SME Finance Monitor

Q3 2012: A gold, silver or bronze summer for SMEs?

An independent report by
BDRC Continental, November 2012

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Foreword

Welcome to the sixth report of the SME Finance Monitor, which now includes data from interviews conducted up to the end of September 2012, before the UK was officially out of recession.

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

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

Results from the Monitor are reported in the press and online and used by a wide variety of organisations to inform their decision making about SMEs. The data provides both a clear view of how SMEs are feeling now, and, increasingly, how this has changed over time.

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

Shiona Davies
Editor , The SME Finance Monitor
November 2012

The Survey Steering Group comprises representatives of the following:

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

1. Introduction

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

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

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

This sixth report is based on a total of 20,065 interviews with SMEs, conducted to YEQ3 2012. This means that the interviews conducted in the first two waves, February to May 2011, and July to September 2012, are no longer included in the year ending results but they are still shown in this report where data is reported quarterly over time, or by application date.

The YEQ3 2012 data therefore includes the following four waves:

- October-December 2011 – 5,010 interviews referred to as Q4 2011
- January-March 2012 – 5,023 interviews, referred to as Q1 2012
- April-June 2012 – 5,000 interviews, referred to as Q2 2012
- July-September 2012 – 5,032 interviews, referred to as Q3 2012

All waves were conducted using the same detailed quota profile. The results from the four waves have been combined to cover a full 12 months of interviewing, and weighted to the overall profile of SMEs in the UK in such a way that it is possible to analyse results wave on wave where relevant, and the data reported for an individual quarter individually will be as originally reported. This combined dataset of 20,065 interviews is referred to as YEQ3 12.

The majority of reporting in this report is based on interviews conducted in the year to Q3 2012. The exceptions to this rule are:

- Where data is reported by application date. In these instances, all respondents to date are included, split by the quarter in which they made their application for loan and/or overdraft facilities
- Where SMEs are asked about their planned future behaviour. In these instances, typically reporting expectations for the next 3 months, comparisons are made between individual quarters

A further quarter, of another 5,000 interviews to the same sample structure is being conducted October to December 2012, and results will be published in March 2013. At that stage, we will again present data on a rolling basis of 20,000 interviews (so adding Q4 2012 and dropping Q4 2011 from the dataset).

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

2. Management summary

This report covers

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

In Q3 2012, 40% of SMEs reported using any form of external finance, back to the lowest levels seen to date. Use of core 'traditional bank lending' also fell. 1 in 10 SMEs reported making an application for a new or renewed loan or overdraft in the 12 months prior to interview, lower than the comparable figure in Q3 2011, with an increasing proportion of applications now coming from first time applicants. In addition, half of those with an overdraft said that it had been 'automatically renewed' by their bank. Once these automatic renewals are included, 22% of all SMEs interviewed in Q3 reported any borrowing 'event' in the previous 12 months.

- In Q3 2012, 40% of SMEs reported using any form of external finance, back to the lowest levels seen to date (41% in Q4 2011), and down from 43% in Q2 2012. The decline was across all sizes of SME, notably those with 50-249 employees (now 69% from 78%)
- Within this, use of 'core banking products' (loans, overdrafts and credit cards) also declined. 34% of all SMEs currently use such products, compared to 39% in Q3 2011
- 10% of SMEs reported a Type 1 borrowing event (an application for a new or renewed loan or overdraft facility) in the 12 months prior to interview in Q3 2012. This was somewhat lower than the 12% recorded in Q3 2011. Type 2 events (a cancellation or renegotiation by the bank) and Type 3 events (the SME choosing to repay/reduce a facility) remained less common
- Over time, more applicants were seeking finance for the first time, with around a third of all recent applications for loans/overdrafts made by first time applicants
- Half of all SMEs with an overdraft reported that it had been automatically renewed by the bank – the equivalent of 12% of all SMEs having such a renewal
- Including such automatic renewals together with other borrowing events means that 22% of all SMEs interviewed in Q3 2012 reported *any* form of borrowing 'event' in the 12 months prior to interview, down slightly from Q2 (24%)

Most applications for new or renewed facilities were successful: of all applications & renewals reported to date to the Monitor, 71% resulted in a loan or overdraft facility, 5% in other funding, and 23% were declined (the equivalent of 3% of all SMEs being declined). Overdraft applications remained more likely to be successful than loans. Smaller, newer businesses and those looking for new money, especially for the first time, remained less likely to be successful and those declined reported limited support options being offered.

- Combining all loan and overdraft applications for new or renewed facilities, reported since the start of the Monitor, showed that 71% resulted in the facility requested, 5% in other finance and 23% in no funding. This is the equivalent of 3% of all SMEs being declined for a loan or overdraft facility

- On limited base sizes, only a minority of those declined for a loan or overdraft were offered alternative forms or sources of funding, the advice provided by the bank was typically rated 'poor', and awareness and use of the appeals process remains very limited

- For applications reported in interviews YEQ3 2012, 74% of overdraft applicants had a facility, 3% had taken another form of funding, and 24% did not have a facility (Once the 'automatic renewals were included, the success rate was boosted to 90%)

- Analysis by date of application for new/renewed overdrafts specifically, showed fairly consistent success rates for applications made from Q4 2010 to Q4 2011 (of around 75%). Early indications for applications made in 2012 suggested that more of these applicants had been declined, and this will be monitored in future waves

- For loan applications reported in interviews YEQ3 2012, 56% of loan applicants had a facility, 8% had taken another form of funding, and 35% did not have a facility. Analysis by date of application showed fairly consistent success rates, with no clear pattern over time

- For both loans and overdrafts, success rates were higher for larger, more established businesses, those with a minimal or low external risk rating and those looking to renew an existing facility

- First time applicants (for loans or overdrafts) remained less likely to be successful (42% now have a facility, 7% have taken other funding and 51% have no facility). These applicants were typically smaller, newer, businesses, with a poorer external risk rating profile, and somewhat less likely to have made a profit. By date of application, first time applicants have become slightly more likely to be successful over time, while those renewing have become slightly less likely (but almost all are still successful)

As reported above, 22% of all SMEs reported any borrowing event in the 12 months prior to interview in Q3 2012. Of the rest, 11% of SMEs met the definition of a 'would-be seeker' of finance, while the largest group remained the 'happy non-seekers' who had neither applied for finance, nor wanted to (67%). Discouragement remained a key barrier for the 'would-be seekers'. Those 'indirectly' discouraged, who assumed the bank would turn them down and so didn't ask, gave as reasons their credit history and/or a perceived reluctance amongst banks to lend to businesses of their size. These 'indirectly discouraged' SMEs were more likely to be new businesses, and somewhat less likely to have made a profit.

- Two thirds of SMEs interviewed in Q3 2012 (67%) met the definition of a 'happy non-seeker' who had neither sought external finance in the previous 12 months, nor wanted to. This included the 34% of all SMEs who are 'permanent non-borrowers' who do not use, have not sought, and are unlikely to seek, external finance

- 1 in 10 SMEs interviewed in Q3 (11%) were 'would-be seekers' of finance, who would have liked to apply for a loan or overdraft in the past 12 months but cited reasons why they had not. SMEs with no employees, and/or a worse than average risk rating were more likely to meet this definition, and the proportion of such SMEs has increased slightly over time (8% of those interviewed in Q4 2011 were 'would-be seekers of finance')

- Would-be seekers who would have liked to apply for a loan continued to cite 'discouragement' as the main reason for not applying (40% of would-be loan seekers in Q3). Discouragement was also an issue for would-be overdraft applicants (32% of would-be overdraft seekers in Q3), but less consistently so over time. In both cases most discouragement was 'indirect' – that is, the SME assumed they would be turned down so did not approach a bank

- Those 'indirectly discouraged' cite their own credit history as one reason for believing they would be turned down, but also a perception that banks do not lend to businesses of their size. These SMEs were typically newer businesses, with a poorer external risk profile, and somewhat less likely to have made a profit. If they were using any external finance, this was unlikely to have come from a bank, and more likely to be funding from the directors or family and friends

The SME population generally is showing some signs of pressure in a difficult economic climate, in terms of profitability, external risk rating, credit balances and use of overdraft facilities. Almost half had seen an injection of personal funds from the owner/directors in the last 12 months – with a quarter of SMEs saying this was something they felt they "had" to do. That said, almost half had an objective to grow in the next 12 months.

- Most SMEs were profitable (63% YE Q3 2012) but the trend by quarter is of a slight decline: 62% reported a profit in the previous 12 months in Q3 2012, compared to 67% in Q1-2 2011, and this decline was seen across all sizes of SME

- Where made, the median profit had also dropped slightly over time: amongst SMEs that reported a profit in Q3, the median profit made was £7,000, down from £10,000 in the two previous quarters

- Over time, more SMEs had a 'worse than average' external credit risk rating: 55% had such a rating in Q3 2012, compared to 48% in Q1-2 2011

- Most SMEs (95%) hold credit balances, and hold the equivalent, typically, of 2-4% of their turnover. The proportion holding a low credit balance (of £5,000 or less) increased from 63% of SMEs interviewed in Q1-2 2011 to 70% in Q3 2012

- Over time, those granted an overdraft facility have become more likely to use it regularly, and to 50% or more of the agreed limit

- 44% of SMEs interviewed across Q2 and Q3 2012 had seen an injection of personal funds from the owner / directors in the previous 12 months, made up of 18% who said they chose to do it to help the business grow and 26% of all SMEs who felt they had no choice but to do this. SMEs that would have liked to apply for finance in the past 12 months, but hadn't, were more likely to have seen an injection of personal funds (60%)

- Almost half of SMEs in Q3 (47%) reported an objective to grow in the next 12 months, maintaining the slightly higher rates seen in 2012 compared to 2011, and due to more 0 employee businesses, and those with a worse than average risk rating, planning to grow

A minority, 12%, of SMEs planned to apply for new/renewed facilities in the next 3 months. Confidence that their bank would agree to lend fell again, and is now noticeably lower than actual success rates. The current economic climate remained the main barrier to making an application for finance, but discouragement was mentioned by more SMEs over time. Over half of all SMEs neither use external finance, not had any immediate plans to apply for any, and this proportion has increased over time. Looking forward more generally, the economy remained the main barrier to business in the next 12 months for all SMEs. Access to Finance was a main barrier for 13% of SMEs, and more of a barrier for those with any appetite for seeking finance in the next 3 months.

- In Q3 2012, 12% of all SMEs had plans to seek finance in the next 3 months, down from 14% in Q2 2012, but in line with the same time last year (13% in Q3 2011), suggesting a possible seasonal effect. Excluding the 'permanent non-borrowers', 18% of other SMEs plan to apply for new/renewed facilities

- Confidence amongst those planning to apply for finance that the bank will agree to their request has declined again to the lowest level yet seen in the survey, 33%. This is noticeably below the current success rates for applications: Success rates for renewal applications are around 90%, compared to 53% who were confident of success with a future renewal. For new money, success rates for applications are around 56% against a confidence level for future applications of 21%

- The biggest group of SMEs remained the 'happy non-seekers' of finance, 63%. Indeed, in Q3, 57% of all SMEs neither used external finance nor planned to apply for any in the next 3 months, the highest proportion seen to date (In Q1-2 2011 the proportion was 46%)

- 25% of all SMEs met the definition of a 'future would-be seeker' of finance, up from 22% in Q2 2012. As in previous quarters, only a minority (3%) had an identified need for finance that they did not expect to apply for. A reluctance to borrow in the current climate remained the main barrier for 'future would-be seekers' (49%). 'Discouragement' (16% – most of it 'indirect') was less of a barrier than the economic climate, but is being mentioned more over time (it was 10% in Q3 2011), and was more of an issue for smaller businesses (16%) than larger ones (11%), and particularly for those 'future would-be seekers' who had an identified need for finance (46%) – those with no identified need typically cite the economic climate (51%)

- More generally, in Q3 2012, 34% of all SMEs rated the current economic climate as a major barrier for their business in the next 12 months, down slightly from previous quarters (37% in Q1 2012)

- Access to finance was rated a major barrier by 13% of all SMEs, up from 10% in Q4 2011. Excluding the 'permanent non-borrowers' who are unlikely ever to seek external finance, increased the proportion seeing access to finance as a barrier to 18%, while amongst those with *any* appetite for applying for finance in the next 3 months, the proportion increases to 26%

Awareness of Business Finance Taskforce initiatives was unchanged year on year, with just under half of all SMES aware of any of the initiatives. 18% of SMEs were aware of the National Loan Guarantee Scheme and it would potentially encourage the equivalent of almost 700,000 SMEs to apply for eligible funding.

- 46% of SMEs were aware of any of the Taskforce initiatives in Q3 2012. Overall awareness was unchanged from 12 months ago (46% in Q3 2011), at a time when SMEs use of, and appetite for applying for, finance appears to be falling

- Awareness was highest for the Enterprise Finance Guarantee Scheme (22%) and the network of business mentors (21%)

- Larger SMEs, with 50-249 employees, have shown some increase in awareness of these initiatives over time. Also slightly more likely to be aware of any of the initiatives were those with plans to borrow in the next 3 months (50%)

- 18% of SMEs were aware of the National Loan Guarantee Scheme. Excluding the permanent non-borrowers, a quarter of remaining SMEs thought such a scheme, offering a discount on the interest rate, would make them more likely to apply for this type of funding – the equivalent of almost 700,000 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 well as the overall SME market, key elements have been analysed by a number of other factors as sample sizes permit. Typically nothing will be reported on a base size of less than 100 – where this *has* been done an asterisk * highlights the care to be taken with a small base size. If appropriate, a qualitative or indicative assessment has been provided where base sizes are too small to report, but as the overall base size has grown this has become less of an issue.

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

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

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

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

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

Analysis over time

This report is predominantly based on four waves of data, gathered in Q4 of 2011, and Q1, Q2 and Q3 of 2012. In all four waves, SMEs were asked about their past behaviour across the previous 12 months, so there is an overlap in the time period each wave has reported on. Year ending figures are defined by the date of **interview**, i.e. all interviews conducted in the year concerned.

Each report also comments on changes in demand for credit and the outcome of applications over time. Here, it is more appropriate to analyse results based on when the **application** was made, rather than when the interview was conducted. Final data is now available for any applications made in 2010 and Q1-2 and Q3 of 2011, but for other more recent quarters data is still being gathered so results for events occurring from Q4 2011 are still *interim* at this stage (respondents in Q4 2012 can report on events which occurred in Q4 2011 or later). Where analysis is shown by date of application, this includes all interviews to date (including those conducted in Q1-2 2011 and Q3 2012, which are no longer included in the Year Ending data reported elsewhere), and such tables are clearly labelled in the report.

Small sample sizes for some lines of questioning mean that in those instances data is reported based on four quarters combined (i.e. YEQ3 2012 in this report) in order to achieve a robust sample size and to allow for analysis by key sub-groups such as size, sector or external risk rating. However, where results can be shown by individual quarter over time, they have been.

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

Definitions used in this report

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

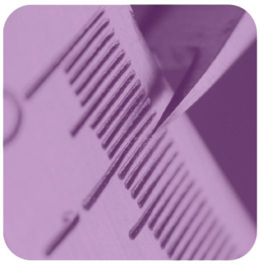
Future 'would-be seekers' – those that felt that there were barriers that would stop them applying to borrow (more) in the next three months (such as discouragement, the economy or the principle or process of borrowing)

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

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

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

4. The general context



This chapter presents

an overview of the characteristics of SMEs in the UK. Unless otherwise stated, figures are based on all interviews conducted in the year ending Q3 2012 (YEQ3 12).

Key findings

Most SMEs were profitable for the previous 12 months trading (63% YEQ3 12), while 16% made a loss. 0 employee businesses were less likely to have made a profit (62%) while those with 10-249 employees were the most likely (74%)

Over time, the proportion making a profit has fallen slightly, from 67% in Q1-2 2011 to 62% in Q3 2012, and this is across all size bands

Over time, the median profit made has also fallen slightly. Amongst SMEs that reported a profit in Q3, the median profit made was £7,000, down from £10,000 in the two previous quarters

There has also been an increase over time in the proportion of SMEs with a 'worse than average' external risk rating, from 48% in Q1-2 2011 to 55% in Q3 2012

The proportion self-reporting a credit issue (missed loan repayment, exceeding overdraft limit etc.) was 13% YEQ3 12 and, unlike other measures, has been consistent over time

5% of SMEs did not hold any credit balances. The majority held less than £5,000 and this has increased over time from 63% of all SMEs holding less than £5,000 in credit balances in Q1-2 2011, to 70% in Q3 2012

A comparison with turnover showed that credit balances typically equate to 2-4% of turnover, with little variation by size

This chapter presents an overview of the characteristics of SMEs in the UK. Unless otherwise stated, figures are based on the 20,065 interviews conducted in the year ending Q3 2012 (that is Q4 2011 and Q1, Q2 and Q3 2012). Both 2011 and 2012 have presented particular trading challenges, and analysis of this data over time provides an indication of how SMEs are managing.

Profitability

Almost two thirds of SMEs reported making a profit in their most recent 12 month trading period (63% for YEQ3 12), unchanged from the previous period (64% for YEQ2 12). As the quarterly analysis below shows, the proportion of SMEs interviewed who reported making a profit has declined slightly over time.

Where made, the median profit figures have also shown something of a decline over recent quarters – from £13,000 in Q4 2011, to £7,000 in the most recent quarter (and also lower than the equivalent figure in Q3 2011 of £10,000):

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

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

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

For YEQ3 2012, bigger SMEs remained more likely to have been profitable: 62% of 0 employee businesses reported making a profit, compared to 74% of those with 50-249 employees. The median profit, where made, remains at £10,000:

Business performance last 12 months YEQ3 12 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*20,065*	*4023*	*6628*	*6405*	*3009*
Made a profit	63%	62%	67%	74%	74%
Broke even	13%	14%	11%	8%	8%
Made a loss	16%	17%	14%	10%	10%
Dk/refused	7%	7%	7%	7%	8%
*Median profit made**	*£10k*	*£7k*	*£17k*	*£39k*	*£291k*

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

As the table below shows, the slight decline in the proportion of SMEs making a profit is across all size bands, with Q3 figures the lowest recorded to date in each size band:

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

Q241 All SMEs

By sector, Property/Business Services remained the most likely to be profitable (69%), and Hotels and Restaurants the least likely (52%).

Business performance last 12 months YEQ3 12 – all SMEs	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*1502*	*2122*	*3538*	*2025*	*1799*	*1805*	*3514*	*1760*	*2000*
Made a profit	68%	68%	60%	62%	52%	56%	69%	64%	62%
Broke even	12%	12%	15%	13%	16%	17%	11%	13%	12%
Made a loss	14%	13%	16%	18%	20%	16%	16%	16%	18%
Dk/refused	7%	7%	9%	7%	12%	10%	5%	6%	7%
*Median profit made**	*£11k*	*£7k*	*£10k*	*£11k*	*£12k*	*£7k*	*£16k*	*£7k*	*£7k*

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

By sector, median profits ranged from £16,000 for profitable SMEs in Property/Business Services to £7,000 for profitable SMEs in Manufacturing, Transport and Health and Other Community. For most sectors, the median profit reported was relatively unchanged compared to YEQ2 12, the exception being Wholesale/Retail, where median profits dropped from £17k for YEQ2 to £11k for YEQ3, although the proportion of SMEs making *any* profit in this sector remained stable.

Reported median losses YEQ3 were £7,000 for loss making SMEs in the Hotels and Restaurants sector, and Wholesale/Retail (up from £5k for YEQ2 12) and £2,000 for loss making SMEs in other sectors.

Financial Risk Profile

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

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

Self-reported credit issues YEQ3 12 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*20,065*	*4023*	*6628*	*6405*	*3009*
Unauthorised overdraft on account	6%	6%	8%	5%	3%
Had cheques bounced on account	5%	5%	8%	7%	4%
Problems getting trade credit	3%	3%	4%	4%	4%
Missed a loan repayment	1%	1%	2%	1%	1%
Had County Court judgement against them	1%	1%	2%	1%	1%
Any of these	*13%*	*12%*	*16%*	*13%*	*10%*

Q224 All SMEs

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

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

Q224 All SMEs

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

To date, the overall risk profile in each quarter has been largely consistent. Over time though, there has been a slight decline in the proportion of SMEs rated a 'minimal' risk. Since the equivalent quarter 3 in 2011, the proportion of SMEs with a 'worse than average' external risk rating has increased from 51% to 55% due to a change in rating for 0 employee businesses, and those in Transport and Property/business services:

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

All SMEs where risk rating provided

The overall YEQ3 2012 ratings are shown below, and continue to report a better risk profile for larger SMEs:

External risk rating YEQ3 12 – all SMEs where rating provided	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*18,212*	*3342*	*5663*	*6250*	*2957*
Minimal risk	5%	2%	9%	25%	33%
Low risk	12%	9%	18%	29%	27%
Average risk	32%	32%	30%	29%	27%
Worse than average risk	52%	57%	44%	17%	13%

All SMEs where risk rating provided

By sector, SMEs in Agriculture remained more likely to have a minimal or low risk rating (39%) compared to Transport where 9% had this rating:

External risk rating YEQ3 12	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*1275*	*1980*	*3197*	*1878*	*1673*	*1635*	*3163*	*1562*	*1849*
Minimal risk	16%	5%	2%	4%	4%	2%	5%	6%	7%
Low risk	23%	12%	10%	12%	9%	7%	11%	22%	9%
Average risk	30%	29%	28%	36%	30%	28%	34%	40%	30%
Worse than average risk	30%	54%	61%	47%	58%	63%	50%	31%	53%
Total Min/Low	*39%*	*17%*	*12%*	*16%*	*13%*	*9%*	*16%*	*28%*	*16%*

All SMEs where risk rating provided

When the two types of risk rating reported above were compared, those with a minimal risk rating remained less likely to self-report a credit problem (9%) than those with a worse than average risk rating (14%). Over time, though, as the proportion with a worse than average risk rating has increased, the proportion *self*-reporting a credit problem has remained much more stable.

Credit balances

While almost all SMEs reported holding some credit balances (5% do not hold any) most, 65%, said that they typically held less than £5,000. Over the six individual quarters of the report to date, the proportion with less than £5,000 in credit balances has increased from 63% in Q1-2 2011 to 70% in Q3 2012.

The high proportion of SMEs with a low credit balance continues to be driven by the smaller SMEs. 73% of 0 employee SMEs held less than £5,000 in credit balances, compared to 15% of those with 50-249 employees.

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

- £1,640 for 0 employee SMEs
- £3,080 for 1-9 employee SMEs
- £25,580 for 10-49 employee SMEs
- £122,000 for 50-249 employee SMEs

Assessed against turnover (which is collected in bands, so the calculation is not precise), SMEs typically hold the equivalent of 2-4% of turnover as credit balances (based on median values) and this is consistent across turnover bands.

How SMEs are managed

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

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

The table below shows no change to the overall position reported in Q2, in terms of the proportion of SMEs undertaking any planning or international activities:

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

Q223 All SMEs

Larger SMEs remained more likely to plan and to undertake international trade. By sector, planning ranged from 68% in the Hotels and Restaurants sector to 46% in Construction, while international activity was most common in the Wholesale/Retail (24%) and Manufacturing (20%) sectors. For all other sectors, less than 10% currently import or export, with the Construction sector again the least likely to do so (3%).

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

- Overall, 18% of international SMEs said that international trade represented 50% or more of their business (excluding Dk answers). This is the equivalent of 2% of all SMEs and varies by size, up to 8% of SMEs with 50-249 employees
- 22% of exporters said that international trade represented 50% or more of their business (excl. DK)
- 18% of importers said that international trade represented 50% or more of their business (excl. DK)
- Those in Manufacturing and Wholesale/Retail were the most likely to report that international trade made up 50% or more of their business (5% of all SMEs in Manufacturing, 4% in Wholesale/Retail).

A new question for Q2 and Q3 2012 asked SMEs whether they submitted invoices to customers electronically over the internet in a format that can be processed automatically and transferred directly from their application into the recipient's own system (XML, EDI, PDF or another similar format).

- Across the two quarters, 28% of SMEs said that this was something they did, varying somewhat by size (28% of SMEs with 0 employees to 45% of those with 50-249 employees) and varying by sector from 41% of those in Property/Business Services to 15% of those in Hotels/Restaurants.

5. Financial context – how are SMEs funding themselves?

This chapter provides

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

Key findings

Use of any 'traditional' bank finance – loans, overdrafts and credit cards – has fallen. These were now used by 34% of SMEs in Q3 2012, down from 39% in the equivalent quarter of 2011

In Q3 2012, 40% of SMEs reported using *any* form of external finance, back to the lowest levels seen to date in Q4 2011 (41%)

This was down from 43% in Q2 2012, with a decline in use of external finance across all sizes of SME, but notably for those with 50-249 employees (now 69% from 78%)

1 in 3 SMEs (34%) was a 'permanent non-borrower' who seemed firmly disinclined to borrow now or in the future, based on their answers to the survey, and this has changed little over time

44% of SMEs interviewed in Q2 and Q3 have received an injection of personal funds from the directors in the 12 months prior to interview (up from 41% in Q2). This was more likely to have occurred in SMEs with fewer than 10 employees, Starts, those using a personal account to run the business banking, those with a worse than average risk rating and those who in the previous 12 months had been a 'would-be seeker' of finance

This 44% was made up of 18% of SMEs who said this was something they had chosen to do to help the business develop, and 26% who felt this was something that they 'had' to do. Older businesses were less likely to have put in funds at all, but, where they had, they were more likely to have felt that they 'had' to

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

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

In previous reports, around half of all SMEs used external finance with smaller SMEs less likely to do so. Use of external finance for YEQ3 2012 now stands at 44%, and analysis over time shows a further decline in Q3 2012 with fewer SMEs using external finance, back to levels seen at the end of 2011:

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

Q14/15 All SMEs

The smaller proportion of SMEs using external finance in Q3 2012 was due to a decline in use across all sizes of SME, and notably for those with 50-249 employees:

Currently use external finance Over time – all SMEs By date of interview	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Q1-2 2011	51%	45%	65%	76%	81%
Q3 2011	47%	41%	61%	76%	77%
Q4 2011	41%	36%	54%	70%	75%
Q1 2012	50%	45%	64%	73%	78%
Q2 2012	43%	37%	60%	73%	78%
Q3 2012	40%	35%	54%	69%	69%

Q14/15 All SMEs Base varies slightly each quarter

Overall, for YEQ3 2012, more use was made of external finance by SMEs with a minimal (57%) or low (52%) external risk rating, than by those rated average (44%) or worse than average (42%). These were all down slightly on the YEQ2 figures, apart from for those with a minimal risk rating.

