SME Finance Monitor

Q2 2012: The mid-year review

An independent report by
BDRC Continental, September 2012

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Foreword – A tribute to Mike Young

Mike Young, the independent chairman of the Monitor's Steering Group, sadly passed away recently, so it is only appropriate that this SME Finance Monitor Report should acknowledge the contribution he made. Mike's impartial counsel, commitment and humour will be greatly missed by everyone associated with the Monitor. Dr Richard Roberts, one of Mike's longest-standing professional acquaintances, has contributed an appreciation which I am sure will strike a chord with those in the wider business and finance community who came into contact with Mike, while colleagues from the Department for Business, Innovation and Skills have added their own tribute.

Shiona Davies
Editor of the SME Finance Monitor
August 2012

I can't actually remember when Mike and I first met. I think technically he followed on from Adrian Piper as the head of the SME Finance team at the Bank of England but we had met before then and of course Mike had a spell at the BBA. I do remember very early on his commitment to data and good quality research as the basis of discussion and policy development. In 2002, when David Storey and I proposed the idea of the first SME Finance Survey, he was a natural ally. After we had all the supporters signed up the Bank of England took over the day to day running of the 2004 survey and Mike continued this role in retirement for subsequent surveys in one form or another either through BIS or in latter years the BBA.

Mike's vital contribution to the development of the Survey, especially since it was set up as the quarterly SME Finance Monitor under the Better Business Finance Taskforce, was a combination of absolute impartiality, a strong understanding of SME finance issues and an ability to get – and keep – everyone round the table working towards a common agreed goal. It will be a hard act to follow. When working on a joint piece of research or editing a report as part of a team he was always generous with his time, kind and respectful to those he worked with, while being steadfast and loyal in times of adversity.

We should also not forget Mike's work on wider SME issues. He was a long standing member and eventually Deputy Chair of the BIS Small Business Investment Taskforce/Access to Finance Advisory Group. Indeed, it was only when I joined this group a few years ago that I realised how much Mike also did for the cause of business angel finance and investment readiness. In previous years Mike was also heavily involved in the original Business Banking Code, and he was a strong supporter of many committees and discussion groups on SME affairs. Nearer home, Mike was a long term supporter of Young Enterprise, leading the North Hampshire board of the charity.

Anyone who knew Mike for more than five minutes also knew that he was a passionate supporter of Southampton FC. It influenced almost everything he did – including the passwords for the data spreadsheets he sent by e-mail which often reflected that week's team performance. The exit music at his funeral service continued this theme and also helps bring my appreciation to a close. We all walked out to 'When the Saints Go Marching In'. For many of us Mike was a Saint but I suspect he would rather we ensured going forward that, through this Survey, it is the truth that goes 'marching' on.

Richard Roberts
August 2012

Mike Young bore his unrivalled expertise lightly. In his work with Government he was recognised universally for his impeccability of character, and sound advice given with good humour. He was committed to small businesses, from youngsters' first forays into commerce through his work with Young Enterprise, to the widest array of firms across the country covered by the Big Survey, which he championed with characteristic dedication. His contributions to the Government's work in helping small businesses is already sadly missed, but his valuable legacy in the SME Finance Monitor and countless other work will endure.

Alex Howell and colleagues at the Department for Business, Innovation and Skills
August 2012

The Survey Steering Group comprises representatives of the following:

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

1. Introduction

The issue of bank lending to SMEs continues to provoke much comment. A range of government and financial initiatives, such as the recently announced Funding for Lending scheme, have sought to make funds available for SMEs, and encourage banks to lend. At the same time, the unstable economic atmosphere, including the crisis in the Eurozone, is affecting business confidence and appetite for borrowing. The debate continues into the extent to which demand and/or supply issues are contributing to lower levels of lending to SMEs.

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

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

This fifth report is based on a total of 20,088 interviews with SMEs, conducted to YEQ2 2012. This means that the interviews conducted in the first wave, February to May 2011, are no longer included in the year ending results, replaced by those conducted in Q2 2012, but they are still shown in this report where quarterly data is reported over time.

The YEQ2 2012 data therefore includes the following four waves:

- July-September 2011 – 5,055 additional interviews referred to as Q3
- October-December 2011 – 5,010 additional interviews referred to as Q4
- January-March 2012 – 5,023 additional interviews, referred to as Q1 2012
- April-June 2012 – 5,000 additional interviews, referred to as Q2 2012

All waves were conducted using the same detailed quota profile. The results from the four waves have been combined to cover a full 12 months of interviewing, and weighted to the overall profile of SMEs in the UK, in such a way that it is possible to analyse results wave on wave where relevant, and the data reported for an individual quarter individually will be as originally reported. This combined dataset of 20,000+ interviews is referred to as YEQ2 12.

The exception to this rule is where data is reported by application date. In these instances, all respondents to date are included, split by the quarter in which they made their application for loan and/or overdraft facilities.

A further quarter, of another 5,000 interviews to the same sample structure, is being conducted July-September, and results will be published in December 2012. At that stage, we will again present data on a rolling basis of 20,000 interviews (so adding Q3 2012 and dropping Q3 2011 from the dataset).

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

2. Management summary

This report covers

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

Over time, fewer SMEs report using external finance at all and overdrafts specifically, while a consistent 1 in 3 SMEs, in our terms, is a 'permanent non-borrower'. Fewer now have a minimal or low external risk rating but there has been no increase in self-reported credit issues and profitability levels have stabilised. In Q2 2012, 4 out of 10 SMEs said that the business had received an injection of personal funds in the previous 12 months – with a quarter of all SMEs saying this was something they felt they had no choice but to do.

- In Q2 2012, 43% of SMEs interviewed said that they were currently using external finance, compared to 51% in Q1-2 2011
- Over the same time period, the proportion of SMEs with an overdraft has fallen from 30% to 22%. The proportion with a loan has remained unchanged
- 34% of SMEs meet the definition of the 'permanent non-borrower', that is an SME that seems firmly disinclined to borrow, either now or in the future, and this proportion has remained stable over time
- The proportion of SMEs with a minimal or low external risk rating has dropped from 19% in Q1-2 2011 to 16% in Q2 2012. Over the same period, the proportion self-reporting a credit issue (bounced cheque, missed loan repayment etc.) has also dropped slightly from 15% to 13% in difficult trading conditions. Profitability levels have stabilised (65% of those interviewed in Q2 2012 made a profit in the previous 12 months)
- In a new question for Q2, 41% of SMEs said that personal funds had been injected into the business in the previous 12 months, and this was more common amongst SMEs with less than 10 employees together with younger businesses and those with poorer external risk ratings
- Those injecting funds (41% of all SMEs) are made up of 16% of all SMEs saying this was something they had chosen to do to help the business grow, and 25% of SMEs saying this was something they felt they had had no choice about, but had to do. For SMEs with fewer than 10 employees, injecting funds was more likely to have been seen as a 'necessity' rather than a 'choice'

A minority of SMEs, 1 in 10, reported applying for new or renewed finance in the 12 months prior to interview. As likely was an automatic renewal of an existing overdraft facility, experienced by 12% of all SMEs. Overall the majority of those applying for new or renewed facilities were successful and satisfied with the facility they now have. A higher proportion of applicants were applying for their first loan or overdraft facility, and such applicants remained less likely than others to be successful. Where a facility had been declined, only a minority felt the bank had then offered helpful advice, or signposted alternative forms of funding or support. Awareness and use of the appeals process remains limited

- In Q2 2012, 11% of SMEs reported having applied for a new or renewed facility in the 12 months prior to interview. This proportion has been stable since Q3 2011
- This was the most common of the three borrowing 'events' (in the same period, 3% of SMEs reported that the bank had sought to cancel or renegotiate an existing facility, and 1% that they themselves had asked for a facility to be reduced or cancelled)
- The research now also includes the automatic renewal of existing overdrafts by the bank. In Q2 12% of all SMEs reported that this had occurred in the previous 12 months (around half of all those with an overdraft facility)
- 75% of overdraft applications (excluding automatic renewals) were successful and the SME now had a facility, and when automatic renewals are included this figure increases to 9 out of 10. For loans, the figure was 59%
- Success rates remain higher for larger SMEs and those with a minimal or low risk rating. Almost 90% of those with a new/renewed facility said they were satisfied with it
- Over time, the proportion of overdraft applicants applying for their first overdraft has increased from around a quarter to a third of applications. Most loans are for new, rather than renewed, facilities and again, over time, the proportion of first time applicants has increased
- Those applying for new funds were less likely to be successful (58% now have a loan/overdraft facility) than those applying for a renewal of facilities (90%). Amongst applicants for new money, those applying for their first ever loan/overdraft were much less likely to be successful (43%) than those who had borrowed before (73%)

- 34% of all loan applications and 21% of all overdraft applications were declined (the equivalent of 2% and 1% respectively of all SMEs)

- A minority of those declined said that the bank had either offered an alternative form of funding, or pointed them towards alternative sources of finance (13% for overdrafts declined and 9% for loans) while around 7 out of 10 rated the advice offered at this stage as 'poor'. A quarter of those declined said that they had not been given a reason for the decision

- Awareness of the appeals process remains limited amongst eligible SMEs – 14% of those declined for an overdraft and 8% for loan, and very few of those aware had used the appeals process

With automatic overdraft renewals now included, a quarter of SMEs have had a borrowing 'event' in the 12 months prior to interview. 1 in 10 can be described as 'would-be seekers' and the largest single group remains the 'happy non-seekers' who did not wish to apply for (further) facilities. These proportions have changed little over recent quarters. Discouragement remains more of a barrier to an application for a loan than an overdraft

- The revised definition, to include automatic overdraft renewals, sees 24% of all SMEs having had a borrowing 'event' in the 12 months prior to interview

- The largest single group were the 'happy non-seekers' who had not applied for funds nor wanted to. They made up 66% of all SMEs across Q4 2011 to Q2 2012 combined, and this proportion has changed little over that time

- 10% of SMEs were 'would-be seekers' who would have liked to apply for funding but, for a variety of reasons, did not do so. In Q2, 'would-be seekers' of overdrafts typically mentioned either the process or the principle of borrowing as the main barrier to an application (31% and 29%). They were less likely to mention discouragement as a barrier (25%) than 'would-be seekers' of loans (35%), for whom it continues to be the most mentioned barrier. This remains more likely to be indirect discouragement, where the SME assumes they will be turned down and so does not ask

Looking forward, appetite for future finance is slightly lower in Q2 than in Q1 2012, with fewer smaller SMEs confident that the bank would agree to their request for new or renewed facilities. Slightly fewer SMEs in Q2 can be described as 'future would-be seekers' of finance, with a reluctance to borrow in the current climate the key barrier, although discouragement plays more of a role amongst those with an identified need for funds. A minority were aware of the National Loan Guarantee Scheme, with around 1 in 7 saying it could make them more likely to apply for one of the lending products covered by the scheme. Awareness of other bank and government initiatives for SMEs remains flat, with around half aware of any of the initiatives

- In Q2 2012, 14% of SMEs thought that they would apply for new or renewed funding in the next 3 months, down slightly from 16% in Q1
- Confidence amongst these future applicants that the bank will agree to their request is now at the lowest level seen in this study, with 39% confident of success (compared to 52% in Q1 2012). This is due to declining confidence amongst SMEs with fewer than 10 employees (37% from 52%) as confidence amongst larger SMEs remained unchanged (60%)
- 64% of SMEs can be defined as 'happy non-seekers' of finance for the next 3 months, up slightly from 60% in Q1
- 22% were 'future would-be seekers' of finance. A reluctance to borrow in the current climate remained the main barrier to application amongst this group, mentioned by 49% of such SMEs in Q2. Compared to 2011, more SMEs in 2012 have attributed this reluctance to the performance of their business specifically, rather than the economy in general (now 18% of future would-be seekers). 'Discouragement' is less of a barrier to future applications than it was for those in the past (14% in Q2), but was mentioned more by those future 'would-be seekers' who had identified a specific need for finance (44%)
- In a new question for Q2, 14% of SMEs were aware of the National Loan Guarantee Scheme. 15% of all SMEs went on to say that it would make them 'more likely' to apply for one of the lending products offered at a discount rate, while the majority, 65%, said it made no difference because they did not wish to take out one of these products
- Just under half, 47%, of all SMEs were aware of any of the Taskforce initiatives, a figure that has remained virtually unchanged since Q3 2011

More broadly, SMEs in Q2 were as likely to say that their objective was to grow in the next 12 months as those interviewed in Q1. The key obstacle to running the business as they would wish was still the current economic climate, mentioned by a third, while 1 in 10 saw access to finance as a barrier, increasing to a quarter of those with any plans to apply for finance in the next 3 months.

- 47% of all SMEs reported that it was their objective to grow in the next 12 months. The change since Q1-2 2011 (44%), is due to more smaller businesses saying their objective is to grow (41% to 46% over the same period)

- The current economic climate was the main barrier to running the business in Q2 as in previous quarters, cited as a major obstacle by 35% of SMEs. The next most mentioned major obstacles remained legislation and regulation (14%), and cash flow/late payment (also 14%)

- 11% of all SMEs rated access to external finance as a major obstacle. This was more likely to be seen as a major obstacle by those with any appetite for external finance in the next 3 months (24%)

3. Using this report

This report is

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

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

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

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

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

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

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

Analysis over time

This report is predominantly based on four waves of data, gathered in Q3 and Q4 of 2011, and Q1 and Q2 of 2012. In all four waves, SMEs were asked about their past behaviour across the previous 12 months, so there is an overlap in the time period each wave has reported on.

Each report is able to make more comment than was previously possible on changes in demand for credit and the outcome of applications over time (defined as when the application was made, rather than when the interview was conducted). Final data is now available for any applications made in 2010 or Q1 of 2011, but for other more recent quarters data is still being gathered so results for events occurring from Q2 2011 are still *interim* at this stage. (Respondents in Q3 2012 can report on events which occurred in Q2 2011 or later). Where analysis is shown by date of application, this includes all interviews to date (including those conducted in Q1-2 2011 which are no longer included in the Year Ending data reported elsewhere.

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

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

Definitions used in this report

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

4. The general context

This chapter presents

an overview of the characteristics of SMEs in the UK. Unless otherwise stated, figures are based on all interviews conducted in the year ending Q2 2012 (YEQ2 12).

Key findings

Over time, fewer SMEs have a 'minimal' or 'low' external risk rating, but there has been no increase in self-reported credit issues, such as missing a loan repayment or having a cheque bounced

Just over half of businesses plan, through regular management accounts or a business plan. A steady 1 in 10 undertake international activity – both more common amongst larger SMEs

This chapter presents an overview of the characteristics of SMEs in the UK. Unless otherwise stated, figures are based on all 20,088 interviews conducted in the year ending Q2 2012 (that is Q3 and Q4 2011 and Q1 and Q2 2012). Both 2011 and 2012 have presented particular trading challenges, and analysis of this data over time provides an indication of how SMEs are managing.

Profitability

Two thirds of SMEs reported making a profit in their most recent 12 month trading period (64% for YEQ2 12, virtually unchanged from 65% YEQ1 12). As the quarterly analysis below shows, the proportion of SMEs interviewed who reported making a profit has stabilised. Where made, the median profit figures are stable over time:

Business performance last 12 months over time	Q1-2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012
Unweighted base:	*5063*	*5055*	*5010*	*5023*	*5000*
Made a profit	67%	64%	64%	63%	65%
Broke even	10%	13%	14%	12%	13%
Made a loss	16%	16%	15%	18%	14%
Dk/refused	7%	7%	6%	6%	7%
*Median profit made**	*£12k*	*£10k*	*£13k*	*£10k*	*£10k*

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

For YEQ2 2012, bigger SMEs remained more likely to have been profitable: 62% of 0 employee businesses reported making a profit, compared to 75% of those with 50-249 employees:

Business performance last 12 months YEQ2 12 all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*20088*	*4023*	*6636*	*6419*	*3010*
Made a profit	64%	62%	68%	75%	75%
Broke even	13%	14%	11%	8%	7%
Made a loss	16%	17%	14%	11%	10%
Dk/refused	7%	7%	7%	7%	8%
*Median profit made**	*£10k*	*£8k*	*£17k*	*£39k*	*£287k*

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

The median annual **losses** reported were more stable over time – at between £2,000 and £3,000 in each period.

By sector, Property/Business Services remained the most likely to be profitable (70%), and Hotels and Restaurants the least likely (55%).

Business performance last 12 months YEQ2 12 all SMEs	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*1503*	*2130*	*3535*	*2041*	*1785*	*1804*	*3530*	*1749*	*2011*
Made a profit	66%	67%	61%	63%	55%	58%	70%	65%	60%
Broke even	12%	15%	14%	14%	16%	17%	11%	13%	12%
Made a loss	16%	13%	16%	16%	19%	16%	15%	16%	20%
Dk/refused	6%	6%	9%	7%	10%	8%	4%	6%	8%
*Median profit made**	*£9k*	*£7k*	*£10k*	*£17k*	*£11k*	*£7k*	*£17k*	*£7k*	*£9k*

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

By sector, median profits in YEQ2 12 ranged from £17,000 for profitable SMEs in Wholesale/Retail and Property/Business Services to £7,000 for profitable SMEs in Manufacturing, Transport and Health.

Reported median losses YEQ2 were £7,000 for loss making SMEs in the Hotels and Restaurants sector, £5,000 in Wholesale/Retail and £2,000 for loss making SMEs in other sectors.

Financial Risk Profile

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

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

Self-reported credit issues YEQ2 12 All SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*20008*	*4023*	*6636*	*6419*	*3010*
Unauthorised overdraft on account	7%	6%	8%	6%	3%
Had cheques bounced on account	5%	5%	8%	7%	4%
Problems getting trade credit	3%	3%	4%	4%	4%
Missed a loan repayment	1%	1%	2%	1%	1%
Had County Court judgement against them	1%	1%	2%	1%	1%
Any of these	*13%*	*12%*	*17%*	*14%*	*10%*

Q224 All SMEs

Neither 2011 nor 2012 have offered an easy trading environment generally, but in fact, over time, SMEs overall have been no more likely to have had any of the credit risk issues specified:

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

Q224 All SMEs

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

The overall risk profile in each quarter has been very consistent. Over time though, there has been a slight decline in the proportion of SMEs rated a 'minimal' or 'low' risk:

External risk rating over time	Q1-2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012
Unweighted base:	*5063*	*5055*	*5010*	*5023*	*4562*
Minimal risk	6%	6%	6%	6%	5%
Low risk	13%	11%	10%	12%	11%
Average risk	33%	33%	34%	30%	33%
Worse than average risk	48%	51%	51%	53%	51%

All SMEs where risk rating provided

The overall YEQ2 2012 ratings are shown below, highlighting the improvement in risk rating profile as size of SME increases:

External risk rating YEQ2 12 All SMEs where rating provided	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*18299*	*3338*	*5716*	*6284*	*2961*
Minimal risk	6%	3%	10%	25%	33%
Low risk	11%	8%	17%	30%	27%
Average risk	32%	33%	29%	29%	26%
Worse than average risk	51%	56%	44%	16%	13%

All SMEs where risk rating provided

When the two types of risk rating were compared, those with a minimal risk rating remained less likely to self-report a credit problem (10%) than those with a worse than average risk rating (14%). Over time, as the proportion rated an average or worse than average risk rating has increased, the proportion *self*-reporting a credit problem has declined slightly.

By sector, SMEs in Agriculture remained more likely to have a minimal or low risk rating (37%) compared to Transport where 10% had this rating:

External risk rating YEQ2 12	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*1292*	*1993*	*3199*	*1898*	*1656*	*1637*	*3186*	*1573*	*1865*
Minimal risk	21%	6%	2%	5%	4%	3%	6%	7%	7%
Low risk	16%	12%	10%	12%	8%	7%	11%	21%	8%
Average risk	30%	30%	28%	35%	27%	31%	34%	43%	32%
Worse than average risk	33%	52%	61%	48%	61%	59%	48%	29%	54%
Total Min/Low	*37%*	*18%*	*12%*	*17%*	*12%*	*10%*	*17%*	*28%*	*15%*

All SMEs where risk rating provided

Credit balances

While almost all SMEs reported holding some credit balances (5% do not hold any) most, 64%, said that they typically held less than £5,000, and this has changed little over time.

The high proportion of SMEs with a low credit balance continues to be driven by the smaller SMEs. 71% of 0 employee SMEs held less than £5,000 in credit balances, compared to 13% of those with 50-249 employees.

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

- £1,670 for 0 employee SMEs
- £3,250 for 1-9 employee SMEs
- £25,430 for 10-49 employee SMEs
- £130,050 for 50-249 employee SMEs

How SMEs are managed

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

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

The table below shows that the increase in the proportion of SMEs that plan seen in Q1 2012 (due to more SMEs producing management accounts and seen across all size bands), was not entirely maintained in Q2 2012:

Business formality elements Over time – All SMEs	Q1-2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012
Unweighted base:	*5063*	*5055*	*5010*	*5023*	*5000*
Planning (any)	52%	54%	52%	58%	56%
- Produce regular management accounts	*40%*	*41%*	*37%*	*44%*	*42%*
- Have a formal written business plan	*30%*	*33%*	*32%*	*33%*	*34%*
International (any)	15%	10%	8%	10%	10%
– Export goods or services	*10%*	*7%*	*5%*	*7%*	*8%*
- Import goods of services	*9%*	*7%*	*6%*	*7%*	*6%*

Q223 All SMEs

Larger SMEs remained more likely to plan and to undertake international trade. Those in the Hotel and Restaurant sector were amongst the most likely to be planning but much less likely to be international, which was more likely amongst those in Manufacturing and Wholesale/Retail. Those in Construction remained less likely either to plan or to trade internationally.

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

- Overall, 20% of international SMEs said that international trade represented 50% or more of their business (the equivalent of 2% of all SMEs. This varies by size, up to 9% of SMEs with 50-249 employees)
- 24% of exporters said that international trade represented 50% or more of their business
- 19% of importers said that international trade represented 50% or more of their business

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

A new question in Q2 2012 asked SMEs whether they submit invoices to customers electronically over the internet in a format that can be processed automatically and transferred directly from their application into the recipient's own system (XML, EDI, PDF or another similar format).

29% of SMEs said that this was something they did, varying somewhat by size (28% 0 employees to 41% of those with 50-249 employees) and varying by sector from 42% of those in Property/Business Services to 15% of those in Wholesale/Retail.

5. Financial context – how are SMEs funding themselves?

This chapter provides

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

Key findings

Over time, fewer SMEs reported using external finance. In Q2 2012, 43% reported using external finance, compared to 51% in Q1-2 2011. 4% of SMEs said they had used it in the past but did not use it now (2% in Q1-2 2011)

Fewer smaller SMEs (with less than 10 employees) reported using external finance, compared to Q1-2 2011

Fewer SMEs now report having an overdraft (22% in Q2 2012 v 30% in Q1-2 2011), while use of loans has changed little over the period

A third of SMEs (34%) are ‘permanent non-borrowers’ (SMEs who seem firmly disinclined to borrow based on past and future predicted behaviours), and this has remained stable over time

4 out of 10 SMEs reported having an injection of personal funds into the business (from the owner/directors) in the previous 12 months. This was made up of those who chose to do so, to help the business develop (16% of all SMEs) and, slightly more commonly, those who felt they had had no choice but to put funds in (25% of all SMEs)

SMEs with less than 10 employees (26%), those with a worse than average risk rating (30%), Starts (33%) and ‘would-be seekers’ (who would have liked to apply for a loan/overdraft facility but had not done so) (43%), were the most likely to report an injection of personal funds that they felt *had* to be made

Least likely to have injected any personal funds were SMEs with 50-249 employees (13%), and those with a minimal risk rating (19%)

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

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

As already noted in previous reports around half of all SMEs used external finance with smaller SMEs less likely to do so. Analysis over time shows that in Q2 2012 fewer SMEs reported using external finance, back to levels seen at the end of 2011:

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

Q14/15 All SMEs

The smaller proportion of SMEs using external finance in Q2 2012 was driven by those with less than 10 employees, especially the 0 employee SMEs. Use of external finance amongst bigger SMEs is more consistent over time:

Currently use external finance Over time – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Q1-2 2011	51%	45%	65%	76%	81%
Q3 2011	47%	41%	61%	76%	77%
Q4 2011	41%	36%	54%	70%	75%
Q1 2012	50%	45%	64%	73%	78%
Q2 2012	43%	37%	60%	73%	78%

Q14/15 All SMEs Base varies slightly each quarter Q2 5000 1000/1650/1600/750

Overall, for YEQ2 2012, more use was made of external finance by SMEs with a minimal (57%) or low (54%) external risk rating, than by those rated average (45%) or worse than average (43%), and this gap has widened slightly compared to YEQ1 2012.

