SME Finance Monitor

Q2 2014

An independent report by
BDRC Continental, August 2014

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Foreword

Welcome to the twelfth report of the SME Finance Monitor, which now includes data from interviews conducted up to the end of June 2014, a period which included more upbeat economic news across a number of metrics.

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.

It was set up through the Business Finance Taskforce, which was itself established 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.

This extensive dataset is recognized by both public *and* private sector stakeholders as the de facto authority on access to finance conditions for SMEs, because it is seen as reliable, trustworthy, and, crucially, as independent. The Monitor is cited regularly in Parliament, in government led reviews, and in evidence to the European Commission and OECD, as well as forming the basis for policy discussions between the banks and BIS.

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: in particular, the smallest SMEs with no employees can often report different views and experiences to their larger peers.

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 2014

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 SME access to finance continues to provoke much debate, including the extent to which funding is needed by, or available to, those businesses looking to grow and invest as economic conditions start to improve. 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. Alternative sources of finance, such as crowd-funding, are increasingly being discussed and planning continues for the new Business Bank. For some time the unstable economic atmosphere, including in the Eurozone, has affected business confidence and appetite for borrowing. There have been increasing signs that confidence is starting to improve, as economic indicators report a more positive position, although it is still unclear how this confidence might translate into increased activity or investment. The debate continues about the extent to which demand and supply issues are contributing to continued 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 twelfth report is based on a total of 20,044 interviews with SMEs, conducted to YEQ2 2014. This means that the interviews conducted in 2011 (three waves), 2012 (4 waves) and the two waves in the first half of 2013 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 2014 data therefore includes the following four waves:

- July-September 2013 – 5,008 interviews conducted, referred to as Q3 2013
- October-December 2013 – 5,028 interviews conducted, referred to as Q4 2013
- January-March 2014 – 5,000 interviews conducted, referred to as Q1 2014
- April-June 2014 – 5,008 interviews conducted, referred to as Q2 2014

All waves were conducted using the same detailed quota profile. The results from these most recent 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 20,044 interviews is referred to as YEQ2 2014.

The majority of reporting is based on interviews conducted in the year to Q2 2014. 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 eligible for inclusion, split by the quarter in which they made their application for loan and/or overdraft facilities.
- New from Q2 2013, when applications 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 2014 report, this means such tables are based on all applications occurring in the 18 months between Q1 2013 and Q2 2014, to provide robust base sizes for each sub-group.
- Where SMEs are asked about their planned future behaviour, and typically their expectations for the next 3 months, comparisons are made between individual quarters.

The structure of the SME market is such that the overall "All SME" figures quoted will be heavily influenced by the views of those with 0 employees, who make up three quarters of the SME population. As the views of these smallest SMEs can differ markedly from their larger peers, an "All employers" figure is now also reported for some key questions, that is those SMEs with 1-249 employees.

A further quarter of 5,000 interviews, to the same sample structure, is being conducted July-September 2014. In 2014, full reports will be published after the Q2 and Q4 fieldwork, with shorter summaries published after the Q1 and Q3 fieldwork.

A third edition of the annual report, published at the end of April 2014, provided separate analysis at regional level for an in-depth assessment of local conditions during 2013. A new regional report is planned for April 2015, to report on local conditions during 2014.

2. Management summary

This report covers

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

The Q2 2014 SME Finance Monitor includes a range of positive indicators across profitability, credit balances, injections of personal funds, external risk ratings and the obstacles to running the business as SMEs would wish.

- The proportion of SMEs reporting a profit for the previous 12 months trading has increased steadily since the middle of 2013. 76% of SMEs interviewed in Q2 2014 reported a profit (excluding don't know answers), up from 69% in Q2 of 2013

- 36% of SMEs interviewed in the first half of 2014 held more than £5,000 in credit balances, compared to 30% in 2012. The increase was seen across all sizes of SME, with those with 50-249 employees the most likely to hold such sums (89% from 80% in 2012)

- In Q2 2014, 30% of SMEs reported an injection of personal funds into the business in the previous 12 months. Half had chosen to do so to help the business develop and half had felt that it was something they 'had' to do. The proportion putting in personal funds has declined over time (it was 42% in Q2 2013) as fewer SMEs reported that they 'had' to put in funds. The proportion planning to put in personal funds in future also declined (currently 16% having been 21% in Q2 2013)

- The proportion of SMEs with a 'worse than average' external risk rating had been increasing over time, to 56% in Q2 2013. Since then, the risk rating profile has improved, with 47% of SMEs interviewed in Q2 2014 having a 'worse than average' risk rating

- The current economic climate continued to be cited as the main obstacle to running the business in the next 12 months. Over time though, the proportion seeing it as a major obstacle has fallen from a peak of 37% in Q1 2012 to 17% in Q2 2014. Indeed two thirds of SMEs in Q2 2014 did not see any of the issues tested as a major obstacle to them, up from 52% in 2012

These positive indicators do not appear to have resulted in an increase in the use of external finance, and 4 out of 10 SMEs met the definition of a 'Permanent non-borrower' of external finance. There were though signs of more diversification in the types of funding used, and access to finance is seen as less of an obstacle than it has been.

- 39% of SMEs were using external finance in Q2 2014, in line with most quarters since Q2 2012. The same proportion, 39%, met the definition of a 'Permanent non-borrower' – those SMEs who do not use external finance and who give little indication that they will do so. This proportion has increased steadily over time, having been 34% in 2011 and 2012

- 30% of SMEs used 'core' products (loans, overdrafts and/or credit cards), and this is a declining proportion over time (it was 36% in Q2 2012) and across all sizes of business. The proportion of SMEs who only use core products has fallen from 29% in 2011 to 20% for the first half of 2014

- Use of other forms of finance (such as leasing and invoice discounting) was 18% in Q2 2014, the same level as Q2 2012. Larger SMEs were more likely to use these other forms of finance, and were more likely to be using leasing/HP than they were bank loans/commercial mortgages (which is not the case for those with fewer than 10 employees) The proportion that only used these other forms of finance is stable over time.

- In the first half of 2014, 30% of all SMEs reported that they used trade credit. This enables the calculation of a broader 'business funding' metric, including not only external finance but trade credit and the injection of personal funds into the business. Whilst 36% of SMEs in H1 2014 used external finance, the proportion using 'business funding' was 63%. The biggest uplift between the two measures was for those with 0 employees – 30% used external finance, while 59% had any 'business funding'

- Fewer SMEs recently had seen 'access to finance' as a major obstacle to their business. Amongst SMEs overall 8% rated it an obstacle in Q2 2013, compared to 12% in Q1 2013. Amongst those with any future appetite for finance, 17% rated it as a major obstacle in Q2 2014, compared to 27% in Q1 2013

- 8% of SMEs reported having applied for a new or renewed loan or overdraft facility in the 12 months prior to interview. This is in line with recent quarters, but is a lower level of activity than has been seen in the past (11% had made such an application in the 12 months prior to Q2 2012). Previously, larger SMEs were more likely to have reported such a borrowing event, but this is no longer the case – whereas in Q2 2012 21% of SMEs with 50-249 employees had applied for new/renewed facilities in the previous 12 months (v 11% overall), in Q2 2014 9% had applied (v 8% overall)

There is no sign of increased appetite for (new)external finance, and most SMEs, 78%, met the definition of a 'Happy non-seeker' of funds for the 12 months prior to Q2 2014. 5% of all SMEs said that a previous decline by the bank had made them more reluctant to apply for finance subsequently.

- Overall, in Q2 2014, 17% of SMEs reported any form of borrowing 'event' in the previous 12 months (including the automatic renewal of an overdraft), and again this was consistent with recent quarters, but lower than previously seen (In Q2 2012, 24% of SMEs reported a borrowing event in the previous 12 months)

- The largest group of SMEs remained the 'Happy non-seekers' who had not sought (additional) finance and said that nothing had stopped them doing so. 78% of SMEs met this definition in Q2 2014, and this proportion has increased steadily over time (it was 66% in Q2 2012)

- The remaining 5% of SMEs were 'would-be seekers' who had wanted to apply for a loan/overdraft but felt that something had stopped them. Whilst there are now fewer SMEs in this group than before (10% of SMEs were 'would-be seekers' in Q2 2012), they remained more likely to be smaller SMEs and those with a worse than average external risk rating. The key barriers remained 'discouragement' (most of it indirect, where the SMEs assumes they will be turned down and so does not apply) and the 'process of borrowing' (the time, hassle, expense etc)

- 7% of SMEs interviewed in the first half of 2014 said that they had ever been declined for bank facilities. Most of them said that this had made them more reluctant to apply for future funding, the equivalent of 5% of all SMEs saying that they had been made more reluctant to apply by a previous decline. Analysis of their recent borrowing behaviour shows that they were not necessarily put off entirely – 42% of this 'reluctant' group reported a borrowing event in the 12 months prior to interview – but they were the most likely to meet the definition of a 'would-be seeker' of finance (23% compared to 4% of SMEs that had never been declined)

Most applications for new/renewed overdrafts or loans were successful. While almost all renewals resulted in a facility, recent applications for new money remained somewhat less likely to be successful, notably in the first half of 2013. Those applying for their first overdraft or loan remained less likely to end the process with a facility, while those seeking new money who had borrowed before were less likely to be successful than such applicants in the past.

- 66% of all loan and overdraft applications made in the last 18 months resulted in a facility. Almost all those renewing an existing loan or overdraft facility were successful (96%) compared to half of those seeking new funds (46%). Larger SMEs remained more likely to be successful than smaller ones, and those with a minimal or low risk rating were more likely to be successful than those with a worse than average risk rating

- Those applying for a loan or overdraft in the first two quarters of 2013 were less likely to be successful than those applying at other times (64% in Q1 2013 and 58% in Q2 2013). Analysis showed that this was due to lower success rates for applications for new money in those quarters (36% for applications in Q1 and 41% for applications in Q2) and that both loan and overdraft applications were affected. The lower success rates were not fully explained by the size and risk profile of applicants in those quarters

- 74% of all new/renewed overdraft applications were successful in the 18 months to Q2 2014: 60% of applicants were offered what they wanted and took it while 14% had a facility 'after issues'. 5% of applicants took other funding and 22% ended the process with no facility. Overall overdraft success rates were stable over time

- First time overdraft applicants remained less likely to end the process with a facility (37% for applications made in the 18 months to Q2 2014). 69% of those seeking new money, but not their first facility, were successful, but success rates for this group have declined over time (having been 78% for the 18 months to Q2 2013). Almost all of those renewing an existing overdraft were successful (98% for the 18 months to Q2 2014) with little change over time

- Loan success rates remained lower. 53% of all new/renewed loan applications were successful in the 18 months to Q2 2014: 39% of applicants were offered what they wanted and took it while 14% had a facility 'after issues'. 10% of applicants took other funding and 37% ended the process with no facility. Overall success rates have declined somewhat over time, having been 60% for loan applications in the 18 months to Q1 2013

- First time loan applicants remained less likely to end the process with a facility (38% for applications made in the 18 months to Q2 2014). 55% of those seeking a new loan, but not their first, were successful. As for the equivalent overdraft applicants, success rates for this group have declined over time (having been 63% for the 18 months to Q2 2013). Almost all of those renewing an existing loan were successful (90% for the 18 months to Q2 2014)

Looking forward, half of SMEs planned to grow in the coming year. Future appetite for finance remained stable, with confidence that the bank would agree to such a request showing signs of improvement, but still lower than actual success rates. Consideration of 'core' products for this finance was lower than in previous years. 58% of SMEs anticipated that they would be 'Happy non-seekers' of finance in the 3 months after interview. Awareness of initiatives designed to support SMEs accessing finance remained stable

- 53% of SMEs in Q2 2014 planned to grow in the coming year. This was one of the higher levels recorded on the SME Finance Monitor, due to more 0 employee SMEs planning to grow (50% from 41% in Q1), but larger SMEs remained more likely to be planning to grow (72% of those with 50-249 employees in Q2). A comparison between growth predicted and then subsequently achieved (by a different sample of SMEs) has shown the two figures to be very similar in most quarters

- 14% of SMEs in Q2 2014 had plans to apply for finance in the following 3 months, and this has changed very little over recent quarters. As with the current use of external finance, larger SMEs were now no more likely to be planning to apply than their smaller peers – in Q2 2012 20% of SMEs with 50-249 employees had been planning to apply for finance (v 14% overall), whereas in Q2 2014 the figure was 13% (also v 14% overall)

- Over time, the proportion of all SMEs that neither used external finance, nor had plans to apply for any, increased from 50% in 2011 to 60% for the first half of 2014

- Amongst those planning to apply for new/renewed finance, 63% would consider one or more 'core' products (loan, overdraft or credit card), a lower proportion than in earlier reports (In Q2 2012, core products were considered by 73% of those planning to apply). The same proportion of future applicants, 62%, would consider other forms of funding, including 31% who would consider leasing or hp, the highest proportion seen in recent waves

- 43% of these future applicants were confident that their bank would agree to lend to them. 26% were 'not confident', the lowest proportion in recent waves. Larger SMEs and those with a minimal or low risk rating remained more confident of success, but confidence levels remained below the actual success rates achieved by recent applicants, both for renewals (confidence 54%, success rate 96%) and for new facilities (confidence 33%, success rate 46%)

- 18% of SMEs in Q2 2014 were 'Future would-be seekers' of finance (SMEs that wanted to apply for a loan/overdraft but felt that something would stop them). In contrast to those who had been 'would-be seekers' of finance in the previous 12 months, these 'future would-be seekers' typically cited the current economic climate as their main barrier to applying (58%) while 15% had felt discouraged from applying (almost all of it indirect) and 15% cited the process of borrowing. The proportion of 'future would-be seekers' of finance amongst SMEs overall has declined somewhat, having been 22% in Q2 2012

- This leaves 68% of all SMEs in Q2 2014 as 'Future happy non-seekers' of finance, and this proportion has increased slowly over time (having been 64% in Q2 2012). 2% of these 'Future happy non-seekers' said that they had been made more reluctant to apply by a previous bank decline

- 54% of SMEs were aware of any of the initiatives tested that offer support to SMEs accessing finance. SMEs remained most likely to be aware of the Funding for Lending scheme (29%), while 13% were aware of the appeals process and these are both stable over time

- 22% of SMEs in Q2 2014 thought schemes like Funding for Lending would encourage them to apply for finance (excluding the 'Permanent non-borrowers' who seem unlikely to apply for funding) and this is a slightly higher proportion of SMEs than at the end of 2013 (20%). Smaller SMEs remained more likely to be encouraged by such schemes, as the impact amongst larger SMEs declined

- 21% of SMEs interviewed in the first half of 2014 (again excluding the PNBs) were aware of crowd-funding. 1% of SMEs used such funding and a further 7% would consider using it. The remainder of those aware (13% of all SMEs) said they would be unlikely to consider using such finance

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 17% 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 of each sector, from 4% (Hotels & 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 & 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 based predominantly on four waves of data gathered across Q3 and Q4 of 2013 and Q1 and Q2 of 2014. 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.

Where results can be shown by individual quarter over time, they have been. However, small sample sizes for some lines of questioning mean that in those instances data is reported based on four quarters combined (YEQ2 2014 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.

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 from 2010 up to and including the first half of 2013 but for other more recent quarters data is still being gathered. Results for events occurring from Q3 2013 onwards are therefore still *interim* at this stage (respondents interviewed in Q3 2014 will report on events which occurred in Q3 2013 or later).

Where analysis is shown by date of application, this typically includes all interviews to date (including those conducted in 2011, 2012, and the first half of 2013 which are no longer included in the Year Ending data reported elsewhere), and such tables are clearly labelled in the report. New for all reports from Q2 2013 onwards, 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 2014 report, this means such tables are based on all applications occurring in the 18 months between Q1 2013 and Q2 2014 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.

Not *all* of the previous quarters are shown in the standard quarterly tables in this report. Data from 2011, plus Q1 2012, is no longer shown, and subsequent reports will continue this policy of deleting the oldest wave before adding the latest. However, a series of key charts were developed for the Q2 2013 report and are shown in the final chapter of this report. These show, and will continue to show, all results over time for these key metrics.

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 2014 (YEQ2 14).

Key findings

There are a number of positive indicators for SMEs in 2014:

The proportion of SMEs reporting that they made a profit was 76% in Q2 2014 (excluding DK answers), up from 69% in the equivalent quarter of 2013, with the average profit made also slightly higher (£9,000 from £7,000).

An increasing proportion of SMEs held more than £5,000 in credit balances. In 2012, 30% of SMEs held balances of this amount, while in 2014 to date the proportion is 36%. These increases were seen across size bands with the largest SMEs more likely to hold such credit balances (89% for H1 2014 from 80% in 2012).

The proportion rated a 'worse than average' external risk rating was at the lowest level seen on the SME Finance Monitor (47%), from a peak of 56% in Q2 2013. 23% have a minimum or low risk rating, up from 15% over the same period. Over time, there were also fewer self-reported credit issues.

The proportion of SMEs (excluding Starts) that had grown was stable over time (42% in Q2 2014). This was in line with predictions made for future growth by the SMEs interviewed in Q1 2013. The equivalent of 5% of all SMEs reported having grown by 20% or more in *each* of the previous 3 years.

16% of SMEs in Q2 2014 were international, and this proportion has increased steadily over time (having been 10% in the equivalent quarter of 2012). Excluding those with no employees increased the proportion of international businesses to 23% (YEQ2 2014). Amongst the 9% of SMEs that export a lower proportion said that exports made up 50% or more of their turnover (1in 8 for 2014 to date compared to 1 in 4 in 2012 and 2013).

This chapter presents an overview of the characteristics of SMEs in the UK. Unless otherwise stated, figures are based on the 20,044 interviews conducted in the year ending Q2 2014 (that is Q3 and Q4 of 2013 and Q1 and Q2 of 2014). There were a number of trading challenges when the survey started in 2011, and analysis of this data over time provides an indication of how SMEs have managed, and continue to manage as conditions improve.

Profitability

In Q2 2014, 71% of SMEs reported making a profit in their most recent trading period, a slightly higher proportion than in previous quarters. As the analysis below shows, typically around 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 those 'don't know' answers had been excluded. On this basis, initially the proportion making a profit varied little over time, with 7 out of 10 SMEs being profitable, but since Q4 2013 the figures have been somewhat higher at around 75%. 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.

Business performance last 12 months over time By date of interview	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014
Unweighted base:	*5000*	*5032*	*5000*	*5000*	*5000*	*5008*	*5028*	*5000*	*5008*
Made a profit	65%	62%	64%	64%	64%	65%	69%	69%	71%
Broke even	13%	13%	13%	13%	13%	13%	11%	13%	11%
Made a loss	14%	17%	14%	15%	16%	15%	13%	10%	12%
Dk/refused	7%	9%	9%	7%	8%	7%	6%	9%	6%
Median profit made	*£10k*	*£7k*	*£6k*	*£7k*	*£7k*	*£8k*	*£8k*	*£7k*	*£9k*
Made profit (excl DK)	*70%*	*68%*	*70%*	*69%*	*69%*	*69%*	*74%*	*75%*	*76%*

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

From Q4 2012, the profit and loss questions were simplified. The profit figures were collected in bands rather than as an actual amount, and the median calculated based on mid-points. Where made, the median profit and loss figures have been fairly stable. In Q2 2014, the median profit made was £9,000, marginally higher than recent quarters, and the median loss remained at just under £2,000.

For the period YEQ2 2014, 68% of all SMEs had been profitable. The median profit, where made, was £8k, increasing with size of SME:

Business performance last 12 months YEQ2 14 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*20,044*	*4018*	*6622*	*6404*	*3000*
Made a profit	68%	67%	72%	78%	78%
Broke even	12%	13%	10%	6%	6%
Made a loss	12%	13%	11%	8%	6%
Dk/refused	7%	7%	8%	8%	10%
Median profit made	*£8k*	*£6k*	*£13k*	*£52k*	*£245k*
Made profit (excl DK)	*74%*	*72%*	*78%*	*84%*	*87%*

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

Once the 'Don't know / refused' answers were excluded, 74% of remaining SMEs reported making a profit in the previous 12 months (YEQ2 2014), up slightly from YEQ4 2013 (70%). Amongst SMEs with employees, 79% reported making a profit (once the DK and refused answers were excluded).

Over time, larger SMEs have remained consistently more likely to be profitable than smaller ones. Compared to the equivalent quarters of 2012 and 2013, SMEs with fewer than 50 employees were more likely to report a profit in Q2 2014:

Made a profit in last 12 months	By date of interview								
Over time – row percentages	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014
All SMEs	65%	62%	64%	64%	64%	65%	69%	69%	71%
0 employee	63%	61%	62%	62%	62%	63%	68%	67%	69%
1-9 employees	69%	64%	66%	69%	68%	69%	70%	73%	75%
10-49 employees	75%	73%	71%	74%	74%	74%	78%	79%	80%
50-249 employees	77%	72%	75%	77%	76%	76%	79%	81%	77%

Q241 All SMEs

By sector, once the 'don't know' answers were excluded, the sectors most likely to report a profit were Agriculture and Property/Business Services. Those somewhat less likely to report a profit were SMEs in the Hotels & Restaurants and Wholesale/Retail sectors:

Business performance last 12 months YEQ2 14 – all SMEs	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*1506*	*2099*	*3517*	*2042*	*1787*	*1811*	*3512*	*1772*	*1998*
Made a profit	72%	68%	68%	66%	63%	66%	71%	67%	68%
Broke even	10%	11%	13%	12%	12%	12%	10%	13%	15%
Made a loss	11%	13%	11%	16%	15%	15%	11%	12%	12%
Dk/refused	7%	8%	8%	6%	10%	7%	7%	8%	5%
Median profit made	*£8k*	*£8k*	*£7k*	*£9k*	*£9k*	*£7k*	*£9k*	*£4k*	*£6k*
Made profit (excl DK)	*78%*	*74%*	*74%*	*70%*	*70%*	*71%*	*77%*	*73%*	*71%*

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

Median profits for YEQ2 2014 also varied relatively little by sector, from £9k for profitable SMEs in Wholesale/Retail, Hotels & Restaurants and Property/Business Services, to £4k for profitable SMEs in Health, with little change over time. Reported median losses for YEQ2 2014 were £2k overall and between £1k and £2k for all sectors, with the exception of those who reported making a loss in the Hotels & Restaurants sector (£4k).

Sales growth

From Q4 2012, all SMEs that had been trading for 3 years or more were asked 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 each of the previous 2 years.

As the table below shows, over time the proportion of SMEs (excluding Starts) reporting that they had grown was broadly stable at around 4 in 10. As more data becomes available over time, it will be possible to assess whether there is a seasonal element here:

Growth achieved in last 12 months – all SMEs excluding Starts By date of interview	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014
Unweighted base:	*4264*	*4311*	*4295*	*4288*	*4331*	*4254*	*4005*
Grown by more than 20%	12%	12%	14%	10%	13%	11%	15%
Grown but by less than 20%	25%	27%	30%	26%	28%	30%	27%
Grown	*37%*	*39%*	*44%*	*36%*	*41%*	*41%*	*42%*
Stayed the same	42%	40%	40%	43%	42%	45%	43%
Declined	21%	21%	17%	21%	17%	14%	15%

Q245a All SMEs trading for 3 years or more excl DK

For the period YEQ2 2014:

- 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 (between 10% and 14%)
- 27% had grown by less than 20%, and this was more likely amongst larger SMEs (25% for those with 0 employees to 48% of those with 50-249 employees)
- This means that for YEQ2 2014, 40% of SMEs reported having grown at all in the previous 12 months, ranging from 37% of those with 0 employees to 58% of those with 50-249 employees
- 43% had stayed the same size, and this was more likely for smaller SMEs (45% for those with 0 employees to 33% of those with 50-249 employees)
- 17% had got smaller, and this was also slightly more common for smaller SMEs (18% for those with 0 employees to 9% of those with 50-249 employees)

Of those who reported for YEQ2 2014 that they had grown by 20% or more, just over half (54%) said that they had also achieved this level of growth for each of the two previous years. This is the equivalent of 6% of all SMEs 3+ years old achieving 3 years of 20%+ growth, or 5% of all SMEs.

The Monitor has recorded *future* growth expectations since it started in early 2011. This allows a comparison to be made between growth expectations recorded from 2011 onwards 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 3+ years old that predicted they would grow in the first time period, and compares it to the proportion of SMEs 3+ years old that reported having achieved growth in the second period. Since this analysis started, the predictions made have typically proved to be very close to the growth figures subsequently reported (of a different sample of SMEs).

In Q1 2013, 41% of SMEs 3+ years old *predicted* that they would grow in the next 12 months. In Q2 2014 almost the same proportion, 42%, (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 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%	36%	42%	35%	60%	50%
Predicted Q3 12 / Achieved Q4 13	41%	41%	41%	40%	53%	55%
Predicted Q4 12 / Achieved Q1 14	39%	41%	38%	40%	57%	55%
Predicted Q1 13 / Achieved Q2 14	41%	42%	41%	42%	56%	55%
Predicted Q2 13 / Achieved Q3 14	47%		47%		58%	

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

The analysis reported above shows slightly different trends by size of SME. Larger SMEs had typically been somewhat less likely to achieve the growth predicted, but this was not the case in the most recent quarters (in Q2 2014, 55% achieved growth against a prediction of 56%). The growth achieved by smaller SMEs has typically always been close to that predicted (42% against a prediction of 41% for the most recent time periods).

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 (9% YEQ2 2014):

Self-reported credit issues YEQ2 14 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*20,044*	*4018*	*6622*	*6404*	*3000*
Unauthorised overdraft on account	4%	4%	5%	3%	2%
Had cheques bounced on account	4%	3%	5%	4%	3%
Problems getting trade credit	2%	2%	3%	2%	2%
Missed a loan repayment	1%	1%	1%	1%	*
Had County Court Judgement against them	1%	1%	1%	1%	1%
Any of these	*9%*	*8%*	*11%*	*7%*	*6%*

Q224 All SMEs

Despite the economic conditions in recent years, SMEs (notably the larger ones) have become if anything somewhat *less* likely over time to self-report any of the credit risk issues specified:

Any self-reported credit issues over time – row percentages By date of interview	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014
Total	13%	13%	12%	11%	10%	9%	10%	7%	9%
0 employee	12%	12%	12%	10%	9%	9%	9%	6%	9%
1-9 employees	17%	16%	12%	12%	13%	12%	13%	10%	9%
10-49 employees	15%	12%	10%	10%	8%	8%	8%	7%	6%
50-249 employees	10%	10%	7%	9%	7%	6%	7%	5%	4%

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 range 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 (83%) and it is commonly used and understood by lenders. It has thus been used in this report for the majority of risk related analysis.

The overall risk profile in each quarter has been largely consistent over time. The slight increase over time in the proportion with a worse than average external risk rating (to 56% in Q3 2013) was not maintained in subsequent quarters, and in Q2 2014, 47% of SMEs had such a rating:

External risk rating (where provided) over time By date of interview	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014
Unweighted base:	*4562*	*4583*	*4545*	*4630*	*4535*	*4490*	*4528*	*4530*	*4607*
Minimal risk	5%	2%	5%	6%	5%	6%	7%	7%	7%
Low risk	11%	13%	9%	10%	10%	10%	11%	13%	16%
Average risk	33%	30%	32%	28%	29%	30%	31%	34%	30%
Worse than average risk	51%	55%	53%	55%	56%	54%	52%	47%	47%

All SMEs where risk rating provided

The overall YEQ2 2014 ratings are shown below by size of SME, and continued to report a better risk profile for larger SMEs:

External risk rating YEQ2 14 – all SMEs where rating provided	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*18,155*	*3248*	*5714*	*6257*	*2936*
Minimal risk	7%	4%	11%	24%	34%
Low risk	13%	9%	20%	32%	29%
Average risk	31%	32%	29%	28%	25%
Worse than average risk	50%	55%	40%	15%	12%

All SMEs where risk rating provided

Amongst SMEs with employees, 35% have a minimal or low external risk rating, 29% an average risk rating and 36% a worse than average risk rating.

The proportion of all SMEs with a worse than average external risk rating is driven by the ratings for 0 employee SMEs, and in Q2 2014 52% of SMEs with no employees had a worse than average rating. This was down slightly from the equivalent quarter of 2013 (61%), and hence reduced the overall proportion of SMEs with such a rating. The proportion of SMEs with 10-249 employees that had a worse than average risk rating was both lower and more stable over time:

Worse than average external risk rating – row percentages By date of interview	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014
Total	51%	55%	53%	55%	56%	54%	52%	47%	47%
0 employee	55%	61%	58%	62%	61%	59%	57%	51%	52%
1-9 employees	43%	41%	45%	41%	46%	43%	43%	38%	37%
10-49 employees	17%	19%	18%	17%	17%	17%	18%	15%	10%
50-249 employees	14%	13%	13%	16%	15%	13%	14%	12%	11%

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 (51% YEQ2 2014) while those in Construction and Transport (12%) were the least likely to have that rating:

External risk rating YEQ2 14	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*1232*	*1963*	*3139*	*1897*	*1638*	*1633*	*3227*	*1600*	*1826*
Minimal risk	28%	9%	4%	6%	4%	3%	6%	9%	6%
Low risk	23%	18%	8%	14%	14%	9%	11%	20%	14%
Average risk	24%	30%	28%	33%	31%	33%	33%	36%	30%
Worse than average risk	25%	43%	60%	47%	51%	55%	49%	35%	50%
Total Min/Low	*51%*	*27%*	*12%*	*20%*	*18%*	*12%*	*17%*	*29%*	*20%*

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 somewhat more likely to self-report a credit problem (10% v 5% of SMEs with a minimal external risk rating).

Credit balances

Almost all SMEs reported holding some credit balances. In H1 2014, 6% did not hold any, and this proportion has changed very little over time, nor does it vary by size of SME, or risk rating.

Credit balances held Over time – all SMEs	2011	2012	2013	H1 2014
Unweighted base:	*11,652*	*15,020*	*14,752*	*6,532*
None	6%	4%	4%	6%
Less than £5,000	63%	66%	64%	58%
£5,000 to £50,000	27%	25%	27%	30%
More than £50,000	5%	5%	4%	6%
Average balance held	*£26k*	*£25k*	*£24k*	*£26k*

Q244 All SMEs excluding DK/refused

The majority of SMEs said that they typically held less than £5,000 in credit balances (58% in the first half of 2014), and this continued to be driven by the smaller SMEs. In the first half of 2014, 66% of 0 employee SMEs held less than £5,000 in credit balances, compared to 8% of those with 50-249 employees.

In 2013 the proportion of all SMEs holding credit balances below £5,000 was 64%, down slightly from 2012 (66%), and the proportion has declined again for the first half of 2014 (58%).

A consistent one in three SMEs held more than £5,000 in credit balances between 2011 and 2013. For the first half of 2014, 36% of SMEs said that they held more than £5,000 in credit balances, with a slight resultant increase in the average balance held, to £26,000.

The table below shows the proportion of SMEs holding more than £5,000 in credit balances, and how this has increased across all sizes of SME in 2014. Larger SMEs remained more likely to have such funds, and the biggest increase in the proportion holding £5,000+ is amongst SMEs with 50-249 employees where 89% now hold such a sum, up from 79% in 2011:

£5,000+ Credit balances held Over time – all SMEs	2011	2012	2013	H1 2014
0 employee	24%	22%	24%	28%
1-9 employees	50%	50%	52%	56%
10-49 employees	74%	75%	77%	79%
50-249 employees	79%	80%	85%	89%

Q244 All SMEs excluding DK/refused

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, and for YEQ2 2014 was:

- £1,700 for 0 employee SMEs
- £4,300 for 1-9 employee SMEs
- £28,600 for 10-49 employee SMEs
- £134,000 for 50-249 employee SMEs

The median value of credit balances varied little by sector (£1k-2k).

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 collected information about the structure and control of the business. 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 Monitor data 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 2014 were back in line with previous quarters after a 'dip' in Q4 2013 (with similar 'dips' also seen in the 4th quarters of 2011 and 2012). Meanwhile 16% were undertaking international activity and this proportion had increased steadily since the start of 2013:

Business formality elements Over time – all SMEs By date of interview	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014
Unweighted base:	*5000*	*5032*	*5000*	*5000*	*5000*	*5008*	*5028*	*5000*	*5008*
Planning (any)	56%	56%	50%	54%	57%	59%	49%	53%	56%
- Produce regular management accounts	*42%*	*40%*	*38%*	*40%*	*45%*	*46%*	*38%*	*42%*	*44%*
- Have a formal written business plan	*34%*	*35%*	*29%*	*32%*	*34%*	*34%*	*27%*	*31%*	*33%*
International (any)	10%	10%	9%	10%	13%	14%	15%	15%	16%
*– Export goods or services**	*8%*	*6%*	*5%*	*6%*	*8%*	*8%*	*9%*	*9%*	*9%*
*- Import goods or services**	*6%*	*7%*	*6%*	*7%*	*9%*	*11%*	*11%*	*10%*	*11%*
Have qualified person in charge of finances	24%	25%	27%	24%	26%	27%	26%	29%	28%

Q223/251 All SMEs

The proportion of SMEs with a financially qualified person looking after their finances has remained relatively stable, and was 28% in Q2 2014. The larger the SME, the more likely they were to have a financial specialist, ranging in Q2 2014 from 24% of 0 employee companies to 76% of those with 50-249 employees. Where such a person was in charge of the finances, SMEs were slightly more likely to plan (59% v 54%), although the difference in Q2 2014 was not as marked as in some previous quarters.

For YEQ2 2014, the smallest SMEs remained less likely to plan or to undertake international trade. When the 0 employee businesses are excluded, the proportion of SMEs (with employees) who:

- plan increased to 72% (from 54%)
- who have a qualified person in charge of the finances increased to 36% (from 27%)
- and the proportion who trade internationally increased to 23% (from 15% overall).

By sector, for YEQ2 2014, planning ranged from 68% in the Hotels & Restaurants sector to 45% in Construction, while international activity remained most common in the Wholesale/Retail (29%) and Manufacturing (25%) sectors. The least likely to undertake international activity were those in the Construction sector (6%).

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

- YEQ2 2014, 19% of exporters said that international trade made up 50% or more of sales, with little variation amongst exporters by size (16-20%)
- In both 2012 and 2013 around 1 in 4 exporters said that exporting represented 50% or more of their turnover. In the first half of 2014, this figure was lower at around 1 in 8
- 9% of all SMEs export. The equivalent of 2% of **all** SMEs reported that exports made up 50% or more of their turnover, while 7% of all SMEs reported that exports made up less than 50% of their turnover. 91% of SMEs do not export.

All SMEs were asked whether they used online banking. YEQ2 2014, two thirds did (66%), increasing with size:

- 64% of 0 employee businesses use online banking
- 72% of those with 1-9 employees
- 82% of those with 10-49 employees
- 89% of those with 50-249 employees

New questions included for the first time in Q1 2014 asked SMEs whether they had taken any form of professional advice for their business, or whether the business holds intellectual property or other knowledge assets on its balance sheet such as patents, copyrights, trademarks or goodwill.

For Q1 and Q2 2014 combined, 20% had taken professional advice, varying by size from 19% of 0 employee SMEs to 35% of those with 50-249 employees. Those with a minimal external risk rating were slightly more likely to have taken advice (25%), those with a worse than average risk rating were slightly less likely (18%). Excluding the Permanent non-borrowers, who seem unlikely to seek external finance, increases the proportion who have sought professional advice only slightly to 22%. There was little variation by sector (18-23% had taken advice) with the exception of the Transport sector (where 14% had taken advice).

6% of SMEs in the same period said that they held intellectual property or other knowledge assets. Larger SMEs were more likely to do so (17% of those with 50-249 employees compared to 5% of those with 0 employees), with little variation by risk rating. By sector this ranged from 3% of SMEs in Agriculture to 9% of those in Property/Business Services.

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.

In YEQ2 2014 almost a quarter of SMEs (22%) said that this was the case (excluding DK answers).

Membership was higher amongst larger SMEs:

- 21% of 0 employee businesses belong to a group/body
- 24% of 1-9 employee businesses
- 31% of 10-49 employee businesses
- 36% of 50-249 employee businesses

SMEs with a worse than average external risk rating were slightly less likely to belong to such groups (20%), while those with a minimal risk were somewhat more likely (28%).

There was relatively little variation by age of business (21-24%). By sector, the most likely to belong to such groups remained those in the Health sector (31%) and Property/Business Services (26%) while those in Transport remained less likely (15%).

Those currently using external finance were slightly more likely to belong to such groups (25%) than those that did not use external finance (20%). There was little difference by whether the SME met the definition of a 'Permanent non-borrower' or not (21% v 23% if not a PNB).

Those who had someone in charge of the finances who was qualified were more likely to belong to a business group (29%), as were those SMEs where the owner/manager was running more than one business (32%).

Business Ownership

62% of *companies* have one owner, ranging from 84% of 0 employee companies to 26% of those with 50-249 employees. This means that of *all* SMEs, 83% are either sole proprietorships or companies with one owner.

A new, broader, question asked for the first time in Q2 2013 explored the extent to which the owner of the SME was also involved in other businesses. For YEQ2 2014:

- 87% reported that this was the only business the owner was involved in, managerially or strategically, decreasing with size from 89% of 0 employee SMEs, to 68% of those with 50-249 employees.
- 11% reported that the owner currently ran another business as well (9% amongst 0 employee SMEs increasing to 26% amongst those with 50-249 employees). Such businesses were somewhat more likely to be using external finance (47%) and/or to have had a borrowing event (21%).
- 3% reported that the owner had set up and run a business before (with little variation by size). These SMEs were also more likely to be using external finance (47%), or to have had a borrowing event (26%) and were less likely to be a 'Permanent non-borrower' (28%).
- 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

39% of SMEs used external finance in Q2 2014, in line with most of 2013 but somewhat lower than the equivalent quarter of 2012 (43%). Smaller SMEs remained less likely to be using external finance (35% of those with 0 employees to 64% of those with 50-249 employees). There has though been a long term decline in the use of finance amongst SMEs with employees (since Q2 2012 the proportion of the largest SMEs with 50-249 employees using external finance has fallen from 78% to 64%).

Year ending Q2 2014, 42% of SMEs met the definition of a 'Permanent non-borrower'. This group has been increasing over time (having been 34% in 2011) with a more marked increase recently in the proportion of larger SMEs that meet the definition (currently 27% of those with 10-49 employees and 23% of those with 50-249 employees).

7% of all SMEs only use credit cards from the list of sources of external finance given. Most of these usually pay off the balance each month, meaning that 6% of all SMEs only used a credit card, and used it as a payment mechanism rather than a source of funding.

Use of overdrafts had declined over the longer term (16% YEQ2 2014). Use of bank loans was stable, but low over time (7% YEQ2 2014). Larger SMEs used a wider range of sources of finance and they were more likely to use leasing/HP/vehicle finance than bank loans.

15% of SMEs using leasing/HP/vehicle finance obtained the finance from their main bank, and 11% from another bank (H1 2014). The most common source of finance was from a specialist leasing provider (41%).

The proportion injecting personal funds was stable (30%) and lower than in previous years (42% in Q2 2013) as fewer SMEs reported that they felt they *had* to put in funds.

30% of SMEs regularly purchased goods on credit (H1 2014), with those that used other forms of external finance more likely to do so (46%) than those who did not use external finance (21%). 7% of all SMEs had successfully negotiated improved credit terms in the previous 12 months.

Taking use of trade credit and injections of personal funds into account saw 63% of all SMEs in H1 2014 using "business funding" based on this wider definition of external finance, trade credit and/or injections of personal funds. The uplift achieved by including these additional sources of funds was more marked for the smaller SMEs (from 30% to 59% amongst those with 0 employees for H1 2014).

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

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

Use of external finance for YEQ2 2014 was down slightly at 38% (having been 41% for 2013).

Analysis by quarter showed use of external finance in Q2 2014 itself was 39%, in line with most previous quarters, but slightly lower than the equivalent quarters of both 2012 and 2013:

Use of external finance in last 5 years Over time – all SMEs By date of interview	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014
Unweighted base:	*5000*	*5032*	*5000*	*5000*	*5000*	*5008*	*5028*	*5000*	*5008*
Use now	43%	40%	41%	39%	43%	41%	40%	33%	39%
Used in past but not now	4%	5%	5%	4%	3%	3%	3%	3%	3%
Not used at all	53%	55%	54%	57%	54%	56%	57%	64%	58%

Q14/15 All SMEs

Overall use of external finance has been broadly stable over recent quarters with around 4 out of 10 SMEs using external finance, but with clear differences by size of SME:

Currently use external finance Over time – all SMEs By date of interview – row percentages	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014
All	43%	40%	41%	39%	43%	41%	40%	33%	39%
0 emp	37%	35%	37%	33%	38%	35%	35%	26%	35%
1-9 emps	60%	54%	53%	52%	57%	57%	53%	50%	50%
10-49 emps	73%	69%	65%	69%	67%	67%	65%	66%	59%
50-249 emps	78%	69%	68%	73%	73%	74%	74%	61%	64%

Q14/15 All SMEs , base varies slightly each quarter

Over time, around a third of 0 employee SMEs have reported using external finance, with Q1 2014 the only exception (26%). There has been more variation in levels of use amongst those with 1-9 employees and the Q2 figures for 2012, 2013 and 2014 show a decline in the proportion using external finance from 60% to 50%.

For those with 10-49 employees, use of external finance had been stable over recent quarters but dropped in Q2 2014 to 59%, down from 73% in the equivalent quarter of 2012. For the largest SMEs with 50-249 employees, use of external finance has also declined over time - having been 78% in Q2 2012 it is now 64%.

The proportion of Starts using external finance has fallen slightly over time. In 2011, 36% of Starts used external finance, in 2013 it was 32% and for the first half of 2014, 31% reported using external finance. There has been a more marked decline in the use of finance amongst businesses 2-5 years old (46% in 2011 to 38% in 2013 and 30% for the first half of 2014), while usage amongst older businesses is higher but has also fallen slightly over time (52% for businesses trading for 10 years or more in 2011, to 47% in 2013 and 41% in the first half of 2014).

Overall for YEQ2 2014, more use was made of external finance by SMEs with a minimal (47%) or low (47%) external risk rating, than by those with an average (38%) or worse than average rating (35%).

Analysis over time by risk rating shows lower use of external finance by those with a minimal risk rating in more recent quarters compared to 2012, and the same is also true for those with a low risk rating. Use of external finance by those with an average or worse than average risk rating was typically more stable:

Currently use external finance Over time – all SMEs By date of interview – row percentages	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014
All	43%	40%	41%	39%	43%	41%	40%	33%	39%
Minimal	58%	60%	57%	51%	59%	46%	46%	44%	51%
Low	54%	49%	51%	52%	48%	55%	48%	45%	44%
Average	41%	43%	45%	42%	43%	43%	40%	33%	38%
Worse than average	42%	38%	37%	35%	41%	40%	37%	28%	36%

Q14/15 All SMEs , base varies slightly each quarter

By sector, for YEQ2 2014 the most likely to be using external finance remained SMEs in the Wholesale/Retail (51%) and Hotels & Restaurants (45%) sectors, along with those in Agriculture (45%). The least likely to be using external finance were the Health sector (27%) and those in the Other Community 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 H1 2014, 79% of credit card users reported that they usually paid off the balance on their card in full each month (excl DK answers), so these businesses were not necessarily using their card as a source of finance, but as a payment mechanism. Larger SMEs using credit cards were more likely to pay off the balance than smaller ones (77% of 0 employee SMEs v 94% of those with 50-249 employees). The proportion typically paying off the balance has changed very little over time (it was 79% for Q2 - Q3 2013).

7% of SMEs use only credit cards from all forms of external finance. 86% of this group say that they usually pay off the balance each month. This is the equivalent of 6% of all SMEs who might be considered not to be using external finance, given that they use only credit cards and typically pay the balance off each month.

