

SME Finance Monitor

To what extent have SMEs had issues accessing bank finance?

An independent report by
BDRC Continental, July 2011



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Foreword





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

A report such as this can only cover the main headlines emerging from the results. As soon as possible after each report is published the dataset will be deposited at the UK Data Archive and will be freely available for further research. I very much hope that researchers will then exploit this valuable resource and improve everyone's understanding of the SME market. This is vital, because SMEs are a key part of this country's future progress and they deserve to have both public and private policy which affects them based on reliable evidence.

This report is one of the outcomes of the initiatives decided upon by the Business Finance Taskforce, comprising the BBA, Barclays, HSBC, Lloyds, RBS and Santander. The Taskforce promised that the report would be independent and that the banks would have no editorial control over the reports. I was appointed as

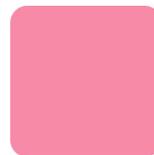
independent chair of the survey group by the Business Finance Round Table, comprising both banks and SME business groups. My role is to ensure that all parties – banks, business groups and government – were involved in the design of the survey and in the appointment of the contractor to carry out the work. My role is also to ensure that the contractor is then able to do the work without influence being brought to bear by any party. In that way, the report is independent. I believe that I have fulfilled these roles and that BDRC Continental, with whom I have liaised closely during the study, have been given a free hand to conduct the study and write the report as they see fit, given their considerable experience in this field.

This report does not provide quick and easy answers to the claims and counter-claims swirling around in the debate about SMEs and banks. That is because it is an extremely complex issue, incapable of easy summary into “guilty” or “not guilty”. So, the report eschews glib answers and focuses on bringing out the evidence. It is for others to draw conclusions from it. However, I hope that they will do so after carefully studying the report, rather than reaching for a convenient figure or two to support their pre-determined position.

Mike Young

Independent Chair, Survey Steering Group

1. Introduction





There has been much comment about bank lending to SMEs. On the one hand there are claims that the banks are not lending enough, turning down viable SMEs and/or only offering lending with onerous terms. On the other hand, banks have reported a decline in demand for borrowing, with SMEs needing less external finance to accommodate lower sales in periods of low, or no, economic growth and seeking to limit their exposure in a difficult economic climate. Others have claimed that some SMEs are discouraged from borrowing by a perception that there is no point asking the bank as they will only say no.

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 has made a commitment to fund and publish this independent survey to identify (and track) demand for finance and how SMEs feel about borrowing.

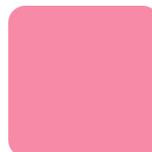
BDRC Continental has been appointed to conduct this survey in order to provide a robust and

respected independent source of information on the demand for, and availability of, finance to SMEs. BDRC Continental has maintained full editorial control over the findings presented here.

This report covers the first wave of 5,000 interviews with SMEs, conducted March-May 2011. Quotas were set by size, sector and region, to a carefully constructed sample design which ensured that sufficient interviews were conducted with SMEs of all sizes to allow for robust analysis. The results have then been weighted to be representative of SMEs with up to 250 employees and a turnover of less than £25 million. The interview respondent was the person identified as the main financial decision maker at the business.

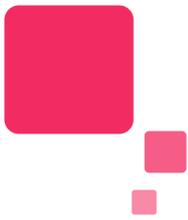
Two further quarters, each of 5,000 interviews and to the same sample structure, will be conducted July-September and October-December 2011 and reported in November 2011 and February 2012. An annual report, will provide analysis at postcode level for an in-depth assessment of local conditions

2. Management summary



This report covers

the borrowing process from the SME perspective, with detailed information about those who have, or might have liked to have been, through the process of borrowing funds for their business. Each chapter reports on a specific aspect of the process, posing and answering a series of questions around SME finance.



How are SMEs funding themselves?

Not all SMEs borrow. 51% are using external finance at the moment, with strong variations by size (46% 0 employee SMEs to 81% of those with

50-249 employees). 47% never use external funding (defined as neither now nor in the past 5 years).

1 in 5 SMEs (19%) have had a borrowing “event” involving an overdraft and/or a loan in the past 12 months:

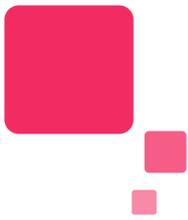
Borrowing events	Total
<i>Unweighted base:</i>	5063
Type 1: New application/renewal by SME	15%
Type 2: Cancel/re-negotiation by bank	5%
Type 3: SME chose to reduce/pay off facility	4%
<i>Any of these “events”</i>	19%

Q25/26 All SMEs

The most likely “event” was a new application or the renewal of facilities. This was experienced by 15% of SMEs, increasing by size to 32% of those with 50-249 employees.

5% of SMEs said that their bank had approached them in the last 12 months to cancel or re-negotiate an existing facility. The largest SMEs were more likely to have experienced this type of “event” (14%)

4% of SMEs chose to pay off or reduce a facility themselves - the third type of “event” reported.



What happens when SMEs apply for new facilities or renew existing ones?

8% of SMEs had applied for a *new* facility and 10% had *renewed* existing facilities in the past 12 months. Those with 50-249 employees were the most likely to have done at least one of these Type 1 events (14% new facilities, 25% renewals).

Most did not seek external advice before applying, but were confident that they would be successful. This confidence proved generally well founded for overdraft applications and less well so for loans.

The initial reaction from the bank was more likely to be positive for overdrafts than loans: 72% of *overdraft* applicants reported that the bank's initial response was to offer them what they asked for, compared to 59% of *loan* applicants.

28% of *loan* applicants were initially declined by the bank, compared to 17% of *overdraft* applicants. Indications are that the advice offered at that time by the bank was not well rated by the SMEs involved.

Those more likely to receive an initial offer of what they wanted included bigger SMEs, those with good external credit ratings and those seeking to renew rather than apply for new facilities. Sector and age of business also have a bearing on successful applications.

At the end of the borrowing process, 85% of *overdraft* applicants had an overdraft and 66% of *loan* applicants had a loan. A comparison with previous research suggests that the proportion successfully applying for/renewing a loan has declined from pre-crisis levels.

To what extent are banks looking to remove or re-negotiate existing facilities?

Type 2 events are relatively rare. Very few SMEs overall had been approached by the bank looking to cancel an existing facility, even once SMEs with no borrowings were excluded.

A slightly larger minority had been approached about *re-negotiating* an existing facility (amongst those with borrowing). Overdrafts were more likely to have been renegotiated than loans, and

bigger SMEs were more likely to have been approached than smaller ones.

Most *overdraft* renegotiations resulted in the SME still having a facility (and for a minority of such SMEs the bank was looking to increase rather than reduce the facility). A third of *loan* renegotiations resulted in either no loan or a switch to an alternative form of funding.



How do SMEs feel about the borrowing process?

In the past 12 months, 18% of SMEs had experienced a Type 1 or Type 2 event (that is sought *new* or *renewed* facilities, or had their *bank approach them* about an existing facility). This ranged from 17% of those with 0-9 employees to 33% of those with 10-249 employees.

Amongst those that went through an *overdraft* process, 71% had a facility with which they were very or fairly satisfied. 17% of applicants do not now have an overdraft, and three-quarters of these SMEs wish that they did.

Amongst those that went through a *loan* process, 53% had a facility with which they were very or fairly satisfied. 35% of applicants do not now have a loan, and half of these SMEs wish that they did.

Overall, this equates to 3% of all SMEs who were unsuccessful with either a loan and/or an overdraft application, and wished that they had been successful. These “disappointed” SMEs were typically smaller, and most had a worse than average external risk rating. Almost all of these SMEs said that not having the facility had impacted on their business, making it more of a struggle and/or restricting opportunities to develop.

4 out of 5 successful applicants felt their application was considered fairly, but few felt that the experience had strengthened their relationship with the bank.

Only a minority of unsuccessful applicants felt they would have been treated differently by another bank (27%), but 4 in 10 of them claimed to be considering a change of bank.

Why were most SMEs not looking to borrow (more)?

68% of all SMEs had neither had a borrowing event in the past 12 months, nor felt the need to apply for any (further) facilities.

1 in 6 (16%) of all SMEs had applied for everything they wanted, with bigger SMEs more likely to be in this category (32%). Almost as many though, 15%, had not applied for something that they would have liked to apply for. Over a quarter of Start-ups (28%) reported being in this “unrequited” category.

Discouragement, either directly (after making an informal enquiry at the bank) or indirectly (because they expected that they would be refused), was felt by 1 in 3 unrequited SMEs for *overdrafts* and 1 in 2 of unrequited SMEs for *loans*. This means that 6% of all SMEs reported discouragement. The current economic climate was also a barrier, but the unrequited were more likely to mention the cost, time and effort involved in the actual process of borrowing, and express a preference not to borrow.



What finance might SMEs need in the near future?

Almost half of SMEs, 44%, plan to grow in the next 12 months. The main obstacle in the short term is the economic climate. Very few saw a lack of external finance as their main business barrier.

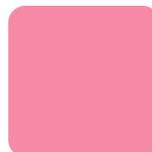
More SMEs think they will need *additional* finance in the next 3 months (12%) than plan to apply for it (9%) and almost as many plan to reduce the level of facilities they currently hold (11%).

Those planning to grow substantially, SMEs with poorer risk ratings, and those who already have borrowing were more likely to either want or apply for new facilities.

When those planning to *renew* existing facilities are included with the 9% planning to seek new external finance, overall 19% of SMEs reported plans to apply to banks. Confidence that they would be successful was lower than the equivalent confidence reported by those who applied in the past 12 months.

81% of SMEs had no plans to apply for *new* facilities or *renew* in the next 3 months. The vast majority of these (63% of all SMEs) were “happy non seekers” who had all the facilities they needed and/or did not anticipate a need for any further facilities. 18% of all SMEs anticipated being “unrequited”, compared to 15% in the last 12 months. Amongst the unrequited, levels of discouragement appeared slightly lower than for past non-applicants, with more mentions of the current economic climate.

3. Using this report



This report is

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



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As well as analysis of the overall SME market, key elements are 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 appropriate, a qualitative assessment has been provided if base sizes are too small to allow figures to be quoted. As the

sample sizes grow over time, with further quarterly waves, this will become less of an issue.

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

Where relevant, the analysis also focuses upon other interpretive features, such as:

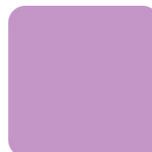
- Sector (based on SIC code in 9 standard groupings)
- Age of business (including Start-ups, defined as those up to 2 years old)
- Entrepreneur characteristics

In addition to data obtained during the interviews, this report uses external **risk ratings** obtained from D&B and Experian, the sample providers, for completed interviews. 12% do not have a risk rating (typically the smaller SMEs). D&B and Experian use slightly different rating scales, 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

Statistical analysis (CHAID) has been used to identify the key discriminator for certain key events, such as applying for a new loan or overdraft. This first report shows the key discriminator and how it impacts on the event in question. Other factors that also impact on the event are listed but their impact is not shown in detail – this will be the subject of future analysis.

4. The general context: How are SMEs doing?



This chapter covers

The current performance of SMEs, in particular those aspects that might affect an application for finance:- profitability, credit balances, how they are managed and their risk profile.



Key findings

Two thirds of SMEs **were profitable** in their previous 12 months trading, with bigger SMEs more likely to have been profitable.

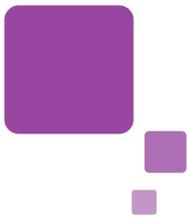
1 in 10 SMEs (post Start-up) were classified as “fast growth”

A third of all SMEs had **credit balances of over £5,000**. Over half of the biggest SMEs reported credit balances in excess of £100,000

Although experienced business people, 4 out of 5 financial decision makers had **no formal training** in financial matters. Even in the largest SMEs just under a quarter had no such training or qualification

Business plans, a key element of a borrowing application, were produced by only 1 in 3 SMEs and only 4 out of 10 provide regular management accounts

Half of all SMEs have a **worse than average external risk rating**. Larger SMEs were less likely to have a poor credit rating.



Two thirds of SMEs **were profitable** in their previous 12 months trading...

4.1 Profitability

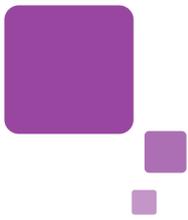
Two thirds of SMEs were profitable in their previous 12 month trading period (67%). 16% made a loss, while 10% broke even. Bigger SMEs were more likely to have made a profit:

Business performance last 12 months	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	5063	1022	1672	1610	759
Made a profit	67%	65%	73%	76%	78%
Broke even	10%	11%	8%	7%	6%
Made a loss	16%	17%	13%	12%	10%
Dk/refused	7%	7%	6%	5%	6%
Average profit made*	£30k	£16k	£35k	£150k	£837k
Median profit made*	£12k	£8k	£17k	£38k	£230k

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

There was relatively little variation by sector – ranging from 69% of Wholesale/Retail and Real Estate SMEs that made a profit, to 61% of Transport SMEs.

1 in 4 refused to reveal, or did not know, how much profit was made. Average profits ranged from £16,000 for one man bands, to £837,000 for the largest SMEs. The average profit made was £30,000. Half of SMEs that made a loss reported that loss at £5,000 or less, and the median loss made was £2,000.



1 in 10 of SMEs (post Start-up) were classified as fast growth...

A third of all SMEs had **credit balances of over £5,000...**

4.2 Growth

1 in 10 SMEs that had been trading for three years or more, qualified as “fast growth”, that is they had grown by 30% or more for each of the past three years (11%). One man bands were less likely to be fast growth (9%), but amongst those with employees there was little variation by size

(15-16%). The Wholesale/Retail sector, as well as being recently profitable, was the most likely to report these high levels of growth (18%) while those in Manufacturing and Real Estate were the least likely (8%).

4.3 Credit balances

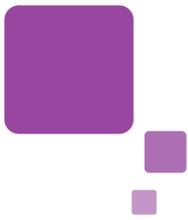
Almost all SMEs said they held some credit balances, either in deposit or current accounts. Based on those giving an answer, two thirds held small balances of £5,000 or less (63%), but this

was because of the lower credit balances held by smaller SMEs. Amongst the largest SMEs, half had credit balances in excess of £100,000 as the table below shows:

Typical credit balance held	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	3963	877	1345	1204	537
None	5%	5%	4%	5%	5%
Less than £5,000	63%	70%	43%	18%	13%
£5,000-£9,999	15%	15%	19%	9%	5%
£10,000 - £24,999	9%	7%	16%	14%	5%
£25,000 – 49,999	3%	2%	9%	12%	7%
£50,000 - £99,999	2%	1%	6%	14%	11%
£100,000+	3%	1%	4%	28%	54%

Q244 All SMEs excluding Dk/refused

The median credit balance held was just £2,000 increasing with size to £140,000 for those with 50-249 employees.



4 out of 5 financial decision makers **had no formal training** in financial matters...

4.4 How SMEs are managed

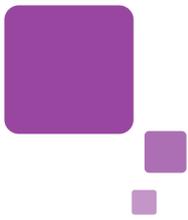
Interviews were conducted with the main financial decision maker. In 9 out of 10 cases this person was also the owner, managing director or senior partner, especially within smaller SMEs. Information was obtained on both the business leader and on the way in which the SME was run.

The business leader	Comment
Experience	In half of SMEs, 46%, the business leader had more than 15 years experience of running a business (rising to 66% for the biggest SMEs).
Age	Almost half were aged 31-50 (48%), and most of the rest were aged 51-65 (37%). The 6% aged under 30 were much more likely to be found in the smaller SMEs.
Gender	1 in 5 (19%) were women. They were less likely to be found running SMEs with 50-249 employees (12%). There were also clear differences by sector: 60% of SMEs in the Health sector were led by a woman, and 38% of Hotels/Restaurants, compared to 3% of Construction SMEs and 11% in the Transport sector.
Education	1 in 3 (33%) had a degree (undergraduate or post graduate) and/or a professional qualification.

Q247-250

In 1 in 5 SMEs the person responsible for financial management had a financial qualification or had received financial training. This varied dramatically by size of business, as shown below but even in the biggest SMEs a quarter of financial decision makers had no qualification or training in financial matters:

- 18% in 0 employee SMEs have financial training / a qualification
- 29% for 1-9 employee SMEs
- 48% for 10-49 employee SMEs
- 77% for 50-249 employee SMEs



Business plans, a key element of a borrowing application, were produced by only 1 in 3 SMEs...