By sector, the most likely to be using external finance were SMEs in the Wholesale/Retail (53%) and Hotel and Restaurant (54%) sectors. The least likely to be currently using external finance was the Health sector (36%).

To understand more about the use of external finance over time, the table below shows the overall reported use of the main forms of finance (overdrafts, loans and credit cards) by quarter. Note that the Q4 2011 and Q2 2012 Monitors combined reported that three quarters (74%) of those who use a credit card for their business said that they usually paid off the balance in full each month, so these businesses are not necessarily using their credit cards as a source of finance, more as a payment mechanism.

This analysis shows fewer SMEs reported having credit cards or an overdraft in Q2 2012, reducing the overall usage of these three common forms of finance from 40% in Q1 to 36% in Q2:

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

Q15 All SMEs

These changes over time were due to the reduced use of these financial products amongst SMEs with 1-9 employees in particular (53% in Q1 2012 reducing to 48% in Q2). By risk rating, those rated 'average' saw the biggest change in use of these products (34% in Q2 from 47% in Q1) while those rated 'worse than average' remained less likely to be using one of these products (35%).

The table below shows the full list of the different types of funding being used by SMEs YEQ2 12. Usage of any of these forms of finance fell slightly overall, from 47% YEQ1 to 45% YEQ2, with larger businesses continuing to make use of a wider variety of forms of funding:

External finance currently used YEQ2 12 all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*20088*	*4023*	*6636*	*6419*	*3010*
Bank overdraft	23%	20%	32%	41%	40%
Credit cards	18%	16%	24%	37%	43%
Bank loan/Commercial mortgage	10%	7%	16%	24%	31%
Leasing or hire purchase	7%	5%	12%	25%	35%
Loans/equity from directors	5%	3%	12%	14%	13%
Loans/equity from family and friends	6%	5%	7%	5%	3%
Invoice finance	3%	2%	4%	10%	15%
Grants	1%	1%	2%	3%	5%
Loans from other 3rd parties	1%	1%	2%	3%	6%
Any of these	*45%*	*40%*	*59%*	*73%*	*77%*
None of these	*55%*	*60%*	*41%*	*27%*	*23%*

Q15 All SMEs

SMEs that import and/or export were asked about use of Export/Import finance. 2% of international SMEs use these products, ranging from 1% of 0 employee SMEs to 4% of those with 50-249 employees.

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

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

A new question for Q2 2012 asked SMEs whether personal funds had been injected into the business in the previous 12 months by the owner or any director and whether this was something they had *chosen* to do or felt that they *had* to do. As the table below shows, 4 out of 10 SMEs have had such a cash injection, and this was more common amongst smaller SMEs:

Personal funds in last 12 months Q2 2012 only – all SMEs	All	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*5000*	*1000*	*1650*	*1600*	*750*
Inject personal funds – you chose to do to help the business grow and develop	16%	17%	12%	10%	7%
Inject personal funds – you felt you had no choice about this, that you had to do it	25%	26%	26%	14%	6%
Any personal funds	*41%*	*43%*	*38%*	*24%*	*13%*
Not something you have done	59%	57%	62%	76%	87%

Q15d All SMEs from Q2 2012

Analysis by age of business shows that it is the youngest, start-up businesses that were most likely to have had an injection of personal funds (65%), and that this was as likely to be a choice (32%) as a necessity (33%). For older businesses, an injection of personal funds was less likely to have happened at all, but where it had a higher proportion of these injections were felt to have been a necessity:

Personal funds in last 12 months Q2 2012 only – all SMEs	Starts	2-5 yrs	6-9 yrs	10-15 yrs	15 yrs+
Unweighted base:	*500*	*786*	*666*	*768*	*2280*
Inject personal funds – you chose to do to help the business grow and develop	32%	19%	11%	8%	8%
Inject personal funds – you felt you had no choice about this, that you had to do it	33%	26%	26%	23%	19%
Any personal funds	*65%*	*45%*	*37%*	*31%*	*27%*
Not something you have done	35%	55%	63%	69%	73%

Q15d All SMEs from Q2 2012

As might be anticipated, analysis by risk rating shows different experiences between those with a minimum or low risk rating and those with a poorer external rating. Amongst those with a minimal external risk rating, 1 in 5 had seen an injection of personal funds, and this was as likely to be through choice as feeling that they had to. Amongst those with a worse than average external risk rating, half had seen an injection of personal funds, with the majority saying they felt they had to:

Personal funds in last 12 months Q2 2012 only – all SMEs	All	Min	Low	Avge	Worse/ Avge
Unweighted base:	*5000*	*866*	*951*	*1330*	*1415*
Inject personal funds – you chose to do to help the business grow and develop	16%	9%	12%	14%	19%
Inject personal funds – you felt you had no choice about, that you had to do	25%	10%	16%	22%	30%
Any personal funds	*41%*	*19%*	*28%*	*36%*	*49%*
Not something you have done	59%	81%	72%	64%	51%

Q15d All SMEs from Q2 2012

Analysis by sector shows that SMEs in Manufacturing were the most likely to have received an injection of personal funds (49%) followed by Hotels and Restaurants (46%) who were more likely along with those in Construction to feel that they had had to inject the funds (33%). Those in Wholesale/Retail were the least likely to have received an injection of personal funds:

Personal funds in last 12 months Q2 2012 only – all SMEs	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*375*	*520*	*875*	*505*	*450*	*453*	*875*	*447*	*500*
Chose to inject	18%	20%	12%	10%	13%	15%	17%	29%	19%
Had to inject	24%	29%	33%	26%	33%	27%	22%	15%	20%
Any funds	*42%*	*49%*	*45%*	*36%*	*46%*	*42%*	*39%*	*44%*	*39%*
Not done	58%	51%	55%	64%	54%	58%	61%	56%	61%

Q15d All SMEs from Q2 2012

SMEs currently using external finance were more likely to have made any such cash injection (47%) than those not currently using external finance (38%) and also more likely to say they felt that they had no choice (34% v 19%). Analysed by their overall financial behaviour in the previous 12 months, it is the 'would-be seekers' (who wanted to apply for finance but didn't) who were most likely to have made an injection of personal funds:

Personal funds in last 12 months Q2 2012 only – all SMEs	All	Had an event	Would-be seeker	Happy non-seeker
Unweighted base:	*5000*	*1742*	*418*	*2840*
Inject personal funds – you chose to do to help the business grow and develop	16%	11%	15%	18%
Inject personal funds – you felt you had no choice about, that you had to do	25%	41%	43%	17%
Any personal funds	*41%*	*52%*	*58%*	*35%*
Not something you have done	59%	48%	42%	65%

Q15d All SMEs from Q2 2012

Personal accounts

Most SMEs used a business bank account (81%). Almost all, 94%, of those that used a personal account for their business banking were 0 employee businesses. Such personal accounts were more likely to be found in the Health Sector (35% v 19% overall) and least likely to be found in Wholesale/Retail (10%). Amongst Starts (within the last 2 years) 29% use a personal bank account for their business.

Just over 1,300 SMEs who use a personal account have now been interviewed. Such SMEs were less likely to be using external finance (30% currently use v 45% overall) and half as likely to have applied for new or renewed facilities. As a result, there are limited numbers on which to analyse whether they are more or less likely to receive a positive response from their bank, and also too few of them to affect the success rates reported later. Qualitatively though, it appears that overdraft success rates do not vary much for those with a personal account, while loan success rates might be slightly lower.

At the smaller end of the market in particular, there can be a blurring between finance raised in the name of the business and finance raised in a personal capacity by the owner/directors, which is then used in the business. Since Q3, those using bank loans/commercial mortgages to fund their business have been asked whether this loan was in the name of the business or an individual. To date, three quarters of those with a loan (75%) have said that it was in the name of the business, with clear variations by size: amongst 0 employee SMEs with a loan, 24% reported that it was in the name of an individual compared to just 1% of those with 50-249 employees:

Type of loan with a loan	YEQ2 12- SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:		*3878*	*301*	*1111*	*1514*	*952*
Personal		19%	24%	14%	5%	1%
Business		75%	68%	79%	91%	97%
Both		6%	7%	6%	4%	1%

Q15c All SMEs with a loan

Recent applications for other forms of finance

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

	Total		Applied for			
External finance applied for YEQ2 12 All SMEs	Applied	% success	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*20088*	*varies*	*4023*	*6636*	*6419*	*3010*
Credit cards	4%	88%	3%	4%	6%	7%
Leasing/Hire purchase	4%	93%	2%	7%	17%	23%
Loans/equity from directors	2%	96%	1%	5%	7%	5%
Loans/equity from family & friends	4%	95%	4%	4%	3%	1%
Grants	2%	69%	1%	2%	5%	6%
Invoice finance	1%	90%	1%	2%	3%	6%
Loans from other 3rd parties	1%	79%	*	1%	2%	3%

Q222 All SMEs

SMEs that import or export were asked about applications for Export/Import finance. 1% had made such an application, varying little by size and 81% had been successful.

Most applicants were successful, with larger SMEs (10-249 employees) that applied generally more likely to be successful, notably for grants (83% v 67% of applicants with 0-9 employees) and loans from other 3rd parties (90% v 77%).

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

- Most SMEs, 77%, reported neither a loan/overdraft 'event' (covered in the remainder of this report), nor an application for any of the types of finance listed above
- 10% reported a loan/overdraft event, but had not applied for other forms of finance
- 9% had applied for other forms of finance but did not report a loan/overdraft event
- 4% reported both a loan/overdraft event and applying for one of these forms of finance

The non-borrowing SME

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

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

These ‘permanent non-borrowers’ make up 34% of SMEs, and were more likely to be found amongst the smaller SMEs:

- 38% of 0 employee SMEs met this non borrowing definition
- 23% of 1-9 employee SMEs
- 16% of 10-49 employee SMEs
- 13% of 50-249 employee SMEs

SMEs in the Health sector were the most likely to be a ‘permanent non-borrower’ (47%), while those in Agriculture were the least likely (25%). The proportion of permanent non-borrowers has varied relatively little over time, or by external risk rating.

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

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

This chapter provides

the full definition of each borrowing 'event' together with summary tables of their occurrence. Subsequent chapters then investigate in more detail, and over time. The chapter covers the individual waves of interviews conducted to date. In each wave, SMEs were asked about borrowing events in the previous 12 months, so overall, borrowing events may have occurred from Q1 2010 to Q2 2012. Where year ending data is provided this is YEQ2 2012.

Key findings

The proportion of SMEs reporting a Type 1 borrowing event (an application for new or renewed facilities) has been stable since Q3 2011. In Q2 2012, 11% of SMEs reported such an event in the 12 months prior to interview

Excluding the 'permanent non-borrowers', who appear unlikely to borrow, increases the incidence of Type 1 events to 17% of the remaining SMEs

Other events, where the SME chooses to repay or reduce a facility ahead of schedule, or the bank seeks to cancel or renegotiate an existing facility, remain less common and the incidence of such events is unchanged over time

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

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

This chapter provides analysis on all events reported to YEQ2 2011. This provides bigger base sizes and more granularity for sub-group analysis, such as by employee size band.

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

The rolling aggregate of demand/activity

The tables below show the percentage over time of all SMEs interviewed that reported a borrowing event in the 12 months prior to interview. Type 1 events remained the most common, and relatively stable since Q3 2011, albeit lower than for the equivalent period last year (15% in Q1-2 2011):

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

Q25/26 All SMEs

As the table above shows, a minority of SMEs had experienced any of these loan or overdraft events. Further analysis of Type 1 events over time is provided in the next chapter.

Events in the previous 12 months by key demographics

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

The event experienced most widely was the application for a new facility, experienced by 7% of all SMEs and 10% of those with 50-249 employees. The renewal of an existing facility was experienced by almost as many SMEs overall (6%) with more variation by size of business (4% 0 employees and 18% of those with 50-249 employees):

Borrowing events YEQ2 12 all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*20088*	*4023*	*6636*	*6419*	*3010*
Type 1: New application/renewal	11%	9%	17%	23%	23%
Applied for new facility (any)	7%	5%	10%	10%	10%
– applied for new loan	*3%*	*2%*	*5%*	*6%*	*7%*
- applied for new overdraft	*4%*	*3%*	*7%*	*6%*	*5%*
Renewed facility (any)	6%	4%	9%	17%	18%
- renewed existing loan	*2%*	*1%*	*3%*	*5%*	*7%*
- renewed existing overdraft	*5%*	*3%*	*8%*	*14%*	*14%*
Type 2: Cancel/renegotiate by bank	4%	3%	5%	8%	7%
Bank sought to renegotiate facility (any)	3%	2%	4%	7%	6%
- Sought to renegotiate loan	*1%*	*1%*	*2%*	*2%*	*3%*
- Sought to renegotiate overdraft	*2%*	*2%*	*3%*	*6%*	*4%*
Bank sought to cancel facility (any)	1%	1%	2%	2%	2%
- Sought to cancel loan	*	*	*1%*	*1%*	*1%*
- Sought to cancel overdraft	*1%*	*1%*	*2%*	*2%*	*1%*
Type 3: Chose to reduce/pay off facility	2%	1%	3%	5%	4%
- Reduce/pay off loan	*1%*	*1%*	*2%*	*3%*	*2%*
- Reduce/pay off overdraft	*1%*	*1%*	*1%*	*2%*	*2%*

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

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

Borrowing events YEQ2 12 – all SMEs	Total	Min	Low	Avge	Worse/Avge
Unweighted base:	*20088*	*3340*	*3904*	*5348*	*5707*
Type 1: New application/renewal	11%	14%	15%	10%	11%
Applied for new facility (any)	7%	7%	7%	5%	7%
– applied for new loan	*3%*	*3%*	*3%*	*3%*	*3%*
- applied for new overdraft	*4%*	*4%*	*4%*	*3%*	*5%*
Renewed facility (any)	6%	9%	10%	6%	4%
- renewed existing loan	*2%*	*2%*	*3%*	*2%*	*1%*
- renewed existing overdraft	*5%*	*8%*	*8%*	*5%*	*4%*
Type 2: Cancel/renegotiate by bank	4%	4%	5%	4%	3%
Bank sought to renegotiate facility (any)	3%	3%	5%	4%	2%
- Sought to renegotiate loan	*1%*	*1%*	*2%*	*1%*	*
- Sought to renegotiate overdraft	*2%*	*2%*	*4%*	*3%*	*2%*
Bank sought to cancel facility (any)	1%	1%	1%	1%	1%
- Sought to cancel loan	*	*1%*	*	*1%*	*
- Sought to cancel overdraft	*1%*	*1%*	*1%*	*1%*	*1%*
Type 3: Chose to reduce/pay off facility	2%	2%	2%	1%	2%
- Reduce/pay off loan	*1%*	*1%*	*1%*	*1%*	*1%*
- Reduce/pay off overdraft	*1%*	*1%*	*2%*	*1%*	*1%*

Q25/26 All SMEs with external risk rating

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

Borrowing event in last 12 months YEQ2 12 All SMES	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*1503*	*2130*	*3535*	*2041*	*1785*	*1804*	*3530*	*1749*	*2011*
Type 1: New application/ renewal	18%	10%	10%	15%	15%	10%	10%	7%	12%
Applied for new facility (any)	10%	6%	6%	8%	10%	7%	5%	4%	8%
– applied for new loan	*4%*	*3%*	*3%*	*4%*	*5%*	*4%*	*2%*	*3%*	*4%*
- applied for new overdraft	*7%*	*3%*	*4%*	*6%*	*7%*	*3%*	*3%*	*2%*	*5%*
Renewed facility (any)	11%	4%	4%	8%	7%	5%	6%	3%	6%
- renewed existing loan	*3%*	*1%*	*1%*	*3%*	*3%*	*1%*	*1%*	*1%*	*3%*
- renewed existing overdraft	*9%*	*4%*	*4%*	*7%*	*6%*	*4%*	*5%*	*2%*	*4%*
Type 2: Cancel/ renegotiate by bank	5%	3%	3%	5%	5%	3%	4%	2%	4%
Bank sought to renegotiate facility (any)	4%	2%	2%	4%	4%	2%	3%	1%	3%
- Sought to renegotiate loan	*2%*	*1%*	*1%*	*1%*	*2%*	*1%*	*1%*	***	*1%*
- Sought to renegotiate overdraft	*3%*	*1%*	*2%*	*3%*	*3%*	*2%*	*3%*	*1%*	*3%*
Bank sought to cancel facility (any)	1%	1%	1%	2%	1%	1%	1%	1%	1%
- Sought to cancel loan	*1%*	*1%*	***	*1%*	*1%*	***	***	***	***
- Sought to cancel overdraft	*1%*	***	*1%*	*1%*	*1%*	*1%*	*1%*	***	*1%*
Type 3: Chose to reduce/ pay off facility	3%	2%	1%	2%	2%	3%	2%	2%	1%
- Reduce/pay off loan	*1%*	*1%*	*1%*	*1%*	*2%*	*1%*	*1%*	*1%*	*1%*
- Reduce/pay off overdraft	*2%*	*1%*	*1%*	*1%*	*1%*	*2%*	*1%*	*1%*	*1%*

Q25/26 All SMEs

The previous chapter reported on the 'permanent non-borrowers' – the 34% of SMEs that seem firmly disinclined to borrow. The table below shows the proportion of SMEs reporting borrowing events in the 12 months prior to interview, when these permanent non-borrowers are excluded from the SME population, with the incidence of Type 1 events (applications/renewals) increasing from 11% to 17%:

Borrowing events YEQ2 12 – all SMEs	Total	All excl. PNBs
Unweighted base:	*20088*	*15706*
Type 1: New application/renewal	11%	17%
Applied for new facility (any)	7%	10%
– applied for new loan	*3%*	*5%*
- applied for new overdraft	*4%*	*6%*
Renewed facility (any)	6%	9%
- renewed existing loan	*2%*	*2%*
- renewed existing overdraft	*5%*	*7%*
Type 2: Cancel/renegotiate by bank	4%	5%
Bank sought to renegotiate facility (any)	3%	4%
- Sought to renegotiate loan	*1%*	*1%*
- Sought to renegotiate overdraft	*2%*	*4%*
Bank sought to cancel facility (any)	1%	2%
- Sought to cancel loan	*	*1%*
- Sought to cancel overdraft	*1%*	*1%*
Type 3: Chose to reduce/pay off facility	2%	3%
- Reduce/pay off loan	*1%*	*1%*
- Reduce/pay off overdraft	*1%*	*1%*

Q25/26 All SMEs with external risk rating

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

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

While reflecting on these events, it is important to bear in mind that half of all SMEs currently use external finance while 11% reported one of the Type 1 borrowing 'events' in the previous 12 months. Indeed, a third of SMEs might be considered to be outside the borrowing process – the 'permanent non-borrowers' described earlier.

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

Type 2 (bank cancellation or renegotiation) and Type 3 (SME reducing/repaying facility) events remain rare, and at stable levels. No further detail is therefore provided on these events in this report, but the data remains available for those interested and future reports will provide updates as sample sizes permit.

7. The build up to applications for overdrafts and loans

This chapter is

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

Key findings

In Q2 2012, Type 1 borrowing events (an application for a new or renewed facility) were more likely to be reported by bigger businesses than smaller ones, and by those in Agriculture and Hotels and Restaurants compared to other sectors

A further proportion of overdrafts had been 'automatically renewed' by the bank, without a borrowing 'event' having occurred. Half of SMEs with an overdraft reported such an automatic renewal (the equivalent of 12% of *all* SMEs), and this varied relatively little by either the size, or external risk rating, of the SMEs concerned

Over time, the proportion of **overdraft** applicants that were applying for their first ever overdraft has increased, from around a quarter to around a third of all applications, as slightly fewer seek an increase to an existing facility. Most loan applications related to new funds, and over time, an increasing proportion of these new loans were requested by first time applicants

Overdrafts were typically sought to fund working capital, with fewer mentions over time of needing a 'safety net' or filling a short term funding gap. Over time, more loan applications were for the purchase of fixed assets, now as common a reason for applying as wanting to fund expansion in the UK

The proportion of SMEs seeking external advice before applying remained low, and has changed little over time: 10% for overdraft applications and 18% for loan applications

On small base sizes, there is no evidence that those who took advice were more likely to be successful with their overdraft application. For loans on the other hand, there is some evidence that those who sought advice were more likely to end the process with a facility, and that those with an average or worse than average external risk rating did better if they sought advice before applying

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

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

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

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

Applications over time

As the table below shows, since Q3 2011 the proportion of SMEs having had any Type 1 overdraft event in the previous 12 months has declined slightly over time:

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

Q26 All SMEs

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

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

Q26 All SMEs

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

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

Analysis *does* suggest that a slightly higher proportion of applications than might have been expected were seen in Q1 2011 and again in Q1 2012. In 2011, this was followed by a lower proportion of applications in Q2 than might have been expected – it is too early to tell whether the same sort of pattern will occur in 2012.

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

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

Q26 All SMEs: base size varies by category

Since Q3 2011, the proportion of Type 1 events reported has remained relatively stable. That said, compared to the equivalent period in 2011 (Q1-2), the table shows that overall applications / renewals are down from 15% to 11% and across all demographics, but notably fewer SMEs with 50-249 employees had applied for new/renewed funding (21% from 32%).

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

Demographic	Incidence of Type 1 events
Age of business	The incidence of Type 1 events increases slightly with age of business, from 11% for Starts and 10% for others less than 5 years old, to 12% for those trading for 15 years or more. Starts are much more likely to have applied for new facilities than to have renewed an existing facility (9% v 2%) while older businesses are more likely to have renewed (amongst those 15 years+, 5% applied for a new facility v 9% renewing one)
Profitable SMEs	SMEs that made a loss in the past 12 months were slightly more likely to have had a Type 1 event: Made a profit 11% Broke even 9% Made a loss 15% The loss makers were slightly more likely to have applied for a new facility than those that made a profit (9% v 7%)
Fast growth (30%+ for 3 yrs)	Fast growth SMEs were no more likely to have had a Type 1 event: Fast growth 13% Non fast growth (excl. Start-ups) 11%
Importers/exporters	Those engaged in international trade were slightly more likely to have had an event (14%) than those who were not (10%). Note though that international businesses tend to be larger SMEs

Overdraft events – definition and further clarification

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

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

The results for Q4 2011 to Q2 2012 are reported below and show that half of all overdraft holders reported that they had had such a renewal, the equivalent of 12% of all SMEs:

Any overdraft activity Q4 11 – Q2 12 only	All with overdraft	All SMEs
Unweighted base:	*5045*	*15033*
Had an overdraft 'event'	31%	7%
Had automatic renewal	53%	12%
Neither of these but have overdraft	16%	4%
No overdraft activity*		77%

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

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

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

Overdraft activity Q4 11 – Q2 12 only – All with overdraft	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*5045*	*588*	*1597*	*1963*	*897*
Had an overdraft 'event'	31%	27%	36%	43%	41%
Had automatic renewal	53%	57%	49%	41%	40%
Neither of these but have overdraft	16%	17%	15%	16%	19%

Q15/ 26/26a All SMEs

There was a less clear pattern of automatic renewal by external risk rating, and no evidence that those with a minimal or low external risk rating were more likely to see their overdraft automatically renewed (even once size of business was taken into consideration):

Overdraft activity Q4 11 – Q2 12 only – All with overdraft	Total	Min	Low	Avge	Worse/Avge
Unweighted base:	*5045*	*806*	*1138*	*1485*	*1244*
Had an overdraft 'event'	31%	33%	38%	30%	31%
Had automatic renewal	53%	53%	50%	54%	53%
Neither of these but have overdraft	16%	14%	12%	16%	16%

Q15/ 26/26a All SMEs

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

Overdraft activity Q4 11 – Q2 12 only – All with overdraft	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*492*	*547*	*865*	*586*	*418*	*430*	*846*	*388*	*473*
Had an overdraft 'event'	40%	24%	26%	34%	35%	28%	30%	29%	40%
Had automatic renewal	48%	59%	55%	51%	44%	59%	58%	53%	43%
Neither of these but have overdraft	12%	17%	20%	16%	21%	14%	13%	19%	17%

Q15/ 26/26a All SMEs

The answers to these questions reflect the SME's perception of how their business overdraft facility had been managed by their bank. Given the low level of 'events' reported generally, these SMEs with an automatic renewal form a substantial group, and from Q2 2012, they have answered further questions about this automatic renewal. This means that the definition of 'having a borrowing event' has been adjusted to include these automatic renewals (see Chapter 11) and some data is now available on the interest rates, security and fees relating to these automatically renewed overdraft facilities (see Chapter 10).