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

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

This analysis shows fewer SMEs reported having credit cards or a loan in Q3 2012 and mention of overdrafts continued to decline, resulting in usage of *any* of these sources falling from 36% in Q2 to 34% in Q3:

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

Q15 All SMEs

Since the equivalent quarter 3 in 2011, the proportion of SMEs using *any* of these forms of finance has fallen from 39% to 34%. This decline has occurred across all sizes of SME, but more particularly for those with 50-249 employees (from 71% using any of these forms of finance in Q3 2011 to 62% in Q3 2012), and also those with a low (52% to 44%) or average (44% to 38%) external risk rating. By contrast, those with a minimal external risk rating were now slightly more likely to be using any of these forms of finance (54% to 57%).

Net use of any of the *other* forms of finance specified (see full table below) has declined slightly since the equivalent quarter in 2011. In Q3 2011 18% of SMEs were using one or more of these other forms of finance, in Q3 2012 the figure was 15%.

The table below shows the full list of the different types of funding being used by SMEs YEQ3 12. Usage of any of these forms of finance was broadly stable over time (from 45% YEQ2 to 44% YEQ3), with larger businesses continuing to make use of a wider variety of forms of funding:

External finance currently used YEQ3 12 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*20,065*	*4023*	*6628*	*6405*	*3009*
Bank overdraft	22%	18%	31%	39%	38%
Credit cards	18%	15%	22%	36%	42%
Bank loan/Commercial mortgage	9%	7%	16%	22%	32%
Leasing or hire purchase	6%	4%	11%	23%	33%
Loans/equity from directors	5%	3%	11%	14%	13%
Loans/equity from family and friends	6%	5%	7%	4%	3%
Invoice finance	2%	2%	4%	10%	15%
Grants	1%	1%	2%	3%	5%
Loans from other 3rd parties	1%	1%	1%	3%	5%
Any of these	*44%*	*38%*	*58%*	*71%*	*75%*
None of these	*56%*	*62%*	*42%*	*29%*	*25%*

Q15 All SMEs

SMEs that import and/or export were asked about use of Export/Import finance. 2% of international SMEs use these products, ranging from 1% of 0 employee SMEs to 3% of those with 50-249 employees.

Companies were also asked whether they used equity from 3rd parties. 1% of companies reported using this form of funding YEQ3 12.

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

From Q2 2012 SMEs were asked whether personal funds had been injected into the business in the previous 12 months by the owner or any director, and whether this was something they had *chosen* to do or felt that they *had* to do. As the table below shows, in Q3 more SMEs reported having put in any personal funds (46%), with an increase in those saying they had *chosen* to put funds in (20%):

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

Q15d All SMEs from Q2 2012

Further analysis is based on the combined results for Q2 and Q3, to provide robust base sizes for key sub-groups.

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

Personal funds in last 12 months Q2+Q3 2012 only – all SMEs	All	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*10,032*	*2006*	*3315*	*3203*	*1508*
Inject personal funds – you chose to do to help the business grow and develop	18%	19%	14%	9%	7%
Inject personal funds – you felt you had no choice about this, that you had to do it	26%	27%	26%	14%	6%
Any personal funds	*44%*	*46%*	*40%*	*23%*	*13%*
Not something you have done	56%	54%	60%	77%	87%

Q15d All SMEs from Q2 2012

Analysis by age of business shows that it was the youngest, start-up businesses that were most likely to have had an injection of personal funds (69%), and that this was as likely to be a choice (34%) as a necessity (35%). For older businesses, an injection of personal funds was less likely to have happened at all but, where it had, a higher proportion of these injections were felt to have been a necessity:

Personal funds in last 12 months Q2+Q3 2012 only – all SMEs	Starts	2-5 yrs	6-9 yrs	10-15 yrs	15 yrs+
Unweighted base:	*1005*	*1629*	*1306*	*1495*	*4597*
Inject personal funds – you <u>chose</u> to do to help the business grow and develop	34%	21%	13%	10%	8%
Inject personal funds – you felt you had no choice about this, that you <u>had</u> to do it	35%	25%	25%	23%	21%
Any personal funds	*69%*	*46%*	*38%*	*33%*	*29%*
Not something you have done	31%	54%	62%	67%	71%

Q15d All SMEs from Q2 2012

Those using a *personal* account for their business banking were more likely to have put any personal funds in at all (53% v 42% of those with a business account) but only slightly more likely to have felt that they had to do so (29% with a personal account, 25% with a business account).

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

Personal funds in last 12 months Q2+Q3 2012 only – all SMEs	All	Min	Low	Avge	Worse/ Avge
Unweighted base:	*10,032*	*1578*	*1998*	*2691*	*2878*
Inject personal funds – you chose to do to help the business grow and develop	18%	8%	9%	16%	22%
Inject personal funds – you felt you had no choice about, that you had to do	26%	10%	22%	22%	30%
Any personal funds	*44%*	*18%*	*31%*	*38%*	*52%*
Not something you have done	56%	82%	69%	62%	48%

Q15d All SMEs from Q2 2012

Analysis by sector shows relatively little variation in terms of *any* injection of funds (40-48%). Those in Hotels and Restaurants (32%) and Construction (30%) were more likely to feel that they had had to inject the funds:

Personal funds in last 12 months Q2+Q3 2012 only – all SMEs	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*754*	*1041*	*1761*	*1010*	*911*	*908*	*1752*	*895*	*1000*
Chose to inject	19%	20%	15%	14%	16%	19%	17%	23%	24%
Had to inject	26%	25%	30%	26%	32%	27%	25%	22%	20%
Any funds	*45%*	*45%*	*45%*	*40%*	*48%*	*46%*	*42%*	*45%*	*44%*
Not done	55%	55%	55%	60%	52%	54%	58%	55%	56%

Q15d All SMEs from Q2 2012

SMEs currently using external finance were slightly more likely to have received any cash injection (48%) than those not currently using external finance (41%) and were also more likely to say they felt that there had been no choice (33% v 21%). Of those using external finance, those funding their business through a personal, rather than a business, loan were more likely to have seen personal funds put in (64% v 43% with a business loan) and more likely to have felt that they had to do so (49% v 30% of those with a business loan).

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

Personal funds in last 12 months Q2+Q3 2012 only – all SMEs	All	Had an event	Would-be seeker	Happy non-seeker
Unweighted base:	*10,032*	*3281*	*837*	*5914*
Inject personal funds – you chose to do to help the business grow and develop	18%	12%	19%	20%
Inject personal funds – you felt you had no choice about, that you had to do	26%	41%	41%	18%
Any personal funds	*44%*	*53%*	*60%*	*38%*
Not something you have done	56%	47%	40%	62%

Q15d All SMEs from Q2 2012

Personal accounts

Most SMEs used a business bank account (81%). Almost all, 95%, of those that used a personal account for their business banking were 0 employee businesses. Such personal accounts were more likely to be found in the Health Sector (35% v 19% overall) and least likely to be found in Wholesale/Retail (8%). Amongst Starts (within the last 2 years) 28% use a personal bank account for their business.

Since this report started, just under 2,000 SMEs who use a personal account have been interviewed. Such SMEs were less likely to be using external finance (29% currently use v 49% using a business account) and half as likely to have applied for new or renewed facilities (8% v 16%). As a result, there are limited numbers on which to analyse whether they have been more or less likely to receive a positive response from their bank, and also too few of them to affect the success rates reported later. Qualitatively though, it appears that overdraft success rates do not vary much for those with a personal account, while loan success rates might be slightly lower.

At the smaller end of the market in particular, there can be a blurring between finance raised in the name of the business and finance raised in a personal capacity by the owner/directors, which is then used in the business. Those using bank loans/commercial mortgages to fund their business have therefore been asked whether this loan was in the name of the business or an individual. To date, three quarters of those with a loan (76%) have said that it was in the name of the business, with clear variations by size: amongst 0 employee SMEs with a loan, 23% reported that it was in the name of an individual compared to just 1% of those with 50-249 employees:

Type of loan YEQ3 12 – SMEs with a loan	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*3761*	*276*	*1060*	*1446*	*979*
Personal	17%	23%	12%	5%	1%
Business	76%	69%	81%	91%	98%
Both	7%	8%	6%	4%	1%

Q15c All SMEs with a loan

Recent applications for other forms of finance

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

	Total		Applied for			
External finance applied for YEQ3 12 – all SMEs	Applied	% success	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*20,065*	*Varies*	*4023*	*6628*	*6405*	*3009*
Credit cards	3%	88%	3%	4%	6%	7%
Leasing/Hire purchase	3%	89%	2%	6%	16%	22%
Loans/equity from directors	3%	96%	1%	5%	6%	5%
Loans/equity from family & friends	4%	95%	4%	4%	3%	1%
Grants	2%	67%	1%	2%	5%	6%
Invoice finance	1%	83%	1%	2%	4%	6%
Loans from other 3rd parties	1%	77%	1%	1%	2%	3%

Q222 All SMEs

Most applicants were successful, with larger SMEs (10-249 employees) that applied generally more likely to be successful, notably for loans from other 3rd parties (89% v 76%).

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

Companies were also asked about equity from other third parties, but less than 1% had applied for such finance.

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

- Most SMEs, 80%, reported neither a loan/overdraft ‘event’ (covered in the remainder of this report), nor an application for any of the types of finance listed above
- 7% reported a loan/overdraft event, but had not applied for other forms of finance
- 10% had applied for other forms of finance but did not report a loan/overdraft event
- 3% reported both a loan/overdraft event and applying for one of these forms of finance

The non-borrowing SME

As this chapter has already reported, less than half of SMEs (44%) currently use external finance. Other data from this report allows for identification of those SMEs who seem firmly disinclined to borrow, defined as those that meet **all** of the following conditions:

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

These 'permanent non-borrowers' make up 34% of SMEs, unchanged over time, and were more likely to be found amongst the smaller SMEs:

- 37% of 0 employee SMEs met this non-borrowing definition
- 24% of 1-9 employee SMEs
- 17% of 10-49 employee SMEs
- 15% of 50-249 employee SMEs

SMEs in the Health sector were the most likely to be a 'permanent non-borrower' (46%), compared to 27% of those in Wholesale/Retail and Transport. By risk rating, those with an average external risk rating were the most likely to be a 'permanent non-borrower' (37%).

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

6. An initial summary of all overdraft and loan events

This chapter provides

the full definition of each borrowing 'event' together with summary tables of their occurrence. Subsequent chapters then investigate in more detail, and over time. The chapter covers the individual waves of interviews conducted to date. In each wave, SMEs were asked about borrowing events in the previous 12 months, so overall, borrowing events may have occurred from Q2 2010 to Q3 2012. Where year ending data is provided this is YEQ3 2012.

Key findings

Type 1 events (an application for a new or renewed overdraft or loan facility) remained the most common. 10% of all SMEs reported such an event in the 12 months prior to interview, somewhat lower than the equivalent quarter of 2011 (12%)

Larger SMEs, those with a minimal or low external risk rating and those in Agriculture, Hotels & Restaurants and Wholesale/Retail were more likely to report a Type 1 event, however all have seen a decline in Type 1 events over time

Type 2 (a cancellation or renegotiation by the bank) and Type 3 (the SME choosing to repay/reduce an existing facility) events remained less common – 3% of SMEs reported a Type 2 event and 1% a Type 3 event in the 12 months prior to interview in Q3 2012

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

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

This chapter provides analysis on events reported in interviews conducted to YEQ3 2011. This provides bigger base sizes and more granularity for sub-group analysis, such as by employee size band.

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

The rolling aggregate of demand/activity

The tables below show the percentage over time of all SMEs interviewed that reported a borrowing event in the 12 months prior to interview. Type 1 events remained the most common (10% in Q3), and relatively stable over time, albeit now at a somewhat lower level than the equivalent quarter 3 in 2011 (12%):

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

Q25/26 All SMEs

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

Events in the previous 12 months by key demographics

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

The event experienced most widely was the application for a new facility, experienced by 6% of all SMEs and 10% of those with 50-249 employees. The renewal of an existing facility was experienced by almost as many SMEs overall (5%) with more variation by size of business (4% of 0 employee SMEs and 16% of those with 50-249 employees):

Borrowing events YEQ3 12 all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*20,065*	*4023*	*6628*	*6405*	*3009*
Type 1: New application/renewal	11%	8%	16%	21%	22%
Applied for new facility (any)	6%	5%	10%	9%	10%
- applied for new loan	*3%*	*2%*	*5%*	*5%*	*7%*
- applied for new overdraft	*4%*	*3%*	*6%*	*5%*	*5%*
Renewed facility (any)	5%	4%	9%	15%	16%
- renewed existing loan	*1%*	*1%*	*3%*	*4%*	*6%*
- renewed existing overdraft	*4%*	*3%*	*7%*	*13%*	*13%*
Type 2: Cancel/renegotiate by bank	3%	3%	5%	7%	6%
Bank sought to renegotiate facility (any)	3%	2%	4%	6%	6%
- sought to renegotiate loan	*1%*	*1%*	*1%*	*2%*	*3%*
- sought to renegotiate overdraft	*2%*	*1%*	*3%*	*5%*	*4%*
Bank sought to cancel facility (any)	1%	1%	2%	2%	2%
- sought to cancel loan	*	*	*1%*	*1%*	*1%*
- sought to cancel overdraft	*1%*	*1%*	*2%*	*2%*	*1%*
Type 3: Chose to reduce/pay off facility	1%	1%	3%	4%	4%
- reduce/pay off loan	*1%*	*	*2%*	*3%*	*3%*
- reduce/pay off overdraft	*1%*	*	*1%*	*2%*	*1%*

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

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

Borrowing events YEQ3 12 – all SMEs	Total	Min	Low	Avge	Worse/Avge
Unweighted base:	*20,065*	*3213*	*3906*	*5353*	*5740*
Type 1: New application/renewal	11%	14%	13%	10%	10%
Applied for new facility (any)	6%	7%	6%	5%	7%
- applied for new loan	*3%*	*3%*	*3%*	*3%*	*3%*
- applied for new overdraft	*4%*	*4%*	*4%*	*3%*	*5%*
Renewed facility (any)	5%	9%	9%	6%	4%
- renewed existing loan	*1%*	*3%*	*3%*	*2%*	*1%*
- renewed existing overdraft	*4%*	*7%*	*7%*	*5%*	*4%*
Type 2: Cancel/renegotiate by bank	3%	3%	6%	4%	3%
Bank sought to renegotiate facility (any)	3%	3%	5%	3%	2%
- sought to renegotiate loan	*1%*	*1%*	*2%*	*1%*	*
- sought to renegotiate overdraft	*2%*	*2%*	*4%*	*2%*	*2%*
Bank sought to cancel facility (any)	1%	1%	1%	1%	1%
- sought to cancel loan	*	*	*	*	*
- sought to cancel overdraft	*1%*	*1%*	*1%*	*1%*	*1%*
Type 3: Chose to reduce/pay off facility	1%	2%	1%	1%	1%
- reduce/pay off loan	*1%*	*1%*	*1%*	*1%*	*1%*
- reduce/pay off overdraft	*1%*	*1%*	*1%*	*1%*	*1%*

Q25/26 All SMEs with external risk rating

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

Borrowing event in last 12 months YEQ3 12 – all SMES	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*1502*	*2122*	*3538*	*2025*	*1799*	*1805*	*3514*	*1760*	*2000*
Type 1: New application/ renewal	17%	11%	10%	14%	15%	11%	9%	6%	11%
Applied for new facility (any)	9%	6%	6%	8%	10%	7%	5%	3%	7%
- applied for new loan	*4%*	*4%*	*3%*	*3%*	*6%*	*4%*	*2%*	*2%*	*3%*
- applied for new overdraft	*6%*	*3%*	*4%*	*6%*	*6%*	*4%*	*4%*	*2%*	*5%*
Renewed facility (any)	10%	5%	4%	8%	7%	5%	5%	3%	7%
- renewed existing loan	*3%*	*1%*	*1%*	*3%*	*3%*	*2%*	*1%*	*1%*	*2%*
- renewed existing overdraft	*8%*	*5%*	*3%*	*6%*	*6%*	*4%*	*4%*	*2%*	*5%*
Type 2: Cancel/ renegotiate by bank	4%	3%	2%	5%	5%	3%	3%	2%	5%
Bank sought to renegotiate facility (any)	3%	2%	2%	3%	4%	2%	3%	1%	4%
- sought to renegotiate loan	*1%*	*1%*	*	*1%*	*2%*	*1%*	*1%*	*	*2%*
- sought to renegotiate overdraft	*2%*	*1%*	*1%*	*3%*	*3%*	*2%*	*2%*	*1%*	*3%*
Bank sought to cancel facility (any)	1%	1%	1%	2%	2%	1%	1%	1%	1%
- sought to cancel loan	*1%*	*1%*	*	*1%*	*1%*	*	*	*1%*	*
- sought to cancel overdraft	*1%*	*	*1%*	*2%*	*1%*	*1%*	*1%*	*	*1%*
Type 3: Chose to reduce/ pay off facility	2%	2%	1%	2%	2%	2%	1%	2%	1%
- reduce/pay off loan	*1%*	*1%*	*1%*	*1%*	*1%*	*1%*	*1%*	*1%*	*
- reduce/pay off overdraft	*1%*	*	*1%*	*1%*	*1%*	*1%*	*	*1%*	*

Q25/26 All SMEs

The previous chapter reported on the 'permanent non-borrowers' – the 34% of SMEs that seem firmly disinclined to borrow. The table below shows the proportion of SMEs reporting borrowing events in the 12 months prior to interview, once these 'permanent non-borrowers' had been excluded from the SME population. The incidence of Type 1 events (applications/renewals) increased as a result from 11% to 16%:

Borrowing events YEQ3 12 – all SMEs	Total	All excl. PNBs
Unweighted base:	*20,065*	*15,470*
Type 1: New application/renewal	11%	16%
Applied for new facility (any)	6%	10%
- applied for new loan	*3%*	*5%*
- applied for new overdraft	*4%*	*6%*
Renewed facility (any)	5%	8%
- renewed existing loan	*1%*	*2%*
- renewed existing overdraft	*4%*	*7%*
Type 2: Cancel/renegotiate by bank	3%	5%
Bank sought to renegotiate facility (any)	3%	4%
- sought to renegotiate loan	*1%*	*1%*
- sought to renegotiate overdraft	*2%*	*3%*
Bank sought to cancel facility (any)	1%	2%
- sought to cancel loan	*	*1%*
- sought to cancel overdraft	*1%*	*1%*
Type 3: Chose to reduce/pay off facility	1%	2%
- reduce/pay off loan	*1%*	*1%*
- reduce/pay off overdraft	*1%*	*1%*

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

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

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

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

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

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

7. The build up to applications for overdrafts and loans

This chapter is

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

Key findings

An increasing proportion of applications have been made for first time facilities. They now make up around a third of all overdraft and loan applications or renewals

Most overdrafts were sought for working capital, as a safety net, or to fund a short term funding gap, rather than for investment. Since Q3 2011, an increasing proportion had sought facilities to fund expansion in the UK (23% on interim Q2 12 data). Loans were typically sought to buy assets or to fund expansion in the UK. Very few sought funds to fund expansion overseas

10% of overdraft applicants had sought advice prior to applying, compared to 18% of loan applicants. Over time, smaller overdraft applicants have become slightly more likely to seek advice before applying. Seeking advice for loans appears to have been slightly less common for more recent applications, and analysis showed that advice was not a key predictor of success for loan applications

Two thirds of loan applicants were looking to the bank for all the funding they need. Over time, there are signs that more businesses have been putting in some funds themselves, especially those with fewer than 10 employees

Over the course of 2011, an increasing proportion of overdraft applications involved a facility of £5,000 or less

7% of all SMEs reported an overdraft 'event' in the 12 months prior to interview. A further 12% (half of all those with an overdraft) reported that their facility had been automatically renewed by their bank. Over time, overdraft activity has become more likely to be an 'event' and less likely to be an automatic renewal

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

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

Each chapter includes analysis, as far as is possible, on the extent to which loan and overdraft applications are changing over time. As has already been stated, for the most recent quarters (especially Q2 2012) this is only **interim** data, which is liable to change and will be updated in subsequent reports.

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

Applications over time

As the table below shows, the proportion of SMEs having had any Type 1 overdraft event in the 12 months prior to interview has declined slightly over time:

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

Q26 All SMEs

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

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

Q26 All SMEs

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

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

Analysis *does* suggest that a slightly higher proportion of applications than might have been expected were made in Q1 2011 and again in Q1 2012. In 2011, this higher level of activity in Q1 was followed by a lower proportion of applications in Q2 than might have been expected. The data available thus far for Q2 2012 suggests that the share of applications in this quarter was more in line with what would be expected, and has not been affected by the higher levels of activity in Q1 2012.

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

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

Q26 All SMEs: base size varies by category

Compared to the equivalent quarter in 2011, the proportion of SMEs reporting a Type 1 event in the previous 12 months has dropped slightly in Q3 2012, from 12% to 10%. There have been more substantial changes in the proportion of larger businesses reporting an event in Q3 2012 compared to a year ago: from 27% to 16% for those with 10-49 employees and from 21% to 15% for those with 50-249 employees. By risk rating, the biggest change was amongst those with a 'low' external risk rating (17% to 10%).

Other business demographics also showed some variation in incidence of a Type 1 event in Q3 2012:

Demographic	Incidence of Type 1 events reported in Q3 2012
Age of business	The incidence of Type 1 events varied less in Q3 than it has in the past: from 11% for Starts and 9% for others less than 5 years old, to 11% for those trading for 15 years or more. Starts remained much more likely to have applied for new facilities than to have renewed an existing facility (9% v 3%) while older businesses were more likely to have renewed (amongst those 15 years+, 6% applied for a new facility v 7% renewing one)
Profitable SMEs	SMEs that made a loss in the past 12 months were somewhat more likely to have had a Type 1 event: Made a profit 9% Broke even 10% Made a loss 16% The loss makers were slightly more likely to have applied for a new facility than those that made a profit (12% v 5%)
Fast growth (30%+ for 3 yrs)	Fast growth SMEs were no more likely to have had a Type 1 event: Fast growth 10% Non fast growth (excl. Start-ups) 10%
Importers/exporters	Those engaged in international trade were somewhat more likely to have had an event (16%) than those who were not (10%). Note though that international businesses tend to be larger SMEs

Overdraft events – definition and further clarification

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

The results for the year ending Q3 2012 are reported below and show that half of all overdraft holders reported that they had had such a renewal, the equivalent of 12% of all SMEs:

Any overdraft activity YEQ3 12 only	All with overdraft	All SMEs
Unweighted base:	*6553*	*20,065*
Had an overdraft 'event'	31%	7%
Had automatic renewal	52%	12%
Neither of these but have overdraft	17%	4%
No overdraft	-	77%

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

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

Compared to Q4 2011 when the question was first asked, a higher proportion of all 'overdraft activity' (events + automatic renewals) is now accounted for by an 'event'. In Q3 2012 they accounted for 38% of all such overdraft activity reported by those with an overdraft, compared to 31% in Q4 2011.

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

Overdraft activity YEQ3 12 – All with overdraft	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*6553*	*762*	*2119*	*2526*	*1146*
Had an overdraft 'event'	31%	27%	36%	41%	39%
Had automatic renewal	52%	56%	48%	42%	42%
Neither of these but have overdraft	17%	18%	16%	16%	19%

Q15/ 26/26a All SMEs

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

Overdraft activity YEQ3 12 – All with overdraft	Total	Min	Low	Avge	Worse/Avge
Unweighted base:	*6553*	*1007*	*1499*	*1922*	*1632*
Had an overdraft 'event'	31%	33%	37%	30%	31%
Had automatic renewal	52%	51%	50%	53%	52%
Neither of these but have overdraft	17%	16%	13%	17%	18%

Q15/ 26/26a All SMEs

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

Overdraft activity YEQ3 12 – All with overdraft	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*638*	*704*	*1153*	*763*	*550*	*556*	*1107*	*489*	*593*
Had an overdraft 'event'	40%	27%	25%	33%	33%	25%	31%	31%	39%
Had automatic renewal	48%	57%	55%	51%	44%	58%	56%	51%	38%
Neither of these but have overdraft	12%	16%	20%	16%	24%	17%	13%	18%	23%

Q15/ 26/26a All SMEs

Initial statistical analysis has provided no clear indication of the types of SME that are more or less likely to have had an overdraft automatically renewed rather than being renewed as a borrowing 'event'. This will be reviewed again in future waves as base sizes grow.

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

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

Why were they applying?

Overdraft applications

This section covers those SMEs that made an application for a new or renewed overdraft facility during the 12 months prior to interview. All percentages quoted are therefore just of this group, which overall represents around 8% of all SMEs or around 356,000 businesses. Note that this does not include SMEs who had an overdraft automatically renewed.

Half of those reporting a Type 1 overdraft event said that they had been looking to renew an existing overdraft for the same amount (46%). Just over a quarter of applicants (29%) 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 was slightly more likely amongst the larger SMEs:

Nature of overdraft event YEQ3 12 SMEs seeking new/renewed facility	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*2308*	*230*	*767*	*892*	*419*
Renewing overdraft for same amount	46%	44%	45%	62%	64%
Applied for first ever overdraft facility	29%	34%	26%	10%	5%
Seeking to increase existing overdraft	18%	17%	19%	18%	19%
Setting up facility at new bank	2%	1%	3%	2%	4%
Seeking additional overdraft on another account	4%	3%	5%	3%	4%
Seeking to reduce existing facility	2%	1%	2%	4%	4%

Q52 All SMEs seeking new/renewed overdraft facility

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

Nature of overdraft event SMEs seeking new/renewed facility By application date	Q310	Q410	Q111	Q211	Q311	Q411*	Q112*	Q212*
Unweighted base:	*176*	*329*	*679*	*517*	*557*	*527*	*543*	*266*
Renewing overdraft for same amount	54%	41%	50%	49%	44%	50%	41%	49%
Applied for first ever overdraft facility	28%	26%	22%	24%	27%	25%	33%	31%
Seeking to increase existing overdraft	12%	23%	16%	18%	18%	19%	22%	11%
Setting up facility at new bank	4%	2%	6%	1%	2%	1%	3%	1%
Seeking additional overdraft on another account	1%	2%	4%	2%	5%	2%	1%	6%
Seeking to reduce existing facility	2%	5%	2%	5%	3%	2%	*	1%

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

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

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

Amount initially sought, where stated YEQ3 12 SMEs seeking new/renewed facility	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*2043*	*213*	*709*	*765*	*356*
Less than £5,000	46%	63%	26%	3%	*
£5,000 – £9,999	19%	23%	16%	3%	1%
£10,000 – £24,999	16%	9%	27%	17%	3%
£25,000 – £99,999	13%	3%	24%	40%	7%
£100,000+	6%	1%	7%	37%	88%
Median amount sought	*£5k*	*£2k*	*£10k*	*£49k*	*£288k*

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

Over the course of 2011 an increasing proportion of overdraft applications/renewals were for less than £5000. These smaller overdrafts made up a third of all applications in Q3 2010, rising to half of applications in Q4 2011. Results thus far for applications made in 2012 suggest that these smaller overdrafts still account for just under 50% of all applications/renewals.