A series of questions sought to establish the structure and control of the business. The Better Business Finance website, set up by the Business Finance Taskforce, highlights the importance of a business plan as a key business document, and when submitting a request for bank borrowing. The proportion of SMEs that had such a plan varied from a quarter of the smallest SMEs to two

thirds of the largest SMEs, with SMEs of all sizes more likely to be producing regular management accounts. The government is keen to promote exporting and export finance, so the table below also shows the proportion involved in international trade, which also increases with size of business:

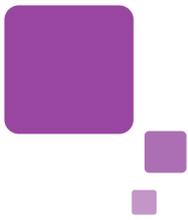
Business formality elements	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	5063	1022	1672	1610	759
Planning (net)	52%	45%	68%	87%	96%
- Produce regular management accounts	40%	33%	58%	80%	93%
- Have a formal written business plan	30%	25%	39%	57%	67%
International (net)	15%	13%	19%	28%	43%
- Export goods or services	10%	8%	13%	21%	34%
- Import goods of services	9%	7%	12%	21%	36%

Q223 All SMEs

“Business planning” ranged by sector from 69% in Hotels and Restaurants to 40% in Construction. “International trade” ranged from 28% in Wholesale/Retail to just 4% in Construction.

8 out of 10 SMEs (84%) used a business bank account. The 16% that used a personal account for their business banking were almost all one man bands, and no SME with more than 10 employees operated through a personal bank account.

Just 1% of SMEs interviewed were part of a franchise.



4.5 Financial risk profile

Two assessments of financial risk are made in this report. The first is a self-reported risk from the survey itself, and the second is the risk rating supplied by D&B or Experian, combined to a common 4 point scale from “Minimal” to “Worse

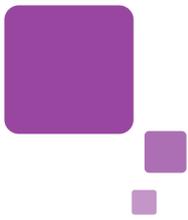
than average”. Although not all SMEs have received this external rating, it is commonly used and understood by lenders, so the majority of risk related analysis in this report has been based on this external rating.

However, it is also useful to consider the “self-reported” risk and the extent to which this overlaps with the external rating. The table below shows the self-reported credit issues that have occurred in the last year, which affected 1 in 6 SMEs, with relatively little difference by size:

Credit issues in last 12 months	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	5063	1022	1672	1610	759
Credit issues (net)	15%	15%	18%	17%	13%
-Unauthorised overdraft on account	9%	9%	10%	7%	6%
-Had cheques bounced on account	6%	5%	8%	8%	5%
-Had problems getting trade credit	4%	3%	5%	6%	5%
-Missed a loan repayment	2%	2%	2%	1%	1%
-Had CCJ against business	1%	1%	2%	1%	1%
Used HMRC “Time to Pay” scheme	7%	5%	10%	14%	11%

Q224 All SMEs

Whilst credit issues varied little by size of SME, more variation was seen by sector. SMEs in the Hotel and Restaurant (21%), Wholesale/Retail (20%) and Transport (19%) sectors were twice as likely to have had one or more of these credit issues, than those in the Health sector (10%).



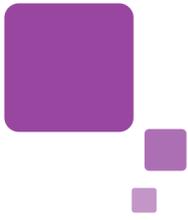
Half of all SMEs have a **worse than average external risk rating**.

The external risk ratings, by contrast, show clear differences by size of SME. 51% of one man bands were rated as “Worse than average” risk, while only 13% of the largest SMEs were in this category:

External risk rating	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	4640	889	1444	1562	745
Minimal risk	6%	4%	11%	26%	32%
Low risk	13%	11%	18%	30%	27%
Average risk	33%	34%	29%	29%	27%
Worse than average risk	48%	51%	42%	14%	13%

All SMEs where risk rating provided

Of the sectors self-reported as having more credit issues, two were also slightly less likely to be rated as “minimal/low” risk – Hotels and Restaurants (11%) and Transport (15%). SMEs in Construction were also less likely to have a good risk rating (12%).



The table below shows the link between the self-reported and externally provided risk ratings. Whilst the two are measuring different things, there is a less strong correlation between the two measures than might perhaps have been anticipated. That said, SMEs with a worse than average credit risk rating were twice as likely to

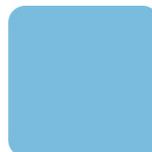
have had a credit issue (18%) as those rated as minimal risk (8%). This 18% overall score was driven by worse than average risk SMEs being more likely to have had an unauthorised overdraft (11%). Use of the HMRC “Time to Pay” scheme does not vary much by risk grade.

Event in last 12 months	Total	Min	Low	Avge	Worse/Avge
Unweighted base:	5063	875	1041	1357	1367
Credit issues (net)	15%	8%	13%	12%	18%
-Unauthorised overdraft on account	9%	3%	4%	8%	11%
-Had cheques bounced on account	6%	5%	6%	6%	5%
-Had problems getting trade credit	4%	2%	4%	2%	4%
-Missed a loan repayment	2%	*	*	2%	4%
-Had CCJ against business	1%	1%	*	*	2%
Used HMRC “Time to Pay” scheme	7%	4%	9%	9%	6%

Q224 All SMEs where risk rating provided

Those SMEs where an external risk rating was not available were more likely to have had a credit issue (21%).

5. Financial context: How are SMEs funding themselves?



This chapter covers

Current usage of external funding amongst SMEs, the proportion that have had a loan or overdraft “event” in the past 12 months, and applications for other forms of finance.



Key findings

47% of SMEs **never use external funding**, that is, they do not use it at present and have not done so in the past five years. This varies by size – just 15% of the largest SMEs were non-users

30% of SMEs were active borrowers, that is they are borrowing at present and have also done so in the past five years – 58% of the largest SMEs were active borrowers

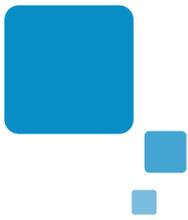
21% were recent borrowers, they are borrowing now but had not done so previously, and this varies little by size

Most SMEs had not had a loan or overdraft “event” in the past 12 months. Larger SMEs were more likely to have had an event than smaller ones

15% of all SMEs have applied for or renewed a facility in the past 12 months. Amongst the largest SMEs the figure was 32%

5% of all SMEs have been approached by their bank looking to re-negotiate or cancel an existing facility. Amongst relevant (borrowing) SMEs, this proportion rises to around 15%

A similar proportion of all SMEs, 4%, had chosen to reduce or pay off a facility early. Amongst relevant (borrowing) SMEs, this proportion rises to around 10%.



47% of SMEs **never use external funding**, 30% were active borrowers, 21% were recent borrowers

5.1 Current use of funding

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

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

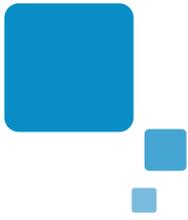
Overall, 30% of SMEs had used external finance in the past 5 years and were using something now. 2% had used something in the past, but not now, and 21% had not used in the past but were using now. Almost half (47%) had neither used external

finance in the past nor were they using it now, and this ranged from half of one man bands to just 15% of the biggest SMEs as the table below shows:

Use of external finance	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	5063	1022	1672	1610	759
Used in past and use now	30%	26%	40%	53%	58%
Not used in past but use now	21%	20%	25%	23%	23%
Used in past but not now	2%	2%	3%	3%	4%
Not used at all	47%	52%	32%	21%	15%

Q14/15 All SMEs

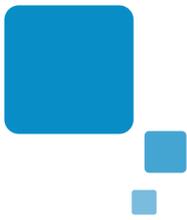
The specific forms of finance used are detailed in the table below. Overall 51% of SMEs were using one or more of these forms of finance, with bigger SMEs more likely to do so (81%).



By sector, use of external finance ranged from 62% of Wholesale/Retail SMEs to 38% of Health sector SMEs. Low risk SMEs were only slightly more likely to have facilities (55%), than worse than average risk ones (49%).

External finance currently used	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	5063	1022	1672	1610	759
Bank overdraft	30%	27%	38%	43%	43%
Credit cards	20%	16%	27%	38%	46%
Bank loan / Commercial mortgage	12%	10%	18%	28%	34%
Leasing or hire purchase	7%	5%	12%	28%	39%
Loans/equity from directors	7%	4%	14%	15%	16%
Loans/equity from family and friends	5%	5%	8%	5%	5%
Invoice finance	2%	1%	4%	11%	15%
Grants	2%	1%	3%	3%	6%
Loans from other 3 rd parties	1%	1%	2%	4%	6%
Export/import finance	1%	1%	*	1%	3%
Any of these	51%	45%	65%	76%	81%
None of these	49%	55%	35%	24%	19%

Q15 All SMEs



Most SMEs had not had a loan or overdraft “event” in the past 12 months

5.2 Overdraft and loan events in last 12 months

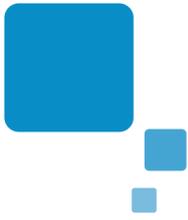
All SMEs reported on activities occurring in the previous twelve months concerning borrowing on loan or overdraft. These events encompassed both those at the request of the SME itself, such

as applying for a new facility, or deciding to reduce the amount borrowed, and also those at the behest of the bank, such as the bank looking to cancel or re-negotiate an existing facility.

Loan and overdraft borrowing events have been split into three types, defined as follows:

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

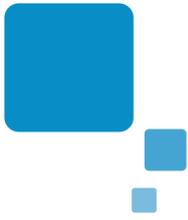
The majority of SMEs, 81%, had not experienced any of the loan or overdraft events specified, varying from 84% of the one man bands to 61% of those with 50-249 employees. The event experienced most widely was the renewal of an existing facility (experienced by 10% of all SMEs, and 25% of those with 50-249 employees).



15% of all SMEs have applied for or renewed a facility in the past 12 months

Borrowing events	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	5063	1022	1672	1610	759
Type 1: New application/renewal	15%	12%	24%	29%	32%
Applied for new facility (net)	8%	6%	14%	12%	14%
- applied for new loan	4%	2%	7%	6%	8%
- applied for new overdraft	6%	4%	9%	7%	7%
Renewed facility (net)	10%	7%	15%	23%	25%
- renewed existing loan	2%	1%	5%	7%	8%
- renewed existing overdraft	9%	7%	13%	20%	20%
Type 2: Cancel/re-negotiate by bank	5%	4%	8%	12%	14%
Bank sought to re-negotiate facility (net)	4%	3%	6%	10%	13%
- Sought to re-negotiate loan	1%	1%	2%	4%	5%
- Sought to re-negotiate overdraft	4%	3%	5%	8%	10%
Bank sought to cancel facility (net)	2%	1%	3%	4%	3%
- Sought to cancel loan	1%	*	1%	1%	1%
- Sought to cancel overdraft	1%	1%	2%	3%	2%
Type 3: Chose to reduce/pay off facility	4%	3%	4%	6%	7%
- Reduce/pay off loan	2%	2%	3%	3%	4%
- Reduce/pay off overdraft	2%	1%	2%	4%	3%
Any of these “events”	19%	16%	27%	35%	39%
None of these “events”	81%	84%	73%	65%	61%

Q25/26 All SMEs



5% of all SMEs have been approached by their bank looking to re-negotiate or cancel an existing facility

Other factors affecting borrowing events

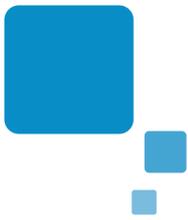
There were differences in event types by SME age and sector:

Borrowing events	Most likely	Least likely
Type 1 – new/renewed 15% overall	<ul style="list-style-type: none"> Those in Agriculture (29%) SMEs 10-15 years old (21%) 	<ul style="list-style-type: none"> Those in Health (12%) Start-ups (11%)
Type 2 – cancel/re-negotiate 5% overall	<ul style="list-style-type: none"> Those in Real estate (8%) SMEs 6-9 years old (8%) 	<ul style="list-style-type: none"> Those in Wholesale/Retail or Health (3%) Start-ups (3%)
Type 3 – reduce/repay 4% overall	<ul style="list-style-type: none"> Those in Agriculture (6%) 	<ul style="list-style-type: none"> Those in Manufacturing (1%) Start-ups (2%)

There was relatively little difference in the incidence of borrowing events by external risk rating. Those SMEs with a lower risk rating were slightly more likely to have had an event, due to a higher incidence of Type 1 events:

Borrowing event in last 12 months	Total	Min	Low	Avge	Worse/Avge
Unweighted base:	5063	875	1041	1357	1367
Type 1: New application/renewal	15%	19%	17%	14%	16%
Type 2: Bank cancel/re-negotiate	5%	5%	5%	6%	4%
Type 3: Chose to reduce/pay off facility	4%	4%	5%	4%	3%
Any of these “events”	19%	23%	20%	18%	19%

Q25/26 All SMEs – where risk ratings provided



4% of all SMEs had chosen to reduce or pay off a facility early

More variation was seen by the self-reported risk assessment made from the survey itself. Those that self-reported any credit issues were twice as likely to have had a borrowing event as those that had not, notably a Type 1 event:

Borrowing event in last 12 months	Total	Had credit issue	No issues
Unweighted base:	5063	836	3895
Type 1: New application/renewal	15%	27%	12%
Type 2: Bank cancel/re-negotiate	5%	10%	4%
Type 3: Chose to reduce/pay off facility	4%	6%	3%
Any of these “events”	19%	33%	15%

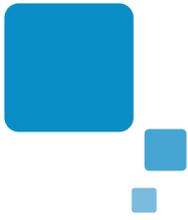
Q25/26 All SMEs

It was also true that SMEs that had had a borrowing event were twice as likely to have had a self-reported credit issue than those that had not had such an event (26% v 13%) but the risk profile of the two groups of SMEs did not differ much (21% min/low risk v 19%).

Subsequent chapters of this report investigate each of these events, and their outcome, in more detail. The main focus is on those that have

applied for a new overdraft or loan facility, or to renew an existing one.

Note that SMEs were only asked these follow up questions for a maximum of one loan and one overdraft event. SMEs that had experienced more than one event in either category in the last 12 months were asked which had occurred most recently, and were then questioned on this most recent event. Base sizes may therefore vary slightly from the overall figures reported above.



5.3 Recent applications for other forms of finance

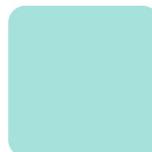
For a complete picture of external finance applications in the past 12 months, an overview is provided of applications for other forms of funding and the extent to which these were successful. As the table below shows, only a minority of SMEs had applied for other forms of

finance during this time, but most of those that had applied had been successful, with the exception of grants which recorded a 67% success rate. Due to the small numbers applying, success rates are only reported at the overall level.

External finance applied for	Total		Applied for			
	Applied	% success	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	5063	varies	1022	1672	1610	759
Credit cards	5%	92%	5%	6%	6%	7%
Leasing/Hire purchase	4%	96%	3%	7%	17%	29%
Loans/equity from directors	4%	99%	2%	8%	7%	6%
Loans/equity from family & friends	4%	92%	4%	4%	2%	2%
Grants	3%	67%	3%	4%	5%	9%
Invoice finance	1%	87%	1%	2%	5%	5%
Loans from other 3 rd parties	1%	78%	1%	2%	2%	3%
Export/import finance	*	97%	-	*	1%	1%

Q222 All SMEs

6. What happens when SMEs apply for / renew overdrafts or loans?



This chapter covers

The kind of SMEs that are applying for new/renewed finance (ie a Type 1 event). Why they want this finance, how the bank responded initially and what subsequently happened.



Key findings

Bigger SMEs were more likely to have sought finance. Amongst applicants:

- The average overdraft application was £17,000 for smaller SMEs and £250,000 for bigger ones
- The average loan application was £142,000 for smaller SMEs and £800,000 for larger ones

Most SMEs **did not seek external advice** before applying for finance

The majority of applicants got what they wanted in the bank's initial response but **loan applicants were less likely** to do so:

- 72% of overdraft applicants and 59% of loan applicants were offered what they wanted
- 8% of overdraft applicants and 2% of loan applicants were offered less than they applied for
- 3% of overdraft applicants and 10% of loan applicants received an offer where they did not like the terms and conditions
- 17% of overdraft applicants and 28% of loan applicants were initially declined by the bank

Those more likely to be offered what they wanted in the bank's first response included:

- Bigger SMEs
- Applicants with low external risk ratings
- Applicants seeking to renew existing facilities rather than applying for new facilities



Almost all of those that were confident they would get an overdraft were subsequently offered the facility they wanted. This was slightly less true for loans

The **age of the business** was the most **significant predictor** in successful applications

85% of overdraft applicants and 66% of loan applicants now have an overdraft/loan facility

The bank advice offered to those initially declined or offered less than they wanted was not well regarded

Banks responded within 3 days to 69% of overdraft applications and 42% of loan applications. 17% of overdraft applicants and 33% of loan applicants said the bank's response took 2 weeks or more. Larger SMEs reported slower response times, perhaps because their applications tended to be larger and more complex



Bigger SMEs were more likely to have sought finance...

