriums. Following the announcement of emergency insolvency reform, put in place a short-term moratorium on banks/creditors foreclosing without a business having chance to find alternative sources of funding prior to implementation
- Commercial mortgage/loan payment holidays are only being offered on capital element rather than interest, which often represents the majority of a payment. This will force mass insolvency in certain sectors if not addressed as a matter of priority

Mortgage Prisoners:

- Unregulated funds are slow to react, and in some cases refusing to cooperate, citing that they are not regulated funds so do not have to adhere to guidance
- Some unregulated funds still threatening legal and repossession actions
- On the credit files, some lenders are saying that if the mortgage payment is due in the next 7 days then they cannot stop it and the payment holiday will start on the next payment date. Given the difficulty some mortgage prisoners are having getting through, we also feel that any missed payments due to delays in implementing or accessing a payment holiday should not have a negative impact on credit files or restrict mortgage prisoners from taking advantage of the new affordability test. Once the payment holiday has been accepted any mortgage payment which has been taken should be refunded and no negative impact should be left on credit files.
- Information on websites - these should make it clear that the 3-month payment holiday is available to all including those in arrears. The ability to apply for a payment holiday should also be included on any emails and letters sent out by mortgage lenders and administrators.

- Need clear and explicit guidance that payment holidays and moratoriums are expected of all lenders and *include* customers currently in arrears
- Interest still accruing at very high rates, so current underlying problems are exacerbated by the new position
- Mortgages are now being withdrawn from the market - a number of lenders have withdrawn products, particularly from the intermediary market - including many with high LTVs. We are very concerned that recent withdrawal of products reduces the FCA's estimate that 14,000 mortgage prisoners will be able to switch to improved deals.

Regulation:

As you are aware, the primary focus of both APPGs is the fair treatment of customers. We are naturally hyper-vigilant when it comes to identifying problems before they start. We are concerned that if we do not act swiftly in the next 3-18 months we will see a repeat of many of the problems that we experienced post the 2008 bailout. We must ensure we do not allow this to happen again.

- Expansion of the regulatory perimeter: We believe effective regulation to now include commercial lending to SMEs and all beneficial owners of UK mortgages would solve many of the above problems. In particular:
    - The FCA would be able to direct terms of commercial lending to ensure funds got out door more quickly
    - The FCA could direct payment holidays on commercial loans on same terms as residential and buy to let
    - FCA would have more direct oversight of currently unregulated funds (both commercial and residential) ensuring fair treatment of customers across the board
- SVR cap/Overdraft cap. Both the high rates of overdraft charges (where we have seen rates for arranged overdrafts increasing by up to tenfold following the introduction of new FCA rules) and high SVRs on mortgages are of great concern. Both the APPG on Mortgage Prisoners and the APPG on Fair Business Banking are calling for a full consultation on capping overdrafts and SVRs based on a maximum margin, mirroring that implemented in the energy sector.

We look forward to hearing from you as a matter of urgency.

Kind regards

Kevin Hollinrake

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Co-Chair, APPG on Fair Business Banking

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Chair, APPG on Mortgage Prisoners