

Business Funding Portal

The business services consolidator

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Rt Hon Gordon Brown MP
10 Downing Street
London
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13th February 2009

Dear Prime Minister

RE: Banks and lending

Much is being made, by Government and media alike, of the fact that banks are unwilling to lend; in particular to small and new-start business.

Below are extracts from the BBC's reporting on the failure of Anthony Worrall-Thompson's AWT Restaurants business:

"It makes me cry. It is just appalling... I am furious, to be honest, that the banks didn't support me,"

Mr Worrall Thompson said he could have saved his entire company by offering his home as a guarantee to the banks, but said that he wasn't willing to take such a "horrendous" risk.

These anomalous sentiments were replicated by some of the national press, none of whom appeared to recognise or exploit the opportunity to highlight the more positive view that there was a way forward for the business, should its owners have chosen to take it.

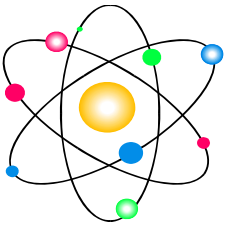
Whilst the personal circumstances of Mr Worrall Thomson don't reflect those of most small business owners, this financial situation mirrors that of a huge number of prospective borrowers who are failing to raise finance through traditional sources.

Business Funding Portal Ltd (www.fundingportal.co.uk) is a consortium of well-established business finance and insurance brokers, and as such is uniquely placed to provide an overall perspective on activity within in the marketplace for various types of business finance. As MD and founder I can confirm that there is ample finance available for viable businesses, but that the key problem is the vast chasm between customer expectations and reality; a chasm which can only be exacerbated by Government assertions that they will 'make banks lend' and continued media coverage castigating the banks for not lending.

BUSINESS FUNDING PORTAL LTD

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One of our primary sources of business is bank introductions; ie referrals by banks to those (business) customers who they do not wish to assist; either on a specific project or on overall exposure.

- In about 25% of cases we are unable to assist because there is absolutely no evidence of ability to repay (eg applications for finance on luxury cars for business-owners with mortgage arrears).
- A further 30% do not reach acceptance stage because the customer is either unwilling or unable to provide information to support promises or claims made.
- Of the remaining deals approved, a significant proportion do not reach drawdown, either because the customer withdraws from the project, or because they will not offer personal security required, or because they cannot understand why borrowing rates are out of line with Bank Base Rate.

We are privileged to live in a country with a free press, however in this situation there is a depressing correlation between the views of the Government and those of the media. It is our opinion that these views are acting directly against the interests of those small businesses they are supposed to appease. Surely a more pragmatic and positive approach would be to use this opportunity to inform and educate business as to how to raise finance and to re-assert the old criteria which, it is now apparent, should never have been relaxed.

In particular, customers are misled or misinformed on:

Security / Deposits: Many people choose to operate as Ltd companies primarily for the protection afforded from creditors in the event of business failure. However, for this same reason it is usual for lenders to require personal guarantees (and perhaps further security) when funding a business which has not proven ability / willingness to repay. Increasingly we are witnessing the Worrall-Thomsonesque scenario where business owners or directors expect a lender to lend against promises of performance, whilst declining to offer security as 'too risky'.

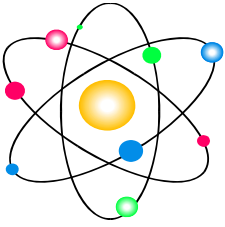
Bad Debt: To many tertiary lenders (and increasingly to the banks themselves) bad debt is the true cost of lending. In some sectors, 5% bad debt provision is the norm in a thriving economy; this figure can easily double in the current climate. To many borrowers, default on bank/finance agreements is seen as a small misdemeanour – perhaps even a victory over the bank, but let us not forget that ultimately, it is bad debt that has created the current crisis. By raising awareness of the impact and cost of bad debt you will create a far clearer understanding amongst the business community of both the costs and underwriting requirements in the current market.

Money Costs: Whilst faced with headlines lauding the 1% Bank Base Rate, it is easy for borrowers to fail to understand – and perhaps feel ripped off by - stubbornly high commercial borrowing costs. However, as you will appreciate, the

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true cost of lending has barely fallen. This is a result of bad debt (highlighted above), and the fact that most non-bank lenders have to borrow on wholesale money markets where the cost to them of funding is still high.

All of these are likely to remain serious issues in the lending market for some time to come. The Government can help directly and through various Agencies (Business Links, Enterprise Hubs, RDAs etc) by raising awareness of the issues and by amending their message from 'the banks aren't lending' to 'There is money out there, but you have to be prepared to support your case'. In turn, hopefully some of our media will join in to create a moving forward environment, rather than wallowing in the failures of banks.

We at Business Funding Portal will provide any help we can in supporting this case.

Yours sincerely

Mark T Jones
Managing Director

CC.

Lord Mandelson
Rt Hon Alistair Darling MP
Rt Hon Nick Clegg MP
Rt Hon Vince Cable MP
Rt Hon John Thurso MP
Rt Hon David Cameron MP
Rt Hon George Osborne MP
Rt Hon Kenneth Clarke QC MP

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