SME Finance Monitor

Q2 2013: The changing mix of external funding?

An independent report by BDRC Continental, August 2013

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Foreword

Welcome to the ninth report of the SME Finance Monitor, which now includes data from interviews conducted up to the end of June 2013, so slightly before the recent, more upbeat, news about the economy.

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

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

Results from the SME Finance Monitor are reported in the press and online and used by a wide variety of organisations to inform their decision making about SMEs. The data provides both a clear view of how SMEs are feeling now, and, increasingly, how this has changed over time. It also provides analysis by size of SME and sector, as SMEs should not be seen as one homogenous group: the smallest SMEs with no employees in particular can often report different views and experiences to larger SMEs.

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

Shiona Davies
Editor, The SME Finance Monitor
August 2013

The Survey Steering Group comprises representatives of the following:

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

1. Introduction

The issue of bank lending to SMEs continues to provoke much comment. A range of government and financial initiatives, such as the Funding for Lending scheme, have sought to make funds available for SMEs and encourage banks to lend, while alternative sources of finance are increasingly being discussed. For some time the unstable economic atmosphere, including in the Eurozone, has affected business confidence and appetite for borrowing. There have been signs over recent months that confidence is starting to improve, as economic indicators report a more positive position – although it should be born in mind that this latest report reflects on business sentiment up to the end of June 2013, while much of the more positive news has emerged since then. The debate continues as to the extent to which demand and/or supply issues are contributing to lower levels of lending to SMEs.

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

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

The majority of this ninth report is based on a total of 20,032 interviews with SMEs, conducted to YEQ2 2013. This means that the interviews conducted in the first five waves, (the three waves conducted during 2011 plus Q1 and Q2 2012), are no longer included in the *year ending* results but they are still shown in this report where data is reported quarterly over time, or by application date.

The YEQ2 2013 data therefore includes the following four waves:

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

All waves were conducted using the same detailed quota profile. The results from the four waves have been combined to cover a full 12 months of interviewing, and weighted to the overall profile of SMEs in the UK in such a way that it is possible to analyse results wave on wave where relevant – and the data reported for an individual quarter will be as originally reported. This combined dataset of 20,032 interviews is referred to as YEQ2 2013.

The majority of reporting is based on interviews conducted in the year to Q2 2013. The exceptions to this rule are:

- Where data is reported by loan or overdraft application date over time. In these instances, all applicants to date are included, split by the quarter in which they made their application for loan and/or overdraft facilities.
- New for Q2 2013, when the applications made are analysed by sub-group, such as employee size this is also now based on application date rather than date of interview. For the Q2 2013 report, this means such tables are based on all applications occurring in the 18 months between Q1 2012 and Q2 2013, to provide robust base sizes for each sub-group
- Where SMEs are asked about their planned future behaviour, typically reporting expectations for the next 3 months, comparisons are made between individual quarters

A further quarter of 5,000 interviews, to the same sample structure, is being conducted July to September 2013, and results will be published in November 2013. At that stage, we will again present data on a rolling basis of 20,000 interviews (so adding Q3 2013 and dropping Q3 2012 from the main dataset reported).

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

2. Management summary

This report covers

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

An increased proportion of SMEs reported growth in the past 12 months and predicted it for the next 12 months. Levels of profitability remained stable. The current economic climate continued to be seen as the main barrier to running a business, but is being mentioned by fewer SMEs each quarter. Fewer SMEs self-reported a credit issue, but the proportion with a 'worse than average' external risk rating was the highest level seen to date.

- 44% of all SMEs reported that they had grown in the past 12 months, up from 39% in Q1 2013 and 37% in Q4 2012. 14% of SMEs reported having grown by 20% or more, up slightly from 12% in the two previous quarters.

- Looking ahead to the next 12 months, 51% of SMEs in Q2 2013 expected to grow, up from 48% in Q1, and the highest proportion to date. Most expected this growth to occur in existing markets and there was little indication that those who do not currently export planned to achieve growth overseas.

- 10% of SMEs in Q2 self-reported a credit issue such as a bounced cheque, the lowest level seen to date. The profile of external risk ratings has moved in the opposite direction, and in Q2 56% of SMEs interviewed had a 'worse than average' external risk rating from Dun & Bradstreet / Experian, up from 51% a year ago.

- When asked to rate potential obstacles to running their business in the next 12 months, 28% rated the current economic climate as a 'major barrier', still well ahead of the other factors measured, but the lowest level seen to date and down from a peak of 37% in Q1 2012.

After the lowest level recorded to date in Q1 2013, use of external finance amongst SMEs increased in Q2 2013. As a result there were once again more SMEs using external finance than SMEs who met the definition of a 'Permanent non-borrower'. There was no increase in the use of the 'core' forms of finance and as before the majority of SMEs had been 'Happy non-seekers' of finance in the 12 months prior to their interview.

- 44% of SMEs reported using external finance in Q2 2013, up from 39% in Q1. By size this varied from 39% of 0 employees to 74% of those with 50-249 employees, and the increase from Q1 was driven by those with 0 or 1-9 employees.

- Use of the 'core' products (loans, overdrafts and credit cards, often delivered by a bank) remained flat at 33%, with overdrafts now used by 18% of all SMEs, the lowest level seen to date on the SME Finance Monitor.

- It was the use of 'other' forms of external finance (such as leasing, invoice discounting, grants and loans from directors) that increased in Q2 to boost the overall use of external finance. Use of such products is now 21%, up from 15% in recent quarters.

- The proportion of 'Permanent non-borrowers', those SMEs that do not use external finance and show little inclination to do so in future, fell slightly after recent increases and at 36%, is once again below the proportion using external finance. Once such SMEs are excluded from the population, 70% of remaining SMEs use external finance.

- In the 12 months prior to interview, 19% of SMEs reported having had a borrowing event. Most SMEs, 76%, met the definition of a 'Happy non seeker' of funds who had not applied and did not feel anything had stopped them doing so.

- 6% of SMEs interviewed in Q2 met the definition of a 'Would-be seeker' of funds, who had wanted to apply for a loan or overdraft but felt that something stopped them. Across both loans and overdrafts 'discouragement' and the 'process of borrowing' remained the key barriers. 37% of 'would-be overdraft seekers' and 42% of 'would-be loan seekers' cited discouragement as their main barrier, most of it indirect (assuming they would be turned down and so not applying). 39% of both loan and overdraft 'would-be seekers' cited the process of borrowing as the main barrier, mention issues such as thinking it would be expensive, the hassle involved and the possible terms and conditions that might be applied.

7 out of 10 loan and overdraft applications reported to date have resulted in a facility. Analysis by applicant profile suggested that, unlike 2011, applications made in 2012 were more likely to be successful than the profile of applicants would predict. 26% of overdraft applications and 34% of loan applications made in the past 18 months resulted in no facility, and this remained more likely to be the case for smaller, younger businesses, those with a worse than average risk rating and those looking to borrow for the first time. Awareness of the appeals process remained low, and banks were not typically well rated for the help and advice they offered those initially declined.

- Of all the applications recorded on the SME Finance Monitor to date, 69% resulted in a facility.
- Of overdraft applications made in the last 18 months (Q1 2012 to Q2 2013), 57% were offered and accepted the facility they wanted and a further 14% had an overdraft after issues. 3% took other funding and 26% ended the process with no facility.
- The equivalent figures for loans applied for in the past 18 months were 45% of applicants being offered and accepting the facility they wanted while a further 13% had a loan after issues. 8% took other funding and 34% ended the process with no facility.
- Over time, the proportion of overdraft applicants ending the process with a facility has been consistent. There remained no clear pattern for loan success rates over time.
- Analysis showed that the lower success rates for overdraft applications in the first half of 2012 (71%) compared to the second half of 2012 (76%) were to a large extent explained by the profile of applicants in these quarters (size, risk rating and type of borrowing). Analysis also suggested that more loan and overdraft applications were successful in 2012 than the overall profile of applicants would predict.
- Amongst those initially declined, awareness of the appeals process remained low (15% of those initially declined for an overdraft in the last 18 months and 7% for those initially declined for a loan), with most rating the advice their bank offered as poor (70% for declined overdrafts, 62% for declined loans).

14% of SMEs planned to apply for new or renewed finance in the 3 months after their interview in Q2, and that proportion has changed little over time. Amongst this group, a quarter saw 'Access to Finance' as a barrier to running their business as they would wish (they are also more likely to see the other factors tested as barriers). Consideration of 'core' financial products for this future borrowing was at a lower level than previously seen, and confidence that the bank would agree to their request also declined again, reinforcing the 'Perception Gap' around successful applications.

- 14% of SMEs planned to apply for new or renewed facilities in the next 3 months, with little variation over time. Larger SMEs and those planning to grow had more of an appetite for finance.
- 10% of all SMEs rated 'Access to Finance' as a main barrier for the next year, increasing to 15% once the 'Permanent non borrowers' were excluded and to 24% of those SMEs that were either planning to apply or who met the definition of a 'Future would-be seeker' of finance. This latter group gave higher scores for all the potential barriers tested.
- 61% of those planning to apply/renew would consider one of the 'core' products of loan, overdraft or credit card, down from 70% in Q1.
- Confidence that their bank would agree to their request fell from 40% of future applicants in Q1 to 30% in Q2, due to lower confidence amongst smaller applicants (whose confidence has been more volatile over time).
- These levels of confidence remained in contrast to actual success rates. The perception gap for renewals was 38% confident about a future application against 91% of such applications actually being successful, while for new facilities it was 25% confident against 50% of such applications being successful.

1 in 5 SMEs would like to apply for facilities in the next 3 months but thought something would stop them. Most of these 'Future would-be seekers' had no immediate need identified, and cited a reluctance to borrow now as the main barrier to an application. Those who did have a need identified (but thought it unlikely they would apply) were as likely to cite discouragement as their barrier as they were a reluctance to borrow now.

- In Q2 2013, 19% of SMEs were 'Future would-be seekers', who felt that there were barriers to prevent them from applying for external finance in the next 3 months.
- Most of this group (17% of all SMEs) did not have an immediate need for finance identified. Across Q1 and Q2 2013 this group were most likely to cite a reluctance to borrow now (66%) as the barrier to an application, up from 59% for Q4-Q1. This was made up of 43% who said they preferred not to borrow in the current climate and 23% who said the performance of their business meant they wouldn't apply.
- For the remaining 2% of SMEs that *did* have a need for finance identified, 33% cited a reluctance to borrow now. Just as many, 32%, cited discouragement , almost all of it indirect (27% assumed the bank would say no so wouldn't ask).

Awareness of the Funding for Lending scheme increased, but in Q2 fewer SMEs said that such schemes encouraged them to apply for finance. Awareness of other initiatives was predominantly flat, resulting in an unchanging half of SMEs being aware of any of the support initiatives tested. Awareness of 'crowd funding' is higher than many of these initiatives, and 2% of all SMEs said they had applied for this type of finance.

- 29% of SMEs in Q2 were aware of the Funding for Lending scheme (FLS), ranging from 27% of those with 0 employees to 46% of those with 50-249 employees.
- Over the three quarters for which data is available, awareness of the scheme increased from 23% to 29% overall.
- 16% of all SMEs said that schemes like FLS made it more likely they would apply for finance, down from 20% when this was first asked in Q4 2012. Appetite to apply was down across all size bands with the exception of those with 1-9 employees.
- Most SMEs, 77% in Q2, said that such schemes made no difference because they did not want funding.
- Whilst awareness of FLS has improved, awareness of most other initiatives, including the appeals process, is flat over time (awareness of appeals is currently 12% overall). 52% of SMEs were aware of any of the initiatives tested, ranging from 50% of those with 0 employees to 69% of those with 50-249 employees.
- 22% of SMEs were aware of 'crowd funding', up from 18% when this question was last asked in 2012, and increasing slightly with size of business. This included 2% of all SMEs who said that they had applied for such funding, and this varied very little by size or risk rating.

3. Using this report

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

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

Where relevant, analysis has also been provided by sector, age of business or other relevant characteristics of which the most frequently used is external risk rating. This was supplied for almost all completed interviews by D&B or Experian, the sample providers. Risk ratings are not available for 14% of respondents, typically the smallest ones. D&B and Experian use slightly different risk rating scales, and so the Experian scale has been matched to the D&B scale as follows:

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

As sample sizes have increased, it has become possible to show more results by sector. The table below shows the share each sector has, from 4% (Hotels and Restaurants) to 26% (Property/Business Services) of all SMEs, and the proportion in each sector that are 0 employee SMEs.

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

Analysis over time

This report is predominantly based on four waves of data gathered across Q3 and Q4 of 2012 and Q1 and Q2 of 2013. In all four waves, SMEs were asked about their past behaviour during the previous 12 months, so there is an overlap in the time period each wave has reported on. These year-ending figures are defined by the date of **interview**, i.e. all interviews conducted in the year concerned.

Small sample sizes for some lines of questioning mean that in those instances data is reported based on four quarters combined (YEQ2 2013 in this report). This provides a robust sample size and allows for analysis by key sub-groups such as size, sector or external risk rating. However, where results can be shown by individual quarter over time, they have been.

Each report also comments on changes in demand for credit and the outcome of applications over time. Here, it is more appropriate to analyse results based on when the **application** was made, rather than when the interview was conducted. Final data is now available for any applications made in 2010, 2011, and the first half of 2012 but for other more recent quarters data is still being gathered. Results for events occurring from Q3 2012 onwards are therefore still *interim* at this stage (respondents interviewed in Q3 2013 will report on events which occurred in Q3 2012 or later).

Where analysis is shown by date of application, this typically includes all interviews to date (including those conducted in 2011, and Q1 and Q2 of 2012, which are no longer included in the Year Ending data reported elsewhere), and such tables are clearly labelled in the report. New for the Q2 2013 report, when applications made are analysed by sub-group such as employee size, this is also now based on application date rather than date of interview. For the Q2 2013 report, this means such tables are based on all applications occurring in the 18 months between Q1 2012 and Q2 2013 to ensure a robust base size for analysis.

The exception to the approach outlined above 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 three months, comparisons are made between individual quarters as each provides an assessment of SME sentiment for the coming months and the comparison is an appropriate one.

Definitions used in this report

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

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

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

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

Fast growth – SMEs that report having grown by 20% or more each year, for each of the past 3 years (definition updated Q4 2012)

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

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

Borrowing event – those SMEs reporting any Type 1 (new application or renewal), Type 2 (bank sought cancelation/renegotiation) or Type 3 (SME sought cancelation/reduction) borrowing event in the 12 months prior to interview. In more recent reports, the definition has been extended to include those SMEs that have seen their overdraft facility automatically renewed by their bank

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

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

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

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

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

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

Major obstacle – SMEs were asked to rate the extent to which each of a number of factors were perceived as obstacles to their 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 2013 (YEQ2 13).

Key findings

An increasing proportion of SMEs reported that they had grown in the past 12 months. In Q2 2013, 44% reported such growth, compared to 37% when this question was first asked in Q4 2012. Within this total, 14% of SMEs reported having grown by 20% or more, up very slightly from 12% in the previous quarters

These levels of growth were slightly better than those *predicted* in Q1 2012 (albeit by a different sample of SMEs), when 41% expected to grow in the *next* 12 months

A stable two-thirds of SMEs reported making a profit, and the median level of profit made was stable at £7,000 (driven by the smallest SMEs – the median profit made by profitable SMEs with 50-249 employees is over £200k)

The proportion of SMEs with a 'worse than average' external risk rating has increased slightly over time, to 56% in Q2 2013, due to more smaller SMEs with 0-9 employees having such a rating. There has been no similar increase over time in the proportion *self-reporting* a credit issue, indeed the 10% reporting such an issue in Q2 2013 was the lowest level seen to date

In a quarter of SMEs (25%) the owner, managing director or senior partner belonged to a business group or industry body. This was more likely to be the case for the largest SMEs (34% of those with 50-249 employees)

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

Profitability

Almost two-thirds of SMEs reported making a profit in their most recent 12 month trading period (63% for YEQ2 2013), unchanged from the previous period. As the quarterly analysis below shows, just under two-thirds of those interviewed each quarter reported making a profit. The proportion unable or unwilling to give an answer has varied over time, so the table also now reports the proportion that made a profit once these 'don't know' answers were excluded. On this basis, the proportion making a profit varied little over time, with 7 out of 10 SMEs being profitable. Note that because consistently unprofitable SMEs tend to go out of business, there will be an element of 'survivorship bias' in the profit figures, potentially underestimating the proportion of unprofitable businesses in the population.

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

Business performance last 12 months over time By date of interview	Q1-2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013
Unweighted base:	*5063*	*5055*	*5010*	*5023*	*5000*	*5032*	*5000*	*5000*	*5000*
Made a profit	67%	64%	64%	63%	65%	62%	64%	64%	64%
Broke even	10%	13%	14%	12%	13%	13%	13%	13%	13%
Made a loss	16%	16%	15%	18%	14%	17%	14%	15%	16%
Dk/refused	7%	7%	6%	6%	7%	9%	9%	7%	8%
*Median profit made Q4 12-Q2 13**	*£12k*	*£10k*	*£13k*	*£10k*	*£10k*	*£7k*	*£6k*	*£7k*	*£7k*
Made profit (excl DK)	*72%*	*69%*	*68%*	*68%*	*70%*	*68%*	*70%*	*69%*	*69%*

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

The median annual **losses** reported were more stable over time – and remained at just under £2,000 in Q2 2013.

From Q4 2012, the profit and loss questions were simplified. The profit or loss made is now recorded in bands, rather than as an actual amount. This means that, from Q4 2012, average and median figures cannot be combined with previous quarters to produce annual figures, so the median figures shown below are for Q4 2012 combined with Q1 and Q2 2013 **only**.

For YEQ2 2013, bigger SMEs remained more likely to have been profitable: 62% of 0 employee businesses reported making a profit, compared to 75% of those with 50-249 employees. The median profit, where made, was £7k amongst those interviewed in Q4 2012-Q2 2013, increasing with size of SME.

Business performance last 12 months YEQ2 13 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*20,032*	*4006*	*6615*	*6403*	*3008*
Made a profit	63%	62%	67%	73%	75%
Broke even	13%	13%	12%	8%	8%
Made a loss	16%	16%	13%	10%	9%
Dk/refused	8%	8%	8%	9%	9%
*Median profit made in Q4 12-Q2 13**	*£7k*	*£5k*	*£12k*	*£48k*	*£221k*
Made profit (excl DK)	*69%*	*67%*	*73%*	*80%*	*82%*

Q241 All SMEs/ * All SMEs making a profit and revealing the amount in Q4 2012 to Q2 2013

Once the 'Don't know / refused' answers are excluded, 69% of remaining SMEs reported making a profit in the previous 12 months (YEQ2 2013).

Over time, larger SMEs remained consistently more likely to be profitable than smaller ones. SMEs of all sizes interviewed in Q2 2013 were as likely to report making a profit as they were in the equivalent quarter of 2012:

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

Q241 All SMEs

By sector, once the 'don't know' answers were excluded, Agriculture remained the most likely to be profitable (73%, albeit down slightly from 76% YEQ113), along with those in Manufacturing (73%) while Hotels and Restaurants were the least likely (61%):

Business performance last 12 months YEQ2 13 – all SMEs	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*1504*	*2081*	*3511*	*2020*	*1811*	*1813*	*3503*	*1789*	*2000*
Made a profit	68%	67%	62%	61%	56%	56%	66%	64%	64%
Broke even	14%	12%	17%	12%	15%	14%	11%	14%	10%
Made a loss	12%	13%	13%	16%	20%	19%	16%	15%	19%
Dk/refused	6%	9%	8%	11%	9%	10%	7%	7%	7%
*Median profit made Q4 12 to Q2 13**	*£8k*	*£7k*	*£6k*	*£8k*	*£7k*	*£7k*	*£8k*	*£4k*	*£5k*
Made profit (excl DK)	*73%*	*73%*	*67%*	*68%*	*61%*	*63%*	*72%*	*69%*	*69%*

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

Median profits for the period Q4 2012-Q2 2013 varied relatively little by sector, from £8k for profitable SMEs in Agriculture, Wholesale/Retail and Property/Business Services, to £4k for profitable SMEs in Health. Reported median losses in Q4 2012-Q2 2013 were £2k overall and varied between a median loss of £1k in the Health sector and £4k in Hotels/restaurants.

Sales growth

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

As the table below shows, there has been a slight increase over time in SMEs (excluding Starts) reporting that they had grown, from 37% in Q4 2012 to 44% in Q2 2013 :

Growth achieved in last 12 months – all SMEs excluding Starts By date of interview	Q4 2012	Q1 2013	Q2 2013
Unweighted base:	*4264*	*4311*	*4295*
Grown by more than 20%	12%	12%	14%
Grown but by less than 20%	25%	27%	30%
Grown	*37%*	*39%*	*44%*
Stayed the same	42%	40%	40%
Declined	21%	21%	17%

Q245a All SMEs trading for 3 years or more excl DK

For the period Q4 2012 to Q2 2013 combined:

- 12% of SMEs more than 3 years old said they had grown by 20% or more in the previous 12 months, and this varied little by size of business
- 27% had grown, but by less than 20%, and this was more likely for larger SMEs (26% for those with 0 employees to 44% of those with 50-249 employees)
- This means that for Q4 2012-Q2 2013, 39% of SMEs reported having grown at all in the previous 12 months, ranging from 38% of those with 0 employees to 54% of those with 50-249 employees
- 41% had stayed the same size, and this was more likely for smaller SMEs (42% for those with 0 employees to 34% of those with 50-249 employees)
- 20% had got smaller, and this was also slightly more common for smaller SMEs (20% for those with 0 employees to 13% of those with 50-249 employees)

Of those who reported in the period Q4 2012-Q2 2013 that they had grown by 20% or more, just over half (55%) said that they had also achieved this level of growth for each of the two previous years. This is the equivalent of 7% of all SMEs more than 3 years old achieving 3 years of 20%+ growth, or 5% of all SMEs.

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

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

So in Q1 2012, 41% of such SMEs *predicted* that they would grow in the next 12 months. In fact, in Q2 2013 44% (of a *different* sample of SMEs) reported that they *had* grown in the past 12 months:

Growth predictions against expectations – all SMEs excluding Starts By date of interview	Predicted growth All SMEs	Achieved growth All SMEs	Predicted growth 0-9 emps	Achieved growth 0-9 emps	Predicted growth 10-249 emps	Achieved growth 10-249 emps
Predicted Q3 11 / Achieved Q4 12	37%	37%	36%	36%	57%	49%
Predicted Q4 11 / Achieved Q1 13	39%	39%	38%	39%	57%	47%
Predicted Q1 12 / Achieved Q2 13	41%	44%	40%	43%	57%	48%
Predicted Q2 12 / Achieved Q3 13	43%		42%		60%	
Predicted Q3 12 / Achieved Q4 13						

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

Analysis by size of SME, reported above, shows that for the most recent data period the growth predictions of those with fewer than 10 employees were exceeded by what actually happened subsequently to this size of SME (43% v 40% predicted), while the predictions of those with 10-249 employees remained slightly less likely to have been achieved (48% v 57% predicted).

Financial Risk Profile

Two assessments of financial risk are available and, as previous analysis has shown, both contribute to success in applications for new finance.

The first is self-reported risk from the survey itself, affecting only a minority of SMEs (11% YEQ2 2013). The most commonly reported credit issues continued to be an unauthorised overdraft or a cheque being bounced:

Self-reported credit issues YEQ2 13 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*20,032*	*4006*	*6615*	*6403*	*3008*
Unauthorised overdraft on account	6%	6%	6%	3%	3%
Had cheques bounced on account	5%	4%	6%	4%	3%
Problems getting trade credit	3%	2%	4%	3%	3%
Missed a loan repayment	1%	1%	1%	1%	*
Had County Court Judgement against them	1%	1%	1%	1%	1%
Any of these	*11%*	*11%*	*13%*	*10%*	*8%*

Q224 All SMEs

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

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

Q224 All SMEs

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

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

External risk rating (where provided) over time By date of interview	Q1-2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013
Unweighted base:	*5063*	*5055*	*5010*	*5023*	*4562*	*4583*	*4545*	*4630*	*4535*
Minimal risk	6%	6%	6%	6%	5%	2%	5%	6%	5%
Low risk	13%	11%	10%	12%	11%	13%	9%	10%	10%
Average risk	33%	33%	34%	30%	33%	30%	32%	28%	29%
Worse than average risk	48%	51%	51%	53%	51%	55%	53%	55%	56%

All SMEs where risk rating provided

The overall YEQ2 2013 ratings are shown below by size of SME, and continued to report a better risk profile for larger SMEs:

External risk rating YEQ2 13 – all SMEs where rating provided	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*18,293*	*3379*	*5772*	*6209*	*2933*
Minimal risk	5%	2%	8%	26%	33%
Low risk	11%	7%	18%	28%	27%
Average risk	30%	30%	30%	29%	25%
Worse than average risk	55%	61%	43%	18%	14%

All SMEs where risk rating provided

Looking at trends over time, 50% of SMEs interviewed during 2011 had a worse than average risk rating, rising to 53% for those interviewed during 2012. In Q2 2013, 56% had a worse than average external risk rating, with the quarter on quarter increase due to the ratings for those with 1-9 employees, as the table below shows:

Worse than average external risk rating – row percentages By date of interview	Q1-2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013
Overall	48%	51%	51%	53%	51%	55%	53%	55%	56%
0 employee	51%	56%	53%	58%	55%	61%	58%	62%	61%
1-9 employees	42%	42%	49%	43%	43%	41%	45%	41%	46%
10-49 employees	14%	16%	17%	14%	17%	19%	18%	17%	17%
50-249 employees	13%	13%	13%	14%	14%	13%	13%	16%	15%

All SMEs where risk rating provided

By sector, SMEs in Agriculture remained much more likely than other sectors to have a minimal or low risk rating (42% YEQ2 2013, albeit down somewhat from 46% YEQ1 2013) compared to Transport where 8% had this rating:

External risk rating YEQ2 13	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*1272*	*1938*	*3223*	*1843*	*1679*	*1650*	*3209*	*1613*	*1866*
Minimal risk	18%	6%	2%	4%	4%	1%	5%	8%	5%
Low risk	24%	12%	9%	12%	10%	7%	10%	16%	8%
Average risk	26%	31%	27%	36%	32%	22%	30%	41%	27%
Worse than average risk	32%	51%	62%	48%	53%	70%	55%	35%	60%
Total Min/Low	*42%*	*18%*	*11%*	*16%*	*14%*	*8%*	*15%*	*24%*	*13%*

All SMEs where risk rating provided

When the two types of risk rating reported above were compared, those with a worse than average risk rating were only slightly more likely to self-report a credit problem (12% v 8% of SMEs with a minimal external risk rating). Over time, as the proportion with a worse than average risk rating increased slightly, the proportion *self*-reporting a credit problem remained much more stable.

Credit balances

Almost all SMEs reported holding some credit balances (5% do not hold any, and such businesses are slightly more likely to be using a personal account and to have a worse than average external risk rating). Most (66%) said that they typically held less than £5,000 and over the individual quarters of the report to date, the proportion of SMEs with less than £5,000 in credit balances increased from 63% in Q1-2 2011, to 70% in Q3 2012, with a slightly lower proportion, 66%, in the latest quarter Q2 2013.

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

The high proportion of SMEs with a low credit balance continues to be driven by the smaller SMEs. For YEQ2 2013, a consistent 74% of 0 employee SMEs held less than £5,000 in credit balances, compared to 14% of those with 50-249 employees.

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

- £1,610 for 0 employee SMEs
- £3,000 for 1-9 employee SMEs
- £23,000 for 10-49 employee SMEs
- £108,960 for 50-249 employee SMEs

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

How SMEs are managed

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

A series of questions provided information on the structure and control of the business, and those reported below reflect their contribution to other areas of analysis or Government action. The Better Business Finance website highlights the perceived importance of the business plan as a key document, and analysis of the Monitor shows business planning to be a key contributor to success rates for applications for finance. Analysis has also shown that having someone in charge of the finances who is qualified / has been trained, is another key driver of that success. The Government is keen to promote SME 'finance fitness' (preparedness for accessing finance) as well as exporting and export finance. Note that the descriptions for 'importing' and 'exporting' were changed slightly for Q2 2013, to be 'buying / selling goods or services abroad'.

The table below shows that planning levels in Q2 2013 returned to levels seen during most of 2012 (57%), while 13% were undertaking international activity (possibly boosted by the change in question wording):

Business formality elements Over time – all SMEs By date of interview	Q1-2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013
Unweighted base:	*5063*	*5055*	*5010*	*5023*	*5000*	*5032*	*5000*	*5000*	*5000*
Planning (any)	52%	54%	52%	58%	56%	56%	50%	54%	57%
- Produce regular management accounts	*40%*	*41%*	*37%*	*44%*	*42%*	*40%*	*38%*	*40%*	*45%*
- Have a formal written business plan	*30%*	*33%*	*32%*	*33%*	*34%*	*35%*	*29%*	*32%*	*34%*
International (any)	15%	10%	8%	10%	10%	10%	9%	10%	13%
*– Export goods or services**	*10%*	*7%*	*5%*	*7%*	*8%*	*6%*	*5%*	*6%*	*8%*
*- Import goods or services**	*9%*	*7%*	*6%*	*7%*	*6%*	*7%*	*6%*	*7%*	*9%*
Have qualified person in charge of finances	22%	23%	24%	25%	24%	25%	27%	24%	26%

Q223/251 All SMEs

For the year ending Q2 2013, larger SMEs remained more likely to plan and to undertake international trade. Indeed, if the 0 employee businesses are excluded, the proportion of SMEs, with employees, who plan increases from 54% overall to 70%, who have a qualified person in charge of the finances to 36% (from 26%) and the proportion who trade internationally to 18% (from 11% overall).

By sector, planning ranged from 66% in the Hotels and Restaurants sector to 44% in Construction, while international activity was most common in the Wholesale/Retail (24%) and Manufacturing (22%) sectors. For all other sectors, except Property/Business Services (11%) less than 10% imported or exported, with the Construction sector again the least likely to do so (4%).

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

- For Q4 2012 to Q2 2013 combined, 24% of exporters said that international trade made up 50% or more of sales
- Smaller exporters, with 0-9 employees, were slightly more likely to say this (24%) than those with 10-249 employees (21%)
- 7% of all SMEs export. The equivalent of 2% of **all** SMEs reported that exports made up 50% or more of their turnover, while 5% of all SMEs reported that exports made up less than 50% of their turnover. 93% of SMEs do not export.

Another new question, asked from Q4 2012, asked all SMEs whether they used online banking. For Q4 2012 to Q2 2013 combined, two-thirds did (62%), increasing with size:

- 60% of 0 employee businesses use online banking
- 67% of those with 1-9 employees
- 79% of those with 10-49 employees
- 83% of those with 50-249 employees

The proportion of SMEs with a financially qualified person looking after their finances has remained relatively stable. The larger the SME the more likely they are to have a financial specialist, ranging from 22% of 0 employee companies to 73% of those with 50-249 employees.

Membership of business groups or industry bodies

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

Overall, for Q4 2012 to Q2 2013 combined, a quarter of SMEs (25%) said that this was the case.

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

- 24% of 0 employee businesses belong to a group/body
- 25% of 1-9 employee businesses
- 29% of 10-49 employee businesses
- 34% of 50-249 employee businesses

SMEs with a worse than average external risk rating were slightly less likely to belong to such groups (22%), otherwise membership varied little by risk rating (27% to 30%)

There was relatively little variation by age of business (23-26%). By sector, the most likely to belong to such groups were those in the Health sector (39%), Property/Business Services (32%) while those in Transport were less likely (16%).

Those currently using external finance were slightly more likely to belong to such groups (27%) than those that did not use external finance (22%), while those who met the definition of a 'Permanent non-borrower' were also somewhat less likely to belong to such groups (23%).

Business Ownership

61% of *companies* have one owner, ranging from 84% of 0 employee companies to 29% of those with 50-249 employees. This means that of *all* SMEs, 84% are either sole proprietorships or companies with one owner. A new, broader, question for Q2 2013 explored the extent to which the owner of the SME was also involved in other businesses.

- 84% reported that this was the only business the owner was involved in, managerially or strategically (85% amongst 0-9 employee SMEs, 74% amongst those with 50-249 employees)
- 9% that the owner currently ran another business as well (8% amongst 0-9 employee SMEs, 21% amongst those with 50-249 employees)
- 2% that the owner had set up and run a business before
- Less than 1% said the owner had provided funds for another business in the past few years

5. Financial context – how are SMEs funding themselves?

This chapter provides

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

Key findings

In Q2 2013, 44% of SMEs reported using external finance. This was up from 39% in Q1 2013 (which was the lowest proportion recorded to date on the Monitor) due to more SMEs with 0-9 employees saying they used external finance

Higher usage of external finance was previously recorded in both Q1-2 2011 and Q1 2012, compared to other quarters. This 'bounce' was not seen in Q1 2013, but the Q2 increase may reflect an element of seasonality, albeit slightly delayed in 2013

Use of any of the 'core' financial products (loans, overdrafts and credit cards) remained stable at 33%. The increase in overall use of external finance between Q1 and Q2 2013 was instead driven by the use of other forms of finance, which increased from 15% in Q1 to 21% in Q2 2013

Within the 'core' financial products, use of bank overdrafts declined again and was 18% in Q2 2013, the lowest level recorded to date. Over time, overdrafts were less likely to be held in particular by 0 employee SMEs, those with a worse than average risk rating, or those with no credit balances. There was also a reduction in the proportion of SMEs using leasing, HP or invoice discounting who *also* had an overdraft facility

The proportion of SMEs reporting an injection of personal funds into the business in the previous 12 months is stable over time, with 42% of those interviewed in Q2 2013 reporting such an injection. This is made up of 20% of SMES reporting that they *chose* to make this investment to help the business grow and 22% saying they had no choice and *had* to make the investment

Over time, a smaller proportion of the injections made have been such a 'necessity'- they made up 60% of all injections reported in Q4 2012, compared to 52% in Q2 2013

In Q2 2013, the equivalent of 5% of all SMEs reported that they felt they had to make the injection of funds because they had been turned down for bank finance. A further 5% said they made the injection because they assumed they would be turned down (so hadn't asked)

The proportion of SMEs with a personal element to their financial arrangements (including an injection of personal funds) is stable and 54% of all SMEs had such a personal element. The proportion of SMEs that met the definition of a 'Permanent non-borrower' was down slightly in Q2 2013 at 36% (from 41% in Q1) as more SMEs with 0-9 employees reported using external finance

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

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

Use of external finance for YEQ2 2013 was 41%, unchanged from YEQ1 2013.

Analysis by quarter showed use of external finance in Q2 2013 itself was 44%, a slight recovery from Q1 (39%) and in line with the equivalent quarter of 2012 (43%):

Use of external finance in last 5 years Over time – all SMEs By date of interview	Q1-2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013
Unweighted base:	*5063*	*5055*	*5010*	*5023*	*5000*	*5032*	*5000*	*5000*	*5000*
Use now	51%	47%	41%	50%	43%	40%	41%	39%	44%
Used in past but not now	2%	2%	3%	3%	4%	5%	5%	4%	3%
Not used at all	47%	51%	56%	47%	53%	55%	54%	57%	52%

Q14/15 All SMEs

As analysis later in this chapter shows, the uplift in Q2 2013 was not due to an increase in use of 'core' lending products (loans, overdraft or credit cards) but instead to more use being made of other sources of finance such as leasing.

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

Currently use external finance Over time – all SMEs By date of interview – row percentages	Q1-2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013
All	51%	47%	41%	50%	43%	40%	41%	39%	44%
0 emp	45%	41%	36%	45%	37%	35%	37%	33%	39%
1-9 emps	65%	61%	54%	64%	60%	54%	53%	52%	58%
10-49 emps	76%	76%	70%	73%	73%	69%	65%	69%	67%
50-249 emps	81%	77%	75%	78%	78%	69%	68%	73%	74%

Q14/15 All SMEs , base varies slightly each quarter

Between Q1 2012 and Q1 2013, there was a marked decline in the proportion of 0 and 1-9 employee businesses using external finance, and a smaller decline in the proportion of larger SMEs using external finance. The overall proportion using external finance then recovered somewhat between Q1 2013 and Q2 2013, due to more 0 and 1-9 employee SMEs saying they used external finance. However, in Q2 2013 all sizes of SME apart from the smallest 0 employee businesses were less likely to be using external finance than they had been in Q2 2012.

Over time, the proportion of Starts using external finance has fallen from 36% in 2011 to 30% in 2013 to date. There has also been a decline in the use of finance amongst businesses 2-5 years old (46% to 38% 2011 to 2013), while usage amongst older businesses is higher and more stable over time (52% for businesses trading for 10 years or more in 2011, and 49% to date in 2013).

Overall, for YEQ2 2013, more use was made of external finance by SMEs with a minimal (56%) or low (50%) external risk rating, than by those with an average (43%) or worse than average rating (38%).

Analysis over time showed similar use of external finance in Q2 2013 compared to Q2 2012, with the exception of those with a 'low' external risk rating:

Currently use external finance Over time – all SMEs By date of interview – row percentages	Q1-2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013
All	51%	47%	41%	50%	43%	40%	41%	39%	44%
Minimal	50%	59%	56%	55%	58%	60%	57%	51%	59%
Low	55%	56%	51%	55%	54%	49%	51%	52%	49%
Average	52%	50%	38%	54%	41%	43%	45%	42%	44%
Worse than average	49%	42%	39%	47%	42%	38%	37%	35%	43%

Q14/15 All SMEs , base varies slightly each quarter

By sector, the most likely to be using external finance remained SMEs in the Wholesale/Retail (53%) and Hotels and Restaurants (50%) sectors. The least likely to be using external finance was the Health sector (32%).

To understand more about the use of external finance over time, the table below shows the overall reported use of the 'core' forms of finance (overdrafts, loans and credit cards) by quarter. Note that in Q2 2013, three-quarters (72%) of those who use a credit card for their business said that they usually paid off the balance in full each month, so these businesses were not necessarily using their credit cards as a source of finance, more as a payment mechanism. This figure was virtually unchanged from the last time this question was run (74% in Q3 2012).

- Larger SMEs were more likely to pay off the balance in full (95% if had 50-249 employees compared to 70% if had 0-9 employees)
- Those with a better external risk rating were also likely to pay off the balance (96% if had a minimal risk rating compared to 69% for those with an average or worse than average risk rating)
- Those who have an overdraft facility in addition to a credit card were less likely to usually pay their credit card off in full (59%) than those who didn't (79%)

This analysis of 'core' forms of finance showed a long term decline in their use, with a similar position in Q2 2013 to Q1 2013. Use of overdrafts continued to decrease, and was 18%, having been 22% in the equivalent quarter of 2012, while use of credit cards increased slightly to 19% and was back in line with Q2 2012. Overall use of *any* of these three forms of external finance was 33%, almost unchanged from Q1 2013 and maintaining the lower levels seen over the past 4 quarters:

Use of external finance Over time – all SMEs By date of interview	Q1-2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013
Unweighted base:	*5063*	*5055*	*5010*	*5023*	*5000*	*5032*	*5000*	*5000*	*5000*
Bank overdraft	30%	25%	22%	24%	22%	21%	20%	19%	18%
Bank loan/Commercial mortgage	12%	10%	8%	11%	11%	7%	9%	8%	8%
Credit cards	20%	19%	14%	22%	19%	16%	15%	17%	19%
Any 'core' products – all SMEs	*44%*	*39%*	*34%*	*40%*	*36%*	*34%*	*33%*	*32%*	*33%*

Q15 All SMEs

Use of these 'core' forms of finance has declined over time across all sizes of business:

- From 34% in 2011 to 28% to date in 2013 for those with 0 employees
- From 50% to 44% for those with 1-9 employees
- From 65% to 58% for those with 10-49 employees
- From 71% to 64% for those with 50-249 employees

A new question for Q4 2012 asked those using any of these three methods of finance whether any facilities were in their personal name, rather than that of the business. For Q4 2012 to Q2 2013 combined, a third of those using such facilities (37%) said that there was a facility in their personal name, the equivalent of 12% of **all** SMEs having a facility in their personal name (or 19% of SMEs excluding the 'Permanent non-borrowers').

