SME Finance Monitor

Q2 2015

An independent report by
BDRC Continental, September 2015

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Contents

Page No.

Foreword

Welcome to the full report of the SME Finance Monitor for Q2 2015, which now includes data from interviews conducted up to the end of June 2015, a period which included a general election in the UK, more upbeat economic news across a number of metrics, but also on-going concerns about Greece and the Eurozone.

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. In total, 17 waves of interviewing have been completed, with highlights reported quarterly and a full report now published every half year, following completion of the Q2 and Q4 fieldwork. This pattern of reporting will continue for 2015.

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
September 2015

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 SMEs and external finance continues to provoke debate. Over time, the emphasis has moved from access to finance to demand for finance amongst SMEs and the extent to which funding is needed by and then 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 the new Business Bank is involved in a range of initiatives. 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 SME activity or investment. The debate continues about the extent to which demand and/or 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. BDRC Continental continues to maintain full editorial control over the findings presented in this report.

The majority of this report is based on a total of 20,086 interviews with SMEs, conducted to YEQ2 2015, or more simply, Q3 and Q4 of 2014 and Q1 and Q2 of 2015. This means that the interviews conducted in 2011 (three waves), 2012 and 2013 (4 waves respectively) and the first half of 2014 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 2015 data therefore includes the following four waves:

- July-September 2014 – 5,023 interviews conducted, referred to as Q3 2014
- October-December 2014 – 5,024 interviews conducted, referred to as Q4 2014
- January-March 2015 – 5,038 interviews conducted, referred to as Q1 2015
- April-June 2015 – 5,001 interviews conducted, referred to as Q2 2015

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 20,086 interviews is referred to as YEQ2 2015.

The majority of reporting is based on interviews conducted in the year to Q2 2015. 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.
- 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 2015 report, this means such tables are based on all applications occurring in the 18 months between Q1 2014 and Q2 2015, 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 2015. In 2015, full reports will be published after the Q2 and Q4 fieldwork, with shorter summaries published after the Q1 and Q3 fieldwork.

A fourth edition of the annual report, published at the end of June 2015, provided separate analysis at regional level for an in-depth assessment of local conditions during 2014. A new regional report is planned for April 2016, to report on local conditions during 2015.

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.

OVERVIEW: The Q2 2015 report continues and confirms the trends seen in recent waves. SMEs reported a range of positive indicators about themselves including for profitability, risk rating and credit balances held. Success rates for those who had applied for new/renewed loan or overdraft finance were at some of the highest levels seen, especially for overdrafts and this improvement includes groups who have previously found it harder to access finance, such as smaller businesses and those applying for the first time. Use of and demand for finance remained limited overall but the half of all SMEs now meeting the definition of a Permanent non-borrower (with little apparent appetite for finance now or in the future) may be masking signs of increased appetite for finance amongst remaining SMEs.

CONTEXT: SMEs report a range of positive indicators about their business in terms of profitability, credit balances, and risk rating and see limited barriers for the future:

General context	
An increasing proportion of SMEs reported making a profit	80% of SMEs interviewed in Q2 2015 reported making a profit in their last trading period (excluding DK). This has increased steadily over time (it was 69% in Q2 2013)
More SMEs held over £5,000 in credit balances	Almost all SMEs hold some credit balances. In H1 2015, 40% of all SMEs held more than £5,000 in credit balances, up from 32% in 2011. The higher the credit balances held, the less likely an SME is to have an overdraft
Fewer SMEs received injections of personal funds	26% of SMEs in Q2 2015 reported an injection of personal funds, and this was as likely to have been a choice (13%) as something they had to do (13%). The proportion receiving an injection of personal funds has declined over time (42% received an injection of funds in 2012) primarily due to fewer SMEs feeling that they 'had' to put funds in
SMEs reported fewer credit issues and an improving credit profile	7% of SMEs self-reported a credit issue in Q2 2015. This was lower than in previous years (10% in Q2 2013). The proportion of SMEs with a 'worse than average' risk rating has stabilised having declined from a peak of 56% in Q2 2013 to 45% in Q2 2015
Looking forward, fewer SMEs saw the economic climate as a major barrier…	From a peak of 37% at the start of 2012, the proportion of SMEs seeing the current economic climate as a major barrier has declined steadily and was 14% in Q2 2015. For SMEs with employees, 'legislation and regulation' is now just as much of a barrier as the economic climate (11% overall). 68% of SMEs saw none of the factors tested as a major obstacle

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...or felt that access to finance was a barrier	5% rated access to finance as a major barrier and this has also declined over time. Those with any future appetite for finance were more likely to see it as a barrier (13%) but this is also lower than in previous waves
4 in 10 SMEs expected to grow	43% of SMEs planned to grow. This has been stable over recent quarters but slightly lower than in 2012-13 when around half planned to grow, due to the lower and steady growth aspirations of 0 employee SMEs (39% in Q2 2015 v 55% of those with employees)

APPLICATIONS FOR NEW/RENEWED LOAN & OVERDRAFTS: 79% of all applications made in the 18 months to Q2 2015 resulted in a facility. Both overall success rates and those for overdrafts and loans individually continue to show improvement, including for first time applicants and those seeking new funding:

The outcome of applications	
79% of all applications in the last 18 months resulted in a facility	The success rate for new/renewed loan and overdraft facilities continued to improve over time. 79% of applicants ended the process with a facility in the 18 months to Q2 2015, compared to 67% for the 18 months to Q4 2013
Success rates for new money improved	Almost all loan/overdraft renewal applications had been successful (96% for the 18 months to Q2 2015) and this has changed little over time. Success rates for new money remained somewhat lower (67% for the 18 months to Q2 2015) but have improved steadily since Q3 2013 As before, those applying for new money for the first time were less likely to have been successful (58% for applications to Q2 2015) than those who had borrowed before (74%) but success rates for both groups are higher than in 2013
84% of overdraft applicants were successful, the highest proportion recorded to date	84% of overdraft applications made in the 18 months to Q2 2015 resulted in a facility (72% were offered what they wanted and took it while 12% had their facility 'after issues') The proportion of overdraft applicants who have been successful has improved steadily over time (it was 72% for the 18 months to Q2 2013). This improvement includes SMEs previously less likely to be successful such as smaller SMEs, those with a worse than average risk rating and first time applicants (where 62% were successful up from 36% in the 18 months to Q2 2013)
7 in 10 loan applicants were successful and this has also improved over time	69% of loan applications made in the 18 months to Q2 2015 resulted in a facility (55% were offered what they wanted and took it while 14% had their facility 'after issues') The proportion of loan applicants who have been successful has also improved steadily over time (it was 56% for the 18 months to Q2 2013). As with overdrafts, this improvement includes SMEs previously less likely to be successful such as smaller SMEs and first time applicants (where 53% were successful up from 40% in the 18 months to Q2 2013)
Applying is often a 'low effort' experience, especially for overdrafts	73% of successful overdraft applicants in the 18 months to Q2 2015 described the process as 'low effort', increasing to 78% of those who were offered the facility they wanted and took it (v 43% of those who had their overdraft after issues) Amongst successful loan applicants 55% described it as 'low effort'. Those who were offered the facility they wanted were much more likely to rate the experience as 'low effort' (64%) than those who had their loan facility after issues (17%)

FINANCIAL APPETITE: There are a number of indicators that use of / demand for finance remains subdued overall. Use of external finance remains lower than previously seen across all sizes of SME, notably for the core forms of finance, with half of SMEs meeting the definition of a Permanent non-borrower. 7 in 10 SMEs aim to pay down any existing debt and then remain debt free: a quarter of all SMEs might be described as 'debt averse' while a third would still be prepared to use external finance to help the business grow and develop. Amongst those who are not PNBs though there are some signs of increased financial activity:

Financial appetite	
Use of external finance remained lower than in previous years	36% of SMEs were using external finance in Q2 2015. This was stable after previous declines (having been 46% in 2011), with this decline seen across all sizes and risk rating of SME
Solus use of 'core' forms of finance have been in notable decline	Between 2011 and Q2 2015, use of 'core' forms of finance (loans, overdrafts and/or credit cards) declined from 39% to 28% of all SMEs. This was due primarily to a decline in the use of overdrafts (from 26% to 16%, albeit currently stable). The proportion of SMEs who only used 'core' finance also declined over this period from 29% to 20% of all SMEs, driving the decline in the use of finance overall 17% of SMEs in Q2 2015 used one or more of the other forms of finance specified (leasing, invoice finance etc) and their use has been more stable over time
Other sources of finance are stable or declining slightly over time – two thirds of SMEs use any 'business funding'	'Business funding' comprises any use of external finance (described above), trade credit and/or injections of personal funds 33% of SMEs received trade credit from their customers and two thirds of them (the equivalent of 22% of all SMEs) said that they needed less external finance as a result A declining proportion of SMEs (26% in Q2 2015) reported an injection of personal funds into the business Including the receipt of trade credit and injections of personal funds alongside external finance saw 63% of SMEs using business funding YEQ2 2015, compared to 37% of SMEs using only external finance. The biggest uplift was seen for those with 0 employees (from 32% to 59%)

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Half of SMEs were 'Permanent non-borrowers'	49% of SMEs met the definition of a 'Permanent non-borrower' in Q2 2015 and this has increased over time, from 34% in 2011. Smaller SMEs remained more likely to be a PNB (53% of those with 0 employees in Q2 2015) but a quarter of SMEs with 10-249 employees were PNBs New analysis of this growing portion of the market shows that PNBs are performing well (in terms of profitability, risk rating and past growth) but are not necessarily as ambitious as other businesses (in terms of innovation and planned future growth) If PNBs using trade credit or receiving injections of personal funds were excluded (to match the business funding definition above) then the proportion of PNBs would drop to 29% of SMEs Excluding the PNBs increases the proportion of remaining SMEs using external finance to 70% for 2015 to date, somewhat higher than in previous years (ranging from 65-68% for 2012-14)
Three quarters of SMEs aimed to pay down debt and remain debt free	73% of SMEs interviewed YEQ2 2015 agreed that their aim was to pay down any existing debt and then remain debt free, and this varied little by size of business. Meanwhile 43% agreed that they would be happy to use external finance to help the business grow and develop, increasing by size of SME
28% of SMEs were 'debt averse' while 37% might borrow in the right circumstances	Combining the two statements above, 28% of all SMEs wanted to pay down debt and would not be happy to borrow to help the business grow – these might be described as 'debt averse' and this was more likely amongst smaller SMEs. 37% of all SMEs also wanted to pay down debt, but would be happy to borrow to finance growth, and so might apply in the right circumstances, and this was more likely amongst larger SMEs

BORROWING EVENTS IN LAST 12 MONTHS: 16% of SMEs had experienced any form of borrowing 'event'. There were fewer 'Would-be seekers' of finance and the proportion of ''s' increased again:

Borrowing events	
7% applied for a new/renewed loan or overdraft	YEQ2 2015, 7% of SMEs reported a Type 1 event (an application for a new/renewed loan or overdraft) in the previous 12 months. Larger SMEs were more likely to have applied – 5% of 0 employee SMEs reported such an application compared to 13% of those with employees
16% had experienced any loan or overdraft borrowing 'event'	YEQ2 2015, 17% of all SMEs reported any borrowing event in the previous 12 months including the automatic renewal of an overdraft facility and this is stable over recent quarters, but lower than the 1 in 4 reporting an event when the Monitor started in 2011
Few SMEs had wanted to apply but felt something had stopped them	YEQ2 2015, 3% of SMEs were 'Would-be seekers' of finance who would have liked to apply for a loan/overdraft but felt that something stopped them. This proportion has declined over time (it was 6% in Q2 2013 compared to 2% in Q2 2015). Discouragement (almost all of it indirect) and the process of borrowing remained the two main barriers to application for this group
8 in 10 SMEs have been 'Happy non-seekers' of finance	YEQ2 2015, 80% of SMEs were 'Happy non-seekers' of finance for the 12 months prior to interview. The proportion of SMEs in this group has increased over time (in Q2 2013 it was 76% increasing to 82% in Q2 2015)
There is some limited evidence of an increase in appetite once the PNBs are excluded	49% of SMEs in Q2 2015 met the definition of a PNB and they are therefore a major influence on the overall use of and appetite for finance. Excluding them from this analysis increases the proportion of SMEs reporting a borrowing 'event' in 2015 to date to 33%, somewhat higher than the 28% reported for both 2013 and 2014 and almost in line with 2012 (35%)

FUTURE APPETITE FOR FINANCE: Future appetite for finance remains flat but where an application is planned there is confidence that their bank will agree to lend (albeit future applicants are not as confident as current success rates indicate), and higher awareness of various initiatives to help them. Fewer SMEs think they will be 'Would-be seekers' of finance, which leaves most, as before, to be future 'Happy non-seekers' of finance:

Looking ahead	
Future applications remain limited but with signs of improvement once the PNBs are excluded	11% of SMEs planned to apply for new/renewed finance in the 3 months after Q2 2015, at the lower end of the narrow range seen over recent years (12-15%). This is driven by the views of those with 0 employees (9% plan to apply) with a higher appetite for finance amongst those with employees (16%) Excluding the PNBs sees an increase in the proportion of remaining SMEs planning to apply to 24% for 2015 to date, somewhat higher than in previous years (21% planned to apply in 2012)
Confidence of success increased amongst future applicants but the confidence 'gap' remained	49% of potential future applicants were confident that the bank would agree to their request. There remains a gap between confidence and actual success rates for both renewals (57% confident versus a current success rate of 96%) and for new money (35% confident versus a current success rate of 67%)
The economic climate remains a barrier to future applications	10% of SMEs in Q2 2015 were 'Future would-be seekers'. This group is decreasing in size over time (in Q2 2013, 19% of SMEs were FWBS) with the current economic climate still the main barrier to an application, notably where no immediate need for finance was identified
8 in 10 SMEs expected to be future 'Happy non-seekers' of finance	In Q2 2015, 79% of SMEs expected to be 'Happy non-seekers' of finance in the following 3 months. Over time, more SMEs have met this definition – in Q2 2013, 67% were 'Future happy non-seekers'
Half of SMEs were aware of specific finance initiatives/bodies	A third of SMEs (32%) believed they were aware of any government or other initiatives to help SMEs access finance. Once prompted with 5 specific schemes/bodies, awareness increased to 53%. Larger SMEs were more likely to be aware (59% of those with 50-249 employees) as were those planning to apply for external finance in the next 3 months (58%)

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Awareness over time of specific initiatives remained unchanged	Across all the initiatives tested in Q2 2015, individual awareness was highest for Start-up Loans (40%) and the Funding for Lending Scheme (24%). Where initiatives have been tracked over time, awareness is typically stable as is the proportion of SMEs contacted by banks to express a willingness to lend
Awareness of crowd funding continued to increase	37% of SMEs (excluding the Permanent non-borrowers) in 2015 to date were aware of crowd funding, including 1% who were using this form of finance In contrast to the other initiatives tracked over time, awareness of crowd funding has increased steadily over time (22% were aware of crowd funding in the first half of 2014)
1 in 3 of those who have heard of crowd funding would consider it as a form of finance	Three in ten of those who have heard of crowd funding said that they would consider using it in future (the equivalent of 11% of all SMEs excluding the PNBs). As awareness has increased, the proportion of those aware who would consider this type of funding has not changed

3. Using this report

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

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

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

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

As sample sizes have increased, it has become possible to show more results by sector. The table below shows the share 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 the second half of 2014 and the first half of 2015. 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 2015 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 <u>over time</u>. Here, it is more appropriate to analyse results based on when the **application** was made, rather than when the interview was conducted. Final data is now available for any applications made from 2010 up to and including Q2 2014 but for other more recent quarters data is still being gathered. Results for events occurring from Q3 2014 onwards are therefore still *interim* at this stage (respondents interviewed in Q3 2015 will report on events which occurred in Q3 2014 or later).

Where analysis is shown by <u>date of application</u>, this typically includes <u>all</u> interviews to date (including those conducted 2011-2013 and the first half of 2014 which are no longer included in the Year Ending data reported elsewhere), and such tables are clearly labelled in the report. 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 2015 report, this means such tables are based on all applications occurring in the 18 months between Q1 2014 and Q2 2015 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 <u>future</u> behaviour. In these instances, where we are typically reporting expectations for the next three months, comparisons are made between individual quarters as each provides an assessment of SME sentiment for the coming months and the comparison is an appropriate one.

Not *all* of the previous quarters are shown in the standard quarterly tables in this report. Data from 2011 and 2012 is no longer routinely 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, <u>all</u> 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 that 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 loan/overdraft 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

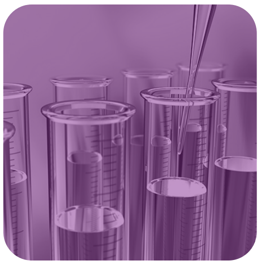
‘Future would-be seekers’ – those that felt that there were barriers that would stop them applying to borrow (more) in the next three months (such as discouragement, the economy or the principle or process of borrowing)

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 2015 (YEQ2 15).

Key findings

There continued to be a range of positive indicators for SMEs:

- More SMEs were profitable. In Q2 2015 80% reported making a profit in the previous 12 months trading (excluding DK answers), up from 69% in Q2 2013. The increase has been seen across all size bands, albeit the larger SMEs remained more likely to report a profit

- The proportion of SMEs holding more than £5,000 in credit balances continued to increase. In the first half of 2015, 40% held this amount or more, up from 32% in 2011. SMEs who held higher levels of credit balances were less likely to have an overdraft

- Very few SMEs self-reported a credit issue (7%) and this proportion is declining slowly over time (it was 10% in Q2 2013). 45% had a 'worse than average' external risk rating and this is stable over recent quarters having declined from 56% in Q2 2013

36% of SMEs in Q2 2015 (excluding Starts) reported having grown in the previous 12 months. This has changed very little over recent waves but is no longer as closely aligned as it has been with the growth previously predicted by a different set of SMEs (43%)

Half of SMEs planned (51% in Q2 2015) and this has changed little over recent quarters but is somewhat lower than has been seen in the past (57% for Q2 2013), with a decline in the proportion with a business plan (now 29%) and/or producing management accounts (now 38%)

15% of SMEs were international (9% exported while 11% imported) and this has changed very little since the start of 2014. Three-quarters of exporters said that overseas sales made up 25% or less of their total turnover

This chapter presents an overview of the characteristics of SMEs in the UK. Unless otherwise stated, figures are based on the 20,086 interviews conducted in the year ending Q2 2015 (that is Q3 and Q4 of 2014 and Q1 and Q2 of 2015). 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 start to improve.

Profitability

In Q2 2015, 76% of SMEs reported making a profit in their most recent trading period, maintaining the improvement seen since 2013, when 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 reports the proportion that made a profit once those 'don't know' answers had been excluded. On this basis there has been an increase over time in the proportion of SMEs reporting a profit for the previous year and in Q2 2015 itself 80% of SMEs (excluding the DK/refused answers) were profitable, the highest level seen to date. 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 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015
Unweighted base:	*5000*	*5008*	*5028*	*5000*	*5008*	*5023*	*5024*	*5038*	*5001*
Made a profit	64%	65%	69%	69%	71%	73%	72%	74%	76%
Broke even	13%	13%	11%	13%	11%	10%	11%	10%	10%
Made a loss	16%	15%	13%	10%	12%	12%	10%	10%	9%
Dk/refused	8%	7%	6%	9%	6%	6%	8%	6%	5%
Median profit made	*£7k*	*£8k*	*£8k*	*£7k*	*£9k*	*£8k*	*£9k*	*£9k*	*£9k*
Made profit (excl DK)	*69%*	*69%*	*74%*	*75%*	*76%*	*77%*	*78%*	*79%*	*80%*

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

The profit figures are collected in bands rather than as an actual amount, and the median calculated based on mid-points. In Q2 2015, the median profit made was £9,000, in line with recent quarters but marginally higher than 2013, and the median loss remained just under £2,000, with little change over time.

For the period YEQ2 2015, 74% of all SMEs had been profitable, increasing by size of SME as the table below shows. The median profit, where made, was £9k, and also increased by size of SME:

Business performance last 12 months YEQ2 15 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*20,086*	*4004*	*6644*	*6433*	*3005*
Made a profit	74%	73%	76%	79%	80%
Broke even	10%	11%	9%	7%	6%
Made a loss	10%	11%	9%	6%	5%
Dk/refused	6%	6%	6%	8%	9%
Median profit made	*£9k*	*£7k*	*£14k*	*£55k*	*£223k*
Made profit (excl DK)	*78%*	*77%*	*81%*	*86%*	*88%*

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

The median loss made YEQ2 2015 was £2,000. This varied by size from £2,000 for those with 0 employees, £4,000 for those with 1-9 employees, £14,000 for those with 10-49 employees and £54,000 for those wth 50-249 employees.

Once the 'Don't know / refused' answers were excluded, 78% of remaining SMEs reported making a profit in the previous 12 months (YEQ2 2015), up from 70% for 2013 as a whole and very similar to the figure for 2014 as a whole (77%) . There was some increase across all size bands, and amongst smaller SMEs in particular:

- 69% of 0 employee SMEs made a profit in 2013 compared to 77% for YEQ2 2015
- 1-9 employee SMEs: 75% made a profit in 2013 compared to 81% for YEQ2 2015
- 10-49 employee SMEs: 81% made a profit in 2013 compared to 86% for YEQ2 2015
- 50-249 employee SMEs: 84% made a profit in 2013 compared to 88% for YEQ2 2015

Amongst SMEs with employees, 82% reported making a profit YEQ2 2015 (once the DK and refused answers were excluded), up from 76% in 2013 and almost unchanged from 2014 as a whole (81%).

Over time, larger SMEs have remained consistently more likely to be profitable than smaller ones. Compared to the equivalent quarters of 2013 and 2014, SMEs with 0 employees were more likely to report a profit in Q2 2015 and the same is true for those with 1-9 employees. Amongst larger SMEs the proportion reporting a profit has remained relatively stable over the past year:

Made a profit in last 12 months	By date of interview								
Over time – row percentages	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015
All SMEs	**64%**	**65%**	**69%**	**69%**	**71%**	**73%**	**72%**	**74%**	**76%**
0 employee	62%	63%	68%	67%	69%	72%	71%	73%	75%
1-9 employees	68%	69%	70%	73%	75%	77%	75%	75%	78%
10-49 employees	74%	74%	78%	79%	80%	76%	79%	82%	80%
50-249 employees	76%	76%	79%	81%	77%	79%	75%	84%	81%

Q241 All SMEs

By sector, once the ‘don’t know’ answers were excluded, the sectors most likely to report a profit were Manufacturing and Property/Business Services. Those somewhat less likely to report a profit were SMEs in the Hotel/Restaurant sector:

Business performance last 12 months YEQ2 15 – all SMEs	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*1506*	*2097*	*3512*	*2029*	*1803*	*1815*	*3523*	*1788*	*2013*
Made a profit	75%	75%	74%	73%	67%	72%	76%	73%	72%
Broke even	9%	8%	12%	10%	13%	10%	8%	11%	12%
Made a loss	11%	9%	8%	11%	13%	11%	10%	10%	13%
Dk/refused	5%	8%	6%	7%	7%	6%	5%	7%	4%
Median profit made	*£9k*	*£10k*	*£8k*	*£9k*	*£10k*	*£7k*	*£10k*	*£8k*	*£9k*
Made profit (excl DK)	*80%*	*82%*	*79%*	*78%*	*72%*	*77%*	*81%*	*77%*	*74%*

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

Median profits for YEQ2 2015 varied relatively little by sector, between £8-10k with the exception of those in Transport (£7k), with little change over time. Reported median losses for YEQ2 2015 were £2k overall and between £1k and £2k for all sectors, with the exception of those who reported making a loss in the Wholesale/Retail sector (£3k).

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 has remained fairly stable at around 4 in 10 since Q4 2013:

Growth achieved in last 12 months – all SMEs excluding Starts By date of interview	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015
Unweighted base:	*4295*	*4288*	*4331*	*4254*	*4005*	*4074*	*4046*	*4157*	*4146*
Grown by more than 20%	14%	10%	13%	11%	15%	14%	12%	10%	11%
Grown but by less than 20%	30%	26%	28%	30%	27%	28%	30%	31%	26%
Grown	*44%*	*36%*	*41%*	*41%*	*42%*	*42%*	*42%*	*41%*	*37%*
Stayed the same	40%	43%	42%	45%	43%	45%	44%	48%	51%
Declined	17%	21%	17%	14%	15%	13%	14%	12%	13%

Q245a All SMEs trading for 3 years or more excl DK

For the period YEQ2 2015:

- 12% of SMEs more than 3 years old said they had grown by 20% or more in the previous 12 months. This was less likely to be the case for 0 employee SMEs (10%) compared to between 15-17% for other sizes of SME
- 29% had grown but by less than 20%, and this was more likely amongst larger SMEs (27% for those with 0 employees to 46% of those with 50-249 employees)
- This means that for YEQ2 2015, 40% of SMEs reported having grown at all in the previous 12 months, ranging from 37% of those with 0 employees to 61% of those with 50-249 employees
- 47% had stayed the same size, and this was more likely for smaller SMEs (49% for those with 0 employees to 34% of those with 50-249 employees)
- 13% had got smaller, and this was also more common for smaller SMEs (14% for those with 0 employees to 5% of those with 50-249 employees)

Amongst those who reported for YEQ2 2015 that they had grown by 20% or more, half (53%) said that they had also achieved this level of growth for each of the two previous years, and this increased by size (50% for 0 employee SMEs to 68% of those with 50-249 employees). This is the equivalent of 6% of all SMEs 3+ years old achieving 3 years of 20%+ growth, or 4% 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. When this analysis started, the predictions made typically proved to be very close to the growth figures subsequently reported (by a different sample of SMEs).

In Q1 2014, 43% of SMEs 3+ years old *predicted* that they would grow in the next 12 months. In Q2 2015 a smaller proportion, 36%, (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 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%	42%	47%	42%	58%	60%
Predicted Q3 13 / Achieved Q4 14	41%	42%	40%	41%	61%	56%
Predicted Q4 13 / Achieved Q1 15	44%	41%	43%	40%	65%	61%
Predicted Q1 14 / Achieved Q2 15	43%	36%	42%	35%	68%	59%
Predicted Q2 14 / Achieved Q3 15	49%		48%		67%	

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

The analysis reported above shows that, in the more recent quarters, there has been more variation between the growth predicted and growth achieved than in earlier quarters:

- In Q2 2015, 36% of SMEs 3 years or over said that they had grown, compared to the predicted growth rate (from Q1 2014) of 43%.
- This 'shortfall' was seen both for smaller SMEs (42% predicted v 35% achieved) and larger SMEs (68% predicted v 59% achieved).

Looking forward, above average growth was predicted by SMEs in Q2 2014 (49%) so 2015 may be a year in which SME growth does not match predictions.

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 (8% YEQ2 2015):

Self-reported credit issues YEQ2 15 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*20,086*	*4004*	*6644*	*6433*	*3005*
Unauthorised overdraft on account	4%	4%	4%	3%	1%
Had cheques bounced on account	3%	3%	3%	3%	2%
Problems getting trade credit	1%	1%	2%	1%	1%
Missed a loan repayment	1%	1%	1%	1%	*
Had County Court Judgement against them	1%	1%	1%	1%	1%
Any of these	*8%*	*8%*	*8%*	*7%*	*5%*

Q224 All SMEs

Despite the economic conditions in recent years, SMEs 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 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015
Total	10%	9%	10%	7%	9%	9%	7%	8%	7%
0 employee	9%	9%	9%	6%	9%	9%	7%	8%	6%
1-9 employees	13%	12%	13%	10%	9%	10%	7%	7%	8%
10-49 employees	8%	8%	8%	7%	6%	11%	5%	6%	6%
50-249 employees	7%	6%	7%	5%	4%	5%	6%	4%	4%

Q224 All SMEs

The second assessment of financial risk is the external risk rating supplied by ratings agencies Dun & Bradstreet and Experian. They use a range of business information to predict the likelihood of business failure and 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 (86%) 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 is shown below. Across the period up to Q2 2013 an increasing proportion of SMEs had a 'worse than average' external risk rating, reaching 56% in that quarter. Since then, the proportion with that rating has declined and then stabilised, at 45% in Q2 2015, with an increase over the period in those rated a low risk:

External risk rating (where provided) over time By date of interview	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015
Unweighted base:	*4535*	*4490*	*4528*	*4530*	*4607*	*4609*	*4584*	*4560*	*4594*
Minimal risk	5%	6%	7%	7%	7%	7%	8%	9%	7%
Low risk	10%	10%	11%	13%	16%	15%	17%	18%	17%
Average risk	29%	30%	31%	34%	30%	33%	33%	30%	31%
Worse than average risk	56%	54%	52%	47%	47%	45%	43%	44%	45%

All SMEs where risk rating provided

From Q3 2014, the SME Finance Monitor has included a number of attitude statements around Access to Finance, which are reported together in the chapter on Financial Context. One of these statements asked SMEs if they knew what their external risk rating was as a business. For YEQ2 2015, 51% of SMEs agreed that they did, increasing by size of business from 48% of those with 0 employees to 72% of those with 50-249 employees.

There was relatively little variation by actual risk rating. Those with a minimal risk rating were the most likely to be aware (55%) and those with an 'average' external risk rating the least likely (49%). Those aware of their risk rating were only slightly more likely to be using external finance (39% v 35% those who are not YEQ2 2015) but they were more likely to plan (60% v 45% who do not know their risk rating) and were slightly more likely to have someone trained in charge of the finances (28% v 24%).

The overall YEQ2 2015 ratings are shown below by size of SME, and continued to report a better risk profile for larger SMEs:

External risk rating YEQ2 15 – all SMEs where rating provided	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*18,347*	*3375*	*5818*	*6228*	*2926*
Minimal risk	8%	6%	11%	20%	36%
Low risk	17%	12%	26%	48%	40%
Average risk	32%	33%	28%	23%	18%
Worse than average risk	44%	49%	34%	9%	6%

All SMEs where risk rating provided

Amongst SMEs with employees, 43% have a minimal or low external risk rating, 28% an average risk rating and 30% 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. In Q2 2015 51% of SMEs with no employees had such a rating, in line with most quarters since the start of 2014. As already reported, over time, fewer SMEs in each size band have had a 'worse than average' external risk rating:

Worse than average external risk rating – row percentages By date of interview	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015
Total	56%	54%	52%	47%	47%	45%	43%	44%	45%
0 employee	61%	59%	57%	51%	52%	50%	46%	49%	51%
1-9 employees	46%	43%	43%	38%	37%	35%	37%	34%	31%
10-49 employees	17%	17%	18%	15%	10%	10%	9%	8%	7%
50-249 employees	15%	13%	14%	12%	11%	6%	8%	5%	5%

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 (55% YEQ2 2015) while those in Construction (18%) and Transport (16%) were the least likely to have such a rating:

External risk rating YEQ2 15	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*1277*	*1978*	*3162*	*1859*	*1656*	*1662*	*3260*	*1628*	*1865*
Minimal risk	35%	8%	4%	7%	4%	6%	6%	13%	8%
Low risk	20%	19%	14%	19%	24%	10%	16%	25%	16%
Average risk	21%	36%	29%	35%	26%	26%	34%	29%	37%
Worse than average risk	24%	37%	53%	39%	47%	58%	44%	33%	40%
Total Min/Low	*55%*	*27%*	*18%*	*26%*	*28%*	*16%*	*22%*	*38%*	*24%*

All SMEs where risk rating provided

51% of all SMEs interviewed YEQ2 2015 were aware of their external risk rating. This varied relatively little by sector with the exception of those in the Other Community (45%) and Health (43%) sectors. Otherwise awareness ranged by sector from 50% to 54%.

When the two types of risk rating reported above were compared, those with a minimal risk rating were somewhat less likely to self-report a credit problem (4% v 7-8% of SMEs with other external risk ratings).

Credit balances

Almost all SMEs reported holding some credit balances. In H1 2015, 3% did not hold any, and this proportion has changed relatively little over time, nor does it vary much by size of SME, or risk rating.

Credit balances held Over time – all SMEs	2011	2012	2013	2014	H1 2015
Unweighted base:	*11,652*	*15,020*	*14,752*	*13,039*	*6860*
None	6%	4%	4%	5%	3%
Less than £5,000	63%	66%	64%	58%	56%
£5,000 to £50,000	27%	25%	27%	31%	33%
More than £50,000	5%	5%	4%	6%	7%
Average balance held	*£26k*	*£25k*	*£24k*	*£31k*	*£40k*

Q244 All SMEs excluding DK/refused

Just over half of SMEs said that they typically held less than £5,000 in credit balances (56% in H1 2015), and this continued to be driven by the smaller SMEs. In H1 2015, 64% of 0 employee SMEs held less than £5,000 in credit balances, compared to 9% of those with 50-249 employees.

The proportion of all SMEs holding credit balances of less than £5,000 has declined over time from 66% in 2012 to 58% in 2014 and now 56% for the first half of 2015.

Prior to 2014, a consistent one in three SMEs held more than £5,000 in credit balances (31% in 2013). This proportion has increased over recent quarters and was 40% for H1 2015, with a resultant increase in the average balance held, to £40,000.

The table below shows the proportion of SMEs holding more than £5,000 in credit balances, and how this has increased over time across all sizes of SME, notably for the smaller ones. Larger SMEs remained more likely to hold credit balances in excess of £5,000:

£5,000+ Credit balances held Over time – all SMEs Row percentages	2011	2012	2013	2014	H1 2015
All SMEs	32%	30%	31%	37%	40%
0 employee	24%	22%	24%	30%	33%
1-9 employees	50%	50%	52%	58%	61%
10-49 employees	74%	75%	77%	79%	80%
50-249 employees	79%	80%	85%	87%	86%

Q244 All SMEs excluding DK/refused

The median value of credit balances held has also increased slightly since the start of 2014, from just under to just over £2,000. The amount continued to vary by size of SME, and for YEQ2 2015 was:

- £1,900 for 0 employee SMEs
- £5,500 for 1-9 employee SMEs
- £31,000 for 10-49 employee SMEs
- £159,000 for 50-249 employee SMEs

The median value of credit balances did not vary by sector.

The next chapter reports on the use of external finance amongst SMEs. The table below shows the overlap between use of external finance and holding £5,000 or more in credit balances:

£5,000+ Credit balances held Over time – row percentages	2011	2012	2013	2014	H1 2015
All SMEs	32%	30%	31%	37%	40%
Use any external finance	33%	32%	36%	40%	41%
Use “core” finance	34%	32%	37%	40%	43%
Use no external finance	29%	28%	28%	36%	40%

Q244 All SMEs excluding DK/refused

Further analysis of this table is provided below:

Finance and credit balances	Further analysis
Using finance and holding credit balances	Use of external finance did not appear to affect credit balances held. In H1 2015, 41% of SMEs using external finance also held £5,000 or more in credit balances. Amongst SMEs that were not using external finance, the proportion holding credit balances of £5,000 or more was the same (40%) Looking at these two groups over time, the same pattern emerges with an increase in both groups in the proportion holding £5,000 or more in credit balances, as overall
By size of SME	SMEs with employees who used external finance were more likely to hold credit balances of £5,000 or more than their smaller peers: • In H1 2015, amongst SMEs who used external finance 64% of SMEs with employees said that they held £5,000 or more in credit balances, compared to 30% of 0 employee SMEs As overall, these figures were little different to their peers who did not use external finance: • Amongst SMEs who did not use external finance, 63% of SMEs with employees said that they held £5,000 or more in credit balances, compared to 34% of 0 employee SMEs.

Continued

Continued

The link to an overdraft	In H1 2015, 16% of SMEs had an overdraft facility. Those holding higher credit balances were somewhat less likely to have an overdraft facility: • 21% of SMEs with no credit balances had an overdraft facility • 18% of SMEs with less than £5,000 of credit balances had an overdraft facility • 15% of SMEs with £5-50,000 of credit balances had an overdraft facility • 12% of SMEs with more than £50,000 of credit balances had an overdraft facility
Link to overdraft over time	The proportion of SMEs with an overdraft has declined over time from 22% in 2012 to 16% in H1 2015. This is also true for those SMEs holding credit balances: • In 2012 17% of SMEs holding more than £50,000 in credit balances also had an overdraft facility, falling to 12% in H1 2015 • Amongst those with no credit balances, 26% had an overdraft in 2012 compared to 21% in H1 2015 (albeit this is higher than the 14% with an overdraft recorded for 2014).

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 Government is keen to promote SME 'finance fitness' (preparedness for accessing finance) as well as exporting and export finance. 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.

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 the proportion of SMEs undertaking these various activities, over time:

Business formality elements Over time – all SMEs By date of interview	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015
Unweighted base:	*5000*	*5008*	*5028*	*5000*	*5008*	*5023*	*5024*	*5038*	*5001*
Planning (any)	57%	59%	49%	53%	56%	55%	54%	53%	51%
- Produce regular management accounts	*45%*	*46%*	*38%*	*42%*	*44%*	*41%*	*41%*	*40%*	*38%*
- Have a formal written business plan	*34%*	*34%*	*27%*	*31%*	*33%*	*32%*	*33%*	*30%*	*29%*
International (any)	13%	14%	15%	15%	16%	17%	15%	15%	15%
*– Export goods or services**	*8%*	*8%*	*9%*	*9%*	*9%*	*11%*	*9%*	*9%*	*9%*
*- Import goods or services**	*9%*	*11%*	*11%*	*10%*	*11%*	*11%*	*11%*	*10%*	*11%*
Have qualified person in charge of finances	26%	27%	26%	29%	28%	27%	25%	24%	28%

Q223/251 All SMEs

The table below provides further analysis by key demographics:

Business Formality	Further analysis
Planning	Planning levels have been broadly stable since the start of 2014. The larger the SME the more likely they were to plan (YEQ2 2015 53% of all SMEs planned varying by size from 47% of those with 0 employees to 90% of those with 50-249 employees).
International	The proportion of SMEs undertaking international activity is also stable over recent quarters, maintaining the improvement seen over time (for 2012 as a whole, 10% of SMEs were international, increasing to 15% for YEQ2 2015). Larger SMEs remained more likely to be international (13% of those with 0 employees to 40% of those with 50-249 employees).
Financial specialist	The proportion of SMEs with a financially qualified person looking after their finances has remained relatively stable over time. It was 26% for YEQ2 2015 and the larger the SME, the more likely they were to have a financial specialist, ranging from 22% of 0 employee companies to 70% of those with 50-249 employees. Where such a person was in charge of the finances, SMEs were somewhat more likely to plan (64% v 49% of those where there was no financial specialist).
Excluding the 0 employees	YEQ2 2015, the smallest SMEs remained less likely to plan or to undertake international trade. When the 0 employee businesses were excluded, the proportion of SMEs (with employees): • Who plan increased to 69% (from 53%) • Who have a qualified person in charge of the finances increased to 36% (from 26%) • Who trade internationally increased to 23% (from 15% overall).
Sector analysis	YEQ2 2015, 67% in the Hotels & Restaurants sector and 60% in Wholesale/Retail planned, international activity remained most common in the Manufacturing (27%) and Wholesale/Retail (22%) sectors and 32% of those in Property/ Business Services had someone in charge of the finances who was qualified. The least likely to undertake these activities were SMEs in Construction (44% planned, 5% were international and 19% had someone in charge of the finances who was qualified).

A further question sought to understand how important international trade was to a business. From Q4 2012, this was asked of exporters only and from Q2 2014 additional granularity has been provided, with 7 out of 10 exporters reporting that less than a quarter of their total sales came from overseas:

Percentage of turnover as sales overseas – all SMEs YEQ2 15	All	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*2932*	*238*	*749*	*1164*	*781*
Less than 25% of sales overseas	73%	75%	73%	66%	62%
25-50%	12%	11%	12%	18%	19%
51-75%	8%	7%	9%	11%	13%
76-100% of sales overseas	7%	7%	6%	6%	6%
Average proportion	*25%*	*24%*	*25%*	*27%*	*29%*

Q223x All SMEs who export, excluding DK/refused

15% of exporters said that international trade made up 50% or more of sales. This is a declining trend: in both 2012 and 2013 around 1 in 4 exporters said that exporting made up 50% or more of sales, whereas from 2014 the figure has been closer to 1 in 6.

10% of all SMEs export. This is made up of the equivalent of 2% of all SMEs where exports made up 50% or more of their sales, and the equivalent of 8% where exports made up less than 50% of their sales. 90% of all SMEs do not export.

All SMEs were asked whether they used online banking. YEQ2 2015, 6 in 10 did (58%), increasing with size:

- 57% of 0 employee businesses use online banking
- 61% of those with 1-9 employees
- 70% of those with 10-49 employees
- 76% of those with 50-249 employees

New questions were asked for the first time in Q1 and Q2 2014 about whether SMEs had taken any form of professional advice for their business (20% had), or whether the business holds intellectual property or other knowledge assets on its balance sheet such as patents, copyrights, trademarks or goodwill (6% did). This was little changed for Q1 and Q2 2015: 15% of SMEs had taken professional advice and 5% held intellectual property or other knowledge assets on their balance sheet (The questions were not asked in Q3 and Q4 2014).

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.

YEQ2 2015 a fifth of SMEs (22%) said that this was the case (excluding DK answers). This has varied relatively little over time (In 2013 24% of SMEs said that they belonged to a business group)

Business Groups	Further analysis
By size of SME	Membership was higher amongst larger SMEs: • 21% of 0 employee businesses belonged to a group/body • 22% of 1-9 employee businesses • 26% of 10-49 employee businesses • 33% of 50-249 employee businesses.
By external risk rating	There was relatively little difference by risk rating: SMEs with a worse than average external risk rating were slightly less likely to belong to such groups (20%), compared to 25% of SMEs in the other 3 risk rating bands.
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 Manufacturing were less likely (17%).
PNBs and those using external finance	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 also a slight difference by whether the SME met the definition of a 'Permanent non-borrower' or not (19% v 24% if not a PNB).
Other demographics	There was little variation by age of business (20-24%). Those who had someone in charge of the finances who was qualified were more likely to belong to a business group (30% v 19%).

Business Ownership

64% of *companies* had one owner, ranging from 81% of 0 employee companies to 33% of those with 50-249 employees. This means that of *all* SMEs, 89% are either sole proprietorships or companies with one owner.

A new, broader, question asked from Q2 2013 explored the extent to which the owner of the SME was also involved in other businesses. For YEQ2 2015 (and excluding DK answers):

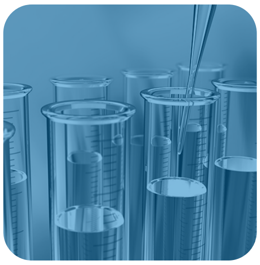
- 89% reported that this was the only business the owner was involved in, managerially or strategically, decreasing with size from 91% of 0 employee SMEs, to 75% of those with 50-249 employees.
- 9% reported that the owner currently ran another business as well (7% amongst 0 employee SMEs increasing to 24% amongst those with 50-249 employees). Such businesses were somewhat more likely to be using external finance (45%) and/or to have had a borrowing event (21%).
- 4% 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 (53%) or to have had a borrowing event (27%) and were less likely to be a 'Permanent non-borrower' (27%).
- 2% said the owner had provided funds for another business in the past few years, again with little variation by size of SME. This small group were also more likely to be using external finance (62%) or to have had a borrowing event (23%) and were less likely to be a 'Permanent non-borrower' (21%).

In a new question asked from Q3 2014, SMEs with employees were asked whether theirs was a family business, and if not, the broad ownership structure. For YEQ2 2015:

- 74% have no employees (so are not asked the question)
- 18% have employees and are family owned
- 4% have employees and are owned by directors/partners
- 3% have employees and are owned by the founder who works in the business
- 1% have employees and are owned in some other way

Initial analysis of family owned businesses suggests they are little different to SMEs with employees generally. They are as likely to be using external finance (50% do), to be a Permanent non-borrower (35%) or to be international (21%).

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 and trade credit within a business.

Key findings

Use of external finance remained lower than previously seen

- In Q2 2015, a third of SMEs were using any of the forms of external finance specified (36%). This has remained unchanged since Q4 2014 but remains lower than seen in previous periods (in 2011, 46% of SMEs were using external finance), with lower use across size bands and risk ratings
- Between 2011 and 2014, use of any of the 'core' forms of finance (loans, overdrafts and credit cards) declined from 39% to 29%, driving the overall decline in use of external finance. In Q2 2015, 28% of SMEs were using one or more of these forms of finance while 17% were using one or more of the 'other' forms of finance, in line with previous quarters

Half of SMEs (49%) were 'Permanent non-borrowers' with little apparent appetite for external finance and the proportion of PNBs continued to increase steadily, across all sizes of SME

- The proportion of PNBs has increased steadily over time, from 30% at the start of 2012 to 49% in Q2 2015
- In Q2 2015 53% of 0 employee SMEs met the definition of a PNB, up from 40% in Q2 2013. The largest SMEs remained less likely to be a PNB but here too the proportion increased (17% to 26%)

- Analysis showed that PNBs were as likely to be profitable as non-PNBs and to hold £5,000 or more in credit balances. They were somewhat less likely to be international, innovative or planning to grow. Further analysis suggests they are relying on internal resources as they are less likely to receive trade credit, to have had an injection of personal funds or to see cash flow as an issue for their business
- Excluding the PNBs increases the proportion of remaining SMEs using external finance in Q2 2015 to 71% up from 64% in Q2 2014

SMEs were more likely to be using trade credit as a source of finance than to have received an injection of personal funds

- 33% of SMEs received trade credit from their suppliers. Two thirds of those who received trade credit said that it reduced their need for external finance (the equivalent of 22% of <u>all</u> SMEs)
- Over time, fewer SMEs have reported an injection of personal funds into the business, from a peak of 46% in Q3 2012 to 26% in Q2 2015. This is due primarily to fewer SMEs reporting that they felt they 'had' to inject funds (from 26% to 13% over this period). Smaller and younger SMEs remained more likely to report an injection of funds
- Including use of these forms of finance increases the proportion using 'business funding' to 63% (YEQ2 2015) and would reduce PNBs to 29% of SMEs

There also appears to be some attitudinal 'reluctance' to use external finance

- 73% of SMEs YEQ2 2015 agreed that their aim was to pay off any remaining debt and then be debt free and this varied little by size of SME
- That said, 43% agreed that they would be happy to use external finance to help the business grow and this was more common amongst the largest SMEs (58% of those with 50-249 employees)
- Taken together, 37% of all SMEs would prefer to be debt free but would use external finance to help the business grow, increasing by size of SME
- 28% could be described as 'debt averse' (preferring to be debt free and not prepared to borrow to help the business grow) and this is more likely amongst smaller SMEs
- These proportions have changed very little over the period that these questions have been asked

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 2015 was 37%, in line with 2014 (37%). This remains lower than in previous years (in 2011 46% of SMEs used external finance).

Analysis by quarter showed use of external finance in Q2 2015 itself was 36%, in line with recent quarters, but somewhat lower than the equivalent quarters of both 2013 and 2014:

Use of external finance in last 5 years Over time – all SMEs By date of interview	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015
Unweighted base:	*5000*	*5008*	*5028*	*5000*	*5008*	*5023*	*5024*	*5038*	*5001*
Use now	43%	41%	40%	33%	39%	40%	36%	36%	36%
Used in past but not now	3%	3%	3%	3%	3%	3%	3%	3%	3%
Not used at all	54%	56%	57%	64%	58%	58%	62%	61%	60%

Q14/15 All SMEs

There remained clear differences in the use of external finance by size of SME. In Q2 2015 SMEs with 50-249 employees were once again twice as likely to be using external finance as those with 0 employees:

Currently use external finance Over time – all SMEs By date of interview – row percentages	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015
All	43%	41%	40%	33%	39%	40%	36%	36%	36%
0 emp	38%	35%	35%	26%	35%	35%	32%	32%	32%
1-9 emps	57%	57%	53%	50%	50%	53%	44%	48%	47%
10-49 emps	67%	67%	65%	66%	59%	64%	55%	61%	60%
50-249 emps	73%	74%	74%	61%	64%	65%	61%	58%	63%

Q14/15 All SMEs , base varies slightly each quarter

As already reported, use of external finance has declined across the 4 years for which the SME Finance Monitor can provide data. Since 2011, when 46% of all SMEs used external finance, use of finance has fallen year by year (44% in 2012, 41% in 2013, and 37% in 2014) to 36% for H1 2015. This is a 20% decrease in the use of external finance with similar levels of decrease seen in each size band:

- Over the same 2011-H1 2015 time period, use of external finance amongst those with 0 employees fell from 41% to 32%
- For those with 1-9 employees it fell from 60% to 48%
- For those with 10-49 employees it fell from 74% to 60%
- For those with 50-249 employees it fell from 78% to 60%

There has also been a marked decline in the use of finance amongst businesses 2-5 years old (46% in 2011 to 31% for H1 2015), and amongst older businesses (52% for businesses trading for 10 years or more in 2011, to 42% in H2 2015). Amongst Starts however, use of external finance has followed a somewhat different pattern. It was relatively stable 2011-2014 (varying between 36% and 32% over the period) however, initial data for 2015 (H1) showed that 24% of Starts were using external finance.

