



# State rescue plans are struggling to deliver

Nearly two years after the financial crisis began, Louise McBride finds that some State bailout packages have had little or no effect



**I**T'S no secret that the Government has gone out on a limb to save the banks. Billions of euro of taxpayers money has been poured into the bankers' black hole and the hopes of the nation have been pinned on a poorly thought-out bad bank — the National Asset Management Agency (NAMA).

Last month, Finance Minister Brian Lenihan admitted that Anglo Irish Bank would need €4bn of taxpayers' money to keep it alive. The problems in Anglo are so deep-rooted, however, that chances are these billions — so precious when our public finances are in such a dire state — are simply being poured down the drain. The Government has argued that the survival of Anglo is of "systemic" importance to the economy. The same argument has been used to justify the €7bn bailout of AIB and Bank of Ireland. It's one hell of a bet — and it's our money.

It will be another two months at least before legislation to set up NAMA is put in place — and at least a year or two before we have any idea if NAMA will solve our woes — or merely add to them. And with all this emphasis on the banks, it's no surprise that

some half-hearted initiatives to kickstart the economy seem to have fallen flat on their face.

## HOME LOANS FOR THE FIRST-TIME BUYERS

It is bizarre that the Home Choice Loan scheme, which was set up by the Government last January to help first-time buyers get mortgages to buy their homes, has received only 29 applications so far.

Cash-strapped banks and building societies have tightened up their lending so much that four out of five mortgage applications are being turned down today, according to the Select Finance Group, a Dublin firm which advises mortgage brokers.

"It has become increasingly difficult for brokers to find a lender who will offer a mortgage to applicants who 12 months ago would have been ideal mortgage candidates," said Trevor Grant, managing director of Select Finance.

Under Home Choice, local authorities provide mortgages to first-time buyers who have been rejected by two lenders. "Our experience suggests that you will invariably always get an applicant more money and a better interest rate with an alternative lender than with Home Choice," said Mr Grant.

"The lending criteria for Home Choice is far too restrictive — in fact, for standard applicants, it is generally the most restrictive of all lenders."

It remains a mystery how many of the 29 applications received by the Home Choice Loan scheme have been approved — or how many of the applicants actually took out loans under the scheme.

"We are not in a position to divulge details on the number [of loans] approved and drawn down by applicants so far this year," said a spokesman for the Department of the Environment.

The spokesman added that the low number of applications should not be "read as a failure of the scheme" and that one of the reasons for the low uptake could be that "people are opting not to enter the housing market at this time".

Like many of the government initiatives to tackle economic problems, the Home Choice scheme arrived years too late. Over the last few years, many of the first-time buyers who could not raise money from mainstream lenders had no choice but to take out expensive loans from sub-prime lenders. Small wonder then that more homeowners are being dragged through the courts for running into difficulties meeting their mortgage bills.

Last year, 238 possession orders (a court order that entitles a bank to repossess a home, factory, farm or building site) were made through the courts — about four times the number of orders made during 2006.

## FREEING UP CREDIT

The credit crunch — which prompted lenders worldwide to tighten their belts — erupted in August 2007.

It was another 22 months before a government group sat down to examine the problems faced by businesses starved of credit — and to try to come up with a solution.

The aim of this group, the Credit Supply Clearing Group, is to ensure that banks provide

enough credit to businesses. The group, which is part of the bank's recapitalisation programme, met for the first time on May 28 this year.

The number of businesses that have gone to the wall over the last 22 months — because they can no longer raise the money they had previously been able to borrow to cover day-to-day finance — is beyond scary. The company watchdog, the Office of the Director of Corporate Enforcement, expects almost twice as many companies to go into liquidation this year as did so in 2008.

John Power, chief executive of the Irish Hotels Federation (IHF), said he has continuously brought the credit problem facing hotels to the attention of the Government over the last year. In its pre-Budget submission last September, for example, the IHF called on the Government to ensure that banks provide "sufficient and adequately priced credit facilities" to hotels and guesthouses that needed short-term financial assistance.

"Banks are reluctant to extend additional credit to hotels and guesthouses," said the submission. "Given the strategic importance of tourism to the Irish economy, it is vital that the Government ensure businesses within the sector are given the necessary breathing space and time for adjustment to the sudden, substantial deterioration in the economic and financial trading environment".

Mr Power said it can be "frustrating" dealing with officials in certain government departments. "They lack the urgency that is necessary to deal with issues like this [the credit problem]," he said. "We need initiatives to support and sustain existing business-

es. There are no real initiatives out there.”

