SME Finance Monitor

Q1 2012: How has 2012 started?

An independent report by
BDRC Continental, May 2012

bdrc continental

providing *intelligence*

bdrc continental

Shiona Davies
Director
Tel: 020 7490 9124
shiona.davies@bdrc-continental.com

providing *intelligence*

Contents

Page No.

Foreword

This is the fourth report in the quarterly SME Finance Monitor series. Each quarter over 5,000 SMEs are interviewed for their views on access to finance both in the recent past and in the future.

The interviews from this 2012 Q1 can be added to the interviews from the three previous reports to make an unparalled dataset of over 20,000 SMEs. The size of this dataset, coupled with the detail covered in the interviews means that we are now able to do deeper analysis to explore and explain the findings. We can now also look back over a year and see how matters are developing (or not).

Furthermore, the dataset is made freely available to researchers interested in SMEs, finance and banking. The intention in making this immensely valuable resource available to all is to encourage proper research and evaluation of this market. Only in this way can both the public and private sectors develop effective policies to help SMEs to help the economy grow out of recession.

There is now no excuse for sloppy trotting out of unproven assertions, "PR speak" and stories based on only one or a few cases. The facts needed for the debate are now available and failure to use them properly should be seen as either the result of laziness or being partisan.

As independent Chair of the Steering Group I am required to ensure that the author, Shiona Davies, has not been pressured by any organisation to write the report in a particular way. I can confirm that this is the case. Nonetheless, both Shiona and I are very grateful to the members of the Steering Group for their thoughtful contributions, which we have both fully considered, even if they have, ultimately, not been taken into the report.

The continuance of the SME Finance Monitor is thanks to the continued support of the BBA Taskforce banks, who undertook in 2010 to fund a large scale, regular and independent survey of the SME finance market.

Mike Young
Independent Chair, Survey Steering Group
May 2012

The Survey Steering Group comprises representatives of the following:

- Association of Chartered Certified Accountants
- Barclays Bank
- British Bankers' Association
- Dept. for Business, Innovation and Skills
- Engineering Employers Federation
- Federation of Small Businesses
- Forum of Private Business
- Growth Companies Alliance
- HM Treasury
- HSBC
- Lloyds Banking Group
- Royal Bank of Scotland
- Santander

1. Introduction

The issue of bank lending to SMEs continues to provoke much comment. On the one hand, there are claims that the banks are not lending enough, turning down viable SMEs, and/or only offering lending with onerous terms. On the other hand, banks have reported a decline in demand for borrowing, with SMEs seeking less external finance in periods of low, or no, economic growth, and seeking to limit their exposure in a difficult economic climate. Others have claimed that SMEs are discouraged from borrowing by a perception that there is no point in asking the bank, as they will only say no. Overlaying this, more attention is being focussed on low levels of confidence amongst SMEs in an unstable economic atmosphere, and the extent to which this is influencing their appetite to borrow.

The Business Finance Taskforce was set up in July 2010, to review this key issue of bank finance and how the banks could help the UK to return to sustainable growth. It made a commitment to fund and publish an independent survey to identify (and track) demand for finance and how SMEs feel about borrowing.

BDRC Continental was appointed to conduct this survey in order to provide a robust and respected independent source of information on the demand for, and availability of, finance to SMEs. BDRC Continental continues to maintain full editorial control over the findings presented in this report.

This fourth report is based on a total of 20,151 interviews with SMEs. Interviews were conducted across four waves:

- February to May 2011 –the 5,063 interviews that formed the first report, and now referred to as Q1-2 2011
- July-September 2011 – 5,055 additional interviews referred to as Q3
- October-December 2011 – 5,010 additional interviews referred to as Q4
- January-March 2012 – 5,023 additional interviews, referred to as Q1 2012

All waves were conducted using the same detailed quota profile. The results from the four waves have been combined to cover a full 12 months of interviewing and weighted to the overall profile of SMEs in the UK in such a way that it is possible to analyse results wave on wave where relevant, and the data reported for Q1-2, Q3 or Q4 individually will be as originally reported. This combined dataset of 20,000+ interviews is referred to as YEQ1 12.

A further quarter of another 5,000 interviews to the same sample structure is being conducted April-June, and results will be published in September 2012. At that stage, we will start to present data on a rolling basis of 20,000 interviews (so adding Q2 2012 and dropping Q1-2 2011 from the dataset)

An annual report, published in April 2012, provided separate analysis, where sample sizes permitted, at regional level for an in-depth assessment of local conditions during 2011.

2. Management summary

This report covers

the borrowing process from the SME’s perspective, with detailed information about those who have, or would have liked to have been, through the process of borrowing funds for their business. Each chapter reports on a specific aspect of the process, dealing with different aspects of SME finance.

Slightly more SMEs in Q1 2012 reported having sought loans or overdrafts in the previous 12 months

- 12% of SMEs interviewed in Q1 2012 reported having applied for a new or renewed facility in the previous 12 months
- This is up from 9% of SMEs interviewed in Q4 2011, but still below the 15% reported for the 12 months prior to Q1-2 2011
- Compared to Q4, more 0 employee SMEs said that they had had a borrowing event in the previous 12 months, as did SMEs in Construction, Hotels & Restaurants and Real Estate
- However, over time, fewer SMEs in the Manufacturing or Transport sectors, or with a minimal external risk rating, have sought a new or renewed facility
- In addition to the new/renewed facilities above, half of SMEs with an overdraft reported having this facility "automatically renewed" by the bank (i.e. without them having applied). This is the equivalent of 12% of all SMEs having such an automatic renewal

Most SMEs that applied for finance were successful -79% of those that had applied for a new or renewed overdraft now had a facility, while 59% of loan applicants were successful. Overdraft success rates improved slightly over time, and remain higher than for loans, where no clear pattern has yet emerged. Success rates for new money (loan or overdraft) remained lower than for renewals, with analysis showing that, once size and risk rating are taken into account, those applying for new funding were more likely to be successful if their account had been well run, and the business showed evidence of financial 'capability'

- 66% of overdraft applicants were offered what they wanted and took it, while a further 13% subsequently got a facility after initially being offered either less than they wanted or terms they had issues with. Overall then, 79% of overdraft applicants were successful, some 6% of all SMEs
- Analysis shows that success rates for overdraft applications have improved slightly over time, even once the different types of SME applying in each quarter have been taken into consideration
- 4% of all overdraft applicants took another form of funding
- 16% of overdraft applicants ended up with no overdraft at all, some 1% of all SMEs, and this continues to vary very little by date of application

- 50% of loan applicants were offered what they wanted and took it, while a further 9% subsequently got a facility after initially being offered either less than they wanted or terms they had issues with. Overall then, 59% of loan applicants were successful, some 2% of all SMEs

- There is no clear pattern for success rates for loans, by date of application

- 8% of all loan applicants took another form of funding

- 33% of loan applicants ended up with no loan at all, some 1% of all SMEs

- Taking loan and overdraft applications together, to date 90% of applications for a renewal of facilities have been successful, compared to a 59% success rate for applications for new (or increased) facilities

- Analysis showed that, once size and external risk rating have been taken into account, the performance of the account continues to be a significant predictor of success when applying for new money – having a self-reported credit issue such as a bounced cheque, CCJ, or missed loan repayment makes success less likely. Recently established businesses (in the last 12 months) or those run by an owner with less than 12 months experience were also less likely to be successful with an application for new money. Success was *more* likely if the business demonstrated elements of financial 'capability'- by producing regular management accounts or having someone in charge of the finances who has a financial qualification or training

Reviewing the past 12 months, the majority of SMEs were 'happy non-seekers'. The proportion of 'would-be seekers' remained stable. 'Discouragement' remains a consistent barrier for would-be loan applicants and one of the key barriers for would-be overdraft applicants

- In Q1 2012, 74% of SMEs met the description of 'happy non-seekers' (that is they had neither applied for finance in the previous 12 months, nor wanted to apply). 14% had experienced a borrowing event in the 12 months prior to interview, while 12% of SMEs were 'would-be seekers' who had wanted to apply for finance but felt unable to do so

- Compared to the same time last year, fewer SMEs have had a borrowing event (14% now, 19% in Q1-2 2011), and more are 'happy non-seekers' (74% now, 68% in Q1-2 2011), while the proportion of 'would-be seekers' has remained consistent over time (12% now, 13% in Q1-2 2011)

- Over the last 3 quarters, 30% of 'would be seekers' who had been interested in an *overdraft* cited 'discouragement' as the main barrier to making an application, with no clear pattern over time. Almost as many, 29%, cited the 'principle' of borrowing as the main barrier, such as not wanting to lose control of the business

- For those 'would-be seekers' who had been interested in a *loan*, 'discouragement' has been the most mentioned main barrier, both overall (34%), and in each of these quarters

- For would-be applicants of both loans and overdrafts, 'discouragement' is more likely to be indirect (the SME assuming they will be turned down, so not applying) than direct (asking the bank informally and feeling put off)

Looking forward, there has been a slight increase in appetite for finance, and more SMEs report plans to grow. The current economic environment, and its impact on the performance of the business, remains the main obstacle both to seeking finance and to the overall future running of small and medium-sized businesses

- 16% of all SMEs reported plans to apply for new/renewed finance, up slightly from 14% in Q4, but still below the 19% reported in Q1-2 2011. 0 employee businesses, and those in the Manufacturing, Hotels & Restaurants and Other Community sectors were more likely to be planning to apply/renew in Q1 2012 than in Q4 2011. Smaller SMEs that planned to apply/renew were also more confident that their bank would agree to lend, helping to boost overall confidence amongst future applicants from 46% to 52%

- 25% of SMEs are 'future would-be seekers' who would like to apply for finance but for various reasons will not do so (up from 20% in Q4). As in previous quarters, only a minority (2%) have an immediate need for finance identified

- These 'future would-be seekers' are increasingly likely to cite a reluctance to borrow in current economic conditions as the main barrier to an application (54% in Q1 2012 compared to 43% when first asked in Q3 2011). Within this group, rather more SMEs this time said their reluctance was due to the predicted performance of their business specifically, rather than the economy more generally

- Discouragement, a key barrier to applications in the past, remains less of a perceived barrier for future applications, cited by 11% of 'future would-be seekers' in Q1 2012, compared to 14% in Q4 2011

- The remaining 60% of all SMEs in Q1 2012 were future 'happy non-seekers' (with no plans, or desire, to apply for, or renew finance in the next 3 months), down from 66% in Q4 2011

- 48% of SMEs plan to grow in the next 12 months, the highest proportion recorded to date (44% in Q4 2011), with more smaller SMEs planning to grow

- The main barrier to running the business as they would wish remains the current economic climate - a 'major obstacle' for 37% of all SMEs in Q1 2012 (up slightly from 35% in Q4 2011). The current economic climate is more of an obstacle for those with *any* appetite for finance (either planning to apply/renew, or a 'future would-be seeker'), mentioned by 48%, and this group was also more likely than SMEs generally to see cash flow/late payment and access to external finance as major obstacles for their business (24% and 22%)

3. Using this report

This report is

divided into a series of chapters exploring different aspects of SME finance. At the start of each chapter, the contents and key findings are summarised, and key points are highlighted.

As well as the overall SME market, key elements have been analysed by a number of other factors, as sample sizes permit. Typically nothing will be reported on a base size of less than 100 – where this has been done an asterisk * highlights the care to be taken with a small base size. If appropriate, a qualitative or indicative assessment has been provided where base sizes are too small to report, but as the overall base size has grown, this has become less of an issue.

Much of the analysis is by size of business, based on the number of employees (excluding the respondent). This is because previous research has shown that SMEs are not a homogenous group in their need for external finance, or their ability to obtain it, and that size of business can be a significant factor. The employee size bands used are the standard bands of 0 (i.e. a 1 man band), 1-9, 10-49 and 50-249 employees.

Where relevant, analysis has been provided by sector, age of business or other relevant characteristics, of which the most frequently used is external risk rating. This was supplied for almost all completed interviews by D&B or Experian, the sample providers. Risk ratings are not available for 15% of respondents, typically the smallest ones. D&B and Experian use slightly different risk rating scales, and so the Experian scale has been matched to the D&B scale as follows:

D&B	Experian
1 Minimal	Very low / Minimum
2 Low	Low
3 Average	Below average
4 Above average	Above average / High / Maximum / Serious Adverse Information

As sample sizes have increased, it has become increasingly possible to show results by sector. The table below shows the share each sector has of all SMEs, from 3% (Hotels & Restaurants) to 27% (Real Estate) of all SMEs, and the proportion in each sector that are 0 employee SMEs.

	Sector	% of all SMEs	% of sector that are 0 emp
AB	Agriculture, Hunting and Forestry; Fishing	4%	67%
D	Manufacturing	7%	66%
F	Construction	22%	85%
G	Wholesale and Retail Trade; Repairs	12%	57%
H	Hotels & Restaurants	3%	26%
I	Transport, Storage and Communication	7%	86%
K	Real Estate, Renting and Business Activities	26%	74%
N	Health and Social work	6%	80%
O	Other Community, Social and Personal Service Activities	12%	83%

Analysis over time

This report covers four waves of data, gathered in Q1-2, Q3 and Q4 of 2011, and Q1 of 2012. In all four waves, SMEs were asked about their past behaviour across the previous 12 months, so there is an overlap in the time period each wave has reported on.

Based on four waves, this report is able to make more comment than was previously possible on changes in demand for credit and the outcome of applications over time (defined as when the application was made, rather than when the interview was conducted). Final data is now available for any applications made in 2010 or Q1 of 2011, but for other more recent quarters, data is still being gathered so results for events occurring from Q2 2011 are still *interim* at this stage. (Respondents in Q2 2012 can report on events which occurred in Q2 2011 or later).

Small sample sizes for some lines of questioning mean that in those instances data is reported based on all quarters to date in order to achieve a robust sample size and to allow for analysis by key sub-groups such as size, sector or external risk rating. However, where results can be shown over time they have been, and this will be an increasing trend for future reports.

The exception to this approach is in the latter stages of the report where SMEs are asked about their planned future behaviour. In these instances, where we are typically reporting expectations for the next 3 months, comparisons are made between quarters as each provides an assessment of SME sentiment for the coming months and the comparison is an appropriate one.

Definitions used in this report

Over time, a number of definitions have been developed for different SMEs, and some standard terms are commonly used in this report. The most frequently used are summarised below:

SME size – this is based on the number of employees (excluding the respondent). Those with more than 249 employees were excluded from the research

External risk profile – this is provided by the sample providers (Dun & Bradstreet and Experian). Risk ratings are not available for 15% of respondents, typically the smallest ones. D&B and Experian use slightly different risk rating scales, and so the Experian scale has been matched to the D&B scale as shown in Table 1d in the Appendix

Self-reported credit problems – reported instances in the last 12 months of missed loan repayments, unauthorised overdrafts, bounced cheques, CCJs and problems getting trade credit

Fast growth – SMEs that report having grown by 30% or more each year, for each of the past 3 years

Use of external finance – SMEs are asked whether they are currently using any of the following forms of finance: Bank overdraft, Credit cards, Bank loan/Commercial mortgage, Leasing or hire purchase, Loans/equity from directors, Loans/equity from family and friends, Invoice finance, Grants, Loans from other 3rd parties, Export/import finance

Permanent non-borrower – SMEs who seem firmly disinclined to borrow because they meet all of the following conditions: are not currently using external finance, have not used external finance in the past 5 years, have had no borrowing events in the past 12 months, have not applied for any other forms of finance in the last 12 months, said that they had had no desire to borrow in the past 12 months and reported no inclination to borrow in the next 3 months

Borrowing event – those SMEs reporting any Type 1 (new application or renewal), Type 2 (bank sought cancelation/renegotiation) or Type 3 (SME sought cancelation/reduction) borrowing event in the 12 months prior to interview

Would-be seeker – those SMEs that had not had a borrowing event, but said that they would have ideally liked to apply for loan/overdraft funding in the previous 12 months

Happy non-seeker – those SMEs that had not had a borrowing event, and also said that they had not wanted to apply for any (further) loan/overdraft funding in the previous 12 months

Issues – something that needed further discussion before a loan or overdraft facility was agreed, typically the terms and conditions (security, fee or interest rate) or the amount initially offered by the bank

Principle of borrowing – where an SME did not (or, looking ahead, will not) apply to borrow because they feared they might lose control of their business, or preferred to seek alternative sources of funding

Process of borrowing – where an SME did not (or, looking ahead, will not) apply to borrow because they thought it would be too expensive, too much hassle etc.

Discouragement – where an SME did not (or, looking ahead, will not) apply to borrow because it had been put off, either directly (they made informal enquiries of the bank and felt put off) or indirectly (they thought they would be turned down by the bank so did not enquire)

Major obstacle – SMEs were asked to rate the extent to which each of a number of factors were perceived as obstacles to them running the business as they would wish in the next 12 months, using a 1 to 10 scale. Ratings of 8-10 are classed as a 'major obstacle'

Future happy non-seekers – those that said they would not be applying to borrow (more) in the next three months, because they said that they did not need to borrow (more) or already had the facilities they needed

Future would-be seekers – those that felt that there were barriers that would stop them applying to borrow (more) in the next three months (such as discouragement, the economy or the principle or process of borrowing)

Please note that the majority of data tables show **column** percentages, which means that the percentage quoted is the percentage of the group described at the top of the column in which the figure appears. On some occasions, summary tables have been prepared which include **row** percentages, which means that the percentage quoted is the percentage of the group described at the left hand side of the row in which the figure appears. Where row percentages are shown, this is highlighted in the table.

4. The general context

This chapter presents

an overview of the characteristics of SMEs in the UK. Unless otherwise stated, figures are based on all interviews conducted in the year ending Q1 2012 (YEQ1 12).

Key findings

Two thirds of SMEs reported making a profit in the previous 12 month trading period, but this has declined slowly over time

Slightly more SMEs now have a 'worse than average' external risk rating. However, with the exception of those with 1-9 employees (who have also seen more of a drop in profitability), SMEs were slightly less likely to self-report any credit issues

Most held credit balances, albeit the median sum held remains small, at just under £2,000, but stable over time

Slightly more SMEs produced regular management accounts, boosting the proportion that plan to 58%

1 in 10 SMEs is international. 2% of all SMEs reported that international trade made up 50% or more of their business, increasing to 10% for the largest SMEs

This chapter presents an overview of the characteristics of SMEs in the UK. Unless otherwise stated, figures are based on all 20,151 interviews conducted in the year ending Q1 2012. 2011 was a difficult trading year, and analysis of this data over time provides an indication of how SMEs are managing.

Profitability

Two thirds of SMEs reported making a profit in their most recent 12 month trading period (65% for YEQ1 12). As the quarterly analysis below shows, there has been a slight decrease over time in the proportion of SMEs interviewed who reported making a profit. Where made, the average profit has increased slightly over time, while the median profit figure is more stable:

Business performance last 12 months over time	Q1-2 2011	Q3 2011	Q4 2011	Q1 2012
Unweighted base:	*5063*	*5055*	*5010*	*5023*
Made a profit	67%	64%	64%	63%
Broke even	10%	13%	14%	12%
Made a loss	16%	16%	15%	18%
Dk/refused	7%	7%	6%	6%
*Average profit made**	*£31k*	*£34k*	*£37k*	*£36k*
*Median profit made**	*£12k*	*£10k*	*£13k*	*£10k*

Q241 All SMEs/ * All SMEs making a profit and revealing the amount

The decline in the proportion of SMEs making a profit was seen across all size bands, but more so at the smaller end. The largest drop over time was amongst those with 1-9 employees (from 73% reporting a profit in Q1-2 2011 to 67% in Q1 2012).

For YEQ1 2012, bigger SMEs remained more likely to have been profitable: 63% of 0 employee businesses reported making a profit, compared to 75% of those with 50-249 employees:

Business performance last 12 months YEQ1 12 all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*20151*	*4045*	*6658*	*6429*	*3019*
Made a profit	65%	63%	69%	75%	75%
Broke even	12%	13%	10%	7%	7%
Made a loss	16%	17%	15%	11%	10%
Dk/refused	7%	7%	6%	6%	7%
*Average profit made**	*£34k*	*£16k*	*£44k*	*£217k*	*£936k*
*Median profit made**	*£11k*	*£8k*	*£17k*	*£38k*	*£249k*

Q241 All SMEs/ * All SMEs making a profit and revealing the amount

Amongst those who knew, or who were prepared to reveal, the sums involved, the average profit made YEQ1 12 was £34,000.

Average **losses** remained small (£12,000 YEQ1 12). The average loss reported each quarter declined from £16k in Q1-2 2011 to £8k in Q4 2011, then increased slightly to £13k in Q1 2012. Again, the median annual losses reported were more stable over time – at between £2,000 and £3,000 in each period.

By sector, Real Estate remained the most likely to be profitable (70%), and Transport the least likely (57%), along with Hotels (56%).

Business performance last 12 months YEQ1 12 all SMEs	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Real Est	Health S Work	Other Comm
Unweighted base:	*1513*	*2140*	*3563*	*2057*	*1776*	*1797*	*3573*	*1711*	*2021*
Made a profit	65%	66%	63%	64%	56%	57%	70%	66%	63%
Broke even	13%	14%	14%	13%	15%	18%	10%	12%	9%
Made a loss	16%	15%	15%	16%	20%	18%	15%	17%	19%
Dk/refused	6%	7%	8%	7%	10%	7%	5%	5%	9%
*Average profit made**	*£27k*	*£56k*	*£21k*	*£59k*	*£55k*	*£24k*	*£37k*	*£23k*	*£25k*
*Median profit made**	*£9k*	*£10k*	*£10k*	*£17k*	*£12k*	*£7k*	*£17k*	*£7k*	*£7k*

Q241 All SMEs/ * All SMEs making a profit and revealing the amount

By sector, average profits in YEQ1 12 ranged from £59,000 for profitable SMEs in Wholesale/Retail to £21,000 for profitable SMEs in Construction.

Reported losses YEQ1 12 ranged from £20,000 for loss making SMEs in the Transport sector to £7,000 for loss making SMEs in the Health sector.

Financial Risk Profile

Two assessments of financial risk are available, and as analysis later in this report reveals, both contribute to success in applications for new finance.

The first is self-reported risk from the survey itself, affecting only a minority of SMEs:

Self-reported credit issues All SMEs	YEQ1 12 Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*20151*	*4045*	*6658*	*6429*	*3019*
Unauthorised overdraft on account	7%	7%	8%	6%	4%
Had cheques bounced on account	6%	5%	8%	7%	4%
Problems getting trade credit	3%	3%	4%	5%	4%
Missed a loan repayment	1%	1%	2%	1%	1%
Had County Court judgement against them	1%	1%	1%	1%	1%
Any of these	*13%*	*12%*	*17%*	*15%*	*11%*

Q224 All SMEs

2011 represented a difficult trading environment generally, but in fact, over time, SMEs overall were slightly less likely to have had any of the credit risk issues specified, the exception being those with 1-9 employees:

Any self-reported credit issues over time – row percentages	Q1-2 2011	Q3 2011	Q4 2011	Q1 2012
Overall	15%	13%	12%	13%
0 employee	15%	11%	12%	11%
1-9 employees	18%	17%	14%	19%
10-49 employees	17%	15%	13%	14%
50-249 employees	13%	13%	8%	9%

Q224 All SMEs

The second assessment of financial risk is the external risk rating supplied by ratings agencies Dun & Bradstreet and Experian, which uses a variety of business information to predict the likelihood of business failure. Their ratings have been combined to a common 4 point scale from 'Minimal' to 'Worse than average'. Although not all SMEs receive this external risk rating, most do and it is commonly used and understood by lenders. It has thus been used in this report for the majority of risk related analysis.

The overall risk profile in each quarter has been very consistent. Over time though, there has been a slight increase in the proportion of SMEs rated a 'worse than average risk' (due to a higher proportion of 0 employee businesses having this rating):

External risk rating over time	Q1-2 2011	Q3 2011	Q4 2011	Q1 2012
Unweighted base:	*4640*	*4670*	*4487*	*4580*
Minimal risk	6%	6%	6%	6%
Low risk	13%	11%	10%	12%
Average risk	33%	33%	34%	30%
Worse than average risk	48%	51%	51%	53%

All SMEs where risk rating provided

The overall YEQ1 12 ratings are shown below, highlighting the improvement in risk rating profile as size of SME increases:

External risk rating YEQ1 12 All SMEs where rating provided	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*18377*	*3384*	*5741*	*6280*	*2972*
Minimal risk	6%	3%	10%	25%	32%
Low risk	12%	9%	18%	30%	28%
Average risk	32%	34%	28%	29%	27%
Worse than average risk	50%	55%	44%	15%	13%

All SMEs where risk rating provided

As in previous reports, there was limited correlation between the two types of risk rating, albeit that they are reporting on different things. That said, those with a minimal risk rating remained less likely to self-report a credit problem (9%) than those with a worse than average risk rating (15%).

By sector, SMEs in Agriculture remained more likely to have a minimal or low risk profile (39%) compared to Transport where 11% had this rating:

External risk rating YEQ1 12	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Real Est	Health S Work	Other Comm
Unweighted base:	*1288*	*2019*	*3239*	*1906*	*1642*	*1639*	*3233*	*1535*	*1876*
Minimal risk	24%	6%	2%	5%	4%	3%	7%	9%	6%
Low risk	15%	12%	10%	12%	8%	8%	13%	18%	10%
Average risk	30%	34%	29%	32%	25%	32%	34%	45%	31%
Worse than average risk	32%	48%	59%	51%	63%	57%	46%	29%	53%
Total Min/Low	*39%*	*18%*	*12%*	*17%*	*12%*	*11%*	*20%*	*27%*	*16%*

All SMEs where risk rating provided

Credit balances

While almost all SMEs reported holding some credit balances (6% do not hold any) most, 63%, said that they typically held less than £5,000 and this has changed little over time.

The high proportion of SMEs with a low credit balance continues to be driven by the smaller SMEs. 70% of 0 employee SMEs held less than £5,000 in credit balances, compared to 13% of those with 50-249 employees.

While the average amount held in credit balances was £26,000, the median value is more relevant here. This has been very consistent over time, at just under £2,000 overall in each of the four quarters available. The amount varied by size of SME as shown:

- £1,690 for 0 employee SMEs
- £3,360 for 1-9 employee SMEs
- £25,000 for 10-49 employee SMEs
- £126,000 for 50-249 employee SMEs

How SMEs are managed

Interviews were conducted with the main financial decision maker. In almost all cases, this person was also the owner, managing director, or senior partner.

A series of questions provided information on the structure and control of the business. Those reported below reflect the importance of a business plan as a key document, as has been highlighted on the Better Business Finance website set up by the Business Finance Taskforce. The Government is also keen to promote SME 'finance fitness' (preparedness for accessing finance) as well as exporting and export finance.

