SME Finance Monitor

Q4 2012: The year in review

An independent report by
BDRC Continental, March 2013

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Foreword

Welcome to the seventh report of the SME Finance Monitor, which now includes data from interviews conducted up to the end of December 2012, as the UK officially came out of recession, and wondered whether a triple dip was on the cards. This is also the first full quarter where the Funding for Lending scheme was in operation.

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.

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

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

Shiona Davies
Editor, The SME Finance Monitor
February 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. At the same time, the unstable economic atmosphere, including the crisis in the Eurozone, is affecting business confidence and appetite for borrowing, albeit that the UK economy has recently moved out of recession. The debate continues as to the extent to which demand and/or supply issues are contributing to lower levels of lending to SMEs.

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

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

The majority of this seventh report is based on a total of 20,055 interviews with SMEs, conducted to YEQ4 2012. This means that the interviews conducted in the first three waves, during 2011, 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 YEQ4 2012 data therefore includes the following four waves:

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

All waves were conducted using the same detailed quota profile. The results from the four waves have been combined to cover a full 12 months of interviewing, and weighted to the overall profile of SMEs in the UK in such a way that it is possible to analyse results wave on wave where relevant, and the data reported for an individual quarter will be as originally reported. This combined dataset of 20,055 interviews is referred to as YEQ4 12.

The majority of reporting is based on interviews conducted in the year to Q4 2012. The exceptions to this rule are:

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

A further quarter of another 5,000 interviews, to the same sample structure, is being conducted January to March 2013, and results will be published in June 2013. At that stage, we will again present data on a rolling basis of 20,000 interviews (so adding Q1 2013 and dropping Q1 2012 from the dataset).

An annual report, published in April 2012, provided separate analysis, where sample sizes permitted, at regional level for an in-depth assessment of local conditions during 2011. This will be updated to cover 2012, with the report due in April 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.

In Q4 2012, 41% of SMEs reported using *any* external finance, virtually unchanged from either Q3 2012, or the equivalent Q4 in 2011. Larger SMEs remained more likely to be using external finance than smaller ones, but the proportion is declining over time. Half of all SMEs had some 'personal' element to their business finance, while a third met the definition of a 'Permanent non seeker' of finance, and this proportion of SMEs is increasing gradually over time. The proportion making a profit was stable, but smaller profits are being reported and there has been a slight increase in the proportion of SMEs with a worse than average external risk rating

- In Q4 2012, 41% of all SMEs reported using any of the specified forms of external finance. This is virtually unchanged from Q3 2012 (40%) and the same as the equivalent Q4 in 2011 (41%). 5% of SMEs reported that they used to use external finance but no longer do so, and this proportion is increasing slowly over time
- Use of external finance by those with 0 and 1-9 employees was very similar in Q4 2012 compared to Q4 2011, but had dropped for those with 10-49 employees (65% from 70%) and those with 50-249 employees (68% from 75%)
- Half of all SMEs interviewed in Q4 2012 (54%) had some personal element to their business finances, that is any of: a personal bank account, a facility in a personal name, an application for a facility made in a personal name, or an injection of personal funds into the business in the past 12 months. This was most likely for 0 employee SMEs (59%) and those with a worse than average external risk rating (61%), and less likely for the largest SMEs with 50-249 employees (14%)
- The most common 'personal' element was an injection of personal funds in the past 12 months. 40% of SMEs interviewed in Q4 2012 reported such an injection – 16% said they had chosen to do so, while the remainder, 24%, said that it was something they felt they had to do. Funds were put in as both long and short term investments, with the majority, 60%, involving an injection of £5,000 or less
- A third of SMEs interviewed in Q4 2012 (37%) met the definition of a 'Permanent non-borrower' of finance, based on their reported behaviour. 0 employee SMEs remained the most likely to meet this definition (40%) but over the course of 2012, more SMEs with employees have met the definition, increasing the proportion of PNBs overall from 30% in Q1 2012 to 37% in Q4
- 64% of SMEs interviewed in Q4 2012 reported making a profit in their previous 12 month trading period, and this has remained relatively stable over time. The median profit reported in Q4 2012 was £6,000, and this has declined quarter on quarter from £13,000 in Q4 2011. Median losses remained more stable (between £2,000 and £3,000)
- 53% of SMEs interviewed in 2012 had a worse than average external risk rating, up slightly from 50% of SMEs interviewed in 2011

9% of SMEs interviewed in Q4 2012 reported making an application for a new or renewed loan or overdraft facility in the previous 12 months, and this has changed little over time. Since the SME Finance Monitor started, 71% of all applications for new/renewed facilities have been successful, and overall success rates have remained relatively stable over time. 1 in 10 SMEs (half of SMEs with an overdraft) reported that their overdraft had been 'automatically renewed', boosting the overdraft success rate to 90%. Most successful applicants said that their facility had been put in place by the bank in good time before the funds were required by the business

- 9% of SMEs interviewed in Q4 2012 reported a Type 1 event in the previous 12 months: 6% had applied for a new loan or overdraft facility while 4% had applied to renew an existing loan or overdraft facility
- This level of applications was the same as seen in Q4 2011, and has changed relatively little over time
- Of more than 6,000 applications for new or renewed loan or overdraft facilities recorded since the Monitor started, 71% resulted in a facility, 5% took another form of funding and 25% have no facility
- Analysed by quarter of application, overall success rates have been stable. Initial data for applications made in the first half of 2012 indicated slightly lower success rates for overdrafts, which are only partly explained by the size, risk rating and nature of applicants. Data is still being gathered on applications made in this period, so this will be reviewed in future reports
- 73% of all overdraft applications reported in interviews YEQ4 2012 resulted in a facility. 2% took another form of funding and 24% ended the process with no facility. Including those who reported that their overdraft facility had been automatically renewed boosted the success rate from 73% to 90%
- 57% of all loan applications reported in interviews YEQ4 2012 resulted in a facility. 9% took another form of funding and 34% ended the process with no facility
- 9 out of 10 successful applicants agreed that their new loan or overdraft facility had been put in place by the bank in good time for when it was needed. 7 out of 10 successful overdraft applicants had a facility in place within a week. Loans took slightly longer with two thirds in place within 2 weeks of being agreed

Recent applications for new loans or overdrafts have been more likely to come from first time applicants and/or those with a worse than average external risk rating, and such SMEs remained less likely to have been successful. Those declined remained unlikely to be aware of the appeals process

- Across both loan and overdrafts smaller, younger SMEs and those with a worse than average risk rating remained less likely to have been successful with their application

- A third of all new money applications made in 2012 were made by first time applicants and this proportion has increased over time. FTAs are also more likely to have a worse than average external risk rating and this proportion has also increased over time (74% of FTA applicants in 2012 had a worse than average risk rating). The proportion of other applicants with a worse than average risk rating has also increased over time, to 54% of those seeking a new/renewed facility (but not their first) and 43% of those renewing an existing facility

- 51% of all first time applicants for a loan or overdraft ended the process with no facility, compared to 21% of those applying for a new/renewed facility (but not their first) and 8% of those renewing an existing facility. Analysed by year of application, first time applications made in 2012 were slightly more likely to be have ended the process with no facility (54%)

- The new appeals process was introduced in April 2011. 14% of overdraft applicants and 8% of loan applicants declined since then reported being aware of the appeals process and this figure is not increasing over time. Those declined for a loan were less likely to feel that they had been given enough information to explain the decision than those declined for an overdraft, and in both instances the advice received from the bank was rated as poor by two-thirds of declined applicants

In Q4 2012, 21% of SMEs reported having had any borrowing 'event', including the automatic renewal of an overdraft. 7% of SMEs had wanted to apply for a loan or overdraft facility but something had stopped them, with discouragement and issues around the process of borrowing most likely to be mentioned. The largest group, 73% of SMEs, met the definition of a 'Happy non-seeker' who had neither sought, nor felt prevented from seeking, external finance.

- 21% of SMEs reported any borrowing 'event' in the previous 12 months when interviewed in Q4 2012, down slightly from previous quarters and the equivalent quarter of 2011 (23%)

- 7% met the revised definition of a 'Would-be seeker' of finance, reporting that they would have liked to apply for a loan or overdraft but something stopped them. These were more likely to be SMEs with 0 or 1-9 employees, a worse than average external risk rating, or in the Wholesale/Retail or Other Community sectors

- A third of those who had wanted to apply for an overdraft reported that the main barrier was discouragement (39%), most of it indirect (the SME assumed they would be turned down). A similar proportion, 36%, felt the main barrier was the process of borrowing, with more mentions than previously around the cost of borrowing. Would-be loan applicants also cited these same two reasons, but were somewhat more likely to mention the process of borrowing (45%) than discouragement (34%)

- Three quarters of SMEs interviewed in Q4 2012 (73%) met the revised definition of a 'Happy non-seeker' of finance who had neither sought, nor felt prevented from seeking, external finance. This was slightly more common amongst the 0 employee SMEs and those in the Health sector

Looking forward, 44% of SMEs interviewed in Q4 2012 expected to grow in the next 12 months, primarily through selling more to existing markets. The current economic climate remained the key barrier for businesses, with fewer mentions this quarter of access to finance as a barrier. 14% planned to apply for new/renewed facilities and this has changed little over time. Confidence that the bank would agree to a borrowing request improved slightly after a series of declines, but remained lower than actual success rates. 'Future would-be seekers' of finance remained likely to cite a reluctance to borrow in the current climate as their main barrier to an application, while an increasing minority mentioned discouragement (almost all of it indirect)

- 44% of SMEs interviewed in Q4 2012 expected to grow in the next 12 months. The most likely to be planning to do so were those with 10-49 employees (58%) or 50-249 employees (61%), the least likely were those in Construction or the 'Permanent non-borrowers', both 37%

- Most of those planning to grow, 89%, planned to sell more to existing markets. 7% were planning to sell more in overseas markets (the equivalent of 3% of all SMEs), and most of these SMEs were already exporting rather than planning to start

- 31% of all SMEs rated the current economic climate as a major obstacle to their business, down slightly from 37% in Q1 2012, but still ahead of any of the other obstacles tested (12% rated legislation and regulation as a major obstacle)

- In Q4 2012, 10% of SMEs rated access to finance as a major obstacle, the same proportion as in Q4 2011 and down slightly from 13% in Q3 2012. Those planning to apply for new/renewed facilities in the next 3 months, or wishing they could, remained more likely to see access to finance as an obstacle (21%), and it remained more of an issue for those in Hotels and Restaurants (14%) and Wholesale/Retail (15%) sectors

- 14% of SMEs interviewed in Q4 2012 planned to apply for new or renewed finance in the next 3 months. This proportion has changed relatively little over time, and was also 14% in Q4 2011. Appetite for finance was higher amongst SMEs with employees, those with a minimal or low external risk rating, those looking to grow and those in the Agricultural sector

- 43% of prospective applicants were confident the bank would agree to their request, up from 33% in Q3 2012 and halting a series of declining confidence scores over recent quarters. The increase in Q4 was due to higher confidence amongst those with 0-9 employees. Despite the increase, levels of confidence remained lower than actual success rates – success rates for renewals are around 90% compared to confidence levels of 50% that the bank would agree to lend, while for new funds success rates to date are around 56% against a confidence level of 31%

- 21% of SMEs interviewed in Q4 2012 met the definition of a 'Future would-be seeker' of finance, down slightly from Q3 (25%) but in line with Q4 2011 (20%). Half, 50% said their main barrier to an application was a reluctance to borrow now, and this was more likely to be the case for larger 'would-be seekers'. 17% cited discouragement as their main barrier and this has increased over the year (from 11% in Q1 2012), and was also more likely to be mentioned by those with an identified need for finance. Almost all this discouragement was indirect (the SME assuming the bank would say no) rather than direct (being put off by the bank)

Half of SMEs interviewed in Q4 2012, 52%, were aware of any of the main SME initiatives tested, a slight increase on previous waves. The list now includes Funding for Lending, of which 23% of SMEs were aware, making it one of the most recognised initiatives undertaken. 1 in 5 SMEs thought schemes such as Funding for Lending or the National Loan Guarantee Scheme made it more likely that they would apply for funding, and there was appetite across business size and risk rating

- 52% of SMEs were aware of any of the revised list of initiatives tested, increasing by size of SME from 51% of those with 0 employees to 71% of those with 50-249 employees. Overall awareness was 46% in Q3, based on a slightly different list with awareness of individual initiatives that featured on both lists having changed little over time

- 23% of SMEs were aware of Funding for Lending and this also increased by size, from 21% of those with 0 employees to 45% of those with 50-249 employees. A third of those aware of FFL were also aware of their bank offering finance options under the scheme (the equivalent of 7% of all SMEs)

- Awareness of FFL compared well with awareness of other other, longer established, initiatives such as business mentors (21%) or the Business Growth fund (14%) and was higher than awareness of the appeals process, a scheme which has existed since April 2011 (10%)

- 20% of all SMEs interviewed in Q4 2012 thought that schemes such as Funding for Lending made it more likely they would apply for funding, the equivalent of around 900,000 SMEs. This appetite was seen across all size bands and risk ratings, and was highest for those with 1-9 employees (32%) or with a worse than average risk rating (30%)

3. Using this report

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

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

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

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

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

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

Analysis over time

This report is predominantly based on four waves of data, gathered across Q1, Q2, Q3 and Q4 of 2012. 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.

Each report also comments on changes in demand for credit and the outcome of applications over time. Here, it is more appropriate to analyse results based on when the **application** was made, rather than when the interview was conducted. Final data is now available for any applications made in 2010 and 2011, but for other more recent quarters data is still being gathered. Results for events occurring from Q1 2012 are therefore still *interim* at this stage (respondents in Q1 2013 will report on events which occurred in Q1 2012 or later). Where analysis is shown by date of application, this includes all interviews to date (including those conducted in 2011, which are no longer included in the Year Ending data reported elsewhere), and such tables are clearly labelled in the report.

Small sample sizes for some lines of questioning mean that in those instances data is reported based on four quarters combined (YEQ4 2012 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. However, where results can be shown by individual quarter over time, they have been.

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

Definitions used in this report

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

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

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

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

Fast growth – SMEs that report having grown by 20% or more each year, for each of the past 3 years

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

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

Borrowing event – those SMEs reporting any Type 1 (new application or renewal), Type 2 (bank sought cancelation/renegotiation) or Type 3 (SME sought cancelation/reduction) borrowing event in the 12 months prior to interview. 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, but said that something had stopped them applying for loan/overdraft funding in the previous 12 months (new definition from Q4 2012)

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

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

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

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

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

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

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

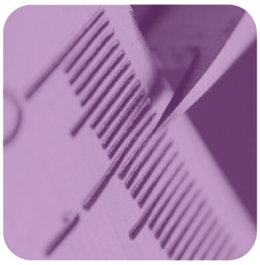
Future would-be seekers – those that felt that there were barriers that would stop them applying to borrow (more) in the next three months (such as discouragement, the economy or the principle or process of borrowing)

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

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

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

4. The general context



This chapter presents

an overview of the characteristics of SMEs in the UK. Unless otherwise stated, figures are based on all interviews conducted in the year ending Q4 2012 (YEQ4 12).

Key findings

More SMEs interviewed in 2012 had a 'worse than average' external risk rating (53%) compared to those interviewed in 2011 (50%), due to more 0 employee SMEs with this risk rating. Instances of self-reported credit risk remained consistent over time and affected only a minority (12% of SMEs interviewed in Q4 2012)

Two thirds of SMEs were profitable (63% YEQ4 2012). This has remained relatively stable over time, but the median profit made in the previous 12 months declined from £13,000 in Q4 2011 to £6,000 in Q4 2012

In Q4 2012, 37% of SMEs reported having grown (at all) in the past 12 months. This level of overall growth was very similar to that *predicted* by SMEs interviewed in Q3 2011

12% of all SMEs reported that they grew by 20% or more. The equivalent of 5% of all SMEs reported having grown by 20% or more in *each* of the last 3 years

Most SMEs held credit balances. The proportion holding less than £5,000 increased over time (from 63% in Q1-2 2011 to 70% in Q3 2012) and was 66% in Q4 2012

This chapter presents an overview of the characteristics of SMEs in the UK. Unless otherwise stated, figures are based on the 20,055 interviews conducted in the year ending Q4 2012 (that is Q1, Q2, Q3 and Q4 2012). Both 2011 and 2012 have presented particular trading challenges, and analysis of this data over time provides an indication of how SMEs are managing.

Profitability

Almost two thirds of SMEs reported making a profit in their most recent 12 month trading period (63% for YEQ4 12), unchanged from the previous period. As the quarterly analysis below shows, just under two-thirds of those interviewed each quarter reported making a profit. There has been a slight increase in the proportion unable or unwilling to give an answer, and if these were excluded then the figures would be stable over time: 70% of SMEs interviewed in 2011 reported making a profit, compared to 69% of those interviewed in 2012.

Where made though, the median profit figures have shown something of a decline over recent quarters – from £13,000 in Q4 2011, to £6,000 in Q4 2012:

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

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

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

From Q4 2012, the profit and loss questions were simplified and the profit or loss made has been recorded in bands, rather than as an actual amount. This means that, from Q4, average and median figures cannot be combined with previous quarters to produce annual figures, so the median figures shown are for Q4 2012 **only** at this stage.

For YEQ4 2012, bigger SMEs remained more likely to have been profitable: 62% of 0 employee businesses reported making a profit, compared to 74% of those with 50-249 employees. The median profit, where made, was £6k in Q4 2012:

Business performance last 12 months YEQ4 12 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*20,055*	*4020*	*6621*	*6405*	*3009*
Made a profit	63%	62%	67%	73%	74%
Broke even	13%	13%	12%	9%	8%
Made a loss	16%	17%	14%	10%	10%
Dk/refused	8%	8%	8%	8%	8%
*Median profit made in Q4 2012**	*£6k*	*£4k*	*£11k*	*£50k*	*£235k*

Q241 All SMEs/ * All SMEs making a profit and revealing the amount in Q4 2012

Larger SMEs remained more likely to be profitable than smaller ones. SMEs interviewed in Q4 2012 were as likely to report making a profit as they were in the equivalent quarter of 2011, with the exception of those with 10-49 employees where 71% reported making a profit (75% in Q4 11):

Made a profit in last 12 months	**By date of interview**						
Over time – row percentages	Q1-2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012
All SMEs	67%	64%	64%	63%	65%	62%	64%
0 employee	65%	63%	62%	61%	63%	61%	62%
1-9 employees	73%	68%	67%	67%	69%	64%	66%
10-49 employees	76%	75%	75%	74%	75%	73%	71%
50-249 employees	78%	76%	74%	74%	77%	72%	75%

Q241 All SMEs

By sector, Property/Business Services remained the most likely to be profitable, along with Agriculture (69%), and Hotels and Restaurants the least likely (51%):

Business performance last 12 months YEQ4 12 – all SMEs	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*1501*	*2107*	*3528*	*2021*	*1806*	*1815*	*3509*	*1772*	*1996*
Made a profit	69%	63%	61%	61%	51%	57%	69%	66%	61%
Broke even	11%	13%	15%	13%	15%	15%	10%	12%	13%
Made a loss	13%	15%	15%	18%	21%	16%	15%	15%	18%
Dk/refused	7%	10%	9%	8%	12%	12%	5%	7%	8%
*Median profit made Q4 2012**	*£9k*	*£6k*	*£6k*	*£9k*	*£5k*	*£4k*	*£7k*	*£5k*	*£2k*

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

By sector, median profits in Q4 varied from £9k for profitable SMEs in Agriculture and Wholesale/Retail to £2k for profitable SMEs in Health. Reported median losses in Q4 2012 were £2k overall and varied little by sector.

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 well.

For Q4 2012:

- 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
- 25% had grown, but by less than 20%, and this was more likely for larger SMEs (23% for those with 0 employees to 44% of those with 50-249 employees)
- This means that in Q4 2012, 37% of SMEs reported having grown at all in the previous 12 months, ranging from 35% of those with 0 employees to 54% of those with 50-249 employees
- 42% had stayed the same size, and this was more likely for smaller SMEs (44% for those with 0 employees to 33% of those with 50-249 employees)
- 21% had got smaller, and this was also slightly more common for smaller SMEs (22% for those with 0 employees to 13% of those with 50-249 employees)

Of those who reported in Q4 2012 that they had grown by 20% or more, just over half said that they had also achieved this level of growth for each of the two previous years. This is the equivalent of 7% of all SMEs more than 3 years old achieving 3 years of 20%+ growth, or 5% of all SMEs.

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

- In Q3 2011, 37% of SMEs (excluding Starts) expected to grow in the coming 12 months
- In Q4 2012, when SMEs (excluding Starts) were asked about the previous 12 months, 37% reported having grown
- Analysis by size of SME suggests that the growth predictions of those with fewer than 10 employees were closer to what actually happened to this size of SME, while the predictions of those with 10-249 employees were slightly less likely to have been achieved

Financial Risk Profile

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

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

Self-reported credit issues YEQ4 12 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*20,055*	*4020*	*6621*	*6405*	*3009*
Unauthorised overdraft on account	7%	7%	7%	5%	3%
Had cheques bounced on account	5%	4%	8%	6%	4%
Problems getting trade credit	3%	3%	4%	4%	4%
Missed a loan repayment	2%	2%	2%	1%	1%
Had County Court judgement against them	1%	1%	2%	1%	1%
Any of these	*13%*	*12%*	*16%*	*12%*	*9%*

Q224 All SMEs

Neither 2011 nor 2012 have offered a particularly easy trading environment but, in fact, over time, SMEs have become no more likely to self-report having had any of the credit risk issues specified, and indeed those with employees have become less likely to report any of these events:

Any self-reported credit issues over time – row percentages By date of interview	Q1-2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012
Overall	15%	13%	12%	13%	13%	13%	12%
0 employee	15%	11%	12%	11%	12%	12%	12%
1-9 employees	18%	17%	14%	19%	17%	16%	12%
10-49 employees	17%	15%	13%	14%	15%	12%	10%
50-249 employees	13%	13%	8%	9%	10%	10%	7%

Q224 All SMEs

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

To date, the overall risk profile in each quarter has been largely consistent. Over time though, there has been a slight increase in the proportion of SMEs rated a 'worse than average' risk:

External risk rating (where provided) over time By date of interview	Q1-2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012
Unweighted base:	*5063*	*5055*	*5010*	*5023*	*4562*	*4583*	*4545*
Minimal risk	6%	6%	6%	6%	5%	2%	5%
Low risk	13%	11%	10%	12%	11%	13%	9%
Average risk	33%	33%	34%	30%	33%	30%	32%
Worse than average risk	48%	51%	51%	53%	51%	55%	53%

All SMEs where risk rating provided

The overall YEQ4 2012 ratings are shown below by size of SME, and continue to report a better risk profile for larger SMEs:

External risk rating YEQ4 12 – all SMEs where rating provided	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*18,270*	*3349*	*5727*	*6245*	*2949*
Minimal risk	5%	2%	9%	26%	34%
Low risk	11%	8%	18%	28%	26%
Average risk	31%	32%	30%	30%	27%
Worse than average risk	53%	58%	43%	17%	13%

All SMEs where risk rating provided

Looking at trends over time, 50% of SMEs interviewed during 2011 had a 'worse than average' risk rating, while amongst those interviewed during 2012 the figure was 53%. This reflected more 0 employee businesses having this risk rating in 2012, as the table below shows:

Worse than average external risk rating – row percentages By date of interview	Q1-2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012
Overall	48%	51%	51%	53%	51%	55%	53%
0 employee	51%	56%	53%	58%	55%	61%	58%
1-9 employees	42%	42%	49%	43%	43%	41%	45%
10-49 employees	14%	16%	17%	14%	17%	19%	18%
50-249 employees	13%	13%	13%	14%	14%	13%	13%

All SMEs where risk rating provided

By sector, SMEs in Agriculture remained more likely to have a minimal or low risk rating (42% YEQ4 12) compared to Transport where 9% had this rating:

External risk rating YEQ4 12	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*1272*	*1966*	*3204*	*1873*	*1682*	*1647*	*3184*	*1584*	*1858*
Minimal risk	17%	6%	2%	4%	4%	2%	5%	7%	6%
Low risk	25%	11%	10%	12%	10%	7%	11%	20%	9%
Average risk	27%	28%	27%	39%	31%	28%	32%	40%	30%
Worse than average risk	31%	55%	61%	45%	56%	64%	52%	34%	55%
Total Min/Low	*42%*	*17%*	*12%*	*16%*	*14%*	*9%*	*16%*	*27%*	*15%*

All SMEs where risk rating provided

The 'worse than average' risk rating was somewhat more common in 2012 than in 2011 for those in the Manufacturing, Transport, Health and Property/Business Services sectors.

