

“Shutters down as cautious banks stop lending”

The government has unveiled a plan to guarantee up to £20bn of bank loans to small businesses. In return for a fee, the state will, in effect, insure banks against firms defaulting on loan repayments. This is the latest initiative to get banks lending again and help small business survive the economic downturn.

So, in spite of taxpayers' money being used to cajole banks into supporting businesses, why have they stopped lending?

“The problem here is that banks are still writing off bad debts and other assets that have fallen sharply in value during the credit crunch. Even if some of the newly injected capital just matches write-downs it cannot be used to lend. As the economic downturn causes more and more businesses to fail, the nightmarish scenario of yet more defaults are making banks extremely reluctant to lend. What's more, Regulators are also requiring banks to retain more capital in order to cushion themselves against losses, further reducing the amount of funding available. Additionally, foreign financial institutions formerly active in the UK are now focusing on their home markets,” said Gerald Irwin of Sutton Coldfield based licensed insolvency practitioners, Irwin & Company.