Analysis of 'core' forms of finance showed that in Q2 2014 the use of overdrafts returned to levels seen in 2013 (18%), having declined longer term from earlier quarters of the Monitor (In 2011, 26% of SMEs had an overdraft). Overall use of *any* of these three forms of external finance was 30%, continuing the longer term trend of declining use of these forms of finance as reported below:

Use of external finance Over time – all SMEs By date of interview	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014
Unweighted base:	*5000*	*5032*	*5000*	*5000*	*5000*	*5008*	*5028*	*5000*	*5008*
Bank overdraft	22%	21%	20%	19%	18%	16%	18%	14%	18%
Bank loan/Commercial mortgage	11%	7%	9%	8%	8%	8%	6%	7%	8%
Credit cards	19%	16%	15%	17%	19%	20%	16%	14%	15%
Any 'core' products – all SMEs	*36%*	*34%*	*33%*	*32%*	*33%*	*33%*	*31%*	*27%*	*30%*

Q15 All SMEs

Use of any of these 'core' forms of finance declined between 2011 and 2013 across all sizes of business:

- 0 employees: From 34% in 2011 to 27% for 2013 and 23% in the first half of 2014
- 1-9 employees: From 50% to 44% and now 41%
- 10-49 employees: From 65% to 57% and now 53%
- 50-249 employees: From 71% to 64% and now 56%

As reported above, many SMEs using credit cards usually pay off the balance in full each month, so this is not a form of external finance for them. Excluding credit cards from the 'core' product table above would result in 22% of SMEs in Q2 2014 with either an overdraft and/or loan, and this proportion has declined over time from 30% in 2011.

From Q4 2012 those using any of these three methods of finance were asked whether any facilities were in their personal name, rather than that of the business. For YEQ2 2014, a third of those using such facilities (35%) said that there was a facility in their personal name, the equivalent of 10% of **all** SMEs having a facility in their personal name (or 18% of SMEs excluding the 'Permanent non-borrowers'). This had typically varied relatively little across the quarters in which the question has been asked (between 36% and 39%) but was somewhat lower for the two most recent quarters (31% in Q2 2014 itself).

The incidence of facilities in a personal name varied by size of business: amongst SMEs with loans, overdrafts and/or credit cards, almost half of those with 0 employees had some facility in their personal name (44%) compared to 6% of those with 50-249 employees. SMEs with these facilities, and who also had an average or worse than average risk rating, were more likely to have a facility in their own name (37%), but the equivalent figures for **all** SMEs showed relatively little difference by risk rating:

Have element of facility in personal name YEQ2 14 – row percentages	Of those with an overdraft, loan or credit card	Equivalent % of all SMEs
Total	**35%**	**10%**
0 employees	44%	11%
1-9 employees	22%	9%
10-49 employees	10%	5%
50-249 employees	6%	3%
Minimal risk rating	20%	8%
Low risk rating	23%	9%
Average risk rating	37%	12%
Worse than average risk rating	37%	10%

Q15bbb All SMEs with one of these facilities

Those operating their business banking through a personal account were less likely to be using any external finance (27% YEQ2 14 were using any facilities, compared to 41% of those operating through a business bank account). However, if they did use the relevant forms of external finance, then almost all, 83%, said that they had facilities in their personal name. Amongst those with facilities and operating a business account, just over a quarter, 28%, said there were facilities in their personal name.

As a result, amongst all SMEs, those using a personal account for their business were twice as likely to have a facility in their personal name as those using a business account (18% v 9%).

The table below shows the full list of the different types of funding being used by SMEs YEQ2 2014. It includes both the core forms of finance already reported and the other forms of finance on which data has been collected, some of which may also be obtained from the bank. Larger businesses continued to make use of a wider range of forms of funding:

External finance currently used YEQ2 14 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*20,044*	*4018*	*6622*	*6404*	*3000*
'Core' products (any)	30%	25%	42%	55%	60%
-Bank overdraft	16%	14%	24%	26%	24%
-Credit cards	16%	13%	22%	37%	46%
-Bank loan/Commercial mortgage	7%	5%	13%	19%	23%
Other forms of finance (any)	17%	13%	26%	38%	44%
-Leasing or hire purchase	7%	5%	12%	26%	34%
-Loans/equity from directors, family & friends*	8%	6%	13%	12%	10%
-Invoice finance	2%	2%	4%	10%	14%
-Grants	1%	1%	2%	4%	5%
-Loans from other 3rd parties	1%	1%	1%	2%	3%
Any of these	*38%*	*33%*	*53%*	*64%*	*68%*
None of these	*62%*	*67%*	*47%*	*36%*	*32%*

Q15 All SMEs

Amongst SMEs with employees, 54% were using external finance – 44% were using any form of core finance and 27% any of the other forms of finance listed.

From Q1 2014 the codes for loans and equity from directors or friends and family were altered. They are shown on a combined basis above but, for the first half of 2014, 6% of SMEs reported having a loan from a director or friends and family, while 2% reported having equity from such sources.

SMEs that import and/or export were asked about use of Export/Import finance. YEQ2 2014, 1% of such SMEs used these products, with little variation by size of business (1-3%).

Larger SMEs are more likely to be using leasing, HP and vehicle finance than more 'traditional' bank loans. From Q1 2014 those using this finance were asked where this funding was obtained from. SMEs could give more than one source, and the initial findings for Q1 and Q2 2014 combined were as follows:

- 26% obtained this funding from a bank / bank subsidiary: 15% from their main bank, 11% from another bank
- 24% from an equipment manufacturer
- 41% from another leasing provider
- 8% from a broker
- 6% from somewhere else

Amongst those using leasing, HP or vehicle finance, use of a bank for their finance did not vary much by size (25% of 0-9 employees SMEs v 30% of those with 10-249 employees) but larger SMEs were more likely to be using their main bank (24% v 13% of those with 0-9 employees). They were also more likely to be using a leasing provider (50% v 39% of those with 0-9 employees).

The table below details the use of all of these forms of funding over time. Note that in Q2 2013 the code for leasing and HP was extended to include vehicle finance, and the proportion mentioning any of these forms of finance increased somewhat to 9% in that quarter. From Q1 2014 the codes for loans and equity from directors or friends and family were altered as described above and they are shown on a combined basis below.

With the exception of Q2 2013, use of other forms of finance has remained relatively stable, at around 1 in 6 SMEs:

Use of external finance Over time – all SMEs By date of interview	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014
Unweighted base:	*5000*	*5032*	*5000*	*5000*	*5000*	*5008*	*5028*	*5000*	*5008*
'Core' products (any)	36%	34%	33%	32%	33%	33%	31%	27%	30%
-Bank overdraft	22%	21%	20%	19%	18%	16%	18%	14%	18%
-Bank loan/Commercial mortgage	11%	7%	9%	8%	8%	8%	6%	7%	8%
-Credit cards	19%	16%	15%	17%	19%	20%	16%	14%	15%
Other forms of finance (any)	18%	15%	15%	15%	21%	18%	17%	13%	18%
-Leasing, hire purchase or vehicle finance	7%	5%	5%	6%	9%	6%	9%	6%	7%
-Loans/equity from directors/family/friends*	10%	9%	7%	8%	11%	9%	7%	6%	9%
-Invoice finance	2%	2%	3%	2%	3%	2%	2%	2%	3%
-Grants	2%	1%	1%	1%	2%	2%	1%	1%	2%
-Loans from other third parties	1%	1%	1%	1%	1%	1%	1%	1%	1%
Any form of finance – all SMEs	*43%*	*40%*	*41%*	*39%*	*43%*	*41%*	*40%*	*33%*	*39%*

Q15 All SMEs

SMEs can use one or more of the forms of finance listed above. The table below shows how sole use of 'core' or 'other' forms of finance has varied over the period of the SME Finance Monitor, as the proportion using none of these forms of finance increased from 54% to 64% of SMEs:

External finance currently used – all SMEs	2011	2012	2013	H1 2014
Unweighted base:	*15,128*	*20,055*	*20,036*	*10,008*
Only use 'core' products	29%	26%	23%	20%
Only use 'other' forms of finance	7%	8%	9%	7%
Use both forms of finance	10%	10%	9%	8%
Use none of these forms of finance	54%	56%	59%	64%

Q15 All SMEs

Between 2011 and the first half of 2014, the proportion using any forms of external finance declined from 46% to 36% of all SMEs. This was predominantly due to a smaller proportion using only the 'core' forms of finance (use of only loans, overdrafts or credit cards declined from 29% to 20%). 7% of SMEs in H1 2014 only used one of the 'other' forms of finance, and this had changed little over time. The proportion of SMEs using both 'core' *and* 'other' forms of finance was also fairly stable (8% in H1 2014).

In a new question asked for the first time in Q2 2013, 2% of SMEs (YEQ2 2014) said that they were using an additional form of external finance not on the list detailed in full above. This varied little by size (1-3%) or risk rating (1-2%), or by sector (1-2%).

There was little 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 the specified forms of external finance and 1% 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

Since Q2 2012, the use of personal funds in SMEs has been explored in some detail. SMEs were initially asked whether personal funds had been injected into the business in the previous 12 months by the owner or any director, and whether this was something they had *chosen* to do or felt that they *had* to do. Further questions were added in subsequent waves to explore the size and nature of this funding in more detail, but these do not form part of the current 2014 questionnaire.

Over the first quarters in which this question was asked, around 4 out of 10 SMEs reported an injection of personal funds in the previous 12 months. Since the second half of 2013, fewer SMEs have reported putting in any personal funds, with 30% reporting any injection of funds in the 12 months prior to Q2 2014. This is mainly due fewer SMEs reporting that they felt that they had to put in funds (from 26% in Q3 2012 to 15% in the current quarter):

Personal funds in last 12 months over time – all SMEs By date of interview	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014
Unweighted base:	*5000*	*5032*	*5000*	*5000*	*5000*	*5008*	*5028*	*5000*	*5008*
Inject personal funds – you chose to do to help the business grow and develop	16%	20%	16%	19%	20%	18%	18%	15%	15%
Inject personal funds – you felt you had no choice about this, that you had to do it	25%	26%	24%	21%	22%	20%	15%	15%	15%
Any personal funds	*41%*	*46%*	*40%*	*40%*	*42%*	*38%*	*33%*	*30%*	*30%*
Not something you have done	59%	54%	60%	60%	58%	62%	66%	70%	70%

Q15d All SMEs

The proportion of SMEs putting in any funds has also fallen over time by size:

- Amongst 0 employee SMEs, who remained the most likely to have put in funds, the proportion doing so fell from 45% in 2012 to 40% in 2013 and then 31% for the first half of 2014
- Amongst those with 1-9 employees the proportion is also lower in the first half of 2014 (29%) than in either 2013 (36%) or 2012 (39%)
- For those with 10-49 employees, 16% of those interviewed in the first half of 2014 reported an injection of funds, down from 22% in 2012, and amongst the largest SMEs with 50-249 employees the figure is 8% for the first half of 2014, down from 13% in 2012

The analysis below is based on the combined results YEQ2 2014 to provide robust base sizes for key sub-groups. Smaller SMEs, with fewer than 10 employees, remained much more likely to have received an injection of personal funds:

Personal funds in last 12 months YEQ2 14 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*20,044*	*4018*	*6622*	*6404*	*3000*
Inject personal funds – you chose to do to help the business grow and develop	16%	17%	15%	8%	5%
Inject personal funds – you felt you had no choice about this, that you had to do it	16%	16%	17%	9%	3%
Any personal funds	*33%*	*34%*	*32%*	*17%*	*8%*
Not something you have done	67%	66%	68%	83%	92%

Q15d All SMEs from Q2 2012

Amongst SMEs with employees, 30% reported any injection of personal funds – 14% because they chose to do so and 16% who felt that they had no choice.

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 (55%, but down from 64% for 2013 as a whole), and that this was more likely to have been a choice (32%) than a necessity (23%). 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 14 – all SMEs	Starts	2-5 yrs	6-9 yrs	10-15 yrs	15 yrs+
Unweighted base:	*1973*	*2876*	*2423*	*3225*	*9547*
Inject personal funds – you chose to do to help the business grow and develop	32%	20%	10%	11%	9%
Inject personal funds – you felt you had no choice about this, that you had to do it	23%	16%	14%	14%	14%
Any personal funds	*55%*	*36%*	*24%*	*25%*	*23%*
Not something you have done	45%	65%	76%	75%	77%

Q15d All SMEs from Q2 2012

Those using a *personal* account for their business banking were somewhat more likely to have put personal funds in at all (38% v 32% of those with a business account) but were not much more likely to have felt that they had to do so (18% of SMEs with a personal account, 16% with a business account).

Analysis by external risk rating also showed different experiences. Those with a worse than average external risk rating were the most likely to have seen an injection of personal funds (40%), compared to 16% of those with a minimal external risk rating. Half of those making *any* injection of funds reported that they had felt that they had no choice, and this did not vary by risk rating:

Personal funds in last 12 months YEQ2 14 – all SMEs	Total	Min	Low	Avge	Worse/ Avge
Unweighted base:	*20,044*	*3370*	*4295*	*5274*	*5216*
Inject personal funds – you chose to do to help the business grow and develop	16%	8%	9%	13%	20%
Inject personal funds – you felt you had no choice about, that you had to do	16%	8%	11%	15%	20%
Any personal funds	*33%*	*16%*	*20%*	*28%*	*40%*
Not something you have done	67%	83%	79%	72%	60%

Q15d All SMEs from Q2 2012

Analysis by sector showed relatively little variation in terms of *any* injection of funds. Injections of personal funds were experienced by 30-36% of SMEs in each sector:

Personal funds in last 12 months YEQ2 14 – all SMEs	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*1506*	*2099*	*3517*	*2042*	*1787*	*1811*	*3512*	*1772*	*1998*
Chose to inject	15%	14%	16%	15%	15%	15%	18%	19%	19%
Had to inject	15%	17%	17%	16%	21%	20%	16%	13%	15%
Any funds	*30%*	*31%*	*33%*	*31%*	*36%*	*35%*	*34%*	*32%*	*34%*
Not done	70%	69%	67%	69%	64%	65%	66%	68%	66%

Q15d All SMEs from Q2 2012

SMEs currently using external finance were slightly more likely to have received an injection of personal funds (38% YEQ2 2014) than those not currently using external finance (30%) and were also more likely to say they had felt that there had been no choice (23% v 12%).

Analysed by their overall financial behaviour in the previous 12 months, the 'Would-be seekers' (who had wanted to apply for finance bfut felt that something had stopped them) remained the most likely to have received an injection of personal funds (and to have felt that they had no choice):

Personal funds in last 12 months YEQ2 14 – all SMEs	Total	Had an event	Would-be seeker	Happy non-seeker
Unweighted base:	*20,044*	*4474*	*728*	*14,842*
Inject personal funds – you chose to do to help the business grow and develop	16%	15%	18%	17%
Inject personal funds – you felt you had no choice about, that you had to do	16%	29%	41%	12%
Any personal funds	*33%*	*44%*	*59%*	*29%*
Not something you have done	67%	56%	41%	71%

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

In a question asked for the first time in 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, had assumed they would be turned down by their bank (so didn't apply), or for some other reason.

Data for YEQ2 2014 showed that

- 18% of those who had felt that they had to put in funds said that it was because they had been turned down by their bank (the equivalent of 3% of all SMEs). This was less likely to be the view of those with 0-9 employees (17%) than those with 10-249 employees (31%).
- A higher proportion, 24%, said that they had assumed they would be turned down by the bank, so hadn't asked (the equivalent of 4% of all SMEs, and with little difference by size).
- Just over half of those who had felt that they had to put in funds, 58%, said that they had put in funds for some other reason (the equivalent of 9% of all SMEs). This was more common amongst those with 0-9 employees (58%) than those with 10-249 employees (45%)
- The proportion saying that they had been turned down by their bank varied little by age of business, but a quarter of younger businesses that had put in funds (Starts and those trading for 2-5 years) said that they had assumed they would be turned down, compared to 1 in 5 older businesses

Additional data on the amount of funds injected and whether this was a long or short term investment is not currently being gathered and so is not included in this report.

Use of personal accounts and accounts at other banks

Most SMEs used a business bank account (83% excluding DK answers).

Of the 17% that used a personal account, almost all, 94%, were 0 employee businesses. Excluding those with 0 employees reduces the proportion of remaining SMEs with a personal account to 4%.

Such personal accounts were more likely to be found in the Health Sector (30%) and least likely to be found in Wholesale/Retail (9%), or Hotels & Restaurants (10%). Amongst Starts (set up within the last 2 years) 26% used a personal bank account for their business. Such personal accounts were also more likely to be used by those with a worse than average risk rating (20% compared to 4% of those with a minimal risk rating).

Year ending Q2 2014, SMEs using a personal account were:

- less likely to be using external finance (27% used external finance, compared to 41% using a business account) and less likely to have applied for new or renewed facilities (4% versus 8%)
- more likely to be a ‘Permanent non-borrower’ (50% v 40%), or to have put personal funds into the business (38% v 32% of those with a business account)

In H1 2014, 99% of SMEs reported that they only used one bank for their business banking, with little difference by size. Multi-banking, whilst not seen to a significant degree in this market, has declined somewhat since 2011 amongst larger SMEs as the table below shows:

Use one bank, row percentages	2011	2013	H1 2014
All	98%	99%	99%
0 emps	98%	99%	99%
1-9 emps	97%	99%	98%
10-49 emps	96%	98%	97%
50-249 emps	94%	98%	97%

The ‘interweaving’ of business and personal funds

The Q4 2012 questionnaire included a number of new questions that explored 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 YEQ2 2014:

- 17% of SMEs used a personal rather than a business account for their business banking
- 35% of those with an overdraft, loan or credit card facility said that one or more was in their personal name, and where a personal bank account was also used, the proportion increased to 83%. This is the equivalent of 10% of all SMEs holding one or more of these facilities in a personal name.
- 33% 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) remained more likely to have put in funds (44%) than those who did not have any personal borrowing (32%).
- 7% 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 1% of all SMEs).
- 24% of those SMEs that had seen an overdraft automatically renewed in the previous 12 months said that this was a personal facility (the equivalent of 2% of all SMEs).

For YEQ2 2014, half of SMEs (48%) reported having one or more of these personal 'elements' to their business, and this has been relatively consistent over time. 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 remaining the most likely to have a personal element to their business:

Had **any** personal element Row percentages	YEQ2 14
All SMEs	**48%**
0 employee	52%
1-9 employees	40%
10-49 employees	21%
50-249 employees	12%
Minimal external risk rating	26%
Low external risk rating	31%
Average external risk rating	44%
Worse than average external risk rating	55%
Agriculture	44%
Manufacturing	44%
Construction	50%
Wholesale/Retail	41%
Hotels & Restaurants	46%
Transport	53%
Property/Business Services etc.	48%
Health	53%
Other Community	49%

Excluding SMEs with no employees reduces the proportion of remaining SMEs with a personal element to their business to 37%.

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 reported elsewhere, amendments were made to the answer codes for Q1 2014, splitting the loans/equity codes into loans from friends and family/directors and equity from friends and family/directors. These are reported as a combined code below until a full year of data is available for the new codes.

As the table below shows, overall a small minority of SMEs had applied for other forms of finance during this time, with larger SMEs more likely to have applied, notably for leasing:

	Total		Applied for			
Other finance applied for YEQ2 14 – all SMEs	Applied	% success	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*20,044*	*Varies*	*4018*	*6622*	*6404*	*3000*
Credit cards	4%	90%	4%	5%	5%	5%
Leasing/Hire purchase/vehicle finance	5%	91%	3%	7%	14%	16%
Loans/equity from family/friends or directors	5%	86%	5%	8%	7%	9%
Grants	2%	66%	2%	4%	6%	6%
Invoice finance	1%	75%	1%	2%	4%	4%
Loans from other 3rd parties	1%	64%	1%	2%	2%	2%

Q222 All SMEs

Most applicants for most types of funding were successful, with larger SMEs (10-249 employees) that applied generally more likely to be successful. Base sizes are small for some products but over time the proportion applying for these products has been fairly stable, while success rates are relatively stable after previous declines.

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

In a new question asked from Q2 2013, all respondents were asked if they had applied for any other forms of external finance not already mentioned. For YEQ2 2014, 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.

Taking both loan/overdraft events (and the automatic renewal of overdrafts) and these applications for other types of finance together for the first half of 2014 showed that:

- Most SMEs, 77%, reported neither a loan/overdraft 'event' (covered in the remainder of this report), nor an application for any of the types of finance listed above
- 11% reported a loan/overdraft event, but had not applied for other forms of finance
- 7% had applied for other forms of finance but did not report a loan/overdraft event
- 4% reported both a loan/overdraft event <u>and</u> applying for one of these forms of finance

Amongst SMEs with employees, the proportion reporting both a loan/overdraft event and an application for other forms of finance is higher at 8% and the proportion reporting neither of these is lower at 67%.

Use of Trade Credit

From Q1 2014, data has been gathered on the use of trade credit and the extent to which SMEs have sought to improve the terms or amount of trade credit available to them.

Initial results for Q1 and Q2 2014 combined were that 30% of SMEs regularly purchased products or services from other businesses on credit. This increased by size of SME:

- 25% of those with 0 employees regularly purchased on credit
- 43% of those with 1-9 employees
- 59% of those with 10-49 employees
- 52% of those with 50-249 employees

Those using other forms of external finance were more likely to be using trade credit (46%) than those who were not (21%).

Those using trade credit were asked if they had tried to negotiate better terms with their suppliers in the previous 12 months:

- Most, 75%, said that they hadn't
- Of the 24% that had tried to negotiate a change, 22% had successfully negotiated an improvement (3% had been unsuccessful in their negotiation) and this varied by size from 20% of those with 0 employees to 39% of those with 50-249 employees
- This is a "success rate" amongst those who entered into a negotiation of 90%, ranging by size from 87% of those with 0 employees to 97% of those with 50-249 employees

As the table below shows, this is the equivalent of 7% of *all* SMEs successfully negotiating an improvement in trade credit terms in the previous 12 months, with larger SMEs more likely to have done so:

Trade credit in last 12 months H1 2014 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*10,008*	*2005*	*3303*	*3200*	*1500*
Successfully negotiated credit terms	7%	5%	10%	19%	20%
Unsuccessfully negotiated credit terms	1%	1%	1%	1%	1%
Did not try to negotiate credit terms	23%	19%	31%	39%	31%
Use trade credit	***30%***	***25%***	***43%***	***59%***	***52%***
Do not use trade credit	70%	75%	57%	41%	48%

Q14y/y2 All SMEs from Q1 2014

As the table below shows, those with a minimal risk rating were more likely to use trade credit at all, but were no more likely than other SMEs to have negotiated different terms:

Trade credit in last 12 months H1 2014 – all SMEs	Total	Min	Low	Avge	Worse/ Avge
Unweighted base:	*10,008*	*1625*	*2420*	*2636*	*2546*
Successfully negotiated credit terms	7%	7%	9%	6%	7%
Unsuccessfully negotiated credit terms	1%	1%	1%	1%	1%
Did not try to negotiate credit terms	23%	41%	29%	24%	19%
Use trade credit	***30%***	***49%***	***39%***	***31%***	***27%***
Do not use trade credit	70%	51%	61%	69%	73%

Q14y/y2 All SMEs from Q1 2014

By sector, use of trade credit varied from 16% in the Health sector and 17% in the Transport sector to 43% in the Wholesale/Retail sector:

Trade credit in last 12 months H1 2014 – all SMEs	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*760*	*1049*	*1762*	*1012*	*884*	*902*	*1752*	*885*	*1002*
Successfully	5%	10%	9%	9%	4%	5%	5%	2%	9%
Unsuccessfully	2%	2%	1%	1%	1%	1%	1%	*	*
Did not try	24%	27%	26%	33%	26%	12%	21%	14%	15%
Use trade credit	***31%***	***39%***	***36%***	***43%***	***31%***	***17%***	***26%***	***16%***	***24%***
Do not use	69%	61%	64%	57%	69%	83%	74%	84%	76%

Q14y/y2 All SMEs from Q1 2014

The non-borrowing SME

As this chapter has already reported, 4 in 10 SMEs (38% YEQ2 2014) 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 42% of SMEs (YEQ2 2014), and were more likely to be found amongst the smaller SMEs:

- 46% of 0 employee SMEs met this non-borrowing definition
- 30% of 1-9 employee SMEs
- 24% of 10-49 employee SMEs
- 22% of 50-249 employee SMEs

Amongst SMEs with employees, 29% met the definition of a 'Permanent non-borrower'.

SMEs in the Health sector remained the most likely to be a 'Permanent non-borrower' (55%), with those in Wholesale/Retail the least likely (30%). By risk rating, 39% of those with a minimal or a low external risk rating were 'Permanent non-borrowers', compared to 44% of those with an average risk rating and 42% of those with a worse than average risk rating.

One in five PNBs (21%) use a personal account for their business banking, which means that the equivalent of 9% of all SMEs are 'Permanent non-borrowers' who use a personal account.

The proportion of SMEs meeting the definition of a PNB has increased over time from 34% in both 2011 and 2012 to 40% in 2013 and 43% for the first half of 2014. All sizes of SME have seen an increase in PNBs over time, with 0 employee SMEs remaining the most likely to meet the definition:

PNBs Over time – all SMEs By date of interview - row percentages	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014
All SMEs	34%	34%	37%	41%	36%	40%	41%	48%	39%
0 employee	39%	37%	40%	45%	40%	45%	46%	54%	42%
1-9 employees	24%	27%	30%	30%	25%	28%	30%	32%	31%
10-49 employees	15%	19%	21%	20%	21%	24%	24%	22%	27%
50-249 employees	13%	20%	17%	15%	17%	17%	17%	29%	23%

Businesses less than 10 years old were more likely to meet the definition of a PNB in the first half of 2014 (44%) than they were in 2011 (33%). Amongst those more than 10 years old, 43% met the definition of a PNB in the first half of 2014, an increase on 2013 as a whole (36%) having previously been almost unchanged from 2011 (34%). SMEs across all risk ratings were more likely to be a PNB in the first half of 2014 than previously.

If these PNBs are excluded from the use of external finance table shown earlier, the proportion using external finance increases to around two thirds of remaining SMEs. A somewhat lower proportion of remaining SMEs were using external finance in Q2 2014 (64%) than in the equivalent quarter of 2013 (68%) and in 2014 use of external finance has declined even once the PNBs have been set aside:

Use of external finance in last 5 years Over time – all SMEs excl PNBs By date of interview	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014
Unweighted base:	*3894*	*3732*	*3664*	*3649*	*3707*	*3637*	*3585*	*3370*	*3514*
Use now	66%	61%	66%	65%	68%	69%	68%	63%	64%
Used in past but not now	6%	8%	8%	7%	5%	5%	4%	6%	5%
Not used at all	28%	31%	27%	28%	27%	26%	28%	32%	31%

Q14/15 All SMEs

These PNBs 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'.

A wider definition of "Total business funding"

The 'Permanent non-borrowers' described in the previous section are defined by their non-use of, and appetite for, external finance (loans, overdrafts etc), and that definition will be maintained to provide consistent analysis over time.

The addition of the new questions on trade credit does, though, allow for analysis of the use of "total business funding" by SMEs in a wider sense, ie including both trade credit and injections of personal funds. Note that the amount of trade credit received is not recorded, and that when asked, the typical injection of personal funds was for a relatively small amount (often less than £5,000).

In the first half of 2014:

- 36% of SMEs were using external finance as defined earlier in this chapter (ie loans, overdrafts, invoice finance etc).
- An additional 14% of SMEs were not using external finance but were using trade credit
- And finally, a further 13% of SMEs were using neither external finance, nor trade credit, but had seen an injection of personal funds into the business

Widening the definition of external funding to include not only finance but also trade credit and personal funds thus increases the proportion of SMEs using "business funding" from 36% to 63%, with a bigger 'uplift' amongst smaller SMEs:

- From 30% to 59% for those with 0 employees
- From 50% to 73% for those with 1-9 employees
- From 62% to 80% for those with 10-49 employees
- From 63% to 83% for those with 50-249 employees

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 2014. Where year ending data is provided this is YEQ2 2014.

Key findings

8% of SMEs reported a Type 1 borrowing event (an application for a new or renewed overdraft or loan) in the 12 months prior to Q2 2014. This was in line with other recent quarters, but somewhat lower than seen in previous years (In Q2 2012, 11% of SMEs reported a Type 1 event). Excluding the 'Permanent non-borrowers' increases the incidence of Type 1 events to 13%, also in line with recent quarters.

Analysed over time, larger SMEs were no longer much more likely to report a Type 1 event than smaller SMEs. In Q2 2012, 8% of 0 employee SMEs reported such an event, compared to 21% of those with 50-249 employees. In the latest quarter, Q2 2014, while 6% of 0 employee SMEs reported a Type 1 event, the proportion of those with 50-249 employees reporting an event was 9%.

Automatic overdraft renewals are not included in the figures quoted above. In Q2 2014, 39% of SMEs with an overdraft reported that it had been automatically renewed in the previous 12 months. This proportion had declined somewhat over time.

Type 2 and Type 3 events continued to be experienced by only a minority of SMEs.

All SMEs reported on activities occurring in the 12 months prior to interview concerning borrowing on loan or overdraft. These 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 loan and overdraft events reported in interviews conducted to YEQ2 2014. This provides bigger base sizes and more granularity for sub-group analysis, such as by employee size band. Where possible, analysis has also been shown over time.

From 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.

YEQ2 2014, 4% of SMEs said that they had done this – 1% had spoken to an adviser, 2% to their bank, and 1% had done something else:

- This varied somewhat by size, with 3% of 0 employee businesses having done something compared to 7% of those with 50-249 employees. There was little variation by risk rating (3-5%), or by sector (3-5%).
- Exclusion of the 'Permanent non-borrowers' increased the proportion doing something to 6%, (ranging by size from 5-9%).
- There was little difference depending on whether the SME had someone in charge of the finances who was trained (5%) or not (3%).

As already identified, many SMEs do not use external finance. Amongst those with a potential interest in finance, activity was higher but not widespread:

- 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 (18%), and the proportion increased to 23% of those who had applied specifically 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 (12%), and amongst future would-be seekers with a need for finance identified (14%)

More analysis will be conducted in future waves as base sizes increase.

The rolling aggregate of demand/activity

The table below shows the percentage of all SMEs interviewed that reported a borrowing event in the 12 months prior to interview. Type 1 events remained the most common, but the proportion reporting such an event has declined somewhat over time:

Borrowing events in the previous 12 mths. All SMEs, over time By date of interview	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014
Unweighted base:	*5000*	*5032*	*5000*	*5000*	*5000*	*5008*	*5028*	*5000*	*5008*
Type 1: New application/renewal	11%	10%	9%	8%	9%	7%	8%	7%	8%
Applied for new facility (any)	6%	6%	6%	4%	6%	4%	4%	5%	5%
Renewed facility (any)	5%	5%	4%	4%	4%	4%	4%	3%	4%
Type 2: Cancel/ renegotiate by bank	3%	3%	4%	3%	3%	3%	3%	3%	3%
Type 3: Chose to reduce/pay off facility	1%	1%	2%	2%	2%	1%	2%	2%	2%

Q25/26 All SMEs

In another new question asked for the first time in Q1 2014, SMEs using external finance were asked whether in the previous 12 months they had come to any agreement with a lender to either delay or reduce repayment of that facility. 2% of SMEs using external finance said that such a deal had been made (the equivalent of less than 1% of all SMEs). This varied little by risk rating or sector, but was slightly higher amongst larger SMEs using external finance (2% of those with 0 employees to 5% of those with 50-249 employees). Further analysis will be provided as base sizes increase.

The previous chapter of this report noted that 4 in 10 SMEs met the definition of a '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 2014, 13% of remaining SMEs reported a Type 1 event in the 12 months prior to interview, in line with other recent quarters. This was somewhat lower than for the equivalent quarter of 2012 (17%), and in line with the Q2 2013 figure:

Borrowing events in the previous 12 mths. All SMEs, excluding PNBs over time By date of interview	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014
Unweighted base:	*3894*	*3732*	*3664*	*3649*	*3707*	*3637*	*3585*	*3370*	*3514*
Type 1: New application/renewal	17%	16%	15%	13%	14%	11%	13%	13%	13%
Applied for new facility (any)	10%	10%	9%	7%	9%	6%	7%	9%	8%
Renewed facility (any)	8%	7%	7%	7%	6%	6%	7%	6%	7%
Type 2: Cancel/renegotiate by bank	5%	4%	6%	4%	5%	5%	5%	5%	5%
Type 3: Chose to reduce/pay off	2%	1%	3%	3%	3%	2%	3%	3%	4%

Q25/26 All SMEs

Further analysis of Type 1 events over time is provided in the next chapter. The incidence of Type 2 and Type 3 events remained stable, and reported by a small minority of SMEs.

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 2014, and, unless otherwise stated, are based on all SMEs.

The event experienced most widely was an application for a new facility, or the renewal of an existing facility, each experienced by 4% of all SMEs:

Borrowing events YEQ2 14 all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*20,044*	*4018*	*6622*	*6404*	*3000*
Type 1: New application/renewal	7%	5%	13%	15%	12%
Applied for new facility (any)	4%	3%	7%	6%	4%
- applied for new loan	*2%*	*2%*	*4%*	*4%*	*3%*
- applied for new overdraft	*3%*	*2%*	*4%*	*4%*	*2%*
Renewed facility (any)	4%	2%	7%	10%	9%
- renewed existing loan	*1%*	*1%*	*2%*	*4%*	*3%*
- renewed existing overdraft	*3%*	*2%*	*6%*	*9%*	*7%*
Type 2: Cancel/renegotiate by bank	3%	2%	5%	5%	3%
Bank sought to renegotiate facility (any)	2%	2%	3%	4%	3%
- sought to renegotiate loan	*1%*	*	*1%*	*1%*	*1%*
- 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%*	*
- sought to cancel overdraft	*1%*	*1%*	*1%*	*1%*	*
Type 3: Chose to reduce/pay off facility	2%	1%	3%	3%	1%
- reduce/pay off loan	*1%*	*1%*	*2%*	*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:

Borrowing events YEQ2 14 – all SMEs	Total	Min	Low	Avge	Worse/Avge
Unweighted base:	*20,044*	*3370*	*4295*	*5274*	*5216*
Type 1: New application/renewal	7%	10%	10%	6%	7%
Applied for new facility (any)	4%	5%	5%	3%	4%
- *applied for new loan*	*2%*	*3%*	*3%*	*2%*	*2%*
- *applied for new overdraft*	*3%*	*2%*	*3%*	*2%*	*3%*
Renewed facility (any)	4%	6%	6%	4%	3%
- *renewed existing loan*	*1%*	*2%*	*2%*	*1%*	*1%*
- *renewed existing overdraft*	*3%*	*5%*	*5%*	*3%*	*3%*
Type 2: Cancel/renegotiate by bank	3%	4%	3%	2%	3%
Bank sought to renegotiate facility (any)	2%	3%	2%	2%	2%
- *sought to renegotiate loan*	*1%*	*1%*	*1%*	*1%*	*1%*
- *sought to renegotiate overdraft*	*2%*	*2%*	*2%*	*2%*	*2%*
Bank sought to cancel facility (any)	1%	2%	1%	1%	1%
- *sought to cancel loan*	*	*1%*	*1%*	*	*
- *sought to cancel overdraft*	*1%*	*1%*	*1%*	*1%*	*1%*
Type 3: Chose to reduce/pay off facility	2%	3%	2%	1%	1%
- *reduce/pay off loan*	*1%*	*2%*	*1%*	*1%*	*1%*
- *reduce/pay off overdraft*	*1%*	*2%*	*1%*	*1%*	*1%*

Q25/26 All SMEs with external risk rating

Agriculture remained the sector most likely to have had a Type 1 event, due in particular to a slightly higher level of renewals. The Wholesale/Retail sector was also slightly more likely to have had a Type 1 event due to more applications for new facilities:

Borrowing event in last 12 months YEQ2 14 – all SMES	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*1506*	*2099*	*3517*	*2042*	*1787*	*1811*	*3512*	*1772*	*1998*
Type 1: New application/ renewal	13%	9%	7%	11%	9%	7%	6%	5%	6%
Applied for new facility (any)	6%	4%	4%	7%	6%	4%	3%	3%	4%
- applied for new loan	*4%*	*2%*	*1%*	*4%*	*4%*	*3%*	*2%*	*2%*	*2%*
- applied for new overdraft	*4%*	*2%*	*3%*	*4%*	*4%*	*3%*	*2%*	*2%*	*2%*
Renewed facility (any)	10%	6%	4%	5%	5%	3%	3%	3%	3%
- renewed existing loan	*4%*	*1%*	*1%*	*1%*	*2%*	*	*1%*	*	*1%*
- renewed existing overdraft	*8%*	*5%*	*3%*	*4%*	*4%*	*3%*	*2%*	*2%*	*2%*
Type 2: Cancel/ renegotiate by bank	4%	3%	2%	5%	4%	2%	2%	2%	4%
Bank sought to renegotiate facility (any)	3%	3%	2%	3%	3%	2%	1%	1%	4%
- sought to renegotiate loan	*1%*	*1%*	*	*1%*	*2%*	*	*	*	*1%*
- sought to renegotiate overdraft	*3%*	*2%*	*1%*	*2%*	*2%*	*2%*	*1%*	*1%*	*3%*
Bank sought to cancel facility (any)	2%	1%	1%	3%	2%	1%	1%	*	1%
- sought to cancel loan	1%	1%	*	1%	1%	*	*	*	*
- sought to cancel overdraft	*1%*	*1%*	*1%*	*2%*	*1%*	*1%*	*	*	*1%*
Type 3: Chose to reduce/ pay off facility	3%	2%	1%	3%	3%	2%	1%	1%	2%
- reduce/pay off loan	*2%*	*1%*	*1%*	*2%*	*2%*	*1%*	*1%*	*1%*	*1%*
- reduce/pay off overdraft	*2%*	*1%*	*	*1%*	*2%*	*1%*	*1%*	*1%*	*1%*

Q25/26 All SMEs

Excluding those SMEs with no employees increases the incidence of Type 1 events to 13% of SMEs with employees, of Type 2 events to 5% and of Type 3 events to 3%.

The table below repeats this analysis for all SMEs 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 7% to 13%:

Borrowing events YEQ2 14 – all SMEs	Total	All excl. PNBs
Unweighted base:	*20,044*	*14,106*
Type 1: New application/renewal	7%	13%
Applied for new facility (any)	4%	7%
- applied for new loan	*2%*	*4%*
- applied for new overdraft	*3%*	*4%*
Renewed facility (any)	4%	7%
- renewed existing loan	*1%*	*2%*
- renewed existing overdraft	*3%*	*6%*
Type 2: Cancel/renegotiate by bank	3%	5%
Bank sought to renegotiate facility (any)	2%	4%
- sought to renegotiate loan	*1%*	*1%*
- sought to renegotiate overdraft	*2%*	*3%*
Bank sought to cancel facility (any)	1%	2%
- sought to cancel loan	*	*1%*
- sought to cancel overdraft	*1%*	*1%*
Type 3: Chose to reduce/pay off facility	2%	3%
- reduce/pay off loan	*1%*	*2%*
- reduce/pay off overdraft	*1%*	*1%*

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

Subsequent chapters of this report investigate those SMEs 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 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 less than 1 in 10 reported one of the Type 1 borrowing 'events' in the previous 12 months. Indeed, 4 out of 10 SMEs might be considered to be outside the borrowing process – the 'Permanent non-borrowers' described earlier.

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

Type 2 (bank cancellation or renegotiation) and Type 3 (SME reducing/repaying facility) events remain rare and at stable levels. No further detail is therefore provided on these events in this report, but the data (up to and including Q2 2014) remains available for those interested and future reports will provide updates if significant changes are observed.

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 remained relatively stable over 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	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014
Unweighted base:	*5000*	*5032*	*5000*	*5000*	*5000*	*5008*	*5028*	*5000*	*5008*
Applied for a new overdraft	4%	4%	4%	3%	4%	2%	3%	3%	3%
Renewed an existing overdraft	4%	4%	4%	4%	3%	3%	3%	3%	4%
Any Type 1 overdraft event	*8%*	*8%*	*7%*	*6%*	*7%*	*5%*	*5%*	*5%*	*6%*
Any Type 1 overdraft event excluding PNBs	*12%*	*12%*	*11%*	*10%*	*10%*	*9%*	*9%*	*9%*	*9%*

Q26 All SMEs

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

Loan events in previous 12 months all SMEs, over time By date of interview	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014
Unweighted base:	*5000*	*5032*	*5000*	*5000*	*5000*	*5008*	*5028*	*5000*	*5008*
Applied for a new loan	3%	3%	3%	2%	2%	2%	2%	2%	3%
Renewed an existing loan	2%	1%	1%	1%	1%	1%	1%	1%	1%
Any Type 1 loan event	*4%*	*4%*	*3%*	*3%*	*3%*	*3%*	*3%*	*3%*	*4%*
Any Type 1 loan event excl PNBs	*7%*	*6%*	*5%*	*5%*	*5%*	*5%*	*5%*	*6%*	*6%*

Q26 All SMEs

From 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 YEQ2 2014, 7% of overdraft applications reported were made in a personal name, while for loans the figure was 16% (excluding DK answers). This means that for YEQ2 2014, the equivalent of 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 next table shows the decline in the reporting of Type 1 events over time, across all size bands, and also once the 'Permanent non-borrowers' have been excluded. In the first half of 2014, it is the largest SMEs with 50-249 employees that were notably less likely to have reported a Type 1 event compared to previous years, such that there is now little difference in the incidence of Type 1 events by size of SME, especially amongst those with employees.

The Q2 2014 figures also show two 'groups' of SME by sector, with those in the Construction, Transport, Property/Business Services, and Health sectors less likely to report a Type 1 event than other sectors:

Had **any Type 1** event New application/ renewal Over time – row percentages	**By date of interview** Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014
All SMEs	11%	10%	9%	8%	9%	7%	8%	7%	8%
0 employee	8%	9%	8%	6%	7%	4%	5%	5%	6%
1-9 employees	18%	15%	14%	14%	13%	13%	14%	10%	13%
10-49 employees	24%	16%	15%	17%	14%	15%	15%	16%	12%
50-249 employees	21%	15%	14%	16%	15%	13%	14%	11%	9%
Minimal external risk rating	12%	12%	17%	9%	11%	9%	9%	11%	10%
Low external risk rating	15%	10%	12%	12%	8%	10%	9%	11%	9%
Average external risk rating	9%	10%	8%	7%	9%	6%	7%	4%	7%
Worse than average external risk rating	11%	11%	10%	7%	8%	6%	7%	7%	8%
Agriculture	23%	14%	16%	13%	13%	15%	11%	12%	15%
Manufacturing	15%	13%	9%	7%	13%	7%	10%	7%	10%
Construction	9%	9%	8%	6%	8%	6%	9%	6%	6%
Wholesale/Retail	14%	14%	13%	10%	10%	10%	12%	9%	12%
Hotels & Restaurants	18%	13%	13%	14%	12%	9%	12%	8%	9%
Transport	11%	11%	8%	10%	13%	9%	5%	6%	8%
Property/Business Services etc.	9%	9%	10%	7%	6%	6%	6%	6%	6%
Health	6%	4%	7%	4%	10%	4%	3%	5%	8%
Other Community	10%	10%	6%	8%	6%	3%	5%	7%	9%
All SMEs excluding 'Permanent non-borrowers'	17%	16%	15%	13%	14%	11%	13%	13%	13%

Q26 All SMEs: base size varies by category

Other business demographics also showed some variation in incidence of a Type 1 event in Q2 2014:

Demographic	Incidence of Type 1 events reported in Q2 2014
Age of business	The incidence of Type 1 events varied somewhat by age of business, from 6% for Starts to 11% for those trading for 15 years or more. Starts remained much more likely to have applied for new facilities than to have renewed an existing facility (6% v 1%) while older businesses were somewhat more likely to have renewed (amongst those 15 years+, 5% applied for a new facility v 7% who renewed one)
Profitable SMEs	Those who had broken even in the previous 12 months trading were slightly less likely to have applied: Made a profit 9% had a Type 1 event Broke even 2% Made a loss 8%
Fast Growth (20%+ last 3 years)	Those who had grown (but were not fast growth) were more likely to report a Type 1 event: Grown 20%+ last 3 yrs 6% Grown by less than this 15% Not grown in last yr 7%
Importers/exporters	Those engaged in international trade were slightly more likely to have had an event (11%) than those who were not (8%). Note that they are typically also larger SMEs.