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

Credit balances

While almost all SMEs reported holding some credit balances (4% do not hold any) most, 66%, said that they typically held less than £5,000. Over the individual quarters of the report to date, the proportion of SMEs with less than £5,000 in credit balances increased from 63% in Q1-2 2011 to 70% in Q3 2012, and was 66% in the latest quarter, Q4 2012.

The high proportion of SMEs with a low credit balance continues to be driven by the smaller SMEs. For YEQ4 2012, 74% of 0 employee SMEs held less than £5,000 in credit balances, compared to 14% of those with 50-249 employees.

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

- £1,620 for 0 employee SMEs
- £3,160 for 1-9 employee SMEs
- £26,630 for 10-49 employee SMEs
- £134,510 for 50-249 employee SMEs

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

How SMEs are managed

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

A series of questions provided information on the structure and control of the business. Those reported below were selected to reflect the perceived importance of a business plan as a key document, as highlighted on the Better Business Finance website, set up by the Business Finance Taskforce, and also from analysis of the Monitor where business planning was shown to be a key contributor to success rates. The Government is also keen to promote SME ‘finance fitness’ (preparedness for accessing finance) as well as exporting and export finance.

The table below shows fewer businesses planning in Q4 2012 (a similar ‘dip’ was seen in Q4 2011) but a more consistent 9% undertaking international activity:

Business formality elements Over time – all SMEs By date of interview	Q1-2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012
Unweighted base:	*5063*	*5055*	*5010*	*5023*	*5000*	*5032*	*5000*
Planning (any)	52%	54%	52%	58%	56%	56%	50%
- Produce regular management accounts	*40%*	*41%*	*37%*	*44%*	*42%*	*40%*	*38%*
- Have a formal written business plan	*30%*	*33%*	*32%*	*33%*	*34%*	*35%*	*29%*
International (any)	15%	10%	8%	10%	10%	10%	9%
– Export goods or services	*10%*	*7%*	*5%*	*7%*	*8%*	*6%*	*5%*
- Import goods or services	*9%*	*7%*	*6%*	*7%*	*6%*	*7%*	*6%*

Q223 All SMEs

Larger SMEs remained more likely to plan and to undertake international trade. By sector, planning ranged from 68% in the Hotels and Restaurants and Wholesale/Retail sectors to 36% in Construction, while international activity was most common in the Wholesale/Retail (23%) and Manufacturing (16%) sectors. For all other sectors, except Other Community (12%) less than 10% currently import or export, with the Construction sector again the least likely to do so (2%).

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

- 28% of exporters said that international trade made up 50% or more of sales
- Smaller exporters, with 0-9 employees, were more likely to say this (29%) than those with 10-249 employees (20%)
- 5% of all SMEs export. The equivalent of 1% of all SMEs reported that exports made up 50% or more of their turnover, while 4% of all SMEs reported that exports made up less than 50% of their turnover

A new question for Q4 2012 asked SMEs whether they used online banking. Two thirds did (65%), increasing with size:

- 62% of 0 employee businesses use online banking
- 72% of those with 1-9 employees
- 84% of those with 10-49 employees
- 87% of those with 50-249 employees

Membership of business groups or industry bodies

Another new question for Q4 2012 asked SMEs whether the owner, senior partner or majority shareholder belonged to any business groups or industry bodies.

Overall, a quarter of SMEs (26%) said that this was the case.

This varied relatively little by size of business below 50 employees:

- 26% of 0 employee businesses belong to a group/body
- 24% of 1-9 employee businesses
- 28% of 10-49 employee businesses
- 39% of 50-249 employee businesses

SMEs with a minimal external risk rating were slightly more likely to belong to such groups (34%), otherwise there was little difference by external risk rating.

Starts were slightly less likely to be members (21%), otherwise there was relatively little variation by age of business. By sector, the most likely to belong to such groups were those in the Health sector (39%), Property/Business Services (34%) and Construction (27%). All other sectors ranged between 17-22%.

Those currently using external finance were slightly more likely to belong to such groups (29%) than those that did not use external finance (24%).

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

44% of SMEs reported using external funding (YEQ4 2012)

A third of SMEs met the definition of a 'Permanent non-borrower' who do not use, and seem disinclined to use, external finance. In Q4 2012, 37% of SMEs interviewed met this definition, and this has increased over the year (30% in Q1)

Analysed over time, use of external finance in Q4 2012 (41%) was very similar to that reported both in Q3 2012 (40%) and the equivalent Q4 of 2011 (41%)

This stability was due to the use of external finance by those SMEs with 0 or 1-9 employees which was very similar in Q4 2011 and Q4 2012. Over the same period, use of external finance has declined for larger SMEs: from 70% to 65% for those with 10-49 employees and from 75% to 68% for those with 50-249 employees

In both Q3 and Q4 2012, 5% of SMEs reported that they *used* to use external finance but do not do so now, and this has increased slowly but steadily over time

In Q4 2012 33% of SMEs used one or more of the most common forms of external finance (a loan, overdraft and/or credit cards), a similar proportion to Q4 2011 (34%). Over time, there has been a slight decline in usage (from 39% of SMEs interviewed in 2011 to 36% interviewed in 2012)

In Q4 2012, a third of those using such facilities, 39%, said that one or more of them was in a personal name rather than that of the business, and this was more common if the SME had no employees,a worse than average risk rating, or operated through a personal rather than a business bank account

This is the equivalent of 13% of all SMEs having a loan, overdraft or credit card in a personal rather than business name

In Q4 2012, 4 out of 10 SMEs (40%) reported a cash injection into the business in the previous 12 months: 16% had chosen to do so, while the remainder, 24%, reported that they had felt that they had no choice, and this has changed little over the quarters for which data is available

Such injections were more common amongst smaller, younger businesses, and those with a worse than average risk rating, as well as those currently using external finance

In Q4, 39% of those that had put in funds said that this was a short term investment. 31% said it was a long term investment, and 30% said it was a mix. Those who reported feeling 'forced' to inject funds were slightly more likely to say this was a short term investment (44%) than a long term one (26%)

60% of injections of funds were for less than £5,000, and this varied by size, but not by whether the investment was ‘forced’ or not

54% of SMEs interviewed in Q4 2012 had some personal element to their business – either an account or a facility in a personal name, an application made in a personal name or an injection of personal funds in the previous 12 months. This was more common for smaller SMEs and those with a worse than average external risk rating

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

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

Use of external finance for YEQ4 2012 was unchanged from YEQ3 2012 at 44%. Analysis over time showed use of external finance in Q4 2012 was very similar to the equivalent quarter in 2011, and almost unchanged from Q3 2012. Over time, there has been a small but steady increase in the proportion of SMEs saying that they used to use external finance (5% in Q4 2012):

Use of external finance in last 5 years Over time – all SMEs By date of interview	Q1-2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012
Unweighted base:	*5063*	*5055*	*5010*	*5023*	*5000*	*5032*	*5000*
Use now	51%	47%	41%	50%	43%	40%	41%
Used in past but not now	2%	2%	3%	3%	4%	5%	5%
Not used at all	47%	51%	56%	47%	53%	55%	54%

Q14/15 All SMEs

Bigger SMEs remained more likely than smaller SMEs to be using external finance. However, compared to the equivalent quarter in 2011, larger SMEs with 10-249 employees were less likely to be using external finance in Q4 2012, while there was little difference for those with 0-9 employees:

Currently use external finance Over time – all SMEs By date of interview – row percentages	Q1-2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012
All	51%	47%	41%	50%	43%	40%	41%
0 emp	45%	41%	36%	45%	37%	35%	37%
1-9 emps	65%	61%	54%	64%	60%	54%	53%
10-49 emps	76%	76%	70%	73%	73%	69%	65%
50-249 emps	81%	77%	75%	78%	78%	69%	68%

Q14/15 All SMEs , base varies slightly each quarter

Overall, for YEQ4 2012, more use was made of external finance by SMEs with a minimal (57%) or low (52%) external risk rating, than by those with an average (46%) or worse than average rating (41%). These were all similar to the equivalent YEQ3 figures.

By sector, the most likely to be using external finance remained SMEs in the Wholesale/Retail (56%) and Hotels and Restaurants (53%) sectors. The least likely to be currently using external finance was the Health sector (32%).

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

This analysis shows a similar position in Q4 to Q3 2012. Reported use of both overdrafts and credit cards declined during 2012, albeit the results in Q4 were very similar to the equivalent Q4 in 2011:

Use of external finance Over time – all SMEs By date of interview	Q1-2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012
Unweighted base:	*5063*	*5055*	*5010*	*5023*	*5000*	*5032*	*5000*
Bank overdraft	30%	25%	22%	24%	22%	21%	20%
Bank loan/Commercial mortgage	12%	10%	8%	11%	11%	7%	9%
Credit cards	20%	19%	14%	22%	19%	16%	15%
Any of these – all SMEs	*44%*	*39%*	*34%*	*40%*	*36%*	*34%*	*33%*

Q15 All SMEs

36% of SMEs interviewed during 2012 were using one or more of these forms of finance, compared to 39% for SMEs interviewed in 2011. This change was seen across all size bands, and all external risk ratings except 'minimal', and slightly more for those in the Property / Business services sector.

A new question for Q4 2012 asked those using any of these three methods of finance whether any facilities were in their personal name, rather than that of the business. A third of those using such facilities (39%) said that there was a facility in their personal name, the equivalent of 13% of **all** SMEs having a facility in their personal name (or 20% of SMEs excluding the 'Permanent non-borrowers').

This varied by size of business: amongst those SMEs using loans, overdrafts and/or credit cards, half of those with 0 employees had some facility in their personal name compared to 5% of those with 50-249 employees. Those using these facilities, and who had a worse than average risk rating, were also more likely to have a facility in their own name (44%), but the equivalent figures for **all** SMEs show little difference by risk rating:

Have element of facility in personal name Q4 only – row percentages	Of those with an overdraft, loan or credit card	Equivalent % of all SMEs
Overall	**39%**	**13%**
0 employees	49%	14%
1-9 employees	24%	11%
10-49 employees	11%	6%
50-249 employees	5%	3%
Minimal risk rating	25%	12%
Low risk rating	26%	11%
Average risk rating	35%	13%
Worse than average risk rating	44%	13%

Q15bbb All SMEs with one of these facilities, Q4 only

Those operating through a personal account for their business banking were less likely to be using any of these facilities (19% in Q4 compared to 36% of those operating through a business bank account). However if they did, almost all, 9 out of 10, said that they had facilities in their personal name. Amongst those operating a business account, a third said there were facilities in their personal name.

Overall, 17% of all SMEs using a personal account for their business banking had some facility in their personal name, compared to 12% of all SMEs using a business bank account.

Net use of any of the *other* forms of finance specified (see full table below) was the same in Q4 2012 as for the equivalent quarter in 2011, with 16% of SMEs using one or more of these other forms of finance.

The table below shows the full list of the different types of funding being used by SMEs YEQ4 12. Larger businesses continued to make use of a wider variety of forms of funding:

External finance currently used YEQ4 12 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*20,055*	*4020*	*6621*	*6405*	*3009*
Bank overdraft	22%	18%	31%	37%	36%
Credit cards	18%	15%	23%	37%	44%
Bank loan/Commercial mortgage	10%	7%	16%	22%	29%
Leasing or hire purchase	6%	4%	11%	24%	33%
Loans/equity from directors	5%	3%	10%	13%	12%
Loans/equity from family and friends	6%	5%	7%	4%	3%
Invoice finance	3%	2%	4%	11%	15%
Grants	1%	1%	2%	3%	5%
Loans from other 3rd parties	1%	1%	1%	3%	5%
Any of these	*44%*	*38%*	*58%*	*70%*	*73%*
None of these	*56%*	*62%*	*42%*	*30%*	*27%*

Q15 All SMEs

SMEs that import and/or export were asked about use of Export/Import finance. In Q4 2012, 1% of such SMEs used these products, ranging from 1% of 0-9 employee SMEs to 2% of those with 10-249 employees.

Those SMEs that are companies were also asked whether they used equity from 3rd parties. 1% of companies reported using this form of funding in Q4 2012.

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

The table below details the use of all of these forms of funding over time. As already reported, overdrafts, loans and credit cards are the most common forms of funding. Use of leasing or HP has declined slightly in 2012, while use of other forms of finance is more stable:

Use of external finance Over time – all SMEs By date of interview	Q1-2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012
Unweighted base:	*5063*	*5055*	*5010*	*5023*	*5000*	*5032*	*5000*
Bank overdraft	30%	25%	22%	24%	22%	21%	20%
Bank loan/Commercial mortgage	12%	10%	8%	11%	11%	7%	9%
Credit cards	20%	19%	14%	22%	19%	16%	15%
Leasing or hire purchase	7%	8%	6%	8%	7%	5%	5%
Loans/equity from directors	7%	4%	5%	7%	6%	4%	4%
Loans/equity from family & friends	5%	5%	4%	8%	5%	5%	4%
Invoice finance	2%	2%	2%	3%	2%	2%	3%
Grants	2%	2%	1%	1%	2%	1%	1%
Loans from other 3rd parties	1%	1%	1%	1%	1%	1%	1%
Any of these – all SMEs	*51%*	*47%*	*41%*	*50%*	*43%*	*40%*	*41%*

Q15 All SMEs

Injections of personal funds

Since the SME Finance Monitor started, questions have been added to explore the use of personal funds in businesses.

From Q2 2012 SMEs were asked whether personal funds had been injected into the business in the previous 12 months by the owner or any director, and whether this was something they had *chosen* to do or felt that they *had* to do. Further questions were then added in Q4 2012 to explore this funding in more detail, and are reported below for the first time.

As the table below shows, the figures for injection of personal funds for Q4 2012 were very similar to those in Q2, and across the 3 waves for which data is available, around 4 out of 10 SMEs reported having put in funds in the previous 12 months:

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

Q15d All SMEs from Q2 2012

Further analysis is based on the combined results from Q2 to Q4 2012 to provide robust base sizes for key sub-groups.

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

Personal funds in last 12 months Q2-Q4 2012 only – all SMEs	All	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*15,032*	*3006*	*4965*	*4803*	*2258*
Inject personal funds – you chose to do to help the business grow and develop	17%	19%	14%	9%	6%
Inject personal funds – you felt you had no choice about this, that you had to do it	25%	26%	25%	14%	6%
Any personal funds	*42%*	*45%*	*39%*	*23%*	*12%*
Not something you have done	58%	55%	61%	77%	88%

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 (68%), and that this was as likely to be a choice (34%) as a necessity (34%). For older businesses, an injection of personal funds was less likely to have happened at all but, where it had, a higher proportion of these injections were felt to have been a necessity:

Personal funds in last 12 months Q2-Q4 2012 only – all SMEs	Starts	2-5 yrs	6-9 yrs	10-15 yrs	15 yrs+
Unweighted base:	*1516*	*2439*	*1953*	*2289*	*6835*
Inject personal funds – you chose to do to help the business grow and develop	34%	19%	13%	11%	8%
Inject personal funds – you felt you had no choice about this, that you had to do it	34%	25%	25%	23%	20%
Any personal funds	*68%*	*44%*	*38%*	*34%*	*28%*
Not something you have done	32%	56%	62%	66%	72%

Q15d All SMEs from Q2 2012

Those using a *personal* account for their business banking were more likely to have put personal funds in at all (50% v 41% of those with a business account) but only slightly more likely to have felt that they had to do so (27% with a personal account, 25% with a business account).

As might be anticipated, analysis by external risk rating showed different experiences. Amongst those with a minimal external risk rating, around 1 in 5 had seen an injection of personal funds, whilst amongst those with a worse than average external risk rating, half had seen an injection of personal funds:

Personal funds in last 12 months Q2-Q4 2012 only – all SMEs	All	Min	Low	Avge	Worse/ Avge
Unweighted base:	*15,032*	*2404*	*2909*	*4031*	*4346*
Inject personal funds – you chose to do to help the business grow and develop	17%	8%	9%	15%	21%
Inject personal funds – you felt you had no choice about, that you had to do	25%	12%	20%	21%	29%
Any personal funds	*42%*	*20%*	*29%*	*36%*	*50%*
Not something you have done	58%	80%	71%	64%	50%

Q15d All SMEs from Q2 2012

Analysis by sector showed relatively little variation in terms of *any* injection of funds (experienced by 41-47% of SMEs in each sector). Those in Hotels and Restaurants (31%) and Construction (29%) were more likely to feel that they had had to inject the funds:

Personal funds in last 12 months Q2-Q4 2012 only – all SMEs	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*1129*	*1561*	*2636*	*1515*	*1361*	*1360*	*2628*	*1342*	*1500*
Chose to inject	18%	18%	15%	15%	16%	18%	17%	22%	20%
Had to inject	23%	23%	29%	27%	31%	25%	24%	22%	22%
Any funds	*41%*	*41%*	*44%*	*42%*	*47%*	*43%*	*41%*	*44%*	*42%*
Not done	59%	59%	56%	58%	53%	57%	59%	56%	58%

Q15d All SMEs from Q2 2012

SMEs currently using external finance were slightly more likely to have received any cash injection (47%) than those not currently using external finance (39%) and were also more likely to say they felt that there had been no choice (33% v 20%).

Those using a personal account for their business banking were also more likely to have injected funds (57%) than those who use a business account (37%), and also more likely to have felt that they had no choice (44% if use personal account, 25% if not).

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 felt something had stopped them) who were most likely to have received an injection of personal funds. This is shown below for Q4 only as the definitions for 'Would-be seeker' and 'Happy non-seeker' were revised in Q4:

Personal funds in last 12 months Q4 2012 only – all SMEs	All	Had an event	Would-be seeker	Happy non-seeker
Unweighted base:	*5000*	*1338*	*244*	*3418*
Inject personal funds – you chose to do to help the business grow and develop	16%	14%	8%	17%
Inject personal funds – you felt you had no choice about, that you had to do	24%	37%	61%	17%
Any personal funds	*40%*	*51%*	*69%*	*34%*
Not something you have done	60%	49%	30%	65%

Q15d All SMEs from Q2 2012

In Q4 2012, further questions were asked for the first time of those who had put funds into the business:

- 39% of SMEs that had put funds in said that this was a short term investment. 31% said the funds were a long term investment, and the remainder, 30%, said the funding was a mix of long and short-term funding. Putting funds in as a short term investment was more likely if the business was more than 5 years old (54%), or had reported a borrowing event in the previous 12 months (50%)
- Those that had felt 'forced' to inject funds were more likely to say this was a short term investment (44%) than a long term one (26%), with 31% saying it was a mix. Those *choosing* to inject funds were as likely to say that this was a short term (33%) as a long term (39%) investment, with 29% saying it was mix
- 60% of SMEs that had put funds in said that they had put in less than £5,000. This was more likely if the SME putting in funds had 0-9 employees (61%) than 10-249 employees (10%), and also more likely if the SME was not using external finance or was running their business through a personal bank account (both 67%)
- Whether the sum put in was more or less than £5,000 did not vary much by whether the injection had been 'forced' or 'chosen'. 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 (46%)
- Bigger SMEs, with 10-249 employees, were more likely to have put in more than £5,000, whatever the purpose (around 90% put in £5,000 or more whether it was a long or short term investment) while smaller SMEs were much more likely to have injected less than £5,000, especially if it was a short term investment (74% injected less than £5,000), rather than a long term one (47% injected less than £5,000)
- 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
    - The most likely to have done this were 'Would-be seekers of finance' in the previous 12 months (21%), and those that had had a borrowing 'event' or were in the Hotels and Restaurants sector (18%) while the least likely were those with a minimal risk rating (4%)
- Meanwhile, 6% of **all** SMEs had injected more than £5,000 as a long term investment only
    - The most likely to have done so were Starts and those in the Hotels and Restaurants sector (13%), while the least likely to have done so were those with a minimal or low external risk rating, 'Permanent non-borrowers' and businesses more than 5 years old (all 4%)

Use of personal accounts

Most SMEs used a business bank account (82%). Almost all, 95%, of those that used a personal account for their business banking were 0 employee businesses. Such personal accounts were more likely to be found in the Health Sector (32% v 18% overall) and least likely to be found in Wholesale/Retail (8%). Amongst Starts (set up within the last 2 years) 29% used a personal bank account for their business.

Since this report started, just over 2,300 SMEs who use a personal account have been interviewed. These SMEs were less likely to be using external finance (29% currently use v 48% using a business account) and half as likely to have applied for new or renewed facilities (4% v 9%).

The ‘interweaving’ of business and personal funds

The Q4 questionnaire included a number of new questions to further explore 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. In Q4 2012:

- 17% of SMEs used a personal rather than a business account for their business banking
- 39% of those with an overdraft, loan or credit card facilities said that one or more was in their personal name, and where a personal bank account was also used, the proportion increased to 9 out of 10. This is the equivalent of 13% of all SMEs with 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 (57%) than those who did not have any personal borrowing (37%)
- 11% 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 it was a personal facility (the equivalent of less than 2% of all SMEs)

In Q4 2012, half of SMEs (54%) reported having one or more of these personal ‘elements’ to their business. 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, the most likely to have a personal element to their business:

Had **any** personal element Over time – row percentages	Q4 2012
All SMEs	54%
0 employee	59%
1-9 employees	43%
10-49 employees	25%
50-249 employees	14%
Minimal external risk rating	35%
Low external risk rating	37%
Average external risk rating	48%
Worse than average external risk rating	61%
Agriculture	43%
Manufacturing	47%
Construction	59%
Wholesale/Retail	54%
Hotels and Restaurants	59%
Transport	58%
Property/Business Services etc.	53%
Health	64%
Other Community	48%

Recent applications for other forms of finance

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

	Total		Applied for			
Other finance applied for YEQ4 12 – all SMEs	Applied	% success	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*20,055*	*Varies*	*4020*	*6621*	*6405*	*3009*
Credit cards	3%	84%	3%	4%	5%	7%
Leasing/Hire purchase	4%	88%	2%	6%	15%	22%
Loans/equity from directors	2%	94%	1%	5%	6%	5%
Loans/equity from family & friends	4%	94%	4%	4%	2%	1%
Grants	2%	68%	1%	2%	5%	6%
Invoice finance	1%	79%	1%	2%	4%	6%
Loans from other 3rd parties	1%	67%	1%	1%	2%	3%

Q222 All SMEs

Most applicants were successful, with larger SMEs (10-249 employees) that applied generally more likely to be successful.

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

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

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

- Most SMEs, 78%, 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
- 9% reported a loan/overdraft event, but had not applied for other forms of finance
- 9% 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

The non-borrowing SME

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

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

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

- 37% of 0 employee SMEs met this non-borrowing definition
- 25% of 1-9 employee SMEs
- 18% of 10-49 employee SMEs
- 15% of 50-249 employee SMEs

SMEs in the Health sector were the most likely to be a 'Permanent non-borrower' (47%), compared to 26% of those in Wholesale/Retail and Agriculture. By risk rating, those with an average external risk rating were the most likely to be a 'Permanent non-borrower' (36%).

Whilst the proportion of SMEs that meet this definition has remained at around a third, over the course of 2012 the proportion meeting the definition each quarter increased from 30% in Q1 to 37% in Q4 2012, as more SMEs with employees met the ‘Permanent non-borrower’ definition.

PNBs Over time – all SMEs By date of interview- row percentages	Q1-2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012
All SMEs	30%	35%	36%	30%	34%	34%	37%
0 employee	34%	39%	40%	34%	39%	37%	40%
1-9 employees	21%	23%	25%	21%	24%	27%	30%
10-49 employees	15%	15%	18%	16%	15%	19%	21%
50-249 employees	11%	12%	14%	11%	13%	20%	17%

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

6. An initial summary of all overdraft and loan events

This chapter provides

the full definition of each borrowing 'event' together with summary tables of their occurrence. Subsequent chapters then investigate in more detail, and over time. The chapter covers the individual waves of interviews conducted to date. In each wave, SMEs were asked about borrowing events in the previous 12 months, so overall, borrowing events may have occurred from Q3 2010 to Q4 2012. Where year ending data is provided this is YEQ4 2012.

Key findings

Type 1 borrowing events (for a new or renewed loan or overdraft facility) remained the most common event in the 12 months prior to interview, reported by 9% of SMEs interviewed in Q4 2012

Type 2 and Type 3 events (where the bank cancels or reduces a facility or the SME chooses to pay off or reduce their facility) remained less common: 4% of SMEs reported a Type 2 event, and 2% a Type 3 event, in the year before their interview in Q4 2012

Type 1 borrowing events remained more common amongst larger SMEs and those with a minimal or low external risk rating, as well as SMEs in the Agriculture and Hotels and Restaurants sectors

Lower levels of activity have been reported in both Q4 2011 and Q4 2012, suggesting an element of seasonality

If the 'Permanent non-borrowers', who seem firmly disinclined to borrow, are excluded, the incidence of Type 1 events (YEQ4 2012) increases from 11% to 16%

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

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

This chapter provides analysis on events reported in interviews conducted to YEQ4 2012. This provides bigger base sizes and more granularity for sub-group analysis, such as by employee size band. However, where possible, analysis has also been conducted over time to allow the reporting of a 'rolling aggregate of demand' which is shown below.

