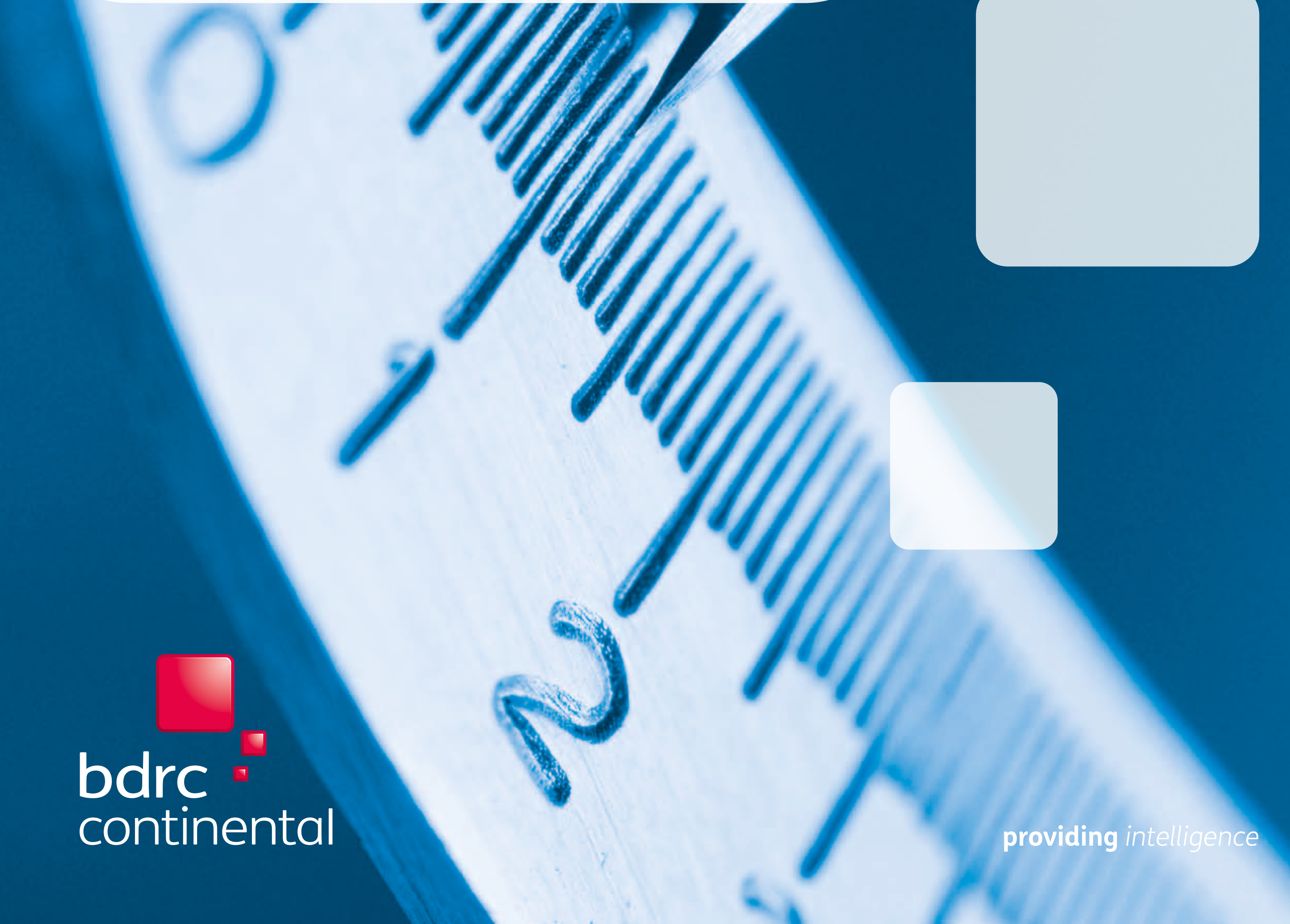
SME Finance Monitor

Q1 2013: The uncertainty of demand

An independent report by
BDRC Continental, June 2013



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Foreword

Welcome to the eighth report of the SME Finance Monitor, which now includes data from interviews conducted up to the end of March 2013, as the UK wondered whether a triple dip was still on the cards, and what impact the Funding for Lending scheme might have amongst SMEs.

The Business Finance Taskforce was set up in July 2010 to review the 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.

The SME Finance Monitor surveys 5,000 businesses every quarter about past borrowing events and future borrowing intentions. It is the largest such survey in the UK and has built into a robust and reliable independent data source for all parties interested in the issue of SME finance since the first report was published, covering Q1-2 2011.

Results from the SME Finance Monitor are reported in the press and online and used by a wide variety of organisations to inform their decision making about SMEs. The data provides both a clear view of how SMEs are feeling now, and, increasingly, how this has changed over time.

This is an independent report, and I am pleased to confirm that this latest version has once again been written and published by BDRC Continental, with no influence sought by any member of the Steering Group.

Shiona Davies
Editor, The SME Finance Monitor
May 2013

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
EEF the manufacturers' organisation
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. A range of government and financial initiatives, such as the Funding for Lending Scheme, have sought to make funds available for SMEs and encourage banks to lend. At the same time, the unstable economic atmosphere, including the on-going crisis in the Eurozone, is affecting business confidence and appetite for borrowing, albeit that the UK economy has, tentatively, moved out of recession. The debate continues as to the extent to which demand and/or supply issues are contributing to lower levels of lending to SMEs.

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.

The majority of this eighth report is based on a total of 20,032 interviews with SMEs, conducted to YEQ1 2013. This means that the interviews conducted in the first four waves, (the three waves conducted during 2011 plus Q1 2012), are no longer included in the year ending results but they are still shown in this report where data is reported quarterly over time, or by application date.

The YEQ1 2013 data therefore includes the following four waves:

- April-June 2012 – 5,000 interviews, referred to as Q2 2012
- July-September 2012 – 5,032 interviews, referred to as Q3 2012
- October-December 2012– 5,000 interviews, referred to as Q4 2012
- January-March 2013 – 5,000 interviews conducted, referred to as Q1 2013

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 an individual quarter will be as originally reported. This combined dataset of 20,032 interviews is referred to as YEQ1 2013.

The majority of reporting is based on interviews conducted in the year to Q1 2013. The exceptions to this rule are:

- Where data is reported by application date. In these instances, all respondents to date are included, split by the quarter in which they made their application for loan and/or overdraft facilities
- Where SMEs are asked about their planned future behaviour. In these instances, typically reporting expectations for the next 3 months, comparisons are made between individual quarters

A further quarter of another 5,000 interviews, to the same sample structure, is being conducted April to June 2013, and results will be published in August 2013. At that stage, we will again present data on a rolling basis of 20,000 interviews (so adding Q2 2013 and dropping Q2 2012 from the main dataset reported).

A second edition of the annual report, published at the end of April 2013, provided separate analysis at regional level for an in-depth assessment of local conditions during 2012.

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.

The proportion of SMEs using external finance is now 39%, the lowest level recorded on the SME Finance Monitor to date. Also in Q1 2013, the proportion of SMEs meeting the definition of a 'Permanent non-borrower' (PNB) reached 41%, the highest level seen. Levels of profitability, growth and credit balances remained stable.

- In Q1 2013, 39% of SMEs reported using any form of external finance. This is down slightly from 41% in Q4 2012, and significantly lower than the 50% using external finance in Q1 2012
- The proportion using any of the 'core' bank products (overdraft, loan or credit card) has fallen from 40% to 32% between Q1 2012 and Q1 2013
- The drop year on year is across all size bands, but is more marked for those with 0-9 employees with signs in Q1 2013 of increased use of external finance by SMEs with 10-249 employees. The drop is also more marked for those with an average or worse than average external risk rating
- 41% of SMEs interviewed in Q1 2013 met the definition of a 'Permanent non-borrower' – an SME that does not use external finance and shows little inclination to do so in future. 0 employee businesses are the most likely to meet this definition (45%). The proportion of PNBs in the population has increased steadily over time, having been 30% in Q1 2012. If these PNBs are excluded, 65% of remaining SMEs use external finance (still down on the equivalent Q1 2012, 72%)
- Two-thirds of SMEs made a profit in the previous 12 months and this has changed little over time. A third of SMEs had grown in the previous 12 months, also unchanged from Q4 2012. Most SMEs hold some credit balances, with two-thirds holding less than £5,000

Based on their behaviour in the previous 12 months, three-quarters of SMEs interviewed in Q1 2013 had been ‘Happy non-seekers’ of finance, the highest level seen to date on the SME Finance Monitor. 7% of all SMEs were ‘Would-be seekers’ of finance. The key barriers that had stopped them applying for a loan or overdraft remained discouragement (much of it indirect, assuming the bank would say no) and the process of borrowing (the time, hassle, expense etc.)

- Based on their behaviour in the previous 12 months, 76% of SMEs interviewed in Q1 2013 were ‘Happy non-seekers’ of finance, that is they had not sought a new/renewed facility and also said that nothing had stopped them from doing so. This is the highest proportion seen on the SME Finance Monitor to date (73% in Q4 2012, and 65% in Q1 2012, albeit based on a slightly different definition)

- 7% of all SMEs in Q1 2013 were ‘Would-be seekers’ of finance, who felt that something had stopped them applying for a loan or overdraft facility. SMEs with 0-9 employees, an average or worse than average risk rating, or in the Transport or Health sectors, were more likely to be in this category

- Amongst those interviewed in Q4 2012 or Q1 2013 who would have liked to apply for an overdraft but said that something had stopped them, 38% said that the process of borrowing, such as the time, hassle or expense, had put them off. 36% reported that they had felt discouraged from applying. The majority of this discouragement was indirect, with the SME assuming the bank would say no and so not applying. Amongst ‘Would-be seekers’ who felt that something had stopped them applying for a loan, 40% said they had felt discouraged (again, predominantly indirect discouragement) while 37% cited the process of borrowing

The remaining SMEs who were neither 'Happy non-seekers' nor 'Would-be seekers' were those that had reported a borrowing 'event' in the previous 12 months, representing 17% of all SMEs in Q1 2013. 70% of all applications for new/renewed facilities reported since the Monitor started had been successful, and this has changed little over time. Of those reported YEQ1 13, 71% of overdraft applications resulted in a facility, while 59% of loan applications were successful. Interim data suggests that more recent applications were slightly more likely to be successful, once the profile of applicants had been taken into account

- Applications for new or renewed loan/overdraft facilities in the 12 months prior to interview were reported by 8% of all SMEs, while 8% reported that an overdraft facility had been automatically renewed. Less than 5% of SMEs reported that either they, or their bank, had sought to reduce or repay an existing facility

- Across all the loan and overdraft applications for new or renewed facilities recorded since the Monitor started, 70% resulted in a facility and 24% in none, with 5% taking another form of funding. These proportions have changed little over time

- Of overdraft applications reported YEQ1 13, 58% were offered what they wanted and took it and a further 13% took a facility after issues. 3% took another form of funding and 26% ended the process with no facility. Adding in the overdrafts that had been automatically renewed increases the overdraft success rate from 71% to 89%

- For loans reported over the same period, 47% were offered the facility they wanted and took it, and a further 12% had a loan after issues. 8% took another form of funding and 33% ended the process with no facility

- When the profile of loan and overdraft applicants is taken into account, interim data for applications made in 2012 suggests that they were slightly more likely to have been successful than the profile of applicants might have suggested

While most applications result in a facility, there remain clear differences in outcome for certain applications and applicants. Newer, smaller businesses, those with a worse than average risk rating and those applying for new funding, especially for the first time, remain less likely to end the process with a facility. Awareness of the appeals process remains low. The advice offered by the banks to those initially declined continues to be rated as poor, and applicants remain unlikely to have sought advice before applying

- 95% of overdraft renewals and 92% of loan renewals reported YEQ1 13 resulted in a facility
- For those applying for new money, but not for the first time, 77% of overdraft applications and 69% of loan applications resulted in a facility (YEQ1 13)
- Amongst first time applicants, 38% of overdraft applications and 41% of loan applications resulted in a facility (YEQ1 13)
- Smaller, younger SMEs (who were more likely to be first time applicants) and those with a worse than average risk rating remained less likely to be successful
- Awareness of the appeals process amongst those declined remains low. 15% of those declined for an overdraft and 9% of those declined for a loan said they were made aware of the appeals process by their bank. Very few of those aware appealed, citing lack of time and a feeling that it would not change anything
- Applicants declined in 2012 for an overdraft were less likely than those declined in 2011 to feel that the bank had told them why they were being declined, but the opposite is true for loan applicants. Two thirds of those declined, whether for a loan or an overdraft, felt that the advice the bank had offered them at that stage had been poor
- 10% of overdraft applicants and 20% of loan applicants sought advice, typically from an accountant, before making their application, with larger applicants more likely to have done so. Analysis by date of application suggests loan applicants in 2011 were more likely to seek advice than those applying in 2012, with no clear trend by application date for overdrafts

Almost half of SMEs plan to grow in the next 12 months. The economic climate remains a key obstacle for SMEs, both generally and increasingly as a barrier to applying for finance. Appetite for finance is unchanged overall from Q4, but once the PNBs are excluded, a quarter of remaining SMEs say they plan to apply for finance, one of the highest proportions seen to date. Confidence that their bank will say yes remains lower than actual success rates.

- 48% of SMEs interviewed in Q1 2013 plan to grow in the next 12 months, up from 44% in Q4 and at the same level as Q1 2012
- 32% of SMEs see the current economic climate as a major obstacle to their business in the next 12 months, and this remains the main obstacle of those investigated. 12% rate access to finance as a major obstacle, increasing to 18% once the 'Permanent non-borrowers' are excluded and to 27% of those with any plans/aspirations to apply for finance in the next 3 months
- 15% of SMEs interviewed in Q1 2013 said that they planned to apply for new or renewed finance in the next 3 months, in line with previous quarters. Once the 'Permanent non-borrowers' are excluded, this increases to 25% of remaining SMEs, up from 22% in Q4 2012, and one of the highest proportions reported on the Monitor to date
- 40% of applicants were confident that their bank would agree to their future borrowing request, down slightly from 43% in Q4 2012, but still ahead of the lowest confidence levels recorded (33% in Q3 2012). Over time, confidence amongst larger applicants has been much more stable at around 60%, while confidence amongst applicants with 0-9 employees has been much more volatile (currently 40%). Confidence has also dropped over time amongst applicants with an average or worse than average risk rating (and is currently 33% in Q1 2013)
- These levels of confidence remain in contrast to the actual success levels reported. Success rates for renewals are around 90%, compared to a confidence level of 49% amongst those planning to renew, and around 56% for new funds, compared to a confidence level of 29% amongst those planning to apply for new funds
- In Q1 2013, two-thirds of SMEs (67%) were 'Future happy non-seekers', with no plans, or need, to apply for external finance in the next 3 months, up from 65% in Q4 2012 and 60% a year ago in Q1 2012
- The remaining SMEs, 19% in Q1 2013, were 'Future would-be seekers' of finance. As in previous waves only a small proportion of this group (3% of SMEs) had a need for finance identified that they thought they would be unlikely to apply for. The remainder (16% of SMEs) felt that were a need to arise, they would be unlikely to apply for finance

- The main reason for not applying for finance remains the current economic climate. In Q1 2013, 63% of 'Future would-be seekers' gave this as the main reason why they would not be applying for external finance, up from 50% in Q4 2012, and clearly ahead of any other barrier (13% mentioned issues with the process of borrowing). This is the equivalent of 12% of all SMEs being put off applying for finance by the current economic climate, or 20% of all SMEs with any appetite for finance (i.e. once the PNBs are excluded)

- Within this overall economic climate figure, more 'Future would-be seekers' said that it was the performance of their own business, rather than the economy more generally, that was the barrier. This was mentioned by 23% of 'Future would-be seekers' in Q1 2013, compared to 13% in Q4

- Discouragement, which remains a key barrier to past applications, is less of an issue for future applications. It was mentioned by 12% of 'Future would-be seekers' in Q1 2013, down from 17% in Q4. Almost all of this discouragement was indirect (the SME assuming the bank wouldn't lend and so not asking)

Half of SMEs were aware of any of the various initiatives designed to improve access to finance, unchanged from Q4 2012. A quarter of SMEs were aware of the Funding for Lending Scheme (FLS), and one in five thought schemes like that would encourage them to apply for finance. A minority said that they had been contacted by a bank indicating a willingness to lend and whilst such approaches may boost awareness of schemes such as FLS they do not appear to encourage applications

- In Q1 2013, 52% of SMEs were aware of any of the bank and Government initiatives tested, unchanged from Q4 2012. Awareness varies by size, from 50% of 0 employee businesses to 70% of those with 50-249 employees, but has varied relatively little over time

- Awareness of the Funding for Lending Scheme, at 27%, is the highest for a single initiative and up from 24% in Q4 2012 when it was included for the first time. Indeed, 5% of all SMEs were only aware of FLS, of all the initiatives tested

- A third of those aware of FLS said that they were also aware of their bank offering funding under the scheme, the equivalent of 9% of all SMEs. This varies relatively little by size of SME, but overall awareness of FLS varies from 24% of those with 0 employees to 42% of those with 50-249 employees

- When asked about the impact of FLS and similar schemes, 18% of all SMEs in Q1 2013 said such schemes made it more likely they would apply for finance. The biggest single group, 75% in Q1 2013, said that it made no difference to them because they did not want external finance

- The 'Permanent non-borrowers' have already been identified as being unlikely to borrow in the future. Excluding them increases the proportion that think FLS makes it more likely they will apply to 25% of remaining SMEs, and to 43% of those with plans to apply for finance in the next 3 months

- 14% of SMEs interviewed in Q1 2013 said that they had been approached by a bank in the previous 3 months, expressing a willingness to lend. 10% had heard from their own bank, 7% from another bank. Those that had been approached were more likely to be aware of FLS, but no more likely to think they would apply

3. Using this report

As well as the overall SME market, key elements have been analysed by a number of other factors, where 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.

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 (typically a sole trader), 1-9, 10-49 and 50-249 employees.

Where relevant, analysis has also 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 possible to show more results by sector. The table below shows the share each sector has, from 4% (Hotels and Restaurants) to 26% (Property/Business Services) 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%	67%
F	Construction	22%	85%
G	Wholesale and Retail Trade; Repairs	12%	57%
H	Hotels and Restaurants	4%	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 is predominantly based on four waves of data, gathered across Q2, Q3 and Q4 of 2012 and Q1 of 2013. In all four waves, SMEs were asked about their past behaviour during the previous 12 months, so there is an overlap in the time period each wave has reported on. These year-ending figures are defined by the date of **interview**, i.e. all interviews conducted in the year concerned.

Each report also comments on changes in demand for credit and the outcome of applications <u>over time</u>. Here, it is more appropriate to analyse results based on when the **application** was made, rather than when the interview was conducted. Final data is now available for any applications made in 2010 or 2011, and Q1 of 2012 but for other more recent quarters data is still being gathered. Results for events occurring from Q2 2012 are therefore still *interim* at this stage (respondents interviewed in Q2 2013 will report on events which occurred in Q2 2012 or later). Where analysis is shown by <u>date of application</u>, this includes <u>all</u> interviews to date (including those conducted in 2011 and Q1 2012, which are no longer included in the Year Ending data reported elsewhere), and such tables are clearly labelled in the report.

Small sample sizes for some lines of questioning mean that in those instances data is reported based on four quarters combined (YEQ1 2013 in this report). This provides a robust sample size and allows for analysis by key sub-groups such as size, sector or external risk rating. However, where results can be shown by individual quarter over time, they have been.

The exception to this approach is in the latter stages of the report where SMEs are asked about their planned <u>future</u> behaviour. In these instances, where we are typically reporting expectations for the next three months, comparisons are made between individual 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 20% or more each year, for each of the past 3 years (definition updated Q4 2012)

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. In more recent reports, the definition has been extended to include those SMEs that have seen their overdraft facility automatically renewed by their bank

Would-be seeker – those SMEs that had not had a borrowing event, and said that something had stopped them applying for loan/overdraft funding in the previous 12 months (a new definition used for the first time in Q4 2012)

Happy non-seeker – those SMEs that had not had a borrowing event, and also said that nothing had stopped them applying for any (further) loan/overdraft funding in the previous 12 months (a new definition used for the first time in Q4 2012)

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

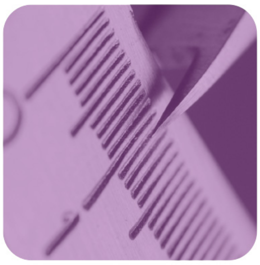
Future would-be seekers – those that felt that there were barriers that would stop them applying to borrow (more) in the next three months (such as discouragement, the economy or the principle or process of borrowing)

Average – the arithmetic mean of values, calculated by adding the values together and dividing by the number of cases

Median – A different type of average, found by arranging the values in order and then selecting the one in the middle. The median is a useful number in cases where there are very large extreme values which would otherwise skew the data, such as a few very large loans or overdraft facilities

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 2013 (YEQ1 13).

Key points

A third of SMEs had grown in the previous 12 months, including 1 in 8 that had grown by 20% or more. Larger businesses were more likely to have grown at all, but were no more likely to have grown by 20% or more

Levels of growth *achieved* in the previous 12 months were very similar to levels of growth previously *predicted* (by a different group of SMEs)

Two-thirds of SMEs were profitable, and this has changed little over time. Those with 10-249 employees remained more likely to be profitable than those with 0-9 employees

1 in 6 SMEs had a minimal or low external risk rating. This varied by size of business from 1 in 10 businesses with 0 employees to 6 out of 10 businesses with 50-249 employees. The proportion with a worse than average external risk rating has increased slightly over time (54% YEQ1 13), but the proportion of SMEs self-reporting a credit issue (12% YEQ1 13) has declined slightly

Most SMEs (95%) hold some credit balances. Two-thirds hold less than £5,000 varying by size but typically the equivalent of 2-4% of turnover

This chapter presents an overview of the characteristics of SMEs in the UK. Unless otherwise stated, figures are based on the 20,032 interviews conducted in the year ending Q1 2013 (that is Q2, Q3 and Q4 of 2012 and Q1 of 2013). There have been trading challenges since the survey started in 2011, and analysis of this data over time provides an indication of how SMEs are managing.

Profitability

Almost two-thirds of SMEs reported making a profit in their most recent 12 month trading period (64% for YEQ1 2013), unchanged from the previous period. As the quarterly analysis below shows, just under two-thirds of those interviewed each quarter reported making a profit. The proportion unable or unwilling to give an answer has varied over time, so the table also now reports the proportion that made a profit once these 'don't know' answers were excluded. On this basis, the proportion making a profit varied little over time. Note that because consistently unprofitable businesses tend to go out of business, there will be an element of 'survivorship bias' in the profit figures, potentially underestimating the proportion of unprofitable businesses in the population.

Where made, the median profit figures showed something of a decline over time – from £13,000 in Q4 2011, to £6,000 in Q4 2012, and £7,000 in the most recent quarter (from Q4 2012 the median has been calculated based on mid-points as profit figures are now collected in bands):

Business performance last 12 months over time By date of interview	Q1-2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013
Unweighted base:	*5063*	*5055*	*5010*	*5023*	*5000*	*5032*	*5000*	*5000*
Made a profit	67%	64%	64%	63%	65%	62%	64%	64%
Broke even	10%	13%	14%	12%	13%	13%	13%	13%
Made a loss	16%	16%	15%	18%	14%	17%	14%	15%
Dk/refused	7%	7%	6%	6%	7%	9%	9%	7%
*Median profit made Q4 12-Q1 13**	*£12k*	*£10k*	*£13k*	*£10k*	*£10k*	*£7k*	*£6k*	*£7k*
Made profit (excl DK)	*72%*	*69%*	*68%*	*68%*	*70%*	*68%*	*70%*	*69%*

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

The median annual **losses** reported were more stable over time – and in the last two quarters were just under £2,000.

From Q4 2012, the profit and loss questions were simplified. The profit or loss made is now recorded in bands, rather than as an actual amount. This means that, from Q4, average and median figures cannot be combined with previous quarters to produce annual figures, so the median figures shown below are for Q4 2012 combined with Q1 2013 **only**.

For YEQ1 2013, bigger SMEs remained more likely to have been profitable: 62% of 0 employee businesses reported making a profit, compared to 75% of those with 50-249 employees. The median profit, where made, was £7k amongst those interviewed in Q4 2012-Q1 2013, increasing with size of SME

Business performance last 12 months YEQ1 13 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*20,032*	*4006*	*6615*	*6403*	*3008*
Made a profit	64%	62%	67%	73%	75%
Broke even	13%	14%	11%	9%	7%
Made a loss	15%	16%	13%	10%	9%
Dk/refused	8%	8%	9%	9%	9%
*Median profit made in Q4 12 / Q1 13**	*£7k*	*£5k*	*£12k*	*£48k*	*£219k*
Made profit (excl DK)	*69%*	*67%*	*73%*	*80%*	*82%*

Q241 All SMEs/ * All SMEs making a profit and revealing the amount in Q4 2012 or Q1 2013

Once the 'Don't know / refused' answers are excluded, 69% of remaining SMEs reported making a profit in the previous 12 months (YEQ1 2013).

Over time, larger SMEs remained consistently more likely to be profitable than smaller ones. SMEs interviewed in Q1 2013 were as likely to report making a profit as they were in the equivalent quarter of 2012:

Made a profit in last 12 months	By date of interview							
Over time – row percentages	Q1-2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013
All SMEs	67%	64%	64%	63%	65%	62%	64%	64%
0 employee	65%	63%	62%	61%	63%	61%	62%	62%
1-9 employees	73%	68%	67%	67%	69%	64%	66%	69%
10-49 employees	76%	75%	75%	74%	75%	73%	71%	74%
50-249 employees	78%	76%	74%	74%	77%	72%	75%	77%

Q241 All SMEs

By sector, Agriculture remained the most likely to be profitable (71%), along with Property/Business Services (68%), while Hotels and Restaurants were the least likely (55%), and this was also the case once the 'Don't know / refused' answers were excluded:

Business performance last 12 months YEQ1 13 – all SMEs	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*150 4*	*2081*	*3511*	*2020*	*1811*	*1813*	*3503*	*1789*	*2000*
Made a profit	71%	65%	62%	60%	55%	57%	68%	65%	61%
Broke even	12%	11%	16%	13%	14%	15%	11%	13%	12%
Made a loss	11%	14%	13%	17%	20%	17%	14%	15%	20%
Dk/refused	7%	10%	9%	10%	10%	11%	6%	7%	7%
*Median profit made Q4 12 & Q1 13**	*£8k*	*£7k*	*£6k*	*£8k*	*£6k*	*£6k*	*£8k*	*£4k*	*£3k*
Made profit (excl DK)	*76%*	*72%*	*68%*	*67%*	*61%*	*64%*	*73%*	*70%*	*66%*

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

Median profits for the period Q4 2012-Q1 2013 varied relatively little by sector, from £8k for profitable SMEs in Agriculture, Wholesale/Retail and Property/Business Services, to £4k for profitable SMEs in Health. Reported median losses in Q4 2012-Q1 2013 were £2k overall and varied between a median loss of £1,400 in the Health sector and £3,800 in Wholesale/Retail.

Sales growth

A revised series of questions, included for the first time in Q4 2012, asked all SMEs that had been trading for 3 years or more about their growth in the previous 12 months. Those that had grown by 20% or more were asked whether they had also achieved this level of growth in the previous 2 years as well.

As the table below shows, in both Q4 2012 and Q1 2013, a third of SMEs aged 3 yrs. or more reported having grown in the previous 12 months, with 1 in 8 having grown by 20% or more:

Growth achieved in last 12 months – all SMEs excluding Starts By date of interview	Q4 2012	Q1 2013
Unweighted base:	*4264*	*4311*
Grown by more than 20%	12%	12%
Grown but by less than 20%	25%	27%
Grown	*37%*	*39%*
Stayed the same	42%	40%
Declined	21%	21%

Q245a All SMEs trading for 3 years or more excl DK

For Q4 2012 and Q1 2013 combined:

- 12% of SMEs more than 3 years old said they had grown by 20% or more in the previous 12 months, and this varied little by size of business
- 26% had grown, but by less than 20%, and this was more likely for larger SMEs (25% for those with 0 employees to 43% of those with 50-249 employees)
- This means that for Q4 2012-Q1 2013, 38% of SMEs reported having grown at all in the previous 12 months, ranging from 36% of those with 0 employees to 54% of those with 50-249 employees
- 41% had stayed the same size, and this was more likely for smaller SMEs (43% for those with 0 employees to 33% of those with 50-249 employees)
- 21% had got smaller, and this was also slightly more common for smaller SMEs (22% for those with 0 employees to 13% of those with 50-249 employees)

Of those who reported in the period Q4 2012-Q1 2013 that they had grown by 20% or more, just over half (57%) said that they had also achieved this level of growth for each of the two previous years. This is the equivalent of 6% of all SMEs more than 3 years old achieving 3 years of 20%+ growth, or 5% of all SMEs.

The Monitor has also recorded *future* growth expectations since it started in early 2011. This allows a comparison to be made between growth expectations recorded in 2011 and growth subsequently achieved, albeit that these are **different** samples of SMEs and so this is not a direct comparison between prediction and achievement.

The table below shows the proportion of SMEs more than 3 years old that predicted they would grow in the first time period, and compares it to the proportion of SMEs more than 3 years old that reported having achieved growth, in the second.

So in Q4 2011, 39% of such SMEs predicted that they would grow in the *next* 12 months, the same proportion (of a *different* sample of such SMEs) that reported that they *had* grown in the past 12 months in Q1 2013:

Growth predictions against expectations – all SMEs excluding Starts By date of interview	Predicted growth All SMEs	Achieved growth All SMEs	Predicted growth 0-9 emps	Achieved growth 0-9 emps	Predicted growth 10-249 emps	Achieved growth 10-249 emps
Predicted Q3 11 / Achieved Q4 12	37%	37%	36%	36%	57%	49%
Predicted Q4 11 / Achieved Q1 13	39%	39%	38%	39%	57%	47%
Predicted Q1 12 / Achieved Q2 13	41%		40%		57%	
Predicted Q2 12 / Achieved Q3 13	43%		42%		60%	

Q225a and Q245a All SMEs trading for 3 years or more excl DK

Analysis by size of SME, reported above, suggests that the growth predictions of those with fewer than 10 employees were closer to what actually happened subsequently to this size of SME, while the predictions of those with 10-249 employees were slightly less likely to have been achieved.

Financial Risk Profile

Two assessments of financial risk are available and, as previous analysis has shown, 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 (12% YEQ1 2013). The most commonly reported credit issues continued to be an unauthorised overdraft or a cheque being bounced:

Self-reported credit issues YEQ1 13 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*20,032*	*4006*	*6615*	*6403*	*3008*
Unauthorised overdraft on account	6%	6%	6%	4%	3%
Had cheques bounced on account	5%	4%	7%	5%	4%
Problems getting trade credit	3%	2%	4%	4%	3%
Missed a loan repayment	1%	2%	1%	1%	*
Had County Court Judgement against them	1%	1%	1%	1%	1%
Any of these	*12%*	*11%*	*14%*	*11%*	*9%*

Q224 All SMEs

Despite the economic conditions, SMEs had become if anything somewhat less likely over time to self-report any of the credit risk issues specified, notably those with 10-49 employees:

Any self-reported credit issues over time – row percentages By date of interview	Q1-2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013
Overall	15%	13%	12%	13%	13%	13%	12%	11%
0 employee	15%	11%	12%	11%	12%	12%	12%	10%
1-9 employees	18%	17%	14%	19%	17%	16%	12%	12%
10-49 employees	17%	15%	13%	14%	15%	12%	10%	10%
50-249 employees	13%	13%	8%	9%	10%	10%	7%	9%

Q224 All SMEs

The second assessment of financial risk is the external risk rating supplied by ratings agencies Dun & Bradstreet and Experian, which use 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 risk'. 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.

