A blinkered approach to debt

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UK SMEs are burying their heads in the sand when it comes to their business debts with many owner-managers having no idea how much money their business owes.

Whereas some entrepreneurs may well be comfortable with a high level of debt, so long as it enables long-term business growth, many are not. In the current fragile economic climate, it is important that all entrepreneurs know their balance sheet inside out.

Although borrowing can bring considerable business benefits, debts should always be kept under strict control and within the financial limits of the business.

It is vital that all entrepreneurs consider contingency planning. No matter what their level of debt, entrepreneurs should always put contingency plans in place to ensure these debts remain manageable (and the company solvent) especially if the economy takes a serious nosedive in the coming months.

There are a few golden rules to follow. For those businesses already experiencing some level of financial stress, prompt action may well avert a full blown crisis. Never ignore the problem, it will not go away. Never borrow money to pay off debts without careful thought especially if the loan is to be secured against a home or business premises and check any credit agreement for payment-protection insurance which may well cover payments in cases of illness or redundancy.

Meanwhile, a decade of cheap credit is now causing problems for once relatively well-off people with demands for help from a brand new type of customer, the cash-strapped middle income family.

As the cost of credit rises and fixed-rate mortgage deals end, middle-class people who borrowed when money was cheap are turning to those institutions that normally help social housing tenants and benefit claimants.

Teachers, police, professionals and service sector workers, many of them homeowners, are struggling with mortgages, secured loans, and credit card debts. They were already financially stretched but have been pushed over the edge by dearer credit and big increases in food and utility costs. Such people rarely seek to go bankrupt, because they are usually homeowners and would face repossession but recently some have already lost their homes as they left it far too late to seek advice.

Easy money, borrowed to pay for extras and luxuries, is a big contributor to the problem. Many people have simply borrowed money over the past couple of years because they could. Weighed down by the cost of homes and material possessions, middle-class families are increasingly turning to Individual Voluntary Arrangements to deal with their money problems in order to avoid bankruptcy.

With leisure activities including squash, badminton and golf, the price of 'keeping up with the Joneses' has never carried a bigger price tag with all the evidence suggesting that even the affluent of British society are borrowing way beyond their means to fund this type of lifestyle.