

Financing a Private Sector Recovery



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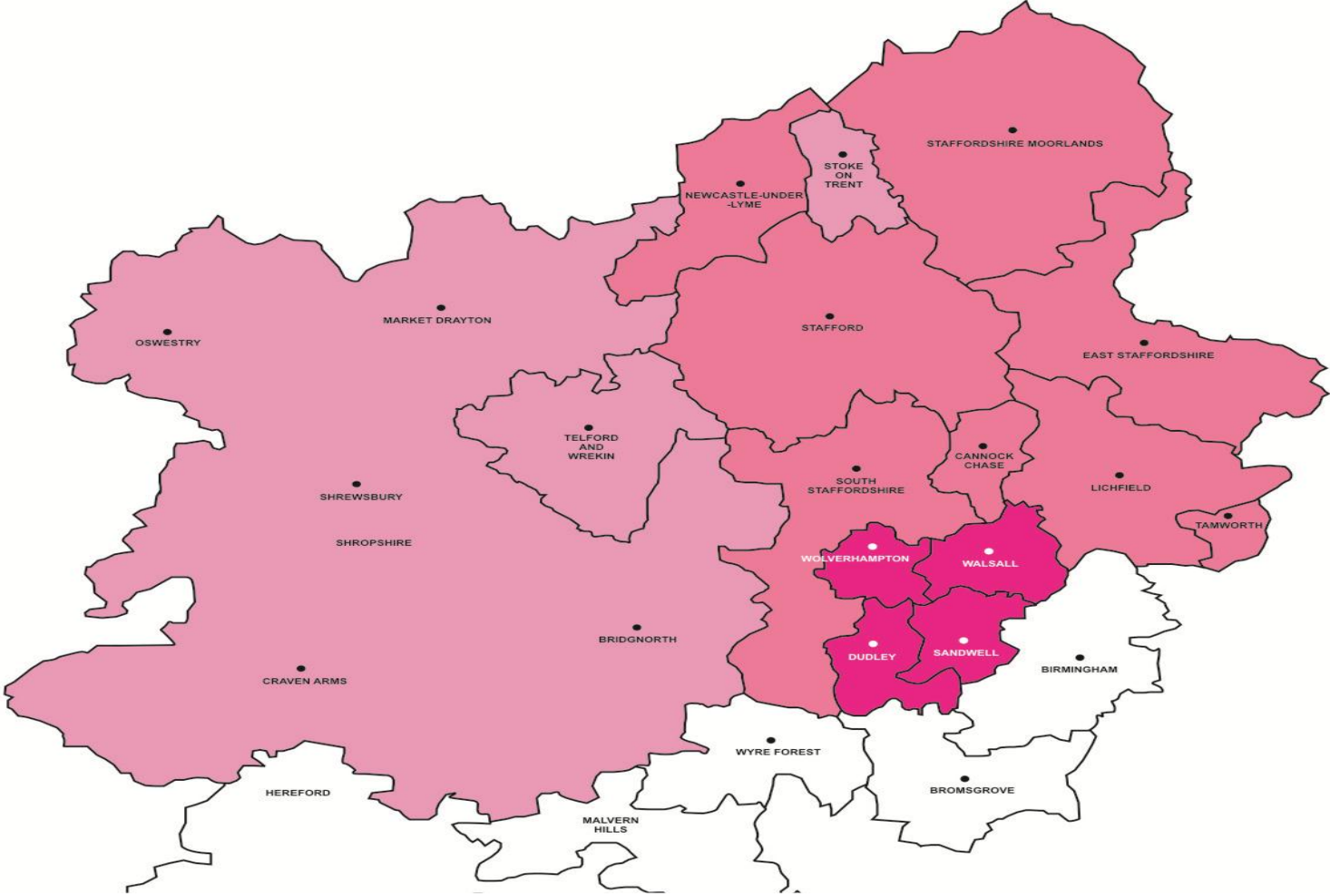