To date, the overall risk profile in each quarter has been largely consistent. Over time though, there was a slight increase in the proportion of SMEs rated a 'Worse than average' risk:

External risk rating (where provided) over time By date of interview	Q1-2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013
Unweighted base:	*5063*	*5055*	*5010*	*5023*	*4562*	*4583*	*4545*	*4630*
Minimal risk	6%	6%	6%	6%	5%	2%	5%	6%
Low risk	13%	11%	10%	12%	11%	13%	9%	10%
Average risk	33%	33%	34%	30%	33%	30%	32%	28%
Worse than average risk	48%	51%	51%	53%	51%	55%	53%	55%

All SMEs where risk rating provided

The overall YEQ1 2013 ratings are shown below by size of SME, and continued to report a better risk profile for larger SMEs:

External risk rating YEQ1 13 – all SMEs where rating provided	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*18,320*	*3363*	*5760*	*6250*	*2947*
Minimal risk	5%	2%	9%	25%	34%
Low risk	11%	8%	18%	28%	26%
Average risk	31%	31%	31%	29%	26%
Worse than average risk	54%	59%	43%	18%	14%

All SMEs where risk rating provided

Looking at trends over time, 50% of SMEs interviewed during 2011 had a worse than average risk rating, rising to 53% for those interviewed during 2012. In Q1 2013, 55% had a worse than average external risk rating, with more 0 employee businesses having this risk rating, as the table below shows:

Worse than average external risk rating – row percentages By date of interview	Q1-2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013
Overall	48%	51%	51%	53%	51%	55%	53%	55%
0 employee	51%	56%	53%	58%	55%	61%	58%	62%
1-9 employees	42%	42%	49%	43%	43%	41%	45%	41%
10-49 employees	14%	16%	17%	14%	17%	19%	18%	17%
50-249 employees	13%	13%	13%	14%	14%	13%	13%	16%

All SMEs where risk rating provided

By sector, SMEs in Agriculture remained much more likely than other sectors to have a minimal or low risk rating (46% YEQ1 2013) compared to Transport where 9% had this rating:

External risk rating YEQ1 13	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*127 7*	*1942*	*3218*	*1863*	*1685*	*164 0*	*3203*	*1617*	*1875*
Minimal risk	20%	5%	2%	4%	3%	2%	5%	8%	5%
Low risk	26%	13%	9%	12%	11%	7%	10%	20%	6%
Average risk	25%	29%	28%	37%	34%	23%	33%	39%	29%
Worse than average risk	29%	53%	61%	47%	52%	68%	52%	34%	60%
Total Min/Low	*46%*	*18%*	*11%*	*16%*	*14%*	*9%*	*15%*	*28%*	*11%*

All SMEs where risk rating provided

When the two types of risk rating reported above were compared, those with a worse than average risk rating were only slightly more likely to self-report a credit problem (13% v 10% of SMEs with a minimal external risk rating). Over time, as the proportion with a worse than average risk rating increased slightly, the proportion *self*-reporting a credit problem remained much more stable.

Credit balances

While almost all SMEs reported holding some credit balances (5% do not hold any), most (66%) said that they typically held less than £5,000. Over the individual quarters of the report to date, the proportion of SMEs with less than £5,000 in credit balances increased from 63% in Q1-2 2011, to 70% in Q3 2012, but then declined again and was 63% in the latest quarter, Q1 2013.

Over the same period, the proportion holding more than £5,000 in credit balances stayed around one in three, with no clear pattern over time.

The high proportion of SMEs with a low credit balance continues to be driven by the smaller SMEs. For YEQ1 2013, 74% of 0 employee SMEs held less than £5,000 in credit balances, compared to 15% of those with 50-249 employees.

The median value of credit balances was consistent over time, at just under £2,000 overall in each of the quarters available. The amount varied by size of SME as shown:

- £1,610 for 0 employee SMEs
- £3,150 for 1-9 employee SMEs
- £25,120 for 10-49 employee SMEs
- £123,940 for 50-249 employee SMEs

Assessed against turnover (which is collected in bands, so the calculation is not precise), SMEs typically held the equivalent of 2-4% of turnover as credit balances (based on median values) and this was consistent across turnover bands (with the exception of the very smallest businesses with a turnover of less than £25,000, where the equivalent of around 10% of turnover was held as credit balances).

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 were selected to reflect the perceived importance of a business plan as a key document, as highlighted on the Better Business Finance website, set up by the Business Finance Taskforce, and also from analysis of the Monitor where business planning was shown to be a key contributor to success rates. The Government is also keen to promote SME ‘finance fitness’ (preparedness for accessing finance) as well as exporting and export finance. Finally, analysis has shown that having someone in charge of the finances who is qualified / has been trained, is a key driver of success when making applications, applications, so this data has also been included in the table below.

The table below shows planning levels in Q1 2013 returned to levels seen during most of 2012, while a more consistent 10% were undertaking international activity:

Business formality elements Over time – all SMEs By date of interview	Q1-2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013
Unweighted base:	*5063*	*5055*	*5010*	*5023*	*5000*	*5032*	*5000*	*5000*
Planning (any)	52%	54%	52%	58%	56%	56%	50%	54%
- Produce regular management accounts	*40%*	*41%*	*37%*	*44%*	*42%*	*40%*	*38%*	*40%*
- Have a formal written business plan	*30%*	*33%*	*32%*	*33%*	*34%*	*35%*	*29%*	*32%*
International (any)	15%	10%	8%	10%	10%	10%	9%	10%
– Export goods or services	*10%*	*7%*	*5%*	*7%*	*8%*	*6%*	*5%*	*6%*
- Import goods or services	*9%*	*7%*	*6%*	*7%*	*6%*	*7%*	*6%*	*7%*
Have qualified person in charge of finances	22%	23%	24%	25%	24%	25%	27%	24%

Q223/251 All SMEs

For the year ending Q1 2013, larger SMEs remained more likely to plan and to undertake international trade. By sector, planning ranged from 66% in the Hotels and Restaurants sector to 42% in Construction, while international activity was most common in the Wholesale/Retail (24%) and Manufacturing (21%) sectors. For all other sectors, except Property/Business Services (11%) less than 10% imported or exported, with the Construction sector again the least likely to do so, along with Hotels and Restaurants (3%).

The proportion of SMEs with a financially qualified person looking after their finances has remained relatively stable. The larger the SME the more likely they are to have a financial specialist, ranging from 22% of 0 employee companies to 75% of those with 50-249 employees and by sector from 18% in Construction to 32% in Property/Business services.

A further question sought to understand how important international trade was to the business. From Q4 2012, this was asked of exporters only:

- For Q4 2012 and Q1 2013 combined, 26% of exporters said that international trade made up 50% or more of sales
- Smaller exporters, with 0-9 employees, were slightly more likely to say this (26%) than those with 10-249 employees (22%)
- 6% of all SMEs export. The equivalent of 1% of **all** SMEs reported that exports made up 50% or more of their turnover, while 5% of all SMEs reported that exports made up less than 50% of their turnover. 95% of SMEs do not export

Another new question, asked from Q4 2012, asked SMEs whether they used online banking. For Q4 2012 and Q1 2013 combined, two-thirds did (67%), increasing with size:

- 64% of 0 employee businesses use online banking
- 72% of those with 1-9 employees
- 84% of those with 10-49 employees
- 88% of those with 50-249 employees

Membership of business groups or industry bodies

From Q4 2012 SMEs were asked whether the owner, senior partner or majority shareholder belonged to any business groups or industry bodies.

Overall, for Q4 2012 and Q1 2013 combined, a quarter of SMEs (26%) said that this was the case.

Membership was slightly higher amongst those with 10 or more employees:

- 25% of 0 employee businesses belong to a group/body
- 25% of 1-9 employee businesses
- 31% of 10-49 employee businesses
- 39% of 50-249 employee businesses

SMEs with a worse than average external risk rating were slightly less likely to belong to such groups (23%), while the most likely were those with a low external risk rating (33%).

Starts were slightly less likely to be members (22%); otherwise there was relatively little variation by age of business (the most likely to belong were those aged 2-5 years, 29%). By sector, the most likely to belong to such groups were those in the Health sector (41%), Property/Business Services (33%) and Construction (25%). All other sectors ranged between 17-21%.

Those currently using external finance were slightly more likely to belong to such groups (29%) than those that did not use external finance (24%), and those who meet the definition of a 'Permanent non-borrower' were also somewhat less likely to belong to such groups (22%).

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 finance within a business.

Key findings

In Q1 2013, 39% of SMEs reported using external finance, the lowest proportion recorded on the SME Finance Monitor to date.

33% of 0 employee businesses were using external finance in Q1 2013, down from 37% last quarter. Larger businesses remained more likely to be using external finance and there was a slight increase in the proportion of businesses 10-249 employees that reported using external finance in Q1 2013, compared to the previous quarter

Compared to the equivalent quarter of 2012, use of external finance by SMEs in Q1 2013 was lower in particular for those with 0-9 employees or an average or worse than average external risk rating

The proportion of SMEs that seem disinclined to borrow and thus met the definition of a 'Permanent non-borrower' increased during 2012 and again in Q1 2013 to 41%. This was also driven by 0 employee businesses, with 45% of such businesses meeting the PNB definition in Q1 2013, compared to 40% in Q4 2012

A consistent 4 out of 10 SMEs reported an injection of personal funds into the business in the previous 12 months. This was as likely to be a choice (21% of SMEs in Q1) as something they felt forced to do (19% of SMEs in Q1), and remained more common amongst smaller and younger businesses. 6 out of 10 of those putting in such funds said they injected less than £5,000

Half of SMEs had some personal element to their business banking (including 15% of the largest SMEs with 50-249 employees). The most common element was an injection of personal funds, described above, while 18% used a personal account, and a third had a facility in their personal name. Around 1 in 8 applications for new/renewed loan or overdraft finance were made in a personal name rather than that of the business, increasing to 1 in 5 of overdrafts that were automatically renewed

SMEs were asked two initial 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

Use of external finance for YEQ1 2013 was 41%, down slightly from YEQ4 2012 at 44%.

Analysis by quarter showed use of external finance in Q1 2013 itself was 39%, slightly lower than in Q4 2012 (41%), and also lower than the equivalent quarters of 2011 or 2012, when half of SMEs were using external finance:

Use of external finance in last 5 years Over time – all SMEs By date of interview	Q1-2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013
Unweighted base:	*5063*	*5055*	*5010*	*5023*	*5000*	*5032*	*5000*	*5000*
Use now	51%	47%	41%	50%	43%	40%	41%	39%
Used in past but not now	2%	2%	3%	3%	4%	5%	5%	4%
Not used at all	47%	51%	56%	47%	53%	55%	54%	57%

Q14/15 All SMEs

Bigger SMEs remained more likely than smaller SMEs to be using external finance:

Currently use external finance Over time – all SMEs By date of interview – row percentages	Q1-2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013
All	51%	47%	41%	50%	43%	40%	41%	39%
0 emp	45%	41%	36%	45%	37%	35%	37%	33%
1-9 emps	65%	61%	54%	64%	60%	54%	53%	52%
10-49 emps	76%	76%	70%	73%	73%	69%	65%	69%
50-249 emps	81%	77%	75%	78%	78%	69%	68%	73%

Q14/15 All SMEs , base varies slightly each quarter

Between Q1 2012 and Q1 2013, there was a more marked decline in the proportion of 0 and 1-9 employee businesses using external finance. Over the same period, there was also a decline in use of external finance by larger businesses, but for these SMEs the Q1 2013 figures did represent a slight increase on Q4 2012.

Overall, for YEQ1 2013, more use was made of external finance by SMEs with a minimal (55%) or low (51%) external risk rating, than by those with an average (43%) or worse than average rating (38%). Analysis over time showed lower use of external finance in Q1 2013 compared to Q1 2012, in particular by SMEs with an average, or worse than average risk rating:

Currently use external finance Over time – all SMEs By date of interview – row percentages	Q1-2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013
All	51%	47%	41%	50%	43%	40%	41%	39%
Minimal	50%	59%	56%	55%	58%	60%	57%	51%
Low	55%	56%	51%	55%	54%	49%	51%	52%
Average	52%	50%	38%	54%	41%	43%	45%	42%
Worse than average	49%	42%	39%	47%	42%	38%	37%	35%

Q14/15 All SMEs , base varies slightly each quarter

By sector, the most likely to be using external finance remained SMEs in the Wholesale/Retail (53%) and Hotels and Restaurants (51%) sectors. The least likely to be using external finance was the Health sector (29%).

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. Note that earlier SME Finance Monitors 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 were not necessarily using their credit cards as a source of finance, more as a payment mechanism. This analysis will be updated for the Q2 2013 report.

This analysis showed a similar position in Q1 2013 to Q4 2012. Reported use of both overdrafts and credit cards declined during 2012, and the position in Q1 2013 (32% using any of these forms of finance) was somewhat lower than in Q1 2012 (40%):

Use of external finance Over time – all SMEs By date of interview	Q1-2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013
Unweighted base:	*5063*	*5055*	*5010*	*5023*	*5000*	*5032*	*5000*	*5000*
Bank overdraft	30%	25%	22%	24%	22%	21%	20%	19%
Bank loan/Commercial mortgage	12%	10%	8%	11%	11%	7%	9%	8%
Credit cards	20%	19%	14%	22%	19%	16%	15%	17%
Any of these – all SMEs	*44%*	*39%*	*34%*	*40%*	*36%*	*34%*	*33%*	*32%*

Q15 All SMEs

A new question for Q4 2012 asked those using any of these three methods of finance whether any facilities were in their personal name, rather than that of the business. For Q4 2012 and Q1 2013 combined, a third of those using such facilities (38%) said that there was the equivalent of 12% of **all** SMEs having a facility in their personal name (or 20% of SMEs excluding the 'Permanent non-borrowers').

This varied by size of business: amongst SMEs using loans, overdrafts and/or credit cards, half of those with 0 employees had some facility in their personal name compared to 5% of those with 50-249 employees. Those using these facilities, and who had a worse than average risk rating, were also more likely to have a facility in their own name (43%), but the equivalent figures for **all** SMEs showed little difference by risk rating:

Have element of facility in personal name Q4 12 + Q1 13 – row percentages	Of those with an overdraft, loan or credit card	Equivalent % of all SMEs
Overall	**38%**	**12%**
0 employees	48%	13%
1-9 employees	23%	10%
10-49 employees	9%	6%
50-249 employees	5%	4%
Minimal risk rating	24%	11%
Low risk rating	23%	10%
Average risk rating	36%	13%
Worse than average risk rating	43%	12%

Q15bbb All SMEs with one of these facilities, Q4 12 and Q1 13 only

Those operating their business banking through a personal account were less likely to be using any external finance (20% were using any facilities, compared to 36% of those operating through a business bank account). However, if they did use them, then almost all, 87%, said that they had facilities in their personal name. Amongst those operating a business account, a third, 32%, said there were facilities in their personal name.

Overall, 17% of all SMEs using a personal account for their business banking had some facility in their personal name, compared to 11% of all SMEs using a business bank account.

Net use of any of the *other* forms of finance specified (see full table below) was very similar in Q1 2013 (15% of SMEs using one or more of these other forms of finance) to Q4 2012 (16%), but lower than the equivalent quarter in 2012 (22% in Q1 2012).

The table below shows the full list of the different types of funding being used by SMEs YEQ1 2013. Larger businesses continued to make use of a wider variety of forms of funding:

External finance currently used YEQ1 13 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*20,032*	*4006*	*6615*	*6403*	*3008*
Bank overdraft	20%	17%	29%	35%	32%
Credit cards	17%	14%	21%	37%	45%
Bank loan/Commercial mortgage	9%	6%	15%	22%	27%
Leasing or hire purchase	6%	4%	10%	23%	33%
Loans/equity from directors	4%	3%	9%	13%	11%
Loans/equity from family and friends	5%	4%	7%	3%	3%
Invoice finance	2%	1%	4%	10%	16%
Grants	1%	1%	2%	4%	5%
Loans from other 3rd parties	1%	1%	2%	3%	4%
Any of these	*41%*	*35%*	*55%*	*69%*	*72%*
None of these	*59%*	*65%*	*45%*	*31%*	*28%*

Q15 All SMEs

SMEs that import and/or export were asked about use of Export/Import finance. In Q1 2013, 2% of such SMEs used these products, ranging from 2% of 0-9 employee SMEs to 3% of those with 10-249 employees.

Those SMEs that are companies were also asked whether they used equity from 3rd parties. 1% of companies reported using this form of funding in Q1 2013.

7% of SMEs only used credit cards from the list above, and this varied relatively little by size of SME.

The table below details the use of all of these forms of funding over time, and the steady decline in the proportion of SMEs with an overdraft facility. As already reported, the proportion using any of these forms of funding had declined to the lowest level seen since the start of the Monitor (39%):

Use of external finance Over time – all SMEs By date of interview	Q1-2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013
Unweighted base:	*5063*	*5055*	*5010*	*5023*	*5000*	*5032*	*5000*	*5000*
Bank overdraft	30%	25%	22%	24%	22%	21%	20%	19%
Bank loan/Commercial mortgage	12%	10%	8%	11%	11%	7%	9%	8%
Credit cards	20%	19%	14%	22%	19%	16%	15%	17%
Leasing or hire purchase	7%	8%	6%	8%	7%	5%	5%	6%
Loans/equity from directors	7%	4%	5%	7%	6%	4%	4%	4%
Loans/equity from family & friends	5%	5%	4%	8%	5%	5%	4%	5%
Invoice finance	2%	2%	2%	3%	2%	2%	3%	2%
Grants	2%	2%	1%	1%	2%	1%	1%	1%
Loans from other 3rd parties	1%	1%	1%	1%	1%	1%	1%	1%
Any of these – all SMEs	*51%*	*47%*	*41%*	*50%*	*43%*	*40%*	*41%*	*39%*

Q15 All SMEs

Injections of personal funds

In Q2 2012, questions were added to explore the use of personal funds in businesses. SMEs were asked whether personal funds had been injected into the business in the previous 12 months by the owner or any director, and whether this was something they had *chosen* to do or felt that they *had* to do. Further questions were then added in Q4 2012 to explore this funding in more detail.

As the table below shows, the figures for injection of personal funds for Q1 2013 were very similar to previous waves, and across the 4 waves for which data is available; around 4 out of 10 SMEs reported having put in funds in the previous 12 months:

Personal funds in last 12 months over time – all SMEs By date of interview	Q2 2012	Q3 2012	Q4 2012	Q1 2013
Unweighted base:	*5000*	*5032*	*5000*	*5000*
Inject personal funds – you chose to do to help the business grow and develop	16%	20%	16%	19%
Inject personal funds – you felt you had no choice about this, that you had to do it	25%	26%	24%	21%
Any personal funds	*41%*	*46%*	*40%*	*40%*
Not something you have done	59%	54%	60%	60%

Q15d All SMEs

Further analysis is based on the combined results YEQ1 2013 to provide robust base sizes for key sub-groups.

Smaller SMEs with fewer than 10 employees were more likely to have received an injection of personal funds:

Personal funds in last 12 months YEQ1 13 – all SMEs	All	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*20,032*	*4006*	*6615*	*6403*	*3008*
Inject personal funds – you chose to do to help the business grow and develop	18%	19%	14%	9%	6%
Inject personal funds – you felt you had no choice about this, that you had to do it	24%	25%	24%	13%	6%
Any personal funds	*42%*	*44%*	*38%*	*22%*	*12%*
Not something you have done	58%	56%	62%	78%	88%

Q15d All SMEs from Q2 2012

Analysis by age of business showed that it was the youngest, start-up businesses that were most likely to have had an injection of personal funds (67%), and that this was as likely to have been a choice (34%) as a necessity (33%). For older businesses, an injection of personal funds was less likely to have happened at all but, where it had, a higher proportion of these injections were felt to have been a necessity:

Personal funds in last 12 months YEQ1 13 – all SMEs	Starts	2-5 yrs	6-9 yrs	10-15 yrs	15 yrs+
Unweighted base:	*2017*	*3227*	*2535*	*3083*	*9170*
Inject personal funds – you chose to do to help the business grow and develop	34%	21%	12%	10%	8%
Inject personal funds – you felt you had no choice about this, that you had to do it	33%	23%	23%	21%	20%
Any personal funds	*67%*	*44%*	*35%*	*31%*	*28%*
Not something you have done	33%	56%	65%	69%	72%

Q15d All SMEs from Q2 2012

Those using a *personal* account for their business banking were more likely to have put personal funds in at all (48% v 40% of those with a business account) but only slightly more likely to have felt that they had to do so (26% with a personal account, 24% with a business account).

As might be anticipated, analysis by external risk rating showed different experiences. Half of those with a worse than average external risk rating had seen an injection of personal funds, while amongst those with a minimal external risk rating the proportion was 20%:

Personal funds in last 12 months YEQ1 13 – all SMEs	All	Min	Low	Avge	Worse/ Avge
Unweighted base:	*20,032*	*3225*	*3913*	*5368*	*5814*
Inject personal funds – you chose to do to help the business grow and develop	18%	8%	10%	15%	22%
Inject personal funds – you felt you had no choice about, that you had to do	24%	12%	18%	21%	28%
Any personal funds	*42%*	*20%*	*28%*	*36%*	*50%*
Not something you have done	58%	80%	72%	64%	50%

Q15d All SMEs from Q2 2012

Analysis by sector showed relatively little variation in terms of *any* injection of funds (experienced by 39-46% of SMEs in each sector). Those in Hotels and Restaurants (30%), Construction and Wholesale/Retail (both 27%) were somewhat more likely to have felt that they had had to inject the funds:

Personal funds in last 12 months YEQ1 13 – all SMEs	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*1504*	*2081*	*3511*	*2020*	*1811*	*1813*	*3503*	*1789*	*2000*
Chose to inject	19%	17%	15%	15%	16%	19%	18%	20%	22%
Had to inject	21%	22%	27%	27%	30%	24%	24%	21%	21%
Any funds	*40%*	*39%*	*42%*	*42%*	*46%*	*43%*	*42%*	*41%*	*43%*
Not done	60%	61%	58%	58%	54%	57%	58%	59%	57%

Q15d All SMEs from Q2 2012

SMEs currently using external finance were slightly more likely to have received any cash injection (46% YEQ1 2013) than those not currently using external finance (39%) and were also more likely to say they had felt that there had been no choice (32% v 19%).

Analysed by their overall financial behaviour in the previous 12 months, it was the 'Would-be seekers' (who had wanted to apply for finance but didn't) who were most likely to have received an injection of personal funds, and to have felt they had no choice:

Personal funds in last 12 months Q4 12 – Q1 13 only – all SMEs	All	Had an event	Would-be seeker	Happy non-seeker
Unweighted base:	*10,000*	*2645*	*500*	*6855*
Inject personal funds – you chose to do to help the business grow and develop	17%	12%	13%	19%
Inject personal funds – you felt you had no choice about, that you had to do	23%	35%	57%	16%
Any personal funds	*40%*	*47%*	*70%*	*35%*
Not something you have done	60%	53%	30%	65%

Q15d All SMEs Q4 12 and Q1 13 – reported from Q4 12 only due to change in definition of 'Would-be seeker'

Further questions were asked for the first time in Q4 2012 of those who had put funds into the business. For Q4 2012 and Q1 2013 combined (and excluding DK answers):

Investment of personal funds	
Length of investment	• 32% of SMEs that had put funds in said that this was a long term investment. 40% said the funds were a short term investment, and the remainder, 28%, said the funding was a mix of long and short-term funding. Putting funds in as a long term investment was more likely if the business was operating through a personal account (41%), or was a Start (42%) • Those that had felt 'forced' to inject funds were more likely to say this was a short term investment (41%) than a long term one (29%), with 30% saying it was a mix. Those *choosing* to inject funds were as likely to say that this was a short term (38%) as a long term (37%) investment, with 25% saying it was mix
Amount invested	• 59% of SMEs that had put funds in said that they had put in less than £5,000. This was more likely if the SME putting in funds had 0-9 employees (60% had put in less than £5,000) than 10-249 employees (11%), and also more likely if the SME had been running for less than 10 years (63%), was not using external finance (66%) or was running their business through a personal bank account (75%). • Whether the sum put in was more or less than £5,000 did not vary much by whether the injection had been 'forced' or 'chosen'. Those putting in funds as a short term investment were more likely to have invested less than £5,000 (72%) than those investing for the long term (48%) • Bigger SMEs, with 10-249 employees, were more likely to have put in more than £5,000, whatever the purpose (around 90% put in £5,000 or more whether it was a long or short term investment). Amongst those with 0-9 employees, if the funds were a short term investment, 73% had put in less than £5,000, while if they were a long term investment, then 49% had put in less than £5,000

Continued

Continued

Overall profile of injection of personal funds	• Putting this information together, 11% of **all** SMEs (rather than just those who had injected funds) had injected less than £5,000 as a short term investment only • The most likely to have done this were 'Would-be seekers of finance' in the previous 12 months (16%) and those in the Other Community sector (16%) while the least likely were those with a minimal risk rating (5%) • Meanwhile, 6% of **all** SMEs had injected more than £5,000 as a long term investment only • The most likely to have done so were Starts (13%) and those in the Hotels and Restaurants sector (12%), while the least likely to have done so were those with a minimal external risk rating and businesses more than 15 years old (both 4%)

Use of 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 (33% v 18% overall) and least likely to be found in Wholesale/Retail (6%) or the Hotel / Restaurant sector (10%). Amongst Starts (set up within the last 2 years) 28% used a personal bank account for their business.

Since this report started, 2,635 SMEs who use a personal account have been interviewed. These SMEs were less likely to be using external finance (29% currently use, verses 48% using a business account) and remain less likely to have applied for new or renewed facilities (4% verses 11%).

The ‘interweaving’ of business and personal funds

The Q4 2012 questionnaire included a number of new questions to further explore the use of personal funds and/or personal borrowing by SMEs. These are reported in the relevant chapters, and summarised below. Smaller SMEs, especially those with 0 employees, were more likely to report a personal element to their business. For Q4 2012 and Q1 2013 combined:

- 18% of SMEs used a personal rather than a business account for their business banking
- 38% of those with an overdraft, loan or credit card facilities said that one or more was in their personal name, and where a personal bank account was also used, the proportion increased to 87%. This is the equivalent of 12% of all SMEs with one or more of these facilities in a personal name
- 40% of SMEs reported a cash injection of funds into the business in the previous 12 months. Those with any personal borrowing for the business (as defined above) were more likely to have put in funds (53%) than those who did not have any personal borrowing (36%)
- 12% of those reporting an application for a new or renewed overdraft in the past 12 months said it was for a personal facility, while for loans the figure was 14% (the equivalent of less than 2% of all SMEs)
- 21% of those SMEs that had seen an overdraft automatically renewed in the previous 12 months said it was a personal facility (the equivalent of less than 2% of all SMEs)

For Q4 2012 and Q1 2013 combined, half of SMEs (54%) reported having one or more of these personal ‘elements’ to their business. The table below shows how this proportion varies by size, sector and external risk rating, with smaller SMEs, those with a worse than average risk rating and those in the Health sector, the most likely to have a personal element to their business:

Had **any** personal element row percentages	Q4 2012-Q1 2013
All SMEs	54%
0 employee	59%
1-9 employees	43%
10-49 employees	25%
50-249 employees	15%
Minimal external risk rating	34%
Low external risk rating	38%
Average external risk rating	48%
Worse than average external risk rating	61%
Agriculture	46%
Manufacturing	44%
Construction	57%
Wholesale/Retail	51%
Hotels and Restaurants	56%
Transport	56%
Property/Business Services etc.	52%
Health	62%
Other Community	58%

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:

Other finance applied for YEQ1 13 – all SMEs	Total: Applied	Total: % success	Applied for: 0 emp	Applied for: 1-9 emps	Applied for: 10-49 emps	Applied for: 50-249 emps
Unweighted base:	*20,032*	*Varies*	*4006*	*6615*	*6403*	*3008*
Credit cards	3%	86%	3%	4%	5%	8%
Leasing/Hire purchase	3%	87%	2%	6%	14%	22%
Loans/equity from directors	2%	93%	1%	5%	6%	5%
Loans/equity from family & friends	3%	93%	3%	4%	2%	1%
Grants	1%	66%	1%	2%	5%	6%
Invoice finance	1%	77%	1%	2%	4%	6%
Loans from other 3rd parties	1%	69%	1%	1%	2%	2%

Q222 All SMEs

Most applicants were successful, with larger SMEs (10-249 employees) that applied generally more likely to be successful.

SMEs that import or export were asked about applications for Export/Import finance. 1% had made such an application, varying little by size, and 76% had been successful.

SMEs that are companies were also asked about equity from other third parties. Less than 1% had applied for such finance.

If the 'Permanent non-borrowers' (described below) are excluded, the percentage applying for *any* of these other forms of finance increases from 12% to 19% of SMEs.

Taking both loan/overdraft events (and the automatic renewal of overdrafts) and these applications for other types of finance together for YEQ1 2013 showed that:

- Most SMEs, 72%, 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
- 16% reported a loan/overdraft event, but had not applied for other forms of finance
- 7% had applied for other forms of finance but did not report a loan/overdraft event
- 5% 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, less than half of SMEs (41% YEQ1 2013) 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 37% of SMEs (YEQ1 13), and were more likely to be found amongst the smaller SMEs:

- 40% of 0 employee SMEs met this non-borrowing definition
- 28% of 1-9 employee SMEs
- 19% of 10-49 employee SMEs
- 17% of 50-249 employee SMEs

SMEs in the Health sector were the most likely to be a 'Permanent non-borrower' (51%), compared to 29% of those in Wholesale/Retail and 30% in Agriculture. By risk rating, 31% of those with a minimal/low risk rating were 'Permanent non-borrowers', compared to 38% of those with an average or worse than average risk rating.

A quarter of PNBs (24%) use a personal account for their business banking, which means that the equivalent of 9% of all SMEs are 'Permanent non borrowers' who use a personal account.

Quarter by quarter, the proportion of SMEs meeting the definition of a PNB has increased from 30% in Q1 12 to 41% in Q1 13. An increase has been seen across all size bands, except perhaps those with 50-249 employees:

PNBs Over time – all SMEs By date of interview- row percentages	Q1-2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013
All SMEs	30%	35%	36%	30%	34%	34%	37%	41%
0 employee	34%	39%	40%	34%	39%	37%	40%	45%
1-9 employees	21%	23%	25%	21%	24%	27%	30%	30%
10-49 employees	15%	15%	18%	16%	15%	19%	21%	20%
50-249 employees	11%	12%	14%	11%	13%	20%	17%	15%

If these PNBs are excluded from the use of external finance table shown earlier, the proportion using external finance increases to around two-thirds of remaining SMEs:

Use of external finance in last 5 years Over time – all SMEs excl PNBs By date of interview	Q1-2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013
Unweighted base:	*4047*	*3968*	*3822*	*4022*	*3894*	*3732*	*3664*	*3649*
Use now	73%	72%	64%	72%	66%	61%	66%	65%
Used in past but not now	3%	3%	4%	5%	6%	8%	8%	7%
Not used at all	24%	25%	31%	24%	28%	31%	27%	28%

Q14/15 All SMEs

These SMEs have indicated 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, which excludes these 'Permanent non-borrowers' and provides a figure for 'All SMEs with a *potential* interest in external finance'.

6. An initial summary of all overdraft and loan events

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 individual waves of interviews conducted to date. 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 2013. Where year ending data is provided this is YEQ1 2013.

Key findings

In Q1 2013, 8% of SMEs reported making a Type 1 application for a new or renewed loan or overdraft facility, continuing a steady decline since Q1 2012 (when 12% had made a Type 1 application)

There are now more SMEs that meet the definition of a 'Permanent non-borrower'. Once excluded, the proportion of remaining SMES reporting a Type 1 event increases to 13% in Q1 2013, still the lowest level reported to date amongst such SMEs

Type 2 events (where a bank cancels or renegotiates an existing facility) and Type 3 events (where an SMEs chooses to repay or reduce an existing facility) remained relatively rare

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 had applied for:
    - a new borrowing facility or to renew / roll over an existing facility
- Type 2, where the bank had sought to:
    - cancel an existing borrowing facility or renegotiate an existing facility
- Type 3, where the SME had sought to:
    - reduce an existing borrowing facility or pay off an existing facility

This chapter provides analysis on events reported in interviews conducted to YEQ1 2013. 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 shown over time to allow the reporting of a 'rolling aggregate of demand' which is shown below.

The rolling aggregate of demand/activity

The table below shows 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 (8% in Q1), albeit at a lower level to the equivalent quarter of 2012 (12%):

Borrowing events in the previous 12 mths. All SMEs, over time By date of interview	Q1-2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013
Unweighted base:	*5063*	*5055*	*5010*	*5023*	*5000*	*5032*	*5000*	*5000*
Type 1: New application/renewal	15%	12%	9%	12%	11%	10%	9%	8%
Applied for new facility (any)	8%	7%	6%	7%	6%	6%	6%	4%
Renewed facility (any)	10%	6%	5%	6%	5%	5%	4%	4%
Type 2: Cancel/renegotiate by bank	5%	4%	3%	4%	3%	3%	4%	3%
Type 3: Chose to reduce/pay off facility	4%	2%	1%	2%	1%	1%	2%	2%

Q25/26 All SMEs

As the table above shows, a minority of SMEs had experienced any of these loan or overdraft events. There were lower levels of activity reported in Q4 in both 2011 and 2012 suggesting an element of seasonality (albeit SMEs were reporting on events in the previous 12 months), but whereas in Q1 2012 the proportion of SMEs experiencing an event increased from previous waves, no such uplift was seen at the start of 2013.