Overall for YEQ2 2015, more use was made of external finance by SMEs with a minimal (42%) or low (43%) external risk rating, than by those with an average (36%) or worse than average rating (34%). The table below shows use of finance by risk rating for each quarter:

Currently use external finance Over time – all SMEs By date of interview – row percentages	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015
All	43%	41%	40%	33%	39%	40%	36%	36%	36%
Minimal	59%	46%	46%	44%	51%	46%	35%	41%	48%
Low	48%	55%	48%	45%	44%	36%	37%	51%	46%
Average	43%	43%	40%	33%	38%	40%	33%	35%	38%
Worse than average	41%	40%	37%	28%	36%	39%	37%	31%	29%

Q14/15 All SMEs , base varies slightly each quarter

Analysis over time shows that, as overall, there has been around a 20% decline in use of external finance for all external risk ratings, albeit that those with a low external risk rating are somewhat more likely to be using external finance in H1 2015:

- From 55% in 2011 to 44% in H1 2015 for those with a minimal risk rating
- From 54% to 40% in 2014 for those with a low risk rating, but now 49% for H1 2015
- From 46% to 37% in H1 2015 for those with an average risk rating
- From 44% to 30% in H1 2015 for those with a worse than average risk rating

By sector, for YEQ2 2015 the most likely to be using external finance remained SMEs in the Wholesale/Retail sector (46%). The least likely to be using external finance was the Health sector (31%).

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 for YEQ2 2015, 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. The larger the SME the more likely they were to pay off their credit card (74% of 0 employee SMEs with a credit card paid off the balance compared to 96% 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).

6% of SMEs only use credit cards of all the forms of external finance reported. 82% of this group say that they usually pay off the balance each month. This is the equivalent of 5% 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 after enjoying a period of interest free credit.

Analysis shows that the use of 'core' finance and of overdrafts specifically has stabilised in recent quarters. In 2011, 39% of SMEs used 'core' finance including 26% with an overdraft. In Q2 2015, 28% were using 'core' finance and 16% had an overdraft:

Use of external finance Over time – all SMEs By date of interview	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015
Unweighted base:	*5000*	*5008*	*5028*	*5000*	*5008*	*5023*	*5024*	*5038*	*5001*
Bank overdraft	18%	16%	18%	14%	18%	17%	16%	16%	16%
Bank loan/Commercial mortgage	8%	8%	6%	7%	8%	7%	7%	8%	6%
Credit cards	19%	20%	16%	14%	15%	16%	14%	15%	15%
Any 'core' products – all SMEs	*33%*	*33%*	*31%*	*27%*	*30%*	*31%*	*28%*	*29%*	*28%*

Q15 All SMEs

Use of any of these ‘core’ forms of finance declined between 2011 and 2014 from 39% to 29% of all SMEs and across all sizes of business, notably the larger ones. For H1 2015, the proportion using core finance was unchanged at 29%:

- 0 employees: From 34% in 2011 to 25% in H1 2015
- 1-9 employees: From 50% to 39% in H1 2015
- 10-49 employees: From 65% to 49% in H1 2015
- 50-249 employees: From 71% to 52% in H1 2015

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 20% of SMEs in H1 2015 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 2015, a third of those using such facilities (36%) said that one of more facilities were in their personal name, the equivalent of 9% of **all** SMEs having a facility in their personal name (or 17% of SMEs excluding the ‘Permanent non-borrowers’). This has varied relatively little across the quarters in which the question has been asked.

The incidence of facilities in a personal name varied by size of business: amongst SMEs with loans, overdrafts and/or credit cards, 4 in 10 of those with 0 employees had some facility in their personal name (44%) compared to 7% 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 (38% and 39%), but the equivalent figures for **all** SMEs showed relatively little difference by risk rating:

Have element of facility in personal name YEQ2 15 – row percentages	Of those with an overdraft, loan or credit card	Equivalent % of all SMEs
Total	**36%**	**9%**
0 employees	44%	10%
1-9 employees	24%	8%
10-49 employees	12%	5%
50-249 employees	7%	3%
Minimal risk rating	24%	7%
Low risk rating	27%	9%
Average risk rating	38%	10%
Worse than average risk rating	39%	9%

Q15bbb All SMEs with one of these facilities

Those operating their business banking through a personal account were somewhat less likely to be using any external finance (24% YEQ2 15 were using a core form of external finance, compared to 30% of those operating through a business bank account). However, if they *did* use the relevant forms of external finance, then almost all, 86%, said that some or all of the loan, overdraft or credit card facilities that they had were in their personal name. Amongst those with facilities and operating a business account, three in ten, 9%, 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 (19% of those using a personal account v 8% of those using a business account had a facility in their personal name).

From Q3 2014, in order to provide further granularity on the use of personal finance, SMEs using loans, overdrafts or credit cards were asked whether each of these was in their personal name, rather than simply whether any of these facilities were in a personal name. YEQ2 2015, credit cards were somewhat more likely to be in a personal name (30%) compared to 1 in 5 loans and overdrafts:

- 21% of those with an overdraft said it was in a personal name, of which 83% were 0 employee SMEs. 8% said they had facilities in both personal and business names
- 20% of those with a loan said it was in a personal name, of which 60% were 0 employee SMEs. 6% said they had facilities in both personal and business names
- 30% of those with a credit card said it was in a personal name, of which 82% were 0 employee SMEs. 10% said they had facilities in both personal and business names

The incidence of personal facilities was much higher amongst smaller SMEs using external finance:

- Amongst those with 0 employees, 28% of overdraft users, 38% of credit card users and 24% of those with a loan said that this facility was in a personal name (an additional 7-11% said that they had facilities in both a business and a personal name)
- Amongst those with 1-9 employees, 12% of overdraft users, 18% of credit card users and 17% of those with a loan said that this facility was in a personal name (an additional 5-11% said that they had facilities in both a business and a personal name)
- Amongst those with 10-49 employees, 4% of overdraft users, 7% of credit card users and 6% of those with a loan said that this facility was in a personal name (an additional 3-6% said that they had facilities in both a business and a personal name)
- Amongst those with 50-249 employees, 1% of overdraft users, 3% of credit card users and 5% of those with a loan said that this facility was in a personal name (an additional 1-5% said that they had facilities in both a business and a personal name)

The table below shows the full list of the different types of funding being used by SMEs YEQ2 2015. 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.

From Q1 2014 the codes for loans and equity from directors or friends and family were split out and from Q3 2014 data has been collected separately for loans and commercial mortgages, shown for the first time below.

External finance currently used YEQ2 15 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*20,086*	*4004*	*6644*	*6433*	*3005*
'Core' products (any)	**29%**	**25%**	**39%**	**49%**	**52%**
-Bank overdraft	16%	14%	22%	25%	20%
-Credit cards	15%	13%	19%	30%	38%
-Bank loan	6%	4%	10%	13%	14%
-Commercial mortgage	2%	1%	3%	6%	8%
Other forms of finance (any)	**17%**	**13%**	**26%**	**36%**	**37%**
-Leasing or hire purchase	7%	5%	12%	22%	23%
-Loans from directors, family & friends	7%	5%	11%	10%	7%
-Equity from directors, family & friends	2%	1%	5%	5%	5%
-Invoice finance	2%	2%	3%	9%	11%
-Grants	2%	1%	3%	4%	6%
-Loans from other 3rd parties	2%	1%	3%	5%	6%
Any of these	***37%***	***32%***	***48%***	***60%***	***62%***
None of these	***63%***	***68%***	***52%***	***40%***	***38%***

Q15 All SMEs

SMEs that import and/or export were asked about use of Export/Import finance. YEQ2 2015, 1% of such SMEs used these products, with little variation by size of business (<1-3%).

Larger businesses continued to make use of a wider range of forms of funding. Amongst SMEs with employees, 50% were using external finance – 40% were using any form of core finance and 27% any of the other forms of finance listed.

Those in Agriculture and Wholesale/Retail were more likely to be using core forms of finance. There was less variation by sector in terms of the use of other forms of finance, with the exception of those in Construction and Health who were less likely to be using such forms of finance (14%):

External finance currently used YEQ2 15 – all SMEs	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*1506*	*2097*	*3512*	*2029*	*1803*	*1815*	*3523*	*1788*	*2013*
Core finance	36%	34%	25%	37%	32%	26%	28%	24%	29%
Other finance	20%	17%	14%	20%	18%	19%	16%	14%	20%
Any finance	*42%*	*41%*	*33%*	*46%*	*39%*	*34%*	*35%*	*31%*	*40%*

Q15 All SMEs

From Q1 2014 SMEs using leasing, HP and vehicle finance were asked where this funding was obtained from with SMEs able to give more than one source. From Q1 2015, those using these forms of finance have been asked to name the supplier and these have then been coded into the categories below to provide a more accurate analysis of how funding is being provided. Initial findings for H1 2015 were as follows:

- 35% obtained this funding from a bank / bank subsidiary: 18% from their main bank, 19% from another bank
- 22% from an equipment manufacturer
- 32% from another leasing provider
- 2% from a broker

These results are not that dissimilar to those in 2014 (when the SME self-identified the type of supplier used). Mentions of a bank are now slightly higher (having been 26% in 2014) and mentions of another leasing provider are somewhat lower (having been 39%)

Amongst those using leasing, HP or vehicle finance, use of any bank for this finance varied relatively little in H1 2015 by size of SME (between 33% and 40%).

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. Loans and equity from family/friends/directors and bank loans/ commercial mortgages will be reported separately when sufficient data has been collected in further quarters.

The decline in the use of core forms of finance has already been reported. Use of other forms of finance is more stable, at around 1 in 6 SMEs in most quarters:

Use of external finance Over time – all SMEs By date of interview	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015
Unweighted base:	*5000*	*5008*	*5028*	*5000*	*5008*	*5023*	*5024*	*5038*	*5001*
'Core' products (any)	33%	33%	31%	27%	30%	31%	28%	29%	28%
-Bank overdraft	18%	16%	18%	14%	18%	17%	16%	16%	16%
-Bank loan/Commercial mortgage	8%	8%	6%	7%	8%	7%	7%	8%	6%
-Credit cards	19%	20%	16%	14%	15%	16%	14%	15%	15%
Other forms of finance (any)	21%	18%	17%	13%	18%	20%	16%	16%	17%
-Leasing, hire purchase or vehicle finance	9%	6%	9%	6%	7%	8%	6%	7%	6%
-Loans/equity from directors/family/friends*	11%	9%	7%	6%	9%	9%	7%	8%	8%
-Invoice finance	3%	2%	2%	2%	3%	3%	2%	2%	2%
-Grants	2%	2%	1%	1%	2%	2%	1%	2%	2%
-Loans from other third parties	1%	1%	1%	1%	1%	2%	2%	2%	2%
Any form of finance – all SMEs	*43%*	*41%*	*40%*	*33%*	*39%*	*40%*	*36%*	*36%*	*36%*

Q15 All SMEs

SMEs can use one or more of the forms of finance listed above:

- Amongst SMEs using any of these forms of external finance 60% use only one of the forms of finance listed.
- This is more common amongst smaller users of external finance – 67% of 0 employee SMEs using external finance only use one form of finance compared to 39% of 50-249 employee SMEs using external finance.
- 8% of SMEs using external finance used 4 or more of the types of finance listed, ranging from 4% of 0 employee SMEs using external finance to 20% of 50-249 employee SMEs using external finance. This is the equivalent of 3% of all SMEs using 4 or more types of external finance.

The table below shows how sole use of 'core' and '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	2014	H1 2015
Unweighted base:	*15,128*	*20,055*	*20,036*	*20,055*	*10,039*
Only use 'core' products	29%	26%	23%	20%	20%
Only use 'other' forms of finance	7%	8%	9%	8%	7%
Use both forms of finance	10%	10%	9%	9%	9%
Use none of these forms of finance	54%	56%	59%	63%	64%

Q15 All SMEs

Between 2011 and H1 2015, the proportion using any forms of external finance declined from 46% to 36% of all SMEs. This was almost entirely due to a smaller proportion using only the 'core' forms of finance (use of only loans, overdrafts and/or credit cards declined from 29% to 20%). 7% of SMEs in H1 2015 only used one of the 'other' forms of finance, and this has changed little over time. The proportion of SMEs using both 'core' *and* 'other' forms of finance was also fairly stable (9% in H1 2015).

In a question asked for the first time in Q2 2013, 2% of SMEs (YEQ2 2015) said that they were using an additional form of external finance not on the list detailed in full above. This did not vary much by size (2-3%) or risk rating (2%), or by sector (1-3%), and has varied little over time.

There was no difference in use of these other forms of finance by whether the SME was also using one of the *specified* forms of external finance (3% for those using the specified forms of external finance and 2% for those not). This means that 1% of **all** SMEs are classed as non-users of finance in this report (because they do not use any of the specified forms of external finance) but said at this question that they were using some other form of finance.

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

Injections of personal funds

Since Q2 2012, the use of personal funds in SMEs has been explored in some detail. SMEs are 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 do not form part of the current 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 Q4 2013, fewer SMEs have reported putting in any personal funds, with 26% of those interviewed in Q2 2015 reporting any injection of funds in the previous 12 months, unchanged from Q1 2015 and the lowest proportion to date. This is mainly due to fewer SMEs reporting that they felt that they had to put in funds (from 26% at their peak in Q3 2012 to 13% in the current quarter). The proportion choosing to put in funds has also fallen, from 20% in Q3 2012 to 13% in Q2 2015:

Personal funds in last 12 months over time – all SMEs By date of interview	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015
Unweighted base:	*5000*	*5008*	*5028*	*5000*	*5008*	*5023*	*5024*	*5038*	*5001*
Inject personal funds – you chose to do to help the business grow and develop	20%	18%	18%	15%	15%	13%	14%	14%	13%
Inject personal funds – you felt you had no choice about this, that you had to do it	22%	20%	15%	15%	15%	15%	15%	11%	13%
Any personal funds	*42%*	*38%*	*33%*	*30%*	*30%*	*28%*	*29%*	*26%*	*26%*
Not something you have done	58%	62%	66%	70%	70%	72%	71%	74%	74%

Q15d All SMEs

Over time, the proportion of SMEs putting in any funds has fallen overall (from 42% in 2012 (Q2-4) to 29% for 2014 as a whole and 26% for H1 2015) and also 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 27% for H1 2015
- Amongst those with 1-9 employees the proportion also fell from 39% in 2012 to 24% in H1 2015
- For those with 10-49 employees, 15% of those interviewed in H1 2015 reported an injection of funds, down from 22% in 2012
- Amongst the largest SMEs with 50-249 employees the figure is 8% for H1 2015, down from 13% in 2012

The analysis below is based on the combined results YEQ2 2015 to provide robust base sizes for key sub-groups. Smaller SMEs, with fewer than 10 employees, were much more likely to have received an injection of personal funds although as already reported, this proportion is declining over time:

Personal funds in last 12 months YEQ2 15 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*20,086*	*4004*	*6644*	*6433*	*3005*
Inject personal funds – you chose to do to help the business grow and develop	14%	14%	14%	8%	5%
Inject personal funds – you felt you had no choice about this, that you had to do it	13%	14%	13%	8%	3%
Any personal funds	*27%*	*28%*	*27%*	*16%*	*8%*
Not something you have done	73%	72%	73%	84%	92%

Q15d All SMEs from Q2 2012

Amongst SMEs with employees, 25% reported any injection of personal funds – 13% because they chose to do so and 12% 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 (40%), and that this was more likely to have been a choice (24%) than a necessity (16%). 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 15 – all SMEs	Starts	2-5 yrs	6-9 yrs	10-15 yrs	15 yrs+
Unweighted base:	*2007*	*2142*	*2357*	*3433*	*10,147*
Inject personal funds – you chose to do to help the business grow and develop	24%	18%	12%	8%	9%
Inject personal funds – you felt you had no choice about this, that you had to do it	16%	14%	13%	11%	13%
Any personal funds	*40%*	*32%*	*25%*	*19%*	*22%*
Not something you have done	60%	68%	75%	81%	78%

Q15d All SMEs from Q2 2012

Over time, Starts have always been more likely to report an injection of funds than older businesses. However, the 40% of Starts receiving an injection of funds for YEQ2 2015 is down from 64% in 2013, with a decline both in those *choosing* to inject funds (from 37% of Starts to 24%) and those feeling that they *had to* (from 27% to 16%).

Amongst older businesses there has also been something of a decline in injections of funds (as overall) but these have been smaller, typically around 4 or 5 percentage points. For example, amongst SMEs that have been trading for 15 years or more, injections of personal funds have declined from 26% to 22%.

Those using a *personal* account for their business banking were somewhat more likely to have put personal funds in at all (36% v 26% of those with a business account) but were not much more likely to have felt that they had to do so (16% of SMEs with a personal account, 13% 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 (33%), compared to 17% of those with a minimal external risk rating. Half of all SMEs 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 15 – all SMEs	Total	Min	Low	Avge	Worse/ Avge
Unweighted base:	*20,086*	*3275*	*6029*	*4736*	*4307*
Inject personal funds – you chose to do to help the business grow and develop	14%	8%	11%	12%	17%
Inject personal funds – you felt you had no choice about, that you had to do	13%	8%	10%	12%	16%
Any personal funds	*27%*	*17%*	*21%*	*24%*	*33%*
Not something you have done	73%	83%	79%	76%	67%

Q15d All SMEs from Q2 2012

Analysis by sector showed relatively little variation in terms of *any* injection of funds, experienced by 25-31% of SMEs in each sector:

Personal funds in last 12 months YEQ2 15 – all SMEs	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*1506*	*2097*	*3512*	*2029*	*1803*	*1815*	*3523*	*1788*	*2013*
Chose to inject	15%	14%	12%	11%	14%	14%	14%	18%	16%
Had to inject	12%	12%	14%	14%	17%	16%	12%	11%	13%
Any funds	*27%*	*26%*	*26%*	*25%*	*31%*	*30%*	*26%*	*29%*	*30%*
Not done	73%	74%	74%	75%	69%	70%	74%	71%	70%

Q15d All SMEs from Q2 2012

SMEs currently using external finance were more likely to have received an injection of personal funds (35% YEQ2 2015) than those not currently using external finance (22%) and were also more likely to say they had felt that there had been no choice (20% v 9%).

Analysed by their overall financial behaviour in the previous 12 months, the 'Would-be seekers' (who had wanted to apply for finance but 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 15 – all SMEs	Total	Had an event	'Would-be seeker'	'Happy non-seeker'
Unweighted base:	*20,086*	*4524*	*509*	*15,053*
Inject personal funds – you chose to do to help the business grow and develop	14%	13%	15%	14%
Inject personal funds – you felt you had no choice about, that you had to do	13%	23%	45%	10%
Any personal funds	*27%*	*36%*	*60%*	*24%*
Not something you have done	73%	64%	40%	76%

Q15d All SMEs

As already reported, the proportion of SMEs that have seen an injection of funds has declined over time, from 42% when the question was first asked in 2012 to 26% for H1 2015.

- This is also true amongst those that have had a borrowing 'event' (from 52% to 36% YEQ2 2015) and amongst 'Happy non-seekers' (37% to 24%)
- However, there has been much less of a decline amongst the small group of 'Would-be seekers' of finance, from 62% in 2012 to 60% YEQ2 2015. This group is now much more likely than SMEs generally to have seen an injection of personal funds (note that the definition of a 'Would-be seeker' was changed slightly at the end of 2012, but the 2013 figure under the new definition was 63% so the conclusion remains valid).

Additional data on whether these SMEs had previously been turned down by a bank (or thought that they would be), 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 (84% excluding DK answers).

Of the 16% that used a personal account, almost all, 93%, 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 (28%) or the Construction sector (21%) and least likely to be found in Wholesale/Retail (8%), or Hotels & Restaurants (10%). Amongst Starts (set up within the last 2 years) 21% 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 (19% compared to 8% of those with a minimal or low risk rating).

YEQ2 2015, SMEs using a personal account were:

- less likely to be using external finance (30% used external finance, compared to 38% using a business account) and less likely to have applied for new or renewed facilities (4% versus 8%)
- more likely to have put personal funds into the business (36% v 26% of those with a business account) and slightly more likely to be a 'Permanent non-borrower' (49% v 45%)

In H1 2015, 98% of SMEs reported that they only used one bank for their business banking, with little difference by size. Multi-banking, not often 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	2014	H1 2015
All	98%	99%	99%	98%
0 emps	98%	99%	99%	98%
1-9 emps	97%	99%	98%	98%
10-49 emps	96%	98%	97%	97%
50-249 emps	94%	98%	97%	98%

The ‘interweaving’ of business and personal funds

A number of questions explore the use of personal funds and/or personal borrowing by SMEs and details are provided in the relevant chapters. For YEQ2 2015, 4 in 10 SMEs (38%) reported having one or more of these personal ‘elements’ to their business, down from 48% for the year to Q2 2014, as fewer smaller SMEs with less than 10 employees say that they have any personal element to their business. The table below shows how 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 15
All SMEs	**38%**
0 employee	41%
1-9 employees	30%
10-49 employees	17%
50-249 employees	10%
Minimal external risk rating	27%
Low external risk rating	27%
Average external risk rating	35%
Worse than average external risk rating	44%
Agriculture	37%
Manufacturing	34%
Construction	42%
Wholesale/Retail	30%
Hotels & Restaurants	37%
Transport	41%
Property/Business Services etc.	34%
Health	47%
Other Community	42%

Excluding SMEs with no employees reduces the proportion of remaining SMEs with a personal element to their business to 28%.

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 can now be reported as 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 15 – all SMEs	Applied	% success	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*20,086*	*Varies*	*4004*	*6644*	*6433*	*3005*
Leasing/Hire purchase/vehicle finance	4%	83%	3%	8%	14%	16%
Credit cards	3%	77%	3%	5%	7%	7%
Loans from family/friends or directors	3%	82%	3%	5%	4%	3%
Grants	2%	61%	1%	3%	6%	7%
Equity from family/friends or directors	1%	63%	1%	2%	1%	1%
Invoice finance	1%	55%	1%	2%	3%	4%
Loans from other 3rd parties	1%	55%	1%	1%	2%	3%

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. Success rates have been somewhat lower for 2014 onwards than they were for 2012 or 2013 for invoice finance (previously three quarters were typically successful), and loans from other third parties (previously around 7 in 10 were successful).

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 some other form of external finance not already mentioned. For YEQ2 2015, 1% of SMEs said that they had applied for some 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 the applications for other types of finance such as invoice finance and grants together for YEQ2 2015 showed that:

- Most SMEs, 75%, 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
- 13% reported a loan/overdraft event, but had not applied for other forms of finance
- 8% had applied for other forms of finance but did not report a loan/overdraft event
- 4% reported both a loan/overdraft event and 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 65%.

Use of Trade Credit

From Q1 2014, data has been gathered on the extent to which SMEs use trade credit from their suppliers. In Q3 2014 questions were added to explore the extent to which SMEs offer trade credit to their customers and the impact that both forms of trade credit have on their use of, or need for, external finance.

YEQ2 2015, 33% of SMEs regularly purchased products or services from other businesses on credit. This increased by size of SME:

- 28% of those with 0 employees regularly purchased on credit
- 47% of those with 1-9 employees
- 60% of those with 10-49 employees
- 61% of those with 50-249 employees

Those using other forms of external finance (loans, overdrafts etc) were more likely to be using trade credit (47%) than those who were not using external finance (25%).

SMEs were also asked whether they offered trade credit to their customers. YEQ2 2015, 31% said that they did so, and this showed a similar variation by size of SME:

- 26% of those with 0 employees offer trade credit to their customers
- 41% of those with 1-9 employees
- 58% of those with 10-49 employees
- 65% of those with 50-249 employees

Those using other forms of external finance (loans, overdrafts etc) were also more likely to be offering trade credit (42%) than those who were not using external finance (24%).

YEQ2 2015, 17% of all SMEs both offered and received trade credit, increasing by size of business:

Trade credit in last 12 months YEQ2 15 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*20,086*	*4004*	*6644*	*6433*	*3005*
Both offer and receive trade credit	17%	13%	28%	45%	45%
Receive trade credit but do not offer it	16%	15%	19%	16%	19%
Offer trade credit but do not receive it	13%	13%	13%	14%	14%
Have any trade credit involvement	*47%*	*41%*	*60%*	*74%*	*77%*
Do not use trade credit at all	53%	59%	40%	26%	23%

Q14y/y4 All SMEs from Q3 2014

In another new question from Q3 2014, those SMEs that received trade credit were asked whether having this trade credit meant that they had a reduced need for other forms of external finance. Two thirds of them did and this is the equivalent of 22% of all SMEs needing less external finance, as the table below shows:

Impact of receiving trade credit YEQ2 15 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*20,086*	*4004*	*6644*	*6433*	*3005*
Have less of a need for external finance	22%	18%	31%	40%	39%
Do not have less of a need for external finance	10%	9%	14%	17%	18%
Not sure	1%	1%	2%	3%	4%
Do not receive trade credit	67%	72%	53%	40%	39%

Q14y/y4 All SMEs from Q3 2014

YEQ2 2015, SMEs currently using external finance were more likely to be using trade credit at all (47% v 25% of those who do not use external finance). They were also more likely to say that they had less of a need for external finance as a result (33%) than those not using external finance (15%) or SMEs overall (22%).

In a second new question from Q3 2014, those SMEs that offered trade credit were asked whether offering this trade credit meant that they had an increased need for other forms of external finance. A quarter did and this is the equivalent of 7% of all SMEs needing more external finance, as the table below shows:

Impact of offering trade credit YEQ2 15 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*20,086*	*4004*	*6644*	*6433*	*3005*
Have more of a need for external finance	7%	5%	12%	17%	19%
Do not have more of a need for external finance	22%	20%	28%	38%	41%
Not sure	1%	1%	1%	3%	5%
Do not offer trade credit	69%	74%	59%	42%	35%

Q14y/y4 All SMEs from Q3 2014

For YEQ2 2015, SMEs currently using external finance were more likely to be offering trade credit at all (42% v 24% of those who do not use external finance). They were also more likely to say that they had more of a need for external finance as a result (14%) than those not using external finance (3%) or SMEs overall (7%).

By sector, use of trade credit varied from 22% in the Health sector and 23% in the Transport sector to 44% in Wholesale/Retail and 47% in Manufacturing. SMEs in the Manufacturing sector were also the most likely to offer trade credit (42%):

Trade credit in last 12 months YEQ2 15 – all SMEs	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*1506*	*2097*	*3512*	*2029*	*1803*	*1815*	*3523*	*1788*	*2013*
Receive credit	32%	47%	38%	44%	33%	23%	28%	22%	29%
Offer credit	25%	42%	25%	32%	16%	31%	36%	18%	33%
Neither of these	59%	40%	53%	46%	60%	60%	53%	67%	56%

Q14y/y4 All SMEs from Q3 2014

The table below shows that those in Manufacturing, Construction and Wholesale/Retail were the most likely to say that they required less external finance because they received Trade Credit. Meanwhile, those in Manufacturing were also somewhat more likely to say that they needed more external finance because they offered their customers trade credit (This sector is more likely to be receiving and offering trade credit):

Impact of trade credit YEQ2 15 – all SMEs	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	***1506***	***2097***	***3512***	***2029***	***1803***	***1815***	***3523***	***1788***	***2013***
Need less finance as receive TC	19%	33%	28%	28%	21%	14%	17%	12%	20%
Need more finance as offer TC	6%	11%	7%	9%	4%	8%	8%	4%	5%

Q14y/y4 All SMEs from Q3 2014

The non-borrowing SME

As this chapter has already reported, just over a third of SMEs (37% YEQ2 2015) 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 46% of SMEs (YEQ2 2015), and were more likely to be found amongst the smaller SMEs:

- 50% of 0 employee SMEs met this non-borrowing definition
- 35% of 1-9 employee SMEs
- 28% of 10-49 employee SMEs
- 26% of 50-249 employee SMEs

Amongst SMEs with employees, 34% met the definition of a 'Permanent non-borrower'.

SMEs in the Health sector remained the most likely to be a 'Permanent non-borrower' (53%), with those in Wholesale/Retail the least likely (40%), and all other sectors between 42% and 49%. There was little variance by risk rating (40% to 48%).

49% of those who use a personal account for their business banking met the definition of a 'Permanent non-borrower', which means that the equivalent of 8% 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 2011 and 2012 to 43% for 2014 and now 48% for H1 2015. 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 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015
All SMEs	36%	40%	41%	48%	39%	40%	47%	48%	49%
0 employee	40%	45%	46%	54%	42%	44%	51%	53%	53%
1-9 employees	25%	28%	30%	32%	31%	29%	39%	36%	38%
10-49 employees	21%	24%	24%	22%	27%	23%	31%	29%	28%
50-249 employees	17%	17%	17%	29%	23%	22%	28%	29%	26%

As reported above, the increase in PNBs has been seen across all size bands:

- From 38% in 2011 to 53% in H1 2015 for those with 0 employees
- From 23% to 37% for those with 1-9 employees
- From 16% to 28% for those with 10-49 employees
- From 12% to 28% for those with 50-249 employees

Over the same period, there has also been an increase in PNBs within each of the external risk ratings:

- From 33% in 2011 to 45% in H1 2015 for those with a minimal risk rating
- From 34% to 36% for those with a low risk rating
- From 36% to 46% for those with an average risk rating
- From 32% to 54% for those with a worse than average risk rating

Businesses less than 10 years old remained more likely to meet the definition of a PNB in H1 2015 (55%) than they were in 2011 (33%). This was also true of those more than 10 years old, where 43% met the definition of a PNB in H1 2015 (between 2011 and 2013 a steady third of such businesses met the definition of a PNB, rising to 44% in 2014).

If these PNBs are excluded from the 'use of external finance' table shown earlier, the proportion using external finance increases to 7 in 10 of the remaining SMEs. 71% of remaining SMEs were using external finance in Q2 2015 up from 64% in Q2 2014 and there are signs that once the PNBs are excluded, the proportion of SMEs using external finance has started to increase (between 2012 and 2014 use of external finance by this group varied between 65% and 68% but is currently 70% for 2015 to date):

Use of external finance in last 5 years Over time – all SMEs excl PNBs By date of interview	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015
Unweighted base:	*3707*	*3637*	*3585*	*3370*	*3514*	*3576*	*3153*	*3220*	*3195*
Use now	68%	69%	68%	63%	64%	66%	68%	70%	71%
Used in past but not now	5%	5%	4%	6%	5%	4%	5%	5%	6%
Not used at all	27%	26%	28%	32%	31%	29%	27%	25%	23%

Q14/15 All SMEs

As already reported, the proportion of all SMEs using external finance has decreased over time, while the proportion that meet the definition of a PNB has increased. The table below shows that the pattern over time for those with employees is different to those without:

Use of external finance and PNBs over time	2012	2013	2014	H1 2015
0 employees:				
- Use external finance	38%	35%	32%	32%
- Permanent non borrower	37%	44%	48%	53%
All with employees				
- Use external finance	59%	57%	51%	49%
- Permanent non borrower	24%	27%	32%	35%

All SMEs from 2012

Amongst 0 employee SMEs the proportion using external finance and the proportion that met the definition of a PNB were the same in 2012. Since then, use of external finance has decreased, and the proportion meeting the definition of a PNB has increased such that in H1 2015 there is a 21 percentage point 'gap' between the two figures.

For SMEs with employees, twice as many were using external finance in 2012 (59%) as met the definition of a PNB (24%). Since then there has been a decline in the proportion using external finance, and an increase in those meeting the definition of a PNB and the 'gap' has reduced from 35 to 14 percentage points.

PNBs are now a major influence on the overall position of SMEs on access to finance. Additional analysis has therefore been conducted for this report, to understand the type of SME that meets the PNB definition.

As the table below shows, PNBs are often performing well but are not necessarily as ambitious as their peers. They are as likely to have made a profit and to hold £5,000 or more in credit balances but they are somewhat less likely to plan, to have innovated, be international or expecting to grow in the next 12 months:

PNBs YEQ2 2015	
Made a profit	PNBs were slightly more likely to have made a profit in the previous 12 months (81%) than non-PNBs (76%). By size, PNBs with 0-9 employees were more likely to have made a profit than their non-PNB peers while larger PNBs were as likely to have made a profit as their non-PNB peers
Hold £5k+ in credit balances	41% of PNBs held more than £5,000 in credit balances, compared to 39% of those who were not PNBs. PNBs with up to 50 employees were more likely to hold credit balances than their non-PNB peers, larger PNBs slightly less likely
Minimal/Low external risk rating	22% of PNBs were rated a minimal or low risk, compared to 26% of non-PNBs, but with some clear differences by size of SME. PNBs with 10-49 employees were more likely to have a minimal/low risk rating than their non-PNB peers (74% v 66%) and those with 50-249 employees were slightly more likely (79% v 75%). For SMEs with 0 or 1-9 employees the proportion rated a minimal/low risk did not vary by whether the SME was a PNB or not
Grown in last 12 months	38% of PNBs had grown in the previous 12 months (excluding Starts) compared to 42% of non-PNBs. While 0 employee PNBs were as likely to have grown as their non-PNB peers, in all other size groups there was a 5 percentage point 'gap' between PNBs and non-PNBs (amongst those with 50-249 employees 57% of PNBs had grown compared to 62% of non-PNBs)
International	PNBs were somewhat less likely to import and/or export. 12% were international compared to 19% of non-PNBs and this was seen across all size bands (amongst those with 50-249 employees 35% of PNBs were international compared to 42% of non-PNBs)
Innovation	PNBs were much less likely to have innovated (29%) than non-PNBs (41%). The 'gap' between PNBs and non-PNBs widens slightly by size – amongst 0 employee SME 27% of PNBs have innovated compared to 36% of non PNBs whilst amongst those with 50-249 employees 49% of PNBs had innovated compared to 65% of non-PNBs
Ambition	37% of PNBs planned to grow in the coming 12 months compared to 49% of non-PNBs with a consistent 'gap' of around 10 percentage points in each size band (amongst those with 50-249 employees 63% of PNBs planned to grow compared to 72% of non-PNBs)

To explore this further, and to understand which factors in combination predicted a PNB, CHAID analysis was undertaken, using all the business demographic variables (size, sector, region, growth, profitability etc).

This showed that the best predictor of being a PNB was turnover (rather than number of employees):

- 48% of those with turnover of less than £100k were PNBs
- 35% of those with turnover of £100k-£1.9m were PNBs
- 21% of those with turnover of £2m-£9.9m were PNBs
- 16% of those with turnover of £10m-£24.9m were PNBs
- 60% of those who could not give a turnover figure were PNBs*

*16% of respondents did not know/refused to give a turnover figure. 70% of these were 0 employee SMEs

There were some common themes across size bands, with SMEs more likely to be a PNB if:

- "Access to Finance" was not seen as a barrier
- They had not had a self-reported credit issue (such as a bounced cheque)
- They did not receive Trade Credit
- They had not put personal funds into the business
- They had not experienced a previous decline from a bank
- They held higher credit balances
- "Cash flow and late payment" was not rated as a barrier

This highlights that being a PNB appears to be linked to already having enough funds within the business. These PNBs are not using external finance but neither are they likely to be using trade credit or to have injected personal funds (which are outside the PNB definition) and nor is cash flow or late payment causing them issues. As the table above shows, on a number of other demographics (such as making a profit) there is little to choose between those who are a PNB and those who are not, albeit they are less likely to be planning to grow or to have innovated.

Given their position on external finance, it is not surprising that "Access to Finance" is not seen as a barrier by PNBs. The CHAID analysis was therefore repeated, removing this as an option to see what other factors played a part in determining a PNB. The combined results of both stages of the analysis are shown below, by turnover band, highlighting the factors which in combination make an SME of that size more or less likely to be a PNB.

Less than £100k (48% PNB)		
	Original analysis	Excluding Access to Finance
More likely	Access to Finance no barrier (1) AND have not put personal funds in (61% PNB)	Cash flow is no barrier (1) AND no previous decline to affect appetite for finance (58% PNB)
Less likely	Access to finance a barrier (7-10) AND owner is Black, Chinese or mixed ethnicity (1% PNB – if owner is white or Asian 22% are PNBs)	Cash flow a major barrier (8-10) AND made a loss or broke even in the past 12 months (7% PNB)

£100k-1.9m (35% PNB)		
	Original analysis	Excluding Access to Finance
More likely	Access to Finance no barrier AND have not put personal funds in (42% PNB)	Cash flow is no barrier (1) AND hold credit balances £100k-999k (68% PNB)
Less likely	Access to finance a barrier (7-10) AND have had a self-reported credit issue (1% PNB)	Cash flow a barrier (6-7) felt that had to put personal funds in to the business (1% PNB)

£2m-9.9m (21% PNB)		
	Original analysis	Excluding Access to Finance
More likely	Have credit balances of £100k-499k AND stayed the same size in the last 12 months (48% PNB)	Hold credit balances of £100-499k AND have stayed the same size (48% PNB)
Less likely	Have less than £5k in credit balances (0% PNB)	Hold credit balances of £50-99k AND see cash flow as a barrier (3-10). (2% PNB)

£10-24.9m (16% PNB)		
	Original analysis	Excluding Access to Finance
More likely	Do not receive Trade Credit AND do not see the current economic climate as much (1-4) of a barrier (43% PNB)	Do not receive Trade Credit AND do not see the current economic climate as much (1-4) of a barrier (43% PNB)
Less likely	Receive Trade Credit AND have either grown by more than 20% or stayed the same size/declined in the last 12 months (5% PNB)	Receive Trade Credit AND have either grown by more than 20% or stayed the same size/declined in the last 12 months (5% PNB)

Turnover not stated (60% PNB)		
	Original analysis	Excluding Access to Finance
More likely	Access to finance not a barrier (1) and no Trade Credit received (73% PNB)	No previous decline to affect appetite for finance and do not receive Trade Credit (57% PNB)
Less likely	Access to finance something of a barrier (4-5) AND work to a recognised quality standard (10% PNB)	Had previous decline AND receive Trade Credit (3% PNB)

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, or 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 an analysis of the use of 'total business funding' by SMEs in a wider sense, i.e. including both trade credit received and injections of personal funds. Note that the amount of trade credit received is not recorded, and that when last asked, the typical injection of personal funds was for a relatively small amount (often less than £5,000).

For YEQ2 2015:

- 37% of SMEs were using **external finance** as defined earlier in this chapter (i.e. loans, overdrafts, invoice finance etc).
- An additional 16% of SMEs were not using external finance but were receiving **trade credit**
- And finally, a further 10% 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 37% to 63%.

As the table below shows, there was a bigger 'uplift' amongst smaller SMEs when this wider business funding definition was applied:

Wider definition of business funding YEQ2 15 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*20,086*	*4004*	*6644*	*6433*	*3005*
Use external finance	37%	32%	48%	60%	62%
Do not use finance but do use trade credit	16%	15%	19%	19%	17%
Do not use the above but injected personal funds	10%	12%	6%	2%	1%
Total business funding	*63%*	*59%*	*73%*	*81%*	*80%*

Q14y/y4 All SMEs from Q3 2014

PNBs by their very definition are not currently using external finance. Adding use of trade credit and injections of personal funds sees 38% of PNBs using 'total business funding'. For those that do not meet the definition of a PNB, the uplift is from 69% of these SMEs using external finance to 85% using 'total business funding'.

As reported above, 46% of all SMEs met the definition of a PNB. If those who have injected personal funds and/or used Trade Credit were excluded from the PNB definition, this reduces the proportion of PNBs to 29% of all SMEs.

Attitudes to finance

In Q3 2014, four new attitudinal statements were added to the SME Finance Monitor, in order to improve understanding of SMEs' attitudes to finance, as well as their behaviour. The results for YEQ2 2015 are shown below.

As already reported, 5 in 10 SMEs agreed that they were aware of their current external risk rating, which can be used by lenders to assess applications for finance:

"We are aware of what our current external credit rating is as a business" YEQ2 15 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*20,086*	*4004*	*6644*	*6433*	*3005*
Strongly agree	19%	17%	24%	28%	30%
Agree	32%	31%	33%	38%	42%
Neither/nor	19%	19%	17%	16%	16%
Disagree	20%	21%	18%	12%	9%
Strongly disagree	10%	11%	8%	5%	3%
Total 'Agree'	*51%*	*48%*	*57%*	*66%*	*72%*

Q238a5 All SMEs from Q3 2014

Amongst those with employees, agreement with this statement was 59%, while amongst those currently using external finance it was 53% (v 49% amongst those not using external finance).

Since this question was first asked in Q3 2014, the proportion agreeing has changed relatively little (it was 48% in Q3 2014, but has been 50-53% since).

3 in 10 SMEs agreed that they would struggle if interest rates were to rise by 2% or more:

"If interest rates were to increase by 2% or more, the business would be struggling" YEQ2 15 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*20,086*	*4004*	*6644*	*6433*	*3005*
Strongly agree	9%	9%	11%	7%	6%
Agree	20%	21%	20%	18%	16%
Neither/nor	17%	17%	17%	20%	23%
Disagree	35%	34%	35%	37%	39%
Strongly disagree	19%	19%	18%	18%	16%
Total 'Agree'	*29%*	*30%*	*31%*	*25%*	*22%*

Q238a5 All SMEs from Q3 2014

Amongst those with employees, agreement with this statement was 30%. The impact of a potential interest rate rise was felt more by smaller SMEs than larger ones while amongst those currently using external finance it was 35% (v 27% amongst those not using external finance).

Since this question was first asked in Q3 2014, the proportion agreeing has changed relatively little (it was 28% in Q3 2014).

Three quarters of SMEs agreed that their aim was to pay down debt and then remain debt free if possible, with little variation by size:

"Our aim as a business is to repay any existing finance (eg on loan or overdraft) and then remain debt free if possible" YEQ2 15 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*20,086*	*4004*	*6644*	*6433*	*3005*
Strongly agree	40%	39%	43%	41%	35%
Agree	33%	33%	31%	33%	36%
Neither/nor	17%	17%	16%	16%	18%
Disagree	6%	7%	6%	6%	7%
Strongly disagree	4%	4%	4%	4%	4%
Total 'Agree'	*73%*	*72%*	*74%*	*74%*	*71%*

Q238a5 All SMEs from Q3 2014

Amongst those with employees, agreement with this statement was 74%. Amongst those currently using external finance it was 80% (v 68% amongst those not using external finance).

Since this question was first asked in Q3 2014, the proportion agreeing has changed relatively little (it was 69% in Q3 2014 but has been 73-75% since).

4 in 10 SMEs agreed that they are happy to use external finance to help the business grow:

"As a business we are happy to use external finance to help the business grow and develop" YEQ2 15 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*20,086*	*4004*	*6644*	*6433*	*3005*
Strongly agree	11%	10%	14%	16%	16%
Agree	32%	31%	36%	41%	42%
Neither/nor	17%	16%	17%	18%	21%
Disagree	25%	27%	21%	17%	14%
Strongly disagree	15%	16%	11%	8%	7%
Total 'Agree'	*43%*	*41%*	*50%*	*57%*	*58%*

Q238a5 All SMEs from Q3 2014

Amongst those with employees, agreement with this statement was 51%. Willingness to use external finance was higher amongst larger SMEs, while amongst those currently using external finance it was 55% (v 36% amongst those not using external finance).

Since this question was first asked in Q3 2014, the proportion agreeing has changed relatively little (it was 39% in Q3 2014 but has been 44-45% since).

Analysis by <u>future</u> plans for finance shows that those with plans to apply/renew are much more likely to be prepared to use finance to help the business grow (71%), although they are also somewhat more likely to aspire to be debt free (82%). 'Future happy non-seekers' are less likely to feel they would struggle to cope with a rise in interest rates (25%):

Summary Table % agree YEQ2 15 – all SMEs	Total	Plan to apply/ renew	Future WBS	Future HNS
Unweighted base:	*20,086*	*3442*	*2093*	*14,551*
Aware of current external risk rating	51%	56%	44%	51%
Interest rates +2%, the business would struggle	29%	44%	39%	25%
Aim is to repay and then be debt free	73%	82%	73%	71%
Happy to use external finance to develop/grow	43%	71%	42%	39%

Q238a5 All SMEs from Q3 2014

The tables above show that while three quarters of SMEs would like to pay down debt and be debt free, 4 in 10 are happy to use external finance to help the business grow. This means that there are SMEs who would both like to be debt free <u>and</u> are prepared to use external finance to grow. As the analysis below shows, this accounts for some 37% of all SMEs and this has changed little since the question was first asked:

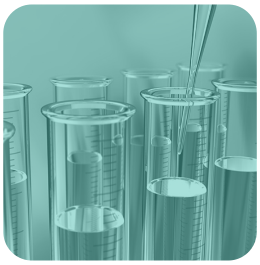
All SMEs YEQ2 15 % shown are of <u>all</u> SMEs and sum to 100%		Our aim as a business is to repay any existing finance (eg on loan or overdraft) and then remain debt free if possible		
		Agree	Neutral	Disagree
As a business we are happy to use external finance to help the business grow and develop	Agree	37%	4%	3%
	Neutral	8%	7%	1%
	Disagree	28%	6%	6%

Q238a5 All SMEs from Q3 2014

Further analysis of each of these groups is shown below:

Attitudes to finance	Further analysis
37% pay down debt but would use finance to grow	37% of SMEs aim to pay down debt/remain debt free but would be happy to use external finance to help the business grow, suggesting that whilst they might prefer not to use external finance, they will do so in the right circumstances. 35% of 0 employee SMEs are in this category. This increases to 42% of those with 1-9 employees, 47% of those with 1-49 employees and 41% of those with 50-249 employees. 70% of this group are 0 employee SMEs. Such SMEs are more likely to be using external finance at the moment (50%), to have had a borrowing event (26%), or to be planning to apply for finance in the next 3 months (23%). They are also more likely to be planning to grow (54%). Previous statistical analysis found that what best predicted being one of these SMEs was having made a loss or broken even, having an owner under 50, having employees, an average risk rating, and to have felt that they had to inject personal funds into the business.
3% not pay down debt and would use finance to grow	3% of SMEs are perhaps attitudinally the most positive about external finance – they are not looking to pay down debt/remain debt free and would be happy to use external finance to help the business grow. 60% of this group are 0 employee SMEs and excluding the 0 employee SMEs increases this proportion to 5% of SMEs with employees. Such SMEs are more likely to be using external finance at the moment (50%), to have had a borrowing event (27%), or to be planning to apply for finance in the next 3 months (32%). They are more likely to be planning to grow (62%) but are also more likely to have a worse than average external risk rating (58%).
28% want to pay down debt and would not use finance to grow	At the other end of the scale, 28% of SMEs appear debt averse: they are looking to pay down debt/remain debt free and would not be happy to use external finance to help the business grow. 30% of 0 employee SMEs are in this category. This decreases to 23% of those with 1-9 employees, 17% of those with 1-49 employees and 13% of those with 50-249 employees. 80% of this group are 0 employee SMEs. Such SMEs are less likely to be using external finance at the moment (33%), to have had a borrowing event (13%), or to be planning to apply for finance in the next 3 months (8%). They are also less likely to be planning to grow (36%). Previous statistical analysis found that what best predicted being one of these SMEs was having 0 employees, an owner aged over 65, to have chosen to put in personal funds to the business and having someone in charge of the finances who was not qualified. They were less likely to have grown by 20% or more in the previous 12 months or to have an average risk rating.

