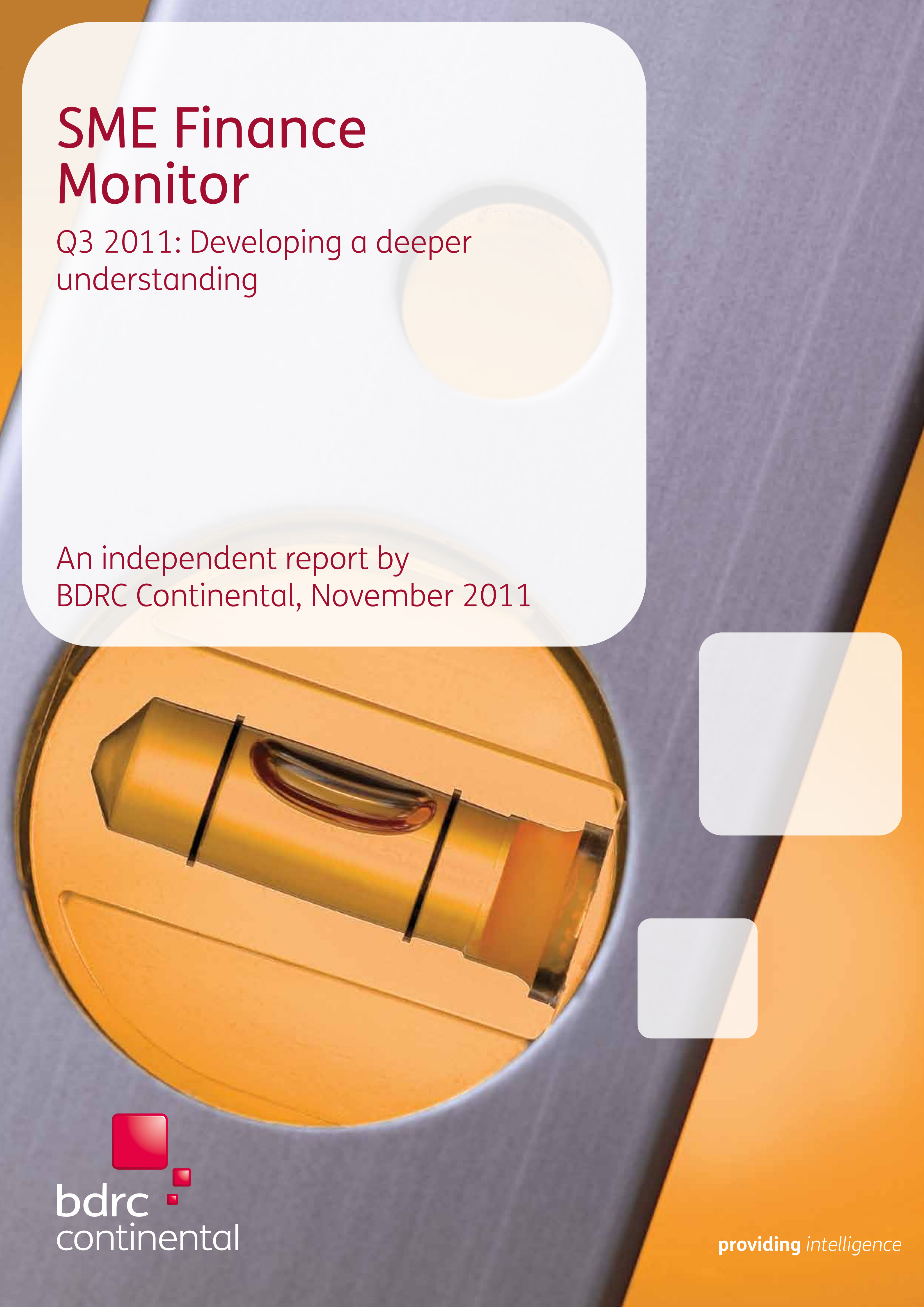

SME Finance Monitor

Q3 2011: Developing a deeper understanding

An independent report by
BDRC Continental, November 2011

bdrc continental

providing *intelligence*

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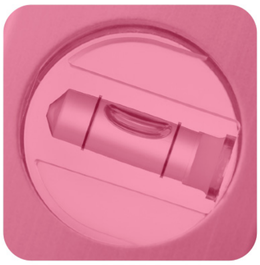


This second report of the SME Finance Monitor builds on the results of the first report. It re-emphasises the unique size and detail of the Monitor as it now draws on over 10,000 interviews with SMEs about their views on borrowing and banks. In addition, it begins to allow us to track some key indicators over time – and future Monitors will take this further.

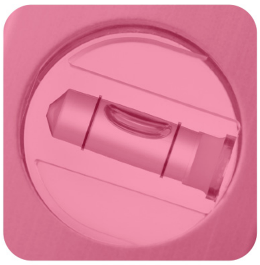
Everyone associated with this report is extremely grateful to those entrepreneurs who gave their time to answer the questions. It is incumbent upon <u>everyone</u> using or quoting this report to do these people justice by ensuring that you use the data accurately, sensibly and in context. Cherry-picking figures simply to back up pre-determined positions means the vital debate on helping SMEs to help grow the economy becomes mired in accusations and counter-claims. The debate is too important for that.

My role as independent Chair of the Monitor's Steering Group is to ensure that BDRC Continental has complete editorial control in writing each report. I can confirm that this has, again, been the case. Nonetheless, I am extremely grateful to all the organisations, banks and business groups, which provided feedback on the first report. This has helped us to develop the questionnaire in one or two places and also to be clear about what issues are the main ones that users of the report want covered.

The full dataset from the 5,055 interviews conducted in Q3 2011 will again be deposited in the UK Data Archive as soon as possible after publication. This will allow much deeper analysis and reporting than this immediate report can manage.

Mike Young
Independent Chair, Survey Steering Group
November 2011

1. Introduction



The issue of bank lending to SMEs continues to provoke much comment. On the one hand, there are claims that the banks are not lending enough, turning down viable SMEs, and/or only offering lending with onerous terms. On the other hand, banks have reported a decline in demand for borrowing, with SMEs seeking less external finance in periods of low, or no, economic growth, and seeking to limit their exposure in a difficult economic climate. Others have claimed that SMEs are discouraged from borrowing by a perception that there is no point in asking the bank, as they will only say no. Overlaying this, more attention is being focussed on low levels of confidence amongst SMEs, in an unstable economic atmosphere, and the extent to which this is influencing their appetite to borrow.

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

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

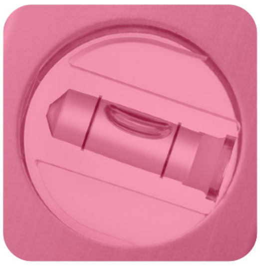
This second report is based on a total of 10,118 interviews with SMEs. Interviews were conducted across two waves:

- February to May 2011 –the 5,063 interviews that formed the first report, and now referred to as Q1-2 2011
- July-September 2011 – 5,055 additional interviews included in this report and referred to as Q3

Both waves were conducted using the same detailed quota profile. The results from the two waves have been combined, 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 Q1-2 will be as originally reported.

A further quarter, of another 5,000 interviews to the same sample structure, is being conducted October-December 2011, and results will be published in February 2012. An annual report will then provide analysis at postcode level for an in-depth assessment of local conditions.

2. Management summary



This report covers

the borrowing process from the SMEs 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 a series of questions around SME finance.

This is the second report on SME finance, with analysis of a total of 10,118 SMEs interviewed across Q1-2 2011 and Q3 2011. This allows for some initial reporting of results over time, as well as of robust analysis of the whole data set, from which several key issues emerge.

There is little indication that demand for finance is increasing. If anything, SMEs are less likely to have applied, or to be planning to apply, for new or renewed facilities.

SMEs interviewed in Q3 were less likely to report having had any borrowing "event" in the previous 12 months than those interviewed in Q1-2 (19% Q1-2 v 15% Q3). These events cover new applications and renewals (Type 1), a bank seeking to cancel/renegotiate a facility (Type 2) or the SME seeking to reduce/pay off a facility (Type 3). Whilst reports of applications for new facilities were similar (8% v 7%), fewer SMEs reported having renewed an existing facility in the previous 12 months (10% v 6%): Overall, Type 1 events in the previous 12 months dropped from 15% of all SMEs in Q1-2 to 12% in Q3

Nor are there signs that applications will be increasing in the near future. The proportion of all SMEs planning to apply for/renew facilities in the next 3 months dropped from 19% in Q1-2 to 13% in Q3 2011.

Only a minority of SMEs had applied for/renewed a loan or overdraft, or were interested in doing so. A third of all SMEs were completely dis-engaged from the borrowing process.

Only half of SMEs currently use external finance. 49% had not used external finance in the past 5 years, and nor were they using it currently. 34% of all SMEs (1.5 million businesses) can be described as completely dis-engaged from borrowing (they have not borrowed, have not wanted to borrow and are happy to have no plans to borrow in the immediate future).

The proportion of "would-be seekers" (SMEs that had wanted to apply for a loan or overdraft in the previous 12 months but had felt unable to – previously the "unrequited") remained stable over time, and stood at 12% of all SMEs in Q3. Most SMEs were "happy non-seekers" who had not sought, or felt the need to seek. external finance in the previous year (74% of all SMEs in Q3).

The majority of SMEs that applied for a new/renewed loan or overdraft got one. Older, more established businesses renewing existing facilities were the most successful, while those wanting new facilities, especially first time applicants, were more likely to have problems with their application.

79% of overdraft applicants and 63% of loan applicants were successful with their loan/overdraft application. 16% of overdraft applicants and 31% of loan applicants ended up with no facility at all. This is the equivalent of 2% of all SMEs being unsuccessful with an overdraft application and 1% of all SMEs being unsuccessful with a loan application.

Older and more established applicants were more likely to be successful, as were those applicants that were looking to renew an existing facility at current levels. For renewals sought at existing levels, 96% of these overdraft applicants and 83% of these loan applicants had been successful. By comparison, 37% of those that had applied for their first overdraft now had one, and 55% of those that had applied for their first loan were successful.

Application success rates have declined slightly over time for overdrafts, but for loans, success rates picked up in Q2 2011 after previous declines.

Interim data is available, from July 2010 to June 2011, on the outcome of applications/renewals by the quarter in which they were made. This showed a declining trend over time for overdraft approvals (from 83% successful in Q3 2010, to 74% in Q2 2011). For loans, success rates declined to the end of Q1 2011 (to 57% successful), followed by an improvement in Q2 (to 73%). Early indications are of an improvement in success rates for both loans and overdrafts for applications made in Q3 2011.

Detailed statistical analysis revealed that, of the potential factors influencing a decline, the key factors were whether the SME was applying for its first ever overdraft/an increase in an existing facility, or was less than 5 years old, all of which made a decline more likely. Date of overdraft application was *not* a significant predictor of an overdraft decline.

For loans, two factors were important for predicting declines – having an average or above average external risk rating, and the amount applied for (the higher the amount the more likely a decline). However, the application date was the next most significant predictor, with loan applications between April 2010 and March 2011 more likely to have been declined.

“Discouragement”, either directly or indirectly, by banks, was the main barrier for those that had not applied in the past.

In Q3 a third of “would-be overdraft seekers” and a similar proportion of “would-be loan seekers” said that the main reason they had not applied in the previous 12 months was discouragement. This could be either directly from the bank (they enquired informally and felt put off) or indirectly (they didn’t ask but assumed the bank would say no). This means that 4% of all SMEs had felt discouraged about applying for an overdraft, and 2% of all SMEs had felt discouraged about applying for a loan, during the previous 12 months.

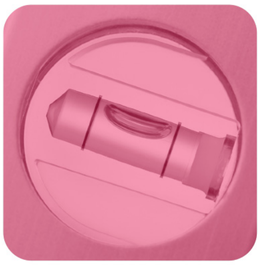
By comparison, 1% of all SMEs had felt put off applying for an overdraft because of the economic climate, and 1% of all SMEs had been put off applying for a loan by the same reason.

Looking ahead 3 months, “future would-be seekers” were more likely to cite the economic climate as a barrier to any future application.

2% of all SMEs had identified a specific need for finance in the next 3 months but thought it unlikely they would apply. 20% of all SMEs had no immediate specific need, but felt that there would be barriers to an application were a need to emerge.

Amongst all these “future would-be seekers” the main barrier to not applying/renewing was a reluctance to borrow in the current economic climate, mentioned by almost half of them (44%) – this is the equivalent of 9% of all SMEs being put off future applications by the effect of the current economic climate. For these “future would-be seekers” perceived discouragement from the banks was a lesser factor, mentioned by 10% of future would-be seekers, the equivalent of 2% of all SMEs.

3. Using this report



This report is

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

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

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

Where relevant, analysis has been provided by sector, age of business or other relevant characteristics, of which the most frequently used is external risk rating. This was supplied for almost all completed interviews by D&B or Experian, the sample providers. Risk ratings are not available for 13% 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

Analysis over time

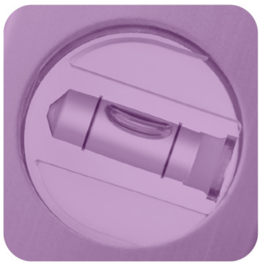
This report covers two waves of data, gathered in Q1-2 and in Q3 2011. In both waves, SMEs were asked about their behaviour in the previous 12 months, so there is overlap in the time period they are reporting on.

Based on these two waves, the report is able to start to comment on changes in the demand for credit and outcomes of applications over time. These however should be seen as interim findings, as, at the time of writing, data is still being gathered on events that occurred from Q4 2010 to the present, in the interviews being conducted for Q4 2011. In addition, base sizes preclude too detailed an analysis by quarter.

Much of the analysis in this report therefore has been conducted based on the combined response from the two waves. The overall base of 10,118 SMEs allows for much more robust sub-group analysis which may be of more use than the currently limited analysis over time. As base sizes build, and the time over which the data has been gathered extends, more analysis over time will be possible.

The exception to this approach is where SMEs are reporting on their future plans and ambitions. In these instances, results from Q1-2 have been compared to those in Q3, as each provides an assessment of SME sentiment for the coming months and the comparison is an appropriate one.

4. The general context



This chapter presents

an overview of the characteristics of SMEs in the UK that might affect an application for finance, in terms of their profitability, growth, and the way the business is managed.

Key findings

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

1 in 10 SMEs trading for more than 3 years was a "fast growth business", having reported growth in excess of 30% for each of the last 3 years.

Half of all SMEs have a "worse than average" external risk rating (from D&B or Experian). This varies considerably by size – 54% of 0 employee businesses have a "worse than average" external risk rating, compared to just 13% of the largest SMEs (50-249 employees).

Most SMEs held credit balances, but the median amount held was just £2,000, driven by a large number of smaller SMEs holding small credit balances: 70% of 0 employee businesses hold credit balances of less than £5,000, while half of SMEs with 50-249 employees hold credit balances of more than £100,000.

1 in 5 of those running the finances of these SMEs **held a financial qualification** or had had financial **training**. Even in the largest SMEs, with 50-249 employees, a quarter of financial decision makers were untrained.

This chapter presents an overview of the characteristics of SMEs in the UK. Unless otherwise stated, figures are based on all interviews conducted to date across Q1-3 2011.

Profitability

Two thirds of SMEs reported making a profit in their most recent 12 month trading period. Bigger SMEs remained more likely to have been profitable: 64% of 0 employee businesses were profitable compared to 77% of those with 50-249 employees:

Business performance last 12 months Q1-3 net – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*10118*	*2028*	*3345*	*3227*	*1518*
Made a profit	66%	64%	70%	76%	77%
Broke even	12%	12%	10%	7%	6%
Made a loss	16%	17%	14%	12%	10%
Dk/refused	7%	7%	5%	6%	7%
*Average profit made**	*£32k*	*£15k*	*£37k*	*£204k*	*£912k*
*Median profit made**	*£11k*	*£8k*	*£17k*	*£37k*	*£280k*

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

There was little difference in the performance reported by those SMEs interviewed in Q1-2 (67% had made a profit in their previous 12 months trading period) and those interviewed in Q3 (64% had made a profit).

By sector, the proportion of profitable businesses ranged from 58% in Transport to 71% in Real Estate.

Amongst those who knew, or were prepared to reveal, the sums involved, the average profit made, of £32,000, was a slight increase on the figure reported for Q1-2 only (£30,000) due to higher average profits amongst bigger SMEs. However, the median value, less affected by a few high or low values, was similar over time (£12,000 in Q1-2 and £11,000 Q1-3).

Reported losses remain low. The median loss reported was £3,000, ranging by size of SME from £2,000 for those 0 employee businesses that made a loss, to £66,000 for those with 50-249 employees who made a loss.

Financial risk profile

Two assessments of financial risk are available. The first is self-reported risk from the survey itself. 2011 represented a difficult trading environment generally, but in fact respondents interviewed in Q3 were no more likely to report having had any credit risk issue (13%) than those interviewed in Q1-2 (15%).

The second is the external risk rating supplied by ratings agencies D&B and Experian, combined to a common 4 point scale from "Minimal" to "Worse than average". Although not all SMEs have received this external rating, it is commonly used and understood by lenders, so the majority of risk related analysis in this report has been based on this external rating.

Half of SMEs (49%) have a "worse than average" external risk rating. The net Q1-3 ratings are shown below: the external risk rating profile of respondents in Q3 was very similar to that in Q1-2, apart from a slight increase in the proportion of SMEs with a worse than average risk rating (51% in Q3 from 48% in Q1-2), driven by a change in profile amongst 0 employee businesses.

There were clear differences in external risk rating profile by size of business. 54% of 0 employee businesses were in the "worse than average" category, compared to just 13% of the largest SMEs with 50-249 employees:

External risk rating Q1-3 net All SMEs where rating provided	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*9310*	*1736*	*2923*	*3159*	*1492*
Minimal risk	6%	3%	11%	25%	32%
Low risk	12%	9%	18%	30%	29%
Average risk	33%	34%	29%	29%	26%
Worse than average risk	49%	54%	42%	15%	13%

All SMEs where risk rating provided

There was a less strong correlation between the external risk rating and self-reported events than might perhaps be anticipated, albeit that the two are measuring different things. That said, those with a worse than average risk rating were nearly twice as likely to have reported a credit risk issue as those rated a minimal risk (16% v 9%).

Two sectors were more likely to have a minimal/low external risk rating: Agriculture and Health & Social work. Hotels and Restaurants were the most likely to have a "worse than average" risk rating:

External risk rating Q1-3 net	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Real Est	Health S Work	Other Comm
Unweighted base:	*665*	*1003*	*1654*	*970*	*814*	*819*	*1668*	*761*	*956*
Minimal risk	26%	7%	2%	5%	4%	4%	8%	11%	3%
Low risk	12%	12%	11%	14%	7%	10%	14%	16%	9%
Average risk	27%	35%	31%	29%	24%	33%	34%	46%	34%
Worse than average risk	34%	46%	57%	53%	65%	54%	44%	27%	54%
Net Min/Low	*38%*	*19%*	*13%*	*19%*	*11%*	*14%*	*22%*	*27%*	*12%*

All SMEs where risk rating provided

Most SMEs held credit balances, but the median amount held was just £2,000

Growth

13% of SMEs trading for more than 3 years qualified as "fast growth", that is they reported having grown by more than 30% for each of the last 3 years (Q1-3 inclusive). 0 employee businesses were the least likely to report fast growth (11%) but amongst those with employees there was little difference:

- 11% 0 employees reported being "fast growth"
- 17% 1-9 employees
- 15% 10-49 employees
- 15% 50-249 employees

SMEs in the Health sector were the most likely to report fast growth (18%).