The previous chapter of this report noted that a third of SMEs met the definition of 'Permanent non-borrower' and appeared disinclined to use external finance. The table below excludes these PNBs from the sample, and shows the higher proportion of remaining SMEs that have had an event as a result. In Q1 2013, 13% of remaining SMEs reported a Type 1 event in the 12 months prior to interview. As overall, this was lower than for the equivalent quarter of 2012 (17%):

Borrowing events in the previous 12 mths. All SMEs, excluding PNBs over time By date of interview	Q1-2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013
Unweighted base:	*4047*	*3968*	*3822*	*4022*	*3894*	*3732*	*3664*	*3649*
Type 1: New application/renewal	22%	19%	14%	17%	17%	16%	15%	13%
Applied for new facility (any)	11%	11%	9%	10%	10%	10%	9%	7%
Renewed facility (any)	14%	10%	7%	9%	8%	7%	7%	7%
Type 2: Cancel/renegotiate by bank	7%	6%	5%	5%	5%	4%	6%	4%
Type 3: Chose to reduce/pay off	5%	3%	2%	2%	2%	1%	3%	3%

Q25/26 All SMEs

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

Events in the 12 months prior to interview, 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. In order to provide robust sub-sample groups, these are reported for YEQ1 2013, and, unless otherwise stated, are based on all SMEs.

The event experienced most widely was an application for a new facility, experienced by 6% of all SMEs. The renewal of an existing facility was experienced by almost as many SMEs overall (5%) with more variation by size (from 3% of 0 employee SMEs to 12% of those with 10-249 employees):

Borrowing events YEQ1 13 all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*20,032*	*4006*	*6615*	*6403*	*3008*
Type 1: New application/renewal	10%	8%	15%	18%	17%
Applied for new facility (any)	6%	5%	9%	8%	7%
- applied for new loan	*3%*	*2%*	*4%*	*5%*	*5%*
- applied for new overdraft	*4%*	*3%*	*6%*	*4%*	*3%*
Renewed facility (any)	5%	3%	8%	12%	12%
- renewed existing loan	*1%*	*1%*	*2%*	*4%*	*3%*
- renewed existing overdraft	*4%*	*3%*	*7%*	*11%*	*10%*
Type 2: Cancel/renegotiate by bank	3%	2%	5%	6%	5%
Bank sought to renegotiate facility (any)	2%	2%	4%	5%	4%
- sought to renegotiate loan	*1%*	*1%*	*1%*	*2%*	*2%*
- sought to renegotiate overdraft	*2%*	*1%*	*3%*	*4%*	*3%*
Bank sought to cancel facility (any)	1%	1%	2%	2%	1%
- sought to cancel loan	*	*	*1%*	*1%*	*1%*
- sought to cancel overdraft	*1%*	*1%*	*2%*	*1%*	*1%*
Type 3: Chose to reduce/pay off facility	1%	1%	2%	3%	2%
- reduce/pay off loan	*1%*	*	*1%*	*2%*	*2%*
- reduce/pay off overdraft	*1%*	*1%*	*1%*	*1%*	*1%*

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

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

Borrowing events YEQ1 13 – all SMEs	Total	Min	Low	Avge	Worse/Avge
Unweighted base:	*20,032*	*3225*	*3913*	*5368*	*5814*
Type 1: New application/renewal	10%	12%	12%	9%	10%
Applied for new facility (any)	6%	6%	5%	5%	7%
- applied for new loan	*3%*	*3%*	*2%*	*3%*	*3%*
- applied for new overdraft	*4%*	*3%*	*4%*	*2%*	*4%*
Renewed facility (any)	5%	8%	8%	5%	4%
- renewed existing loan	*1%*	*2%*	*2%*	*1%*	*1%*
- renewed existing overdraft	*4%*	*7%*	*7%*	*4%*	*3%*
Type 2: Cancel/renegotiate by bank	3%	3%	5%	3%	3%
Bank sought to renegotiate facility (any)	2%	3%	5%	2%	2%
- sought to renegotiate loan	*1%*	*1%*	*2%*	*1%*	*
- sought to renegotiate overdraft	*2%*	*3%*	*3%*	*2%*	*1%*
Bank sought to cancel facility (any)	1%	1%	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	1%	3%	2%	2%	1%
- reduce/pay off loan	*1%*	*1%*	*1%*	*1%*	*1%*
- reduce/pay off overdraft	*1%*	*1%*	*1%*	*1%*	*1%*

Q25/26 All SMEs with external risk rating

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

Borrowing event in last 12 months YEQ1 13 – all SMES	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*1504*	*2081*	*3511*	*2020*	*1811*	*1813*	*3503*	*1789*	*2000*
Type 1: New application/ renewal	17%	11%	8%	13%	15%	10%	8%	5%	8%
Applied for new facility (any)	7%	6%	5%	8%	10%	7%	5%	3%	4%
- applied for new loan	*4%*	*3%*	*3%*	*4%*	*5%*	*4%*	*2%*	*2%*	*2%*
- applied for new overdraft	*4%*	*4%*	*4%*	*6%*	*7%*	*4%*	*3%*	*2%*	*2%*
Renewed facility (any)	11%	5%	3%	6%	6%	3%	4%	3%	5%
- renewed existing loan	*3%*	*1%*	*1%*	*2%*	*2%*	*1%*	*1%*	*1%*	*1%*
- renewed existing overdraft	*9%*	*5%*	*3%*	*6%*	*5%*	*3%*	*4%*	*2%*	*4%*
Type 2: Cancel/ renegotiate by bank	4%	3%	2%	4%	4%	3%	3%	1%	5%
Bank sought to renegotiate facility (any)	3%	2%	2%	3%	3%	2%	2%	1%	3%
- sought to renegotiate loan	*1%*	*1%*	*	*1%*	*1%*	*	*1%*	*	*2%*
- sought to renegotiate overdraft	*3%*	*2%*	*1%*	*3%*	*2%*	*2%*	*2%*	*1%*	*2%*
Bank sought to cancel facility (any)	1%	1%	1%	2%	1%	1%	1%	1%	2%
- sought to cancel loan	*	1%	*	1%	1%	*	*	*	*
- sought to cancel overdraft	*1%*	*	*1%*	*1%*	*1%*	*1%*	*1%*	*	*2%*
Type 3: Chose to reduce/ pay off facility	1%	1%	1%	2%	2%	1%	1%	2%	2%
- reduce/pay off loan	*1%*	*	*1%*	*1%*	*1%*	*	*1%*	*1%*	*
- reduce/pay off overdraft	*1%*	*1%*	*	*1%*	*	*1%*	*1%*	*1%*	*2%*

Q25/26 All SMEs

The table below repeats this analysis, once the 'Permanent non-borrowers' have been excluded from the SME population. The incidence of Type 1 events (applications/renewals) increases as a result from 10% to 15%:

Borrowing events YEQ1 13 – all SMEs	Total	All excl. PNBs
Unweighted base:	*20,032*	*14,939*
Type 1: New application/renewal	10%	15%
Applied for new facility (any)	6%	9%
- applied for new loan	*3%*	*4%*
- applied for new overdraft	*4%*	*6%*
Renewed facility (any)	5%	7%
- renewed existing loan	*1%*	*2%*
- renewed existing overdraft	*4%*	*6%*
Type 2: Cancel/renegotiate by bank	3%	5%
Bank sought to renegotiate facility (any)	2%	4%
- sought to renegotiate loan	*1%*	*1%*
- sought to renegotiate overdraft	*2%*	*3%*
Bank sought to cancel facility (any)	1%	2%
- sought to cancel loan	*	*1%*
- sought to cancel overdraft	*1%*	*1%*
Type 3: Chose to reduce/pay off facility	1%	2%
- reduce/pay off loan	*1%*	*1%*
- reduce/pay off overdraft	*1%*	*1%*

Q25/26 All SMEs / all excluding the 'permanent non-borrowers'

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 information 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 a 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 4 out of 10 SMEs currently use external finance while 1 in 10 reported one of the Type 1 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 the case.

Type 2 (bank cancellation or renegotiation) and Type 3 (SME reducing/repaying facility) events remain rare and at stable levels. 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 as sample sizes permit.

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

6% of SMEs had applied for a new or renewed overdraft facility (not including automatic renewals) in the 12 months prior to interview in Q1 2013, down from 9% in Q1 2012 and the lowest level seen to date. Including *automatic* overdraft renewals increases this to 14% of all SMEs (the proportion of SMEs experiencing an automatic renewal has also declined slightly over time)

Levels of application for a new or renewed loan facility in the 12 months prior to interview in Q1 2013 were lower, and more stable, at 3% compared to 5% in Q1 2012

8% of SMEs reported any Type 1 event (loan or overdraft) in the 12 months prior to interview in Q1 2013, down from 12% in Q1 2012. A decline was seen across all size bands, and notably for those with an average or worse than average risk rating, or in the Construction, or Other Community sectors

Three quarters (72%) of loan applications were for 'new money', compared to half of overdraft applications. A higher proportion of loan applications came from first time applicants (44%) than overdraft applications (31%), and both proportions are increasing somewhat over time

10% of overdraft applicants and 20% of loan applicants sought advice before making their application, with larger applicants more likely to have done so. Taking advice for loan applications appears to have been more prevalent in 2011 than 2012, with little change over time for overdraft applications

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. For the most recent quarters (especially Q3 and Q4 2012) this is only **interim** data, which is liable to change and will be updated in subsequent reports. There are currently too few applications made in Q1 2013 to be able to report on them, but such applications will be included in any analysis based on YEQ1 2013.

This chapter also includes data on the proportion of overdrafts that SMEs reported had been 'automatically renewed' by the bank rather than a formal review being conducted, for which more data is now available.

Applications over time

As the table below shows, the proportion of SMEs having had any Type 1 **overdraft** event in the 12 months prior to interview had declined slightly over time from Q1 2012:

Overdraft events in previous 12 months – all SMEs, over time By date of interview	Q1-2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013
Unweighted base:	*5063*	*5055*	*5010*	*5023*	*5000*	*5032*	*5000*	*5000*
Applied for a new overdraft	6%	4%	4%	5%	4%	4%	4%	3%
Renewed an existing overdraft	9%	6%	4%	5%	4%	4%	4%	4%
Any Type 1 overdraft event	*13%*	*9%*	*7%*	*9%*	*8%*	*8%*	*7%*	*6%*

Q26 All SMEs

The incidence of Type 1 **loan** events in the 12 months prior to interview was stable, but remained low:

Loan events in previous 12 months all SMEs, over time By date of interview	Q1-2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013
Unweighted base:	*5063*	*5055*	*5010*	*5023*	*5000*	*5032*	*5000*	*5000*
Applied for a new loan	4%	3%	3%	4%	3%	3%	3%	2%
Renewed an existing loan	2%	1%	1%	2%	2%	1%	1%	1%
Any Type 1 loan event	*5%*	*4%*	*3%*	*5%*	*4%*	*4%*	*3%*	*3%*

Q26 All SMEs

In a new question asked for the first time in Q4 2012, those that reported a Type 1 event were asked whether the application was made in the name of the business or a personal name. For Q4 2012-Q1 2013 combined, 12% of overdraft applications reported were made in a personal name, while for loans the figure was 14%. This means that in Q4 2012-Q1 2013, less than 1% of **all** SMEs reported making an overdraft or loan application in their personal name.

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 has been increasing or decreasing over time.

Across the eight waves conducted to date, some quarters have featured more than others as quarters where a Type 1 event might have occurred. Once this was controlled for, the pattern of applications for both loans and overdrafts was 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 a slightly higher proportion of both loan and overdraft applications than might have been expected were made in Q1 2011 and again in Q1 2012. The data available thus far for Q2 2012 suggests that the share of overdraft applications in this quarter was in line with what would be expected, and had not been affected by the higher levels of activity in Q1 2012, while the share of loan applications made in Q2 2012 was slightly lower than might have been expected.

It is also possible to report 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, that is an application for a new or renewed loan or overdraft facility:

Had **any Type 1** event New application/renewal Over time – row percentages	Q1-2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013
	By date of interview							
All SMEs	15%	12%	9%	12%	11%	10%	9%	8%
0 employee	12%	10%	7%	10%	8%	9%	8%	6%
1-9 employees	24%	19%	14%	18%	18%	15%	14%	14%
10-49 employees	29%	27%	23%	20%	24%	16%	15%	17%
50-249 employees	32%	21%	27%	25%	21%	15%	14%	16%
Minimal external risk rating	19%	15%	19%	10%	12%	12%	17%	9%
Low external risk rating	17%	17%	11%	15%	15%	10%	12%	12%
Average external risk rating	14%	11%	9%	12%	9%	10%	8%	7%
Worse than average external risk rating	16%	12%	8%	12%	11%	11%	10%	7%
Agriculture	29%	16%	16%	17%	23%	14%	16%	13%
Manufacturing	14%	10%	8%	7%	15%	13%	9%	7%
Construction	13%	12%	7%	12%	9%	9%	8%	6%
Wholesale/Retail	18%	18%	12%	14%	14%	14%	13%	10%
Hotels and Restaurants	20%	13%	13%	17%	18%	13%	13%	14%
Transport	16%	8%	12%	10%	11%	11%	8%	10%
Property/Business Services etc.	15%	12%	7%	12%	9%	9%	10%	7%
Health	12%	8%	5%	8%	6%	4%	7%	4%
Other Community	13%	14%	9%	13%	10%	10%	6%	8%
All SMEs excluding 'Permanent non-borrowers'	22%	19%	14%	17%	17%	16%	15%	13%

Q26 All SMEs: base size varies by category

Since the equivalent quarter of 2012, the proportion of SMEs reporting a Type 1 event had declined from 12% to 8%, and across all size bands. Those with an average or worse than average external risk rating had seen more of a decline (12% to 7%), as had those in Construction (12% to 6%) and the Other Community sector (13% to 8%).

Other business demographics also showed some variation in incidence of a Type 1 event in Q1 2013:

Demographic	Incidence of Type 1 events reported in Q1 2013
Age of business	The incidence of Type 1 events varied less in Q1 than it had in the past: from 6% for Starts and 5% for others less than 5 years old, to 13% for those trading for 15 years or more. Starts remained much more likely to have applied for new facilities than to have renewed an existing facility (6% v <1%) while older businesses were more likely to have renewed (amongst those 15 years+, 5% applied for a new facility v 10% renewing one)
Profitable SMEs	SMEs that made a loss in the past 12 months were no more likely to have had a Type 1 event than those that were profitable: Made a profit 8% had a Type 1 event Broke even 5% Made a loss 10% The loss makers were slightly more likely to have applied for a new facility than those that made a profit (7% v 4%)
Fast Growth (20%+ last 3 years)	Those that had grown were no more likely to have had a Type 1 event Grown 20%+ last 3 yrs 10% Grown by less than this 7% Not grown in last yr 9%
Importers/exporters	Those engaged in international trade were now no more likely to have had an event (8%) than those who were not (8%).

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. To explore this further, from Q4 2011, SMEs that had reported having an overdraft facility but that had *not* subsequently mentioned any overdraft event, were asked whether, in the previous 12 months, their bank had automatically renewed their overdraft facility at the same level, for a further period, without their having to do anything.

The results for the year ending Q1 2013 are reported below and show that half of all overdraft holders reported that they had had such an automatic renewal, the equivalent of 10% of all SMEs:

Any overdraft activity YEQ1 13 only	All with overdraft	All SMEs
Unweighted base:	*5875*	*20,032*
Had an overdraft 'event'	30%	6%
Had automatic renewal	49%	10%
Neither of these but have overdraft	20%	4%
No overdraft	-	80%

Q15/ 26/26a All SMEs who now have an overdraft / all SMEs

'No overdraft' describes those SMEs that do not have an overdraft, including those who had an overdraft event but do not now have an overdraft facility.

When this question was first asked in Q4 2011, 57% of SMEs with an overdraft reported that it had been automatically renewed in the previous 12 months, the equivalent of 13% of all SMEs. As the table below shows, those proportions have declined slightly over time: in Q1 2013 45% of SMEs with an overdraft reported an automatic renewal in the previous 12 months, the equivalent of 8% of all SMEs:

Experienced an automatic renewal in previous 12 mths By date of interview- row percentages	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013
SMEs with overdraft	57%	49%	54%	40%	48%	45%
'All SMEs' equivalent	13%	12%	12%	10%	9%	8%

Q15/ 26/26a All SMEs who now have an overdraft / all SMEs

Over time, an increasing proportion of all 'overdraft activity' (events + automatic renewals) was accounted for by an 'event': in Q1 2013 events accounted for 38% of all such overdraft activity reported by those with an overdraft, compared to 31% in Q4 2011.

New questions asked from Q4 2012 provide some further detail on these automatic renewals. 21% of those reporting an automatic renewal in Q4 2012 or Q1 2013 said that the facility was in a personal name (a slightly higher proportion than those reporting on other loan and overdraft Type 1 events).

Data is also being collected on when this automatic renewal took place and the size of the facility renewed, which will allow for more comparison with Type 1 overdraft events as sample sizes develop over time. Initial findings are that half, 53% of automatically renewed overdraft facilities involved sums of £5,000 or less, and that almost all, 89% were for sums of £25,000 or less.

As the table below shows, automatic renewals were more likely amongst 0 employee 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 YEQ1 13 – All with overdraft	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*5875*	*699*	*1960*	*2246*	*970*
Had an overdraft 'event'	30%	25%	38%	39%	36%
Had automatic renewal	49%	54%	43%	41%	42%
Neither of these but have overdraft	20%	21%	19%	19%	22%

Q15/ 26/26a All SMEs

There was a less clear pattern of automatic renewal by external risk rating, and little evidence that those with a minimal or low external risk rating were more likely to see their overdraft automatically renewed (even once size of business was taken into consideration):

Overdraft activity YEQ1 13 – All with overdraft	Total	Min	Low	Avge	Worse/Avge
Unweighted base:	*5875*	*860*	*1350*	*1752*	*1515*
Had an overdraft 'event'	30%	38%	38%	27%	29%
Had automatic renewal	49%	45%	45%	52%	48%
Neither of these but have overdraft	20%	17%	17%	21%	23%

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 Construction, Health and Transport sectors. Those in the Other Community sector were the least likely to have reported an automatic renewal:

Overdraft activity YEQ1 13 – All with overdraft	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*593*	*636*	*1085*	*652*	*540*	*495*	*942*	*424*	*508*
Had an overdraft 'event'	40%	31%	23%	33%	33%	25%	31%	23%	37%
Had automatic renewal	47%	51%	55%	46%	42%	54%	52%	56%	32%
Neither of these but have overdraft	13%	18%	22%	21%	25%	21%	17%	21%	31%

Q15/ 26/26a All SMEs

Statistical analysis investigated whether certain types of SME with an overdraft were more or less likely to have had an overdraft automatically renewed rather than being renewed as a borrowing 'event'. Whilst this showed that business demographics were not able to explain much of the variation, it did highlight some types of business that were more or less likely to have had their overdraft automatically renewed, rather than to have had an event:

- More likely: 0 employee businesses, sole proprietorships, owners with more than 15 years' experience
- Less likely: person in charge of finances has qualification/training, in the Agriculture or Other Community sectors, business less than 2 years old, in Scotland, North West, Wales, South West or South East

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 have answered further questions about this automatic renewal. This means that the definition of 'having a borrowing event' has been adjusted to include these automatic renewals (see Chapter 11) and some data is now available on the interest rates, security and fees relating to these automatically renewed overdraft facilities (see Chapter 10). Further questions on the amount borrowed and when this automatic renewal took place were added to the questionnaire for Q4 2012, and are being incorporated into the analysis as sample sizes permit.

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 7% of all SMEs or around 326,000 businesses. Note that this does not include SMEs who had an overdraft automatically renewed.

Just under half of those reporting a Type 1 overdraft event said that they had been looking to renew an existing overdraft for the same amount (44%). Around a third of applicants (31%) were seeking an overdraft for the very first time and, as the table below shows, this was more likely to be the case for smaller SMEs (and 40% of these first time applicants were Starts). 1 in 6 were looking to increase an existing facility, and this was more likely amongst SMEs with employees:

Nature of overdraft event YEQ1 13 SMEs seeking new/renewed facility	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*2090*	*214*	*740*	*793*	*343*
Renewing overdraft for same amount	44%	42%	43%	62%	64%
Applied for first ever overdraft facility	31%	37%	27%	9%	7%
Seeking to increase existing overdraft	15%	13%	19%	17%	18%
Setting up facility at new bank	2%	2%	2%	2%	3%
Seeking additional overdraft on another account	5%	4%	6%	5%	5%
Seeking to reduce existing facility	2%	2%	3%	4%	3%

Q52 All SMEs seeking new/renewed overdraft facility

Analysis in previous reports had 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 a first overdraft facility had increased slightly over time, but that renewals remained the main reason for an overdraft event.

Nature of overdraft event SMEs seeking new/renewed facility By application date	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Q1 2012	Q2* 2012	Q3* 2012	Q4* 2012
Unweighted base:	*176*	*329*	*679*	*517*	*557*	*548*	*681*	*405*	*286*	*281*
Renewing overdraft for same amount	54%	41%	50%	49%	44%	49%	40%	53%	46%	41%
Applied for first ever overdraft facility	28%	26%	22%	24%	27%	28%	33%	27%	26%	32%
Seeking to increase existing overdraft	12%	23%	16%	18%	18%	18%	20%	11%	18%	17%
Setting up facility at new bank	4%	2%	6%	1%	2%	1%	4%	1%	2%	1%
Seeking additional overdraft on another account	1%	2%	4%	2%	5%	2%	2%	6%	7%	4%
Seeking to reduce existing facility	2%	5%	2%	5%	3%	2%	1%	2%	2%	5%

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. Q3 2011 saw the lowest proportion of applications made to main bank (94%) but in all other quarters, 97% or more of applications were made to the main bank.

The median amount sought as an overdraft facility remained stable at £5,000, ranging from £2,000 amongst 0 employee SMEs seeking a facility to just under £300,000 for those with 50-249 employees:

Amount initially sought, where stated YEQ1 13 SMEs seeking new/renewed facility	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*1879*	*197*	*686*	*696*	*300*
Less than £5,000	45%	62%	26%	3%	*
£5,000 – £9,999	20%	23%	17%	5%	1%
£10,000 – £24,999	18%	11%	28%	20%	6%
£25,000 – £99,999	11%	3%	21%	36%	11%
£100,000+	6%	1%	7%	37%	82%
Median amount sought	*£5k*	*£2k*	*£10k*	*£50k*	*£288k*

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

Over the course of 2011 an increasing proportion of overdraft applications/renewals were made for less than £5,000. Applications for smaller overdrafts constituted a third of all applications made in Q3 2010, rising to half of applications made in Q4 2011. Results thus far for applications made in 2012 suggest that these smaller overdrafts still account for around 4 out of 10 of all applications/renewals.

Three quarters of overdraft applicants said that the overdraft was needed for day to day cash flow, and this was slightly more likely to be mentioned by larger applicants.

A third wanted the facility as a 'safety net' and, as the table below shows, this was slightly more likely where the applicant had fewer than 10 employees. When it came to overdrafts being required to fill a 'short term funding gap' this was mentioned slightly more by smaller applicants– 28% of those applying for a facility with 0 employees, compared to 15% of SMEs with 50-249 employees.

As in previous quarters, overdrafts were much more likely to have been sought to support UK expansion (12%) than expansion overseas (1%).

Purpose of overdraft sought YEQ1 13 SMEs seeking new/renewed facility	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*2090*	*214*	*740*	*793*	*343*
Working capital for day to day cash flow	77%	74%	81%	84%	83%
Safety net – just in case	38%	39%	38%	32%	34%
Short term funding gap	27%	28%	27%	22%	15%
Buy fixed assets	11%	11%	12%	8%	10%
Fund expansion in UK	12%	10%	14%	9%	14%
Fund expansion overseas	1%	*	1%	2%	2%

Q55 All SMEs seeking new/renewed overdraft facility

Analysed by the external risk rating of those applying, 'working capital' was the main reason across all risk ratings.

Looking at the purpose of the overdraft sought over time, working capital remains the most mentioned purpose in each quarter but has been mentioned somewhat less for applications made since Q1 2012:

Purpose of overdraft SMEs seeking new/renewed facility - by application date	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Q1 2012	Q2* 2012	Q3* 2012	Q4* 2012
Unweighted base:	*176*	*329*	*679*	*517*	*557*	*548*	*681*	*405*	*286*	*281*
Working capital for day to day cash flow	81%	85%	90%	78%	80%	79%	81%	75%	77%	75%
Safety net – just in case	49%	48%	47%	46%	54%	43%	38%	35%	48%	32%
Short term funding gap	43%	36%	43%	34%	43%	30%	31%	23%	20%	23%
Buy fixed assets	17%	23%	17%	13%	16%	11%	9%	12%	9%	15%
Fund expansion in UK	18%	17%	12%	13%	7%	10%	12%	17%	7%	14%
Fund expansion overseas	1%	1%	1%	1%	2%	*	2%	1%	*	1%

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 for an overdraft remained consistently low (10%), with little change by date of application. Larger applicants were somewhat more likely to seek advice: Amongst applicants with 0-9 employees 10% sought advice, while amongst those with 10-249 employees 15% sought advice.

The main reasons for not seeking advice remained that it was not felt to be needed (64%) or that the SME had previously been successful with an application (16%), both mentioned more by larger applicants that had not sought advice. 14% of all those not seeing advice said that they did not know who to ask, while 11% did not think it would have made any difference to the outcome of their application – both of these reasons were more likely to be given by smaller applicants that had not sought advice.

Amongst larger applicants, the proportion that said that they had not sought advice because they 'did not need it' increased over time (65% H1 11 to 73% H1 12), but there was no clear trend for smaller applicants over time.

3% of applicants had not received a response to their application by the time of our survey and are excluded from the remainder of this analysis.

Overdraft applications – a sector summary

Type 1 overdraft events were experienced by between 12% of SMEs in Agriculture, and 4% of those in Health.

Those in the Construction sector were more likely to be seeking their first ever overdraft (38%), while those in Manufacturing were more likely to be renewing an existing facility (56%):

Overdraft activity YEQ1 13 all Type 1	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	***242***	***218***	***362***	***226***	***195***	***166***	***334***	***151***	***196***
Renewing overdraft for same amount	54%	56%	38%	40%	37%	31%	45%	41%	53%
Applied for first ever overdraft	13%	33%	38%	30%	30%	33%	32%	29%	33%
Seeking to increase existing overdraft	20%	9%	14%	16%	22%	18%	16%	22%	11%

Q52 All SMEs seeking new/renewed overdraft facility

Most approached their main bank (97%). The least likely to do so were applicants from the Manufacturing or Transport sectors, but even here, 95% applied to their main bank.

Those in Agriculture were seeking the highest median overdraft amount, at £17,000. The lowest median amount sought was £2,000 for the Property/Business services and Other Community sectors.

The main purpose of the overdraft for all sectors was working capital, ranging from 86% of applicants in Wholesale/Retail to 69% of applicants in Transport. Covering a short term funding gap was more likely to be mentioned by those in Health (41%), while those in the Transport sector were more likely to be seeking funding for fixed assets (17%).

Those in Agriculture (17%) and Health (16%) were the most likely to have sought advice for their application with those in the Other Community sector the least likely (6%).

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 4% of all SMEs or around 163,000 businesses.

There have been fewer loan events reported than overdraft events. As a result, even for year ending Q1 2013, the same granularity of analysis is not always possible as for other areas of the report.

A change was made to the answers available from Q2 2012, with an additional code added to cover setting up new loan facilities after switching banks. Having been asked for 4 quarters it is now possible to include this answer in the main tables below, rather than as a separate piece of analysis.

Loan applications were more likely than overdraft applications to be for new funding, with 72% of loan applicants seeking a new loan (compared to 53% for overdrafts), and 4 out of 10 saying this was their first ever loan (compared to 31% for overdrafts). As the table below shows, this was more likely to be the case for smaller SMEs that had applied (and 44% of SMEs applying for their first ever loan were Starts):

Nature of loan event YEQ1 13 SMEs seeking new/renewed facility	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*1080*	*114*	*346*	*410*	*210*
Applied for first ever loan	44%	51%	38%	15%	11%
New loan but not our first	28%	27%	27%	41%	43%
Renewing loan for same amount	10%	9%	10%	18%	15%
Topping up existing loan	7%	5%	10%	9%	12%
Refinancing onto a cheaper deal	6%	6%	7%	9%	11%
Consolidating existing borrowing	3%	1%	6%	3%	3%
New loan facility after switching bank	2%	1%	2%	5%	5%

Q149 All SMEs seeking new/renewed loan facility. ‘New loan but not first’ combination of codes ‘New loan for new purchase’ and ‘New loan as hadn’t had one recently’

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. Most applications were for new facilities (the first two rows of the table) and, over time, a higher proportion of these new facilities have typically been first ever loans:

Nature of loan event- SMEs seeking new/renewed facility – By application date	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Q1 2012	Q2* 2012	Q3* 2012	Q4* 2012
Unweighted base:	*121*	*172*	*302*	*273*	*282*	*310*	*305*	*216*	*140*	*133*
Applied for first ever loan	27%	35%	40%	33%	41%	32%	46%	33%	56%	31%
New loan but not our first	37%	38%	29%	29%	25%	37%	25%	34%	24%	42%
Renewing loan for same amount	6%	14%	17%	17%	9%	11%	12%	12%	4%	5%
Topping up existing loan	13%	5%	7%	8%	5%	14%	7%	11%	12%	8%
Refinancing onto a cheaper deal	6%	4%	4%	6%	16%	3%	5%	5%	1%	6%
Consolidating existing borrowing	11%	4%	3%	5%	3%	1%	3%	3%	1%	5%
New facility after switching banks (new)						*	*	1%	2%	2%

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 (89% v 97% for overdrafts).

Analysis by date of application shows that a higher proportion of applications were made to the main bank in the second half of 2011 than in the first. This proportion then fell for most of 2012, albeit that data for Q3 2012 (still interim) suggests more applications were made to the main bank in this quarter (97%) than others in 2012:

Applied to main bank SMEs seeking new/renewed facility – By application date	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Q1 2012	Q2* 2012	Q3* 2012	Q4* 2012
Unweighted base:	*121*	*172*	*302*	*273*	*282*	*310*	*305*	*216*	*140*	*133*
Applied to main bank	66%	87%	88%	81%	94%	96%	84%	86%	97%	84%

Q151 All SMEs seeking new/renewed loan facility. * indicates interim results as data is still being gathered on events in these quarters

The median amount sought decreased slightly from £12,000 to £10,000 (now back in line with earlier waves) due to fewer larger loans being sought by bigger SMEs:

Amount initially sought, where stated YEQ1 13 SMEs seeking new/renewed facility	Total	0 emps	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*975*	*107*	*321*	*364*	*183*
Less than £5,000	18%	25%	10%	1%	*
£5,000 – £9,999	21%	26%	17%	3%	-
£10,000 – £24,999	27%	27%	28%	13%	4%
£25,000 – £99,999	16%	11%	23%	28%	11%
£100,000+	18%	10%	22%	56%	85%
Median amount sought	*£10k*	*£8k*	*£17k*	*£96k*	*£478k*

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

From Q4 2011, loan applicants have been asked about the extent to which the funding applied for represented the total funding required and how much the business was contributing. The results for the year to Q1 2013 are shown below, with most applicants (67%) seeking all the funding they required from the bank (unchanged from YEQ4 2012):

Proportion of funding sought from bank YEQ1 13 SMEs seeking new/renewed facility	Total	0 emps	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*1044*	*111*	*335*	*395*	*203*
Half or less of total sum required	15%	14%	16%	13%	12%
51-75% of sum required	14%	15%	13%	10%	13%
76-99% of sum required	4%	4%	5%	7%	10%
All of sum required sought from bank	67%	67%	66%	71%	66%

Q155 All SMEs seeking new/renewed loan, excluding DK/refused

Overall there was relatively little difference in the proportion of funding sought from the bank by size of applicant. Those with a minimal or low risk rating were more likely to be seeking all the funding from their bank (78%) than those with an average or worse than average risk rating (64%).

