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'We needed to invest but banks didn't want to know': Banks must take loan risks to end crisis on funding to small firms

By Helen Loveless

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Government attempts to ensure that more small and medium-sized firms can get finance will fail unless banks change their attitude to business risk, experts have warned.

The Chancellor last week said that the Funding for Lending Scheme, through which banks can borrow money more cheaply when they lend more to small businesses, will be extended until 2015.

For every £1 lent to smaller firms this year in new lending, the banks will be able to borrow £10 in cheaper credit from February next year. For every £1 lent to small companies next year, the banks will be able to borrow £5 through the scheme.

CHIPPING IN: Andrew Hayes's food firm finally got backing from steel giant Tata

Crucially the scheme has been widened so banks lending to specialist finance providers, such as asset-backed lenders and leasing firms, benefit from the subsidy.

Asset-backed lenders, which now account for £18 billion of lending to small firms, secure loans against assets such as machinery, stock or debts owed by customers.

But Henry Ejdelbaum, of accountant ASC Finance for Business, said: 'The architects of the scheme miss the point about why firms struggle to raise funds. It is not about interest rates, it is the way banks view proposals negatively and invent hurdles to protect themselves.'

Roger Skinner, chief executive of asset finance provider Maxxia, is also cautious. 'Asset financing companies remain dependent on banks to provide them with funds via Funding for Lending,' he said. 'The danger of this type of scheme is banks remain risk averse and continue to seek good quality credit.'

In the meantime firms continue to look further afield for finance. Andrew Hayes is boss of Abbeydale Foods in Scunthorpe, Lincolnshire.The firm was set up in 2010 after Andrew bought a pie maker and potato farm out of administration.

Andrew, 50, wanted to buy £100,000 of equipment, but was turned down by banks, which have cut lending to small firms by three per cent a year.

So he contacted UK Steel Enterprise, part of conglomerate Tata Steel, which was set up 30 years ago to provide grants, loans and equity funding in traditional steel producing areas in South Yorkshire, Humberside and the Midlands.

It lent Abbeydale £100,000 and last year provided the firm with equity funding of £250,000 to buy a factory in Scunthorpe. Andrew, who has 65 staff, committed to take on another 25 over the next three years.

He said: 'We needed to invest but banks didn't want to know. Thanks to Tata we have grown. We also have a £140,000 grant from the Regional Growth Fund. There is money out there if you know where to look.'
UK Steel Enterprise has lent over £80million to more than 3,000 firms, creating more than 60,000 jobs.

Late payers are strangling engine of recovery

Pressure is growing on the Government to do more to help small firms 'strangled' by the burden of late payment.

An all-party parliamentary inquiry, chaired by Debbie Abrahams, last week heard evidence from firms and business groups, including the Federation of Small Businesses and the Forum of Private Business, about the impact that late payment – and extending payment terms – by larger companies has on small suppliers, sending thousands under.

Abrahams, Labour MP for Oldham East and Saddleworth, accused big firms of 'misusing their power' and said more must be done to protect 'strangled' small firms if they were to be the engine of economic recovery. The group will publish its recommendations in the summer.

In the meantime Abrahams and the FPB are calling on the Government to allow business groups to represent members anonymously in bringing a case against companies that take 'unreasonably' long to settle invoices. It is understood that the Business Department is consulting on the legal steps this might require.

Since an EU directive on late payment came into effect last month, the public sector is expected to pay bills within 30 days, while private firms should settle within 60 days.

Comments (9)

- Newest
- Oldest
- Best rated
- Worst rated

View all

All Danger is mainly estimated and assessed by looking at Hazard and Risk. I do not think the banks are looking at risk,