6. Introduction



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 2015. Where year ending data is provided this is YEQ2 2015.

Key findings

In Q2 2015, 7% of SMEs reported having made an application for a new/renewed loan or overdraft facility in the 12 months prior to interview. As many, 8%, reported the automatic renewal of an existing overdraft facility

- The proportion applying for a new/renewed facility is stable over recent quarters but remained at lower levels than the 12% recorded at the start of 2012. 0 employee SMEs remained the least likely to report such an event (4%)

- Excluding the PNBs increased the proportion applying for a new/renewed facility to 13% and this was also lower than at the start of 2012 (17%)

- The proportion of all SMEs seeing an overdraft automatically renewed is stable over time

There are some signs of an increase in applications for new/renewed facilities. 19% of recent overdraft applications were made between Q4 2014 and Q2 2015 compared to the 15% that would have been expected with an even distribution of events over time

4% of SMEs said that they had done something to make their business more likely to obtain finance, increasing to 25% of those who had applied for a new/renewed loan or overdraft

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 2015. 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 have been 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. Analysis for YEQ2 2015 is provided below:

Demographic	Making the business more likely to obtain finance YEQ2 2015
All SMEs	4% of SMEs said that they had done something to make the business more likely to obtain finance – 1% had spoken to an adviser, 2% to their bank, and 1% had done something else.
By size	3% of 0 employee businesses had done something compared to 7% of those with 10-49 or 50-249 employees.
Excluding the PNBs	Excluding the 'Permanent non-borrowers' increases the proportion doing something to 6%. This ranged by size from 6-10%, by risk rating from 5-7% and by sector from 4% (Construction and Transport) to 11% (Other Community).
Business Planning	Those who plan for their business (a business plan and/or management accounts) were no more likely to have undertaken any activity designed to make the business more likely to obtain finance (5%). 54% of SMEs might be described as undertaking 'investment ready' activity – defined here as any with a business plan and/or management accounts and/or undertaking activity so that the business was more likely to obtain finance. This varied by size from half of those with 0 employees to 9 in 10 of those with 50-249 employees. Almost all of those qualifying did so through their planning activities.
External finance	Amongst those with an interest in finance, activity was higher but not widespread. Those who had reported a Type 1 borrowing 'event' in the previous 12 months were more likely to have done something to make the business more likely to obtain finance (18%), and that proportion increased to 25% of those who had applied specifically for a *new* loan or overdraft facility. Such activity was also somewhat more likely amongst those *planning* to apply for or renew facilities in the 3 months after interview (14%).

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 and are stable over recent quarters but lower than in 2011-2012 when 10-12% of SMEs reported a Type 1 event:

Borrowing events in the previous 12 mths. All SMEs, over time By date of interview	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015
Unweighted base:	*5000*	*5008*	*5028*	*5000*	*5008*	*5023*	*5024*	*5038*	*5001*
Type 1: New application/renewal	9%	7%	8%	7%	8%	8%	7%	8%	7%
Applied for new facility (any)	6%	4%	4%	5%	5%	5%	4%	5%	3%
Renewed facility (any)	4%	4%	4%	3%	4%	5%	4%	4%	4%
Type 2: Cancel/ renegotiate by bank	3%	3%	3%	3%	3%	5%	3%	4%	3%
Type 3: Chose to reduce/pay off facility	2%	1%	2%	2%	2%	3%	1%	3%	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:

- 3% of SMEs using external finance said that such a deal had been made, excluding DK answers (the equivalent of less than 1% of all SMEs).
- This varied little by size (2-3%), risk rating (2-3%) or sector, with the exception of the Other Community sector (6% compared to 1-3% for all other sectors)

The previous chapter of this report noted that almost half of SMEs met the definition of a 'Permanent non-borrower' and therefore 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 2015, 13% of SMEs (excluding the PNBs) reported a Type 1 event in the 12 months prior to interview, in line both with recent quarters and the equivalent quarters of 2013 and 2014, but lower than was seen in 2011-2012 when up to 19% of such SMEs reported a Type 1 event:

Borrowing events in the previous 12 mths. All SMEs, excluding PNBs over time By date of interview	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015
Unweighted base:	*3707*	*3637*	*3585*	*3370*	*3514*	*3576*	*3153*	*3220*	*3195*
Type 1: New application/renewal	14%	11%	13%	13%	13%	14%	13%	15%	13%
Applied for new facility (any)	9%	6%	7%	9%	8%	7%	8%	10%	6%
Renewed facility (any)	6%	6%	7%	6%	7%	8%	8%	7%	8%
Type 2: Cancel/renegotiate by bank	5%	5%	5%	5%	5%	8%	6%	8%	6%
Type 3: Chose to reduce/pay off	3%	2%	3%	3%	4%	4%	2%	6%	3%

Q25/26 All SMEs

Further analysis of Type 1 events over time is provided later in this 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 types of SME 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 2015, and, unless otherwise stated, are based on all SMEs.

The table below shows how larger SMEs were more likely to have experienced a Type 1 event:

Borrowing events YEQ2 15 all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*20,086*	*4004*	*6644*	*6433*	*3005*
Type 1: New application/renewal	7%	5%	13%	15%	12%
Applied for new facility (any)	4%	3%	7%	7%	6%
- applied for new loan	*2%*	*2%*	*4%*	*4%*	*4%*
- applied for new overdraft	*2%*	*2%*	*4%*	*3%*	*2%*
Renewed facility (any)	4%	3%	8%	11%	9%
- renewed existing loan	*1%*	*1%*	*3%*	*4%*	*4%*
- renewed existing overdraft	*3%*	*2%*	*7%*	*9%*	*6%*
Type 2: Cancel/renegotiate by bank	4%	3%	6%	6%	4%
Bank sought to renegotiate facility (any)	2%	2%	4%	4%	3%
- sought to renegotiate loan	*1%*	*	*1%*	*2%*	*2%*
- sought to renegotiate overdraft	*2%*	*1%*	*3%*	*3%*	*2%*
Bank sought to cancel facility (any)	2%	2%	3%	3%	2%
- sought to cancel loan	*1%*	*1%*	*2%*	*2%*	*1%*
- sought to cancel overdraft	*1%*	*	*1%*	*1%*	*1%*
Type 3: Chose to reduce/pay off facility	2%	2%	3%	3%	3%
- reduce/pay off loan	*1%*	*1%*	*2%*	*2%*	*2%*
- reduce/pay off overdraft	*1%*	*1%*	*1%*	*1%*	*1%*

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

Type 1 events varied relatively little by risk rating:

Borrowing events YEQ2 15 – all SMEs	Total	Min	Low	Avge	Worse/Avge
Unweighted base:	*20,086*	*3275*	*6029*	*4736*	*4307*
Type 1: New application/renewal	7%	8%	9%	7%	7%
Applied for new facility (any)	4%	4%	4%	4%	5%
- applied for new loan	*2%*	*3%*	*2%*	*2%*	*2%*
- applied for new overdraft	*2%*	*2%*	*2%*	*2%*	*3%*
Renewed facility (any)	4%	6%	7%	4%	3%
- renewed existing loan	*1%*	*2%*	*2%*	*1%*	*1%*
- renewed existing overdraft	*3%*	*4%*	*5%*	*4%*	*2%*
Type 2: Cancel/renegotiate by bank	4%	4%	5%	3%	3%
Bank sought to renegotiate facility (any)	2%	3%	4%	2%	2%
- sought to renegotiate loan	*1%*	*2%*	*1%*	*	*1%*
- sought to renegotiate overdraft	*2%*	*1%*	*3%*	*2%*	*1%*
Bank sought to cancel facility (any)	2%	1%	2%	2%	2%
- sought to cancel loan	*1%*	*1%*	*1%*	*1%*	*1%*
- sought to cancel overdraft	*1%*	*	*1%*	*1%*	*
Type 3: Chose to reduce/pay off facility	2%	2%	3%	2%	2%
- reduce/pay off loan	*1%*	*1%*	*2%*	*1%*	*1%*
- reduce/pay off overdraft	*1%*	*1%*	*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 higher level of renewals:

Borrowing event in last 12 months YEQ2 15 – all SMES	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*1506*	*2097*	*3512*	*2029*	*1803*	*1815*	*3523*	*1788*	*2013*
Type 1: New application/ renewal	13%	9%	6%	10%	10%	6%	6%	5%	8%
Applied for new facility (any)	5%	5%	3%	6%	6%	4%	3%	4%	5%
- applied for new loan	*3%*	*2%*	*2%*	*3%*	*4%*	*2%*	*2%*	*2%*	*2%*
- applied for new overdraft	*3%*	*3%*	*2%*	*3%*	*3%*	*2%*	*2%*	*1%*	*3%*
Renewed facility (any)	10%	5%	3%	5%	5%	3%	4%	3%	4%
- renewed existing loan	*4%*	*1%*	*1%*	*1%*	*2%*	*1%*	*1%*	*1%*	*2%*
- renewed existing overdraft	*8%*	*4%*	*3%*	*4%*	*4%*	*2%*	*4%*	*2%*	*3%*
Type 2: Cancel/ renegotiate by bank	5%	4%	3%	6%	4%	2%	4%	3%	3%
Bank sought to renegotiate facility (any)	3%	2%	3%	4%	2%	1%	2%	1%	3%
- sought to renegotiate loan	*1%*	*1%*	*1%*	*1%*	*1%*	***	*1%*	***	*1%*
- sought to renegotiate overdraft	*2%*	*2%*	*2%*	*3%*	*1%*	*1%*	*1%*	*1%*	*2%*
Bank sought to cancel facility (any)	2%	2%	1%	3%	2%	2%	2%	3%	1%
- sought to cancel loan	1%	1%	1%	2%	1%	1%	2%	2%	1%
- sought to cancel overdraft	*1%*	*1%*	*1%*	*1%*	*1%*	*1%*	*1%*	***	***
Type 3: Chose to reduce/ pay off facility	2%	2%	2%	2%	3%	2%	2%	1%	2%
- reduce/pay off loan	*1%*	*1%*	*1%*	*1%*	*2%*	*2%*	*1%*	*1%*	*2%*
- reduce/pay off overdraft	*1%*	*1%*	*1%*	*1%*	*1%*	*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 6% and of Type 3 events to 3%.

The table below repeats this detailed 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 14%:

Borrowing events YEQ2 15 – all SMEs	Total	All excl. PNBs
Unweighted base:	*20,086*	*13,144*
Type 1: New application/renewal	7%	14%
Applied for new facility (any)	4%	8%
- applied for new loan	*2%*	*4%*
- applied for new overdraft	*2%*	*4%*
Renewed facility (any)	4%	8%
- renewed existing loan	*1%*	*2%*
- renewed existing overdraft	*3%*	*6%*
Type 2: Cancel/renegotiate by bank	4%	7%
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)	2%	4%
- sought to cancel loan	*1%*	*3%*
- sought to cancel overdraft	*1%*	*1%*
Type 3: Chose to reduce/pay off facility	2%	4%
- reduce/pay off loan	*1%*	*2%*
- reduce/pay off overdraft	*1%*	*2%*

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 37% of 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, half of SMEs might be considered to be outside the borrowing process – the 'Permanent non-borrowers' described earlier.

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

Type 2 (bank cancellation or renegotiation) and Type 3 (SME reducing/repaying facility) events remain rare and at stable levels. No further detail is therefore provided on these events in this report, and from Q3 2014 no further questions were asked about the detail of these events. This will be reviewed should the proportion of SMEs reporting such events start to increase.

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 almost unchanged since Q3 2013, 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 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015
Unweighted base:	*5000*	*5008*	*5028*	*5000*	*5008*	*5023*	*5024*	*5038*	*5001*
Applied for a new overdraft	4%	2%	3%	3%	3%	2%	2%	3%	2%
Renewed an existing overdraft	3%	3%	3%	3%	4%	4%	3%	3%	3%
Any Type 1 overdraft event	*7%*	*5%*	*5%*	*5%*	*6%*	*5%*	*5%*	*5%*	*4%*
Any Type 1 overdraft event excluding PNBs	*10%*	*9%*	*9%*	*9%*	*9%*	*9%*	*9%*	*10%*	*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 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015
Unweighted base:	*5000*	*5008*	*5028*	*5000*	*5008*	*5023*	*5024*	*5038*	*5001*
Applied for a new loan	2%	2%	2%	2%	3%	3%	2%	3%	2%
Renewed an existing loan	1%	1%	1%	1%	1%	2%	1%	1%	1%
Any Type 1 loan event	*3%*	*3%*	*3%*	*3%*	*4%*	*4%*	*3%*	*4%*	*3%*
Any Type 1 loan event excl PNBs	*5%*	*5%*	*5%*	*6%*	*6%*	*7%*	*6%*	*7%*	*5%*

Q26 All SMEs

Further analysis was undertaken to explore the proportion of applications being made in each quarter, in order to establish whether any increase in demand for Type 1 loan/overdraft finance can be identified. Respondents have had fewer opportunities to nominate a Type 1 borrowing event that occurred in Q2 2015 (which has only appeared as an option in one quarter of the SME Finance Monitor), compared to other quarters like Q2 2014 which has appeared as an option in 5 quarters.

If all applications made from Q1 2013 to date were distributed evenly, based on how many times they could have been nominated, then 15% of these applications should have been made between Q4 2014 and Q2 2015. Analysis shows that slightly more overdraft applications have been made in this period than might be expected:

- 19% of all Type 1 overdraft applications have been made in these 3 quarters. Amongst applicants with employees, 18% of all applications have been made in this period
- 14% of all Type 1 loan applications have been made in these 3 quarters. Amongst loan applicants with employees, 18% of all applications have been made in this period

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 2015, 11% of overdraft applications reported were made in a personal name, while for loans the figure was 17% (excluding DK answers). This means that for YEQ2 2015, the equivalent of less than 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. As the table below shows, the proportion reporting a Type 1 event has been relatively stable (7-9%) overall. However, Type 1 events are now somewhat less common than they were in either 2011 (12%) or 2012 (11%) and this is also true once the PNBs have been excluded (18% in 2011 and 16% in 2012).

By size, the 0 employee SMEs remained less likely to report a Type 1 event (4% in Q2 2015) and this proportion has declined somewhat over time, as has the proportion of SMEs with 50-249 employees (currently 10%). Reported applications amongst SMEs with 1-9 or 10-49 employees have been more stable over time.

Had any Type 1 event New application/ renewal Over time – row percentages	By date of interview Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015
All SMEs	**9%**	**7%**	**8%**	**7%**	**8%**	**8%**	**7%**	**8%**	**7%**
0 employee	7%	4%	5%	5%	6%	6%	5%	6%	4%
1-9 employees	13%	13%	14%	10%	13%	14%	12%	12%	13%
10-49 employees	14%	15%	15%	16%	12%	18%	12%	16%	12%
50-249 employees	15%	13%	14%	11%	9%	16%	12%	9%	10%
Minimal external risk rating	11%	9%	9%	11%	10%	10%	9%	5%	8%
Low external risk rating	8%	10%	9%	11%	9%	8%	8%	10%	10%
Average external risk rating	9%	6%	7%	4%	7%	10%	6%	6%	7%
Worse than average external risk rating	8%	6%	7%	7%	8%	7%	7%	8%	4%
Agriculture	13%	15%	11%	12%	15%	15%	14%	10%	13%
Manufacturing	13%	7%	10%	7%	10%	11%	11%	9%	6%
Construction	8%	6%	9%	6%	6%	8%	6%	4%	4%
Wholesale/Retail	10%	10%	12%	9%	12%	10%	10%	12%	8%
Hotels & Restaurants	12%	9%	12%	8%	9%	10%	8%	11%	8%
Transport	13%	9%	5%	6%	8%	5%	5%	7%	6%
Property/Business Services etc.	6%	6%	6%	6%	6%	6%	6%	7%	6%
Health	10%	4%	3%	5%	8%	6%	6%	6%	3%
Other Community	6%	3%	5%	7%	9%	11%	5%	8%	10%
All SMEs excluding 'Permanent non-borrowers'	14%	11%	13%	13%	13%	14%	13%	15%	13%

Q26 All SMEs: base size varies by category

Other business demographics also showed less variation in incidence of a Type 1 event in Q2 2015:

Demographic	Incidence of Type 1 events reported in Q2 2015
Age of business	The incidence of Type 1 events varied slightly by age of business. Starts were less likely to report a Type 1 event (3%) increasing by size to 7% of those trading for 10-15 years and 9% of those trading for more than 15 years
Profitable SMEs	There was no difference in events by performance in the previous 12 months trading whether the business made a profit (7%), or made a loss (8%) but those who broke even were less likely to report an event (3%).
Growth	Those who had grown in the past year were somewhat more likely to have had a Type 1 event: Grown 20%+ 10% Grown by less than this 10% Not grown in last yr 6%.
Importers/exporters	Those engaged in international trade were slightly more likely to have had an event (9%) than those who were not (6%). 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 2015 are reported below and show that 4 out of 10 overdraft holders (43%) reported that they had had such an automatic renewal, the equivalent of 7% of all SMEs:

Any overdraft activity YEQ2 15	All with overdraft	All SMEs
Unweighted base:	*4301*	*20,086*
Had an overdraft 'event'	29%	5%
Had automatic renewal	43%	7%
Neither of these but have overdraft	28%	5%
No overdraft	-	83%

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

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

When this question was first asked in Q4 2011, 57% of SMEs with an overdraft reported that it had been automatically renewed in the previous 12 months, the equivalent of 13% of all SMEs.

As the table below shows, those proportions have declined over time. In Q4 2014, 39% of SMEs with an overdraft reported an automatic renewal in the previous 12 months, in line with other quarters in 2014 but somewhat lower than 2012 or 2013. In 2015 however, the proportion reporting an automatic renewal increased somewhat and was 50% for Q2 2015. This is the equivalent of 8% of all SMEs (as the proportion of SMEs with an overdraft is declining over time)

Experienced an automatic renewal in previous 12 mths By date of interview – row percentages	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015
SMEs with overdraft	43%	41%	47%	42%	39%	38%	39%	46%	50%
'All SMEs' equivalent	8%	7%	8%	6%	7%	7%	6%	8%	8%

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* (i.e.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'. In 2014 it was 42% and for YE Q2 2015 it was 40%.

Questions asked from Q4 2012 provide some further detail on these automatic renewals. For YEQ2 2015, 18% 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 has also been collected on when this automatic renewal took place and the size of the facility renewed. The proportion of automatic renewals that were in a personal name has varied over time, having been 21% for applications made in 2013 it was 12% for 2014 but is currently 19% for applications made in H1 2015. Around half of applications were for £5,000 or less and most applications were for £25,000 or less. This has changed little over time (87% for 2012 to 86% for 2014 to date and 90% for H1 2015 to date).

The analysis below looks at which types of business with an overdraft were more likely to have an overdraft 'event', based on YEQ2 2015 data to ensure robust base sizes.

For SMEs with an overdraft facility, overdraft 'events' made up a higher proportion of overdraft 'activity' if they had employees:

Overdraft activity YEQ2 15 – All with overdraft	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*4301*	*548*	*1561*	*1591*	*601*
Had an overdraft 'event'	29%	23%	38%	41%	36%
Had automatic renewal	43%	46%	38%	36%	31%
% of overdraft activity that was 'event'	*40%*	*33%*	*50%*	*53%*	*54%*
Neither of these but have overdraft	28%	31%	24%	24%	33%

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 15 – All with overdraft	Total	Min	Low	Avge	Worse/Avge
Unweighted base:	*4301*	*562*	*1444*	*1179*	*777*
Had an overdraft 'event'	29%	28%	30%	30%	28%
Had automatic renewal	43%	46%	42%	48%	43%
% of overdraft activity that was 'event'	*40%*	*38%*	*42%*	*38%*	*39%*
Neither of these but have overdraft	28%	26%	28%	22%	30%

Q15/ 26/26a All SMEs

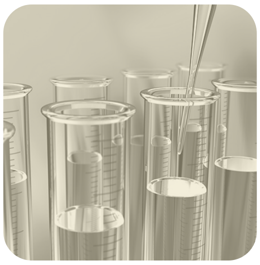
Amongst those with an overdraft, analysis by sector showed that the proportion of overdraft activity made up by automatic renewals varied from 52% in Agriculture to 28% in Health:

Overdraft activity YEQ2 15 – All with overdraft	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*441*	*459*	*766*	*513*	*357*	*358*	*635*	*322*	*450*
Had an overdraft 'event'	38%	36%	26%	27%	32%	22%	29%	16%	32%
Had automatic renewal	35%	39%	44%	41%	36%	39%	44%	42%	54%
% of overdraft activity that was 'event'	*52%*	*48%*	*37%*	*40%*	*47%*	*36%*	*40%*	*28%*	*37%*
Neither of these but have overdraft	28%	25%	29%	31%	32%	39%	27%	42%	15%

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 now 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

In the 18 months to Q2 2015 overdraft applications were more likely to be for a renewal of an existing facility while loan applicants were typically seeking new money. The proportion of first time applicants has been lower in recent quarters

- Half of overdraft applicants were looking to renew an existing facility (48%) compared to 11% of loan applicants
- 75% of loan applicants were looking for new money – 34% were applying for their first loan, while 41% were looking for a new loan but not their first. Amongst overdraft applicants, 21% were looking for their first facility while 14% were looking to increase an existing overdraft
- The proportion of applicants applying for the first time has reduced from 27% in 2013 to 14% for 2015 to date for overdrafts and from 40% to 35% over the same period for loans

Overdrafts were typically sought for working capital, with an increase in recent quarters in the proportion seeking a 'safety net'. Loans were typically sought for a larger amount (median of £15,000 compared to £8,000 for overdrafts), and to fund expansion or buy premises

Most applications were made to the main bank, notably for overdrafts (98% v 84% of loan applications). Most applicants only applied to one bank. A minority (14% for loans and 10% for overdrafts) applied in their personal name

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.

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 2015) 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 2015, irrespective of when the borrowing event occurred), data is now reported on the basis of 'Applications occurring in the 18 months to Q2 2015' (i.e. applications made between Q1 2014 and Q2 2015 and reported to date, irrespective of when the SME was actually interviewed).

Why were they applying?

Overdraft applications

This analysis is based on the revised 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 2014 to Q2 2015. Within this 18 month time period, final data is now available for applications made up to the end of Q2 2014. Data on applications in the more recent quarters (notably 2015) 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 2015 this was the equivalent of 4% of all SMEs or around 182,000 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 2014 and Q2 2015 said that they had been looking to renew an existing overdraft for the same amount (48%), and this was more common amongst larger applicants. 1 in 5 applicants (21%) were seeking an overdraft for the very first time. 35% of these first time applicants were Starts. Over time the proportion of first time overdraft applicants that were Starts has declined somewhat, from 45% in 2012 to 35% in the most recent 18 month period.

Nature of overdraft event **Sought** new/renewed facility Q1 14-Q2 15	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*1546*	*136*	*578*	*624*	*208*
Renewing overdraft for same amount	48%	37%	59%	66%	65%
Applied for first ever overdraft facility	21%	27%	15%	8%	4%
Seeking to increase existing overdraft	14%	14%	14%	10%	13%
Seeking additional overdraft on another account	6%	8%	4%	5%	5%
Setting up facility at new bank	4%	5%	2%	5%	5%
Seeking to reduce existing facility	3%	4%	2%	4%	3%

Q52 All SMEs seeking new/renewed overdraft facility

Amongst applicants with employees the proportion renewing an existing facility increases to 60% and the proportion of first time applicants reduces to 14% of applications made.

From Q3 2014 an additional code was added to the question above, namely 'Applying for a new overdraft but not your first'. 6% of those interviewed since then (and applying Q1 2014 to Q2 2015) said that this was the nature of their overdraft application, with little difference by size of SME. There was a slight reduction in the proportion saying they were looking to increase an existing overdraft. This additional code will be incorporated into the analysis as sample sizes permit.

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.

Renewals have consistently been the most common reason for an overdraft event:

Nature of overdraft event SMEs seeking new/renewed facility By application date	Q3 12	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13	Q1 14	Q2 14	Q3* 14	Q4* 14	Q1* 15
Unweighted base:	*373*	*473*	*482*	*388*	*365*	*390*	*377*	*375*	*267*	*283*	*173*
Renewing overdraft for same amount	49%	44%	45%	42%	56%	44%	47%	50%	49%	46%	44%
Applied for first ever overdraft facility	25%	33%	28%	31%	20%	28%	19%	18%	26%	28%	16%
Seeking to increase existing overdraft	17%	14%	13%	17%	16%	17%	21%	17%	11%	9%	8%
Setting up facility at new bank	1%	1%	5%	2%	3%	4%	6%	2%	2%	5%	8%
Seeking additional overdraft on another account	5%	4%	7%	5%	3%	2%	3%	7%	5%	5%	5%
Seeking to reduce existing facility	1%	3%	3%	3%	1%	3%	3%	3%	1%	2%	7%
A new overdraft but not first (from Q3 14)	-	-	-	-	-	-	-	-	7%	5%	13%

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

A third of overdrafts sought were for £5,000 or less, with considerable variation by size of applicant. The median amount sought as an overdraft facility increased slightly to £8,000 from £6,000, ranging from £3,000 amongst 0 employee SMEs seeking a facility to just under £190,000 for those with 50-249 employees:

Amount initially sought, where stated **Sought** new/renewed facility Q1 14-Q2 15	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*1355*	*118*	*515*	*548*	*174*
Less than £5,000	35%	53%	17%	5%	1%
£5,000 – £9,999	18%	22%	14%	5%	5%
£10,000 – £24,999	24%	16%	35%	21%	5%
£25,000 – £99,999	17%	8%	25%	39%	28%
£100,000+	6%	2%	8%	30%	61%
Median amount sought	*£8k*	*£3k*	*£14k*	*£41k*	*£189k*

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

As the table below shows, eight out of ten overdraft applicants said that the overdraft was needed for day-to-day cash flow, with little variation by size. Almost half (46%) wanted it as a 'safety net' and this was more likely to be the case for smaller applicants. As in previous quarters, overdrafts were much more likely to have been sought to support UK expansion (21%) than expansion overseas (3%):

Purpose of overdraft sought **Sought** new/renewed facility Q1 14-Q2 15	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*1546*	*136*	*578*	*624*	*208*
Working capital for day to day cash flow	85%	87%	82%	82%	82%
Safety net – just in case	46%	52%	40%	41%	35%
Short term funding gap	31%	36%	26%	24%	20%
Fund expansion in UK	21%	22%	19%	20%	18%
Buy fixed assets	15%	17%	13%	11%	8%
Fund expansion overseas	3%	3%	3%	4%	3%

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 81% of those with a low external risk rating to 88% of those with a worse than average risk rating. The proportion mentioning a ‘Safety net’ increased by risk rating from 39% to 54%, as did the proportion seeking an overdraft for a short term funding gap (17% to 37%).

Looking at the purpose of the overdraft sought over time, working capital was consistently the most mentioned purpose. Funding growth in the UK has been mentioned more in recent quarters than in 2011 or 2012:

Purpose of overdraft SMEs seeking new/renewed facility – by application date	Q3 12	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13	Q1 14	Q2 14	Q3* 14	Q4* 14	Q1* 15
Unweighted base:	*373*	*473*	*482*	*388*	*365*	*390*	*377*	*375*	*267*	*283*	*173*
Working capital for day to day cash flow	80%	78%	89%	88%	81%	76%	87%	80%	80%	83%	95%
Safety net – just in case	45%	31%	35%	30%	47%	42%	48%	40%	38%	51%	52%
Short term funding gap	21%	21%	28%	19%	31%	40%	38%	31%	28%	29%	23%
Fund growth in UK	9%	14%	15%	16%	26%	22%	25%	17%	22%	19%	23%
Buy fixed assets	13%	16%	10%	10%	17%	7%	10%	19%	17%	23%	3%
Fund growth overseas	1%	1%	3%	4%	*	2%	4%	1%	5%	3%	4%

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

More details around the overdraft applications made are provided below:

Overdraft applicants	**Sought** new/renewed facility Q1 14-Q2 15
Applied to main bank	Almost all overdraft applications (98% in the 18 months to Q2 15) were made to the SME's main bank. This varied little by size of applicants (97-99%) or by date of application – Q2 2013 being the slight exception with 95% of applications made to main bank.
Application made in a personal name	10% of overdraft applications made in the 18 months to Q2 2015 were in a personal name. This was more common amongst smaller applicants (14% amongst applicants with 0 employees, compared to 7% of applicants with 1-9 employees, 3% of applicants with 10-49 and 1% of applicants with 50-249 employees). Overdraft applications were less likely to be made in a personal name than loan applications (14% for the 18 months to Q2 2015).
How many banks were applied to	In a new question, 98% of those interviewed since Q3 2014 said that they had applied to one bank, with little variation by size (99% for 0 employee applicants to 95% of those with 50-249 employees). Further data will be provided as base sizes increase.
Advice sought	The proportion of SMEs seeking advice before they applied for an overdraft has remained consistently low (8% amongst those applying between Q1 2014 and Q2 2015), and this has changed relatively little over time (it was 10% for 2013 as a whole).
Advice by size of facility	Advice was more likely to be sought for larger overdraft facilities – while 5% sought advice for an overdraft of £5,000 or less, and 9% for an overdraft of £5-100,000, 15% sought advice for overdrafts of more than £100,000.
Reasons for not seeking advice	The main reason for not seeking advice remained that it was not felt to be needed (57%), mentioned almost equally by larger and smaller applicants that had not sought advice. A view that the SME had previously been successful with an application was mentioned by 15%. 13% of all those not seeking advice said that they did not know who to ask, while 15% 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 Other Community sector were more likely to be seeking their first ever overdraft (38%), while 20% of those in Agriculture were looking to increase an existing overdraft:

Overdraft activity **Sought** new/ renewed facility Q1 14-Q2 15	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*182*	*164*	*278*	*171*	*116*	*123*	*235*	*96**	*181*
Renewing overdraft for same amount	60%	51%	42%	46%	55%	34%	59%	36%	37%
Applied for first ever overdraft	8%	18%	27%	26%	18%	22%	8%	18%	38%
Seeking to increase existing overdraft	20%	14%	17%	7%	17%	15%	17%	16%	4%

Q52 All SMEs seeking new/renewed overdraft facility

Most approached their main bank (98%). The least likely to do so were applicants from the Health (91%) and Manufacturing (93%) sectors, but even here almost all applied to their main bank. 10% of all overdraft applicants said that the facility was applied for in their personal name. This was more likely to be the case for applicants from the Health sector (31%). By sector, between 95% and 100% of all applications were made to one provider (98% overall).

Those in Agriculture were seeking the highest median overdraft amount at £27,000. For all other sectors the median amount sought ranged from £4-10,000.

The main purpose of the overdraft for all sectors was working capital, ranging from 89% of applicants in the Wholesale/Retail and Manufacturing sectors to 75% of those in the Health sector. 62% of those in the Other Community sector wanted their facility as a safety net, compared to 26% of applicants in Agriculture. Those in Wholesale/Retail (34%) or Transport (31%) were more likely to be seeking funding to finance growth in the UK.

Those in Health were the most likely to have sought advice for their application (20% compared to 8% of applicants overall) while those in Construction were the least likely (1%).

Loan applications

This analysis is based on the revised 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 2014 to Q2 2015, irrespective of when they were interviewed. Within this 18 month time period, final data is now available for applications made up to the end of Q2 2014. Data on applications in the more recent quarters (especially the first half of 2015) 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 2015 this was the equivalent of 3% of all SMEs or around 140,000 businesses.

There have been fewer loan events reported than overdraft events. As a result, even for applications across 18 months to Q2 2015, 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 75% of loan applicants seeking a new loan (compared to 35% for overdrafts), and 1 in 3 saying this was their first ever loan (compared to 21% for overdrafts). As the table below shows, a first loan was more likely to be the case for smaller SMEs that had applied, and 27% of first time applicants were Starts. As with overdrafts, the proportion of first time loan applicants who were Starts was lower than in previous years, having been stable between 2012 and 2013 at 40%:

Nature of loan event **Sought** new/renewed facility Q1 14-Q2 15	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*840*	*68**	*285*	*330*	*157*
New loan but not our first	41%	39%	43%	45%	41%
Applied for first ever loan	34%	41%	27%	18%	23%
Renewing loan for same amount	11%	9%	14%	11%	13%
Topping up existing loan	10%	11%	9%	9%	10%
Refinancing onto a cheaper deal	3%	1%	4%	12%	9%
Consolidating existing borrowing	1%	-	2%	3%	2%
New loan facility after switching bank	*	-	1%	2%	2%

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 26% of remaining 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. Most applications were for new facilities, shown in the first two rows of the table, but over time fewer applications have been for a first facility:

Nature of loan event- SMEs seeking new/renewed facility – By application date	Q3 12	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13	Q1 14	Q2 14	Q3* 14	Q4* 14	Q1* 15
Unweighted base:	*202*	*244*	*223*	*187*	*193*	*217*	*196*	*224*	*139*	*148*	*98**
New loan but not our first	30%	41%	37%	39%	32%	39%	33%	45%	40%	43%	45%
Applied for first ever loan	50%	38%	34%	45%	42%	41%	43%	28%	33%	32%	35%
Renewing loan for same amount	4%	8%	17%	7%	16%	5%	9%	13%	5%	11%	15%
Topping up existing loan	10%	5%	6%	1%	3%	7%	12%	11%	14%	9%	3%
Refinancing onto a cheaper deal	1%	3%	5%	2%	4%	5%	2%	2%	4%	5%	1%
Consolidating existing borrowing	3%	3%	2%	3%	*	2%	*	1%	3%	-	1%
New facility after switching banks (new)	1%	2%	*	4%	2%	1%	1%	*	1%	*	*

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

The initial amount sought for a loan was typically higher than for an overdraft (14% of loans sought were for less than £5,000 compared to 35% of overdraft applications).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 less than £100,000:

Amount initially sought, where stated **Sought** new/renewed facility Q1 14-Q2 15	Total	0 emps	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*727*	*59**	*253*	*278*	*137*
Less than £5,000	14%	21%	7%	4%	3%
£5,000 – £9,999	18%	26%	10%	4%	1%
£10,000 – £24,999	28%	30%	28%	15%	4%
£25,000 – £99,999	20%	16%	26%	27%	10%
£100,000+	19%	7%	29%	49%	81%
Median amount sought	*£15k*	*£9k*	*£26k*	*£79k*	*£300k*

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 2015 are shown below, with most applicants (72%) seeking all the funding they required from the bank:

Proportion of funding sought from bank **Sought** new/renewed facility Q1 14-Q2 15	Total	0 emps	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*802*	*63**	*274*	*315*	*150*
Half or less of total sum required	10%	9%	11%	14%	14%
51-75% of sum required	10%	7%	15%	11%	8%
76-99% of sum required	8%	6%	10%	10%	10%
All of sum required sought from bank	72%	79%	65%	66%	68%

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

Overall, applicants with no employees were somewhat more likely to be seeking all the funding from the bank (79%) but there was little difference otherwise by size of applicant. There was slightly more variation by external risk rating: 83% of those with a minimal risk rating sought all the funding compared to 64-79% across the other risk ratings.

More detailed analysis over time by date of loan application (H1 12 to H1 15) shows most applicants in each period sought all the funding they required from the bank, especially H1 2013 to H1 2014. In H1 2015 a slightly smaller proportion has sought all the funding (60%):

Proportion seeking all funding from the bank (excl DK) Row percentages	H1 2012	H2 2012	H1 2013	H2 2013	H1 2014	H2* 2014	H1* 2015
All loan applicants	64%	69%	78%	75%	76%	74%	60%
All applicants with 0-9 employees	64%	69%	78%	75%	77%	74%	59%
All applicants with 10-249 employees	67%	70%	76%	74%	67%	67%	62%

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 (32%) or to purchase fixed assets (21%), with relatively little variation by size of applicant. Applicants with 0 employees remained more likely to be buying motor vehicles, while those with employees were more likely to be buying premises. 11% of applicants in this period said that the loan was for "general cash flow / running the business" and this was much more likely to be the case for applicants with 0 employees (17%) than those with employees (4-5%):

Purpose of loan **Sought** new/renewed facility Q1 14-Q2 15	Total	0 emps	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*840*	*68**	*285*	*330*	*157*
Fund expansion in UK	32%	34%	29%	30%	30%
Buy premises	22%	18%	26%	27%	35%
Buy fixed assets	21%	19%	24%	27%	24%
Develop new products/services	19%	18%	21%	15%	13%
Buy motor vehicles	15%	18%	11%	8%	8%
Replace other funding	11%	8%	15%	14%	9%
Fund expansion overseas	2%	1%	4%	3%	4%
Take over another business	2%	1%	4%	3%	5%

Q150 All SMEs seeking new/renewed loan facility

Analysed by application date (see table below), the most common reasons for seeking loan finance remained funding expansion in the UK, premises and buying fixed assets (albeit this last has been mentioned less by more recent applicants):

Purpose of loan SMEs seeking new/renewed facility – by application date	Q3 12	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13	Q1 14	Q2 14	Q3* 14	Q4* 14	Q1* 15
Unweighted base:	*202*	*244*	*223*	*187*	*193*	*217*	*196*	*224*	*139*	*148*	*98**
Fund expansion in UK	35%	32%	16%	37%	35%	39%	34%	35%	29%	19%	37%
Premises	16%	29%	28%	28%	19%	21%	29%	14%	21%	26%	22%
Buy fixed assets	31%	29%	27%	28%	20%	26%	25%	25%	23%	16%	9%
Develop new products/services	13%	11%	12%	13%	21%	24%	20%	17%	14%	20%	24%
Buy motor vehicles	16%	18%	29%	18%	9%	18%	5%	17%	20%	24%	10%
Fund expansion overseas	1%	1%	1%	3%	1%	2%	*	2%	3%	5%	1%

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

Further details about the loan applications made are summarised in the table below:

Loan applicants	Sought new/renewed facility Q1 14-Q2 15
Applied to main bank	84% of loan applications were made to the SMEs main bank, compared to 98% of overdraft applications. Applications made in 2014 to date were less likely to have been made to the main bank (82%) than those made in 2013 (92%) but initial data for applications in 2015 suggests this trend has not continued as 93% of these applications were made to the main bank.
Application made in a personal name	14% of loan applications made in the 18 months to Q2 2015 were in a personal rather than a business name. This was more common amongst smaller applicants (14% of those with 0-9 employees and 6% of those with 10-249 employees), and more common overall than for overdraft applications (where 10% were in a personal name).
How many banks were applied to	In a new question from Q3 2014, 86% of those interviewed since then said that they had applied to one bank, with limited variation by size (87% of those with 0-9 employees and 82% of those with 10-249 employees). This is somewhat lower than the 98% of overdraft applicants who only applied to one bank. Further data will be provided as base sizes increase.
Advice sought	Whereas 8% of overdraft applicants in the 18 months to Q2 2015 had sought external advice before applying, more loan applicants had done so, albeit still a minority (18%).
Advice by size of facility	As with overdrafts, advice was more likely to be sought for larger amounts of loan borrowing. While 11% of those looking to borrow less than £25,000 sought advice, this increased to 29% of those seeking £25-100,000 and 33% of those seeking to borrow more than £100,000.
Reasons for not seeking advice	Over half of those applicants that had not sought advice, 60%, said that it was because they did not need it. Smaller applicants remained more likely to say that they did not know who to ask (mentioned by 15% overall). 12% said that they had been successful with applications in the past and 12% said they did not think it would make much difference, neither of which varied much by size.

Loan applications – a sector summary

Analysis by sector is somewhat limited as only one sector has more than 100 applicants for the most recent period. These results should therefore be treated with caution. Those in the Agriculture and Manufacturing sectors were less likely to be applying for their first ever loan, whereas half of those in Construction were first time applicants:

Loan activity **Sought** new/renewed facility Q1 14-Q2 15	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*96**	*94**	*95**	*99**	*94**	*77**	*132*	*71**	*82**
Applied for first ever loan	17%	15%	55%	38%	34%	41%	23%	25%	42%
New loan (other)	40%	57%	32%	42%	47%	30%	50%	47%	25%
Renewing loan for same amount	21%	12%	10%	5%	11%	10%	18%	6%	3%

Q149 All SMEs seeking new/renewed loan facility *CARE RE SMALL BASE

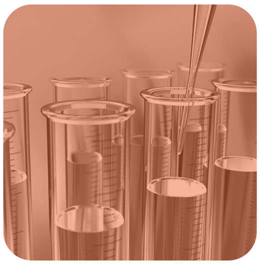
Most approached their main bank (84%). The least likely to do so were applicants in the Health sector (where 71% of applications were made to main bank). 14% of all loan applicants said that the facility was applied for in their personal name and this was more likely to be the case for applicants in Wholesale/Retail (26%) and Construction (23%).

The highest median loan amounts were sought by applicants from the Agriculture sector (£48k). The lowest median amounts sought were from applicants in Construction and Wholesale/Retail (£8k). Those in Agriculture were more likely to be seeking all the funding required from the bank (91%) while applicants from Property and Business Services were less likely (60%). 14% overall applied initially to more than one bank and this was more likely to be the case for those in Transport (20%) or Property/Business Services (19%).

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

Advice was sought by 18% of loan applicants overall but by 8% of those in Manufacturing compared to 29% in the Health sector.

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

79% of all applications for a new/renewed loan or overdraft in the 18 months to Q2 2015 resulted in a facility and this success rate is improving over time (it was 67% for the 18 months to Q4 2013)

- Most renewals were successful (96% in the 18 months to Q2 2015) and this has changed very little over time
- 67% of applications for new money (via loan or overdraft) were successful with success rates increasing during 2014. First time applicants remained less likely to end the process with a facility than other new money applicants (58% v 74%) but the proportion is increasing over time (in 2013, 36% of FTAs were successful)

84% of overdraft applicants in the 18 months to Q2 2015 ended the process with a facility, the highest proportion to date

- Over time there has been an increase in success rates for the types of SME that were typically less likely to be successful with an overdraft application– those with 0 employees, those with a worse than average risk rating and those applying for new money
- This included those applying for their first ever overdraft, where 62% were successful, up from 40% in the 18 months to Q2 2014.
- Once the profile of overdraft applicants has been controlled for, success rates appear to be higher than the profile of applicants would suggest so the improving success rate is not just a reflection of the type of SME applying in recent quarters

69% of loan applicants in the 18 months to Q2 2015 ended the process with a facility, and this is also improving somewhat over time

- As with overdrafts, there has been also been an increase over time in success rates for the types of SME that were typically less likely to be successful with a loan application– those with 0 employees and those applying for new money but, unlike overdrafts, no increase for those with a worse than average risk rating
- This increase included those applying for their first ever loan, where 53% were successful, up from 45% in the 18 months to Q2 2014
- Analysis of the profile of applicants suggests a slightly improving loan success rate should be expected for recent quarters

In the 18 months to Q2 2015, 15% of overdraft applicants and 29% of loan applicants were initially declined by the bank and this remained more likely for smaller, younger SMEs and those seeking new money.

On limited bases, those declined remained unlikely to rate any advice from the bank as 'good' and awareness of the appeals process remained limited (albeit with some evidence of increased awareness over time amongst those declined for an overdraft).

At the end of the process 12% of overdraft applicants and 23% of loan applicants had no facility (Almost all, 9 in 10, of those who ended the process with no facility had been declined initially rather than being offered a facility they chose not to accept)

This chapter follows the application 'journey' from the initial response from the bank to the final decision. More detailed analysis is provided of the final outcome over time, and also the experiences of those applying for new funding compared to those seeking a renewal of existing facilities. Note that, unless specifically stated, this data does not include the automatic renewal of overdrafts, and that, as already explained, data for applications reported as having taken place from Q3 2014 onwards remains interim.

8% of loan and 5% of overdraft applicants in the 18 months to Q2 2015 had not received a response to their application by the time of our survey. Details of these applications were included in the data in the preceding chapter but are excluded from the remainder of this analysis.

The final outcome – all loan and overdraft applications to date

For the 18 months to Q2 2015, 79% of all applications were successful and this success rate is improving over time (it was 67% for the 18 months to Q4 2013). 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 2012. 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 12	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13	Q1 14	Q2 14	Q3* 14	Q4* 14	Q1* 15
Unweighted base:	*544*	*674*	*678*	*548*	*531*	*589*	*537*	*582*	*388*	*406*	*256*
Offered what wanted and took it	51%	58%	51%	43%	62%	56%	63%	64%	75%	70%	62%
Took facility after issues**	17%	17%	13%	15%	11%	16%	16%	11%	12%	10%	12%
Have facility (any)	*68%*	*75%*	*64%*	*58%*	*73%*	*72%*	*79%*	*75%*	*87%*	*80%*	*74%*
Took another form of funding	6%	4%	7%	8%	4%	6%	8%	7%	1%	7%	1%
No facility	26%	21%	30%	33%	23%	23%	14%	18%	11%	13%	25%

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 that, following something of a 'dip' in success rates in Q1 and Q2 2013, success rates for applications made in recent quarters have improved steadily over time to around 8 in 10 applicants having a facility (albeit the results for the most recent quarters are still based on interim data).

The further analysis model suggests that the increased success rate for overdrafts is not a reflection of an improving profile of applicants in those quarters, with success rates for applications made in 2014 above those predicted by the model. For loans the picture is more mixed. The model predicts slightly higher success rates for recent quarters based on the profile of applicants, which have then been exceeded in 1 of the last 4 quarters for which robust data is available.

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 (i.e. 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 analysis, 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 SMEs that made an application for a new or renewed loan or overdraft facility during the 18 months from Q1 2014 to Q2 2015 (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 74% of overdraft applications was to offer the SME what it wanted, compared to 58% of loan applications. Larger SMEs remained much more likely to have been offered what they wanted at this initial stage:

Initial response (Overdraft): **Sought** new/renewed facility Q1 14-Q2 15	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*1472*	*132*	*544*	*597*	*199*
Offered what wanted	74%	66%	82%	85%	90%
Offered less than wanted	6%	7%	5%	4%	4%
Offered unfavourable terms & conditions	5%	5%	5%	6%	3%
Declined by bank	15%	22%	8%	5%	3%

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

Initial response (Loan): **Sought** new/renewed facility Q1 14-Q2 15	Total	0 emps	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*784*	*61**	*261*	*313*	*149*
Offered what wanted	58%	52%	63%	73%	84%
Offered less than wanted	6%	6%	7%	6%	7%
Offered unfavourable terms & conditions	7%	5%	9%	9%	4%
Declined by bank	29%	37%	22%	11%	5%

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

Amongst applicants with employees, 83% were initially offered the overdraft they wanted and 65% the loan they wanted. Such applicants with employees were less likely to have been declined at this stage – 8% of such overdraft applicants and 19% of such loan applicants were initially declined by the bank.

SMEs more likely to be initially offered what they wanted included those applying to renew an existing overdraft (91% were offered what they wanted) or loan (67%), and those with a minimal external risk rating (94% were offered the overdraft they wanted, 75% the loan).