Three quarters of overdraft applicants said that the overdraft was needed for day to day cash flow, and this varied relatively little by size of SME. Just under half wanted the facility as a 'safety net' and, as the table below shows, this was slightly more likely to be mentioned as a reason by the smaller SMEs that had applied. This was even more the case when it came to overdrafts being required to fill a 'short term funding gap' –18% of SMEs with 50-249 employees applying for a facility said that this was why it was needed, compared to 35% of those with 0 employees. As in previous quarters, overdrafts were much more likely to have been sought to support UK expansion (12%) than overseas expansion (1%).

Purpose of overdraft sought YEQ3 12 SMEs seeking new/renewed facility	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*2308*	*230*	*767*	*892*	*419*
Working capital for day to day cash flow	77%	75%	79%	82%	81%
Safety net – just in case	44%	48%	38%	33%	38%
Short term funding gap	32%	35%	30%	22%	18%
Buy fixed assets	12%	12%	11%	7%	8%
Fund expansion in UK	12%	11%	15%	9%	17%
Fund expansion overseas	1%	1%	1%	2%	3%

Q55 All SMEs seeking new/renewed overdraft facility

Applicants with a better external risk rating were less likely to be looking for funds to fill a short term funding gap (applicants with a minimal risk rating 22% v worse than average risk applicants 38%).

Looking at the purpose of the overdraft sought over time, working capital was the most mentioned purpose in each quarter. The proportion looking to fund expansion in the UK fell over time to Q3 11, when it accounted for just 7% of applications, but appears to be increasing again for applications made in more recent quarters:

Purpose of overdraft SMEs seeking new/renewed facility By application date	Q310	Q410	Q111	Q211	Q311	Q411*	Q112*	Q212*
Unweighted base:	*176*	*329*	*679*	*517*	*557*	*527*	*543*	*266*
Working capital for day to day cash flow	81%	85%	90%	78%	80%	78%	81%	67%
Safety net – just in case	49%	48%	47%	46%	54%	45%	38%	39%
Short term funding gap	43%	36%	43%	34%	43%	28%	32%	28%
Buy fixed assets	17%	23%	17%	13%	16%	12%	8%	14%
Fund expansion in UK	18%	17%	12%	13%	7%	11%	13%	23%
Fund expansion overseas	1%	1%	1%	1%	2%	1%	2%	1%

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

The proportion of SMEs seeking advice before they applied remained consistently low (10%). Analysis by date of application is possible at the half year level:

- over time the proportion of smaller overdraft applicants (0-9 employees) seeking advice increased very slightly (7% in H1 11 to 10% in H2 11 and 9% in H1 12)
- whereas the figures for larger applicants have been more stable (10-249 employees: 14% in H1 11, 14% in H2 11 and 13% in H1 12)

Amongst these larger applicants, an increasing proportion over time said that they had not sought advice because they did not need it (65% H1 11 to 73% H1 12) or because they had previously been successful with an application (21% in H1 11 to 28% in H1 12).

Amongst smaller applicants who had not sought advice, the trend for reasons why they had not sought advice was less clear over time.

3% of applicants had not received a response by the time of our survey and are excluded from the remainder of this analysis. Most, 81%, received a response within a week of applying, and while larger applicants continue to wait slightly longer for a response, overall this varies relatively little by date of application.

Overdraft applications – a sector summary

Type 1 overdraft events were experienced by between 14% of those in Agriculture, and 4% of those in Health.

Those in the Hotels and Restaurants and Construction sectors were more likely to be seeking their first ever overdraft, while those in the Manufacturing and Other Community sectors were more likely to be renewing an existing facility:

Overdraft activity YEQ3 12 all Type 1	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*254*	*234*	*380*	*278*	*182*	*191*	*389*	*170*	*230*
Renewing overdraft for same amount	47%	61%	37%	49%	35%	39%	46%	43%	57%
Applied for first ever overdraft	22%	19%	37%	22%	38%	35%	31%	24%	25%
Seeking to increase existing overdraft	21%	15%	20%	18%	19%	17%	17%	26%	14%

Q52 All SMEs seeking new/renewed overdraft facility

Most approached their main bank. The least likely to do so were those in the Transport sector, but even here 95% of applications were made to the main bank.

Those in Agriculture were seeking the highest median overdraft amount, at £7,000. The lowest median amount sought was £3,000 for the Construction and Transport sectors, with all other sectors seeking £4-5,000.

The main purpose of the overdraft for all sectors was working capital. Covering a short term funding gap was more likely to be mentioned by those in Agriculture, Construction and Transport (all 40-41%), while those in the Health sector were more likely to be seeking funding for fixed assets (22%)

Those in Agriculture (17%) and Health (20%) were the most likely to have sought advice for their application, those in Transport were the least likely (3%).

Loan applications

This section covers all those that made an application for a new or renewed loan facility during the 12 months prior to interview. All percentages quoted are therefore just of this group, which overall represents around 4% of all SMEs or around 187,000 businesses.

There have been fewer loan events reported than overdraft events. As a result, even for year ending Q3 2012, the same granularity of analysis is not always possible as for other areas of the report.

A change was made to the answers available from Q2 2012. The two 'applying for new loan' codes that did not relate to first ever loans were combined to 'We were applying for a new loan but not our first', and an additional code was added to cover setting up new loan facilities after switching banks. Amongst loan applicants interviewed in Q2 and Q3 2012, 2% said that a change of banks had prompted their loan application, and this appears to be slightly more common for larger applicants (5% of applicants with 10-249 employees versus 2% of applicants with 0-9 employees).

Loan applications were more likely than overdraft applications to be for new funding, with 67% of loan applicants seeking a new loan (compared to 53% for overdrafts), and almost 2 in 5 saying this was their first ever loan. As the table below shows, this was more likely to be the case for smaller SMEs that had applied (half of 0 employee SMEs applying for their first ever loan were Starts):

Nature of loan event YEQ3 12 SMEs seeking new/renewed facility	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*1270*	*128*	*401*	*448*	*293*
Applied for first ever loan	38%	45%	33%	14%	7%
New loan but not our first	29%	26%	31%	39%	40%
Renewing loan for same amount	13%	11%	16%	21%	25%
Topping up existing loan	8%	9%	7%	9%	9%
Refinancing onto a cheaper deal	8%	7%	8%	9%	13%
Consolidating existing borrowing	3%	1%	4%	5%	4%

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

Around 1 in 8 loan applicants with 10-249 employees were seeking to refinance onto a cheaper deal than their current loan.

Analysis in previous reports has shown that the application process for a loan and the eventual outcome varied by the reason for application.

The table below shows the proportion of applications made for each reason, over time, for those quarters where sufficiently robust sample sizes exist. Most applications were for new facilities (the first two rows of the table) and over time, a higher proportion of these new facilities have been first ever loans:

Nature of loan event SMEs seeking new/renewed facility – By application date	Q310	Q410	Q111	Q211	Q311	Q411*	Q112*	Q212*
Unweighted base:	*121*	*172*	*302*	*273*	*282*	*288*	*235*	*132*
Applied for first ever loan	27%	35%	40%	33%	41%	30%	49%	33%
New loan but not our first	37%	38%	29%	29%	25%	38%	21%	31%
Renewing loan for same amount	6%	14%	17%	17%	9%	12%	16%	12%
Topping up existing loan	13%	5%	7%	8%	5%	15%	7%	13%
Refinancing onto a cheaper deal	6%	4%	4%	6%	16%	3%	4%	7%
Consolidating existing borrowing	11%	4%	3%	5%	3%	1%	3%	3%

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

Compared to overdraft applications/renewals, those for loans were slightly less likely to be made to the SME's main bank, although most of them were (90%). Analysis by date of application shows an increasing trend during 2011 to apply to the main bank (88% for applications made in Q1 11 to 96% for those made in Q4 11), but somewhat lower figures for applications reported so far in 2012 (89% for applications made in Q1 and 79% for those in Q2).

The median amount sought was unchanged from previous waves at £10,000:

Amount initially sought, where stated YEQ3 12 SMEs seeking new/renewed facility	Total	0 emps	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*1142*	*123*	*368*	*395*	*256*
Less than £5,000	17%	22%	11%	2%	*
£5,000 – £9,999	20%	25%	14%	2%	-
£10,000 – £24,999	34%	39%	28%	13%	1%
£25,000 – £99,999	15%	9%	22%	29%	7%
£100,000+	15%	4%	25%	53%	92%
Median amount sought	*£10k*	*£9k*	*£19k*	*£95k*	*£551k*

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

From Q4 2011, loan applicants have been asked about the extent to which the funding applied for represented the total funding required, and how much the business was contributing. The results for the year to Q3 2012 are shown below, with most applicants (69%) seeking all the funding they required from the bank:

Proportion of funding sought from bank YEQ3 12 SMEs seeking new/renewed facility	Total	0 emps	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*1234*	*126*	*394*	*430*	*284*
Half or less of total sum required	13%	13%	15%	14%	10%
51-75% of sum required	13%	12%	13%	10%	15%
76-99% of sum required	5%	5%	5%	8%	13%
All of sum required sought from bank	69%	70%	67%	68%	62%

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

Smaller applicants were somewhat more likely to be seeking all the funding they needed, but there was relatively little difference in the proportion of funding sought from the bank by size of applicant. There was also little difference by external risk rating.

Analysis over time by date of loan application (H1 11 to H1 12) shows something of a decline in the proportion of loan applicants seeking all the funding they wanted from the bank. Of applications made in H1 2011, 79% were seeking all the funding required from the bank, compared to 61% of applications reported to date for H1 2012. This was due to fewer smaller applicants (0-9 employees) seeking all the funding from their bank (80% in H1 2011 to 61% in H1 2012), with more stable figures for larger applicants (67% in H1 2011 and 66% in H1 2012 for applicants with 10-249 employees).

Overall, these funds were likely to have been sought either to purchase fixed assets (30%, and mentioned more by the smallest applicants), or to fund expansion in the UK (26%, and increasing by size of applicant). The largest applicants were the most likely to be buying premises:

Purpose of loan YEQ3 12 SMEs seeking new/renewed facility	Total	0 emps	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*1270*	*128*	*401*	*448*	*293*
Buy fixed assets	30%	35%	22%	27%	23%
Fund expansion in UK	26%	24%	29%	28%	35%
Buy motor vehicles	22%	29%	13%	6%	4%
Develop new products/services	16%	17%	14%	13%	11%
Buy premises	17%	9%	28%	29%	36%
Replace other funding	12%	9%	14%	17%	15%
Fund expansion overseas	2%	2%	3%	4%	4%
Take over another business	2%	1%	3%	3%	4%

Q150 All SMEs seeking new/renewed loan facility

Analysed by application date, results available thus far for the most recent applications (Q2 12) indicate a reversal of the previous trend in which fixed assets became an increasingly common reason for applying for a loan, ahead of UK expansion – these two reasons between them continue to account for over half of all applications:

Purpose of loan SMEs seeking new/renewed facility – by application date	Q310	Q410	Q111	Q211	Q311	Q411*	Q112*	Q212*
Unweighted base:	*121*	*172*	*302*	*273*	*282*	*288*	*235*	*132*
Fund expansion in UK	37%	17%	28%	19%	26%	28%	29%	40%
Buy fixed assets	26%	21%	21%	13%	35%	44%	31%	14%
Buy motor vehicles	17%	18%	22%	24%	24%	10%	22%	26%
Develop new products/services	12%	20%	15%	20%	22%	7%	16%	11%
Fund expansion overseas	6%	1%	3%	2%	*	4%	3%	3%

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

Whereas 10% of overdraft applicants had sought external advice before applying, more loan applicants had done so, albeit still a minority (18%). It was the smallest applicants who were much less likely to have sought advice: 12% of applicants with 0 employees sought advice, compared to 25% with 1-9 employees, 29% with 10-49 employees and 26% of those with 50-249 employees. Analysis by date of application suggests that seeking advice became increasingly popular up to Q2 2011 (when 30% of loan applicants applying in that quarter sought advice) but has been declining since (12% of loan applicants in Q2 2012 sought advice).

Half of applicants who had not sought advice, 58%, said that it was because they did not need it. Smaller applicants were more likely to mention they did not know who to ask, while larger ones were more likely to say that they had been successful in the past.

3% of applicants had not received a response by the time of our survey and are excluded from the remainder of this analysis. Most, 70%, received a response within a week of applying. Larger applicants continue to wait slightly longer for a response.

Loan applications – a sector summary

Having a Type 1 loan event varied relatively little by sector – from 3% in Construction, Property/Business Services and Health to 8% in Hotels and Restaurants.

Those in the Property/Business Services sector were slightly more likely to be applying for their first ever loan, while renewals were somewhat more common amongst applicants from the Agriculture sector:

Loan activity YEQ3 12 all Type 1	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	***115***	***154***	***155***	***143***	***144***	***119***	***186***	***137***	***117***
Applied for first ever loan	27%	36%	42%	32%	37%	42%	44%	40%	38%
New loan (other)	26%	30%	38%	25%	28%	29%	26%	29%	23%
Renewing loan for same amount	22%	21%	8%	20%	12%	12%	8%	5%	19%

Q149 All SMEs seeking new/renewed loan facility

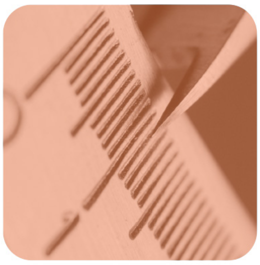
Most approached their main bank (90%). The least likely to do so were applicants in Manufacturing (77% of applications were made to main bank) and Hotels and Restaurants (81% of applications were made to main bank).

The highest median loan amounts were sought by applicants from the Manufacturing (£41k) and Hotels and Restaurants sector (£28k). The lowest median amount sought was from applicants in Construction (£7k). Those in Agriculture and Construction were more likely to be seeking all the funding required from the bank, applicants from Property/Business Services and Transport were less likely.

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

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

8. The outcome of the application/ renewal



This chapter details

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

Key findings

Across all applications reported to date (both loan and overdraft), 71% resulted in a facility, 5% took another form of funding and 23% were declined

Amongst those *initially* declined (that is, 24% of overdraft applicants and 39% of loan applicants) only a minority were offered alternative forms or sources of funding, the advice provided was typically rated as 'poor' and the awareness and use of the appeals process remained very limited. Most of those initially declined ended up with no facility

At the end of the process, for YEQ3 12, 74% of overdraft applicants had a facility, 3% had taken another form of funding and 24% did not have a facility (the equivalent of 2% of all SMEs). By comparison, 56% of loan applicants had a facility, 8% had taken another form of funding and 35% had no facility

Success rates remained higher for both loans and overdrafts for bigger and more established businesses, those with a minimal or low external risk rating, and those looking to renew an existing facility

Taking loans and overdrafts together, first time applicants now make up a higher proportion of applications made, but remained less likely to had a facility at the end of the process (42% of all such applicants now have a facility, 7% have taken other funding, 51% have no facility). Such applicants were typically smaller, newer businesses with a poorer external risk rating profile, and were somewhat less likely to have made a profit than businesses overall

Analysed by date of application, the proportion of applicants ending the process with an overdraft facility was fairly consistent between Q4 2010 and Q4 2011. Interim data for applications in 2012 suggested that more applicants had been declined, and this was true even when size and risk rating were taken into account

For loans the success rates were more stable

Numbers of applicants are limited, but data available to date suggested that success rates for first time applicants improved in both the second half of 2011 and the first half of 2012, although they are not yet back to levels seen in the second half of 2010

Although most renewals were successful, the success rate has declined slightly over time

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

The final outcome – all loan and overdraft applications to date

Before looking in detail at the individual loan and overdraft journeys, data is provided on the outcome of **all** Type 1 applications, both loan and overdraft, since the Monitor started. Of the 5,750 applications on which data has been gathered, 71% resulted in a facility, while 23% have none, with 5% taking another form of funding.

Analysis by date of application is shown below:

Final outcome (Overdraft+Loan): SMEs seeking new/renewed facility By date of application	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011	Q4 2011*	Q1 2012*	Q2 2012*
Unweighted base:	*296*	*493*	*960*	*742*	*808*	*779*	*738*	*363*
Offered what wanted and took it	66%	59%	58%	61%	55%	63%	55%	49%
Took facility after issues	13%	11%	12%	11%	14%	8%	11%	17%
Have facility (any)	*79%*	*70%*	*70%*	*72%*	*69%*	*71%*	*66%*	*66%*
Took another form of funding	4%	7%	8%	7%	4%	5%	3%	4%
No facility	18%	23%	22%	21%	27%	24%	31%	30%

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

The table shows that from Q4 2010 to Q4 2011, success rates across loans and overdrafts were fairly stable, with around 7 out of 10 applicants having a facility. The data available so far for Q1 and Q2 2012 indicates a slightly lower success rate, but this is only interim data and so further data is needed before firm conclusions can be drawn.

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

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 63% of overdraft applications was to offer the SME what it wanted, compared to 49% of loan applications. Bigger SMEs remained much more likely to be offered what they wanted at this initial stage:

Initial response (Overdraft): YEQ3 12 SMEs seeking new/renewed facility	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*2224*	*224*	*742*	*853*	*405*
Offered what wanted	63%	61%	63%	79%	90%
Offered less than wanted	8%	6%	11%	8%	3%
Offered unfavourable terms & conditions	4%	3%	6%	5%	4%
Declined by bank	24%	29%	19%	8%	3%

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

Initial response (Loan): YEQ3 12 SMEs seeking new/renewed facility	Total	0 emps	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*1199*	*126*	*384*	*413*	*276*
Offered what wanted	49%	44%	53%	64%	78%
Offered less than wanted	5%	4%	5%	8%	7%
Offered unfavourable terms & conditions	8%	7%	8%	12%	9%
Declined by bank	39%	44%	34%	16%	6%

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

SMEs more likely to initially be offered what they wanted included those applying to renew an existing overdraft (88%) or loan (82%), and those with a minimal external risk rating (86% overdraft, 74% loan). Those more likely to be met with an initial decline included those applying for their first ever overdraft (59%) or loan (38%) or those with a worse than average external risk rating (31% initially declined if applying for an overdraft, 46% if applying for a loan).

The tables below looks at the initial response to applications by the date of application. Initial results for overdraft applications made in Q2 2012 suggest they were more likely to be declined, but this is based on interim data and will be monitored as more data for this period is gathered:

Initial response: SMEs seeking new/renewed overdraft facility – by date of application	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011	Q4 2011*	Q1 2012*	Q2 2012*
Unweighted base (Overdraft):	*176*	*324*	*670*	*489*	*541*	*506*	*520*	*246*
Offered what wanted and took it	74%	65%	64%	62%	65%	71%	59%	57%
Any issues (amount or T&C)	10%	11%	14%	16%	14%	9%	12%	13%
Declined overdraft	15%	25%	22%	22%	21%	20%	28%	31%

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

Analysis by date of application for loans shows that since Q3 2011, a relatively stable 4 out of 10 applications have been initially declined. As for overdrafts, the most recent data is still interim:

Initial response: SMEs seeking new/renewed loan facility – by date of application	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011	Q4 2011*	Q1 2012*	Q2 2012*
Unweighted base (Loan)	*120*	*169*	*290*	*253*	*267*	*273*	*218*	*117*
Offered what wanted and took it	51%	50%	50%	64%	41%	49%	55%	41%
Any issues (amount or T&C)	21%	15%	8%	12%	19%	12%	6%	16%
Declined loan	28%	35%	42%	24%	41%	38%	39%	42%

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

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

The subsequent journey

The next section of this chapter reports on what happened after the initial response from the bank, up to and including the final outcome of the application. This is reported first for overdrafts and then for loans, and is based on all Type 1 overdraft / loan applications *reported* in interviews conducted from Q4 2011 to Q3 2012.

Before the detail is discussed of what happened after each of the possible initial responses, the 'journeys' are summarised below, with almost two thirds of overdraft applicants (62%) and almost half of loan applicants (46%) being offered the facility they wanted and going on to take it with no issues:

Journey summary YEQ3 12 SMEs seeking new/renewed facility	Overdraft	Loan
Unweighted base:	***2224***	***1199***
Initially offered what they wanted and went on to take the facility with no issues	62%	46%
Initially offered what they wanted, but had 'issues' before they got their facility	2%	2%
Had issues with the initial offer, and now have a facility 'after issues'	9%	6%
Initially turned down, but now have a facility	1%	2%
Had issues with the initial offer made so took alternative funding instead	<1%	1%
Were initially turned down, so took alternative funding instead	2%	7%
Had issues with the initial offer made and now have no facility at all	3%	5%
Initially turned down and now have no facility at all	21%	30%

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

The subsequent journey – overdrafts

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

- Those **offered what they wanted** were more likely to be seeking a renewal of facilities (65% of those offered what they wanted v 47% of all applicants) and unlikely to be applying for their first ever overdraft (14% of those offered what they wanted v 29% of all applicants). They were slightly more likely to have a minimal/low risk rating (25% of those offered what they wanted v 21% of all applicants). 44% of those offered what they wanted had employees (42% all applicants), and they were likely to have been in business for 10 years or more (46% of those offered what they wanted v 39% of all applicants). They were the least likely to be seeking an overdraft limit of £5,000 or less (39% of those offered what they wanted v 46% of all applicants)

- A third of those **offered less than they wanted** were looking to increase an existing overdraft (37% of those offered less than they wanted v 18% of all applicants). They were more likely to have employees (54% of those offered less than they wanted v 42% of all applicants) and were as likely to have a minimal/low external risk rating (22% of those offered less than they wanted v 21% of all applicants)

- A third of those **who had issues with the original offer** were seeking an increase an existing overdraft (34% of those who had issues v 18% of all applicants). They were typically bigger businesses (58% had employees v 42% of all applicants). They were the most likely to be seeking an overdraft limit of £25,000 or more (28% of those who had issues v 19% of all applicants)

- Those **initially turned down** for an overdraft had the most distinctive profile. They were typically smaller (30% of those initially turned down had employees v 42% of all applicants) and 4 in 10, 41%, of those initially turned down were Start-ups (v 20% of all applicants). 71% of those initially declined had a worse than average external risk rating (v 51% of all applicants), while 10% had a minimal/low risk rating (v 21%). Just over two thirds of those initially turned down, 70% were applying for their first ever overdraft (v 29% of all applicants), with 64% applying for a facility of £5,000 or less (v 46% of all applicants)

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

Summarised below for YEQ3 12 is what happened after the bank's initial response to the overdraft application and any issues around the application. Base sizes for some groups remain small, but some limited analysis by date of application is now possible, predominantly for those initially declined:

Initial offer	Subsequent events – overdraft
Offered what wanted (63% of applicants, 4% of **all** SMEs) Q64-65	97% of those offered the overdraft they wanted went on to take the facility, with 3% experiencing any delays or problems (typically supplying further information, or valuations and/or having to wait for a final decision or legal work to be completed). 3 applicants decided not to take up the facility offered. Almost all received the full limit they had originally asked for.
Issue: Offered less than wanted (8% of applicants, <1% of **all** SMEs) Q85-95	These SMEs were typically offered 50-90% of what they had asked for 23% said they were not given a reason for being offered less (excluding those who couldn't remember). The main reasons given were: • no/insufficient security (28% overall) • a weak balance sheet (16% overall, and more likely for smaller applicants) • credit history issues (20% overall, and more likely for 0 employee applicants) A quarter, 29%, thought the advice they were offered was 'good', 40% thought it was 'poor' while 13% did not get any advice at this stage, and this varied relatively little by size. In the end, most, 79% accepted the lower offer, almost all with the bank they originally applied to. 12% managed to negotiate a better offer, again almost all with the original bank. 4% took another form of finance and 6% now have no facility. Three quarters of those who now have an overdraft obtained at least half of the amount they had originally sought, typically in line with the bank's initial response. This was more common for larger applicants (95% of those with 10-249 employees) than for smaller ones (72% of those with 0-9).

Initial bank response	Subsequent events – overdraft
Issue: Offered unfavourable T&C (4% of applicants, <1% of **all** SMEs) Q96-97	The 'unfavourable' terms and conditions were most likely to relate to: • security – the amount or type sought, 38% of these applicants and more of an issue for larger applicants (58% 10-249 employees) • the proposed interest rate – 32% • the proposed fee – 30% Both the fee and the interest rate were mentioned more by smaller applicants. A minority of applicants offered what they saw as unfavourable terms and conditions, 17%, said they managed to negotiate a better deal than the one originally offered – almost all of them at the bank they originally applied to A quarter, 28%, accepted the deal they were offered (almost all at the original bank). 1% took other funding, while half, 56%, decided not to proceed with an overdraft. Analysis by date of application suggests that over time more applicants initially offered unfavourable terms and conditions decided not to proceed with a facility.

The subsequent journey – those who were declined for an overdraft

The table below details the subsequent journey of those whose overdraft application was initially declined (24% of all applicants and 2% of all SMEs):

Initially declined	Subsequent events – overdraft
Reasons for decline Q70	21% of those initially declined said that they had not been given a reason (excluding those who could not remember the reasons given). 36% said the decline related to their personal and/or business credit history (mentioned more by smaller SMEs), while 8% mentioned issues around security (mentioned more by larger SMEs). Also mentioned were weak balance sheets, having too much borrowing already and financial forecasts that the bank did not agree with. No clear pattern was seen by application date.
How decline was communicated Q70a-b	These respondents were asked how the initial decision was communicated to them and whether they were told enough to explain why the decision had been made. In the majority of these cases (71%) the decision was communicated verbally, while a third (30%) received a written response (a few had both). 4 out of 10 (40%) felt that they had not been given enough information to explain the decision. 60% felt they had, and this was slightly more so for smaller applicants.
Advice and alternatives Q71-80	14% of those initially declined said that the bank had offered them an alternative form of funding to the declined overdraft, or suggested any alternative sources of external finance, and this was slightly less common for smaller applicants. Where an alternative was offered, this was most likely to be a loan or a business credit card (or invoice finance for larger applicants). Two thirds thought the advice offered at that stage had been poor (64%), while 13% said that it had been good and 10% said they were not offered any advice (with little variation by size). More generally, 9% of those initially declined reported that they had been referred to any sources of help or advice by the bank, while a further 12% sought their own external advice without a recommendation. On a small base of advice seekers, around two-thirds, 65%, found this external advice of use.