The rolling aggregate of demand/activity

The 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 (9% in Q4), and at the same level as the equivalent quarter of 2011:

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

Q25/26 All SMEs

As the table above shows, a minority of SMEs had experienced any of these loan or overdraft events. There were lower levels of activity reported in Q4 in both 2011 and 2012 suggesting an element of seasonality (albeit SMEs are reporting on events in the previous 12 months).

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. Figures for Q4 2012, as for the sample overall, were very similar to those reported in Q4 2011:

Borrowing events in the previous 12 mths. All SMEs, excluding PNBs over time By date of interview	Q1-2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012
Unweighted base:	*4047*	*3968*	*3822*	*4022*	*3894*	*3732*	*3664*
Type 1: New application/renewal	22%	19%	14%	17%	17%	16%	15%
Applied for new facility (any)	11%	11%	9%	10%	10%	10%	9%
Renewed facility (any)	14%	10%	7%	9%	8%	7%	7%
Type 2: Cancel/renegotiate by bank	7%	6%	5%	5%	5%	4%	6%
Type 3: Chose to reduce/pay off	5%	3%	2%	2%	2%	1%	3%

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 YEQ4 2012, and, unless otherwise stated, are based on all SMEs.

The event experienced most widely was the application for a new facility, experienced by 7% of all SMEs. The renewal of an existing facility was experienced by almost as many SMEs overall (5%) with more variation by size (from 4% of 0 employee SMEs to 14% of those with 50-249 employees):

Borrowing events YEQ4 12 all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*20,055*	*4020*	*6621*	*6405*	*3009*
Type 1: New application/renewal	11%	9%	16%	19%	19%
Applied for new facility (any)	7%	5%	10%	8%	8%
- applied for new loan	*3%*	*3%*	*5%*	*5%*	*6%*
- applied for new overdraft	*4%*	*3%*	*7%*	*5%*	*4%*
Renewed facility (any)	5%	4%	8%	13%	14%
- renewed existing loan	*1%*	*1%*	*2%*	*4%*	*4%*
- renewed existing overdraft	*5%*	*3%*	*7%*	*11%*	*12%*
Type 2: Cancel/renegotiate by bank	3%	3%	5%	6%	5%
Bank sought to renegotiate facility (any)	3%	2%	4%	5%	5%
- sought to renegotiate loan	*1%*	*1%*	*1%*	*2%*	*2%*
- sought to renegotiate overdraft	*2%*	*1%*	*3%*	*4%*	*3%*
Bank sought to cancel facility (any)	1%	1%	2%	2%	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	1%	1%	3%	4%	3%
- reduce/pay off loan	*1%*	*	*1%*	*2%*	*2%*
- reduce/pay off overdraft	*1%*	*1%*	*1%*	*2%*	*1%*

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

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

Borrowing events YEQ4 12 – all SMEs	Total	Min	Low	Avge	Worse/Avge
Unweighted base:	*20,055*	*3241*	*3860*	*5412*	*5757*
Type 1: New application/renewal	11%	13%	13%	10%	11%
Applied for new facility (any)	7%	7%	6%	5%	7%
- applied for new loan	*3%*	*4%*	*3%*	*3%*	*3%*
- applied for new overdraft	*4%*	*4%*	*4%*	*3%*	*5%*
Renewed facility (any)	5%	9%	9%	6%	4%
- renewed existing loan	*1%*	*2%*	*3%*	*1%*	*1%*
- renewed existing overdraft	*5%*	*7%*	*7%*	*5%*	*4%*
Type 2: Cancel/renegotiate by bank	3%	4%	6%	3%	3%
Bank sought to renegotiate facility (any)	3%	4%	5%	3%	2%
- sought to renegotiate loan	*1%*	*1%*	*2%*	*1%*	*
- sought to renegotiate overdraft	*2%*	*3%*	*4%*	*2%*	*2%*
Bank sought to cancel facility (any)	1%	2%	1%	1%	1%
- sought to cancel loan	*	*	*	*	*
- sought to cancel overdraft	*1%*	*2%*	*1%*	*1%*	*1%*
Type 3: Chose to reduce/pay off facility	1%	2%	2%	2%	1%
- reduce/pay off loan	*1%*	*1%*	*1%*	*1%*	*1%*
- reduce/pay off overdraft	*1%*	*1%*	*1%*	*1%*	*1%*

Q25/26 All SMEs with external risk rating

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

Borrowing event in last 12 months YEQ4 12 – all SMES	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*1501*	*2107*	*3528*	*2021*	*1806*	*1815*	*3509*	*1772*	*1996*
Type 1: New application/ renewal	18%	11%	10%	14%	16%	10%	10%	6%	10%
Applied for new facility (any)	8%	6%	6%	8%	11%	7%	6%	4%	6%
- applied for new loan	*5%*	*3%*	*3%*	*4%*	*6%*	*4%*	*2%*	*2%*	*3%*
- applied for new overdraft	*5%*	*3%*	*4%*	*6%*	*7%*	*3%*	*4%*	*2%*	*4%*
Renewed facility (any)	11%	6%	4%	7%	7%	3%	5%	3%	6%
- renewed existing loan	*3%*	*1%*	*1%*	*2%*	*2%*	*1%*	*1%*	*1%*	*2%*
- renewed existing overdraft	*8%*	*5%*	*3%*	*7%*	*5%*	*2%*	*5%*	*3%*	*5%*
Type 2: Cancel/ renegotiate by bank	4%	3%	2%	4%	4%	3%	3%	1%	5%
Bank sought to renegotiate facility (any)	3%	2%	2%	3%	3%	2%	3%	1%	3%
- sought to renegotiate loan	*1%*	*1%*	*1%*	*1%*	*1%*	*1%*	*1%*	***	*2%*
- sought to renegotiate overdraft	*2%*	*1%*	*1%*	*3%*	*2%*	*2%*	*2%*	*1%*	*2%*
Bank sought to cancel facility (any)	1%	1%	1%	2%	2%	1%	1%	1%	2%
- sought to cancel loan	*	1%	*	1%	1%	*	*	*	*
- sought to cancel overdraft	*1%*	*1%*	*1%*	*1%*	*1%*	*1%*	*1%*	***	*2%*
Type 3: Chose to reduce/ pay off facility	2%	1%	1%	2%	2%	1%	1%	2%	2%
- reduce/pay off loan	***	*1%*	*1%*	*1%*	*1%*	*1%*	*1%*	*1%*	***
- reduce/pay off overdraft	*1%*	***	*1%*	*1%*	*1%*	*1%*	*1%*	*1%*	*1%*

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 11% to 16%:

Borrowing events YEQ4 12 – all SMEs	Total	All excl. PNBs
Unweighted base:	*20,055*	*15,312*
Type 1: New application/renewal	11%	16%
Applied for new facility (any)	7%	10%
- applied for new loan	*3%*	*5%*
- applied for new overdraft	*4%*	*6%*
Renewed facility (any)	5%	8%
- renewed existing loan	*1%*	*2%*
- renewed existing overdraft	*5%*	*7%*
Type 2: Cancel/renegotiate by bank	3%	5%
Bank sought to renegotiate facility (any)	3%	4%
- sought to renegotiate loan	*1%*	*1%*
- sought to renegotiate overdraft	*2%*	*3%*
Bank sought to cancel facility (any)	1%	2%
- sought to cancel loan	*	*1%*
- sought to cancel overdraft	*1%*	*2%*
Type 3: Chose to reduce/pay off facility	1%	2%
- reduce/pay off loan	*1%*	*1%*
- reduce/pay off overdraft	*1%*	*1%*

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

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

SMEs were only asked these follow up questions for a maximum of one loan and one overdraft event. Those that had experienced more than one event in 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 less than half of all SMEs currently use external finance while 1 in 10 reported one of the Type 1 borrowing 'events' in the previous 12 months. Indeed, a third of SMEs might be considered to be outside the borrowing process – the 'Permanent non-borrowers' described earlier.

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

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

7. The build up to applications for overdrafts and loans

This chapter is

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

Key findings

7% of SMEs reported a new/renewed overdraft event in the 12 months prior to Q4 2012, while 3% reported a new or renewed loan event

Analysis of *when* Type 1 events have occurred over time, suggests that slightly more applications were made than might have been expected in Q1 2011 and again in Q1 2012. Otherwise such events have occurred evenly over time

Larger SMEs were less likely to report having applied for finance in the 12 months prior to Q4 2012 than they had been in Q4 2011: for those with 10-49 employees the proportion reduced from 23% to 15%, and for those with 50-249 employees from 27% to 14%. This links to lower usage of external finance reported for these larger SMEs in a previous chapter

1 in 10 of all SMEs (11%) reported that an overdraft facility had been automatically renewed in the 12 months prior to interview - representing half of SMEs with an overdraft facility (YEQ4 12). The proportion of SMEs reporting such an event has declined slightly over time

Of those reporting an automatic renewal in the 12 months prior to being interviewed in Q4 2012, 22% reported that this was an overdraft in a personal rather than a business name. This compared to 11% of the reported overdraft applications for new/renewed funds, which were made in a personal rather than business name, and 15% of the reported loan applications

31% of overdraft applicants and 41% of loan applicants reported that they had been applying for their first such facility, and this proportion is increasing slightly over time (by date of application). 46% of overdraft events involved the renewal of an existing facility, and this was more common than for loans (11%)

Half of all overdraft applicants (47%) were seeking £5,000 or less of funding. Loans were typically larger – 17% were for less than £5,000 while 32% were looking for more than £25,000 (compared to 18% of overdraft applications)

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.

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 Q3 and Q4 2012) this is only **interim** data, which is liable to change and will be updated in subsequent reports.

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

Applications over time

As the table below shows, the proportion of SMEs having had any Type 1 overdraft event in the 12 months prior to interview remained at less than 10% in Q4 2012, but in line with the equivalent quarter of 2011:

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

Q26 All SMEs

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

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

Q26 All SMEs

In a new question for 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. 11% of overdraft applications reported in Q4 were made in a personal name, while for loans the figure was 15%. This means that, in Q4 2012, less than 1% of **all** SMEs reported having made an overdraft or loan application in their personal name.

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

Across the seven 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 even distribution of events over time, given how many times each quarter has featured as a possible 'event period'.

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

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

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

Q26 All SMEs: base size varies by category

The proportion of SMEs reporting a Type 1 event in the previous 12 months was the same in Q4 2012 as it was in the equivalent quarter of 2011 (9%). There have been more substantial changes in the proportion of larger businesses reporting an event in Q4 2012 compared to a year ago: from 23% to 15% for those with 10-49 employees and from 27% to 14% for those with 50-249 employees.

Other business demographics also showed some variation in incidence of a Type 1 event in Q4 2012:

Demographic	Incidence of Type 1 events reported in Q4 2012
Age of business	The incidence of Type 1 events varied less in Q4 than it has in the past: from 7% for Starts and 10% for others less than 5 years old, to 11% for those trading for 15 years or more. Starts remained much more likely to have applied for new facilities than to have renewed an existing facility (6% v 2%) while older businesses were somewhat more likely to have renewed (amongst those 15 years+, 5% applied for a new facility v 8% renewing one)
Profitable SMEs	SMEs that made a loss in the past 12 months were no more likely to have had a Type 1 event than those that were profitable: Made a profit 9% Broke even 10% Made a loss 11% The loss makers were also now no more likely to have applied for a new facility than those that made a profit (6% v 5%)
Fast Growth (20%+ last 3 years)	Those that had grown were slightly more likely to have had a Type 1 event Grown 20%+ last 3 yrs 14% Grown by less than this 9% Not grown in last yr 10%
Importers/exporters	Those engaged in international trade were somewhat more likely to have had an event (15%) than those who were not (9%). Note though that these businesses tend to be larger SMEs

Overdraft events – definition and further clarification

Overdrafts are usually granted for a 12 month period or less, but it was apparent in earlier reports that not all overdraft users reported having had an overdraft event in the 12 months prior to interview. To explore this further, 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 them having to do anything.

The results for the year ending Q4 2012 are reported below and show that half of all overdraft holders reported that they had had such a renewal, the equivalent of 11% of <u>all</u> SMEs:

Any overdraft activity YEQ4 12 only	All with overdraft	All SMEs
Unweighted base:	*6284*	*20,055*
Had an overdraft 'event'	32%	7%
Had automatic renewal	50%	11%
Neither of these but have overdraft	18%	4%
No overdraft	-	78%

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 slightly over time: in Q4 2012 48% of SMEs with an overdraft reported an automatic renewal in the previous 12 months, the equivalent of 9% of all SMEs:

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

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

Over time, an increasing proportion of all 'overdraft activity' (events + automatic renewals) was accounted for by an 'event': in Q4 2012 events accounted for 39% of all such overdraft activity reported by those with an overdraft, compared to 31% in Q4 2011.

New questions asked from Q4 2012 provide some further detail on these automatic renewals. 22% of those reporting an automatic renewal in Q4 said that the facility was in a personal name (a slightly higher proportion than those reporting on 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 more comparison with Type 1 overdraft events as sample sizes develop over time.

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

Overdraft activity YEQ4 12 – All with overdraft	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*6284*	*743*	*2084*	*2372*	*1085*
Had an overdraft 'event'	32%	28%	38%	40%	37%
Had automatic renewal	50%	53%	45%	42%	43%
Neither of these but have overdraft	18%	19%	17%	18%	20%

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 YEQ4 12 – All with overdraft	Total	Min	Low	Avge	Worse/Avge
Unweighted base:	*6284*	*940*	*1426*	*1887*	*1589*
Had an overdraft 'event'	32%	34%	39%	29%	33%
Had automatic renewal	50%	51%	48%	51%	49%
Neither of these but have overdraft	18%	15%	14%	20%	18%

Q15/ 26/26a All SMEs

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

Overdraft activity YEQ4 12 – All with overdraft	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*616*	*669*	*1126*	*738*	*560*	*533*	*1020*	*463*	*559*
Had an overdraft 'event'	39%	29%	25%	35%	32%	22%	35%	27%	40%
Had automatic renewal	47%	53%	56%	47%	42%	58%	51%	56%	32%
Neither of these but have overdraft	14%	19%	19%	18%	26%	20%	13%	17%	28%

Q15/ 26/26a All SMEs

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

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

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

Why were they applying?

Overdraft applications

This section covers those SMEs that made an application for a new or renewed overdraft facility during the 12 months prior to interview. All percentages quoted are therefore just of this group, which overall represents around 7% of all SMEs or around 360,000 businesses. Note that this does not include SMEs who had an overdraft automatically renewed.

Half of those reporting a Type 1 overdraft event said that they had been looking to renew an existing overdraft for the same amount (46%). Almost a third of applicants (31%) 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 43% of these first time applicants were Starts). 1 in 6 were looking to increase an existing facility, and this was more likely amongst SMEs with employees:

Nature of overdraft event YEQ4 12 SMEs seeking new/renewed facility	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*2206*	*232*	*787*	*812*	*375*
Renewing overdraft for same amount	46%	46%	43%	62%	63%
Applied for first ever overdraft facility	31%	36%	26%	10%	5%
Seeking to increase existing overdraft	16%	13%	20%	19%	21%
Setting up facility at new bank	2%	1%	3%	1%	5%
Seeking additional overdraft on another account	4%	2%	5%	4%	4%
Seeking to reduce existing facility	2%	1%	3%	4%	3%

Q52 All SMEs seeking new/renewed overdraft facility

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

Nature of overdraft event SMEs seeking new/renewed facility By application date	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Q1* 2012	Q2* 2012	Q3* 2012
Unweighted base:	*176*	*329*	*679*	*517*	*557*	*548*	*625*	*360*	*196*
Renewing overdraft for same amount	54%	41%	50%	49%	44%	49%	40%	48%	47%
Applied for first ever overdraft facility	28%	26%	22%	24%	27%	28%	33%	30%	29%
Seeking to increase existing overdraft	12%	23%	16%	18%	18%	18%	20%	12%	17%
Setting up facility at new bank	4%	2%	6%	1%	2%	1%	4%	1%	*
Seeking additional overdraft on another account	1%	2%	4%	2%	5%	2%	2%	7%	5%
Seeking to reduce existing facility	2%	5%	2%	5%	3%	2%	1%	1%	1%

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

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

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 YEQ4 12 SMEs seeking new/renewed facility	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*1982*	*214*	*731*	*708*	*329*
Less than £5,000	47%	64%	26%	3%	*
£5,000 – £9,999	18%	21%	17%	4%	*
£10,000 – £24,999	17%	10%	28%	18%	4%
£25,000 – £99,999	12%	4%	22%	38%	7%
£100,000+	6%	1%	7%	38%	88%
Median amount sought	*£5k*	*£2k*	*£10k*	*£56k*	*£291k*

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

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

Three quarters of overdraft applicants said that the overdraft was needed for day to day cash flow, and this was slightly more likely to be mentioned by larger applicants.

Just under half wanted the facility as a 'safety net' and, as the table below shows, this was slightly more likely to be mentioned as a reason by the smaller SMEs that had applied. This was even more the case when it came to overdrafts being required to fill a 'short term funding gap' –16% of SMEs with 50-249 employees applying for a facility said that this was why it was needed, compared to 33% of those with 0 employees.

As in previous quarters, overdrafts were much more likely to have been sought to support UK expansion (11%) than expansion overseas (1%).

Purpose of overdraft sought YEQ4 12 SMEs seeking new/renewed facility	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*2206*	*232*	*787*	*812*	*375*
Working capital for day to day cash flow	77%	74%	80%	83%	83%
Safety net – just in case	42%	44%	39%	34%	35%
Short term funding gap	31%	33%	29%	23%	16%
Buy fixed assets	11%	10%	12%	8%	9%
Fund expansion in UK	11%	10%	14%	10%	16%
Fund expansion overseas	1%	1%	1%	2%	2%

Q55 All SMEs seeking new/renewed overdraft facility

Analysed by the external risk rating of those applying, ‘working capital’ was the main reason for all categories. Those with a worse external risk rating were somewhat more likely to say they were looking to buy fixed assets or seeking funding for expansion in the UK.

Looking at the purpose of the overdraft sought over time, working capital was the most mentioned purpose in each quarter but has been mentioned somewhat less for applications made more recently in 2012, with more mentions in the latest quarter of a ‘safety net’:

Purpose of overdraft SMEs seeking new/renewed facility - by application date	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Q1* 2012	Q2* 2012	Q3* 2012
Unweighted base:	*176*	*329*	*679*	*517*	*557*	*548*	*625*	*360*	*196*
Working capital for day to day cash flow	81%	85%	90%	78%	80%	79%	81%	72%	72%
Safety net – just in case	49%	48%	47%	46%	54%	43%	39%	37%	59%
Short term funding gap	43%	36%	43%	34%	43%	30%	32%	25%	20%
Buy fixed assets	17%	23%	17%	13%	16%	11%	8%	14%	10%
Fund expansion in UK	18%	17%	12%	13%	7%	10%	12%	19%	6%
Fund expansion overseas	1%	1%	1%	1%	2%	*	2%	1%	*

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

The proportion of SMEs seeking advice before they applied for an overdraft remained consistently low (10%). Analysis by date of application is possible at the half year level and shows a fairly consistent proportion of smaller applicants (0-9 employees) seeking advice, around 1 in 10. Over recent periods, larger applicants have become somewhat more likely to seek advice (from 12% in H2 2010 to 18% in H2 2012).

The main reasons for not seeking advice remained that it was not felt to be needed (61%) or that the SME had previously been successful with an application (20%), both mentioned more by larger applicants that had not sought advice. 14% of all those not seeking advice said that they did not know who to ask, while 13% did not think it would have made any difference to the outcome of their application – both of these reasons were more likely to be given by smaller applicants that had not sought advice.

Amongst larger applicants, the proportion that said that they had not sought advice because they 'did not need it' increased over time (65% H1 11 to 73% H1 12), but there was no clear trend for smaller applicants over time.

4% of applicants had not received a response by the time of our survey and are excluded from the remainder of this analysis.

Overdraft applications – a sector summary

Type 1 overdraft events were experienced by between 13% of SMEs in Agriculture, and 4% of those in Health.

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

Overdraft activity YEQ4 12 all Type 1	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	***250***	***221***	***380***	***260***	***177***	***176***	***366***	***165***	***211***
Renewing overdraft for same amount	50%	60%	39%	46%	35%	39%	47%	48%	50%
Applied for first ever overdraft	15%	25%	40%	25%	36%	40%	31%	25%	33%
Seeking to increase existing overdraft	23%	12%	15%	17%	19%	11%	17%	21%	10%

Q52 All SMEs seeking new/renewed overdraft facility

Most approached their main bank (98%).

Those in Agriculture were seeking the highest median overdraft amount, at £10,000. The lowest median amount sought was £3,000 for the Construction and Property/Business services sectors.

The main purpose of the overdraft for all sectors was working capital. Covering a short term funding gap was more likely to be mentioned by those in Health (41%), while those in the Transport sector were more likely to be seeking funding for fixed assets (19%)

Those in Agriculture and Hotels and Restaurants (14%) and Health (15%) were the most likely to have sought advice for their application, those in the Other Community sector the least likely (7%).

Loan applications

This section covers all those that made an application for a new or renewed loan facility during the 12 months prior to interview. All percentages quoted are therefore just of this group, which overall represents around 3% of all SMEs or around 140,000 businesses.

There have been fewer loan events reported than overdraft events. As a result, even for year ending Q4 2012, the same granularity of analysis is not always possible as for other areas of the report.

A change was made to the answers available from Q2 2012. The two 'applying for new loan' codes that did not relate to first ever loans were combined to 'We were applying for a new loan but not our first', and an additional code was added to cover setting up new loan facilities after switching banks. Amongst loan applicants interviewed Q2-Q4 2012, 2% said that a change of bank had prompted their loan application, and this appears to be slightly more common for larger applicants (5% of applicants with 10-249 employees compared to 2% of applicants with 0-9 employees).

Loan applications were more likely than overdraft applications to be for new funding, with 70% of loan applicants seeking a new loan (compared to 53% for overdrafts), and 4 out of 10 saying this was their first ever loan (compared to 31% for overdrafts). As the table below shows, this was more likely to be the case for smaller SMEs that had applied (and 56% of 0 employee SMEs applying for their first ever loan were Starts):

Nature of loan event YEQ4 12 SMEs seeking new/renewed facility	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*1176*	*133*	*397*	*412*	*234*
Applied for first ever loan	41%	47%	37%	13%	9%
New loan but not our first	29%	27%	29%	39%	39%
Renewing loan for same amount	11%	10%	12%	20%	20%
Topping up existing loan	7%	5%	9%	9%	10%
Refinancing onto a cheaper deal	8%	8%	8%	10%	13%
Consolidating existing borrowing	3%	2%	4%	5%	5%

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

Analysis in previous reports has shown that the application process for a loan, and the eventual outcome, varied by the reason for application. The table below shows the proportion of applications made for each reason, over time, for those quarters where sufficiently robust sample sizes exist. Most applications were for new facilities (the first two rows of the table) and, over time, a higher proportion of these new facilities have been first ever loans:

Nature of loan event SMEs seeking new/renewed facility – By application date	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Q1* 2012	Q2* 2012	Q3* 2012
Unweighted base:	*121*	*172*	*302*	*273*	*282*	*310*	*273*	*187*	*99**
Applied for first ever loan	27%	35%	40%	33%	41%	32%	46%	34%	59%
New loan but not our first	37%	38%	29%	29%	25%	37%	24%	36%	21%
Renewing loan for same amount	6%	14%	17%	17%	9%	11%	14%	9%	4%
Topping up existing loan	13%	5%	7%	8%	5%	14%	7%	12%	12%
Refinancing onto a cheaper deal	6%	4%	4%	6%	16%	3%	6%	6%	1%
Consolidating existing borrowing	11%	4%	3%	5%	3%	1%	2%	3%	1%
New facility after switching banks (new)						*	1%	1%	2%

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

Compared to overdraft applications/renewals, those for loans were slightly less likely to be made to the SME's main bank, although most of them were (90%).