A Co-operative Approach to Small Business Lending

**Paul Kalinauckas
Chief Executive**

Black Country Reinvestment Society

BCRS Operational Area: Current & Projected



Our Environment

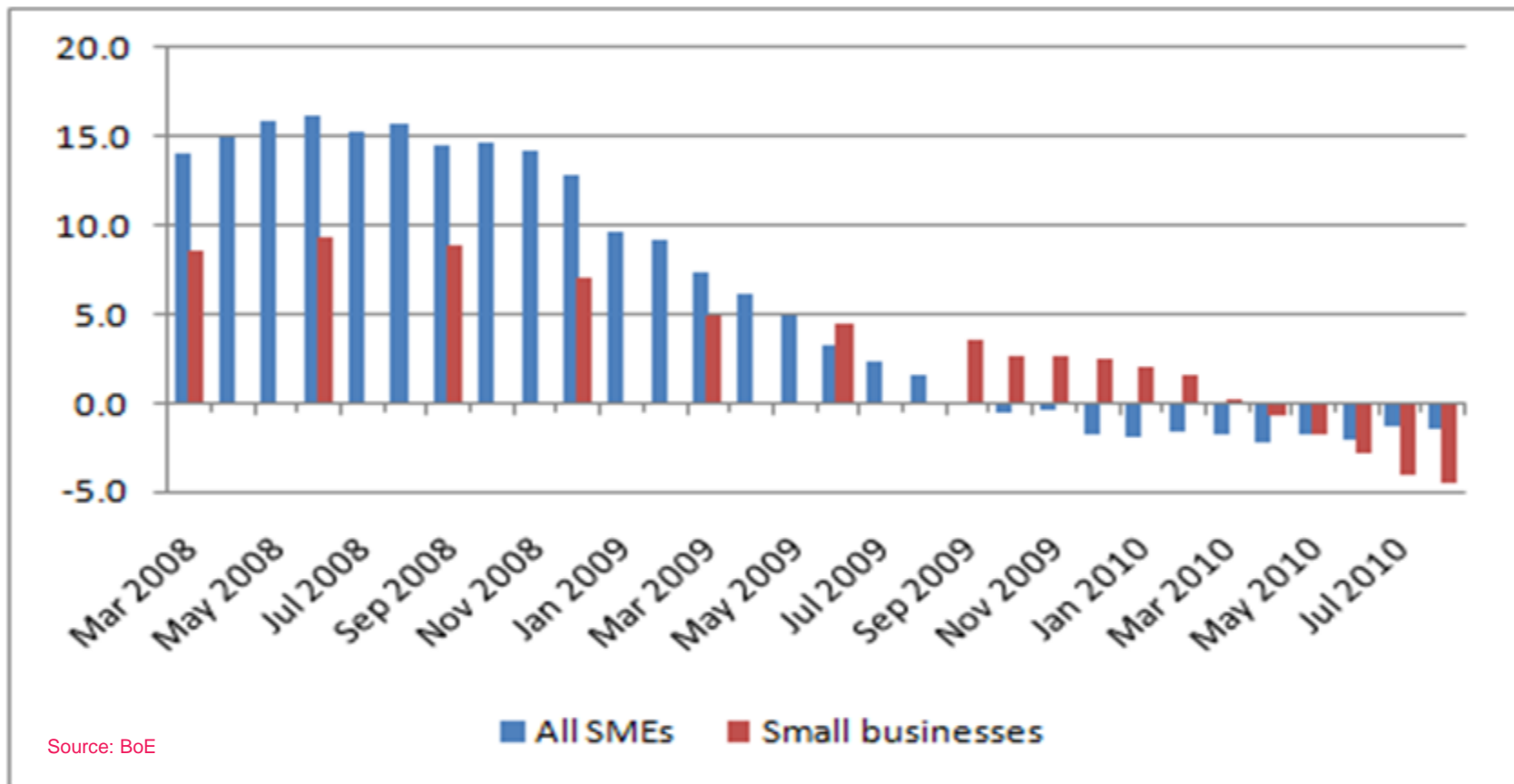
Est. in 2002 as Community Development Finance Institution
issuing loans up to £25,000 – now £50,000

Migrating to become Small Business Loan Fund
prospect of increasing loan range up £250,000

Current Loan Book to Q3 2010 a *cumulative £6 million*

Forecast by 2016 *£18 million*

*Ethos to provide a co-operative lending framework to enable
Small Businesses to expand and realise growth potential*



