Northern Ireland
Assembly

CONCURRENT MEETING OF THE COMMITTEE FOR ENTERPRISE, TRADE AND INVESTMENT AND THE COMMITTEE FOR FINANCE AND PERSONNEL

OFFICIAL REPORT
(Hansard)

Banking Issues: Northern Ireland Banks

22 September 2010

NORTHERN IRELAND ASSEMBLY

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Members present for all or part of the proceedings:
Mr Alban Maginness (Chairperson)
Mr Leslie Cree
Dr Stephen Farry
Mr Paul Givan
Mr Simon Hamilton
Ms Jennifer McCann
Dr Alasdair McDonnell
Mrs Claire McGill
Mr Gerry McHugh
Mr Daithi McKay
Mr Mitchel McLaughlin
Mr David McNarry

Witnesses:

Mr Pat Byrne	)	Bank of Ireland
Mr Henry Elvin	)	Ulster Bank
Mr John Kilty	)	First Trust Bank
Mr Kevin Kingston	)	Northern Bank

The Chairperson (Mr A Maginness):

I ask members to turn off their mobile phones completely because they interfere with the recording equipment that Hansard uses. Please do not just put them to silent mode. Thank you very much indeed.

I welcome representatives from the banks in Northern Ireland. With us today are Mr Pat Byrne, who is regional manager at Bank of Ireland; Mr Henry Elvin, who is head of business banking at Ulster Bank; Mr John Kilty, who is general manager at First Trust Bank (FTB); and Mr Kevin Kingston, who is general manager for corporate banking and markets at Northern Bank. You are very welcome, gentlemen. I believe that some colleagues of yours are also here. If necessary, they can intervene in the discussion, so just indicate to me when they want to make a point. You are all very welcome. You had an opportunity to hear some of the earlier contributions. Does anyone want to start by making a statement?

Mr Kevin Kingston (Northern Bank):
I will start, Mr Chairman. I hope that you received a copy of our briefing note, which was circulated.

The Chairperson:
Yes.

Mr Kingston:
Good. I trust that that note has given you a sense of the fact that Northern Bank is pursuing its own strategy in the current market and that we believe that we are making progress. We at Northern Bank are starting from a sound financial condition. We have some of the best capital ratios of any bank in the UK. We have the funding and liquidity to support our customers, both existing and new. As you know, we are not restrained by government ownership. For over 200 years, we have been genuinely committed to Northern Ireland. Our leadership team lives in Northern Ireland, and we are now the only bank in Northern Ireland whose chief executive actually lives in the Province.

We have provided you with data on volumes, activity levels and approvals. As far as the Northern Bank is concerned, there are encouraging signs in those data. We have seen an increase in the number of applications that have been made. We have shared with you that in the first six months of this year, our business lending was £500 million. There is still significant concern among our customer base about economic prospects and about what the coming year may bring, particularly in the context of budget cutbacks. However, we are working hard to get the message out that we have the capacity and appetite to support growing businesses.

Our chief executive met with the Church leaders, and I was here for this morning's open session with them. That was a useful, helpful and beneficial meeting. As part of that meeting, we reaffirmed our commitment to the initiatives that Northern Bank has launched over the past few months. We have shared some of those initiatives with the Committees in our briefing paper. For example, through our outward calling programme, business managers have been calling our customer base to tell it that we have a lending capacity and a lending appetite. We have established new regional business teams to bring forward proposals across all businesses, both large and small, and our 'Let's Talk Business' conferences are ongoing. One is happening today in the Millennium Forum, and we have invited prospective customers to hear about what Northern Bank can do and what we can offer their businesses. I hope that members are aware that we have launched a major campaign in the wider media to help to get our message across to personal and business customers. Therefore, a lot is going on. Challenges still very much remain in front of us, but we believe that we are making some progress.

Mr John Kilty (First Trust Bank):
I will make a brief statement. First Trust Bank welcomes the opportunity to discuss the current business environment with the Committee for Finance and Personnel and the Committee for Enterprise, Trade and Investment. Our priority is to assist our existing small and medium-sized enterprise (SME) customers through what is a challenging economic environment. The key to that is to maintain close local relationships so that we can understand our customers' business requirements and meet their needs. Our criteria for making commercial lending decisions and negotiating repayment terms remain the same, in that we look for viable businesses with the ability to repay. In all cases, when a customer encounters financial difficulty, we work proactively with them to find an appropriate solution for their individual circumstances.

Mr Henry Elvin (Ulster Bank):
Ulster Bank is out in the community making very strong commitments that are akin to what the Northern Bank is doing for customers. In the past two weeks, we have made a very significant move to confirm our commitments to customers. We have allowed them to measure our performance in the sense that we have gone out to them with customer commitments, both from a retail bank perspective and a business banking perspective. I know that people can make

commitments, but, on this occasion, we have gone out with Deloitte, which is a leading accountancy firm. It will audit our commitment on service levels and so forth to customers, and it will report in public forum every six months. That is a measure of our commitment to prove, once and for all, that we are out there and that we stand behind our commitments. Time will tell, and we are very confident that we will honour those commitments.

Mr Pat Byrne (Bank of Ireland):
I have recently returned to Northern Ireland, and I am responsible for our branches and business bankers throughout the Province and for people who deal with small business, which are very much part and parcel of our business. I welcome the invitation to meet with the Committees today and to engage on the issues that were raised in the letter and, indeed, on those that the Church leaders raised.

We acknowledge that this is a difficult time for our customers, and we see that in our day-to-day dealings with them. We in Bank of Ireland are committed to supporting our customers. That is very much in evidence, and we are very much open for business, not just for our own customers but for others who do not currently deal with us. It is also fair to say that it is a difficult time for banks, particularly Bank of Ireland, which made its biggest loss in history last year. That is well published. We have published our half-year results, which show a loss of £1·5 billion this year. It is disappointing to such report figures, but they are in line with expectations. Alongside the absolute figures, we have reported that, with the support of the Irish Government, which we appreciate, we have made huge progress in bringing Bank of Ireland to a very stable position. Our focus now is on the priorities of looking after existing customers and of growing the business.

On a personal level, given my return to Northern Ireland, I want to make it clear that the Bank of Ireland is 100% committed to doing business in Northern Ireland, to growing business here and to looking after our customers.

The Chairperson:
I thank you all for coming this afternoon to this important meeting. Two Committees, the Committee for Finance and Personnel and the Committee for Enterprise, Trade and Investment, are very concerned about this issue, which the Churches raised about the banks and their customers. It has been raised right across the community and by the Churches, and it is a matter

of grave pastoral concern to the individual Churches and churchmen. They felt that circumstances on the ground are so difficult that they had to issue a public statement expressing their concern. In essence, they said that the banks were either not lending to small and medium-sized enterprises, or they were lending to them but were imposing very difficult conditions and were effectively imposing punitive rates through their terms and conditions. For example, overdrafts were being turned into loans, and people had to give personal security for those loans. Yet those businesses were viable, in the main; they were not new business start-ups. That, in essence, is the gravamen of the Churches' statement to the public.

That statement had great effect in the Assembly. People were rightly responsive to it, which is why we are having this meeting. In addition to hearing from Church representatives this morning, we also heard from individuals who had suffered at the hands of the banks. Of course, I will not go into the details, and those individuals will remain anonymous. We heard in those accounts that individual customers were in fear of banks' bullying them. That gave rise to great distress among families, and some people committed suicide. That is a very strong statement for the churchmen to have made — that people took their lives, not totally, but in part, because of pressures exercised by banks.

Leaving that aside, we heard from the Institute of Directors, which recently carried out a survey of its members and bank customers. That survey makes grim reading. Some 43% of respondents indicated that conditions have worsened over the past six months. They indicated that, in requesting facilities from the banks, there is a greater level of declines. Some 38% reported that the reason given for a request's being declined is that the bank:

> "has no appetite to provide additional funding".