The table below shows that in Q1 2012, there was an increase in the proportion of SMEs that plan (this was due to more SMEs producing management accounts and was seen across all size bands):

Business formality elements Q1-4 over time – All SMEs	Q1-2 2011	Q3 2011	Q4 2011	Q1 2012
Unweighted base:	*5063*	*5055*	*5010*	*5023*
Planning (any)	52%	54%	52%	58%
- Produce regular management accounts	*40%*	*41%*	*37%*	*44%*
- Have a formal written business plan	*30%*	*33%*	*32%*	*33%*
International (any)	15%	10%	8%	10%
- Export goods or services	*10%*	*7%*	*5%*	*7%*
- Import goods of services	*9%*	*7%*	*6%*	*7%*

Q223 All SMEs

Larger SMEs remained more likely to plan and to undertake international trade. Those in the Wholesale/Retail sector were amongst the most likely to be planning (together with those in the Hotel/Restaurant sector) and to trade internationally, while those in Construction were less likely either to plan or to trade internationally.

Amongst those undertaking any international trade, a new question from Q3 sought to understand how important international trade was to the business.

- Overall, 21% of international SMEs said that international trade represented 50% or more of their business (the equivalent of 2% of all SMEs. This varies by size, up to 10% of SMEs with 50-249 employees)
- 26% of *exporters* said that international trade represented 50% or more of their business
- 19% of *importers* said that international trade represented 50% or more of their business

Those in Manufacturing and Wholesale/Retail were the most likely to report that international trade made up 50% or more of their business (4% of all SMEs in these sectors).

Analysis later in this report shows that having someone in charge of the financial management of the business who has either financial training and/or a finance qualification, can have a positive impact when applying for new finance. YEQ1 12, a quarter of all SMEs (23%) had such a person in charge of their financial management, and this varies considerably by size:

- 20% of 0 employee SMEs have such a person in charge of their financial management
- 30% of 1-9 employee SMEs
- 48% of 10-49 employee SMEs
- 73% of 50-249 employee SMEs

Having such a person in charge has increased slightly over time, from 22% of SMEs in Q1-2 2011 to 25% of SMEs in Q1 2012.

5. Financial context – how are SMEs funding themselves?

This chapter provides

an overview of the types of external finance being used by SMEs, including the use of personal loans within a business.

Key findings

More SMEs are using external finance, back to levels see in early 2011, due to increased use by smaller SMEs

Of the most common forms of finance, use of credit cards has increased over time, as use of overdrafts declines (albeit previous research showed that three quarters of credit card holders usually pay off their bill in full each month). Half of those with a credit card said it was in their personal, rather than the business, name, and these were typically smaller SMEs

A third of SMEs might be described as ‘permanent non-borrowers’ as they have not borrowed in the past, expressed no desire to borrow in the current period, and had no plans to borrow in the immediate future

One in five SMEs runs their business through a personal bank account, most of them were 0 employee businesses. Such businesses were less likely to use external finance or to have applied for new/renewed finance, and may not be recognised as a business by their bank

SMEs were asked two questions about their use of external finance:

- Whether they had used any form of external finance in the past 5 years
- Which of a specified list of sources they were currently using

As already noted in previous reports, half of all SMEs used external finance with smaller SMEs less likely to do so. Analysis over time shows that more SMEs in Q1 2012 reported using external finance, back to levels seen earlier in 2011:

Use of external finance in last 5 years Over time – all SMEs	Q1-2 2011	Q3 2011	Q4 2011	Q1 2012
Unweighted base:	*5063*	*5055*	*5010*	*5023*
Use now	51%	47%	41%	50%
Used in past but not now	2%	2%	3%	3%
Not used at all	47%	51%	56%	47%

Q14/15 All SMEs

The increased proportion of SMEs using external finance in Q1 2012 was driven by those with less than 10 employees, albeit that larger SMEs remain more likely to be using external finance:

Currently use external finance Over time – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Q1-2 2011	51%	45%	65%	76%	81%
Q3 2011	47%	41%	61%	76%	77%
Q4 2011	41%	36%	54%	70%	75%
Q1 2012	50%	45%	64%	73%	78%

Q14/15 All SMEs Base varies slightly each quarter Q1 5023 1014/1656/1602/751

Overall, more use was made of external finance by SMEs with a minimal (55%) or low (54%) external risk rating, than by those rated average (48%) or worse than average (45%).

By sector, the most likely to be using external finance were SMEs in Wholesale/Retail (56%) and Hotels & Restaurants (56%) sectors. The least likely to be currently using external finance was the Health sector (38%).

To understand more about the use of external finance over time, the table below shows the overall reported use of the main forms of finance, overdrafts, loans and credit cards, by quarter. This shows more SMEs reported having credit cards in Q1 2012, boosting the overall usage of these three common forms of finance from 34% in Q4 to 40% in Q1. Note though that the Q4 Monitor reported that three quarters (74%) of those who use a credit card for their business said that they usually paid off the balance in full each month, so these businesses are not necessarily using their credit cards as a source of finance, more as a payment mechanism:

Use of external finance Over time – all SMEs	Q1-2 2011	Q3 2011	Q4 2011	Q1 2012
Unweighted base:	*5063*	*5055*	*5010*	*5023*
Bank overdraft	30%	25%	22%	24%
Bank loan/Commercial mortgage	12%	10%	8%	11%
Credit cards	20%	19%	14%	22%
Any of these – all SMEs	*44%*	*39%*	*34%*	*40%*

Q15 All SMEs

This net improvement was due to increased use of these financial products amongst SMEs with 1-9 employees in particular (43% in Q4 to 53% in Q1). By risk rating, those rated 'worse than average' remained least likely to be using one of these products (33%).

The table below shows the full list of the different types of funding being used by SMEs YEQ1 12, with larger businesses making use of a wider variety of forms of funding:

External finance currently used YEQ1 12 all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*20151*	*4045*	*6658*	*6429*	*3019*
Bank overdraft	25%	22%	34%	41%	42%
Credit cards	19%	16%	25%	36%	43%
Bank loan/Commercial mortgage	10%	8%	17%	24%	32%
Leasing or hire purchase	7%	5%	12%	26%	35%
Loans/equity from directors	6%	3%	12%	14%	14%
Loans/equity from family and friends	6%	5%	7%	5%	3%
Invoice finance	2%	2%	4%	10%	15%
Grants	1%	1%	2%	3%	5%
Loans from other 3rd parties	1%	1%	2%	3%	6%
Export/import finance	*	*	*	1%	2%
Any of these	*47%*	*42%*	*61%*	*74%*	*78%*
None of these	*53%*	*58%*	*39%*	*26%*	*22%*

Q15 All SMEs

Companies were also asked whether they used equity from 3rd parties. 1% of companies reported using this form of funding YEQ1 12.

8% of SMEs only use credit cards from the list above, and this varies relatively little by size of SME.

Personal accounts

Most SMEs used a business bank account (82%). Almost all, 95%, of those that used a personal account for their business banking were 0 employee businesses. Such personal accounts were more likely to be found in the Health Sector (32% v 18% overall) and least likely to be found in Wholesale/Retail (9%). Amongst Starts (within the last 2 years) 27% use a personal bank account for their business.

Almost 1,300 SMEs who use a personal account have now been interviewed. Such SMEs were less likely to be using external finance (32% currently use v 47% overall) and half as likely to have applied for new or renewed facilities. As a result, there are too few of them to analyse whether they are more or less likely to receive a positive response from their bank, and also too few of them to affect the success rates reported later.

At the smaller end of the market in particular, there can be a blurring between finance raised in the name of the business, and finance raised in a personal capacity by the owner/directors which is then used in the business. Since Q3, those using bank loans/commercial mortgages to fund their business have been asked whether this loan was in the name of the business or an individual. To date, three quarters of those with a loan (73%) said that it was in the name of the business. Amongst 0 employee SMEs with a loan though, 28% reported that it was in the name of an individual:

Type of loan	Q3-1 only- SMEs with a loan	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:		*2869*	*216*	*814*	*1120*	*719*
Personal		21%	28%	15%	5%	2%
Business		73%	66%	79%	91%	97%
Both		6%	7%	5%	4%	1%

Q15c All SMEs with a loan *care re small base

Amongst SMEs with a credit card, 47% said that this was in their personal name, and a further 14% had cards in both business and personal names (the equivalent of 9% of all SMEs having credit cards in a personal name). Most of those who only used a personal credit card for the business were 0 employee SMEs (82%).

Recent applications for other forms of finance

The majority of this report focuses on activity around loans and overdrafts. For a complete picture of external finance applications in the 12 months prior to interview, an overview is provided below of applications for other forms of funding and the extent to which these were successful. As the table below shows, a small minority of SMEs had applied for other forms of finance during this time:

	Total		Applied for			
External finance applied for YEQ1 12 All SMEs	Applied	% success	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	20151	varies	4045	6658	6429	3019
Credit cards	4%	91%	4%	4%	6%	7%
Leasing/Hire purchase	4%	94%	2%	7%	17%	25%
Loans/equity from directors	3%	96%	2%	6%	7%	5%
Loans/equity from family & friends	4%	94%	4%	4%	3%	1%
Grants	2%	67%	1%	2%	5%	6%
Invoice finance	1%	90%	1%	2%	4%	5%
Loans from other 3rd parties	1%	74%	*	1%	2%	3%
Export/import finance	*	66%	*	*	1%	1%

Q222 All SMEs

Most applicants were successful, with larger SMEs (10-249 employees) that applied generally more likely to be successful, notably for grants (81% v 65% of applicants with 0-9 employees) and loans from other 3rd parties (91% v 71%).

Taking both loan/overdraft events and these applications for other types of finance together showed that:

- Most SMEs, 75%, reported neither a loan/overdraft 'event' (covered in the remainder of this report), nor an application for any of the types of finance listed above
- 8% reported a loan/overdraft event, but had not applied for other forms of finance
- 11% had applied for other forms of finance but did not report a loan/overdraft event
- 4% reported both a loan/overdraft event and applying for one of these forms of finance

The non-borrowing SME

As this chapter has already reported, around half of SMEs currently use external finance. Other data from this report allows for identification of those SMEs who seem firmly disinclined to borrow, defined as those that meet **all** of the following conditions:

- Are not currently using external finance
- Have not used external finance in the past 5 years
- Have had no borrowing events in the past 12 months
- Have not applied for any other forms of finance in the last 12 months
- Said that they had had no desire to borrow in the past 12 months
- Reported no inclination to borrow in the next 3 months

These 'permanent non-borrowers' make up 33% of SMEs and were more likely to be found amongst the smaller SMEs:

- 37% of 0 employee SMEs met this non-borrowing definition
- 22% of 1-9 employee SMEs
- 16% of 10-49 employee SMEs
- 12% of 50-249 employee SMEs

These SMEs indicate that they are unlikely to be interested in borrowing, based on their current views. At various stages in this report, therefore, we have provided an alternative to the 'All SME' figure, excluding these permanent non-borrowers, to provide a figure for 'All SMEs with a *potential* interest in external finance'.

6. An initial summary of all overdraft and loan events occurring in the 12 months prior to interview

This chapter provides

The full definition of each borrowing 'event' together with summary tables of their occurrence. Subsequent chapters then investigate in more detail and over time. The chapter covers the four waves of interviews conducted to date: Q1-2, Q3 and Q4 2011 and Q1 2012. In each wave, SMEs were asked about borrowing events in the previous 12 months, so overall, borrowing events may have occurred from Q1 2010 to Q1 2012.

Key findings

A minority of SMEs had experienced any of these borrowing events in the 12 months prior to being interviewed

The reported occurrence of Type 1 events (an application for new or renewed facilities) is no longer declining over time, and remained the most common event

All SMEs reported on activities occurring in the 12 months prior to interview concerning borrowing on loan or overdraft. Loan and overdraft borrowing events have been split into three types, defined as follows:

- Type 1, where the SME has applied for:
    - A new borrowing facility
    - To renew / roll over an existing facility
- Type 2, where the bank has sought to:
    - Cancel an existing borrowing facility
    - Renegotiate an existing facility
- Type 3, where the SME has sought to:
    - Reduce an existing borrowing facility
    - Pay off an existing facility

This chapter provides analysis on all events reported to YEQ1 2011. This provides bigger base sizes and more granularity for sub-group analysis, such as by employee size band.

However, where possible, analysis has also been conducted over time to allow the reporting of a 'rolling aggregate of demand' which is shown below.

The rolling aggregate of demand/activity

The tables below show the percentage over time of all SMEs interviewed that reported a borrowing event in the 12 months prior to interview. Type 1 events remained the most common:

Borrowing events in the previous 12 mths All SMEs, over time	Q1-2 2011	Q3 2011	Q4 2011	Q1 2012
Unweighted base:	*5063*	*5055*	*5010*	*5023*
Type 1: New application/renewal	15%	12%	9%	12%
Applied for new facility (any)	8%	7%	6%	7%
Renewed facility (any)	10%	6%	5%	6%
Type 2: Cancel/renegotiate by bank	5%	4%	3%	4%
Type 3: Chose to reduce/pay off facility	4%	2%	1%	2%

Q25/26 All SMEs

As the table above shows, a minority of SMEs had experienced any of these loan or overdraft events. One way of assessing and tracking this level of activity over time is to take the proportion of all SMEs that had applied and subtract from it the proportion of all SMEs that had chosen to reduce/cancel a facility early in a given 12 month period (note that this is a slight change from the previous definition which included renewals of facilities).

This shows that the net demand position remained positive and stable over time: more SMEs were seeking/renewing finance than were repaying it early, but only a minority of SMEs were involved at all:

Borrowing events All SMEs, over time	Q1-2 2011	Q3 2011	Q4 2011	Q1 2012
Unweighted base:	*5063*	*5055*	*5010*	*5023*
New application	8%	7%	6%	7%
Type 3: Chose to reduce/pay off facility	4%	2%	1%	2%
Net activity	*+4*	*+5*	*+5*	*+5*

Q25/26 All SMEs

Further analysis of Type 1 events over time is provided in the next chapter.

Events in the previous 12 months by key demographics

The remainder of this chapter looks in more detail at the type of SMEs that were more or less likely to report any of the loan or overdraft events specified, across all four waves of data.

The event experienced most widely remained the renewal of an existing facility, experienced by 7% of all SMEs and 20% of those with 50-249 employees. The same proportion of all SMEs reported applying for a new facility, but this varies much less by size of business (6% 0 employees, and 11% in all other size bands):

Borrowing events YEQ1 12 all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*20151*	*4045*	*6658*	*6429*	*3019*
Type 1: New application/renewal	12%	10%	19%	25%	26%
Applied for new facility (any)	7%	6%	11%	11%	11%
- applied for new loan	*3%*	*2%*	*5%*	*6%*	*7%*
- applied for new overdraft	*5%*	*4%*	*7%*	*6%*	*6%*
Renewed facility (any)	7%	5%	11%	18%	20%
- renewed existing loan	*2%*	*1%*	*3%*	*6%*	*7%*
- renewed existing overdraft	*6%*	*4%*	*9%*	*16%*	*16%*
Type 2: Cancel/renegotiate by bank	4%	3%	6%	9%	8%
Bank sought to renegotiate facility (any)	3%	3%	5%	8%	8%
- Sought to renegotiate loan	*1%*	*1%*	*2%*	*3%*	*4%*
- Sought to renegotiate overdraft	*3%*	*2%*	*4%*	*6%*	*5%*
Bank sought to cancel facility (any)	1%	1%	2%	2%	2%
- Sought to cancel loan	*	*	*1%*	*1%*	*1%*
- Sought to cancel overdraft	*1%*	*1%*	*2%*	*2%*	*1%*
Type 3: Chose to reduce/pay off facility	2%	2%	3%	5%	4%
- Reduce/pay off loan	*1%*	*1%*	*2%*	*3%*	*3%*
- Reduce/pay off overdraft	*1%*	*1%*	*2%*	*3%*	*2%*

Q25/26 All SMEs – does not include automatic renewal of overdraft facilities

SMEs with a minimal or low external risk rating were more likely to have had a Type 1 event, and a renewal of facilities in particular:

Borrowing events YEQ1 12 – all SMEs	Total	Min	Low	Avge	Worse/Avge
Unweighted base:	*20151*	*3349*	*3994*	*5375*	*5659*
Type 1: New application/renewal	12%	16%	15%	11%	12%
Applied for new facility (any)	7%	7%	6%	6%	8%
- applied for new loan	*3%*	*3%*	*3%*	*3%*	*3%*
- applied for new overdraft	*5%*	*5%*	*4%*	*4%*	*5%*
Renewed facility (any)	7%	11%	11%	7%	5%
- renewed existing loan	*2%*	*3%*	*3%*	*2%*	*1%*
- renewed existing overdraft	*6%*	*9%*	*10%*	*6%*	*5%*
Type 2: Cancel/renegotiate by bank	4%	4%	5%	5%	3%
Bank sought to renegotiate facility (any)	3%	4%	5%	4%	2%
- Sought to renegotiate loan	*1%*	*1%*	*1%*	*1%*	*1%*
- Sought to renegotiate overdraft	*3%*	*3%*	*4%*	*4%*	*2%*
Bank sought to cancel facility (any)	1%	2%	1%	1%	1%
- Sought to cancel loan	*	*	*1%*	*	*
- Sought to cancel overdraft	*1%*	*1%*	*1%*	*1%*	*1%*
Type 3: Chose to reduce/pay off facility	2%	3%	3%	2%	2%
- Reduce/pay off loan	*1%*	*2%*	*2%*	*1%*	*2%*
- Reduce/pay off overdraft	*1%*	*1%*	*2%*	*1%*	*1%*

Q25/26 All SMEs with external risk rating

By sector, Agriculture was the sector most likely to have had a Type 1 event:

Borrowing event in last 12 months YEQ1 12 All SMES	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Real Est	Health S Work	Other Comm
Unweighted base:	*1513*	*2140*	*3563*	*2057*	*1776*	*1797*	*3573*	*1711*	*2021*
Type 1: New application/ renewal	19%	10%	11%	16%	16%	11%	11%	8%	12%
Applied for new facility (any)	10%	6%	7%	9%	10%	7%	5%	6%	6%
- applied for new loan	*5%*	*3%*	*3%*	*3%*	*5%*	*4%*	*2%*	*4%*	*3%*
- applied for new overdraft	*7%*	*3%*	*5%*	*7%*	*7%*	*4%*	*4%*	*3%*	*4%*
Renewed facility (any)	12%	5%	5%	9%	7%	6%	7%	3%	8%
- renewed existing loan	*4%*	*1%*	*1%*	*2%*	*2%*	*1%*	*1%*	*1%*	*2%*
- renewed existing overdraft	*10%*	*4%*	*5%*	*8%*	*6%*	*5%*	*6%*	*2%*	*7%*
Type 2: Cancel/ renegotiate by bank	5%	3%	3%	4%	5%	3%	5%	2%	4%
Bank sought to renegotiate facility (any)	4%	2%	3%	3%	4%	3%	4%	2%	3%
- Sought to renegotiate loan	*1%*	*1%*	*1%*	*1%*	*2%*	*1%*	*1%*	*1%*	*
- Sought to renegotiate overdraft	*3%*	*2%*	*2%*	*3%*	*3%*	*2%*	*4%*	*1%*	*3%*
Bank sought to cancel facility (any)	2%	1%	1%	1%	2%	1%	1%	1%	1%
- Sought to cancel loan	*1%*	*	*	*1%*	*1%*	*1%*	*	*	*
- Sought to cancel overdraft	*1%*	*1%*	*1%*	*1%*	*1%*	*1%*	*1%*	*1%*	*1%*
Type 3: Chose to reduce/ pay off facility	4%	2%	2%	2%	4%	3%	2%	2%	2%
- Reduce/pay off loan	*2%*	*1%*	*1%*	*2%*	*3%*	*2%*	*1%*	*1%*	*1%*
- Reduce/pay off overdraft	*2%*	*1%*	*1%*	*1%*	*1%*	*1%*	*1%*	*1%*	*1%*

Q25/26 All SMEs

Subsequent chapters of this report investigate those that have applied for a new overdraft or loan facility, or to renew an existing one (a Type 1 event), and the outcome of that application in more detail. More detail is also provided on the proportion of SMEs experiencing the *automatic renewal* of an overdraft facility (something which is not included in the events reported in this chapter).

SMEs were only asked these follow up questions for a maximum of one loan and one overdraft event. Those that had experienced more than one event in either category were asked which had occurred most recently and were then questioned on this most recent event. Base sizes may therefore differ from the overall figures reported above.

While reflecting on these events, it is important to bear in mind that half of all SMEs currently use external finance while 12% reported one of these borrowing 'events' in the previous 12 months. Indeed, a third of SMEs might be considered to be outside the borrowing process – the 'permanent non-borrowers' described earlier.

A later chapter reports on those SMEs that had not had a borrowing event in the 12 months prior to interview and explores why this was.

Type 2 (bank cancellation or renegotiation) and Type 3 (SME reducing/repaying facility) events remain rare and are, if anything, becoming less common over time. No further detail is therefore provided on these events in this report, but the data remains available for those interested and future reports will provide updates when warranted.

7. The build up to applications for overdrafts and loans

This chapter is

the first of four covering Type 1 borrowing events in more detail and looks at the build-up to the application, why funds were required and whether advice was sought.

Key findings

12% of respondents in Q1 2012 reported a Type 1 event, an increase from 9% in Q4, as more small SMEs reported an event, along with those in Construction, Hotels & Restaurants and Real Estate. Compared to early 2011, larger SMEs are now less likely to be reporting a Type 1 event, as are SMEs in the Manufacturing and Transport sectors, and those with a minimal external risk rating

The most common **overdraft** event remained a renewal at existing levels. Half of applications involved such a renewal, compared to a quarter for a first ever overdraft facility

The overdraft was typically required for working capital. Over time, more applicants were seeking an overdraft facility of less than £5,000

Loan applications on the other hand were more likely to be for new facilities, with a third of applicants seeking their first ever loan. Over time, more applicants were seeking funds to buy fixed assets, with fewer seeking to buy vehicles. Recent data showed that most were looking to the bank to provide all of the funding required

Half of SMEs with an overdraft reported that their facility had been ‘automatically renewed’ in the previous 12 months, the equivalent of 12% of all SMEs

This chapter is the first of four covering Type 1 borrowing events in more detail. Type 1 events are those where the SME approached the bank looking for new or renewed overdraft or loan facilities.

The first of these chapters looks at the build-up to the application, why funds were required and whether advice was sought. Subsequent chapters then detail the bank's response, the resultant loan/overdraft granted, the effect of the process on the SME and the rates and fees charged for the facilities.

Each chapter includes analysis, as far as is possible, on the extent to which loan and overdraft applications are changing over time. As has already been stated, for a number of quarters this is only **interim** data and will be updated in subsequent reports.

This chapter also includes some initial data on the proportion of overdrafts that SMEs reported had been 'automatically renewed' by the bank rather than a formal review being conducted.

Applications over time

As the table below shows, in Q1 2012 there was a slight increase in the proportion of SMEs having had any Type 1 overdraft event in the previous 12 months:

Overdraft events in previous 12 months All SMEs, over time	Q1-2 2011	Q3 2011	Q4 2011	Q1 2012
Unweighted base:	*5063*	*5055*	*5010*	*5023*
Applied for a new overdraft	6%	4%	4%	5%
Renewed an existing overdraft	9%	6%	4%	5%
Any Type 1 overdraft event	*13%*	*9%*	*7%*	*9%*

Q26 All SMEs

The incidence of Type 1 loan events was more stable, but remained low:

Loan events in previous 12 months All SMEs, over time	Q1-2 2011	Q3 2011	Q4 2011	Q1 2012
Unweighted base:	*5063*	*5055*	*5010*	*5023*
Applied for a new loan	4%	3%	3%	4%
Renewed an existing loan	2%	1%	1%	2%
Any Type 1 loan event	*5%*	*4%*	*3%*	*5%*

Q26 All SMEs

SMEs were reporting on events that had happened in the year prior to interview. Looking at when these events occurred within that 12 months (i.e. the quarter) also provides some evidence for whether activity is increasing or decreasing over time.

Across the four waves conducted to date, some quarters have featured more than others as quarters where a Type 1 event might have occurred. Once this is controlled for, the pattern of applications for both loans and overdrafts is very similar and also broadly in line with an even distribution of events over time, given how many times each quarter has featured as a possible 'event period'.

Analysis does suggest that there were *fewer* applications/renewals in Q2 2011, but slightly more in the quarters either side, so this may be a timing issue. For overdrafts, and to a lesser extent loans, *more* applications/renewals were reported as having occurred in the most recent quarter, Q1 2012, than might have been expected given that the quarter has only been featured in one survey.

With four waves of data it is also possible to start reporting on the types of SMEs that have become more or less likely to have had *any* Type 1 event in the 12 months prior to interview, an application for a new or renewed loan or overdraft facility:

Had **any Type 1** event New application/renewal time – row percentages Over	Q1-2 2011	Q3 2011	Q4 2011	
All SMEs	**15%**	**12%**	**9%**	**12%**
0 employee	12%	10%	7%	10%
1-9 employees	24%	19%	14%	18%
10-49 employees	29%	27%	23%	20%
50-249 employees	32%	21%	27%	25%
Minimal external risk rating	19%	15%	19%	10%
Low external risk rating	17%	17%	11%	15%
Average external risk rating	14%	11%	9%	12%
Worse than average external risk rating	16%	12%	8%	12%
Agriculture	29%	16%	16%	17%
Manufacturing	14%	10%	8%	7%
Construction	13%	12%	7%	12%
Wholesale/Retail	18%	18%	12%	14%
Hotels & Restaurants	20%	13%	13%	17%
Transport	16%	8%	12%	10%
Real Estate etc.	15%	12%	7%	12%
Health	12%	8%	5%	8%
Other Community	13%	14%	9%	13%

Q26 All SMEs: base size varies by category

The table shows that the increase in Type 1 events reported by respondents in Q1 2012 was due to smaller SMEs being more likely to report having applied for new/renewed funding. By sector, those in Construction, Hotels & Restaurants and Real Estate were more likely to report having had such an event. In contrast to the overall picture, SMEs with a minimal external risk rating were less likely to have applied for new/renewed funding and, over time, those in the Manufacturing and Transport sectors are also less likely to have applied.

Other business demographics also showed some variation in incidence of a Type 1 event:

Demographic	Incidence of Type 1 events
Age of business	The incidence of Type 1 events increases with age of business, from 10% for Starts and others less than 5 years old, to 15% for those trading for 15 years or more. Starts are much more likely to have applied for new facilities than to have renewed an existing facility (9% v 2%) while older businesses are more likely to have renewed (amongst those 15 years+, 6% applied for a new facility v 11% renewing one).
Profitable SMEs	SMEs that made a loss in the past 12 months were slightly more likely to have had a Type 1 event: Made a profit 12% Broke even 10% Made a loss 15% The loss makers were slightly more likely to have applied for a new facility than those that made a profit (9% v 6%).
Fast growth (30%+ for 3 yrs)	Fast growth SMEs were no more likely to have had a Type 1 event: Fast growth 13% Non-fast growth (excl. Start-ups) 12%
Importers/exporters	Those engaged in international trade were slightly more likely to have had an event (18%) than those who were not (12%). Note though that international businesses tend to be larger SMEs.