6.1 What sort of SMEs had application or renewal events (Type 1)?

One man bands were much less likely than those with employees to have applied for, or to have renewed, an existing facility:

Type 1 Borrowing event	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	5063	1022	1672	1610	759
Applied for new facility (net)	8%	6%	14%	12%	14%
- applied for new loan	4%	2%	7%	6%	8%
- applied for new overdraft	6%	4%	9%	7%	7%
Renewed facility (net)	10%	7%	15%	23%	25%
- renewed existing loan	2%	1%	5%	7%	8%
- renewed existing overdraft	9%	7%	13%	20%	20%
Any of these Type 1 “events”	15%	12%	24%	29%	32%
None of these “events”	85%	88%	76%	71%	68%

Q26 All SMEs

Overdrafts are often renewed on a 12 month, or shorter, basis but it is apparent that not all overdraft users reported a renewal event in the last 12 months. (30% have an overdraft, 9% reported a renewal). Overall, 4 in 10 of those that now have an overdraft reported an overdraft “event” in the last 12 months. We believe that a certain proportion of overdrafts may be rolled over on existing terms and that some SMEs do not see this as a renewal “event”.

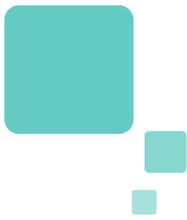
The sector most likely to have applied/renewed was Agriculture (29%) – this was due to a higher proportion of renewals than in other sectors, notably for overdrafts (18%). The second highest sector was Hotels and Restaurants (20%) where the net score was boosted by a higher than average level of applications for new finance (14%), as opposed to renewals. The sector least likely to have applied/renewed was Health (12%).



Other business demographics showed some variation in application/renewal rates. These will become clearer, and be explored in more detail, as sample sizes grow over time.

Demographic	Comment
Fast growth (30%+ for 3 yrs)	<p>Fast growth SME were no more likely to have had a Type 1 event:</p> <p>Fast growth 15% Non fast growth (excl Start-ups) 17%</p> <p>Within these figures, they were slightly more likely to have applied for a new facility than those that were not fast growth (11% v 7%)</p>
Profitable SMEs	<p>SMEs that made a loss in the past 12 months were slightly more likely to have had a Type 1 event:</p> <p>Made a profit 15% Made a loss 19%</p> <p>Broke even 12%</p> <p>The loss makers were more likely to have applied for a new facility than those that made a profit (12% v 7%)</p>
Age of business	<p>Start-ups were the least likely to have had a Type 1 event (11%), increasing with age of business to 19% of those 10 or more years old</p>

The base sizes for loan applications/renewals currently preclude the full employee split, so the analysis of the process of applying for both loans and overdrafts is reported at a broader employee split this time. Subsequent reports will include a more granular analysis.



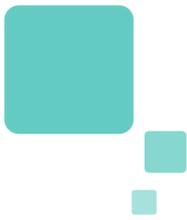
Understanding the sort of SMEs that have had a Type 1 borrowing event

Statistical analysis (CHAID) was used to understand the types of SME that were more or less likely to apply for or renew an overdraft or loan. This analysis will be developed over subsequent waves, but some initial themes have been identified.

The comparator set for loan and overdraft applications is all other SMEs (as any SME might apply for finance). The applicants are those answering subsequent questions on their overdraft or loan application, and thus, as noted at the end of Chapter 5, percentages can vary slightly from the overall proportions reported.

	Applying for a new overdraft facility
Overall proportion	5% of SMEs answered on applying for a new overdraft facility
Key discriminator	Ambition , as future growth plans emerged as key: <ul style="list-style-type: none"> • If planning to grow substantially 13% applied • If planning to grow moderately 5% applied • If planning to stay same size/sell 4% applied • If planning to get smaller 1% applied
Other factors	Turnover, sector and risk rating

	Applying for a new loan
Overall proportion	3% of SMEs answered on applying for a new loan
Key discriminator	Turnover emerged as key: <ul style="list-style-type: none"> • If turnover less than £50,000 2% have applied • If turnover £50,000 to £2 million 5% have applied • If turnover £2-5million 11% have applied • If turnover above £5 million 7% have applied
Other factors	Sector, other borrowing, credit balances



A similar analysis has been conducted for renewal of existing loan and overdraft facilities. Here the comparator group is restricted to those who either currently had a loan/overdraft and/or have been through a renewal event. Thus the percentages shown will not match those reported for the total sample.

Renewing an overdraft	
Initial proportion	23% of relevant SMEs had renewed an overdraft
Key discriminator	<p>Turnover emerged as key:</p> <ul style="list-style-type: none"> • If turnover less than £50,000 16% have renewed • If turnover £50,000 to £75,000 39% have renewed • If turnover £75,000 to £1million 27% have renewed • If turnover above £1 million 39% have renewed
Other factors	Risk rating, credit balances

Renewing a loan	
Initial proportion	9% of relevant SMEs had renewed a loan
Key discriminator	<p>Sector emerged as key:</p> <ul style="list-style-type: none"> • If in Agriculture, 25% have renewed • If in Construction, Transport, Hotels, or Real Estate, 11% have renewed • If in Wholesale/Retail, Manufacturing, Other community, or Health 4% have renewed
Other factors	Growth plans, credit balances and age of business



The average overdraft application was £17,000 for smaller SMEs and £250,000 for bigger ones

6.2 Why were they applying?

Overdrafts

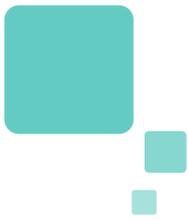
Half of those applying for/renewing an overdraft were looking to maintain the status quo by renewing an overdraft at existing levels (56%). 17% were applying for their first ever overdraft (typically smaller SMEs) and the same proportion were looking to increase an existing overdraft (little variation by size).

Almost all of these applications, 95%, were made to the SME's main bank.

The average amount sought on overdraft was just over £30,000, but as the table below shows, there was a strong divergence by size. Smaller SMEs (0-9 emp) were looking for £17,000 on average, compared to the £250,000 sought on average by those with 10-249 employees. The median amount sought was £5,000, ranging from £4,000 for the smallest SMEs to £62,000 for the largest:

Amount sought on overdraft (where stated)	Total	0-9 emp	10-249 emps
Unweighted base:	813	370	443
Less than £5,000	42%	44%	3%
£5,000 - £9,999	20%	21%	4%
£10,000 - £24,999	20%	20%	16%
£25,000 - £99,999	13%	11%	37%
£100,000+	6%	4%	41%

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



Those applying for an overdraft were typically looking for working capital and/or a safety net, especially the smaller SMEs, with only a minority specifically mentioning expansion. Almost one in five of the smaller applicants wanted to use an overdraft to fund the purchase of fixed assets:

Purpose of overdraft	Total	0-9 emp	10-249 emps
Unweighted base:	910	405	505
Working capital for day to day cashflow	87%	88%	83%
Safety net – just in case	53%	53%	45%
Short term funding gap	44%	45%	29%
Buy fixed assets	18%	19%	13%
Fund expansion in UK	12%	12%	14%
Fund expansion overseas	1%	1%	3%

Q55 All SMEs seeking new / renewed overdraft facility

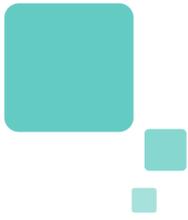
Those applying for their first ever overdraft were also likely to be doing so for working capital (91%) or to cover a short term funding gap (50%), and 1 in 5 (21%) said it was to fund expansion in the UK.

Very few SMEs (9%) sought any external advice before the application for new/renewed overdraft facilities was made. Almost all of those seeking advice, of any size, spoke to an accountant.

This may be because most SMEs were confident that they would be granted the overdraft facility they were seeking. Overall 71% were confident

the bank would say yes, ranging from 70% of those with 0-9 employees to 84% of applications from SMEs with 10-249 employees. This was driven by those seeking to renew a facility, where 83% were confident of the outcome they wanted. Confidence amongst those seeking a new facility was lower, at 54%.

Amongst the minority that were not confident, the main reasons given were a lack of credit history, or a poor credit history, insufficient security, or concerns about the bank’s view of their sector.



Loans

Type 1 loan events (applications and renewals) were twice as likely to be from first time loan applicants (31%) as was the case for overdrafts (17%). Compared to overdrafts, these applications were also slightly less likely to be made to the main bank, although most of them were, 84%.

The average amount sought on loan was just under £200,000, but as the table below shows, there was a strong divergence by size. Smaller SMEs (0-9 emp) were looking for £142,000 on average, compared to just over £800,000 for those with 10-249 employees. The median amount sought was £15,000, ranging from £14,000 for the smallest SMEs to £185,000 for the largest:

Amount sought on loan (where stated)	Total	0-9 emp	10-249 emps
Unweighted base:	393	177	216
Less than £5,000	9%	10%	1%
£5,000 - £9,999	31%	33%	4%
£10,000 - £24,999	20%	21%	11%
£25,000 - £99,999	17%	16%	20%
£100,000+	23%	19%	63%

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

Reflecting the nature of the finance sought, those applying for loans were planning to use the funding to expand or develop their business:

Purpose of loan	Total	0-9 emp	10-249 emps
Unweighted base:	441	196	245
Fund expansion in UK	29%	28%	35%
Buy fixed assets	25%	25%	22%
Buy premises	21%	20%	27%
Buy motor vehicles	20%	22%	5%
Develop new products/services	20%	20%	18%
Replace other funding	14%	14%	21%
Fund expansion overseas	3%	3%	6%

Q150 All SMEs seeking new / renewed loan facility



The majority of applicants got what they wanted in the bank’s initial response but **loan applicants were less likely** to do so

More SMEs, albeit still a small minority (20%), sought any external advice before the application for new/renewed loan facilities was made, than did for overdrafts (9%). Bigger SMEs were more likely to seek help (24% with 10-249 employees) and to use an accountant.

Confidence that the facility would be granted was similar to that for overdrafts, with most confident they would get what they wanted. Overall 75% were confident the bank would say yes, with little variation by size (75% of those with 0-9

employees to 82% of applications from SMEs with 10-249 employees). As with overdrafts, those looking to borrow more were more confident of success. Unlike overdrafts, there was less of a difference in confidence levels between those looking to renew (81% confident) and those seeking new loan facilities (72% confident).

Amongst the minority that were not confident, a poor credit history was key. There were, though, more mentions of a perception that “banks are not lending”, as a reason for lower confidence.

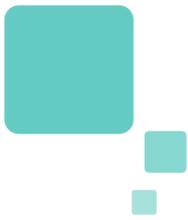
6.3 Bank’s initial response to request

In this section we review the initial response from the bank to the request for new/renewed facilities. This is reported separately for loans and overdrafts, for those SMEs that had had an initial response from the bank. 1% of overdraft applicants and 5% of loan applicants had not yet received a response from their bank at the time of interview.

As the tables below show, overdrafts were more likely to have been offered in full than loans (72% of overdrafts v 59% of loans). Terms and conditions perceived as unfavourable (typically involving the interest rate, fee and/or security conditions) were more likely to be reported for loans than overdrafts, and smaller SMEs were more likely to report being declined:

Initial response: New/renewal of overdraft	Total	0-9 emp	10-249 emps
Unweighted base:	883	398	485
Offered what wanted	72%	71%	83%
Offered less than wanted	8%	8%	5%
Offered unfavourable terms & conditions	3%	3%	6%
Declined by bank	17%	18%	6%

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



Those more likely to be offered what they wanted in the bank’s first response included bigger SMEs and applicants with low external risk ratings

Initial response: New/renewal of loan	Total	0-9 emp	10-249 emps
Unweighted base:	421	188	233
Offered what wanted	59%	58%	69%
Offered less than wanted	2%	2%	8%
Offered unfavourable terms & conditions	10%	10%	10%
Declined by bank	28%	30%	12%

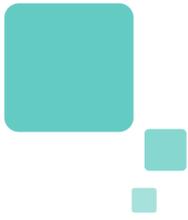
Q158 All SMEs seeking new / renewed loan facility that have had response

Base sizes preclude a detailed assessment by sector, and no more than an indicative view can be given at this stage. It appears that Hotels and Restaurants (which were more likely to be seeking new facilities) were also more likely to be declined, both for loans and overdrafts. Overdrafts appeared more likely to be declined for those in Transport, Real Estate and Construction (this latter also appeared less successful with loans). Those in Agriculture and Manufacturing appeared most successful with overdrafts, but those in Manufacturing applying for or renewing a loan appeared less successful.

As already reported, very few applications were made to a bank other than the main bank, but

qualitatively, those that had sought finance elsewhere were more likely to be declined, especially if the application was for an overdraft.

Those that were applying for an overdraft in order to fund expansion, or purchase assets, were less likely to be offered what they wanted (61%) than those that were looking for working capital (71%) or those looking to cover a short term funding gap (71%) or for a safety net (78%). An initial investigation of those applying for overdrafts for these different purposes, showed little difference in the risk profile which might account for these differing response rates, and this will be investigated further in subsequent reports.



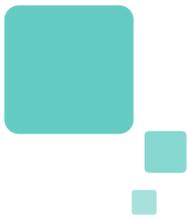
As might be anticipated, there were clear differences in bank response by external risk rating for both loans and overdrafts, with minimal/low risk SMEs much more likely to be offered what they wanted and average and worse than average risk SMEs less so, particularly with loans (albeit not significantly so on smaller bases in this first wave):

Overdraft: initial response	Overall	Min/Low risk	Average risk	Worse/ Av risk
Unweighted base:	883	350	249	219
Offered what wanted	72%	93%	73%	61%
Offered less than wanted	8%	2%	6%	13%
Offered unfavourable terms & conditions	3%	2%	4%	4%
Declined by bank	17%	3%	17%	22%

Q63 All SMEs seeking new / renewed overdraft facility that have had response. Risk ratings not available for all SMEs

Loan: initial response	Overall	Min/Low risk	Average risk	Worse/ Av risk
Unweighted base:	421	158	108	118
Offered what wanted	59%	81%	54%	41%
Offered less than wanted	2%	4%	3%	2%
Offered unfavourable terms & conditions	10%	11%	12%	12%
Declined by bank	28%	5%	31%	45%

Q158 All SMEs seeking new / renewed loan facility that have had response. Risk ratings not available for all SMEs



Applicants seeking to renew existing facilities rather than applying for new facilities were also more likely to be offered what they wanted

Breaking the figures down further, there was evidence that SMEs were more likely to be offered what they wanted when renewing existing facilities than they were when seeking new borrowing:

Initial response: New v renewed facilities	New OD	Renew OD	New loan	Renew loan
Unweighted base:	261	622	249	172
Offered what wanted	43%	90%	51%	79%
Offered less than wanted	16%	3%	3%	2%
Offered unfavourable terms & conditions	5%	2%	12%	7%
Declined by bank	36%	5%	35%	12%

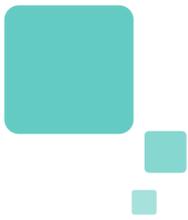
DQRROUTE / Q63/158 All SMEs seeking new / renewed overdraft or loan facility that have had response

Whilst almost all of those renewing an overdraft facility were offered what they wanted (90%) less than half of those applying for a new overdraft facility were similarly successful (43%). Initial decline rates for a new overdraft were 36% overall (36% for those with 0-9 employees v 21% for those with 10-249), compared to just 5% of overdraft renewals.

A similar, if slightly less stark, initial bank reaction was seen for loans, with 79% of loan renewals resulting in the SME being offered everything it wanted, compared to 51% of new loan requests. Decline rates were again higher for smaller SMEs: 36% of new loan applications from SMEs with 0-9

employees were declined compared to 20% of those from SMEs with 10-249 employees.

This then helps to account for the difference in initial bank response reported above. Renewals were more likely to be granted than new facilities, and of all overdraft applications, 61% were for a renewal, compared to 29% of loan applications, hence the higher overall success rate for overdrafts. Analysis also revealed that more of the SMEs going through the renewal process were rated minimal/low risk, based on external credit ratings, compared to the profile of those applying for new facilities, which may also be affecting the response.