Like the Churches, the Institute of Directors talked about the length of time that it takes to get a decision — the "slow no", as the Churches called it. They perceived an increased level of bureaucracy and lack of local decision-making in the banks. Therefore, an individual bank cannot make a decision; people have to go to some anonymous committee at bank headquarters, but no one is able to contact such committees to challenge decisions to refuse loans.

A whole host of different complaints is reflected in both the IOD's survey and the Churches' pastoral concerns. The banks have stated that they are trying to lend as much as they can and so on, but that does not seem to accord with the reality on the ground. I will conclude by quoting a statement that the Minister of Enterprise, Trade and Investment, Arlene Foster, made in the Assembly on Monday 13 September, in reply to a question from Mr McHugh, who is here. Inter alia, in answering the question, she said:

"From an Executive point of view, the Minister of Finance and Personnel, the First Minister, the deputy First Minister and I all meet the banks. The banks tell us that they are lending, that they have never lent so much, that they are open for business, and all of those things. However, I know from speaking to colleagues — we are meeting small businesses on a day-to-day basis — that that is simply not the case on the ground, whether it is because the banks are increasing their fees, are cutting down on their overdrafts, or are just not interested in financing start-up businesses.

There is a disconnect between what we are being told by the banks and by people on the ground. Something needs to be done about that. Our powers are limited, given that we have no controls over the banks. However, we will keep pushing the banks to ensure that we get some response from them in relation to these matters." — *[Official Report, Vol 55, No 1, p56, col 2].*

Therefore, there is a serious volume of opinion among those in the business sector, politicians and the Churches that the banks are simply not doing what they purport to be doing; that is, lending money to businesses that need cash. Would anybody like to respond to that?

Mr Kingston:

I heard statements this morning saying that not all banks are the same and that each bank is in a different position. I am not going to sit here today and give you glib promises or loose statements about what we may or may not be doing. I sit here today with facts. We have given you those facts as far as Northern Bank is concerned, and they are in our briefing paper. In the past six months we have made lending approvals of £500 million for 3,500 customers. Our lending approval rates stand well over the 90% that we refer to in the paper.

I point to data such as the Federation of Small Businesses' survey of complaints, which was done at the height of the crisis in March 2009, and I know that that information has been shared with the Committee in the past. That shows very stark differences between the banks. I also point to our independent data on customer satisfaction, which has never been higher. The facts, I believe, as outlined in our briefing note, are strong as far as the position of Northern Bank is concerned. We are not perfect, and we do not claim to be, by any means, but we are doing our best to make progress, and that is reflected by what is happening on the ground.

The Chairperson:

Thank you very much, Mr Kingston. Do any of your colleagues want to add anything?

Mr Elvin:

I will simply reiterate what we are doing. Mr Kingston mentioned that Northern Bank is not subject to government interference and so forth. However, on my side of the fence, I can tell you that we are part of government, because at the end of the day, we are 83% owned by UK Financial Investments Ltd (UKFI). On the one hand that is negative, but from a customer perspective it is positive, because we are part of that Royal bank of Scotland (RBS) commitment to customers, and we have been for two years. Our lending figures are monitored and submitted to Treasury monthly for its review. The data are there to be seen. We have a commitment to make available an extra £300 million for only the SME part of the book. We also lend to larger customers, but the focus is very much on the SMEs.

Last year, we had a commitment of £250 million, which went out at £290 million. This year it is £300 million, and we are making steady progress. The progress is marginally behind plan, I have to admit, but I am not surprised, because the Bank of England published a report this week that is very exhaustive in its analysis of the market and that contends that the level of demand in the marketplace is subdued. The saying is that you can take a horse to water, but you cannot make it drink. We can approve loans only when we are requested to do so, but over the summer, there has been a quietening in the market. If you look at it, there were good signs of progress between January and April and post-April into May. However, in May, there was definitely a slowing in the marketplace. That could have been reflective of election fever, election concerns or cuts in public expenditure. The market definitely slowed, and I would be interested to know whether my colleagues had the same experience.

The Chairperson:

I will throw the matter open to the Floor. I invite the Chairperson of the Finance and Personnel Committee to ask the first question.

Ms J McCann:

You are very welcome. The Committees heard about real-life experiences. The previous time that we spoke with the banks, we told them what we were hearing from small local businesses, but the banks quoted statistics and said that what we were hearing was not the case. However, we got some papers earlier from the Institute of Directors and from the banking focus group, which the Churches commissioned. That information is factual, and it states that there has been an increase in facility renewal charges, there have been withdrawals of existing overdrafts for businesses, and businesses are being asked for costly third-party reports to try to facilitate the appraisal of their project loan. There is also a culture of aggression, and there is no face-to-face contact with bank managers.

We are not in the business of coming here to bat the issue back and forward. We are looking for a sense of partnership where the banking industries will sit down with local representatives and local businesses to try to work through this issue.

We have heard about the public sector cuts that we face, and we see the way that the economy is at the moment and the devastating effect that it is having on people's lives in our communities. Therefore, we ask the banks to work with us on the matter. We are receiving information on the experiences of businesses. I make it clear that I am not suggesting that we go back to the banks' past risky lending practices, which got them into the current financial mess, but I am looking for openness and transparency. I do not know whether any of your banks were involved, and I am not necessarily saying that they are — they may or not may not have been. However, when those banks got into trouble, the public came to their rescue and gave them money to get them out of that trouble.

We are all working in this together, even in the moral sense. People's lives are being devastated by the closure of their businesses. People are being put out of work, and businesses are telling us that the reason is banks' lending practices. I understand that banks are businesses, but are you in a position now where the profit margin is starting to increase, albeit by a small margin, and you can now lend money to those businesses? Is it the case that the money is there, but the banks are trying to get their own balances and businesses in shape? Is that what this is about? It is not about businesses not coming to you for loans or for renewal of their overdrafts. Can we come to some sort of agreement today?

For instance, as an Assembly Member, I could ask you to come into my constituency of West Belfast and listen face to face to what businesses are saying. They do not get any answers when they phone your banks, and I cannot get any answers for them. Those people have real families and real lives. We have heard sincere and genuine stories first-hand today. Can we work in some sort of partnership to try to clear that up?

Mr Elvin:

It is disappointing to hear some of those comments. We have genuinely been working, both with customers and the business community. I can equally talk about the level of customer satisfaction. We do not run the customer satisfaction survey. We employ an independent body to go out, take a sample of customers and come back and tell us what is good or bad and so forth. We hear of problems and satisfaction issues, and we deal with them by an expeditious method.

As regards openness to this forum and to MLAs, I assure you that I have had significant interaction with many MLAs who have acted on behalf of their constituents. We take that absolutely seriously. We deal with it and come back with answers. I have met many customers with their MLAs. I am not saying that that is how to sort the problem, but I am absolutely certain that we do not hide behind the problem; we deal with the issue upfront. Therefore, I think that there is openness on our part.

We cannot be any more expansive about our commitment. Our commitments are out there. We said what we would do. It will be audited, and published data are available. As Kevin said, Northern Bank also provided you with figures, so the information is out there.

People may be trying to say that the level of lending from banks will recover to where it was in 2007-08, but that will not happen. That applies not just to Ulster Bank, Northern Bank, Bank of Ireland or First Trust; it is worldwide. Banks are not, by and large, moving as far into property transactions and so forth as they were previously. There has been a change in the way in which such projects are funded. Therefore, overall lending from the banking sector will be different.

Ulster Bank is focusing on the SME sector, and I am sure that my colleagues are doing the same. That is the very sector on which you want us to focus, and it is where all the attention is going. We have provided many price promises and all sorts of things. Therefore, it is different from our side of the house, and we are seeing that. Indeed, similar to other banks, our bank's approval rates are high.

It is incumbent on me to comment on your remark about banks asking for reports from customers. By and large, they are not reports. If you go back 10 years to good old core banking, whenever a customer came in, they would have provided what they viewed to be the projection for their business and the risks attached to it, and a discussion would have taken place. We have moved away from that practice. As a banker, I am not proud of that, because we became far too slack in that respect.