Analysis by date of application shows that a higher proportion of applications were made to the main bank in the second half of 2011, and this proportion then fell in the first half of 2012. Initial data for Q3 2012 (on a limited sample) suggests more applications were made to the main bank:

Applied to main bank SMEs seeking new/renewed facility – By application date	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Q1* 2012	Q2* 2012	Q3* 2012
Unweighted base:	*121*	*172*	*302*	*273*	*282*	*310*	*273*	*187*	*99**
Applied to main bank	66%	87%	88%	81%	94%	96%	89%	85%	97%

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 increased slightly from previous waves (£10,000) to £12,000, due to larger loans being sought by bigger SMEs:

Amount initially sought, where stated YEQ4 12 SMEs seeking new/renewed facility	Total	0 emps	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*1064*	*125*	*365*	*366*	*208*
Less than £5,000	17%	22%	10%	1%	-
£5,000 – £9,999	18%	22%	15%	3%	-
£10,000 – £24,999	33%	38%	27%	14%	1%
£25,000 – £99,999	16%	12%	22%	26%	9%
£100,000+	16%	6%	26%	58%	90%
Median amount sought	*£12k*	*£9k*	*£19k*	*£99k*	*£703k*

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

From Q4 2011, loan applicants have been asked about the extent to which the funding applied for represented the total funding required and how much the business was contributing. The results for the year to Q4 2012 are shown below, with most applicants (67%) seeking all the funding they required from the bank:

Proportion of funding sought from bank YEQ4 12 SMEs seeking new/renewed facility	Total	0 emps	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*1141*	*130*	*388*	*396*	*227*
Half or less of total sum required	14%	14%	14%	14%	12%
51-75% of sum required	13%	14%	13%	9%	15%
76-99% of sum required	5%	6%	5%	6%	13%
All of sum required sought from bank	67%	67%	68%	71%	60%

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

The largest applicants were somewhat less likely to be seeking all the funding they needed, but overall there was relatively little difference in the proportion of funding sought from the bank by size of applicant. Those with a minimal or low risk rating were more likely to be seeking all the funding from their bank (83%) than those with an average or worse than average risk rating (67%).

Analysis over time by date of loan application (H1 11 to H1 12) shows something of a decline in the proportion of loan applicants seeking all the funding they wanted from the bank:

- Of applications made in H1 2011, 79% were seeking all the funding required from the bank, compared to 63% of applications reported to date for H1 2012
- This was due to fewer smaller applicants (0-9 employees) seeking all the funding from their bank (80% in H1 2011 to 63% in H1 2012), with more stable figures for larger applicants (67% in H1 2011 and 66% in H1 2012 for applicants with 10-249 employees)
- Initial results for applications made in the second half of 2012 suggest a slight increase in the proportion seeking all the funding from their bank

Overall, these funds were likely to have been sought either to purchase fixed assets (29%), or to fund expansion in the UK (25%). Applicants with 0 employees were more likely to be buying fixed assets, while those with employees were more likely to be seeking to fund expansion in the UK:

Purpose of loan YEQ4 12 SMEs seeking new/renewed facility	Total	0 emps	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*1176*	*133*	*397*	*412*	*234*
Buy fixed assets	29%	33%	22%	24%	22%
Fund expansion in UK	25%	22%	30%	29%	38%
Buy motor vehicles	21%	28%	12%	7%	5%
Develop new products/services	15%	16%	16%	12%	12%
Buy premises	18%	12%	26%	28%	37%
Replace other funding	11%	8%	15%	16%	14%
Fund expansion overseas	2%	1%	3%	4%	7%
Take over another business	2%	1%	4%	3%	6%

Q150 All SMEs seeking new/renewed loan facility

Analysed by application date, the two most common reasons for seeking loan finance remained funding expansion and buying fixed assets:

Purpose of loan SMEs seeking new/renewed facility – by application date	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Q1* 2012	Q2* 2012	Q3* 2012
Unweighted base:	*121*	*172*	*302*	*273*	*282*	*310*	*273*	*187*	*99*
Fund expansion in UK	37%	17%	28%	19%	26%	30%	26%	30%	34%
Buy fixed assets	26%	21%	21%	13%	35%	42%	34%	18%	29%
Buy motor vehicles	17%	18%	22%	24%	24%	10%	20%	30%	19%
Develop new products/services	12%	20%	15%	20%	22%	7%	15%	8%	16%
Fund expansion overseas	6%	1%	3%	2%	*	4%	2%	2%	*

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

Whereas 10% of overdraft applicants had sought external advice before applying, more loan applicants had done so, albeit still a minority (20%). It was the smallest applicants who were much less likely to have sought advice: 15% of applicants with 0 employees sought advice, compared to 28% with 1-9 employees, 28% with 10-49 employees and 30% of those with 50-249 employees.

Analysis by date of application suggests that seeking advice was more popular for applications in 2011 (when around 1 in 5 sought advice) than for applications made in 2012 (when around 1 in 6 sought advice).

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

5% of applicants had not received a response by the time of our survey and are excluded from the remainder of this analysis.

Loan applications – a sector summary

Having a Type 1 loan event varied from 3% in Property/Business Services and Health to 8% in Hotels and Restaurants.

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

Loan activity YEQ4 12 all Type 1	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*116*	*124*	*155*	*129*	*133*	*110*	*164*	*127*	*118*
Applied for first ever loan	25%	38%	41%	33%	40%	52%	49%	40%	49%
New loan (other)	35%	29%	39%	23%	30%	25%	28%	34%	13%
Renewing loan for same amount	20%	16%	7%	18%	9%	4%	7%	6%	16%

Q149 All SMEs seeking new/renewed loan facility

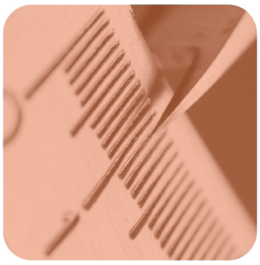
Most approached their main bank (90%). The least likely to do so were applicants in Manufacturing (77% of applications were made to main bank).

The highest median loan amounts were sought by applicants from the Manufacturing (£44k) and Hotels and Restaurants sector (£27k). The lowest median amount sought was from applicants in Construction (£7k). Those in Agriculture were more likely to be seeking all the funding required from the bank, applicants from Property/Business Services were less likely.

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

Advice was sought by a third of those in Wholesale/Retail and Hotels and Restaurants, compared to 1 in 10 in Construction.

8. The outcome of the application/ renewal



This chapter details

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

Key findings

Since the start of the SME Finance Monitor, SMEs have reported on over 6,000 applications for new or renewed loans or overdrafts (excluding automatic renewals). 7 out of 10 applications (71%) resulted in a facility, 5% took alternative funding and 25% have no facility

Success rates have been fairly stable over time. Early indications for applications made in the first half of 2012 were that they were slightly less likely to have been successful, and more likely to have faced issues before being agreed

The initial response from the bank was to offer 63% of overdraft applicants and 48% of loan applicants what they wanted. Meanwhile, 24% of overdraft applicants and 37% of loan applicants were initially declined by the bank (typically smaller or younger SMEs, and more likely to be those applying for their first facility)

A quarter of those initially declined for an overdraft reported that they were not told why, and this has become slightly more likely over time. A quarter of loan applicants also felt they had not been given a reason for the decline but, unlike overdrafts, this proportion has declined slightly over time. For those given a reason, credit history remained the main reason for declining either a loan or an overdraft request

Awareness of the appeals process remained limited (14% of all overdraft applicants declined since April 2011, and 8% of loan applicants)

At the end of the application process, 61% of overdraft applicants had been offered what they wanted, and taken it, and a further 12% had an overdraft after issues. Success was more likely for larger, more established applicants and those looking to renew or increase an existing overdraft facility rather than applying for a first overdraft

Analysis by date of application suggests more overdraft applications were declined in the first half of 2012 (27% - interim data) than at other times, and that this is only partly explained by the profile of applicants in those quarters (size, risk rating and nature of facility)

45% of loan applicants had been offered what they wanted, and taken it, and a further 12% had a loan after issues. As for overdrafts, success was more likely for larger, more established applicants and those looking to renew an existing facility. Those looking for a first, or other new, loan were less likely to have been successful

Analysis by date of loan application shows relatively stable success rates and no clear pattern over time

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

The final outcome – all loan and overdraft applications to date

Before looking in detail at the individual loan and overdraft journeys, data is provided on the outcome of **all** Type 1 applications, both loan and overdraft, since the SME Finance Monitor started. Of the 6,398 applications on which data has been gathered, 71% 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	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Q1 2012*	Q2 2012*	Q3 2012*
Unweighted base:	*296*	*493*	*960*	*742*	*808*	*820*	*856*	*510*	*272*
Offered what wanted and took it	66%	59%	58%	61%	55%	62%	55%	52%	52%
Took facility after issues**	13%	11%	12%	11%	14%	8%	13%	14%	20%
Have facility (any)	*79%*	*70%*	*70%*	*72%*	*69%*	*70%*	*68%*	*66%*	*72%*
Took another form of funding	4%	7%	8%	7%	4%	6%	3%	3%	1%
No facility	18%	23%	22%	21%	27%	24%	30%	30%	26%

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

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

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

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

The tables below record the initial response from the bank and show most applicants being offered a facility. The initial response to 63% of overdraft applications was to offer the SME what it wanted, compared to 48% of loan applications. Bigger SMEs remained much more likely to be offered what they wanted at this initial stage:

Initial response (Overdraft): YEQ4 12 SMEs seeking new/renewed facility	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*2121*	*223*	*759*	*776*	*363*
Offered what wanted	63%	61%	65%	79%	89%
Offered less than wanted	8%	6%	11%	8%	4%
Offered unfavourable terms & conditions	5%	5%	5%	5%	4%
Declined by bank	24%	29%	19%	9%	3%

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

Initial response (Loan): YEQ4 12 SMEs seeking new/renewed facility	Total	0 emps	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*1096*	*127*	*376*	*380*	*213*
Offered what wanted	48%	44%	51%	65%	79%
Offered less than wanted	7%	7%	7%	7%	8%
Offered unfavourable terms & conditions	7%	7%	8%	10%	7%
Declined by bank	37%	42%	34%	18%	6%

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

SMEs more likely to initially be offered what they wanted included those applying to renew an existing overdraft (86%) or loan (79%), and those with a minimal external risk rating (87% overdraft, 74% loan). Those more likely to be met with an initial decline included those applying for their first ever overdraft (58%) or loan (55%) or those with a worse than average external risk rating (31% initially declined if applying for an overdraft, 45% if applying for a loan).

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

Initial response: SMEs seeking new/renewed overdraft facility – by date of application	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Q1 2012*	Q2 2012*	Q3 2012*
Unweighted base (Overdraft):	*176*	*324*	*670*	*489*	*541*	*527*	*601*	*338*	*183*
Offered what wanted and took it	74%	65%	64%	62%	65%	69%	59%	60%	67%
Any issues (amount or T&C)	10%	11%	14%	16%	14%	9%	14%	11%	14%
Declined overdraft	15%	25%	22%	22%	21%	21%	27%	30%	19%

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

Analysis by date of application for loans shows that since Q3 2011, a relatively stable 4 out of 10 applications were declined initially. As for overdrafts, the most recent data is still interim (and data for applications made in Q3 2012 is too limited to quote here):

Initial response: SMEs seeking new/renewed loan facility – by date of application	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Q1 2012*	Q2 2012*
Unweighted base (Loan)	*120*	*169*	*290*	*253*	*267*	*293*	*255*	*172*
Offered what wanted and took it	51%	50%	50%	64%	41%	50%	55%	43%
Any issues (amount or T&C)	21%	15%	8%	12%	19%	12%	9%	17%
Declined loan	28%	35%	42%	24%	41%	38%	37%	40%

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

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

The subsequent journey

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

Before the detail is discussed of what happened after each of the possible initial responses, the 'journeys' are summarised below, with 6 out of 10 overdraft applicants (61%) and just under half of loan applicants (45%) being offered the facility they wanted and going on to take it with no issues:

Journey summary YEQ4 12 SMEs seeking new/renewed facility	Overdraft	Loan
Unweighted base:	***2121***	***1096***
Initially offered what they wanted and went on to take the facility with no issues	61%	45%
Initially offered what they wanted, but had 'issues' before they got their facility	2%	2%
Had issues with the initial offer, and now have a facility 'after issues'	9%	8%
Initially turned down, but now have a facility	1%	2%
Had issues with the initial offer made so took alternative funding instead	<1%	1%
Were initially turned down, so took alternative funding instead	2%	7%
Had issues with the initial offer made and now have no facility at all	3%	5%
Initially turned down and now have no facility at all	21%	28%

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

Profile of overdraft applicants by initial response

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

Initial offer	Profile
Those offered what wanted (63% of applicants, 4% of all SMEs)	They were slightly more likely to have a minimal/low risk rating (24% of those offered what they wanted v 20% of all applicants). 44% had employees (42% all applicants), and they were likely to have been in business for 10 years or more (48% of those offered what they wanted v 39% of all applicants). They were more likely to be seeking a renewal of facilities (64% of those offered what they wanted v 46% of all applicants) and unlikely to be applying for their first ever overdraft (15% of those offered what they wanted v 31% of all applicants). They were slightly more likely to be seeking an overdraft facility of £25,000 or more (23% of those offered what they wanted v 18% of all applicants).
Those offered less than wanted (8% of applicants, <1% of all SMEs)	They were more likely to have employees (56% of those offered less than they wanted v 42% of all applicants) and to have a minimal/low external risk rating (26% of those offered less than they wanted v 20% of all applicants). A quarter were looking to increase an existing overdraft (28% of those offered less than they wanted v 16% of all applicants). They were more likely to be looking for an overdraft of more than £5,000 (67% of those offered less than they wanted v 53% of all applicants).
Those offered unfavourable T&C (5% of applicants, <1% of all SMEs)	A quarter of those who had issues were seeking an increase in an existing overdraft (26% of those who had issues v 16% of all applicants). They were the most likely to be seeking an overdraft limit of £10-25,000 (34% of those who had issues v 17% of all applicants).
Those initially declined (24% of all applicants and 2% of all SMEs)	This group had the most distinctive profile. They were typically smaller (31% of those initially turned down had employees v 42% of all applicants) and 4 in 10, 39%, were Starts (v 20% of all applicants). 72% of those initially declined had a worse than average external risk rating (v 54% of all applicants). 7 out of 10 of those initially turned down, 72%, were applying for their first ever overdraft (v 31% of all applicants), with 63% applying for a facility of £5,000 or less (v 47% of all applicants).

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

Summarised below for YEQ4 12 is what happened after the bank's initial response to the overdraft application and any issues around the application. Base sizes for some groups remain small, but some limited analysis by date of application is now possible, predominantly for those initially declined:

Initial offer	Subsequent events – overdraft
Offered what wanted (63% of applicants, 4% of **all** SMEs) Q64-65	97% of those offered the overdraft they wanted went on to take the facility, with 3% experiencing any delays or problems (typically being offered something they thought was too expensive, or waiting for legal work). 3 applicants decided not to take up the facility offered. Almost all received the full limit they had originally asked for.
Issue: Offered less than wanted (8% of applicants, <1% of **all** SMEs) Q85-95	These SMEs were typically offered 50-90% of what they had asked for. 25% said they were not given a reason for being offered less (excluding those who couldn't remember). The main reasons given were: • no/insufficient security - 27% of those offered less than they wanted • credit history issues - 20% • a weak balance sheet - 9% Both credit history and balance sheet issues were mentioned more by smaller applicants. A quarter, 29%, thought the advice they were offered was 'good', 40% thought it was 'poor' while 13% did not get any advice at this stage, and this varied relatively little by size. In the end most, 79%, accepted the lower offer, almost all with the bank they originally applied to. 5% managed to negotiate a better offer, all with the original bank. 3% took another form of finance and 7% now have no facility. Three quarters of those who now have an overdraft obtained at least half of the amount they had originally sought, typically in line with the bank's initial response. This was more common for larger applicants (95% of those with 10-249 employees) than for smaller ones (73% of those with 0-9 employees).

Initial bank response	Subsequent events – overdraft
Issue: Offered unfavourable T&C (4% of applicants, <1% of **all** SMEs) Q96-97	The 'unfavourable' terms and conditions were most likely to relate to: • security (the amount or type sought) - 36% of these applicants and more of an issue for larger applicants (62% 10-249 employees) • the proposed interest rate – 31% of these applicants • the proposed fee – 28% of these applicants Both the fee and the interest rate were mentioned more by smaller applicants. A minority of applicants offered what they saw as unfavourable terms and conditions, 10%, said they managed to negotiate a better deal than the one originally offered – almost all of them at the bank they originally applied to. 40% accepted the deal they were offered (almost all at the original bank). 1% took other funding, while half, 52%, 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 (24% of all applicants and 2% of all SMEs):

Initially declined	Subsequent events – overdraft
Reasons for decline Q70	24% of those initially declined said that they had not been given a reason (excluding those who could not remember the reasons given). • 36% said the decline related to their personal and/or business credit history (mentioned more by smaller SMEs) • 8% mentioned issues around security (mentioned more by larger SMEs) • Also mentioned were having too much borrowing already and financial forecasts that the bank did not agree with Looking over time by application date, there has 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) and, where a reason was given, slightly fewer mentions of security issues and more mentions of issues with financial forecasts.
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 (77%) the decision was communicated verbally, while 1 in 3 (29%) received a written response (a few had both). 4 out of 10 (39%) felt that they had not been given enough information to explain the decision. 61% felt they had, and this was slightly more so for smaller applicants. By date of application, there was no clear trend for the method of communication used, but there has been an increase over time in the proportion saying that they were given enough information, from around half to two-thirds of those receiving the communication.

Continued

Continued

Advice and alternatives Q71-80	17% 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 (63%), while 11% said that it had been good and 14% said they were not offered any advice (with little variation by size). 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 9% sought their own external advice without a recommendation. On a small base of advice seekers, around two-thirds, 67%, had found this external advice of use. Indicatively, newer businesses, especially Starts, were less likely to be offered alternative solutions or sources of funding but were more likely to be referred to other sources of advice. Looking over time, from initial data, applicants in H1 2012 were slightly more likely to have been offered an alternative form of funding, but somewhat less likely to have been referred to other sources of help or advice by the bank.

Initially declined	Subsequent events – overdraft
Appeals Q73-75	From April 2011, a new appeals procedure has been in operation. Across all interviews conducted to date, 356 respondents have been declined for an application made since that time. 14% said they were made aware of the appeals process. Indications are that awareness has not increased over time (16% of those declined in H2 2011 were aware compared to 10% in H1 2012). 6 SMEs had appealed: in 4 cases the bank had not changed its decision, in 1 it had, and 1 SME was waiting to hear. Those that were aware but had not appealed typically cited the view that they did not think it would have changed anything.
Outcome Q81-84	At the end of this period, 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 three-quarters or more of the funding they had initially sought. Some, 9%, had secured alternative funding, with mentions of friends/family and personal borrowing, but the largest group, 86%, had no funding at all, and this was more likely if the applicant was a smaller SME and also where the application had been made more recently.

The final outcome – overdraft

At the end of the various 'journeys' described above, respondents reported on the final outcome of their application for a new or renewed overdraft facility. The YEQ4 figure includes all Type 1 overdraft applications reported in interviews conducted in the four quarters of 2012.

Most of these applicants, 61%, had the overdraft facility they wanted, and a further 12% secured an overdraft after having issues about the amount or the terms and conditions of the bank's offer. 24% of all applicants ended the process with no overdraft – as the table below shows, this is the equivalent of 2% of **all** SMEs. Note that this table does **not** include automatic renewal of overdrafts.

As already identified, a third of SMEs appear disinclined to borrow and these 'Permanent non-borrowers' have been excluded from the final column of the table, increasing the proportion of SMEs with a new overdraft facility from 5% to 7%:

Final outcome (Overdraft): YEQ4 12 SMEs seeking new/renewed facility	All overdraft Type 1 applicants	All SMEs	All SMEs excl. PNBs
Unweighted base:	*2121*	*20,055*	*15,312*
Offered what wanted and took it	61%	4%	6%
Took overdraft after issues	12%	1%	1%
Have overdraft (any)	*73%*	*5%*	*7%*
Took another form of funding	2%	*	*
No facility	24%	2%	2%
Did not have a Type 1 overdraft event	-	*93%*	*89%*

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

By size of business, overdraft applicants with fewer than 10 employees were less likely to have been offered, and taken, the overdraft they wanted and so were less likely to now have a facility:

Final outcome (Overdraft): YEQ4 12 SMEs seeking new/renewed facility	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*2121*	*223*	*759*	*776*	*363*
Offered what wanted and took it	61%	59%	62%	77%	85%
Took overdraft after issues	12%	10%	16%	14%	10%
Have overdraft (any)	*73%*	*69%*	*78%*	*91%*	*95%*
Took another form of funding	2%	2%	3%	2%	1%
No facility	24%	29%	18%	7%	4%

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

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

Final outcome (Overdraft): YEQ4 12 SMEs seeking new/renewed facility	Total	Min	Low	Average	Worse/Avge
Unweighted base:	*2121*	*313*	*469*	*592*	*588*
Offered what wanted and took it	61%	86%	70%	70%	56%
Took overdraft after issues	12%	10%	14%	14%	11%
Have overdraft (any)	*73%*	*96%*	*84%*	*84%*	*67%*
Took another form of funding	2%	*	1%	3%	2%
No facility	24%	4%	14%	13%	31%

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

There were some clear differences in success rate by sector, with applicants in Transport the least likely to have been successful (59%), and those in Agriculture the most likely (86%):

Final outcome (Overdraft): YEQ4 12 SMEs seeking new/renewed facility	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*245*	*211*	*364*	*250*	*169*	*170*	*351*	*160*	*201*
Offered what wanted and took it	75%	74%	56%	61%	44%	49%	63%	59%	63%
Took overdraft after issues	11%	7%	8%	21%	22%	10%	12%	22%	9%
Have overdraft (any)	*86%*	*81%*	*64%*	*82%*	*66%*	*59%*	*75%*	*81%*	*72%*
Took another form of funding	4%	1%	1%	2%	5%	1%	3%	11%	*
No facility	11%	18%	35%	16%	29%	40%	22%	8%	28%

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

Mention has already been made in this report of the differences between applications for first time, increased or renewed overdrafts. As the table below shows, this was also true at the end of the application journey, with half (56%) of those seeking their first overdraft having no facility:

Final outcome (Overdraft): YEQ4 12 SMEs seeking new/renewed facility	Total	1st overdraft	Increased overdraft	Renew overdraft
Unweighted base:	*2121*	*339*	*414*	*1148*
Offered what wanted and took it	61%	28%	61%	84%
Took overdraft after issues	12%	11%	21%	9%
Have overdraft (any)	*73%*	*39%*	*82%*	*93%*
Took another form of funding	2%	5%	4%	*
No facility	24%	56%	14%	7%

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

The final piece of analysis for YEQ4 12 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: 66% of Starts who applied were looking for their first overdraft and just under half, 43%, of all first time applications were made by Starts:

Final outcome (Overdraft): YEQ4 12 SMEs seeking new/renewed facility By age of business	Starts	2-5 yrs	6-9 yrs	10-15 yrs	15+ yrs
Unweighted base:	*168*	*272*	*278*	*313*	*1090*
Offered what wanted and took it	39%	59%	62%	75%	73%
Took overdraft after issues	10%	9%	19%	12%	13%
Have overdraft (any)	*49%*	*68%*	*81%*	*87%*	*86%*
Took another form of funding	5%	4%	2%	1%	1%
No facility	46%	29%	17%	12%	13%

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

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

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

- The outcome for those applying for larger overdrafts (£25,000+) was fairly consistent over time, and around 90% of such applicants had an overdraft
- Applications for the smallest overdrafts (under £5,000) became more likely to be successful, moving, over time, from around half to around two-thirds being successful overall
- Those in the middle (£5-25,000) became slightly less likely to be successful, from around 90% to around 80% having an overdraft

Analysis of the overdraft facility *granted* by application date below shows that in 2011 and the first half of 2012, an increasing proportion of facilities were agreed for £5,000 or less (reflecting a similar increase in the proportion of applicants requesting a facility of that size). Around 1 in 5 facilities were for more than £25,000 and this has changed relatively little over time:

Overdraft facility granted By date of application	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Q1 2012*	Q2 2012*	Q3 2012*
Unweighted base:	*154*	*278*	*577*	*424*	*462*	*461*	*510*	*285*	*154*
Less than £5,000	33%	35%	43%	47%	52%	49%	47%	54%	36%
£5-25,000	47%	44%	32%	33%	31%	29%	35%	27%	47%
£25,000+	20%	21%	25%	21%	17%	22%	18%	19%	17%

Overdraft facility granted – all successful applicants that recall amount granted

Final outcome by date of application – overdrafts

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

This showed that the proportion of applicants who ended the process with an overdraft facility was fairly constant between Q4 2010 and Q4 2011, with three-quarters of applicants being successful.