Overdraft events – definition and further clarification

Overdrafts are usually granted for a 12 month period or less, but it was apparent in earlier reports that not all overdraft users reported having had an overdraft event in the 12 months prior to interview. For example, in 2011, 12% of SMEs reported any overdraft event in the previous 12 months, compared to 26% of all SMEs reporting that they had an overdraft facility.

To explore this further, a new question was placed on the survey from Q4 2011, asked of those SMEs that had reported having an overdraft facility but that had not subsequently mentioned any overdraft event. The question asked whether, in the previous 12 months, their bank had automatically renewed their overdraft facility at the same level, for a further period, without them having to do anything.

The results for Q4 2011 and Q1 2012 combined indicate that such automatic renewals were relatively widespread. As the table below shows, half of all overdraft holders reported that they had had such a renewal, the equivalent of 12% of all SMEs:

Any overdraft activity Q4 + Q1 only	All with overdraft	All SMEs
Unweighted base:	*3394*	*10,033*
Had an overdraft 'event'	30%	7%
Had automatic renewal	53%	12%
Neither of these but have overdraft	17%	4%
No overdraft activity*		77%

Q15/ 26/26a All SMEs *Includes 1% of all SMES who had an overdraft event but do not have an overdraft now

'No overdraft activity' describes those SMEs that do not have an overdraft, have not had an overdraft event, and have not had an automatic renewal in the previous 12 months.

As the table below shows, such automatic renewals were more likely amongst smaller SMEs with an overdraft facility, but even amongst the biggest such SMEs an automatic renewal was as likely as having an overdraft 'event' as defined in this report:

Overdraft activity Q4+Q1 only – All with overdraft	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*3394*	*395*	*1063*	*1302*	*634*
Had an overdraft 'event'	30%	27%	34%	42%	40%
Had automatic renewal	53%	55%	50%	42%	40%
Neither of these but have overdraft	17%	18%	16%	16%	20%

Q15/ 26/26a All SMEs

There was a less clear pattern of automatic renewal by external risk rating, and limited evidence that those with a minimal or low external risk rating were more likely to see their overdraft automatically renewed:

Overdraft activity Q4+Q1 only – All with overdraft	Total	Min	Low	Avge	Worse/Avge
Unweighted base:	*3394*	*551*	*767*	*987*	*817*
Had an overdraft 'event'	30%	32%	35%	30%	32%
Had automatic renewal	53%	54%	55%	53%	50%
Neither of these but have overdraft	17%	14%	10%	17%	19%

Q15/ 26/26a All SMEs

By sector, amongst those with an overdraft, the most likely to have experienced an automatic renewal were those in the Manufacturing and Real Estate sectors. Those in the Agriculture and Other Community sectors were the most likely to have reported an overdraft 'event':

Overdraft activity Q4+Q1 only – All with overdraft	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Real Est	Health S Work	Other Comm
Unweighted base:	*328*	*371*	*564*	*406*	*273*	*287*	*575*	*272*	*318*
Had an overdraft 'event'	36%	22%	27%	31%	35%	31%	31%	28%	36%
Had automatic renewal	48%	58%	52%	54%	43%	53%	57%	55%	45%
Neither of these but have overdraft	16%	20%	21%	15%	22%	16%	12%	17%	19%

Q15/ 26/26a All SMEs

The answers to these questions reflect the SME's perception of how their business overdraft facility had been managed by their bank. Given the low level of 'events' reported generally, these SMEs with an automatic renewal form a substantial group, and from Q2 2012 they will answer further questions about this automatic renewal. In this report, where possible, we have shown what impact these SMEs have on key measures.

However, the remainder of this chapter does **not** include those who have experienced an automatic renewal, as these SMEs were not asked the relevant sections of the questionnaire.

Why were they applying?

Overdraft applications

This section covers those SMEs that made an application for a new or renewed overdraft facility during the 12 months prior to interview. All percentages quoted are therefore just of this group, which overall represents around 9% of all SMEs or around 400,000 businesses. Note that this does not include SMEs who had an overdraft automatically renewed.

Half of those reporting a Type 1 overdraft event said that they had been looking to renew an existing overdraft for the same amount (50%). Almost a quarter of applicants (23%) were seeking an overdraft for the very first time and, as the table below shows, this was likely to be the case for smaller SMEs. 1 in 6 were looking to increase an existing facility and this did not vary by size of SME:

Why applying for overdraft YEQ1 12 SMEs seeking new/renewed facility	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*2798*	*286*	*887*	*1110*	*515*
Renewing overdraft for same amount	50%	50%	49%	60%	64%
Applied for first ever overdraft facility	23%	25%	22%	11%	5%
Seeking to increase existing overdraft	18%	17%	19%	19%	19%
Setting up facility at new bank	3%	3%	4%	2%	3%
Seeking additional overdraft on another account	4%	3%	4%	4%	4%
Seeking to reduce existing facility	2%	2%	2%	5%	5%

Q52 All SMEs seeking new/renewed overdraft facility

Analysis in previous reports has shown that the application process for an overdraft, and the eventual outcome, varied by the reason for application. The table below shows the proportion of applications made for each reason, over time, for those quarters where sufficiently robust sample sizes exist. This shows that the proportion seeking to renew at the same level has increased slightly.

Why applying for overdraft SMEs seeking new/renewed facility By application date	Q310	Q410	Q111	Q211*	Q311*	Q411*	Q112*
Unweighted base:	*176*	*329*	*679*	*469*	*419*	*330*	*174*
Renewing overdraft for same amount	54%	41%	50%	50%	43%	52%	61%
Applied for first ever overdraft facility	28%	26%	22%	24%	26%	24%	18%
Seeking to increase existing overdraft	12%	23%	16%	19%	21%	18%	17%
Setting up facility at new bank	4%	2%	6%	1%	2%	1%	3%
Seeking additional overdraft on another account	1%	2%	4%	1%	6%	2%	1%
Seeking to reduce existing facility	2%	5%	2%	5%	2%	3%	*

Q52 All SMEs seeking new/renewed overdraft facility. * indicates interim results as data is still being gathered on events in these quarters

Almost all applications, 97%, were made to the SME's main bank, and this varied little by date of application.

The average amount sought was just under £30,000. As the table below shows, there was a considerable difference in the amount of funding sought by size of business, ranging from an average of £6,000 for 0 employee businesses looking for a facility, to just under £600,000 for those SMEs with 50-249 employees.

Amount initially sought, where stated YEQ1 12 SMEs seeking new/renewed facility	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*2501*	*265*	*816*	*986*	*434*
Less than £5,000	45%	63%	23%	2%	-
£5,000 - £9,999	17%	19%	16%	4%	*
£10,000 – £24,999	20%	15%	29%	16%	3%
£25,000 - £99,999	13%	3%	25%	42%	9%
£100,000+	5%	*	7%	35%	88%
Average amount sought	*£29k*	*£6k*	*£31k*	*£140k*	*£593k*
Median amount sought	*£5k*	*£3k*	*£10k*	*£49k*	*£290k*

Q58/59 All SMEs seeking new/renewed overdraft facility, excluding DK/refused

The median values probably represent a more realistic picture of the overdraft amount sought. Overall, this was stable at just under £5,000, ranging from just under £3,000 amongst 0 employee SMEs seeking a facility to just under £300,000 for those with 50-249 employees.

Analysis by date of application shows that, over time, a higher proportion of applicants were seeking an overdraft of less than £5,000. They made up 37% of applications made in Q4 2010, rising to 57% of applications made in Q4 2011, and 51% of those made in Q1 2012.

8 out of 10 overdraft applicants said that the overdraft was needed for day to day cash flow, and this varied little by size of SME. Half wanted the facility as a 'safety net' and, as the table below shows, this was slightly more likely to be mentioned as a reason by the smaller SMEs that had applied. This was even more the case when it came to overdrafts being required to fill a short term funding gap –19% of SMES with 50-249 employees applying for a facility said that this was why it was needed, compared to 44% of those with 0 employees. As in previous quarters, these overdrafts were much more likely to have been sought to support UK expansion (12%) than overseas expansion (1%).

Purpose of overdraft sought YEQ1 12 SMEs seeking new/renewed facility	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*2798*	*286*	*887*	*1110*	*515*
Working capital for day to day cash flow	82%	81%	83%	83%	81%
Safety net – just in case	48%	52%	44%	39%	38%
Short term funding gap	39%	44%	33%	26%	19%
Buy fixed assets	15%	16%	13%	10%	11%
Fund expansion in UK	12%	10%	15%	12%	18%
Fund expansion overseas	1%	1%	2%	2%	4%

Q55 All SMEs seeking new/renewed overdraft facility

Applicants with a better external risk rating were less likely to be looking for funds to fill a short term funding gap (minimal risk applicants 24% v worse than average risk applicants 43%) and slightly more likely to be looking for a safety net (58% v 51%).

Looking at the purpose of the overdraft sought over time, working capital was the most mentioned purpose in each quarter. However, from Q2 onwards, it was mentioned slightly less often and more mentions were made of having a facility as a safety net (initial data for Q1 2012 suggests a change in that pattern, but on a limited sample size):

Purpose of overdraft YEQ1 12 SMEs seeking new/renewed facility By application date	Q310	Q410	Q111	Q211*	Q311*	Q411*	Q112*
Unweighted base:	*176*	*329*	*679*	*469*	*419*	*330*	*174*
Working capital for day to day cash flow	81%	85%	90%	79%	79%	77%	85%
Safety net – just in case	49%	48%	47%	47%	58%	50%	37%
Short term funding gap	43%	36%	43%	34%	43%	31%	36%

Q55 All SMEs seeking new/renewed overdraft facility. * indicates interim results as data is still being gathered on events in these quarters

The proportion of SMEs seeking advice before they applied remained consistently low (9%). There was no clear pattern of advice sought by date of application, and nothing to suggest that SMEs are becoming more likely to seek advice. As in previous waves, the main reason for not having sought advice was a belief that it was not needed (58% of those who did not seek advice), while smaller SMEs and first time applicants remained more likely to say they did not know who to approach, or did not have time to ask for advice.

Applicants also continued to report high levels of confidence prior to making their overdraft application (72% confident), especially for a renewal of facilities (87% confident), or where the applicant had a minimal external risk rating (93%). Confidence remained lower amongst first time applicants (47%). Credit history remained the main reason cited for lack of confidence.

3% of applicants had not received a response by the time of our survey and are excluded from the remainder of this analysis. Most, 82%, received a response within a week of applying, and while larger applicants continue to wait slightly longer for a response, overall this varies relatively little by date of application.

Overdraft applications – a sector summary

Base sizes now allow for some analysis of the type of overdraft facility requested by sector. Type 1 overdraft events were experienced by between 16% of those in Agriculture and 13% of those in the Wholesale/Retail sector, and 5% of those in Health.

Those in the Hotels & Restaurants sector were more likely to be seeking their first ever overdraft, while those in the Other Community and Real Estate sectors were more likely to be renewing an existing facility:

Overdraft activity YEQ1 12 all Type 1	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Real Est	Health S Work	Other Comm
Unweighted base:	*285*	*273*	*468*	*331*	*229*	*238*	*501*	*196*	*277*
Renewing overdraft for same amount	49%	45%	44%	43%	35%	38%	60%	48%	69%
Applied for first ever overdraft	19%	23%	27%	20%	38%	30%	21%	30%	14%
Seeking to increase existing overdraft	20%	17%	20%	27%	18%	23%	10%	17%	12%

Q52 All SMEs seeking new/renewed overdraft facility

Most approached their main bank. The least likely to do so were those in the Transport sector, but even here 94% of applications were made to the main bank.

Those in Manufacturing (£63,000) were seeking the highest average overdraft amount, while the smallest sums were sought by those in Other Community and Transport (both £15,000).

The main purpose of the overdraft for all sectors was working capital. 23% of those applying for a new/renewed overdraft from the Health sector said that it was for UK expansion, amongst other sectors there was relatively little variation in the proportion wanting an overdraft for this purpose.

Those in Manufacturing (85%) and Agriculture (82%) remained the most confident of success, those in Transport the least confident (61%), although this had not encouraged them to seek advice before applying (5%).

Loan applications

This section covers all those that made an application for a new or renewed loan facility during the 12 months prior to interview. All percentages quoted are therefore just of this group, which overall represents around 4% of all SMEs, or around 179,000 businesses.

There have been fewer loan events reported than overdraft events. As a result, even for year ending Q1 2012, the same granularity of analysis is not always possible as for other areas of the report, however we are now able to report the experience of 0 employee applicants separately from those with 1-9 employees.

The majority of loan applications/renewals (65%) were for a new loan, with 1 in 3 saying this was their first ever loan. As the table below shows, this was more likely to be the case for smaller SMEs that had applied:

Why applying for loan YEQ1 12 SMEs seeking new/renewed facility	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*1473*	*122*	*476*	*547*	*328*
Applied for first ever loan	33%	39%	29%	15%	7%
New loan (other)	32%	32%	31%	37%	41%
Renewing loan for same amount	15%	11%	19%	23%	28%
Topping up existing loan	9%	10%	9%	8%	9%
Refinancing onto a cheaper deal	6%	4%	8%	11%	12%
Consolidating existing borrowing	4%	4%	4%	4%	4%

Q149 All SMEs seeking new/renewed loan facility. 'New loan (other)' = combination of codes 'New loan for new purchase' and 'new loan as hadn't had one recently'

Around 1 in 10 of loan applicants with 10-249 employees were seeking to refinance onto a cheaper deal than their current loan.

Analysis in previous reports has shown that the application process for a loan and the eventual outcome varied by the reason for application. The table below shows the proportion of applications made for each reason, over time, for those quarters where sufficiently robust sample sizes exist. This shows fewer renewals of existing loans in the most recent quarters reported:

Why applying for loan SMEs seeking new/renewed facility By application date	Q310	Q410	Q111	Q211*	Q311*	Q411*
Unweighted base:	*121*	*172*	*302*	*239*	*199*	*176*
Applied for first ever loan	27%	35%	40%	30%	40%	23%
New loan (other)	37%	38%	29%	32%	26%	43%
Renewing loan for same amount	6%	14%	17%	16%	10%	10%
Topping up existing loan	13%	5%	7%	10%	6%	19%
Refinancing onto a cheaper deal	6%	4%	4%	6%	14%	4%
Consolidating existing borrowing	11%	4%	3%	6%	4%	1%

Q149 All SMEs seeking new/renewed loan facility. * indicates interim results as data is still being gathered on events in these quarters

Compared to overdraft applications/renewals, those for loans were slightly less likely to be made to the SME's main bank, although most of them were (88%), and there was some evidence that, over time, this proportion was increasing (94% for applications made in Q4 2011).

The average amount sought was higher than for overdrafts at just over £160,000 YEQ1 12, slightly higher than for Q1-4 (£153k). Unlike overdrafts, there is no clear pattern of amount sought when analysed by date of application. The median value probably represents a more realistic picture of the amount sought over time, and this was unchanged from Q1-4 at £10,000, albeit that the median application made by the largest SMEs (50-249 employees) increased somewhat to £564,000 from £493,000 in Q1-4:

Amount initially sought, where stated YEQ1 12 SMEs seeking new/renewed facility	Total	0 emps	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*1331*	*117*	*434*	*486*	*294*
Less than £5,000	15%	20%	9%	2%	*
£5,000 - £9,999	23%	31%	15%	3%	-
£10,000 – £24,999	32%	39%	26%	11%	1%
£25,000 - £99,999	13%	5%	23%	28%	8%
£100,000+	17%	4%	27%	56%	90%
Average amount sought	*£162k*	*£23k*	*£253k*	*£552k*	*£1393k*
Median amount sought	*£10k*	*£8k*	*£24k*	*£97k*	*£564k*

Q153/154 All SMEs seeking new/renewed loan, excluding DK/refused

A new question, asked from Q4 2011, sought to understand how much of the finance for a project the bank was being asked to provide, and how much the business was contributing. Overall, three quarters of respondents (72%, excluding DK) said that they were looking for all of the funding from the bank, and this was more common amongst applicants with 0-9 employees (73%) than those with 10-249 employees (64%). Indications at this stage are that first time loan applicants were more likely to be putting up at least some of the funding required, as 59% of these applicants were looking for all of the funding from the bank.

Overall, and in particular amongst larger SMEs seeking a loan facility, these funds were likely to have been sought to fund expansion in the UK (26%, and increasing by size of applicant), or to purchase fixed assets (23%). The largest applicants were the most likely to be buying premises:

Purpose of loan YEQ1 12 SMEs seeking new/renewed facility	Total	0 emps	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*1473*	*122*	*476*	*547*	*328*
Fund expansion in UK	26%	24%	27%	30%	37%
Buy fixed assets	23%	22%	26%	24%	22%
Buy motor vehicles	18%	24%	14%	7%	3%
Develop new products/services	17%	19%	15%	15%	10%
Buy premises	16%	6%	27%	29%	36%
Replace other funding	15%	13%	16%	21%	15%
Fund expansion overseas	2%	1%	3%	4%	5%
Take over another business	2%	*	3%	2%	6%

Q150 All SMEs seeking new/renewed loan facility

Analysed by application date, recent applications have been more likely to be for funding for fixed assets (ahead of funding UK expansion), and less likely to be for the purchase of vehicles:

Purpose of loan SMEs seeking new/renewed facility By application date	Q310	Q410	Q111	Q211*	Q311*	Q411*
Unweighted base:	*121*	*172*	*302*	*239*	*199*	*176*
Fund expansion in UK	37%	17%	28%	19%	24%	29%
Buy fixed assets	26%	21%	21%	12%	36%	40%
Buy motor vehicles	17%	18%	22%	23%	18%	7%
Develop new products/services	12%	20%	15%	18%	25%	8%

Q150 All SMEs seeking new/renewed loan facility. * indicates interim results as data is still being gathered on events in these quarters

Whereas 9% of overdraft applicants had sought external advice before applying, more loan applicants had done so, albeit still a minority (18%). Larger SMEs remained more likely to have sought advice, and there remained little variation in advice sought by whether the application was a renewal or a new loan.

Applicants also continued to report high levels of confidence prior to making their loan application (70% confident). Confidence remained lower amongst first time applicants (57%), and those with a worse than average external risk rating (60%). Credit history remained a key reason cited for lack of confidence, together with a perception from the banks and/or the media that banks were not lending.

4% of applicants had not received a response by the time of our survey and are excluded from the remainder of this analysis. Most, 70%, received a response within a week of applying, and while larger applicants continue to wait slightly longer for a response, overall this varies relatively little by date of application.

Loan applications – a sector summary

Base sizes now allow for some analysis of the type of loan facility requested by sector. Having a Type 1 loan event varied little by sector.

Those in the Health sector were the most likely to be applying for their first ever loan, while renewals were more common amongst applicants from the Agriculture and Wholesale/Retail sectors:

Loan activity YEQ1 12 all Type 1	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Real Est	Health S Work	Other Comm
Unweighted base:	***158***	***177***	***185***	***148***	***166***	***133***	***225***	***154***	***127***
Applied for first ever loan	17%	22%	33%	37%	38%	26%	37%	53%	32%
New loan (other)	42%	47%	40%	19%	25%	37%	27%	20%	37%
Renewing loan for same amount	25%	16%	8%	26%	17%	16%	13%	3%	15%

Q149 All SMEs seeking new/renewed loan facility * care re small base

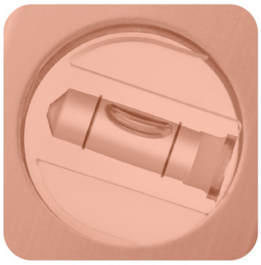
Most approached their main bank. The least likely to do so were applicants in Manufacturing (73% of applications were made to main bank).

Those in Real Estate (£342,000) were seeking the highest average loan amount, compared to those in Other Community (£42,000).

For most sectors, the main purpose of the loan was UK expansion. The exceptions were Agriculture and Real Estate where the purpose was more likely to be the purchase of fixed assets. 27% of loan applicants from the Other Community sector, and 24% of applicants from the Construction sector, wanted the funding to develop new products or services.

Confidence of success was highest amongst applicants from the Agriculture (89%) and Manufacturing (88%) sectors, while those in Construction remained less confident (56%). The proportion seeking advice varied from 8% in the Other Community sector to 30% in both the Wholesale/Retail and Hotels/Restaurant sectors.

8. The outcome of the application/ renewal



This chapter details

what happened when the application for the new/renewed facility was made. It covers the bank's initial response through to the final outcome.

Key findings

YEQ1 2012, 79% of Type 1 overdraft applicants obtained a facility (boosted to 93% once automatic overdraft renewals are included)

59% of Type 1 loan applicants obtained a facility

Overdraft success rates improved slightly over time, with those seeking smaller facilities (<£5,000) now more likely to be successful

Analysis of both overdrafts and loans showed that success rates for overdrafts have improved slightly over time, irrespective of the profile of applicants, whilst the same conclusion cannot be drawn for loans

Loan and overdraft applications for renewed facilities at the same level were more likely to be successful than applications for new money. Success rates for renewals were consistent over time, while those for new funds varied more, with no clear trend over time. Those applying for new funding were more likely to be successful if their account had been well run, and the business showed evidence of financial 'capability'

Only a minority of applicants who were initially declined were aware of the appeals process, and very few had used it. Such applicants were also unlikely to have been referred to other sources of help or advice by their bank

This chapter follows the application 'journey' from the initial response from the bank, to the final decision. More detailed analysis is provided of the final outcome over time, and also the experiences of those applying for new funding compared to those seeking a renewal of existing facilities. Note that, unless specifically stated, this data does not include automatic renewal of overdrafts.

How SMEs got to the final outcome – the initial response from the bank

The tables below record the initial response from the bank and show most applicants being offered a facility. The initial response to 68% of overdraft applications was to offer the SME what it wanted, compared to 53% of loan applications. Bigger SMEs remained more likely to be offered what they wanted at this initial stage:

Initial response (Overdraft): YEQ1 12 SMEs seeking new/renewed facility	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*2701*	*280*	*856*	*1071*	*494*
Offered what wanted	68%	64%	71%	82%	89%
Offered less than wanted	8%	9%	8%	6%	5%
Offered unfavourable terms & conditions	4%	3%	5%	5%	5%
Declined by bank	20%	24%	16%	7%	2%

Q63 All SMEs seeking new/renewed overdraft facility that have had response

Initial response (Loan): YEQ1 12 SMEs seeking new/renewed facility	Total	0 emps	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*1399*	*120*	*457*	*506*	*316*
Offered what wanted	53%	48%	56%	68%	84%
Offered less than wanted	5%	4%	5%	8%	3%
Offered unfavourable terms & conditions	9%	7%	11%	12%	8%
Declined by bank	34%	41%	28%	13%	5%

Q158 All SMEs seeking new/renewed loan facility that have had response

SMEs more likely to initially be offered what they wanted included those applying to renew an existing overdraft (89%) or loan (74%), and those with a minimal external risk rating (90% overdraft, 83% loan). Those more likely to be met with an initial decline included those applying for their first ever overdraft (59%) or loan (46%) or those with a worse than average external risk rating (26% initially declined if applying for an overdraft, 44% if applying for a loan).

The table below looks at the initial response to the overdraft / loan application by the date of application. These figures broadly follow the pattern of final outcome for such applications reported later. As a result, no further analysis has been undertaken on the initial response to the application:

Initial response: SMEs seeking new/renewed overdraft facility - Over time	Q3 2010	Q4 2010	Q1 2011	Q2 2011*	Q3 2011*	Q4 2011*	Q1 2012*
Unweighted base (Overdraft):	*176*	*324*	*670*	*442*	*403*	*312*	*158*
Offered what wanted and took it	74%	65%	64%	65%	66%	75%	71%
Any issues (amount or T&C)	10%	11%	14%	14%	15%	6%	12%
Declined overdraft	15%	25%	22%	21%	19%	19%	17%

Initial outcome of overdraft application by date of application: * indicates interim results as data is still being gathered on events in these quarters

Initial response: SMEs seeking new/renewed loan facility - Over time	Q3 2010	Q4 2010	Q1 2011	Q2 2011*	Q3 2011*	Q4 2011*	Q1 2012*
Unweighted base (Loan)	*120*	*169*	*290*	*221*	*187*	*165*	-
Offered what wanted and took it	51%	50%	50%	68%	39%	54%	-
Any issues (amount or T&C)	21%	15%	9%	14%	17%	17%	-
Declined loan	28%	35%	42%	18%	44%	30%	-

Initial outcome of loan application by date of application: * indicates interim results as data is still being gathered on events in these quarters

The subsequent journey

The remainder of this chapter reports on what happened after the initial response from the bank, up to and including the final outcome of the application. This is reported first for overdrafts and then for loans. Before the detail is discussed of what happened after each of the possible initial responses, the 'journeys' are summarised as follows:

Journey summary YEQ1 12 SMEs seeking new/renewed facility	Overdraft	Loan
Unweighted base:	*2701*	*1399*
Initially offered what they wanted and went on to take the facility with no issues	66%	50%
Initially offered what they wanted, but had 'issues' before they got their facility	1%	2%
Had issues with the initial offer, and now have a facility 'after issues'	10%	6%
Initially turned down, but now have a facility 'after issues'	2%	1%
Had issues with the initial offer made so took alternative funding instead	<1%	2%
Were initially turned down, so took alternative funding instead	4%	5%
Had issues with the initial offer made and now have no facility at all	2%	6%
Initially turned down and now have no facility at all	15%	26%

Q63/158 All SMEs seeking new/renewed overdraft or loan facility that have had response

The subsequent journey - overdrafts

The profile of overdraft applicants receiving each initial answer from their bank varied:

- Those **offered what they wanted** were more likely to be seeking a renewal of facilities (68% v 51% of all applicants) and unlikely to be applying for their first ever overdraft (10% v 22% of all applicants). They were more likely to have a minimal/low risk rating (28% v 22% overall). 44% had employees (41% overall)

- Half of those **offered less than they wanted** were looking to increase an existing overdraft (48% v 17% of all applicants). They were slightly smaller than applicants overall (36% had employees v 41%) and were less likely to have a minimal/low external risk rating (13% v 22%)

- Half of those **who had issues with the original offer** were either seeking a first overdraft or an increase in an existing one (47% v 39% of all applicants). They were typically bigger businesses (53% had employees v 41%) with a slightly better external risk rating (28% minimal/low v 22%)

- Those **initially turned down** for an overdraft had the most distinctive profile. They were smaller (29% had employees v 41% of all applicants), and 5% had a minimal/low risk rating (v 22%). Indeed, 70% of those initially declined had a worse than average external risk rating (v 47% of all applicants). Two thirds, 66%, were applying for their first ever overdraft (v22%)

The subsequent journey – those who received an offer of an overdraft

Summarised below, for YEQ1 12, is what happened after the bank's initial response to the overdraft application and any issues around the application. Base sizes for some groups remain small, but each report is able to provide some more granularity.

