



ECONOMIC DOWNTURN PANEL – RESULTS WEEK 1

BACKGROUND

The FPB has put together a panel of small businesses who will report every two weeks on the state of the economy and impact of finance on small businesses. This panel will provide trend data and take the temperature of SME liquidity and cash flow in real time.

The members have an overall turnover of £193 million and borrowing of just over £61 million. The median turnover of businesses in the panel is £550,000 indicating that these are established employers. Last year 62% made a profit and 23% made a loss.

Comparisons are made between now and 2007 with the Banking Industry Group Survey, sponsored by BERR.

Access to Finance

Loans

The research found the following:

1. No evidence that they are harder to get.
2. Much more costly from 2.7% in 2007 to 4.8% over base.
3. Loans since September appear more costly at 5.6% over base.

Overdraft

The research on overdrafts found that

1. Rejection rates are higher: 2007 data from BERR indicates 15% had overdraft applications rejected compared to 19% of the panel.
2. The cost of having an overdraft has increased significantly since September 2008 from 4.9% before September to 7.6% since September.

Terms and Conditions

Overall, 70% reported that borrowing facilities were as expected with 11% reporting better than expected and 19% reporting that terms and conditions were worse than expected.

1. Satisfaction with borrowing is dependent on data, with 79% feeling that the terms and conditions were as expected in 2008 from January to August; 12% indicating that the terms and conditions were better than expected and 9% worse than expected
2. Since September 43% stated that terms and conditions were worse than expected and just 5% reported that terms and conditions were better than expected
3. This shows a divergence between what is being portrayed in the media by government and the banks publicly and the evidence from SMEs meeting their branch manager.
4. Reasons for rejection were the risk aversion of bank managers including the perception of certain industries (including estate agents and construction) being too risky. Other reasons for rejection was the securitisation demands of the bank.

Other key issues

Others key figures coming from the research were:

- 47% report increases in banking fees
- 21% state banks are still prepared to lend
- 28% expect to see lending costs increase – despite 1.5% net base rate
- Banks are requiring additional security for loans, 37% have obtained borrowing using the security of their own homes, 20% the business premises and 20% the debtor book

Satisfaction with the banks and Government

- 26% said they were satisfied with the banks' response to the current situation and 32% were dissatisfied
- 6% said they were satisfied with Government's support for small business compared with 71% who were dissatisfied with the Government's support