However, further investigation suggested that differences exist even when credit ratings were taken into account. SMEs with an average or worse than average credit rating were twice as likely to be able to continue with an existing

overdraft facility as they were to secure a new one. SMEs with the best credit rating were also slightly more likely to be successful with renewals, but the contrast was not as marked:

Overdraft: initial response	Min/Low risk		Av/ Worse/Av risk	
	New OD	Renew	New OD	Renew
Unweighted base:	70	280	166	302
Offered what wanted	77%	97%	39%	86%
Offered less than wanted	4%	1%	18%	4%
Offered unfavourable terms & conditions	8%	1%	6%	3%
Declined by bank	11%	1%	38%	7%

DQROUTE/Q63 All SMEs seeking new / renewed overdraft facility that have had response. Risk ratings not available for all SMEs

A similar analysis is shown below for loans. Base sizes are too small to be definitive at this stage, but results show a similar pattern to that seen for overdrafts:

Loan: initial response	Min/Low risk		Av/ Worse/Av risk	
	New Loan	Renew	New Loan	Renew
Unweighted base:	80	78	147	79
Offered what wanted	63%	94%	40%	62%
Offered less than wanted	8%	1%	2%	4%
Offered unfavourable terms & conditions	23%	1%	11%	14%
Declined by bank	6%	4%	47%	20%

DQROUTE/Q158 All SMEs seeking new / renewed loan facility that have had response. Risk ratings not available for all SMEs



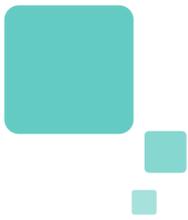
Almost all of those that were confident they would get an overdraft were subsequently offered the facility they wanted. This was slightly less true for loans

Most SMEs had reported that in advance of their application/renewal they had been confident that their bank would lend. Was this confidence misplaced, or did SMEs have a realistic expectation of what their bank would subsequently say?

Almost all of those that were confident that they would get an overdraft were subsequently offered what they wanted (83% 0-9 employees and 90% 10-249 employees)

Predictions for loans were not quite so accurate. 64% of SMEs with 0-9 employees and 79% of SMEs with 10-249 employees that had been confident that they would get a loan were subsequently offered what they wanted. A quarter of confident small SME applicants (26%) were subsequently declined.

Base sizes for those not confident about their application are too small as yet for robust analysis, but qualitatively, these SMEs were subsequently proved correct, with only around a quarter being offered what they wanted.



The **age of the business** was the most **significant predictor** in successful applications

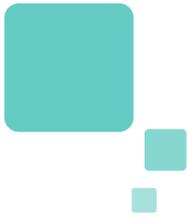
Understanding the bank's initial response

Statistical analysis (CHAID) was used to understand the types of SME that were more or less likely to be offered the facility they wanted.

This analysis will be developed more over subsequent waves, but some initial themes have been identified.

	Being offered overdraft asked for
Overall proportion	72% of SMEs applying were initially offered the overdraft they wanted, 11% had issues and 17% were declined
Key discriminator	<p>Age of business emerged as key:</p> <ul style="list-style-type: none"> • Amongst SMEs up to 5 years old, 46% got what they wanted, 16% had issues and 38% were declined • Amongst SMEs more than 5 years old, 82% got what they wanted, 10% had issues and 9% were declined
Other factors	Growth plans and legal status of SME

	Being offered loan asked for
Overall proportion	59% of SMEs applying were initially offered the loan they wanted, 13% had issues and 28% were declined
Key discriminator	<p>Age of business emerged as key:</p> <ul style="list-style-type: none"> • Amongst SMEs up to 5 years old, 47% got what they wanted, 12% had issues and 40% were declined • Amongst SMEs 6-9 years old, 32% got what they wanted, 44% had issues and 23% were declined • Amongst SMEs more than 10 years old, 70% got what they wanted, 8% had issues and 22% were declined
Other factors	Risk rating, and financial qualifications

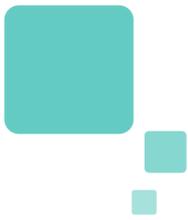


Analysis earlier in this chapter showed a difference in bank response depending on whether a renewal or a new facility was being requested. Statistical analysis (CHAID) was undertaken to explore the discriminating factors for new versus renewed overdrafts and for new

versus renewed loans. Due to smaller sample sizes, this analysis compared those that were offered what they wanted to those who had any issue, including being declined: Sector, age of business and risk rating were the key discriminators:

	New overdraft	Renewed overdraft
Overall proportion	43% offered what wanted	90% offered what wanted
Key discriminator	Sector emerged as key: <ul style="list-style-type: none"> If in Construction, Hotels, Real Estate, or Transport: 31% offered what wanted If in Wholesale, Health, Other Community, Agriculture: 56% offered what wanted 	Risk rating emerged as key: <ul style="list-style-type: none"> If Average or better: 92% offered what wanted If worse than average: 85% offered what wanted
Other factors	Age of business and qualifications of owner	Sector, growth plans and qualifications of owner

	New loan	Renewed loan
Overall proportion	51% offered what wanted	79% offered what wanted
Key discriminator	Age of business emerged as key: <ul style="list-style-type: none"> If business less than 10 years old: 40% offered what wanted If SME 10 or more years old: 60% offered what wanted 	Risk rating emerged as key: <ul style="list-style-type: none"> If Minimal/low: 94% offered what wanted If average/worse than average: 62% offered what wanted
Other factors	Risk rating	n/a



85% of overdraft applicants now have an overdraft facility

6.3.1 What subsequently happened – overdrafts

So, what happened after the bank’s initial response to the overdraft request? A summary of the net final position is provided below. 72% had got what they wanted straight away and a

further 13% subsequently got an overdraft, even if it was not quite what they wanted, or at another bank. Smaller SMEs were twice as likely to have ended up with no facility (13% v 5%):

Outcome for those applying for/renewing overdraft	Overall	0-9 emp	10-249 emps
Unweighted base:	883	398	485
Offered overdraft wanted and took it	72%	71%	83%
Have an overdraft at bank after issues with request	10%	10%	10%
Have an overdraft at another bank after issues with request	3%	3%	*
Now have overdraft (net)	85%	84%	93%
Took other funding after issues with request	3%	3%	2%
No overdraft although was offered what wanted	0%	0%	0%
No overdraft after issues with request	12%	13%	5%

Q64/66/81/92/97 All SMEs seeking new / renewed overdraft facility that have had response



The bank advice offered to those initially declined or offered less than they wanted was not well regarded

Within this overall position, there were different experiences depending on the bank's initial response. Base sizes currently prevent a detailed report at this initial response level, but an overview is provided below. This shows that most applicants emerged from the borrowing process

with an overdraft, even if the bank's immediate response was not wholly positive. However, the advice the banks offered to those having problems was not well rated and those that were initially declined were unlikely to be able to subsequently secure an overdraft:

Initial bank response	Subsequent events - overdraft
Offered what wanted	All those offered the overdraft they wanted went on to take the facility, just 2% experienced any delays or problems before the facility was taken. Almost all took the full amount they had originally asked for
Issue: Offered less than wanted	1 in 3 did not know why they were offered less than they wanted, those given a reason mentioned being a new SME with no credit history, having a poor credit history or being in a risky sector. Only 1 in 4 found the advice the bank offered at this stage to be good, but in the end almost all have a facility and most accepted the lower facility offered at the first bank. They were typically offered 60-90% of what they asked for, and took a similar amount
Issue: Offered unfavourable T&C	The unfavourable terms typically related to security (level, type requested and/or cost). The proposed fee and interest rate were less likely to be mentioned. 1 in 5 decided not to proceed with any overdraft, but most managed to secure funding, with half getting a better deal at another bank. Almost all now have an overdraft of the amount they originally requested
Issue: Facility declined	The main reason for decline was a lack of credit history or a poor credit history. Most were not offered an alternative, and if they were it was a loan. Over half rated the bank's advice as 'poor', with virtually no referrals to external sources of advice from the bank, or subsequent use of such sources, by the SME itself. 1 in 3 initial declines ended with the SME securing either another overdraft or alternative borrowing, but most have no overdraft facility. Too few such overdrafts had been granted to comment on the amount received



Reflecting the initial response received from the bank, those with a lower external risk rating were slightly more likely to now have an overdraft: 95% of minimal risk and 93% of low risk SMEs that went through the process now have an overdraft, compared to 83% of average risk and 78% of worse than average risk SMEs.

Those applying to renew an overdraft were more likely to end the process with one (95%) compared to those applying for a new one (68%). Less likely to now have an overdraft were average/worse than average risk SMEs that had sought a new facility, where 64% now have one.

The impact on SMEs of being/not being successful with an overdraft application is considered in more detail in Chapter 8.



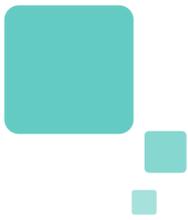
66% of loan applicants now have an overdraft/loan facility

6.3.2 What subsequently happened – loans

As the summary table below shows, compared to overdraft applications, those applying for a loan were less likely to emerge with the facility they wanted (58% v 72%), and more likely to end up with no loan at all (27% v 12%). Smaller SMEs were also more likely to have ended up with no loan than larger ones (28% v 12%)

Outcome for those applying for/renewing loan	Overall	0-9 emp	10-249 emps
Unweighted base:	421	188	233
Offered loan wanted and took it	58%	57%	68%
Got loan at bank after issues with request	5%	5%	11%
Got loan at another bank after issues with request	3%	3%	5%
Now have loan (net)	66%	65%	84%
Took other funding after issues with request	6%	6%	3%
No loan although was offered what wanted	1%	1%	1%
No loan after issues with request	27%	28%	12%

Q159/161/178/187/192 All SMEs seeking new / renewed loan facility that have had response



As with overdrafts, the bank advice offered to those initially declined or offered less than they wanted was not well regarded

A qualitative assessment of the loan “journey” to achieve the position reported above is provided. This shows that, as with overdrafts, the advice offered by the bank to those initially declined or offered less than they wanted was not well rated:

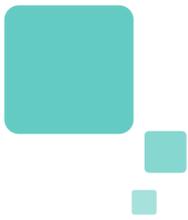
Initial bank response	Subsequent events - loan
Offered what wanted	Almost all those offered the loan they wanted went on to take the facility, just 3% experienced any delays or problems before the facility was taken, and 1% declined to take it out. All who have a loan received the full amount sought
Issue: Offered less than wanted	Insufficient security was the main reason given for being offered less. Only 1 in 3 found the advice the bank offered at this stage to be good. 1 in 5 decided not to proceed with a facility at all, most of the rest accepted the lower offer by the bank. Too few such loans had been granted to comment on the amount received
Issue: Offered unfavourable T&C	As for overdrafts, the unfavourable loan terms typically related to security (level, type requested and/or cost), but the proposed fee and interest rate were also mentioned. Almost half decided not to proceed with any loan, while 1 in 3 managed to get a better deal with either the original or another bank. Too few such loans had been granted to comment on the amount received
Issue: Facility declined	The main reason for decline, as for overdraft, was a lack of credit history or a poor credit history. Almost none were offered an alternative form of funding. Two thirds rated the bank’s advice as ‘poor’, with virtually no referrals to external sources of advice from the bank. However 1 in 4 SMEs sought their own external advice and typically found it useful. 1 in 4 initial declines ended with the SME securing alternative borrowing, but most have no loan facility. Too few such loans have been awarded to comment on the amount received



Reflecting the initial response received from the bank, those with a lower external risk rating were more likely to now have a loan: 94% of minimal risk and 88% of low risk SMEs that went through the process now have a loan, compared to 59% of average risk and 49% of worse than average risk SMEs.

Those applying to renew a loan were more likely to end the process with one (88%) compared to those applying for a new one (58%). The least likely to now have a loan were average/worse than average risk SMEs that had sought a new facility, where less than half, 45% now have one.

The impact on SMEs of being / not being successful with a loan application is considered in more detail in Chapter 8.



Banks responded within 3 days to 69% of overdraft applications

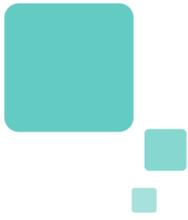
6.4 Time taken to provide initial response

Overall, the banks made their initial response within 3 days to 69% of overdraft requests and 42% of loan requests. Only a small minority, 4% of overdrafts and 10% of loans, took more than a month. Bigger SMEs, typically asking for more

funds or perhaps with a more complicated proposition, were less likely to receive a quick response than smaller SMEs and were almost twice as likely to have to waited for 2 weeks or more:

Time taken to respond - overdraft	Total	0-9 emp	10-249 emps
Unweighted base:	910	405	505
Less than 2 days	53%	54%	42%
2-3 days	16%	17%	8%
A week	13%	13%	16%
2-3 weeks	12%	11%	17%
4 weeks or more	5%	4%	14%
No response at time of survey	1%	1%	3%

Q 62 All SMEs seeking new / renewed overdraft facility

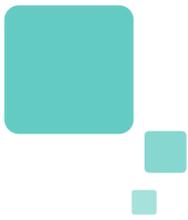


Banks responded within 3 days to 42% of loan applications

Time taken to respond - loan	Total	0-9 emp	10-249 emps
Unweighted base:	441	196	245
Less than 2 days	36%	38%	17%
2-3 days	6%	6%	7%
A week	21%	21%	13%
2-3 weeks	18%	17%	22%
4 weeks or more	15%	12%	36%
No response at time of survey	5%	5%	4%

Q157 All SMEs seeking new / renewed loan facility

Good news travels fast, particularly for overdrafts: 75% of those initially offered the overdraft they wanted received the news in 3 days or less, compared to 55% of those where there was an issue with their application. A similar gap occurred for loans – 54% within 3 days for those initially agreed in full compared to 32% where there was an issue.



6.5 Comparisons with previous research

This is the first in a series of reports that will establish how borrowing by SMEs is changing over time. In order to place this first SME Finance Monitor report in context, some key elements of the most recent “Financing UK Small and Medium Sized Enterprises” are reported below. Fieldwork for that study was conducted towards the end of 2007 and the report published by the Centre for Business Research at the University of Cambridge in August 2008. The sample definition was very similar to that used in this report, but a smaller sample of SMEs was interviewed (2,514).

In 2007, the proportion of SMEs using external finance was reported at 69%, down from 81% in 2004. In 2011, the figure is 51%.

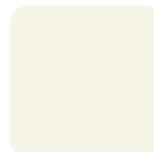
The 2007 survey reported that the proportion of SMEs seeking new/renewed finance in the previous *three* years was 36%, down from 44% in 2004. If these applications had been split equally across the previous three years that would suggest an annual rate of 12%, compared to the 8% reported in the SME Finance Monitor in 2011.

A more direct comparison is the outcome of the application, which shows a consistent pattern over time for overdraft applications, but more of a change for loans which are now more likely to be declined:

Overdraft outcome (2007 definition)	2007	2011
Offered what wanted	75%	72% offered what wanted and took it
Partial rejection	15%	16% (net) now have an overdraft after issues, or have other funding
Outright rejection	10%	12% do not now have an overdraft

Loan outcome (2007 definition)	2007	2011
Offered what wanted	85%	58% offered what wanted and took it
Partial rejection	11%	15% (net) now have a loan after issues, or have other funding
Outright rejection	4%	27% do not now have a loan

7. To what extent are banks looking to remove or re-negotiate existing facilities?



This chapter covers

The SMEs that have had a Type 2 event in the last 12 months (i.e. they were approached by their bank, looking to cancel or re-negotiate an existing facility): and what happened next



Key findings

Only a **small minority** of all SMEs had been **approached by their bank looking to cancel** their borrowing facilities, nor have many been approached with a view to **re-negotiating** an existing facility.

Bigger SMEs were more likely to have been approached, and these approaches were more likely in certain sectors

Amongst relevant businesses (those with borrowing and/or having an event), the proportion with a Type 2 event increases to 14% for overdrafts and 12% for loans. A quarter (24%) of the largest SMEs have experienced a Type 2 overdraft event.

Bigger relevant SMEs with a poorer credit rating were more likely to have had a Type 2 overdraft or loan event. Risk rating appears less linked to these events for smaller SMEs.

Most overdraft re-negotiations resulted in the SME still having a facility, and for a minority of such SMEs the bank was looking to increase, rather than reduce the facility

Only a **small minority** of all SMEs had been **approached by their bank** looking to cancel or re-negotiate an existing facility

Type 2 events, notably cancellations, affected only a very small proportion of all SMEs. Re-negotiation, particularly of overdrafts, had been an issue for around 1 in 10 of bigger SMEs:

Type 2 Borrowing event	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	5063	1022	1672	1610	759
Bank sought to re-negotiate facility (net)	4%	3%	6%	10%	13%
- Sought to re-negotiate loan	1%	1%	2%	4%	5%
- Sought to re-negotiate overdraft	4%	3%	5%	8%	10%
Bank sought to cancel facility (net)	2%	1%	3%	4%	3%
- Sought to cancel loan	1%	*	1%	1%	1%
- Sought to cancel overdraft	1%	1%	2%	3%	2%
Any of these Type 2 “events”	5%	4%	8%	12%	14%
None of these Type 2 “events”	95%	96%	92%	88%	86%

Q25 All SMEs

The table above shows the proportion of all SMEs that had experienced a Type 2 event. However, in order for the bank to propose either a cancellation or a re-negotiation, there has to have been a facility in place, and as already shown, half of SMEs are not borrowing at all.