Initial offer	Subsequent events – overdraft
Offered what wanted (66% of applicants, 5% of **all** SMEs)	98% of those offered the overdraft they wanted went on to take the facility, with 2% experiencing any delays or problems (typically supplying further information, or valuations and/or having to wait for a final decision or legal work to be completed). 8 applicants decided not to take up the facility offered. Almost all took the full amount they had originally asked for.
Issue: Offered less than wanted (8% of applicants, 1% of **all** SMEs)	These SMEs were typically offered 50-90% of what they had asked for. 20% said they were not given a reason for being offered less (excluding those who could not remember). The main reasons given were: A weak balance sheet (19% overall, and more likely for smaller applicants) No/insufficient security (17% overall) Credit history issues (16% overall, and more likely for smaller applicants) A quarter, 24%, thought the advice they were offered was 'good', 40% thought it was 'poor' while 14% did not get any advice at this stage, and this varied relatively little by size. In the end most, 82%, accepted the lower offer, almost all with the bank they originally applied to. 9% managed to negotiate a better offer, again almost all with the original bank. 3% took another form of finance and 7% now have no facility. In the end, most of those who now have an overdraft obtained between 50-90% of the amount they had originally sought, typically in line with the bank's initial response.

Initial bank response	Subsequent events – overdraft
Issue: Offered unfavourable T&C (4% of applicants, <1% of **all** SMEs)	The ‘unfavourable’ terms and conditions were most likely to relate to: • Security – the amount or type sought, 39% of these applicants and mentioned more by larger applicants • The proposed interest rate – 33% • The proposed fee – 26% Just over a third of such applicants, 39%, said they managed to negotiate a better deal than the one originally offered – two thirds of them at the bank they originally applied to. A quarter, 24%, accepted the deal they were offered (almost all at the original bank). 8% took other funding, while a third, 32%, decided not to proceed with an overdraft

The subsequent journey – those who were declined for an overdraft

The table below details the subsequent journey of those whose overdraft application was initially declined:

Initially declined	Subsequent events - overdraft
Reasons for decline	20% of those initially declined said that they had not been given a reason (excluding those who could not remember the reasons given). 40% said the decline related to their personal and/or business credit history (mentioned more by smaller SMEs), while 9% mentioned issues around security (mentioned more by larger SMEs). 1 in 10 larger SMEs that were initially declined mentioned their sector being perceived as risky and/or the SME having too much borrowing already.
How decline was communicated	From Q3 2011, these respondents were asked how the initial decision was communicated to them and whether they were told enough to explain why the decision had been made. In almost three-quarters of these cases (71%) the decision was communicated verbally, while a third (34%) received a written response (a few had both). Half (52%) felt that they had not been given enough information to explain the decision.
Advice and alternatives	For YEQ1 2012, most of those initially declined (88%) said that the bank had not offered them an alternative form of funding to the declined overdraft, and this was slightly more common for smaller applicants. Where an alternative was offered, this was most likely to be a loan or a business credit card. Two thirds thought the advice offered at that stage had been poor (67%), while 15% said that it had been good and 9% said they were not offered any advice (with little variation by size). More generally, 10% of those initially declined reported that they had been referred to any sources of help or advice by the bank, while a further 8% sought their own external advice, without a recommendation. On a small base of advice seekers, around two-thirds, 64%, found this external advice of use.

Initially declined	Subsequent events - overdraft
Appeals	From April 2011 a new appeals procedure has been in operation. To date 135 respondents have been declined for an application made since that time. 19% said they were made aware of the appeals process. None of them appealed, typically citing the view that they did not think it would have changed anything
Outcome	At the end of this period, 7% of the SMEs initially declined had managed to secure an overdraft, typically with the original bank rather than an alternative supplier. Qualitatively these SMEs manage to secure most of the funding they had initially sought. Around a fifth, 20%, had secured alternative funding, with mentions of friends/family and personal borrowing, but the largest group, 73% had no funding at all, and this was more likely if the applicant was a smaller SME.

The final outcome – overdraft

At the end of the various 'journeys' described above, respondents reported on the final outcome of their application for a new or renewed overdraft facility. Most of these applicants, 66%, had the overdraft facility they wanted, and a further 13% secured an overdraft after having issues about the amount or the terms and conditions of the bank's offer. 16% of all applicants ended the process with no overdraft – as the table below shows, this is the equivalent of 1% of **all** SMEs. Note that this table does **not** include automatic renewal of overdrafts:

Final outcome (Overdraft): YEQ1 12 SMEs seeking new/renewed facility	All overdraft Type 1 applicants	All SMEs
Unweighted base:	*2701*	*20,151*
Offered what wanted and took it	66%	5%
Took overdraft after issues	13%	1%
Have overdraft (any)	*79%*	*6%*
Took another form of funding	4%	*
No facility	16%	1%
Did not have a Type 1 overdraft event	-	*92%*

Q63 All SMEs seeking new/renewed overdraft facility that have had response

By size of business, overdraft applicants with fewer than 10 employees were less likely to have been offered, and taken, the overdraft they wanted, and so were more likely to have either taken another form of funding or to have no facility:

Final outcome (Overdraft): YEQ1 12 SMEs seeking new/renewed facility	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*2701*	*280*	*856*	*1071*	*494*
Offered what wanted and took it	66%	64%	68%	79%	86%
Took overdraft after issues	13%	12%	15%	14%	9%
Have overdraft (any)	*79%*	*76%*	*83%*	*93%*	*95%*
Took another form of funding	4%	5%	4%	2%	1%
No facility	16%	20%	13%	6%	4%

All SMEs seeking new/renewed overdraft facility that have had response

Analysing the final outcome by external risk rating showed clear differences, with those applicants rated a worse than average risk much more likely to have ended their journey with no facility at all:

Final outcome (Overdraft): YEQ1 12 SMEs seeking new/renewed facility	Total	Min	Low	Average	Worse/Avge
Unweighted base:	*2701*	*443*	*632*	*745*	*693*
Offered what wanted and took it	66%	87%	83%	72%	59%
Took overdraft after issues	13%	10%	11%	13%	13%
Have overdraft (any)	*79%*	*97%*	*94%*	*85%*	*72%*
Took another form of funding	4%	1%	1%	4%	4%
No facility	16%	2%	5%	11%	24%

All SMEs seeking new/renewed overdraft facility that have had response

By sector, overdraft applicants split into two groups with similar success rates, with those in Construction, Hotels/Restaurants and Transport (all slightly more likely to be first time applicants) less likely to have been successful:

Final outcome (Overdraft): YEQ1 12 SMEs seeking new/renewed facility	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Real Est	Health S Work	Other Comm
Unweighted base:	*280*	*260*	*456*	*319*	*225*	*227*	*480*	*187*	*267*
Offered what wanted and took it	73%	75%	61%	66%	58%	64%	68%	67%	67%
Took overdraft after issues	10%	9%	9%	17%	14%	8%	16%	12%	15%
Have overdraft (any)	*83%*	*84%*	*70%*	*83%*	*72%*	*72%*	*84%*	*79%*	*82%*
Took another form of funding	3%	7%	5%	6%	3%	7%	4%	7%	1%
No facility	14%	10%	25%	11%	25%	22%	13%	13%	17%

All SMEs seeking new/renewed overdraft facility that have had response

Mention has already been made in this report of the differences between applications for first time, increased or renewed overdrafts. As the table below shows, this was also true at the end of the application journey, with half of those seeking a first overdraft facility ultimately having no facility:

Final outcome (Overdraft): YEQ1 12 SMEs seeking new/renewed facility	Total	1st overdraft	Increased overdraft	Renew overdraft
Unweighted base:	*2701*	*374*	*501*	*1544*
Offered what wanted and took it	66%	29%	52%	88%
Took overdraft after issues	13%	10%	31%	7%
Have overdraft (any)	*79%*	*39%*	*83%*	*95%*
Took another form of funding	4%	9%	8%	1%
No facility	16%	52%	9%	4%

All SMEs seeking new/renewed overdraft facility that have had response (does not include automatic renewals)

The final piece of analysis for YEQ1 12 shows outcome by age of business. The older the business, the more likely they were to have been offered what they wanted:

Final outcome (Overdraft): YEQ1 12 SMEs seeking new/renewed facility By age of business	Starts	2-5 yrs	6-9 yrs	10-15 yrs	15+ yrs
Unweighted base:	*181*	*299*	*341*	*474*	*1406*
Offered what wanted and took it	34%	62%	70%	74%	81%
Took overdraft after issues	13%	12%	14%	17%	11%
Have overdraft (any)	*47%*	*74%*	*84%*	*91%*	*92%*
Took another form of funding	7%	6%	5%	4%	2%
No facility	46%	19%	11%	5%	6%

All SMEs seeking new/renewed overdraft facility that have had response

Final outcome by date of application –overdrafts

The table below shows the final outcome for Type 1 overdraft events by the quarter **in which the application was made**, for those quarters where robust numbers were available.

This showed that the proportion of applicants being offered the overdraft they wanted, and taking it, was constant between Q4 2010 and Q2 2011, before improving in Q3 and maintaining that improvement in Q1 2012. Overall, the proportion of applicants who now have an overdraft has improved since the start of 2011, while the proportion ending the process with no facility has remained fairly constant:

Final outcome (Overdraft): SMEs seeking new/renewed facility By date of application	Q3 2010	Q4 2010	Q1 2011	Q2 2011*	Q3 2011*	Q4 2011*	Q1 2012*
Unweighted base:	*176*	*324*	*670*	*442*	*403*	*312*	*158*
Offered what wanted and took it	72%	64%	63%	63%	64%	73%	70%
Took overdraft after issues	11%	13%	14%	13%	16%	7%	13%
Have overdraft (any)	*83%*	*77%*	*77%*	*76%*	*80%*	*80%*	*83%*
Took another form of funding	2%	7%	6%	7%	4%	2%	1%
No facility	15%	16%	17%	17%	16%	18%	16%

Final outcome of overdraft application by date of application: * indicates interim results as data is still being gathered on events in these quarters

To set these results in context, an analysis has been done of applicants over time based on the analysis in this, and previous reports, that size, risk rating and purpose of facility all affect the outcome of applications.

Over the quarters for which robust data is available, the profile of applicants by *size* has followed no clear pattern, but a higher proportion of applications were from younger businesses (under 10 years). An increasing proportion of applicants had a *worse than average* external risk rating – from around 4 out of 10 applicants in the first quarters to more than 5 out of 10 in the latter quarters. These would both be trends that might be expected to adversely affect the outcome of an application.

An increasing proportion of applications were for the *renewal* of existing facilities, which might be expected to improve the outcome of applications made.

There are thus some factors that might lead to success rates improving and some less positive factors, so further analysis was undertaken using regression modelling. This analysis takes a number of pieces of data (described below) and builds an equation using the data to predict as accurately as possible the actual overall success rate for overdrafts. This equation can then be applied to a sub-set of overdraft applicants (in this case all those that applied in a certain quarter) to predict what the overdraft success rate should be for that group. This predicted rate is then compared to the actual success rate achieved by the group.

The first equation was built using a narrow profile of business size, risk rating and purpose of facility (first time applicants etc), then a second one was built using a broader profile that included factors such as company age, sector, account behaviour, financial qualifications and producing regular management accounts, as these factors had been shown to affect the likelihood of being successful in an application for new funding.

Analysis using both the broad and narrow profile showed a difference between the overdraft success rate predicted by the equation, and that achieved, for applicants in the most recent quarters. They follow a similar pattern so the results using the broad profile are shown below. This shows that for the 3 most recent quarters, based on a wide range of factors, the overdraft success rate is **slightly better** than the model predicted and thus recent applicants were slightly more likely to have been successful with their overdraft application:

Final outcome (Overdraft): SMEs seeking new/renewed facility By date of application	Q3 2010	Q4 2010	Q1 2011	Q2 2011*	Q3 2011*	Q4 2011*	Q1 2012*
Unweighted base:	*176*	*324*	*670*	*442*	*403*	*312*	*158*
Have overdraft (any)	83%	77%	77%	76%	80%	80%	83%
Predicted success rate from model	82%	77%	79%	79%	77%	78%	80%
Difference	+1	0	-2	-3	+3	+2	+3

Final outcome of overdraft application by date of application: * indicates interim results as data is still being gathered on events in these quarters

Looking over both overdrafts and loans (which appear later in this report) it appears that success rates for overdrafts have improved slightly over time, irrespective of profile factors, whilst the same conclusion cannot be drawn for loans.

Analysis of the overdraft facility granted by application date showed an increasing proportion of facilities were agreed for £5,000 or less. Around 1 in 5 facilities were for more than £25,000 and this changed relatively little over time:

Overdraft facility granted By date of application	Q3 2010	Q4 2010	Q1 2011	Q2 2011*	Q3 2011*	Q4 2011*	Q1 2012*
Unweighted base:	*154*	*278*	*577*	*390*	*350*	*280*	*146*
Less than £5,000	33%	35%	43%	48%	50%	53%	53%
£5-25,000	47%	44%	32%	32%	32%	28%	29%
£25,000+	20%	21%	25%	20%	18%	19%	18%

Overdraft facility granted – all successful applicants that recall amount granted

A qualitative assessment of overdraft outcome by amount **applied for** over time suggests that:

- The outcome for those applying for larger overdrafts (£25,000+) is fairly consistent over time, and around 90% have an overdraft
- Applications for the smallest overdrafts (under £5,000) have become more likely to be successful, moving over time from around half to around three quarters being successful overall
- Those in the middle (£5-25,000) have become slightly less likely to be successful, from around 90% to around 80% having an overdraft

The impact of automatic renewals on overdraft success rates

New questions, asked from Q4 2011, revealed that a considerable number of SMEs had an overdraft that had been automatically renewed by their bank. Such SMEs can be considered to be part of the 'Have an overdraft (any)' group, and thus impact on overall success rates. The table below shows the results for Q4 2011 and Q1 2012 combined, and the impact on success rates when the automatically renewed overdrafts are included. There were many more overdraft renewals than Type 1 events in both quarters, so the impact is considerable.

Final outcome (Overdraft): Q4 2011 + Q1 2012 only	Type 1 events	Type 1 + automatic renewal
Unweighted base:	***1127***	***2698***
Offered what wanted and took it	67%	24%
Took overdraft after issues	13%	4%
Automatic renewal	-	*65%*
Have overdraft (any)	***80%***	***93%***
Took another form of funding	3%	1%
No facility	18%	6%

All SMEs seeking new/renewed overdraft facility that have had response

For Q4 and Q1 combined, including those that had had an automatic renewal increased the success rate from 80% to 93%. The equivalent increase for all SMEs was from 5% to 17%. Once the automatic overdrafts are factored in, more than 90% of applicants in each size band now have an overdraft facility.

The subsequent journey - loans

The profile of loan applicants receiving each initial answer from their bank varied:

- Those **offered what they wanted** were more likely to have a minimal/low risk rating (31% v 22% overall) and slightly more likely to be seeking a renewal of facilities (20% v 14% of all applicants). 51% had employees (46% overall)
- Half of those **offered less than they wanted** were looking for their first ever loan (52% v 33% of all applicants). They were less likely to have a minimal/low external risk rating (15% v 22%). 51% had employees (v 46%)
- Those **who had issues with the original offer** were typically seeking a new loan but not their first (45% v 33% of all applicants), and they were unlikely to be a first time applicant (12% v 33%). They were typically bigger businesses (57% had employees v 46%) with a better external risk rating (35% minimal/low v 22%)
- Those **initially turned down** for an overdraft had the most distinctive profile. They were smaller (35% had employees v 46% of all applicants), and 7% had a minimal/low risk rating (v22%). Indeed, 63% of those initially declined had a worse than average external risk rating (v 47% of all applicants). Almost half, 46%, were applying for their first ever overdraft (v33%)

The subsequent journey – those that received the offer of a loan

Summarised below is what happened after the bank's initial response to the loan application, and any issues around that application. Base sizes for some groups remain small.

Initial bank response	Subsequent events – loan
Offered what wanted (53% of applicants, 2% of **all** SMEs)	95% of those offered what they wanted went on to take the loan with no problems, 3% took the loan after some issues (typically having to wait for a decision/legal work/valuations etc.) Almost all took the full amount they had originally asked for 1% of these applicants decided not to proceed with the loan they had been offered
Issue: Offered less than wanted (5% of applicants, <1% of **all** SMEs)	These SMEs were typically offered 20-60% of what they asked for The main reasons for being offered less were around security issues (37%) and unconvincing financial forecasts (30%, and mentioned more by smaller applicants). A quarter of larger applicants said they were told they had applied for too much. 6% were given no reason. On a small base, the advice offered at this stage was more likely to be rated as good (58%) than poor (30%) while 2% were not given any advice. 10% managed to negotiate a better deal, predominantly with the original bank. Half, 53%, accepted the lower amount offered (almost all with the original bank applied to). 22% took other borrowing and 15% have no facility Most of the SMEs in this group who obtained a loan received more than 50% of the amount they had originally sought.
Issue: Offered unfavourable T&C (9% of applicants, <1% of **all** SMEs)	The unfavourable terms (excluding those who did not know) typically related to the proposed interest rate (63%). Issues around security (level, type requested and/or cost) were mentioned by 43% of these applicants, and the proposed fee by a third (38%). 20% managed to negotiate a better deal (at either the original bank or another bank) while 14% accepted the deal offered, most but not all with the original bank. Both these outcomes were more likely for larger applicants. 6% took another form of funding. 61% of applicants had no facility, and this was more likely to be the outcome for smaller applicants For those with a facility, the amount of such loans was typically in line with their original request.

The subsequent journey – those that were declined for a loan

The table below details the subsequent journey of those whose loan application was initially declined:

Initially declined	Subsequent events - loan
Reasons for decline	18% of the SMEs that were initially declined said that they had not been given a reason for the decline (excluding those who could not remember the reasons given). 35% said that the decline related to their personal and/or business credit history, while 15% mentioned issues around security. Around 1 in 10 said that the bank had not been satisfied with their financial forecasts and/or they had too much existing borrowing.
How decline was communicated	From Q3 2011, these respondents were asked how the loan decision had been communicated to them, and whether they were told enough to explain why the decision had been made. Indicative results are similar to those for the equivalent overdraft applications, in that 79% said the decision was communicated verbally, while 25% received a written response (a few received both). Those declined for a loan were as likely to say that they had been given enough information to explain the decision (52%), as those informed about an overdraft decline (48%).
Advice and alternatives	YEQ1 2012, most, 95%, of those initially declined said that the bank had not offered them an alternative form of funding to the declined loan. Three quarters (74%) thought that the advice the bank had offered at that stage had been poor, 5% thought it had been good, and 10% had not been offered any advice. More generally, 3% of those initially declined reported that they had been referred to any other sources of help or advice by the bank, while a further 16% sought their own external advice without a recommendation. On a small base, around half, 59%, found this external advice of use, with larger applicants more likely to do so.

Initially declined	Subsequent events - loan
Appeals	From April 2011, a new appeals procedure was introduced. To date 129 respondents have been declined for a loan application made since that time. Amongst this group, 8% said that they were made aware of the appeals process by their bank. Of these 17 declined applicants, 1 appealed and the bank changed its decision, 3 appealed but the decision was upheld and 13 did not appeal, typically citing the view that they did not think it would have changed anything, and/or they were too busy keeping the business going.
Outcome	At the end of this period, 4% of those initially declined for a loan had managed to secure a loan with either the original bank or a new supplier. 19% had secured alternative funding, with friends/family and/or personal borrowing most likely to be mentioned. 77% of those initially declined did not have a facility at all. Larger applicants were more likely to have been successful.

The final outcome – loans

At the end of the various 'loan' journeys described above, respondents reported on the final outcome of their application for a new or renewed loan facility. Half of these applicants, 50%, had the loan facility they wanted. 33% of applicants ended the process with no facility – as the table below shows, this is the equivalent of 1% of all SMEs.

Final outcome (Loan): YEQ1 12 SMEs seeking new/renewed facility	All loan Type 1 applicants	All SMEs
Unweighted base:	*1399*	*20151*
Offered what wanted and took it	50%	2%
Took loan after issues	9%	*
Have loan (any)	*59%*	*2%*
Took another form of funding	8%	*
No facility	33%	1%
Did not have a Type 1 loan event	-	*96%*

Q158 All SMEs seeking new/renewed loan facility that have had response

By size of business, smaller loan applicants remained less likely to have a facility. Bigger applicants were more likely to end up with a loan, but a slightly higher proportion of them took it after having had issues with the terms, or the amount of the initial offer:

Final outcome (Loan): YEQ1 12 SMEs seeking new/renewed facility	Total	0 emps	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*1399*	*120*	*457*	*506*	*316*
Offered what wanted and took it	50%	47%	52%	62%	76%
Took loan after issues	9%	4%	14%	21%	17%
Have loan (any)	*59%*	*51%*	*66%*	*83%*	*93%*
Took another form of funding	8%	9%	7%	3%	2%
No facility	33%	40%	27%	14%	5%

Q158 All SMEs seeking new/renewed loan facility that have had response

As with overdrafts, there was a clear difference in outcome by external risk rating. 9 out of 10 applicants with a minimal external risk rating now have a loan, compared to half of applicants with a worse than average external risk rating:

Final outcome (Loan): YEQ1 12 SMEs seeking new/renewed facility	Total	Min	Low	Avge	Worse/ Avge
Unweighted base:	*1399*	*224*	*296*	*388*	*382*
Offered what wanted and took it	50%	79%	65%	52%	42%
Took loan after issues	9%	9%	13%	8%	9%
Have loan (any)	*59%*	*88%*	*78%*	*60%*	*51%*
Took another form of funding	8%	*	6%	5%	12%
No facility	33%	12%	16%	35%	37%

All SMEs seeking new/renewed loan facility that have had response where risk rating known

Robust sample sizes are now available for almost all sectors. The table below shows that the Other Community, Manufacturing and Construction sectors were more likely to end the process without a facility, while those in Agriculture were the most likely to have been offered what they wanted:

Final outcome (Loan): YEQ1 12 SMEs seeking new/renewed facility	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Real Est	Health S Work	Other Comm
Unweighted base:	***153***	***168***	***177***	***142***	***155***	***130***	***208***	***146***	***120***
Offered what wanted and took it	72%	37%	48%	64%	44%	49%	55%	61%	23%
Took loan after issues	5%	14%	4%	11%	17%	12%	13%	7%	3%
Have loan (any)	***77%***	***51%***	***52%***	***75%***	***61%***	***61%***	***68%***	***68%***	***26%***
Took another form of funding	4%	13%	13%	4%	12%	8%	5%	5%	9%
No facility	19%	36%	35%	21%	27%	31%	27%	27%	65%

All SMEs seeking new/renewed loan facility that have had response *Care re small base

Analysis earlier in this report showed that the initial response from the bank was typically more positive for the renewal of existing loan facilities and less positive for new facilities. The analysis below shows that this was also the case at the end of the process. As with overdrafts, those applying for their first, or a new, loan were more likely to end up with no facility. Those renewing an existing loan remained more likely to have been offered what they wanted:

Final outcome (Loan): YEQ1 12 SMEs seeking new/renewed facility	Total	1st loan	New loan	Renew loan
Unweighted base:	***1399***	***271***	***519***	***300***
Offered what wanted and took it	50%	42%	48%	73%
Took loan after issues	9%	9%	7%	9%
Have loan (any)	***59%***	***51%***	***55%***	***82%***
Took another form of funding	8%	10%	9%	*
No facility	33%	39%	36%	18%

All SMEs seeking new/renewed loan facility that have had response where risk rating known

As with overdrafts, there were clear differences in outcome for loan applications by age of business, albeit slightly less dramatic than for overdrafts:

Final outcome (Loan): YEQ1 12 SMEs seeking new/renewed facility. By age of business	Starts	2-5 yrs	6-9 yrs	10-15 yrs	15+ yrs
Unweighted base:	***117***	***174***	***183***	***231***	***694***
Offered what wanted and took it	35%	45%	48%	56%	64%
Took loan after issues	7%	7%	14%	9%	9%
Have loan (any)	***42%***	***52%***	***62%***	***65%***	***73%***
Took another form of funding	11%	9%	9%	5%	6%
No facility	46%	39%	29%	30%	21%

All SMEs seeking new/renewed loan facility that have had response

Final outcome by date of application – loans

For loan applicants, sample sizes dictate that data is only reported by date of application up to Q4 2011. This shows a higher proportion of successful applications in Q2 2011, which was not maintained in subsequent quarters:

Final outcome (Loan): SMEs seeking new/renewed facility By date of application	Q3 2010	Q4 2010	Q1 2011	Q2 2011*	Q3 2011*	Q4 2011*
Unweighted base:	***120***	***169***	***290***	***221***	***187***	***165***
Offered what wanted and took it	49%	48%	48%	65%	38%	50%
Took loan after issues	17%	6%	7%	8%	14%	11%
Have loan (any)	***66%***	***54%***	***55%***	***73%***	***52%***	***61%***
Took another form of funding	9%	6%	11%	9%	4%	7%
No facility	26%	39%	34%	18%	44%	32%

Final outcome of loan application by date of application: * indicates interim results as data is still being gathered on events in these quarters

To set these results in context, an analysis has been done of applicants over time based on the analysis that size, risk rating and purpose of facility all affect the outcome of applications.

Over the quarters for which robust data is available, the profile of applicants by *size* has followed no clear pattern, but over time up to Q3 2011 a higher proportion of applications were from younger businesses (under 10 years). A smaller proportion of applications were for the renewal of existing facilities, both of which might be expected to adversely affect the outcome of applications made.

In contrast to overdraft applications, an increasing proportion of recent applicants had a minimal/low external risk rating – to around 1 in 4 of recent applicants. This would be a trend that might be expected to positively affect the outcome of an application.

Q2 2011, where the success rate appears different to those in other quarters, included both a lower proportion of first time applicants and more renewals than other quarters. The risk profile of applicants was slightly better than previous quarters, and it had a slightly lower proportion of 0 employee applicants. These are all factors that might lead to a higher success rate for applicants in that quarter.

Overall, there are thus some factors that might lead to success rates improving, and some less positive factors, so further analysis was undertaken, using regression modelling. This analysis takes a number of pieces of data (described below) and builds an equation using the data to predict as accurately as possible the actual overall success rate for loans. This equation can then be applied to a sub-set of loan applicants (in this case all those that applied in a certain quarter) to predict what the loan success rate should be for that group. This predicted rate is then compared to the actual success rate achieved by the group.