We are simply going back to what was, in my opinion, the good banking practice of 10 years ago. We ask people to put on paper exactly what they think they are going to do. It is interesting whenever you ask people to do that. It tells me a great deal about people's understanding of their businesses. "Reports" is, perhaps, a big term for what are actually just basic business plans that a bank asks for. I do not consider that unreasonable, and I think that the customer should do that before they come to the bank anyway.

Ms J McCann:
You mentioned investment banking. I reiterate that I am not talking about investment banking; I am talking about day-to-day working capital for small, viable businesses. I appreciate that all small and medium-sized businesses carry a degree of risk. However, I am talking about viable businesses and working capital.

Do you want comment on your own balance sheet? That has been discussed.

Mr Elvin:
I know that people have commented that banks are working to raise their profits and build their balance sheets. I will not deny that banks want to have strong balance sheets. That is good for the markets, the economy and everyone. However, I absolutely assure you that there is no restriction, from our perspective, on lending into the SME market from a balance-sheet point of view. If we get demand, we will deal with it as it comes along. I am sure that colleagues will want to comment on that.

Mr Kilty:
I will make a few comments, picking up on that earlier remark.

Our experience is that demand remains low, and the recent surveys and the purchasing manager surveys further confirm the depth of the recession in the Northern Ireland economy and the extent to which it is picking up more slowly than any other regions. That manifests itself in a very low demand for credit.

As I mentioned to the Enterprise, Trade and Investment Committee in March, that was the issue and it remains so. It reflects the fact that many businesses, utterly uncertain about the economic future and about markets remaining stable, want, correctly, to reduce debt in their businesses and be in safer and better condition. That is a feature of the market and it is important that that is recognised.

It is a fact, and we are all aware of it, that banks have an obligation to restore profitability and will eventually play a better part in the economic revival if they are profitable and if those profits work their way through to the provision of wider credit. We are in a unique, probably one-in-70-year adjustment to the banking market. In all the issues that we have in relation to dealing with customers, one must acknowledge that background. Banks will restore profitability and they will do so because the price of credit has to change. We all recognise that what went wrong, and what we do not want to see repeated, is the era of cheap and excess credit. What we will have is less and more pricey credit, but it will be better, and it will make for a more stable environment rather than boom and bust over the medium to long term.

The Bank of England produced a report as recently as Monday in which it emphasised the general trend in the pricing of credit across the market and across all UK banks in order to restore profitability over time. In FTB's case, I mentioned in my opening statement that we are focused on existing SME customers, and I emphasise that to the Committees. Our focus is on meeting the needs of our existing SME customer, and, unashamedly, we are not actively in the market of looking to recruit new customers. That is driven by the fact that we give priority to existing customers and that is where our duty lies at this point.

That is against a background of seeking to restore profitability. FTB recently announced significant losses. The Committees know that we, unlike the other banks, are currently in the final stages of resolving the long term recapitalisation of the AIB group with the Irish Government. When that is resolved over the next few months, in line with market expectations, we will be able to reposition ourselves in a new position of strength. Those are the particular circumstances that affect us that we want the Committee to be aware of.

We have done more, and we can do more. The initiative that we launched early in the year re-established the role of the branch manager in our key locations across the Province. Before March, our structure was out of place with the needs of our customers, so we now have experienced managers who have status in the bank and who have the discretion to make local decisions. One of the big issues is that customers cannot, according to the feedback you have received, get at the decision-makers and must deal with a faceless organisation. The FTB model has seen what risks are around and we have reversed that trend. The vast majority of the number of credit decisions that we make, in relation to both personal and SME customers, are made in the local environment by local branch managers.

Those are a few of the points that I make in response to your position.

The Chairperson:

You are remedying the problem that the Institute of Directors and the Churches have identified about decision-making at local level?

Mr Kilty:

Absolutely; very significant number of decisions on credit are being made by managers and staff operating locally, who, I stress, are members of the local community. They are not being made in some head-office unit.

Mr McNarry:

Alasdair and I have come back from lunch with the Omagh families, who are meeting the Secretary of State. That kind of meeting puts a lot of things into perspective.

Savers are suffering very much. Do you have insight as to why there has been no change to the Government policy of guaranteeing only £50,000 a person for savings lodged? Would lifting that cap not present a vote of confidence in the banks? I will also mention the evidence that we heard this morning and that my Committee Chairperson, Ms McCann, touched on. I want to confirm the helpfulness that I encountered from the Ulster Bank and the Northern Bank in assisting some of my constituents who were in trouble. Those were the only two banks involved; I trust that other banks would do the same. I am grateful for that. However, I do not know the scale of it, except that it is increasing.

We heard evidence this morning that implies that you have a case to answer for with respect to exerting pressure on local businesses. That pressure is being transmitted in the form of fear. Businessmen are frightened of you and of what you are doing to them. Do you have an answer to that accusation? I understand that you are professional people and that you are doing a job. I accept that we need banks and that banks are businesses. However, we also need entrepreneurs and businesses. We need people to borrow money from banks, and we need banks to lend it to them. Indeed, one of the Assembly's aims is to grow our private sector economy.

Will you respond to accusations that the banks are burning out businesses by lighting a fire under their overdrafts and making it difficult for them to access credit? Do you have a cartel that operates some kind of policy directive to make less money available to our businesses? You all seem to be doing that, and you have all been charged with the same accusation. Do you get together or is it a coincidence? Perhaps you do not operate in that way at all.

What difficulties do you come across in lending? Are you oversubscribed or undersubscribed? Are there trends? Is your stack of money more or less today than it was three years ago? How many companies did your banks foreclose in 2008, 2009 and, so far, in 2010? How many businesses that you supported last year do you not support this year?

Mr McLaughlin:

You will be familiar with the Institute of Directors' survey, and the March report indicates that respondents' experience is worsening. There has been a 42% increase in interest rates. That is an 8% increase from the previous survey, which was conducted seven or eight months previously. There has been a 41% increase in overdraft and loan fees — that is a rise of 14% in the same period. Moreover, 40% of respondents reported an increase in operating charges — up 15% since the previous survey — and 27% of respondents indicated that they were asked to provide personal guarantees. That indicates a toughening of the working relationship.

This morning, we heard very powerful and compelling personal experiences of business people in this region, and those are matters of serious concern. We heard about a breakdown in the integrity of their relationship with the banks, and their experience reflects that and drives them to that conclusion.

We also heard examples of where regional portfolio managers — who had developed working relationships with local businesses; in some cases, over two decades — were simply and arbitrarily removed from the equation and transferred back to head office or elsewhere, and a remote, impersonal, and more ruthless process of decision-making emerged.

The fact that those people were taken out of the equation clearly indicates a predisposition by the banks to move into that type of relationship. All of this sits very uncomfortably with the support that was given to the banks during their difficulties. Therefore, we have a situation in which business has become very difficult for all concerned.

We understand that business is about more than just making profit. Indeed, some testimony this morning generously acknowledged that the people whom people were meeting, which I presume were you, had a genuine interest in them. Yet, the feedback from the coalface is that people's efforts to restructure to ensure survival in the recession has been met with a very unsympathetic response from the banks. Businesses that were confident downsized and broke up work teams that had developed significant skills and capacity for delivering contract work. Unfortunately, people had to be released and returned to the unemployment statistics. Those businesses believed that they had properly and responsibly addressed the issue by going to the banks and saying that that was what they needed to do to survive. I would have thought that that was in the mutual interest of the bank and the economy and the local enterprises.

However, those viable businesses now face closure, redundancy, bankruptcy and, according to the testimony that we received from the Churches group, in some cases, much more terrible personal circumstances. Do the banks feel comfortable with that perception of their role in this very complex relationship? What is your view about a more independent credit review process, so that your decisions can be examined independently and externally?

Mr Kingston:

You have raised a lot of points. I have been trying to jot down the questions, and there are a lot to cover. I am sure that we would say that we are concerned about what we have heard and concerned about some of the feedback that we have received from the Churches. I cannot speak on behalf of the other banks; I can speak only on behalf of the Northern Bank. To answer some of the questions in relation to capacity and balance sheet, I have already stated that we have no Government ownership; we have the capital, the funding and the liquidity to meet not just our current needs but our growth plans, and that is in place.

