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TRANSCRIPT OF "FILE ON 4"

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REPORTER: Michael Robinson

PRODUCER: Jenny Chryss

EDITOR: David Ross

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ROBINSON: With bank losses inexorably rising, British companies are now in the firing line.

HAYTHORNTHWAITE: Here are the banks who lent billions to people who they knew couldn't repay, and now the people who've run good businesses, who've always paid on time and continue to pay on time, those people are the ones that are penalised, aren't they?

ROBINSON: Just when they need new finance most, to weather the sharp downturn in the economy, businesses are finding their banks cutting back what they're prepared to lend. The Government is trying to keep credit flowing by bailing out busted banks and slashing interest rates. But businesses say that help isn't getting through.

ELAINE: If you are going to apply and take money for a bail-out and you promise that in exchange you will help small businesses, you have to do as you promise. I haven't spoken to anybody yet whom the bank has helped.

ROBINSON: In tonight's programme we look at the causes and consequences of this dangerous lending squeeze. We reveal new dangers for British banks, from their overseas lending, and will Scotland change its laws to make it easier for ordinary people to hold their banks to account?

SIGNATURE TUNE

HAMILTON: As soon as I heard that my shares had become worthless, I became very angry indeed.

ROBINSON: Ian Hamilton QC is a retired criminal lawyer and a Royal Bank of Scotland investor.

HAMILTON: I don't know anything about finances. I throw away the business sections of the newspapers. I just knew when I put my money into the Royal Bank of Scotland that it was safe.

ROBINSON: But it wasn't – and he lost it all. Singlehandedly, Ian Hamilton is now setting out to sue RBS to get his money back. In American cases against banks, hundreds of millions of dollars are regularly at stake. Ian Hamilton's action is in the small claims division of Oban Sheriffs Court, on the west coast of Scotland. The amount he's seeking to recover is just £1,282.

HAMILTON: What I'm going to argue is this: that when the Royal Bank of Scotland put out its prospectus for the shares right issue in April, they mentioned it was a difficult time for trading, but they didn't mention the possibility of a loss. I invested at the beginning of June, and two months later they announced a loss of £802 million. It is incredible that if the directors were doing their job properly they did not foresee these losses.

ROBINSON: So what do you say the directors did at the time of the rights issue?

HAMILTON: They knew or ought to have known that the bank was in deep financial trouble and they should have advised investors accordingly.

ROBINSON: Ian Hamilton's action is designed to make a point. He knows that, as the law now stands, the chances of his case being heard are negligible.

HAMILTON: In the Sheriff Court you can raise a small claims action for anything up to £10,000 and if it's under £2,000 and you lose, all that can be awarded against you in costs is £200. I think the tactics of the Royal Bank will be to appear in court with junior and senior counsel. Counsel will move that the case is remitted upstairs to what's called the Ordinary Court. That's where real cases are fought out. I couldn't possibly afford to go there. I would have to employ solicitors and even counsel myself, and if I lost I would have to pay their costs, which is far far beyond the means of an ordinary person. I would abandon the action if it was sent upstairs.

ROBINSON: What do you think your costs could be if you lost a case like that?

HAMILTON: In the Ordinary Court it could run into – without exaggeration – three-quarters of a million. It would go from the Sheriff Court to the Court of Session, from the Court of Session to the House of Lords, be bounced back down. The sky's the limit.

ROBINSON: Throughout Britain, fear of crippling costs is a powerful deterrent against taking a bank to court, which is why such cases are so rare. But the mere hopeless position of individual claimants like Ian Hamilton has led Richard Keen, Scotland's top barrister – or advocate, as they're known north of the border – to propose a radical change in Scottish law, to allow American-style class actions to be brought against banks in the Scottish courts. If Ian Hamilton's case was a class action, everyone who'd invested in the Royal Bank's rights issue would automatically be included so the claim would be vast. And if the case succeeded, after the lawyers take their share, everyone would share in the pay-out. Even if it failed, claimants would pay nothing and the lawyers would have to pick up the bills. Richard Keen says class action is an issue of natural justice.

KEEN: The average investor, who has lost £5,000 or £10,000, is in no position to pursue such a claim alone. We offer our court system to all, but we know that the demands of cost and expense are so great that it is actually only available to the few.

ROBINSON: Will this argument carry weight, do you think, if you put it in this way in Scotland? I mean, can you imagine a public response to this?