Credit balances

While most SMEs reported holding credit balances (just 5% said they did not hold any), most, 63%, said that they typically held less than £5,000:

Typical credit balance held Q1-3 net – All SMEs providing figures	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*7965*	*1751*	*2732*	*2414*	*1068*
None	5%	5%	4%	5%	7%
Less than £5,000	63%	70%	44%	19%	12%
£5,000-£9,999	15%	14%	18%	9%	5%
£10,000 - £24,999	9%	7%	16%	13%	6%
£25,000 – 49,999	3%	1%	9%	13%	7%
£50,000 - £99,999	2%	1%	5%	14%	10%
£100,000+	2%	1%	4%	26%	54%

Q244 All SMEs excluding Dk/refused

The Bank of England report "Trends in Lending" for October 2011 suggested that businesses may be building up credit balances as a "buffer" in a difficult economic climate. Our question is phrased in terms of the "usual credit balance" and there is as yet no evidence of this here, with the "typical balance" held being very similar in Q1-2 and Q3.

The high proportion of SMEs with a low credit balance was driven by the smaller SMEs. 70% of 0 employee businesses held less than £5,000 in credit balances, compared to just 12% of the larger SMEs with 50-249 employees, as the table above shows.

The median amount held was just £2,000 overall. There was little variation by sector, but there was variation by size of business:

- £2,000 0 employees
- £4,000 1-9 employees
- £27,000 10-49 employees
- £148,000 50-249 employees

How SMEs are managed

Interviews were conducted with the main financial decision maker. In almost all cases (9 out of 10) this person was also the owner, managing director or senior partner.

In 1 in 5 SMEs (22%) the person responsible for financial management had a financial qualification or had received financial training. This varied considerably by size of business, but even in the largest SMEs not all financial decision makers had formal qualifications or training in financial matters:

- 18% in 0 employee businesses have a financial qualification/training
- 30% for 1-9 employees SMEs
- 49% for 10-49 employees SMEs
- 75% for 50-249 employees SMEs

A series of questions reflected on the structure and control of the business. The importance of a business plan as a key document, especially when applying for finance, has been highlighted on the Better Business Finance Website, set up by the Business Finance Taskforce. The government is also keen to promote SME “finance fitness” (preparedness for accessing finance) as well as exporting and export finance. So, the table below highlights the results for these two issues:

Business formality elements Q1-3 net – All SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	***10118***	***2028***	***3345***	***3227***	***1518***
Planning (net)	53%	47%	68%	89%	97%
- Produce regular management accounts	*41%*	*33%*	*57%*	*82%*	*93%*
- Have a formal written business plan	*31%*	*27%*	*40%*	*56%*	*70%*
International (net)	12%	10%	18%	27%	40%
- Export goods or services	*8%*	*7%*	*12%*	*20%*	*32%*
- Import goods of services	*8%*	*5%*	*13%*	*21%*	*34%*

Q223 All SMEs

While the proportion undertaking business planning was stable over time, the proportion trading internationally was lower in Q3 (10% from 15% in Q1-2). This decline was across the size bands, but more particularly amongst 0 employee businesses and 50-249 employee businesses.

“Business planning” ranged by sector from 68% for Hotels and Restaurants to 42% in Construction. “International” ranged from 28% in Wholesale/Retail to just 3% in Construction.

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 credit cards and loans within a business.

Key findings

Not all SMEs use external finance. 49% currently use such finance, ranging from 43% of 0 employee businesses to 79% of those with 50-249 employees.

49% of SMEs were not using external finance at the moment, and have not used any in the past 5 years.

A third of SMEs (some 1.5 million businesses) were "completely dis-engaged" when it came to external finance (They did not use it now, nor in the past 5 years, had not wanted to seek any in the previous 12 months and had no inclination to apply in the next 3 months).

1 in 5 SMEs used credit cards in the business, and up to half of these users said they used a card that was in their personal name, rather than that of the business.

At the smaller end of the SME market, there was a **blurring between "personal" and "business" finance.**

Very few SMEs had applied for any external finance beyond loans or overdrafts, but most of those who had said that the application had been successful.

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

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

The net figures for Q1-3 are shown below, highlighting how about half of all SMEs have used no external finance at all in the past 5 years. This varies by size of SME – 55% of 0 employee businesses had not used external finance in the past 5 years, but even amongst those with 10-249 employees around 1 in 5 had not used external finance:

Use of external finance in last 5 years Q1-3 net – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*10118*	*2028*	*3345*	*3227*	*1518*
Use now	49%	43%	63%	76%	79%
Used in past but not now	2%	2%	3%	2%	3%
Not used at all	49%	55%	34%	22%	18%

Q14/15 All SMEs

The proportion of SMEs reporting that they were currently using external finance was slightly lower in Q3 (47%) than in Q1-2 (51%), due to fewer 0 employee businesses reporting using *any* external finance, and fewer businesses reporting that they had a bank overdraft (30% in Q1-2, 25% in Q3), typically those with fewer than 10 employees.

Across Q1-3, the proportion of SMEs reporting current use of external finance was as follows:

External finance currently used Q1-3 net – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*10118*	*2028*	*3345*	*3227*	*1518*
Bank overdraft	28%	24%	36%	43%	42%
Credit cards	19%	16%	26%	38%	45%
Bank loan/Commercial mortgage	11%	9%	18%	26%	31%
Leasing or hire purchase	7%	5%	12%	29%	37%
Loans/equity from directors	6%	3%	12%	15%	13%
Loans/equity from family and friends	5%	5%	7%	5%	3%
Invoice finance	2%	1%	4%	10%	16%
Grants	2%	2%	2%	4%	6%
Loans from other 3rd parties	1%	1%	2%	4%	6%
Export/import finance	*	*	1%	1%	3%
Any of these	*49%*	*43%*	*63%*	*76%*	*79%*
None of these	*51%*	*57%*	*37%*	*24%*	*21%*

Q15 All SMEs

Almost all SMEs used a business bank account (82%). The 18% that used a personal account for their business banking were almost all 0 employee businesses. Such personal accounts were more likely to be found amongst businesses in the Health sector (28%) or Agriculture (23%) compared to just 8% in Wholesale/Retail.

At the smaller end of the SME market in particular, there can be a "blurring" between finance raised in the name of the business, and finance raised in a personal capacity by the owner/directors, to be used in the business. To explore this further, questions were included for those using credit cards and/or loans to fund their business.

Half the SMEs with a credit card said that this card was in the name of business, while a third said that it was their personal card (32%). 1 in 10 (11%) reported using both kinds of card. Personal card usage was much more common amongst the smaller SMEs with credit cards as the table below shows:

Type of credit card used Q1-3 net – SMEs with a credit card	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*2772*	*311*	*758*	*1109*	*594*
Personal credit card	32%	42%	18%	6%	3%
Business credit card	57%	48%	70%	85%	93%
Both	11%	10%	12%	9%	5%

Q15b All SMEs with a credit card

A similar question was added from Q3 to understand whether loans/commercial mortgages held were in the name of the business or the individual. This type of external finance was more likely to be in the name of the business (72%) but amongst 0 employee businesses with loans, just over a quarter said the loan was held in a personal capacity:

Type of loan Q3 only- SMEs with a loan	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*947*	*73**	*286*	*388*	*200*
Personal	24%	29%	20%	5%	2%
Business	72%	68%	74%	90%	97%
Both	4%	3%	5%	4%	1%

Q15c All SMEs with a loan *care re small base

A quarter of SMEs, almost all of them small, have a personal element to the finance used in their business

SMEs using a personal account were less likely to be using external finance (31% v 53% using a business account), particularly overdrafts (17% v 30%) and credit cards (11% v 21%). If they used them, then both their credit cards and/or loans were more likely to be held in a personal capacity.

Full data is only available for Q3, but this showed that a third of 0 employee businesses had some personal element to their business finances (32%), whether they were operating through a personal account and/or had credit cards or loans in a personal capacity. Almost 1 in 6 businesses with 1-9 employees had a similar arrangement. None of the SMEs with 50-249 employees had any of these personal elements, whereas 1 in 12 SMEs with 10-49 employees did:

Personal accounts and funding Q3 only – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*5055*	*1006*	*1673*	*1617*	*759*
Use a personal account	19%	25%	5%	1%	-
Has personal credit card/loan for business	10%	10%	10%	7%	-
Net personal use	27%	32%	15%	8%	-

Q15b/c and Q24 All SMEs in Q3

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 past 12 months, an overview is provided below of applications for other forms of funding and the extent to which these were successful.

As the table below shows, only a small minority of SMEs had applied for other forms of finance during this time, but most of those that applied had been successful, with the exception of grants (66% success rate). Due to the small numbers applying, success rates are only reported at the overall level:

	Total		Applied for			
External finance applied for Q1-3 net All SMEs	**Applied**	**% success**	**0 emp**	**1-9 emps**	**10-49 emps**	**50-249 emps**
Unweighted base:	*10118*	*varies*	*2028*	*3345*	*3227*	*1518*
Credit cards	5%	91%	4%	5%	7%	8%
Leasing/Hire purchase	4%	97%	3%	7%	18%	28%
Loans/equity from directors	3%	98%	2%	6%	8%	6%
Loans/equity from family & friends	4%	94%	4%	4%	2%	2%
Grants	3%	66%	2%	3%	6%	9%
Invoice finance	1%	92%	1%	2%	4%	6%
Loans from other 3rd parties	1%	73%	*	1%	2%	3%
Export/import finance	*	77%	-	-	1%	1%

Q222 All SMEs

The completely "dis-engaged"

Not all SMEs are involved in borrowing, currently or in the future. In fact 33% of all SMEs (some 1.5 million businesses) can be described as "completely dis-engaged", that is they meet **all** of the following conditions:

- Are not currently using external finance (nor have they done so in the past 5 years)
- Have had no borrowing events in the past 12 months
- Had not applied for any other form of finance in the past 12 months
- Have had no appetite to borrow in the past 12 months
- Reported no inclination to borrow in the next 3 months

This group then seem unlikely to be borrowers in the short to medium term, but what defines them? Statistical analysis (CHAID) was used to identify the characteristics of the "dis-engaged" and this showed that size of business was the key discriminator:

The completely dis-engaged	
Overall proportion	33% of SMEs were dis-engaged
Key discriminator	Size of business: • 37% of 0 employee businesses were dis-engaged • 22% of 1-9 employee businesses • 15% of 10-49 employee businesses • 12% of 50-249 employee businesses
Other factors	Dis-engagement was more likely if the business had not faced a credit risk issue (especially an unauthorised overdraft). It was also more likely as the size of credit balances held increased, and if the business planned to stay the same size

6. Overdraft and loan events in the past 12 months

This chapter presents

an overview of the borrowing events that have occurred and the types of SME that are more or less likely to have had a borrowing "event".

Key findings

Three types of borrowing event are covered in this report: applications for new facilities and renewals of existing ones (Type 1), a bank seeking to cancel/renegotiate a facility (Type 2) or the SME seeking to reduce/pay off a facility (Type 3).

Only a minority of SMEs had experienced such a borrowing event in the previous 12 months. 17% of all respondents Q1-3 recorded an event: 14% experienced a Type 1 event, 5% a Type 2 event and 3% a Type 3 event. On a rolling aggregate basis, fewer SMEs in Q3 said that they had experienced a Type 1 event in the previous 12 months, suggesting that overall demand has declined over time.

The types of business more likely to have experienced a borrowing event included: those with 10-249 employees, those in Agriculture, those with a minimal or low external risk rating and those that have been trading for more than 10 years.

Of the types of borrowing event experienced in the 12 months prior to interview, the most common was an application for a new/renewed facility (a Type 1 event), experienced by 14% of all SMEs interviewed to date. This ranged from 11% of 0 employee businesses to 26% of those with 50-249 employees.

All SMEs reported on activities occurring in the previous 12 months concerning borrowing on loan or overdraft. These events encompassed both those at the request of the SME itself, such as applying for a new facility, or deciding to reduce the amount borrowed, and also those at the behest of the bank, such as the bank looking to cancel or renegotiate an existing facility.

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

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

The majority of this chapter provides analysis on all events reported across Quarters 1-3 2011. This provides bigger base sizes and more granularity for sub-group analysis, such as by employee size band.

However, the two "snapshots" taken, one in Q1-2 and one in Q3, of the previous 12 months activity, do allow the reporting of a "rolling aggregate of demand", which is shown below.

Fewer SMEs in Q3 reported renewing facilities in the previous 12 months. Levels of applications were more consistent over time

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, over time. In Q3, fewer SMEs reported having had a Type 1 event in the previous 12 months, than had reported having one in the 12 months prior to interview in Q1-2 (12% from 15%) primarily due to fewer SMEs having renewed previously existing facilities. The proportion that had applied for a new facility in the previous 12 months was more stable.

Net "events" fell from 19% in Q1-2 to 15% in Q3, due to the decline in Type 1 events, but also fewer SMEs saying that they had chosen to reduce/pay off a facility:

Borrowing events in the previous 12 mths All SMEs, over time	All Q1-3	Q1-2 2011	Q3 2011
Unweighted base:	*10118*	*5063*	*5055*
Type 1: New application/renewal	14%	15%	12%
Applied for new facility (net)	7%	8%	7%
Renewed facility (net)	8%	10%	6%
Type 2: Cancel/renegotiate by bank	5%	5%	4%
Type 3: Chose to reduce/pay off facility	3%	4%	2%
Any of these "events"	*17%*	*19%*	*15%*
None of these "events"	*83%*	*81%*	*85%*

Q25/26 All SMEs

As the table above shows, only a minority of SMEs had experienced any of the loan or overdraft events specified. One way of assessing and tracking this level of activity over time, is to take the proportion of all SMEs that had applied/renewed, and subtract from it the proportion of all SMEs that had chosen to reduce/cancel a facility early in a given 12 month period.

This shows that the net demand position is positive, and stable over time, with more SMEs seeking/renewing finance than are repaying it early, but only a minority of SMEs are involved:

Borrowing events All SMEs, over time	Q1-2 2011	Q3 2011
Unweighted base:	*5063*	*5055*
Type 1: New application/renewal	15%	12%
Type 3: Chose to reduce/pay off facility	4%	2%
Net activity	*+11*	*+10*

Q25/26 All SMEs

Detailed reporting on events in the previous 12 months

The remainder of this chapter focuses on the net results from all interviews conducted in Q1-2 and Q3. This allows for more robust sub-group analysis.

Across Q1-3, the majority of SMEs, 83%, had not experienced any of the loan or overdraft events specified, varying from 86% of 0 employee businesses to 68% of those with 50-249 employees. The event experienced most widely was the renewal of an existing facility (experienced by 8% of all SMEs and 20% of those with 50-249 employees).

Very few SMEs have experienced a borrowing event in the previous 12 months

Borrowing events Q1-3 net – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*10118*	*2028*	*3345*	*3227*	*1518*
Type 1: New application/renewal	14%	11%	21%	28%	26%
Applied for new facility (net)	7%	6%	12%	12%	11%
- applied for new loan	*3%*	*2%*	*6%*	*6%*	*7%*
- applied for new overdraft	*5%*	*4%*	*8%*	*7%*	*5%*
Renewed facility (net)	8%	6%	12%	21%	20%
- renewed existing loan	*2%*	*1%*	*3%*	*7%*	*7%*
- renewed existing overdraft	*7%*	*6%*	*11%*	*18%*	*17%*
Type 2: Cancel/renegotiate by bank	5%	3%	7%	10%	10%
Bank sought to renegotiate facility (net)	4%	3%	6%	9%	9%
- Sought to renegotiate loan	*1%*	*1%*	*2%*	*3%*	*4%*
- Sought to renegotiate overdraft	*3%*	*3%*	*5%*	*7%*	*6%*
Bank sought to cancel facility (net)	1%	1%	2%	3%	2%
- Sought to cancel loan	*	*	*1%*	*1%*	*1%*
- Sought to cancel overdraft	*1%*	*1%*	*2%*	*2%*	*1%*
Type 3: Chose to reduce/pay off facility	3%	2%	4%	6%	5%
- Reduce/pay off loan	*2%*	*1%*	*2%*	*3%*	*3%*
- Reduce/pay off overdraft	*1%*	*1%*	*2%*	*3%*	*3%*
Any of these "events"	*17%*	*14%*	*25%*	*33%*	*32%*
None of these "events"	*83%*	*86%*	*75%*	*67%*	*68%*

Q25/26 All SMEs

Some differences in events emerged by other business demographics:

Borrowing events	Most likely	Least likely
Type 1 – new/renewed 14% of **all** SMEs	• Those in Agriculture (22%) • SMEs 10-15 years old (18%)	• Those in Health (10%) • SMEs 2-5 years old (11%)
Type 2 – cancel/renegotiate 5% of **all** SMEs	• Those in Agriculture (7%) • SMEs 10-15 years old (7%)	• Those in Health (2%) • Start-ups (2%)
Type 3 – reduce/repay 3% of **all** SMEs	• Those in Agriculture or Hotels & Restaurants (5%) • SMEs 15 years+ old (4%)	• Those in Manufacturing (1%) • Start-ups (2%)

SMEs with a better external risk rating were slightly more likely to have applied for/renewed a facility, but there was relatively little difference in the incidence of other borrowing events by external risk rating:

Borrowing event in last 12 months Q1-3 All SMEs	Total	Min	Low	Avge	Worse/Avge
Unweighted base:	*10118*	*1714*	*2086*	*2713*	*2797*
Type 1: New application/renewal	14%	17%	17%	12%	14%
Type 2: Bank cancel/renegotiate	5%	5%	6%	5%	3%
Type 3: Chose to reduce/pay off facility	3%	3%	5%	3%	3%
Any of these "events"	*17%*	*20%*	*20%*	*16%*	*17%*

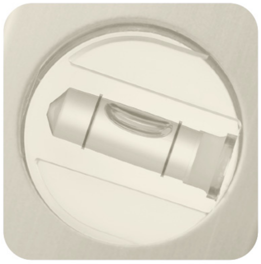
Q25/26 All SMEs – where risk ratings provided

Subsequent chapters of this report investigate each of these events, and their outcome, in more detail. The main focus remains those that have applied for a new overdraft or loan facility, or to renew an existing one (the Type 1 events).

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

When reflecting on these events, it is important to bear in mind that only half of all SMEs currently use external finance, and only 17% reported a borrowing "event" in the previous 12 months. Indeed, a third of SMEs might be considered to be completely dis-engaged from the borrowing process, as earlier analysis showed.

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

Over time, **fewer SMEs have reported making an application or renewing a facility** in the previous 12 months. In Q3, 9% reported an overdraft application/renewal in the previous 12 months (down from 13% in Q1-2) and 4% reported a loan application/renewal in the previous 12 months (from 5%).

Across all those applying for/renewing an overdraft, half wanted to renew an existing facility at the same level, while **1 in 5 were looking for their first ever overdraft**. Loan application/renewals were more likely to be either a first ever loan (34% of loan applicants) or a new loan (24% of loan applicants). First time applicants were much more likely to be businesses with less than 10 employees.

Just 9% of those applying for/renewing an overdraft and 19% of those applying for/renewing a loan had sought any advice beforehand. **Those that did not seek advice typically did not feel that they needed it**, but not knowing who to ask was an issue for some.

This may be in part explained by **high levels of confidence** that their application/renewal would be successful – 70% for overdraft applications/renewals and 73% for loans. For both loans and overdrafts, smaller applicants and those looking for their first facility were less confident of success.

A poor, or short, credit history was one of the main reasons why some applicants had not felt confident about their application. Larger applicants that were not confident were more likely to mention external factors such as banks not being willing to lend, or a riskier trading environment.

This chapter is the first of four covering Type 1 borrowing events in more detail. This first chapter 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, and the resultant overdraft/loan granted, including the rates and fees charged for the facilities.