Overdraft events – definition and further clarification

Overdrafts are usually granted for a period of 12 months 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 YEQ2 2014 are reported below and show that 4 out of 10 overdraft holders (42%) reported that they had had such an automatic renewal, the equivalent of 7% of all SMEs:

Any overdraft activity YEQ2 14	All with overdraft	All SMEs
Unweighted base:	*4725*	*20,044*
Had an overdraft ‘event’	30%	5%
Had automatic renewal	42%	7%
Neither of these but have overdraft	28%	5%
No overdraft	-	84%

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 since declined over time. In Q2 2014, 39% of SMEs with an overdraft reported an automatic renewal in the previous 12 months, somewhat lower than in recent quarters.

The equivalent of 7% of *all* SMEs had experienced an automatic renewal, and this has been stable since the start of 2013, albeit at lower levels than seen in 2012:

Experienced an automatic renewal in previous 12 mths By date of interview- row percentages	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014
SMEs with overdraft	54%	40%	48%	45%	43%	41%	47%	42%	39%
'All SMEs' equivalent	12%	10%	9%	8%	8%	7%	8%	6%	7%

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

Over time, with fewer SMEs having an overdraft facility at all, the proportion of total overdraft *activity* (ie an event or a renewal) which was accounted for by an automatic renewal, has remained fairly stable. In both 2012 and 2013, 40% of overdraft activity was typically an 'event' and 60% was an 'automatic renewal'.

New questions asked from Q4 2012 provide some further detail on these automatic renewals. For YEQ2 2014, 24% of those reporting an automatic renewal said that the facility was in a personal name (a slightly higher proportion than amongst those reporting on personal lending for other loan and overdraft Type 1 events).

Data being collected on when this automatic renewal took place and the size of the facility renewed, will allow for a more direct comparison with Type 1 overdraft events as sample sizes develop over time. Initial findings are that the proportion of automatic renewals in a personal name was lower for applications made in 2012 (16%) than in 2013 (21%), but then lower again for the first half of 2014 (12%). A consistent half of applications were for £5,000 or less. Most applications were for £25,000 or less but over time this proportion has declined somewhat (from 87% of applications made in 2012 to 81% of those made in the first half of 2014).

The analysis below looks at which types of business with an overdraft were more likely to have an overdraft 'event', based on YEQ2 2014 data to ensure robust base sizes.

As the table below shows, for SMEs with an overdraft facility, overdraft 'events' made up a higher proportion of overdraft 'activity' for those with employees, than for the smallest SMEs with no employees:

Overdraft activity YEQ2 14 – All with overdraft	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*4725*	*594*	*1632*	*1756*	*743*
Had an overdraft 'event'	30%	26%	37%	38%	36%
Had automatic renewal	42%	44%	42%	34%	30%
% of overdraft activity that was 'event'	*42%*	*37%*	*47%*	*53%*	*55%*
Neither of these but have overdraft	28%	30%	22%	28%	35%

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:

Overdraft activity YEQ2 14 – All with overdraft	Total	Min	Low	Avge	Worse/Avge
Unweighted base:	*4725*	*694*	*1176*	*1362*	*1104*
Had an overdraft 'event'	30%	36%	32%	26%	31%
Had automatic renewal	42%	40%	40%	48%	40%
% of overdraft activity that was 'event'	*42%*	*47%*	*44%*	*35%*	*44%*
Neither of these but have overdraft	28%	24%	29%	26%	29%

Q15/ 26/26a All SMEs

Amongst those with an overdraft, analysis by sector showed relatively little variation:

Overdraft activity YEQ2 14 – All with overdraft	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*506*	*513*	*855*	*538*	*372*	*428*	*730*	*337*	*446*
Had an overdraft 'event'	38%	29%	29%	34%	32%	29%	25%	31%	32%
Had automatic renewal	37%	49%	42%	38%	47%	44%	44%	42%	43%
% of overdraft activity that was 'event'	*51%*	*37%*	*41%*	*47%*	*41%*	*40%*	*36%*	*42%*	*43%*
Neither of these but have overdraft	25%	22%	29%	28%	21%	28%	30%	27%	25%

Q15/ 26/26a All SMEs

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

Almost half of overdrafts applied for in the 18 months to Q2 2014 were for the renewal of an existing facility (46%) and this was more likely to be the case amongst larger applicants. Loan renewals were less common, making up 9% of recent applications.

26% of overdraft applications were from first time applicants. This contrasts with 41% of loan applications being from first time applicants.

Most overdrafts were sought to provide day to day cash flow (84%). 20% were looking to expand in the UK, compared to 3% looking to fund expansion overseas. Loans were more likely to be sought to fund UK expansion (35%), or to buy fixed assets (25%), premises (24%) or motor vehicles (18%).

Most applications are made to the SMEs main bank. This was somewhat more likely to be the case for overdrafts (98%) than loans (91%).

The proportion seeking advice before they applied remained limited (10% for overdrafts and 20% for loans). Those seeking larger facilities were more likely to have sought advice first. Most of those that did not seek advice did not think they needed it, but some smaller applicants did not know who to ask.

The data presented thus far in this report has reflected events that had 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.

Of more recent applications reported for 2013 and 2014 to date, some quarters have featured more often than others as a quarter where a Type 1 event *might* have occurred. Once this was controlled for, the pattern of applications for both loans and overdrafts was typically in line with an even distribution of events.

As these chapters examine overdraft and loan events specifically, it makes sense for the analysis to be based on when the event occurred, rather than when it was reported, and the Q2 2013 report was the first to adopt this approach for these chapters.

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 2014) 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 2014, irrespective of when the borrowing event occurred), data is now reported on the basis of 'Applications occurring in the 18 months to Q2 2014' (i.e. applications made between Q1 2013 and Q2 2014, irrespective of when the SME was actually 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 Q1 2013 to Q2 2014. Within this 18 month time period, final data is now available for applications made up to the end of Q2 2013. Data on applications in the more recent quarters (in the second half of 2013 and 2014 to date) 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 quoted are therefore just of this group of applicants. For context, in Q2 2014 this was the equivalent of 6% of all SMEs or around 270,000 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 that occurred between Q1 2013 and Q2 2014 said that they had been looking to renew an existing overdraft for the same amount (46%), and this was more common amongst larger applicants. Around a quarter of applicants (26%) were seeking an overdraft for the very first time. 33% of these first time applicants were Starts. Over time the proportion of first time overdraft applicants that were Starts has declined, from 45% in 2012 to 35% for 2013 to date:

Nature of overdraft event **Sought** new/renewed facility Q1 13- Q2 14	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*1750*	*177*	*623*	*667*	*283*
Renewing overdraft for same amount	46%	38%	54%	63%	65%
Applied for first ever overdraft facility	26%	32%	22%	10%	7%
Seeking to increase existing overdraft	16%	17%	15%	17%	16%
Setting up facility at new bank	3%	5%	2%	2%	4%
Seeking additional overdraft on another account	5%	5%	5%	4%	4%
Seeking to reduce existing facility	3%	4%	2%	4%	4%

Q52 All SMEs seeking new/renewed overdraft facility

Excluding applicants with no employees increases the proportion renewing an existing facility to 56% and reduces the first time applicants to 20% of applications made.

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, for those quarters where sufficiently robust sample sizes exist. This shows that renewals have consistently been the main reason for an overdraft event:

Nature of overdraft event SMEs seeking new/renewed facility By application date	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13	Q3* 13	Q4* 13	Q1* 14
Unweighted base:	*557*	*548*	*681*	*448*	*373*	*473*	*482*	*388*	*326*	*290*	*176*
Renewing overdraft for same amount	44%	49%	40%	51%	49%	44%	45%	42%	54%	44%	40%
Applied for first ever overdraft facility	27%	28%	33%	29%	25%	33%	28%	31%	22%	30%	25%
Seeking to increase existing overdraft	18%	18%	20%	11%	17%	14%	13%	17%	17%	16%	22%
Setting up facility at new bank	2%	1%	4%	1%	1%	1%	5%	2%	3%	5%	3%
Seeking additional overdraft on another account	5%	2%	2%	7%	5%	4%	7%	5%	3%	2%	4%
Seeking to reduce existing facility	3%	2%	1%	2%	1%	3%	3%	3%	1%	4%	5%

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

Almost all overdraft applications (98% in the 18 months to Q2 14) were made to the SME's main bank. This varied little by date of application – Q2 2013 being the slight exception with 95% of applications made to main bank.

The median amount sought as an overdraft facility remained stable at £5,000, ranging from £3,000 amongst 0 employee SMEs seeking a facility to just over £250,000 for those with 50-249 employees:

Amount initially sought, where stated **Sought** new/renewed facility Q1 13- Q2 14	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*1555*	*171*	*556*	*581*	*247*
Less than £5,000	39%	54%	22%	5%	1%
£5,000 – £9,999	17%	18%	18%	5%	*
£10,000 – £24,999	21%	15%	32%	18%	5%
£25,000 – £99,999	15%	9%	21%	38%	18%
£100,000+	6%	3%	6%	34%	76%
Median amount sought	*£5k*	*£3k*	*£10k*	*£49k*	*£257k*

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

As the next table shows, eight out of ten overdraft applicants said that the overdraft was needed for day to day cash flow, with little variation by size. 4 in 10 (39%) wanted it as a 'safety net', again with little variation by size.

A similar proportion, 31%, wanted the facility to fill a short term funding gap, and this was slightly more common amongst smaller SMEs that had applied. As in previous quarters, overdrafts were much more likely to have been sought to support UK expansion (20%) than expansion overseas (3%).

Purpose of overdraft sought **Sought** new/renewed facility Q1 13- Q2 14	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*1750*	*177*	*623*	*667*	*283*
Working capital for day to day cash flow	84%	85%	82%	82%	81%
Safety net – just in case	39%	41%	36%	37%	31%
Short term funding gap	31%	35%	28%	20%	14%
Buy fixed assets	11%	12%	11%	11%	6%
Fund expansion in UK	20%	22%	19%	16%	14%
Fund expansion overseas	3%	3%	2%	2%	2%

Q55 All SMEs seeking new/renewed overdraft facility

'Working capital' remained the main reason for seeking an overdraft across all external risk ratings, ranging from 77% of those with a minimal external risk rating to 89% of those with an average risk rating.

Looking at the purpose of the overdraft sought over time, working capital was consistently the most mentioned purpose:

Purpose of overdraft SMEs seeking new/renewed facility - by application date	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13	Q3* 13	Q4* 13	Q1* 14
Unweighted base:	*557*	*548*	*681*	*448*	*373*	*473*	*482*	*388*	*326*	*290*	*176*
Working capital for day to day cash flow	80%	79%	81%	75%	80%	78%	89%	88%	80%	76%	84%
Safety net – just in case	54%	43%	38%	34%	45%	31%	35%	30%	49%	38%	50%
Short term funding gap	43%	30%	31%	23%	21%	21%	28%	19%	32%	38%	48%
Buy fixed assets	16%	11%	9%	12%	13%	16%	10%	10%	17%	7%	12%
Fund growth in UK	7%	10%	12%	17%	9%	14%	15%	16%	27%	22%	33%
Fund growth overseas	2%	*	2%	1%	1%	1%	3%	4%	*	1%	6%

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

The proportion of SMEs seeking advice before they applied for an overdraft has remained consistently low (10% amongst those applying between Q1 2013 and Q2 2014), with no clear pattern over time. Advice was more likely to be sought for larger overdraft facilities – while 9% sought advice for an overdraft of £25,000 or less, 11% sought advice if they were applying for an overdraft of £25-100,000 and 18% for overdrafts of above £100,000.

Larger applicants were also somewhat more likely to have sought advice (and they are also of course more likely to be seeking a larger facility). Amongst applicants with 0 employees 9% sought advice, while amongst those with 50-249 employees 12% sought advice.

The main reason for not seeking advice remained that it was not felt to be needed (56%). Both this and a view that the SME had previously been successful with an application (16%), were 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 17% did not think it would have made any difference to the outcome of their application. Both of these were mentioned slightly more by smaller applicants who had not sought advice.

Overdraft applications – a sector summary

Those in the Transport sector remained more likely to be seeking their first ever overdraft (43%), while those in the Other Community sector remained more likely to be renewing an existing facility (77%):

Overdraft activity **Sought** new/ renewed facility Q1 13- Q2 14	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	***202***	***196***	***310***	***199***	***160***	***148***	***258***	***120***	***157***
Renewing overdraft for same amount	54%	48%	42%	45%	41%	26%	44%	53%	77%
Applied for first ever overdraft	7%	24%	27%	30%	35%	43%	28%	23%	14%
Seeking to increase existing overdraft	20%	23%	20%	17%	11%	19%	12%	12%	6%

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 94% applied to their main bank.

Those in Agriculture were seeking the highest median overdraft amount, at £26,000. The lowest median amount sought was just under £4,000 by applicants from the Transport and Construction sectors.

The main purpose of the overdraft for all sectors was working capital, ranging from 92% of applicants in the Manufacturing sector to 67% of those in the Other Community sector. This latter sector was more likely than others to say they wanted this facility as a safety net (61%, along with the Health sector 64%). Those in Wholesale/Retail were more likely to cite UK growth as the reason for wanting a facility (31%).

Those in Property/Business Services or Health were the most likely to have sought advice for their application (both 16%) while those in the Other Community sector remained the least likely (5%).

Loan applications

This analysis is based on the new definition of SMEs that had made an application for a new or renewed loan facility during the most recent 18 month period, which for this report is Q1 2013 to Q2 2014, irrespective of when they were interviewed. Within this 18 month time period, final data is now available for applications made in 2012 and the first half of 2013. Data on applications made in the latter half of 2013 and in 2014 to date is still being gathered and so the figures quoted will be liable to change over time. All percentages quoted are therefore just of this group of applicants. For context, in Q2 2014 this was the equivalent of 4% of all SMEs or around 180,000 businesses.

There have been fewer loan events reported than overdraft events. As a result, even for applications across 18 months to Q2 2014, the same granularity of analysis is not always possible as for other areas of the report, or smaller base sizes mean the results should be treated with some caution.

Loan applications were more likely than overdraft applications to be for new funding (the first two rows of the table below), with 80% of loan applicants seeking a new loan (compared to 42% for overdrafts), and 4 out of 10 saying this was their first ever loan (compared to 26% for overdrafts). As the table below shows, a first loan was more likely to be the case for smaller SMEs that had applied, and 39% of first time applicants were Starts. In contrast to overdrafts, the proportion of first time loan applicants who were Starts was fairly stable between 2012 and 2013 (40% and 42%):

Nature of loan event **Sought** new/renewed facility Q1 13- Q2 14	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*855*	*93*	*298*	*320*	*144*
Applied for first ever loan	41%	48%	34%	16%	19%
New loan but not our first	39%	42%	33%	40%	40%
Renewing loan for same amount	9%	7%	11%	22%	20%
Topping up existing loan	3%	1%	6%	11%	6%
Refinancing onto a cheaper deal	4%	-	10%	8%	8%
Consolidating existing borrowing	2%	1%	3%	2%	2%
New loan facility after switching bank	2%	2%	2%	*	5%

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

Excluding applicants with 0 employees reduces the proportion of first time applications to 31% of loan applications.

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 (which is not yet the case for Q1 2014). Most applications were for new facilities, shown in the first two rows of the table:

Nature of loan event- SMEs seeking new/renewed facility – By application date	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13	Q3* 13	Q4* 13
Unweighted base:	*282*	*310*	*305*	*241*	*202*	*244*	*223*	*187*	*161*	*150*
Applied for first ever loan	41%	32%	46%	37%	50%	38%	34%	45%	46%	42%
New loan but not our first	25%	37%	25%	30%	30%	41%	37%	39%	35%	43%
Renewing loan for same amount	9%	11%	12%	10%	4%	8%	17%	7%	9%	5%
Topping up existing loan	5%	14%	7%	13%	10%	5%	6%	1%	3%	2%
Refinancing onto a cheaper deal	16%	3%	5%	7%	1%	3%	5%	2%	4%	5%
Consolidating existing borrowing	3%	1%	3%	3%	3%	3%	2%	3%	*	2%
New facility after switching banks (new)		*	*	1%	1%	2%	*	4%	3%	1%

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

Compared to overdraft applications/renewals, those for loans were slightly less likely to be made to the SME's main bank, although most of them were (91% v 98% for overdrafts).

The median amount sought was £15,000. 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 13- Q2 14	Total	0 emps	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*735*	*87**	*266*	*259*	*123*
Less than £5,000	19%	25%	10%	2%	1%
£5,000 – £9,999	21%	24%	19%	3%	1%
£10,000 – £24,999	25%	25%	28%	16%	2%
£25,000 – £99,999	21%	19%	24%	30%	12%
£100,000+	15%	7%	21%	50%	85%
Median amount sought	*£15k*	*£9k*	*£19k*	*£95k*	*£480k*

Q153/154 All SMEs seeking new/renewed loan, excluding DK/refused *CARE re small base

Loan applicants were also 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 2014 are shown below, with most applicants (78%) seeking all the funding they required from the bank:

Proportion of funding sought from bank **Sought** new/renewed facility Q1 13- Q2 14	Total	0 emps	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*830*	*91**	*292*	*307*	*140*
Half or less of total sum required	10%	9%	12%	10%	3%
51-75% of sum required	6%	4%	8%	9%	8%
76-99% of sum required	6%	7%	5%	8%	9%
All of sum required sought from bank	78%	80%	75%	73%	79%

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

Overall there was relatively little difference in the proportion seeking all the funding from the bank by size of applicant (73-80%). There was slightly more variation by external risk rating: 67% of those with an average risk rating sought all the funding compared to 88% of those with a minimal risk rating.

More detailed analysis over time by date of loan application (H1 11 to H1 14) shows most applicants in each period sought all the funding they required from the bank:

Proportion seeking all funding from the bank (excl DK) Row percentages	H1 2011	H2 2011	H1 2012	H2 2012	H1 2013	H2* 2013	H1* 2014
All loan applicants	79%	69%	64%	69%	78%	78%	75%
All applicants with 0-9 employees	80%	69%	64%	69%	78%	78%	76%
All applicants with 10-249 employees	67%	65%	67%	70%	76%	74%	71%

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

Overall, these funds were likely to have been sought either to fund expansion in the UK (35%) or to purchase fixed assets (25%). Applicants with 0 employees remained more likely to be buying motor vehicles, while those with employees were more likely to be buying premises:

Purpose of loan **Sought** new/renewed facility Q1 13- Q2 14	Total	0 emps	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*855*	*93**	*298*	*320*	*144*
Fund expansion in UK	35%	39%	27%	26%	48%
Buy fixed assets	25%	27%	22%	23%	29%
Buy motor vehicles	18%	23%	12%	4%	3%
Buy premises	24%	24%	24%	31%	27%
Develop new products/services	16%	19%	13%	13%	13%
Replace other funding	7%	1%	15%	12%	6%
Fund expansion overseas	2%	2%	2%	1%	9%
Take over another business	2%	2%	3%	2%	3%

Q150 All SMEs seeking new/renewed loan facility

Analysed by application date (see table below), the most common reasons for seeking loan finance remain funding expansion in the UK and buying fixed assets. There was also a higher proportion of applications for premises from Q4 2012 onwards.

Purpose of loan SMEs seeking new/renewed facility – by application date	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13	Q3* 13	Q4* 13
Unweighted base:	*282*	*310*	*305*	*241*	*202*	*244*	*223*	*187*	*161*	*150*
Fund expansion in UK	26%	30%	31%	39%	35%	32%	16%	37%	39%	42%
Buy fixed assets	35%	42%	36%	15%	31%	29%	27%	28%	22%	25%
Premises	18%	19%	17%	12%	16%	29%	28%	28%	19%	26%
Buy motor vehicles	24%	10%	22%	33%	16%	18%	29%	18%	10%	16%
Develop new products/services	22%	7%	19%	7%	13%	11%	12%	13%	23%	23%
Fund expansion overseas	*	4%	3%	2%	1%	1%	1%	3%	1%	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 Q1 2013 to Q2 2014 had sought external advice before applying, more loan applicants had done so, albeit still a minority (20%). As for overdrafts, advice was more likely to be sought for larger amounts of loan borrowing. While 16% of those looking to borrow less than £25,000 sought advice, this increased to 21% of those seeking £25-100,000 and 42% of those seeking to borrow more than £100,000. 37% of those who went on to successfully obtain a commercial mortgage had sought advice.

Smaller applicants remained slightly less likely to have sought advice (20% of applicants with 0-9 employees sought advice compared to 22% of those with 10-249 employees)

Analysis by date of application shows no clear pattern over time.

Half of applicants who had not sought advice, 50%, 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 9% overall). Smaller applicants remained more likely to say that they did not know who to ask (mentioned by 20% overall).

Loan applications – a sector summary

Those in the Agriculture sector were less likely to be applying for their first ever loan, and more likely to be renewing an existing facility:

Loan activity **Sought** new/renewed facility Q1 13- Q2 14	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*101*	*95**	*110*	*99**	*88**	*69**	*128*	*76**	*89**
Applied for first ever loan	16%	50%	47%	31%	42%	58%	40%	49%	49%
New loan (other)	42%	33%	44%	43%	23%	33%	36%	45%	37%
Renewing loan for same amount	21%	3%	2%	15%	14%	2%	12%	3%	6%

Q149 All SMEs seeking new/renewed loan facility

Most approached their main bank (91%). The least likely to do so were applicants in the Health sector (where 71% of applications were made to main bank).

The highest median loan amounts were sought by applicants from the Agriculture sector (£45k). The lowest median amounts sought were from applicants in Construction and Manufacturing (£7k). Those in the Agriculture, Construction and Wholesale/Retail sectors were more likely to be seeking all the funding required from the bank while applicants from Manufacturing remained less likely.

For most sectors, the main purpose of the loan was either UK expansion or the purchase of fixed assets. Those in Transport and Construction were more likely to be seeking funding for motor vehicles, and those in Agriculture for fixed assets.

Advice was sought by 3 in 10 of those in the Other Community and the Property / Business services sectors, compared to 7% of those in the Transport sector and 9% of those in Construction.

8. The outcome of the application/ renewal

This chapter details

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

Key findings

66% of all loan and overdraft Type 1 applications (for a new or renewed facility) made in the 18 months to Q2 2014 resulted in a facility.

The exception to this was the first half of 2013 when the success rate was 64% in Q1 and 58% in Q2. This was due to a lower success rate for applications for new funds (rather than renewals).

Analysis showed that in Q1 the lower success rate was driven by the outcome for overdraft applications, while in Q2 it was driven by loan applicants. In both cases, the lower success rate was not explained by the profile of applicants in that quarter.

Across all overdraft applications made in the last 18 months, 74% resulted in a facility, 5% took other funding and 22% ended the process with no facility. For loans in the same period, 53% of applications resulted in a facility, 10% took other funding and 37% ended the process with no facility. As in previous waves, for both loans and overdrafts, smaller and younger SMEs and those applying for their first facility were less likely to have been successful.

Over time a consistently high proportion of applications for the renewal of an existing loan/overdraft facility have been successful. For the 18 months to Q2 2014, 96% of such applications resulted in a facility.

Applications for new facilities made in the same period were less likely to result in a facility (46%) and success rates for new money applications had declined over time.

For those seeking their first loan/overdraft facility, success rates in 2013 were 32%, compared to 42% in 2012, while 58% of first time applications reported to date for 2013 resulted in no facility. Amongst the remaining applicants for new money on loan/overdraft, 64% of applicants reported for 2013 to date were successful, compared to 73% in 2012.

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 in the second half of 2013 or in 2014 remains interim.

A consistent 4% of both loan and overdraft applicants in the 18 months to Q2 2014 had not received a response to their application by the time of our survey and are excluded from the remainder of this analysis.

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 Q3 2011. Full data on all applications since the SME Finance Monitor started can be found in the charts at the end of this report.

Final outcome (Overdraft+Loan): SMEs seeking new/renewed facility - By date of application	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13	Q3* 13	Q4* 13	Q1* 14
Unweighted base:	*808*	*820*	*943*	*650*	*544*	*674*	*678*	*548*	*464*	*426*	*233*
Offered what wanted and took it	55%	62%	55%	54%	51%	58%	51%	43%	61%	52%	55%
Took facility after issues**	14%	8%	12%	14%	17%	17%	13%	15%	11%	16%	19%
Have facility (any)	*69%*	*70%*	*67%*	*68%*	*68%*	*75%*	*64%*	*58%*	*72%*	*68%*	*74%*
Took another form of funding	4%	6%	4%	3%	6%	4%	7%	8%	3%	5%	15%
No facility	27%	24%	28%	29%	26%	21%	30%	33%	25%	28%	11%

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 exceptions are the first two quarters of 2013 where around 6 out of 10 were successful.

Data for all Type 1 applications made in these quarters (Q1 and Q2 2013) showed lower success rates of 64% and 58% respectively and a higher proportion of these applicants ending the process with no facility. Analysis later in this chapter shows that:

- This was due to lower success rates for applications for new money (rather than the renewal of existing facilities) in these quarters
- The lower success rate for overdraft applications made in Q1 2013 was not explained by the profile of applicants in that quarter. Success rates for Q2 2013 were somewhat higher than Q1 and more in line with the expected success rate, based on the profile of applicants in that quarter
- The loan success rate for applications made in Q1 2013 was more in line with other quarters and can be explained by the profile of applicants, whereas the lower success rate in Q2 is not explained by the profile of applicants

Analysis in previous reports has shown that the outcome of applications reported initially for a given quarter can be quite different from those reported subsequently as more data is gathered, and results for the most recent quarters should always be viewed in this context.

Further analysis of all Type 1 applications (ie 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. Before that, 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 Q1 2013 to Q2 2014, irrespective of when they were interviewed, who have received a response from the bank.

The tables below record the initial response from the bank to applications made in this period. The initial response to 62% of overdraft applications was to offer the SME what it wanted, compared to 41% 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 13- Q2 14	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*1676*	*171*	*598*	*635*	*272*
Offered what wanted	62%	56%	68%	82%	92%
Offered less than wanted	8%	8%	8%	6%	4%
Offered unfavourable terms & conditions	4%	5%	4%	4%	2%
Declined by bank	25%	31%	20%	9%	3%

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

Initial response (Loan): **Sought** new/renewed facility Q1 13- Q2 14	Total	0 emps	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*803*	*88**	*283*	*295*	*137*
Offered what wanted	41%	34%	48%	70%	79%
Offered less than wanted	7%	5%	9%	6%	9%
Offered unfavourable terms & conditions	7%	7%	5%	11%	5%
Declined by bank	45%	53%	37%	14%	7%

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

Amongst applicants with employees, 70% were initially offered the overdraft they wanted and 52% the loan they wanted. Such applicants were less likely to have been declined at this stage – 18% of overdraft applicants with employees were initially declined by the bank and 33% of loan applicants with employees.

SMEs more likely to be initially offered what they wanted included those applying to renew an existing overdraft (86% were offered what they wanted) or loan (74%), and those with a minimal external risk rating (84% were offered the overdraft they wanted, 64% the loan).

SMEs more likely to be met with an initial decline included those applying for their first ever overdraft (55% were initially declined) or loan (59%) or with a worse than average external risk rating (36% initially declined if applying for an overdraft, 53% if applying for a loan).

The table below looks at the initial response to overdraft applications over time by date of application. This shows that in most quarters between 20% and 30% of applications were initially declined, with no clear pattern over time. Current data for applications made in Q3 2013 suggests that most applicants were made an offer. Application data for the second half of 2013 and the first half of 2014 remain interim at this stage, and will be monitored as more data is gathered:

Initial response: SMEs seeking new/renewed overdraft facility – by date of application	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13	Q3* 13	Q4* 13	Q1* 14
Unweighted base (Overdraft):	*541*	*527*	*656*	*425*	*355*	*452*	*466*	*372*	*312*	*282*	*160*
Offered what wanted and took it	65%	69%	59%	61%	63%	63%	57%	57%	73%	64%	60%
Any issues (amount or T&C)	14%	9%	13%	11%	14%	16%	8%	14%	17%	8%	19%
Declined overdraft	21%	21%	27%	28%	23%	21%	35%	29%	10%	27%	21%

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, such as Q2 2013, a relatively stable 4 out of 10 applications were initially declined. As with the data on overdrafts, the most recent data is still interim:

Initial response: SMEs seeking new/renewed loan facility – by date of application	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13	Q3* 13	Q4* 13
Unweighted base (Loan)	*267*	*293*	*287*	*225*	*189*	*222*	*212*	*176*	*152*	*144*
Offered what wanted and took it	41%	50%	56%	47%	36%	51%	49%	28%	46%	36%
Any issues (amount or T&C)	19%	12%	7%	16%	15%	18%	14%	6%	18%	22%
Declined loan	41%	38%	37%	37%	49%	30%	37%	65%	36%	42%

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

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

The subsequent journey

The next section of this chapter describes what happened after the initial response from the bank, up to and including the final outcome of the application. This is reported first for overdrafts and then for loans and, unless otherwise stated, is based on all Type 1 overdraft / loan applications *sought* Q1 2013 to Q2 2014, 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. 6 out of 10 overdraft applicants (60%) and 4 out of 10 loan applicants (39%) were offered the facility they wanted and went on to take it with no issues:

Journey summary All seeking facility Q1 2013 to Q2 2014	Overdraft	Loan
Unweighted base:	*1676*	*803*
Initially offered what they wanted and went on to take the facility with no issues	60%	39%
Initially offered what they wanted, but had 'issues' before they got facility	2%	2%
Had issues with the initial offer, and now have a facility 'after issues'	9%	8%
Were initially turned down, but now have a facility	2%	2%
Had issues with the initial offer made so took alternative funding instead	*	1%
Were initially turned down, so took alternative funding instead	4%	10%
Initially offered what wanted but now have no facility at all	1%	*
Had issues with the initial offer made and now have no facility at all	2%	4%
Initially turned down and now have no facility at all	19%	33%

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

85% of the overdraft applicants who ended the process with no facility had been declined by the bank initially while the remaining 15% were made an offer but in the end did not take the facility. This is the equivalent of 4% of all overdraft applicants in the last 18 months receiving the offer of an overdraft but ending the process with no facility.

For loans, 89% of the applicants who ended the process with no facility had also been initially declined by the bank, leaving 11% that were made an offer but in the end did not take the facility – this is the equivalent of 4% 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 2013 to Q2 2014
Those offered what wanted (62% of applicants)	These SMEs were typically larger and well established: they were more likely to have been in business for 15 years or more (46% v 37% of all overdraft applicants) and very few were Starts (5% v 13% of all overdraft applicants). They were also more likely to have 10-249 employees (10% v 7% of all overdraft applicants), and to have a minimal or low risk rating (32% v 25% of all overdraft applicants). They were less likely to be applying for their first overdraft (14% v 26% of all overdraft applicants) and the most likely to be seeking a facility in excess of £25,000 (28% v 21% of all overdraft applicants).
Those offered less than wanted (8% of applicants)	These SMEs were in line with overdraft applicants overall in terms of size (55% had 0 employees v 55% of all overdraft applicants) and risk rating (25% minimal/low risk rating v 25% of all overdraft applicants). They were somewhat more likely to be a Start (20% v 13% of all overdraft applicants). They were the most likely to be looking to extend an existing overdraft (28% v 16% of all overdraft applicants) with 45% seeking a facility of £5,000 or less (v 40% of all overdraft applicants).
Those offered unfavourable T&C (4% of applicants)	These SMEs were the most likely to be a Start (36% v 13% of all overdraft applicants), and to have an average external risk rating (43% v 25% of all overdraft applicants). They were more likely to be 0 employee SMEs (61% v 55% of all overdraft applicants). They were typically either seeking their first overdraft facility (31% v 26% of all overdraft applicants) or to renew an existing facility (52% v 46% of all overdraft applicants). They were the most likely to be seeking a facility of £5,000 or less (55% v 40% of all overdraft applicants).
Those initially declined (25% of all applicants)	These SMEs continue to have a more distinctive profile, being typically smaller and younger with a worse risk rating profile. 68% were 0 employee SMEs (v 55% of all overdraft applicants) and 69% had a worse than average external risk rating (v 51% of all overdraft applicants). 18% had been in business for 15 years or more (v 37% of all overdraft applicants)

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

Summarised below for all applications made in the 18 months Q1 2013 to Q2 2014 (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 2013 to Q2 2014
Offered what wanted (62% of applicants) Q64-65	96% of those offered what they wanted went on to take their facility with no issues. 4% experienced a delay or issue, typically waiting for a decision to be made, or valuations/legal work to be completed. 1% of those offered what they wanted experienced a subsequent issue and did not take the facility offered to them in the end.
Issue: Offered less than wanted (8% of applicants) Q85-95	These SMEs were typically offered 20-90% of what they had asked for (no clear pattern on a small base). New answer codes for reasons for being offered less than they wanted were added in Q1 2014, meaning that answers given by those interviewed in 2013 are not directly comparable with those given by respondents in 2014 – both are shown below, with the 2014 answers shown in brackets: 12% (15%) said they were not given a reason for being offered less (excluding those who couldn't remember). The main reasons given were: • no/insufficient security – 23% (20%) of those offered less than they wanted • credit history issues – 28% (38%) • Applied for too much (16%/5%) or a need for more equity in the business (17%/34%) • 1% of applicants interviewed in 2014 said the bank offered them less due to the affordability of repayments (a new code) 19% said that they had not been offered advice by their lender at this stage. 21% received advice they rated as good, while 41% thought it was poor. Sample sizes are limited, but qualitatively over time fewer such SMEs have said they were offered advice and more of those who were rated it as 'poor'. 68% ended up accepting the original offer made by the bank, while 6% accepted an offer at another bank for the same amount. 9% managed to negotiate a higher facility at the original bank, and 1% at another bank. 2% took some other form of funding while 14% ended the process with no facility at all. 8 out of 10 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.

Initial bank response	Subsequent events – all seeking overdraft Q1 2013 to Q2 2014
Issue: Offered unfavourable T&C (4% of applicants) Q96-97	The 'unfavourable' terms and conditions were most likely to relate to: • the proposed fee – 56% of those offered what they saw as unfavourable T&C • the proposed interest rate – 27% of these applicants • security (the amount, type sought or cost of putting it in place) – mentioned by 13% of these applicants The fee continued to be mentioned more by smaller applicants, and security by larger applicants. 16% of applicants offered what they saw as unfavourable terms and conditions said they managed to negotiate a better deal than the one originally offered – 12% at the bank they originally applied to, and 4% at another bank. 52% accepted the deal they were offered (almost all at the original bank). 7% 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 (25% of all applicants):

Initially declined	Subsequent events – all seeking overdraft Q1 2013 to Q2 2014
Reasons for decline Q70	New answer codes for the reasons behind the initial decline were added in Q1 2014, meaning that answers given by those interviewed in 2013 are not directly comparable with those given by respondents in 2014 – both are shown below, with the 2014 answers shown in brackets: 11% (12%) of those initially declined said that they had not been given a reason (excluding those who could not remember the reasons given). On limited base sizes those declined in 2013/2014 were somewhat more likely to have been given a reason than those declined in 2012: • 42% (33%) said the decline related to their personal and/or business credit history • 14% (13%) mentioned issues around security • Also mentioned were financial forecasts that the bank did not agree with, or the industry being 'too risky' • 1% of those interviewed in 2014 gave the new answer code that the bank did not think they could afford the repayments
How decline was communicated Q70a-b	These questions are not being asked in 2014
Advice and alternatives Q71-80	13% 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. Where an alternative was offered, this was most likely to be a loan or a business credit card (or invoice finance for larger applicants). Two-thirds thought the advice offered at that stage had been poor (66%), while 11% said that it had been good and 8% said they were not offered any advice (with little variation by size). On limited base sizes it appears that recent applicants were more likely to be offered advice than those in 2012, but the quality of the advice offered was similar. More generally, 12% of those initially declined reported that they had been referred to sources of help or advice by the bank, while a further 9% sought their own external advice without a recommendation. On a small base of advice seekers, 6 out of 10 had found this external advice useful.

Initially declined	Subsequent events – all seeking overdraft Q1 2013 to Q2 2014
Appeals Q73-75	From April 2011, a new appeals procedure has been in operation. Most of the analysis below, as elsewhere in this report, is based on all applications made in the last 18 months (Q1 2013 to Q2 2014). 17% of applicants initially declined in this period said they were made aware of the appeals process (excluding DK). Amongst those applying in 2012, 13% said that they were made aware of the appeals process. For 2013 to date, the figure is 19%, and for 2014 to date 15%. 29% of those made aware went on to appeal, representing around 4% of those initially declined. This means that 6 SMEs interviewed for the Monitor in this period had appealed, providing at best anecdotal evidence about the process: in 4 cases the bank had not changed its decision, in 1 it had, and 1 SME was 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. Taking a longer term view, of all overdraft applications reported since Q1 2012, 15 SMEs have appealed. In 3 instances the bank changed its decision, in 9 the original decision was upheld and 3 were still waiting to hear at the time of interview.
Outcome Q81-84	At the end of this period, 75% of applicants initially declined had no funding at all, and this was more likely if the applicant was a smaller SME (76% v 52%). 7% of the SMEs initially declined had managed to secure an overdraft, typically with the original bank rather than an alternative supplier. Qualitatively these SMEs manage to secure 60% or more of the funding they had initially sought. Some secured alternative funding (17%), with mentions of friends/family, personal borrowing or a loan.

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 2013 and Q2 2014, irrespective of when they were interviewed.

Over half of these applicants, 60%, 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. 22% of all applicants ended the process with no overdraft. Note that this table does **not** include automatically renewed overdrafts.

Final outcome (Overdraft): **Sought** new/renewed facility Q1 13- Q2 14	All overdraft Type 1 applicants
Unweighted base:	*1676*
Offered what wanted and took it	60%
Took overdraft after issues	14%
Have overdraft (any)	*74%*
Took another form of funding	5%
No facility	22%

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

Before looking at the detailed results for overdraft applications made in the latest 18 month period, the summary table below records the proportion who 'Have overdraft (any)' for a series of 18 month periods, stretching back to Q3 2011, by key demographics. As already explained, for the more recent 18 month periods (from Q2 2012 to Q3 2013 onwards), data is still being added as respondents in Q3 2014 can report an application made from Q3 2013 onwards.

This table shows a fairly stable overall success rate, but with somewhat lower success rates reported in more recent periods by those seeking to increase an existing facility:

% of applicants ending process with overdraft facility	18 month periods						
Over time – row percentages By 18 month period of application	Q3 11 Q4 12	Q4 11 Q1 13	Q1 12 Q2 13	Q2 12 Q3 13*	Q3 12 Q4 13*	Q4 12 Q1 14*	Q1 13 Q2 14*
All SMEs	**74%**	**72%**	**72%**	**73%**	**74%**	**74%**	**74%**
0 employee	70%	67%	66%	68%	68%	67%	66%
1-9 employees	79%	77%	77%	78%	79%	80%	82%
10-49 employees	90%	90%	90%	91%	91%	91%	92%
50-249 employees	95%	96%	96%	96%	96%	96%	98%
Minimal external risk rating	97%	97%	96%	97%	95%	94%	95%
Low external risk rating	86%	86%	85%	91%	91%	88%	89%
Average external risk rating	84%	81%	84%	83%	81%	80%	77%
Worse than average external risk rating	66%	63%	61%	61%	60%	62%	61%
Agriculture	83%	90%	91%	92%	91%	88%	90%
Manufacturing	83%	77%	78%	70%	73%	69%	65%
Construction	63%	62%	65%	67%	73%	74%	75%
Wholesale/Retail	79%	77%	74%	73%	70%	70%	70%
Hotels & Restaurants	68%	66%	63%	62%	63%	67%	67%
Transport	66%	49%	48%	51%	52%	53%	53%
Property/Business Services etc.	75%	72%	73%	73%	71%	73%	71%
Health	83%	87%	82%	84%	86%	86%	86%
Other Community	80%	81%	79%	95%	94%	94%	94%
First time applicants	36%	36%	36%	34%	34%	37%	37%
Increasing an existing facility	81%	79%	78%	79%	78%	73%	69%
Renewals	96%	95%	94%	97%	98%	98%	98%

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

Overdraft final outcome - applications made Q1 2013 to Q2 2014

By size of business, overdraft applicants with more than 10 employees remained much more likely to have been offered, and taken, the overdraft they wanted and so were more likely to now have a facility. 3 out of 10 applicants with 0 employees ended the process with no facility:

Final outcome (Overdraft): **Sought** new/renewed facility Q1 13- Q2 14	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*1676*	*171*	*598*	*635*	*272*
Offered what wanted and took it	60%	53%	66%	79%	90%
Took overdraft after issues	14%	13%	16%	13%	8%
Have overdraft (any)	*74%*	*66%*	*82%*	*92%*	*98%*
Took another form of funding	5%	5%	5%	3%	1%
No facility	22%	30%	13%	6%	2%

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

Amongst applicants with employees, 83% ended the process with an overdraft facility (68% offered what they wanted and 15% had an overdraft after issues). 12% ended the process with no overdraft.

Analysis of the final outcome by external risk rating showed clear differences. Almost all overdraft applicants with a minimal or low external risk rating ended the process with a facility, while a third of applicants rated a worse than average risk ended their journey with no facility at all:

Final outcome (Overdraft): **Sought** new/renewed facility Q1 13- Q2 14	Total	Min	Low	Average	Worse/Avge
Unweighted base:	*1676*	*270*	*388*	*448*	*423*
Offered what wanted and took it	60%	79%	73%	58%	51%
Took overdraft after issues	14%	16%	16%	19%	10%
Have overdraft (any)	*74%*	*95%*	*89%*	*77%*	*61%*
Took another form of funding	5%	2%	7%	2%	7%
No facility	22%	4%	5%	21%	32%

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

There were also some clear differences in success rate by sector, with applicants in Transport remaining the least likely to have been successful (53%), and those in Agriculture still the most likely (90%), together with those in the Other Community sector (94%):

Final outcome (Overdraft): **Sought** new/renewed facility Q1 13- Q2 14	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*198*	*193*	*290*	*190*	*145*	*145*	*246*	*118*	*151*
Offered what wanted and took it	79%	59%	64%	53%	52%	45%	52%	70%	80%
Took overdraft after issues	11%	6%	11%	17%	15%	8%	19%	16%	14%
Have overdraft (any)	*90%*	*65%*	*75%*	*70%*	*67%*	*53%*	*71%*	*86%*	*94%*
Took another form of funding	*	11%	5%	5%	6%	7%	4%	2%	3%
No facility	10%	25%	20%	25%	27%	40%	25%	12%	3%

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 just over half of those seeking their first overdraft ending the process with no facility:

Final outcome (Overdraft): **Sought** new/renewed facility Q1 13- Q2 14	Total	1st overdraft	Increased overdraft	Renew overdraft
Unweighted base:	*1676*	*230*	*273*	*985*
Offered what wanted and took it	60%	31%	45%	85%
Took overdraft after issues	14%	6%	24%	13%
Have overdraft (any)	*74%*	*37%*	*69%*	*98%*
Took another form of funding	5%	7%	15%	*
No facility	22%	56%	16%	1%

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 2014 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: 63% of these Starts were looking for their first overdraft while a third (32%) of all first time applications were made by Starts:

Final outcome (Overdraft): **Sought** new/renewed facility Q1 13- Q2 14 By age of business	Starts	2-5 yrs	6-9 yrs	10-15 yrs	15+ yrs
Unweighted base:	*108*	*187*	*199*	*261*	*921*
Offered what wanted and took it	19%	53%	62%	71%	73%
Took overdraft after issues	20%	9%	20%	12%	13%
Have overdraft (any)	*39%*	*62%*	*82%*	*83%*	*86%*
Took another form of funding	6%	9%	3%	5%	2%
No facility	56%	30%	14%	12%	12%

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

The proportion of Starts with a facility 'after issues' is higher than in previous periods due to a higher proportion with this outcome amongst applications made in 2014. This though is still interim data and will be monitored over time.

The proportion of applications/renewals made for smaller amounts of £5,000 or less increased over the course of 2010 and 2011 from around a third to a half of applications. Since then the proportion of applications made for £5000 or less has declined again somewhat – to 45% in 2012 and 40% in 2013 to date.