This varied by size of business: amongst SMEs with loans, overdrafts and/or credit cards, half of those with 0 employees had some facility in their personal name compared to 5% of those with 50-249 employees. Those with these facilities, and who had a worse than average risk rating, were also more likely to have a facility in their own name (42%), but the equivalent figures for **all** SMEs showed little difference by risk rating:

Have element of facility in personal name Q4 12 to Q2 13 – row percentages	Of those with an overdraft, loan or credit card	Equivalent % of all SMEs
Overall	**37%**	**12%**
0 employees	47%	13%
1-9 employees	22%	10%
10-49 employees	9%	5%
50-249 employees	5%	5%
Minimal risk rating	24%	11%
Low risk rating	21%	9%
Average risk rating	36%	13%
Worse than average risk rating	42%	12%

Q15bbb All SMEs with one of these facilities, Q4 12 to Q2 13 only

Those operating their business banking through a personal account were less likely to be using any external finance (28% Q4 2012-Q2 2013 were using any facilities, compared to 44% of those operating through a business bank account). However, if they did have any, then almost all, 87%, said that they had facilities in their personal name. Amongst those operating a business account, one in three, 30%, said there were facilities in their personal name.

Overall, 18% of all SMEs using a personal account for their business banking had some facility in their personal name, compared to 11% of all SMEs using a business bank account.

The table below shows the full list of the different types of funding being used by SMEs YEQ2 2013. It includes both the core forms of finance already reported and the other forms of finance on which data is collected, some of which may also be obtained from the bank. Larger businesses continued to make use of a wider variety of forms of funding:

External finance currently used YEQ2 13 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*20,032*	*4006*	*6615*	*6403*	*3008*
'Core' products (any)	33%	28%	45%	59%	63%
-Bank overdraft	19%	16%	28%	32%	31%
-Credit cards	17%	14%	21%	36%	45%
-Bank loan/Commercial mortgage	8%	6%	14%	20%	27%
Other forms of finance (any)	16%	13%	24%	38%	45%
-Leasing or hire purchase	6%	4%	10%	24%	32%
-Loans/equity from directors	4%	3%	8%	11%	11%
-Loans/equity from family and friends	5%	5%	6%	3%	2%
-Invoice finance	2%	2%	4%	10%	15%
-Grants	1%	1%	2%	4%	5%
-Loans from other 3rd parties	1%	1%	1%	2%	3%
Any of these	*41%*	*36%*	*54%*	*67%*	*71%*
None of these	*59%*	*64%*	*46%*	*33%*	*29%*

Q15 All SMEs

SMEs that import and/or export were asked about use of Export/Import finance. In Q2 2013, 2% of such SMEs used these products, with little variation by size of business (1-3%).

Those SMEs that are companies were also asked whether they used equity investment from third parties. Less than 1% of companies reported using this form of funding in Q2 2013.

7% of SMEs only used credit cards from the list above, and this varied relatively little by size of SME. In Q2 2013, most of those who *only* used a credit card said that they typically repaid the balance each month.

The table below details the use of all of these forms of funding over time. Use of any of the *other* forms of finance specified was higher in Q2 2013 (21%) than in previous quarters (15% from Q3 2012 to Q1 2013). Note that in Q2 2013 the code for leasing and HP was extended to include vehicle finance, and the proportion mentioning these forms of finance increased somewhat to 9%:

Use of external finance Over time – all SMEs By date of interview	Q1-2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013
Unweighted base:	*5063*	*5055*	*5010*	*5023*	*5000*	*5032*	*5000*	*5000*	*5000*
'Core' products (any)	44%	39%	34%	40%	36%	34%	33%	32%	33%
-Bank overdraft	30%	25%	22%	24%	22%	21%	20%	19%	18%
-Bank loan/Commercial mortgage	12%	10%	8%	11%	11%	7%	9%	8%	8%
-Credit cards	20%	19%	14%	22%	19%	16%	15%	17%	19%
Other forms of finance (any)	19%	18%	15%	22%	18%	15%	15%	15%	21%
-Leasing, hire purchase or vehicle finance	7%	8%	6%	8%	7%	5%	5%	6%	9%
-Loans/equity from directors	7%	4%	5%	7%	6%	4%	4%	4%	6%
-Loans/equity from family & friends	5%	5%	4%	8%	5%	5%	4%	5%	6%
-Invoice finance	2%	2%	2%	3%	2%	2%	3%	2%	3%
-Grants	2%	2%	1%	1%	2%	1%	1%	1%	2%
-Loans from other third parties	1%	1%	1%	1%	1%	1%	1%	1%	1%
Any form of finance – all SMEs	*51%*	*47%*	*41%*	*50%*	*43%*	*40%*	*41%*	*39%*	*44%*

Q15 All SMEs

There has been a steady decline over time in the proportion of SMEs using an overdraft facility, across all size bands and risk ratings especially those with 0 employees (from 22% in 2011 to 15% to date in 2013) or a worse than average risk rating (22% to 14% over the same period).

In 2011, 51% of those SMEs that used leasing and/or invoice finance also had an overdraft facility. For 2013 to date that figure has fallen to 35%, while the proportion of such SMEs also holding a loan remained almost unchanged. Also in 2013, fewer SMEs with *no* credit balances said they had an overdraft facility (around 1 in 5 did) compared to previous quarters (when around 1 in 3 did)

In a new question asked for the first time in Q2 2013, 2% of SMEs said that they were using an additional form of external finance not on the list detailed in full above. This varied little by size (2-4%) or risk rating (1-2%), and was most common for those in Agriculture or Transport (5%).

There was no difference in use of these other forms of finance by whether the SME was also using one of the *specified* forms of external finance (2% for those using external finance and 2% for those not). This means that 1% of **all** SMEs are classed as non-users of finance in this report (because they do not use any of the specified forms of external finance) but said at this question that they were using some other form of finance.

No details were collected about what type of finance this was.

Injections of personal funds

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

As the table below shows, the figures for injection of personal funds for Q2 2013 were very similar to previous waves, and across the waves for which data is available, around 4 out of 10 SMEs reported an injection of funds in the previous 12 months:

Personal funds in last 12 months over time – all SMEs By date of interview	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013
Unweighted base:	*5000*	*5032*	*5000*	*5000*	*5000*
Inject personal funds – you chose to do to help the business grow and develop	16%	20%	16%	19%	20%
Inject personal funds – you felt you had no choice about this, that you had to do it	25%	26%	24%	21%	22%
Any personal funds	***41%***	***46%***	***40%***	***40%***	***42%***
Not something you have done	59%	54%	60%	60%	58%

Q15d All SMEs

Since Q4 2012, the overall proportion injecting funds has remained stable, but the proportion saying they felt that they *had* to inject the funds has declined slightly, from 60% of all injections to 52% in Q2 2013.

Further analysis is based on the combined results YEQ2 2013 to provide robust base sizes for key sub-groups.

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

Personal funds in last 12 months YEQ2 13 – all SMEs	All	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*20,032*	*4006*	*6615*	*6403*	*3008*
Inject personal funds – you chose to do to help the business grow and develop	18%	20%	15%	8%	6%
Inject personal funds – you felt you had no choice about this, that you had to do it	23%	24%	22%	12%	6%
Any personal funds	*42%*	*44%*	*37%*	*20%*	*12%*
Not something you have done	58%	56%	63%	79%	88%

Q15d All SMEs from Q2 2012

Analysis by age of business showed that it was the youngest, start-up businesses that were most likely to have had an injection of personal funds (68%), and that this was as likely to have been a choice (36%) as a necessity (32%). 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 YEQ2 13 – all SMEs	Starts	2-5 yrs	6-9 yrs	10-15 yrs	15 yrs+
Unweighted base:	*2018*	*3361*	*2463*	*3096*	*9094*
Inject personal funds – you chose to do to help the business grow and develop	36%	21%	12%	11%	9%
Inject personal funds – you felt you had no choice about this, that you had to do it	32%	23%	22%	19%	19%
Any personal funds	*68%*	*44%*	*34%*	*30%*	*28%*
Not something you have done	32%	56%	66%	70%	72%

Q15d All SMEs from Q2 2012

Those using a *personal* account for their business banking were more likely to have put personal funds in at all (48% v 40% of those with a business account) but not much more likely to have felt that they had to do so (25% with a personal account, 23% with a business account).

As might be anticipated, analysis by external risk rating showed different experiences. Half of those with a worse than average external risk rating had seen an injection of personal funds, while amongst those with a minimal external risk rating the proportion was 18%:

Personal funds in last 12 months YEQ2 13 – all SMEs	All	Min	Low	Avge	Worse/Avge
Unweighted base:	*20,032*	*3221*	*3846*	*5311*	*5915*
Inject personal funds – you chose to do to help the business grow and develop	18%	7%	10%	15%	23%
Inject personal funds – you felt you had no choice about, that you had to do	23%	11%	17%	21%	26%
Any personal funds	*42%*	*18%*	*27%*	*36%*	*49%*
Not something you have done	58%	82%	73%	64%	50%

Q15d All SMEs from Q2 2012

Analysis by sector showed relatively little variation in terms of *any* injection of funds (experienced by 34-45% of SMEs in each sector). Those in Hotels and Restaurants (27%) were somewhat more likely to have felt that they had had to inject the funds:

Personal funds in last 12 months YEQ2 13 – all SMEs	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*1504*	*2081*	*3511*	*2020*	*1811*	*1813*	*3503*	*1789*	*2000*
Chose to inject	20%	15%	17%	17%	18%	20%	20%	18%	21%
Had to inject	21%	19%	24%	25%	27%	23%	24%	22%	22%
Any funds	*41%*	*34%*	*41%*	*42%*	*45%*	*43%*	*44%*	*40%*	*43%*
Not done	59%	66%	59%	57%	55%	57%	56%	60%	58%

Q15d All SMEs from Q2 2012

SMEs currently using external finance were slightly more likely to have received any cash injection (45% YEQ2 2013) than those not currently using external finance (39%) and were also more likely to say they had felt that there had been no choice (30% v 19%).

Analysed by their overall financial behaviour in the previous 12 months, it was the 'Would-be seekers' (who had wanted to apply for finance but hadn't) who were most likely to have received an injection of personal funds:

Personal funds in last 12 months Q4 12 to Q2 13 only – all SMEs	All	Had an event	Would-be seeker	Happy non-seeker
Unweighted base:	*15,000*	*3840*	*703*	*10,457*
Inject personal funds – you chose to do to help the business grow and develop	18%	12%	15%	20%
Inject personal funds – you felt you had no choice about, that you had to do	22%	36%	53%	16%
Any personal funds	*40%*	*48%*	*68%*	*36%*
Not something you have done	60%	52%	32%	64%

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

In a new question for Q2 2013, those who said they had felt that they *had* to inject funds were asked whether this was because they had been turned down for bank borrowing, or had assumed they would be turned down by their bank (so didn't apply), or for some other reason.

Initial data showed that

- 24% of those who had felt they had to put in funds said that it was because they had been turned down by their bank (the equivalent of 5% of all SMEs), with little variation by size.
- Almost as many, 22%, said that they had assumed they would be turned down by the bank, so hadn't asked (also the equivalent of 5% of all SMEs).
- Half of those who had felt they had to put in funds, 54%, said that they had put in funds for some other reason (the equivalent of 12% of all SMEs)

More analysis will be conducted on these groups as sample sizes increase over future waves.

Since Q4 2012, further questions have been asked of those who reported that funds had been put into the business. For Q4 2012 to Q2 2013 combined (and excluding DK answers):

Investment of personal funds	
Length of investment	• 34% of SMEs that had put funds in said that this was a long term investment. 39% said the funds were a short term investment, and the remainder, 27%, said the funding was a mix of long and short-term funding. Putting funds in as a long term investment was more likely if the business was operating through a personal account (40%), or was a Start (41%) • Those that had felt they 'had' to inject funds were more likely to say this was a short term investment (41%) than a long term one (31%), with 28% saying it was a mix. Those *choosing* to inject funds were as likely to say that this was a short term (37%) as a long term (38%) investment, with 26% saying it was mix
Amount invested	• 59% of SMEs that had put funds in said that they had put in less than £5,000. This was more likely if the SME putting in funds had 0 employees (65% had put in less than £5,000) than 50-249 employees (6%), was not using external finance (65%) or was running their business through a personal bank account (76%) • Whether the sum put in was more or less than £5,000 did not vary much by whether the injection had been 'a 'necessity' (57%) or 'chosen' (61%). Those putting in funds as a short term investment were more likely to have invested less than £5,000 (72%) than those investing for the long term (48%) • Bigger SMEs, with 10-249 employees, were more likely to have put in more than £5,000, whatever the purpose (around 90% put in £5,000 or more whether it was a long (90%) or short (86%) term investment). Amongst those with 0-9 employees, if the funds were a short term investment, 74% had put in less than £5,000, while if they were a long term investment, then 48% had put in less than £5,000

Continued

Continued

Overall profile of injection of personal funds	• Putting this information together, 11% of **all** SMEs (rather than just those who had injected funds) had injected less than £5,000 as a short term investment only • The most likely to have done this were 'Would-be seekers of finance' in the previous 12 months (17%) while the least likely were those with a minimal risk rating (4%) • Meanwhile, 7% of **all** SMEs had injected more than £5,000 as a long term investment only • The most likely to have done so were those in the Hotels and Restaurants sector (12%), while the least likely to have done so were those with a minimal external risk rating (3%)

Use of personal accounts

Most SMEs used a business bank account (82%). 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 (31% v 18% overall) and least likely to be found in Wholesale/Retail (7%) or the Hotel / Restaurant or Manufacturing sectors (both 11%). Amongst Starts (set up within the last 2 years) 27% used a personal bank account for their business.

Since this report started, 2,968 SMEs who use a personal account have been interviewed. These SMEs were less likely to be using external finance (for YEQ2 13, 27% currently use, compared to 44% using a business account) and remain less likely to have applied for new or renewed facilities (5% verses 9%).

The ‘interweaving’ of business and personal funds

The Q4 2012 questionnaire included a number of new questions to explore further the use of personal funds and/or personal borrowing by SMEs. These are reported in the relevant chapters, and summarised below. Smaller SMEs, especially those with 0 employees, were more likely to report a personal element to their business. For Q4 2012 to Q2 2013 combined:

- 18% of SMEs used a personal rather than a business account for their business banking
- 37% of those with an overdraft, loan or credit card facilities said that one or more was in their personal name, and where a personal bank account was also used, the proportion increased to 87%. This is the equivalent of 12% of all SMEs with one or more of these facilities in a personal name
- 40% of SMEs reported a cash injection of funds into the business in the previous 12 months. Those with any personal borrowing for the business (as defined above) were more likely to have put in funds (54%) than those who did not have any personal borrowing (36%)
- 12% of those reporting an application for a new or renewed overdraft in the past 12 months said it was for a personal facility, while for loans the figure was 16% (the equivalent of less than 2% of all SMEs)
- 21% of those SMEs that had seen an overdraft automatically renewed in the previous 12 months said it was a personal facility (the equivalent of less than 2% of all SMEs)

For Q4 2012 to Q2 2013 combined, half of SMEs (54%) reported having one or more of these personal ‘elements’ to their business. The table below shows how this proportion varies by size, sector and external risk rating with smaller SMEs, those with a worse than average risk rating and those in the Health sector being the most likely to have a personal element to their business:

Had **any** personal element Row percentages	Q4 2012-Q2 2013
All SMEs	54%
0 employee	59%
1-9 employees	43%
10-49 employees	24%
50-249 employees	15%
Minimal external risk rating	31%
Low external risk rating	35%
Average external risk rating	49%
Worse than average external risk rating	62%
Agriculture	51%
Manufacturing	41%
Construction	57%
Wholesale/Retail	50%
Hotels and Restaurants	54%
Transport	55%
Property/Business Services etc.	54%
Health	61%
Other Community	57%

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			
Other finance applied for YEQ2 13 – all SMEs	Applied	% success	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*20,032*	*Varies*	*4006*	*6615*	*6403*	*3008*
Credit cards	3%	86%	3%	4%	5%	7%
Leasing/Hire purchase/vehicle finance	3%	84%	2%	6%	14%	22%
Loans/equity from directors	3%	90%	2%	4%	5%	5%
Loans/equity from family & friends	3%	89%	3%	4%	2%	1%
Grants	1%	61%	1%	2%	5%	6%
Invoice finance	1%	73%	1%	2%	4%	6%
Loans from other 3rd parties	1%	59%	1%	1%	2%	2%

Q222 All SMEs

Most applicants were successful, with larger SMEs (10-249 employees) that applied generally more likely to be successful. Base sizes are small for some products but there has been a decline in success rates over time.

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

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

If the 'Permanent non-borrowers' (described below) are excluded, the percentage applying for *any* of these other forms of finance increases from 12% to 20% of remaining SMEs.

Taking both loan/overdraft events (and the automatic renewal of overdrafts) and these applications for other types of finance together for YEQ2 2013 showed that:

- Most SMEs, 72%, reported neither a loan/overdraft 'event' (covered in the remainder of this report), nor an application for any of the types of finance listed above
- 15% reported a loan/overdraft event, but had not applied for other forms of finance
- 8% had applied for other forms of finance but did not report a loan/overdraft event
- 4% reported both a loan/overdraft event <u>and</u> applying for one of these forms of finance

In a new question for Q2 2013, respondents were asked if they had applied for any other forms of external finance not already mentioned. 1% of SMEs said that they had applied for any other form of finance, half successfully and half unsuccessfully. The type of finance applied for is not recorded.

The non-borrowing SME

As this chapter has already reported, less than half of SMEs (41% YEQ2 2013) currently use external finance. Other data from this report allows for identification of those SMEs who seem firmly disinclined to borrow, defined as those that meet **all** of the following conditions:

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

These 'Permanent non-borrowers' make up 37% of SMEs (YEQ2 13), and were more likely to be found amongst the smaller SMEs:

- 41% of 0 employee SMEs met this non-borrowing definition
- 28% of 1-9 employee SMEs
- 20% of 10-49 employee SMEs
- 18% of 50-249 employee SMEs

SMEs in the Health sector were the most likely to be a 'Permanent non-borrower' (48%), compared to 30% of those in Wholesale/Retail and 29% in Transport. By risk rating, 30% of those with a minimal risk rating were 'Permanent non-borrowers', compared to 33% of those with a low risk rating and 38% of those with an average or worse than average risk rating.

Around a quarter of PNBs (22%) use a personal account for their business banking, which means that the equivalent of 8% of all SMEs are 'Permanent non-borrowers' who use a personal account.

Quarter by quarter, the proportion of SMEs meeting the definition of a PNB increased from 30% in Q1 12 to 41% in Q1 13. In Q2 2013 the proportion meeting the definition was slightly lower at 36%, due to fewer smaller SMEs with 0-9 employees now meeting the definition (this group was more likely to report using external finance in Q2 2013 than in the previous quarter):

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

If these PNBs are excluded from the use of external finance table shown earlier, the proportion using external finance increases to 7 out of 10 of remaining SMEs:

Use of external finance in last 5 years Over time – all SMEs excl PNBs By date of interview	Q1-2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013
Unweighted base:	*4047*	*3968*	*3822*	*4022*	*3894*	*3732*	*3664*	*3649*	*3707*
Use now	73%	72%	64%	72%	66%	61%	66%	65%	70%
Used in past but not now	3%	3%	4%	5%	6%	8%	8%	7%	5%
Not used at all	24%	25%	31%	24%	28%	31%	27%	28%	25%

Q14/15 All SMEs

These SMEs have indicated that they are unlikely to be interested in borrowing, based on their current views. At various stages in this report, therefore, we have provided an alternative to the 'All SME' figure, which excludes these 'Permanent non-borrowers' and provided an alternative figure that might be described as 'All SMEs with a *potential* interest in external finance'.

6. An initial summary of all overdraft and loan events

This chapter provides

the full definition of each borrowing 'event' together with summary tables of their occurrence. Subsequent chapters then investigate in more detail, and over time. The chapter covers the individual waves of interviews conducted to date. In each wave, SMEs were asked about borrowing events in the previous 12 months, so overall, borrowing events may have occurred from Q2 2010 to Q2 2013. Where year ending data is provided this is YEQ2 2013.

Key findings

9% of SMEs reported a Type 1 borrowing event (an application for a new or renewed loan or overdraft facility) in the 12 months prior to interview in Q2 2013. This has changed very little since Q4 2012 and so remained at a lower level than was seen in 2011 and at the start of 2012

Excluding the 'Permanent non-borrowers' increased the proportion of remaining SMEs reporting a Type 1 event to 14%, with a similar pattern over time

In previous years there had been an increase in events reported in the first quarter of the year but this has not happened in 2013, notably for the Agriculture sector

Type 1 events have declined over time across all sizes of SME, but the decline is more marked for larger businesses

A new question asked whether SMEs had done anything to make themselves more 'investment ready' and likely to obtain external finance. 4% of all SMEs said they had done this, increasing to 17% of those who had applied for a new or renewed loan or overdraft in the previous 12 months and 15% of those planning to apply for a new or renewed facility in the next 3 months

SMEs with an overdraft remained more likely to report that it was automatically renewed (47% YEQ2 13) than that they had had an overdraft 'event' (29%), but the proportion reporting the automatic renewal of their facility is declining over time, from 57% of SMEs with an overdraft in Q4 2011 to 43% in Q2 2013

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

- Type 1, where the SME had applied for:
    - a new borrowing facility or to renew / roll over an existing facility
- Type 2, where the bank had sought to:
    - cancel an existing borrowing facility or renegotiate an existing facility
- Type 3, where the SME had sought to:
    - reduce an existing borrowing facility or pay off an existing facility

This chapter provides analysis on events reported in interviews conducted to YEQ2 2013. This provides bigger base sizes and more granularity for sub-group analysis, such as by employee size band. However, where possible, analysis has also been shown over time to allow the reporting of a 'rolling aggregate of demand' which is shown below.

In a new question for Q2 2013, SMEs were asked if they had done anything in the previous 12 months aimed at making the business more likely to obtain external finance of any kind (including bank lending), such as training, or discussions with an adviser of some kind.

4% said that they had done this – 2% had spoken to an adviser, 1% to their bank, and 1% had done something else:

- This varied by whether the SME had employees or not, with 3% of 0 employee businesses having done something, compared to 6% in each of the other size categories.
- Excluding the Permanent non-borrowers increased the proportion to 6%, and there was little variation by risk rating (3-5%).
- Those who reported a Type 1 borrowing 'event' for a new or renewed facility in the previous 12 months were more likely to have done something (17%), and the proportion increased to 22% of those who had applied for a *new* loan or overdraft facility. Such activity was also more likely amongst those *planning* to apply for or renew facilities in the 3 months after interview (15%).
- More analysis will be conducted in future waves as base sizes increase.

The rolling aggregate of demand/activity

The table below shows the percentage over time of all SMEs interviewed that reported a borrowing event in the 12 months prior to interview. Type 1 events remained the most common (9% in Q2), and levels of Type 1 events have changed very little over recent waves:

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

Q25/26 All SMEs

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

The previous chapter of this report noted that a third of SMEs met the definition of 'Permanent non-borrower' and appeared disinclined to use external finance. The table below excludes these PNBs from the sample, and shows the higher proportion of remaining SMEs that have had an event as a result. In Q2 2013, 14% of remaining SMEs reported a Type 1 event in the 12 months prior to interview. As overall, this was lower than for the equivalent quarter of 2012 (17%):

Borrowing events in the previous 12 mths. All SMEs, excluding PNBs over time By date of interview	Q1-2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013
Unweighted base:	*4047*	*3968*	*3822*	*4022*	*3894*	*3732*	*3664*	*3649*	*3707*
Type 1: New application/renewal	22%	19%	14%	17%	17%	16%	15%	13%	14%
Applied for new facility (any)	11%	11%	9%	10%	10%	10%	9%	7%	9%
Renewed facility (any)	14%	10%	7%	9%	8%	7%	7%	7%	6%
Type 2: Cancel/renegotiate by bank	7%	6%	5%	5%	5%	4%	6%	4%	5%
Type 3: Chose to reduce/pay off	5%	3%	2%	2%	2%	1%	3%	3%	3%

Q25/26 All SMEs

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

Events in the 12 months prior to interview, by key demographics

The remainder of this chapter looks in more detail at the type of SMEs that were more or less likely to report any of the loan or overdraft events specified. In order to provide robust sub-sample groups, these are reported for YEQ2 2013, and, unless otherwise stated, are based on all SMEs.

The event experienced most widely was an application for a new facility, experienced by 6% of all SMEs. The renewal of an existing facility was experienced by 4% of SMEs overall with more variation by size (from 3% of 0 employee SMEs to 11% of those with 10-249 employees):

Borrowing events YEQ2 13 all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*20,032*	*4006*	*6615*	*6403*	*3008*
Type 1: New application/renewal	9%	7%	14%	16%	15%
Applied for new facility (any)	6%	5%	8%	8%	7%
- applied for new loan	*3%*	*2%*	*4%*	*4%*	*4%*
- applied for new overdraft	*4%*	*3%*	*5%*	*4%*	*3%*
Renewed facility (any)	4%	3%	7%	10%	11%
- renewed existing loan	*1%*	*1%*	*2%*	*3%*	*3%*
- renewed existing overdraft	*4%*	*3%*	*6%*	*9%*	*9%*
Type 2: Cancel/renegotiate by bank	3%	2%	5%	5%	4%
Bank sought to renegotiate facility (any)	2%	2%	4%	4%	3%
- sought to renegotiate loan	*1%*	*1%*	*1%*	*2%*	*2%*
- sought to renegotiate overdraft	*2%*	*1%*	*3%*	*3%*	*2%*
Bank sought to cancel facility (any)	1%	1%	2%	1%	1%
- sought to cancel loan	*	*	*1%*	*1%*	*1%*
- sought to cancel overdraft	*1%*	*1%*	*1%*	*1%*	*1%*
Type 3: Chose to reduce/pay off facility	1%	1%	2%	2%	2%
- reduce/pay off loan	*1%*	*1%*	*1%*	*1%*	*1%*
- reduce/pay off overdraft	*1%*	*1%*	*1%*	*1%*	*1%*

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

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

Borrowing events YEQ2 13 – all SMEs	Total	Min	Low	Avge	Worse/Avge
Unweighted base:	*20,032*	*3221*	*3846*	*5311*	*5915*
Type 1: New application/renewal	9%	12%	10%	9%	9%
Applied for new facility (any)	6%	6%	5%	5%	6%
- applied for new loan	*3%*	*3%*	*2%*	*3%*	*3%*
- applied for new overdraft	*4%*	*4%*	*3%*	*3%*	*4%*
Renewed facility (any)	4%	8%	7%	5%	3%
- renewed existing loan	*1%*	*2%*	*2%*	*1%*	*1%*
- renewed existing overdraft	*4%*	*7%*	*7%*	*4%*	*3%*
Type 2: Cancel/renegotiate by bank	3%	5%	5%	3%	2%
Bank sought to renegotiate facility (any)	2%	4%	4%	2%	2%
- sought to renegotiate loan	*1%*	*1%*	*2%*	*	*
- sought to renegotiate overdraft	*2%*	*3%*	*3%*	*1%*	*1%*
Bank sought to cancel facility (any)	1%	3%	1%	1%	1%
- sought to cancel loan	*	*	*	*	*
- sought to cancel overdraft	*1%*	*2%*	*1%*	*1%*	*1%*
Type 3: Chose to reduce/pay off facility	1%	3%	2%	2%	1%
- reduce/pay off loan	*1%*	*1%*	*1%*	*1%*	*1%*
- reduce/pay off overdraft	*1%*	*2%*	*1%*	*1%*	*1%*

Q25/26 All SMEs with external risk rating

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

Borrowing event in last 12 months YEQ2 13 – all SMES	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*1504*	*2081*	*3511*	*2020*	*1811*	*181 3*	*3503*	*1789*	*2000*
Type 1: New application/ renewal	14%	11%	8%	12%	13%	11%	8%	6%	7%
Applied for new facility (any)	6%	7%	5%	7%	10%	8%	5%	5%	3%
- applied for new loan	*4%*	*3%*	*3%*	*3%*	*5%*	*4%*	*2%*	*3%*	*1%*
- applied for new overdraft	*3%*	*4%*	*3%*	*5%*	*6%*	*5%*	*3%*	*3%*	*2%*
Renewed facility (any)	9%	5%	4%	6%	5%	3%	4%	2%	5%
- renewed existing loan	*3%*	*1%*	*1%*	*2%*	*1%*	*1%*	*1%*	*	*1%*
- renewed existing overdraft	*8%*	*5%*	*3%*	*5%*	*4%*	*2%*	*3%*	*2%*	*4%*
Type 2: Cancel/ renegotiate by bank	4%	3%	3%	4%	4%	2%	2%	1%	5%
Bank sought to renegotiate facility (any)	3%	2%	2%	3%	3%	2%	2%	1%	3%
- sought to renegotiate loan	*1%*	*	*	*1%*	*1%*	*	*	*	*2%*
- sought to renegotiate overdraft	*2%*	*2%*	*2%*	*3%*	*2%*	*2%*	*1%*	*1%*	*2%*
Bank sought to cancel facility (any)	1%	2%	1%	2%	1%	*	1%	1%	2%
- sought to cancel loan	*	1%	*	*	1%	*	*	*	1%
- sought to cancel overdraft	*1%*	*1%*	*1%*	*1%*	*	*	*1%*	*	*2%*
Type 3: Chose to reduce/ pay off facility	1%	1%	1%	2%	2%	1%	1%	1%	4%
- reduce/pay off loan	*1%*	*	*1%*	*1%*	*1%*	*1%*	*1%*	*	*2%*
- reduce/pay off overdraft	*1%*	*1%*	*	*2%*	*1%*	*	*	*1%*	*2%*

Q25/26 All SMEs

The table below repeats this analysis, once the 'Permanent non-borrowers' have been excluded from the SME population. The incidence of Type 1 events (applications/renewals) increases as a result from 9% to 14%:

Borrowing events YEQ2 13 – all SMEs	Total	All excl. PNBs
Unweighted base:	*20,032*	*14,752*
Type 1: New application/renewal	**9%**	**14%**
Applied for new facility (any)	6%	9%
- applied for new loan	*3%*	*4%*
- applied for new overdraft	*4%*	*6%*
Renewed facility (any)	4%	7%
- renewed existing loan	*1%*	*1%*
- renewed existing overdraft	*4%*	*6%*
Type 2: Cancel/renegotiate by bank	**3%**	**5%**
Bank sought to renegotiate facility (any)	2%	3%
- sought to renegotiate loan	*1%*	*1%*
- sought to renegotiate overdraft	*2%*	*3%*
Bank sought to cancel facility (any)	1%	2%
- sought to cancel loan	*	*1%*
- sought to cancel overdraft	*1%*	*1%*
Type 3: Chose to reduce/pay off facility	**1%**	**2%**
- reduce/pay off loan	*1%*	*1%*
- reduce/pay off overdraft	*1%*	*1%*

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

Subsequent chapters of this report investigate those that have applied for a new overdraft or loan facility or to renew an existing one (a Type 1 event), and the outcome of that application in more detail, by application date.

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

While reflecting on these events, it is important to bear in mind that 4 out of 10 SMEs currently use external finance while 1 in 10 reported one of the Type 1 borrowing 'events' in the previous 12 months. Indeed, a third of SMEs might be considered to be outside the borrowing process – the 'Permanent non-borrowers' described earlier.

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

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

The remainder of this chapter provides some further information on the proportion of SMEs that reported a Type 1 new or renewed loan or overdraft event in the 12 months prior to interview, both over time and by key demographics. It also includes data on the proportion of overdrafts that have been 'automatically renewed' by the bank, rather than a formal review being conducted (something which has not been included in the data reported in the first part of this chapter).

Applications over time

As the table below shows, the proportion of SMEs having had any Type 1 **overdraft** event in the 12 months prior to interview has been somewhat lower in recent quarters, and this was also true once the Permanent non-borrowers were excluded:

Overdraft events in previous 12 months – all SMEs, over time By date of interview	Q1-2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013
Unweighted base:	*5063*	*5055*	*5010*	*5023*	*5000*	*5032*	*5000*	*5000*	*5000*
Applied for a new overdraft	6%	4%	4%	5%	4%	4%	4%	3%	4%
Renewed an existing overdraft	9%	6%	4%	5%	4%	4%	4%	4%	3%
Any Type 1 overdraft event	*13%*	*9%*	*7%*	*9%*	*8%*	*8%*	*7%*	*6%*	*7%*
Any Type 1 overdraft event excluding PNBs	*19%*	*14%*	*10%*	*13%*	*12%*	*12%*	*11%*	*10%*	*10%*

Q26 All SMEs

The incidence of Type 1 **loan** events in the 12 months prior to interview was stable, but remained low. Once the Permanent non-borrowers were excluded, there were slightly fewer events reported in recent quarters compared to 2011 and early 2012:

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

Q26 All SMEs

In a new question asked for the first time in Q4 2012, those that reported a Type 1 event were asked whether the application was made in the name of the business or a personal name. For Q4 2012 to Q2 2013 combined, 12% of overdraft applications reported were made in a personal name, while for loans the figure was 16%. This means that for Q4 2012 to Q2 2013, 1% of **all** SMEs reported making an overdraft or loan application in their personal name, in the 12 months prior to interview.

It is also possible to report on the types of SMEs that have become more or less likely to have had *any* Type 1 event in the 12 months prior to interview, that is, an application for a new or renewed loan or overdraft facility. The table below shows the decline in reporting of Type 1 events over time, across all size bands with a more marked decline in the proportion of larger SMEs reporting a Type 1 event from around a quarter in 2011 to around 1 in 7 in more recent quarters. The Q2 2013 figures also show two 'groups' of SME by sector, with those in Construction, Property/Business Services and the Other Community sectors less likely to report a Type 1 event than other sectors. In previous years the Agriculture sector has reported a higher level of Type 1 events at the start of the year, but this has not been observed in 2013:

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

Q26 All SMEs: base size varies by category

Other business demographics also showed some variation in incidence of a Type 1 event in Q2 2013:

Demographic	Incidence of Type 1 events reported in Q2 2013
Age of business	As in Q1, the incidence of Type 1 events varied less by age of business in Q2 than it had in the past: from 8% for Starts to 12% for those trading for 15 years or more. Starts remained much more likely to have applied for new facilities than to have renewed an existing facility (7% v 1%) while older businesses were as likely to have renewed (amongst those 15 years+, 6% applied for a new facility v 7% who renewed one)
Profitable SMEs	SMEs that made a loss in the past 12 months were somewhat more likely to have had a Type 1 event than those that were profitable: Made a profit 8% had a Type 1 event Broke even 9% Made a loss 12% The loss makers were slightly more likely to have applied for a new facility than to have renewed one (8% v 4%)
Fast Growth (20%+ last 3 years)	Those that had grown were slightly more likely to have had a Type 1 event than those that had not Grown 20%+ last 3 yrs 11% Grown by less than this 11% Not grown in last yr 8%
Importers/exporters	Those engaged in international trade were no more likely to have had an event (10%) than those who were not (9%).

Overdraft events – definition and further clarification

Overdrafts are usually granted for a 12 month period or less, but it was apparent in early Monitor reports that not all overdraft users reported having had an overdraft event in the 12 months prior to interview. To explore this further, from Q4 2011, SMEs that had reported having an overdraft facility but that had *not* subsequently mentioned any overdraft event, were asked whether, in the previous 12 months, their bank had automatically renewed their overdraft facility at the same level, for a further period, without their having to do anything.

The results for the year ending Q2 2013 are reported below and show that almost half of all overdraft holders reported that they had had such an automatic renewal, the equivalent of 9% of all SMEs:

Any overdraft activity YEQ2 13	All with overdraft	All SMEs
Unweighted base:	*5514*	*20,032*
Had an overdraft 'event'	29%	6%
Had automatic renewal	47%	9%
Neither of these but have overdraft	24%	5%
No overdraft	-	81%

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

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

When this question was first asked in Q4 2011, 57% of SMEs with an overdraft reported that it had been automatically renewed in the previous 12 months, the equivalent of 13% of all SMEs. As the table below shows, those proportions have declined slightly over time: in Q2 2013 43% of SMEs with an overdraft reported an automatic renewal in the previous 12 months, the equivalent of 8% of all SMEs:

Experienced an automatic renewal in previous 12 mths By date of interview- row percentages	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013
SMEs with overdraft	57%	49%	54%	40%	48%	45%	43%
'All SMEs' equivalent	13%	12%	12%	10%	9%	8%	8%

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

Over time, an increasing proportion of all 'overdraft activity' (events + automatic renewals) was accounted for by an 'event': in Q2 2013 events accounted for 39% of all such overdraft activity reported by those with an overdraft, compared to 31% in Q4 2011.

New questions asked from Q4 2012 provide some further detail on these automatic renewals. 21% of those reporting an automatic renewal in Q4 2012 to Q2 2013 said that the facility was in a personal name (a slightly higher proportion than amongst those reporting on other loan and overdraft Type 1 events).

Data is also being collected on when this automatic renewal took place and the size of the facility renewed, which will allow for a more direct comparison with Type 1 overdraft events as sample sizes develop over time. Initial findings are that three-quarters of automatically renewed overdraft facilities reported YEQ2 13 involved sums of £25,000 or less, and that half, 49% were for sums of £5,000 or less.

As the table below shows, automatic renewals made up a higher proportion of overdraft 'activity' for 0 employee SMEs with an overdraft facility, but even the biggest such SMEs were as likely to have had an automatic renewal as an overdraft 'event' as defined in this report:

Overdraft activity YEQ2 13 – All with overdraft	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*5514*	*650*	*1877*	*2057*	*930*
Had an overdraft 'event'	29%	25%	36%	36%	34%
Had automatic renewal	47%	51%	40%	40%	39%
Neither of these but have overdraft	24%	24%	24%	24%	27%

Q15/ 26/26a All SMEs

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

Overdraft activity YEQ2 13 – All with overdraft	Total	Min	Low	Avge	Worse/Avge
Unweighted base:	*5514*	*817*	*1256*	*1604*	*1418*
Had an overdraft 'event'	29%	39%	32%	26%	30%
Had automatic renewal	47%	44%	47%	51%	42%
Neither of these but have overdraft	24%	18%	21%	23%	29%

Q15/ 26/26a All SMEs

Amongst those with an overdraft, analysis by sector showed that the most likely to have experienced an automatic renewal were those in the Health, Construction and Transport sectors. Those in the Other Community sector remained the least likely to have reported an automatic renewal:

Overdraft activity YEQ2 13 – All with overdraft	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*556*	*610*	*1025*	*626*	*503*	*462*	*872*	*402*	*458*
Had an overdraft 'event'	38%	32%	25%	31%	31%	23%	30%	23%	32%
Had automatic renewal	44%	46%	51%	44%	40%	51%	48%	57%	36%
Neither of these but have overdraft	17%	22%	24%	26%	29%	26%	22%	20%	32%

Q15/ 26/26a All SMEs

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

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

The answers to these questions reflect the SME's perception of how their business overdraft facility had been managed by their bank. Given the low level of 'events' reported generally, these SMEs with an automatic renewal form a substantial group and, from Q2 2012, they have answered further questions about this automatic renewal. This means that the definition of 'having a borrowing event' has been adjusted to include these automatic renewals (see Chapter 11) and some data is now available on the interest rates, security and fees relating to these automatically renewed overdraft facilities (see Chapter 10). Further questions on the amount borrowed and when this automatic renewal took place were added to the questionnaire for Q4 2012, and are being incorporated into the analysis as sample sizes permit.