Lending to SMEs & Smaller Businesses continues to contract

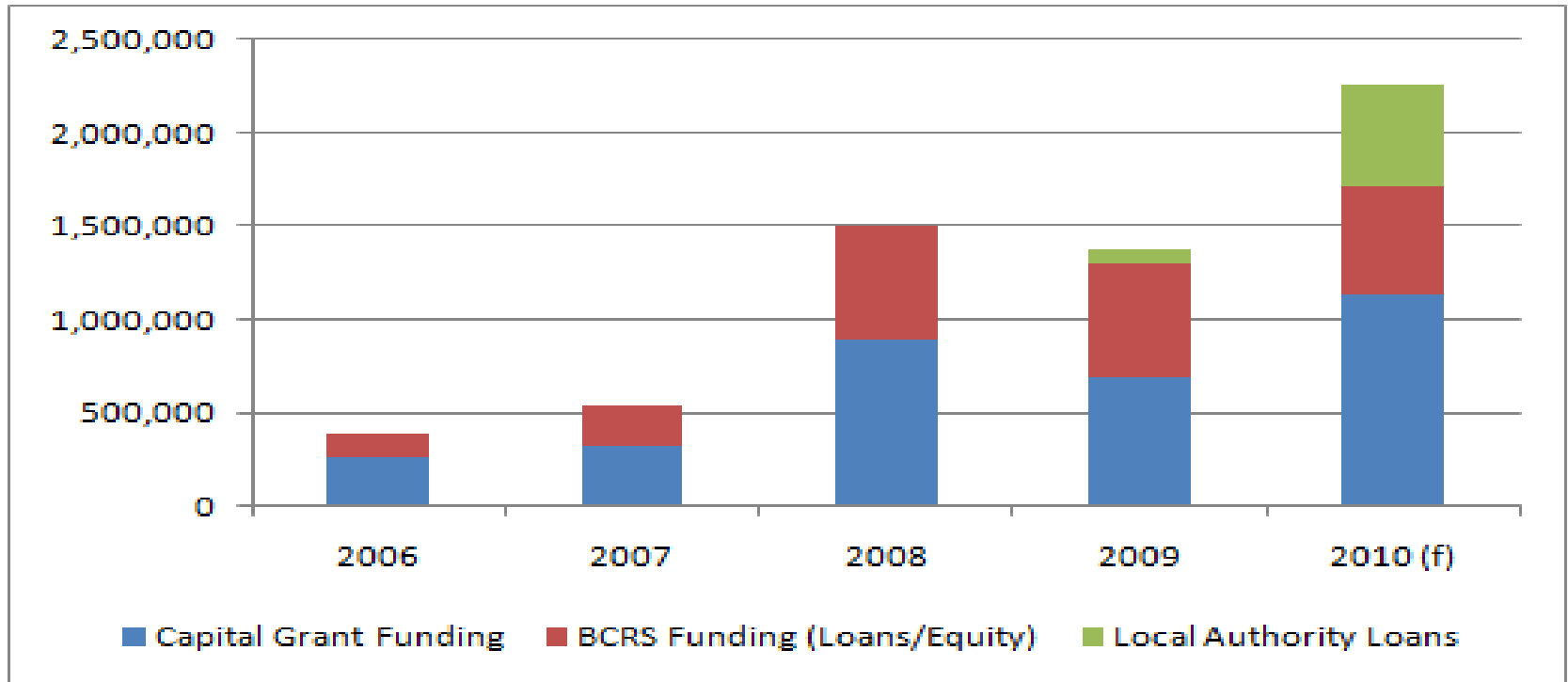
Data scarce – BoE monthly data series only started in Q3 2009, covering 65% of lenders

Use of business finance across different sized firms					
	Turnover	Broad Characteristics	Use of regular finance	Use of specialist finance	Typical Providers
Smallest Micro Businesses	Below £50,000	Cash-based firms, often part-time business; few tangible assets; local operations	Limited mainly to overdraft, loans, & credit cards or personal finance products	Limited. Some asset-backed lending (ABL) – mainly vendor finance	Banks, credit card providers & point of sale (vendor finance).
Micro Business	£50,000 to £1 mln	Increasingly fulltime firms with staff, premises, & assets; local activity normally limited to single region; occasional exporting.	Overdraft, loans & credit card	Increasing use of structured ABL. Occasional use of trade finance products	Banks, credit card providers, specialised providers for ABL & trade products
SMEs	£1 mln to £25 mln		Overdraft, loans	Still some use of ABL, factoring & invoice discounting, export finance & some equity funding.	Banks, credit card providers, specialised providers, business angels , private equity
Mid-sized companies	£25 mln to £500 mln	Larger national & international firms, often multinational operations	Full-time, larger multi-regional & national firms; increasing export/import activity.	Export finance, invoice finance, & equity funding	Banks, venture funds, equity funds & stock market listing
<i>Source: Supporting UK business: the Report of the Business Finance Taskforce, October 2010</i>					

