**TREASURY COMMITTEE SECOND PHASE OF INQUIRY
INTO ECONOMIC IMPACT OF CORONAVIRUS:
WRITTEN EVIDENCE BY THE FINANCE & LEASING ASSOCIATION**

About the FLA

1. The Finance & Leasing Association (FLA) is the leading trade body for the UK asset, consumer and motor finance sectors. In 2019, FLA members provided £140 billion of new finance to UK businesses and households. Nearly £105 billion was in the form of consumer credit, accounting for over a third of all new consumer credit written in the UK. Over £35 billion of finance was provided to businesses (including £20 billion to SMEs) and the public sector to support investment in new equipment, representing over a third of UK investment in machinery, equipment and purchased software.

2. FLA members include subsidiaries of banks but also an important range of non-bank, independent finance providers, including the finance arms of retailers and manufacturers. The challenge for lenders is two-fold. Firstly, they need to be in a position to fund the forbearance that they are offering extensively to their customers. Secondly, they want to continue to meet their funding obligations so that they remain a viable business. The diverse nature of their structure means that there is no one Government scheme suited to all members.

3. The FLA welcomed the earlier opportunity to provide oral evidence to the Committee. We are focussing our response on the questions posed in the ‘Support to businesses and financial services’ section.

Summary

4. We have several urgent requests. Firstly, the Bank of England must open the Term Funding Scheme to non-bank lenders. Secondly, the Government must widen the eligibility criteria for the Covid-19 Corporate Financing Facility. Over and above these funding challenges, the Consumer Credit Act needs urgent reform to enable firms to offer forbearance is a streamlined and customer-friendly way. Finally, the Government needs to look to the medium-term horizon once the three-month payment deferrals come to an end.

Government support schemes

Coronavirus Business Interruption Loan Scheme, and the Coronavirus Larger Business Interruption Loan Scheme

5. We are supportive of the Coronavirus Business Interruption Loan Scheme (CBILS) and, in particular, the improvements the Government has made to the Scheme, which included increasing the threshold to accommodate larger firms (CLBILS) and allowing finance businesses to access the scheme as customers. We recently surveyed our asset finance members which provide leasing and hire purchase to businesses, 45 % of which were able to access CBILS and more than half of these firms reported that funding would be sufficient to meet their needs.

6. We would like to see one further adjustment made to CBILS. Under the existing EFG rules, the guarantee is not assigned. We recommend that HM Treasury and British Business Bank consider assigning the CBILS debt to institutional investors, which should increase liquidity in the market by providing additional stability to the scheme.

7. At a practical level, FLA members that have applied to become funders under the CBILS scheme have found the accreditation process slow and cumbersome. Those that have been accepted, have said that once accredited the process to receive support is cumbersome. This means that while more funders are accredited, they enter a limbo phase where they appear to be able to support small businesses but cannot.

8. We have had reports from members of a banks asking their customer to cancel or seek forbearance for all other credit agreements, including asset finance agreements. As a result, this means they are not allowed to service the asset finance agreement with without breaching the terms of the CBIL with their bank. Others have highlighted instances of being informed by their bank that they are ineligible for CBILS which the British Business Bank has confirmed is not the case.

Covid-19 Corporate Financing Facility

9. The Covid-19 Corporate Financing Facility (CCFF) is designed to be open to companies – and their “captive” finance subsidiaries (which are in FLA membership) – that make a material contribution to the UK economy. The scheme excludes a significant number of non-captive and non-bank finance companies that also make a critical contribution to the UK economy, and serve large numbers of customers. It is vital that these companies are included as they provide significant funding directly to SMEs and to consumers. If they can access this facility more funding can go to support business during this period. This would reduce potential insolvencies and long-term unemployment.

Term for Funding Scheme

10. The Bank of England's Term Funding SME Scheme is only available to banks. However, our non-bank members play a significant role in supporting businesses and households across all sectors of the economy. Of the £140 billion of new business in 2019, £46 billion was provided by FLA non-bank members.

11. We have written to the Chancellor of the Exchequer to suggest the inclusion of independent, non-bank finance providers in the TFS to enable more support to be given to UK businesses and households facing significant disruption due to the coronavirus.

12. We have suggested various ways to do this. The Government and Bank of England could simply open the scheme to non-banks. Alternatively, we have proposed that the British Business Bank (BBB) administer a Rapid Access Term Funding-like Scheme for non-bank funders. To ensure UK SMEs receive the support they need at this critical time there would need to be rapid access to the scheme (within days) with the eligibility criteria streamlined. For instance, if the funder is FCA-regulated or already part of a BBB scheme, then they would automatically be able to access the funding. We have also put forward in a joint proposal with UK Finance and other representative bodies a further option to develop a Term Funding Scheme.

13. We would also urge the Government to consider opening up the Term Funding to independent, non-bank consumer finance providers as they face similar challenges to fund the necessary forbearance for their customers during this difficult time.

14. Our member firms would be willing to offer seconded staff to the BBB to assist in the administration of the scheme to ensure that the accreditation and implementation is done swiftly.

Other Challenges

15. SMEs face huge challenges in accessing funding but also when asking for forbearance under a lease or hire purchase agreement regulated by the Consumer Credit Act (i.e. finance to sole traders, unincorporated associations or partnerships of fewer than four people), then the process is onerous and not user-friendly.

16. Firms are mandated to write a new credit agreement – known as a Modifying Agreement – when offering forbearance which must be accepted in writing through the post. Furthermore, when the customer is two months in arrears, the Act requires them to issue a Notice of Sum in Arrears even though they have agreed a prior payment deferral arrangement. This causes confusion for customers and comes across as heavy-handed and unsympathetic by funders.

Medium-Term support

17. The forbearance offered by firms in line with the FCA's guidance is absolutely the right thing to do, but goes significantly beyond what, in normal times, would be considered reasonable, proportionate or affordable for firms. Furthermore, it will be delivered on an unprecedented scale. This carries very serious medium-term financial risks for firms due to a number of factors, including, for example, that a three-month payment deferral for a typical near-prime motor loan entails around 40 times greater economic loss to the lender than a typical mortgage[1].

18. It is likely that a significant proportion of customers receiving forbearance will continue to be in arrears and experiencing further difficulties subsequently. Lenders will thus suffer significant income reductions both during and after the three-month period.

19. Over the medium term – after the three-month period – lenders will face extreme and unprecedented financial pressures. This will also constrain the ability of lenders to resume lending, at a time when the emerging economy will require access to diverse lending provision for both consumers and businesses. Although liquidity issues will persist and deepen – and continuation and expansion of existing government liquidity support will be important – these issues are acute and go beyond the need for liquidity. This will put at risk a smooth transition to normal economic conditions post-crisis. We are therefore asking the Government to cover the exceptional compliance costs for firms arising from this forbearance.

20. We would be happy to give further evidence to the Committee as the Government's response to the coronavirus evolves.

Finance & Leasing Association
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[1] 4 year £4.5k HP agreement at 24.9% compared to 25 year £200k mortgage at 4%