Analysis over time by date of loan application (H1 11 to H2 12) shows a change in the proportion of loan applicants seeking all the funding they wanted from the bank:

- Of applications made in H1 2011, 79% were seeking all the funding required from the bank, falling over time to 63% of applications reported to date for H1 2012. Initial figures for the latest period, H2 2012, suggest this trend may not be maintained (currently 70% seeking all the funding from the bank)
- This pattern was due to smaller applicants (0-9 employees). Fewer sought all the funding from their bank in H1 2012 compared to H1 2011 (80% in H1 2011 to 63% in H1 2012), and then more sought all the funding in H2 2012 (70%)
- Over the same period, the proportion of larger loan applicants (10-249 employees) seeking all the funding from the bank remained much more stable, at between 65% and 68% each half year

Overall, these funds were likely to have been sought either to purchase fixed assets (30%), or to fund expansion in the UK (28%). Applicants with 0 employees were more likely to be buying fixed assets, or motor vehicles, while those with 10 or more employees were more likely to be buying premises:

Purpose of loan YEQ1 13 SMEs seeking new/renewed facility	Total	0 emps	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*1080*	*114*	*346*	*410*	*210*
Buy fixed assets	30%	35%	23%	24%	23%
Fund expansion in UK	28%	27%	32%	25%	38%
Buy motor vehicles	23%	32%	12%	7%	5%
Develop new products/services	16%	16%	16%	12%	15%
Buy premises	20%	17%	23%	31%	35%
Replace other funding	8%	4%	15%	13%	12%
Fund expansion overseas	2%	1%	4%	3%	8%
Take over another business	2%	1%	3%	2%	6%

Q150 All SMEs seeking new/renewed loan facility

Analysed by application date, the most common reason for seeking loan finance remained funding expansion. Since Q4 2011, a fairly consistent 3 out of 10 applicants have given this as the purpose of their loan, while over the same period there has been more variation in the proportion mentioning either the purchase of fixed assets or developing new products and services:

Purpose of loan SMEs seeking new/renewed facility – by application date	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Q1 2012	Q2* 2012	Q3* 2012	Q4* 2012
Unweighted base:	***121***	***172***	***302***	***273***	***282***	***310***	***305***	***216***	***140***	***133***
Fund expansion in UK	37%	17%	28%	19%	26%	30%	31%	32%	31%	29%
Buy fixed assets	26%	21%	21%	13%	35%	42%	36%	17%	27%	20%
Buy motor vehicles	17%	18%	22%	24%	24%	10%	22%	29%	17%	22%
Develop new products/services	12%	20%	15%	20%	22%	7%	19%	8%	13%	12%
Fund expansion overseas	6%	1%	3%	2%	*	4%	3%	2%	*	2%

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

Whereas 10% of overdraft applicants had sought external advice before applying, more loan applicants had done so, albeit still a minority (20%). It was the smallest applicants who were much less likely to have sought advice: 15% of applicants with 0 employees sought advice, compared to 28% with 1-9 employees, 26% with 10-49 employees and 32% of those with 50-249 employees.

Analysis by date of application suggests that seeking advice was more popular for applications in 2011 (when around 1 in 5 sought advice) than for applications made in 2012 (when around 1 in 6 sought advice).

Half of applicants who had not sought advice, 55%, said that it was because they did not need it, mentioned more by larger applicants who had not sought advice, as was saying they had been successful with applications in the past (mentioned by 12% overall). Smaller applicants remained more likely to mention they did not know who to ask (mentioned by 17% overall).

6% of applicants had not received a response to their application by the time of our survey and are excluded from the remainder of this analysis.

Loan applications – a sector summary

Having a Type 1 loan event varied from 3% in Property/Business Services and Other Community sectors and 2% in Health to 7% in Hotels and Restaurants. Note that base sizes are limited for some sectors.

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

Loan activity YEQ1 13 all Type 1	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	***101***	***117***	***146***	***115***	***128***	***95****	***154***	***113***	***111***
Applied for first ever loan	21%	43%	49%	38%	35%	61%	46%	40%	53%
New loan (other)	35%	24%	33%	22%	30%	24%	27%	31%	33%
Renewing loan for same amount	17%	13%	5%	16%	8%	1%	14%	7%	4%

Q149 All SMEs seeking new/renewed loan facility

Most approached their main bank (89%). The least likely to do so were applicants in Manufacturing (77% of applications were made to main bank).

The highest median loan amounts were sought by applicants from the Agriculture (£70k) and Manufacturing (£46k) sectors. The lowest median amount sought was from applicants in Construction (£7k). Those in the Health and Other Community sectors were more likely to be seeking all the funding required from the bank while applicants from Manufacturing were less likely.

For most sectors, the main purpose of the loan was either UK expansion or purchase of fixed assets (notably for those in Agriculture or Manufacturing). Those in Transport and Construction were more likely to be seeking funding for motor vehicles, those in Hotels and Restaurants for premises, and those in Wholesale/Retail for the development of new products and services.

Advice was sought by a third of those in Wholesale/Retail and Hotels and Restaurants, compared to 1 in 10 in Construction.

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

70% of all Type 1 applications reported on the SME Finance Monitor to date resulted in a facility. Larger applicants, and those with a better external risk rating, remain more likely to have been offered what they wanted and taken it

Of applications reported in the year ending Q1 2013, 27% of overdraft applicants and 38% of loan applicants had been *initially* declined by the bank. Over time, such overdraft applicants have become less likely to say they were given a reason for the decline, while loan applicants have become more likely. The advice both loan and overdraft applicants received from the bank was more likely to be rated poor than good, and awareness of the appeals procedure remains low, with only a minority of those aware taking up the option to appeal. Most of those initially declined did not go on to get funding

By the end of the process, 71% of overdraft applicants had a facility (increasing to 89% once automatic renewals of overdrafts are included), compared to 59% of loan applicants

Analysis by date of application shows that overdraft applications made in the first half of 2012 (interim data) were somewhat less likely to be successful, but that much of this can be accounted for by the profile of applicants in those quarters. There is no clear pattern for the outcome of loan applications over time. Once adjusted for the profile of applicants, success rates in 2012 are slightly better than predicted for both loans and overdrafts (based on interim data)

Renewals (whether loan or overdraft) continue to be more likely to result in a facility (91%) than applications for new funds (55%) with first time borrowers continuing to be less likely to be successful (42%)

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 the automatic renewal of overdrafts.

The final outcome – all loan and overdraft applications to date

Before looking in detail at the individual loan and overdraft journeys, data is provided on the outcome of **all** Type 1 applications, both loan and overdraft, since the SME Finance Monitor started. Of the 7,115 applications on which data has been gathered, 70% resulted in a facility, while 24% have none, with 5% taking another form of funding.

Analysis by date of application is shown below:

Final outcome (Overdraft+Loan): SMEs seeking new/renewed facility - By date of application	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12*	Q3 12*	Q4 12*
Unweighted base:	*296*	*493*	*960*	*742*	*808*	*820*	*943*	*584*	*401*	*380*
Offered what wanted and took it	66%	59%	58%	61%	55%	62%	55%	56%	47%	63%
Took facility after issues**	13%	11%	12%	11%	14%	8%	12%	14%	21%	13%
Have facility (any)	*79%*	*70%*	*70%*	*72%*	*69%*	*70%*	*67%*	*70%*	*68%*	*76%*
Took another form of funding	4%	7%	8%	7%	4%	6%	4%	3%	6%	3%
No facility	18%	23%	22%	21%	27%	24%	28%	27%	26%	21%

Final outcome of overdraft/loan application by date of application: * indicates interim results as data is still being gathered on events in these quarters. ** typically the amount initially offered or the terms and conditions relating to the proposed facility such as security, the interest rate or the fee

The table shows fairly stable success rates across loans and overdrafts, with around 7 out of 10 applicants having a facility. The data available so far for Q1-3 of 2012 suggests slightly more applications made then were declined (between 26-28%), but initial results for Q4 2012 have not continued that trend (21%)

Further analysis of all Type 1 applications (loan plus overdraft) is provided later in this chapter, with an analysis of the different experiences of first time applicants compared to those seeking other new finance or a renewal of existing facilities. The next sections provide more detail on overdraft applications specifically, and then on loan applications.

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 the majority of applicants being offered a facility. The initial response to 60% of overdraft applications was to offer the SME what it wanted, compared to 49% of loan applications. Bigger SMEs remained much more likely to have been offered what they wanted at this initial stage:

Initial response (Overdraft): YEQ1 13 SMEs seeking new/renewed facility	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*2011*	*207*	*715*	*759*	*330*
Offered what wanted	60%	57%	62%	79%	88%
Offered less than wanted	8%	7%	10%	8%	4%
Offered unfavourable terms & conditions	5%	5%	5%	5%	4%
Declined by bank	27%	31%	23%	8%	4%

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

Initial response (Loan): YEQ1 13 SMEs seeking new/renewed facility	Total	0 emps	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*1004*	*108*	*326*	*380*	*190*
Offered what wanted	49%	47%	49%	64%	78%
Offered less than wanted	7%	6%	8%	9%	8%
Offered unfavourable terms & conditions	6%	7%	5%	8%	8%
Declined by bank	38%	40%	38%	19%	6%

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

SMEs more likely initially to be offered what they wanted included those applying to renew an existing overdraft (86% were offered what they wanted) or loan (90%), and those with a minimal external risk rating 87% were offered what they wanted if they were applying for an overdraft, 75% if applying for a loan). Those more likely to be met with an initial decline included those applying for their first ever overdraft (59% were initially declined) or loan (55%) or with a worse than average external risk rating (35% initially declined if applying for an overdraft, 43% if applying for a loan).

The table below looks at the initial response to applications by the date of application. Data available so far for overdraft applications made in the first half of 2012 suggests they were more likely to have been declined initially, whereas interim data for the second half of 2012 suggested applicants were more likely to have had 'issues' with what they were initially offered:

Initial response: SMEs seeking new/renewed overdraft facility – by date of application	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12*	Q2 12*	Q3 12*	Q4 12*
Unweighted base (Overdraft):	*176*	*324*	*670*	*489*	*541*	*527*	*656*	*383*	*271*	*265*
Offered what wanted and took it	74%	65%	64%	62%	65%	69%	59%	63%	59%	66%
Any issues (amount or T&C)	10%	11%	14%	16%	14%	9%	13%	10%	18%	17%
Declined overdraft	15%	25%	22%	22%	21%	21%	27%	26%	23%	17%

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

Analysis by date of application for loans shows that with a few exceptions, a relatively stable 4 out of 10 applications were declined initially. As for overdrafts, the most recent data is still interim:

Initial response: SMEs seeking new/renewed loan facility – by date of application	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12*	Q3 12*	Q4 12*
Unweighted base (Loan)	*120*	*169*	*290*	*253*	*267*	*293*	*287*	*201*	*130*	*115*
Offered what wanted and took it	51%	50%	50%	64%	41%	50%	56%	47%	35%	56%
Any issues (amount or T&C)	21%	15%	8%	12%	19%	12%	7%	17%	16%	17%
Declined loan	28%	35%	42%	24%	41%	38%	37%	37%	49%	28%

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

No further analysis has been undertaken on these initial responses to applications, as analysis by date of application shows a fairly consistent pattern between initial response and final outcome. The report concentrates instead on providing more analysis of the final outcome of the applications and how this has changed over time.

The subsequent journey

The next section of this chapter describes 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 and, unless otherwise stated, is based on all Type 1 overdraft / loan applications *reported* in interviews in the year ending Q1 2013.

Before the detail is discussed of what happened after each of the possible initial responses, the 'journeys' are summarised below, with 6 out of 10 overdraft applicants (58%) and just under half of loan applicants (47%) being offered the facility they wanted and going on to take it with no issues:

Journey summary YEQ1 13 SMEs seeking new/renewed facility	Overdraft	Loan
Unweighted base:	*2011*	*1004*
Initially offered what they wanted and went on to take the facility with no issues	58%	47%
Initially offered what they wanted, but had 'issues' before they got their facility	2%	2%
Had issues with the initial offer, and now have a facility 'after issues'	10%	8%
Initially turned down, but now have a facility	1%	2%
Had issues with the initial offer made so took alternative funding instead	<1%	<1%
Were initially turned down, so took alternative funding instead	3%	7%
Had issues with the initial offer made and now have no facility at all	3%	5%
Initially turned down and now have no facility at all	23%	28%

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

Profile of overdraft applicants by initial response

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

Initial offer	Profile
Those offered what wanted (60% of applicants, 3% of **all** SMEs)	They were slightly more likely to have a minimal/low risk rating (25% of those offered what they wanted v 20% of all applicants). 46% had employees (42% of all applicants), and they were likely to have been in business for 10 years or more (53% of those offered what they wanted v 44% of all applicants). They were more likely to be seeking a renewal of facilities (64% of those offered what they wanted v 44% of all applicants) and unlikely to be applying for their first ever overdraft (16% of those offered what they wanted v 31% of all applicants). They were seeking the highest facility, £50,000 on average, compared to £35,000 overall.
Those offered less than wanted (8% of applicants, <1% of **all** SMEs)	These applicants were also more likely to have employees (52% of those offered less than they wanted v 42% of all applicants) and to have a minimal/low external risk rating (25% of those offered less than they wanted v 20% of all applicants). A third were looking to increase an existing overdraft (37% of those offered less than they wanted v 15% of all applicants). They were typically looking for an overdraft of more than £5,000 (72% of those offered less than they wanted v 55% of all applicants)
Those offered unfavourable T&C (4% of applicants, <1% of **all** SMEs)	They were more likely to have a minimal/low risk rating (26% of those offered what they wanted v 20% of all applicants). Just 11% were Starts (v 20% overall) A fifth of those who had issues were seeking an increase in an existing overdraft (21% of those who had issues v 15% of all applicants).
Those initially declined (27% of all applicants and 1% of all SMEs)	This group had the most distinctive profile. They were typically smaller (33% of those initially turned down had employees v 42% of all applicants) and a third, 33%, were Starts (v 20% of all applicants). 71% of those initially declined had a worse than average external risk rating (v 53% of all applicants). Two-thirds of those initially turned down, 67%, were applying for their first ever overdraft (v 31% of all applicants), with 61% applying for a facility of £5,000 or less (v 45% of all applicants).

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

Summarised below for YEQ1 2013 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 some limited analysis by date of application is now possible, predominantly for those initially declined:

Initial offer	Subsequent events – overdraft
Offered what wanted (60% of applicants, 3% of **all** SMEs) Q64-65	96% of those offered the overdraft they wanted went on to take the facility, with 4% experiencing any delays or problems (typically being offered something they thought was too expensive, or waiting for legal work). All applicants took up the facility offered. Almost all received the full limit they had originally asked for.
Issue: Offered less than wanted (8% of applicants, <1% of **all** SMEs) Q85-95	These SMEs were typically offered 50-90% of what they had asked for. 21% said they were not given a reason for being offered less (excluding those who couldn't remember). The main reasons given were: • no/insufficient security - 28% of those offered less than they wanted • credit history issues - 23% • Applied for too much - 9% Both credit history and balance sheet issues were mentioned more by smaller applicants. A quarter, 29%, thought the advice they were offered was 'good', 42% thought it was 'poor' while 13% did not get any advice at this stage. Smaller applicants were more likely to rate the advice as 'good' (30%) than larger applicants (16%). In the end most, 86%, accepted the lower offer, almost all with the bank they originally applied to. 7% managed to negotiate a better offer, all with the original bank. 3% took another form of finance and 6% now have no facility. Three quarters of those who now have an overdraft obtained at least half of the amount they had originally sought, typically in line with the bank's initial response. This was more common for larger applicants (93% of those with 10-249 employees) than for smaller ones (78% of those with 0-9 employees).

Initial bank response	Subsequent events – overdraft
Issue: Offered unfavourable T&C (5% of applicants, <1% of **all** SMEs) Q96-97	The 'unfavourable' terms and conditions were most likely to relate to: • security (the amount or type sought) – mentioned by 32% of these applicants and more of an issue for larger applicants (56% 10-249 employees) • the proposed interest rate – 31% of these applicants • the proposed fee – 26% of these applicants Both the fee and the interest rate were mentioned more by smaller applicants. A minority of applicants offered what they saw as unfavourable terms and conditions, 10%, said they managed to negotiate a better deal than the one originally offered – almost all of them at the bank they originally applied to. 47% accepted the deal they were offered (almost all at the original bank). <1% took other funding, while half, 47%, 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 (27% of all applicants and 1% of all SMEs):

Initially declined	Subsequent events – overdraft
Reasons for decline Q70	24% of those initially declined said that they had not been given a reason (excluding those who could not remember the reasons given). • 34% said the decline related to their personal and/or business credit history (mentioned more by smaller SMEs) • 8% mentioned issues around security (mentioned more by larger SMEs) • Also mentioned were financial forecasts that the bank did not agree with Looking over time by application date, there had been a slight increase in the proportion saying no reason was given (from around 1 in 5 to around 1 in 4 of those initially declined) and, where a reason was given, slightly fewer mentions of security issues and more mentions of issues with financial forecasts.
How decline was communicated Q70a-b	Those respondents given a reason 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 the majority of cases (80%) the decision was communicated verbally, while 1 in 4 (27%) received a written response (a few had both). 4 out of 10 (42%) felt that they had <u>not</u> been given enough information to explain the decision. 58% felt they had. By date of application, there was no clear trend for the method of communication used, but there has been an increase over time in the proportion saying that they were given enough information, from around half to two-thirds of those receiving the communication.

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Advice and alternatives Q71-80	18% of those initially declined said that the bank had either offered them an alternative form of funding to the declined overdraft, or suggested alternative sources of external finance. This was slightly less common for smaller applicants. Where an alternative was offered, this was most likely to be a loan or a business credit card (or invoice finance for larger applicants). Two-thirds thought the advice offered at that stage had been poor (64%), while 8% said that it had been good and 14% said they were not offered any advice (with little variation by size). Those receiving advice in 2012 were more likely to rate it as 'poor' than those receiving advice in 2011. More generally, 3% of those initially declined reported that they had been referred to sources of help or advice by the bank, while a further 10% sought their own external advice without a recommendation. On a small base of advice seekers, around two-thirds, 67%, had found this external advice of use. Indicatively, newer businesses, especially Starts, were less likely to be offered alternative solutions or sources of funding but were slightly more likely to be referred to other sources of advice, or to seek advice themselves.

Initially declined	Subsequent events – overdraft
Appeals Q73-75	From April 2011, a new appeals procedure has been in operation. Across all interviews conducted to date, 427 respondents have been declined for an application made since that time. 15% said they were made aware of the appeals process by their bank (excluding DK). Awareness amongst applicants who were declined in 2011 was 18%, while amongst those declined in 2012 it is currently 12% (data still being collected). 10% of those made aware went through the appeals process, representing around 2% of those declined. This means that 9 SMEs interviewed for the Monitor had appealed: in 5 cases the bank had not changed its decision, in 1 it had, and 3 SMEs were waiting to hear. Those that were aware but had not appealed typically cited the view that they did not think it would have changed anything.
Outcome Q81-84	At the end of this period, 5% 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 three-quarters or more of the funding they had initially sought. Some, 10%, had secured alternative funding, with mentions of friends/family and personal borrowing, but the largest group, 86%, had no funding at all, and this was more likely if the applicant was a smaller SME and also where the application had been made more recently.

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. The YEQ1 2013 figures include all Type 1 overdraft applications reported in interviews conducted Q2 to Q4 of 2012 and Q1 of 2013.

Over half of these applicants, 58%, 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. 26% of all applicants ended the process with no overdraft – as the table below shows, this is the equivalent of 2% of **all** SMEs. Note that this table does **not** include automatic renewal of overdrafts.

As already identified, a third of SMEs appear disinclined to borrow and these 'Permanent non-borrowers' have been excluded from the final column of the table, increasing the proportion of SMEs with a new overdraft facility from 5% to 7%:

Final outcome (Overdraft): YEQ1 13 SMEs seeking new/renewed facility	All overdraft Type 1 applicants	All SMEs	All SMEs excl. PNBs
Unweighted base:	*2011*	*20,032*	*14,939*
Offered what wanted and took it	58%	4%	6%
Took overdraft after issues	13%	1%	1%
Have overdraft (any)	*71%*	*5%*	*7%*
Took another form of funding	3%	*	*
No facility	26%	2%	3%
Did not have a Type 1 overdraft event	-	*93%*	*90%*

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 less likely to now have a facility:

Final outcome (Overdraft): YEQ1 13 SMEs seeking new/renewed facility	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*2011*	*207*	*715*	*759*	*330*
Offered what wanted and took it	58%	55%	60%	76%	84%
Took overdraft after issues	13%	12%	16%	14%	10%
Have overdraft (any)	*71%*	*67%*	*76%*	*90%*	*94%*
Took another form of funding	3%	2%	5%	3%	2%
No facility	26%	31%	20%	7%	4%

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

Analysis of 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 13 SMEs seeking new/renewed facility	Total	Min	Low	Average	Worse/Avge
Unweighted base:	*2011*	*304*	*451*	*556*	*550*
Offered what wanted and took it	58%	85%	64%	66%	52%
Took overdraft after issues	13%	10%	21%	15%	11%
Have overdraft (any)	*71%*	*95%*	*85%*	*81%*	*63%*
Took another form of funding	3%	*	3%	4%	2%
No facility	26%	4%	13%	15%	35%

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

There were some clear differences in success rate by sector, with applicants in Transport and Construction remaining the least likely to have been successful (59%), and those in Agriculture remaining the most likely (91%):

Final outcome (Overdraft): YEQ1 13 SMEs seeking new/renewed facility	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*236*	*208*	*346*	*221*	*186*	*158*	*325*	*146*	*185*
Offered what wanted and took it	74%	72%	50%	55%	41%	45%	60%	54%	70%
Took overdraft after issues	17%	5%	9%	21%	21%	14%	12%	25%	8%
Have overdraft (any)	*91%*	*77%*	*59%*	*76%*	*62%*	*59%*	*72%*	*79%*	*78%*
Took another form of funding	1%	1%	2%	4%	5%	2%	3%	12%	*
No facility	8%	23%	39%	20%	32%	39%	25%	9%	21%

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 over half (57%) of those seeking their first overdraft having no facility:

Final outcome (Overdraft): YEQ1 13 SMEs seeking new/renewed facility	Total	1st overdraft	Increased overdraft	Renew overdraft
Unweighted base:	***2011***	***334***	***378***	***1087***
Offered what wanted and took it	58%	30%	50%	84%
Took overdraft after issues	13%	8%	27%	11%
Have overdraft (any)	***71%***	***38%***	***77%***	***95%***
Took another form of funding	3%	5%	6%	*
No facility	26%	57%	17%	5%

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

The final piece of analysis for YEQ1 2013 shows outcome by age of business. The older the business, the more likely they were to have been offered what they wanted. Starts were the least likely to have been successful, and this is closely linked to the table above: 64% of Starts who applied were looking for their first overdraft and 4 out of 10, 40%, of all first time applications were made by Starts:

Final outcome (Overdraft): YEQ1 13 SMEs seeking new/renewed facility By age of business	Starts	2-5 yrs	6-9 yrs	10-15 yrs	15+ yrs
Unweighted base:	***162***	***266***	***238***	***279***	***1066***
Offered what wanted and took it	43%	49%	57%	75%	67%
Took overdraft after issues	7%	9%	22%	12%	17%
Have overdraft (any)	***50%***	***58%***	***79%***	***87%***	***84%***
Took another form of funding	5%	6%	2%	1%	1%
No facility	45%	36%	19%	13%	15%

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

In 2010, around a third of applicants were seeking an overdraft of £5,000 or less. By the second half of 2011, this had increased to around half of applicants, but then reduced again to around 4 out of 10 applicants by the end of 2012, with more applicants seeking facilities of £5-25,000. Over the same time period, a relatively stable 1 in 5 applications were for overdrafts in excess of £25,000.

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

- The outcome for those applying for larger overdrafts (£25,000+) was fairly consistent over time, and around 90% of such applicants had an overdraft
- Applications for the smallest overdrafts (under £5,000) became more likely to be successful, moving, over time, from around half to around two-thirds being successful overall
- Those in the middle (£5-25,000) became slightly less likely to be successful, from around 90% to around 80% having an overdraft

Analysis below of the overdraft facility *granted* by application date shows that in 2011 and the first half of 2012, an increasing proportion of facilities agreed were for £5,000 or less (reflecting a similar increase in the proportion of applicants requesting a facility of that size). Data available so far for the second half of 2012 suggests an increasing proportion of overdrafts granted were for more than £5,000:

Overdraft facility granted By date of application	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12*	Q3 12*	Q4 12*
Unweighted base:	*154*	*278*	*577*	*424*	*462*	*461*	*551*	*324*	*228*	*223*
Less than £5,000	33%	35%	43%	47%	52%	49%	45%	50%	34%	38%
£5-25,000	47%	44%	32%	33%	31%	29%	37%	32%	46%	36%
£25,000+	20%	21%	25%	21%	17%	22%	18%	18%	20%	26%

Overdraft facility granted – all successful applicants that recall amount granted

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 between Q4 2010 and Q4 2011, the proportion of applicants who ended the process with an overdraft facility was fairly constant, with three-quarters of applicants being successful.

Results to date for 2012 show that a slightly lower proportion of overdraft applications made in Q1 and Q2 2012 resulted in a facility, with success rates then increasing back to previous levels in the second half of the year:

Final outcome (Overdraft): SMEs seeking new/renewed facility By date of application	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12*	Q3 12*	Q4 12*
Unweighted base:	*176*	*324*	*670*	*489*	*541*	*527*	*656*	*383*	*271*	*265*
Offered what wanted and took it	72%	64%	63%	61%	63%	68%	57%	61%	54%	65%
Took overdraft after issues	11%	13%	14%	13%	14%	8%	14%	13%	22%	15%
Have overdraft (any)	*83%*	*77%*	*77%*	*74%*	*77%*	*76%*	*71%*	*74%*	*76%*	*80%*
Took another form of funding	2%	7%	6%	6%	4%	3%	3%	3%	2%	2%
No facility	15%	16%	17%	20%	18%	21%	27%	24%	22%	17%

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 the profile 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, there were a number of trends that might be expected to affect adversely the outcome of an application made in the first half of 2012:

- Between Q2 2011 and Q2 2012, the proportion of applicants with a worse than average risk rating increased from 44% to 53% (initial results for applicants since shows no clear pattern but typically more than half of applicants have a worse than average risk rating)
- Over the course of 2011 there was a slight increase in the proportion of first time applicants to around a quarter of all applications, and this increased again in the first half of 2012 to a third of applicants seeking their first overdraft facility
- There was a higher proportion of Starts amongst applicants in the first half of 2012 (around 1 in 4) compared to previous quarters (where typically around 1 in 5 applicants was a Start)

These are factors that might result in lower success rates 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 what the actual overall success rate for overdrafts should be. 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, as shown in the table below.

For this report, the equation was built using business size and risk rating, as well as the type of facility (first time applicant etc.) as these factors had been shown to be key influencers on the likelihood of being successful in an application for funding.

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*	Q2 2012*	Q3 2012*	Q4 2012*
Unweighted base:	*176*	*324*	*670*	*489*	*541*	*527*	*656*	*383*	*271*	*265*
Have overdraft (any)	83%	77%	77%	74%	77%	76%	71%	74%	76%	80%
Predicted success rate (model)	77%	75%	78%	77%	74%	76%	71%	76%	75%	72%
Difference	+6	+2	-1	-3	+3	0	0	-2	+1	+8

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

The analysis shows that success rates were in line with those predicted by the model for many quarters. The lower success rates in the first half of 2012 were explained by the profile of respondents, especially for Q1. Interim results for the second half of 2012 suggest that the increase in overdraft success rates is not being driven by a change in applicant profile.

The 2012 data is still interim, but with that caveat, the model suggests that overdraft applications in 2012 were more likely to be agreed than the risk, size and purpose profile of applicants would suggest, whereas in 2011 application success rates were more in line with the profile of applicants.

Sample sizes preclude any more detailed analysis of success rates for key sub-groups by application date over time. However, some analysis by year of application (2010, 2011 and interim 2012) has been possible for overdrafts.

This suggests that:

- Applications from 0 and 1-9 employee SMEs, and those with a worse than average external risk rating were less likely to be successful than other applicants, and their success rates had declined over time
- Applications from those with a minimal risk rating or with 10-249 employees were more likely to have been successful, and their success rates were consistent over time

The impact of automatic renewals on overdraft success rates

Analysis shows 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 YEQ1 2013, and the impact on overall overdraft success rates when the automatically renewed overdrafts are included. There have been many more automatic overdraft renewals than Type 1 events, so the impact has been considerable.

Final outcome (Overdraft): YEQ1 13	Type 1 events	Type 1 + automatic renewal	All SMEs (Type 1 + AR)
Unweighted base:	***2011***	***4595***	***20,032***
Offered what wanted and took it	58%	23%	4%
Took overdraft after issues	13%	5%	1%
Automatic renewal	-	*61%*	*10%*
Have overdraft (any)	***71%***	***89%***	***15%***
Took another form of funding	3%	1%	*
No facility	26%	10%	2%

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

For YEQ1 2013, including those that had had an automatic renewal increased the overdraft success rate from 71% to 89%. The equivalent increase for all SMEs when automatic renewals were included was from 5% to 15%.

From Q4 2012, those with an automatically renewed overdraft have been asked when this renewal took place. As sample sizes increase over future reports it will become possible to look at overall success rates (Type 1+ automatic renewal) by application date.

The impact of personal borrowing on overdraft applications

As already reported, questions asked for the first time in Q4 2012 explored the extent to which facilities were being sought, or were held, in the name of the business or in a personal capacity.

12% of SMEs reporting a Type 1 overdraft event in Q4 2012 or Q1 2013 (which had occurred sometime in the previous 12 months) said that this application for new/renewed facilities was made in their personal name. This is the equivalent of less than 1% of all SMEs interviewed in Q4 2012-Q1 2013. (The equivalent figure for loans in Q4 2012-Q1 2013 was 14%, which is the equivalent of less than 1% of all SMEs).

On this limited sample, a high proportion of these personal overdraft applications were from 0 employee SMEs, those seeking the renewal of an existing overdraft facility or those seeking a facility of less than £5,000.

Sample sizes are too small currently to report on the outcome of the application by whether it was a personal or business application, but initial data suggests those in a personal name were slightly more likely to be successful.

A similar question was also asked for the first time in Q4 2012 of those who reported the automatic renewal of an overdraft facility (which again had occurred sometime in the previous 12 months). To date, 21% of those who had experienced the automatic renewal of an overdraft said that this facility was in their personal name, the equivalent of 2% of all SMEs interviewed in Q4 2012-Q1 2013. As with Type 1 events, these renewals were typically for 0 employee SMEs and for a facility of less than £5,000.

Further detail will be provided in future reports, as sample sizes permit.

Profile of loan applicants by initial response

Having explored overdraft applications and renewals, the next section of this chapter looks at loan applications and renewals. The profile of loan applicants receiving each initial answer from their bank varied:

Initial bank response	Profile
Those offered what wanted (49% of applicants, 2% of **all** SMEs)	These were typically more established businesses – 53% had been trading for 10 years or more compared to 42% of all applicants, while 26% had a minimal/low risk rating (compared to 18% of all applicants). They were also more likely to be looking to renew existing facilities (19% of those offered what they wanted v 10% of all applicants).
Those offered less than wanted (7% of applicants, <1% of **all** SMEs)	These applicants were somewhat more likely to be a Start (35% of those offered less than they wanted v 24% of all applicants), while 50% had employees (compared to 42% of all applicants). 43% were applying for a new loan, but not their first, compared to 28% of all applicants.
Those offered unfavourable T&C (6% of applicants, <1% of **all** SMEs)	These applicants were typically slightly smaller (38% had employees compared to 42% of all applicants) and were more likely to have a worse than average external risk rating (62% compared to 52% of all applicants) They were more likely to be looking to re-finance onto a cheaper deal (19% of those who had issues v 6% of all applicants).
Those initially declined (38% of applicants, the equivalent of 1% of all SMEs)	These applicants were slightly smaller (38% of those declined had employees v 42% of all applicants), and more likely to be a Start (35% of those declined v 24% of all applicants). 8% of those declined had a minimal/low risk rating (v 18% of all applicants), indeed 64% of those initially declined had a worse than average external risk rating (v 52% of all applicants). Two-thirds, 64%, were applying for their first ever loan (v 44% of all applicants).

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 (49% of applicants, 2% of **all** SMEs) Q159-164	96% of those offered what they wanted went on to take the loan with no problems. 4% took the loan after some issues (typically legal work being required or the initial offer being too expensive). 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 (7% of applicants, <1% of **all** SMEs) Q180-190	These SMEs were typically offered 60% or more of what they asked for. 41% of those offered less than they wanted said that they had not been given a reason (excluding those who could not remember). The main reasons for being offered less were around: • Credit history – mentioned by 19% of those offered less than they wanted • Needing more equity – 12% • Security issues - 10% On a small base, the advice offered at this stage was less likely to be rated good (12%) than poor (36%) while 23% were not given any advice. 23% managed to negotiate a better deal, predominantly with the original bank. Two-thirds, 66%, accepted the lower amount offered (almost all with the original bank applied to). 1% took other borrowing and 9% 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.