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

Type 1 overdraft events occurring between Q1 2012 and Q2 2013 were most likely to be the renewal of an existing facility (43%). Over time there has been an increase in first time overdraft applicants (currently 32% of applicants) but this remains lower than for loans (43%) where overall more applicants were looking for a new facility rather than a renewal

Working capital remains the main reason for seeking an overdraft facility. Over time, loans have become less likely to be for UK expansion, although this remains a key reason, and more likely to be for fixed assets, premises or motor vehicles as applicants increasingly cite more than one purpose for their new/renewed facility

Almost all Type 1 applications were made to the SMEs main bank, especially for overdrafts. Those in the Manufacturing sector remained more likely to apply to another bank (7% of applicants in this sector did so for an overdraft, 28% for a loan)

Only a minority of applicants had sought advice. 10% of overdraft applicants in the last 18 months sought advice compared to 16% of loan applicants in the same period. The most common barrier to seeking advice remained a view that it was not needed, with some smaller applicants being unsure who to approach for advice

The data presented thus far in this report has reflected events that have happened to the SME in the 12 months before they were interviewed, analysed by the date of interview. 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.

Looking at when these events occurred (i.e. the quarter) provides some evidence for whether activity has been increasing or decreasing over time.

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

Analysis does suggest that a slightly higher proportion of both loan and overdraft applications than might have been expected were made in Q1 2011 and again in Q1 2012. The data suggests that in the quarters after these 'busier' quarters, Q2 2011 and Q2 2012, the share of overdraft applications was slightly lower than could have been expected.

As these chapters examine overdraft and loan events specifically, it makes sense to analyse them by when the event occurred, rather than when it was reported, and the Q2 2013 report is the first to adopt this approach for *all* the analysis provided.

Each chapter includes analysis, as far as is possible, on the extent to which loan and overdraft applications are changing over time. For the most recent quarters (especially Q1 and Q2 2013) this is only **interim** data, which is liable to change and will be updated in subsequent reports.

However, for some sub-group analysis, such as by size or risk rating, sample sizes preclude analysis at the individual quarter level and the data needs to be grouped over time to provide a more robust sample size. In order to ensure a suitable sample size, a period of 18 months has been selected. This means that rather than reporting on applications for YEQ2 (i.e. all interviews conducted in the 4 quarters to Q2 2013, irrespective of when the borrowing event occurred), data is now reported on the basis of 'Applications occurring in the 18 months to Q2 2013' (i.e. irrespective of when the SME was interviewed).

Why were they applying?

Overdraft applications

This analysis is based on the new definition of SMEs that made an application for a new or renewed overdraft facility during the most recent 18 month period, which for this report is between Q1 2012 and Q2 2013. Within this overall time period, final data is now available for applications made in Q1 and Q2 of 2012. Data on applications in the remaining quarters (Q3 2012 to Q2 2013) is still being gathered and will be updated in future waves, and so the figures quoted will be liable to change over time. All percentages are just of this group of applicants in the last 18 months. For context, in Q2 2013 this was the equivalent of 7% of all SMEs or around 326,000 businesses. Note that this does not include SMEs who had an overdraft automatically renewed.

Just under half of those reporting a Type 1 overdraft event said that they had been looking to renew an existing overdraft for the same amount (43%). Around a third of applicants (32%) were seeking an overdraft for the very first time and, as the table below shows, this was more likely to be the case for smaller SMEs (and 45% of these first time applicants were Starts). 1 in 6 were looking to increase an existing facility, and this was more likely amongst SMEs with employees:

Nature of overdraft event **Sought** new/renewed facility Q1 12- Q2 13	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*2191*	*241*	*775*	*817*	*358*
Renewing overdraft for same amount	43%	41%	42%	59%	64%
Applied for first ever overdraft facility	32%	37%	27%	11%	9%
Seeking to increase existing overdraft	17%	15%	20%	18%	18%
Setting up facility at new bank	3%	3%	2%	2%	2%
Seeking additional overdraft on another account	4%	4%	6%	5%	4%
Seeking to reduce existing facility	2%	1%	3%	5%	3%

Q52 All SMEs seeking new/renewed overdraft facility

Analysis in previous reports had shown that the application process for an overdraft, as well as the eventual outcome, varied by the reason for application. The table below shows the proportion of applications made for each reason, over time, in those quarters where sufficiently robust sample sizes exist. This shows that the proportion seeking a first overdraft facility had increased slightly over time, but that renewals remained the main reason for an overdraft event.

Nature of overdraft event SMEs seeking new/renewed facility By application date	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3* 12	Q4* 12	Q1* 13
Unweighted base:	*176*	*329*	*679*	*517*	*557*	*548*	*681*	*448*	*341*	*370*	*270*
Renewing overdraft for same amount	54%	41%	50%	49%	44%	49%	40%	51%	49%	39%	36%
Applied for first ever overdraft facility	28%	26%	22%	24%	27%	28%	33%	29%	25%	36%	31%
Seeking to increase existing overdraft	12%	23%	16%	18%	18%	18%	20%	11%	18%	16%	14%
Setting up facility at new bank	4%	2%	6%	1%	2%	1%	4%	1%	2%	1%	7%
Seeking additional overdraft on another account	1%	2%	4%	2%	5%	2%	2%	7%	6%	3%	7%
Seeking to reduce existing facility	2%	5%	2%	5%	3%	2%	1%	2%	1%	4%	4%

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% in the 18 months from Q1 12 to Q2 13) were made to the SME's main bank, and this varied little by date of application. Q3 2011 saw the lowest proportion of applications made to main bank (94%) but in all other quarters, 97% or more of applications were made to the main bank.

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

Amount initially sought, where stated **Sought** new/renewed facility Q1 12- Q2 13	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*2005*	*226*	*722*	*735*	*322*
Less than £5,000	47%	64%	25%	4%	*
£5,000 – £9,999	18%	19%	19%	5%	*
£10,000 – £24,999	18%	11%	30%	20%	5%
£25,000 – £99,999	11%	4%	20%	34%	10%
£100,000+	6%	1%	7%	36%	84%
Median amount sought	*£5k*	*£2k*	*£10k*	*£49k*	*£289k*

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

The proportion of applications/renewals made for £5,000 or less increased over the course of 2010 and 2011 from around a third of applications to 52% in Q4 2011. Since then, a fairly consistent half of all applications have been made for £5,000 or less.

As the table below shows, eight out of ten overdraft applicants said that the overdraft was needed for day to day cash flow, and this was slightly more likely to be mentioned by larger applicants.

A third wanted the facility as a 'safety net' and this was slightly more common where the applicant had fewer than 10 employees. When it came to overdrafts being required to fill a 'short term funding gap' this was mentioned slightly more by smaller applicants – 24% of those applying for a facility with 0 employees, compared to 15% of SMEs with 50-249 employees.

As in previous quarters, overdrafts were much more likely to have been sought to support UK expansion (13%) than expansion overseas (2%).

Purpose of overdraft sought **Sought** new/renewed facility Q1 12- Q2 13	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*2191*	*241*	*775*	*817*	*358*
Working capital for day to day cash flow	80%	79%	81%	84%	83%
Safety net – just in case	36%	36%	37%	31%	30%
Short term funding gap	25%	24%	26%	20%	15%
Buy fixed assets	11%	11%	12%	7%	7%
Fund expansion in UK	13%	12%	16%	9%	15%
Fund expansion overseas	2%	2%	2%	1%	2%

Q55 All SMEs seeking new/renewed overdraft facility

Analysed by the external risk rating of those applying, there were relatively few differences, with 'working capital' the main reason across all risk ratings.

Looking at the purpose of the overdraft sought over time, working capital remained the most mentioned purpose in each quarter. Respondents could give more than one reason but over time have become slightly less likely to do so:

Purpose of overdraft SMEs seeking new/renewed facility - by application date	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12*	Q4 12*	Q1 13*
Unweighted base:	*176*	*329*	*679*	*517*	*557*	*548*	*681*	*448*	*341*	*370*	*270*
Working capital for day to day cash flow	81%	85%	90%	78%	80%	79%	81%	75%	80%	75%	88%
Safety net – just in case	49%	48%	47%	46%	54%	43%	38%	34%	45%	30%	33%
Short term funding gap	43%	36%	43%	34%	43%	30%	31%	23%	21%	18%	25%
Buy fixed assets	17%	23%	17%	13%	16%	11%	9%	12%	12%	13%	11%
Fund growth* in UK	18%	17%	12%	13%	7%	10%	12%	17%	7%	12%	16%
Fund growth* overseas	1%	1%	1%	1%	2%	*	2%	1%	2%	1%	4%

Q55 All SMEs seeking new/renewed overdraft facility. * indicates interim results as data is still being gathered on events in these quarters * Growth replaced expansion in Q2 2013

The proportion of SMEs seeking advice before they applied for an overdraft remained consistently low (10% amongst those applying between Q1 2012 and Q2 2013), with little change by date of application. Larger applicants were somewhat more likely to seek advice: amongst applicants with 0-9 employees 8% sought advice, while amongst those with 10-249 employees 16% sought advice. There were some signs of an increase over time in smaller applicants seeking advice: in H1 12, 9% of applicants with 0-9 employees had sought advice, compared to 12% in H1 13 to date.

The main reason for not seeking advice remained that it was not felt to be needed (62%) or that the SME had previously been successful with an application (15%), both mentioned more by larger applicants that had not sought advice. 14% of all those not seeking advice said that they did not know who to ask, while 11% did not think it would have made any difference to the outcome of their application – both of these reasons were more likely to be given by smaller applicants that had not sought advice.

Amongst larger applicants, the proportion that said that they had not sought advice because they 'did not need it' increased over time (65% H1 11 to 71% H2 12), but there was no clear trend for smaller applicants over time.

5% of applicants had not received a response to their application by the time of our survey and are excluded from the remainder of this analysis.

Overdraft applications – a sector summary

Those in the Transport sector were more likely to be seeking their first ever overdraft (48%), while those in the Other Community sector were more likely to be renewing an existing facility (64%):

Overdraft activity **Sought** new/ renewed facility Q1 12- Q2 13	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	***242***	***222***	***387***	***240***	***214***	***179***	***351***	***158***	***198***
Renewing overdraft for same amount	51%	45%	39%	43%	35%	23%	38%	51%	64%
Applied for first ever overdraft	13%	34%	33%	28%	35%	48%	38%	20%	25%
Seeking to increase existing overdraft	21%	15%	19%	17%	21%	13%	15%	23%	9%

Q52 All SMEs seeking new/renewed overdraft facility

Most approached their main bank (98%). The least likely to do so were applicants from the Manufacturing sector, but even here, 93% applied to their main bank.

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

The main purpose of the overdraft for all sectors was working capital, ranging from 90% of applicants in Wholesale/Retail to 76% of applicants in Manufacturing.

Those in Agriculture (15%) and Hotels and Restaurants (14%) were the most likely to have sought advice for their application with those in the Other Community sector the least likely (2%).

Loan applications

This analysis is based on the new definition of SMEs that made an application for a new or renewed loan facility during the most recent 18 month period, which for this report is between Q1 2012 and Q2 2013, irrespective of when they were interviewed. Within this overall time period, final data is now available for applications made in Q1 and Q2 of 2012. Data on applications in the remaining quarters (Q3 2012 to Q2 2013) is still being gathered and so the figures quoted will be liable to change over time. All percentages are just of this group of applicants in the last 18 months. For context, in Q2 2013 this was the equivalent of 3% of all SMEs or around 136,000 businesses.

There have been fewer loan events reported than overdraft events. As a result, even for applications in the 18 months to Q2 2013, the same granularity of analysis is not always possible as for other areas of the report.

Loan applications were more likely than overdraft applications to be for new funding (the first two rows of the table below), with 73% of loan applicants seeking a new loan (compared to 56% for overdrafts), and 4 out of 10 saying this was their first ever loan (compared to 32% for overdrafts). As the table below shows, this was more likely to be the case for smaller SMEs that had applied (and 43% of SMEs applying for their first ever loan were Starts):

Nature of loan event **Sought** new/renewed facility Q1 12-Q2 13	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*1046*	*121*	*342*	*383*	*200*
Applied for first ever loan	43%	50%	37%	16%	10%
New loan but not our first	30%	31%	27%	42%	43%
Renewing loan for same amount	10%	10%	8%	20%	19%
Topping up existing loan	9%	7%	12%	8%	11%
Refinancing onto a cheaper deal	5%	2%	8%	10%	11%
Consolidating existing borrowing	2%	*	6%	2%	2%
New loan facility after switching bank	1%	-	2%	2%	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'

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

Nature of loan event- SMEs seeking new/renewed facility – By application date	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12*	Q4 12*	Q1 13*
Unweighted base:	*121*	*172*	*302*	*273*	*282*	*310*	*305*	*241*	*171*	*186*	*103*
Applied for first ever loan	27%	35%	40%	33%	41%	32%	46%	37%	55%	37%	37%
New loan but not our first	37%	38%	29%	29%	25%	37%	25%	30%	27%	41%	34%
Renewing loan for same amount	6%	14%	17%	17%	9%	11%	12%	10%	4%	6%	16%
Topping up existing loan	13%	5%	7%	8%	5%	14%	7%	13%	11%	6%	8%
Refinancing onto a cheaper deal	6%	4%	4%	6%	16%	3%	5%	7%	1%	4%	4%
Consolidating existing borrowing	11%	4%	3%	5%	3%	1%	3%	3%	1%	4%	*
New facility after switching banks (new)						*	*	1%	2%	2%	-

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

Compared to overdraft applications/renewals, those for loans were slightly less likely to be made to the SME's main bank, although most of them were (88% v 98% for overdrafts).

Analysis by date of application shows that a higher proportion of applications were made to the main bank in the second half of 2011 than in the first. This proportion then fell for most of 2012, with the exception of applications made in Q3 2012 (still interim) where a higher proportion of applications were made to the main bank (97%):

Applied to main bank SMEs seeking new/renewed facility – By application date	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12*	Q4 12*	Q1 13*
Unweighted base:	*121*	*172*	*302*	*273*	*282*	*310*	*305*	*241*	*171*	*186*	*103*
Applied to main bank	66%	87%	88%	81%	94%	96%	84%	88%	97%	82%	93%

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

The median amount sought remained at £10,000. Sample sizes limit the amount of analysis possible over time, but the majority of loans sought continued to be for £100,000 or less:

Amount initially sought, where stated **Sought** new/renewed facility Q1 12-Q2 13	Total	0 emps	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*956*	*114*	*326*	*339*	*177*
Less than £5,000	19%	26%	12%	1%	1%
£5,000 – £9,999	23%	29%	17%	3%	*
£10,000 – £24,999	26%	27%	26%	13%	4%
£25,000 – £99,999	15%	8%	24%	29%	11%
£100,000+	17%	10%	22%	55%	84%
Median amount sought	*£10k*	*£8k*	*£17k*	*£98k*	*£351k*

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

From Q4 2011, loan applicants have been asked about the extent to which the funding applied for represented the total funding required and how much the business was contributing. The results for applications made in the 18 months to Q2 2013 are shown below, with most applicants (68%) seeking all the funding they required from the bank (it was also 68% for applications made in the 18 months Q4 2011 to Q1 2013):

Proportion of funding sought from bank **Sought** new/renewed facility Q1 12- Q2 13	Total	0 emps	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*1019*	*119*	*334*	*372*	*194*
Half or less of total sum required	14%	13%	15%	12%	13%
51-75% of sum required	12%	12%	12%	11%	11%
76-99% of sum required	6%	7%	5%	8%	7%
All of sum required sought from bank	68%	68%	68%	69%	69%

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

Overall there was relatively little difference in the proportion of funding sought from the bank by size of applicant. Those with a minimal or low risk rating were more likely to be seeking all the funding from their bank (76%) than those with an average or worse than average risk rating (68%).

More detailed analysis over time by date of loan application (H1 11 to H2 12 for which robust base sizes are available) shows a change in the proportion of loan applicants seeking all the funding they wanted from the bank:

- Of applications made in H1 2011, 79% were seeking all the funding required from the bank, falling over time to 64% of applications reported for H1 2012. Interim figures for H2 2012 suggest this trend may not have been maintained (currently 71% seeking all the funding from the bank). An insufficient number of applications have been reported to date for H1 2013 for this period to be included in the analysis
- This pattern H1 11 to H2 12 was due to smaller applicants (0-9 employees). Fewer sought all the funding from their bank in H1 2012 compared to H1 2011 (80% in H1 2011 to 64% in H1 2012), and then more sought all the funding in H2 2012 (71%)
- Over the same period, the proportion of larger loan applicants (10-249 employees) seeking all the funding from the bank remained much more stable, at between 65% and 71% each half year

Overall, these funds were likely to have been sought either to fund expansion in the UK (31%) or to purchase fixed assets (28%). Applicants with 0 employees were more likely to be buying fixed assets, or motor vehicles, while those with 10 or more employees were more likely to be buying premises:

Purpose of loan **Sought** new/renewed facility Q1 12- Q2 13	Total	0 emps	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*1046*	*121*	*342*	*383*	*200*
Fund expansion in UK	31%	31%	32%	25%	42%
Buy fixed assets	28%	32%	23%	23%	21%
Buy motor vehicles	25%	34%	11%	9%	5%
Buy premises	19%	16%	22%	29%	33%
Develop new products/services	13%	11%	16%	15%	18%
Replace other funding	10%	6%	16%	11%	8%
Fund expansion overseas	2%	1%	3%	3%	11%
Take over another business	2%	1%	3%	3%	5%

Q150 All SMEs seeking new/renewed loan facility

Analysed by application date (see table below), the most common reason for seeking loan finance in recent quarters is no longer funding expansion in the UK, although this remains a more common reason than expanding overseas. In recent quarters as many, if not more, SMEs have reported seeking loans for fixed assets, premises or motor vehicles.

Respondents can give more than one reason for seeking a loan, and in more recent quarters have become more likely to do so. Popular 'combinations' of reasons include 'fixed assets and premises', 'UK expansion and new products and services' and 'UK and overseas expansion':

Purpose of loan SMEs seeking new/renewed facility – by application date	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12*	Q4 12*	Q1 13*
Unweighted base:	*121*	*172*	*302*	*273*	*282*	*310*	*305*	*241*	*171*	*186*	*103*
Fund expansion in UK	37%	17%	28%	19%	26%	30%	31%	39%	30%	26%	17%
Buy fixed assets	26%	21%	21%	13%	35%	42%	36%	15%	29%	25%	28%
Premises	17%	25%	11%	25%	18%	19%	17%	12%	17%	35%	27%
Buy motor vehicles	17%	18%	22%	24%	24%	10%	22%	33%	15%	18%	37%
Develop new products/services	12%	20%	15%	20%	22%	7%	19%	7%	13%	12%	14%
Fund expansion overseas	6%	1%	3%	2%	*	4%	3%	2%	*	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 (16%). The smallest applicants remained less likely to have sought advice: 12% of applicants with 0 employees sought advice, compared to 22% with 1-9 employees, 20% with 10-49 employees and 25% of those with 50-249 employees.

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

Half of applicants who had not sought advice, 54%, said that it was because they did not need it, mentioned more by larger applicants who had not sought advice, as was saying they had been successful with applications in the past (mentioned by 13% overall). Smaller applicants remained more likely to mention they did not know who to ask (mentioned by 17% overall).

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

Loan applications – a sector summary

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

Loan activity **Sought** new/renewed facility Q1 12- Q2 13	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop / Bus	Health S Work	Other Comm
Unweighted base:	*101*	*125*	*146*	*105*	*122*	*90**	*156*	*99**	*102*
Applied for first ever loan	21%	40%	44%	39%	41%	58%	51%	34%	48%
New loan (other)	42%	35%	38%	24%	29%	24%	20%	58%	24%
Renewing loan for same amount	14%	10%	4%	14%	9%	1%	14%	2%	19%

Q149 All SMEs seeking new/renewed loan facility

Most approached their main bank (88%). The least likely to do so were applicants in Manufacturing (72% of applications were made to main bank).

The highest median loan amounts were sought by applicants from the Agriculture (£47k) sector. The lowest median amount sought was from applicants in Construction (£7k). Those in the Health and Agriculture sectors were more likely to be seeking all the funding required from the bank while applicants from Manufacturing were less likely.

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

Advice was sought by a quarter of those in Hotels and Restaurants and the Health sector, compared to 1 in 10 of those in the Construction and Other Community sectors.

8. The outcome of the application/ renewal

This chapter details

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

Key findings

69% of all applications for a new or renewed loan or overdraft reported since the start of the SME Finance Monitor have been successful, while 25% of applicants ended the process with no facility

Of applications made in the 18 months to Q2 2013, 59% of overdraft applicants and 48% of loan applicants were initially offered the facility they had wanted. Overall, 71% of overdraft applicants and 60% of loan applicants were offered something by the bank

28% of overdraft applicants and 39% of loan applicants were initially declined by the bank. On limited base sizes, a number of those declined reported poor advice offered (70% of those declined for an overdraft, 62% for loans) and there remained low awareness of the appeals process (15% for those declined for an overdraft, 7% for loans)

Most of those who ended the process with no facility were initially declined by the bank. 2% of all overdraft applicants and 5% of all loan applicants in the last 18 months were offered something by the bank but chose not to take the facility

Data currently available for overdraft applications in the last 18 months showed 71% ended the process with an overdraft facility. This proportion has declined slightly over time, having been 74% for applications made in the 18 months Q3 2011 to Q4 2012. Data for loans shows 58% of applications in the last 18 months resulted in a facility and that this proportion is stable over time

Smaller, younger businesses and first time applicants remain less likely to end the process with a facility

Analysis based on the profile of applicants each quarter by size, risk rating and purpose of facility, shows that both loan and overdraft applications made in 2012 were somewhat more likely to be successful than the profile of applicants predicted, unlike applications made in 2011.

This chapter follows the application 'journey' from the initial response from the bank to the final decision. More detailed analysis is provided of the final outcome over time, and also the experiences of those applying for new funding compared to those seeking a renewal of existing facilities. Note that, unless specifically stated, this data does not include the automatic renewal of overdrafts, and that, as already explained, data for applications reported as having taken place from Q3 2012 to Q2 2013 remains interim.

The final outcome – all loan and overdraft applications to date

Before looking in detail at the individual loan and overdraft journeys, data is provided on the outcome of **all** Type 1 applications, both loan and overdraft, since the SME Finance Monitor started. Of the 7,752 applications on which data has been gathered, 69% resulted in a facility, while 25% have none, with 5% taking another form of funding.

Analysis by date of application is shown below:

Final outcome (Overdraft+Loan): SMEs seeking new/renewed facility - By date of application	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12*	Q4 12*	Q1 13*
Unweighted base:	*296*	*493*	*960*	*742*	*808*	*820*	*943*	*650*	*482*	*518*	*352*
Offered what wanted and took it	66%	59%	58%	61%	55%	62%	55%	54%	50%	58%	49%
Took facility after issues**	13%	11%	12%	11%	14%	8%	12%	14%	19%	14%	9%
Have facility (any)	***79%***	***70%***	***70%***	***72%***	***69%***	***70%***	***67%***	***68%***	***69%***	***72%***	***58%***
Took another form of funding	4%	7%	8%	7%	4%	6%	4%	3%	5%	4%	9%
No facility	18%	23%	22%	21%	27%	24%	28%	29%	26%	25%	34%

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

The table shows fairly stable success rates across loans and overdrafts, with around 7 out of 10 applicants having a facility. The data for Q1-2 of 2012 shows slightly more applications made then were declined (28-29%), but interim results for Q3 and Q4 2012 have not continued that trend (25-26%).

Initial data for applications made in Q1 2013 shows a higher proportion of applicants ending the process with no facility. Analysis in previous reports has shown that the outcome of applications reported initially for a quarter can be quite different to those reported subsequently, and this change in success rates will be monitored in future reports.

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

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

This analysis is based on the new definition of SMEs that made an application for a new or renewed loan or overdraft facility during an 18 month period, which for this report is between Q1 2012 and Q2 2013, irrespective of when they were interviewed.

The tables below record the initial response from the bank to applications made between Q1 2012 and Q2 2013 and show the majority of applicants being offered a facility. The initial response to 59% of overdraft applications was to offer the SME what it wanted, compared to 48% of loan applications. Bigger SMEs remained much more likely to have been offered what they wanted at this initial stage:

Initial response (Overdraft): **Sought** new/renewed facility Q1 12- Q2 13	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*2081*	*227*	*736*	*776*	*342*
Offered what wanted	59%	55%	62%	80%	88%
Offered less than wanted	8%	7%	10%	6%	5%
Offered unfavourable terms & conditions	4%	4%	5%	5%	3%
Declined by bank	28%	34%	23%	9%	4%

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

Initial response (Loan): **Sought** new/renewed facility Q1 12- Q2 13	Total	0 emps	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*967*	*115*	*324*	*348*	*180*
Offered what wanted	48%	45%	49%	69%	78%
Offered less than wanted	6%	5%	9%	8%	3%
Offered unfavourable terms & conditions	6%	6%	8%	8%	12%
Declined by bank	39%	45%	35%	15%	7%

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

SMEs more likely initially to be offered what they wanted included those applying to renew an existing overdraft (84% were offered what they wanted) or loan (74%), and those with a minimal external risk rating (88% overdraft, 72% loan). Those more likely to be met with an initial decline included those applying for their first ever overdraft (59% were initially declined) or loan (54%) or with a worse than average external risk rating (38% initially declined if applying for an overdraft, 45% if applying for a loan).

The table below looks at the initial response to applications by the date of application. Data for overdraft applications made in the first half of 2012 shows they were more likely to have been declined initially than applications made in previous quarters, whereas interim data for the second half of 2012 suggested applicants were more likely to have had 'issues' with what they were initially offered. Initial data for Q1 2013 suggests more applications were declined, and this will be monitored as more data becomes available on applications made in this quarter:

Initial response: SMEs seeking new/renewed overdraft facility – by date of application	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12*	Q4 12*	Q1 13*
Unweighted base (Overdraft):	*176*	*324*	*670*	*489*	*541*	*527*	*656*	*425*	*323*	*352*	*256*
Offered what wanted and took it	74%	65%	64%	62%	65%	69%	59%	61%	62%	62%	53%
Any issues (amount or T&C)	10%	11%	14%	16%	14%	9%	13%	11%	15%	15%	6%
Declined overdraft	15%	25%	22%	22%	21%	21%	27%	28%	23%	23%	41%

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

Analysis by date of application for loans shows that with a few exceptions, a relatively stable 4 out of 10 applications were declined initially. As for overdrafts, the most recent data is still interim, and on a limited base size for Q1 2013 in particular:

Initial response: SMEs seeking new/renewed loan facility – by date of application	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12*	Q4 12*	Q1 13*
Unweighted base (Loan)	*120*	*169*	*290*	*253*	*267*	*293*	*287*	*225*	*159*	*166*	*96**
Offered what wanted and took it	51%	50%	50%	64%	41%	50%	56%	47%	34%	48%	50%
Any issues (amount or T&C)	21%	15%	8%	12%	19%	12%	7%	16%	18%	20%	7%
Declined loan	28%	35%	42%	24%	41%	38%	37%	37%	48%	32%	43%

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

The data on applications made in Q1 2013 is limited, but appears to be maintaining a pattern whereby the initial response to a loan application made in Q1 each year is less likely to involve 'any issues'. If this trend continues once further data on Q1 2013 applications is available, then investigations could be made into why this might be. No similar pattern is seen for the initial response to overdraft applications.

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

The subsequent journey

The next section of this chapter describes what happened after the initial response from the bank, up to and including the final outcome of the application. This is reported first for overdrafts and then for loans and, unless otherwise stated, is based on all Type 1 overdraft / loan applications *sought* Q1 2012 to Q2 2013, where data is currently available.

Before the detail is discussed of what happened after each of the possible initial responses, the 'journeys' are summarised below. Almost 6 out of 10 overdraft applicants (57%) and just under half of loan applicants (45%) were offered the facility they wanted and went on to take it with no issues:

Journey summary All seeking facility Q1 2012 to Q2 2013	Overdraft	Loan
Unweighted base:	*2081*	*967*
Initially offered what they wanted and went on to take the facility with no issues	57%	45%
Initially offered what they wanted, but had 'issues' before they got their facility	3%	2%
Had issues with the initial offer, and now have a facility 'after issues'	10%	9%
Initially turned down, but now have a facility	1%	2%
Had issues with the initial offer made so took alternative funding instead	<1%	<1%
Were initially turned down, so took alternative funding instead	3%	8%
Had issues with the initial offer made and now have no facility at all	2%	3%
Initially turned down and now have no facility at all	24%	30%

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

93% of overdraft applicants who ended the process with no facility had initially been declined by the bank while the remaining 7% were made an offer but in the end did not take the facility. This is the equivalent of 1% of all overdraft applicants in the last 18 months receiving the offer of an overdraft but ending the process with no facility.

For loans, 88% of applicants who ended the process with no facility were initially declined by the bank, leaving 12% that were made an offer but in the end did not take the facility – this is the equivalent of 5% of all loan applicants in the last 18 months receiving the offer of a loan but ending the process with no facility.

Profile of overdraft applicants by initial response

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

Initial offer	Profile – all seeking overdraft Q1 2012 to Q2 2013
Those offered what wanted (59% of applicants)	They were slightly more likely to have a minimal/low risk rating (24% of those offered what they wanted v 19% of all applicants). 45% had employees (v 41% of all applicants), and they were likely to have been in business for 10 years or more (57% of those offered what they wanted v 45% of all applicants). They were more likely to be seeking a renewal of facilities (62% of those offered what they wanted v 44% of all applicants) and unlikely to be applying for their first ever overdraft (16% of those offered what they wanted v 31% of all applicants).
Those offered less than wanted (8% of applicants)	They were the most likely to have employees (50% of those offered less than they wanted v 41% of all applicants) and to have a minimal/low external risk rating (25% of those offered less than they wanted v 19% of all applicants). A third were looking to increase an existing overdraft (32% of those offered less than they wanted v 17% of all applicants). They were typically looking for an overdraft of more than £5,000 (73% of those offered less than they wanted v 54% of all applicants)
Those offered unfavourable T&C (4% of applicants)	They were more likely to have a minimal/low risk rating (24% of those who had issues v 19% of all applicants). 4% were Starts (v 19% of all applicants) A fifth of those who had issues were seeking an increase in an existing overdraft (23% of those who had issues v 17% of all applicants). They were also more likely to be seeking a facility of £5,000 or more (62% of those who had issues v 54% of all applicants).
Those initially declined (28% of all applicants)	This group had the most distinctive profile. They were typically smaller (30% of those initially turned down had employees v 41% of all applicants) and a third, 36%, were Starts (v 19% of all applicants). 76% of those initially declined had a worse than average external risk rating (v 54% of all applicants). Two-thirds of those initially turned down, 64%, were applying for their first ever overdraft (v 31% of all applicants), with 62% applying for a facility of £5,000 or less (v 46% of all applicants).

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

Summarised below for all applications made in the 18 months Q1 2012 to Q2 2013 (and reported to date), is what happened after the bank's initial response to the overdraft application and any issues around the application. Base sizes for some groups remain small, but some limited analysis by period of application is now possible, predominantly for those initially declined:

Initial offer	Subsequent events - all seeking overdraft Q1 2012 to Q2 2013
Offered what wanted (59% of applicants) Q64-65	95% of those offered the overdraft they wanted went on to take the facility, with 4% experiencing any delays or problems (typically being offered something they thought was too expensive, or waiting for legal work). 3 applicants did not take up the facility offered. Almost all received the full limit they had originally asked for.
Issue: Offered less than wanted (8% of applicants) Q85-95	These SMEs were typically offered 50-90% of what they had asked for. 26% said they were not given a reason for being offered less (excluding those who couldn't remember). This was more likely for smaller applicants, but there was no clear pattern over time. The main reasons given were: • no/insufficient security - 27% of those offered less than they wanted • credit history issues - 20% • Applied for too much, and weak balance sheet - 6% each Almost 1 in 3, 30%, thought the advice they were offered was 'good', 39% thought it was 'poor' while 13% did not get any advice at this stage. Smaller applicants were more likely to rate the advice as 'good' (31%) than larger applicants (12%). In the end most, 88%, accepted the lower offer, almost all with the bank they originally applied to, and this was more likely amongst smaller applicants. 6% managed to negotiate a better offer, all with the original bank (and this was more common amongst larger applicants). 3% took another form of finance and 3% now have no facility. Two thirds of those who now have an overdraft obtained at least half of the amount they had originally sought, typically in line with the bank's initial response. This was more common for larger applicants (89% of those with 10-249 employees) than for smaller ones (67% of those with 0-9 employees).

Initial bank response	Subsequent events – all seeking overdraft Q1 2012 to Q2 2013
Issue: Offered unfavourable T&C (4% of applicants) Q96-97	The 'unfavourable' terms and conditions were most likely to relate to: • security (the amount, type sought or cost of putting in place) – mentioned by 30% of these applicants and more of an issue for larger applicants (54% 10-249 employees) • the proposed interest rate – 31% of these applicants • the proposed fee – 22% of these applicants Both the fee and the interest rate continued to be mentioned more by smaller applicants. A minority of applicants offered what they saw as unfavourable terms and conditions, 9%, said they managed to negotiate a better deal than the one originally offered – almost all of them at the bank they originally applied to. 55% accepted the deal they were offered (almost all at the original bank). 3% took other funding, while a third, 34%, 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 (28% of all applicants):

Initially declined	Subsequent events – all seeking overdraft Q1 2012 to Q2 2013
Reasons for decline Q70	23% of those initially declined said that they had not been given a reason (excluding those who could not remember the reasons given). • 35% said the decline related to their personal and/or business credit history (mentioned more by smaller SMEs) • 10% mentioned issues around security (mentioned more by larger SMEs) • Also mentioned were financial forecasts that the bank did not agree with, or the industry being 'too risky' Over time by application date, there had been a slight increase in the proportion saying no reason was given (from around 1 in 5 to around 1 in 4 of those initially declined).
How decline was communicated Q70a-b	Those respondents given a reason were asked how the initial decision was communicated to them and whether they were told enough to explain why the decision had been made. In the majority of cases (78%) the decision was communicated verbally, while almost a third (30%) received a written response (a few had both). 4 out of 10 (40%) felt that they had <u>not</u> been given enough information to explain the decision, and this was more common amongst larger applicants. 60% felt they had been given enough information. Over time by date of application, there has been a slight increase in the proportion told in writing, from around 1 in 4 to around 1 in 3 applicants given a reason, while the proportion saying they had received enough information has moved from under to over half of such applicants.

Continued

Continued

Advice and alternatives Q71-80	18% of those initially declined said that the bank had either offered them an alternative form of funding to the declined overdraft, or suggested alternative sources of external finance. This was slightly less common for smaller applicants. Where an alternative was offered, this was most likely to be a loan or a business credit card (or invoice finance for larger applicants). More than two-thirds thought the advice offered at that stage had been poor (70%), while 6% said that it had been good and 13% said they were not offered any advice (with little variation by size). Over time there has been a slight increase in the proportion saying they were given no advice, and those receiving advice in 2012 were more likely to rate it as 'poor' than those receiving advice in 2011. More generally, 5% of those initially declined reported that they had been referred to sources of help or advice by the bank, while a further 10% sought their own external advice without a recommendation. On a small base of advice seekers, around two-thirds, 62%, had found this external advice of use.

Initially declined	Subsequent events – all seeking overdraft Q1 2012 to Q2 2013
Appeals Q73-75	From April 2011, a new appeals procedure has been in operation. The analysis below, as elsewhere in this report, is based on all applications made in the last 18 months (Q1 2012 to Q2 2013) – 15% of these applicants said they were made aware of the appeals process (excluding DK). A quarter of those made aware went through the appeals process, representing around 5% of those declined. This means that 10 SMEs interviewed for the Monitor in this period had appealed: in 6 cases the bank had not changed its decision, in 1 it had, and 3 SMEs were waiting to hear. Those that were aware of the appeals process but had not appealed typically said they did not think it would have changed anything.
Outcome Q81-84	At the end of this period, 5% of the SMEs initially declined had managed to secure an overdraft, typically with the original bank rather than an alternative supplier. Qualitatively these SMEs manage to secure 60% or more of the funding they had initially sought. Some, 10%, had secured alternative funding, and this was more likely for bigger applicants, with mentions of friends/family, personal borrowing or a loan. The largest group, 85%, had no funding at all, and this was more likely if the applicant was a smaller SME and also where the application had been made more recently.

The final outcome – overdraft

At the end of the various 'journeys' described above, respondents reported on the final outcome of their application for a new or renewed overdraft facility. This section is based on the new definition of SMEs that made an application, and had received a response, for a new or renewed overdraft facility during the most recent 18 month period, which for this report is between Q1 2012 and Q2 2013, irrespective of when they were interviewed.

Over half of these applicants, 57%, had the overdraft facility they wanted, and a further 14% secured an overdraft after having issues about the amount or the terms and conditions of the bank's offer. 26% of all applicants ended the process with no overdraft Note that this table does **not** include automatic renewal of overdrafts.

Final outcome (Overdraft): **Sought** new/renewed facility Q1 12- Q2 13	All overdraft Type 1 applicants
Unweighted base:	*2081*
Offered what wanted and took it	57%
Took overdraft after issues	14%
Have overdraft (any)	*71%*
Took another form of funding	3%
No facility	26%

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

Before looking at the results in more detail for overdraft applications made in the latest 18 month period from Q1 2012 to Q2 2013, the summary table below records the proportion who 'Have overdraft (any)' for a series of 18 month periods, stretching back to Q1 2011, by key demographics. As already explained, for all but the first 18 month period shown (Q1 11 to Q2 12), data is still being added to each of these periods (as respondents in Q3 2013 can report an application made from Q3 2012 onwards).