SMEs more likely to be met with an initial decline included those applying for their first ever overdraft (36% were initially declined) or loan (43%) or with a worse than average external risk rating (22% initially declined if applying for an overdraft, 46% 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 up until the middle of 2013, around 6 in 10 applicants were initially offered what they wanted. The proportion then increased and was closer to 8 in 10 up to the end of 2014, albeit initial data for applications in Q1 2015 shows 65% offered the facility they wanted. Application data from Q3 2014 is of course 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 12	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13	Q1 14	Q2 14	Q3* 14	Q4* 14	Q1* 15
Unweighted base (Overdraft):	*355*	*452*	*466*	*372*	*348*	*379*	*356*	*367*	*258*	*268*	*162*
Offered what wanted and took it	63%	63%	57%	57%	72%	65%	72%	73%	80%	78%	65%
Any issues (amount or T&C)	14%	16%	8%	14%	17%	12%	16%	11%	4%	9%	8%
Declined overdraft	23%	21%	35%	29%	11%	23%	13%	16%	16%	12%	27%

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

With fewer loan applications made each quarter, it is harder to discern a pattern over time, however in recent quarters over half of applicants have been offered the facility they wanted and this is a higher proportion than was typically seen in earlier quarters. As with the data on overdrafts, the most recent data from Q3 2014 onwards is still interim:

Initial response: SMEs seeking new/renewed loan facility – by date of application	Q3 12	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13	Q1 14	Q2 14	Q3* 14	Q4* 14	Q1* 15
Unweighted base (Loan)	*189*	*222*	*212*	*176*	*183*	*210*	*181*	*215*	*130*	*138*	*94**
Offered what wanted and took it	36%	51%	49%	28%	53%	45%	57%	57%	69%	54%	58%
Any issues (amount or T&C)	15%	18%	14%	6%	16%	20%	8%	9%	20%	13%	21%
Declined loan	49%	30%	37%	65%	31%	35%	34%	35%	11%	33%	20%

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 2014 to Q2 2015, 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. 7 out of 10 overdraft applicants (73%) and almost 6 out of 10 loan applicants (56%) were offered the facility they wanted and went on to take it with no issues:

Journey summary All seeking facility Q1 2014 to Q2 2015	Overdraft	Loan
Unweighted base:	*1472*	*784*
Initially offered what they wanted and went on to take the facility with no issues	73%	56%
Initially offered what they wanted, but had 'issues' before they got facility	1%	2%
Had issues with the initial offer, and now have a facility 'after issues'	10%	10%
Were initially turned down, but now have a facility	1%	2%
Had issues with the initial offer made so took alternative funding instead	*	*
Were initially turned down, so took alternative funding instead	4%	8%
Initially offered what wanted but now have no facility at all	-	*
Had issues with the initial offer made and now have no facility at all	1%	2%
Initially turned down and now have no facility at all	10%	20%

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

88% of those overdraft applicants who ended the process with no facility had been declined by the bank initially, while the remaining 12% were made an offer but in the end did not take the facility. This is the equivalent of 2% 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 3% 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 2014 to Q2 2015
Those offered what wanted (74% of applicants)	These SMEs were typically larger and well established: they were more likely to have been in business for 10+ years (70% v 62% of all overdraft applicants who received an initial response) and few were Starts (11% v 16% of all overdraft applicants). They were also somewhat more likely to have employees (53% v 47% of all overdraft applicants) and a minimal or low risk rating (31% v 27% of all overdraft applicants). They were more likely to be renewing an existing facility (62% v 50% of all overdraft applicants) and to be seeking a facility in excess of £25,000 (29% v 24% of all overdraft applicants).
Those offered less than wanted (6% of applicants)	These SMEs were younger and seeking a smaller overdraft: They were the most likely to be a Start (40% v 16% of all overdraft applicants) and somewhat more likely to have a worse than average risk rating (54% v 44% of all overdraft applicants). 63% were 0 employee SMEs (v 53% of all overdraft applicants). They were less likely to be looking to renew an existing overdraft (32% v 50% of all overdraft applicants). 67% were seeking a facility of £5,000 or less (v 35% of all overdraft applicants).
Those offered unfavourable T&C (5% of applicants)	These SMEs were somewhat less likely to have been in business for 10 years or more (43% v 62% of all overdraft applicants). 55% were 0 employee SMEs (v 53% of all overdraft applicants) and 55% had a worse than average external risk rating (v 44% of all overdraft applicants). They were almost as likely to be seeking their first overdraft facility (15% v 19% of all overdraft applicants) or looking to renew an existing facility (43% v 50% of all overdraft applicants). They were as likely to be seeking a facility of £5,000 or less (31% v 35% of all overdraft applicants), while 17% were looking for £25,000+ (v 24% of all overdraft applicants).
Those initially declined (15% of all applicants)	These SMEs continued to have a more distinctive profile: 76% were 0 employee SMEs (v 53% of all overdraft applicants) and 69% had a worse than average external risk rating (v 44% of all overdraft applicants). 40% had been in business for 10 years or more (v 62% of all overdraft applicants) 45% were seeking their first overdraft facility (v 19% of all overdraft applicants) and 64% sought less than £5,000 (v 35% 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 2014 to Q2 2015 (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:

Initial offer	Subsequent events – all seeking overdraft Q1 2014 to Q2 2015
Offered what wanted (74% of applicants) Q64-65	98% of those offered what they wanted went on to take their facility with no issues. 2% experienced a delay or issue, typically supplying further information, or waiting for valuations/legal work to be completed.
Issue: Offered less than wanted (6% of applicants) Q85-95	These SMEs were typically offered up to 90% of what they had asked for (with no clear pattern over time 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 interviewed more recently. Answers from interviews in Q1 2014 onwards are shown below: 4% said they were not given a reason for being offered less (excluding those who couldn't remember). The main reasons given were: • credit history issues – 36% of those offered less than they wanted • no / insufficient security (28%) or a need for more equity in the business (22%) • applied for too much (7%) • 1% of applicants interviewed from Q1 2014 said the bank offered them less due to the affordability of repayments (a new code). 6% said that they had not been offered advice by their lender at this stage. 44% received advice they rated as good, while 33% thought it was poor. 23% managed to negotiate a higher facility at the original bank, and 1% at another bank. 68% ended up accepting the original offer made by the bank, while 4% accepted an offer at another bank for the same amount. 1% took some other form of funding while 3% ended the process with no facility at all. 9 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 2014 to Q2 2015
Issue: Offered unfavourable T&C (5% of applicants) Q96-97	The 'unfavourable' terms and conditions were most likely to relate to: • the proposed fee – 34% of those offered what they saw as unfavourable T&C • the proposed interest rate – 20% of these applicants • security (the amount, type sought or cost of putting it in place) – mentioned by 21% of these applicants. The fee continued to be mentioned more by smaller applicants, and security by larger applicants. 44% of applicants offered what they saw as unfavourable terms and conditions said they managed to negotiate a better deal than the one originally offered – 41% at the bank they had originally applied to and 3% at another bank. 38% accepted the deal they were offered (almost all at the original bank). 7% took other funding, while 18% 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 (15% of all applicants):

Initially declined	Subsequent events – all seeking overdraft Q1 2014 to Q2 2015
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 interviewed from 2014 onwards. Answers provided to the new question are shown below: • 15% of those initially declined said that they had not been given a reason (excluding those who could not remember the reasons given): • 48% said the decline related to their personal and/or business credit history (much more likely for applicants with 0-9 employees) • 5% mentioned issues around security (more likely for applicants with 10-249 employees) • Also mentioned were too much existing borrowing, a weak balance sheet, more equity needed or asking for too little • 2% of those interviewed from Q1 2014 gave the new answer code that the bank did not think they could afford the repayments.
Advice and alternatives Q71-80	14% 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 invoice finance, a credit card, or occasionally a loan. Half thought the advice offered by their lender at that stage had been poor (54%), while 16% said that it had been good and 13% said they were not offered any advice (with little variation by size). On limited base sizes there is no clear pattern for being offered advice over time, but such advice was more likely to be rated as good in H1 2014 and has been less likely to be rated as good since. More generally, 4% of those initially declined reported that they had been referred to sources of help or advice by the bank, while a further 2% sought their own external advice without a recommendation.

Initially declined	Subsequent events – all seeking overdraft Q1 2014 to Q2 2015
Appeals Q73-75	From April 2011, a new appeals procedure has been in operation. 19% of applicants initially declined Q1 2014 to Q2 2015 said they were made aware of the appeals process (excluding DK) – 13% by their bank and 6% by someone else. There are some indications that awareness of the appeals process is increasing: amongst those applying in 2012, 13% said that they were made aware of the appeals process. For 2013 the figure was 17%, and for 2014 to date 23%. 14% of those made aware said that they went on to appeal, representing around 2% of those initially declined. This means that 3 SMEs interviewed for the Monitor in this period had appealed. In 1 instance the bank changed its decision and in 2 cases the bank had not changed its decision. Those that were aware of the appeals process but had not appealed typically said they did not think it would have changed anything and/or it would be too much hassle to appeal. Taking a longer term view, of all overdraft applications reported since Q1 2013, 12 SMEs have appealed. In 3 instances the bank changed its decision, in 7 the original decision was upheld and 2 were still waiting to hear at the time of interview.
Outcome Q81-84	At the end of this period, 67% of applicants initially declined had no funding at all, and this was somewhat more likely if the applicant was a smaller SME (68% v 52%). 9% 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 80% or more of the funding they had initially sought. Some secured alternative funding (24%), with mentions of friends/family, leasing/hp 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 SMEs that made an application and had received a response for a new or renewed overdraft facility during the most recent 18 month period of Q1 2014 to Q2 2015, irrespective of when they were interviewed.

Most of these applicants, 72%, had the overdraft facility they wanted, and a further 12% secured an overdraft after having issues related to the amount or the terms and conditions of the bank's offer. 12% 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 14-Q2 15	All overdraft Type 1 applicants
Unweighted base:	*1472*
Offered what wanted and took it	72%
Took overdraft after issues	12%
Have overdraft (any)	*84%*
Took another form of funding	4%
No facility	12%

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 Q4 2013, by key demographics. As already explained, for the more recent 18 month periods (from Q2 2013 – Q3 2014 onwards), data is still being added as respondents in Q3 2015 will be able to report on an application made from Q3 2014 onwards.

This table shows a steady improvement in overdraft success rates over recent 18 month periods, to 84% for the current period, which is the highest recorded to date on the SME Finance Monitor. The improvement is driven by applicants who have previously been less likely to secure a facility – those with fewer than 10 employees (albeit that success rates for larger applicants remain higher and more stable) and first time applicants (albeit they remain less likely to be successful than other applicants).

% of applicants ending process with overdraft facility Over time – row percentages By 18 month period of application	18 month periods Q3 12 Q4 13	 Q4 12 Q1 14	 Q1 13 Q2 14	 Q2 13 Q3 14*	 Q3 13 Q4 14*	 Q4 13 Q1 15*	 Q1 14 Q2 15*
All SMEs	74%	75%	77%	80%	82%	82%	84%
0 employee	68%	69%	70%	74%	76%	74%	78%
1-9 employees	79%	81%	83%	87%	88%	90%	90%
10-49 employees	91%	91%	92%	92%	93%	93%	93%
50-249 employees	96%	96%	97%	96%	95%	96%	96%
Minimal external risk rating	96%	95%	95%	96%	96%	96%	97%
Low external risk rating	91%	90%	91%	91%	92%	94%	94%
Average external risk rating	83%	83%	83%	90%	91%	90%	89%
Worse than average external risk rating	59%	63%	63%	66%	71%	71%	78%
Agriculture	90%	88%	91%	92%	92%	93%	95%
Manufacturing	71%	69%	68%	73%	75%	78%	89%
Construction	75%	77%	80%	83%	83%	81%	81%
Wholesale/Retail	69%	71%	70%	72%	76%	73%	75%
Hotels & Restaurants	65%	70%	73%	76%	82%	83%	84%
Transport	53%	54%	55%	63%	67%	68%	77%
Property/Business Services etc.	71%	75%	75%	78%	80%	86%	89%
Health	87%	87%	88%	88%	95%	92%	92%
Other Community	94%	93%	94%	95%	96%	85%	83%
First time applicants	34%	37%	40%	44%	52%	53%	62%
Increasing an existing facility	78%	76%	72%	77%	76%	77%	74%
Renewals	98%	99%	99%	99%	99%	99%	99%

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

Overdraft final outcome – applications made Q1 2014 to Q2 2015

By size of business, overdraft applicants with more than 10 employees remained the most likely to have been offered, and taken, the overdraft they wanted and so were more likely now to have a facility. Despite improving success rates, those with 0 employees remained more likely to end the process with no facility:

Final outcome (Overdraft): **Sought** new/renewed facility Q1 14-Q2 15	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*1472*	*132*	*544*	*597*	*199*
Offered what wanted and took it	72%	64%	80%	84%	86%
Took overdraft after issues	12%	14%	10%	9%	10%
Have overdraft (any)	*84%*	*78%*	*90%*	*93%*	*96%*
Took another form of funding	4%	5%	3%	3%	*
No facility	12%	16%	7%	5%	4%

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

Amongst applicants with employees, 91% ended the process with an overdraft facility (81% offered what they wanted and 10% had an overdraft after issues). 7% ended the process with no overdraft.

Analysis of the final outcome by external risk rating showed a clear difference for those rated a worse than average risk, where three quarters ended the process with an overdraft facility:

Final outcome (Overdraft): **Sought** new/renewed facility Q1 14-Q2 15	Total	Min	Low	Average	Worse/Avge
Unweighted base:	*1472*	*191*	*488*	*377*	*314*
Offered what wanted and took it	72%	94%	84%	76%	64%
Took overdraft after issues	12%	3%	10%	13%	14%
Have overdraft (any)	*84%*	*97%*	*94%*	*89%*	*78%*
Took another form of funding	4%	1%	4%	1%	6%
No facility	12%	2%	2%	10%	16%

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 (77%) together with those in Wholesale/Retail (75%) who were the most likely to end the process with no facility (25%). Those in Agriculture remained more likely to end the process with a facility (95%):

Final outcome (Overdraft): **Sought** new/renewed facility Q1 14-Q2 15	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*176*	*159*	*264*	*159*	*103*	*118*	*221*	*96**	*176*
Offered what wanted and took it	91%	70%	70%	57%	73%	75%	78%	66%	71%
Took overdraft after issues	4%	19%	11%	18%	11%	2%	11%	26%	12%
Have overdraft (any)	*95%*	*89%*	*81%*	*75%*	*84%*	*77%*	*89%*	*92%*	*83%*
Took another form of funding	1%	7%	6%	*	2%	12%	4%	4%	2%
No facility	4%	4%	12%	25%	13%	10%	7%	4%	15%

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. First time applicants remained more likely than others to end the process with no facility (34%) but their current success rate, at 62%, maintained the improvement seen over recent periods:

Final outcome (Overdraft): **Sought** new/renewed facility Q1 14-Q2 15	Total	1st overdraft	Increased overdraft	Renew overdraft
Unweighted base:	*1472*	*142*	*190*	*929*
Offered what wanted and took it	72%	51%	59%	90%
Took overdraft after issues	12%	11%	15%	9%
Have overdraft (any)	*84%*	*62%*	*74%*	*99%*
Took another form of funding	4%	4%	20%	*
No facility	12%	34%	5%	1%

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

As reported earlier, a new overdraft code has been included since Q3 2014 "applying for a new overdraft but not our first". Initial indications are that the success rate for these applicants is similar to that of first time applicants and this will be reported further as base sizes permit.

The final piece of combined analysis for applications made in the 18 months to Q2 2015 shows outcome by age of business. The older the business, the more likely they were to have been offered what they wanted. Starts were no longer the *least* likely to be successful, with a success rate of 75% (compared to 62% for the 18 months to Q4 2014). 46% of these Starts were looking for their first overdraft while a third (35%) of all the first time applications above were made by Starts:

Final outcome (Overdraft): **Sought** new/renewed facility Q1 14-Q2 15 By age of business	Starts	2-5 yrs	6-9 yrs	10-15 yrs	15+ yrs
Unweighted base:	*94**	*106*	*154*	*254*	*864*
Offered what wanted and took it	49%	54%	75%	82%	81%
Took overdraft after issues	26%	14%	12%	8%	9%
Have overdraft (any)	*75%*	*68%*	*87%*	*90%*	*90%*
Took another form of funding	3%	9%	11%	1%	3%
No facility	22%	23%	2%	9%	7%

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

The proportion of Starts with a facility 'after issues' increased during 2014 and 2015. This will be monitored over time but base sizes are limited.

During 2010 and 2011, the proportion of applications/renewals made for £5,000 or less increased to make up half of all applications. This proportion then declined steadily and is currently 33% of applications reported to date for 2014. Initial data for 2015 suggests something of an increase, with 42% of applications for £5,000 or less.

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

- The outcome for those applying for larger overdrafts (£25,000+) was fairly consistent over time, and around 90% of such applicants now had an overdraft.
- 62% of applications for the smallest overdrafts (under £5,000) were successful in 2012, and this was also the case for 2013 (61%). For applications reported to date in 2014 the success rate is somewhat higher at 72% but early indications for 2015 suggest this has not been maintained (62%).
- Those in the middle (who applied for £5-25,000) became slightly less likely to be successful over time, from around 90% to around 70% of these applicants having an overdraft, to the end of 2013. The current success rate for 2014 is somewhat higher at 87% and initial indications for 2015 show a success rate of 95%.

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 individual quarter **in which the application was made**, for those quarters where robust numbers were available. This shows that in most quarters since Q3 2013, at least 8 out of 10 applicants have ended the process with an overdraft facility:

Final outcome (Overdraft): SMEs seeking new/renewed facility By date of application	Q3 12	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13	Q1 14	Q2 14	Q3* 14	Q4* 14	Q1* 15
Unweighted base:	*355*	*452*	*466*	*372*	*348*	*379*	*356*	*367*	*258*	*268*	*162*
Offered what wanted and took it	60%	61%	53%	54%	72%	64%	68%	71%	79%	78%	65%
Took overdraft after issues	17%	15%	13%	20%	9%	10%	17%	13%	7%	10%	8%
Have overdraft (any)	*77%*	*76%*	*66%*	*74%*	*81%*	*74%*	*85%*	*84%*	*86%*	*88%*	*73%*
Took other funding	2%	5%	4%	5%	4%	5%	7%	4%	1%	5%	1%
No facility	22%	19%	30%	21%	15%	21%	8%	12%	12%	8%	26%

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 for Q1 2014.

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 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. It then dropped slightly to 48% in 2013 and is currently 46% for 2014 to date and 34% for H1 2015.
- The proportion of first time applicants increased from 25% in 2010 and 2011 to 30% in 2012. It then dropped back again to 26% for 2013 and is currently 21% for 2014 to date and 9% for H1 2015 (with an additional 10% applying for a new overdraft but not their first).
- Starts made up 13% of applicants in 2013, increasing to 17% for 2014 to date. In H1 2015 to date the proportion is somewhat lower at 10%.

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 an overdraft success rate between 74% and 80% for the individual quarters. Since the start of 2014, all but one quarter has had a predicted success rate of 80%:

Final outcome (Overdraft): SMEs seeking new/renewed facility By date of application	Q3 12	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13	Q1 14	Q2 14	Q3* 14	Q4* 14	Q1* 15
Unweighted base:	*355*	*452*	*466*	*372*	*348*	*379*	*356*	*367*	*258*	*268*	*162*
Have overdraft (any)	*77%*	*76%*	*66%*	*74%*	*81%*	*74%*	*85%*	*84%*	*86%*	*88%*	*73%*
Predicted success rate	78%	74%	75%	75%	80%	76%	80%	80%	79%	75%	79%
Difference	-1	+2	-9	-1	+1	-2	+5	+4	+7	+13	-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 up to the start of 2014 (with the exception of Q1 2013 when the lower success rate was not predicted by the model). The increase in actual success rates in 2014 is not entirely explained by the profile of applicants, as the 'gap' between the current and predicted success rate widens.

The current lower success rate reported for applications made in Q1 2015 was not predicted by the model so does not appear to be due to the profile of applicants in that quarter. This will be monitored as more data is gathered on applications in this quarter.

The impact of automatic renewals on overdraft success rates

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 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 84% to 94%:

Final outcome (Overdraft): Sought new/renewed facility Q1 14-Q2 15	Type 1 events	Type 1 + automatic renewal
Unweighted base:	***1472***	***2993***
Offered what wanted and took it	72%	31%
Took overdraft after issues	12%	5%
Automatic renewal	-	*58%*
Have overdraft (any)	***84%***	***94%***
Took another form of funding	4%	2%
No facility	12%	5%

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.

10% of those making an overdraft application in the past 18 months (Q1 2014 to Q2 2015) said that the facility they had sought was in a personal capacity and these were typically smaller SMEs looking to borrow a smaller amount:

- 70% of personal overdraft applicants had 0 employees (v 50% of business applicants)
- 60% had a worse than average risk rating (v 43% of business applicants)
- 66% were applying for £5,000 or less (v 31% of business applicants)

In terms of the outcome of the overdraft application by whether it was a personal or business application, base sizes remain limited. However, current data suggests that those applying in a personal capacity were somewhat less likely to have ended the process with a facility (67% of personal applicants v 87% of business applicants) and somewhat more likely to have ended the process with no facility (29% v 10% of business applicants).

Since Q4 2012 the equivalent question was also asked of those who reported the automatic renewal of an overdraft facility. Amongst those who reported an automatic renewal between Q1 2014 and Q2 2015, 15% said that the facility was in a personal capacity. As with Type 1 events, such renewals were typically for 0 employee SMEs (73% of those automatically renewing a personal facility) and for a facility of less than £5,000 (84% of those automatically renewing a personal facility).

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 2014 to Q2 2015) receiving each initial answer from their bank varied. Note that due to small base sizes the 'offered less than wanted' and 'offered unfavourable T&C' groups have been combined in some instances, to boost the base size to over 100 applicants:

Initial bank response	Profile- all seeking loan Q1 2014 to Q2 2015
Those offered what wanted (58% of applicants)	These were typically more established SMEs: 67% had been in business for 10 years or more (v 54% of all loan applicants) and 51% had employees (v 46% of all applicants). They were less likely to have a worse than average external risk rating (25% v 36% of all loan applicants). They were less likely to be applying for their first ever loan (28% v 35% of all loan applicants), with 41% looking for a new loan but not their first (v 39% of all loan applicants). 47% were applying for a loan in excess of £25,000 (v 39% of loan applicants overall).
Those offered less than wanted / unfavourable T&Cs (13% of applicants)	These SMEs were also more likely to have been in business for 10 years or more (69% v 54% overall). They were more likely to have employees (55% v 46% of all applicants) and to have a minimal/low risk rating (46% v 33% of all applicants). These were the most likely to be applying for a new loan but not their first (52% v 39% of all applicants) and the loan was somewhat more likely to be in excess of £25,000 (45% v 39% of all loan applicants).
Those initially declined (29% of applicants)	As with the equivalent overdraft applicants, those initially declined for a loan had a more distinctive profile. They were less likely to be an established business (21% in business for 10 years or more v 54% of all loan applicants) and more likely to be a one man band (69% had 0 employees v 54% of all loan applicants). They were also more likely to have a worse than average risk rating (58% v 36% of all loan applicants). Half, 52%, were applying for their first ever loan (v 35% of all loan applicants) and 77% were seeking a facility of £25,000 or less (v 61% 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 2014 to Q2 2015 (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 2014 to Q2 2015
Offered what wanted (58% of applicants) Q159-164	95% of those offered what they wanted went on to take the loan with no problems. 5% took the loan after some issues (typically having to supply more information, waiting for a decision to be made or for security valuations). Almost all took the full amount they had originally asked for. 1% of these applicants decided not to proceed with the loan they had been offered.
Issue: Offered less than wanted (6% of applicants) Q180-190	Note that there are just 32 respondents for this section, and so results are qualitative at best. These SMEs were typically offered 50% or more of what they asked for. New answer codes have been included from Q1 2014, meaning that the results are not strictly comparable with previous data. On small base sizes, the main reason for not being offered the whole amount asked for was that they had applied for too much, with other mentions including security issues and the bank thinking they could not afford the repayments. Very few of these most recent applicants said that they had not been given a reason (<5%, excluding those who could not remember). On a small base, the advice offered at this stage was more likely to be rated good (half) than poor (a quarter) while 2% were not given any advice. 8 in 10 accepted the lower amount offered (half with the original bank applied to), while less than 1 in 10 managed to negotiate a better deal, predominantly with the original bank. 6% took other borrowing and 1 in 10 had 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	Note that there are just 52 respondents for this section, and so results are qualitative at best. The unfavourable terms (excluding those who didn't know) typically related to the proposed interest rate (4 in 10). The proposed fee was mentioned by 1 in 3 of these applicants, and a similar proportion mentioned issues around security (level, type requested and/or cost). Just under half managed to negotiate a better deal (at either the original bank or another bank) while 1 in 10 accepted the deal offered, most with the original bank. Less than 5% took another form of funding. 4 in 10 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 (29% of applicants).

Initially declined	Subsequent events – all seeking loan Q1 2014 to Q2 2015
Reasons for decline Q165	23% 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). The answer codes available were changed in Q1 2014 and while the main reasons given remain the same, the results are not directly comparable over time: • 27% said that the decline related to their personal and/or business credit history (especially smaller applicants) • 12% mentioned issues around security • 8% said they had a weak balance sheet while 3% said they needed more equity in the business
Advice and alternatives Q166-7 and 171-175	6% of those initially declined said that the bank had either offered them an alternative form of funding to the declined loan or suggested alternative sources of external finance. Three quarters (73%) thought that the advice their lender had offered at that stage had been poor, 8% thought it had been good while 6% had not been offered any advice. Base sizes are too low for meaningful analysis over time. More generally, 6% of those initially declined reported that they had been referred to any other sources of help or advice by the bank, while a further 5% sought their own external advice without a recommendation, with no clear trend over time. On a small base, 7 in 10 found these external sources of use, also with no clear trend over time.

Initially declined	Subsequent events – all seeking loan Q1 2014 to Q2 2015
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 2014 to Q2 2015). Amongst this group of applicants who were initially declined, 10% said that they were made aware of the appeals process (9% by their bank and 1% by someone else, excluding DK). Unlike overdrafts, awareness of appeals has not increased for more recent applications – awareness of appeals was slightly higher for those declined in 2013 (14%) than it was for those declined in 2012 (8%), but is 7% for 2014 to date. Half of the 21 respondents made aware went on to appeal, the equivalent of around 4% of SMEs that had been declined for a loan, providing anecdotal evidence at best about the appeals process. Of these 9 declined applicants, 4 appealed and the bank changed its decision, 3 appealed but the decision was upheld, 2 appealed but had not heard yet. The 12 applicants who were aware but did not appeal typically cited the view that it was too much hassle and/or they did not think it would have changed anything. Taking a longer-term view, of all loan applications reported on the Monitor from Q1 2013, 25 SMEs have appealed. In 10 instances the bank changed its decision, in 11 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, 5% of those initially declined for a loan had managed to secure a loan with either the original bank or a new supplier. 27% had secured alternative funding, with friends/family and/or personal borrowing most likely to be mentioned. 68% of those initially declined did not have a facility at all.

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 SMEs that made an application and had received a response for a new or renewed loan facility during the most recent 18 month period of Q1 2014 to Q2 2015, irrespective of when they were interviewed.

Two thirds, 69%, of loan applicants now have a loan facility. 23% of applicants ended the process with no facility.

Final outcome (Loan): **Sought** new/renewed facility Q1 14-Q2 15	All loan Type 1 applicants
Unweighted base:	***784***
Offered what wanted and took it	55%
Took loan after issues	14%
Have loan (any)	***69%***
Took another form of funding	8%
No facility	23%

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 Q4 2013, by key demographics. As already explained, for the more recent 18 month periods (from Q2 2013 – Q3 2014 onwards), data is still being added as respondents in Q3 2015 will be able to report on an application made from Q3 2014 onwards.

The table shows a steadily improving success rate, with 69% of loan applicants in the current 18 month period ending the process with a facility (albeit this is interim data). The increase in success rates has been seen across most size bands and risk ratings, with the exception of applicants with 10-49 employees (where success rates are stable).

The success rate for renewed loans was lower in recent quarters. This was primarily due to results for Q2 2014, where of 26 applicants, 24% were declined and 35% took alternative funding, resulting in a success rate of 41%. In Q4 2014, a quarter of the 22 applicants were declined for a loan facility. In almost all other quarters almost all renewals have been successful.

% of applicants ending process with loan facility	18 month periods						
Over time – row percentages By 18 month period of application	Q3 12 Q4 13	Q4 12 Q1 14	Q1 13 Q2 14	Q2 13 Q3 14*	Q3 13 Q4 14*	Q4 13 Q1 15*	Q1 14 Q2 15*
All SMEs	**58%**	**59%**	**58%**	**61%**	**66%**	**69%**	**69%**
0 employee	52%	53%	52%	54%	60%	62%	61%
1-9 employees	61%	63%	63%	68%	71%	74%	75%
10-49 employees	85%	86%	85%	86%	87%	87%	88%
50-249 employees	87%	90%	92%	91%	93%	95%	95%
Minimal external risk rating	82%	81%	75%	79%	80%	80%	86%
Low external risk rating	78%	78%	79%	84%	87%	87%	84%
Average external risk rating	63%	66%	64%	72%	74%	77%	74%
Worse than average external risk rating	46%	48%	47%	47%	54%	52%	49%
Agriculture	86%	91%	86%	86%	84%	88%	87%
Manufacturing	67%	71%	74%	82%	84%	85%	89%
Construction	56%	55%	53%	55%	56%	61%	53%
Wholesale/Retail	47%	54%	49%	52%	61%	56%	60%
Hotels & Restaurants	55%	52%	48%	53%	53%	60%	67%
Transport	42%	36%	47%	51%	52%	49%	56%
Property/Business Services etc.	58%	63%	57%	58%	64%	66%	67%
Health	57%	52%	54%	70%	79%	82%	74%
Other Community	62%	59%	69%	69%	81%	92%	94%
First time applicants	45%	46%	45%	50%	57%	57%	53%
Other new facility	60%	60%	59%	61%	69%	74%	76%
Renewals	89%	91%	82%	79%	75%	74%	73%

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 2014 to Q2 2015

By size of business, smaller loan applicants remained less likely to have a facility. 95% of applicants with 50-249 employees had a loan, while 3 out of 10 of the smallest applicants ended the process with no facility:

Final outcome (Loan): **Sought** new/renewed facility Q1 14-Q2 15	Total	0 emps	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*784*	*61**	*261*	*313*	*149*
Offered what wanted and took it	55%	52%	56%	67%	83%
Took loan after issues	14%	9%	19%	21%	12%
Have loan (any)	*69%*	*61%*	*75%*	*88%*	*95%*
Took another form of funding	8%	11%	5%	3%	1%
No facility	23%	28%	20%	9%	4%

All SMEs seeking new/renewed loan facility that have had response *CARE re small base size

Amongst loan applicants with employees, 78% ended the process with a loan (59% were offered what they wanted and 19% had the loan after issues). 17% 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 more likely to have been offered the loan they wanted than those with a worse than average risk rating:

Final outcome (Loan): **Sought** new/renewed facility Q1 14-Q2 15	Total	Min	Low	Avge	Worse/ Avge
Unweighted base:	*784*	*128*	*272*	*196*	*134*
Offered what wanted and took it	55%	73%	62%	60%	36%
Took loan after issues	14%	13%	22%	14%	13%
Have loan (any)	*69%*	*86%*	*84%*	*74%*	*49%*
Took another form of funding	8%	1%	1%	10%	12%
No facility	23%	14%	15%	16%	38%

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, Other Community or Manufacturing were the most likely to end the process with a loan, while those in the Construction, Wholesale/Retail or Transport sectors were more likely to end the process with no facility:

Final outcome (Loan): **Sought** new/renewed facility Q1 14-Q2 15	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*89**	*86**	*89**	*90**	*88**	*72**	*125*	*66**	*79**
Offered what wanted and took it	69%	72%	46%	44%	53%	33%	52%	68%	86%
Took loan after issues	18%	17%	7%	16%	14%	23%	15%	6%	8%
Have loan (any)	*87%*	*89%*	*53%*	*60%*	*67%*	*56%*	*67%*	*74%*	*94%*
Took another form of funding	-	-	12%	2%	9%	12%	18%	4%	3%
No facility	13%	11%	35%	38%	24%	33%	15%	22%	3%

All SMEs seeking new/renewed loan facility that have had response   *CARE re small base sizes

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, albeit that success rates for first time loan applicants have shown some signs of improvement in recent periods.

Those applying for their first loan remained more likely to end the process with no facility (39%), with a higher success rate amongst those applying for a new loan but not their first (76%). Most of those who renewed an existing loan now have a facility (73%) – as mentioned earlier this lower success rate is due to the data currently available for applications made in Q2 and Q4 2014:

Final outcome (Loan): **Sought** new/renewed facility Q1 14-Q2 15	Total	1st loan	New loan	Renew loan
Unweighted base:	*784*	*181*	*341*	*102*
Offered what wanted and took it	55%	46%	57%	61%
Took loan after issues	14%	7%	19%	12%
Have loan (any)	*69%*	*53%*	*76%*	*73%*
Took another form of funding	8%	8%	7%	14%
No facility	23%	39%	17%	14%

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. On limited base sizes, Starts were no longer the least likely to have been successful (60%) while applicants that had been trading for more than 10 years remained more likely to end the process with a loan. 51% of these Starts were applying for their first loan, and 21% of all first time loan applications were from Starts:

Final outcome (Loan): **Sought** new/renewed facility Q1 14-Q2 15 By age of business	Starts	2-5 yrs	6-9 yrs	10-15 yrs	15+ yrs
Unweighted base:	*55**	*73**	*104*	*132*	*420*
Offered what wanted and took it	53%	36%	28%	62%	72%
Took loan after issues	7%	5%	12%	17%	20%
Have loan (any)	*60%*	*41%*	*40%*	*79%*	*92%*
Took another form of funding	12%	14%	15%	5%	2%
No facility	28%	46%	44%	17%	6%

All SMEs seeking new/renewed loan facility that have had response *CARE re small base

Success rates for smaller applications (under £100,000) have shown signs of increase over time. In 2013, half of such applications were successful, increasing to 6 in 10 for 2014 and almost 7 in 10 for applications to date in 2015.

Applications for larger amounts (£100,000+) were more likely to be successful and success rates have improved from around 8 out of 10 to around 9 in 10 of these larger applications.

Final outcome by date of application – loans

The table below shows the outcome by date of application. In 2012 and up to Q3 2013, a fairly consistent 1 in 3 applications resulted in no loan facility. Since then, the proportion ending the process with no facility has been closer to a quarter and around two thirds of applicants have ended the process with a loan facility:

Final outcome (Loan): SMEs seeking new/renewed facility By date of application	Q3 12	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13	Q1 14	Q2 14	Q3* 14	Q4* 14	Q1* 15
Unweighted base:	*189*	*222*	*212*	*176*	*183*	*210*	*181*	*215*	*130*	*138*	*94*
Offered what wanted and took it	35%	50%	46%	27%	46%	42%	52%	54%	68%	50%	56%
Took loan after issues	18%	22%	12%	9%	15%	26%	12%	7%	21%	12%	21%
Have loan (any)	***53%***	***72%***	***58%***	***36%***	***61%***	***68%***	***64%***	***61%***	***89%***	***62%***	***77%***
Took another form of funding	13%	3%	11%	11%	3%	8%	9%	12%	1%	12%	1%
No facility	34%	25%	31%	52%	36%	24%	26%	27%	9%	27%	22%

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:

- Starts: the proportion increased from 15% in 2010 to 23% in 2012, and then declined somewhat over time to 17% to date for 2014 and 13% for H1 2015
- Making their first application: the proportion increased from 30% in 2010 to 43% in 2012, and then declined somewhat over time to 34% to date for 2014 and 37% for H1 2015
- SMEs with a worse than average external risk rating: having been stable up to 2012 (47% in 2012 itself) the proportion increased to 53% for 2013 but is currently 39% for 2014 and 22% for H1 2015

These are all factors that analysis has shown are likely to affect 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 that the predicted loan success rate has been somewhat higher for the most recent quarters, at 66%:

Final outcome (Loan): SMEs seeking new/renewed facility By date of application	Q3 12	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13	Q1 14	Q2 14	Q3* 14	Q4* 14
Unweighted base:	*189*	*222*	*212*	*176*	*183*	*210*	*181*	*215*	*130*	*138*
Have loan (any)	*53%*	*72%*	*58%*	*36%*	*61%*	*68%*	*64%*	*61%*	*89%*	*62%*
Predicted success rate	57%	63%	64%	61%	63%	62%	64%	66%	66%	66%
Difference	-4	+9	-6	-25	-2	+6	0	-5	+23	-4

Final outcome of loan application by date of application

Analysis shows that the lower success rate reported for Q2 2013 was not explained by the profile of applicants in that quarter. From Q3 2013 actual success rates have been above 60%. The model suggests that this is partly a reflection of the profile of those applying but not entirely so – in particular the current high success rate for applications in Q3 2014 does not appear to be as a result of the profile of applicants in that quarter (this is still interim data).

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.

14% of those making a loan application in the past 18 months (Q1 2014 to Q2 2015) said that the facility they had sought was in a personal capacity. This is somewhat higher than for overdrafts (10%).

On this currently limited sample, those applying in a personal capacity were more likely to have a worse than average external risk rating for the business (60% v 35% for those applying in a business capacity) and were less likely to be seeking a loan in excess of £25,000 (20% v 43% for those applying in a business capacity).

In terms of the outcome of the loan application by whether it was a personal or business application, base sizes remain limited. However, current data suggests that those applying in a personal capacity were somewhat less likely to have ended the process with a facility (46% of personal applicants v 73% of business applicants) and somewhat more likely to have ended the process with no facility (45% v 20% of business applicants).

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.

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 line with the analysis elsewhere in this chapter, results are shown just for applications made in the **last 18 months** (between Q1 2014 and Q2 2015)

The table below shows that those seeking to renew an existing loan or overdraft facility were more likely to have ended the process with a facility (96%) than those seeking new funds (67%). The margin between the two groups has continued to narrow somewhat over time as the success rate for new money improves (in earlier waves, those renewing were twice as likely to be successful as those seeking new funds):

Final outcome Loans and Overdrafts combined Q1 14 – Q2 15	New funds sought	Renewals sought
Unweighted base of applications:	*1109*	*1031*
Offered what wanted and took it	54%	87%
Took facility after issues	13%	9%
Have facility (any)	*67%*	*96%*
Took another form of funding	8%	1%
No facility	25%	2%

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

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 almost all applicants typically ended the process with a renewed facility:

Final outcome (Overdraft+ Loan): Applications for renewed facilities By date of application	Q3 12	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13	Q1 14	Q2 14	Q3* 14	Q4* 14	Q1* 15
Unweighted base of applications:	*256*	*315*	*352*	*281*	*252*	*242*	*244*	*255*	*178*	*193*	*124*
Offered what wanted and took it	74%	82%	78%	78%	90%	89%	79%	79%	96%	94%	95%
Took facility after issues	21%	15%	16%	17%	8%	9%	19%	11%	3%	4%	5%
Have facility (any)	*95%*	*97%*	*94%*	*95%*	*98%*	*98%*	*98%*	*90%*	*99%*	*98%*	*100%*
Took another form of funding	1%	2%	2%	*	*	*	*	6%	*	-	-
No facility	4%	1%	4%	4%	2%	1%	2%	4%	*	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 6 in 10 of all applications in the most recent period (Q1 2014 to Q2 2015). The table below shows how success rates for new money were stable to Q4 2013, as around half ended the process with a facility (with the exception of Q1 and Q2 2013 when success rates were somewhat lower).

In 2014, success rates have been somewhat higher, with two-thirds of applicants successful. Only initial data for applications made in Q1 2015 is available, but it suggests that this upward trend may not have continued:

Final outcome (Overdraft+ Loan): Applications for <u>new</u> money By date of application	Q3 12	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13	Q1 14	Q2 14	Q3* 14	Q4* 14	Q1* 15
Unweighted base of applications:	*215*	*273*	*244*	*198*	*253*	*304*	*262*	*305*	*189*	*191*	*119*
Offered what wanted and took it	37%	38%	26%	24%	43%	40%	53%	55%	62%	56%	45%
Took facility after issues	15%	19%	10%	17%	13%	19%	13%	10%	17%	13%	10%
Have facility (any)	*52%*	*57%*	*36%*	*41%*	*56%*	*59%*	*66%*	*65%*	*79%*	*69%*	*55%*
Took another form of funding	8%	7%	9%	10%	7%	9%	13%	8%	2%	11%	2%
No facility	40%	37%	54%	49%	38%	32%	21%	26%	19%	20%	43%

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 <u>all</u> applications/renewals being made by first time borrowers increased from around a quarter of applications made in 2010 to one in three in 2013 but is once again a quarter of applications made in the 18 months to Q2 2015. Over the same period the proportion of all <u>new money</u> applications being made by first time applicants increased from less than half to around 6 out of 10, before declining again to 4 in 10 of the applications made in the 18 months to Q2 2015.

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

Typically half of applications made by first time applicants in 2011, 2012 and 2013 ended in no facility. Results to date for 2014 show an improved success rate and a third of applicants ending the process with no facility. On a small base the initial results for 2015 suggest a slightly lower success rate than in 2014:

Final outcome – first time applicants Loans and Overdrafts combined By application year	In 2010	In 2011	In 2012	In 2013	In 2014*	In H1 2015*
Unweighted base of applications:	*151*	*543*	*570*	*408*	*273*	*50**
Offered what wanted and took it	46%	30%	30%	25%	50%	41%
Took facility after issues	8%	7%	12%	11%	9%	6%
Have facility (any)	*54%*	*37%*	*42%*	*36%*	*59%*	*49%*
Took another form of funding	4%	11%	8%	8%	6%	4%
No facility	42%	53%	51%	55%	35%	49%

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

Those applying for a new facility, but not their first, were more likely to end the process with a facility than first time applicants. Success rates for this group have been less consistent over time – current data for applications made in 2014 shows three quarters being successful while initial data for 2015 shows a somewhat lower success rate more in line with 2013:

Final outcome – other new money Loans and Overdrafts combined By application year	In 2010	In 2011	In 2012	In 2013	In 2014*	In H1 2015*
Unweighted base of applications:	*327*	*1030*	*585*	*742*	*674*	*112*
Offered what wanted and took it	46%	55%	52%	45%	60%	44%
Took facility after issues	22%	19%	21%	17%	16%	22%
Have facility (any)	*68%*	*74%*	*73%*	*62%*	*76%*	*66%*
Took another form of funding	11%	7%	5%	10%	11%	3%
No facility	21%	19%	22%	28%	13%	32%

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 2015 to date 54% of first time applicants had a worse than average external risk rating, compared to 20% of those renewing an existing facility.

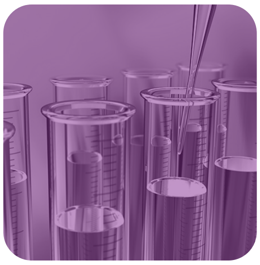
All three applicant groups saw an increase between 2010 and 2013 in the proportion of applicants with a worse than average risk rating. As the table below shows, in 2014 there was an improvement in risk profile for all except the first time applicants and the initial results for 2015 suggest a further improvement for all groups:

% of applicants with worse than average external risk rating (Overdraft+ Loan): By year of application (base varies)	In 2010	In 2011	In 2012	In 2013	In 2014*	In H1 2015*
First time applicants	61%	69%	71%	69%	69%	54%
Other new money	44%	49%	49%	45%	37%	21%
Renewals	33%	34%	40%	36%	31%	20%

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

For the SME population as a whole, the proportion with a worse than average external risk rating rose from 50% in 2011 to 54% in 2013 but was 44% for YEQ2 2015.

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

83% of successful overdraft applications and 60% of successful loan applications were in place within two weeks. Applications from smaller SMEs and those for unsecured facilities were typically in place somewhat sooner

Most applicants agreed that their facility had been put in place in good time for where it was needed (96% of successful overdraft applications and 82% of loan applications). Those who waited more than a month for their facility were somewhat less likely to agree (75% for overdrafts that took that long and 43% for loans)

Applying for an overdraft is typically a 'low effort' experience, applying for a loan slightly less so

- 73% of overdraft applicants described the process as 'low effort'. This increased to 78% of those who were 'offered the facility they wanted and took it', compared to 43% who had their overdraft 'after issues'
- 55% of loan applicants described the process as 'low effort'. This increased to 64% of those who were 'offered the facility they wanted and took it', compared to 17% who had their loan 'after issues'

85% of SMEs were satisfied with their main bank in H1 2015. Larger SMEs, PNBs, and 'Happy non-seekers' of finance were all somewhat more likely to be satisfied with their bank (87-90%) compared to 23% of those who had been declined by their main bank in the previous 12 months

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

New facility granted

In a 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 revised analysis approach elsewhere, the table below is based on all applications made in the last 18 months, Q1 2014 to Q2 2015.

8 out of 10 overdrafts were in place within 2 weeks (83%), while 6 out of 10 loans were in place in this time period (60%):

Successful Type 1 applicants Time taken to put facility in place **Sought** new/renewed facility Q1 14-Q2 15*	Overdrafts	Loans
Unweighted base:	*1261*	*633*
Within 1 week	68%	37%
Within 2 weeks	15%	23%
Within 3-4 weeks	9%	15%
Within 1-2 months	4%	15%
Longer than this	2%	6%
Not in place yet	1%	4%

Q101a and Q196a All SMEs that have applied/renewed Q1 2014 to Q2 2015, excluding DK

Further analysis is provided in the table below.

Time taken & impact	Successful Type 1 applicants Q1 2014 to Q2 2015
Time taken by sector	Overdrafts in the Health sector were more likely to be agreed within a week (83%), compared to 56% in the Other Community sector and 57% for Hotels and Restaurants. For other sectors the proportion agreed within a week varied relatively little (67-79%). Base sizes are small for loans and there is more variability – the proportion with a facility agreed in a week ranged from 15% for applicants in Property/Business Services to 63% for the Other Community sector.
By level of security	Secured loans were less likely to be in place within a week (29%) than unsecured ones (46%), given the security processes that need to be undertaken. There was no difference between secured (68%) and unsecured (68%) overdrafts that were in place within a week (overdrafts are more likely to be renewals where the security may already be in place).
By size of SME	Facilities for smaller SMEs were slightly more likely to be made available within a week (69% for overdrafts, 39% for loans where the SME had 0-9 employees) than those for larger SMEs (62% for overdrafts and 22% 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 (93% for smaller SMEs v 88% for larger ones) than for loans (77% for smaller SMEs v 64% for larger SMEs).
In place in good time?	Most applicants agreed that the facility had been put in place in good time for when it was needed, with overdraft applicants more likely to agree (96%) than loan applicants (82%).
In place in good time, by size of SME	The main difference was amongst smaller loan applicants. Despite typically waiting longer for their facility, larger loan applicants were more likely to agree that their facility was in place in good time: • Amongst applicants with 0-9 employees, 96% said their overdraft was made available in good time, while for loans it was 81%. • Amongst larger applicants 95% said their overdraft was made available in good time, while for loans it was 92%.

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, especially if they were waiting for a loan (75% said the facility was in place in good time if they had waited a month for more or an overdraft, 43% 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 (typically 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 (80-82%) compared to those made in the second half of the year (70-71%). The proportion saying the loan was in place in good time was consistently above 90% up until 2014, but is currently 84% for successful applications to date in 2014.

'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 Business School 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. A score is given between 1 and 5 (where 5 is high effort) and the net score of low-high effort calculated. The higher the net score the better, but negative net scores are not uncommon in other banking studies undertaken.

Initial results are that the overdraft process involved 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 give a markedly different effort score.

Customer effort	Successful Type 1 applicants Q1 2014 to Q2 2015
Overdraft applicants	73% of successful Type 1 overdraft applicants described the process as 'low effort'. 12% described it has 'high effort', a net score of +61.
Loan applicants	55% of successful Type 1 loan applicants described the process as 'low effort'. 25% described it has 'high effort', a net score of +30.
Effort if offered what wanted	78% of successful overdraft applicants who were 'offered what they wanted and took it' rated this as a low effort experience. 64% of successful loan applicants who were 'offered what they wanted and took it' rated this as a low effort experience.
Effort if have facility after issues	Amongst those who had their overdraft facility 'after issues', 43% rated it a low effort experience (compared to 78% offered what they wanted). Amongst those who had their loan facility 'after issues', 17% rated it a low effort experience (compared to 64% of those offered what they wanted).

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 from 2011 and for H1 2015 are shown below.