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 now had an overdraft
- 62% of applications for the smallest overdrafts (under £5,000) were successful in 2012, but for applications to date in 2013 the success rate is slightly lower at 58%
- Those in the middle (who applied for £5-25,000) became slightly less likely to be successful over time, from around 90% to around 80% of these applicants having an overdraft, up to the end of 2012. For applications to date in 2013, the success rate is 73%

Analysis on the size of overdraft facility granted over time is now provided in the chapter on rates and fees, as context for the pricing information that is 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 shows a fairly consistent three quarters of applicants ending the process with a facility (with the exception of Q1 2013 which also saw more applicants ending the process with no facility):

Final outcome (Overdraft): SMEs seeking new/renewed facility By date of application	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13	Q3* 13	Q4* 13	Q1* 14
Unweighted base:	***541***	***527***	***656***	***425***	***355***	***452***	***466***	***372***	***312***	***282***	***160***
Offered what wanted and took it	63%	68%	57%	59%	60%	61%	53%	54%	73%	63%	55%
Took overdraft after issues	14%	8%	14%	12%	17%	15%	13%	20%	8%	10%	24%
Have overdraft (any)	***77%***	***76%***	***71%***	***71%***	***77%***	***76%***	***66%***	***74%***	***81%***	***73%***	***79%***
Took other funding	4%	3%	3%	2%	2%	5%	4%	5%	3%	3%	13%
No facility	18%	21%	27%	26%	22%	19%	30%	21%	16%	25%	8%

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

Applicants in Q2 2013 and Q1 2014 were more likely to report that they took their overdraft "after issues" – applicants in Q2 2013 were somewhat more likely than others to have been declined initially, but this was not the case on the data currently available for Q1 2014, which will be monitored going forward.

Applicants in Q3 2013 were less likely to have been declined initially, and the data available to date suggests that more applicants in this quarter ended the process with a facility (81%).

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 have an adverse effect on the outcome of an overdraft application:

- The proportion of applicants with a worse than average risk rating increased from 43% in 2010 to 53% for 2012 and is currently 50% in 2013 to date
- The proportion of first time applicants was slightly higher in 2012 (30%) than it was in either 2010 or 2011 (both 25%). It is currently 27% for 2013 to date.

To understand this more fully, 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.

As in previous reports, 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.

The model predicts a success rate between 71% and 78% for the individual quarters. The predicted success rate for the quarters from Q4 2012 onwards has typically been lower than for earlier quarters:

Final outcome (Overdraft): SMEs seeking new/renewed facility By date of application	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13	Q3* 13	Q4* 13	Q1* 14
Unweighted base:	*541*	*527*	*656*	*425*	*355*	*452*	*466*	*372*	*312*	*282*	*160*
Have overdraft (any)	*77%*	*76%*	*71%*	*71%*	*77%*	*76%*	*66%*	*74%*	*81%*	*73%*	*79%*
Predicted success rate	75%	75%	71%	74%	76%	72%	73%	73%	78%	73%	73%
Difference	+2	+1	0	-3	+1	+4	-7	+1	+3	0	+6

Final outcome of overdraft application by date of application

The analysis shows that actual success rates were in line with those predicted by the model for many quarters.

The lower success rate for overdraft applications made in Q1 2013 has already been highlighted. The model predicted lower success rates for that quarter (and indeed most of the more recent quarters with the exception of Q3 2012) and the actual success rate achieved was lower even than the rate predicted. The opposite is true for the initial results for Q1 2014, with a predicted success rate of 73% against a current success rate of 79%. For other recent quarters the actual and predicted rates are more closely aligned.

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 been identified since Q4 2012.

The table below 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. Including those that had had an automatic renewal increases the overdraft success rate from 74% to 88%:

Final outcome (Overdraft): Sought new/renewed facility Q1 13-Q2 14	Type 1 events	Type 1 + automatic renewal
Unweighted base:	*1676*	*3196*
Offered what wanted and took it	60%	28%
Took overdraft after issues	14%	6%
Automatic renewal	-	*54%*
Have overdraft (any)	*74%*	*88%*
Took another form of funding	5%	2%
No facility	22%	10%

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

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 a personal capacity rather than in the name of the business.

11% of those making an overdraft application in the past 18 months (Q1 2013 to Q2 2014) who were asked this question said that the facility they had sought was in a personal capacity. On this limited sample, a high proportion of these personal overdraft applications were from 0 employee SMEs and/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.

However, excluding the personal applications does not alter the overdraft success rate for applications made in the most recent 18 month period.

The equivalent 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 2013 and Q2 2014, 20% 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 2013 to Q2 2014) receiving each initial answer from their bank varied:

Initial bank response	Profile- all seeking loan Q1 2013 to Q2 2014
Those offered what wanted (41% of applicants)	These were typically more established SMEs: 45% had been in business for 15 years or more (v 30% of all loan applicants) and 51% had employees (v 40% of all applicants). They had the best external risk rating profile, with 31% having a minimal or low risk rating (v 21% of all loan applicants). They were less likely to be applying for their first ever loan (28% v 41% of all loan applicants), with 43% looking for a new loan but not their first (v 39% of all loan applicants). 46% were applying for a loan in excess of £25,000 (v 35% of loan applicants overall).
Those offered less than wanted (7% of applicants)	These SMEs were the most likely to have been in business for 15 years or more (55% v 30% of loan applicants overall). They were also more likely to have employees (52% v 40% of all loan applicants). 39% had an average risk rating (v 25% of all applicants). This group was the most likely to be applying for a loan in excess of £25,000 (67% v 35% of all loan applicants). 48% were applying for their first ever loan (v 41% of all loan applicants).
Those offered unfavourable T&C (7% of applicants)	These SMEs were less likely to have been in business for 15 years or more (14% v 30% of all loan applicants) but were no more likely to be a Start (19% v 22% overall). 63% had 0 employees (in line with applicants overall, 60%). They were the most likely to have a worse than average external risk rating (71% v 55% of all loan applicants). 19% were looking to renew an existing loan facility (v 10% of all loan applicants) while 34% were first time applicants (v 41% of all applicants). Almost all (99%) were applying for a loan in excess of £5,000 (v 81% of all loan applicants).
Those initially declined (45% of applicants)	As with overdraft applicants, those initially declined for a loan had a more distinctive profile. They were more likely to be a Start (31% v 22% of all loan applicants) and to be a one man band (70% had 0 employees v 60% of all loan applicants). They were also more likely to have a worse than average risk rating (65% v 55% of all loan applicants). Half, 53%, were applying for their first ever loan (v 41% of all loan applicants) and 79% were seeking a facility of £25,000 or less (v 65% of all loan applicants).

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

Summarised below for all loan applications made in the 18 months Q1 2013 to Q2 2014 (and reported to date), is what happened after the bank's initial response. Base sizes for some groups remain small.

Initial bank response	Subsequent events – all seeking loan Q1 2013 to Q2 2014
Offered what wanted (41% of applicants) Q159-164	93% of those offered what they wanted went on to take the loan with no problems. 6% took the loan after some issues (typically legal work / valuation being required, the initial offer being too expensive or waiting to see the RM). Almost all took the full amount they had originally asked for. 1% of these applicants decided not to proceed with the loan they had been offered.
Issue: Offered less than wanted (7% of applicants) Q180-190	These SMEs were typically offered 50% or more of what they asked for. Very few of these most recent applicants offered less than they wanted said that they had not been given a reason (<5%, excluding those who could not remember). New answer codes have been included from Q1 2014 meaning that the results for interviews in 2013 cannot be directly compared with those in 2014. On small base sizes, it remains true that security and credit history issues were the main reasons for not being offered the whole amount asked for. On a small base, the advice offered at this stage was more likely to be rated good (43%) than poor (26%) while 8% were not given any advice. A qualitative analysis over time showed that recent applicants were more likely to be offered advice and to rate that advice as good (in contrast to the experience with overdrafts). 66% accepted the lower amount offered (the majority with the original bank applied to), while 14% managed to negotiate a better deal, also predominantly with the original bank. 3% took other borrowing and 18% have no facility. The SMEs in this group who obtained a loan received more than 50% of the amount they had originally sought.

Continued

Continued

Issue: Offered unfavourable T&C (7% 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 18% of these applicants, and the proposed fee by 6%. 45% managed to negotiate a better deal (at either the original bank or another bank) while 10% accepted the deal offered, most with the original bank. 26% took another form of funding. 39% 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 (45% of applicants). Some analysis by date of application is possible.

Initially declined	Subsequent events – all seeking loan Q1 2013 to Q2 2014
Reasons for decline Q165	Around 1 in 10 of the SMEs initially declined said that they had not been given a reason for the decline (excluding those who could not remember the reasons given). Recent applicants were typically more likely to have been given a reason. The answer codes available were changed in Q1 2014 and while the main reasons given remain the same the results are not directly comparable between those interviewed in 2013 and those in 2014 (2014 results shown in brackets): • 30% (47%) said that the decline related to their personal and/or business credit history (especially smaller applicants) • 24% (43%) mentioned issues around security • 11% (3%) said they had too much existing borrowing, while 10% (7%) said they had a weak balance sheet
How decline was communicated Q165a-b	These questions were not asked in 2014
Advice and alternatives Q166-7 and 171-175	9% 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. Two thirds (64%) thought that the advice the bank had offered at that stage had been poor, 10% thought it had been good, while 6% had not been offered any advice. The proportion saying they received no advice has declined over time and whilst only a minority rated the advice provided as good, that proportion increased from 3% for applications made in 2010 to 7% in 2012, and 10% for the most recent 18 months. More generally, 15% of those initially declined reported that they had been referred to any other sources of help or advice by the bank, while a further 14% sought their own external advice without a recommendation, with no clear trend over time. On a small base, six out of ten found these external sources of use, also with no clear trend over time.

Initially declined	Subsequent events - all seeking loan Q1 2013 to Q2 2014
Appeals Q168-170	From April 2011, a new appeals procedure was introduced. The analysis below is mainly based as elsewhere in this report on all applications made in the last 18 months (Q1 2013 to Q2 2014). Amongst this group of applicants who were initially declined, 13% said that they were made aware of the appeals process by their bank (excluding DK). As for overdrafts, awareness of appeals is higher for those declined in 2013 (14%) than it was for those declined in 2012 (8%). 11% of those made aware went on to appeal, the equivalent of around 1% of SMEs that had been declined for a loan, providing anecdotal evidence at best about the appeals process. Of these 6 declined applicants, 1 appealed and the bank changed its decision, 4 appealed but the decision was upheld, 1 appealed but had not heard yet. The 27 applicants who were aware but did not appeal typically cited the view that they did not think it would have changed anything. Taking a longer term view, of all loan applications reported on the Monitor from Q1 2012, 23 SMEs have appealed. In 3 instances the bank changed its decision, in 16 the original decision was upheld and 4 were still waiting to hear at the time of interview.
Outcome Q176-179	At the end of this period, 7% of those initially declined for a loan had managed to secure a loan with either the original bank or, more often, a new supplier. 21% had secured alternative funding, with friends/family and/or personal borrowing most likely to be mentioned. 73% of those initially declined did not have a facility at all, and this has changed very little year on year.

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 had received a response, for a new or renewed loan facility during the most recent 18 month period, which for this report is from Q1 2013 to Q2 2014, irrespective of when they were interviewed.

Just over half, 53%, of loan applicants now have a loan facility. 37% of applicants ended the process with no facility.

Final outcome (Loan): **Sought** new/renewed facility Q1 13- Q2 14	All loan Type 1 applicants
Unweighted base:	*803*
Offered what wanted and took it	39%
Took loan after issues	14%
Have loan (any)	*53%*
Took another form of funding	10%
No facility	37%

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

Before looking at the results for loan applications made in the latest 18 month period in more detail, the summary table below records the proportion who 'Have loan (any)' for a series of 18 month periods, stretching back to Q3 2011, by key demographics. As already explained, for the more recent 18 month periods (Q2 2012 - Q3 2013 onwards), data is still being added as respondents in Q3 2014 can report an application made from Q3 2013 onwards.

This shows success rates decreasing slightly over time, albeit based on low base sizes for some sub-groups. The success rate for the latest period, at 53% is somewhat lower than other periods, due to lower success rates amongst the smallest SMEs and first time applicants, but also those with a minimal risk rating.

% of applicants ending process with loan facility	18 month periods						
Over time – row percentages By 18 month period of application	Q3 11 Q4 12	Q4 11 Q1 13	Q1 12 Q2 13	Q2 12 Q3 13*	Q3 12 Q4 13*	Q4 12 Q1 14*	Q1 13 Q2 14*
All SMEs	**58%**	**60%**	**56%**	**55%**	**55%**	**56%**	**53%**
0 employee	52%	57%	51%	49%	48%	49%	45%
1-9 employees	63%	61%	61%	60%	60%	61%	61%
10-49 employees	80%	79%	84%	84%	84%	84%	83%
50-249 employees	91%	89%	88%	86%	87%	89%	92%
Minimal external risk rating	89%	88%	89%	87%	81%	77%	73%
Low external risk rating	70%	76%	74%	75%	76%	78%	77%
Average external risk rating	61%	60%	58%	57%	58%	60%	56%
Worse than average external risk rating	54%	55%	48%	44%	45%	46%	46%
Agriculture	78%	85%	87%	84%	85%	90%	85%
Manufacturing	60%	54%	60%	65%	66%	69%	67%
Construction	41%	45%	44%	46%	52%	58%	53%
Wholesale/Retail	66%	69%	53%	50%	43%	47%	46%
Hotels & Restaurants	66%	62%	62%	62%	51%	47%	41%
Transport	58%	53%	50%	45%	43%	30%	41%
Property/Business Services etc.	53%	58%	57%	58%	57%	60%	56%
Health	71%	53%	45%	46%	49%	40%	41%
Other Community	57%	73%	62%	56%	57%	53%	52%
First time applicants	48%	44%	40%	40%	41%	43%	38%
Other new facility	61%	67%	63%	58%	58%	57%	55%
Renewals	82%	82%	81%	90%	87%	88%	90%

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

Final outcome – loan applications made Q1 2013 to Q2 2014

By size of business, smaller loan applicants remained less likely to have a facility. 92% of applicants with 50-249 employees had a loan, while more than 4 out of 10 of the smallest applicants ended the process with no facility:

Final outcome (Loan): **Sought** new/renewed facility Q1 13- Q2 14	Total	0 emps	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*803*	*88**	*283*	*295*	*137*
Offered what wanted and took it	39%	33%	44%	62%	74%
Took loan after issues	14%	12%	17%	21%	18%
Have loan (any)	*53%*	*45%*	*61%*	*83%*	*92%*
Took another form of funding	10%	10%	11%	5%	3%
No facility	37%	45%	28%	12%	5%

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

Amongst loan applicants with employees, 65% ended the process with a loan (48% were offered what they wanted and 17% had the loan after issues). 25% ended the process with no loan facility.

As with overdrafts, there was a clear difference in outcome by external risk rating. Applicants with a minimal or low external risk rating were twice as likely to have been offered the loan they wanted as those with a worse than average risk rating:

Final outcome (Loan): **Sought** new/renewed facility Q1 13- Q2 14	Total	Min	Low	Avge	Worse/ Avge
Unweighted base:	*803*	*122*	*182*	*224*	*207*
Offered what wanted and took it	39%	62%	62%	39%	30%
Took loan after issues	14%	11%	15%	17%	16%
Have loan (any)	*53%*	*73%*	*77%*	*56%*	*46%*
Took another form of funding	10%	16%	6%	17%	8%
No facility	37%	11%	17%	27%	46%

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

Smaller sample sizes of applicants restrict the scope for analysis by sector, and the results below should be viewed as indicative for many sectors. Those in Agriculture were the most likely to have a loan, while those in the Transport or Hotel and Restaurant sectors were more likely to end the process with no facility:

Final outcome (Loan): **Sought** new/renewed facility Q1 13- Q2 14	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*96**	*86**	*101*	*96**	*78**	*66**	*121*	*72**	*87**
Offered what wanted and took it	70%	42%	49%	35%	25%	32%	39%	37%	17%
Took loan after issues	15%	25%	4%	11%	16%	9%	17%	4%	35%
Have loan (any)	*85%*	*67%*	*53%*	*46%*	*41%*	*41%*	*56%*	*41%*	*52%*
Took another form of funding	4%	17%	17%	8%	6%	4%	11%	17%	4%
No facility	12%	16%	29%	47%	53%	55%	34%	43%	44%

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 as sample sizes permit.

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 (53%), with a higher success rate amongst those applying for a new loan, but not their first (55%). Almost all those who renewed an existing loan now have a facility (90%):

Final outcome (Loan): **Sought** new/renewed facility Q1 13- Q2 14	Total	1st loan	New loan	Renew loan
Unweighted base:	*803*	*203*	*298*	*144*
Offered what wanted and took it	39%	24%	44%	72%
Took loan after issues	14%	14%	11%	18%
Have loan (any)	***53%***	***38%***	***55%***	***90%***
Took another form of funding	10%	9%	14%	*
No facility	37%	53%	31%	9%

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 and a strong link between Starts and first-time applications: 73% of these Starts were applying for their first loan, and 38% of all first time loan applications were from Starts:

Final outcome (Loan): **Sought** new/renewed facility Q1 13- Q2 14. By age of business	Starts	2-5 yrs	6-9 yrs	10-15 yrs	15+ yrs
Unweighted base:	*74**	*115*	*99**	*105*	*410*
Offered what wanted and took it	23%	27%	29%	49%	59%
Took loan after issues	11%	16%	19%	2%	18%
Have loan (any)	***34%***	***43%***	***48%***	***51%***	***77%***
Took another form of funding	14%	15%	7%	16%	3%
No facility	52%	42%	46%	33%	19%

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

Small base sizes limit the analysis possible by size of facility over time but applications for £100,000 or more have made up around 15% of applications.

Half of smaller applications (under £100,000) were typically successful, with 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 three quarters of these larger applications resulting in a facility.

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. The proportion with a loan has varied, with no consistent pattern over time. The balance is made up by those who took another form of funding, which has also varied over time.

Applications made in Q4 2012 were more likely to result in a facility (72%), with more applicants having a facility "after issues" (22%). More recently, results for Q2 2013 showed that more loans were declined that quarter (52%), and this reflects the higher proportion of applicants who were declined in the bank's initial response. There are currently too few applications reported for Q1 2014 to include in the table below:

Final outcome (Loan): SMEs seeking new/renewed facility By date of application	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13	Q3* 13	Q4* 13
Unweighted base:	*267*	*293*	*287*	*225*	*189*	*222*	*212*	*176*	*152*	*144*
Offered what wanted and took it	39%	47%	52%	44%	35%	50%	46%	27%	38%	35%
Took loan after issues	13%	9%	8%	17%	18%	22%	12%	9%	17%	25%
Have loan (any)	***52%***	***56%***	***60%***	***63%***	***53%***	***72%***	***58%***	***36%***	***55%***	***60%***
Took another form of funding	4%	14%	8%	4%	13%	3%	11%	11%	4%	8%
No facility	44%	30%	32%	35%	34%	25%	31%	52%	41%	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:

- Starts: the proportion has increased from 15% in 2010 to 23% in both 2012 and 2013 to date
- Making their first application: the proportion increased from 30% in 2010 to 43% in 2012, and is currently 41% for 2013
- SMEs with a worse than average external risk rating: having been stable up to 2012 (47% in 2012 itself) the proportion has increased to 56% for 2013 to date

These are all factors that analysis has shown 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 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.

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

Analysis using this approach is shown below. This shows a relatively stable predicted loan success rate over the quarters for which data is available, with predicted success rates varying between 55% and 61%:

Final outcome (Loan): SMEs seeking new/renewed facility By date of application	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13	Q3* 13	Q4* 13
Unweighted base:	*267*	*293*	*287*	*225*	*189*	*222*	*212*	*176*	*152*	*144*
Have loan (any)	*52%*	*56%*	*60%*	*63%*	*53%*	*72%*	*58%*	*36%*	*55%*	*60%*
Predicted success rate	56%	61%	55%	59%	55%	60%	60%	55%	56%	56%
Difference	-4	-5	+5	+4	-2	+12	-2	-19	-1	+4

Final outcome of loan application by date of application

Current data for 2013 shows that the lower success rate reported for Q2 2013 is not explained by the profile of applicants in that quarter The other quarters of 2013 are currently showing success rates close to those predicted by the model, unlike 2012 where success rates typically exceeded those predicted (by some margin in Q4).

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 a personal capacity rather than in the name of the business.

17% of those making a loan application in the past 18 months (Q1 2013 to Q2 2014) who were asked this question, said that the facility they had sought was in a personal capacity. This is somewhat higher than for overdrafts (11%).

On this currently limited sample, many of these applications were from 0-9 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 excluding those that were personal applications alters the success rate only very slightly (from 53% to 52%).

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 new or renewed 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 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). In previous reports the analysis has included all applications made since the Monitor started. However, this is now a considerable period of time and so in this report, in line with the analysis elsewhere in this chapter, results are shown just for applications made in the last 18 months (between Q1 2013 and Q2 2014)

The table below shows that those seeking to renew an existing loan or overdraft facility were twice as likely to now have a facility as those seeking new funds:

Final outcome Loans and Overdrafts combined Q1 13 - Q2 14	New funds sought	Renewals sought
Unweighted base of applications:	*891*	*1272*
Offered what wanted and took it	32%	81%
Took facility after issues	14%	15%
Have facility (any)	*46%*	*96%*
Took another form of funding	9%	1%
No facility	45%	3%

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 facilities.

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 9 out of 10 or more applicants typically ended the process with a facility. Renewal applications made in Q1 2012 were somewhat less likely to be successful (although most, 85%, were):

Final outcome (Overdraft+ Loan): Applications for renewed facilities By date of application	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13	Q3* 13	Q4* 13	Q1* 14
Unweighted base of applications:	*405*	*393*	*451*	*308*	*256*	*315*	*352*	*281*	*244*	*209*	*112*
Offered what wanted and took it	77%	88%	74%	81%	74%	82%	78%	78%	88%	84%	66%
Took facility after issues	10%	9%	11%	11%	21%	15%	16%	17%	8%	13%	30%
Have facility (any)	*87%*	*97%*	*85%*	*92%*	*95%*	*97%*	*94%*	*95%*	*96%*	*97%*	*96%*
Took another form of funding	1%	1%	*	1%	1%	2%	2%	*	*	*	*
No facility	12%	2%	15%	7%	4%	1%	4%	4%	3%	3%	3%

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) made up half (48%) of all applications in the most recent period (Q1 2013 to Q2 2014). Around half of applicants for new money ended the process with a facility, with around 4 out of 10 ending the process with no facility, and this has been relatively consistent quarter to quarter.

New money applications made in the first half of 2013 were less likely to result in a facility (36% in Q1 and 41% in Q2 2013) – in line with the lower overall overdraft and loan success rates in these quarters reported earlier:

Final outcome (Overdraft+ Loan): Applications for new money By date of application	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13	Q3* 13	Q4* 13
Unweighted base of applications:	*377*	*381*	*413*	*254*	*215*	*273*	*244*	*198*	*166*	*156*
Offered what wanted and took it	39%	45%	41%	31%	37%	38%	26%	24%	42%	31%
Took facility after issues	16%	8%	13%	16%	15%	19%	10%	17%	14%	18%
Have facility (any)	*55%*	*53%*	*54%*	*47%*	*52%*	*57%*	*36%*	*41%*	*56%*	*49%*
Took another form of funding	7%	7%	7%	5%	8%	7%	9%	10%	5%	5%
No facility	38%	40%	39%	48%	40%	37%	54%	49%	38%	46%

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 one in three 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.

Due to limited base sizes this data is presented on an annual basis rather than quarterly.

The proportion of first time applicants ending the process with no facility has increased somewhat over time. The limited data available for first time applications made in 2014 suggests that more applicants ended the process with a facility than in 2013:

Final outcome – first time applicants Loans and Overdrafts combined By application year	In 2010	In 2011	In 2012	In 2013*
Unweighted base of applications:	*151*	*543*	*570*	*377*
Offered what wanted and took it	46%	30%	30%	24%
Took facility after issues	8%	7%	12%	10%
Have facility (any)	*54%*	*37%*	*42%*	*34%*
Took another form of funding	4%	11%	8%	7%
No facility	42%	53%	51%	58%

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 a facility varied relatively little 2010-2012. Current data suggests more applicants in 2013 ended the process without a facility (27%). This will be monitored going forward:

Final outcome – other new money Loans and Overdrafts combined By application year	In 2010	In 2011	In 2012	In 2013*
Unweighted base of applications:	*327*	*1030*	*585*	*387*
Offered what wanted and took it	46%	55%	52%	41%
Took facility after issues	22%	19%	21%	23%
Have facility (any)	*68%*	*74%*	*73%*	*64%*
Took another form of funding	11%	7%	5%	8%
No facility	21%	19%	22%	27%

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, those applying for their first facility were the most likely to have a worse than average risk rating – for 2013 to date 69% of first time applicants had a worse than average external risk rating.

All three applicant groups have seen an increase between 2010 and 2013 in the proportion of applicants with a worse than average risk rating, as the table below shows.

% of applicants with worse than average external risk rating (Overdraft+ Loan): By year of application (base varies)	2010	2011	2012	2013*
First time applicants	61%	69%	71%	69%
Other new money	44%	49%	49%	47%
Renewals	33%	34%	40%	41%

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

For the SME population as a whole, the proportion with a worse than average external risk rating rose from 50% in 2011 to 53% in 2012 but is currently 50% for year ending Q2 2014.

9. The impact of the application/ renewal process

This chapter reports

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

Key findings

8 out of 10 successful overdraft facilities were in place within 2 weeks of submitting the application. Loans typically took slightly longer with half in place within this timescale.

Almost all applicants said that the facility had been put in place 'in good time' for when it was needed (95% for overdrafts and 90% for loans). Those waiting more than a month were less likely to agree (44% agreed their overdraft was in place in good time, 73% for loans).

75% of successful overdraft applicants interviewed in 2014, described the process as 'low effort'. Loan applicants were somewhat less likely to agree (67%). This is due to loan applicants who had their facility 'after issues' finding the process more of an effort than the equivalent overdraft applicants.

Unsuccessful SMEs had found running their business more of a struggle, and/or had cut back on their spending or expansion plans. 62% did not think their bank had treated them fairly and 44% would seriously consider a change of bank (the equivalent of 1% of all SMEs).

8 out of 10 SMEs were satisfied with their bank overall and this has been consistent over time. Amongst 'would-be seekers' though (who wanted to apply for a facility but something stopped them) satisfaction with their bank overall has declined over time (from 73% in 2011 to 47% in H1 2014). Those would-be seekers who were not satisfied with their bank overall were much more likely to say that they had felt 'discouraged' from applying for a loan/overdraft than those who were satisfied with their bank (who were more likely to cite the process of borrowing as a barrier).

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 small base sizes restrict the analysis possible at this stage.

New facility granted

In a new question asked from Q4 2012, successful respondents were asked how long it had taken from submitting their application to putting 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 2013 to Q2 2014, where the respondent was asked this question.

8 out of 10 overdrafts were in place within 2 weeks (83%), while just over half of loans were in place in this time period (52%):

Successful Type 1 applicants Time taken to put facility in place **Sought** new/renewed facility Q1 13- Q2 14*	Overdrafts	Loans
Unweighted base:	*1412*	*571*
Within 1 week	71%	33%
Within 2 weeks	12%	19%
Within 3-4 weeks	11%	27%
Within 1-2 months	3%	8%
Longer than this	3%	11%
Not in place yet	1%	3%

Q101a and Q196a All SMEs that have applied/renewed Q1 2013 to Q2 2014, excluding DK

The proportion of overdrafts agreed within two weeks varied little by sector, from 79% of those in the Other Community sector to 89% of those in the Hotel and Restaurant sector. There was more variation by sector for loans but base sizes are small. A third or less of those in the Other Community or Wholesale/Retail sectors had their facility in place in two weeks, compared to 8 out of 10 of those in the Transport or Health sectors.

Analysis showed that secured loans were slightly less likely to be in place within a week (30%) than unsecured ones (37%), given the security processes that need to be undertaken. There was also a slight difference between secured (66%) and unsecured (74%) overdrafts that were in place within a week.

Facilities for smaller SMEs were more likely to be made available within a week (72% for overdrafts, 34% for loans where the SME had 0-9 employees) than those for larger SMEs (62% for overdrafts and 26% for loans where the SME had 10-249 employees). In terms of facilities being made available within a *month*, there was less of a difference by size for overdrafts (95% for smaller SMEs v 89% for larger ones), but a difference still existed for loans (80% for smaller SMEs v 63% 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 90% for loans, excluding DK answers). Despite typically waiting longer for their facility, bigger applicants were only slightly less likely to agree:

- Amongst applicants with 0-9 employees, 95% said their overdraft was made available in good time, while for loans it was 90%.
- Amongst larger applicants 94% said their overdraft was made available in good time, while for loans it was 88%.

Analysis by the length of time taken for the facility to be put in place showed that overall it was those waiting a month or more who were less likely to say that the facility had been put in place in good time (44% if they had waited a month for more or an overdraft, 73% if they had waited that long for a loan, both excluding DK answers).

Analysis of the data available over time shows that a consistently high percentage of overdrafts (90%+) were in place within a month, with 93%+ of respondents saying the facility was available in good time. The pattern for loans is less consistent, with applications in the first half of each year typically more likely to be in place within a month (82-88%) compared to those made in the second half of the year (65-74%). The proportion saying the loan was in place in good time has remained consistently above 90% despite these variations in timescale (albeit initial data for H1 2014 suggests a somewhat lower proportion, 85%, feeling their facility was in place in good time).

‘Effort’ required to obtain a new facility

From Q1 2014, successful Type 1 loan and overdraft applicants were asked how much effort they had to expend to get their new facility. This question is derived from various academic studies from Harvard which claim that the more ‘effort’ a situation requires the less satisfied the customer and the less likely they are to remain loyal in future.

Base sizes are somewhat limited at this stage, but early indications are that the overdraft process required a lower effort than the loan process. This though is due to more overdraft applicants being offered the facility they wanted, as it is the loan applicants who got their facility ‘after issues’ who gave a markedly different effort score:

- 75% of successful Type 1 overdraft applicants interviewed in the first half of 2014 described the process as ‘low effort’. 11% described it has ‘high effort’, a net score of +64 (note that the higher the net score the better and that negative net scores are not uncommon in other banking studies undertaken)
- Successful overdraft applicants who were offered what they wanted and took it had a net effort score of +68. If they had their facility after issues then the net score was lower at +38
- 67% of successful Type 1 loan applicants interviewed in the first half of 2014 described the process as ‘low effort’. 22% described it has ‘high effort’, a net score of +45
- Loan applicants who were offered what they wanted and took it had a net effort score of +68, the same score as the equivalent overdraft applicants. If however they had their facility after issues then the net score was -47 (albeit on a base of less than 100), with many more rating the process as one involving ‘high effort’

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 a result base sizes are very limited at this stage (35 respondents for overdrafts and 36 for overdrafts) but show that around 6 out of 10 of those who applied for an overdraft, and a similar proportion 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 the facility originally sought 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 YEQ2 2014 combined, this was the equivalent of 3% of all SMEs, so, again, base sizes are relatively small (under 300 for each). The key issues were seen as:

- Running the business is more of a struggle (mentioned by around half of these SMEs)
- Have had to make cutbacks on spending (mentioned by about 1 in 5)
- Not expanded / improved the business as would have hoped (each mentioned by around 1 in 5, and slightly more likely to be mentioned for loans)

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

When these SMEs, who either chose not to have a facility (but would ideally have wanted one) or who were declined by the bank, were asked more about their lending experience:

- 16% agreed that the bank had treated them fairly (62% disagreed)
- More, 26%, thought that they might have been treated more favourably at another bank, while a third, 36%, disagreed
- 44% felt that they were now seriously considering a change of bank (the equivalent of around 1% of *all* SMEs)

Overall bank satisfaction

Satisfaction with the new overdraft / loan facility is no longer asked, but the Monitor continues to track overall satisfaction with the main bank. The annual results for 2011 to 2013 are shown below, together with data for the first half of 2014.

Overall satisfaction has remained stable over time – for H1 2014 the overall satisfaction score was 81%, made up of 39% who were 'very satisfied' and 42% who were 'fairly satisfied' with their main bank.

Very/fairly satisfied with main bank				
Over time – row percentages	2011	2012	2013	H1 2014
Total	*81%*	*80%*	*81%*	*81%*
0 emps	82%	81%	81%	82%
1-9 emps	78%	77%	79%	78%
10-49 emps	80%	80%	83%	83%
50-249 emps	85%	84%	86%	89%
PNB	87%	86%	86%	86%
Type 1 event: facility at main bank	82%	81%	82%	83%
Type 1 event: no facility at main bank	32%	36%	35%	39%
Would be seekers of finance	73%	68%	59%	47%
Happy non-seekers of finance	87%	85%	84%	85%

Q220

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

The biggest change in levels of satisfaction over time has been amongst the 'Would-be seekers' who wanted to apply for a facility but felt that something stopped them doing so. Overall satisfaction amongst these SMEs dropped from 73% in 2011 to 47% in the first half of 2014.

Analysis of the reasons given by 'would be seekers' YEQ2 2014 shows that those who were not satisfied with their bank overall were much more likely to cite discouragement as their reason for not applying for a loan or overdraft (and in particular to cite indirect discouragement where the SMEs assumes it will be turned down and so does not apply). Those who were satisfied with their bank overall were more likely to cite the process of borrowing as their main barrier.

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 18 months Q1 2013 to Q2 2014.

Key findings

A third of new/renewed overdrafts granted in the 18 months to Q2 2014 were secured, typically against property. Over time, the proportion of overdrafts that were secured increased, from 22% of those granted in the first half of 2011 to 37% of those granted in the second half of 2013. Smaller facilities remained less likely to be secured, but the proportion has doubled over this period (from 9% to 22% for overdrafts granted for less than £10,000).

43% of overdrafts granted in the 18 months to Q2 2014 were on a variable rate. Variable rate lending became more common during 2012 and up to Q1 2013 (when 49% of facilities granted were on a variable rate) but this proportion has since declined (and was 39% for those overdrafts reported to date for Q1 2014).

The median variable overdraft margin charged was +3.0%, with relatively little variation by size of facility. The median fixed margin was 4.0%, and this was lower for facilities in excess of £25,000, and was also lower than in previous periods.

The median overdraft fee paid was £98, with 1 in 6 successful applicants saying no fee was paid. Two thirds of fees paid were the equivalent of 2% or less of the facility granted.

21% of loans agreed in the 18 months to Q2 2014 were commercial mortgages and a further 22% were secured loans, typically on property. Loans for more than £100,000 were more likely to be secured than smaller ones, with no clear pattern over time.

Loans agreed in the 18 months to Q2 2014 were more likely to be on a fixed rate (70%) than a variable rate (30%). The median margin for fixed rate loans was 4.4%, while the median variable rate, at +2.9%, was very similar to the median variable rate for overdrafts (+3.0%). On limited base sizes, more recent facilities appear to be on somewhat lower median rates, across both fixed and variable rate borrowing.

The median fee paid for a loan was similar to that for overdrafts at £92. 4 in 10 applicants said that no fee was paid. 85% of those who paid a fee paid the equivalent of 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 revised 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 2013 and Q2 2014, 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, but the quarter in which this renewal took place has only been identified from Q4 2012 onwards. These automatically renewed overdrafts are reported on 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 2013 to Q2 2014:

- 49% were granted to 0 employee SMEs
- 42% to 1-9 employee SMEs
- 8% to 10-49 employee SMEs
- 1% to 50-249 employee SMEs

76% of new/renewed overdrafts granted between Q1 2013 to Q2 2014 were for £25,000 or less. This varied by size from 86% of overdrafts granted to SMEs with 0 employees to 17% of those granted to SMEs with 50-249 employees.

7% of successful new/renewed overdrafts in this period were in a personal name rather than that of the business. This varied from 10% of overdrafts granted to 0 employee businesses to 2% of those with 50-249 employees.

Analysis of the overdraft facility granted by application date, reported below, shows that since the start of 2012, over half of overdrafts agreed have been for £5,000 or more, and that this was more likely to be the case for overdrafts agreed in 2013. Initial results for 2014 suggest this trend has not been maintained (46%).

Overdraft facility granted By date of application	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13	Q3* 13	Q4* 13	Q1* 14
Unweighted base:	*462*	*461*	*551*	*355*	*300*	*375*	*385*	*325*	*279*	*252*	*140*
Less than £5,000	52%	49%	45%	50%	39%	37%	45%	34%	43%	33%	54%
£5-25,000	31%	29%	37%	31%	43%	38%	32%	40%	40%	35%	28%
£25,000+	17%	22%	18%	19%	19%	24%	24%	26%	17%	32%	18%

Overdraft facility granted – all successful applicants that recall amount granted

Overdrafts: Security

A third (37%) of Type 1 overdrafts (i.e. a new or renewed facility not including automatic renewals, successfully applied for between Q1 2013 and Q2 2014) were secured. Larger SMEs were more likely to have provided security than smaller ones.

The most common form of security 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 13- Q2 14	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*1417*	*117*	*483*	*561*	*256*
Property (any)	24%	13%	33%	42%	38%
Charge over business property	*11%*	*7%*	*12%*	*28%*	*33%*
Charge over personal property	*12%*	*5%*	*20%*	*15%*	*6%*
Directors/personal guarantee	4%	*	6%	10%	9%
Other security (any)	11%	15%	6%	15%	21%
Any security	37%	27%	44%	58%	59%
No security required	63%	73%	56%	42%	41%

Q 106 All SMEs with new/renewed overdraft excluding DK

The larger the facility, the more likely it was to be secured. For those successfully applied for between Q1 2013 and Q2 2014:

- 21% of overdrafts granted for less than £10,000 were secured
- 48% of overdrafts granted for £10-24,999
- 63% of overdrafts granted for £25-99,999
- 76% 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 the second half of 2012 and in 2013 were somewhat more likely to be secured than those applied for in 2011, with some increase across all size bands.

Overdrafts of less than £10,000 applied for in H2 2013 were twice as likely to be secured as those applied for in H2 2011:

% of overdraft facilities that were secured, by size of facility and date applied for Row percentages	H1 2011	H2 2011	H1 2012	H2 2012	H1 2013	H2 2013*
All overdrafts	22%	24%	28%	34%	35%	37%
Overdrafts of <£10,000	9%	10%	18%	16%	18%	22%
Overdrafts of £10-25,000	28%	39%	33%	52%	49%	44%
Overdrafts of £25-100,000	45%	55%	54%	63%	62%	64%
Overdrafts of more than £100,000	57%	72%	77%	63%	72%	81%

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

Initial indications for applications made in H1 2014 are that around 4 in 10 overdrafts were secured.

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 borne 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 analysis over time difficult.

Overdrafts: Rates

Amongst those who gave an answer, just under half (43%) said that their new/renewed overdraft was on a variable rate:

Type of rate (overdraft) by facility granted: **Successfully sought** new/renewed overdraft Q1 13-Q2 14 excl. DK	Total	<£10k	£10-25k	£25-100k	£100k+
Unweighted base:	*1210*	*340*	*201*	*324*	*345*
Variable rate lending	43%	40%	41%	44%	58%
Fixed rate lending	57%	60%	59%	56%	42%

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

As the table below shows, when analysed by date of application the proportion of lending on a variable rate increased during 2012 and Q1 of 2013. Initial data for more recent applications suggests that fewer are on a variable rate:

New/renewed overdraft rate By date of application	Q311	Q411	Q112	Q212	Q312	Q412	Q113	Q213	Q313*	Q413*	Q114*
Unweighted base:	*376*	*383*	*448*	*291*	*241*	*299*	*317*	*273*	*227*	*204*	*119*
Variable rate lending	49%	38%	40%	44%	46%	46%	49%	42%	44%	37%	39%
Fixed rate lending	51%	62%	60%	56%	54%	54%	51%	58%	56%	63%	61%

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 (94%).

43% of those with a new/renewed variable rate overdraft and 36% of those with a fixed rate overdraft were unable / refused to say what rate they were paying. These 'Don't know' answers have been excluded from the analysis below, but as a result base sizes are small in some areas.

The average and median variable rate margins paid remained lower for facilities in excess of £100,000. and relatively consistent over time:

Variable margin (overdraft) by facility granted: **Successfully sought** new/renewed overdraft Q1 13-Q2 14 excl. DK	Total	<£10k	£10-25k	£25-100k	£100k+
Unweighted base:	*507*	*119*	*85**	*130*	*173*
Less than 2%	31%	35%	37%	13%	38%
2.01-4%	38%	27%	31%	64%	50%
4.01-6%	11%	9%	21%	8%	8%
6%+	20%	29%	11%	15%	5%
Average margin above Base/LIBOR:	*+3.8%*	*+4.2%*	*+3.4%*	*+3.7%*	*+2.8%*
Median margin above Base/LIBOR	*+3.0%*	*+2.8%*	*+2.7%*	*+3.0%*	*+2.4%*

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 an increase over time in the proportion of overdrafts being charged at +6% or more, to 25% for those overdrafts recorded to date for H1 2013, but on current data this trend has not continued:

New/renewed overdraft variable rate By application date (half year)	H210	H111	H211	H112	H212	H113	H213*
Unweighted base:	*175*	*419*	*346*	*311*	*252*	*243*	*195*
<4%	70%	65%	66%	63%	70%	61%	83%
4-6%	16%	27%	13%	23%	7%	13%	7%
6%+	13%	8%	21%	14%	23%	25%	11%
Average margin above Base/LIBOR:	+3.6%	+3.8%	+5.1%	+4.1%	+4.2%	+4.2%	+3.1%

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

The overall average and median fixed rate margins for Q1 2013 to Q2 2014 were somewhat lower than previous periods (the median rate was 4.3% for the 18 months to Q2 2013). 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 13-Q2 14 excl. DK	Total	<£10k	£10-25k	£25-100k	£100k+
Unweighted base:	*449*	*123*	*79**	*128*	*119*
Less than 3%	40%	36%	43%	45%	44%
3.01-6%	41%	40%	36%	44%	53%
6.01-8%	10%	11%	11%	8%	2%
8%+	9%	13%	10%	3%	1%
Average fixed rate:	*4.4%*	*5.0%*	*4.3%*	*3.3%*	*3.5%*
Median fixed rate	*4.0%*	*4.2%*	*4.0%*	*3.1%*	*3.8%*

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 showed an increasing proportion paid less than 3%, from a quarter of successful applicants in H2 2010 to a third in 2012. Current results for 2013 show a further increase in this proportion in the first half of the year that does not appear to have been maintained in the second half:

New/renewed overdraft fixed rate By application date (half year)	H210	H111	H211	H112	H212	H113	H213*
Unweighted base:	*130*	*310*	*273*	*276*	*213*	*224*	*160*
<3%	25%	28%	38%	38%	35%	44%	28%
3-6%	34%	50%	45%	32%	41%	39%	45%
6%+	40%	21%	17%	30%	24%	18%	26%
Average margin above Base/LIBOR:	*6.0%*	*5.0%*	*4.7%*	*5.9%*	*5.3%*	*4.1%*	*5.2%*

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 2013 and Q2 2014 were more likely to be on a fixed rate (55%) than a variable rate (45%), as were unsecured overdrafts (59% on a fixed rate and 41% a variable rate).

The average margin for a variable rate overdraft was +3.9% if it was secured or +3.8% if it was unsecured, while for fixed rate facilities, secured overdrafts were at an average rate of 4.1% compared to 4.6% for an unsecured overdraft.

Overdrafts: Fees

Most respondents (84%) were able to recall the arrangement fee that they had paid for their new/renewed overdraft facility (if any). The average fee paid was £341, and this has been fairly consistent over time.

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

Fee paid (overdraft) by facility granted: **Successfully sought** new/renewed overdraft Q1 13-Q2 14 excl. DK	Total	<£10k	£10-25k	£25-100k	£100k+
Unweighted base:	*1221*	*344*	*224*	*329*	*324*
No fee paid	16%	20%	12%	12%	9%
Less than £100	16%	23%	9%	4%	3%
£100-199	36%	47%	38%	13%	3%
£200-399	13%	6%	30%	23%	4%
£400-999	9%	2%	9%	29%	21%
£1000+	9%	2%	3%	18%	61%
Average fee paid:	*£341*	*£131*	*£221*	*£532*	*£2072*
Median fee paid	*£98*	*£84*	*£146*	*£342*	*£1401*

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

Secured overdrafts, which are typically larger facilities, were somewhat more likely to attract a fee (88%) than unsecured overdrafts (81%), and the average fee charged was higher (£611 secured compared to £176 unsecured).