You asked about competition between the banks. I think that we can honestly say that we are struggling to sit here together in front of you. I have no doubt that there is plenty of competition between the banks. The Northern Bank figures that we shared with you show that roughly 400 of those approvals were for new-to-bank customers. Therefore, those customers are switching to the Northern Bank.

Mr McLaughlin:
When you talk about competition between banks, another point is that we have all seen the images of sharks on a feeding frenzy. Banks may not be very friendly to each other, but that does not result in a better service to anyone.

Mr Kingston:
The key question in that is why Northern Bank is attracting so many customers. It cannot be a feeding frenzy as far as Northern Bank is concerned, because those customers would not be switching. That is hard evidence that gives you some comfort on that point. I can only speak in relation to my bank.

We have talked about local decision-making. The vast majority of decisions in respect of Northern Bank are made in Northern Ireland. It is part of our sense of community and connection to Northern Ireland. One in a hundred decisions, or something of that order, is not made in Northern Ireland. That is significant; we steer our own credit policy, strategy and decision-making policy. We have heard a lot about community and partnership today. The fact that we are part of the community, and our leadership team is drawn from the community and lives in the community, makes a difference. We have to face those businessmen and we know that we will be held to account at local level for the decisions we make. That is what is happening, because we are a part of the community. We have talked about partnership, and there again I point to our local decision-making, our structures and the way in which we are organised. Those are compelling arguments.

Mr Byrne:
A number of different points have been raised. Both speakers have talked about customers in difficulty. You have had people here, and I am sure that it must have been very difficult to listen to what they had to say. When the Church leaders met with the Bank of Ireland, they shared a number of different angles with us which were compelling and caused us concern. We asked the Church leaders to let us know about anything that was specific to the Bank of Ireland on a confidential basis, and we would review the case and see what we could do. That was back in

early June. We have had no specific case, but we are still open to reviewing any case, and that still stands.

Four out of five applications are approved. That is consistent with what we were doing in previous times. I am talking about restructures as well as new-to-bank. Our product is aimed at the small business sector, which is what this meeting is about. "Essentials for business" is the brand that it goes under. It is aimed at unsecured loans for small businesses up to £50,000. So we are not looking for personal guarantees in that sector, we are looking for start-ups and customers to come to us. We are seeing 100 per month come to us at present. That says something to the general public: we are open for business with small businesses. We have another product which loans sums to a much higher figure with security. That package, too, is working well for business, and we want to see more of that happening. That is what we are trying to do to encourage new business into the bank. The application and the approval levels are both high.

As to commitment to our own customers throughout the region; taking care of our customers is the first and last item at every meeting. Regardless of bringing in new customers, if we are not taking care of our current customers, we will not have their business in five or ten years' time. We are looking at the long term gain. We really need to look after our customers. It is good for the customer and good for the businesses. It is business sense and it is what we are committed to doing for all the right reasons.

Mr Kilty:
There was a specific reference by Mr McLaughlin to an independent credit review process. The FTB position is that it would welcome such an initiative if it brought transparency to the market. It may not change the nature of decisions. That is the experience in the South, where a similar scheme has been introduced and is in its early stages. However, it might at least create an environment in which lack of trust might be repaired. We are not opposed to an initiative that might bring some good. It is early days for the scheme in the South, but it was warmly welcomed by the banks and by business.

The Chairperson:
When was that scheme established?

Mr Kilty:

I am not sure precisely. I think it was earlier this year, about six months ago.

The criticism it received was that many of the people who were reviewing the cases were ex-bankers. However, there is a commitment to change that. Those ex-bankers are experienced and utterly independent and are using their experience — it is better than using novices — to review whether the basis on which the bank issued terms that were unacceptable or refused terms stands up to independent scrutiny. That is not a bad initiative at all.

Mr McNarry:

I did not get an answer to any of my questions. I asked about savers and about burning out businesses. I asked about policy directives and difficulties in lending. I asked how many companies the banks foreclosed, and gave them the dates, and I asked how they are supporting new business. Is there a reluctance to answer those questions?

Mr McLaughlin:

It is a slow no. *[Laughter.]*

Mr McNarry:

Those are the questions that my constituents and, I assume, your customers, are asking me. I mean no disrespect to the quality of the people who are representing the banks today; however, if they cannot answer the questions because they do not have the authority to do so, I am wasting my time. If we are to engage in such sessions, we should, perhaps, have people here who have the authority to answer questions. I have asked five questions and have not got an answer.

The Chairperson:

Does anybody want to respond? Do you have information on the foreclosures of businesses, or could you retrieve that from your records?

Mr Byrne:

I will comment from the Bank of Ireland's point of view. That issue came up at a private meeting with the Church leaders, and in the Bank of Ireland's experience that number has been very small in the past year. Without being specific, there was one administration and a very small number of receiverships.

Mr McNarry:

That kind of information is helpful to enable us to get a picture. It is a small number with your bank; what is it with the rest? Without those answers, this morning's session does not have the substance that we have been led to believe it has.

Mr Kingston:

I do not have that detail, but it is a small number in our bank. I have details on the personal side, such as mortgages and family homes. That is, perhaps, relevant to some of those comments. We have repossessed only one mortgaged home in Northern Ireland this year, which was a vacant property. There has been no significant increase in numbers on the personal side, and details of the number of mortgage customers in arrears are in our briefing note.

The Chairperson:

Does the repossession that you mentioned relate to a business loan?

Mr Kingston:

No; I am talking about personal side, such as mortgaged family homes. On the business side, it is a small number.

The Chairperson:

Dawn Purvis wanted to know how many homes had been repossessed as a result of default in business loans. Do you have that information?

Mr Kingston:

The number of homes that we repossessed is included in the figures that I mentioned.

Mr Kilty:

I will respond to some specific issues from the FTB's point of view. Mr McNarry mentioned deposits. I am sure that my colleagues will agree that competition in the deposit market is red-hot. There is intense competition, not only among the banks here but with all the other players who compete in the market in Northern Ireland. That ensures that depositors will get very good rates in the current market in the short and medium term.

Mr McNarry:

Are you trying to kid us that the market is red-hot? What incentive is there for savers?

Mr Kilty:

Look at the statistics.

Mr McNarry:

They give their money to you for three years, maybe. However, before we get to the three years stuff, what incentive is there?

Mr Kilty:

I will let some of my colleagues speak in a minute. It remains a simple fact that here and across the United Kingdom, the competition amongst banks for deposits is as competitive as it has been for a very long time.

Mr McNarry:

The rates are lousy.

The Chairperson:

The rate of return is still very low, is it not?

Mr Elvin:

A very important point has been raised. I did not get to raise it the last time I was with the Committee, but it is important that it goes on the record. When people talk about the cost of funds and base rates, they need to remember that the base rate is currently 0·5%. Traditionally, over many years, savings rates were around the base rate. If one tracks the situation over the past 20 years, savings rates largely reflected base rates, and those were paid to customers. However, it is 300 years since the base rate was 0·5%. People do not remember that. The base rate was the flag for depositors. As my colleague, Mr Kilty, said, the margin in the market for savings at the moment is north of 3%, so it costs the banks a significant amount of money to attract those deposit rates at 3% or more. Savers are getting a very good deal.

I will not comment on what the inflation rate is and so forth —

Mr McNarry:

For goodness' sake.

Mr Elvin:

— but in respect of what is happening in the marketplace, it is a very costly exercise for banks to raise retail deposits at 3% or more.

Mr McNarry:

That may be the case, Mr Elvin, but the fact is that there is a cap of £50,000 for each saver. There has been no sign that the Government have enough confidence in the banks to double that, triple it or not have a cap at all.

Mr Elvin:

I do not think that that is an issue for this forum; it is for Treasury and further afield. Colleagues from First Trust and Bank of Ireland will have a slightly different take on this because of the Government guarantee scheme, of which we and Northern Bank are not part. That is a different issue.