The tables below are based just on those SMEs that have the relevant facility (loan or overdraft) now and/or had a relevant Type 2 event in the past 12 months. For overdrafts this represents 31% of all SMEs and for loans 13% of all SMEs.

These tables then show the percentage of Type 2 events amongst relevant SMEs that were eligible for such an event. Larger SMEs remain more likely to have had an overdraft event, with 1 in 5 (22%) reporting that the bank sought to re-negotiate an overdraft:

Type 2 Overdraft event : relevant SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	2036	281	673	735	347
Any Type 2 overdraft event	14%	12%	16%	21%	24%
- Sought to cancel overdraft	4%	4%	5%	7%	3%
- Sought to re-negotiate overdraft	12%	10%	13%	17%	22%

Q25 All SMEs with an overdraft and/or a Type 2 overdraft event

Bigger relevant SMEs with a poorer credit rating were more likely to have had a Type 2 overdraft or loan event

Type 2 Loan event: relevant SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	1176	104	340	467	265
Any Type 2 loan event	12%	9%	15%	17%	17%
- Sought to cancel loan	4%	3%	6%	5%	4%
- Sought to re-negotiate loan	10%	9%	11%	14%	14%

Q25 All SMEs with a loan and/or a Type 2 loan event

It might be expected that cancellations and re-negotiations would be more likely to involve those with poorer credit ratings. Overall, across all SMEs this was not the case – with the net Type 2 event score varying by no more than 2% across the credit ratings (4% to 6%). However, based on relevant SMEs, more of a pattern emerges. Those with more than 10 employees, and in the higher risk rating categories, were more likely to have had a Type 2 event:

Type 2 Overdraft event: relevant SMEs	Min	Low	Av	Worse/Av
Unweighted base*:	318	453	586	503
Any Type 2 overdraft event	16%	13%	18%	11%
- Any Type 2 0-9 employees	16%	12%	17%	11%
- Any Type 2 10-249 employees	15%	19%	25%	30%

Q25 All SMEs with an overdraft and/or a Type 2 overdraft event

Type 2 Loan event: relevant SMEs	Min	Low	Av	Worse/Av
Unweighted base*:	227	260	337	273
Any Type 2 loan event	8%	12%	13%	13%
- Any Type 2 0-9 employees	n/a	n/a	13%	13%
- Any Type 2 10-249 employees	12%	15%	19%	24%

Q25 All SMEs with a loan and/or a Type 2 loan event. Base sizes for minimal/low risk SMEs with 0-9 employees are too small to report



Understanding cancellations and re-negotiations

Statistical analysis (CHAID) was used to understand what made a SME more likely to be approached by the bank to cancel or re-negotiate the facility. As in earlier chapters, to make this a fair comparison, the SMEs included in the comparator group are those that have had a cancellation/re-negotiation of a loan/overdraft and/or currently have a loan/overdraft (rather

than all other SMEs), and they have answered subsequent questions on this event.

This analysis will be developed more over subsequent waves, but the initial analysis shows that sector is a key predictor of Type 2 events for both loans and overdrafts:

	Re-negotiation/cancellation of overdraft
Overall proportion	9% of relevant SMEs said that they had been approached by their bank looking to cancel or re-negotiate their overdraft facility
Key discriminator	<p>Sector emerged as key:</p> <ul style="list-style-type: none"> • 4% of such SMEs in the Wholesale/Retail sector have been approached • 12% of such SMEs in Hotels, Real Estate or Transport have been approached • 8% of such SMEs in Construction, Agriculture, Other community or Manufacturing have been approached • 2% of such SMEs in the Health sector have been approached
Other factors	Credit balances held and age of business



Re-negotiation/cancellation of loan	
Overall proportion	Overall, 8% of relevant SMEs said that they had been approached by their bank looking to cancel or re-negotiate their loan
Key discriminator	Sector also emerged as key: <ul style="list-style-type: none">• 14% of such SMEs in Construction or Real Estate have been approached• 2% of such SMEs in Wholesale/Retail, Other community, or Health have been approached• 4% of such SMEs in Agriculture, Hotels or Manufacturing have been approached• <1% of such SMEs in the Transport sector have been approached
Other factors	Turnover and credit balances held

Most overdraft re-negotiations resulted in the SME still having a facility, and for a minority of such SMEs the bank was looking to increase, rather than reduce the facility

Re-negotiations

A summary of the renegotiation process is provided below for loans and overdrafts:

Issue	Overdraft	Loan
Re negotiated with	Main bank (95%)	Mostly main bank (63%)
Sum involved	Smaller (82% < £25,000 excl DK)	Larger (52% £100k+ excl DK)
Main changes proposed	Reduce the amount (28%), increase the interest rate (13%) and/or increase the fees (13%). Half of all re-negotiations involved at least one of these three elements	An increase in the interest rate (51%). For 24% the change was a reduction in amount, but there were very few mentions of an increase in fees. Two thirds of re-negotiations involved at least one of these three elements
Other changes	17% reported that the bank was looking to <i>increase</i> the amount of their overdraft facility, seen more amongst the smaller SMEs	Other elements mentioned were changing to another form of borrowing, and imposing more terms and conditions, as well as increasing repayments
Reason for approach	Half said that they were given no reason. The most common reason given was the performance of the business (14%) while 3% mentioned a change in bank lending policy	Half said they were not given a reason. The main reasons given were to move the finance to another form of lending, as well as the performance of the business and a change in bank lending policy.
External advice sought?	Unlikely (15%)	A larger minority (40%), typically from an accountant
Still have a borrowing facility?	Yes, only 7% now have nothing	Yes, but 14% no longer have and 18% went to another form of lending
New facility	1 in 4 of those approached negotiated a better deal than the bank first offered, most of the rest accepted the banks offer.	1 in 3 of those approached negotiated a better deal than the bank first offered
Size of facility	Indicatively, similar size to before	Indicatively, similar size to before

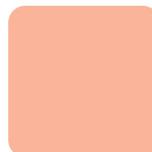
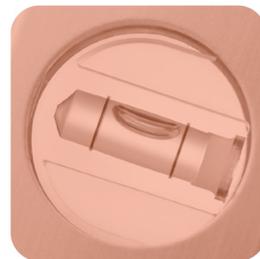
Q40-50 and Q137-147



Cancellations

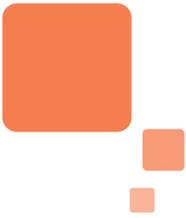
At this stage, the number of SMEs experiencing a cancellation was too small for further comment.

8. How do SMEs feel about the borrowing process?



This chapter covers

How those that have been through the borrowing process for a Type 1 or Type 2 event felt about it, their satisfaction with the facilities they now have, the reaction of those that were turned down, and the impact of the borrowing process on the overall bank relationship



Key findings

In the last 12 months, 18% of SMEs have applied to borrow, sought to renew, or had their bank approach them, about an existing facility

71% were very or fairly satisfied with the outcome of their overdraft event, but only 53% for loan events

Four out of five successful applicants thought their **application was considered fairly**

But 63% of successful applicants to their main bank, felt it had **made no impact on their relationship** with that bank, and almost as many felt the relationship had been weakened (15%) as strengthened (22%)

17% of those who had an overdraft event and 35% of those with a loan event ended up without a facility. This equates to 4% of all SMEs

75% of those initially declined for an overdraft would still prefer to have one, compared with 55% for loans, suggesting that an overdraft decline was more important to an SME than being turned down for a loan. Almost all of those that were **disappointed** not to have a facility said **it has impacted on the business**

Most of those that were **disappointed** at not being able to borrow had a **worse than average** external **risk** rating

The great majority (73%) of those applicants that were unsuccessful **did not feel that another bank** would have **treated them more favourably**

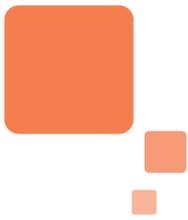


In the last 12 months, 18% of SMEs have applied to borrow, sought to renew, or had their bank approach them, about an existing facility

Type 1 and Type 2 borrowing events involved 15% of all SMEs for overdrafts and 5% of all SMEs for loans, with a net figure of 18% of SMEs involved in any event:

Type 1 and Type 2 events	Total	0-9 emps	10-249 emps
Unweighted base:	5063	2694	2369
Any application/renewal/bank re-negotiation/cancellation	18%	17%	33%

Q25/26 All SMEs



71% were very or fairly satisfied with the outcome of their overdraft event, but only 53% for loan events

8.1 Satisfaction with outcome

The table below shows the outcome for those SMEs that had been through a Type 1 or Type 2 event. Those that now had a facility were asked how satisfied they were with it, those that did not now have a facility were asked if they would still wish to have one.

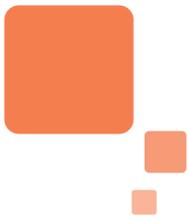
Most of those that had been through an event now had a facility, and were satisfied with it, but not all. Those SMEs that had not been successful in getting a loan appeared more relaxed about it than those that had not succeeded in getting an overdraft (17% v 4%):

Satisfaction with outcome	Overdraft			Loan		
	Total	0-9 emps	10-249 emps	Total	0-9 emps	10-249 emps
Unweighted base:	1102	482	620	533	225	308
Very satisfied with facility	42%	42%	46%	34%	33%	37%
Fairly satisfied with facility	29%	29%	27%	19%	18%	28%
Net satisfied	71%	71%	73%	53%	51%	65%
Neutral/dissatisfied with facility	12%	12%	15%	12%	11%	18%
Wish had been granted a facility	13%	13%	8%	18%	19%	8%
Not concerned at lack of facility	4%	4%	4%	17%	18%	10%

Q103/120 and Q196/214 All SMEs that have applied/renewed/had cancellation/re-negotiation

Satisfaction levels vary depending on the route taken through the borrowing process. For this first report, base sizes are just below 100 for some key groups, and are thus indicative, but have been reported here to show the clear differences in outcome between those that were offered what

they wanted, those that had an issue with terms and conditions or the amount on offer, and those that were initially declined. A further comparison is provided by those SMEs that now have a facility after the bank approached them to re-negotiate or cancel it



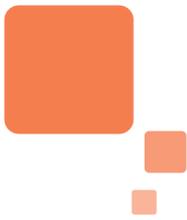
Satisfaction with outcome: Overdraft	Offered full	Issue T&C/less	Initial Decline	Cancel or re-neg
Unweighted base:	696	97	90	219
Very satisfied with facility	66%	14%	-	12%
Fairly satisfied with facility	28%	35%	6%	47%
Net satisfied	94%	49%	6%	59%
Neutral/dissatisfied with facility	6%	40%	10%	20%
Wish had been granted a facility	-	9%	75%	10%
Not concerned at lack of facility	-	2%	10%	11%

Q103/120 All SMEs that have applied/renewed/had cancellation/re-negotiation of an overdraft

Satisfaction with outcome: Loan	Offered full	Issue T&C/less	Initial Decline	Cancel or re-neg
Unweighted base:	283	67	71	112
Very satisfied with facility	66%	2%	1%	11%
Fairly satisfied with facility	27%	21%	1%	18%
Net satisfied	93%	23%	2%	29%
Neutral/dissatisfied with facility	6%	34%	1%	28%
Wish had been granted a facility	1%	26%	55%	12%
Not concerned at lack of facility	*	16%	41%	32%

Q196/214 All SMEs that have applied/renewed/had cancellation/re-negotiation of a loan

As shown above, indicative results are that an initial decline on a loan typically has less of an impact on an SME than a decline for an overdraft. More of those initially declined for an overdraft now wish that they had been granted a facility (75%) than those declined for a loan (55%).



8.2 The SMEs that are “less than satisfied” with their facility

Not all those that now had an overdraft and/or a loan facility were satisfied with it. 12% of those that have been through an overdraft event and 12% of those that have been through a loan event emerged with something they felt neutral about or were dissatisfied with.

This equates to 2% of all SMEs for overdrafts and 1% of all SMEs for loans. Overall, **2%** of all SMEs had a loan or overdraft facility that they were less than satisfied with, with bigger SMEs more likely to be in this category:

Event	Total	0-9 emps	10-249 emps
Unweighted base:	5063	2694	2369
Neutral/dissatisfied with either overdraft or loan	2%	2%	5%

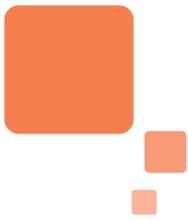
Q103/196 All SMEs

Compared to those that were satisfied with what they got, these “less than satisfied” SMEs were slightly bigger, were more likely to have a worse than average risk rating and were more likely to have made a loss in the previous 12 months

In terms of the impact on the business, this was felt most by those with an overdraft they were actually dissatisfied with, but amongst loan holders issues also emerged for those that were neutral (neither satisfied nor dissatisfied) about their facility:

Satisfaction with facility	Impact on SME
Overdraft – neutral	Typically did not feel this made any real impact on the business, with some feeling it was a bit more of a struggle day to day
Overdraft – dissatisfied	It had had a negative impact on their business: almost all felt it was more of a struggle day to day, with other mentions of making cutbacks, not expanding and/or not improving the business as they would have liked
Loan – neutral	Most said that running the business was now more of a struggle, and some that they had had to make cutbacks
Loan – dissatisfied	The impact was more wide ranging, including having to defer capital expenditure, as well as making cutbacks, not improving the business and more of a day to day struggle

Q104/197



17% of those with an overdraft event and 35% of those with a loan event ended up with no facility

8.3 The SMEs that were not successful

A minority of those that went through a borrowing event emerged without a facility. Further questioning established whether they would still wish to have a facility (the “disappointed”), and, if they did, whether not having that facility had impacted on their business.

17% of those that had been through an overdraft event, and 35% of those that had been through a loan event, emerged with nothing. This equates to 2% of all SMEs for overdrafts and 2% of all SMEs for loans – overall a net **4%** of all SMEs were unsuccessful with a facility (loan and/or overdraft) that they had tried to obtain.

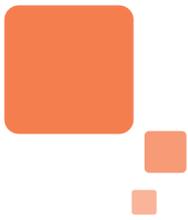
Not all of those that came away empty handed still wished to have a facility, although most did,

and more so for overdrafts than for loans. Three quarters of SMEs that were unsuccessful with an overdraft wished that they had one, compared to half of those that were unsuccessful with their loan. Overall a net 3% of all SMEs were unsuccessful with a facility (loan and/or overdraft) that they had tried to obtain, and wish they had been successful (the “disappointed”).

Amongst those “disappointed” SMEs that wished they had a facility, most said that there had been an impact on the business of not having that facility. Overall, then, these unsuccessful SMEs can be sub-divided as shown in the table below. This equates to **2%** of all SMEs having been unsuccessful with either a loan and/or an overdraft and saying it has impacted on their business.

Profile of unsuccessful applicants	Overdraft			Loan		
	Total	0-9 emps	10-249 emps	Total	0-9 emps	10-249 emps
Unweighted base:	1102	482	620	533	225	308
% of applicants that were unsuccessful	17%	17%	12%	35%	37%	18%
<i>Disappointed, and not having facility has had an impact</i>	11%	11%	6%	16%	17%	8%
<i>Disappointed, but lack of facility has not impacted</i>	2%	2%	2%	2%	2%	*
<i>Not disappointed at lack of facility</i>	4%	4%	4%	17%	18%	10%

Q103/120/123 and Q196/214/217 All SMEs that have applied/renewed/had cancellation/re-negotiation and were unsuccessful

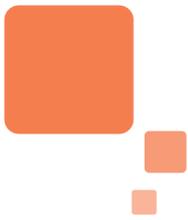


The ‘disappointed’ SMEs were typically smaller, and had a poorer risk rating:

Issue	Disappointed not to have an overdraft	Disappointed not to have a loan
Demographics	Compared to those that now have a facility, typically smaller, more likely to be a Start-up or in Construction	Compared to those that now have a facility, typically smaller, more likely to be in Manufacturing or Hotels and less likely to be in Real Estate
Credit rating	Almost all had average or worse than average risk ratings	Most were in the worse than average risk category
Why do not have facility	Majority (8 out of 10) said bank turned them down. Other barriers were the cost and security conditions that would have applied. 1 in 10 think they would look to family and friends for funds instead	Majority (8 out of 10) said bank turned them down. Cost was also a barrier and 1 in 10 think they would look to family and friends for funds instead
Impact of not having facility	9 out of 10 said that it had impacted on the business. 7 out of 10 said it was more of a struggle and/or cut backs or redundancies had been made, while 4 out of 10 said they had not improved or expanded as they wished	9 out of 10 said that it had impacted on the business. 5 out of 10 said it was more of a struggle and/or cut backs or redundancies had been made, while 6 out of 10 said they had not improved or expanded as they wished

Q120/214 All SMEs that were unsuccessful and wish that had a facility

A qualitative assessment of those that said that they were not disappointed that they did not have an overdraft and/or a loan, shows them to have a slightly lower risk profile than those that were disappointed (but not as good a risk profile as those that secured some funding).



