


Lending to Small UK Companies is at an All-Time Low

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10/25/2010 1:49 PM 



Lending to small companies has dropped by nearly 60 per cent in the past 12 months. Figures show that lending under the Enterprise Finance Guarantee dropped dramatically from £254 million in the first quarter of 2009 to £186 million one year later. It decreased a further 20 per cent in the next three months.

The Enterprise Finance Guarantee, also known as the EFG, is a scheme that offers bank loans to smaller companies.

The decrease in lending is mainly due to the lack of demand from the business sector. Businesses, instead of choosing to invest in new projects, have decided to pay off their debts first. So, this hesitation to take on new loans has caused a fall in the lending business is what the financial experts and banks say. But, another reason for the fall in lending could also be that small business owners may be rushing too much with their applications and therefore, fail miserably in making a successful case to the banks.

Shelley Stock Hutter is a London-based accountancy firm that helps clients to borrow using the Enterprise Finance Guarantee scheme. They said that there was a misperception among the small business community about what the scheme was capable of and that it was of no use to people who needed money in a hurry.

Lynton Stock, a partner in the firm Shelley Stock Hutter, said: "Unless you are a company that is able to put forward to the bank a very good and detailed business plan, which obviously takes time and is expensive, you have absolutely no chance of getting this finance through."

Henry Ejdelbaum, Managing Director of ASC Finance for Business (ASC specialises in arranging business finance for business people, offering a personal and effective service with over 20 regional offices in the UK), said that small businesses were either paying off existing loans or avoiding using the Enterprise Finance Guarantee scheme because of the extensive work involved in preparing and presenting an application. "You cannot just put all the blame on the banks," he said. "Part of it is that people know the banks are difficult, but part of it is the negative economic outlook."

Although banks claim that they are lending more money to small businesses, the demand has dropped dramatically. The EFG scheme was introduced in January 2009 after the initial shock of the financial crisis in an effort to stimulate lending to small businesses by providing government guarantees for a percentage of new debt. Businesses with a turnover of up to £25 million can apply for support through the scheme on loans of between £1,000 and £1 million.

More than £1 billion of loans have been provided by the government since the EFG scheme was created; the coalition government announced an additional £200 million of support for it in the June's Emergency Budget.

The latest figures on business finance under the EFG were obtained by Aldermore, a new British bank. According to Aldermore, the rules governing the scheme could be improved to increase the flow of finance to small businesses. The scheme was designed to provide "much-needed support to small businesses struggling to access bank finance in the worst recession since the Second World War. It was not intended to make the government lender of choice for business".