

SFLGS

- (i) What do you consider to be the most significant developments in recent years in SME finance?

No developments of real significance. Lots of initiatives, but none have really fully addressed the problem of financing of small firms, which tend to struggle on while under-capitalised and under-managed.

- (ii) Do you agree that the availability of debt finance for SMEs has improved over the past decade?

No. On the surface it may have done, but this is a largely cyclical phenomenon. When interest rates are low and the economy is relatively strong, debt availability tends to be easier. If collateral values fall and / or interest rates rise (and the latter may stimulate the the former) there will be serious difficulties again, as has historically been the case. The real problem for start up and developing SMEs however, is that traditionally debt finance is asset backed and lenders appear to be unwilling or unable to provide medium or long term loan finance to fund working capital requirements without collateral. That issue should be addressed.

- (iii) Are there any types of businesses for whom this is not the case, for example (as suggested in Bridging the Finance Gap) start-ups, firms with non-standard applications or entrepreneurs associated with failed enterprises?

I don't believe that there has been any fundamental change, but it is true that start-ups and 'unfashionable' sectors tend to be treated in an even more cavalier fashion by the banks than propositions which are perceived as almost dead safe. This attitude is unhelpful. I can however sympathise with the bank which takes a cautious view of managements previously involved in failed enterprises, but I believe that these should be dealt with by making the involvement of a mentor a prerequisite of future lending.

- (iv) What is your view of the suggestion that the development of scoring systems may be reducing banks' reliance on collateral?

Rubbish! Scoring systems are used to find reasons not to lend, rather than to promote additional lending.

How has the growth in other forms of finance, such as asset-backed finance, invoice finance and equity, affected SMEs' use of, or access to, debt finance?

Businesses will go for whatever finance is easiest to obtain. Obtaining finance is a distraction from management of the business and all lenders tend to be regarded with deep suspicion. If there has been a swing away from debt finance towards leasing, invoice finance and equity, it is because the banks have been perceived to be particularly user-unfriendly, while the rest of the market has smartened up its act and promoted its products aggressively.

- (i) Does the structure of SFLG mean it is a valued option for decision-makers in the lending institutions? **No, it's very rare in my experience for a lender to offer to consider SFLGS without being prompted to do so.** Does SFLG address the right problems in the market, i.e. those that matter to lenders and borrowers, and thus form an important part of the commercial decision-making process? **On the face of it, yes, but presumably the lenders at the sharp end are not being encouraged to think so.** Are there changes that might be made to increase the incentive for lenders to use SFLG in appropriate circumstances? **Yes, but that is a matter which needs to be resolved with the lenders.**
- (ii) How do lenders use the guarantee as part of their regular business? How effectively does it operate alongside mainstream lending practices?
- (iii) The Government is committed to making it easier for lenders to become approved SFLG lenders. What are your views on the choice of SFLG lenders and on the advantages or otherwise of broadening the lender base, to include, for example, Community Development Finance Institutions? **A broadening of the lender base would be good. The wider and the more entrepreneurially based it can be, the better.**

- (iv) What types of businesses use SFLG, in terms of sector, size, stage of growth and other characteristics?
- (v) For what commercial purpose do they borrow under SFLG?
- (vi) What is your view of the fact that the number of smaller loans guaranteed (under £30,000) has been declining as a proportion of all SFLG loans, and that this decline has been steeper since 2001/2? Should the shift be a cause for concern? **Yes, it should be a cause of serious concern. I think it reflects a problem at the banks.**

- (vii) Is it common for SFLG loans to be used as part of a package of finance? **Yes, and that is a good, if not its best, feature.** What type of businesses might use SFLG in this way, and what role does SFLG play in these deals? **It can be an excellent catalyst in attracting other finance, particularly equity.**

- (viii) In your view, are SFLG loans likely to have a different risk profile to non-guaranteed loans?
- (ix) Are there regional factors that affect take-up of SFLG loans? Does the type of business, or purpose of the loan, show regional variation?
- (x) What impact does the level of the guarantee (currently 75%) and the premium paid by the borrower to Government (2%) have on the level of use of SFLG? **The current premium paid by the borrower is acceptable, and a rise would make it less so and might just tip the balance for some. However, in some instances it might be possible to trade off a higher premium against an increased risk being taken by the lender (e.g. sacrifice of their requirement for personal guarantees).**

- (xi) Are there any changes to the current structure of SFLG that could be made to improve the impact of SFLG in assisting businesses that otherwise could not access finance? **Take a more entrepreneurial approach, backed by a mentoring requirement on those taking out loans.**

- (i) Respondents called for greater consistency in the way available assets are considered for use as security. What type and level of security is it appropriate to take into consideration before recourse is made to SFLG?
- (ii) A large majority of respondents saw merit in further amending the ten-year cut-off for considering any previous SFLG borrowing which counts towards the maximum allowable loan amount¹. What are your views on the potential options, which included reducing the time limit further or relying solely on a limit on the maximum amount any one person or business can have outstanding? Additionally, is there scope for considering changes to the rules with regard to connected persons?
- (iii) A number of respondents proposed raising the current £30,000 limit above which lending institutions must get approval from the SFLG unit of the Small Business Service. Would borrowers and lenders welcome such a move, and, if so, what should the limit be? **Do away with the limit altogether, but where this is done, substitute a requirement for mentoring by an entrepreneurially based business support company (i.e. not Business Link).**
- (iv) Are the maximum loan amounts of £100,000 for new and £250,000 for established businesses still consistent with the aim of targeting those businesses with most need for a guarantee? **Probably, but there are a number whose requirements are greater where benefit may be obtained, particularly through the leverage effect mentioned earlier.**
- (v) What are your views on the turnover criteria, which currently stand at a maximum £5m for manufacturers and £3m for all other eligible sectors?

What are your views on the current exclusions from SFLG? **I would like to see inward investment propositions being included. These are often subsidiaries of overseas parent companies and a loan could help to encourage greater investment in the UK.**