SME Finance Monitor

Q3 2013: The rise of the non-seeker of finance

An independent report by BDRC Continental, November 2013

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Foreword

Welcome to the tenth report of the SME Finance Monitor, which now includes data from interviews conducted up to the end of September 2013, and therefore the recent period of more upbeat economic news.

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

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

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

The data provides both a clear view of how SMEs are feeling now, and, increasingly, how this has changed over time. It also provides analysis by size of SME and sector, as SMEs should not be seen as one homogenous group: the smallest SMEs with no employees in particular can often report different views and experiences to larger SMEs.

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

Shiona Davies
Editor, The SME Finance Monitor
November 2013

The Survey Steering Group comprises representatives of the following:

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

1. Introduction

The issue of bank lending to SMEs continues to provoke much comment. A range of government and financial initiatives, such as the Funding for Lending scheme, have sought to make funds available for SMEs and encourage banks to lend, while alternative sources of finance are increasingly being discussed as planning continues for the new Business Bank. For some time the unstable economic atmosphere, including in the Eurozone, has affected business confidence and appetite for borrowing. There have been signs over recent months that confidence is starting to improve, as economic indicators report a more positive position, although it is still unclear whether levels of confidence will be sustained and will translate into increased activity or investment. 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.

Over 50,000 interviews have now been conducted for the SME Finance Monitor since the start of 2011. The majority of this tenth report is based on the 20,008 interviews with SMEs, conducted to YEQ3 2013. This means that the interviews conducted in the first six waves (the three waves conducted during 2011 plus Q1, Q2 and Q3 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 2013 data therefore includes the following four waves:

- October-December 2012– 5,000 interviews, referred to as Q4 2012
- January-March 2013 – 5,000 interviews conducted, referred to as Q1 2013
- April-June 2013 – 5,000 interviews conducted, referred to as Q2 2013
- July-September 2013 – 5,008 interviews conducted, referred to as Q3 2013

All waves were conducted using the same detailed quota profile. The results from these most recent four waves have been combined to cover a full 12 months of interviewing, and weighted to the overall profile of SMEs in the UK in such a way that it is possible to analyse results wave on wave where relevant – and the data reported for an individual quarter will be as originally reported. This combined dataset of 20,008 interviews is referred to as YEQ3 2013.

The majority of reporting is based on interviews conducted in the year to Q3 2013. The exceptions to this rule are:

- Where data is reported by loan or overdraft application date over time. In these instances, all applicants to date are included, split by the quarter in which they made their application for loan and/or overdraft facilities
- New from Q2 2013, when the applications made are analysed by sub-group, such as employee size, this is also now based on application date rather than date of interview. For the Q3 2013 report, this means such tables are based on all applications occurring in the 18 months between Q2 2012 and Q3 2013, to provide robust base sizes for each sub-group
- Where SMEs are asked about their planned future behaviour, and typically their expectations for the next 3 months, comparisons are made between individual quarters

A further quarter of 5,000 interviews, to the same sample structure, is being conducted October to December 2013, and results will be published in February 2014. At that stage, we will again present data on a rolling basis of 20,000 interviews (so adding Q4 2013 and dropping Q4 2012 from the main 'year ending' dataset reported).

A second edition of the annual report, published at the end of April 2013, provided separate analysis at regional level for an in-depth assessment of local conditions during 2012. A new regional report is planned for April 2014, to report on local conditions during 2013.

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.

This tenth report into access to finance for SMEs is set against a background where most SMEs have been profitable, and fewer self-reported any credit issues. Use of any external finance was stable overall at 41%, and fewer SMEs reported an injection of personal funds in the previous 12 months.

- Two thirds of SMEs reported making a profit, and this has been stable over time
- 9% of SMEs reported a credit issue, typically a bounced cheque or an unauthorised overdraft. This proportion has fallen over time across all size bands. Over the same period, the proportion of SMEs rated a worse than average risk increased slightly, and is currently 54%
- 41% of SMEs were using external finance in Q3 2013. Use of 'core' financial products (loans, overdrafts and credit cards) was stable at 33%, but within this there was a further decline in the proportion with an overdraft facility (now 16%)
- 38% reported an injection of personal funds into the business in the previous 12 months, continuing a downward trend seen since Q3 2012, when 46% of SMEs had reported an injection of funds. Fewer SMEs are now reporting that they felt that they *had* to inject funds (20% of all SMEs compared to 26% in Q3 2012)
- The equivalent of 9% of all SMEs reported that they had had to inject personal funds either because their bank had turned them down for funding or because they had assumed that the bank would do so, if they were to ask

0 employee SMEs are reporting and anticipating a slightly different and, perhaps, less positive experience to their larger peers. In Q3 2013, they were less likely to report that they had grown, or expected to grow, and the current economic climate was perceived as more of a barrier.

- 36% of SMEs reported having grown in the previous 12 months, down slightly on Q2 (44%). This was due to fewer 0 employee SMEs reporting that they had grown (32% from 42% in Q2). For all other size bands the proportion reporting growth in Q3 was unchanged from Q2

- A similar pattern was seen when looking ahead. 47% of SMEs planned to grow in the next 12 months, and this was slightly lower than the 51% reported in Q2 (which was the highest proportion to date). Again, this was due to fewer 0 employee SMEs predicting that they would grow –those with employees were as likely, or more likely, to be planning to grow in Q3 as in Q2

- The current economic climate continued to be seen as the main obstacle to running the business (26%), particularly for smaller businesses, those with a worse than average risk rating and those with any appetite for finance. Over time, the proportion citing it as a major obstacle has declined, but the drop between Q2 and Q3 was amongst those with employees. For 0 employee SMEs in Q3, the economy remained as much of an obstacle as before (27%)

Against this backdrop, financial activity softened again. 15% of SMEs reported any kind of borrowing 'event' in the year prior to Q3 2013, with applications for new or renewed facilities at their lowest level to date (7%).

- Overall, 15% of SMEs in Q3 reported some form of borrowing 'event' (including applications, renewals and the automatic renewal of an overdraft facility). This is the lowest level to date on the SME Finance Monitor
- 7% of SMEs interviewed in Q3 2013 had applied for a new or renewed loan or overdraft facility in the 12 months prior to interview, also the lowest level seen to date on the SME Finance Monitor
- The level of applications from SMEs with employees was both higher and more stable than from 0 employee SMEs. Fewer applications from these smaller SMEs as well as from those with an average or worse than average risk rating drove the overall decline in application rates
- Around a third of applicants were applying for the first time. The proportion of loan applicants applying for the first time had declined slightly over time, but remained more common than amongst overdraft applicants, despite that proportion having increased over time

Overall, 7 out of 10 applications resulted in a facility, but applications made in 2013 were less likely to be successful. This can be explained in part by the profile of applicants, and newer, smaller SMEs and those with a worse than average risk rating remained less likely to be successful.

- 70% of *all* loan and overdraft applications reported to date on the SME Finance Monitor have resulted in a facility, 5% in some other form of funding and 25% in no facility. Success rates for applications made in 2013 were lower, with 61% of all applications reported so far resulting in a facility

- 72% of all *overdraft* applications made in the most recent period (Q2 2012 to Q3 2013) were successful, 4% took other funding and 25% of applicants ended the process with no facility. The figures for loans over the same period were 57% successful, 9% taking other funding and 35% with no facility

- Analysis by quarter of application showed that overdraft applications made in the first half of 2013 were more likely to be declined initially, and that these applicants were subsequently more likely to end the process without a facility. Loan success rates were more stable over time

- Once the size, risk rating and nature of borrowing had been controlled for, the lower overdraft success rate in Q2 2013 was almost entirely explained by the demographic profile of applicants, but not the lower success rate in Q1. There were insufficient loan applications made in 2013 for analysis, but the available data suggested that applications made in 2012 were more likely to be successful than the profile of applicants might have suggested, in contrast to 2011

- 9 out of 10 renewals (of loans or overdrafts) were successful, and this was stable over time. Half of applications for new money were successful, with lower success rates for applications made in 2013 – 30% of first time applicants had been successful in 2013 (compared to 41% of applicants in 2012) while 55% of other applicants seeking new funding were successful in 2013 (compared to 72% in 2012)

- Only a minority of applicants sought advice before they applied. This remained more common for loans (19%) than overdrafts (10%), and increased by size of facility applied for. A quarter of recent applicants for a new loan or overdraft reported that they had taken some action to make the business more likely to obtain external finance, such as speaking to an advisor or their bank

A minority of SMEs, 7%, would have liked to apply for a loan or overdraft, but felt that something had stopped them. The process of borrowing and discouragement (most of it indirect) remained the main barriers to application for these 'would-be seekers' of finance.

- 7% of SMEs in Q3 2013 met the definition of a 'would-be seeker' of external finance, who had wanted to apply for a loan or overdraft but felt that something had stopped them. This proportion has been stable over recent quarters
- Smaller SMEs and those with an average or worse than average risk rating were more likely to be 'would-be seekers'
- For both loans and overdrafts the main barriers to an application were the process of borrowing (the hassle, expense, security etc – cited by 38% of those who would have sought an overdraft and 36% of those who would have sought a loan) and discouragement (38% for overdrafts, 45% for loans).
- Overall, almost all the discouragement was indirect (the SME assuming they would be turned down and so not applying) but *direct* discouragement was more of an issue for larger 'would-be seekers', especially for overdrafts (this is where the SME has an informal conversation with the bank and feels put off as a result)

This lower financial activity resulted in three-quarters of SMEs being defined as 'Happy non-seekers' of finance in the 12 months prior to Q3 2013, the highest proportion recorded to date. 4 out of 10 SMEs met the more stringent definition of a 'Permanent non-borrower', and over time smaller and younger SMEs have become more likely to be classified as a PNB.

- In Q3 2013, 78% of SMEs were 'Happy non-seekers of finance', based on their behaviour in the 12 months prior to interview, and the highest level recorded to date on the SME Finance Monitor (in Q3 2012, the proportion was 67%). These SMEs had neither sought new/renewed loan or overdraft facilities in the 12 months prior to interview, nor felt that anything had stopped them from applying

- 40% of SMEs met the more specific definition of a 'Permanent non-borrower', those SMEs that had not used, nor wanted to use, external finance, nor had any plans to apply for any in the near future

- Over time, the proportion of PNBs increased from around a third to around 4 in 10 SMEs, with smaller SMEs and those less than 10 years old increasingly likely to meet this definition

Looking forward, appetite for future finance also remained limited. 12% of SMEs in Q3 planned to apply for new or renewed facilities, and there was higher consideration of non-core products to meet their financing needs. Appetite for finance remained markedly higher for those with employees, and larger SMEs were also more confident of success.

- 12% of all SMEs planned to apply for new or renewed facilities in the 3 months after Q3 2013. Those with 0 employees were markedly less likely to be planning to apply (10%) compared to those with employees (14-18%), but SMEs with 10-249 employees have had less of an appetite for finance in recent quarters

- 0 employee SMEs were the only group where likelihood to apply for a new/renewed facility (10%) was lower than the likelihood to inject personal funds into the business (22%)

- 66% of those planning to apply would consider something other than the 'core' products of loan, overdraft or credit card, the highest level to date. Most though would consider one of the core products (71%), and 19% of applicants would only consider a core product

- Having dipped in Q2, confidence that the bank would agree to their request improved amongst these potential applicants in Q3. 41% were confident that the bank would lend (up from 30% in Q2), as smaller applicants regained some confidence (40% from 29%). Larger potential applicants continued to be more confident of success (57% in Q3)

- Confidence that the bank would lend remained below the actual levels of success reported to date. 50% were confident that their renewal would be successful, compared to current success rates of 94%, while 29% were confident about a new facility, compared to a 46% success rate

A further 17% of SMEs were 'Future would-be seekers' of finance, also the lowest proportion to date. The minority that had a specific need for finance identified were increasingly likely to report feeling discouraged from applying, while the majority, those with no specific need already identified, saw the current economic climate as the main barrier to a future application.

- 17% of all SMEs met the definition of a 'Future would-be seeker' of finance in Q3, down from 19% in Q2 (and 25% in the equivalent quarter of 2012)
- This potential appetite for finance fell across all size bands , and for those with a minimal or low external risk rating in particular
- 2% of all SMEs were 'Future would-be seekers' with a need for finance identified. For half of this group, discouragement was the main obstacle to an application and this proportion had increased over time. Almost all of this discouragement was indirect, where the SME had assumed they would be turned down and so had not asked
- 15% of all SMEs were 'Future would-be seekers' with no specific need for finance already identified. Two thirds of this group cited the current economic climate as their main barrier to an application, and this was a consistent story over recent quarters

70% of SMEs were 'Future happy non-seekers' of finance, the highest level to date. Indeed, over half of all SMEs in Q3 neither used external finance nor had plans to apply for any.

- Q3 2013 saw the highest level of 'happy non-seekers' reported to date, 70%. These are SMEs with no plans, or wish, to apply for finance in the 3 months after interview
- The quarter on quarter increase (from 67% in Q2) was seen across all size bands, with a bigger increase for the larger SMEs, where three-quarters of those with 10-249 employees had no plans to apply for finance
- 56% of all SMEs in Q3 neither used external finance, nor had any plans to apply for any. This proportion had increased over time, from 50% in 2011, to 53% in 2012 and 56% for 2013 to date

Awareness of any of the initiatives designed to support SMEs improved slightly in Q3. SMEs continued to be most likely to be aware of the Funding for Lending Scheme, but over time had become less likely to see it as an incentive to apply for finance.

- 56% of SMEs were aware of any of the initiatives tested, up from 52% in previous quarters
- Awareness increased with size of business from 54% of 0 employee SMEs to 78% of those with 50-249 employees
- Of the individual initiatives, the highest levels of awareness continued to be recorded for the Funding for Lending Scheme (FLS). 30% of SMEs were aware of the scheme in Q3, up from 23% when awareness was first tested in Q4 2012. Awareness increased by size (28% of 0 employee SMEs to 51% of those with 50-249 employees) and for 7% of SMEs, FLS was the only initiative they were aware of
- Amongst those who had heard of FLS, awareness of specific bank initiatives to lend under the scheme remained limited (9% of all SMEs)
- In Q3, 14% of SMEs said that schemes like FLS made it more likely they would apply for external finance. Excluding the Permanent non-borrowers who are unlikely to apply for finance, increased this proportion to 20%
- Over time, the proportion of SMEs (excluding the PNBs) who were more likely to apply for finance due to schemes such as FLS fell from 27% in Q4 2012 to 20% in Q3 2013, and across all size bands. Those with plans to apply for finance in the next three months remained the most likely to be encouraged by such schemes (37% in Q3) but this had also declined somewhat since Q4 2012 (42%)
- The biggest single group of SMEs (77% overall, 68% once the PNBs were excluded) said that such schemes made no difference to them because they were not interested in borrowing

3. Using this report

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

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

Where relevant, analysis has also been provided by sector, age of business or other relevant characteristics of which the most frequently used is external risk rating. This was supplied for almost all completed interviews by D&B or Experian, the sample providers. Risk ratings are not available for 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%	67%
F	Construction	22%	85%
G	Wholesale and Retail Trade; Repairs	12%	57%
H	Hotels and Restaurants	4%	26%
I	Transport, Storage and Communication	7%	86%
K	Real Estate, Renting and Business Activities	26%	74%
N	Health and Social work	6%	80%
O	Other Community, Social and Personal Service Activities	12%	83%

Analysis over time

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

Where results can be shown by individual quarter over time, they have been. However, small sample sizes for some lines of questioning mean that in those instances data is reported based on four quarters combined (YEQ3 2013 in this report). This provides a robust sample size and allows for analysis by key sub-groups such as size, sector or external risk rating.

Each report also comments on changes in demand for credit and the outcome of applications over time. Here, it is more appropriate to analyse results based on when the **application** was made, rather than when the interview was conducted. Final data is now available for any applications made in 2010, 2011, and the first three quarters of 2012 but for other more recent quarters data is still being gathered. Results for events occurring from Q4 2012 onwards are therefore still *interim* at this stage (respondents interviewed in Q4 2013 will report on events which occurred in Q4 2012 or later).

Where analysis is shown by date of application, this typically includes all interviews to date (including those conducted in 2011, and Q1 to Q3 of 2012, which are no longer included in the Year Ending data reported elsewhere), and such tables are clearly labelled in the report. New for the Q2 and Q3 2013 reports, when applications made are analysed by sub-group such as employee size, this is also now based on application date rather than date of interview. For the Q3 2013 report, this means such tables are based on all applications occurring in the 18 months between Q2 2012 and Q3 2013 to ensure a robust base size for analysis.

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

This is the first report in which not *all* of the previous quarters are shown in the standard quarterly tables. Data from the very first wave (Q1-2 2011) is no longer shown, and subsequent reports will operate a policy of deleting the oldest wave before adding the latest. However, a series of key charts were developed for the last report (Q2 2012) and are shown in the final chapter of this report. These show, and will continue to show, all results over time for these key metrics.

Definitions used in this report

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

4. The general context

This chapter presents

an overview of the characteristics of SMEs in the UK. Unless otherwise stated, figures are based on all interviews conducted in the year ending Q3 2013 (YEQ3 13).

Key findings

This chapter provides the business demographic context for subsequent analysis.

A third of SMEs (excluding Starts) had grown in the past 12 months (36%), with 10% reporting that they had grown by more than 20%. This is consistent with earlier quarters, albeit slightly lower than the growth reported in Q2 2013 (44%), due to fewer 0 employee SMEs reporting that they had grown. The equivalent of 5% of **all** SMEs reported growing by 20% or more in **each** of the previous 3 years.

For the first time since comparisons started, the growth achieved was lower than the growth predicted in earlier SME Finance Monitor reports (43%, albeit by a different sample of SMEs).

Two thirds of SMEs were profitable, and this has changed very little over time. Profitability, and the amount of profit made, increased with size.

Risk ratings were also broadly stable over time, with 16% of SMEs rated a minimal or low risk in Q3. The proportion rated a 'worse than average' risk was 54%, driven by the smaller and younger SMEs. This proportion has increased slowly over time (50% in 2011), but the proportion *self*-reporting a credit issue has followed a different trend, remaining low (9% in Q3) and declining slightly over time.

A minority of SMEs (14%) engaged in international trade. In Q3, 8% exported while 11% imported.

The proportion of SMEs that plan returned to previous levels. In Q3 59% had either a business plan and/or regular management accounts. This was slightly more common where the person in charge of financial matters had some form of qualification or training (67% v 51% if they did not). A quarter (27%) of all SMEs had such a person, increasing by size to 75% of SMEs with 50-249 employees.

8 out of 10 SMEs (84%) were either sole traders or a company owned by one person. Most owners (85%) were only involved in one business. Owners who ran more than one business (10%) were more likely to be using external finance, to report a borrowing 'event', or to belong to a business group.

This chapter presents an overview of the characteristics of SMEs in the UK. Unless otherwise stated, figures are based on the 20,008 interviews conducted in the year ending Q3 2013 (that is Q4 of 2012 and Q1 to Q3 of 2013). There have been trading challenges since the survey started in 2011, and analysis of this data over time provides an indication of how SMEs are managing.

Profitability

Almost two-thirds of SMEs reported making a profit in their most recent 12 month trading period (64% for YEQ3 2013), unchanged from the previous period. As the quarterly analysis below shows, just under two-thirds of those interviewed each quarter reported making a profit. The proportion unable or unwilling to give an answer has varied over time, so the table also now reports the proportion that made a profit once these 'don't know' answers were excluded. On this basis, the proportion making a profit varied little over time, with 7 out of 10 SMEs being profitable. Note that because consistently unprofitable SMEs tend to go out of business, there will be an element of 'survivorship bias' in the profit figures, potentially underestimating the proportion of unprofitable businesses in the population.

From Q4 2012, the profit and loss questions were simplified. The profit or loss made is now recorded in bands, rather than as an actual amount. Where made, the median profit figures have been stable in (from Q4 2012 the median has been calculated based on mid-points, as profit figures are now collected in bands). In Q3 2013, the median profit made was £8,000, compared to £7,000 in the first half of 2013:

Business performance last 12 months over time By date of interview	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013
Unweighted base:	*5055*	*5010*	*5023*	*5000*	*5032*	*5000*	*5000*	*5000*	*5008*
Made a profit	64%	64%	63%	65%	62%	64%	64%	64%	65%
Broke even	13%	14%	12%	13%	13%	13%	13%	13%	13%
Made a loss	16%	15%	18%	14%	17%	14%	15%	16%	15%
Dk/refused	7%	6%	6%	7%	9%	9%	7%	8%	7%
Median profit made YEQ3 13	*£10k*	*£13k*	*£10k*	*£10k*	*£7k*	*£6k*	*£7k*	*£7k*	*£8k*
Made profit (excl DK)	*69%*	*68%*	*68%*	*70%*	*68%*	*70%*	*69%*	*69%*	*69%*

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

The median annual **losses** reported were more stable over time – and remained at just under £2,000 in Q3 2013.

For YEQ3 2013, bigger SMEs remained more likely to have been profitable: 62% of 0 employee businesses reported making a profit, compared to 76% of those with 50-249 employees. The median profit, where made was £7k, increasing with size of SME.

Business performance last 12 months YEQ3 13 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*20,008*	*4002*	*6606*	*6400*	*3000*
Made a profit	64%	62%	68%	73%	76%
Broke even	13%	14%	11%	8%	8%
Made a loss	15%	16%	13%	10%	8%
Dk/refused	8%	8%	8%	9%	8%
Median profit made	*£7k*	*£5k*	*£12k*	*£49k*	*£228k*
Made profit (excl DK)	*69%*	*68%*	*74%*	*80%*	*83%*

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

Once the 'Don't know / refused' answers are excluded, 69% of remaining SMEs reported making a profit in the previous 12 months (YEQ3 2013), unchanged from YEQ2 2013.

Over time, larger SMEs remained consistently more likely to be profitable than smaller ones. SMEs interviewed in Q3 2013 were somewhat more likely to report making a profit compared to the equivalent quarter of 2012, but the figures were very much in line with other quarters, including the equivalent quarter of 2011:

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

Q241 All SMEs

By sector, once the 'don't know' answers were excluded, there was relatively little variation in the proportion reporting a profit: Agriculture remained the most likely to be profitable (73%), while Hotels and Restaurants and Transport were the least likely (65%).

Business performance last 12 months YEQ3 13 – all SMEs	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*1500*	*2080*	*3500*	*2024*	*1801*	*1812*	*3502*	*1789*	*2000*
Made a profit	68%	66%	63%	63%	60%	59%	66%	63%	65%
Broke even	13%	13%	17%	13%	14%	13%	11%	14%	11%
Made a loss	12%	13%	13%	15%	19%	20%	15%	15%	19%
Dk/refused	7%	8%	8%	9%	8%	9%	8%	7%	5%
Median profit made	*£8k*	*£7k*	*£6k*	*£9k*	*£7k*	*£7k*	*£8k*	*£4k*	*£5k*
Made profit (excl DK)	*73%*	*72%*	*68%*	*70%*	*65%*	*65%*	*72%*	*68%*	*68%*

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

Median profits for YEQ3 2013 also varied relatively little by sector, from £9k for profitable SMEs in Wholesale/Retail, to £4k for profitable SMEs in Health. Reported median losses for YEQ3 2013 were £2k overall and varied between a median loss of £1k in the Health sector and £4k in Hotels/restaurants.

Sales growth

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

As the table below shows, over time the proportion of SMEs (excluding Starts) reporting that they had grown, increased from 37% (in Q4 2012) to 44% (in Q2 2013), but fell back in the most recent quarter to 36%. This was due to fewer 0 employee SMEs reporting that they had grown (32% from 42% in Q2) – for all other size bands the proportion reporting they had grown was unchanged. As more data becomes available over time, it will be possible to assess whether there is a seasonal element here:

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

Q245a All SMEs trading for 3 years or more excl DK

For the period YEQ3 2013:

- 12% of SMEs more than 3 years old said they had grown by 20% or more in the previous 12 months, and this varied little by size of business (between 10% and 13%)
- 27% had grown, but by less than 20%, and this was more likely for larger SMEs (25% for those with 0 employees to 44% of those with 50-249 employees)
- This means that for YEQ3 2013, 39% of SMEs reported having grown at all in the previous 12 months, ranging from 37% of those with 0 employees to 54% of those with 50-249 employees
- 41% had stayed the same size, and this was more likely for smaller SMEs (43% for those with 0 employees to 34% of those with 50-249 employees)
- 20% had got smaller, and this was also slightly more common for smaller SMEs (21% for those with 0 employees to 13% of those with 50-249 employees)

Of those who reported for YEQ3 2013 that they had grown by 20% or more, almost 6 in 10 (58%) said that they had also achieved this level of growth for each of the two previous years. This is the equivalent of 6% of all SMEs more than 3 years old achieving 3 years of 20%+ growth, or 5% of all SMEs.

The Monitor has recorded *future* growth expectations since it started in early 2011. This allows a comparison to be made between growth expectations recorded in 2011 and 2012 and growth subsequently achieved, albeit that these are **different** samples of SMEs and so this is not a direct comparison between prediction and achievement.

The table below shows the proportion of SMEs more than 3 years old that predicted they would grow in the first time period, and compares it to the proportion of SMEs more than 3 years old that reported having achieved growth, in the second. Since this analysis started, the predictions made have typically proved to be very close to the growth figures subsequently reported (of a different sample of SMEs).

In Q2 2012, 43% of such SMEs *predicted* that they would grow in the next 12 months. In fact, in Q3 2013 36% (of a *different* sample of SMEs) reported that they *had* grown in the past 12 months, the first time that achievement has fallen short of prediction:

Growth predictions against expectations – all SMEs excluding Starts By date of interview	Predicted growth All SMEs	Achieved growth All SMEs	Predicted growth 0-9 emps	Achieved growth 0-9 emps	Predicted growth 10-249 emps	Achieved growth 10-249 emps
Predicted Q3 11 / Achieved Q4 12	37%	37%	36%	36%	57%	49%
Predicted Q4 11 / Achieved Q1 13	39%	39%	38%	39%	57%	47%
Predicted Q1 12 / Achieved Q2 13	41%	44%	40%	43%	57%	48%
Predicted Q2 12 / Achieved Q3 13	43%	36%	42%	35%	60%	50%
Predicted Q3 12 / Achieved Q4 13	41%		41%		53%	
Predicted Q4 12 / Achieved Q1 14	39%		38%		57%	

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

The analysis reported above shows slightly different trends by size of SME. In previous quarters, larger SMEs had been somewhat less likely to achieve the growth predicted and this is also the case in the most recent quarter (50% achieved growth compared to the 60% predicted). Meanwhile smaller SMEs had been as, or indeed more, likely to achieve the growth predicted, but this was not the case in the most recent quarter, where 35% achieved growth compared to the 42% originally predicted (by a different sample of SMEs).

Financial Risk Profile

Two assessments of financial risk are available and, as previous analysis has shown, both contribute to success in applications for new finance. The first is self-reported risk from the survey itself, affecting only a minority of SMEs (11% YEQ3 2013):

Self-reported credit issues YEQ3 13 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*20,008*	*4002*	*6606*	*6400*	*3000*
Unauthorised overdraft on account	5%	5%	5%	3%	2%
Had cheques bounced on account	4%	4%	6%	4%	3%
Problems getting trade credit	2%	2%	3%	3%	3%
Missed a loan repayment	1%	1%	1%	1%	*
Had County Court Judgement against them	1%	1%	1%	1%	1%
Any of these	*11%*	*10%*	*12%*	*9%*	*7%*

Q224 All SMEs

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

Any self-reported credit issues over time – row percentages By date of interview	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013
Overall	13%	12%	13%	13%	13%	12%	11%	10%	9%
0 employee	11%	12%	11%	12%	12%	12%	10%	9%	9%
1-9 employees	17%	14%	19%	17%	16%	12%	12%	13%	12%
10-49 employees	15%	13%	14%	15%	12%	10%	10%	8%	8%
50-249 employees	13%	8%	9%	10%	10%	7%	9%	7%	6%

Q224 All SMEs

The second assessment of financial risk is the external risk rating supplied by ratings agencies Dun & Bradstreet and Experian, which use a variety of business information to predict the likelihood of business failure. Their ratings have been combined to a common 4 point scale from minimal to worse than average risk. Although not all SMEs receive this external risk rating, most do (85%) and it is commonly used and understood by lenders. It has thus been used in this report for the majority of risk related analysis.

The overall risk profile in each quarter has been largely consistent over time. There has though been a slight increase in the proportion of SMEs rated a worse than average risk, currently 54%:

External risk rating (where provided) over time By date of interview	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013
Unweighted base:	*5055*	*5010*	*5023*	*4562*	*4583*	*4545*	*4630*	*4535*	*4490*
Minimal risk	6%	6%	6%	5%	2%	5%	6%	5%	6%
Low risk	11%	10%	12%	11%	13%	9%	10%	10%	10%
Average risk	33%	34%	30%	33%	30%	32%	28%	29%	30%
Worse than average risk	51%	51%	53%	51%	55%	53%	55%	56%	54%

All SMEs where risk rating provided

The overall YEQ3 2013 ratings are shown below by size of SME, and continued to report a better risk profile for larger SMEs:

External risk rating YEQ3 13 – all SMEs where rating provided	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*18,200*	*3305*	*5747*	*6216*	*2932*
Minimal risk	6%	3%	10%	26%	34%
Low risk	10%	7%	18%	28%	27%
Average risk	30%	30%	29%	29%	26%
Worse than average risk	55%	60%	44%	17%	14%

All SMEs where risk rating provided

The proportion of all SMEs with a worse than average external risk rating is driven by the ratings for 0 employee SMEs, and in Q3 2013 59% had a worse than average rating, down slightly from the first half of 2013. The proportion of SMEs with more than 10 employees that have a worse than average risk rating is both lower and more stable over time:

Worse than average external risk rating – row percentages By date of interview	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013
Overall	51%	51%	53%	51%	55%	53%	55%	56%	54%
0 employee	56%	53%	58%	55%	61%	58%	62%	61%	59%
1-9 employees	42%	49%	43%	43%	41%	45%	41%	46%	43%
10-49 employees	16%	17%	14%	17%	19%	18%	17%	17%	17%
50-249 employees	13%	13%	14%	14%	13%	13%	16%	15%	13%

All SMEs where risk rating provided

By sector, SMEs in Agriculture remained much more likely than other sectors to have a minimal or low risk rating (44% YEQ3 2013) compared to Transport where 10% had this rating:

External risk rating YEQ3 13	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*1251*	*1941*	*3169*	*1849*	*1663*	*1644*	*3202*	*1624*	*1857*
Minimal risk	24%	7%	3%	5%	4%	2%	5%	9%	7%
Low risk	20%	12%	8%	11%	10%	8%	10%	13%	8%
Average risk	26%	30%	26%	36%	32%	25%	31%	42%	27%
Worse than average risk	30%	51%	64%	48%	53%	65%	54%	36%	58%
Total Min/Low	*44%*	*19%*	*11%*	*16%*	*14%*	*10%*	*15%*	*22%*	*15%*

All SMEs where risk rating provided

When the two types of risk rating reported above were compared, those with a worse than average risk rating were only slightly more likely to self-report a credit problem (11% v 8% of SMEs with a minimal external risk rating). As the proportion with a worse than average risk rating increased slightly over time, the proportion *self*-reporting a credit problem remained much more stable, and indeed slightly lower in recent quarters.

Credit balances

Almost all SMEs reported holding some credit balances. 5% do not hold any, and this proportion has changed very little over time. Such businesses are slightly more likely to be using a personal account and to have a worse than average external risk rating.

Most SMEs (64%) said that they typically held less than £5,000. In Q3 2013 the proportion was 63% (from a peak of 70% in Q3 2012).

Over the same period, the proportion holding more than £5,000 in credit balances stayed around one in three, with no clear pattern over time. In Q3 2013 32% of SMEs said that they held more than £5,000 in credit balances.

The high proportion of SMEs with a low credit balance continues to be driven by the smaller SMEs. For YEQ3 2013, 72% of 0 employee SMEs held less than £5,000 in credit balances, compared to 12% of those with 50-249 employees.

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

- £1,650 for 0 employee SMEs
- £3,400 for 1-9 employee SMEs
- £23,200 for 10-49 employee SMEs
- £103,400 for 50-249 employee SMEs

How SMEs are managed

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

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

The table below shows that planning levels in Q3 2013 improved slightly to one of the highest levels seen to date (59%), while 14% were undertaking international activity (possibly boosted by the change in question wording):

Business formality elements Over time – all SMEs By date of interview	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013
Unweighted base:	*5055*	*5010*	*5023*	*5000*	*5032*	*5000*	*5000*	*5000*	*5008*
Planning (any)	54%	52%	58%	56%	56%	50%	54%	57%	59%
- Produce regular management accounts	*41%*	*37%*	*44%*	*42%*	*40%*	*38%*	*40%*	*45%*	*46%*
- Have a formal written business plan	*33%*	*32%*	*33%*	*34%*	*35%*	*29%*	*32%*	*34%*	*34%*
International (any)	10%	8%	10%	10%	10%	9%	10%	13%	14%
*– Export goods or services**	*7%*	*5%*	*7%*	*8%*	*6%*	*5%*	*6%*	*8%*	*8%*
*- Import goods or services**	*7%*	*6%*	*7%*	*6%*	*7%*	*6%*	*7%*	*9%*	*11%*
Have qualified person in charge of finances	23%	24%	25%	24%	25%	27%	24%	26%	27%

Q223/251 All SMEs

The proportion of SMEs with a financially qualified person looking after their finances has remained relatively stable, and was 27% in Q3 2013. The larger the SME the more likely they are to have a financial specialist, ranging from 22% of 0 employee companies to 75% of those with 50-249 employees. Where such a person is in charge of the finances, SMEs are somewhat more likely to plan (67% v 51%), and this is true across all size bands.

For YEQ3 2013, larger SMEs remained more likely to plan and to undertake international trade. Indeed, if the 0 employee businesses are excluded, the proportion of SMEs with employees who plan international trade increases from 55% overall to 71%, who have a qualified person in charge of the finances to 35% (from 26%) and the proportion who actually trade internationally to 20% (from 12% overall).

By sector, planning ranged from 65% in the Hotels and Restaurants sector to 45% in Construction, while international activity was most common in the Wholesale/Retail (24%) and Manufacturing (22%) sectors. For all other sectors, except Property/Business Services (13%) 10% or less imported or exported, with the Construction sector again the least likely to do so (5%).

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

- For YEQ3 2013, 25% of exporters said that international trade made up 50% or more of sales
- Exporters with 0 employees were slightly more likely to say this (30%) with little variation by size for exporters with employees (20-22%)
- 7% of all SMEs export. The equivalent of 2% of **all** SMEs reported that exports made up 50% or more of their turnover, while 5% of all SMEs reported that exports made up less than 50% of their turnover. 93% of SMEs do not export.

All SMEs were asked whether they used online banking. YEQ3 2013, two-thirds did (62%), increasing with size:

- 59% of 0 employee businesses use online banking
- 65% of those with 1-9 employees
- 77% of those with 10-49 employees
- 83% of those with 50-249 employees

Membership of business groups or industry bodies

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

YEQ3 2013 a quarter of SMEs (25%) said that this was the case (excluding DK answers).

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

- 24% of 0 employee businesses belong to a group/body
- 26% of 1-9 employee businesses
- 32% of 10-49 employee businesses
- 39% of 50-249 employee businesses

SMEs with a worse than average external risk rating were slightly less likely to belong to such groups (22%). Otherwise membership varied little by risk rating (28%-30%).

There was relatively little variation by age of business (23-26%). By sector, the most likely to belong to such groups were those in the Health sector (37%), Property/Business Services (32%) while those in Transport or Agriculture were less likely (both 17%).

Those currently using external finance were slightly more likely to belong to such groups (28%) than those that did not use external finance (23%), while those who met the definition of a 'Permanent non-borrower' were also somewhat less likely to belong to such groups (23%).

Those who had someone in charge of the finances who was qualified were more likely to belong to a business group (35%), as were those SMEs where the owner/manager was running more than one business (37%).

Business Ownership

61% of *companies* have one owner, ranging from 85% of 0 employee companies to 28% of those with 50-249 employees. This means that of *all* SMEs, 84% are either sole proprietorships or companies with one owner.

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

- 85% reported that this was the only business the owner was involved in, managerially or strategically, decreasing with size from 86% amongst 0 employee SMEs, to 68% amongst those with 50-249 employees
- 10% reported that the owner currently ran another business as well (8% amongst 0 employee SMEs increasing to 28% amongst those with 50-249 employees). Such businesses were more likely to be using external finance (52%), more likely to have had a borrowing event (23%) and more likely to have been successful with a loan application (but as they are also more likely to be larger SMEs this will also be a reflection of their size)
- 3% reported that the owner had set up and run a business before (with little variation by size). They were slightly more likely to have had a borrowing event (21%) but no more likely to be using external finance than SMEs generally
- Less than 1% said the owner had provided funds for another business in the past few years

5. Financial context – how are SMEs funding themselves?

This chapter provides

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

Key findings

In Q3, 41% of SMEs reported using external finance, and this proportion has been broadly stable since Q2 2012. Usage increased by size, and was clearly lower for the smallest SMEs (35% of those with 0 employees) compared to those with employees (57%-74%).

Use of any 'core' financial products (loans, overdrafts and credit cards) was stable at 33% in Q3, albeit at lower levels than in earlier reports (40% in Q1 2012). The proportion using an overdraft continued to decline, and was 16%, compared to 21% in the equivalent quarter of 2012, and the lowest level seen to date.

18% of SMEs used some form of 'non-core' external finance, down slightly from Q2 (21%), which was the highest level reported to date.

In Q3, 38% of SMEs reported an injection of personal funds into the business in the previous 12 months. Smaller, younger SMEs, those with a worse than average risk rating and those that had been 'would-be seekers' of finance, were more likely to have injected funds, with the typical injection for £5,000 or less. Since the equivalent quarter of 2012, the proportion of all SMEs injecting any funds had fallen from 46% to 38% and the proportion feeling that they *had* to inject those funds from 26% to 20% of all SMEs.

Of all those reporting that they *had* to inject funds, 1 in 5 said that they had done so because they had been turned down by their bank, while a quarter said they had assumed they would be turned down, but hadn't asked. This is the equivalent of 9% of *all* SMEs feeling that they had to inject funds because the bank had, or they felt would have, turned them down.

For 2013 to date, 39% of SMEs met the definition of a 'Permanent non-borrower', those SMEs who by the various answers they give report that they are not using external finance and appear to have little appetite to do so. The proportion has increased since 2012 (34%) due to more 0 employee SMEs, and more SMEs under 10 years old, meeting the PNB definition.

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

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

Use of external finance for YEQ3 2013 was unchanged at 41%.

Analysis by quarter showed use of external finance in Q3 2013 itself was 41%, down slightly from Q2 (43%) but in line with the quarters since Q3 2012:

Use of external finance in last 5 years Over time – all SMEs By date of interview	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013
Unweighted base:	*5055*	*5010*	*5023*	*5000*	*5032*	*5000*	*5000*	*5000*	*5008*
Use now	47%	41%	50%	43%	40%	41%	39%	43%	41%
Used in past but not now	2%	3%	3%	4%	5%	5%	4%	3%	3%
Not used at all	51%	56%	47%	53%	55%	54%	57%	54%	56%

Q14/15 All SMEs

As analysis later in this chapter shows, the slight decline in Q3 2013 was due to slightly lower levels of reported use of external finance by 0 employee businesses and of non-core products such as leasing.

The use of finance amongst bigger SMEs in 2013 was not only higher but also more stable than for smaller SMEs:

Currently use external finance Over time – all SMEs By date of interview – row percentages	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013
All	47%	41%	50%	43%	40%	41%	39%	43%	41%
0 emp	41%	36%	45%	37%	35%	37%	33%	38%	35%
1-9 emps	61%	54%	64%	60%	54%	53%	52%	57%	57%
10-49 emps	76%	70%	73%	73%	69%	65%	69%	67%	67%
50-249 emps	77%	75%	78%	78%	69%	68%	73%	73%	74%

Q14/15 All SMEs , base varies slightly each quarter

For the smallest SMEs, with 0 employees, reported use of external finance has varied in 2013, and it is the decline in their use of external finance in Q3 that has prompted the overall reduction. Those with 1-9 employees have reported higher use of external finance in both Q2 and Q3 2013 compared to previous quarters, albeit not yet back to levels seen in early 2012.

Over time, the proportion of Starts using external finance has fallen slightly from 36% in 2011 to 32% in 2013 to date. There has also been a decline in the use of finance amongst businesses 2-5 years old (46% in 2011 to 38% in 2013), while usage amongst older businesses is higher but has also fallen slightly over time (52% for businesses trading for 10 years or more in 2011, and 47% to date in 2013).

Overall for YEQ3 2013, more use was made of external finance by SMEs with a minimal (53%) or low (52%) external risk rating, than by those with an average (43%) or worse than average rating (38%).

Analysis over time showed a more volatile trend in use of external finance by those with a minimal. Those with other risk ratings have reported a more consistent level of use of external finance since Q2 2012:

Currently use external finance Over time – all SMEs By date of interview – row percentages	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013
All	47%	41%	50%	43%	40%	41%	39%	43%	41%
Minimal	59%	56%	55%	58%	60%	57%	51%	59%	46%
Low	56%	51%	55%	54%	49%	51%	52%	48%	55%
Average	50%	38%	54%	41%	43%	45%	42%	43%	43%
Worse than average	42%	39%	47%	42%	38%	37%	35%	41%	40%

Q14/15 All SMEs , base varies slightly each quarter

By sector, for YEQ3 2013 the most likely to be using external finance remained SMEs in the Wholesale/Retail (51%) and Hotels and Restaurants (49%) sectors. The least likely to be using external finance was the Health sector (35%).

To understand more about the use of external finance over time, the table below shows the overall reported use of the 'core' forms of finance (overdrafts, loans and credit cards) by quarter. Note that for Q2 and Q3 2013 combined, three-quarters (75%) of those who use a credit card for their business said that they usually paid off the balance in full each month, so these businesses were not necessarily using their credit cards as a source of finance, more as a payment mechanism. This figure was virtually unchanged from the last time this question was run (74% in Q3 2012):

- Larger SMEs were more likely to pay off the balance in full (97% if had 50-249 employees compared to 69% if had 0 employees)
- Those with a better external risk rating were also likely to pay off the balance (96% if had a minimal risk rating compared to 68% for those with a worse than average risk rating)
- Those who have an overdraft facility in addition to a credit card were less likely to usually pay their credit card off in full (64%) than those without an overdraft facility (80%)

Analysis of 'core' forms of finance showed that the use of overdrafts continued to decrease and was 16% in Q3 2013, having been 21% in the equivalent quarter of 2012. Overall use of *any* of these three forms of external finance was 33%, virtually unchanged over the last five quarters:

Use of external finance Over time – all SMEs By date of interview	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013
Unweighted base:	*5055*	*5010*	*5023*	*5000*	*5032*	*5000*	*5000*	*5000*	*5008*
Bank overdraft	25%	22%	24%	22%	21%	20%	19%	18%	16%
Bank loan/Commercial mortgage	10%	8%	11%	11%	7%	9%	8%	8%	8%
Credit cards	19%	14%	22%	19%	16%	15%	17%	19%	20%
Any 'core' products – all SMEs	*39%*	*34%*	*40%*	*36%*	*34%*	*33%*	*32%*	*33%*	*33%*

Q15 All SMEs

Use of these 'core' forms of finance has declined between 2011 and 2013 (to date) across all sizes of business:

- From 34% in 2011 to 28% for 2013 to date for those with 0 employees
- From 50% to 44% for those with 1-9 employees
- From 65% to 57% for those with 10-49 employees
- From 71% to 65% for those with 50-249 employees

As reported above, many SMEs using credit cards usually pay off the balance in full each month, so this is not a form of external finance for them. Excluding credit cards from the 'core' product table above would result in 21% of SMEs in Q3 2013 with either an overdraft and/or loan, and this proportion has declined over time from 30% in Q3 2011.