A spokeswoman for the Department of Enterprise, Trade and Employment (DETE), which is in charge of the Credit Supply Clearing Group, said: “There are instances being reported of viable businesses being refused credit and representative bodies are suggesting such refusals are in the majority.”

### **CHEAP, BUT SCARCE, BUSINESS LOANS**

When Finance Minister Brian Lenihan unveiled his horrific mini-Budget last April, one of the measures introduced to support businesses was a €100m fund.

The Enterprise Stabilisation Fund, which runs over two years, allows certain businesses to borrow money at an interest rate of 3 per cent. Because many banks are charging interest rates of 6 per cent or more on business loans, the government loans seemed like a good move.

But John Whelan, chief executive of the Irish Exporters Association (IEA), described the fund as “a very limited response to the worst global downturn any of us have ever seen”.

“It’s paltry compared to the response rates of most other European countries,” said Mr Whelan, who added that a €1bn fund was needed to support the export sector alone through to the end of 2010.

In a letter sent to the DETE last March, Mr Whelan said: “There is no point in tinkering with small scale measures in the current climate. We are in a full-blown recession and we need a fully funded package if we are to prevent major damage to our indigenous export sector. A fund of about €1bn is what is now needed.”

“This would save about 40,000 jobs in the export sector over the next two years. The pace of government action is of major concern, and is currently causing unnecessary loss of markets and jobs.”

A spokeswoman for the DETE said the fund was one of “a number of [government] measures” that would help businesses.

### **INSURANCE FOR EXPORTERS**

The Germans have done it and so too have the British, French and Danes — but Ireland still hasn’t got its act together on credit insurance.

With so many businesses going bust over the last year, many exporters have had their trade credit insurance — which covers them for losses that arise when a company which owes them money goes out of business — either reduced or withdrawn. This in turn has put many small companies who supply goods on credit up against the wall. “Without the insurance, banks see these companies as a higher risk and won’t release finance,” said Mr Whelan.

The Irish Government is examining whether or not it should introduce a short-term credit insurance scheme. “Issues such as default risk, exchequer exposure to costs, value for money and the impact of any such scheme on business will be part of the exercise in hand, and will inform any future government decision,” said a spokeswoman for the DETE.

“While this is a significant and necessary step in the process, it is not, of itself, a decision to introduce a scheme.”

Any foot dragging could cost us tens of thousands more jobs. The IEA has consistently warned the Government that the lack of credit insurance has made it “almost impossible” for Irish exporters to trade. The association has warned of a further 91,000 job losses in the export sector unless the Government steps in.

### **HOME INSULATION**

When the national insulation scheme was launched last February, Energy Minister Eamon Ryan said it would be a “wel-

come boost to the economy” and create thousands of jobs for construction workers.

But Fine Gael enterprise spokesman Leo Varadkar isn’t so sure. “The scheme isn’t bringing any money into the economy — it’s just moving money from one sector to another,” said Mr Varadkar.

“Instead of someone spending a few hundred euro going to a restaurant, they now spend it on a Building Energy Rating cert. And instead of someone spending money buying a new car, they’re spending it on insulation.”

Under the national insulation scheme, €100m worth of grants are available to homeowners who insulate their homes this year.

Over 2,000 building and construction workers have registered to carry out work under the scheme — but it is not yet known how many of these have actually got jobs to insulate homes. Since the scheme was launched, 10,500 grants have been approved. However, more than one million people own their own home, according to the latest census.

Although the Construction Industry Federation (CIF) said the home insulation scheme is “very welcome”, it had hoped for a more extensive scheme.

“It could be extended to public buildings,” said a spokesman for the CIF. “We would like it to be more expansive but the thing for us is that it’s up and running.”

### **VENTURE CAPITAL**

About a week before last Christmas, the Government launched a recovery plan which included a €500m venture capital fund.

Around that time, it was reported that the Taoiseach, Brian Cowen, held talks with a number of number of US-based venture capital companies who would be involved in the new fund — known as the Innovation Fund Ireland. But any innovative companies holding out for the fund shouldn’t hold their breath — details of the fund are still

being ironed out.

“Given the scale of the funding involved, this plan requires careful consideration in its design and implementation,” said a spokesman for the Department of the Taoiseach, who added that discussions to finalise how the fund will work “are at an advanced stage”.

“It is expected that the new fund will be put in place over the next year, which is the original timeframe envisaged,” added the spokesman.