Amongst those with a new/renewed overdraft who knew both what fee they had paid and the size of the facility granted, 29% paid a fee that was equivalent to less than 1% of the facility granted and a further 38% paid the equivalent of between 1-2%.

Half of those with a facility of under £10,000 paid a fee equivalent to 2% or less of the facility granted compared to almost all of those with a larger facility:

- 53% of those granted a new/renewed overdraft facility of less than £10,000 paid the equivalent of 2% or less
- 78% of those granted a new/renewed overdraft facility of £10-25,000 paid the equivalent of 2% or less
- 90% of those granted a new/renewed overdraft facility of £25-100,000 paid the equivalent of 2% or less
- 98% of those granted a new/renewed overdraft facility of more than £100,000 paid the equivalent of 2% or less

Whilst secured overdrafts typically attracted a higher fee in absolute terms, this remained more likely to be the equivalent of 2% or less of the agreed facility (74%) than was the case for unsecured overdrafts (63%).

Over time, the proportion paying no fee for their overdraft has remained fairly consistent, at around 18%. The exception is for applications made in H2 2012, when 27% of successful applicants said that no fee was paid.

Where a fee *was* paid, more overdrafts agreed in recent periods attracted a fee of £200+ (30-34% compared to around a quarter in other periods). However, the proportion saying they had paid the equivalent of 2% or less of the value of their facility is not showing a consistent pattern over time, suggesting that in some cases the higher fee was a function of the size of facilities granted in that period.

Overdraft terms: Analysis by risk rating

Sample sizes also permit some analysis of size of facility, interest rates and fees by the external risk rating of the SME applying. Businesses with a minimal/low risk rating typically had a larger facility and paid somewhat less for it:

Overdraft rates and fees summary **Successfully sought** new/renewed overdraft Q1 13-Q2 14 excl. DK	Min/Low	Average/Worse than average
Unweighted base (varies by question):	*622*	*715*
% borrowing £25,000 or less	53%	84%
Facility secured (Less than £25k)	40%	22%
Facility secured (£25k+)	68%	64%
Facility on a variable rate (excluding DK)	46%	39%
Average variable margin for less than £25k facility	+3.6%	+4.1%
Average variable margin for facility £25k+	+3.0%	+4.1%
Average fixed rate for less than £25k facility*	3.1%	5.2%
Average fixed rate for facility £25k+	3.3%	3.5%
% where fee <2% of facility (under £25k)	80%	58%
% where fee <2% of facility (£25k+)	93%	94%

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

Overdraft terms: Analysis by sector

Overall in the 18 months Q1 2013 to Q2 2014, 76% of overdrafts successfully applied for were facilities of £25,000 or less. By sector this varied relatively little (between 67% and 85%), with the exception of Agriculture where 47% of overdrafts granted were for less than £25,000.

As the table below shows, secured overdrafts were:

- More common for overdrafts in Agriculture (57%)
- Somewhat less common for overdrafts in the Transport (15%) and Hotel and Restaurant (19%) sectors

Type 1 overdraft **Successfully sought** new/renewed overdraft Q1 13-Q2 14 excl. DK	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*179*	*173*	*242*	*156*	*117*	*108*	*212*	*102*	*128*
Any security	57%	41%	34%	46%	19%	15%	31%	30%	38%
- property	*47%*	*31%*	*19%*	*27%*	*17%*	*8%*	*19%*	*11%*	*30%*
No security	43%	59%	66%	54%	81%	85%	69%	70%	62%

Q 106 All SMEs with new/renewed overdraft excluding DK

Overall, just under half of Type 1 overdrafts obtained were on a variable rate (43%). On limited base sizes, overdrafts granted to SMEs in the Other Community and Health sectors were less likely to be on a variable rate:

Type 1 overdraft rate **Successfully sought** new/renewed overdraft Q1 13-Q2 14 excl. DK	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*167*	*148*	*205*	*135*	*92**	*89**	*184*	*79**	*111*
Variable rate lending	54%	41%	37%	56%	46%	45%	50%	20%	16%
Fixed rate lending	46%	59%	63%	44%	54%	55%	50%	80%	84%

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 SMEs in the Other Community sector were more likely to pay a fee for their facility. Whilst those in Agriculture paid on average a higher fee, this is in part a reflection of the larger overdraft facilities successfully applied for in this sector, given that they were as likely as many other sectors to pay a fee equivalent to 2% or less of the sum borrowed:

Type 1 overdraft fees **Successfully sought** new/renewed overdraft Q1 13-Q2 14 excl. DK	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base (varies):	*153*	*150*	*214*	*137*	*98**	*92**	*186*	*88**	*103*
No fee paid	18%	14%	21%	15%	10%	26%	14%	22%	4%
Average fee paid	£592	£659	£219	£332	£345	£193	£382	£131	£349
Equivalent of 2% or less paid*	68%	90%	67%	64%	63%	46%	70%	89%	48%

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 2013 and Q2 2014.

Data available for these automatic renewals showed that the majority (77%) were for less than £25,000 (in line with Type 1 overdraft events reported for these quarters), and they were in many ways similar to Type 1 overdraft events in the same period, albeit that they were somewhat less likely to have paid a fee, and where a fee was paid it was somewhat lower:

Overdraft rates and fees summary Q1 13-Q2 14	Automatically renewed	Type 1 overdraft event
Unweighted base (varies by question):	*1441*	*1417*
Any security required	27%	37%
Facility on a variable rate (excluding DK)	38%	43%
Average variable margin	+3.9%	+3.8%
Average fixed rate	5.4%	4.4%
No fee	26%	16%
Average fee paid	£233	£341

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 had made an application for a new or renewed loan facility during an 18 month period which for this report is between Q1 2013 and Q2 2014, 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 between Q1 2013 and Q2 2014:

- 50% were granted to 0 employee SMEs
- 39% to 1-9 employee SMEs
- 9% to 10-49 employee SMEs
- 2% to 50-249 employee SMEs

80% of new/renewed loans granted in the period Q1 2013 to Q2 2014 were for £100,000 or less. By size this varied from 87% of those granted to SMEs with 0 employees to 25% of loans granted to those with 50-249 employees.

18% of successful new/renewed loans in this period were applied for in a personal name rather than that of the business (of those asked the question, which has been included from Q4 2012). 80% of these loans were for £100,000 or less.

Personal facilities will typically be priced differently to business facilities, so as an indication 19% of all loans agreed for less than £100,000 were applied for in a personal name, compared to 17% of loans £100k+.

Analysis of loans granted by application date shows that typically around 1 in 5 loans were for £100,000 or more. Up to 1 in 3 loans granted between Q3 2012 and Q2 2013 were for £100,000 or more, but this trend does not appear to have been maintained in the most recent quarters:

Loan facility granted By date of application	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13	Q3* 13	Q4* 13
Unweighted base:	*204*	*212*	*206*	*165*	*131*	*173*	*147*	*130*	*111*	*112*
Less than £25k	71%	63%	72%	73%	61%	49%	52%	60%	49%	64%
£25-99k	12%	16%	14%	7%	11%	20%	22%	13%	34%	23%
More than £100k	17%	21%	15%	20%	28%	31%	26%	27%	17%	12%

All successful loan applicants that recall amount granted

Loans: Security

21% of loans were commercial mortgages. These were much more likely to have been granted for £100,000+ with little difference in this most recent period by size of SME:

- 21% of successful applicants with 0-9 employees said their loan was a commercial mortgage
- 20% of successful applicants with 10-49 employees
- 20% of successful applicants with 50-249 employees

All other successful loan applicants were asked whether any security was required for their 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 13-Q2 14	Total	0-9 emp	10-49 emps	50-249 emps
Unweighted base:	*587*	*221*	*241*	*125*
Commercial mortgage	21%	21%	20%	20%
Secured business loan	22%	20%	39%	50%
Unsecured business loan	57%	59%	40%	30%

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

Including commercial mortgages, of new/renewed loans successfully applied for in Q1 2013 to Q2 2014:

- 26% of loans granted for less than £25,000 were secured
- 47% of loans granted for £25,000 to £100,000 were secured
- 88% of those granted for more than £100,000 were secured

The table below provides further detail on secured loans by listing the security required for those 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 13-Q2 14	Total	0-9 emp	10-49 emps	50-249 emps
Unweighted base:	***587***	***221***	***241***	***125***
Commercial mortgage	21%	21%	20%	20%
Secured – Property (any)	17%	16%	25%	34%
Business property	*11%*	*10%*	*20%*	*29%*
Personal property	*6%*	*6%*	*5%*	*6%*
Director/personal guarantees	2%	1%	7%	6%
Other security	5%	4%	12%	18%
Unsecured business loan	57%	59%	40%	30%

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 to 8 out of 10 loans granted for more than £100,000 (*excluding* commercial mortgages) were secured. Loans for under £100,000 were less likely to be secured, with no clear pattern over time, so overall between a quarter and a third 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 11	H2 11	H1 12	H2 12	H1 13	H2 13*
All loans (excluding commercial mtges)	20%	29%	33%	33%	26%	30%
Loans of <£100,000 (excl commercial mtges)	15%	21%	28%	18%	17%	23%
Loans of more than £100,000 (excl commercial mtges)	72%	76%	69%	78%	82%	79%

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 borne in mind when reviewing the changes in margin over time later in this chapter, albeit that small sample sizes make a true like for like analysis over time difficult.

Loans: Rates

Amongst those who knew, 70% said that their loan was on a fixed rate (including those with commercial mortgages). Fixed rate lending remained more common for loans than overdrafts (where 57% of facilities were on a fixed rate) and also more common for smaller loan facilities:

Type of rate (loan) by amount granted: **Successfully sought** new/renewed loan Q1 13-Q2 14	Total	<£100k	£100k+
Unweighted base:	*499*	*281*	*218*
Variable rate lending	30%	23%	59%
Fixed rate lending	70%	77%	41%

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

Analysed by when the application took place showed that 76% of loan applications granted in 2012 were on a fixed rate. In the first half of 2013 this fell slightly to 61%, before increasing to 83% for the applications reported to date in the second half of 2013.

Fixed rate lending was also more common where the facility was unsecured (78% v 60% for secured loans).

Most of those on a variable rate said that the rate was linked to Base Rate (75%).

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

Variable margin (loan) by amount granted: **Successfully sought** new/renewed loan Q1 13-Q2 14	Total	<£100k	£100k+
Unweighted base:	*173*	*73**	*100*
Less than 2%	29%	21%	42%
2.01-4%	50%	48%	54%
4.01-6%	10%	13%	4%
6%+	11%	18%	*
Average margin above Base/LIBOR:	*+3.5%*	*+4.1%*	*+2.5%*
Median margin above Base/LIBOR	*+2.9%*	*+2.8%*	*+2.8%*

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

The overall median margins were somewhat lower than in previous 18 month periods (Having been 3.3% for the 18 months to Q3 2013). Analysis over individual time periods is restricted by the sample sizes available, but *indications* are that for loans successfully applied for between H1 2011 and H1 2013, the average margin charged has been broadly stable at around +4%.

The median variable rate charged was very similar for overdrafts (+3.0%) and loans (+2.9%). The median rate for fixed rate loan lending, at 4.4%, was closer to the median rate for fixed rate overdraft lending (4.0%) than has been the case in previous periods:

Fixed rate (loan) by amount granted: **Successfully sought** new/renewed loan Q1 13-Q2 14	Total	<£100k	£100k+
Unweighted base:	*248*	*149*	*99**
Less than 3%	27%	26%	36%
3.01-6%	42%	40%	51%
6.01-8%	18%	19%	12%
8%+	13%	15%	1%
Average fixed rate:	*5.3%*	*5.5%*	*4.0%*
Median fixed rate	*4.4%*	*4.4%*	*4.3%*

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

The overall median fixed rate margin for loans was unchanged from recent 18 month periods (but somewhat lower than the 5% median rate for the 18 months to Q2 2013). Analysis by date of application is limited by the number of respondents answering this question, but indicative results were that the average rate had been around 6% in recent half year periods.

For those who successfully applied for a new/renewed loan on a variable rate between Q1 2013 and Q2 2014, a secured loan was charged at an average margin of +3.8% and an unsecured loan at an average margin of +3.1%. For fixed rate lending over the same period, the differences were more marked at 4.2% for secured loans and 5.9% 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 13-Q2 14	Total	<£100k	£100k+
Unweighted base:	*442*	*244*	*198*
No fee paid	42%	47%	26%
Less than £100	7%	9%	*
£100-199	13%	16%	2%
£200-399	11%	11%	9%
£400-999	14%	11%	24%
£1000+	13%	6%	39%
Average fee paid:	*£801*	*£262*	*£2686*
Median fee paid	*£92*	*£9*	*£522*

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

The median fee paid was virtually unchanged over time (previously £99 and £92), while analysis by date of application showed little clear pattern over time.

Amongst those with a new/renewed loan who knew both what fee they had paid and the original loan size, 68% paid a fee that was the equivalent of less than 1% of the amount borrowed and a further 17% paid between 1-2%:

- 83% of those granted a new/renewed loan of less than £100,000 paid the equivalent of 2% or less
- 91% of those granted a new/renewed loan of more than £100,000 paid the equivalent of 2% or less

There was a difference in the proportion paying the equivalent of 2% or less for their loan by whether the loan was secured or not (88% if secured, 82% if not).

In 2011 around 8 out of 10 applicants paid the equivalent of 2% or less of their facility as a fee. In 2012 this proportion dropped slightly, to around 7 out of 10, while initial data for 2013 indicates that once again around 8 out of 10 fees were the equivalent of 2% or less of the facility granted.

Loan terms: Analysis by risk rating

Sample sizes also permit some analysis of size of facility, 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:

Loan rates and fees summary **Successfully sought** new/renewed loan Q1 13-Q2 14	Min/Low	Average/Worse than average
Unweighted base (varies by question):	*270*	*282*
% borrowing £100,000 or less	66%	86%
Any security provided	51%	39%
Facility on a variable rate (excluding DK)	39%	29%
Average variable margin	+2.9%	+3.7%
Average fixed rate	4.9%	5.3%
% where fee <2% of facility	82%	84%

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 across an 18 month time period. This section continues to be included, but can provide only *indicative* loan data. Figures are not shown for the Transport or Hotel and Restaurant sectors as the base sizes are too small to report on.

80% of new/renewed loans agreed between Q1 2013 and Q2 2014 were for £100,000 or less. This typically varied little by sector, but two sectors were more likely to have loans over £100k: Property / Business Services (36%) and Agriculture (34%).

On limited base sizes, new/renewed loans in the Wholesale/Retail, Health, Other Community and Property/Business Services sectors were more likely to have been commercial mortgages:

Type 1 loan **Successfully sought** new/renewed loan Q1 13-Q2 14	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*85**	*70**	*61**	*70**			*88**	*55**	*69**
Commercial mtge	7%	10%	13%	27%			26%	35%	36%
Secured loan	46%	18%	9%	17%			31%	19%	11%
Unsecured loan	48%	72%	78%	56%			43%	46%	53%

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

Overall, 70% of Type 1 loans were on a fixed rate. This appeared less likely for loans amongst SMEs in the Property/Business Services sector:

Type 1 loan rate **Successfully sought** new/renewed loan Q1 13-Q2 14	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*73**	*62**	*50**	*62**			*78**		*62**
Variable rate lending	38%	16%	21%	15%			64%		13%
Fixed rate lending	62%	84%	79%	85%			36%		87%

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

Base sizes preclude any further analysis of rates, or fees.

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

5% of SMEs in Q2 2014 met the definition of a 'would-be seeker' of finance, having wanted to apply for a new/renewed loan or overdraft facility in the 12 months prior to interview but having felt that something had stopped them. Smaller SMEs, Starts and those with a worse than average risk rating were more likely to meet the definition.

Over time, the proportion of 'would-be seekers' of finance remained low (it was 6% in the equivalent quarter of 2013) with most SMEs each quarter meeting the definition of a 'happy non-seeker' of finance. 78% met this definition in Q2 2014, only slightly higher than the equivalent quarter of 2013 (76%) but up from 66% in the equivalent quarter of 2012.

The remaining 17% of SMEs reported a borrowing 'event' (a new or renewed loan or overdraft facility, or an automatically renewed overdraft), and this has been relatively consistent over recent quarters, albeit at lower levels than were seen in 2012 (24% of SMEs in Q2 2012 reported a borrowing event).

Excluding the 'Permanent non-borrowers' who appeared to have little appetite for external finance increased the proportion of 'would-be seekers' to 9% of remaining SMEs but the 'happy non-seekers' remained the largest group at 64%, and this proportion has also been increasing over time.

Almost half (45%) of those who had wanted to apply for a loan or an overdraft, but hadn't, said that their main barrier was 'discouragement'. This was primarily indirect discouragement (where the SME assumes that they will be turned down and so does not apply) – cited by 1 in 3 of those who had wanted to apply for an overdraft or a loan. 1 in 10 of both loan and overdraft would-be seekers said that they had approached the bank informally and felt put off from applying (direct discouragement).

The other main barrier to applications, mentioned by a third of 'would-be seekers', was the process of borrowing – the hassle, expense etc.

7% of all SMEs interviewed across Q1 and Q2 2014 reported that they had ever been declined for a banking facility. Three quarters of those declined said that it had made them more reluctant to apply for facilities subsequently, the equivalent of 5% of all SMEs being more reluctant to apply (or 8% once the PNBs were excluded).

This increased reluctance was not enough to prevent all applications for finance. 42% of those who felt more reluctant had reported a borrowing event in the 12 months prior to interview, but 23% of this group met the definition of a 'would-be seeker' of finance, compared to 4% of those who had never been declined. They were also the least likely to meet the definition of a 'happy non-seeker' (36% compared to 82% of those who have never been declined).

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 since the start of the SME Finance Monitor, 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 also 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.

As a result, from Q4 2012, the question used to separate the 'Happy non-seekers' 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, something had stopped them' 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 not feature in this '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 (i.e. including automatic renewals as an 'event'), but only the shaded figures from Q4 2012 onwards reflect the new 'Would-be seeker / Happy non-seeker' definition. The change in definition means that these shaded figures are not necessarily directly comparable to previous waves, but are shown in the full 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 not only applications for new or renewed 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, and then those that have had a facility reduced/cancelled or chosen to do so (the Type 2 and 3 events):

Any events (overdraft and loan) All SMES, over time By date of interview	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014
Unweighted base:	*5000*	*5032*	*5000*	*5000*	*5000*	*5008*	*5028*	*5000*	*5008*
Have had an event	24%	22%	21%	17%	19%	15%	17%	14%	17%
• *New or (auto) renewed facility*	*22%*	*20%*	*18%*	*15%*	*16%*	*13%*	*15%*	*13%*	*15%*
• *Type 2 or 3 events*	*4%*	*3%*	*3%*	*3%*	*4%*	*3%*	*4%*	*3%*	*4%*
Would-be seekers	10%	11%	7%	7%	6%	7%	4%	4%	5%
Happy non-seekers	66%	67%	73%	76%	76%	78%	79%	82%	78%

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

This shows that the proportion of 'Happy non-seekers' remained at the higher level seen since the start of 2013 (currently 78%). 'Would-be seekers', using their new definition, remained at the lower level seen post the definition changed, as the proportion of SMEs reporting an event remained at around 1 in 6.

'Permanent non-borrowers' are by definition 'happy non-seekers'. The impact on the analysis above once the PNBs are removed is discussed later in the chapter.

The table below shows the proportion of 'Would-be seekers' by key demographic groups over time. It is those with an average or worse than average external risk rating who have become less likely to be a 'would-be seeker' of finance in recent quarters:

Would-be seekers Over time – row percentages By date of interview	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014
All SMEs	10%	11%	7%	7%	6%	7%	4%	4%	5%
0 employee	10%	12%	7%	7%	6%	7%	4%	4%	6%
1-9 employees	10%	9%	7%	7%	5%	7%	5%	5%	4%
10-49 employees	5%	7%	4%	4%	3%	3%	2%	3%	2%
50-249 employees	6%	5%	2%	2%	1%	1%	1%	1%	1%
Minimal external risk rating	6%	5%	2%	4%	2%	2%	3%	2%	1%
Low external risk rating	7%	8%	5%	3%	2%	3%	4%	2%	3%
Average external risk rating	7%	9%	5%	6%	6%	8%	4%	2%	3%
Worse than average external risk rating	11%	14%	7%	7%	6%	7%	4%	4%	8%
Agriculture	9%	7%	3%	7%	3%	3%	5%	4%	2%
Manufacturing	7%	10%	8%	6%	4%	5%	3%	2%	6%
Construction	12%	11%	6%	7%	9%	7%	5%	4%	6%
Wholesale/Retail	10%	9%	9%	8%	5%	7%	5%	8%	5%
Hotels & Restaurants	6%	12%	6%	7%	6%	8%	8%	3%	8%
Transport	12%	16%	6%	11%	7%	10%	5%	4%	10%
Property/Business Services etc.	8%	10%	7%	7%	6%	7%	3%	2%	3%
Health	8%	10%	4%	9%	2%	6%	2%	4%	4%
Other Community	13%	16%	9%	4%	3%	7%	5%	6%	8%
All excluding PNBs	15%	17%	11%	12%	9%	11%	7%	8%	9%

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

As in previous periods, SMEs with no employees were less likely to have had an 'event' than those with employees. The bigger the SME, the less likely they were to be a 'Would-be seeker' of external finance:

Any events (Overdraft and loan) YEQ2 14 All SMES	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*20,044*	*4018*	*6622*	*6404*	*3000*
Have had an event	16%	13%	24%	25%	20%
Would-be seekers	5%	5%	5%	2%	1%
Happy non-seekers	79%	82%	70%	73%	79%

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

SMEs with employees were somewhat more likely to have experienced a borrowing 'event' (24%). 5% met the definition of a 'Would-be seeker' of finance, with the largest group, as overall, the 'Happy non-seekers' (71%).

Those currently using external finance were no more or less likely to be 'Would-be seekers' (5%), but remained much more likely to have had an event (38% v 2% not using external finance).

By risk rating, those SMEs with a minimal or low risk rating remained more likely to have had an event:

Any events (Overdraft and loan) YEQ2 14 All SMEs with a risk rating	Total	Min	Low	Avge	Worse/ Avge
Unweighted base:	*20,044*	*3370*	*4295*	*5274*	*5216*
Have had an event	16%	21%	20%	15%	14%
Would-be seekers	5%	2%	3%	4%	6%
Happy non-seekers	79%	78%	78%	80%	80%

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

The proportion of 'Would-be seekers' varied relatively little by sector (4-7%). More variation was seen in terms of 'Happy non-seekers', which accounted for 86% of those in the Health sector (who were less likely to have had an event), to 72% of those in Agriculture (who remained more likely to have had an event):

Any events (overdraft and loan) All SMEs YEQ2 14	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*1506*	*2099*	*3517*	*2042*	*1787*	*1811*	*3512*	*1772*	*1998*
Have had an event	25%	19%	15%	21%	20%	16%	13%	10%	14%
Would-be seekers	4%	4%	5%	6%	7%	7%	4%	4%	7%
Happy non-seekers	72%	77%	79%	73%	73%	77%	83%	86%	79%

Q115/209 All SMEs

Analysis by age of business showed that Starts remained the most likely to be 'Would-be seekers' (7%). They were less likely to have had an event (9%), compared to 22% of those in business for 15 years or more.

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 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 the themes shown below, and respondents could initially nominate as many reasons as they wished for not having applied when they wanted to. For YEQ2 2014 the reasons given were:

- **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 51% of all 'Would-be seekers', which is the equivalent of around 3% of all SMEs
- **Process of borrowing** – those who did not want to apply because they thought it would be too expensive, too much hassle etc. This was given as a reason by 49% of all 'Would-be seekers', which is the equivalent of around 2% 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 23% of all 'Would-be seekers' which is the equivalent of around 1% 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 11% of all 'Would-be seekers', which is also the equivalent of around 1% of all SMEs

The table below shows the combined results for YEQ2 2014, and all the reasons for not applying for a loan or overdraft that are included in 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 those results form the main analysis of barriers to application later in this chapter.

All ‘Would-be seekers’	Would have liked to apply for an overdraft			Would have liked to apply for a loan		
All reasons for not applying when wished to YEQ2 14	Total	0-9 emps	10-249 emps	Total	0-9 emps	10-249 emps
Unweighted base:	*566*	*424*	*142*	*404*	*308*	*96**
Issues with principle of borrowing	22%	22%	17%	15%	15%	17%
-Not lose control of business	*9%*	*9%*	*5%*	*6%*	*6%*	*7%*
-Can raise personal funds if needed	*12%*	*12%*	*9%*	*7%*	*7%*	*14%*
-Prefer other forms of finance	*7%*	*7%*	*8%*	*4%*	*4%*	*7%*
-Go to family and friends	*6%*	*6%*	*2%*	*5%*	*5%*	*1%*
Issues with process of borrowing	41%	41%	45%	47%	47%	39%
-Would be too much hassle	*13%*	*13%*	*12%*	*10%*	*10%*	*11%*
-Thought would be too expensive	*23%*	*23%*	*14%*	*24%*	*25%*	*16%*
-Would be asked for too much security	*9%*	*9%*	*16%*	*12%*	*11%*	*17%*
-Too many terms and conditions	*14%*	*14%*	*19%*	*10%*	*10%*	*13%*
-Did not want to go through process	*7%*	*7%*	*7%*	*6%*	*6%*	*2%*
-Forms too hard to understand	*1%*	*1%*	*	*2%*	*2%*	*2%*
Discouraged (any)	51%	51%	46%	47%	47%	47%
-Direct (put off by bank)	*14%*	*14%*	*22%*	*15%*	*15%*	*18%*
-Indirect (thought would be turned down)	*41%*	*42%*	*30%*	*37%*	*37%*	*32%*
Economic climate	9%	9%	7%	9%	9%	6%
Not the right time to apply	9%	9%	7%	9%	9%	6%

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 YEQ2 2014. It shows that discouragement (much of it indirect) and the process of borrowing were 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 YEQ2 14	Total	0-9 emps	10-249 emps	Total	0-9 emps	10-249 emps
Unweighted base:	*566*	*424*	*142*	*404*	*308*	*96**
Discouraged (any)	45%	45%	40%	45%	45%	40%
-Direct (put off by bank)	*10%*	*10%*	*18%*	*11%*	*11%*	*12%*
-Indirect (thought would be turned down)	*35%*	*36%*	*22%*	*34%*	*35%*	*28%*
Issues with process of borrowing	33%	33%	34%	34%	34%	28%
Issues with principle of borrowing	9%	9%	7%	6%	6%	11%
Economic climate	4%	4%	4%	5%	5%	3%

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

Amongst 'would-be seekers' of an overdraft, larger SMEs were more likely than smaller SMEs to report 'direct' discouragement (arising from a conversation with the bank), while smaller SMEs were more likely than larger ones to have felt indirectly discouraged about either a loan or an overdraft. Otherwise there were few differences by size of business.

Amongst 'Would-be seekers' with employees, the reasons given for not seeking a facility were very similar to reasons overall. The exception for these SMEs, for both loans and overdrafts, was that those who had felt discouraged from applying were more likely to say that this was direct discouragement (17% for overdrafts, 18% for loans) albeit that most discouragement was still indirect (28% for overdrafts, 25% for loans).

The changes to the question definition and answer codes available mean that limited data is available over time; however 'discouragement' and 'the process of borrowing' have been the main reasons for not seeking finance in each period for both loans and overdrafts.

Analysis by external risk rating also showed discouragement and the process of borrowing as the main barriers. Discouragement was more of a barrier for those with an average or worse than average external risk rating, much of it indirect:

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 YEQ2 14	Total	Min/ Low	Avge / WTA	Total	Min/ Low	Avge / WTA
Unweighted base:	*566*	*99**	*380*	*404*	*84**	*258*
Discouraged (any)	45%	16%	46%	45%	22%	51%
-Direct (put off by bank)	*10%*	*7%*	*11%*	*11%*	*5%*	*15%*
-Indirect (thought would be turned down)	*35%*	*9%*	*34%*	*34%*	*18%*	*36%*
Issues with process of borrowing	33%	46%	32%	34%	38%	27%
Issues with principle of borrowing	9%	16%	11%	6%	6%	6%
Economic climate	4%	3%	3%	5%	10%	5%

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

Base sizes are too small for analysis by sector.

‘Would-be seekers’ represent a minority of all SMEs (6%). The table below shows, for the main reasons given by ‘Would-be seekers’, the equivalent proportion of all SMEs:

Main reason for not applying YEQ2 14	Would-be overdraft seekers	All SMEs	Would-be loan seekers	All SMEs
Unweighted base:	*566*	*20,044*	*404*	*20,044*
Discouraged (any)	45%	2%	45%	1%
-Direct (put off by bank)	*10%*	*	*11%*	*
-Indirect (thought I would be turned down)	*35%*	*1%*	*34%*	*1%*
Issues with process of borrowing	33%	1%	34%	1%
Issues with principle of borrowing	9%	*	6%	*
Economic climate	4%	*	5%	*
None of these/DK	7%	*	7%	*
Had event/Happy-non seeker		*96%*	-	*97%*

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

The equivalent of 2% of all SMEs reported having felt discouraged from applying for an overdraft, compared to 1% discouraged from applying for a loan.

The effect of the ‘Permanent non-borrower’

As identified earlier in this report, 4 in 10 of all SMEs met the definition of a ‘Permanent non-borrower’. If such SMEs are excluded from the analysis in this chapter (because there is no indication from their answers that they will borrow), the population of SMEs reduces to around 2.6 million from 4.5 million.

The proportion of ‘Happy non-seekers’ declines to 64% but remains the largest group:

Any events (Overdraft and loan) YEQ2 14 – all SMES	All SMEs	All SMEs excl. pnb
Unweighted base:	*20,044*	*14,106*
Have had an event	16%	27%
Would-be seekers	5%	9%
Happy non-seekers	79%	64%

Q115/209 All SMEs

For YEQ2 2014, once the PNBs are excluded, 9% of remaining SMEs met the definition of a ‘Would-be seeker’, compared to 5% of all SMEs.

The table below shows the pattern over time, once the PNBs have been excluded. This shows the same increase in ‘Happy non-seekers’ as for SMEs overall:

Any events (overdraft and loan) All SMES, excluding PNBs, over time By date of interview	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014
Unweighted base:	*3894*	*3732*	*3664*	*3649*	*3707*	*3637*	*3585*	*3370*	*3514*
Have had an event	37%	34%	33%	29%	29%	26%	29%	28%	27%
Would-be seekers	15%	17%	11%	12%	9%	11%	7%	8%	9%
Happy non-seekers	48%	49%	57%	59%	62%	63%	64%	65%	64%

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

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

Main reason for not applying when wished to – YEQ2 14	Would-be overdraft seekers	All SMEs excl. pnb	Would-be loan seekers	All SMEs excl. pnb
Unweighted base:	*566*	*14,106*	*404*	*14,106*
Discouraged (any)	45%	3%	45%	2%
-Direct (put off by bank)	*10%*	*1%*	*11%*	*
-Indirect (thought I would be turned down)	*35%*	*2%*	*34%*	*2%*
Issues with process of borrowing	33%	2%	34%	2%
Issues with principle of borrowing	9%	1%	6%	*
Economic climate	4%	*	5%	*

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

The longer term impact of previous declines

Separate, qualitative, research conducted amongst the 'discouraged would-be seekers' revealed that a number of these SMEs felt discouraged due to a previous decline from a bank, which might have occurred a number of years ago. In order to understand the impact of such declines on the wider SME population as a whole, a new question was added to the SME Finance Monitor from Q1 2014 and is reported for the first time below, based on the data for Q1 and Q2 2014 combined.

7% of SMEs reported that they had *ever* been declined for a banking facility:

- 6% of 0 employee SMEs
- 8% of those with 1-9 employees
- 4% of those with 10-49 employees
- 3% of those with 50-249 employees
- 10% of remaining SMEs once the PNBs were excluded (2% of PNBs have ever been declined)

By risk rating there was little difference for those with a minimal, low or average risk rating (4-5%) while 8% of those with a worse than average risk rating said that they had experienced a previous decline. 10% of those currently using external finance had experienced a previous decline, increasing to 16% of the small group of SMEs that had used finance in the past five years but were not using it currently.

Of those SMEs who had experienced a previous decline:

- 74% said that this had made them more reluctant to apply for bank finance subsequently. This was the case across all size bands except the largest SMEs where half had been made more reluctant.
- By external risk rating, half of those with a minimal risk rating who had experienced a decline said that they had been made more reluctant, compared to 80% of those with a worse than average risk rating.

The table overleaf shows that this is the equivalent of 5% of *all* SMEs made more reluctant to apply by a previous decline.

As the tables below show, this was more likely to be the case for smaller SMEs, both overall and once the PNBs with little apparent appetite for finance had been excluded:

Impact of previous decline by bank All SMEs H1 2014	Total	0 emps	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*10,008*	*2005*	*3303*	*3200*	*1500*
More reluctant to apply after a decline	5%	5%	6%	3%	2%
Decline but not more reluctant	2%	2%	2%	1%	2%
Have not been declined in past	93%	93%	92%	96%	96%

Q240x and Q240y All SMEs

Impact of previous decline by bank All SMEs H1 2014 excl PNBs	Total	0 emps	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*6884*	*1077*	*2257*	*2438*	*1112*
More reluctant to apply after a decline	8%	8%	8%	4%	2%
Decline but not more reluctant	3%	3%	3%	2%	2%
Have not been declined in past	90%	90%	90%	94%	96%

Q240x and Q240y All SMEs excluding PNBs

Those with a worse than average risk rating were more likely to have been made more reluctant to apply after a previous decline:

Impact of previous decline by bank All SMEs H1 2014	Total	Min	Low	Avge	Worse/ Avge
Unweighted base:	*10,008*	*1625*	*2420*	*2636*	*2456*
More reluctant to apply after a decline	5%	2%	3%	3%	6%
Decline but not more reluctant	2%	2%	1%	2%	2%
Have not been declined in past	93%	96%	96%	95%	92%

Q240x and Q240y All SMEs

Excluding the 'Permanent non-borrowers' increases the proportion of SMEs made more reluctant to apply to 8%. Amongst those currently using external finance 7% are more reluctant to apply, increasing to 10% of those that had used finance in the past five years but were not using it currently.

Analysis was then undertaken to see what impact this previous decline had had on borrowing behaviour in the 12 months prior to interview. As the table below shows:

- Most of those who had never been declined were 'Happy non-seekers' of finance
- Those who reported that the decline had made them more reluctant to apply for bank finance subsequently were more likely to meet the definition of a 'would-be seeker' of finance (23%) than either those not put off by their decline (2%) or those who had never been declined before (4%):

Impact of previous decline by bank All SMEs H1 2014	Made more reluctant	Not made more reluctant	Not previously declined
Unweighted base:	*399*	*151*	*9458*
Have had an event	42%	36%	14%
Would-be seekers	23%	2%	4%
Happy non-seekers	36%	62%	82%

Q240x and Q240y and Q115/209 All SMEs

A similar pattern of behaviour is seen once the PNBs have been excluded, with those made more reluctant to apply due to a previous decline the most likely to be a 'would-be seeker' of finance:

Impact of previous decline by bank			
All SMEs H1 2014 excl PNBs	Made more reluctant	Not made more reluctant	Not previously declined
Unweighted base:	*374*	*140*	*6370*
Have had an event	48%	40%	25%
Would-be seekers	26%	3%	7%
Happy non-seekers	26%	57%	68%

Q240x and Q240y and Q115/209 All SMEs excluding PNBs

A similar pattern was seen when analysed by future borrowing intentions and more analysis will be undertaken as sample sizes permit.

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

53% of all SMEs in Q2 2014 planned to grow in the coming 12 months, up from 45% in Q1. Growth ambitions remained higher amongst larger SMEs and those with a worse than average risk rating.

Most of those planning to grow said that they would do so through increased sales in existing markets. Exporters remained more likely to be planning to grow, but the proportion planning to do so in *new* markets overseas has fallen steadily. The equivalent of 1% of all SMEs was planning to start exporting to achieve their planned growth.

The current economic climate remained the main obstacle to running the business but its impact has waned steadily over time. 17% saw it as a major obstacle in Q2 2014, compared to a peak of 37% in Q1 2012. The proportion seeing legislation or cash flow as barriers was stable at around 1 in 10.

8% saw access to finance as a major obstacle and this has been steady over recent waves, but at lower levels than previously seen (12% at the start of 2013). Access to finance is more of an issue for smaller SMEs, those with poorer external risk ratings and those looking to grow. Those with any future appetite for finance were more likely to cite access to finance as a barrier, 17%, but this was also lower than at the start of 2013 (when it was 27%).

Over time, an increasing proportion of SMEs stated that none of the factors listed presented a major obstacle to their business (65% in Q2 2014 compared to 51% in Q2 2012).

Plans to apply for new/renewed finance in the 3 months after interview were stable in Q2 2014 at 14%, and varied less by size of SME than in previous quarters (13-18%). Amongst those planning to apply, consideration of core products (loans, overdrafts and credit cards) for this funding was stable at 63% but lower than in previous years (73% in Q2 2012), and fewer SMEs would *only* consider core products (16%).

Consideration of other products, at 62%, was higher than had been seen in recent quarters, with higher consideration of leasing or HP (31%).

43% of potential applicants were confident the bank would agree to their borrowing request, in line with recent quarters. Larger SMEs and those with a minimal or low external risk rating remained more confident of success, but these rates remained lower than the actual success rates reported for applications made.

A stable 18% of SMEs in Q2 2014 were 'future would-be seekers' of finance, most of who, 17%, did not have an immediate need for finance identified. A reluctance to borrow in the current climate remained the main barrier to applying for funds (58%) and this was the equivalent of 10% of *all* SMEs being put off from applying for finance by the current economic climate. Discouragement and the process of borrowing (both 15%) were less likely to be mentioned by these future WBS than by those who met the definition in the 12 months *prior* to interview.

As in previous quarters, the largest group of SMEs was the 'future happy non-seekers', at 68% in Q2 2014. This proportion has been stable over recent quarters. In the first half of 2014, 60% of SMEs neither used external finance not had plans to apply for any. This proportion has increased over time, having been 50% in 2011.

Having reviewed performance over the 12 months prior to interview, SMEs were then 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 therefore is based on Q2 2014 data gathered between April and June, when a number of positive economic indicators were published.

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 between 4 and 5 out of 10 planning to grow. In Q2 2014 53% were planning to grow, in line with the equivalent quarter of 2013:

Growth in next 12 mths All SMEs, over time By date of interview	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014
Unweighted base:	*5000*	*5032*	*5000*	*5000*	*5000*	*5008*	*5028*	*5000*	*5008*
Grow substantially	6%	8%	7%	7%	8%	6%	7%	5%	9%
Grow moderately	41%	39%	37%	41%	43%	41%	41%	40%	44%
All with objective to grow	*47%*	*47%*	*44%*	*48%*	*51%*	*47%*	*48%*	*45%*	*53%*
Stay the same size	44%	45%	48%	43%	41%	43%	44%	45%	40%
Become smaller	3%	4%	4%	4%	3%	3%	3%	3%	3%
Plan to sell/pass on/close	5%	5%	5%	5%	5%	6%	5%	5%	4%

Q225 All SMEs New Question wording in Q4 2012

In Q2 2014 as in other quarters, the bigger the SME the more likely they were to be planning to grow:

Plans to grow in next 12 mths Q2 14 only	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*5008*	*1005*	*1653*	*1600*	*750*
Grow substantially	9%	9%	10%	9%	14%
Grow moderately	44%	41%	49%	58%	58%
All with objective to grow	*53%*	*50%*	*59%*	*67%*	*72%*
Stay the same size	40%	42%	35%	30%	26%
Become smaller	3%	4%	2%	1%	1%
Plan to sell/pass on/close	4%	4%	5%	2%	1%

Q225 All SMEs New Question wording in Q4 2012

Amongst SMEs with employees, 60% were planning to grow (10% substantially).

SMEs that met the 'Permanent non-borrower' definition in Q2 2014 remained less likely to have plans to grow (45%) than those that didn't meet the definition (57%).

SMEs that had injected personal funds in the previous 12 months were more likely to be planning to grow (68%) than those who had not (46%) and this was true for Starts (79% v 54%) as well as older businesses (63% v 45%).

The table on the next page summarises the growth plans/objectives of SMEs by key demographics over time:

- Since the start of 2013, there has been a fairly steady increase in the proportion of SMEs with employees that plan to grow. The pattern for the 0 employee SMEs has been less consistent over time, and they remain less likely to be planning to grow
- Those with a worse than average risk rating remain the most likely to be planning to grow
- The 'gap' between the growth aspirations of 'Permanent non-borrowers' and other SMEs has widened slightly over time, from under to over 10 percentage points

Objective to grow (any) in next 12 months Over time – row percentages By date of interview	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014
All SMEs	47%	47%	44%	48%	51%	47%	48%	45%	53%
0 employee	46%	45%	41%	47%	50%	43%	46%	41%	50%
1-9 employees	50%	49%	49%	51%	56%	56%	53%	57%	59%
10-49 employees	59%	52%	58%	54%	57%	60%	64%	68%	67%
50-249 employees	66%	61%	61%	66%	65%	69%	69%	72%	72%
Minimal external risk rating	48%	42%	34%	43%	48%	40%	50%	51%	47%
Low external risk rating	41%	35%	39%	40%	49%	50%	44%	48%	51%
Average external risk rating	40%	38%	36%	44%	43%	40%	38%	39%	49%
Worse than average external risk rating	53%	56%	50%	55%	57%	51%	52%	49%	56%
Agriculture	44%	35%	38%	42%	48%	37%	44%	43%	40%
Manufacturing	47%	50%	39%	53%	50%	51%	49%	59%	61%
Construction	38%	33%	37%	38%	47%	40%	39%	34%	43%
Wholesale/Retail	55%	51%	46%	51%	49%	46%	58%	53%	60%
Hotels & Restaurants	33%	42%	38%	40%	49%	53%	42%	50%	46%
Transport	40%	41%	38%	55%	43%	55%	39%	39%	39%
Property/Business Services etc.	57%	52%	50%	52%	58%	52%	51%	47%	56%
Health	48%	49%	45%	52%	53%	45%	46%	45%	46%
Other Community	47%	58%	48%	54%	52%	46%	55%	55%	68%
All 'Permanent non-borrowers'	42%	41%	37%	48%	46%	39%	38%	40%	45%
All excluding PNBs	50%	49%	47%	48%	54%	52%	55%	51%	57%

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, 88%, planned to increase sales in existing markets, the equivalent of 4 out of 10 of all SMEs:

How plan to grow Q2 14	All planning to grow	All SMEs
Unweighted base:	*2874*	*5008*
Increase sales in existing markets	88%	44%
Sell in new markets in UK	21%	11%
Sell in new markets overseas	5%	3%

Q226 All SMEs planning to grow excluding DK / All SMEs

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

Exporters remained more likely to be predicting growth (In Q2 14, 69% reported that they planned to grow compared to 51% of non-exporters). As the table below shows, while a quarter of those already exporting planned to sell into new markets overseas (22%, the equivalent of 1% of all SMEs), very few who do not currently export thought that they would start to do so (3%, although this is also the equivalent of 1% of all SMEs):

How plan to grow Q2 14 - those planning to grow	All who plan to grow and currently export	All who plan to grow and do not currently export
Unweighted base:	*599*	*2275*
Increase sales in existing markets	90%	87%
Sell in new markets in UK	28%	21%
Sell in new markets overseas	22%	3%

Q226 All SMEs planning to grow excluding DK

Since this question was first asked in Q4 2012, the answers given by non-exporters have changed very little from those reported above. Over the same time period, the proportion of exporters planning to enter new overseas markets has fallen fairly consistently over time from 46% in Q4 2012 to 22% in Q2 2014.