Continued

Continued

Advice and alternatives Q71-80	Indicatively, newer businesses, especially Starts, were less likely to be offered alternative solutions or sources of funding but were more likely to be referred to other sources of advice, or to seek such advice themselves. Looking over time, from initial data, applicants in H1 2012 were slightly more likely to have been offered an alternative form of funding, and to rate the advice they received at that stage as good. They were somewhat less likely to have been referred to other sources of help or advice by the bank, and so, perhaps as a result, slightly more likely to have sought their own advice.

Initially declined	Subsequent events – overdraft
Appeals Q73-75	From April 2011, a new appeals procedure has been in operation. Across all interviews conducted to date, 299 respondents have been declined for an application made since that time. 13% said they were made aware of the appeals process. Indications are that awareness is not increasing over time (14% of those declined in H2 2011 were aware compared to 9% in H1 2012) 5 SMEs had appealed: in 3 cases the bank had not changed its decision, in 1 it had, and 1 SME was waiting to hear. Those that had not appealed typically cited the view that they did not think it would have changed anything.
Outcome Q81-84	At the end of this period, 4% of the SMEs initially declined had managed to secure an overdraft, typically with the original bank rather than an alternative supplier. Qualitatively these SMEs manage to secure most of the funding they had initially sought. Some, 10%, had secured alternative funding, with mentions of friends/family and personal borrowing, but the largest group, 87%, had no funding at all, and this was more likely if the applicant was a smaller SME, and also where the application had been made more recently, as fewer applicants secured alternative finance.

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. The Year Ending Q3 figure includes all Type 1 overdraft applications reported in interviews conducted from Q4 2011 to Q3 2012.

Most of these applicants, 62%, had the overdraft facility they wanted, and a further 12% secured an overdraft after having issues about the amount or the terms and conditions of the bank's offer. 24% of all applicants ended the process with no overdraft – as the table below shows, this is the equivalent of 2% of **all** SMEs. Note that this table does **not** include automatic renewal of overdrafts.

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

Final outcome (Overdraft): YEQ3 12 SMEs seeking new/renewed facility	All overdraft Type 1 applicants	All SMEs	All SMEs excl. PNBs
Unweighted base:	*2224*	*20,065*	*15,470*
Offered what wanted and took it	62%	4%	6%
Took overdraft after issues	12%	1%	1%
Have overdraft (any)	*74%*	*5%*	*7%*
Took another form of funding	3%	*	*
No facility	24%	2%	3%
Did not have a Type 1 overdraft event	-	*93%*	*89%*

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

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

Final outcome (Overdraft): YEQ3 12 SMEs seeking new/renewed facility	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*2224*	*224*	*742*	*853*	*405*
Offered what wanted and took it	62%	60%	61%	78%	86%
Took overdraft after issues	12%	8%	18%	14%	9%
Have overdraft (any)	*74%*	*68%*	*79%*	*92%*	*95%*
Took another form of funding	3%	2%	3%	2%	1%
No facility	24%	30%	18%	7%	4%

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

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

Final outcome (Overdraft): YEQ3 12 SMEs seeking new/renewed facility	Total	Min	Low	Average	Worse/Avge
Unweighted base:	*2224*	*342*	*516*	*626*	*577*
Offered what wanted and took it	62%	84%	71%	69%	55%
Took overdraft after issues	12%	13%	14%	14%	11%
Have overdraft (any)	*74%*	*97%*	*85%*	*83%*	*66%*
Took another form of funding	3%	1%	1%	2%	3%
No facility	24%	3%	14%	15%	30%

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

There were some clear differences in success rate by sector, with applicants in Construction the least likely to have been successful, and those in Wholesale/Retail the most likely:

Final outcome (Overdraft): YEQ3 12 SMEs seeking new/renewed facility	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*248*	*225*	*367*	*268*	*176*	*181*	*372*	*167*	*220*
Offered what wanted and took it	69%	74%	57%	63%	46%	64%	59%	65%	64%
Took overdraft after issues	11%	6%	7%	20%	21%	4%	13%	12%	12%
Have overdraft (any)	*80%*	*80%*	*64%*	*83%*	*67%*	*68%*	*72%*	*77%*	*76%*
Took another form of funding	4%	1%	4%	2%	4%	3%	2%	13%	*
No facility	17%	19%	32%	15%	29%	29%	26%	10%	24%

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

Mention has already been made in this report of the differences between applications for first time, increased or renewed overdrafts. As the table below shows, this was also true at the end of the application journey, with half (58%) of those seeking a first overdraft facility ultimately having no facility:

Final outcome (Overdraft): YEQ3 12 SMEs seeking new/renewed facility	Total	1st overdraft	Increased overdraft	Renew overdraft
Unweighted base:	***2224***	***338***	***424***	***1239***
Offered what wanted and took it	62%	27%	56%	86%
Took overdraft after issues	12%	11%	24%	7%
Have overdraft (any)	***74%***	***38%***	***80%***	***93%***
Took another form of funding	3%	4%	5%	*
No facility	24%	58%	15%	6%

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

The final piece of analysis for YEQ3 12 shows outcome by age of business. The older the business, the more likely they were to have been offered what they wanted. Start-ups were the least likely to have been successful, and this is closely linked to the table above: 63% of Start-ups who applied were looking for their first overdraft and almost half, 45%, of all first time applications were made by Start-ups:

Final outcome (Overdraft): YEQ3 12 SMEs seeking new/renewed facility By age of business	Starts	2-5 yrs	6-9 yrs	10-15 yrs	15+ yrs
Unweighted base:	***159***	***268***	***308***	***344***	***1145***
Offered what wanted and took it	39%	58%	64%	76%	73%
Took overdraft after issues	10%	11%	15%	13%	12%
Have overdraft (any)	***49%***	***69%***	***79%***	***89%***	***85%***
Took another form of funding	5%	3%	4%	1%	1%
No facility	46%	29%	18%	10%	14%

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

Final outcome by date of application – overdrafts

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

This showed that the proportion of applicants who ended the process with an overdraft facility was fairly constant between Q4 2010 and Q4 2011. However, interim results for Q1 and Q2 2012 suggest an increase in the proportion ending the process with no facility, which had hitherto been fairly constant:

Final outcome (Overdraft): SMEs seeking new/renewed facility By date of application	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011	Q4 2011*	Q1 2012*	Q2 2012*
Unweighted base:	*176*	*324*	*670*	*489*	*541*	*506*	*520*	*246*
Offered what wanted and took it	72%	64%	63%	61%	63%	70%	56%	55%
Took overdraft after issues	11%	13%	14%	13%	14%	8%	13%	15%
Have overdraft (any)	*83%*	*77%*	*77%*	*74%*	*77%*	*78%*	*69%*	*70%*
Took another form of funding	2%	7%	6%	6%	4%	1%	2%	4%
No facility	15%	16%	17%	20%	18%	21%	29%	27%

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

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

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

- The proportion of applicants that were Start-ups was higher for applications made in 2012 compared to the end of 2011, and there were also more first time applicants amongst these more recent applicants
- An increasing proportion of applicants had a worse than average external risk rating, peaking to date at 61% of those applying in Q1 2012

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

For this report, the equation was built using business size and risk rating, as these factors had been shown as key influencers on the likelihood of being successful in an application for funding. The analysis shows that success rates were better than predicted in most quarters, though often by a narrow margin, but for the results available thus far for applications in 2012, success rates were lower than predicted:

Final outcome (Overdraft): SMEs seeking new/renewed facility By date of application	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011	Q4 2011*	Q1 2012*	Q2 2012*
Unweighted base:	*176*	*324*	*670*	*489*	*541*	*506*	*520*	*246*
Have overdraft (any)	83%	77%	77%	74%	77%	78%	69%	70%
Predicted success rate from model	78%	76%	76%	77%	76%	76%	74%	76%
Difference	+5	+1	+1	-3	+1	+2	-5	-6

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

This is in contrast to previous quarters when overdraft success rates had seemed to be improving, compared to the predicted rates from the model.

The proportion of applicants seeking an overdraft of £5,000 or less has increased over time from around a third of applications to around half. Around 1 in 5 applications were for overdrafts in excess of £25,000.

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

- The outcome for those applying for larger overdrafts (£25,000+) was fairly consistent over time, and around 90% had an overdraft
- Applications for the smallest overdrafts (under £5,000) became more likely to be successful, moving, over time, from around half to around two-thirds being successful overall
- Those in the middle (£5-25,000) became slightly less likely to be successful, from around 90% to around 70% having an overdraft

Analysis of the overdraft facility *granted* by application date below shows an increasing proportion of facilities were agreed for £5,000 or less (reflecting a similar increase in the proportion of applicants requesting a facility of that size). Around 1 in 5 facilities were for more than £25,000 and this has changed relatively little over time:

Overdraft facility granted By date of application	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011	Q4 2011*	Q1 2012*	Q2 2012*
Unweighted base:	*154*	*278*	*577*	*424*	*462*	*446*	*442*	*207*
Less than £5,000	33%	35%	43%	47%	52%	49%	46%	54%
£5-25,000	47%	44%	32%	33%	31%	28%	34%	25%
£25,000+	20%	21%	25%	21%	17%	22%	20%	21%

Overdraft facility granted – all successful applicants that recall amount granted

The impact of automatic renewals on overdraft success rates

Analysis of SMEs interviewed from Q4 2011, revealed that a considerable number of SMEs had an overdraft that had been automatically renewed by their bank. Such SMEs can be considered to be part of the 'Have an overdraft (any)' group, and thus impact on overall success rates. The table below shows the results for YEQ3 2012, and the impact on success rates when the automatically renewed overdrafts are included. There have been many more overdraft renewals than Type 1 events, so the impact is considerable.

Final outcome (Overdraft): YEQ3 12 only	Type 1 events	Type 1 + automatic renewal	All SMEs
Unweighted base:	*2224*	*5243*	*20,065*
Offered what wanted and took it	62%	23%	4%
Took overdraft after issues	12%	5%	1%
Automatic renewal	-	*62%*	*12%*
Have overdraft (any)	***74%***	***90%***	***17%***
Took another form of funding	3%	1%	*
No facility	24%	9%	2%

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

For YEQ3 2012, including those that had had an automatic renewal increased the success rate from 74% to 90%. The equivalent increase for all SMEs when automatic renewals were included was from 5% to 17%.

The subsequent journey – loans

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

- Those **offered what they wanted** were typically more established businesses – 32% had been trading for 15 years or more compared to 23% of all applicants. They were also less likely to be looking for their first ever facility (30% of those offered what they wanted v 38% of all applicants) and more likely to be looking to renew existing facilities (23% of those offered what they wanted v 14%)

- Those **offered less than they wanted** were more likely to have a worse than average external risk rating (77% of those offered less than they wanted v 50% of all applicants), and more likely to be a Start-up (44% of those offered less than they wanted v 25%)

- Those **who had issues with the original offer** were less likely to be seeking their first loan (18% of those who had issues v 38% of all applicants). They typically had a better external risk rating (43% minimal/low v 20% of all applicants), and were unlikely to be a Start-up (3% of those who had issues v 25% of all applicants). A quarter were applying for a facility in excess of £100,000 (27% of those who had issues v 15% of all applicants)

- Those **initially turned down** for a loan had the most distinctive profile. They were smaller (33% of those turned down had employees v 42% of all applicants), and over a third were Start-ups (38% of those turned down v 25% of all applicants). 7% of those turned down had a minimal/low risk rating (v 20% of all applicants), indeed 65% of those initially declined had a worse than average external risk rating (v 50% of all applicants). Half, 53%, were applying for their first ever loan (v 38% of all applicants)

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

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

Initial bank response	Subsequent events – loan
Offered what wanted (49% of applicants, 2% of **all** SMEs) Q159-164	94% of those offered what they wanted went on to take the loan with no problems, 5% took the loan after some issues (typically having to go to the bank for an interview or renegotiate some aspect of the facility). Almost all took the full amount they had originally asked for. 1% of these applicants decided not to proceed with the loan they had been offered.
Issue: Offered less than wanted (5% of applicants, <1% of **all** SMEs) Q180-190	These SMEs were typically offered between 20-80% of what they asked for The main reasons for being offered less were around unconvincing financial forecasts (32% and mentioned more by smaller applicants) and security issues (21%). 19% were given no reason. On a small base, the advice offered at this stage was as likely to be rated as good (42%) as poor (39%) while 1% were not given any advice. 19% managed to negotiate a better deal, predominantly with the original bank. Half, 55%, accepted the lower amount offered (almost all with the original bank applied to). 21% took other borrowing and 5% have no facility. Most of the SMEs in this group who obtained a loan received more than 50% of the amount they had originally sought.
Issue: Offered unfavourable T&C (8% of applicants, <1% of **all** SMEs) Q191-195	The unfavourable terms (excluding those who didn't know) typically related to the proposed interest rate (74%). Issues around security (level, type requested and/or cost) were mentioned by 22% of these applicants, and the proposed fee by a fifth (19%). Smaller applicants were more likely to mention the interest rate, larger applicants the fee and security. 12% managed to negotiate a better deal (at either the original bank or another bank) while 20% accepted the deal offered, most with the original bank. Both these outcomes were more likely for larger applicants. 5% took another form of funding. 65% of applicants had no facility, and this was more likely to be the outcome for smaller applicants For those with a facility, the amount of such loans was typically in line with their original request.

The subsequent journey – those that were declined for a loan

The table below details the subsequent journey of those whose loan application was initially declined (39% of applicants, the equivalent of 1% of all SMEs). Some analysis by date of application is now possible:

Initially declined	Subsequent events – loan
Reasons for decline Q165	28% 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). 27% said that the decline related to their personal and/or business credit history (especially smaller applicants), while 15% mentioned issues around security (typically larger applicants). Around 1 in 10 said that the bank had not been satisfied with their financial forecasts and 7% that they had too much existing borrowing.
How decline was communicated Q165a-b	These respondents were asked how the loan decision had been communicated to them, and whether they were told enough to explain why the decision had been made. Communication methods were similar to those for the equivalent overdraft applications, in that 80% said the decision was communicated verbally, while 31% received a written response (a few received both). Those declined for a loan were less likely to say that they had been given enough information to explain the decision (43%), than those informed about an overdraft decline (60%).
Advice and alternatives Q166 and 171-175	9% of those initially declined said that the bank had offered them an alternative form of funding to the declined loan, or suggested any alternative sources of external finance, and this appears to be becoming slightly less common over time. Two thirds (69%) thought that the advice the bank had offered at that stage had been poor, 7% thought it had been good, and 13% had not been offered any advice (this appears to be more common for more recent applications). More generally, 5% of those initially declined reported that they had been referred to any other sources of help or advice by the bank, while a further 14% sought their own external advice without a recommendation, with no clear trend over time. On a small base, around half, 49%, found these external sources of use, with larger applicants more likely to do so, but there are indications that this advice has been rated as less useful by more recent applicants.

Initially declined	Subsequent events – loan
Appeals Q168-170	From April 2011, a new appeals procedure was introduced. Across all interviews conducted to date, 269 respondents have been declined for a loan application made since that time. Amongst this group, 9% said that they were made aware of the appeals process by their bank, and there was little evidence of this changing over time. Of these 35 declined applicants, 1 appealed and the bank changed its decision, 8 appealed but the decision was upheld, 2 appealed but had not heard yet, and 24 did not appeal, typically citing the view that they did not think it would have changed anything, and/or they were too busy keeping the business going.
Outcome Q176-179	At the end of this period, 5% of those initially declined for a loan had managed to secure a loan with either the original bank or a new supplier. 18% had secured alternative funding, with friends/family and/or personal borrowing most likely to be mentioned. 77% of those initially declined did not have a facility at all, with no clear pattern by date of application.

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. The Year Ending Q3 figure includes all Type 1 loan applications reported in interviews conducted from Q4 2011 to Q3 2012.

Just under half of these applicants, 46%, had the loan facility they wanted. 35% of applicants ended the process with no facility – as the table below shows, this is the equivalent of 1% of all SMEs.

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

Final outcome (Loan): YEQ3 12 SMEs seeking new/renewed facility	All loan Type 1 applicants	All SMEs	All SMEs excl. PNBs
Unweighted base:	*1199*	*20,065*	*15,470*
Offered what wanted and took it	46%	2%	3%
Took loan after issues	10%	<1%	<1%
Have loan (any)	*56%*	*2%*	*3%*
Took another form of funding	8%	<1%	<1%
No facility	35%	1%	2%
Did not have a Type 1 loan event	-	*96%*	*94%*

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

By size of business, smaller loan applicants remained less likely to have a facility. Bigger applicants were more likely to end up with a loan, but a slightly higher proportion of them took it after having had issues with the terms, or the amount of the initial offer, something that was less likely to happen to applicants with 0 employees, who were more likely to end the process with no facility:

Final outcome (Loan): YEQ3 12 SMEs seeking new/renewed facility	Total	0 emps	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*1199*	*126*	*384*	*413*	*276*
Offered what wanted and took it	46%	43%	49%	58%	72%
Took loan after issues	10%	6%	15%	21%	20%
Have loan (any)	*56%*	*49%*	*64%*	*79%*	*92%*
Took another form of funding	8%	11%	6%	3%	2%
No facility	35%	40%	31%	18%	6%

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

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

Final outcome (Loan): YEQ3 12 SMEs seeking new/renewed facility	Total	Min	Low	Avge	Worse/ Avge
Unweighted base:	*1199*	*183*	*258*	*325*	*334*
Offered what wanted and took it	46%	70%	63%	58%	41%
Took loan after issues	10%	11%	11%	10%	9%
Have loan (any)	*56%*	*81%*	*74%*	*68%*	*50%*
Took another form of funding	8%	*	7%	5%	10%
No facility	35%	18%	19%	27%	40%

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

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

Final outcome (Loan): YEQ3 12 SMEs seeking new/renewed facility	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*113*	*140*	*148*	*136*	*136*	*114*	*173*	*129*	*110*
Offered what wanted and took it	74%	43%	36%	67%	35%	45%	43%	57%	24%
Took loan after issues	7%	13%	7%	11%	23%	8%	10%	20%	4%
Have loan (any)	*81%*	*56%*	*43%*	*78%*	*58%*	*53%*	*53%*	*77%*	*28%*
Took another form of funding	5%	17%	9%	3%	6%	13%	8%	7%	10%
No facility	14%	27%	48%	19%	36%	35%	39%	16%	61%

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

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

Final outcome (Loan): YEQ3 12 SMEs seeking new/renewed facility	Total	1st loan	New loan	Renew loan
Unweighted base:	*1199*	*260*	*435*	*234*
Offered what wanted and took it	46%	37%	40%	79%
Took loan after issues	10%	7%	11%	9%
Have loan (any)	*56%*	*44%*	*51%*	*88%*
Took another form of funding	8%	11%	12%	1%
No facility	35%	45%	37%	12%

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

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

Final outcome (Loan): YEQ3 12 SMEs seeking new/renewed facility. By age of business	Starts	2-5 yrs	6-9 yrs	10-15 yrs	15+ yrs
Unweighted base:	*108*	*169*	*151*	*189*	*582*
Offered what wanted and took it	33%	43%	47%	47%	63%
Took loan after issues	9%	8%	10%	14%	11%
Have loan (any)	*42%*	*51%*	*57%*	*61%*	*74%*
Took another form of funding	10%	8%	9%	4%	9%
No facility	48%	41%	35%	35%	17%

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

Final outcome by date of application – loans

For loan applicants, sample sizes dictate that data can be reported by date of application up to Q2 2012. With the exception of Q3 2010 and Q2 2011, the success rate for loans has been fairly stable:

Final outcome (Loan): SMEs seeking new/renewed facility By date of application	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011	Q4 2011*	Q1 2012*	Q2 2012*
Unweighted base:	*120*	*169*	*290*	*253*	*267*	*273*	*218*	*117*
Offered what wanted and took it	49%	48%	48%	62%	39%	47%	50%	36%
Took loan after issues	17%	6%	7%	7%	13%	9%	7%	21%
Have loan (any)	*66%*	*54%*	*55%*	*69%*	*52%*	*56%*	*57%*	*57%*
Took another form of funding	9%	6%	11%	7%	4%	14%	5%	6%
No facility	26%	39%	34%	24%	44%	31%	38%	37%

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

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

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

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

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

For this report, the equation was built using business size and risk rating, as these factors had been shown as key influencers on the likelihood of being successful in an application for funding.

Analysis using this approach is shown below. Unlike overdrafts, this shows no clear trend over time for predicted v actual loan success rates, with larger differences within a quarter between the predicted and actual success rate:

Final outcome (Loan): SMEs seeking new/renewed facility By date of application	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011	Q4 2011*	Q1 2012*	Q2 2012*
Unweighted base:	*120*	*169*	*290*	*253*	*267*	*273*	*218*	*117*
Have loan (any)	66%	54%	55%	69%	52%	56%	57%	57%
Predicted success rate from model	60%	60%	58%	60%	57%	62%	56%	59%
Difference	+6	-6	-3	+9	-5	-6	+1	-2

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

This analysis shows that the success rate in Q2 2011, which is currently higher than other quarters, was only partly accounted for by the profile of applicants in that quarter (the model predicted an increase in success rate from 58% to 60% between Q1 and Q2 2011, compared to the actual change of 55% to 69%).

Small base sizes limit the analysis possible, but around 80% of loans sought were for £100,000 or less. Half of these smaller applications were typically successful, and this has not changed much over time. Applications for larger amounts (£100,000+) were more likely to be successful, and success rates have improved slightly over time. Around two thirds of such applications resulted in a loan.

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

Loan facility granted By date of application	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011	Q4 2011*	Q1 2012*
Unweighted base:	*94**	*125*	*220*	*193*	*204*	*197*	*157*
Less than £100k	80%	82%	88%	89%	83%	79%	87%
More than £100k	20%	18%	12%	11%	17%	21%	13%

All successful loan applicants that recall amount granted

Exploring loan applications further

As the success model revealed no clear pattern for loan applications over time, further analysis was undertaken using CHAID to explore possible success factors for loan applications.

Initially, this included just 4 factors: number of employees and risk (which are known to be key predictors), plus the proportion of total funding requested and whether they took advice – as these are two factors of interest.

On this basis, number of employees was the key factor, with success rates improving with size. For the largest and smallest applicants size was the only significant predictor, of those tested:

- For 0 employee applicants (49% successful), no further factors were then significant
- For 1-9 employee applicants (63% successful), risk rating was significant
- For 10-49 employee applicants (79% successful) it was the proportion of funding applied for, with those seeking 50% or more of the funding more likely to be successful, especially if they had a minimal, low or average external risk rating

For 50-249 employee applicants (92% successful), none of these other factors were significant

Note that advice did not feature as a significant predictor of success.

Having established that the proportion of funding sought had some role to play in success, a second stage of analysis took additional factors into consideration, such as sector, purpose of loan, whether it was a renewal or a new facility and when the application was made.

On this broader basis, size of SME was still the main predictor of success, as above. *Within* size band, a variety of success factors then came in to play, but neither advice nor proportion of funding sought were significant predictors of success in this analysis. Note that although risk rating does not feature in this analysis, because it is closely related to size of business, it remains a significant predictor of success:

Employees	Factors
0 employee applicants (49% have a loan):	• Success factors: sector, and whether applying for more or less than £10,000 • Most successful: those in Wholesale/retail, Health or Agriculture (80% have a loan) • Least successful: those in other sectors, and seeking more than £10,000 (27% have a loan)
1-9 employee applicants (63% have a loan):	• Success factors: whether a new or renewed facility, sector, whether funding expansion in UK, when the application was made • Most successful: those looking to renew or refinance an existing loan, who did not apply in Q4 10-Q2 11 or in Q2 12 (93% have a loan) • Least successful: those seeking their first ever loan, or switching banks, and looking to fund expansion in the UK (23% have a loan)
10-49 employee applicants (79% have a loan):	• Success factors: whether a new or renewed facility, sector, the amount applied for • Most successful: those looking to renew or refinance an existing loan, and in Property Services or Agriculture (all have a loan, but small base) • Least successful: those seeking a loan for any other reason and looking to borrow less than £50,000 (59% have a loan)
50-249 employee applicants (92% have a loan):	• Success factors: whether a new or renewed facility • Most successful: those not looking for a first or top up loan, or switching banks (95% have a loan) • Least successful: those looking for a first or top up loan, or switching banks (85% have a loan)

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

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

This analysis will be updated in the Q4 report, as it has changed little in previous waves.

Outcome analysis over time – new and renewed facilities

The tables below are based on all applications made, rather than all SMEs (so an SME that had both a loan and an overdraft application will appear twice), and shows that those seeking to renew an existing facility were almost twice as likely to be offered what they wanted. The table is based on all applications recorded, including those in Q1-2 and Q3 2011:

Final outcome Loans and Overdrafts combined All applications to date	New funds	Renewals
Unweighted base of applications:	*2637*	*2909*
Offered what wanted and took it	42%	82%
Took facility after issues	14%	9%
Have facility (any)	*56%*	*91%*
Took another form of funding	7%	1%
No facility	37%	8%

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

This confirms the findings seen earlier in this report which highlighted the difference in success rates between applications for new funding and the renewal of existing funding.