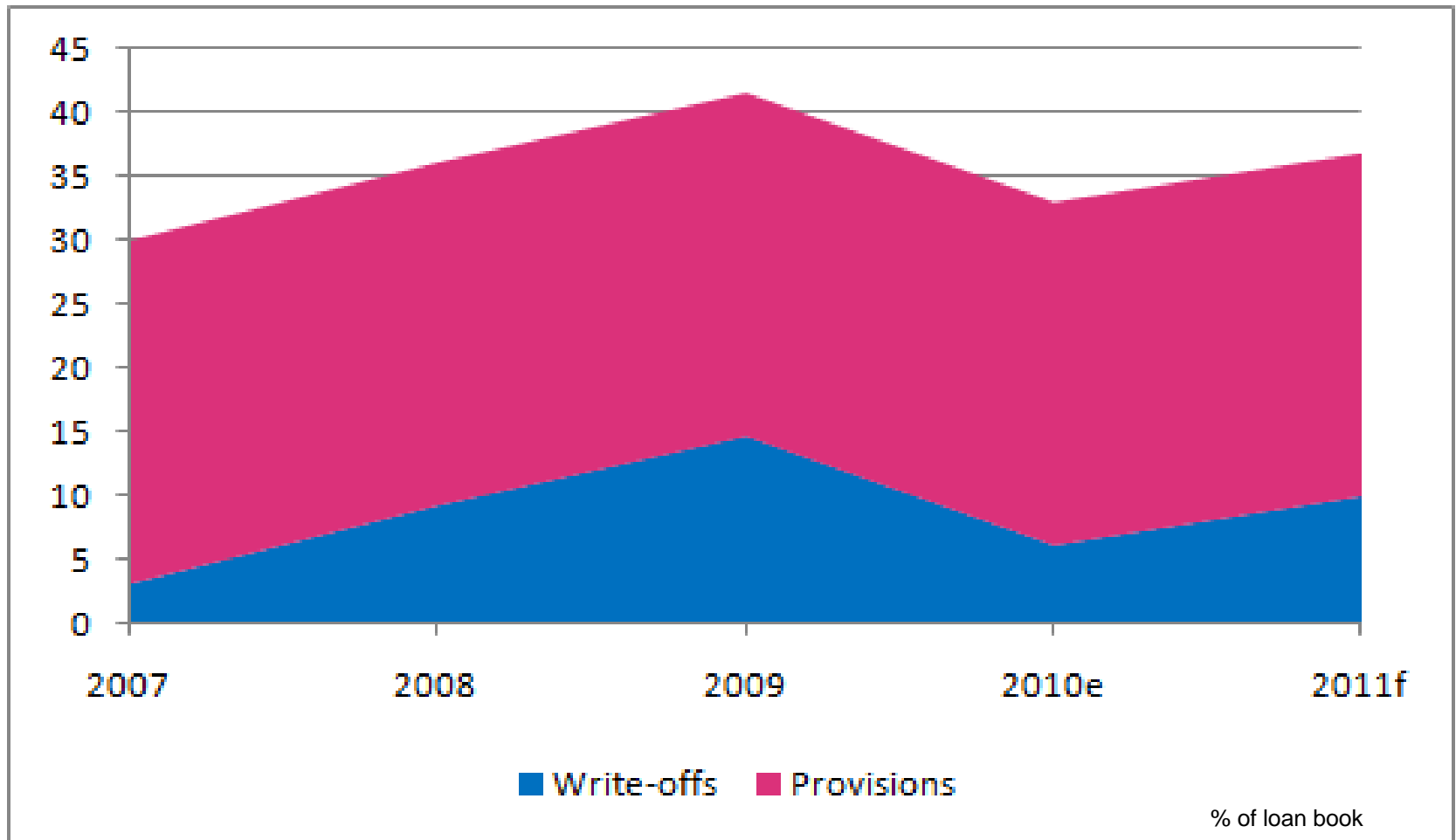
BBA Taskforce covered everything apart from CDFIs & SBLFs



BCRS lending growth has been robust.....