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 2014 as in all previous quarters:

- The **current economic climate** was rated as a major obstacle (8-10) by 17% of SMEs in Q2 2014. Whilst it remains the top rated barrier, this is a declining proportion of SMEs over time
- **Legislation and regulation** was the next most important obstacle. By comparison to the economic climate, this was rated a major obstacle by 12% of SMEs, however for those with employees this is now as much of a barrier as the economic climate
- **Cash flow and issues with late payment** was rated a major obstacle by 10%
- **Access to external finance** was similarly rated, with 8% 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 2014, 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 14 only – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*5008*	*1005*	*1653*	*1600*	*750*
The current economic climate (mean score)	4.5	4.4	4.6	4.5	4.4
- 8-10 major obstacle	*17%*	*17%*	*17%*	*14%*	*10%*
- 5-7 moderate obstacle	*34%*	*34%*	*37%*	*39%*	*42%*
- 1-4 limited obstacle	*46%*	*47%*	*44%*	*44%*	*44%*
Legislation and regulation (mean score)	3.5	3.3	4.0	4.1	4.0
- 8-10 major obstacle	*12%*	*11%*	*15%*	*16%*	*10%*
- 5-7 moderate obstacle	*23%*	*21%*	*28%*	*28%*	*32%*
- 1-4 limited obstacle	*61%*	*64%*	*54%*	*53%*	*54%*
Cash flow/issues with late payment (mean score)	3.2	3.2	3.4	3.3	3.0
- 8-10 major obstacle	*10%*	*10%*	*10%*	*9%*	*4%*
- 5-7 moderate obstacle	*21%*	*20%*	*23%*	*23%*	*22%*
- 1-4 limited obstacle	*67%*	*67%*	*65%*	*66%*	*71%*
Access to external finance (mean score)	2.7	2.7	2.9	2.6	2.3
- 8-10 major obstacle	*8%*	*9%*	*8%*	*6%*	*4%*
- 5-7 moderate obstacle	*15%*	*14%*	*17%*	*17%*	*12%*
- 1-4 limited obstacle	*72%*	*72%*	*70%*	*73%*	*80%*
Availability of relevant advice (mean score)	2.6	2.6	2.8	2.5	2.2
- 8-10 major obstacle	*6%*	*6%*	*6%*	*4%*	*1%*
- 5-7 moderate obstacle	*17%*	*16%*	*19%*	*16%*	*14%*
- 1-4 limited obstacle	*74%*	*75%*	*72%*	*77%*	*82%*
Staff related issues (mean score)	1.9	1.6	2.6	3.1	3.0
- 8-10 major obstacle	*3%*	*2%*	*7%*	*7%*	*3%*
- 5-7 moderate obstacle	*10%*	*7%*	*16%*	*21%*	*23%*
- 1-4 limited obstacle	*84%*	*87%*	*75%*	*70%*	*71%*
None of these are major obstacles	65%	65%	63%	66%	76%

Q227a All SMEs

In Q2 2014, 65% of SMEs did not rate any of these potential obstacles as a major obstacle (scoring 8-10). This varied relatively little by size, with the exception of the largest SMEs where 76% did not rate any of these factors as a major obstacle.

Amongst SMEs with employees, the proportion rating each factor a 'major obstacle' did not vary much from SMEs overall (16% for the current economic climate, 8% for access to external finance).

The current economic climate was the most important obstacle of those tested in Q2 across all external risk ratings (albeit that for those with a minimal risk rating, 'legislation and regulation' is now as much of a barrier):

Extent of obstacles in next 12 months Q2 14 only – all SMEs 8-10 impact score	Total	Min	Low	Avge	Worse/Avge
Unweighted base:	*5008*	*761*	*1410*	*1254*	*1182*
The current economic climate	17%	14%	16%	18%	16%
Legislation and regulation	12%	15%	12%	13%	11%
Cash flow/issues with late payment	10%	8%	7%	9%	12%
Access to external finance	8%	4%	4%	7%	11%
Availability of relevant advice	6%	7%	4%	4%	7%
Staff related issues	3%	4%	4%	3%	3%
None of these rated a 'major obstacle'	*65%*	*66%*	*68%*	*66%*	*64%*

Q227a All SMEs for whom risk ratings known

Those planning to grow remained slightly more likely than those with no plans to see access to external finance and availability of advice as major barriers. The current economic climate remains more likely to be seen as a barrier by those with no plans to grow, albeit it has been mentioned by fewer such SMEs over time (19% in Q2 2014, compared to 29% in Q3 2013). Those with no plans to grow were slightly more likely to say that none of these factors presented a major obstacle to them (68%):

Extent of obstacles in next 12 months Q2 14 only – all SMEs 8-10 impact score	Total	Plan to grow	No plans to grow
Unweighted base:	*5008*	*2944*	*2064*
The current economic climate	17%	15%	19%
Legislation and regulation	12%	12%	13%
Cash flow/issues with late payment	10%	11%	9%
Access to external finance	8%	11%	6%
Availability of relevant advice	6%	7%	4%
Staff related issues	3%	5%	2%
None of these rated a 'major obstacle'	*65%*	*62%*	*68%*

Q227a All SMEs

More differences were seen depending on whether the SME was a 'Permanent non-borrower' or not. PNBs remained less likely to see any of these issues as major barriers (75% said that none of them were), notably cash flow and access to external finance:

Extent of obstacles in next 12 months Q2 14 only – all SMEs 8-10 impact score	Total	PNB	Not PNB
Unweighted base:	*5008*	*1494*	*3514*
The current economic climate	17%	12%	20%
Legislation and regulation	12%	10%	14%
Cash flow/issues with late payment	10%	5%	13%
Access to external finance	8%	3%	12%
Availability of relevant advice	6%	3%	8%
Staff related issues	3%	2%	4%
None of these rated a 'major obstacle'	*65%*	*75%*	*58%*

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, while 53% did not rate any of them as a major obstacle, compared to 71% of 'Happy non-seekers':

Extent of obstacles in next 12 months Q2 14 only – all SMEs 8-10 impact score	Total	Plan to apply or FWBS	Future HNS	Future HNS excl. PNB
Unweighted base:	*5008*	*1668*	*3340*	*1846*
The current economic climate	17%	22%	14%	17%
Legislation and regulation	12%	14%	11%	13%
Cash flow/issues with late payment	10%	16%	7%	10%
Access to external finance	8%	17%	4%	6%
Availability of relevant advice	6%	10%	4%	5%
Staff related issues	3%	4%	3%	4%
None of these rated a 'major obstacle'	*65%*	*53%*	*71%*	*64%*

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 by SMEs as a major obstacle to running the business, with the highest score still given by SMEs in the Hotels & Restaurants sector (24%). SMEs in Agriculture, Manufacturing and Construction were as likely, or almost as likely, to rate legislation and regulation as a major barrier as they were the current economic climate:

Extent of obstacles in next 12 months Q2 14 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*	*881*	*505*	*450*	*454*	*876*	*447*	*500*
The current economic climate	17%	13%	18%	17%	24%	22%	15%	12%	17%
Legislation and regulation	18%	12%	16%	11%	14%	13%	11%	9%	7%
Cash flow/issues with late payment	9%	15%	10%	11%	11%	13%	10%	3%	6%
Access to external finance	5%	12%	7%	10%	10%	10%	8%	4%	12%
Availability of relevant advice	5%	5%	6%	8%	6%	4%	4%	3%	9%
Staff related issues	5%	3%	4%	4%	8%	3%	2%	2%	2%
None of these rated a 'major obstacle'	*61%*	*60%*	*65%*	*62%*	*58%*	*60%*	*66%*	*78%*	*66%*

Q227All SMEs

78% of those in the Health sector reported that none of these factors were a major obstacle to them, compared to 58% of those in Hotels & Restaurants and 60% of those in the Manufacturing and Transport sectors.

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

The summary table below shows the proportion of SMEs rating each factor a 'major obstacle' across the most recent nine waves of the Monitor. The current economic climate was the most likely to be rated a 'major obstacle' in all quarters, but since Q1 2012 (when 37% rated it a major obstacle) the proportion doing so has decreased slightly each quarter, from 1 in 3 to 1 in 6 SMEs.

Over the same period, an increasing proportion of SMEs reported that none of these factors presented a major obstacle to them (from 52% for 2012 as a whole to 58% for 2013 and to two thirds in the first half of 2014):

Extent of obstacles in next 12 months All SMEs over time 8-10 impact score By date of interview	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13	Q1 14	Q2 14
Unweighted base:	*5000*	*5032*	*5000*	*5000*	*5000*	*5008*	*5028*	*5000*	*5008*
The current economic climate	35%	34%	31%	32%	28%	26%	21%	20%	17%
Legislation and regulation	14%	13%	12%	14%	14%	14%	11%	12%	12%
Cash flow/issues with late payment	14%	14%	11%	12%	11%	11%	10%	8%	10%
Access to external finance	11%	13%	10%	12%	10%	10%	8%	7%	8%
Availability of relevant advice	6%	6%	6%	7%	6%	6%	6%	5%	6%
Staff related issues	2%	2%	3%	3%	3%	3%	3%	2%	3%
None of these rated a 'major obstacle'	*51%*	*53%*	*55%*	*54%*	*58%*	*57%*	*64%*	*66%*	*65%*

Q227 All SMEs

In the equivalent Q2 of 2012, 35% of all SMEs rated the current economic climate as a major obstacle (only slightly lower than the highest figure recorded of 37% in the previous quarter). By Q2 2014, the proportion had fallen to 17%, effectively halving the proportion of SMEs seeing the economic climate as a major barrier.

This fall has been seen across all types of SME, notably:

- Those with 50-249 employees (27% to 10%)
- Those with a worse than average risk rating (38% to 16%)
- Those in Wholesale/Retail (42% to 17%)

Access to finance is the key theme of this report. In Q2 2014, 8% of SMEs rated this as a major obstacle.

Over time there has been relatively little variation in the overall proportion of SMEs rating access to finance as a 'major obstacle', shown in the table overleaf. The 8% figure recorded for Q2 2014 was one of the lowest to date, but was in line with recent quarters. Once the PNBs were excluded, 12% of remaining SMEs rated access to finance as a 'major obstacle', also one of the lowest levels seen to date:

Access to finance – 8-10 impact scores Over time – row percentages By date of interview	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13	Q1 14	Q2 14
All SMEs	11%	13%	10%	12%	10%	10%	8%	7%	8%
0 employee	10%	12%	9%	11%	10%	10%	7%	6%	9%
1-9 employees	15%	15%	13%	15%	12%	12%	11%	9%	8%
10-49 employees	11%	11%	9%	11%	10%	8%	7%	7%	6%
50-249 employees	8%	7%	8%	5%	5%	5%	5%	4%	4%
Minimal external risk rating	12%	9%	8%	5%	4%	5%	5%	4%	4%
Low external risk rating	8%	10%	8%	8%	5%	4%	5%	6%	4%
Average external risk rating	6%	10%	8%	11%	11%	9%	6%	5%	7%
Worse than average external risk rating	14%	14%	11%	15%	13%	12%	10%	9%	11%
Agriculture	8%	13%	10%	10%	12%	5%	9%	5%	5%
Manufacturing	12%	12%	7%	6%	9%	11%	10%	10%	12%
Construction	11%	11%	11%	12%	11%	10%	6%	8%	7%
Wholesale/Retail	14%	12%	15%	9%	9%	12%	11%	6%	10%
Hotels & Restaurants	15%	16%	14%	19%	12%	13%	14%	12%	10%
Transport	15%	17%	11%	14%	14%	14%	11%	12%	10%
Property/Business Services etc.	9%	12%	9%	13%	9%	9%	7%	3%	8%
Health	7%	7%	4%	11%	10%	6%	7%	5%	4%
Other Community	15%	19%	9%	13%	12%	11%	5%	9%	12%
Use external finance	16%	19%	14%	16%	14%	14%	10%	10%	12%
Plan to borrow/FWBS	24%	26%	21%	27%	24%	25%	18%	16%	17%
Future Happy non-seekers	4%	5%	5%	4%	4%	4%	3%	3%	4%
All SMEs excluding PNBs	16%	18%	14%	18%	15%	16%	12%	11%	12%

Q227a_2 All SMEs, base sizes vary

Financial requirements in the next 3 months

SMEs were asked to consider their financial plans over the next 3 months. The proportion planning to apply/renew had changed relatively little over time, and the proportion planning to do so in Q2 2014 (14%) was in line with most previous quarters:

% likely in next 3 months All SMEs, over time By date of interview	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014
Unweighted base:	*5000*	*5032*	*5000*	*5000*	*5000*	*5008*	*5028*	*5000*	*5008*
Will have a need for (more) external finance	13%	11%	13%	13%	12%	11%	11%	9%	10%
Will apply for more external finance	9%	8%	8%	9%	9%	7%	8%	7%	8%
Renew existing borrowing at same level	8%	6%	8%	8%	7%	7%	9%	7%	9%
Any apply/renew	*14%*	*12%*	*14%*	*15%*	*14%*	*12%*	*15%*	*12%*	*14%*
Reduce the amount of external finance used	8%	7%	8%	7%	7%	7%	7%	5%	9%
Inject personal funds into business	23%	23%	22%	22%	21%	21%	17%	15%	16%

Q229 All SMEs

In all quarters to date, more SMEs have identified a need for finance than thought they would apply for it (10% v 8% in Q2). The predicted level of applications/renewals in the coming quarter was also typically higher than the actual level of applications/renewals seen subsequently (from different SMEs) – typically 14% of SMEs have said that they planned to apply for finance, but levels of application are currently around 8%.

Amongst those SMEs that are companies, there continued to be limited interest in seeking new equity finance:

% likely in next 3 months All companies, over time By date of interview	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014
Unweighted base:	*2905*	*2975*	*2837*	*2944*	*2936*	*3063*	*2890*	*2831*	*2999*
Any new equity	*4%*	*4%*	*4%*	*2%*	*3%*	*5%*	*3%*	*2%*	*4%*

Q229 All companies

In Q2 2014, there continued to be a difference in appetite for finance by size of business. SMEs with 1-9 or 10-49 employees had the highest appetite for finance. Amongst those with no employees, appetite for finance was stable at 13%, but these SMEs remained the only group more likely to anticipate an injection of personal funds than an application for new/renewed finance (17%, albeit down from 22% in Q3 2013):

% likely in next 3 months Q2 14 only – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*5008*	*1005*	*1653*	*1600*	*750*
Will have a need for (more) external finance	10%	9%	12%	10%	7%
Will apply for more external finance	8%	8%	10%	9%	5%
Renew existing borrowing at same level	9%	8%	12%	10%	11%
Any apply/renew	*14%*	*13%*	*18%*	*15%*	*13%*
Reduce the amount of external finance used	9%	8%	10%	8%	8%
Inject personal funds into business	16%	17%	14%	5%	4%

Q229 All SMEs

Amongst SMEs with employees, 18% have plans to apply/renew in the next 3 months and 12% believe they will have a need for (more) external finance.

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. Since the start of 2012, fewer SMEs have thought it likely that personal funds will be injected into the business in future (16% in Q2 2014). Data earlier in this report showed that the proportion of SMEs that had actually seen an injection of funds had also declined over time.

The table below shows how the injection of personal funds past and present combine, so that trends over time can be established. Over time an increasing proportion of SMEs had neither put in funds, nor thought it likely they would do so (65% in Q2 2014). The proportion that had both put in funds in the past *and* planned to do so in future declined somewhat over time from 17% of SMEs in Q2 2012 to 11% in Q2 2014:

Injections of personal funds All SMEs, over time By date of interview	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014
Unweighted base:	*5000*	*5000*	*5000*	*5008*	*5028*	*5000*	*5008*
Have injected personal funds and likely to do so again	15%	16%	14%	14%	12%	10%	11%
Have not put in personal funds but likely to do so	7%	7%	7%	7%	5%	5%	5%
Have injected personal funds but unlikely to do so again	26%	24%	27%	24%	21%	20%	19%
Have not put in personal funds and not likely to do so	53%	54%	52%	55%	62%	65%	65%

Q229/Q15d-d2 All SMEs

Turning back to future applications for <u>external</u> finance, the table overleaf summarises the change in likely applications/renewals over time for key demographic groups. Comparing Q2 2014 with the equivalent quarters in 2012 and 2013 shows a consistent appetite for finance overall (14% in each quarter) but a decrease in appetite for finance amongst larger SMEs (from 22% in Q2 2012 to 15% in Q2 2014 for those with 10-49 employees and from 21% to 13% over the same period for those with 50-249 employees).

% likely to apply or renew in next 3 months Over time – row percentages By date of interview	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014
All SMEs	**14%**	**12%**	**14%**	**15%**	**14%**	**12%**	**15%**	**12%**	**14%**
0 employee	12%	10%	13%	13%	12%	10%	13%	9%	13%
1-9 employees	20%	18%	18%	19%	18%	18%	20%	19%	18%
10-49 employees	22%	19%	19%	20%	15%	16%	18%	20%	15%
50-249 employees	21%	18%	17%	19%	16%	14%	14%	11%	13%
Minimal external risk rating	12%	16%	20%	14%	12%	12%	12%	11%	18%
Low external risk rating	15%	13%	19%	16%	12%	13%	12%	18%	13%
Average external risk rating	12%	11%	13%	15%	12%	12%	13%	10%	11%
Worse than average external risk rating	16%	13%	13%	15%	15%	12%	16%	11%	15%
Agriculture	18%	12%	21%	16%	12%	15%	22%	12%	18%
Manufacturing	24%	16%	13%	12%	17%	8%	16%	14%	18%
Construction	13%	9%	15%	11%	14%	14%	12%	10%	13%
Wholesale/Retail	16%	17%	17%	24%	12%	15%	21%	15%	17%
Hotels & Restaurants	15%	17%	15%	18%	13%	14%	14%	16%	14%
Transport	12%	14%	15%	13%	17%	16%	17%	15%	19%
Property/Business Services etc.	13%	9%	10%	14%	12%	12%	14%	9%	11%
Health	9%	10%	14%	13%	16%	9%	10%	8%	11%
Other Community	14%	16%	15%	14%	14%	8%	14%	13%	16%
Objective to grow	17%	15%	18%	18%	17%	17%	19%	16%	19%
No objective to grow	11%	9%	11%	12%	10%	8%	11%	8%	9%
All SMEs excluding PNBs	21%	18%	22%	25%	21%	20%	25%	22%	23%

Q229 All SMEs base size varies by category

Working capital remained the most frequently mentioned purpose of future funding. Since Q4 2012 there has been something of an increase in the proportion of SMEs seeking finance who mention growth overseas as their reason for applying (6% in Q2 2014), but this remained less likely than funding for UK growth (36% in Q2 2014):

Use of new/renewed facility All planning to seek/renew, over time By date of interview	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014
Unweighted base:	*977*	*842*	*876*	*931*	*774*	*813*	*854*	*790*	*792*
Working capital	69%	60%	62%	61%	64%	60%	58%	63%	49%
Plant & machinery	25%	27%	24%	23%	29%	24%	27%	20%	32%
UK growth*	20%	26%	14%	28%	27%	32%	25%	27%	36%
Premises	5%	8%	6%	5%	8%	5%	9%	6%	12%
New products or services	10%	7%	9%	8%	7%	11%	10%	7%	13%
Growth overseas*	3%	4%	1%	3%	4%	5%	7%	4%	6%

Q230 All planning to apply for/renew facilities in next 3 months. *Growth replaced expansion in Q2 2013

Consideration by those planning to apply of any of the 'core' lending products (overdrafts, loans and credit cards) and/or other forms of borrowing, are shown below. Consideration of core products has been stable over the most recent quarters, but remains lower than in 2012. Consideration of other products increased in Q2 2014 back to levels previously seen in the first half of 2013:

% of those seeking/renewing finance that would consider form of funding, over time By date of interview	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014
Unweighted base:	*977*	*842*	*876*	*931*	*774*	*813*	*854*	*790*	*792*
'Core' product consideration	73%	71%	72%	70%	61%	72%	65%	62%	63%
-Bank overdraft	56%	49%	53%	50%	45%	53%	44%	43%	42%
-Bank loan/Commercial mortgage	40%	43%	35%	40%	34%	40%	35%	36%	34%
-Credit cards	20%	16%	20%	18%	16%	23%	20%	11%	18%
Other product consideration	59%	63%	59%	60%	61%	66%	50%	46%	62%
-Grants	38%	36%	36%	43%	40%	47%	32%	31%	42%
-Loans/equity from family/friends or directors	25%	28%	24%	20%	27%	28%	19%	14%	21%
-Leasing or hire purchase	23%	24%	21%	21%	23%	28%	22%	21%	31%
Loans from other 3rd parties	7%	15%	12%	15%	14%	16%	15%	10%	16%
Invoice finance	9%	7%	9%	8%	7%	9%	6%	6%	8%
None of these	*13%*	*10%*	*17%*	*14%*	*24%*	*15%*	*25%*	*29%*	*22%*

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

16% of potential applicants in Q2 2014 said that they would **only** consider one or more of the core products. This is a somewhat lower level than has been seen in other quarters (when typically a quarter of potential applicants would only consider core products).

The 21% of applicants that would consider loans/equity from friends, family or directors in Q2 2014 was made up of 20% that would consider loans and 12% that would consider equity.

The table below shows levels of consideration in Q2 2014 by size of SME considering funding:

% of those seeking/renewing finance would consider funding – Q2 14 only	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*792*	*131*	*306*	*258*	*97**
'Core' product consideration	**63%**	**63%**	**65%**	**59%**	**51%**
-Bank overdraft	42%	41%	42%	41%	34%
-Bank loan/Commercial mortgage	34%	32%	38%	29%	32%
-Credit cards	18%	18%	19%	17%	13%
Other product consideration	**62%**	**64%**	**57%**	**59%**	**58%**
-Grants	42%	44%	37%	36%	36%
-Loans from family & friends & directors	20%	20%	21%	14%	15%
-Leasing or hire purchase	31%	34%	23%	33%	33%
-Equity from family & friends & directors	12%	12%	11%	9%	10%
-Loans from other 3rd parties	16%	18%	12%	18%	15%
-Invoice finance	8%	8%	8%	12%	19%
None of these	*22%*	*21%*	*22%*	*24%*	*31%*

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

Amongst SMEs with employees, 64% would consider one or more 'core' products for their future lending, while 57% would consider one or more of the other products. 23% said they would not consider any of these.

Small base sizes mean that levels of consideration can fluctuate over time. Between Q4 2013 and Q2 2014, consideration of core products was relatively stable for all SMEs except those with 50-249 employees where consideration fell, from 72% to 51%. This, though, was a return to levels seen in Q3 2013 (51%).

Consideration of other products was also relatively stable over the same period with the exception of 0 employee SMEs where consideration increased from 44% in Q4 2013 to 64% in Q2 2014. Again this meant consideration returned to levels seen in Q3 2013 (66%).

Those planning to apply via loan, overdraft, leasing, invoice finance and/or credit cards were asked how confident they were that their bank would agree to this request.

4 out of 10 of these prospective applicants (43%) were confident in Q2 2014 that the bank would lend to them. This is in line with levels of confidence seen in most quarters since Q2 2012:

Confidence bank would lend All planning to seek finance, over time by date of interview	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13	Q1 14	Q2 14
Unweighted base:	*781*	*649*	*669*	*713*	*547*	*607*	*610*	*574*	*538*
Very confident	15%	10%	15%	17%	4%	12%	20%	25%	25%
Fairly confident	24%	23%	28%	23%	26%	29%	21%	21%	18%
Overall confidence	*39%*	*33%*	*43%*	*40%*	*30%*	*41%*	*41%*	*46%*	*43%*
Neither/nor	25%	22%	23%	32%	31%	32%	26%	19%	31%
Not confident	35%	45%	33%	27%	40%	27%	33%	36%	26%
Net confidence (confident – not confident)	*+4*	*-12*	*+10*	*+13*	*-10*	*+14*	*+8*	*+10*	*+17*

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

Confidence amongst prospective applicants with employees was 51%.

As the tables below show, whilst overall confidence has not changed much Q1 to Q2 2014, prospective applicants with 10-249 employees had become more confident their bank would agree to their future request.

Over time, confidence amongst potential applicants with 0-9 employees has been more volatile, as the table below shows.

Confidence amongst bigger potential applicants with 10-249 employees remained higher than for smaller potential applicants, and Q2 2014 saw an increase in confidence to 67%:

Overall confidence bank would lend All planning to seek finance, over time By date of interview	Total	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%
Q3 2013	41%	40%	57%
Q4 2013	41%	40%	63%
Q1 2014	46%	45%	61%
Q2 2014	43%	42%	67%

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 than those with an average or worse than average risk rating. Levels of confidence have fluctuated over time for both groups:

Overall confidence bank would lend All planning to seek finance, over time By date of interview	Total	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%
Q3 2013	41%	64%	39%
Q4 2013	41%	73%	40%
Q1 2014	46%	67%	41%
Q2 2014	43%	60%	41%

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

Those planning to renew remained more confident of success than those planning to apply for a new facility. Analysis shows that overall confidence in Q2 2014 improved for those planning to renew (54%, recovering from a low of 38% in Q2 2013) and also to a certain extent amongst those planning to apply for new facilities (33% from 29% in Q4 2013).

These levels of confidence remained in contrast to the actual outcome of applications. Success rates for renewals in the last 18 months were 96% compared to confidence levels of 54%, while for new funds success rates in the same period were 46% against a confidence level of 33%.

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

In Q2 2014, 14% of all SMEs reported plans to apply for or renew facilities in the following 3 months, leaving the majority (86%) with no such plans. A third of that majority (33%) were current users of external finance, the rest were not. This means that, for Q2 2014, 57% of all SMEs neither used external finance nor had any immediate plans to apply for any. This proportion has increased over time, from 50% in 2011 to 56% in 2013 and 60% for the first half of 2014.

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 'Future happy non-seekers'
- and those that felt that there were barriers that might stop them making an application (such as discouragement, the economy or the principle or process of borrowing) – the 'Future would-be seekers'

These 'Future would-be seekers' can then be split into 2 further groups:

- those that had already identified that they were likely to need external finance in the coming three months (and could foresee barriers to an application to meet that need)
- 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

As reported later in this chapter, very few of the 'Future would-be seekers' have an actual need for finance identified, and thus they are somewhat different from the 'Would-be seekers' of the past 12 months, *all* of whom had a need for finance identified that they did not apply for.

These definitions have not been changed, unlike the equivalent question for *past* behaviour featured earlier in this report (although 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 relatively stable picture over recent quarters:

Future finance plans All SMEs, over time By date of interview	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014
Unweighted base:	*5000*	*5032*	*5000*	*5000*	*5000*	*5008*	*5028*	*5000*	*5008*
Plan to apply/renew	14%	12%	14%	15%	14%	12%	15%	12%	14%
'Future would-be seekers' – with identified need	3%	3%	2%	3%	2%	2%	1%	1%	1%
'Future would-be seekers' – no immediate identified need	19%	22%	19%	16%	17%	15%	16%	15%	17%
'Happy non-seekers'	64%	63%	65%	67%	67%	70%	68%	72%	68%

Q230/239 All SMEs

Amongst SMEs with employees, in Q2 2014 18% had plans to apply/renew while 18% met the definition of a 'Future would-be seeker' and the largest group remained the 'Future happy non-seekers' at 64%.

Comparing across the equivalent quarter 2's of 2012, 2013 and 2014 shows that:

- The 'Future happy non-seekers' remained the largest group, and their proportion has increased somewhat over the period (64% to 68%)
- Appetite for future finance had remained stable over the period
- The proportion of 'Future would-be seekers' had fallen slightly (from 22% to 18%)

As has been discussed elsewhere in this report, around 4 out of 10 SMEs can be described as 'Permanent non-borrowers' based on their past and indicated future behaviour. The table below shows future plans over time once this group has been excluded. The Q2 2014 figures showed a relatively stable future appetite for finance (23%), and the 'Future happy non-seekers' remained the largest single group, as overall:

Future finance plans SMEs excluding PNB, over time By date of interview	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014
Unweighted base:	*3894*	*3732*	*3664*	*3649*	*3707*	*3637*	*3585*	*3370*	*3514*
Plan to apply/renew	21%	18%	22%	25%	21%	20%	25%	22%	23%
'Future would-be seekers' – with identified need	5%	4%	4%	5%	3%	4%	2%	3%	1%
'Future would-be seekers' – no immediate identified need	29%	33%	29%	27%	27%	26%	28%	29%	28%
'Happy non-seekers'	45%	44%	44%	44%	48%	50%	45%	46%	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. At 18%, the overall figure for Q2 2014 was one of the lowest reported to date, but in line with recent quarters. Compared to the equivalent quarter of 2013:

- There has been a slight increase in the proportion of larger SMEs with 50-249 employees, and those with a low external risk rating, who meet the definition of a FWBS
- Those in Agriculture or the Transport sector are now less likely to be a FWBS

Future would-be seekers Over time – row percentages By date of interview	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014
All SMEs	22%	25%	21%	19%	19%	17%	18%	16%	18%
0 employee	24%	25%	22%	19%	20%	19%	18%	17%	18%
1-9 employees	19%	23%	19%	19%	18%	15%	18%	16%	19%
10-49 employees	16%	14%	14%	15%	16%	10%	14%	13%	16%
50-249 employees	14%	13%	15%	16%	15%	11%	13%	13%	18%
Minimal external risk rating	18%	13%	14%	10%	13%	7%	11%	15%	10%
Low external risk rating	22%	23%	17%	18%	10%	15%	17%	11%	13%
Average external risk rating	22%	20%	19%	19%	17%	17%	15%	18%	17%
Worse than average external risk rating	23%	26%	23%	19%	23%	21%	18%	18%	21%
Agriculture	23%	25%	22%	15%	21%	17%	16%	19%	16%
Manufacturing	17%	26%	20%	17%	17%	20%	14%	14%	14%
Construction	29%	23%	20%	21%	20%	15%	19%	18%	19%
Wholesale/Retail	25%	25%	24%	16%	23%	21%	19%	16%	20%
Hotels & Restaurants	27%	24%	26%	22%	19%	20%	22%	17%	21%
Transport	21%	27%	21%	28%	24%	22%	19%	20%	18%
Property/Business Services etc.	20%	26%	21%	18%	18%	15%	16%	14%	18%
Health	14%	21%	13%	20%	13%	14%	12%	12%	15%
Other Community	22%	23%	22%	15%	18%	21%	20%	19%	16%
All SMEs excluding PNBs	34%	37%	33%	32%	30%	30%	30%	31%	29%

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 2014 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 14 only	Total	0-9 emps	10-249 emps
Unweighted base:	*876*	*489*	*387*
Reluctant to borrow now (any)	59%	58%	81%
-Prefer not to borrow in economic climate	*43%*	*43%*	*56%*
-Predicted performance of business	*16%*	*16%*	*26%*
Issues with principle of borrowing	5%	5%	3%
-Not lose control of business	*2%*	*2%*	*1%*
-Can raise personal funds if needed	*2%*	*2%*	*3%*
-Prefer other forms of finance	*1%*	*1%*	*
-Go to family and friends	*	-	*1%*
Issues with process of borrowing	17%	17%	5%
-Would be too much hassle	*10%*	*10%*	*2%*
-Thought would be too expensive	*5%*	*5%*	*2%*
-Bank would want too much security	*2%*	*2%*	*1%*
-Too many terms and conditions	*1%*	*1%*	*
-Did not want to go through process	*	*	*1%*
-Forms too hard to understand	*2%*	*2%*	*
Discouraged (any)	16%	16%	10%
-Direct (Put off by bank)	1%	1%	*
-Indirect (Think I would be turned down)	*16%*	*16%*	*10%*

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 now, at 58%, was the main reason for not applying for external finance in Q2 2014, but was cited as the main reason by fewer 'Future would-be seekers' than in previous quarters. The proportion of 'Future would-be seekers' who cited discouragement as their main barrier was stable (15%) and, as before, virtually all of this was indirect discouragement:

Main reason for not applying 'Future would-be seekers' over time By date of interview	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13	Q1 14	Q2 14
Unweighted base:	*927*	*975*	*880*	*867*	*861*	*691*	*822*	*765*	*876*
Reluctant to borrow now (any)	49%	49%	50%	63%	60%	60%	72%	64%	58%
-Prefer not to borrow in economic climate	*31%*	*36%*	*37%*	*40%*	*42%*	*44%*	*51%*	*46%*	*42%*
-Predicted performance of business	*18%*	*13%*	*13%*	*23%*	*18%*	*16%*	*22%*	*18%*	*16%*
Issues with principle of borrowing	14%	16%	12%	6%	4%	1%	2%	3%	4%
Issues with process of borrowing	14%	12%	15%	13%	13%	13%	12%	15%	15%
Discouraged (any)	14%	16%	17%	12%	16%	16%	11%	14%	15%
-Direct (Put off by bank)	*1%*	*1%*	*1%*	*3%*	*3%*	*1%*	*1%*	*1%*	*
-Indirect (Think I would be turned down)	*13%*	*15%*	*16%*	*10%*	*14%*	*15%*	*10%*	*13%*	*15%*

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

These barriers remained 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 given as the main reason by a minority.

When these '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. Over time, the main barriers to borrowing have been shown to be somewhat 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).

For those with an identified need for finance, a reluctance to borrow in the current economic climate was more likely to be mentioned as a barrier recently (35% Q1-2 14) than discouragement was (23%). As before, almost all of this is indirect discouragement, where the SME assumes they would be turned down and so does not apply:

Main reason for not applying The 'Future would-be seekers' **with identified need**	Q1-2 2012	Q2-3 2012	Q4-1 2013	Q1-2 2013	Q2-3 2013	Q3-4 2013	Q4-1 2014	Q1-2 2014
Unweighted base:	*213*	*226*	*220*	*190*	*151*	*149*	*127*	*96**
Reluctant to borrow now (any)	38%	35%	37%	33%	24%	33%	41%	35%
-Prefer not to borrow in economic climate	*33%*	*30%*	*32%*	*29%*	*20%*	*26%*	*35%*	*28%*
-Predicted performance of business	*5%*	*5%*	*5%*	*4%*	*5%*	*6%*	*7%*	*6%*
Issues with principle of borrowing	4%	3%	3%	9%	6%	1%	3%	4%
Issues with process of borrowing	10%	12%	22%	23%	19%	21%	20%	21%
Discouraged (any)	44%	46%	36%	32%	46%	42%	27%	23%
- Direct (Put off by bank)	*6%*	*4%*	*3%*	*5%*	*6%*	*2%*	*	*
-Indirect (Think I would be turned down)	*39%*	*42%*	*33%*	*27%*	*40%*	*40%*	*26%*	*22%*

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

As the table below shows, amongst those 'Future would-be seekers' with no specific need for finance in mind, a reluctance to borrow in the current climate presents much more of a barrier, and this is more likely to be due to the general economic climate rather than the performance of the SME specifically. Discouragement is much less likely to be mentioned by this group, but where it is, almost all of it is indirect:

Main reason for not applying The 'Future would-be seekers' **with no identified need**	Q1-2 2012	Q2-3 2012	Q4-1 2013	Q1-2 2013	Q2-3 2013	Q3-4 2013	Q4-1 2014	Q1-2 2014
Unweighted base:	*1694*	*1676*	*1527*	*1538*	*1401*	*1364*	*1460*	*1545*
Reluctant to borrow now (any)	53%	51%	59%	66%	65%	70%	71%	63%
-Prefer not to borrow in economic climate	*34%*	*35%*	*39%*	*43%*	*46%*	*50%*	*50%*	*45%*
-Predicted performance of business	*19%*	*17%*	*20%*	*23%*	*19%*	*20%*	*21%*	*18%*
Issues with principle of borrowing	15%	17%	10%	5%	2%	2%	2%	4%
Issues with process of borrowing	14%	13%	13%	11%	12%	11%	13%	14%
Discouraged (any)	8%	11%	12%	12%	12%	10%	11%	14%
- Direct (Put off by bank)	*1%*	*1%*	*2%*	*2%*	*1%*	*1%*	*1%*	*1%*
-Indirect (Think I would be turned down)	*7%*	*9%*	*10%*	*9%*	*11%*	*9%*	*10%*	*13%*

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

Other analysis of all 'Future would-be seekers', such as by size and risk rating, is possible based just on the latest quarter, Q2 2014.

By size, a reluctance to borrow now was the top reason for both smaller and larger SMEs:

Main reason for not applying 'Future would-be seekers' by size Q2 14 only	Total	0-9 emps	10-249 emps
Unweighted base:	*876*	*489*	*387*
Reluctant to borrow now (any)	58%	57%	80%
-Prefer not to borrow in economic climate	*42%*	*42%*	*55%*
-Predicted performance of business	*16%*	*15%*	*26%*
Issues with principle of borrowing	4%	4%	3%
Issues with process of borrowing	15%	15%	5%
Discouraged (any)	15%	15%	9%
-Direct (Put off by bank)	*	*	*
-Indirect (Think I would be turned down)	*15%*	*15%*	*9%*

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

Excluding the 'Future would-be seekers' with 0 employees makes little difference to the overall picture above. 62% of FWBS with employees cited a reluctance to borrow now, with 45% citing the current climate and 17% their own performance. 17% cited discouragement.

In Q2 2014, a reluctance to borrow now was mentioned less by 0-9 employee SMEs than in Q4 2013 (when 72% cited it as a reason), back to levels seen in Q3. Mentions of this factor by larger SMEs were stable over time. Mentions of discouragement were more stable for larger SMEs with something of an increase for smaller SMEs (having been 11% in Q4 2013).

The table below shows the main reasons for not applying given in Q2 2014 by 'Future would-be seekers', split by risk rating. A reluctance to borrow now was the main barrier across the risk ratings:

Main reason for not applying 'Future would-be seekers' by risk rating Q2 14 only	Min/Low	Avge	Worse/Avge
Unweighted base:	***331***	***221***	***244***
Reluctant to borrow now (any)	70%	62%	54%
-Prefer not to borrow in economic climate	*47%*	*47%*	*39%*
-Predicted performance of business	*22%*	*15%*	*15%*
Issues with <u>principle</u> of borrowing	8%	2%	5%
Issues with <u>process</u> of borrowing	9%	19%	13%
Discouraged (any)	6%	10%	18%
-Direct (Put off by bank)	*	-	*
-Indirect (Think I would be turned down)	*6%*	*10%*	*17%*

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

To put all these results in context, the table below shows the equivalent figures for each reason for all SMEs in Q2 2014. 1 in 10 of all SMEs (10%) 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 14 only – the Future would-be seekers	Main reason	All SMEs Q2	All SMEs excl. PNB
Unweighted base:	*876*	*5008*	*3514*
Reluctant to borrow now (any)	58%	10%	17%
-Prefer not to borrow in economic climate	*42%*	*8%*	*13%*
-Predicted performance of business	*16%*	*3%*	*5%*
Issues with principle of borrowing	4%	1%	1%
Issues with process of borrowing	15%	3%	4%
Discouraged (any)	15%	3%	4%
-Direct (Put off by bank)	*	*	*
-Indirect (Think I would be turned down)	*15%*	*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 had been excluded), 17% were put off by the current economic climate (including their performance in that climate).

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

54% of all SMEs were aware of *any* of the initiatives tested in Q2 2014. This varied by size from 53% of those with 0 employees to 63% of those with 50-249 employees.

Awareness of initiatives had varied relatively little over time but was typically slightly higher in Q2 2014 than in Q4 2013. SMEs remained most likely to be aware of the Funding for Lending scheme (29%).

Awareness of the appeals process was stable at 13% of all SMEs. Larger SMEs and those who had been declined for an overdraft were somewhat more likely to be aware.

The impact of schemes such as Funding for Lending on appetite for borrowing remains limited. In Q2 2014, 16% of all SMEs said they were more likely to apply for finance due to schemes like this (22% excluding the PNBs with little appetite for finance). The largest group were those saying they had no interest in such schemes as they did not want funding (68% excluding PNBs). Smaller SMEs remained more likely to be encouraged to apply for funding by such schemes.

In the first half of 2014, 22% of SMEs (excluding the PNBs) were aware of crowd funding. Usage remained limited (1% of all SMEs excluding PNBs) with just over half of those aware of this form of funding saying they would be unlikely to consider applying for such finance.

14% of SMEs in Q2 2014 had been contacted by a bank expressing a willingness to lend, with little difference by size of SME or once the PNBs, with little apparent interest in borrowing, were excluded.

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 those 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, and for Q2 2014 only. It shows that Funding for Lending continued to achieve higher levels of awareness than other schemes, across all sizes of SME:

Awareness of Taskforce initiatives Q2 14 – all SMEs asked new question	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*5008*	*1005*	*1653*	*1600*	*750*
Support from the Bank of England called Funding for Lending*	29%	28%	32%	36%	43%
Government support schemes for access to finance such as Enterprise Finance Guarantee Scheme etc*	22%	21%	23%	26%	31%
A network of business mentors	23%	23%	23%	24%	26%
Other alternative sources of business finance such as Asset based finance etc*	21%	20%	23%	27%	27%
The Lending Code / principles*	19%	19%	21%	25%	27%
The Business Growth Fund	16%	15%	18%	22%	26%
Independently monitored appeals process	13%	13%	13%	18%	21%
BetterBusinessFinance.co.uk	14%	13%	14%	15%	15%
Any of these	*54%*	*53%*	*57%*	*62%*	*63%*
None of these	*46%*	*47%*	*43%*	*38%*	*37%*

Q240 All SMEs * indicates new or amended question

Awareness of each initiative was typically slightly higher in Q2 2014 than in Q4 2013. As a result, overall awareness of *any* of these initiatives, at 54%, was very similar to the Q4 figure (52%) despite this net figure no longer including "Regional outreach events", as these are no longer one of the initiatives tested. Awareness of any of these initiatives amongst SMEs with employees is 58%, with slightly higher awareness of most individual schemes.

This overall awareness increased by size of business from 53% of 0 employee SMEs (up from 49% in Q4 and back to levels seen in earlier quarters) to 63% of those with 50-249 employees (which is down again, having been 70% in Q4 2013 and 78% in Q3). This lower net awareness amongst the largest SMEs appeared to be due to lower awareness of alternative sources of finance, and Government support schemes.

For 5% of all SMEs in Q2 2014, Funding for Lending was the only initiative they were aware of (in line with earlier quarters).

Those SMEs that had someone in charge of the finances with training/qualifications were more likely to be aware of any of these initiatives (61%) than those who did not (52%) but this is also likely to be a reflection of the fact that they are typically larger SMEs.

For the first half of 2014 as a whole, 36% of all SMEs were aware of either of the Government led initiatives (FLS and other support schemes for access to finance). A similar proportion, 34%, was aware of any of the banking led initiatives (a network of business mentors, Lending Code, appeals, and the BetterBusinessFinance website).

66% of SMEs looking to apply for new/renewed facilities in the next 3 months were aware of any of these initiatives in Q2 2014 (little changed from the 63% in Q4 2013). They remained more aware than the 'Future would-be seekers' (54% from 49% in Q4) or the 'Future happy non-seekers' (52%, from 50% in Q4).

As many of these initiatives are aimed at those with an interest in seeking external finance, they are potentially less relevant to the 'Permanent non-borrowers' who have indicated that they are unlikely to seek external finance. As in previous quarters there was a difference in awareness of any of these initiatives between 'Permanent non-borrowers' (47% aware of any initiatives in Q2 2014) and other SMEs (60% aware).