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

Why were they applying?

Overdraft applications

This section covers those SMEs that made an application for a new or renewed overdraft facility during the 12 months prior to interview. All percentages quoted are therefore just of this group, which overall represents around 7% of all SMEs or around 373,000 businesses. Note that this does not include SMEs who had an overdraft automatically renewed.

Half of those reporting a Type 1 overdraft event said that they had been looking to renew an existing overdraft for the same amount (46%). Around a quarter of applicants (28%) were seeking an overdraft for the very first time and, as the table below shows, this was likely to be the case for smaller SMEs. 1 in 6 were looking to increase an existing facility, and this was slightly more likely amongst the larger SMEs:

Nature of overdraft event YEQ2 12 SMEs seeking new/renewed facility	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*2511*	*236*	*814*	*1014*	*447*
Renewing overdraft for same amount	46%	46%	44%	60%	64%
Applied for first ever overdraft facility	28%	32%	26%	10%	5%
Seeking to increase existing overdraft	17%	16%	19%	19%	20%
Setting up facility at new bank	2%	2%	3%	2%	4%
Seeking additional overdraft on another account	4%	3%	5%	4%	4%
Seeking to reduce existing facility	2%	2%	2%	5%	4%

Q52 All SMEs seeking new/renewed overdraft facility

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

Nature of overdraft event SMEs seeking new/renewed facility By application date	Q310	Q410	Q111	Q211	Q311*	Q411*	Q112*	Q212*
Unweighted base:	*176*	*329*	*679*	*517*	*492*	*459*	*405*	*124*
Renewing overdraft for same amount	54%	41%	50%	49%	44%	52%	49%	40%
Applied for first ever overdraft facility	28%	26%	22%	24%	26%	24%	31%	39%
Seeking to increase existing overdraft	12%	23%	16%	18%	19%	19%	17%	14%
Setting up facility at new bank	4%	2%	6%	1%	2%	1%	2%	2%
Seeking additional overdraft on another account	1%	2%	4%	2%	6%	2%	1%	4%
Seeking to reduce existing facility	2%	5%	2%	5%	3%	2%	*	1%

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

Almost all applications, 98%, were made to the SME's main bank, and this varied little by date of application.

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

Amount initially sought, where stated YEQ2 12 SMEs seeking new/renewed facility	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*2248*	*218*	*753*	*897*	*380*
Less than £5,000	45%	63%	26%	2%	-
£5,000 – £9,999	17%	20%	16%	3%	*
£10,000 – £24,999	18%	13%	28%	17%	2%
£25,000 – £99,999	14%	3%	25%	41%	8%
£100,000+	6%	1%	6%	37%	89%
Median amount sought	*£5k*	*£2k*	*£10k*	*£50k*	*£289k*

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

Over the course of 2011 an increasing proportion of overdrafts were for less than £5000. These smaller overdrafts made up a third of applications made in Q3 2010, rising to half of applications made in Q4 2011. Early results for 2012 suggest the proportion of smaller overdrafts has fallen slightly to around 40%.

8 out of 10 overdraft applicants said that the overdraft was needed for day to day cash flow, and this varied little by size of SME. Just under half wanted the facility as a 'safety net' and, as the table below shows, this was slightly more likely to be mentioned as a reason by the smaller SMEs that had applied. This was even more the case when it came to overdrafts being required to fill a short term funding gap – 19% of SMEs with 50-249 employees applying for a facility said that this was why it was needed, compared to 38% of those with 0 employees. As in previous quarters, these overdrafts were much more likely to have been sought to support UK expansion (12%) than overseas expansion (1%).

Purpose of overdraft sought YEQ2 12 SMEs seeking new/renewed facility	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*2511*	*236*	*814*	*1014*	*447*
Working capital for day to day cash flow	79%	78%	80%	83%	81%
Safety net – just in case	44%	47%	41%	36%	38%
Short term funding gap	34%	38%	32%	23%	19%
Buy fixed assets	11%	12%	11%	8%	10%
Fund expansion in UK	12%	10%	15%	11%	17%
Fund expansion overseas	1%	1%	1%	2%	3%

Q55 All SMEs seeking new/renewed overdraft facility

Applicants with a better external risk rating were less likely to be looking for funds to fill a short term funding gap (Minimal risk applicants 22% v worse than average risk applicants 40%) and slightly more likely to be looking for a safety net (54% v 48%).

Looking at the purpose of the overdraft sought over time, working capital was the most mentioned purpose in each quarter, as the proportion wanting a 'safety net' or to fill a short term funding gap, declined:

Purpose of overdraft SMEs seeking new/renewed facility By application date	Q310	Q410	Q111	Q211	Q311*	Q411*	Q112*	Q212*
Unweighted base:	*176*	*329*	*679*	*517*	*492*	*459*	*405*	*124*
Working capital for day to day cash flow	81%	85%	90%	78%	82%	76%	79%	86%
Safety net – just in case	49%	48%	47%	46%	55%	47%	37%	35%
Short term funding gap	43%	36%	43%	34%	42%	27%	32%	31%
Fund expansion overseas	1%	1%	1%	1%	2%	*	2%	3%

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

The proportion of SMEs seeking advice before they applied remained consistently low (10%). There was no clear pattern of advice sought by date of application, and nothing to suggest that SMEs are becoming more likely to seek advice. As in previous waves, the main reason for not having sought advice was a belief that it was not needed (59% of those who did not seek advice), while smaller SMEs and first time applicants remained more likely to say they did not know who to approach, or did not think it would make any difference.

On small base sizes, there is no evidence that those who sought advice were more likely to end the process with a facility.

4% of applicants had not received a response by the time of our survey and are excluded from the remainder of this analysis. Most, 82%, received a response within a week of applying, and while larger applicants continue to wait slightly longer for a response, overall this varies relatively little by date of application.

Overdraft applications – a sector summary

Base sizes now allow for some analysis of the type of overdraft facility requested by sector. Type 1 overdraft events were experienced by between 14% of those in Agriculture, and 4% of those in Health.

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

Overdraft activity YEQ2 12 all Type 1	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*257*	*248*	*425*	*312*	*197*	*217*	*429*	*176*	*250*
Renewing overdraft for same amount	41%	50%	42%	45%	40%	38%	54%	43%	52%
Applied for first ever overdraft	22%	28%	34%	20%	37%	34%	25%	28%	32%
Seeking to increase existing overdraft	27%	12%	18%	24%	15%	18%	12%	23%	10%

Q52 All SMEs seeking new/renewed overdraft facility

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

Those in Agriculture and Wholesale/Retail were seeking the highest median overdraft amount, at just under £8,000. The lowest median amount sought was £2,000 but the Other Community sector.

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

Those in Agriculture and Health were the most likely to have sought advice for their application (18%), those in Transport were the least likely.

Loan applications

This section covers all those that made an application for a new or renewed loan facility during the 12 months prior to interview. All percentages quoted are therefore just of this group, which overall represents around 4% of all SMEs or around 193,000 businesses.

There have been fewer loan events reported than overdraft events. As a result, even for year ending Q2 2012, the same granularity of analysis is not always possible as for other areas of the report. However we are now able to report the experience of 0 employee applicants separately from those with 1-9 employees.

A change was made to the answers available for Q2 2012. The two 'applying for new loan' codes that did not relate to first ever loans ('not had one recently' and 'for a new purchase') have been combined to 'We were applying for a new loan but not our first', and an additional code has been added to cover setting up new loan facilities after switching banks. In Q2 2012, 3% of loan applicants said that a change of banks had prompted their loan application, and this varied little by size.

The majority of loan applications/renewals (66%) were for a new loan, with 1 in 3 saying this was their first ever loan. As the table below shows, this was more likely to be the case for smaller SMEs that had applied:

Nature of loan event YEQ2 12 SMEs seeking new/renewed facility	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*1353*	*120*	*418*	*516*	*299*
Applied for first ever loan	36%	44%	29%	14%	7%
New loan but not our first	30%	27%	32%	39%	41%
Renewing loan for same amount	15%	12%	18%	22%	26%
Topping up existing loan	9%	9%	7%	9%	10%
Refinancing onto a cheaper deal	6%	5%	9%	10%	12%
Consolidating existing borrowing	3%	2%	4%	5%	3%

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

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

Analysis in previous reports has shown that the application process for a loan and the eventual outcome varied by the reason for application. The table below shows the proportion of applications made for each reason, over time, for those quarters where sufficiently robust sample sizes exist. Most applications are for new facilities (the first two rows of the table) and over time, a higher proportion of these new facilities have been first ever loans:

Nature of loan event SMEs seeking new/renewed facility By application date	Q310	Q410	Q111	Q211	Q311*	Q411*	Q112*
Unweighted base:	*121*	*172*	*302*	*273*	*245*	*243*	*163*
Applied for first ever loan	27%	35%	40%	33%	40%	28%	46%
New loan but not our first	37%	38%	29%	29%	27%	38%	22%
Renewing loan for same amount	6%	14%	17%	17%	10%	10%	17%
Topping up existing loan	13%	5%	7%	8%	6%	18%	10%
Refinancing onto a cheaper deal	6%	4%	4%	6%	13%	4%	3%
Consolidating existing borrowing	11%	4%	3%	5%	3%	2%	2%

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

Compared to overdraft applications/renewals, those for loans were slightly less likely to be made to the SME's main bank, although most of them were (88%) and there was some evidence that, over time, this proportion has been increasing (95% for applications made in Q4 2011).

The <u>median</u> amount sought was unchanged from previous waves at £10,000, albeit that the median application made by the largest SMEs (50-249 employees) having increased somewhat to £564,000 for YEQ1 2012, returned to closer to previous levels (having been £493,000 in Q1-4):

Amount initially sought, where stated YEQ2 12 SMEs seeking new/renewed facility	Total	0 emps	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*1226*	*117*	*383*	*461*	*265*
Less than £5,000	16%	21%	10%	2%	*
£5,000 – £9,999	21%	28%	14%	2%	-
£10,000 – £24,999	35%	44%	26%	10%	1%
£25,000 – £99,999	13%	5%	24%	30%	9%
£100,000+	15%	2%	26%	55%	89%
Median amount sought	*£10k*	*£9k*	*£23k*	*£98k*	*£490k*

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

A new question, asked from Q4 2011, sought to understand the extent to which the funding applied for represented the <u>total</u> funding required, and how much the business was contributing. Overall, around three quarters of respondents (70%, excluding DK) said that they were looking for <u>all</u> of the funding from the bank, and this was more common amongst applicants with 0-9 employees (71%) than those with 10-249 employees (64%). Indications at this stage are that first time loan applicants were more likely to be putting up at least some of the funding required, with 61% of these applicants looking for <u>all</u> of the funding from the bank.

Overall, and in particular amongst larger SMEs seeking a loan facility, these funds were likely to have been sought either to fund expansion in the UK (26%, and increasing by size of applicant), or to purchase fixed assets (25%). The largest applicants were the most likely to be buying premises:

Purpose of loan YEQ2 12 SMEs seeking new/renewed facility	Total	0 emps	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*1353*	*120*	*418*	*516*	*299*
Fund expansion in UK	26%	26%	26%	27%	37%
Buy fixed assets	25%	26%	23%	26%	22%
Buy motor vehicles	19%	24%	14%	7%	4%
Develop new products/services	17%	19%	14%	14%	10%
Buy premises	16%	6%	27%	30%	37%
Replace other funding	13%	11%	15%	20%	13%
Fund expansion overseas	2%	1%	4%	4%	4%
Take over another business	2%	1%	3%	2%	5%

Q150 All SMEs seeking new/renewed loan facility

Analysed by application date, recent applications have been more likely to be for funding for fixed assets (now as common as funding UK expansion):

Purpose of loan SMEs seeking new/renewed facility- By application date	Q310	Q410	Q111	Q211	Q311*	Q411*	Q112*
Unweighted base:	*121*	*172*	*302*	*273*	*245*	*243*	*163*
Fund expansion in UK	37%	17%	28%	19%	27%	32%	33%
Buy fixed assets	26%	21%	21%	13%	33%	40%	32%
Buy motor vehicles	17%	18%	22%	24%	20%	8%	19%
Develop new products/services	12%	20%	15%	20%	23%	8%	14%
Fund expansion overseas	6%	1%	3%	2%	*	5%	1%

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

Whereas 10% of overdraft applicants had sought external advice before applying, more loan applicants had done so, albeit still a minority (18%). It is the smallest applicants who are much less likely to have sought advice: 13% of applicants with 0 employees sought advice, compared to 24% with 1-9 employees, 32% with 10-49 employees and 26% of those with 50-249 employees There remained little variation in advice sought by whether the application was a renewal or a new loan, or by date of application.

Half of applicants who had not sought advice said that it was because they did not need it. Smaller applicants were more likely to mention they did not know who to ask, while larger ones were more likely to say that they had been successful in the past.

On small base sizes, there is some evidence that those who sought advice were more likely to end the process with a facility and that those with an average, or worse than average risk rating were somewhat more likely to be successful if they had taken advice. This may not be due entirely to the advice taken, as there may be other factors about SMEs that sought advice that also make them more likely to be successful. There is no such evidence for overdrafts.

3% of applicants had not received a response by the time of our survey and are excluded from the remainder of this analysis. Most, 72%, received a response within a week of applying, and while larger applicants continue to wait slightly longer for a response, overall this varies relatively little by date of application.

Loan applications – a sector summary

Base sizes now allow for some analysis of the type of loan facility requested by sector. Having a Type 1 loan event varied relatively little by sector – from 3% in Construction and Property/Business Services to 7% in Agriculture and Hotels and Restaurants.

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

Loan activity YEQ2 12 all Type 1	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*136*	*162*	*171*	*143*	*147*	*125*	*195*	*147*	*127*
Applied for first ever loan	26%	27%	39%	39%	32%	34%	38%	41%	39%
New loan (other)	37%	41%	35%	19%	24%	39%	23%	22%	34%
Renewing loan for same amount	20%	16%	10%	25%	14%	13%	14%	4%	14%

Q149 All SMEs seeking new/renewed loan facility

Most approached their main bank (89%). The least likely to do so were applicants in Manufacturing (78% of applications were made to main bank) and Hotels and Restaurants (77% of applications were made to main bank).

The highest median loan amounts were sought by applicants from the Hotels and Restaurants sector (£28k) and Manufacturing (£23k). The lowest median amount sought was from Construction (£7k). Those in Agriculture and Construction were more likely to be seeking all the funding required from the bank, applicants from Property/Business Services and Health were less likely.

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

Advice was sought by a third of those in Manufacturing, Wholesale/Retail and Hotels and Restaurants , compared to 10% in Construction and 8% in Other Community.

8. The outcome of the application/ renewal

This chapter details

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

Key findings

The initial response from the bank to a Type 1 event was to offer two thirds of overdraft applicants and half of loan applicants THE facility they wanted. This was more likely if the applicant was renewing an existing facility, and/or had a minimal external risk rating

Those offered **less than they wanted** (8% overdrafts, 5% loans) were more likely to recall being given a reason for the decision if they had applied for a loan (94% of such applicants) than for an overdraft (76%). Security and credit history issues were likely to have been given as reasons behind the decision. Loan applicants were more likely to think the advice they had been offered by the bank at this stage was good (54%) than overdraft applicants were (26%)

Those reporting being offered what they saw as unfavourable **terms and conditions** (5% overdrafts, 8% loans) said this related to security issues (especially larger applicants) or the proposed interest rate (for loans in particular, and amongst smaller applicants)

A quarter of overdraft applicants and a third of loan applicants reported being **initially declined** for the facility they had applied for. This was more likely if the applicant was seeking their first ever facility, and/or had a worse than average external risk rating

Around a quarter of those declined said they had not been given a reason, with credit history and security issues mentioned by those who had. Half of those given a reason felt they had been given enough information to explain the decision made

Only a minority of those declined said that the bank had either offered them alternative forms of funding, or pointed them towards alternative sources of external finance (13% for overdrafts declined, 9% for loans declined). The majority rated the advice provided by the bank at this point as poor (68% for overdrafts, 74% for loans). 11% of those declined for an overdraft, and 2% of those declined for a loan said that the bank had referred them to other sources of help or advice

Awareness of the appeals process remains limited amongst eligible SMEs – 14% for those declined for an overdraft and 8% for loans, and very few of those aware had used the appeals process

By the end of the application process, 75% of overdraft applicants and 59% of loan applicants had a facility. For both loans and overdrafts, this was more likely if the applicant had more than 10 employees, a minimal or low external risk rating and/or was looking to renew an existing facility

More detailed analysis, taking into account the profile of applicants in each quarter, suggests that more recent overdraft applications were slightly more likely to be successful than might be expected, but there was no discernible pattern for loans over time

Once automatic overdraft renewals were taken into consideration, the proportion of successful overdraft applicants increased to 9 out of 10

Analysis bringing loan and overdraft applications together showed that those applying for a renewal of facilities were initially almost twice as likely as those applying for new funds to be offered what they wanted, while by the end of the process 90% of renewal applications had resulted in a facility compared to 58% of applications for new funds

When applications for *new* funds were further split between first time and other applicants, clear differences emerged: 43% of first time applicants ended the process with a facility, compared to 73% of non-first time applicants applying for new funds

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

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

The tables below record the initial response from the bank and show most applicants being offered a facility. The initial response to 64% of overdraft applications was to offer the SME what it wanted, compared to 53% of loan applications. Bigger SMEs remained much more likely to be offered what they wanted at this initial stage:

Initial response (Overdraft): YEQ2 12 SMEs seeking new/renewed facility	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*2416*	*229*	*784*	*974*	*429*
Offered what wanted	64%	60%	67%	82%	89%
Offered less than wanted	8%	8%	9%	7%	4%
Offered unfavourable terms & conditions	5%	4%	6%	4%	5%
Declined by bank	23%	28%	19%	7%	2%

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

Initial response (Loan): YEQ2 12 SMEs seeking new/renewed facility	Total	0 emps	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*1275*	*118*	*400*	*475*	*282*
Offered what wanted	53%	50%	54%	68%	80%
Offered less than wanted	5%	4%	5%	7%	6%
Offered unfavourable terms & conditions	8%	7%	8%	12%	8%
Declined by bank	34%	39%	32%	13%	6%

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

SMEs more likely to initially be offered what they wanted included those applying to renew an existing overdraft (86%) or loan (79%), and those with a minimal external risk rating (86% overdraft, 75% loan). Those more likely to be met with an initial decline included those applying for their first ever overdraft (59%) or loan (48%) or those with a worse than average external risk rating (29% initially declined if applying for an overdraft, 41% if applying for a loan).

The table below looks at the initial response to the overdraft / loan application by the date of application. Initial results for applications made in Q2 2012 suggest they were less likely to be successful, but the base size is small and future waves will provide more robust data on such applications. These figures broadly follow the pattern of final outcome for such applications reported later, and, as a result, no further analysis has been undertaken on the initial response to the application:

Initial response: SMEs seeking new/renewed overdraft facility – Over time	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011*	Q4 2011*	Q1 2012*	Q2 2012*
Unweighted base (Overdraft):	*176*	*324*	*670*	*489*	*476*	*440*	*385*	*107*
Offered what wanted and took it	74%	65%	64%	62%	66%	75%	65%	45%
Any issues (amount or T&C)	10%	11%	14%	16%	15%	8%	10%	19%
Declined overdraft	15%	25%	22%	22%	19%	17%	25%	36%

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

Initial response: SMEs seeking new/renewed loan facility – Over time	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011*	Q4 2011*	Q1 2012*
Unweighted base (Loan)	*120*	*169*	*290*	*253*	*231*	*229*	*149*
Offered what wanted and took it	51%	50%	50%	64%	41%	55%	62%
Any issues (amount or T&C)	21%	15%	8%	12%	17%	14%	5%
Declined loan	28%	35%	42%	24%	42%	31%	33%

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

The subsequent journey

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

Journey summary YEQ2 12 SMEs seeking new/renewed facility	Overdraft	Loan
Unweighted base:	*2416*	*1275*
Initially offered what they wanted and went on to take the facility with no issues	63%	50%
Initially offered what they wanted, but had 'issues' before they got their facility	<1%	2%
Had issues with the initial offer, and now have a facility 'after issues'	10%	5%
Initially turned down, but now have a facility	1%	2%
Had issues with the initial offer made so took alternative funding instead	<1%	1%
Were initially turned down, so took alternative funding instead	4%	5%
Had issues with the initial offer made and now have no facility at all	3%	1%
Initially turned down and now have no facility at all	18%	27%

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

The subsequent journey – overdrafts

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

- Those **offered what they wanted** were more likely to be seeking a renewal of facilities (64% v 48% of all applicants) and unlikely to be applying for their first ever overdraft (13% v 27% of all applicants). They were more likely to have a minimal/low risk rating (28% v 23% overall). 47% had employees (44% overall), and they were the least likely to be a Start-up (11% v 20%). They were the least likely to be seeking an overdraft limit of £5,000 or less (36% v 44% overall)

- A third of those **offered less than they wanted** were looking to increase an existing overdraft (39% v 17% of all applicants). They were no different in terms of size (44% had employees v 44%) and were as likely to have a minimal/low external risk rating (21% v 23%), but they were slightly more likely to be a Start-up (27% v 20% overall)

- Half of those **who had issues with the original offer** were either seeking a first overdraft or an increase in an existing one (48% v 44% of all applicants). They were typically bigger businesses (51% had employees v 44%) with the best external risk rating (30% minimal/low v 23%), and 58% had been in business for 10 years or more (v 41% overall). They were the most likely to be seeking an overdraft limit of £25,000 or more (28% v 20% overall)

- Those **initially turned down** for an overdraft had the most distinctive profile. They were smaller (32% had employees v 44% of all applicants) and almost half, 47%, were Start-ups (v 20% overall). 6% had a minimal/low risk rating (v 23%), indeed, 75% of those initially declined had a worse than average external risk rating (v 49% of all applicants). Just over two thirds, 70% were applying for their first ever overdraft (v 27%), with 69% applying for a facility of £5,000 or less (v 44% overall)

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

Summarised below for YEQ2 12 is what happened after the bank's initial response to the overdraft application and any issues around the application. Base sizes for some groups remain small, but each report is able to provide some more granularity.