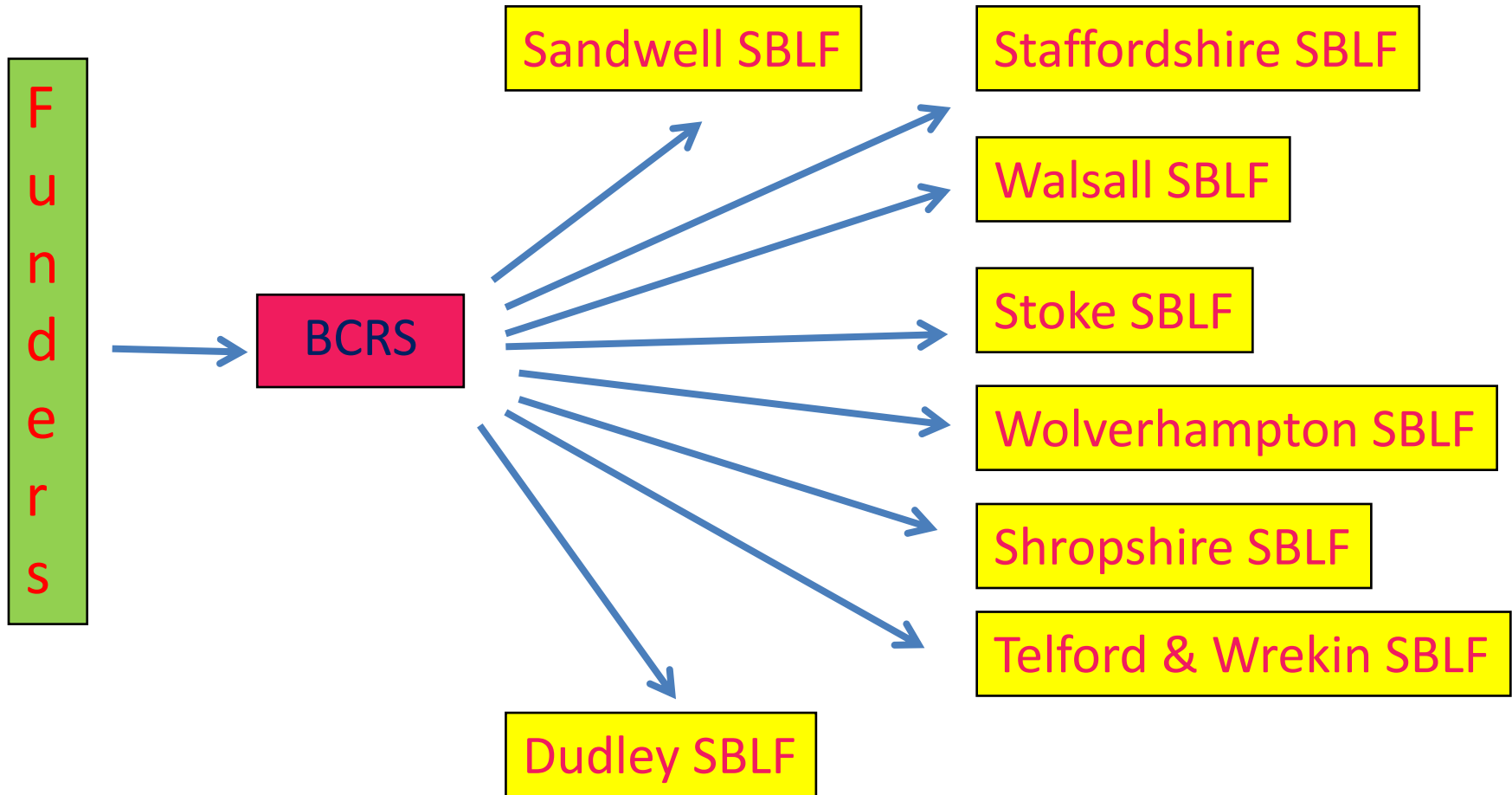


.....and matched by capacity to raise funding.....