From Q4 2012 those using any of these three methods of finance were asked whether any facilities were in their personal name, rather than that of the business. For YEQ3 2013, a third of those using such facilities (37%) said that there was a facility in their personal name, the equivalent of 12% of **all** SMEs having a facility in their personal name (or 19% of SMEs excluding the 'Permanent non-borrowers').

This varied by size of business: amongst SMEs with loans, overdrafts and/or credit cards, half of those with 0 employees had some facility in their personal name (47%) compared to 6% of those with 50-249 employees. Those with these facilities, and who also had a worse than average risk rating, were more likely to have a facility in their own name (42%), but the equivalent figures for **all** SMEs showed little difference by risk rating:

Have element of facility in personal name YEQ3 13 – row percentages	Of those with an overdraft, loan or credit card	Equivalent % of all SMEs
Overall	**37%**	**12%**
0 employees	47%	13%
1-9 employees	22%	10%
10-49 employees	9%	5%
50-249 employees	6%	4%
Minimal risk rating	22%	10%
Low risk rating	21%	9%
Average risk rating	36%	13%
Worse than average risk rating	42%	12%

Q15bbb All SMEs with one of these facilities

Those operating their business banking through a personal account were less likely to be using any external finance (28% YEQ3 13 were using any facilities, compared to 44% of those operating through a business bank account). However, if they did have any, then almost all, 86%, said that they had facilities in their personal name. Amongst those operating a business account, one in three, 30%, said there were facilities in their personal name.

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

The table below shows the full list of the different types of funding being used by SMEs YEQ3 2013. It includes both the core forms of finance already reported and the other forms of finance on which data is collected, some of which may also be obtained from the bank. Larger businesses continued to make use of a wider variety of forms of funding:

External finance currently used YEQ3 13 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*20,008*	*4002*	*6606*	*6400*	*3000*
'Core' products (any)	33%	28%	44%	57%	64%
-Bank overdraft	18%	15%	26%	29%	29%
-Credit cards	18%	15%	22%	37%	48%
-Bank loan/Commercial mortgage	8%	6%	14%	20%	26%
Other forms of finance (any)	17%	13%	25%	39%	48%
-Leasing or hire purchase	7%	4%	11%	25%	35%
-Loans/equity from directors	5%	3%	8%	11%	11%
-Loans/equity from family and friends	5%	5%	6%	3%	2%
-Invoice finance	3%	2%	4%	10%	16%
-Grants	1%	1%	2%	4%	6%
-Loans from other 3rd parties	1%	1%	1%	2%	3%
Any of these	*41%*	*36%*	*54%*	*67%*	*72%*
None of these	*59%*	*64%*	*46%*	*33%*	*28%*

Q15 All SMEs

SMEs that import and/or export were asked about use of Export/Import finance. YEQ3 2013, 2% of such SMEs used these products, with little variation by size of business (1-4%).

Those SMEs that are companies were also asked whether they used equity investment from third parties. Less than 1% of companies reported using this form of funding in Q3 2013.

8% of SMEs only used credit cards from the list above, and this varied relatively little by size of SME. In Q3 2013, most of those who *only* used a credit card said that they typically repaid the balance each month.

The table below details the use of all of these forms of funding over time. Note that in Q2 2013 the code for leasing and HP was extended to include vehicle finance, and the proportion mentioning these forms of finance increased somewhat to 9% for that quarter.

Use of any of the *other* forms of finance specified was higher in Q2 2013 (21%) than in previous quarters, falling back slightly to 18% in Q3:

Use of external finance Over time – all SMEs By date of interview	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013
Unweighted base:	*5055*	*5010*	*5023*	*5000*	*5032*	*5000*	*5000*	*5000*	*5008*
'Core' products (any)	39%	34%	40%	36%	34%	33%	32%	33%	33%
-Bank overdraft	25%	22%	24%	22%	21%	20%	19%	18%	16%
-Bank loan/Commercial mortgage	10%	8%	11%	11%	7%	9%	8%	8%	8%
-Credit cards	19%	14%	22%	19%	16%	15%	17%	19%	20%
Other forms of finance (any)	18%	15%	22%	18%	15%	15%	15%	21%	18%
-Leasing, hire purchase or vehicle finance	8%	6%	8%	7%	5%	5%	6%	9%	6%
-Loans/equity from directors	4%	5%	7%	6%	4%	4%	4%	6%	5%
-Loans/equity from family & friends	5%	4%	8%	5%	5%	4%	5%	6%	5%
-Invoice finance	2%	2%	3%	2%	2%	3%	2%	3%	2%
-Grants	2%	1%	1%	2%	1%	1%	1%	2%	2%
-Loans from other third parties	1%	1%	1%	1%	1%	1%	1%	1%	1%
Any form of finance – all SMEs	*47%*	*41%*	*50%*	*43%*	*40%*	*41%*	*39%*	*43%*	*41%*

Q15 All SMEs

As already reported, the proportion of SMEs with an overdraft facility has declined over time, across size bands and risk ratings.

- In 2011, 51% of those SMEs that used leasing and/or invoice finance also had an overdraft facility. For 2013 to date that figure has fallen to 35%
- Over the same time frame, the proportion of SMEs that used leasing and/or invoice finance and also had a loan remained almost unchanged (25% to 22%)
- Also in 2013, fewer SMEs with *no* credit balances said they had an overdraft facility (18%) compared to previous quarters (when around 1 in 3 did)

In a new question asked for the first time in Q2 2013, 2% of SMEs (across Q2 and Q3) said that they were using an additional form of external finance not on the list detailed in full above. This varied little by size (2-4%) or risk rating (1-2%), or by sector (1-3%).

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

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

Injections of personal funds

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

Across the waves for which data is available, around 4 out of 10 SMEs reported an injection of personal funds in the previous 12 months. Figures for Q3 2013 were somewhat lower than previous quarters, with 38% reporting an injection of funds:

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

Q15d All SMEs

Over time, the proportion putting in any funds has declined from 46% in Q3 2012 to 38%, as fewer SMEs reported feeling that they had to put in funds (26% to 20%).

- The proportion of 0 employee businesses putting in funds has fallen over the same period from 49% to 40%, but they remain the most likely to have put in funds.
- Amongst those with 1-9 employees the proportion putting in funds has been less variable over time (currently 36% for Q3).
- Bigger SMEs remain less likely to have put in funds, and there has been a slight decline over time here too (22% to 17% for those with 10-49 employees and 13% to 9% for those with 50-249 employees)

Further analysis is based on the combined results YEQ3 2013 to provide robust base sizes for key sub-groups.

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

Personal funds in last 12 months YEQ3 13 – all SMEs	All	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*20,008*	*4002*	*6606*	*6400*	*3000*
Inject personal funds – you chose to do to help the business grow and develop	18%	19%	15%	8%	6%
Inject personal funds – you felt you had no choice about this, that you had to do it	22%	23%	21%	11%	5%
Any personal funds	*40%*	*42%*	*36%*	*19%*	*11%*
Not something you have done	60%	58%	64%	81%	89%

Q15d All SMEs from Q2 2012

Analysis by age of business showed that it was the youngest, start-up businesses that were most likely to have had an injection of personal funds (67%), and that this was slightly more likely to have been a choice (37%) than a necessity (30%). 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 YEQ3 13 – all SMEs	Starts	2-5 yrs	6-9 yrs	10-15 yrs	15 yrs+
Unweighted base:	*2020*	*3267*	*2445*	*3118*	*9158*
Inject personal funds – you chose to do to help the business grow and develop	37%	20%	11%	11%	9%
Inject personal funds – you felt you had no choice about this, that you had to do it	30%	22%	21%	17%	18%
Any personal funds	*67%*	*42%*	*32%*	*28%*	*27%*
Not something you have done	33%	58%	68%	72%	73%

Q15d All SMEs from Q2 2012

Those using a *personal* account for their business banking were somewhat more likely to have put personal funds in at all (46% v 38% of those with a business account) but not much more likely to have felt that they had to do so (24% with a personal account, 21% with a business account).

Analysis by external risk rating also showed different experiences. Those with a worse than average external risk rating were the most likely to have seen an injection of personal funds (48%), compared to 17% of those with a minimal external risk rating. Half of those making *any* injection of funds reported that they had felt that they had no choice, and this did not vary by risk rating:

Personal funds in last 12 months YEQ3 13 – all SMEs	All	Min	Low	Avge	Worse/ Avge
Unweighted base:	*20,008*	*3402*	*3725*	*5244*	*5829*
Inject personal funds – you chose to do to help the business grow and develop	18%	7%	11%	14%	23%
Inject personal funds – you felt you had no choice about, that you had to do	22%	10%	13%	20%	25%
Any personal funds	*40%*	*17%*	*24%*	*34%*	*48%*
Not something you have done	60%	83%	76%	66%	52%

Q15d All SMEs from Q2 2012

Analysis by sector showed relatively little variation in terms of *any* injection of funds (experienced by between 32% and 43% of in each sector). A slightly higher proportion of the injections made in the Construction, Wholesale/Retail and Hotels and Restaurant sectors were reported to be ones that 'had' to be made:

Personal funds in last 12 months YEQ3 13 – all SMEs	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*1500*	*2080*	*3500*	*2024*	*1801*	*1812*	*3502*	*1789*	*2000*
Chose to inject	20%	15%	17%	17%	18%	19%	20%	19%	18%
Had to inject	18%	17%	23%	24%	25%	22%	23%	19%	21%
Any funds	*38%*	*32%*	*40%*	*41%*	*43%*	*41%*	*43%*	*38%*	*39%*
Not done	62%	67%	61%	59%	57%	58%	58%	62%	61%

Q15d All SMEs from Q2 2012

SMEs currently using external finance were slightly more likely to have received any cash injection (44% YEQ3 2013) than those not currently using external finance (37%) and were also more likely to say they had felt that there had been no choice (29% v 17%).

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

Personal funds in last 12 months YEQ3 13 – all SMEs	All	Had an event	Would-be seeker	Happy non-seeker
Unweighted base:	*20,008*	*5021*	*930*	*14,057*
Inject personal funds – you chose to do to help the business grow and develop	18%	12%	16%	20%
Inject personal funds – you felt you had no choice about, that you had to do	22%	35%	50%	16%
Any personal funds	*40%*	*47%*	*66%*	*36%*
Not something you have done	60%	52%	34%	64%

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

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

Initial data from Q2 and Q3 2013 combined showed that

- 21% of those who had felt they had to put in funds said that it was because they had been turned down by their bank (the equivalent of 4% of all SMEs). This was less likely to be the view of those with 0-9 employees (20%) than those with 10-249 employees (30%)
- A similar proportion, 24%, said that they had assumed they would be turned down by the bank, so hadn't asked (the equivalent of 5% of all SMEs, and with little difference by size)
- Half of those who had felt they had to put in funds, 56%, said that they had put in funds for some other reason (the equivalent of 12% of all SMEs). This was more common amongst those with 0-9 employees (56%) than those with 10-249 employees (45%)

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

Since Q4 2012, further questions have been asked of those who reported that funds had been put into the business. For YEQ3 2013 (and excluding DK answers):

Investment of personal funds	
Length of investment	• 33% of SMEs that had put funds in said that this was a long term investment. 39% said the funds were a short term investment, and the remainder, 27%, said the funding was a mix of long and short-term funding. Putting funds in as a long term investment was more likely if the business was operating through a personal account (37%), or was a Start (39%) • Those that had felt they 'had' to inject funds were more likely to say this was a short term investment (42%) than a long term one (29%), with 28% saying it was a mix. Those *choosing* to inject funds were as likely to say that this was a short term (36%) as a long term (38%) investment, with 26% saying it was mix
Amount invested	• 59% of SMEs that had put funds in said that they had put in less than £5,000. This was most likely if the SME putting in funds had 0 employees (66% had put in less than £5,000) becoming less likely as size increased (5% of those with 50-249 employees had put in less than £5,000). Putting in less than £5,000 was also more likely if the SME was not using external finance (65%) or was running their business through a personal bank account (76%) • The sum invested did not vary much by whether the injection had been a 'necessity' (57% less than £5000) or 'chosen' (62%). Those putting in funds as a short term investment were more likely to have invested less than £5,000 (72%) than those investing for the long term (47%) • Bigger SMEs, with 10-249 employees, were more likely to have put in more than £5,000, whatever the purpose (9 out of 10 put in £5,000 or more whether it was a long (90%) or short (85%) term investment). Amongst those with 0-9 employees, if the funds were a short term investment, 73% had put in less than £5,000, while if they were a long term investment, then 48% had put in less than £5,000

Continued

Continued

Overall profile of injection of personal funds	• Putting this information together, 11% of **all** SMEs (rather than just those who had injected funds) had injected less than £5,000 as a short term investment only • Meanwhile, 7% of **all** SMEs had injected more than £5,000 as a long term investment only

Use of personal accounts and accounts at other banks

Most SMEs used a business bank account (82%).

Of the 18% that used a personal account, almost all, 94%, were 0 employee businesses. Such personal accounts were more likely to be found in the Health Sector (32%) and least likely to be found in Wholesale/Retail (8%). Amongst Starts (set up within the last 2 years) 27% used a personal bank account for their business. Such personal accounts were also more likely to be used by those with a worse than average risk rating (21% compared to 7% of those with a minimal risk rating).

Since this report started, 3,317 SMEs who used a personal account have been interviewed. These SMEs were less likely to be using external finance (for YEQ3 13, 28% currently use external finance, compared to 44% using a business account) and remain less likely to have applied for new or renewed facilities (4% verses 9%).

In 2013 to date, 99% of SMEs reported that they only use one bank for their business banking, with little difference by size. Multi-banking, whilst not seen to a significant degree in this market, has declined somewhat over time amongst larger SMEs as the table below shows:

Use more than one bank, row percentages	2011	2013 (to date)
All	98%	99%
0 emps	98%	99%
1-9 emps	97%	99%
10-49 emps	96%	98%
50-249 emps	94%	98%

The 'interweaving' of business and personal funds

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

For YEQ3 2013:

- 18% of SMEs used a personal rather than a business account for their business banking
- 37% of those with an overdraft, loan or credit card facility said that one or more was in their personal name, and where a personal bank account was also used, the proportion increased to 87%. This is the equivalent of 12% of all SMEs holding one or more of these facilities in a personal name
- 40% of SMEs reported a cash injection of funds into the business in the previous 12 months. Those with any personal borrowing for the business (as defined above) were more likely to have put in funds (53%) than those who did not have any personal borrowing (37%)
- 10% of those reporting an application for a new or renewed overdraft in the past 12 months said it was for a personal facility, while for loans the figure was 15% (the equivalent of less than 2% of all SMEs)
- 22% of those SMEs that had seen an overdraft automatically renewed in the previous 12 months said that this was a personal facility (the equivalent of less than 2% of all SMEs)

For YEQ3 2013, half of SMEs (54%) reported having one or more of these personal 'elements' to their business, and this has been consistent over time. The table below shows how this proportion varies by size, sector and external risk rating with smaller SMEs, those with a worse than average risk rating and those in the Health sector remaining the most likely to have a personal element to their business:

Had **any** personal element Row percentages	YEQ3 13
All SMEs	54%
0 employee	59%
1-9 employees	43%
10-49 employees	23%
50-249 employees	15%
Minimal external risk rating	30%
Low external risk rating	34%
Average external risk rating	48%
Worse than average external risk rating	62%
Agriculture	52%
Manufacturing	44%
Construction	56%
Wholesale/Retail	48%
Hotels and Restaurants	53%
Transport	57%
Property/Business Services etc.	54%
Health	63%
Other Community	54%

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

	Total		Applied for			
Other finance applied for YEQ3 13 – all SMEs	Applied	% success	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*20,008*	*Varies*	*4002*	*6606*	*6400*	*3000*
Credit cards	3%	88%	3%	4%	6%	7%
Leasing/Hire purchase/vehicle finance	4%	87%	2%	6%	14%	21%
Loans/equity from directors	3%	89%	2%	5%	5%	4%
Loans/equity from family & friends	3%	87%	3%	4%	2%	1%
Grants	2%	62%	1%	2%	5%	6%
Invoice finance	1%	76%	1%	1%	4%	5%
Loans from other 3rd parties	1%	47%	1%	1%	2%	2%

Q222 All SMEs

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

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

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

If the 'Permanent non-borrowers' (described below) are excluded, the percentage applying for *any* of these other forms of finance increases from 13% to 20% of remaining SMEs.

Taking both loan/overdraft events (and the automatic renewal of overdrafts) and these applications for other types of finance together for YEQ3 2013 showed that:

- Most SMEs, 74%, 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
- 14% reported a loan/overdraft event, but had not applied for other forms of finance
- 8% had applied for other forms of finance but did not report a loan/overdraft event
- 4% reported both a loan/overdraft event and applying for one of these forms of finance

In a new question asked from Q2 2013, respondents were asked if they had applied for any other forms of external finance not already mentioned. For Q2 and Q3 2013 combined, 1% of SMEs said that they had applied for any other form of finance, half successfully and half unsuccessfully. The type of finance applied for is not recorded.

The non-borrowing SME

As this chapter has already reported, less than half of SMEs (41% YEQ3 2013) currently use external finance. Other data from this report allows for identification of those SMEs who seem firmly disinclined to borrow, defined as those that meet **all** of the following conditions:

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

These 'Permanent non-borrowers' make up 38% of SMEs (YEQ3 2013), and were more likely to be found amongst the smaller SMEs:

- 42% of 0 employee SMEs met this non-borrowing definition
- 28% of 1-9 employee SMEs
- 21% of 10-49 employee SMEs
- 17% of 50-249 employee SMEs

SMEs in the Health sector were the most likely to be a 'Permanent non-borrower' (48%), compared to 31% of those in Transport. By risk rating, 34% of those with a minimal or low risk rating were 'Permanent non-borrowers', compared to 39% of those with either an average or worse than average risk rating.

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

The proportion of SMEs meeting the definition of a PNB has increased over time from 34% in both 2011 and 2012 to 39% in 2013 to date. In Q3 2013 the proportion was 40%, compared to 34% in the equivalent quarter of 2012, due to more 0 employee SMEs meeting the definition of a PNB in Q3 2013:

PNBs Over time – all SMEs By date of interview - row percentages	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013
All SMEs	35%	36%	30%	34%	34%	37%	41%	36%	40%
0 employee	39%	40%	34%	39%	37%	40%	45%	40%	45%
1-9 employees	23%	25%	21%	24%	27%	30%	30%	25%	28%
10-49 employees	15%	18%	16%	15%	19%	21%	20%	21%	24%
50-249 employees	12%	14%	11%	13%	20%	17%	15%	17%	17%

The increase over time is also being driven by younger businesses. Businesses less than 10 years old were more likely to meet the definition of a PNB in 2013 (42%) than they were in 2011 (33%). Amongst those more than 10 years old, 35% meet the definition of a PNB in 2013, almost unchanged from 2011 (34%). SMEs with a worse than average external risk rating were also more likely to be a PNB in 2013 (39%) than they had been in 2011 (32%).

If these PNBs are excluded from the use of external finance table shown earlier, the proportion using external finance increases to 7 out of 10 of remaining SMEs, with a higher proportion using external finance in Q3 2013 (69%) than in the equivalent quarter of 2012 (61%):

Use of external finance in last 5 years Over time – all SMEs excl PNBs By date of interview	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013
Unweighted base:	*3968*	*3822*	*4022*	*3894*	*3732*	*3664*	*3649*	*3707*	*3637*
Use now	72%	64%	72%	66%	61%	66%	65%	68%	69%
Used in past but not now	3%	4%	5%	6%	8%	8%	7%	5%	5%
Not used at all	25%	31%	24%	28%	31%	27%	28%	27%	26%

Q14/15 All SMEs

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

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 2013. Where year ending data is provided this is YEQ3 2013.

Key findings

A small minority, 4%, of all SMEs had taken any steps in the last 12 months to make the business more likely to obtain external finance, increasing to 24% of those who had applied for a new loan or overdraft facility.

Type 1 events, where the SME has sought a new or renewed loan or overdraft facility in the 12 months prior to interview, was at the lowest level to date in Q3 (7%). Excluding the PNBs increased this to 11% of remaining SMEs, also the lowest level seen to date.

5% of SMEs had applied for a new/renewed overdraft in the 12 months prior to interview (9% if the PNBs are excluded), down from 7% in Q2, and 8% in the equivalent quarter of 2012. Applications for new/renewed loans in the 12 months prior to interview were lower (3%, or 5% excluding the PNBs) but stable over time.

In Q3, four out of 10 SMEs with an overdraft, 41%, reported that it had been automatically renewed in the previous 12 months, the equivalent of 7% of all SMEs. These proportions have declined over time, as fewer SMEs report having an overdraft, and a higher proportion of those with an overdraft report that they have neither had a borrowing 'event' nor an automatic renewal.

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

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

This chapter provides analysis on loan and overdraft events reported in interviews conducted to YEQ3 2013. This provides bigger base sizes and more granularity for sub-group analysis, such as by employee size band. However, where possible analysis has also been shown over time to allow the reporting of a 'rolling aggregate of demand', which is shown below.

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

For Q2 and Q3 2013 combined, 4% said that they had done this – 1% had spoken to an advisor 2% to their bank, and 1% had done something else:

- This varied by size, with 3% of 0 employee businesses having done something compared to 6% of those with 10-249 employees
- Excluding the Permanent non-borrowers increased the proportion to 6%, and there was little variation by risk rating (4-5%)
- Those who reported a Type 1 borrowing 'event' for a new or renewed facility in the previous 12 months were more likely to have done something (18%), and the proportion increased to 24% of those who had applied specifically for a *new* loan or overdraft facility. Such activity was also more likely amongst those *planning* to apply for or renew facilities in the 3 months after interview (13%)
- There was little difference depending on whether the SME had someone in charge of the finances who was trained (5%) or not (3%)
- More analysis will be conducted in future waves as base sizes increase

The rolling aggregate of demand/activity

The table below shows the percentage over time of all SMEs interviewed that reported a borrowing event in the 12 months prior to interview. Type 1 events remained the most common, but the proportion reporting such an event has declined somewhat since the start of 2012 (7% in Q3):

Borrowing events in the previous 12 mths. All SMEs, over time By date of interview	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013
Unweighted base:	*5055*	*5010*	*5023*	*5000*	*5032*	*5000*	*5000*	*5000*	*5008*
Type 1: New application/renewal	12%	9%	12%	11%	10%	9%	8%	9%	7%
Applied for new facility (any)	7%	6%	7%	6%	6%	6%	4%	6%	4%
Renewed facility (any)	6%	5%	6%	5%	5%	4%	4%	4%	4%
Type 2: Cancel/ renegotiate by bank	4%	3%	4%	3%	3%	4%	3%	3%	3%
Type 3: Chose to reduce/pay off facility	2%	1%	2%	1%	1%	2%	2%	2%	1%

Q25/26 All SMEs

As the table above shows, a minority of SMEs had experienced any of these loan or overdraft events. Activity in 2013 to date is lower than in 2012, with fewer applications for new facilities.

The previous chapter of this report noted that a third of SMEs met the definition of 'Permanent non-borrower' and appeared disinclined to use external finance. The table below excludes these PNBs from the sample, and shows the higher proportion of remaining SMEs that have had an event as a result. In Q3 2013, 11% of remaining SMEs reported a Type 1 event in the 12 months prior to interview. As overall, this was lower than for the equivalent quarter of 2012 (16%), and indeed the lowest level reported to date in this report:

Borrowing events in the previous 12 mths. All SMEs, excluding PNBs over time By date of interview	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013
Unweighted base:	*3968*	*3822*	*4022*	*3894*	*3732*	*3664*	*3649*	*3707*	*3637*
Type 1: New application/renewal	19%	14%	17%	17%	16%	15%	13%	14%	11%
Applied for new facility (any)	11%	9%	10%	10%	10%	9%	7%	9%	6%
Renewed facility (any)	10%	7%	9%	8%	7%	7%	7%	6%	6%
Type 2: Cancel/renegotiate by bank	6%	5%	5%	5%	4%	6%	4%	5%	5%
Type 3: Chose to reduce/pay off	3%	2%	2%	2%	1%	3%	3%	3%	2%

Q25/26 All SMEs

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

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

The remainder of this chapter looks in more detail at the type of SMEs that were more or less likely to report any of the loan or overdraft events specified. In order to provide robust sub-sample groups, these are reported for YEQ3 2013, and, unless otherwise stated, are based on all SMEs.

The event experienced most widely was an application for a new facility, experienced by 5% of all SMEs. The renewal of an existing facility was experienced by 4% of SMEs overall with more variation by size (from 3% of 0 employee SMEs to 10% of those with 10-249 employees):

Borrowing events YEQ3 13 all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*20,008*	*4002*	*6606*	*6400*	*3000*
Type 1: New application/renewal	8%	6%	13%	15%	14%
Applied for new facility (any)	5%	4%	8%	7%	6%
- applied for new loan	*2%*	*2%*	*4%*	*4%*	*4%*
- applied for new overdraft	*3%*	*3%*	*5%*	*4%*	*2%*
Renewed facility (any)	4%	3%	7%	10%	10%
- renewed existing loan	*1%*	*1%*	*2%*	*3%*	*3%*
- renewed existing overdraft	*4%*	*2%*	*6%*	*9%*	*9%*
Type 2: Cancel/renegotiate by bank	3%	2%	5%	5%	3%
Bank sought to renegotiate facility (any)	2%	2%	4%	4%	3%
- sought to renegotiate loan	*1%*	*1%*	*1%*	*2%*	*1%*
- sought to renegotiate overdraft	*2%*	*1%*	*3%*	*3%*	*2%*
Bank sought to cancel facility (any)	1%	1%	2%	1%	1%
- sought to cancel loan	*	*	*1%*	*1%*	*1%*
- sought to cancel overdraft	*1%*	*1%*	*2%*	*1%*	*1%*
Type 3: Chose to reduce/pay off facility	2%	1%	3%	2%	2%
- reduce/pay off loan	*1%*	*1%*	*1%*	*1%*	*1%*
- reduce/pay off overdraft	*1%*	*1%*	*2%*	*1%*	*1%*

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

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

Borrowing events YEQ3 13 – all SMEs	Total	Min	Low	Avge	Worse/Avge
Unweighted base:	*20,008*	*3402*	*3725*	*5244*	*5829*
Type 1: New application/renewal	8%	11%	10%	8%	8%
Applied for new facility (any)	5%	6%	5%	4%	5%
- applied for new loan	*2%*	*3%*	*3%*	*3%*	*2%*
- applied for new overdraft	*3%*	*3%*	*3%*	*2%*	*4%*
Renewed facility (any)	4%	8%	7%	4%	3%
- renewed existing loan	*1%*	*2%*	*2%*	*1%*	*1%*
- renewed existing overdraft	*4%*	*7%*	*6%*	*4%*	*3%*
Type 2: Cancel/renegotiate by bank	3%	5%	3%	3%	3%
Bank sought to renegotiate facility (any)	2%	3%	3%	2%	2%
- sought to renegotiate loan	*1%*	*1%*	*1%*	*	*1%*
- sought to renegotiate overdraft	*2%*	*3%*	*2%*	*2%*	*1%*
Bank sought to cancel facility (any)	1%	3%	1%	1%	2%
- sought to cancel loan	*	*	*	*	*
- sought to cancel overdraft	*1%*	*2%*	*1%*	*1%*	*1%*
Type 3: Chose to reduce/pay off facility	2%	3%	2%	2%	1%
- reduce/pay off loan	*1%*	*1%*	*1%*	*1%*	*1%*
- reduce/pay off overdraft	*1%*	*2%*	*1%*	*1%*	*1%*

Q25/26 All SMEs with external risk rating

By sector, Agriculture remained the sector most likely to have had a Type 1 event, due in particular to a higher level of renewals:

Borrowing event in last 12 months YEQ3 13 – all SMES	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*1500*	*2080*	*3500*	*2024*	*1801*	*1812*	*3502*	*1789*	*2000*
Type 1: New application/ renewal	14%	9%	7%	11%	12%	10%	7%	6%	6%
Applied for new facility (any)	7%	6%	4%	7%	9%	7%	4%	5%	2%
- applied for new loan	*4%*	*2%*	*2%*	*3%*	*4%*	*3%*	*2%*	*2%*	*1%*
- applied for new overdraft	*4%*	*4%*	*3%*	*4%*	*6%*	*5%*	*2%*	*3%*	*1%*
Renewed facility (any)	10%	5%	4%	5%	5%	3%	4%	2%	4%
- renewed existing loan	*4%*	*1%*	*1%*	*1%*	*1%*	*	*1%*	*	*1%*
- renewed existing overdraft	*9%*	*4%*	*3%*	*4%*	*4%*	*3%*	*3%*	*2%*	*3%*
Type 2: Cancel/ renegotiate by bank	4%	3%	3%	4%	4%	2%	3%	1%	4%
Bank sought to renegotiate facility (any)	4%	2%	2%	3%	3%	2%	2%	1%	3%
- sought to renegotiate loan	*1%*	*	*	*1%*	*1%*	*	*1%*	*	*2%*
- sought to renegotiate overdraft	*3%*	*2%*	*1%*	*2%*	*2%*	*2%*	*1%*	*	*2%*
Bank sought to cancel facility (any)	1%	1%	1%	2%	1%	*	1%	*	2%
- sought to cancel loan	1%	*	*	1%	1%	*	*	*	1%
- sought to cancel overdraft	*1%*	*1%*	*1%*	*2%*	*1%*	*	*1%*	*	*2%*
Type 3: Chose to reduce/ pay off facility	2%	1%	1%	2%	2%	1%	1%	1%	4%
- reduce/pay off loan	*1%*	*	*1%*	*1%*	*1%*	*1%*	*1%*	*1%*	*2%*
- reduce/pay off overdraft	*1%*	*1%*	*	*2%*	*1%*	*1%*	*1%*	*1%*	*2%*

Q25/26 All SMEs

The table below repeats this analysis, once the 'Permanent non-borrowers' have been excluded from the SME population. The incidence of Type 1 events (applications/renewals) increases as a result from 8% to 13%:

Borrowing events YEQ3 13 – all SMEs	Total	All excl. PNBs
Unweighted base:	*20,008*	*14,657*
Type 1: New application/renewal	8%	13%
Applied for new facility (any)	5%	8%
- applied for new loan	*2%*	*4%*
- applied for new overdraft	*3%*	*5%*
Renewed facility (any)	4%	7%
- renewed existing loan	*1%*	*2%*
- renewed existing overdraft	*4%*	*6%*
Type 2: Cancel/renegotiate by bank	3%	5%
Bank sought to renegotiate facility (any)	2%	3%
- sought to renegotiate loan	*1%*	*1%*
- sought to renegotiate overdraft	*2%*	*3%*
Bank sought to cancel facility (any)	1%	2%
- sought to cancel loan	*	*1%*
- sought to cancel overdraft	*1%*	*2%*
Type 3: Chose to reduce/pay off facility	2%	3%
- 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 SMEs that have applied for a new overdraft or loan facility or to renew an existing one (a Type 1 event), and the outcome of that application, in more detail by application date.

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

While reflecting on these events, it is important to bear in mind that 4 out of 10 SMEs currently use external finance while less than 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 the case.

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

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

Applications over time

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

Overdraft events in previous 12 months – all SMEs, over time By date of interview	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013
Unweighted base:	*5055*	*5010*	*5023*	*5000*	*5032*	*5000*	*5000*	*5000*	*5008*
Applied for a new overdraft	4%	4%	5%	4%	4%	4%	3%	4%	2%
Renewed an existing overdraft	6%	4%	5%	4%	4%	4%	4%	3%	3%
Any Type 1 overdraft event	*9%*	*7%*	*9%*	*8%*	*8%*	*7%*	*6%*	*7%*	*5%*
Any Type 1 overdraft event excluding PNBs	*14%*	*10%*	*13%*	*12%*	*12%*	*11%*	*10%*	*10%*	*9%*

Q26 All SMEs

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

Loan events in previous 12 months all SMEs, over time By date of interview	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013
Unweighted base:	*5055*	*5010*	*5023*	*5000*	*5032*	*5000*	*5000*	*5000*	*5008*
Applied for a new loan	3%	3%	4%	3%	3%	3%	2%	2%	2%
Renewed an existing loan	1%	1%	2%	2%	1%	1%	1%	1%	1%
Any Type 1 loan event	*4%*	*3%*	*5%*	*4%*	*4%*	*3%*	*3%*	*3%*	*3%*
Any Type 1 loan event excl PNBs	*7%*	*5%*	*7%*	*7%*	*6%*	*5%*	*5%*	*5%*	*5%*

Q26 All SMEs

From Q4 2012, those that reported a Type 1 event were asked whether the application was made in the name of the business or a personal name. For YEQ3 2013, 10% of overdraft applications reported were made in a personal name, while for loans the figure was 15%. This means that for YEQ3 2013, 1% of **all** SMEs reported making an overdraft or loan application in their personal name, in the 12 months prior to interview.

It is also possible to report on the types of SMEs that have become more or less likely to have had *any* Type 1 event in the 12 months prior to interview, that is, an application for a new or renewed loan or overdraft facility. The table below shows the decline in the reporting of Type 1 events over time, across all size bands, and also once the Permanent non Borrowers have been excluded. Since Q3 2012, the proportion of SMEs with employees reporting a Type 1 event has remained relatively stable, but at lower levels than previously seen. Applications from 0 employee SMEs have been more volatile, falling to their lowest level to date in Q3 2013 (4%).

The Q3 2013 figures also show two 'groups' of SME by sector, with those in Construction, Property/Business Services, Health and the Other Community sectors less likely to report a Type 1 event than other sectors:

Had **any Type 1** event New application/ renewal Over time – row percentages	By date of interview								
	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013
All SMEs	12%	9%	12%	11%	10%	9%	8%	9%	7%
0 employee	10%	7%	10%	8%	9%	8%	6%	7%	4%
1-9 employees	19%	14%	18%	18%	15%	14%	14%	13%	13%
10-49 employees	27%	23%	20%	24%	16%	15%	17%	14%	15%
50-249 employees	21%	27%	25%	21%	15%	14%	16%	15%	13%
Minimal external risk rating	15%	19%	10%	12%	12%	17%	9%	11%	9%
Low external risk rating	17%	11%	15%	15%	10%	12%	12%	8%	10%
Average external risk rating	11%	9%	12%	9%	10%	8%	7%	9%	6%
Worse than average external risk rating	12%	8%	12%	11%	11%	10%	7%	8%	6%
Agriculture	16%	16%	17%	23%	14%	16%	13%	13%	15%
Manufacturing	10%	8%	7%	15%	13%	9%	7%	13%	7%
Construction	12%	7%	12%	9%	9%	8%	6%	8%	6%
Wholesale/Retail	18%	12%	14%	14%	14%	13%	10%	10%	10%
Hotels and Restaurants	13%	13%	17%	18%	13%	13%	14%	12%	9%
Transport	8%	12%	10%	11%	11%	8%	10%	13%	9%
Property/Business Services etc.	12%	7%	12%	9%	9%	10%	7%	6%	6%
Health	8%	5%	8%	6%	4%	7%	4%	10%	4%
Other Community	14%	9%	13%	10%	10%	6%	8%	6%	3%
All SMEs excluding 'Permanent non-borrowers'	19%	14%	17%	17%	16%	15%	13%	14%	11%

Q26 All SMEs: base size varies by category

Other business demographics also showed some variation in incidence of a Type 1 event in Q3 2013:

Demographic	Incidence of Type 1 events reported in Q3 2013
Age of business	As in early quarters of 2013, the incidence of Type 1 events varied less by age of business than it had in the past: from 5% for Starts to 9% 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 (4% v 1%) while older businesses were more likely to have renewed (amongst those 15 years+, 3% applied for a new facility v 9% who renewed one)
Profitable SMEs	There was little difference by profitability: Made a profit 7% had a Type 1 event Broke even 5% Made a loss 7%
Fast Growth (20%+ last 3 years)	Those that had grown, though not the fast growth SMEs, were more likely to have had a Type 1 event than those that had not Grown 20%+ last 3 yrs 9% Grown by less than this 16% Not grown in last yr 7%
Importers/exporters	Those engaged in international trade were somewhat more likely to have had an event (10%) than those who were not (6%). Note that they are typically also larger SMEs.

Overdraft events – definition and further clarification

Overdrafts are usually granted for a period of 12 months or less, but it was apparent in early Monitor reports that not all overdraft users reported having had an overdraft event in the 12 months prior to interview.

To explore this further, from Q4 2011, SMEs that had reported having an overdraft facility but that had *not* subsequently mentioned any overdraft event, were asked whether, in the previous 12 months, their bank had automatically renewed their overdraft facility at the same level, for a further period, without their having to do anything.

The results for YEQ3 2013 are reported below and show that almost half of all overdraft holders (45%) reported that they had had such an automatic renewal, the equivalent of 8% of all SMEs:

Any overdraft activity YEQ3 13	All with overdraft	All SMEs
Unweighted base:	*5241*	*20,008*
Had an overdraft 'event'	29%	5%
Had automatic renewal	45%	8%
Neither of these but have overdraft	26%	5%
No overdraft	-	82%

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

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

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

As the table below shows, those proportions have declined over time. In Q3 2013, 41% of SMEs with an overdraft reported an automatic renewal in the previous 12 months, compared to 57% in Q4 2011. This is due to more SMEs with an overdraft saying that they had had neither an overdraft event nor an automatic renewal – when this question was first asked around 1 in 6 SMEs with an overdraft said that neither of these had happened to them; now it is 1 in 4.

The equivalent of 7% of *all* SMEs had experienced an automatic renewal, down from 13% in Q4 2011, and this also reflects the decreasing proportion of SMEs with an overdraft as well as the decline in automatic renewals:

Experienced an automatic renewal in previous 12 mths By date of interview- row percentages	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013
SMEs with overdraft	57%	49%	54%	40%	48%	45%	43%	41%
'All SMEs' equivalent	13%	12%	12%	10%	9%	8%	8%	7%

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

Over time, the proportion of overdraft *activity* (ie an event or a renewal) which was accounted for by an automatic renewal, has remained fairly stable. In all quarters with the exception of Q4 2011, 40% of overdraft activity was an 'event' and 60% was an 'automatic renewal'.

New questions asked from Q4 2012 provide some further detail on these automatic renewals. For YEQ3 2013, 22% of those reporting an automatic renewal said that the facility was in a personal name (a slightly higher proportion than amongst those reporting on personal lending for other loan and overdraft Type 1 events).

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

The analysis below looks at which types of business with an overdraft were more likely to have an overdraft 'event', based on YEQ3 2013 data to ensure robust base sizes.

As the table below shows, for YEQ3 2013 overdraft 'events' made up a lower proportion of overdraft 'activity' for 0 employee SMEs with an overdraft facility. For those SMEs with employees, an 'event' was as likely to have occurred as an automatic renewal:

Overdraft activity YEQ3 13 – All with overdraft	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*5241*	*620*	*1792*	*1938*	*891*
Had an overdraft 'event'	29%	25%	37%	37%	34%
Had automatic renewal	45%	49%	38%	37%	36%
% of overdraft activity that was 'event'	*39%*	*34%*	*49%*	*50%*	*49%*
Neither of these but have overdraft	26%	27%	25%	26%	30%

Q15/ 26/26a All SMEs

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

Overdraft activity YEQ3 13 – All with overdraft	Total	Min	Low	Avge	Worse/Avge
Unweighted base:	*5241*	*818*	*1176*	*1507*	*1335*
Had an overdraft 'event'	29%	42%	31%	25%	30%
Had automatic renewal	45%	42%	47%	50%	39%
% of overdraft activity that was 'event'	*39%*	*50%*	*40%*	*33%*	*43%*
Neither of these but have overdraft	26%	16%	21%	25%	30%

Q15/ 26/26a All SMEs

Amongst those with an overdraft, analysis by sector showed that the most likely to have experienced an automatic renewal were those in the Health Sector. As a proportion of all overdraft activity, those in Agriculture and Wholesale/Retail were the most likely to have had an 'event':

Overdraft activity YEQ3 13 – All with overdraft	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*553*	*608*	*954*	*568*	*468*	*440*	*805*	*395*	*450*
Had an overdraft 'event'	40%	28%	26%	34%	33%	30%	28%	20%	29%
Had automatic renewal	41%	46%	49%	39%	40%	46%	43%	60%	40%
% of overdraft activity that was 'event'	*49%*	*38%*	*35%*	*47%*	*45%*	*39%*	*39%*	*25%*	*42%*
Neither of these but have overdraft	19%	26%	25%	27%	27%	25%	29%	20%	31%

Q15/ 26/26a All SMEs

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

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

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

7. The build up to applications for overdrafts and loans

This chapter is

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

Key findings

Around a third of applicants were doing so for the first time. The proportion of loan applicants applying for the first time has declined slightly over time, but remained more common than amongst overdraft applicants despite that proportion having increased somewhat in recent quarters (An overdraft renewal remained the main reason for an application).

Working capital remained the main reason for seeking a new/renewed overdraft facility. Over time, fewer SMEs reported seeking an overdraft either as a 'safety net' or to fill a short-term funding gap.

Funding for expansion in the UK remained a more common reason for an overdraft or loan application than an expansion abroad.

UK expansion was no longer the main reason for a loan application, with recent loan applicants as likely to cite asset purchases (including motor vehicles) as the reason for their application. Recent loan applicants were also more likely to be seeking **all** the funding they required from the bank (80% for loans applied for in H1 2013)

Most applications were made to the SMEs main bank, but this remained slightly less the case for loans (89%) than for overdrafts (98%)

As in previous reports only a minority of applicants sought advice before applying (10% for overdrafts and 19% for loans). Likelihood to seek advice increased by the size of facility sought, and was also higher amongst those that had successfully applied for a commercial mortgage.

The data presented thus far in this report has reflected events that have happened to the SME in the 12 months before they were interviewed, analysed by the date of interview. This chapter is the first of four covering Type 1 borrowing events in more detail. Type 1 events are those where the SME approached the bank looking for new or renewed overdraft or loan facilities. The first of these chapters looks at the build-up to the application, why funds were required and whether advice was sought. Subsequent chapters then detail the bank's response, the resultant loan/overdraft granted, the effect of the process on the SME and the rates and fees charged for the facilities.

