



## SOUTH WEST BUSINESS FINANCE LTD

6 BLAGDON WALK, FROME, SOMERSET, BA11 2YH  
01373 305022

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The Graham Review of SFLG  
Zone 4E/1  
1 Horse Guards Road  
LONDON  
SW1A 2HQ

17<sup>th</sup> March 2004.

Dear Teresa

I am a member of the NAFCB and am responding to your request for feedback on the SFLG scheme.

My background is in banking, having worked for Barclays for 28 years before setting up my own business finance broking company 12 months ago. I have been involved with the SFLG loan scheme since its introduction in 1981, initially in preparing documentation, then as a lending manager, seven years as a sanctioner of the loans, and more recently on the other side of the fence as an arranger of the loans, which has brought me into contact with many other lenders.

My views of the scheme, and changes which could be considered are as follows:-

1. Lenders still see the scheme as a lender of last resort to give them security comfort – there is little evidence that the banks are placing more trust in the borrower and supporting entrepreneurs with a venture which is more risky than they normally lend to. A good example is a facility I was recently involved with which was declined by Lloyds TSB. The borrower was a man with a strong track record and good credit rating. His venture was well thought through and a robust business-plan produced which demonstrated good profits and cashflow from the outset. He was investing 150k of equity and required a loan of 100k to purchase assets which would immediately increase profits. The assets were easy to value and could have been sold in the event of business failure. Despite this the Bank declined the facility, stating “this is not a bank lending, it needs venture capital”. My client then approached Bank of Scotland who sanctioned the facility without question.
2. The interest margin is too high. Banks will lend on new ventures at 3 – 4% over Base, and lend to blue chip borrowers at 1% over base, or less. The Government covenant is the best of all, effectively nil risk. Therefore the banks do well to receive 2.5/base on the 75% of the loan which the Government underwrites. I would suggest the margin is reduced to 1.5/Base, as this will have two big advantages , firstly it makes the borrowing cheaper

for the business, and secondly it reduces bank profits which will be politically acceptable.

3. The scheme is perceived as expensive by borrowers. Interest of 2.5/B plus the guarantee premium of 2% makes 4.5/Base. My suggestion above would address this.
4. Although banks have the Government guarantee they get concerned about the 25% unsecured portion. The scheme does not allow them to take a guarantee from a director of a company for the 25%, whereas if they were lending normally they would probably take 100% security cover. Therefore allowing security from directors for the 25% would encourage the banks to lend more.
5. The Banks often bend the rules. Personal security is ignored, and a loan pushed through the scheme simply because borrowers are not prepared to put up their houses as security. In many cases there are plenty of personal assets in the background.
6. The DTI take too long to approve the guarantee, often up to six weeks. This is far too slow especially as the Bank may give credit approval in 2/3 days and the customer then has to wait six weeks before any money can be advanced. Wider discretions should be given to the banks to approve the guarantee as well.
7. Customer perception is that the Government are guaranteeing 75% so that part of the loan is not their problem. Banks should give a much clearer message to the borrower that they are responsible for the loan, and only after all other avenues have been examined will the Government guarantee be called upon.
8. The current maximum loan levels are appropriate, as are the turnover levels.
9. The scheme should be aimed at start-ups, where the biggest problem is lack of capital and lack of track record. If a business has been trading for 2/3/4 years is should be capable of borrowing in its own right – if it cannot support the proposed borrowing because of weak trading the correct decision is to decline it anyway.

I hope this helps – please give me a ring if you wish to discuss any of the points I have raised.

Yours sincerely

Richard Hounsell  
Director