KEEN: I would hope that, going forward, our present Scottish Government would recognise the fundamental fairness of this proposal.

ROBINSON: North of the border there are plenty of potential targets for class action cases, among them HBOS and the Royal Bank of Scotland. Scotland already has a commission, headed by Lord Gill, examining changes in legal procedures, and Scotland's Justice Minister, Kenny MacAskill, says class actions are very much on his agenda.

MACASKILL: I think that we would view, as a Government, class actions are not one simple panacea, but we do recognise that there are some difficulties for ordinary people to access justice – not just the little man, but even the middle earning people can sometimes have difficulties in dealing with matters and there might be a better way and that's why we're looking forward to Lord Gill's report.

ROBINSON: If you made the change that let people take action against the banks, do you not think there would be widespread public support for that?

MACASKILL: Oh, I think we've got ongoing matters about how we have to address matters. At the Government, we were quite clear that we felt that many of these banks were brought down by spivs and speculators, action wasn't taken expeditiously enough.

ROBINSON: But people want to get back now at those spivs and speculators, as you call them.

MACASKILL: Well, as I say, what we want to do, as a Government, is that we keep people in employment. There could be a great deal of pain and suffering for many people, bank clerks here who have given twenty, thirty years of service, who have seen their shares diminished. So we have to look at these things in the round and in the main.

ROBINSON: Finally, class action, a move to that is on the agenda?

MACASKILL: Oh absolutely. Lord Gill has a class action as part of it. It's not all of it, but it's part of it, because it's about justice.

ROBINSON: But while class actions may offer a way to get money out of banks in the future, with the dark clouds of recession swirling over Britain, for businesses large and small the immediate problem is how to get money out of banks now, in the form of overdrafts and loans – the financial lifeblood which keeps companies in business. Over the past month we've talked to a string of businesses about their banks. Many were unwilling to complain on the record for fear of retribution, but a clear pattern emerged. Despite the billions pumped into banks by the British Government, businesses are finding it ever tougher to borrow.

ACTUALITY IN GARAGE

MAN: Okay Chris, do you want to fall off and give her a run.

ROBINSON: In a garage in Slough, Berkshire, a powerful car, strapped down with rollers under its wheels, is being put through its paces. Paramount Performance tunes engines for power or fuel efficiency on a so-called rolling road, which lets them run cars in the workshop at speeds of 150 mph or more. Until the autumn, the only problem managing director Paul Busby had with his bank – Lloyds TSB – was fending off its offers of credit. But as the downturn started to bite, Paul decided to take Lloyds up on its offer. Paramount Performance is small, with just seven employees, and Paul's requirements are modest – a £10,000 credit facility to get him through the traditionally slow New Year period.

BUSBY: We first approached Lloyds in October 2008 for initially a credit card.

ROBINSON: And how did you do that?

BUSBY: We filled out the application form that they sent us when they invited us to take out a credit card.

ROBINSON: And?

BUSBY: It was rejected.

ROBINSON: So earlier in the year they were offering you a credit card and phoning you up to say, 'Take one out.'

BUSBY: That's correct, yes.

ROBINSON: And in October, when you applied for it?

BUSBY: We were rejected. Nothing had changed. In fact, the business was quite good in October. We had a good trading year, so I was genuinely very surprised when we were turned down.

ROBINSON: So Paul tried asking for a £10,000 overdraft instead and he and his fellow directors offered personal guarantees to cover it. But once again they were rejected.

Do you have the assets yourself, personally, to guarantee an overdraft of £10,000?

BUSBY: Yes. I have more than that available and I was willing to stand by this loan personally, yes.

ROBINSON: Did you make that clear?

BUSBY: We made it very clear, but once again we were rejected.

ROBINSON: The fact that you didn't get that £10,000 overdraft, what difference did that make to the company? What did you have to do?

BUSBY: Well unfortunately we did have to lose one member of staff, we made one member of staff redundant on the run up to Christmas. We cancelled our Christmas do. The business that was hosting the Christmas for us, they lost about £3,000 worth of revenue. Other steps we've taken is, we've stopped our office cleaner coming in. Again, that's a small local business that's now not seeing an income from us.

ROBINSON: Lloyds TSB told us they turned down Paul's overdraft because, at the time, they 'did not have enough evidence to prove he could repay'. Now they say they want to do all they can to help him. While Paul Busby couldn't get an overdraft he thought his business needed, other small business people have told us that their banks have withdrawn access to overdraft facilities for no understandable reason when they most need it.