Overall satisfaction has improved slightly over time – for H1 2015 the overall satisfaction score was 85%, made up of 43% who were 'very satisfied' and 42% who were 'fairly satisfied' with their main bank:

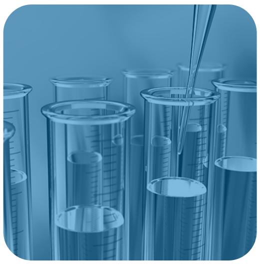
Very/fairly satisfied with main bank					
Over time – row percentages	2011	2012	2013	2014	H1 2015
Total	***81%***	***80%***	***81%***	***82%***	***85%***
0 emps	82%	81%	81%	82%	85%
1-9 emps	78%	77%	79%	80%	83%
10-49 emps	80%	80%	83%	83%	87%
50-249 emps	85%	84%	86%	88%	90%
PNB	87%	86%	86%	86%	88%
Type 1 event: facility at main bank	82%	81%	82%	84%	82%
Type 1 event: no facility at main bank	32%	36%	35%	40%	23%
'Would-be seekers' of finance	73%	68%	59%	48%	70%
'Happy non-seekers' of finance	87%	85%	84%	85%	87%

Q220

There has been some improvement in satisfaction over time across all size bands. 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 are satisfied, and those who had applied but ended the process with no facility, where currently a quarter are satisfied (reversing the previous improvement seen since 2011). Note that levels of satisfaction amongst the 'Permanent non-borrowers' have consistently been somewhat higher than for either of these groups.

The biggest variation in levels of satisfaction over time has been amongst the small group of 'Would-be seekers' who wanted to apply for a facility but felt that something stopped them doing so. Overall satisfaction amongst this small group of SMEs dropped from 73% in 2011 to 48% in 2014, but is back to 70% for the first half of 2015.

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 2014 to Q2 2015.

Key findings

The number of applications is limited, notably of loans, restricting the analysis possible in this chapter.

Of all overdrafts granted in the 18 months to Q2 2015

- Most, 77% were for £25,000 or less
- A minority, 8% were for a facility in a personal name
- 35% were secured. This increased by size of facility from 24% of overdrafts for less than £10,000 to 66% of overdrafts of £100,000 or more being secured. Over time, there has been an increase in the proportion of smaller overdrafts that were secured. In H2 2011, 10% of overdrafts for less than £10,000 were secured while in H2 2014 the figure was 30%
- 41% of overdrafts in the 18 months to Q2 2015 were on a variable rate with a median margin of +2.9%, while the remainder had a median fixed rate of 2.4%
- Most paid a fee (median £129) with 65% paying a fee equivalent to 2% or less of the facility granted

Of all loans granted in the 18 months to Q2 2015

- Most, 79% were for £100,000 or less
- A minority, 9% were for a facility in a personal name
- Half, 46% were secured -20% as a commercial mortgage, 26% as a commercial loan. Larger loans remained more likely to be secured (87% of loans for £100,000 or more were secured compared to 32% of loans for less than £25,000) with no clear pattern over time
- 28% were on a variable rate with a median margin of +2.8%, while the remainder had a median fixed rate of 4.4%
- Most paid a fee (median £79) with 85% paying a fee equivalent to 2% or less of the facility granted

This chapter covers the security, interest rates and fees pertaining to overdrafts and loans granted after a Type 1 borrowing event (that is an application or a renewal). Analysis is based on the 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 2014 and Q2 2015, 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, while the quarter in which this renewal took place has 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 2014 to Q2 2015:

- 50% were granted to 0 employee SMEs
- 42% to 1-9 employee SMEs
- 7% to 10-49 employee SMEs
- 1% to 50-249 employee SMEs

77% of new/renewed overdrafts granted between Q1 2014 and Q2 2015 were for £25,000 or less. This varied by size from 90% of overdrafts granted to SMEs with 0 employees to 26% of those granted to SMEs with 50-249 employees.

8% of successful new/renewed overdrafts in this period were in a personal name rather than that of the business. This varied from 9% of overdrafts granted to 0 employee businesses to 1% of those with 50-249 employees.

Analysis of the overdraft facility granted by application date, reported below, shows that half or more of overdrafts granted have been for £5,000 or more. Between 2011 and 2013, the proportion of overdrafts agreed each year for more than £5,000 increased somewhat from 52% to 60%, and is currently 59% for 2014 to date and 60% for 2015 to date.

Overdraft facility granted By date of application	Q3 12	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13	Q1 14	Q2 14	Q3* 14	Q4* 14	Q1* 15
Unweighted base:	*300*	*375*	*385*	*325*	*309*	*337*	*318*	*338*	*236*	*249*	*151*
Less than £5,000	39%	37%	45%	34%	46%	34%	49%	42%	33%	38%	30%
£5-25,000	43%	38%	32%	40%	37%	40%	32%	30%	37%	41%	51%
£25,000+	19%	24%	24%	26%	17%	26%	20%	28%	31%	21%	19%

Overdraft facility granted – all successful applicants that recall amount granted

Overdrafts: Security

A third (35%) of Type 1 overdrafts (i.e. a new or renewed facility not including automatic renewals, successfully applied for between Q1 2014 and Q2 2015) 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 14-Q2 15	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*1271*	*106*	*464*	*518*	*183*
Property (any)	22%	12%	30%	38%	36%
Charge over business property	*10%*	*7%*	*12%*	*20%*	*23%*
Charge over personal property	*12%*	*6%*	*18%*	*18%*	*11%*
Directors/personal guarantee	3%	*	5%	6%	6%
Other security (any)	13%	12%	12%	17%	20%
Any security	35%	24%	45%	54%	56%
No security required	65%	76%	55%	46%	44%

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 2014 and Q2 2015:

- 24% of overdrafts granted for less than £10,000 were secured
- 45% of overdrafts granted for £10-24,999
- 48% of overdrafts granted for £25-99,999
- 66% 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 since the second half of 2012 were somewhat more likely to be secured than those applied for in 2011, with some increase across all size bands. Initial indications for H2 2014 suggest that the smallest overdrafts have continued to become more likely to be secured:

% of overdraft facilities that were secured, by size of facility and date applied for Row percentages	H2 2011	H1 2012	H2 2012	H1 2013	H2 2013	H1 2014	H2 2014*
All overdrafts	24%	28%	34%	35%	34%	36%	37%
Overdrafts of <£10,000	10%	18%	16%	18%	22%	24%	30%
Overdrafts of £10-25,000	39%	33%	52%	49%	40%	50%	43%
Overdrafts of £25-100,000	55%	54%	63%	62%	62%	53%	40%
Overdrafts of more than £100,000	72%	77%	63%	72%	78%	66%	74%

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

Initial indications for applications made in H1 2015 are that around 3 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, 4 in 10 (41%) said that their new/renewed overdraft was on a variable rate:

Type of rate (overdraft) by facility granted: **Successfully sought** new/renewed overdraft Q1 14-Q2 15 excl. DK	Total	<£10k	£10-25k	£25-100k	£100k+
Unweighted base:	*1108*	*333*	*205*	*309*	*261*
Variable rate lending	41%	35%	44%	49%	53%
Fixed rate lending	59%	65%	56%	51%	47%

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 has been fairly stable at around 4 in 10:

New/renewed overdraft rate By date of application	Q3 12	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13	Q1 14	Q2 14	Q3 14*	Q4 14*	Q1 15*
Unweighted base:	*241*	*299*	*317*	*273*	*255*	*278*	*280*	*281*	*200*	*195*	*130*
Variable rate lending	46%	46%	49%	42%	43%	43%	43%	42%	41%	34%	44%
Fixed rate lending	54%	54%	51%	58%	57%	57%	57%	58%	59%	66%	56%

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 (95%).

48% of those with a new/renewed variable rate overdraft and 35% 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. Due to small base sizes the first two categories have been merged for this report for overdrafts of under £25k:

Variable margin (overdraft) by facility granted: **Successfully sought** new/renewed overdraft Q1 14-Q2 15 excl. DK	Total	<£25k	£25-100k	£100k+
Unweighted base:	*413*	*151*	*126*	*136*
Less than 2%	44%	47%	37%	38%
2.01-4%	33%	27%	47%	44%
4.01-6%	8%	9%	4%	10%
6%+	15%	17%	12%	8%
Average margin above Base/LIBOR:	*+3.3%*	*+3.4%*	*+3.2%*	*+2.9%*
Median margin above Base/LIBOR	*+2.9%*	*+2.8%*	*+2.9%*	*+2.5%*

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

Analysis by date of application is limited by the number of respondents answering this question, and so has been based on a half-year rather than quarterly analysis. The table below shows the variation over time of those paying a margin of 6% or more for their overdraft, with the consequent impact on the average rate charged:

New/renewed overdraft variable rate By application date (half year)	H2 11	H1 12	H2 12	H1 13	H2 13	H1 14	H2 14*
Unweighted base:	*346*	*311*	*252*	*243*	*232*	*205*	*149*
<4%	66%	63%	70%	61%	83%	77%	69%
4-6%	13%	23%	7%	13%	8%	9%	6%
6%+	21%	14%	23%	25%	9%	14%	25%
Average margin above Base/LIBOR:	+5.1%	+4.1%	+4.2%	+4.2%	+2.9%	+3.4%	+4.1%

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

Due to small base sizes the first two categories have been merged for this report for overdrafts of under £25k:

Fixed rate (overdraft) by facility granted: **Successfully sought** new/renewed overdraft Q1 14-Q2 15 excl. DK	Total	Under £25k	£25-100k	£100k+
Unweighted base:	*416*	*198*	*127*	*91**
Less than 3%	55%	55%	57%	48%
3.01-6%	36%	35%	31%	50%
6.01-8%	5%	5%	7%	2%
8%+	4%	4%	5%	*
Average fixed rate:	*3.4%*	*3.4%*	*3.4%*	*3.1%*
Median fixed rate	*2.4%*	*2.4%*	*2.3%*	*3.1%*

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. Over the 6 month periods reported below the average rate paid has been around 5% but for the two most recent periods the average rate has been somewhat lower (4.1% for H2 2014):

New/renewed overdraft fixed rate By application date (half year)	H2 11	H1 12	H2 12	H1 13	H2 13	H1 14	H2 14*
Unweighted base:	*273*	*276*	*213*	*224*	*205*	*203*	*139*
<3%	38%	38%	35%	44%	28%	57%	47%
3-6%	45%	32%	41%	39%	44%	38%	34%
6%+	17%	30%	24%	18%	28%	5%	18%
Average margin above Base/LIBOR:	*4.7%*	*5.9%*	*5.3%*	*4.1%*	*5.4%*	*3.1%*	*4.1%*

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

Overdrafts: Fees

Most respondents (83%) were able to recall the arrangement fee that they had paid for their new/renewed overdraft facility (if any). The average fee paid was £363, and this has been fairly consistent over time.

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

Fee paid (overdraft) by facility granted: **Successfully sought** new/renewed overdraft Q1 14-Q2 15 excl. DK	Total	<£10k	£10-25k	£25-100k	£100k+
Unweighted base:	*1088*	*304*	*212*	*324*	*248*
No fee paid	20%	30%	12%	7%	8%
Less than £100	12%	19%	6%	3%	1%
£100-199	32%	39%	40%	12%	6%
£200-399	19%	9%	36%	36%	7%
£400-999	9%	3%	4%	32%	14%
£1000+	7%	1%	2%	9%	63%
Average fee paid:	*£363*	*£121*	*£250*	*£637*	*£1859*
Median fee paid	*£129*	*£77*	*£174*	*£294*	*£1179*

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

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.

Amongst those with a new/renewed overdraft who knew both what fee they had paid and the size of the facility granted, 27% 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%.

Almost 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:

- 44% of those granted a new/renewed overdraft facility of less than £10,000 paid the equivalent of 2% or less
- 80% of those granted a new/renewed overdraft facility of £10-25,000 paid the equivalent of 2% or less
- 94% of those granted a new/renewed overdraft facility of £25-100,000 paid the equivalent of 2% or less
- 99% of those granted a new/renewed overdraft facility of more than £100,000 paid the equivalent of 2% or less

An analysis of secured and unsecured overdrafts is shown below:

Unsecured and secured overdrafts	Further analysis Q1 2014 to Q2 2015
Amount borrowed	Secured overdrafts remained more likely to be for more than £25,000 (36%) than unsecured overdrafts (17%), albeit most overdrafts (whether secured or unsecured) were for lower amounts (half of all unsecured overdrafts, 51% were for less than £5,000 and a quarter of secured overdrafts).
Fixed & variable rates	60% of secured overdrafts were on a fixed rate, as were a similar proportion of unsecured overdrafts (56%).
Variable margin	The average variable margin charged was +3.2% if the overdraft was secured, or 3.4% if it was unsecured.
Fixed rate	The average fixed rate was 3.4% if the overdraft was secured, or 3.5% if it was unsecured.
Fees	Secured overdrafts were somewhat more likely to attract a fee (88%) than unsecured overdrafts (74%), and the average fee charged was higher (£627 secured compared to £231 unsecured). 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 (76%) than was the case for unsecured overdrafts (60%).

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 granted the facility. 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 14-Q2 15 excl. DK	Min/Low	Average/Worse than average
Unweighted base (varies by question):	*646*	*610*
% borrowing £25,000 or less	61%	82%
Facility secured (Less than £25k)	40%	27%
Facility secured (£25k+)	56%	52%
Facility on a variable rate (excluding DK)	42%	39%
Average variable margin for less than £25k facility	+2.6%	+3.6%
Average variable margin for facility £25k+	+3.1%	+3.0%
Average fixed rate for less than £25k facility*	3.5%	3.6%
Average fixed rate for facility £25k+	3.3%	3.3%
% where fee <2% of facility (under £25k)	53%	59%
% where fee <2% of facility (£25k+)	93%	98%

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

Overdraft terms: Analysis by sector

Overall in the 18 months Q1 2014 to Q2 2015, 77% of overdrafts successfully applied for were facilities of £25,000 or less. By sector this varied relatively little (between 72% and 88%), with the exception of Agriculture where 57% of overdrafts granted were for less than £25,000.

As the table below shows, secured overdrafts were:

- More common for overdrafts in Agriculture (58%)
- Somewhat less common for overdrafts in the Other Community sector (22%)

Type 1 overdraft **Successfully sought** new/renewed overdraft Q1 14-Q2 15 excl. DK	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*155*	*143*	*223*	*140*	*84**	*97**	*198*	*81**	*150*
Any security	58%	47%	34%	45%	39%	18%	28%	27%	22%
- property	*45%*	*26%*	*18%*	*22%*	*33%*	*9%*	*18%*	*8%*	*17%*
No security	42%	53%	66%	55%	61%	82%	72%	73%	78%

Q 106 All SMEs with new/renewed overdraft excluding DK

Overall, just under half of Type 1 overdrafts obtained were on a variable rate (41%). On limited base sizes, overdrafts granted to SMEs in Construction or Health were less likely to be on a variable rate:

Type 1 overdraft rate **Successfully sought** new/renewed overdraft Q1 14-Q2 15 excl. DK	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*150*	*122*	*182*	*119*	*78**	*87**	*170*	*64**	*136*
Variable rate lending	44%	55%	24%	41%	31%	45%	56%	18%	29%
Fixed rate lending	56%	45%	76%	59%	69%	55%	44%	82%	71%

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 Hotel & Restaurant sector remained somewhat 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 14-Q2 15 excl. DK	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base (varies):	*126*	*120*	*194*	*113*	*74**	*85**	*165*	*66**	*145*
No fee paid	21%	15%	15%	17%	9%	29%	16%	38%	34%
Average fee paid	£615	£559	£275	£275	£379	£253	£438	£159	£279
Equivalent of 2% or less paid*	74%	75%	77%	59%	69%	70%	54%	77%	63%

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, data is 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 revised analysis structure, the table below shows all automatic renewals known to have occurred between Q1 2014 and Q2 2015.

The majority of these automatic renewals (86%) were for less than £25,000 (in line with Type 1 overdraft events reported for these quarters), and they were somewhat more likely to be in a personal name (13% v 8% of Type 1 overdrafts). They were though in many ways similar to Type 1 overdraft events in the same period:

Overdraft rates and fees summary Q1 14-Q2 15	Automatically renewed	Type 1 overdraft event
Unweighted base (varies by question):	*1275*	*1271*
Any security required	32%	35%
Facility on a variable rate (excluding DK)	39%	41%
Average variable margin	+3.5%	+3.5%
Average fixed rate	4.5%	3.4%
No fee	25%	20%
Average fee paid	£225	£363

All SMEs with new/renewed overdraft, excluding DK

Loans: Context

As with the overdraft section above, this section is based on the revised 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 2014 and Q2 2015, 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 2014 and Q2 2015:

- 48% were granted to 0 employee SMEs
- 40% to 1-9 employee SMEs
- 10% to 10-49 employee SMEs
- 2% to 50-249 employee SMEs

79% of new/renewed loans granted in the period Q1 2014 to Q2 2015 were for £100,000 or less. By size this varied from 89% of those granted to SMEs with 0 employees to 28% of loans granted to those with 50-249 employees.

9% of successful new/renewed loans in this period were applied for in a personal name rather than that of the business. 90% of these loans were for £100,000 or less (albeit this is based on a small number of loans).

Personal facilities will typically be priced differently to business facilities, so as an indication 11% of all loans agreed for less than £100,000 were applied for in a personal name, compared to 5% of loans £100k+.

Analysis of loans granted by application date showed that in in the year to Q3 2014 a declining proportion of loans granted were for £100,000 or more, but initial results for Q4 2014 showed 4 in 10 loans granted were for £100k or more:

Loan facility granted By date of application	Q3 12	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13	Q1 14	Q2 14	Q3* 14	Q4* 14
Unweighted base:	*131*	*173*	*147*	*130*	*141*	*164*	*152*	*177*	*109*	*119*
Less than £25k	61%	49%	52%	60%	45%	63%	59%	64%	70%	44%
£25-99k	11%	20%	22%	13%	41%	27%	23%	21%	14%	15%
More than £100k	28%	31%	26%	27%	14%	10%	19%	15%	16%	41%

All successful loan applicants that recall amount granted

Loans: Security

19% of loans were commercial mortgages. These were much more likely to have been granted for £100,000+ and in this most recent period varied relatively little by size of applicant:

- 19% of successful applicants with 0-9 employees said their loan was a commercial mortgage
- 22% of successful applicants with 10-49 employees
- 19% 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 remained more likely to have an unsecured loan:

Security required (Loan): **Successfully sought** new/renewed loan Q1 14-Q2 15	Total	0-9 emp	10-49 emps	50-249 emps
Unweighted base:	*645*	*241*	*264*	*140*
Commercial mortgage	20%	19%	22%	19%
Secured business loan	26%	25%	34%	37%
Unsecured business loan	54%	56%	44%	44%

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

Including commercial mortgages, of new/renewed loans successfully applied for in Q1 2014 to Q2 2015:

- 32% of loans granted for less than £25,000 were secured
- 43% of loans granted for £25,000 to £100,000 were secured
- 87% 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 14-Q2 15	Total	0-9 emp	10-49 emps	50-249 emps
Unweighted base:	*645*	*241*	*264*	*140*
Commercial mortgage	20%	19%	22%	19%
Secured – Property (any)	20%	20%	22%	20%
Business property	*14%*	*13%*	*17%*	*17%*
Personal property	*7%*	*8%*	*5%*	*2%*
Director/personal guarantees	2%	2%	5%	3%
Other security	6%	6%	9%	16%
Unsecured business loan	54%	56%	44%	44%

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

Analysis by date of application at the half year level, shows that with the exception of H1 2014 a fairly consistent three quarters of 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. Overall then, typically a third of loans that were not commercial mortgages were secured:

% of loan facilities that were secured, by size of facility and date applied for Row percentages	H2 11	H1 12	H2 12	H1 13	H2 13	H1 14	H2 14*
All loans (excluding commercial mtges)	29%	33%	33%	26%	35%	31%	34%
Loans of <£100,000 (excl commercial mtges)	21%	28%	18%	17%	31%	24%	15%
Loans of more than £100,000 (excl commercial mtges)	76%	69%	78%	82%	76%	49%	66%

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, 72% said that their loan was on a fixed rate (including those with commercial mortgages). Fixed rate lending remained somewhat more common for loans than overdrafts (where 59% 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 14-Q2 15	Total	<£100k	£100k+
Unweighted base:	*556*	*314*	*242*
Variable rate lending	28%	24%	43%
Fixed rate lending	72%	76%	57%

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

Analysis by when the application took place showed that typically around 7 in 10 loans have been on a fixed rate, with no clear trend over time.

Analysis by size of loan over time is more qualitative in nature due to limited sample sizes. It suggests that most loans under £100,000 were on a fixed rate, and that having declined somewhat over time from around 8 in 10 to 6 in 10 in the first half of 2014, more recent loans were again typically on a fixed rate (8 in 10). The pattern for loans over £100,000 is less clear but typically around 6 in 10 loans were on a fixed rate.

Most of those on a variable rate said that the rate was linked to Base Rate (82%).

Amongst SMEs with a new/renewed loan, 35% of those with a variable rate and 22% 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 14-Q2 15	Total	<£100k	£100k+
Unweighted base:	*189*	*76**	*113*
Less than 2%	27%	30%	22%
2.01-4%	51%	51%	50%
4.01-6%	19%	14%	28%
6%+	3%	5%	1%
Average margin above Base/LIBOR:	*+3.0%*	*+2.9%*	*+3.2%*
Median margin above Base/LIBOR	*+2.8%*	*+2.8%*	*+2.8%*

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

Analysis over individual time periods is restricted by the sample sizes available, but *indications* are that for loans successfully applied for over recent periods, the average variable margin charged has been broadly stable at around +3%.

The median variable rate charged was the same for overdrafts and loans (+2.9%). The median rate for fixed rate loan lending, consistent at 4.4%, was now somewhat higher than the median rate now reported for fixed rate overdraft lending (2.4%):

Fixed rate (loan) by amount granted: **Successfully sought** new/renewed loan Q1 14-Q2 15	Total	<£100k	£100k+
Unweighted base:	*270*	*160*	*110*
Less than 3%	33%	26%	61%
3.01-6%	355	38%	23%
6.01-8%	17%	19%	10%
8%+	15%	17%	6%
Average fixed rate:	*5.2%*	*5.6%*	*3.7%*
Median fixed rate	*4.4%*	*4.4%*	*1.8%*

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

Analysis by date of application is limited by the number of respondents answering this question, but indicative results were that the average fixed rate had been around 5% in recent half year periods.

Loans: Fees

75% of 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 14-Q2 15	Total	<£100k	£100k+
Unweighted base:	*489*	*256*	*233*
No fee paid	44%	49%	31%
Less than £100	5%	6%	2%
£100-199	16%	22%	1%
£200-399	11%	12%	8%
£400-999	6%	5%	10%
£1000+	18%	7%	48%
Average fee paid:	*£969*	*£296*	*£2890*
Median fee paid	*£79*	*£-*	*£772*

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

Amongst those with a new/renewed loan who knew both what fee they had paid and the original loan size, 60% paid a fee that was the equivalent of less than 1% of the amount borrowed and a further 25% 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

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. In 2013 this proportion increased again to 86% and current data for 2014 indicates that once again around 8 out of 10 fees were the equivalent of 2% or less of the facility granted.

An analysis of secured and unsecured loans is shown below:

Unsecured and secured loans	Further analysis Q1 2014 to Q2 2015
Amount borrowed	95% of unsecured loans granted between Q1 2014 and Q2 2015 were for less than £100,000 compared to 59% of secured loans (including commercial mortgages).
Fixed & variable rates	Fixed rate lending was more common where the facility was unsecured (83% v 62% for secured loans).
Variable margin	For those who successfully applied for a new/renewed loan on a variable rate, a secured loan was charged at an average margin of +2.9% and an unsecured loan at an average margin of +3.2%.
Fixed rate	For fixed rate lending, the average rates were 4.6% for secured loans and 5.6% for unsecured.
Fees	Those successful with an unsecured loan were more likely to say that no fee was taken (50%) than those with a secured loan (37%), and paid a smaller fee on average (£163 v £1891). There was though only a small difference in the proportion paying the equivalent of 2% or less for their loan by whether the loan was secured or not (82% if secured, 87% if not).

Loan terms: Analysis by risk rating

Sample sizes also permit analysis of size of facility, interest rates and fees by external risk rating. Those with a minimal/low external risk rating remained more likely to be typically borrowing more, paying a variable rate and paying a lower fixed rate:

Loan rates and fees summary **Successfully sought** new/renewed loan Q1 14-Q2 15	Min/Low	Average/Worse than average
Unweighted base (varies by question):	*364*	*257*
% borrowing £100,000 or less	71%	81%
Any security provided	47%	44%
Facility on a variable rate (excluding DK)	34%	24%
Average variable margin	+3.2%	+3.3%
Average fixed rate	3.5%	6.0%
% where fee <2% of facility	88%	82%

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 but one sector are now below 100, even across an 18 month time period. This section continues to be included, but can provide only *indicative* loan data, and no figures are shown where a sector has fewer than 50 respondents answering.

79% of new/renewed loans agreed between Q1 2014 and Q2 2015 were for £100,000 or less. This typically varied little by sector (83-93%), with the exception of Agriculture (65%), Hotels & Restaurants (66%) and Property / Business Services (63%).

On limited base sizes, new/renewed loans in the Wholesale/Retail sector were more likely to have been commercial mortgages, while those in Health were more likely to be unsecured:

Type 1 loan **Successfully sought** new/renewed loan Q1 14-Q2 15	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*81**	*76**	*71**	*73**	*69**	*56**	*99**	*54**	*66**
Commercial mtge	15%	6%	17%	31%	21%	3%	25%	7%	22%
Secured loan	47%	41%	19%	13%	29%	48%	34%	4%	12%
Unsecured loan	38%	53%	64%	57%	50%	49%	41%	90%	66%

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

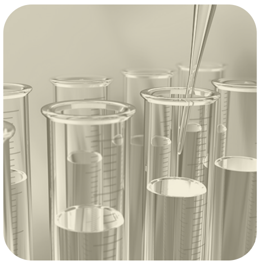
Overall, 72% of Type 1 loans were on a fixed rate. This appeared less likely for loans amongst SMEs in the Property/Business Services sector:

Type 1 loan rate **Successfully sought** new/renewed loan Q1 14-Q2 15	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*75**	*62**	*59**	*63**	*55**		*84**	*50**	*60**
Variable rate lending	32%	18%	27%	30%	36%		41%	10%	6%
Fixed rate lending	68%	82%	73%	70%	64%		59%	90%	94%

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

Appetite for loan/overdraft finance continued to be limited amongst SMEs overall, whether they applied for finance or would have liked to apply but felt something stopped them

- 16% of SMEs reported a borrowing ‘event’, typically a new/renewed loan or overdraft application or the automatic renewal of an overdraft (14%) and this proportion is declining over the longer term having been 24% in Q2 2012

- In Q2 2015, 2% of SMEs met the definition of a ‘Would-be seeker’ of loan/overdraft finance (an SME that had wanted to apply for a facility but felt that something had stopped them). This proportion has declined steadily over time (it was 10% in Q2 2012)

- As a result, most SMEs met the definition of a ‘Happy non-seeker’ of loan/overdraft finance in the 12 months prior to interview. 82% were HNS in Q2 2015, one of the highest levels to date. Again, this proportion has increased over time (66% were HNS in Q2 2012)

The Permanent non-borrowers make up an increasing proportion of SMEs. Excluding them from this analysis increases the proportion reporting an event to 32% of remaining SMEs, the ‘Would-be seekers’ to 4% and reduces the HNS to 64% (but still the largest group). There are some signs, amongst SMEs that are not PNBs, of an increase in appetite for finance (from 27% reporting an event in Q2 2014) but no similar increase has been seen in ‘Would-be seekers’

The 'process' of borrowing and 'discouragement' remained the main barrier for 'Would-be seekers' of loan or overdraft funding

- A third of SMEs that had wanted to apply for an overdraft (39%) or a loan (36%) said that the 'process' of borrowing had put them off (expense, hassle, terms and conditions etc)

- A similar proportion of would-be overdraft seekers (33%) said that they had felt discouraged from applying. Would-be loan seekers were more likely to mention this as a barrier (43%) but in both cases most of this discouragement was indirect (where the SME assumes they are going to be turned down and so does not apply).

- In 2015, would-be overdraft seekers mentioned the process of borrowing slightly more and discouragement slightly less. For loans there were also slightly fewer mentions of discouragement and a slight increase in those mentioning the 'principle' of borrowing

6% of all SMEs reported that they had <u>ever</u> been declined for a bank facility.

- 7 in 10 of those who had been declined said that it had made them more reluctant to apply for finance subsequently (the equivalent of 4% of all SMEs, or 7% once the PNBs are excluded)

- Those made more reluctant by a previous decline were more likely to now be a 'Would-be seeker' of finance (17%) than SMEs overall but 46% reported that they had had a borrowing 'event' in the previous 12 months. 82% of those who had never been declined were now 'Happy non-seekers' of finance

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*).

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 loan/overdraft 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.

Changes to definitions used over time

There have been a number of changes made in this chapter, albeit that the last change was made in Q4 2012. They are summarised below for information.

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 loan or overdraft 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.

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

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'), and 'Would-be seeker' / 'Happy non-seeker' definition. Figures from before the definition changes in Q4 2012 are shown in the longer term trend charts at the end of this report.

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 have chosen to do so (the Type 2 and 3 events):

Any events (overdraft and loan) All SMES, over time By date of interview	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015
Unweighted base:	*5000*	*5008*	*5028*	*5000*	*5008*	*5023*	*5024*	*5038*	*5001*
Have had an event	19%	15%	17%	14%	17%	18%	15%	18%	16%
• *New or (auto) renewed facility*	*16%*	*13%*	*15%*	*13%*	*15%*	*14%*	*13%*	*14%*	*14%*
• *Type 2 or 3 events*	*4%*	*3%*	*4%*	*3%*	*4%*	*6%*	*3%*	*6%*	*5%*
'Would-be seekers'	6%	7%	4%	4%	5%	5%	3%	3%	2%
'Happy non-seekers'	76%	78%	79%	82%	78%	77%	82%	79%	82%

Q1 15/209 All SMEs – **new definitions** from Q4 2012 – shaded figures

This shows that over time, most SMEs met the definition of a 'Happy non-seeker' of loan or overdraft finance (82% in Q2 2015), while the proportion of 'Would-be seekers' continued to decline (2% in Q2 2015). The proportion of SMEs reporting an event remained at around 1 in 6 and this is somewhat lower than the figures reported when the Monitor first started (when up to 1 in 4 SMEs reported a borrowing 'event').

'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 reduction in the proportion of 'Would-be seekers' of loan and overdraft finance over time, notably amongst smaller SMEs and those with a less favourable risk rating:

'Would-be seekers' Over time – row percentages By date of interview	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015
All SMEs	**6%**	**7%**	**4%**	**4%**	**5%**	**5%**	**3%**	**3%**	**2%**
0 employee	6%	7%	4%	4%	6%	6%	3%	3%	2%
1-9 employees	5%	7%	5%	5%	4%	4%	3%	4%	2%
10-49 employees	3%	3%	2%	3%	2%	2%	2%	2%	1%
50-249 employees	1%	1%	1%	1%	1%	1%	1%	1%	1%
Minimal external risk rating	2%	2%	3%	2%	1%	1%	2%	1%	1%
Low external risk rating	2%	3%	4%	2%	3%	1%	2%	4%	1%
Average external risk rating	6%	8%	4%	2%	3%	5%	2%	2%	2%
Worse than average external risk rating	6%	7%	4%	4%	8%	6%	5%	3%	2%
Agriculture	3%	3%	5%	4%	2%	2%	3%	2%	2%
Manufacturing	4%	5%	3%	2%	6%	4%	3%	3%	4%
Construction	9%	7%	5%	4%	6%	5%	3%	3%	2%
Wholesale/Retail	5%	7%	5%	8%	5%	4%	3%	1%	1%
Hotels & Restaurants	6%	8%	8%	3%	8%	7%	5%	5%	3%
Transport	7%	10%	5%	4%	10%	7%	8%	4%	5%
Property/Business Services etc.	6%	7%	3%	2%	3%	5%	3%	3%	2%
Health	2%	6%	2%	4%	4%	7%	1%	2%	1%
Other Community	3%	7%	5%	6%	8%	8%	3%	5%	*
All excluding PNBs	9%	11%	7%	8%	9%	9%	6%	6%	4%

Q1 15/209 All SMEs base size varies by category

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 15 All SMES	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*20,086*	*4004*	*6644*	*6433*	*3005*
Have had an event	17%	14%	24%	26%	19%
'Would-be seekers'	3%	4%	3%	2%	1%
'Happy non-seekers'	80%	82%	73%	72%	79%

Q1 15/209 All SMEs– **new definitions** from Q4 2012

SMEs with employees were more likely to have experienced a borrowing 'event' (24%). 3% met the definition of a 'Would-be seeker' of finance, with the largest group, as overall, the 'Happy non-seekers' (73%). Over time, SMEs with employees have also became less likely to report a borrowing 'event' (33% did so in 2012) and more likely to be a 'Happy non-seeker' (59% in 2012).

Those currently using external finance were no more or less likely to be a 'Would-be seeker' (5% v 3% not using external finance), but remained much more likely to have had an event (41% v 3% not using external finance).

By risk rating, those SMEs with a minimal or low risk rating remained somewhat more likely to have had an event but across all risk ratings 8 out of 10 SMEs met the definition of a 'Happy non-seeker':

Any events (Overdraft and loan) YEQ2 15 All SMEs with a risk rating	Total	Min	Low	Avge	Worse/ Avge
Unweighted base:	*20,086*	*3275*	*6029*	*4736*	*4307*
Have had an event	17%	18%	20%	18%	15%
'Would-be seekers'	3%	1%	2%	3%	4%
'Happy non-seekers'	80%	81%	78%	79%	81%

Q1 15/209 All SMEs– **new definitions** from Q4 2012

The proportion of 'Would-be seekers' varied relatively little by sector (2-6%). More variation was seen in terms of 'Happy non-seekers', which accounted for 85% of those in the Health sector (who were less likely to have had an event), compared to 75% of those in Wholesale/Retail or Agriculture (who were more likely to have had an event):

Any events (overdraft and loan) All SMEs YEQ2 15	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	***1506***	***2097***	***3512***	***2029***	***1803***	***1815***	***3523***	***1788***	***2013***
Have had an event	22%	18%	14%	23%	19%	13%	16%	13%	20%
'Would-be seekers'	2%	3%	3%	2%	5%	6%	3%	3%	4%
'Happy non-seekers'	75%	78%	83%	75%	76%	81%	81%	85%	76%

Q1 15/209 All SMEs

Analysis by age of business showed that the older the business the more likely they were to have had a borrowing event and the less likely to be a 'Would-be seeker' or a 'Happy non-seeker' of finance (albeit three quarters of SMEs that have been trading for 10 years or more do meet the definition of a HNS):

Any events (overdraft and loan) All SMEs YEQ2 15	Starts	2-5 yrs	6-9 yrs	10-15 yrs	15+ yrs
Unweighted base:	***2007***	***2142***	***2357***	***3433***	***10,147***
Have had an event	10%	13%	16%	20%	21%
'Would-be seekers'	5%	5%	3%	3%	2%
'Happy non-seekers'	85%	82%	81%	77%	76%

Q1 15/209 All SMEs

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 <u>main</u> barrier.

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 2015 the reasons given were:

- Process of borrowing – those who did not want to apply because they thought it would be too expensive, too much hassle etc. This was given as a reason by 52% of all 'Would-be seekers', which is the equivalent of around 2% of all SMEs.
- Discouragement – those that had been put off, either directly (they made informal enquiries of the bank and were put off) or indirectly (they thought they would be turned down by the bank so did not ask). This was given as a reason by 38% of all 'Would-be seekers', which is the equivalent of around 1% 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. This was given as a reason by 27% 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 13% of all 'Would-be seekers', which is the equivalent of less than 1% of all SMEs.

The table below shows the combined results for YEQ2 2015, and all the reasons for not applying for a loan or overdraft that are included in the summary categories above. This shows that for overdrafts, issues with the process of borrowing were more likely to be mentioned than discouragement, while both issues were mentioned equally by those who felt that something had stopped them from applying for a loan.

An additional question was asked of those giving more than one reason, asking them to nominate the <u>key</u> reason for not applying, and those results form the main analysis of barriers to application later in this chapter.

All 'Would-be seekers' All reasons for not applying when wished to YEQ2 15	Would have liked to apply for an overdraft Total	 0-9 emps	 10-249 emps	Would have liked to apply for a loan Total	 0-9 emps	 10-249 emps
Unweighted base:	*388*	*274*	*114*	*270*	*182*	*88**
Issues with process of borrowing	53%	53%	50%	42%	42%	51%
-Would be too much hassle	*18%*	*18%*	*20%*	*11%*	*11%*	*20%*
-Thought would be too expensive	*30%*	*31%*	*14%*	*29%*	*29%*	*20%*
-Would be asked for too much security	*8%*	*7%*	*16%*	*5%*	*5%*	*13%*
-Too many terms and conditions	*17%*	*17%*	*16%*	*8%*	*8%*	*18%*
-Did not want to go through process	*7%*	*7%*	*8%*	*5%*	*5%*	*8%*
-Forms too hard to understand	*3%*	*3%*	*3%*	*4%*	*4%*	*3%*
Discouraged (any)	37%	37%	32%	44%	44%	38%
-Direct (put off by bank)	*16%*	*16%*	*17%*	*16%*	*16%*	*13%*
-Indirect (thought would be turned down)	*24%*	*25%*	*19%*	*34%*	*34%*	*30%*
Issues with principle of borrowing	26%	26%	16%	18%	18%	20%
-Not lose control of business	*13%*	*13%*	*10%*	*8%*	*8%*	*14%*
-Can raise personal funds if needed	*12%*	*12%*	*5%*	*8%*	*8%*	*2%*
-Prefer other forms of finance	*8%*	*8%*	*7%*	*4%*	*4%*	*5%*
-Go to family and friends	*5%*	*5%*	*4%*	*4%*	*4%*	*3%*
Economic climate	13%	13%	10%	6%	6%	6%
Not the right time to apply	*13%*	*13%*	*10%*	*6%*	*6%*	*6%*

Q1 16/Q2 10 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.

'Discouragement' and the 'Process of borrowing' remained the two key issues mentioned by 'Would-be seekers' interviewed in YEQ2 2015. 90% or more of those who gave 'discouragement' as one of their reasons for not having applied (in the previous table) went on to cite it as their main reason, compared to around three quarters of those nominating the 'process of borrowing' who then went on to nominate it as their main reason.

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 15	Total	0-9 emps	10-249 emps	Total	0-9 emps	10-249 emps
Unweighted base:	*388*	*274*	*114*	*270*	*182*	*88**
Discouraged (any)	33%	33%	31%	43%	43%	37%
-Direct (put off by bank)	*12%*	*12%*	*15%*	*12%*	*12%*	*9%*
-Indirect (thought would be turned down)	*20%*	*21%*	*16%*	*31%*	*31%*	*28%*
Issues with process of borrowing	39%	39%	40%	36%	36%	44%
Issues with principle of borrowing	13%	13%	8%	12%	12%	9%
Economic climate	7%	7%	6%	2%	2%	2%
None of these	*8%*	*9%*	*11%*	*7%*	*6%*	*8%*

Q1 16a/Q2 10a All SMEs that wished they had applied for an overdraft or a loan – NEW DEFINITION

Amongst 'Would-be seekers' of an overdraft, there were few differences by size of business. Amongst 'Would-be seekers' of a loan, smaller would-be applicants were slightly more likely to cite discouragement while larger would-be applicants were slightly more likely to cite issues with the process of borrowing.

Amongst 'Would-be seekers' with employees, the reasons given for not seeking a facility were very similar to reasons overall. For overdrafts, 34% reported feeling 'discouraged' while 40% cited the process of borrowing and for loans the figures were 35% for discouragement and 36% for the process of borrowing.

Previous changes to the question definition and answer codes available limit the time series data available somewhat. The table below shows the main reasons given for not having applied, shown by half year to provide robust base sizes.

For overdrafts, there has been variability in the scores over time, with discouragement and the process of borrowing alternating as the top reason. Within the discouragement category, direct discouragement has been relatively consistent, and always at a lower level than the more variable indirect discouragement:

All 'Would-be seekers'	Overdraft				
Main reason for not applying when wished to over time	H1 13	H2 13	H1 14	H2 14	H1 15
Unweighted base:	*376*	*312*	*254*	*221*	*167*
Discouraged (any)	36%	47%	44%	32%	33%
-Direct (put off by bank)	*11%*	*12%*	*7%*	*10%*	*16%*
-Indirect (thought would be turned down)	*25%*	*34%*	*37%*	*23%*	*17%*
Issues with process	40%	31%	34%	36%	43%
Issues with principle	10%	7%	12%	15%	9%
Economic climate	6%	5%	2%	6%	8%
None of these	*8%*	*10%*	*8%*	*11%*	*8%*

For loans, there have typically been more mentions of discouragement than the process of borrowing as the top reason for not having sought a loan facility. In H1 2015 however the opposite was true with 45% of 'Would-be seekers' of loans citing the process as the main barrier:

All 'Would-be seekers' Main reason for not applying when wished to over time	Loans H1 13	H2 13	H1 14	H2 14	H1 15
Unweighted base:	*241*	*216*	*188*	*158*	*112*
Discouraged (any)	46%	50%	41%	48%	33%
-Direct (put off by bank)	*14%*	*12%*	*10%*	*15%*	*6%*
-Indirect (thought would be turned down)	*32%*	*38%*	*31%*	*33%*	*27%*
Issues with process	36%	28%	40%	31%	45%
Issues with principle	8%	5%	7%	13%	11%
Economic climate	2%	6%	4%	1%	3%
None of these	*8%*	*11%*	*8%*	*7%*	*6%*

Analysis by external risk rating also showed discouragement and the process of borrowing as the main barriers. Discouragement was more of a barrier to a loan application for those with an average or worse than average external risk rating, much of it indirect. The process of borrowing was the main barrier for half of those with a minimal or low risk rating who would have liked to apply for an overdraft:

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 15	Total	Min/ Low	Avge / WTA	Total	Min/ Low	Avge / WTA
Unweighted base:	*388*	*106*	*235*	*270*	*75**	*163*
Discouraged (any)	33%	33%	29%	43%	35%	42%
-Direct (put off by bank)	*12%*	*17%*	*9%*	*12%*	*18%*	*12%*
-Indirect (thought would be turned down)	*20%*	*16%*	*21%*	*31%*	*17%*	*30%*
Issues with process of borrowing	39%	50%	36%	36%	45%	42%
Issues with principle of borrowing	13%	3%	16%	12%	13%	7%
Economic climate	7%	9%	7%	2%	4%	2%
None of these	*8%*	*4%*	*10%*	*7%*	*2%*	*7%*

Q1 16a/Q2 10a 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 (3%). The table below shows, for the main reasons given by ‘Would-be seekers’ for YEQ2 2015, the equivalent proportion of all SMEs:

Main reason for not applying YEQ2 15	Would-be overdraft seekers	All SMEs	Would-be loan seekers	All SMEs
Unweighted base:	*388*	*20,086*	*270*	*20,086*
Discouraged (any)	33%	1%	43%	1%
-Direct (put off by bank)	*12%*	*	*12%*	*
-Indirect (thought I would be turned down)	*20%*	*	*31%*	*
Issues with process of borrowing	39%	1%	36%	1%
Issues with principle of borrowing	13%	*	12%	*
Economic climate	7%	*	2%	*

Q1 16a/Q2 10a All SMEs v all that wished they had applied for an overdraft or a loan – NEW DEFINITION

The equivalent of 1% of all SMEs reported having felt discouraged from applying for an overdraft, and the same proportion felt discouraged from applying for a loan.

The effect of the ‘Permanent non-borrower’

As identified earlier in this report, half of all SMEs met the definition of a ‘Permanent non-borrower’ and this proportion has increased steadily over time. 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 2.2 million from 4.5 million.

31% of this group of SMEs excluding PNBs reported a borrowing ‘event’. The proportion of ‘Happy non-seekers’ declines to 62% but remains the largest group:

Any events (Overdraft and loan) YEQ2 15 – all SMES	All SMEs	All SMEs excl. pnb
Unweighted base:	*20,086*	*13,144*
Have had an event	17%	31%
‘Would-be seekers’	3%	6%
‘Happy non-seekers’	80%	62%

Q1 15/209 All SMEs

For YEQ2 2015, once the PNBs are excluded, 6% of remaining SMEs met the definition of a ‘Would-be seeker’, compared to 3% of all SMEs.

The table below shows the pattern over time, once the PNBs have been excluded. Between 2011 and 2014 there was a decline in the proportion of these SMEs reporting a borrowing event, from around 1 in 3 in 2011 and 2012 to 1 in 4 in 2013 and 2014. Initial indications for 2015 are that this proportion has increased again back to 1 in 3 of these SMEs reporting a borrowing event. Over the same period the proportion of 'Would-be seekers' has declined, as it has for SMEs overall, while the proportion of 'Happy non-seekers' appears to have stabilised at around 6 in 10:

Any events (overdraft and loan) All SMES, excluding PNBs, over time By date of interview	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015
Unweighted base:	*3707*	*3637*	*3585*	*3370*	*3514*	*3576*	*3153*	*3220*	*3195*
Have had an event	29%	26%	29%	28%	27%	30%	29%	35%	32%
'Would-be seekers'	9%	11%	7%	8%	9%	9%	6%	6%	4%
'Happy non-seekers'	62%	63%	64%	65%	64%	61%	65%	59%	64%

Q1 15/209 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 15	Would-be overdraft seekers	All SMEs excl. pnb	Would-be loan seekers	All SMEs excl. pnb
Unweighted base:	*388*	*13,144*	*270*	*13,144*
Discouraged (any)	33%	2%	43%	1%
-Direct (put off by bank)	*12%*	*1%*	*12%*	*
-Indirect (thought I would be turned down)	*20%*	*1%*	*31%*	*1%*
Issues with process of borrowing	39%	2%	36%	1%
Issues with principle of borrowing	13%	1%	12%	*
Economic climate	7%	*	2%	*

Q1 16a/Q2 10a All SMEs v all that wished they had applied for an overdraft or a loan

The equivalent of 2% of all SMEs (excluding the PNBs) reported having felt discouraged from applying for an overdraft, while 1% felt discouraged from applying for 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 before. 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.

6% of SMEs reported that they had *ever* been declined for a banking facility:

Previous decline by bank	All SMEs YEQ2 15
By size of SME	There was relatively little variation by size of SME: • 6% of 0 employee SMEs • 6% of those with 1-9 employees • 6% of those with 10-49 employees • 4% of those with 50-249 employees Amongst SMEs with employees, 6% had previously been declined.
Excluding the PNBs	10% of remaining SMEs once the PNBs were excluded had ever been declined (2% of PNBs had ever been declined).
Risk rating	By risk rating there was little difference for those with a minimal or low risk rating (4-5%) while 6% of those with an average or worse than average risk rating said that they had experienced a previous decline.
Use of external finance	10% of those currently using external finance had experienced a previous decline, compared to 3% of those who had not used external finance in the past 5 years (and 8% of the small group that had used finance in the past but were not using it now).

Amongst SMEs who had experienced a previous decline:

- 71% 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, around 7 in 10 in each category had been made more reluctant, with the exception of those with a low external risk rating where 6 in 10 had been made more reluctant.

The table below shows that the equivalent of 4% of *all* SMEs had been made more reluctant to apply by a previous decline, rising to 7% once the PNBs had been excluded. The largest SMEs remained somewhat less likely to have been affected by a previous decline, both overall and once the PNBs had been excluded:

Impact of previous decline by bank All SMEs YEQ2 15	Total	0 emps	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*20,086*	*4004*	*6644*	*6433*	*3005*
More reluctant to apply after a decline	4%	4%	4%	4%	2%
Declined but not more reluctant	2%	2%	2%	2%	2%
Have not been declined in past	94%	94%	94%	94%	96%

Q240x and Q240y All SMEs

Impact of previous decline by bank All SMEs YEQ2 15 excl PNBs	Total	0 emps	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*13,144*	*1957*	*4335*	*4648*	*2204*
More reluctant to apply after a decline	7%	7%	7%	5%	2%
Declined but not more reluctant	3%	3%	3%	2%	2%
Have not been declined in past	90%	90%	91%	93%	95%

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 by a previous decline:

Impact of previous decline by bank All SMEs YEQ2 15	Total	Min	Low	Avge	Worse/ Avge
Unweighted base:	*20,086*	*3275*	*6029*	*4736*	*4307*
More reluctant to apply after a decline	4%	3%	3%	4%	5%
Declined but not more reluctant	2%	1%	2%	1%	2%
Have not been declined in past	94%	96%	95%	94%	94%

Q240x and Q240y All SMEs

Amongst those currently using external finance, 7% were more reluctant to apply, compared to 6% of those that had used finance in the past five years but were not using it currently and 2% of those who had not used external finance for at least the past 5 years.