This table shows something of a decline in overall success rates from 74% to 71%, driven by smaller applicants and applications for new money (but not a first facility), but a slight improvement for first time applicants:

% of applicants ending process with overdraft facility Over time – row percentages By 18 month period of application	18 month periods Q1 11 Q2 12	 Q2 11 Q3 12*	 Q3 11 Q4 12*	 Q4 11 Q1 13*	 Q1 12 Q2 13*
All SMEs	74%	74%	74%	72%	71%
0 employee	69%	69%	69%	66%	66%
1-9 employees	79%	79%	78%	77%	76%
10-49 employees	92%	91%	91%	91%	90%
50-249 employees	95%	96%	95%	96%	95%
Minimal external risk rating	97%	96%	97%	97%	97%
Low external risk rating	87%	86%	86%	85%	82%
Average external risk rating	85%	85%	84%	81%	83%
Worse than average external risk rating	66%	65%	65%	62%	60%
Agriculture	82%	83%	83%	89%	90%
Manufacturing	79%	82%	82%	75%	73%
Construction	60%	59%	63%	60%	63%
Wholesale/Retail	81%	79%	78%	78%	78%
Hotels and Restaurants	69%	67%	67%	65%	61%
Transport	67%	66%	64%	51%	42%
Property/Business Services etc.	77%	77%	75%	72%	71%
Health	79%	79%	82%	86%	80%
Other Community	81%	81%	81%	81%	78%
First time applicants	34%	35%	37%	37%	38%
Other new facility (not first)	82%	81%	81%	78%	76%
Renewals	94%	95%	95%	95%	94%

All SMEs applying for an overdraft in the period specified, base size varies by category

Overdraft final outcome - applications made Q1 2012 to Q2 2013

By size of business, overdraft applicants with fewer than 10 employees were less likely to have been offered, and taken, the overdraft they wanted and so were less likely to now have a facility:

Final outcome (Overdraft): **Sought** new/renewed facility Q1 12- Q2 13	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*2081*	*227*	*736*	*776*	*342*
Offered what wanted and took it	57%	53%	60%	77%	85%
Took overdraft after issues	14%	13%	16%	13%	10%
Have overdraft (any)	*71%*	*66%*	*76%*	*90%*	*95%*
Took another form of funding	3%	1%	6%	3%	2%
No facility	26%	33%	18%	7%	4%

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

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

Final outcome (Overdraft): **Sought** new/renewed facility Q1 12- Q2 13	Total	Min	Low	Average	Worse/Avge
Unweighted base:	*2081*	*329*	*438*	*547*	*584*
Offered what wanted and took it	57%	84%	63%	70%	49%
Took overdraft after issues	14%	13%	19%	13%	11%
Have overdraft (any)	*71%*	*97%*	*82%*	*83%*	*60%*
Took another form of funding	3%	1%	3%	3%	4%
No facility	26%	2%	14%	13%	36%

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

There were some clear differences in success rate by sector, with applicants in Transport remaining the least likely to have been successful (42%), and those in Agriculture remaining the most likely (90%):

Final outcome (Overdraft): **Sought** new/renewed facility Q1 12- Q2 13	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop / Bus	Health S Work	Other Comm
Unweighted base:	*236*	*210*	*364*	*229*	*200*	*168*	*336*	*152*	*186*
Offered what wanted and took it	73%	62%	53%	58%	39%	33%	55%	64%	71%
Took overdraft after issues	17%	11%	10%	20%	22%	9%	16%	16%	7%
Have overdraft (any)	*90%*	*73%*	*63%*	*78%*	*61%*	*42%*	*71%*	*80%*	*78%*
Took another form of funding	3%	5%	2%	6%	7%	4%	2%	4%	1%
No facility	6%	23%	35%	17%	32%	53%	27%	16%	21%

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

Mention has already been made in this report of the differences between applications for first time, increased or renewed overdrafts. As the table below shows, this was also true at the end of the application journey, with over half (57%) of those seeking their first overdraft having no facility:

Final outcome (Overdraft): **Sought** new/renewed facility Q1 12- Q2 13	Total	1st overdraft	Increased overdraft	Renew overdraft
Unweighted base:	*2081*	*365*	*392*	*1105*
Offered what wanted and took it	57%	28%	52%	82%
Took overdraft after issues	14%	10%	24%	12%
Have overdraft (any)	*71%*	*38%*	*76%*	*94%*
Took another form of funding	3%	5%	7%	*
No facility	26%	57%	17%	6%

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

The final piece of combined analysis for applications made in the 18 months to Q2 2013 shows outcome by age of business. The older the business, the more likely they were to have been offered what they wanted. Starts were the least likely to have been successful, and this is closely linked to the table above: 71% of Starts who applied were looking for their first overdraft and 4 out of 10, 45%, of all first time applications were made by Starts:

Final outcome (Overdraft): **Sought** new/renewed facility Q1 12- Q2 13 By age of business	Starts	2-5 yrs	6-9 yrs	10-15 yrs	15+ yrs
Unweighted base:	*171*	*272*	*259*	*299*	*1080*
Offered what wanted and took it	33%	49%	54%	77%	68%
Took overdraft after issues	12%	11%	21%	11%	15%
Have overdraft (any)	*45%*	*60%*	*75%*	*88%*	*83%*
Took another form of funding	3%	6%	4%	2%	1%
No facility	52%	34%	20%	10%	16%

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

As already reported, the proportion of applications/renewals made for £5,000 or less increased over the course of 2010 and 2011 from around a third of applications to 52% in Q4 2011. Since then a fairly consistent half of all applications made have been for £5,000 or less.

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

- The outcome for those applying for larger overdrafts (£25,000+) was fairly consistent over time, and around 90% of such applicants had an overdraft. Initial results for the first half of 2013 suggest the success rate has fallen to around 80%
- Applications for the smallest overdrafts (under £5,000) became more likely to be successful, moving, over time, from around half to around two-thirds being successful overall
- Those in the middle (£5-25,000) became slightly less likely to be successful, from around 90% to around 80% of applicants having an overdraft

Analysis on the size of overdraft facility granted over time is now provided in the chapter on rates and fees, as context to the pricing information provided in that chapter.

Final outcome by date of application – overdrafts

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

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

Results for the first half of 2012 show a slightly lower proportion of overdraft applications resulting in a facility (71%), followed by an increase in the second half of 2012 back to previous levels (76% based on interim data). *Initial* data for applications made in Q1 2013 show fewer applicants with a facility. Analysis in previous reports has shown that the outcome of applications reported initially for a quarter can be quite different to those reported subsequently, and this change in success rates will be monitored in future reports:

Final outcome (Overdraft): SMEs seeking new/renewed facility By date of application	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12*	Q4 12*	Q1 13*
Unweighted base:	*176*	*324*	*670*	*489*	*541*	*527*	*656*	*425*	*323*	*352*	*256*
Offered what wanted and took it	72%	64%	63%	61%	63%	68%	57%	59%	58%	62%	49%
Took overdraft after issues	11%	13%	14%	13%	14%	8%	14%	12%	18%	14%	10%
Have overdraft (any)	*83%*	*77%*	*77%*	*74%*	*77%*	*76%*	*71%*	*71%*	*76%*	*76%*	*59%*
Took another form of funding	2%	7%	6%	6%	4%	3%	3%	2%	2%	4%	6%
No facility	15%	16%	17%	20%	18%	21%	27%	26%	22%	21%	34%

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

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

Over the quarters for which robust data is available, there were a number of trends that might be expected to adversely affect the outcome of an application:

- The proportion of applicants with a worse than average risk rating increased over time from 42% of applicants in 2010 to 60% of those reported to date for 2013
- There has also been an increase in the proportion of first time applicants from 25% of applicants in 2010 to 35% of applicants seeking their first overdraft facility reported in the first half of 2013
- There was a higher proportion of Starts amongst applicants in the first half of 2012 (around 1 in 5) compared to either previous or subsequent quarters (where typically around 1 in 7 applicants was a Start)

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

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

Final outcome (Overdraft): SMEs seeking new/renewed facility By date of application	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12*	Q4 12*	Q1 13*
Unweighted base:	*176*	*324*	*670*	*489*	*541*	*527*	*656*	*425*	*323*	*352*	*256*
Have overdraft (any)	83%	77%	77%	74%	77%	76%	71%	71%	76%	76%	59%
Predicted success rate	76%	75%	78%	77%	74%	75%	71%	74%	75%	69%	70%
Difference	+7	+2	-1	-3	+3	+1	0	-3	+1	+7	-11

Final outcome of overdraft application by date of application

The analysis shows that success rates were in line with those predicted by the model for many quarters. The lower success rates in the first half of 2012 were explained by the profile of respondents in Q1, and to a lesser extent in Q2. Interim results for the second half of 2012 suggest that in Q4 the increase in overdraft success rates is not being driven by an 'improving' applicant profile.

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

The lower success rate currently being reported for applications made in Q1 2013 has already been identified, and the model does not suggest that this is due to a change in profile of applicants. This will be monitored over future reports.

The impact of automatic renewals on overdraft success rates

Analysis shows that a considerable number of SMEs had their overdraft 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 quarter in which an automatic renewal occurred has only been recorded since Q4 2012. The table below is therefore based on all those applying for an overdraft Q1 2012 to Q2 2013 (as elsewhere) but then limited to those interviewed in Q4 2012 to Q2 2013, so that the automatic renewal data and the overdraft application data are both on the same basis.

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

Final outcome (Overdraft): Sought new/renewed facility Q1 12-Q2 13 AND interviewed Q4 12 –Q2 13	Type 1 events	Type 1 + automatic renewal
Unweighted base:	*1244*	*2431*
Offered what wanted and took it	57%	27%
Took overdraft after issues	15%	7%
Automatic renewal	-	*53%*
Have overdraft (any)	***72%***	***87%***
Took another form of funding	4%	2%
No facility	25%	12%

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

Including those that had had an automatic renewal increases the overdraft success rate from 72% to 87%.

The impact of personal borrowing on overdraft applications

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

11% of those making an application in the past 18 months (Q1 2012 to Q2 2013) who were asked this question, said that the facility they sought was in a personal capacity. On this limited sample, a high proportion of these personal overdraft applications were from 0 employee SMEs or those seeking a facility of less than £5,000.

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

A similar question was also asked for the first time in Q4 2012 of those who reported the automatic renewal of an overdraft facility. Amongst those asked the question, and who reported an automatic renewal between Q1 2012 and Q2 2013, 14% said that the facility was in a personal capacity. As with Type 1 events, such renewals were typically for 0 employee SMEs and for a facility of less than £5,000.

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

Profile of loan applicants by initial response

Having explored overdraft applications and renewals, the next section of this chapter looks at loan applications and renewals. The profile of loan applicants (who applied Q1 2012 to Q2 2013) receiving each initial answer from their bank varied:

Initial bank response	Profile- all seeking loan Q1 2012 to Q2 2013
Those offered what wanted (48% of applicants)	These were typically more established businesses – 53% had been trading for 10 years or more compared to 40% of all applicants, while 22% had a minimal/low risk rating (compared to 16% of all applicants). They were also more likely to be looking to renew existing facilities (16% of those offered what they wanted v 10% of all applicants), or seeking a new loan but not their first (37% of those offered what they wanted v 30% of all applicants).
Those offered less than wanted (6% of applicants)	These applicants were somewhat more likely to be a Start (33% of those offered less than they wanted v 25% of all applicants), while 56% had employees (compared to 41% of all applicants). 65% had a worse than average external risk rating, compared to 53% of all applicants.
Those offered unfavourable T&C (6% of applicants)	These applicants were typically slightly bigger (50% of those who had issues had employees compared to 41% of all applicants) They were more likely to be looking to re-finance onto a cheaper deal (15% of those who had issues v 5% of all applicants), or to be a first time applicant (52% of those who had issues v 43% of all applicants).
Those initially declined (39% of applicants)	These applicants were slightly smaller (33% of those declined had employees v 41% of all applicants), and more likely to be a Start (38% of those declined v 25% of all applicants). 7% of those declined had a minimal/low risk rating (v 16% of all applicants) indeed 61% of those initially declined had a worse than average external risk rating (v 53% of all applicants). Just over half, 58%, were applying for their first ever loan (v 43% of all applicants).

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

Summarised below for all applications made in the 18 months Q1 2012 to Q2 2013 (and reported to date), is what happened after the bank's initial response to the loan application and any issues around the application. Base sizes for some groups remain small.

Initial bank response	Subsequent events – all seeking loan Q1 2012 to Q2 2013
Offered what wanted (48% of applicants) Q159-164	95% of those offered what they wanted went on to take the loan with no problems. 4% took the loan after some issues (typically legal work being required, the initial offer being too expensive or having to go in for an interview). 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 (6% of applicants) Q180-190	These SMEs were typically offered 70% or more of what they asked for. 36% of those offered less than they wanted said that they had not been given a reason (excluding those who could not remember). The main reasons for being offered less were around: • Security issues – mentioned by 20% of those offered less than they wanted • Needing more equity – 12% • Credit history – mentioned by 6% On a small base, the advice offered at this stage was more likely to be rated poor (27%) than good (17%) while 24% were not given any advice. 26% managed to negotiate a better deal, predominantly with the original bank. Two-thirds, 64%, accepted the lower amount offered (almost all with the original bank applied to). 2% took other borrowing and 8% have no facility. Most of the SMEs in this group who obtained a loan received more than 50% of the amount they had originally sought.

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Issue: Offered unfavourable T&C (6% of applicants) Q191-195	The unfavourable terms (excluding those who didn't know) typically related to the proposed interest rate (62%). Issues around security (level, type requested and/or cost) were mentioned by 19% of these applicants, and the proposed fee by 1 in 10 (11%). 26% managed to negotiate a better deal (at either the original bank or another bank) while 25% accepted the deal offered, most with the original bank. 4% took another form of funding. 44% of applicants ended the process with no facility. For those with a facility, the amount of such loans was typically in line with their original request.

The subsequent journey – those that were declined for a loan

The table below details the subsequent journey of those whose loan application was initially declined (39% of applicants). Some analysis by date of application is now possible:

Initially declined	Subsequent events – all seeking loan Q1 2012 to Q2 2013
Reasons for decline Q165	20% 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), and this was more likely amongst smaller applicants. • 28% said that the decline related to their personal and/or business credit history (especially smaller applicants) • 15% mentioned issues around security (typically larger applicants) • 1 in 10 said that they had a weak balance sheet (10%) while 7% said that the bank had not been satisfied with their financial forecasts Analysis by date of application showed applicants in 2012 were more likely to be given a reason for a decline than those in 2011 and that security and credit issues remain the two main reasons for not having a facility but with no clear pattern over time
How decline was communicated Q165a-b	These applicants were asked how the loan decision had been communicated to them, and whether they were told enough to explain why the decision had been made. Communication methods were similar to those for the equivalent overdraft applications, in that 81% said the decision was communicated verbally, while 29% received a written response (a few received both). Analysis by date of application showed that applicants in 2012 were less likely to report receiving the decision in writing. Those declined for a loan were somewhat less likely to say that they had been given enough information to explain the decision (47%) than those informed about an overdraft decline (60%).

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Advice and alternatives Q166 and 171-175	11% of those initially declined said that the bank had offered them an alternative form of funding to the declined loan (typically an overdraft), or suggested any alternative sources of external finance. 6 out of 10 (62%) thought that the advice the bank had offered at that stage had been poor, 8% thought it had been good, while 15% had not been offered any advice. Whilst only a minority rate the advice provided as good, that proportion has increased from 3% for applications made in 2010 to 7% in 2012. More generally, 6% of those initially declined reported that they had been referred to any other sources of help or advice by the bank, while a further 12% sought their own external advice without a recommendation, with no clear trend over time. On a small base, around half, 56%, found these external sources of use, also with no clear trend over time.

Initially declined	Subsequent events - all seeking loan Q1 2012 to Q2 2013
Appeals Q168-170	From April 2011, a new appeals procedure was introduced. The analysis below is based as elsewhere in this report on all applications made in the last 18 months (Q1 2012 to Q2 2013). Amongst this group of applicants who were initially declined, 7% said that they were made aware of the appeals process by their bank (excluding DK), and there was little evidence of this changing over time. 29% of those made aware went on to appeal, the equivalent of around 2% of SMEs that had been declined. Of these 10 declined applicants, 2 appealed and the bank changed its decision, 6 appealed but the decision was upheld, 2 appealed but had not heard yet. The 20 applicants who were aware but did not appeal typically cited the view that they did not think it would have changed anything.
Outcome Q176-179	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. 19% had secured alternative funding, with friends/family and/or personal borrowing most likely to be mentioned. 76% of those initially declined did not have a facility at all, and this has changed very little year on year 2010-2012.

The final outcome – loan

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. This section is based on the new definition of SMEs that made an application, and have received a response, for a new or renewed loan facility during the most recent 18 month period, which for this report is between Q1 2012 and Q2 2013, irrespective of when they were interviewed.

Just over half, 58%, of loan applicants now have a loan facility. 34% of applicants ended the process with no facility.

Final outcome (Loan): **Sought** new/renewed facility Q1 12- Q2 13	All loan Type 1 applicants
Unweighted base:	***967***
Offered what wanted and took it	45%
Took loan after issues	13%
Have loan (any)	***58%***
Took another form of funding	8%
No facility	34%

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

Before looking at the results in more detail for loan applications made in the latest 18 month period from Q2 2012 to Q2 2013, the summary table on the next page records the 'Have loan (any)' figure for a series of 18 month periods, stretching back to Q1 2011, by key demographics. Note that, for all but the first time period shown, data is still being added to each of these time periods (as respondents in Q3 2013 can report a facility from Q3 2012 or later).

This shows stable success rates, with a slight increase in success rates for applicants with 0 employees, balanced by a slight decline for applicants with 1-9 employees:

% of applicants ending process with loan facility Over time – row percentages By 18 month period of application	18 month periods Q1 11 Q2 12	 Q2 11 Q3 12*	 Q3 11 Q4 12*	 Q4 11 Q1 13*	 Q1 12 Q2 13*
All SMEs	**58%**	**58%**	**57%**	**58%**	**58%**
0 employee	52%	52%	50%	54%	54%
1-9 employees	65%	65%	64%	60%	61%
10-49 employees	78%	78%	79%	78%	82%
50-249 employees	93%	91%	91%	89%	89%
Minimal external risk rating	84%	86%	89%	87%	88%
Low external risk rating	75%	72%	71%	80%	77%
Average external risk rating	64%	63%	61%	60%	58%
Worse than average external risk rating	54%	56%	53%	53%	52%
Agriculture	76%	77%	80%	85%	89%
Manufacturing	57%	54%	59%	52%	53%
Construction	44%	42%	40%	44%	44%
Wholesale/Retail	73%	70%	66%	71%	68%
Hotels and Restaurants	61%	64%	65%	62%	63%
Transport	60%	62%	60%	52%	55%
Property/Business Services etc.	61%	57%	49%	52%	50%
Health	66%	67%	71%	58%	51%
Other Community	44%	53%	57%	65%	74%
First time applicants	45%	47%	47%	44%	43%
Other new facility	60%	61%	60%	62%	68%
Renewals	85%	86%	81%	80%	76%

All SMEs applying for a loan in the period specified, base size varies by category

Final outcome – loan applications made Q1 2012 to Q2 2013

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

Final outcome (Loan): **Sought** new/renewed facility Q1 12- Q2 13	Total	0 emps	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*967*	*115*	*324*	*348*	*180*
Offered what wanted and took it	45%	43%	45%	62%	69%
Took loan after issues	13%	11%	16%	20%	20%
Have loan (any)	*58%*	*54%*	*61%*	*82%*	*89%*
Took another form of funding	8%	9%	8%	3%	2%
No facility	34%	38%	31%	16%	10%

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

As with overdrafts, there was a clear difference in outcome by external risk rating. Almost 9 out of 10 applicants with a minimal external risk rating had a loan (88%), compared to half of applicants with a worse than average external risk rating (52%):

Final outcome (Loan): **Sought** new/renewed facility Q1 12- Q2 13	Total	Min	Low	Avge	Worse/ Avge
Unweighted base:	*967*	*151*	*194*	*271*	*273*
Offered what wanted and took it	45%	69%	66%	47%	40%
Took loan after issues	13%	19%	11%	11%	12%
Have loan (any)	*58%*	*88%*	*77%*	*58%*	*52%*
Took another form of funding	8%	*	5%	14%	7%
No facility	34%	11%	19%	28%	41%

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

The table below shows, albeit on limited base sizes, that applicants from the Construction sector were more likely to end the process without a facility (52%), while those in Agriculture were the most likely to have a loan (89%):

Final outcome (Loan): **Sought** new/renewed facility Q1 12- Q2 13	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*96**	*113*	*137*	*96**	*115*	*83**	*141*	*91**	*95**
Offered what wanted and took it	85%	36%	33%	58%	32%	44%	40%	27%	55%
Took loan after issues	4%	17%	11%	10%	31%	11%	10%	24%	19%
Have loan (any)	*89%*	*53%*	*44%*	*68%*	*63%*	*55%*	*50%*	*51%*	*74%*
Took another form of funding	5%	18%	4%	17%	7%	9%	3%	8%	2%
No facility	6%	29%	52%	16%	30%	36%	47%	41%	24%

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

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

Analysis earlier in this report showed that the initial response from the bank was typically more positive for the renewal of existing loan facilities and less positive for new facilities. The analysis below shows that this was also the case at the end of the process.

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

Final outcome (Loan): **Sought** new/renewed facility Q1 12- Q2 13	Total	1st loan	New loan	Renew loan
Unweighted base:	*967*	*254*	*355*	*147*
Offered what wanted and took it	45%	31%	55%	71%
Took loan after issues	13%	12%	13%	5%
Have loan (any)	***58%***	***43%***	***68%***	***76%***
Took another form of funding	8%	10%	8%	3%
No facility	34%	47%	25%	21%

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

As with overdrafts, there were differences in outcome for loan applications by age of business with a strong link between Starts and first-time applications: 71% of Starts that applied were applying for their first loan, and 43% of all first time loan applications were from Starts:

Final outcome (Loan): **Sought** new/renewed facility Q1 12- Q2 13. By age of business	Starts	2-5 yrs	6-9 yrs	10-15 yrs	15+ yrs
Unweighted base:	*96*	*148*	*110*	*151*	*462*
Offered what wanted and took it	25%	43%	40%	56%	62%
Took loan after issues	13%	12%	18%	10%	13%
Have loan (any)	*38%*	*55%*	*58%*	*66%*	*75%*
Took another form of funding	9%	5%	8%	10%	7%
No facility	53%	40%	34%	24%	17%

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

Small base sizes limit the analysis possible over time. In the first half of 2012, 86% of loans sought were for £100,000 or less, declining slightly in the second half of the year to 80%. Half of these smaller applications were typically successful, and there was no consistent pattern over time. Applications for larger amounts (£100,000+) were more likely to be successful, and success rates improved slightly over time, from around 6 out of 10 to around 7 out of 10 applications being successful.

Final outcome by date of application – loans

The table below shows the outcome by date of application. Since the start of 2012, a fairly consistent 1 in 3 applications has resulted in no loan facility:

Final outcome (Loan): SMEs seeking new/renewed facility By date of application	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12*	Q3 12*	Q4 12*	Q1 13*
Unweighted base:	***120***	***169***	***290***	***253***	***267***	***293***	***287***	***225***	***159***	***166***	***96****
Offered what wanted and took it	49%	48%	48%	62%	39%	47%	52%	44%	33%	47%	48%
Took loan after issues	17%	6%	7%	7%	13%	9%	8%	17%	22%	16%	6%
Have loan (any)	***66%***	***54%***	***55%***	***69%***	***52%***	***56%***	***60%***	***63%***	***55%***	***63%***	***54%***
Took another form of funding	9%	6%	11%	7%	4%	14%	8%	4%	12%	3%	14%
No facility	26%	39%	34%	24%	44%	30%	32%	35%	34%	34%	32%

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

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

Over the quarters for which robust data is available, there were indications that an increasing proportion of loan applicants were:

- first time applicants (30% of applicants in 2010, increasing to 44% of applicants reported to date for 2012),
- Starts (17% in 2010 to 24% in 2012 to date)
- or had a worse than average risk rating (47% in 2010, to 52% for applications to date in 2012).

These are all factors that analysis shows are likely to reduce the loan success rate over time.

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

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

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

Final outcome (Loan): SMEs seeking new/renewed facility By date of application	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12*	Q3 12*	Q4 12*
Unweighted base:	*120*	*169*	*290*	*253*	*267*	*293*	*287*	*225*	*159*	*166*
Have loan (any)	66%	54%	55%	69%	52%	56%	60%	63%	55%	63%
Predicted success rate	59%	61%	59%	61%	57%	62%	56%	59%	56%	60%
Difference	+7	-7	-4	+8	-5	-4	+4	+4	-1	+3

Final outcome of loan application by date of application

This analysis shows that, unlike in Q3 2011, the lower success rate in Q3 2012 was mostly accounted for by the profile of applicants in that quarter (as the model predicted a lower success rate compared to Q2 or Q4).

The 2012 data is still interim, but with that caveat, the model shows that loan applications in 2012 were more likely to be agreed than the risk, size and purpose profile of applicants would suggest, whereas in 2011 applications were less likely to be successful than the profile predicted.

The impact of personal borrowing on loan applications

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

16% of those making a loan application in the past 18 months (Q1 2012 to Q2 2013) who were asked this question, said that the facility they sought was in a personal capacity. This is slightly higher proportion than for overdrafts (11%).

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

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

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

Outcome analysis over time – new and renewed facilities

This chapter has reported separately on 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 typically had a different experience from those seeking to renew an existing facility. This final piece of analysis looks specifically at applications for <u>new</u> funding, whether on loan **or** overdraft.

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

The analysis below, as in previous reports, has been based on all applications made, rather than all SMEs (so an SME that had both a loan and an overdraft application will appear twice), and on all applications recorded by the SME Finance Monitor **since it started**. This time, in line with the analysis elsewhere in this chapter, results are *also* shown just for applications made in the **last 18 months** (between Q1 2012 and Q2 2013)

The table below shows that those seeking to renew an existing facility were almost twice as likely to be offered what they wanted as those seeking new funds. It also shows that the success rate for more recent renewals is in line with the overall figures, while for new funds, the recent success rate of 50% is slightly below the overall rate of 54%:

Final outcome Loans and Overdrafts combined	New funds – all applications	Renewals – all applications	New funds sought Q112-Q213	Renewals sought Q112-Q213
Unweighted base of applications:	*3449*	*3834*	*1269*	*1429*
Offered what wanted and took it	40%	81%	36%	78%
Took facility after issues	14%	11%	14%	13%
Have facility (any)	***54%***	***92%***	***50%***	***91%***
Took another form of funding	8%	1%	7%	1%
No facility	39%	7%	43%	8%

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

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

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

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

Final outcome (Overdraft+ Loan): Applications for renewed facilities By date of application	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12*	Q4 12*	Q1 13*
Unweighted base of applications:	*154*	*251*	*492*	*383*	*405*	*393*	*451*	*308*	*225*	*237*	*166*
Offered what wanted and took it	85%	83%	83%	78%	77%	88%	74%	81%	72%	82%	84%
Took facility after issues	8%	9%	10%	11%	10%	9%	11%	11%	23%	14%	10%
Have facility (any)	*93%*	*92%*	*93%*	*89%*	*87%*	*97%*	*85%*	*92%*	*95%*	*96%*	*94%*
Took another form of funding	4%	*	2%	3%	1%	1%	*	1%	1%	3%	2%
No facility	3%	8%	6%	8%	12%	2%	15%	7%	4%	2%	4%

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

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

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

First indications for applications made in Q1 2013 are that more applicants ended the process with no facility and this will be monitored as more data is gathered:

Final outcome (Overdraft+ Loan): Applications for new money By date of application	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12*	Q4 12*	Q1 13*
Unweighted base of applications:	*142*	*242*	*468*	*347*	*377*	*381*	*413*	*254*	*192*	*211*	*154*
Offered what wanted and took it	49%	44%	40%	46%	39%	45%	41%	31%	37%	38%	27%
Took facility after issues	17%	13%	13%	12%	16%	8%	13%	16%	16%	16%	7%
Have facility (any)	*66%*	*57%*	*53%*	*58%*	*55%*	*53%*	*54%*	*47%*	*53%*	*54%*	*34%*
Took another form of funding	3%	11%	12%	10%	7%	7%	7%	5%	7%	5%	12%
No facility	31%	32%	35%	33%	38%	40%	39%	48%	41%	41%	54%

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

It is also possible to look at the outcome over time for those applying specifically for their **first** overdraft/loan facility. The proportion of all applications/renewals being made by first time borrowers increased from around a quarter of applications made in 2010 to a third in both 2012 and 2013 to date. Over the same period the proportion of all new money applications being made by first time applicants increased from less than half to around 6 out of 10.

The proportion of first time applicants ending the process with no facility has increased slightly over time, although 2013 data is limited at this stage:

Final outcome – first time applicants Loans and Overdrafts combined By application date	All FTAs	In 2010	In 2011	In 2012*	In 2013*
Unweighted base of applications:	*1382*	*151*	*543*	*521*	*98**
Offered what wanted and took it	32%	46%	30%	30%	27%
Took facility after issues	9%	8%	7%	12%	5%
Have facility (any)	*41%*	*54%*	*37%*	*42%*	*32%*
Took another form of funding	8%	4%	11%	7%	9%
No facility	51%	42%	53%	52%	59%

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

For those applying for a new facility, but not their first, the proportion ending the process with no facility varied relatively little 2010-2012. Initial data for 2013 suggests more applicants ended the process with no facility, and this will be monitored as more data is gathered:

Final outcome – other new money Loans and Overdrafts combined By application date	All other new money	In 2010	In 2011	In 2012*	In 2013*
Unweighted base of applications:	*2067*	*327*	*1030*	*549*	*101*
Offered what wanted and took it	50%	46%	55%	51%	24%
Took facility after issues	20%	22%	19%	20%	21%
Have facility (any)	*70%*	*68%*	*74%*	*71%*	*45%*
Took another form of funding	7%	11%	7%	6%	12%
No facility	23%	21%	19%	23%	43%

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

Previous analysis has shown that external risk rating has been a key predictor of success rates. Across all applications made to date, those applying for their first facility were the most likely to have a worse than average risk rating – in 2012, 72% of first time applicants had a worse than average external risk rating. All three applicant groups have seen an increase over time in the proportion of applicants with a worse than average risk rating, as the table below shows. Although on a limited base to date, the increase in applicants with a worse than average risk rating in 2013 may help explain the lower success rates currently reported for this period:

% of applicants with worse than average external risk rating (Overdraft+ Loan): By year of application (base varies)	2010	2011	2012*	2013*
First time applicants	61%	69%	72%	75%
Other new money	44%	49%	49%	60%
Renewals	33%	34%	40%	42%

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

For the SME population as a whole, the proportion with a worse than average external risk rating has risen from 50% in 2011, to 53% in 2012 and is currently 56% across the first two quarters of 2013.

Further analysis of first time applicants (Q4 2012)

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

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

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

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

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

This analysis will be updated in subsequent reports.

9. The impact of the application/ renewal process

This chapter reports

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

Key findings

72% of overdrafts and 38% of loans were put in place within a week of being agreed. The lower figure for loans reflects the fact that they are more likely to involve security, as unsecured loans were twice as likely to be in place within a week (47%) as secured ones (24%)

The majority of successful applicants agreed that their facility has been put in place in good time for when they needed it (95% for overdrafts and 92% for loans). Levels of agreement started to fall if the applicants waited more than a month for their facility to be put in place (to 64% for overdrafts and 78% for loans)

Questions around the impact of an unsuccessful application were revised in Q2 2013, limiting the numbers answering these questions, but the key issues for those who wanted a facility but now do not have one remain that running the business is more of a struggle, they have had to make cutbacks or that they have not been able to expand or improve the business as they would wish

Overall bank satisfaction remained at a consistent 8 out of 10 being very/fairly satisfied. The most satisfied were the Permanent non-borrowers (86% satisfied in 2013). Those who successfully applied for a new/renewed facility remained more satisfied with their bank (82%) than those who were unsuccessful (39%), albeit that satisfaction amongst this latter group has improved over time (from 32% in 2011).

The least satisfied with their bank were the 'Would-be seekers' of finance, who wanted to apply but felt that something stopped them. In 2013 61% were satisfied with their bank, down from 73% in 2011

This chapter reports on the impact of Type 1 loan and overdraft events on the wider banking relationship. Some of the questions reported in this chapter were revised for Q2 2013, so base sizes limit the analysis possible at this stage.

New facility granted

In a new question for Q4 2012, successful respondents were asked how long it had taken to put their new facility in place and whether this was in 'good time' for when they needed it. In line with the new analysis approach elsewhere, the table below is based on all applications made in the last 18 months, Q1 2012 to Q2 2013, where the respondent was asked this question.

8 out of 10 overdrafts were in place within 2 weeks (84%), while two-thirds of loans were in place in this time period (67%):

Successful Type 1 applicants Time taken to put facility in place **Sought** new/renewed facility Q1 12- Q2 13*	Overdrafts	Loans
Unweighted base:	*1002*	*415*
Within 1 week	72%	38%
Within 2 weeks	12%	29%
Within 3-4 weeks	9%	14%
Within 1-2 months	5%	12%
Longer than this	1%	5%
Not in place yet	1%	2%

Q101a and Q196a All SMEs that have applied/renewed Q1 2012 to Q2 2013, excluding DK, and interviewed from Q4 2012 onwards

Analysis showed that secured loans were less likely to be in place within a week (24%) than unsecured ones (47%), reflecting the security processes that need to be undertaken. There is also a difference, although less marked, between secured (66%) and unsecured (75%) overdrafts that were in place within a week.

Facilities for smaller SMEs were more likely to be made available within a week (74% for overdrafts, 39% for loans for SMEs with 0-9 employees) than those for larger SMEs (56% for overdrafts and 21% for loans where the SME had 50-249 employees). In terms of facilities being made available within a *month*, there was little difference by size for overdrafts (93% for smaller SMEs v 87% for larger ones), but a difference still existed for loans (83% for smaller SMEs v 59% for larger SMEs).

For both overdrafts and loans, most applicants agreed that the facility had been put in place in good time for when it was needed (95% for overdrafts and 92% for loans). Despite typically waiting longer for their facility, bigger applicants were only slightly less likely to agree:

- Amongst applicants with 0-9 employees, 96% said their overdraft was made available in good time, while for loans it was 93%.
- Amongst larger applicants 93% said their overdraft was made available in good time, while for loans it was 88%.
- Analysis by length of time for the facility to be put in place showed that overall it was those waiting a month or more who were less satisfied (64% were satisfied if they had waited a month for more for an overdraft, 78% if they had waited that long for a loan).

Impact of being unsuccessful

The analysis above was based on those that were successful in their application/renewal and now had an overdraft or loan facility. Unsuccessful SMEs were asked whether *not* having a facility had impacted on their business.

The questions asked in this section of the questionnaire were revised in Q2 2013. This means that only those who *chose* not to have a facility (rather than being declined by the bank) were asked whether they would have ideally wanted to have a loan / overdraft. As result base sizes are very limited at this stage (13 and 10 respondents respectively) but show that most of those who applied for an overdraft and around half of those who applied for a loan would ideally now have a facility. The main barriers were the expense of the facility, the security required, and a perception that the bank did not want to lend to them.

A broader question around the *impact* of not having a facility, was asked both of those who chose not to have a facility (but would ideally have wanted one) and those who were declined by the bank. For Q2 2013, this was the equivalent of 3% of all SMEs, so, again, base sizes are relatively low (75 for overdrafts and 69 for loans). The key issues were seen as:

- Running the business is more of a struggle
- Have had to make cutbacks on spending
- Not expanded / improved the business as would have hoped

Future waves will provide more detail on these issues as base sizes build.

When these SMEs were asked more about their lending experience, 20% agreed that the bank had treated them fairly (69% disagreed). A similar proportion, 21%, thought that they could have got a better deal at another bank, while half, 49%, disagreed. 40% felt that they were now seriously considering a change of bank (the equivalent of around 1% of *all* SMEs).

Overall bank satisfaction

Satisfaction with new overdraft /loan facility is no longer asked, but the Monitor continues to track overall satisfaction with main bank. The results for 2011, 2012 and 2013 to date are shown below.

Overall satisfaction has remained stable over time – for 2013 to date the overall satisfaction score is 81%, made up of 40% who are 'very satisfied' and 41% who are 'fairly satisfied' with their main bank.

Very/fairly satisfied with main bank			
Over time – row percentages	2011	2012	2013
Overall	*81%*	*80%*	*81%*
0 emps	82%	81%	81%
1-9 emps	78%	77%	79%
10-49 emps	80%	80%	83%
50-249 emps	85%	84%	86%
PNB	87%	86%	86%
Type 1 event: facility at main bank	82%	81%	82%
Type 1 event: no facility at main bank	32%	36%	39%
Would be seekers of finance	73%	68%	61%
Happy non-seekers of finance	87%	85%	85%

Q220

The table shows the not unexpected disparity in satisfaction between those interviewed in each year who had applied to their main bank for a new loan and/or overdraft and have a new facility, where 8 out of 10 are satisfied, and those who had applied but ended the process with no facility, where a third are satisfied (albeit improving slightly over time). Note that levels of satisfaction amongst the 'Permanent non-borrowers' have been consistently higher than either group.

The biggest change in levels of satisfaction has been amongst the 'Would-be seekers' who wanted to apply for a facility but felt that something stopped them doing so, where overall satisfaction dropped from 73% in 2011 to 61% in 2013.

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 last 18 months.

Key findings

30% of overdrafts successfully applied for between Q1 2012 and Q2 2013 were secured, increasing by size of facility. Over time, the proportion of overdrafts that were secured increased from 22% in H1 2011 to 31% in H2 2012, and for both smaller and larger facilities granted

43% of overdraft facilities successfully applied for in the last 18 months were on a variable rate. This was more common for larger facilities (50% where the overdraft was £100,000+) and also for the most recently agreed overdrafts (47% of those successfully applied for in Q1 2013)

The median variable rate charged for overdrafts agreed in the past 18 months was +3.0% and the median fixed rate was 4.3%. Overdrafts of £100,000+ attracted a lower rate, as did secured facilities

One in five overdraft applicants did not pay a fee for their facility. Most overdrafts agreed for £10,000 or more paid a fee equivalent to 2% or less of the facility granted

40% of loans successfully applied for between Q1 2012 and Q2 2013 were secured, increasing by size of facility. This includes commercial mortgages which made up 16% of successful loans in this period

Loans were more likely than overdrafts to be on a fixed rate (75% v 57% for overdrafts). The median variable margin paid was +3.0%, in line with that charged on overdrafts, while for fixed rate loans it was 5.0%, slightly above the median overdraft rate

A third of successful loan applicants did not pay a fee for their facility (36%), and where a fee was paid it was slightly less likely to equate to 2% or less of the facility granted

This chapter covers the security, interest rates and fees pertaining to overdrafts and loans granted after a Type 1 borrowing event (that is an application or a renewal). Analysis is based on the new definition of SMEs that made an application for a new or renewed overdraft or loan facility during the most recent 18 month period which for this report is between Q1 2012 and Q2 2013, irrespective of when they were interviewed.

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: context

The 'price' of a facility (the interest margin and fee) will be a function, at least in part, of the size of the facility and the business it is granted to, whether it is secured or not, and whether it is a personal or business facility.

Of all new overdrafts successfully applied for Q1 2012 to Q2 2013:

- 54% were granted to 0 employee SMEs
- 38% to 1-9 employee SMEs
- 7% to 10-49 employee SMEs
- 1% to 50-249 employee SMEs

80% of overdraft facilities successfully applied for between Q1 2012 and Q2 2013 were for less than £25,000. By size, this varied from 94% of overdrafts to 0 employee SMEs being £25,000 or less, to 16% of overdrafts to those with 50-249 employees.

11% of new/renewed overdrafts in this period were in a personal name rather than that of the business (of those asked the question, which has been included from Q4 2012). This varies from 14% of 0 employee businesses with an overdraft who were asked this question, to 5% of those with 50-249 employees.

Analysis of the overdraft facility *granted* by application date reported below shows that in 2011 and the first half of 2012 an increasing proportion of facilities agreed were for £5,000 or less (reflecting a similar increase in the proportion of applicants requesting a facility of that size). Data available so far for the second half of 2012 suggests a higher proportion of overdrafts were granted for £5,000+ in that period but that this did not continue to be the case for applications reported to date for 2013:

Overdraft facility granted By date of application	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12*	Q4 12*	Q1 13*
Unweighted base:	*154*	*278*	*577*	*424*	*462*	*461*	*551*	*355*	*272*	*292*	*205*
Less than £5,000	33%	35%	43%	47%	52%	49%	45%	50%	41%	38%	46%
£5-25,000	47%	44%	32%	33%	31%	29%	37%	31%	41%	36%	32%
£25,000+	20%	21%	25%	21%	17%	22%	18%	19%	18%	26%	21%

Overdraft facility granted – all successful applicants that recall amount granted

Overdrafts: Security

Around a third (30%) of Type 1 overdrafts (i.e. a new or renewed facility not including automatic renewals, successfully applied for between Q1 2012 and Q2 2013) required security.