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Issue: Offered unfavourable T&C (6% of applicants, <1% of all SMEs) Q191-195	The unfavourable terms (excluding those who didn't know) typically related to the proposed interest rate (64%). Issues around security (level, type requested and/or cost) were mentioned by 19% of these applicants, and the proposed fee by 1 in 8 (9%). 11% managed to negotiate a better deal (at either the original bank or another bank) while 24% accepted the deal offered, most with the original bank. 2% took another form of funding. 66% of applicants had no facility. 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 (38% of applicants, the equivalent of 1% of all SMEs). Some analysis by date of application is now possible:

Initially declined	Subsequent events – loan
Reasons for decline Q165	26% 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). • 25% said that the decline related to their personal and/or business credit history (especially smaller applicants) • 14% mentioned issues around security (typically larger applicants) • Around 1 in 10 (8%) said that the bank had not been satisfied with their financial forecasts Analysis by date of application showed applicants in 2012 were more likely to be given a reason for a decline than those in 2011, and with more mentions of security as a reason for the decline.
How decline was communicated Q165a-b	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. Communication methods were similar to those for the equivalent overdraft applications, in that 77% said the decision was communicated verbally, while 34% received a written response (a few received both). Analysis by date of application showed that applicants in 2012 were less likely to report receiving the decision in writing. Those declined for a loan were somewhat less likely to say that they had been given enough information to explain the decision (50%) than those informed about an overdraft decline (58%).

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Advice and alternatives Q166 and 171-175	14% of those initially declined said that the bank had offered them an alternative form of funding to the declined loan (typically an overdraft), or suggested any alternative sources of external finance. Almost two-thirds (61%) thought that the advice the bank had offered at that stage had been poor, 8% thought it had been good, while 16% had not been offered any advice (being offered advice also appears to be less common for more recent applications). More generally, 6% of those initially declined reported that they had been referred to any other sources of help or advice by the bank, while a further 15% sought their own external advice without a recommendation. There was no clear trend over time. On a small base, around half, 55%, found these external sources of use, with larger applicants more likely to do so, but there are indications that this advice was less likely to be rated as useful by those applying in the first half of 2012.

Initially declined	Subsequent events – loan
Appeals Q168-170	From April 2011, a new appeals procedure was introduced. Across all interviews conducted to date, 366 respondents have been declined for a loan application made since that time. Amongst this group, 9% said that they were made aware of the appeals process by their bank (excluding DK), and there was little evidence of this changing over time. A quarter of those made aware went on to appeal, the equivalent of around 1% of SMEs that had been declined. Of these 49 declined applicants, 1 appealed and the bank changed its decision, 10 appealed but the decision was upheld, 3 appealed but had not heard yet, and 35 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 Q176-179	At the end of this period, 6% 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. 75% of those initially declined did not have a facility at all. There was no clear pattern over time.

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. Unless otherwise stated, these results are based on the figures for YEQ1 2013.

Just over half, 59%, of loan applicants now have a loan facility. 33% of applicants ended the process with no facility – as the table below shows, this is the equivalent of 1% of all SMEs.

As already identified, a third of SMEs appear disinclined to borrow and these 'Permanent non-borrowers' have been excluded from the final column of the table, increasing the proportion of SMEs with a new loan from 1% to 3%:

Final outcome (Loan): YEQ1 13 SMEs seeking new/renewed facility	All loan Type 1 applicants	All SMEs	All SMEs excl. PNBs
Unweighted base:	*1004*	*20,032*	*14,939*
Offered what wanted and took it	47%	1%	2%
Took loan after issues	12%	<1%	1%
Have loan (any)	*59%*	*1%*	*3%*
Took another form of funding	8%	<1%	<1%
No facility	33%	1%	2%
Did not have a Type 1 loan event		*97%*	*95%*

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

Further analysis was undertaken for the Q3 2012 report to understand the factors driving loan success rates. This showed that size was the key determinant, with risk rating also important. Within size bands, other factors such as sector, whether applying for a new or renewed facility, and the amount sought were important. This analysis will be updated in a future report to understand if these factors are changing over time.

By size of business, smaller loan applicants remained less likely to have a facility. Bigger applicants were more likely to have 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 13 SMEs seeking new/renewed facility	Total	0 emps	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*1004*	*108*	*326*	*380*	*190*
Offered what wanted and took it	47%	46%	46%	57%	69%
Took loan after issues	12%	10%	15%	20%	20%
Have loan (any)	*59%*	*56%*	*61%*	*77%*	*89%*
Took another form of funding	8%	9%	6%	3%	2%
No facility	33%	35%	34%	20%	8%

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. Almost 9 out of 10 applicants with a minimal external risk rating had a loan (88%), compared to half of applicants with a worse than average external risk rating (52%):

Final outcome (Loan): YEQ1 13 SMEs seeking new/renewed facility	Total	Min	Low	Avge	Worse/ Avge
Unweighted base:	*1004*	*152*	*225*	*281*	*274*
Offered what wanted and took it	47%	70%	71%	51%	43%
Took loan after issues	12%	18%	9%	16%	9%
Have loan (any)	*59%*	*88%*	*80%*	*67%*	*52%*
Took another form of funding	8%	-	4%	9%	7%
No facility	33%	12%	16%	25%	41%

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

The table below shows, albeit on limited base sizes, that applicants from the Construction sector were more likely to end the process without a facility (48%), while those in Agriculture were the most likely to have a loan (89%):

Final outcome (Loan): YEQ1 13 SMEs seeking new/renewed facility	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*96**	*103*	*139*	*108*	*123*	*90**	*142*	*102*	*101*
Offered what wanted and took it	84%	47%	34%	56%	33%	41%	42%	49%	51%
Took loan after issues	5%	11%	10%	9%	23%	13%	10%	28%	23%
Have loan (any)	*89%*	*58%*	*44%*	*67%*	*56%*	*54%*	*52%*	*77%*	*74%*
Took another form of funding	3%	11%	7%	12%	6%	8%	8%	2%	2%
No facility	8%	32%	48%	23%	39%	37%	40%	21%	24%

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

Success rates show some considerable variation by sector. Base sizes by sector are small, but analysis shows that the differences are more than just a reflection of the difference in size and external risk rating profiles of each sector, and this will be updated in future waves.

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.

Those applying for their first loan were more likely to end the process with no facility, with higher success rates for those applying for a new loan, but not their first, and those renewing an existing facility:

Final outcome (Loan): YEQ1 13 SMEs seeking new/renewed facility	Total	1st loan	New loan	Renew loan
Unweighted base:	***1004***	***254***	***360***	***151***
Offered what wanted and took it	47%	32%	54%	86%
Took loan after issues	12%	9%	15%	6%
Have loan (any)	***59%***	***41%***	***69%***	***92%***
Took another form of funding	8%	10%	9%	3%
No facility	33%	49%	22%	5%

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

Analysis by date of application shows that applications made in 2012 for a new, but not a first, loan were more likely to be successful than those applied for in 2011 (from around half in 2011 to around three-quarters in 2012). This has opened up more of a ‘gap’ in success rates between these applicants and those applying for the first time, where success rates have been more consistent. As a result, the pattern of loan success rates, when analysed by type of application, is now more similar to that of overdrafts.

As with overdrafts, there were differences in outcome for loan applications by age of business with a strong link between Starts and first-time applications: 82% of Starts that applied were applying for their first loan, and 44% of all first time loan applications were from Starts:

Final outcome (Loan): YEQ1 13 SMEs seeking new/renewed facility. By age of business	Starts	2-5 yrs	6-9 yrs	10-15 yrs	15+ yrs
Unweighted base:	*96**	*138*	*108*	*161*	*501*
Offered what wanted and took it	33%	41%	43%	50%	63%
Took loan after issues	10%	12%	15%	16%	12%
Have loan (any)	*43%*	*53%*	*58%*	*66%*	*75%*
Took another form of funding	8%	7%	6%	2%	10%
No facility	49%	40%	36%	32%	15%

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

Small base sizes limit the analysis possible, but around 80% of loans sought were for £100,000 or less. Half of these smaller applications were typically successful, and there was no consistent pattern over time. Applications for larger amounts (£100,000+) were more likely to be successful, and success rates had improved slightly over time, from around 6 out of 10 to around 7 out of 10 applications being successful.

Analysis of loans *granted* by application date shows a typical split ranging between 80:20 and 90:10, under and over £100,000. Initial data for applications made in Q3 2012 suggested a higher proportion of loans were granted for more than £100,000 (31%) and this will be monitored as more data is gathered:

Loan facility granted By date of application	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12*	Q3 12*
Unweighted base:	*94**	*125*	*220*	*193*	*204*	*212*	*206*	*149*	*92**
Less than £100k	80%	82%	88%	89%	83%	79%	85%	81%	69%
More than £100k	20%	18%	12%	11%	17%	21%	15%	19%	31%

All successful loan applicants that recall amount granted

Final outcome by date of application – loans

The table below shows the outcome by date of application, and shows no clear pattern over time:

Final outcome (Loan): SMEs seeking new/renewed facility By date of application	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12*	Q3 12*	Q4 12*
Unweighted base:	*120*	*169*	*290*	*253*	*267*	*293*	*287*	*201*	*130*	*115*
Offered what wanted and took it	49%	48%	48%	62%	39%	47%	52%	43%	34%	55%
Took loan after issues	17%	6%	7%	7%	13%	9%	8%	17%	20%	9%
Have loan (any)	*66%*	*54%*	*55%*	*69%*	*52%*	*56%*	*60%*	*60%*	*54%*	*64%*
Took another form of funding	9%	6%	11%	7%	4%	14%	8%	4%	13%	4%
No facility	26%	39%	34%	24%	44%	30%	32%	36%	33%	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, there were indications that a higher proportion of applicants were 0 employee businesses. In 2010 they made up about 5 in 10 applicants, in 2012 it was closer to 6 in 10. Over time, a slightly higher proportion of applications came from Starts, and/or from first time applicants.

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 what the actual overall success rate for loans should be. 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, as shown in the table below.

For this report, the equation was built using business size and risk rating, as well as the type of facility (first time applicant etc.), as these factors had been shown as key influencers on the likelihood of being successful in an application for funding.

Analysis using this approach is shown below. This shows a relatively stable predicted loan success rate over the quarters for which data is available. For applications made in 2011, this resulted in some differences between the predicted and actual success rates, but the gap has narrowed somewhat for applications made in 2012:

Final outcome (Loan): SMEs seeking new/renewed facility By date of application	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12*	Q3 12*	Q4 12*
Unweighted base:	*120*	*169*	*290*	*253*	*267*	*293*	*287*	*201*	*130*	*115*
Have loan (any)	66%	54%	55%	69%	52%	56%	60%	60%	54%	64%
Predicted success rate (model)	59%	60%	59%	61%	57%	62%	56%	60%	56%	61%
Difference	+7	-6	-4	+8	-5	-6	+4	0	-2	+3

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 higher success rate in Q2 2011 was not accounted for by the profile of applicants in that quarter (the model predicted only a slight increase in success rate from 59% to 61% between Q1 and Q2 2011, compared to the actual change of 55% to 69%).

The 2012 data is still interim, but with that caveat, the model suggests that loan applications in 2012 were more likely to be agreed than the risk, size and purpose profile of applicants would suggest, whereas in 2011 application success rates were less likely to be agreed once the profile of applicants had been taken into account.

Sample sizes preclude any more detailed analysis of success rates for key sub-groups by application date over time. However, some analysis by year of application (2010, 2011 and interim 2012) has been possible for loans. This suggests that applications from 0-9 employee SMEs, and those with an average or worse than average external risk rating were less likely to be successful than other applicants, but that success rates for all sub-groups changed little between 2011 and 2012.

The impact of personal borrowing on loan applications

As already reported, questions asked for the first time in Q4 2012 explored the extent to which facilities had been sought, or were held, in the name of the business or in a personal capacity.

14% of SMEs reporting a Type 1 loan event in Q4 2012-Q1 2013 (made sometime in the previous 12 months) said that this application for new/renewed facilities was made in their personal name. This is a similar proportion to overdrafts (12%) and the equivalent of less than 1% of all SMEs interviewed in Q4 2012-Q1 2013.

On this currently limited sample, many of these applications were from 0 employee SMEs.

Sample sizes are too small currently to report on the outcome of the application by whether it was a personal or business application, but initial data suggests no major differences in outcome.

Further detail will be provided in future reports, as sample sizes permit.

Outcome analysis over time – new and renewed facilities

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.

Size and external risk rating remain significant predictors of outcome for applications for new money. Once these key factors have been taken into account, previous analysis has shown that having credit issues (missed loan repayment, problems getting trade credit etc.) was also a significant predictor of not being successful with an application for new funds.

The analysis below is 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 on **all** applications recorded by the SME Finance Monitor to date (including those recorded in interviews in 2011 and Q1 2012 which no longer form part of the 'Year ending' analysis elsewhere).

The table below shows that those seeking to renew an existing facility were almost twice as likely to be offered what they wanted as those seeking new funds:

Final outcome Loans and Overdrafts combined All applications to date	New funds	Renewals
Unweighted base of applications:	*3182*	*3545*
Offered what wanted and took it	41%	81%
Took facility after issues	14%	10%
Have facility (any)	*55%*	*91%*
Took another form of funding	8%	1%
No facility	38%	8%

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

This confirms the findings seen earlier in this report which highlighted for both loans and overdrafts the difference in success rates between applications for new funding and applications to renew existing funding.

Further analysis looks at these applications over time, and compares the outcome for renewals to the outcomes for new and specifically first time, facilities, by date of application.

The outcome of applications for **renewed** loans/overdrafts over time is detailed below. It shows most applicants ended the process with a facility. Data for renewal applications made in Q1 2012 shows they were somewhat less likely to be successful (although most, 85%, were), and the evidence to date suggests that more facilities in Q3 2012 were agreed 'after issues':

Final outcome (Overdraft+ Loan): Applications for renewed facilities By date of application	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12*	Q3 12*	Q4 12*
Unweighted base of applications:	*154*	*251*	*492*	*383*	*405*	*393*	*451*	*281*	*185*	*180*
Offered what wanted and took it	85%	83%	83%	78%	77%	88%	74%	83%	65%	84%
Took facility after issues	8%	9%	10%	11%	10%	9%	11%	8%	29%	10%
Have facility (any)	*93%*	*92%*	*93%*	*89%*	*87%*	*97%*	*85%*	*91%*	*94%*	*94%*
Took another form of funding	4%	*	2%	3%	1%	1%	*	1%	1%	4%
No facility	3%	8%	6%	8%	12%	2%	15%	8%	5%	1%

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

Applications for **new** funds (whether first time applicants or not) make up around 6 out of 10 of all applications. With the exception of Q3 2010, a fairly consistent half of applicants for new money ended the process with a facility.

More recent applicants were slightly less likely to take another form of funding, which means that the proportion ending the process with no facility increased slightly over time from around 30% to around 40% of applications for new money:

Final outcome (Overdraft+ Loan): Applications for new money By date of application	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12*	Q3 12*	Q4 12*
Unweighted base of applications:	*142*	*242*	*468*	*347*	*377*	*381*	*413*	*223*	*162*	*149*
Offered what wanted and took it	49%	44%	40%	46%	39%	45%	41%	29%	37%	41%
Took facility after issues	17%	13%	13%	12%	16%	8%	13%	20%	16%	18%
Have facility (any)	*66%*	*57%*	*53%*	*58%*	*55%*	*53%*	*54%*	*49%*	*53%*	*59%*
Took another form of funding	3%	11%	12%	10%	7%	7%	7%	6%	7%	3%
No facility	31%	32%	35%	33%	38%	40%	39%	46%	40%	38%

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

It is also possible to look at the outcome over time for those applying specifically for their **first** overdraft/loan facility. The proportion of all applications/renewals being made by first time borrowers increased from around a quarter in 2010 to a third in 2012, and over the same period the proportion of all new money applications being made by first time applicants increased from a half to two-thirds.

The proportion of first time applicants ending the process with no facility was slightly higher for applications made in 2011 and 2012 than in 2010:

Final outcome – first time applicants Loans and Overdrafts combined By application date	All FTAs	In 2010	In 2011	In 2012*
Unweighted base of applications:	*1233*	*151*	*543*	*446*
Offered what wanted and took it	33%	46%	30%	30%
Took facility after issues	9%	8%	7%	12%
Have facility (any)	*42%*	*54%*	*37%*	*42%*
Took another form of funding	8%	4%	11%	7%
No facility	50%	42%	53%	51%

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

In contrast to first time applicants, those applying for a new facility, but not their first, in 2011 and 2012 were slightly more likely to end the process with a facility than those that applied in 2010:

Final outcome – other new money Loans and Overdrafts combined By application date	All other new money	In 2010	In 2011	In 2012*
Unweighted base of applications:	*1949*	*327*	*1030*	*501*
Offered what wanted and took it	51%	46%	55%	50%
Took facility after issues	20%	22%	19%	22%
Have facility (any)	*71%*	*68%*	*74%*	*72%*
Took another form of funding	7%	11%	7%	5%
No facility	22%	21%	19%	23%

Final outcome of overdraft/loan application by type of finance sought. * indicates interim results as data is still being gathered on events in these quarters

Previous analysis has shown that external risk rating has been a key predictor of success rates. Across all applications made to date, those applying for their first facility were the most likely to have a worse than average risk rating – in 2011, 69% of first time applicants had a worse than average external risk rating. All three applicants groups have seen an increase over time in the proportion of applicants with a worse than average risk rating, as the table below shows:

% of applicants with worse than average external risk rating (Overdraft+ Loan): By date of application (base varies)	2010	2011	2012*
First time applicants	61%	69%	72%
Other new money	44%	49%	51%
Renewals	33%	34%	41%

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 increase was more marked than was seen in the general SME population. 53% of SMEs interviewed in 2012 had a 'Worse than average' external risk rating, up slightly from the 50% of SMEs interviewed in 2011.

Further analysis of first time applicants

Previous reports have explored the significant influencers on success for new money – size, external risk rating and self-reported credit issues (such as bounced cheques etc). The Q4 2012 report looked at the significant influencers on a specific group of new money applicants - first time applicants **being declined** - and compared them to other applicants for new funds. This was done separately for overdrafts and then for loans.

First time overdraft applicants were more likely to be declined if they exported, if they had more than £10,000 in credit balances, if they were established less than 12 months ago, or if they used a personal account for their business banking. They were less likely to be declined if they had been established for more than 10 years, or if the owner was over 50.

New money overdraft applicants generally (whether FTA or not) were more likely to be declined if they had had a self-reported credit issue (especially if they had gone into unauthorised overdraft) or if they were in Construction. They were less likely to be declined if they imported.

First time loan applicants were more likely to be declined if their owner was under 30. They were less likely to be declined if they were in the Wholesale/Retail or Transport sectors or if they produced regular management accounts.

As with overdrafts, those applying for a new loan (whether a FTA or not) were more likely to be declined if they had experienced a self-reported credit event, such as problems getting trade credit. They were less likely to have been declined if they were in the Health sector.

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

7 out of 10 successful overdraft facilities were put in place within a week of being agreed. Loans typically took slightly longer: 37% were in place within a week and most, 66%, were agreed within 2 weeks

89% of successful overdraft applicants and 87% of successful loan applicants said that their facility had been put in place in good time for when they needed it

8% of overdraft applicants and 13% of loan applicants waited more than a month for their facility – such applicants were less likely to say the facility was available in good time (62% for overdrafts, 68% for loans)

Satisfaction with the agreed loan/overdraft facility remains high, as does overall bank satisfaction. Permanent non-borrowers, with no borrowing experiences, are more likely to be satisfied with their bank (86%) than those who have had a borrowing event (72%) or those who were 'Would-be seekers' of finance (68%)

Around half of those that were unsuccessful with an application for a loan or an overdraft felt that this had impacted on their business, saying that running the business day to day was now more of a struggle and/or that they had not been able to expand, or improve, the business as they might have wished. Amongst this (small) group of businesses that had seen an impact, those who had been declined for an overdraft were less likely to have grown than those declined for a loan

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

New facility granted

In a new question for Q4 2012, successful respondents were asked how long it had taken to put their new facility in place and whether this was in ‘good time’ for when they needed it.

On limited base sizes, across Q4 2012 and Q1 2013 combined:

- 7 out of 10 successful overdraft applicants (74%) said that the facility was in place within a week, while 7% waited a month or more. 1% have not yet had the facility put in place (excluding DK answers)
- Loans typically took slightly longer. 70% were in place within 2 weeks (with 38% in place within a week, compared to 74% of successful overdraft applications). A slightly higher proportion of loan applicants waited a month or more (13%) for the facility to be put in place. 2% have not yet had the facility put in place (excluding DK answers)
- In both instances most of those with a facility now in place said that this had been done in good time for when it was needed – 89% of successful overdraft applicants said that this was the case, and 87% of successful loan applicants. Those waiting more than a month were slightly less likely to say it had been put in place in good time (62% if waited a month or more for an overdraft, 68% for a loan)

Overall, 84% of both successful overdraft and 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.

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

Successful Type 1 applicants	Overdraft			Loan		
Satisfaction with outcome YEQ1 13	Total	Offered what wanted	Have after issues	Total	Offered what wanted	Have after issues
Unweighted base:	*1673*	*1390*	*283*	*717*	*544*	*173*
Very satisfied with facility	54%	59%	30%	56%	67%	14%
Fairly satisfied with facility	30%	30%	29%	28%	24%	41%
Overall satisfied	*84%*	*89%*	*59%*	*84%*	*91%*	*55%*
Neutral about facility	8%	7%	16%	6%	5%	12%
Dissatisfied with facility	8%	3%	25%	10%	4%	34%

Q103 and Q196 All SMEs that have applied/renewed

From Q2 2012, those who had experienced an automatic renewal of their overdraft facility were also asked how satisfied they were with that facility. Results for YEQ1 2013 showed that those who had an overdraft facility after an automatic renewal were likely to be satisfied with it (86%), but not quite as likely as those who had a facility after being offered what they wanted and taking it (89% YEQ1 2013).

Overall bank satisfaction amongst all SMEs remained high (80% satisfied YEQ1 2013).

Successful applicants remained more likely to be satisfied with their main bank (80%) than those that applied unsuccessfully to their main bank (35% satisfied).

'Permanent non-borrowers', who have had no borrowing events at all, reported slightly higher levels of satisfaction with their main bank (86% satisfied) than either those who had experienced a borrowing event (72%) or those that were 'Would-be seekers' of finance (68%).

Impact of being unsuccessful

The analysis above was based on those that were successful in their application/renewal and now had an overdraft or loan facility. Unsuccessful SMEs were asked whether *not* having a facility had impacted on their business. This analysis is based on the 26% of overdraft applicants and 33% of loan applicants that ended the process with no facility – the equivalent of 2% of all SMEs.

Most of those who applied unsuccessfully for an overdraft would ideally now have that facility (74%), and bank unwillingness to lend was their key reason why this was not the case, with a quarter mentioning any reluctance on their part to have the facility (typically too much hassle, can raise personal funds or funds from friends and family). Those who had been unsuccessful with a loan application were a bit more ambivalent, with 6 out of 10 saying they would ideally have a loan, but again, bank reluctance to lend was seen as the main reason why they did not have one, while one in five gave other reasons (typically the expense, security requirements, the hassle or being able to raise funds elsewhere).

Around half of those that were unsuccessful with an application for a loan or an overdraft felt that this had impacted on their business, saying that running the business day to day was now more of a struggle and/or that they had not been able to expand or improve the business as they might have wished. Amongst this (small) group of businesses that had seen an impact, those who had been declined for an overdraft were less likely to have grown (a third had) than those declined for a loan (where half had grown) and more likely to have declined in the past 12 months (4 out of 10 for overdrafts rather than 2 out of 10 for loans). The loan figures are broadly in line with results for SMEs overall.

Amongst unsuccessful SMEs that applied to their main bank, 26% thought their application had been considered fairly, while 23% thought another bank would have treated them more favourably. Around two-thirds of SMEs who thought another bank would have treated them better went on to say that they were seriously considering a change of bank (these 'potential switchers' represent less than 1% of all SMEs).

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

30% of new/renewed overdrafts were secured. Most facilities above £50,000 were secured, typically on property

41% of new/renewed loans were secured (including commercial mortgages). Loans above £25,000 were much more likely to be secured than those below, also typically on property

Fixed rate lending was more common for loans (74%) than overdrafts (57%), and in both cases was more likely for smaller facilities

For overdrafts, the median variable rate was +2.9% and the median fixed rate 4.3%. There are some indications that fixed rate overdraft margins are reducing slightly over time

The median variable loan rate was +3.0%, and the median fixed rate 5.0%. There are some indications that fixed rate loan margins had increased slightly over time during 2011 but were somewhat lower in 2012

Half of those with an overdraft of £10,000 or less paid a fee equivalent to 2% or less of the value of the facility. Almost all overdrafts above £10,000 attracted a fee equivalent to 2% or less or the value of the facility. The majority of loans attracted a fee equivalent to less than 2% of the value of the loan, irrespective of size

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. 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.

The main reporting in this chapter does **not** include any overdrafts granted as the result of an automatic renewal process. From Q2 2012, those who had experienced an automatic overdraft renewal were asked about the security, interest rates and fees pertaining to that facility, and these are reported separately towards the end of this chapter.

Overdrafts: Security

5% of all SMEs had a new/renewed overdraft:

- 3% of 0 employee SMEs had a new/renewed overdraft
- 8% of 1-9 employee SMEs
- 10% of 10-49 employee SMEs
- 12% of 50-249 employee SMEs

81% of overdraft facilities granted were for less than £25,000. By size, this varies from 96% of overdrafts granted to 0 employee SMEs being £25,000 or less, to 18% of overdrafts granted to those with 50-249 employees.

13% of new/renewed overdrafts reported in Q4 2012-Q1 2013 were in a personal name rather than that of the business.

Around a third (30%) of Type 1 overdrafts, i.e. a new or renewed facility not including automatic renewals, required security. Analysed by date of application (at the half-year level), more recent overdraft facilities were somewhat more likely to be secured (from around 1 in 4 being secured in 2011 to 1 in 3 being secured in 2012). In particular, more overdrafts under £25,000 were secured.

The most common form of security remained a charge over a business or personal property, as the table below shows:

Security required (Overdraft): YEQ1 13 SMEs with new/renewed overdraft	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*1626*	*135*	*536*	*652*	*303*
Property (any)	19%	8%	29%	44%	42%
Charge over business property	*9%*	*3%*	*14%*	*27%*	*35%*
Charge over personal property	*10%*	*6%*	*15%*	*18%*	*9%*
Directors/personal guarantee	4%	3%	6%	9%	8%
Other security (any)	8%	7%	7%	14%	19%
Any security	30%	18%	40%	61%	64%
No security required	70%	82%	60%	39%	36%

Q 106 All SMEs with new/renewed overdraft excluding DK

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

- 17% of overdrafts granted for £10,000 or less were secured
- 38% of overdrafts granted for £11-24,999
- 45% of overdrafts granted for £25-49,999
- 69% of overdrafts granted for £50-99,999
- 75% of overdrafts granted for £100,000 or more were secured

Overdrafts: Rates

Amongst those who gave an answer, 4 out of 10 (43%) 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 13 SMEs with new/renewed overdraft excl. DK	Total	<£10k	£10-25k	£25-100k	£100k+
Unweighted base:	*1334*	*367*	*224*	*320*	*423*
Variable rate lending	43%	39%	42%	55%	51%
Fixed rate lending	57%	61%	58%	45%	49%

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

As the table below shows, when analysed by date of application the balance had changed slightly over time to in favour of fixed rate lending:

New/renewed overdraft rate By date of application	Q310	Q410	Q111	Q211	Q311	Q411	Q112	Q212*	Q312*	Q412*
Unweighted base:	*137*	*241*	*495*	*345*	*376*	*383*	*448*	*263*	*180*	*186*
Variable rate lending	53%	54%	55%	53%	49%	38%	40%	45%	32%	48%
Fixed rate lending	47%	46%	45%	47%	51%	62%	60%	55%	68%	52%

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 (90%).

48% of those with a new/renewed variable rate overdraft and 36% 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 as a result base sizes are small in some areas.

The average variable rate margin paid, at +3.8% YEQ1 2013, was almost unchanged from YEQ4 2012 (+3.9%) as was the median rate charged (+2.9% compared to +3% YEQ4). Both were lower for facilities in excess of £100,000:

Variable margin (overdraft) by facility granted: YEQ1 13 SMEs with new/renewed overdraft excl. DK	Total	<£10k	£10-25k	£25-100k	£100k+
Unweighted base:	*588*	*115*	*94**	*162*	*217*
Less than 2%	26%	25%	25%	24%	37%
2.01-4%	49%	50%	36%	57%	57%
4.01-6%	13%	8%	28%	14%	6%
6%+	12%	16%	12%	5%	-
Average margin above Base/LIBOR:	*+3.8%*	*+4.1%*	*+3.8%*	*+3.5%*	*+2.6%*
Median margin above Base/LIBOR	*+2.9%*	*+2.9%*	*+3.1%*	*+2.8%*	*+2.5%*

Q 109/110 All SMEs with new/renewed variable rate overdraft, excluding DK *CARE re small base size

Analysis by date of application is limited by the number of respondents answering this question, and so has been based on a half year rather than quarterly analysis. This suggests that the proportion of successful applicants paying a variable margin of less than +4% declined slightly over time – from 70% of successful applicants in H2 2010 to 64% of successful applicants in H1 2012. However, initial results for overdrafts granted in H2 2012 suggested that more overdrafts (8 out of 10) granted in that period were being charged at 4% or less.

The average fixed rate charged was down slightly, at 5.0% YEQ1 2013 (5.4% YEQ4), while the median rate was unchanged at 4.3%. Again those borrowing more paid, on average, a lower rate:

Fixed rate (overdraft) by facility granted: YEQ1 13 SMEs with new/renewed overdraft excl. DK	Total	<£10k	£10-25k	£25-100k	£100k+
Unweighted base:	*491*	*138*	*88**	*102*	*163*
Less than 3%	43%	41%	35%	55%	57%
3.01-6%	33%	32%	31%	35%	37%
6.01-8%	7%	8%	7%	8%	3%
8%+	16%	18%	27%	2%	3%
Average fixed rate:	*5.0%*	*5.4%*	*5.7%*	*3.3%*	*3.0%*
Median fixed rate	*4.3%*	*3.8%*	*4.3%*	*2.5%*	*2.7%*

Q 111/112 All SMEs with new/renewed fixed rate overdraft, excluding DK *CARE re small base

Analysis by date of application is limited by the number of respondents answering this question, but indicative results were that the proportion paying less than 3% had increased over time, from a quarter of successful applicants in H2 2010 to a third in 2012.

Secured overdrafts were somewhat more likely to be on a fixed rate (60%) than a variable rate (40%), and this has been an increasing trend over time. Unsecured overdrafts were also somewhat more likely to be on a fixed rate (56%) than a variable rate (44%).

The average margin for a variable rate overdraft was +3.8%, whether it was secured or unsecured. More of a difference in margin was seen for fixed rate facilities – secured overdrafts were at an average rate of 3.8% compared to 5.9% for an unsecured overdraft.

Overdrafts: Fees

Most respondents (90%) were able to recall the arrangement fee that they had paid for their new/renewed overdraft facility (if any). The average fee paid was £343, with fees for facilities granted in both 2011 and 2012 fairly consistently around this figure.

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

Fee paid (overdraft) by facility granted: YEQ1 13 SMEs with new/renewed overdraft excl. DK	Total	<£10k	£10-25k	£25-100k	£100k+
Unweighted base:	*1362*	*374*	*253*	*320*	*415*
No fee paid	22%	28%	14%	8%	12%
Less than £100	10%	13%	8%	3%	1%
£100-199	41%	51%	38%	16%	4%
£200-399	14%	5%	33%	33%	10%
£400-999	6%	1%	5%	27%	16%
£1000+	6%	1%	1%	14%	56%
Average fee paid:	*£343*	*£111*	*£209*	*£523*	*£2589*
Median fee paid	*£98*	*£93*	*£139*	*£293*	*£986*

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, 35% paid a fee that was equivalent to less than 1% of the facility granted, and a further 33% paid between 1-2%. Half of those with a facility of under £10,000 paid a fee equivalent to 2% or less of the facility compared to almost all of those with a larger facility:

- 53% of those granted a new/renewed overdraft facility of less than £10,000 paid the equivalent of 2% or less
- 94% of those granted a new/renewed overdraft facility of £10-25,000 paid the equivalent of 2% or less
- 96% of those granted a new/renewed overdraft facility of £25-100,000 paid the equivalent of 2% or less
- 97% of those granted a new/renewed overdraft facility of more than £100,000 paid the equivalent of 2% or less

Secured overdrafts remained more likely to attract a fee of 2% or less (89%) than unsecured overdrafts (61%). Over time there had been a slight increase in the proportion paying a fee of 2% or less, from 62% for applications in 2011 to 68% for those in 2012.

