

Are big banks failing small businesses?

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Banks claim they are lending more to companies but smaller start-ups seem to be missing out. Armed with a business plan, Moneywise hits the high street to find out what cash is available.

The banks have vowed to make it easier for businesses to borrow money. But smaller companies still complain that finance is hard to find. So, Moneywise put itself in the shoes of a start-up firm to see how difficult it is for a business to borrow in Britain today.

The economy has been in turmoil since the credit crunch of 2008, and small and medium-sized enterprises (SMEs) have **found it increasingly hard to access funding** from conventional sources.

Project Merlin

Earlier this year, the government ordered the five biggest banking groups to commit to Project Merlin, a pledge to lend £190 billion of new credit to businesses before the end of 2011. Of that, £76 billion was set aside for smaller companies.

Recent figures from The Royal Bank of Scotland, HSBC, Lloyds TSB, Barclays and Santander show they are delivering on their promise. But research and anecdotal evidence tell a different story, suggesting many are falling short of their lending targets and smaller firms, in particular, are still losing out.

Project Merlin - who is lending what?

The banks have loaned a total of £41.4 billion to small businesses in the first half of 2011, well short of the Project Merlin target. Here's what they have lent so far:

- **Barclays:** £20 billion in the first six months of 2011; £7 billion to smaller firms.
- **HSBC:** Promised £11.7 billion to small businesses for the year; £5.6 billion loaned in first six months.
- **Santander:** £4 billion pledged to SMEs in 2011; £2.1 billion loaned in first half.
- **Lloyds TSB:** £21.2 billion to UK businesses in the first half; £6.7 billion to SMEs.
- **RBS (including NatWest):** £20 billion to smaller companies in the first six months.

Desperately seeking cash

Armed with a business plan and cashflow forecasts, I approached the five Merlin banks to try to open a new business bank account and see what lending was on offer.

The company I invented imported silver jewellery from Mexico, with the plan to sell my wares at festivals and via my own retail website. I claimed to have invested £3,000 of my own money.

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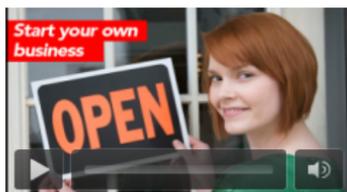
I knew I faced a challenge. The Federation of Small Businesses (FSB) estimates that in the 12 months to June, 320,000 small enterprises were turned down for essential borrowing.

Meanwhile, the Bank of England says the banks fell short of their lending targets in the first quarter of the year. And the British Bankers' Association has found just 59% of small companies were given the loans they requested, 12% were offered less money or borrowing on unfavourable terms, while 28% were rejected altogether.

My initial ambitions, as outlined in my business plan, were modest. I anticipated turnover for the first year would be just £10,000, expecting that to double at least every year, nearing the £200,000 mark in five years' time.

Given my cautious approach and the small amount of initial profit forecasted, I committed not to take any money out of the business for the first year and would continue in my regular job. All I sought was a business **credit card** and a £3,000 **overdraft** facility to allow for stock purchases.

I submitted my initial applications online - a struggle in itself. Some banks required basic details but others involved pages of complicated form-filling.



Starting your own business

Barclays called me back within two hours of receiving my application to arrange a meeting and HSBC was not far behind. Lloyds TSB had to be chased by phone after several days of silence. **Santander's website crashed twice** when I had almost completed the lengthy application form, forcing me to complete the process by telephone. Even then, only a further email and telephone call secured a face-to-

face meeting.

I opted only to go for an account with NatWest, rather than its parent RBS, popping into a branch to speed up the application process.

BARCLAYS

My first meeting: Barclays. A knowledgeable adviser quizzed me for an hour and a half, picking my business plan to pieces and suggesting I had not thought enough about marketing. It was impressive and he suggested I talk to the other banks.

But would Barclays lend me any money? Not an overdraft, it turned out, despite my cashflow forecasts showing this would be essential. I was told I would be eligible for a business Barclaycard with a £3,000 limit.

Clive Lewis, head of SME issues for the Institute of Chartered Accountants in England and Wales, comments: "Businesses like overdrafts because they're flexible, but these days the banks hate them because they don't know the extent to which the overdraft capacity is going to be used and when it will be paid back."