Interim results for Q1 and Q2 2012 suggest an increase in the proportion ending the process with no facility, but this trend does not, at present, appear to be continuing for applications made in Q3 2012 (also interim data):

Final outcome (Overdraft): SMEs seeking new/renewed facility By date of application	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Q1 2012*	Q2 2012*	Q3 2012*
Unweighted base:	*176*	*324*	*670*	*489*	*541*	*527*	*601*	*338*	*183*
Offered what wanted and took it	72%	64%	63%	61%	63%	68%	57%	57%	63%
Took overdraft after issues	11%	13%	14%	13%	14%	8%	14%	13%	17%
Have overdraft (any)	***83%***	***77%***	***77%***	***74%***	***77%***	***76%***	***71%***	***70%***	***80%***
Took another form of funding	2%	7%	6%	6%	4%	3%	2%	3%	*
No facility	15%	16%	17%	20%	18%	21%	27%	27%	19%

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 adversely affect the outcome of an application:

- Between Q2 2011 and Q2 2012, the proportion of applicants with a worse than average risk rating increased from 44% to 58% (initial results for applicants in Q3 2012 indicate a lower proportion of applicants with a worse than average external risk rating)
- Over the course of 2011 there was a slight increase in the proportion of first time applicants to around a quarter of all applications, and this increased again in the first half of 2012 to a third of applicants seeking their first overdraft facility
- There was a higher proportion of Starts amongst applicants in the first half of 2012 (around 1 in 4) compared to previous quarters (where typically around 1 in 5 applicants was a Start)

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

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

Final outcome (Overdraft): SMEs seeking new/renewed facility By date of application	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Q1 2012*	Q2 2012*	Q3 2012*
Unweighted base:	*176*	*324*	*670*	*489*	*541*	*527*	*601*	*338*	*183*
Have overdraft (any)	83%	77%	77%	74%	77%	76%	71%	70%	80%
Predicted success rate (model)	77%	76%	79%	78%	75%	76%	71%	74%	74%
Difference	+6	+1	-2	-4	+2	0	0	-4	+6

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

The analysis shows that success rates were in line with those predicted by the model for many quarters. The lower success rates in the first half of 2012 are partly explained by the profile of respondents, especially for Q1.

Sample sizes preclude any more detailed analysis of success rates for key sub-groups by application date over time. However, some analysis by year of application (2010, 2011 and interim 2012) has been possible for overdrafts.

This suggests that:

- Applications from 0 employee SMEs and those with a worse than average external risk rating are less likely to be successful than other applicants, *and* their success rates are declining over time
- Applications from those with a minimal risk rating or with 10-249 employees are more likely to be successful, and their success rates are consistent over time

The impact of automatic renewals on overdraft success rates

Analysis of SMEs interviewed from Q4 2011 revealed that a considerable number of SMEs had an overdraft that had been automatically renewed by their bank. Such SMEs can be considered to be part of the 'Have an overdraft (any)' group, and thus impact on overall success rates. The table below shows the results for YEQ4 2012, and the impact on success rates when the automatically renewed overdrafts are included. There have been many more automatic overdraft renewals than Type 1 events, so the impact is considerable.

Final outcome (Overdraft): YEQ4 12	Type 1 events	Type 1 + automatic renewal	All SMEs (Type 1 + AR)
Unweighted base:	***2121***	***4981***	***20,055***
Offered what wanted and took it	61%	24%	4%
Took overdraft after issues	12%	5%	1%
Automatic renewal	-	*61%*	*11%*
Have overdraft (any)	***73%***	***90%***	***16%***
Took another form of funding	2%	1%	*
No facility	24%	9%	2%

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

For YEQ4 2012, including those that had had an automatic renewal increased the overdraft success rate from 73% to 90%. The equivalent increase for all SMEs when automatic renewals were included was from 5% to 16%.

From Q4 2012, those with an automatically renewed overdraft have been asked when this renewal took place. As sample sizes increase over future reports it will become possible to look at overall success rates (Type 1+ automatic renewal) by application date.

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.

11% of SMEs reporting a Type 1 overdraft event in Q4 2012 (which had occurred sometime in the previous 12 months) said that this application for new/renewed facilities was made in their personal name. This is the equivalent of less than 1% of all SMEs interviewed in Q4 2012. (The equivalent figure for loans in Q4 2012 was 15%, which is the equivalent of less than 1% of all SMEs).

On this limited sample, a high proportion of these personal overdraft applications were from 0 employee SMEs, or those seeking the renewal of an existing overdraft facility or seeking 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, but initial data suggests no major differences in outcome.

A similar question was also asked for the first time in Q4 of those who reported the automatic renewal of an overdraft facility (which again had occurred sometime in the previous 12 months). 22% of those who had experienced the automatic renewal of an overdraft said that this facility was in their personal name, the equivalent of 2% of all SMEs interviewed in Q4 2012. As with Type 1 events, these 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

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

Initial bank response	Profile
Those offered what wanted (48% of applicants, 2% of **all** SMEs)	These are typically more established businesses – 34% had been trading for 15 years or more compared to 23% of all applicants. They were also more likely to be looking to renew existing facilities (19% of those offered what they wanted v 11% of all applicants), and less likely to be looking for their first ever facility (28% of those offered what they wanted v 41% of all applicants).
Those offered less than wanted (7% of applicants, <1% of **all** SMEs)	These applicants were more likely to have a worse than average external risk rating (79% of those offered less than they wanted v 52% of all applicants), and somewhat more likely to be a Start (35% of those offered less than they wanted v 26% of all applicants).
Those offered unfavourable T&C (7% of applicants, <1% of **all** SMEs)	These applicants typically had a better external risk rating (41% minimal/low v 19% of all applicants). They were more likely to be looking to re-finance onto a cheaper deal (35% of those who had issues v 8% of all applicants).
Those initially declined (37% of applicants, the equivalent of 1% of all SMEs)	These applicants were slightly smaller (34% of those turned down had employees v 40% of all applicants), and more likely to be a Start (41% of those turned down v 26% of all applicants). 6% of those turned down had a minimal/low risk rating (v 19% of all applicants), indeed 72% of those initially declined had a worse than average external risk rating (v 52% of all applicants). More than half, 60%, were applying for their first ever loan (v 41% of all applicants).

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

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

Initial bank response	Subsequent events – loan
Offered what wanted (48% of applicants, 2% of **all** SMEs) Q159-164	94% of those offered what they wanted went on to take the loan with no problems. 5% took the loan after some issues (typically having to go to the bank for an interview, renegotiate some aspect of the facility or the initial offer being too expensive). Almost all took the full amount they had originally asked for. 1% of these applicants decided not to proceed with the loan they had been offered.
Issue: Offered less than wanted (7% of applicants, <1% of **all** SMEs) Q180-190	These SMEs were typically offered 60% or more of what they asked for. 32% 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: • unconvincing financial forecasts -24% and mentioned more by smaller applicants • security issues - 16% On a small base, the advice offered at this stage was as likely to be rated good (29%) as poor (30%) while 18% were not given any advice. 19% managed to negotiate a better deal, predominantly with the original bank. Half, 59%, accepted the lower amount offered (almost all with the original bank applied to). 15% took other borrowing and 7% 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 (7% of applicants, <1% of **all** SMEs) Q191-195	The unfavourable terms (excluding those who didn't know) typically related to the proposed interest rate (69%). Issues around security (level, type requested and/or cost) were mentioned by 21% of these applicants, and the proposed fee by 1 in 8 (12%). Smaller applicants were more likely to mention the interest rate, larger applicants the fee and security. 14% managed to negotiate a better deal (at either the original bank or another bank) while 20% accepted the deal offered, most with the original bank. Both these outcomes were more likely for larger applicants. 5% took another form of funding. 64% of applicants had no facility, and this was more likely to be the outcome for smaller applicants For those with a facility, the amount of such loans was typically in line with their original request.

The subsequent journey – those that were declined for a loan

The table below details the subsequent journey of those whose loan application was initially declined (37% of applicants, the equivalent of 1% of all SMEs). Some analysis by date of application is now possible:

Initially declined	Subsequent events – loan
Reasons for decline Q165	27% 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). • 22% said that the decline related to their personal and/or business credit history (especially smaller applicants) • 16% mentioned issues around security (typically larger applicants) • Around 1 in 10 said that the bank had not been satisfied with their financial forecasts and 6% that they had too much existing borrowing Analysis by date of application shows a slightly higher proportion of recent applicants saying they were given a reason for the decline, with more mentions of security as a reason for the decline.
How decline was communicated Q165a-b	These respondents were asked how the loan decision had been communicated to them, and whether they were told enough to explain why the decision had been made. Communication methods were similar to those for the equivalent overdraft applications, in that 80% said the decision was communicated verbally, while 31% received a written response (a few received both). Those declined for a loan were less likely to say that they had been given enough information to explain the decision (49%) than those informed about an overdraft decline (60%). Analysis by date of application showed that applicants in the first half of 2012 were less likely to report receiving the decision in writing, and also less likely to say they had been given enough information. Initial data for applications made in the second half of 2012 suggests some improvement in these figures.

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Advice and alternatives Q166-7 and 171-175	12% 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. This appears to have been slightly less common for applications made in the first half of 2012. Two thirds (66%) thought that the advice the bank had offered at that stage had been poor, 6% thought it had been good, while 15% had not been offered any advice (being offered advice also appears to be less common for more recent applications). More generally, 4% of those initially declined reported that they had been referred to any other sources of help or advice by the bank, while a further 15% sought their own external advice without a recommendation, with no clear trend over time. On a small base, around half, 55%, found these external sources of use, with larger applicants more likely to do so, but there were indications that this advice was less likely to be rated as useful by those applying in the first half of 2012.

Initially declined	Subsequent events – loan
Appeals Q168-170	From April 2011, a new appeals procedure was introduced. Across all interviews conducted to date, 316 respondents have been declined for a loan application made since that time. Amongst this group, 8% said that they were made aware of the appeals process by their bank, and there was little evidence of this changing over time. Of these 40 declined applicants, 1 appealed and the bank changed its decision, 8 appealed but the decision was upheld, 2 appealed but had not heard yet, and 29 did not appeal, typically citing the view that they did not think it would have changed anything, and/or they were too busy keeping the business going.
Outcome Q176-179	At the end of this period, 5% of those initially declined for a loan had managed to secure a loan with either the original bank or a new supplier. 19% had secured alternative funding, with friends/family and/or personal borrowing most likely to be mentioned. 76% of those initially declined did not have a facility at all, and there has been a slight increase over time in the proportion of those originally declined who ended the process with no facility.

The final outcome – loans

At the end of the various 'loan' journeys described above, respondents reported on the final outcome of their application for a new or renewed loan facility. Unless otherwise stated, these results are based on the YEQ4 figures which include all Type 1 loan applications *reported* in interviews conducted in 2012.

Just over half, 57%, of loan applicants now have a loan facility. 34% of applicants ended the process with no facility – as the table below shows, this is the equivalent of 1% of all SMEs.

As already identified, a third of SMEs appear disinclined to borrow and these 'Permanent non-borrowers' have been excluded from the final column of the table, increasing the proportion of SMEs with a new loan from 2% to 3%:

Final outcome (Loan): YEQ4 12 SMEs seeking new/renewed facility	All loan Type 1 applicants	All SMEs	All SMEs excl. PNBs
Unweighted base:	***1096***	***20,055***	***15,312***
Offered what wanted and took it	45%	2%	2%
Took loan after issues	12%	<1%	1%
Have loan (any)	***57%***	***2%***	***3%***
Took another form of funding	9%	<1%	<1%
No facility	34%	1%	2%
Did not have a Type 1 loan event	-	***96%***	***95%***

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

Further analysis was undertaken for the Q3 2012 report to understand the factors driving loan success rates. This showed that size was the key determinant, with risk rating also important. Within size bands, other factors such as sector, whether applying for a new or renewed facility, and the amount sought were important. This analysis will be updated in a future report to understand if these factors are changing over time.

By size of business, smaller loan applicants remained less likely to have a facility. Bigger applicants were more likely to have a loan, but a slightly higher proportion of them took it after having had issues with the terms or the amount of the initial offer:

Final outcome (Loan): YEQ4 12 SMEs seeking new/renewed facility	Total	0 emps	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*1096*	*127*	*376*	*380*	*213*
Offered what wanted and took it	45%	43%	46%	58%	71%
Took loan after issues	12%	9%	16%	20%	20%
Have loan (any)	*57%*	*52%*	*62%*	*78%*	*91%*
Took another form of funding	9%	10%	7%	4%	3%
No facility	34%	38%	31%	19%	7%

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

As with overdrafts, there was a clear difference in outcome by external risk rating. More than 8 out of 10 applicants with a minimal external risk rating had a loan (86%), compared to half of applicants with a worse than average external risk rating (51%):

Final outcome (Loan): YEQ4 12 SMEs seeking new/renewed facility	Total	Min	Low	Avge	Worse/ Avge
Unweighted base:	*1096*	*166*	*225*	*307*	*315*
Offered what wanted and took it	45%	70%	64%	60%	40%
Took loan after issues	12%	16%	12%	12%	11%
Have loan (any)	*57%*	*86%*	*76%*	*72%*	*51%*
Took another form of funding	9%	*	5%	6%	10%
No facility	34%	14%	20%	22%	40%

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

The table below shows that the Other Community and Construction sectors were more likely to end the process without a facility (both 48%), while those in Agriculture and Health were the most likely to have a loan:

Final outcome (Loan): YEQ4 12 SMEs seeking new/renewed facility	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*112*	*111*	*146*	*121*	*126*	*104*	*152*	*116*	*108*
Offered what wanted and took it	82%	42%	34%	63%	29%	46%	38%	62%	25%
Took loan after issues	6%	11%	9%	12%	28%	13%	8%	27%	16%
Have loan (any)	*88%*	*53%*	*43%*	*75%*	*57%*	*59%*	*46%*	*89%*	*41%*
Took another form of funding	5%	18%	9%	3%	8%	14%	10%	4%	10%
No facility	7%	28%	48%	22%	35%	28%	44%	7%	48%

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 analysis shows that the differences are more than just a reflection of the difference in size and external risk rating profiles of each sector.

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

Those applying for either their first or a new loan were more likely to end up with no facility, while those renewing an existing loan remained more likely to have been offered what they wanted. Note that this is somewhat different to the outcome for overdrafts, where first time applicants were much less likely to have a facility than either those applying for an increased overdraft, or those renewing an existing facility:

Final outcome (Loan): YEQ4 12 SMEs seeking new/renewed facility	Total	1st loan	New loan	Renew loan
Unweighted base:	***1096***	***264***	***389***	***183***
Offered what wanted and took it	45%	32%	51%	75%
Took loan after issues	12%	11%	12%	9%
Have loan (any)	***57%***	***43%***	***63%***	***84%***
Took another form of funding	9%	11%	12%	1%
No facility	34%	46%	25%	15%

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

As with overdrafts, there were differences in outcome for loan applications by age of business with a strong link between Starts and first-time applications: 78% of Starts that applied were applying for their first loan, and 50% of all first time loan applications were Starts:

Final outcome (Loan): YEQ4 12 SMEs seeking new/renewed facility. By age of business	Starts	2-5 yrs	6-9 yrs	10-15 yrs	15+ yrs
Unweighted base:	*110*	*158*	*126*	*180*	*522*
Offered what wanted and took it	30%	44%	39%	47%	63%
Took loan after issues	10%	10%	17%	14%	14%
Have loan (any)	*40%*	*54%*	*56%*	*61%*	*77%*
Took another form of funding	10%	8%	11%	4%	9%
No facility	50%	38%	34%	35%	13%

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

Small base sizes limit the analysis possible, but around 80% of loans sought were for £100,000 or less. Half of these smaller applications were typically successful, and this has not changed much over time. Applications for larger amounts (£100,000+) were more likely to be successful, and success rates have improved slightly over time, from around 6 out of 10 to around 7 out of 10 applications being successful.

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

Loan facility granted By date of application	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Q1 2012*	Q2 2012*
Unweighted base:	*94**	*125*	*220*	*193*	*204*	*212*	*184*	*123*
Less than £100k	80%	82%	88%	89%	83%	79%	86%	80%
More than £100k	20%	18%	12%	11%	17%	21%	14%	20%

All successful loan applicants that recall amount granted

Final outcome by date of application – loans

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

Final outcome (Loan): SMEs seeking new/renewed facility By date of application	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Q1 2012*	Q2 2012*
Unweighted base:	*120*	*169*	*290*	*253*	*267*	*293*	*255*	*172*
Offered what wanted and took it	49%	48%	48%	62%	39%	47%	50%	39%
Took loan after issues	17%	6%	7%	7%	13%	9%	10%	18%
Have loan (any)	*66%*	*54%*	*55%*	*69%*	*52%*	*56%*	*60%*	*57%*
Took another form of funding	9%	6%	11%	7%	4%	14%	5%	5%
No facility	26%	39%	34%	24%	44%	30%	36%	39%

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

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

Over the quarters for which robust data is available, there were indications that a higher proportion of applicants were 0 employee businesses. In 2010 they made up about 5 in 10 applicants, in 2012 it was closer to 6 in 10. There was no clear pattern over time by risk rating or purpose of application.

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

For this report, the equation was built using business size and risk rating, as 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. Unlike overdrafts, this shows no clear trend over time for predicted v actual loan success rates, with larger differences within a quarter between the predicted and actual success rate:

Final outcome (Loan): SMEs seeking new/renewed facility By date of application	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Q1 2012*	Q2 2012*
Unweighted base:	*120*	*169*	*290*	*253*	*267*	*293*	*255*	*172*
Have loan (any)	66%	54%	55%	69%	52%	56%	60%	57%
Predicted success rate (model)	59%	60%	60%	61%	57%	62%	56%	59%
Difference	+7	-6	-5	+8	-5	-6	+4	-2

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

This analysis shows that the success rate in Q2 2011, which is currently higher than other quarters, was not accounted for by the profile of applicants in that quarter (the model predicted only a slight increase in success rate from 60% to 61% between Q1 and Q2 2011, compared to the actual change of 55% to 69%).

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.

15% of SMEs reporting a Type 1 loan event in Q4 2012 (which had occurred sometime in the previous 12 months) said that this application for new/renewed facilities was made in their personal name. This is a similar proportion to overdrafts (11%) and the equivalent of less than 1% of all SMEs interviewed in Q4 2012.

On this limited sample from one quarter, many of these applications were from 0 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 no major differences in outcome.

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

Outcome analysis over time – new and renewed facilities

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

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

The analysis below is 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 to date (including those in 2011 which no longer form part of the "Year ending" analysis elsewhere).

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:

Final outcome Loans and Overdrafts combined All applications to date	New funds	Renewals
Unweighted base of applications:	*2905*	*3099*
Offered what wanted and took it	42%	81%
Took facility after issues	14%	10%
Have facility (any)	*56%*	*91%*
Took another form of funding	7%	1%
No facility	37%	8%

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

This confirms the findings seen earlier in this report which highlighted 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 most applicants ended the process with a facility. Interim data for renewal applications made in Q1 2012 suggests they were somewhat less likely to be successful (although most, 84%, were), and that more facilities in Q3 2012 were agreed "after issues":

Final outcome (Overdraft+ Loan): Applications for renewed facilities By date of application	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Q1 2012*	Q2 2012 *	Q3 2012 *
Unweighted base of applications:	*154*	*251*	*492*	*383*	*405*	*393*	*414*	*236*	*119*
Offered what wanted and took it	85%	83%	83%	78%	77%	88%	73%	81%	65%
Took facility after issues	8%	9%	10%	11%	10%	9%	11%	8%	29%
Have facility (any)	*93%*	*92%*	*93%*	*89%*	*87%*	*97%*	*84%*	*89%*	*94%*
Took another form of funding	4%	*	2%	3%	1%	1%	*	1%	*
No facility	3%	8%	6%	8%	12%	2%	15%	10%	6%

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 around 6 out of 10 of all applications. With the exception of Q3 2010, and initial results for Q3 2012, a fairly consistent half of applicants for new money ended the process with a facility.

More recent applicants were slightly less likely to take another form of funding, which means that the proportion ending the process with no facility has increased slightly over time from around 30% to around 40% of applications for new money:

Final outcome (Overdraft+ Loan): Applications for new money By date of application	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Q1 2012*	Q2 2012*	Q3 2012*
Unweighted base of applications:	*142*	*242*	*468*	*347*	*377*	*381*	*373*	*202*	*119*
Offered what wanted and took it	49%	44%	40%	46%	39%	45%	41%	28%	46%
Took facility after issues	17%	13%	13%	12%	16%	8%	14%	19%	14%
Have facility (any)	***66%***	***57%***	***53%***	***58%***	***55%***	***53%***	***55%***	***47%***	***60%***
Took another form of funding	3%	11%	12%	10%	7%	7%	4%	6%	2%
No facility	31%	32%	35%	33%	38%	40%	40%	46%	39%

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. Over time, the proportion of new money applications being made by first time borrowers has increased from around a quarter in 2010 to a third in 2012.

The proportion of first time applicants ending the process with no facility was slightly higher for applications made in 2011 and 2012 than in 2010:

Final outcome – first time applicants Loans and Overdrafts combined By application date	All FTAs	In 2010	In 2011	In 2012*
Unweighted base of applications:	***1096***	***151***	***543***	***346***
Offered what wanted and took it	32%	46%	30%	30%
Took facility after issues	14%	8%	7%	13%
Have facility (any)	***41%***	***54%***	***37%***	***43%***
Took another form of funding	7%	4%	11%	3%
No facility	51%	42%	53%	54%

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

In contrast to first time applicants, those applying for a new facility, but not their first, in 2011 and 2012 were slightly more likely to end the process with a facility (74%) than those that applied in 2010:

Final outcome – other new money Loans and Overdrafts combined By application date	All other new money	In 2010	In 2011	In 2012*
Unweighted base of applications:	***1809***	***327***	***1030***	***401***
Offered what wanted and took it	53%	46%	55%	56%
Took facility after issues	19%	22%	19%	18%
Have facility (any)	***72%***	***68%***	***74%***	***74%***
Took another form of funding	7%	11%	7%	5%
No facility	21%	21%	19%	21%

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 is 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. 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:

% of applicants with worse than average external risk rating (Overdraft+ Loan): By date of application (base varies)	2010	2011	2012*
First time applicants	61%	69%	74%
Other new money	44%	49%	54%
Renewals	33%	34%	43%

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

This increase was more marked than was seen in the general SME population. 53% of SMEs interviewed in 2012 had a ‘worse than average’ external risk rating, up slightly from the 50% of SMEs interviewed in 2011.

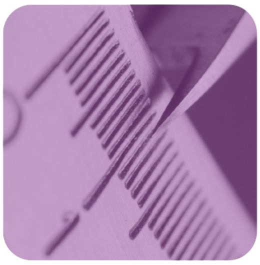
Further analysis of first time applicants

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

Type of overdraft applicant	Factors affecting decline
All new money	New money overdraft applicants (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 applicants	First time 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. First time applicants were less likely to be declined if they had been established for more than 10 years , or if the owner was over 50.
Other new money applicants	Other applicants for new money were more likely to be declined if they were in the Hotels and Restaurants or Other Community sectors, or if they were established 1-2 years ago, or if they had broken even in the previous trading period. They were less likely to be declined if they were applying for more than £5,000, or had less than £10,000 in credit balances.

Type of loan applicant	Factors affecting decline
All new money	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.
First time applicants	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.
Other new money applicants	Other new loan applicants were more likely to be declined if they were applying for a loan of £100,000 or more, had an above average external risk rating, or had made a loss in their last financial period. They were also more likely to have been declined if they had been in business for less than 12 months. They were less likely to be declined if they had a low external risk rating, or 10-49 employees, were in Agriculture, or had been established for more than 2 years, or had been innovative. They were also less likely to have been declined if they had someone in charge of the finances who was qualified/ trained.

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

9 out of 10 successful applicants interviewed in Q4 reported that their facility had been put in place in good time for when it was needed. 7 out of 10 overdraft applicants said their facility was in place within a week, while loans took slightly longer (26% in place within a week). 1 in 10 of both loan and overdraft applicants reported waiting more than a month, and such applicants were slightly less likely to agree that the facility had been made available 'in good time'

Satisfaction with the facility agreed remained much higher for those offered what they wanted (9 out of 10 were satisfied) than those that had experienced issues before the facility was agreed (half were satisfied)

Half of unsuccessful applicants said that not having a facility had impacted on their business. They were typically finding running the business more of a struggle or had not been able to expand as they might have wished

A quarter thought their bank had treated them fairly, while a similar proportion thought they might have done better elsewhere

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

New facility granted

In a new question for 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.