Dr Farry:

I welcome the representatives from the four banks. We are pleased that you have come to talk to us. We know that there is not a monolith, and that there will be differences between the policies and practices of each of the four institutions.

I return to the point made by Jennifer McCann about risk and balance sheets. Some banks receive Government support and some do not. The principle has been established by the British and Irish Governments that they will not allow banks to fail. In that sense, banks are in a privileged position and are different from any other business. The central accusation that still stands is that although a certain degree of security has been given to the banking system; that security has not been extended by the banks to the businesses that do business with them or that seek to do so, and that banks are addressing their balance sheets ahead of the interests of business cash flow. I would like all of you or some of you to respond to that point.

Will each of you define clearly what you understand to be a viable business? Some of you referred to the fact that you are still in the business of lending to viable businesses. There is a complete lack of clarity and transparency over what is meant by a viable business. We have heard cases this morning and on other occasions of businesses that turn over significant profits being deemed as not viable by the banks. We are struggling to get our heads around how that can be the case. There are even situations in which some companies are being forced into administration by banks at a time when they still turn out profits. The whole point of the Government support to the banking system was not out of love for banks, important as they are; it was about ensuring that credit flows freely throughout the economy.

The final point that I want to address is the enterprise finance guarantee (EFG) scheme's take-up level. There are major differences between the banks here. Ulster Bank talked about 80% of the loans in Northern Ireland coming from it. Based on the figures that were provided by the Northern Bank, it is a range of between 5% and 15%.
It may be that other loans are going, so you have no need to do that, or something else may be involved. However, when you look at the take-up of the scheme in Northern Ireland, relative to the other 12 regions in the UK, we are, by far, the lowest per capita. Perhaps you can explain that.

Mr Givan:
Thank you for coming along. The most frustrating thing that people in business who I am speaking to say is that they have never defaulted on any of their repayments and they have had overdraft facilities, but you, on the instruction of the banks, have stepped in and forced them to either convert their overdrafts into loans or to come off the Bank of England rate. You have then put them on to the London inter-bank offer rate (LIBOR), which, of course, changes more regularly. Therefore, they cannot forecast their costs in the same way as they could when they were on the Bank of England rate. I can understand why you do that; it suits the banks. You obviously have to have a certain amount of capital against the overdraft arrangement, regardless of whether that business uses the maximum amount. Therefore, it suits the bank to make changes on those types of companies. However, those businesses have been loyal, have never defaulted, but they are now being punished because of the banks' past misdemeanours. With the exception of the Northern Bank, when you needed help, the Government stepped in and gave you that help. When companies that are not failing and that are viable and sustainable into the long term come to you for help, and when you in turn, have received assistance from the Government, surely you have a responsibility to help those companies get through that particular problem. Can you address that?

I am concerned when the First Trust says that it is not actively seeking new opportunities in business. To me, that flags up a health warning for that company, and it reduces the competition in the market, because if you are not seeking new business and it is left to other companies, the choice is restricted. That concerns me. You say that your priority is with existing customers, but that is not what I have heard from them.

I know of one successful business in my constituency that has never defaulted but is having strong difficulties with the local bank. Furthermore, again with the exception of the Northern Bank, the centralisation of your staff to whatever relevant headquarters sends out a message. To me, that is cause for concern about your reluctance to engage with customers at the coalface, which is what you used to do. There is a duty on the banks to behave not in a reckless, but in a generous, spirit, given the generosity with which the Government have treated you.

Mr Elvin:

In case my memory does not serve me well, I will start with the most recent question and work backwards. I want to put on record that centralisation has not been evident in the Ulster Bank. I know what the Northern Bank and other banks have been doing, but in the Ulster Bank, we have not changed our structure in 10 years. Indeed, we are the only bank that has given a commitment to the marketplace not to close any branches. The other banks have not given that commitment. We have given a commitment not to close 90-odd branches, so that gives absolute local involvement. We have not changed our decision-making role, and we have not moved staff back to centres. We still have the same number of staff in the branch network and in the business centre network. Therefore, centralisation has not happened with us. That has been evident for 10 years.

On the question of the Bank of England base rate and the LIBOR, the same can be said for all banks, because a number of them moved to the LIBOR. It has been said that the LIBOR moves more frequently, but the reality is that it has not moved in the past six months. It has sat at 0·7% for the past six months. Therefore, it has not been a volatile rate. It is a rate that all banks above a certain level have moved towards.

Mr Givan:

It is a more expensive rate.

Mr Elvin:

It is more expensive. Historically, LIBOR tends to track the base rate. However, there is a differential of 0·2% at the moment.

Mr Givan:

You changed for a reason.

Mr Elvin:

We changed for a reason. I make no secret of that; it was a structural reason that said that large loans should be priced off LIBOR. That is the proper base to price off, and we moved to that. In the end, it makes very little difference to the banks from a funding structure, as your colleague Mr McNarry, who has left, said. In fact, the base cost to the banks is a function of deposits, LIBOR and other mixtures that make up the borrowing costs for the banks.

LIBOR is not the problem. If I gave a loan to you now at LIBOR plus 2%, the bank would be losing money, because it is costing them more than 3% on the deposit side. Therefore, you have to look at it in the round. We have no policy of moving people from overdraft to term loans. I will not deny that there may have been one or two cases of that, but it is not a policy.

EFG speaks for itself. We took that on board. We believed that it was the right thing to do. We believed that there was a number of customers to whom, on a marginal call, you probably would not have provided the loan. EFG was the difference between giving that customer the loan and not giving that customer the loan. Experience is the proof of the pudding, and one or two of those customers have already defaulted. That tells me that they were risky customers. They would have been risky without EFG, but they would have been risky with it, and they went bust. However, we gave them the chance. EFG is all about giving the customer the chance, because, in other circumstances, they would be turned down.

What is a viable business? A viable business is simply one that can continue to trade in a way that will fund its interest and repay the capital sum of the loan over a reasonable period. That is the textbook definition of a viable business. Now, we —

Mr Givan:

What is a reasonable period?

Mr Elvin:

That depends on the business. If it is a long-standing business, you will take a longer-term view, which may be seven or 10 years. If the business is very fickle and prone to quick changes in market conditions, you may want the loan over three years. It depends. If it is a long-standing business with a track record, you will take a longer-term view. However, that is a viable business, all day long.

On the question of support for businesses, I sat in a meeting this morning where we had 10 difficult customers. If we wanted to be difficult, we would have put receivers into half those customers. We did not. Those customers are getting our wholesale support. They are not meeting interest payments. They are certainly not making any capital repayments, and we are forgoing interest to give them a chance. I know that the same is happening across the piece. The banks, and I can speak only for Ulster Bank, are giving those guys every chance.

I am disappointed by the feedback from the IOD survey. I got into deep water on that before, so I will tread carefully, because I could get straight into deep water again. I would be asking how many people responded to the IOD survey, bearing in mind that there are about 100,000 businesses in Northern Ireland. I think that there were 100 respondents to the previous survey. If you go on the website, you can respond to the IOD survey. I would love to see a truly widespread survey that gives a true reflection of how matters stand.

The Chairperson:

Why do the banks not do that to resolve all the problems that were raised today? I do not mean the Ulster Bank. There is a serious gulf between what we are hearing and what the banks are saying. What Mr Givan said about overdrafts being turned into term loans seems to be common practice across the banks. You say that that is not the case, but it seems to be common practice.

The level of rejections seems to be higher than you suggested. We do not know the percentage of rejections; it would be helpful if you would give us the details, perhaps not now, but later. There seems to be a gap, and perhaps if you were to get some independent commercial organisation to conduct a scientific survey, the situation for all of us might be resolved. I will just throw that idea out as a suggestion.

Mr Kingston:

As I said, we have heard a lot about the importance of communication. I agree with that. A lot happening is in our efforts to communicate better. However, that is best done face to face, particularly with the business market, and that is what we are trying to do.