The great majority (73%) of those applicants that were unsuccessful **did not feel that another bank would have treated them more favourably**

8.4 Attitude to the borrowing process

All those that had been through the borrowing process were asked how much they agreed with statements about that experience. As might be expected, differences were observed between those that were not successful for all or some of their events and those that were.

% agree	Successful			Unsuccessful		
	Total	0-9 emps	10-249 emps	Total	0-9 emps	10-249 emps
Unweighted base:	1108	443	665	245	146	99
Our application was considered fairly	79%	80%	76%	20%	20%	24%
Another bank would have treated us more favourably	10%	9%	14%	27%	27%	27%

Q218 All SMEs that have applied/renewed/had cancellation/re-negotiation

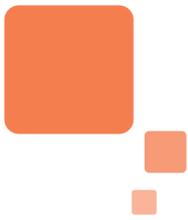
SMEs that had been unsuccessful were less likely to feel that their application was considered fairly (20%), but there was no strong feeling that the answer would have been different from another bank. Just 1 in 4 agreed that they would have had a better response elsewhere.

Based on those that applied to their main bank, just under half of those that were unsuccessful thought that this might result in a change of banks.

% agree (used main bank only)	Successful			Unsuccessful		
	Total	0-9 emps	10-249 emps	Total	0-9 emps	10-249 emps
Unweighted base:	1040	415	625	215	127	88
We are seriously considering changing our main bank	14%	13%	20%	43%	43%	47%

Q218 All SMEs that have applied/renewed/had cancellation/re-negotiation with main bank

This figure should however be considered in the context that switching rates in this market remain very low, and that the proportion agreeing with this statement equates to 4% of all SMEs (albeit that there are other reasons why a SME might switch banks, over and above issues with finance)



63% of successful applicants to their main bank, felt it had ***made no impact on their relationship*** with that bank

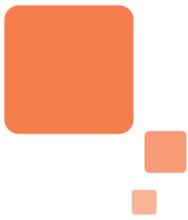
The impact of borrowing on the main bank relationship was also marked. 7 out of 10 of those that were unsuccessful with an application to their main bank said their relationship with that bank was now weaker.

Effect of borrowing process (used main bank only)	Successful			Unsuccessful		
	Total	0-9 emps	10-249 emps	Total	0-9 emps	10-249 emps
Unweighted base:	1040	415	625	215	127	88
Strengthened relationship	22%	22%	21%	3%	3%	2%
No impact	63%	63%	60%	25%	25%	25%
Weakened relationship	15%	15%	19%	72%	72%	73%
Net change	+7	+7	+2	-69	-69	-71

Q219 All SMEs that have applied/renewed/had cancellation/re-negotiation with main bank

A successful borrowing event does not necessarily boost the banking relationship. Most of those that were successful said it had not really impacted on their relationship with the bank, and almost as many said the relationship was weakened as strengthened. Not surprisingly, those that were offered what they wanted were most likely to say

the relationship had been strengthened (eg 27% if offered overdraft wanted), while very few of those that had faced issues (12%) or initially been declined for an overdraft (1%) saw any positive effect. A similar pattern was seen for loan applications.



Impact on overall bank satisfaction

Overall SME satisfaction with main bank was high (78%), with 39% “very satisfied”. This varied very little by size.

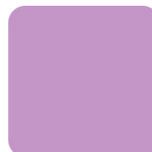
The impact of borrowing events, and the outcome of that event, on overall satisfaction with main bank is clear:

Overall bank satisfaction	Successful			Unsuccessful		
	Total	0-9 emps	10-249 emps	Total	0-9 emps	10-249 emps
Unweighted base:	1040	415	625	215	127	88
Very satisfied	40%	40%	38%	10%	10%	4%
Fairly satisfied	38%	39%	37%	21%	21%	22%
Net satisfaction	78%	79%	75%	31%	21%	26%
Net dissatisfied	13%	13%	18%	56%	56%	58%

Q220 All SMEs that have applied/renewed/had cancellation/re-negotiation with main bank

Amongst those that had **not** had a borrowing event, net satisfaction was 81% (40% “very satisfied”).

9. Where facilities have been taken, what terms were agreed?



This chapter covers

The details of the loans and overdrafts agreed in the last 12 months after a Type 1,2 or 3 event including interest rates, fees and security



Key findings

Loans were slightly **more likely** to be on a **fixed interest rate** (64%) than overdrafts were (42%)

A quarter of overdrafts and 45% of loans (including commercial mortgages) were secured

The average interest rate paid on overdrafts ranges from base rate/LIBOR +3% to +4.4% for those on variable rates and 3.9% to 5.3% for fixed rates. Larger SMEs pay less than smaller ones

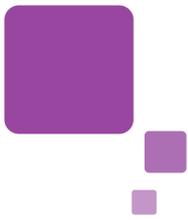
The average loan interest rate paid was base rate/LIBOR +2.8% for variable rates, and 4.8% to 6% for fixed rates (again, larger SMEs pay less than smaller ones)

Most paid a fee for their loan or overdraft.

Average fees for smaller SMEs were £240 for overdraft and £1,250 for loans

Average fees for larger SMEs were £1,700 for overdraft and £5,000 for loans

Higher loan fees reflect the higher amount borrowed. 90% of loan applications and 79% of overdraft applications attracted a fee that equated to 3% or less of the amount borrowed



A quarter of overdrafts were secured

Overdraft facilities

Those that have emerged from the borrowing process with an overdraft were asked in more detail about the facility they now have:

Issue	Overdraft
Have an overdraft facility	12% of all SMEs have a new / renewed / renegotiated overdraft facility (0-9 emps 12%, 10-249 emps 23%)
Frequency of use	41% use their facility all or most of the time, but almost as many, 33%, said they use it occasionally, rarely or never. There was little difference by size of business.
Scale of use	Half of those using their overdraft facility at least occasionally said they typically used half or more of the agreed facility when they did use it. Overall 15% of all those with an overdraft were “heavy users”, that is they said that they used that overdraft all or most of the time <u>and</u> to 75% or more of their overdraft limit.
Security	Required for 25% of overdrafts (47% of those granted to SMEs with 10-249 emps). Overall, 10% of all overdrafts were secured on personal property, 8% on a business property, and 4% through a director’s or personal guarantee.

Q101/102/105/106



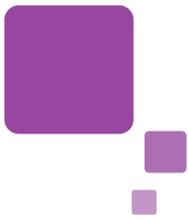
Most SMEs paid a fee for their overdraft

Questions were also asked about interest rates and fees. There were high levels of “don’t know/refused” answers to these questions and these have been excluded from the figures quoted below.

Issue	Overdraft
Charging basis	A fairly even split: 58% on a variable rate and 42% on a fixed rate and this varied little by size of business. Most of those on a variable rate said the rate was linked to Base Rate rather than LIBOR.
Variable rate lending	Bigger SMEs paid lower margins above Base/LIBOR. 32% were paying +2% or less compared to 17% of those with 0-9 emps. A small amount (17%) of lending was at +6% or more, with almost all those paying the highest rate having less than 10 employees. The average margin paid was +4.4% for the smaller SMEs and +3% for the larger ones. The median rate paid was 4.3%
Fixed rate lending	Bigger SMEs benefit from lower fixed rates. 38% were paying 3% or less compared to 25% of those with 0-9 emps, and these smaller SMEs were twice as likely to be paying 6% or more (26% v 13%). The average rate paid was 5.3% for the smaller SMEs and 3.9% for the larger ones. The median rate paid was +2.9%
Fees	<p>20% of smaller SME and 10% of larger SMEs said they did not pay a fee for their overdraft. The majority of smaller SMEs, 60%, paid less than £200 for their overdraft, compared to 17% of bigger SMEs. Whilst only 4% of smaller SMEs paid more than £1000, 37% of larger SMEs were charged this. The average amount paid was £240 for smaller SMEs v £1700 for bigger SMEs (including those that paid nothing).</p> <p>The median fee paid was £100, ranging up to £500 for the larger SMEs</p> <p>36% of overdraft fees equated to less than 1% of the amount borrowed. Three quarters paid a fee that was 3% or less of the amount borrowed.</p>

Q107/108/109/111/113

Subsequent reports will provide a more detailed analysis of the fees and rates paid by size of business, risk rating and sector.



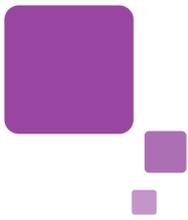
45% of loans (including commercial mortgages) were secured

Loan facilities

Those that have emerged from the borrowing process with a loan were asked in more detail about the facility they now have:

Issue	Loan
Have a loan facility	3% of all SMEs had a new / renewed / re-negotiated loan facility (0-9 emps 3%, 10-249 emps 11%).
Type of loan	19% of loans were commercial mortgages, with bigger SMEs more likely to have this type of loan (0-9 emps 17%, 10-249 emps 29%)
Security	<p>By definition, commercial mortgages are secured. Amongst loans that were <u>not</u> commercial mortgages, 32% required security, with bigger SMEs more likely to be asked to provide such security. (0-9 emps 29%, 10-249 emps 53%)</p> <p>Overall, 10% of all loans (excluding commercial mortgages) were secured on personal property, 17% on a business property, and 2% through a director's or personal guarantee.</p>
Type of loan (summary)	19% commercial mortgages, 26% secured loan, 56% unsecured loan/dk

Q198/199



Loans were slightly **more likely** to be on a **fixed interest rate** (64%) than overdrafts were (42%). **Most SMEs paid a fee** for their loan or overdraft

Questions were also asked about interest rates and fees. There were high levels of “don’t know/refused” answers to these questions and these have been excluded from the figures quoted below:

Issue	Loan
Charging basis	64% were borrowing on a fixed rate and 36% were borrowing on a variable rate (bigger SMEs more likely to do so 50%). Most variable lending was linked to Base Rate (69%) but 1 in 3 (31%) had a variable rate linked to LIBOR
Variable rate lending	Loan margins were finer than those for overdrafts, with almost half, 44% paying +2.0% or less for their loan, and almost no SME paying more than +6%. The average margin paid was +2.8% (on small base sizes, no difference by size of business). The median rate was +2.5%
Fixed rate lending	Bigger SMEs benefit from lower fixed rates. 24% were paying 3% or less compared to 16% of those with 0-9 emps, and these smaller SMEs were twice as likely to be paying 6% or more (51% v 18%). The average rate paid was 6.0% for the smaller SMEs and 4.8% for the bigger ones. The median rate paid was 5.7%

Q201/202/203/205

Issue	Loan
Fees	<p>23% of smaller SME and 16% of larger SMEs said they did not pay a fee for their loan. Fees tended to be higher than for overdrafts: a quarter of smaller SMEs, 28%, paid less than £200 for their overdraft, compared to 11% of bigger SMEs. A similar proportion of smaller SMEs, 24%, paid more than £1000, compared to half of larger SMEs that were charged this (52%). The average amount paid was £1,250 for smaller SMEs v £5,000 for bigger SMEs (including those that paid nothing)</p> <p>The median fee paid was £241, ranging up to £850 for the larger SMEs</p> <p>43% of loan fees equated to less than 1% of the amount borrowed. 90% paid a fee that was 3% or less of the amount borrowed.</p>

Q207

Subsequent reports will provide a more detailed analysis of the fees and rates paid by size of business, risk rating and sector.

10. Why were most SMEs not looking to borrow (more)?



This chapter covers

The SMEs that have not had a borrowing event in the past 12 months, the type of business they are and why they have not applied for finance, including any barriers to applying



Key findings

Overall, **68% of SMEs had not had any borrowing events** in the past 12 months and reported that they did not need any (additional) facilities.

16% of SMEs had applied for everything they wanted – larger SMEs were more likely to be in this category (36%)

15% of SMEs were “unrequited”, as they had not applied for something and would have liked to – this includes 28% of Start-ups

Discouragement, either directly (after making an informal enquiry at the bank) or indirectly (because they felt that they would be refused), had been felt by 1 in 3 unrequited SMEs for overdrafts and 1 in 2 of unrequited SMEs for loans

The current economic climate was another barrier to application, but there were more concerns about the perceived time, effort and expense involved in the borrowing process. Some SMEs also prefer not to borrow in order to maintain control of their business.



The table below allocates all SMEs into one of three groups, for overdrafts and then for loans - those that have had a Type 1,2 or 3 borrowing event (whether successful or not), those that have not applied for an overdraft or loan but would have liked to and those that did not want to apply.

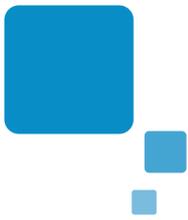
As the tables below show, most SMEs have not had a borrowing event and did not want one (72% for loans and 86% for overdrafts):

Event- Overdraft	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	5063	1022	1672	1610	759
Overdraft event	16%	13%	22%	29%	29%
Not applied but would have liked to	12%	12%	12%	8%	6%
Not applied and did not want to	72%	75%	66%	63%	65%

Q25/26/115 All SMEs

Event- Loan	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	5063	1022	1672	1610	759
Loan event	7%	5%	13%	15%	19%
Not applied but would have liked to	7%	7%	9%	7%	3%
Not applied and did not want to	86%	88%	78%	78%	78%

Q25/26/209 All SMEs



68% of SMEs had not had any borrowing events, 16% had applied for everything they wanted, 15% were unrequited

10.1 To what extent do SMEs have an unrequited wish to borrow?

Combining the views of all SMEs on both overdrafts and loans shows that two thirds (68%) had not applied for anything and did not want to. Amongst these particular SMEs, 40% currently

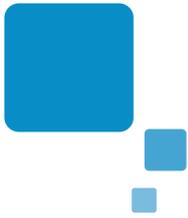
have borrowing facilities but did not see the need for any further facilities (39% 0-9 employees and 63% 10-249 employees).

16% of all SMEs reported that they had applied for everything they wanted to in the past 12 months.

Almost as many SMEs, 15%, have been identified as “unrequited”, This means that they either did not apply for any borrowing although they wanted to, or they had a borrowing event for one type of facility but wanted to also apply for another:

Net events (Overdraft <u>and</u> loan)	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	5063	1022	1672	1610	759
Have applied for everything they wanted	16%	13%	24%	31%	36%
Any unrequited wish to apply (net)	15%	15%	17%	13%	8%
- Applied but wanted to apply for another	3%	2%	4%	4%	4%
- Not applied for anything but wanted to	13%	13%	13%	8%	5%
Not applied for anything and did not want to	68%	71%	60%	56%	56%

Q115/209 All SMEs



28% of Start ups were “unrequited”

28% of Start-ups were “unrequited” compared to around 10% of older SMEs. Those with the poorest external risk rating were also more likely to wish they had a facility, but around 1 in 10 of those with good risk ratings also wished they had one, as the figures below show:

- 8% of SMEs with a minimal risk rating were unrequited
- 9% of SMEs with a low risk rating
- 10% of SMEs with an average risk rating
- 21% of SMEs with a worse than average risk rating were unrequited

It should not be assumed that the “unrequited” have no current borrowing. Overall, half have some form of current borrowing (57% 0-9 employees and 80% 10-249 employees) but they had chosen not to apply for any more in the past 12 months, despite wanting to.

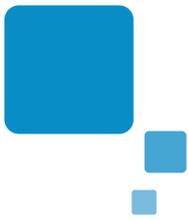


Understanding the “unrequited”

Statistical analysis (CHAID) was used to understand what made a SME more likely to say that they would have liked to apply for a facility but have not done so in the past 12 months.