ACTUALITY IN OFFICE

ELAINE: How many copies is this for?

KEN: Just the one.

ELAINE: Just the one? Okay. When's it due back?

ROBINSON: Elaine Rawnsley and her husband, Ken, own Millnet (Northern), a legal services company in Leeds. They and their seven employees prepare, store and deliver confidential documentation for the city's legal community. After disappointing results last year, Elaine and Ken embarked on a major cost cutting plan, including moving the business to far cheaper premises. They asked their bank, HBOS, to increase their existing £10,000 overdraft to £30,000 to bridge the gap until the move was complete.

ELAINE: We knew that things were going to be tight over the next few months. We needed the overdraft to help with our cash flow situation. Your rent, your rates, telephone bills, paper, machinery – a thousand and one things that a small business has to pay for. And obviously you do your work for your clients and you wait for clients to pay.

ROBINSON: And they take longer and longer.

ELAINE: Today, longer than they used to do. You always have a gap between the money coming through the door and the money you pay out.

ROBINSON: Last summer, with HBOS's help, Elaine applied for the additional £20,000 overdraft and HBOS agreed, while the application was formally processed, to let her use the facility. So Elaine and Ken got on with their cost cutting plan. But twelve weeks later, out of the blue, they got a nasty shock.

ELAINE: I had a telephone call from the bank, from our account manager, to tell me that the bank hadn't formalised the overdraft, they weren't prepared to formalise it, and they would like us to pay the, well originally they said they would like us to pay £30,000 back.

ROBINSON: The whole overdraft?

ELAINE: The whole amount. I explained that £10,000 of it had been formalised, so they then said okay, they would like the £20,000 back and they gave us a four week period in which to pay it back.

ROBINSON: How did you react to that when you heard that news?

ELAINE: It was a shock, because after twelve weeks of using the facility, you work on the assumption that everything is fine and will continue to be so.

ROBINSON: Elaine says she couldn't understand what had changed, why HBOS were prepared to let her use the overdraft but then pull it just weeks before the move to her new premises was due.

ELAINE: We were on course with our cost cutting, with the overdraft in place.

ROBINSON: And nothing had changed from the plan you gave them in June?

ELAINE: No, no, no.

ROBINSON: No nasty surprises?

ELAINE: No, no, no.

ROBINSON: So had anything happened between the June meeting and the time they'd pulled the overdraft which the bank could say, 'Look, that's not what you said in June.'?

ELAINE: No, absolutely not.

ROBINSON: Since Elaine's extra £20,000 overdraft was never formally approved, HBOS were technically entitled to ask for their money back. But Elaine thinks the goalposts had somehow been moved and that HBOS were now cutting back on lending wherever they could.

ELAINE: I'm absolutely furious. I watch the news three or four times a day, I listen to Gordon Brown and Alistair Darling telling the country at large that we are supporting small to medium sized businesses. Gordon Brown stood on the television and said, 'This bailout is not for the banks, it is there for small to medium sized enterprises.' I speak to small and medium sized businesses on a regular basis and I haven't spoken to anybody yet whom the bank has helped. But a lot of people who are desperate for help and can't get it. If you are going to apply and take money for a bail out and you promise that in exchange you will help small businesses, you have to do as you promise.

ROBINSON: In January, the Government launched the Enterprise Finance Guarantee Scheme, supported by the banks' trade body, the British Bankers Association, and designed to help small businesses like Elaine's get access to the money they need. The scheme guarantees 75% of new loans or overdrafts up to £1 million. As the BBA's Executive Director, Eric Leenders acknowledges, a business can only benefit from the scheme if its bank first agrees.

LEENDERS: It's absolutely for the bank, the lender to assess viability of the proposition, so in the final analysis it's the bank manager who agrees whether or not the loan should be made.

ROBINSON: So it's the bank only that decides? There's no appeal against that?

LEENDERS: Well, clearly if you find you have been excluded from the scheme, it's absolutely for you to make the case, but the

ROBINSON: To whom?

LEENDERS: The rules of the scheme are quite clear.

ROBINSON: To make the case to whom?

LEENDERS: By all means complain to the bank and if you're not satisfied with the answer that the bank gives you, then of course the Financial Ombudsman will take up your complaint on your behalf. And of course the decision, the final decision they take is binding on the bank.

