

Borrowers fail to benefit from banks' riches

Tougher terms

Although lenders have increased profits, they have bumped up interest rates and fees, says **Jonathan Guthrie**

This week's slew of strong banking results makes some small business owners feel like street urchins watching a millionaires' banquet through the window.

"They have made billions of pounds this year," says Philip Legge, managing director of Monarch Distributors in Woolwich. "The least they could do is help me with my overdraft."

The willingness of banks to lend is being questioned by business organisations and politicians. Statistical fog obscures the real position. For example, Lloyds Banking Group reported interim gross lending to UK business at £23bn yesterday, £5bn higher compared with the same period last year. But the bank, which said demand for credit from many businesses was weak, gave no figure for net lending, which may have declined.

Mr Legge says that amid the financial crisis banks were rescued "by people like me" through taxpayer-funded bail-outs. But the rebound in banking profits that is replenishing bonus pools has not benefited small businesses such as Monarch, which binds and distributes calendars and other promotional documents. Sales have fallen sharply to about £350,000 this year.

"If I cannot get an overdraft in the next couple of months I will have to close up and make all 20 staff

redundant," says Mr Legge, who has worked in the family business since 1976.

The idea that banks are withholding fresh credit from small businesses is burnt into the popular consciousness. But a lower profile problem is equally worrying for entrepreneurs: tougher terms for current borrowers.

Henry Ejdelbaum of finance broker ASC sees this as an "invisible tightening" taking place below the radar of Westminster and the media.

For example, Monarch depends for its working capital on HSBC, which avoided a government bailout and this week announced a doubling in interim profits to \$11.2bn. Although

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base rates have fallen to 0.5 per cent, the lowest level for decades, HSBC has increased its interest charge to Monarch from 2 per cent to 2.75 per cent.

Mr Ejdelbaum says that the spreads charged to existing borrowers have typically doubled to 4-5 percentage points over base rates since the credit crunch. Meanwhile, bank valuations of property used as security for loans have become more conservative, reducing loan amounts.

Stephen Alambritis of the Federation of Small Businesses complains that members are "suffering from 'short, sharp fee increases'". Annual audits of loan arrangements – at a cost of about £200 to the borrower – are becoming six-monthly

or quarterly events. "We do not see why these regular reviews are necessary."

He paints a picture of banks working through their lending books, gingerly checking the quality of the loans that were handed out before the credit crunch. According to small businesses, banks are working to improve their security piecemeal. Sometimes they seek charges over directors' homes, threatening to slash overdraft limits if those guarantees are not forthcoming.

There is also a trend for lenders to shift borrowers from overdrafts, which bear fluctuating counterparty risks, on to loans for fixed amounts over fixed periods. The owner of a growing transport company who asked to remain anonymous says: "The bank switched my £30,000 overdraft for a secured loan a few months ago. I didn't feel that I had any choice in the matter."

Figures do not conclusively prove that high-street banks have choked off credit to small businesses. But case studies amassed by finance brokers and small business organisations suggest that relationships with lenders have become more irksome.

Competition in UK small business banking is likely to remain weak until Lloyds makes disposals ordered by European Union antitrust authorities. But faced with an array of banks pursuing broadly similar credit policies, small businesses have the option of not borrowing from any of them. Traditional private companies finance expansion from retained profits.

More entrepreneurs may do the same. The result would be slower UK growth – an outcome no one wants.