The most common form of security required for overdrafts successfully applied for in the last 18 months remained a charge over a business or personal property, as the table below shows:

Security required (Overdraft): **Successfully sought** new/renewed overdraft Q1 12- Q2 13	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*1696*	*147*	*551*	*678*	*320*
Property (any)	19%	8%	30%	42%	41%
Charge over business property	*9%*	*3%*	*15%*	*24%*	*35%*
Charge over personal property	*10%*	*5%*	*15%*	*19%*	*8%*
Directors/personal guarantee	4%	3%	5%	9%	7%
Other security (any)	8%	8%	7%	13%	19%
Any security	30%	18%	41%	57%	61%
No security required	70%	82%	59%	43%	39%

Q 106 All SMEs with new/renewed overdraft excluding DK

Secured overdrafts were more likely as the size of overdraft increased. For those successfully applied for between Q1 2012 and Q2 2013:

- 17% of overdrafts granted for £10,000 or less were secured
- 41% of overdrafts granted for £11-24,999
- 55% of overdrafts granted for £25-99,999
- 70% of overdrafts granted for £100,000 or more were secured

Analysed by date of application (at the half-year level), overdraft facilities successfully applied for in 2012 were somewhat more likely to be secured than those applied for in 2011, with some increase across all size bands. There are currently too few applications made in 2013 to be able to report by size of facility granted, but overall the proportion of overdrafts that were secured increased from 31% in H2 2012 to 35% in H1 2013:

% of overdraft facilities that were secured, by size of facility and date applied for Row percentages	H1 2011	H2 2011	H1 2012	H2 2012*
All overdrafts	22%	24%	28%	31%
Overdrafts of <£10,000	9%	10%	18%	14%
Overdrafts of £10-25,000	28%	39%	33%	46%
Overdrafts of £25-100,000	45%	55%	54%	64%
Overdrafts of more than £100,000	57%	72%	77%	61%

Q 106 All SMEs with new/renewed overdraft, excluding DK

Changes in the profile of overdrafts granted, such as the size of the facility or whether it was secured or not, will impact on the margin charged. The changes reported above should be born in mind when reviewing the changes in margin over time reported later in this chapter, albeit that small sample sizes make a true like for like comparison over time difficult.

Overdrafts: Rates

Amongst those who gave an answer, 4 out of 10 (43%) said that their new/renewed overdraft was on a variable rate, and this increased with the size of facility granted:

Type of rate (overdraft) by facility granted: **Successfully sought** new/renewed overdraft Q1 12-Q2 13 excl. DK	Total	<£10k	£10-25k	£25-100k	£100k+
Unweighted base:	*1409*	*386*	*227*	*336*	*460*
Variable rate lending	43%	43%	40%	44%	50%
Fixed rate lending	57%	57%	60%	56%	50%

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

As the table below shows, when analysed by date of application the balance changed slightly over time in favour of fixed rate lending up to the start of 2012, but since then an increasing proportion of overdrafts has been on a variable rate:

New/renewed overdraft rate By date of application	Q310	Q410	Q111	Q211	Q311	Q411	Q112	Q212*	Q312*	Q412*	Q113*
Unweighted base:	*137*	*241*	*495*	*345*	*376*	*383*	*448*	*291*	*217*	*238*	*165*
Variable rate lending	53%	54%	55%	53%	49%	38%	40%	44%	46%	44%	47%
Fixed rate lending	47%	46%	45%	47%	51%	62%	60%	56%	54%	56%	53%

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

Most of those on a variable rate overdraft (agreed in the last 18 months) said that the rate was linked to Base Rate (91%).

44% of those with a new/renewed variable rate overdraft and 31% of those with a fixed rate overdraft were unable / refused to say what rate they were paying. These 'Don't know' answers have been excluded from the analysis below, but as a result base sizes are small in some areas.

Both the average and median variable rate margins paid remained lower for facilities in excess of £100,000:

Variable margin (overdraft) by facility granted: **Successfully sought** new/renewed overdraft Q1 12-Q2 13 excl. DK	Total	<£10k	£10-25k	£25-100k	£100k+
Unweighted base:	*610*	*129*	*95**	*156*	*230*
Less than 2%	19%	18%	26%	11%	24%
2.01-4%	44%	42%	30%	57%	68%
4.01-6%	15%	11%	30%	18%	4%
6%+	22%	29%	14%	13%	4%
Average margin above Base/LIBOR:	*+4.4%*	*+4.8%*	*+3.8%*	*+4.4%*	*+2.8%*
Median margin above Base/LIBOR	*+3.0%*	*+3.0%*	*+3.0%*	*+3.4%*	*+2.8%*

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

Analysis by date of application is limited by the number of respondents answering this question, and so has been based on a half year rather than quarterly analysis. The table below shows a slight increase in the proportion of overdrafts being charged at +6% or more, to 26% for those overdrafts recorded to date for H2 2012. *Indicative* data for H1 2013 suggest this trend is continuing:

New/renewed overdraft variable rate By application date (half year)	H210	H111	H211	H112	H212*
Unweighted base:	*175*	*419*	*346*	*311*	*214*
<4%	70%	65%	66%	63%	68%
4-6%	16%	27%	13%	23%	5%
6%+	13%	8%	21%	14%	26%
Average margin above Base/LIBOR:	+3.6%	+3.8%	+5.1%	+4.1%	+4.6%

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

As with the variable rate margins, those borrowing more on a fixed rate paid, on average, a lower rate:

Fixed rate (overdraft) by facility granted: **Successfully sought** new/renewed overdraft Q1 12-Q2 13 excl. DK	Total	<£10k	£10-25k	£25-100k	£100k+
Unweighted base:	*542*	*149*	*89**	*120*	*184*
Less than 3%	40%	34%	32%	61%	57%
3.01-6%	36%	36%	38%	31%	34%
6.01-8%	9%	11%	5%	6%	5%
8%+	16%	19%	26%	1%	3%
Average fixed rate:	*5.5%*	*6.4%*	*5.7%*	*3.0%*	*3.0%*
Median fixed rate	*4.3%*	*4.0%*	*4.3%*	*2.1%*	*2.4%*

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

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

New/renewed overdraft fixed rate By application date (half year)	H210	H111	H211	H112	H212*
Unweighted base:	*130*	*310*	*273*	*276*	*179*
<3%	25%	28%	38%	38%	36%
3-6%	34%	50%	45%	32%	44%
6%+	40%	21%	17%	30%	20%
Average margin above Base/LIBOR:	*6.0%*	*5.0%*	*4.7%*	*5.9%*	*5.4%*

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

Secured overdrafts agreed between Q1 2012 and Q2 2013 were somewhat more likely to be on a fixed rate (60%) than a variable rate (40%), and this has been an increasing trend over time. Unsecured overdrafts were also somewhat more likely to be on a fixed rate (55%) than a variable rate (45%).

The average margin for a variable rate overdraft was +4.0% if it was secured or 4.6% if it was unsecured. More of a difference in margin was seen for fixed rate facilities – secured overdrafts were at an average rate of 3.8% compared to 6.6% for an unsecured overdraft.

Overdrafts: Fees

Most respondents (90%) were able to recall the arrangement fee that they had paid for their new/renewed overdraft facility (if any). The average fee paid was £342, with fees for facilities successfully applied for in both 2011 and 2012 fairly consistently around this figure.

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

Fee paid (overdraft) by facility granted: **Successfully sought** new/renewed overdraft Q1 12-Q2 13 excl. DK	Total	<£10k	£10-25k	£25-100k	£100k+
Unweighted base:	*1448*	*399*	*260*	*337*	*452*
No fee paid	22%	26%	13%	13%	15%
Less than £100	11%	14%	9%	3%	1%
£100-199	42%	52%	38%	15%	4%
£200-399	13%	6%	32%	25%	9%
£400-999	6%	1%	8%	26%	14%
£1000+	7%	1%	1%	18%	57%
Average fee paid:	*£342*	*£112*	*£221*	*£592*	*£2388*
Median fee paid	*£100*	*£94*	*£142*	*£293*	*£991*

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 size of the facility granted, 36% paid a fee that was equivalent to less than 1% of the facility granted and a further 30% paid between 1-2%. Half of those with a facility of under £10,000 paid a fee equivalent to 2% or less of the facility compared to almost all of those with a larger facility:

- 50% of those granted a new/renewed overdraft facility of less than £10,000 paid the equivalent of 2% or less
- 94% of those granted a new/renewed overdraft facility of £10-25,000 paid the equivalent of 2% or less
- 97% of those granted a new/renewed overdraft facility of £25-100,000 paid the equivalent of 2% or less
- 97% of those granted a new/renewed overdraft facility of more than £100,000 paid the equivalent of 2% or less

Secured overdrafts remained more likely to attract a fee of 2% or less (89%) than unsecured overdrafts (57%). Over time there had been a slight increase in the proportion paying a fee of 2% or less, from 62% for applications in 2011 to 67% for those in 2012 – the current interim figure for 2013 is 63%.

Overdraft terms: Analysis by risk rating

Sample sizes also permit some analysis of size, interest rates and fees by external risk rating. Businesses with a minimal/low risk rating typically had a higher facility, were more likely to be paying a variable rate, and paid a lower margin for that facility, if it was less than £25,000:

Overdraft rates and fees summary **Successfully sought** new/renewed overdraft Q1 12-Q2 13 excl. DK	Min/Low	Average/Worse than average
Unweighted base (varies by question):	*711*	*889*
% borrowing £25,000 or less	59%	85%
Facility secured (Less than £25k)	33%	20%
Facility secured (£25k+)	65%	62%
Facility on a variable rate (excluding DK)	47%	40%
Average variable margin for less than £25k facility	+3.6%	+4.6%
Average variable margin for facility £25k+	+3.9%	+3.9%
Average fixed rate for less than £25k facility*	6.1%	6.3%
Average fixed rate for facility £25k+	3.1%	3.0%
% where fee <2% of facility (under £25k)	75%	58%
% where fee <2% of facility (£25k+)	97%	97%

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

Overdraft terms: Analysis by sector

Overall, in the 18 months Q1 2012 to Q2 2013, 80% of overdrafts successfully applied for were for £25,000 or less. By sector this varied relatively little (between 78% and 93%), with the exception of Agriculture where 56% of overdrafts granted were for less than £25,000 and 20% were for £100,000 or more (for the other sectors this ranged from 2-8%).

As the table below shows, secured overdrafts were:

- More common for overdrafts in Agriculture (46%), Health (49%) and Wholesale/Retail (43%)
- Somewhat less common for overdrafts in the Property/Business Services or Other Community sectors (20%)

Type 1 overdraft **Successfully sought** new/renewed overdraft Q1 12-Q2 13 excl. DK	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*212*	*179*	*282*	*193*	*143*	*119*	*282*	*128*	*158*
Any security	46%	30%	25%	43%	32%	26%	20%	49%	20%
- property	*37%*	*20%*	*16%*	*30%*	*25%*	*8%*	*13%*	*27%*	*4%*
No security	54%	70%	75%	57%	68%	74%	80%	51%	80%

Q 106 All SMEs with new/renewed overdraft excluding DK

Overall, 4 out of 10 Type 1 overdrafts obtained were on a variable rate (43%). This was more likely for overdrafts granted in the Other Community sector:

Type 1 overdraft rate **Successfully sought** new/renewed overdraft Q1 12-Q2 13 excl. DK	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*194*	*159*	*218*	*167*	*115*	*100*	*229*	*101*	*126*
Variable rate lending	47%	48%	35%	39%	35%	51%	45%	24%	57%
Fixed rate lending	53%	52%	65%	61%	65%	49%	55%	76%	43%

Q 107 All SMEs with new/renewed overdraft excluding DK

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

This analysis shows that those in Manufacturing, Construction and Agriculture were more likely to pay a fee for their facility. Whilst those in Agriculture paid on average a higher fee, this is a reflection of the larger overdraft facilities successfully applied for in this sector, given that they are more likely than others to pay a fee equivalent to 2% or less of the sum borrowed:

Type 1 overdraft fees **Successfully sought** new/renewed overdraft Q1 12-Q2 13 excl. DK	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base (varies):	*173*	*158*	*241*	*170*	*124*	*95**	*243*	*108*	*136*
No fee paid	13%	15%	14%	17%	18%	21%	23%	33%	40%
Average fee paid	£736	£50 7	£255	£442	£396	£336	£275	£210	£121
Equivalent of 2% or less paid*	78%	65%	58%	85%	72%	55%	61%	70%	58%

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

Overdrafts: Automatic renewals

As mentioned earlier in this chapter, some data is now available on the fees, rates and security pertaining to overdraft facilities that were automatically renewed. This has now been collected for respondents interviewed from Q2 2012, but the *quarter* in which the overdraft was renewed was only asked from Q4 2012. In line with the new analysis structure, the table below shows all automatic renewals *known to have occurred* between Q1 2012 and Q2 2013.

Data available for these automatic renewals showed that almost all (87%) were for less than £25,000 (compared to 80% of Type 1 overdraft events reported in these quarters), and that they are in many ways similar to Type 1 overdraft events in the same period:

Overdraft rates and fees summary	Automatically renewed Q112-Q213	Type 1 overdraft event Q1 12-Q213
Unweighted base (varies by question):	*1187*	*1696*
Any security required	28%	30%
Facility on a variable rate (excluding DK)	40%	43%
Average variable margin	+4.6%	+4.4%
Average fixed rate	4.4%	5.0%
No fee	23%	22%
Average fee paid	£211	£342

All SMEs with new/renewed overdraft, excluding DK

Loans: Context

As with the overdraft section above, this section is based on the new definition of SMEs that made an application for a new or renewed loan facility during an 18 month period which for this report is between Q1 2012 and Q2 2013, irrespective of when they were interviewed.

The 'price' of a facility (the interest rate and fee) will be a function, at least in part, of the size of the facility and of the business granted that facility, whether it is secured or not, and whether it is a personal or business facility.

Of all new loans successfully applied for Q1 2012 to Q2 2013:

- 54% were granted to 0 employee SMEs
- 37% to 1-9 employee SMEs
- 8% to 10-49 employee SMEs
- 2% to 50-249 employee SMEs

79% of new/renewed loans in the period Q1 2012 to Q2 2013 were for £100,000 or less.

17% of new/renewed loans in this period were in a personal name rather than that of the business (of those asked the question, which has been included from Q4 2012).

Analysis of loans *granted* by application date shows a typical split ranging between 80:20 and 90:10, under and over £100,000, up to Q2 2012. Initial data for applications made in Q3 and Q4 2012 suggested a higher proportion of loans were granted for more than £100,000 (31%) and this will be monitored as more data is gathered:

Loan facility granted By date of application	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12*	Q4 12*
Unweighted base:	*94**	*125*	*220*	*193*	*204*	*212*	*206*	*165*	*111*	*126*
Less than £100k	80%	82%	88%	89%	83%	79%	85%	80%	69%	69%
More than £100k	20%	18%	12%	11%	17%	21%	15%	20%	31%	31%

All successful loan applicants that recall amount granted

Loans: Security

A minority of loans, 16%, were commercial mortgages. These were much more likely to have been granted for more than £100,000 and were also more common amongst larger SMEs:

- 15% of successful applicants with 0-9 employees said their loan was a commercial mortgage
- 24% of successful applicants with 10-49 employees
- 23% of successful applicants with 50-249 employees

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): **Successfully sought** new/renewed loan Q1 12-Q2 13	Total	0-9 emp	10-49 emps	50-249 emps
Unweighted base:	*682*	*257*	*269*	*156*
Commercial mortgage	16%	15%	24%	23%
Secured business loan	24%	23%	40%	43%
Unsecured business loan	60%	63%	36%	33%

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

Including commercial mortgages, of new/renewed loans successfully applied for in Q1 2012 to Q2 2013:

- 25% of loans granted for less than £25,000 were secured
- 45% of loans granted for £25,000 to £100,000 were secured
- 84% of those granted for more than £100,000 were secured

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

Security taken (loan): **Successfully sought** new/renewed loan Q1 12-Q2 13	Total	0-9 emp	10-49 emps	50-249 emps
Unweighted base:	*682*	*257*	*269*	*156*
Commercial mortgage	16%	15%	24%	23%
Secured – Property (any)	17%	16%	25%	29%
Business property	*9%*	*8%*	*16%*	*24%*
Personal property	*8%*	*8%*	*10%*	*5%*
Director/personal guarantees	5%	4%	8%	3%
Other security	5%	4%	12%	17%
Unsecured business loan	60%	63%	36%	33%

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

Analysis by date of application, at the half year level, shows that a consistent 7 out of 10 loans granted for more than £100,000 (*excluding* commercial mortgages) have been secured. Loans for under £100,000 were less likely to be secured, with no clear pattern over time, so overall around a quarter of loans that were not commercial mortgages have been secured:

% of loan facilities that were secured, by size of facility and date applied for Row percentages	H1 2011	H2 2011	H1 2012	H2 2012
All loans (excluding commercial mortgages)	20%	29%	33%	28%
Loans of <£100,000 (excl commercial mortgages)	15%	21%	28%	15%
Loans of more than £100,000 (excl commercial mortgages)	72%	76%	69%	74%

Q 200 All SMEs with new/renewed loan, excluding DK and those with commercial mortgage

Changes in the profile of loans granted, such as the size of the facility or whether it was secured or not, will impact on the margin charged. The changes reported above should be born in mind when reviewing the changes in margin over time reported later in this chapter, albeit that small sample sizes make a true like for like comparison over time difficult.

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 remained more common for smaller facilities:

Type of rate (loan) by amount granted: **Successfully sought** new/renewed loan Q1 12-Q2 13	Total	<£100k	£100k+
Unweighted base:	*603*	*308*	*295*
Variable rate lending	25%	20%	43%
Fixed rate lending	75%	80%	57%

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

Fixed rate lending was also more common where the facility was unsecured (84% v 61% for secured loans). Analysis by date of application showed that 70% of loans successfully applied for up to and including H1 2011 were on a fixed rate, increasing to around 76% for loans H2 2011 to H2 2012. Indicative results for H1 2013 suggest slightly fewer loans successfully applied for then were on a fixed rate.

Most of those on a variable rate said that the rate was linked to Base Rate (88%), but this was less the case for loans in excess of £100,000 (75%) than for those below £100,000 (96%).

Amongst SMEs with a new/renewed loan, a third of those with a variable rate and a quarter of those with a fixed rate were unable/refused to say what rate they were paying. These 'Don't know' answers have been excluded from the analysis below, but this does reduce the sample sizes, particularly for loans under £100,000:

Variable margin (loan) by amount granted: **Successfully sought** new/renewed loan Q1 12-Q2 13	Total	<£100k	£100k+
Unweighted base:	*215*	*79**	*136*
Less than 2%	29%	23%	40%
2.01-4%	40%	30%	57%
4.01-6%	11%	16%	2%
6%+	20%	31%	1%
Average margin above Base/LIBOR:	*+4.2%*	*+5.1%*	*+2.5%*
Median margin above Base/LIBOR	*+3.0%*	*+4.0%*	*+2.9%*

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

The overall average margin was somewhat higher than that in the Q1 2013 report (when the figure was +3.4% and calculated on the basis of applications *reported* YEQ1 2013), but the median margin was unchanged.

Analysis over individual time periods is restricted by the sample sizes available, but *indications* are that for loans successfully applied for between H2 2010 and H1 2012, the average margin charged was around +4%. In H2 2012 and H1 2013, the average margin increased to around 4.6%, with more applicants saying they were paying a margin of +6% or more.

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

Fixed rate (loan) by amount granted: **Successfully sought** new/renewed loan Q1 12-Q2 13	Total	<£100k	£100k+
Unweighted base:	*297*	*165*	*132*
Less than 3%	23%	19%	39%
3.01-6%	41%	39%	48%
6.01-8%	20%	22%	12%
8%+	17%	21%	1%
Average fixed rate:	*6.0%*	*6.6%*	*4.0%*
Median fixed rate	*5.0%*	*5.2%*	*4.5%*

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

Both the overall average and median margins were the same as those reported in the Q1 2013 report when the figures were calculated on the basis of applications *reported* YEQ1 2013.

Analysis by date of application is limited by the number of respondents answering this question, but indicative results were that the average rate has been around 6% in all half year periods with the exception of H2 2011, when the average rate was 6.8%

Secured loans, whether on a fixed or variable rate, were charged at a lower average rate than those that were unsecured. For those who successfully applied for a new/renewed loan on a variable rate between Q1 2012 and Q2 2013, a secured loan was charged at an average margin of +4.0%, an unsecured loan at an average margin of +4.4%. For fixed rate lending over the same periods, the rates were 4.4% for secured loans and 7.0% for unsecured.

Loans: Fees

8 out of 10 respondents were able to recall the arrangement fee that they paid for their loan (if any). As with overdrafts, those borrowing a smaller amount typically paid a lower fee in absolute terms:

Fee paid (loan): **Successfully sought** new/renewed loan Q1 12-Q2 13	Total	<£100k	£100k+
Unweighted base:	*546*	*282*	*264*
No fee paid	36%	39%	27%
Less than £100	10%	12%	*
£100-199	19%	22%	7%
£200-399	17%	20%	7%
£400-999	5%	4%	9%
£1000+	13%	3%	50%
Average fee paid:	*£749*	*£188*	*£2969*
Median fee paid	*£99*	*£75*	*£903*

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

The average fee paid for loans agreed Q1 2012 to Q2 2013 was slightly lower than in the previous report (£847 based on all applications *reported* YEQ1 2013), while the median fee paid was slightly higher (previously £86).

Analysis by date of application showed little clear pattern over time, other than the proportion of loans for which no fee was payable, which increased over time from 23% in H210 to 44% in H211 but was lower again for applications made in 2012 (with around 1 in 3 paying no fee, based on interim data).

Amongst those with a new/renewed loan who knew both what fee they had paid and the original loan size, 62% paid a fee that was the equivalent of less than 1% of the amount borrowed and a further 14% paid between 1-2%:

- 73% of those granted a new/renewed loan of less than £100,000 paid the equivalent of 2% or less
- 85% 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 (78% if secured, 74% if not). Over time, slightly fewer loan facilities were charged at the equivalent of 2% or less of the facility granted: In H2 2010, 86% of facilities were charged the equivalent of 2% or less, in H2 2011 the proportion was 81%, and for applications reported to date in 2012 the figure was around three-quarters.

Loan terms: Analysis by risk rating

Sample sizes also permit some analysis of size, interest rates and fees by external risk rating. Those with a minimal/low external risk rating were typically borrowing more, were more likely to be paying a variable rate and paying a lower margin/rate. Although those with a minimal/low external risk rating were more likely to have provided security overall, this was due in part to more of these SMEs having a loan for £100k or more:

Loan rates and fees summary **Successfully sought** new/renewed loan Q1 12-Q2 13	Min/Low	Average/Worse than average
Unweighted base (varies by question):	*290*	*354*
% borrowing £100,000 or less	58%	84%
Any security provided	60%	34%
Facility on a variable rate (excluding DK)	37%	22%
Average variable margin	+3.1%	+4.4%
Average fixed rate	3.9%	6.8%
% where fee <2% of facility	81%	73%

All SMEs with new/renewed loan, excluding DK

Loan terms: Analysis by sector (indicative)

Note that the small proportion of SMEs reporting a successful loan event means that base sizes for all sectors are now below 100, even when several time periods are rolled together. This section continues to be included, but can provide only *indicative* loan data.

79% of new/renewed loans agreed between Q1 2012 and Q2 2013 were for £100,000 or less. By sector this varied from 90% of loans in the Construction sector, and 93% of loans in the Other Community sector being in this band, to 62% of loans in Agriculture and Property/Business Services.

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

Type 1 loan **Successfully sought** new/renewed loan Q1 12-Q2 13	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*83**	*79**	*73**	*79**	*80**	*55**	*95**	*67**	*71**
Commercial mtge	13%	10%	16%	13%	23%	3%	28%	31%	8%
Secured loan	36%	33%	17%	26%	28%	21%	30%	13%	11%
Unsecured loan	52%	57%	66%	61%	48%	76%	42%	55%	81%

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 Other Community, Health and Transport sectors:

Type 1 loan rate **Successfully sought** new/renewed loan Q1 12-Q2 13	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*75**	*70**	*61**	*68**	*74**	*47**	*84**	*62**	*62**
Variable rate lending	30%	48%	23%	17%	37%	11%	41%	12%	5%
Fixed rate lending	70%	52%	77%	83%	63%	89%	59%	88%	95%

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

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

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

Type 1 loan fees **Successfully sought** new/renewed loan Q1 12-Q2 13	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*61**	*64**	*65**	*63**	*64**	*46**	*70**	*50**	*63**
No fee paid	36%	23%	44%	20%	37%	19%	54%	55%	40%

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

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

This chapter looks

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

Key findings

6% of SMEs met the definition of a ‘Would-be seeker’ of finance in Q2 2013, reporting that they would have liked to apply for a loan/overdraft in the 12 months prior to interview but something stopped them, and this figure is stable over time

SMEs with fewer than 10 employees were more likely to be ‘Would-be seekers’, as were those with an average or worse than average external risk rating, and Starts. Excluding the ‘Permanent non-borrowers’ increased the proportion of ‘Would-be seekers’ to 9% of remaining SMEs in Q2 2013

The main barriers to applying remained discouragement and the process of borrowing. Around 1 in 4 ‘Would-be seekers’ were discouraged, most of them indirectly (they thought they would be turned down and so didn’t apply). A similar proportion cited an issue with the process of borrowing, typically the expense, hassle or terms and conditions

As already detailed in this report, a minority of SMEs reported any borrowing 'event' in the 12 months prior to interview. This chapter looks at those that had not had a borrowing event, to explore whether they had wanted to apply for loan/overdraft finance in the previous 12 months, and any barriers to applying. Because this chapter covers not only those that have had a borrowing event, but also those that have not, analysis continues to be based on the date of **interview** (unlike chapters 7 to 10 which are now entirely based on when the borrowing event in question *occurred*).

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

Automatic renewals re-classified

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

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

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

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

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

To

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

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

Would-be seekers – explanation codes

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

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

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

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

This does mean that there are some respondents who met the definition of a 'would-be seeker' for one product (most typically a loan) who do <u>not</u> feature in the 'would-be seeker' analysis because they also had a borrowing 'event' for the other product, and that takes priority in the classification process above.

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

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

As described earlier, the 'Have had an event' code includes applications and renewals of loans and overdrafts (and the automatic renewal of overdrafts), but also Type 2 and Type 3 events where either the bank or the SME was looking to reduce or repay an existing facility. The table below therefore shows, beneath the 'event' line, the proportion of SMEs each quarter that have applied for a new/renewed facility or had an overdraft facility automatically renewed:

Any events (overdraft and loan) All SMES, over time By date of interview	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013
Unweighted base:	*5010*	*5023*	*5000*	*5032*	*5000*	*5000*	*5000*
Have had an event	23%	25%	24%	22%	21%	17%	19%
- *New or (auto) renewed facility*	*21%*	*23%*	*22%*	*20%*	*18%*	*15%*	*16%*
Would-be seekers	8%	10%	10%	11%	7%	7%	6%
Happy non-seekers	69%	65%	66%	67%	73%	76%	76%

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

This shows that the proportion of 'Would-be seekers', using its new definition, remained lower than it had been in the quarters before the definition changed. As the proportion reporting an event (for which the definition remains unchanged) improved slightly to 19%, the proportion of 'Happy non-seekers' remained at the highest level since the survey started.

The table overleaf shows the proportion of 'Would-be seekers' by key demographic groups over time. Between Q4 2012 and Q2 2013 there were few differences by size, but by sector there was an increase in the proportion of 'Would-be seekers' in Construction, while those in Manufacturing, Wholesale/Retail and Other Community sectors were now less likely to meet the definition of a 'Would-be seeker'.

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

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

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

The analysis below has previously been provided on a 4 quarter 'year ending' basis to maximise the sample sizes of each sub-group. Given the definition change introduced for Q4 2012, the tables below have been based on data from the three quarters Q4 2012 to Q2 2013, and base sizes are being built up over time.

Even with the change in definition, SMEs with no employees remained the most likely to be 'Happy non-seekers'. The bigger the SME, the less likely they were to be a 'Would-be seeker' of external finance:

Any events (Overdraft and loan) Q4 12-Q2 13 All SMES	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*15,000*	*3000*	*4950*	*4800*	*2250*
Have had an event	19%	16%	26%	28%	26%
Would-be seekers	7%	7%	6%	3%	2%
Happy non-seekers	75%	77%	67%	69%	72%

Q115/209 All SMEs– new definitions from Q4 2012

Those currently using external finance were no more or less likely to be 'Would-be seekers', but remained much more likely to have had an event (41%).

By risk rating, those SMEs with an average or worse than average risk rating remained slightly more likely to be 'Would-be seekers', while those with a minimal or low risk rating were more likely to have had an event:

Any events (Overdraft and loan) Q4 12-Q2 13 All SMEs with a risk rating	Total	Min	Low	Avge	Worse/ Avge
Unweighted base:	*15,000*	*2509*	*2799*	*3950*	*4452*
Have had an event	19%	25%	26%	21%	16%
Would-be seekers	7%	3%	4%	6%	7%
Happy non-seekers	75%	73%	70%	73%	77%

Q115/209 All SMEs– new definitions from Q4 2012

The proportion of 'Would-be seekers' varied by sector from 4% of those in Agriculture to 8% of those in the Transport sector. More variation was seen in terms of 'Happy non-seekers', which accounted for 78% of those in the Other Community sector (who remained less likely to have had an event), to 69% of those in Agriculture (who remained more likely to have had an event) and in Wholesale/Retail:

Any events (overdraft and loan) All SMEs Q4 12-Q2 13	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*1125*	*1560*	*2625*	*1515*	*1350*	*1358*	*2626*	*1341*	*1500*
Have had an event	27%	20%	18%	23%	23%	21%	16%	18%	17%
Would-be seekers	4%	6%	7%	7%	7%	8%	7%	5%	5%
Happy non-seekers	69%	74%	75%	69%	70%	71%	77%	77%	78%

Q115/209 All SMEs

Starts were the most likely to be 'Would-be seekers' (9%). This group saw one of the biggest changes when the definition of a 'Would-be seeker' was altered for Q4 2012: 17% of Starts met the definition of a 'would-be seeker' in Q3 2012, while in Q4 2012 under the new definition it was 10% (currently 8% Q2 2013 itself). By comparison the change over the same period for businesses aged 2-10 years was from 11% to 8% being 'Would-be seekers' (currently 6%) and for those aged 10 years or more it was 9% to 4% (currently 4%).

Barriers to overdraft or loan application

SMEs that were identified as 'Would-be seekers' (i.e. they had wanted to apply for an overdraft/loan in the 12 months prior to their interview, but felt that something had stopped them) were asked about the barriers to making such an application.

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

The reasons have been grouped into themes as follows, and respondents could initially nominate as many reasons as they wished for not having applied when they wanted to. For Q4 2012 to Q2 2013 combined, the reasons given were:

- Process of borrowing – those who did not want to apply because they thought it would be too expensive, too much hassle etc. This was given as a reason by 51% of all 'Would-be seekers', which is the equivalent of around 3% 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 46% of all 'Would-be seekers', which is the equivalent of around 3% of all SMEs
- Principle of borrowing – those that did not apply because they feared they might lose control of their business, or preferred to seek alternative sources of funding. Note that this category used to include 'I prefer not to borrow' which was removed as an option in Q4 2012. This was given as a reason by 26% of all 'Would-be seekers' which is the equivalent of around 2% of all SMEs
- Current economic climate – those that felt that it had not been the right time to borrow. This was given as a reason by 14% of all 'Would-be seekers', which is the equivalent of around 1% of all SMEs

To reflect the changes made in Q4 2012, the table below shows the combined results for Q4 2012 to Q2 2013 only, 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 in this chapter.

All 'Would-be seekers' All reasons for <u>not</u> applying when wished to Q4 12-Q2 13 only	Would have liked to apply for an overdraft			Would have liked to apply for a loan		
	Total	0-9 emps	10-249 emps	Total	0-9 emps	10-249 emps
Unweighted base:	*565*	*420*	*145*	*360*	*263*	*97**
Issues with <u>principle</u> of borrowing	24%	24%	12%	16%	16%	8%
-Not lose control of business	*16%*	*16%*	*6%*	*6%*	*6%*	*2%*
-Can raise personal funds if needed	*8%*	*8%*	*3%*	*6%*	*6%*	*5%*
-Prefer other forms of finance	*3%*	*3%*	*3%*	*7%*	*7%*	*3%*
-Go to family and friends	*5%*	*5%*	*1%*	*2%*	*2%*	*1%*
Issues with <u>process</u> of borrowing	50%	50%	44%	44%	44%	47%
-Would be too much hassle	*18%*	*18%*	*9%*	*11%*	*11%*	*11%*
-Thought would be too expensive	*34%*	*34%*	*20%*	*23%*	*23%*	*15%*
-Would be asked for too much security	*8%*	*8%*	*15%*	*5%*	*4%*	*20%*
-Too many terms and conditions	*16%*	*16%*	*11%*	*13%*	*13%*	*14%*
-Did not want to go through process	*9%*	*9%*	*4%*	*6%*	*6%*	*4%*
-Forms too hard to understand	*2%*	*2%*	*3%*	*3%*	*3%*	*2%*
Discouraged (any)	42%	42%	56%	45%	45%	47%
-Direct (put off by bank)	*14%*	*14%*	*26%*	*15%*	*15%*	*21%*
-Indirect (thought would be turned down)	*33%*	*33%*	*35%*	*32%*	*32%*	*31%*
Economic climate	14%	14%	6%	8%	8%	7%
Not the right time to apply	14%	14%	6%	8%	8%	7%

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

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

The table below details the main reasons given by 'Would-be seekers' interviewed from Q4 2012 to Q2 2013, using the revised definition and answer codes. It shows that discouragement (much of it indirect) and the process of borrowing remained the two key barriers to applying for loans or overdrafts:

All 'Would-be seekers'	Would have liked to apply for an overdraft			Would have liked to apply for a loan		
Main reason for not applying when wished to Q4 12-Q2 13 only	Total	0-9 emps	10-249 emps	Total	0-9 emps	10-249 emps
Unweighted base:	*565*	*420*	*145*	*360*	*263*	*97**
Discouraged (any)	37%	37%	51%	42%	42%	43%
-Direct (put off by bank)	*11%*	*11%*	*21%*	*13%*	*13%*	*17%*
-Indirect (thought would be turned down)	*26%*	*26%*	*30%*	*29%*	*29%*	*26%*
Issues with process of borrowing	39%	39%	34%	39%	39%	40%
Issues with principle of borrowing	9%	9%	6%	10%	10%	1%
Economic climate	7%	7%	3%	3%	3%	4%

Q116a/Q210a All SMEs that wished they had applied for an overdraft or a loan – NEW DEFINITION

As analysis can only be based on Q4 2012-Q2 2013 data, because of the changes detailed above, it is not possible to provide much further analysis by risk rating or sector, but this will become available again as sample sizes grow for these questions over future waves.

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

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

Main reason for not applying Q4 12-Q2 13	Would-be overdraft seekers	All SMEs	Would-be loan seekers	All SMEs
Unweighted base:	*565*	*15000*	*360*	*15000*
Discouraged (any)	37%	2%	42%	1%
-Direct (put off by bank)	*11%*	*<1%*	*13%*	*<1%*
-Indirect (thought I would be turned down)	*26%*	*1%*	*29%*	*1%*
Issues with process of borrowing	*39%*	2%	*39%*	1%
Issues with principle of borrowing	*9%*	<1%	*10%*	<1%
Economic climate	7%	<1%	3%	<1%
None of these/DK	6%	<1%	5%	<1%
Had event/Happy-non seeker	-	*94%*	-	*95%*

Q116a/Q210a All SMEs v all that wished they had applied for an overdraft or a loan – NEW DEFINITION

The effect of the 'Permanent non-borrower'

As identified earlier in this report, a third of all SMEs can be described as 'Permanent non-borrowers'. If these SMEs are excluded from the analysis in this chapter (because there is no indication that they will *ever* borrow), the population of SMEs reduces to around 3 million from 4.5 million.

The proportion of 'Happy non-seekers' declines to 59% but remains the largest group:

Any events (Overdraft and loan) Q4 12-Q2 13 – all SMES	All SMEs	All SMEs excl. pnb
Unweighted base:	*15,000*	*11,020*
Have had an event	19%	30%
Would-be seekers	7%	11%
Happy non-seekers	75%	59%

Q115/209 All SMEs

For Q4 12 to Q2 13 combined, once the PNBs are excluded, 11% of remaining SMEs met the definition of a 'Would-be seeker', up from 7% of all SMEs. This increase is seen across size, sector and risk ratings, with those with 0 employees (12%), a worse than average external risk rating (11%), or in the Property/business services or Construction sectors (both 12%) more likely to be a 'Would-be seeker'.

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

Main reason for not applying when wished to – Q4 12-Q2 13 only	Would-be overdraft seekers	All SMEs excl. pnb	Would-be loan seekers	All SMEs excl. pnb
Unweighted base:	*565*	*11,020*	*360*	*11,020*
Discouraged (any)	37%	3%	42%	2%
-Direct (put off by bank)	*11%*	*1%*	*13%*	*1%*
-Indirect (thought I would be turned down)	*26%*	*2%*	*29%*	*1%*
Issues with process of borrowing	39%	3%	39%	2%
Issues with principle of borrowing	9%	1%	10%	<1%
Economic climate	7%	1%	3%	<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

51% of SMEs plan to grow in the next 12 months, the highest level seen to date on the SME Finance Monitor (48% in Q1 2013). This was due to increases amongst SMEs with fewer than 10 employees

Most of this growth was expected to come from selling more to existing markets. Where new markets were going to be targeted, these were three times more likely to be in the UK than overseas, and very fewer SMEs who do not currently export planned to achieve their growth in markets overseas

The economic climate remained the main barrier to SMEs running their business as they would wish in the coming 12 months. In Q2 it was cited as a major barrier by 28% of SMEs, clearly ahead of any other barrier, but the lowest level recorded on the SME Finance Monitor to date (37% in Q1 2013)

10% of all SMEs rated Access to Finance as a major barrier in Q2 2013, increasing to 15% once the 'Permanent non-borrowers' were excluded and to 24% amongst those with plans or aspirations to apply for or renew finance in the next 3 months

14% of all SMEs had plans to apply for new or renewed finance in the next 3 months and this had changed little over time. Confidence that the bank would agree to their request fell to 30% from 40% in Q1, due to lower levels of confidence amongst smaller applicants and remained well below actual success rates

19% of SMEs were ‘Future would-be seekers’ of finance, most of them with no immediate need identified (17%). The proportion of ‘Future would-be seekers’ has declined slightly over time (from 25% in Q3 2012) as the proportion of ‘Happy non-seekers’ of finance increased (currently 67%), due to fewer 0 employee SMEs being ‘Future would-be seekers’ of external finance

A reluctance to borrow now remained the main barrier to application for the ‘Future would-be seekers’, mentioned by 60% of this group in Q2 2013, and more of a barrier for larger SMEs and those with no immediate need for finance identified. 16% of ‘Future would-be seekers’ were discouraged and as in previous quarters almost all of this was indirect discouragement, an assumption that the bank would turn them down. For those with an immediate identified need for finance, discouragement was as much of a barrier as not wanting to borrow now

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

This chapter reports on growth objectives and perceived barriers to future business performance. It then explores SMEs' intentions for the next 3 months in terms of finance and the reasons why SMEs think that they will/will not be applying for new/renewed finance in that time period. Most of this chapter is based on Q2 2013 data which was gathered between April and June, when there were some signs of 'green shoots' but the indicators were not as consistently positive as they have been more recently.