Further analysis looks at applications over time. Looking first at the outcome of applications for all **new** funds, and, with the exception of Q3 2010, a fairly consistent half of applicants for new money ended the process with a facility. More recent applicants were slightly less likely to take another form of funding, which means that the proportion ending the process with no facility has increased slightly over time from around 30% to around 40% of applications for new money:

Final outcome (Overdraft+ Loan): Applications for new money By date of application	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011	Q4 2011*	Q1 2012*	Q2 2012*
Unweighted base of applications:	*142*	*242*	*468*	*347*	*377*	*363*	*322*	*136*
Offered what wanted and took it	49%	44%	40%	46%	39%	46%	41%	27%
Took facility after issues	17%	13%	13%	12%	16%	8%	14%	23%
Have facility (any)	*66%*	*57%*	*53%*	*58%*	*55%*	*54%*	*55%*	*50%*
Took another form of funding	3%	11%	12%	10%	7%	5%	4%	8%
No facility	31%	32%	35%	33%	38%	41%	41%	42%

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

The outcome of applications for **renewed** loans/overdrafts shows slightly lower success rates for applications made in 2012 (albeit on interim data) compared to applications made in 2011:

Final outcome (Overdraft+ Loan): Applications for renewed facilities By date of application	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011	Q4 2011*	Q1 2012*	Q2 2012*
Unweighted base of applications:	*154*	*251*	*492*	*383*	*405*	*375*	*365*	*181*
Offered what wanted and took it	85%	83%	83%	78%	77%	88%	75%	77%
Took facility after issues	8%	9%	10%	11%	10%	9%	7%	9%
Have facility (any)	*93%*	*92%*	*93%*	*89%*	*87%*	*97%*	*82%*	*86%*
Took another form of funding	4%	*	2%	3%	1%	1%	*	1%
No facility	3%	8%	6%	8%	12%	2%	18%	12%

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

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

Final outcome Loans and Overdrafts combined All applications to date	New funds	1st ever facility	Other new money
Unweighted base of applications:	*2637*	*966*	*1671*
Offered what wanted and took it	42%	33%	52%
Took facility after issues	14%	9%	19%
Have facility (any)	*56%*	*42%*	*71%*
Took another form of funding	7%	7%	7%
No facility	37%	51%	21%

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

Since the start of the Monitor, interviews have been conducted with 939 SMEs that have submitted one or more first time applications for a loan or overdraft facility. Demographically, their key characteristics are:

- 46% are Start-ups (v 20% of SMEs overall)
- 34% have employees (v 26% overall)
- 15% are importers/exporters (v 11% overall)
- 9% have a minimal or low external risk rating (v 17%) while the majority, 70%, have a worse than average external risk rating (v 51%)
- 48% made a profit in their last 12 months trading (v 64%) while 28% made a loss (v 16%)
- 69% plan for their business (v 55% overall)
- 34% self-reported a credit issue (v 13% overall) but note that we do not know when in the year this credit issue occurred and whether it was before or after the borrowing event concerned

Some data is now available on the success rates for first time applications over time. First time applications make up a quarter of all applications/renewals, and half of all applications specifically for new money. There are indications that these proportions have increased over time, when analysed by date of application.

The new summary table below shows success rates split by period of application for first time applicants, other applicants for new money, and renewals. Due to limited sample sizes, these are shown at the half year level, and reveal different patterns over time for the different types of applicant:

% of applicants with a facility (Overdraft+ Loan): By date of application (base varies)	H2 2010	H1 2011	H2 2011*	H1 2012*
Have facility – first time applicants	55%	34%	40%	45%
Have facility – other new money	66%	76%	72%	69%
Have facility – renewals	95%	91%	91%	82%

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

Success rates for first time applicants improved slightly between H1 2011 and H1 2012 (from 34% to 45%), but were still below levels seen in H2 2010 (55%). Whilst they remained lower than for applicants applying for new money where it was not their first such facility, success rates for this latter group declined somewhat over the same period (from 76% to 69%), to a similar level to H2 2010 (66%).

The risk rating profile of those applying for new money does not entirely explain these changes over time:

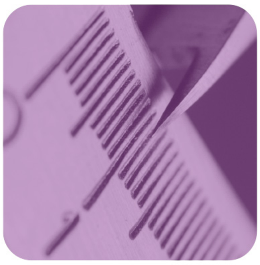
- From H2 2010 to H1 2012, the risk profile of first time applicants worsened slightly: in H2 2010 13% of first time applicants had a minimal or low external risk rating while 63% were rated an above average risk. In H1 2012, 7% were rated a minimal/low risk and 77% an above average risk
- For other applicants for new money the risk profile was slightly more variable over time, but the proportion rated a minimal or low risk was fairly consistent (17% in H2 2010 to 18% in H1 2012)

Renewals remain the most likely type of application to be successful but, even here, success rates were now somewhat lower (declining from 95% to 82% over the time period). One possible cause of this is the external risk profile of those renewing facilities:

- In H2 2010, 36% of renewal applicants had a minimal or low risk rating. In H1 2012 this had fallen to 24%
- Over the same time period, the proportion of applicants with an above average external risk rating increased from 32% to 46%

Numbers of first time applicants remain limited for analysis over time, but as numbers increase, further analysis will be undertaken to understand trends over time.

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

86% of successful overdraft applicants, and 85% of successful loan applicants, were satisfied with the facility they now had. Satisfaction remained higher if the SME was offered what it wanted initially

Those with an overdraft renewed automatically were also likely to be satisfied with it (85%)

Most SMEs were satisfied with their bank (82%). 'Permanent non-borrowers' who have had no borrowing events at all were slightly more likely to be satisfied with their bank (87%) than those who had had a successful borrowing event (82%)

Those that applied unsuccessfully to their bank were less satisfied (33%). Half of unsuccessful overdraft applicants and two thirds of unsuccessful loan applicants said the decision had impacted on their business, typically saying that running the business day to day was more of a struggle and/or that they had not been able to expand or improve the business as they might have wished

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

Satisfaction with facility granted

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

Overall, 86% of successful overdraft applicants and 85% of successful loan applicants said that they were satisfied with the facility they now had, and this varies relatively little by date of application or size of applicant:

Successful Type 1 applicants	Overdraft			Loan		
Satisfaction with outcome YEQ3 12	Total	Offered what wanted	Have after issues	Total	Offered what wanted	Have after issues
Unweighted base:	*1905*	*1601*	*304*	*885*	*671*	*214*
Very satisfied with facility	53%	60%	17%	54%	64%	10%
Fairly satisfied with facility	33%	33%	32%	31%	30%	37%
Overall satisfied	*86%*	*93%*	*49%*	*85%*	*94%*	*47%*
Neutral about facility	7%	4%	19%	7%	3%	26%
Dissatisfied with facility	7%	2%	32%	7%	3%	27%

Q103 and Q196 All SMEs that have applied/renewed

From Q2 2012, those who had experienced an automatic renewal of their overdraft facility were also asked how satisfied they were with that facility. Results for Q2 and Q3 combined showed that those who had an overdraft facility after an automatic renewal were likely to be satisfied with it (85%), but not quite as likely as those who had a facility after being offered what they wanted and taking it (93%).

Overall bank satisfaction, amongst all SMEs, remained high (82% satisfied) and has varied little by size or over time. Successful applicants remained more likely to be satisfied with their main bank (82%) than those that applied unsuccessfully to their main bank (33% satisfied). 'Permanent non-borrowers', who have had no borrowing events at all, reported slightly higher levels of satisfaction (87% satisfied) than those who had experienced a borrowing event.

Impact of being unsuccessful

That analysis was based on those that were successful in their application/renewal and now had an overdraft or loan facility. As already reported, 24% of overdraft applicants and 35% of loan applicants ended the process with no facility. These unsuccessful SMEs were asked whether *not* having a facility had impacted on their business.

Half (51%) of unsuccessful overdraft applicants said that not having one had impacted on their business – this is the equivalent of 1% of all SMEs saying that they had been impacted (or 2% of SMEs excluding the 'permanent non-borrowers'). The figure for loans was two thirds of unsuccessful applicants saying it had impacted (66%), the equivalent of 4% of all SMEs (or 6% of SMEs excluding the 'permanent non-borrowers').

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

Amongst unsuccessful SMEs that applied to their main bank, 25% thought their application had been considered fairly, while 28% thought another bank would have treated them more favourably. Around two thirds of SMEs who thought another bank would have treated them better went on to say that they were seriously considering a change of bank (these 'potential switchers' represent less than 1% of all SMEs).

10. Rates and fees – Type 1 events

This chapter covers

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

Key findings

Analysis of rates, fees and security remained limited by higher levels of "Don't know / refused" answers than elsewhere in the report

A quarter of all **overdrafts** (27%) were secured, with recently granted facilities slightly more likely to be secured. Larger facilities were also more likely to be secured – 73% of overdrafts granted for more than £100,000 were secured compared to 14% of facilities for £10,000 or less

Over time, more overdrafts have been reported to be on a fixed rate (57% YEQ3 12). The median rate paid was 4.3%, with indications that over time successful applicants have become more likely to be paying a margin of 3% or less

43% of overdrafts were on a variable rate, typically linked to Base Rate. The median margin was +3%. In contrast to fixed rate overdrafts, analysis by date of application suggested that the proportion paying a variable margin of +4% or less has declined over time

Most, 83%, of successful overdraft applicants paid a fee, and the median fee paid remained at £99. For 60% of applicants, the fee paid was the equivalent of 2% or less of the facility granted, but there are indications that this is becoming slightly less common over time

Analysed by date of applicaton, those granted an overdraft more recently were more likely to be using it regularly and to 50% or more of the agreed facility

A third of all **loans** (37%) were secured, including 11% that are commercial mortgages. Analysis by application date suggested that loans granted in 2012 were more likely to be secured than those granted in 2011. As with overdrafts, larger loans were more likely to be secured: 84% of loans granted for more than £100,000 were secured, compared to 22% of those granted for £25,000 or less

Most loans were on a fixed rate (75%), especially those that were smaller or unsecured. The median fixed rate was 5.7%, and there are indications that this has increased slightly over time, by date of application

Variable rate loans were charged at a median rate of +3%, in line with variable rate overdrafts, and this appears to have changed relatively little over time

38% of successful loan applicants said that they had not paid a fee. The median loan fee paid was the same as for overdrafts, £99

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

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

Overdrafts: Security

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

- 4% of 0 employee SMEs have a new/renewed overdraft
- 9% of 1-9 employee SMEs
- 13% of 10-49 employee SMEs
- 12% of 50-249 employee SMEs

79% of overdrafts granted were for less than £25,000. By size, this varies from 95% of overdrafts granted to 0 employee SMEs being £25,000 or less, to 17% of overdrafts granted to those with 50-249 employees.

Over time, fewer SMEs with a new/renewed overdraft have also had a minimal or low external risk rating, from a quarter of SMEs with a new/renewed overdraft in the latter half of 2010 to less than a fifth in the first half of 2012. Meanwhile more SMEs granted a new/renewed overdraft have had a worse than average risk rating (from around 40% to nearer 60% of those with a new/renewed overdraft).

A quarter (27%) of Type 1 overdrafts, i.e. a new or renewed facility not including automatic renewals, required security. Analysed by date of application (at the half-year level), more recent overdraft facilities have been slightly more likely to be secured, with more overdrafts under £25,000 being secured.

The most common form of security remained a charge over a business or personal property, as the table below shows:

Security required (Overdraft): YEQ3 12 SMEs with new/renewed overdraft	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*1857*	*148*	*582*	*752*	*375*
Property (any)	17%	6%	29%	37%	35%
Charge over business property	*8%*	*2%*	*13%*	*20%*	*28%*
Charge over personal property	*10%*	*4%*	*17%*	*17%*	*7%*
Directors/personal guarantee	5%	3%	6%	10%	8%
Other security (any)	7%	5%	8%	13%	19%
Any security	27%	14%	39%	53%	55%
No security required	73%	86%	61%	47%	45%

Q 106 All SMEs with new/renewed overdraft excluding DK

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

- 14% of overdrafts granted for £10,000 or less were secured
- 42% of overdrafts granted for £11-24,999
- 42% of overdrafts granted for £25-49,999
- 55% of overdrafts granted for £50-99,999
- 73% of overdrafts granted for £100,000 or more

Overdrafts: Rates

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

Type of rate (overdraft) by facility granted: YEQ3 12 SMEs with new/renewed overdraft excl. DK	Total	<£10k	£10-25k	£25-100k	£100k+
Unweighted base:	*1549*	*439*	*212*	*375*	*523*
Variable rate lending	43%	37%	49%	54%	54%
Fixed rate lending	57%	63%	51%	46%	46%

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

As the table below shows, when analysed by date of application, the balance has changed slightly over time in favour of fixed rate lending:

New/renewed overdraft rate By date of application	Q310	Q410	Q111	Q211	Q311	Q411*	Q112*	Q212*
Unweighted base:	*137*	*241*	*495*	*345*	*376*	*369*	*363*	*169*
Variable rate lending	53%	54%	55%	53%	49%	38%	43%	41%
Fixed rate lending	47%	46%	45%	47%	51%	62%	57%	59%

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 (88%).

45% of those with a new/renewed variable rate overdraft and a quarter of those with a fixed rate overdraft were unable / refused to say what rate they were paying. These ‘Don’t know’ answers have been excluded from the analysis below, but this does make the base sizes small in some areas.

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

Variable margin (overdraft) by facility granted: YEQ312 SMEs with new/renewed overdraft excl. DK	Total	<£10k	£10-25k	£25-100k	£100k+
Unweighted base:	*696*	*143*	*98**	*188*	*267*
Less than 2%	31%	31%	35%	22%	37%
2.01-4%	33%	27%	25%	44%	59%
4.01-6%	21%	20%	25%	26%	4%
6%+	16%	23%	14%	8%	*
Average margin above Base/LIBOR:	*+4.5%*	*+5.5%*	*+3.8%*	*+4.1%*	*+2.5%*
Median margin above Base/LIBOR	*+3.0%*	*+3.8%*	*+2.9%*	*+3.0%*	*+2.5%*

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

Analysis by date of application is limited by the number of respondents answering this question, and so is based on a half year rather than quarterly analysis. This suggests that the proportion of successful applicants paying a variable margin of less than +4% has declined over time – from 70% of successful applicants in H2 2010 to 59% of successful applicants in H1 2012.

The average fixed rate charged was 5.5% to YEQ3 12, compared to 5.7% YEQ2, while the median rate was almost unchanged at 4.3% (previously 4.4%). Again, those borrowing more paid, on average, a lower rate:

Fixed rate (overdraft) by facility granted: YEQ3 12 SMEs with new/renewed overdraft excl. DK	Total	<£10k	£10-25k	£25-100k	£100k+
Unweighted base:	*549*	*157*	*83**	*114*	*195*
Less than 3%	41%	37%	43%	56%	52%
3.01-6%	36%	33%	47%	36%	38%
6.01-8%	6%	6%	3%	6%	9%
8%+	17%	25%	7%	2%	*
Average fixed rate:	*5.5%*	*6.4%*	*4.2%*	*3.2%*	*3.4%*
Median fixed rate	*4.3%*	*4.3%*	*4.0%*	*2.5%*	*2.9%*

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

Analysis by date of application is limited by the number of respondents answering this question, but indicative results are that the proportion paying less than 3% has increased slightly over time, from a quarter of successful applicants in H2 2010 to 4 out of 10 in H1 2012.

Secured overdrafts were now more likely to be on a fixed rate (54%) than a variable rate (46%). Unsecured overdrafts remained more likely to be on a fixed rate (59%) than a variable rate (41%).

The average margin for a variable rate secured overdraft was +3.9%, compared to +4.9% for an unsecured overdraft. A similar difference in margin was seen for fixed rate facilities – secured overdrafts were at an average rate of 3.7% compared to 6.4% for an unsecured overdraft.

Overdrafts: Fees

Most respondents were able to recall the arrangement fee that they had paid for their new/renewed overdraft facility (if any). The average fee paid was £375, an increase on YEQ2 (£350) which was itself a slight increase on Q1-4 2011 (£310). However the median arrangement fee has remained unchanged at £99 and analysis by date of application shows no clear pattern over time.

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

Fee paid (overdraft) by facility granted: YEQ3 12 SMEs with new/renewed overdraft excl. DK	Total	<£10k	£10-25k	£25-100k	£100k+
Unweighted base:	*1560*	*429*	*246*	*383*	*502*
No fee paid	17%	22%	10%	9%	7%
Less than £100	17%	23%	13%	3%	*
£100-199	38%	46%	40%	12%	4%
£200-399	15%	7%	32%	34%	11%
£400-999	7%	1%	5%	29%	21%
£1000+	6%	1%	*	12%	56%
Average fee paid:	*£375*	*£136*	*£177*	*£572*	*£2774*
Median fee paid	*£99*	*£96*	*£142*	*£295*	*£1243*

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

Amongst those with a new/renewed overdraft who knew both what fee they had paid and the facility granted, 27% paid a fee that was the equivalent of less than 1% of the facility granted, and a further 33% paid between 1-2%. On this basis there were some clear differences by size of facility:

- 43% of those granted a new/renewed overdraft facility of less than £10,000 paid the equivalent of 2% or less
- 86% of those granted a new/renewed overdraft facility of £10-25,000 paid the equivalent of 2% or less
- 94% of those granted a new/renewed overdraft facility of £25-100,000 paid the equivalent of 2% or less
- 98% of those granted a new/renewed overdraft facility of more than £100,000 paid the equivalent of 2% or less

Secured overdrafts were more likely to attract a fee of 2% or less (79%) than unsecured overdrafts (56%).

Analysis by date of application (on a half-year basis due to limited sample sizes) shows that there has been a slight fall in the proportion paying the equivalent of 2% or less of their overdraft, from around two thirds, to just over half. This is due to fewer smaller (under £10,000) overdrafts paying the equivalent of 2% or less of their overdraft.

Overdraft terms: Analysis by risk rating

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

Overdraft rates and fees summary YEQ3 12 SMEs with new/renewed overdraft excl. DK	Min/Low	Average/Worse than average
Unweighted base (varies by question):	*795*	*984*
% borrowing £25,000 or less	58%	85%
Facility on a variable rate (excluding DK)	49%	41%
Average variable margin for less than £25k facility	+3.3%	+5.3%
Average variable margin for facility £25k+	+3.3%	+4.1%
Average fixed rate for less than £25k facility	6.9%	6.0%
Average fixed rate for facility £25k+	3.0%	3.7%
% where fee <2% of facility (under £25k)	48%	50%
% where fee <2% of facility (£25k+)	98%	94%

All SMEs with new/renewed overdraft, excluding DK

Overdrafts: Usage

To YEQ3 2012, of those granted a new/renewed overdraft, 39% said that they used this facility all or most of the time, while at the other end of the scale 35% used this overdraft facility occasionally, rarely or never. There was little difference in frequency of use by size of business.

Amongst those SMEs that used this overdraft facility at least occasionally (representing 78% of those granted an overdraft), 62% said that when they used their overdraft they used at least half of the agreed facility.

Some analysis of the use of overdrafts is possible by date of application. The table below shows the extent to which Type 1 overdrafts were being used, analysed by when the facility was applied for. This shows that overdrafts agreed in 2011 were more likely to be used all or most of the time, and to 50% or more of the limit agreed. Data thus far for Q2 2012 suggests that these newer facilities may also be being used more often and more extensively:

Type 1 overdraft usage	Use of overdraft							
Use of facility by date of application	Q310	Q410	Q111	Q211	Q311	Q411*	Q112*	Q212*
Unweighted base:	*154*	*278*	*577*	*424*	*462*	*446*	*442*	*207*
Use overdraft all or most of time	32%	27%	43%	36%	42%	45%	33%	47%
Use 50%+ when use it (all with od not just users)	29%	36%	47%	53%	55%	52%	41%	50%

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

Overdraft terms: Analysis by sector

Overall, to YEQ3, 79% of overdrafts granted were for £25,000 or less. By sector this varies from 64% of overdrafts granted in the Agriculture sector, to 93% for Other Community.

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

- More common for overdrafts in the Agriculture (42%) sector
- Less common for overdrafts in the Health (20%) and Other Community (20%) sectors

Type 1 overdraft YEQ3 12 all with new/renewed overdraft	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	***217***	***184***	***296***	***239***	***133***	***146***	***314***	***136***	***192***
Any security	42%	29%	24%	31%	32%	25%	23%	20%	20%
- property	*36%*	*21%*	*12%*	*21%*	*28%*	*12%*	*16%*	*13%*	*6%*
No security	58%	71%	76%	69%	68%	75%	77%	80%	80%

Q 106 All SMEs with new/renewed overdraft excluding DK

Overall, just under half of Type 1 overdrafts obtained were on a variable rate (43%). This was more likely for overdrafts amongst SMEs in the Agriculture (57%) and Transport (54%) sectors:

Type 1 overdraft rate YEQ3 12 all with new/renewed overdraft	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	***185***	***166***	***227***	***215***	***111***	***120***	***263***	***111***	***151***
Variable rate lending	57%	44%	31%	47%	45%	54%	46%	45%	27%
Fixed rate lending	43%	56%	69%	53%	55%	46%	54%	55%	73%

Q 107 All SMEs with new/renewed overdraft excluding DK

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

This analysis shows that those in Manufacturing were most likely to pay a fee for their facility, and this was less likely to represent 2% or less of the amount borrowed, so is not just a reflection of a larger overdraft facility. Those in the Health sector were also less likely to pay a fee equivalent to 2% or less of the sum borrowed:

Type 1 overdraft fees YEQ3 12 all with new/renewed overdraft	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	***183***	***157***	***244***	***209***	***112***	***119***	***265***	***113***	***158***
No fee paid	17%	5%	16%	15%	27%	19%	15%	19%	31%
Equivalent of 2% or less paid*	75%	37%	49%	68%	76%	81%	56%	42%	65%

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

Amongst those with an overdraft, SMEs in Manufacturing (61%) were the most likely to be using their overdraft all or most of the time, and also to be using it to 50% or more of the facility (71%). Those in the Other Community sector were the least likely to be doing so (25% and 32% respectively).

Type 1 overdraft usage YEQ3 12 all with new/renewed overdraft	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	***221***	***190***	***301***	***246***	***136***	***152***	***323***	***142***	***194***
Use overdraft all or most of time	45%	61%	28%	50%	48%	33%	40%	28%	25%
Use 50%+ when use it (all with od not just users)	45%	71%	36%	64%	50%	54%	48%	38%	32%

Q 101/102 All SMEs with new/renewed overdraft

Overdrafts: Automatic renewals

As mentioned earlier in this chapter, some data is now available on the fees, rates and security pertaining to those overdraft facilities that were automatically renewed. This has now been collected for Q2 and Q3 2012 respondents and covers automatic renewals in the 12 months prior to interview (note that we do not know *when* in the previous 12 months this facility was renewed, nor *how much* it was for). 1448 respondents in Q2 and Q3 reported an automatically renewed overdraft.

The table below shows how automatically renewed overdraft facilities compare to other Type 1 overdraft events reported in Q2 and Q3 2012 (and occurring in the 12 months prior to interview), where equivalent data is available. The main difference is in fees – automatically renewed overdrafts were less likely to attract a fee, and where they did, it was on average half of that for a new/renewed overdraft facility:

Overdraft rates and fees summary Q2+Q3 12 SMEs excl. DK	Automatically renewed	Type 1 overdraft event
Unweighted base (varies by question):	*1448*	*909*
Any security required	28%	33%
Facility on a variable rate (excluding DK)	44%	43%
Average variable margin	+3.7%	+4.2%
Average fixed rate	4.9%	4.6%
No fee	30%	16%
Average fee paid	£207	£403
Use overdraft all or most of time	44%	45%

All SMEs with new/renewed overdraft, excluding DK

Loans: Security

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

- 1% of 0 employee SMEs have a new/renewed loan
- 4% of 1-9 employee SMEs
- 5% of 10-49 employee SMEs
- 8% of 50-249 employee SMEs

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

- 10% of successful applicants with 0-9 employees said their loan was a commercial mortgage
- 21% of successful applicants with 10-49 employees
- 31% of successful applicants with 50-249 employees

84% of new/renewed loans were for £100,000 or less.

Over time, the proportion of SMEs with a new/renewed loan who also have a minimal or low external risk rating has declined, as it has for overdrafts. In the latter half of 2010 a third of SMEs with a new/renewed loan also had a minimal or low external risk rating, while interim data for the first half of 2012 indicates it is now less than a fifth.

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): YEQ3 12 SMEs with new/renewed loan	Total	0-9 emp	10-49 emps	50-249 emps
Unweighted base:	*874*	*301*	*318*	*255*
Commercial mortgage	11%	10%	21%	31%
Secured business loan	26%	24%	42%	39%
Unsecured business loan	63%	66%	37%	30%

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

By date of application, the proportion of commercial mortgages has remained relatively constant, but there has been an increase in other secured loans over recent quarters. As a result, around two-thirds of loans made in 2011 were unsecured, compared to around half of those reported thus far for 2012.

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

Security taken (loan): YEQ3 12 SMEs with new/renewed loan excl. DK	Total	0-9 emp	10-49 emps	50-249 emps
Unweighted base:	***874***	***301***	***318***	***255***
Commercial mortgage	11%	10%	21%	31%
Secured – Property (any)	17%	15%	31%	24%
Business property	*7%*	*6%*	*19%*	*20%*
Personal property	*9%*	*10%*	*10%*	*4%*
Director/personal guarantees	6%	7%	5%	5%
Other security	6%	5%	10%	14%
Unsecured business loan	63%	66%	37%	30%

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

22% of new/renewed loans granted for less than £25,000 were secured (including commercial mortgages) compared to 57% of those granted for £25,000 to £100,000, and 84% of those granted for more than £100,000.

Loans: Rates

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

Type of rate (loan) by amount granted: YEQ3 12 SMEs with new/renewed loan excl. DK	Total	<£100k	£100k+
Unweighted base:	*775*	*397*	*378*
Variable rate lending	25%	21%	51%
Fixed rate lending	75%	79%	49%

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

Fixed rate lending is more common where the facility is unsecured (83% v 61% for secured loans). Analysis by date of application shows that it was the loans agreed in the second half of 2011 that were more likely to be on a fixed rate (79%), while for other periods the proportion was 67-71%.

Most of those on a variable rate said that the rate was linked to Base Rate (87%), but this was less the case for loans in excess of £100,000 (71%) than for those below £100,000 (96%).

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

Variable margin (loan) by amount granted: YEQ3 12 SMEs with new/renewed loan excl. DK	Total	<£100k	£100k+
Unweighted base:	*274*	*102*	*172*
Less than 2%	23%	18%	34%
2.01-4%	44%	37%	56%
4.01-6%	19%	25%	9%
6%+	14%	21%	*
Average margin above Base/LIBOR:	*+4.1%*	*+4.8%*	*+2.7%*
Median margin above Base/LIBOR	*+3.0%*	*+3.7%*	*+2.9%*

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

These average rates to YEQ3 12 were virtually unchanged from those to YEQ2 (+4.3%). Analysis by date of application is limited by the number of respondents answering this question, but indicative results are that over time the average rate charged has remained around +4%.