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 had a higher facility, were more likely to be paying a variable rate, and paid a lower margin for that facility, if it was below £25,000:

Overdraft rates and fees summary YEQ1 13 SMEs with new/renewed overdraft excl. DK	Min/Low	Average/Worse than average
Unweighted base (varies by question):	*695*	*869*
% borrowing £25,000 or less	59%	87%
Facility on a variable rate (excluding DK)	49%	38%
Average variable margin for less than £25k facility	+3.5%	+4.3%
Average variable margin for facility £25k+	+3.2%	+3.3%
Average fixed rate for less than £25k facility*	6.6%	5.2%
Average fixed rate for facility £25k+	3.3%	3.2%
% where fee <2% of facility (under £25k)	67%	61%
% where fee <2% of facility (£25k+)	97%	95%

All SMEs with new/renewed overdraft, excluding DK * SMALL BASE

Overdrafts: Usage

For YEQ1 2013, 45% of those granted a new/renewed overdraft said that they used this facility all or most of the time. At the other end of the scale, 33% used this overdraft facility occasionally, rarely or never. Smaller SMEs with an overdraft were more likely to report using it all or most of the time (46%) than those with 10-249 employees (38%).

Amongst those SMEs that used this overdraft facility at least occasionally (representing 80% of those granted an overdraft), 60% said that when they used their overdraft they used at least half of the agreed facility.

Some analysis of the use of overdrafts is possible by date of application. The table below shows the extent to which Type 1 overdrafts were being used, analysed by when the facility was granted. For those granted in 2011 and 2012, around 4 out of 10 use their overdraft all or most of the time, while around half use 50% or more of the facility when they use their overdraft:

Type 1 overdraft usage				Use of overdraft						
Use of facility by date of application	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12*	Q3 12*	Q4 12*
Unweighted base:	*154*	*278*	*577*	*424*	*462*	*461*	*551*	*324*	*228*	*223*
Use overdraft all or most of time	32%	27%	43%	36%	42%	46%	38%	46%	42%	44%
Use 50%+ when use it (all with od not just users)	29%	36%	47%	53%	55%	53%	45%	43%	53%	45%

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

Overall, to YEQ1 2013, 81% of overdrafts granted were for £25,000 or less. By sector this varied from 61% of overdrafts granted in the Agriculture sector, to 93% for Other Community.

As the table below shows, secured overdrafts were:

- More common for overdrafts in Agriculture (48%)
- Somewhat less common for overdrafts in the Property/Business Services and Transport sectors (21%)

Type 1 overdraft YEQ1 13 all with new/renewed overdraft	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	***209***	***168***	***262***	***187***	***136***	***116***	***271***	***120***	***157***
Any security	48%	23%	30%	36%	34%	21%	21%	34%	26%
- property	*39%*	*14%*	*18%*	*26%*	*25%*	*9%*	*14%*	*20%*	*7%*
No security	52%	77%	70%	64%	66%	79%	79%	66%	74%

Q 106 All SMEs with new/renewed overdraft excluding DK

Overall, 4 out of 10 Type 1 overdrafts obtained were on a variable rate (43%). This was more likely for overdrafts granted to SMEs in the Agriculture (54%) and Manufacturing (50%) sectors:

Type 1 overdraft rate YEQ4 12 all with new/renewed overdraft	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*184*	*158*	*221*	*189*	*98**	*108*	*248*	*107*	*137*
Variable rate lending	50%	44%	33%	45%	41%	55%	48%	33%	25%
Fixed rate lending	50%	56%	67%	55%	59%	45%	52%	67%	75%

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 Manufacturing and Agriculture were more likely to pay a fee for their facility. Those in the Transport and Property/Business Services sectors were more likely to pay a fee equivalent to more than 2% of the sum borrowed:

Type 1 overdraft fees YEQ1 13 all with new/renewed overdraft	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*169*	*150*	*219*	*163*	*113*	*97**	*223*	*99**	*129*
No fee paid	10%	11%	19%	14%	19%	20%	27%	47%	41%
Equivalent of 2% or less paid*	72%	69%	65%	78%	72%	63%	63%	73%	64%

Q 113/114 All SMEs with new/renewed overdraft excluding DK * where both fee and facility known – SMALL BASE

Amongst those with an overdraft, SMEs in Manufacturing (65%) were the most likely to be using their facility all or most of the time, and also to be using it to 50% or more of the facility (71%):

Type 1 overdraft usage YEQ1 13 all with new/renewed overdraft	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*215*	*175*	*270*	*193*	*139*	*121*	*275*	*125*	*160*
Use overdraft all or most of time	56%	65%	38%	51%	59%	23%	43%	39%	35%
Use 50%+ when use it (all with od not just users)	57%	71%	46%	61%	60%	22%	42%	50%	26%

Q 101/102 All SMEs with new/renewed overdraft

Overdrafts: Automatic renewals

As mentioned earlier in this chapter, some data is now available on the fees, rates and security pertaining to those overdraft facilities that were automatically renewed. This has now been collected for respondents interviewed from Q2 2012 and covers automatic renewals in the 12 months prior to interview (note that for Q2 and Q3 interviews we do not know *when* in the previous 12 months this facility was renewed, nor *how much* it was for – these questions were added for Q4 2012). For YEQ1 2013, 2,584 respondents reported an automatically renewed overdraft.

The table below shows how automatically renewed overdraft facilities compare to other Type 1 overdraft events reported YEQ1 2013 (and occurring in the 12 months prior to interview), where equivalent data is available:

Overdraft rates and fees summary YEQ1 13 SMEs excl. DK	Automatically renewed	Type 1 overdraft event
Unweighted base (varies by question):	*2584*	*1676*
Any security required	26%	30%
Facility on a variable rate (excluding DK)	42%	43%
Average variable margin	+3.9%	+3.8%
Average fixed rate	4.7%	5.0%
No fee	30%	22%
Average fee paid	£201	£343
Use overdraft all or most of time	40%	46%

All SMEs with new/renewed overdraft, excluding DK

Data available for automatic renewals reported in interviews Q4 2012-Q1 2013 showed that half of these renewals, 53%, were for £5,000 or less (excluding DK answers) compared to 40% of Type 1 overdraft events reported in these quarters. Almost all (89%) were for less than £25,000 (compared to 83% of Type 1 overdraft events reported in these quarters). Whilst these automatically renewed facilities were typically smaller, the fee as a proportion of the facility granted was more likely to be more than 2% for automatic renewals (44%) than it was for other Type 1 overdraft facilities in Q4 2012-Q1 2013 (25%).

Loans: Security

2% of all SMEs had a new/renewed loan:

- 1% of 0 employee SMEs had a new/renewed loan
- 3% of 1-9 employee SMEs
- 5% of 10-49 employee SMEs
- 4% of 50-249 employee SMEs

80% of new/renewed loans were for £100,000 or less. A minority of loans, 15%, were commercial mortgages. These were much more likely to have been granted for more than £100,000 and were also more common amongst larger SMEs:

- 14% of successful applicants with 0-9 employees said their loan was a commercial mortgage
- 24% of successful applicants with 10-49 employees
- 28% of successful applicants with 50-249 employees

18% of successful applications reported in Q4 2012-Q1 2013 were made in a personal name rather than that of the business.

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 13 SMEs with new/renewed loan	Total	0-9 emp	10-49 emps	50-249 emps
Unweighted base:	*701*	*254*	*280*	*167*
Commercial mortgage	15%	14%	24%	28%
Secured business loan	26%	24%	42%	41%
Unsecured business loan	59%	62%	34%	31%

Q 198/199 All SMEs with new/renewed loan excl. DK

Analysed by date of application, the proportion of secured loans (including commercial mortgages) increased from 29% of facilities agreed in H1 11 to 42% of those agreed in H1 12. Interim data for loans agreed in H2 12 suggests a third (37%) were secured.

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 13 SMEs with new/renewed loan excl. DK	Total	0-9 emp	10-49 emps	50-249 emps
Unweighted base:	***701***	***254***	***280***	***167***
Commercial mortgage	15%	14%	24%	28%
Secured – Property (any)	17%	16%	30%	25%
Business property	*8%*	*7%*	*21%*	*22%*
Personal property	*9%*	*9%*	*10%*	*4%*
Director/personal guarantees	5%	5%	7%	5%
Other security	6%	6%	8%	15%
Unsecured business loan	59%	62%	34%	31%

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

Including commercial mortgages, 21% of new/renewed loans granted for less than £25,000 were secured compared to 72% of loans granted for £25,000 to £100,000, and 86% of those granted for more than £100,000. Analysis by date of application shows a slight increase over time in the proportion of loans for £25-100,000 that were secured.

Loans: Rates

Amongst those who knew, three quarters, 74%, said that their loan was on a fixed rate (compared to 57% for overdraft lending), and this remained more common for smaller facilities:

Type of rate (loan) by amount granted: YEQ1 13 SMEs with new/renewed loan excl. DK	Total	<£100k	£100k+
Unweighted base:	*611*	*302*	*309*
Variable rate lending	26%	19%	50%
Fixed rate lending	74%	81%	50%

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

Fixed rate lending was also more common where the facility was unsecured (88% v 55% for secured loans). Analysis by date of application showed that it was the loans agreed in the second half of 2011, or later, that were slightly more likely to be on a fixed rate.

Most of those on a variable rate said that the rate was linked to Base Rate (88%), but this was less the case for loans in excess of £100,000 (79%) than for those below £100,000 (95%).

Amongst SMEs with a new/renewed loan, half of those with a variable rate and one in five 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, particularly for loans under £100,000:

Variable margin (loan) by amount granted: YEQ1 13 SMEs with new/renewed loan excl. DK	Total	<£100k	£100k+
Unweighted base:	*213*	*72**	*141*
Less than 2%	30%	23%	39%
2.01-4%	49%	43%	58%
4.01-6%	15%	24%	3%
6%+	6%	10%	*
Average margin above Base/LIBOR:	*+3.4%*	*+4.0%*	*+2.6%*
Median margin above Base/LIBOR	*+3.0%*	*+2.9%*	*+2.9%*

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

These average margins to YEQ1 2013 were very similar to those to YEQ4 2012 (+3.6%). Analysis by date of application is limited by the number of respondents answering this question, but indicative results were that over time the average rate charged had remained around +4%.

The median variable rate charged was the same for overdrafts and loans. Fixed rate loan lending, on the other hand, at 5.0%, remained slightly more expensive than fixed rate overdraft lending (which had a median rate overall of 4.3%):

Fixed rate (loan) by amount granted: YEQ1 13 SMEs with new/renewed loan excl. DK	Total	<£100k	£100k+
Unweighted base:	*279*	*150*	*129*
Less than 3%	23%	20%	38%
3.01-6%	39%	36%	52%
6.01-8%	20%	22%	8%
8%+	18%	21%	1%
Average fixed rate:	*6.0%*	*6.4%*	*4.0%*
Median fixed rate	*5.0%*	*5.2%*	*4.5%*

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

The average rate was slightly lower than for YEQ4 2012 (when it was 6.3%), as was the median rate (which was 5.5% YEQ4). Analysis by date of application is limited by the number of respondents answering this question, but indicative results were that the average rate charged increased slightly between H210 and H211, from around 6% to just under 7%, while the interim data for 2012 suggested the average rate had fallen back closer to 6% again.

Secured loans, whether on a fixed or variable rate, were charged at a lower average rate than those that were unsecured. For those granted a new/renewed loan on a variable rate, a secured loan was charged at an average margin of +3.2%, an unsecured loan at an average margin of +3.8%. For fixed rate lending, the rates were 4.7% for secured loans and 6.6% for unsecured.

Loans: Fees

8 out of 10 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 13 SMEs with new/renewed loan excl. DK	Total	<£100k	£100k+
Unweighted base:	*533*	*266*	*267*
No fee paid	36%	39%	22%
Less than £100	11%	13%	1%
£100-199	22%	26%	9%
£200-399	12%	12%	8%
£400-999	7%	6%	9%
£1000+	12%	3%	53%
Average fee paid:	*£847*	*£174*	*£3640*
Median fee paid	*£86*	*£67*	*£1000*

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

The average fee paid YEQ1 2013 was almost unchanged at £847 (YEQ4 £827) while the median fee was slightly lower (£86 from £100 YEQ4). Analysis by date of application showed little clear pattern over time, other than the proportion of loans for which no fee was payable, which increased over time from 23% in H210 to 44% in H211 but was lower again for applications made in 2012 (with around 1 in 3 paying no fee, based on interim data).

Amongst those with a new/renewed loan who knew both what fee they had paid and the original loan size, 65% paid a fee that was the equivalent of less than 1% of the amount borrowed and a further 16% paid between 1-2%:

- 79% of those granted a new/renewed loan of less than £100,000 paid the equivalent of 2% or less
- 86% 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. Over time, slightly fewer loan facilities were charged at the equivalent of 2% or less of the facility granted. In H2 2010, 86% of facilities were charged the equivalent of 2% or less, in H2 2011 the proportion was 81%, and for applications reported to date in 2012 the figure was around three-quarters.

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, were more likely to be paying a variable rate and paying a lower margin/rate. Although those with a minimal/low external risk rating were more likely to have provided security overall, this was due in part to more of these SMEs having a loan for £100k or more:

Loan rates and fees summary YEQ1 13 SMEs with new/renewed loan excl. DK	Min/Low	Average/Worse than average
Unweighted base (varies by question):	*318*	*359*
% borrowing £100,000 or less	64%	84%
Any security provided	59%	36%
Facility on a variable rate (excluding DK)	38%	23%
Average variable margin	+3.2%	+3.5%
Average fixed rate	3.9%	6.7%
% where fee <2% of facility	87%	79%

All SMEs with new/renewed loan, excluding DK

Loan terms: Analysis by sector (indicative)

Note that the declining number of SMEs reporting a successful loan event means that base sizes for all sectors are now below 100, even when several waves are rolled together. This section has been included this wave, but can provide only *indicative* loan data.

80% of new/renewed loans were for £100,000 or less. By sector this varied from 93% of loans in the Construction sector being in this band, to 56% of loans in Agriculture.

New/renewed loans in the Hotels and Restaurants and Property/Business Services sectors were more likely to have been commercial mortgages:

Type 1 loan YEQ1 13 all with new/renewed loan	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*81**	*72**	*73**	*82**	*83**	*58**	*97**	*80**	*75**
Commercial mtge	11%	14%	17%	12%	28%	5%	25%	7%	12%
Secured loan	39%	32%	17%	20%	35%	31%	27%	39%	17%
Unsecured loan	50%	54%	66%	68%	36%	65%	47%	53%	71%

Q 198/199 All SMEs with new/renewed loan excluding DK *CARE re small base

Overall, three quarters of Type 1 loans were on a fixed rate (74%). This was more likely for loans amongst SMEs in the Health and Other Community (90%) sectors:

Type 1 loan rate YEQ1 13 all with new/renewed loan	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*71**	*64**	*60**	*70**	*77**	*52**	*84**	*73**	*60**
Variable rate lending	36%	35%	24%	24%	32%	15%	37%	10%	10%
Fixed rate lending	64%	65%	76%	76%	68%	85%	63%	90%	90%

Q 201 All SMEs with new/renewed loan excluding DK *CARE re small base

Base sizes currently preclude any further analysis of rates, but a review of fees paid by sector is provided below (but note the small base sizes which make this indicative data only).

This analysis shows that those in the Property/Business Services and Other Community sectors were the least likely to pay a fee for their facility:

Type 1 loan fees YEQ1 13 all with new/renewed loan	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*56**	*56**	*60**	*64**	*62**	*44**	*67**	*61**	*63**
No fee paid	23%	29%	30%	34%	30%	n/a	48%	40%	48%

Q 208209 All SMEs with new/renewed loan excluding DK *CARE re small base

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 interviewed in Q1 2013 met the definition of a 'Happy non-seeker' of external finance in the 12 months prior to interview, the highest proportion recorded to date on the SME Finance Monitor

17% of SMEs had experienced a borrowing 'event' (including the automatic renewal of an overdraft), while 7% met the definition of a 'Would-be seeker' of external finance – those businesses that had wanted to apply for a loan or overdraft but felt that something had stopped them

Excluding the 'Permanent non-borrowers', as there is little indication that they will ever borrow, reduces the proportion of 'Happy non-seekers' of external finance to 58% of remaining SMEs. 31% had experienced a borrowing event and 11% were 'Would-be seekers' of external finance

The two key barriers for 'Would-be seekers' of external finance remain discouragement (much of it indirect, assuming the bank would say no) and the process of borrowing (hassle, expense etc)

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 had wanted to apply for loan/overdraft finance in the previous 12 months, and any barriers to applying.

The definitions used in this chapter have been revised twice in recent waves, most recently in Q4 2012:

Automatic renewals re-classified

From Q4 2011, an additional question was asked that identified whether, from the SME's perspective, their overdraft had been automatically renewed by their bank and, from Q2 2012, those experiencing an automatic renewal of an overdraft have been asked extra questions about that facility and have also been treated as having had an 'event'. As a result, these respondents can no longer be classified as either a 'Happy non-seeker' or a 'Would-be seeker' of finance. From the Q2 2012 report onwards, the definition of 'had an event' was amended to include these automatic renewals, and all respondents from Q4 2011 re-classified under the new definition.

'Happy non-seekers' and 'Would-be seekers' re-defined

A review was conducted of the way 'Happy non-seekers' were defined – those saying they neither applied, nor wanted to apply, for a facility in the 12 months prior to interview.

For Q4 2012 therefore, the question asked to separate this group from the 'Would-be seekers' was changed from:

- Would you say that you would like to have an overdraft / loan facility for the business, even though you haven't applied for one?

To

- Has anything stopped you applying for an overdraft / loan, or was it simply that you felt that the business did not need one?

Those that said yes to the new question were potential 'Would-be seekers' (depending on the answers they gave to both the loan and the overdraft questions) and those who said no were potential 'Happy non-seekers'. This means results from Q4 2012 onwards are not directly comparable to those in previous reports.

Would-be seekers – explanation codes

The final change made for Q4 2012, was to the list of reasons available to 'Would-be seekers', explaining why they had not applied for a facility. The option 'I prefer not to borrow' was removed, as it was felt this was too general and was likely to be followed by 'because .... it is too much hassle / too expensive etc.' and that these were the reasons that should be recorded. This means results from Q4 2012 onwards are not directly comparable to those in previous reports.

All SMEs have been allocated to one of three groups, encompassing both overdrafts and loans:

- **Had an event**: those SMEs reporting any Type 1, 2 or 3 loan or overdraft borrowing event in the previous 12 months, or an automatic renewal of an overdraft facility
- **Would-be seekers**: those SMEs that had not had a loan or overdraft borrowing event/automatic renewal, but said something had stopped them applying for either loan or overdraft funding in the previous 12 months
- **Happy non-seekers**: those SMEs that had not had a borrowing event/automatic renewal, and also said that nothing had stopped them applying for either loan or overdraft funding in the previous 12 months

Respondents can, and do, give different answers when asked about loans compared to when they are asked about overdrafts. Each respondent though can only be allocated to one of the three categories above, across both loans and overdrafts, starting with whether they are eligible for the 'Had an event' category (for loan and/or overdraft). If they are not, their eligibility for the 'Would-be seekers' category is checked (again for either loan or overdraft), and if they do not meet that definition either, then they are defined as a 'Happy non-seeker'.

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

The whole of the table below is based on the revised 'Had an event' definition described at the start of this chapter, but only the figures for Q4 2012 and Q1 2013 reflect the new 'Would-be seeker / Happy non-seeker' definition. This change in definition means that the shaded figures for Q4 2012 and Q1 2013 are not necessarily directly comparable to previous waves, but are shown in the time series here to help assess what impact the change in wording may have had:

Any events (overdraft and loan) All SMES, over time By date of interview	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013
Unweighted base:	*5010*	*5023*	*5000*	*5032*	*5000*	*5000*
Have had an event	23%	25%	24%	22%	21%	17%
Would-be seekers	8%	10%	10%	11%	7%	7%
Happy non-seekers	69%	65%	66%	67%	73%	76%

Q115/209 All SMEs – **new definitions** from Q4 2012 – shaded figures

This shows that the proportion of 'Would-be seekers', under its new definition, was slightly lower in both Q4 2012 and Q1 2013 than it had been in previous quarters. As the proportion reporting an event (for which the definition remains unchanged) continued to decline, the proportion of 'Happy non-seekers' reached its highest level since the survey started.

The table overleaf shows the proportion of 'Would-be seekers' by key demographic groups over time. Between Q4 2012 and Q1 2013 there were few differences by size, but by sector there were increases in the proportion of 'Would-be seekers' in Agriculture, Transport and Health back to levels seen before the change in definition, while those in the Other Community sector were now less likely to meet the definition of a 'Would-be seeker'.

The table below reports the proportion of 'Would-be seekers' within key sub-groups in each quarter, with the new definition for 'Would-be seeker' applied for Q4 2012 and Q1 2013:

Would-be seekers Over time – row percentages By date of interview	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013
All SMEs	**8%**	**10%**	**10%**	**11%**	**7%**	**7%**
0 employee	8%	11%	10%	12%	7%	7%
1-9 employees	10%	10%	10%	9%	7%	7%
10-49 employees	6%	6%	5%	7%	4%	4%
50-249 employees	4%	4%	6%	5%	2%	2%
Minimal external risk rating	4%	4%	6%	5%	2%	4%
Low external risk rating	6%	8%	7%	8%	5%	3%
Average external risk rating	7%	9%	7%	9%	5%	6%
Worse than average external risk rating	10%	12%	11%	14%	7%	7%
Agriculture	11%	10%	9%	7%	3%	7%
Manufacturing	4%	9%	7%	10%	8%	6%
Construction	10%	11%	12%	11%	6%	7%
Wholesale/Retail	9%	12%	10%	9%	9%	8%
Hotels and Restaurants	10%	12%	6%	12%	6%	7%
Transport	8%	11%	12%	16%	6%	11%
Property/Business Services etc.	8%	10%	8%	10%	7%	7%
Health	6%	10%	8%	10%	4%	9%
Other Community	5%	9%	13%	16%	9%	4%
All excluding PNBs	13%	15%	15%	17%	11%	12%

Q115/209 All SMEs base size varies by category– **new definitions** from Q4 2012

The analysis below has previously been provided on a 4 quarter 'year ending' basis to maximise the sample sizes of each sub-group. Given the definition change introduced for Q4 2012, the tables below have been based just on the Q4 2012 and Q1 2013 data, and base sizes will be built up over subsequent reports.

Even with the change in definition, SMEs with no employees remained 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' of external finance:

Any events (Overdraft and loan) Q4 12-Q1 13 All SMES	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*10,000*	*2000*	*3300*	*3200*	*1500*
Have had an event	19%	16%	26%	30%	27%
Would-be seekers	7%	7%	7%	4%	2%
Happy non-seekers	74%	77%	67%	67%	71%

Q115/209 All SMEs– **new definitions** from Q4 2012

Those currently using external finance were no more or less likely to be 'Would-be seekers', but remained much more likely to have had an event (44%).

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

Any events (Overdraft and loan) Q4 12-Q1 13 All SMEs with a risk rating	Total	Min	Low	Avge	Worse/ Avge
Unweighted base:	*10,000*	*1647*	*1915*	*2677*	*2936*
Have had an event	19%	23%	27%	22%	16%
Would-be seekers	7%	3%	4%	6%	7%
Happy non-seekers	74%	73%	69%	73%	77%

Q115/209 All SMEs– **new definitions** from Q4 2012

Across Q4 2012 and Q1 2013, by sector, the proportion of 'Would-be seekers' varied from 5% of those in Agriculture to 8% of those in the Wholesale/Retail and Transport sectors. More variation was seen in terms of 'Happy non-seekers', which accounted for 79% of those in the Other Community sector (who remained less likely to have had an event), to 65% of those in Agriculture (who remained more likely to have had an event):

Any events (overdraft and loan) All SMEs Q4 12-Q1 13	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*750*	*1040*	*1750*	*1010*	*900*	*905*	*1751*	*894*	*1000*
Have had an event	30%	17%	18%	25%	25%	18%	17%	16%	15%
Would-be seekers	5%	7%	7%	8%	7%	8%	7%	6%	6%
Happy non-seekers	65%	77%	75%	67%	68%	74%	75%	77%	79%

Q115/209 All SMEs

Starts were the most likely to be 'Would-be seekers' (10%). The proportion of 'Would-be seekers' then declines by age of business.

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 felt that something had stopped them) were asked about the barriers to making such an application.

These are reported below, firstly how frequently they were mentioned at all and secondly how frequently they were nominated as the main barrier. Note that this data *excludes* those who have had an automatic overdraft renewal, who prior to Q2 2012 might have answered this question as a 'Would-be seeker', and also reflects the new definitions introduced in Q4 2012 which were detailed at the start of this chapter, as well as the change in available answers.

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. Across Q4 2012 and Q1 2013, the reasons given were:

- **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 51% of all 'Would-be seekers', which is the equivalent of around 4% 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 44% of all 'Would-be seekers', which is the equivalent of around 3% of all SMEs
- **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. Note that this category used to include 'I prefer not to borrow' which was removed as an option in Q4 2012. This was given as a reason by 26% of all 'Would-be seekers' which is the equivalent of around 2% 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 14% of all 'Would-be seekers', which is the equivalent of around 1% of all SMEs

To reflect the changes made in Q4, the table below shows the results for Q4 2012 and Q1 2013 only, and all the reasons for not applying for a loan or overdraft that make up the summary categories above. Base sizes preclude these being split by size of SME at this stage for those Would-be seekers who did not apply for a loan, but this will become possible in future reports. 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 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 <u>not</u> applying when wished to Q4 12-Q1 13 only	Total	0-9 emps	10-249 emps	Total
Unweighted base:	***398***	***286***	***112***	***252***
Issues with <u>principle</u> of borrowing	23%	23%	14%	20%
-Not lose control of business	*13%*	*13%*	*7%*	*7%*
-Can raise personal funds if needed	*11%*	*11%*	*3%*	*8%*
-Prefer other forms of finance	*3%*	*3%*	*4%*	*9%*
-Go to family and friends	*5%*	*5%*	*1%*	*2%*
Issues with <u>process</u> of borrowing	51%	51%	41%	44%
-Would be too much hassle	*21%*	*21%*	*8%*	*10%*
-Thought would be too expensive	*34%*	*34%*	*19%*	*26%*
-Would be asked for too much security	*7%*	*7%*	*17%*	*5%*
-Too many terms and conditions	*14%*	*14%*	*9%*	*13%*
-Did not want to go through process	*11%*	*11%*	*4%*	*7%*
-Forms too hard to understand	*3%*	*3%*	*3%*	*4%*
Discouraged (any)	41%	41%	61%	43%
-Direct (put off by bank)	*15%*	*14%*	*28%*	*16%*
-Indirect (thought would be turned down)	*31%*	*31%*	*40%*	*29%*
Economic climate	14%	14%	7%	9%
Not the right time to apply	*14%*	*14%*	*7%*	*9%*

Q116/Q210 All 'Would-be seekers' SMEs that wished they had applied for an overdraft or a loan – NEW DEFINITION

The remaining analysis focuses on 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 reasons given by 'Would-be seekers' interviewed across Q4 2012 and Q1 2013, using the revised definition and answer codes. It shows that discouragement (much of it indirect) and the process of borrowing remained the two key barriers to applying for loans or overdrafts:

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 Q4 12-Q1 13 only	Total	0-9 emps	10-249 emps	Total
Unweighted base:	***398***	***286***	***112***	***252***
Discouraged (any)	36%	35%	56%	40%
-Direct (put off by bank)	*11%*	*10%*	*23%*	*14%*
-Indirect (thought would be turned down)	*25%*	*25%*	*32%*	*26%*
Issues with process of borrowing	38%	38%	28%	37%
Issues with principle of borrowing	8%	8%	7%	12%
Economic climate	8%	8%	3%	4%

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

As analysis can only be based on Q4 2012-Q1 2013 data, because of the changes detailed above, it is not possible to provide much further analysis by risk rating or sector, but this will become available again as sample sizes grow for these questions over future waves.

- In terms of external risk rating, a qualitative assessment shows that for both those with a minimal/low external risk rating and those with an average or worse than average risk rating, the main barriers to applying for an overdraft were discouragement and the process. For those who had wanted to apply for a loan, the main barriers for those with a minimal/low risk rating were discouragement and the principle of borrowing, while for those with an average/worse than average risk rating it was discouragement and the process of borrowing
- Base sizes are too small by sector for any analysis 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', the equivalent proportion of all SMEs:

Main reason for not applying Q4 12-Q1 13	Would-be overdraft seekers	All SMEs	Would-be loan seekers	All SMEs
Unweighted base:	*398*	*5000*	*252*	*5000*
Discouraged (any)	36%	2%	40%	1%
-Direct (put off by bank)	*11%*	*1%*	*14%*	*<1%*
-Indirect (thought I would be turned down)	*25%*	*1%*	*26%*	*1%*
Issues with process of borrowing	38%	2%	37%	1%
Issues with principle of borrowing	8%	<1%	12%	<1%
Economic climate	8%	<1%	4%	<1%
None of these/DK	10%	<1%	1%	<1%
Had event/Happy-non seeker	-	*94%*	-	*97%*

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

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 are 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 from 4.5 million.

The proportion of 'Happy non-seekers' declines to 58% but remains the largest group:

Any events (Overdraft <u>and</u> loan) Q4 12-Q1 13 – all SMES	All SMEs	All SMEs excl. pnb
Unweighted base:	***10,000***	***7313***
Have had an event	19%	31%
Would-be seekers	7%	11%
Happy non-seekers	74%	58%

Q115/209 All SMEs

For Q4 12 and Q1 13 combined, once the PNBs are excluded, 11% of remaining SMEs met the definition of a 'Would-be seeker', up from 7% for all SMEs. This increase is seen across size, sector and risk ratings, with those with 0 employees (12%), a worse than average external risk rating (13%), or in the Transport or Health sectors (both 13%) the most likely to be a 'Would-be seeker'.

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

<u>Main</u> reason for not applying when wished to – Q4 12-Q1 13 only	Would-be overdraft seekers	All SMEs excl. pnb	Would-be loan seekers	All SMEs excl. pnb
Unweighted base:	***398***	***7313***	***252***	***7313***
Discouraged (any)	36%	3%	40%	2%
-Direct (put off by bank)	*11%*	*1%*	*14%*	*1%*
-Indirect (thought I would be turned down)	*25%*	*2%*	*26%*	*1%*
Issues with <u>process</u> of borrowing	38%	4%	37%	2%
Issues with <u>principle</u> of borrowing	8%	1%	12%	1%
Economic climate	8%	1%	4%	<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

Half of SMEs, 48%, plan to grow in the next 12 months, with 7% planning to grow ‘substantially’. Bigger businesses, those with a worse than average external risk rating, and businesses in Transport, Manufacturing and the Other Community sector are more likely to be planning to grow. Most plan to grow through selling more in existing markets, very few expect to sell into new markets overseas

The economic climate remains the main obstacle (of those tested) to running the business in the next 12 months. In Q1 2013, 32% rated it a major obstacle, virtually unchanged from Q4 but down slightly from Q1 2012 (37%)

Access to finance was rated a major obstacle by 12% of all SMEs in Q1 2013, increasing to 18% once the ‘Permanent non-borrowers’ were excluded, and to 27% amongst those with any plans or aspirations to borrow in the next 3 months

15% of SMEs planned to apply for new or renewed external finance in the 3 months after interview, almost unchanged from previous quarters. Once the ‘Permanent non-borrowers’ were excluded, this increased to 25% of remaining SMEs, one of the highest levels recorded to date on the Monitor. Confidence amongst these potential applicants that the bank would agree to their request was slightly lower in Q1 2013 (40%) than in Q4 2012 (43%), due to a decline in confidence amongst smaller applicants. Over time, confidence amongst larger applicants has remained at around 60% confident the bank would agree to lend, while confidence amongst smaller applicants has been more volatile

19% of all SMEs in Q1 2013 met the definition of a ‘Future would-be seeker’ of finance. As in previous waves only a few (3%) had a specific need already identified. Excluding the ‘Permanent non-borrowers’ increases the proportion of ‘Future Would-be seekers’ to 32% of remaining SMEs, and this proportion has remained fairly stable over recent waves.

Amongst ‘Future would-be seekers’ the main barrier to applying for finance remained the current economic climate. This was mentioned by more SMEs in Q1 2013 (63%), due to more SMEs feeling that the predicted performance of their own business, rather than the economy more generally, was a barrier (23%). As a result, 20% of SMEs potentially interested in seeking finance (excluding the PNBs) are reluctant to borrow in the current economic climate, compared to 4% put off by the process of borrowing or 4% who feel discouraged from applying

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 objectives and perceived barriers to future business performance. 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.