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 currently 'Happy non-seekers' of finance (82%)
- Those who reported that the decline had made them more reluctant to apply for bank finance were more likely to meet the definition of a 'Would-be seeker' of finance (17%) than either those not put off by their decline (7%) or those who had never been declined (3%):

Impact of previous decline by bank All SMEs YEQ2 15	All SMEs	Made more reluctant by decline	Declined but not made more reluctant	Not previously declined
Unweighted base:	*20,086*	*755*	*369*	*18,962*
Have had an event	17%	46%	44%	15%
'Would-be seekers'	3%	17%	7%	3%
'Happy non-seekers'	80%	36%	49%	82%

Q240x and Q240y and Q1 15/209 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:

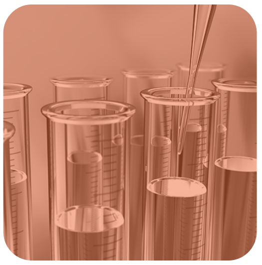
Impact of previous decline by bank All SMEs YEQ2 15 excl PNBs	All SMEs excl PNBs	Made more reluctant by decline	Declined but not made more reluctant	Not previously declined
Unweighted base:	*13,144*	*703*	*307*	*12,134*
Have had an event	31%	52%	52%	29%
'Would-be seekers'	6%	20%	9%	5%
'Happy non-seekers'	62%	28%	40%	65%

Q240x and Q240y and Q1 15/209 All SMEs excluding PNBs

Whilst those made more reluctant to apply due to a previous decline were the most likely to be a 'Would-be seeker' of finance, they were also more likely to report a borrowing 'event' – 52% compared to 31% of all SMEs excluding the PNBs.

A similar pattern was seen when analysed by future borrowing intentions – 48% of those previously declined planned to apply in the next 3 months compared to 24% of SMEs overall (excluding the PNBs), 23% were 'Future would-be seekers' (compared to 23% overall) and 29% were future 'Happy non-seekers' (compared to 53% overall).

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

43% of SMEs planned to grow in the next 12 months, unchanged from recent quarters but lower than was seen in 2012-13 when around half planned to grow

- The overall figure is driven by the 0 employee SMEs who remained less likely to be planning to grow (39%)
- There was an increase in SMEs with employees planning to grow up to the middle of 2014. The proportion of those with 1-9 employees planning to grow then fell slightly and 53% now plan to grow. For those with 10-49 employees (67% plan to grow) and 50-249 employees (71% plan to grow) there are signs that the proportion planning to grow is starting to increase again
- 96% of those planning to grow expected to do so through sales in the UK while 12% planned to sell overseas, including 6% planning to sell into new markets abroad (the equivalent of 2% of all SMEs). Exporters remained more likely to be planning to grow and this was true for both larger and smaller exporters

The current economic climate remained the most likely obstacle to running the business, but was mentioned by a declining proportion of SMEs. Amongst those with employees, legislation and regulation were as likely to be rated a major obstacle. The proportion saying none of these factors were major obstacles has increased to 68% (from 52% in 2012)

- 14% of SMEs rated the current economic climate as a major obstacle to their business in the next 12 months. This proportion has declined steadily from a peak of 37% at the start of 2012
- 11% rated legislation and regulation as a major obstacle. For those with employees this was more likely to be a barrier than the current economic climate
- 5% rated access to external finance as a barrier and this proportion has declined over time (from 13% in Q3 2012). Excluding the PNBs increased the proportion seeing access to finance as a barrier to 8% while amongst those with any future appetite for finance 13% saw it as a barrier (and again these figures are lower than previously seen for these groups). Amongst those who may have previously found it harder to access finance (smaller SMEs and those with a worse than average risk rating) access to finance is also a declining barrier over time
- Those with any future appetite for finance were more likely to see the factors tested as potential obstacles – 51% nominated at least one of them as major obstacle compared to 32% of SMEs overall and 27% who were 'Future happy non-seekers' of finance

Whilst access to finance was unlikely to be rated as a major barrier, the proportion planning to apply in the 3 months after interview remained limited

- 11% of SMEs planned to apply for new/renewed finance in the 3 months after interview, at the lower end of the range seen in recent years (12-15%)
- This was driven by the plans of 0 employee SMEs where 9% planned to apply. Amongst those with employees, 16% planned to apply and excluding the PNBs increased that proportion to 21% of remaining SMEs
- Working capital remained the main purpose of future funding but has been mentioned slightly less recently with more mentions of funding UK growth

Half of these potential applicants were confident of success, but the 'confidence gap' to current success rates continues to exist

- 49% were confident that their bank would agree to their request, and this remains higher than in 2012 or 2013
- Amongst those planning to renew an existing facility 57% were confident of success compared to a current actual success rate of 96%. For those planning to apply for new funds 35% were confident against a current success rate of 67%

10% of SMEs in Q2 2015 met the definition of a ‘Future would-be seeker’ of finance, most with no immediate need identified

- As with past behaviour, this proportion has declined over time (21% of SMEs were ‘Future would-be seekers in Q2 2012) and across all size bands
- Excluding the PNBs increased the proportion of ‘Future would-be seekers’ amongst remaining SMEs to 21% and this is also a declining proportion over time
- A reluctance to borrow in the current climate remained the main barrier to borrowing for these SMEs, mentioned by 55% of FWBS in Q2 2015. Compared to the barriers reported for borrowing in the past, there were fewer mentions of discouragement as a barrier (9% in Q2) and over time there have been more mentions of the process of borrowing as a barrier (18% in Q2). Those with no immediate need identified remained more likely to cite the economic climate as the barrier and less likely to be discouraged than the small group with a need identified

Most SMEs expected to be a ‘Future happy non-seeker’ of finance in the 3 months after interview (79% in Q2) and this proportion continues to increase over time (it was 64% in Q2 2012)

- Excluding the PNBs reduced the proportion of HNS to 58% of remaining SMEs but they remained the largest group
- In Q2 2015, 60% of all SMEs were neither using external finance nor had any immediate plans to apply for any. This group is increasing over time, having been 50% of SMEs 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 2015 data gathered between April and June, when the UK held a General Election and the future of Greece in the Eurozone was a constant source of debate and comment.

Growth plans for next 12 months

SMEs were asked about their growth plans.

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 of 2013 and then again in Q2 2014 there was something of a 'spike' in the proportion planning to grow that was not maintained in subsequent quarters of those years. No similar 'spike' was seen in Q2 2015, with 43% of SMEs planning to grow, unchanged since Q4 2014 and back to the levels typically seen in 2011 (A longer trend can be found in the final chapter in this report):

Growth in next 12 mths All SMEs, over time By date of interview	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015
Unweighted base:	*5000*	*5008*	*5028*	*5000*	*5008*	*5023*	*5024*	*5038*	*5001*
Grow substantially	8%	6%	7%	5%	9%	8%	7%	8%	6%
Grow moderately	43%	41%	41%	40%	44%	38%	36%	35%	37%
All with objective to grow	*51%*	*47%*	*48%*	*45%*	*53%*	*46%*	*43%*	*43%*	*43%*
Stay the same size	41%	43%	44%	45%	40%	43%	46%	48%	47%
Become smaller	3%	3%	3%	3%	3%	5%	4%	4%	4%
Plan to sell/pass on/close	5%	6%	5%	5%	4%	7%	7%	6%	6%

Q225 All SMEs

In Q2 2015 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 15 only	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*5001*	*1001*	*1650*	*1600*	*750*
Grow substantially	6%	5%	9%	12%	16%
Grow moderately	37%	34%	44%	55%	55%
All with objective to grow	*43%*	*39%*	*53%*	*67%*	*71%*
Stay the same size	47%	50%	40%	29%	27%
Become smaller	4%	5%	2%	2%	2%
Plan to sell/pass on/close	6%	6%	5%	2%	1%

Q225 All SMEs New Question wording in Q4 2012

Amongst SMEs with employees, 55% were planning to grow (10% substantially).

SMEs that met the 'Permanent non-borrower' definition in Q2 2015 remained less likely to have plans to grow (36%) than those that didn't meet the definition (50%).

SMEs that had injected personal funds in the previous 12 months were more likely to be planning to grow (54%) than those who had not (39%) and this was true particularly for Starts (70% v 49%) but also for older businesses (46% v 38%).

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

- Growth plans amongst SMEs with 0 employees have been quite volatile over time, but appear to have settled at 4 in 10 over recent quarters
- SMEs with 1-9 employees were increasingly likely to be planning to grow up to Q2 2014 (when 59% planned to grow), but since then around half have said that they plan to grow
- SMEs with 10-49 employees saw an increase in the proportion planning to grow across 2013 and most of 2014, and this has been maintained in the most recent quarters
- SMEs with 50-249 employees remained the most likely to be planning to grow (71% in Q2 2015) and this proportion has not changed much since Q3 2013

Objective to grow (any) in next 12 months Over time – row percentages By date of interview	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015
All SMEs	51%	47%	48%	45%	53%	45%	43%	43%	43%
0 employee	50%	43%	46%	41%	50%	41%	39%	39%	39%
1-9 employees	56%	56%	53%	57%	59%	55%	52%	51%	53%
10-49 employees	57%	60%	64%	68%	67%	69%	63%	65%	67%
50-249 employees	65%	69%	69%	72%	72%	68%	69%	69%	71%
Minimal external risk rating	48%	40%	50%	51%	47%	41%	40%	35%	44%
Low external risk rating	49%	50%	44%	48%	51%	41%	40%	44%	44%
Average external risk rating	43%	40%	38%	39%	49%	40%	39%	36%	37%
Worse than average external risk rating	57%	51%	52%	49%	56%	51%	50%	47%	48%
Agriculture	48%	37%	44%	43%	40%	39%	25%	32%	33%
Manufacturing	50%	51%	49%	59%	61%	44%	55%	41%	57%
Construction	47%	40%	39%	34%	43%	37%	34%	33%	31%
Wholesale/Retail	49%	46%	58%	53%	60%	53%	50%	54%	47%
Hotels & Restaurants	49%	53%	42%	50%	46%	40%	41%	45%	40%
Transport	43%	55%	39%	39%	39%	34%	34%	43%	46%
Property/Business Services etc.	58%	52%	51%	47%	56%	47%	45%	43%	48%
Health	53%	45%	46%	45%	46%	55%	50%	51%	43%
Other Community	52%	46%	55%	55%	68%	55%	49%	47%	47%
All 'Permanent non-borrowers'	46%	39%	38%	40%	45%	38%	38%	37%	36%
All excluding PNBs	54%	52%	55%	51%	57%	50%	48%	48%	50%

Q225 All SMEs base size varies by category

Those planning to grow were asked how this growth would be achieved. In Q3 2014 the possible answer codes were expanded to split out ‘sales in existing markets’ into UK sales and overseas sales. Selling to existing markets in the UK was the main way in which growth was expected to be achieved (for 96% of those planning to grow, the equivalent of 40% of all SMEs), and overall, more SMEs planned to grow by selling to new markets in the UK (9% of all SMEs) than overseas (2%):

How plan to grow Q2 15	All planning to grow	All SMEs
Unweighted base:	***2655***	***5001***
Sell in the UK	96%	40%
Increase sales in existing markets in UK	*85%*	*35%*
Sell in new markets in UK	*22%*	*9%*
Sell overseas	12%	5%
Increase sales in existing markets overseas	*9%*	*4%*
Sell in new markets overseas	*6%*	*2%*

Q226 All SMEs planning to grow excluding DK / All SMEs

Exporters remained more likely to be predicting growth and in Q2 2015, 61% reported that they planned to grow compared to 41% of non-exporters. Exporters are typically larger SMEs (who are also more likely to be planning to grow) but both larger and smaller exporters were more likely to report planned growth than their peers:

- Amongst SMEs with 0-9 employees 59% of exporters interviewed in Q2 2015 planned to grow compared to 40% of non-exporters
- Amongst SMEs with 10-249 employees 76% of exporters interviewed in Q2 2015 planned to grow compared to 65% of non-exporters

As the table below shows, while a fifth of those already exporting planned to sell into new markets overseas (19%, the equivalent of 1% of all SMEs), very few who do not currently export thought that they would start to do so (4%, albeit also the equivalent of 1% of all SMEs):

How plan to grow Q2 15	All planning to grow who export	All planning to grow who do not export
Unweighted base:	*540*	*2115*
Sell in the UK	91%	97%
Increase sales in existing markets in UK	*82%*	*85%*
Sell in new markets in UK	*34%*	*20%*
Sell overseas	43%	8%
Increase sales in existing markets overseas	*38%*	*5%*
Sell in new markets overseas	*19%*	*4%*

Q226 All SMEs planning to grow excluding DK

The table below summarises these differences between exporters and non-exporters over time. The first table below shows that exporters have been more likely to be planning to grow each quarter than those that do not export and that in recent quarters the 'gap' between their growth aspirations has widened:

Plan to grow By date of interview Row percentages	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015
Exporters	64%	59%	53%	67%	69%	58%	57%	64%	61%
Non-exporters	50%	46%	47%	44%	51%	44%	41%	40%	41%

Q225 All SMEs New Question wording in Q4 2012

The second table is based on those planning to grow and summarises how this growth is to be achieved. Existing markets are the main target for both exporters and non-exporters. Over time, exporters have become somewhat less likely to say that they will export to new markets overseas, although there is no clear pattern over time:

How plan to grow By date of interview Row percentages	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015
In existing markets:									
Exporters	*77%*	*83%*	*76%*	*83%*	*87%*	*85%*	*89%*	*84%*	*87%*
Non-exporters	*90%*	*90%*	*83%*	*89%*	*84%*	*79%*	*86%*	*85%*	*83%*
New UK markets:									
Exporters	*43%*	*29%*	*39%*	*35%*	*27%*	*33%*	*26%*	*39%*	*33%*
Non-exporters	*21%*	*21%*	*19%*	*18%*	*20%*	*26%*	*17%*	*18%*	*20%*
New overseas markets:									
Exporters	*30%*	*25%*	*29%*	*28%*	*21%*	*28%*	*24%*	*22%*	*19%*
Non-exporters	*4%*	*5%*	*3%*	*3%*	*3%*	*3%*	*2%*	*4%*	*4%*

Q226 All SMEs planning to grow

Obstacles to running the business in the next 12 months

SMEs were asked to rate the extent to which each of 7 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

In Q3 2014, some amendments were made to this question:

- 'Staff related issues' was amended to be 'Issues recruiting and retaining skilled staff'
- A new factor was added 'Political uncertainty and future government policy'
- Any SMEs that did not rate any of the factors 8-10 (a major obstacle) were asked whether there was anything else that they saw as an obstacle that was not on this list

The economic climate remained the key issue in Q2 2015 as in all previous quarters, but by an increasingly narrow margin:

- The **current economic climate** was rated as a major obstacle (8-10) by 14% of SMEs in Q2 2015. 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. It was rated a major obstacle by 11% of SMEs, but is now as much of a barrier as the economic climate for those with employees.
- 9% rated the new barrrier of **political uncertainty/government policy** as a major obstacle
- **Cash flow and issues with late payment** was also rated a major obstacle by 9%
- 6% rated the amended barrier of **recruiting and retaining staff** as a major obstacle
- **Access to external finance** was similarly rated, with 5% of SMEs seeing it as a major obstacle
- 4% of SMEs rated **availability of relevant advice** for their business as a major obstacle for the year ahead

The analysis below looks at the barriers perceived in Q2 2015, 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 15 only – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*5001*	*1001*	*1650*	*1600*	*750*
The current economic climate (mean score)	4.1	4.1	4.1	4.1	4.1
- 8-10 major obstacle	*14%*	*15%*	*13%*	*11%*	*7%*
- 5-7 moderate obstacle	*32%*	*31%*	*36%*	*37%*	*43%*
- 1-4 limited obstacle	*53%*	*54%*	*50%*	*49%*	*49%*
Legislation and regulation	3.4	3.3	3.9	4.0	3.8
- 8-10 major obstacle	*11%*	*10%*	*13%*	*13%*	*9%*
- 5-7 moderate obstacle	*24%*	*23%*	*28%*	*30%*	*31%*
- 1-4 limited obstacle	*63%*	*65%*	*57%*	*53%*	*57%*
Political uncertainty/future govt policy	3.2	3.2	3.4	3.5	3.3
- 8-10 major obstacle	*9%*	*9%*	*9%*	*8%*	*5%*
- 5-7 moderate obstacle	*22%*	*20%*	*27%*	*28%*	*27%*
- 1-4 limited obstacle	*66%*	*67%*	*62%*	*59%*	*65%*
Cash flow/issues with late payment	3.0	2.9	3.2	3.1	3.1
- 8-10 major obstacle	*9%*	*9%*	*11%*	*8%*	*7%*
- 5-7 moderate obstacle	*18%*	*18%*	*21%*	*21%*	*20%*
- 1-4 limited obstacle	*71%*	*72%*	*67%*	*68%*	*72%*
Access to external finance	2.3	2.2	2.6	2.5	2.4
- 8-10 major obstacle	*5%*	*4%*	*6%*	*4%*	*3%*
- 5-7 moderate obstacle	*13%*	*12%*	*17%*	*17%*	*15%*
- 1-4 limited obstacle	*79%*	*81%*	*75%*	*75%*	*80%*
Availability of relevant advice	2.4	2.3	2.7	2.7	2.8
- 8-10 major obstacle	*4%*	*4%*	*5%*	*3%*	*4%*
- 5-7 moderate obstacle	*14%*	*13%*	*19%*	*21%*	*18%*
- 1-4 limited obstacle	*79%*	*81%*	*74%*	*73%*	*76%*
Recruiting/retaining staff	2.3	1.9	3.1	3.6	3.7
- 8-10 major obstacle	*6%*	*4%*	*10%*	*11%*	*9%*
- 5-7 moderate obstacle	*12%*	*9%*	*21%*	*27%*	*27%*
- 1-4 limited obstacle	*79%*	*84%*	*68%*	*60%*	*62%*
None of these are major obstacles	68%	69%	63%	69%	73%

Q227a All SMEs

Amongst SMEs with employees, the proportion rating each factor a 'major obstacle' did not vary much from SMEs overall (12% for the current economic climate, 6% for access to external finance and 64% said "none of these").

In Q2 2015, 68% of SMEs did not rate any of these potential obstacles as a major obstacle (scoring 8-10) with no clear pattern by size. This was virtually unchanged from Q4 2014 (69%).

Analysis by risk rating showed that the current economic climate and 'legislation and regulation' remained the two key barriers:

Extent of obstacles in next 12 months Q2 15 only – all SMEs 8-10 impact score	Total	Min	Low	Avge	Worse/Avge
Unweighted base:	*5001*	*804*	*1616*	*1144*	*1030*
The current economic climate	14%	16%	11%	15%	14%
Legislation and regulation	11%	15%	13%	13%	10%
Political uncertainty/future govt policy	9%	11%	8%	10%	9%
Cash flow/issues with late payment	9%	8%	6%	12%	8%
Access to external finance	5%	5%	2%	4%	5%
Availability of relevant advice	4%	5%	4%	5%	4%
Recruiting/retaining staff	6%	7%	8%	3%	6%
None of these rated a 'major obstacle'	*68%*	*68%*	*69%*	*66%*	*69%*

Q227a All SMEs for whom risk ratings known

In Q2 2015, there were few differences in perceived obstacles between those with plans to grow and those with no plans. Those with no plans to grow were slightly more likely to say that none of these factors presented a major obstacle to them (70%):

Extent of obstacles in next 12 months Q2 15 only – all SMEs 8-10 impact score	Total	Plan to grow	No plans to grow
Unweighted base:	*5001*	*2754*	*2247*
The current economic climate	14%	15%	14%
Legislation and regulation	11%	10%	12%
Political uncertainty/future govt policy	9%	10%	9%
Cash flow/issues with late payment	9%	11%	8%
Access to external finance	5%	6%	3%
Availability of relevant advice	4%	5%	4%
Recruiting/retaining staff	6%	7%	4%
None of these rated a 'major obstacle'	*68%*	*64%*	*70%*

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 (77% said that none of them were):

Extent of obstacles in next 12 months Q2 15 only – all SMEs 8-10 impact score	Total	PNB	Not PNB
Unweighted base:	*5001*	*1806*	*3195*
The current economic climate	14%	10%	18%
Legislation and regulation	11%	9%	13%
Political uncertainty/future govt policy	9%	5%	13%
Cash flow/issues with late payment	9%	5%	14%
Access to external finance	5%	1%	8%
Availability of relevant advice	4%	3%	5%
Recruiting/retaining staff	6%	4%	7%
None of these rated a 'major obstacle'	*68%*	*77%*	*59%*

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 each of these issues as major obstacles. Half, 49%, did not rate any of them as a major obstacle, compared to 73% of 'Future happy non-seekers':

Extent of obstacles in next 12 months Q2 15 only – all SMEs 8-10 impact score	Total	Plan to apply or FWBS	Future HNS	Future HNS excl. PNB
Unweighted base:	*5001*	*1227*	*3774*	*1968*
The current economic climate	14%	21%	12%	15%
Legislation and regulation	11%	17%	9%	11%
Political uncertainty/future govt policy	9%	17%	7%	10%
Cash flow/issues with late payment	9%	19%	7%	10%
Access to external finance	5%	13%	2%	4%
Availability of relevant advice	4%	7%	4%	4%
Recruiting/retaining staff	6%	9%	5%	6%
None of these rated a 'major obstacle'	*68%*	*49%*	*73%*	*65%*

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 'Future happy non-seeker' definition in the final column above. This increases most of the scores slightly, and reduces the proportion saying that none of these factors presents an obstacle from 73% to 65%.

The economic climate was the most likely to be rated by SMEs overall as a major obstacle to running the business and by SMEs in the Manufacturing sector in particular (23%). SMEs in Agriculture, Construction, Hotels and Restaurants and Transport 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 15 only – all SMEs 8-10 impact scores	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*374*	*522*	*875*	*505*	*450*	*453*	*875*	*447*	*500*
The current economic climate	20%	23%	11%	18%	12%	12%	14%	17%	10%
Legislation and regulation	19%	8%	13%	12%	13%	12%	11%	7%	7%
Political uncertainty/future govt policy	16%	15%	6%	13%	8%	6%	9%	8%	8%
Cash flow/issues with late payment	5%	15%	10%	11%	7%	12%	11%	3%	4%
Access to external finance	5%	4%	3%	6%	6%	5%	5%	2%	6%
Availability of relevant advice	4%	5%	4%	3%	7%	4%	6%	5%	2%
Recruiting/retaining staff	6%	5%	4%	5%	13%	7%	6%	7%	3%
None of these rated a 'major obstacle'	*62%*	*61%*	*71%*	*66%*	*64%*	*65%*	*66%*	*71%*	*75%*

Q227All SMEs

75% of those in the Other Community sector reported that none of these factors were a major obstacle to them, compared to 61% in Manufacturing and 62% in Agriculture.

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 steadily each quarter, from 1 in 3 to 1 in 7 SMEs.

Over the same period, an increasing proportion of SMEs reported that <u>none</u> of these factors presented a major obstacle to them (from 52% for 2012 as a whole to 68% for 2015 to date, despite the addition of an extra factor in Q3 2014):

Extent of obstacles in next 12 months All SMEs over time 8-10 impact score By date of interview	Q2 13	Q3 13	Q4 13	Q1 14	Q2 14	Q3 14	Q4 14	Q1 15	Q2 15
Unweighted base:	*5000*	*5008*	*5028*	*5000*	*5008*	*5023*	*5024*	*5038*	*5001*
The current economic climate	28%	26%	21%	20%	17%	16%	14%	13%	14%
Legislation and regulation	14%	14%	11%	12%	12%	12%	11%	12%	11%
Political uncertainty/ future govt policy	-	-	-	-	-	12%	9%	10%	9%
Cash flow/issues with late payment	11%	11%	10%	8%	10%	9%	8%	8%	9%
Access to external finance	10%	10%	8%	7%	8%	7%	6%	6%	5%
Availability of relevant advice	6%	6%	6%	5%	6%	5%	6%	4%	4%
Recruiting/retaining staff*	*3%*	*3%*	*3%*	*2%*	*3%*	7%	6%	6%	6%
None of these rated a 'major obstacle'	*58%*	*57%*	*64%*	*66%*	*65%*	*64%*	*69%*	*68%*	*68%*

Q227 All SMEs – Staff factor changed in Q3 2014 from 'staff related issues'

*from Q3 2014 the barrier 'staff issues' was replaced by 'Issues recruiting and retaining skilled staff'

As mentioned above, a new question was asked for the first time in Q3 2014 to understand whether those who had not rated *any* of the factors as a 'major obstacle' had any other barriers in mind. Across the quarters in which this question has been asked, no clear issues have emerged.

Access to finance is the key theme of this report. In Q2 2015, 5% of SMEs rated this as a major obstacle, the lowest level recorded to date.

Over recent quarters there has been something of a decline in the overall proportion of SMEs rating access to finance as a 'major obstacle', shown in the table overleaf. The 'peak' figure to date for access to finance was in Q3 2012, when 13% of all SMEs, and 18% of SMEs excluding PNBs, rated access to finance as a major obstacle. Since then the proportion has declined gradually to 5% of all SMEs in Q2 2015 (and 8% excluding the PNBs). Access to finance has also become less of an obstacle for those with any appetite for future finance (to 13% in Q2 2015, half the level seen during 2013).

Access to finance – 8-10 impact scores Over time – row percentages By date of interview	Q2 13	Q3 13	Q4 13	Q1 14	Q2 14	Q3 14	Q4 14	Q1 15	Q2 15
All SMEs	**10%**	**10%**	**8%**	**7%**	**8%**	**7%**	**6%**	**6%**	**5%**
0 employee	10%	10%	7%	6%	9%	7%	6%	6%	4%
1-9 employees	12%	12%	11%	9%	8%	10%	9%	8%	6%
10-49 employees	10%	8%	7%	7%	6%	6%	5%	5%	4%
50-249 employees	5%	5%	5%	4%	4%	3%	3%	4%	3%
Minimal external risk rating	4%	5%	5%	4%	4%	4%	7%	4%	5%
Low external risk rating	5%	4%	5%	6%	4%	5%	5%	7%	2%
Average external risk rating	11%	9%	6%	5%	7%	6%	4%	5%	4%
Worse than average external risk rating	13%	12%	10%	9%	11%	9%	8%	8%	5%
Agriculture	12%	5%	9%	5%	5%	6%	7%	4%	5%
Manufacturing	9%	11%	10%	10%	12%	4%	5%	3%	4%
Construction	11%	10%	6%	8%	7%	7%	5%	4%	3%
Wholesale/Retail	9%	12%	11%	6%	10%	10%	11%	9%	6%
Hotels & Restaurants	12%	13%	14%	12%	10%	13%	8%	9%	6%
Transport	14%	14%	11%	12%	10%	11%	12%	8%	5%
Property/Business Services etc.	9%	9%	7%	3%	8%	6%	4%	8%	5%
Health	10%	6%	7%	5%	4%	10%	4%	2%	2%
Other Community	12%	11%	5%	9%	12%	5%	7%	5%	6%
Use external finance	14%	14%	10%	10%	12%	11%	10%	10%	7%
Plan to borrow/FWBS	24%	25%	18%	16%	17%	17%	13%	18%	13%
'Future happy non-seekers'	4%	4%	3%	3%	4%	3%	4%	2%	2%
All SMEs excluding PNBs	15%	16%	12%	11%	12%	11%	10%	10%	8%

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, albeit the proportion planning to renew/apply in Q2 2015 (11%) was somewhat lower than in recent quarters:

% likely in next 3 months All SMEs, over time By date of interview	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015
Unweighted base:	*5000*	*5008*	*5028*	*5000*	*5008*	*5023*	*5024*	*5038*	*5001*
Will have a need for (more) external finance	12%	11%	11%	9%	10%	11%	8%	9%	7%
Will apply for more external finance	9%	7%	8%	7%	8%	9%	7%	8%	6%
Renew existing borrowing at same level	7%	7%	9%	7%	9%	10%	8%	9%	7%
Any apply/renew	*14%*	*12%*	*15%*	*12%*	*14%*	*15%*	*13%*	*14%*	*11%*
Reduce the amount of external finance used	7%	7%	7%	5%	9%	9%	7%	8%	8%
Inject personal funds into business	21%	21%	17%	15%	16%	20%	14%	16%	14%

Q229 All SMEs

In all quarters to date, more SMEs had identified a need for finance than thought they would apply for it (albeit the gap is narrow in Q2 2015 7% v 6%). The predicted level of applications/renewals in the coming quarter remained higher than the actual level of applications/renewals reported subsequently (by different SMEs). Whilst 11-14% of SMEs have said that they planned to apply for finance, levels of application have typically been 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 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015
Unweighted base:	*2936*	*3063*	*2890*	*2831*	*2999*	*2826*	*2822*	*2927*	*2794*
Any new equity	*3%*	*5%*	*3%*	*2%*	*4%*	*5%*	*5%*	*3%*	*2%*

Q229 All companies

In Q2 2015 as in previous quarters, there continued to be a difference in appetite for finance by size of business. Appetite was lowest amongst those with no employees and these SMEs remained more likely to anticipate an injection of personal funds (15%, albeit down from 22% in Q3 2013) than an application for new/renewed finance (9%):

% likely in next 3 months Q2 15 only – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*5001*	*1001*	*1650*	*1600*	*750*
Will have a need for (more) external finance	7%	7%	9%	9%	9%
Will apply for more external finance	6%	5%	8%	8%	9%
Renew existing borrowing at same level	7%	6%	12%	15%	11%
Any apply/renew	*11%*	*9%*	*16%*	*19%*	*15%*
Reduce the amount of external finance used	8%	7%	10%	11%	8%
Inject personal funds into business	14%	15%	15%	7%	6%

Q229 All SMEs

Amongst SMEs with employees, 16% had plans to apply/renew in the next 3 months and 9% believed that they would 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 year, or such injections were thought likely in the future. Since the start of 2012, there has been a decline in the proportion of SMEs thinking it likely that personal funds will be injected into the business in future (14% in Q2 2015). 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. Over time an increasing proportion of SMEs had neither put in funds, nor thought it likely they would do so (69% in Q2 2015 compared to 52% in the equivalent quarter of 2013). The proportion that had both put in funds in the past *and* planned to do so in future has declined somewhat over time (having been 17% of SMEs in Q2 2012) and was 9% in Q2 2015:

Injections of personal funds All SMEs, over time By date of interview	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015
Unweighted base:	*5000*	*5008*	*5028*	*5000*	*5008*	*5023*	*5024*	*5038*	*5001*
Have injected personal funds and likely to do so again	14%	14%	12%	10%	11%	12%	9%	10%	9%
Have not put in personal funds but likely to do so	7%	7%	5%	5%	5%	8%	5%	6%	5%
Have injected personal funds but unlikely to do so again	27%	24%	21%	20%	19%	16%	20%	16%	17%
Have not put in personal funds and not likely to do so	52%	55%	62%	65%	65%	64%	66%	68%	69%

Q229/Q15d-d2 All SMEs

Turning back to future applications for external finance, the table on the next page summarises the change in likely applications/renewals over time for key demographic groups. Comparing Q2 2015 (11%) with the equivalent quarters in 2013 and 2014 shows that appetite for finance is currently lower than in previous quarters (14% in each of the earlier quarters). This is due primarily to the lower appetite for finance amongst those with 0 employees (9% for Q2 2015) and 1-9 employees (16%).

% likely to apply or renew in next 3 months Over time – row percentages By date of interview	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015
All SMEs	**14%**	**12%**	**15%**	**12%**	**14%**	**15%**	**13%**	**14%**	**11%**
0 employee	12%	10%	13%	9%	13%	12%	11%	12%	9%
1-9 employees	18%	18%	20%	19%	18%	23%	19%	18%	16%
10-49 employees	15%	16%	18%	20%	15%	23%	16%	20%	19%
50-249 employees	16%	14%	14%	11%	13%	17%	15%	14%	15%
Minimal external risk rating	12%	12%	12%	11%	18%	15%	10%	13%	9%
Low external risk rating	12%	13%	12%	18%	13%	11%	13%	19%	14%
Average external risk rating	12%	12%	13%	10%	11%	16%	10%	14%	12%
Worse than average external risk rating	15%	12%	16%	11%	15%	15%	16%	12%	11%
Agriculture	12%	15%	22%	12%	18%	17%	13%	19%	18%
Manufacturing	17%	8%	16%	14%	18%	17%	15%	14%	16%
Construction	14%	14%	12%	10%	13%	12%	11%	10%	10%
Wholesale/Retail	12%	15%	21%	15%	17%	25%	18%	16%	10%
Hotels & Restaurants	13%	14%	14%	16%	14%	21%	15%	16%	14%
Transport	17%	16%	17%	15%	19%	11%	15%	12%	12%
Property/Business Services etc.	12%	12%	14%	9%	11%	12%	12%	16%	11%
Health	16%	9%	10%	8%	11%	16%	8%	10%	6%
Other Community	14%	8%	14%	13%	16%	15%	11%	13%	9%
Objective to grow	17%	17%	19%	16%	19%	21%	16%	20%	15%
No objective to grow	10%	8%	11%	8%	9%	10%	10%	9%	8%
All SMEs excluding PNBs	21%	20%	25%	22%	23%	25%	24%	27%	21%

Q229 All SMEs base size varies by category

Working capital remained the most frequently mentioned purpose of future funding:

Use of new/renewed facility All planning to seek/renew, over time By date of interview	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015
Unweighted base:	*774*	*813*	*854*	*790*	*792*	*1023*	*787*	*860*	*772*
Working capital	64%	60%	58%	63%	49%	51%	62%	62%	56%
Plant & machinery	29%	24%	27%	20%	32%	26%	20%	24%	21%
UK growth*	27%	32%	25%	27%	36%	31%	23%	27%	25%
Premises	8%	5%	9%	6%	12%	13%	8%	6%	10%
New products or services	7%	11%	10%	7%	13%	11%	5%	9%	5%
Growth overseas*	4%	5%	7%	4%	6%	7%	5%	6%	5%

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

Over time, slightly fewer SMEs planning to apply/renew mentioned Working Capital (63% in 2012 to 56% in Q2 2015) but it remained the most mentioned reason for application. More SMEs mentioned UK growth as a reason (20% in 2012 to 25% in Q2 2015), while the proportion mentioning plant and machinery was stable at around a quarter in each year.

The table below details what types of finance those planning to apply would consider for their new/renewed finance. Over time, fewer SMEs planning to apply/renew have said that they would consider the 'core' forms of finance (72% in 2012 to 65% for 2014 and 64% in Q2 2015) and this mirrors the decline in the use of such forms of finance reported earlier.

Consideration of 'other' forms of finance has also declined (61% in 2012 to 54% in 2014, now 53% in Q2 2015) as the proportion saying 'none of these' increased from 14% to 25% in Q2 2015.

SMEs planning to apply who say 'none of these' are now asked whether they just haven't decided what form of finance they want, or are actively considering another form of finance not listed. In Q2 2015, most of those saying 'none of these' (80%) said that they had not decided what they might use. The equivalent of 1% of <u>all</u> SMEs said that they were considering another form of finance that was not listed.

Consideration over time amongst those planning to apply for any of the 'core' lending products (overdrafts, loans and credit cards) and/or 'other' forms of borrowing, is shown below:

% of those seeking/renewing finance that would consider form of funding, over time By date of interview	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015
Unweighted base:	*774*	*813*	*854*	*790*	*792*	*1023*	*787*	*860*	*772*
'Core' product consideration	61%	72%	65%	62%	63%	68%	65%	59%	64%
-Bank overdraft	45%	53%	44%	43%	42%	44%	43%	40%	40%
-Bank loan/Commercial mortgage	34%	40%	35%	36%	34%	45%	43%	37%	42%
-Credit cards	16%	23%	20%	11%	18%	20%	14%	16%	15%
Other product consideration	61%	66%	50%	46%	62%	56%	51%	60%	53%
-Grants	40%	47%	32%	31%	42%	37%	31%	42%	35%
-Loans/equity from family/friends or directors	27%	28%	19%	14%	21%	25%	23%	22%	22%
-Leasing or hire purchase	23%	28%	22%	21%	31%	23%	21%	25%	22%
Loans from other 3rd parties	14%	16%	15%	10%	16%	15%	11%	16%	15%
Invoice finance	7%	9%	6%	6%	8%	10%	8%	11%	11%
None of these	*24%*	*15%*	*25%*	*29%*	*22%*	*21%*	*23%*	*23%*	*25%*

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

22% of potential applicants in Q2 2015 said that they would **only** consider one or more of the core products, a similar level to other quarters.

The table below shows levels of consideration in Q2 2015 by the size of SME considering funding. The codes for bank loan and commercial mortgage were split out in Q3 2014, and are shown separately below, as are the two codes for loans and equity from family, friends or directors – the combined codes for these products will be used in the time series data shown above until more data is available.

% of those seeking/renewing finance would consider funding – Q2 15 only	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*772*	*88**	*263*	*302*	*119*
'Core' product consideration	64%	72%	52%	51%	54%
-Bank overdraft	40%	41%	40%	33%	27%
-Bank loan	40%	48%	27%	26%	34%
-Commercial mortgage	11%	9%	14%	13%	13%
-Credit cards	15%	17%	10%	16%	16%
Other product consideration	53%	57%	46%	52%	52%
-Grants	35%	40%	28%	21%	29%
-Loans from family & friends & directors	19%	21%	16%	14%	13%
-Leasing or hire purchase	22%	20%	24%	31%	32%
-Equity from family & friends & directors	14%	16%	11%	9%	7%
-Loans from other 3rd parties	15%	15%	15%	13%	13%
-Invoice finance	11%	14%	7%	8%	12%
None of these	*25%*	*19%*	*35%*	*30%*	*30%*

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

The balance between consideration of 'core' and 'other' forms of funding changes by size of SME. Whilst those with 0 employees who planned to apply were more likely to consider core forms of finance, larger SMEs were typically as likely to consider 'other' forms of funding as they were the 'core' forms.

Amongst SMEs with employees, 52% would consider one or more 'core' products for their future lending, while 47% would consider one or more of the other forms of borrowing. 34% said they would not consider any of these.

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.

In Q2 2015, half of these prospective applicants (49%) were confident that the bank would lend to them, maintaining the higher levels of confidence seen from the start of 2014:

Confidence bank would lend All planning to seek finance, over time by date of interview	Q2 13	Q3 13	Q4 13	Q1 14	Q2 14	Q3 14	Q4 14	Q1 2015	Q2 2015
Unweighted base:	*547*	*607*	*610*	*574*	*538*	*699*	*526*	*592*	*494*
Very confident	4%	12%	20%	25%	25%	18%	31%	23%	25%
Fairly confident	26%	29%	21%	21%	18%	28%	23%	26%	24%
Overall confidence	*30%*	*41%*	*41%*	*46%*	*43%*	*46%*	*54%*	*49%*	*49%*
Neither/nor	31%	32%	26%	19%	31%	23%	19%	21%	22%
Not confident	40%	27%	33%	36%	26%	30%	28%	29%	28%
Net confidence (confident – not confident)	*-10*	*+14*	*+8*	*+10*	*+17*	*+16*	*+26*	*+20*	*+21*

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

Confidence amongst prospective applicants with employees was 55% in Q2 2015. This has also increased during 2014, having been 43% for 2013.

As the table below shows, it is the prospective applicants with 0-9 employees that have become more confident over time that their bank would agree to their future request, albeit confidence amongst larger prospective applicants is typically higher. Those with a minimal/low external risk rating have always been more confident of success than those with an average or worse than average rating, but levels of confidence for both groups have fluctuated over time:

Overall confidence bank would lend All planning to seek finance, over time. By date of interview	Total	0-9 emps	10-249 emps	Min/low	Av/Worse than avge
Q2 2013	30%	29%	60%	56%	27%
Q3 2013	41%	40%	57%	64%	39%
Q4 2013	41%	40%	63%	73%	40%
Q1 2014	46%	45%	61%	67%	41%
Q2 2014	43%	42%	67%	60%	41%
Q3 2014	46%	45%	70%	77%	44%
Q4 2014	54%	53%	65%	58%	54%
Q1 2015	49%	49%	66%	71%	38%
Q2 2015	49%	48%	77%	63%	45%

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 2015 remained at around 6 in 10 for those planning to renew (57%, recovering from a low of 38% in Q2 2013) but was somewhat lower amongst those planning to apply for new facilities (35% having been 46% in Q4 2014). In both instances larger SMEs were more confident of success.

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 57%, while for new funds success rates in the same period were 67% against a confidence level of 35%.

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

In Q2 2015, 11% of all SMEs reported plans to apply for or renew facilities in the following 3 months, leaving the majority (89%) with no such plans. A third of that majority (32%) were current users of external finance, the rest were not. This means that, for Q2 2015, 60% of all SMEs neither used external finance nor had any immediate plans to apply for any. This proportion has increased gradually over time, from 50% in 2011 to 60% for 2014 and the current quarter.

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 already identified, and thus they are somewhat different from the 'Would-be seekers' of the past 12 months, *all* of whom reported having an identified need for finance that they had not applied for.

There have been no changes over time to these definitions, 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 the picture over time. An annual comparison shows that:

- The proportion of 'Future would-be seekers' has fallen year on year (from 23% of SMEs in 2012 to 11% in H1 2015)
- There has been an increase over the same period in the proportion of 'Future happy non-seekers' (63% to 77%) and they continue to be the largest group
- Appetite for future finance remained stable over the period (14% in 2012 to 12% in H1 2015)

Future finance plans All SMEs, over time By date of interview	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015
Unweighted base:	*5000*	*5008*	*5028*	*5000*	*5008*	*5023*	*5024*	*5038*	*5001*
Plan to apply/renew	14%	12%	15%	12%	14%	15%	13%	14%	11%
'Future would-be seekers' – with identified need	2%	2%	1%	1%	1%	2%	1%	1%	*
'Future would-be seekers' – no immediate identified need	17%	15%	16%	15%	17%	14%	11%	10%	10%
'Happy non-seekers'	67%	70%	68%	72%	68%	69%	75%	75%	79%

Q230/239 All SMEs

Amongst SMEs with employees in Q2 2015 16% had plans to apply/renew while 10% met the definition of a 'Future would-be seeker'. The 'Future happy non-seekers' remained the largest group at 74%.

As has been discussed elsewhere in this report, around half of 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, with a higher proportion planning to apply (21% in Q2 2015) and fewer 'Future happy non-seekers' (58%) although they remained the largest single group, as overall:

Future finance plans SMEs excluding PNBs, over time By date of interview	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015
Unweighted base:	*3707*	*3637*	*3585*	*3370*	*3514*	*3576*	*3153*	*3220*	*3195*
Plan to apply/renew	21%	20%	25%	22%	23%	25%	24%	27%	21%
'Future would-be seekers' – with identified need	3%	4%	2%	3%	1%	3%	2%	3%	1%
'Future would-be seekers' – no immediate identified need	27%	26%	28%	29%	28%	24%	21%	18%	20%
'Happy non-seekers'	48%	50%	45%	46%	48%	48%	53%	53%	58%

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

An annual comparison, excluding the PNBs shows that:

- The 'Future happy non-seekers' remained the largest group, and their proportion has increased somewhat over the period (44% in 2012 to 55% in H1 2015)
- The proportion of 'Future would-be seekers' has decreased somewhat (from 35% to 21%)
- Appetite for future finance remained fairly stable over the period (from 21% to 24%)

The table below shows how the proportion of 'Future would-be seekers' has changed over time. At 11%, the overall figure for Q2 2015 was one of the lowest reported to date, with a decline over time across all size bands and risk ratings:

'Future would-be seekers' Over time – row percentages By date of interview	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015
All SMEs	19%	17%	18%	16%	18%	16%	12%	11%	11%
0 employee	20%	19%	18%	17%	18%	18%	12%	11%	11%
1-9 employees	18%	15%	18%	16%	19%	12%	12%	12%	10%
10-49 employees	16%	10%	14%	13%	16%	8%	9%	9%	7%
50-249 employees	15%	11%	13%	13%	18%	8%	8%	10%	8%
Minimal external risk rating	13%	7%	11%	15%	10%	13%	12%	7%	9%
Low external risk rating	10%	15%	17%	11%	13%	13%	8%	11%	9%
Average external risk rating	17%	17%	15%	18%	17%	15%	10%	12%	11%
Worse than average external risk rating	23%	21%	18%	18%	21%	18%	16%	11%	11%
Agriculture	21%	17%	16%	19%	16%	15%	15%	7%	8%
Manufacturing	17%	20%	14%	14%	14%	13%	9%	7%	13%
Construction	20%	15%	19%	18%	19%	20%	13%	13%	13%
Wholesale/Retail	23%	21%	19%	16%	20%	12%	11%	12%	12%
Hotels & Restaurants	19%	20%	22%	17%	21%	16%	12%	12%	12%
Transport	24%	22%	19%	20%	18%	16%	14%	15%	12%
Property/Business Services etc.	18%	15%	16%	14%	18%	18%	12%	9%	10%
Health	13%	14%	12%	12%	15%	15%	11%	11%	15%
Other Community	18%	21%	20%	19%	16%	12%	11%	10%	3%
All SMEs excluding PNBs	30%	30%	30%	31%	29%	27%	23%	21%	21%

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 2015 for thinking that they would not apply for finance in the next three months. It highlights the continued reluctance to borrow in the current environment, whether due to the predicted performance of their business specifically, or the economic climate more generally:

Reasons for not applying (all mentions) All 'Future would-be seekers' Q2 15 only	Total	0-9 emps	10-249 emps
Unweighted base:	*455*	*281*	*174*
Reluctant to borrow now (any)	58%	57%	81%
-Prefer not to borrow in economic climate	*35%*	*35%*	*47%*
-Predicted performance of business	*23%*	*22%*	*34%*
Issues with principle of borrowing	8%	8%	3%
-Not lose control of business	*1%*	*1%*	*
-Can raise personal funds if needed	*6%*	*6%*	*3%*
-Prefer other forms of finance	*	*	-
-Go to family and friends	*1%*	*1%*	*
Issues with process of borrowing	18%	18%	8%
-Would be too much hassle	*8%*	*8%*	*4%*
-Thought would be too expensive	*8%*	*8%*	*2%*
-Bank would want too much security	*	-	*2%*
-Too many terms and conditions	*	*	-
-Did not want to go through process	*	-	*1%*
-Forms too hard to understand	*2%*	*2%*	-
Discouraged (any)	10%	10%	5%
-Direct (Put off by bank)	*3%*	*3%*	-
-Indirect (Think I would be turned down)	*7%*	*7%*	*5%*

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 55%, was the main reason for not applying for external finance in Q2 2015, albeit at lower levels than seen previously. The proportion of 'Future would-be seekers' who gave discouragement as their main barrier was also slightly lower than earlier quarters (9%) and, as before, virtually all of this was indirect discouragement. In 2015 there have been more mentions of the process of borrowing as a main reason:

Main reason for not applying 'Future would-be seekers' over time By date of interview	Q2 13	Q3 13	Q4 13	Q1 14	Q2 14	Q3 14	Q4 14	Q1 15	Q2 15
Unweighted base:	*861*	*691*	*822*	*765*	*876*	*580*	*544*	*514*	*455*
Reluctant to borrow now (any)	60%	60%	72%	64%	58%	53%	61%	54%	55%
-Prefer not to borrow in economic climate	*42%*	*44%*	*51%*	*46%*	*42%*	*40%*	*37%*	*37%*	*34%*
-Predicted performance of business	*18%*	*16%*	*22%*	*18%*	*16%*	*13%*	*24%*	*17%*	*22%*
Issues with principle of borrowing	4%	1%	2%	3%	4%	5%	5%	10%	7%
Issues with process of borrowing	13%	13%	12%	15%	15%	15%	13%	16%	18%
Discouraged (any)	16%	16%	11%	14%	15%	13%	9%	13%	9%
-Direct (Put off by bank)	*3%*	*1%*	*1%*	*1%*	*	*2%*	*	*1%*	*3%*
-Indirect (Think I would be turned down)	*14%*	*15%*	*10%*	*13%*	*15%*	*11%*	*9%*	*12%*	*6%*
None of these	*7%*	*10%*	*3%*	*4%*	*8%*	*14%*	*12%*	*7%*	*11%*

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 a minority gave the economic climate as the main reason for not having sought finance.