ROBINSON: By the time that's happened and that procedure's been gone through, the company may well not be there any more.

LEENDERS: That's a matter for the Financial Ombudsman. I think they would like to feel that they provide an efficient service. But if you've got an issue with their turnaround times then I think that's something you need to pick up with them.

ROBINSON: For many businesses like Elaine's, waiting is not an option. They need finance here and now. But instead of getting access to the new scheme, Elaine says HBOS are now asking her to give them a second charge on her home before they'll consider restoring her overdraft facility. HBOS refused to be interviewed about why they'd pulled Millnet's overdraft, even though Elaine gave them permission to discuss her case. HBOS told us:

READER IN STUDIO: We never comment on individual circumstances. However, we continue to be fully supportive of Millnet and are committed to finding a solution that will allow the business to operate successfully.

ROBINSON: For many of the businesses we've spoken to over the past month, it's not just that the goalposts have been moved, banks seem to be changing the rules of the game as well.

ACTUALITY AT TANGERINE HOLDINGS

HAYTHORNTHWAITE: You walk into our caption room. Clean room environment, again you can see here's a semi automatic machine, this is just now getting ready to go on with the powder. We're making everything ...

ROBINSON: At Tangerine Holdings in Lytham St Annes, Lancashire, David Haythornthwaite took me round the spotlessly clean manufacturing area where he and his 120 employees make animal feed supplements to top veterinary standards for sale around the world. David's banked with HBOS for over six years.

HAYTHORNTHWAITE: We do our budgeting process April, May. We then usually sit down with the bank and have a meeting and tell them pretty much how we're doing in general, what we're expecting to do for next year, and then in simple terms, what our borrowing requirements are going to be.

ROBINSON: In May last year, David already had an agreed overdraft of £1.6 million with HBOS at 6.75% interest. But his forecast for 2009 showed that £1.6 million probably wouldn't be enough for the needs of his growing business.

HAYTHORNTHWAITE: It showed that our cash requirement, in actual fact in January, February was going to be about £2 million. That's always the worst time for us because, you know, farm business in particular is very seasonal, therefore we have to buy a lot of raw materials in. By the time we turn those raw materials into goods and then sell them and actually collect our money, it's usually sort of March, April.

ROBINSON: So January, February is when your overdraft ...

HAYTHORNTHWAITE: It's got a peak, in simple terms. So we showed a requirement that we needed £2 million. We sat down with our bank and they said, 'Well, there's no problem with this. What we want to do, however, is slightly restructure how we give you that £2 million.' So they offered us a restructuring deal.

ROBINSON: David was happy that HBOS were prepared to lend him the £2 million he needed, but he had a problem with how much they wanted to charge – 8% rather than the 6.75% he was paying on his existing overdraft. So he turned their offer down. But, by the autumn, with the economy slowing sharply, David changed his mind and called HBOS to say he'd now like to take up their £2 million financing offer. But he also found that HBOS had changed their tune.

HAYTHORNTHWAITE: They denied that they'd offered me the £2 million overdraft and also wrote to me in the same letter and said that my overdraft, which was currently at about £1.68 million, something like that, close to seven, had to be reduced. I got this letter on Wednesday, it had to be reduced to £1.6 million by Friday otherwise they would not honour any more cheques. So this was a Wednesday and I had to reduce it by Friday.

ROBINSON: In two days?

HAYTHORNTHWAITE: Within two days.

ROBINSON: And if you hadn't done that?

HAYTHORNTHWAITE: They basically said that they wouldn't honour the cheques, so ...

ROBINSON: They'd bounce your cheques?

HAYTHORNTHWAITE: Yes, they'd bounce the cheques.

ROBINSON: So that's quite a threat from the bank.

HAYTHORNTHWAITE: It is quite a threat, and of course it puts you under extreme pressure, which we were under extreme pressure anyway, because we were trying to operate with a lot less money than we needed. So here I am, effectively doing what I think is right, borrowing money from the bank when they were quite happy to lend it, investing that money into the business so we can grow the business for the future, have the equipment that's necessary to compete on a worldwide stage. And as soon as we'd hit a little bit of choppy water, the rug's pulled from under you. And I think it's an absolute disgrace.

ROBINSON: To plug the hole in Tangerine's finances, David Haythornthwaite had to sell personal assets and inject over £200,000 into the business. Lucky for him, he says, that he was in a position to do that. But now David faces another problem, because he says HBOS have suddenly started changing the way they value his business.

