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For immediate release

SMEs must understand terms of new finance support to maintain fluidity

Sussex firms hoping to benefit from the new Enterprise Finance Guarantee must make sure they understand the differences between a guaranteed loan and an overdraft, which is a more common means of managing cashflow, say local chartered accountants.

“The extra financial support for small and medium businesses recently announced by the Government is a welcome expansion of the Small Firms Loan Guarantee scheme,” says Ara Martirosian of the South East District Society of Chartered Accountants. “This only covered about 3,000 firms and was only about loans. While the new guarantee will also cover overdrafts, it is yet to be made clear how this will work.

“Loans are less flexible than overdrafts, lock businesses into a repayment schedule and require more planning and forecasting. We know this is a real challenge for firms in the current climate,” he warns.

New research by the Institute of Chartered Accountants in England and Wales suggests that over a half of SMEs have an overdraft facility but only a third have a term loan. Around a quarter of those with overdrafts have been contacted by their lender in the last six months to have the facility renegotiated or cancelled and most are expecting to have to discuss terms this year.

Over a quarter of SMEs have renegotiated their largest term loan in the last year, with about half resulting in stricter terms. **Whilst the research shows that SMEs in the South East (including London) are less likely to have external finance sources**, a significant number of businesses report their largest

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term loans are up for renewal in 2009 and no doubt face some tough negotiations in the coming months, says Ara.

“Securing finance on acceptable terms will be critical to the economy as a whole given the supply chain relationship between larger and smaller firms,” he adds.

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Notes to editors:

1. South Eastern Society of Chartered Accountants represents chartered accountants in Surrey, Sussex and Kent and has more than 8,800 members.
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