At the start of each chapter, analysis is provided, as far as is possible at this stage, on the extent to which overdraft and loan applications are changing over time. As has already been stated, this is only **interim** data, and will be updated in subsequent waves.

Applications over time

As the table below shows, in Q3 fewer SMEs reported having had a Type 1 overdraft event in the previous 12 months than had reported having one in Q1-2. This was across all size bands.

Overdraft events in previous 12 months All SMEs, over time	Q1-2	Q3
Unweighted base:	*5063*	*5055*
Applied for a new overdraft	6%	4%
Renewed an existing overdraft	9%	6%
Any Type 1 overdraft event	*13%*	*9%*

Q26 All SMEs

Fewer Type 1 events have taken place. Increased activity to Q1 2011 was not maintained in the subsequent quarter

The incidence of Type 1 loan events in the previous 12 months was also slightly lower in Q3 than had been reported in Q1-2.

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

Q26 All SMEs

There are four quarters (Q3 and Q4 2010 and Q1 and Q2 2011) that **all** respondents to date could have nominated as the quarter in which their borrowing event took place. Looking just at those applications that took place within this time frame, shows a remarkably similar profile for loan and overdraft applications and renewals and a peak of activity in Q1 2011:

When borrowing event took place All Type 1 events Q3 2010-Q2 2011	Overdraft	Loan
Unweighted base:	*1591*	*745*
Q3 2010	17%	18%
Q4 2010	22%	21%
Q1 2011	39%	36%
Q2 2011	22%	25%

Q26 All Type 1 events Q3 10 to Q2 11

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

The remainder of this chapter focuses on all those SMEs that have had a Type 1 event across Q1-3 2011. 0 employee businesses were much less likely than those with employees to have applied for, or to have renewed, a facility:

Type 1 Borrowing event Q1-3 net All SMES	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	***10118***	***2028***	***3345***	***3227***	***1518***
Applied for new facility (net)	7%	6%	12%	12%	11%
- applied for new loan	*3%*	*2%*	*6%*	*6%*	*7%*
- applied for new overdraft	*5%*	*4%*	*8%*	*7%*	*5%*
Renewed facility (net)	8%	6%	12%	21%	20%
- renewed existing loan	*2%*	*1%*	*3%*	*7%*	*7%*
- renewed existing overdraft	*7%*	*6%*	*11%*	*18%*	*17%*
Any of these Type 1 "events"	***14%***	***11%***	***21%***	***28%***	***26%***
None of these "events"	***86%***	***89%***	***79%***	***72%***	***74%***

Q26 All SMEs

Overdrafts are usually for a 12 month, or shorter period, but it was apparent that not all overdraft users reported a renewal event in the previous 12 months, as 28% of SMEs reported having an overdraft, compared to 11% saying that they had applied for, or sought to renew, an overdraft in the previous 12 months. Overall, a third of those with an overdraft also reported an overdraft "event" in the past 12 months. We believe that a certain proportion of overdrafts may be rolled over on existing terms and that some SMEs do not therefore see this as a renewal "event". This is being clarified in the survey in Q4, and were this to be the case for a significant proportion of SMEs with overdrafts then it could affect the overdraft approval rates quoted in this report.

The sector most likely to have applied/renewed was Agriculture (22%) – this was due to a higher proportion of renewals than in other sectors, notably for overdrafts (14%). The next highest sector was Wholesale/Retail (18%), where the net position was boosted by a higher than average level of applications for new facilities (11%). The sector least likely to have applied for/sought a renewal remained Health (10%).

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

Demographic	Comment
Age of business	The incidence of Type 1 events differed between businesses that were less than 10 years old (12%) and those that were more than 10 years old (17%). This was due to more renewals amongst the older businesses (12% v 5%) rather than more applications for new facilities (6% v 8% of younger businesses)
Profitable SMEs	SMEs that made a loss in the past 12 months were slightly more likely to have had a Type 1 event: Made a profit 13% Broke even 12% Made a loss 18% The loss makers were more likely to have applied for a new facility than those that made a profit (12% v 6%)
Fast growth (30%+ for 3 yrs)	Fast growth SMEs were no more likely to have had a Type 1 event: Fast growth 15% Non fast growth (excl Start-ups) 14% Within these figures, they were slightly more likely to have applied for a new facility than those that were not fast growth (10% v 7%)
Importers/exporters	Those engaged in international trade were slightly more likely to have had an event (17%) than those who were not (13%)

Half of all overdraft applications were to renew existing facilities. 1 in 3 applications was for a first ever, or increased, overdraft

Why were they applying?

Overdraft applications

This section covers all those that made an application for new or renewed overdraft facilities in the previous 12 months. All percentages quoted are therefore just of this group, which overall represents 10% of all SMEs, or around 463,000 businesses.

Half of those reporting a Type 1 overdraft event, said that they had been looking to renew an existing overdraft for the same amount (50%). 1 in 5 applicants were seeking an overdraft for the very first time and, as the table below shows, this was more likely to be the case for smaller SMEs. 1 in 6 were looking to increase an existing facility, and this varied relatively little by size of business:

Why applying for overdraft Q1-3 net SMEs seeking new/renewed facility	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*1626*	*170*	*533*	*647*	*276*
Renewing overdraft for same amount	50%	49%	50%	60%	67%
Applied for first ever overdraft facility	22%	25%	21%	10%	4%
Seeking to increase existing overdraft	17%	15%	19%	19%	17%
Setting up facility at new bank	4%	5%	4%	2%	3%
Seeking additional overdraft on other account	3%	3%	4%	5%	4%
Seeking to reduce existing facility	3%	4%	2%	4%	5%

Q52 All SMEs seeking new/renewed overdraft facility

Almost all applications (96%) were made to the SME's main bank.

The average amount sought was just under £30,000. As the table below shows, there was a considerable difference in the amount of funding sought by size of business, ranging from an average of £6,000 for 0 employee businesses looking for a facility to £680,000 for those SMEs with 50-249 employees.

The **median** values probably present a more realistic picture of amount sought. Overall, this was £5,000, ranging from £3,000 amongst 0 employee businesses to almost £300,000 for the biggest SMEs (£290,000 for businesses 50-249 employees).

Amount initially sought, where stated Q1-3 net SMEs seeking new/renewed facility	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*1472*	*156*	*490*	*590*	*236*
Less than £5,000	44%	61%	22%	2%	-
£5,000 - £9,999	17%	19%	16%	4%	*
£10,000 – £24,999	21%	17%	30%	18%	3%
£25,000 - £99,999	13%	3%	25%	40%	10%
£100,000+	6%	*	7%	35%	87%
Average amount sought	*£29k*	*£6k*	*£30k*	*£145k*	*£680k*
Median amount sought	*£5k*	*£3k*	*£10k*	*£50k*	*£290k*

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

Only 9% of overdraft applicants sought any external advice before they approached the bank, typically because they didn't think they needed it

8 out of 10 overdraft applicants said that the overdraft was needed for day to day cash flow, and this varied little by size of SME. Half wanted the facility as a "safety net" and, as the table below shows, this was slightly more likely to be mentioned as a reason by the smaller SMEs that had applied. This was even more the case when it came to overdrafts being required to fill a short term funding gap – just 19% of SMEs with 50-249 employees applying for a facility said that this was why it was needed, compared to 46% of 0 employee businesses. Finally, these overdrafts were much more likely to have been sought to support UK expansion (14%) than expansion overseas (1%):

Purpose of overdraft sought Q1-3 net SMEs seeking new/renewed facility	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*1626*	*170*	*533*	*647*	*276*
Working capital for day to day cashflow	84%	82%	88%	84%	80%
Safety net – just in case	50%	51%	48%	42%	39%
Short term funding gap	41%	46%	36%	29%	19%
Buy fixed assets	17%	18%	15%	11%	16%
Fund expansion in UK	14%	12%	16%	13%	17%
Fund expansion overseas	1%	-	2%	2%	4%

Q55 All SMEs seeking new/renewed overdraft facility

Very few applicants (9%) sought any external advice before their application for a new/renewed overdraft facility was made, and this varied relatively little by the size of the business applying:

- 7% of 0 employee applicants sought advice before applying (excluding DK)
- 11% of 1-9 employee applicants
- 13% of 10-49 employee applicants
- 8% of 50-249 employee applicants

7 out of 10 overdraft applicants were confident the bank would agree to their request, especially if they were seeking renewal of existing facilities

More variation was seen by whether the facility sought was a renewal, an increase, or a first time application, but was a minority of applicants in all cases:

- 15% of SMEs looking to increase an existing facility sought advice
- 9% of SMEs looking for their first ever overdraft
- 6% of SMEs looking to renew an existing overdraft at the same level

In all cases, accountants were the most likely source of any advice sought, but they were approached by just 5% of overdraft applicants. The only other source mentioned by more than a few applicants was an independent commercial financial broker/advisor.

In Q3, a new question sought to clarify why advice had **not** been sought. The key reasons given by those that had not sought any advice are shown below - two thirds felt that they didn't need advice, and this was true across all size bands:

- 63% of those who had not sought advice did not think they needed it
- 19% did not know who to ask
- 19% had been successful with an application in the past
- 11% didn't think advice would make any difference
- 10% said there was no time to seek advice

Not knowing who to ask for advice was mentioned more by smaller SMEs and those seeking their first overdraft, as was having no time to ask for advice before applying.

The small proportion of applicants that sought external advice may be linked to high levels of confidence that the application would be successful (70% Q1-3 net). This headline rate does conceal differences by size of business and purpose of overdraft. Almost all SMEs with 50-249 employees applying for an overdraft were confident they would be successful, compared to two thirds of 0 employee businesses:

- 65% of 0 employee applicants seeking a new/renewed overdraft facility were confident of success
- 77% of 1-9 employee applicants
- 86% of 10-49 employee applicants
- 93% of 50-249 employee applicants

Similarly, whilst almost 9 out of 10 of applicants looking to renew an existing facility at the same level reported having been confident that they would be successful, this drops to half of those that had been seeking to increase a facility and less than half of first time applicants:

- 87% of SMEs looking to renew an existing overdraft at the same level
- 51% of SMEs looking to increase an existing facility were confident
- 44% of SMEs looking for their first ever overdraft

When those that were **not** confident were asked why this was, there were differences between larger applicants, who reflected on the current external climate, and smaller applicants who reflected on their own business.

The key reason for a lack of confidence amongst applicants with less than 10 employees was credit history (personal or of the business) mentioned by 33% of those who were not confident. Amongst bigger SMEs that had not been confident, the two main reasons were a perception that banks were not lending (21% of those who were not confident) and/or a riskier trading environment (16%).

Time taken to provide a response to overdraft application

Half of overdraft respondents had an initial response from the bank within 2 days. The larger the business, the less likely it was to get an immediate response, with a quarter of the largest businesses waiting more than a week for a response:

Time taken to respond (Overdraft): Q1-3 net SMEs seeking new/renewed facility	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*1626*	*170*	*533*	*647*	*276*
Less than 2 days	51%	55%	46%	41%	36%
2-3 days	15%	18%	11%	8%	13%
A week	17%	16%	20%	17%	18%
2-3 weeks	10%	8%	12%	14%	13%
More than 3 weeks	5%	2%	9%	16%	15%
No response at time of survey	2%	2%	3%	3%	4%

Q 62 All SMEs seeking new/renewed overdraft facility

Loan applications

This section covers all those that made an application for new or renewed loan facilities in the previous 12 months. All percentages quoted are therefore just of this group, which overall represents 4% of **all** SMEs, or around 183,000 businesses.

There have been fewer loan events reported than overdraft events. As a result, the same level of granularity of analysis is not possible, specifically for 0 employee businesses. This category has therefore been merged with the 1-9 employee band in this section, but separate reporting has been provided for both the 10-49 and 50-249 employee bands.

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

Why applying for loan Q1-3 net SMEs seeking new/renewed facility	Total	0-9 emps	10-49 emps	50-249 emps
Unweighted base:	*795*	*333*	*309*	*153*
Applied for first ever loan	34%	36%	15%	8%
New loan sought for new purchase	24%	24%	26%	37%
Renewing loan for same amount	15%	14%	25%	25%
Topping up existing loan	8%	8%	8%	10%
New loan as not had one for a while	8%	8%	9%	6%
Consolidating existing borrowing	5%	5%	4%	4%
Refinancing onto a cheaper deal	5%	4%	12%	10%

Q149 All SMEs seeking new/renewed loan facility

Compared to overdraft applications/renewals, those for loans were slightly less likely to be made to the SME's main bank, although most of them were (84%).

The average amount sought was higher than for overdrafts at just under £180,000. As the table below shows, there was a considerable difference in the amount of funding sought by size of business. Averages ranged from just under £120,000 for 0-9 employee businesses looking for a facility to £1.5 million for those SMEs with 50-249 employees.

The **median** values probably present a more realistic picture of amount sought. Overall, this was £10,000, ranging from £10,000 amongst 0-9 employee businesses to just over £600,000 for the biggest SMEs (£615,000 for businesses 50-249 employees):

Amount initially sought, where stated Q1-3 net SMEs seeking new/renewed facility	Total	0-9 emps	10-49 emps	50-249 emps
Unweighted base:	*723*	*307*	*277*	*139*
Less than £5,000	14%	15%	1%	-
£5,000 - £9,999	26%	28%	4%	-
£10,000 – £24,999	27%	29%	10%	2%
£25,000 - £99,999	15%	14%	28%	10%
£100,000+	17%	13%	58%	88%
Average amount sought	*£180k*	*£117k*	*£750k*	*£1565k*
Median amount sought	*£10k*	*£10k*	*£100k*	*£615k*

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

Overall, and in particular amongst larger SMEs seeking a loan facility, these funds were most likely to have been sought to fund expansion in the UK (26%). Other main reasons were the purchase of fixed assets and, more popular with smaller SMEs, buying motor vehicles and/or developing new products and services (all 19% overall).

1 in 5 loan applicants sought advice, those who didn't typically felt they didn't need it

Purpose of loan Q1-3 net SMEs seeking new/renewed facility	Total	0-9 emps	10-49 emps	50-249 emps
Unweighted base:	*795*	*333*	*309*	*153*
Fund expansion in UK	26%	25%	31%	43%
Buy fixed assets	19%	19%	23%	22%
Buy motor vehicles	19%	20%	7%	3%
Develop new products/services	19%	19%	17%	11%
Replace other funding	14%	14%	22%	14%
Buy premises	15%	14%	29%	35%
Fund expansion overseas	3%	3%	4%	4%
Take over another business	2%	1%	2%	7%

Q150 All SMEs seeking new/renewed loan facility

Whereas 9% of overdraft applicants had sought external advice, a bigger proportion of loan applicants did so, albeit still a minority (19%). There was also more variation by the size of the business applying for a new/renewed loan:

- 18% of 0-9 employee applicants sought advice before applying (excluding DK)
- 31% for 10-49 employee applicants
- 27% for 50-249 employee applicants

No variation was seen by whether the facility sought was a renewal, an increase or a first time application, but was a minority of applicants in all cases:

- 17% for SMEs looking for their first ever loan
- 19% of SMEs looking for a new loan (but not their first) sought advice
- 19% for SMEs looking to renew an existing loan at the same level

In all cases, accountants were the most likely source of any advice sought, but they were approached by just 9% of all loan applicants. The only other source mentioned by more than a few applicants was an independent commercial financial broker/advisor.

Those seeking their first ever loan were much less confident of success

In Q3, a new question sought to clarify why advice had **not** been sought. The key reasons given by those who had not sought any advice are shown below – just under half felt that they didn't need advice, and this was true across all size bands:

- 43% of those that had not sought advice did not think they needed it
- 21% did not know who to ask
- 12% had been successful with a previous application
- 9% didn't think advice would make any difference
- 8% said there was no time to seek advice

As with those that had not sought advice for an overdraft application, not knowing who to ask for advice was mentioned more by smaller SMEs and those seeking their first loan, as was having no time to ask for advice before applying. Overall, 18% of all overdraft and loan applicants mentioned not seeking advice because they did not know who to ask, equivalent to less than 1% of **all** SMEs.

As with overdraft applications, it may be that only a minority sought advice because they had been confident that they would be successful (73% Q1-3 net). This headline rate does conceal differences by size of business and purpose of loan. Almost all SMEs with 50-249 employees applying for a loan were confident they would be successful:

- 72% of 0-9 employee applicants seeking a new/renewed loan facility
- 81% of 10-49 employee applicants
- 91% of 50-249 employee applicants

Similarly, whilst almost 9 out of 10 of applicants that had been looking to renew an existing loan facility at the same level reported having been confident that they would be successful, this drops to half of first time applicants:

- 89% for SMEs looking to renew an existing loan at the same level
- 83% of SMEs looking for a new loan (but not their first)
- 57% for SMEs looking for their first ever loan

When those that were **not** confident were asked why this was, there were fewer differences between larger and smaller applicants (on a small base) than there were for overdrafts. The key reasons overall for a lack of confidence amongst loan applicants were credit history (28%) and/or a perception from the banks/media that banks are not lending (30%).

Time taken to provide a response to loan application

The initial response to a loan application typically took a bit longer than an overdraft, possibly reflecting the larger amounts involved. 1 in 3 heard within 2 days, while a quarter waited 2 weeks or more:

Initial response (Loan): Q1-3 net SMEs seeking new/renewed facility	Total	0-9 emps	10-49 emps	50-249 emps
Unweighted base:	*795*	*333*	*309*	*153*
Less than 2 days	38%	41%	17%	7%
2-3 days	7%	7%	8%	7%
A week	23%	24%	16%	21%
2-3 weeks	14%	13%	19%	27%
More than 3 weeks	12%	10%	34%	33%
No response at time of survey	5%	5%	6%	5%

Q157 All SMEs seeking new/renewed loan facility

8. The outcome of the application/ renewal

This chapter details

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

Key findings

The majority of applicants **end the process with a facility.**

79% of those applying for a new/renewed overdraft now have one. 16% of these applicants (the equivalent of 2% of all SMEs) received no facility at all.

63% of those applying for a new/renewed loan now have one. 31% of these applicants (1% of all SMEs) received no facility at all.

Interim findings indicate that the proportion of overdraft applicants who were granted an overdraft dropped slightly over time, from 83% for applications made in Q3 2010 to 74% in Q2 2011. The proportion ending up with no facility was stable, but more applicants took another form of funding.

Detailed analysis has shown the **key factors influencing a decline for an overdraft** are whether the SME was applying for its **first overdraft**, or an **increase** to an existing facility, or was **less than 5 years old**, all if which make a decline more likely. The date of application per se is not a significant indicator of a decline.

A higher proportion of loan applications were granted in Q2 2011 than in previous quarters. The **two most significant predictors of decline for a loan** were having an **average or above average external risk rating**, and the **amount applied for** (the higher the amount, the more likely a decline) **Date of application was a significant factor** in the outcome of loan applications, for smaller SMEs that applied, with those that applied between April 2010 and March 2011 more likely to have been declined.

There is limited evidence that those initially declined managed to subsequently negotiate funding from a bank. It is too soon to be able to comment on the role of the new appeals process.

Early indications are that approval rates have improved for applications made in Q3 2011, but more data is needed to confirm this.

This section of the report details what happened when the application for the new/renewed facility was made, from the bank's initial response to the final outcome. At the time of interview, 2% of overdraft applicants and 5% of loan applicants had not had an initial response from the bank, and were therefore excluded from the following analysis.

As in other chapters, a summary of events over time is provided initially, and then the data for Q1-3 is analysed overall to understand the loan and overdraft journeys in more detail.