Mr Kilty:

I will pick up on a number of the themes and observations that have been made. It is important for the Committee to recognise that, in all the banks — I will speak specifically about FTB, but it is a common factor — a significant amount of restructuring of borrowings is going on all the time. Therefore, where viability is shown and where there is a hiccup in cash flow or where the existing borrower cannot meet the repayment, we have extensive teams of people restructuring facilities with borrowers in an effort to see whether those businesses can be helped so that they can tide over a tight cash flow situation. That will typically manifest itself in interest-only facilities for a period, so that capital repayments are deferred or put aside. To pick up on some earlier comments, in many cases, the underlying interest rate is kept artificially low to help the cash flow through a difficult period so that, on the whole, perhaps in two or three years, when market conditions are better, cash flows are stronger and market prices are perhaps better, those businesses may be helped to tide over.

However, we are all realists, so that is not to say that every single business can be maintained. Indeed, many of your constituents will have been caught up in land and development loans, and the reality is that a very great number of land and development loans have no capacity to be viable, whether they are measured over 10, 20 or 30 years. That relates to the point about defining a reasonable period. Some people are so significantly under water in their capacity to fund and pay both the capital due on those loans and the interest on them that the banks effectively have to write off the loans and ultimately take possession of the asset.

In many of those cases, the borrowers themselves are putting their hands up, recognising that we have had a credit tsunami — in my view, it was a one-in-100-year collapse of the property market — and saying that the earlier financial model is simply incapable of working over any long period of time. Therefore, they voluntarily agree to give up the asset. That is what happens when there is a property implosion of the scale that we have had in this market. It is very important to come back to the point that this is of a truly one-in-100-year scale.

Dr McDonnell:

I am almost reluctant to ask questions, because my difficulty is that we are on different planets, and the people I deal with every day are on different planets. I fully accept the point that you guys are making, but I take Mr Kingston's point about the communication difficulty. The communication difficulty is not only with your customers but with your staff down the line, because those who I speak to are in fear and dread that if they actually smile at a customer they will be sacked. I am deadly serious, Mr Elvin.

You can look through the IOD research. I do not have quite as much research as that, but I have nearly as much. I have been working at it for the guts of two years. Quite frankly, we are on different planets. People out there see it as quite a ruthless operation to take out whoever has to be taken out; they see that banks are acting in their own self-interest and that balance sheets will have to be got into shape. Neither public interest nor sensitivity is involved.

As far as people are concerned, bankers — although perhaps not those at your level, but those way up the stairs somewhere — got heavily involved in gambling with other people's money; that is, their clients'. Effectively, you have now become loan sharks in trying to recover some of that money. That is the perception. There is a need for some sort of communication, not just with the public but with your own staff down the line, who are in fear and dread of being shown the door on Friday afternoon — not even at the end of the month, but at the end of the week.

We have heard from businesses. I have tons of cases — 40, 50 or 60 — of people who have been put out of business. Of course, your survey does not go near those people. They are no longer customers; they are gone and have been filtered out. You are suddenly reviewing businesses, withdrawing finance and increasing interest rates all over the place. We have heard stories of people who are being pushed over the edge. Perhaps they are telling us lies, although to all intents and purposes, it seems that their businesses are reasonably viable. I do not think that many businesses are viable at present. However, most that we have been dealing with appear, on the surface, to be viable.

I differentiate between you and the organisations that you represent. The state, whether it is on the southern side of the border or in London, has underpinned the banking system and your company. However, you are not prepared to accord similar courtesy to members of the public. The difficulty is that my tax, which may not be a great deal, even though I pay a fair bit, goes to prop up your bank and will continue to do so for a number of years. That is the problem, and that is people's concern. That is why they see banks as greedy, selfish and irresponsible. In the past, banks have been irresponsible by gambling with clients' money, and today, they are being irresponsible by pushing people over the edge. There is no profit to be made or any benefit to be gained for any of us by pushing out viable businesses. I am talking about construction businesses rather than property development businesses in many cases. Further down the line, small subcontractors or employees are being pushed over the edge.

We will be hit with public spending cuts. When those two matters coalesce, they will seriously damage all of us. Honestly, we need to put our heads together. A wee bit — a wee hint — of softness, understanding and tolerance must come from those of you who have not shown much until now. I am differentiating between you, so I will not be specific at present. We have got to stay alive. We either hang together on this or we all hang apart. The economy is very fragile. Banking depends on, and will prosper in, a more robust economy. I have serious concerns that our economic situation will be damaged desperately.

Can we just come down from the ivory tower and back on to street level and look at and put ourselves in the shoes of the small builder who has been in business for 40 years and has never had either a cough or a difficulty? We are not talking about the crazy stuff, such as your seniors or controlling companies who got into bed with mad developers who lost the run of themselves. We are talking about the bread-and-butter, middle-ranking people. Rather than generalise, can we honestly show some sympathy? Every week, I have two or three people in tears on my doorstep. They are tough people who have been broken. That is the planet that I am on, and it bears no resemblance to yours.

We are not here to be mean or rude to you. We are here to try to find some common purpose in the middle of this situation. During the past two years, I have been to a number of the meetings that we are talking about, and quite honestly, we have yet to find a common purpose and sense of common direction.

Mr McKay:

Economic recovery is a priority not only for the Executive but for the Assembly. Unfortunately, banks are not part of the solution to rebuilding the economy; they are part of the problem and are holding up economic recovery. The evidence that we heard today reinforces that. We heard evidence this morning from businesses that have been directly affected, and we also heard evidence from the Churches. Those organisations came to us with some very troubling stories. In a number of cases, people have taken their own lives as a result of a number of factors, one being that they could not get money from banks, even though they have viable businesses. From what we have heard from you so far, that simply is not good enough.

Mr McNarry asked about statistics. We do not know where we are, but we need to know. You are all very well-paid members of banks, and you were asked a simple question about the number of loans that are being turned down and the number of small and medium-sized enterprises that are being turned down for loans, yet you cannot give us any indication of those figures. I get the impression that the banks know fine right what the figures are, but they just do not want to share them with us. Given the banks' extremely bad public image, I do not think that it does them any good to come to the Assembly, to representatives of members of the public, and to not come up with any answers. That is not good enough. Other members are right in saying that taxpayers bailed you out and footed the bill for the mistakes that the banks made, and all that taxpayers — your customers — are asking for now is a little bit of latitude and generosity.

Loan applications are coming in for viable businesses, and, in a lot of the cases that we heard about today, people are being bullied, they are being pushed to the wall and are being put under extreme stress and duress. That is absolutely unacceptable. I want to know how many loan applications were made from the small and medium-sized business sector over the past couple of years. I want to know how many applications were turned down and how many were accepted. I want to know whether you or your advisers have those figures here today. If you do not have those figures, can you provide them to the Committee?

Mr Kingston:

That information is in our briefing note. I have given you figures on 3,500 business applications since the start of this year.

Mr Elvin:

I provided that information the previous time that I met with the Committee. I can tell you today that on our part, the approval rate in the SME sector, which is provided to the UK Financial

Investments Limited on a monthly basis, is 87%.

Mr McKay:
How many applications were made?

Mr Elvin:
I do not have information for this year to hand, but I can get it. Nevertheless, the approval rate is 87%.

I would like to address two issues. First, it is far too easy for everyone around this Table to say that the businesses in question are viable. You have to look at each business to see whether it is viable. It is not right to say that a business is viable simply because a customer comes along and thinks that it is. I simply caution against using the word "viable" too easily.

Secondly, I take on board what Dr McDonnell said about the small builder. We are trying to support small builders, because they are the backbone of any construction going forward. That is where the skill base is. We all have our problem with the big developers, and that is well documented, so we can park that issue. However, in cases where you are trying to work the issue through with the small contractor, it is complicated by the fact that a number of those builders are very good, but they took huge risks and got themselves into land banking and so forth, and that is very difficult for banks.

That complicates it. Where the case that we are dealing with is that of a straightforward builder, we will do everything that we can to help them. I fully agree that the banks need to develop and support those people, because they are the backbone of the construction sector going forward. There is no question about that, and that is what we are trying to do.