Growth plans for next 12 months

SMEs were asked about their future growth plans.

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

As shown in the table below, over time SMEs have given similar answers to this question in each quarter, with typically 4 in 10 planning to grow. The 2013 figures were somewhat higher than those at the end of 2012, and in Q2 2013 51% were planning to grow, which was ahead of the equivalent quarter of 2012 (47%), and also the highest proportion to date:

Growth in next 12 mths All SMEs, over time By date of interview	Q1-2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013
Unweighted base:	*5063*	*5055*	*5010*	*5023*	*5000*	*5032*	*5000*	*5000*	*5000*
Grow substantially	7%	6%	7%	6%	6%	8%	7%	7%	8%
Grow moderately	37%	37%	37%	42%	41%	39%	37%	41%	43%
All with objective to grow	***44%***	***43%***	***44%***	***48%***	***47%***	***47%***	***44%***	***48%***	***51%***
Stay the same size	46%	47%	47%	42%	44%	45%	48%	43%	41%
Become smaller	5%	5%	5%	5%	3%	4%	4%	4%	3%
Plan to sell/pass on/close	5%	6%	4%	6%	5%	5%	5%	5%	5%

Q225 All SMEs New Question wording in Q4 2012

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

Plans to grow in next 12 mths Q2 13 only	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*5000*	*1000*	*1650*	*1600*	*750*
Grow substantially	8%	7%	11%	8%	9%
Grow moderately	43%	43%	45%	49%	56%
All with objective to grow	***51%***	***50%***	***56%***	***57%***	***65%***
Stay the same size	41%	42%	37%	39%	33%
Become smaller	3%	2%	3%	3%	2%
Plan to sell/pass on/close	5%	6%	4%	1%	*

Q225 All SMEs New Question wording in Q4 2012

SMEs that met the 'Permanent non-borrower' definition in Q2 2013 were less likely to have plans to grow (46%) than those that didn't meet the definition (54%).

SMEs that had injected personal funds in the previous 12 months were more likely to be planning to grow (59%) than those who had not (46%) and this was true for Starts (71% v 58%) as well as older businesses (54% v 43%).

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

- Over the last three quarters, the proportion predicting growth has increased steadily overall. This growth is being driven more by the smaller SMEs with up to 9 employees, but across all risk ratings
- By sector, the increase has been seen more in the Agriculture, Manufacturing and Hotel/Restaurant sectors, with much lower increases seen in the Wholesale/Retail and Other Community Sectors
- In the most recent quarter, there was once again a difference in prospects for 'Permanent non borrowers' compared to those that did not meet this definition

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

Q225 All SMEs base size varies by category

From Q4 2012, those planning to grow were asked a newly simplified question about how this growth would be achieved. As in previous quarters, most of those planning to grow, 90%, planned to increase sales in existing markets, the equivalent of 4 out of 10 of all SMEs:

How plan to grow Q2 13	All planning to grow	All SMEs
Unweighted base:	*2699*	*5000*
Increase sales in existing markets	90%	45%
Sell in new markets in UK	23%	12%
Sell in new markets overseas	7%	3%

Q226 All SMEs planning to grow excluding DK / All SMEs

Overall, more SMEs planned to grow by selling to new markets in the UK (12% of all SMEs) than overseas (3%).

Exporters remained more likely to be predicting growth (In Q2 13, 63% reported that they planned to grow compared to 51% of non-exporters). As the table below shows, while one in three of those already exporting planned to sell into new markets overseas, very few who do not currently export thought that they would start to do so:

How plan to grow Q2 13 - those planning to grow	All who plan to grow and currently export	All who plan to grow and do not currently export
Unweighted base:	*520*	*2179*
Increase sales in existing markets	80%	91%
Sell in new markets in UK	45%	21%
Sell in new markets overseas	31%	4%

Q226 All SMEs planning to grow excluding DK

Obstacles to running the business in the next 12 months

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

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

The economic climate remained the key issue in Q2 2013 as in all previous quarters:

- The **current economic climate** was rated as a major obstacle (8-10) by 28% of SMEs in Q2 2013, and the top rated barrier across all sizes of SME
- **Legislation and regulation** was the next most important obstacle but, by comparison to the economic climate, this was rated a major obstacle by 14% of SMEs
- **Cash flow and issues with late payment** was rated a major obstacle by 11%
- **Access to external finance** was similarly rated, with 10% of SMEs seeing it as a major obstacle
- 6% of SMEs rated **availability of relevant advice** for their business as a major obstacle for the year ahead
- Finally, 3% rated **staff related issues** as a major obstacle

The analysis below looks at the barriers perceived in Q2 2013, by key sub-groups. Details of how these views have changed over time are provided later in this chapter.

Extent of obstacles in next 12 months Q2 13 only – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*5000*	*1000*	*1650*	*1600*	*750*
The current economic climate (mean score)	5.4	5.3	5.7	5.5	5.4
- 8-10 major obstacle	*28%*	*28%*	*30%*	*26%*	*21%*
- 5-7 moderate obstacle	*37%*	*35%*	*40%*	*42%*	*48%*
- 1-4 limited obstacle	*34%*	*36%*	*29%*	*31%*	*30%*
Legislation and regulation (mean score)	3.7	3.6	4.2	4.6	4.4
- 8-10 major obstacle	*14%*	*13%*	*17%*	*19%*	*14%*
- 5-7 moderate obstacle	*26%*	*24%*	*30%*	*34%*	*36%*
- 1-4 limited obstacle	*58%*	*60%*	*52%*	*46%*	*48%*
Cash flow/issues with late payment (mean score)	3.3	3.2	3.8	3.8	3.5
- 8-10 major obstacle	*11%*	*10%*	*14%*	*13%*	*8%*
- 5-7 moderate obstacle	*24%*	*23%*	*26%*	*26%*	*25%*
- 1-4 limited obstacle	*65%*	*67%*	*59%*	*60%*	*65%*
Access to external finance (mean score)	3.0	2.9	3.2	3.1	2.8
- 8-10 major obstacle	*10%*	*10%*	*12%*	*10%*	*5%*
- 5-7 moderate obstacle	*17%*	*16%*	*20%*	*18%*	*17%*
- 1-4 limited obstacle	*68%*	*69%*	*64%*	*69%*	*74%*
Availability of relevant advice (mean score)	2.8	2.7	2.9	2.7	2.4
- 8-10 major obstacle	*6%*	*6%*	*6%*	*4%*	*2%*
- 5-7 moderate obstacle	*20%*	*19%*	*22%*	*21%*	*14%*
- 1-4 limited obstacle	*73%*	*73%*	*70%*	*73%*	*83%*
Staff related issues (mean score)	1.8	1.5	2.5	3.1	3.1
- 8-10 major obstacle	*3%*	*3%*	*5%*	*5%*	*6%*
- 5-7 moderate obstacle	*8%*	*5%*	*15%*	*23%*	*20%*
- 1-4 limited obstacle	*86%*	*90%*	*79%*	*71%*	*73%*

Q227a All SMEs

The current economic climate was the most important obstacle of those tested in Q2 across all external risk ratings. For those with a minimal external risk rating, almost as many rated Legislation and Regulation as a major obstacle:

Extent of obstacles in next 12 months Q2 13 only – all SMEs 8-10 impact score	Total	Min	Low	Avge	Worse/Avge
Unweighted base:	*5000*	*862*	*884*	*1273*	*1516*
The current economic climate	28%	19%	27%	30%	29%
Legislation and regulation	14%	17%	21%	13%	13%
Cash flow/issues with late payment	11%	5%	11%	8%	12%
Access to external finance	10%	4%	5%	11%	13%
Availability of relevant advice	6%	2%	3%	6%	7%
Staff related issues	3%	3%	4%	3%	3%

Q227a All SMEs for whom risk ratings known

There was still relatively little difference in the perceived obstacles between those planning to grow and those with no such plans, with the exception of access to external finance, now seen as somewhat more of an obstacle by those with plans to grow:

Extent of obstacles in next 12 months Q2 13 only – all SMEs 8-10 impact score	Total	Plan to grow	No plan to grow
Unweighted base:	*5000*	*2742*	*2258*
The current economic climate	28%	29%	28%
Legislation and regulation	14%	14%	15%
Cash flow/issues with late payment	11%	12%	10%
Access to external finance	10%	14%	7%
Availability of relevant advice	6%	7%	5%
Staff related issues	3%	3%	3%

Q227a All SMEs

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

Extent of obstacles in next 12 months Q2 13 only – all SMEs 8-10 impact score	Total	PNB	Not PNB
Unweighted base:	*5000*	*1293*	*3707*
The current economic climate	28%	18%	34%
Legislation and regulation	14%	10%	16%
Cash flow/issues with late payment	11%	4%	15%
Access to external finance	10%	3%	15%
Availability of relevant advice	6%	3%	8%
Staff related issues	3%	2%	4%

Q227a All SMEs

Clear differences continued to be seen by whether the SME planned to apply for new/renewed facilities in the next three months, or would like to (the 'Future would-be seekers' – FWBS), compared to the future 'Happy non-seekers' of external finance. Those with plans/aspirations to apply were more likely to see these issues as major obstacles, notably access to finance, cash flow and the economic climate:

Extent of obstacles in next 12 months Q2 13 only – all SMEs 8-10 impact score	Total	Plan to apply or FWBS	Future HNS	Future HNS excl. PNB
Unweighted base:	*5000*	*1635*	*3365*	*2072*
The current economic climate	28%	42%	21%	25%
Legislation and regulation	14%	19%	12%	13%
Cash flow/issues with late payment	11%	20%	6%	9%
Access to external finance	10%	24%	4%	5%
Availability of relevant advice	6%	13%	3%	3%
Staff related issues	3%	5%	2%	2%

Q227a All SMEs

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

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

Extent of obstacles in next 12 months Q2 13 only – all SMEs 8-10 impact scores	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop / Bus	Health S Work	Other Comm
Base:	*375*	*520*	*875*	*505*	*450*	*453*	*875*	*447*	*500*
The current economic climate	29%	25%	30%	35%	36%	27%	25%	28%	27%
Legislation and regulation	21%	13%	13%	15%	17%	20%	10%	13%	19%
Cash flow/issues with late payment	8%	6%	10%	12%	10%	15%	10%	6%	16%
Access to external finance	12%	9%	11%	9%	12%	14%	9%	10%	12%
Availability of relevant advice	6%	9%	7%	7%	5%	7%	5%	5%	8%
Staff related issues	3%	3%	2%	7%	5%	5%	2%	2%	5%

Q227All SMEs

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

Six waves of data can now be compared. The summary table below shows that the current economic climate was most likely to be rated a 'major obstacle' in all quarters, but since Q1 2012 the proportion doing so has decreased slightly each quarter, from a third to just over a quarter of SMEs:

Extent of obstacles in next 12 months All SMEs over time 8-10 impact score By date of interview	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013
Unweighted base:	*5010*	*5023*	*5000*	*5032*	*5000*	*5000*	*5000*
The current economic climate	35%	37%	35%	34%	31%	32%	28%
Legislation and regulation	14%	14%	14%	13%	12%	14%	14%
Cash flow/issues with late payment	11%	14%	14%	14%	11%	12%	11%
Access to external finance	10%	11%	11%	13%	10%	12%	10%
Availability of relevant advice	5%	5%	6%	6%	6%	7%	6%
Staff related issues	3%	3%	2%	2%	3%	3%	3%

Q227 All SMEs

Access to finance is the key theme of this report. In Q2 13, 10% of SMEs rated this as a major obstacle, and those who did so were also more likely to rate the current economic climate as a major obstacle (59%) as well as cash flow (38%), legislation/regulation (23%) and advice (28%).

Over time there was relatively little variation in the overall proportion of SMEs rating this as a 'major obstacle'. The table overleaf shows how this issue has been rated by key demographics over time. Compared to Q2 2012, SMEs in Q2 2013 with a minimal or low external risk rating were less likely to see access to finance as a 'major obstacle', while those with an average risk rating were more likely to do so.

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

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. Since Q3 2011 the proportion planning to apply/renew had changed very little:

% likely in next 3 months All SMEs, over time By date of interview	Q1-2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013
Unweighted base:	*5063*	*5055*	*5010*	*5023*	*5000*	*5032*	*5000*	*5000*	*5000*
Will have a need for (more) external finance	12%	10%	11%	13%	13%	11%	13%	13%	12%
Will apply for more external finance	9%	7%	8%	10%	9%	8%	8%	9%	9%
Renew existing borrowing at same level	13%	8%	8%	9%	8%	6%	8%	8%	7%
Any apply/renew	*19%*	*13%*	*14%*	*16%*	*14%*	*12%*	*14%*	*15%*	*14%*
Reduce the amount of external finance used	11%	10%	7%	11%	8%	7%	8%	7%	7%
Inject personal funds into business	27%	26%	26%	30%	23%	23%	22%	22%	21%

Q229 All SMEs

In all quarters to date, more SMEs have identified a need for finance than thought they would apply for it (12% v 9% in Q2). The predicted level of applications/renewal in the next quarter was also typically higher than the actual level of applications/renewal seen subsequently.

Since the start of 2012, fewer SMEs have thought it likely that personal funds will be injected into the business (21% in Q2 2013).

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

% likely in next 3 months All companies, over time By date of interview	Q1-2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013
Unweighted base:	*2981*	*2923*	*2714*	*2904*	*2905*	*2975*	*2837*	*2944*	*2936*
Any new equity	*7%*	*5%*	*6%*	*5%*	*4%*	*4%*	*4%*	*2%*	*3%*

Q229 All companies

In Q2 2013, there continued to be a difference in appetite for finance between those with employees and those without, as seen in previous quarters. Smaller SMEs also remained more likely to anticipate an injection of personal funds into the business:

% likely in next 3 months Q2 13 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	12%	11%	15%	11%	10%
Will apply for more external finance	9%	8%	11%	8%	9%
Renew existing borrowing at same level	7%	6%	10%	10%	11%
Any apply/renew	*14%*	*12%*	*18%*	*15%*	*16%*
Reduce the amount of external finance used	7%	6%	9%	7%	8%
Inject personal funds into business	21%	22%	18%	7%	6%

Q229 All SMEs

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

The table below shows how the injection of personal funds past and present combine, so that trends over time can be established. Across the five quarters for which data is available, half of SMEs had neither put in funds, nor thought it likely they would do so. The proportion who have both put in funds in the past *and* plan to do so in future has declined slightly over time from 17% of SMEs in Q2 2012 to 14% in Q2 2013:

Injections of personal funds All SMEs, over time By date of interview	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013
Unweighted base:	*5000*	*5032*	*5000*	*5000*	*5000*
Have injected personal funds and likely to do so again	17%	18%	15%	16%	14%
Have not put in personal funds but likely to do so	5%	5%	7%	7%	7%
Have injected personal funds but unlikely to do so again	24%	28%	26%	24%	27%
Have not put in personal funds and not likely to do so	53%	49%	53%	54%	52%

Q229/Q15d-d2 All SMEs

The most likely to have both put personal funds in and thought it likely they would do so again, were those with a worse than average risk rating (16% in Q2) and those in the Property and Business Services sector (17%).

Turning back to future applications for external finance, the table overleaf summarises the change in likely applications/renewals over time for key demographic groups. Since the equivalent quarter in 2012, appetite for finance had declined slightly for those with 10-249 employees and for those in Manufacturing and Agriculture, and increased for those in Health and Transport:

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

Q229 All SMEs base size varies by category

Working capital remained the most frequently mentioned purpose of future funding with an increase in recent quarters in the proportion mentioning plant and machinery:

Use of new/renewed facilityAll planning to seek/renew, over time By date of interview	Q1-2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013
Unweighted base:	*1127*	*890*	*1046*	*1062*	*977*	*842*	*876*	*931*	*774*
Working capital	62%	67%	59%	60%	69%	60%	62%	61%	64%
Plant & machinery	24%	29%	26%	29%	25%	27%	24%	23%	29%
UK growth*	23%	27%	22%	22%	20%	26%	14%	28%	27%
Premises	8%	10%	7%	8%	5%	8%	6%	5%	8%
New products or services	9%	9%	7%	13%	10%	7%	9%	8%	7%
Growth overseas*	4%	4%	4%	5%	3%	4%	1%	3%	4%

Q230 All planning to apply for/renew facilities in next 3 months. *Growth replaced expansion in Q2 2013

Overdrafts and loans remained the forms of funding most likely to be considered, albeit that levels of consideration have fallen over time, while levels of consideration for grants increased:

% of those seeking/renewing finance that would consider form of funding, over time By date of interview	Q1-2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013
Unweighted base:	*1127*	*890*	*1046*	*1062*	*977*	*842*	*876*	*931*	*774*
‘Core’ product consideration	71%	74%	69%	71%	73%	71%	72%	70%	61%
-Bank overdraft	53%	51%	49%	48%	56%	49%	53%	50%	45%
-Bank loan/Commercial mortgage	37%	44%	40%	40%	40%	43%	35%	40%	34%
-Credit cards	9%	19%	17%	19%	20%	16%	20%	18%	16%
Other product consideration	47%	60%	55%	61%	59%	63%	59%	60%	61%
-Grants	28%	36%	35%	35%	38%	36%	36%	43%	40%
-Loans/equity from family/friends	12%	23%	22%	23%	21%	21%	20%	16%	21%
-Leasing or hire purchase	18%	19%	18%	21%	23%	24%	21%	21%	23%
Loans/equity from directors	11%	12%	18%	14%	10%	13%	10%	12%	15%
Loans from other 3rd parties	13%	13%	10%	11%	7%	15%	12%	15%	14%
Invoice finance	9%	6%	6%	9%	9%	7%	9%	8%	7%

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

Consideration of ‘core’ banking products (loans, overdrafts and credit cards), was lower in Q2 2013. 6 out of 10 potential applicants would consider at least one of these ‘core’ banking products down slightly from previous quarters where around 7 out of 10 would consider them.

15% of potential applicants in Q2 2013 would **only** consider these core products, and this was also lower than in previous quarters when it was around a quarter.

Lower levels of consideration in Q2 2013 for overdrafts and loans were seen across all sizes of SME planning to seek/renew finance in the next 3 months. The increased consideration of loans/equity from family and friends Q1 to Q2 2013 was due to higher levels of consideration amongst the smallest SMEs planning to seek/renew finance in the next 3 months:

% of those seeking/renewing finance would consider funding – Q2 13 only	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*774*	*121*	*293*	*251*	*109*
'Core' product consideration	61%	60%	65%	58%	57%
-Bank overdraft	45%	45%	46%	38%	37%
-Bank loan/Commercial mortgage	34%	32%	39%	30%	35%
-Credit cards	16%	16%	17%	14%	12%
Other product consideration	61%	62%	60%	58%	64%
-Grants	40%	40%	41%	31%	25%
-Loans/equity from family & friends	21%	22%	19%	9%	7%
-Leasing or hire purchase	23%	24%	20%	31%	42%
-Loans/equity from directors	15%	11%	22%	20%	20%
-Loans from other 3rd parties	14%	15%	11%	17%	19%
-Invoice finance	7%	6%	8%	13%	17%

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

Prospective applicants (via loan, overdraft, leasing, invoice finance and/or credit cards) were asked how confident they felt that their bank would agree to meet their finance need. In Q2 this was a smaller proportion of *all* prospective applicants (68%) than in previous quarters (around three-quarters):

Confidence bank would lend All planning to seek finance, over time by date of interview	Q1-2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13
Unweighted base:	*861*	*707*	*763*	*834*	*781*	*649*	*669*	*713*	*547*
Very confident	22%	14%	22%	19%	15%	10%	15%	17%	4%
Fairly confident	20%	29%	24%	33%	24%	23%	28%	23%	26%
Overall confidence	*42%*	*43%*	*46%*	*52%*	*39%*	*33%*	*43%*	*40%*	*30%*
Neither/nor	33%	36%	26%	20%	25%	22%	23%	32%	31%
Not confident	26%	20%	28%	28%	35%	45%	33%	27%	40%
Net confidence (confident – not confident)	*+16*	*+23*	*+18*	*+24*	*+4*	*-12*	*+10*	*+13*	*-10*

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

In Q4 2012 and Q1 2013, confidence levels were higher than had been seen in the two previous quarters. Levels of confidence reported in Q2 2013 were lower, back to the level seen in Q3 2012, due to lower confidence amongst the smaller would-be applicants.

Over time, confidence amongst potential applicants with 0-9 employees has been more volatile, as the table below shows, and it was the decline in confidence amongst these smaller SMEs in Q2 2013 (to 29%) that resulted in the decrease in confidence overall. Confidence amongst bigger potential applicants with 10-249 employees remained higher than for smaller potential applicants and the improvement seen in Q1 2013 was maintained for Q2 2013:

Overall confidence bank would lend All planning to seek finance, over time By date of interview	Overall	0-9 emps	10-249 emps
Q1-2 2011	42%	40%	57%
Q3 2011	43%	42%	63%
Q4 2011	46%	46%	61%
Q1 2012	52%	52%	61%
Q2 2012	39%	37%	60%
Q3 2012	33%	32%	54%
Q4 2012	43%	43%	55%
Q1 2013	40%	40%	60%
Q2 2013	30%	29%	60%

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

The table below shows how, each quarter, potential applicants with a minimal/low external risk rating were more confident of success. Their confidence improved markedly in Q1 2013, but that was not maintained in Q2 2013, and confidence amongst those with an average or worse than average risk rating also declined slightly:

Overall confidence bank would lend All planning to seek finance, over time By date of interview	Overall	Min/low	Av/Worse than avge
Q1-2 2011	42%	57%	38%
Q3 2011	43%	65%	38%
Q4 2011	46%	69%	46%
Q1 2012	52%	65%	49%
Q2 2012	39%	50%	37%
Q3 2012	33%	51%	28%
Q4 2012	43%	58%	43%
Q1 2013	40%	70%	33%
Q2 2013	30%	56%	27%

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

Analysis shows that overall confidence in Q2 2013 remained higher amongst those planning to renew (38%, down somewhat from 49% in Q1) than amongst those planning to apply for new facilities (25%, previously 29% in Q1).

These levels of confidence remained in contrast to the actual outcome of applications. Success rates for renewals are around 91% compared to confidence levels of 38%, while for new funds success rates to date are around 50% against a confidence level of 25%.

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

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

In Q2 2013, 14% of all SMEs reported plans to apply/renew facilities in the following 3 months, leaving the majority (86%) with no such plans. A third of that majority (38%) were current users of external finance. The rest were not. This means that, for Q2 2013, 53% of all SMEs neither used external finance nor had any immediate plans to apply for any. This proportion had previously increased over time from 46% in Q1-2 2011 and was 59% in Q1 2013.

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

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

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

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

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

The table below shows a stable picture over recent quarters. In Q2 2013 the 'Happy non-seekers' remained the largest group, representing around two-thirds of SMEs, and increasing slowly over time since the start of 2012. As a result there were slightly fewer 'Future would-be seekers' of finance (19%):

Future finance plans All SMEs, over time By date of interview	Q1-2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013
Unweighted base:	*5063*	*5055*	*5010*	*5023*	*5000*	*5032*	*5000*	*5000*	*5000*
Plan to apply/renew	19%	13%	14%	16%	14%	12%	14%	15%	14%
'Future would-be seekers' – with identified need	2%	2%	2%	2%	3%	3%	2%	3%	2%
'Future would-be seekers' – no immediate identified need	16%	20%	18%	23%	19%	22%	19%	16%	17%
'Happy non-seekers'	64%	65%	66%	60%	64%	63%	65%	67%	67%

Q230/239 All SMEs

As has been discussed elsewhere in this report, around a third of SMEs can be described as 'Permanent non-borrowers' based on their past and indicated future behaviour. If such SMEs are excluded from the future finance plans analysis, then around one in three remaining SMEs could be described as 'Future would-be seekers':

Future finance plans SMEs excluding PNB, over time By date of interview	Q1-2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013
Unweighted base:	*4047*	*3968*	*3822*	*4022*	*3894*	*3732*	*3664*	*3649*	*3707*
Plan to apply/renew	27%	19%	22%	23%	21%	18%	22%	25%	21%
'Future would-be seekers' – with identified need	3%	3%	3%	3%	5%	4%	4%	5%	3%
'Future would-be seekers' – no immediate identified need	23%	31%	28%	32%	29%	33%	29%	27%	27%
'Happy non-seekers'	48%	46%	47%	42%	45%	44%	44%	44%	48%

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. The overall figure for Q2 2013 was slightly lower than the comparable quarter of 2012 (19% v 22%).

- The proportion of 0 employee businesses meeting the definition of a 'Future would-be seeker' has declined steadily over recent quarters from around a quarter to a fifth, with no clear trend for larger SMEs
- A similar trend has been seen once the PNBs are excluded – 37% of remaining SMEs met the definition of a 'Future would-be seeker' in Q3 2012, while in Q2 2013 the proportion was 30%
- There has also been something of a decline in the proportion of SMEs with a low external risk rating who meet the definition of a 'Future would-be seeker'.

Future would-be seekers Over time – row percentages By date of interview	Q1-2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013
All SMEs	18%	22%	20%	25%	22%	25%	21%	19%	19%
0 employee	18%	23%	20%	26%	24%	25%	22%	19%	20%
1-9 employees	18%	22%	21%	22%	19%	23%	19%	19%	18%
10-49 employees	10%	16%	13%	14%	16%	14%	14%	15%	16%
50-249 employees	8%	15%	15%	16%	14%	13%	15%	16%	15%
Minimal external risk rating	8%	19%	11%	14%	18%	13%	14%	10%	13%
Low external risk rating	13%	15%	14%	19%	22%	23%	17%	18%	10%
Average external risk rating	19%	20%	20%	20%	22%	20%	19%	19%	17%
Worse than average external risk rating	20%	26%	23%	29%	23%	26%	23%	19%	23%
Agriculture	15%	22%	20%	27%	23%	25%	22%	15%	21%
Manufacturing	17%	22%	18%	29%	17%	26%	20%	17%	17%
Construction	19%	25%	25%	24%	29%	23%	20%	21%	20%
Wholesale/Retail	21%	26%	25%	27%	25%	25%	24%	16%	23%
Hotels and Restaurants	23%	20%	17%	27%	27%	24%	26%	22%	19%
Transport	24%	21%	24%	26%	21%	27%	21%	28%	24%
Property/Business Services etc.	15%	22%	17%	23%	20%	26%	21%	18%	18%
Health	13%	16%	18%	20%	14%	21%	13%	20%	13%
Other Community	18%	18%	14%	22%	22%	23%	22%	15%	18%
All SMEs excluding PNBs	26%	34%	31%	35%	34%	37%	33%	32%	30%

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

To understand this further, the table below shows all the reasons given by 'Future would-be seekers' in Q2 2013 for thinking they would not apply for finance in the next three months, and highlights the continued impact of the current economic climate:

Reasons for not applying (all mentions) All 'Future would-be seekers' Q2 13 only	Q2 overall	Q2 0-9 emps	Q2 10-249 emps
Unweighted base:	*861*	*503*	*358*
Reluctant to borrow now (any)	62%	62%	81%
-Prefer not to borrow in economic climate	*43%*	*43%*	*42%*
-Predicted performance of business	*20%*	*20%*	*40%*
Issues with principle of borrowing	6%	6%	3%
-Not lose control of business	*2%*	*2%*	*-*
-Can raise personal funds if needed	*2%*	*2%*	*2%*
-Prefer other forms of finance	*2%*	*2%*	*1%*
-Go to family and friends	*1%*	*1%*	*1%*
Issues with process of borrowing	16%	16%	9%
-Would be too much hassle	*7%*	*7%*	*4%*
-Thought would be too expensive	*9%*	*9%*	*3%*
-Bank would want too much security	*1%*	*1%*	*1%*
-Too many terms and conditions	*	*	*1%*
-Did not want to go through process	*1%*	*1%*	*
-Forms too hard to understand	*1%*	*1%*	*1%*
Discouraged (any)	18%	18%	6%
-Direct (Put off by bank)	3%	3%	-
-Indirect (Think I would be turned down)	*15%*	*16%*	*6%*

Q239 'Future would-be seekers' SMEs

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

A reluctance to borrow in the current economic climate, at 60%, remained the main reason for not applying for external finance. This was down slightly from 63% in Q1 2013 (which was the highest level seen to date in this survey), due to fewer 'Future would-be seekers' nominating the performance of their business in the current climate as their main reason for not applying.

The proportion of 'Future would-be seekers' that cited discouragement increased back to previous levels but, as before, almost all of it was indirect:

Main reason for not applying 'Future would-be seekers' over time By date of interview	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013
Unweighted base:	*954*	*862*	*980*	*927*	*975*	*880*	*867*	*861*
Reluctant to borrow now (any)	43%	52%	54%	49%	49%	50%	63%	60%
-Prefer not to borrow in economic climate	*32%*	*39%*	*37%*	*31%*	*36%*	*37%*	*40%*	*42%*
-Predicted performance of business	*10%*	*14%*	*17%*	*18%*	*13%*	*13%*	*23%*	*18%*
Issues with principle of borrowing	25%	13%	14%	14%	16%	12%	6%	4%
Issues with process of borrowing	15%	15%	14%	14%	12%	15%	13%	13%
Discouraged (any)	10%	14%	11%	14%	16%	17%	12%	16%
-Direct (Put off by bank)	*<1%*	*2%*	*2%*	*1%*	*1%*	*1%*	*3%*	*3%*
-Indirect (Think I would be turned down)	*10%*	*12%*	*9%*	*13%*	*15%*	*16%*	*10%*	*14%*

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

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

When the 'Future would-be seekers' were first described, they were the sum of two groups – those with an identified need they thought it unlikely they would apply for, and a larger group of those with no immediate need identified – and the main barriers to borrowing have been slightly different for the two groups.

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

Main reason for not applying The 'Future would-be seekers'	Identified need				No identified need			
	Q1-2 2012	*Q2-3*	*Q4-1 2013*	*Q1-2 2013*	*Q1-2 2012*	*Q2-3*	*Q4-1 2013*	*Q1-2 2013*
Unweighted base:	***213***	***226***	***220***	***190***	***1694***	***1676***	***1527***	***1538***
Reluctant to borrow now (any)	38%	35%	37%	33%	53%	51%	59%	66%
-Prefer not to borrow in economic climate	*33%*	*30%*	*32%*	*29%*	*34%*	*35%*	*39%*	*43%*
-Predicted performance of business	*5%*	*5%*	*5%*	*4%*	*19%*	*17%*	*20%*	*23%*
Issues with principle of borrowing	4%	3%	3%	9%	15%	17%	10%	5%
Issues with process of borrowing	10%	12%	22%	23%	14%	13%	13%	11%
Discouraged (any)	44%	46%	36%	32%	8%	11%	12%	12%
- Direct (Put off by bank)	*6%*	*4%*	*3%*	*5%*	*1%*	*1%*	*2%*	*2%*
-Indirect (Think I would be turned down)	*39%*	*42%*	*33%*	*27%*	*7%*	*9%*	*10%*	*9%*

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

This shows that for those with an identified need, discouragement remained a key issue but was mentioned less as a barrier. In the past two quarters it has been mentioned as often as a reluctance to borrow in the current climate, and this group were also more likely to mention the ‘process’ of borrowing as an issue.

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

Other analysis of all 'Future would-be seekers', such as by size and risk rating, is possible based just on the latest quarter, Q2 2013:

- Larger 'Future would-be seekers' were increasingly reluctant to borrow now (81% from 76% in Q1 and 74% in Q4), and more mentioned their own company's performance (40% from 29%). Slightly fewer smaller 'Future would-be seekers' gave a reluctance to borrow now as their main reason in Q2 compared to Q1 2013 (60% from 63%)
- The issue of discouragement continues to be mentioned more by smaller SMEs. The increase overall in Q2 (16% from 12% in Q1 2013) was due to more smaller would-be seekers feeling discouraged (16% from 13% in Q1) rather than larger would-be seekers (5% from 8%).

Main reason for not applying 'Future would-be seekers' by size Q2 13 only	Overall	0-9 emps	10-249 emps
Unweighted base:	*861*	*503*	*308*
Reluctant to borrow now (any)	60%	60%	81%
-Prefer not to borrow in economic climate	*42%*	*42%*	*41%*
-Predicted performance of business	*18%*	*18%*	*40%*
Issues with <u>principle</u> of borrowing	4%	4%	3%
Issues with <u>process</u> of borrowing	13%	13%	8%
Discouraged (any)	16%	16%	5%
-Direct (Put off by bank)	*3%*	*3%*	*
-Indirect (Think I would be turned down)	*14%*	*14%*	*5%*

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

The table below shows analysis of the main reasons given for not applying by 'Future would-be seekers' in Q2 2013, split by risk rating. A reluctance to borrow now was the main barrier across the risk ratings, while indirect discouragement was mentioned slightly more by those with a worse than average external risk rating:

Main reason for not applying 'Future would-be seekers' by risk rating Q2 13 only	Min/Low	Avge	Worse/ Avge
Unweighted base:	*222*	*217*	*324*
Reluctant to borrow now (any)	59%	62%	59%
-Prefer not to borrow in economic climate	*35%*	*49%*	*40%*
-Predicted performance of business	*24%*	*13%*	*20%*
Issues with <u>principle</u> of borrowing	8%	8%	4%
Issues with <u>process</u> of borrowing	12%	7%	13%
Discouraged (any)	4%	16%	18%
-Direct (Put off by bank)	*1%*	*6%*	*2%*
-Indirect (Think I would be turned down)	*3%*	*11%*	*16%*

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

Compared to Q1 2013:

- Those with a minimal or low external risk rating were less likely to mention a reluctance to borrow (59% compared to 71% in Q1)
- Those with an average risk rating were less likely to mention the *process* of borrowing (7% from 19%) and more likely to mention discouragement (16% from 8%)

To put these results in context, the table below shows the equivalent figures for main reasons for all SMEs in Q2 2013. 1 in 8 of all SMEs (12%) would have liked to apply for new/renewed facilities in the next 3 months but thought they would be unlikely to do so because of the current climate or the performance of their business:

Reasons for not applying Q2 13 only – the Future would-be seekers	Main reason	All SMEs Q1	All SMEs excl. PNB
Unweighted base:	*861*	*5000*	*3707*
Reluctant to borrow now (any)	60%	12%	18%
-Prefer not to borrow in economic climate	*42%*	*8%*	*13%*
-Predicted performance of business	*18%*	*4%*	*6%*
Issues with principle of borrowing	4%	1%	1%
Issues with process of borrowing	13%	2%	4%
Discouraged (any)	16%	3%	5%
-Direct (Put off by bank)	*3%*	*1%*	*1%*
-Indirect (Think I would be turned down)	*14%*	*3%*	*4%*

Q239/239a ‘Future would-be seekers’ SMEs

The table above also shows the equivalent proportion of SMEs *excluding* the ‘Permanent non-borrowers’. Of those SMEs that *might* be interested in seeking finance (once the PNBs are excluded), 18% were put off by the current economic climate (including their performance in that climate), and this has changed relatively little over recent quarters.

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

1 in 5 SMEs were aware of 'crowd funding' in Q2 2013. Overall awareness increased by size of SME, but the proportion that had applied for crowd funding (2% overall) did not vary by size

Awareness of the Funding for Lending scheme (FLS) had also increased, with 29% of all SMEs aware of the scheme, up from 23% when this was first measured in Q4 2012. Awareness of the scheme generally, and of their bank offering funding specifically, increased by size of SME

Over time, fewer SMEs felt that schemes like FLS would encourage them to apply for funding – 16% felt this was the case in Q2 2013, down from 20% in Q4 2012. Those who planned to apply for new or renewed finance in the next 3 months remained the most likely to say they were now more encouraged to apply for funding (48%) but over time fewer 'Future would-be seekers' have felt such schemes would encourage them to apply (19% in Q2 2013 compared to 30% in Q4 2012). As before the majority of SMEs, 77%, said such schemes made no difference because they were not looking to borrow

Overall awareness of any of the initiatives tested (including FLS) remained at 52%, ranging by size from 50% of those with 0 employees to 69% of those with 50-249 employees. Awareness of individual initiatives such as the appeals process has changed very little over time

In October 2010, the Business Finance Taskforce agreed to a range of initiatives with the aim of supporting SMEs in the UK. This final section of the report looks at awareness amongst SMEs of some of these commitments, together with other relevant initiatives. This part of the survey was also revised and updated for Q4 2012, so results are not always directly comparable over time.

The first table covers those initiatives potentially relevant to all SMEs, based on the updated list of initiatives, for Q2 2013 only. It shows the Funding for Lending scheme (FLS) continued to achieve levels of awareness as high as some longer established support schemes:

Awareness of Taskforce initiatives Q2 13 – all SMEs asked new question	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*5000*	*1000*	*1650*	*1600*	*750*
New support from the Bank of England called Funding for Lending*	29%	27%	34%	40%	48%
Government support schemes for access to finance such as Enterprise Finance Guarantee Scheme etc*	23%	22%	24%	31%	36%
A network of business mentors	23%	23%	22%	24%	26%
Other alternative sources of business finance such as Asset based finance etc*	16%	15%	19%	26%	35%
The Lending Code / principles*	18%	17%	20%	25%	29%
The Business Growth Fund	16%	15%	16%	22%	29%
Independently monitored appeals process	12%	11%	13%	17%	18%
BetterBusinessFinance.co.uk	9%	9%	10%	9%	9%
Regional outreach events	8%	7%	8%	8%	9%
Any of these	*52%*	*50%*	*56%*	*64%*	*69%*
None of these	*48%*	*50%*	*44%*	*36%*	*31%*

Q240 All SMEs * indicates new or amended question

Awareness of any of these initiatives, at 52%, was the same as in the previous 2 quarters since the revised list was introduced. This overall awareness increased by size of business from 50% of 0 employee SMEs to 69% of those with 50-249 employees. For 6% of all SMEs in Q2 2013, the Funding for Lending scheme was the only initiative they were aware of.

Those SMEs that had someone in charge of the finances with training/qualifications were more likely to be aware of any of these initiatives (63%) than those who did not (48%) but this is also likely to be a reflection of the fact that bigger SMEs are more likely to have someone in charge of the finances with training/qualifications.

37% of all SMEs were aware of either of the Government led initiatives (FLS and other support schemes for access to finance). A similar proportion, 36%, was aware of any of the banking led initiatives (mentors, Lending Code, appeals, the BetterBusinessFinance website and outreach events). In both cases awareness increased by size, to around half of the largest SMEs being aware of these initiatives.

SMEs looking to apply for new/renewed facilities in the next 3 months were no more aware of any of these initiatives in Q2 2013 (56%) than were 'Future would-be seekers' (53%) but both were slightly more aware than 'Future happy non-seekers' (45%).

Many of these initiatives are more relevant to those with an interest in seeking external finance, and therefore potentially less relevant to the 'Permanent non-borrowers' who have indicated that they are unlikely to seek external finance. As in both Q4 2012 and Q1 2013 there was a difference in awareness of any of these initiatives between 'Permanent non-borrowers' (48% aware of any initiatives in Q2 2013) and other SMEs (55% aware).