The first equation was built using a narrow profile of business size, risk rating and purpose of facility (first time applicants etc.), then a second one was built using a broader profile that included factors such as company age, sector, account behaviour, financial qualifications and producing regular management accounts, as these factors had been shown to affect the likelihood of being successful in an application for new funding.

Analysis using the broad profile is shown below. Unlike overdrafts, this shows **no clear trend** over time for predicted v actual loan success rates:

Final outcome (Loan): SMEs seeking new/renewed facility By date of application	Q3 2010	Q4 2010	Q1 2011	Q2 2011*	Q3 2011*	Q4 2011*
Unweighted base:	*120*	*169*	*290*	*221*	*187*	*165*
Have overdraft (any)	66%	54%	55%	73%	52%	61%
Predicted success rate from model	57%	64%	52%	68%	59%	62%
Difference	+9	-10	+3	+5	-7	-1

Final outcome of loan application by date of application: * indicates interim results as data is still being gathered on events in these quarters

This analysis shows that the success rate in Q2 2011, which is currently higher than other quarters, is only partly accounted for by the profile of applicants in that quarter (the model predicted an increase in success rate from 52% to 68% between Q1 and Q2 2011, compared to the actual change of 55% to 73%).

Looking over both overdrafts (which were covered earlier in this report) and loans it appears that success rates for overdrafts have improved slightly over time, irrespective of profile factors, whilst the same conclusion cannot be drawn for loans.

Analysis of loans granted by application date shows a fairly consistent 80:20 split, under and over £100,000, albeit for most of 2011 the proportion granted that were less than £100,000 was closer to 90%.

Loan facility granted By date of application	Q3 2010	Q4 2010	Q1 2011	Q2 2011*	Q3 2011*	Q4 2011*
Unweighted base:	*94**	*125*	*220*	*170*	*145*	*126*
Less than £100k	80%	82%	88%	89%	86%	78%
More than £100k	20%	18%	12%	11%	14%	22%

All successful loan applicants that recall amount granted

Small base sizes limit the analysis possible on outcome by size over time, but, as with overdrafts, the outcome of applications for larger amounts (£100,000+) was more consistent over time. Around two thirds of such applications resulted in a loan. The pattern for smaller loans is less clear cut, but suggests that more recent applications were less likely to be successful.

This chapter has looked at the overdraft and loan journeys made, from initial application to the final outcome. It has shown how, for both loans and overdrafts, those applying for new money have typically had a different experience to those seeking to renew an existing facility. This final piece of analysis looks specifically at applications for new funding, whether on loan **or** overdraft. Firstly it looks at the predictors of success for new applications and then it reports on the outcome of applications for new funding over time, and compares this to applications for renewed funding.

Applications for new facilities

Previous reports highlighted that those applying for a renewed facility, larger businesses, and those with a minimal or low risk rating were all more likely to be successful with their loan or overdraft application. Analysis was therefore undertaken to establish which other business factors might influence success. This was originally conducted for the Q4 report and has been updated for the Q1 report with a more robust base size.

Most of those applying for renewed finance at the same level were successful, and it is therefore difficult to identify differences between successful and unsuccessful SMEs for renewals.

This analysis therefore concentrates on those that said they were applying for **new money**, covering both loans *and* overdrafts and defined as:

- Overdrafts: first time, or increased overdraft (Q52)
- Loans: First ever loan, new loan (Q149)

Size and external risk rating were controlled, as they are already known to be significant predictors. The other factors tested were:

- Sector, region age of business, fast growth, profitability and future growth plans
- Whether they hold credit balances, and whether they used a personal or business account
- Business formality (plans, HR policy etc. at Q223) and self-reported credit issues (Q224)

Across all of these factors, once size and risk rating have been taken into account, the following are significant. They are shown below, split between those that make success more likely and those that make it less likely. In this updated analysis, the performance of the account (self-reported credit issues like bounced cheques, missed loan repayments etc.) continues to be a significant predictor, while profitability has been replaced as a significant predictor by other demographics such as age of business, and factors around the financial 'capability' of the business:

Success more likely	Success less likely
No self-reported credit issues	Had a cheque bounce on account
Owner/MD has 15 yrs+ experience	Had a county court judgement
Person in charge of finances has qualification/ training	Missed a loan repayment
Business produces regular management accounts	Business established in last 12 months
	Owner/MD has less than 12 months experience
	In the Hotels & restaurant sector

Outcome analysis over time – new and renewed facilities

Base sizes now allow for analysis of 'new overdraft/loan funds' (first time, or increased overdraft, and/or first time or new loan) versus 'renewals' by date of application. Putting loans and overdraft applications together confirms the difference in success rates between applications for new funds and renewals that has been seen in previous reports.

The tables below are based on all applications made, rather than all SMEs (so an SME that had both a loan and an overdraft application will appear twice), and shows that those seeking to renew an existing facility were twice as likely to be offered what they wanted.

Final outcome Loans and Overdrafts combined YEQ1 12	New funds	Renewals
Unweighted base of applications:	*1979*	*2121*
Offered what wanted and took it	44%	82%
Took facility after issues	15%	8%
Have facility (any)	*59%*	*90%*
Took another form of funding	8%	2%
No facility	33%	8%

Final outcome of overdraft/loan application by type of finance sought

Further analysis looks at these two types of application over time.

Looking first at the outcome of applications for **new** funds, there is no clear trend over time, although indicative first results from Q1 2012 suggest an increased proportion of these most recent applicants now have the new loan or overdraft facility they applied for:

Final outcome (Overdraft + Loan): Applications for new money By date of application	Q3 2010	Q4 2010	Q1 2011	Q2 2011*	Q3 2011*	Q4 2011*	Q1 2012*
Unweighted base of applications:	*142*	*242*	*468*	*311*	*297*	*240*	*105*
Offered what wanted and took it	49%	44%	40%	50%	38%	48%	51%
Took facility after issues	17%	13%	13%	12%	20%	8%	20%
Have facility (any)	*66%*	*57%*	*53%*	*62%*	*58%*	*56%*	*71%*
Took another form of funding	3%	11%	12%	11%	6%	6%	9%
No facility	31%	32%	35%	27%	36%	38%	20%

Final outcome of overdraft/loan application by date of application: * indicates interim results as data is still being gathered on events in these quarters

This pattern is not easily explained by risk rating. A fairly consistent 6 out of 10 applicants for new funds were rated as a worse than average external risk, with the exception of Q4 2010 (50%) and Q4 2011 (48%) but the better risk profile of applicants in these quarters did not appear to impact directly on the overall outcome of those applications.

The outcome of applications for **renewed** loans/overdrafts is much more consistent over time, with around 9 out of 10 applicants ending the process with a facility. The exception, albeit on a smaller base, is the initial data for Q1 2012, where three quarters were successful. Risk rating may help to explain that quarter's result – half of renewal applicants in Q1 2012 had a worse than average risk rating compared with around 3 out of 10 in other quarters.

Final outcome (Overdraft+ Loan): Applications for renewed facilities By date of application	Q3 2010	Q4 2010	Q1 2011	Q2 2011*	Q3 2011*	Q4 2011*	Q1 2012*
Unweighted base of applications:	*154*	*251*	*492*	*352*	*293*	*237*	*126*
Offered what wanted and took it	85%	83%	83%	79%	79%	90%	71%
Took facility after issues	8%	9%	10%	11%	8%	8%	5%
Have facility (any)	*93%*	*92%*	*93%*	*90%*	*87%*	*98%*	*76%*
Took another form of funding	4%	*	2%	4%	2%	*	1%
No facility	3%	8%	6%	6%	11%	2%	24%

Final outcome of overdraft/loan application by date of application: * indicates interim results as data is still being gathered on events in these quarters

9. The impact of the application/ renewal process

This chapter reports

on the impact of Type 1 loan and overdraft events on the wider banking relationship.

Key findings

Almost all those offered the overdraft or loan they wanted were satisfied with the facility, compared to half of those that got their facility after having issues

Those that had been unsuccessful with an overdraft application were more likely to say this had impacted on their business than those turned down for a loan, typically reporting that running the business was now more of a struggle

Few unsuccessful candidates thought their application was considered fairly, but nor did they think they would have got more favourable treatment elsewhere. A majority of those who thought they might have done better elsewhere were considering changing bank

This chapter reports on the impact of Type 1 loan and overdraft events on the wider banking relationship.

Satisfaction with facility granted

The table below shows satisfaction with the overdraft/loan facility granted to SMEs that successfully applied for a new or renewed facility, and the clear difference in satisfaction between those offered what they wanted, and those that had issues before getting a facility.

Overall, 87% of successful overdraft applicants and 89% of successful loan applicants said that they were satisfied with the facility they now had, and this varies relatively little by date of application or size of applicant:

Successful Type 1 applicants	Overdraft			Loan		
Satisfaction with outcome YEQ1 12	Total	Offered what wanted	Have after issues	Total	Offered what wanted	Have after issues
Unweighted base:	*2368*	*2015*	*353*	*1084*	*840*	*244*
Very satisfied with facility	58%	66%	15%	57%	66%	10%
Fairly satisfied with facility	29%	27%	39%	32%	29%	46%
Overall satisfied	*87%*	*93%*	*54%*	*89%*	*95%*	*56%*
Neutral about facility	6%	4%	16%	5%	2%	21%
Dissatisfied with facility	8%	3%	30%	6%	3%	23%

Q103 and Q196 All SMEs that have applied/renewed

Impact of being unsuccessful

That analysis was based on those that were successful in their application/renewal and now had an overdraft or loan facility. As already reported, 16% of overdraft applicants and 33% of loan applicants ended the process with no facility. These unsuccessful SMEs were asked whether *not* having a facility had impacted on their business.

Just over half (59%) of unsuccessful overdraft applicants said that not having one had impacted on their business – this is the equivalent of 1% of all SMEs saying that they had been impacted (or 2% of SMEs excluding the permanent non-borrowers). The figure for loans was just under half of unsuccessful applicants saying it had impacted (41%), the equivalent of 0.8% of all SMEs (or 1% of SMEs excluding the permanent non-borrowers).

Of those that said that not having a loan or overdraft facility had had an impact, the effect was typically that running the business day to day was more of a struggle, and a significant minority said that they had not been able to expand, and/or improve the business as they would have wanted.

SMEs that reported being adversely affected by an unsuccessful loan or overdraft application were more likely to be young businesses with a worse than average risk rating.

Amongst unsuccessful SMEs that applied to their main bank, 23% thought their application had been considered fairly. 25% thought another bank would have treated them more favourably:- around two thirds of SMEs who thought they would have done better elsewhere said they were seriously considering a change of bank (these 'potential switchers' represent less than 1% of all SMEs).

Overall bank satisfaction, amongst all SMEs, remains high (81% satisfied) and has varied little by size or over time. Successful applicants remain more likely to be satisfied with their main bank (77%) than those that applied unsuccessfully to their main bank (39% satisfied). Permanent non-borrowers, who have had no borrowing events at all, reported slightly higher levels of satisfaction (87% satisfied) than those who had experienced a borrowing event.

10. Rates and fees – Type 1 events

This chapter covers

the security, interest rates and fees pertaining to overdrafts and loans granted after a Type 1 borrowing event (that is an application or a renewal) that occurred in the 12 months prior to interview.

Key findings

7% of all SMEs had a new/renewed overdraft, while 2% had a new/renewed loan

A quarter of overdrafts and a third of loans were secured, typically on property. This increased with the size of the facility – almost all loans for £100,000 or more were secured, compared to almost two thirds of overdrafts for this amount

Where arrangements were known, overdrafts were less likely to be on a fixed rate (49% of overdrafts) than loans were (72%). However, fixed rates for overdrafts have become more common over time

For overdrafts, the median margin above base/LIBOR remained +3%, and the median fixed rate was 4.4%. For loans, the equivalent figures were +3% for variable lending and 5.9% for fixed rate lending. Unsecured lending attracted a higher margin/rate than secured lending

Two thirds of overdrafts, and three quarters of loans attracted a fee equivalent to 2% or less of the facility granted

This chapter covers the security, interest rates and fees pertaining to overdrafts and loans granted after a Type 1 borrowing event (that is an application or a renewal) that occurred in the 12 months prior to interview. It does **not** include any overdrafts granted as the result of an automatic renewal process. Small base sizes and high levels of 'Don't know' answers to some questions mean that the analysis available on rates and fees is more limited than in other areas of the report.

Overdrafts: Security

7% of all SMEs have a new/renewed overdraft:

- 5% of 0 employee SMEs have a new/renewed overdraft
- 10% of 1-9 employee SMEs
- 15% of 10-49 employee SMEs
- 15% of 50-249 employee SMEs

80% of overdrafts granted were for less than £25,000. By size, this varies from 95% of overdrafts granted to 0 employee SMEs being £25,000 or less to 18% of overdrafts granted to those with 50-249 employees.

A quarter (24%) of Type 1 overdrafts, i.e. a new or renewed facility not including automatic renewals, required security. This varied relatively little by application date but was more commonly required of larger SMEs with an overdraft. The most common form of security remained a charge over a business or personal property, as the table below shows:

Security required (Overdraft): YEQ1 12 SMEs with new/renwed overdraft	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*2321*	*204*	*702*	*957*	*458*
Property (any)	15%	8%	23%	31%	26%
Charge over business property	*7%*	*4%*	*10%*	*16%*	*21%*
Charge over personal property	*9%*	*5%*	*13%*	*16%*	*6%*
Directors/personal guarantee	4%	2%	7%	11%	8%
Other security (any)	6%	5%	7%	12%	19%
Any security	23%	13%	34%	45%	45%
No security required	77%	87%	66%	55%	55%

Q 106 All SMEs with new/renewed overdraft excluding DK

Secured overdrafts were more likely as the size of overdraft increased:

- 12% of overdrafts granted for £10,000 or less were secured
- 33% of overdrafts granted for £11-24,999
- 46% of overdrafts granted for £25-49,999
- 55% of overdrafts granted for £50-99,999
- 61% of overdrafts granted for £100,000 or more

Overdrafts: Rates

Amongst those who gave an answer, just over half (51%) said that their new/renewed overdraft was on a variable rate, and this increased with the size of facility granted:

Type of rate (Overdraft) by facility granted: YEQ1 12 SMEs with new/renewed overdraft excl.. DK	Total	<£10k	£10-25k	£25-100k	£100k+
Unweighted base:	*1973*	*527*	*302*	*515*	*629*
Variable rate lending	51%	46%	54%	60%	60%
Fixed rate lending	49%	54%	46%	40%	40%

Q 107 All SMEs with new/renewed overdraft, excluding DK

As the table below shows, when analysed by date of application, the balance has changed slightly over time in favour of fixed rate lending (as the proportion of overdrafts granted that are less than £5,000 has also increased):

New/renewed overdraft rate by date of application	Q310	Q410	Q111	Q211*	Q311*	Q411*	Q1 12
Unweighted base:	*137*	*241*	*495*	*319*	*288*	*233*	*118*
Variable rate lending	53%	54%	55%	53%	48%	38%	44%
Fixed rate lending	47%	46%	45%	47%	52%	62%	56%

Q 107 All SMEs with new/renewed overdraft, excluding DK

Most of those on a variable rate said that the rate was linked to Base Rate (92%). Bigger SMEs were more likely to be on a LIBOR linked rate: 25% of successful applicants with 50-249 employees.

Four out of ten with a new/renewed variable rate overdraft and a quarter of those with a fixed rate overdraft were unable / refused to say what rate they were paying. These 'Don't know' answers have been excluded from the analysis below, but this does make the base sizes small in some areas.

Compared to the previous report, the average variable rate margin paid remained just over +4%, and the median rate charged was unchanged at +3%. The margin decreased with size of facility granted:

Variable margin (Overdraft) by facility granted: YEQ1 12 SMEs with new/renewed overdraft excl.. DK	Total	<£10k	£10-25k	£25-100k	£100k+
Unweighted base:	*936*	*179*	*142*	*261*	*354*
Less than 2%	27%	27%	35%	20%	30%
2.01-4%	37%	33%	32%	41%	63%
4.01-6%	22%	24%	14%	33%	6%
6%+	14%	16%	19%	7%	1%
Average margin above Base/LIBOR:	*+4.2%*	*+4.8%*	*+3.8%*	*+3.9%*	*+2.6%*
Median margin above Base/LIBOR	*+3.0%*	*+3.0%*	*+2.9%*	*+3.0%*	*+2.5%*

Q 109/110 All SMEs with new/renewed variable rate overdraft, excluding DK

Analysis by date of application is limited by the number of respondents answering this question, and so is based on a half year, rather than quarterly analysis. Indicative results are that margins have not changed much, although there have been some increases in the proportion in the lowest and highest interest rate bands: The proportion paying +4% or less has remained similar over time (at around two-thirds of overdrafts) However, within this band, applicants in 2011 were twice as likely as those in 2010 to pay less than +2% for their overdraft (from around 1 in 6 in 2010 to 1 in 3 in 2011). Amongst those paying above +4%, the proportion paying more than +6% was higher in H2 2011 than in previous periods (29% v 17% in H2 2010).

The average fixed rate charged was 5.7% to YEQ1 12, slightly higher than Q1-4 2011 (5.2%), but the median rate was unchanged at 4.4%. Again, those borrowing more paid, on average, a lower rate:

Fixed rate (Overdraft) by facility granted: YEQ1 12 SMEs with new/renewed overdraft excl.. DK	Total	<£10k	£10-25k	£25-100k	£100k+
Unweighted base:	*720*	*188*	*118*	*191*	*223*
Less than 3%	30%	25%	33%	40%	49%
3.01-6%	44%	39%	59%	48%	43%
6.01-8%	11%	14%	3%	9%	8%
8%+	15%	21%	5%	3%	1%
Average fixed rate:	*5.7%*	*6.7%*	*4.2%*	*3.9%*	*3.5%*
Median fixed rate	*4.4%*	*4.4%*	*4.2%*	*4.3%*	*3.3%*

Q 111/112 All SMEs with new/renewed fixed rate overdraft, excluding DK

Analysis by date of application is limited by the number of respondents answering this question, but indicative results are that the proportion paying less than 3% is stable over time, but that with slightly fewer respondents paying the highest fixed rates (8%+) the average fixed rate paid for the most recent overdrafts fell to just below 5%.

Secured overdrafts were more likely to be on a variable rate (56%) than a fixed rate (44%). Unsecured overdrafts were as likely to be on a fixed rate (51%) as a variable rate (49%).

The average margin for a variable rate secured overdraft was +3.7%, compared to +4.5% for an unsecured overdraft. A similar difference in margin was seen for fixed rate facilities – secured overdrafts were at an average of 4.4% compared to 6.0% for an unsecured overdraft.

Overdrafts: Fees

Most respondents were able to recall the arrangement fee that they had paid for their new/renewed overdraft facility (if any). The average fee paid was £324, a slight increase on Q1-4 2011 (£310). However the median arrangement fee was unchanged at £99. Analysis by date of application shows no clear pattern.

As would be expected, fees vary by size of facility granted:

Fee paid (Overdraft) by facility granted: YEQ1 12 SMEs with new/renewed overdraft excl.. DK	Total	<£10k	£10-25k	£25-100k	£100k+
Unweighted base:	*2001*	*509*	*345*	*535*	*612*
No fee paid	18%	23%	12%	10%	11%
Less than £100	21%	30%	12%	5%	2%
£100-199	34%	41%	42%	9%	2%
£200-399	14%	5%	30%	32%	11%
£400-999	7%	1%	4%	32%	14%
£1000+	6%	1%	*	11%	61%
Average fee paid:	*£324*	*£122*	*£170*	*£533*	*£2467*
Median fee paid	*£99*	*£75*	*£142*	*£298*	*£1432*

Q 113/114 All SMEs with new/renewed overdraft, excluding DK

Amongst those with a new/renewed overdraft who knew both what fee they had paid and the facility granted, 29% paid a fee that was the equivalent of less than 1% of the facility granted, and a further 33% paid between 1-2%. On this basis there were some clear differences by size of facility:

- 43% of those granted a new/renewed overdraft facility of less than £10,000 paid the equivalent of 2% or less
- 88% of those granted a new/renewed overdraft facility of £10-25,000 paid the equivalent of 2% or less
- 91% of those granted a new/renewed overdraft facility of £25-100,000 paid the equivalent of 2% or less
- 94% of those granted a new/renewed overdraft facility of more than £100,000 paid the equivalent of 2% or less

Secured overdrafts were more likely to attract a fee of 2% or less (77%) than unsecured overdrafts (58%), but no discernible pattern emerged by date of application.

Overdraft terms: Analysis by risk rating

Sample sizes also permit some analysis of size, interest rates and fees by external risk rating. Businesses with a minimal/low risk rating typically paid less for their variable rate overdraft:

Overdraft rates and fees summary YEQ1 12 SMEs with new/renewed overdraft excl.. DK	Min/Low	Average/Worse than average
Unweighted base (varies by question):	*1204*	*1500*
% borrowing £25,000 or less	63%	85%
Facility on a variable rate (excluding DK)	56%	51%
Average variable margin for less than £25k facility	+3.4%	+4.8%
Average variable margin for facility £25k+	+3.3%	+4.1%
Average fixed rate for less than £25k facility	6.4%	5.9%
Average fixed rate for facility £25k+	3.2%	4.3%
Average fee paid for less than £25k facility	£225	£114
Average fee paid for facility £25k+	£1084	£1126
% where fee <2% of facility (under £25k)	55%	53%
% where fee <2% of facility (£25k+)	94%	90%

All SMEs with new/renewed overdraft, excluding DK

Overdrafts: Usage

Of those granted a new/renewed overdraft, 38% said that they used this facility all or most of the time, while at the other end of the scale, 34% used this overdraft facility occasionally, rarely or never. There was little difference in frequency of use by size of business.

Amongst those SMEs that used this overdraft facility at least occasionally (representing 79% of those granted an overdraft), 57% said that when they used their overdraft they used at least half of the agreed facility.

Some analysis of the use of overdrafts is now possible over time. The table below shows the extent to which Type 1 overdrafts were being used, analysed by when the facility was applied for. This shows that overdrafts agreed in 2011 were more likely to be used all or most of the time, and during Q2 and Q3 2011 half of those with a new/renewed overdraft facility were using it, and when they did so, to 50% or more of the limit agreed:

Type 1 overdraft usage	Use of overdraft						
Use of facility by date of application	Q310	Q410	Q111	Q211*	Q311*	Q411*	Q1 12
Unweighted base:	*154*	*278*	*577*	*390*	*350*	*280*	*146*
Use overdraft all or most of time	32%	27%	43%	37%	35%	38%	28%
Use 50%+ when use it (all with od not just users)	32%	36%	45%	52%	53%	45%	44%

Q101/102 All SMEs that have successfully applied/renewed for overdraft * indicates interim results as data is still being gathered on events in these quarters

Overdraft terms: Analysis by sector

Base sizes now allow for some analysis of rates and fees by sector.

Overall, 80% of overdrafts granted were for £25,000 or less. By sector this varies relatively little, the exception being the Agriculture sector where 59% of overdrafts were for £25,000 or less.

By sector, as the table below shows, secured overdrafts were:

- More common for overdrafts in the Agriculture (40%) and Manufacturing (38%) sectors
- Less common for overdrafts in the Construction (16%) and Health (13%) sectors

Type 1 overdraft YEQ1 12 all with new/renewed overdraft	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Real Est	Health S Work	Other Comm
Unweighted base:	*255*	*224*	*376*	*288*	*182*	*184*	*420*	*157*	*235*
Any security	40%	38%	16%	22%	20%	32%	21%	13%	22%
- property	*34%*	*28%*	*6%*	*17%*	*16%*	*12%*	*13%*	*8%*	*14%*
No security	60%	62%	84%	78%	80%	68%	79%	87%	78%

Q 106 All SMEs with new/renewed overdraft excluding DK

Overall, half of Type 1 overdrafts obtained were on a variable rate (51%). This was more likely for overdrafts amongst SMEs in the Other Community (63%) Real Estate (57%) and Agriculture (56%) sectors, and less common for those in Transport (35%):

Type 1 overdraft rate YEQ1 12 all with new/renewed overdraft	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Real Est	Health S Work	Other Comm
Unweighted base:	***228***	***202***	***294***	***260***	***156***	***149***	***359***	***130***	***195***
Variable rate lending	56%	36%	40%	52%	43%	35%	57%	49%	63%
Fixed rate lending	44%	64%	60%	48%	57%	65%	43%	51%	37%

Q 107 All SMEs with new/renewed overdraft excluding DK

Base sizes currently preclude any further analysis of rates, but a review of fees paid by sector is provided below.

This analysis shows that those in the Construction, Real Estate and Health sectors were most likely to pay a fee for their facility. The average fee paid was around the £200 mark for many sectors. Those in Manufacturing and Wholesale/Retail paid the highest absolute fee, and this was also less likely to represent 2% or less of the amount borrowed, so is not just a reflection of a larger overdraft facility. Those in the Health sector were the least likely to pay a fee equivalent to 2% or less of the sum borrowed:

Type 1 overdraft fees YEQ1 12 all with new/renewed overdraft	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Real Est	Health S Work	Other Comm
Unweighted base:	*211*	*191*	*317*	*248*	*156*	*158*	*379*	*138*	*203*
No fee paid	25%	21%	14%	19%	26%	22%	12%	13%	27%
Average fee paid	£379	£590	£253	£426	£231	£236	£330	£246	£183
Equivalent of 2% or less paid	90%	53%	52%	61%	64%	75%	61%	36%	68%

Q 113114 All SMEs with new/renewed overdraft excluding DK

Amongst those with an overdraft, SMEs in Health were the most likely to be using their overdraft all or most of the time (47%). Those in Transport were the least likely (33%). The most likely to be using 50% or more of their overdraft were those in Wholesale/Retail (54% of those with any new/renewed overdraft):

Type 1 overdraft usage YEQ1 12 all with new/renewed overdraft	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Real Est	Health S Work	Other Comm
Unweighted base:	*258*	*229*	*382*	*295*	*185*	*187*	*429*	*163*	*240*
Use overdraft all or most of time	44%	39%	34%	44%	38%	33%	34%	47%	37%
Use 50%+ when use it (all with od not just users)	48%	35%	46%	54%	42%	42%	46%	40%	38%

Q 101/102 All SMEs with new/renewed overdraft

Loans: Security

2% of all SMEs now have a new/renewed loan:

- 1% of 0 employee SMEs have a new/renewed loan
- 4% of 1-9 employee SMEs
- 6% of 10-49 employee SMEs
- 8% of 50-249 employee SMEs

A minority of loans, 12%, were commercial mortgages. They were much more likely to have been granted for more than £100,000 and were more common amongst larger SMEs:

- 10% of successful applicants with 0-9 employees said their loan was a commercial mortgage
- 22% of successful applicants with 10-49 employees
- 30% of successful applicants with 50-249 employees

84% of new/renewed loans were for £100,000 or less.