Growth plans for next 12 months

SMEs were asked about their future growth plans.

For all quarters up to and including Q3 2012, this was phrased as 'Which of the following do you feel describes your growth objectives over the next year?' For Q4 2012 this was changed to 'Which of the following do you feel describes your plans **for the business** over the next year?' The answer codes remained unchanged.

As shown in the table below, SMEs gave similar answers to this question in each quarter, with 4 in 10 planning to grow. Over the course of 2012 that proportion declined slightly with more SMEs planning to stay the same size, but the Q1 2013 figures showed an improvement to 48% planning to grow, identical to the equivalent quarter of 2012:

Growth in next 12 mths All SMEs, over time By date of interview	Q1-2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013
Unweighted base:	***5063***	***5055***	***5010***	***5023***	***5000***	***5032***	***5000***	***5000***
Grow substantially	7%	6%	7%	6%	6%	8%	7%	7%
Grow moderately	37%	37%	37%	42%	41%	39%	37%	41%
All with objective to grow	***44%***	***43%***	***44%***	***48%***	***47%***	***47%***	***44%***	***48%***
Stay the same size	46%	47%	47%	42%	44%	45%	48%	43%
Become smaller	5%	5%	5%	5%	3%	4%	4%	4%
Plan to sell/pass on/close	5%	6%	4%	6%	5%	5%	5%	5%

Q225 All SMEs New Question wording in Q4 2012

Bigger SMEs remained more likely to be planning to grow compared to smaller businesses, although there was relatively little difference by size in the proportion planning to grow 'substantially':

Plans to grow in next 12 mths Q1 13 only	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*5000*	*1000*	*1650*	*1600*	*750*
Grow substantially	7%	6%	9%	8%	9%
Grow moderately	41%	41%	43%	46%	57%
All with objective to grow	***48%***	***47%***	***52%***	***54%***	***66%***
Stay the same size	43%	43%	41%	42%	32%
Become smaller	4%	4%	4%	3%	2%
Plan to sell/pass on/close	5%	5%	3%	2%	*

Q225 All SMEs New Question wording in Q4 2012

SMEs that met the 'Permanent non-borrower' definition in Q1 2013 were no less likely to have plans to grow than those that didn't meet the definition (both 48%).

SMEs that had injected personal funds in the previous 12 months were more likely to be planning to grow (59%) than those who had not (43%) and this was true for Starts (80% v 70%) as well as older businesses (48% v 38%).

The table on the next page summarises the growth plans/objectives of SMEs by key demographics over time. There were some changes:

- Compared to Q1 2012, in Q1 2013 more SMEs in Transport and fewer SMEs in the Other Community sector expected to grow. More 'Permanent non-borrowers' now plan to grow, and there was no difference between them and other SMEs
- The increase in the proportion expecting to grow between Q4 2012 and Q1 2013 was seen across all size bands, except those with 10-49 employees, and across all external risk ratings except those with a low rating. Those in Manufacturing in particular were now more likely to be predicting growth

Objective to grow (any) in next 12 months Over time – row percentages By date of interview	Q1-2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013
All SMEs	**44%**	**43%**	**44%**	**48%**	**47%**	**47%**	**44%**	**48%**
0 employee	41%	39%	43%	46%	46%	45%	41%	47%
1-9 employees	50%	50%	49%	51%	50%	49%	49%	51%
10-49 employees	57%	56%	56%	56%	59%	52%	58%	54%
50-249 employees	64%	61%	62%	65%	66%	61%	61%	66%
Minimal external risk rating	39%	38%	37%	49%	48%	42%	34%	43%
Low external risk rating	30%	36%	41%	39%	41%	35%	39%	40%
Average external risk rating	37%	36%	35%	43%	40%	38%	36%	44%
Worse than average external risk rating	52%	49%	53%	54%	53%	56%	50%	55%
Agriculture	45%	53%	37%	42%	44%	35%	38%	42%
Manufacturing	39%	46%	42%	51%	47%	50%	39%	53%
Construction	31%	28%	42%	37%	38%	33%	37%	38%
Wholesale/Retail	55%	46%	48%	50%	55%	51%	46%	51%
Hotels and Restaurants	38%	41%	45%	39%	33%	42%	38%	40%
Transport	39%	42%	44%	38%	40%	41%	38%	55%
Property/Business Services etc.	45%	50%	46%	49%	57%	52%	50%	52%
Health	50%	49%	55%	53%	48%	49%	45%	52%
Other Community	57%	42%	40%	66%	47%	58%	48%	54%
All ‘Permanent non-borrowers’	31%	34%	37%	38%	42%	41%	37%	48%
All excluding PNBs	50%	47%	48%	51%	50%	49%	47%	48%

Q225 All SMEs base size varies by category

From Q4 2012, those planning to grow were asked a newly simplified question about how this growth would be achieved. Most of those planning to grow, 89%, planned to increase sales in existing markets, the equivalent of 4 out of 10 of all SMEs:

How plan to grow Q1 13	All planning to grow	All SMEs
Unweighted base:	*2544*	*5000*
Increase sales in existing markets	89%	43%
Sell in new markets in UK	23%	11%
Sell in new markets overseas	7%	3%

Q226 All SMEs planning to grow excluding DK / All SMEs

Overall, more SMEs planned to grow by selling to new markets in the UK (11%) than overseas (3%).

Exporters were more likely to be predicting growth (In Q1 2013, 64% reported that they planned to grow) than non-exporters (47%). As the table below shows, while a third of those already exporting planned to sell into new markets overseas, very few who do not currently export thought that they would start to do so:

How plan to grow Q1 13 – those planning to grow	All who plan to grow and currently export	All who plan to grow and do not currently export
Unweighted base:	*482*	*2062*
Increase sales in existing markets	86%	89%
Sell in new markets in UK	36%	22%
Sell in new markets overseas	38%	4%

Q226 All SMEs planning to grow excluding DK

Obstacles to running the business in the next 12 months

From Q4 2011, SMEs have been 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 2013 as in all previous quarters:

- The **current economic climate** was rated as a major obstacle (8-10) by 32% of SMEs in Q1 2013, and across all sizes of SME
- **Legislation and regulation** was the next most important obstacle but, by comparison to the economic climate, this was rated a major obstacle by 14% of SMEs
- **Cash flow and issues with late payment** was rated a major obstacle by 12%
- **Access to external finance** was similarly rated, with 12% of SMEs seeing it as a major obstacle
- 7% of SMEs rated **availability of relevant advice** for their business as a major obstacle for the year ahead
- Finally, 3% rated **staff related issues** as a major obstacle

Details of how the scores have changed over time is provided later in this chapter.

Extent of obstacles in next 12 months Q1 13 only – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*5000*	*1000*	*1650*	*1600*	*750*
The current economic climate (mean score)	5.6	5.6	5.9	5.8	5.5
- 8-10 major obstacle	*32%*	*31%*	*34%*	*30%*	*21%*
- 5-7 moderate obstacle	*36%*	*35%*	*38%*	*42%*	*52%*
- 1-4 limited obstacle	*32%*	*33%*	*27%*	*28%*	*27%*
Legislation and regulation (mean score)	3.7	3.5	4.4	4.6	4.4
- 8-10 major obstacle	*14%*	*13%*	*20%*	*21%*	*15%*
- 5-7 moderate obstacle	*24%*	*23%*	*29%*	*30%*	*34%*
- 1-4 limited obstacle	*59%*	*63%*	*50%*	*48%*	*49%*
Cash flow/issues with late payment (mean score)	3.4	3.3	3.8	3.9	3.6
- 8-10 major obstacle	*12%*	*11%*	*16%*	*14%*	*8%*
- 5-7 moderate obstacle	*22%*	*21%*	*24%*	*28%*	*27%*
- 1-4 limited obstacle	*64%*	*66%*	*60%*	*58%*	*64%*
Access to external finance (mean score)	3.1	3.0	3.5	3.1	2.8
- 8-10 major obstacle	*12%*	*11%*	*15%*	*11%*	*5%*
- 5-7 moderate obstacle	*16%*	*15%*	*21%*	*18%*	*18%*
- 1-4 limited obstacle	*67%*	*69%*	*61%*	*67%*	*74%*
Availability of relevant advice (mean score)	2.8	2.7	3.0	2.8	2.6
- 8-10 major obstacle	*7%*	*7%*	*7%*	*5%*	*3%*
- 5-7 moderate obstacle	*18%*	*17%*	*23%*	*21%*	*16%*
- 1-4 limited obstacle	*72%*	*73%*	*69%*	*73%*	*79%*
Staff related issues (mean score)	1.7	1.4	2.5	3.2	3.2
- 8-10 major obstacle	*3%*	*2%*	*5%*	*7%*	*5%*
- 5-7 moderate obstacle	*7%*	*4%*	*15%*	*22%*	*25%*
- 1-4 limited obstacle	*87%*	*90%*	*80%*	*70%*	*69%*

Q227a All SMEs

The current economic climate was the most important obstacle of those tested for SMEs with each external risk rating:

Extent of obstacles in next 12 months Q1 13 only – all SMEs 8-10 impact score	Total	Min	Low	Avge	Worse/Avge
Unweighted base:	*5000*	*821*	*1004*	*1337*	*1468*
The current economic climate	32%	32%	32%	32%	32%
Legislation and regulation	14%	16%	17%	16%	14%
Cash flow/issues with late payment	12%	11%	8%	14%	13%
Access to external finance	12%	5%	8%	11%	15%
Availability of relevant advice	7%	5%	3%	7%	8%
Staff related issues	3%	5%	3%	3%	2%

Q227a All SMEs for whom risk ratings known

There was still relatively little difference in the perceived obstacles between those planning to grow and those with no such plans, with the exception of the current economic climate, still seen as slightly more of an obstacle by those with no plans to grow:

Extent of obstacles in next 12 months Q1 13 only – all SMEs 8-10 impact score	Total	Plan to grow	No plan to grow
Unweighted base:	*5000*	*2592*	*2408*
The current economic climate	32%	29%	34%
Legislation and regulation	14%	13%	16%
Cash flow/issues with late payment	12%	13%	12%
Access to external finance	12%	13%	11%
Availability of relevant advice	7%	8%	6%
Staff related issues	3%	3%	2%

Q227a All SMEs

More differences were seen depending on whether the SME was a 'Permanent non-borrower' or not. Those that met the definition were less likely to rate any of these obstacles 8-10, notably cash flow and access to finance:

Extent of obstacles in next 12 months Q1 13 only – all SMEs 8-10 impact score	Total	PNB	Not PNB
Unweighted base:	*5000*	*1351*	*3649*
The current economic climate	32%	25%	36%
Legislation and regulation	14%	10%	18%
Cash flow/issues with late payment	12%	5%	17%
Access to external finance	12%	3%	18%
Availability of relevant advice	7%	6%	8%
Staff related issues	3%	1%	4%

Q227a All SMEs

Clear differences were also 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 future 'Happy non-seekers' of external finance. Those with plans/aspirations to apply were more likely to see these issues as major obstacles, notably access to finance, cash flow and the economic climate:

Extent of obstacles in next 12 months Q1 13 only – all SMEs 8-10 impact score	Total	Plan to apply or FWBS	Future HNS	Future HNS excl. PNB
Unweighted base:	*5000*	*1798*	*3202*	*1851*
The current economic climate	32%	43%	26%	27%
Legislation and regulation	14%	20%	12%	15%
Cash flow/issues with late payment	12%	22%	7%	11%
Access to external finance	12%	27%	4%	7%
Availability of relevant advice	7%	10%	6%	5%
Staff related issues	3%	5%	2%	2%

Q227a All SMEs

The future ‘Happy non-seeker’ category described above includes those SMEs that met the definition of a ‘Permanent non-borrower’ which indicates that they are unlikely to borrow. Such SMEs have been excluded from the ‘Happy non-seeker’ definition in the final column above. This increases all the scores slightly.

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

Extent of obstacles in next 12 months Q1 13 only – all SMEs 8-10 impact scores	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Base:	*375*	*520*	*875*	*505*	*450*	*453*	*875*	*447*	*500*
The current economic climate	31%	24%	38%	34%	39%	27%	32%	21%	28%
Legislation and regulation	18%	10%	19%	11%	22%	15%	15%	8%	11%
Cash flow/issues with late payment	10%	8%	15%	14%	14%	13%	14%	5%	10%
Access to external finance	10%	6%	12%	9%	19%	14%	13%	11%	13%
Availability of relevant advice	4%	7%	7%	7%	9%	8%	7%	4%	12%
Staff related issues	3%	2%	3%	3%	7%	1%	3%	3%	2%

Q227All SMEs

Those in the Hotels and Restaurants sector had more concerns generally and were more likely to rate legislation and regulation and access to finance as major obstacles.

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

Six waves of data can now be compared. The summary table below shows that the current economic climate was most likely to be rated a 'major obstacle' in all quarters:

Extent of obstacles in next 12 months All SMEs over time 8-10 impact score By date of interview	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013
Unweighted base:	*5010*	*5023*	*5000*	*5032*	*5000*	*5000*
The current economic climate	35%	37%	35%	34%	31%	32%
Legislation and regulation	14%	14%	14%	13%	12%	14%
Cash flow/issues with late payment	11%	14%	14%	14%	11%	12%
Access to external finance	10%	11%	11%	13%	10%	12%
Availability of relevant advice	5%	5%	6%	6%	6%	7%
Staff related issues	3%	3%	2%	2%	3%	3%

Q227 All SMEs

Overall the scores have been relatively consistent over time, but compared to the equivalent quarter of 2012, slightly fewer SMEs in Q1 2013 rated the economic climate as a 'major obstacle'.

Access to finance is the key theme of this report. In Q1 13, 12% of SMEs rated access to finance as a major obstacle, and those who did so were also more likely to rate the current economic climate as a major obstacle (57%) as well as cashflow (39%), legislation/regulation (27%) and advice (20%).

Over time there was relatively little variation in the overall proportion of SMEs rating this as a 'major obstacle'. The table overleaf shows how this issue has been rated by key demographics over time. Compared to Q1 2012, SMEs in Q1 2013 with 50-249 employees or in the Manufacturing sector were less likely to see access to finance as a 'major obstacle', while those in Property/Business Services and Health were more likely to do so, as were those with any plans/inclination to borrow in the next 3 months.

Access to finance – 8-10 impact scores Over time – row percentages By date of interview	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013
All SMEs	10%	11%	11%	13%	10%	12%
0 employee	10%	10%	10%	12%	9%	11%
1-9 employees	12%	15%	15%	15%	13%	15%
10-49 employees	12%	10%	11%	11%	9%	11%
50-249 employees	8%	8%	8%	7%	8%	5%
Minimal external risk rating	8%	4%	12%	9%	8%	5%
Low external risk rating	7%	11%	8%	10%	8%	8%
Average external risk rating	9%	9%	6%	10%	8%	11%
Worse than average external risk rating	12%	13%	14%	14%	11%	15%
Agriculture	10%	11%	8%	13%	10%	10%
Manufacturing	8%	12%	12%	12%	7%	6%
Construction	9%	13%	11%	11%	11%	12%
Wholesale/Retail	15%	13%	14%	12%	15%	9%
Hotels and Restaurants	14%	21%	15%	16%	14%	19%
Transport	14%	14%	15%	17%	11%	14%
Property/Business Services etc.	8%	8%	9%	12%	9%	13%
Health	7%	5%	7%	7%	4%	11%
Other Community	9%	12%	15%	19%	9%	13%
Use external finance	13%	15%	16%	19%	14%	16%
Plan to borrow/FWBS	22%	22%	24%	26%	21%	27%
Future Happy non-seekers	4%	4%	4%	5%	5%	4%
All SMEs excluding PNBs	15%	15%	16%	18%	14%	18%

Q227a_2 All SMEs, base sizes vary

Financial requirements in the next 3 months

SMEs were asked to consider their financial plans over the next 3 months. The proportion planning to apply/renew had changed very little over time:

% likely in next 3 months All SMEs, over time By date of interview	Q1-2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013
Unweighted base:	*5063*	*5055*	*5010*	*5023*	*5000*	*5032*	*5000*	*5000*
Will have a need for (more) external finance	12%	10%	11%	13%	13%	11%	13%	13%
Will apply for more external finance	9%	7%	8%	10%	9%	8%	8%	9%
Renew existing borrowing at same level	13%	8%	8%	9%	8%	6%	8%	8%
Any apply/renew	*19%*	*13%*	*14%*	*16%*	*14%*	*12%*	*14%*	*15%*
Reduce the amount of external finance used	11%	10%	7%	11%	8%	7%	8%	7%
Inject personal funds into business	27%	26%	26%	30%	23%	23%	22%	22%

Q229 All SMEs

In all quarters to date, more SMEs have identified a need for finance than thought they would apply for it (13% v 9% in Q1). The predicted level of applications/renewal in the next quarter was also typically higher than the actual level of applications/renewal seen subsequently.

Since Q2 2012, fewer SMEs have thought it likely that personal funds will be injected into the business (22% in Q1 2013).

Amongst those SMEs that are companies, there was little interest in seeking new equity finance, and the proportion has declined slowly over time:

% likely in next 3 months All companies, over time By date of interview	Q1-2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013
Unweighted base:	*2981*	*2923*	*2714*	*2904*	*2905*	*2975*	*2837*	*2944*
Any new equity	*7%*	*5%*	*6%*	*5%*	*4%*	*4%*	*4%*	*2%*

Q229 All companies

In Q1 2013, there continued to be a difference in appetite for finance between those with employees and those without, as seen in previous quarters. Smaller SMEs were also more likely to anticipate an injection of personal funds into the business:

% likely in next 3 months Q1 only – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*5000*	*1000*	*1650*	*1600*	*750*
Will have a need for (more) external finance	13%	12%	17%	15%	12%
Will apply for more external finance	9%	8%	13%	11%	10%
Renew existing borrowing at same level	8%	8%	10%	13%	12%
Any apply/renew	*15%*	*13%*	*19%*	*20%*	*19%*
Reduce the amount of external finance used	7%	7%	9%	10%	8%
Inject personal funds into business	22%	24%	19%	8%	6%

Q229 All SMEs

Before looking at future applications for finance in more detail, the analysis below looks at the role of personal funding in SMEs. From Q2 2012, data has been available on the extent to which personal funds have either been injected into SMEs in the past, or such injections were thought likely in the future.

The table below shows how the injection of personal funds past and present combine, so that trends over time can be established. Across the four quarters for which data is available, half of SMEs had neither put in funds, nor thought it likely they would do so, and most of those who thought it likely they would put funds in had also done so in the past:

Injections of personal funds All SMEs, over time By date of interview	Q2 2012	Q3 2012	Q4 2012	Q1 2013
Unweighted base:	*5000*	*5032*	*5000*	*5000*
Have injected personal funds and likely to do so again	17%	18%	15%	16%
Have not put in personal funds but likely to do so	5%	5%	7%	7%
Have injected personal funds but unlikely to do so again	24%	28%	26%	24%
Have not put in personal funds and not likely to do so	53%	49%	53%	54%

Q229/Q15d-d2 All SMEs

The most likely to have both put personal funds in and thought it likely they would do so again, were smaller SMEs with 0 employees (17% in Q1), together with those with a worse than average risk rating (20% in Q1) and those in the Other Community sector (27%).

Turning back to future applications for external finance, the table overleaf summarises the change in likely applications/renewals over time for key demographic groups. Whilst appetite for finance remained relatively stable overall, once the ‘Permanent non-borrowers’ were excluded, it was at one of the highest levels seen to date in this survey (25%). Since the equivalent quarter in 2012, appetite for finance had increased for those in Wholesale/Retail, and declined slightly for those with 1-9 employees or in Agriculture or Construction:

% likely to apply or renew in next 3 months Over time – row percentages By date of interview	Q1-2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013
All SMEs	**19%**	**13%**	**14%**	**16%**	**14%**	**12%**	**14%**	**15%**
0 employee	17%	11%	12%	14%	12%	10%	13%	13%
1-9 employees	24%	18%	21%	23%	20%	18%	18%	19%
10-49 employees	24%	20%	24%	23%	22%	19%	19%	20%
50-249 employees	22%	15%	25%	20%	21%	18%	17%	19%
Minimal external risk rating	13%	14%	16%	15%	12%	16%	20%	14%
Low external risk rating	17%	14%	16%	20%	15%	13%	19%	16%
Average external risk rating	18%	12%	9%	16%	12%	11%	13%	15%
Worse than average external risk rating	18%	12%	16%	17%	16%	13%	13%	15%
Agriculture	22%	21%	17%	21%	18%	12%	21%	16%
Manufacturing	16%	13%	13%	11%	24%	16%	13%	12%
Construction	14%	12%	13%	18%	13%	9%	15%	11%
Wholesale/Retail	24%	17%	18%	15%	16%	17%	17%	24%
Hotels and Restaurants	20%	13%	22%	22%	15%	17%	15%	18%
Transport	15%	14%	17%	15%	12%	14%	15%	13%
Property/Business Services etc.	20%	10%	12%	15%	13%	9%	10%	14%
Health	19%	12%	11%	13%	9%	10%	14%	13%
Other Community	18%	12%	14%	18%	14%	16%	15%	14%
Objective to grow	24%	18%	19%	21%	17%	15%	18%	18%
No objective to grow	14%	9%	10%	11%	11%	9%	11%	12%
All SMEs excluding PNBs	27%	19%	22%	23%	21%	18%	22%	25%

Q229 All SMEs base size varies by category

Working capital remained the most frequently mentioned purpose of future funding. Since the equivalent quarter of 2012, there had been a decline in the proportion of potential applicants that said they would use the funds for plant and machinery, or for new products and services, with more mentions of funding expansion in the UK:

Use of new/renewed facility All planning to seek/renew, over time By date of interview	Q1-2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013
Unweighted base:	*1127*	*890*	*1046*	*1062*	*977*	*842*	*876*	*931*
Working capital	62%	67%	59%	60%	69%	60%	62%	61%
Plant & machinery	24%	29%	26%	29%	25%	27%	24%	23%
UK expansion	23%	27%	22%	22%	20%	26%	14%	28%
Premises	8%	10%	7%	8%	5%	8%	6%	5%
New products or services	9%	9%	7%	13%	10%	7%	9%	8%
Expansion overseas	4%	4%	4%	5%	3%	4%	1%	3%

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

Overdrafts and loans remained the forms of funding most likely to be considered. Over time, levels of consideration for grants increased, and there was somewhat less of an appetite for loans/equity from friends and family:

% of those seeking/renewing finance that would consider form of funding, over time By date of interview	Q1-2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013
Unweighted base:	*1127*	*890*	*1046*	*1062*	*977*	*842*	*876*	*931*
Bank overdraft	53%	51%	49%	48%	56%	49%	53%	50%
Bank loan/Commercial mortgage	37%	44%	40%	40%	40%	43%	35%	40%
Grants	28%	36%	35%	35%	38%	36%	36%	43%
Loans/equity from family/friends	12%	23%	22%	23%	21%	21%	20%	16%
Leasing or hire purchase	18%	19%	18%	21%	23%	24%	21%	21%
Credit cards	9%	19%	17%	19%	20%	16%	20%	18%
Loans/equity from directors	11%	12%	18%	14%	10%	13%	10%	12%
Loans from other 3rd parties	13%	13%	10%	11%	7%	15%	12%	15%
Invoice finance	9%	6%	6%	9%	9%	7%	9%	8%

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

Around 7 out of 10 potential applicants each quarter would consider at least one of what might be considered 'core' banking products (loan, overdraft or credit card), and this has varied relatively little over time. 0 employee businesses were slightly more likely to consider these core products (around three-quarters do) than bigger companies (consideration was around two-thirds for those with 10-249 employees).

Around a quarter of potential applicants each quarter would **only** consider these core products, and this had also remained stable over time.

The increased consideration of grants was due to higher levels of consideration amongst both the smallest SMEs planning to seek/renew finance in the next 3 months and also those with 10-49 employees:

% of those seeking/renewing finance would consider funding – Q1 13 only	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*931*	*124*	*331*	*335*	*141*
Bank overdraft	50%	48%	54%	46%	43%
Bank loan/Commercial mortgage	40%	39%	44%	36%	41%
Grants	43%	47%	37%	40%	27%
Loans/equity from family & friends	16%	17%	16%	10%	2%
Leasing or hire purchase	21%	21%	20%	35%	38%
Credit cards	18%	20%	15%	14%	21%
Loans/equity from directors	12%	11%	12%	17%	18%
Loans from other 3rd parties	15%	17%	10%	14%	12%
Invoice finance	8%	7%	8%	13%	16%

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

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. During 2011, overall confidence increased each quarter reaching 52% in Q1 2012 before declining during Q2 and Q3 2012 to 33%. Q4 saw something of an improvement to 43% but there was no further increase in confidence in Q1 2013 (40%), and confidence was clearly lower than in the equivalent quarter of 2012 (52%):

Confidence bank would lend All planning to seek finance, over time by date of interview	Q1-2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013
Unweighted base:	*861*	*707*	*763*	*834*	*781*	*649*	*669*	*713*
Very confident	22%	14%	22%	19%	15%	10%	15%	17%
Fairly confident	20%	29%	24%	33%	24%	23%	28%	23%
Overall confidence	*42%*	*43%*	*46%*	*52%*	*39%*	*33%*	*43%*	*40%*
Neither/nor	33%	36%	26%	20%	25%	22%	23%	32%
Not confident	26%	20%	28%	28%	35%	45%	33%	27%
Net confidence (confident – not confident)	*+16*	*+23*	*+18*	*+24*	*+4*	*-12*	*+10*	*+13*

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

Fewer potential applicants were 'not confident' that the bank would agree, as the proportion who were 'not sure' increased (now 32%), so as a result *net* confidence improved slightly between Q4 2012 and Q1 2013 to +13.

Over time, confidence amongst potential applicants with 0-9 employees was more volatile, as the table below shows, and it was the slight decline in confidence amongst these smaller SMEs in Q1 2013 (to 40%) that resulted in the decrease in confidence overall. Confidence amongst bigger potential applicants with 10-249 employees remained higher than for smaller potential applicants and more stable as the improvement in Q1 2013 saw confidence back to levels seen in 2011 and early 2012:

Overall confidence bank would lend All planning to seek finance, over time By date of interview	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%
Q2 2012	39%	37%	60%
Q3 2012	33%	32%	54%
Q4 2012	43%	43%	55%
Q1 2013	40%	40%	60%

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

The table below shows how, each quarter, potential applicants with a minimal/low external risk rating were more confident of success. Their confidence declined in Q2 and Q3 2012, as overall, but then increased again (to 70% in Q1 2013) in a way it had not for those with an average or worse than average external risk rating (33% in Q1 2013):

Overall confidence bank would lend All planning to seek finance, over time By date of interview	Overall	Min/low	Av/Worse than avge
Q1-2 2011	42%	57%	38%
Q3 2011	43%	65%	38%
Q4 2011	46%	69%	46%
Q1 2012	52%	65%	49%
Q2 2012	39%	50%	37%
Q3 2012	33%	51%	28%
Q4 2012	43%	58%	43%
Q1 2013	40%	70%	33%

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

Analysis shows that overall confidence in Q1 2013 remained higher amongst those planning to renew (49%) than amongst those planning to apply for new facilities (29%). Over time, around a third of those seeking new facilities were confident, and half of those planning to renew, with the higher scores in Q1 2012 an exception to this trend in both cases.

These levels of confidence remained in contrast to the actual outcome of applications. Success rates for renewals are around 90% compared to confidence levels of 49%, while for new funds success rates to date are around 56% against a confidence level of 29%.

Key driver analysis of all interviews conducted up to and including Q3 2012 showed that businesses with a good external risk rating, plans to grow and awareness of Taskforce initiatives such as mentors and the appeals process, were typically more confident about success with a future application. Smaller businesses concerned about access to finance or cash flow issues, who had wanted to apply before but felt unable to, or who had experienced a self-reported credit incident, were typically less confident. This analysis will be updated in future reports.

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

In Q1 2013, 15% of all SMEs reported plans to apply/renew facilities in the following 3 months, leaving the majority (85%) with no such plans. A third of that majority (35%) were current users of external finance. The rest were not. This means that, for Q1 2013, 59% of all SMEs neither used external finance nor had any immediate plans to apply for any. This proportion had increased over time from 46% in Q1-2 2011.

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 their applying, were a need to emerge

These definitions have not been changed, unlike the equivalent question for *past* behaviour covered earlier in this report. However, the option 'I prefer not to borrow' as a reason why 'Future would-be seekers' were not planning to seek facilities was removed in Q4 2012, as it was for past behaviour.

The table below shows that in Q1 2013 the 'Happy non-seekers' remained the largest group, representing around two-thirds of SMEs, and increasing steadily since Q1 2012. As a result there were slightly fewer 'Future would-be seekers' of finance (19%):

Future finance plans All SMEs, over time By date of interview	Q1-2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013
Unweighted base:	*5063*	*5055*	*5010*	*5023*	*5000*	*5032*	*5000*	*5000*
Plan to apply/renew	19%	13%	14%	16%	14%	12%	14%	15%
'Future would-be seekers' – with identified need	2%	2%	2%	2%	3%	3%	2%	3%
'Future would-be seekers' – no immediate identified need	16%	20%	18%	23%	19%	22%	19%	16%
'Happy non-seekers'	64%	65%	66%	60%	64%	63%	65%	67%

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 in Q1 a third (32%) could be described as 'Future would-be seekers':

Future finance plans SMEs excluding PNB, over time By date of interview	Q1-2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013
Unweighted base:	*4047*	*3968*	*3822*	*4022*	*3894*	*3732*	*3664*	*3649*
Plan to apply/renew	27%	19%	22%	23%	21%	18%	22%	25%
'Future would-be seekers' – with identified need	3%	3%	3%	3%	5%	4%	4%	5%
'Future would-be seekers' – no immediate identified need	23%	31%	28%	32%	29%	33%	29%	27%
'Happy non-seekers'	48%	46%	47%	42%	45%	44%	44%	44%

Q230/239 All SMEs excluding the 'permanent non-borrowers'

The table below shows how the proportion of 'Future would-be seekers' changed over time. The overall figure for Q1 2013 was lower than the comparable quarter of 2012 (19% v 25%). Compared to Q4 2012, the proportion of 'Future would-be seekers' had:

- declined for those in the Agriculture, Wholesale/Retail and Other Community sectors
- increased for those in the Transport and Health sectors

Future would-be seekers Over time – row percentages By date of interview	Q1-2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013
All SMEs	**18%**	**22%**	**20%**	**25%**	**22%**	**25%**	**21%**	**19%**
0 employee	18%	23%	20%	26%	24%	25%	22%	19%
1-9 employees	18%	22%	21%	22%	19%	23%	19%	19%
10-49 employees	10%	16%	13%	14%	16%	14%	14%	15%
50-249 employees	8%	15%	15%	16%	14%	13%	15%	16%
Minimal external risk rating	8%	19%	11%	14%	18%	13%	14%	10%
Low external risk rating	13%	15%	14%	19%	22%	23%	17%	18%
Average external risk rating	19%	20%	20%	20%	22%	20%	19%	19%
Worse than average external risk rating	20%	26%	23%	29%	23%	26%	23%	19%
Agriculture	15%	22%	20%	27%	23%	25%	22%	15%
Manufacturing	17%	22%	18%	29%	17%	26%	20%	17%
Construction	19%	25%	25%	24%	29%	23%	20%	21%
Wholesale/Retail	21%	26%	25%	27%	25%	25%	24%	16%
Hotels and Restaurants	23%	20%	17%	27%	27%	24%	26%	22%
Transport	24%	21%	24%	26%	21%	27%	21%	28%
Property/Business Services etc.	15%	22%	17%	23%	20%	26%	21%	18%
Health	13%	16%	18%	20%	14%	21%	13%	20%
Other Community	18%	18%	14%	22%	22%	23%	22%	15%
All SMEs excluding PNBs	26%	34%	31%	35%	34%	37%	33%	32%

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 'Future would-be seekers' in Q1 2013 for thinking they would not apply for finance in the next three months, and highlights the continued impact of the current economic climate:

Reasons for not applying (all mentions) All 'Future would-be seekers' Q1 13 only	Q1 overall	Q1 0-9 emps	Q1 10-249 emps
Unweighted base:	*867*	*513*	*354*
Reluctant to borrow now (any)	64%	63%	76%
-Prefer not to borrow in economic climate	*41%*	*40%*	*47%*
-Predicted performance of business	*24%*	*24%*	*29%*
Issues with principle of borrowing	7%	7%	2%
-Not lose control of business	*1%*	*1%*	*1%*
-Can raise personal funds if needed	*3%*	*3%*	*1%*
-Prefer other forms of finance	*1%*	*1%*	*1%*
-Go to family and friends	*2%*	*2%*	*-*
Issues with process of borrowing	17%	17%	10%
-Would be too much hassle	*8%*	*8%*	*3%*
-Thought would be too expensive	*8%*	*8%*	*6%*
-Bank would want too much security	*4%*	*4%*	*1%*
-Too many terms and conditions	*1%*	*1%*	*
-Did not want to go through process	-	-	-
-Forms too hard to understand	*1%*	*1%*	-
Discouraged (any)	14%	14%	8%
-Direct (Put off by bank)	3%	3%	1%
-Indirect (Think I would be turned down)	*11%*	*12%*	*8%*

Q239 'Future would-be seekers' SMEs

Those SMEs that gave more than one reason for being unlikely to apply for new/renewed facilities were asked for the main reason, and all the main reasons given over time are shown below.