However, we have to differentiate. In my book, there are three categories: the big developer, on whom we all agree; the middle developer, who has been a contractor but who has branched out into development and areas that, in hindsight, he or she would have preferred not to; and then there is the guy who does the honest day's work and who has 20 employees. The people in the last category are those that we really want to support, and the middle territory is the one that is really difficult. I wonder whether my colleagues want to add to that.

Mr McKay:

Can I come back to the point about the Northern Bank's figures on SMEs? Is the research document in our papers?

Mr Kingston:

Yes. In paragraphs 10 and 11, and as I said in my opening comments, we tell you that we have approved £500 million of business lending. I told you that there were 3,500 applications. In paragraph 11, I state that our approval rate is in excess of 90%, by both number and volume of applications.

Mr McKay:

It does not say how many applications were made in 2009-2010, which is what I was asking.

Mr Kingston:

That is the figure of 3,500 that I shared with you in my opening comments.

The Chairperson:

Thank you very much.

Dr McDonnell and Mr McNarry raised the issue of what is colloquially called "the fear factor". Customers are fearful of the banks and feel that they are very aggressive and bullying in their negotiations. Would any of you like to comment on that? The Churches mentioned that in their presentation, and the IOD also discussed it

Mr Kilty:

FTB's position is that we have established robust arrangements for handling complaints. The same may apply to the other banks, but they can speak for themselves. We have established the treating customers fairly (TCF) environment with the FSA and the regulator. We have a whole series of internal practices and procedures that is designed to ensure that our staff behave with utter professionalism.

The Chairperson:

Can I stop you there, Mr Kilty? I do not think that it is a matter of staff being ill-mannered or rude. The terms "bullying", "aggressive" and "fearful" are used in a wider sense in that they reflect the attitude of the banks in demanding certain things and forcing certain things on customers. That fear factor has come into the relationship between the bank and the customer. I think that it is bad, if it exists. Although that is a comment from an individual, you all need to address it and consider whether it exists. From time to time, one encounters ill-mannered bank staff, but that can be dealt with and is a minor issue.

Mr Kilty:

We discussed these issues at length with the Churches, and I think that they took our perspective on board. I cannot relate to the notion of banks, and this bank in particular, bullying customers. One of the characteristics of the banking market in Northern Ireland at the moment is that the last thing that this bank wants to do is to push businesses over the edge, if I may use that term. The bank wants to ensure that it recovers its debt if that is at all possible. In many situations at the moment, the way to minimise recovery for the bank is to push companies over the edge. I return to my earlier point: the bank, and the banking sector generally, I believe, is working hard at restructuring facilities where businesses are viable until a time until market conditions improve. The last thing that any bank wants to do at the moment is take possession of an asset. The market for the disposal of assets is flat. There is no active market for any asset, particularly property and development, of any shape, size or form. Where does the advantage to the banks lie in shoving businesses into administration when there are the extra costs of administration to consider, as well as the extra likelihood that the asset would recover even less of its value?

We will work very hard to ensure that we minimise the appointment of administrators. As I said earlier, there will be some activity around undeveloped land or land that is now hopelessly under value relative to on-the-line debt. In many cases, the bank will be forced, by agreement, to take back the asset because the borrower is not able to deal with it.

Mr McHugh:

I listened to a programme on RTÉ on a Sunday morning recently in which Miriam O'Callaghan interviewed Professor Maurice Neligan, an eminent heart surgeon, about his life and times. He is in his eighties and is very healthy, and she asked what he puts that down to. He said that people should never go near their doctor. *[Laughter.]* That is not an aspersion on the doctor beside me.

Dr McDonnell:

I agree with him. *[Laughter.]*

Mr McHugh:

Whether our small businesses or micro-businesses have a fear of their doctor is one thing, but they do have an immense fear of the banks to the point that they will not even phone their local bank manager because they might find out something that they do not want to hear. I have a list of questions that I could ask that have not been answered so far. That is quite telling.

One of the mainstays of our island economy is the food sector, including the micro-food sector, micro-industries and micro-businesses. Young people are leaving colleges such as Queen’s University with ideas that they want to progress. However, given the present atmosphere around banks, they will have to go abroad to do so. That will be a great loss to us in the future as they could be the mainstay of our future industry.

I am thinking about the long term, and given the current situation and the relationship between the banks and the public, where will we be in 2020? This is not just a perception; it is very real. I know very good businesspeople who will not ring banks, but will, instead, ask me the questions. It is a curious situation, and it is based on more than perception. On top of that, there are bad stories out there, which lead to a fall in demand for opening new accounts. If I want to change banks and open another account, it is a closed shop. People might find bad practices in their present bank, or might want to move for some other reason, such as charges for overseas withdrawals. Some banks charge £2 for every transaction that takes place in the South. What kind of a business is that for banks to be into?

Are we back to normal times? We had a boom, and perhaps we are back to normal times. Banking may now be, perhaps, more akin to what we were used to 20 years ago. However, a lot of young people are involved in business now, and they do not know about that and have only the boom to benchmark against. They have vibrant businesses that are quite viable considering the times that we have just been through. Can you assuage the fears of those people to enable them to come to you? Some of them tell me that they have no bank manager anymore because that person has been removed and that, therefore, the last vestige of connection is now gone.

Who do you lend to at the moment? What percentage of loans do you put through your books as approvals? What types of businesses are they? What are the criteria for the withdrawal of overdrafts and so on from shops? I am talking about food businesses. I am not talking about the construction industry because, given that it is in such a dire position, we might as well leave that out of it. However, people say that rates of 7% are choking businesses. Indeed, start-ups have to think about that before they start.

What are you doing about Northern Ireland businesses that have been placed into NAMA? What is your role in that regard? Can you prove to people that you are in the business of helping rather than crippling their businesses?

Mr Cree:

It has been a long day. Sometimes, I think that life is too important to spend it like this. However, I had a lot of questions. Some were answered, some were touched on and a lot I lost somewhere. I would appreciate clarification of one basic issue. We know that there are moves to increase the Basel III core tier ratio. How can we be assured that the banks are striving to strike the right balance between boosting their capital reserves and cutting off the flow of credit to businesses? That is a fundamental issue. Please give me your views and clarify where we are in that regard.

The other issue that still exercises my mind is about the property books and the question of the fall in value of properties. What is happening now? Mr Kilty mentioned recalling the asset. A lot of complaints that we received were about losses of value having to be refinanced. Will you update the Committee on that?

Mr Kilty:

I will kick off on the Basel III issue. There is a disconnect between the medium-term ambition to demand greater capital to be held by banks, which will create a safer banking environment from which we will all benefit, and the pressure or challenge for banks to lend at this point. Although there are different messages, one of the emerging issues from the new capital requirements is that they will be introduced on a deferred or longer-term basis to allow the banks, and, hence, their role in the economies, to recover. Over time, however, an impact of the emergence of higher capital requirements, despite the positives that will be associated with that, will be that the higher capital that the banks will have to maintain, the higher margin they will have to achieve in their loan business to meet the cost of that capital. We could spend a long time getting stuck into that issue. In the meantime, those new requirements are not having an impact today on the appetite of banks to lend.

Mr Kingston:
Mr Kilty referred to the Bank of England's quarterly report, which had a useful article about the cost of lending to households. One of the issues that it raised about the cost of funding and the wider costs that face banks was the very point of capital and a likelihood that that will continue to have an element of pressure over the coming years. I have said already where Northern Bank stands in relation to capital, our balance sheet and the group, so I will not reiterate that.

I will pick up a couple of points from Mr McHugh to give members a feel of where the lending is going. My data indicates that the food sector is the largest single sector into which we lend. Members will be aware that Northern Bank has a certain affinity and heritage with the agri-sector generally. That sector is our largest single division of the lending that has happened in the past six months. Mr McHugh made a fair point about communication. I think I have made my point on that. It is hugely important that banks communicate better, which is why we initiated actions like our business managers making outward calls to customers to tell them where we stand. We are not part of NAMA, so I will leave that question to others.

Mr Byrne:
I will take some of the points that were raised. As I said earlier, our approval rate is approximately four out of five, or 80%. Our 'Essentials for Business' product is targeted at the small business sector and is very much in the spirit of what we are talking about today.