On limited base sizes:

- 7 out of 10 successful overdraft applicants (71%) said that the facility was in place within a week, while 1 in 10 (9%) waited a month or more. 1% have not yet had the facility put in place
- Loans typically took slightly longer. Two thirds were in place within 2 weeks (with 26% in place within a week). A similar proportion of loan and overdraft applicants waited a month or more (11% loans) for the facility to be put in place. 2% have not yet had the facility put in place
- In both instances most of those with a facility now in place said that this had been done in good time for when it was needed – 94% of successful overdraft applicants said that this was the case, and 90% of successful loan applicants. Those waiting more than a month were slightly more likely to say it had not been put in place in good time

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

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

Successful Type 1 applicants	Overdraft			Loan		
Satisfaction with outcome YEQ4 12	Total	Offered what wanted	Have after issues	Total	Offered what wanted	Have after issues
Unweighted base:	*1798*	*1507*	*291*	*789*	*593*	*196*
Very satisfied with facility	52%	58%	22%	54%	65%	12%
Fairly satisfied with facility	33%	33%	33%	32%	29%	45%
Overall satisfied	*85%*	*91%*	*55%*	*86%*	*94%*	*57%*
Neutral about facility	7%	5%	13%	6%	3%	18%
Dissatisfied with facility	8%	3%	32%	8%	3%	25%

Q103 and Q196 All SMEs that have applied/renewed

From Q2 2012, those who had experienced an automatic renewal of their overdraft facility were also asked how satisfied they were with that facility. Results for Q2-Q4 combined showed that those who had an overdraft facility after an automatic renewal were likely to be satisfied with it (86%), but not quite as likely as those who had a facility after being offered what they wanted and taking it (91% YEQ4).

Overall bank satisfaction, amongst all SMEs, remained high (80% satisfied YEQ4). Successful applicants remained more likely to be satisfied with their main bank (81%) than those that applied unsuccessfully to their main bank (36% satisfied).

'Permanent non-borrowers', who have had no borrowing events at all, reported slightly higher levels of satisfaction with their main bank (86% satisfied) than either those who had experienced a borrowing event (72%) or those that were 'would-be seekers' of finance (68%).

Impact of being unsuccessful

That analysis was based on those that were successful in their application/renewal and now had an overdraft or loan facility. As already reported, 24% of overdraft applicants and 34% of loan applicants ended the process with no facility. These unsuccessful SMEs were asked whether *not* having a facility had impacted on their business.

Most of those who unsuccessfully applied for an overdraft would ideally now have that facility (71%), and bank unwillingness to lend was their key reason why this was not the case, with a quarter mentioning any reluctance on their part to have the facility (typically too much hassle, can raise personal funds or funds from friends and family). Those who were unsuccessful with a loan application were a bit more ambivalent, with 63% saying they would ideally have a loan, but again, bank reluctance to lend was seen as the main reason why they did not have one, while a third gave other reasons (typically the expense, security requirements, the hassle or being able to raise funds elsewhere).

Around half of those that were unsuccessful with an application for a loan or an overdraft said that this had impacted on their business, saying that running the business day to day was now more of a struggle and/or that they had not been able to expand as they might have wished.

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

10. Rates and fees – Type 1 events

This chapter covers

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

Key findings

A quarter of new/renewed overdrafts, and 40% of new/renewed loans, were secured (typically on property), and this proportion increased by size of applicant and facility. It has also increased slightly over time, with more recent facilities more likely to be secured

4 out of 10 new/renewed overdrafts were on a variable rate, and this proportion has declined over time. Loans remained less likely to be on a variable rate (26%). Like overdrafts, it was the larger facilities that were more likely to be on a variable rate

The median variable rate was +3% for both loans and overdrafts. The median fixed rate was 4.3% for overdrafts and 5.5% for loans. Secured facilities attracted a lower margin than unsecured

No fee was paid for 1 in 5 new/renewed overdrafts, with the median fee paid just under £100. In three-quarters of cases the fee represented 2% or less of the facility agreed and this was more likely to be the case for larger overdraft facilities. Automatically renewed overdrafts were as likely to have involved a fee. No fee was paid for 1 in 3 new/renewed loans, while the median fee was very similar (£100). 8 out of 10 paid a fee representing 2% or less of the facility agreed and again, this was slightly more likely to be the case for larger loan facilities

Half of those with an overdraft said they used it all or most of the time. Analysed by date of application, recent successful applicants were more likely to report using their overdraft more often and to 50% or more of the facility agreed

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

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

Overdrafts: Security

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

- 4% of 0 employee SMEs had a new/renewed overdraft
- 9% of 1-9 employee SMEs
- 11% of 10-49 employee SMEs
- 12% of 50-249 employee SMEs

80% of overdraft facilities granted were for less than £25,000. By size, this varies from 95% of overdrafts granted to 0 employee SMEs being £25,000 or less, to 15% of overdrafts granted to those with 50-249 employees.

13% of new/renewed overdrafts reported in Q4 2012 were in a personal name rather than that of the business.

A quarter (27%) of Type 1 overdrafts, i.e. a new or renewed facility not including automatic renewals, required security. Analysed by date of application (at the half-year level), more recent overdraft facilities were slightly more likely to be secured (from around 1 in 4 being secured in 2011 to 1 in 3 being secured in 2012), with more overdrafts under £25,000 in particular being secured.

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

Security required (Overdraft): YEQ4 12 SMEs with new/renewed overdraft	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*1753*	*151*	*588*	*675*	*339*
Property (any)	18%	7%	29%	40%	39%
Charge over business property	*8%*	*2%*	*13%*	*23%*	*33%*
Charge over personal property	*10%*	*5%*	*16%*	*18%*	*7%*
Directors/personal guarantee	5%	2%	7%	11%	9%
Other security (any)	7%	5%	8%	15%	20%
Any security	27%	15%	40%	57%	60%
No security required	73%	85%	60%	43%	40%

Q 106 All SMEs with new/renewed overdraft excluding DK

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

- 15% of overdrafts granted for £10,000 or less were secured
- 38% of overdrafts granted for £11-24,999
- 42% of overdrafts granted for £25-49,999
- 61% of overdrafts granted for £50-99,999
- 76% of overdrafts granted for £100,000 or more were secured

Overdrafts: Rates

Amongst those who gave an answer, 4 out of 10 (41%) said that their new/renewed overdraft was on a variable rate, and this increased with the size of facility granted:

Type of rate (overdraft) by facility granted: YEQ4 12 SMEs with new/renewed overdraft excl. DK	Total	<£10k	£10-25k	£25-100k	£100k+
Unweighted base:	*1450*	*406*	*213*	*344*	*487*
Variable rate lending	41%	37%	44%	53%	54%
Fixed rate lending	59%	63%	56%	47%	46%

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

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

New/renewed overdraft rate By date of application	Q310	Q410	Q111	Q211	Q311	Q411	Q112*	Q212*	Q312*
Unweighted base:	*137*	*241*	*495*	*345*	*376*	*383*	*415*	*230*	*117*
Variable rate lending	53%	54%	55%	53%	49%	38%	42%	40%	26%
Fixed rate lending	47%	46%	45%	47%	51%	62%	58%	60%	74%

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

Most of those on a variable rate said that the rate was linked to Base Rate (90%).

49% of those with a new/renewed variable rate overdraft and 34% of those with a fixed rate overdraft were unable / refused to say what rate they were paying. These 'Don't know' answers have been excluded from the analysis below, but as a result base sizes are small in some areas.

The average variable rate margin paid was somewhat lower at +3.9% than it had been YEQ3 (+4.5%) but the median rate charged was unchanged at +3%. The average margin was lower for facilities in excess of £100,000, while the median rate varied less by size of facility:

Variable margin (overdraft) by facility granted: YEQ4 12 SMEs with new/renewed overdraft excl. DK	Total	<£10k	£10-25k	£25-100k	£100k+
Unweighted base:	*634*	*129*	*93**	*167*	*245*
Less than 2%	28%	26%	33%	23%	37%
2.01-4%	41%	39%	32%	46%	60%
4.01-6%	19%	18%	25%	23%	4%
6%+	12%	16%	10%	9%	*
Average margin above Base/LIBOR:	*+3.9%*	*+4.1%*	*+3.6%*	*+4.1%*	*+2.5%*
Median margin above Base/LIBOR	*+3.0%*	*+3.0%*	*+2.9%*	*+3.0%*	*+2.6%*

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. This suggests that the proportion of successful applicants paying a variable margin of less than +4% has declined slightly over time – from 70% of successful applicants in H2 2010 to 64% of successful applicants in H1 2012.

The average fixed rate charged was almost unchanged at 5.4% YEQ4 12 (5.5% YEQ3), and the median rate was unchanged at 4.3%. Again those borrowing more paid, on average, a lower rate:

Fixed rate (overdraft) by facility granted: YEQ4 12 SMEs with new/renewed overdraft excl. DK	Total	<£10k	£10-25k	£25-100k	£100k+
Unweighted base:	*530*	*148*	*81**	*108*	*193*
Less than 3%	40%	35%	35%	61%	56%
3.01-6%	38%	37%	51%	31%	32%
6.01-8%	7%	7%	4%	6%	9%
8%+	16%	21%	10%	2%	3%
Average fixed rate:	*5.4%*	*6.3%*	*4.7%*	*3.1%*	*3.4%*
Median fixed rate	*4.3%*	*3.8%*	*4.3%*	*2.1%*	*2.8%*

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

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

Secured overdrafts were more likely to be on a fixed rate (58%) than a variable rate (42%), and this has been an increasing trend over time. Unsecured overdrafts remained more likely to be on a fixed rate (59%) than a variable rate (41%).

The average margin for a variable rate secured overdraft was +3.5%, compared to +4.0% for an unsecured overdraft. More of a difference in margin was seen for fixed rate facilities – secured overdrafts were at an average rate of 3.8% compared to 6.4% for an unsecured overdraft.

Overdrafts: Fees

Most respondents were able to recall the arrangement fee that they had paid for their new/renewed overdraft facility (if any). The average fee paid was £356, with fees for facilities granted in 2012 fairly consistently around this figure, representing a slight increase on 2011 (£310). However the median arrangement fee has remained almost unchanged at £97 (£99 for YEQ3) and analysis by date of application shows no clear pattern over time.

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

Fee paid (overdraft) by facility granted: YEQ4 12 SMEs with new/renewed overdraft excl. DK	Total	<£10k	£10-25k	£25-100k	£100k+
Unweighted base:	*1491*	*419*	*242*	*353*	*477*
No fee paid	21%	27%	14%	5%	7%
Less than £100	14%	19%	9%	3%	1%
£100-199	37%	45%	40%	13%	4%
£200-399	16%	8%	30%	38%	13%
£400-999	7%	1%	7%	30%	19%
£1000+	6%	1%	1%	11%	57%
Average fee paid:	*£356*	*£126*	*£179*	*£561*	*£2675*
Median fee paid	*£97*	*£87*	*£139*	*£297*	*£1131*

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

Amongst those with a new/renewed overdraft who knew both what fee they had paid and the facility granted, 33% paid a fee that was the equivalent of less than 1% of the facility granted, and a further 31% paid between 1-2%. On this basis there were some clear differences by size of facility:

- 48% of those granted a new/renewed overdraft facility of less than £10,000 paid the equivalent of 2% or less
- 91% of those granted a new/renewed overdraft facility of £10-25,000 paid the equivalent of 2% or less
- 95% of those granted a new/renewed overdraft facility of £25-100,000 paid the equivalent of 2% or less
- 98% of those granted a new/renewed overdraft facility of more than £100,000 paid the equivalent of 2% or less

Secured overdrafts were more likely to attract a fee of 2% or less (85%) than unsecured overdrafts (56%). There was no clear pattern by application date.

Overdraft terms: Analysis by risk rating

Sample sizes also permit some analysis of size, interest rates and fees by external risk rating. Businesses with a minimal/low risk rating typically had a higher facility, were more likely to be paying a variable rate, and paid a lower margin for their variable rate overdraft:

Overdraft rates and fees summary YEQ4 12 SMEs with new/renewed overdraft excl. DK	Min/Low	Average/Worse than average
Unweighted base (varies by question):	*723*	*951*
% borrowing £25,000 or less	59%	86%
Facility on a variable rate (excluding DK)	54%	37%
Average variable margin for less than £25k facility	+3.6%	+4.0%
Average variable margin for facility £25k+	+3.4%	+4.0%
Average fixed rate for less than £25k facility	4.3%	6.1%
Average fixed rate for facility £25k+	2.9%	3.6%
% where fee <2% of facility (under £25k)	57%	57%
% where fee <2% of facility (£25k+)	98%	95%

All SMEs with new/renewed overdraft, excluding DK

Overdrafts: Usage

For YEQ4 2012, 48% of those granted a new/renewed overdraft said that they used this facility all or most of the time. At the other end of the scale, 32% used this overdraft facility occasionally, rarely or never. Smaller SMEs with an overdraft were more likely to report using it all or most of the time than those with 10-249 employees.

Amongst those SMEs that used this overdraft facility at least occasionally (representing 80% of those granted an overdraft), 64% said that when they used their overdraft they used at least half of the agreed facility.

Some analysis of the use of overdrafts is possible by date of application. The table below shows the extent to which Type 1 overdrafts were being used, analysed by when the facility was applied for. This shows that over time more overdrafts were being used all or most of the time, and to 50% or more of the limit agreed:

Type 1 overdraft usage					Use of overdraft				
Use of facility by date of application	Q310	Q410	Q111	Q211	Q311	Q411	Q112*	Q212*	Q312*
Unweighted base:	*154*	*278*	*577*	*424*	*462*	*461*	*510*	*285*	*154*
Use overdraft all or most of time	32%	27%	43%	36%	42%	46%	37%	47%	43%
Use 50%+ when use it (all with od not just users)	29%	36%	47%	53%	55%	53%	45%	48%	54%

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

Overdraft terms: Analysis by sector

Overall, to YEQ4, 80% of overdrafts granted were for £25,000 or less. By sector this varied from 63% of overdrafts granted in the Agriculture sector, to 92% for Other Community.

As the table below shows, secured overdrafts were:

- More common for overdrafts in Agriculture (44%)
- Somewhat less common for overdrafts in the Property/Business Services sector (21%)

Type 1 overdraft YEQ4 12 all with new/renewed overdraft	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	***213***	***175***	***283***	***216***	***125***	***132***	***298***	***135***	***176***
Any security	44%	24%	22%	35%	33%	22%	21%	29%	25%
- property	*36%*	*14%*	*14%*	*26%*	*26%*	*9%*	*14%*	*17%*	*7%*
No security	56%	76%	78%	65%	66%	78%	79%	71%	75%

Q 106 All SMEs with new/renewed overdraft excluding DK

Overall, 4 out of 10 Type 1 overdrafts obtained were on a variable rate (41%). This was more likely for overdrafts amongst SMEs in the Transport (55%) and Agriculture (50%) sectors:

Type 1 overdraft rate YEQ4 12 all with new/renewed overdraft	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*184*	*158*	*221*	*189*	*98**	*108*	*248*	*107*	*137*
Variable rate lending	50%	44%	33%	45%	41%	55%	48%	33%	25%
Fixed rate lending	50%	56%	67%	55%	59%	45%	52%	67%	75%

Q 107 All SMEs with new/renewed overdraft excluding DK

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

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

Type 1 overdraft fees YEQ4 12 all with new/renewed overdraft	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*178*	*154*	*238*	*187*	*107*	*105*	*259*	*112*	*151*
No fee paid	12%	6%	16%	16%	19%	16%	24%	40%	43%
Equivalent of 2% or less paid*	70%	54%	48%	77%	67%	76%	57%	63%	75%

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

Amongst those with an overdraft, SMEs in Manufacturing (66%) were the most likely to be using their facility all or most of the time, and also to be using it to 50% or more of the facility (71%). Those in the Other Community sector were the least likely to be doing so (32%).

Type 1 overdraft usage YEQ4 12 all with new/renewed overdraft	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*219*	*179*	*290*	*224*	*127*	*137*	*305*	*139*	*178*
Use overdraft all or most of time	54%	66%	32%	47%	54%	41%	47%	32%	31%
Use 50%+ when use it (all with od not just users)	50%	71%	40%	58%	50%	50%	52%	40%	32%

Q 101/102 All SMEs with new/renewed overdraft

Overdrafts: Automatic renewals

As mentioned earlier in this chapter, some data is now available on the fees, rates and security pertaining to those overdraft facilities that were automatically renewed. This has now been collected for respondents interviewed between Q2 and Q4 2012 and covers automatic renewals in the 12 months prior to interview (note that for Q2 and Q3 interviews we do not know *when* in the previous 12 months this facility was renewed, nor *how much* it was for – these questions were added for Q4 2012). 2,046 respondents in Q2-Q4 reported an automatically renewed overdraft.

The table below shows how automatically renewed overdraft facilities compare to other Type 1 overdraft events reported in Q2-Q4 2012 (and occurring in the 12 months prior to interview), where equivalent data is available:

Overdraft rates and fees summary Q2-Q4 12 SMEs excl. DK	Automatically renewed	Type 1 overdraft event
Unweighted base (varies by question):	*2046*	*1271*
Any security required	31%	33%
Facility on a variable rate (excluding DK)	43%	41%
Average variable margin	+3.8%	+3.8%
Average fixed rate	4.8%	4.6%
No fee	30%	22%
Average fee paid	£202	£350
Use overdraft all or most of time	41%	47%

All SMEs with new/renewed overdraft, excluding DK

Data available for automatic renewals reported in Q4 2012 showed that half these renewals, 55%, were for £5,000 or less (compared to 42% of Type 1 overdraft events reported in this quarter) and almost all (92%) were for less than £25,000 (compared to 85% of Type 1 overdraft events reported in this quarter).

These automatically renewed facilities were typically smaller, but in fact the fee as a proportion of the facility granted was more likely to be more than 2% for automatic renewals (43%) than it was for other Type 1 overdraft facilities in Q4 2012 (22%).

Loans: Security

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

- 1% of 0 employee SMEs had a new/renewed loan
- 3% of 1-9 employee SMEs
- 4% of 10-49 employee SMEs
- 8% of 50-249 employee SMEs

81% of new/renewed loans were for £100,000 or less. A minority of loans, 13%, were commercial mortgages. These were much more likely to have been granted for more than £100,000 and were also more common amongst larger SMEs:

- 12% of successful applicants with 0-9 employees said their loan was a commercial mortgage
- 21% of successful applicants with 10-49 employees
- 31% of successful applicants with 50-249 employees

16% of successful applications reported in Q4 2012 were made in a personal name rather than that of the business.

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): YEQ4 12 SMEs with new/renewed loan	Total	0-9 emp	10-49 emps	50-249 emps
Unweighted base:	*779*	*299*	*287*	*193*
Commercial mortgage	13%	12%	21%	31%
Secured business loan	27%	25%	44%	39%
Unsecured business loan	60%	63%	35%	30%

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

The proportion of commercial mortgages within these loan applications has remained relatively constant by date of application, but there has been an increase in the proportion of other secured loans over recent quarters. As a result, around half of loans reported to date for 2012 were secured, compared to around a third of those obtained in 2011.

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): YEQ4 12 SMEs with new/renewed loan excl. DK	Total	0-9 emp	10-49 emps	50-249 emps
Unweighted base:	*779*	*299*	*287*	*193*
Commercial mortgage	13%	12%	21%	31%
Secured – Property (any)	17%	15%	31%	25%
Business property	*7%*	*6%*	*23%*	*22%*
Personal property	*9%*	*9%*	*8%*	*4%*
Director/personal guarantees	6%	6%	7%	5%
Other security	7%	6%	10%	12%
Unsecured business loan	60%	63%	35%	30%

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

23% of new/renewed loans granted for less than £25,000 were secured (including commercial mortgages) compared to 59% of loans granted for £25,000 to £100,000, and 81% of those granted for more than £100,000.

Loans: Rates

Amongst those who knew, three quarters, 76%, said that their loan was on a fixed rate (compared to 59% for overdraft lending), and this was more common for smaller facilities:

Type of rate (loan) by amount granted: YEQ4 12 SMEs with new/renewed loan excl. DK	Total	<£100k	£100k+
Unweighted base:	*684*	*341*	*343*
Variable rate lending	24%	19%	46%
Fixed rate lending	76%	81%	54%

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

Fixed rate lending was more common where the facility was unsecured (87% v 60% for secured loans). Analysis by date of application showed that it was the loans agreed in the second half of 2011 that were slightly more likely to be on a fixed rate (79%), while for other periods the proportion was 70-71%.

Most of those on a variable rate said that the rate was linked to Base Rate (88%), but this was less the case for loans in excess of £100,000 (77%) than for those below £100,000 (95%).

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

Variable margin (loan) by amount granted: YEQ4 12 SMEs with new/renewed loan excl. DK	Total	<£100k	£100k+
Unweighted base:	*235*	*81**	*154*
Less than 2%	28%	26%	31%
2.01-4%	49%	39%	66%
4.01-6%	14%	20%	3%
6%+	9%	15%	-
Average margin above Base/LIBOR:	*+3.6%*	*+4.1%*	*+2.7%*
Median margin above Base/LIBOR	*+3.0%*	*+2.9%*	*+2.9%*

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

These average margins to YEQ4 12 were slightly lower than those to YEQ3 (+4.1%) due to lower margins paid by those with loans of less than £100,000 (but a small base). Analysis by date of application is limited by the number of respondents answering this question, but indicative results are that over time the average rate charged has remained around +4%.

The median variable rate charged was the same for overdrafts and loans. Fixed rate loan lending, on the other hand, at 5.5%, was slightly more expensive than fixed rate overdraft lending (which had a median rate overall of 4.3%):

Fixed rate (loan) by amount granted: YEQ4 12 SMEs with new/renewed loan excl. DK	Total	<£100k	£100k+
Unweighted base:	*331*	*177*	*154*
Less than 3%	20%	16%	40%
3.01-6%	38%	36%	49%
6.01-8%	22%	25%	8%
8%+	20%	23%	3%
Average fixed rate:	*6.3%*	*6.7%*	*4.0%*
Median fixed rate	*5.5%*	*5.9%*	*4.3%*

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

The average rate was virtually unchanged compared to YEQ3 (6.4%), as was the median rate (was 5.7% YEQ3). Analysis by date of application is limited by the number of respondents answering this question, but indicative results are that the average rate charged increased slightly between H210 and H211, from around 6% to just under 7%, while initial data for 2012 suggests the average rate fell back closer to 6% again.

As with overdraft lending, secured loans were charged at a lower average rate than unsecured. For those granted a new/renewed loan on a variable rate, a secured loan was charged at an average margin of +3.4%, an unsecured loan at an average margin of +3.8%. For fixed rate lending, the rates were 5.6% for secured loans and 6.7% 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): YEQ4 12 SMEs with new/renewed loan excl. DK	Total	<£100k	£100k+
Unweighted base:	*608*	*300*	*308*
No fee paid	34%	39%	11%
Less than £100	10%	12%	1%
£100-199	23%	26%	9%
£200-399	13%	13%	9%
£400-999	7%	6%	11%
£1000+	13%	3%	59%
Average fee paid:	*£827*	*£180*	*£3854*
Median fee paid	*£100*	*£74*	*£1679*

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

The average fee paid to YEQ4 2012 increased slightly to £827 (YEQ3 £790) while the median fee was unchanged. Analysis by date of application showed little clear pattern over time, other than the proportion of loans for which no fee was payable, which increased over time to H2 11 (44% from 23% in H210) but was lower again for applications made in 2012 (at around 1 in 3, based on interim data).

Amongst those with a new/renewed loan who knew both what fee they had paid and the original loan size, 64% paid a fee that was the equivalent of less than 1% of the amount borrowed and a further 17% paid between 1-2%:

- 80% of those granted a new/renewed loan of less than £100,000 paid the equivalent of 2% or less
- 86% of those granted a new/renewed loan of more than £100,000 paid the equivalent of 2% or less

There was little difference in the proportion paying 2% or less for their loan by whether the loan was secured or not. Over time, slightly fewer loan facilities were charged at the equivalent of 2% or less of the facility granted. In H2 2010, 86% of facilities were charged the equivalent of 2% or less, in H2 2011 the proportion was 81%, and for applications in 2012 the figure was around three-quarters.

Loan terms: Analysis by risk rating

Sample sizes also permit some analysis of size, interest rates and fees by external risk rating. Those with a minimal/low external risk rating were typically borrowing slightly more and paying a lower 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 YEQ4 12 SMEs with new/renewed loan excl. DK	Min/Low	Average/Worse than average
Unweighted base (varies by question):	*332*	*413*
% borrowing £100,000 or less	68%	86%
Any security provided	53%	35%
Facility on a variable rate (excluding DK)	34%	20%
Average variable margin	+3.0%	+3.8%
Average fixed rate	4.2%	6.9%
% where fee <2% of facility	91%	79%

All SMEs with new/renewed loan, excluding DK

Loan terms: Analysis by sector (indicative)

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

81% of new/renewed loans were for £100,000 or less. By sector this varied from 94% of loans in the Construction sector being in this band, to 66% of loans in the Hotels and Restaurants sector.