Final outcome, over time

The table below shows the final outcome for Type 1 overdraft events, **by the quarter in which the application was made**, for those quarters where robust numbers are available. This suggests that the proportion ending their overdraft journey with no facility at all remained relatively constant. However over time, more applicants (albeit still a minority) took an alternative form of funding, as the proportion of applicants that were (eventually) successful, declined:

Final outcome (Overdraft): Q1-3 net SMEs seeking new/renewed facility	Q3 2010	Q4 2010	Q1 2011	Q2 2011
Unweighted base:	*176*	*289*	*522*	*280*
Offered what wanted and took it	72%	62%	64%	62%
Took overdraft after issues	11%	15%	14%	12%
Have overdraft (net)	***83%***	***77%***	***78%***	***74%***
Took another form of funding	2%	7%	6%	10%
No facility	15%	17%	16%	16%

Final outcome of overdraft application by date of application

The proportion making a successful loan application declined to March 2011, but has since shown signs of improvement

For Type 1 loan events, the data available so far suggests that applications made in Q2 2011 were more likely to be successful, and that applications made during the 6 months October 2010 to March 2011 were the least likely:

Final outcome (Loan): Q1-3 net SMEs seeking new/renewed facility	Q3 2010	Q4 2010	Q1 2011	Q2 2011
Unweighted base:	*120*	*140*	*200*	*121*
Offered what wanted and took it	49%	49%	48%	67%
Took loan after issues	17%	6%	9%	6%
Have loan (net)	*66%*	*55%*	*57%*	*73%*
Took another form of funding	9%	7%	3%	6%
No facility	26%	37%	40%	21%

Final outcome of loan application by date of application

Early indications for applications made in Q3 2011 are that a higher proportion of overdraft applicants were offered what they wanted and took it, and for loans, qualitatively, that the improvement seen in Q2 2011 has been maintained, but this will be monitored over time.

What role is the application date playing?

When considering these figures, it is important to bear in mind that the profile of applicants is likely to vary wave to wave. There is likely to be a different mix of risk ratings, business demographics, reasons for application and different proportions of new facilities v renewed facilities quarter on quarter, which this report shows were likely to get a different response from the bank and could thus affect outcome.

So, for example, when risk rating is taken into consideration, the proportion of minimal/low risk applicants getting a loan/overdraft has remained pretty consistent across the 4 quarters reported above. It is the average/above average risk businesses that have experienced the decline in overdraft success rates, or the decline and subsequent improvement in loan success rates shown above.

For this reason, further analysis has been conducted to understand the role, if any, of the date of application, in the decision reached. This was tested initially using CHAID, and then key driver analysis to understand what made it more likely that a business would end the application process with no facility at all.

Date of application is a significant predictor of a decline for loans to smaller SMEs, but not for overdrafts

Taking overdrafts first, the data of application is **not** a significant predictor of the application being declined:

Overdraft declines	Significant factors
Is date of application significant?	No
What is the key factor?	Both types of analysis showed that the key factor influencing the outcome was whether the business was applying for its **first ever overdraft**, or an **increase in an existing overdraft facility** – both of which made a decline more likely
What else significantly impacts on declines?	Being a business less than 5 years old, not making a profit, and having an above average external risk rating

For loans on the other hand, date of application *was* significant, and this was driven by applications from businesses with less than 10 employees. The outcome of loan applications from businesses with more than 10 employees was not significantly affected by the application date:

Loan declines	Significant factors
Is date of application significant?	Yes – applications made between April 2010 and March 2011 were most likely to be declined
What is the key factor?	Two factors of slightly more importance than the application date in determining outcome were having an average or above average external risk rating, and the amount sought (the higher the amount, the more likely a decline)
What else significantly impacts on declines?	Of slightly less importance than application date, but still significant in making a decline more likely, were: • If the loan applicants were first-time or applying for a new loan • Manufacturing and Other Community businesses • If the business made a loss • If the business was less than 5 years old

The initial bank response was to offer two thirds of overdraft applicants and half of loan applicants what they wanted

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

The tables below record the initial response from the bank, and show most applicants being offered a facility. The initial response to 67% of overdraft applications was the SME being offered what it wanted, compared to 57% of loan applications. Bigger SMEs were more likely to be offered what they wanted at this initial stage:

Initial response (Overdraft): Q1-3 net SMEs seeking new/renewed facility	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*1574*	*168*	*517*	*625*	*264*
Offered what wanted	67%	62%	73%	83%	87%
Offered less than wanted	8%	10%	5%	5%	6%
Offered unfavourable terms & conditions	5%	4%	5%	5%	5%
Declined by bank	20%	24%	17%	7%	1%

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

Initial response (Loan): Q1-3 net SMEs seeking new/renewed facility	Total	0-9 emps	10-49 emps	50-249 emps
Unweighted base:	*753*	*319*	*288*	*146*
Offered what wanted	57%	55%	69%	90%
Offered less than wanted	3%	3%	7%	1%
Offered unfavourable terms & conditions	10%	10%	11%	7%
Declined by bank	30%	32%	13%	3%

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

Those offered a smaller overdraft than they had wanted were unlikely to be able to negotiate an increase

20% of overdraft **applications** were initially declined by the bank, and 30% of loan **applications** were initially declined. This is the equivalent of 2% of <u>all</u> SMEs being initially turned down for an overdraft and 1% of <u>all</u> SMEs being initially turned down for a loan.

The initial response from the bank was less likely to have been positive if the SME was applying for their first ever overdraft/loan, and more likely to have been positive if it was for the renewal of an existing facility. SMEs that applied for facilities were also more likely to be met with an initial decline if they had a worse than average risk rating (26% if applying for an overdraft, 45% if applying for a loan) whereas those with a minimal risk rating were much less likely to have been declined initially (1% overdraft and 3% loan).

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

Summarised below is what happened after the bank's initial response to the overdraft application and any issues around the application. Base sizes for some groups remain small, but this report is able to provide more analysis on those who were initially declined, or offered something other than what they had wanted.

Initial bank response	Subsequent events – overdraft
Offered what wanted (67% of applicants, 7% of **all** SMEs)	All those offered the overdraft they wanted went on to take the facility, with just 2% experiencing any delays or problems before the facility was taken (typically supplying further information and/or having to wait for a final decision or legal work to be completed). Almost all took the full amount they had originally asked for
Issue: Offered less than wanted (8% of applicants, 1% of **all** SMEs)	These SMEs were typically offered 60-90% of what they had asked for. Reasons given for making a lower offer related to poor/lack of credit history, especially for smaller applicants. Larger applicants were more likely to mention a lack of security/a weak balance sheet or needing more equity. 1 in 10 said they were not given a reason. 38% rated the advice they received from the bank at this stage as “poor”, compared to 23% who rated it as good. 17% were not given any advice by the bank (especially the smaller applicants). Of the SMEs in this group, 5% managed to negotiate a higher amount than the one initially offered by the bank. 74% accepted the lower amount offered by the bank, and 13% took a lower amount than they had wanted at another bank. 3% took out alternative funding and 8% decided not to have a facility at all. In the end, most obtained between 60-90% of the amount they had originally sought, typically in line with the bank’s initial response.
Issue: Offered unfavourable T&C (5% of applicants, <1% of **all** SMEs)	The unfavourable terms typically related to security (level, type requested and/or cost), especially for larger applicants, or the proposed interest rate (both mentioned by a third of this group). A quarter cited the proposed fee as unfavourable. A quarter of SMEs in this group decided not to proceed with any overdraft, but most took one: almost half managed to negotiate a better deal – some with another bank, and a quarter accepted the bank’s offer. The amount of such overdrafts was typically in line with their original request

The subsequent journey – those initially declined for an overdraft

186 respondents were initially declined when applying for an overdraft (20% of applicants, 2% of **all** SMEs). 71% of this group had a worse than average external risk rating, 65% were applying for their first ever overdraft and 70% were 0 employee businesses.

1 in 5 of those initially declined said that they had not been given a reason for the decline (excluding those who could not remember the reasons given). 35% said it related to their personal/business credit history, while 11% mentioned issues around security. Larger SMEs were more likely to mention already having too much borrowing and/or their industry being perceived as risky.

In Q3 only, these respondents were asked how the decision was communicated to them and whether they were told enough to explain why that decision had been made. Indicative results are that in three quarters of cases, the decision was communicated verbally, while 1 in 3 got a written response (a few got both). Only a minority, 1 in 3, felt they were given enough information to explain the decision.

Across Q1-3, 85% of those initially declined said that the bank did not offer them an alternative form of funding to the declined overdraft. Where an alternative *was* offered, this was most likely to be a loan or a business credit card. Two thirds thought the advice the bank offered at that stage had been poor, 15% said that it had been good and 11% had not been offered any advice.

From April 2011, a new appeals procedure was introduced. This survey has not gathered sufficient data on declined overdraft applications since that time to allow for robust analysis of awareness and take up of the scheme. Qualitatively, it appears that around a quarter of declined overdraft applicants from that date onwards were made aware of the appeals procedure, and very few availed themselves of it.

More generally, only 5% of those initially declined reported that they had been referred to any sources of help or advice by the bank, while a further 6% sought their own external advice, without a recommendation. On a very small base of advice seekers, most seemed to find this external advice of use.

At the end of this period, 10% of the 186 businesses initially declined had managed to secure an overdraft with either the original bank or an alternative supplier (Qualitatively, they managed to secure between 60-90% of the amount they had initially sought). Almost a quarter, 23%, had secured alternative funding, with friends/family and/or personal borrowing featuring, but 67% did not have a facility at all.

8 out of 10 overdraft applicants were successful. 16% of applicants have no facility at all (the equivalent of 2% of **all** SMEs)

The final outcome – overdraft

At the end of the various "journeys" described above, respondents reported on the final outcome of their application for a new or renewed overdraft facility. Most of these applicants, 66%, had the overdraft facility they wanted. 16% of **all applicants** ended the process with no overdraft – as the table below shows, this is the equivalent of 2% of **all** SMEs. The net impact of the journeys described above was that the proportion who ended the journey with no facility or alternative funding was very similar to the proportion initially declined (21% v 20%, equivalent to 2% of **all** SMEs).

Final outcome (Overdraft): Q1-3 net SMEs seeking new/renewed facility	All overdraft Type 1 applicants	All SMEs
Unweighted base:	*1574*	*10118*
Offered what wanted and took it	66%	7%
Took overdraft after issues	13%	1%
Have overdraft (net)	*79%*	*8%*
Took another form of funding	5%	*
No facility	16%	2%
Did not have a Type 1 overdraft event	-	*90%*

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

88% of those with no overdraft facility at the end of the process were SMEs that had been initially declined by the bank. The rest had chosen to decline the offer made: 8% were SMEs that had not liked the terms and conditions they had been offered, and 4% had been offered less than they wanted.

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

Final outcome (Overdraft): Q1-3 net SMEs seeking new/renewed facility	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*1574*	*168*	*517*	*625*	*264*
Offered what wanted and took it	66%	62%	69%	78%	85%
Took overdraft after issues	13%	13%	13%	14%	10%
Have overdraft (net)	*79%*	*75%*	*82%*	*92%*	*95%*
Took another form of funding	5%	6%	5%	2%	1%
No facility	16%	18%	13%	5%	4%

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

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

Final outcome (Overdraft): Q1-3 net SMEs seeking new/renewed facility	Total	Min	Low	Average	Worse/Avge
Unweighted base:	*1574*	*252*	*364*	*432*	*414*
Offered what wanted and took it	66%	91%	84%	74%	57%
Took overdraft after issues	13%	7%	11%	11%	15%
Have overdraft (net)	*79%*	*98%*	*95%*	*85%*	*72%*
Took another form of funding	5%	1%	1%	4%	4%
No facility	16%	2%	4%	10%	24%

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

By sector, overdraft applicants from Agriculture, Wholesale/Retail, Real Estate and Other community sectors were more likely to have an overdraft, while overdraft applicants from Transport, Hotels & Restaurants and Construction were the most likely to have no facility at all:

Final outcome (Overdraft): Q1-3 net SMEs seeking new/renewed facility	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Real Est	Health S Work	Other Comm
Unweighted base:	*165*	*154*	*280*	*171*	*134*	*135*	*294*	*96*	*145*
Offered what wanted and took it	84%	69%	58%	66%	57%	54%	70%	66%	66%
Took overdraft after issues	9%	10%	12%	16%	13%	12%	14%	12%	16%
Have overdraft (net)	*93%*	*79%*	*70%*	*82%*	*70%*	*66%*	*84%*	*78%*	*82%*
Took another form of funding	1%	10%	3%	9%	3%	8%	5%	10%	1%
No facility	6%	11%	26%	8%	27%	25%	11%	13%	17%

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

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

Those most likely to end the process with no facility were those applying for their first overdraft. Those looking to increase an existing overdraft typically ended up with a facility, but were likely to have had some issues along the way:

Final outcome (Overdraft): Q1-3 net SMEs seeking new/renewed facility	Total	1st overdraft	Increased overdraft	Renew overdraft
Unweighted base:	*1574*	*215*	*288*	*909*
Offered what wanted and took it	66%	30%	47%	88%
Took overdraft after issues	13%	7%	34%	8%
Have overdraft (net)	*79%*	*37%*	*81%*	*96%*
Took another form of funding	5%	10%	11%	1%
No facility	16%	52%	8%	3%

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

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

Summarised below is what happened after the bank's initial response to the loan application and any issues around that application. Base sizes for some groups remain small, but this report is able to provide more analysis on those who were initially declined.

Initial bank response	Subsequent events – loan
Offered what wanted (57% of applicants, 2% of **all** SMEs)	96% of those offered what they wanted went on to take the loan with no problems, and a further 3% took the loan after some issues (typically having to supply more information, or being offered something that they felt initially was too expensive) 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 (3% of applicants, <1% of **all** SMEs)	These SMEs were typically offered 50-90% of what they asked for. Insufficient security was the main reason for being offered less, mentioned by half of these applicants, while 1 in 10 said they were not given a reason. On a small base, the advice offered at this stage was more likely to be rated as good (52%) than poor (30%) and just 6% were not given any advice by the bank. 1 in 10 managed to get a higher amount than the one initially offered by the bank. Half accepted the lower amount offered by the bank, and 2% took a lower amount than they had originally wanted at another bank. 3% took out alternative funding and a third decided not to have a facility at all. In the end, most of the SMEs in this group who obtained a loan received between 60-90% of the amount they had originally sought.
Issue: Offered unfavourable T&C (10% of applicants, <1% of **all** SMEs)	The unfavourable terms typically related to security (level, type requested and/or cost), mentioned by half of these applicants. The proposed interest rate and the proposed fee were each mentioned by a third. Just over half of these SMEs decided not to proceed with a loan, a quarter managed to negotiate a better deal, and 15% accepted the bank's offer. The amount of such loans was typically in line with their original request.

The subsequent journey – those initially declined for a loan

136 respondents were initially declined when applying for a loan (30% of applicants, 1% of **all** SMEs). 72% of this group had a worse than average external risk rating, 48% were applying for their first ever loan and 60% were 0 employee businesses.

17% of the SMEs that were initially declined said that they had not been given a reason for the decline (excluding those who could not remember the reasons given). 43% said it related to their personal/business credit history, while 7% mentioned issues around security. Industry risk, and a weak balance sheet, were also mentioned as reasons.

In Q3 only, these respondents were asked how the loan decision was communicated to them and whether they were told enough to explain why the decision was made. Indicative results are similar to overdrafts in that in two thirds of cases, the decision was communicated verbally, while 1 in 3 got a written response (a few got both). However, two thirds of those declined for a loan felt they had been given enough information to explain the decision, compared to only one third of those declined for an overdraft.

Across Q1-3, 95% of those initially declined said that the bank did not offer them an alternative form of funding to the declined loan. Three quarters thought the advice the bank offered at that stage had been poor, 2% said that it had been good and 16% had not been offered any advice.

From April 2011, a new appeals procedure was introduced. This survey has not gathered sufficient data on declined loan applications since that time to allow for robust analysis of awareness and take up of the scheme. Qualitatively, it appears that around a quarter of declined loan applicants after that date were made aware of the appeals procedure, and very few availed themselves of it.

More generally, only 4% of those initially declined reported that they had been referred to any other sources of help or advice by the bank, but a further 17% sought their own external advice, without a recommendation. On a very small base of advice seekers, most seemed to find this external advice of use.

At the end of this period, 3% of those initially declined had managed to secure a loan with either the original bank or an alternative supplier. 16% had secured alternative funding, with friends/family and/or personal borrowing featuring, but 81% of those initially declined did not have a loan facility at all.

6 out of 10 loan applicants were successful. 31% of applicants have no facility at all (the equivalent of 1% of **all** SMEs)

The final outcome – loans

At the end of the various loan "journeys" described above, respondents reported on the final outcome of their application for a new or renewed loan facility. Half of these applicants, 54%, had the loan facility they wanted. 31% of **applicants** ended the process with no loan – as the table below shows, this is the equivalent of 1% of **all** SMEs. The initial response from the banks was to decline 30% of applications – by the end of the process 31% had no facility:

Final outcome (Loan): Q1-3 net SMEs seeking new/renewed facility	All loan Type 1 applicants	All SMEs
Unweighted base:	***753***	***10,118***
Offered what wanted and took it	54%	2%
Took loan after issues	9%	*
Have loan (net)	***63%***	***2%***
Took another form of funding	5%	*
No facility	31%	1%
Did not have a Type 1 loan event	-	***96%***

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

78% of applicants with no loan facility at the end of the process were SMEs that had been initially declined by the bank. The rest had chosen to decline the offer made: 18% were SMEs that had not liked the terms and conditions they had been offered, 3% had been offered less than they wanted and 1% of those with no loan facility decided not to proceed even though they had been offered what they wanted.

By size of business, loan applicants with fewer than 10 employees were less likely to have a facility:

Final outcome (Loan): Q1-3 net SMEs seeking new/renewed facility	Total	0-9 emps	10-49 emps	50-249 emps
Unweighted base:	*753*	*319*	*288*	*146*
Offered what wanted and took it	54%	53%	62%	82%
Took loan after issues	9%	8%	22%	14%
Have loan (net)	***63%***	***61%***	***84%***	***96%***
Took another form of funding	5%	6%	4%	1%
No facility	31%	33%	12%	3%

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

Base sizes preclude detailed reporting on the final outcome of loan applications by sector, but qualitatively applicants from Agriculture, Real Estate and Health were the most likely to have a loan facility granted, and applicants from Manufacturing and Other Community, were the most likely to end up with no facility at all.

As with overdrafts, there was a clear difference in outcome by external risk rating. Here, the difference was more marked between those rated a minimal or low risk compared to those rated an average or above average risk:

Final outcome (Loan): Q1-3 net SMEs seeking new/renewed facility	Total	Min	Low	Avge	Worse/ Avge
Unweighted base:	*753*	*121*	*155*	*207*	*211*
Offered what wanted and took it	54%	82%	77%	51%	43%
Took loan after issues	9%	11%	15%	7%	8%
Have loan (net)	***63%***	***93%***	***92%***	***58%***	***51%***
Took another form of funding	5%	-	2%	3%	9%
No facility	31%	7%	6%	39%	40%

Q158 All SMEs seeking new/renewed loan facility that have had response where risk rating known

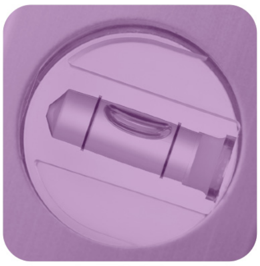
Analysis earlier in this report showed that the initial response from the bank was typically most positive for renewals of existing facilities and less positive for new facilities. The analysis below shows that this was also the case at the end of the process.