Successful loan applicants were asked whether any security was required for this loan. As the table below shows, smaller SMEs were more likely to have an unsecured loan:

Security required (Loan): YEQ1 12 SMEs with new/renewed loan	Total	0-9 emp	10-49 emps	50-249 emps
Unweighted base:	*1071*	*361*	*418*	*292*
Commercial mortgage	12%	10%	22%	30%
Secured business loan	22%	20%	38%	41%
Unsecured business loan	66%	70%	40%	29%

Q 198/199 All SMEs with new/renewed loan

The table below provides further detail on loans by listing the security required for secured loans that were not commercial mortgages. Such security was typically a charge over business or personal property:

Security taken (Loan): YEQ1 12 SMEs with new/renewed loan excl.. DK	Total	0-9 emp	10-49 emps	50-249 emps
Unweighted base:	***1071***	***361***	***418***	***292***
Commercial mortgage	12%	10%	22%	30%
Secured – Property (any)	16%	14%	30%	25%
Business property	*8%*	*7%*	*16%*	*21%*
Personal property	*8%*	*8%*	*13%*	*5%*
Director/personal guarantees	4%	4%	5%	6%
Other security	4%	3%	8%	16%
Unsecured business loan	66%	70%	40%	29%

Q 200 All SMEs with new/renewed loan, excluding DK

19% of new/renewed loans granted for less than £25,000 were secured (including commercial mortgages) compared to 47% of those granted for £25,000 to £100,000 and 84% of those granted for more than £100,000.

Loans: Rates

Amongst those who knew, two thirds, 72% said that their loan was on a fixed rate (compared to 49% for overdraft lending), and this was more common for smaller facilities:

Type of rate (Loan) by amount granted: YEQ1 12 SMEs with new/renewed loan excl.. DK	Total	<£10k	£10-25k	£25-100k	£100k+
Unweighted base:	*953*	*189*	*119*	*188*	*457*
Variable rate lending	28%	21%	19%	34%	54%
Fixed rate lending	72%	79%	81%	66%	46%

Q 201 All SMEs with new/renewed loan, excluding DK

Fixed rate lending is more common where the facility is unsecured (80% v 57% for secured loans). Whilst there is no clear pattern by date of application, as with overdrafts, fixed rate lending does appear to be becoming more common over time (Q1-4 2011 69% reported a fixed rate loan).

Most of those on a variable rate said that the rate was linked to Base Rate (78%). Bigger SMEs were more likely to be on a LIBOR linked rate: 38% of successful applicants with 50-249 employees said that their new/renewed variable rate loan was linked to LIBOR.

Amongst SMEs with a new/renewed loan, half of those with a variable rate and a fifth of those with a fixed rate were unable/refused to say what rate they were paying. These 'Don't know' answers have been excluded from the analysis below, but this does reduce the sample sizes. This wave though, for the first time, some analysis is possible by size of facility:

Variable margin (Loan) by amount granted: YEQ1 12 SMEs with new/renewed loan excl.. DK	Total	<£100k	£100k+
Unweighted base:	*386*	*145*	*241*
Less than 2%	27%	22%	37%
2.01-4%	41%	35%	50%
4.01-6%	17%	19%	13%
6%+	15%	24%	1%
Average margin above Base/LIBOR:	*+3.8%*	*+4.4%*	*+2.7%*
Median margin above Base/LIBOR	*+3.0%*	*+3.0%*	*+2.9%*

Q 203/204 All SMEs with new/renewed/ variable rate loan, excluding DK

These rates to YEQ1 2012 are unchanged from Q1-4 2011. Analysis by date of application is limited by the number of respondents answering this question, but indicative results are that more recent applicants were less likely to be paying a variable margin of under +4%.

The average variable rate charged was very similar for overdrafts and loans. Fixed rate loan lending on the other hand, was slightly more expensive than fixed rate overdraft lending (which had a median rate overall of 4.4%), for amounts under £100k:

Fixed rate (Loan) by amount granted: Q1-4 SMEs with new/renewed loan excl. DK	Total	<£100k	£100k+
Unweighted base:	*437*	*253*	*184*
Less than 3%	13%	9%	39%
3.01-6%	40%	38%	54%
6.01-8%	25%	28%	2%
8%+	22%	24%	5%
Average fixed rate:	*6.5%*	*6.8%*	*3.8%*
Median fixed rate	*5.9%*	*6.9%*	*4.3%*

Q 205/206 All SMEs with new/renewed fixed rate loan, excluding DK

Both the average and median fixed rates were slightly higher than the equivalent figures at the end of 2011 (when the average fixed rate was 6.1% and the median was 5.3%). Analysis by date of application is limited by the number of respondents answering this question, but indicative results are that applications granted in the latter half of 2011 were at slightly higher rates on average.

As with overdraft lending, secured lending was charged at a lower average rate than unsecured. For those granted a new/renewed loan on a variable rate, a secured loan was charged at an average margin of +3%, an unsecured loan at an average margin of +4.6%. For fixed rate lending, the rates were 5.7% for secured loans and 6.8% for unsecured.

Loans: Fees

Most respondents were able to recall the arrangement fee that they paid for their loan (if any). As with overdrafts, those borrowing a smaller amount typically paid a lower fee in absolute terms:

Fee paid (Loan): YEQ1 12 SMEs with new/renewed loan excl. DK	Total	<£10k	£10-25k	£25-100k	£100k+
Unweighted base:	*857*	*143*	*113*	*175*	*426*
No fee paid	35%	44%	43%	16%	16%
Less than £100	11%	20%	8%	4%	1%
£100-199	19%	28%	22%	9%	2%
£200-399	11%	6%	16%	28%	4%
£400-999	7%	1%	6%	22%	9%
£1000+	17%	1%	5%	21%	68%
Average fee paid:	*£879*	*£124*	*£235*	*£576*	*£3924*
Median fee paid	*£100*	*£20*	*£74*	*£286*	*£1698*

Q 207/208 All SMEs with new/renewed fixed rate loan, excluding DK

The average fee paid to YEQ1 2012 is very similar to the average at the end of 2011 (£893) while the median fee is slightly higher (£93).

Amongst those with a new/renewed loan who knew both what fee they had paid and the original loan size, 52% paid a fee that was the equivalent of less than 1% of the amount borrowed, and a further 27% paid between 1-2%. On this basis there were some clear differences for smaller loans:

- 68% of those granted a new/renewed loan of less than £10,000 paid the equivalent of 2% or less
- 88% of those granted a new/renewed loan of £10-25,000 paid the equivalent of 2% or less
- 81% of those granted a new/renewed loan of £25-100,000 paid the equivalent of 2% or less
- 92% of those granted a new/renewed loan of more than £100,000 paid the equivalent of 2% or less

There was little difference in the proportion paying 2% or less for their loan by whether the loan was secured or not.

Loan terms: Analysis by risk rating

Sample sizes also permit some analysis of size, interest rates and fees by external risk rating. Those with a minimal/low external risk rating were typically borrowing slightly more, and paying a lower rate:

Loan rates and fees summary YEQ1 12 SMEs with new/renewed loan excl. DK	Min/Low	Average/Worse than average
Unweighted base (varies by question):	*465*	*545*
% borrowing £100,000 or less	73%	89%
Facility on a variable rate (excluding DK)	36%	24%
Average variable margin	+2.7%	+4.3%
Average fixed rate	5.9%	6.8%
Average fee paid	£1206	£831
% where fee <2% of facility	73%	81%

All SMEs with new/renewed loan, excluding DK

Loan terms: Analysis by sector

It is now possible to provide some detail on new/renewed loans by sector.

84% of new/renewed loans were for £100,000 or less. By sector this varied from 95% of loans in the Transport sector being in this band, to 69% of loans in the Hotel/Restaurant sector and 70% of loans in Manufacturing.

New/renewed loans were more likely to have been commercial mortgages in the Hotel/Restaurant, Manufacturing and Wholesale/Retail sectors:

Type 1 loan YEQ1 12 all with new/renewed loan	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Real Est	Health S Work	Other Comm
Unweighted base:	*126*	*138*	*114*	*117*	*107*	*95**	*164*	*123*	*87**
Commercial mtge	16%	20%	2%	20%	26%	11%	10%	9%	3%
Secured loan	29%	29%	17%	20%	27%	17%	21%	30%	21%
Unsecured loan	55%	51%	81%	60%	48%	72%	70%	60%	76%

Q 198/199 All SMEs with new/renewed loan excluding DK

Overall, three quarters of Type 1 loans were on a fixed rate (72%). This was more likely for loans amongst SMEs in the Construction (83%) and Health (82%) sectors:

Type 1 loan rate YEQ1 12 all with new/renewed loan	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Real Est	Health S Work	Other Comm
Unweighted base:	*110*	*130*	*100*	*105*	*96**	*81**	*149*	*111*	*71**
Variable rate lending	38%	37%	17%	38%	40%	34%	23%	18%	25%
Fixed rate lending	62%	63%	83%	62%	60%	66%	77%	82%	75%

Q 201 All SMEs with new/renewed loan excluding DK

Base sizes currently preclude any further analysis of rates, but a review of fees paid by sector is provided below.

This analysis shows that those in the Real Estate and Health sectors were least likely to pay a fee for their facility. The average fee paid varies by sector, on small base sizes, so results can only be indicative, but a number are around £1,000:

Type 1 loan fees YEQ1 12 all with new/renewed loan	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Real Est	Health S Work	Other Comm
Unweighted base:	*86**	*109*	*95**	*95**	*92**	*73**	*142*	*97**	*68**
No fee paid	17%	18%	36%	31%	19%	38%	47%	43%	24%
Average fee paid	£807	£1486	£259	£1038	£2055	£514	£1047	£943	£263

Q 208209 All SMEs with new/renewed loan excluding DK

11. Why were SMEs not looking to borrow in the previous 12 months?

This chapter looks

at those that had not had a borrowing event, to explore whether they wanted to apply for loan/overdraft finance in the previous 12 months, and any barriers to applying.

Key findings

Three-quarters of SMEs met the definition of 'happy non-seekers' who had neither had a loan or overdraft event, nor wanted one, and they have become more prevalent over time

12% of all SMEs were 'would-be seekers', who would have liked to apply for a loan or overdraft but had not done so. They were typically smaller SMEs and those with a worse than average external risk rating

The proportion of 'would-be seekers' was broadly stable over time

Issues with the principle and/or process of borrowing were most likely to be mentioned as barriers to applying for an **overdraft**. When the main barrier was sought, such 'would-be seekers' were as likely to mention discouragement, as the process or principle

For those who would have liked to apply for a **loan**, discouragement was as likely to be mentioned as a barrier as the principle and/or process of borrowing. When the main barrier is identified, discouragement is the most mentioned barrier for loans

Discouragement, for both loans and overdrafts, was more likely to be indirect (assuming the bank will say no) than direct (asking informally and feeling put off by the bank), and was also more likely to be mentioned by those with a worse than average risk rating

As already detailed in this report, a minority of SMEs reported any borrowing 'event' in the previous 12 months. This chapter looks at those that had not had a borrowing event, to explore whether they wanted to apply for loan/overdraft finance in the previous 12 months, and any barriers to applying.

The tables below allocate all SMEs to one of three groups, across both overdrafts and loans:

- **Had an event**: those SMEs reporting any Type 1,2 or 3 borrowing event in the previous 12 months
- **Would-be seekers**: those SMEs that had not had a borrowing event, but said that they would have ideally liked to apply for loan/overdraft funding in the previous 12 months
- **Happy non-seekers**: those SMEs that had not had a borrowing event, and also said that they had not wanted to apply for any loan/overdraft funding in the previous 12 months

As for other chapters in this report, where possible the data have been analysed over time.

To what extent do SMEs have an unfulfilled wish to borrow?

The tables below look at this overall profile (YEQ1 12) for various key sub-groups, focussing on the profile of 'would-be seekers'. Some analysis is then provided of how the overall position has changed over time for these key sub-groups as sample sizes permit.

SMEs with no employees were the most likely to be 'happy non-seekers'. The bigger the SME, the more likely they were to have had an event and the less likely they were to be a 'would-be seeker'.

Any events (Overdraft and loan) YEQ1 12 All SMES	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*20151*	*4045*	*6658*	*6429*	*3019*
Have had an event	15%	12%	22%	29%	30%
Would-be seekers	12%	12%	12%	8%	5%
Happy non-seekers	73%	76%	65%	63%	65%

Q115/209 All SMEs

Amongst SMEs with less than 10 employees, those currently using external finance were slightly more likely to be 'would-be seekers'.

By risk rating, those SMEs with a worse than average risk rating remained more likely to be 'would-be seekers':

Any events (Overdraft and loan) YEQ1 12 All SMEs with a risk rating	Total	Min	Low	Avge	Worse/Avge
Unweighted base:	*20151*	*3349*	*3994*	*5375*	*5659*
Have had an event	15%	19%	18%	15%	14%
Would-be seekers	12%	6%	7%	9%	15%
Happy non-seekers	73%	75%	74%	76%	71%

Q115/209 All SMEs

By sector, the proportion of 'would-be seekers' varied from 9% of those in the Health Sector to 15% of those in Wholesale/Retail. More variation was seen in terms of 'happy non-seekers', which accounted for 81% of those in the Health sector (who were unlikely to have had an event), to 65% of those in Agriculture (who were the most likely to have had an event):

Any events (Overdraft and loan) YEQ1 12 All SMEs	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Real Est	Health S Work	Other Comm
Unweighted base:	*1513*	*2140*	*3563*	*2057*	*1776*	*1797*	*3573*	*1711*	*2021*
Have had an event	23%	12%	13%	18%	20%	15%	15%	10%	14%
Would-be seekers	12%	10%	12%	15%	14%	12%	11%	9%	10%
Happy non-seekers	65%	77%	75%	67%	66%	73%	74%	81%	76%

Q115/209 All SMEs

Start-ups were the most likely to be 'would-be seekers' (19%), especially if they were more recent start-ups (23% of Starts in the last 12 months were 'would-be seekers', compared to 15% of Starts in business for between 1-2 years). The proportion of 'would-be seekers' then declines by age of business.

In each of the quarters covered by this report, the majority of SMEs met the definition of 'happy non-seekers'. The breakdown of SMEs interviewed in Q1 2012 is very similar to that of SMEs in Q3 2011. Compared to the equivalent time in 2011, SMEs in Q1 2012 were more likely to meet the definition of 'happy non-seeker' for the previous 12 months and less likely to have had a borrowing event, while the proportion of 'would-be seekers' remained stable:

Any events (Overdraft and loan) All SMES, over time	Q1-2 2011	Q3 2011	Q4 2011	Q1 2012
Unweighted base:	*5063*	*5055*	*5010*	*5023*
Have had an event	19%	15%	12%	14%
Would-be seekers	13%	12%	11%	12%
Happy non-seekers	68%	74%	78%	74%

Q115/209 All SMEs

The data table below shows how the profile of 'would-be seekers' has changed over time for a number of key demographic groups. Although the profile has changed very little either overall, or by size of SME, there are three demographic groups that have seen changes in the proportion of 'would-be seekers' since the equivalent time in 2011:

- Minimal risk rating: the proportion of 'would-be seekers' dropped from 8% to 4%. Compared to Q1-2 2011, fewer minimal risk SMEs in Q1 2012 reported having had an event (13% from 23%) and so more were 'happy non-seekers' (82% from 70%)

- Worse than average risk rating: the proportion of 'would-be seekers' dropped from 17% to 13%. Compared to Q1-2 2011, slightly fewer worse than average risk SMEs in Q1 2012 reported having had an event (14% from 19%) and so slightly more were 'happy non-seekers' (73% from 64%)

- Wholesale/Retail sector: the proportion of 'would-be seekers' dropped from 20% to 14%. Compared to Q1-2 2011, only slightly fewer SMEs in this sector in Q1 2012 reported having had an event (16% from 20%) and so more were 'happy non-seekers' (70% from 60%)

The table below reports the proportion of 'would-be seekers' within key sub-groups in each quarter:

Would-be seekers Over time – row percentages	Q1-2 2011	Q3 2011	Q4 2011	Q1 2012
All SMEs	**13%**	**12%**	**11%**	**12%**
0 employee	13%	12%	10%	12%
1-9 employees	13%	12%	12%	12%
10-49 employees	8%	7%	7%	8%
50-249 employees	5%	5%	5%	5%
Minimal external risk rating	8%	7%	4%	4%
Low external risk rating	8%	7%	7%	8%
Average external risk rating	8%	10%	8%	10%
Worse than average external risk rating	17%	15%	13%	13%
Agriculture	7%	16%	12%	11%
Manufacturing	13%	13%	7%	10%
Construction	13%	11%	12%	13%
Wholesale/Retail	20%	17%	9%	14%
Hotels & Restaurants	17%	12%	13%	15%
Transport	14%	11%	10%	12%
Real Estate etc.	11%	11%	11%	11%
Health	11%	9%	7%	10%
Other Community	10%	8%	11%	9%

Q115/209 All SMEs base size varies by category

Barriers to overdraft or loan application

SMEs that were identified as 'would-be seekers' (i.e. they had wanted to apply for an overdraft/loan in the 12 months prior to their interview, but had not done so) were asked about the barriers to making such an application. These are reported below, firstly how frequently they are mentioned at all, and secondly how frequently they are nominated as the main barrier:

The reasons have been grouped into themes as follows, and respondents could initially nominate as many reasons as they wished for not having applied when they wanted to:

- **Principle of borrowing** – those that did not apply because they feared they might lose control of their business, or preferred to seek alternative sources of funding. This was given as a reason by 53% of all 'would-be seekers', which is the equivalent of around 6% of all SMEs
- **Process of borrowing** – those who did not want to apply because they thought it would be too expensive, too much hassle etc. This was given as a reason by 49% of all 'would-be seekers', which is the equivalent of around 6% of all SMEs
- **Discouragement** – those that had been put off, either directly (they made informal enquiries of the bank and were put off) or indirectly (they thought they would be turned down by the bank so did not ask). This was given as a reason by 41% of all 'would-be seekers', which is the equivalent of around 5% of all SMEs
- **Current economic climate** – those that felt that it had not been the right time to borrow. This was given as a reason by 22% of all 'would-be seekers', which is the equivalent of around 3% of all SMEs

The table below shows the cumulative results YEQ1 2012 and all the reasons for not applying for a loan or overdraft that make-up the summary categories above. From Q3 2011, an additional question was asked of those giving more than one reason, asking them to nominate the key reason for not applying, and these results, covering a more recent period, form the main analysis of barriers to application.

All 'would-be seekers'	Would have liked to apply for an overdraft			Would have liked to apply for a loan		
All reasons for not applying when wished to YEQ1 12	Total	0-9 emps	10-249 emps	Total	0-9 emps	10-249 emps
Unweighted base:	*1534*	*1015*	*519*	*901*	*597*	*304*
Issues with principle of borrowing	51%	52%	45%	43%	43%	38%
-Prefer not to borrow	*35%*	*35%*	*30%*	*27%*	*27%*	*20%*
-Not lose control of business	*19%*	*20%*	*12%*	*20%*	*20%*	*17%*
-Can raise personal funds if needed	*24%*	*24%*	*17%*	*19%*	*19%*	*16%*
-Prefer other forms of finance	*17%*	*18%*	*14%*	*14%*	*14%*	*10%*
-Go to family and friends	*15%*	*15%*	*11%*	*11%*	*11%*	*10%*
Issues with process of borrowing	48%	48%	43%	43%	43%	41%
-Would be too much hassle	*20%*	*20%*	*14%*	*18%*	*18%*	*13%*
-Thought would be too expensive	*20%*	*20%*	*13%*	*23%*	*23%*	*17%*
-Would be asked for too much security	*16%*	*16%*	*20%*	*19%*	*19%*	*23%*
-Too many terms and conditions	*18%*	*17%*	*22%*	*18%*	*18%*	*20%*
-Did not want to go through process	*15%*	*15%*	*11%*	*14%*	*14%*	*10%*
-Forms too hard to understand	*7%*	*7%*	*5%*	*9%*	*9%*	*4%*
Discouraged (any)	39%	39%	39%	45%	45%	42%
-Direct (Put off by bank)	*20%*	*20%*	*26%*	*22%*	*22%*	*29%*
-Indirect (thought would be turned down)	*30%*	*31%*	*21%*	*33%*	*34%*	*24%*
Economic climate	19%	19%	14%	23%	23%	19%
Not the right time to apply	*19%*	*19%*	*14%*	*23%*	*23%*	*19%*

Q116 Q210 All 'would-be seekers' SMEs that wished they had applied for an overdraft or a loan

The remaining analysis focuses on the period Q3 2011 to Q1 2012, and the main reason given by 'would-be seekers' for not having applied for an overdraft or loan in the previous 12 months.

The table below details the main reason given by 'would-be seekers' interviewed in each of the three quarters for which data is available. Note that, whilst changes over time can be seen, no data is available on when within the previous 12 months the SME had wanted to apply for facilities.

All 'would-be seekers'	Would have liked to apply for an overdraft			Would have liked to apply for a loan		
Main reason for not applying when wished to over time	Q3 2011	Q4 2011	Q1 2012	Q3 2011	Q4 2011	Q1 2012
Unweighted base:	***383***	***366***	***376***	***213***	***193***	***254***
Discouraged (any)	34%	24%	33%	32%	34%	36%
-Direct (put off by bank)	*12%*	*8%*	*13%*	*10%*	*14%*	*12%*
-Indirect (thought I would be turned down)	*22%*	*15%*	*20%*	*23%*	*20%*	*25%*
Issues with principle of borrowing	28%	29%	29%	18%	26%	15%
Issues with process of borrowing	23%	30%	22%	19%	25%	25%
Economic climate	6%	6%	9%	13%	5%	13%

Q116/Q210 All SMEs that wished they had applied for an overdraft or a loan

This analysis shows that 'discouragement' has been the main barrier for **loan** applications in each of the three quarters, with a consistent level of mentions, and that such discouragement continues to be predominantly indirect (the SME assumed they would be turned down) rather than direct (they felt that they would be turned down after making an *informal* enquiry at the bank). In more recent quarters, would-be loan applicants were more likely to mention a barrier relating to the *process* of borrowing (hassle, expense etc.).

Analysis of the main barrier to **overdraft** applications shows a less consistent picture over time. In both Q3 2011 and Q1 2012, discouragement was the main barrier and, as with loans, this was more likely to be indirect rather than direct. In Q4 2011, the *process* of borrowing was the main barrier, but was mentioned less in the other two quarters. Issues with the *principle* of borrowing were mentioned by just over a quarter of would-be overdraft seekers in each quarter.

The table below includes all responses from Q3 2011 to Q1 2012, in order to allow for analysis by key sub-groups:

All 'would-be seekers'	Would have liked to apply for an overdraft			Would have liked to apply for a loan		
Main reason for not applying Q3 11- Q1 12	Total	0-9 emps	10-249 emps	Total	0-9 emps	10-249 emps
Unweighted base:	*1125*	*743*	*382*	*660*	*438*	*222*
Discouraged (any)	30%	30%	32%	34%	34%	35%
-Direct (put off by bank)	*11%*	*11%*	*16%*	*12%*	*11%*	*20%*
-Indirect (thought I would be turned down)	*19%*	*20%*	*15%*	*23%*	*23%*	*15%*
Issues with principle of borrowing	29%	29%	24%	19%	19%	19%
Issues with process of borrowing	25%	25%	26%	23%	23%	26%
Economic climate	7%	7%	5%	11%	11%	8%

Q116/Q210 All SMEs that wished they had applied for an overdraft or a loan

As already described, 'discouragement' is made up of two elements: direct, where the SME had made informal enquiries of the bank and been put off, and those put off indirectly (they thought they would be turned down by the bank so did not ask). As the table above shows, smaller 'would-be seekers' who were discouraged were more likely to have *assumed* they would be turned down, whereas larger 'would-be seekers' were more likely to have made informal enquiries at their bank.

Analysis by risk rating shows some differences. Discouragement is more likely to be the main barrier for those with a worse than average risk rating, and specifically indirect discouragement (they are more likely to have assumed they would be turned down). Amongst those with a better risk rating, the main barrier for overdraft applications was the principle of borrowing. For loans meanwhile, those with a minimal risk rating were the most likely to say that the economic climate was the barrier.

All 'would-be seekers' by risk rating	Would have liked to apply for an overdraft			Would have liked to apply for a loan		
Main reason for not applying when wished to Q3 11- Q1 12	Min/Low	Avge	Worse/ Avge	Min/Low	Avge	Worse/ Avge
Unweighted base:	*257*	*275*	*473*	*122*	*172*	*283*
Discouraged (any)	22%	23%	32%	21%	24%	36%
-Direct (put off by bank)	*12%*	*8%*	*13%*	*9%*	*9%*	*11%*
-Indirect (thought I would be turned down)	*10%*	*15%*	*19%*	*13%*	*15%*	*25%*
Issues with principle of borrowing	35%	33%	26%	17%	30%	16%
Issues with process of borrowing	27%	25%	27%	24%	23%	25%
Economic climate	6%	11%	6%	22%	4%	13%

Q116 Q210 All 'would-be seekers' SMEs that wished they had applied for an overdraft or a loan *care re small base

Base sizes of 'would-be seekers' are too small to report by sector at this stage.

‘Would-be seekers’ represent a minority of all SMEs. The table below shows, for the main reasons given by these ‘would-be seekers’ from Q3 2011, the equivalent proportion of all SMEs:

Main reason for not applying Q3 2011-Q1 2012 only	Would-be overdraft seekers	All SMEs	Would-be loan seekers	All SMEs
Unweighted base:	*1125*	*15088*	*660*	*15088*
Discouraged (any)	30%	2%	34%	1%
-Direct (put off by bank)	*11%*	*1%*	*21%*	*<1%*
-Indirect (thought I would be turned down)	*19%*	*1%*	*23%*	*1%*
Issues with principle of borrowing	29%	2%	19%	1%
Issues with process of borrowing	25%	2%	23%	1%
Economic climate	7%	<1%	11%	<1%
None of these/DK	9%	<1%	13%	<1%
Had event/Happy non-seeker	-	*90%*	-	*94%*

Q116/Q210 All SMEs v all that wished they had applied for an overdraft or a loan

The effect of the 'permanent non-borrower'

As identified earlier in this report, a third of all SMEs can be described as permanent non-borrowers. If these SMEs were excluded from the analysis in this chapter (because there is no indication that they will *ever* borrow), the population of SMEs reduces to 3 million.

