



Too soon for optimism?

Market reflections after an eventful 12 months



Simon Adcock
Regional Director for London
and the South East
Reward Finance Group

Over the past year, the UK economy and wider lending market have been surrounded by seemingly unending political and economic uncertainty.

With seven Bank of England Base Rate rises in the past year alone, which followed an upward trend since December 2021, commercial finance has significantly and predictably slowed down owing to an increased nervousness. SME lending from main high street banks remains subdued and the demand for new finance continues to trend below pre-pandemic levels.

In a recent study, 84% of finance brokers said banks are increasingly reluctant to lend to SMEs whilst 81% predicted a rise in demand for financing over the next six months. Discussions with our intermediaries indicate asset finance and leasing usage drifting up, while working capital finance has been reducing month-on-month, demonstrating that SMEs are having to pledge hard balance sheet assets to raise finance.

Although loan applications continue across the UK, borrowing criteria has tightened and deals are taking a lot longer to complete. This could be partly due to commercial property values falling 30% and residential dropping 5%. While this presents opportunities for some, it poses further challenges for current landlords, along with higher debt burdens as many fixed-term mortgages come to an end.

A forensic approach

As we transition into a new era of customer-focused lending, the alternative finance market offers greater flexibility and evolving advice.



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Lenders are taking a forensic look at various aspects of an SME's business before devising a plan. This includes assessing needs and vulnerabilities to achieve the best outcome for all parties.

Investors, Private Equity Houses and alternative lenders are continuing to display confidence and inject significant capital into the market. We've experienced this directly ourselves, recently receiving an additional £50 million funding boost to our lending facility from Foresight Group, which provides us with further capital to support SMEs.

Despite the pessimism, political and economic uncertainty, and static bank lending of the past year, there seems to be

a renewed sense of confidence following the most recent hold in interest rates. I am sure many SMEs are now likely to seek new opportunities as their circumstances evolve, which will, in turn, increase demand for traditional forms of working capital finance and asset-based lending.

My main takeaway from this is that, although we are still in uncertain times, we appear to have reached the peak of current interest rates. A view recently echoed in a talk I attended with the Bank of England which suggested that rates are likely to hold at their current level until the fourth quarter of next year, with a gradual reduction thereafter. The outlook for growth is optimistic but steady. ●