

BUSINESS FACES UK CREDIT QUANDARY

With so many small businesses finding credit hard to come by from traditional sources, **Joe McGrath** investigates the alternative commercial finance on offer

OVERVIEW

British businesses seeking growth have faced something of a quandary in recent months. On one hand, business-owners are mindful of the continuing tricky trading environment, which is making many hesitant to embrace the borrowing that is on offer.

On the other hand, businesses are also aware that failing to take opportunities at a time when the trading cycle may be turning could lead to a loss of market share, forward orders or first-move advantages.

The fear of borrowing when the UK economy could yet enter a triple-dip recession may be one reason that the banks claim businesses prefer to build their balance sheets instead of applying for further lines of credit.

However, the banks are being encouraged to lend to small and medium-sized enterprises (SMEs), and evidence from trade associations and lobbying groups suggests that the high-street lenders are being cautious about the business sectors to which they lend.

According to latest Bank of England figures, banks and building

societies drew £13.8 billion from the state-backed Funding for Lending cheap credit scheme in its first five months of operation, but actually cut loans to households and businesses by almost £2 billion.

For those businesses that are looking for credit to assist their corporate growth, the reduction in traditional lending in certain sectors has raised the profile of a whole new range of finance options.

Crowdfunding, equity finance, asset-based lending and other short-term finance arrangements are all viable alternatives and SMEs are becoming increasingly aware of all that is on offer.

That said, the coalition government is still leaning heavily on the banks. Business Minister Michael Fallon has led the charge, calling on banks to do more through the government's Enterprise Finance Guarantee (EFG) scheme.

In a letter to the banks, Mr Fallon asked them to "redouble their efforts to provide finance to viable businesses through the EFG scheme", but critics are taking his

demands with a pinch of salt.

After all, Business Secretary Vince Cable has already made similar calls. At the start of 2013, Dr Cable attacked the banks, labelling them "rather pathetic" for claiming they are unable to find creditworthy business customers.

Instead, the Business Secretary claimed the banks' own commercial banking units had been stripped of the necessary skills with which to make accurate assessments. What followed was a request for the banks to provide micro-data on commercial lending at branch and even postcode level. So far this has not materialised.

James Benamor, founder and chief executive of Amigo Loans, is one of the entrepreneurs that has set up to provide an alternative lending option. He says many of his business customers were simply declined by the mainstream lenders.

"Micro-businesses [with less than ten employees] represent a staggering 96 per cent of small businesses in the UK, but are often those that struggle the most to get funding and are forced to look into alternative options," says Mr Benamor.

"From research we have carried out, we know that a quarter of micro-businesses have been declined a bank loan. For many of these businesses, the real issue is building a credit history to even be considered for a loan."

Sink or swim?
Finance is the
oxygen of business



of micro-businesses have been
refused a bank loan
Source: Amigo Loans



banks and building societies signed up
to the Funding for Lending scheme

Source: Bank of England




reduction in lending by RBS between
August and December 2012

Source: Bank of England

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