Awareness over time is shown in the table below for those initiatives where comparable data is available. This shows that, over time, awareness had changed very little, with the possible exception of the Business Growth Fund:

Awareness of Taskforce initiatives Over time – all SMEs By date of interview	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13
Unweighted base:	*4792*	*5010*	*5023*	*5000*	*5032*	*5000*	*5000*	*5000*
A network of business mentors	21%	22%	26%	23%	23%	21%	21%	23%
Independently monitored appeals process	14%	10%	13%	12%	11%	10%	13%	12%
The Business Growth Fund	12%	12%	12%	14%	12%	14%	14%	16%
Regional outreach events	11%	7%	9%	8%	8%	8%	8%	8%
BetterBusinessFinance.co.uk	9%	9%	9%	9%	9%	10%	9%	9%

Q240 All SMEs where consistent wording used

The table below shows awareness by size of SME for those initiatives where full comparable data is available over time. Again, there had been little change in awareness since the equivalent quarter of 2011, with the exception of the Business Growth Fund, where awareness has improved somewhat from 12% to 16%:

Awareness of Taskforce initiatives All SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base (Q2):	*5000*	*1000*	*1650*	*1600*	*750*
A network of business mentors Q311	21%	21%	21%	27%	24%
A network of business mentors Q411	22%	22%	21%	28%	23%
A network of business mentors Q112	26%	26%	24%	26%	28%
A network of business mentors Q212	23%	22%	26%	28%	28%
A network of business mentors Q312	23%	23%	23%	27%	30%
A network of business mentors Q412	21%	21%	22%	28%	29%
A network of business mentors Q113	21%	21%	23%	26%	32%
A network of business mentors Q213	23%	23%	22%	24%	26%
Independently monitored appeals process Q311	14%	13%	14%	17%	17%
Independently monitored appeals process Q411	10%	10%	12%	17%	17%
Independently monitored appeals process Q112	13%	13%	13%	16%	19%
Independently monitored appeals process Q212	12%	10%	15%	17%	18%
Independently monitored appeals process Q312	11%	10%	12%	17%	23%
Independently monitored appeals process Q412	10%	10%	11%	16%	17%
Independently monitored appeals process Q113	13%	12%	13%	16%	22%
Independently monitored appeals process Q213	12%	11%	13%	17%	18%

Continued

The Business Growth Fund Q311	12%	11%	13%	18%	22%
The Business Growth Fund Q411	12%	11%	14%	18%	22%
The Business Growth Fund Q112	12%	11%	14%	21%	25%
The Business Growth Fund Q212	14%	12%	16%	21%	23%
The Business Growth Fund Q312	12%	11%	15%	19%	25%
The Business Growth Fund Q412	14%	13%	14%	24%	25%
The Business Growth Fund Q113	14%	13%	16%	21%	27%
The Business Growth Fund Q213	16%	15%	16%	22%	29%
Regional outreach events Q311	11%	11%	11%	13%	14%
Regional outreach events Q411	7%	7%	9%	14%	10%
Regional outreach events Q112	9%	9%	9%	13%	12%
Regional outreach events Q212	8%	7%	12%	12%	11%
Regional outreach events Q312	8%	8%	8%	10%	14%
Regional outreach events Q412	8%	8%	9%	10%	12%
Regional outreach events Q113	8%	7%	8%	10%	11%
Regional outreach events Q213	8%	7%	8%	8%	9%
BetterBusinessFinance.co.uk Q311	9%	9%	10%	11%	9%
BetterBusinessFinance.co.uk Q411	9%	9%	9%	12%	9%
BetterBusinessFinance.co.uk Q112	9%	10%	8%	10%	11%
BetterBusinessFinance.co.uk Q212	9%	8%	11%	10%	10%
BetterBusinessFinance.co.uk Q312	9%	8%	10%	10%	11%
BetterBusinessFinance.co.uk Q412	10%	10%	11%	12%	9%
BetterBusinessFinance.co.uk Q113	9%	8%	10%	10%	11%
BetterBusinessFinance.co.uk Q213	9%	9%	10%	9%	9%

Q240 All SMEs

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

Awareness of more recent initiatives All SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base (Q2):	*5000*	*1000*	*1650*	*1600*	*750*
Funding for Lending scheme Q412	23%	21%	27%	35%	45%
Funding for Lending scheme Q113	27%	24%	32%	37%	43%
Funding for Lending scheme Q213	29%	27%	34%	40%	48%
Government support schemes Q412	22%	21%	24%	32%	42%
Government support schemes Q113	24%	22%	28%	32%	41%
Government support schemes Q213	23%	22%	24%	31%	36%
Alternative sources of finance Q412	17%	16%	20%	29%	37%
Alternative sources of finance Q113	19%	17%	24%	31%	42%
Alternative sources of finance Q213	16%	15%	19%	26%	35%
The Lending Code Q412	17%	17%	17%	23%	27%
The Lending Code Q113	18%	16%	20%	25%	31%
The Lending Code Q213	18%	17%	20%	25%	29%

The Funding for Lending scheme is the only one of these more recent initiatives which has seen any improvement in awareness in Q2 2013, with slightly higher awareness across all size bands.

Analysis over time by sector is also provided below, but first, a table showing results for the new list of initiatives, by sector, for Q2 2013. Awareness of the Funding for Lending scheme was fairly even across sectors, with the possible exception of Construction (22%) – a sector with lower awareness of initiatives overall (38%):

% aware of Initiatives Q2 13 – all SMEs asked new question	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*375*	*520*	*875*	*505*	*450*	*453*	*875*	*447*	*500*
New support from the Bank of England called Funding for Lending*	30%	32%	22%	30%	32%	32%	35%	28%	28%
Government support schemes for access to finance such as Enterprise Finance Guarantee Scheme etc*	20%	24%	16%	21%	24%	25%	29%	20%	26%
A network of business mentors	23%	20%	15%	18%	22%	24%	31%	24%	24%
Other alternative sources of business finance such as Asset based finance etc*	17%	15%	11%	13%	17%	21%	22%	16%	15%
The Lending Code	19%	17%	12%	18%	17%	20%	23%	20%	15%
The Business Growth Fund	15%	13%	11%	16%	14%	15%	20%	17%	19%
BetterBusinessFinance.co.uk	9%	11%	6%	9%	13%	9%	9%	13%	13%
Independently monitored appeals process	10%	8%	8%	13%	14%	16%	17%	15%	5%
Regional outreach events	6%	5%	5%	6%	8%	9%	10%	10%	8%
Any of these	*54%*	*57%*	*38%*	*46%*	*55%*	*55%*	*62%*	*57%*	*55%*
None of these	*46%*	*43%*	*62%*	*54%*	*45%*	*45%*	*38%*	*43%*	*45%*

Q240 All SMEs * indicates new or amended question

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

% aware Over time by date of interview	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop / Bus	Health S Work	Other Comm
A network of business mentors Q311	27%	26%	15%	20%	16%	25%	26%	25%	17%
Q411	15%	30%	16%	17%	18%	20%	27%	23%	25%
Q112	21%	23%	21%	22%	21%	24%	27%	31%	39%
Q212	18%	22%	17%	20%	22%	16%	34%	24%	24%
Q312	18%	20%	17%	23%	21%	20%	29%	34%	23%
Q412	16%	23%	14%	22%	15%	17%	28%	21%	26%
Q113	20%	25%	14%	17%	18%	18%	26%	29%	26%
Q213	23%	20%	15%	18%	22%	24%	31%	24%	24%
Independently monitored appeals process Q311	16%	19%	12%	14%	14%	16%	15%	12%	10%
Q411	11%	13%	8%	11%	12%	16%	11%	6%	11%
Q112	10%	10%	15%	13%	11%	17%	12%	14%	11%
Q212	9%	8%	10%	12%	13%	14%	14%	11%	13%
Q312	12%	8%	10%	12%	9%	10%	11%	9%	11%
Q412	7%	10%	8%	14%	11%	10%	11%	11%	11%
Q113	13%	9%	10%	9%	15%	9%	11%	22%	24%
Q213	10%	8%	8%	13%	14%	16%	17%	15%	5%

Continued

Continued

The Business Growth Fund Q311	13%	22%	9%	10%	12%	10%	13%	9%	12%
Q411	16%	14%	6%	9%	11%	16%	18%	10%	9%
Q112	11%	13%	9%	11%	12%	17%	15%	14%	9%
Q212	11%	12%	8%	9%	12%	14%	21%	12%	16%
Q312	13%	12%	9%	10%	12%	8%	18%	10%	12%
Q412	11%	12%	12%	18%	9%	13%	16%	12%	10%
Q113	14%	16%	7%	11%	15%	11%	19%	12%	18%
Q213	15%	13%	11%	16%	14%	15%	20%	17%	19%
Regional outreach events Q311	12%	21%	8%	10%	10%	13%	12%	11%	11%
Q411	9%	8%	7%	9%	7%	10%	8%	5%	6%
Q112	8%	9%	8%	7%	8%	12%	11%	14%	5%
Q212	8%	6%	3%	7%	8%	4%	11%	10%	16%
Q312	11%	6%	6%	7%	8%	6%	10%	9%	11%
Q412	5%	6%	6%	11%	5%	11%	8%	8%	13%
Q113	8%	11%	6%	7%	9%	5%	8%	7%	12%
Q213	6%	5%	5%	6%	8%	9%	10%	10%	8%

BetterBusinessFinance.co.uk Q311	10%	15%	8%	11%	13%	8%	8%	12%	10%
Q411	11%	8%	9%	4%	10%	11%	9%	6%	13%
Q112	6%	9%	8%	5%	12%	13%	10%	15%	12%
Q212	10%	11%	5%	5%	8%	6%	12%	10%	12%
Q312	9%	4%	7%	9%	11%	14%	8%	12%	10%
Q412	6%	7%	10%	11%	12%	9%	11%	11%	14%
Q113	8%	14%	6%	8%	14%	4%	8%	7%	17%
Q213	9%	11%	6%	9%	13%	9%	9%	13%	13%

Q240 All SMEs

For those initiatives included for the first time in Q4 2012 analysis over time is more limited, but is shown below for the quarters for which it is available. Awareness of FLS has improved for all sectors over time:

% aware Over time by date of interview	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Funding for Lending scheme Q412	25%	19%	21%	26%	19%	27%	26%	25%	19%
Q113	28%	32%	25%	26%	27%	26%	33%	29%	13%
Q213	30%	32%	22%	30%	32%	32%	35%	28%	28%
Government support schemes Q412	23%	18%	16%	29%	12%	19%	27%	25%	17%
Q113	25%	29%	19%	23%	29%	17%	27%	31%	25%
Q213	20%	24%	16%	21%	24%	25%	29%	20%	26%
Alternative sources of finance Q412	12%	15%	11%	20%	10%	12%	25%	18%	19%
Q113	16%	21%	10%	17%	17%	18%	27%	22%	23%
Q213	17%	15%	11%	13%	17%	21%	22%	16%	15%
The Lending Code Q412	12%	20%	13%	18%	12%	13%	17%	18%	25%
Q113	18%	20%	13%	16%	18%	14%	20%	22%	23%
Q213	19%	17%	12%	18%	17%	20%	23%	20%	15%

Q240 All SMEs

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

Initiative	Awareness
Loan refinancing talks, 12 months ahead – asked of SMEs with a loan	Awareness of this initiative amongst SMEs with loans remained fairly stable at 10% in Q2 (12% in Q1 and 7-13% across previous quarters). Awareness amongst smaller SMEs with loans remained slightly lower: 0-9 employees 9% in Q2 (down slightly from 11% in Q1) whilst awareness for 10-249 employees was 18% (up from 15% in Q1)

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

Initiative	Awareness
The independently monitored lending appeals process	As reported earlier, amongst all those who, in the 18 months between Q1 2012 and Q2 2013, had applied for an overdraft and initially been declined, 15% said that they had been made aware of the appeals process while for loans the equivalent figure was 7%. Overall awareness of the appeals process (at Q240) remained limited. In Q2 2013 it was 12%, ranging from 11% of those with 0 employees to 18% of those with 50-249 employees. Awareness did not increase once the 'Permanent non-borrowers' were excluded (13% in Q2), or when limited to those that had reported *any* kind of borrowing event in the previous 12 months (13% in Q2). Amongst those interviewed in Q2 2013 who had applied for a facility but either taken other funding or ended the process with no facility, awareness of appeals was slightly higher for those who had applied for an overdraft (15%) than a loan (11%). Amongst past 'Would-be seekers' awareness was 11%, and amongst 'Future would-be seekers' it was 9%

Funding for Lending

New questions were asked from Q4 2012 around awareness of the Funding for Lending scheme. As reported above, in Q2 2013 29% of SMEs reported that they were aware of this scheme (up from 23% when this question was first asked).

Those aware of the Funding for Lending scheme were asked whether they were aware of their bank offering finance options under this scheme. A third (28%) of those aware of the Funding for Lending scheme said that they were aware of something their bank was offering. This was the equivalent of 8% of all SMEs, as the table below shows:

Awareness of the Funding for Lending scheme Q2 13 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*5000*	*1000*	*1650*	*1600*	*750*
Aware bank was offering finance options	8%	7%	12%	15%	18%
Aware of scheme but not of bank offering	21%	20%	22%	24%	28%
Awareness (any)	***29%***	***27%***	***34%***	***39%***	***46%***
Not aware of Funding for Lending	71%	73%	66%	61%	54%

Q240 / 240XX All SMEs

The largest SMEs were more likely to be aware of FLS overall and specifically of options available from their bank (18%) than those with 0 employees (7%).

Given the nature of the scheme, it is also appropriate to report awareness of the Funding for Lending scheme excluding the 'Permanent non-borrowers'. As the table below shows, excluding them has little impact on overall awareness or awareness of bank activity specifically:

Awareness of the Funding for Lending scheme Q2 13 All excluding PNBs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*3707*	*591*	*1228*	*1278*	*610*
Aware bank was offering finance options	9%	7%	12%	16%	19%
Aware of scheme but not of bank offering	23%	22%	23%	26%	30%
Awareness (any)	*32%*	*29%*	*35%*	*42%*	*49%*
Not aware of Funding for Lending	68%	71%	65%	58%	51%

Q240 / 240XX All SMEs excluding PNBs

One further piece of analysis looks at awareness by future borrowing intentions. As the next table shows, those with plans to apply/renew in the next 3 months were the most likely to be aware of the Funding for Lending scheme per se, if not of bank actions specifically (and their awareness level has changed little over time). 'Future would-be seekers' of finance were now the least likely to be aware of FLS (25%, down from 28% in Q1):

Awareness of Funding for Lending scheme Q2 13 All SMEs	Plan to apply	Future WBS	Future HNS	Future HNS excl. PNB
Unweighted base:	*774*	*861*	*3365*	*2072*
Aware bank was offering finance options	11%	6%	8%	10%
Aware of scheme but not of bank offering	23%	19%	21%	25%
Awareness (any)	*34%*	*25%*	*29%*	*35%*
Not aware of Funding for Lending	66%	75%	71%	65%

Q240 / 240XX All SMEs

Questions were asked in Q2 and Q3 2012 about the impact that the National Loan Guarantee scheme (with a 1% discount on loans, hire purchase or leasing) might have on SMEs' appetite for finance. From Q4 2012, the question responses were kept in the same format but the question was broadened to explore the impact of the 'various initiatives that have been announced to help reduce the cost of finance to SMEs', and naming the NLGS and the Funding for Lending scheme specifically.

Overall, the proportion of SMEs that thought such schemes would encourage them to apply for funding has declined slightly over time. In Q2 2013, it stood at 16%, the equivalent of around 700,000 SMEs. The biggest single group, 77% of all SMEs in Q1 2013, said that such schemes made no difference as they were not looking for funding, and this has increased over time:

Effect of NLGS / Funding for Lending scheme All SMEs asked new question over time	Q4 2012	Q1 2013	Q2 2013
Unweighted base:	*4330*	*4471*	*4460*
Now more likely to apply for funding	20%	18%	16%
No difference because do not want funding	72%	75%	77%
No difference as interest rates not main consideration for finance	4%	3%	3%
Now less likely to apply for this type of finance	4%	5%	4%

Q238d All SMEs, excluding DK

As might be expected, appetite for finance was much lower amongst those that met the definition of a 'Permanent non-borrower', although 6% of this group thought such schemes might encourage them to apply (the equivalent of less than 2% of all SMEs).

Excluding the 'Permanent non-borrowers', 22% of remaining SMEs thought such a scheme would make them more likely to apply for the types of finance the scheme covered:

Effect of NLGS / Funding for Lending scheme All SMEs asked new question Q2 13	All SMEs	PNBs	Non PNB
Unweighted base:	*4460*	*1143*	*3317*
Now more likely to apply for funding	16%	6%	22%
No difference because do not want funding	77%	90%	69%
No difference as interest rates not main consideration for finance	3%	1%	5%
Now less likely to apply for this type of finance	4%	3%	5%

Q238d All SMEs, excluding DK

Those with 1-9 employees were the most likely to see FLS and similar schemes as an encouragement:

Effect of NLGS / Funding for Lending scheme All SMEs asked new question Q2 13 Excluding PNBs	Overall	0 emps	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*3317*	*537*	*1085*	*1152*	*543*
Now more likely to apply for this type of funding	22%	20%	27%	19%	16%
No difference because do not want funding	69%	71%	62%	73%	77%
No difference as interest rates not main consideration for finance	5%	5%	5%	3%	3%
Now less likely to apply for this type of finance	5%	4%	6%	5%	3%

Q238d All SMEs, excluding DK and 'permanent non-borrowers'

Those with a poorer external risk rating remained slightly more likely to say that they would now be more likely to apply for such lending products (all excluding PNBs):

- 18% of those rated a minimal risk thought they were now more likely to apply
- 15% of those rated a low risk
- 20% of those rated an average risk
- 24% of those rated a worse than average risk

Also more likely to apply (again excluding PNBs) were:

- Those who had been 'Would-be seekers' of finance in the 12 months prior to interview (37%)
- Those with plans to borrow in the next 3 months (48%)
- Starts (28%)

Analysis over time shows how likelihood to apply has changed by key subgroup (all excluding PNBs). Likelihood to apply is lower across all size bands and risk ratings. Amongst those with plans to apply, there has been a slight increase in the proportion saying they are now more likely to apply, but FLS appears to be having less of an encouraging effect on 'Future would-be seekers' of finance:

Now more likely to apply for funding All SMEs asked new question over time Excluding PNBs – row percentages	Q4 2012	Q1 2013	Q2 2013
Overall	*27%*	*25%*	*22%*
0 emps	26%	24%	20%
1-9 emps	32%	27%	27%
10-49 emps	25%	23%	19%
50-249 emps	22%	19%	16%
Minimal external risk rating	21%	17%	18%
Low external risk rating	22%	21%	15%
Average external risk rating	24%	20%	20%
Worse than average external risk rating	30%	29%	24%
Plan to apply in next 3 months	42%	43%	48%
Would-be seeker in next 3 months	30%	23%	19%
Happy non-seeker in next 3 months	17%	16%	12%

Q238d All SMEs, excluding DK and PNBs

Further analysis conducted in Q4 2012 identified that the types of business more likely to be 'encouraged to apply' by FLS were those that were more 'developed' (management accounts, trade online etc.) and also those facing credit issues (such as a missed loan repayment).

Updating this analysis for Q2 2013 respondents, and those with credit issues remain more likely to be encouraged, notably those that have had problems getting trade credit, or have had a CCJ against them. The second group, who have innovated, have a business plan or import, are also identified in this analysis as being more encouraged.

Other groups more likely to be encouraged to apply are those with less than £25,000 in credit balances, those in the Transport sector and those with an above average external risk rating, as well as future and past 'Would-be seekers' and those with plans to apply in the next 3 months. Those less likely to be encouraged include businesses that are more than 5 years old, and those in the Other Community sector, and those who meet the definition of a 'Happy non-seeker' for the past 12 months.

Crowd Funding

Crowd funding was last covered in the SME Finance Monitor in Q2 and Q3 2012, when awareness was 18%, varying by size from 17% of 0 employee SMEs to 27% of those with 50-249 employees.

When the question was re-introduced for the Q2 2013 survey the answers available were extended to cover both awareness *and* use of crowd funding. As the table below shows, overall awareness had increased to 22%, with 2% of SMEs saying they had applied for such funding (the equivalent of around 90,000 SMEs):

Awareness of crowd funding All SMEs asked new question Q2 13	Overall	0 emps	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	***5000***	***1000***	***1650***	***1600***	***750***
Aware and have applied for crowd funding	2%	2%	2%	3%	2%
Aware but have not applied	20%	19%	22%	24%	27%
Aware (any)	***22%***	***21%***	***24%***	***27%***	***29%***
Not aware	78%	79%	75%	73%	71%

Q238a2 All SMEs

Applications varied little by sector or risk rating. Overall awareness ranged from 14% in Construction to 30% in the Other Community sector, but little by external risk rating (21% to 24%), and was slightly higher amongst those that had experienced a borrowing event (24%) and those planning to apply for new/renewed facilities (24%).

Excluding the 'Permanent non-borrowers' increases overall awareness only slightly to 24%.

Bank communication about lending

The Funding for Lending scheme is still a relatively new scheme compared to others. More broadly, awareness of various initiatives to support lending to SMEs has changed relatively little in the past year.

Some additional analysis has therefore been done of a question which asks whether, in the 3 months prior to interview, the SME had been contacted by either their main bank, or another bank, expressing a willingness to lend.

In Q2 2013, 11% of all SMEs said that they had received such a contact in the previous 3 months (8% of SMEs had heard from their main bank, while 4% had heard from another bank). This was somewhat lower than in previous quarters:

Approached by any bank in last 3 mths All SMEs	Q1-2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13
All SMEs	15%	15%	15%	15%	12%	13%	13%	14%	11%
0 emps	14%	14%	15%	14%	10%	12%	11%	13%	10%
1-9 emps	20%	18%	17%	16%	15%	14%	15%	18%	14%
10-49 emps	19%	19%	20%	18%	20%	17%	18%	19%	17%
50-249 emps	28%	25%	26%	24%	28%	23%	25%	24%	20%
All SMEs excluding PNBs	17%	16%	15%	15%	11%	13%	14%	16%	11%

Q221 All SMEs

Overall, compared to the equivalent quarter of 2012, SMEs interviewed in Q2 2013 were as likely to have been contacted, although fewer larger SMEs reported having contact (amongst those with 50-249 employees, 28% reported contact in Q2 2012, compared to 20% a year later). Excluding the 'Permanent non borrowers' does not change the overall figure.

Those who had been approached were more likely to be aware of the Funding for Lending scheme (37%) than those who had not been approached (28%), and specifically of their bank offering something under the scheme (13% v 8%), although they were no more likely to say that such schemes encouraged them to apply for finance (11% v 15%). Their awareness of any of the initiatives tested was also higher (60% v 51%).

More generally, they were no more likely to be planning to apply for new or renewed finance in the next 3 months (14% v 14%), but amongst SMEs planning to apply those that had been approached by a bank were slightly more confident that they would be successful (39%) than those who had not been approached (29%).

Those who had heard from a bank were typically slightly bigger and with a somewhat better external risk rating profile than those who had not been contacted, and these factors are also likely to have impacted on awareness and confidence. More detailed analysis would therefore be needed to explore the actual impact that contact from a bank has had.

14. Selected Graphs and Charts

This chapter presents

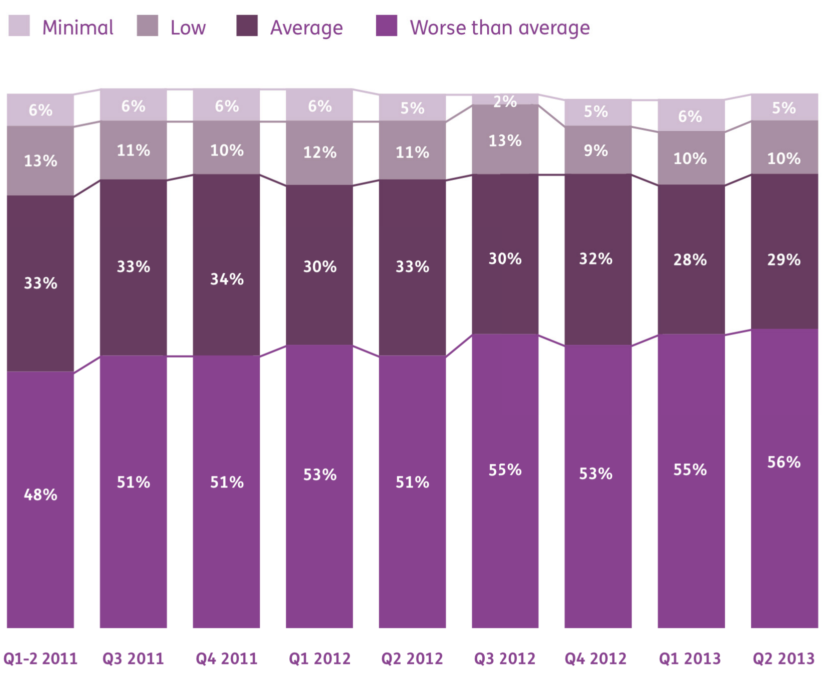
some of the key data in graphical form to provide data on longer term trends.

Much of the data in this report is provided and analysed over time, typically by quarter. After nine waves of the SME Finance Monitor, the tables containing data for each quarter are becoming too large to fit comfortably on a page. Moving forward therefore, all such tables will show the most recent nine quarters of data, and older quarters will be removed from the tables. In order to show longer term trends and provide context for the current data, a series of charts have been developed and are presented in this chapter. These take the key questions from each of the main chapters and show all the data available to date. At the bottom of each chart there is a reference to the page in the main report where the current data is presented in a table.

Charts reflecting data reported in Chapter 3

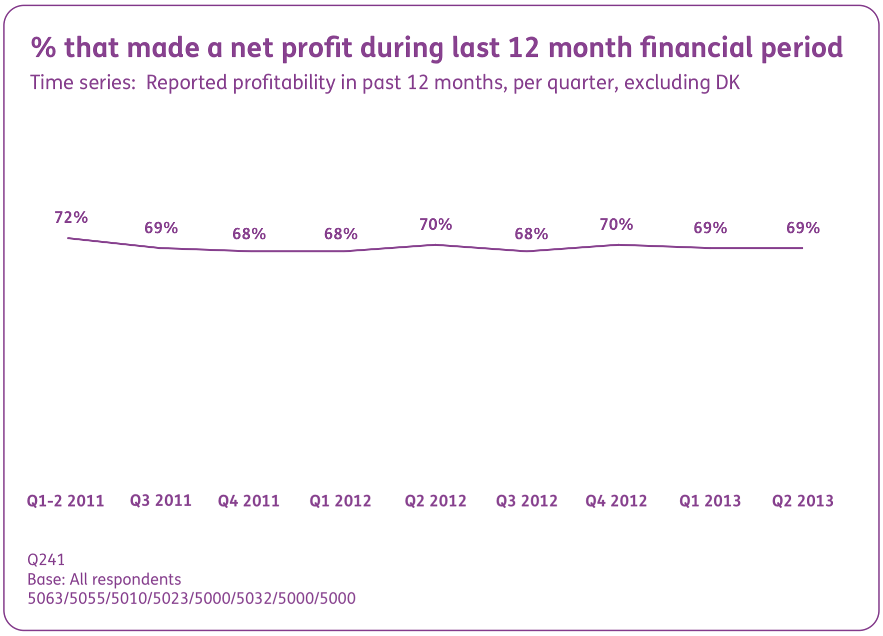
External risk rating from D&B or Experian

Time series: Risk rating per quarter

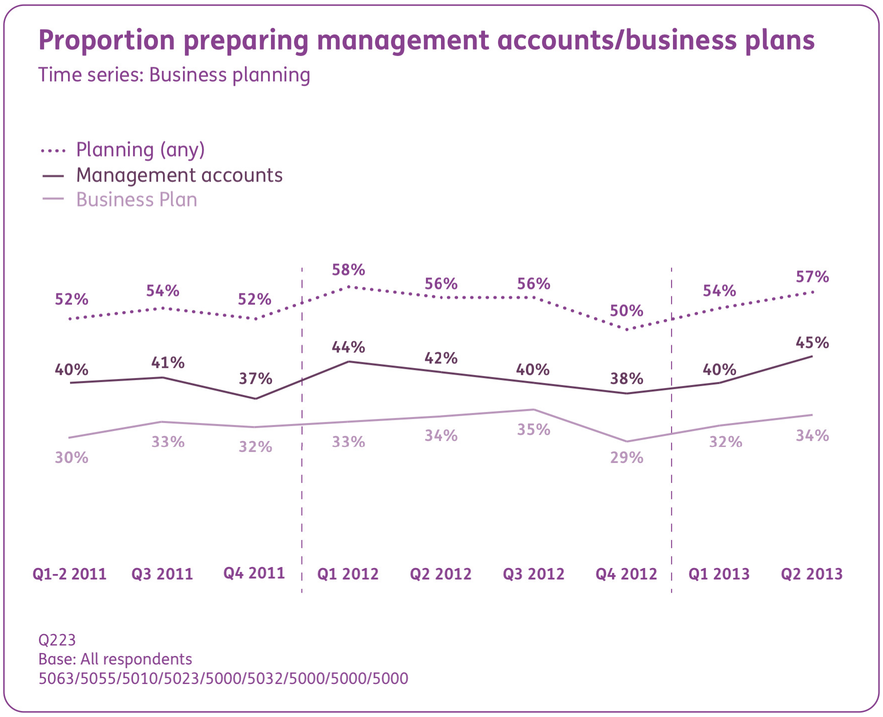


Risk rating
Base: All respondents with rating
4640/4670/4487/4580/4562/4583/4545/4630/4535

This chart relates to information on page 31.

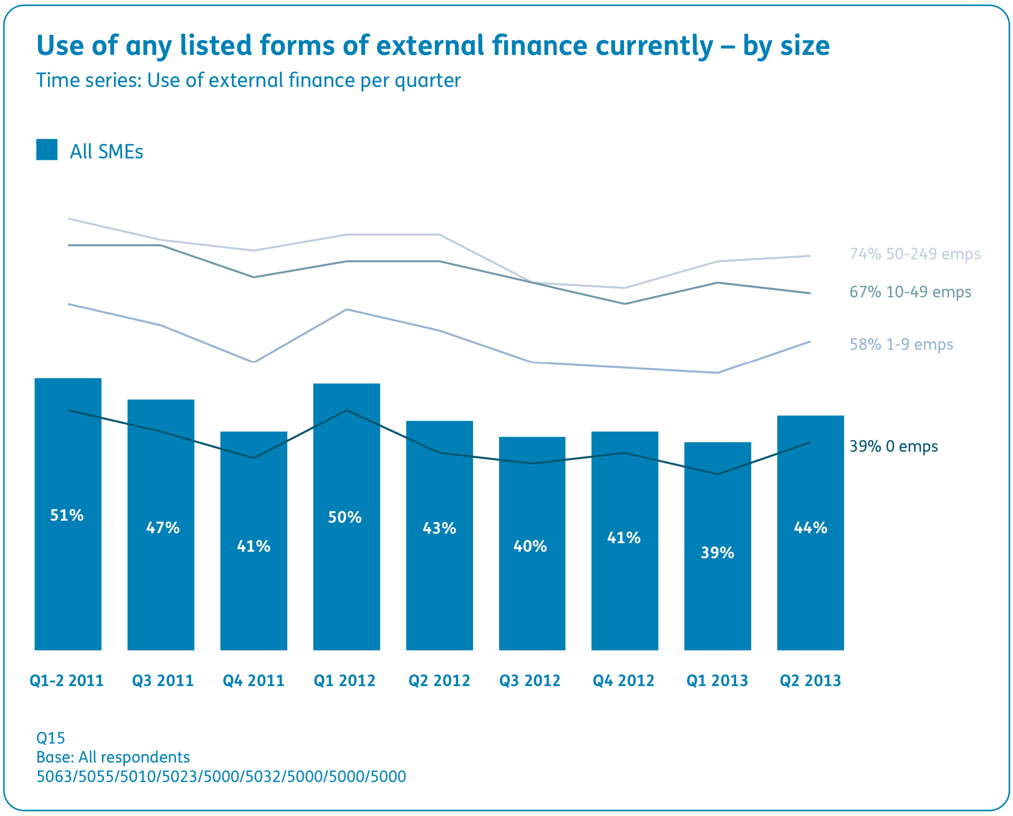


This chart relates to information on page 24.

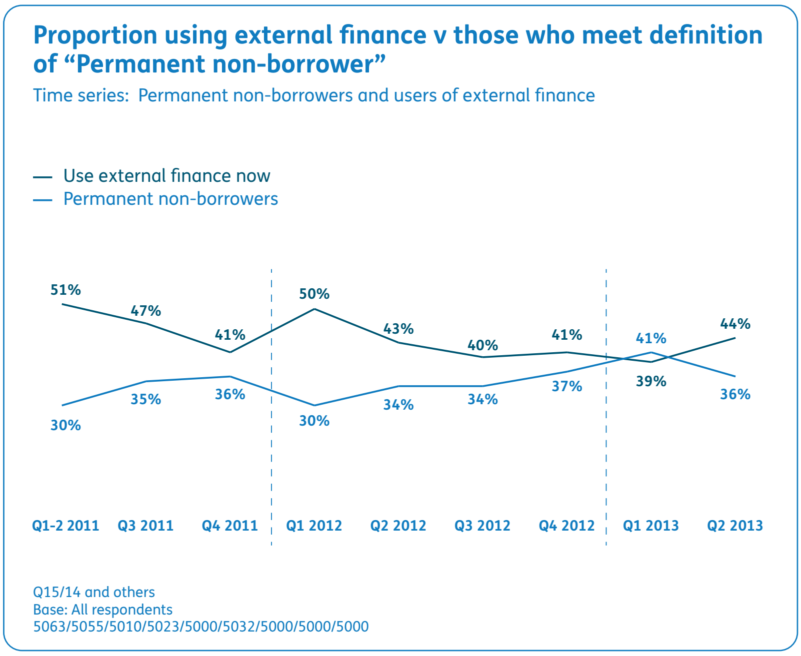


This chart relates to information on page 34.

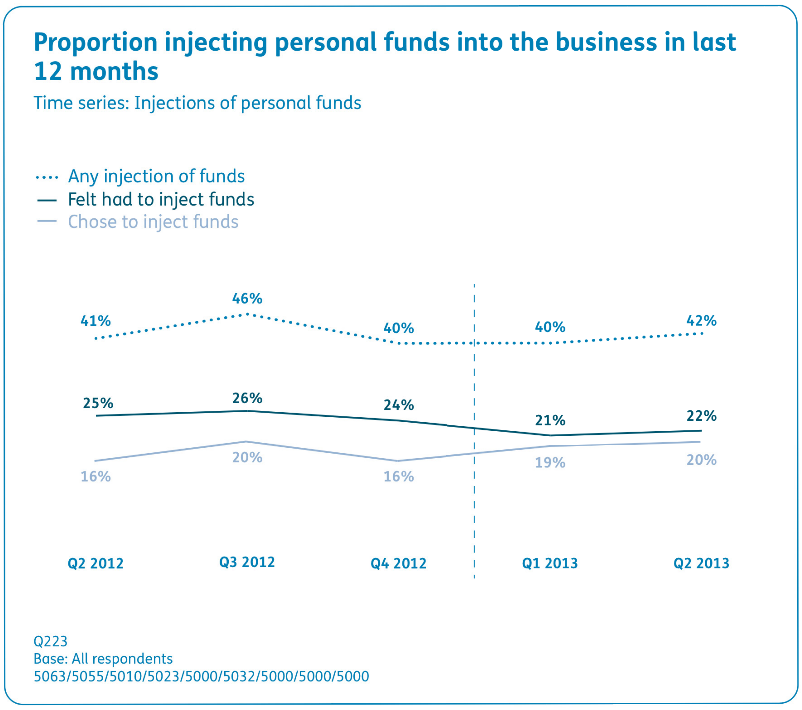
Charts reflecting data reported in Chapter 5



This chart relates to information on page 40.

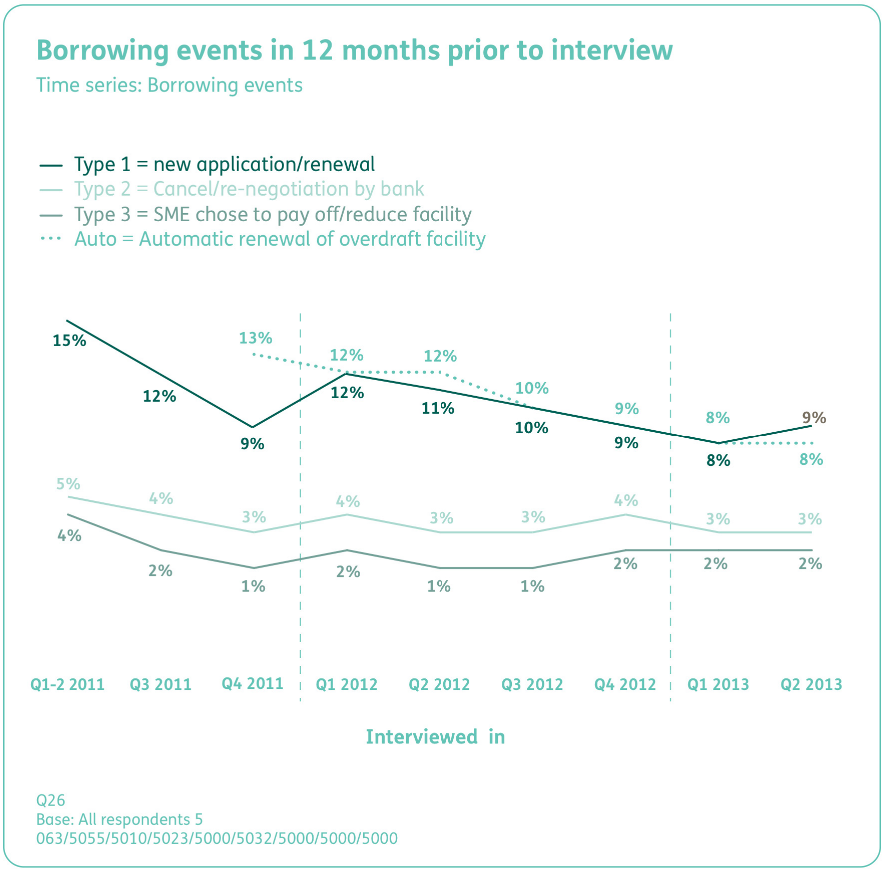


This chart relates to information on page 60.



This chart relates to information on page 48.

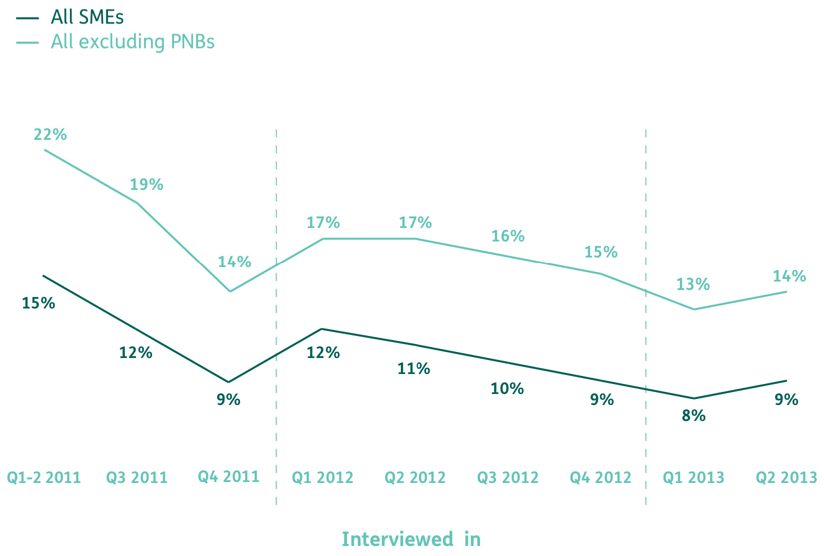
Charts reflecting data reported in Chapter 6



This chart relates to information on page 64.

