



HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

The Rt Hon Andrew Tyrie MP
Treasury Select Committee
House of Commons
London
SW1A 0AA

18 December 2015

Dear Andrew

Conduct and Competition in SME Lending

I am writing in response to the above report published by the Treasury Select Committee on 10 March 2015, specifically the Committee's recommendation that **the Treasury should publish an assessment of the feasibility, benefits and costs of adjusting the perimeter of regulation to cover loans with features of interest rate hedging products**. I understand from the Committee's report that these relate specifically to fixed-rate loans with a mark-to-market break cost, where the cost of breaking from a loan early is calculated against the prevailing interest rate at the time the loan is terminated.

As you know, business lending in the UK is unregulated. However, sole traders, partnerships consisting of 2 or 3 partners and unincorporated businesses borrowing less than £25,000 are treated as consumers and are protected by the Consumer Credit Act (CCA). The CCA protects consumers, typically in their dealings with banks where there is the potential for consumer detriment. Three quarters of the 5.4 million SMEs in the UK are sole traders or unincorporated businesses.

Furthermore, microbusinesses with a turnover of less than €2 million and fewer than 10 employees have recourse to the Financial Ombudsman Service (FOS). This offers the smaller end of the SME population a route to appeal against a lending decision.

The regulatory perimeter of business lending is an issue that the Treasury has considered in detail. Our position is that to go further than the current status quo and regulate business lending would result in a higher cost of lending to businesses. This would be at odds with this Government's commitment to improve access to finance for SMEs. If we looked to regulating just fixed-rate loans with mark-to-market break costs, this would result in a confusing regulatory picture with these fixed-rate loans being regulated, but other types of fixed-rate loan being outside the regulatory boundary.

However, it is worth noting that the Government, through an agreement with the British Bankers' Association, has ensured that the level of disclosure of information on business loans is as substantial as the disclosure now found in regulated interest rate hedging products. This includes clear information on repayments, pricing and any potential fees. I

have an enclosed an example of the type of information which is now provided to customers.

You may be aware that the FCA published a discussion paper on 27 November which asks whether the level of protections provided to SMEs through FCA rules is broadly right. This includes exploring whether the scope of businesses which are eligible to have recourse to the FOS should be expanded. HM Treasury will continue to engage closely with the FCA throughout this process.

Thank you for the important work that has gone in to producing this helpful report. I look forward to working more closely with your Committee through the course of this Parliament.

A handwritten signature in black ink, reading "H Harriett Baldwin". The signature is written in a cursive style with a long horizontal flourish at the end.

HARRIETT BALDWIN