Cash crisis at half of small firms: Devastating bank memo lays bare how millions will run out of money in just eight weeks

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Top secret documents circulated among Britain's largest banks reveal half of the country's small firms will run out of cash within eight weeks without emergency financing.

The report by credit agency Experian, seen by The Mail on Sunday, has been sent to chief executives and their boardroom lieutenants after a week of heated discussions with the Treasury.

It follows claims that banks were 'hung out to dry' by the Chancellor's emergency loans scheme for firms hit by the nationwide lockdown.

Sinking feeling: Experian found that around 2.9 million small and medium-sized firms would deplete their reserves within two months even if they maintained half of their current income

Experian analysed a vast trove of current account data to calculate the cash reserves of the UK's 5.8 million small and medium-sized firms, many of which are expected to apply for interest-free coronavirus bank loans.

It found that around 2.9 million of these companies would deplete their reserves within two months even if they maintained half of their current income.

The credit-check giant, which had access to the figures via its sprawling financial database, concluded that a quarter would survive for less than two weeks if their income dried up altogether.

Bankers received the cash crisis memo at noon on Friday as they pored over changes to the Chancellor's Coronavirus Business Interruption Loan Scheme.

The Treasury was forced to rip up the terms of the rescue package for small firms after banks were criticised for charging high interest rates and asking for personal guarantees on the debts.

The Mail on Sunday can reveal that bosses were furious that the Chancellor announced the £300 billion package without making it clear to the public that banks could offer the state-backed interest-free loans only if they were unable to lend to business customers on normal terms.

Fraught discussions took place between trade body UK Finance, bankers and the Treasury as officials frantically worked out changes. Late on Thursday, it was announced that banks no longer needed to offer normal loans before providing small firms with up to £5 million interest-free for 12 months.

Under the state-backed scheme, the Government underwrites 80 per cent of the loan, meaning the taxpayer is on the hook if the firm defaults. Top bankers at the big four lenders – RBS, HSBC, Lloyds and Barclays – are understood to have vented their anger on a conference call on Tuesday with the boss of UK Finance, Stephen Jones, who has acted as a mediator with Treasury mandarins.

Bankers were outraged that they were not consulted when the Treasury originally drew up the scheme – and were then blamed for its failings. Banks demanded involvement in discussions about amending the rules.

'These guys [at the banks] were totally up in arms,' a source close to the talks revealed. 'All the banks sounded like they genuinely wanted this scheme to work and they felt aggrieved that they were being hung out to dry in the public announcements on it.

'The initial announcements [from the Chancellor and other Ministers] was overly positive. They said, come and get free money, the banks are ready. But the banks were told to lend on normal commercial terms first.'

The source said there was a 'palpable' mood change by Friday after the Treasury had announced that banks could offer Government-backed loans to customers without offering ordinary loans with interest charges and guarantees attached.

The banks hope the changes will help them provide finance to struggling firms faster and that this will quell public anger.

Meanwhile, unions warned that branch staff are suffering abuse from angry customers, many of whom refuse to follow social-distancing guidelines.

A union source said some customers have even been spitting at staff. The Treasury is understood to have been working with banks to deliver loans to firms as quickly as possible.