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

Fixed rate (loan) by amount granted: YEQ3 12 SMEs with new/renewed loan excl. DK	Total	<£100k	£100k+
Unweighted base:	*364*	*198*	*166*
Less than 3%	20%	17%	42%
3.01-6%	35%	34%	42%
6.01-8%	23%	25%	11%
8%+	22%	24%	5%
Average fixed rate:	*6.4%*	*6.7%*	*4.1%*
Median fixed rate	*5.7%*	*5.9%*	*4.0%*

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

The average rate was unchanged compared to YEQ2, while the median rate increased very slightly (from 5.4%). Analysis by date of application is limited by the number of respondents answering this question, but indicative results are that the average rate charged has increased over time, from 6% to just under 7% (whereas there are some indications that fixed rate overdraft rates have reduced slightly).

As with overdraft lending, secured lending was charged at a lower average rate than unsecured. For those granted a new/renewed loan on a variable rate, a secured loan was charged at an average margin of +3.8%, an unsecured loan at an average margin of +4.5%. For fixed rate lending, the rates were 5.7% for secured loans and 6.8% for unsecured.

Loans: Fees

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

Fee paid (loan): YEQ3 12 SMEs with new/renewed loan excl. DK	Total	<£100k	£100k+
Unweighted base:	*679*	*340*	*339*
No fee paid	38%	42%	12%
Less than £100	9%	10%	1%
£100-199	22%	25%	4%
£200-399	11%	11%	9%
£400-999	8%	7%	11%
£1000+	13%	5%	63%
Average fee paid:	*£790*	*£215*	*£4002*
Median fee paid	*£99*	*£72*	*£1707*

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

The average fee paid to YEQ3 2012 was higher than YEQ2 (£706) as was the median fee (previously £74). Analysis by date of application showed little clear pattern over time, other than the proportion of loans for which no fee was payable increased over time to H2 11 (44%) but was lower again in H1 2012 (35%).

Amongst those with a new/renewed loan who knew both what fee they had paid and the original loan size, 63% paid a fee that was the equivalent of less than 1% of the amount borrowed, and a further 19% paid between 1-2%:

- 82% of those granted a new/renewed loan of less than £100,000 paid the equivalent of 2% or less
- 85% of those granted a new/renewed loan of more than £100,000 paid the equivalent of 2% or less

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

Loan terms: Analysis by risk rating

Sample sizes also permit some analysis of size, interest rates and fees by external risk rating. Those with a minimal/low external risk rating were typically borrowing slightly more and paying a lower rate. Although those with a minimal/low external risk rating were more likely to provide security overall, this is due to more of these SMEs having a loan for £100k or more – once size is taken into account there is no difference between the groups:

Loan rates and fees summary YEQ3 12 SMEs with new/renewed loan excl. DK	Min/Low	Average/Worse than average
Unweighted base (varies by question):	*379*	*450*
% borrowing £100,000 or less	73%	89%
Any security provided	45%	34%
Facility on a variable rate (excluding DK)	33%	23%
Average variable margin	+3.1%	+4.5%
Average fixed rate	4.0%	+7.2%
% where fee <2% of facility	94%	80%

All SMEs with new/renewed loan, excluding DK

Loan terms: Analysis by sector (indicative)

Note that the declining number of SMEs reporting a successful loan event means that the base sizes for many sectors are now below 100, even when several waves are rolled together. This section has been included this wave, but can provide only *indicative* loan data.

84% of new/renewed loans were for £100,000 or less. By sector this varied from 95% of loans in Transport and 94% of loans in the Construction sectors being in this band, to 66% of loans in the Hotels and Restaurants sector.

New/renewed loans were more likely to have been commercial mortgages in the Hotels and Restaurants sector:

Type 1 loan YEQ3 12 all with new/renewed loan	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*94**	*107*	*85**	*106*	*91**	*77**	*127*	*111*	*76**
Commercial mtge	15%	13%	8%	12%	29%	3%	8%	9%	9%
Secured loan	26%	43%	12%	21%	39%	18%	28%	48%	26%
Unsecured loan	60%	44%	80%	67%	32%	78%	64%	43%	65%

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

Overall, three quarters of Type 1 loans were on a fixed rate (75%). This was more likely for loans amongst SMEs in the Health (85%) and Other Community (88%) sectors:

Type 1 loan rate YEQ3 12 all with new/renewed loan	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*81**	*99*	*74**	*93**	*85**	*68**	*117*	*98*	*60**
Variable rate lending	42%	43%	18%	27%	33%	32%	19%	15%	12%
Fixed rate lending	58%	57%	82%	73%	67%	68%	81%	85%	88%

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

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

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

Type 1 loan fees YEQ3 12 all with new/renewed loan	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*65**	*82**	*72**	*87**	*73**	*55**	*100*	*85**	*60*
No fee paid	37%	31%	28%	31%	9%	29%	63%	45%	44%

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

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

This chapter looks

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

Key findings

For the year ending Q3 2012, two thirds of SMEs (67%) met the definition of 'happy non-seeker' of finance, based on their borrowing behaviour in the 12 months prior to interview

10% were 'would-be seekers' who would have liked to apply but cited reasons why they had not. SMEs with 0 employees, a worse than average risk rating, or in the Transport or Other Community sectors were more likely to be 'would-be seekers' The proportion of such SMEs has increased slightly over time

Over time, those who would have liked to apply for a loan have become more likely to cite 'discouragement' as a barrier (40% of would-be applicants interviewed in Q3) – this was more likely to be indirect discouragement (they assumed they would be turned down so didn't ask) than direct (where they asked the bank informally and felt discouraged). Discouragement was also a barrier for those who had wanted to apply for an overdraft (32% of would-be applicants interviewed in Q3), but less consistently so over time, and in Q3, issues around the 'principle' or 'process' of borrowing were almost as likely to be the main barrier to an overdraft application

Discouragement was more likely to be cited by smaller loan applicants, but otherwise varied little by size. Whilst it is more likely to be cited by those with a worse than average external risk rating, amongst would-be applicants with a minimal or low external risk rating, a quarter gave it as a barrier to an overdraft application, and a third as a barrier to a loan application (and here it was almost as likely to be direct as indirect discouragement)

Those 'indirectly discouraged' were asked why they thought they would be turned down. The two most frequent reasons, for both loans and overdrafts, were a lack of credit history and a perceived reluctance amongst banks to lend to businesses of their size. The 'indirectly discouraged' were more likely to be new businesses, with a poorer external risk profile and somewhat less likely to have made a profit. Whilst they were as likely as others to be using some form of external finance, this was much less likely to be bank finance, and more likely to be funding from the directors, or family and friends

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

From Q4 2011, an additional question was asked that identified whether, from the SME's perspective, their overdraft had been automatically renewed by their bank and, from Q2 2012, those experiencing an automatic renewal of an overdraft have been asked extra questions about that facility and are treated as having had an event. As a result, these respondents can no longer be classified as either a 'happy non-seeker' or a 'would-be seeker' of finance.

From the Q2 2012 report onwards, the definition of 'had an event' has therefore been amended to include these automatic renewals, and revised data is presented here for the year to Q3 2012. All SMEs have been allocated to one of three groups, across both overdrafts and loans:

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

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

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

Under the revised definition, reported below, 'happy non-seekers' continued to be the largest group, at around two thirds of SMEs. The proportion of SMEs with a borrowing event declined slightly again, to 22% of all SMEs in Q3 2012, while the proportion of 'would-be seekers' increased very slightly in 2012:

Any events (overdraft and loan) All SMES, over time By date of interview	Q4 2011	Q1 2012	Q2 2012	Q3 2012
Unweighted base:	*5010*	*5023*	*5000*	*5032*
Have had an event	23%	25%	24%	22%
Would-be seekers	8%	10%	10%	11%
Happy non-seekers	69%	65%	66%	67%

Q115/209 All SMEs

The split between these three groups has changed very little across the quarters for which analysis on the revised basis is now possible. The tables below use combined data for the year ending Q3 2012 to provide more robust sub-sample sizes for analysis.

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

Any events (Overdraft and loan) YEQ3 12 All SMES	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*20,065*	*4023*	*6628*	*6405*	*3009*
Have had an event	24%	20%	33%	39%	39%
Would-be seekers	10%	10%	10%	6%	5%
Happy non-seekers	67%	70%	57%	54%	56%

Q115/209 All SMEs

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

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

Any events (Overdraft and loan) YEQ3 12 All SMEs with a risk rating	Total	Min	Low	Avge	Worse/ Avge
Unweighted base:	*20,065*	*3213*	*3906*	*5353*	*5740*
Have had an event	24%	29%	30%	23%	22%
Would-be seekers	10%	4%	7%	8%	12%
Happy non-seekers	67%	67%	63%	69%	66%

Q115/209 All SMEs

By sector, the proportion of 'would-be seekers' varied from 7% of those in the Manufacturing sector to 12% of those in Transport. More variation was seen in terms of 'happy non-seekers', which accounted for 77% of those in the Health sector (who remained less likely to have had an event), to 59% of those in Agriculture and Wholesale/Retail (who remained the most likely to have had an event):

Any events (overdraft and loan) YEQ3 12 All SMEs	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*1502*	*2122*	*3538*	*2025*	*1799*	*1805*	*3514*	*1760*	*2000*
Have had an event	32%	27%	22%	31%	28%	25%	22%	14%	19%
Would-be seekers	9%	7%	11%	10%	10%	12%	9%	9%	11%
Happy non-seekers	59%	65%	67%	59%	61%	63%	69%	77%	71%

Q115/209 All SMEs

Start-ups were the most likely to be 'would-be seekers' (15%), especially if they were more recent Start-ups (19% of Starts in the last 12 months were 'would-be seekers', compared to 12% of Starts in business for between 1-2 years). The proportion of 'would-be seekers' then declines by age of business.

The data table below shows how the redefined profile of 'would-be seekers' has changed over time for a number of key demographic groups. The profile has changed relatively little overall, but over time an increasing proportion of SMEs with 0 employees, or a worse than average external risk rating, or in the Manufacturing, Transport or Other Community sectors, have met our definition of a 'would-be seeker' of external finance, while those in Agriculture have become slightly less likely to do so. Excluding the 'permanent non-borrowers', who appear very unlikely to want to seek finance, increases the proportion of 'would-be seekers' to 17% in Q3 2012:

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

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

Q115/209 All SMEs base size varies by category

Barriers to overdraft or loan application

SMEs that were identified as 'would-be seekers' (i.e. they had wanted to apply for an overdraft/loan in the 12 months prior to their interview, but had not done so) were asked about the barriers to making such an application. These are reported below, firstly how frequently they are mentioned at all and secondly how frequently they are nominated as the main barrier. Note that this data now *excludes* those who have had an automatic overdraft renewal, who prior to Q2 2012 might have previously answered this question as a 'would-be seeker':

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

- **Principle of borrowing** – those that did not apply because they feared they might lose control of their business, or preferred to seek alternative sources of funding. This was given as a reason by 45% of all 'would-be seekers' which is the equivalent of around 4% of all SMEs
- **Process of borrowing** – those who did not want to apply because they thought it would be too expensive, too much hassle etc. This was given as a reason by 45% of all 'would-be seekers', which is the equivalent of around 4% of all SMEs
- **Discouragement** – those that had been put off, either directly (they made informal enquiries of the bank and were put off) or indirectly (they thought they would be turned down by the bank so did not ask). This was given as a reason by 38% of all 'would-be seekers', which is the equivalent of around 4% of all SMEs
- **Current economic climate** – those that felt that it had not been the right time to borrow. This was given as a reason by 18% of all 'would-be seekers', which is the equivalent of around 2% of all SMEs

The table below shows the cumulative results for YEQ3 2012, and all the reasons for not applying for a loan or overdraft that make-up the summary categories above. An additional question was asked of those giving more than one reason, asking them to nominate the key reason for not applying, and these results form the main analysis of barriers to application.

All 'would-be seekers'	Would have liked to apply for an overdraft			Would have liked to apply for a loan		
All reasons for <u>not</u> applying when wished to YEQ3 12	Total	0-9 emps	10-249 emps	Total	0-9 emps	10-249 emps
Unweighted base:	*1292*	*840*	*452*	*742*	*492*	*250*
Issues with <u>principle</u> of borrowing	45%	45%	40%	33%	33%	28%
-Prefer not to borrow	*28%*	*28%*	*25%*	*17%*	*16%*	*18%*
-Not lose control of business	*14%*	*14%*	*9%*	*10%*	*10%*	*8%*
-Can raise personal funds if needed	*18%*	*18%*	*11%*	*11%*	*11%*	*5%*
-Prefer other forms of finance	*11%*	*11%*	*10%*	*9%*	*9%*	*6%*
-Go to family and friends	*11%*	*12%*	*6%*	*6%*	*6%*	*3%*
Issues with <u>process</u> of borrowing	43%	43%	40%	38%	38%	32%
-Would be too much hassle	*16%*	*16%*	*13%*	*12%*	*12%*	*11%*
-Thought would be too expensive	*17%*	*17%*	*12%*	*21%*	*21%*	*10%*
-Would be asked for too much security	*10%*	*10%*	*17%*	*12%*	*12%*	*14%*
-Too many terms and conditions	*13%*	*13%*	*17%*	*13%*	*13%*	*13%*
-Did not want to go through process	*12%*	*12%*	*9%*	*9%*	*9%*	*7%*
-Forms too hard to understand	*6%*	*6%*	*3%*	*4%*	*4%*	*3%*
Discouraged (any)	38%	38%	34%	41%	41%	38%
-Direct (put off by bank)	*16%*	*15%*	*22%*	*15%*	*15%*	*26%*
-Indirect (thought would be turned down)	*28%*	*28%*	*16%*	*32%*	*32%*	*16%*
Economic climate	15%	15%	11%	19%	19%	19%
Not the right time to apply	*15%*	*15%*	*11%*	*19%*	*19%*	*19%*

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

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

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

All 'would-be seekers'	Would have liked to apply for an overdraft				Would have liked to apply for a loan			
Main reason for not applying when wished to over time, by date of interview	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2011	Q1 2012	Q2 2012	Q3 2012
Unweighted base:	***309***	***313***	***336***	***334***	***148***	***206***	***190***	***198***
Discouraged (any)	25%	32%	25%	32%	29%	36%	35%	40%
-Direct (put off by bank)	*10%*	*12%*	*7%*	*8%*	*7%*	*12%*	*11%*	*9%*
-Indirect (thought I would be turned down)	*15%*	*20%*	*18%*	*24%*	*22%*	*24%*	*24%*	*30%*
Issues with principle of borrowing	34%	29%	31%	28%	27%	16%	23%	15%
Issues with process of borrowing	25%	22%	29%	26%	25%	23%	23%	27%
Economic climate	5%	9%	7%	7%	5%	14%	9%	14%

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

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

Analysis of the main barrier to **overdraft** applications shows a less consistent picture over time. Discouragement was the most mentioned barrier in Q3 as indirect discouragement increased – over time, there have been fewer mentions of direct discouragement in relation to overdrafts.

The table below splits the results to YEQ3 12 by size of SME:

All 'would-be seekers'	Would have liked to apply for an overdraft			Would have liked to apply for a loan		
Main reason for <u>not</u> applying YEQ3 12	Total	0-9 emps	10-249 emps	Total	0-9 emps	10-249 emps
Unweighted base:	***1292***	***840***	***452***	***742***	***492***	***250***
Discouraged (any)	29%	29%	28%	35%	35%	30%
-Direct (put off by bank)	*9%*	*9%*	*17%*	*10%*	*10%*	*20%*
-Indirect (thought I would be turned down)	*19%*	*20%*	*11%*	*25%*	*26%*	*11%*
Issues with <u>principle</u> of borrowing	30%	30%	26%	20%	20%	19%
Issues with <u>process</u> of borrowing	26%	26%	28%	25%	25%	25%
Economic climate	7%	7%	7%	11%	11%	13%

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

'Discouragement' overall varied relatively little by size of SME, but is made up of two elements:

- the first is *direct*, where the SME had made informal enquiries of the bank and been put off, and, as the table above shows, this was more likely to be mentioned by larger SMEs
- the second is those put off *indirectly* (they thought they would be turned down by the bank so did not ask). This was more likely to be cited by smaller 'would-be seekers' who were discouraged

Analysis by risk rating shows some differences. Discouragement was slightly more likely to be the main barrier to both loan or overdraft applications for those with a worse than average risk rating, specifically indirect discouragement (they are more likely to have assumed they would be turned down). However, discouragement both remained a key barrier for those with a minimal/low risk rating for potential overdraft applications, and was also now more likely to be a main barrier for loan applications too:

All 'would-be seekers' by risk rating	Would have liked to apply for an overdraft			Would have liked to apply for a loan		
Main reason for not applying when wished to YEQ3 12	Min/Low	Avge	Worse/ Avge	Min/Low	Avge	Worse/ Avge
Unweighted base:	***304***	***315***	***518***	***156***	***184***	***301***
Discouraged (any)	27%	25%	31%	33%	25%	37%
-Direct (put off by bank)	*10%*	*12%*	*9%*	*16%*	*10%*	*8%*
-Indirect (thought I would be turned down)	*17%*	*13%*	*21%*	*17%*	*15%*	*29%*
Issues with principle of borrowing	31%	26%	30%	15%	33%	18%
Issues with process of borrowing	30%	31%	26%	32%	29%	23%
Economic climate	5%	9%	7%	15%	5%	14%

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

Base sizes of 'would-be seekers' allow for analysis by sector for overdrafts only, albeit that base sizes for some sectors are still small:

All 'would-be seekers' YEQ3 12 Main reason for not applying for overdraft when wished to YEQ3 12	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*93**	*100*	*276*	*124*	*148*	*123*	*219*	*86**	*213*
Discouraged (any)	24%	20%	31%	36%	48%	41%	24%	27%	21%
-Direct (put off by bank)	*7%*	*12%*	*9%*	*17%*	*23%*	*6%*	*9%*	*10%*	*1%*
-Indirect (thought I would be turned down)	*18%*	*8%*	*22%*	*19%*	*25%*	*35%*	*15%*	*17%*	*19%*
Issues with principle of borrowing	27%	30%	31%	25%	12%	24%	27%	43%	46%
Issues with process of borrowing	36%	31%	25%	25%	17%	24%	30%	18%	21%
Economic climate	3%	1%	7%	11%	13%	5%	7%	4%	7%

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

'Discouragement' was mentioned more by would-be seekers in the Hotels and Restaurants and Transport sectors, with the former more likely to cite *direct* discouragement. By contrast, would-be seekers in the Health and Other Community sectors were more likely to cite issues with the 'principle' of borrowing, while the most mentioned barrier for those in Agriculture, Manufacturing and Property/Business Services was the 'process' of borrowing.

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

Main reason for not applying YEQ3 12	Would-be overdraft seekers	All SMEs	Would-be loan seekers	All SMEs
Unweighted base:	*1292*	*20,065*	*742*	*20,065*
Discouraged (any)	29%	2%	35%	2%
-Direct (put off by bank)	*9%*	*1%*	*10%*	*<1%*
-Indirect (thought I would be turned down)	*19%*	*2%*	*25%*	*1%*
Issues with principle of borrowing	30%	2%	20%	1%
Issues with process of borrowing	26%	2%	25%	1%
Economic climate	7%	<1%	11%	<1%
None of these/DK	8%	<1%	742	<1%
Had event/Happy-non seeker	-	*92%*	-	*95%*

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

Understanding more about ‘indirect discouragement’

In the year ending Q3 2012, 288 SMEs reported that they had wanted to apply for a loan or overdraft but had not done so because they thought they would be turned down – referred to above as ‘indirect discouragement’. This is the equivalent of 2% of all SMEs.

A follow up question asked these SME why they thought they would be turned down. Across both loan and overdraft applications the most mentioned reasons were:

- a lack of credit history
- a perceived reluctance of banks to lend to businesses of their size

Other factors mentioned were being a new business, not having any/enough security to offer for a facility and/or a perception that the bank was unwilling to lend to their sector.

An analysis of the demographics of SMEs who thought they would be turned down helps explain some of these assertions:

- 42% of these SMEs are Start-ups (compared to 20% of all SMEs)
- 41% made a profit in the last 12 months (compared to 63% overall), but 31% made a loss (16% overall)
- 75% had a worse than average risk rating (compared to 52% overall)
- risk rating correlates with age of business, but 33% of the SMEs who thought they would be turned down had also had a self-reported credit issue (compared to 13% overall). Note though that we don’t know when these occurred in relation to the SME wanting to seek finance but feeling unable to

44% of these SMEs who thought they would be turned down are currently using external finance (as overall). However, further analysis shows that these SMEs are less likely to be using bank finance:

- 20% have loans or equity from the directors or friends and family (compared to 10% of all SMEs)
- 19% have credit cards, in line with businesses overall (18%)
- 8% have a bank loan or overdraft, compared to 26% of all SMEs

The effect of the 'permanent non-borrower'

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

The proportion of 'happy non-seekers' declines to 50% but remains the largest group, and the proportion of 'would-be seekers' increases to 15%:

Any events (Overdraft and loan) YEQ3 12 – all SMES	All SMEs	All SMEs excl. pnb
Unweighted base:	***20,065***	***15,470***
Have had an event	24%	35%
Would-be seekers	10%	15%
Happy non-seekers	67%	50%

Q115/209 All SMEs

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

Main reason for not applying when wished to – YEQ3 12 only	Would-be overdraft seekers	All SMEs excl. pnb	Would-be loan seekers	All SMEs excl. pnb
Unweighted base:	***1292***	***15,470***	***742***	***15,470***
Discouraged (any)	29%	4%	35%	2%
-Direct (put off by bank)	*9%*	*1%*	*10%*	*1%*
-Indirect (thought I would be turned down)	*19%*	*2%*	*25%*	*2%*
Issues with principle of borrowing	30%	4%	20%	1%
Issues with process of borrowing	26%	3%	25%	2%
Economic climate	7%	1%	11%	1%

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

12. The future

This chapter reports

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

Key findings

Lower levels of future appetite and lower levels of use of external finance combined such that, in Q3, 57% of all SMEs neither used external finance, nor had any immediate plans to apply for any. This proportion has increased steadily over time (46% in Q1-2 2011)

12% of all SMEs planned to apply for new/renewed finance in the next 3 months, a further slight decline on Q1 and Q2 2012 (16% and 14%), but in line with the equivalent quarter 3 in 2011 (13%), suggesting a possible seasonal effect. Excluding the 'permanent non-borrowers', 18% of other SMEs planned to apply for new/renewed facilities

Compared to Q3 2011, results for Q3 2012 indicated increased appetite for finance amongst larger SMEs, and those with a minimal external risk rating, as well as those in the Hotels and Restaurants and Other Community sectors

Confidence amongst those planning to apply for finance declined again to the lowest level yet seen in the survey, 33%. This fall was across size bands, but was more marked for those with an average or worse than average external risk rating, and those seeking new funds

Confidence levels for future applications for both renewed and new facilities were markedly below the current success rates for applications. Success rates for renewal applications are around 90%, compared to 53% who were confident of success for a future application. For new money, success rates for applications are around 56%, against a confidence level for future applications of 21%

With fewer SMEs planning to seek funds in the next 3 months, there was a slight increase in the proportion who would like to seek funds but think they are unlikely to – the 'future would-be seekers'. 25% of all SMEs in Q3 met this definition (from 22% in Q2), although only a few, 3%, had an identified need for finance. Smaller SMEs and those with a low external risk rating are now more likely to meet the definition of a 'future would-be seeker' of finance

Excluding the 'permanent non-borrowers' meant that over a third of remaining SMEs could be described as 'future would-be seekers' (37%) – the highest level seen to date

A reluctance to borrow in the current economic climate remained the main reason for not seeking funds given by 'future would-be seekers' (49%), and mentioned more by larger SMEs (63%) than smaller ones (49%). Over time, there has been more mention of discouragement (now 16% – most of it 'indirect'), and this was more of an issue for smaller businesses (16%) than larger ones (11%), and particularly for those 'future would-be seekers' who had an identified need for finance (46%) – those with no identified need typically mentioned the economic climate (51%)

The current economic climate also remained the main future obstacle to business for all SMEs, rated a 'major obstacle' by 34% of all SMEs. It was perceived as more of an obstacle for those who had plans to apply, or would like to apply, for finance (44%) and those in the Hotels & Restaurants sector (41%)

Compared to the economic climate, access to finance was less likely to be rated a 'major obstacle' (13%) but the proportion is increasing slowly over time (10% in Q4 2011). Once the 'permanent non-borrowers' were removed, as they were unlikely ever to seek finance, the proportion rating access to finance a 'major obstacle' increased to 18% (and up from 15% in Q4 2011). Those who had plans to apply, or would like to apply for finance (26%) and those who currently used external finance (19%) were also more likely to rate access to finance as a 'major obstacle' in Q3 2012

Almost half of SMEs in Q3 (47%) reported an objective to grow in the next 12 months, maintaining the slightly higher rates seen in 2012 compared to 2011, due to more 0 employee businesses and those with a worse than average risk rating planning to grow

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

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

Growth objectives for next 12 months

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

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

Q225 All SMEs

In Q3 2012, bigger SMEs remained more likely to have growth as their objective compared to smaller businesses:

Growth objectives in next 12 mths Q3 2012 only	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*5032*	*1006*	*1665*	*1603*	*758*
Grow substantially	8%	7%	9%	8%	10%
Grow moderately	39%	38%	40%	44%	51%
All with objective to grow	*47%*	*45%*	*49%*	*52%*	*61%*
Stay the same size	45%	45%	44%	44%	36%
Become smaller	4%	4%	4%	2%	3%
Plan to sell/pass on/close	5%	6%	3%	2%	*

Q225 All SMEs

SMEs that met the 'permanent non-borrower' definition in Q3 2012 remained less likely to have growth as an objective (41%) than those that didn't (50%).