The proportion of 'happy non-seekers' declines to 61% but remains the largest group, and the proportion of 'would-be seekers' increases to 17%:

Any events (Overdraft and loan) YEQ1 12 All SMES	All SMEs	All SMEs excl. pnb
Unweighted base:	***20151***	***15859***
Have had an event	15%	22%
Would-be seekers	12%	17%
Happy non-seekers	73%	61%

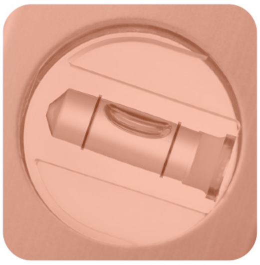
Q115/209 All SMEs

The table below shows the main reasons for not applying, using the revised 'all SME' definition:

Main reason for not applying when wished to – Q3 2011-Q1 2012 only	Would-be overdraft seekers	All SMEs excl. pnb	Would-be loan seekers	All SMEs excl. pnb
Unweighted base:	***1125***	***11,812***	***660***	***11,812***
Discouraged (any)	30%	4%	34%	3%
-Direct (put off by bank)	*11%*	*2%*	*21%*	*2%*
-Indirect (thought I would be turned down)	*19%*	*3%*	*23%*	*2%*
Issues with principle of borrowing	29%	4%	19%	2%
Issues with process of borrowing	25%	3%	23%	2%
Economic climate	7%	1%	11%	1%

Q116/Q210 All SMEs v all that wished they had applied for an overdraft or a loan

12. The future



This chapter reports

on growth plans and perceived barriers to that growth. It then explores SMEs' intentions for the next 3 months, in terms of finance and the reasons why SMEs think that they will/will not be applying for new/renewed finance in that time period.

Key findings

In Q1 2012, half of SMEs, 48%, expected to grow in the next 12 months, the highest proportion in a quarter so far

The main obstacle to running the business as they would wish remained the economic climate, rated a major obstacle by a third of all SMEs, and the key issue across all size bands and other key demographics

There was a slight increase in overall appetite for future finance in Q1 (16% from 14%), driven by smaller SMEs

Overall confidence that the bank would agree to the application improved again in Q1, from 46% to 52%

23% of SMEs were 'future would-be seekers with no immediate need identified' in Q1 2012, up from 18% in Q4. This increases to 32% of SMEs in Q1 if the 'permanent non-borrowers' are excluded (from 28% in Q4)

2% of SMEs were future 'would-be seekers' with an identified need for funds they thought it unlikely they would apply for. This was unchanged over time, and increases to 3% of SMEs if the 'permanent non-borrowers' are excluded

The key reason for not applying for finance (both overall and when the main reason is asked for) remained a reluctance to borrow in the current economic climate, with 54% of all 'would-be seekers' in Q1 giving this as their main reason for not applying (52% in Q4 2011)

Within this category, an increasing minority of businesses said that it was their own performance, rather than that of the economy per se, that was the barrier (17% in Q1 2012 from 14% in Q4 2011)

For 54% of future 'would-be seekers' with **no** immediate need identified, the economic climate (and their own performance in that climate) was the main barrier. This compared to 42% of those with an identified need, for whom discouragement remained almost as likely a barrier (38%)

Overall, discouragement, a key barrier for not applying in the *previous* 12 months, was mentioned as the main barrier to *future* applications by 11% of <u>all</u> future 'would-be seekers' in Q1 (down from 14% in Q4)

Having reviewed performance over the 12 months prior to interview, SMEs were asked about the future. As this is looking forward, the results from each quarter can more easily be compared to each other, providing a guide to SME sentiment.

This chapter reports on growth plans and perceived barriers to that growth and then explores SMEs' intentions for the next 3 months in terms of finance and the reasons why SMEs think that they will/will not be applying for new/renewed finance in that time period.

Growth plans for next 12 months

SMEs were asked about their growth objectives. As shown in the table below, SMEs gave similar answers to this question in each quarter, with Q1 2012 reporting the highest proportion yet of SMEs planning to grow:

Growth objectives in next 12 mths All SMEs, over time	Q1-2 2011	Q3 2011	Q4 2011	Q1 2012
Unweighted base:	*5063*	*5055*	*5010*	*5023*
Grow substantially	7%	6%	7%	6%
Grow moderately	37%	37%	37%	42%
All planning to grow	*44%*	*43%*	*44%*	*48%*
Stay the same size	46%	47%	47%	42%
Become smaller	5%	5%	5%	5%
Plan to sell/pass on /close	5%	6%	4%	6%

Q225 All SMEs

Bigger SMEs remained more likely to be predicting growth, as the Q1 figures show:

Growth objectives in next 12 mths Q1 2012 only	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*5023*	*1014*	*1656*	*1602*	*751*
Grow substantially	6%	5%	8%	8%	11%
Grow moderately	42%	41%	43%	48%	54%
All planning to grow	*48%*	*46%*	*51%*	*56%*	*65%*
Stay the same size	42%	43%	40%	39%	31%
Become smaller	5%	5%	4%	3%	3%
Plan to sell/pass on /close	6%	6%	5%	1%	1%

Q225 All SMEs

As the summary table below shows, the improvement in the overall growth score in Q1 2012 is driven by the smallest SMEs, when compared to a similar time last year:

Plan to grow (any) in next 12 months Over time	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Planning to grow Q1-2 2011	44%	41%	50%	57%	64%
Planning to grow Q3 2011	43%	39%	50%	56%	61%
Planning to grow Q4 2011	44%	43%	49%	56%	62%
Planning to grow Q 1 2012	48%	46%	51%	56%	65%

Q225 All SMEs, base size varies

Since the same period of 2011, there has been an increase in the proportion of SMEs expecting to grow across all risk ratings although this is less marked amongst those with a worse than average rating:

Plan to grow (any) in next 12 months Over time	Total	Min	Low	Avge	Worse/Avge
All planning to grow Q1-2 2011	44%	39%	30%	37%	52%
All planning to grow Q3 2011	43%	38%	36%	36%	49%
All planning to grow Q4 2011	44%	37%	41%	35%	53%
All planning to grow Q1 2012	48%	49%	39%	43%	54%

Q225 All SMEs, base size varies

The Health sector was one of the most optimistic in each quarter, along with Wholesale/Retail. Compared to Q1-2 2011, Manufacturers and those in the Other Community sectors were more likely to report in Q1 2012 that they had plans to grow:

Growth objectives all SMEs over time	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Real Est	Health S Work	Other Comm
Any growth Q1-2	45%	39%	31%	55%	38%	39%	45%	50%	57%
Any growth Q3	53%	46%	28%	46%	41%	42%	50%	49%	42%
Any growth Q4	37%	42%	42%	48%	45%	44%	46%	55%	40%
Any growth Q1 12	42%	51%	37%	50%	39%	38%	49%	53%	66%

Q225 All SMEs

SMEs that met the 'permanent non-borrower' definition in Q1 2012 were less likely to be planning to grow (38%) than those that did not (51%).

Obstacles to running the business in the next 12 months

In early waves of the Monitor, SMEs were asked to nominate their main barrier to growth in the next 3 months. In both waves where this was asked the economy and the economic climate in particular, was the main barrier, nominated by half of SMEs across all size bands, and no other barrier was mentioned by more than 10% of SMEs.

In a change for Q4 2011, SMEs were instead asked to rate the extent to which each of 6 factors were perceived as obstacles to them running the business as they would wish in the next 12 months, using a 1 to 10 scale (where 1 meant the factor was not an obstacle at all, and 10 that it was seen as a major obstacle). The table below provides the average score for each factor out of 10 and a detailed breakdown of scores, in 3 bands:

- 1-4 = a minor obstacle
- 5-7 = a moderate obstacle
- 8-10 = a major obstacle

The economic climate remained the key issue in Q1 2012:

- The **current economic climate** was rated as a major obstacle (8-10) by 37% of SMEs in Q1 2012 (35% in Q4)
- **Legislation and regulation** was the next most important obstacle but, by comparison to the economic climate, just 14% rated this a major obstacle (unchanged from Q4)
- **Cash flow and issues with late payment** was also rated a major obstacle by 14% of SMEs (up slightly from 11% in Q4)
- **Access to external finance** was similarly rated, with 11% of SMEs seeing it as a major obstacle (10% in Q4)
- 5% of SMEs rated **availability of relevant advice** for their business as a major obstacle for the year ahead (unchanged from Q4)
- Finally, 3% rated **staff related issues** as a major obstacle (unchanged from Q4)

Extent of obstacles in next 12 months Q1 2012 only All SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*5023*	*1014*	*1656*	*1602*	*751*
The current economic climate (mean score)	6.0	6.0	6.1	6.0	5.6
- 8-10 major obstacle	*37%*	*37%*	*38%*	*33%*	*26%*
- 5-7 moderate obstacle	*36%*	*36%*	*34%*	*42%*	*44%*
- 1-4 limited obstacle	*27%*	*26%*	*27%*	*24%*	*29%*
Legislation and regulation (mean score)	3.6	3.3	4.4	4.7	4.5
- 8-10 major obstacle	*14%*	*11%*	*21%*	*21%*	*15%*
- 5-7 moderate obstacle	*23%*	*20%*	*28%*	*34%*	*35%*
- 1-4 limited obstacle	*61%*	*66%*	*49%*	*43%*	*46%*
Cash flow/issues with late payment (mean score)	3.5	3.4	3.9	3.9	3.7
- 8-10 major obstacle	*14%*	*13%*	*17%*	*14%*	*10%*
- 5-7 moderate obstacle	*21%*	*20%*	*24%*	*27%*	*29%*
- 1-4 limited obstacle	*64%*	*66%*	*58%*	*58%*	*60%*
Access to external finance (mean score)	3.1	3.0	3.6	3.1	3.0
- 8-10 major obstacle	*11%*	*10%*	*15%*	*10%*	*8%*
- 5-7 moderate obstacle	*18%*	*17%*	*22%*	*17%*	*18%*
- 1-4 limited obstacle	*65%*	*67%*	*59%*	*69%*	*66%*
Availability of relevant advice (mean score)	2.7	2.7	3.0	2.7	2.3
- 8-10 major obstacle	*5%*	*5%*	*6%*	*3%*	*2%*
- 5-7 moderate obstacle	*20%*	*19%*	*24%*	*21%*	*14%*
- 1-4 limited obstacle	*71%*	*72%*	*67%*	*74%*	*80%*
Staff related issues (mean score)	1.8	1.4	2.7	3.1	3.3
- 8-10 major obstacle	*3%*	*2%*	*7%*	*5%*	*7%*
- 5-7 moderate obstacle	*8%*	*4%*	*16%*	*24%*	*22%*
- 1-4 limited obstacle	*85%*	*89%*	*76%*	*70%*	*69%*

Q227 All SMEs

The current economic climate was the most important obstacle for SMEs in each external risk rating. Those with a minimal/low external risk rating were more likely rate legislation and regulation a major obstacle, while those with a worse than average risk rating were more likely to rate the economy and access to external finance as major obstacles:

Extent of obstacles in next 12 months Q1 2012 only All SMEs 8-10 impact score	Total	Min	Low	Avge	Worse/Avge
Unweighted base:	*5023*	*837*	*951*	*1381*	*1411*
The current economic climate	37%	28%	32%	33%	39%
Legislation and regulation	14%	21%	18%	16%	12%
Cash flow/issues with late payment	14%	8%	15%	13%	14%
Access to external finance	11%	4%	11%	9%	13%
Availability of relevant advice	5%	1%	4%	5%	7%
Staff related issues	3%	4%	4%	3%	3%

Q227 All SMEs

There was still relatively little difference in the perceived obstacles between those planning to grow and those with no such plans, but in Q1 2012 more of a gap existed between these two groups of SMEs when rating the current economic climate and legislation – both seen as more of an obstacle by those not planning to grow:

Extent of obstacles in next 12 months Q1 2012 only All SMEs 8-10 impact score	Total	Plan to grow	No plans to grow
Unweighted base:	*5023*	*2608*	*2415*
The current economic climate	37%	33%	41%
Legislation and regulation	14%	11%	16%
Cash flow/issues with late payment	14%	14%	14%
Access to external finance	11%	13%	10%
Availability of relevant advice	5%	6%	5%
Staff related issues	3%	4%	2%

Q227 All SMEs

However, clearer differences were seen by whether the SME planned to apply for new/renewed facilities in the next three months, or would like to (the future would-be seekers - FWBS), compared to the 'happy non-seekers'. Those with plans/aspirations to apply were more likely to see all these issues as major obstacles, notably the current economic climate (48%), cash flow (24%), and access to finance (22%).

The 'happy non-seeker' category described below includes those SMEs that met the definition of a 'permanent non-borrower' which indicates that they are unlikely to borrow at any stage. Such SMEs have been excluded from the 'happy non-seeker' definition in the final column below:

Extent of obstacles in next 12 months Q1 only All SMEs 8-10 impact score	Total	Plan to apply or FWBS	HNS	HNS excl. PNB
Unweighted base:	*5023*	*2042*	*2981*	*1980*
The current economic climate	37%	48%	29%	35%
Legislation and regulation	14%	18%	10%	12%
Cash flow/issues with late payment	14%	24%	7%	11%
Access to external finance	11%	22%	4%	7%
Availability of relevant advice	5%	10%	3%	4%
Staff related issues	3%	5%	2%	3%

Q227 All SMEs

The economic climate was the most likely to be rated a major obstacle to running their business as they wished by all sectors, with higher scores given by SMEs in the Construction and Wholesale/Retail sectors:

Extent of obstacles in next 12 months Q1 2012 only All SMEs 8-10 impact scores	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Real Est	Health S Work	Other Comm
Base:	*372*	*546*	*892*	*506*	*445*	*455*	*881*	*430*	*496*
The current economic climate	33%	30%	45%	43%	39%	40%	34%	26%	30%
Legislation and regulation	17%	13%	17%	13%	20%	21%	11%	14%	6%
Cash flow/issues with late payment	11%	11%	20%	8%	17%	15%	16%	9%	8%
Access to external finance	11%	12%	13%	13%	21%	14%	8%	5%	12%
Availability of relevant advice	7%	2%	6%	6%	6%	10%	5%	2%	5%
Staff related issues	3%	2%	3%	5%	8%	3%	3%	1%	1%

Q227All SMEs

Those in Hotels & Restaurants were more likely to rate access to finance as a major obstacle, and Legislation was also more of an issue for those in this sector along with those in Transport. Cashflow remained more of an issue for those in Construction.

Obstacles to running the business in the next 12 months – over time

With only two waves to compare, analysis is limited at present. The summary table below shows that the current economic climate was the most likely to be rated a 'major obstacle' in both quarters, while slightly more SMEs in Q1 2012 rated cash flow / late payment as a 'major obstacle':

Extent of obstacles in next 12 months All SMEs over time 8-10 impact score	Q4 2011	Q1 2012
Unweighted base:	*5010*	*5023*
The current economic climate	35%	37%
Legislation and regulation	14%	14%
Cash flow/issues with late payment	11%	14%
Access to external finance	10%	11%
Availability of relevant advice	5%	5%
Staff related issues	3%	3%

Q227 All SMEs

The current economic climate was more likely to be seen as a major obstacle by smaller SMEs in Q1, and less likely to be rated as such by the larger ones, and similar differences existed for some other demographics:

- 37% of 0 employee SMEs rated it a major obstacle in Q1 2012 compared to 34% in Q4
- 38% of 1-9 employee SMEs (37% Q4)
- 33% of 10-49 employee SMEs (38% Q4)
- 26% of 50-249 employee SMEs (34% Q4)
- It was more likely to be seen as a barrier for those not planning to grow (41% v 34% in Q4)
- It was also more likely to be seen as a barrier by those in Construction (45% v 36% in Q4), Wholesale/Retail (43% v 35% in Q4), but less likely to be seen as a barrier by those in the Health sector (26% v 42% in Q4)

Financial requirements in the next 3 months

SMEs were asked to consider their financial plans over the next 3 months. The figures for Q1 2012 show a slight increase in demand for finance from Q4 2011, albeit still below the level seen in Q1-2 2011:

% likely in next 3 months All SMEs, over time	Q1-2 2011	Q3 2011	Q4 2011	Q1 2012
Unweighted base:	*5063*	*5055*	*5010*	*5023*
Will have a need for (more) external finance	12%	10%	11%	13%
Will apply for more external finance	9%	7%	8%	10%
Renew existing borrowing at same level	13%	8%	8%	9%
Any apply/renew	*19%*	*13%*	*14%*	*16%*
Reduce the amount of external finance used	11%	10%	7%	11%
Inject personal funds into business	27%	26%	26%	30%

Q229 All SMEs

In all quarters to date, more SMEs have identified a need for finance than think they will apply for it (13% v 10% in Q1).

In Q1 2012, more SMEs thought they would be injecting personal funds into the business, and/or reducing the amount of external finance used, putting the slight increase in demand for finance into context.

Amongst companies there was still little interest in seeking new equity finance:

% likely in next 3 months All companies, over time	Q1-2 2011	Q3 2011	Q4 2011	Q1 2012
Unweighted base:	*2981*	*2923*	*2714*	*2904*
Seek new equity from existing shareholders	4%	3%	5%	4%
Seek new equity from new shareholders	5%	2%	4%	3%
Any new equity	*7%*	*5%*	*6%*	*5%*

Q229 All companies

In Q1 2012, larger SMEs remained more likely to be planning to apply for new/renewed finance than smaller ones:

% likely in next 3 months Q1 only All SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*5023*	*1014*	*1656*	*1602*	*751*
Will have a need for (more) external finance	13%	11%	17%	14%	14%
Will apply for more external finance	10%	8%	14%	11%	13%
Renew existing borrowing at same level	9%	8%	14%	18%	13%
Any apply/renew	*16%*	*14%*	*23%*	*23%*	*20%*
Reduce the amount of external finance used	11%	10%	14%	12%	12%
Inject personal funds into business	30%	33%	26%	12%	8%

Q229 All SMEs

However, the slight increase in appetite for finance in Q1 2012, compared to the previous quarter, was driven by increased appetite amongst the smaller SMEs:

% likely to apply or renew in next 3 months Over time	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Q1-2 2011	19%	17%	24%	24%	22%
Q3 2011	13%	11%	18%	20%	15%
Q4 2011	14%	12%	21%	24%	25%
Q1 2012	16%	14%	23%	23%	20%

Q229 All SMEs, base size varies

Analysis by risk rating showed that likelihood to apply/renew had increased in Q1 2012 for those with a low or average external risk rating:

% likely to apply or renew in next 3 months Over time	Total	Min	Low	Avge	Worse/Avge
Q1-2 2011	19%	13%	17%	18%	18%
Q3 2011	13%	14%	14%	12%	12%
Q4 2011	14%	16%	16%	9%	16%
Q1 2012	16%	15%	20%	16%	17%

Q229 All SMEs

Analysis by sector showed an increase in appetite for finance (in Q1 2012 compared to the previous quarter) amongst those in Construction (who were more likely to be concerned about cashflow or late payment) and those in the Other Community sector (who were more likely to be planning to grow):

% likely to apply or renew in next 3 months Over time	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Real Est	Health S Work	Other Comm
Q1-2 2011	22%	16%	14%	24%	20%	15%	20%	19%	18%
Q3 2011	21%	13%	12%	17%	13%	14%	10%	12%	12%
Q4 2011	17%	13%	13%	18%	22%	17%	12%	11%	14%
Q1 2012	21%	11%	18%	15%	22%	15%	15%	13%	18%

Q229 All SMEs

As the table below shows, those with plans to grow have both an increased appetite for finance in Q1 2012 compared to Q4 2011 and when compared to those SMES that do not plan to grow. However, their appetite for finance in Q1 2012 is lower than in Q1-2 2011:

% likely to apply or renew in next 3 months Over time	Total	Plan to grow	No plans to grow
Q1-2 2011	19%	24%	14%
Q3 2011	13%	18%	9%
Q4 2011	14%	19%	10%
Q1 2012	16%	21%	11%

Q229 All SMEs

For those who were planning to seek/renew funding, the most frequently mentioned purpose remained working capital, while the proportion planning to seek finance for investment in plant and machinery is up on both Q4 2011 and on a year ago:

Use of new/renewed facility All planning to seek/renew, over time	Q1-2 2011	Q3 2011	Q4 2011	Q1 2012
Unweighted base:	*1127*	*890*	*1046*	*1062*
Working capital	62%	67%	59%	60%
Plant & machinery	24%	29%	26%	29%
UK expansion	23%	27%	22%	22%
Premises	8%	10%	7%	8%
New products or services	9%	9%	7%	13%
Expansion overseas	4%	4%	4%	5%

Q230 All planning to apply for/renew facilities in next 3 months

There remained relatively few differences by size of business. The profile of amount sought also remained broadly similar to previous quarters, and the median amount sought was unchanged at £7,000.

Overdrafts and loans remained the most considered forms of funding. In Q3 there was an increase in consideration for loans or equity from family and friends which has been maintained, and a similar increasing consideration of credit cards:

% of those seeking/renewing finance that would consider form of funding, over time	Q1-2 2011	Q3 2011	Q4 2011	Q1 2012
Unweighted base:	*1127*	*890*	*1046*	*1062*
Bank overdraft	53%	51%	49%	48%
Bank loan/Commercial mortgage	37%	44%	40%	40%
Grants	28%	36%	35%	35%
Loans/equity from family & friends	12%	23%	22%	23%
Leasing or hire purchase	18%	19%	18%	21%
Credit cards	9%	19%	17%	19%
Loans/equity from directors	11%	12%	18%	14%
Loans from other 3rd parties	13%	13%	10%	11%
Invoice finance	9%	6%	6%	9%

Q233 All SMEs seeking new/renewing finance in next 3 months

There continued to be differences in consideration by the size of SME planning to seek new/renewed finance. The slight increase in overall consideration of both leasing and invoice finance was caused by increased consideration amongst 0 employee SMEs planning to seek new/renewed finance (from 13% in Q4 to 19% in Q1 for leasing and from 5% to 11% for invoice finance):

% of those seeking/renewing finance would consider funding – Q1 2012 only	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*1062*	*136*	*387*	*382*	*157*
Bank overdraft	48%	49%	46%	53%	51%
Bank loan/Commercial mortgage	40%	37%	44%	38%	38%
Grants	35%	36%	35%	29%	26%
Loans/equity from family & friends	23%	28%	15%	11%	10%
Leasing or hire purchase	21%	19%	22%	29%	37%
Credit cards	19%	23%	14%	13%	12%
Loans/equity from directors	14%	12%	17%	21%	16%
Loans from other 3rd parties	11%	9%	14%	12%	17%
Invoice finance	9%	11%	6%	12%	17%

Q233 All SMEs seeking new/renewing finance in next 3 months

Those SMEs that would not consider certain forms of finance were asked why that was. To boost sample sizes, these are reported for all relevant SMEs YEQ1 2012, but the key reasons given are consistent over time:

Form of finance	Reasons for not considering – non considerers
Leasing	70% said they did not need this form of finance (especially larger non-considerers). 10% were not looking to fund equipment/vehicles, 11% thought it was too expensive and 5% did not understand it.
Invoice finance	58% said it was because they did not need this form of finance. 20% said they didn't understand it (especially smaller non-considerers) and 10% thought it was too expensive (especially larger non-considerers).

Q236-237 All SMEs seeking new/renewing finance in next 3 months and not considering specific form of finance

Form of finance	Reasons for not considering – non-considerers
Equity (companies only)	Half felt they did not need this type of finance (48%). 16% wanted to retain control of the business and 11% did not want to give a share away, 21% had never considered it and 8% did not know how to get it, typically mentioned more by smaller non-considerers. Over time, more companies say they have never considered this type of finance while fewer say that they do not need it. Three quarters had heard of at least one of the following: Venture Capital (67% aware), Corporate Finance Advisors (46%), Business Angels (41%), and/or local support programmes to help access equity (22%). Overall awareness ranged from 70% of 0 employee companies to 89% of 50-249 employee companies.

Q234-235 All Companies seeking new/renewing finance in next 3 months and not considering specific form of finance

Prospective applicants (via loan, overdraft, leasing, invoice finance and/or credit cards) were asked how confident they felt that their bank would agree to meet their finance need.

Overall confidence improved in Q1 to 52%, the highest overall confidence score to date, as the proportion describing themselves as 'fairly confident' increased by more than the fall in the proportion who were 'very confident':

Confidence bank would lend All planning to seek finance, over time	Q1-2 2011	Q3 2011	Q4 2011	Q1 2012
Unweighted base:	*861*	*707*	*763*	*834*
Very confident	22%	14%	22%	19%
Fairly confident	20%	29%	24%	33%
Overall confidence	***42%***	***43%***	***46%***	***52%***
Neither/nor	33%	36%	26%	20%
Not confident	26%	20%	28%	28%
Net confidence (confident – not confident)	*+16*	*+23*	*+18*	*+24*

Q238 All SMEs seeking new/renewing finance in next 3 months

The increase in overall confidence in Q1 was driven by a further increase in confidence amongst those applicants with less than 10 employees:

Overall confidence bank would lend All planning to seek finance, over time	Overall	0-9 emps	10-249 emps
Q1-2 2011	42%	40%	57%
Q3 2011	43%	42%	63%
Q4 2011	46%	46%	61%
Q1 2012	52%	52%	61%

Q238 All SMEs seeking new/renewing finance in next 3 months

This improvement could be due to the risk profile of applicants changing quarter to quarter, but in fact the risk profile of applicants has remained very similar quarter to quarter, both overall and within size band. Nor does the data support a theory that confidence is increasing amongst the smaller applicants because a higher proportion of them were looking to renew existing facilities rather than applying for a new one.

Those not planning to seek or renew facilities in the next 3 months

In Q1, 16% of all SMEs reported plans to apply/renew facilities in the following 3 months, leaving the majority (84%) with no such plans. Just under a half of that majority (44%) were current users of external finance, the rest were not. This means that, YEQ1 2012, 49% of **all** SMEs neither used external finance nor had any immediate plans to apply for any.