The outcome of the loan applications also varied by type of application made. As with overdrafts, those applying for their first loan were more likely to end up with no facility. Those renewing an existing loan were most likely to have been offered what they wanted, and to have taken the facility:

Final outcome (Loan): Q1-3 net SMEs seeking new/renewed facility	Total	1st loan	New loan	Renew loan
Unweighted base:	*753*	*153*	*206*	*154*
Offered what wanted and took it	54%	47%	59%	75%
Took loan after issues	9%	8%	8%	8%
Have loan (net)	***63%***	***55%***	***67%***	***83%***
Took another form of funding	5%	5%	5%	*
No facility	31%	41%	28%	16%

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

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

More than 8 out of 10 successful applicants were satisfied with the loan/overdraft that they now had. Most felt that they had been **treated fairly** by the bank, and **would not have done better elsewhere**, but a successful application was unlikely to have boosted the overall relationship with the bank, with two thirds of successful candidates saying that the relationship with their bank was unchanged.

Unsuccessful loan applicants appeared less concerned than unsuccessful overdraft applicants. **Three quarters of unsuccessful overdraft applicants said not having a facility had impacted on their business** – this is the equivalent of 1% of all SMEs having been impacted. Half of unsuccessful loan applicants said that not having a loan had impacted on their business – the equivalent of 0.6% of all SMEs being impacted.

As might be expected, these **unsuccessful applicants** were **less likely to feel their bank had treated them fairly**, more likely to say their relationship with the bank had weakened, and more likely to think they might switch banks, despite there being no strong feelings that they might have been treated differently at another bank.

This chapter reports on the impact of Type 1 loan and overdraft events (an application or renewal of facilities) on the wider banking relationship. No analysis is provided over time, because the sample sizes are currently too small to analyse results by the quarter in which the successful application took place. All data is therefore based on the combined responses of Q1-3 2011.

Satisfaction with facility granted

The table below shows satisfaction with the overdraft/loan facility granted to SMEs that successfully applied for a new/renewed overdraft, and the clear difference in satisfaction between those offered what they wanted, and those who had issues before getting a facility. Overall, 86% of successful overdraft applicants and 87% of successful loan applicants said that they were satisfied with the facility they now had:

Successful Type 1 applicants	Overdraft			Loan		
Satisfaction with outcome Q1-3 net	Total	Offered what wanted	Have after issues	Total	Offered what wanted	Have after issues
Unweighted base:	*1372*	*1166*	*206*	*588*	*460*	*128*
Very satisfied with facility	59%	67%	15%	57%	64%	13%
Fairly satisfied with facility	28%	26%	40%	29%	27%	45%
Net satisfied	***86%***	***93%***	***55%***	***87%***	***91%***	***58%***
Neutral about facility	5%	3%	16%	4%	3%	8%
Dissatisfied with facility	8%	4%	29%	9%	5%	34%

Q103 and Q196 All SMEs that have applied/renewed

There was relatively little difference in satisfaction levels by size of business.

The table above reports the outcome for those SMEs that were successful in their application/renewal. As already reported, 16% of overdraft applicants and 31% of loan applicants ended the process with no facility. These SMEs were asked whether they would have ideally liked such a facility and whether not having the facility had had an impact on their business.

Impact of being unsuccessful Q1-3 Unsuccessful applicants	No overdraft	No loan
Unweighted base:	*151*	*131*
Do not want facility	16%	45%
Wish had facility and has had impact	73%	48%
Wish had facility but no impact	10%	7%

Q120/123 Q214/217 All SMEs that have applied/renewed and ended with no facility

This shows that unsuccessful loan applicants were more prepared to manage without a facility (45%) than unsuccessful overdraft applicants (16%). Three quarters of unsuccessful overdraft applicants said that not having one had impacted on their business – this is the equivalent of 1% of **all** SMEs saying they had been impacted. (The equivalent "all SME" figure for loans is 0.6%).

For unsuccessful applicants, almost all said that the reason they did not have a facility was because the bank was not prepared to lend to them. Some thought they could raise funds from family or friends if necessary, and a few unsuccessful loan applicants mentioned security as the reason they did not have a loan.

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

SMEs that reported being adversely affected by an unsuccessful application were more likely to be young businesses, with an above average risk rating.

Attitude to the borrowing process

This section reports on all those that had been through a Type 1 borrowing process (application or renewal), and how they felt about the experience. As might be anticipated, differences were observed between those that had been successful and those that had not.

The table below summarises the net experience of loan and overdraft applicants. "Successful" describes those who now have a loan/overdraft while "unsuccessful" are those who ended the process with either no loan/overdraft or with an alternative form of funding.

Type 1 applicants	Successful			Unsuccessful		
Q1-3 % agree	Total	0-9 emps	10-249 emps	Total	0-9 emps	10-249 emps
Unweighted base:	*1680*	*646*	*1034*	*339*	*225*	*114*
Our application was considered fairly	85%	85%	84%	21%	20%	28%
Another bank would have treated us more favourably	9%	8%	10%	23%	23%	27%

Q218 All SMEs that have applied/renewed

Most successful applicants think their application was considered fairly and they would not have got better treatment elsewhere. Only 1 in 5 *unsuccessful* applicants thought their application was considered fairly (21% agree), but not many of them felt that they would have been treated more favourably elsewhere (23% agree).

A similar contrast was seen when applicants were asked if they were considering changing their main bank as a result of their borrowing experience. Based on those whose borrowing experience had been at their main bank, those that were unsuccessful were 4 times as likely as the successful applicants to say that they were considering a change (42% v 11%). This should however, be seen in the context that very few SMEs actually change main bank, and perhaps reflects a level of dissatisfaction with the bank, rather than a specific plan to switch:

Type 1 applicants used main bank only	Successful			Unsuccessful		
Q1-3 % agree	Total	0-9 emps	10-249 emps	Total	0-9 emps	10-249 emps
Unweighted base:	*1581*	*608*	*973*	*301*	*201*	*100*
We are seriously considering changing our main bank	11%	10%	14%	42%	42%	48%

Q218 All SMEs that have applied/renewed with main bank

In a similar vein, unsuccessful applicants were much more likely to feel that their relationship with their main bank had been weakened by the borrowing process (64%) than strengthened (2%). What is perhaps more of note is that successful applicants were not *more* positive about the impact of the borrowing process on their relationship with their bank. Most successful applicants, 64%, said that the process had had no impact on their relationship, and just 1 in 5, 22%, thought it had strengthened:

Type 1 applicants used main bank only	Successful			Unsuccessful		
Q1-3 Effect of borrowing process	Total	0-9 emps	10-249 emps	Total	0-9 emps	10-249 emps
Unweighted base:	*1581*	*608*	*973*	*301*	*201*	*100*
Strengthened relationship	22%	22%	25%	2%	2%	1%
No impact	64%	64%	62%	34%	34%	30%
Weakened relationship	14%	15%	13%	64%	64%	69%
Net change	*+8*	*+7*	*+12*	*-62*	*-62*	*-68*

Q219 All SMEs that have applied/renewed with main bank

Across all SMEs, overall satisfaction with their main bank was high (80%). Almost half of satisfied SMEs were "very satisfied" (39% overall). As the table below shows, those that had successfully applied for/renewed facilities, were in line with this overall picture (81% satisfied) but those that had been unsuccessful were much less satisfied (32%).

Type 1 applicants used main bank only		Successful			Unsuccessful	
Q1-3 Overall bank satisfaction	Total	0-9 emps	10-249 emps	Total	0-9 emps	10-249 emps
Unweighted base:	*1581*	*608*	*973*	*301*	*201*	*100*
Very satisfied	40%	40%	44%	7%	7%	4%
Fairly satisfied	40%	41%	38%	25%	25%	25%
Overall satisfaction	*81%*	*81%*	*81%*	*32%*	*32%*	*29%*
Neutral	8%	8%	7%	16%	16%	15%
Net dissatisfied	11%	11%	12%	52%	52%	56%

Q220 All SMEs that have applied/renewed with main bank

Satisfaction was higher for those that had not experienced any borrowing event (83% satisfied).

10. Rates and fees – Type 1 events

This chapter covers

the security, interest rates and fees pertaining to overdrafts and loans granted in the previous 12 months after a Type 1 borrowing event.

Key findings

8% of all SMEs have a new/renewed overdraft. A quarter of them were secured, typically on property, and security was much more likely to be required if the overdraft was for more than £25,000.

2**% of all SMEs have a new/renewed loan. A third were secured** (either as a commercial mortgage or a secured business loan).

There were high levels of "Don't know" answers for questions about rates. Where known, **half of this overdraft lending was on a variable rate**, with an average margin of 3.9% above Base – only a minority had overdraft lending on a rate linked to LIBOR. The average fixed rate paid for an overdraft was 5%.

Lending on loans was more likely to be on a fixed rate, with an average fixed rate paid of 6.2%. Those with a variable rate loan were paying an average of +3.6%, typically above Base.

Recall of fees paid was better. 1 in 5 overdraft applicants and 1 in 3 loan applicants said they paid no fee. **The average fee paid was just over £300 for an overdraft and just under £1000 for loans** – this reflects the higher amounts being lent as loans.

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 renewal) that occurred in the previous 12 months.

Small base sizes, and high levels of "Don't know" answers preclude any analysis of rates and fees over time, and all data in this chapter is based on the combined responses from Q1-3 2011.

Overdraft rates and fees

8% of all SMEs have a new/renewed overdraft:

- 6% of 0 employee businesses have a new/renewed overdraft
- 12% of 1-9 employee SMEs
- 18% of 10-49 employee SMEs
- 15% of 50-249 employee SMEs

40% said that they used this facility all or most of the time, while at the other end of the scale, 33% used this overdraft occasionally, rarely or never. There was little difference in frequency of usage by size of business.

Amongst those SMEs that used this overdraft at least occasionally (80% of those granted an overdraft), just over half (54%) said that when they use their overdraft they used at least half of the agreed facility. "Heavy use" of an overdraft was defined as those who used their overdraft all or most of the time and to 75% or more of their overdraft limit. 17% of SMEs granted an overdraft met that definition, and this varied little by size of business and relatively little by external risk rating.

Only a quarter of new/renewed overdrafts required security, and this was more commonly required of larger SMEs. The most common form of security was a charge over either a business or personal property, as the table below shows:

Security required (Overdraft): Q1-3 net SMEs with new/renewed overdraft	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*1350*	*122*	*422*	*560*	*246*
Property (net)	16%	10%	22%	31%	23%
Charge over business property	*8%*	*5%*	*10%*	*16%*	*19%*
Charge over personal property	*9%*	*6%*	*14%*	*17%*	*6%*
Directors/personal guarantee	4%	2%	7%	11%	8%
Other security (net)	7%	6%	7%	12%	20%
Any security (net)	25%	16%	34%	46%	44%
No security required	75%	84%	66%	54%	56%

Q 106 All SMEs with new/renewed overdraft excluding DK

By sector, the proportion of secured overdrafts ranged from 43% for Agriculture, and 37% for Transport and Manufacturing, to 9% for Health and 12% for Hotels and Restaurants.

17% of overdrafts granted for less than £25,000 were secured, compared to 37% of overdrafts that were for a larger sum.

Amongst those who knew, just over half, 56% said that their new/renewed overdraft was on a variable rate:

Type of rate (Overdraft): Q1-3 net SMEs with new/renewed overdraft excl DK	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*1156*	*98*	*350*	*479*	*229*
Variable rate lending	56%	58%	53%	56%	64%
Fixed rate lending	44%	42%	47%	44%	36%

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

Most of those on a variable rate said that the rate was linked to Base Rate (93%). Bigger SMEs were more likely to be on a LIBOR linked rate: 27% of successful applicants with 50-249 employees.

4 out of 10 with a new/renewed variable rate overdraft and a quarter of those with a fixed rate overdraft were unable/refused to say what rate they were paying. These "Don't know" answers have been excluded from the analysis, but make the base sizes small in some areas. In order to provide robust analysis, the rest of this section combines the answers from eligible 0 employee businesses with those from the 1-9 employee businesses.

The average variable rate margin paid was +4%, decreasing with size of business:

Variable margin (Overdraft): Q1-3 net SMEs with new/renewed overdraft excl DK	Total	0-9 emp	10-49 emps	50-249 emps
Unweighted base:	*569*	*200*	*246*	*123*
Less than 2%	24%	23%	32%	40%
2.01-4%	42%	42%	49%	56%
4.01-6%	22%	24%	14%	4%
6%+	12%	12%	5%	*
Average margin above Base/LIBOR:	*+3.9%*	*+4.0%*	*+3.1%*	*+2.4%*
Median margin above Base/LIBOR	*+3.0%*	*+2.9%*	*+2.8%*	*+2.5%*

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

The average fixed rate paid on overdraft was 5%, again decreasing with size of business:

Fixed rate (Overdraft): Q1-3 net SMEs with new/renewed overdraft excl DK	Total	0-9 emp	10-49 emps	50-249 emps
Unweighted base:	*411*	*158*	*179*	*74*
Less than 3%	25%	24%	36%	42%
3.01-6%	49%	49%	50%	52%
6.01-8%	16%	17%	8%	5%
8%+	10%	10%	5%	1%
Average fixed rate:	*5.2%*	*5.4%*	*4.1%*	*3.6%*
Median fixed rate	*4.4%*	*4.4%*	*4.3%*	*3.6%*

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

If the overdraft was secured, it was more likely to be on a variable rate (57%). Compared to unsecured lending, the variable margin was lower (+2.4% rather than +4.5%) when the overdraft was secured. Fixed rate lending that was secured was also at a lower rate overall (4% v 5.4%).

Most respondents were able to recall the arrangement fee they had paid for their new/renewed overdraft (if any). As would be expected, smaller SMEs typically paid less in absolute terms – very few 0-9 employee businesses paid more than £400, whereas three quarters of SMEs with 50-249 paid more than this for their overdraft:

Fee paid (Overdraft): Q1-3 net SMEs with new/renewed overdraft excl DK	Total	0-9 emp	10-49 emps	50-249 emps
Unweighted base:	*1175*	*471*	*491*	*213*
No fee paid	18%	18%	9%	15%
Less than £100	20%	21%	7%	3%
£100-199	37%	40%	12%	3%
£200-399	13%	12%	19%	6%
£400-999	7%	6%	22%	11%
£1000+	6%	3%	32%	63%
Average fee paid:	*£310*	*£200*	*£1200*	*£3500*
Median fee paid	*£95*	*£93*	*£500*	*£1650*

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

Smaller businesses were typically granted smaller facilities. Amongst those with a new/renewed overdraft, who were able to provide both the amount granted and the fee paid, 32% paid a fee that was the equivalent of less than 1% of the amount borrowed, and a further 31% paid between 1-2%. On this basis, there were some clear differences by size of SME:

- 61% of 0-9 employee SMEs granted an overdraft paid the equivalent of 2% or less
- 85% of 10-49 employee SMEs paid that percentage
- 96% of 50-249 employee SMEs paid that percentage

Sample sizes also permit some analysis by external risk rating. Businesses with a min/low risk rating typically paid less for their facilities:

- The average variable margin was 3.3% above Base/LIBOR for SMEs with a min/low rating, but 4.3% for those with an average/above average rating
- For fixed rate lending the equivalent figures were 4.3% and 5.1%

However, min/low risk rated businesses paid a slightly higher average fee:

- £485 was the average paid by min/low risk applicants compared to £265 for an SME rated as average/above average. However, this is likely to reflect higher sums borrowed –as a percentage of the overdraft granted, 69% of SMEs rated min/low risk were paying 2% or less, compared to 61% of SMEs rated an average/above average

Loan rates and fees

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

- 2% of 0 employee businesses have a new/renewed loan
- 4% of 1-9 employee SMEs
- 8% of 10-49 employee SMEs
- 8% of 50-249 employee SMEs

A minority of loans, 12%, were commercial mortgages. They were unlikely to have been granted for less than £100,000, with larger businesses more likely to have one:

- 11% of successful applicants with 0-9 employees said their loan was a commercial mortgage
- 24% of successful applicants with 10-49 employees
- 28% of successful applicants with 50-249 employees

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

Security required (Loan): Q1-3 net SMEs with new/renewed loan excl DK	Total	0-9 emp	10-49 emps	50-249 emps
Unweighted base:	*588*	*207*	*243*	*138*
Commercial mortgage	12%	11%	23%	28%
Secured business loan	22%	20%	35%	45%
Unsecured business loan	66%	69%	38%	27%

Q 198/199 All SMEs with new/renewed loan, excluding DK

The table below provides further detail on loans by detailing the security required for secured loans that were not commercial mortgages, typically a charge over a business or personal property

Security taken (Loan): Q1-3 net SMEs with new/renewed loan excl DK	Total	0-9 emp	10-49 emps	50-249 emps
Unweighted base:	*581*	*204*	*239*	*136*
Commercial mortgage	12%	11%	23%	28%
Secured – Property (net)	17%	16%	27%	29%
Business property	*9%*	*8%*	*18%*	*24%*
Personal property	*8%*	*8%*	*9%*	*6%*
Director/personal guarantees	2%	1%	9%	7%
Other security	3%	2%	9%	14%
Unsecured business loan	66%	69%	38%	27%

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

15% of new/renewed loans granted for less than £25,000 were secured (including those that were commercial mortgages), compared to 62% of new/renewed loans for more than £25,000.

Amongst those who knew, almost two thirds, 69% said that their loan was on a fixed rate:

Type of rate (Loan): Q1-3 net SMEs with new/renewed loan excl DK	Total	0-9 emps	10-49 emps	50-249 emps
Unweighted base:	*513*	*170*	*216*	*127*
Variable rate lending	31%	28%	46%	57%
Fixed rate lending	69%	72%	54%	43%

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

Most of those on a variable rate said that the rate was linked to Base Rate (74%). Bigger SMEs were more likely to be on a LIBOR linked rate: 41% of successful applicants with 50-249 employees said their new/renewed variable rate loan was linked to LIBOR.

Half of SMEs with a new/renewed variable rate loan and a fifth of those with a fixed rate loan were unable/refused to say what rate they were paying. These "Don't know" answers have been excluded from the analysis, but this does reduce the sample sizes and so only the overall results are reported below:

Variable margin (Loan): Q1-3 net SMEs with new/renewed loan excl DK	Total
Unweighted base:	*222*
Less than 2%	29%
2.01-4%	42%
4.01-6%	15%
6%+	14%
Average margin above Base/LIBOR:	*+3.6%*
Median margin above Base/LIBOR	*+2.9%*

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

Qualitatively, as would be expected, the margin charged reduces as size of business increases.

Fixed rate loan lending on the other hand, was typically slightly more expensive than fixed rate overdraft lending:

Fixed rate (Loan): Q1-3 net SMEs with new/renewed loan excl DK	Total
Unweighted base:	*230*
Less than 3%	8%
3.01-6%	46%
6.01-8%	27%
8%+	17%
Average fixed rate:	*6.2%*
Median fixed rate	*4.9%*

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

Most respondents were able to recall the arrangement fee they paid for their loan (if any). As would be expected, smaller SMEs typically paid less in absolute terms – a fifth of 0-9 employee businesses paid more than £400, whereas three quarters of SMEs with 50-249 paid more than this for their loan. The average fee figures were affected by a few large fees paid, hence the difference between this figure and the median fee paid:

Fee paid (Loan): Q1-3 net SMEs with new/renewed loan excl DK	Total	0-9 emp	10-49 emps	50-249 emps
Unweighted base:	*470*	*160*	*198*	*112*
No fee paid	30%	32%	15%	20%
Less than £100	16%	18%	4%	2%
£100-199	19%	20%	6%	-
£200-399	11%	11%	11%	5%
£400-999	7%	6%	14%	7%
£1000+	17%	12%	50%	66%
Average fee paid:	*£950*	*£500*	*£3,100*	*£8,900*
Median fee paid	*£95*	*£80*	*£850*	*£1870*

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

Smaller businesses were typically granted smaller facilities. Amongst those with a new/renewed loan who were able to provide both the amount granted and the fee paid, 43% paid a fee that was the equivalent of less than 1% of the amount borrowed, and a further 32% paid between 1-2%. On this basis, there were some clear differences by size of SME:

- 74% of 0-9 employee SMEs with a loan paid the equivalent of 2% or less
- 84% of 10-49 employee SMES
- 94% of 50-249 employee SMEs

Sample sizes also permit some analysis by external risk rating. The average variable margin was +2.6% above Base/LIBOR for SMEs with a min/low rating, and +4.0% above for those with an average/above average rating. For fixed rate lending the equivalent figures were 6.8%, and 6.1%.