This analysis will be developed over subsequent waves, but the initial analysis shows that age of business is the key predictor:

	Unrequited
Overall proportion	15% of SMEs said that they would have liked to apply for something (else) in the past 12 months but had not
Key discriminator	<p>Age of business emerged as key:</p> <ul style="list-style-type: none"> • 34% of SMEs less than 12 months old were unrequited • 21% of SMEs aged between 1-2 years • 14% of SMES aged 2-5 years • 24% of SMEs aged 6-9 years • 12% of SMEs aged 10-15 years • 8% of SMEs aged 15 years or more
Second level factors	<p>For the youngest businesses (<12 months old) sector is key:</p> <ul style="list-style-type: none"> • 48% of those across the following group of sectors were unrequited: Agriculture, Hotels, Other services, Transport, Manufacturing or Wholesale/Retail <p>For the other, older, Start-ups (12-24 months old) turnover is key:</p> <ul style="list-style-type: none"> • 56% of those with turnover above £100,000 were unrequited <p>For businesses aged 6-9 years risk rating is key:</p> <ul style="list-style-type: none"> • 35% of those with a risk rating of “worse than average” (or missing) were unrequited



Discouragement, either directly or indirectly, had been felt by 1 in 3 unrequited SMEs for overdrafts and 1 in 2 of unrequited SMEs for loans

10.2 Reasons for not applying

The “unrequited” SMEs gave a wide range of reasons why they had not applied for a loan or overdraft. These have been grouped into key themes in the table overleaf:

- Those that feel that, in the *current economic climate*, this was not the right time to borrow
- Those that were *discouraged* from applying, either because they thought they would be turned down or because they made informal enquiries at the bank and were put off. One in three would-be overdraft applicants and half of all would-be loan applicants felt discouraged. This equates to **6%** of all SMEs feeling discouraged, of which almost all have less than 10 employees
- Those that have an issue with the *actual process of borrowing*, and the attendant costs, hassle etc. These barriers were mentioned by half of would-be applicants
- Those that have an issue with the *principle of borrowing*, fearing they might lose control of their business or preferring alternative sources of funds, including personal funds. Six out of ten would-be overdraft applicants and almost as many would-be loan applicants felt like this

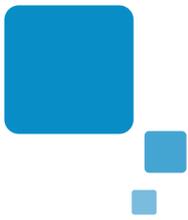
Smaller SMEs gave a wider range of reasons for not applying than larger ones. Discouragement levels did not vary much by SME size for overdrafts, but smaller SMEs were more likely to feel discouraged about applying for a loan.

There were some clear differences by level of risk rating. SMEs with an average or worse than average risk rating were more likely to feel discouraged about applying than those with a minimal or low risk rating, for either an overdraft (36% v 18% net mentions) or a loan (57% v 34% net mentions).



All reasons for <u>not</u> applying when wished to	Would have liked to apply for an overdraft			Would have liked to apply for a loan		
	Total	0-9 emps	10-249 emps	Total	0-9 emps	10-249 emps
Unweighted base:	480	305	175	360	216	144
Economic climate	22%	22%	15%	31%	31%	23%
-Not the right time to apply	22%	22%	15%	31%	31%	23%
Discouraged (net)	34%	34%	36%	54%	55%	41%
-Put off by bank	19%	19%	27%	30%	30%	27%
-Thought I would be turned down	28%	29%	22%	41%	41%	28%
Issues with <u>process</u> of borrowing	57%	57%	45%	58%	59%	52%
-Would be too much hassle	27%	27%	15%	29%	29%	14%
-Thought would be too expensive	26%	26%	15%	29%	29%	20%
-Asked for too much security	23%	23%	20%	30%	30%	32%
-Too many terms and conditions	22%	22%	22%	28%	28%	28%
-Did not want to go through process	20%	20%	11%	19%	20%	9%
-Forms too hard to understand	9%	10%	4%	17%	18%	7%
Issues with <u>principle</u> of borrowing	60%	61%	50%	55%	55%	48%
-Prefer not to borrow	41%	41%	25%	36%	36%	26%
-Not lose control of business	26%	27%	18%	33%	34%	20%
-Can raise personal funds if needed	27%	27%	22%	25%	25%	20%
-Prefer other forms of finance	26%	26%	14%	21%	22%	10%
-Go to family and friends	16%	16%	9%	16%	16%	8%

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



The current economic climate was another barrier to application, but there were more concerns about the perceived time, effort and expense involved in the borrowing process

In the table above, respondents were able to give all the reasons why they had not sought any borrowing. In order to help understand the reasons further, they have also been put into a hierarchy, which is as follows:

- The economy – I don't think this is the right time to be borrowing
- Discouragement – I think / have been told my bank would not agree
- The process – I think they would agree, but it would be too expensive/time consuming etc
- The principle – I prefer not to borrow

Those mentioning the economy are shown in the first row. They were then excluded from the analysis, and the proportion of all “unrequiteds” that mention discouragement (but not the economy) were identified. Those giving either answer were then excluded from the next row and so on.

Reasons for not applying when wished to - hierarchy	Overdraft			Loan		
	Total	0-9 emps	10-249 emps	Total	0-9 emps	10-249 emps
Unweighted base:	480	305	175	360	216	144
Economic climate	22%	22%	15%	31%	31%	23%
Discouraged (net)	22%	22%	31%	36%	36%	36%
Issues with <u>process</u> of borrowing	32%	32%	23%	15%	15%	23%
Issues with <u>principle</u> of borrowing	18%	18%	23%	9%	9%	9%
None of these	6%	6%	8%	9%	9%	9%

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



This analysis suggests that overall the current climate and discouragement were equally likely to be cited by SMEs as a reason for not applying, but bigger SMEs were more likely to mention discouragement than the economy. Issues with the process of borrowing were stronger for overdrafts than loans, and were in fact mentioned more than the economy or discouragement by smaller SMEs. Most unrequited SMEs mentioned at least one of these areas as a barrier to applying for finance, with under 10% failing to mention any of them. Half of

those that wished that they had applied for an overdraft, and two thirds of those that wished that they had applied for a loan, said that the decision not to apply had impacted on the business. The main impacts were finding it more of a struggle to run the business day to day, and having to make cutbacks (42% of would be loan applicants and 31% of would be overdraft applicants), but also that they had not been able to improve or expand the business as they would have liked (38% of would be loan applicants and 20% of would be overdraft applicants).

11. To what extent are SMEs choosing to cancel or reduce agreed facilities?



This chapter covers

The SMEs that chose to reduce or repay early some existing borrowing (ie a Type 3 event) and why they made that decision



Key findings

4% of all SMEs have chosen to reduce or pay off a borrowing facility

Amongst relevant SMEs (with a facility and/or event), loan repayment/reduction was more common than overdraft repayment/reduction, especially for smaller SMEs

The main reasons for doing so were the SME not needing an overdraft facility of the size previously agreed, or the business having spare cash to repay a loan



4% of all SMEs have chosen to reduce or pay off a borrowing facility

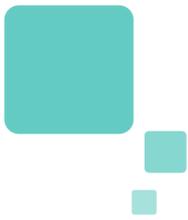
A minority of all SMEs had chosen to reduce the amount they were borrowing on loan or overdraft as the table below shows.

Type 3 event	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	5063	1022	1672	1610	759
Type 3: Chose to reduce/pay off facility	4%	3%	4%	6%	7%
- Reduce/pay off loan early	2%	2%	3%	3%	4%
- Reduce/pay off overdraft	2%	1%	2%	4%	3%
None of these “events”	96%	97%	95%	94%	92%

Q26 All SMEs

There was little variation in Type 3 events by risk grade. Those in Agriculture were more likely to have reduced a facility (6%) while those in Manufacturing were least likely (1%).

The table above shows the proportion of all SMEs that had experienced a Type 3 event. However, in order for the SME to either cancel or repay a facility, there has to be a facility in place to repay, and as already shown, half of SMEs are not borrowing at all.



Loan repayment/reduction was more common than overdraft repayment/reduction...

The tables below are based just on those SMEs that have a loan or overdraft now and/or have had a relevant Type 3 event in the past 12 months. For overdrafts this represents 31% of all SMEs and for loans 14% of all SMEs.

These tables show the percentage of Type 3 events amongst relevant SMEs that were eligible for such an event. Repayment of loans was more common than repayment of overdrafts, and it was the smallest SMEs that were slightly more likely to have reduced or repaid their loan:

Type 3 Overdraft event : relevant SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	2010	277	663	726	344
Chose to pay off/reduce facility	5%	5%	5%	8%	7%

Q26 All SMEs with an overdraft and/or a Type 3 overdraft event

Type 2 Loan event: relevant SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	1181	111	340	460	270
Chose to pay off/reduce facility	16%	17%	14%	12%	11%

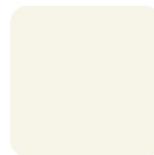
Q26 All SMEs with a loan and/or a Type 3 loan event

The background to, and outcome of, the events are summarised below:

Issue	Cancel/reduce overdraft	Repay/reduce loan
Main reason	The business did not need a larger facility, plus concerns about the current climate	Had spare cash available
“Jump before pushed?”	No, they did not typically think the bank might cancel the facility. They were more concerned at the current and future cost of borrowing	No, they did not typically think the bank might cancel the facility. They were more concerned at the current and future cost of borrowing
Impact on business	Limited, 1 in 5 have made cutbacks on spending	No, and 1 in 10 say reducing the debt burden has had a positive effect

Q27-29 Q124-126 All SMEs that chose to reduce or repay a facility

12. What finance might SMEs need in the near future?



This chapter covers

The growth expectations of SMEs in the next 12 months, their more immediate finance needs in the next 3 months, and any barriers to running their business as they would wish



Key findings

44% of SMEs plan to grow in the next year

The main obstacle for SMEs in the next 3 months was the economic climate

Only 2% said that a lack of external finance was the main obstacle they faced, but SMEs that were planning to grow were more likely to mention finance as a barrier

12% of SMEs thought that they would need more (ie new) external finance in the next 3 months but only 9% expect to apply for any

11% plan to reduce their use of external finance

13% expect to renew existing facilities at the same level

SMEs with poorer risk ratings were more likely to say they will need and apply for facilities

Overall, 19% of SMEs plan to seek new bank finance or to renew existing facilities in the next 3 months

4 out of 10 were confident that the bank will agree to this future request. This was lower than the recalled levels of confidence felt amongst those who applied in the past 12 months (7 out of 10). Larger SMEs remain more confident

63% have no plans to apply/renew facilities and said they have the facilities they want and have no need for more.



18% of all SMEs have no plans to apply/renew facilities but would like to. The current economic climate is a barrier, while levels of discouragement were slightly lower than for past non-applicants

12% of SME companies seeking or renewing facilities would consider raising fresh equity from 3rd parties in the next 3 months. Most of the remainder felt that it was not needed, or they did not want to give up control of their business, but 1 in 10 said that they would not know how to go about it

12.1 Growth plans

Almost half of SMEs (44%) planned to grow over the next year, but, reflecting the current climate, just as many, 46%, thought that they would stay the same size. Bigger SMEs were more likely to predict growth as the table below shows:

Growth objectives in next 12 mths	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	5063	1022	1672	1610	759
Grow substantially	7%	7%	8%	9%	13%
Grow moderately	37%	35%	42%	48%	51%
Stay the same size	46%	48%	41%	37%	32%
Become smaller	5%	6%	4%	3%	3%
Plan to sell/pass on /close	5%	5%	6%	2%	1%

Q225 All SMEs

The most optimistic sectors were Wholesale/Retail (55%) and Health (50%), with the least optimistic being Construction (31%).

Predicted growth varied little by risk rating. The exception was those rated as worse than average risk, where half of these SMEs predicted growth in the next 12 months

- 39% of SMEs with a minimal risk rating planned to grow
- 30% of SMEs with a low risk rating
- 37% of SMEs with an average risk rating
- 52% of SMEs with a worse than average risk rating planned to grow

SMEs more likely to be predicting future growth include those that were declined for an overdraft and wish they had one (66% were planning to grow), and those who did not apply for finance but wish that they had (60%), as well as those that were likely to apply for finance in the next 3 months (68%). Those that were not planning to apply/renew any funding and were happy not to

be seeking funding, were less likely to be predicting growth (40%).

The main way in which SMEs plan to grow was through increased sales, typically of their existing product/service range, and within the UK rather than abroad.

The main obstacle was the economic climate.
Only 2% said that a lack of external finance was the main obstacle they faced

Main barrier for business in next 3 months

1 in 5 SMEs (22%) could not think of any barriers to them running their business as they would want to in the next 3 months, ranging from 24% of one man bands to 18% of those with 50-249 employees.

Most however, could identify their main barrier for the next 3 months. For almost half of SMEs, the economy was the main barrier, predominantly the current economic climate, and to some extent a lack of demand and late payment issues. Only 2% of SMEs identified a lack of external finance as the main barrier:

MAIN Obstacle in next 3 months	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	5063	1022	1672	1610	759
The economy (net)	49%	49%	50%	53%	54%
- The economic climate	38%	37%	40%	42%	45%
- Lack of demand/sales/revenue	7%	8%	5%	3%	4%
- The exchange rate	*	-	*	1%	*
- Cash flow/late payment problems	4%	4%	5%	7%	5%
Legislation (net)	7%	6%	9%	9%	8%
- Employment law	1%	*	1%	2%	3%
- Health and safety legislation	1%	1%	2%	2%	1%
- Environmental legislation	1%	*	1%	1%	1%
- Other legislation	4%	4%	4%	4%	3%
Finance(net)	2%	2%	3%	2%	1%
- Lack of external finance	2%	2%	3%	2%	1%
- Lack of equity	*	*	*	-	-
Staff / Skills issues (net)	5%	4%	7%	8%	7%
- Unable to recruit right staff	2%	1%	4%	4%	5%
- Unable to retain staff	*	-	*	1%	*
- Lack of confidence	1%	2%	1%	1%	1%
- Access to knowledge & information	*	*	*	*	-
Other obstacles (net)	16%	16%	13%	12%	12%
Any obstacles	78%	76%	82%	83%	82%
No obstacles	22%	24%	18%	17%	18%

Q227 All SMEs



Other business demographics showed some variation in perceived main barriers, with the relative importance of the economy and finance varying for some key groups:

Demographic	Comment
External credit ratings	<p>The economy and finance issues were slightly more likely to be barriers for SMEs with poorer risk ratings, while the opposite was true for legislation:</p> <p>Economy: 42% minimal risk to 51% worse than average risk</p> <p>Lack of external finance: <1% minimal risk to 3% worse than average risk</p> <p>Legislation: 12% minimal risk to 5% worse than average risk</p>
Self-reported credit issues	Finance issues were more of a barrier for those that had had a credit issue (5%) than those that had not (1%)
Fast growth (30%+ for 3 yrs)	They were less likely to see the economy as a barrier (41% v 52%) but were more likely to identify other barriers: Legislation (13% v 6%) or Skills (8% v 4%)
Profitable SMEs	They were more likely to say they faced no barriers than those that made a loss (24% v 14%). The loss makers were more likely to mention external finance as a future barrier (4% v 1%)
Looking to grow substantially	They were less likely to say the economy was an issue (40%v 50% of those staying same size) but more likely to say that lack of external finance was a future barrier (5% v 1%)

12% of SMEs thought that they would need more (ie new) external finance but only 9% expect to apply for any

SMEs were asked to consider what financial changes they might make over the next 3 months.

Overall, almost as many SMEs think they will reduce their level of current borrowing as will increase it, and for the smaller SMEs, any funding was more likely to come from personal funds:

% likely in next 3 months	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	5063	1022	1672	1610	759
Will have a need for (more) external finance	12%	10%	17%	16%	15%
Will apply for more external finance	9%	8%	13%	13%	11%
Renew existing borrowing at same level	13%	12%	17%	17%	16%
Net apply/renew	19%	17%	24%	24%	23%
Reduce the amount of external finance used	11%	11%	14%	14%	14%
Inject personal funds into business	27%	29%	22%	12%	6%

Q229 All SMEs

% likely (companies) in next 3 months	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	2981	196	823	1284	678
Seek new equity from existing shareholders	4%	5%	4%	3%	3%
Seek new equity from new shareholders	5%	5%	5%	3%	2%
Net new equity	7%	7%	7%	5%	4%

Q229 All companies

More SMEs agreed that they had a need for external finance than thought they would apply for that finance (12% v 9%). Two thirds of those with a need agreed that they would be applying for external finance, and this means that the equivalent of **4%** of all SMEs foresaw a need for finance that they did not think they would apply for.

The better the risk rating, the less likely SMEs were to think they would need, or apply for, finance in the next 3 months. 7% of minimal risk SMEs saw a need for finance, and 5% planned to apply, compared to 15% of worse than average risk SMEs needing finance and 10% applying.