ACTUALITY AT TANGERINE

HAYTHORNTHWAITE: Morning Brian! There's about eight to nine hundred pallet spaces in here, so it's a pretty decent sized warehouse. And this is ...

ROBINSON: Tangerine's warehouse is filled to the rafters with animal feed supplements, ready for sale around the world. David says his stock is part of the collateral or security the bank has to set against his loans. The more collateral any company can offer, the more banks are usually prepared to lend. But David says HBOS have now suddenly changed the way they value his stock in a way he thinks is simply surreal.

HAYTHORNTHWAITE: Our total stock holding at any one time is about £1.3 or £1.4 million.

ROBINSON: Sitting on these shelves?

HAYTHORNTHWAITE: Yes. What they estimate is what they call a fire sale situation, a situation if the business went bankrupt and they had to come in, they'd have to dispose of the goods quickly. In disposing of the goods quickly they estimate that you would only get 30% or 40% of the value. That has always been a rule of thumb. The new rule of thumb with them is, all of everything you see in here today they value at zero.

ROBINSON: Zero?

HAYTHORNTHWAITE: Zero. It's astounding, isn't it?

ROBINSON: I mean, suppose the business did go bust. Would this be worth nothing?

HAYTHORNTHWAITE: Well, what do you think? Of course it wouldn't be worth nothing. It's very valuable stock.

ROBINSON: And the result of that calculation for your business is?

HAYTHORNTHWAITE: It means that I can't expand. It means that I can't continue to invest and grow.

ROBINSON: David also waived client confidentiality and authorised HBOS to talk to us about his company and justify their decisions, but once again HBOS declined. In a statement they said:

READER IN STUDIO: We do not discuss our customers' financial arrangements. We have been very supportive of Tangerine Holdings and remain completely committed to working with the directors to help them achieve their objectives.

ROBINSON: Eric Leenders of the BBA says he can only talk about general policy, not individual cases, so we wanted to know what he made of a bank like HBOS treating a warehouse full of stock as worthless from the point of view of collateral.

LEENDERS: Banks are looking to put realistic valuations on the security they take, because of course it's in no one's interest to over-value security and then find that there's a shortfall. The banks recognise that in revaluing security this sort of issue will arise. That's why they worked with Government to develop the Enterprise Finance Guarantee, to help to plug that gap.

ROBINSON: But the gap, the finance gap is only there because the bank in this case has unilaterally downgraded the value of this stuff, in the case of his stock, to nothing. I mean, how can that make any sense? He can't do anything about it. The bank says, 'Well, that's it, we're doing that.'

LEENDERS: In a gone situation, in a fire sale, the bank has to make a decision as to what that stock is worth, and if it feels that in a gone situation, in a fire sale, there isn't any value in that stock, then it needs to take that into account.

ROBINSON: We've looked at the stock. It's branded goods. It's, you know, products that are sold all over Europe. How can it be worth nothing? How can that be reasonable?

LEENDERS: You're asking me to speculate on something where I'm sat here with no information. I've tried to explain to you as best I can the situation as a representative organisation. What you're talking about is a specific case that I'm just not party to.

ROBINSON: A shock announcement last Friday from the Lloyds banking group gave a clue as to why HBOS seem to have been so reluctant to lend – they didn't have the money.

EXTRACT FROM NEWS

NEWSREADER: Lloyds banking group has stunned the City by announcing that it's expecting record losses of £10 billion. Shares in the company plummeted by more than 40% when the news was released to the Stock Exchange. Lloyds blamed its predicament on HBOS, the ailing bank it took over last year.

ROBINSON: Out of the blue, HBOS's new owner, the Lloyds banking group, had to announce surprise £10 billion losses at HBOS. That compares with a total funding of £1.3 billion the Enterprise Finance Guarantee Scheme has for small and medium sized businesses across the country until March of next year. It's a graphic example of how a government initiative can be dwarfed by bad news from a single bank. But it's not just small and medium sized companies who are facing tougher terms from their banks.

KEATING: Compared to how it would have been twelve months earlier, it is tough out there and was tough for us.