Min/low risk rated businesses paid a slightly higher average fee: £1450 compared to £850 for an SME rated as average/above average risk. As a percentage of the loan granted however, 54% of SMEs rated min/low risk were paying 2% or less, compared to 83% of SMEs rated an average/above average risk.

11. Type 2 and Type 3 events summarised

This chapter summarises

Type 2 and Type 3 borrowing events that have occurred.

Key findings

5% of all SMEs reported having been approached by their bank, looking to cancel or renegotiate a facility. Larger businesses with poorer credit ratings were the most likely to have been approached. Amongst relevant SMEs (that have an overdraft/loan and/or have had an "event") 13% had a Type 2 overdraft event and 10% had a Type 2 loan event.

Around **half of those approached about a renegotiation said they were not given a reason why**. Only a few sought external advice, but most of those approached about an overdraft still have one, with some even managing to negotiate a better deal from their bank. Loan re-negotiations were slightly less likely to result in the loan continuing.

Between a third and a half of those approached about cancelling a facility still have that facility. Again, very few sought any external advice at that time.

3% of all SMEs had chosen to reduce or pay off a loan or overdraft. Amongst relevant SMEs (those that have an overdraft/loan and/or have had an "event") 5% had a Type 2 overdraft event and 14% had a Type 2 loan event. This was typically because the business did not need the facility, or had some spare funds available, but there were some underlying concerns about the cost of current or future borrowing and the current economic climate.

This chapter summarises the other borrowing events covered by this research:

- Type 2 events where the bank was looking to cancel or renegotiate an existing loan or overdraft
- Type 3 events where the SME was looking to pay off or reduce an existing loan or overdraft facility.

Very few SMEs had been through either of these events (5% had a Type 2 event, 3% a Type 3 event) which reduces the amount of analysis that is possible.

The proportion of SMEs reporting either a Type 2 or Type 3 event in the previous 12 months was lower in Q3 than in Q1-2:

Borrowing events All SMEs, over time	All Q1-3	Q1-2 2011	Q3 2011
Unweighted base:	*10118*	*5063*	*5055*
Type 2: Cancel/renegotiate by bank	5%	5%	4%
Type 3: Chose to reduce/pay off facility	3%	4%	2%
Any of these "events"	*7%*	*8%*	*6%*
None of these "events"	*93%*	*92%*	*94%*

Q25/26 All SMEs

The remainder of this chapter reports on all Type 2 and Type 3 events across Q1-3 2011.

Type 2 events

Type 2 events, where the bank sought to renegotiate or cancel an existing facility, have affected very few SMEs (5% overall).

In order for the bank to propose either a cancellation or renegotiation, there has to have been a facility in place and, as already reported, half of SMEs were not borrowing. The tables below are based on just those SMEs that have the *relevant* facility now (loan or overdraft) and/or reported having a relevant Type 2 event in the previous 12 months. For overdrafts this gives a base of 28% of **all** SMEs and for loans a base of 12% of **all** SMEs:

Type 2 Overdraft event Q1-3 net all relevant SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*3904*	*509*	*1281*	*1434*	*680*
Any Type 2 overdraft event	13%	12%	16%	19%	17%
- Bank sought to cancel overdraft	*4%*	*3%*	*5%*	*5%*	*3%*
- Bank sought to renegotiate overdraft	*12%*	*11%*	*12%*	*16%*	*15%*

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

Type 2 Loan event Q1-3 net all relevant SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*2211*	*186*	*654*	*885*	*486*
Any Type 2 loan event	10%	9%	12%	15%	14%
- Bank sought to cancel loan	*3%*	*3%*	*4%*	*4%*	*3%*
- Bank sought to renegotiate loan	*9%*	*8%*	*10%*	*13%*	*12%*

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

Other areas of this report have highlighted differences by both size of business and external risk ratings. Here they work in combination. Overall, external risk rating does not correlate closely with Type 2 events.

However, amongst relevant SMEs with 10-249 employees a stronger pattern emerges and it was the bigger businesses with a poorer credit rating that were most likely to have experienced a Type 2 event:

Type 2 Overdraft event: Q1-3 net all relevant SMEs	Min	Low	Avge	Worse/ Avge
Unweighted base:*	*596*	*890*	*1138*	*981*
Any Type 2 overdraft event	11%	16%	16%	10%
- Any Type 2 0-9 employees	*11%*	*16%*	*15%*	*10%*
- Any Type 2 10-249 employees	*13%*	*16%*	*22%*	*23%*

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

Type 2 Loan event: Q1-3 all relevant SMEs	Min	Low	Avge	Worse/ Avge
Unweighted base:*	*388*	*502*	*651*	*535*
Any Type 2 loan event	11%	11%	12%	10%
- Any Type 2 0-9 employees	*11%*	*11%*	*12%*	*10%*
- Any Type 2 10-249 employees	*11%*	*12%*	*15%*	*20%*

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

The table below provides further detail on the renegotiation process:

Issue	Bank sought overdraft renegotiations	Bank sought loan renegotiations
Re negotiated with:	Main bank (94% of attempted renegotiations)	Mostly main bank (70% of attempted renegotiations)
Sum involved	Typically smaller (77% < £25,000 excl DK). Median sum £8,500 but for 10-249 employee SMEs median was £72,000	Larger (50% <£50k excl DK). Median sum £20,000
Main changes proposed	Reduce the amount (39%), increase the interest rate (9%) and/or increase the fees (12%). Half of all re-negotiations involved at least one of these three elements (two-thirds of those involving larger SMEs)	An increase in the interest rate (40%). For 22% the change was a reduction in loan amount, but just 1% mentioned an increase in fees. Half of renegotiations involved at least one of these three elements
Other changes	18% reported that the bank was looking to *increase* the amount of their overdraft facility, seen more amongst the smaller SMEs	Other elements mentioned were changing to another form of borrowing (12%), as well as increasing repayments (15%)
Reason for approach	40% said that they were given no reason. The most common reason given was the performance of the business (14%) while 8% mentioned a change in bank lending policy	55% said they were not given a reason. The main reasons that were given were a change in bank lending policy, and/or increased riskiness of the business
External advice sought?	Unlikely (16%). However 32% of 10-249 SMEs did seek advice, compared to 15% of 0-9 SMEs facing a renegotiation	A larger minority than for overdrafts (30%), typically from an accountant
Still have a borrowing facility?	Yes, only 6% of those with a Type 2 overdraft event now have nothing	Typically yes, but 17% no longer have a loan and 14% moved to another form of lending
New facility	29% of those approached negotiated a better deal than the bank first offered, 64% accepted the banks offer.	25% of those approached negotiated a better deal than the bank first offered
Size of facility now	74% same size or better	76% similar size to before

Q40-50 and Q137-147

Very few SMEs (just 1% overall) had faced the proposed cancellation of an existing loan or overdraft facility. A summary of the process is provided below:

Issue	Bank sought overdraft cancellations	Bank sought loan cancellations
Happened with	Main bank (95% of attempted cancellations)	Mostly main bank (75% of attempted cancellations)
Sum involved	Typically smaller (76% < £25,000 excl DK). Median sum £6,000	Larger (56% <£50k excl DK). Median sum £14,000
Reason for approach	1 in 5 said that they were given no reason. The most common reason given was the performance of the business	1 in 3 said they were not given a reason. The main reasons that were given were the performance of the business and wanting to switch to another form of finance
External advice sought?	Unlikely (8%).	A minority (15%), typically from an accountant
Still have a borrowing facility?	Almost half now have no facility at all. Most of the rest still have an overdraft, a few switched to another form of borrowing	Two thirds no longer have a facility, most of the rest still have a loan at the same bank
Size of facility	If kept it, then indicatively still similar size	If kept it, then typically still a similar size

Q30-39 and Q127-136

Attitude to the "event"

This section reports on all those that had been through a Type 2 borrowing event (cancellation or renegotiation) and how they felt about the experience. As might be anticipated, differences were observed between those that had been successful and those that had not. Differences also emerged between the impact on the banking relationship of these Type 2 events compared to a Type 1 event (application and renewal).

"Successful" describes those who now have a loan/overdraft while "unsuccessful" were those who ended the process with either no loan/overdraft or with an alternative form of funding.

The data shows the following key points:

- Those who still have an overdraft were more satisfied with the facility (71%) than those who still had a loan were with the loan facility (44%)
- As would be expected, amongst **all** those that experienced a Type 2 event, those that were successful were generally happier and more positive about the experience and their bank than those who were unsuccessful
- Even when successful, these Type 2 events caused more negative feelings about the bank relationship (given that it was the bank that instigated the event) than the equivalent successful Type 1 events did (where the SME approached the bank)
- The views of those that were unsuccessful with a Type 2 event were very similar to those that were unsuccessful with a Type 1 event

Type 3 events

A minority of all SMEs across Q1-3 (3%) had chosen to reduce the amount they were borrowing on loan or overdraft, or repay it entirely.

Type 3 events, like Type 2 events, can only occur if the SME had a facility in the first place, and as already illustrated, many SMEs do not borrow. The tables below are therefore based on *relevant* SMEs, that is they either have a loan/overdraft now and/or have had a Type 3 event in the last 12 months. For overdrafts this gives a base of 28% of all SMEs and for loans a base of 12% of all SMEs:

Type 3 Overdraft event: Q1-3 relevant SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*3859*	*503*	*1257*	*1422*	*677*
Chose to pay off/reduce facility	5%	5%	5%	7%	6%

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

Type 3 Loan event: Q1-3 relevant SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*2218*	*192*	*659*	*878*	*489*
Chose to pay off/reduce facility	14%	15%	13%	11%	10%

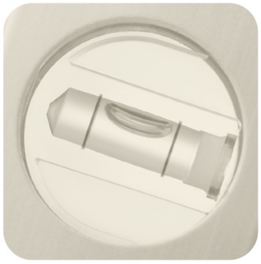
Q26 All SMEs with a loan and/or a Type 3 loan event

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

Issue	Cancel/reduce overdraft	Repay/reduce loan
Main reason	The business did not need a larger facility (60%), plus concerns about the current economic climate	Had spare cash available
"Jump before pushed?"	No they did not typically think the bank might cancel the facility. They were more concerned at the current and future cost of borrowing	No, they did not typically think the bank might cancel the facility. They were more concerned at the current and future cost of borrowing, and wanting to borrow less in the current economic climate
Impact on business	Limited, 1 in 5 have made cutbacks on spending	Two thirds said none, and 1 in 10 said reducing the debt burden had had a positive effect

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

12. Why were SMEs not looking to borrow?



This chapter looks

at those SMEs 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.

Key findings

Only a minority of SMEs (17%) had a borrowing event in the previous 12 months. **Most SMEs, 71%, were "happy non-seekers"** – they had not applied for any finance in the previous 12 months and had not wanted to.

The remaining SMEs, **12%, were "would-be seekers",** who had not applied for any finance in the previous 12 months but would have liked to. These are typically smaller and younger SMEs, with a worse than average risk rating.

For "would-be seekers" of both loans and overdraft, **the main barrier to applying (gathered from Q3 respondents only) was discouragement**, an issue for 1 in 3 "would-be seekers". This could have been direct (they asked the bank informally and felt put off) or indirect (they assumed the bank would say no, so didn't ask). 4% of all SMEs reported having felt discouraged about applying for an overdraft, and 2% of all SMEs reported having felt discouraged about applying for a loan.

Other barriers were the **principle of borrowing** (including not wanting to lose control of the business) and the **process of borrowing** (too expensive, too much hassle etc). Only a minority of "would-be seekers" nominated the economic climate as the main barrier to an application in the previous 12 months.

Between Q1-2 and Q3, the proportion of "happy non-seekers" increased from 68% to 74%, as the proportion having an event in the previous 12 months fell. The proportion of "would-be seekers" is consistent over time.

As already detailed in this report, only a minority of SMEs, 17%, reported a borrowing "event" in the previous 12 months. This chapter looks at those SMEs 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.

The tables below allocate <u>all</u> SMEs to one of three groups, across both overdrafts and loans.

- "Had an event" – those SMEs reporting any Type 1, 2, or 3 borrowing event in the previous 12 months
- "Would-be seekers" – those SMEs that had <u>not</u> had a borrowing event but said they would have ideally liked to apply for overdraft/loan funding
- "Happy non-seekers" - those SMEs that had <u>not</u> had a borrowing event and said they had not wanted to apply for any overdraft/loan funding either

Initial analysis shows changes in these groups over time, but as with other chapters, the majority of the analysis is based on all interviews Q1-3.

To what extent have SMEs had an unfulfilled wish to borrow (over time)?

Combining the views of all SMEs across both loans and overdrafts, shows that most SMEs reported themselves as "happy non-seekers" for the previous 12 months, and this was even more true in Q3 than in Q1-2. The proportion of "would-be seekers" who would have liked to apply but didn't, was stable over time:

Net events (Overdraft and loan) All SMES, over time	Q1-2	Q3
Unweighted base:	*5063*	*5055*
Have had an event	19%	15%
would-be seekers	13%	12%
Happy non-seekers	68%	74%

Q115/209 All SMEs

This combined loan/overdraft definition is slightly different to the one used in the first report where the very few SMEs that had had an event and wanted to apply for more were included as "would-be seekers", rather than "Have had an event", as now. The figures in the tables above for the two periods are comparable, but are very slightly different from those in the first report.

Understanding “would-be seekers” of finance

The table below, based on all interviews Q1-3, shows that smaller SMEs were more likely to be “would-be seekers” or “happy non-seekers”:

Net events (Overdraft and loan) Q1-3 All SMES	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*10118*	*2028*	*3345*	*3227*	*1518*
Have had an event	17%	14%	25%	33%	32%
Would-be seekers	12%	12%	12%	8%	5%
Happy non-seekers	71%	74%	62%	59%	63%

Q115/209 All SMEs

By risk rating, it is those SMEs with a worse than average risk rating that were most likely to define themselves as “would-be seekers”:

Net events (Overdraft and loan) Q1-3 All SMEs with a risk rating	Total	Min	Low	Avge	Worse/Avge
Unweighted base:	*10118*	*1714*	*2086*	*2713*	*2797*
Have had an event	17%	20%	20%	16%	17%
Would-be seekers	12%	7%	7%	9%	16%
Happy non-seekers	71%	73%	73%	75%	68%

Q115/209 All SMEs

By sector, there was very little variation, with the exception of Wholesale/Retail where 18% of SMEs were "would-be seekers", compared to 12% of all SMEs.

Differences were also seen by age of business, with businesses under 10 years of age, and especially Start-ups, more likely to say that they were "would-be seekers" of finance:

Net events (Overdraft and loan) Q1-3 All SMEs	Start up	2-5 yrs	6-9 yrs	10-15 yrs	15+ yrs
Unweighted base:	*1013*	*1413*	*1253*	*1638*	*4801*
Have had an event	15%	14%	16%	22%	19%
Would-be seekers	21%	14%	15%	9%	5%
Happy non-seekers	64%	73%	69%	69%	76%

Q115/209 All SMEs

It should not be assumed that "would-be seekers" were SMEs that currently had no external finance at all. In fact, as the table below shows, current borrowers were just as likely to be "would-be seekers" (ie wanting to borrow more or differently) as current non borrowers, when size of SME was taken into account. The key difference for current non-borrowers was that most of them have no wish to borrow. Indeed, overall 44% of all SMEs said that they currently used no external finance and had not wanted to apply for any:

Net events (Overdraft and loan) Q1-3 All SMEs	0-9 currently use external finance	0-9 no external finance	10-249 currently use external finance	10-249 no external finance
Unweighted base:	*3017*	*2353*	*3676*	*1062*
Have had an event	31%	3%	41%	5%
Would-be seekers	13%	12%	7%	6%
Happy non-seekers	56%	85%	51%	89%

Q115/209 All SMEs

SMEs that were identified as “would-be seekers” (i.e. they had wanted to apply for an overdraft/loan but had not done so) were asked about the barriers to making such an application.

These reasons have been grouped into themes as follows:

- Process of borrowing – those who did not apply because they thought it would be too expensive, too much hassle etc. This was mentioned by half of “would-be seekers” – around 7% of **all** SMEs

- Principle of borrowing – those who did not apply because they feared they might lose control of their business, or preferred to seek alternative sources of funding. This was also mentioned by around half of “would-be seekers”, around 6% of **all** SMEs

- Discouragement – those that had been put off, either directly (they made informal enquires 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 mentioned by 4 out of 10 “would-be seekers”, around 5% of **all** SMEs

- Current economic climate – those that felt this was not the right time to borrow. This was mentioned by a quarter of all “would-be seekers”, around 3% of **all** SMEs

Respondents could nominate as many reasons as they wished for not having applied when they wanted to, and these are shown in the table below. Smaller SMEs typically provided more reasons for not having applied than larger ones. In Q3 those that gave several reasons were asked to nominate the *key* reason for not applying and these are reported later on.

All “would-be seekers”	Would have liked to apply for an overdraft			Would have liked to apply for a loan		
All reasons for <u>not</u> applying when wished to Q1-3	Total	0-9 emps	10-249 emps	Total	0-9 emps	10-249 emps
Unweighted base:	*792*	*534*	*258*	*454*	*299*	*155*
Issues with <u>process</u> of borrowing	52%	52%	45%	46%	46%	43%
-Would be too much hassle	*23%*	*23%*	*16%*	*24%*	*24%*	*14%*
-Thought would be too expensive	*25%*	*26%*	*14%*	*25%*	*25%*	*19%*
-Asked for too much security	*21%*	*20%*	*23%*	*23%*	*22%*	*30%*
-Too many terms and conditions	*21%*	*21%*	*24%*	*20%*	*20%*	*26%*
-Did not want to go through process	*16%*	*16%*	*11%*	*16%*	*16%*	*10%*
-Forms too hard to understand	*8%*	*8%*	*6%*	*12%*	*12%*	*5%*
Issues with <u>principle</u> of borrowing	56%	56%	49%	45%	45%	43%
-Prefer not to borrow	*40%*	*40%*	*31%*	*30%*	*31%*	*24%*
-Not lose control of business	*25%*	*25%*	*16%*	*27%*	*27%*	*20%*
-Can raise personal funds if needed	*27%*	*27%*	*22%*	*21%*	*21%*	*24%*
-Prefer other forms of finance	*22%*	*22%*	*16%*	*18%*	*18%*	*12%*
-Go to family and friends	*17%*	*17%*	*12%*	*15%*	*15%*	*13%*
Discouraged (net)	40%	40%	40%	47%	47%	47%
-Put off by bank	*21%*	*21%*	*29%*	*22%*	*22%*	*34%*
-Thought I would be turned down	*31%*	*31%*	*20%*	*37%*	*37%*	*27%*
Economic climate	21%	21%	17%	27%	27%	22%
Not the right time to apply	*21%*	*21%*	*17%*	*27%*	*27%*	*22%*

Q116 Q210 All “would-be seekers” SMEs that wished they had applied for an overdraft or a loan

When the barriers to application were analysed by external risk rating, some differences emerged. Those with a min/low external risk rating were much less likely to have felt discouraged, and more likely to have felt that this was not the right time to borrow, particularly for loans. Those with a worse than average external risk rating were more likely to have mentioned being discouraged and having issues with the process of borrowing. The proportion citing the principle of borrowing as a barrier did not vary as much by risk rating:

All "would-be seekers" by risk rating	Would have liked to apply for an overdraft			Would have liked to apply for a loan		
All reasons for not applying when wished to Q1-3	Min/Low	Avge	Worse/ Avge	Min/Low	Avge	Worse/ Avge
Unweighted base:	*193*	*193*	*343*	*86**	*127*	*189*
Economic climate	29%	24%	20%	40%	25%	25%
Discouraged (net)	20%	41%	41%	31%	46%	49%
Issues with process of borrowing	40%	53%	55%	41%	38%	50%
Issues with principle of borrowing	57%	53%	57%	38%	48%	42%

Q116 Q210 All "would-be seekers" SMEs that wished they had applied for an overdraft or a loan *SMALL BASE

It is more difficult to provide an analysis of barriers over time, because we do not know at what point in the previous 12 months the SMEs concerned had thought about applying for finance and decided not to. Broadly, "would-be seekers" interviewed in Q1-2 were more likely to mention issues with the process or principle of borrowing than those interviewed in Q3. Those interviewed in Q3 that had not sought an overdraft were more likely to mention discouragement as a barrier. The economic climate was mentioned by a similar proportion of "would-be seekers" in both quarters.