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

Type 1 loan YEQ4 12 all with new/renewed loan	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*95**	*79**	*82**	*95**	*84**	*68**	*102*	*96**	*78**
Commercial mtge	12%	13%	14%	13%	27%	3%	15%	10%	10%
Secured loan	30%	35%	15%	21%	39%	28%	32%	52%	19%
Unsecured loan	59%	52%	71%	66%	34%	69%	54%	39%	70%

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 (76%). This was more likely for loans amongst SMEs in the Other Community (91%) sector:

Type 1 loan rate YEQ4 12 all with new/renewed loan	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*85**	*71**	*68**	*81**	*80**	*62**	*90**	*85**	*62**
Variable rate lending	31%	31%	21%	26%	38%	17%	25%	16%	9%
Fixed rate lending	69%	69%	79%	74%	62%	83%	75%	84%	91%

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 Property/Business Services sector were the least likely to pay a fee for their facility:

Type 1 loan fees YEQ4 12 all with new/renewed loan	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*66**	*59**	*71**	*77**	*68**	*52**	*74**	*75**	*66**
No fee paid	29%	33%	19%	38%	17%	28%	53%	48%	33%

Q 207/208 All SMEs with new/renewed loan excluding DK *CARE re small base

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

This chapter looks

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

Key findings

Note that a number of key questions and definitions were amended for Q4 2012 and this means that much of the analysis in this chapter is based just on this most recent quarter, Q4 2012, rather than four quarters combined.

21% of SMEs interviewed in Q4 2012 reported a borrowing event (including the automatic renewal of an overdraft facility)

7% of SMEs met the revised definition of a 'Would-be seeker' of external finance (that is they had wanted to apply for a loan/overdraft, but something had stopped them). This group were more likely to be smaller SMEs, or with a worse than average risk rating or in the Wholesale/Retail or Other Community sectors

The largest group, 73% of SMEs, met the revised definition of a 'Happy non-seeker' of finance. This group had not experienced a borrowing event, nor had they wanted to apply for a loan or overdraft. This is a higher proportion than was seen in previous quarters, but the proportion of 'Happy non-seekers' had been increasing during 2012 so with the change of question it is not yet clear the extent to which this is a continuation of an existing trend or attributable to the change in question wording

45% of 'Would-be loan seekers' and 36% of 'Would-be overdraft seekers' cited issues with the 'process' of borrowing as the main reason for not having applied, with more mentions than previously around the cost/expense of borrowing. 'Discouragement' was as likely as the 'process' to have been a barrier to applying for an overdraft (39%), most of it indirect (the SMEs assuming the bank would say no). Amongst 'Would-be loan seekers', 34% gave it as the main reason, again most of it indirect

Excluding the ‘Permanent non-borrowers’ who appear disinclined to use or consider external finance increases the proportion reporting an event to 33%, and the ‘Would-be seekers’ to 11% of SMEs potentially interested in external finance. The proportion of ‘Happy non-seekers’ reduces to 57%

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

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

Automatic renewals re-classified

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

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

Some concern had been expressed about how 'Happy non-seekers' had been 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 this group 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 who say yes to the new question are potential 'Would-be seekers' (depending on the answers they give to both the loan and the overdraft questions) and those who say no are potential 'Happy non-seekers'

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 the Q4 2012 results 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'.

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, but only the Q4 2012 figures reflect the new 'Would-be seeker / Happy non-seeker' definition. This change in definition means that the shaded figures for Q4 2012 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:

Any events (overdraft and loan) All SMES, over time By date of interview	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012
Unweighted base:	*5010*	*5023*	*5000*	*5032*	*5000*
Have had an event	23%	25%	24%	22%	21%
Would-be seekers	8%	10%	10%	11%	7%
Happy non-seekers	69%	65%	66%	67%	73%

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

This shows that whilst the proportion of 'Would-be seekers', under its new definition, was slightly lower in Q4 2012 than it had been in the rest of 2012, it was not that different to the equivalent quarter in 2011. It is not clear therefore at this stage the extent to which the change of wording might have affected the answers given.

The table overleaf shows the proportion of 'Would-be seekers' by key demographic groups over time, and shows those where there has been more of a change between Q3 2012, using the old definition and Q4 with the new one. Over the course of future waves the impact of the change, if any, will become clearer.

The table below reports the proportion of 'Would-be seekers' within key sub-groups in each quarter, with the new definition for 'Would-be seeker' applied for Q4 2012:

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

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

The analysis below has previously been provided on a 4 quarter 'year ending' basis to maximise the sample sizes of each sub-group. Given the definition change introduced for Q4 2012, the tables below have been based just on the Q4 data, and base sizes will be built up over subsequent reports.

Despite the definition change, SMEs with no employees remained the most likely to be 'Happy non-seekers'. The bigger the SME, the more likely they were to have had an event and the less likely they were to be a 'Would-be seeker' of external finance:

Any events (Overdraft and loan) Q4 12 All SMES	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*5000*	*1000*	*1650*	*1600*	*750*
Have had an event	21%	18%	28%	28%	27%
Would-be seekers	7%	7%	7%	4%	2%
Happy non-seekers	73%	75%	65%	68%	71%

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 (46%).

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

Any events (Overdraft and loan) Q4 12 All SMEs with a risk rating	Total	Min	Low	Avge	Worse/ Avge
Unweighted base:	*5000*	*826*	*911*	*1340*	*1468*
Have had an event	21%	28%	29%	22%	18%
Would-be seekers	7%	2%	5%	5%	7%
Happy non-seekers	73%	70%	66%	72%	75%

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

By sector, the proportion of 'Would-be seekers' varied from 3% of those in Agriculture to 9% of those in the Wholesale/Retail and Other Community sectors. More variation was seen in terms of 'Happy non-seekers', which accounted for 78% of those in the Health sector (who remained less likely to have had an event), to 63% of those in Agriculture (who remained more likely to have had an event):

Any events (overdraft and loan) Q4 12 All SMEs	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*375*	*520*	*875*	*505*	*450*	*452*	*876*	*447*	*500*
Have had an event	34%	20%	21%	25%	24%	20%	19%	19%	16%
Would-be seekers	3%	8%	6%	9%	6%	6%	7%	4%	9%
Happy non-seekers	63%	73%	74%	66%	70%	75%	74%	78%	75%

Q115/209 All SMEs

Starts were the most likely to be 'Would-be seekers' (10%). The proportion of 'Would-be seekers' then declines by age of business.

Barriers to overdraft or loan application

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

These are reported below, firstly how frequently they were mentioned at all and secondly how frequently they were nominated as the main barrier. Note that this data reflects the new definitions introduced in Q4 2012 which were detailed at the start of this chapter, as well as the change in available answers.

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

- 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 59% of all 'Would-be seekers', which is the equivalent of around 4% of all SMEs
- Discouragement – those that had been put off, either directly (they made informal enquiries of the bank and were put off) or indirectly (they thought they would be turned down by the bank so did not ask). This was given as a reason by 46% 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 from Q4 2012 has been removed as an option. This was given as a reason by 31% of all 'Would-be seekers' in Q4 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 15% of all 'Would-be seekers', which is the equivalent of around 1% of all SMEs

To reflect the changes made in Q4, the table below shows the results for Q4 2012 only, and all the reasons for not applying for a loan or overdraft that make up the summary categories above. Base sizes preclude these being split by size of SME at this stage, but this will become possible in future reports. An additional question was asked of those giving more than one reason, asking them to nominate the key reason for not applying, and these results form the main analysis of barriers to application.

All 'Would-be seekers' All reasons for <u>not</u> applying when wished to Q4 2012 only	Would have liked to apply for an overdraft	Would have liked to apply for a loan
Unweighted base:	***189***	***119***
Issues with <u>principle</u> of borrowing	32%	24%
-Not lose control of business	*18%*	*8%*
-Can raise personal funds if needed	*15%*	*12%*
-Prefer other forms of finance	*2%*	*9%*
-Go to family and friends	*7%*	*5%*
Issues with <u>process</u> of borrowing	59%	56%
-Would be too much hassle	*23%*	*14%*
-Thought would be too expensive	*42%*	*35%*
-Would be asked for too much security	*9%*	*10%*
-Too many terms and conditions	*19%*	*16%*
-Did not want to go through process	*16%*	*16%*
-Forms too hard to understand	*7%*	*7%*
Discouraged (any)	47%	38%
-Direct (put off by bank)	*16%*	*13%*
-Indirect (thought would be turned down)	*39%*	*28%*
Economic climate	16%	14%
Not the right time to apply	*16%*	*14%*

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

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

The table below details the main reason given by 'Would-be seekers' interviewed in Q4 2012, the first time the revised definition and answer codes were used.

All 'Would-be seekers' Main reason for not applying when wished to over time, by date of interview	Wanted to apply for overdraft Q4 2012	Wanted to apply for loan Q4 2012
Unweighted base:	*189*	*119*
Discouraged (any)	39%	34%
-Direct (put off by bank)	*10%*	*12%*
-Indirect (thought I would be turned down)	*29%*	*22%*
Issues with process of borrowing	36%	45%
Issues with principle of borrowing	8%	13%
Economic climate	9%	7%

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

It is obviously not currently possible to draw exact comparisons over time, given the changes made for Q4 2012 to both the definition of 'Would-be seeker' and to the available responses for why they did not apply:

- The "prefer not to borrow" code, which was removed as an option for Q4, previously formed part of the "Issues with principle of borrowing" net score. This net score was lower in Q4 than it had been in Q3 for overdrafts (when it was given as a main reason by 28% of those who had wanted to apply for an overdraft, compared to 8% in Q4), but the net score for loans was not much different to the Q3 wave
- Mentions of issues with the "process of borrowing" were higher in Q4 than they were in Q3, especially for 'Would-be seekers' of loans (up from 27% in Q3 to 45% in Q4, while for overdrafts it was up from 26% to 36%) with more mentions of concerns around the cost/expense of borrowing

If those who chose “prefer not to borrow” as their main reason in Q3 were excluded from the base for that quarter and this question re-run without them, the spread of remaining answers for overdrafts would be very similar in both Q3 and Q4 2012. The comparison for loans was not so similar (fewer mentions of “process” and more of “discouragement” in Q3 compared to Q4) but these two issues were the top two, in both quarters.

As analysis can only be based on Q4 data, because of the changes detailed above, it is not possible to provide much further analysis by size or risk rating, but this will become available again as sample sizes grow for the new questions over future waves.

- Qualitatively, smaller ‘Would-be seekers’ were more likely to mention the process of borrowing as a barrier (typically the expense) for both overdrafts and loans. Larger ‘Would-be seekers’ were more likely to mention discouragement (both direct and indirect)
- In terms of external risk rating, those ‘Would-be seekers’ with a minimal or low risk rating were more likely to mention the process of borrowing as a main barrier (typically the expense) for overdrafts and the principle of borrowing for loans. Those ‘Would-be seekers’ with an average or worse than average external risk rating were more likely to mention discouragement for overdrafts and the process of borrowing for loans
- Base sizes are too small by sector for any analysis at this stage

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

Main reason for not applying Q4 12	Would-be overdraft seekers	All SMEs	Would-be loan seekers	All SMEs
Unweighted base:	*189*	*5000*	*119*	*5000*
Discouraged (any)	39%	2%	34%	1%
-Direct (put off by bank)	*10%*	*1%*	*12%*	*<1%*
-Indirect (thought I would be turned down)	*29%*	*2%*	*22%*	*1%*
Issues with process of borrowing	36%	2%	45%	1%
Issues with principle of borrowing	8%	<1%	13%	<1%
Economic climate	9%	1%	7%	<1%
None of these/DK	7%	<1%	*1%*	<1%
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 effect of the ‘Permanent non-borrower’

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

The proportion of ‘Happy non-seekers’ declines to 57% but remains the largest group, and the proportion of ‘Would-be seekers’ increases to 11%:

Any events (Overdraft and loan) Q4 12 – all SMES	All SMEs	All SMEs excl. pnb
Unweighted base:	*5000*	*3664*
Have had an event	21%	33%
Would-be seekers	7%	11%
Happy non-seekers	73%	57%

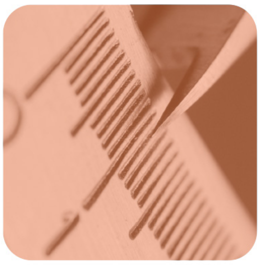
Q115/209 All SMEs

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

Main reason for not applying when wished to – Q4 12 only	Would-be overdraft seekers	All SMEs excl. pnb	Would-be loan seekers	All SMEs excl. pnb
Unweighted base:	*189*	*3664*	*119*	*3664*
Discouraged (any)	39%	3%	34%	2%
-Direct (put off by bank)	*10%*	*1%*	*12%*	*1%*
-Indirect (thought I would be turned down)	*29%*	*3%*	*22%*	*1%*
Issues with process of borrowing	36%	3%	45%	2%
Issues with principle of borrowing	8%	1%	13%	1%
Economic climate	9%	1%	7%	<1%

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

12. The future



This chapter reports

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

Key findings

As in previous waves, the current economic climate remained most likely to be rated as a 'major obstacle' for the coming 12 months – by 31% of all SMEs, and across most demographics. By comparison, 'access to finance' was rated a major obstacle by 10% of SMEs (increasing to 14% of SMEs once the 'Permanent non-borrowers' were excluded)

Those planning, or hoping, to apply for external finance were more likely to cite all the elements tested as major obstacles, while 'Future happy non-seekers', and 'Permanent non-borrowers' in particular, were less likely to see any of them as a major obstacle

Over time, the proportion nominating these factors as 'major obstacles' has remained fairly stable; Since the start of 2012, the proportion rating the economic climate as a major obstacle has declined somewhat, from 37% in Q1 to 31% in Q4, and there has been less variation in other scores

In Q4 2012, 44% of SMEs planned to grow in the next 12 months, down slightly from Q3 (47%) but in line with the equivalent quarter of 2011

Most of those planning to grow (89%) thought they would do so through selling more into existing markets. One in five (21%) planned to sell to new markets in the UK while 7% planned to sell more overseas (this is the equivalent of 3% of all SMEs). Those already exporting were much more likely to be planning to grow through overseas sales (46%) than those who did not currently export (4% planned to grow this way)

14% of SMEs interviewed in Q4 2012 had plans to apply for new /renewed facilities in the following 3 months, and this has varied relatively little since Q3 2011. It also continued to be lower than the proportion that said they were likely to have a need for finance. Excluding the 'Permanent non-borrowers' increased the proportion planning to seek finance to 22% of remaining SMEs

Appetite for finance remained stronger amongst those with employees, and those with a minimal or low external risk rating. Such funding is typically required for working capital (62% in Q4) and overdrafts, loans and grants are the forms of funding most likely to be considered

Previous reports have noted the decline in confidence, amongst those planning to apply, that their bank would agree to the facility. Having fallen to 33% in Q3 2012, there has been an increase in Q4 to 43% of applicants being very or fairly confident due to an improvement amongst smaller future applicants with 0-9 employees. Levels of confidence about future applications remained below the actual success rates for applications made

A fifth of SMEs in Q4 met the definition of a 'Future would-be seeker' of finance, a similar proportion to the equivalent quarter of 2011. Excluding the 'Permanent non-borrowers' increases the proportion to 33% of remaining SMEs

A reluctance to borrow in the current economic climate remains the main barrier, mentioned by 50% of 'Future would-be seekers' in Q4 2012, especially larger SMEs, those with a minimal/low external risk rating and those with no immediate identified need for finance

17% of 'Future would-be seekers' cited discouragement as their main barrier and this has increased slightly over time (14% in Q4 2011), especially for those with an identified need for funds. Discouragement remained almost entirely indirect (the SME assuming the bank would say no)

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.

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 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, SMEs gave similar answers to this question in each quarter, with 4 in 10 planning to grow. Over the course of 2012 that proportion has declined slightly with more SMEs planning to stay the same size, while the Q4 2012 figures were almost identical to those recorded in Q4 2011:

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

Q225 All SMEs New Question wording in Q4 2012

Bigger SMEs remained more likely to be planning to grow compared to smaller businesses:

Plans to grow in next 12 mths Q4 12 only	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*5000*	*1000*	*1650*	*1600*	*750*
Grow substantially	7%	6%	8%	9%	10%
Grow moderately	37%	35%	41%	49%	51%
All with objective to grow	***44%***	***41%***	***49%***	***58%***	***61%***
Stay the same size	48%	49%	44%	39%	37%
Become smaller	4%	4%	4%	2%	2%
Plan to sell/pass on/close	5%	6%	4%	2%	*

Q225 All SMEs New Question wording in Q4 2012

SMEs that met the 'Permanent non-borrower' definition in Q4 2012 remained less likely to have plans to grow (37%) than those that didn't meet the definition(47%).

SMEs that had injected personal funds in the previous 12 months were more likely to be planning to grow (53%) than those who had not (37%) and this was true for Starts (68% v 55%) as well as older businesses (45% v 35%).

The table on the next page summarises the growth plans/objectives of SMEs by key demographics over time. Compared to the equivalent quarter in 2011, the overall proportion planning to grow was unchanged at 44%, but there have been changes over the course of 2012:

- Compared to the first half of 2012, fewer 0 employee businesses or those with 50-249 employees planned to grow
- There has been a decline over 2012 by external risk rating for all except those with a low rating
- Those in Manufacturing and Health were less likely to be planning to grow

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

Q225 All SMEs base size varies by category

In Q4, those planning to grow were asked a newly simplified question about how this growth would be achieved. Most, 89%, planned to increase sales in existing markets, the equivalent of a third of all SMEs:

How plan to grow Q4 12	All planning to grow	All SMEs
Unweighted base:	*2437*	*5,000*
Increase sales in existing markets	89%	38%
Sell in new markets in UK	21%	9%
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 (9%) than overseas (3%).

Exporters were more likely to be predicting growth (55% planned to grow) than non-exporters (43%). As the table below shows, while half of those already exporting planned to do more overseas, very few who do not currently export thought that they would start to do so:

How plan to grow Q4 12 - those planning to grow	All who plan to grow and currently export	All who plan to grow and do not currently export
Unweighted base:	*407*	*2030*
Increase sales in existing markets	70%	90%
Sell in new markets in UK	45%	20%
Sell in new markets overseas	46%	4%

Q226 All SMEs planning to grow excluding DK

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 Q4 2012: The **current economic climate** was rated as a major obstacle (8-10) by 31% of SMEs in Q4 2012, and across all sizes of SME
- **Legislation and regulation** was the next most important obstacle but, by comparison to the economic climate, these were rated a major obstacle by 12% 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, increasing with size of SME

Details of how the scores have changed over time is provided later in this report.

Extent of obstacles in next 12 months Q4 12 only – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*5000*	*1000*	*1650*	*1600*	*750*
The current economic climate (mean score)	5.6	5.6	5.8	5.5	5.7
- 8-10 major obstacle	*31%*	*31%*	*33%*	*26%*	*26%*
- 5-7 moderate obstacle	*36%*	*35%*	*38%*	*43%*	*46%*
- 1-4 limited obstacle	*32%*	*33%*	*29%*	*31%*	*27%*
Legislation and regulation (mean score)	3.5	3.2	4.2	4.4	4.5
- 8-10 major obstacle	*12%*	*10%*	*17%*	*17%*	*16%*
- 5-7 moderate obstacle	*24%*	*22%*	*30%*	*32%*	*36%*
- 1-4 limited obstacle	*63%*	*67%*	*51%*	*49%*	*47%*
Cash flow/issues with late payment (mean score)	3.4	3.2	3.8	3.8	3.6
- 8-10 major obstacle	*11%*	*10%*	*14%*	*13%*	*10%*
- 5-7 moderate obstacle	*23%*	*22%*	*25%*	*26%*	*27%*
- 1-4 limited obstacle	*65%*	*67%*	*59%*	*60%*	*62%*
Access to external finance (mean score)	2.9	2.7	3.3	3.1	3.0
- 8-10 major obstacle	*10%*	*9%*	*13%*	*9%*	*8%*
- 5-7 moderate obstacle	*14%*	*13%*	*18%*	*17%*	*18%*
- 1-4 limited obstacle	*71%*	*73%*	*65%*	*69%*	*70%*
Availability of relevant advice (mean score)	2.6	2.5	2.9	2.8	2.5
- 8-10 major obstacle	*6%*	*6%*	*6%*	*5%*	*2%*
- 5-7 moderate obstacle	*16%*	*15%*	*22%*	*19%*	*17%*
- 1-4 limited obstacle	*75%*	*76%*	*71%*	*72%*	*78%*
Staff related issues (mean score)	1.7	1.4	2.4	3.0	3.2
- 8-10 major obstacle	*3%*	*2%*	*6%*	*6%*	*6%*
- 5-7 moderate obstacle	*7%*	*5%*	*13%*	*21%*	*23%*
- 1-4 limited obstacle	*85%*	*87%*	*79%*	*73%*	*70%*

Q227a All SMEs

The current economic climate was the most important obstacle of those tested for SMEs of each external risk rating:

Extent of obstacles in next 12 months Q4 12 only – all SMEs 8-10 impact score	Total	Min	Low	Avge	Worse/Avge
Unweighted base:	*5000*	*826*	*911*	*1340*	*1468*
The current economic climate	31%	27%	37%	33%	30%
Legislation and regulation	12%	18%	13%	14%	10%
Cash flow/issues with late payment	11%	9%	10%	11%	11%
Access to external finance	10%	8%	8%	8%	11%
Availability of relevant advice	6%	3%	7%	5%	5%
Staff related issues	3%	4%	4%	2%	2%

Q227a All SMEs for whom risk ratings known

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

Extent of obstacles in next 12 months Q4 12 only – all SMEs 8-10 impact score	Total	Plan to grow	No plan to grow
Unweighted base:	*5000*	*2485*	*2515*
The current economic climate	31%	27%	34%
Legislation and regulation	12%	12%	12%
Cash flow/issues with late payment	11%	12%	10%
Access to external finance	10%	12%	9%
Availability of relevant advice	6%	6%	5%
Staff related issues	3%	4%	2%

Q227a All SMEs

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

Extent of obstacles in next 12 months Q4 12 only – all SMEs 8-10 impact score	Total	PNB	Not PNB
Unweighted base:	*5000*	*1336*	*3664*
The current economic climate	31%	25%	35%
Legislation and regulation	12%	6%	15%
Cash flow/issues with late payment	11%	5%	15%
Access to external finance	10%	3%	14%
Availability of relevant advice	6%	1%	8%
Staff related issues	3%	2%	3%

Q227a All SMEs

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

Extent of obstacles in next 12 months Q4 12 only – all SMEs 8-10 impact score	Total	Plan to apply or FWBS	Future HNS	Future HNS excl. PNB
Unweighted base:	*5000*	*1756*	*3244*	*1908*
The current economic climate	31%	39%	27%	29%
Legislation and regulation	12%	19%	8%	10%
Cash flow/issues with late payment	11%	19%	7%	9%
Access to external finance	10%	21%	5%	7%
Availability of relevant advice	6%	10%	3%	6%
Staff related issues	3%	4%	2%	2%

Q227a All SMEs

The future 'Happy non-seeker' category described above includes those SMEs that met the definition of a 'Permanent non-borrower' which indicates that they are unlikely to borrow at any stage. Such SMEs have been excluded from the 'Happy non-seeker' definition in the final column above. This increases all 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 Hotels and Restaurants sectors:

Extent of obstacles in next 12 months Q4 12 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*	*505*	*450*	*452*	*876*	*447*	*500*
The current economic climate	22%	24%	33%	39%	40%	32%	31%	20%	30%
Legislation and regulation	18%	7%	11%	11%	20%	17%	14%	10%	6%
Cash flow/issues with late payment	9%	6%	13%	13%	12%	15%	11%	6%	10%
Access to external finance	10%	7%	11%	15%	14%	11%	9%	4%	9%
Availability of relevant advice	7%	6%	6%	9%	7%	5%	4%	2%	7%
Staff related issues	3%	1%	3%	4%	7%	2%	2%	3%	1%

Q227All SMEs

Those in the Hotels and Restaurants sector had more concerns generally and were more likely to rate legislation and regulation as a major obstacle (20%) and, with Wholesale/Retail, were slightly more likely to rate access to external finance as a major obstacle.

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

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

Extent of obstacles in next 12 months All SMEs over time 8-10 impact score By date of interview	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012
Unweighted base:	*5010*	*5023*	*5000*	*5032*	*5000*
The current economic climate	35%	37%	35%	34%	31%
Legislation and regulation	14%	14%	14%	13%	12%
Cash flow/issues with late payment	11%	14%	14%	14%	11%
Access to external finance	10%	11%	11%	13%	10%
Availability of relevant advice	5%	5%	6%	6%	6%
Staff related issues	3%	3%	2%	2%	3%

Q227 All SMEs

Overall the scores have been relatively consistent over time, but since the start of 2012, slightly fewer SMEs have rated the economic climate as a 'major obstacle'.