Initial offer	Subsequent events – overdraft
Offered what wanted (64% of applicants, 5% of **all** SMEs)	98% of those offered the overdraft they wanted went on to take the facility, with 2% experiencing any delays or problems (typically supplying further information, or valuations and/or having to wait for a final decision or legal work to be completed). 6 applicants decided not to take up the facility offered. Almost all received the full limit they had originally asked for.
Issue: Offered less than wanted (8% of applicants, 1% of **all** SMEs)	These SMEs were typically offered 50-90% of what they had asked for. 24% said they were not given a reason for being offered less (excluding those who couldn't remember). The main reasons given were: • A weak balance sheet (20% overall, and more likely for smaller applicants) • No/insufficient security (21% overall) • Credit history issues (22% overall, and more likely for 0 employee applicants) A quarter, 26%, thought the advice they were offered was 'good', 42% thought it was 'poor' while 11% did not get any advice at this stage, and this varied relatively little by size. In the end, most, 79% accepted the lower offer, almost all with the bank they originally applied to. 9% managed to negotiate a better offer, again almost all with the original bank. 4% took another form of finance and 9% now have no facility. In the end, most of those who now have an overdraft obtained between 50-90% of the amount they had originally sought, typically in line with the bank's initial response.

Initial bank response	Subsequent events – overdraft
Issue: Offered unfavourable T&C (5% of applicants, <1% of **all** SMEs)	The 'unfavourable' terms and conditions were most likely to relate to: • Security – the amount or type sought, 32% of these applicants but much less of an issue for those with 0 employees (8%) than those with employees (50%+) • The proposed interest rate – 31% • The proposed fee – 21% A quarter of such applicants, 28%, said they managed to negotiate a better deal than the one originally offered – almost all of them at the bank they originally applied to. A quarter, 26%, accepted the deal they were offered (almost all at the original bank). 4% took other funding, while just under half, 43%, decided not to proceed with an overdraft

The subsequent journey – those who were declined for an overdraft

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

Initially declined	Subsequent events – overdraft
Reasons for decline	22% of those initially declined said that they had not been given a reason (excluding those who could not remember the reasons given). 36% said the decline related to their personal and/or business credit history (mentioned more by smaller SMEs), while 10% mentioned issues around security (mentioned more by larger SMEs). 1 in 10 larger SMEs that were initially declined mentioned the SME having too much borrowing already.
How decline was communicated	These respondents were asked how the initial decision was communicated to them and whether they were told enough to explain why the decision had been made. In three-quarters of these cases (76%) the decision was communicated verbally, while a third (30%) received a written response (a few had both). Just under half (45%) felt that they had not been given enough information to explain the decision.
Advice and alternatives	13% of those initially declined said that the bank had offered them an alternative form of funding to the declined overdraft, or suggested any alternative sources of external finance, and this was slightly less common for smaller applicants. Where an alternative was offered, this was most likely to be a loan or a business credit card (or invoice finance for larger applicants). Two thirds thought the advice offered at that stage had been poor (68%), while 14% said that it had been good and 8% said they were not offered any advice (with little variation by size). More generally, 11% of those initially declined reported that they had been referred to any sources of help or advice by the bank, while a further 9% sought their own external advice without a recommendation. On a small base of advice seekers, around two-thirds, 64%, found this external advice of use.

Initially declined	Subsequent events – overdraft
Appeals	From April 2011, a new appeals procedure has been in operation. For the year ending Q2 2012, 218 respondents have been declined for an application made since that time. 14% said they were made aware of the appeals process. One had appealed, but the bank did not change its decision. Those that had not appealed typically cited the view that they did not think it would have changed anything.
Outcome	At the end of this period, 3% of the SMEs initially declined had managed to secure an overdraft, typically with the original bank rather than an alternative supplier. Qualitatively these SMEs manage to secure most of the funding they had initially sought. Around a fifth, 18%, had secured alternative funding, with mentions of friends/family and personal borrowing, but the largest group, 79% had no funding at all, and this was more likely if the applicant was a smaller SME.

The final outcome – overdraft

At the end of the various 'journeys' described above, respondents reported on the final outcome of their application for a new or renewed overdraft facility. Most of these applicants, 63%, had the overdraft facility they wanted, and a further 12% secured an overdraft after having issues about the amount or the terms and conditions of the bank's offer. 21% of all applicants ended the process with no overdraft – as the table below shows, this is the equivalent of 1% of **all** SMEs. Note that this table does **not** include automatic renewal of overdrafts.

As already identified, a third of SMEs appear disinclined to borrow, and these 'permanent non-borrowers' have been excluded from the final column of the table:

Final outcome (Overdraft): YEQ2 12 SMEs seeking new/renewed facility	All overdraft Type 1 applicants	All SMEs	All SMEs excl. PNBs
Unweighted base:	*2416*	*20,088*	*15,706*
Offered what wanted and took it	63%	4%	7%
Took overdraft after issues	12%	1%	1%
Have overdraft (any)	*75%*	*5%*	*8%*
Took another form of funding	4%	*	*
No facility	21%	1%	2%
Did not have a Type 1 overdraft event	-	*93%*	*89%*

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

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

Final outcome (Overdraft): YEQ2 12 SMEs seeking new/renewed facility	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*2416*	*229*	*784*	*974*	*429*
Offered what wanted and took it	63%	60%	64%	79%	86%
Took overdraft after issues	12%	9%	16%	13%	9%
Have overdraft (any)	*75%*	*69%*	*80%*	*92%*	*95%*
Took another form of funding	4%	5%	4%	2%	1%
No facility	21%	26%	17%	6%	4%

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

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

Final outcome (Overdraft): YEQ2 12 SMEs seeking new/renewed facility	Total	Min	Low	Average	Worse/Avge
Unweighted base:	*2416*	*390*	*567*	*659*	*631*
Offered what wanted and took it	63%	84%	79%	70%	59%
Took overdraft after issues	12%	12%	14%	14%	10%
Have overdraft (any)	*75%*	*96%*	*93%*	*84%*	*69%*
Took another form of funding	4%	1%	*	2%	5%
No facility	21%	3%	7%	14%	26%

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

There are some clear differences in success rate by sector, with applicants in Construction the least likely to have been successful, and those in Property/Business Services and Health the most likely:

Final outcome (Overdraft): YEQ2 12 SMEs seeking new/renewed facility	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*251*	*234*	*411*	*301*	*191*	*206*	*411*	*170*	*241*
Offered what wanted and took it	66%	67%	58%	64%	56%	65%	66%	63%	61%
Took overdraft after issues	13%	6%	5%	15%	14%	7%	16%	18%	14%
Have overdraft (any)	*79%*	*73%*	*63%*	*79%*	*70%*	*72%*	*82%*	*81%*	*75%*
Took another form of funding	4%	6%	6%	7%	4%	4%	3%	9%	1%
No facility	17%	20%	31%	15%	26%	24%	16%	10%	25%

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

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

Final outcome (Overdraft): YEQ2 12 SMEs seeking new/renewed facility	Total	1st overdraft	Increased overdraft	Renew overdraft
Unweighted base:	*2416*	*360*	*465*	*1330*
Offered what wanted and took it	63%	28%	60%	85%
Took overdraft after issues	12%	10%	25%	8%
Have overdraft (any)	*75%*	*38%*	*85%*	*93%*
Took another form of funding	4%	9%	7%	*
No facility	21%	54%	8%	7%

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

The final piece of analysis for YEQ2 12 shows outcome by age of business. The older the business, the more likely they were to have been offered what they wanted. Start-ups were the least likely to have been successful, and this is closely linked to the table above: 64% of Start-ups who applied were looking for their first overdraft and half, 49% of all first time applications were made by Start-ups :

Final outcome (Overdraft): YEQ2 12 SMEs seeking new/renewed facility By age of business	Starts	2-5 yrs	6-9 yrs	10-15 yrs	15+ yrs
Unweighted base:	*174*	*286*	*321*	*411*	*1224*
Offered what wanted and took it	33%	65%	68%	70%	78%
Took overdraft after issues	11%	10%	13%	17%	10%
Have overdraft (any)	*44%*	*75%*	*81%*	*87%*	*88%*
Took another form of funding	8%	5%	4%	4%	1%
No facility	48%	20%	15%	9%	11%

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

Final outcome by date of application – overdrafts

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

This showed that the proportion of applicants being offered the overdraft they wanted and taking it was fairly constant between Q4 2010 and Q4 2011. However, early results for Q1 and Q2 2012 suggest an increase in the proportion ending the process with no facility, which had hitherto been fairly constant:

Final outcome (Overdraft): SMEs seeking new/renewed facility By date of application	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011*	Q4 2011*	Q1 2012*	Q2 2012*
Unweighted base:	*176*	*324*	*670*	*489*	*476*	*440*	*385*	*107*
Offered what wanted and took it	72%	64%	63%	61%	64%	73%	65%	41%
Took overdraft after issues	11%	13%	14%	13%	15%	7%	10%	21%
Have overdraft (any)	*83%*	*77%*	*77%*	*74%*	*79%*	*80%*	*75%*	*62%*
Took another form of funding	2%	7%	6%	6%	4%	2%	2%	5%
No facility	15%	16%	17%	20%	17%	18%	23%	33%

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

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

Over the quarters for which robust data is available, the profile of applicants by size or age of business has followed no clear pattern. An increasing proportion of applicants had a worse than average external risk rating – from 43% of applications made in Q4 2012 to 53% of applications made in Q4 2011 (and indicative data for applications in 2012 suggests this has increased again). Early data also indicates that applications in 2012 were more likely to be for a first ever overdraft – these are both trends that might be expected to adversely affect the outcome of an application.

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

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

Analysis using this broad profile showed a difference between the overdraft success rate predicted by the equation and that achieved for applicants in the most recent quarters (note that there are currently too few applications made in Q2 2012 for robust analysis). This shows that for the 3 most recent quarters for which data is available, based on a wide range of factors, the overdraft success rate is equal to, or slightly better than the model predicted and thus recent applicants were slightly more likely to have been successful with their overdraft application:

Final outcome (Overdraft): SMEs seeking new/renewed facility By date of application	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011*	Q4 2011*	Q1 2012*
Unweighted base:	*176*	*324*	*670*	*489*	*476*	*440*	*385*
Have overdraft (any)	83%	77%	77%	74%	79%	80%	75%
Predicted success rate from model	81%	75%	78%	79%	77%	80%	73%
Difference	+2	+2	-1	-5	+2	0	+2

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

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

Analysis of the overdraft facility granted by application date showed an increasing proportion of facilities were agreed for £5,000 or less. Around 1 in 5 facilities were for more than £25,000 and this changed relatively little over time (there are too few applications made in Q2 2012 for which the amount granted is known to report at this stage):

Overdraft facility granted By date of application	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011*	Q4 2011*	Q1 2012*
Unweighted base:	*154*	*278*	*577*	*424*	*413*	*391*	*333*
Less than £5,000	33%	35%	43%	47%	51%	50%	44%
£5-25,000	47%	44%	32%	33%	31%	28%	34%
£25,000+	20%	21%	25%	21%	17%	22%	21%

Overdraft facility granted – all successful applicants that recall amount granted

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

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

The impact of automatic renewals on overdraft success rates

New questions, asked from Q4 2011, revealed that a considerable number of SMEs had an overdraft that had been automatically renewed by their bank. Such SMEs can be considered to be part of the 'Have an overdraft (any)' group, and thus impact on overall success rates. The table below shows the results for Q4 2011 to Q2 2012 combined, and the impact on success rates when the automatically renewed overdrafts are included. There were many more overdraft renewals than Type 1 events in both quarters, so the impact is considerable.

Final outcome (Overdraft): Q4 2011 – Q2 2012 only	Type 1 events	Type 1 + automatic renewal
Unweighted base:	***1725***	***4023***
Offered what wanted and took it	64%	23%
Took overdraft after issues	12%	4%
Automatic renewal	*-*	*64%*
Have overdraft (any)	***76%***	***91%***
Took another form of funding	3%	1%
No facility	21%	8%

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

For Q4 11 to Q2 12 combined, including those that had had an automatic renewal increased the success rate from 76% to 91%. The equivalent increase for all SMEs when automatic renewals were included was from 5% to 17%.

The subsequent journey – loans

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

- Those **offered what they wanted** were more likely to have a minimal/low risk rating (27% v 21% overall) and to be seeking a renewal of facilities (22% v 14% of all applicants). 46% had employees (43% overall). Almost half, 46%, were looking for a loan of less than £10,000 (v 38% overall)
- Half of those **offered less than they wanted** were looking for their first ever loan (52% v 36% of all applicants). They were less likely to have a minimal/low external risk rating (14% v 21%). They were typically slightly bigger businesses – 51% had employees (v 43%)
- Those **who had issues with the original offer** were typically seeking a new loan but not their first (47% v 30% of all applicants), and they were unlikely to be a first time applicant (9% v 36%). They were slightly bigger businesses (48% had employees v 43%) with a better external risk rating (39% minimal/low v 21%), and unlikely to be a Start-up (4% v 25% overall). A quarter were applying for a facility in excess of £100,000 (27% v 14% overall)
- Those **initially turned down** for a loan had the most distinctive profile. They were smaller (35% had employees v 43% of all applicants), and almost half were Start-ups (41% v 25% overall). 7% had a minimal/low risk rating (v 22%), indeed 62% of those initially declined had a worse than average external risk rating (v 47% of all applicants). Half, 52%, were applying for their first ever loan (v 36%), and a third, 32%, were looking for a facility of less than £10,000 (v 38% overall)

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

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

Initial bank response	Subsequent events – loan
Offered what wanted (53% of applicants, 2% of **all** SMEs)	94% of those offered what they wanted went on to take the loan with no problems, 4% took the loan after some issues (typically having to wait for a decision/legal work/valuations etc.). Almost all took the full amount they had originally asked for. 1% of these applicants decided not to proceed with the loan they had been offered.
Issue: Offered less than wanted (5% of applicants, <1% of **all** SMEs)	These SMEs were offered between 20-90% of what they asked for. The main reasons for being offered less were around security issues (31%) and unconvincing financial forecasts (31% and mentioned more by smaller applicants) A quarter of larger applicants said they were told they had applied for too much. 6% were given no reason. On a small base, the advice offered at this stage was more likely to be rated as good (54%) than poor (31%) while 2% were not given any advice. 7% managed to negotiate a better deal, predominantly with the original bank. Half, 58%, accepted the lower amount offered (almost all with the original bank applied to). 21% took other borrowing and 14% have no facility. Most of the SMEs in this group who obtained a loan received more than 50% of the amount they had originally sought.
Issue: Offered unfavourable T&C (8% of applicants, <1% of **all** SMEs)	The unfavourable terms (excluding those who didn't know) typically related to the proposed interest rate (64%). Issues around security (level, type requested and/or cost) were mentioned by 25% of these applicants, and the proposed fee by a third (23%). Smaller applicants were more likely to mention the interest rate, larger applicants the fee and security. 13% managed to negotiate a better deal (at either the original bank or another bank) while 12% accepted the deal offered, most with the original bank. Both these outcomes were more likely for larger applicants. 6% took another form of funding. 70% of applicants had no facility, and this was more likely to be the outcome for smaller applicants For those with a facility, the amount of such loans was typically in line with their original request.

The subsequent journey – those that were declined for a loan

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

Initially declined	Subsequent events – loan
Reasons for decline	24% of the SMEs that were initially declined said that they had not been given a reason for the decline (excluding those who could not remember the reasons given). 29% said that the decline related to their personal and/or business credit history (especially smaller applicants), while 15% mentioned issues around security (typically larger applicants). Around 1 in 10 said that the bank had not been satisfied with their financial forecasts and/or they had too much existing borrowing.
How decline was communicated	These respondents were asked how the loan decision had been communicated to them, and whether they were told enough to explain why the decision had been made. Indicative results are similar to those for the equivalent overdraft applications, in that 78% said the decision was communicated verbally, while 30% received a written response (a few received both). Those declined for a loan were as likely to say that they had been given enough information to explain the decision (51%), as those informed about an overdraft decline (55%).
Advice and alternatives	9% of those initially declined said that the bank had offered them an alternative form of funding to the declined loan, or suggested any alternative sources of external finance. Three quarters (74%) thought that the advice the bank had offered at that stage had been poor, 6% thought it had been good, and 10% had not been offered any advice. More generally, 2% of those initially declined reported that they had been referred to any other sources of help or advice by the bank, while a further 16% sought their own external advice without a recommendation. On a small base, around half, 54%, found this external advice of use, with larger applicants more likely to do so.

Initially declined	Subsequent events – loan
Appeals	From April 2011, a new appeals procedure was introduced. In the year ending Q2 2012 187 respondents have been declined for a loan application made since that time. Amongst this group, 8% said that they were made aware of the appeals process by their bank. Of these 23 declined applicants, 1 appealed and the bank changed its decision, 5 appealed but the decision was upheld, 1 appealed but had not heard yet, and 16 did not appeal, typically citing the view that they did not think it would have changed anything, and/or they were too busy keeping the business going.
Outcome	At the end of this period, 5% of those initially declined for a loan had managed to secure a loan with either the original bank or a new supplier. 16% had secured alternative funding, with friends/family and/or personal borrowing most likely to be mentioned. 80% of those initially declined did not have a facility at all. Larger applicants were more likely to have been successful.

The final outcome – loans

At the end of the various 'loan' journeys described above, respondents reported on the final outcome of their application for a new or renewed loan facility. Half of these applicants, 50%, had the loan facility they wanted. 34% of applicants ended the process with no facility – as the table below shows, this is the equivalent of 1% of all SMEs.

As already identified, a third of SMEs appear disinclined to borrow and these 'permanent non-borrowers' have been excluded from the final column of the table:

Final outcome (Loan): YEQ2 12 SMEs seeking new/renewed facility	All loan Type 1 applicants	All SMEs	All SMEs excl. PNBs
Unweighted base:	*1275*	*20,088*	*15,706*
Offered what wanted and took it	50%	2%	3%
Took loan after issues	9%	*	*
Have loan (any)	*59%*	*2%*	*3%*
Took another form of funding	7%	*	*
No facility	34%	1%	2%
Did not have a Type 1 loan event	-	*96%*	*94%*

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

By size of business, smaller loan applicants remained less likely to have a facility. Bigger applicants were more likely to end up with a loan, but a slightly higher proportion of them took it after having had issues with the terms, or the amount of the initial offer, something that was less likely to happen to applicants with 0 employees:

Final outcome (Loan): YEQ2 12 SMEs seeking new/renewed facility	Total	0 emps	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*1275*	*118*	*400*	*475*	*282*
Offered what wanted and took it	50%	48%	50%	62%	73%
Took loan after issues	9%	3%	16%	20%	19%
Have loan (any)	*59%*	*51%*	*66%*	*82%*	*92%*
Took another form of funding	7%	8%	7%	3%	2%
No facility	34%	41%	28%	15%	6%

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

As with overdrafts, there was a clear difference in outcome by external risk rating. 8 out of 10 applicants with a minimal external risk rating now have a loan, compared to half of applicants with a worse than average external risk rating:

Final outcome (Loan): YEQ2 12 SMEs seeking new/renewed facility	Total	Min	Low	Avge	Worse/ Avge
Unweighted base:	*1275*	*191*	*279*	*352*	*353*
Offered what wanted and took it	50%	72%	66%	56%	46%
Took loan after issues	9%	11%	11%	8%	9%
Have loan (any)	*59%*	*83%*	*77%*	*64%*	*55%*
Took another form of funding	7%	*	6%	5%	10%
No facility	34%	17%	17%	31%	35%

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

The table below shows that the Other Community and Construction sectors were more likely to end the process without a facility, while those in Wholesale/Retail were the most likely to have been offered what they wanted:

Final outcome (Loan): YEQ2 12 SMEs seeking new/renewed facility	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*130*	*146*	*164*	*137*	*137*	*121*	*180*	*139*	*121*
Offered what wanted and took it	67%	45%	45%	67%	37%	52%	54%	63%	25%
Took loan after issues	7%	17%	5%	13%	23%	5%	12%	8%	3%
Have loan (any)	*74%*	*62%*	*50%*	*80%*	*60%*	*57%*	*56%*	*71%*	*28%*
Took another form of funding	5%	12%	10%	4%	6%	9%	5%	6%	8%
No facility	21%	25%	40%	17%	34%	35%	29%	24%	64%

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

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

Final outcome (Loan): YEQ2 12 SMEs seeking new/renewed facility	Total	1st loan	New loan	Renew loan
Unweighted base:	***1275***	***249***	***489***	***258***
Offered what wanted and took it	50%	42%	47%	76%
Took loan after issues	9%	6%	7%	10%
Have loan (any)	***59%***	***48%***	***54%***	***86%***
Took another form of funding	7%	9%	9%	1%
No facility	34%	43%	37%	14%

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

As with overdrafts, there were clear differences in outcome for loan applications by age of business. As for overdrafts, there is a strong link between Start-ups and first-time applications. 76% of Start-ups that applied were applying for their first loan, and 51% of all first time loan applications came from Start-ups:

Final outcome (Loan): YEQ2 12 SMEs seeking new/renewed facility. By age of business	Starts	2-5 yrs	6-9 yrs	10-15 yrs	15+ yrs
Unweighted base:	***119***	***164***	***166***	***208***	***618***
Offered what wanted and took it	36%	47%	52%	52%	65%
Took loan after issues	7%	6%	11%	11%	11%
Have loan (any)	***43%***	***53%***	***63%***	***63%***	***76%***
Took another form of funding	8%	8%	7%	6%	6%
No facility	49%	39%	31%	32%	18%

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

Final outcome by date of application – loans

For loan applicants, sample sizes dictate that data is only reported by date of application up to Q1 2012. This shows that three of the last four quarters have had an overall success rate above the current average success rate (59%):

Final outcome (Loan): SMEs seeking new/renewed facility By date of application	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011*	Q4 2011*	Q1 2012*
Unweighted base:	*120*	*169*	*290*	*253*	*231*	*229*	*149*
Offered what wanted and took it	49%	48%	48%	62%	39%	52%	54%
Took loan after issues	17%	6%	7%	7%	13%	10%	8%
Have loan (any)	*66%*	*54%*	*55%*	*69%*	*52%*	*62%*	*62%*
Took another form of funding	9%	6%	11%	7%	4%	7%	7%
No facility	26%	39%	34%	24%	44%	32%	31%

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

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

Over the quarters for which robust data is available, the profile of applicants by *size*, risk rating or purpose of loan has followed no clear pattern. For most of 2011, applications were more likely to have come from younger businesses (under 10 years).

Q2 2011, where the success rate appears different to those in other quarters, included slightly fewer applicants with a worse than average risk rating, which might lead to a higher success rate for applicants in that quarter.

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

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

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

Final outcome (Loan): SMEs seeking new/renewed facility By date of application	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011*	Q4 2011*	Q1 2012*
Unweighted base:	*120*	*169*	*290*	*253*	*231*	*229*	*149*
Have loan (any)	66%	54%	55%	69%	52%	62%	62%
Predicted success rate from model	58%	58%	53%	66%	60%	63%	57%
Difference	+8	-4	+2	+3	-8	-1	+5

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

This analysis shows that the success rate in Q2 2011, which is currently higher than other quarters, is only partly accounted for by the profile of applicants in that quarter (the model predicted an increase in success rate from 53% to 66% between Q1 and Q2 2011, compared to the actual change of 55% to 69%).

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

Analysis of loans granted by application date shows a typical split ranging between 80:20 and 90:10, under and over £100,000

Loan facility granted By date of application	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011*	Q4 2011*	Q1 2012*
Unweighted base:	*94**	*125*	*220*	*193*	*177*	*171*	*111*
Less than £100k	80%	82%	88%	89%	84%	79%	87%
More than £100k	20%	18%	12%	11%	16%	21%	13%

All successful loan applicants that recall amount granted

Small base sizes limit the analysis possible on outcome by size over time, but applications for larger amounts (£100,000+) were more likely to be successful, and success rates have improved slightly over time. Around two thirds of such applications resulted in a loan. The pattern for smaller loans is less clear cut, with around half of such applications being successful.

