



Warning of Credit Crunch 'Vicious Circle'

By Donald Forsyth, Commercial Partner, Scott-Moncrieff

Businesses in Scotland – and across the rest of the UK – are at risk of experiencing a second wave of credit crunch driven failures in the near future unless banks change their approach to business support and credit risk assessment, warns a leading accountant.

Donald Forsyth heads the commercial team at Scott-Moncrieff and is increasingly concerned by the feedback he is getting from the firm's raft of business clients, spread across a wide range of sectors.

"The key issue that is looming on the horizon is the impact of poor credit rating and the disturbing manner in which the banks are failing to deal with this in a constructive fashion.

"For a worrying number of companies their position is getting worse. As banks restrict lending to companies, their cash position deteriorates. In turn, they slow payments to their suppliers in order to conserve cash as long as possible but then their credit rating is hit. For many that could be the final 'nail in the coffin'.

"Furthermore, this situation is only going to be exacerbated as the banks move from crisis management (i.e. looking after their internal issues) and start re-focusing on assessing customer credit. When they do that it will simply accelerate what is already a perilous situation.

"Business leaders at client firms are reporting that their banks have become so 'risk averse' that it almost appears to be that they are unwilling to release the essential flow of capital to stop viable businesses from failing. They appear to prefer company failure than have anyone suggest that they had lent capital in anything other than circumstances where they will be above any possible reproach.

"If the banks do not realign their approach to the realities of current 'real world' operational strain, and use a blinkered approach to assessing credit risk, then I fear we will see an accelerating number of companies fail as we enter a vicious circle of credit failures."

Donald Forsyth: donald.forsyth@scott-moncrieff.com or 0131 473 3500