Hotels and Restaurants (19%) and Wholesale/Retail (16%) SMEs were the most likely to think they would have a need for finance and also the most likely to think they would apply (15% and 14%). Those in Construction (9%) were less likely to think they would need finance, or would apply for it (7%).

Those that already had facilities of some form were more likely to say that they would need and/or apply for further facilities (17% need and 13% apply) than those with no current facilities (7% need and 4% apply)



Overall, 19% of SMEs plan to seek new bank finance or to renew existing facilities in the next 3 months

12.2 Seeking or renewing finance in next 3 months

Overall, 19% of SMEs thought they would be applying for new facilities and/or renewing existing facilities at current levels, in the next 3 months.

The anticipated net application renewal rate for the next 3 months (19%) is similar to that seen for the whole of the previous 12 months (15%). We believe that it would be dangerous at this

stage to assume an increase in demand for borrowing, believing that a lack of precision re timescales, and potential over-claiming are also playing a part here, as well as the question about future borrowing encompassing all forms of borrowing, not just loans and overdrafts. However, we will track this over time and compare it to facilities sought in the next quarter.

Bigger SMEs were slightly more likely to be planning to apply for or renew borrowing:

- 17% of those with 0 employees
- 24% of those with 1-9 employees
- 24% of those with 10-49 employees
- 23% of those with 50-249 employees
- 13% of those with minimal risk rating
- 17% of those with low risk rating
- 18% of those with average risk rating
- 18% of those with worse than average risk rating

1 in 3 SMEs that were planning to grow substantially (33%) thought that they would apply for/renew facilities, compared to 22% of those planning to grow moderately and 15% of SMEs planning to stay the same size.

The main purpose of this funding, across all sizes of SME was working capital (62%). 1 in 4 planned to buy plant, machinery or other equipment (24%) and a similar proportion were looking to fund expansion in the UK (23%). There was little variation by size of SME, but minimal risk SMEs

that wanted funding were more likely to mention UK expansion as a reason (39%). By contrast, few SMEs overall wanted funding for expansion outside the UK (4%) although this was mentioned more by the biggest SMEs (13% 50-249 employees).



Anticipated funding levels varied by size of SME. Whilst two thirds of the smallest SMEs anticipated looking for less than £10,000 of external finance, almost all those with 50-249 employees anticipated looking for more than £100,000, with a quarter of these biggest SMEs looking for more than £1 million. The median rate sought was £7,000, ranging from £5,000 for the smallest SMEs to £275,000 for the largest.

Amount likely to seek (where stated)	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	930	139	336	315	140
Less than £5,000	32%	40%	17%	7%	3%
£5,000 - £9,999	21%	25%	14%	4%	3%
£10,000 – £24,999	23%	21%	30%	13%	1%
£25,000 - £99,999	15%	10%	21%	37%	13%
£100,000+	10%	4%	18%	39%	79%

Q231 All SMEs seeking future finance, excluding DK/refused

Overdrafts and loans were the most common form of anticipated funding for those planning to seek new finance or to renew existing facilities. Both leasing and invoice finance were more popular options for bigger SMEs, while funds from family and friends appealed more to smaller SMEs:

% of those seeking/renewing finance would consider funding	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	1127	159	398	399	171
Bank overdraft	53%	57%	45%	45%	44%
Bank loan/Commercial mortgage	37%	37%	39%	34%	35%
Grants	28%	29%	27%	27%	18%
Leasing or hire purchase	18%	16%	20%	34%	44%
Loans from other 3 rd parties	13%	13%	13%	12%	8%
Loans/equity from family & friends	12%	11%	14%	9%	3%
Loans/equity from directors	11%	8%	16%	17%	10%
Invoice finance	9%	9%	7%	15%	16%
Credit cards	9%	9%	10%	12%	10%

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

4 out of 10 were confident the bank would agree to their request...

Those that would not consider invoice financing or leasing for their future financial needs typically said they did not need this particular form of financing. Other reasons for not using leasing were that they were not looking to fund equipment or vehicles, and the cost. For invoice financing cost was also an issue but 1 in 5 said they did not understand the product (predominantly those with less than 10 employees).

In addition to the funding options above, companies were also asked whether they would consider equity from 3rd parties. 12% said they would consider this form of funding, and this varied little by size of company. The reasons for not considering it as a potential form of finance were that the SME did not need this type of investment (50%), wanting to retain control (19%), not wanting to give a way a share of the business (13%) and never having considered it

(15%). 1 in 10 said they would not know how to go about organising such funding (predominantly smaller companies).

When those that had sought loans or overdrafts in the previous 12 months were asked how confident they had been before they applied, 7 out of 10 had felt confident (confidence levels for those that had applied for new/renewed overdraft facilities are shown below). Yet, amongst SMEs thinking they *might* apply for facilities in the next 3 months (for a loan, overdraft, leasing, invoice finance or credit cards) just 42% were confident that the bank would agree, and the proportion that were very confident was 22%. This was driven by low levels of confidence amongst the smallest SMEs (and compared to those that have applied/renewed in the last 12 months a higher proportion of those thinking they might apply in future were 0 employee SMEs):

Confidence bank would/will lend	Have had overdraft event			Likely to apply/renew		
	Total	0-9 emps	10-249 emps	Total	0-9 emps	10-249 emps
Unweighted base:	910	405	505	861	416	445
Very confident	46%	45%	56%	22%	21%	29%
Fairly confident	25%	25%	27%	20%	19%	28%
Neither/nor	11%	12%	7%	33%	33%	19%
Not confident	17%	18%	10%	26%	26%	24%

Q238 All SMEs that applied/renewed an overdraft v all planning to apply for new / renew facilities



Confidence could be related to risk rating, with those looking for future facilities having a poorer profile than those that applied in the past 12 months. Yet the overall risk profile of those thinking about applying for facilities in future was not *that* different to the profile of those that had applied for an overdraft or a loan in the past 12 months, albeit with more worse than average risk SMEs (54% v 48% of those that had applied/renewed in the past 12 months):

Risk rating	Have applied/renewed	Will seek in future	Not seek in future
Unweighted base:	1064	772	3625
Minimal risk	8%	4%	7%
Low risk	15%	12%	13%
Average risk	30%	30%	33%
Worse than average risk	48%	54%	47%

Q60 and Q238 All SMEs excluding those for whom no risk profile available



12.3 Those not seeking or renewing finance in the next 3 months

Most SMEs, 81%, had no plans to seek or renew finance in the next 3 months.

Around half of these (44%) had existing facilities that they were not planning to change. The other half, 56%, had no current borrowings. This equates to **46%** of all SMEs having no borrowing and no plans to borrow in the short term.

Most of those with no plans to borrow said that they either did not need to borrow, or had all the facilities they needed – they are shown below as the “happy non seekers”. Larger SMEs were more likely to be in this category:

Reasons for not applying	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	3936	863	1274	1211	588
Happy non seekers (net)	78%	78%	77%	87%	90%
- Do not need to borrow (more)	74%	75%	72%	81%	82%
- Already have facilities we need	11%	11%	11%	11%	17%

Q239 All SMEs that will not be applying for finance in next 3 months

If these SMEs are excluded, then the remaining SMEs not seeking to renew/apply in the next 3 months might be considered as “unrequited”, because they were not happy that they were not applying/renewing. This equates to **18%** of all SMEs.



The reasons given by the “unrequited” are shown below:

Other reasons for not applying	Total	0-9 emp	10-249 emps
Unweighted base:	704	479	225
Reluctant to borrow (net)	54%	54%	57%
-Prefer not to borrow in climate	44%	44%	33%
-Predicted performance of business	12%	11%	27%
Discouraged (net)	18%	18%	17%
-Think I would be turned down	18%	18%	17%
Issues with <u>process</u> of borrowing	21%	21%	17%
-Think it would be too expensive	16%	16%	12%
-Would be too much hassle	8%	8%	4%
-Bank would want security	4%	4%	3%
-Bank forms complicated	1%	1%	*

Q239 All SMEs that will not be applying for finance in next 3 months, excluding happy non seekers

The current economic climate was the main perceived barrier to seeking future finance. Future discouragement rates at 18% are slightly lower than the equivalent for borrowing in the past 12 months (34% for unrequited overdraft applicants and 54% for unrequited loan applicants).

63% have no plans to apply/renew facilities and said they have the facilities they want and have no need for more.
18% of all SMEs feel unrequited...

A comparison of SMEs appetite for borrowing in the past year, compared to the next three months shows a very similar pattern, with two thirds content that they have not applied /will not apply for borrowing:

Net events (Overdraft and loan)	Past 12 mths	Next 3 mths
Unweighted base:	5063	5063
Have applied / will apply for everything they wanted	16%	19%
Any unrequited wish to apply (net)	15%	18%
Not applied / will not apply for anything and did/do not want to	68%	63%

Q115/209 and Q230/239 All SMEs

For both past and future borrowing events, smaller SMEs were more likely to be “unrequited”, and larger SMEs were more likely to say they have, or will, apply for the facilities they want:

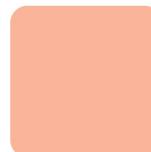
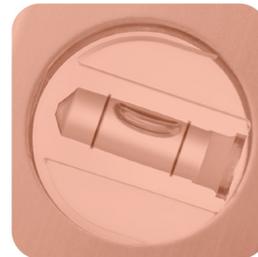
Net events (Overdraft and loan)	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Past 12 months					
Unweighted base:	5063	1022	1672	1610	759
Have applied for everything wanted	16%	13%	24%	31%	36%
Any unrequited wish to apply	15%	15%	17%	13%	8%
Not applied and did not want to	68%	71%	60%	56%	56%

Q115/209 All SMEs

Net events (Overdraft and loan)	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Next 3 months					
Unweighted base:	5063	1022	1672	1610	759
Will apply for everything want	19%	17%	24%	24%	23%
Any unrequited wish to apply	18%	18%	18%	10%	4%
Will not apply and do not want to	63%	65%	58%	66%	73%

Q230/239 All SMEs

13. Are SMEs aware of Taskforce, and other, initiatives?



This chapter covers

Awareness amongst SMEs of the key commitments made by The Business Finance Taskforce and other relevant initiatives

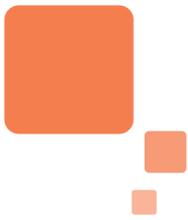


Key findings

At this early stage, half of SMEs were aware of any of the various initiatives

Awareness was higher amongst bigger SMEs where two thirds were aware

1 in 7 SMEs had been approached by a bank expressing a willingness to lend

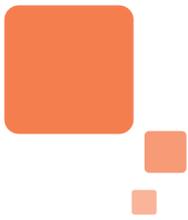


At this early stage, half of SMEs were aware of any of the various initiatives. Awareness was higher amongst bigger SMEs where two thirds were aware

In October 2010 the Business Finance Taskforce agreed to 17 initiatives with the aim of supporting SMEs in the UK. This final section looks at the awareness amongst SMEs of some of the key elements of those commitments, and other relevant initiatives. Many of these are still at an early stage, and this may be reflected in the awareness figures.

Awareness of Taskforce initiatives	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	5063	1022	1672	1610	759
Recent agreement between bank and government on SME lending	39%	37%	44%	49%	53%
Lending code for how banks lend to SMEs	27%	26%	29%	36%	38%
Enterprise Finance Guarantee	19%	17%	24%	31%	38%
The Business Growth Fund	17%	15%	21%	26%	30%
Any of these	50%	48%	54%	62%	67%
None of these	50%	52%	46%	38%	33%

Q240 All SMEs



1 in 7 SMEs had been approached by a bank expressing a willingness to lend

The appeals process

One of the initiatives was to launch a monitored appeals process. Questions were asked about the appeals process to those whose request for an overdraft or loan was turned down, but as the appeals process was only launched during

fieldwork, and the proportion of SMEs with an eligible rejection was therefore very small, this data has not been included in this report. It will however feature in future reports as base sizes permit.

Bank marketing

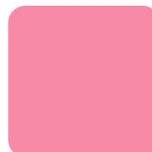
15% of SMEs said that they had had an approach from a bank in the past 3 months to indicate a willingness to lend – 9% had had an approach from their main bank, and 8% from another bank. As the table below shows, bigger SMEs were more likely to have been approached:

Been approached by a bank in the past 3 months	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	5063	1022	1672	1610	759
Approach from main bank	9%	9%	10%	9%	15%
Approach from another bank	8%	7%	12%	13%	18%
Any approach (net)	15%	14%	20%	19%	28%

Q221 All SMEs

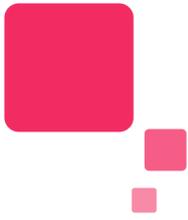
Approaches by sector ranged from 18% amongst Real Estate SMEs to 10% of Manufacturing SMEs. There was relatively little variation by risk rating – the most likely to have been approached were those rated a low risk (19%) compared to 15% of those rated an average or worse than average risk.

14. Technical Appendix



This chapter covers

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



Eligible companies

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

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

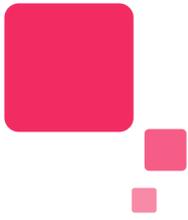
The respondent was the person in charge of managing the business's finances.

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 one man bands to allow for these extra interviews. This has an impact on the overall weighting efficiency which is detailed later in this chapter.

Business size	Universe	% of universe	Sample size	% of sample
Overall	4,548,843	100%	5063	100%
0 employee (resp)	3,366,144	74%	1022	20%
1-9 employees	1,008,024	22%	1672	33%
10-49 employees	144,198	3%	1610	32%
50-249 employees	26,383	1%	759	15%

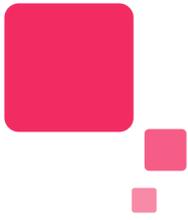


Overall quotas were set by sector and region as detailed below. In order to ensure a balanced sample, these overall region and sector quotas were allocated within employee bands, to ensure that SMEs of all sizes were interviewed in each sector and region.

Business sector* SIC 2007 in brackets)	Universe	% of universe	Sample size	% of sample
AB Agriculture etc (A)	195,285	4%	385	8%
D Manufacturing (C)	302,032	7%	530	10%
F Construction (F)	1,017,210	22%	903	18%
G Wholesale etc (G)	561,689	12%	521	10%
H Hotels etc (I)	156,001	4%	441	9%
I Transport etc (H&J)	314,705	7%	446	9%
K Real estate (L,M,N)	1,194,629	26%	918	18%
N Health etc (Q)	279,280	6%	409	8%
O Other (R&S)	528,011	12%	510	10%

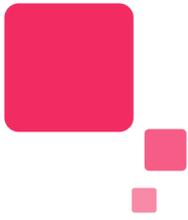
Quotas were set overall to reflect the natural profile by sector, but with some amendments to ensure that a robust sub-sample was available for each sector – thus fewer interviews were

conducted in Construction and Real Estate and the number of interviews achieved in Agriculture and Hotels in particular was increased.



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

Region	Universe	% of universe	Sample size	% of sample
London	773,303	17%	611	12%
South East	727,815	16%	643	13%
South West	454,884	10%	480	9%
East	454,884	10%	417	8%
East Midlands	272,931	6%	343	7%
North East	136,465	3%	243	5%
North West	454,884	10%	465	9%
West Midlands	318,419	7%	453	9%
Yorks & Humber	318,419	7%	453	9%
Scotland	318,419	7%	420	8%
Wales	181,954	4%	284	6%
Northern Ireland	136,465	3%	251	5%



Weighting

The weighting regime was applied as shown below, based on BIS SME data:

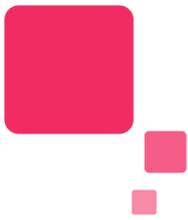
Weighted total: **4,548,843**

Weighted by sector within size bands as follows:

		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%	3.43%
I	Transport, Storage and Communication	5.93%	0.95%	0.03%	6.92%
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 2-49 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 applied for region:

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

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

The up-weighting of the smaller SMEs and 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	5063	27%	1367	+/- 4%
0 employee (resp)	1022	79%	807	+/- 5%
1-9 employees	1672	77%	1287	+/- 4%
10-49 employees	1610	78%	1256	+/- 4%
50-249 employees	759	82%	622	+/- 6%



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 the 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 SME's views of bank finance ever undertaken in the UK. More important, it is the first in a quarterly series of such reports. So, not only is this report based on a large enough sample for its findings to be robust, but over time the dataset will build into a hugely valuable source of evidence about what is really happening in the SME finance market.

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