The table below shows the <u>main</u> reason given by "would-be seekers" for not applying, for Q3 only (a new question for this quarter). Feeling discouraged was the main reason cited by "would-be seekers" for both overdrafts and loans –this is the equivalent of 4% of **all** SMEs feeling discouraged about applying for an overdraft and 2% of **all** SMEs feeling discouraged about applying for a loan, in the previous 12 months. Discouragement was nominated as the main reason by three-quarters of those who had previously given it as one of their reasons for not applying:

All "would-be seekers"	Would have liked to apply for an overdraft			Would have liked to apply for a loan		
<u>Main</u> reason for not applying when wished to – Q3 only	Total	0-9 emps	10-249 emps	Total	0-9 emps	10-249 emps
Unweighted base:	*383*	*262*	*121*	*213*	*140*	*73**
Discouraged (net)	34%	34%	32%	32%	32%	45%
Issues with <u>principle</u> of borrowing	28%	28%	24%	18%	18%	16%
Issues with <u>process</u> of borrowing	23%	23%	28%	19%	19%	17%
Economic climate	6%	6%	5%	13%	13%	8%
None of these/DK	9%	9%	11%	18%	18%	14%

Q116/Q210 All SMEs that wished they had applied for an overdraft or a loan – Q3 * SMALL BASE

Base sizes do not permit robust analysis of main reasons by external risk rating, but qualitatively, those with min/low external risk ratings were more likely to cite the economic climate or the principle of borrowing as their main reason, while those with an average or above average risk rating were more likely to cite feeling discouraged.

Qualitatively, amongst the "discouraged", those saying that they *thought* they would be turned down were just as likely to nominate that as their main reason as those who had *actually asked informally* and been put off – suggesting that perception can be as strong as reality for some SMEs.

As has already been mentioned, "would-be seekers" represent only a minority of **all** SMEs. The table below shows, for main reasons given in Q3, the equivalent proportion of **all** SMEs that said they had not applied for a loan or overdraft due to each of these barriers.

Main reason for not applying when wished to – Q3 only	Would-be overdraft seekers	All SMEs	Would-be loan seekers	All SMEs
Unweighted base:	*383*	*5055*	*213*	*5055*
Discouraged (net)	34%	4%	32%	2%
Issues with principle of borrowing	28%	3%	18%	1%
Issues with process of borrowing	23%	2%	19%	1%
Economic climate	6%	1%	13%	1%
None of these/DK	9%	1%	18%	1%
Had event/Happy non seeker	-	*89%*	-	*94%*

Q116/Q210 All SMEs v all that wished they had applied for an overdraft or a loan – Q3

13. The future

This chapter reports

on growth plans, potential barriers and SME's intentions for the next 3 months in terms of finance, together with the reasons why they will/will not be applying for finance.

Key findings

4 out of 10 SMEs expect to grow in the next 12 months. Just as many expect to stay the same size, and their outlook changed little between Q1-2 and Q3.

The main barrier to running the business in the next 3 months **remains the economy**, which was mentioned more by bigger businesses in Q3. Access to finance is unlikely to be mentioned as the main barrier for SMEs.

There is **little sign of increasing demand for finance** in the next 3 months. 13% of SMEs interviewed in Q3 thought it likely they would apply for/renew facilities in the next 3 months, down from 19% in Q1-2.

With very few SMEs planning to apply/renew in the next 3 months, **most SMEs were "happy non-seekers"** (they did not plan to apply/renew and did not need/want any facilities) – 65% of SMEs in Q3 were "happy non-seekers", and that proportion is stable over time.

The remaining **22% of SMEs can be described as "future would-be seekers" of finance** – who have no plans to apply/renew because of perceived barriers to a future application for external finance. They should though be considered as **two groups**, determined by whether they currently **anticipate needing finance** in the next 3 months (2% of all SMEs) or not (20% of all SMEs).

The proportion of "future would-be seekers with no immediate need identified" increased over time, from 16% in Q1-2 to 20% in Q3.

The **main barrier to making an application/renewal** in the next 3 months was **the current economic climate**, and the SME's likely performance in that climate – this was the main reason for not borrowing for almost half of all "future would-be seekers", the equivalent of 9% of all SMEs. Discouragement (directly or indirectly by a bank) was the main barrier for 10% of all "future would-be seekers", the equivalent of 2% of all SMEs.

The **current economic climate** therefore appears **more of a barrier** to **future borrowing plans than** it has been **in the past**.

Having reviewed performance over the past 12 months, SMEs were asked about the future. As this is looking forward, the results from Q3 can more often be compared to those from Q1-2. This then provides a guide to SME sentiment over time.

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

Growth plans for next 12 months

Firstly, SMEs were asked about their growth objectives. As shown in the table below, SMEs asked this question in Q3 2011 gave very similar answers to those asked in Q1-2 2011. Very few expect to grow substantially, or decline, and almost half plan to stay the same size.

Growth objectives in next 12 mths All SMEs, over time	Q1-2	Q3
Unweighted base:	*5063*	*5055*
Grow substantially	7%	6%
Grow moderately	37%	37%
Stay the same size	46%	47%
Become smaller	5%	5%
Plan to sell/pass on /close	5%	6%

Q225 All SMEs

Bigger SMEs remained more likely to predict future growth, and the results for each size band in Q3, shown below, were very similar to those in Q1-2.

Growth objectives in next 12 mths Q3 only	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*5055*	*1006*	*1673*	*1617*	*759*
Grow substantially	6%	4%	9%	9%	9%
Grow moderately	37%	35%	41%	47%	52%
Stay the same size	47%	49%	40%	38%	35%
Become smaller	5%	5%	4%	3%	3%
Plan to sell/pass on /close	6%	7%	5%	2%	1%

Q225 All SMEs

There was little difference in net growth aspirations by external risk rating over time. This means that those with an above average risk rating remained the most likely to be predicting growth (49%) compared to 36-38% across the other risk ratings.

By sector, SMEs in Agriculture and Manufacturing were more likely be predicting growth in Q3, compared to Q1-2, while those in Wholesale/Retail were now less optimistic:

Growth objectives all SMEs over time	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Real Est	Health S Work	Other Comm
Net growth Q1-2	44%	39%	31%	56%	38%	39%	46%	50%	57%
Net growth Q3	53%	46%	28%	46%	42%	43%	50%	48%	42%

Q225 All SMEs

Those SMEs that were planning to grow were asked how this was going to be achieved. In both Q1-2 and Q3, the majority said this would be achieved by selling more of existing products and services. Compared to Q1-2, in Q3 there were fewer mentions of developing new products/services, or of moving to new markets abroad – still a much less popular option than new UK markets:

Ways in which growth will be achieved SMEs planning to grow, over time	Q1-2	Q3
Unweighted base:	*2559*	*2543*
Sell more of existing products/services	80%	82%
Develop new products/services	45%	39%
Take on more employees	39%	35%
New markets in UK	30%	27%
New markets abroad	11%	7%

Q226 All SMEs planning to grow in next 12 months

A third of SMEs that planned to grow thought that they would do so by taking on more staff. This is the equivalent of 15% of **all** SMEs planning to take on staff.

Main barrier to running the business in next 3 months

A quarter of SMEs (24%) in Q3 could not think of any barriers to them running their business as they would want to in the next 3 months. As the table below shows, the main barrier remained the economy, and the current economic climate in particular, and the barriers identified varied little between time periods. Access to external finance was seen as the main barrier by only 2% of SMEs:

MAIN Obstacle in next 3 months All SMEs, over time	Q1-2	Q3
Unweighted base:	***5063***	***5055***
The economy (net)	49%	50%
- The economic climate	*38%*	*39%*
- Lack of demand/sales/revenue	*7%*	*7%*
- The exchange rate	*	*
- Cash flow/late payment problems	*4%*	*3%*
Legislation (net)	7%	5%
- Employment law	*1%*	*1%*
- Health and safety legislation	*1%*	*1%*
- Environmental legislation	*1%*	*1%*
- Other legislation	*4%*	*2%*
Finance(net)	2%	2%
- Lack of external finance	*2%*	*2%*
- Lack of equity	*	*
Staff/Skills issues (net)	5%	6%
- Unable to recruit right staff	*2%*	*2%*
- Unable to retain staff	*	*
- Lack of confidence	*1%*	*2%*
- Access to knowledge & information	*	*
Other obstacles (net)	16%	13%
Any obstacles	***78%***	***76%***
No obstacles	***22%***	***24%***

Q227 All SMEs

The table below shows the main barriers in Q3 by size of business, with the economy still the main issue across all size bands:

MAIN Obstacle in next 3 months Q3 only All SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*5055*	*1006*	*1673*	*1617*	*759*
The economy (net)	50%	49%	54%	55%	57%
- The economic climate	*39%*	*37%*	*45%*	*44%*	*47%*
- Lack of demand/sales/revenue	*7%*	*9%*	*4%*	*4%*	*5%*
- The exchange rate	*	*	*	*	*
- Cash flow/late payment problems	*3%*	*3%*	*4%*	*6%*	*4%*
Legislation (net)	5%	5%	7%	8%	8%
- Employment law	*1%*	*1%*	*1%*	*2%*	*2%*
- Health and safety legislation	*1%*	*1%*	*1%*	*2%*	*1%*
- Environmental legislation	*1%*	*1%*	*1%*	*1%*	*1%*
- Other legislation	*2%*	*2%*	*3%*	*3%*	*4%*
Finance(net)	2%	2%	3%	3%	1%
- Lack of external finance	*2%*	*2%*	*3%*	*3%*	*1%*
- Lack of equity	*	-	*	*	-
Staff/Skills issues (net)	6%	6%	7%	8%	7%
- Unable to recruit right staff	*2%*	*2%*	*3%*	*5%*	*4%*
- Unable to retain staff	*	*	*1%*	*	*1%*
- Lack of confidence	*2%*	*2%*	*2%*	*1%*	*1%*
- Access to knowledge & information	*	*	*	*	-
Other obstacles (net)	13%	14%	11%	8%	7%
Any obstacles	*76%*	*74%*	*82%*	*81%*	*80%*
No obstacles	*24%*	*26%*	*18%*	*19%*	*20%*

Q227 All SMEs

Compared to Q1-2, the economy was more likely to be mentioned as a barrier by larger businesses in Q3:

- Amongst 0 employee business: 49% cited the economy as the main barrier in Q1-2 v 49% in Q3
- Amongst 1-9 employee businesses: 50% v 54% in Q3
- Amongst 10-49 employee businesses: 53% v 55% in Q3
- Amongst 50-249 employee businesses: 54% v 57% in Q3

Across Q1-3 overall, half of all SMEs (50%), nominated the economy as the main barrier to running their business:

Demographic	The economy as a barrier
External credit ratings	Mentions of the economy varied relatively little by risk rating (45% if rated minimal risk to 51% if above average risk)
Fast growth (30%+ for 3 yrs)	They were less likely to see the economy as a barrier (39%)
Profitable SMEs	48% mentioned the economy as a barrier, compared to 56% of those that made a loss
Looking to grow substantially	The economy was mentioned less by those planning to grow substantially (38%) – they were more likely than others to mention finance (6%) and staff skills (10%) as barriers
Sector	The economy was mentioned more by those in Construction (58%) and less by those in Agriculture (36%) – who were more likely to mention legislation as a barrier (10%)

Financial requirements in the next 3 months

SMEs were asked to consider what financial changes they might make over the next 3 months. Compared to Q1-2, those interviewed in Q3 showed less appetite for external finance, as the table below shows:

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

Q229 All SMEs

In both quarters, more SMEs identified a need for finance than thought they would be seeking new finance (10% v 7% in Q3).

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

% likely in next 3 months All companies, over time	Q1-2	Q3
Unweighted base:	*2981*	*2923*
Seek new equity from existing shareholders	4%	3%
Seek new equity from new shareholders	5%	2%
Net new equity	*7%*	*5%*

Q229 All companies

The slightly reduced appetite for finance reported above for Q3 reflects a decline across all sizes of business:

% likely in next 3 months Q3 only All SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*5055*	*1006*	*1673*	*1617*	*759*
Will have a need for (more) external finance	10%	9%	13%	12%	11%
Will apply for more external finance	7%	6%	10%	10%	9%
Renew existing borrowing at same level	8%	6%	12%	13%	10%
Net apply/renew	*13%*	*11%*	*18%*	*19%*	*15%*
Reduce the amount of external finance used	10%	9%	14%	11%	10%
Inject personal funds into business	26%	28%	23%	12%	4%

Q229 All SMEs

Seeking or renewing finance

In Q1-2, SMEs were more likely to predict that they *would be* applying for/renewing existing facilities in the next 3 months (19%), than to have applied/renewed in the *previous* 12 months (15%). The proportion of firms in Q3 expecting to borrow/renew in the next 3 months was much the same as the actual proportion in the previous 12 months (13% compared to 12%).

This supports our assumption in Q1-2 that the 19% figure represented an element of over-claiming and/or lack of precision, as there has not been the increase in recent applications/renewals in Q3 that the 19% figure in Q1-2 suggested. Instead, it appears that fewer SMEs had an appetite for finance:

Demographic	Planning to apply/renew in next 3 months, Q1-2 v Q3
Size of business	The proportion fell across all size bands: Amongst 0 employee businesses from 17% Q1-2 to 11% in Q3 Amongst 1-9 employee SMEs from 24% to 18% Amongst 10-49 employee SMEs from 24% to 20% Amongst 50-249 employee SMEs from 22% to 15%
External risk rating	It was those with poorer risk ratings where planned borrowing/renewal fell most: Of those with a minimal risk rating, from 13% to 14% Of those with a low risk rating, from 17% to 14% Of those with an average risk rating, from 18% to 12% Of those with an above average risk rating, from 18% to 12%
Growth plans	Those looking to grow substantially remained the most likely to be planning new/renewed facilities, but to a lesser extent: Of those looking to grow substantially, from 33% to 25% Of those looking to grow moderately, from 22% to 17% Of those looking to stay the same size, from 15% to 8%

For those who were planning to seek/renew funding, the main purpose, as in Q1-2, was for working capital. Expansion plans remain much more likely to be within the UK than abroad:

Use of new/renewed facility All planning to apply, over time	Q1-2	Q3
Unweighted base:	*1127*	*890*
Working capital	62%	67%
Plant & machinery	24%	29%
UK expansion	23%	27%
Premises	8%	10%
New products or services	9%	9%
Expansion overseas	4%	4%

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

There were relatively few differences by size of business, other than smaller SMEs being slightly more likely to be looking for funding for plant and machinery.

Half of those planning to seek new/renewed funding were looking for less than £10,000, and the profile of amount sought was very similar in Q3 to Q1-2. The median amounts sought were just over £7,000 in both quarters

Amount likely to seek (where stated) All planning to apply, over time	Q1-2	Q3
Unweighted base:	*930*	*780*
Less than £5,000	32%	31%
£5,000 - £9,999	21%	24%
£10,000 – £24,999	23%	24%
£25,000 - £99,999	15%	11%
£100,000+	10%	9%

Q231 All SMEs seeking future finance, excluding DK/refused

Larger SMEs were planning to seek more finance, as might be expected. With small base sizes, the average amount sought can fluctuate considerably if one or two larger amounts are recorded, so the median amounts sought are shown below. These range from £5,000 for the smallest SMEs to around £275,000 for the largest:

Amount likely to seek (where stated) Q3 only All planning to apply	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*780*	*106*	*281*	*287*	*106*
Less than £5,000	31%	41%	16%	9%	3%
£5,000 - £9,999	24%	29%	17%	3%	1%
£10,000 – £24,999	24%	22%	31%	13%	2%
£25,000 - £99,999	11%	5%	21%	26%	17%
£100,000+	9%	3%	14%	49%	77%
Median sum sought	*£7k*	*£5k*	*£17k*	*£73k*	*£274k*

Q231 All SMEs seeking future finance, excluding DK/refused

Overdrafts and loans remained the finance products most likely to be considered for this future funding. Q3 showed increasing consideration of loans, but also of less "traditional" forms of borrowing, namely credit cards, funding from friends and family, and grants:

% of those seeking/renewing finance that would consider form of funding, over time	Q1-2	Q3
Unweighted base:	*1127*	*890*
Bank overdraft	53%	51%
Bank loan/Commercial mortgage	37%	44%
Grants	28%	36%
Leasing or hire purchase	18%	19%
Loans from other 3rd parties	13%	13%
Loans/equity from family & friends	12%	23%
Loans/equity from directors	11%	12%
Invoice finance	9%	6%
Credit cards	9%	19%

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

The increase in consideration for some of these other forms of finance was driven by the smaller SMEs:

% of those seeking/renewing finance would consider funding – Q3 only	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*890*	*116*	*313*	*342*	*119*
Bank overdraft	51%	50%	53%	49%	53%
Bank loan/Commercial mortgage	44%	46%	42%	31%	34%
Grants	36%	40%	29%	25%	31%
Leasing or hire purchase	19%	18%	19%	29%	46%
Loans from other 3rd parties	13%	15%	11%	13%	13%
Loans/equity from family & friends	23%	25%	21%	10%	5%
Loans/equity from directors	12%	8%	18%	17%	18%
Invoice finance	6%	5%	8%	10%	28%
Credit cards	19%	25%	9%	13%	12%

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

Compared to Q1-2, 0 employee businesses were more likely in Q3 to say that they would consider:

- credit cards (25% from 9%)
- loans or equity from friends/family (25% from 11%)
- grants (40% from 29%)
- and bank loans (46% from 37%).

Those with 1-9 employees were also now more likely to consider loans or equity from friends/family (21% from 14%).

Those SMEs that would not consider certain forms of finance were asked why that was. To boost sample sizes, these are reported for all relevant SMEs across Q1-3:

Form of finance	Reasons for not considering – non considerers
Leasing	71% said they did not need this form of finance (especially larger non-considerers).12% were not looking to fund equipment/vehicles, 10% thought it was too expensive and 5% didn't understand it
Invoice finance	Half said it was because they did not need this form of finance. 20% said they didn't understand it (especially smaller non-considerers) and 12% thought it was too expensive (especially larger non-considerers)
Equity (companies only)	Half felt they did not need this type of finance. 18% wanted to retain control of the business and 12% did not want to give a share away (both mentioned more by smaller non-considerers). 17% had never considered it and 9% did not know how to get it. Three quarters had heard of at least one of the following: Venture Capital (67% aware), Corporate Finance Advisors (50%), Business Angels (41%), and/or local support programmes to help access equity (24%). Net awareness ranged from 70% of 0 employee companies to 90% of 50-249 employee companies.