Applied for a new/renewed loan or overdraft in 12 months prior to interview – a Type 1 event

Time series: Type 1 events



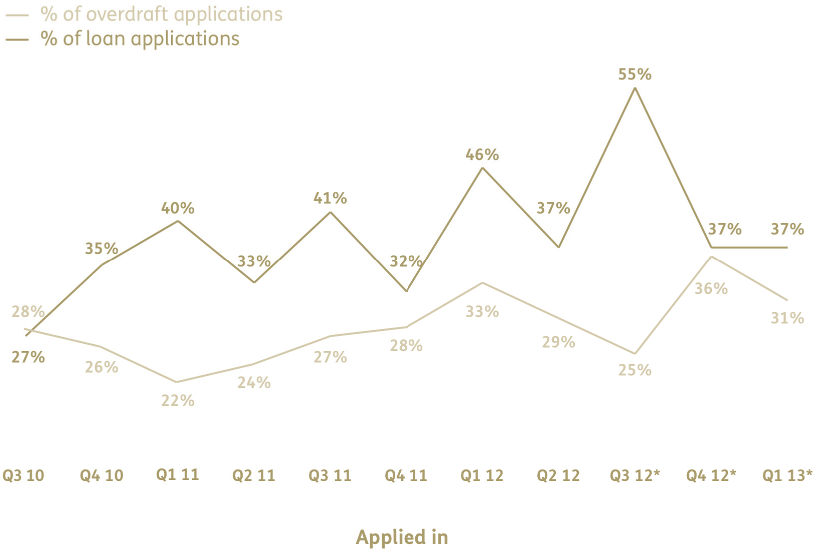
Q26
Base: All respondents
5063/5055/5010/5023/5000/5032/5000/5000/5000

This chart relates to information on page 65.

Charts reflecting data reported in Chapter 7

Proportion of all applications that were made by first time applicants

Time series: Proportion of applications made by first time applicants



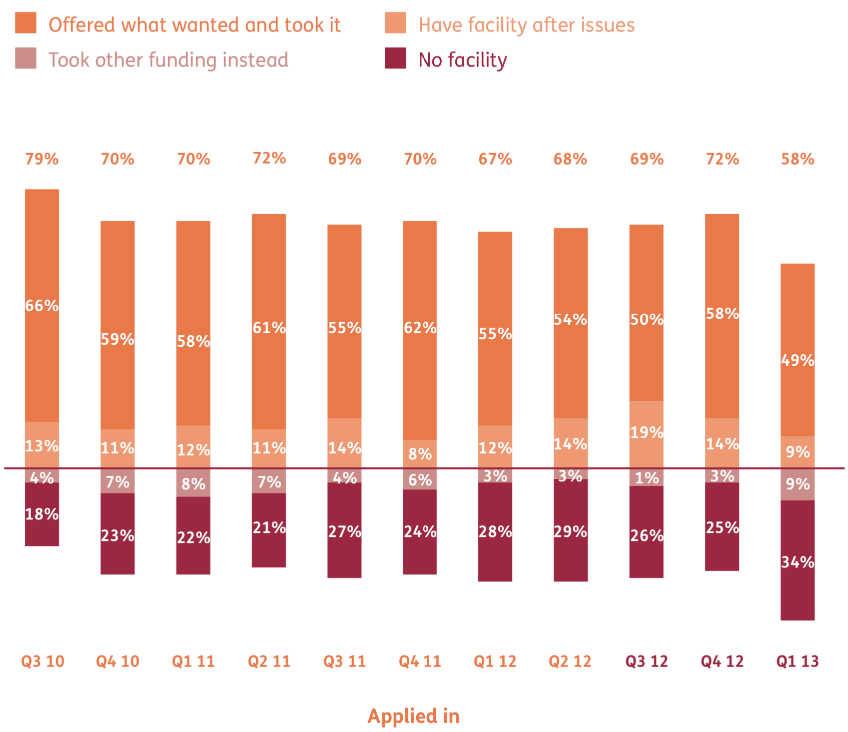
Base: All applicants
All overdraft: 176/329/679/517/557/548/681/448/341/370/270 SMALL BASE interim data
All loan:121/172/302/273/282/310/305/241/171/186/103 SMALL BASE interim data

This chart relates to information on pages 85 and 91.

Charts reflecting data reported in Chapter 8

Outcome of *all* loan/overdraft applications and renewals

Time series: Outcome by ***application date*** – ALL applicants/renewals (loans and overdrafts)

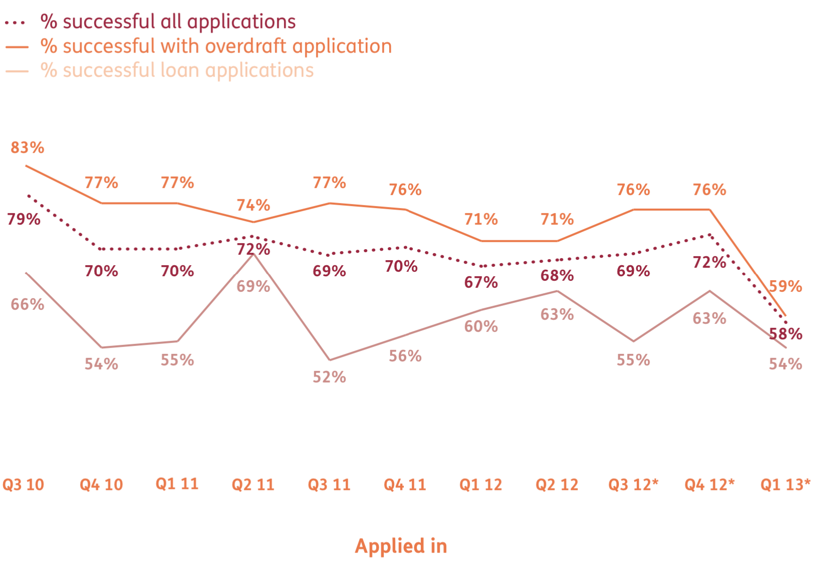


Q64/66/81/92/97
Base: All interviews to Q1 2013 All respondents who have had response from bank
296/493/960/742/808/820/943/650/482/518/352 SMALL BASE interim data

This chart relates to information on page 100.

Proportion of all applications that were *successful*, and proportions of loan and overdraft applications

Time series: Successful outcome by ***application date***

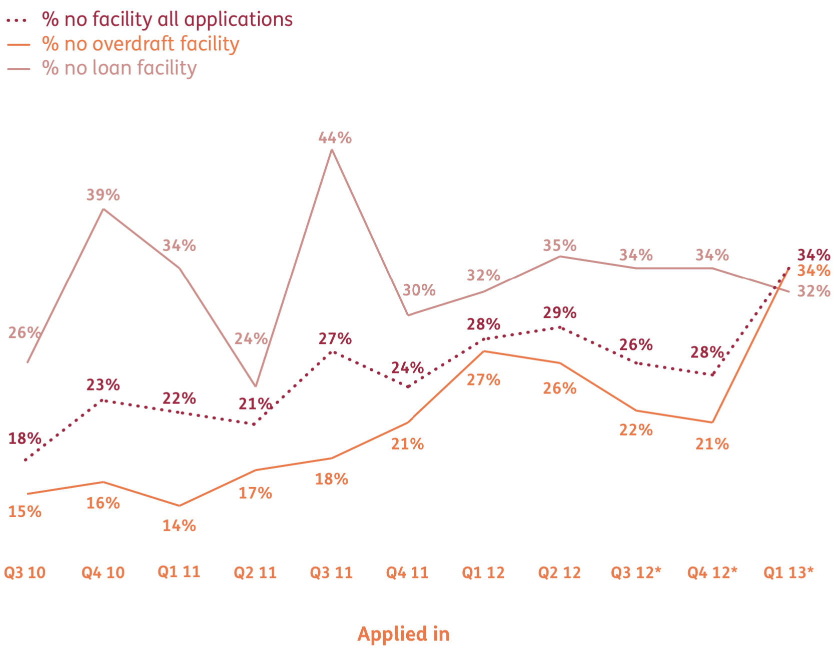


Base: All applicants
All: 296/493/960/742/808/820/943/650/482/518/352 SMALL BASE interim data
All overdraft: 176/324/670/489/541/527/656/425/323/352/256 SMALL BASE interim data
All loan: 120/169/290/253/267/293/287/225/159/166/96 SMALL BASE interim data

This chart relates to information on pages 118 and 135.

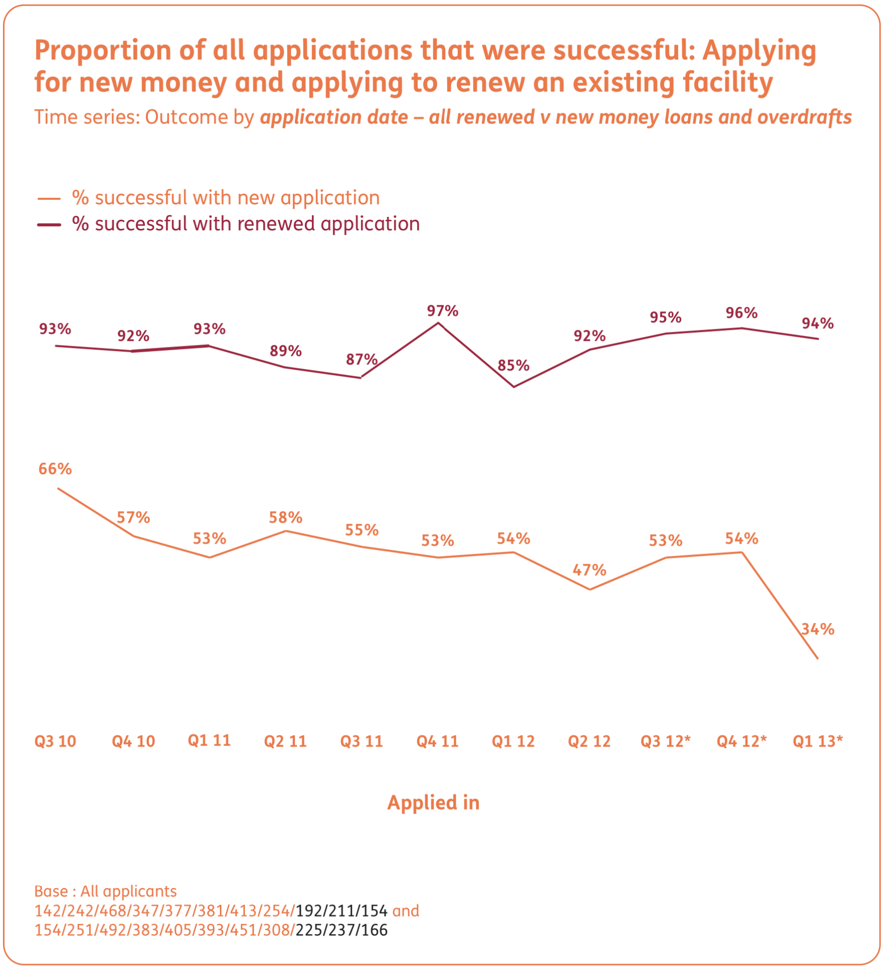
Proportion of all applications that ended the process with *no facility*, and proportions for loan and overdraft applications

Time series: Ended process with no facility by ***application date***



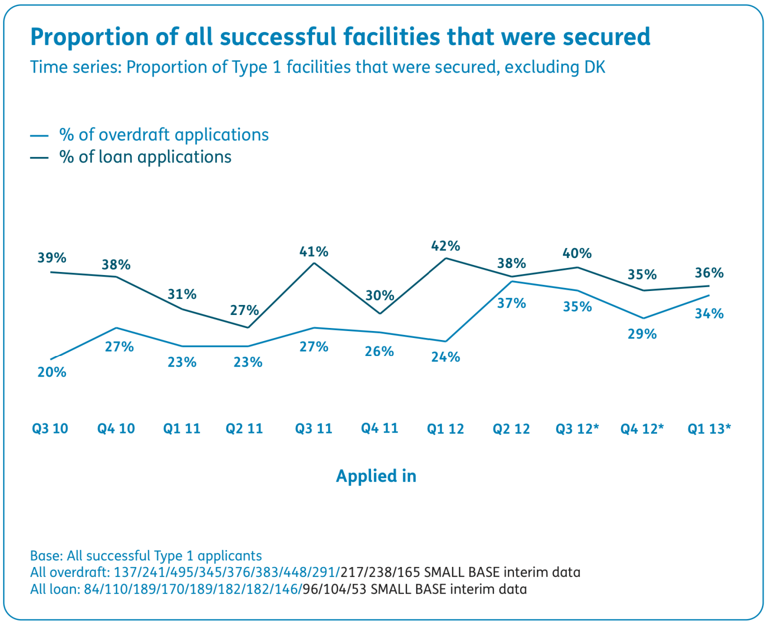
Base: All applicants
All: 296/493/960/742/808/820/943/650/482/518/352 SMALL BASE interim data
All overdraft: 176/324/670/489/541/527/656/425/323/352/256 SMALL BASE interim data
All loan: 120/169/290/253/267/293/287/225/159/166/96 SMALL BASE interim data

This chart relates to information on pages 118 and 135.

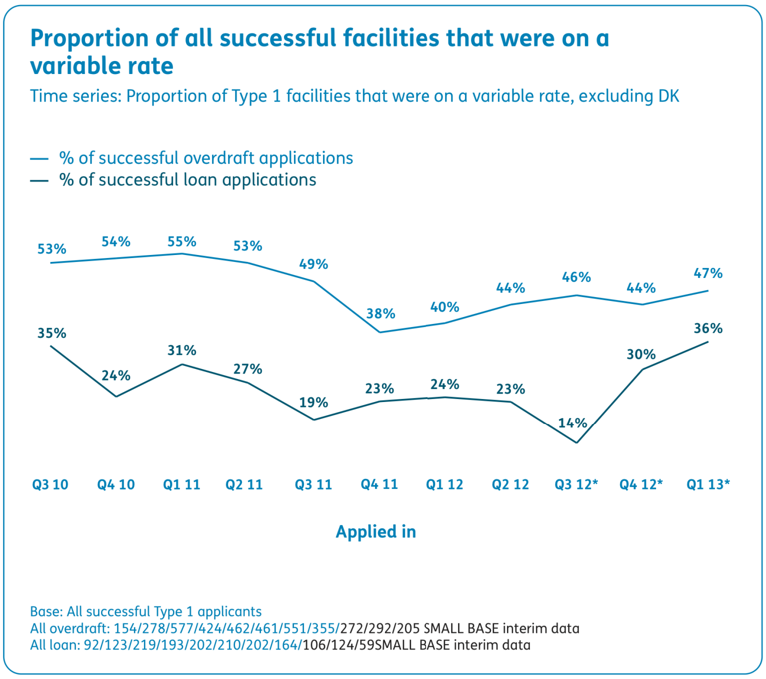


This chart relates to information on pages 139 and 140.

Charts reflecting data reported in Chapter 10

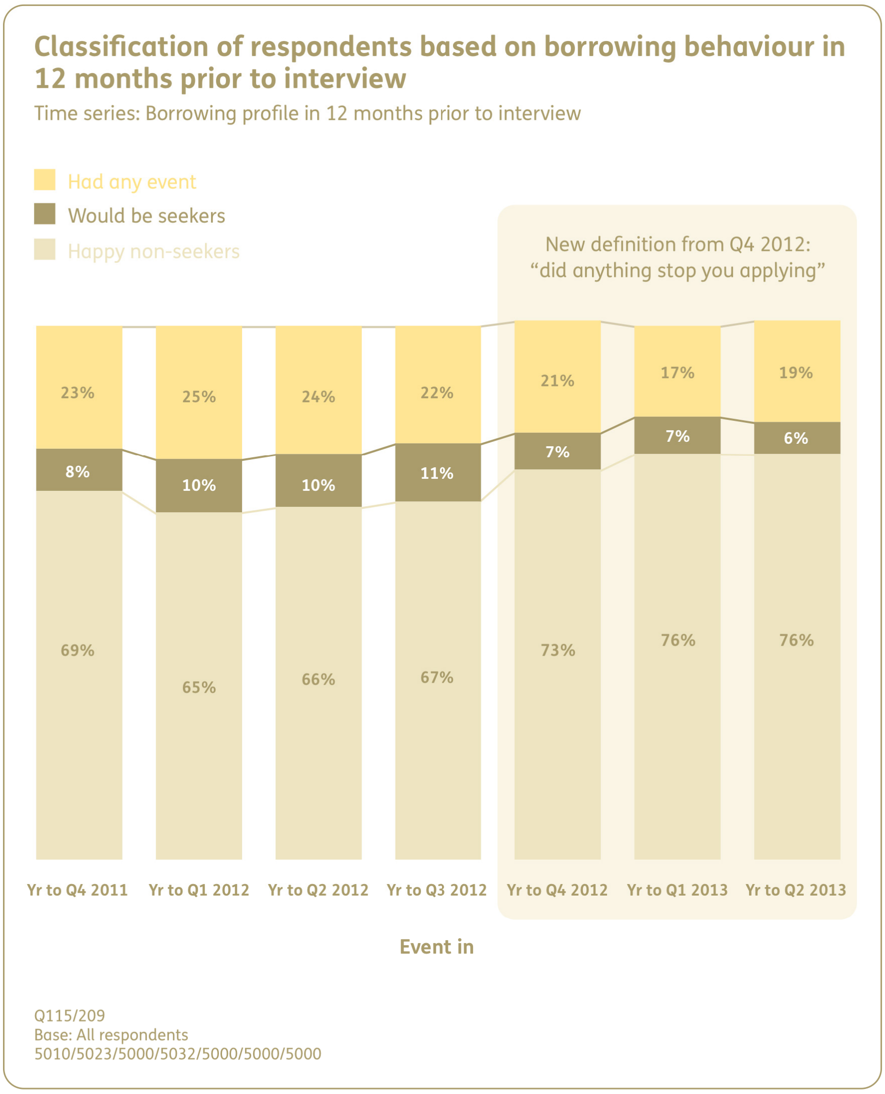


This chart relates to information on pages 155 and 168.

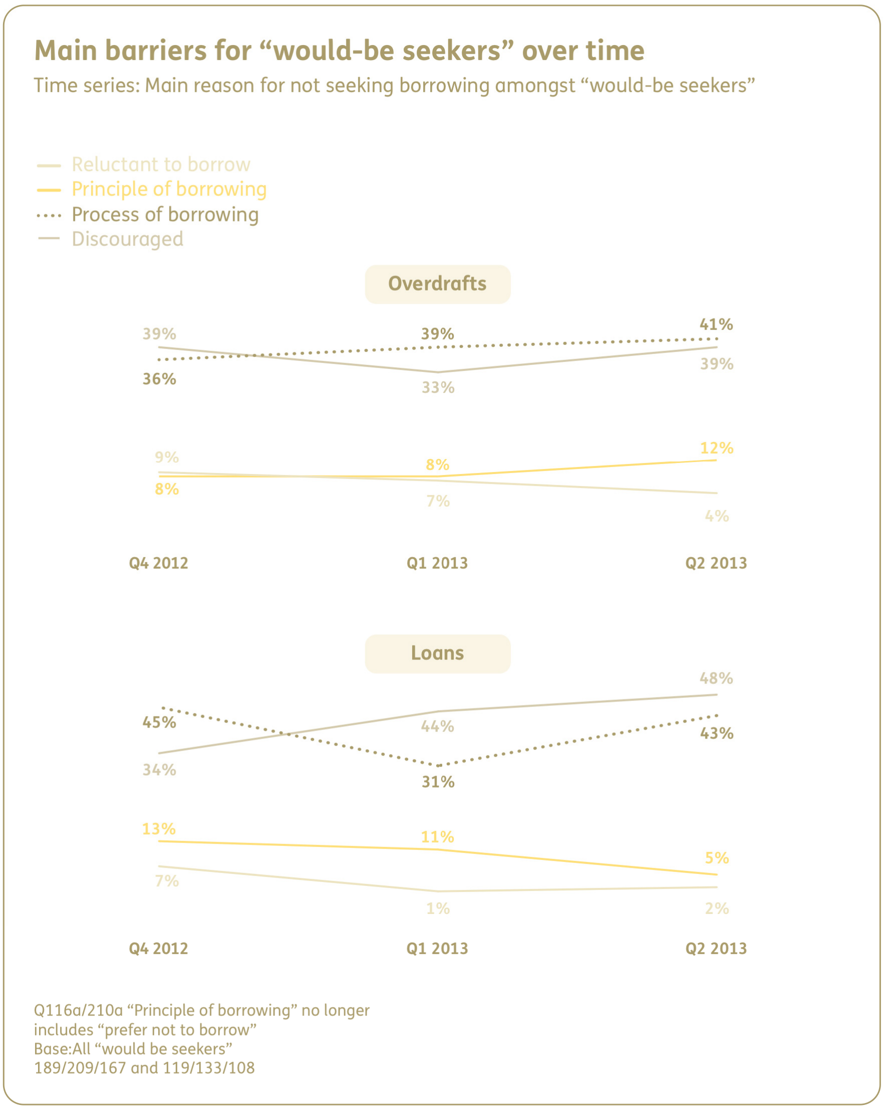


This chart relates to information on pages 156 and 170.

Charts reflecting data reported in Chapter 11

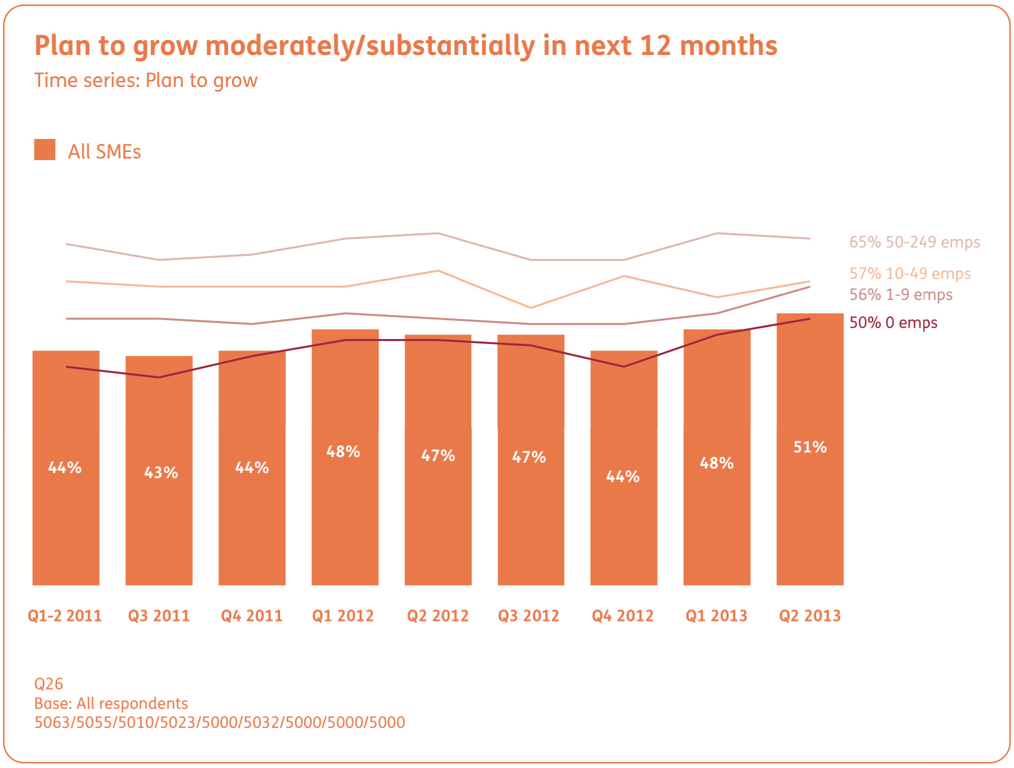


This chart relates to information on page 181.



This chart relates to information on page 187.

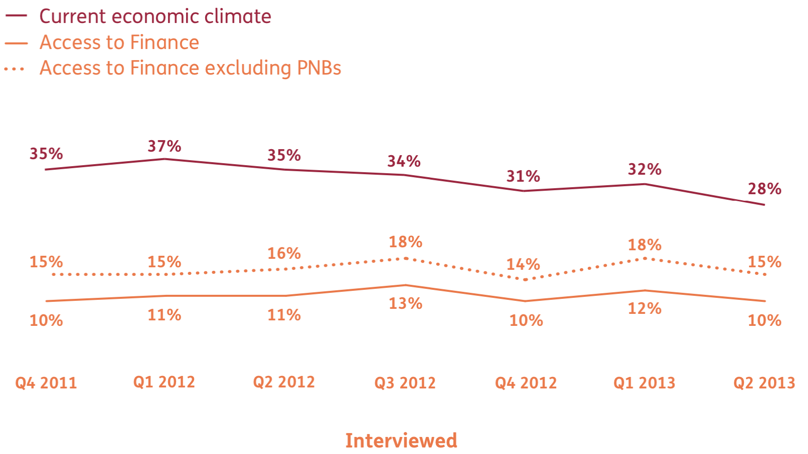
Charts reflecting data reported in Chapter 12



This chart relates to information on page 196.

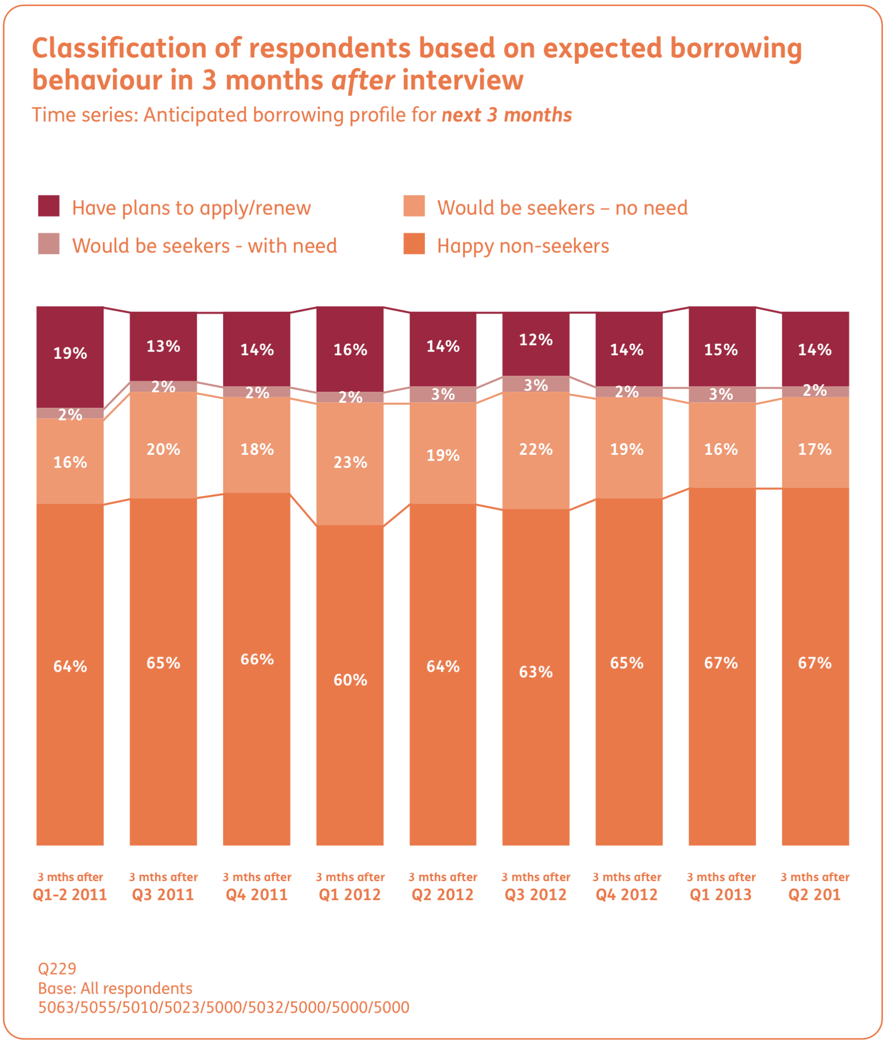
Obstacles perceived to running business – Current economic climate and access to finance

Time series: 8-10 major obstacle

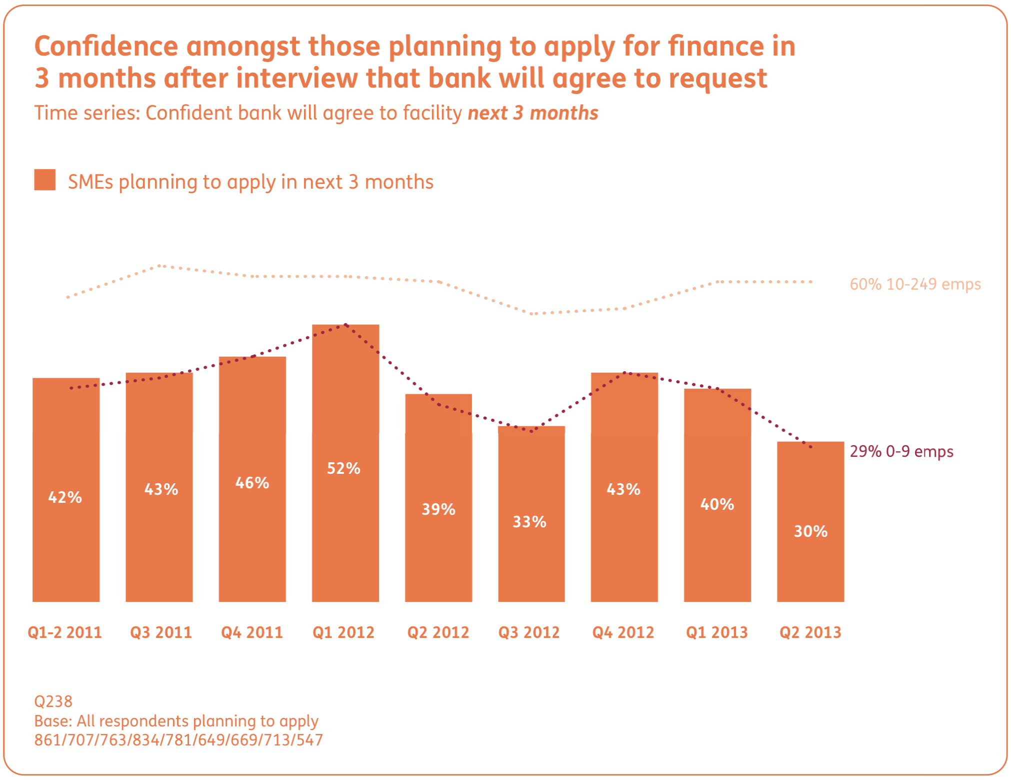


Q227
Base: All respondents
5010/5023/5000/5032/5000/5000/5000

This chart relates to information on page 203.



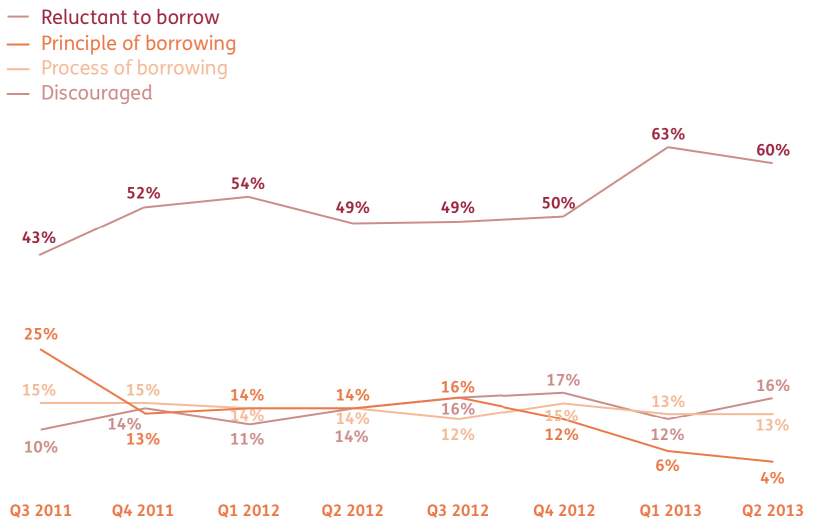
This chart relates to information on page 216.



This chart relates to information on page 212.

Main barriers for future "would-be seekers"

Time series: Main reason for not seeking borrowing amongst future "would-be seekers"



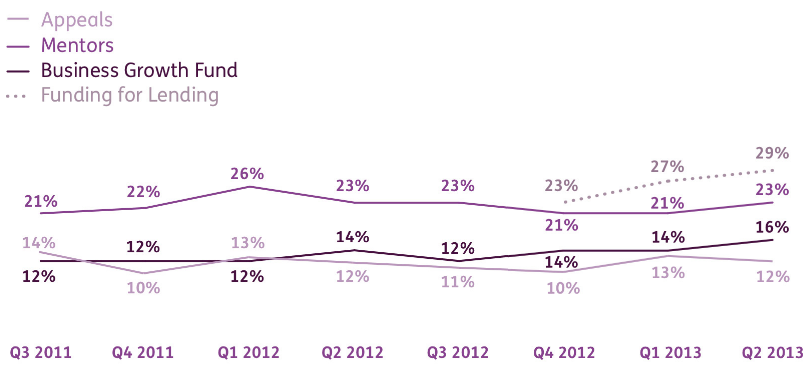
Q239a "Principle of borrowing" no longer includes "prefer not to borrow"
Base: All "would be seekers"
954/862/980/927/975/880/867/861

This chart relates to information on page 220.

Charts reflecting data reported in Chapter 13

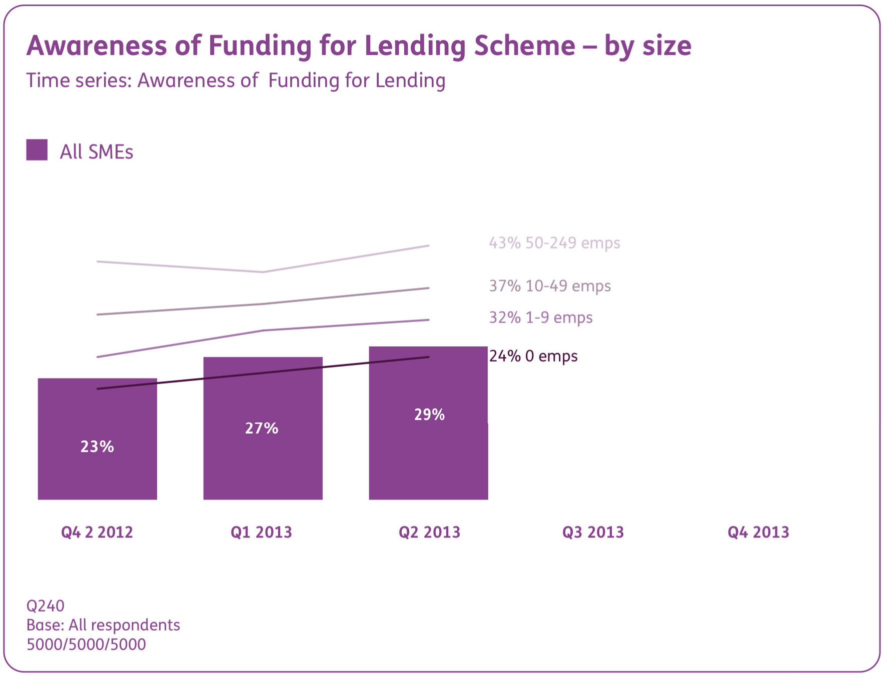
Awareness of key initiatives

Time series: Awareness of initiatives – all SMEs

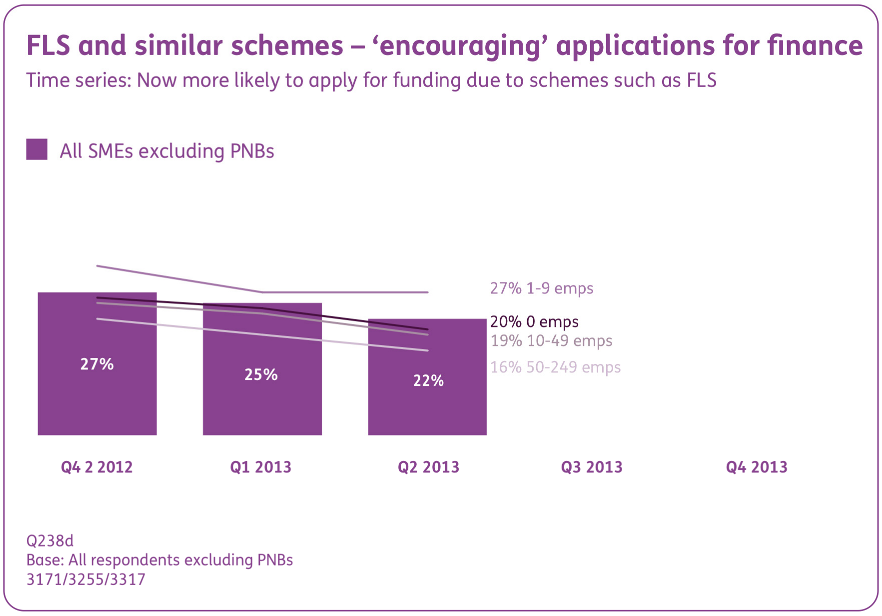


Q240
Base: All
5063/5055/5010/5023/5000/5032/5000/5000/5000

This chart relates to information on page 230.



This chart relates to information on page 233.



This chart relates to information on page 242.

15. Technical Appendix

This chapter covers

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

Eligible SMEs

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

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

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

Sample structure

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

The totals below are for all interviews conducted YEQ2 2013 – each quarter's sample matched the previous quarter's results as closely as possible.

Business size	Universe	% of universe	Total sample size	% of sample
Overall	**4,548,843**	100%	20,032	100%
0 employee (resp)	3,366,144	74%	4006	20%
1-9 employees	1,008,024	22%	6615	33%
10-49 employees	144,198	3%	6403	32%
50-249 employees	26,383	1%	3008	15%

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

Business sector* SIC 2007 in brackets)	Universe	% of universe	Total sample size	% of sample
AB Agriculture etc. (A)	195,285	4%	1504	7%
D Manufacturing (C)	302,032	7%	2081	11%
F Construction (F)	1,017,210	22%	3511	18%
G Wholesale etc. (G)	561,689	12%	2020	10%
H Hotels etc. (I)	156,001	4%	1811	9%
I Transport etc. (H&J)	314,705	7%	1813	9%
K Property/Business Services (L,M,N)	1,194,629	26%	3503	18%
N Health etc. (Q)	279,280	6%	1789	8%
O Other (R&S)	528,011	12%	2000	10%

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

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

Region	Universe	% of universe	Total sample size	% of sample
London	773,303	17%	2403	12%
South East	727,815	16%	2410	12%
South West	454,884	10%	1803	9%
East	454,884	10%	1802	9%
East Midlands	272,931	6%	1397	7%
North East	136,465	3%	1000	5%
North West	454,884	10%	1809	9%
West Midlands	318,419	7%	1802	9%
Yorks & Humber	318,419	7%	1800	9%
Scotland	318,419	7%	1602	8%
Wales	181,954	4%	1204	6%
Northern Ireland	136,465	3%	1000	5%

Weighting

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

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

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

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

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

Overall rim weights were then applied for regions:

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

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

The up-weighting of the smaller SMEs and the down-weighting of the larger ones has an impact on 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	20,032	27%	5408	+/- 2%
0 employee (resp)	4006	79%	3165	+/- 2%
1-9 employees	6615	77%	5094	+/- 2%
10-49 employees	6403	78%	4994	+/- 2%
50-249 employees	3008	82%	2467	+/- 3%

Analysis techniques

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

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

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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