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

Applications for new facilities

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

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

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

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

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

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

Size and external risk rating remain significant predictors of outcome for applications for new money. Once these key factors have been taken into account, the following are significant. They are shown below, split between those that make success more likely and those that make it less likely. In this updated analysis, the performance of the account (self-reported credit issues like bounced cheques, missed loan repayments etc.) continues to be a significant predictor, while owner/MD experience has been replaced as a significant predictor by age (which will be linked to experience).

Success more likely	Success less likely
No self-reported credit issues	Had problems getting trade credit
Person in charge of finances has qualification/ training	Had a cheque bounce on account
Business produces regular management accounts	Had a county court judgement
Owner/MD aged 31-50	Missed a loan repayment

Outcome analysis over time – new and renewed facilities

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

The tables below are based on all applications made, rather than all SMEs (so an SME that had both a loan and an overdraft application will appear twice), and shows that those seeking to renew an existing facility were almost twice as likely to be offered what they wanted. They also include all applications recorded, including those in Q1-2 2011:

Final outcome Loans and Overdrafts combined All applications to date	New funds	Renewals
Unweighted base of applications:	*2328*	*2555*
Offered what wanted and took it	44%	82%
Took facility after issues	14%	8%
Have facility (any)	*58%*	*90%*
Took another form of funding	8%	2%
No facility	34%	8%

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

It is also possible to look at the outcome for those applying for their first overdraft/loan facility. This highlights the difference in success rates between those seeking their first ever facility, where around 4 out of 10 now have a facility, and those seeking other new funds, where around 7 out of 10 were successful.

Final outcome Loans and Overdrafts combined All applications to date	New funds	1st ever facility	Other new money
Unweighted base of applications:	*2328*	*803*	*1525*
Offered what wanted and took it	44%	34%	54%
Took facility after issues	14%	9%	19%
Have facility (any)	*58%*	*43%*	*73%*
Took another form of funding	8%	8%	7%
No facility	34%	49%	20%

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

Base sizes currently preclude more detailed analysis of first time applications, however, as with applications overall, first time applications from larger businesses and those with a better external risk rating were more likely to have been successful. Further analysis identified that first time applicants that had experienced a self-reported credit issue were less likely to be successful, especially if applying for a first overdraft:

- Amongst first time overdraft applicants, the proportion who now have a facility was 15% if the SME had a self-reported credit issue, compared to 57% if they had not had one
- Amongst first time loan applicants, the proportion who now have a facility was 33% if the SME had a self-reported credit issue, compared to 56% if they had not had one

Note though that we do not know whether the self-reported credit issues date from *before* the application for new money, or occurred after it, just that both have occurred within the 12 months prior to interview.

Further analysis looks at applications over time. Due to the limited sample size, this is shown for all new money, rather than separating out the first time applicants.

Looking first at the outcome of applications for **new** funds, and from Q4 2012 to Q4 2011, around half of applicants ended the process with a facility. Early data for Q1 2012 suggests a slight improvement (note that there are too few applications made in Q2 2012 to report at this stage):

Final outcome (Overdraft+ Loan): Applications for new money By date of application	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011*	Q4 2011*	Q1 2012*
Unweighted base of applications:	*142*	*242*	*468*	*347*	*334*	*318*	*233*
Offered what wanted and took it	49%	44%	40%	46%	39%	51%	51%
Took facility after issues	17%	13%	13%	12%	18%	8%	13%
Have facility (any)	*66%*	*57%*	*53%*	*58%*	*57%*	*59%*	*64%*
Took another form of funding	3%	11%	12%	10%	5%	5%	6%
No facility	31%	32%	35%	33%	38%	37%	30%

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

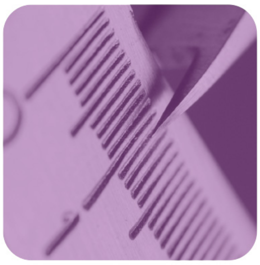
This pattern is not easily explained by risk rating. A fairly consistent 6 out of 10 applicants for new funds were rated as an above average external risk, with the exception of Q4 2010 (50%) and Q4 2011 (51%) but the better risk profile of applicants in these quarters did not appear to impact directly on the overall outcome of those applications.

The outcome of applications for **renewed** loans/overdrafts is much more consistent over time, with around 9 out of 10 applicants ending the process with a facility. The exception is the initial data for Q1 2012, where three-quarters were successful (note that there are too few applications made in Q2 2012 to report at this stage). Risk rating may help to explain the Q1 result – half of renewal applicants in Q1 2012 had a worse than average risk rating compared with around 3 out of 10 in other quarters.

Final outcome (Overdraft+ Loan): Applications for renewed facilities By date of application	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011*	Q4 2011*	Q1 2012*
Unweighted base of applications:	*154*	*251*	*492*	*383*	*354*	*331*	*271*
Offered what wanted and took it	85%	83%	83%	78%	79%	89%	74%
Took facility after issues	8%	9%	10%	11%	10%	8%	5%
Have facility (any)	*93%*	*92%*	*93%*	*89%*	*89%*	*97%*	*79%*
Took another form of funding	4%	*	2%	3%	1%	1%	1%
No facility	3%	8%	6%	8%	9%	3%	20%

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

9. The impact of the application/ renewal process



This chapter reports

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

Key findings

Almost all successful applicants were satisfied with the loan or overdraft facility they now had

Those who had been offered the facility they wanted were more likely to be satisfied than those who had their facility after issues (typically regarding the amount or the terms and conditions of the facility)

Those who experienced the automatic renewal of their overdraft facility were also likely to be satisfied with it

The equivalent of 1% of all SMEs said that not having the overdraft facility they applied for had impacted on their business. For loans the equivalent figure was just under 1% of all SMEs. This impact typically related to making the day to day running of the business more of a struggle, or not being able to expand or improve the business as they had wished

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

Satisfaction with facility granted

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

Overall, 86% of successful overdraft applicants and 87% of successful loan applicants said that they were satisfied with the facility they now had, and this varies relatively little by date of application or size of applicant:

Successful Type 1 applicants	Overdraft			Loan		
Satisfaction with outcome YEQ2 12	Total	Offered what wanted	Have after issues	Total	Offered what wanted	Have after issues
Unweighted base:	*2083*	*1769*	*314*	*971*	*740*	*231*
Very satisfied with facility	55%	63%	13%	57%	65%	14%
Fairly satisfied with facility	31%	29%	37%	30%	29%	38%
Overall satisfied	*86%*	*92%*	*50%*	*87%*	*94%*	*52%*
Neutral about facility	7%	4%	18%	7%	3%	30%
Dissatisfied with facility	8%	3%	31%	5%	3%	19%

Q103 and Q196 All SMEs that have applied/renewed

From Q2 2012, those who had experienced an automatic renewal of their overdraft facility were also asked how satisfied they were with that facility. Results for Q2 showed that those who had an overdraft facility after an automatic renewal were likely to be satisfied with it (86%), but not quite as likely as those who had a facility after being offered what they wanted and taking it (95%).

Impact of being unsuccessful

That analysis was based on those that were successful in their application/renewal and now had an overdraft or loan facility. As already reported, 21% of overdraft applicants and 34% of loan applicants ended the process with no facility. These unsuccessful SMEs were asked whether *not* having a facility had impacted on their business.

Half (52%) of unsuccessful overdraft applicants said that not having one had impacted on their business – this is the equivalent of 1% of all SMEs saying that they had been impacted (or 2% of SMEs excluding the 'permanent non-borrowers'). The figure for loans was just under half of unsuccessful applicants saying it had impacted (40%), the equivalent of 0.8% of all SMEs (or 1% of SMEs excluding the 'permanent non-borrowers').

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

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

Amongst unsuccessful SMEs that applied to their main bank, 27% thought their application had been considered fairly. 28% thought another bank would have treated them more favourably:- around two thirds of SMEs who thought they would have done better elsewhere said they were seriously considering a change of bank (these 'potential switchers' represent less than 1% of all SMEs).

Overall bank satisfaction, amongst all SMEs, remained high (82% satisfied) and has varied little by size or over time. Successful applicants remained more likely to be satisfied with their main bank (76%) than those that applied unsuccessfully to their main bank (41% satisfied). 'permanent non-borrowers', who have had no borrowing events at all, reported slightly higher levels of satisfaction (88% satisfied) than those who had experienced a borrowing event.

10. Rates and fees – Type 1 events

This chapter covers

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

Key findings

A quarter of overdrafts were secured, with larger facilities more likely to be so. A third of loans were secured, with 10% being commercial mortgages, and a further 24% secured business loans

57% of overdrafts are on a fixed rate and this has become more common over time (61% of overdrafts granted in Q1 2012 were on a fixed rate, compared to 45% of those granted in Q1 2011). 75% of loans are on a fixed rate, with loans granted in the second half of 2011 more likely to be on a fixed rate.

Variable rate overdrafts are charged at a median rate of +3%, with indicative signs that the proportion paying +4% or more is increasing over time. The median fixed rate is 4.4%

Variable rate loans are also charged at a median rate of +3%, but fixed rate lending is at a slightly higher rate than for overdrafts, at a median rate of +5.4%

Secured lending, higher facilities and/or lending to those with a better external risk rating continues to be charged at lower rates

The median fee paid was £99 for overdrafts and £74 for loans, increasing with the size of facility. Two thirds, 62%, paid an overdraft fee that represented 2% or less of the value of the facility granted. Proportionally higher overdraft fees were more likely to be paid for smaller facilities, and those granted to Manufacturers and those in the Health sector. 83% paid a loan fee of 2% or less of the facility granted

Initial results for overdrafts that had been automatically renewed suggest that these facilities were slightly more likely to be on a variable rate and at a slightly lower margin, and were somewhat less likely to have incurred a fee, than other Type 1 facilities

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

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

Overdrafts: Security

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

- 4% of 0 employee SMEs have a new/renewed overdraft
- 9% of 1-9 employee SMEs
- 14% of 10-49 employee SMEs
- 15% of 50-249 employee SMEs

78% of overdrafts granted were for less than £25,000. By size, this varies from 95% of overdrafts granted to 0 employee SMEs being £25,000 or less, to 16% of overdrafts granted to those with 50-249 employees.

A quarter (25%) of Type 1 overdrafts, i.e. a new or renewed facility not including automatic renewals, required security. This varied relatively little by application date but was more commonly required of larger SMEs with an overdraft. The most common form of security remained a charge over a business or personal property, as the table below shows:

Security required (Overdraft): YEQ2 12 SMEs with new/renewed overdraft	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*2037*	*153*	*619*	*865*	*400*
Property (any)	15%	5%	24%	34%	30%
Charge over business property	*7%*	*2%*	*11%*	*18%*	*25%*
Charge over personal property	*8%*	*4%*	*13%*	*17%*	*6%*
Directors/personal guarantee	5%	2%	7%	11%	8%
Other security (any)	6%	4%	7%	13%	19%
Any security	24%	11%	34%	49%	50%
No security required	76%	89%	66%	51%	50%

Q 106 All SMEs with new/renewed overdraft excluding DK

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

- 10% of overdrafts granted for £10,000 or less were secured
- 39% of overdrafts granted for £11-24,999
- 37% of overdrafts granted for £25-49,999
- 46% of overdrafts granted for £50-99,999
- 68% of overdrafts granted for £100,000 or more

Overdrafts: Rates

Amongst those who gave an answer, just under half (43%) said that their new/renewed overdraft was on a variable rate, and this increased with the size of facility granted:

Type of rate (Overdraft) by facility granted: YEQ2 12 SMEs with new/renewed overdraft excl. DK	Total	<£10k	£10-25k	£25-100k	£100k+
Unweighted base:	*1718*	*450*	*255*	*440*	*573*
Variable rate lending	43%	37%	48%	54%	58%
Fixed rate lending	57%	63%	52%	46%	42%

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

As the table below shows, when analysed by date of application, the balance has changed slightly over time in favour of fixed rate lending. There are too few overdrafts granted in Q2 2012 to report, but qualitatively, they are also more likely to be on a fixed rate:

New/renewed overdraft rate by date of application	Q310	Q410	Q111	Q211	Q311*	Q411*	Q1 12*
Unweighted base:	*137*	*241*	*495*	*345*	*337*	*325*	*273*
Variable rate lending	53%	54%	55%	53%	48%	38%	39%
Fixed rate lending	47%	46%	45%	47%	52%	62%	61%

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

Most of those on a variable rate said that the rate was linked to Base Rate (89%). Bigger SMEs were more likely to be on a LIBOR linked rate: 23% of successful applicants with 50-249 employees.

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

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

Variable margin (Overdraft) by facility granted: YEQ212 SMEs with new/renewed overdraft excl. DK	Total	<£10k	£10-25k	£25-100k	£100k+
Unweighted base:	*799*	*145*	*120*	*219*	*315*
Less than 2%	33%	32%	35%	29%	38%
2.01-4%	32%	27%	26%	40%	57%
4.01-6%	21%	22%	21%	24%	4%
6%+	15%	19%	18%	7%	1%
Average margin above Base/LIBOR:	*+4.4%*	*+5.3%*	*+3.9%*	*+3.7%*	*+2.6%*
Median margin above Base/LIBOR	*+3.0%*	*+3.0%*	*+2.8%*	*+3.0%*	*+2.6%*

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

Analysis by date of application is limited by the number of respondents answering this question, and so is based on a half year rather than quarterly analysis. This suggests that successful applications in 2011 were more likely to be charged at +2% or less than applications in 2010 or 2012 (interim data at this stage). That said, the proportion paying more than +4% has increased steadily over time, from 30% in the first half of 2011 to 46% in the first half of 2012 (interim data).

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

Fixed rate (Overdraft) by facility granted: YEQ2 12 SMEs with new/renewed overdraft excl. DK	Total	<£10k	£10-25k	£25-100k	£100k+
Unweighted base:	*631*	*164*	*104*	*154*	*209*
Less than 3%	33%	27%	38%	46%	53%
3.01-6%	41%	37%	52%	45%	39%
6.01-8%	9%	11%	4%	7%	8%
8%+	16%	24%	6%	2%	*
Average fixed rate:	*5.7%*	*6.7%*	*4.1%*	*3.5%*	*3.5%*
Median fixed rate	*4.4%*	*4.4%*	*4.2%*	*3.6%*	*3.0%*

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

Analysis by date of application is limited by the number of respondents answering this question, but indicative results are that the proportion paying less than 3% is increasing slightly over time. With fewer overdrafts charged at more than 8% in 2011, the average rate charged dropped from 6% in the second half of 2010 to 4.8% in the second half of 2011. Early results for the first half of 2012 suggest rates might be increasing again, and this will be monitored in future waves.

Secured overdrafts were now as likely to be on a variable rate (51%) as a fixed rate (49%). Unsecured overdrafts were now more likely to be on a fixed rate (60%) than a variable rate (40%).

The average margin for a variable rate secured overdraft was +3.5%, compared to +4.7% for an unsecured overdraft. A similar difference in margin was seen for fixed rate facilities – secured overdrafts were at an average of 4.2% compared to 6.1% for an unsecured overdraft.

Overdrafts: Fees

Most respondents were able to recall the arrangement fee that they had paid for their new/renewed overdraft facility (if any). The average fee paid was £350, an increase on YEQ2 (£324) which was itself a slight increase on Q1-4 2011 (£310). However the median arrangement fee was unchanged at £99. Analysis by date of application shows no clear pattern.

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

Fee paid (Overdraft) by facility granted: YEQ2 12 SMEs with new/renewed overdraft excl. DK	Total	<£10k	£10-25k	£25-100k	£100k+
Unweighted base:	*1746*	*433*	*298*	*454*	*561*
No fee paid	18%	23%	11%	10%	7%
Less than £100	18%	26%	10%	4%	1%
£100-199	35%	44%	38%	12%	3%
£200-399	16%	5%	37%	35%	9%
£400-999	7%	1%	3%	30%	21%
£1000+	6%	1%	*	9%	59%
Average fee paid:	*£350*	*£137*	*£184*	*£515*	*£2451*
Median fee paid	*£99*	*£95*	*£146*	*£295*	*£1227*

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

Amongst those with a new/renewed overdraft who knew both what fee they had paid and the facility granted, 27% paid a fee that was the equivalent of less than 1% of the facility granted, and a further 35% paid between 1-2%. On this basis there were some clear differences by size of facility:

- 45% of those granted a new/renewed overdraft facility of less than £10,000 paid the equivalent of 2% or less
- 85% of those granted a new/renewed overdraft facility of £10-25,000 paid the equivalent of 2% or less
- 93% of those granted a new/renewed overdraft facility of £25-100,000 paid the equivalent of 2% or less
- 97% of those granted a new/renewed overdraft facility of more than £100,000 paid the equivalent of 2% or less

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

Overdraft terms: Analysis by risk rating

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

Overdraft rates and fees summary YEQ2 12 SMEs with new/renewed overdraft excl. DK	Min/Low	Average/Worse than average
Unweighted base (varies by question):	*901*	*1062*
% borrowing £25,000 or less	59%	84%
Facility on a variable rate (excluding DK)	53%	39%
Average variable margin for less than £25k facility	+3.6%	+5.2%
Average variable margin for facility £25k+	+3.0%	+4.0%
Average fixed rate for less than £25k facility	6.7%	6.3%
Average fixed rate for facility £25k+	3.3%	3.8%
% where fee <2% of facility (under £25k)	49%	55%
% where fee <2% of facility (£25k+)	93%	95%

All SMEs with new/renewed overdraft, excluding DK

Overdrafts: Usage

Of those granted a new/renewed overdraft, 38% said that they used this facility all or most of the time, while at the other end of the scale 36% used this overdraft facility occasionally, rarely or never. There was little difference in frequency of use by size of business.

Amongst those SMEs that used this overdraft facility at least occasionally (representing 77% of those granted an overdraft), 66% said that when they used their overdraft they used at least half of the agreed facility.

Some analysis of the use of overdrafts is now possible over time. The table below shows the extent to which Type 1 overdrafts were being used, analysed by when the facility was applied for. This shows that overdrafts agreed in 2011 were more likely to be used all or most of the time, and to 50% or more of the limit agreed:

Type 1 overdraft usage	Use of overdraft						
Use of facility by date of application	Q310	Q410	Q111	Q211	Q311*	Q411*	Q1 12*
Unweighted base:	*154*	*278*	*577*	*424*	*408*	*381*	*332*
Use overdraft all or most of time	32%	27%	43%	36%	40%	48%	29%
Use 50%+ when use it (all with od not just users)	32%	36%	45%	53%	57%	56%	43%

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

Overdraft terms: Analysis by sector

Overall, 78% of overdrafts granted were for £25,000 or less. By sector this varies from 61% for Agriculture and 66% for Wholesale/Retail, to 91% for Other Community and 90% for Hotels and Restaurants .

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

- More common for overdrafts in the Agriculture (38%) and Manufacturing (35%) sectors
- Less common for overdrafts in the Construction (17%), Health (16%) and Other Community (11%) sectors

Type 1 overdraft YEQ2 12 all with new/renewed overdraft	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*221*	*192*	*328*	*269*	*152*	*164*	*357*	*141*	*213*
Any security	38%	35%	17%	26%	26%	28%	24%	16%	11%
- property	*33%*	*25%*	*6%*	*20%*	*22%*	*14%*	*14%*	*10%*	*7%*
No security	62%	65%	83%	74%	74%	72%	76%	84%	89%

Q 106 All SMEs with new/renewed overdraft excluding DK

Overall, just under half of Type 1 overdrafts obtained were on a variable rate (43%). This was more likely for overdrafts amongst SMEs in the Agriculture (52%), Property/Business Services (50%) and Wholesale/Retail (50%) sectors:

Type 1 overdraft rate YEQ2 12 all with new/renewed overdraft	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*189*	*175*	*253*	*241*	*125*	*133*	*308*	*117*	*177*
Variable rate lending	52%	30%	31%	50%	43%	47%	50%	42%	31%
Fixed rate lending	48%	70%	69%	50%	57%	53%	50%	58%	69%

Q 107 All SMEs with new/renewed overdraft excluding DK

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

This analysis shows that those in the Construction, Property/Business Services and Health sectors were most likely to pay a fee for their facility. The average fee paid was typically around £2-300 for many sectors. Those in Manufacturing paid the highest absolute fee, and this was also less likely to represent 2% or less of the amount borrowed, so is not just a reflection of a larger overdraft facility. Those in the Health sector were also less likely to pay a fee equivalent to 2% or less of the sum borrowed:

Type 1 overdraft fees YEQ2 12 all with new/renewed overdraft	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*187*	*166*	*274*	*237*	*125*	*141*	*316*	*120*	*180*
No fee paid	22%	7%	14%	17%	27%	24%	16%	22%	25%
Equivalent of 2% or less paid	81%	38%	57%	69%	73%	79%	62%	42%	50%

Q 113114 All SMEs with new/renewed overdraft excluding DK

Amongst those with an overdraft, SMEs in Health (46%) and Wholesale/Retail (49%) were the most likely to be using their overdraft all or most of the time. Those in Transport were the least likely (30%). The most likely to be using 50% or more of their overdraft were those in Wholesale/Retail (61% of those with any new/renewed overdraft) and Manufacturing (62%):

Type 1 overdraft usage YEQ2 12 all with new/renewed overdraft	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*223*	*194*	*333*	*274*	*151*	*167*	*363*	*141*	*210*
Use overdraft all or most of time	48%	45%	31%	49%	43%	30%	36%	46%	25%
Use 50%+ when use it (all with od not just users)	50%	62%	41%	61%	45%	50%	50%	50%	38%

Q 101/102 All SMEs with new/renewed overdraft

Overdrafts: Automatic renewals

As mentioned earlier in this chapter, some data is now available on the fees, rates and security pertaining to those overdraft facilities that were automatically renewed. This has been collected for Q2 2012 respondents only and covers automatic renewals in the 12 months prior to interview (note that we do not know when in the previous 12 months this facility was renewed, nor how much it was for). 727 respondents in Q2 reported an automatically renewed overdraft.

Compared to other Type 1 overdraft events reported in Q2 2012 (and occurring in the 12 months prior to interview), facilities that were automatically renewed were:

- As likely to be secured (27% v 28% of other Type 1 overdraft events)
- Less likely to be on a fixed rate (53% v 61%)
- More likely to be on a variable rate (47% v 39%) and then for that rate to be linked to Base Rate (97% v 86%)
- At a slightly lower average variable rate (+3.5% v +4.0%), or a slightly lower fixed rate (5.2% v 5.4%)
- Less likely to have incurred a fee (31% paid nothing v 14%), with an average fee paid of £184 v £416
- As likely to be being used all or most of the time (41% v 47%)
- But less likely to be being used at 50% or more of the limit agreed (44% v 53%)
- Such SMEs are no more or less satisfied with their overdraft facility (86% satisfied v 85%)

Loans: Security

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

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

A minority of loans, 11%, were commercial mortgages. They were much more likely to have been granted for more than £100,000 and were more common amongst larger SMEs:

- 9% of successful applicants with 0-9 employees said their loan was a commercial mortgage
- 21% of successful applicants with 10-49 employees
- 29% of successful applicants with 50-249 employees

86% of new/renewed loans were for £100,000 or less.

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

Security required (Loan): YEQ2 12 SMEs with new/renewed loan	Total	0-9 emp	10-49 emps	50-249 emps
Unweighted base:	*960*	*318*	*381*	*261*
Commercial mortgage	10%	9%	21%	29%
Secured business loan	24%	22%	41%	41%
Unsecured business loan	66%	69%	38%	30%

Q 198/199 All SMEs with new/renewed loan

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

Security taken (Loan): YEQ2 12 SMEs with new/renewed loan excl. DK	Total	0-9 emp	10-49 emps	50-249 emps
Unweighted base:	***960***	***318***	***381***	***261***
Commercial mortgage	10%	9%	21%	29%
Secured – Property (any)	16%	14%	32%	25%
Business property	*7%*	*6%*	*18%*	*21%*
Personal property	*9%*	*9%*	*12%*	*4%*
Director/personal guarantees	6%	6%	5%	4%
Other security	4%	3%	9%	16%
Unsecured business loan	66%	69%	38%	30%

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

21% of new/renewed loans granted for less than £25,000 were secured (including commercial mortgages) compared to 53% of those granted for £25,000 to £100,000, and 82% of those granted for more than £100,000.

