

Midland Investment Chief defends high cost of loans

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The head of a West Midland mutual set up to help finance small businesses has defended the high rates of interest it charges on loans.

The Black Country Reinvestment Society, a not-for-profit organisation set up to help companies turned down for loans by banks, charges borrowers 12 per cent interest on average, according to chief executive Paul Kalinaukas.

“The days of cheap money are over,” he said.

One local businessman who discovered the high cost of business loans from non-mainstream business lenders is Paul Revill, managing director of Lichfield Staircase Manufacturing, an £800,000-a-year business that employs eight people at a factory in Brownhills near Walsall.

He is trying to raise money to finance the development and marketing of a new product which he says is unique.

LSM has patented a new type of staircase balustrade under the trade mark Arcana.

Although made of stainless steel and mild steel, Arcana looks and feels like natural bamboo.

Mr Revill believes Arcana has potential among customers looking for a different type of balustrade. He also thinks it could open up export markets in Europe for the company.

“We have spent £20,000 of our own money on developing the new balustrade and now we need help to get it to market,” he said.

“The banks won’t lend to us and advised to go to other sources like the Black Country Reinvestment Society but they wanted to charge us 12 per cent above base rate.

“I have put the offer on the back-burner but I haven’t dismissed it entirely yet.

“We have developed a totally new product and need to borrow about £50,000 to get it to market.” Mr Revill says he has had advice on developing Arcana from Advantage West Midlands, Business Link and the Manufacturing Advisory Service but had hit a financial stumbling block.

He has 30 years experience in manufacturing and set up LSM nearly two years ago.

The company is profitable, but had to shed five jobs recently as cash-flow problems mounted.

About 90 per cent of its work is sourced from builders and developers but Mr Revill says he needs to move into other markets in order to secure the long term future of the business.

“I have written to MPs and the Prime Minister because I feel that support is lacking for manufacturing companies.”

Paul Kalinaukas said rates such as those charged by the Black Country Reinvestment Society are not unusual.

“The average loan costs about 12 per cent because we have to price in risk and cover our costs. We are lending into areas of the market that banks won’t touch to fill a short term gap.

“It is not excessive. The days of cheap money are over. We have seen where the commercial sector has been cutting each other’s throats to offer the lowest possible rates but this has been unsustainable.”