The table on the next page summarises the growth objectives of SMEs by key demographics over time. Since the equivalent quarter in 2011:

- More 0 employee SMEs now have growth as an objective for the next 12 months (45% from 39%), but fewer SMEs with 10-49 employees now plan to grow (52% from 56%)
- More SMEs with a worse than average risk rating now have growth as an objective (56% from 49%)
- There was less variation over time by sector, but those in Agriculture were now less likely to have growth as an objective (35% from 53%), while those in the Other Community sector were more likely (58% from 42%)
- 'Permanent non-borrowers' have become more likely to be planning to grow (now 41%) albeit they remain less likely than other SMEs (49%)

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

Q225 All SMEs base size varies by category

Obstacles to running the business in the next 12 months

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

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

The economic climate remained the key issue in Q3 2012, and scores generally have not changed much over time:

- The **current economic climate** was rated as a major obstacle (8-10) by 34% of SMEs in Q3 2012 (35% in Q2 2012), and across all sizes of SME
- **Cash flow and issues with late payment** was the next most important obstacle but, by comparison to the economic climate, 14% rated this a major obstacle (unchanged from Q1 and Q2)
- **Legislation and regulation** were rated a major obstacle by 13% of SMEs (14% in previous quarters)
- **Access to external finance** was similarly rated, with 13% of SMEs seeing it as a major obstacle (up slightly from 11% in Q2)
- 6% of SMEs rated **availability of relevant advice** for their business as a major obstacle for the year ahead (unchanged from Q2)
- Finally, 2% rated **staff related issues** as a major obstacle (unchanged from Q2), increasing with size of SME

Extent of obstacles in next 12 months Q3 2012 only – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	***5032***	***1006***	***1665***	***1603***	***758***
The current economic climate (mean score)	5.7	5.6	6.0	5.9	5.8
- 8-10 major obstacle	*34%*	*33%*	*36%*	*31%*	*28%*
- 5-7 moderate obstacle	*32%*	*31%*	*35%*	*42%*	*47%*
- 1-4 limited obstacle	*33%*	*35%*	*28%*	*26%*	*24%*
Legislation and regulation (mean score)	3.6	3.4	4.4	4.5	4.3
- 8-10 major obstacle	*13%*	*10%*	*19%*	*19%*	*14%*
- 5-7 moderate obstacle	*27%*	*25%*	*31%*	*34%*	*33%*
- 1-4 limited obstacle	*59%*	*62%*	*48%*	*46%*	*49%*
Cash flow/issues with late payment (mean score)	3.5	3.4	3.9	3.9	3.5
- 8-10 major obstacle	*14%*	*13%*	*16%*	*14%*	*10%*
- 5-7 moderate obstacle	*22%*	*21%*	*25%*	*28%*	*24%*
- 1-4 limited obstacle	*63%*	*65%*	*58%*	*57%*	*64%*
Access to external finance (mean score)	3.1	3.0	3.5	3.1	2.9
- 8-10 major obstacle	*13%*	*12%*	*15%*	*11%*	*7%*
- 5-7 moderate obstacle	*16%*	*15%*	*18%*	*19%*	*17%*
- 1-4 limited obstacle	*67%*	*69%*	*62%*	*66%*	*71%*
Availability of relevant advice (mean score)	2.7	2.6	3.0	2.6	2.3
- 8-10 major obstacle	*6%*	*6%*	*6%*	*3%*	*1%*
- 5-7 moderate obstacle	*18%*	*16%*	*24%*	*19%*	*15%*
- 1-4 limited obstacle	*73%*	*75%*	*67%*	*75%*	*81%*
Staff related issues (mean score)	1.6	1.3	2.4	3.2	3.2
- 8-10 major obstacle	*2%*	*1%*	*5%*	*7%*	*6%*
- 5-7 moderate obstacle	*6%*	*3%*	*15%*	*24%*	*23%*
- 1-4 limited obstacle	*88%*	*91%*	*78%*	*69%*	*69%*

Q227a All SMEs

The current economic climate was the most important obstacle of those tested for SMEs of each external risk rating, and by some margin for those with an average or worse than average external risk rating:

Extent of obstacles in next 12 months Q3 2012 only – all SMEs 8-10 impact score	Total	Min	Low	Avge	Worse/Avge
Unweighted base:	*5032*	*712*	*1047*	*1361*	*1463*
The current economic climate	34%	29%	36%	36%	33%
Legislation and regulation	13%	17%	23%	16%	9%
Cash flow/issues with late payment	14%	9%	13%	13%	14%
Access to external finance	13%	9%	10%	10%	14%
Availability of relevant advice	6%	3%	3%	5%	7%
Staff related issues	2%	7%	2%	2%	2%

Q227a All SMEs for whom risk ratings known

There was still relatively little difference in the perceived obstacles between those planning to grow and those with no such plans, albeit that the current economic climate was still seen as slightly more of an obstacle by those with no objective to grow:

Extent of obstacles in next 12 months Q3 2012 only – all SMEs 8-10 impact score	Total	Obj to grow	No obj to grow
Unweighted base:	*5032*	*2439*	*2593*
The current economic climate	34%	30%	37%
Legislation and regulation	13%	11%	14%
Cash flow/issues with late payment	14%	13%	14%
Access to external finance	13%	14%	12%
Availability of relevant advice	6%	8%	5%
Staff related issues	2%	2%	2%

Q227a All SMEs

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

Extent of obstacles in next 12 months Q3 2012 only – all SMEs 8-10 impact score	Total	PNB	Not PNB
Unweighted base:	*5032*	*1300*	*3732*
The current economic climate	34%	23%	39%
Legislation and regulation	13%	9%	15%
Cash flow/issues with late payment	14%	5%	19%
Access to external finance	13%	2%	18%
Availability of relevant advice	6%	2%	8%
Staff related issues	2%	1%	3%

Q227a All SMEs

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

The 'happy non-seeker' category described below includes those SMEs that met the definition of a 'permanent non-borrower' which indicates that they are unlikely to borrow at any stage. Such SMEs have been excluded from the 'happy non-seeker' definition in the final column below. This increases all the scores slightly, with the biggest difference in the rating for the current economic climate (34% v 28%):

Extent of obstacles in next 12 months Q3 only – all SMEs 8-10 impact score	Total	Plan to apply or FWBS	Future HNS	Future HNS excl. PNB
Unweighted base:	*5032*	*1817*	*3215*	*1915*
The current economic climate	34%	44%	28%	34%
Legislation and regulation	13%	16%	11%	13%
Cash flow/issues with late payment	14%	24%	8%	12%
Access to external finance	13%	26%	5%	9%
Availability of relevant advice	6%	9%	4%	7%
Staff related issues	2%	4%	1%	2%

Q227a All SMEs

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

Extent of obstacles in next 12 months Q3 2012 only – all SMEs 8-10 impact scores	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Base:	*379*	*521*	*886*	*505*	*461*	*455*	*877*	*448*	*500*
The current economic climate	26%	35%	35%	35%	41%	34%	35%	28%	29%
Legislation and regulation	22%	7%	15%	14%	21%	10%	11%	11%	8%
Cash flow/issues with late payment	15%	13%	15%	14%	12%	13%	12%	7%	18%
Access to external finance	13%	12%	11%	12%	16%	17%	12%	7%	19%
Availability of relevant advice	4%	6%	7%	9%	7%	7%	5%	3%	5%
Staff related issues	*	3%	2%	2%	6%	3%	3%	1%	1%

Q227All SMEs

Those in Hotels and Restaurants had more concerns generally and were more likely to rate legislation and regulation as a major obstacle (21%), along with those in Agriculture (22%) while, with Transport, they were slightly more likely to rate access to external finance as a major obstacle.

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

Four waves of data can now be compared. The summary table below shows that the current economic climate was the most likely to be rated a 'major obstacle' in all quarters:

Extent of obstacles in next 12 months All SMEs over time 8-10 impact score By date of interview	Q4 2011	Q1 2012	Q2 2012	Q3 2012
Unweighted base:	*5010*	*5023*	*5000*	*5032*
The current economic climate	35%	37%	35%	34%
Legislation and regulation	14%	14%	14%	13%
Cash flow/issues with late payment	11%	14%	14%	14%
Access to external finance	10%	11%	11%	13%
Availability of relevant advice	5%	5%	6%	6%
Staff related issues	3%	3%	2%	2%

Q227 All SMEs

Overall the scores have been relatively consistent over time, but there has been a slight but steady increase in the proportion rating 'access to external finance' as a major obstacle. With 'access to finance' the key theme of this report, the table below details the 8-10 impact scores for this issue over time.

This shows access to external finance becoming more of an issue for smaller SMEs, those in Transport, Property/Business services and Agriculture, and notably those currently using external finance, and those with any plans or aspirations to borrow. Once the 'permanent non-borrowers' – who appear very unlikely to seek finance – have been excluded, then 18% of remaining SMEs rated 'access to finance' as a major obstacle in Q3 2012:

Access to finance – 8-10 impact scores Over time – row percentages By date of interview	Q4 2011	Q1 2012	Q2 2012	Q3 2012
All SMEs	**10%**	**11%**	**11%**	**13%**
0 employee	10%	10%	10%	12%
1-9 employees	12%	15%	15%	15%
10-49 employees	12%	10%	11%	11%
50-249 employees	8%	8%	8%	7%
Minimal external risk rating	8%	4%	12%	9%
Low external risk rating	7%	11%	8%	10%
Average external risk rating	9%	9%	6%	10%
Worse than average external risk rating	12%	13%	14%	14%
Agriculture	10%	11%	8%	13%
Manufacturing	8%	12%	12%	12%
Construction	9%	13%	11%	11%
Wholesale/Retail	15%	13%	14%	12%
Hotels and Restaurants	14%	21%	15%	16%
Transport	14%	14%	15%	17%
Property/Business Services etc.	8%	8%	9%	12%
Health	7%	5%	7%	7%
Other Community	9%	12%	15%	19%
Use external finance	13%	15%	16%	19%
Plan to borrow/FWBS	22%	22%	24%	26%
Future happy non-seekers	4%	4%	4%	5%
All SMEs excluding PNBs	15%	15%	16%	18%

Q227a_2 All SMEs, base sizes vary

Financial requirements in the next 3 months

SMEs were asked to consider their financial plans over the next 3 months. The figures for Q3 2012 show a further slight decline in plans to apply for / renew finance in the next 3 months compared to Q2. Note though that in 2011 likelihood to apply/renew was at its lowest in Q3, so there may be a seasonal element to this:

% likely in next 3 months All SMEs, over time By date of interview	Q1-2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012
Unweighted base:	*5063*	*5055*	*5010*	*5023*	*5000*	*5032*
Will have a need for (more) external finance	12%	10%	11%	13%	13%	11%
Will apply for more external finance	9%	7%	8%	10%	9%	8%
Renew existing borrowing at same level	13%	8%	8%	9%	8%	6%
Any apply/renew	*19%*	*13%*	*14%*	*16%*	*14%*	*12%*
Reduce the amount of external finance used	11%	10%	7%	11%	8%	7%
Inject personal funds into business	27%	26%	26%	30%	23%	23%

Q229 All SMEs

In all quarters to date, more SMEs have identified a need for finance than think they will apply for it (11% v 8% in Q3).

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

% likely in next 3 months All companies, over time By date of interview	Q1-2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012
Unweighted base:	*2981*	*2923*	*2714*	*2904*	*2905*	*2975*
Seek new equity from existing shareholders	4%	3%	5%	4%	3%	3%
Seek new equity from new shareholders	5%	2%	4%	3%	3%	3%
Any new equity	*7%*	*5%*	*6%*	*5%*	*4%*	*4%*

Q229 All companies

In Q3 2012, there continued to be a marked difference in appetite for finance between those with employees and those without:

% likely in next 3 months Q3 only – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*5032*	*1006*	*1665*	*1603*	*758*
Will have a need for (more) external finance	11%	9%	16%	14%	15%
Will apply for more external finance	8%	6%	12%	12%	11%
Renew existing borrowing at same level	6%	5%	11%	12%	11%
Any apply/renew	*12%*	*10%*	*18%*	*19%*	*18%*
Reduce the amount of external finance used	7%	6%	10%	10%	8%
Inject personal funds into business	23%	25%	21%	11%	6%

Q229 All SMEs

The table overleaf summarises the change in likely applications/renewals over time for key demographic groups. Since the equivalent quarter in 2011:

- The largest SMEs (50-249 employees) were slightly more likely to be planning to apply/renew (18% from 15%), as were those with a minimal external risk rating (16% from 14%) and those in the Other Community and Hotels and Restaurants sectors
- Those in Agriculture were less likely to be planning to apply/renew (12% from 21%), as were those with an objective to grow (15% from 18%)
- Excluding the 'permanent non-borrowers', who appear unlikely ever to apply for finance, increases the proportion saying they are likely to apply (18% in Q3 v 12% of all SMEs). Over recent quarters this has followed the same pattern of declining appetite for finance, back to the same level as the equivalent quarter in 2011

% likely to apply or renew in next 3 months Over time – row percentages By date of interview	Q1-2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012
All SMEs	19%	13%	14%	16%	14%	12%
0 employee	17%	11%	12%	14%	12%	10%
1-9 employees	24%	18%	21%	23%	20%	18%
10-49 employees	24%	20%	24%	23%	22%	19%
50-249 employees	22%	15%	25%	20%	21%	18%
Minimal external risk rating	13%	14%	16%	15%	12%	16%
Low external risk rating	17%	14%	16%	20%	15%	13%
Average external risk rating	18%	12%	9%	16%	12%	11%
Worse than average external risk rating	18%	12%	16%	17%	16%	13%
Agriculture	22%	21%	17%	21%	18%	12%
Manufacturing	16%	13%	13%	11%	24%	16%
Construction	14%	12%	13%	18%	13%	9%
Wholesale/Retail	24%	17%	18%	15%	16%	17%
Hotels and Restaurants	20%	13%	22%	22%	15%	17%
Transport	15%	14%	17%	15%	12%	14%
Property/Business Services etc.	20%	10%	12%	15%	13%	9%
Health	19%	12%	11%	13%	9%	10%
Other Community	18%	12%	14%	18%	14%	16%
Objective to grow	24%	18%	19%	21%	17%	15%
No objective to grow	14%	9%	10%	11%	11%	9%
All SMEs excluding PNBs	27%	19%	22%	23%	21%	18%

Q229 All SMEs base size varies by category

From Q2 2012, data has been available on the extent to which personal funds have either been injected into SMEs in the past, or such injections are planned in the future. Across Q2 and Q3 combined, 23% of SMEs thought they would be injecting funds in the following 3 months, compared to 44% who have done so in the past 12 months. Analysis shows that those who have already put funds in are more likely to think that they will do so again in future: 40% of those who have already put funds in thought this was likely to happen again, compared to 10% of those who had not previously put in funds.

Overall, across Q2 and Q3, 18% of all SMEs had both seen an injection of personal funds in the previous year and thought it likely a further injection would be made in the 3 months to come. This combination of events was more likely amongst smaller businesses and those with a poorer external risk rating:

- 19% of 0 employee SMEs and 15% of those with 1-9 employees had both had personal funds injected and anticipated more such funds in the next 3 months, compared to 8% of those with 10-49 employees and 4% of those with 50-249 employees
- 22% of SMEs with a worse than average external risk rating had both had personal funds injected and anticipated more such funds in the next 3 months, compared to 13% of those with an average external risk rating, 12% with a low external risk rating and 4% of those with a minimal risk rating

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

Use of new/renewed facility All planning to seek/renew, over time By date of interview	Q1-2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012
Unweighted base:	***1127***	***890***	***1046***	***1062***	***977***	***842***
Working capital	62%	67%	59%	60%	69%	60%
Plant & machinery	24%	29%	26%	29%	25%	27%
UK expansion	23%	27%	22%	22%	20%	26%
Premises	8%	10%	7%	8%	5%	8%
New products or services	9%	9%	7%	13%	10%	7%
Expansion overseas	4%	4%	4%	5%	3%	4%

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

There remained relatively few differences by size of business – Q3 data suggests that working capital was mentioned more by larger businesses that were planning to apply/renew, while smaller businesses were slightly more likely to mention plant and machinery or UK expansion.

Overdrafts and loans remained the most considered forms of funding. Compared to the same period last year there was more consideration of leasing or hire purchase:

% of those seeking/renewing finance that would consider form of funding, over time By date of interview	Q1-2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012
Unweighted base:	*1127*	*890*	*1046*	*1062*	*977*	*842*
Bank overdraft	53%	51%	49%	48%	56%	49%
Bank loan/Commercial mortgage	37%	44%	40%	40%	40%	43%
Grants	28%	36%	35%	35%	38%	36%
Loans/equity from family & friends	12%	23%	22%	23%	21%	21%
Leasing or hire purchase	18%	19%	18%	21%	23%	24%
Credit cards	9%	19%	17%	19%	20%	16%
Loans/equity from directors	11%	12%	18%	14%	10%	13%
Loans from other 3rd parties	13%	13%	10%	11%	7%	15%
Invoice finance	9%	6%	6%	9%	9%	7%

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

The increase in consideration of leasing or hire purchase has come from those with up to 50 employees. The largest SMEs remain the most likely to consider this product and their levels of consideration were unchanged year on year.

There continued to be differences in consideration by the size of SME planning to seek new/renewed finance. Compared to Q2, larger SMEs were less likely to consider invoice finance, and more likely to consider grants:

% of those seeking/renewing finance would consider funding – Q3 2012 only	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*842*	*97**	*300*	*312*	*133*
Bank overdraft	49%	49%	49%	47%	37%
Bank loan/Commercial mortgage	43%	44%	42%	41%	31%
Grants	36%	36%	37%	35%	33%
Loans/equity from family & friends	21%	26%	15%	9%	4%
Leasing or hire purchase	24%	23%	24%	35%	46%
Credit cards	16%	17%	14%	12%	15%
Loans/equity from directors	13%	8%	19%	19%	13%
Loans from other 3rd parties	15%	16%	15%	13%	12%
Invoice finance	7%	5%	11%	11%	11%

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

Those SMEs that would not consider certain forms of finance were asked why that was. To boost sample sizes, these are reported for all relevant SMEs YEQ3 2012, but the key reasons given are typically consistent over time:

Form of finance	Reasons for not considering – non considerers
Leasing	70% said they did not need this form of finance (especially larger non-considerers). 7% were not looking to fund equipment/vehicles, 10% thought it was too expensive and 6% didn't understand it.
Invoice finance	58% said it was because they did not need this form of finance. 21% said they didn't understand it (especially smaller non-considerers) and 11% thought it was too expensive (especially larger non-considerers).

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

Form of finance	Reasons for not considering – non considerers
Equity (companies only)	Half felt they did not need this type of finance (46%). 14% wanted to retain control of the business and 10% did not want to give a share away, 24% had never considered it and 7% did not know how to get it, typically mentioned more by smaller non-considerers. Three quarters (73%) had heard of at least one of the following: Venture Capital (66% aware), Corporate Finance Advisors (41%), Business Angels (41%), and/or local support programmes to help access equity (21%). Awareness in Q3 itself was lower for all these elements, with net awareness 59% compared to 70-80% in previous quarters.

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

Prospective applicants (via loan, overdraft, leasing, invoice finance and/or credit cards) were asked how confident they felt that their bank would agree to meet their finance need. During 2011, overall confidence increased each quarter, to 52% in Q1 2012. Since then however, confidence has declined and is now at the lowest reported level to date (33%):

Confidence bank would lend All planning to seek finance, over time by date of interview	Q1-2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012
Unweighted base:	***861***	***707***	***763***	***834***	***781***	***649***
Very confident	22%	14%	22%	19%	15%	10%
Fairly confident	20%	29%	24%	33%	24%	23%
Overall confidence	***42%***	***43%***	***46%***	***52%***	***39%***	***33%***
Neither/nor	33%	36%	26%	20%	25%	22%
Not confident	26%	20%	28%	28%	35%	45%
Net confidence (confident – not confident)	*+16*	*+23*	*+18*	*+24*	*+4*	*-12*

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

The decline in overall confidence in Q3 was caused by a decline in confidence amongst both smaller and larger potential applicants:

Overall confidence bank would lend All planning to seek finance, over time By date of interview	Overall	0-9 emps	10-249 emps
Q1-2 2011	42%	40%	57%
Q3 2011	43%	42%	63%
Q4 2011	46%	46%	61%
Q1 2012	52%	52%	61%
Q2 2012	39%	37%	60%
Q3 2012	33%	32%	54%

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

Between Q2 and Q3 2012, confidence was stable for those with a minimal/low risk rating (51% overall confidence in Q3 compared to 50% in Q2) but fell again for those with an average/worse than average risk rating (28% overall confidence in Q3, compared to 37% in Q2).

Analysis shows that overall confidence in Q3 was higher amongst those planning to renew (53%) than amongst those planning to apply for new facilities (21%). Since the highest level of overall confidence reported in Q1 2012, confidence amongst those renewing has fallen from 70% to the current 53%, while for those seeking new facilities it has halved from 42% to 21% being confident that the bank will agree to lend.

These levels of confidence are in contrast to the actual outcome of applications. Success rates for renewals are around 90% compared to confidence levels of 53%, while for new funds success rates to date are 56% against a confidence level of 21%.

In order to develop a better understanding of the issue of confidence when applying for facilities, some key driver analysis was conducted to explore which factors best predict an SME feeling confident (or not) about a future application. This was done based on all SMEs 'planning to apply for finance in the next 3 months' interviewed from Q4 2011 to Q3 2012.

The usual business demographics were tested as well as current use of finance, proposed use of future finance, financial behaviour over the 12 months prior to interview, future growth prospects, barriers to future business performance, and awareness of Taskforce initiatives.

This showed the following significant predictors:

Positive effect on confidence	Negative effect on confidence
In the 'Other Community' sector	Feel that access to finance is a barrier
Aware of any of the Taskforce initiatives	Having any self-reported credit incident
Minimal or low risk	A 'would be seeker' of finance in previous 12 mths
Objective to grow in next 12 months	Having a business plan
Don't know specifically what funds are for	Having 0 employees
In the Wholesale/Retail sector	Plan to use funds for marketing or advertising
Plan to use funds to refurbish premises	An importer and/or exporter
Feel that legislation and regulation are a barrier	Feel that cash flow/late payment is a barrier
	Plan to use funds to buy plant/machinery or vehicles

Businesses with a good external risk rating, plans to grow and awareness of Taskforce initiatives such as mentors and the appeals process, are typically more confident about success with a future application. Smaller businesses concerned about access to finance or cash flow issues, who had wanted to apply before but felt unable to, or who have experienced a self-reported credit incident, are typically less confident.

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

In Q3, 12% of all SMEs reported plans to apply/renew facilities in the following 3 months, leaving the majority (88%) with no such plans. Just over a third of that majority (38%) were current users of external finance, the rest were not. This means that, for Q3 2012, 57% of all SMEs neither used external finance nor had any immediate plans to apply for any. This proportion has increased over time from 46% in Q1-2 2011.

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

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

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

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

The table below shows that with fewer SMEs planning to apply/renew in Q3 2012 (12%), slightly more have met the definition of 'future would-be seekers' (25%), albeit that most have no immediate financial need:

Future finance plans All SMEs, over time By date of interview	Q1-2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012
Unweighted base:	*5063*	*5055*	*5010*	*5023*	*5000*	*5032*
Plan to apply/renew	19%	13%	14%	16%	14%	12%
'Future would-be seekers' – with identified need	2%	2%	2%	2%	3%	3%
'Future would-be seekers' – no immediate identified need	16%	20%	18%	23%	19%	22%
'Happy non-seekers'	64%	65%	66%	60%	64%	63%

Q230/239 All SMEs

As has been discussed elsewhere in this report, around a third of SMEs can be described as 'permanent non-borrowers' based on their past and indicated future behaviour. If such SMEs are excluded from the future finance plans analysis, then in Q3 over a third (37%) can be described as 'future would-be seekers' – the highest level seen to date:

Future finance plans SMEs excluding PNB, over time By date of interview	Q1-2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012
Unweighted base:	*4047*	*3968*	*3822*	*4022*	*3894*	*3732*
Plan to apply/renew	27%	19%	22%	23%	21%	18%
'Future would-be seekers' – with identified need	3%	3%	3%	3%	5%	4%
'Future would-be seekers' – no immediate identified need	23%	31%	28%	32%	29%	33%
'Happy non-seekers'	48%	46%	47%	42%	45%	44%

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

The table below shows how the proportion of 'future would-be seekers' has changed over time. Compared to the equivalent quarter 3 in 2011, the proportion of 'future would-be seekers' has:

- increased slightly for smaller SMEs
- increased steadily over time for those with a low external risk rating, and declined slightly for those with a minimal external risk rating
- those in the Transport, Property/Business Services, Other Community and Health sectors were now more likely to be a 'future would-be seeker' of external finance

Future would-be seekers Over time – row percentages By date of interview	Q1-2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012
All SMEs	**18%**	**22%**	**20%**	**24%**	**22%**	**24%**
0 employee	18%	23%	20%	26%	24%	25%
1-9 employees	18%	22%	21%	22%	19%	23%
10-49 employees	10%	16%	13%	14%	16%	14%
50-249 employees	8%	15%	15%	16%	14%	13%
Minimal external risk rating	8%	19%	11%	14%	18%	13%
Low external risk rating	13%	15%	14%	19%	22%	23%
Average external risk rating	19%	20%	20%	20%	22%	20%
Worse than average external risk rating	20%	26%	23%	29%	23%	26%
Agriculture	15%	22%	20%	27%	23%	25%
Manufacturing	17%	22%	18%	29%	17%	26%
Construction	19%	25%	25%	24%	29%	23%
Wholesale/Retail	21%	26%	25%	27%	25%	25%
Hotels and Restaurants	23%	20%	17%	27%	27%	24%
Transport	24%	21%	24%	26%	21%	27%
Property/Business Services etc.	15%	22%	17%	23%	20%	26%
Health	13%	16%	18%	20%	14%	21%
Other Community	18%	18%	14%	22%	22%	23%
All SMEs excluding PNBs	26%	34%	31%	35%	34%	37%

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

To understand this further, the table below shows all the reasons given by 'would-be seekers' in Q3 2012 for thinking they will not apply for finance in the next three months, and highlights the impact of the current economic climate:

Reasons for not applying (all mentions) All future 'would-be seekers' Q3 2012 only	Q3 overall	Q3 0-9 emps	Q3 10-249 emps
Unweighted base:	*975*	*640*	*335*
Reluctant to borrow now (any)	51%	51%	64%
-Prefer not to borrow in economic climate	*38%*	*38%*	*40%*
-Predicted performance of business	*13%*	*13%*	*25%*
Issues with principle of borrowing	18%	18%	15%
-Prefer not to borrow	*13%*	*13%*	*12%*
-Not lose control of business	*3%*	*3%*	-
-Can raise personal funds if needed	*2%*	*2%*	*2%*
-Prefer other forms of finance	*	-	*
-Go to family and friends	*1%*	*1%*	-
Issues with process of borrowing	16%	16%	9%
-Would be too much hassle	*7%*	*8%*	*4%*
-Thought would be too expensive	*9%*	*10%*	*5%*
-Bank would want too much security	*1%*	*1%*	*1%*
-Too many terms and conditions	*	*	*1%*
-Did not want to go through process	*	*	-
-Forms too hard to understand	*	*	*1%*
Discouraged (any)	17%	17%	11%
-Direct (Put off by bank)	2%	2%	1%
-Indirect (Think I would be turned down)	*15%*	*15%*	*9%*

Q239 Future 'would-be seekers' SMEs

Analysis of the Q3 results by size of 'would-be seeker' showed that it was still the larger SMEs that were more reluctant to borrow now, and also more likely to say that this was because of the predicted performance of their business. Smaller 'would-be seekers' remained slightly more likely than the larger ones to have issues with the process of borrowing or with discouragement.

