Enterprise Finance Guarantee Scheme

By now most of us understand the causes of the UK's current economic downturn, which started in the USA lending to the sub prime market by unscrupulous banks and other lenders. These were then bundled up as bonded collateral and shipped around the world and purchased by other equally unscrupulous banks and hedge funds in the name of ***perceived*** profit. As the high street banks were clearly unable to quantify, or unwilling to, declare their own true level of "toxic waste" in their balance sheets, has resulted in a total meltdown of inter-bank lending that dried up almost overnight. This led to an extreme shortage of cash within the banking sector with the knock-on effect of the banks having to reduce credit facilities to normally stable businesses. Not only has the small business sector been affected, but also, the lack of liquidity and business confidence has led to the downfall of even the largest chain stores going bust. This too has had the expected knock-on affect for small businesses.

One could argue that Government policies over the past 10 years have exacerbated the situation with very little heed given to the writings on the wall. In the housing market, the signs were all too apparent that we were heading for a boom and bust scenario. At the time of going to press, the gloomy news last night predicted a 1.8 million-unemployment position being around 6.7% of the working population. Fortunately, the South East has not been affected as badly as in the North with a predicted unemployment rate of only 4.7% - which is surely bad enough.

Our main concern however, is with the small business sector. On the 14th January the Treasury announced the £1bn Enterprise Finance Guarantee (EFG) Scheme that will support £1.3bn of new lending by banks to viable SME's with working capital or investment needs (see article Finance for your business).

Providing certain criteria are met, the Treasury will underwrite 75% of the loan and the remaining 25% will be on an "at risk" lending by the banks. The scheme will operate from the 14th January 2009 until the end of March 2010. For further information on this scheme, you can type into your favourite search engine "Enterprise Finance Guarantee" [don't forget the quote marks] and you will find many sites providing more information.

The problem comes from the banks unwilling to put at risk even the 25%. If that isn't bad enough, many of the banks don't even understand the complexities of the scheme and you can be certain that the interest rate you will be paying will be at least 2% higher then a loan to a "prime" borrower. This additional 2% will be given to the Treasury as an "administration" fee, similar to the previous Government Backed Loan Scheme, which was unfortunately poorly operated during the last decade. It is hoped that this new initiative will be better organised than the last one.

As this article will be appearing in the March addition and had to be written at the end of January, there has been no time to alert you to an important meeting your Regional committee have set up. Your Kent Region hosted a meeting at the regional office in February and invited a senior loans manager from a leading bank to give a presentation of how his bank will operate the scheme. A full transcript of the presentation will be taken and any member who wishes to take advantage of the scheme should contact our regional office for a copy of both the transcript and the results of the question and answer session. If any member has approached their bank under this scheme, we would ask you to let us have a report [good and bad] of your results, as it is **vital** that this scheme is **fully monitored**. The Treasury will be taken to task on any foul ups through poor administration.

As the old Chinese proverb goes; "May you live in interesting times"

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