

THE  TIMES

Banks hit small firms with a left and a right



Barclays, HSBC and Royal Bank of Scotland were among those involved in the deals Peter Macdiarmid/Getty Images

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Small-business victims of mis-sold interest rate products could have been hit a second time as banks overcharged for products they gave in compensation.

Analysis of so-called interest-rate caps handed to small businesses by lenders, including Barclays, HSBC and Royal Bank of Scotland, found that victims were charged more than ten times the real cost of the products, leaving them thousands out of pocket.

One replacement cap awarded to a Barclays customer and priced at £29,693 was calculated to have had a fair market value of £1,825, according to a report by Nick Stoop, a derivatives expert at Warwick Risk Management.

In the case of another cap handed to an RBS customer, the price quoted for a five-year cap was put at £20,829. However, when Mr Stoop reviewed the prevailing market rates at the time, he found that it was worth £3,700.

In one instance, Mr Stoop argued that the customer's total loss, taking into account unpaid compensatory interest, was £202,403.

Mr Stoop, a former derivatives trader and a mathematician, used historical market pricing information available at the time the caps would have been priced and compared it against the valuations provided by the banks.

Using caps to compensate victims of swap mis-selling is contentious. MPs on the Treasury select committee warned the Financial Conduct Authority last week that the practice could be hurting businesses. Andrew Tyrie, the chairman of the committee, said that the scheme had potentially provided banks "with an opportunity not to provide meaningful redress".

Mr Stoop's work has been checked by two derivatives specialists who agreed that his calculations were correct. His report was produced for Bully-Banks, a campaigning organisation for swaps victims.

A spokesman for Lloyds said: "When it is determined that a customer in the interest rate hedging product review should be

offered a cap product, that determination, including the pricing of that product, is reviewed and confirmed by the independent reviewer as being both fair and reasonable.”

A Barclays spokesman said: “Where replacement products were provided to our customers as redress under our past business review, these were provided at an appropriate market price.”

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