

# If Sunak wants businesses to take loans to get through ...

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As [Politics Home has reported this morning](#), the government is very upset that banks are not providing the loans to failing businesses that they thought would be made available as a result of its £330 billion loan guarantee scheme for companies needing help.

I am afraid to say that this bemusement on their part is a simple indication of their lack of understanding of how business and banking works.

I should add that those saying that banks are seeking to profit from these schemes by asking for personal guarantees from companies seeking such funding does the same thing: it also reveals a fundamental lack of understanding on the part of those making the criticism.

Let me explain, subject to one caveat, which is that no one should believe I am a lover of banks when offering the following comments. I am not. I am severely critical of them, and have made that clear, very often. But what I am saying is that you cannot criticise them for doing what is necessary to ensure their own survival at this point in time.

First, as I have noted endlessly on this blog since this scheme was announced, it is a hopelessly inappropriate measure at this moment. Failing companies, or those that fear they might become failing companies, cannot borrow. It is illegal for their directors to do so as this compromises all their creditors. And since bank loans are creditors they cannot borrow in that case. By definition, this scheme fails to help most it is intended to support. Of course the number of loans to be offered will, in that case, be vastly smaller than the governments expects: the law requires that almost all companies who want these loans cannot have them.

Second, the scheme only covers 80% of a loan: the bank is on the line for 20%. They could lose that money. If they lost 20% of £330 bn that would be £66 bn. Why should they do that for the government? Why should they do so when that will put their own businesses at risk? And why should they be forced to the point of needing a bailout by a government-imposed scheme? Quite rationally they are saying they cannot lend in that

case.

Or, quite rationally they are instead seeking personal guarantees and the houses of owners as security in that case because this is what banks in the UK always do when lending. There is nothing new about this. It's not a good model. But it is our model. And nothing about this crisis is going to change that. So no one should have been surprised that it is happening but that it also, and again, reduces the attractiveness of this scheme.

Rishi Sunak and the government seem surprised that their largesse is being thrown back at them, but there is good reason why it is being rejected: it does not, cannot and will not work for businesses in trouble at this moment. It was flawed from the outset.

Sunak is announcing measures for the self-employed today. He should also be announcing 100% backing for loans. Unless he does that the £330bn is just a figure in a press release of no consequence for the U.K. economy and the survival of companies within it. The way forward is for him to decide upon, but so far his decision making on this issue simply shows that he does not understand how business and UK banking works.