Loans: Rates

Amongst those who knew, three quarters, 75% said that their loan was on a fixed rate (compared to 57% for overdraft lending), and this was more common for smaller facilities:

Type of rate (Loan) by amount granted: YEQ2 12 SMEs with new/renewed loan excl. DK	Total	<£10k	£10-25k	£25-100k	£100k+
Unweighted base:	*859*	*177*	*95**	*178*	*409*
Variable rate lending	25%	21%	16%	26%	53%
Fixed rate lending	75%	79%	84%	74%	47%

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

Fixed rate lending is more common where the facility is unsecured (82% v 61% for secured loans). Analysis by date of application shows that it was the loans agreed in the second half of 2011 that were more likely to be on a fixed rate (79%), while for other periods the proportion was 70-72%.

Most of those on a variable rate said that the rate was linked to Base Rate (87%). Bigger SMEs were more likely to be on a LIBOR linked rate: 32% of successful applicants with 50-249 employees said that their new/renewed variable rate loan was linked to LIBOR.

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

Variable margin (Loan) by amount granted: YEQ2 12 SMEs with new/renewed loan excl. DK	Total	<£100k	£100k+
Unweighted base:	*315*	*119*	*196*
Less than 2%	19%	13%	30%
2.01-4%	42%	37%	53%
4.01-6%	19%	21%	16%
6%+	20%	29%	1%
Average margin above Base/LIBOR:	*+4.3%*	*+5.0%*	*+2.8%*
Median margin above Base/LIBOR	*+3.0%*	*+4.0%*	*+2.9%*

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

These average rates to YEQ2 2012 are slightly higher than for YEQ1 2012 (+3.8%) due to a higher average margin being paid by those borrowing under £100k (was +4.4%, now +5.0%). Analysis by date of application is limited by the number of respondents answering this question, but indicative results are that over time fewer loans are being charged at a margin of less than +4%, due to fewer loans being charged at +2% or less.

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

Fixed rate (Loan) by amount granted: YEQ2 12 SMEs with new/renewed loan excl. DK	Total	<£100k	£100k+
Unweighted base:	*412*	*236*	*176*
Less than 3%	17%	14%	45%
3.01-6%	41%	40%	47%
6.01-8%	17%	19%	2%
8%+	24%	26%	5%
Average fixed rate:	*6.5%*	*6.8%*	*3.8%*
Median fixed rate	*5.4%*	*5.8%*	*3.9%*

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

The average rate is unchanged compared to YEQ1, but the median rate has dropped slightly (from 5.9%) due to a decrease in the rate charged for loans under £100k (was 6.9%). Analysis by date of application is limited by the number of respondents answering this question, but indicative results are that applications granted in the latter half of 2011 were at slightly higher rates on average.

As with overdraft lending, secured lending was charged at a lower average rate than unsecured. For those granted a new/renewed loan on a variable rate, a secured loan was charged at an average margin of +3.8%, an unsecured loan at an average margin of +4.9%. For fixed rate lending, the rates were 5.6% for secured loans and 6.9% for unsecured.

Loans: Fees

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

Fee paid (Loan): YEQ2 12 SMEs with new/renewed loan excl. DK	Total	<£10k	£10-25k	£25-100k	£100k+
Unweighted base:	*760*	*131*	*91**	*162*	*376*
No fee paid	38%	49%	44%	22%	12%
Less than £100	14%	19%	17%	4%	1%
£100-199	19%	27%	16%	14%	4%
£200-399	10%	3%	17%	19%	5%
£400-999	6%	1%	3%	20%	12%
£1000+	14%	1%	3%	20%	65%
Average fee paid:	*£706*	*£122*	*£147*	*£565*	*£3500*
Median fee paid	*£74*	*£4*	*£24*	*£200*	*£1655*

Q 207/208 All SMEs with new/renewed fixed rate loan, excluding DK *CARE re small base

The average fee paid to YEQ2 2012 is lower than YEQ1 2012 (£879) as is the median fee (£100).

Amongst those with a new/renewed loan who knew both what fee they had paid and the original loan size, 60% paid a fee that was the equivalent of less than 1% of the amount borrowed, and a further 23% paid between 1-2%. On this basis there were some clear differences for smaller loans:

- 77% of those granted a new/renewed loan of less than £10,000 paid the equivalent of 2% or less
- 91% of those granted a new/renewed loan of £10-25,000 paid the equivalent of 2% or less
- 84% of those granted a new/renewed loan of £25-100,000 paid the equivalent of 2% or less
- 88% of those granted a new/renewed loan of more than £100,000 paid the equivalent of 2% or less

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

Loan terms: Analysis by risk rating

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

Loan rates and fees summary YEQ2 12 SMEs with new/renewed loan excl. DK	Min/Low	Average/Worse than average
Unweighted base (varies by question):	*410*	*503*
% borrowing £100,000 or less	75%	90%
Facility on a variable rate (excluding DK)	31%	23%
Average variable margin	+3.1%	+4.7%
Average fixed rate	4.8%	7.1%
% where fee <2% of facility	84%	85%

All SMEs with new/renewed loan, excluding DK

Loan terms: Analysis by sector

86% of new/renewed loans were for £100,000 or less. By sector this varied from 95% of loans in the Transport and Construction sectors being in this band, to 69% of loans in the Hotels and Restaurants sector and 74% of loans in Manufacturing.

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

Type 1 loan YEQ2 12 all with new/renewed loan	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*106*	*119*	*98**	*112*	*95**	*85**	*143*	*120*	*82**
Commercial mtge	14%	16%	1%	17%	29%	3%	8%	10%	6%
Secured loan	26%	26%	11%	21%	34%	31%	27%	45%	14%
Unsecured loan	60%	57%	88%	62%	37%	66%	66%	45%	79%

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

Overall, three quarters of Type 1 loans were on a fixed rate (75%). This was more likely for loans amongst SMEs in the Construction (85%) and Health (84%) sectors:

Type 1 loan rate YEQ2 12 all with new/renewed loan	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*94**	*110*	*88**	*98**	*85**	*78**	*129*	*109*	*68**
Variable rate lending	39%	32%	15%	35%	35%	32%	20%	16%	15%
Fixed rate lending	61%	68%	85%	65%	65%	68%	80%	84%	85%

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

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

This analysis shows that those in the Property/Business Services sector were least likely to pay a fee for their facility.

Type 1 loan fees YEQ2 12 all with new/renewed loan	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*78**	*95**	*80**	*91**	*73**	*66**	*116*	*94**	*67**
No fee paid	34%	34%	34%	32%	10%	35%	55%	34%	38%

Q 208209 All SMEs with new/renewed loan excluding DK

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

This chapter looks

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

Key findings

SMEs' borrowing behaviour in the 12 months prior to interview has been **re-defined** to account for those who have had an overdraft facility automatically renewed

This means that, across the 3 quarters to Q2 2012, 24% of SMEs have had a borrowing 'event', 10% were 'would-be seekers' who would have liked to apply but didn't, and 66% were 'happy non-seekers' who had not applied for any facility and had not wanted to

These proportions have changed relatively little overall for the 3 individual quarters for which this data is available

'Would-be seekers' were more likely to be found amongst SMEs with fewer than 10 employees (10%) and/or a worse than average external risk rating (11%), recent Starts (18% if started in the last 12 months), and/or SMEs in the Transport or Construction sectors (12%) or in the Other Community sector (13%)

'Would-be seekers' of overdrafts interviewed in Q2 remained more likely to cite issues with the principle (31%) or process of borrowing (29%) as a barrier to applying, than the equivalent 'would-be seekers' of loan facilities (principle and process both 23%)

Discouragement remains more of an issue for 'would-be seekers' of loans (35%) than 'would-be seekers' of overdrafts (25%).

This remains more likely to be 'indirect' discouragement, where the SME assumes the bank will say no, than 'direct' discouragement (where the SME felt that they would be turned down, after making an informal enquiry at the bank).

But direct discouragement of applications for loans has increased slightly over time (currently 11% of 'would-be seekers' of loans). Discouragement (predominantly indirect) is also more likely to be mentioned by those 'would-be seekers' with a worse than average risk rating.

Overall, discouragement regarding overdrafts is an issue for the equivalent of 2% of all SMEs, while discouragement regarding loans is an issue for the equivalent of 1% of all SMEs

Excluding the 'permanent non-borrowers' from this analysis sees 36% of these SMEs (with any potential appetite for finance) reporting an event, 14% being 'would-be seekers' and 50% meeting the definition of 'happy non seekers'

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

From Q4 2011, an additional question was asked that identified whether, from the SME's perspective, their overdraft had been automatically renewed by their bank. To date, such automatic renewal events have not been included in the overall 'had an event' definition used in this chapter. However, from Q2 2012, those experiencing an automatic renewal of an overdraft have been asked extra questions about that facility and are no longer treated as not having had an event.

For this Q2 report therefore, we have amended the definition of 'had an event' to include these automatic renewals, and re-calculated the analysis below for Q4 2011 and Q1 and Q2 2012. This entire chapter is therefore based on these **three** quarters, including analysis of loans. From now on, those who have experienced an automatic overdraft renewal can no longer be classified as either a 'happy non-seeker' or a 'would-be seeker' of finance.

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

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

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

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

The tables below look at this overall profile (Q4 2011-Q2 2012) for various key sub-groups, focussing on the profile of 'would-be seekers'. Analysis is then provided of how the overall position has changed over time for these key sub-groups, as sample sizes permit. First though, we look at the impact of the new borrowing event definition.

Under the previous definitions (when automatic overdraft renewals were not included as borrowing events), the majority of SMEs (around three-quarters) met the definition of 'happy non-seeker', while just over 1 in 10 were 'would-be seekers'. Under the new definition, reported below, the proportion of 'happy non-seekers' has reduced to around two-thirds of SMEs, but remains the largest group. The proportion of SMEs with a borrowing event has increased (from around 12-15% to 23-25%) and the proportion of 'would-be seekers' has reduced only slightly:

Any events (Overdraft and loan) All SMES, over time	Q4 2011	Q1 2012	Q2 2012
Unweighted base:	*5010*	*5023*	*5000*
Have had an event	23%	25%	24%
Would-be seekers	8%	10%	10%
Happy non-seekers	69%	65%	66%

Q115/209 All SMEs

The split between these three groups has changed very little across the three quarters for which analysis on a revised basis is now possible. The tables below combine the three quarters (Q4 2011 to Q2 2012) to provide more robust sub-sample sizes for analysis.

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

Any events (Overdraft <u>and</u> loan) Q411-Q212 All SMES	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*15033*	*3017*	*4963*	*4802*	*2251*
Have had an event	24%	20%	34%	41%	41%
Would-be seekers	10%	10%	10%	6%	5%
Happy non-seekers	66%	70%	56%	53%	54%

Q115/209 All SMEs

Those currently using external finance were no more likely to be 'would-be seekers'.

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

Any events (Overdraft <u>and</u> loan) Q411-Q212 All SMEs with a risk rating	Total	Min	Low	Avge	Worse/ Avge
Unweighted base:	*15033*	*2501*	*2859*	*3992*	*4277*
Have had an event	24%	29%	30%	23%	22%
Would-be seekers	10%	4%	7%	8%	11%
Happy non-seekers	66%	66%	63%	69%	66%

Q115/209 All SMEs

By sector, the proportion of 'would-be seekers' varied from 7% of those in the Manufacturing sector to 11% of those in Construction and Transport. More variation was seen in terms of 'happy non-seekers', which accounted for 77% of those in the Health sector (who remained less likely to have had an event under the new definition as well as the previous one), to 56% of those in Agriculture (who remained the most likely to have had an event):

Any events (Overdraft and loan) Q411-Q212 All SMEs	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*1123*	*1601*	*2652*	*1520*	*1338*	*1350*	*2637*	*1312*	*1500*
Have had an event	35%	26%	23%	31%	29%	25%	23%	15%	20%
Would-be seekers	10%	7%	11%	10%	10%	11%	9%	8%	9%
Happy non-seekers	56%	67%	66%	59%	61%	64%	69%	77%	71%

Q115/209 All SMEs

Start-ups were the most likely to be 'would-be seekers' (14%), especially if they were more recent Start-ups (18% of Starts in the last 12 months were 'would-be seekers', compared to 11% of Starts in business for between 1-2 years). The proportion of 'would-be seekers' then declines by age of business.

The data table below shows how the re-defined profile of 'would-be seekers' has changed over time for a number of key demographic groups. The profile has changed very little either overall, or by size of SME, and only the 'Other Community' sector has seen much of a change over time, from 5% 'would-be seekers' in Q4 2011 to 13% in Q2 2012. In Q2, fewer of these SMEs has had a borrowing event (15% from 22%) and so the proportion of 'happy non-seekers' is stable (72% in Q2).

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

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

Q115/209 All SMEs base size varies by category

Barriers to overdraft or loan application

SMEs that were identified as 'would-be seekers' (i.e. they had wanted to apply for an overdraft/loan in the 12 months prior to their interview, but had not done so) were asked about the barriers to making such an application. These are reported below, firstly how frequently they are mentioned at all and secondly how frequently they are nominated as the main barrier. Note that this data now *excludes* (for all three quarters reported) those who have had an automatic overdraft renewal, who might have previously answered this question as a 'would-be seeker':

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

- Principle of borrowing – those that did not apply because they feared they might lose control of their business, or preferred to seek alternative sources of funding. This was given as a reason by 48% of all 'would-be seekers' which is the equivalent of around 5% of all SMEs
- Process of borrowing – those who did not want to apply because they thought it would be too expensive, too much hassle etc. This was given as a reason by 44% of all 'would-be seekers', which is the equivalent of around 4% of all SMEs
- Discouragement – those that had been put off, either directly (they made informal enquiries of the bank and were put off) or indirectly (they thought they would be turned down by the bank so did not ask). This was given as a reason by 37% of all 'would-be seekers', which is the equivalent of around 3% of all SMEs
- Current economic climate – those that felt that it had not been the right time to borrow. This was given as a reason by 17% of all 'would-be seekers', which is the equivalent of around 2% of all SMEs

The table below shows the cumulative results from Q4 2011 to Q2 2012, and all the reasons for not applying for a loan or overdraft that make-up the summary categories above. An additional question was asked of those giving more than one reason, asking them to nominate the key reason for not applying, and these results form the main analysis of barriers to application.

All 'would-be seekers'	Would have liked to apply for an overdraft			Would have liked to apply for a loan		
All reasons for not applying when wished to Q411-Q212	Total	0-9 emps	10-249 emps	Total	0-9 emps	10-249 emps
Unweighted base:	*958*	*631*	*327*	*544*	*369*	*175*
Issues with principle of borrowing	48%	48%	46%	36%	37%	30%
-Prefer not to borrow	*28%*	*28%*	*29%*	*21%*	*21%*	*18%*
-Not lose control of business	*15%*	*15%*	*11%*	*11%*	*11%*	*9%*
-Can raise personal funds if needed	*20%*	*20%*	*14%*	*13%*	*13%*	*5%*
-Prefer other forms of finance	*12%*	*12%*	*10%*	*10%*	*10%*	*7%*
-Go to family and friends	*13%*	*13%*	*8%*	*7%*	*7%*	*4%*
Issues with process of borrowing	42%	42%	39%	39%	39%	33%
-Would be too much hassle	*15%*	*15%*	*15%*	*9%*	*9%*	*10%*
-Thought would be too expensive	*17%*	*17%*	*12%*	*22%*	*22%*	*11%*
-Would be asked for too much security	*11%*	*11%*	*19%*	*12%*	*12%*	*15%*
-Too many terms and conditions	*14%*	*14%*	*18%*	*14%*	*14%*	*13%*
-Did not want to go through process	*12%*	*12%*	*10%*	*9%*	*9%*	*8%*
-Forms too hard to understand	*5%*	*5%*	*5%*	*4%*	*4%*	*3%*
Discouraged (any)	36%	36%	35%	39%	39%	35%
-Direct (put off by bank)	*16%*	*16%*	*21%*	*16%*	*16%*	*24%*
-Indirect (thought would be turned down)	*28%*	*28%*	*18%*	*30%*	*30%*	*17%*
Economic climate	15%	15%	11%	17%	17%	20%
Not the right time to apply	*15%*	*15%*	*11%*	*17%*	*17%*	*20%*

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

The remaining analysis focuses on the main reason given by 'would-be seekers' for not having applied for an overdraft or loan in the previous 12 months.

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

All 'would-be seekers'	Would have liked to apply for an overdraft			Would have liked to apply for a loan		
Main reason for not applying when wished to over time	Q4 2011	Q1 2012	Q2 2012	Q4 2011	Q1 2012	Q2 2012
Unweighted base:	***309***	***313***	***336***	***148***	***206***	***190***
Discouraged (any)	25%	32%	25%	29%	36%	35%
-Direct (put off by bank)	*10%*	*12%*	*7%*	*7%*	*12%*	*11%*
-Indirect (thought I would be turned down)	*15%*	*20%*	*18%*	*22%*	*24%*	*24%*
Issues with principle of borrowing	34%	29%	31%	27%	16%	23%
Issues with process of borrowing	25%	22%	29%	25%	23%	23%
Economic climate	5%	9%	7%	5%	14%	9%

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

This analysis shows that 'discouragement' has been the main barrier for **loan** applications in each of the three quarters, with more mentions in recent quarters. Such discouragement continues to be predominantly indirect (the SME assumed they would be turned down) rather than direct (they felt that they would be turned down, after making an *informal* enquiry at the bank), albeit that direct discouragement has been mentioned more in recent quarters.

Analysis of the main barrier to **overdraft** applications shows a less consistent picture over time. In both Q4 2011 and Q2 2012, the principle of borrowing was more likely to be the main issue than discouragement. In Q1 2012, discouragement was as likely to be mentioned as the principle of borrowing and in each quarter, as for loans, this discouragement was more likely to be indirect than direct.

The table below splits the results for Q4 2011 to Q2 2012 combined, by key sub-groups:

All 'would-be seekers'	Would have liked to apply for an overdraft			Would have liked to apply for a loan		
Main reason for not applying Q4 11- Q2 12	Total	0-9 emps	10-249 emps	Total	0-9 emps	10-249 emps
Unweighted base:	***958***	***631***	***327***	***544***	***369***	***175***
Discouraged (any)	27%	27%	29%	34%	34%	27%
-Direct (put off by bank)	*10%*	*10%*	*16%*	*10%*	*10%*	*16%*
-Indirect (thought I would be turned down)	*18%*	*18%*	*12%*	*23%*	*24%*	*10%*
Issues with principle of borrowing	31%	31%	28%	21%	21%	20%
Issues with process of borrowing	25%	25%	26%	24%	24%	26%
Economic climate	7%	7%	6%	10%	10%	13%

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

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

Analysis by risk rating shows some differences. Discouragement is more likely to be the main barrier to both loan or overdraft applications for those with a worse than average risk rating, specifically indirect discouragement (they are more likely to have assumed they would be turned down). Discouragement is also a barrier for those with a minimal/low risk rating for potential overdraft applications, along with the principle of borrowing, in a way that it is not for potential loan applications from this group, where the process of borrowing and the economic climate are more of a barrier.

All 'would-be seekers' by risk rating	Would have liked to apply for an overdraft			Would have liked to apply for a loan		
Main reason for not applying when wished to Q4 11- Q2 12	Min/Low	Avge	Worse/ Avge	Min/Low	Avge	Worse/ Avge
Unweighted base:	*226*	*230*	*380*	*111*	*137*	*220*
Discouraged (any)	28%	22%	30%	19%	21%	38%
-Direct (put off by bank)	*13%*	*11%*	*10%*	*5%*	*10%*	*8%*
-Indirect (thought I would be turned down)	*16%*	*11%*	*20%*	*14%*	*11%*	*30%*
Issues with principle of borrowing	34%	31%	27%	18%	37%	18%
Issues with process of borrowing	26%	26%	29%	36%	29%	20%
Economic climate	3%	13%	7%	19%	4%	13%

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

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

'Would-be seekers' represent a minority of all SMEs. The table below shows, for the main reasons given by these 'would-be seekers' from Q4 2011, the equivalent proportion of all SMEs:

Main reason for not applying Q4 2011-Q2 2012 only	Would-be overdraft seekers	All SMEs	Would-be loan seekers	All SMEs
Unweighted base:	*958*	*15033*	*544*	*15033*
Discouraged (any)	27%	2%	34%	1%
-Direct (put off by bank)	*10%*	*1%*	*10%*	*<1%*
-Indirect (thought I would be turned down)	*18%*	*1%*	*23%*	*1%*
Issues with principle of borrowing	31%	2%	21%	1%
Issues with process of borrowing	25%	2%	24%	1%
Economic climate	7%	1%	10%	<1%
None of these/DK	1%	<1%	1%	<1%
Had event/Happy-non seeker	-	*92%*	-	*96%*

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

The effect of the 'permanent non-borrower'

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

The proportion of 'happy non-seekers' declines to 50% but remains the largest group, and the proportion of 'would-be seekers' increases to 14%:

Any events (Overdraft and loan) Q411-Q212 All SMES	All SMEs	All SMEs excl. pnb
Unweighted base:	***15033***	***11738***
Have had an event	24%	36%
Would-be seekers	10%	14%
Happy non-seekers	66%	50%

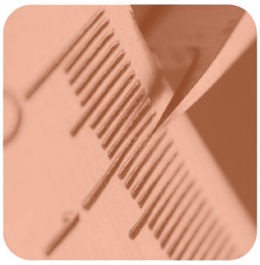
Q115/209 All SMEs

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

Main reason for not applying when wished to – Q3 2011-Q1 2012 only	Would-be overdraft seekers	All SMEs excl. pnb	Would-be loan seekers	All SMEs excl. pnb
Unweighted base:	***958***	***11,738***	***544***	***11,738***
Discouraged (any)	27%	4%	34%	3%
-Direct (put off by bank)	*10%*	*1%*	*10%*	*1%*
-Indirect (thought I would be turned down)	*18%*	*2%*	*23%*	*2%*
Issues with principle of borrowing	31%	4%	21%	1%
Issues with process of borrowing	25%	3%	24%	2%
Economic climate	7%	1%	10%	1%

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

12. The future



This chapter reports

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

Key findings

Just under half of all SMEs, 47%, reported in Q2 2012 that their objective was to grow in the next 12 months, with larger SMEs more likely to have such an objective (66% of those with 50-249 employees in Q2 2012). The overall improvement in the proportion with an objective to grow over time (from 44% in Q1-2 2011 to 47% in Q2 2012) has come more from the smaller SMEs (41% to 46% over the same period)

In Q2 2012, the current economic climate remained the most likely potential barrier to be rated a 'major obstacle'. 35% of SMEs rated it a major obstacle, and it was the highest scoring factor across all key demographics

As in previous quarters, the next most significant potential barriers were legislation and regulation (14% rated this as a major obstacle) and cash flow/late payment (also 14%). Both were slightly more of an obstacle for those with 1-49 employees

1 in 10 (11%) of all SMEs rated access to finance as a major obstacle. Compared to previous quarters, those with a minimal external risk rating are now more likely to see this as an obstacle (12% from 8%), but the most likely to currently rate access to finance as a major obstacle are those with 1-9 employees (15%), in the Hotels and Restaurants or Transport sectors (15%), and particularly those with any appetite for finance in the next 3 months (24%)

In Q2 2012, 14% of SMEs thought that they would apply for new/renewed finance in the next 3 months, down slightly from 16% in Q1 2012