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

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

Analysis does suggest that a slightly higher proportion of both loan and overdraft applications than might have been expected were made in Q1 2011 and more noticeably in Q1 2012, and that in the quarters after these 'busier' quarters (that is Q2 2011 and Q2 2012), the share of overdraft applications was slightly lower than could have been expected. Analysis of overdraft applications made in Q3 2012 also suggests fewer applications were made in that quarter than might have been expected, while loan applications were in line.

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

Each chapter includes analysis, as far as is possible, on the extent to which loan and overdraft applications are changing over time. For the most recent quarters (especially Q2 and Q3 2013) this is only **interim** data, which is liable to change and will be updated in subsequent reports.

However, for some sub-group analysis, such as by size or risk rating, sample sizes preclude analysis at the individual quarter level and the data needs to be grouped over time to provide a more robust sample size. In order to ensure a suitable sample size, a period of 18 months has been selected. This means that rather than reporting on applications for YEQ3 (i.e. all interviews conducted in the 4 quarters to Q3 2013, irrespective of when the borrowing event occurred), data is now reported on the basis of 'Applications occurring in the 18 months to Q3 2013' (i.e. applications made between Q2 2012 and Q2 2013, irrespective of when the SME was actually interviewed).

Why were they applying?

Overdraft applications

This analysis is based on the new definition of SMEs that made an application for a new or renewed overdraft facility during the most recent 18 month period, which for this report is between Q2 2012 and Q3 2013. Within this 18 month time period, final data is now available for applications made in Q2 and Q3 of 2012. Data on applications in the more recent quarters (Q4 2012 to Q3 2013) is still being gathered and will be updated in future waves, and so the figures quoted will be liable to change over time. All percentages quoted are therefore just of this group of applicants. For context, in Q3 2013 this was the equivalent of 5% of all SMEs or around 225,000 businesses. Note that this does not include SMEs who had an overdraft automatically renewed.

Just under half of those reporting a Type 1 overdraft event that occurred between Q2 2012 and Q3 2013 said that they had been looking to renew an existing overdraft for the same amount (46%), and this was more common amongst larger applicants. Around a third of applicants (30%) were seeking an overdraft for the very first time and, as the table below shows, this was more likely to be the case for smaller SMEs (and 42% of these first time applicants were Starts):

Nature of overdraft event **Sought** new/renewed facility Q2 12- Q3 13	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*1942*	*198*	*694*	*725*	*325*
Renewing overdraft for same amount	46%	44%	46%	60%	65%
Applied for first ever overdraft facility	30%	36%	25%	11%	8%
Seeking to increase existing overdraft	15%	13%	17%	16%	17%
Setting up facility at new bank	2%	3%	2%	3%	2%
Seeking additional overdraft on another account	5%	4%	6%	4%	4%
Seeking to reduce existing facility	2%	1%	4%	5%	4%

Q52 All SMEs seeking new/renewed overdraft facility

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

Nature of overdraft event SMEs seeking new/renewed facility By application date	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4* 12	Q1* 13	Q2* 13
Unweighted base:	*329*	*679*	*517*	*557*	*548*	*681*	*448*	*373*	*441*	*374*	*217*
Renewing overdraft for same amount	41%	50%	49%	44%	49%	40%	51%	49%	42%	41%	36%
Applied for first ever overdraft facility	26%	22%	24%	27%	28%	33%	29%	25%	35%	30%	37%
Seeking to increase existing overdraft	23%	16%	18%	18%	18%	20%	11%	17%	16%	14%	22%
Setting up facility at new bank	2%	6%	1%	2%	1%	4%	1%	1%	1%	5%	1%
Seeking additional overdraft on another account	2%	4%	2%	5%	2%	2%	7%	5%	3%	6%	4%
Seeking to reduce existing facility	5%	2%	5%	3%	2%	1%	2%	1%	3%	3%	1%

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

A small proportion of applications are as a result of moving to a new bank. The time series data above suggests that this is a more common occurrence at the start of each year, with the Q1 figures higher than the rest of the year in all three years covered.

Almost all overdraft applications (98% in the 18 months from Q2 12 to Q3 13) were made to the SME's main bank. This varied little by date of application – Q3 2011 saw the lowest proportion of applications made to main bank (94%) but in all other quarters, 97% or more of applications were made there.

Initial data for applications made in Q2 2013 is that 94% were made to the main bank, and this will be monitored as more data is collected.

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

Amount initially sought, where stated **Sought** new/renewed facility Q2 12- Q3 13	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*1774*	*187*	*648*	*645*	*294*
Less than £5,000	45%	64%	24%	4%	*
£5,000 – £9,999	17%	18%	17%	6%	1%
£10,000 – £24,999	20%	12%	33%	19%	5%
£25,000 – £99,999	12%	5%	20%	36%	12%
£100,000+	6%	2%	6%	35%	82%
Median amount sought	*£5k*	*£2k*	*£10k*	*£49k*	*£287k*

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

An increasing proportion of applications/renewals were made for £5,000 or less over the course of 2010 and 2011, from around a third to a half of applications made during this time. Since then, a fairly consistent half of all overdraft applications have been for £5,000 or less.

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

A third wanted the facility as a 'safety net' and this was slightly more common where the applicant had fewer than 10 employees. As in previous quarters, overdrafts were much more likely to have been sought to support UK expansion (14%) than expansion overseas (2%).

Purpose of overdraft sought **Sought** new/renewed facility Q2 12- Q3 13	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*1942*	*198*	*694*	*725*	*325*
Working capital for day to day cash flow	80%	79%	82%	85%	86%
Safety net – just in case	35%	37%	34%	29%	31%
Short term funding gap	21%	21%	22%	19%	16%
Buy fixed assets	13%	13%	13%	8%	9%
Fund expansion in UK	14%	14%	16%	10%	14%
Fund expansion overseas	2%	1%	2%	1%	2%

Q55 All SMEs seeking new/renewed overdraft facility

Analysed by the external risk rating of those applying, 'working capital' remained the main reason across all risk ratings, ranging from 89% of those with a low external risk rating to 75% of those with a minimal risk rating, who were more likely than others to mention a short term funding gap (31%).

Looking at the purpose of the overdraft sought over time, working capital was consistently the most mentioned purpose, with fewer mentions of short term funding gaps or safety nets in recent quarters:

Purpose of overdraft SMEs seeking new/renewed facility - by application date	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4* 12	Q1* 13	Q2* 13
Unweighted base:	*329*	*679*	*517*	*557*	*548*	*681*	*448*	*373*	*441*	*374*	*217*
Working capital for day to day cash flow	85%	90%	78%	80%	79%	81%	75%	80%	78%	89%	87%
Safety net – just in case	48%	47%	46%	54%	43%	38%	34%	45%	30%	34%	25%
Short term funding gap	36%	43%	34%	43%	30%	31%	23%	21%	18%	24%	15%
Buy fixed assets	23%	17%	13%	16%	11%	9%	12%	13%	15%	11%	13%
Fund growth* in UK	17%	12%	13%	7%	10%	12%	17%	9%	13%	17%	14%
Fund growth* overseas	1%	1%	1%	2%	*	2%	1%	1%	1%	3%	3%

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

The proportion of SMEs seeking advice before they applied for an overdraft remained consistently low (10% amongst those applying between Q2 2012 and Q3 2013). Advice was more likely to be sought for larger overdraft facilities – while 8% sought advice for an overdraft of £25,000 or less, 18% sought advice if they were applying for an overdraft of £25-100,000 and 17% for overdrafts of above £100,000. There was little change overall over time by date of application.

Larger applicants were somewhat more likely to have sought advice (and they are also of course likely to be seeking a larger facility): amongst applicants with 0-9 employees 9% sought advice, while amongst those with 10-249 employees 15% sought advice. There were some signs of an increase over time in smaller applicants seeking advice: in 2012, 9% of applicants with 0-9 employees had sought advice, compared to 11% in H1 13 to date.

The main reason for not seeking advice remained that it was not felt to be needed (60%) or that the SME had previously been successful with an application (15%), both mentioned more by larger applicants that had not sought advice. 12% of all those not seeking advice said that they did not know who to ask (and this remains more likely to be mentioned by smaller applicants), while 10% did not think it would have made any difference to the outcome of their application.

Overdraft applications – a sector summary

Those in the Transport sector remained more likely to be seeking their first ever overdraft (43%), while those in the Other Community sector remained more likely to be renewing an existing facility (74%):

Overdraft activity **Sought** new/ renewed facility Q2 12- Q3 13	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*224*	*210*	*329*	*210*	*193*	*162*	*291*	*144*	*179*
Renewing overdraft for same amount	57%	50%	40%	44%	40%	32%	40%	46%	74%
Applied for first ever overdraft	12%	27%	33%	27%	31%	43%	39%	24%	17%
Seeking to increase existing overdraft	16%	16%	18%	16%	15%	18%	11%	23%	5%

Q52 All SMEs seeking new/renewed overdraft facility

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

Those in Agriculture were seeking the highest median overdraft amount, at £38,000. The lowest median amount sought was £3,000 by applicants from the Property/Business Services sector and those in Construction.

The main purpose of the overdraft for all sectors was working capital, ranging from 90% of applicants in Wholesale/Retail to 70% of applicants in the Other Community sector. 40% of applicants in the Health sector mentioned a short term funding gap, while 22% of those in the Other Community sector were looking to fund growth in the UK.

Those in Agriculture (14%) and Property/Business Services (13%) were the most likely to have sought advice for their application with those in the Other Community sector remained the least likely (2%).

Loan applications

This analysis is based on the new definition of SMEs that made an application for a new or renewed loan facility during the most recent 18 month period, which for this report is between Q2 2012 and Q3 2013, irrespective of when they were interviewed. Within this 18 month time period, final data is now available for applications made in Q2 and Q3 of 2012. Data on applications made in the more recent quarters (Q4 2012 to Q3 2013) is still being gathered and so the figures quoted will be liable to change over time. All percentages quoted are therefore just of this group of applicants. For context, in Q3 2013 this was the equivalent of 3% of all SMEs or around 136,000 businesses.

There have been fewer loan events reported than overdraft events. As a result, even for applications in the 18 months to Q3 2013, the same granularity of analysis is not always possible as for other areas of the report.

Loan applications were more likely than overdraft applications to be for new funding (the first two rows of the table below), with 73% of loan applicants seeking a new loan (compared to 52% for overdrafts), and 4 out of 10 saying this was their first ever loan (compared to 30% for overdrafts). As the table below shows, this was more likely to be the case for smaller SMEs that had applied (and 44% of SMEs applying for their first ever loan were Starts):

Nature of loan event **Sought** new/renewed facility Q2 12- Q3 13	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	***956***	***104***	***310***	***350***	***192***
Applied for first ever loan	39%	45%	35%	18%	10%
New loan but not our first	34%	35%	32%	39%	43%
Renewing loan for same amount	10%	9%	10%	21%	20%
Topping up existing loan	8%	8%	9%	9%	11%
Refinancing onto a cheaper deal	4%	1%	6%	10%	10%
Consolidating existing borrowing	3%	1%	6%	2%	2%
New loan facility after switching bank	1%	-	2%	2%	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'

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):

Nature of loan event- SMEs seeking new/renewed facility – By application date	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4* 12	Q1* 13	Q2* 13
Unweighted base:	*172*	*302*	*273*	*282*	*310*	*305*	*241*	*202*	*218*	*155*	*100*
Applied for first ever loan	35%	40%	33%	41%	32%	46%	37%	50%	35%	33%	35%
New loan but not our first	38%	29%	29%	25%	37%	25%	30%	30%	42%	36%	45%
Renewing loan for same amount	14%	17%	17%	9%	11%	12%	10%	4%	9%	19%	10%
Topping up existing loan	5%	7%	8%	5%	14%	7%	13%	10%	5%	7%	1%
Refinancing onto a cheaper deal	4%	4%	6%	16%	3%	5%	7%	1%	4%	3%	1%
Consolidating existing borrowing	4%	3%	5%	3%	1%	3%	3%	3%	3%	1%	7%
New facility after switching banks (new)					*	*	1%	1%	1%	-	1%

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

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 (89% v 98% for overdrafts).

Analysis by date of application shows that a higher proportion of applications were made to the main bank in the second half of 2011 than in the first. This proportion then fell for the first half of 2012. Since then there has been no clear pattern:

Applied to main bank SMEs seeking new/renewed facility – By application date	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4* 12	Q1* 13	Q2* 13
Unweighted base:	*172*	*302*	*273*	*282*	*310*	*305*	*241*	*202*	*218*	*155*	*100*
Applied to main bank	87%	88%	81%	94%	96%	84%	88%	96%	78%	92%	85%

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

The median amount sought was almost unchanged at £11,000. Sample sizes limit the amount of analysis possible over time, but the majority of loans sought continued to be for £100,000 or less:

Amount initially sought, where stated **Sought** new/renewed facility Q2 12- Q3 13	Total	0 emps	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*861*	*98**	*294*	*303*	*166*
Less than £5,000	22%	32%	10%	3%	1%
£5,000 – £9,999	20%	25%	15%	3%	*
£10,000 – £24,999	23%	22%	27%	14%	4%
£25,000 – £99,999	14%	7%	24%	27%	13%
£100,000+	21%	14%	24%	54%	81%
Median amount sought	*£11k*	*£7k*	*£19k*	*£97k*	*£375k*

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

From Q4 2011, loan applicants have been asked about the extent to which the funding applied for represented the total funding required and how much the business was contributing. The results for applications made in the 18 months to Q3 2013 are shown below, with most applicants (74%) seeking all the funding they required from the bank (up from 68% for applications made in the 18 months Q1 2012 to Q2 2013, and an increase across all size bands):

Proportion of funding sought from bank **Sought** new/renewed facility Q2 12- Q3 13	Total	0 emps	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*934*	*102*	*304*	*343*	*185*
Half or less of total sum required	11%	12%	10%	11%	11%
51-75% of sum required	10%	9%	11%	10%	11%
76-99% of sum required	4%	3%	6%	7%	6%
All of sum required sought from bank	74%	75%	73%	72%	72%

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

Overall there was relatively little difference in the proportion seeking all the funding from the bank by size of applicant, or by external risk rating.

More detailed analysis over time by date of loan application (H1 11 to H1 13 for which robust base sizes are available) shows a return in H1 13 to most applicants seeking all the funding they require from the bank:

Proportion seeking all funding from the bank (excl DK) Row percentages	H1 2011	H2 2011	H1 2012	H2 2012	H1 2013
All loan applicants	79%	69%	64%	68%	80%
All applicants with 0-9 employees	80%	69%	64%	68%	80%
All applicants with 10-249 employees	67%	65%	67%	70%	78%

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

Overall, these funds were likely to have been sought either to fund expansion in the UK (32%) or to purchase fixed assets (26%) or motor vehicles (25%). Applicants with 0 employees remained more likely to be buying fixed assets or motor vehicles, while those with 10 or more employees were more likely to be buying premises:

Purpose of loan **Sought** new/renewed facility Q2 12- Q3 13	Total	0 emps	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*956*	*104*	*310*	*350*	*192*
Fund expansion in UK	32%	32%	31%	23%	40%
Buy fixed assets	26%	29%	22%	24%	20%
Buy motor vehicles	25%	37%	10%	7%	3%
Buy premises	21%	19%	24%	27%	30%
Develop new products/services	11%	10%	12%	14%	18%
Replace other funding	9%	4%	16%	13%	10%
Fund expansion overseas	1%	-	3%	2%	10%
Take over another business	1%	*	3%	2%	5%

Q150 All SMEs seeking new/renewed loan facility

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

Purpose of loan SMEs seeking new/renewed facility – by application date	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4* 12	Q1* 13	Q2* 13
Unweighted base:	***172***	***302***	***273***	***282***	***310***	***305***	***241***	***202***	***218***	***155***	***100***
Fund expansion in UK	17%	28%	19%	26%	30%	31%	39%	35%	30%	17%	35%
Buy fixed assets	21%	21%	13%	35%	42%	36%	15%	31%	30%	25%	29%
Premises	25%	11%	25%	18%	19%	17%	12%	16%	33%	29%	17%
Buy motor vehicles	18%	22%	24%	24%	10%	22%	33%	16%	17%	33%	32%
Develop new products/services	20%	15%	20%	22%	7%	19%	7%	13%	11%	12%	9%
Fund expansion overseas	1%	3%	2%	*	4%	3%	2%	1%	1%	*	1%

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

Whereas 10% of overdraft applicants Q2 2012 to Q3 2013 had sought external advice before applying, more loan applicants had done so, albeit still a minority (19%). Advice was more likely to be sought for larger amounts of borrowing. While 9% of those looking to borrow less than £25,000 sought advice, this increased to 22% of those seeking £25-100,000 and 45% of those seeking to borrow more than £100,000. 40% of those who successfully obtained a commercial mortgage had sought advice.

The increase from the previous 18 month period (16% sought advice for applications made in Q1 2012 to Q2 2013) was due to more of the smaller applicants seeking advice (17% from 12% for 0 employee applicants), albeit that they remained less likely to have sought advice, compared to 21% of those with 1-9 employees, 19% of those with 10-49 employees and 24% of those with 50-249 employees.

Analysis by date of application suggests that seeking advice was more popular for applications made in 2011 (when around 1 in 5 sought advice) than for applications made in 2012 (when around 1 in 6 sought advice), and that in the first half of 2013 the proportion seeking advice for a loan application was back to around 1 in 5.

Half of applicants who had not sought advice, 52%, said that it was because they did not need it, mentioned more by larger applicants who had not sought advice, as was saying they had been successful with applications in the past (mentioned by 12% overall). Smaller applicants remained more likely to mention they did not know who to ask (mentioned by 19% overall).

Loan applications – a sector summary

Those in the Other Community sector were more likely to be applying for their first ever loan, while renewals were somewhat more common amongst applicants from the Property and Business Services sector along with the Agriculture and Wholesale/Retail sectors:

Loan activity **Sought** new/renewed facility Q2 12- Q3 13	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*96**	*107*	*125*	*91**	*103*	*80**	*149*	*106*	*99**
Applied for first ever loan	21%	37%	42%	36%	39%	47%	37%	39%	63%
New loan (other)	31%	44%	41%	28%	34%	38%	29%	55%	17%
Renewing loan for same amount	15%	3%	5%	15%	7%	1%	21%	2%	8%

Q149 All SMEs seeking new/renewed loan facility

Most approached their main bank (89%). The least likely to do so were applicants in Manufacturing (76% of applications were made to main bank).

The highest median loan amounts were sought by applicants from the Agriculture (£82k) sector. The lowest median amount sought was from applicants in Construction (£6k). Those in the Health and Wholesale/Retail sectors were more likely to be seeking all the funding required from the bank while applicants from Manufacturing were less likely.

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

Advice was sought by 1 in 3 of those in Hotels and Restaurants and the Property / Business services sector, compared to 7% of those in the Construction sector.

8. The outcome of the application/ renewal

This chapter details

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

Key findings

Across both loan and overdrafts, 70% of **all** Type 1 applications reported to date on the SME Finance Monitor resulted in a facility. 5% had taken another form of funding and 25% ended the process with no facility. More recent applications, made in 2013, were **less** likely to have been successful (61%), and around 1 in 3 of these applicants had ended the process with no facility.

72% of all **overdraft** applications made in the most recent 18 month period between Q2 2012 and Q3 2013 were successful. 4% took other funding and 25% of applicants ended the process with no facility. Including those overdrafts that were automatically renewed increased the success rate to 87%. **Loan** applications made in the same period remained somewhat less likely to be successful: 57% have a facility, 9% took other funding and 35% ended the process with no facility.

Analysis over time showed that those seeking a new or renewed **overdraft** more recently were less likely to have been offered what they wanted initially. Applicants in the first half of 2013 were also less likely to *end* the process with a facility – for Q2 this was a reflection of the profile of applicants in that quarter, but that was not the case for Q1 where there was a 9 point gap between the predicted and actual success rate.

The initial response to loan applications was more stable over time, with around half offered the facility they wanted and one in four being initially declined. Analysis revealed that loans applied for in 2012 were more likely to be successful than the profile of applicants would suggest, while those in 2011 were somewhat less likely to be successful.

Almost all, 92%, of the loan/overdraft **renewals** reported since the SME Finance Monitor started have been successful, and that was also true for those applied for in the most recent period (94% Q2 2012 to Q3 2013).

Applications for **new** funds on loan or overdraft (including first time applicants) were less likely than renewals to be successful overall (52% since the start of the Monitor) and more recent applicants saw lower success rates (46% for applications Q2 2012 to Q3 2013).These recent success rates were lower both for first time applicants and for those seeking a new facility but not their first.

Smaller, younger SMEs, those with a worse than average risk rating and those applying for the first time, remained less likely to be successful with their loan or overdraft application, and there was some evidence that success rates for these SMEs have fallen over time.

Awareness, and use, of the appeals process amongst those declined for a facility remains very limited.

This chapter follows the application 'journey' from the initial response from the bank to the final decision. More detailed analysis is provided of the final outcome over time, and also the experiences of those applying for new funding compared to those seeking a renewal of existing facilities. Note that, unless specifically stated, this data does not include the automatic renewal of overdrafts, and that, as already explained, data for applications reported as having taken place between Q4 2012 and Q3 2013 remains interim.

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

The final outcome – all loan and overdraft applications to date

Before looking in detail at the individual loan and overdraft journeys, data is provided on the outcome of **all** Type 1 applications, both loan and overdraft, since the SME Finance Monitor started. Of the 8,416 applications on which data has been gathered, 70% resulted in a facility, while 25% have none, with 5% taking another form of funding.

Analysis by date of application is shown below:

Final outcome (Overdraft+Loan): SMEs seeking new/renewed facility - By date of application	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4* 12	Q1* 13	Q2* 13
Unweighted base:	*493*	*960*	*742*	*808*	*820*	*943*	*650*	*544*	*617*	*505*	*294*
Offered what wanted and took it	59%	58%	61%	55%	62%	55%	54%	51%	57%	50%	40%
Took facility after issues**	11%	12%	11%	14%	8%	12%	14%	17%	17%	11%	21%
Have facility (any)	*70%*	*70%*	*72%*	*69%*	*70%*	*67%*	*68%*	*68%*	*74%*	*61%*	*61%*
Took another form of funding	7%	8%	7%	4%	6%	4%	3%	6%	4%	7%	10%
No facility	23%	22%	21%	27%	24%	28%	29%	26%	23%	32%	29%

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

The table shows fairly stable success rates across loans and overdrafts up to the end of 2012, with around 7 out of 10 applicants having a facility.

Initial data for all Type 1 applications made in Q1 and Q2 2013 shows a lower success rate of 61% and a higher proportion of applicants ending the process with no facility. Analysis later in this chapter shows that:

- There has been a decline in overdraft success rates for Q1 2013 which is not explained by the profile of applicants in that quarter, while interim success rates for Q2 2013 are somewhat higher than Q1 and more in line with the expected success rate.
- Loan success rates were also lower in Q1 2013, but this can be explained by the profile of applicants, and there are currently insufficient applications reported for Q2 to comment on them.

Analysis in previous reports has shown that the outcome of applications reported initially for a quarter can be quite different to those reported subsequently as more data is gathered, and this is explored more in this chapter for overdrafts and then loans.

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

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

This analysis is based on the new definition of SMEs that made an application for a new or renewed loan or overdraft facility during an 18 month period, which for this report is between Q2 2012 and Q3 2013, irrespective of when they were interviewed.

The tables below record the initial response from the bank to applications made in this period and show the majority of applicants being offered a facility. The initial response to 60% of overdraft applications was to offer the SME what it wanted, compared to 42% of loan applications. Bigger SMEs remained much more likely to have been offered what they wanted at this initial stage:

Initial response (Overdraft): **Sought** new/renewed facility Q2 12- Q3 13	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*1840*	*187*	*660*	*685*	*308*
Offered what wanted	60%	57%	62%	80%	87%
Offered less than wanted	8%	6%	11%	7%	6%
Offered unfavourable terms & conditions	4%	4%	4%	4%	4%
Declined by bank	27%	33%	22%	9%	3%

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

Initial response (Loan): **Sought** new/renewed facility Q2 12- Q3 13	Total	0 emps	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*883*	*100*	*294*	*315*	*174*
Offered what wanted	42%	36%	45%	71%	77%
Offered less than wanted	8%	6%	11%	8%	5%
Offered unfavourable terms & conditions	8%	8%	8%	7%	10%
Declined by bank	42%	50%	36%	14%	8%

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

SMEs more likely initially to be offered what they wanted included those applying to renew an existing overdraft (85% were offered what they wanted) or loan (79%), and those with a minimal external risk rating (90% overdraft, 75% loan).

Those more likely to be met with an initial decline included those applying for their first ever overdraft (62% were initially declined) or loan (56%) or with a worse than average external risk rating (40% initially declined if applying for an overdraft, 49% if applying for a loan).

The table below looks at the initial response to overdraft applications by the date of application. This shows that an initial response declining the overdraft request was more common in the first half of 2012, and again in the first half of 2013, when 1 in 3 applications was initially declined. The 2013 application data is still interim, and will be monitored as more data is gathered:

Initial response: SMEs seeking new/renewed overdraft facility – by date of application	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4* 12	Q1* 13	Q2* 13
Unweighted base (Overdraft):	*324*	*670*	*489*	*541*	*527*	*656*	*425*	*355*	*420*	*360*	*202*
Offered what wanted and took it	65%	64%	62%	65%	69%	59%	61%	63%	63%	56%	53%
Any issues (amount or T&C)	11%	14%	16%	14%	9%	13%	11%	14%	15%	6%	13%
Declined overdraft	25%	22%	22%	21%	21%	27%	28%	23%	22%	38%	34%

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

Analysis by date of application for loans shows that with a few exceptions, such as Q3 2012, a relatively stable 4 out of 10 applications were initially declined. As for overdrafts, the most recent data is still interim, and there are currently too few applications for Q2 2013 to report here:

Initial response: SMEs seeking new/renewed loan facility – by date of application	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4* 12	Q1* 13	Q2* 13
Unweighted base (Loan)	*169*	*290*	*253*	*267*	*293*	*287*	*225*	*189*	*197*	*145*	
Offered what wanted and took it	50%	50%	64%	41%	50%	56%	47%	36%	46%	49%	
Any issues (amount or T&C)	15%	8%	12%	19%	12%	7%	16%	15%	17%	14%	
Declined loan	35%	42%	24%	41%	38%	37%	37%	49%	37%	38%	

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

The data on applications made in Q1 2013 is limited, but does not appear to be maintaining a pattern whereby the initial response to a loan application made in Q1 each year is less likely to be 'any issues'. No similar pattern is seen for the initial response to overdraft applications by quarter.

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

The subsequent journey

The next section of this chapter describes what happened after the initial response from the bank, up to and including the final outcome of the application. This is reported first for overdrafts and then for loans and, unless otherwise stated, is based on all Type 1 overdraft / loan applications *sought* Q2 2012 to Q3 2013, where data is currently available.

Before the detail is discussed of what happened after each of the possible initial responses, the 'journeys' are summarised below. Almost 6 out of 10 overdraft applicants (57%) and 4 out of 10 loan applicants (39%) were offered the facility they wanted and went on to take it with no issues:

Journey summary All seeking facility Q2 2012 to Q3 2013	Overdraft	Loan
Unweighted base:	*1840*	*883*
Initially offered what they wanted and went on to take the facility with no issues	57%	39%
Initially offered what they wanted, but had 'issues' before they got facility	3%	2%
Had issues with the initial offer, and now have a facility 'after issues'	10%	10%
Were initially turned down, but now have a facility	1%	4%
Had issues with the initial offer made so took alternative funding instead	*	*
Were initially turned down, so took alternative funding instead	3%	1%
Initially offered what wanted but now have no facility at all	*	-
Had issues with the initial offer made and now have no facility at all	2%	4%
Initially turned down and now have no facility at all	22%	31%

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

88% of overdraft applicants who ended the process with no facility had been declined by the bank initially while the remaining 12% were made an offer but in the end did not take the facility. This is the equivalent of 3% of all overdraft applicants in the last 18 months receiving the offer of an overdraft but ending the process with no facility.

For loans, 88% of applicants who ended the process with no facility had also been initially declined by the bank, leaving 12% that were made an offer but in the end did not take the facility – this is the equivalent of 4% of all loan applicants in the last 18 months receiving the offer of a loan but ending the process with no facility.

Profile of overdraft applicants by initial response

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

Initial offer	Profile – all seeking overdraft Q2 2012 to Q3 2013
Those offered what wanted (60% of applicants)	They were typically somewhat older and more established: they were slightly more likely to have a minimal/low risk rating (26% of those offered what they wanted v 20% of all applicants), to have employees (48% v 44% of all applicants), and to have been in business for 10 years or more (62% of those offered what they wanted v 49% of all applicants). They were unlikely to be a Start (9% v 17% overall). They were more likely to be seeking a renewal of facilities (66% 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).
Those offered less than wanted (8% of applicants)	They were also somewhat more established: they were the most likely to have employees (57% of those offered less than they wanted v 44% of all applicants) and more likely to have a minimal/low external risk rating (26% of those offered less than they wanted v 20% of all applicants). They were typically looking for an overdraft of more than £5,000 (73% of those offered less than they wanted v 55% of all applicants). 1 in 3 were looking to increase an existing overdraft (29% of those offered less than they wanted v 15% of all applicants).
Those offered unfavourable T&C (4% of applicants)	They were more likely to have a minimal/low risk rating (33% of those who had issues v 20% of all applicants). They were also more likely to be seeking a facility of £5,000 or more (65% of those who had issues v 55% of all applicants). Half were looking to renew an existing facility (54% of those who had issues v 47% of all applicants) while 1 in 3 was a first time applicant (34% of those who had issues v 29% of all applicants).
Those initially declined (27% of all applicants)	This group had the most distinctive profile. They were typically smaller (33% of those initially turned down had employees v 44% of all applicants) and a third, 33%, were Starts (v 17% of all applicants). 79% of those initially declined had a worse than average external risk rating (v 53% of all applicants). Two-thirds of those initially turned down, 65%, were applying for their first ever overdraft (v 29% of all applicants), with 60% applying for a facility of £5,000 or less (v 45% of all applicants).

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

Summarised below for all applications made in the 18 months Q12 2012 to Q3 2013 (and reported to date), is what happened after the bank's initial response to the overdraft application and any issues around the application. Base sizes for some groups remain small, but some limited analysis by period of application is now possible, predominantly for those initially declined:

Initial offer	Subsequent events - all seeking overdraft Q2 2012 to Q3 2013
Offered what wanted (60% of applicants) Q64-65	95% of those offered the overdraft they wanted went on to take the facility, with 4% experiencing any delays or problems (typically being offered something they thought was too expensive, or waiting for legal work, or for a decision to be made). Three applicants did not take up the facility offered. Almost all received the full limit they had originally asked for.
Issue: Offered less than wanted (8% of applicants) Q85-95	These SMEs were typically offered 50-90% of what they had asked for. 20% said they were not given a reason for being offered less (excluding those who couldn't remember). This was more likely for smaller applicants, but there was no clear pattern over time. The main reasons given were: • no/insufficient security - 23% of those offered less than they wanted • credit history issues - 26% • Applied for too much (14%) or a weak balance sheet (6%) Almost 1 in 4, 23%, thought the advice they were offered was 'good', 42% thought it was 'poor' while 16% did not get any advice at this stage. Smaller applicants were more likely to rate the advice as 'good' (23%) than larger applicants (13%). In the end most, 84%, accepted the lower offer, almost all with the bank they originally applied to, and this was more likely amongst smaller applicants. 7% managed to negotiate a better offer, all with the original bank (and this was more common amongst larger applicants). 2% took another form of finance and 9% now have no facility. 7 out of 10 of those who now have an overdraft obtained at least half of the amount they had originally sought, typically in line with the bank's initial response. This was more common for larger applicants than for smaller ones.

Initial bank response	Subsequent events – all seeking overdraft Q2 2012 to Q3 2013
Issue: Offered unfavourable T&C (4% of applicants) Q96-97	The 'unfavourable' terms and conditions were most likely to relate to: • security (the amount, type sought or cost of putting it in place) – mentioned by 28% of those offered what they saw as unfavourable T&Cs and more of an issue for larger applicants • the proposed interest rate – 31% of these applicants • the proposed fee – 25% of these applicants Both the fee and the interest rate continued to be mentioned more by smaller applicants. A minority of applicants offered what they saw as unfavourable terms and conditions, 7%, said they managed to negotiate a better deal than the one originally offered – almost all of them at the bank they originally applied to. 57% accepted the deal they were offered (almost all at the original bank). 4% took other funding, while a third, 33%, decided not to proceed with an overdraft.

The subsequent journey – those who were declined for an overdraft

The table below details the subsequent journey of those whose overdraft application was initially declined (27% of all applicants):

Initially declined	Subsequent events – all seeking overdraft Q2 2012 to Q3 2013
Reasons for decline Q70	23% of those initially declined said that they had not been given a reason (excluding those who could not remember the reasons given). • 35% said the decline related to their personal and/or business credit history (mentioned more by smaller SMEs) • 12% mentioned issues around security (mentioned more by larger SMEs) • Also mentioned were financial forecasts that the bank did not agree with, or the industry being 'too risky' Over time by application date, there had been a slight increase in the proportion saying no reason was given (from around 1 in 5 to around 1 in 4 of those initially declined).
How decline was communicated Q70a-b	Those respondents given a reason were asked how the initial decision was communicated to them and whether they were told enough to explain why the decision had been made. In the majority of cases (83%) the decision was communicated verbally, while a quarter (25%) received a written response (a few had both). Almost half (48%) felt that they had not been given enough information to explain the decision, and this was more common amongst larger applicants. 52% felt they had been given enough information. Over time by date of application, there has been a slight increase in the proportion told in writing, from around 1 in 4 to around 1 in 3 applicants given a reason, while the proportion saying they had received enough information has moved from under to over half of such applicants.

Continued

Continued

Advice and alternatives Q71-80	14% of those initially declined said that the bank had either offered them an alternative form of funding to the declined overdraft, or suggested alternative sources of external finance. 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 (66%), while 4% said that it had been good and 14% said they were not offered any advice (with little variation by size). Over time there has been something of an increase in those rating the advice offered as 'poor'. More generally, 6% of those initially declined reported that they had been referred to sources of help or advice by the bank, while a further 7% sought their own external advice without a recommendation. On a small base of advice seekers, around half, 53%, had found this external advice useful.

Initially declined	Subsequent events – all seeking overdraft Q2 2012 to Q3 2013
Appeals Q73-75	From April 2011, a new appeals procedure has been in operation. The analysis below, as elsewhere in this report, is based on all applications made in the last 18 months (Q2 2012 to Q3 2013). A consistent 15% of these applicants said they were made aware of the appeals process (excluding DK). 1 in 5 of those made aware went through the appeals process, representing around 4% of those initially declined. This means that 8 SMEs interviewed for the Monitor in this period had appealed, providing at best anecdotal evidence about the process: in 4 cases the bank had not changed its decision, in 1 it had, and 3 SMEs were waiting to hear. Those that were aware of the appeals process but had not appealed typically said they did not think it would have changed anything.
Outcome Q81-84	At the end of this period, 5% of the SMEs initially declined had managed to secure an overdraft, typically with the original bank rather than an alternative supplier. Qualitatively these SMEs manage to secure 60% or more of the funding they had initially sought. Some, 12%, had secured alternative funding, and this was more likely for bigger applicants, with mentions of friends/family, personal borrowing or a loan. The largest group, 83%, had no funding at all, and this was more likely if the applicant was a smaller SME.

The final outcome – overdraft

At the end of the various 'journeys' described above, respondents reported on the final outcome of their application for a new or renewed overdraft facility. This section is based on the new definition of SMEs that made an application, and had received a response, for a new or renewed overdraft facility during the most recent 18 month period, which for this report is between Q2 2012 and Q3 2013, irrespective of when they were interviewed.

Over half of these applicants, 58%, had the overdraft facility they wanted, and a further 14% secured an overdraft after having issues about the amount or the terms and conditions of the bank's offer. 25% of all applicants ended the process with no overdraft. Note that this table does **not** include automatic renewal of overdrafts.

Final outcome (Overdraft): **Sought** new/renewed facility Q2 12- Q3 13	All overdraft Type 1 applicants
Unweighted base:	*1840*
Offered what wanted and took it	58%
Took overdraft after issues	14%
Have overdraft (any)	*72%*
Took another form of funding	4%
No facility	25%

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

Before looking at the results in more detail for overdraft applications made in the latest 18 month period, the summary table below records the proportion who 'Have overdraft (any)' for a series of 18 month periods, stretching back to Q1 2011, by key demographics. As already explained, for all but the first two 18 month periods shown (Q1 11 to Q2 12 and Q2 11 to Q3 12), data is still being added to each of these periods (as respondents in Q4 2013 can report an application made from Q4 2012 onwards).

This table shows a fairly stable overall success rate, but with somewhat lower success rates reported in more recent periods by smaller applicants, those with a worse than average external risk rating and those looking for a new (but not their first) overdraft:

% of applicants ending process with overdraft facility	18 month periods					
Over time – row percentages By 18 month period of application	Q1 11 Q2 12	Q2 11 Q3 12	Q3 11 Q4 12*	Q4 11 Q1 13*	Q1 12 Q2 13*	Q2 12 Q3 13*
All SMEs	**74%**	**74%**	**74%**	**72%**	**71%**	**72%**
0 employee	69%	69%	70%	67%	66%	65%
1-9 employees	79%	79%	78%	77%	76%	77%
10-49 employees	92%	91%	91%	91%	90%	90%
50-249 employees	95%	96%	95%	96%	95%	96%
Minimal external risk rating	97%	96%	97%	97%	97%	97%
Low external risk rating	87%	87%	86%	86%	84%	94%
Average external risk rating	85%	85%	84%	81%	84%	832%
Worse than average external risk rating	66%	65%	66%	63%	61%	58%
Agriculture	82%	83%	83%	89%	91%	90%
Manufacturing	79%	83%	82%	77%	76%	72%
Construction	60%	59%	63%	62%	64%	63%
Wholesale/Retail	81%	79%	79%	76%	75%	72%
Hotels and Restaurants	69%	67%	67%	66%	63%	62%
Transport	67%	66%	65%	53%	48%	50%
Property/Business Services etc.	77%	77%	75%	72%	71%	71%
Health	79%	80%	83%	87%	82%	80%
Other Community	81%	81%	80%	80%	78%	94%
First time applicants	34%	35%	37%	36%	37%	33%
Other new facility (not first)	82%	81%	81%	78%	77%	77%
Renewals	94%	95%	95%	95%	94%	96%

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

Overdraft final outcome - applications made Q2 2012 to Q3 2013

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

Final outcome (Overdraft): **Sought** new/renewed facility Q2 12- Q3 13	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*1840*	*187*	*660*	*685*	*308*
Offered what wanted and took it	58%	54%	59%	76%	83%
Took overdraft after issues	14%	11%	18%	14%	13%
Have overdraft (any)	*72%*	*65%*	*77%*	*90%*	*96%*
Took another form of funding	4%	2%	6%	3%	1%
No facility	25%	33%	17%	7%	3%

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

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

Final outcome (Overdraft): **Sought** new/renewed facility Q2 12- Q3 13	Total	Min	Low	Average	Worse/Avge
Unweighted base:	*1840*	*309*	*391*	*471*	*506*
Offered what wanted and took it	58%	87%	68%	69%	47%
Took overdraft after issues	14%	10%	26%	14%	11%
Have overdraft (any)	*72%*	*97%*	*94%*	*83%*	*58%*
Took another form of funding	4%	1%	1%	2%	5%
No facility	25%	2%	5%	15%	37%

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

There were also some clear differences in success rate by sector, with applicants in Transport remaining the least likely to have been successful (50%), and those in Agriculture remaining the most likely (90%), along with those in the Other Community sector (94%):

Final outcome (Overdraft): **Sought** new/renewed facility Q2 12- Q3 13	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*216*	*199*	*306*	*201*	*181*	*155*	*278*	*137*	*167*
Offered what wanted and took it	78%	62%	51%	51%	47%	40%	55%	72%	83%
Took overdraft after issues	12%	10%	12%	21%	15%	10%	16%	8%	11%
Have overdraft (any)	*90%*	*72%*	*63%*	*72%*	*62%*	*50%*	*71%*	*80%*	*94%*
Took another form of funding	4%	5%	2%	6%	5%	4%	2%	5%	2%
No facility	6%	23%	35%	21%	33%	46%	27%	14%	4%

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 6 out of 10 of those seeking their first overdraft ending the process with no facility:

Final outcome (Overdraft): **Sought** new/renewed facility Q2 12- Q3 13	Total	1st overdraft	Increased overdraft	Renew overdraft
Unweighted base:	***1840***	***305***	***324***	***1007***
Offered what wanted and took it	58%	26%	52%	82%
Took overdraft after issues	14%	7%	25%	14%
Have overdraft (any)	***72%***	***33%***	***77%***	***96%***
Took another form of funding	4%	6%	7%	1%
No facility	25%	60%	16%	3%

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

The final piece of combined analysis for applications made in the 18 months to Q3 2013 shows outcome by age of business. The older the business, the more likely they were to have been offered what they wanted. Starts were the least likely to have been successful, and this is closely linked to the table above: 70% of Starts who applied were looking for their first overdraft while 4 out of 10 (42%) of all first time applications were made by Starts:

Final outcome (Overdraft): **Sought** new/renewed facility Q2 12- Q3 13 By age of business	Starts	2-5 yrs	6-9 yrs	10-15 yrs	15+ yrs
Unweighted base:	***136***	***235***	***218***	***260***	***991***
Offered what wanted and took it	30%	50%	46%	77%	72%
Took overdraft after issues	11%	9%	26%	11%	16%
Have overdraft (any)	***41%***	***59%***	***72%***	***88%***	***88%***
Took another form of funding	5%	4%	6%	3%	2%
No facility	54%	36%	21%	9%	11%

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

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

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

- The outcome for those applying for larger overdrafts (£25,000+) was fairly consistent over time, and around 90% of such applicants had an overdraft.
- Around 6 out of 10 applications for the smallest overdrafts (under £5,000) were successful in 2011 and 2012, but for applications to date in the first half of 2013 the success rate is slightly lower at 50%
- Those in the middle (£5-25,000) became slightly less likely to be successful over time, from around 90% to around 80% of applicants having an overdraft up to 2012. For applications to date in the first half of 2013, the success rate is 70%

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

Final outcome by date of application – overdrafts

The table below shows the final outcome for Type 1 overdraft events by the quarter **in which the application was made**, for those quarters where robust numbers were available. Up to Q4 2011, the proportion of applicants who ended the process with an overdraft facility was fairly constant, with three-quarters of applicants being successful.

Results for the first half of 2012 and the first half of 2013 show a somewhat lower proportion of overdraft applications resulting in a facility and this reflected the higher proportion initially declined in those quarters. Most recently, the *final* outcome for applications made in 2013 (interim data) shows lower success rates for applications made in Q1 2013 (62%) in particular. There was a higher proportion of applicants with an overdraft facility 'after issues' in Q2 2013 – in previous quarters the proportion getting their facility 'after issues' has been closely aligned to the proportion having 'issues' with the banks initial offer, but this is not the case in Q2 2013 when 13% had issues with the original offer compared to 24% reporting that they had a facility 'after issues' – over half of these were initially offered less than they wanted, and further analysis will be undertaken as more data is gathered in subsequent waves.