A Barclays spokesperson says: "Barclays is open for business lending, agreeing four out of five applications, a figure little different to before the recession, and supporting record numbers of start-ups over the past year."

Barclays - The Ryanair of banking

LLOYDS TSB

Lloyds TSB was next on my list. When I handed over my business plan and cashflow figures, the business adviser said he did not need them at this stage. I asked about borrowing and was told any decision would be taken by a centralised risk team.

The adviser then started to talk about invoice financing, even though my business was clearly cash-based. A business credit card would not be on offer for the first year. The bank would give no indication of what other borrowing I might be eligible for until I had already opened an account. Catch 22: a dispiriting experience.

"There has been too much centralisation of risk assessment," says Lewis. "For small amounts such as these, the branch adviser should be given the authority to make a decision."

A spokesperson for Lloyds TSB says: "We have been making significant investments to speed up the process of agreeing lending. While we do not currently offer on-the-spot loans, we can give an indicative response straightaway, subject to credit scoring, and this is what should have happened in this situation."

HSBC

Next stop HSBC. A youthful business adviser warned me HSBC has always been a conservative lender and then credit checked me to tell me exactly what the bank could offer.

Having plugged all my details into the computer, I was told £1,500 would be available as an overdraft and a £1,000 limit on a commercial credit card. This overall lending figure might be boosted to £3,000 across both overdraft and credit card if I was referred to a senior adviser in person.

It was good to get an immediate answer but disappointing that half of it was to be on a credit card at an annual percentage rate (APR) of 15.19%.

When asked if the bank favours lending on credit cards rather than via an overdraft, a HSBC spokesperson says: "HSBC does not encourage business customers to borrow on fixed terms."

NATWEST

NatWest was next. A seemingly experienced business manager talked through my business plan and immediately said a £3,000 overdraft should not be a problem.

However, I was told he could not approve a credit card until I had been credit checked and my account had been opened. He also said the APR on the card would be 34.5%, a shockingly high rate that, indeed, proved wrong - the real figure on regular purchases is 16.9%. He was unable to do a credit check on the spot.

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I was pleased to be offered the amount I needed as an overdraft but confusion over the cost of borrowing dented my confidence.

"We offer a unique price promise on an overdraft - we will not increase the rate charged on renewal, as long as the business risk has not got worse," says a NatWest spokesperson. "So far, 300,000 business customers have benefited. We would not recommend a credit card for long-term debt."

SANTANDER

Finally, Santander. I was told I would have to open an account before any firm offer of lending could be made. Again, I asked for a credit check to get a more immediate decision but was told it wasn't possible.

When I enquired whether an overdraft might be likely if I opened an account, I was told I might be granted an overdraft limit of £2,000 and could top that up with a business loan - a maximum, in my case, of a meagre £1,000. Interest charges would be set only when I applied.

There was no business credit card on offer for new customers due to the upheavals caused by Santander's taking over some RBS branches, but a new product would be available at the end of the year.

Santander: The bank people love to hate

Conclusion

Overall, my experience left me feeling that businesses are vulnerable on two scores. There are huge inconsistencies both between the banks and between branches and individual advisers within one banking group.

And, ultimately, even though my borrowing needs were extremely modest, no one offered what I needed.

Even experienced business advisers appear powerless: lending decisions are routinely made by computer or a faceless adviser further up the **chain**.

Banks maintain fewer firms are asking to borrow and BBA research indicates fewer than one in five smaller companies are applying for finance. But the same study also shows a third of these firms did not try to borrow simply because they expected to be refused.

Henry Ejdelbaum, managing director of finance broker ACS Finance for Business, concludes: "Project Merlin has failed. Politicians can't force the large banks to do what they don't want to do and, in truth, they don't want to lend to smaller businesses."

FSB spokesperson Andrew Cave points to the lack of communication between branch workers and the upper echelons of the high street banks: "Over a decade or more, relatively senior people in banks with experience of dealing with business owners have been replaced by sales people."

Put simply, the people in banks who understood businesses have disappeared.