This appetite for finance has dropped slightly across all employee size bands, and in all external risk ratings with the exception of 'worse than average'. By sector, almost all have seen a drop in appetite in Q2 compared to Q1 2011, with the exception of Manufacturing where appetite has increased from 11% to 24%. Overdrafts (56%) and loans (40%) remained the most considered form of funding overall

Confidence amongst these future applicants that the bank will agree to their request is at the lowest level reported to date, with 39% confident of success in Q2 compared to 52% in Q1 2011. This was due to a decline in confidence amongst potential applicants with fewer than 10 employees (37% from 52%), as confidence amongst larger SMEs remained virtually unchanged (60% from 61% for those with 10-249 employees)

A quarter of all SMEs (23%) think it likely that personal funds will be injected into the business in the next 3 months. This compares to 41% that have seen personal funds injected in the past *12* months. For Q2 2012, 17% of all SMEs reported both the injection of personal funds in the past 12 months and the likely injection of further funds in the next 3 months – such SMEs were typically small, more likely to be struggling (self-reported credit issues, poorer external risk rating, and/or loss making), and more likely to see the economic climate, access to finance and cash flow issues as major obstacles

Overall, for Q2 2012, 14% of SMEs plan to apply for new/renewed facilities in the next 3 months, 22% are 'future would-be seekers' and 64% are 'happy non-seekers'. Compared to Q1, more SMEs are now happy non-seekers (60% in Q1)

'Future would-be seekers' make up 22% of SMEs in Q2, down slightly from 24% in Q1 2011. Within this overall picture, fewer SMEs with a worse than average risk rating are now in this category (23% from 29%) while more of those with a minimal risk rating are (18% from 14%)

A reluctance to borrow now remains the main barrier why 'future would-be seekers' think they will not be seeking borrowing in the next 3 months, cited by 49% of such SMEs in Q2 2011.This is down slightly on the figures for Q1 (54%), due to a decline in mentions of the general economic climate (31% from 37%). The proportion attributing their reluctance to the performance of their own business specifically is unchanged (18% of future would-be seekers) and remains higher for 2012 than for 2011

Issues around the principle or process of borrowing each continue to be mentioned by 14% of future would-be seekers. This leaves discouragement as the final potential barrier. For potential borrowing events in the past, discouragement was one of the key barriers, while for future borrowing it is mentioned less, albeit by more future would be seekers in Q2 (14%) than in Q1 (11%), due to an increase in indirect discouragement (13% from 9%)

'Future would-be seekers' split into two further groups: those with an identified need they think it unlikely they will apply for (3% of all SMEs in Q2) and those with no immediate need, but a view that if a need *were* to emerge they would be unlikely to apply for funding (19% of all SMEs). The barriers to application for these two groups remain different. For those with an identified need, discouragement is the key barrier (44%) ahead of a reluctance to borrow (38%). For those with no immediate need, discouragement is much less mentioned (8%) and the focus is much more on a reluctance to borrow now (53%)

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

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

Growth objectives for next 12 months

SMEs were asked about their growth objectives. As shown in the table below, SMEs gave similar answers to this question in each quarter, with SMEs interviewed in 2012 slightly more likely to say their objective was to grow:

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

Q225 All SMEs

Bigger SMEs remained more likely to have growth as their objective, as the Q2 figures show:

Growth objectives in next 12 mths Q2 2012 only	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*5000*	*1000*	*1650*	*1600*	*750*
Grow substantially	6%	6%	9%	8%	11%
Grow moderately	41%	40%	41%	51%	55%
All with objective to grow	*47%*	*46%*	*50%*	*59%*	*66%*
Stay the same size	44%	45%	41%	37%	31%
Become smaller	3%	3%	5%	3%	3%
Plan to sell/pass on /close	5%	6%	5%	1%	*

Q225 All SMEs

As the summary table below shows, the improvement in the overall growth score in Q2 2012 when compared to a similar time last year, is driven primarily by the smallest SMEs:

Objective to grow (any) in next 12 months Over time	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Objective to grow Q1-2 2011	44%	41%	50%	57%	64%
Objective to grow Q3 2011	43%	39%	50%	56%	61%
Objective to grow Q4 2011	44%	43%	49%	56%	62%
Objective to grow Q 1 2012	48%	46%	51%	56%	65%
Objective to grow Q2 2012	47%	46%	50%	59%	66%

Q225 All SMEs, base size varies

Since the same period of 2011, there has been an increase in the proportion of SMEs saying their objective is to grow across most risk ratings, although most of the change has been driven by those with a minimal or low risk rating:

Objective to grow (any) in next 12 months Over time	Total	Min	Low	Avge	Worse/Avge
Objective to grow Q1-2 2011	44%	39%	30%	37%	52%
Objective to grow Q3 2011	43%	38%	36%	36%	49%
Objective to grow Q4 2011	44%	37%	41%	35%	53%
Objective to grow Q 1 2012	48%	49%	39%	43%	54%
Objective to grow Q2 2012	47%	48%	41%	40%	53%

Q225 All SMEs, base size varies

By sector, those in Wholesale/Retail and Property/Business Services were the most likely to be reporting an objective to grow in Q2 2012. Compared to the same period last year, Q1-2 2011, Manufacturers, and those in Property/Business Services were more likely to report in Q2 2012 that they had plans to grow:

Growth objectives all SMEs over time	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Any growth Q1-2	45%	39%	31%	55%	38%	39%	45%	50%	57%
Any growth Q3	53%	46%	28%	46%	41%	42%	50%	49%	42%
Any growth Q4	37%	42%	42%	48%	45%	44%	46%	55%	40%
Any growth Q1 12	42%	51%	37%	50%	39%	38%	49%	53%	66%
Any growth Q2 12	44%	47%	38%	55%	33%	40%	57%	48%	47%

Q225 All SMEs

SMEs that met the 'permanent non-borrower' definition in Q1 2012 were less likely to have growth as an objective (42%) than those that didn't (50%).

Obstacles to running the business in the next 12 months

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

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

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

The economic climate remained the key issue in Q2 2012, and scores generally have not changed much over time:

- The **current economic climate** was rated as a major obstacle (8-10) by 35% of SMEs in Q2 2012 (37% in Q1 2012)
- **Legislation and regulation** was the next most important obstacle but, by comparison to the economic climate, just 14% rated this a major obstacle (unchanged from Q1 and Q4)
- **Cash flow and issues with late payment** was also rated a major obstacle by 14% of SMEs (unchanged from Q1)
- **Access to external finance** was similarly rated, with 11% of SMEs seeing it as a major obstacle (unchanged from Q1)
- 6% of SMEs rated **availability of relevant advice** for their business as a major obstacle for the year ahead (5% in both Q1 and Q4)
- Finally, 2% rated **staff related issues** as a major obstacle (3% in both Q1 and Q4)

Extent of obstacles in next 12 months Q2 2012 only All SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*5000*	*1000*	*1650*	*1600*	*750*
The current economic climate (mean score)	6.0	5.9	6.2	6.0	5.9
- 8-10 major obstacle	*35%*	*35%*	*38%*	*33%*	*27%*
- 5-7 moderate obstacle	*37%*	*37%*	*36%*	*41%*	*49%*
- 1-4 limited obstacle	*27%*	*28%*	*24%*	*26%*	*23%*
Legislation and regulation (mean score)	3.7	3.4	4.4	4.8	4.5
- 8-10 major obstacle	*14%*	*12%*	*19%*	*22%*	*15%*
- 5-7 moderate obstacle	*24%*	*22%*	*29%*	*34%*	*35%*
- 1-4 limited obstacle	*60%*	*63%*	*50%*	*42%*	*47%*
Cash flow/issues with late payment (mean score)	3.6	3.5	4.0	4.1	3.9
- 8-10 major obstacle	*14%*	*13%*	*17%*	*16%*	*11%*
- 5-7 moderate obstacle	*23%*	*22%*	*27%*	*29%*	*31%*
- 1-4 limited obstacle	*62%*	*64%*	*55%*	*54%*	*56%*
Access to external finance (mean score)	3.0	2.8	3.5	3.4	3.1
- 8-10 major obstacle	*11%*	*10%*	*15%*	*11%*	*8%*
- 5-7 moderate obstacle	*16%*	*15%*	*20%*	*23%*	*19%*
- 1-4 limited obstacle	*68%*	*71%*	*61%*	*62%*	*68%*
Availability of relevant advice (mean score)	2.9	2.8	3.0	2.8	2.7
- 8-10 major obstacle	*6%*	*7%*	*6%*	*4%*	*2%*
- 5-7 moderate obstacle	*21%*	*20%*	*24%*	*22%*	*21%*
- 1-4 limited obstacle	*71%*	*72%*	*68%*	*72%*	*74%*
Staff related issues (mean score)	1.7	1.4	2.4	3.3	3.5
- 8-10 major obstacle	*2%*	*1%*	*5%*	*7%*	*8%*
- 5-7 moderate obstacle	*8%*	*5%*	*15%*	*25%*	*26%*
- 1-4 limited obstacle	*88%*	*92%*	*78%*	*67%*	*65%*

Q227a All SMEs

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

Extent of obstacles in next 12 months Q2 2012 only All SMEs 8-10 impact score	Total	Min	Low	Avge	Worse/Avge
Unweighted base:	*5000*	*866*	*951*	*1330*	*1415*
The current economic climate	35%	26%	36%	34%	38%
Legislation and regulation	14%	18%	15%	14%	13%
Cash flow/issues with late payment	14%	13%	11%	11%	16%
Access to external finance	11%	12%	8%	6%	14%
Availability of relevant advice	6%	2%	4%	6%	7%
Staff related issues	2%	3%	2%	2%	2%

Q227 All SMEs for whom risk ratings known

There was still relatively little difference in the perceived obstacles between those planning to grow and those with no such plans. The current economic climate is still seen as more of an obstacle by those not planning to grow, while access to finance is now mentioned more by those whose objective is to grow:

Extent of obstacles in next 12 months Q2 2012 only All SMEs 8-10 impact score	Total	Obj to grow	No obj to grow
Unweighted base:	*5000*	*2623*	*2377*
The current economic climate	35%	33%	38%
Legislation and regulation	14%	14%	14%
Cash flow/issues with late payment	14%	14%	14%
Access to external finance	11%	13%	9%
Availability of relevant advice	6%	7%	6%
Staff related issues	2%	3%	2%

Q227 All SMEs

Clear differences were seen by whether the SME planned to apply for new/renewed facilities in the next three months, or would like to (the future 'would-be seekers' – FWBS), compared to the 'happy non-seekers'. Those with plans/aspirations to apply were more likely to see most of these issues as major obstacles – whilst the current economic climate (46%) remains the major obstacle, both cash flow (25%) and access to finance (24%) are more salient obstacles to this group.

The 'happy non-seeker' category described below includes those SMEs that met the definition of a 'permanent non-borrower' which indicates that they are unlikely to borrow at any stage. Such SMEs have been excluded from the 'happy non-seeker' definition in the final column below but this changes the scores relatively little, with the exception of the current economic climate (33% v 29%):

Extent of obstacles in next 12 months Q2only All SMEs 8-10 impact score	Total	Plan to apply or FWBS	HNS	HNS excl. PNB
Unweighted base:	*5000*	*1904*	*3096*	*1990*
The current economic climate	35%	46%	29%	33%
Legislation and regulation	14%	18%	12%	13%
Cash flow/issues with late payment	14%	25%	8%	10%
Access to external finance	11%	24%	4%	6%
Availability of relevant advice	6%	9%	5%	5%
Staff related issues	2%	2%	2%	3%

Q227 All SMEs

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

Extent of obstacles in next 12 months Q2 2012 only All SMEs 8-10 impact scores	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Base:	*375*	*520*	*875*	*505*	*450*	*453*	*875*	*447*	*500*
The current economic climate	28%	31%	36%	42%	39%	35%	34%	35%	36%
Legislation and regulation	18%	11%	14%	15%	21%	20%	13%	13%	9%
Cash flow/issues with late payment	8%	18%	13%	18%	10%	11%	15%	3%	18%
Access to external finance	8%	12%	11%	14%	15%	15%	9%	7%	15%
Availability of relevant advice	9%	8%	7%	8%	8%	5%	4%	7%	9%
Staff related issues	2%	2%	1%	2%	10%	4%	2%	1%	1%

Q227All SMEs

Those in Hotels and Restaurants were more likely to rate many of these issues as major obstacles, including access to finance (along with the Transport and Other Community sectors), legislation (also with Transport) and staff related issues. Cashflow was more likely to be rated a major obstacle by those in the Manufacturing, Wholesale/Retail and Other Community sectors.

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

Three waves of data can now be compared. The summary table below shows that the current economic climate was the most likely to be rated a 'major obstacle' in all quarters, and, overall, the scores have been very consistent over time:

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

Q227 All SMEs

With 'Access to finance' the key theme of this report, the table below details the 8-10 impact scores for this issue over time. Overall, the ratings have changed little over time, but there are some changes within key demographics. It has become more of an issue over time for those with 1-9 employees, those with a minimal external risk rating, those currently using external finance and those in the Manufacturing and Other Community sectors, and is consistently more of an issue for those with plans/aspirations to borrow.

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

Q227a_2 All SMEs, base sizes vary

Financial requirements in the next 3 months

SMEs were asked to consider their financial plans over the next 3 months. The figures for Q2 2012 show the slight increase in demand for finance seen in Q1 2012 has not been maintained:

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

Q229 All SMEs

In all quarters to date, more SMEs have identified a need for finance than think they will apply for it (13% v 9% in Q2).

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

% likely in next 3 months All companies, over time	Q1-2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012
Unweighted base:	*2981*	*2923*	*2714*	*2904*	*2905*
Seek new equity from existing shareholders	4%	3%	5%	4%	3%
Seek new equity from new shareholders	5%	2%	4%	3%	3%
Any new equity	*7%*	*5%*	*6%*	*5%*	*4%*

Q229 All companies

In Q2 2012, there was a marked difference in appetite for finance between those with employees and those without:

% likely in next 3 months Q2 only All SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*5000*	*1000*	*1650*	*1600*	*750*
Will have a need for (more) external finance	13%	11%	17%	16%	15%
Will apply for more external finance	9%	7%	13%	13%	13%
Renew existing borrowing at same level	8%	7%	12%	15%	14%
Any apply/renew	*14%*	*12%*	*20%*	*22%*	*21%*
Reduce the amount of external finance used	8%	8%	10%	14%	12%
Inject personal funds into business	23%	24%	20%	11%	5%

Q229 All SMEs

The slight decrease in appetite for finance in Q2 2012 compared to the previous quarter, was driven by lower appetite amongst SMEs with less than 50 employees:

% likely to apply or renew in next 3 months Over time	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Q1-2 2011	19%	17%	24%	24%	22%
Q3 2011	13%	11%	18%	20%	15%
Q4 2011	14%	12%	21%	24%	25%
Q1 2012	16%	14%	23%	23%	20%
Q2 2012	14%	12%	20%	22%	21%

Q229 All SMEs, base size varies

Analysis by risk rating showed reduced appetite in Q2 2012 amongst all except those with a worse than average risk rating:

% likely to apply or renew in next 3 months Over time	Total	Min	Low	Avge	Worse/Avge
Q1-2 2011	19%	13%	17%	18%	18%
Q3 2011	13%	14%	14%	12%	12%
Q4 2011	14%	16%	16%	9%	16%
Q1 2012	16%	15%	20%	16%	17%
Q2 2012	14%	12%	15%	12%	16%

Q229 All SMEs

Analysis by sector showed most appetite for finance in Q2 amongst those in Manufacturing. Appetite for finance is also higher amongst those in Manufacturing when compared to the same time in 2011, but otherwise appetite is lower, notably for those in Property/Business Services and Health:

% likely to apply or renew in next 3 months Over time	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Q1-2 2011	22%	16%	14%	24%	20%	15%	20%	19%	18%
Q3 2011	21%	13%	12%	17%	13%	14%	10%	12%	12%
Q4 2011	17%	13%	13%	18%	22%	17%	12%	11%	14%
Q1 2012	21%	11%	18%	15%	22%	15%	15%	13%	18%
Q2 2012	18%	24%	13%	16%	15%	12%	13%	9%	14%

Q229 All SMEs

As the table below shows, those with an objective to grow still have an increased appetite for finance when compared to those SMES with no such objective. However, their appetite for finance in Q2 2012 is lower than in any previous quarter:

% likely to apply or renew in next 3 months Over time	Total	Obj to grow	No obj to grow
Q1-2 2011	19%	24%	14%
Q3 2011	13%	18%	9%
Q4 2011	14%	19%	10%
Q1 2012	16%	21%	11%
Q2 2012	14%	17%	11%

Q229 All SMEs

In Q2 2012, a quarter of SMEs thought they would be injecting personal funds into the business in the future. This compares to 41% who say that this has been done in the **past** 12 months (a new question for Q2 2012). Analysis shows that it is those who have already put in personal funds who are more likely to think they will do so (again) in the future: 42% of those who have already put funds in think it likely they will do so in future, compared to 9% of those who have not previously put in personal funds.

Overall, for Q2 2012, 17% of **all** SMEs said that they had both injected personal funds into the business in the past 12 months **and** also thought it likely they would do so again in the next 3 months. Compared to all SMEs in Q2, such businesses were:

- Slightly more likely to be small (79% 0 employee v 74% and almost none have more than 10 employees), and be in Construction (28% v 22%). 31% use a personal account for the business (v 20% overall), but they were as likely to plan as other SMEs (59% v 56%)
- More likely to be struggling: they are more likely to have a worse than average risk rating (66% v 51%), to self-report a credit issue (22% v 13%) and to have made a loss in the previous 12 months (25% v 14%). 55% had made a profit (v 65%)
- They were slightly more likely to be using external finance (48% v 43%), to have had a lending event (19% v 13%), and to have been unsuccessful with an application for loan or overdraft facilities: on small base sizes, half of those that applied for a loan or an overdraft had ended the process with no facility (v 1 in 5 for overdrafts and 1 in 3 for loans overall).
- Looking ahead, they were more likely to be planning to grow (61% v 47%), or to apply for facilities in the next 3 months (24% v 14%) or to be a ‘future would-be seeker’ (36% v 22%). They were also more likely to see the current economic climate as a barrier (47% v 35%), together with access to finance (25% v 11%) and cash-flow/late payment (24% v 14%)

For those who were planning to seek/renew funding, the most frequently mentioned purpose remained working capital:

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

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

There remained relatively few differences by size of business.

Overdrafts and loans remained the most considered forms of funding. Compared to the same period last year there is now more consideration of grants, credit cards, and loans/equity from family and friends:

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

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

There continued to be differences in consideration by the size of SME planning to seek new/renewed finance. The increase in overall consideration of overdrafts was caused predominantly by increased consideration amongst 0 employee SMEs planning to seek new/renewed finance (from 49% in Q1 to 59% in Q2):

% of those seeking/renewing finance would consider funding – Q2 2012 only	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*977*	*114*	*340*	*361*	*162*
Bank overdraft	56%	59%	52%	47%	45%
Bank loan/Commercial mortgage	40%	42%	38%	40%	33%
Grants	38%	40%	35%	30%	26%
Loans/equity from family & friends	21%	24%	16%	7%	7%
Leasing or hire purchase	23%	20%	26%	35%	49%
Credit cards	20%	25%	11%	10%	13%
Loans/equity from directors	10%	7%	15%	19%	12%
Loans from other 3rd parties	7%	4%	11%	10%	12%
Invoice finance	9%	10%	6%	19%	19%

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

Those SMEs that would not consider certain forms of finance were asked why that was. To boost sample sizes, these are reported for all relevant SMEs YEQ2 2012, but the key reasons given are consistent over time:

Form of finance	Reasons for not considering – non considerers
Leasing	70% said they did not need this form of finance (especially larger non-considerers). 9% were not looking to fund equipment/vehicles, 10% thought it was too expensive and 5% didn't understand it.
Invoice finance	56% said it was because they did not need this form of finance. 21% said they didn't understand it (especially smaller non-considerers) and 11% thought it was too expensive (especially larger non-considerers).

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

Form of finance	Reasons for not considering – non considerers
Equity (companies only)	Half felt they did not need this type of finance (48%). 14% wanted to retain control of the business and 9% did not want to give a share away, 23% had never considered it and 8% did not know how to get it, typically mentioned more by smaller non-considerers. Three quarters (77%) had heard of at least one of the following: Venture Capital (69% aware), Corporate Finance Advisors (44%), Business Angels (43%), and/or local support programmes to help access equity (22%). Overall awareness ranged from 75% of 0 employee companies to 90% of 50-249 employee companies.

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

Prospective applicants (via loan, overdraft, leasing, invoice finance and/or credit cards) were asked how confident they felt that their bank would agree to meet their finance need. Previous reports showed increasing levels of confidence over time, with overall confidence at 52% in Q1 2012.

In Q2 however, confidence was down to the lowest reported level to date, due to fewer 'fairly confident' applicants:

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

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

The decline in overall confidence in Q2 was driven by a decline in confidence amongst those applicants with less than 10 employees (affecting those with 0 and those with 1-9 employees equally):

Overall confidence bank would lend All planning to seek finance, over time	Overall	0-9 emps	10-249 emps
Q1-2 2011	42%	40%	57%
Q3 2011	43%	42%	63%
Q4 2011	46%	46%	61%
Q1 2012	52%	52%	61%
Q2 2012	39%	37%	60%

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

Confidence has fallen both for those with a minimal/low risk rating (50% overall confidence in Q2 v 65% in Q1) and those with an average/worse than average risk rating (37% overall confidence in Q2 v 49% in Q1).

This decline could be due to the risk *profile* of applicants changing quarter to quarter, but in fact the risk profile of applicants has remained very similar quarter to quarter, both overall and within size band and there has been no significant change in profile for Q2. Nor does the data support a theory that confidence has decreased amongst the smaller applicants because a higher proportion of them were looking for new facilities rather than to renew an existing one.

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

In Q2, 14% of all SMEs reported plans to apply/renew facilities in the following 3 months, leaving the majority (86%) with no such plans. Just over a third of that majority (38%) were current users of external finance, the rest were not. This means that, YEQ2 2012, 51% of all SMEs neither used external finance nor had any immediate plans to apply for any.

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

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

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

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

Note that these definitions, for future behaviour, have not changed.