Those SMEs that gave more than one reason for their reluctance to borrow were asked for the main reason, and all the main reasons given over time are shown below. Reluctance to borrow 'now' remained the key reason for being unlikely to seek funds in the next 3 months, nominated by half of 'future would-be seekers'. Within this overall category, an increasing proportion in recent quarters had given their *own* performance as the main barrier to seeking funds, but this was less the case in Q3 (13%), with more mentions of the general economy instead. While only a minority of 'future would-be seekers' cite discouragement, almost all of it indirect, the proportion has increased over time from 10% in Q3 2011 to 16% in Q3 2012:

Main reason for not applying 'Future would-be seekers' over time By date of interview	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012
Unweighted base:	*954*	*862*	*980*	*927*	*975*
Reluctant to borrow now (any)	43%	52%	54%	49%	49%
-Prefer not to borrow in economic climate	*32%*	*39%*	*37%*	*31%*	*36%*
-Predicted performance of business	*10%*	*14%*	*17%*	*18%*	*13%*
Issues with principle of borrowing	25%	13%	14%	14%	16%
Issues with process of borrowing	15%	15%	14%	14%	12%
Discouraged (any)	10%	14%	11%	14%	16%
-Direct (Put off by bank)	*<1%*	*2%*	*2%*	*1%*	*1%*
-Indirect (Think I would be turned down)	*10%*	*12%*	*9%*	*13%*	*15%*

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

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

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

Main reason for not applying The 'future would-be seekers'	Identified need				No identified need			
	Q3-4 2011	*Q4-1*	*Q1-2 2012*	*Q2-3*	*Q3-4 2011*	*Q4-1*	*Q1-2 2012*	*Q2-3*
Unweighted base:	***173***	***179***	***213***	***226***	***1643***	***1663***	***1694***	***1676***
Reluctant to borrow now (any)	33%	42%	38%	35%	49%	54%	53%	51%
-Prefer not to borrow in economic climate	*33%*	*39%*	*33%*	*30%*	*36%*	*37%*	*34%*	*35%*
-Predicted performance of business	*1%*	*3%*	*5%*	*5%*	*13%*	*17%*	*19%*	*17%*
Issues with principle of borrowing	5%	3%	4%	3%	20%	14%	15%	17%
Issues with process of borrowing	16%	12%	10%	12%	15%	15%	14%	13%
Discouraged (any)	39%	38%	44%	46%	9%	10%	8%	11%
- Direct (Put off by bank)	*2%*	*5%*	*6%*	*4%*	*1%*	*1%*	*1%*	*1%*
-Indirect (Think I would be turned down)	*37%*	*33%*	*39%*	*42%*	*9%*	*8%*	*7%*	*9%*

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

This shows that for those with an identified need, discouragement has become more of a barrier than a reluctance to borrow in the current climate. Levels of discouragement have increased steadily over time, however, this was almost entirely *indirect* (the SME thinking they would be turned down).

Amongst those with no immediate need identified, a reluctance to borrow now continued to present a much stronger barrier, and discouragement remained much less of an issue than for those with an identified need.

Other analysis of all 'future would-be seekers', such as by size and risk rating, is possible based just on the latest quarter, Q3 2012. Larger 'future would-be seekers' remained more likely to be reluctant to borrow now, with more mentions this quarter of the current economic climate (39% from 26% in Q2) rather than their own performance specifically (25% from 30%). Discouragement remained more of an issue for smaller SMEs, mentioned by 16% of 'future would-be seekers' with 0-9 employees:

Main reason for not applying 'Future would-be seekers' by size Q3 2012 only	Overall	0-9 emps	10-249 emps
Unweighted base:	***975***	***640***	***335***
Reluctant to borrow now (any)	49%	49%	63%
-Prefer not to borrow in economic climate	*36%*	*36%*	*39%*
-Predicted performance of business	*13%*	*13%*	*25%*
Issues with principle of borrowing	16%	16%	15%
Issues with process of borrowing	12%	12%	8%
Discouraged (any)	16%	16%	11%
-Direct (Put off by bank)	*1%*	*1%*	*1%*
-Indirect (Think I would be turned down)	*15%*	*15%*	*9%*

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

The table below shows analysis of the main reasons given for not applying in Q3 2012 by 'future would-be seekers' split by risk rating. This shows that reluctance to borrow now was the most mentioned main reason across all risk ratings.

Main reason for not applying 'Future would-be seekers' by risk rating Q3 2012 only	Min/Low	Avge	Worse/ Avge
Unweighted base:	***250***	***261***	***354***
Reluctant to borrow now (any)	57%	43%	48%
-Prefer not to borrow in economic climate	*47%*	*27%*	*34%*
-Predicted performance of business	*9%*	*16%*	*14%*
Issues with principle of borrowing	14%	14%	17%
Issues with process of borrowing	20%	13%	13%
Discouraged (any)	6%	21%	16%
-Direct (Put off by bank)	*1%*	*2%*	*1%*
-Indirect (Think I would be turned down)	*5%*	*19%*	*16%*

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

Compared to Q2 2012:

- those with a minimal/low risk rating were less likely to think the predicted performance of their business was a barrier, and more likely to cite the current economic climate, or issues with the 'process' of borrowing
- those with an average external risk rating were less likely to mention a reluctance to borrow (although it was still their most mentioned barrier) and more likely to mention discouragement, almost all of it indirect
- the reasons given by those with a worse than average external risk rating had changed relatively little from the previous quarter

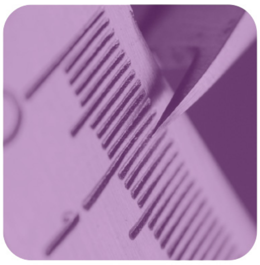
To put these results in context, the table below shows the equivalent figures for all reasons, for all SMEs in Q3 2012. Around 1 in 10 of all SMEs (12%) would have liked to apply for new/renewed facilities in the next 3 months but did not because of the current climate or the performance of their business:

Reasons for not applying Q3 only – the future would-be seekers	All reasons	Main reason	All SMEs Q3	All SMEs excl. PNB
Unweighted base:	*975*	*975*	*5032*	*3732*
Reluctant to borrow now (any)	51%	49%	12%	19%
-Prefer not to borrow in economic climate	*38%*	*36%*	*9%*	*14%*
-Predicted performance of business	*13%*	*13%*	*3%*	*5%*
Issues with principle of borrowing	18%	16%	4%	7%
Issues with process of borrowing	16%	12%	4%	6%
Discouraged (any)	17%	16%	4%	6%
-Direct (Put off by bank)	*2%*	*1%*	*<1%*	*1%*
-Indirect (Think I would be turned down)	*15%*	*15%*	*4%*	*6%*

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

The table above also shows the equivalent proportion of SMEs *excluding* the 'permanent non-borrowers' that have indicated that they are unlikely to be interested in seeking finance. Of those SMEs that *might* be interested in seeking finance (once the PNBs are excluded), 19% were put off by the current economic climate (including their performance in that climate). This was up slightly on Q2 2012 (17%).

13. Awareness of taskforce and other initiatives



This final section of the report looks at awareness amongst SMEs of some of the Business Finance Taskforce commitments, together with other relevant initiatives.

Key findings

46% of SMEs were aware of any of the Taskforce initiatives in Q3 2012. Overall awareness was unchanged from 12 months ago (46% in Q3 2011)

Awareness was highest for the Enterprise Finance Guarantee Scheme (22%) and the network of business mentors (21%)

Larger SMEs, with 50-249 employees, have shown some increase in awareness of these initiatives over time. In Q3, 64% were aware of any of them, compared to 45% of those with 0 employees

Also slightly more likely to be aware of any of the initiatives were those with plans to borrow in the next 3 months (50%), compared to 44% of 'future would-be seekers' who would like to apply but thought it unlikely they would

Overall awareness of the appeals procedure remained low amongst all SMEs (11%). There were some signs that awareness was improving amongst those who had experienced a borrowing event (13% in Q3), but of those declined for an overdraft 11% said that they had been made aware of the appeals process, and the equivalent figure for loans was 9%

18% of SMEs were aware of the National Loan Guarantee Scheme. Excluding the 'permanent non-borrowers', a quarter of remaining SMEs thought such a scheme, offering a discount on the interest rate, would make them more likely to apply for this type of funding – the equivalent of almost 700,000 SMEs

In October 2010, the Business Finance Taskforce agreed to 17 initiatives with the aim of supporting SMEs in the UK. This final section of the report looks at awareness amongst SMEs of some of these commitments, together with other relevant initiatives.

In Q2 2012 Project Merlin was removed from the list of initiatives, and additional questioning added on the National Loan Guarantee Scheme and 'crowd funding'. This new data is reported towards the end of this chapter. From Q4 2012, questions have also been included on the Funding for Lending scheme.

The first table covers those initiatives potentially relevant to all SMEs. Overall awareness has not changed over time, and, at 46%, was the same as the equivalent quarter of 2011:

Awareness of Taskforce initiatives Over time – all SMEs asked new question By date of interview	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012
Unweighted base:	*4792*	*5010*	*5023*	*5000*	*5032*
Enterprise Finance Guarantee scheme	22%	23%	22%	23%	22%
A network of business mentors	21%	22%	26%	23%	23%
Alternative sources of business finance	17%	12%	17%	18%	16%
Independently monitored appeals process	14%	10%	13%	12%	11%
The Business Growth Fund	12%	12%	12%	14%	12%
Regional outreach events	11%	7%	9%	8%	8%
BetterBusinessFinance.co.uk	9%	9%	9%	9%	9%
Trade finance and EFG for exporters	8%	6%	8%	9%	8%
*Any of these**	*46%*	*46%*	*48%*	*47%*	*46%*
None of these	*54%*	*54%*	*52%*	*53%*	*54%*

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

The table below shows awareness over time, by size of SME. There has been little change in overall awareness over time, and it is only the larger SMEs (50-249 employees) that have shown any increased awareness of any of these initiatives over time, with net awareness now at 64% compared to 45% for those with 0 employees.

Awareness of Taskforce initiatives All SMEs asked new question	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base (Q3):	*5032*	*1006*	*1665*	*1603*	*758*
Enterprise Finance Guarantee scheme Q311	22%	20%	26%	32%	37%
Enterprise Finance Guarantee scheme Q411	23%	22%	24%	32%	46%
Enterprise Finance Guarantee scheme Q112	22%	21%	26%	34%	41%
Enterprise Finance Guarantee scheme Q212	23%	20%	29%	36%	41%
Enterprise Finance Guarantee scheme Q312	22%	20%	25%	34%	42%
A network of business mentors Q311	21%	21%	21%	27%	24%
A network of business mentors Q411	22%	22%	21%	28%	23%
A network of business mentors Q112	26%	26%	24%	26%	28%
A network of business mentors Q212	23%	22%	26%	28%	28%
A network of business mentors Q312	23%	23%	23%	27%	30%
Alternative sources of business finance Q311	17%	16%	20%	29%	32%
Alternative sources of business finance Q411	12%	11%	14%	23%	30%
Alternative sources of business finance Q112	17%	15%	22%	30%	34%
Alternative sources of business finance Q212	18%	16%	23%	32%	36%
Alternative sources of business finance Q312	16%	15%	16%	24%	37%
Independently monitored appeals process Q311	14%	13%	14%	17%	17%
Independently monitored appeals process Q411	10%	10%	12%	17%	17%
Independently monitored appeals process Q112	13%	13%	13%	16%	19%
Independently monitored appeals process Q212	12%	10%	15%	17%	18%
Independently monitored appeals process Q312	11%	10%	12%	17%	23%

Continued

Continued

The Business Growth Fund Q311	12%	11%	13%	18%	22%
The Business Growth Fund Q411	12%	11%	14%	18%	22%
The Business Growth Fund Q112	12%	11%	14%	21%	25%
The Business Growth Fund Q212	14%	12%	16%	21%	23%
The Business Growth Fund Q312	12%	11%	15%	19%	25%
Regional outreach events Q311	11%	11%	11%	13%	14%
Regional outreach events Q411	7%	7%	9%	14%	10%
Regional outreach events Q112	9%	9%	9%	13%	12%
Regional outreach events Q212	8%	7%	12%	12%	11%
Regional outreach events Q312	8%	8%	8%	10%	14%
BetterBusinessFinance.co.uk Q311	9%	9%	10%	11%	9%
BetterBusinessFinance.co.uk Q411	9%	9%	9%	12%	9%
BetterBusinessFinance.co.uk Q112	9%	10%	8%	10%	11%
BetterBusinessFinance.co.uk Q212	9%	8%	11%	10%	10%
BetterBusinessFinance.co.uk Q312	9%	8%	10%	10%	11%
Trade finance and EFG for exporters Q311	8%	8%	10%	14%	18%
Trade finance and EFG for exporters Q411	6%	5%	8%	14%	17%
Trade finance and EFG for exporters Q112	8%	7%	10%	14%	21%
Trade finance and EFG for exporters Q212	9%	8%	11%	16%	21%
Trade finance and EFG for exporters Q312	8%	6%	11%	14%	22%

Q240 All SMEs

SMEs looking to apply for new/renewed facilities in the next 3 months were slightly more likely to be aware of these initiatives in Q3 (50%) than either 'future would-be seekers' (44%) or 'happy non-seekers' (47%).

Many of these initiatives are more relevant to those with an interest in seeking external finance, and mention has been made several times in this report of the third of SMEs that can be described as 'permanent non-borrowers' who have indicated that they are unlikely ever to seek external finance. In fact there was very little difference in awareness of individual initiatives between the 'permanent non-borrowers' and other SMEs, and overall awareness of any of these initiatives was almost identical (45% in Q3 2012 for 'permanent non-borrowers' and 47% for other SMEs).

There was some variation in overall awareness by sector. In Q3 2012, those in the Health sector (55%) were the most likely to be aware, those in Construction (38%) the least likely. A detailed breakdown of awareness over time is provided below:

% aware Over time by date of interview	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Enterprise Finance Guarantee scheme Q311	19%	31%	17%	21%	19%	24%	26%	25%	14%
Q411	20%	34%	17%	15%	18%	19%	31%	20%	22%
Q112	22%	20%	19%	21%	20%	21%	27%	27%	22%
Q212	16%	23%	15%	19%	21%	22%	30%	26%	25%
Q312	22%	29%	16%	21%	21%	19%	27%	20%	20%
A network of business mentors Q311	27%	26%	15%	20%	16%	25%	26%	25%	17%
Q411	15%	30%	16%	17%	18%	20%	27%	23%	25%
Q112	21%	23%	21%	22%	21%	24%	27%	31%	39%
Q212	18%	22%	17%	20%	22%	16%	34%	24%	24%
Q312	18%	20%	17%	23%	21%	20%	29%	34%	23%
Alternative sources of business finance Q311	18%	21%	13%	16%	16%	18%	22%	12%	14%
Q411	14%	15%	8%	9%	9%	14%	16%	13%	11%
Q112	19%	13%	12%	16%	16%	22%	20%	20%	18%
Q212	16%	20%	13%	17%	14%	13%	27%	13%	13%
Q312	16%	19%	9%	13%	12%	18%	23%	10%	17%

Continued

Continued

Independently monitored appeals process Q311	16%	19%	12%	14%	14%	16%	15%	12%	10%
Q411	11%	13%	8%	11%	12%	16%	11%	6%	11%
Q112	10%	10%	15%	13%	11%	17%	12%	14%	11%
Q212	9%	8%	10%	12%	13%	14%	14%	11%	13%
Q312	12%	8%	10%	12%	9%	10%	11%	9%	11%
The Business Growth Fund Q311	13%	22%	9%	10%	12%	10%	13%	9%	12%
Q411	16%	14%	6%	9%	11%	16%	18%	10%	9%
Q112	11%	13%	9%	11%	12%	17%	15%	14%	9%
Q212	11%	12%	8%	9%	12%	14%	21%	12%	16%
Q312	13%	12%	9%	10%	12%	8%	18%	10%	12%
Regional outreach events Q311	12%	21%	8%	10%	10%	13%	12%	11%	11%
Q411	9%	8%	7%	9%	7%	10%	8%	5%	6%
Q112	8%	9%	8%	7%	8%	12%	11%	14%	5%
Q212	8%	6%	3%	7%	8%	4%	11%	10%	16%
Q312	11%	6%	6%	7%	8%	6%	10%	9%	11%
BetterBusinessFinance.co.uk Q311	10%	15%	8%	11%	13%	8%	8%	12%	10%
Q411	11%	8%	9%	4%	10%	11%	9%	6%	13%
Q112	6%	9%	8%	5%	12%	13%	10%	15%	12%
Q212	10%	11%	5%	5%	8%	6%	12%	10%	12%
Q312	9%	4%	7%	9%	11%	14%	8%	12%	10%

Continued

Continued

Trade Finance & EFG for exporters Q311	6%	8%	8%	7%	6%	11%	11%	7%	5%
Q411	6%	5%	5%	3%	5%	10%	9%	5%	4%
Q112	7%	7%	7%	8%	4%	10%	9%	7%	9%
Q212	6%	11%	3%	10%	7%	4%	13%	8%	15%
Q312	7%	13%	4%	10%	10%	9%	9%	8%	4%

Q240 All SMEs

As with the overall picture over time, there has been relatively little change in awareness of these initiatives by sector. Some of the bigger changes have come in awareness of the independent appeals process, which has dropped over the last 12 months from 19% to 8% in the Manufacturing sector and from 16% to 10% in Transport.

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

Initiative	Awareness
The Lending Code – asked of SMEs with less than 10 employees	Fairly consistent overall awareness amongst SMEs with less than 10 employees: 15% in Q3, unchanged from Q2 (and ranging between 15-18% in previous quarters). Amongst those with 0 employees awareness was 15%, virtually unchanged from Q2 (14%). Awareness amongst 1-9 employee businesses was down slightly at 15% (18% in Q2).
Lending principles – asked of SMEs with more than 50 employees	Awareness has improved slightly in Q3: 26% of the largest SMEs were aware of this initiative in Q3 (21% in Q2 and 19-23% across previous quarters).
Loan refinancing talks, 12 months ahead – asked of SMEs with a loan	Awareness of this initiative amongst SMEs with loans remained fairly stable at 10% in Q3 (11% in Q2 and 7-13% across previous quarters). Awareness amongst smaller SMEs with loans was slightly lower: 0-9 employees 9% in Q3 from 11% in Q2 whilst awareness for 10-249 employees returned to previous levels, 15%, having been down slightly in Q2 (12%).

Finally, two initiatives are of particular relevance to certain types of SME, and so are shown again below, based on the most relevant types of SME:

Initiative	Awareness
The independently monitored lending appeals process	As reported earlier, amongst all those who, since April 2011, had applied for an overdraft and initially been declined, 13% said that they had been made aware of the appeals process, while for loans the equivalent figure was 9%. Overall awareness of the appeals process (at Q240) remains limited. Since Q3 2011 it has dropped from 14% to 11% in Q3 2012. Excluding either the 'permanent non borrowers' or just those not currently using external finance makes very little difference to awareness over time. There are some signs that awareness of the appeals process had increased amongst those that have had *any* borrowing event since April 2011. Awareness amongst this group was 10% in Q3 2011, rising steadily to 15% in Q2 2012, before dropping slightly to 13% in Q3. Similarly amongst a sub-group of these SMEs, namely those whose Type 1 event ended in them either having no facility, or using an alternative form of finance, awareness improved from 9% in Q3 2011 to 18% in Q2 2012, but was 11% in Q3.
Trade Finance & EFG for exporters	Overall awareness was low but stable (8% in Q3 2012). Amongst those who export, awareness was higher, 23% in Q3 2012, unchanged from Q2.

New questions were asked in Q2 and Q3 2012 to explore awareness of the National Loan Guarantee Scheme and 'crowd funding'.

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

- 17% of those with 0 employees
- 19% of those with 1-9 employees
- 24% of those with 10-49 employees
- 27% of those with 50-249 employees

Awareness was slightly higher amongst those already using external finance (19% v 16% if not using external finance), and those with a minimal external risk rating (24%). Excluding the 'permanent non-borrowers' makes no difference to overall awareness, and there were no clear differences by age of business or by plans to apply/renew facilities in the next 3 months.

In Q3, 16% of SMEs said they were aware of the National Loan Guarantee Scheme, up slightly from 14% in Q2. Across the two quarters combined, awareness was 15% and this also increased with size:

- 13% of those with 0 employees
- 19% of those with 1-9 employees
- 23% of those with 10-49 employees
- 30% of those with 50-249 employees

Awareness was higher amongst those already using external finance (17% v 13% if not using external finance), and amongst those with plans to borrow in the next 3 months (18%, compared to 9% of 'future would-be seekers' of external finance). Those with a minimal (22%) or low (19%) external risk rating were slightly more likely to be aware than those with an average (16%) or worse than average (13%) rating. Awareness increased by age of business from 12% of Start-ups to 17% of businesses aged 15 years or more. Excluding the 'permanent non-borrowers' boosts makes no difference to overall awareness (14%).

All SMEs were then asked how such a scheme, with a 1% discount on loans, hire purchase or leasing, might affect their future decisions about applying for such products. Given all that is known about the 'permanent non-borrowers', they have been excluded from the table and analysis below so that this is a truer relflection of likely appetite amongst those SMEs that borrow, or might consider doing so.

As the table below shows, very few felt the scheme would put them off applying (6%) but two thirds (64%) said it would make no difference to them because they did not want one of these lending products. The lack of demand for these lending products was much more likely to be the barrier than interest rates not being a main consideration (7%).

That said, overall, 23% of SMEs (excluding PNBs) thought the scheme would make it more likely that they would apply for such a lending product, the equivalent of almost 700,000 SMEs:

Effect of NLGS All SMEs asked new question in Q2+Q3 2012 Excluding PNBs	Overall	0 emps	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*6685*	*1088*	*2179*	*2344*	*1104*
Now more likely to apply for this type of funding	23%	22%	26%	22%	22%
No difference because do not want a loan, HP or leasing	64%	65%	60%	62%	62%
No difference as interest rates not main consideration for finance	7%	6%	8%	9%	9%
Now less likely to apply for this type of finance	6%	6%	6%	7%	6%

Q240 All SMEs, excluding DK and 'permanent non-borrowers'

Those with a poorer risk rating were slightly more likely to say that they would now be more likely to apply for such lending products (all excluding PNBs):

- 18% of those rated a minimal risk thought they were now more likely to apply
- 17% of those rated a low risk
- 21% of those rated an average risk
- 26% of those rated a worse than average risk

Also more likely to apply were (again excluding PNBs):

- those with plans to borrow in the next 3 months (41%)
- 'Future would-be seekers' of finance with an immediate need (37%)
- those who had been 'would-be seekers' of finance in the 12 months prior to interview (35%)
- Starts (29%) those currently using external finance (21%) and Starts (18%)
- those previously aware of the scheme remained less likely to think they might apply (14%) than those previously unaware (24%)

14. Technical Appendix

This chapter covers

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

Eligible companies

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

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

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

Sample structure

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

The totals below are for all interviews conducted YEQ3 2012 – each quarter's sample matched the previous quarter's results as closely as possible.

Business size	Universe	% of universe	Total sample size	% of sample
Overall	**4,548,843**	100%	20,065	100%
0 employee (resp)	3,366,144	74%	4023	20%
1-9 employees	1,008,024	22%	6628	33%
10-49 employees	144,198	3%	6405	32%
50-249 employees	26,383	1%	3009	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%	1502	7%
D Manufacturing (C)	302,032	7%	2122	11%
F Construction (F)	1,017,210	22%	3538	18%
G Wholesale etc. (G)	561,689	12%	2025	10%
H Hotels etc. (I)	156,001	4%	1799	9%
I Transport etc. (H&J)	314,705	7%	1805	9%
K Property/Business Services (L,M,N)	1,194,629	26%	3514	18%
N Health etc. (Q)	279,280	6%	1760	8%
O Other (R&S)	528,011	12%	2000	10%

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

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

Region	Universe	% of universe	Total sample size	% of sample
London	773,303	17%	2401	12%
South East	727,815	16%	2439	12%
South West	454,884	10%	1825	9%
East	454,884	10%	1772	9%
East Midlands	272,931	6%	1399	7%
North East	136,465	3%	997	5%
North West	454,884	10%	1816	9%
West Midlands	318,419	7%	1806	9%
Yorks & Humber	318,419	7%	1802	9%
Scotland	318,419	7%	1610	8%
Wales	181,954	4%	1198	6%
Northern Ireland	136,465	3%	1000	5%

Weighting

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

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

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

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

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

Overall rim weights were then applied for regions:

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

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

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

Business size	Sample size	Weighting efficiency	Effective sample size	Significant differences
Overall	20,065	27%	5417	+/- 2%
0 employee (resp)	4023	79%	3178	+/- 2%
1-9 employees	6628	77%	5103	+/- 2%
10-49 employees	6405	78%	4996	+/- 2%
50-249 employees	3009	82%	2467	+/- 3%

Analysis techniques

CHAID (or Chi-squared Automatic Interaction Detection) is an analytical technique which uses Chi-squared significance testing to determine the most statistically significant differentiator on some target variable from a list of potential discriminators. It uses an iterative process to grow a 'decision tree' splitting each node by the most significant differentiator to produce another series of nodes as the possible responses to the differentiator. It continues this process until either there are no more statistically significant differentiators or it reaches a specified limit. When using this analysis, we usually select the first two to three levels to be of primary interest.

This report is the largest and most detailed study of SMEs' views of bank finance ever undertaken in the UK. More importantly, this report is one of a series of quarterly reports. So, not only is this report based on a large enough sample for its findings to be robust, but over time the dataset has been building into a hugely valuable source of evidence about what is really happening in the SME finance market.

A report such as this can only cover the main headlines emerging from the results.

Information within this report and extracts and summaries thereof are not offered as advice, and must not be treated as a substitute for financial or economic advice. This report represents BDRC Continental's interpretation of the research information and is not intended to be used as a basis for financial or investment decisions. Advice from a suitably qualified professional should always be sought in relation to any particular matter or circumstance.

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