When thinking about SMEs with no plans to apply/renew, it is important to distinguish between two groups:

- Those that were happy with the decision, because they did not need to borrow (more) or already had the facilities they needed – the 'happy non-seekers'
- And those that felt that there were barriers that would stop them applying (such as discouragement, the economy or the principle or process of borrowing) – the 'future would-be seekers'

Sample sizes now allow these 'future would-be seekers' to be split into 2 further groups:

- Those that had already identified that they were likely to need external finance in the coming three months
- Those that thought it unlikely that they would have a need for external finance in the next 3 months but who thought there would be barriers to them applying, were a need to emerge

The table below shows that fewer SMEs were classified as a 'happy non-seeker' in Q1 2012 (60%), due to the slight increase in those planning to apply/renew and in those classified as 'future would-be seekers with no immediate need':

Future finance plans All SMEs, over time	Q1-2 2011	Q3 2011	Q4 2011	Q1 2012
Unweighted base:	*5063*	*5055*	*5010*	*5023*
Plan to apply/renew	19%	13%	14%	16%
Future would-be seekers – with identified need	2%	2%	2%	2%
Future would-be seekers – no immediate identified need	16%	20%	18%	23%
Happy non-seekers	64%	65%	66%	60%

Q230/239 All SMEs

As has been discussed elsewhere in this report, around a third of SMEs can be described as 'permanent non-borrowers', based on their past and indicated future behaviour. If such SMEs are excluded from the future finance plans analysis, then around a quarter of the remaining SMEs are planning to apply/renew facilities in the coming quarter and a third can be described as 'future would-be seekers':

Future finance plans SMEs excluding PNB, over time	Q1-2 2011	Q3 2011	Q4 2011	Q1 2012
Unweighted base:	*4047*	*3968*	*3822*	*4022*
Plan to apply/renew	27%	19%	22%	23%
Future would-be seekers – with identified need	3%	3%	3%	3%
Future would-be seekers – no immediate identified need	23%	31%	28%	32%
Happy non-seekers	48%	46%	47%	42%

Q230/239 All SMEs excluding the permanent non-borrowers

The table below shows how the proportion of 'future would-be seekers' has changed over time. It highlights a number of demographic groups that have seen particular changes in the proportion of 'future would-be seekers' in Q1 2012, for which more details are provided below:

- **0 employee SMEs**: the proportion of 'would-be seekers' increased from 20% in Q4 to 26% in Q1. Slightly more 0 employee businesses planned to apply /renew facilities (14% from 12%) so the proportion of 'happy non-seekers' fell from 68% to 61%
- **Manufacturers**: the proportion of 'would-be seekers' increased from 18% in Q4 to 29% in Q1. Slightly fewer manufacturers planned to apply /renew facilities (11% from 13%) so the proportion of 'happy non-seekers' fell from 69% to 59%
- **Hotels/Restaurants**: the proportion of 'would-be seekers' increased from 17% in Q4 to 27% in Q1. There was no increase in plans to apply /renew facilities (which remained above average at 22%) so the proportion of 'happy non-seekers' fell from 61% to 51%
- **Other Community:** the proportion of 'would-be seekers' increased from 14% in Q4 to 22% in Q1. Slightly more planned to apply /renew facilities (18% from 14%) so the proportion of 'happy non-seekers' fell from 72% to 60%

The table below details the proportion of 'future would-be seekers' by key groups of SMEs. Over time, this proportion had increased slightly and some demographic differences have already been highlighted. In Q1 itself, the SMEs most likely to be 'future would-be seekers' were those with a worse than average external risk rating, those in Manufacturing, and the smaller SMEs:

Future would-be seekers Over time – row percentages	Q1-2 2011	Q3 2011	Q4 2011	Q1 2012
All SMEs	**18%**	**22%**	**20%**	**24%**
0 employee	18%	23%	20%	26%
1-9 employees	18%	22%	21%	22%
10-49 employees	10%	16%	13%	14%
50-249 employees	8%	15%	15%	16%
Minimal external risk rating	8%	19%	11%	14%
Low external risk rating	13%	15%	14%	19%
Average external risk rating	19%	20%	20%	20%
Worse than average external risk rating	20%	26%	23%	29%
Agriculture	15%	22%	20%	27%
Manufacturing	17%	22%	18%	29%
Construction	19%	25%	25%	24%
Wholesale/Retail	21%	26%	25%	27%
Hotels & Restaurants	23%	20%	17%	27%
Transport	24%	21%	24%	26%
Real Estate etc.	15%	22%	17%	23%
Health	13%	16%	18%	20%
Other Community	18%	18%	14%	22%

Q230/239 All SMEs * shows overall base size, which varies by category

To understand this further, the table below shows all the reasons given by 'would-be seekers' in Q1 2012 for thinking they will not apply for finance in the next three months, and highlights the importance of the current economic climate:

Reasons for not applying (all mentions) All future would-be seekers Q1 2012 only	Q1 overall	Q1 0-9 emps	Q1 10-249 emps
Unweighted base:	*980*	*626*	*354*
Reluctant to borrow now (any)	55%	55%	66%
-Prefer not to borrow in economic climate	*37%*	*38%*	*29%*
-Predicted performance of business	*18%*	*18%*	*37%*
Issues with principle of borrowing	15%	15%	16%
-Prefer not to borrow	*11%*	*11%*	*12%*
-Not lose control of business	*1%*	*1%*	*
-Can raise personal funds if needed	*4%*	*4%*	*1%*
-Prefer other forms of finance	*1%*	*1%*	*2%*
-Go to family and friends	*1%*	*1%*	-
Issues with process of borrowing	17%	17%	12%
-Would be too much hassle	*6%*	*6%*	*5%*
-Thought would be too expensive	*10%*	*10%*	*6%*
-Bank would want too much security	*1%*	*1%*	*2%*
-Too many terms and conditions	*1%*	*1%*	*2%*
-Did not want to go through process	*	*	*
-Forms too hard to understand	*1%*	*1%*	-
Discouraged (any)	14%	14%	6%
-Direct (Put off by bank)	2%	2%	1%
-Indirect (Think I would be turned down)	*12%*	*12%*	*5%*

Q239 Future would-be seekers SMEs

Analysis of the Q1 results by size of 'would-be seeker' showed that it was the larger SMEs that were more reluctant to borrow now, and also more likely to say that this was because of the predicted performance of their business. Smaller 'would-be seekers' were slightly more likely than the larger ones to have issues with the process of borrowing or with discouragement.

Those SMEs that gave more than one reason for their reluctance to borrow were asked for the main reason, and all the main reasons given over time are shown below. Reluctance to borrow 'now' remained the key reason for being unlikely to seek funds in the next 3 months, nominated by half of 'future would-be seekers', but as the table shows, within this overall category, an increasing proportion gave their *own* performance as the main barrier to seeking funds:

Main reason for not applying Future would-be seekers over time	Q3 2011	Q4 2011	Q1 2012
Unweighted base:	*954*	*862*	*980*
Reluctant to borrow now (any)	43%	52%	54%
-Prefer not to borrow in economic climate	*32%*	*39%*	*37%*
-Predicted performance of business	*10%*	*14%*	*17%*
Issues with principle of borrowing	25%	13%	14%
Issues with process of borrowing	15%	15%	14%
Discouraged (any)	10%	14%	11%
-Direct (Put off by bank)	*<1%*	*2%*	*2%*
-Indirect (Think I would be turned down)	*10%*	*12%*	*9%*

Q239/239a Future would-be seekers SMEs

These barriers are in contrast to the reasons given by those who had not applied for a facility in the previous 12 months, where discouragement was much more of an issue and the economic climate was the main reason for only a minority, reflecting the increasing importance of the economy and its impact on business performance.

Some analysis is possible of the main barriers cited by size and risk rating of the 'future would-be seekers' in Q1 2012. As the table below shows, when analysed by size, larger 'future would-be seekers' were more likely to be reluctant to borrow now due to the current economic climate (and particularly their performance in that climate). This is also an increase on the number mentioning their own performance since Q4 2011 (24%). Discouragement is more of an issue for smaller SMEs, mentioned by 11% of 'future would-be seekers' with 0-9 employees.

Main reason for not applying Future would-be seekers by size Q1 2012 only	Overall	0-9 emps	10-249
Unweighted base:	***980***	***626***	***354***
Reluctant to borrow now (any)	54%	54%	66%
-Prefer not to borrow in economic climate	*37%*	*37%*	*29%*
-Predicted performance of business	*17%*	*17%*	*36%*
Issues with principle of borrowing	14%	14%	16%
Issues with process of borrowing	14%	14%	11%
Discouraged (any)	11%	11%	5%
-Direct (Put off by bank)	*2%*	*2%*	*1%*
-Indirect (Think I would be turned down)	*9%*	*9%*	*4%*

Q239/239a Future would-be seekers SMEs

The table below shows analysis of the main reasons given for not applying in Q1 2012, by 'future would-be seekers', by risk rating. This shows that reluctance to borrow is the most mentioned main reason for all four risk ratings, but *within* this category, those with a minimal risk rating are more likely to cite the performance of their own business, rather than the economy more generally – the opposite is true for 'future would-be seekers' with other risk ratings. The principle of borrowing is more likely to be mentioned as a main reason by those with a minimal or low risk rating, while the process of borrowing is mentioned more by those with an average or worse than average risk rating. Mentions of 'discouragement' do not follow a clear pattern by risk rating, although it was mentioned less as an issue by those with a minimal risk rating.

Main reason for not applying Future would-be seekers by risk rating Q1 2012 only	Min	Low	Avge	Worse/ Avge
Unweighted base:	***125***	***162***	***256***	***336***
Reluctant to borrow now (any)	69%	59%	58%	53%
-Prefer not to borrow in economic climate	*24%*	*46%*	*37%*	*37%*
-Predicted performance of business	*45%*	*13%*	*20%*	*16%*
Issues with principle of borrowing	17%	21%	11%	13%
Issues with process of borrowing	6%	5%	14%	15%
Discouraged (any)	2%	13%	8%	13%
-Direct (Put off by bank)	-	*1%*	*1%*	*1%*
-Indirect (Think I would be turned down)	*2%*	*12%*	*6%*	*12%*

Q239/239a Future would-be seekers SMEs

To put these results in context, the table below shows the equivalent figures for all SMEs in Q1 2012. Around 1 in 8 of all SMEs (13%) would have liked to apply for new/renewed facilities in the next 3 months but did not because of the current climate or the performance of their business:

Reasons for not applying Q1 only – the future would-be seekers	All reasons	Main reason	All SMEs Q1	All SMEs excl. PNB
Unweighted base:	*980*	*980*	*5023*	*4022*
Reluctant to borrow now (any)	55%	54%	13%	19%
-Prefer not to borrow in economic climate	*37%*	*37%*	*9%*	*13%*
-Predicted performance of business	*18%*	*17%*	*4%*	*6%*
Issues with principle of borrowing	15%	14%	3%	5%
Issues with process of borrowing	17%	14%	3%	5%
Discouraged (any)	14%	11%	3%	4%
-Direct (Put off by bank)	*2%*	*2%*	*<1%*	*<1%*
-Indirect (Think I would be turned down)	*12%*	*9%*	*2%*	*3%*

Q239/239a Future would-be seekers SMEs

The table above also shows the equivalent proportion of SMEs, excluding the permanent non-borrowers that have indicated that they are unlikely to be interested in seeking finance. Of those SMEs that *might* be interested in seeking finance (once the PNBs are excluded), 19% are put off by the current economic climate (including their performance in that climate).

When the 'future would-be seekers' were first described, they were the sum of two groups – those with an identified need they thought it unlikely they would apply for, and a larger group of those with no immediate need identified. The barriers to borrowing are slightly different for the two groups, shown here reported on a rolling basis (Q3 and Q4 2011 combined, then Q4 2011 and Q1 2012 combined) in order to provide a more robust sample of those with an identified need:

Main reason for not applying Q3 &Q4 – the future would-be seekers	Identified need		No identified need	
	Q3-4	*Q4-1*	*Q3-4*	*Q4-1*
Unweighted base:	***173***	***179***	***1643***	***1663***
Reluctant to borrow now (any)	33%	42%	49%	54%
-Prefer not to borrow in economic climate	*33%*	*39%*	*36%*	*37%*
-Predicted performance of business	*1%*	*3%*	*13%*	*17%*
Issues with principle of borrowing	5%	3%	20%	14%
Issues with process of borrowing	16%	12%	15%	15%
Discouraged (any)	39%	38%	9%	10%
-Direct (Put off by bank)	*2%*	*5%*	*1%*	*1%*
-Indirect (Think I would be turned down)	*37%*	*33%*	*9%*	*8%*

Q239/239a Future would-be seekers SMEs *SMALL BASE

This shows that for those with an identified need, discouragement was as much a barrier as a reluctance to borrow in the current climate. This discouragement however, was almost entirely *indirect* (the SME thinking they would be turned down). Amongst those with no immediate need identified, a reluctance to borrow now continued to present a much stronger barrier and this was increasingly due to the SMEs own performance.

13. Awareness of taskforce and other initiatives

This final section of the report looks

at awareness amongst SMEs of some of the Business Finance Taskforce commitments, together with other relevant initiatives.

Key findings

Awareness of any of the main initiatives was not widespread (almost half of all SMEs, 47%, were not aware of any of them in Q1 2012)

The most widely known was the network of business mentors (26% awareness in Q1)

Between Q4 and Q1 awareness of alternative sources of business finance, the appeals process and business mentors improved, although a clear majority of SMEs seem unaware

Awareness amongst relevant SMEs of the lending code was stable. Awareness of lending principles improved slightly in Q1, as did awareness of the loan refinancing talks initiative, the latter due to higher awareness amongst smaller SMEs

In October 2010, the Business Finance Taskforce agreed to 17 initiatives with the aim of supporting SMEs in the UK. This final section of the report looks at awareness amongst SMEs of some of these commitments together with other relevant initiatives. This list was revised and updated for Q3 2011, to reflect the coming on-stream of some of these initiatives and, from Q2 2012, will include questions on the National Loan Guarantee Scheme.

The first table covers those initiatives potentially relevant to all SMEs. Overall awareness has improved slightly, with 53% of SMEs aware of one or more initiatives. There were improvements in awareness in Q1 for business mentors, alternative sources of finance and the appeals process:

Awareness of Taskforce initiatives Over time All SMEs asked new question	Q3 2011	Q4 2011	Q1 2012
Unweighted base:	*4792*	*5010*	*5023*
Enterprise Finance Guarantee scheme	22%	23%	22%
A network of business mentors	21%	22%	26%
Alternative sources of business finance	17%	12%	17%
Independently monitored appeals process	14%	10%	13%
The Business Growth Fund	12%	12%	12%
Regional outreach events	11%	7%	9%
BetterBusinessFinance.co.uk	9%	9%	9%
Trade finance and EFG for exporters	8%	6%	8%
Any of these	*50%*	*50%*	*53%*
None of these	*50%*	*50%*	*47%*

Q240 All SMEs

Awareness of Taskforce initiatives All SMEs asked new question	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base (Q1):	*5023*	*1014*	*1656*	*1602*	*751*
Enterprise Finance Guarantee scheme Q3	22%	20%	26%	32%	37%
Enterprise Finance Guarantee scheme Q4	23%	22%	24%	32%	46%
Enterprise Finance Guarantee scheme Q1	22%	21%	26%	34%	41%
A network of business mentors Q3	21%	21%	21%	27%	24%
A network of business mentors Q4	22%	22%	21%	28%	23%
A network of business mentors Q1	26%	26%	24%	26%	28%
Alternative sources of business finance Q3	17%	16%	20%	29%	32%
Alternative sources of business finance Q4	12%	11%	14%	23%	30%
Alternative sources of business finance Q1	17%	15%	22%	30%	34%
Independently monitored appeals process Q3	14%	13%	14%	17%	17%
Independently monitored appeals process Q4	10%	10%	12%	17%	17%
Independently monitored appeals process Q1	13%	13%	13%	16%	19%
The Business Growth Fund Q3	12%	11%	13%	18%	22%
The Business Growth Fund Q4	12%	11%	14%	18%	22%
The Business Growth Fund Q1	12%	11%	14%	21%	25%
Regional outreach events Q3	11%	11%	11%	13%	14%
Regional outreach events Q4	7%	7%	9%	14%	10%
Regional outreach events Q1	9%	9%	9%	13%	12%
BetterBusinessFinance.co.uk Q3	9%	9%	10%	11%	9%
BetterBusinessFinance.co.uk Q4	9%	9%	9%	12%	9%
BetterBusinessFinance.co.uk Q1	9%	10%	8%	10%	11%
Trade finance and EFG for exporters Q3	8%	8%	10%	14%	18%
Trade finance and EFG for exporters Q4	6%	5%	8%	14%	17%
Trade finance and EFG for exporters Q1	8%	7%	10%	14%	21%

Q240 All SMEs

SMEs looking to apply for new/renewed facilities in the next 3 months were no more likely to be aware of these initiatives overall.

Many of these initiatives are more relevant to those with an interest in seeking external finance, and mention has been made several times in this report of the third of SMEs that can be described as 'permanent non-borrowers' who have indicated that they are unlikely ever to seek external finance. In fact there is very little difference in awareness of individual initiatives between the 'permanent non-borrowers' and other SMEs, and overall awareness of any of these initiatives is almost identical (52% in Q1 2012 for 'permanent non-borrowers' and 53% for other SMEs).

There was some variation in overall awareness by sector. Those in the Other community sector were the most likely to be aware of any of these initiatives (61%) while those in Construction and Wholesale/Retail were the least likely (47%). A detailed breakdown of awareness over time is provided below:

% aware Over time	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Real Est	Health S Work	Other Comm
Enterprise Finance Guarantee scheme Q3	19%	31%	17%	21%	19%	24%	26%	25%	14%
Enterprise Finance Guarantee scheme Q4	20%	34%	17%	15%	18%	19%	31%	20%	22%
Enterprise Finance Guarantee scheme Q1	22%	20%	19%	21%	20%	21%	27%	27%	22%
A network of business mentors Q3	27%	26%	15%	20%	16%	25%	26%	25%	17%
A network of business mentors Q4	15%	30%	16%	17%	18%	20%	27%	23%	25%
A network of business mentors Q1	21%	23%	21%	22%	21%	24%	27%	31%	39%
Alternative sources of business finance Q3	18%	21%	13%	16%	16%	18%	22%	12%	14%
Alternative sources of business finance Q4	14%	15%	8%	9%	9%	14%	16%	13%	11%
Alternative sources of business finance Q1	19%	13%	12%	16%	16%	22%	20%	20%	18%
Independently monitored appeals process Q3	16%	19%	12%	14%	14%	16%	15%	12%	10%
Independently monitored appeals process Q4	11%	13%	8%	11%	12%	16%	11%	6%	11%
Independently monitored appeals process Q1	10%	10%	15%	13%	11%	17%	12%	14%	11%

continued

continued

% aware Over time	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Real Est	Health S Work	Other Comm
The Business Growth Fund Q3	13%	22 %	9%	10%	12%	10%	13%	9%	12%
The Business Growth Fund Q4	16%	14 %	6%	9%	11%	16%	18%	10%	9%
The Business Growth Fund Q1	11%	13 %	9%	11%	12%	17%	15%	14%	9%
Regional outreach events Q3	12%	21 %	8%	10%	10%	13%	12%	11%	11%
Regional outreach events Q4	9%	8%	7%	9%	7%	10%	8%	5%	6%
Regional outreach events Q1	8%	9%	8%	7%	8%	12%	11%	14%	5%
BetterBusinessFinance.co. uk Q3	10%	15 %	8%	11%	13%	8%	8%	12%	10%
BetterBusinessFinance.co. uk Q4	11%	8%	9%	4%	10%	11%	9%	6%	13%
BetterBusinessFinance.co. uk Q1	6%	9%	8%	5%	12%	13%	10%	15%	12%
Trade Finance & EFG for exporters Q3	6%	8%	8%	7%	6%	11%	11%	7%	5%
Trade Finance & EFG for exporters Q4	6%	5%	5%	3%	5%	10%	9%	5%	4%
Trade Finance & EFG for exporters Q1	7%	7%	7%	8%	4%	10%	9%	7%	9%

Q240 All SMEs

Other initiatives were only asked to those SMEs directly affected by them, as detailed below:

Initiative Q3-Q1 2012	Awareness
The Lending Code – asked of SMEs with less than 10 employees	No change in overall awareness amongst SMEs with less than 10 employees: 16% were aware in Q3, 15% in Q4, 18% in Q1 2012 There was however a fall in awareness amongst those with 1-9 employees (19% in Q3 to 15% in Q4, and 16% in Q1). Awareness amongst 0 employee businesses was improving (15% in Q3, 16% in Q4 and 18% in Q1).
Lending principles – asked of SMEs with more than 50 employees	Awareness has improved slightly in Q1 to 23% of the largest SMEs aware of this initiative (20% in Q3 and 19% in Q4).
Loan refinancing talks, 12 months ahead – asked of SMEs with a loan	Awareness of this initiative amongst SMEs with loans had recovered in Q1 to 13% (having fallen from 12% in Q3 to 7% in Q4). This was due to improved awareness amongst smaller SMEs with loans: 0-9 employees 12% in Q1 from 6% in Q4 and12% in Q3 whilst 10-249 employees were unchanged at 15% for all 3 quarters.

Finally, two initiatives are of particular relevance to certain types of SME:

Initiative	Awareness
The independently monitored lending appeals process	Overall awareness of this remains limited (13% in Q1 2012). Amongst those who, since April 2011, had applied for an overdraft and been declined, 19% said that they had been made aware of the appeals process while for loans the equivalent figure was 8%.
Trade Finance & EFG for exporters	Overall awareness is low but stable (8% in Q1 2012). Amongst those who export, awareness is higher, 25% in Q1 2012, and has recovered from a dip in Q4 2011 (17%).

14. Technical Appendix

This chapter covers

the technical elements of the report – sample size and structure, weighting and analysis techniques

Eligible companies

In order to qualify for interview, SMEs had to meet the following criteria in addition to the quotas by size, sector and region:

- Not 50%+ owned by another company
- Not run as a social enterprise or as a not for profit organisation
- Turnover of less than £25m

The respondent was the person in charge of managing the business's finances. No changes have been made to the screening criteria in the four waves conducted to date

Sample structure

Quotas were set overall by size of business by number of employees as shown below. The classic B2B sample structure over-samples the larger SMEs compared to their natural representation in the SME population, in order to generate robust sub-samples of these bigger SMEs. Fewer interviews were conducted with 0 employee businesses to allow for these extra interviews. This has an impact on the *overall* weighting efficiency (once the size bands are combined into the total), which is detailed later in this chapter. The totals below are for all interviews conducted YEQ1 2012 – each quarter's sample matched the previous quarter's results as closely as possible.

Business size	Universe	% of universe	Total sample size	% of sample
Overall	**4,548,843**	100%	20,151	100%
0 employee (resp)	3,366,144	74%	4045	20%
1-9 employees	1,008,024	22%	6658	33%
10-49 employees	144,198	3%	6429	32%
50-249 employees	26,383	1%	3019	15%

Overall quotas were set by sector and region as detailed below. In order to ensure a balanced sample, these overall region and sector quotas were then allocated within employee size band, to ensure that SMEs of all sizes were interviewed in each sector and region.

Business sector* (SIC 2007 in brackets)	Universe	% of universe	Total sample size	% of sample
AB Agriculture etc. (A)	195,285	4%	1513	8%
D Manufacturing (C)	302,032	7%	2140	10%
F Construction (F)	1,017,210	22%	3563	18%
G Wholesale etc. (G)	561,689	12%	2057	10%
H Hotels etc. (I)	156,001	4%	1776	9%
I Transport etc. (H&J)	314,705	7%	1797	9%
K Real estate (L,M,N)	1,194,629	26%	3573	18%
N Health etc. (Q)	279,280	6%	1711	8%
O Other (R&S)	528,011	12%	2021	10%

Quotas were set overall to reflect the natural profile by sector, but with some amendments to ensure that a robust sub-sample was available for each sector. Thus, fewer interviews were conducted in Construction and Real Estate to allow for interviews in other sectors to be increased, in particular for Agriculture and Hotels.

A similar procedure was followed for the regions and devolved nations:

Region	Universe	% of universe	Total sample size	% of sample
London	773,303	17%	2411	12%
South East	727,815	16%	2481	13%
South West	454,884	10%	1859	9%
East	454,884	10%	1733	8%
East Midlands	272,931	6%	1396	7%
North East	136,465	3%	989	5%
North West	454,884	10%	1830	9%
West Midlands	318,419	7%	1815	9%
Yorks & Humber	318,419	7%	1821	9%
Scotland	318,419	7%	1630	8%
Wales	181,954	4%	1185	6%
Northern Ireland	136,465	3%	1001	5%

Weighting

The weighting regime was initially applied separately to each quarter. The four were then combined and grossed to the total of 4,548,843 SMEs, based on BIS SME data.

This ensured that each individual wave is representative of all SMEs while the total interviews conducted weight to the total of all SMEs.

		0	1-49	50-249	
AB	Agriculture, Hunting and Forestry; Fishing	2.87%	1.42%	0.01%	4.30%
D	Manufacturing	4.42%	2.08%	0.14%	6.64%
F	Construction	19.03%	3.29%	0.04%	22.36%
G	Wholesale and Retail Trade; Repairs	7.03%	5.22%	0.10%	12.35%
H	Hotels & Restaurants	0.90%	2.48%	0.04%	3.42%
I	Transport, Storage and Communication	5.93%	0.95%	0.03%	6.91%
K	Real Estate, Renting and Business Activities	19.37%	6.76%	0.13%	26.26%
N	Health and Social work	4.94%	1.15%	0.06%	6.14%
O	Other Community, Social and Personal Service Activities	9.60%	1.99%	0.02%	11.61%
		74.09%	25.33%	0.58%	

An additional weight then split the 1-49 employee band into 1-9 and 10-49 overall:

- 0 employee 74.09%
- 1-9 employees 22.16%
- 10-49 employees 3.17%
- 50-249 employees 0.58%

Overall rim weights were then applied for regions:

Region	% of universe
London	17%
South East	16%
South West	10%
East	10%
East Midlands	6%
North East	3%
North West	10%
West Midlands	7%
Yorks & Humber	7%
Scotland	7%
Wales	4%
Northern Ireland	3%

Finally a weight was applied for Start-ups (Q13 codes 1 or 2) set, after consultation with stakeholders, at 20%.

The up-weighting of the smaller SMEs and the down-weighting of the larger ones has an impact on the weighting efficiency. Whereas the efficiency is 77% or more for the individual employee bands, the overall efficiency is reduced to 27% by the employee weighting, and this needs to be considered when looking at whether results are statistically significant:

Business size	Sample size	Weighting efficiency	Effective sample size	Significant differences
Overall	20,151	27%	5440	+/- 2%
0 employee (resp)	4045	79%	3195	+/- 2%
1-9 employees	6658	77%	5126	+/- 2%
10-49 employees	6429	78%	5014	+/- 2%
50-249 employees	3019	82%	2475	+/- 3%

Analysis techniques

CHAID (or Chi-squared Automatic Interaction Detection) is an analytical technique which uses Chi-squared significance testing to determine the most statistically significant differentiator on some target variable from a list of potential discriminators. It uses an iterative process to grow a 'decision tree' splitting each node by the most significant differentiator to produce another series of nodes as the possible responses to the differentiator. It continues this process until either there are no more statistically significant differentiators or it reaches a specified limit. When using this analysis, we usually select the first two to three levels to be of primary interest.

This report is the largest and most detailed study of SMEs' views of bank finance ever undertaken in the UK. More importantly, this report is one of a series of quarterly reports. So, not only is this report based on a large enough sample for its findings to be robust, but over time the dataset will build into a hugely valuable source of evidence about what is really happening in the SME finance market.

A report such as this can only cover the main headlines emerging from the results. Information within this report and extracts and summaries thereof are not offered as advice, and must not be treated as a substitute for financial or economic advice. This report represents BDRC Continental's interpretation of the research information and is not intended to be used as a basis for financial or investment decisions. Advice from a suitably qualified professional should always be sought in relation to any particular matter or circumstance.


bdrc
continental
providing *intelligence*