Q234-237 All SMEs seeking new/renewing finance in next 3 months and not considering specific form of finance

Prospective applicants (via loan, overdraft, leasing, invoice finance and/or credit cards) were asked how confident they felt that their bank would agree to meet their finance need.

Overall confidence in Q3 was the same as in Q1-2, but this masks a move from "very" to "fairly" confident. There were also fewer "not confident" SMEs, so the net confidence rating has improved from +16 to +23, as the table below shows:

Confidence bank would lend All planning to seek finance, over time	Q1-2	Q3
Unweighted base:	*861*	*707*
Very confident	22%	14%
Fairly confident	20%	29%
Overall confidence	*42%*	*43%*
Neither/nor	33%	36%
Not confident	26%	20%
Net confidence (confident-not confident)	*+16*	*+23*

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

This drop in the proportion that were "very confident" about their application was driven by the smaller SMEs, with larger ones now more bullish:

- In Q1-2 21% of 0-9 employee SMEs planning to apply were "very confident". In Q3, 13% were very confident (net confidence was unchanged: 40% in Q1-2 v 42% in Q3).
- In contrast, bigger SMEs were now more positive. In Q1-2, 29% of 10-249 employee SMEs planning to apply were "very confident", and whilst this proportion was unchanged in Q3 (30%), net confidence had increased from 57% in Q1-2 to 63% in Q3.
- Future confidence remained lower than recalled confidence before a borrowing event in the last 12 months, where 7 out of 10 had been confident before they applied.

Changes in confidence could be due to a change in the risk rating profile of past/future applicants. However, analysis showed that those planning to apply in Q3 had a similar risk profile to those planning to apply in Q1-2, and that these two groups also had a similar profile to those who had actually applied, albeit with a slightly higher proportion of "worse than average" risk SMEs.

However, further analysis revealed a growing divergence of confidence between those with a minimal/low risk rating and those with an average/worse than average risk rating.

- In Q1-2, 57% of minimal/low risk SMEs planning to apply for facilities were confident their bank would agree. In Q3 this confidence had increased to 65%.
- Over the same period confidence amongst those with an average/worse than average risk rating stayed the same (38%) but the proportion "very confident" dropped from 19% to 11%.

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

In Q3, 13% of all SMEs reported plans to apply/renew facilities in the following 3 months, leaving the majority (87%) with no such plans. Almost half of those with no plans (42%) were current users of external finance, the rest were not.

This means that half of **all** SMEs (50%) neither used external finance nor had any immediate plans to apply for any. Such SMEs were typically small (83% were 0 employee businesses) and half of them planned to stay the same size in the next 12 months.

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

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

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

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

Analysis showed that most “future would-be seekers” were in this second sub-group.

The table below shows that, compared to Q1-2, SMEs in Q3 were less likely to be planning to apply/renew, and more likely to be "future would-be seekers", albeit mainly with no immediate need identified. As in Q1-2, the biggest single group in Q3 was the "happy non-seekers", representing two thirds of all SMEs:

Future finance plans All SMEs, over time	Q1-2	Q3
Unweighted base:	***5063***	***5055***
Plan to apply/renew	19%	13%
Future would-be seekers – with identified need	2%	2%
Future would-be seekers – no immediate identified need	16%	20%
Happy non-seekers	64%	65%

Q230/239 All SMEs

The table below shows the change over time by size of business. It shows that, across all size bands the proportion of "happy non-seekers" had remained relatively stable between Q1-2 and Q3, but the proportion of "future would-be seekers with no immediate need" had increased, particularly for larger SMEs, as the percentage planning to apply/renew facilities decreased:

Future finance plans, over time	0 emps Q1-2	0 emps Q3	1-9 emps Q1-2	1-9 emps Q3	10-49 emps Q1-2	10-49 emps Q3	50-249 emps Q1-2	50-249 emps Q3
Unweighted base:	***1022***	***1006***	***1672***	***1673***	***1610***	***1617***	***759***	***759***
Plan to apply/renew	17%	11%	24%	18%	24%	20%	23%	15%
Future would-be seekers – with need	2%	2%	3%	2%	1%	1%	1%	1%
Future would-be seekers – no immediate need	16%	21%	15%	20%	9%	15%	3%	14%
Happy non-seekers	65%	66%	58%	60%	66%	64%	73%	70%

Q230/239 All SMEs

The table below shows the change over time by external risk rating. It shows that minimal risk SMEs were less likely to be "happy non-seekers" in Q3 than in Q1-2, and more likely to be "future would-be seekers", albeit with no immediate need in mind. All other risk grades were less likely to be planning to apply/renew in the next 3 months, and slightly more likely to be "future would-be seekers", especially those with a worse than average risk rating:

Future finance plans, by risk rating, over time	Min Q1-2	Min Q3	Low Q1-2	Low Q3	Avge Q1-2	Avge Q3	Worse Avge Q1-2	Worse Avge Q3
Unweighted base:	*875*	*839*	*1041*	*1045*	*1357*	*1356*	*1367*	*1430*
Plan to apply/renew	13%	14%	17%	14%	18%	12%	18%	12%
Future would-be seekers – with need	*	1%	*	2%	2%	2%	3%	2%
Future would-be seekers – no immediate need	8%	18%	13%	13%	17%	18%	17%	24%
Happy non-seekers	80%	67%	70%	71%	63%	68%	62%	62%

Q230/239 All SMEs where external risk rating available

This would suggest that overall appetite for finance was broadly the same over time, but the proportion with a specific need in mind and plans to actually approach their bank for funding had declined.

To explore this further, the table below details the reasons given by the 1 in 5 SMEs that were "future would-be seekers" to explain why they would not be applying. The possible answers were expanded between Q1-2 and Q3, which means that the results are not directly comparable wave on wave. However, in both quarters, reluctance to borrow (in the current economic climate/because of their own predicted performance) was the most mentioned reason for not applying, amongst would-be seekers. In Q3, this was particularly true for larger SMEs, due to their concerns about the predicted performance of their own business.

This contrasts with the reasons given by those SMEs that had not sought finance in the *previous* 12 months, but had wanted to, where discouragement (direct or indirect) was the main reason cited, and the economic climate was much less likely to be mentioned.

Reasons for not applying Q3 only – All future would-be seekers	Overall	0-9 emps	10-249 emps
Unweighted base:	*954*	*594*	*360*
Reluctant to borrow now (net)	46%	45%	67%
-Prefer not to borrow in economic climate	*35%*	*35%*	*37%*
-Predicted performance of business	*11%*	*10%*	*31%*
Issues with principle of borrowing	26%	*26%*	*11%*
-Prefer not to borrow	*20%*	*20%*	*8%*
-Not lose control of business	*3%*	*3%*	*1%*
-Can raise personal funds if needed	*5%*	*5%*	*2%*
-Prefer other forms of finance	*1%*	*1%*	*1%*
-Go to family and friends	*1%*	*2%*	*
Issues with process of borrowing	18%	*18%*	*13%*
-Would be too much hassle	*5%*	*5%*	*2%*
-Thought would be too expensive	*13%*	*13%*	*9%*
-Bank would want too much security	*2%*	*2%*	*1%*
-Too many terms and conditions	*1%*	*1%*	*1%*
-Did not want to go through process	*1%*	*1%*	-
-Forms too hard to understand	*	*	*
Discouraged (net)	12%	12%	7%
-Think I would be turned down	*11%*	*12%*	*6%*
-Put off by bank	1%	1%	1%

Q239 Future would-be seekers SMEs

For Q3, those that gave more than one reason for not applying were asked a new question to identify the main reason. This follows a very similar pattern to the “all reasons” reported in the table above, with reluctance to borrow the key factor.

Reasons for not applying Q3 only – the future would-be seekers	All reasons	Main reason	All SMEs Q3
Unweighted base:	*954*	*954*	*5055*
Reluctant to borrow now (net)	46%	43%	9%
Issues with principle of borrowing	26%	25%	6%
Issues with process of borrowing	18%	15%	3%
Discouraged (net)	12%	10%	2%

Q239/239a Future would-be seekers SMEs

The table above also shows the equivalent percentages of all SMEs giving each of these barriers as the main reason for not applying for/renewing external finance in the next 3 months. This emphasises the relative importance of the current economic climate (captured in the reluctant to borrow figures), as opposed to discouragement, which was the main reason for not having applied in the past. The analysis below sheds some light on why this might be the case.

The two different types of “future would-be seekers” gave slightly different main reasons for not applying/renewing in the next 3 months. Those who had an identified need were much more likely to mention feeling discouraged than those with no immediate need, who instead cited reluctance to borrow in the current economic climate, or issues with the principle of borrowing:

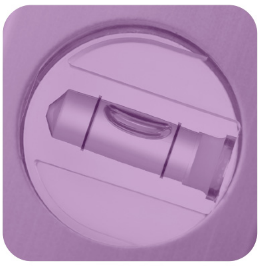
Main reason for not applying Q3 only – the future would-be seekers	Identified need	No identified need
Unweighted base:	*83**	*871*
Reluctant to borrow now (net)	32%	44%
Issues with principle of borrowing	10%	26%
Issues with process of borrowing	14%	15%
Discouraged (net)	38%	7%

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

What does this tell us about the future for SME lending? Data gathered across Q1-3 confirms that only just over a third of SMEs were potentially interested in borrowing in the next 3 months, and not all of them had an immediate financial need in mind. There are indications that an increasing proportion will not be looking to act on that interest, with the current economic climate, and the performance of their business in that climate, as one of the main reasons.

It was not the only reason however – discouragement, reluctance to engage in the process of borrowing, and a reluctance to relinquish control of the business also present barriers to SMEs borrowing. As noted above, those with an immediate need that they do not think they will approach a bank about, were more likely to cite discouragement than those with a less specific need for finance.

14. Awareness of taskforce and other initiatives



This final chapter looks

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

Key findings

More than 1 in 5 SMEs were aware of the Enterprise Finance Guarantee Scheme, the network of business mentors and/or Project Merlin.

Overall, half were aware of at least one of the initiatives aimed at SMEs generally. Awareness increases by size, but is no higher amongst SMEs currently using or planning to use external finance.

1 in 6 smaller SMEs were aware of the Lending Code, while 1 in 5 larger ones were aware of the Lending Principles. Just 1 in 10 SMEs with a loan were aware of the initiative of holding loan refinancing talks 12 months before a loan expires.

In October 2010, the Business Finance Taskforce agreed to 17 initiatives with the aim of supporting SMEs in the UK. This final section looks at awareness amongst SMEs of some of these commitments, together with other relevant initiatives. This list has been revised and updated for Q3, to reflect the coming on-stream of some of these initiatives and the results below are therefore based just on this quarter. Many of these initiatives are in their early stages, and awareness is likely to be affected as a result.

The table below shows overall awareness, split by size of business, for those initiatives potentially relevant to all SMEs.

Awareness of Taskforce initiatives Q3 only All SMEs asked new question	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*4792*	*981*	*1581*	*1532*	*698*
Enterprise Finance Guarantee scheme	22%	20%	26%	32%	37%
A network of business mentors	21%	21%	21%	27%	24%
The Merlin agreement	20%	19%	24%	29%	35%
Alternative sources of business finance	17%	16%	20%	29%	32%
Independently monitored appeals process	14%	13%	14%	17%	17%
The Business Growth Fund	12%	11%	13%	18%	22%
Regional outreach events	11%	11%	11%	13%	14%
BetterBusinessFinance.co.uk	9%	9%	10%	11%	9%
Trade finance and EFG for exporters	8%	8%	10%	14%	18%
Any of these	*50%*	*48%*	*55%*	*64%*	*69%*
None of these	*50%*	*52%*	*45%*	*36%*	*31%*

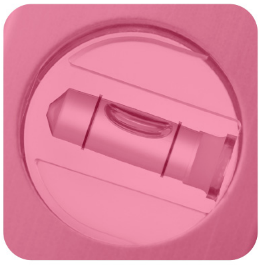
Q240 All SMEs

Awareness was higher among the larger SMEs. Awareness amongst those who either currently use external finance and/or plan to apply for/renew finance in the next 3 months was no higher than for SMEs generally, despite a number of these initiatives being potentially more relevant to those with an interest in borrowing.

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

Initiative Q3 only	Awareness
The Lending Code – asked of SMEs with less than 10 employees	16% of SMEs with less than 10 employees were aware. Awareness slightly higher for 1-9 employee SMEs (19%) than 0 employee businesses (15%)
Lending principles – asked of SMEs with more than 50 employees	20% of the largest SMEs were aware of this initiative
Loan refinancing talks, 12 months ahead – asked of SMEs with a loan	12% of SMEs with loans were aware of this initiative, with little difference by size

15. Technical Appendix



This chapter covers

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

Eligible companies

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

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

The respondent was the person in charge of managing the business's finances. No changes were made to the screening criteria between Q1-2 and Q3.

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 in Q1-2 and Q3 – the Q3 sample matched the Q1-2 results as closely as possible.

Business size	Universe	% of universe	Total sample size	% of sample
Overall	4,548,843	100%	10118	100%
0 employee (resp)	3,366,144	74%	2028	20%
1-9 employees	1,008,024	22%	3345	33%
10-49 employees	144,198	3%	3227	32%
50-249 employees	26,383	1%	1518	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%	765	8%
D Manufacturing (C)	302,032	7%	1059	10%
F Construction (F)	1,017,210	22%	1786	18%
G Wholesale etc (G)	561,689	12%	1042	10%
H Hotels etc (I)	156,001	4%	888	9%
I Transport etc (H&J)	314,705	7%	900	9%
K Real estate (L,M,N)	1,194,629	26%	1811	18%
N Health etc (Q)	279,280	6%	846	8%
O Other (R&S)	528,011	12%	1021	10%

Quotas were set overall to reflect the natural profile by sector, but with some amendments to ensure that a robust sub-sample was available for each sector. Thus, fewer interviews were conducted in Construction and Real Estate, 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%	1206	12%
South East	727,815	16%	1267	13%
South West	454,884	10%	943	9%
East	454,884	10%	858	8%
East Midlands	272,931	6%	695	7%
North East	136,465	3%	492	5%
North West	454,884	10%	923	9%
West Midlands	318,419	7%	910	9%
Yorks & Humber	318,419	7%	913	9%
Scotland	318,419	7%	825	8%
Wales	181,954	4%	585	6%
Northern Ireland	136,465	3%	501	5%

Weighting

The weighting regime was initially applied separately to the Q1-2 data and the Q3 data. The two were then combined, and grossed to the total of 4,548,843 SMEs, based on BIS SME data.

This ensured that Q1-2 results, reported in the first SME Finance Monitor, were retained, and each individual wave is representative of all SMEs while the total interviews conducted weight to the total of all SMEs.

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

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

- 0 employee 74.09%
- 1-9 employees 22.16%
- 10-49 employees 3.17%
- 50-249 employees 0.58%

Overall rim weights were then applied for regions:

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

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

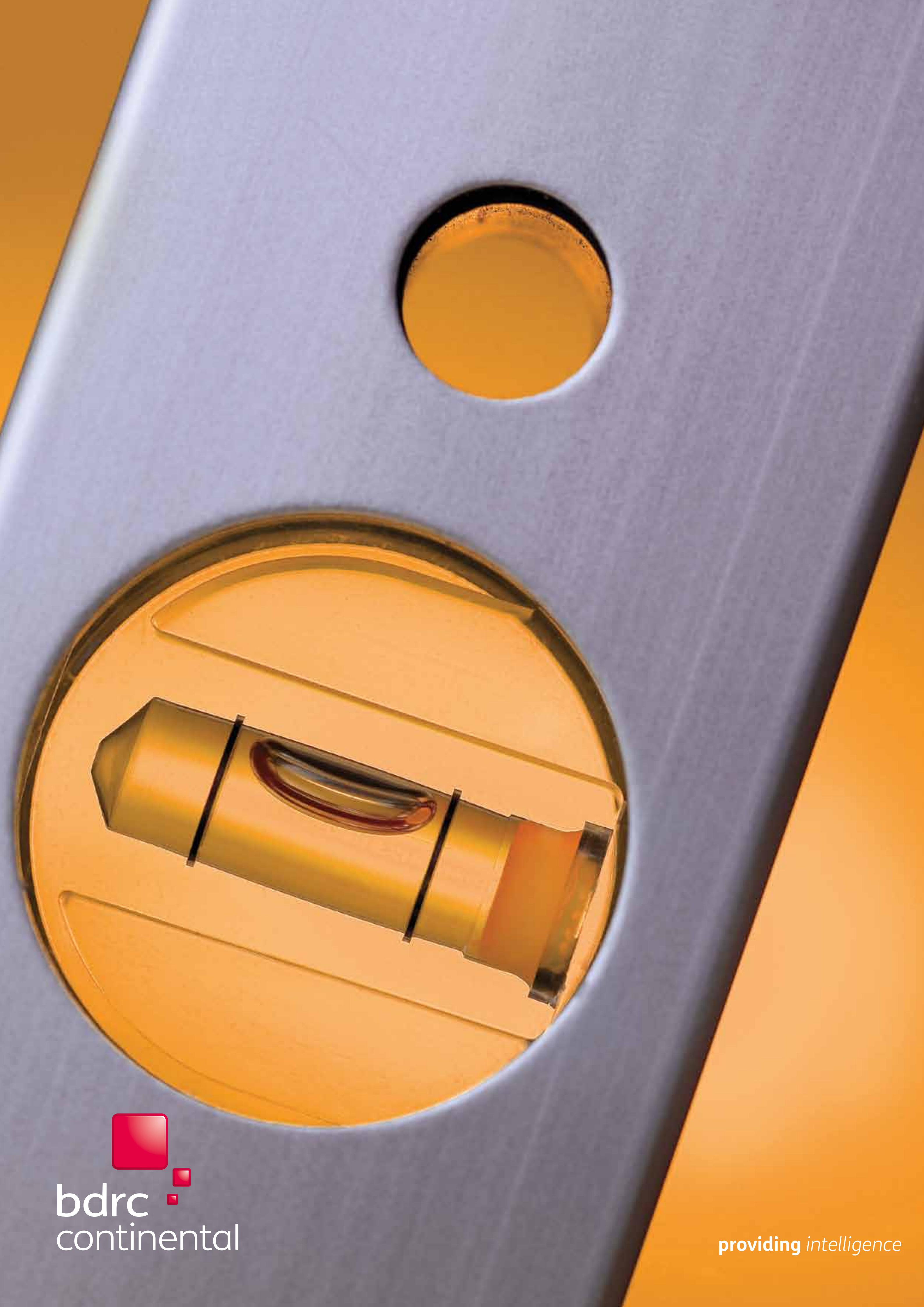
The up-weighting of the smaller SMEs and the down-weighting of the larger ones has an impact on the weighting efficiency. Whereas the efficiency is 77% or more for the individual employee bands, the overall efficiency is reduced to 27% by the employee weighting, and this needs to be considered when looking at whether results are statistically significant:

Business size	Sample size	Weighting efficiency	Effective sample size	Significant differences
Overall	10118	27%	2730	+/- 3%
0 employee (resp)	2028	79%	1600	+/- 3%
1-9 employees	3345	77%	2575	+/- 3%
10-49 employees	3227	78%	2515	+/- 3%
50-249 employees	1518	82%	1245	+/- 4%

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