ROBINSON: Seamus Keating is Finance Director of Logica, a major British IT company and one strong enough and confident enough to discuss its banking and its borrowing. Loans to major businesses like his are usually priced at a percentage margin above the official Bank of England base rate. The stronger a company, the lower that additional percentage margin should be. Seamus decided to renegotiate terms for Logica's £420 million of business loans last November. He got in before things got even tougher.

A year ago, how much above the base rate would you have been paying?

KEATING: A year ago, it would typically have been 1% above the base rate.

ROBINSON: 1%. And what did you have to pay this time?

KEATING: We've ended up paying approximately 3% above the base rate.

ROBINSON: Three times as much?

KEATING: Exactly. That is the increased cost of money as banks look at the scarcity of money they have available and looking at the balance for them of risk and return associated with that.

ROBINSON: If you had to do that deal now, it's a guess of course, what do you think you'd be paying? You are paying three times as much for what you've got, what would it cost now?

KEATING: I think it would probably be more expensive if we were doing it today, maybe four times.

ROBINSON: What, 4% instead of 1%?

KEATING: That's correct.

ROBINSON: Since the autumn, the Bank of England, with Government encouragement, has been slashing the official Bank of England base rate. It's now just 1%. But Seamus Keating says those dramatic cuts haven't fed back through to companies like his.

KEATING: In practice, what's actually happening to most companies is that the benefit of lower base rates is actually being swallowed up because the margin that they're paying to the banks has increased, so overall the amount of borrowing cost is broadly similar, but actually the benefits of lower base rates are not coming through to companies because those margins have increased.

ROBINSON: So when the base rate goes down, the benefit is going to the banks, not to companies like yours?

KEATING: Typically that's been the experience, that's where the benefit has gone.

ROBINSON: Why is it happening?

KEATING: Fundamentally because the banks are in the difficulties that they're in because of the financial crisis. There is, they have less money to lend, they are reducing their own leverage and the price of their commodity, which is money, has gone up and they are looking to make sure that they recover that price in lending money to their customers, whether they are large companies or smaller companies.

ROBINSON: With base rates slashed and tax payers' cash flooding into banks, how does the BBA's Eric Leenders justify his members increasing interest charges as they have?

LEENDERS: We're in a recession, and what banks need to assure themselves is that the customer that wants to borrow will be in a position to repay, and that means demonstrating through your business plan and through your cash flow forecasts that you will be generating cash flow and profit, that business is sustainable throughout the next twelve, eighteen months or so, throughout the present recession.

ROBINSON: Yes, well let me give you some real numbers. Logica, a very serious big British company, a very successful company, Logica is not going to go bust any time soon. They say they've refinanced last November, £420 million. They were paying 1% above bank rate, they're now paying 3% above bank rate, and he said if he did it now he has no doubt he'd be paying 4% above bank rate. That's three and four times as much. That's not much support for business.

LEENDERS: Well the credit's still being provided and of course ...

ROBINSON: But it's much more expensive.

LEENDERS: It is more expensive, but of course the risks that are involved have increased.

ROBINSON: Are you saying Logica is now a riskier company, a significantly riskier company so you've got to charge three and four times as much?

LEENDERS: You're quite right to pick me up. I'm not saying that at all. I'm saying that in the assessment that the lender made, they considered that the risks had increased in that particular business and that's why they widened the pricing.

ROBINSON: It seems unbelievable. How can that be supporting a really important British company like Logica?

LEENDERS: With respect, I can't answer that without seeing the business plan and the financials and all the rest of it. I just can't answer that.

ROBINSON: Businesses were first hit by the banking squeeze, then by the sharp economic downturn. Now there's a further threat. Economies in the rest of the world from Russia, China, Japan and East Asia are slowing sharply. And, because during the global boom British banks lent heavily overseas, many of their mega loans now threaten to turn into mega losses, hitting the banks once again, and through the banks, hitting British businesses.

ACTUALITY IN KENSINGTON PALACE GARDENS

ROBINSON: This is the London street where some of the richest business people in the world like to live. It's Kensington Palace Gardens, a wide avenue lined with old plane trees, with huge houses, some as big as palaces, on either side of the road. It's so quiet, because you need special permission to drive a car here. And this is where, in 2004, Leonid Blavatnik bought himself a London home – and some home it is. It's so grand it has a webpage of its very own. And according to that page, his house has nine bathrooms, ten bedrooms, four reception rooms and, of course, accommodation for his live-in staff. Leonid Blavatnik controls a giant chemicals empire based in Russia. He and his fellow oligarch, the Russian metals magnate, Oleg Deripaska, famous for hosting last year's meeting between Peter Mandelson and George Osborne aboard his luxury yacht, were until recently rated among the very richest people in the world. But their empires were built with an ocean of borrowed money, much of it from western banks, like the Royal Bank of Scotland. James Mawson, editor of Private Equity News and a sharp observer of banks and mega loans, says British lenders were more than happy to lend the money for the fat fees they got in return.

