

Business Refinancing – Alternatives to the government Enterprise Finance Guarantee

On the 14th January 2009, the UK government introduced the Enterprise Finance Guarantee scheme (EFG). The EFG replaced the Small Firms Loan Guarantee Scheme (SFLG) with the commitment to helping small businesses raise the funds they require to trade through the recession. The EFG is based on the government guaranteeing up to 75% of the value of a commercial loan offered by a company's bank. The company's directors will normally be required to personally guarantee the remaining 25% of the loan.

Despite the Government's claims that the EFG would be the cornerstone for businesses to trade out of the recession, companies are still struggling to raise vital finance with the support of the scheme. According to a recent report published by the Department for Business, Innovation and Skills, in year up until the 3rd April 09, 2,360 loan guarantees worth £177.8m had been issued in total under both the Small Firms Loan Guarantee Scheme and the Enterprise Finance Guarantee scheme. This figure is significantly less than the £205m guaranteed in the previous year. It is also far below the scheme's £360m budget set by the Government in March 2008.

The current outlook for this financial year is equally worrying. The latest Bank of England figures show that new lending to companies continued to contract in May 09, following a fall in April. Clearly, despite the government's assurances and backing, UK banks remain extremely reluctant to provide new loan facilities for businesses. I have recently had a number of discussions with small business owners which back up this analysis. It seems common place that new loan and commercial mortgage applications with the backing of solid business plans are being consistently declined (often at the last minute) with little or no rational explanation from the lender.

Based on the current evidence it seems very much that the banking system is reluctant to back any business opportunity unless it has almost a cast iron prospect of success. This situation is certainly stifling entrepreneurial activity and thus undermining the driving force required to kick start the economy and move it out of recession.

In the face of this problem, business owners are well advised to consider alternative options for raising finance. Business refinancing can help in this area. Business refinancing generally involves raising cash secured against tangible business assets thus giving the bank real security and the comfort required to release funds. Examples of business refinancing include:

- Asset refinancing - the process of borrowing against the value of any fixed assets which are owned by the business.
- Invoice financing - the process of raising money based on a company's outstanding invoices. Invoice financing could allow a company to draw down up to 90% of the invoice value immediately on the issue of a valid invoice.
- Trade financing - enabling a business to receive up to 80% of the confirmed order value up front to pay the suppliers required to fulfil the order.

It is clear that businesses will be unable to trade out of the current economic environment until the availability of cash through lending starts to ease. However it seems that they are unable to rely on Government initiatives such as the Enterprise Finance Guarantee scheme to allow them to access the funds they need for expansion and growth. Business refinancing is unfortunately not the answer for all businesses. However, it is another option that should be considered when planning the best way of trading in the coming months.

Derek Cooper – July 2009

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Cooper Matthews specialise in Business Recovery Services offering straight forward insolvency advice for businesses with financial problems. They have significant experience in working with small to medium sized businesses.

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