9 in 10 past 'Would-be seekers' who cited discouragement as one of the reasons for not applying went on to cite it as the main reason, and this was also the case amongst these 'Future would-be seekers'. The economic climate though was the most likely to become the main reason, with 99% of the 'Future would-be seekers' who cited it as one of their reasons going on to cite it as the main reason for not applying.

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.

For those with an identified need for finance, a reluctance to borrow in the current economic climate was now as likely to be mentioned as discouragement (30% in Q1-2 15 v 29% for discouragement), having previously been more likely to be mentioned as the main barrier. As before, virtually all discouragement was indirect, where the SME has assumed they would be turned down and so does not plan to apply:

Main reason for not applying The 'Future would-be seekers' **with identified need**	Q2-3 2013	Q3-4 2013	Q4-1 2014	Q1-2 2014	Q2-3 2014	Q3-4 2014	Q4-1 2015	Q1-2 2015
Unweighted base:	*151*	*149*	*127*	*96**	*103*	*86**	*68**	*65**
Reluctant to borrow now (any)	24%	33%	41%	35%	30%	38%	42%	30%
-Prefer not to borrow in economic climate	*20%*	*26%*	*35%*	*28%*	*18%*	*17%*	*26%*	*26%*
-Predicted performance of business	*5%*	*6%*	*7%*	*6%*	*12%*	*22%*	*16%*	*4%*
Issues with principle of borrowing	6%	1%	3%	4%	6%	6%	11%	14%
Issues with process of borrowing	19%	21%	20%	21%	25%	20%	9%	10%
Discouraged (any)	46%	42%	27%	23%	23%	26%	28%	29%
- Direct (Put off by bank)	*6%*	*2%*	***	***	***	***	*1%*	*1%*
-Indirect (Think I would be turned down)	*40%*	*40%*	*26%*	*22%*	*23%*	*26%*	*27%*	*27%*
None of these	*5%*	*3%*	*9%*	*17%*	*16%*	*10%*	*10%*	*17%*

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 presented much more of a barrier (albeit with fewer mentions in recent quarters). This remained more likely to be due to the general economic climate rather than the performance of the SME specifically, but the gap has narrowed over recent quarters. Discouragement was much less likely to be mentioned by this group, but where it was, almost all of it was indirect:

Main reason for not applying The 'Future would-be seekers' **with no identified need**	Q2-3 2013	Q3-4 2013	Q4-1 2014	Q1-2 2014	Q2-3 2014	Q3-4 2014	Q4-1 2015	Q1-2 2015
Unweighted base:	*1401*	*1364*	*1460*	*1545*	*1353*	*1038*	*990*	*904*
Reluctant to borrow now (any)	65%	70%	71%	63%	58%	58%	59%	57%
-Prefer not to borrow in economic climate	*46%*	*50%*	*50%*	*45%*	*43%*	*41%*	*38%*	*36%*
-Predicted performance of business	*19%*	*20%*	*21%*	*18%*	*14%*	*17%*	*21%*	*21%*
Issues with principle of borrowing	2%	2%	2%	4%	5%	5%	7%	8%
Issues with process of borrowing	12%	11%	13%	14%	14%	14%	15%	17%
Discouraged (any)	12%	10%	11%	14%	13%	10%	9%	9%
- Direct (Put off by bank)	*1%*	*1%*	*1%*	*1%*	*1%*	*1%*	*1%*	*2%*
-Indirect (Think I would be turned down)	*11%*	*9%*	*10%*	*13%*	*12%*	*8%*	*9%*	*7%*
None of these	*9%*	*7%*	*3%*	*5%*	*10%*	*13%*	*10%*	*9%*

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

Other analysis of all 'Future would-be seekers', such as by size and risk rating, is based just on the latest quarter, Q2 2015.

By size, a reluctance to borrow now was the top reason given, notably for larger SMEs:

Main reason for not applying 'Future would-be seekers' by size Q2 15 only	Total	0-9 emps	10-249 emps
Unweighted base:	*455*	*281*	*174*
Reluctant to borrow now (any)	55%	55%	80%
-Prefer not to borrow in economic climate	*34%*	*33%*	*47%*
-Predicted performance of business	*22%*	*21%*	*34%*
Issues with principle of borrowing	7%	7%	3%
Issues with process of borrowing	18%	18%	8%
Discouraged (any)	9%	9%	5%
-Direct (Put off by bank)	*3%*	*3%*	*-*
-Indirect (Think I would be turned down)	*6%*	*6%*	*5%*

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

Excluding the 'Future would-be seekers' with 0 employees makes relatively little difference to the overall picture above. 66% of FWBS with employees cited a reluctance to borrow now, with 44% citing the current climate and 21% their own performance. 7% cited discouragement.

Over time, smaller FWBS (with 0-9 employees) have been most likely to cite the economic climate as the main barrier to a future application, but this proportion has fallen somewhat (from 63% for 2013 to 54% for H1 2015). There has also been a slight fall in discouragement (14% to 11%) and so slightly more mentions of the process (13% to 17%) and the principle of borrowing (3% to 9%).

Amongst FWBS with 10-249 employees the picture is more stable over time, with 8 in 10 typically citing the current economic climate as the main barrier.

The table below shows the main reasons for not applying given in Q2 2015 by 'Future would-be seekers', split by risk rating. A reluctance to borrow now remained the main barrier across the risk ratings, especially for those with a minimal/low rating:

Main reason for not applying 'Future would-be seekers' by risk rating Q2 15 only	Total	Min/Low	Avge	Worse/ Avge
Unweighted base:	***455***	***182***	***108***	***113***
Reluctant to borrow now (any)	55%	68%	55%	53%
-Prefer not to borrow in economic climate	*34%*	*46%*	*35%*	*31%*
-Predicted performance of business	*22%*	*23%*	*21%*	*22%*
Issues with principle of borrowing	7%	5%	6%	8%
Issues with process of borrowing	18%	13%	16%	21%
Discouraged (any)	9%	2%	8%	11%
-Direct (Put off by bank)	*3%*	*-*	*-*	*7%*
-Indirect (Think I would be turned down)	*6%*	*2%*	*8%*	*4%*

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

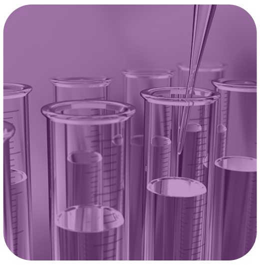
To put all these results in context, the table below shows the equivalent figures for each reason amongst all SMEs in Q2 2015. 6% of all SMEs would have liked to apply for new/renewed facilities in the next 3 months but thought they would be unlikely to do so because of the current climate or the performance of their business:

Reasons for not applying Q2 15 only – the 'Future would-be seekers'	Main reason	All SMEs Q2	All SMEs excl. PNB
Unweighted base:	*455*	*5001*	*3195*
Reluctant to borrow now (any)	55%	6%	12%
-Prefer not to borrow in economic climate	*34%*	*4%*	*7%*
-Predicted performance of business	*22%*	*2%*	*4%*
Issues with principle of borrowing	7%	1%	1%
Issues with process of borrowing	18%	2%	4%
Discouraged (any)	9%	1%	2%
-Direct (Put off by bank)	*3%*	*	*
-Indirect (Think I would be turned down)	*6%*	*1%*	*1%*

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), 12% were put off by the current economic climate (including their current 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

Half of SMEs were aware of any of five key funding initiatives

- Before being prompted with the names of the schemes, 32% of SMEs were spontaneously aware of any support to make funding available to SMEs. Awareness increased slightly by size (41% of those with 50-249 employees) but was no higher amongst those with plans to apply (35%) or once the PNBs were excluded (34%)

- After prompting, 53% of SMEs were aware of any of the initiatives tested, increasing slightly by size (to 59% of those with 50-249 employees). Excluding the PNBs had only a sight impact on overall awareness (56%), whilst amongst those with plans to apply awareness was 58%

- Awareness was highest for Start-up Loans (40% with little variation by size) with 24% aware of Funding for Lending (with higher awareness amongst larger SMEs to 36% of those with 50-249 employees)

A third of SMEs were aware of any of the other support initiatives tested

- 36% were aware of any of the 4 initiatives tested, with awareness increasing slightly amongst larger SMEs (42% of those with 50-249 employees were aware of any of these initiatives). Excluding the PNBs has a sight impact on overall awareness (40%), whilst amongst those with plans to apply awareness was 38%

- 19% of SMEs were aware of the network of business mentors and the same proportion were aware of the Lending Code, with awareness increasing by size

Overall, 61% of SMEs in Q2 2015 were aware of any of the initiatives tested. Analysis over time shows a broadly stable picture for awareness of these initiatives

- Excluding the PNBs with little interest in finance increased overall awareness in Q2 2015 slightly to 64%, ranging from 62% of those with 0 employees to 71% of those with 50-249 employees
- Awareness of the initiatives such as the appeals system, mentors and the British business bank has changed very little over time
- Awareness of Start-up Loans is somewhat higher in 2015 than it was in 2014 (when a third of SMEs were aware) while awareness of Funding for Lending has declined somewhat over time (having been 29% in Q2 2014)

Awareness of crowd funding continued to increase. The proportion of those aware who would consider using this form of finance is stable over time

- In H1 2015, 37% of SMEs (excluding the PNBs) were aware of crowd funding, up from 22% in the first half of 2014

- Use of crowd funding remained limited (1% for the year to Q2 2015 excluding PNBs). In H1 2015, 30% of those aware of crowd funding said they would consider using it in future (the equivalent of 11% of all SMEs excluding the PNBs). Unlike awareness, this was little changed from H1 2014, when 32% of those aware said they would consider using it in future (albeit this was the equivalent of 7% of all SMEs excluding the PNBs)

A minority of SMEs reported being contacted by a bank expressing a willingness to lend and this has changed little over time

- In Q2 2015, 14% of SMEs reported being contacted by a bank expressing a willingness to lend (11% from their main bank, 4% from another bank)
- SMEs with 0 employees were less likely to have been contacted (13%) than those with employees (17%)
- The proportion reporting contact has been 14% since Q2 2014 and has varied little over the longer term (it was 13% in 2012 and 2013)
- Those who had heard from a bank were more likely to have heard of the various initiatives tested (72% v 59% who have not been approached)

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 has been revised several times, most recently in Q3 2014, so results are not always directly comparable over time.

The main change for Q3 2014 was the introduction of a general awareness question around access to finance initiatives, before SMEs were prompted with a list of specific initiatives (which was also revised).

Spontaneous awareness of funding initiatives

In Q2 2015, 32% of SMEs said that they were aware of any initiatives from Government or other bodies to help make funding available to SMEs (before they were prompted with examples of such schemes):

- Awareness of any initiatives varied by size of SME from 31% of those with 0 employees to 41% of those with 50-249 employees.
- Excluding the PNBs, with little apparent appetite for finance, increased awareness only slightly to 34%. Awareness was also only slightly higher amongst those planning to apply for external finance in the next 3 months (35%).

As the table below shows, spontaneous awareness in Q2 2015 was slightly higher than when this question was first asked in Q3 2014:

Spontaneous awareness Over time – all SMEs Row percentages	Q3 14	Q4 14	Q1 15	Q2 15
Overall	28%	28%	31%	32%
0 employees	27%	27%	30%	31%
1-9 employees	33%	31%	34%	36%
10-49 employees	34%	34%	39%	38%
50-249 employees	38%	41%	37%	41%
Plan to apply/renew	28%	37%	36%	35%
Excluding PNBs	30%	30%	34%	34%

Q240 All SMEs

Prompted awareness of funding initiatives

From Q3 2014 a revised list of funding initiatives has been used, and the question has been asked in a slightly different way. As the table below shows, when prompted with the various schemes listed, 53% of SMEs in Q2 2015 were aware of one or more of these specific schemes, increasing somewhat by size:

Awareness of specific funding initiatives Q2 15 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*5001*	*1001*	*1650*	*1600*	*750*
Start-up Loans*	40%	40%	40%	41%	41%
Funding for Lending	24%	23%	28%	31%	36%
Enterprise Finance Guarantee Scheme*	18%	16%	21%	23%	27%
The Business Growth Fund	15%	14%	18%	22%	27%
The British Business Bank*	10%	8%	14%	16%	19%
Any of these	*53%*	*52%*	*55%*	*58%*	*59%*
None of these	*47%*	*48%*	*45%*	*42%*	*41%*

Q240 All SMEs * indicates new or amended question

Amongst those with employees, 55% were aware of any of these initiatives.

Businesses established in the last 2 years were slightly more likely to be aware of Start-up Loans (44%) and 54% were aware of at least one of these initiatives. This compares to 56% of those between 2 and 10 years old and 50% of older SMEs.

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 such external finance. As in previous quarters excluding the 'Permanent non-borrowers' increased overall awareness slightly, to 56% in Q2 2015. More detailed analysis of awareness excluding PNBs is provided below.

Amongst those with plans to apply in the next 3 months, prompted awareness of any of these initiatives was also slightly higher at 58%.

As is often the case with measures like this there was an increase in awareness between spontaneous awareness of *any* initiatives (the 32% reported at the start of this chapter) and net awareness of any of the initiatives when prompted with individual scheme names (the 53% reported in the table above). In this instance the uplift was 21 percentage points, with little variation by size. There was also a similar gap between spontaneous and prompted awareness once the Permanent non-borrowers were excluded (22 points) and amongst those planning to apply in the next 3 months (23 points).

Please note that from Q3 2014, no further questions have been asked about the impact of schemes such as Funding for Lending on appetite for finance.

Prompted awareness of other initiatives

The table below shows awareness of the other initiatives tested in Q2 2015:

Awareness of initiatives Q2 15 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*5001*	*1001*	*1650*	*1600*	*750*
A network of business mentors	19%	18%	23%	24%	25%
The Lending Code/principles	19%	18%	21%	26%	24%
Independently monitored appeals process	13%	13%	15%	18%	20%
BetterBusinessFinance.co.uk	9%	9%	10%	13%	13%
Any of these	*36%*	*35%*	*38%*	*43%*	*42%*
None of these	*64%*	*65%*	*62%*	*57%*	*58%*

Q240 All SMEs * indicates new or amended question

Amongst those with employees, 39% were aware of any of these initiatives. Excluding the PNBs affected awareness only a little (40%), and awareness was 38% amongst those planning to apply for new/renewed finance in the next 3 months.

From Q1 2015, awareness has also been measured for the British Banking insight website, which reports satisfaction ratings given by SMEs to banks and other providers. In Q2 2015, 9% of SMEs were aware of this website, with relatively little variation by size (8-11%).

A further initiative around loans 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 7% in Q2, and this has dropped somewhat since the start of 2014 (it was 12% in Q2 2014, in line with previous quarters). Awareness amongst smaller SMEs with loans was 7% (from 12% in Q2 2014), whilst awareness for 10-249 employees had also fallen (12% from 17% in Q2 2014).

As it applies only to specific SMEs, this initiative is not included in any of the overall summary tables below.

Awareness of all initiatives by key groups

61% of all SMEs were aware of any of the initiatives tested in Q2 2015. This varied by size of business from 60% of those with no employees to 67% of those with 50-249 employees. Those with a minimal or low risk rating were somewhat more likely to be aware of any of these initiatives (65%) than those with an average or worse than average risk rating (58-59%).

The table below details awareness of all the initiatives tested in Q2 2015 by sector. Overall awareness varied from 55% for Construction to 68% for Property/Business Services:

% aware of Initiatives Q2 15 – all SMEs	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*374*	*522*	*875*	*505*	*450*	*453*	*875*	*447*	*500*
Start-up Loans*	35%	42%	37%	34%	37%	39%	45%	40%	43%
Funding for Lending	21%	27%	20%	20%	24%	29%	27%	20%	30%
A network of business mentors	19%	25%	14%	15%	18%	22%	23%	22%	18%
The Lending Code/principles	18%	20%	13%	21%	19%	17%	25%	17%	19%
Enterprise Finance Guarantee Scheme*	18%	22%	11%	18%	12%	23%	23%	15%	13%
The Business Growth Fund	12%	21%	8%	13%	14%	16%	21%	12%	18%
Independently monitored appeals process	13%	15%	11%	14%	14%	15%	17%	11%	7%
The British Business Bank*	10%	12%	7%	8%	13%	15%	13%	12%	5%
BetterBusinessFinance.co.uk	6%	12%	8%	6%	10%	8%	12%	8%	12%
Any of these	*58%*	*66%*	*55%*	*59%*	*62%*	*61%*	*68%*	*58%*	*59%*
None of these	*42%*	*34%*	*45%*	*41%*	*38%*	*39%*	*32%*	*42%*	*41%*

Q240 All SMEs * indicates new or amended question

Excluding the 'Permanent non-borrowers' with little apparent interest in external finance slightly increases awareness of *any* initiatives, as has already been reported. The table below shows awareness of all the individual initiatives tested in Q2 2015, once these PNBs have been excluded:

Awareness of initiatives Q2 15 – all SMEs excluding PNBs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*3195*	*456*	*1031*	*1152*	*556*
Start-up Loans*	41%	41%	41%	44%	44%
Funding for Lending	26%	24%	28%	33%	38%
A network of business mentors	22%	21%	25%	25%	26%
The Lending Code/principles	21%	19%	23%	29%	26%
Enterprise Finance Guarantee Scheme*	20%	18%	23%	26%	29%
The Business Growth Fund	19%	17%	20%	24%	28%
Independently monitored appeals process	14%	13%	16%	19%	22%
The British Business Bank*	10%	7%	14%	16%	20%
BetterBusinessFinance.co.uk	9%	8%	10%	12%	11%
Any of these	*64%*	*62%*	*68%*	*70%*	*71%*
None of these	*36%*	*38%*	*32%*	*30%*	*29%*

Q240 All SMEs * indicates new or amended question

Excluding the PNBs, awareness of the British Banking insight website, which reports satisfaction ratings given by SMEs to banks and other providers was 8% in Q2 2015, with relatively little variation by size (8-11%).

Excluding the PNBs typically increased awareness of individual initiatives by a few percentage points and overall awareness to 64% in Q2 2015 (from 61% of all SMEs). Amongst those with plans to apply in the next 3 months, prompted awareness was also slightly higher at 67%.

Awareness over time for all SMEs is shown in the table below. The initiatives tested in Q2 2015 included some that were tested for the first time in Q3 2014 or where the wording changed at that stage (indicated by **) and some that have been tracked consistently over the period shown:

Awareness of Taskforce initiatives Over time – all SMEs By date of interview	Q2 13	Q3 13	Q4 13	Q1 14	Q2 14	Q3 14	Q4 14	Q1 15	Q2 15
Unweighted base:	*5000*	*5000*	*5028*	*5000*	*5008*	*5023*	*5024*	*5038*	*5001*
Start-up Loans**	-	-	-	-	-	35%	34%	40%	40%
Funding for Lending**	29%	30%	29%	27%	29%	25%	24%	23%	24%
A network of business mentors	23%	23%	21%	22%	23%	22%	19%	22%	19%
The Lending Code/principles	18%	18%	17%	18%	19%	21%	17%	18%	19%
Enterprise Finance Guarantee Scheme**	23%	24%	21%	17%	22%	22%	17%	18%	18%
The Business Growth Fund**	16%	15%	14%	13%	16%	16%	15%	15%	15%
Independently monitored appeals process	12%	14%	12%	12%	13%	14%	12%	12%	13%
The British Business Bank**	-	-	-	-	-	13%	10%	11%	10%
BetterBusinessFinance.co.uk	9%	9%	10%	11%	14%	14%	14%	8%	9%

Q240 All SMEs – ** indicates new question format in Q3 2014 which may affect comparability EFGS data previous collected as: Other Government support schemes for access to finance such as the Enterprise Finance guarantee scheme,-and support for exporters through UK Export Finance

For many initiatives where trend data is available, the picture is broadly stable. Awareness of Start-up Loans is somewhat higher in 2015, while awareness of the Funding for Lending Scheme has dropped slightly since the start of 2014.

This second table also shows awareness of initiatives over time, but excludes the 'Permanent non-borrowers':

Awareness of Taskforce initiatives Over time – all SMEs excl PNBs By date of interview	Q2 13	Q3 13	Q4 13	Q1 14	Q2 14	Q3 14	Q4 14	Q1 15	Q2 15
Unweighted base:	*3707*	*3637*	*3585*	*3370*	*3514*	*3576*	*3153*	*3220*	*3195*
Start-up Loans**	-	-	-	-	-	36%	38%	44%	41%
Funding for Lending**	32%	32%	32%	28%	32%	25%	26%	25%	26%
A network of business mentors	23%	24%	22%	23%	25%	21%	20%	25%	22%
The Lending Code/principles	19%	19%	17%	18%	20%	20%	19%	20%	21%
Enterprise Finance Guarantee Scheme**	24%	24%	25%	19%	24%	21%	19%	22%	20%
The Business Growth Fund**	17%	15%	16%	13%	18%	16%	16%	18%	19%
Independently monitored appeals process	13%	15%	13%	13%	14%	15%	12%	14%	14%
The British Business Bank**	-	-	-	-	-	13%	10%	12%	10%
BetterBusinessFinance.co.uk	10%	9%	12%	12%	15%	16%	14%	9%	9%

Q240 All SMEs – ** indicates new question format in Q3 2014 which may affect comparability EFGS data previous collected as: Other Government support schemes for access to finance such as the Enterprise Finance guarantee scheme,-and support for exporters through UK Export Finance

For those initiatives where trend data is available, the picture is also broadly stable once the PNBs are excluded. As overall, awareness of the Funding for Lending Scheme has dropped slightly since the start of 2014.

The independently monitored appeals process

Not all SMEs borrow, or have any appetite for external finance. Initiatives such as the independently monitored appeals process therefore will not be immediately relevant to many SMEs. Awareness of this initiative is shown in more detail below, typically for H1 2015 as a whole, amongst those SMEs for whom it could have particular relevance:

The appeals process	Awareness
Awareness amongst those declined for a loan or overdraft	As reported earlier, amongst all those who, in the 18 months between Q1 2014 and Q2 2015, had applied for an overdraft and initially been declined, 19% said that they had been made aware of the appeals process, with higher awareness amongst those declined in 2014 (23% v 13% in 2013). For loans the equivalent figure was 10% with no clear pattern over time.
Overall general awareness	Overall awareness of the appeals process (asked of all SMEs at Q240) was 13% for H1 2015, unchanged from 2013 and 2014 (and 14% once the PNBs were excluded, also unchanged from 2013 and 2014).
Overall awareness by size	Awareness increased by size of SME. Excluding the PNBs, in H1 2015 14% of remaining SMEs with 0 employees were aware of appeals, increasing to 20% of those with 50-249 employees.
Awareness by interest in finance	16% of those reporting a borrowing event in the 12 months prior to interview were aware of the appeals process. Awareness amongst 'Happy non-seekers' was similar (14%) while lower levels of awareness were reported by 'Would-be seekers' (8%). Looking forward, 15% of those planning to apply in the next 3 months were aware of the appeals process, compared to 16% of 'Future happy non-seekers'. Awareness amongst 'Future would-be seekers' was again lower (10%)

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 was revised again for Q1 2014, to provide more granularity on applications for crowd funding.

Crowd funding	
Overall awareness	Across 2014, awareness of crowd funding increased, from 18% in Q1 to 32% in Q4 (excluding PNBs) and awareness increased again to 36% for Q2 2015 (36% for those with 0-9 employees and 41% for those with 10-249 employees). Amongst those planning to apply for external finance awareness was 38% in Q2 2015, from 25% in Q1 2014.
Consideration	Consideration of crowd funding as a source of funding for their business was 8% for 2014 as a whole (excluding PNBs) and was 11% for Q1-2 2015 (11% for those with 0-9 employees and 9% for those with 10-249 employees). Amongst those with plans to apply for finance, consideration of crowd funding was 15% for 2014 as a whole and at a similar level 18% for Q1-2 2015.

The table below is based on YEQ2 2015 as a whole to maximise base sizes:

Awareness and use of crowd funding All SMEs excl PNBs asked new question YEQ2 2015	Total	0 emps	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*13,144*	*1957*	*4335*	*4648*	*2204*
Aware of crowd funding	34%	33%	37%	38%	37%
- *Using crowd funding*	*1%*	*1%*	*2%*	*2%*	*2%*
- *Unsuccessfully applied for crowd funding*	*	*	*1%*	*	*
- *Would consider applying in future*	*10%*	*10%*	*10%*	*9%*	*6%*
- *Would not consider applying*	*23%*	*21%*	*25%*	*27%*	*28%*
Not aware	66%	67%	63%	62%	63%
% aware who would consider	*29%*	*30%*	*27%*	*24%*	*16%*

Q238a2 All SMEs excl PNBs

10% of all SMEs (excluding the PNBs) were not using crowd funding but would consider applying for it in future, the equivalent of 29% of all those aware of crowd funding. Most of those who were aware of crowd funding said that they would not consider using it (68% of those aware, the equivalent of 23% of all SMEs excluding PNBs).

As the table below shows, since the start of 2014, awareness of crowd funding has increased while the *proportion* of those aware who would consider using it has stayed stable:

Awareness and use of crowd funding All SMEs excl PNBs asked new question Over time	H1 2014	H2 2014	H1 2015
Unweighted base:	*6884*	*6729*	*6415*
Aware of crowd funding	22%	32%	37%
- *Would consider applying in future*	7%	10%	11%
% aware who would consider	*32%*	*31%*	*30%*

Q238a2 All SMEs excl PNBs

Bank communication about lending

SMEs were asked whether, in the 3 months prior to interview, they had been contacted by either their main bank, or another bank, expressing a willingness to lend.

In Q2 2015, 14% of all SMEs said that they had received such a contact in the previous 3 months (11% of SMEs had heard from their main bank, while 4% had heard from another bank), and this has changed very little over time:

Approached by any bank in last 3 mths All SMEs	Q2 13	Q3 13	Q4 13	Q1 14	Q2 14	Q3 14	Q4 14	Q1 15	Q2 15
All SMEs	11%	12%	13%	13%	14%	14%	14%	14%	14%
0 emps	10%	10%	13%	13%	14%	12%	12%	14%	13%
1-9 emps	14%	14%	15%	15%	15%	17%	17%	16%	17%
10-49 emps	17%	17%	21%	19%	16%	21%	17%	18%	18%
50-249 emps	20%	24%	23%	15%	19%	24%	22%	16%	18%
All SMEs excluding PNBs	11%	12%	15%	13%	15%	14%	16%	17%	16%

Q221 All SMEs

SMEs with employees remained more likely to have been contacted. 17% reported in Q2 2015 that they had been approached by a bank (12% by their main bank and 7% by another bank).

Contact from bank	
Approaches over time	The proportion being approached by a bank at all has varied very little over time (13% in 2012 and 2013 compared to 14% in 2014 and H1 2015). There has been a very slight increase in contact from the main bank (8% in 2012 to 11% in H1 2015) while contact from other banks is almost unchanged (6% in 2012 to 5% in 2014 and H1 2015).
Impact on awareness	As before, in H1 2015 those who had been contacted by a bank were more likely to be aware of the funding initiatives tested earlier in this chapter (62% v 51% that had not been approached) and of the other initiatives (45% v 33%). As a result they also had higher awareness of any of the initiatives tested (72% v 59%).
Awareness of specific initiatives	Those who had been contacted by a bank were more likely to be specifically aware of Start-up Loans (48% v 39% not contacted), and Funding for Lending (30% v 23% not contacted)

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 of funding initiatives. More detailed analysis would therefore be needed to explore the actual impact that contact from a bank has had.

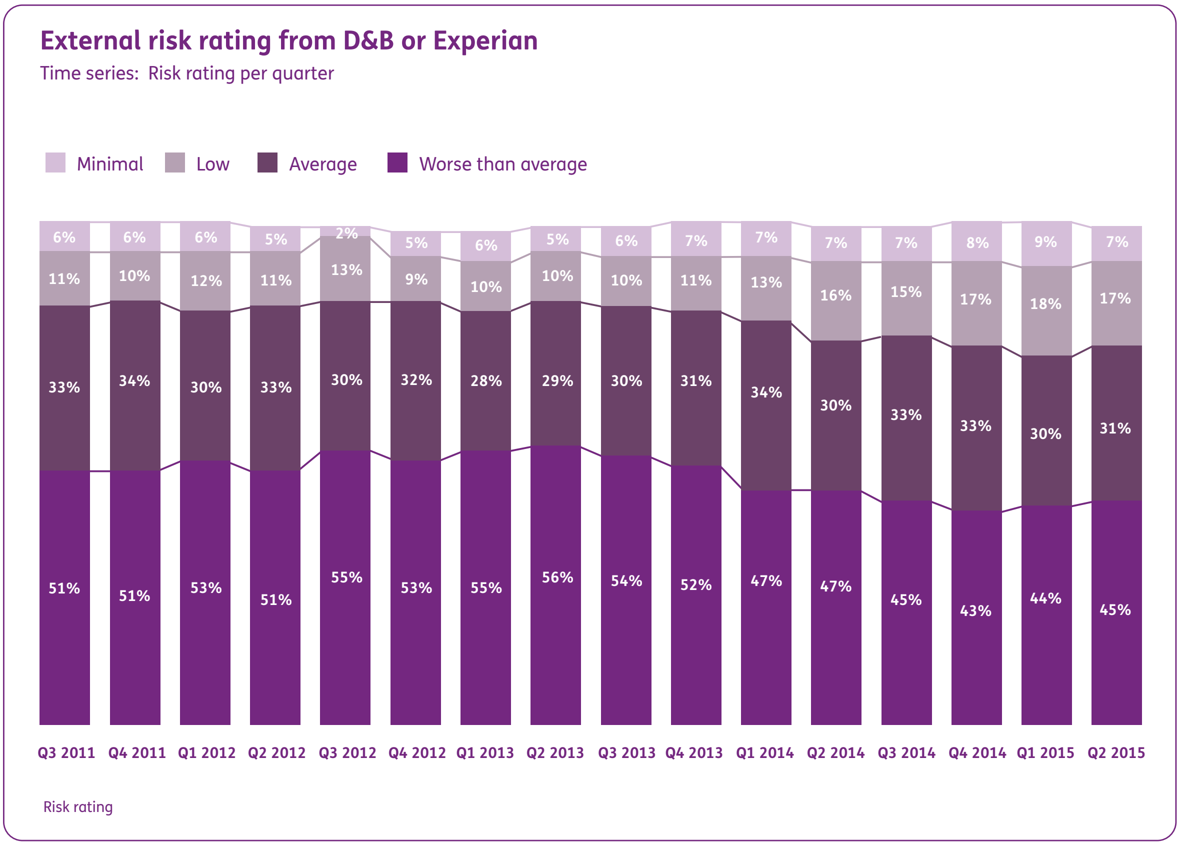
14. Selected Graphs and Charts

This chapter presents

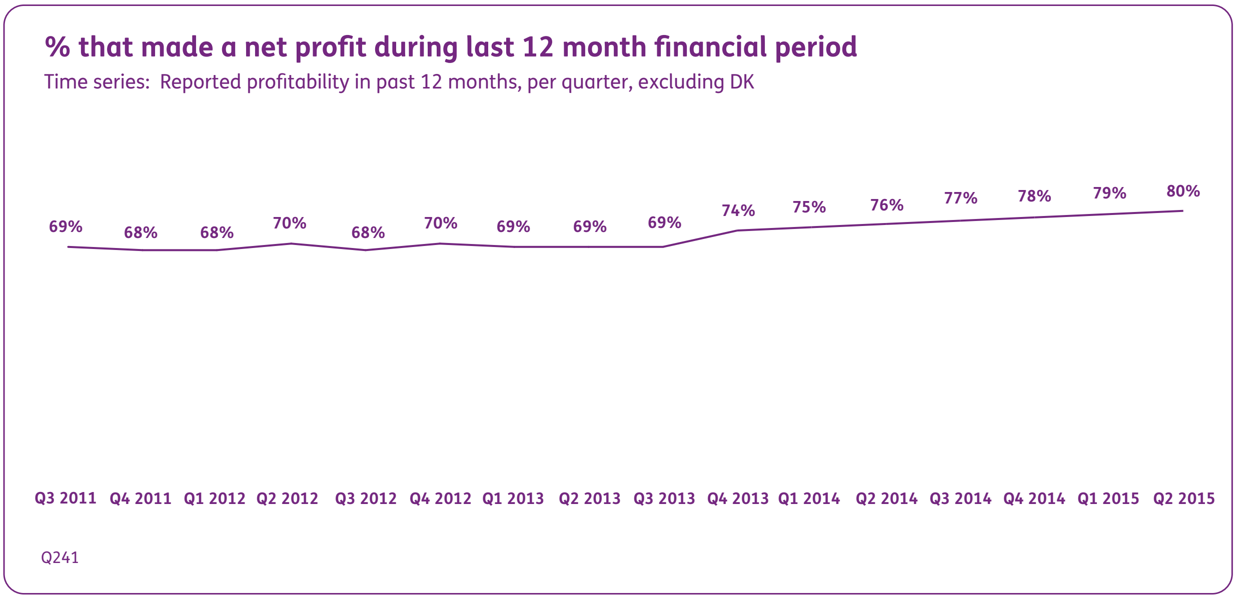
some of the key data in graphical form to provide data on longer term trends.

Much of the data in this report is provided and analysed over time, typically by quarter. After seventeen 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.

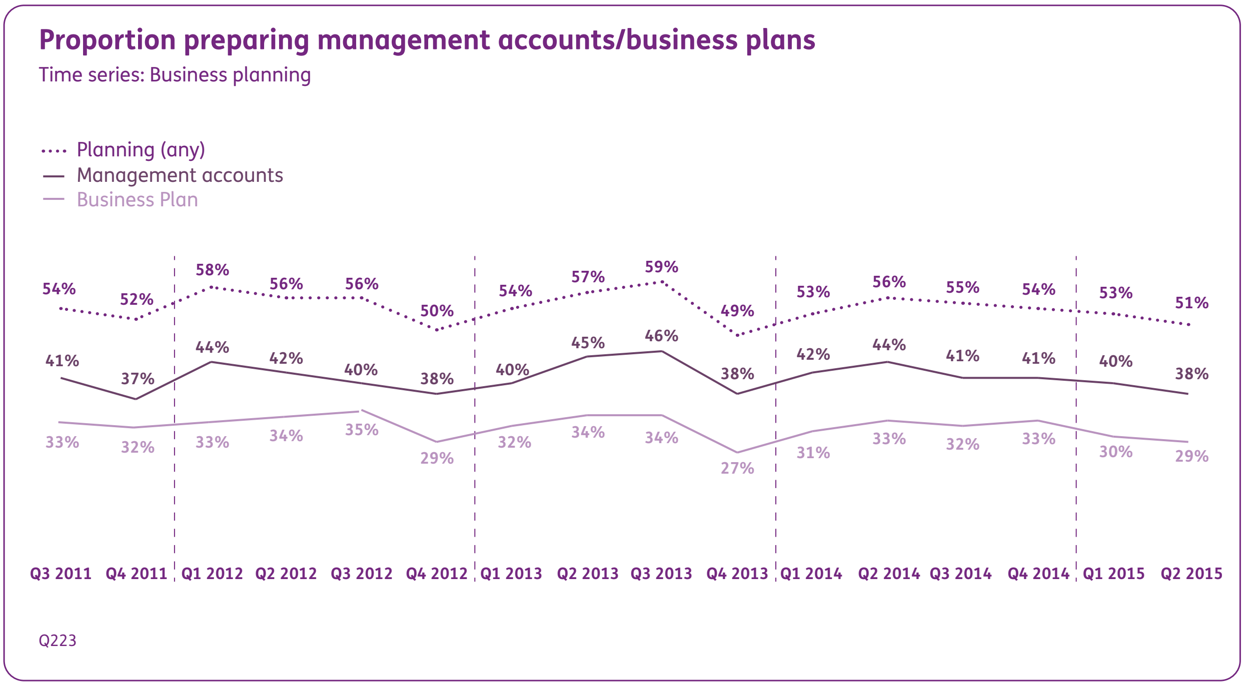
Charts reflecting data reported in Chapter 4



This chart relates to the analysis found on page 36 of the main report. The proportion of SMEs with a 'worse than average' external risk rating initially increased over time, reaching 56% in Q2 2013. Since then the risk rating profile has improved and in Q2 2015, 45% of SMEs had a 'worse than average' rating.

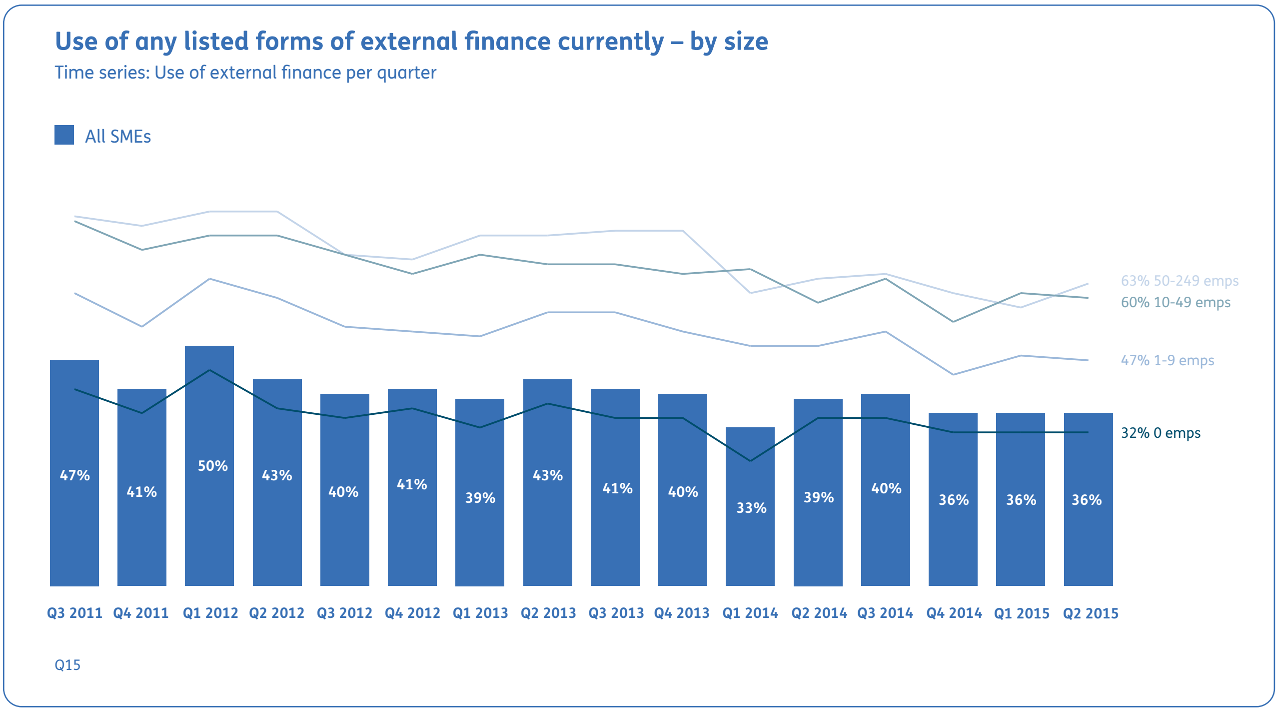


This chart relates to the analysis found on page 30 of the main report. The proportion of SMEs reporting a profit in the previous 12 months trading has improved over recent quarters to 80% in Q2 2015.



This chart relates to the analysis found on page 43 of the main report. In Q12 2015, half of SMEs planned (51%), with no clear pattern over time.

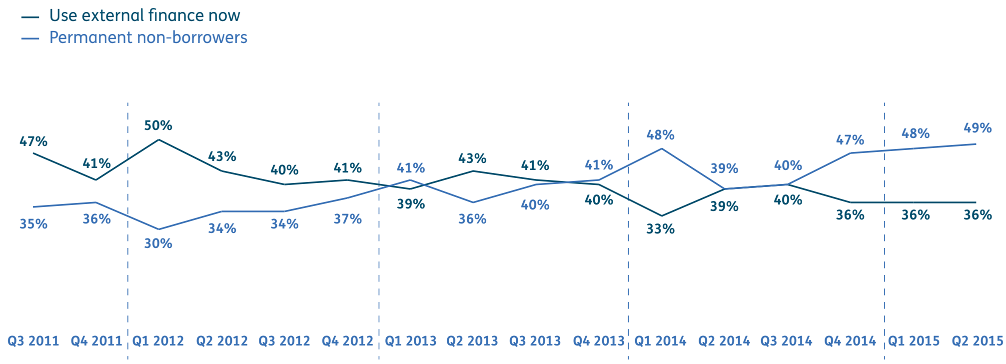
Charts reflecting data reported in Chapter 5



This chart relates to the analysis found on page 55 of the main report. 36% of SMEs reported using external finance in Q2 2015, and this has been stable over recent quarters. Larger SMEs remained more likely than smaller ones to be using external finance, but the proportion has declined over time.

Proportion using external finance v those who meet definition of “Permanent non-borrower”

Time series: Permanent non-borrowers and users of external finance

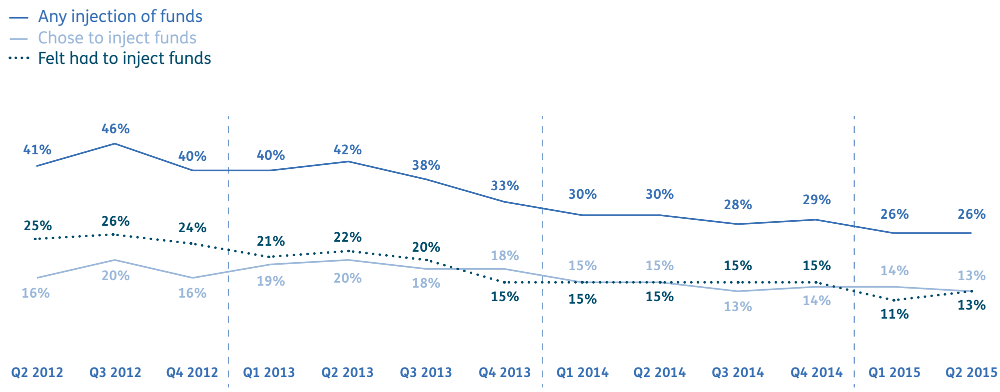


Q15/14 and others

This chart relates to the analysis found on pages 55 and 79 of the main report. In Q2 2015, there were once again more SMEs that met the definition of a ‘Permanent non-borrower’ (49%) than there were SMEs using external finance (36%), as the proportion of PNBs increases over time.

Proportion injecting personal funds into the business in last 12 months

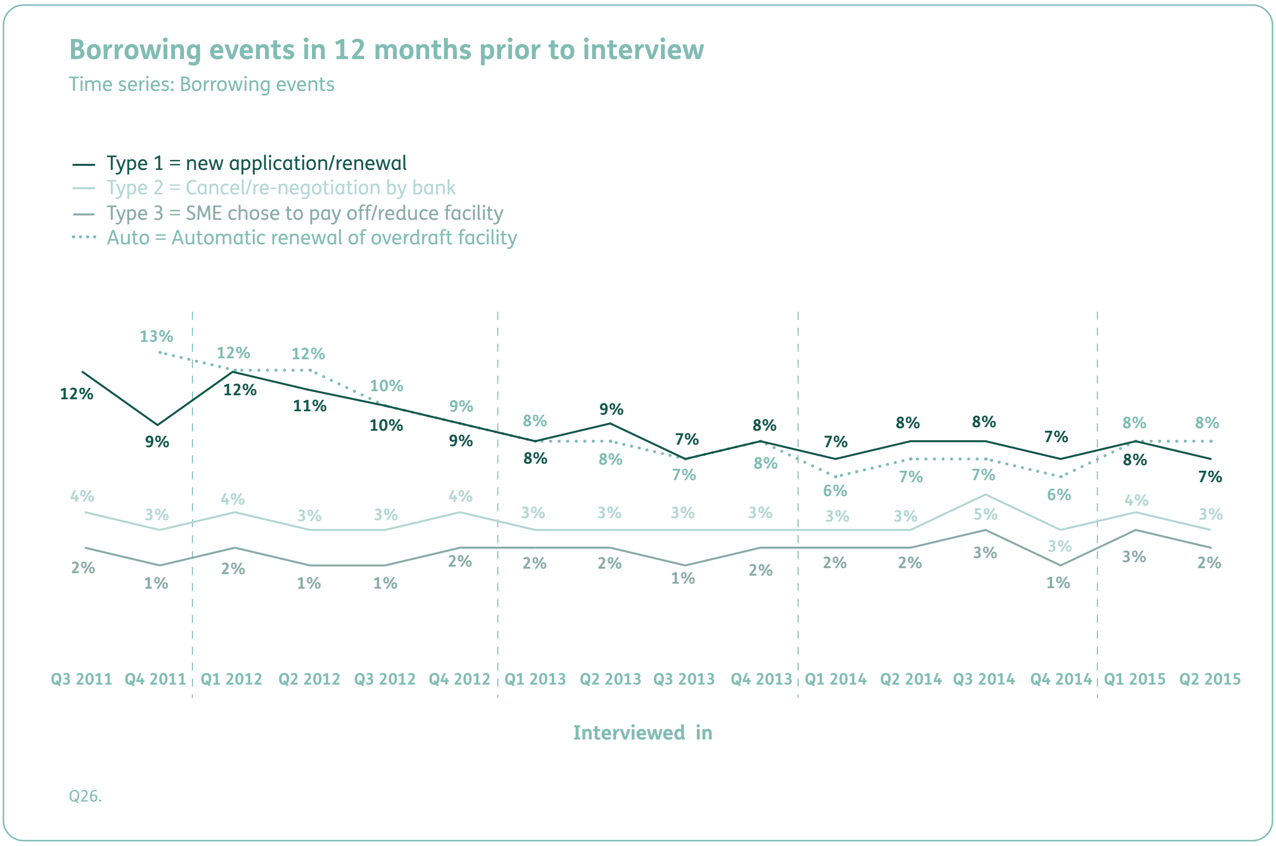
Time series: Injections of personal funds



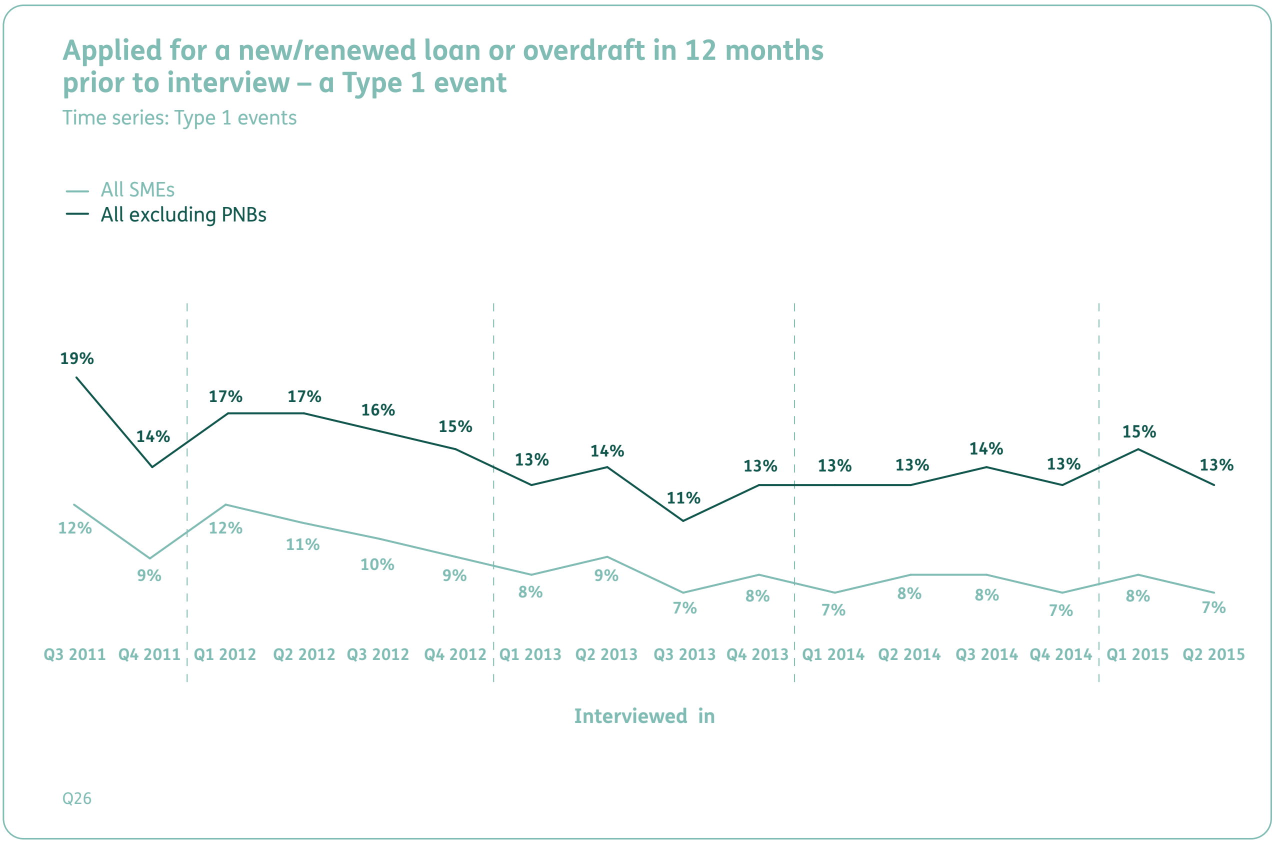
Q15/14 and others

This chart relates to the analysis found on page 66 of the main report. 26% of SMEs reported any injection of personal funds into the business in the 12 months prior to Q2 2015. Over time, this proportion has declined, from a peak of 46% in Q3 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 99 and 112 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.