.....with management of NPLs and Write-offs key to sustainability

Managing Targeted Loan Funds in a High Risk Sector

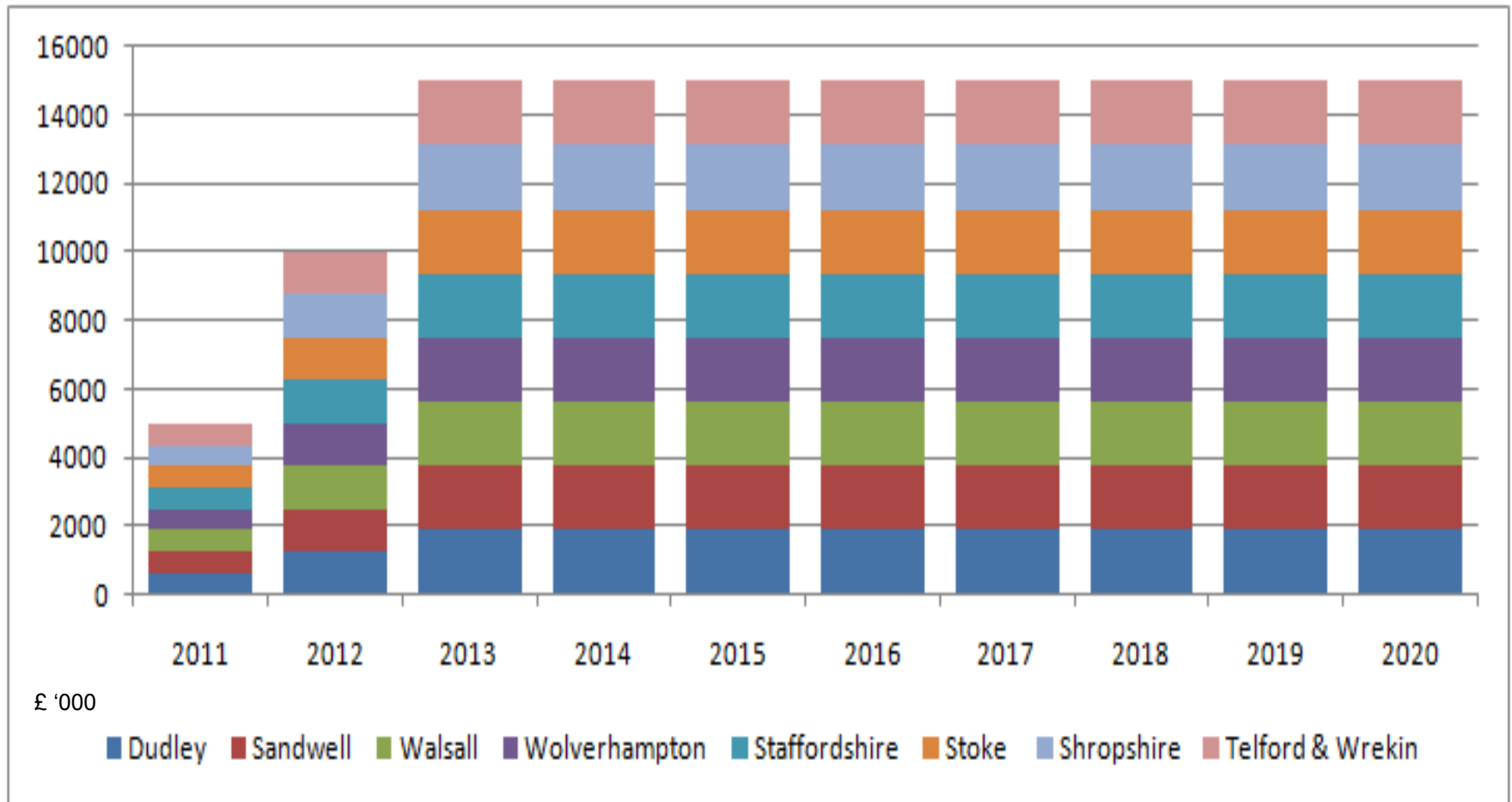


.....disaggregating risk,

....absorbing provisions

...achieving medium-term sustainability

Growth via geographic and ultimately sectoral diversity



*Assumes £ 625,000 new lending per SBLF p.a.
& average loan term of 3 years with 37.5% provision
achieving total lending of £ 25 million by year 5
& £ 35.5 million by year 8*

Fund Raising Sources

- English Public Sector
 - National
 - RGF
 - Local
- EU
- Commercial Banks
- Co-operative Funds
- Corporates
- High Net Worth Individuals