Awareness over time is shown in the table below for those initiatives where comparable data is available across the full time period shown (as the list was revised for Q4 2012). This shows that, over time, awareness of individual initiatives had changed very little:

Awareness of Taskforce initiatives Over time – all SMEs By date of interview	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13	Q1 14	Q2 14
Unweighted base:	*5000*	*5032*	*5000*	*5000*	*5000*	*5000*	*5028*	*5000*	*5008*
A network of business mentors	23%	23%	21%	21%	23%	23%	21%	22%	23%
Independently monitored appeals process	12%	11%	10%	13%	12%	14%	12%	12%	13%
The Business Growth Fund	14%	12%	14%	14%	16%	15%	14%	13%	16%
BetterBusinessFinance.co.uk	9%	9%	10%	9%	9%	9%	10%	11%	14%

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. This shows a fairly stable position in the first half of 2014:

Awareness of Taskforce initiatives All SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base (Q2):	*5008*	*1005*	*1653*	*1600*	*750*
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%
A network of business mentors Q313	23%	22%	26%	27%	33%
A network of business mentors Q413	21%	20%	24%	25%	30%
A network of business mentors Q114	22%	22%	24%	22%	27%
A network of business mentors Q214	23%	23%	23%	24%	26%
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%
Independently monitored appeals process Q313	14%	13%	17%	18%	26%
Independently monitored appeals process Q413	12%	12%	14%	16%	21%
Independently monitored appeals process Q114	12%	11%	14%	14%	18%
Independently monitored appeals process Q214	13%	13%	13%	18%	21%

Continued

Continued

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%
The Business Growth Fund Q313	15%	14%	17%	22%	35%
The Business Growth Fund Q413	14%	13%	18%	20%	26%
The Business Growth Fund Q114	13%	12%	14%	19%	25%
The Business Growth Fund Q214	16%	15%	18%	22%	26%
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%
BetterBusinessFinance.co.uk Q313	9%	8%	13%	10%	11%
BetterBusinessFinance.co.uk Q413	10%	10%	11%	11%	9%
BetterBusinessFinance.co.uk Q114	11%	10%	13%	13%	14%
BetterBusinessFinance.co.uk Q214	14%	13%	14%	15%	15%

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 broadly stable over time:

Awareness of more recent initiatives All SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base (Q2):	*5008*	*1005*	*1653*	*1600*	*750*
Funding for Lending Q412	23%	21%	27%	35%	45%
Funding for Lending Q113	27%	24%	32%	37%	43%
Funding for Lending Q213	29%	27%	34%	40%	48%
Funding for Lending Q313	30%	28%	35%	41%	51%
Funding for Lending Q413	29%	27%	33%	37%	46%
Funding for Lending Q114	27%	26%	30%	37%	43%
Funding for Lending Q214	29%	28%	32%	36%	43%
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%
Government support schemes Q313	24%	22%	29%	34%	45%
Government support schemes Q413	21%	20%	24%	29%	41%
Government support schemes Q114	17%	16%	21%	27%	34%
Government support schemes Q214	22%	21%	23%	26%	31%

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%
Alternative sources of finance Q313	20%	17%	27%	32%	40%
Alternative sources of finance Q413	18%	17%	23%	29%	37%
Alternative sources of finance Q114	17%	16%	19%	27%	35%
Alternative sources of finance Q214	21%	20%	23%	27%	27%
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 Lending Code Q313	18%	17%	22%	27%	36%
The Lending Code Q413	17%	15%	21%	22%	28%
The Lending Code Q114	18%	17%	19%	23%	28%
The Lending Code Q214	19%	19%	21%	25%	27%

Analysis over time by sector is also provided below, but first, a table showing results for the revised list of initiatives, by sector, for Q2 2014. Overall awareness ranged from 65% amongst those in the Manufacturing sector to 46% for those in Transport:

% aware of Initiatives Q2 14 – all SMEs asked new question	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*375*	*520*	*881*	*505*	*450*	*454*	*876*	*447*	*500*
Support from the Bank of England called Funding for Lending*	28%	25%	25%	30%	27%	31%	36%	23%	27%
Government support schemes for access to finance such as Enterprise Finance Guarantee Scheme etc*	18%	20%	19%	25%	20%	24%	24%	21%	22%
A network of business mentors	19%	29%	16%	23%	24%	21%	24%	24%	30%
Other alternative sources of business finance such as Asset based finance etc*	17%	19%	17%	19%	19%	18%	24%	21%	27%
The Lending Code	15%	19%	18%	21%	22%	21%	21%	15%	18%
The Business Growth Fund	11%	19%	14%	14%	21%	19%	16%	15%	19%
BetterBusinessFinance.co.uk	18%	16%	11%	15%	16%	9%	13%	12%	19%
Independently monitored appeals process	10%	14%	15%	16%	13%	14%	12%	12%	12%
Any of these	*49%*	*65%*	*46%*	*58%*	*49%*	*56%*	*60%*	*51%*	*54%*
None of these	*51%*	*35%*	*54%*	*42%*	*51%*	*44%*	*40%*	*49%*	*46%*

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 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%
Q313	19%	20%	19%	21%	22%	16%	33%	23%	22%
Q413	14%	21%	16%	15%	16%	15%	29%	21%	27%
Q114	22%	23%	17%	26%	19%	13%	26%	22%	26%
Q214	19%	29%	16%	23%	24%	21%	24%	24%	30%
Independently monitored appeals process 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%
Q313	10%	5%	14%	14%	16%	10%	18%	11%	20%
Q413	10%	11%	9%	14%	12%	11%	16%	12%	11%
Q114	13%	8%	12%	21%	14%	7%	11%	8%	10%
Q214	10%	14%	15%	16%	13%	14%	12%	12%	12%

Continued

Continued

The Business Growth Fund 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%
Q313	14%	13%	11%	14%	16%	13%	19%	12%	15%
Q413	14%	11%	10%	15%	14%	12%	19%	11%	15%
Q114	18%	9%	11%	13%	12%	8%	14%	12%	16%
Q214	11%	19%	14%	14%	21%	19%	16%	15%	19%
BetterBusinessFinance.co.uk 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%
Q313	6%	6%	7%	11%	11%	8%	10%	10%	9%
Q413	6%	8%	9%	11%	10%	7%	11%	6%	15%
Q114	10%	6%	10%	15%	12%	7%	12%	11%	11%
Q214	18%	16%	11%	15%	16%	9%	13%	12%	19%

Q240 All SMEs

For those initiatives included for the first time in Q4 2012 analysis over time is shown below for the quarters for which it is available:

% aware Over time by date of interview	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Funding for Lending Q412	25%	19%	21%	26%	19%	27%	26%	25%	19%
Q113	28%	32%	25%	26%	27%	26%	33%	29%	13%
Q213	30%	32%	22%	30%	32%	32%	35%	28%	28%
Q313	33%	25%	27%	33%	28%	31%	33%	28%	31%
Q413	27%	27%	24%	24%	25%	21%	39%	18%	35%
Q114	28%	20%	25%	27%	22%	25%	34%	24%	26%
Q214	28%	25%	25%	30%	27%	31%	36%	23%	27%
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%
Q313	21%	21%	20%	28%	23%	25%	30%	16%	22%
Q413	18%	23%	13%	19%	16%	19%	29%	18%	28%
Q114	18%	11%	12%	21%	20%	15%	21%	20%	19%
Q214	18%	20%	19%	25%	20%	24%	24%	21%	22%

Continued

Continued

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%
Q313	19%	16%	12%	22%	18%	17%	30%	21%	14%
Q413	16%	25%	10%	19%	11%	12%	27%	15%	20%
Q114	14%	12%	12%	18%	17%	10%	22%	22%	20%
Q214	17%	19%	17%	19%	19%	18%	24%	21%	27%
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%
Q313	17%	10%	14%	18%	18%	14%	25%	18%	21%
Q413	19%	16%	12%	14%	15%	11%	21%	14%	24%
Q114	16%	17%	17%	25%	21%	12%	21%	16%	9%
Q214	15%	19%	18%	21%	22%	21%	21%	15%	18%

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 was 12% in Q2, and this has varied relatively little over time (typically 7-13%) Awareness amongst smaller SMEs with loans was 12%, whilst awareness for 10-249 employees remained somewhat higher (17%)

Finally, the independent appeals initiative is of particular relevance to certain types of SME, and so is shown in more detail below:

Initiative	Awareness
The independently monitored lending appeals process	As reported earlier, amongst all those who, in the 18 months between Q1 2013 and Q2 2014, had applied for an overdraft and initially been declined, 17% said that they had been made aware of the appeals process while for loans the equivalent figure was 13%. In both instances awareness amongst those applying in 2013 to date was higher than for those who applied in 2012 (14% v 8% for loans and 17% v 13% for overdrafts). Overall awareness of the appeals process (asked of all SMEs at Q240) was 13% for the first half of 2014, unchanged from 2013 as a whole (and 14% once the PNBs were excluded, also unchanged from 2013). This proportion has varied little quarter by quarter (12-14%). Awareness for the first half of 2014 increased by size of SME from 12% of those with 0 employees to 19% of those with 50-249 employees. There was little difference in awareness by either past or future financial behaviour (those who had experienced a borrowing event, would be seekers etc), with ‘Future would-be seekers’ somewhat more likely to be aware of the appeals process (14%) than whose who had been a “Would-be seeker’ in the previous 12 months (8%).

Funding for Lending

New questions have been asked from Q4 2012 around awareness of the Funding for Lending Scheme. As reported above, in Q2 2014 29% of SMEs reported that they were aware of this scheme (up from 23% when this question was first asked, but stable over recent quarters).

Those aware of Funding for Lending were asked whether they were aware of their bank offering finance options under this scheme. A third of those aware of Funding for Lending said that they were, the equivalent of 9% of all SMEs, as the table below shows (Note that due to rounding the 'any awareness' figures do not always quite match those reported for awareness of Funding for Lending earlier in the chapter):

Awareness of Funding for Lending Q2 14 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*5008*	*1005*	*1653*	*1600*	*750*
Aware bank was offering finance options	9%	9%	10%	16%	18%
Aware of scheme but not of bank offering	19%	18%	20%	19%	24%
Awareness (any)	*29%*	*27%*	*30%*	*35%*	*42%*
Not aware of Funding for Lending	71%	73%	70%	65%	58%

Q240 / 240XX All SMEs

Amongst SMEs with employees, overall awareness of FLS was 31%, with awareness of bank finance options at 11%. The largest SMEs were more likely to be aware of FLS overall and specifically of options available from their bank (18%, unchanged from Q4 2013) than those with 0 employees (9%, also fairly stable over time).

Given the nature of the scheme, it is also appropriate to report awareness of Funding for Lending excluding the 'Permanent non-borrowers'. As the table below shows, excluding them has a slight impact on overall awareness and awareness of bank activity specifically:

Awareness of Funding for Lending Q2 14 All excluding PNBs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*3514*	*594*	*1155*	*1191*	*574*
Aware bank was offering finance options	10%	10%	9%	15%	20%
Aware of scheme but not of bank offering	21%	21%	21%	19%	26%
Awareness (any)	*31%*	*31%*	*30%*	*34%*	*46%*
Not aware of Funding for Lending	69%	69%	70%	66%	54%

Q240 / 240XX All SMEs excluding PNBs

Awareness amongst SMEs with employees (and excluding the PNBs) is 31%, with 10% aware of bank finance options.

One further piece of analysis looks at awareness by future borrowing intentions. Those with plans to apply/renew in the next 3 months remained slightly more likely to be aware of Funding for Lending per se, if not of bank actions specifically. 'Future would-be seekers' of finance remained less likely to be aware of FLS (but their awareness has increased over time, from 26% in Q3 2013 to 31% in Q2 2014):

Awareness of Funding for Lending Q2 14 All SMEs	Plan to apply	Future WBS	Future HNS	Future HNS excl. PNB
Unweighted base:	*792*	*876*	*3340*	*1846*
Aware bank was offering finance options	13%	12%	8%	8%
Aware of scheme but not of bank offering	21%	19%	18%	22%
Awareness (any)	*34%*	*31%*	*26%*	*30%*
Not aware of Funding for Lending	66%	69%	74%	70%

Q240 / 240XX All SMEs

Questions were asked in Q2 and Q3 2012 about the impact that the National Loan Guarantee scheme (with a 1% discount on loans, hire purchase or leasing) might have on SMEs' appetite for finance. From Q4 2012, the question responses were kept in the same format but the question was broadened to explore the impact of the 'various initiatives that have been announced to help reduce the cost of finance to SMEs', and naming the NLGS and Funding for Lending scheme specifically.

Overall, the proportion of SMEs that thought such schemes would encourage them to apply for funding has stabilised over recent quarters. In Q2 2014, it stood at 16%, the equivalent of around 730,000 SMEs, and the same proportion as Q2 2013. The biggest single group, 75% of all SMEs in Q2 2014, said that such schemes made no difference as they were not looking for funding:

Effect of NLGS / Funding for Lending All SMEs asked new question over time	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014
Unweighted base:	*4330*	*4471*	*4460*	*4529*	*4391*	*4402*	*4405*
Now more likely to apply for funding	20%	18%	16%	14%	14%	14%	16%
No difference because do not want funding	72%	75%	77%	77%	77%	81%	75%
No difference as interest rates not main consideration for finance	4%	3%	3%	2%	4%	2%	4%
Now less likely to apply for this type of finance	4%	5%	4%	7%	5%	4%	6%

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 7% of this group thought such schemes might encourage them to apply (the equivalent of 3% of all SMEs).

Excluding the 'Permanent non-borrowers', 22% of remaining SMEs in Q2 2014 thought such a scheme would make them more likely to apply for funding (almost unchanged from 20% in Q4 2013):

Effect of NLGS / Funding for Lending All SMEs asked new question Q2 14	Total SMEs	PNBs	Non PNB
Unweighted base:	*4405*	*1285*	*3120*
Now more likely to apply for funding	16%	7%	22%
No difference because do not want funding	75%	85%	68%
No difference as interest rates not main consideration for finance	4%	3%	4%
Now less likely to apply for this type of finance	6%	6%	6%

Q238d All SMEs, excluding DK

Analysis by size shows that in Q2 2014 it was smaller SMEs with fewer than 10 employees that were most likely to say such schemes made them more likely to apply for funding:

Effect of NLGS / Funding for Lending All SMEs asked new question Q2 14 Excluding PNBs	Total	0 emps	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*3120*	*524*	*1001*	*1064*	*531*
Now more likely to apply for this type of funding	22%	22%	22%	14%	10%
No difference because do not want funding	68%	68%	69%	77%	85%
No difference as interest rates not main consideration for finance	4%	4%	4%	3%	3%
Now less likely to apply for this type of finance	6%	6%	5%	5%	3%

Q238d All SMEs, excluding DK and 'Permanent non-borrowers'

Amongst SMEs with employees (and excluding PNBs), 21% thought they would be more likely to apply for funding due to schemes like FLS, while 70% said that it made no difference as they did not want funding.

Levels of encouragement to apply increased with external risk rating (all excluding PNBs):

- 15% of those rated a minimal risk thought they were now more likely to apply
- 17% of those rated a low risk
- 20% of those rated an average risk
- 25% 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 (36%), and those who had had a borrowing 'event (34%) compared to 15% of 'Happy non-seekers'
- Those with plans to borrow in the next 3 months (44%)
- SMEs that had been trading for 2-5 years (26%)

Analysis over time shows how likelihood to apply has changed by key subgroup (all excluding PNBs).

Compared to Q2 2013, larger SMEs and 'Future would-be seekers' of finance were less likely to say in Q2 2014 that schemes such as FLS encouraged them to apply for 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	Q3 2013	Q4 2014	Q1 2014	Q2 2014
Total	*27%*	*25%*	*22%*	*20%*	*20%*	*22%*	*22%*
0 emps	26%	24%	20%	20%	19%	21%	22%
1-9 emps	32%	27%	27%	18%	24%	23%	22%
10-49 emps	25%	23%	19%	18%	18%	21%	14%
50-249 emps	22%	19%	16%	14%	15%	14%	10%
Minimal external risk rating	21%	17%	18%	16%	13%	21%	15%
Low external risk rating	22%	21%	15%	12%	18%	19%	17%
Average external risk rating	24%	20%	20%	21%	16%	14%	20%
Worse than average external risk rating	30%	29%	24%	19%	23%	24%	25%
Plan to apply in next 3 months	42%	43%	48%	37%	37%	38%	44%
Would-be seeker in next 3 months	30%	23%	19%	21%	21%	18%	15%
Happy non-seeker in next 3 months	17%	16%	12%	12%	11%	17%	15%

Q238d All SMEs, excluding DK and PNBs

Crowd Funding

Questions on crowd funding have gone through several iterations in the SME Finance Monitor. They were originally included in Q2 and Q3 2012, when awareness of the concept was 18%, varying by size from 17% of 0 employee SMEs to 27% of those with 50-249 employees. Excluding the PNBs with little apparent appetite for finance did not change these figures.

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. In both Q2 and Q3 2013 the awareness of crowd funding was 24% (excluding PNBs). For Q4 2013, overall awareness was up slightly, at 26% (again excluding PNBs), as a consistent 2% of SMEs reported that they had applied for such funding (the equivalent of around 90,000 SMEs).

The question has now been revised again, to provide more granularity on applications for crowd funding. The data below is based on Q1 and Q2 2014 combined, when this new question was asked for the first time, to maximise base sizes:

Awareness and use of crowd funding All SMEs excl PNBs asked new question H1 2014	Total	0 emps	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*6884*	*1077*	*2257*	*2438*	*1112*
Using crowd funding	1%	*	1%	1%	*
Unsuccessfully applied for crowd funding	*	*	1%	*	*
Aware and would consider applying in future	7%	7%	9%	7%	5%
Aware but would not consider applying	13%	12%	16%	18%	20%
Aware (any)	*22%*	*20%*	*26%*	*27%*	*26%*
Not aware	78%	80%	74%	73%	74%

Q238a2 All SMEs excl PNBs

22% of SMEs were aware of crowd funding in the first half of 2014, in line with other periods. Usage remained minimal (1% of all SMEs) and half of those aware of crowd funding did not think it was a form of finance they would consider using (13% of all SMEs). Amongst SMEs with employees, 24% were aware of crowd funding.

Awareness of crowd funding was higher amongst those with plans to apply/renew external finance in the next 3 months (29%) and slightly higher amongst those currently using external finance (24%).

Bank communication about lending

Analysis has 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 2014, 14% of all SMEs said that they had received such a contact in the previous 3 months (10% of SMEs had heard from their main bank, while 6% had heard from another bank):

Approached by any bank in last 3 mths All SMEs	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13	Q1 14	Q2 14
All SMEs	12%	13%	13%	14%	11%	12%	13%	13%	14%
0 emps	10%	12%	11%	13%	10%	10%	13%	13%	14%
1-9 emps	15%	14%	15%	18%	14%	14%	15%	15%	15%
10-49 emps	20%	17%	18%	19%	17%	17%	21%	19%	16%
50-249 emps	28%	23%	25%	24%	20%	24%	23%	15%	19%
All SMEs excluding PNBs	11%	13%	14%	16%	11%	12%	15%	13%	15%

Q221 All SMEs

Amongst SMEs with employees, 15% reported in Q2 2014 that they had been approached by a bank (11% by their main bank and 6% by another bank).

The proportion being approached by a bank at all has varied little over time (13% in 2012 and 2013 compared to 14% in the first half of 2014). There has been a very slight increase in contact from the main bank (8% in 2012 to 10% in the first half of 2014) with an even smaller decrease in contact from other banks (6% in 2012 to 5% in H1 2014)

Those who had been approached in Q2 2014 were slightly more likely to be aware of Funding for Lending (34%) than those who had not been approached (29%). Such SMEs in Q2 were also slightly more likely to be planning to apply in the next 3 months than those who had not been approached (19% v 13%) and if they were planning to apply then they were also more confident that their bank would agree to their request (58% v 40%). They were no more likely to say that schemes such as FLS encouraged them to apply for finance (both 14%).

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

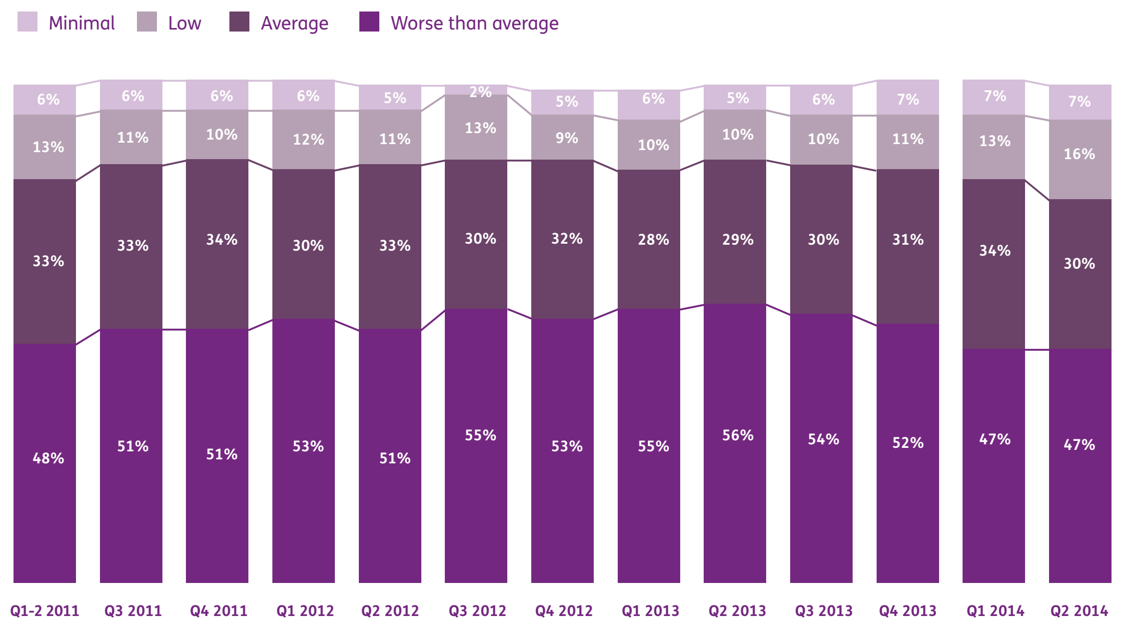
some of the key data in graphical form to provide data on longer term trends.

Much of the data in this report is provided and analysed over time, typically by quarter. After eleven 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 the older quarters will be removed. In order to show longer term trends and provide context for the current data, a series of charts has been developed and 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, and a summary of the trend shown.

Charts reflecting data reported in Chapter 4

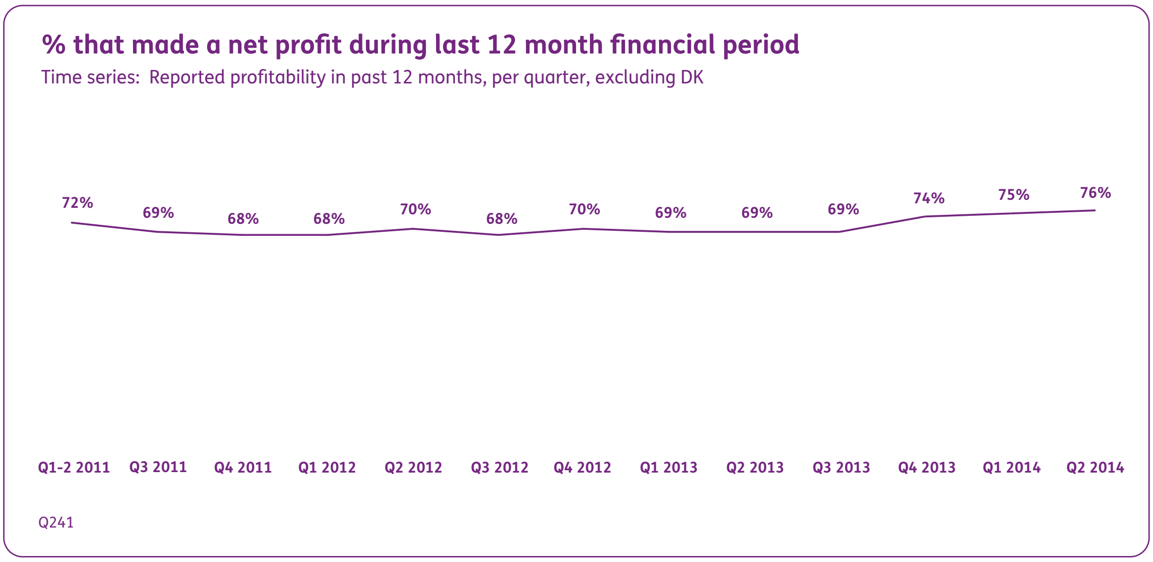
External risk rating from D&B or Experian

Time series: Risk rating per quarter

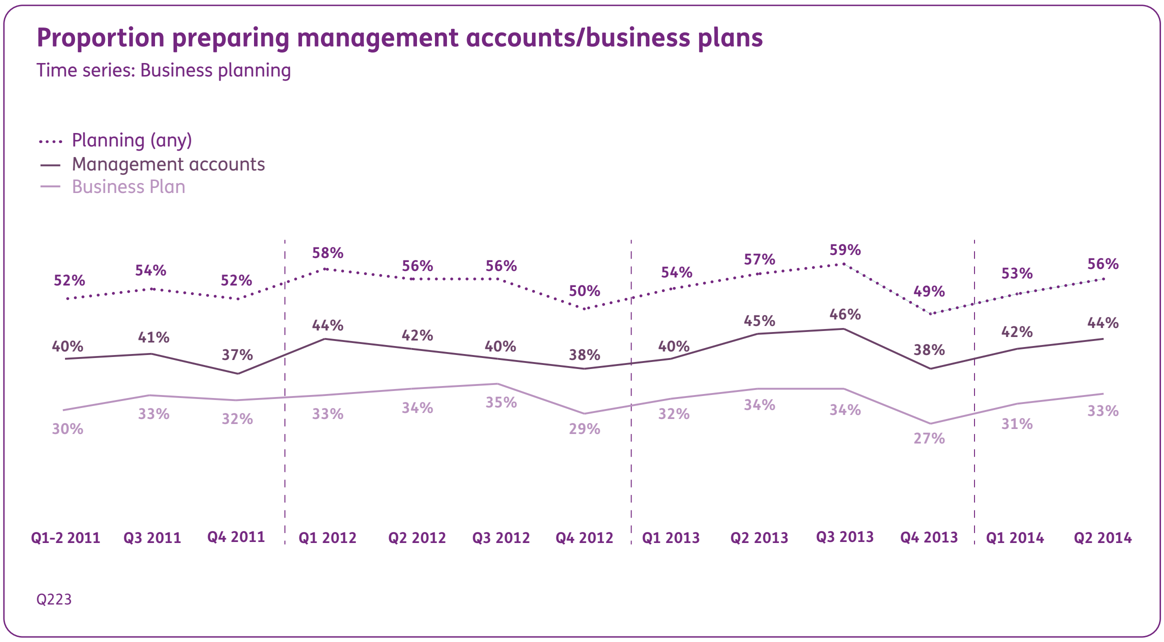


Risk rating

This chart relates to the analysis found on page 33 of the main report. The proportion of SMEs with a ‘worse than average’ external risk rating had been increasing over time, reaching 56% in Q2 2013. Since then the risk rating profile has improved and in Q2 2014, 47% of MSEs had a ‘worse than average’ rating.

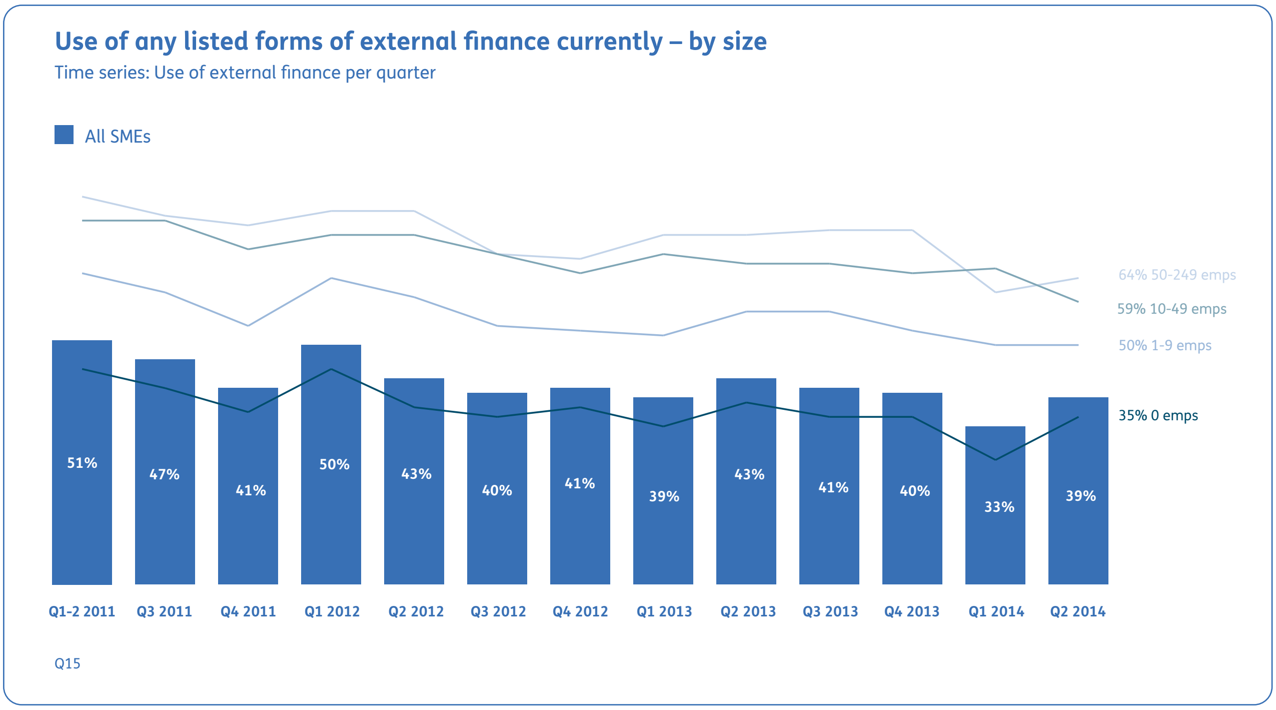


This chart relates to the analysis found on page 26 of the main report. The proportion of SMEs reporting a profit in the previous 12 months trading has improved over recent quarters to 76% in Q2 2014.



This chart relates to the analysis found on page 38 of the main report. Over half of SMEs plan (56%), now back in line with the equivalent quarter of 2013, after the Q4 'dip'.

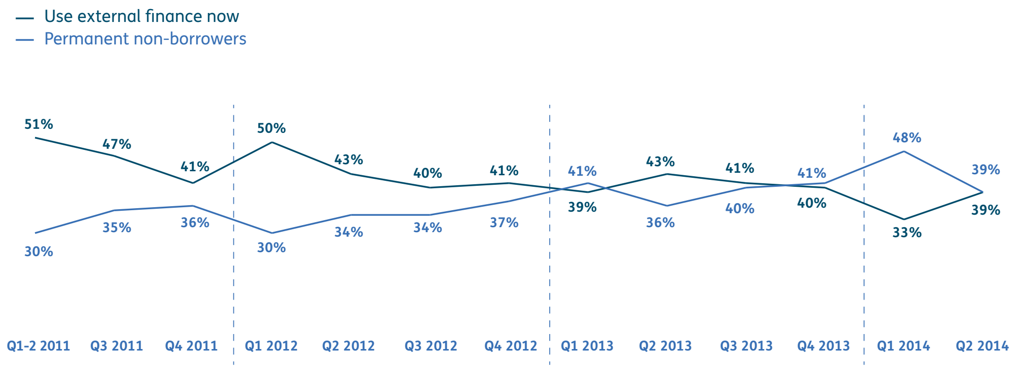
Charts reflecting data reported in Chapter 5



This chart relates to the analysis found on page 47 of the main report. 39% of SMEs reported using external finance in Q2 2014, and this has been stable over most quarters since 2012. Over time, larger SMEs have become somewhat less likely to be using external finance.

Proportion using external finance v those who meet definition of “Permanent non-borrower”

Time series: Permanent non-borrowers and users of external finance

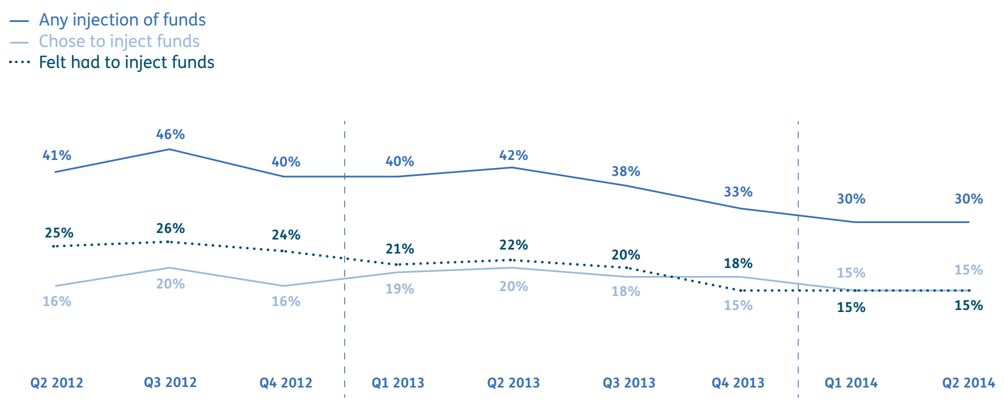


Q15/14 and others

This chart relates to the analysis found on page 69 of the main report. In Q2 2014, there were as many SMEs that meet the definition of a ‘Permanent non-borrower’ as there were SMEs using external finance, as the proportion of PNBs continued to increase somewhat over time.

Proportion injecting personal funds into the business in last 12 months

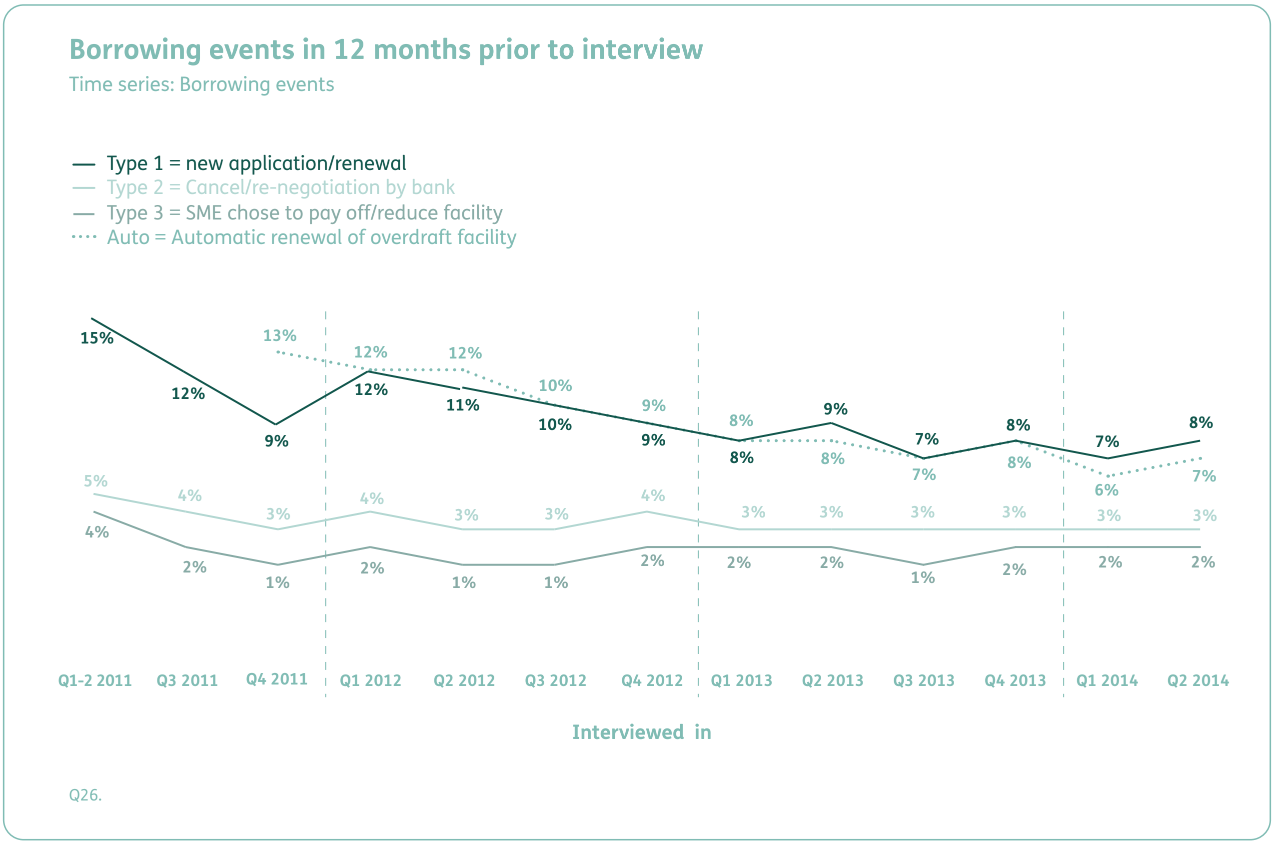
Time series: Injections of personal funds



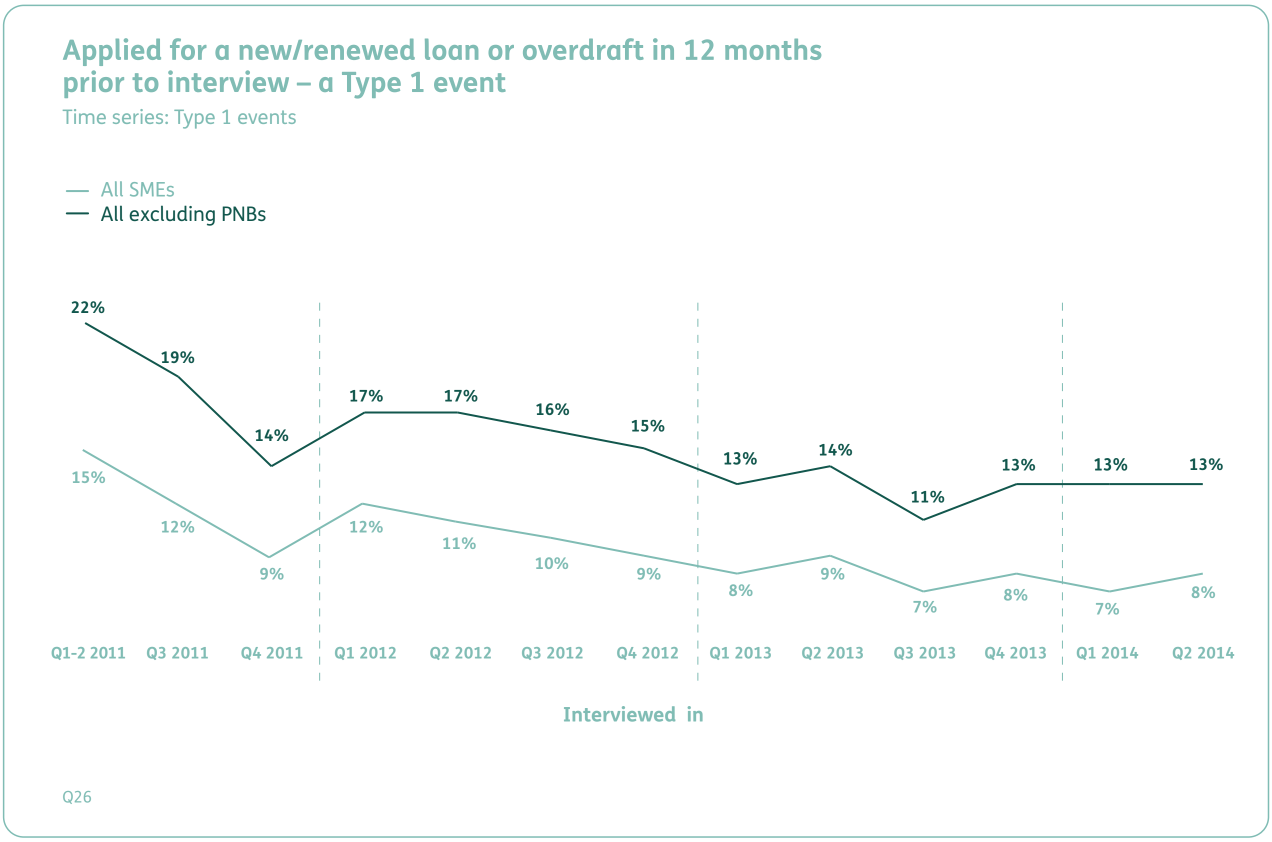
Q15/14 and others

This chart relates to the analysis found on page 55 of the main report. A consistent 30% of SMEs reported any injection of personal funds into the business in the 12 months prior to Q2 2014. Over time, this proportion has declined, having been 42% in the equivalent quarter of 2012/ This is mainly due to fewer SMEs reporting that an injection of funds ‘had’ to be made.

Charts reflecting data reported in Chapter 6



This chart relates to the analysis found on pages 75 and 87 of the main report. The proportion of SMEs reporting a borrowing event in the 12 months prior to interview remained stable but lower than in previous years.

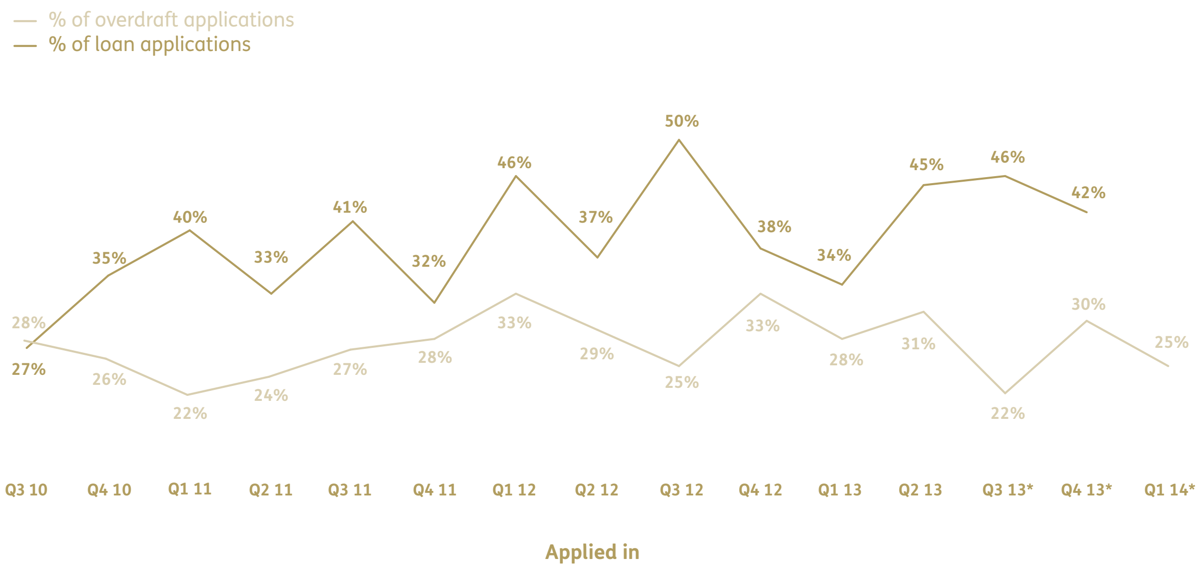


This chart relates to the analysis found on page 76 of the main report. Excluding the PNBs who seem unlikely to borrow, increases the proportion of SMEs reporting an application for a new or renewed facility. Applications levels were stable, but as for SMEs overall, lower than in previous years.