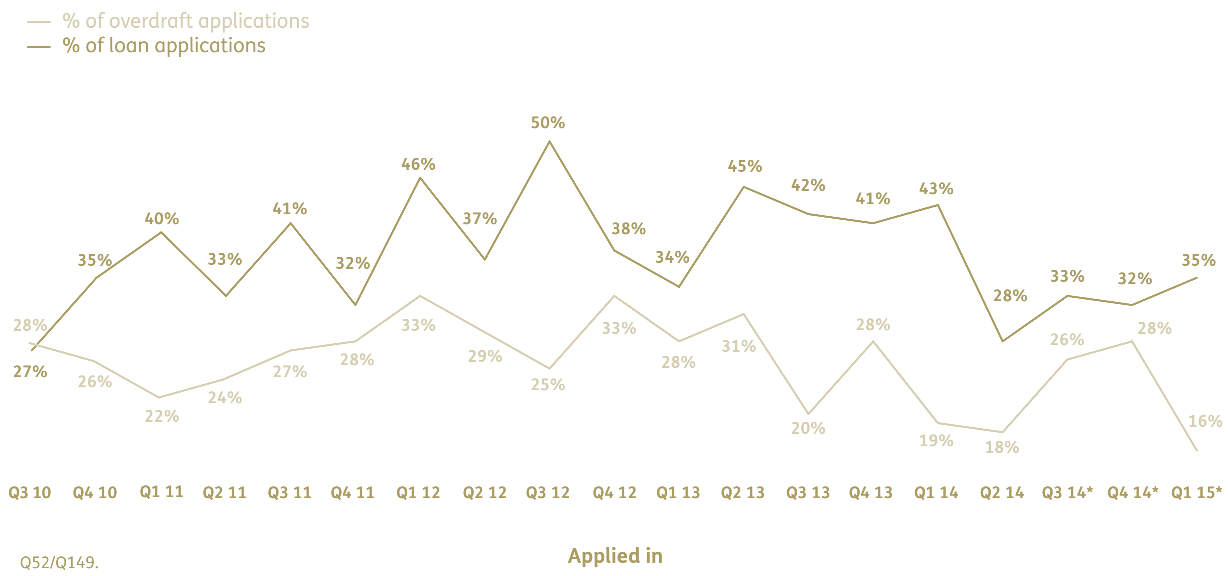


This chart relates to the analysis found on page 109 of the main report. Excluding the PNBs who seem unlikely to borrow, increased the proportion of SMEs reporting an application for a new or renewed facility to 13%. Applications levels were stable, but as for SMEs overall, lower than in 2012.

Charts reflecting data reported in Chapter 7

Proportion of all applications that were made by first time applicants

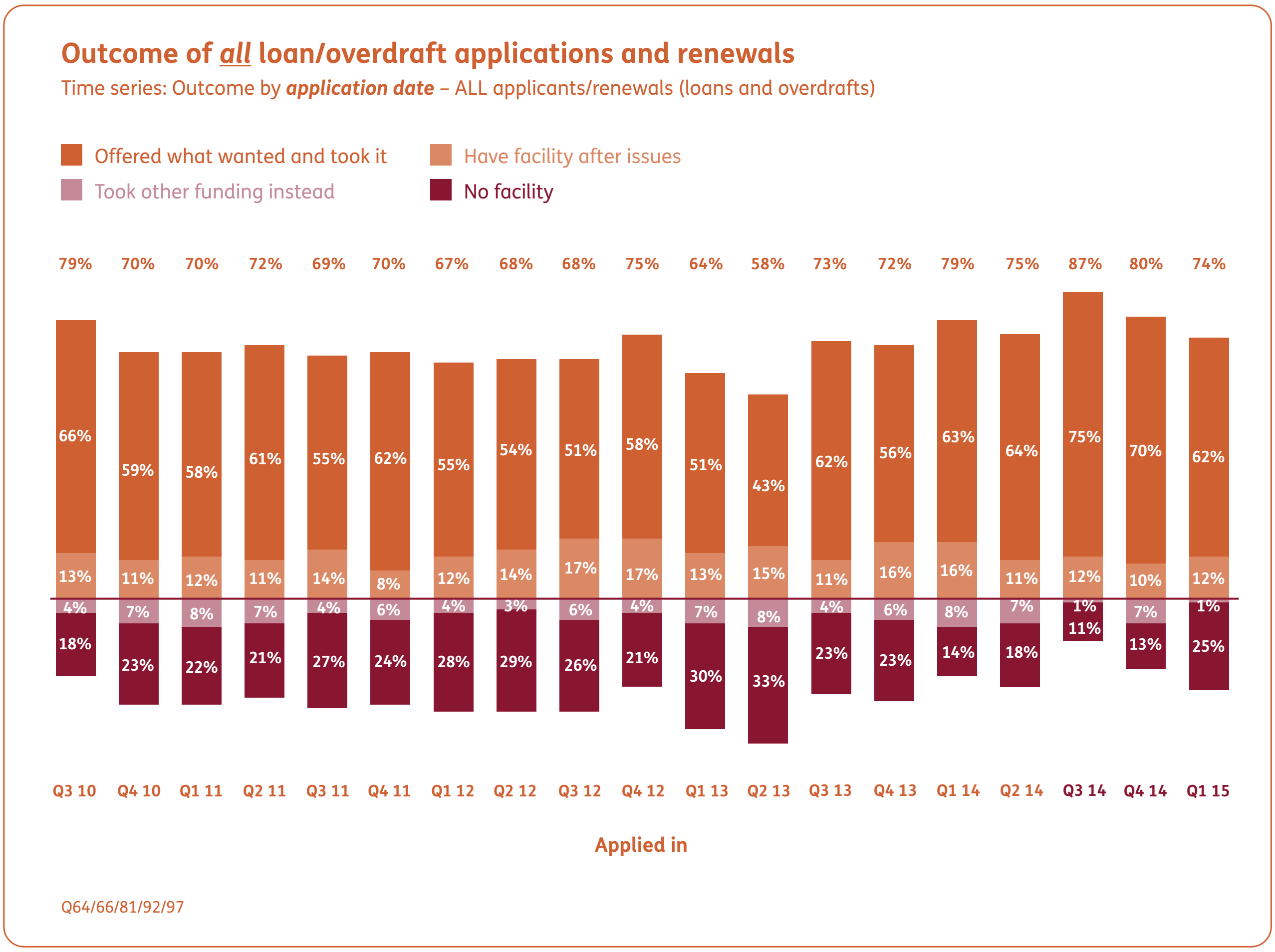
Time series: Proportion of applications made by first time applicants



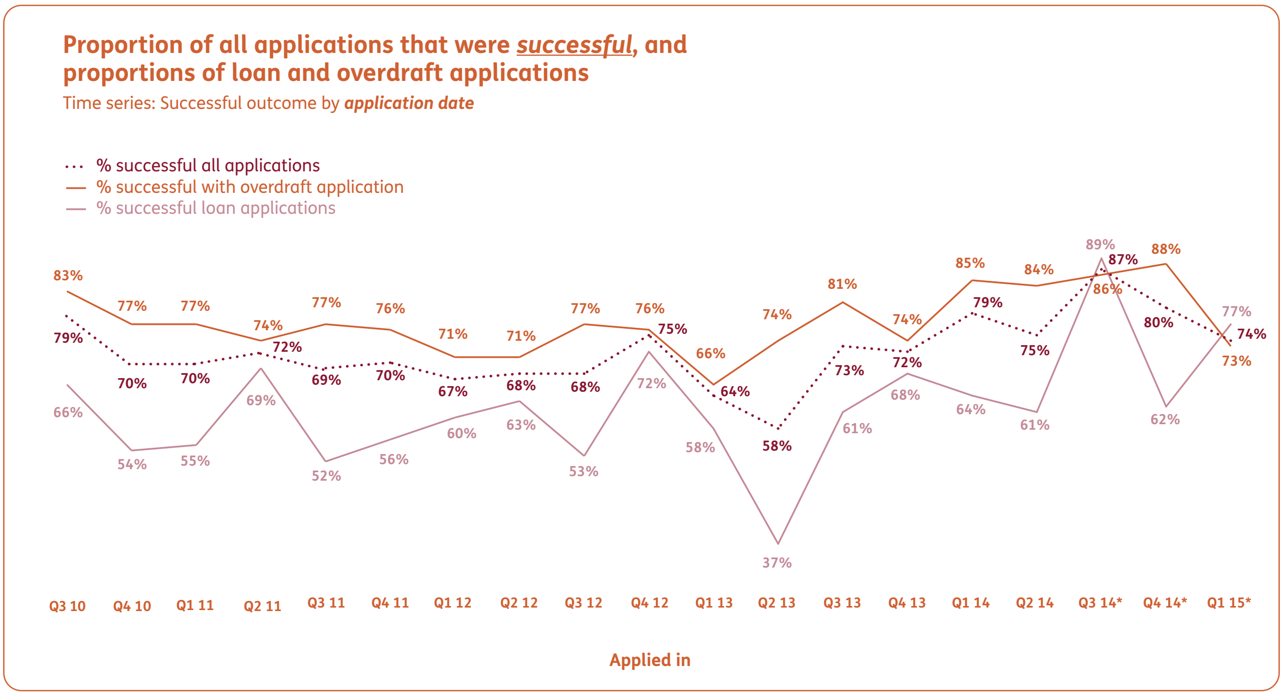
Q52/Q149.

This chart relates to the analysis found on pages 118 and 125 of the main report. The patterns are not consistent over time, but the proportion of first time applicants does appear to be somewhat lower over time. A higher proportion of loan applicants were seeking their first facility compared to overdraft applicants.

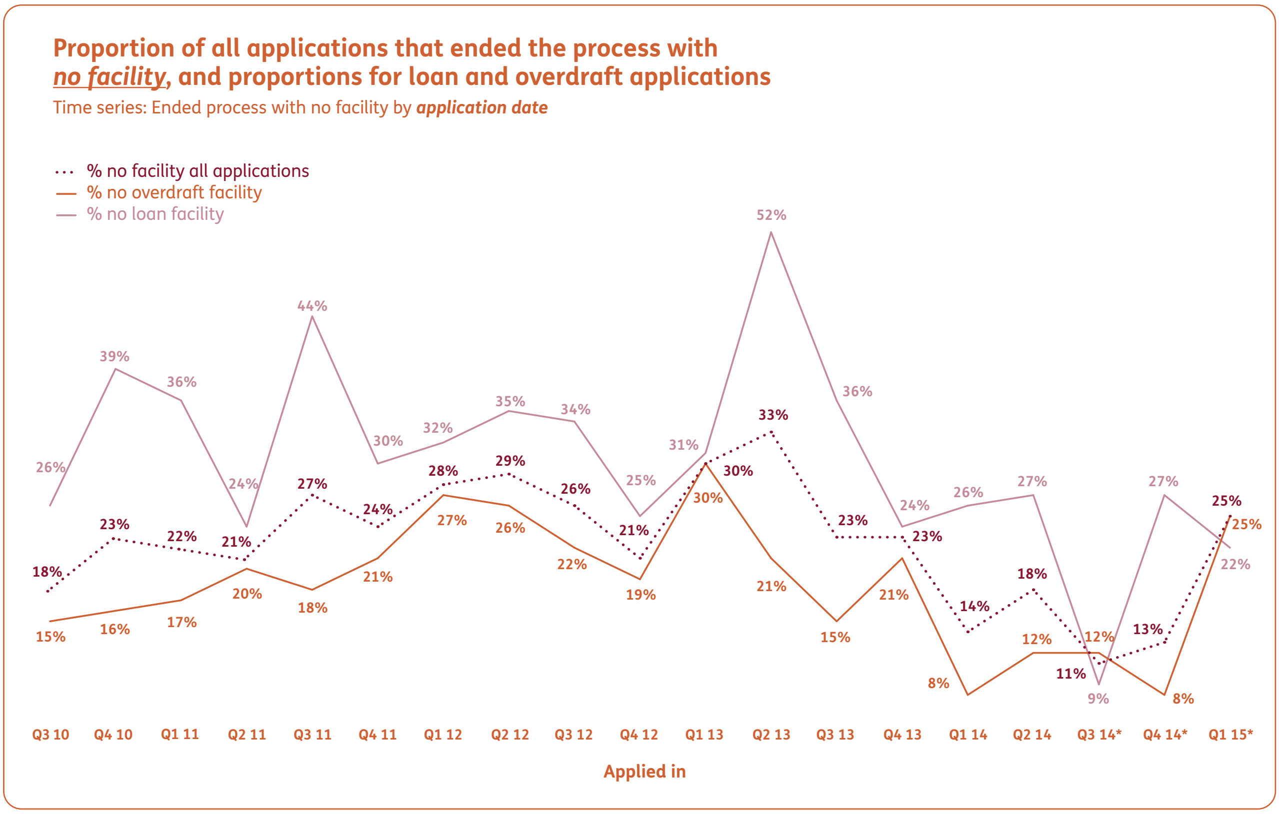
Charts reflecting data reported in Chapter 8



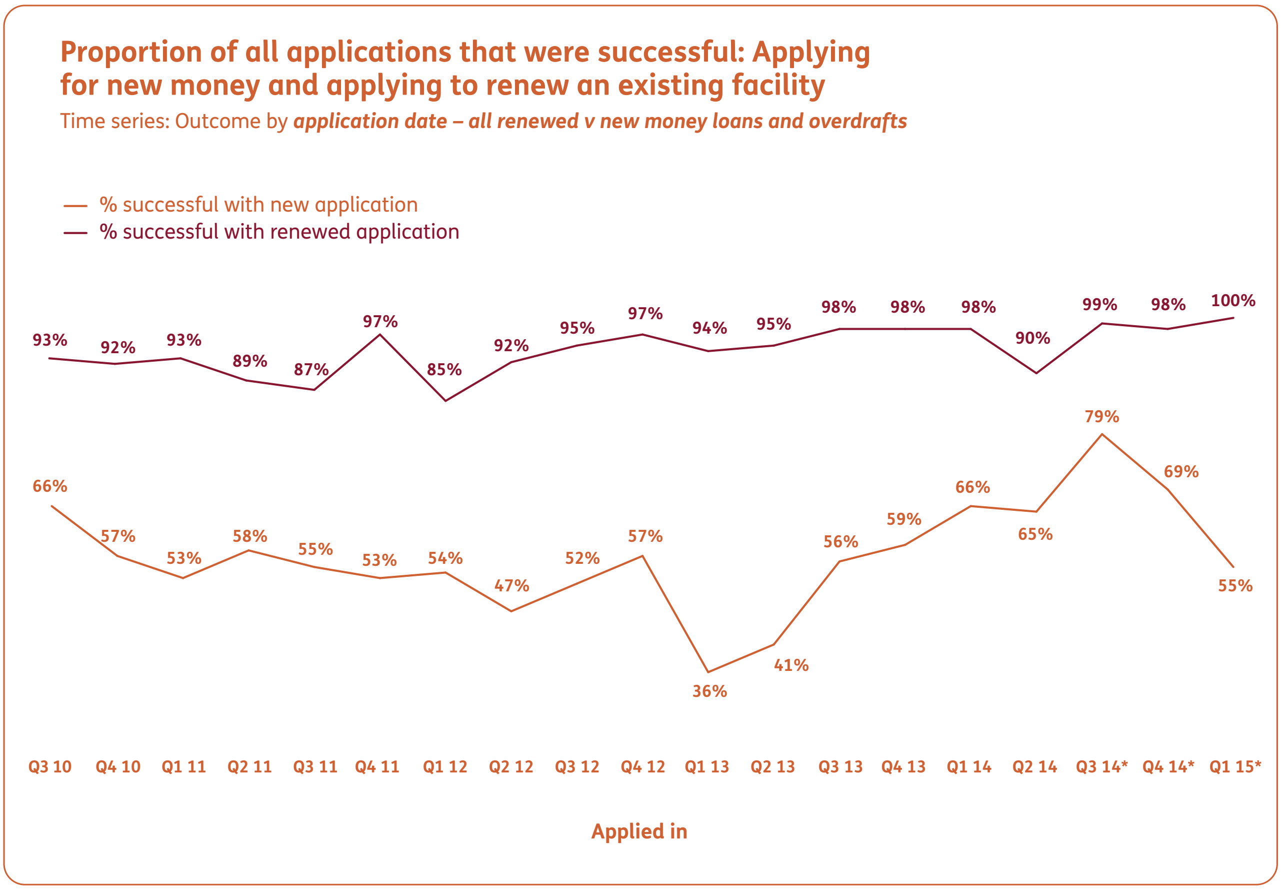
This chart relates to the analysis found on page 135 of the main report. From the second half of 2013, success rates have improved over time.



This chart relates to the analysis found on pages 153 and 169 of the main report. Overdraft applicants remained more likely to be successful than loans with success rates for both increasing to the end of 2014.

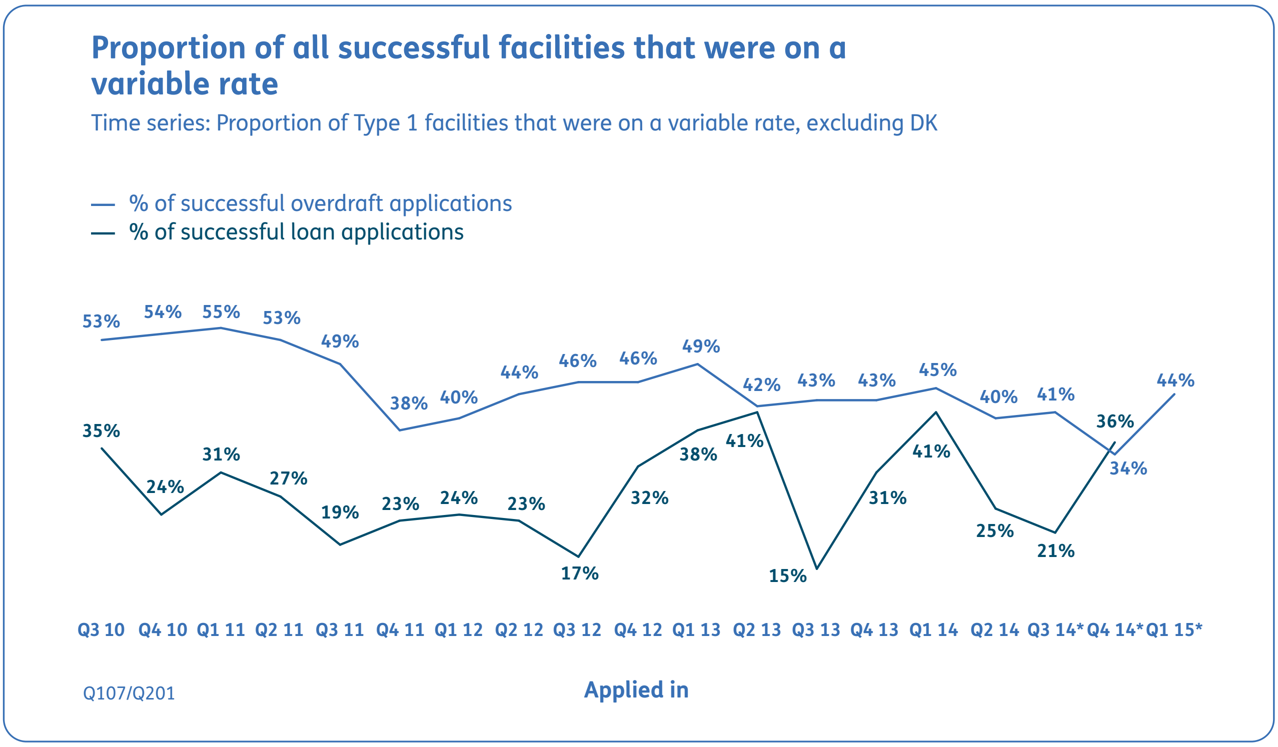


This chart relates to the analysis found on pages 153 and 169 of the main report. During 2013 and 2014 a declining proportion of applciants ended the process with no facility.



This chart relates to the analysis found on pages 173 and 174 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 were lower but improved during 2014.

Charts reflecting data reported in Chapter 10

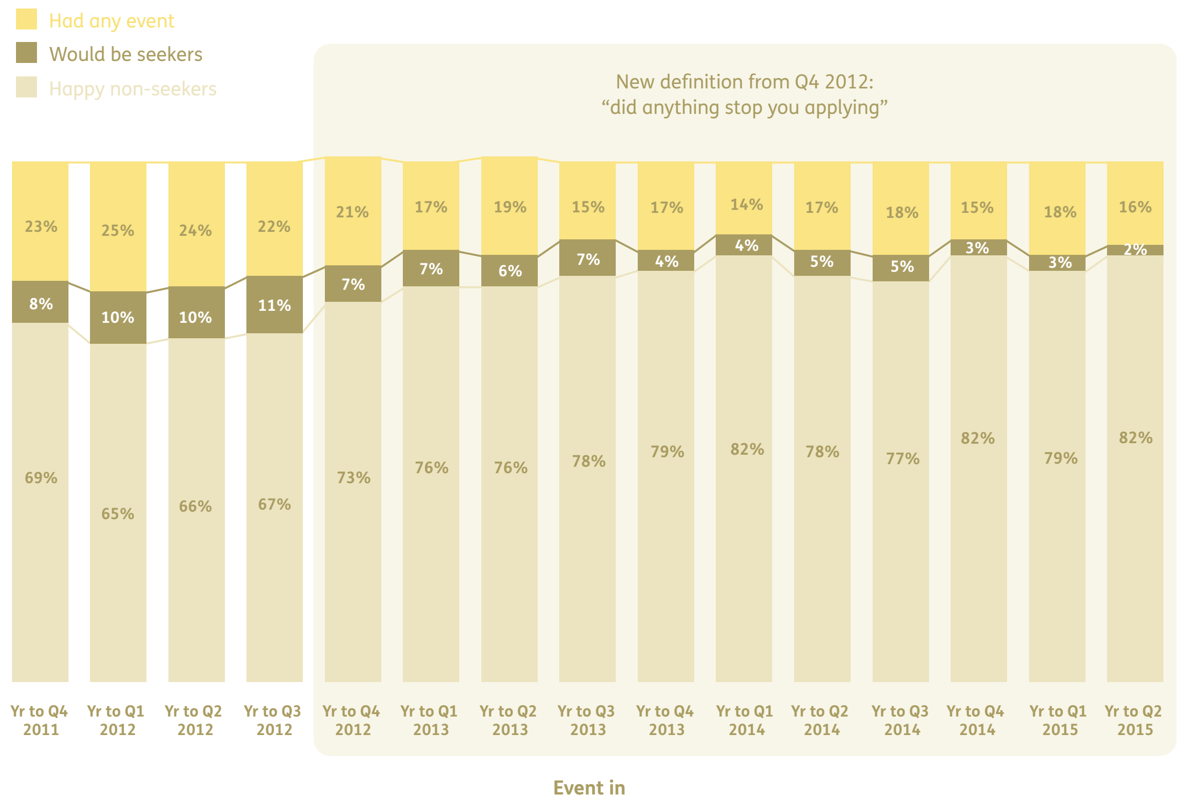


This chart relates to the analysis found on pages 191 and 204 of the main report. The proportion of new/renewed overdrafts on a variable rate has been relatively consistent over time and typically more likely to be on a variable rate than the equivalent loan facilities.

Charts reflecting data reported in Chapter 11

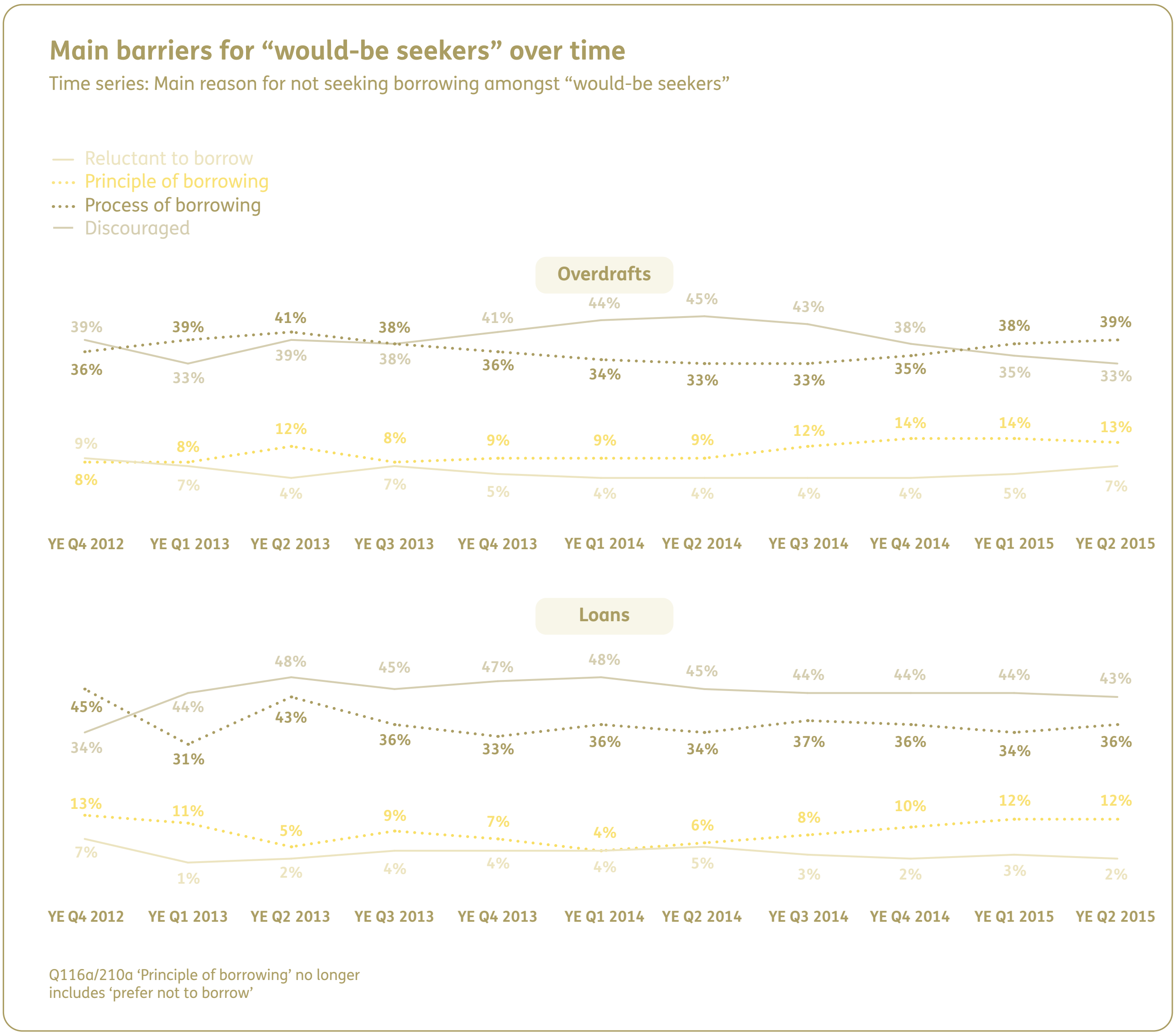
Classification of respondents based on borrowing behaviour in 12 months prior to interview

Time series: Borrowing profile in 12 months prior to interview



Q115/209

This chart relates to the analysis found on page 217 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 at 82% this proportion continues to increase somewhat over time.

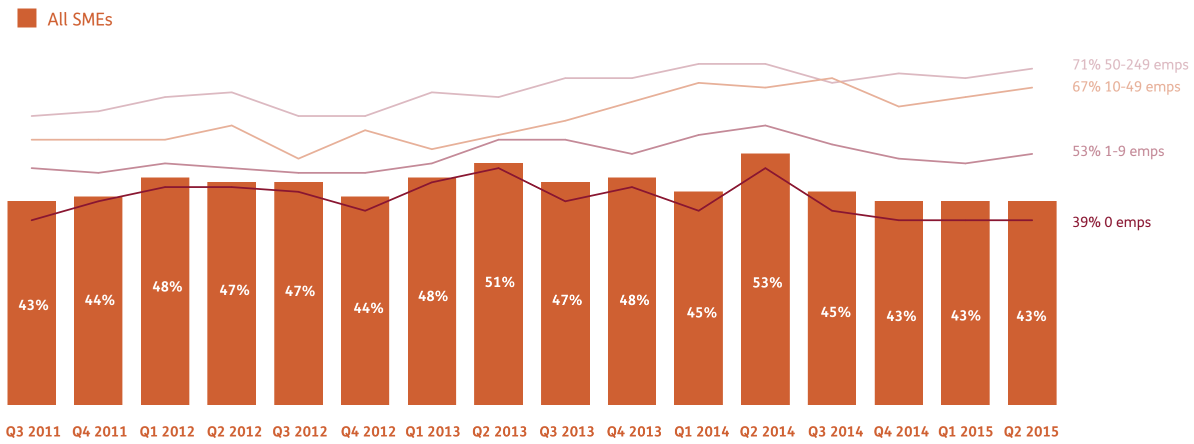


This chart relates to the analysis found on page 223 of the main report. Discouragement and the process of borrowing remained the main barriers to those SMEs that would have liked to apply for a loan or overdraft but felt that something stopped them.

Charts reflecting data reported in Chapter 12

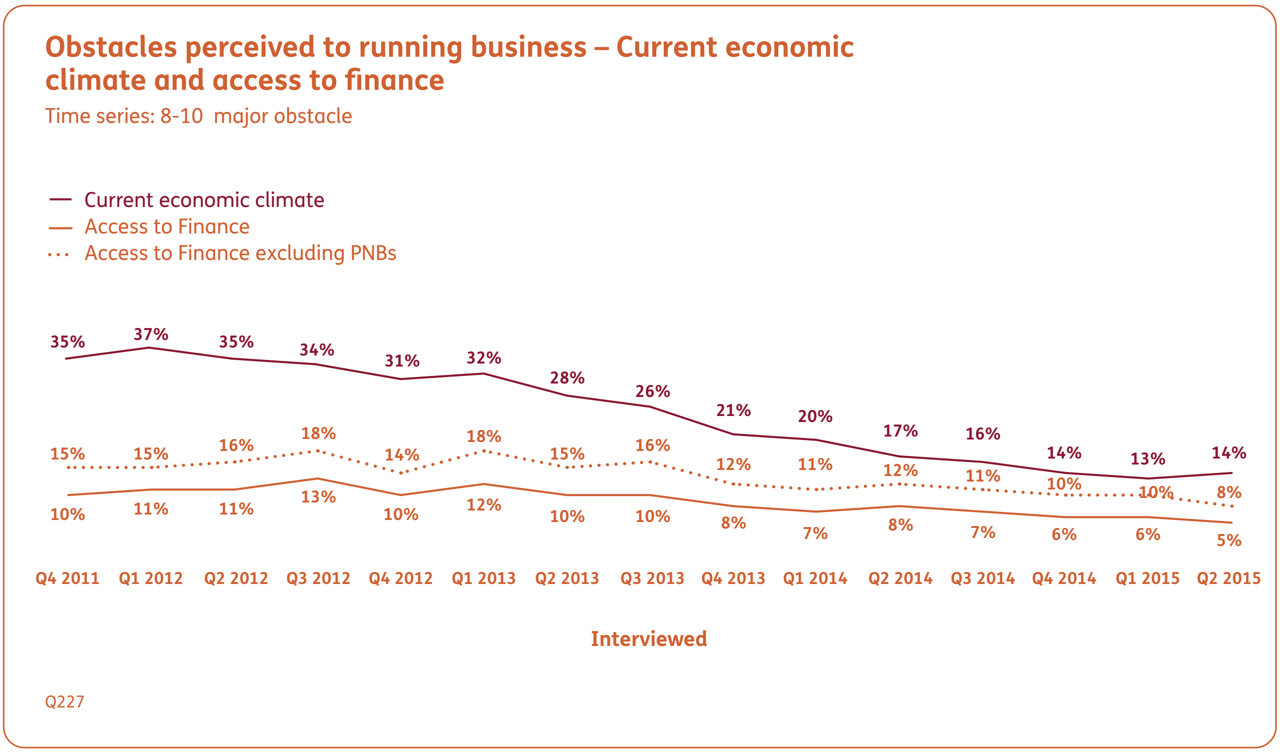
Plan to grow moderately/substantially in next 12 months

Time series: Plan to grow

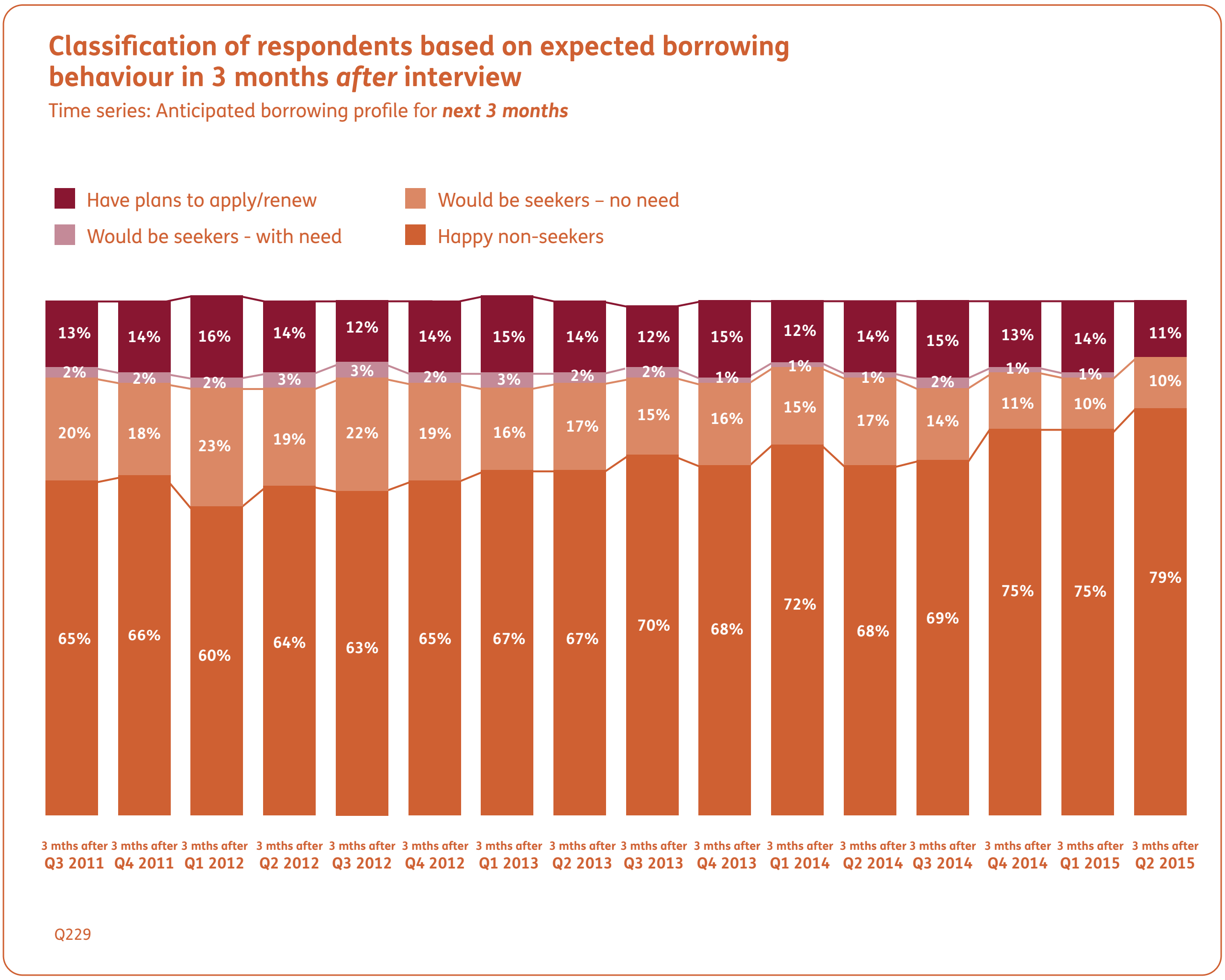


Q26/Q225

This chart relates to the analysis found on page 242 of the main report. 43% of SMEs in Q2 2015 planned to grow, in line with other recent quarters but somewhat lower than in 2012. SMEs with employees remained more likely to be planning to grow.



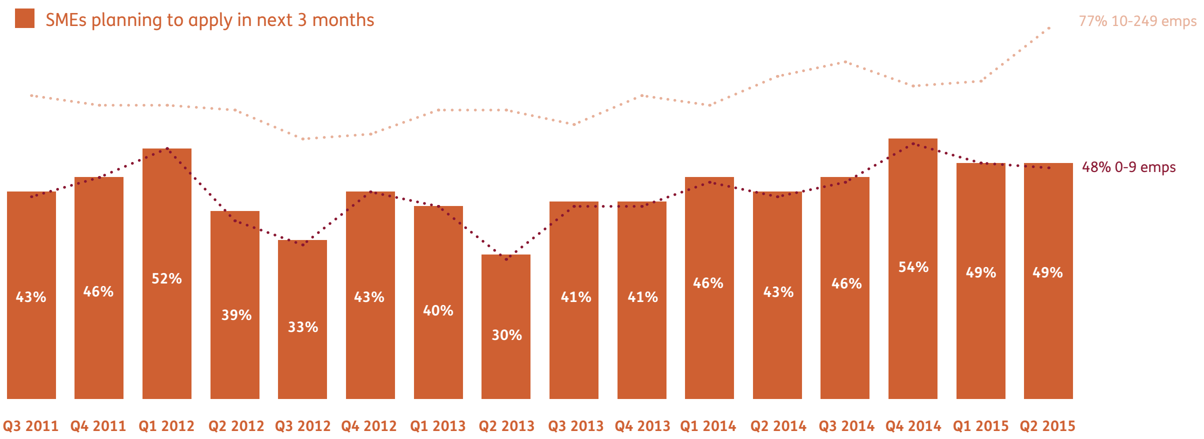
This chart relates to the analysis found on page 254 of the main report. The importance of the economic climate as a major obstacle to SMEs remained at a lower level, although it is still the most likely to be nominated. Access to finance remained less likely to be cited as a major obstacle.



This chart relates to the analysis found on page 267 of the main report. Future appetite for finance remained relatively stable as the proportion of 'Future would-be seekers' declined. The largest group remained the 'Future happy non-seekers'.

Confidence amongst those planning to apply for finance in 3 months after interview that bank will agree to request

Time series: Confident bank will agree to facility ***next 3 months***

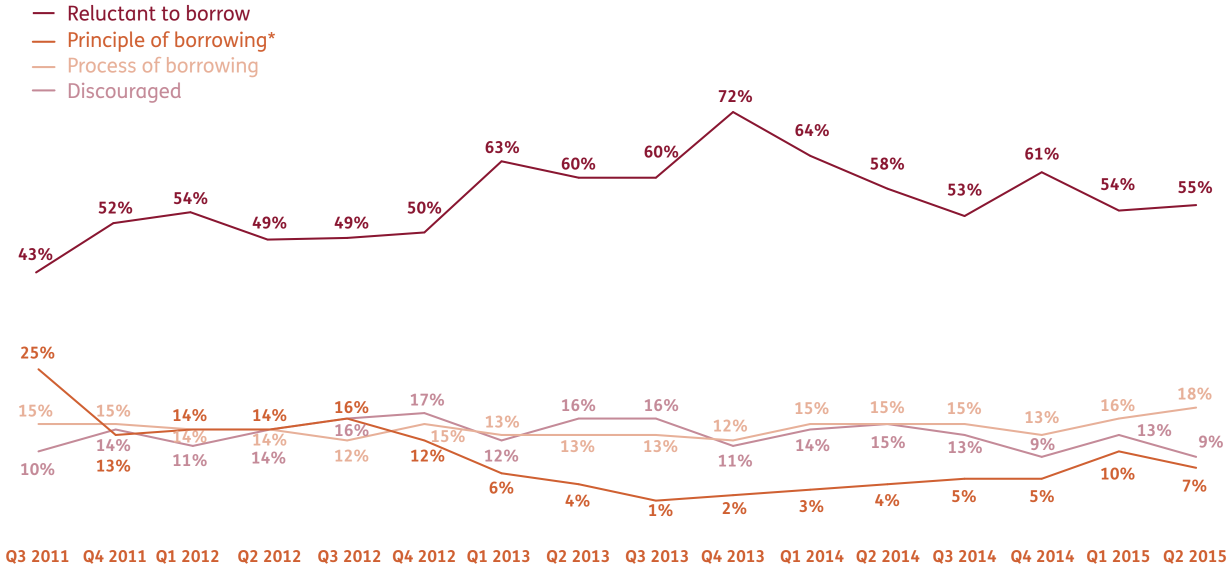


Q238

This chart relates to the analysis found on page 264 of the main report. Overall confidence amongst future applicants that their bank will agree to lend has been stable over recent quarters, and higher than in 2012-13 but remained lower than actual success rates.

Main barriers for future “would-be seekers”

Time series: Main reason for not seeking borrowing amongst future “would-be seekers”



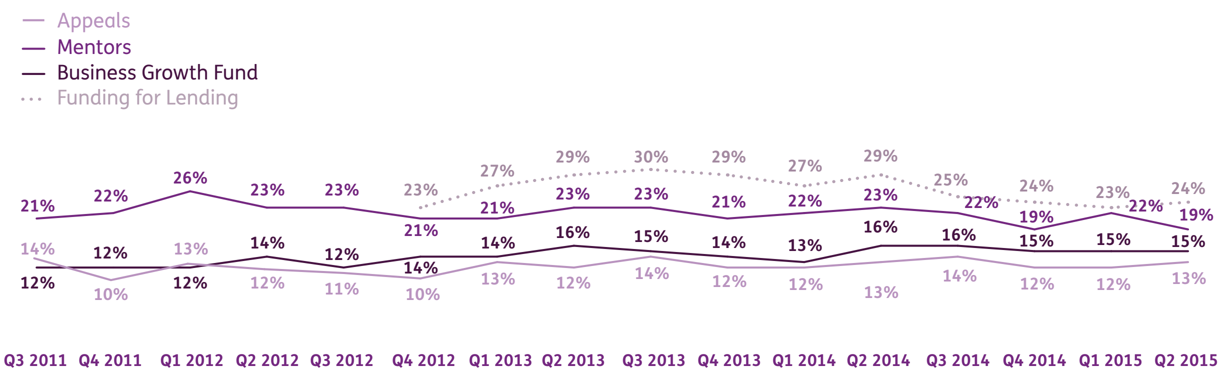
Q239a
*‘Principle of borrowing’ no longer includes ‘prefer not to borrow’

This chart relates to the analysis found on page 271 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, with more mentions of the ‘process’ of borrowing.

Charts reflecting data reported in Chapter 13

Awareness of key initiatives

Time series: Awareness of initiatives – all SMEs

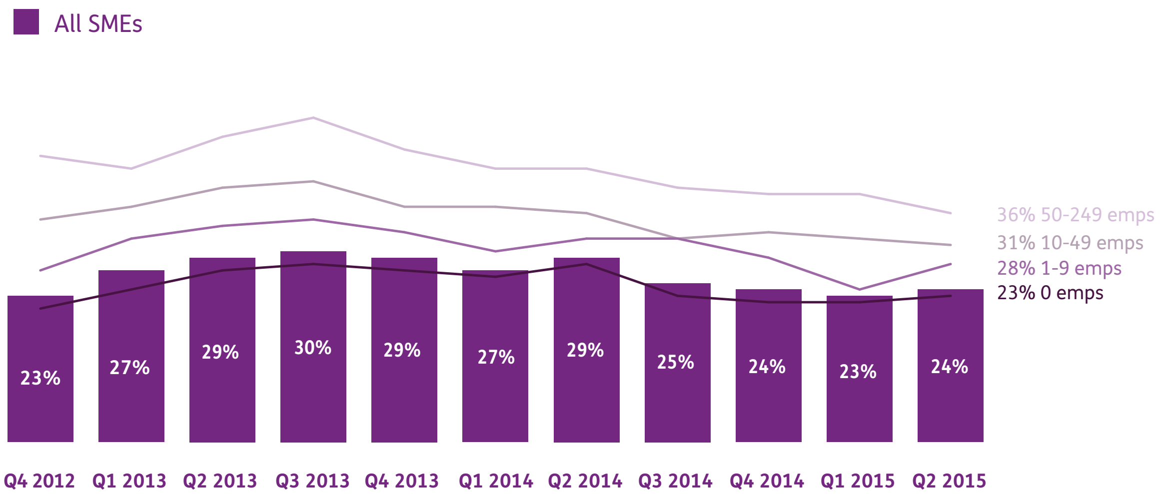


Q240

This chart relates to the analysis found on page 287 of the main report. Awareness of key initiatives designed to support SMEs with access to finance remained stable over time.

Awareness of Funding for Lending Scheme – by size

Time series: Awareness of Funding for Lending



Q240

This chart relates to the analysis found on page 282 of the main report. Awareness of the Funding for Lending scheme has been stable over recent quarters.

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 2015 – 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%	20,086	100%
0 employee (resp)	3,366,144	74%	4004	20%
1-9 employees	1,008,024	22%	6644	33%
10-49 employees	144,198	3%	6433	32%
50-249 employees	26,383	1%	3005	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%	1277	7%
D Manufacturing (C)	302,032	7%	1978	11%
F Construction (F)	1,017,210	22%	3162	18%
G Wholesale etc. (G)	561,689	12%	1859	10%
H Hotels etc. (I)	156,001	4%	1656	9%
I Transport etc. (H&J)	314,705	7%	1662	9%
K Property/Business Services (L,M,N)	1,194,629	26%	3260	18%
N Health etc. (Q)	279,280	6%	1628	8%
O Other (R&S)	528,011	12%	1865	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%	2405	12%
South East	727,815	16%	2430	12%
South West	454,884	10%	1809	9%
East	454,884	10%	1796	9%
East Midlands	272,931	6%	1391	7%
North East	136,465	3%	1000	5%
North West	454,884	10%	1807	9%
West Midlands	318,419	7%	1842	9%
Yorks & Humber	318,419	7%	1799	9%
Scotland	318,419	7%	1619	8%
Wales	181,954	4%	1200	6%
Northern Ireland	136,465	3%	988	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	20,086	27%	5423	+/- 2%
0 employee (resp)	4004	79%	3163	+/- 2%
1-9 employees	6644	77%	5115	+/- 2%
10-49 employees	6433	78%	5017	+/- 2%
50-249 employees	3005	82%	2464	+/- 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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