Our product is a combination of unsecured loans up to £50,000 and secured loans up to £250,000. We are looking to see start-ups coming in to us in that space to apply for unsecured funds. We would like to see more of them, and we need to get that message out more. We are working through the media and through our people making outbound calls to get small businesses coming into us. Pricing is 2% over the base rate; so it is 2·5% for the £250,000 and 4% over the base rate for the unsecured, so 4·5% in total. We are very competitive, and that is what is making the product very successful.

We have publicised to 3,000 in Dungannon last month, and we want to see more of that. We are very much open for that business, and we want to see start-ups coming to us. As I said, the approval rate is four out of five. We cannot do all of them.

When I joined the bank 40 years ago, the question was: what is the viable repayment capacity? One can assess that any which way; but it has not changed in 40 years, and it is the same today as it was then. It is not about the asset, it is about the project, the individual, the principles, the track record, the term and the size of the finance. All of the basics are still in play, and we want to see more of those small businesses coming to us.

In relation to capital, the Bank of Ireland has gone through a very successful capital raising programme over the summer, raising almost £3 million in additional capital. Our capital ratios are now well in excess of the regulatory requirements, which we are pleased about, although it does create the balance pressures that we spoke about earlier. Our restructure plan, which includes our plans to repay the Irish Government, has been approved. Our plan has also gone through various European Central Bank (ECB) stress tests and passed those, so we believe we are well capitalised and in a position to do the business we want to do. We have money to lend, and we specifically want to lend it in Northern Ireland, and specifically to small businesses.

Mrs McGill:
Most of the points have been covered, but I want to put on the record a selection of comments made by my constituents in West Tyrone who have spoken to me in advance of today's meeting. The first is that banks need to take a hit as well as everybody else. They pay themselves big bonuses, and everyone else then pays for that. I am giving this comment exactly as it was said to me. There is a rush to bankrupt organisations, which serves no one well. If land were to be seized, as someone said earlier, there is no one to buy that land. One constituent believed that it would be a strategy to revalue houses and then give mortgages on the back of that. The last point made to me, and it has been made by many members here, is that the local bank manager is missed very much.

I have two further points in relation to comments that were made in contributions. On the report or business plans, Mr Kilty — it was either Mr Kilty or Mr Elvin; my apologies — said that that was reverting to good practice of 10 years ago. The culture is quite different now. Banks are in a very powerful, authoritative and — the perception is — very threatening position. When someone goes in with a business plan, from what I hear from constituents who raise it with me, it is significantly different from the way it was 10 years ago.

Finally, when we talk about viable businesses going to the wall, the painful irony in all of this is that the businesses that were most obviously not viable in the last while were the banking organisations.

Mr Hamilton:

I am not going to indulge in a round of bank bashing, because I never thought that to be particularly productive. The harsh reality is that if, as others have said, we want to get out of the economic mess we are in, we are going to need the assistance of banks; although I have to say, given some of the stories that the Committee has heard this morning, we could certainly indulge in giving you a very good kicking. But, as I said, I do not think that is productive or does anything to acknowledge some of the good initiatives in which some of the banks have been engaged in the last number of months.

I want to make two points. The first one probably cannot be answered now, but I would appreciate some feedback.

Mr Givan said that companies in his area are saying that they have had their overdraft facility reduced substantially or converted to a loan. I think every member can probably testify to the same for their areas. Mr Elvin said that that was not a policy. I am pretty sure that there is not a policy sitting in the headquarters of the banks represented here saying that that is what they must do. However, I want to know what happens in practice. It may be useful for us to have any data for the past number of years showing how many overdraft facilities were reduced, how that compares over a period, and how many were converted to loans.

As others have stressed, the banks need to be a little bit more self-aware. Mr Byrne said that after having had a conversation with Church leaders, he asked for specific information about the Bank of Ireland to be fed back, and none was received. From what we have heard today, from what others testified, and from what I and other members could testify to having spoken to businesses in our own areas, you did not hear anything back because of the fear factor.

We heard evidence, which is quite unbelievable, from a customer who opened a facility with bank to try and alleviate some of the problems and pressures that had been put on him by another bank. The opening of the account with another bank was then cited as one of the reasons why the loans were called in. There is real fear out there. Having listened today, I wonder whether the banks are aware that there is a fear among their customers.

It does not matter what I think about what the banks are doing, what this Committee thinks, or even what the wider public thinks. However, how your business customers perceive you does matter. I think that you are unaware, maybe blissfully unaware, that there is a feeling among your customers that in some cases you are a threat to them. You need to be a little bit more aware of how you are being perceived by your customers. No matter what survey feedback you get, there is a perception that you are not as helpful as you could be.

The Chairperson:

That concludes the questions. Some points were repetitive, but the nature of this type of meeting means that issues will come up time after time, and we have to take that as read.

Mr Byrne:

I want to pick up on the last point. I hope that we all share the concern that if customers do feel fear or feel threatened, and I acknowledge the serious comments that were made earlier, then that is something that we need to address. We came away from the Church leaders' meeting committed to going back and communicating again with our people If there are things that we are doing or not doing to cause this to happen, then we need to address it. We want to address specifics.

What I would ask on behalf of my people, and, indeed, from the Committee in whatever way it can influence matters, is that we need to hear from customers who have a problem sooner rather than later. We would rather that people came to us in a proactive way so that we can start dealing with the problem, whatever it may be, in a collaborative way, rather than us calling them when we see the problem evident in their account.

It is a little bit like, perhaps not the doctor, but when people wait for a toothache before they go to the dentist. We like to think that they will come and talk to us, because this is a lot more serious than a toothache, if I may put it that way. I understand the point that you are making, I think that our people understand it, and there is now an onus on us to reach out to our customers. We are trying to do that, and I hope that our customers will respond, and feel that they can come and talk to us, and that we will work with them, because that is what we want to do.

Mr Elvin:

All I would add is that we have made a number of commitments. Most recently, we issued our commitments for retail and business. We call them commitments, but they are more like a charter.

We have made those commitments. We will be audited on them, and we still stand or fall on the independent audit report. We are coming to the fore, and we have a number of further initiatives to announce. Unfortunately, had today's meeting been one week later, I could have told members about those. However, that is embargoed until Monday. That information will answer some of the questions that have been tabled today about our commitment to people. However, it will be announced on Monday, and I will ensure that each Committee member gets a copy of that.

Mr Kilty:

We welcome the interaction with the Churches. Dialogue is important, and the interaction today has been helpful. We all share the responsibility. FTB's history is in the community, and it acknowledges its responsibility to support our customers so that the local economy and our business customers can thrive again. We have to deal with that against a background of monumental change and difficulties, and I suppose that that reflects some of the angst and personal anger that exists.

The way forward is for the banks to recover their position and get their recapitalisations in play. As I said earlier, that is our plan, and our future lies in us being a supportive and valuable bank in the communities in which we operate. That is the attitude that our staff will maintain. Like other members of the banks, we have engaged, on an individual basis, with many Assembly Members and with many of those who represent constituencies in the House of Commons and the House of Lords. We will continue to meet customers and their representatives at any place or time to, at least to try to exchange views and understand whether there have been communication difficulties over issues and whether interaction might solve those issues. I reassure the Committees that we are very clear about our role to work through a very difficult environment for our businesses and the economy.

Mr Kingston:

On behalf of Northern Bank, I appreciate the time that the Chairman and the Committees have given today. We value that process of engagement, and I say that genuinely. We pride ourselves on being part of the local community. We are intrinsic to that community, and we take the views and feedback that is expressed at these sessions very seriously. Northern Bank is in a somewhat different position that brings not only opportunity but responsibility. We are conscious of that and will continue to try to communicate that message and that difference as well as we possibly can in the months ahead. Thank you for the engagement and feedback today.

The Chairperson:

Thank you all, gentlemen, and your colleagues who had a non-speaking, advisory role. Thank you very much for attending. We might follow up by sending some written questions to you. Perhaps you will be good enough to correspond if we send those questions.