Increasing leverage capacity

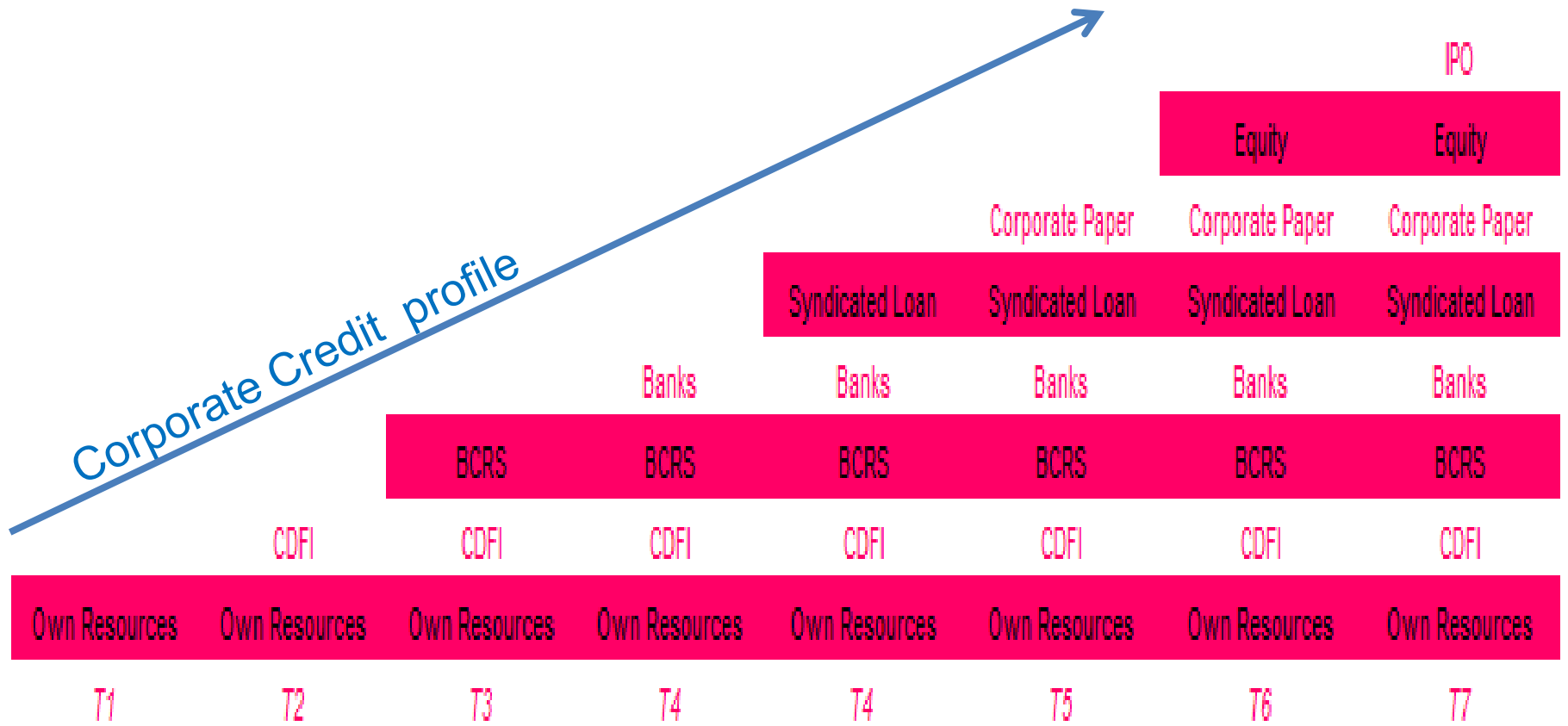
Post Loan Support

- Improving credit performance of small businesses
- 2-5 days of specialised support from our own panel of mentors
- Different areas of assistance to include:
 - Financial remodelling
 - Marketing Strategy
 - IT
 - Financial systems
 - Management accounting

Post Loan Support

- Cost: Up to 2 days free of charge with remainder either subsidised or at fully commercial rates based on ability to pay.
- Funded from Interest Rate Margin & Recoveries
- Programme to be self financing in year three
- Pilot phase commenced in January 2011 moving to full programme by April
- Post Loan Support will signpost to other available help, including Government Mentoring Scheme, Local Authorities, Manufacturing Advisory Service.....

The BCRS role.....



Corporate Credit profile →

....providing a critical link in the Finance Continuum

..providing working capital

..supporting Small Business innovation

..& developing Corporate Credit profiles



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