Analysis has shown that the outcome of applications reported *initially* for a quarter can be different to those reported subsequently when more data has been gathered (as each quarter features for 5 waves of interviewing so the data builds over time). The trends are not that consistent but for overdrafts:

- The proportion 'offered what they wanted and taking it' typically goes down as more data is collected for an individual quarter, while the proportion with a facility 'after issues' goes up
- The proportion taking other funding tends to increase very slightly over time, but there is no clear pattern for declines (the results do change by a margin but not consistently in one direction)
- With few exceptions the results change very little after the third wave of data is added to the total (ie the Q1 2013, and earlier, results shown below)

Final outcome (Overdraft): SMEs seeking new/renewed facility By date of application	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4* 12	Q1* 13	Q2* 13
Unweighted base:	*324*	*670*	*489*	*541*	*527*	*656*	*425*	*355*	*420*	*360*	*202*
Offered what wanted and took it	64%	63%	61%	63%	68%	57%	59%	60%	61%	52%	47%
Took overdraft after issues	13%	14%	13%	14%	8%	14%	12%	17%	15%	10%	24%
Have overdraft (any)	*77%*	*77%*	*74%*	*77%*	*76%*	*71%*	*71%*	*77%*	*76%*	*62%*	*71%*
Took other funding	7%	6%	6%	4%	3%	3%	2%	2%	4%	5%	8%
No facility	16%	17%	20%	18%	21%	27%	26%	22%	21%	33%	21%

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

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

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

- The proportion of applicants with a worse than average risk rating increased from 43% in 2010 to 53% in 2013 to date
- The proportion of first time applicants is higher in both 2012 and 2013 to date (31%) than it was in either 2010 or 2011 (both 25%)
- The proportion looking to renew an overdraft facility has declined from 48% in 2010 to 42% to date in 2013

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

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

The model predicts a success rate between 68% and 77% for the individual quarters. The predicted rate for the quarters from Q1 2012 onwards has typically been lower than for earlier quarters:

Final outcome (Overdraft): SMEs seeking new/renewed facility By date of application	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4* 12	Q1* 13	Q2* 13
Unweighted base:	*324*	*670*	*489*	*541*	*527*	*656*	*425*	*355*	*420*	*360*	*202*
Have overdraft (any)	*77%*	*77%*	*74%*	*77%*	*76%*	*71%*	*71%*	*77%*	*76%*	*62%*	*71%*
Predicted success rate	75%	77%	77%	74%	75%	70%	74%	75%	71%	71%	68%
Difference	+2	0	-3	+3	+1	+1	-3	+2	+5	-9	+3

Final outcome of overdraft application by date of application

The analysis shows that actual success rates were in line with those predicted by the model for many quarters. The lower success rate in Q1 2012 was explained by the profile of respondents in that quarter, and to a certain extent this was also true for Q2 2012. Interim results for the second half of 2012 suggest that the increase in overdraft success rates was not driven by an 'improving' applicant profile, and that across 2012 as a whole overdraft applications were more likely to be agreed than the risk, size and purpose profile of applicants would suggest.

The lower success rate currently being reported for applications made in Q1 2013 has already been highlighted. The model predicts lower success rates for the three most recent quarters, Q4 2011 and Q1 and Q2 of 2013. Analysis shows that *actual* success rates were somewhat better than predicted for two of these three quarters (Q4 12 and Q2 13). For Q1 2013 though, the actual success rate is both lower than in other quarters and lower than predicted.

The impact of automatic renewals on overdraft success rates

Analysis shows that a considerable (albeit falling) number of SMEs had their overdraft automatically renewed by their bank. Such SMEs can be considered to be part of the 'Have an overdraft (any)' group, and thus impact on overall success rates.

The quarter in which an automatic renewal occurred has only been asked since Q4 2012. The table below is therefore based on all those applying for an overdraft Q2 2012 to Q3 2013 (as elsewhere) but then limited to those interviewed in Q4 2012 to Q3 2013, so that the automatic renewal data and the overdraft application data are both reported on the same basis.

The table below shows the impact on overall overdraft success rates when the automatically renewed overdrafts are included. There have been many more automatic overdraft renewals than Type 1 events, so the impact has been considerable. Including those that had had an automatic renewal increases the overdraft success rate from 73% to 87%:

Final outcome (Overdraft): Sought new/renewed facility Q2 12-Q3 13 AND interviewed Q4 12 –Q3 13	Type 1 events	Type 1 + automatic renewal
Unweighted base:	***1523***	***2933***
Offered what wanted and took it	58%	27%
Took overdraft after issues	15%	7%
Automatic renewal	-	*53%*
Have overdraft (any)	***73%***	***87%***
Took another form of funding	4%	2%
No facility	24%	11%

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

The impact of personal borrowing on overdraft applications

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

9% of those making an application in the past 18 months (Q2 2012 to Q3 2013) who were asked this question, said that the facility they sought was in a personal capacity. On this limited sample, a high proportion of these personal overdraft applications were from 0 employee SMEs and/or those seeking a facility of less than £5,000.

Sample sizes are too small currently to report on the outcome of the application by whether it was a personal or business application. Initial data suggests those whilst those applying in a personal name were slightly more likely to have been offered what they wanted and taken it, *overall* success rates were similar.

The equivalent question was also asked for the first time in Q4 2012 of those who reported the automatic renewal of an overdraft facility. Amongst those asked the question, and who reported an automatic renewal between Q2 2012 and Q3 2013, 16% said that the facility was in a personal capacity. As with Type 1 events, such renewals were typically for 0 employee SMEs and for a facility of less than £5,000.

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

Profile of loan applicants by initial response

Having explored overdraft applications and renewals, the next section of this chapter looks at loan applications and renewals. The profile of loan applicants (who applied Q2 2012 to Q3 2013) receiving each initial answer from their bank varied:

Initial bank response	Profile- all seeking loan Q2 2012 to Q3 2013
Those offered what wanted (42% of applicants)	These were typically more established businesses – 66% had been trading for 10 years or more compared to 45% of all applicants, while 31% had a minimal/low risk rating (compared to 20% of all applicants). 51% had employees (compared to 43% of all applicants) They were also more likely to be looking to renew existing facilities (20% of those offered what they wanted v 11% of all applicants), or seeking a new loan but not their first (39% of those offered what they wanted v 35% of all applicants).
Those offered less than wanted (8% of applicants)	These applicants were somewhat more likely to be a Start (38% of those offered less than they wanted v 22% of all applicants), while 58% had employees (compared to 43% of all applicants). 64% had a worse than average external risk rating, compared to 49% of all applicants. 49% of those offered less than they wanted were applying for their first loan, compared to 39% overall.
Those offered unfavourable T&C (8% of applicants)	These applicants were more likely to have been in business for 2-5 years (42% of those who had issues compared to 18% of applicants overall). They were also more likely to have a worse than average external risk rating (69% v 49% of applicants overall). They were more likely to be looking to re-finance onto a cheaper deal (12% of those who had issues v 3% of all applicants) or to be a first time applicant (44% of those who had issues v 39% of all applicants).
Those initially declined (42% of applicants)	These applicants were slightly smaller (33% of those declined had employees v 43% of all applicants), and more likely to be a Start (34% of those declined v 22% of all applicants). 57% of those initially declined had a worse than average external risk rating (v 49% of all applicants). Just over half, 52%, were applying for their first ever loan (v 39% of all applicants).

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

Summarised below for all applications made in the 18 months Q2 2012 to Q3 2013 (and reported to date), is what happened after the bank's initial response to the loan application and any issues around the application. Base sizes for some groups remain small.

Initial bank response	Subsequent events – all seeking loan Q2 2012 to Q3 2013
Offered what wanted (42% of applicants) Q159-164	95% of those offered what they wanted went on to take the loan with no problems. 4% took the loan after some issues (typically legal work / valuation being required, the initial offer being too expensive or having to go in for an interview). Almost all took the full amount they had originally asked for. <1% of these applicants decided not to proceed with the loan they had been offered.
Issue: Offered less than wanted (8% of applicants) Q180-190	These SMEs were typically offered 70% or more of what they asked for. 34% of those offered less than they wanted said that they had not been given a reason (excluding those who could not remember). The main reasons for being offered less were around: • Security issues – mentioned by 22% of those offered less than they wanted • Credit history – mentioned by 14% • Too much existing borrowing - mentioned by 6% On a small base, the advice offered at this stage was more likely to be rated poor (37%) than good (18%) while 23% were not given any advice. 18% managed to negotiate a better deal, predominantly with the original bank. 6 out of 10, 63%, accepted the lower amount offered (almost all with the original bank applied to). 2% took other borrowing and 16% 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.

Continued

Continued

Issue: Offered unfavourable T&C (8% of applicants) Q191-195	The unfavourable terms (excluding those who didn't know) typically related to the proposed interest rate (49%). Issues around security (level, type requested and/or cost) were mentioned by 12% of these applicants, and the proposed fee by 1 in 10 (9%). 41% managed to negotiate a better deal (at either the original bank or another bank) while 19% accepted the deal offered, most with the original bank. 5% took another form of funding. 36% of applicants ended the process with no facility. For those with a facility, the amount of such loans was typically in line with their original request.

The subsequent journey – those that were declined for a loan

The table below details the subsequent journey of those whose loan application was initially declined (42% of applicants). Some analysis by date of application is now possible:

Initially declined	Subsequent events – all seeking loan Q2 2012 to Q3 2013
Reasons for decline Q165	21% of the SMEs that were initially declined said that they had not been given a reason for the decline (excluding those who could not remember the reasons given), and this was more likely amongst smaller applicants. • 27% said that the decline related to their personal and/or business credit history (especially smaller applicants) • 21% mentioned issues around security • 1 in 10 said that they had a weak balance sheet (9%) while 5% said that the bank had not been satisfied with their financial forecasts Analysis by date of application showed that since 2011, declined applicants have become more likely to be given a reason for the decline. Security and credit history remain the two main issues.
How decline was communicated Q165a-b	These applicants were asked how the loan decision had been communicated to them, and whether they were told enough to explain why the decision had been made. Communication methods were similar to those for the equivalent overdraft applications, in that 77% said the decision was communicated verbally, while 32% received a written response (a few received both). Analysis by date of application showed that applicants in 2012 were less likely to report receiving the decision in writing. Those declined for a loan remained somewhat less likely to say that they had been given enough information to explain the decision (46%) than those informed about an overdraft decline (52%).

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Advice and alternatives Q166 and 171-175	14% of those initially declined said that the bank had offered them an alternative form of funding to the declined loan (typically an overdraft), or suggested any alternative sources of external finance. Two-thirds (67%) thought that the advice the bank had offered at that stage had been poor, 7% thought it had been good, while 13% had not been offered any advice. Whilst only a minority rate the advice provided as good, that proportion has increased from 3% for applications made in 2010 to 7% in 2012. More generally, 7% of those initially declined reported that they had been referred to any other sources of help or advice by the bank, while a further 20% sought their own external advice without a recommendation, with no clear trend over time. On a small base, three-quarters found these external sources of use, also with no clear trend over time.

Initially declined	Subsequent events - all seeking loan Q2 2012 to Q3 2013
Appeals Q168-170	From April 2011, a new appeals procedure was introduced. The analysis below is based as elsewhere in this report on all applications made in the last 18 months (Q2 2012 to Q3 2013). Amongst this group of applicants who were initially declined, 7% said that they were made aware of the appeals process by their bank (excluding DK), and there was little evidence of this changing over time. 16% of those made aware went on to appeal, the equivalent of around 1% of SMEs that had been declined, providing anecdotal evidence at most about the appeals process. Of these 6 declined applicants, 1 appealed and the bank changed its decision, 4 appealed but the decision was upheld, 1 appealed but had not heard yet. The 21 applicants who were aware but did not appeal typically cited the view that they did not think it would have changed anything.
Outcome Q176-179	At the end of this period, 9% of those initially declined for a loan had managed to secure a loan with either the original bank or a new supplier. 19% had secured alternative funding, with friends/family and/or personal borrowing most likely to be mentioned. 72% of those initially declined did not have a facility at all, and this has changed very little year on year 2010-2012.

The final outcome – loan

At the end of the various 'loan' journeys described above, respondents reported on the final outcome of their application for a new or renewed loan facility. This section is based on the new definition of SMEs that made an application, and have received a response, for a new or renewed loan facility during the most recent 18 month period, which for this report is between Q2 2012 and Q3 2013, irrespective of when they were interviewed.

Just over half, 57%, of loan applicants now have a loan facility. 35% of applicants ended the process with no facility.

Final outcome (Loan): **Sought** new/renewed facility Q2 12- Q3 13	All loan Type 1 applicants
Unweighted base:	*883*
Offered what wanted and took it	40%
Took loan after issues	17%
Have loan (any)	*57%*
Took another form of funding	9%
No facility	35%

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

Before looking at the results in more detail for loan applications made in the latest 18 month period, the summary table on the next page records the 'Have loan (any)' figure for a series of 18 month periods, stretching back to Q1 2011, by key demographics. Note that, for all but the first two time periods shown, data is still being added to each of these time periods, indicated by an * (as respondents in Q4 2013 can report a facility from Q4 2012 or later).

This shows fairly stable success rates, albeit based on low base sizes for some sub-groups. Over time, success rates for those with a minimal or low risk rating have remained steady, but there has been a decline in the success rate amongst those with an average or worse than average risk rating:

% of applicants ending process with loan facility Over time – row percentages By 18 month period of application	18 month periods Q1 11 Q2 12	 Q2 11 Q3 12	 Q3 11 Q4 12*	 Q4 11 Q1 13*	 Q1 12 Q2 13*	 Q2 12 Q3 13*
All SMEs	58%	58%	57%	59%	58%	57%
0 employee	52%	52%	50%	55%	53%	50%
1-9 employees	65%	65%	63%	61%	61%	61%
10-49 employees	78%	78%	80%	79%	83%	83%
50-249 employees	93%	91%	91%	89%	88%	86%
Minimal external risk rating	84%	86%	89%	87%	89%	88%
Low external risk rating	75%	71%	70%	77%	73%	73%
Average external risk rating	64%	62%	60%	60%	57%	57%
Worse than average external risk rating	54%	55%	53%	53%	52%	47%
Agriculture	76%	75%	77%	82%	86%	84%
Manufacturing	57%	54%	59%	53%	55%	59%
Construction	44%	42%	40%	44%	43%	46%
Wholesale/Retail	73%	70%	66%	70%	61%	53%
Hotels and Restaurants	61%	64%	66%	63%	62%	65%
Transport	60%	60%	58%	51%	52%	48%
Property/Business Services etc.	61%	56%	51%	57%	55%	53%
Health	66%	67%	71%	56%	49%	50%
Other Community	44%	53%	57%	65%	74%	86%
First time applicants	45%	47%	46%	43%	41%	38%
Other new facility	60%	60%	60%	63%	65%	61%
Renewals	85%	86%	82%	83%	81%	92%

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

Final outcome – loan applications made Q2 2012 to Q3 2013

By size of business, smaller loan applicants remained less likely to have a facility. 8 out of 10 or more of applicants with 10-249 employees had a loan, while 4 out of 10 of the smallest applicants ended the process with no facility:

Final outcome (Loan): **Sought** new/renewed facility Q2 12- Q3 13	Total	0 emps	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*883*	*100*	*294*	*315*	*174*
Offered what wanted and took it	40%	35%	43%	63%	68%
Took loan after issues	17%	15%	18%	21%	18%
Have loan (any)	*57%*	*50%*	*61%*	*83%*	*86%*
Took another form of funding	9%	9%	9%	4%	2%
No facility	35%	40%	30%	12%	11%

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

As with overdrafts, there was a clear difference in outcome by external risk rating. Almost 9 out of 10 applicants with a minimal external risk rating had a loan (88%), compared to half of applicants with a worse than average external risk rating (47%):

Final outcome (Loan): **Sought** new/renewed facility Q2 12- Q3 13	Total	Min	Low	Avge	Worse/ Avge
Unweighted base:	*883*	*146*	*191*	*257*	*215*
Offered what wanted and took it	40%	72%	62%	43%	31%
Took loan after issues	17%	16%	11%	14%	16%
Have loan (any)	*57%*	*88%*	*73%*	*57%*	*47%*
Took another form of funding	9%	1%	9%	9%	10%
No facility	35%	10%	18%	34%	44%

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

Smaller overall sample sizes of applicants mean that analysis by sector is more limited, and the results below should be viewed as indicative for many sectors. Results are consistent over time, with applicants from the Construction sector remaining more likely to end the process without a facility while those in Agriculture were the most likely to have a loan, along with those in the Other Community sector:

Final outcome (Loan): **Sought** new/renewed facility Q2 12- Q3 13	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*90**	*96**	*116*	*82**	*97**	*75**	*136*	*97**	*94**
Offered what wanted and took it	77%	40%	37%	37%	34%	36%	32%	28%	56%
Took loan after issues	7%	19%	9%	16%	31%	12%	21%	22%	30%
Have loan (any)	*84%*	*59%*	*46%*	*53%*	*65%*	*48%*	*53%*	*50%*	*86%*
Took another form of funding	10%	19%	8%	17%	7%	8%	2%	9%	4%
No facility	6%	23%	47%	29%	28%	44%	45%	41%	9%

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

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

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

Those applying for their first loan were more likely to end the process with no facility, with a higher success rate for those applying for a new loan, but not their first. Almost all those who renewed an existing loan now have a facility:

Final outcome (Loan): **Sought** new/renewed facility Q2 12- Q3 13	Total	1st loan	New loan	Renew loan
Unweighted base:	*883*	*219*	*323*	*150*
Offered what wanted and took it	40%	23%	45%	77%
Took loan after issues	17%	15%	16%	15%
Have loan (any)	*57%*	*38%*	*61%*	*92%*
Took another form of funding	9%	12%	8%	3%
No facility	35%	50%	30%	5%

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

As with overdrafts, there were differences in outcome for loan applications by age of business and a strong link between Starts and first-time applications: 75% of Starts that applied were applying for their first loan, and 44% of all first time loan applications were from Starts:

Final outcome (Loan): **Sought** new/renewed facility Q2 12- Q3 13. By age of business	Starts	2-5 yrs	6-9 yrs	10-15 yrs	15+ yrs
Unweighted base:	*86**	*115*	*108*	*139*	*435*
Offered what wanted and took it	14%	31%	32%	48%	67%
Took loan after issues	16%	20%	29%	8%	14%
Have loan (any)	*30%*	*51%*	*61%*	*56%*	*81%*
Took another form of funding	12%	16%	6%	9%	3%
No facility	58%	33%	33%	35%	16%

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

Small base sizes limit the analysis possible by size of facility over time. In the first half of 2012, 14% of loans sought were for £100,000 or more, increasing in the second half of the year to 26%. Half of smaller applications (under £100,000) were typically successful, with no consistent pattern over time. Applications for larger amounts (£100,000+) were more likely to be successful, and success rates improved slightly over time, from around 6 out of 10 to around 7 out of 10 of these larger applications being successful.

Final outcome by date of application – loans

The table below shows the outcome by date of application. Since the start of 2012, a fairly consistent 1 in 3 applications has resulted in no loan facility. The proportion with a loan has varied, with no consistent pattern over time. The balance is made up by those who took another form of funding, which has also varied over time.

Note that in Q3 2012, a higher proportion of loans were initially declined (as reported earlier in this chapter), and the final success rate is also currently lower for this quarter (53%).

There are currently too few applications reported for Q2 2013 to include in the table below:

Final outcome (Loan): SMEs seeking new/renewed facility By date of application	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4* 12	Q1* 13	Q2* 13
Unweighted base:	*169*	*290*	*253*	*267*	*293*	*287*	*225*	*189*	*197*	*145*	
Offered what wanted and took it	48%	48%	62%	39%	47%	52%	44%	35%	45%	46%	
Took loan after issues	6%	7%	7%	13%	9%	8%	17%	18%	21%	13%	
Have loan (any)	***54%***	***55%***	***69%***	***52%***	***56%***	***60%***	***63%***	***53%***	***66%***	***59%***	
Took another form of funding	6%	11%	7%	4%	14%	8%	4%	13%	4%	11%	
No facility	39%	34%	24%	44%	30%	32%	35%	34%	30%	30%	

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

Analysis reported earlier in this chapter for overdraft applications identified some patterns in success rates for a particular quarter over time as more data is gathered about applications made in that quarter (as each features in five waves of interviewing). A similar analysis for loan applications over time showed larger, but not consistent, fluctuations in the success rate as more data is gathered for an individual quarter, but these fluctuations will in part be a reflection of the smaller sample sizes applying for a loan.

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

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

- Starts: the proportion has increased from 15% in 2010 to 25% in 2013 to date
- Making their first application: the proportion increased from 30% in 2010 to 43% in 2012, and is currently 36% for 2013
- Those with a worse than average external risk rating: having been stable 2010-2012 at 49%, the proportion has increased to 54% for 2013 to date

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

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

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

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

Final outcome (Loan): SMEs seeking new/renewed facility By date of application	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12*	Q3 12	Q4* 12	Q1* 13
Unweighted base:	*169*	*290*	*253*	*267*	*293*	*287*	*225*	*189*	*197*	*145*
Have loan (any)	*54%*	*55%*	*69%*	*52%*	*56%*	*60%*	*63%*	*53%*	*66%*	*59%*
Predicted success rate	60%	59%	61%	57%	61%	55%	59%	55%	60%	59%
Difference	-6	-4	+8	-5	-5	+5	+4	-2	+6	0

Final outcome of loan application by date of application

Two quarters reported markedly lower actual success rates: Q3 2011 and Q3 2012. This analysis shows that the lower success rate in Q3 2012 was mostly accounted for by the profile of applicants in that quarter (as the model predicted a lower success rate compared to Q2 or Q4), but that this was less the case for Q3 2011.

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

Data is only available for the first quarter of 2013, but this analysis shows that the success rate currently reported is in line with the model's prediction.

The impact of personal borrowing on loan applications

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

16% of those making a loan application in the past 18 months (Q2 2012 to Q3 2013) who were asked this question, said that the facility they sought was in a personal capacity. This is a slightly higher proportion than for overdrafts (9%).

On this currently limited sample, many of these applications were from 0 employee or 1-9 employee SMEs.

Sample sizes are too small currently to report on the outcome of the application by whether it was a personal or business application, but initial data suggests the proportion ending the process with no loan facility was very similar for the two groups.

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

Outcome analysis over time – new and renewed facilities

This chapter has reported separately on the overdraft and loan journeys made, from initial application to the final outcome. It has shown how, for both loans and overdrafts, those applying for new money typically had a different experience from those seeking to renew an existing facility. This final piece of analysis looks specifically at applications for new 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 any credit issues (missed loan repayment, problems getting trade credit etc.) reported by the applicant were also a significant predictor of not being successful with an application for new funds.

The analysis below, as in previous reports, has been based on all applications made, rather than all SMEs (so an SME that had both a loan and an overdraft application will appear twice), and on all applications recorded by the SME Finance Monitor **since it started**. This time, in line with the analysis elsewhere in this chapter, results are *also* shown just for applications made in the **last 18 months** (between Q2 2012 and Q3 2013)

The table below shows that those seeking to renew an existing facility were almost twice as likely to be offered what they wanted as those seeking new funds. It also shows that the success rate for more recent renewals is in line with the overall figure, while for new funds, the recent success rate of 46% is somewhat below the overall rate of 53%:

Final outcome Loans and Overdrafts combined	New funds – all applications	Renewals – all applications	New funds sought Q212-Q313	Renewals sought Q212-Q313
Unweighted base of applications:	***3659***	***4212***	***1057***	***1325***
Offered what wanted and took it	39%	81%	32%	79%
Took facility after issues	14%	11%	14%	15%
Have facility (any)	***53%***	***92%***	***46%***	***94%***
Took another form of funding	8%	1%	8%	1%
No facility	39%	7%	46%	4%

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

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

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

The outcome of applications for **renewed** loans/overdrafts over time is detailed below. It shows 9 out of 10 applicants ended the process with a facility, with renewal applications made in Q1 2012 somewhat less likely to be successful (although most, 85%, were). More facilities in Q3 2012 were agreed 'after issues' (21% - and this is also the case for applications in Q2 2013 reported to date):

Final outcome (Overdraft+ Loan): Applications for renewed facilities By date of application	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4* 12	Q1* 13	Q2* 13
Unweighted base of applications:	*251*	*492*	*383*	*405*	*393*	*451*	*308*	*256*	*292*	*253*	*148*
Offered what wanted and took it	83%	83%	78%	77%	88%	74%	81%	74%	81%	81%	72%
Took facility after issues	9%	10%	11%	10%	9%	11%	11%	21%	16%	14%	20%
Have facility (any)	*92%*	*93%*	*89%*	*87%*	*97%*	*85%*	*92%*	*95%*	*97%*	*95%*	*92%*
Took another form of funding	*	2%	3%	1%	1%	*	1%	1%	2%	2%	*
No facility	8%	6%	8%	12%	2%	15%	7%	4%	1%	3%	8%

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

Applications for **new** funds (whether first time applicants or not) make up just over half of all applications. Around half of applicants for new money ended the process with a facility, with around 4 out of 10 ending the process with no facility, and this has been relatively consistent quarter to quarter.

Indication for applications made in Q1 2013 are that more applicants ended the process with no facility (currently 57%). Initial data for Q2 2013 suggests that this lower success rate has not been repeated in the more recent quarter, and this will be monitored as more data is gathered for applications made in 2013:

Final outcome (Overdraft+ Loan): Applications for new money By date of application	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4* 12	Q1* 13	Q2* 13
Unweighted base of applications:	*242*	*468*	*347*	*377*	*381*	*413*	*254*	*215*	*247*	*197*	*108*
Offered what wanted and took it	44%	40%	46%	39%	45%	41%	31%	37%	37%	26%	25%
Took facility after issues	13%	13%	12%	16%	8%	13%	16%	15%	16%	7%	23%
Have facility (any)	*57%*	*53%*	*58%*	*55%*	*53%*	*54%*	*47%*	*52%*	*53%*	*33%*	*48%*
Took another form of funding	11%	12%	10%	7%	7%	7%	5%	8%	6%	10%	14%
No facility	32%	35%	33%	38%	40%	39%	48%	40%	41%	57%	38%

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

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

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

Final outcome – first time applicants Loans and Overdrafts combined By application date	All FTAs	In 2010	In 2011	In 2012*	In 2013*
Unweighted base of applications:	*1491*	*151*	*543*	*558*	*165*
Offered what wanted and took it	31%	46%	30%	29%	25%
Took facility after issues	9%	8%	7%	12%	5%
Have facility (any)	*40%*	*54%*	*37%*	*41%*	*30%*
Took another form of funding	9%	4%	11%	7%	11%
No facility	52%	42%	53%	52%	59%

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

For those applying for a new facility, but not their first, the proportion ending the process with a facility varied relatively little 2010-2012. Interim data for 2013 suggests more applicants ended the process with no facility (37%), and this will be monitored as more data is gathered:

Final outcome – other new money Loans and Overdrafts combined By application date	All other new money	In 2010	In 2011	In 2012*	In 2013*
Unweighted base of applications:	*2168*	*327*	*1030*	*571*	*176*
Offered what wanted and took it	50%	46%	55%	52%	30%
Took facility after issues	20%	22%	19%	20%	25%
Have facility (any)	*70%*	*68%*	*74%*	*72%*	*55%*
Took another form of funding	7%	11%	7%	5%	9%
No facility	23%	21%	19%	22%	37%

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

Previous analysis has shown that external risk rating has been a key predictor of success rates. Across all applications made to date, those applying for their first facility were the most likely to have a worse than average risk rating – for 2013 to date 73% of first time applicants had a worse than average external risk rating.

All three applicant groups have seen an increase over time in the proportion of applicants with a worse than average risk rating, as the table below shows. Although on a limited base to date, the increase in applicants with a worse than average risk rating in 2013, particularly for those looking for 'other' new money, may help explain the lower success rates currently reported for this period:

% of applicants with worse than average external risk rating (Overdraft+ Loan): By year of application (base varies)	2010	2011	2012*	2013*
First time applicants	61%	69%	72%	73%
Other new money	44%	49%	49%	56%
Renewals	33%	34%	41%	44%

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

For the SME population as a whole, the proportion with a worse than average external risk rating has risen from 50% in 2011 to 53% in 2012 and is currently 55% across the first two quarters of 2013.

Further analysis of first time applicants

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

This Q4 2012 analysis is repeated here, for information, and will be updated in a subsequent report.

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

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

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

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

This analysis will be updated again for the Q4 2013 report.

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

84% of overdrafts and 61% of loans successfully sought in Q2 2012 to Q3 2013 were in place within 2 weeks. Larger facilities, and those where security was required typically took longer to put in place.

More than 9 out of 10 successful applicants said that their facility was in place in good time for when they needed it (95% for overdrafts and 93% for loans). Those waiting more than a month for their facility were less likely to say this (61% if they had waited more than a month for an overdraft to be put in place, 76% for a loan).

Most of those who chose not to take the facility offered would ideally have had a facility, with cost and security the main barriers. Amongst these SMEs, and those who were declined, the main impact of not having a facility was that running the business was more of a struggle, they had had to make cutbacks, or they had not expanded as they would have wished. A quarter felt their bank had treated them fairly, and a similar proportion thought they would have been treated better at a different bank.

Those ending the application process with no facility were less likely to be satisfied with their bank overall (34% for 2013 to date), than those who were successful (82%), but Permanent non-borrowers remained more likely to be satisfied (86%). Overall satisfaction for all SMEs was stable over time (currently 81% for 2013), but declining for those who would have liked to seek finance but something stopped them: amongst these 'Would-be seekers' satisfaction fell from 73% in 2011 to 62% in 2013 to date.

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

New facility granted

In a new question asked from Q4 2012, successful respondents were asked how long it had taken to put their new facility in place and whether this was in 'good time' for when they needed it. In line with the new analysis approach elsewhere, the table below is based on all applications made in the last 18 months, Q2 2012 to Q3 2013, where the respondent was asked this question.

8 out of 10 overdrafts were in place within 2 weeks (84%), while 6 out of 10 of loans were in place in this time period (61%):

Successful Type 1 applicants Time taken to put facility in place **Sought** new/renewed facility Q2 12- Q3 13*	Overdrafts	Loans
Unweighted base:	*1247*	*518*
Within 1 week	74%	36%
Within 2 weeks	10%	25%
Within 3-4 weeks	9%	17%
Within 1-2 months	5%	13%
Longer than this	1%	7%
Not in place yet	*	2%

Q101a and Q196a All SMEs that have applied/renewed Q2 2012 to Q3 2013, excluding DK, and interviewed from Q4 2012 onwards

Analysis showed that secured loans were less likely to be in place within a week (27%) than unsecured ones (45%), reflecting the security processes that need to be undertaken. There is also a difference, although less marked, between secured (69%) and unsecured (76%) overdrafts that were in place within a week.

Facilities for smaller SMEs were more likely to be made available within a week (75% for overdrafts, 38% for loans where the SME had 0-9 employees) than those for larger SMEs (58% for overdrafts and 26% for loans where the SME had 50-249 employees). In terms of facilities being made available within a *month*, there was less of a difference by size for overdrafts (94% for smaller SMEs v 85% for larger ones), but a difference still existed for loans (80% for smaller SMEs v 62% for larger SMEs).

For both overdrafts and loans, most applicants agreed that the facility had been put in place in good time for when it was needed (95% for overdrafts and 93% for loans). Despite typically waiting longer for their facility, bigger applicants were only slightly less likely to agree:

- Amongst applicants with 0-9 employees, 96% said their overdraft was made available in good time, while for loans it was 94%.
- Amongst larger applicants 94% said their overdraft was made available in good time, while for loans it was 90%.

Analysis by the length of time taken for the facility to be put in place showed that overall it was those waiting a month or more who were less likely to say that the facility had been put in place in good time (61% if they had waited a month for more or an overdraft, 76% if they had waited that long for a loan).

Impact of being unsuccessful

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

The questions asked in this section of the questionnaire were revised in Q2 2013. This means that only those who *chose* not to have a facility (rather than being declined by the bank) were asked whether they would have ideally wanted to have a loan / overdraft. As result base sizes are very limited at this stage (22 and 20 respondents respectively) but show that most of those who applied for an overdraft and around 6 out of 10 of those who applied for a loan would ideally now have a facility. The main barriers were the expense of the facility, the security required, and a perception that the bank did not want to lend to them.

A broader question around the *impact* of not having the facility they had sought, was asked both of those who chose not to have a facility (but would ideally have wanted one) and those who were declined by the bank. For Q2 and Q3 2013 combined, this was the equivalent of 3% of all SMEs, so, again, base sizes are relatively low (188 for overdrafts and 156 for loans). The key issues were seen as:

- Running the business is more of a struggle (mentioned by around half for both loans and overdrafts)
- Have had to make cutbacks on spending (mentioned by about 1 in 5)
- Not expanded / improved the business as would have hoped (each mentioned by around 1 in 6, and slightly more likely to be mentioned for loans)

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

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

- 23% agreed that the bank had treated them fairly (66% disagreed).
- Slightly more, 27%, thought that they might have been treated more favourably at another bank, while half, 48%, disagreed.
- 45% felt that they were now seriously considering a change of bank (the equivalent of around 1% of *all* SMEs).

Overall bank satisfaction

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

Overall satisfaction has remained stable over time – for 2013 to date the overall satisfaction score is 81%, made up of 39% who are 'very satisfied' and 42% who are 'fairly satisfied' with their main bank.

Very/fairly satisfied with main bank Over time – row percentages	2011	2012	2013
Overall	*81%*	*80%*	*81%*
0 emps	82%	81%	81%
1-9 emps	78%	77%	79%
10-49 emps	80%	80%	83%
50-249 emps	85%	84%	87%
PNB	87%	86%	86%
Type 1 event: facility at main bank	82%	81%	82%
Type 1 event: no facility at main bank	32%	36%	34%
Would be seekers of finance	73%	68%	62%
Happy non-seekers of finance	87%	85%	85%

Q220

The biggest change in levels of satisfaction has been amongst the 'Would-be seekers' who wanted to apply for a facility but felt that something stopped them doing so, where overall satisfaction dropped from 73% in 2011 to 62% in 2013 to date.

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

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

65% of overdrafts successfully applied for between Q2 2012 and Q3 2013 were unsecured. Smaller facilities were more likely to be unsecured, ranging from 80% of those granted for £10,000 or less to 29% of facilities of £100,000 or more.

Over time, a higher proportion of overdraft facilities granted have been secured. In H1 2013 twice as many overdrafts granted for £25,000 or less were secured as was the case in H1 2011.

Half, 56%, of all business loans successfully applied for between Q2 2012 and Q3 2013 were unsecured. 26% of business loans were secured and 18% were commercial mortgages. As with overdrafts, smaller facilities were more likely to be unsecured, ranging from 78% of loans granted for less than £25,000 to 13% of those granted for £100,000 or more.

55% of overdrafts successfully applied for between Q2 2012 and Q3 2013 were on a fixed rate. The median fixed rate for overdrafts was 4.1%, decreasing with the size of facility, and there were indications that more SMEs were paying 3% or less for their facility over time.

Loans were more likely to be on a fixed rate (72%), with a median rate of 5.0% which has remained stable over time. As with overdrafts, larger facilities were typically charged at a lower rate.

Overdraft facilities on a variable rate were charged a median margin of +3%, and a similar median margin was charged for loans (+3.3%).

Three quarters of successful overdraft applicants (77%) and two thirds of loan applicants (64%) paid a fee. The median overdraft fee, where paid, was £99 while for loans it was £97. Amongst those who knew both the amount borrowed and the fee paid, 69% paid a fee for their overdraft that was the equivalent of 2% or less of the facility granted. For loans the figure was 74%.

This chapter covers the security, interest rates and fees pertaining to overdrafts and loans granted after a Type 1 borrowing event (that is an application or a renewal). Analysis is based on the new definition of SMEs that made an application for a new or renewed overdraft or loan facility during the most recent 18 month period which for this report is between Q2 2012 and Q3 2013, irrespective of when they were interviewed.

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

Overdrafts: context

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

Of all new overdrafts successfully applied for Q2 2012 to Q3 2013:

- 51% were granted to 0 employee SMEs
- 40% to 1-9 employee SMEs
- 7% to 10-49 employee SMEs
- 1% to 50-249 employee SMEs

78% of new/renewed overdrafts granted between Q2 2012 and Q3 2013 were for £25,000 or less. This varied by size from 91% of overdrafts granted to SMEs with 0 employees being under £25,000 to 16% of those granted to those with 50-249 employees.

10% of successful new/renewed overdrafts in this period were in a personal name rather than that of the business (of those asked the question, which has been included from Q4 2012). This varies from 15% of 0 employee businesses with an overdraft who were asked this question, to 4% of those with 50-249 employees.

Analysis of the overdraft facility granted by application date reported below shows that in 2011 and the first half of 2012 an increasing proportion of facilities agreed were for £5,000 or less (reflecting a similar increase in the proportion of applicants requesting a facility of that size). From Q3 2012 onwards though, around 6 out of 10 overdrafts granted have been for £5,000 or more compared to around 50% in previous quarters:

Overdraft facility granted By date of application	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4* 12	Q1* 13	Q2* 13
Unweighted base:	*278*	*577*	*424*	*462*	*461*	*551*	*355*	*300*	*349*	*295*	*176*
Less than £5,000	35%	43%	47%	52%	49%	45%	50%	39%	38%	43%	42%
£5-25,000	44%	32%	33%	31%	29%	37%	31%	43%	36%	35%	30%
£25,000+	21%	25%	21%	17%	22%	18%	19%	19%	26%	23%	28%

Overdraft facility granted – all successful applicants that recall amount granted

Overdrafts: Security

A third (35%) of Type 1 overdrafts (i.e. a new or renewed facility not including automatic renewals, successfully applied for between Q2 2012 and Q3 2013) required security.

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

Security required (Overdraft): **Successfully sought** new/renewed overdraft Q2 12- Q3 13	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*1509*	*121*	*498*	*599*	*291*
Property (any)	24%	14%	32%	43%	43%
Charge over business property	*11%*	*7%*	*14%*	*28%*	*37%*
Charge over personal property	*13%*	*8%*	*18%*	*16%*	*9%*
Directors/personal guarantee	4%	2%	6%	10%	7%
Other security (any)	9%	8%	10%	15%	20%
Any security	35%	24%	44%	59%	62%
No security required	65%	76%	56%	41%	38%

Q 106 All SMEs with new/renewed overdraft excluding DK

Secured overdrafts were more likely as the size of overdraft increased. For those successfully applied for between Q2 2012 and Q3 2013:

- 20% of overdrafts granted for £10,000 or less were secured
- 46% of overdrafts granted for £11-24,999
- 62% of overdrafts granted for £25-99,999
- 71% of overdrafts granted for £100,000 or more were secured

Analysed by date of application (at the half-year level), overdraft facilities successfully applied for in the second half of 2012 and the first half of 2013 were somewhat more likely to be secured than those applied for in 2011, with some increase across all size bands.

Overdrafts of less than £25,000 in H1 2013 were around twice as likely to be secured as those in H1 2011:

% of overdraft facilities that were secured, by size of facility and date applied for Row percentages	H1 2011	H2 2011	H1 2012	H2 2012*	H1 2013*
All overdrafts	22%	24%	28%	34%	35%
Overdrafts of <£10,000	9%	10%	18%	17%	20%
Overdrafts of £10-25,000	28%	39%	33%	50%	50%
Overdrafts of £25-100,000	45%	55%	54%	65%	54%
Overdrafts of more than £100,000	57%	72%	77%	63%	71%

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

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

Overdrafts: Rates

Amongst those who gave an answer, just under half (45%) said that their new/renewed overdraft was on a variable rate:

Type of rate (overdraft) by facility granted: **Successfully sought** new/renewed overdraft Q2 12-Q3 13 excl. DK	Total	<£10k	£10-25k	£25-100k	£100k+
Unweighted base:	*1255*	*318*	*209*	*315*	*413*
Variable rate lending	45%	45%	41%	49%	47%
Fixed rate lending	55%	55%	59%	51%	53%

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

As the table below shows, when analysed by date of application the proportion of variable rate lending increased over both 2012 and Q1 of 2013. Initial data for applications in Q2 2013 suggests that this trend has not continued:

New/renewed overdraft rate By date of application	Q410	Q111	Q211	Q311	Q411	Q112	Q212	Q312	Q412*	Q113*	Q213*
Unweighted base:	*241*	*495*	*345*	*376*	*383*	*448*	*291*	*241*	*278*	*239*	*147*
Variable rate lending	54%	55%	53%	49%	38%	40%	44%	46%	46%	47%	41%
Fixed rate lending	46%	45%	47%	51%	62%	60%	56%	54%	54%	53%	59%

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

Most of those on a variable rate overdraft (agreed in the last 18 months) said that the rate was linked to Base Rate (93%).

40% of those with a new/renewed variable rate overdraft and 32% of those with a fixed rate overdraft were unable / refused to say what rate they were paying. These 'Don't know' answers have been excluded from the analysis below, but as a result base sizes are small in some areas.

Both the average and median variable rate margins paid remained lower for facilities in excess of £100,000, and the overall average and median margins were unchanged from the previous 18 months period (Q1 2012 to Q2 2013):

Variable margin (overdraft) by facility granted: **Successfully sought** new/renewed overdraft Q2 12-Q3 13 excl. DK	Total	<£10k	£10-25k	£25-100k	£100k+
Unweighted base:	*559*	*121*	*93**	*150*	*195*
Less than 2%	17%	17%	17%	13%	29%
2.01-4%	48%	45%	38%	62%	61%
4.01-6%	12%	7%	30%	15%	6%
6%+	22%	31%	15%	10%	4%
Average margin above Base/LIBOR:	*+4.4%*	*+4.9%*	*+4.2%*	*+3.8%*	*+2.8%*
Median margin above Base/LIBOR	*+3.0%*	*+3.0%*	*+3.4%*	*+3.0%*	*+2.9%*

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

Analysis by date of application is limited by the number of respondents answering this question, and so has been based on a half year rather than quarterly analysis. The table below shows an increase in the proportion of overdrafts being charged at +6% or more, to 30% for those overdrafts recorded to date for H1 2013:

New/renewed overdraft variable rate By application date (half year)	H210	H111	H211	H112	H212*	H113*
Unweighted base:	*175*	*419*	*346*	*311*	*243*	*168*
<4%	70%	65%	66%	63%	68%	57%
4-6%	16%	27%	13%	23%	7%	13%
6%+	13%	8%	21%	14%	25%	30%
Average margin above Base/LIBOR:	+3.6%	+3.8%	+5.1%	+4.1%	+4.5%	+4.6%

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

The overall average and median fixed rate margins for Q2 2012 to Q3 2013 were slightly lower than for the previous 18 month period (when the average margin was 5.5% and the median margin 4.3%). As with the variable rate margins, those borrowing more on a fixed rate paid, on average, a lower rate:

Fixed rate (overdraft) by facility granted: **Successfully sought** new/renewed overdraft Q2 12-Q3 13 excl. DK	Total	<£10k	£10-25k	£25-100k	£100k+
Unweighted base:	*485*	*112*	*84**	*117*	*172*
Less than 3%	43%	36%	33%	66%	62%
3.01-6%	40%	45%	41%	28%	30%
6.01-8%	4%	3%	5%	3%	6%
8%+	13%	16%	21%	3%	3%
Average fixed rate:	*4.7%*	*5.4%*	*5.5%*	*2.9%*	*2.9%*
Median fixed rate	*4.1%*	*4.2%*	*4.2%*	*2.0%*	*2.4%*

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

Analysis by date of application is limited by the number of respondents answering this question, but indicative results were that the proportion paying less than 3% had increased over time, from a quarter of successful applicants in H2 2010 to a third in 2012. First indications for H1 2013 are that this proportion has increased again, with a resulting reduction in the average fixed rate margin:

New/renewed overdraft fixed rate By application date (half year)	H210	H111	H211	H112	H212*	H113*
Unweighted base:	*130*	*310*	*273*	*276*	*205*	*150*
<3%	25%	28%	38%	38%	37%	52%
3-6%	34%	50%	45%	32%	42%	36%
6%+	40%	21%	17%	30%	21%	12%
Average margin above Base/LIBOR:	*6.0%*	*5.0%*	*4.7%*	*5.9%*	*5.3%*	*3.7%*

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

Secured overdrafts agreed between Q2 2012 and Q3 2013 were somewhat more likely to be on a fixed rate (56%) than a variable rate (44%). Unsecured overdrafts were also somewhat more likely to be on a fixed rate (54%) than a variable rate (46%).

