

**The Forum of Private Business (FPB) has learned that banks are imposing a raft of charges, increasing interest rates and demanding personal guarantees as preconditions for lending to small businesses, including under the Government's Enterprise Finance Guarantee (EFG) scheme.**

According to the FPB's latest research the cost of finance is a major issue for 63% of respondents. Almost one in five (19%) said it has become a 'very serious' concern.

"Recent data shows that, despite the rate of new EFG applications slowing, the overall availability of lending is beginning to improve slowly," said FPB spokesman Phil McCabe "However, it is becoming clear that steep interest rates, a range of charges and demands for additional security are combining to create a significant cost barrier preventing viable yet struggling firms from securing the funding they need."

He added: "The tragedy is that, as a result of this, often these small firms are not able to satisfy orders and exploit other opportunities that exist. Many then have no alternative but to close their doors."

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FPB member Stuart Hamilton, of tool supplier and sharpener Hamilton Beverstock Ltd in Berkshire, has seen his bank costs increase by 80% since the end of 2008.

"We ran out of cash at the beginning of the year, like most other businesses," said Mr Hamilton. "Rather than play the credit game, we approached the bank for extra funding and were told the only way was under the EFG. We already had a £50,000 overdraft but they wanted to lump it together with a loan and charge us 2% from nowhere, basically for a facility worth the same amount as we already had."

He added: "Plus, our interest rate has gone up from 2.5% to 4.6% per year above base and they have also insisted on a personal guarantee."

Another member, David Yates, of plastic mouldings manufacturer Hi-Mark, in Wrexham, finally secured EFG funding after commissioning an independent review proving his business is eligible. However, the fees and charges demanded by his bank amount to a third of the overall finance he needs.

"These charges are simply extortionate, and we have had to go elsewhere to make up the shortfall," said Mr Yates. "We've used our pension fund to help the business and, in effect, invested over £180,000 in it. At my age I should be entitled to retire and draw a pension. Still, the bank is saying we've done nothing to back up our business, which is absurd."

Barry Starling, who is also a member of the FPB owns Starling's, a newsagent and post office in Norfolk. During the past year, his banking fees have more than doubled – including fees for paying cash in to his account.

## **Business group finds steep cost of lending is leaving viable businesses in the cold**

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“I don’t know how they have arrived at this figure – the letter they sent out to me certainly doesn’t explain it. There are much higher negotiation fees and transaction fees, as well as charges for depositing money in to the account and also interest to be paid.

“Further, many of these banks seem to want their pound of flesh when demanding collateral. It’s not just pound for pound but a whole lot more.”