The table below shows that more SMEs were classified as a 'happy non-seeker' in Q2 2012 (64%), back to levels seen previously, while fewer SMEs were now classified as 'future would-be seekers':

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

Q230/239 All SMEs

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

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

Q230/239 All SMEs excluding the permanent non-borrowers

The table below shows how the proportion of 'future would-be seekers' has changed over time. It highlights a number of demographic groups that have seen particular changes in the proportion of 'future would-be seekers' in Q2 2012, for which more details are provided below:

- Worse than average risk rating: the proportion of 'would-be seekers' declined slightly from 29% in Q1 to 23% in Q2. Such businesses were as likely to have planned to apply /renew facilities (16% from 17%) so the proportion of 'happy non-seekers' increased from 54% to 61%

- Manufacturers: the proportion of 'would-be seekers' declined from 29% in Q1 to 17% in Q2. This was due to more Manufacturers planning to apply /renew facilities (24% from 11%) so the proportion of 'happy non-seekers' remained at 59%

- Health: the proportion of 'would-be seekers' declined from 20% in Q1 to 14% in Q2. There was also a slight decline in the proportion planning to apply /renew facilities (9% from 13%) so the proportion of 'happy non-seekers' increased from 67% to 78%

- Construction: the proportion of 'would-be seekers' increased from 24% in Q1 to 29% in Q2. There was a corresponding decline in plans to apply /renew facilities (13% from 18%) so the proportion of 'happy non-seekers' increased only slightly from 57% to 59%

The table below details the proportion of 'future would-be seekers' by key groups of SMEs. Over time, this proportion had increased slightly and some demographic differences have already been highlighted. In Q2 itself, the SMEs most likely to be 'future would-be seekers' were those in Construction or Hotels and Restaurants , and the smallest SMEs:

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

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

To understand this further, the table below shows all the reasons given by 'would-be seekers' in Q2 2012 for thinking they will not apply for finance in the next three months, and highlights the impact of the current economic climate:

Reasons for not applying (all mentions) All future 'would-be seekers' Q2 2012 only	Q2 overall	Q2 0-9 emps	Q2 10-249 emps
Unweighted base:	*927*	*564*	*363*
Reluctant to borrow now (any)	51%	51%	58%
-Prefer not to borrow in economic climate	*33%*	*33%*	*27%*
-Predicted performance of business	*18%*	*18%*	*31%*
Issues with principle of borrowing	15%	15%	19%
-Prefer not to borrow	*12%*	*11%*	*16%*
-Not lose control of business	*1%*	*1%*	*
-Can raise personal funds if needed	*3%*	*3%*	*2%*
-Prefer other forms of finance	*1%*	*1%*	*1%*
-Go to family and friends	*	*	*
Issues with process of borrowing	16%	16%	13%
-Would be too much hassle	*7%*	*7%*	*6%*
-Thought would be too expensive	*10%*	*10%*	*6%*
-Bank would want too much security	*1%*	*	*2%*
-Too many terms and conditions	*	*	*1%*
-Did not want to go through process	*1%*	*1%*	*1%*
-Forms too hard to understand	*	*	*
Discouraged (any)	16%	16%	12%
-Direct (Put off by bank)	2%	2%	1%
-Indirect (Think I would be turned down)	*14%*	*14%*	*11%*

Q239 Future 'would-be seekers' SMEs

Analysis of the Q2 results by size of 'would-be seeker' showed that it was the larger SMEs that were more reluctant to borrow now, and also more likely to say that this was because of the predicted performance of their business. Smaller 'would-be seekers' were slightly more likely than the larger ones to have issues with the process of borrowing or with discouragement.

Those SMEs that gave more than one reason for their reluctance to borrow were asked for the main reason, and all the main reasons given over time are shown below. Reluctance to borrow 'now' remained the key reason for being unlikely to seek funds in the next 3 months, nominated by half of 'future would-be seekers' (albeit down slightly on Q1) and as the table shows, within this overall category an increasing proportion gave their *own* performance as the main barrier to seeking funds. The proportions citing 'principle' or 'process' are unchanged from Q1, leaving slightly more 'future would-be seekers' citing discouragement, almost all of it indirect:

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

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

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

When the 'future would-be seekers' were first described, they were the sum of two groups – those with an identified need they thought it unlikely they would apply for, and a larger group of those with no immediate need identified. The main barriers to borrowing are slightly different for the two groups, shown here reported on a rolling basis (Q3 and Q4 2011 combined, then Q4 2011 and Q1 2012 and now Q1 and Q2 2012) in order to provide a more robust sample of those with an identified need:

Main reason for not applying The future would-be seekers	Identified need			No identified need		
	Q3-4	Q4-1	Q1-2	Q3-4	Q4-1	Q1-2
Unweighted base:	*173*	*179*	*213*	*1643*	*1663*	*1694*
Reluctant to borrow now (any)	33%	42%	38%	49%	54%	53%
-Prefer not to borrow in economic climate	*33%*	*39%*	*33%*	*36%*	*37%*	*34%*
-Predicted performance of business	*1%*	*3%*	*5%*	*13%*	*17%*	*19%*
Issues with <u>principle</u> of borrowing	5%	3%	4%	20%	14%	15%
Issues with <u>process</u> of borrowing	16%	12%	10%	15%	15%	14%
Discouraged (any)	39%	38%	44%	9%	10%	8%
- Direct (Put off by bank)	*2%*	*5%*	*6%*	*1%*	*1%*	*1%*
-Indirect (Think I would be turned down)	*37%*	*33%*	*39%*	*9%*	*8%*	*7%*

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

This shows that for those with an <u>identified</u> need, discouragement is now slightly more of a barrier than a reluctance to borrow in the current climate. This discouragement, however, was almost entirely *indirect* (the SME thinking they would be turned down).

Amongst those with <u>no</u> immediate need identified, a reluctance to borrow now continued to present a much stronger barrier, and this was increasingly due to the SME's own performance. For this group, discouragement remained much less of an issue than for those with an identified need.

Other analysis, such as by size and risk rating, is possible based just on the latest quarter, Q2 2012. Larger 'future would-be seekers' were more likely to be reluctant to borrow due to the current economic climate (and particularly their performance in that climate). Discouragement is more of an issue for smaller SMEs, mentioned by 14% of 'future would-be seekers' with 0-9 employees (but the 10-249 employee SMEs have seen more of a change over time, from 5% citing discouragement in Q1 to 11% in Q2).

Main reason for not applying Future 'would-be seekers' by size Q2 2012 only	Overall	0-9 emps	10-249
Unweighted base:	*927*	*564*	*363*
Reluctant to borrow now (any)	49%	49%	57%
-Prefer not to borrow in economic climate	*31%*	*32%*	*26%*
-Predicted performance of business	*18%*	*17%*	*30%*
Issues with <u>principle</u> of borrowing	14%	14%	19%
Issues with <u>process</u> of borrowing	14%	14%	11%
Discouraged (any)	14%	14%	11%
-Direct (Put off by bank)	*1%*	*1%*	*1%*
-Indirect (Think I would be turned down)	*13%*	*13%*	*10%*

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

The table below shows analysis of the main reasons given for not applying in Q2 2012 by 'future would-be seekers' by risk rating. This shows that reluctance to borrow is the most mentioned main reason for all four risk ratings. But *within* this category, those with a minimal risk rating remain more likely to cite the performance of their own business, rather than the economy more generally – this is also now true for those with an average risk rating, but the opposite is true for 'future would-be seekers' with other risk ratings. The process of borrowing is mentioned more by those with a worse than average risk rating. Mentions of 'discouragement' do not follow a clear pattern by risk rating, although it was mentioned more as an issue by those with a worse than average risk rating (almost all of which was indirect).

Main reason for not applying Future 'would-be seekers' by risk rating Q2 2012 only	Min	Low	Avge	Worse/ Avge
Unweighted base:	*130*	*146*	*244*	*315*
Reluctant to borrow now (any)	71%	39%	57%	48%
-Prefer not to borrow in economic climate	*19%*	*15%*	*37%*	*34%*
-Predicted performance of business	*52%*	*24%*	*20%*	*14%*
Issues with <u>principle</u> of borrowing	15%	14%	17%	11%
Issues with <u>process</u> of borrowing	9%	11%	6%	17%
Discouraged (any)	4%	11%	8%	19%
-Direct (Put off by bank)	*-*	***	*2%*	*2%*
-Indirect (Think I would be turned down)	*4%*	*11%*	*5%*	*17%*

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

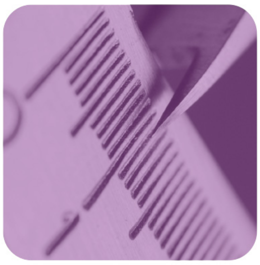
To put these results in context, the table below shows the equivalent figures for all reasons, for all SMEs in Q2 2012. Around 1 in 10 of all SMEs (11%) would have liked to apply for new/renewed facilities in the next 3 months but did not because of the current climate or the performance of their business (down slightly from 13% in Q1):

Reasons for not applying Q2 only – the future would-be seekers	All reasons	Main reason	All SMEs Q2	All SMEs excl. PNB
Unweighted base:	*927*	*927*	*5000*	*3894*
Reluctant to borrow now (any)	51%	49%	11%	17%
-Prefer not to borrow in economic climate	*33%*	*31%*	*7%*	*11%*
-Predicted performance of business	*18%*	*18%*	*4%*	*6%*
Issues with principle of borrowing	15%	14%	3%	5%
Issues with process of borrowing	16%	14%	4%	5%
Discouraged (any)	16%	14%	4%	5%
-Direct (Put off by bank)	*2%*	*1%*	*<1%*	*<1%*
-Indirect (Think I would be turned down)	*14%*	*13%*	*3%*	*4%*

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

The table above also shows the equivalent proportion of SMEs *excluding* the permanent non-borrowers that that have indicated that they are unlikely to be interested in seeking finance. Of those SMEs that *might* be interested in seeking finance (once the PNBs are excluded), 17% are put off by the current economic climate (including their performance in that climate). This is also down slightly on Q1 2012 (19%).

13. Awareness of taskforce and other initiatives



This final section of the report looks

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

Key findings

Just under half of all SMEs (47%) are aware of any of the main Taskforce initiatives, and this figure has remained virtually unchanged since Q3 2011

Excluding the 'permanent non-borrowers', for whom many of these initiatives will be less immediately relevant, does little to boost net awareness (49%)

18% of SMEs were aware of 'crowd funding' – typically online services, that allow businesses to raise funds through borrowing directly from individual lenders, auctioning individual invoices, or by offering equity, or other financial benefits in return for funding from one, or more, investors. Awareness increased with size of SME, and was higher for those already using external finance

14% of SMEs were aware of the 'National Loan Guarantee Scheme' (now superseded to a certain extent by Funding for Lending). Again awareness increased by size of SME and for those already using external finance. Asked if the scheme would have an impact on them, 15% of all SMEs said that it made them more likely to apply for a loan, HP or leasing, but the biggest single group, 65% of all SMEs, said that the scheme would not impact them because they did not wish to take out one of these products

Those more likely to apply due to the scheme included larger SMEs (21% of those with 50-249 employees), those with plans to borrow in the next 3 months (38%), Starts (18%) and those currently using external finance (19%)

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

In Q2 2012 Project Merlin was removed from the list of initiatives, and additional questioning added on the National Loan Guarantee Scheme and 'crowd funding'. This new data is reported towards the end of this chapter.

The first table covers those initiatives potentially relevant to all SMEs. Overall awareness has changed very little over time, with 47% of SMEs aware of one or more initiatives in Q2:

Awareness of Taskforce initiatives Over time All SMEs asked new question	Q3 2011	Q4 2011	Q1 2012	Q2 2012
Unweighted base:	*4792*	*5010*	*5023*	*5000*
Enterprise Finance Guarantee scheme	22%	23%	22%	23%
A network of business mentors	21%	22%	26%	23%
Alternative sources of business finance	17%	12%	17%	18%
Independently monitored appeals process	14%	10%	13%	12%
The Business Growth Fund	12%	12%	12%	14%
Regional outreach events	11%	7%	9%	8%
BetterBusinessFinance.co.uk	9%	9%	9%	9%
Trade finance and EFG for exporters	8%	6%	8%	9%
*Any of these**	*46%*	*46%*	*48%*	*47%*
None of these	*54%*	*54%*	*52%*	*53%*

Q240 All SMEs * previous quarters now adjusted to exclude Merlin awareness

The table below shows awareness over time, by size of SME. There has been little change in awareness over time, with larger SMEs more likely to be aware of any of these initiatives (45% for those with 0 employees, rising to 65% of those with 50-249 employees).

Awareness of Taskforce initiatives All SMEs asked new question	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base (Q2):	*5000*	*1000*	*1650*	*1600*	*750*
Enterprise Finance Guarantee scheme Q311	22%	20%	26%	32%	37%
Enterprise Finance Guarantee scheme Q411	23%	22%	24%	32%	46%
Enterprise Finance Guarantee scheme Q112	22%	21%	26%	34%	41%
Enterprise Finance Guarantee scheme Q212	23%	20%	29%	36%	41%
A network of business mentors Q311	21%	21%	21%	27%	24%
A network of business mentors Q411	22%	22%	21%	28%	23%
A network of business mentors Q112	26%	26%	24%	26%	28%
A network of business mentors Q212	23%	22%	26%	28%	28%
Alternative sources of business finance Q311	17%	16%	20%	29%	32%
Alternative sources of business finance Q411	12%	11%	14%	23%	30%
Alternative sources of business finance Q112	17%	15%	22%	30%	34%
Alternative sources of business finance Q212	18%	16%	23%	32%	36%
Independently monitored appeals process Q311	14%	13%	14%	17%	17%
Independently monitored appeals process Q411	10%	10%	12%	17%	17%
Independently monitored appeals process Q112	13%	13%	13%	16%	19%
Independently monitored appeals process Q212	12%	10%	15%	17%	18%
The Business Growth Fund Q311	12%	11%	13%	18%	22%
The Business Growth Fund Q411	12%	11%	14%	18%	22%
The Business Growth Fund Q112	12%	11%	14%	21%	25%
The Business Growth Fund Q212	14%	12%	16%	21%	23%

continued

continued

Regional outreach events Q311	11%	11%	11%	13%	14%
Regional outreach events Q411	7%	7%	9%	14%	10%
Regional outreach events Q112	9%	9%	9%	13%	12%
Regional outreach events Q212	8%	7%	12%	12%	11%
BetterBusinessFinance.co.uk Q311	9%	9%	10%	11%	9%
BetterBusinessFinance.co.uk Q411	9%	9%	9%	12%	9%
BetterBusinessFinance.co.uk Q112	9%	10%	8%	10%	11%
BetterBusinessFinance.co.uk Q212	9%	8%	11%	10%	10%
Trade finance and EFG for exporters Q311	8%	8%	10%	14%	18%
Trade finance and EFG for exporters Q411	6%	5%	8%	14%	17%
Trade finance and EFG for exporters Q112	8%	7%	10%	14%	21%
Trade finance and EFG for exporters Q212	9%	8%	11%	16%	21%

Q240 All SMEs

SMEs looking to apply for new/renewed facilities in the next 3 months were slightly more likely to be aware of these initiatives in Q2 (54%) than either ‘future would-be seekers’ (41%) or ‘happy non-seekers’ (48%), due to slightly higher awareness of the EFG scheme (29%), mentors (26%) and the website (12%).

Many of these initiatives are more relevant to those with an interest in seeking external finance, and mention has been made several times in this report of the third of SMEs that can be described as ‘permanent non-borrowers’ who have indicated that they are unlikely ever to seek external finance. In fact there is very little difference in awareness of individual initiatives between the ‘permanent non-borrowers’ and other SMEs, and overall awareness of any of these initiatives is almost identical (44% in Q2 2012 for ‘permanent non-borrowers’ and 49% for other SMEs).

There was some variation in overall awareness by sector. Those in Property/Business Services (59%) and Health (55%) were the most likely to be aware, those in Construction (37%) the least likely. A detailed breakdown of awareness over time is provided below:

% aware Over time	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Enterprise Finance Guarantee scheme Q311	19%	31%	17%	21%	19%	24%	26%	25%	14%
Q411	20%	34%	17%	15%	18%	19%	31%	20%	22%
Q112	22%	20%	19%	21%	20%	21%	27%	27%	22%
Q212	16%	23%	15%	19%	21%	22%	30%	26%	25%
A network of business mentors Q311	27%	26%	15%	20%	16%	25%	26%	25%	17%
Q411	15%	30%	16%	17%	18%	20%	27%	23%	25%
Q112	21%	23%	21%	22%	21%	24%	27%	31%	39%
Q212	18%	22%	17%	20%	22%	16%	34%	24%	24%
Alternative sources of business finance Q311	18%	21%	13%	16%	16%	18%	22%	12%	14%
Q411	14%	15%	8%	9%	9%	14%	16%	13%	11%
Q112	19%	13%	12%	16%	16%	22%	20%	20%	18%
Q212	16%	20%	13%	17%	14%	13%	27%	13%	13%
Independently monitored appeals process Q311	16%	19%	12%	14%	14%	16%	15%	12%	10%
Q411	11%	13%	8%	11%	12%	16%	11%	6%	11%
Q112	10%	10%	15%	13%	11%	17%	12%	14%	11%
Q212	9%	8%	10%	12%	13%	14%	14%	11%	13%

continued

continued

The Business Growth Fund Q311	13%	22%	9%	10%	12%	10%	13%	9%	12%
Q411	16%	14%	6%	9%	11%	16%	18%	10%	9%
Q112	11%	13%	9%	11%	12%	17%	15%	14%	9%
Q212	11%	12%	8%	9%	12%	14%	21%	12%	16%
Regional outreach events Q311	12%	21%	8%	10%	10%	13%	12%	11%	11%
Q411	9%	8%	7%	9%	7%	10%	8%	5%	6%
Q112	8%	9%	8%	7%	8%	12%	11%	14%	5%
Q212	8%	6%	3%	7%	8%	4%	11%	10%	16%
BetterBusinessFinance.co.uk Q311	10%	15%	8%	11%	13%	8%	8%	12%	10%
Q411	11%	8%	9%	4%	10%	11%	9%	6%	13%
Q112	6%	9%	8%	5%	12%	13%	10%	15%	12%
Q212	10%	11%	5%	5%	8%	6%	12%	10%	12%
Trade Finance & EFG for exporters Q311	6%	8%	8%	7%	6%	11%	11%	7%	5%
Q411	6%	5%	5%	3%	5%	10%	9%	5%	4%
Q112	7%	7%	7%	8%	4%	10%	9%	7%	9%
Q212	6%	11%	3%	10%	7%	4%	13%	8%	15%

Q240 All SMEs

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

Initiative	Awareness
The Lending Code – asked of SMEs with less than 10 employees	Fairly consistent overall awareness amongst SMEs with less than 10 employees: 15% in Q2 (ranging between 15-18% in previous quarters). There was however a fall in awareness amongst those with 0 employees (14% in Q2 v 18% in Q1, back to levels seen previously). Awareness amongst 1-9 employee businesses improved slightly (18% in Q2 from 16% in Q1).
Lending principles – asked of SMEs with more than 50 employees	Awareness is fairly consistent over time: 21% of the largest SMEs aware of this initiative in Q2 (19-23% across previous quarters).
Loan refinancing talks, 12 months ahead – asked of SMEs with a loan	Awareness of this initiative amongst SMEs with loans was fairly stable at 11% in Q2 (7-13% across previous quarters) Awareness amongst smaller SMEs with loans was unchanged: 0-9 employees 11% in Q2 from 12% in Q1 whilst awareness for 10-249 employees was down slightly at 12% having been at 15% for all 3 previous quarters.

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

Initiative	Awareness
The independently monitored lending appeals process	Overall awareness of this remains limited (11% in Q2 from 13% in Q1 2012). Amongst those who, since April 2011, had applied for an overdraft and been declined, 14% said that they had been made aware of the appeals process, while for loans the equivalent figure was 8%.
Trade Finance & EFG for exporters	Overall awareness is low but stable (9% in Q2 2012). Amongst those who export, awareness is higher, 23% in Q2 2012, and has recovered from a dip in Q4 2011 (17%).

New questions were asked in Q2 2012 to explore awareness of National Loan Guarantee Scheme and 'crowd funding'.

18% of SMEs said that they were aware of **crowd funding** (the equivalent of 818,000 SMEs), and awareness increased by size:

- 17% of those with 0 employees
- 19% of those with 1-9 employees
- 24% of those with 10-49 employees
- 26% of those with 50-249 employees

Awareness was slightly higher amongst those already using external finance (20% v 16% if not using external finance), amongst Starts (21%) and those with a minimal external risk rating (25%). Excluding the 'permanent non-borrowers' boosts awareness only very slightly to 19%.

14% of SMEs said they were aware of the **National Loan Guarantee Scheme**, and this also increased with size:

- 12% of those with 0 employees
- 18% of those with 1-9 employees
- 22% of those with 10-49 employees
- 27% of those with 50-249 employees

Awareness was higher amongst those already using external finance (17% v 11% if not using external finance), and amongst those with plans to borrow in the next 3 months (20%). Those with a minimal (20%) or low (18%) external risk rating were more likely to be aware than those with an average (13%) or worse than average (12%) rating. Excluding the 'permanent non-borrowers' boosts awareness only very slightly to 15%.

All SMEs were then asked how such a scheme, with a 1% discount on loans, hire purchase or leasing, might affect their future decisions about applying for such products. As the table below shows, very few felt the scheme would put them off applying (4%) but the majority (65%) said it would make no difference to them because they did not want one of these lending products. This lack of demand for these lending products was much more likely to be the barrier than interest rates not being a main consideration (7%).

Overall, 15% of SMEs thought the scheme would make it more likely that they would apply for such a lending product, the equivalent of 682,000 SMEs. Interest increased by size to 21% of those with 50-249 employees:

Effect of NLGS All SMEs asked new question in Q2 2012	Overall	0 emps	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*4829*	*981*	*1604*	*1528*	*716*
Now more likely to apply for this type of funding	15%	14%	18%	17%	21%
No difference because do not want a loan, HP or leasing	65%	67%	60%	64%	60%
No difference as interest rates not main consideration for finance	7%	7%	8%	8%	8%
Now less likely to apply for this type of finance	4%	3%	5%	5%	4%

Q240 All SMEs, excluding DK

Those with a poorer risk rating were more likely to say that they would now be more likely to apply for such lending products:

- 10% of those rated a minimal risk thought they were now more likely to apply
- 13% of those rated a low risk
- 12% of those rated an average risk
- 17% of those rated a worse than average risk

Also more likely to apply were those with plans to borrow in the next 3 months (38%), those currently using external finance (19%) and Starts (18%). Those previously aware of the scheme were slightly less likely to think they might apply (11%) than those previously unaware (16%).

14. Technical Appendix

This chapter covers

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

Eligible companies

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

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

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

Sample structure

Quotas were set overall by size of business, by number of employees, as shown below. The classic B2B sample structure over-samples the larger SMEs compared to their natural representation in the SME population in order to generate robust sub-samples of these bigger SMEs. Fewer interviews were conducted with 0 employee businesses to allow for these extra interviews. This has an impact on the *overall* weighting efficiency (once the size bands are combined into the total), which is detailed later in this chapter. The totals below are for all interviews conducted YEQ2 2012 – each quarter's sample matched the previous quarter's results as closely as possible.

Business size	Universe	% of universe	Total sample size	% of sample
Overall	4,548,843	100%	20,088	100%
0 employee (resp)	3,366,144	74%	4023	20%
1-9 employees	1,008,024	22%	6636	33%
10-49 employees	144,198	3%	6419	32%
50-249 employees	26,383	1%	3010	15%

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

Business sector* SIC 2007 in brackets)	Universe	% of universe	Total sample size	% of sample
AB Agriculture etc. (A)	195,285	4%	1503	7%
D Manufacturing (C)	302,032	7%	2130	11%
F Construction (F)	1,017,210	22%	3535	18%
G Wholesale etc. (G)	561,689	12%	2041	10%
H Hotels etc. (I)	156,001	4%	1785	9%
I Transport etc. (H&J)	314,705	7%	1804	9%
K Property/Business Services (L,M,N)	1,194,629	26%	3530	18%
N Health etc. (Q)	279,280	6%	1749	8%
O Other (R&S)	528,011	12%	2011	10%

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

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

Region	Universe	% of universe	Total sample size	% of sample
London	773,303	17%	2395	12%
South East	727,815	16%	2453	12%
South West	454,884	10%	1838	9%
East	454,884	10%	1760	9%
East Midlands	272,931	6%	1401	7%
North East	136,465	3%	996	5%
North West	454,884	10%	1815	9%
West Midlands	318,419	7%	1811	9%
Yorks & Humber	318,419	7%	1812	9%
Scotland	318,419	7%	1613	8%
Wales	181,954	4%	1194	6%
Northern Ireland	136,465	3%	1000	5%

Weighting

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

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

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

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

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

Overall rim weights were then applied for regions:

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

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

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

Business size	Sample size	Weighting efficiency	Effective sample size	Significant differences
Overall	20,088	27%	5423	+/- 2%
0 employee (resp)	4023	79%	3178	+/- 2%
1-9 employees	6636	77%	5110	+/- 2%
10-49 employees	6419	78%	5007	+/- 2%
50-249 employees	3010	82%	2468	+/- 3%

Analysis techniques

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

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

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

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