The average margin for a variable rate overdraft was +4.1% if it was secured or +4.7% if it was unsecured. More of a difference in margin was seen for fixed rate facilities – secured overdrafts were at an average rate of 3.6% compared to 5.6% for an unsecured overdraft.

Overdrafts: Fees

Most respondents (90%) were able to recall the arrangement fee that they had paid for their new/renewed overdraft facility (if any). The average fee paid was £379, and this has been fairly consistent over time.

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

Fee paid (overdraft) by facility granted: **Successfully sought** new/renewed overdraft Q2 12-Q3 13 excl. DK	Total	<£10k	£10-25k	£25-100k	£100k+
Unweighted base:	*1296*	*348*	*248*	*312*	*388*
No fee paid	23%	28%	16%	15%	15%
Less than £100	9%	13%	6%	3%	1%
£100-199	40%	52%	37%	17%	3%
£200-399	13%	6%	30%	25%	6%
£400-999	7%	1%	10%	24%	15%
£1000+	7%	1%	1%	16%	60%
Average fee paid:	*£379*	*£109*	*£234*	*£599*	*£2589*
Median fee paid	*£99*	*£93*	*£142*	*£281*	*£999*

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

Secured overdrafts, which are typically larger facilities, were somewhat more likely to attract a fee (84%) than unsecured overdrafts (73%), and the average fee charged was higher (£778 secured compared to £170 unsecured).

Amongst those with a new/renewed overdraft who knew both what fee they had paid and the size of the facility granted, 39% paid a fee that was equivalent to less than 1% of the facility granted and a further 30% paid between 1-2%.

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

- 57% of those granted a new/renewed overdraft facility of less than £10,000 paid the equivalent of 2% or less
- 92% 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

Whilst secured overdrafts typically attracted a higher fee in absolute terms, this remained more likely to be the equivalent of 2% or less of the agreed facility (89%) than was the case for unsecured overdrafts (62%).

Over time, the proportion paying no fee for their overdraft has remained fairly constant, at around 18%. The exception is H2 2012, when 28% of successful applicants said that no fee was paid.

Where a fee *was* paid, H2 2012 was also something of an exception. Fewer overdrafts attracted a fee of less than £200 (42% compared to around half in other periods) and more resulted in a fee of £200+ (30% compared to around a quarter in other periods).

This may however be explained by the size of facilities granted in H2 2012. As already reported, more facilities for £25,000 and above were agreed in that period, and the proportion saying they had paid the equivalent of 2% or less of the value of their facility as a fee was higher, at 77% compared to around 6 out of 10 in other periods.

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 larger facility, and paid a lower variable margin and fee as a proportion for that facility, if it was less than £25,000:

Overdraft rates and fees summary **Successfully sought** new/renewed overdraft Q2 12-Q3 13 excl. DK	Min/Low	Average/Worse than average
Unweighted base (varies by question):	*662*	*762*
% borrowing £25,000 or less	55%	84%
Facility secured (Less than £25k)	34%	24%
Facility secured (£25k+)	70%	58%
Facility on a variable rate (excluding DK)	47%	41%
Average variable margin for less than £25k facility	+3.4%	+4.9%
Average variable margin for facility £25k+	+3.5%	+3.6%
Average fixed rate for less than £25k facility*	6.8%	5.0%
Average fixed rate for facility £25k+	3.0%	2.9%
% where fee <2% of facility (under £25k)	87%	65%
% where fee <2% of facility (£25k+)	96%	97%

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

Overdraft terms: Analysis by sector

Overall, in the 18 months Q2 2012 to Q3 2013, 78% of overdrafts successfully applied for were for £25,000 or less. By sector this varied relatively little (between 76% and 94%), with the exception of Agriculture where 41% of overdrafts granted were for less than £25,000 and 26% were for £100,000 or more (for the other sectors the proportion of £100,000+ overdrafts granted was less than 10%).

As the table below shows, secured overdrafts were:

- More common for overdrafts in Agriculture (57%)
- Somewhat less common for overdrafts in the Transport (23%) and Other Community (24%) sectors

Type 1 overdraft **Successfully sought** new/renewed overdraft Q2 12-Q3 13 excl. DK	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*195*	*177*	*242*	*169*	*133*	*108*	*235*	*111*	*139*
Any security	57%	38%	28%	51%	26%	23%	25%	50%	24%
- property	*48%*	*23%*	*21%*	*34%*	*19%*	*16%*	*18%*	*30%*	*6%*
No security	43%	62%	72%	49%	74%	77%	75%	50%	76%

Q 106 All SMEs with new/renewed overdraft excluding DK

Overall, just under half of Type 1 overdrafts obtained were on a variable rate (45%). This remained more likely for overdrafts granted in the Other Community sector:

Type 1 overdraft rate **Successfully sought** new/renewed overdraft Q2 12-Q3 13 excl. DK	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*186*	*152*	*189*	*146*	*98**	*90**	*191*	*89**	*114*
Variable rate lending	52%	52%	36%	37%	35%	42%	46%	27%	63%
Fixed rate lending	48%	48%	64%	63%	65%	58%	54%	73%	37%

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

Type 1 overdraft fees **Successfully sought** new/renewed overdraft Q2 12-Q3 13 excl. DK	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base (varies):	*160*	*151*	*208*	*146*	*117*	*90**	*207*	*95**	*122*
No fee paid	10%	19%	20%	16%	19%	13%	26%	40%	41%
Average fee paid	£822	£582	£247	£542	£435	£279	£303	£221	£126
Equivalent of 2% or less paid*	83%	75%	69%	83%	83%	48%	72%	68%	60%

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

Overdrafts: Automatic renewals

As mentioned earlier in this chapter, some data is now available on the fees, rates and security pertaining to overdraft facilities that were automatically renewed. This has now been collected for respondents interviewed from Q2 2012, but the *quarter* in which the overdraft was renewed was only asked from Q4 2012. In line with the new analysis structure, the table below shows all automatic renewals *known to have occurred* between Q2 2012 and Q3 2013.

Data available for these automatic renewals showed that the majority (85%) were for less than £25,000 (compared to 71% of Type 1 overdraft events reported in these quarters), and they were in many ways similar to Type 1 overdraft events in the same period:

Overdraft rates and fees summary	Automatically renewed Q212-Q313	Type 1 overdraft event Q212-Q313
Unweighted base (varies by question):	*1410*	*1509*
Any security required	26%	35%
Facility on a variable rate (excluding DK)	42%	45%
Average variable margin	+4.5%	+4.4%
Average fixed rate	4.3%	4.7%
No fee	26%	23%
Average fee paid	£215	£379

All SMEs with new/renewed overdraft, excluding DK

Loans: Context

As with the overdraft section above, this section is based on the new definition of SMEs that made an application for a new or renewed loan facility during an18 month period which for this report is between Q2 2012 and Q3 2013, irrespective of when they were interviewed.

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

Of all new loans successfully applied for Q2 2012 to Q3 2013:

- 51% were granted to 0 employee SMEs
- 39% to 1-9 employee SMEs
- 9% to 10-49 employee SMEs
- 2% to 50-249 employee SMEs

73% of new/renewed loans granted in the period Q2 2012 to Q3 2013 were for £100,000 or less. By size this varied from 78% of those granted to SMEs with 0 employees to 26% of loans granted to those with 50-249 employees.

19% of successful new/renewed loans in this period were in a personal name rather than that of the business (of those asked the question, which has been included from Q4 2012).

Analysis of loans granted by application date shows a typical split ranging between 80:20 and 90:10, both under and over £100,000, up to Q2 2012. Initial data for applications made since then suggest a higher proportion of loans were granted for more than £100,000, and also that fewer loans were granted for less than £25,000 (now around a half rather than 2/3rds of all loans granted):

Loan facility granted By date of application	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4* 12	Q1* 13
Unweighted base:	*125*	*220*	*193*	*204*	*212*	*206*	*165*	*131*	*150*	*99**
Less than £25k	65%	71%	78%	71%	63%	72%	73%	61%	47%	53%
£25-99k	17%	17%	11%	12%	16%	14%	7%	11%	15%	19%
More than £100k	18%	12%	11%	17%	21%	15%	20%	28%	39%	28%

All successful loan applicants that recall amount granted

Loans: Security

A minority of loans, 18%, were commercial mortgages. These were much more likely to have been granted for more than £100,000 and were also slightly more common amongst larger SMEs:

- 18% of successful applicants with 0-9 employees said their loan was a commercial mortgage
- 21% of successful applicants with 10-49 employees
- 23% of successful applicants with 50-249 employees

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

Security required (Loan): **Successfully sought** new/renewed loan Q2 12-Q3 13	Total	0-9 emp	10-49 emps	50-249 emps
Unweighted base:	*634*	*231*	*256*	*147*
Commercial mortgage	18%	18%	21%	23%
Secured business loan	26%	24%	40%	49%
Unsecured business loan	56%	58%	38%	28%

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

Including commercial mortgages, of new/renewed loans successfully applied for in Q2 2012 to Q3 2013:

- 22% of loans granted for less than £25,000 were secured
- 52% of loans granted for £25,000 to £100,000 were secured
- 87% of those granted for more than £100,000 were secured

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

Security taken (loan): **Successfully sought** new/renewed loan Q2 12-Q3 13	Total	0-9 emp	10-49 emps	50-249 emps
Unweighted base:	***634***	***231***	***256***	***147***
Commercial mortgage	18%	18%	21%	23%
Secured – Property (any)	21%	20%	26%	32%
Business property	*12%*	*11%*	*18%*	*28%*
Personal property	*9%*	*9%*	*10%*	*4%*
Director/personal guarantees	3%	2%	8%	4%
Other security	3%	2%	12%	20%
Unsecured business loan	56%	58%	38%	28%

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

Analysis by date of application, at the half year level, shows that a consistent 7 to 8 out of 10 loans granted for more than £100,000 (*excluding* commercial mortgages) were secured. Loans for under £100,000 were less likely to be secured, with no clear pattern over time, so overall between a quarter and a third of loans that were not commercial mortgages have been secured:

% of loan facilities that were secured, by size of facility and date applied for Row percentages	H1 11	H2 11	H1 12	H2 12*	H1 13*
All loans (excluding commercial mortgages)	20%	29%	33%	35%	25%
Loans of <£100,000 (excl commercial mortgages)	15%	21%	28%	19%	17%
Loans of more than £100,000 (excl commercial mortgages)	72%	76%	69%	78%	83%

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

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

Loans: Rates

Amongst those who knew, three quarters, 72%, said that their loan (including those with commercial mortgages) was on a fixed rate (compared to 55% for overdraft lending). This remained more common for smaller facilities:

Type of rate (loan) by amount granted: **Successfully sought** new/renewed loan Q2 12-Q3 13	Total	<£100k	£100k+
Unweighted base:	*562*	*289*	*273*
Variable rate lending	28%	18%	53%
Fixed rate lending	72%	82%	47%

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

Fixed rate lending was also more common where the facility was unsecured (83% v 72% for secured loans). Analysis by date of application showed that 79% of loans successfully applied for in H2 2011 were on a fixed rate, and that since then the proportion on a fixed rate has declined slightly, and is currently 65% for successful applications in H1 2013.

Most of those on a variable rate said that the rate was linked to Base Rate (84%), but this was less the case for loans in excess of £100,000 (79%) than for those below £100,000 (89%).

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

Variable margin (loan) by amount granted: **Successfully sought** new/renewed loan Q2 12-Q3 13	Total	<£100k	£100k+
Unweighted base:	*197*	*76**	*121*
Less than 2%	25%	17%	33%
2.01-4%	44%	35%	53%
4.01-6%	16%	18%	14%
6%+	16%	29%	1%
Average margin above Base/LIBOR:	*+4.2%*	*+5.4%*	*+2.9%*
Median margin above Base/LIBOR	*+3.3%*	*+3.9%*	*+3.2%*

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

The overall average margin was unchanged from the previous 18 month period (Q1 2012 to Q2 2013) while the median margin was slightly higher (having been 3.0%).

Analysis over individual time periods is restricted by the sample sizes available, but *indications* are that for loans successfully applied for between H1 2011 and H1 2013, the average margin charged was typically around +4%.

The median variable rate charged was very similar for overdrafts (+3.0%) and loans (+3.3%). Fixed rate loan lending, on the other hand, at 5.0%, remained slightly higher than fixed rate overdraft lending (which had a median rate overall of 4.1%):

Fixed rate (loan) by amount granted: **Successfully sought** new/renewed loan Q2 12-Q3 13	Total	<£100k	£100k+
Unweighted base:	*288*	*159*	*129*
Less than 3%	25%	21%	38%
3.01-6%	36%	32%	47%
6.01-8%	25%	28%	14%
8%+	14%	18%	1%
Average fixed rate:	*6.1%*	*6.8%*	*4.1%*
Median fixed rate	*5.0%*	*5.5%*	*4.4%*

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

The overall median fixed rate margin for loans was unchanged from the previous 18 month period (Q1 2012 to Q2 2013).

Analysis by date of application is limited by the number of respondents answering this question, but indicative results were that the average rate has been around 6% in all half year periods with the exception of H2 2011, when the average rate was closer to 7%.

Secured loans, whether on a fixed or variable rate, were charged at a lower average rate than those that were unsecured. For those who successfully applied for a new/renewed loan on a variable rate between Q2 2012 and Q3 2013, a secured loan was charged at an average margin of +4.1%, an unsecured loan at an average margin of +4.5%. For fixed rate lending over the same periods, the differences were more marked at 4.6% for secured loans and 7.2% for unsecured.

Loans: Fees

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

Fee paid (loan): **Successfully sought** new/renewed loan Q2 12-Q3 13	Total	<£100k	£100k+
Unweighted base:	*512*	*265*	*247*
No fee paid	36%	40%	25%
Less than £100	8%	11%	*
£100-199	16%	20%	6%
£200-399	15%	18%	7%
£400-999	9%	7%	17%
£1000+	16%	4%	45%
Average fee paid:	*£1000*	*£217*	*£2984*
Median fee paid	*£97*	*£71*	*£670*

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

The average fee paid for loans agreed Q2 2012 to Q3 2013 was slightly higher than in the previous report (which was £749 based on all applications Q1 2012 to Q2 2013), whilst the median fee paid was unchanged (previously £99).

Analysis by date of application showed little clear pattern over time.

Amongst those with a new/renewed loan who knew both what fee they had paid and the original loan size, 58% paid a fee that was the equivalent of less than 1% of the amount borrowed and a further 16% paid between 1-2%:

- 72% of those granted a new/renewed loan of less than £100,000 paid the equivalent of 2% or less
- 79% 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 the equivalent of 2% or less for their loan by whether the loan was secured or not (79% if secured, 71% if not).

In 2011 around 8 out of 10 applicants paid the equivalent of 2% or less of their facility as a fee. In 2012 this proportion dropped slightly (to 65% in H2 2012). Initial data for H1 2013 indicates that 96% of fees were the equivalent of 2% or less of the facility granted.

Loan terms: Analysis by risk rating

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

Loan rates and fees summary **Successfully sought** new/renewed loan Q2 12-Q3 13	Min/Low	Average/Worse than average
Unweighted base (varies by question):	*283*	*311*
% borrowing £100,000 or less	58%	79%
Any security provided	62%	36%
Facility on a variable rate (excluding DK)	31%	25%
Average variable margin	+2.6%	+4.5%
Average fixed rate	4.4%	7.1%
% where fee <2% of facility	89%	72%

All SMEs with new/renewed loan, excluding DK

Loan terms: Analysis by sector (indicative)

Note that the small proportion of SMEs reporting a successful loan event means that base sizes for all sectors are now below 100, even across an 18 month time period. This section continues to be included, but can provide only *indicative* loan data. Figures are not shown for the Transport sector as there are now fewer than 50 loans on which to report.

73% of new/renewed loans agreed between Q2 2012 and Q3 2013 were for £100,000 or less.

For most sectors this varied little (between 78% and 92%), with three sectors more likely to have loans over £100k: Property / Business Services (56%), Agriculture (44%) and Hotels and Restaurants (37%).

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

Type 1 loan **Successfully sought** new/renewed loan Q2 12-Q3 13	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*76**	*69**	*67**	*64**	*71**		*94**	*73**	*75**
Commercial mtge	10%	15%	20%	6%	25%		37%	30%	9%
Secured loan	46%	23%	10%	35%	24%		32%	19%	19%
Unsecured loan	45%	62%	70%	59%	51%		31%	51%	72%

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 (72%). This was more likely for loans amongst SMEs in the Other Community, Health and Construction sectors:

Type 1 loan rate **Successfully sought** new/renewed loan Q2 12-Q3 13	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*71**	*64**	*57**	*57**	*66**		*81**	*63**	*65**
Variable rate lending	35%	37%	13%	16%	32%		61%	12%	11%
Fixed rate lending	65%	63%	87%	84%	68%		39%	88%	89%

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

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

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

Type 1 loan fees **Successfully sought** new/renewed loan Q2 12-Q3 13	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*59**	*57**	*60**	*49**	*58**		*72**	*56**	*64**
No fee paid	31%	33%	54%	23%	50%		37%	53%	15%

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 <u>not</u> 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

In Q3 2013, 78% of SMEs met the definition of a ‘Happy non-seeker’ of external finance in the previous 12 months, the highest level reported to date. Excluding the ‘Permanent non-borrowers’ who appear unlikely to seek external finance , reduced the ‘Happy non-seekers’ to 63% of remaining SMEs, still the largest group and also the highest proportion seen to date on the Monitor.

15% reported having a borrowing event (including the automatic renewal of an overdraft facility), and this was the lowest level seen on the Monitor to date.

7% were ‘Would-be seekers’ of finance, and this has been stable over recent quarters. Smaller SMEs and those with an above average risk rating remained more likely to say that something had stopped them applying for finance.

Amongst ‘Would-be seekers’ who would have liked to apply for an overdraft, 38% were put off by the process (hassle, expense etc) and the same proportion were discouraged, almost all of it indirect (where the SME assumes they will be turned down and so does not apply). Those with 10-249 employees were more likely to feel discouraged (49%), and direct discouragement (where the SME makes informal enquiries at the bank and feels put off) was more of an issue for these larger SMEs.

Discouragement and the process of borrowing were also the key barriers for ‘Would-be seekers’ who had wanted to apply for a loan.

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

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

Automatic renewals re-classified

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

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

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

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

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

To

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

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

Would-be seekers – explanation codes

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

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

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

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

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

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

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

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

Any events (overdraft and loan) All SMES, over time By date of interview	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013
Unweighted base:	*5010*	*5023*	*5000*	*5032*	*5000*	*5000*	*5000*	*5008*
Have had an event	23%	25%	24%	22%	21%	17%	19%	15%
- *New or (auto) renewed facility*	*21%*	*23%*	*22%*	*20%*	*18%*	*15%*	*16%*	*13%*
- *Type 2 or 3 events*	*4%*	*4%*	*4%*	*3%*	*3%*	*3%*	*4%*	*3%*
Would-be seekers	8%	10%	10%	11%	7%	7%	6%	7%
Happy non-seekers	69%	65%	66%	67%	73%	76%	76%	78%

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

This shows that the proportion reporting any borrowing event was at its lowest level to date in Q3 2013 (15%), as the proportion of 'Happy non-seekers' remained at the highest level seen since the survey started. 'Would-be seekers', using its new definition, remained lower than it had been in the quarters before the definition changed.

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

The table below shows the proportion of 'Would-be seekers' by key demographic groups over time. The proportion within size bands has changed little since the definition was changed, and there are no clear patterns over time:

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

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

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

Any events (Overdraft and loan) YEQ3 13 All SMES	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*20,008*	*4002*	*6606*	*6400*	*3000*
Have had an event	18%	15%	26%	27%	26%
Would-be seekers	7%	7%	7%	3%	2%
Happy non-seekers	75%	78%	67%	70%	73%

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

Those currently using external finance were no more or less likely to be 'Would-be seekers', but remained much more likely to have had an event (39%).

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

Any events (Overdraft and loan) YEQ3 13 All SMEs with a risk rating	Total	Min	Low	Avge	Worse/ Avge
Unweighted base:	*20,008*	*3402*	*3725*	*5244*	*5829*
Have had an event	18%	23%	25%	19%	16%
Would-be seekers	7%	3%	3%	6%	7%
Happy non-seekers	75%	75%	72%	75%	78%

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

The proportion of 'Would-be seekers' varied by sector from 4% of those in Agriculture to 8% of those in the Transport sector. More variation was seen in terms of 'Happy non-seekers', which accounted for 80% of those in the Other Community sector (who remained less likely to have had an event), to 69% of those in Agriculture (who remained more likely to have had an event):

Any events (overdraft and loan) All SMEs YEQ3 13	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*1500*	*2080*	*3500*	*2024*	*1801*	*1812*	*3502*	*1789*	*2000*
Have had an event	27%	20%	18%	22%	22%	20%	15%	16%	15%
Would-be seekers	4%	6%	7%	7%	7%	8%	7%	5%	6%
Happy non-seekers	69%	75%	75%	71%	71%	72%	78%	78%	80%

Q115/209 All SMEs

Starts were the most likely to be 'Would-be seekers' (10%). They were less likely to have had an event (11%), compared to 27% of those in business for 15 years or more.

Barriers to overdraft or loan application

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

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

The reasons have been grouped into themes as follows, and respondents could initially nominate as many reasons as they wished for not having applied when they wanted to. For YEQ3 2013 combined, the reasons given were:

- Process of borrowing – those who did not want to apply because they thought it would be too expensive, too much hassle etc. This was given as a reason by 50% of all 'Would-be seekers', which is the equivalent of around 3% of all SMEs
- Discouragement – those that had been put off, either directly (they made informal enquiries of the bank and were put off) or indirectly (they thought they would be turned down by the bank so did not ask). This was given as a reason by 47% of all 'Would-be seekers', which is the equivalent of around 3% of all SMEs
- Principle of borrowing – those that did not apply because they feared they might lose control of their business, or preferred to seek alternative sources of funding. Note that this category used to include 'I prefer not to borrow' which was removed as an option in Q4 2012. This was given as a reason by 24% of all 'Would-be seekers' which is the equivalent of around 2% of all SMEs
- Current economic climate – those that felt that it had not been the right time to borrow. This was given as a reason by 14% of all 'Would-be seekers', which is the equivalent of around 1% of all SMEs

To reflect the changes made in Q4 2012, the table below shows the combined results for YEQ3 2013, and all the reasons for not applying for a loan or overdraft that make up the summary categories above. An additional question was asked of those giving more than one reason, asking them to nominate the key reason for not applying, and these results form the main analysis of barriers to application in this chapter.

All 'Would-be seekers'	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 13	Total	0-9 emps	10-249 emps	Total	0-9 emps	10-249 emps
Unweighted base:	*742*	*562*	*180*	*484*	*355*	*129*
Issues with <u>principle</u> of borrowing	23%	23%	14%	15%	15%	11%
-Not lose control of business	*15%*	*15%*	*7%*	*7%*	*7%*	*4%*
-Can raise personal funds if needed	*8%*	*9%*	*3%*	*6%*	*6%*	*7%*
-Prefer other forms of finance	*3%*	*3%*	*3%*	*6%*	*6%*	*4%*
-Go to family and friends	*5%*	*5%*	*1%*	*2%*	*2%*	*1%*
Issues with <u>process</u> of borrowing	49%	49%	43%	42%	42%	46%
-Would be too much hassle	*17%*	*17%*	*10%*	*11%*	*10%*	*13%*
-Thought would be too expensive	*32%*	*32%*	*20%*	*22%*	*22%*	*16%*
-Would be asked for too much security	*10%*	*10%*	*13%*	*6%*	*6%*	*17%*
-Too many terms and conditions	*15%*	*15%*	*12%*	*12%*	*12%*	*13%*
-Did not want to go through process	*8%*	*8%*	*5%*	*6%*	*6%*	*5%*
-Forms too hard to understand	*2%*	*2%*	*2%*	*3%*	*3%*	*2%*
Discouraged (any)	44%	44%	54%	47%	47%	49%
-Direct (put off by bank)	*15%*	*15%*	*27%*	*16%*	*16%*	*22%*
-Indirect (thought would be turned down)	*34%*	*34%*	*33%*	*35%*	*35%*	*32%*
Economic climate	13%	13%	7%	9%	9%	6%
Not the right time to apply	13%	13%	7%	9%	9%	6%

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

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

The table below details the main reasons given by 'Would-be seekers' interviewed YEQ3 2013, using the revised definition and answer codes. It shows that discouragement (much of it indirect) and the process of borrowing remained the two key barriers to applying for loans or overdrafts:

All 'Would-be seekers'	Would have liked to apply for an overdraft			Would have liked to apply for a loan		
Main reason for not applying when wished to YEQ3 13	Total	0-9 emps	10-249 emps	Total	0-9 emps	10-249 emps
Unweighted base:	*742*	*562*	*180*	*484*	*355*	*129*
Discouraged (any)	38%	38%	49%	45%	45%	44%
-Direct (put off by bank)	*11%*	*11%*	*21%*	*13%*	*13%*	*17%*
-Indirect (thought would be turned down)	*27%*	*27%*	*27%*	*31%*	*31%*	*27%*
Issues with process of borrowing	38%	38%	34%	36%	36%	36%
Issues with principle of borrowing	8%	8%	6%	9%	9%	4%
Economic climate	7%	7%	3%	4%	4%	3%

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

Amongst 'would-be seekers' of an overdraft, larger SMEs were more likely than smaller SMEs to report feeling discouraged, and to say that this discouragement was 'direct' (arising from a conversation with the bank). Otherwise there were few differences by size of business.

Analysis by external risk rating is shown below. Discouragement and the process of borrowing were typically the main barriers:

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 YEQ3 13	Total	Min/ Low	Avge / WTA	Total	Min/ Low	Avge / WTA
Unweighted base:	*742*	*112*	*511*	*484*	*72**	*348*
Discouraged (any)	38%	32%	39%	45%	32%	48%
-Direct (put off by bank)	*11%*	*10%*	*12%*	*13%*	*9%*	*13%*
-Indirect (thought would be turned down)	*27%*	*22%*	*27%*	*31%*	*22%*	*34%*
Issues with process of borrowing	38%	38%	37%	36%	24%	36%
Issues with principle of borrowing	8%	17%	8%	9%	31%	5%
Economic climate	7%	8%	6%	4%	8%	4%

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

On a small base, a third (31%) of would-be loan seekers with a minimal or low external risk rating said that they had an issue with the principle of borrowing, and this was more likely to be mentioned as an issue than the process of borrowing – almost all said that they could raise personal funds if needed.

Base sizes are too small for analysis by sector.

'Would-be seekers' represent a minority of all SMEs (7%). The table below shows, for the main reasons given by 'Would-be seekers', the equivalent proportion of all SMEs:

Main reason for not applying YEQ3 13	Would-be overdraft seekers	All SMEs	Would-be loan seekers	All SMEs
Unweighted base:	*742*	*20,008*	*484*	*20,008*
Discouraged (any)	38%	2%	45%	1%
-Direct (put off by bank)	*11%*	*1%*	*13%*	*
-Indirect (thought I would be turned down)	*27%*	*1%*	*31%*	*1%*
Issues with process of borrowing	38%	2%	36%	1%
Issues with principle of borrowing	8%	*	9%	*
Economic climate	7%	*	4%	*
None of these/DK	*9%*	*	6%	*
Had event/Happy-non seeker		*94%*	-	*95%*

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

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

The effect of the 'Permanent non-borrower'

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

The proportion of 'Happy non-seekers' declines to 60% but remains the largest group:

Any events (Overdraft and loan) YEQ3 13 – all SMES	All SMEs	All SMEs excl. pnb
Unweighted base:	*20,008*	*14,657*
Have had an event	18%	29%
Would-be seekers	7%	11%
Happy non-seekers	75%	60%

Q115/209 All SMEs

For YEQ3 2013, once the PNBs are excluded, 11% of remaining SMEs met the definition of a 'Would-be seeker', compared to 7% of all SMEs. This increase is seen across size, sector and risk ratings, with those with 0 employees or in the Property/Business services, Transport and Construction sectors more likely to be a 'Would-be seeker' (all 12%).

The table below shows the pattern over time, once the PNBs have been excluded. This shows the same recent decline in the proportion having an 'event' and increase in 'Happy non-seekers' as for SMEs overall:

Any events (overdraft and loan) All SMES, excluding PNBs, over time By date of interview	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013
Unweighted base:	*3822*	*4022*	*3894*	*3732*	*3664*	*3649*	*3707*	*3637*
Have had an event	36%	35%	37%	34%	33%	29%	29%	26%
Would-be seekers	13%	15%	15%	17%	11%	12%	9%	11%
Happy non-seekers	51%	50%	48%	49%	57%	59%	62%	63%

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

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

Main reason for not applying when wished to – YEQ3 13	Would-be overdraft seekers	All SMEs excl. pnb	Would-be loan seekers	All SMEs excl. pnb
Unweighted base:	*742*	*14,657*	*484*	*14,657*
Discouraged (any)	38%	3%	45%	2%
-Direct (put off by bank)	*11%*	*1%*	*13%*	*1%*
-Indirect (thought I would be turned down)	*27%*	*2%*	*31%*	*2%*
Issues with process of borrowing	38%	3%	36%	2%
Issues with principle of borrowing	8%	1%	9%	*
Economic climate	7%	1%	4%	*

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

The current economic climate remains the main barrier to running an SME in the next 12 months, cited by 26% as a 'major obstacle' in Q3 2013. It was seen as more of an obstacle by smaller businesses, those with an average or worse than average risk rating, as well as by those with any appetite for finance in the next 3 months.

The proportion of SMEs seeing the economic climate as a major obstacle has reduced over time. Most recently, between Q2 and Q3 2013, there was a significant drop in the proportion of SMEs with employees seeing it as a major obstacle, but there was no similar reduction amongst the 0 employee SMEs.

Access to Finance continued to be seen as a major obstacle by one in ten SMEs, and remained more of an issue for those with an appetite for external finance in the next 3 months (25%).

In Q3 2013, half of SMEs, 47%, said that they planned to grow in the next 12 months, down slightly from Q2 (51%), but in line with other quarters. The slight decline is due to the 0 employee SMEs who were less likely to be predicting growth in Q3 (43% compared to 50% in Q2). By comparison, SMEs *with* employees were either as likely, or more likely, to predict growth in Q3 as they had been in Q2.

Most of those planning to grow expected that growth to be achieved by increasing sales in existing markets (91%). Just 7% expected to sell into new markets overseas (the equivalent of 3% of all SMEs), and very few SMEs who do not currently export were planning to start selling overseas.

12% of all SMEs planned to apply for new/renewed facilities in the three months after interview, with more of them considering 'non-core' forms of financing. The appetite for finance was markedly higher amongst SMEs with employees, while the 0 employee SMEs were the only group more likely to be planning an injection of personal funds into the business than an application for external finance.

Amongst those planning to apply for a new/renewed facility, confidence that the bank would agree to their request improved from 30% in Q2 2013 to 41% in Q3, back in line with earlier quarters. Confidence amongst smaller future applicants, and those with an average or worse than average risk rating continued to be more volatile, and improvements in their level of confidence in Q3 led to the improvement seen overall.

Levels of confidence remained in contrast to the overall success rates seen. Success rates for renewals Q2 2012 to Q3 2013 were 94% against a current confidence level for those planning to renew of 50%. For new funds the success rate was 46% against a confidence level of 25%.

As the proportion of those planning to seek a new/renewed facility fell slightly, this left the 'Future Happy non-seekers' as the largest group once again, representing 70% of SMEs and the highest proportion reported to date. As a result, in Q3 2013, 56% of all SMEs neither used external finance nor had any plans to apply for any in the next three months. This proportion has increased over time, having been 50% in 2011.

17% of SMEs were ‘Future would-be seekers’, who would like to apply for a facility but felt that something would stop them, the lowest level recorded to date.

‘Future would-be seekers’ who have a specific need for finance already identified remained in the minority (2% of all SMEs). Such SMEs were typically younger than those with no need identified, and more ‘involved’ with external finance, either through using it, or having wanted to apply for it previously. Over time this group was less likely to cite the current economic climate as the main barrier to a future application, and increasingly likely to cite discouragement, almost all of it indirect.

By contrast, two-thirds of remaining ‘Future would-be seekers’ who did *not* have a specific need for finance already identified (15% of all SMEs), cited a reluctance to borrow in the current climate as their main barrier, with discouragement much less of barrier for this group.

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

This chapter reports on growth objectives and perceived barriers to future business performance. It then explores SMEs' intentions for the next 3 months in terms of finance and the reasons why SMEs think that they will/will not be applying for new/renewed finance in that time period. Most of this chapter therefore is based on Q3 2013 data gathered between July and September, when there were signs of 'green shoots' and a number of positive economic indicators were published.

Growth plans for next 12 months

SMEs were asked about their future growth plans.

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

As shown in the table below, over time SMEs have given similar answers to this question in each quarter, with between 4 and 5 out of 10 planning to grow. In Q2 2013 51% said that they were planning to grow, which was the highest proportion seen. This was not maintained in Q3 2013, with 47% planning to grow, the same proportion as in the equivalent quarter of 2012:

Growth in next 12 months All SMEs, over time By date of interview	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013
Unweighted base:	***5055***	***5010***	***5023***	***5000***	***5032***	***5000***	***5000***	***5000***	***5008***
Grow substantially	6%	7%	6%	6%	8%	7%	7%	8%	6%
Grow moderately	37%	37%	42%	41%	39%	37%	41%	43%	41%
All with objective to grow	***43%***	***44%***	***48%***	***47%***	***47%***	***44%***	***48%***	***51%***	***47%***
Stay the same size	47%	47%	42%	44%	45%	48%	43%	41%	43%
Become smaller	5%	5%	5%	3%	4%	4%	4%	3%	3%
Plan to sell/pass on/close	6%	4%	6%	5%	5%	5%	5%	5%	6%

Q225 All SMEs New Question wording in Q4 2012

Subsequent analysis in this chapter shows that it is the 0 employees that have caused the overall change between Q2 and Q3 2013. They are now less likely to be predicting growth, whereas SMEs with 10 or more employees are now more likely to be predicting growth.

In Q3 2013 as in other quarters, the bigger the SME the more likely they were to be planning to grow:

Plans to grow in next 12 mths Q3 13 only	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*5008*	*1002*	*1656*	*1600*	*750*
Grow substantially	6%	5%	9%	9%	14%
Grow moderately	41%	38%	47%	51%	55%
All with objective to grow	***47%***	***43%***	***56%***	***60%***	***69%***
Stay the same size	43%	46%	37%	36%	29%
Become smaller	3%	4%	2%	2%	1%
Plan to sell/pass on/close	6%	7%	4%	2%	*

Q225 All SMEs New Question wording in Q4 2012

SMEs that met the 'Permanent non-borrower' definition in Q3 2013 remained less likely to have plans to grow (39%) than those that didn't meet the definition (52%).

SMEs that had injected personal funds in the previous 12 months were more likely to be planning to grow (57%) than those who had not (41%) and this was true for Starts (72% v 66%) as well as older businesses (47% v 38%).

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

- In Q3 2013, SMEs with 10-49 and 50-249 employees were more likely to be predicting growth (60% and 69%), and this was the highest level seen to date for these SMEs. For those with 1-9 employees, the proportion predicting growth was stable at 56% (also the highest level seen to date). It was the 0 employee SMEs that were now less likely to be predicting growth (43% from 50%), hence the overall decline reported above
- The decline was seen across most risk ratings, but notably those with either a minimal or worse than average rating. There was no clear pattern by sector
- PNBs were now less likely to be planning to grow (39%). Once they are excluded from the sample, growth ambitions amongst remaining SMEs remains higher than in most previous waves (52%)

Objective to grow (any) in next 12 months Over time – row percentages By date of interview	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013
All SMEs	43%	44%	48%	47%	47%	44%	48%	51%	47%
0 employee	39%	43%	46%	46%	45%	41%	47%	50%	43%
1-9 employees	50%	49%	51%	50%	49%	49%	51%	56%	56%
10-49 employees	56%	56%	56%	59%	52%	58%	54%	57%	60%
50-249 employees	61%	62%	65%	66%	61%	61%	66%	65%	69%
Minimal external risk rating	38%	37%	49%	48%	42%	34%	43%	48%	40%
Low external risk rating	36%	41%	39%	41%	35%	39%	40%	49%	50%
Average external risk rating	36%	35%	43%	40%	38%	36%	44%	43%	40%
Worse than average external risk rating	49%	53%	54%	53%	56%	50%	55%	57%	51%
Agriculture	53%	37%	42%	44%	35%	38%	42%	48%	37%
Manufacturing	46%	42%	51%	47%	50%	39%	53%	50%	51%
Construction	28%	42%	37%	38%	33%	37%	38%	47%	40%
Wholesale/Retail	46%	48%	50%	55%	51%	46%	51%	49%	46%
Hotels and Restaurants	41%	45%	39%	33%	42%	38%	40%	49%	53%
Transport	42%	44%	38%	40%	41%	38%	55%	43%	55%
Property/Business Services etc.	50%	46%	49%	57%	52%	50%	52%	58%	52%
Health	49%	55%	53%	48%	49%	45%	52%	53%	45%
Other Community	42%	40%	66%	47%	58%	48%	54%	52%	46%
All 'Permanent non-borrowers'	34%	37%	38%	42%	41%	37%	48%	46%	39%
All excluding PNBs	47%	48%	51%	50%	49%	47%	48%	54%	52%

Q225 All SMEs base size varies by category

From Q4 2012, those planning to grow were asked a newly simplified question about how this growth would be achieved. As in previous quarters, most of those planning to grow, 91%, planned to increase sales in existing markets, the equivalent of 4 out of 10 of all SMEs:

How plan to grow Q3 13	All planning to grow	All SMEs
Unweighted base:	*2734*	*5008*
Increase sales in existing markets	91%	42%
Sell in new markets in UK	22%	10%
Sell in new markets overseas	7%	3%

Q226 All SMEs planning to grow excluding DK / All SMEs

Overall, more SMEs planned to grow by selling to new markets in the UK (10% of all SMEs) than overseas (3%).

Exporters remained more likely to be predicting growth (In Q3 13, 59% reported that they planned to grow compared to 46% of non-exporters). As the table below shows, while a quarter of those already exporting planned to sell into new markets overseas (25%, the equivalent of 1% of all SMEs), very few who do not currently export thought that they would start to do so (5%, the equivalent of 2% of all SMEs):

How plan to grow Q3 13 - those planning to grow	All who plan to grow and currently export	All who plan to grow and do not currently export
Unweighted base:	*554*	*2180*
Increase sales in existing markets	83%	91%
Sell in new markets in UK	29%	22%
Sell in new markets overseas	25%	5%

Q226 All SMEs planning to grow excluding DK

Since this question was first asked in Q4 2012, the answers given by non-exporters have changed very little from those reported above. Over the same time period, the proportion of exporters planning to enter new overseas markets has fallen from 46% in Q4 2012 to 25% in Q3 2013.

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 2013 as in all previous quarters:

- The **current economic climate** was rated as a major obstacle (8-10) by 26% of SMEs in Q3 2013, and the top rated barrier across all sizes of SME. This proportion is however declining slowly over time, led in Q3 2013 by SMEs with employees
- **Legislation and regulation** was the next most important obstacle but, by comparison to the economic climate, this was rated a major obstacle by 14% of SMEs
- **Cash flow and issues with late payment** was rated a major obstacle by 11%
- **Access to external finance** was similarly rated, with 10% of SMEs seeing it as a major obstacle
- 6% of SMEs rated **availability of relevant advice** for their business as a major obstacle for the year ahead
- Finally, 3% rated **staff related issues** as a major obstacle

The analysis below looks at the barriers perceived in Q3 2013, by key sub-groups. Details of how these views have changed over time are provided later in this chapter.

