



Picture: CHRISTOPHER COX

**CHOICE:** Frank O'Callaghan picked HSBC when he opened his sweet shop because of its free banking

## Why are hard-boiled High St banks so sweet on start-ups?

WHILE banks have been heavily criticised for squeezing their existing small business customers, many start-ups have been welcomed with open arms.

Stephen Alambritis of the Federation of Small Businesses says: 'Banks are more willing to deal with start-ups than existing businesses and are offering some superlative offers.'

'Hundreds of thousands of businesses will start up this year and the banks want that business. However, they're trying to finance this by being heavy on existing firms and new businesses must determine what charges come into play once the introductory terms end.'

Start-ups opening a standard account with NatWest, for example, could get 24 months free banking with a fee-free business Mastercard or £500 overdraft for the first year.

HSBC offers firms with up to £1 million turnover 18 months free banking and a fee-free business credit card for 12 months. Abbey's business bank account advertises free day-to-day banking 'for ever', plus a six per cent

interest rate on the first £2,500 of a balance for 12 months.

Steve Pateman, head of UK corporate banking for Spain's Santander, which owns Abbey and Alliance & Leicester, says: 'It's a tougher environment in which to set up a business and the banking industry's view on what represents an acceptable risk has shifted.'

'But start-up businesses do not borrow huge sums of money. About 60 per cent of start-ups don't borrow at all.'

'Even when banks lend to smaller businesses they're really lending to the individual and often a personal guarantee backed up by a property is enough.'

Henry Ejdelbaum, managing director of ASC Finance for Business, a firm that arranges funding for entrepreneurs, believes the type of business often determines a bank's behaviour.

'A website business operating from home may have start-up costs of £5,000 or less,' he says. 'It is the property-based and capital-intensive start-ups that

find funding trickier. New firms that need access to significant lending will struggle unless they are well secured.'

Frank O'Callaghan, 42, from Northampton, set up his sweet shop, Humbugs of Towcester, after being made redundant from his job as a manager with an electrical retailer. With 25 years of experience in the retail sector, Frank cashed in an endowment policy and opened for business in October 2008.

'When it came to choosing a bank I shopped around and the reception I had was good as I presented little risk and didn't need to borrow,' he says. 'I chose HSBC because I wanted free banking for 18 months and a free Visa credit card.'

In the first 12 months of trading the business has turned over £46,000 and Frank is happy he ended the year with no debt and is getting more repeat custom.

Frank adds: 'It's been a difficult first year and hard work, but I have more of an idea of what I need and can make more informed decisions.'

-JENNY LITTLE