How much of these huge industrial empires that these two oligarchs built up were built on borrowed money?

MAWSON: It's hard to say exactly, each case would be different, but a large amount – 90%, 95%, even more. Sometimes the bank would lend them more than the value of a company because the underlying collateral was worth more. So once

MURPHY: Let me just find the file and open it for you. Here we are. Here's some work that I've been doing.

ROBINSON: All right. So here we are. We've got major bank subsidiaries and tax havens, and here along the top we've got Lloyds, Barclays, HSBC, RBS and tax havens, thirty-one of them down the side. Richard Murphy has been researching how many subsidiary companies British banks have set up in tax havens around the world.

MURPHY: We looked at those four banks. We actually tried to include HBOS but they didn't file the information, contrary to company law, so we couldn't do them. So these four banks have between them got 5,400 companies inside their groups. So it's not just one company. Each of them is made up of lots of companies.

ROBINSON: Okay.

MURPHY: And of those we found that 1,207 of the companies were in recognised tax havens.

ROBINSON: Okay, I can see here it's 22%.

MURPHY: 22%.

ROBINSON: So here, total 22% but Barclays nearly 30%.

MURPHY: Almost 30% for Barclays. HSBC is not much less, 26%. RBS is 15%.

ROBINSON: But can we tell what these companies are for and what they're doing?

MURPHY: In most of those places – Cayman, Jersey and so on – we can't tell what they're doing at all. We do not know what they're set up to do, because we can't find their constitutions, they have no obligation to put their accounts on public record. We know nothing about these operations whatsoever.

ROBINSON: Richard Murphy says the problem now is that overseas loans channelled through such secretive, complex tax haven structures will prove far harder for banks to monitor, so increasing the chances of yet more nasty, unexpected surprises from far beyond Britain's shores.

MURPHY: What the banks thought was a great idea until 2007 is suddenly now going to rebound on them, because I believe that this whole off-shore structure will make it very very much harder for the banks to assess what is really going on with their loan books placed through these tax haven subsidiaries.

ROBINSON: Even if they want to?

MURPHY: Even if they want to, yes, because so complex are these structures that to work out who owns anything can sometimes be nightmarishly difficult.

ROBINSON: And, when offshore loans do go bad, Richard Murphy believes tax haven structures will make it far more difficult for banks to cash in whatever security they thought they had.

MURPHY: It would be very much harder when the lending has been routed through a Cayman Islands subsidiary or whatever else, because first of all they've got to go to the Cayman Islands company they've lent to and then that might be owned by a trust, and then they've got to see through the trust and get the trustees to cooperate to go and claim the assets of the company which the funds were then lent to, which could be another tax haven subsidiary somewhere else, before you end up with a company which is in Eastern Europe, before you then get to the point of finding the physical assets. Now that's going to mean you're going to go through one court in one country to another court in another country and so on. So your chance of pursuing your claim is slowed down enormously by this whole process, so you will not get as much back. If you get anything back you'll get much less back – the asset will have gone by the time you get there.

ROBINSON: As the economic crisis has spread across the globe, it has got far more complex and unpredictable. Few politicians or policy makers now even bother to pretend that they know how long it'll last, how deep it'll be or where the next nasty surprise will come from. But Lancashire industrialist, David Haythornthwaite is sure of one thing: British businesses, he says, will end up with an unfair share of the pain, as British banks struggle to survive and rebuild their broken balance sheets.

HAYTHORNTHWAITE: They desperately need to get money back. They need cash, they need to get money into the bank in any way possible to get the balance sheet, so they can look and say, 'Where's the easiest way to get money? Go to people who've got it and squeeze those people,' because they know if they squeeze me I've got the ability to pay. If they go to somebody who's got no money, that person has no ability to pay.

ROBINSON: Then what happens? The person who hasn't got ability?

HAYTHORNTHWAITE: Well the person who hasn't got ability will go to the wall. Simple as that. A lot of poor people won't make it.

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