Extent of obstacles in next 12 months Q3 13 only – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*5008*	*1002*	*1656*	*1600*	*750*
The current economic climate (mean score)	5.3	5.3	5.2	5.2	5.0
- 8-10 major obstacle	*26%*	*27%*	*24%*	*20%*	*14%*
- 5-7 moderate obstacle	*39%*	*38%*	*40%*	*43%*	*51%*
- 1-4 limited obstacle	*34%*	*34%*	*35%*	*36%*	*34%*
Legislation and regulation (mean score)	3.7	3.5	4.2	4.4	4.3
- 8-10 major obstacle	*14%*	*13%*	*17%*	*16%*	*13%*
- 5-7 moderate obstacle	*26%*	*25%*	*31%*	*34%*	*36%*
- 1-4 limited obstacle	*58%*	*61%*	*50%*	*48%*	*50%*
Cash flow/issues with late payment (mean score)	3.4	3.3	3.6	3.6	3.5
- 8-10 major obstacle	*11%*	*11%*	*13%*	*12%*	*8%*
- 5-7 moderate obstacle	*22%*	*21%*	*24%*	*23%*	*26%*
- 1-4 limited obstacle	*65%*	*67%*	*62%*	*64%*	*66%*
Access to external finance (mean score)	2.9	2.8	3.2	2.9	2.6
- 8-10 major obstacle	*10%*	*10%*	*12%*	*8%*	*5%*
- 5-7 moderate obstacle	*15%*	*14%*	*19%*	*18%*	*15%*
- 1-4 limited obstacle	*71%*	*72%*	*66%*	*71%*	*78%*
Availability of relevant advice (mean score)	2.8	2.8	2.8	2.7	2.4
- 8-10 major obstacle	*6%*	*7%*	*5%*	*4%*	*2%*
- 5-7 moderate obstacle	*19%*	*18%*	*22%*	*20%*	*13%*
- 1-4 limited obstacle	*73%*	*73%*	*72%*	*75%*	*84%*
Staff related issues (mean score)	1.9	1.6	2.5	3.1	3.1
- 8-10 major obstacle	*3%*	*3%*	*5%*	*6%*	*3%*
- 5-7 moderate obstacle	*9%*	*6%*	*17%*	*22%*	*22%*
- 1-4 limited obstacle	*85%*	*88%*	*77%*	*71%*	*74%*

Q227a All SMEs

The current economic climate was the most important obstacle of those tested in Q3 across all external risk ratings, and was mentioned slightly more by those with an average or worse than average external risk rating (who were also more likely to see the other factors tested as 'major obstacles'):

Extent of obstacles in next 12 months Q3 13 only – all SMEs 8-10 impact score	Total	Min	Low	Avge	Worse/Avge
Unweighted base:	*5008*	*893*	*926*	*1294*	*1377*
The current economic climate	26%	20%	20%	26%	26%
Legislation and regulation	14%	16%	15%	17%	13%
Cash flow/issues with late payment	11%	7%	8%	11%	13%
Access to external finance	10%	5%	4%	9%	12%
Availability of relevant advice	6%	2%	2%	7%	7%
Staff related issues	3%	4%	2%	4%	4%

Q227a All SMEs for whom risk ratings known

There was still relatively little difference in the perceived obstacles between those planning to grow and those with no such plans, with the exception of the current economic climate. In Q3 2013, fewer SMEs with plans to grow rated it a major barrier compared to Q2 (22% from 29%), while amongst those with no plans to grow the rating was virtually unchanged (29% from 28%)

Extent of obstacles in next 12 months Q3 13 only – all SMEs 8-10 impact score	Total	Plan to grow	No plans to grow
Unweighted base:	*5008*	*2773*	*2235*
The current economic climate	26%	22%	29%
Legislation and regulation	14%	12%	15%
Cash flow/issues with late payment	11%	12%	11%
Access to external finance	10%	11%	9%
Availability of relevant advice	6%	6%	7%
Staff related issues	3%	3%	3%

Q227a All SMEs

More differences were seen depending on whether the SME was a 'Permanent non-borrower' or not. PNBs remained less likely to see any of these issues as major barriers, notably cash flow and access to external finance:

Extent of obstacles in next 12 months Q3 13 only – all SMEs 8-10 impact score	Total	PNB	Not PNB
Unweighted base:	*5008*	*1371*	*3637*
The current economic climate	26%	20%	30%
Legislation and regulation	14%	10%	16%
Cash flow/issues with late payment	11%	5%	16%
Access to external finance	10%	2%	16%
Availability of relevant advice	6%	3%	9%
Staff related issues	3%	1%	5%

Q227a All SMEs

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

Extent of obstacles in next 12 months Q3 13 only – all SMEs 8-10 impact score	Total	Plan to apply or FWBS	Future HNS	Future HNS excl. PNB
Unweighted base:	*5008*	*1504*	*3504*	*2133*
The current economic climate	26%	38%	20%	21%
Legislation and regulation	14%	19%	11%	14%
Cash flow/issues with late payment	11%	23%	7%	9%
Access to external finance	10%	25%	4%	7%
Availability of relevant advice	6%	11%	5%	7%
Staff related issues	3%	7%	2%	2%

Q227a All SMEs

The future 'Happy non-seeker' category described above includes those SMEs that meet the definition of a 'Permanent non-borrower' and indicates that they are unlikely to borrow. Such SMEs have been excluded from the 'Happy non-seeker' definition in the final column above. This increases most of the scores slightly.

The economic climate was the most likely to be rated as a major obstacle to running their business by all sectors, with higher scores given by SMEs in the Wholesale/Retail sector. Those in Agriculture were less likely to rate the economic climate as a major barrier in Q3, and for this sector legislation and regulation is now as much of a barrier:

Extent of obstacles in next 12 months Q3 13 only – all SMEs 8-10 impact scores	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Base:	*375*	*520*	*875*	*509*	*451*	*454*	*876*	*448*	*500*
The current economic climate	18%	22%	25%	32%	26%	25%	25%	25%	28%
Legislation and regulation	18%	11%	14%	12%	15%	13%	15%	11%	13%
Cash flow/issues with late payment	9%	8%	12%	15%	12%	16%	11%	8%	11%
Access to external finance	5%	11%	10%	12%	13%	14%	9%	6%	11%
Availability of relevant advice	5%	10%	6%	11%	7%	6%	4%	3%	8%
Staff related issues	2%	3%	2%	5%	8%	4%	2%	3%	4%

Q227All SMEs

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

Eight waves of data can now be compared. The summary table below shows that the current economic climate was most likely to be rated a 'major obstacle' in all quarters, but since Q1 2012 the proportion doing so has decreased slightly each quarter, from a third to a quarter of SMEs:

Extent of obstacles in next 12 months All SMEs over time 8-10 impact score By date of interview	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13	Q3 13
Unweighted base:	*5010*	*5023*	*5000*	*5032*	*5000*	*5000*	*5000*	*5008*
The current economic climate	35%	37%	35%	34%	31%	32%	28%	26%
Legislation and regulation	14%	14%	14%	13%	12%	14%	14%	14%
Cash flow/issues with late payment	11%	14%	14%	14%	11%	12%	11%	11%
Access to external finance	10%	11%	11%	13%	10%	12%	10%	10%
Availability of relevant advice	5%	5%	6%	6%	6%	7%	6%	6%
Staff related issues	3%	3%	2%	2%	3%	3%	3%	3%

Q227 All SMEs

The lower proportion rating the current economic climate as a barrier in Q3 2012 is due to lower scores from SMEs with employees. Whilst the proportion of 0 employee SMEs rating this as a major barrier was unchanged there was a 6-7 percentage point drop for each of the other size bands between Q2 and Q3 2013:

- from 28% to 27% for those with 0 employees
- from 30% to 24% for those with 1-9 employees
- from 26% to 20% for those with 10-49 employees
- from 21% to 14% for those with 50-249 employees

Those with a low external risk rating, with plans to grow, or in the Agriculture or Hotels and Restaurants sectors were also less likely to see the economic climate as a major barrier in Q3 2013 compared to Q2.

Access to finance is the key theme of this report. In Q3 13, 10% of SMEs rated this as a major obstacle, and those who did so were also more likely to rate the current economic climate as a major obstacle (56%) as well as cash flow (43%), legislation/regulation (26%) and advice (25%).

Over time there has been relatively little variation in the overall proportion of SMEs rating access to finance as a 'major obstacle'. The table overleaf shows how this issue has been rated by key demographic groups over time. Smaller SMEs and those with an average or worse than average external risk rating remained more likely to rate access to finance as a major obstacle:

Access to finance – 8-10 impact scores Over time – row percentages By date of interview	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13	Q3 13
All SMEs	10%	11%	11%	13%	10%	12%	10%	10%
0 employee	10%	10%	10%	12%	9%	11%	10%	10%
1-9 employees	12%	15%	15%	15%	13%	15%	12%	12%
10-49 employees	12%	10%	11%	11%	9%	11%	10%	8%
50-249 employees	8%	8%	8%	7%	8%	5%	5%	5%
Minimal external risk rating	8%	4%	12%	9%	8%	5%	4%	5%
Low external risk rating	7%	11%	8%	10%	8%	8%	5%	4%
Average external risk rating	9%	9%	6%	10%	8%	11%	11%	9%
Worse than average external risk rating	12%	13%	14%	14%	11%	15%	13%	12%
Agriculture	10%	11%	8%	13%	10%	10%	12%	5%
Manufacturing	8%	12%	12%	12%	7%	6%	9%	11%
Construction	9%	13%	11%	11%	11%	12%	11%	10%
Wholesale/Retail	15%	13%	14%	12%	15%	9%	9%	12%
Hotels and Restaurants	14%	21%	15%	16%	14%	19%	12%	13%
Transport	14%	14%	15%	17%	11%	14%	14%	14%
Property/Business Services etc.	8%	8%	9%	12%	9%	13%	9%	9%
Health	7%	5%	7%	7%	4%	11%	10%	6%
Other Community	9%	12%	15%	19%	9%	13%	12%	11%
Use external finance	13%	15%	16%	19%	14%	16%	14%	14%
Plan to borrow/FWBS	22%	22%	24%	26%	21%	27%	24%	25%
Future Happy non-seekers	4%	4%	4%	5%	5%	4%	4%	4%
All SMEs excluding PNBs	15%	15%	16%	18%	14%	18%	15%	16%

Q227a_2 All SMEs, base sizes vary

Financial requirements in the next 3 months

SMEs were asked to consider their financial plans over the next 3 months. Since Q3 2011 the proportion planning to apply/renew had changed relatively little, and the proportion planning to renew/apply in Q3 2013 (12%) was the same as for the equivalent quarter of 2012:

% likely in next 3 months All SMEs, over time By date of interview	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013
Unweighted base:	*5055*	*5010*	*5023*	*5000*	*5032*	*5000*	*5000*	*5000*	*5008*
Will have a need for (more) external finance	10%	11%	13%	13%	11%	13%	13%	12%	11%
Will apply for more external finance	7%	8%	10%	9%	8%	8%	9%	9%	7%
Renew existing borrowing at same level	8%	8%	9%	8%	6%	8%	8%	7%	7%
Any apply/renew	*13%*	*14%*	*16%*	*14%*	*12%*	*14%*	*15%*	*14%*	*12%*
Reduce the amount of external finance used	10%	7%	11%	8%	7%	8%	7%	7%	7%
Inject personal funds into business	26%	26%	30%	23%	23%	22%	22%	21%	21%

Q229 All SMEs

In all quarters to date, more SMEs have identified a need for finance than thought they would apply for it (11% v 7% in Q3). The predicted level of applications/renewal in the next quarter was also typically higher than the actual level of applications/renewal seen subsequently.

Since the start of 2012, fewer SMEs have thought it likely that personal funds will be injected into the business in future (21% in Q3 2013). Data earlier in this report also showed that the proportion of SMEs that had actually injected funds was also declining over time.

Amongst those SMEs that are companies, there was little interest in seeking new equity finance, albeit the proportion expressing interest in Q3 2013 was higher than has been seen in recent quarters (5%):

% likely in next 3 months All companies, over time By date of interview	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013
Unweighted base:	*2923*	*2714*	*2904*	*2905*	*2975*	*2837*	*2944*	*2936*	*3063*
Any new equity	*5%*	*6%*	*5%*	*4%*	*4%*	*4%*	*2%*	*3%*	*5%*

Q229 All companies

In Q3 2013, there continued to be a difference in appetite for finance between those with employees and those without (and differences were also reported earlier in this chapter between SMEs with and without employees in terms of growth plans and seeing the economic climate as a barrier).

The table below shows that SMEs with 10-49 and 50-249 employees were more likely to be planning to seek external finance than to inject funds themselves. Those with 1-9 employees were as likely to be planning to seek external finance as they were an injection of personal funds. The 0 employee SMEs on the other hand were more likely to anticipate an injection of personal funds into the business than to seek external finance:

% likely in next 3 months Q3 13 only – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*5008*	*1002*	*1656*	*1600*	*750*
Will have a need for (more) external finance	11%	10%	14%	12%	12%
Will apply for more external finance	7%	6%	11%	10%	10%
Renew existing borrowing at same level	7%	6%	12%	10%	7%
Any apply/renew	*12%*	*10%*	*18%*	*16%*	*14%*
Reduce the amount of external finance used	7%	6%	8%	8%	5%
Inject personal funds into business	21%	22%	17%	8%	3%

Q229 All SMEs

Before looking at future applications for finance in more detail, the analysis below looks at the role of personal funding of SMEs. From Q2 2012, data has been available on the extent to which personal funds have either been injected into SMEs in the past, or such injections were thought likely in the future.

The table below shows how the injection of personal funds past and present combine, so that trends over time can be established.

Across the six quarters for which data is available, half of SMEs had neither put in funds, nor thought it likely they would do so. The proportion that has both put in funds in the past *and* plans to do so in future has declined slightly over time from 17% of SMEs in Q2 2012 to 14% in Q3 2013:

Injections of personal funds All SMEs, over time By date of interview	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013
Unweighted base:	*5000*	*5032*	*5000*	*5000*	*5000*	*5008*
Have injected personal funds and likely to do so again	17%	18%	15%	16%	14%	14%
Have not put in personal funds but likely to do so	5%	5%	7%	7%	7%	7%
Have injected personal funds but unlikely to do so again	24%	28%	26%	24%	27%	24%
Have not put in personal funds and not likely to do so	53%	49%	53%	54%	52%	55%

Q229/Q15d-d2 All SMEs

The most likely to have both put personal funds in and thought it likely they would do so again, were those with 0 (15%) or 1-9 employees (13%), and those with an average (14%) or worse than average (16%) external risk rating.

Turning back to future applications for external finance, the table overleaf summarises the change in likely applications/renewals over time for key demographic groups. Since the equivalent quarter in 2012, appetite for finance had declined slightly for those with 10 or more employees and for those in Manufacturing and the Other Community Sector, and increased for those in Construction:

% likely to apply or renew in next 3 months Over time – row percentages By date of interview	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013
All SMEs	**13%**	**14%**	**16%**	**14%**	**12%**	**14%**	**15%**	**14%**	**12%**
0 employee	11%	12%	14%	12%	10%	13%	13%	12%	10%
1-9 employees	18%	21%	23%	20%	18%	18%	19%	18%	18%
10-49 employees	20%	24%	23%	22%	19%	19%	20%	15%	16%
50-249 employees	15%	25%	20%	21%	18%	17%	19%	16%	14%
Minimal external risk rating	14%	16%	15%	12%	16%	20%	14%	12%	12%
Low external risk rating	14%	16%	20%	15%	13%	19%	16%	12%	13%
Average external risk rating	12%	9%	16%	12%	11%	13%	15%	12%	12%
Worse than average external risk rating	12%	16%	17%	16%	13%	13%	15%	15%	12%
Agriculture	21%	17%	21%	18%	12%	21%	16%	12%	15%
Manufacturing	13%	13%	11%	24%	16%	13%	12%	17%	8%
Construction	12%	13%	18%	13%	9%	15%	11%	14%	14%
Wholesale/Retail	17%	18%	15%	16%	17%	17%	24%	12%	15%
Hotels and Restaurants	13%	22%	22%	15%	17%	15%	18%	13%	14%
Transport	14%	17%	15%	12%	14%	15%	13%	17%	16%
Property/Business Services etc.	10%	12%	15%	13%	9%	10%	14%	12%	12%
Health	12%	11%	13%	9%	10%	14%	13%	16%	9%
Other Community	12%	14%	18%	14%	16%	15%	14%	14%	8%
Objective to grow	18%	19%	21%	17%	15%	18%	18%	17%	17%
No objective to grow	9%	10%	11%	11%	9%	11%	12%	10%	8%
All SMEs excluding PNBs	19%	22%	23%	21%	18%	22%	25%	21%	20%

Q229 All SMEs base size varies by category

Working capital remained the most frequently mentioned purpose of future funding with an increase in recent quarters in the proportion mentioning UK growth:

Use of new/renewed facility All planning to seek/renew, over time By date of interview	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013
Unweighted base:	*890*	*1046*	*1062*	*977*	*842*	*876*	*931*	*774*	*813*
Working capital	67%	59%	60%	69%	60%	62%	61%	64%	60%
Plant & machinery	29%	26%	29%	25%	27%	24%	23%	29%	24%
UK growth*	27%	22%	22%	20%	26%	14%	28%	27%	32%
Premises	10%	7%	8%	5%	8%	6%	5%	8%	5%
New products or services	9%	7%	13%	10%	7%	9%	8%	7%	11%
Growth overseas*	4%	4%	5%	3%	4%	1%	3%	4%	5%

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

Consideration of 'core' lending products (overdrafts, loans and credit cards) for future funding recovered in Q3 to 72%, back in line with earlier quarters. There was a further increase in the consideration of other forms of lending, to 66%, notably grants and leasing. Over recent quarters there have also been more mentions of loans or equity from directors:

% of those seeking/renewing finance that would consider form of funding, over time By date of interview	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013
Unweighted base:	*890*	*1046*	*1062*	*977*	*842*	*876*	*931*	*774*	*813*
'Core' product consideration	74%	69%	71%	73%	71%	72%	70%	61%	72%
-Bank overdraft	51%	49%	48%	56%	49%	53%	50%	45%	53%
-Bank loan/Commercial mortgage	44%	40%	40%	40%	43%	35%	40%	34%	40%
-Credit cards	19%	17%	19%	20%	16%	20%	18%	16%	23%
Other product consideration	60%	55%	61%	59%	63%	59%	60%	61%	66%
-Grants	36%	35%	35%	38%	36%	36%	43%	40%	47%
-Loans/equity from family/friends	23%	22%	23%	21%	21%	20%	16%	21%	19%
-Leasing or hire purchase	19%	18%	21%	23%	24%	21%	21%	23%	28%
Loans/equity from directors	12%	18%	14%	10%	13%	10%	12%	15%	19%
Loans from other 3rd parties	13%	10%	11%	7%	15%	12%	15%	14%	16%
Invoice finance	6%	6%	9%	9%	7%	9%	8%	7%	9%

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

As consideration of core products recovered, 19% of potential applicants in Q3 2013 said that they would **only** consider these core products, up slightly from 15% in Q2, but lower than in previous quarters when around 1 in 4 of SMEs planning to apply for finance would only consider these core products.

Higher consideration in Q3 2013 for 'core' products was seen to some extent across all size bands, but more particularly for those with 0 or 1-9 employees. The increased consideration of grants was due to higher levels of consideration across all sizes of SMEs, while for leasing it was driven by smaller SMEs with up to 9 employees:

% of those seeking/renewing finance would consider funding – Q3 13 only	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*813*	*111*	*315*	*277*	*110*
'Core' product consideration	72%	74%	71%	60%	59%
-Bank overdraft	53%	54%	51%	44%	24%
-Bank loan/Commercial mortgage	40%	40%	40%	36%	44%
-Credit cards	23%	27%	16%	13%	17%
Other product consideration	66%	66%	65%	62%	67%
-Grants	47%	49%	47%	36%	41%
-Loans/equity from family & friends	19%	21%	17%	11%	5%
-Leasing or hire purchase	28%	28%	28%	32%	38%
-Loans/equity from directors	19%	19%	21%	19%	9%
-Loans from other 3rd parties	16%	16%	14%	14%	13%
-Invoice finance	9%	10%	8%	10%	28%

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

Confidence in a future application was asked of those planning to apply via loan, overdraft, leasing, invoice finance and/or credit cards. In Q2 this had been a smaller proportion of *all* prospective applicants (68%) than in previous quarters, but in Q3 2013 levels returned to those previously seen (around three-quarters). 4 out of 10 such prospective applicants were confident in Q3 2013 that the bank would lend to them:

Confidence bank would lend All planning to seek finance, over time by date of interview	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13	Q3 13
Unweighted base:	*707*	*763*	*834*	*781*	*649*	*669*	*713*	*547*	*607*
Very confident	14%	22%	19%	15%	10%	15%	17%	4%	12%
Fairly confident	29%	24%	33%	24%	23%	28%	23%	26%	29%
Overall confidence	*43%*	*46%*	*52%*	*39%*	*33%*	*43%*	*40%*	*30%*	*41%*
Neither/nor	36%	26%	20%	25%	22%	23%	32%	31%	32%
Not confident	20%	28%	28%	35%	45%	33%	27%	40%	27%
Net confidence (confident – not confident)	*+23*	*+18*	*+24*	*+4*	*-12*	*+10*	*+13*	*-10*	*+14*

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

Confidence in Q3 2013 that the bank would lend recovered to 41% and is now in line with the start of the year. It is also higher than the equivalent quarter of 2012 when 33% were confident (one of the lowest levels recorded).

As the tables below show, this recovery was due to improved confidence amongst the smaller potential applicants, and was across all risk ratings.

Over time, confidence amongst potential applicants with 0-9 employees has been more volatile, as the table below shows. It was the decline in confidence amongst these smaller SMEs in Q2 2013 (to 29%) that resulted in the decrease in confidence overall for that quarter, and it is their increased confidence in Q3 (40%) that has led to the latest improvement overall.

Confidence amongst bigger potential applicants with 10-249 employees remained higher than for smaller potential applicants and, with the exception of the second half of 2012, around 6 out of 10 each quarter have been confident that their bank would lend:

Overall confidence bank would lend All planning to seek finance, over time By date of interview	Overall	0-9 emps	10-249 emps
Q1-2 2011	42%	40%	57%
Q3 2011	43%	42%	63%
Q4 2011	46%	46%	61%
Q1 2012	52%	52%	61%
Q2 2012	39%	37%	60%
Q3 2012	33%	32%	54%
Q4 2012	43%	43%	55%
Q1 2013	40%	40%	60%
Q2 2013	30%	29%	60%
Q3 2013	41%	40%	57%

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

The table below shows how, each quarter, potential applicants with a minimal/low external risk rating were more confident of success than those with an average or worse than average risk rating. Levels of confidence have fluctuated over time for both groups, with confidence improving in Q3 for both:

Overall confidence bank would lend All planning to seek finance, over time By date of interview	Overall	Min/low	Av/Worse than avge
Q1-2 2011	42%	57%	38%
Q3 2011	43%	65%	38%
Q4 2011	46%	69%	46%
Q1 2012	52%	65%	49%
Q2 2012	39%	50%	37%
Q3 2012	33%	51%	28%
Q4 2012	43%	58%	43%
Q1 2013	40%	70%	33%
Q2 2013	30%	56%	27%
Q3 2013	41%	64%	39%

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

Those planning to renew remained more confident of success than those planning to apply for a new facility. Analysis shows that overall confidence in Q3 2013 recovered to Q1 2013 levels both for those planning to renew (50%, recovering from 38% in Q2) and amongst those planning to apply for new facilities (where confidence was 29%, up from 25% in Q2).

These levels of confidence remained in contrast to the actual outcome of applications. Success rates for renewals in the last 18 months are 94% compared to confidence levels in Q3 of 50%, while for new funds success rates in the same period are 46% against a current confidence level of 29%.

Key driver analysis conducted for the Q3 2013 report showed that amongst those planning to apply, confidence was higher amongst older, profitable businesses, with a minimal risk rating. Factors that made potential applicants less confident included being a younger business, having had a self-reported credit issue, not being aware of FLS, using a personal account, having less than £5,000 in credit balances, expecting the business to become smaller in future or having a worse than average risk rating.

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

In Q3 2013, 12% of all SMEs reported plans to apply/renew facilities in the following 3 months, leaving the majority (88%) with no such plans. A third of that majority (36%) were current users of external finance. The rest were not. This means that, for Q3 2013, 56% of all SMEs neither used external finance nor had any immediate plans to apply for any. This proportion has increased over time, from 50% in 2011, to 53% in 2012 and 56% in 2013 to date.

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

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

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

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

These definitions have not been changed, unlike the equivalent question for *past* behaviour covered earlier in this report. However, the option 'I prefer not to borrow' as a reason why 'Future would-be seekers' were not planning to seek facilities was removed in Q4 2012, as it was for past behaviour.

The table below shows the picture over time. Fewer planned to apply in Q3 2013, and the proportion of 'Future would-be seekers' has also declined slightly (17%). As a result, the proportion of 'Happy non seekers' has increased again (now 70%):

Future finance plans All SMEs, over time By date of interview	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013
Unweighted base:	*5055*	*5010*	*5023*	*5000*	*5032*	*5000*	*5000*	*5000*	*5008*
Plan to apply/renew	13%	14%	16%	14%	12%	14%	15%	14%	12%
'Future would-be seekers' – with identified need	2%	2%	2%	3%	3%	2%	3%	2%	2%
'Future would-be seekers' – no immediate identified need	20%	18%	23%	19%	22%	19%	16%	17%	15%
'Happy non-seekers'	65%	66%	60%	64%	63%	65%	67%	67%	70%

Q230/239 All SMEs

Q3 2013 saw the highest level of 'Happy non-seekers' recorded to date. The quarter on quarter increase was seen across all size bands, with a bigger increase for larger SMEs, who are the most likely to be 'Happy non-seekers' in Q3 (75% of those with 50-249 employees and 74% of those with 10-49 employees, compared to 71% of those with 0 employees and 67% of those with 1-9 employees).

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. The table below shows future plans over time once this group has been excluded. As for SMEs overall, the proportion of ‘Happy non seekers’ is increasing steadily over time:

Future finance plans SMEs excluding PNB, over time By date of interview	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013
Unweighted base:	*3968*	*3822*	*4022*	*3894*	*3732*	*3664*	*3649*	*3707*	*3637*
Plan to apply/renew	19%	22%	23%	21%	18%	22%	25%	21%	20%
‘Future would-be seekers’ – with identified need	3%	3%	3%	5%	4%	4%	5%	3%	4%
‘Future would-be seekers’ – no immediate identified need	31%	28%	32%	29%	33%	29%	27%	27%	26%
‘Happy non-seekers’	46%	47%	42%	45%	44%	44%	44%	48%	50%

Q230/239 All SMEs excluding the ‘permanent non-borrowers’

The table below shows how the proportion of ‘Future would-be seekers’ has changed over time. At 17%, the overall figure for Q3 2013 was the lowest reported to date:

- The proportion of 1-9 and 10-49 employee businesses meeting the definition of a ‘Future would-be seeker’ has declined again, as it has for those with a minimal external risk rating
- By sector, there are fewer ‘Future would-be seekers’ in Agriculture or Construction
- Once the PNBs are excluded, the proportion of ‘Future would-be seekers’ was unchanged from Q2 and remained at its lowest level to date (30%)

Future would-be seekers Over time – row percentages By date of interview	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013
All SMEs	22%	20%	25%	22%	25%	21%	19%	19%	17%
0 employee	23%	20%	26%	24%	25%	22%	19%	20%	19%
1-9 employees	22%	21%	22%	19%	23%	19%	19%	18%	15%
10-49 employees	16%	13%	14%	16%	14%	14%	15%	16%	10%
50-249 employees	15%	15%	16%	14%	13%	15%	16%	15%	11%
Minimal external risk rating	19%	11%	14%	18%	13%	14%	10%	13%	7%
Low external risk rating	15%	14%	19%	22%	23%	17%	18%	10%	15%
Average external risk rating	20%	20%	20%	22%	20%	19%	19%	17%	17%
Worse than average external risk rating	26%	23%	29%	23%	26%	23%	19%	23%	21%
Agriculture	22%	20%	27%	23%	25%	22%	15%	21%	17%
Manufacturing	22%	18%	29%	17%	26%	20%	17%	17%	20%
Construction	25%	25%	24%	29%	23%	20%	21%	20%	15%
Wholesale/Retail	26%	25%	27%	25%	25%	24%	16%	23%	21%
Hotels and Restaurants	20%	17%	27%	27%	24%	26%	22%	19%	20%
Transport	21%	24%	26%	21%	27%	21%	28%	24%	22%
Property/Business Services etc.	22%	17%	23%	20%	26%	21%	18%	18%	15%
Health	16%	18%	20%	14%	21%	13%	20%	13%	14%
Other Community	18%	14%	22%	22%	23%	22%	15%	18%	21%
All SMEs excluding PNBs	34%	31%	35%	34%	37%	33%	32%	30%	30%

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

To understand this further, the table below shows all the reasons given by 'Future would-be seekers' in Q3 2013 for thinking they would not apply for finance in the next three months, and highlights the continued impact of the current economic climate, especially amongst larger SMEs:

Reasons for not applying (all mentions) All 'Future would-be seekers' Q3 13 only	Q3 overall	Q3 0-9 emps	Q3 10-249 emps
Unweighted base:	*691*	*438*	*253*
Reluctant to borrow now (any)	62%	62%	77%
-Prefer not to borrow in economic climate	*46%*	*46%*	*46%*
-Predicted performance of business	*17%*	*16%*	*32%*
Issues with principle of borrowing	4%	4%	2%
-Not lose control of business	*2%*	*2%*	*1%*
-Can raise personal funds if needed	*2%*	*2%*	*1%*
-Prefer other forms of finance	*	*	*1%*
-Go to family and friends	*1%*	*1%*	*1%*
Issues with process of borrowing	16%	17%	11%
-Would be too much hassle	*7%*	*7%*	*5%*
-Thought would be too expensive	*10%*	*10%*	*5%*
-Bank would want too much security	*3%*	*3%*	*1%*
-Too many terms and conditions	*1%*	*1%*	*2%*
-Did not want to go through process	*1%*	*1%*	*1%*
-Forms too hard to understand	*	*	*
Discouraged (any)	17%	17%	11%
-Direct (Put off by bank)	2%	2%	1%
-Indirect (Think I would be turned down)	*17%*	*17%*	*10%*

Q239 'Future would-be seekers' SMEs

Those SMEs that gave more than one reason for being unlikely to apply for new/renewed facilities were asked for the main reason, and all the main reasons given over time are shown below.

A reluctance to borrow in the current economic climate, at 60%, remained the main reason for not applying for external finance in Q3 2013. Over time, more of those giving this as their main reason said it was due to not wanting to borrow in the current economic climate (now 44%).

Since Q2 2012, the proportion of 'Future would-be seekers' citing discouragement as their main barrier has remained fairly consistent, with the exception of Q1 2013. It was cited by 16% of 'Future would-be seekers' in Q3, and as before, almost all of this was indirect discouragement:

Main reason for not applying 'Future would-be seekers' over time By date of interview	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13	Q3 13
Unweighted base:	*954*	*862*	*980*	*927*	*975*	*880*	*867*	*861*	*691*
Reluctant to borrow now (any)	43%	52%	54%	49%	49%	50%	63%	60%	60%
-Prefer not to borrow in economic climate	*32%*	*39%*	*37%*	*31%*	*36%*	*37%*	*40%*	*42%*	*44%*
-Predicted performance of business	*10%*	*14%*	*17%*	*18%*	*13%*	*13%*	*23%*	*18%*	*16%*
Issues with principle of borrowing	25%	13%	14%	14%	16%	12%	6%	4%	1%
Issues with process of borrowing	15%	15%	14%	14%	12%	15%	13%	13%	13%
Discouraged (any)	10%	14%	11%	14%	16%	17%	12%	16%	16%
-Direct (Put off by bank)	*	*2%*	*2%*	*1%*	*1%*	*1%*	*3%*	*3%*	*1%*
-Indirect (Think I would be turned down)	*10%*	*12%*	*9%*	*13%*	*15%*	*16%*	*10%*	*14%*	*15%*

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

These barriers remain in contrast to the reasons given by those who had not applied for a facility in the previous 12 months, where discouragement was much more of an issue and the economic climate was given as the main reason by 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. Over time, the main barriers to borrowing have been shown to be slightly different for the two groups.

Before looking at their reasons for being a ‘would-be seeker’ in more detail, there are some demographic differences between the two groups that may affect the reasons they give:

- There are no differences by size or external risk rating between those ‘future would-be seekers’ with a need identified and those with no immediate need
- However, those with a need identified are typically younger businesses (31% Starts v 20% for would-be seekers with no immediate need and 23% more than 10 years old compared to 35% of those with no immediate need) and are more likely to have self-reported a credit issue (29% v 13% with no immediate need – predominantly going into unauthorised overdraft)
- Those with an immediate need are more ‘involved’ in financial matters. They are more likely to be using external finance already (52% v 40%). They are also more likely to either have had a borrowing event in the previous 12 months (34% v 13%) or to have been a ‘would-be seeker’ (24% v 14%) and thus unlikely to have been a ‘Happy non-seeker’ in the past (42% v 73% of those with no immediate need). On a limited base size, those with an immediate need who had applied for a facility were somewhat less likely to have been successful
- They were no more or less likely to have been profitable but were more likely to be predicting growth for the next 12 months (62% v 43% of those with no immediate need)

Results for these SMEs are reported on a two quarter rolling basis to boost base sizes for the ‘Future would-be seekers’ with an identified need (there are no Q3-4 2012 rolling figures due to changes made to the questionnaire in Q4 2012).

For those with an identified need for finance, the main barrier is discouragement (46%), now back at levels seen in early 2012. As before, almost all of this is indirect discouragement, where the SME assumes they would be turned down and so does not apply. A reluctance to borrow in the current economic climate has been mentioned less over recent quarters (now 24%):

Main reason for not applying The 'Future would-be seekers' **with identified need**	Q1-2 2012	Q2-3 2012	Q4-1 2013	Q1-2 2013	Q2-3 2013
Unweighted base:	*213*	*226*	*220*	*190*	*151*
Reluctant to borrow now (any)	38%	35%	37%	33%	24%
-Prefer not to borrow in economic climate	*33%*	*30%*	*32%*	*29%*	*20%*
-Predicted performance of business	*5%*	*5%*	*5%*	*4%*	*5%*
Issues with principle of borrowing	4%	3%	3%	9%	6%
Issues with process of borrowing	10%	12%	22%	23%	19%
Discouraged (any)	44%	46%	36%	32%	46%
- Direct (Put off by bank)	*6%*	*4%*	*3%*	*5%*	*6%*
-Indirect (Think I would be turned down)	*39%*	*42%*	*33%*	*27%*	*40%*

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

Those with an immediate need made up 13% of all 'Future would-be seekers' in Q3 2013, but made up 39% of all *discouraged* 'Future would-be seekers'.

As the table below shows, amongst those 'Future would-be seekers' with no specific need for finance in mind, a reluctance to borrow in the current climate presents much more of a barrier, and this is increasingly due to the general economic climate rather than the performance of the SME specifically.

Discouragement is much less likely to be mentioned by this group, but where it is, it is likely to be indirect:

Main reason for not applying The 'Future would-be seekers' **with no identified need**	*Q1-2 2012*	*Q2-3 2012*	*Q4-1 2013*	*Q1-2 2013*	*Q2-3 2013*
Unweighted base:	***1694***	***1676***	***1527***	***1538***	***1401***
Reluctant to borrow now (any)	53%	51%	59%	66%	65%
-Prefer not to borrow in economic climate	*34%*	*35%*	*39%*	*43%*	*46%*
-Predicted performance of business	*19%*	*17%*	*20%*	*23%*	*19%*
Issues with principle of borrowing	15%	17%	10%	5%	2%
Issues with process of borrowing	14%	13%	13%	11%	12%
Discouraged (any)	8%	11%	12%	12%	12%
- Direct (Put off by bank)	*1%*	*1%*	*2%*	*2%*	*1%*
-Indirect (Think I would be turned down)	*7%*	*9%*	*10%*	*9%*	*11%*

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

Other analysis of all 'Future would-be seekers', such as by size and risk rating, is possible based just on the latest quarter, Q3 2013.

By size, a reluctance to borrow in the current climate was mentioned less by larger 'Would-be seekers' in Q3 (75% from 81% in Q2). This was due to fewer mentions of the performance of the business (31% from 40%) rather than a change in mentions of the economic climate more generally (44% from 41%). Larger 'Would-be seekers' were also more likely to mention discouragement in Q3 (11% from 5%), but still mentioned it less than smaller 'Would-be seekers' (16%), where the proportions citing each reason in Q3 were very similar to those in Q2:

Main reason for not applying 'Future would-be seekers' by size Q3 13 only	Overall	0-9 emps	10-249 emps
Unweighted base:	***691***	***438***	***253***
Reluctant to borrow now (any)	60%	60%	75%
-Prefer not to borrow in economic climate	*44%*	*44%*	*44%*
-Predicted performance of business	*16%*	*15%*	*31%*
Issues with principle of borrowing	1%	1%	1%
Issues with process of borrowing	13%	13%	8%
Discouraged (any)	16%	16%	11%
-Direct (Put off by bank)	*1%*	*1%*	*1%*
-Indirect (Think I would be turned down)	*15%*	*15%*	*10%*

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

The table below shows the main reasons given for not applying by 'Future would-be seekers' in Q3 2013, split by risk rating. A reluctance to borrow now was the main barrier across the risk ratings, while indirect discouragement continued to be mentioned slightly more by those with a worse than average external risk rating:

Main reason for not applying 'Future would-be seekers' by risk rating Q3 13 only	Min/Low	Avge	Worse/ Avge
Unweighted base:	***194***	***161***	***256***
Reluctant to borrow now (any)	69%	54%	61%
-Prefer not to borrow in economic climate	*40%*	*41%*	*47%*
-Predicted performance of business	*29%*	*12%*	*14%*
Issues with principle of borrowing	1%	1%	1%
Issues with process of borrowing	8%	21%	11%
Discouraged (any)	10%	12%	16%
-Direct (Put off by bank)	-	*	*
-Indirect (Think I would be turned down)	*10%*	*12%*	*16%*

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

Analysis of barriers to application by credit balances held showed that:

- SMEs with more than £5,000 in credit balances were less likely over time to be a 'Future would-be seeker' (currently 12%). Such SMEs were much more likely to cite a reluctance to borrow in the current climate (74%) than they were discouragement (3%)
- 21% of SMEs with either nothing, or less than £5,000, in credit balances were 'Future would-be seekers', and this proportion has stayed stable over time. Such SMEs were more likely than those with larger credit balances to cite discouragement (19%), almost all of it indirect, while half (54%) cited a reluctance to borrow in the current climate

Key driver analysis of all 'Future would-be seekers' in the year to Q3 2013 showed that certain types of SME were more likely to cite the economy as the barrier, rather than discouragement. These included those that have had self-reported credit issues, where the business has got smaller, made a loss or broken even, or where they plan to grow substantially in the next 12 months.

The types of 'Future would-be seeker' more likely to choose discouragement as the barrier included those with a minimal to average external risk rating, those who import, older businesses and also those with 0 employees.

To put all these results in context, the table below shows the equivalent figures for main reasons for all SMEs in Q3 2013. 1 in 9 of all SMEs (11%) would have liked to apply for new/renewed facilities in the next 3 months but thought they would be unlikely to do so because of the current climate or the performance of their business:

Reasons for not applying Q3 13 only – the Future would-be seekers	Main reason	All SMEs Q3	All SMEs excl. PNB
Unweighted base:	*691*	*5008*	*3637*
Reluctant to borrow now (any)	60%	11%	18%
-Prefer not to borrow in economic climate	*44%*	*8%*	*13%*
-Predicted performance of business	*16%*	*3%*	*5%*
Issues with principle of borrowing	1%	*	*
Issues with process of borrowing	13%	2%	4%
Discouraged (any)	16%	3%	5%
-Direct (Put off by bank)	*1%*	***	***
-Indirect (Think I would be turned down)	*15%*	*3%*	*4%*

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

The table above also shows the equivalent proportion of SMEs *excluding* the 'Permanent non-borrowers'. Of those SMEs that *might* be interested in seeking finance (once the PNBs are excluded), 18% were put off by the current economic climate (including their performance in that climate), and this has changed relatively little over recent quarters.

13. Awareness of taskforce and other initiatives

This final section of the report looks

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

Key findings

Awareness of any of the various initiatives designed to support SMEs increased slightly in Q3 2013 to 56%, having been 52% in the previous quarter.

Awareness amongst larger SMEs remained higher (78% amongst those with 50-249 employees). There was also higher awareness amongst those planning to apply for new/renewed facilities in the next three months (66%, up from 56% in Q2)

Awareness of any of the Government led initiatives, at 39%, was very similar to that for the Bank led initiatives, 38%, and again, awareness increased with size of SME.

Awareness of the appeals process when a facility is declined was unchanged amongst those who had been declined for an overdraft (15%) or a loan (7%) between Q2 2012 and Q3 2013. Awareness improved very slightly for *all* SMEs in Q3 and is now 14%. Amongst those interviewed in Q3 who had applied for a facility and either been declined or taken other funding, awareness of the appeals process was 22% if they had applied for a loan and 15% if they had applied for an overdraft.

The highest level of awareness for an individual initiative was recorded for the Funding for Lending Scheme (30% of all SMEs were aware, and 7% were *only* aware of this initiative of all those tested). Awareness of the scheme has improved steadily over time, from 23% in Q4 2012.

Awareness of what their bank is offering under the scheme was limited (9% of all SMEs), and over time fewer SMEs saw schemes such as FLS as an incentive to apply for funding. In Q3, 14% of all SMEs said that they were more likely to apply for funding because of such schemes, down from 20% in Q4 2012. As in previous quarters the majority (77% in Q3) said that such schemes made no difference as they did not want to apply for finance.

24% of SMEs (excluding the PNBs) were aware of crowd-funding across Q2 and Q3 2013, up from 18% when this question was asked in Q2 and Q3 2012. Applications remain limited, with 2% of all SMEs saying that they had applied for such funding.

In October 2010, the Business Finance Taskforce agreed to a range of initiatives with the aim of supporting SMEs in the UK. This final section of the report looks at awareness amongst SMEs of some of these commitments, together with other relevant initiatives. This part of the survey was also revised and updated for Q4 2012, so results are not always directly comparable over time.

The first table covers those initiatives potentially relevant to all SMEs, based on the updated list of initiatives, and for Q3 2013 only. It shows Funding for Lending continued to achieve higher levels of awareness than some longer established support schemes, across all sizes of SME:

Awareness of Taskforce initiatives Q3 13 – all SMEs asked new question	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*5008*	*1002*	*1656*	*1600*	*750*
New support from the Bank of England called Funding for Lending*	30%	28%	35%	41%	51%
Government support schemes for access to finance such as Enterprise Finance Guarantee Scheme etc*	24%	22%	29%	34%	45%
A network of business mentors	23%	22%	26%	27%	33%
Other alternative sources of business finance such as Asset based finance etc*	20%	17%	27%	32%	40%
The Lending Code / principles*	18%	17%	22%	27%	36%
The Business Growth Fund	15%	14%	17%	22%	35%
Independently monitored appeals process	14%	13%	17%	18%	26%
BetterBusinessFinance.co.uk	9%	8%	13%	10%	11%
Regional outreach events	9%	9%	10%	9%	9%
Any of these	*56%*	*54%*	*60%*	*66%*	*78%*
None of these	*44%*	*46%*	*40%*	*34%*	*22%*

Q240 All SMEs * indicates new or amended question

Awareness of *any* of these initiatives, at 56%, was somewhat higher than the 52% seen in the previous two quarters when the revised list was introduced. This overall awareness increased by size of business from 54% of 0 employee SMEs to 78% of those with 50-249 employees. For 7% of all SMEs in Q3 2013, Funding for Lending was the only initiative they were aware of (almost unchanged from Q2 2013 when it was 6%).

Those SMEs that had someone in charge of the finances with training/qualifications were more likely to be aware of any of these initiatives (66%) than those who did not (52%) but this is also likely to be a reflection of the fact that bigger SMEs, with higher awareness, are more likely to have someone in charge of the finances with training/qualifications.

39% of all SMEs were aware of either of the Government led initiatives (FLS and other support schemes for access to finance). A similar proportion, 38%, was aware of any of the banking led initiatives (a network of business mentors, Lending Code, appeals, the BetterBusinessFinance website and outreach events). In both cases awareness increased by size, with around half of the largest SMEs being aware of each of these sets of initiatives.

SMEs looking to apply for new/renewed facilities in the next 3 months were more aware of any of these initiatives in Q3 2013 (66%, up from 56% in Q2). They were also more aware than the 'Future would-be seekers' (53%, unchanged from Q2) or the 'Future happy non-seekers' (55%, up from 45% in Q2).

