

## Introduction

We are a small specialist banking consultancy and commercial finance brokerage. We have 10 years experience, before which I had 20 years experience as a bank manager. WE have about 60 live clients at any one time. On average, clients are on our books for about 4 months.

We try to use the SGLG wherever possible to help our clients. We also use several other forms of commercial finance. We operate in the £0m to £15m turnover sector mainly.

Below are the answers to the questions you raise. We have used the same numbering system as you use.

### 1. Understanding the market

(i) Credit scoring. Mainly this works to help the SME.

Banks are better at helping than they were 10 years ago. They are more consistent. They do not help with R&D finance and there remains a lack of equity finance for SMEs especially in the South East.

(ii) Yes

(iii) Start ups do not benefit that much but a bigger problem is finding finance for companies who have been around for a few years and are ready to make a significant leap from say £500k turnover pa to say £2m pa. It is very difficult to raise finance for these as banks say they need equity and equity houses say they are too small. SFLGS can cover the gap in some cases.

It is possible to grow using factoring and trade finance but this option is not open to all as many companies have debtor books which do not suit factoring as it presently organised.

Companies with an erratic trading history, which has now turned around. Also finding it hard are entrepreneurs with a problem in the past which has now been overcome. Banks in particular keep returning to history from a long while ago.

(iv) I agree. Some way to go but it is reducing the reliance on collateral

(v) Asset backed finance helps in some cases but not many.

Invoice finance is very useful but only for those sectors where the debtors can be factored or discounted. This excludes over half of the cases we see.

Equity is very hard to find. It takes a long time and is not readily

available in small amounts. It is also very expensive in price and legal costs. In the South East it hardly exists at the smaller end of the market.

We can back everything we have said above, with real examples from our files.

## 2. Understanding how SFLG is used today

(i) It is a valued option by the market in general. Some individual bank managers are reluctant to use the scheme because it takes a lot of work to implement and as they are stretched anyway, prefer to keep to more simple opportunities.

Therefore (a) reduce the paperwork (b) shorten the sanction time - which seems to be about 3 to 4 weeks at present DESPITE what you read in the papers.

(c) use less civil servants to implement the scheme and instead use more commercial people who can move paper and files more quickly.

(ii) used properly the scheme works well alongside existing lending practices. After all the loan needs to stand up as a banking facility in all but security.

(iii) Good idea but as yet I don't see any changes on the ground. It needs more of a push into areas such as innovative independent invoice discounting companies and trade finance houses.

(iv) In our experience a wide variety and across most stages of growth. Too difficult for us to answer this properly without spending a long time on getting the answer right.

(v) Normally expansion - implementing a sales or marketing plan - which results in extra employment and is good for the UK economy.

(vi) Yes. Partly it is due to inflation. £30k buys little these days. But £30k can fund a substantial marketing and sales effort in a small business and can be enough to drive the whole enterprise forward.

The complexity of getting a small £30k loan does not encourage SMEs to approach lenders.

(vii) Yes

So many variations are possible. But along side invoice finance or asset finance. Possibly along side a loan from the bank.

(viii) No

(ix) Not qualified to answer

(x) The 75% leaves 25% of the risk with the banks and this definitely causes the banks to be more cautious than when the residual part was only 15%. This is an opportunity to improve the scheme.

The 2% has no impact. Price is not the issue. I am not suggesting price can go up.

(xi) Increase 75% to 85%

Reduce paperwork in the banks. This puts managers off.

Reduce the sanction time to 2 weeks or less.

Allow brokers or clients to be able to track the progress of application electronically so we know where they are stuck and why. We can normally resolve the problem and get everything moving forward.

Really sell the scheme to bank managers up and down the UK -i.e. go further than just talking a good show to the head office.

### 3. Delivery and administration

(1) I don't like houses being offered as security for business loans, especially where families are involved. The scheme does not force this. Otherwise the scheme is OK

(ii) Yes, cut the 10 year rule to 5. It is out of date now as we are in fast moving world where the entire business cycle seems to change every 5 years.

Connected persons should be irrelevant to this rule unless they have control of (say) 26% or more of the share capital

Other wise you put off non executive or part time directors who can add huge value and experience in return for a moderate fee.

(iii) Yes, £50k

(iv) Just about.

(v) Turnover levels are right at present

(vi) The exclusions are about right at present

### 4 Other issues

One of the major problems is getting a lot more individual bank managers to

be enthusiastic about the scheme.

Bank managers in general have stretch targets for income generation. They work long hours - 50 hours a week would be typical.

The SFLG takes a bank manager much longer to put together than an ordinary loan. He gets the same resulting credits towards his targets whether it is an ordinary loan or a SFLG. One takes much longer than the other. the manager is forced to choose those opportunities which are quicker to do which means several SFLG deals are not encouraged.

The banks need to be incentivised to do the loans.

More training and product awareness is needed in the banks. There are thousands of front line managers. It is not practical to train them all so another solution is needed.

I trust this helps

Examples of everything are available if needed.

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