Charts reflecting data reported in Chapter 7

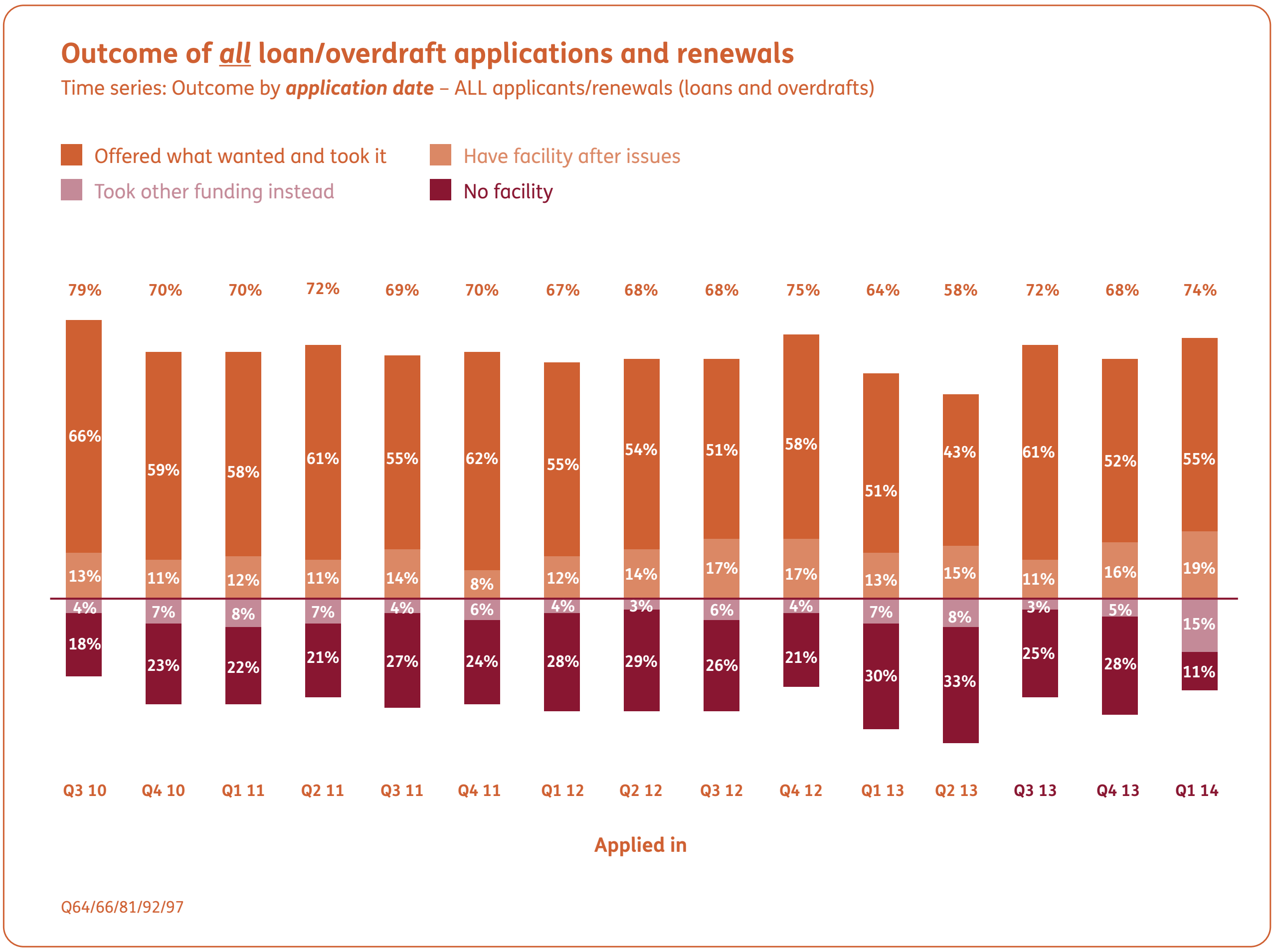
Proportion of all applications that were made by first time applicants

Time series: Proportion of applications made by first time applicants

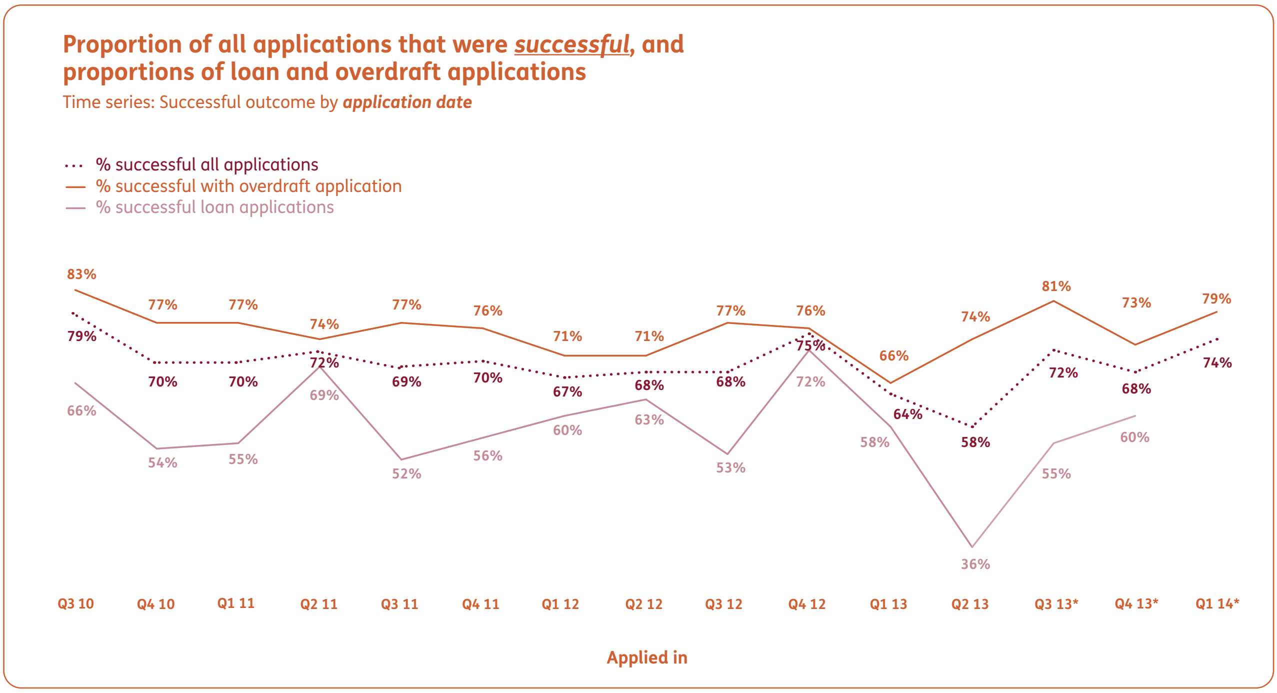


This chart relates to the analysis found on pages 94 and 100 of the main report. The patterns are not consistent over time, but a higher proportion of loan applicants have been seeking their first facility compared to overdraft applicants.

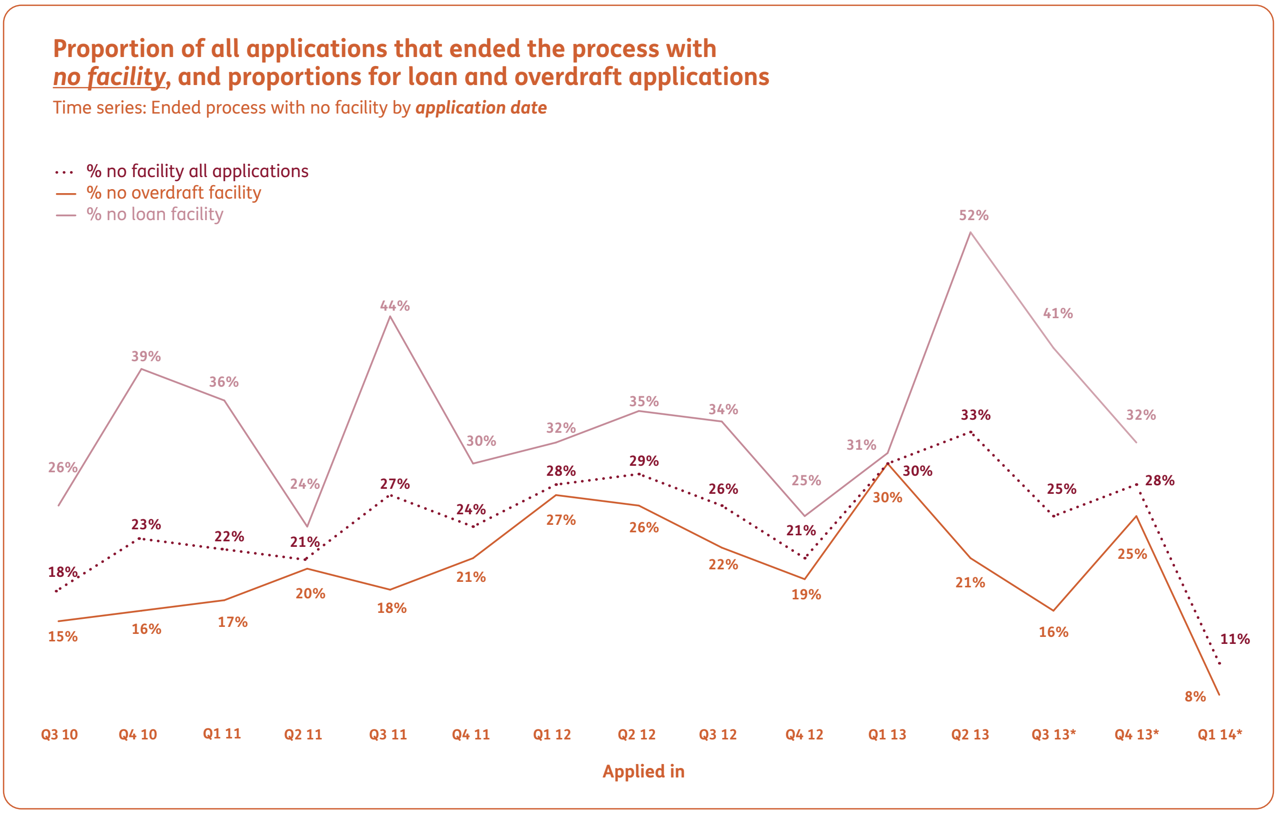
Charts reflecting data reported in Chapter 8



This chart relates to the analysis found on page 109 of the main report. With the exception of applications made in the first half of 2013, around 7 in 10 applications resulted in a facility.



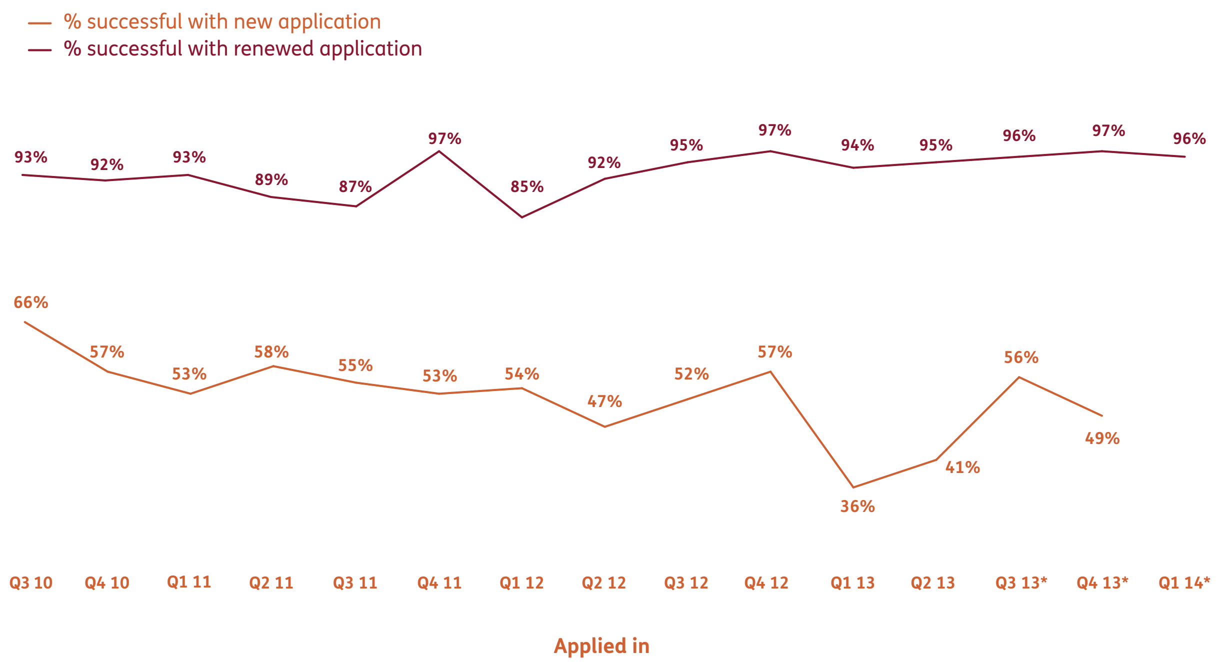
This chart relates to the analysis found on pages 126 and 141 of the main report. The success rates for overdrafts have been consistent over time, with the exception of Q2 2013, with around three-quarters of applicants being successful. The success rates for loans follow no clear pattern, with applications made in Q2 2013 less likely to have been successful.



This chart relates to the analysis found on pages 126 and 141 of the main report. After a period of stability during 2012, the proportion of overdraft and loan applicants ending the process with no facility has been more variable over recent quarters (on interim data).

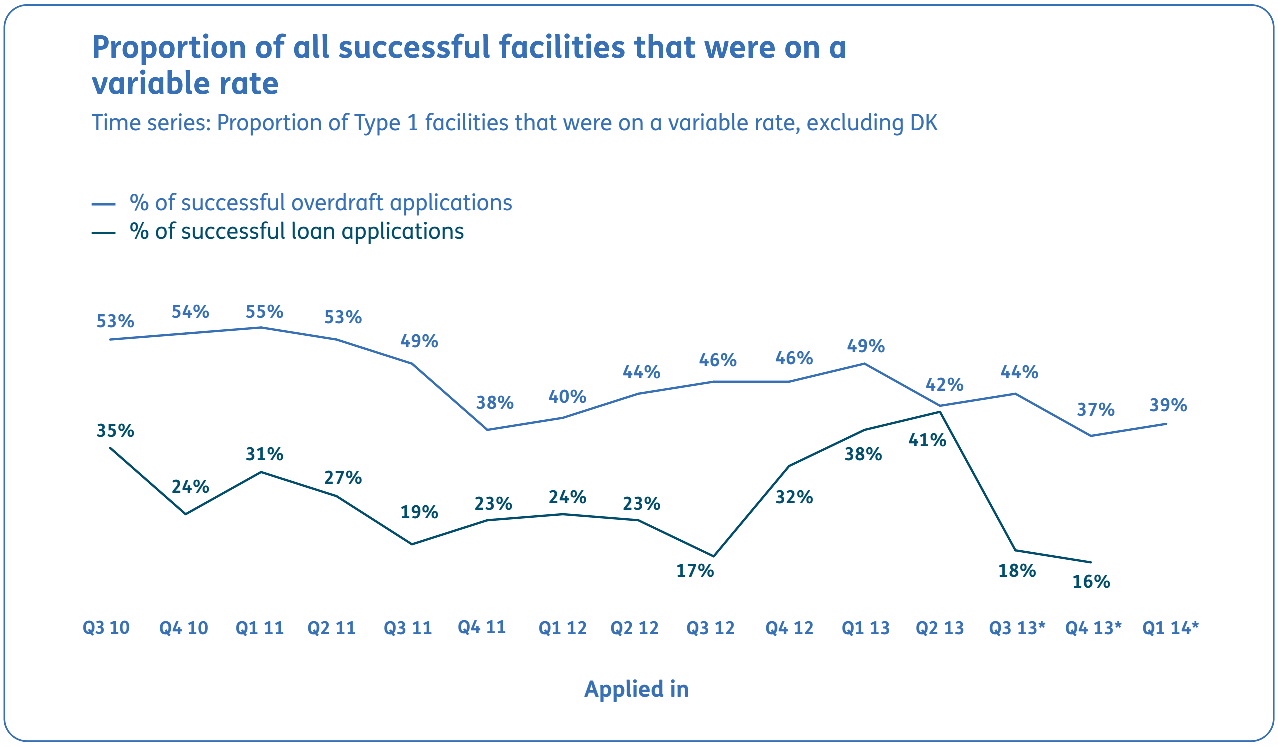
Proportion of all applications that were successful: Applying for new money and applying to renew an existing facility

Time series: Outcome by ***application date – all renewed v new money loans and overdrafts***



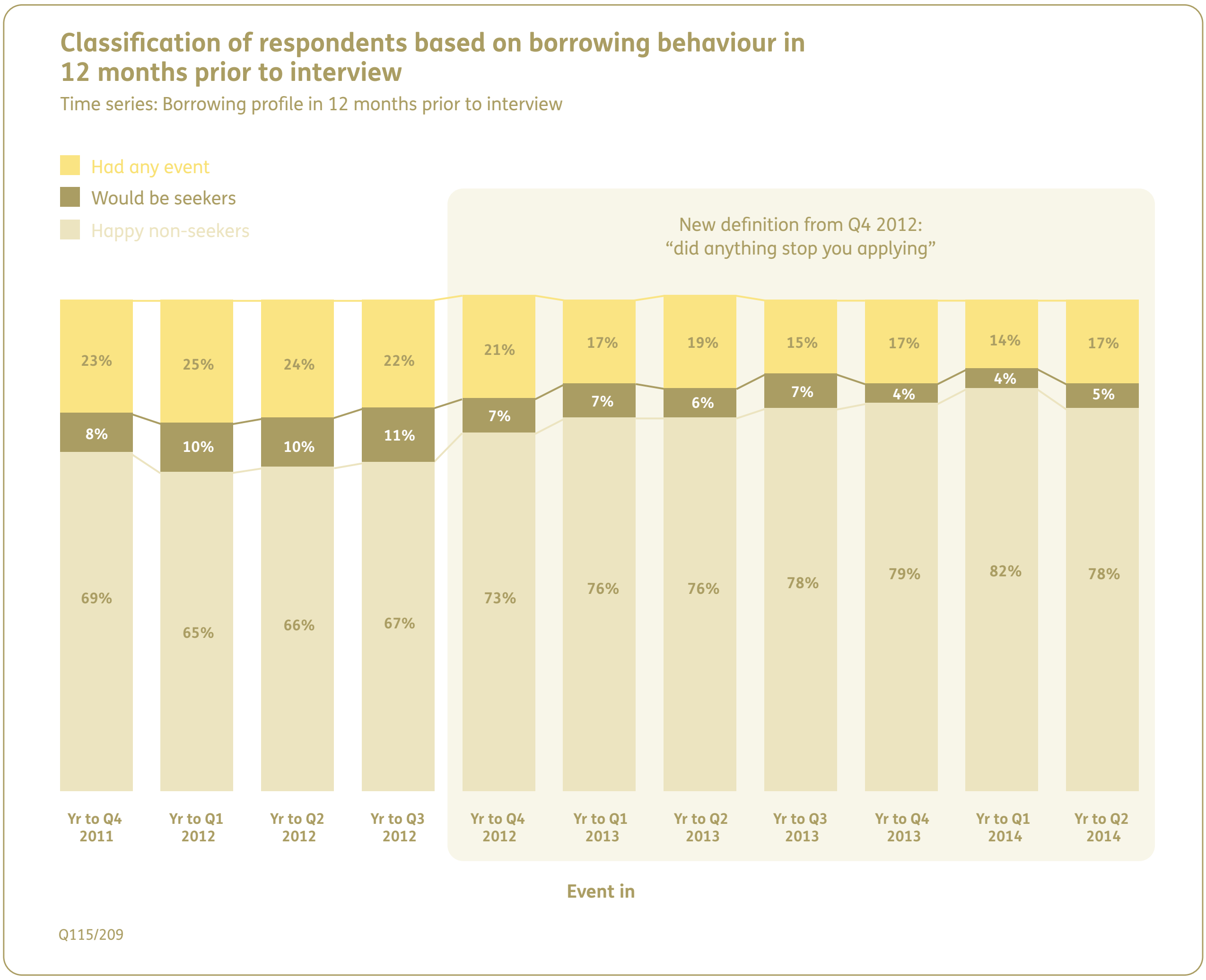
This chart relates to the analysis found on pages 145 and 146 of the main report. The success rate for renewed facilities has been very consistent over time, with more than 9 out of 10 applicants renewing their loan/overdraft successfully. Success rates for new money are lower and have declined somewhat over time, notably for applications made in the first half of 2013.

Charts reflecting data reported in Chapter 10



This chart relates to the analysis found on pages 163 and 178 of the main report. New/renewed overdrafts remained more likely to be on a variable rate than the equivalent loan facilities. Loans granted between Q4 2012 and Q2 2013 were more likely to be on a variable rate but this trend does not appear to have continued for more recent facilities (on interim data).

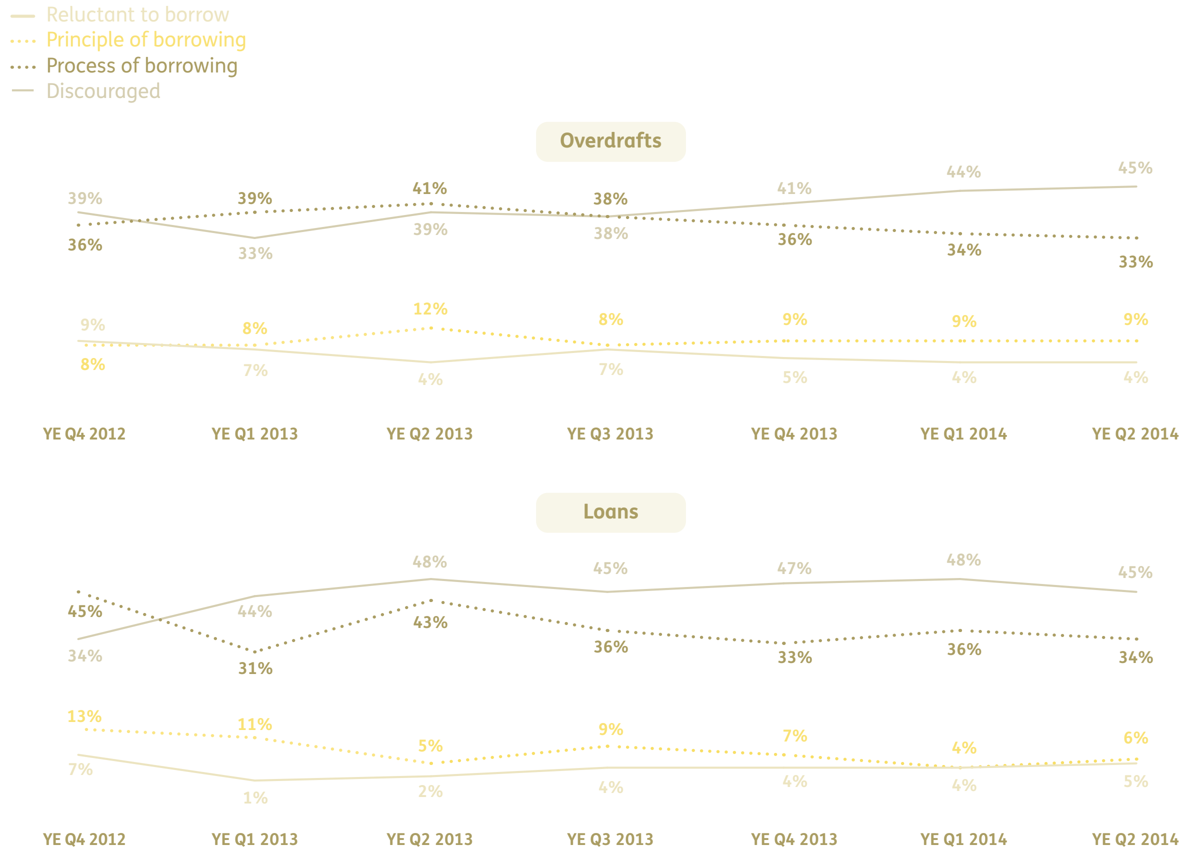
Charts reflecting data reported in Chapter 11



This chart relates to the analysis found on page 190 of the main report. Most SMEs met the definition of a 'Happy non-seeker' of finance based on their behaviour in the 12 months prior to interview and this remained at a higher level (78%) than was seen in 2012.

Main barriers for "would-be seekers" over time

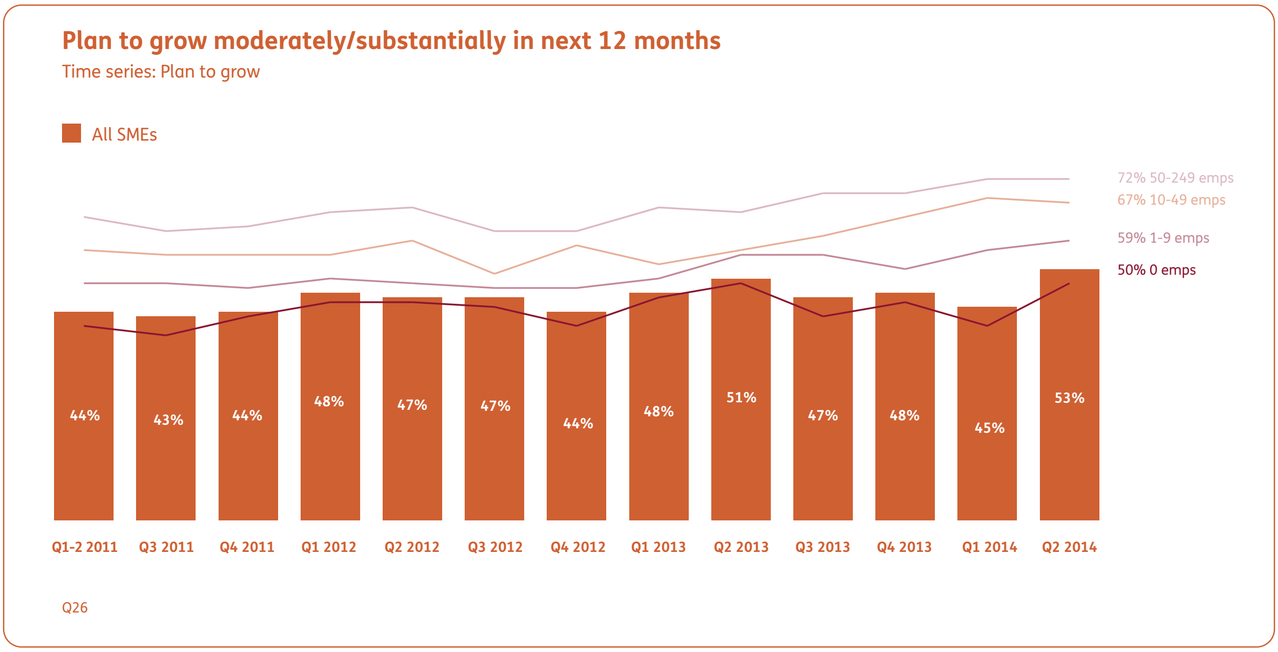
Time series: Main reason for not seeking borrowing amongst "would-be seekers"



Q116a/210a 'Principle of borrowing' no longer includes 'prefer not to borrow'

This chart relates to the analysis found on page 196 of the main report. Discouragement and the process of borrowing remained the main barriers to those SMEs that would have liked to apply for a loan or overdraft but felt that something stopped them.

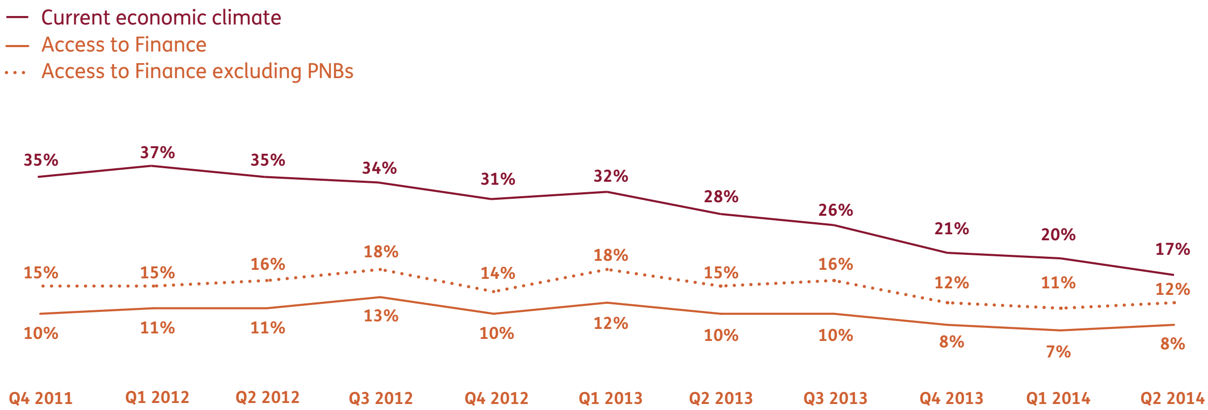
Charts reflecting data reported in Chapter 12



This chart relates to the analysis found on page 209 of the main report. 53% of SMEs in Q2 2014 planned to grow, one of the highest proportions reported to date on the SME Finance Monitor. SMEs with employees remained more likely to be planning to grow.

Obstacles perceived to running business – Current economic climate and access to finance

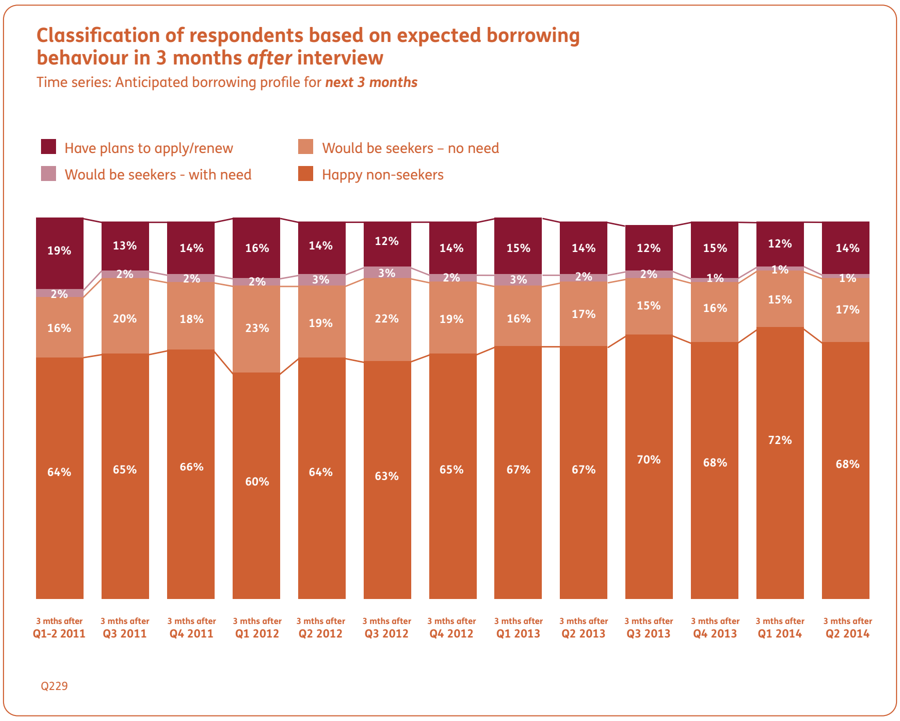
Time series: 8-10 major obstacle



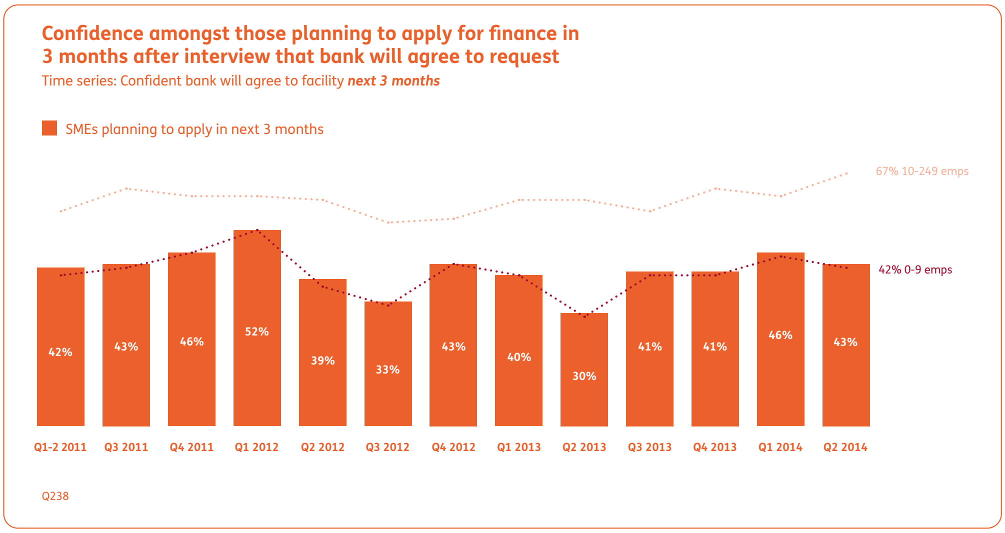
Interviewed

Q227

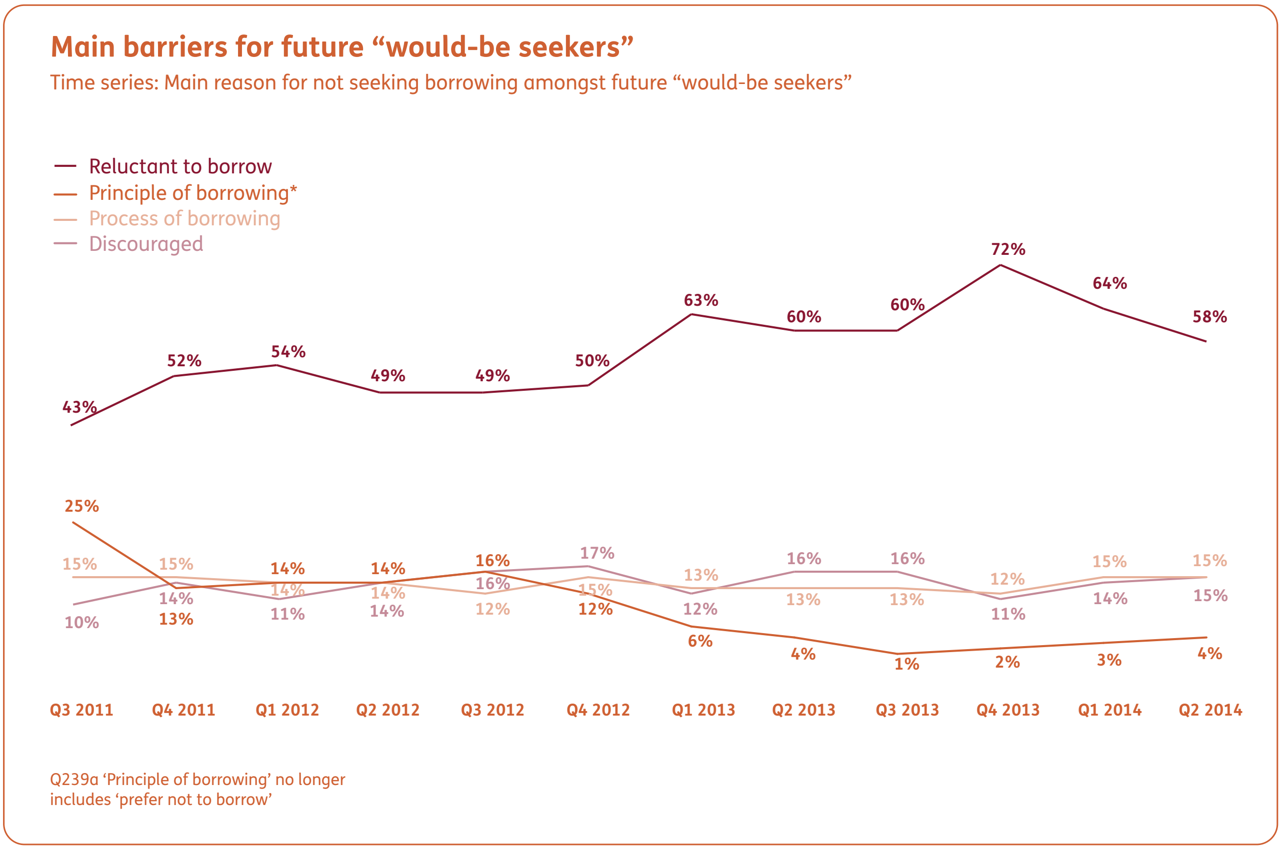
This chart relates to the analysis found on page 220 of the main report. The importance of the economic climate as a major obstacle to SMEs continued to decline, although it remained the most likely to be nominated. Access to finance remained less likely to be cited as a major obstacle.



This chart relates to the analysis found on page 234 of the main report. Future appetite for finance has remained stable over recent quarters. The largest group remained the ‘Future happy non-seekers’.



This chart relates to the analysis found on page 230 of the main report. Overall confidence amongst future applicants that their bank will agree to lend has been stable over recent quarters, but remains lower than actual success rates.

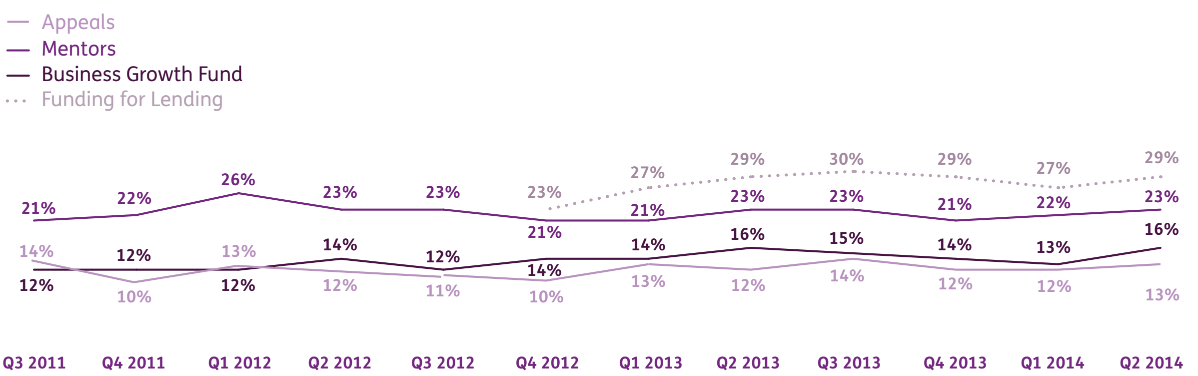


This chart relates to the analysis found on page 238 of the main report. A reluctance to borrow in the current economic climate remained the main barrier amongst 'Future would-be seekers' of finance, albeit it has been mentioned slightly less in more recent quarters.

Charts reflecting data reported in Chapter 13

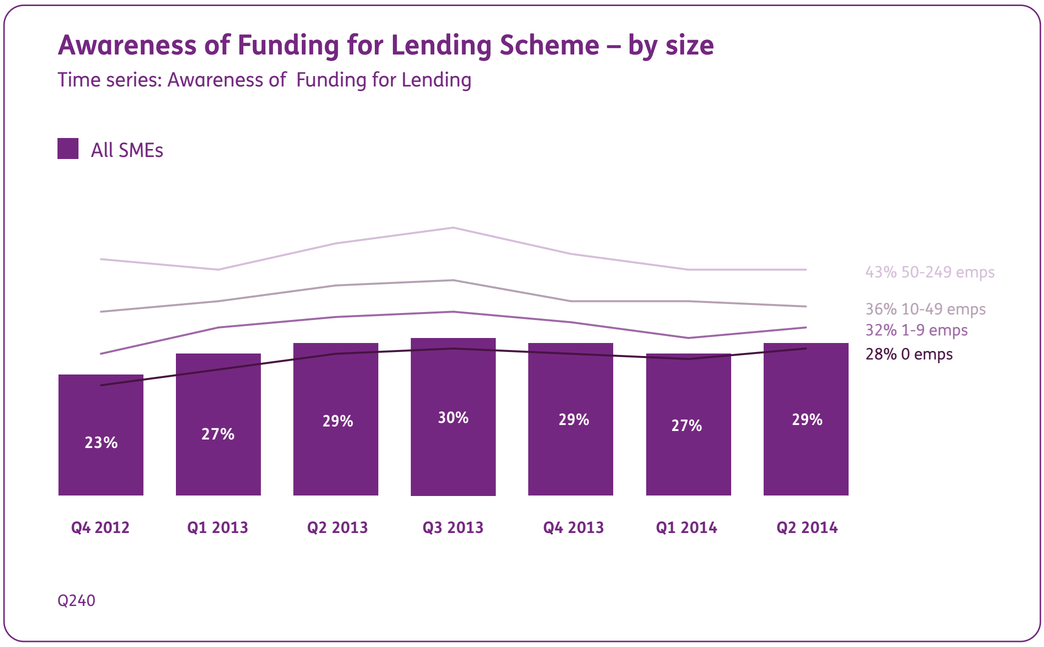
Awareness of key initiatives

Time series: Awareness of initiatives – all SMEs

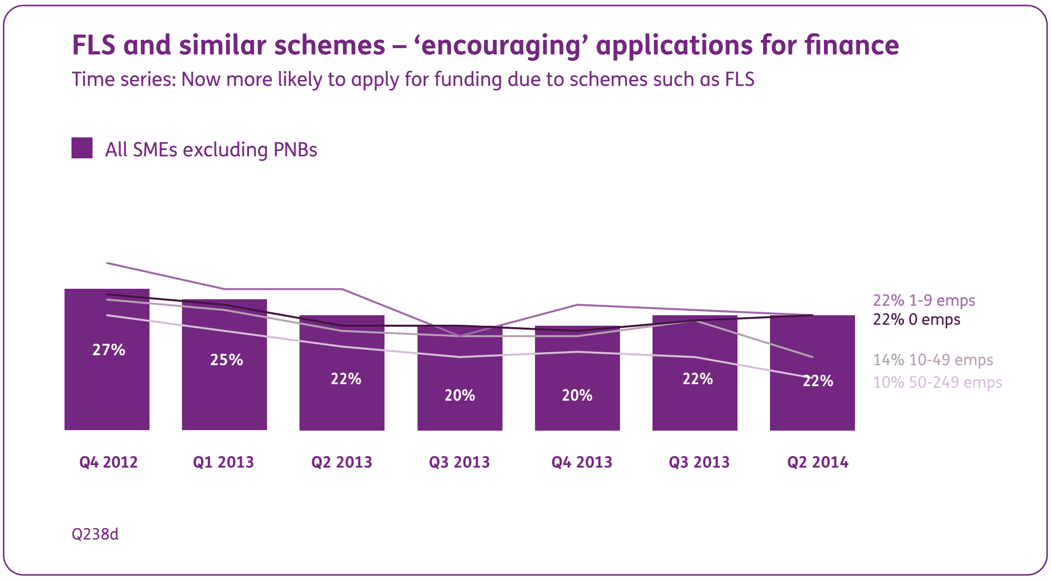


Q240

This chart relates to the analysis found on page 246 of the main report. Awareness of key initiatives designed to support SMEs with access to finance remained stable over time.



This chart relates to the analysis found on page 246 of the main report. Awareness of the Funding for Lending scheme is stable over recent quarters.



This chart relates to the analysis found on page 261 of the main report. 1 in 5 SMEs felt that schemes such as FLS might encourage them to apply for funding, with smaller SMEs remaining more likely to be encouraged.

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 2014 – each quarter's sample matched the previous quarters as closely as possible.

Business size	Universe	% of universe	Total sample size	% of sample
Total	4,548,843	100%	20,044	100%
0 employee (resp)	3,366,144	74%	4018	20%
1-9 employees	1,008,024	22%	6622	33%
10-49 employees	144,198	3%	6404	32%
50-249 employees	26,383	1%	3000	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%	1506	7%
D Manufacturing (C)	302,032	7%	2099	11%
F Construction (F)	1,017,210	22%	3517	18%
G Wholesale etc. (G)	561,689	12%	2042	10%
H Hotels etc. (I)	156,001	4%	1787	9%
I Transport etc. (H&J)	314,705	7%	1811	9%
K Property/Business Services (L,M,N)	1,194,629	26%	3512	18%
N Health etc. (Q)	279,280	6%	1772	8%
O Other (R&S)	528,011	12%	1998	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%	2391	12%
South East	727,815	16%	2422	12%
South West	454,884	10%	1821	9%
East	454,884	10%	1797	9%
East Midlands	272,931	6%	1408	7%
North East	136,465	3%	1003	5%
North West	454,884	10%	1802	9%
West Midlands	318,419	7%	1795	9%
Yorks & Humber	318,419	7%	1801	9%
Scotland	318,419	7%	1602	8%
Wales	181,954	4%	1201	6%
Northern Ireland	136,465	3%	1001	5%

Weighting

The weighting regime was initially applied separately to each quarter. The four most recent quarters 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 in a 4 quarter period gross to the total of all SMEs.

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

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

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

Overall rim weights were then applied for regions:

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

Finally a weight was applied for 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
Total	20,044	27%	5411	+/- 2%
0 employee (resp)	4018	79%	3174	+/- 2%
1-9 employees	6622	77%	5099	+/- 2%
10-49 employees	6404	78%	4995	+/- 2%
50-249 employees	3000	82%	2460	+/- 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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