As many of these initiatives are aimed at those with an interest in seeking external finance, they are potentially less relevant to the 'Permanent non-borrowers' who have indicated that they are unlikely to seek external finance. As in both Q4 2012 and Q1 2013 there was a difference in awareness of any of these initiatives between 'Permanent non-borrowers' (50% aware of any initiatives in Q3 2013) and other SMEs (60% aware).

Awareness over time is shown in the table below for those initiatives where comparable data is available. This shows that, over time, awareness of individual initiatives had changed very little:

Awareness of Taskforce initiatives Over time – all SMEs By date of interview	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13	Q3 13
Unweighted base:	*4792*	*5010*	*5023*	*5000*	*5032*	*5000*	*5000*	*5000*	*5000*
A network of business mentors	21%	22%	26%	23%	23%	21%	21%	23%	23%
Independently monitored appeals process	14%	10%	13%	12%	11%	10%	13%	12%	14%
The Business Growth Fund	12%	12%	12%	14%	12%	14%	14%	16%	15%
Regional outreach events	11%	7%	9%	8%	8%	8%	8%	8%	9%
BetterBusiness Finance.co.uk	9%	9%	9%	9%	9%	10%	9%	9%	9%

Q240 All SMEs where consistent wording used

The table below shows awareness by size of SME for those initiatives where full comparable data is available over time. Since Q4 2012, overall awareness of the appeals process has increased slightly from 10% to 14%, with higher awareness amongst those with employees in Q3:

Awareness of Taskforce initiatives All SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base (Q3):	*5000*	*1000*	*1650*	*1600*	*750*
A network of business mentors Q411	22%	22%	21%	28%	23%
A network of business mentors Q112	26%	26%	24%	26%	28%
A network of business mentors Q212	23%	22%	26%	28%	28%
A network of business mentors Q312	23%	23%	23%	27%	30%
A network of business mentors Q412	21%	21%	22%	28%	29%
A network of business mentors Q113	21%	21%	23%	26%	32%
A network of business mentors Q213	23%	23%	22%	24%	26%
A network of business mentors Q313	23%	22%	26%	27%	33%
Independently monitored appeals process Q411	10%	10%	12%	17%	17%
Independently monitored appeals process Q112	13%	13%	13%	16%	19%
Independently monitored appeals process Q212	12%	10%	15%	17%	18%
Independently monitored appeals process Q312	11%	10%	12%	17%	23%
Independently monitored appeals process Q412	10%	10%	11%	16%	17%
Independently monitored appeals process Q113	13%	12%	13%	16%	22%
Independently monitored appeals process Q213	12%	11%	13%	17%	18%
Independently monitored appeals process Q313	14%	13%	17%	18%	26%

Continued

Continued

The Business Growth Fund Q411	12%	11%	14%	18%	22%
The Business Growth Fund Q112	12%	11%	14%	21%	25%
The Business Growth Fund Q212	14%	12%	16%	21%	23%
The Business Growth Fund Q312	12%	11%	15%	19%	25%
The Business Growth Fund Q412	14%	13%	14%	24%	25%
The Business Growth Fund Q113	14%	13%	16%	21%	27%
The Business Growth Fund Q213	16%	15%	16%	22%	29%
The Business Growth Fund Q313	15%	14%	17%	22%	35%
Regional outreach events Q411	7%	7%	9%	14%	10%
Regional outreach events Q112	9%	9%	9%	13%	12%
Regional outreach events Q212	8%	7%	12%	12%	11%
Regional outreach events Q312	8%	8%	8%	10%	14%
Regional outreach events Q412	8%	8%	9%	10%	12%
Regional outreach events Q113	8%	7%	8%	10%	11%
Regional outreach events Q213	8%	7%	8%	8%	9%
Regional outreach events Q313	9%	9%	10%	9%	9%
BetterBusinessFinance.co.uk Q411	9%	9%	9%	12%	9%
BetterBusinessFinance.co.uk Q112	9%	10%	8%	10%	11%
BetterBusinessFinance.co.uk Q212	9%	8%	11%	10%	10%
BetterBusinessFinance.co.uk Q312	9%	8%	10%	10%	11%
BetterBusinessFinance.co.uk Q412	10%	10%	11%	12%	9%
BetterBusinessFinance.co.uk Q113	9%	8%	10%	10%	11%
BetterBusinessFinance.co.uk Q213	9%	9%	10%	9%	9%
BetterBusinessFinance.co.uk Q313	9%	8%	13%	10%	11%

Q240 All SMEs

As already mentioned, a number of initiatives were included for the first time in Q4 2012. Analysis over time is therefore more limited, but is shown below for the quarters for which it is available. Awareness of these initiatives has improved to varying degrees in Q3 2013:

Awareness of more recent initiatives All SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base (Q2):	*5000*	*1000*	*1650*	*1600*	*750*
Funding for Lending Q412	23%	21%	27%	35%	45%
Funding for Lending Q113	27%	24%	32%	37%	43%
Funding for Lending Q213	29%	27%	34%	40%	48%
Funding for Lending Q313	30%	28%	35%	41%	51%
Government support schemes Q412	22%	21%	24%	32%	42%
Government support schemes Q113	24%	22%	28%	32%	41%
Government support schemes Q213	23%	22%	24%	31%	36%
Government support schemes Q313	24%	22%	29%	34%	45%
Alternative sources of finance Q412	17%	16%	20%	29%	37%
Alternative sources of finance Q113	19%	17%	24%	31%	42%
Alternative sources of finance Q213	16%	15%	19%	26%	35%
Alternative sources of finance Q313	20%	17%	27%	32%	40%
The Lending Code Q412	17%	17%	17%	23%	27%
The Lending Code Q113	18%	16%	20%	25%	31%
The Lending Code Q213	18%	17%	20%	25%	29%
The Lending Code Q313	18%	17%	22%	27%	36%

Analysis over time by sector is also provided below, but first, a table showing results for the new list of initiatives, by sector, for Q3 2013. Overall awareness ranged from 65% amongst those in Property / Business Services to 48% for those in Manufacturing, Construction and Hotels and Restaurants:

% aware of Initiatives Q3 13 – all SMEs asked new question	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*375*	*520*	*875*	*509*	*451*	*454*	*876*	*448*	*500*
New support from the Bank of England called Funding for Lending*	33%	25%	27%	33%	28%	31%	33%	28%	31%
Government support schemes for access to finance such as Enterprise Finance Guarantee Scheme etc*	21%	21%	20%	28%	23%	25%	30%	16%	22%
A network of business mentors	19%	20%	19%	21%	22%	16%	33%	23%	22%
Other alternative sources of business finance such as Asset based finance etc*	19%	16%	12%	22%	18%	17%	30%	21%	14%
The Lending Code	17%	10%	14%	18%	18%	14%	25%	18%	21%
The Business Growth Fund	14%	13%	11%	14%	16%	13%	19%	12%	15%
BetterBusinessFinance.co.uk	6%	6%	7%	11%	11%	8%	10%	10%	9%
Independently monitored appeals process	10%	5%	14%	14%	16%	10%	18%	11%	20%
Regional outreach events	8%	7%	8%	7%	9%	11%	10%	10%	12%
Any of these	*52%*	*48%*	*48%*	*56%*	*48%*	*59%*	*65%*	*55%*	*58%*
None of these	*48%*	*52%*	*52%*	*44%*	*52%*	*41%*	*35%*	*45%*	*42%*

Q240 All SMEs * indicates new or amended question

A detailed breakdown of awareness over time by sector is provided below, firstly for those initiatives where full comparable data is available over time:

% aware Over time by date of interview	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
A network of business mentors Q411	15%	30%	16%	17%	18%	20%	27%	23%	25%
Q112	21%	23%	21%	22%	21%	24%	27%	31%	39%
Q212	18%	22%	17%	20%	22%	16%	34%	24%	24%
Q312	18%	20%	17%	23%	21%	20%	29%	34%	23%
Q412	16%	23%	14%	22%	15%	17%	28%	21%	26%
Q113	20%	25%	14%	17%	18%	18%	26%	29%	26%
Q213	23%	20%	15%	18%	22%	24%	31%	24%	24%
Q313	19%	20%	19%	21%	22%	16%	33%	23%	22%
Independently monitored appeals process Q411	11%	13%	8%	11%	12%	16%	11%	6%	11%
Q112	10%	10%	15%	13%	11%	17%	12%	14%	11%
Q212	9%	8%	10%	12%	13%	14%	14%	11%	13%
Q312	12%	8%	10%	12%	9%	10%	11%	9%	11%
Q412	7%	10%	8%	14%	11%	10%	11%	11%	11%
Q113	13%	9%	10%	9%	15%	9%	11%	22%	24%
Q213	10%	8%	8%	13%	14%	16%	17%	15%	5%
Q313	10%	5%	14%	14%	16%	10%	18%	11%	20%

Continued

Continued

The Business Growth Fund Q411	16%	14%	6%	9%	11%	16%	18%	10%	9%
Q112	11%	13%	9%	11%	12%	17%	15%	14%	9%
Q212	11%	12%	8%	9%	12%	14%	21%	12%	16%
Q312	13%	12%	9%	10%	12%	8%	18%	10%	12%
Q412	11%	12%	12%	18%	9%	13%	16%	12%	10%
Q113	14%	16%	7%	11%	15%	11%	19%	12%	18%
Q213	15%	13%	11%	16%	14%	15%	20%	17%	19%
Q313	14%	13%	11%	14%	16%	13%	19%	12%	15%
Regional outreach events Q411	9%	8%	7%	9%	7%	10%	8%	5%	6%
Q112	8%	9%	8%	7%	8%	12%	11%	14%	5%
Q212	8%	6%	3%	7%	8%	4%	11%	10%	16%
Q312	11%	6%	6%	7%	8%	6%	10%	9%	11%
Q412	5%	6%	6%	11%	5%	11%	8%	8%	13%
Q113	8%	11%	6%	7%	9%	5%	8%	7%	12%
Q213	6%	5%	5%	6%	8%	9%	10%	10%	8%
Q313	8%	7%	8%	7%	9%	11%	10%	10%	12%

Continued

BetterBusinessFinance.co.uk Q411	11%	8%	9%	4%	10%	11%	9%	6%	13%
Q112	6%	9%	8%	5%	12%	13%	10%	15%	12%
Q212	10%	11%	5%	5%	8%	6%	12%	10%	12%
Q312	9%	4%	7%	9%	11%	14%	8%	12%	10%
Q412	6%	7%	10%	11%	12%	9%	11%	11%	14%
Q113	8%	14%	6%	8%	14%	4%	8%	7%	17%
Q213	9%	11%	6%	9%	13%	9%	9%	13%	13%
Q313	6%	6%	7%	11%	11%	8%	10%	10%	9%

Q240 All SMEs

For those initiatives included for the first time in Q4 2012 analysis over time is more limited, but is shown below for the quarters for which it is available. Awareness of FLS has improved for all sectors over time:

% aware Over time by date of interview	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Funding for Lending Q412	25%	19%	21%	26%	19%	27%	26%	25%	19%
Q113	28%	32%	25%	26%	27%	26%	33%	29%	13%
Q213	30%	32%	22%	30%	32%	32%	35%	28%	28%
Q313	33%	25%	27%	33%	28%	31%	33%	28%	31%
Government support schemes Q412	23%	18%	16%	29%	12%	19%	27%	25%	17%
Q113	25%	29%	19%	23%	29%	17%	27%	31%	25%
Q213	20%	24%	16%	21%	24%	25%	29%	20%	26%
Q313	21%	21%	20%	28%	23%	25%	30%	16%	22%
Alternative sources of finance Q412	12%	15%	11%	20%	10%	12%	25%	18%	19%
Q113	16%	21%	10%	17%	17%	18%	27%	22%	23%
Q213	17%	15%	11%	13%	17%	21%	22%	16%	15%
Q313	19%	16%	12%	22%	18%	17%	30%	21%	14%
The Lending Code Q412	12%	20%	13%	18%	12%	13%	17%	18%	25%
Q113	18%	20%	13%	16%	18%	14%	20%	22%	23%
Q213	19%	17%	12%	18%	17%	20%	23%	20%	15%
Q313	17%	10%	14%	18%	18%	14%	25%	18%	21%

Q240 All SMEs

A further initiative was only asked of those SMEs directly affected by it, as detailed below:

Initiative	Awareness
Loan refinancing talks, 12 months ahead – asked of SMEs with a loan	Awareness of this initiative amongst SMEs with loans improved to 15% in Q3, having been 10% in Q2 and 7-13% across previous quarters. Awareness amongst smaller SMEs with loans improved from 9% in Q2 to 15% in Q3, whilst awareness for 10-249 employees increased again to 21% (from 18% in Q2).

Finally, the independent appeals initiative is of particular relevance to certain types of SME, and so is shown in more detail below:

Initiative	Awareness
The independently monitored lending appeals process	As reported earlier, amongst all those who, in the 18 months between Q2 2012 and Q3 2013, had applied for an overdraft and initially been declined, 15% said that they had been made aware of the appeals process while for loans the equivalent figure was 7%. These figures are unchanged from the previous 18 month period (Q1 2012 to Q2 2013). Overall awareness of the appeals process (at Q240) improved in Q3 but remained limited. In Q3 2013 it was 14%, ranging from 13% of those with 0 employees to 26% of those with 50-249 employees. Awareness did not increase much once the 'Permanent non-borrowers' were excluded (15% in Q3), or when limited to those that had reported *any* kind of borrowing event in the previous 12 months (16% in Q3). Amongst those interviewed in Q3 2013 who had applied for a facility but either taken other funding or ended the process with no facility, awareness of appeals was higher for those who had applied for a loan (22%) than an overdraft (15%). Amongst past 'Would-be seekers' awareness increased to 19%, and amongst 'Future would-be seekers' it was up to 12%.

Funding for Lending

New questions were asked from Q4 2012 around awareness of the Funding for Lending Scheme. As reported above, in Q3 2013 30% of SMEs reported that they were aware of this scheme (up from 23% when this question was first asked).

Those aware of Funding for Lending were asked whether they were aware of their bank offering finance options under this scheme. A quarter of those aware of Funding for Lending said that they were aware of something their bank was offering, the equivalent of 9% of all SMEs, as the table below shows (Note that due to rounding the 'any awareness' figure does not quite match that reported for overall awareness of Funding for Lending earlier in the chapter):

Awareness of Funding for Lending Q3 13 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*5008*	*1002*	*1656*	*1600*	*750*
Aware bank was offering finance options	9%	7%	12%	14%	22%
Aware of scheme but not of bank offering	21%	21%	23%	25%	28%
Awareness (any)	*30%*	*28%*	*35%*	*39%*	*50%*
Not aware of Funding for Lending	70%	72%	65%	61%	50%

Q240 / 240XX All SMEs

The largest SMEs were more likely to be aware of FLS overall and specifically of options available from their bank (22%, up from 18% in Q2) than those with 0 employees (7%, unchanged from Q2).

Given the nature of the scheme, it is also appropriate to report awareness of Funding for Lending excluding the 'Permanent non-borrowers'. As the table below shows, excluding them has little impact on overall awareness or awareness of bank activity specifically:

Awareness of Funding for Lending Q3 13 All excluding PNBs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*3637*	*561*	*1219*	*1228*	*629*
Aware bank was offering finance options	8%	6%	11%	15%	22%
Aware of scheme but not of bank offering	24%	23%	25%	26%	28%
Awareness (any)	*32%*	*29%*	*36%*	*41%*	*50%*
Not aware of Funding for Lending	68%	71%	64%	59%	50%

Q240 / 240XX All SMEs excluding PNBs

One further piece of analysis looks at awareness by future borrowing intentions. Those with plans to apply/renew in the next 3 months were slightly more likely to be aware of Funding for Lending per se, if not of bank actions specifically (and their awareness level has changed little over time). 'Future would-be seekers' of finance remained the least likely to be aware of FLS (26%):

Awareness of Funding for Lending Q3 13 All SMEs	Plan to apply	Future WBS	Future HNS	Future HNS excl. PNB
Unweighted base:	*813*	*691*	*3504*	*2133*
Aware bank was offering finance options	6%	5%	10%	11%
Aware of scheme but not of bank offering	30%	21%	20%	23%
Awareness (any)	*36%*	*26%*	*30%*	*34%*
Not aware of Funding for Lending	64%	74%	70%	66%

Q240 / 240XX All SMEs

Questions were asked in Q2 and Q3 2012 about the impact that the National Loan Guarantee scheme (with a 1% discount on loans, hire purchase or leasing) might have on SMEs' appetite for finance. From Q4 2012, the question responses were kept in the same format but the question was broadened to explore the impact of the 'various initiatives that have been announced to help reduce the cost of finance to SMEs', and naming the NLGS and Funding for Lending specifically.

Overall, the proportion of SMEs that thought such schemes would encourage them to apply for funding has declined slightly over time. In Q3 2013, it stood at 14%, the equivalent of around 650,000 SMEs. The biggest single group, 77% of all SMEs in Q3 2013, said that such schemes made no difference as they were not looking for funding:

Effect of NLGS / Funding for Lending All SMEs asked new question over time	Q4 2012	Q1 2013	Q2 2013	Q3 2013
Unweighted base:	*4330*	*4471*	*4460*	*4529*
Now more likely to apply for funding	20%	18%	16%	14%
No difference because do not want funding	72%	75%	77%	77%
No difference as interest rates not main consideration for finance	4%	3%	3%	2%
Now less likely to apply for this type of finance	4%	5%	4%	7%

Q238d All SMEs, excluding DK

As might be expected, appetite for finance was much lower amongst those that met the definition of a 'Permanent non-borrower', although 6% of this group thought such schemes might encourage them to apply (the equivalent of less than 2% of all SMEs).

Excluding the 'Permanent non-borrowers', 20% of remaining SMEs thought such a scheme would make them more likely to apply for funding (down from 22% in Q2):

Effect of NLGS / Funding for Lending All SMEs asked new question Q3 13	All SMEs	PNBs	Non PNB
Unweighted base:	*4529*	*1219*	*3310*
Now more likely to apply for funding	14%	6%	20%
No difference because do not want funding	77%	91%	68%
No difference as interest rates not main consideration for finance	2%	*	3%
Now less likely to apply for this type of finance	7%	3%	9%

Q238d All SMEs, excluding DK

Analysis by size shows that the largest SMEs were less likely to say such schemes made them more likley to apply for funding:

Effect of NLGS / Funding for Lending All SMEs asked new question Q3 13 Excluding PNBs	Overall	0 emps	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*3310*	*504*	*1101*	*1117*	*588*
Now more likely to apply for this type of funding	20%	20%	18%	18%	14%
No difference because do not want funding	68%	66%	72%	74%	79%
No difference as interest rates not main consideration for finance	3%	3%	3%	3%	4%
Now less likely to apply for this type of finance	9%	10%	7%	5%	3%

Q238d All SMEs, excluding DK and 'permanent non-borrowers'

Those with an average external risk rating were the most likely to feel encouraged to apply (all excluding PNBs):

- 16% of those rated a minimal risk thought they were now more likely to apply
- 12% of those rated a low risk
- 21% of those rated an average risk
- 19% of those rated a worse than average risk

Also more likely to apply (again excluding PNBs) were:

- Those who had been 'Would-be seekers' of finance in the 12 months prior to interview (44%)
- Those with plans to borrow in the next 3 months (37%)
- Starts (31%)

Analysis over time shows how likelihood to apply has changed by key subgroup (all excluding PNBs).

Compared to Q2 2013, appetite for funding had changed most amongst those with 1-9 employees (down from 27% to 18%). Whilst likelihood to apply remains higher amongst those with plans to apply in the next 3 months, the proportion has declined over time:

Now more likely to apply for funding All SMEs asked new question over time Excluding PNBs – row percentages	Q4 2012	Q1 2013	Q2 2013	Q3 2013
Overall	*27%*	*25%*	*22%*	*20%*
0 emps	26%	24%	20%	20%
1-9 emps	32%	27%	27%	18%
10-49 emps	25%	23%	19%	18%
50-249 emps	22%	19%	16%	14%
Minimal external risk rating	21%	17%	18%	16%
Low external risk rating	22%	21%	15%	12%
Average external risk rating	24%	20%	20%	21%
Worse than average external risk rating	30%	29%	24%	19%
Plan to apply in next 3 months	42%	43%	48%	37%
Would-be seeker in next 3 months	30%	23%	19%	21%
Happy non-seeker in next 3 months	17%	16%	12%	12%

Q238d All SMEs, excluding DK and PNBs

Further analysis conducted in Q4 2012 identified that the types of business more likely to be 'encouraged to apply' by FLS were those that were more 'developed' (management accounts, trade online etc.) and also those facing credit issues (such as a missed loan repayment).

When this analysis was updated for the Q2 2013 report, those with credit issues remained more likely to be encouraged, notably those reporting problems getting trade credit, or who have had a CCJ against them. The second group, who have innovated, have a business plan or import, were also identified in this analysis as being more encouraged.

Other groups more likely to be encouraged to apply were those with less than £25,000 in credit balances, those in the Transport sector and those with an above average external risk rating, as well as future and past 'Would-be seekers' and those with plans to apply in the next 3 months. Those less likely to be encouraged include businesses that are more than 5 years old, and those in the Other Community sector, and those who meet the definition of a 'Happy non-seeker' for the past 12 months.

This analysis will be updated in future waves.

Crowd Funding

Crowd funding was included in the SME Finance Monitor in Q2 and Q3 2012, when awareness of the scheme was 18%, varying by size from 17% of 0 employee SMEs to 27% of those with 50-249 employees. Excluding the PNBs with little apparent appetite for finance did not change these figures.

When the question was re-introduced for the Q2 2013 survey the answers available were extended to cover both awareness *and* use of crowd funding. In Q2 the awareness of crowd funding was 24% (excluding PNBs) and as the table below shows, for Q3 2013, overall awareness is unchanged with 2% of SMEs saying they had applied for such funding (and the equivalent of around 90,000 SMEs):

Awareness of crowd funding All SMEs excl PNBs asked new question Q3 13	Overall	0 emps	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*3637*	*561*	*1219*	*1228*	*629*
Aware and have applied for crowd funding	2%	2%	3%	2%	2%
Aware but have not applied	22%	21%	25%	27%	35%
Aware (any)	*24%*	*23%*	*28%*	*27%*	*37%*
Not aware	76%	78%	72%	73%	63%

Q238a2 All SMEs excl PNBs

Combining Q2 and Q3 2013 results (and excluding the PNBs), overall awareness was 24%, and varied little by external risk rating (24-26%). By sector, awareness ranged from 17% in Construction and Health to 34% in Property / Business Services, with the other sectors between 19% and 26%. Awareness amongst those that had experienced a borrowing event in the past 12 months was 27%, as it was for those planning to apply in the next 3 months.

Bank communication about lending

Funding for Lending is still a relatively new scheme compared to others. More broadly, awareness of various initiatives to support lending to SMEs has changed relatively little in the past year.

Some additional analysis has therefore been done of a question which asks whether, in the 3 months prior to interview, the SME had been contacted by either their main bank, or another bank, expressing a willingness to lend.

In Q3 2013, 12% of all SMEs said that they had received such a contact in the previous 3 months (7% of SMEs had heard from their main bank, while 5% had heard from another bank), in line with previous quarters:

Approached by any bank in last 3 mths All SMEs	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13	Q3 13
All SMEs	15%	15%	15%	12%	13%	13%	14%	11%	12%
0 emps	14%	15%	14%	10%	12%	11%	13%	10%	10%
1-9 emps	18%	17%	16%	15%	14%	15%	18%	14%	14%
10-49 emps	19%	20%	18%	20%	17%	18%	19%	17%	17%
50-249 emps	25%	26%	24%	28%	23%	25%	24%	20%	24%
All SMEs excluding PNBs	16%	15%	15%	11%	13%	14%	16%	11%	12%

Q221 All SMEs

Those who had been approached were more likely to be aware of Funding for Lending (38%) than those who had not been approached (29%), and specifically of their bank offering something under the scheme (18% v 7%). Such SMEs were also more likely to be planning to apply in the next 3 months (17% v 12%) and to be more confident that their bank would agree to their request (67% v 35%) but they were less likely to say that schemes such as FLS encouraged them to apply for finance (9% v 15%).

Those who had heard from a bank were typically slightly bigger and with a somewhat better external risk rating profile than those who had not been contacted, and these factors are also likely to have impacted on awareness and confidence. More detailed analysis would therefore be needed to explore the actual impact that contact from a bank has had.

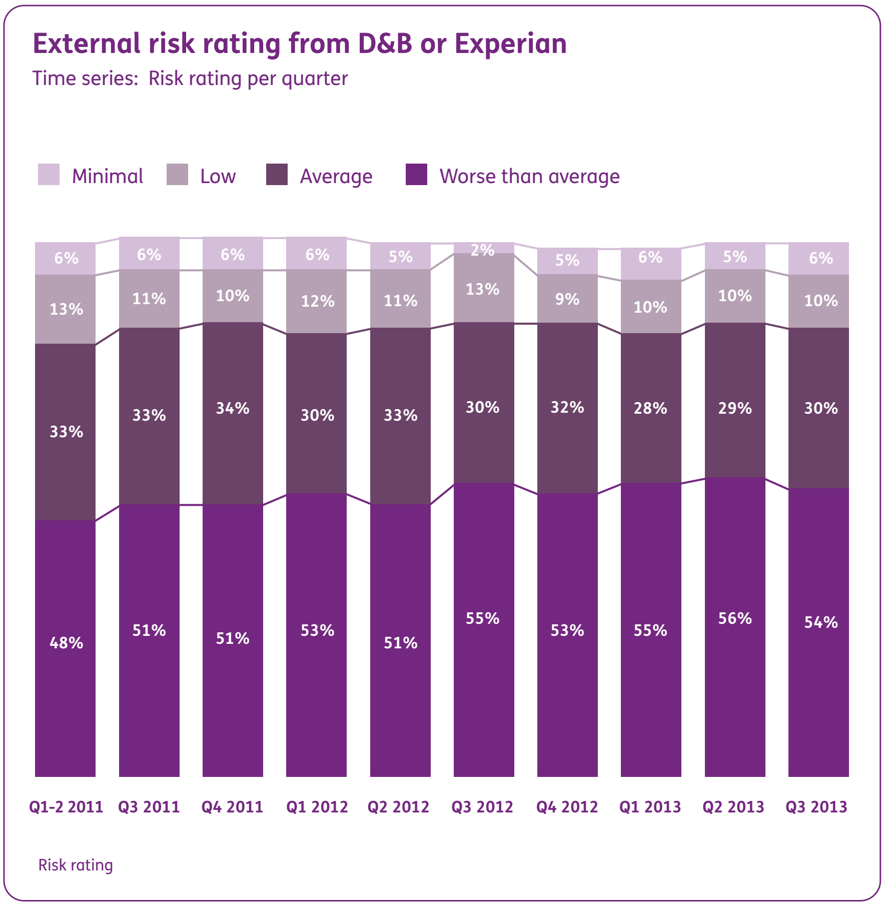
14. Selected Graphs and Charts

This chapter presents

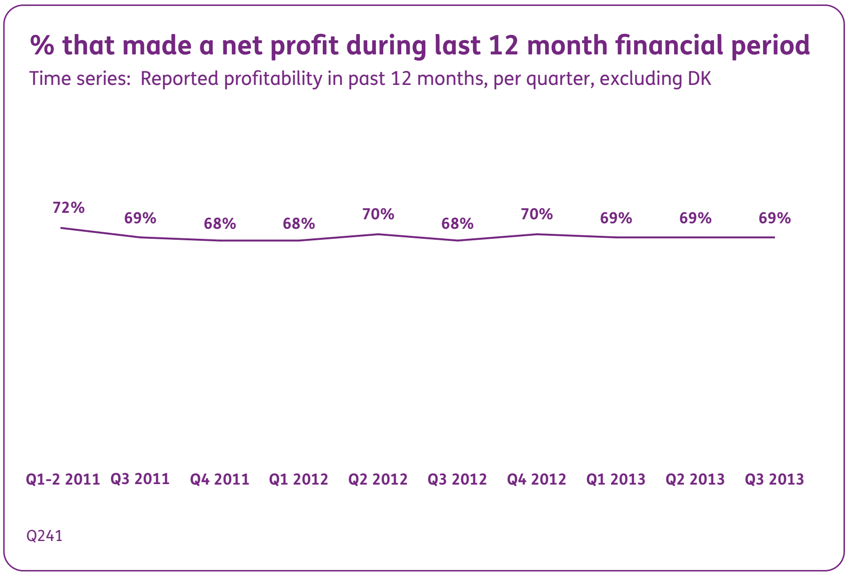
some of the key data in graphical form to provide data on longer term trends.

Much of the data in this report is provided and analysed over time, typically by quarter. After ten waves of the SME Finance Monitor, the tables containing data for each quarter are becoming too large to fit comfortably on a page. Moving forward therefore, all such tables will show the most recent nine quarters of data, and older quarters will be removed from the tables. In order to show longer term trends and provide context for the current data, a series of charts have been developed and are presented in this chapter. These take the key questions from each of the main chapters and show all the data available to date. At the bottom of each chart there is a reference to the page in the main report where the current data is presented in a table, and a summary of the trend shown.

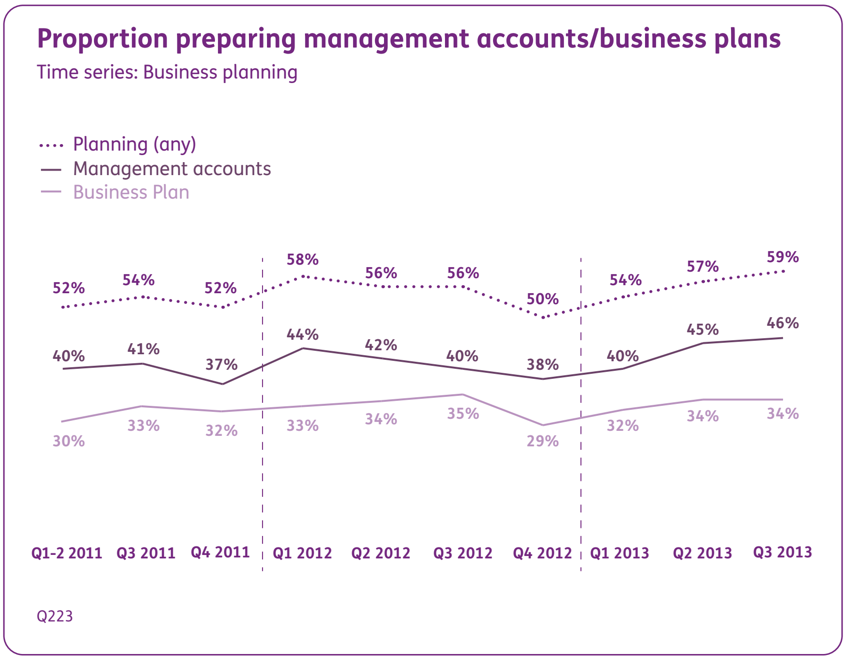
Charts reflecting data reported in Chapter 4



This chart relates to information on page 36: the overall risk profile has been largely consistent over time, though with a slight increase in the proportion of SMEs rated a 'worse than average' risk.

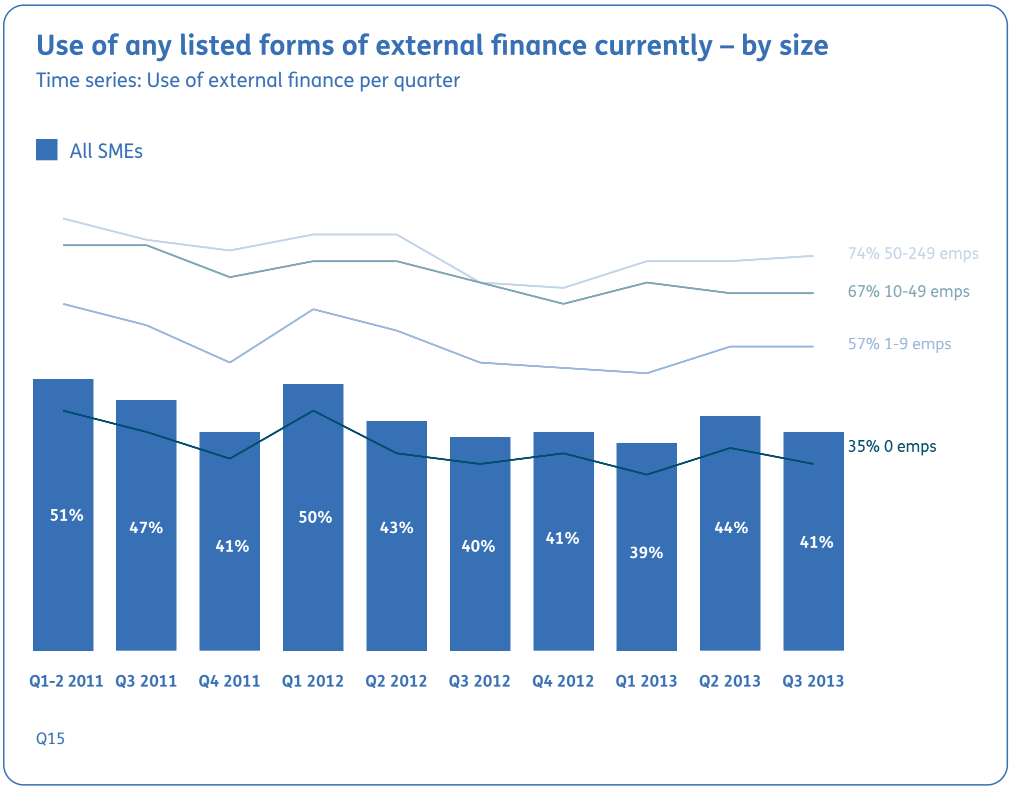


This chart relates to information on page 29: The proportion of SMEs reporting a profit is stable over time.

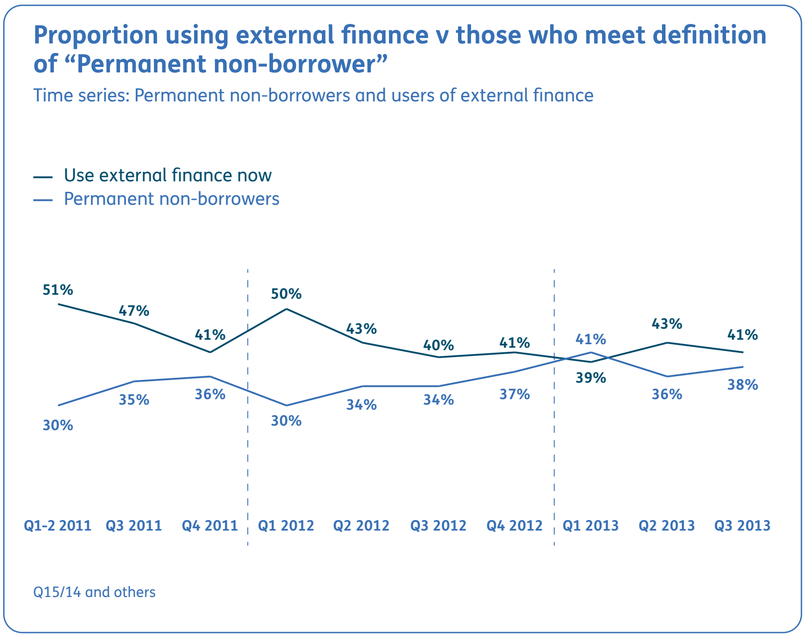


This chart relates to information on page 39: Since the end of 2012, the proportion of SMEs that plan has increased back to the highest levels seen at the start of 2012.

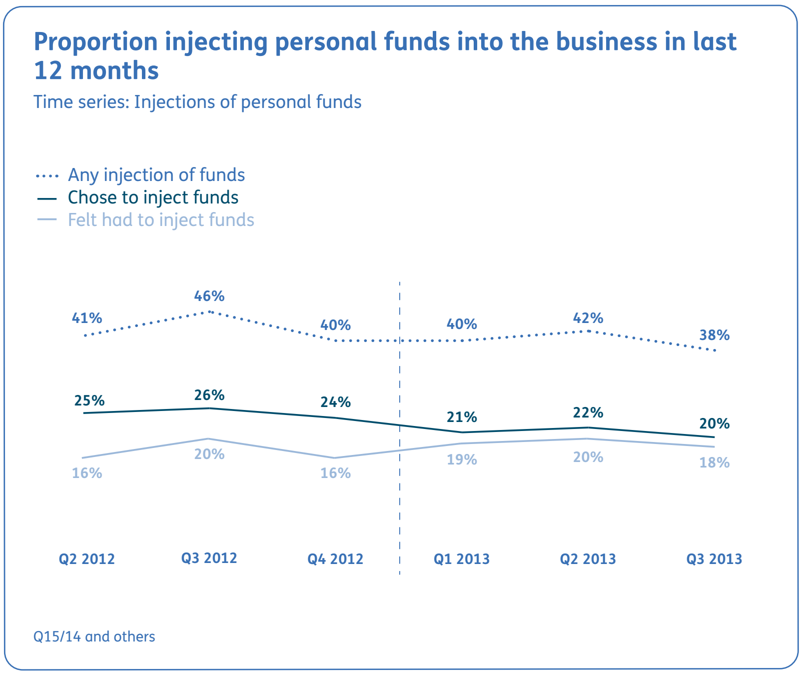
Charts reflecting data reported in Chapter 5



This chart relates to information on page 47: Use of external finance is down slightly in Q3 compared to Q2, but is in line with earlier quarters. 0 employees SMEs remain much less likely to be using external finance.

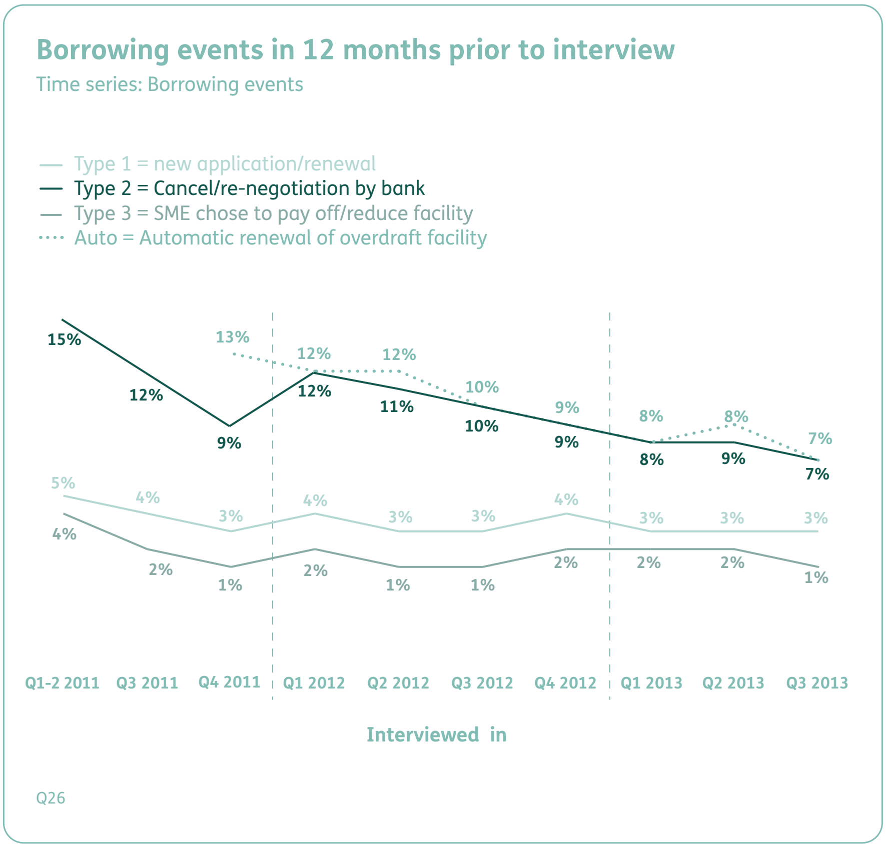


This chart relates to information on pages 47 and 65. The proportion of PNBs has increased due to more smaller and younger businesses meeting the definition

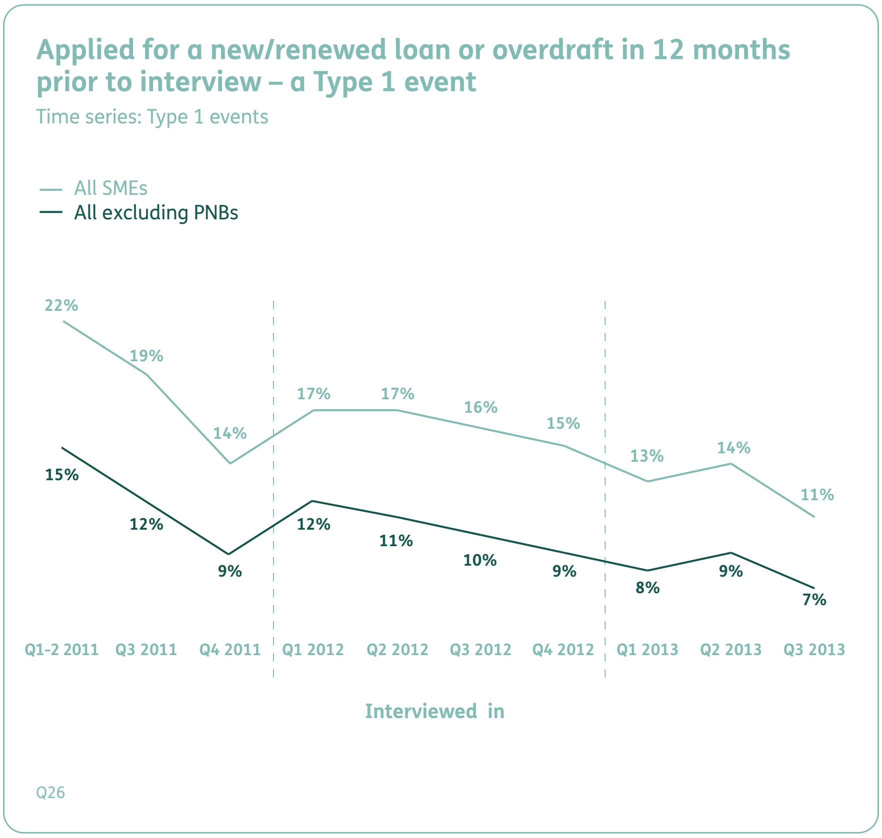


This chart relates to information on page 54: Over time, the proportion injecting funds has declined, with fewer SMEs feeling that they 'had' to inject funds

Charts reflecting data reported in Chapter 6

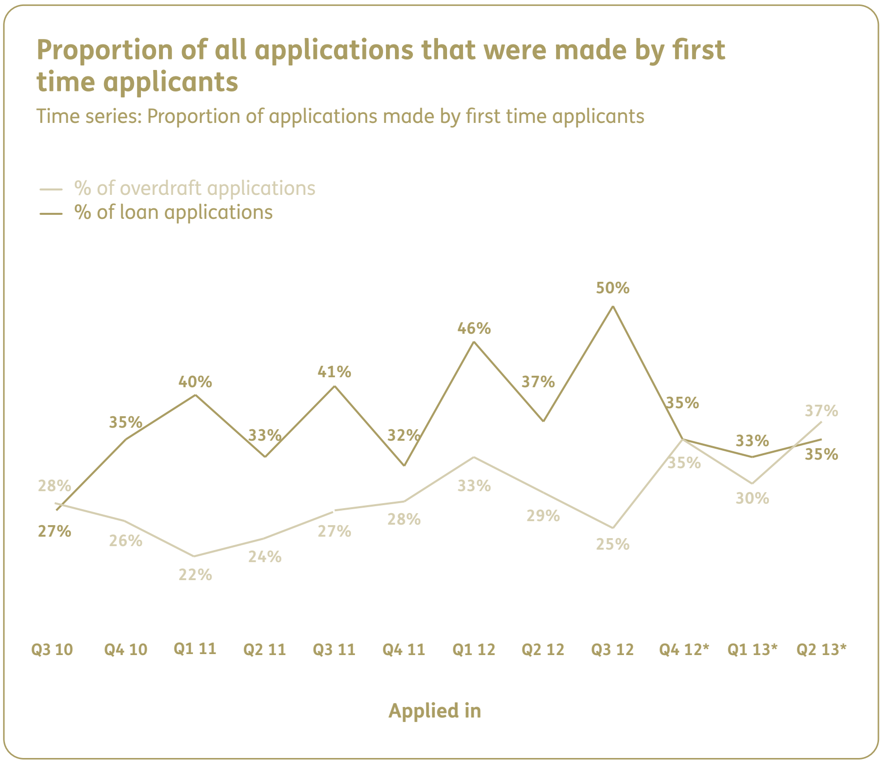


This chart relates to information on pages 71 and 83: Type 1 events and the automatic renewal of overdrafts remain the most common forms of borrowing 'event' but both are at their lowest level to date on the SME Finance Monitor.



