Forum of Private Business

Second Economic Panel Response

Background

This is the second panel response by the FPB economic downturn panel. Respondents were chosen at random with the only criteria that they were VAT registered and had need of external finance.

The first panel were reported at a breakfast meeting with Gordon Brown on Wednesday 19th November. The fieldwork for the second panel was between 1st and 5th December with 90% responding before the interest rate cut on Thursday 4th December.

Since the last panel report the following have taken place:

- The Pre-Budget Report
- High profile initiatives by certain banks to support small businesses.

Summary

The market is declining generally and this is being reflected in the responses from our panel. Late payment and issues relating to trading terms have also deteriorated significantly in the last month.

Access to finance is also becoming more difficult in general. Overdrafts are seen as the key element for small businesses and these facilities have seen less improvement than terms and conditions for loans.

The impact of the decreasing availability of finance is becoming critical for a small proportion of businesses, with one already in administration.

The cost of finance has not increased significantly, although there is evidence that costs are going up in terms of arrangement fees, costs for stopping cheques and so on in some areas and going down in other areas, where there is some evidence that initiatives from the recapitalised banks are beginning to have an impact, particularly in the terms of loans.

Requirements for securitisation are still increasing, despite relatively high levels amongst the panel already. One respondent mentioned that this was likely to be because house prices in the area were falling and so the banks' collateral was effectively being reduced.

Supporting data

Over 90% of the responses analysed were sent through before the interest rate cut of 1% announced on 4 December. Those who responded after this date were slightly more negative to the banks.

Key issues for businesses (in order)

- Lack of orders/business confidence
- Cash flow
- Banks' volatility/lack of support for business
- Weakness of sterling pushing up raw material/import prices
- Credit insurance/loss of normal trading terms
- HMRC inflexibility
- Regulation especially employment laws
- Cost of utilities
- Requirement of additional assets due to house prices falling

Change over the last month

Figures shown are: Improvement - Deterioration
All response

Market for products/services	**-64%**
Competition within the market	-14%
Viability of your business	-38%
Cost of complying with regulations	-41%
Late payment	**-61%**
Risk management undertaken by financial services organisations (credit reference agencies, banks, trade insurers etc.)	-51%
Government support for small firms	-30%
Bank support for small firms	-45%

Late payment and market conditions have seen the biggest deterioration in the last month. Issues over risk management and bank support have also got significantly worse. Government support has deteriorated at a slow rate. Dissatisfaction with the banks has increased, despite high profile announcements of support for small employers.

Access to finance

Over the last month, access to finance has changed as follows:

Improved	8%
Deteriorated	30%
No change	62%

Access to finance has deteriorated, but respondents mentioned that this was not simply rejection for finance but included additional banking fees and arrangement charges as well as their own ability to pay.

Importance of lending

When asked which was more important to small businesses, the panel replied as follows:

Loans	5%
Overdraft	55%
As important as each other	40%

The perception amongst the panel is that overdraft facilities are more important to their business than term loans as they are looking to retrench their business. This makes the loss of overdraft facilities amongst business who have not used them in the last decade (when the economy was growing) so much more harmful.

Loans

Terms and conditions of loans have changed in the last month as follows:

Improved	17%
Deteriorated	27%
No change	57%

Few of the terms and conditions of the loans have deteriorated in the last month but the lending rate has not shown a significant change. Arrangement fees have gone up for some businesses, however others have reported drops in the overall amount that they have had to pay.

There has been no change to average lending rate, as is shown below:

	First questionnaire	Second questionnaire
Mean lending rate	7.6	No change

Base rate figure has not changed in the period between questionnaires (3%).

Overdrafts

Over the last month, terms and conditions have changed as follows:

Improved	9%
Deteriorated	28%
No change	63%

Just over 1 in 4 panel members have seen their overdraft facilities deteriorate in the last month, with just 9% seeing an improvement in overdraft terms and conditions. Again this is down to the cost of the facility itself rather than the lending rate.

There has been no change to average lending rate, as is shown below:

	First questionnaire	Second questionnaire
Mean lending rate	8.1	No change

Base rate figure has not changed in the period between questionnaires (3%).

Fees and securitisation

14% (1 in 7) panel members have seen an increase in securitisation, despite the already high levels indicated in the previous report (37% have obtained borrowing using the security of their own homes, 20% the business premises and 20% the debtor book). The security required tended to be further personal guarantees.

26% have seen an increase in the banking fees that they have been asked to pay compared to just 2% who have seen a reduction in fees.

Change to banking fees over the last month were as follows:

Increased	26%
Decreased	2%
Stayed the same	72%

Use of asset finance

A significant minority of businesses (15%) have had to take up some sort of finance, with 40% reporting terms worse than expected. Several reported that they had the feeling that they have been pushed into this form of lending as a way of avoiding risk for the bank.