The main change between Q4 2012 and Q1 2013 was the proportion mentioning a reluctance to borrow in the current economic climate, which at 63% was the highest level seen to date in this survey. This was due to a quarter of 'Future would-be seekers' nominating the performance of their business in the current climate as their main reason for not applying.

From Q4, as described above, the net 'Issues with principle of borrowing' score no longer includes the option 'I prefer not to borrow', and this was less likely to be nominated as the main reason for not applying for external finance in Q1 2013 (6%) than in previous quarters. A minority of 'Future would-be seekers' cite discouragement, almost all of it indirect. This proportion had increased over time from 10% in Q3 2011 to 17% in Q4 2012, but was 12% in Q1 2013:

Main reason for not applying 'Future would-be seekers' over time By date of interview	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013
Unweighted base:	*954*	*862*	*980*	*927*	*975*	*880*	*867*
Reluctant to borrow now (any)	43%	52%	54%	49%	49%	50%	63%
-Prefer not to borrow in economic climate	*32%*	*39%*	*37%*	*31%*	*36%*	*37%*	*40%*
-Predicted performance of business	*10%*	*14%*	*17%*	*18%*	*13%*	*13%*	*23%*
Issues with principle of borrowing	25%	13%	14%	14%	16%	12%	6%
Issues with process of borrowing	15%	15%	14%	14%	12%	15%	13%
Discouraged (any)	10%	14%	11%	14%	16%	17%	12%
-Direct (Put off by bank)	*<1%*	*2%*	*2%*	*1%*	*1%*	*1%*	*3%*
-Indirect (Think I would be turned down)	*10%*	*12%*	*9%*	*13%*	*15%*	*16%*	*10%*

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.

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 – and the main barriers to borrowing have been slightly different for the two groups.

Results for these SMEs are reported on a two quarter rolling basis to boost base sizes for the 'Future would-be seekers' with an identified need (there are no Q3-4 2012 rolling figures due to changes made to the questionnaire in Q4 2012):

Main reason for not applying The 'Future would-be seekers'	Identified need				No identified need			
	Q4-1 2012	*Q1-2*	*Q2-3*	*Q4-1 2013*	*Q4-1 2012*	*Q1-2*	*Q2-3*	*Q4-1 2013*
Unweighted base:	*179*	*213*	*226*	*220*	*1663*	*1694*	*1676*	*1527*
Reluctant to borrow now (any)	42%	38%	35%	37%	54%	53%	51%	59%
-Prefer not to borrow in economic climate	*39%*	*33%*	*30%*	*32%*	*37%*	*34%*	*35%*	*39%*
-Predicted performance of business	*3%*	*5%*	*5%*	*5%*	*17%*	*19%*	*17%*	*20%*
Issues with <u>principle</u> of borrowing	3%	4%	3%	3%	14%	15%	17%	10%
Issues with <u>process</u> of borrowing	12%	10%	12%	22%	15%	14%	13%	13%
Discouraged (any)	38%	44%	46%	36%	10%	8%	11%	12%
- Direct (Put off by bank)	*5%*	*6%*	*4%*	*3%*	*1%*	*1%*	*1%*	*2%*
-Indirect (Think I would be turned down)	*33%*	*39%*	*42%*	*33%*	*8%*	*7%*	*9%*	*10%*

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

This shows that for those with an <u>identified</u> need, discouragement remained a key issue but was mentioned less as a barrier in Q4-Q1. It was mentioned as often as a reluctance to borrow in the current climate, and this group were also more likely to mention the 'process' of borrowing as an issue.

Amongst those with <u>no</u> immediate need identified, a reluctance to borrow now continued to present a much stronger, and increasing barrier, and discouragement remained much less of an issue than for those with an identified need.

Other analysis of all 'Future would-be seekers', such as by size and risk rating, is possible based just on the latest quarter, Q1 2013:

- While larger 'Future would-be seekers' remained more reluctant to borrow now (76% from 74% in Q4), the overall increase in those giving this reason was driven by the smaller 'Future would-be seekers' (from 49% in Q4 to 63% in Q1), who were now more likely to mention the predicted performance of their own business (23% from 13%)
- Discouragement remained more of an issue for smaller SMEs, but was mentioned less in Q1 2013 (12%) than in Q4 2011 (17%). As before, almost all of this discouragement was indirect

Main reason for not applying 'Future would-be seekers' by size Q1 13 only	Overall	0-9 emps	10-249 emps
Unweighted base:	***867***	***513***	***354***
Reluctant to borrow now (any)	63%	63%	76%
-Prefer not to borrow in economic climate	*40%*	*40%*	*47%*
-Predicted performance of business	*23%*	*23%*	*29%*
Issues with principle of borrowing	6%	6%	2%
Issues with process of borrowing	13%	13%	9%
Discouraged (any)	12%	13%	8%
-Direct (Put off by bank)	*3%*	*3%*	*
-Indirect (Think I would be turned down)	*10%*	*10%*	*7%*

Q239/239a 'Future would-be seekers' SMEs

The table below shows analysis of the main reasons given for not applying by 'Future would-be seekers' in Q1 2013, split by risk rating. A reluctance to borrow now was the main barrier across the risk ratings:

Main reason for not applying 'Future would-be seekers' by risk rating Q1 13 only	Min/Low	Avge	Worse/ Avge
Unweighted base:	*254*	*236*	*297*
Reluctant to borrow now (any)	71%	60%	60%
-Prefer not to borrow in economic climate	*46%*	*36%*	*39%*
-Predicted performance of business	*25%*	*24%*	*21%*
Issues with principle of borrowing	8%	6%	7%
Issues with process of borrowing	9%	19%	9%
Discouraged (any)	8%	8%	18%
-Direct (Put off by bank)	*1%*	*5%*	*3%*
-Indirect (Think I would be turned down)	*7%*	*3%*	*15%*

Q239/239a 'Future would-be seekers' SMEs

Compared to Q4 2012:

- Those with an average or worse than average risk rating were more likely to mention the predicted performance of their business as a barrier
- The *process* of borrowing was mentioned less by those with either a minimal or worse than average risk rating

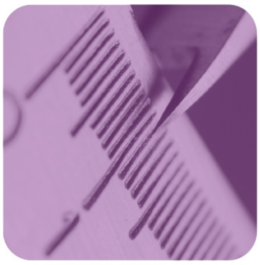
To put these results in context, the table below shows the equivalent figures for main reasons for all SMEs in Q1 2013. 1 in 8 of all SMEs (12%) would have liked to apply for new/renewed facilities in the next 3 months but thought they would be unlikely to do so because of the current climate or the performance of their business:

Reasons for not applying Q1 13 only – the Future would-be seekers	Main reason	All SMEs Q1	All SMEs excl. PNB
Unweighted base:	*867*	*5000*	*3649*
Reluctant to borrow now (any)	63%	12%	20%
-Prefer not to borrow in economic climate	*40%*	*8%*	*13%*
-Predicted performance of business	*23%*	*4%*	*7%*
Issues with principle of borrowing	6%	1%	2%
Issues with process of borrowing	13%	2%	4%
Discouraged (any)	12%	2%	4%
-Direct (Put off by bank)	*3%*	*<1%*	*1%*
-Indirect (Think I would be turned down)	*10%*	*2%*	*3%*

Q239/239a 'Future would-be seekers' SMEs

The table above also shows the equivalent proportion of SMEs *excluding* the 'Permanent non-borrowers'. Of those SMEs that *might* be interested in seeking finance (once the PNBs are excluded), 20% were put off by the current economic climate (including their performance in that climate), up slightly from 17% in Q4 2012.

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

Half of SMEs were aware of any of the various initiatives and schemes tested in Q1 2013, unchanged from Q4 2012. Overall awareness varied by size from 50% of those with 0 employees to 70% of those with 50-249 employees

Awareness of the Funding for Lending Scheme was 27% in Q1 2013, up from 24% in Q4, the highest awareness of an individual initiative. This varied by size from 24% of those with 0 employees to 43% of those with 50-249 employees

Overall there has been little change in awareness levels for individual initiatives over time, and awareness of the appeals process remains limited, at 13% (increasing to 22% amongst the largest SMEs)

A third of those aware of the Funding for Lending Scheme were aware of their bank offering finance options under the scheme. This is the equivalent of 9% of all SMEs (increasing by size to 18% of the largest SMEs)

In Q1 2013, 18% of all SMEs thought schemes such as FLS made it more likely they would apply for external finance, almost unchanged from Q4 (20%) and increasing to 25% of remaining SMEs once the 'Permanent non-borrowers' are excluded. The main barrier (for 75% of all SMEs) is that they are not looking for funding

In October 2010, the Business Finance Taskforce agreed to a range of 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 part of the survey was also revised and updated for Q4 2012, so results are not always directly comparable over time.

The first table covers those initiatives potentially relevant to all SMEs, based on the updated list of initiatives, for Q1 2013 only. It shows Funding for Lending achieved levels of awareness as high as some longer established support schemes, and this helped to boost the net awareness score:

Awareness of Taskforce initiatives Q1 13 – all SMEs asked new question	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*5000*	*1000*	*1650*	*1600*	*750*
New support from the Bank of England called Funding for Lending*	27%	24%	32%	37%	43%
Government support schemes for access to finance such as Enterprise Finance Guarantee Scheme etc*	24%	22%	28%	32%	41%
A network of business mentors	21%	21%	23%	26%	32%
Other alternative sources of business finance such as Asset based finance etc*	19%	17%	24%	31%	42%
The Lending Code / principles*	18%	16%	20%	25%	31%
The Business Growth Fund	14%	13%	16%	21%	27%
Independently monitored appeals process	13%	12%	13%	16%	22%
BetterBusinessFinance.co.uk	9%	8%	10%	10%	11%
Regional outreach events	8%	7%	8%	10%	11%
Any of these	*52%*	*50%*	*58%*	*66%*	*70%*
None of these	*48%*	*50%*	*42%*	*34%*	*30%*

Q240 All SMEs * indicates new or amended question

Awareness of any of these initiatives, at 52%, was the same as in Q4 2012, when the revised list was used for the first time, and slightly higher than in earlier quarters (46% in Q3 with a slightly different list). This overall awareness increased by size of business from 50% of 0 employee SMEs to 70% of those with 50-249 employees. For 5% of all SMEs in Q1 2013, Funding for Lending was the only initiative they were aware of.

37% of all SMEs were aware of either of the Government led initiatives (FLS and other support schemes for access to finance). A similar proportion, 35%, was aware of any of the banking led initiatives (mentors, Lending Code, appeals, the BetterBusinessFinance website and outreach events). In both cases awareness increased by size, to around half of the largest SMEs being aware of these initiatives.

SMEs looking to apply for new/renewed facilities in the next 3 months were slightly more likely to be aware of any of these initiatives in Q1 2013 (63%) than either 'Future would-be seekers' (53%) or 'Future happy non-seekers' (49%).

Many of these initiatives are more relevant to those with an interest in seeking external finance, and therefore potentially less relevant to the 'Permanent non-borrowers' who have indicated that they are unlikely to seek external finance. In both Q4 2012 and Q1 2013, unlike in previous quarters, there was a difference in awareness of any of these initiatives between 'Permanent non borrowers' (44% aware of any initiatives in Q1 2013) and other SMEs (58% aware).

Awareness over time is shown in the table below for those initiatives where comparable data is available. This shows that, over time, awareness had changed very little since the equivalent quarter of 2012, with the possible exception of business mentors:

Awareness of Taskforce initiatives Over time – all SMEs By date of interview	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013
Unweighted base:	*4792*	*5010*	*5023*	*5000*	*5032*	*5000*	*5000*
A network of business mentors	21%	22%	26%	23%	23%	21%	21%
Independently monitored appeals process	14%	10%	13%	12%	11%	10%	13%
The Business Growth Fund	12%	12%	12%	14%	12%	14%	14%
Regional outreach events	11%	7%	9%	8%	8%	8%	8%
BetterBusinessFinance.co.uk	9%	9%	9%	9%	9%	10%	9%

Q240 All SMEs where consistent wording used

The table below shows awareness over time, by size of SME, for those initiatives where full comparable data is available over time. Again, there had been little change in awareness since the equivalent quarter of 2011, with the exception of awareness of business mentors, where awareness improved amongst the largest SMEs (from 28% to 32%) but declined amongst the both the smallest SMEs (0 employee SMEs 26% to 21%) and overall:

Awareness of Taskforce initiatives All SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base (Q1):	*5000*	*1000*	*1650*	*1600*	*750*
A network of business mentors Q311	21%	21%	21%	27%	24%
A network of business mentors Q411	22%	22%	21%	28%	23%
A network of business mentors Q112	26%	26%	24%	26%	28%
A network of business mentors Q212	23%	22%	26%	28%	28%
A network of business mentors Q312	23%	23%	23%	27%	30%
A network of business mentors Q412	21%	21%	22%	28%	29%
A network of business mentors Q113	21%	21%	23%	26%	32%
Independently monitored appeals process Q311	14%	13%	14%	17%	17%
Independently monitored appeals process Q411	10%	10%	12%	17%	17%
Independently monitored appeals process Q112	13%	13%	13%	16%	19%
Independently monitored appeals process Q212	12%	10%	15%	17%	18%
Independently monitored appeals process Q312	11%	10%	12%	17%	23%
Independently monitored appeals process Q412	10%	10%	11%	16%	17%
Independently monitored appeals process Q113	13%	12%	13%	16%	22%

Continued

Continued

The Business Growth Fund Q311	12%	11%	13%	18%	22%
The Business Growth Fund Q411	12%	11%	14%	18%	22%
The Business Growth Fund Q112	12%	11%	14%	21%	25%
The Business Growth Fund Q212	14%	12%	16%	21%	23%
The Business Growth Fund Q312	12%	11%	15%	19%	25%
The Business Growth Fund Q412	14%	13%	14%	24%	25%
The Business Growth Fund Q113	14%	13%	16%	21%	27%
Regional outreach events Q311	11%	11%	11%	13%	14%
Regional outreach events Q411	7%	7%	9%	14%	10%
Regional outreach events Q112	9%	9%	9%	13%	12%
Regional outreach events Q212	8%	7%	12%	12%	11%
Regional outreach events Q312	8%	8%	8%	10%	14%
Regional outreach events Q412	8%	8%	9%	10%	12%
Regional outreach events Q113	8%	7%	8%	10%	11%
BetterBusinessFinance.co.uk Q311	9%	9%	10%	11%	9%
BetterBusinessFinance.co.uk Q411	9%	9%	9%	12%	9%
BetterBusinessFinance.co.uk Q112	9%	10%	8%	10%	11%
BetterBusinessFinance.co.uk Q212	9%	8%	11%	10%	10%
BetterBusinessFinance.co.uk Q312	9%	8%	10%	10%	11%
BetterBusinessFinance.co.uk Q412	10%	10%	11%	12%	9%
BetterBusinessFinance.co.uk Q113	9%	8%	10%	10%	11%

Q240 All SMEs

As already mentioned, a number of initiatives were included for the first time in Q4 2012. Analysis over time is therefore more limited, but is shown below for the quarters for which it is available.

Awareness of more recent initiatives All SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base (Q1):	*5000*	*1000*	*1650*	*1600*	*750*
Funding for Lending Q412	23%	21%	27%	35%	45%
Funding for Lending Q113	27%	24%	32%	37%	43%
Government support schemes Q412	22%	21%	24%	32%	42%
Government support schemes Q113	24%	22%	28%	32%	41%
Alternative sources of finance Q412	17%	16%	20%	29%	37%
Alternative sources of finance Q113	19%	17%	24%	31%	42%
The Lending Code Q412	17%	17%	17%	23%	27%
The Lending Code Q113	18%	16%	20%	25%	31%

Awareness of each of these initiatives had increased very slightly between Q4 2012 and Q1 2013, with Funding for Lending recording the largest increase in awareness, amongst smaller SMEs in particular.

Analysis over time by sector is provided below, but first, a table showing results for the new list of initiatives, by sector, for Q1 2013. Awareness of Funding for Lending was fairly even across sectors, with the exception of the Other Community sector (13% aware):

% aware of Initiatives Q1 13 – all SMEs asked new question	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*375*	*520*	*875*	*505*	*450*	*453*	*875*	*447*	*500*
New support from the Bank of England called Funding for Lending*	28%	32%	25%	26%	27%	26%	33%	29%	13%
Government support schemes for access to finance such as Enterprise Finance Guarantee Scheme etc*	25%	29%	19%	23%	29%	17%	27%	31%	25%
A network of business mentors	20%	25%	14%	17%	18%	18%	26%	29%	26%
Other alternative sources of business finance such as Asset based finance etc*	16%	21%	10%	17%	17%	18%	27%	22%	23%
The Lending Code	18%	20%	13%	16%	18%	14%	20%	22%	23%
The Business Growth Fund	14%	16%	7%	11%	15%	11%	19%	12%	18%
BetterBusinessFinance.co.uk	8%	14%	6%	8%	14%	4%	8%	7%	17%
Independently monitored appeals process	13%	9%	10%	9%	15%	9%	11%	22%	24%
Regional outreach events	8%	11%	6%	7%	9%	5%	8%	7%	12%
Any of these	*54%*	*56%*	*44%*	*52%*	*53%*	*41%*	*60%*	*56%*	*52%*
None of these	*46%*	*44%*	*56%*	*48%*	*47%*	*59%*	*40%*	*44%*	*48%*

Q240 All SMEs * indicates new or amended question

A detailed breakdown of awareness over time by sector is provided below, firstly for those initiatives where full comparable data is available over time:

% aware Over time by date of interview	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
A network of business mentors Q311	27%	26%	15%	20%	16%	25%	26%	25%	17%
Q411	15%	30%	16%	17%	18%	20%	27%	23%	25%
Q112	21%	23%	21%	22%	21%	24%	27%	31%	39%
Q212	18%	22%	17%	20%	22%	16%	34%	24%	24%
Q312	18%	20%	17%	23%	21%	20%	29%	34%	23%
Q412	16%	23%	14%	22%	15%	17%	28%	21%	26%
Q113	20%	25%	14%	17%	18%	18%	26%	29%	26%
Independently monitored appeals process Q311	16%	19%	12%	14%	14%	16%	15%	12%	10%
Q411	11%	13%	8%	11%	12%	16%	11%	6%	11%
Q112	10%	10%	15%	13%	11%	17%	12%	14%	11%
Q212	9%	8%	10%	12%	13%	14%	14%	11%	13%
Q312	12%	8%	10%	12%	9%	10%	11%	9%	11%
Q412	7%	10%	8%	14%	11%	10%	11%	11%	11%
Q113	13%	9%	10%	9%	15%	9%	11%	22%	24%

Continued

Continued

The Business Growth Fund Q311	13%	22%	9%	10%	12%	10%	13%	9%	12%
Q411	16%	14%	6%	9%	11%	16%	18%	10%	9%
Q112	11%	13%	9%	11%	12%	17%	15%	14%	9%
Q212	11%	12%	8%	9%	12%	14%	21%	12%	16%
Q312	13%	12%	9%	10%	12%	8%	18%	10%	12%
Q412	11%	12%	12%	18%	9%	13%	16%	12%	10%
Q113	14%	16%	7%	11%	15%	11%	19%	12%	18%
Regional outreach events Q311	12%	21%	8%	10%	10%	13%	12%	11%	11%
Q411	9%	8%	7%	9%	7%	10%	8%	5%	6%
Q112	8%	9%	8%	7%	8%	12%	11%	14%	5%
Q212	8%	6%	3%	7%	8%	4%	11%	10%	16%
Q312	11%	6%	6%	7%	8%	6%	10%	9%	11%
Q412	5%	6%	6%	11%	5%	11%	8%	8%	13%
Q113	8%	11%	6%	7%	9%	5%	8%	7%	12%
BetterBusinessFinance.co.uk Q311	10%	15%	8%	11%	13%	8%	8%	12%	10%
Q411	11%	8%	9%	4%	10%	11%	9%	6%	13%
Q112	6%	9%	8%	5%	12%	13%	10%	15%	12%
Q212	10%	11%	5%	5%	8%	6%	12%	10%	12%
Q312	9%	4%	7%	9%	11%	14%	8%	12%	10%
Q412	6%	7%	10%	11%	12%	9%	11%	11%	14%
Q113	8%	14%	6%	8%	14%	4%	8%	7%	17%

Q240 All SMEs

For those initiatives included for the first time in Q4 2012 analysis over time is more limited, but is shown below for the quarters for which it is available.

% aware Over time by date of interview	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Funding for Lending Q412	25%	19%	21%	26%	19%	27%	26%	25%	19%
Q113	28%	32%	25%	26%	27%	26%	33%	29%	13%
Government support schemes Q412	23%	18%	16%	29%	12%	19%	27%	25%	17%
Q113	25%	29%	19%	23%	29%	17%	27%	31%	25%
Alternative sources of finance Q412	12%	15%	11%	20%	10%	12%	25%	18%	19%
Q113	16%	21%	10%	17%	17%	18%	27%	22%	23%
The Lending Code Q412	12%	20%	13%	18%	12%	13%	17%	18%	25%
Q113	18%	20%	13%	16%	18%	14%	20%	22%	23%

A further initiative was only asked of those SMEs directly affected by it, as detailed below:

Initiative	Awareness
Loan refinancing talks, 12 months ahead – asked of SMEs with a loan	Awareness of this initiative amongst SMEs with loans remained fairly stable at 12% in Q1 (11% in Q4 and 7-13% across previous quarters). Awareness amongst smaller SMEs with loans remained slightly lower: 0-9 employees 11% in Q1 (unchanged from Q4) whilst awareness for 10-249 employees was 15% (up from 13% in Q4 and back to levels seen in most previous quarters)

Finally, the independent appeals initiative is of particular relevance to certain types of SME, and so is shown again below, based on certain types of SME:

Initiative	Awareness
The independently monitored lending appeals process	As reported earlier, amongst all those who, since April 2011, had applied for an overdraft and initially been declined, 15% said that they had been made aware of the appeals process while for loans the equivalent figure was 9%. Overall awareness of the appeals process (at Q240) remained limited. In Q1 2013 it was 13%, ranging from 12% of those with 0 employees to 22% of those with 50-249 employees. Awareness did not increase once the 'Permanent non-borrowers' were excluded (14% in Q1), nor when focused on those that had been unsuccessful with an application/taken other funding (10%). Those that reported *any* kind of borrowing event in the previous 12 months were however slightly more likely to be aware of the appeals process (17% in Q1)

Funding for Lending

New questions were asked from Q4 2012 around awareness of the Funding for Lending Scheme. As reported above, in Q1 2013 27% of SMEs reported that they were aware of this scheme.

Those aware of Funding for Lending were asked whether they were aware of their bank offering finance options under this scheme. A third (32%) of those aware of Funding for Lending said that they were aware of something their bank was offering. This was the equivalent of 9% of all SMEs, as the table below shows:

Awareness of Funding for Lending Q1 13 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*5000*	*1000*	*1650*	*1600*	*750*
Aware bank was offering finance options	9%	8%	10%	13%	18%
Aware of scheme but not of bank offering	18%	16%	22%	23%	24%
Awareness (any)	*27%*	*24%*	*32%*	*36%*	*42%*
Not aware of Funding for Lending	73%	76%	68%	64%	58%

Q240 / 240XX All SMEs

The largest SMEs were more likely to be aware of options available from the bank (18%) than those with 0 employees (8%).

Given the nature of the scheme, it is appropriate also to report awareness of Funding for Lending excluding the 'Permanent non-borrowers'. As the table below shows, excluding them has little impact on overall awareness or awareness of bank activity specifically:

Awareness of Funding for Lending Q1 13 All excluding PNBs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*3649*	*543*	*1186*	*1293*	*627*
Aware bank was offering finance options	8%	7%	10%	13%	20%
Aware of scheme but not of bank offering	21%	20%	24%	25%	25%
Awareness (any)	*29%*	*27%*	*34%*	*38%*	*45%*
Not aware of Funding for Lending	71%	73%	66%	62%	55%

Q240 / 240XX All SMEs excluding PNBs

One further piece of analysis looks at awareness by future borrowing intentions. As the next table shows, those with plans to apply/renew in the next 3 months were the most likely to be aware of Funding for Lending per se, if not of bank actions specifically (and their awareness level was little changed from Q4 2012, 34%). 'Future would-be seekers' of finance were only slightly more likely than the 'Happy non-seekers' to be aware of Funding for Lending in Q1 2013, but their levels of awareness had improved slightly from Q4 2012 (22%):

Awareness of Funding for Lending Q1 13 All SMEs	Plan to apply	Future WBS	Future HNS	Future HNS excl. PNB
Unweighted base:	*931*	*867*	*3202*	*1851*
Aware bank was offering finance options	8%	8%	9%	9%
Aware of scheme but not of bank offering	28%	20%	15%	18%
Awareness (any)	*36%*	*28%*	*24%*	*27%*
Not aware of Funding for Lending	64%	72%	76%	73%

Q240 / 240XX All SMEs

Questions were asked in Q2 and Q3 2012 about the impact that the National Loan Guarantee scheme (with a 1% discount on loans, hire purchase or leasing) might have on SMEs' appetite for finance. From Q4 2012, the question responses were kept in the same format but the question was broadened to explore the impact of the 'various initiatives that have been announced to help reduce the cost of finance to SMEs', and naming the NLGS and Funding for Lending specifically.

Overall, around 1 in 5 SMEs thought such schemes would encourage them to apply for funding, the equivalent of around 900,000 SMEs. The biggest single group, 75% of all SMEs in Q1 2013, said that such schemes made no difference as they were not looking for funding:

Effect of NLGS / Funding for Lending All SMEs asked new question over time	Q4 2012	Q1 2013
Unweighted base:	*4330*	*4471*
Now more likely to apply for funding	20%	18%
No difference because do not want funding	72%	75%
No difference as interest rates not main consideration for finance	4%	3%
Now less likely to apply for this type of finance	4%	5%

Q238d All SMEs, excluding DK

As might be expected, appetite for finance was much lower amongst those that met the definition of a 'Permanent non-borrower', although 8% of this group thought such schemes might encourage them to apply (the equivalent of less than 2% of all SMEs).

Excluding the 'Permanent non-borrowers', 25% of remaining SMEs thought such a scheme would make them more likely to apply for the types of finance the scheme covered, and this compares to 27% of SMEs (excluding PNBs) asked this question in Q4 2012:

Effect of NLGS / Funding for Lending All SMEs asked new question Q1 13	All SMEs	PNBs	Non PNB
Unweighted base:	*4471*	*1216*	*3255*
Now more likely to apply for funding	18%	8%	25%
No difference because do not want funding	75%	88%	66%
No difference as interest rates not main consideration for finance	3%	*	5%
Now less likely to apply for this type of finance	5%	4%	5%

Q238d All SMEs, excluding DK

Appetite for finance (excluding PNBs) had dropped slightly in Q1 2013 across all size bands:

Effect of NLGS / Funding for Lending All SMEs asked new question Q1 13 Excluding PNBs	Overall	0 emps	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*3255*	*479*	*1041*	*1159*	*576*
Now more likely to apply for this type of funding	25%	24%	27%	23%	19%
No difference because do not want funding	66%	66%	63%	70%	73%
No difference as interest rates not main consideration for finance	5%	5%	4%	3%	4%
Now less likely to apply for this type of finance	5%	5%	6%	5%	4%

Q238d All SMEs, excluding DK and ‘permanent non-borrowers’

Those with a poorer external risk rating remained slightly more likely to say that they would now be more likely to apply for such lending products (all excluding PNBs):

- 17% of those rated a minimal risk thought they were now more likely to apply
- 21% of those rated a low risk
- 20% of those rated an average risk
- 29% of those rated a worse than average risk

Also more likely to apply (again excluding PNBs) were:

- Those who had been ‘Would-be seekers’ of finance in the 12 months prior to interview (47%)
- Those with plans to borrow in the next 3 months (43%)
- Starts (32%)

Key driver analysis was conducted on all respondents in Q4 2012 to understand the types of SME which were more likely to say that schemes such as FLS made them more likely to consider applying for finance. This showed a mix of business backgrounds – including those that have had a self-reported credit event (notably missing a loan repayment or problems getting trade credit), but also the more 'developed' SMEs that import, have innovated, use quality management systems, produce regular management accounts or trade online, and those with a past or current appetite for finance. This analysis will be updated in future reports.

Bank communication about lending

In Q1 2013 when this data was being collected, Funding for Lending was still a relatively new scheme compared to others. More broadly, awareness of various initiatives to support lending to SMEs has changed relatively little in the past year.

Some additional analysis has therefore been done of a question which asks whether, in the 3 months prior to interview, the SME had been contacted by either their main bank, or another bank, expressing a willingness to lend.

In Q1 2013, 14% of all SMEs said that they had received such a contact in the previous 3 months (10% of SMEs had heard from their main bank, while 7% had heard from another bank). This was similar to previous quarters:

Approached by any bank in last 3 mths All SMEs	Q1-2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013
All SMEs	15%	15%	15%	15%	12%	13%	13%	14%
0 emps	14%	14%	15%	14%	10%	12%	11%	13%
1-9 emps	20%	18%	17%	16%	15%	14%	15%	18%
10-49 emps	19%	19%	20%	18%	20%	17%	18%	19%
50-249 emps	28%	25%	26%	24%	28%	23%	25%	24%
All SMEs excluding PNBs	17%	16%	15%	15%	11%	13%	14%	16%

Q221 All SMEs

Compared to the equivalent quarter of 2012, SMEs interviewed in Q1 2013 were as likely to have been contacted (14%). The largest SMEs were the most likely to say that they had been contacted (24%). Excluding the 'Permanent non borrowers' changes this overall figure only slightly, to 16% in Q1 2013.

Those who had been approached were more likely to be aware of Funding for Lending (36%) than those who had not been approached (25%), but were no more likely to say that schemes like this encouraged them to apply for finance (16% v 18%). Their awareness of any of the initiatives tested was also higher (65% v 50%).

More generally, they were no more likely to be planning to apply for new or renewed finance in the next 3 months (15% v 15%) and amongst those planning to apply, those that had been approached by a bank were no more confident they would be successful (43%) than those who had not been approached (40%).

Those who had heard from a bank were typically slightly bigger and with a somewhat better external risk rating profile than those who had not been contacted, and these factors are also likely to impact on awareness and confidence. More detailed analysis would therefore be needed to explore the actual impact that contact from a bank has had.

14. Technical Appendix

This chapter covers

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

Eligible SMEs

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 any of the 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 2013 – 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%	20,032	100%
0 employee (resp)	3,366,144	74%	4006	20%
1-9 employees	1,008,024	22%	6615	33%
10-49 employees	144,198	3%	6403	32%
50-249 employees	26,383	1%	3008	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%	1504	7%
D Manufacturing (C)	302,032	7%	2081	11%
F Construction (F)	1,017,210	22%	3511	18%
G Wholesale etc. (G)	561,689	12%	2020	10%
H Hotels etc. (I)	156,001	4%	1811	9%
I Transport etc. (H&J)	314,705	7%	1813	9%
K Property/Business Services (L,M,N)	1,194,629	26%	3503	18%
N Health etc. (Q)	279,280	6%	1789	8%
O Other (R&S)	528,011	12%	2000	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 Property/Business Services 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%	2398	12%
South East	727,815	16%	2425	12%
South West	454,884	10%	1810	9%
East	454,884	10%	1798	9%
East Midlands	272,931	6%	1396	7%
North East	136,465	3%	1000	5%
North West	454,884	10%	1807	9%
West Midlands	318,419	7%	1801	9%
Yorks & Humber	318,419	7%	1794	9%
Scotland	318,419	7%	1605	8%
Wales	181,954	4%	1198	6%
Northern Ireland	136,465	3%	1000	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 and 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 Starts (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	20,055	27%	5415	+/- 2%
0 employee (resp)	4020	79%	3176	+/- 2%
1-9 employees	6621	77%	5098	+/- 2%
10-49 employees	6405	78%	4996	+/- 2%
50-249 employees	3009	82%	2467	+/- 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 it based on a large enough sample for its findings to be robust, but over time the dataset has been building into a hugely valuable source of evidence about what is really happening in the SME finance market.

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