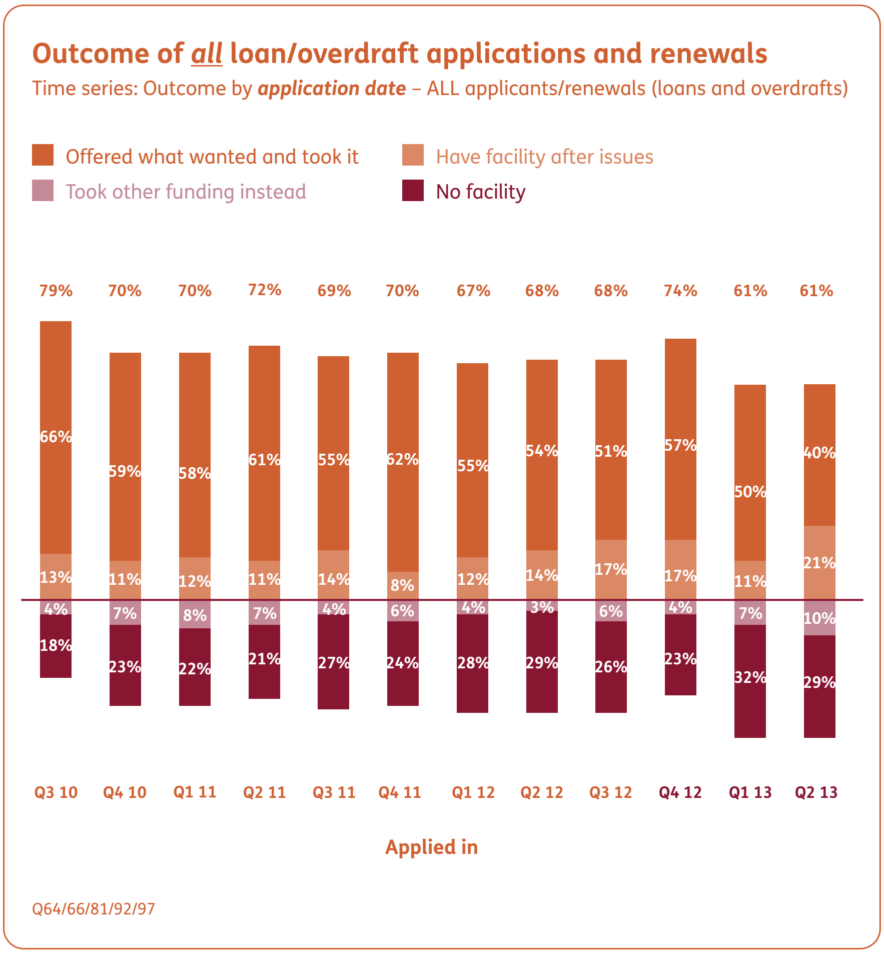
This chart relates to information on pages 71 and 72: excluding the Permanent non Borrowers increases the incidence of Type 1 events amongst remaining SMEs to 11%. This is also the lowest level reported to date.

Charts reflecting data reported in Chapter 7

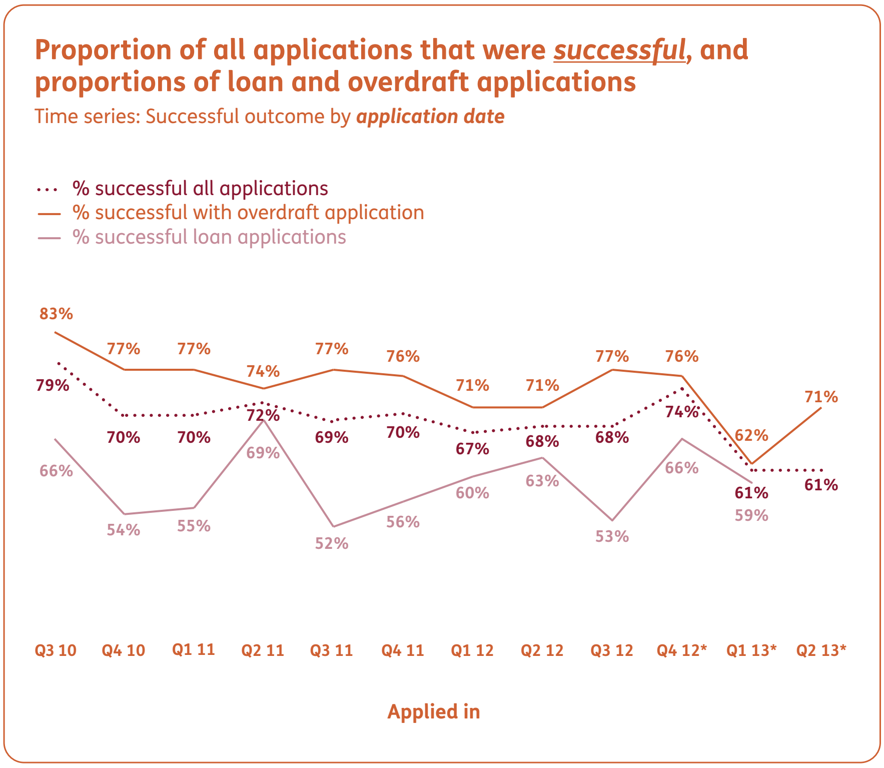


This chart relates to information on pages 91 and 97: the proportion of overdraft applicants who are applying for their first overdraft is increasing steadily over time, and has now ‘caught up’ with loan applicants applying for the first time.

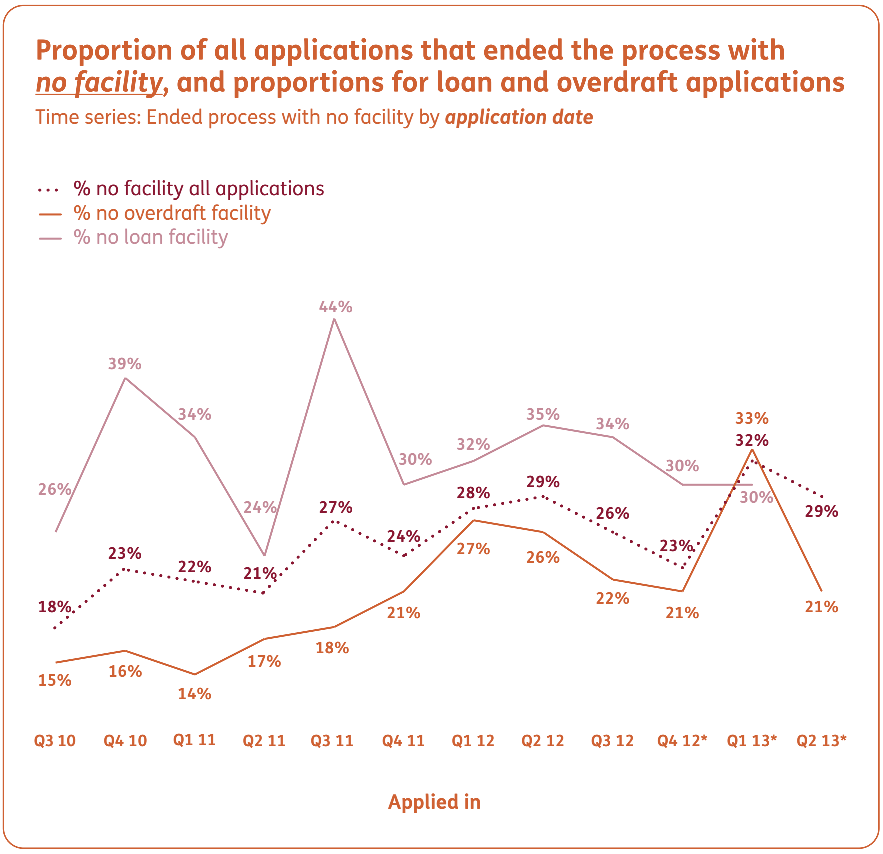
Charts reflecting data reported in Chapter 8



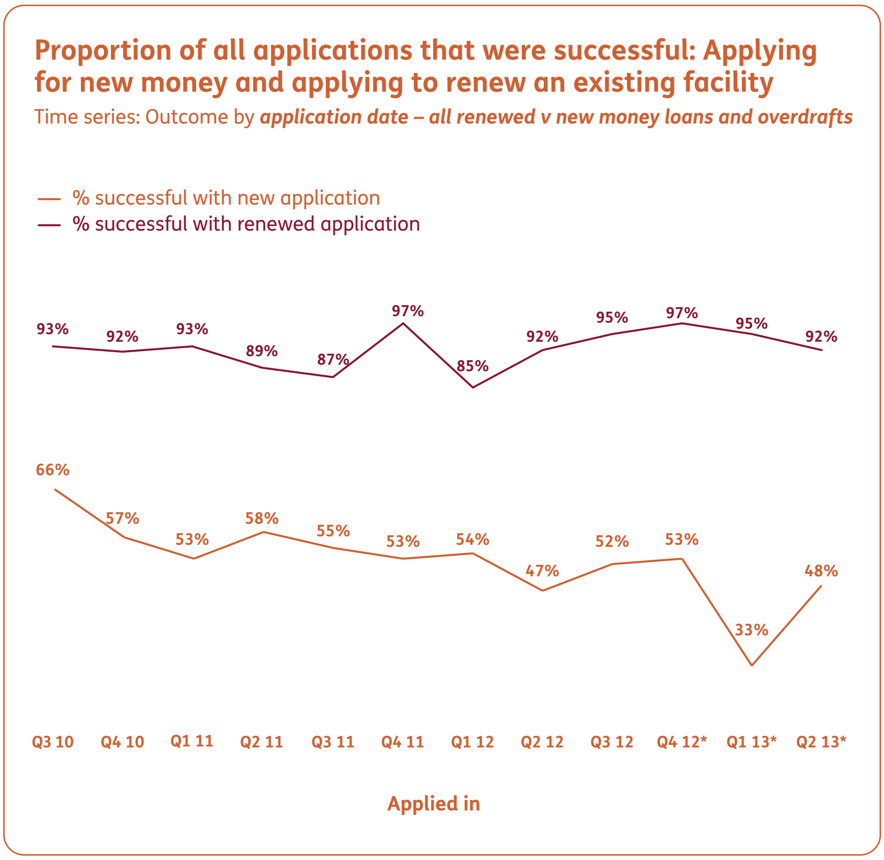
This chart relates to information on page 106: Initial data for all applications made (both loan and overdraft) shows a lower proportion of applications made in the first half of 2013 resultedin a facility. For loans this can broadly be explained by the demographic profile of SMEs applying in those quarters, but this is less the case for overdrafts.



This chart relates to information on pages 106, 125 and 141: Overdraft success rates were lower in the first half of 2013 (with a similar pattern at the strt of 2012). Around 6 out of 10 loan applications have been successful over time.

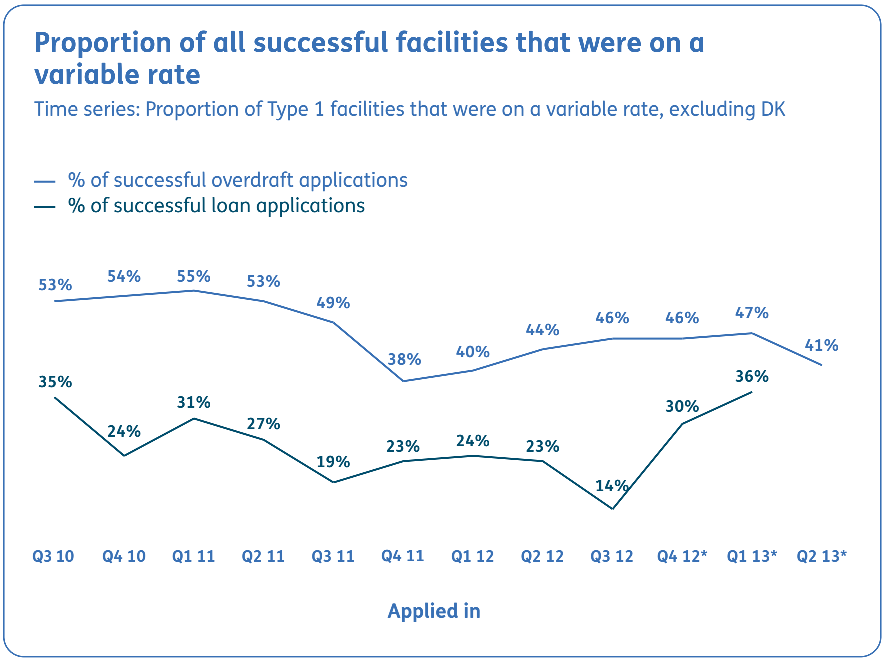


This chart relates to information on pages 106, 125 and 141: Applications made in Q1 2013 (for which this is still interim data) were more likely to result in no facility.



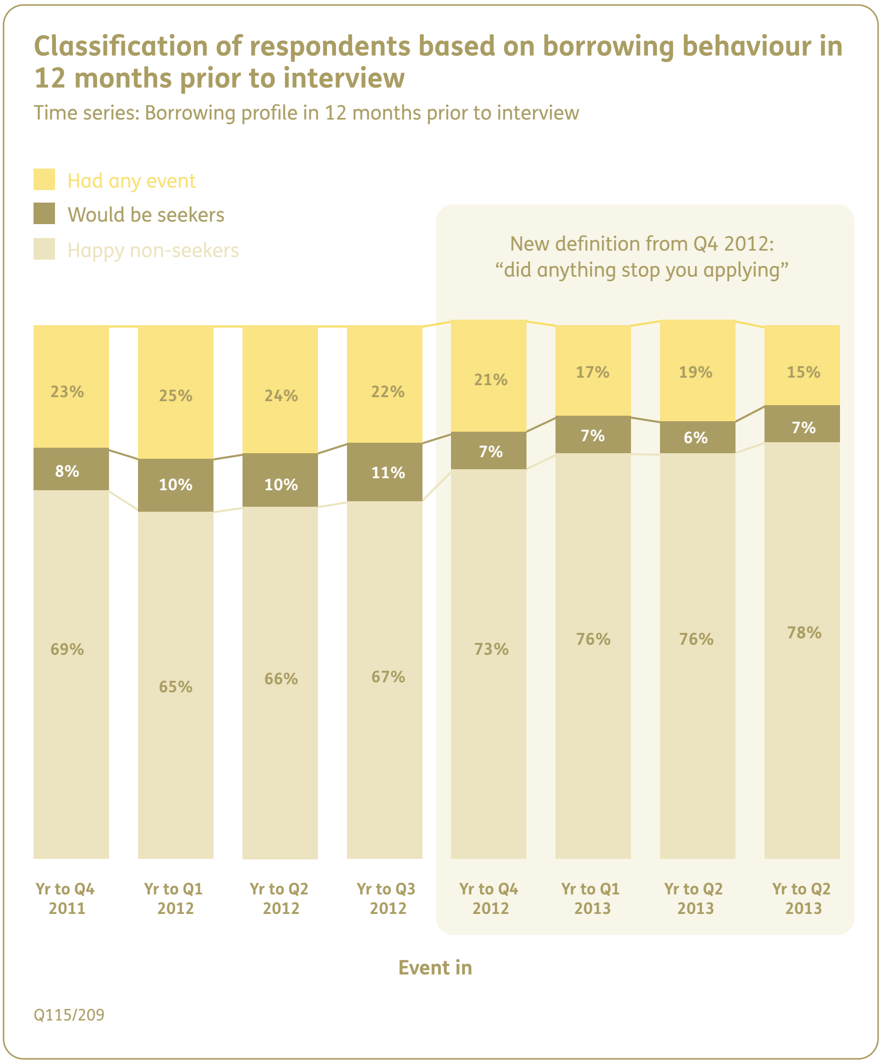
This chart relates to information on pages 146 and 147: renewals remain likely to be successful. Applications for new money were less likely to be successful in Q1 2013, but have increased somewhat in Q2 (both still interim figures).

Charts reflecting data reported in Chapter 10

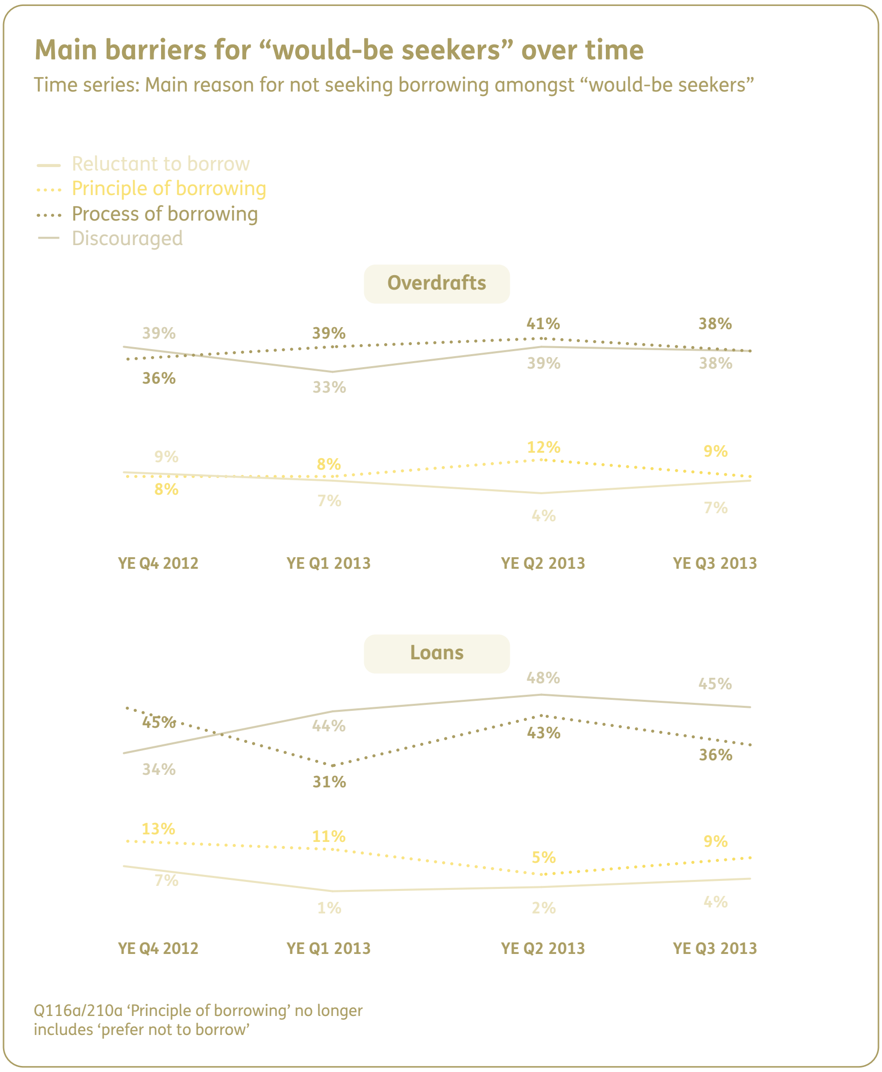


This chart relates to information on pages 163 and 177. Overdrafts remain more likely to be on a variable rate

Charts reflecting data reported in Chapter 11

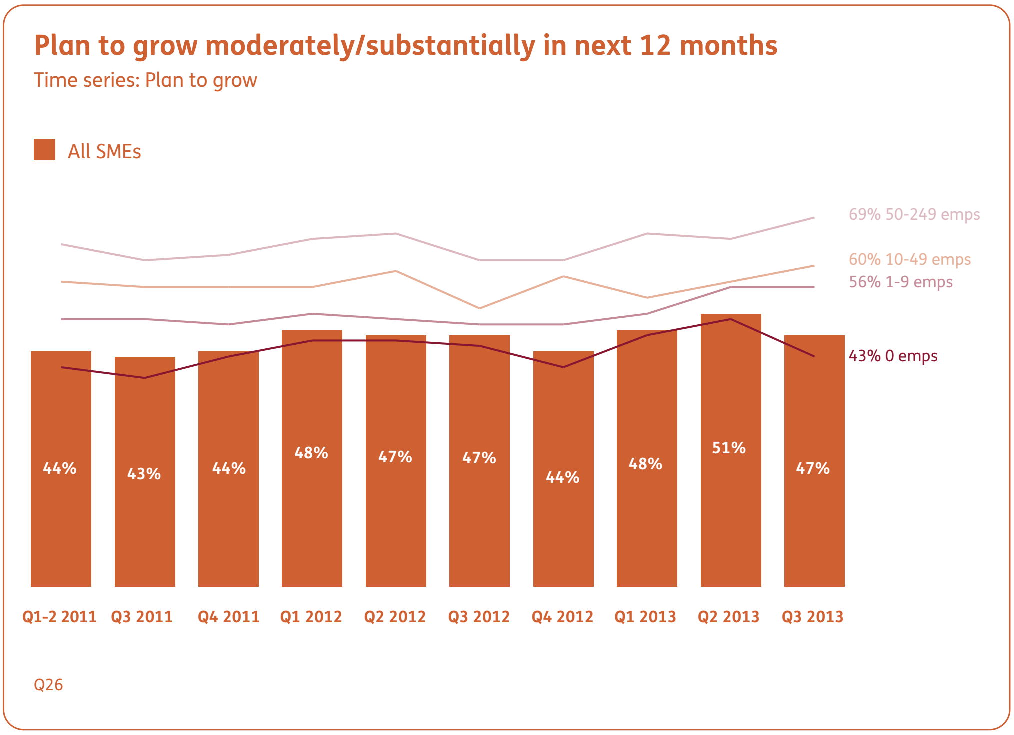


This chart relates to information on page 188: The proportion of 'Happy non-seekers' of external finance is now at it's highest level to date.

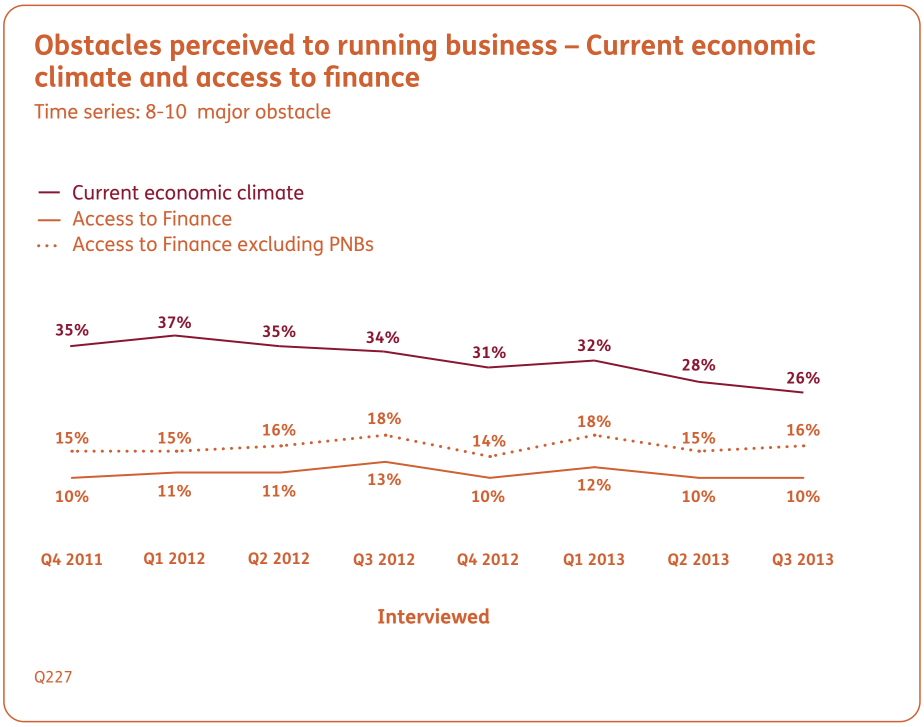


This chart relates to information on page 195. Discouragement and the process of borrowing remain the main barriers to application

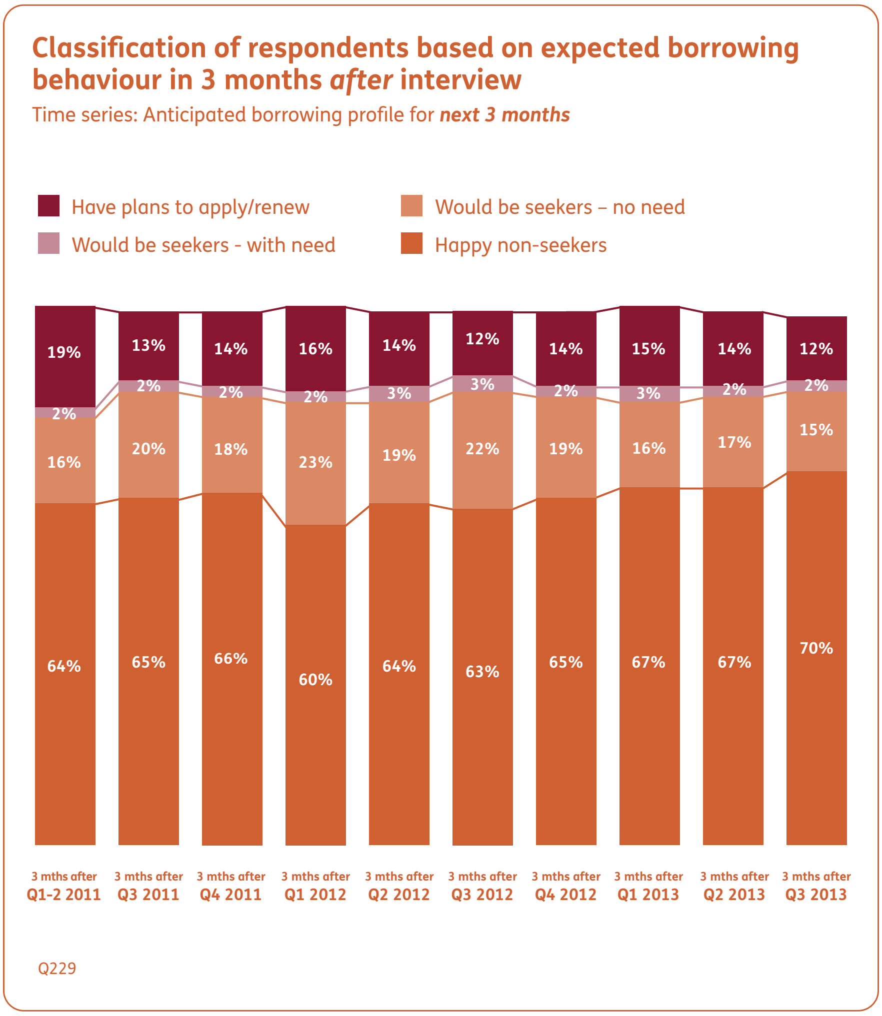
Charts reflecting data reported in Chapter 12



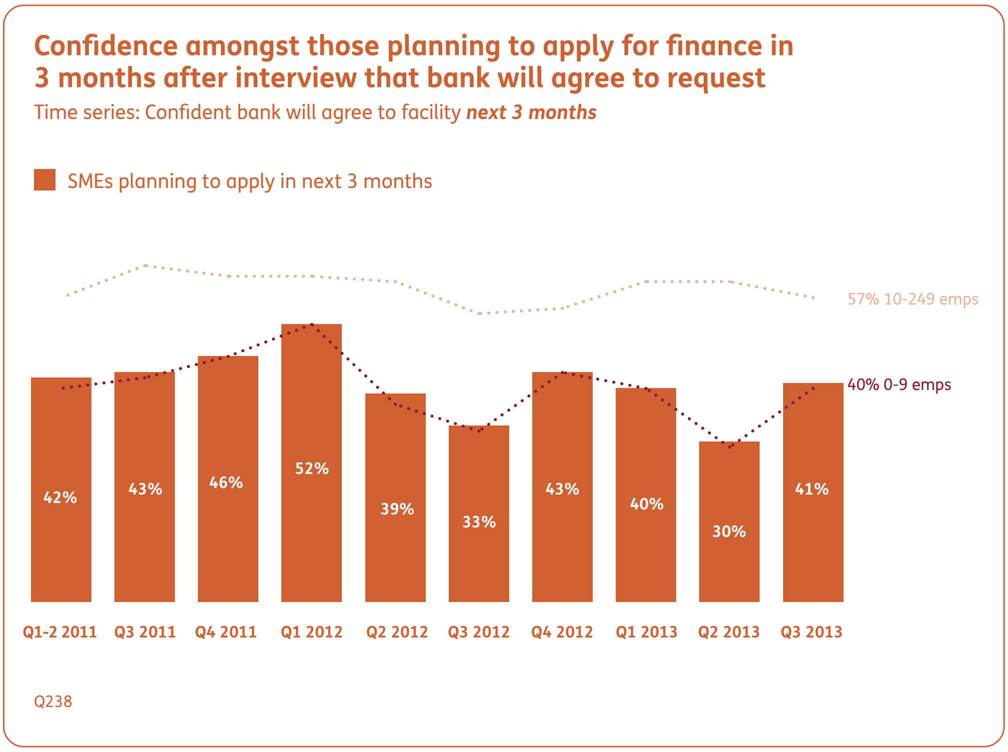
This chart relates to information on pages 204 and 205: The slight fall in plans to grow between Q2 and Q3 2013 is due to the smallest SMEs. Those with employees remain as likely, or indeed more likely, to be planning to grow.



This chart relates to information on pages 213 and 215: Over time, the economic climate has been the main obstacle, but is mentioned by slightly fewer SMEs each quarter (especially those with employees).



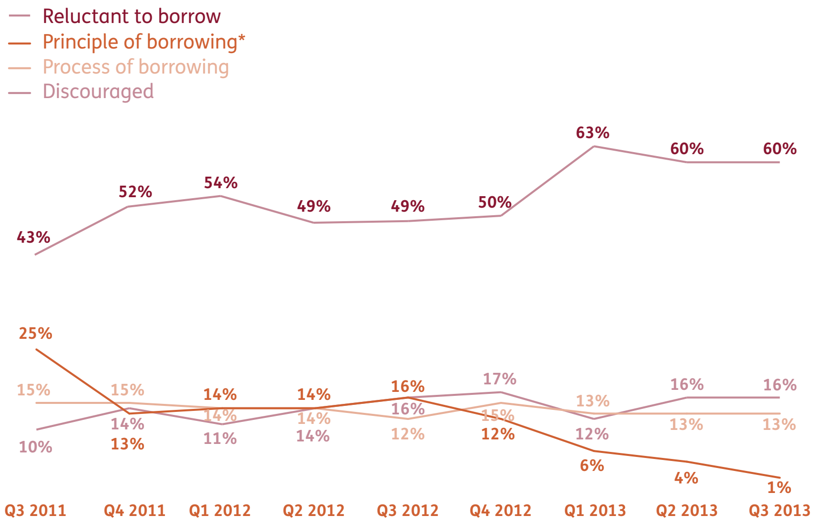
This chart relates to information on page 227: The proportion of 'Future Happy non-seekers' is now at the highest level since the Monitor started, as appetite, or potential appetite, for finance declines.



This chart relates to information on page 224: Confidence that the bank would agree to their lending request has increased in Q3, back to levels seen in earlier quarters, due to higher levels of confidence amongst smaller future applicants, where confidence has been more volatile.

Main barriers for future “would-be seekers”

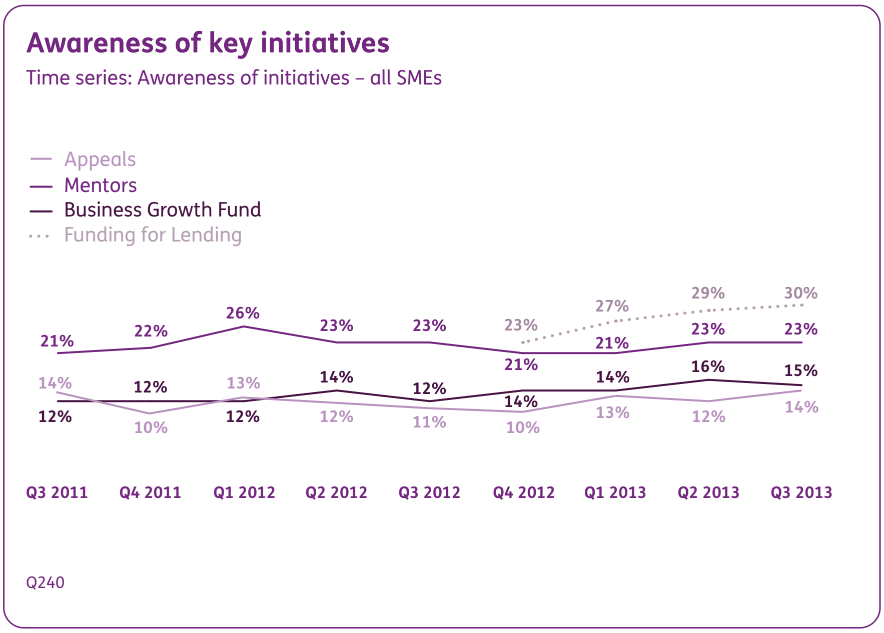
Time series: Main reason for not seeking borrowing amongst future “would-be seekers”



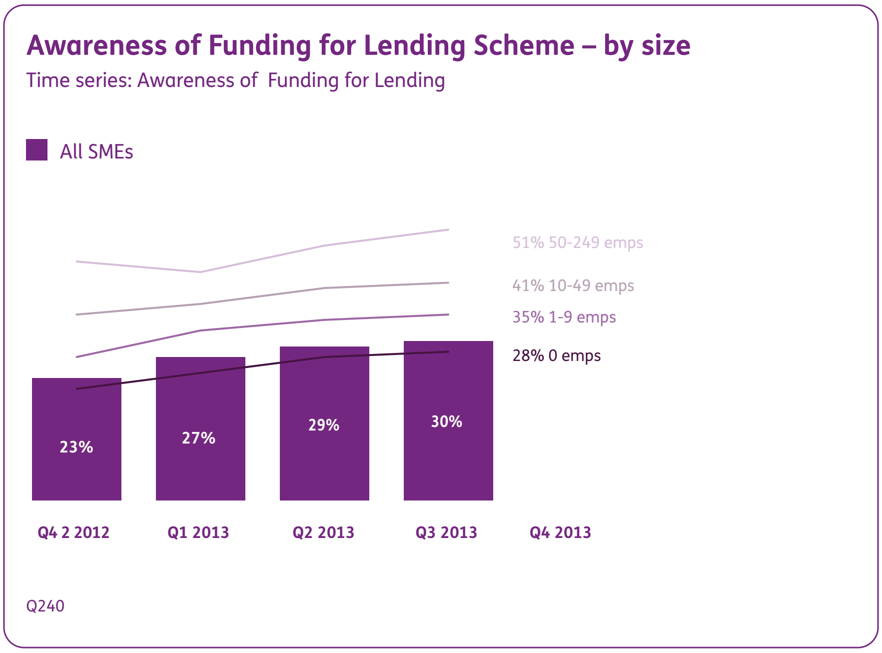
Q239a ‘Principle of borrowing’ no longer includes ‘prefer not to borrow’

This chart relates to information on page 231: A reluctance to borrow in the current climate remains the key barrier amongst ‘would-be seekers’. Discouragement levels are stable, but remain higher amongst those who have a specific need for finance they do not think they will apply for.

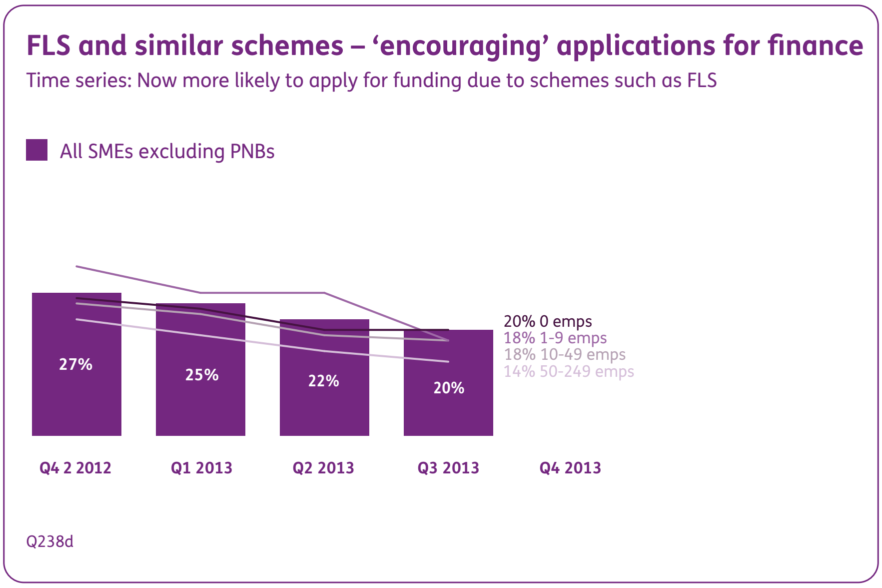
Charts reflecting data reported in Chapter 13



This chart relates to information on page 241: awareness of these initiatives is broadly stable over time, with the exception of FLS. Overall awareness of any initiatives increased to 56% in Q3 from 52% in the first half of 2013.



This chart relates to information on page 241: Awareness of FLS continues to improve over time, notably amongst larger SMEs.



This chart relates to information on page 256: Over time, fewer SMEs feel that such schemes would encourage them to apply for finance.

15. Technical Appendix

This chapter covers

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

Eligible SMEs

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

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

The respondent was the person in charge of managing the business's finances. No changes have been made to the screening criteria in any of the waves conducted to date.

Sample structure

Quotas were set overall by size of business, by number of employees, as shown below. The classic B2B sample structure over-samples the larger SMEs compared to their natural representation in the SME population, in order to generate robust sub-samples of these bigger SMEs. Fewer interviews were conducted with 0 employee businesses to allow for these extra interviews. This has an impact on the *overall* weighting efficiency (once the size bands are combined into the total), which is detailed later in this chapter.

The totals below are for all interviews conducted YEQ3 2013 – each quarter's sample matched the previous quarter's results as closely as possible.

Business size	Universe	% of universe	Total sample size	% of sample
Overall	**4,548,843**	100%	20,008	100%
0 employee (resp)	3,366,144	74%	4002	20%
1-9 employees	1,008,024	22%	6606	33%
10-49 employees	144,198	3%	6400	32%
50-249 employees	26,383	1%	3000	15%

Overall quotas were set by sector and region as detailed below. In order to ensure a balanced sample, these overall region and sector quotas were then allocated within employee size band to ensure that SMEs of all sizes were interviewed in each sector and region.

Business sector* SIC 2007 in brackets)	Universe	% of universe	Total sample size	% of sample
AB Agriculture etc. (A)	195,285	4%	1500	7%
D Manufacturing (C)	302,032	7%	2080	11%
F Construction (F)	1,017,210	22%	3500	18%
G Wholesale etc. (G)	561,689	12%	2024	10%
H Hotels etc. (I)	156,001	4%	1801	9%
I Transport etc. (H&J)	314,705	7%	1812	9%
K Property/Business Services (L,M,N)	1,194,629	26%	3502	18%
N Health etc. (Q)	279,280	6%	1789	8%
O Other (R&S)	528,011	12%	2000	10%

Quotas were set overall to reflect the natural profile by sector, but with some amendments to ensure that a robust sub-sample was available for each sector. Thus, fewer interviews were conducted in Construction and Property/Business Services to allow for interviews in other sectors to be increased, in particular for Agriculture and Hotels.

A similar procedure was followed for the regions and devolved nations:

Region	Universe	% of universe	Total sample size	% of sample
London	773,303	17%	2402	12%
South East	727,815	16%	2407	12%
South West	454,884	10%	1802	9%
East	454,884	10%	1799	9%
East Midlands	272,931	6%	1397	7%
North East	136,465	3%	1000	5%
North West	454,884	10%	1801	9%
West Midlands	318,419	7%	1800	9%
Yorks & Humber	318,419	7%	1800	9%
Scotland	318,419	7%	1600	8%
Wales	181,954	4%	1200	6%
Northern Ireland	136,465	3%	1000	5%

Weighting

The weighting regime was initially applied separately to each quarter. The four were then combined and grossed to the total of 4,548,843 SMEs, based on BIS SME data.

This ensured that each individual wave is representative of all SMEs while the total interviews conducted weight to the total of all SMEs.

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

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

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

Overall rim weights were then applied for regions:

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

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

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

Business size	Sample size	Weighting efficiency	Effective sample size	Significant differences
Overall	20,008	27%	5402	+/- 2%
0 employee (resp)	4002	79%	3161	+/- 2%
1-9 employees	6606	77%	5086	+/- 2%
10-49 employees	6400	78%	4992	+/- 2%
50-249 employees	3000	82%	2460	+/- 3%

Analysis techniques

CHAID (or Chi-squared Automatic Interaction Detection) is an analytical technique which uses Chi-squared significance testing to determine the most statistically significant differentiator on some target variable from a list of potential discriminators. It uses an iterative process to grow a 'decision tree', splitting each node by the most significant differentiator to produce another series of nodes as the possible responses to the differentiator. It continues this process until either there are no more statistically significant differentiators or it reaches a specified limit. When using this analysis, we usually select the first two to three levels to be of primary interest.

This report is the largest and most detailed study of SMEs' views of bank finance ever undertaken in the UK. More importantly, this report is one of a series of quarterly reports. So not only is it based on a large enough sample for its findings to be robust, but over time the dataset has been building into a hugely valuable source of evidence about what is really happening in the SME finance market.

A report such as this can only cover the main headlines emerging from the results.

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