

“Why won’t the banks lend?”

One of the government’s recent plans to get banks lending again and help small businesses survive the economic vagaries is to guarantee up to £20 billion of bank loans to small businesses. In return for a fee, the state will effectively insure banks against businesses defaulting on loan repayments.

So, why is it not working?

Said, Phil Wood, managing director of chartered accountants and licensed insolvency practitioners, Barringtons, “Firstly, the main problem here is that banks are still writing off bad debts and even if only a proportion of the new capital injection matches write-downs it simply cannot be used to lend. Secondly, as the economic downturn forces more businesses into insolvency banks are fearful of more defaults. Thirdly, regulators are now requiring banks to retain more capital in order to cushion themselves against further losses thereby reducing the amount of money available.”

There is little doubt that lenders have reduced the amount of credit available both to companies and to households which is expected to shrink further over the coming months. This is partly because mortgage providers are tightening their lending conditions and demanding bigger deposits.

Many believe that this government is merely throwing good money after bad. Whatever the recriminations it is imperative that, first and foremost, the taxpayer is getting value for money for the vast amounts of funding that has already been injected into the banking system.