Access to finance is the key theme of this report. Up to Q3 2012 there had been a slight increase in the proportion of SMEs rating this as a major obstacle, which was not maintained in Q4 2012. The table overleaf shows how this issue has been rated by key demographics over time, with fewer of those either using, or potentially seeking, external finance, saying that access to finance was a major obstacle in Q4 compared to previous quarters. The exception was those in Wholesale/Retail who were slightly 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 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012
All SMEs	**10%**	**11%**	**11%**	**13%**	**10%**
0 employee	10%	10%	10%	12%	9%
1-9 employees	12%	15%	15%	15%	13%
10-49 employees	12%	10%	11%	11%	9%
50-249 employees	8%	8%	8%	7%	8%
Minimal external risk rating	8%	4%	12%	9%	8%
Low external risk rating	7%	11%	8%	10%	8%
Average external risk rating	9%	9%	6%	10%	8%
Worse than average external risk rating	12%	13%	14%	14%	11%
Agriculture	10%	11%	8%	13%	10%
Manufacturing	8%	12%	12%	12%	7%
Construction	9%	13%	11%	11%	11%
Wholesale/Retail	15%	13%	14%	12%	15%
Hotels and Restaurants	14%	21%	15%	16%	14%
Transport	14%	14%	15%	17%	11%
Property/Business Services etc.	8%	8%	9%	12%	9%
Health	7%	5%	7%	7%	4%
Other Community	9%	12%	15%	19%	9%
Use external finance	13%	15%	16%	19%	14%
Plan to borrow/FWBS	22%	22%	24%	26%	21%
Future Happy non-seekers	4%	4%	4%	5%	5%
All SMEs excluding PNBs	15%	15%	16%	18%	14%

Q227a_2 All SMEs, base sizes vary

Financial requirements in the next 3 months

SMEs were asked to consider their financial plans over the next 3 months. The figures for Q4 2012 showed a slight increase in plans to renew finance in the next 3 months compared to Q3, and the figure for any new/renewed facilities was in line with the equivalent quarter of 2011:

% likely in next 3 months All SMEs, over time By date of interview	Q1-2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012
Unweighted base:	*5063*	*5055*	*5010*	*5023*	*5000*	*5032*	*5000*
Will have a need for (more) external finance	12%	10%	11%	13%	13%	11%	13%
Will apply for more external finance	9%	7%	8%	10%	9%	8%	8%
Renew existing borrowing at same level	13%	8%	8%	9%	8%	6%	8%
Any apply/renew	*19%*	*13%*	*14%*	*16%*	*14%*	*12%*	*14%*
Reduce the amount of external finance used	11%	10%	7%	11%	8%	7%	8%
Inject personal funds into business	27%	26%	26%	30%	23%	23%	22%

Q229 All SMEs

In all quarters to date, more SMEs have identified a need for finance than thought they would apply for it (13% v 8% in Q4).

In the most recent quarters fewer SMEs have thought it likely that personal funds will be injected into the business.

Amongst those SMEs that are companies, there was little interest in seeking new equity finance, and the proportion has declined slowly over time:

% likely in next 3 months All companies, over time By date of interview	Q1-2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012
Unweighted base:	*2981*	*2923*	*2714*	*2904*	*2905*	*2975*	*2837*
Any new equity	*7%*	*5%*	*6%*	*5%*	*4%*	*4%*	*4%*

Q229 All companies

In Q4 2012, there continued to be a difference in appetite for finance between those with employees and those without:

% likely in next 3 months Q4 12 only – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*5000*	*1000*	*1650*	*1600*	*750*
Will have a need for (more) external finance	13%	12%	15%	15%	13%
Will apply for more external finance	8%	7%	11%	11%	10%
Renew existing borrowing at same level	8%	8%	11%	12%	10%
Any apply/renew	*14%*	*13%*	*18%*	*19%*	*17%*
Reduce the amount of external finance used	8%	8%	8%	9%	7%
Inject personal funds into business	22%	24%	17%	10%	5%

Q229 All SMEs

Before looking at future applications for finance in more detail, the analysis below looks at the role of personal funding in 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 are 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 three quarters for which data is available, half of SMEs have neither put in funds, nor thought it likely they would do so, and most of those who thought it likely they would put funds in had also done so in the past:

Injections of personal funds All SMEs, over time By date of interview	Q2 2012	Q3 2012	Q4 2012
Unweighted base:	*5000*	*5032*	*5000*
Have injected personal funds and likely to do so again	17%	18%	15%
Have not put in personal funds but likely to do so	5%	5%	7%
Have injected personal funds but unlikely to do so again	24%	28%	26%
Have not put in personal funds and not likely to do so	53%	49%	53%

Q229/Q15d-d2 All SMEs

The most likely to have put personal funds in and thought it likely they would do so again were smaller SMEs with 0 employees (16% in Q4), together with those with a worse than average risk rating (18% in Q4) and those in the Wholesale/Retail (19%) or Hotels and Restaurants or Health sectors (both 18%).

Turning back to future applications for external finance and the table overleaf summarises the change in likely applications/renewals over time for key demographic groups. Since the equivalent quarter in 2011, appetite for finance amongst 0 employee SMEs has been stable but has declined for the larger SMEs in particular (where there has also been a decline in usage), and there has been a slight increase in appetite for finance amongst those with a minimal or low external risk rating:

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

Q229 All SMEs base size varies by category

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

Use of new/renewed facility All planning to seek/renew, over time By date of interview	Q1-2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012
Unweighted base:	*1127*	*890*	*1046*	*1062*	*977*	*842*	*876*
Working capital	62%	67%	59%	60%	69%	60%	62%
Plant & machinery	24%	29%	26%	29%	25%	27%	24%
UK expansion	23%	27%	22%	22%	20%	26%	14%
Premises	8%	10%	7%	8%	5%	8%	6%
New products or services	9%	9%	7%	13%	10%	7%	9%
Expansion overseas	4%	4%	4%	5%	3%	4%	1%

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

Overdrafts and loans remained the forms of funding most likely to be considered:

% of those seeking/renewing finance that would consider form of funding, over time By date of interview	Q1-2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012
Unweighted base:	*1127*	*890*	*1046*	*1062*	*977*	*842*	*876*
Bank overdraft	53%	51%	49%	48%	56%	49%	53%
Bank loan/Commercial mortgage	37%	44%	40%	40%	40%	43%	35%
Grants	28%	36%	35%	35%	38%	36%	36%
Loans/equity from family/friends	12%	23%	22%	23%	21%	21%	20%
Leasing or hire purchase	18%	19%	18%	21%	23%	24%	21%
Credit cards	9%	19%	17%	19%	20%	16%	20%
Loans/equity from directors	11%	12%	18%	14%	10%	13%	10%
Loans from other 3rd parties	13%	13%	10%	11%	7%	15%	12%
Invoice finance	9%	6%	6%	9%	9%	7%	9%

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

Consideration of loans was at its lowest level to date in Q4 (35%) due to lower levels of consideration amongst the smallest SMEs planning to seek/renew finance in the next 3 months:

% of those seeking/renewing finance would consider funding – Q4 12 only	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*876*	*131*	*310*	*313*	*122*
Bank overdraft	53%	53%	52%	42%	45%
Bank loan/Commercial mortgage	35%	34%	38%	39%	38%
Grants	36%	36%	39%	29%	30%
Loans/equity from family & friends	20%	22%	18%	11%	7%
Leasing or hire purchase	21%	20%	23%	33%	48%
Credit cards	20%	20%	19%	15%	21%
Loans/equity from directors	10%	5%	19%	16%	25%
Loans from other 3rd parties	12%	11%	14%	13%	12%
Invoice finance	9%	9%	9%	12%	11%

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

Prospective applicants (via loan, overdraft, leasing, invoice finance and/or credit cards) were asked how confident they felt that their bank would agree to meet their finance need. During 2011, overall confidence increased each quarter reaching 52% in Q1 2012. Confidence then declined during Q2 and Q3 2012, to 33%, but Q4 saw something of an improvement, to 43%, back to levels seen in 2011:

Confidence bank would lend All planning to seek finance, over time by date of interview	Q1-2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012
Unweighted base:	***861***	***707***	***763***	***834***	***781***	***649***	***669***
Very confident	22%	14%	22%	19%	15%	10%	15%
Fairly confident	20%	29%	24%	33%	24%	23%	28%
Overall confidence	***42%***	***43%***	***46%***	***52%***	***39%***	***33%***	***43%***
Neither/nor	33%	36%	26%	20%	25%	22%	23%
Not confident	26%	20%	28%	28%	35%	45%	33%
Net confidence (confident – not confident)	*+16*	*+23*	*+18*	*+24*	*+4*	*-12*	*+10*

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

Over time, confidence amongst smaller SMEs, with 0-9 employees, has been more volatile, as the table below shows, and it was the improvement in confidence amongst these smaller SMEs in Q4 (to 43%) that resulted in the increase in confidence overall. Confidence amongst bigger SMEs with 10-249 employees was stable until Q3 2012 when confidence fell from a previously consistent 60% to 54%, and there was no change in Q4 (55%):

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%

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

Confidence amongst those with a minimal/low risk rating improved slightly (58% overall confidence in Q4 compared to 51% in Q3) and remained above that of SMEs with an average/worse than average risk rating, despite the latter also improving in Q4 (43% overall confidence in Q4, compared to 28% in Q3).

Analysis shows that overall confidence in Q4 remained higher amongst those planning to renew (50%) than amongst those planning to apply for new facilities (31%). Over time, confidence amongst those planning to seek new facilities has remained around a third, and amongst those planning to renew at just over a half, with the higher scores of Q1 2012 an exception to this trend in both cases.

These levels of confidence remained in contrast to the actual outcome of applications. Success rates for renewals are around 90% compared to confidence levels of 50%, while for new funds success rates to date are around 56% against a confidence level of 31%.

Key driver analysis of all interviews conducted up to and including Q3 2012 showed that businesses with a good external risk rating, plans to grow and awareness of Taskforce initiatives such as mentors and the appeals process, were typically more confident about success with a future application. Smaller businesses concerned about access to finance or cash flow issues, who had wanted to apply before but felt unable to, or who had experienced a self-reported credit incident, were typically less confident. This analysis will be updated in future reports.

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

In Q4, 14% of all SMEs reported plans to apply/renew facilities in the following 3 months, leaving the majority (86%) with no such plans. A third of that majority (36%) were current users of external finance, the rest were not. This means that, for Q4 2012, 55% of all SMEs neither used external finance nor had any immediate plans to apply for any. This proportion has increased over time from 46% in Q1-2 2011.

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

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

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

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

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 that in Q4 2012 the 'Happy non-seekers' remained the largest group, representing around two-thirds of SMEs. The Q4 2012 figures were very similar to those in Q4 2011, with 21% of SMEs meeting the definition of 'Future would-be seeker' of finance, albeit that most had no immediate financial need:

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

Q230/239 All SMEs

As has been discussed elsewhere in this report, around a third of SMEs can be described as 'Permanent non-borrowers' based on their past and indicated future behaviour. If such SMEs are excluded from the future finance plans analysis, then in Q4 a third (33%) could be described as 'Future would-be seekers':

Future finance plans SMEs excluding PNB, over time By date of interview	Q1-2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012
Unweighted base:	*4047*	*3968*	*3822*	*4022*	*3894*	*3732*	*3664*
Plan to apply/renew	27%	19%	22%	23%	21%	18%	22%
'Future would-be seekers' – with identified need	3%	3%	3%	3%	5%	4%	4%
'Future would-be seekers' – no immediate identified need	23%	31%	28%	32%	29%	33%	29%
'Happy non-seekers'	48%	46%	47%	42%	45%	44%	44%

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

The table below shows how the proportion of 'Future would-be seekers' has changed over time. The figures for Q4 2012 were very similar to those for the equivalent quarter of 2011. Compared to Q4 2011, the proportion of 'Future would-be seekers' had:

- declined for those in the Construction and Health sectors
- increased for those in the Hotels and Restaurants sector

Future would-be seekers Over time – row percentages By date of interview	Q1-2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012
All SMEs	**18%**	**22%**	**20%**	**25%**	**22%**	**25%**	**21%**
0 employee	18%	23%	20%	26%	24%	25%	22%
1-9 employees	18%	22%	21%	22%	19%	23%	19%
10-49 employees	10%	16%	13%	14%	16%	14%	14%
50-249 employees	8%	15%	15%	16%	14%	13%	15%
Minimal external risk rating	8%	19%	11%	14%	18%	13%	14%
Low external risk rating	13%	15%	14%	19%	22%	23%	17%
Average external risk rating	19%	20%	20%	20%	22%	20%	19%
Worse than average external risk rating	20%	26%	23%	29%	23%	26%	23%
Agriculture	15%	22%	20%	27%	23%	25%	22%
Manufacturing	17%	22%	18%	29%	17%	26%	20%
Construction	19%	25%	25%	24%	29%	23%	20%
Wholesale/Retail	21%	26%	25%	27%	25%	25%	24%
Hotels and Restaurants	23%	20%	17%	27%	27%	24%	26%
Transport	24%	21%	24%	26%	21%	27%	21%
Property/Business Services etc.	15%	22%	17%	23%	20%	26%	21%
Health	13%	16%	18%	20%	14%	21%	13%
Other Community	18%	18%	14%	22%	22%	23%	22%
All SMEs excluding PNBs	26%	34%	31%	35%	34%	37%	33%

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 Q4 2012 for thinking they would not apply for finance in the next three months, and highlights the impact of the current economic climate:

Reasons for not applying (all mentions) All future 'would-be seekers' Q4 12 only	Q4 overall	Q4 0-9 emps	Q4 10-249 emps
Unweighted base:	*880*	*537*	*343*
Reluctant to borrow now (any)	52%	51%	75%
-Prefer not to borrow in economic climate	*38%*	*38%*	*41%*
-Predicted performance of business	*15%*	*14%*	*34%*
Issues with <u>principle</u> of borrowing	14%	14%	5%
-Not lose control of business	*4%*	*5%*	*
-Can raise personal funds if needed	*8%*	*9%*	*2%*
-Prefer other forms of finance	*1%*	*1%*	*3%*
-Go to family and friends	*1%*	*2%*	-
Issues with <u>process</u> of borrowing	18%	18%	9%
-Would be too much hassle	*8%*	*8%*	*5%*
-Thought would be too expensive	*11%*	*11%*	*3%*
-Bank would want too much security	*1%*	*1%*	*2%*
-Too many terms and conditions	*1%*	*1%*	*
-Did not want to go through process	*1%*	*1%*	-
-Forms too hard to understand	*	*	*
Discouraged (any)	19%	19%	11%
-Direct (Put off by bank)	1%	1%	1%
-Indirect (Think I would be turned down)	*18%*	*18%*	*10%*

Q239 Future 'would-be seekers' SMEs

As detailed above the option to say "I prefer not to borrow" was removed for Q4 2012. In the past this had been mentioned less by '<u>Future</u> would-be seekers' (13% in Q3) than when SMEs were talking about reasons for not borrowing in the past (28% for overdrafts, 17% for loans in Q3). In Q4 the net "Principle of borrowing" score to which "I prefer not to borrow" used to contribute was slightly lower (14%) than it had been in Q3 (18%) when this factor was included.

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.

From Q4, as described above, the net "Issues with principle of borrowing" score no longer includes the option "I prefer not to borrow", and this was slightly less likely to be nominated as the main reason for not applying for external finance in Q4 2012 (12%) than in Q3 (16%). Issues with the "process" of borrowing were slightly more likely to be mentioned (15% from 12%) but overall the results are consistent quarter to quarter.

Reluctance to borrow 'now' remained the key reason for being unlikely to seek funds in the next 3 months, nominated by half of 'Future would-be seekers', with most citing the general economy rather than their own performance specifically. While only a minority of 'Future would-be seekers' cite discouragement, almost all of it indirect, the proportion has increased over time from 10% in Q3 2011 to 17% in Q4 2012:

Main reason for not applying 'Future would-be seekers' over time By date of interview	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012
Unweighted base:	*954*	*862*	*980*	*927*	*975*	*880*
Reluctant to borrow now (any)	43%	52%	54%	49%	49%	50%
-Prefer not to borrow in economic climate	*32%*	*39%*	*37%*	*31%*	*36%*	*37%*
-Predicted performance of business	*10%*	*14%*	*17%*	*18%*	*13%*	*13%*
Issues with principle of borrowing	25%	13%	14%	14%	16%	12%
Issues with process of borrowing	15%	15%	14%	14%	12%	15%
Discouraged (any)	10%	14%	11%	14%	16%	17%
-Direct (Put off by bank)	*<1%*	*2%*	*2%*	*1%*	*1%*	*1%*
-Indirect (Think I would be turned down)	*10%*	*12%*	*9%*	*13%*	*15%*	*16%*

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

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

When the 'Future would-be seekers' were first described, they were the sum of two groups – those with an identified need they thought it unlikely they would apply for, and a larger group of those with no immediate need identified – and the main barriers to borrowing have been slightly different for the two groups.

In the past these have been reported on a two quarter rolling basis to boost base sizes for the 'Future would-be seekers' with an identified need. Following the change in codes in Q4 2012, this most recent quarter is reported on its own below, but will be rolled with Q1 2013 for the next report. Despite the changes made, the results for Q4 are similar to those for Q2-3:

Main reason for not applying The 'Future would-be seekers'	Identified need				No identified need			
	Q4-1	*Q1-2 2012*	*Q2-3*	*Q4 2012*	*Q4-1*	*Q1-2 2012*	*Q2-3*	*Q4 2012*
Unweighted base:	***179***	***213***	***226***	***108***	***1663***	***1694***	***1676***	***772***
Reluctant to borrow now (any)	42%	38%	35%	33%	54%	53%	51%	52%
-Prefer not to borrow in economic climate	*39%*	*33%*	*30%*	*29%*	*37%*	*34%*	*35%*	*37%*
-Predicted performance of business	*3%*	*5%*	*5%*	*4%*	*17%*	*19%*	*17%*	*15%*
Issues with <u>principle</u> of borrowing	3%	4%	3%	1%	14%	15%	17%	14%
Issues with <u>process</u> of borrowing	12%	10%	12%	14%	15%	14%	13%	15%
Discouraged (any)	38%	44%	46%	50%	10%	8%	11%	13%
- Direct (Put off by bank)	*5%*	*6%*	*4%*	*5%*	*1%*	*1%*	*1%*	*1%*
-Indirect (Think I would be turned down)	*33%*	*39%*	*42%*	*45%*	*8%*	*7%*	*9%*	*12%*

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

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

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

Other analysis of all 'Future would-be seekers', such as by size and risk rating, is possible based just on the latest quarter, Q4 2012:

- Larger 'Future would-be seekers' were increasingly reluctant to borrow now (74% from 63% in Q3), with more mentions in Q4 of their own performance specifically (33% from 25%)
- Discouragement remained more of an issue for smaller SMEs, mentioned by 17% of 'Future would-be seekers' with 0-9 employees, almost all of it indirect

Main reason for not applying 'Future would-be seekers' by size Q4 12 only	Overall	0-9 emps	10-249 emps
Unweighted base:	*880*	*537*	*343*
Reluctant to borrow now (any)	50%	49%	74%
-Prefer not to borrow in economic climate	*37%*	*36%*	*40%*
-Predicted performance of business	*13%*	*13%*	*33%*
Issues with principle of borrowing	12%	12%	4%
Issues with process of borrowing	15%	15%	8%
Discouraged (any)	17%	17%	10%
-Direct (Put off by bank)	*1%*	*1%*	*
-Indirect (Think I would be turned down)	*16%*	*16%*	*9%*

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

The table below shows analysis of the main reasons given for not applying by 'Future would-be seekers' in Q4 2012, split by risk rating. This shows that reluctance to borrow now was the most mentioned main reason across all risk ratings:

Main reason for not applying 'Future would-be seekers' by risk rating Q4 12 only	Min/Low	Avge	Worse/ Avge
Unweighted base:	*238*	*240*	*309*
Reluctant to borrow now (any)	58%	50%	45%
-Prefer not to borrow in economic climate	*39%*	*42%*	*31%*
-Predicted performance of business	*19%*	*8%*	*14%*
Issues with principle of borrowing	8%	9%	16%
Issues with process of borrowing	24%	16%	14%
Discouraged (any)	8%	11%	22%
-Direct (Put off by bank)	-	-	*2%*
-Indirect (Think I would be turned down)	*8%*	*11%*	*19%*

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

Those with a minimal/low risk rating remained more likely to have an issue with the process of borrowing (hassle, expense etc.) than other risk ratings. Discouragement was more clearly an issue for those with a worse than average risk rating (22% from 16% in Q3), almost all of it indirect.

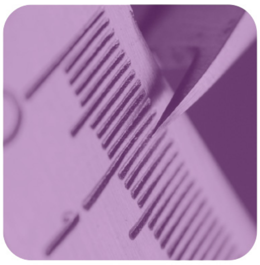
To put these results in context, the table below shows the equivalent figures for main reasons for all SMEs in Q4 2012. 1 in 10 of all SMEs (10%) would have liked to apply for new/renewed facilities in the next 3 months but thought they would be unlikely to do so because of the current climate or the performance of their business:

Reasons for not applying Q4 12 only – the Future would-be seekers	All reasons	Main reason	All SMEs Q4	All SMEs excl. PNB
Unweighted base:	*880*	*880*	*5000*	*3664*
Reluctant to borrow now (any)	52%	50%	10%	17%
-Prefer not to borrow in economic climate	*38%*	*37%*	*8%*	*12%*
-Predicted performance of business	*15%*	*13%*	*3%*	*4%*
Issues with principle of borrowing	14%	12%	3%	4%
Issues with process of borrowing	18%	15%	3%	5%
Discouraged (any)	19%	17%	4%	6%
-Direct (Put off by bank)	*1%*	*1%*	*<1%*	*<1%*
-Indirect (Think I would be turned down)	*18%*	*16%*	*3%*	*5%*

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), 17% were put off by the current economic climate (including their performance in that climate), and this proportion has changed little over the past few waves (19% in Q3).

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

Note that a number of initiatives were amended or introduced for Q4 2012, and this means that some of the analysis in this chapter is based just on this most recent quarter, Q4 2012, rather than four quarters combined.

Half of SMEs in Q4 2012 were aware of any of the main initiatives tested (52%). This increased with size of business from 51% of those with 0 employees to 71% of those with 50-249 employees. Where data was available for initiatives over time, awareness has changed relatively little

Awareness of any initiative was 46% in Q3 (with a slightly different list) and some of the increase to 52% in Q4 can be attributed to awareness of Funding for Lending, included for the first time in Q4. 23% of SMEs were aware of this scheme (and 4% of SMEs were only aware of this scheme of all the initiatives tested)

Awareness of the appeals process when lending is declined remains limited (10%), increasing with size of business to 17% of SMEs with 50-249 employees. Restricting the sample to those who had experienced a borrowing event or an unsuccessful application, does not increase awareness significantly

A third of those aware of Funding for Lending (FFL) were also aware of their bank offering some finance under the scheme. This means that of all SMEs in Q4 2012: 7% were aware their bank was offering FFL options, 16% were aware of FFL but not of their bank offering anything, and 77% were not aware of FFL

All SMEs were asked about the effect of schemes, such as FFL and the National Loan Guarantee Scheme, on their borrowing intentions. In Q4, 27% of SMEs (excluding the 'Permanent non-borrowers') said that such schemes made them more likely to apply. Such intentions were higher amongst those with plans to borrow in the next 3 months, 'Future would-be seekers with an immediate need' and those that had met the definition of 'Would-be seeker of finance' in the 12 months prior to interview

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, and is based on the updated list of initiatives for Q4 2012 only. It shows Funding for Lending achieving levels of awareness as high as some longer established support schemes, and this has helped to boost the net awareness score:

Awareness of Taskforce initiatives Q4 12 – all SMEs asked new question	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*5000*	*1000*	*1650*	*1600*	*750*
New support from the Bank of England called Funding for Lending*	23%	21%	27%	35%	45%
Government support schemes for access to finance such as Enterprise Finance Guarantee Scheme etc*	22%	21%	24%	32%	42%
A network of business mentors	21%	21%	22%	28%	29%
Other alternative sources of business finance such as Asset based finance etc*	17%	16%	20%	29%	37%
The Business Growth Fund	14%	13%	14%	24%	25%
BetterBusinessFinance.co.uk	10%	10%	11%	12%	9%
Independently monitored appeals process	10%	10%	11%	16%	17%
Regional outreach events	8%	8%	9%	10%	12%
Any of these	*52%*	*51%*	*55%*	*64%*	*71%*
None of these	*48%*	*49%*	*45%*	*36%*	*29%*

Q240 All SMEs * indicates new or amended question

Awareness of any of these initiatives, at 52%, was somewhat higher than in previous quarters (46% in Q3 with a slightly different list), and increased by size of business from 51% of 0 employee SMEs to 71% of those with 50-249 employees. For 4% of all SMEs in Q4 2012, Funding for Lending was the only initiative they were aware of.

SMEs looking to apply for new/renewed facilities in the next 3 months were slightly more likely to be aware of any of these initiatives in Q4 (61%) than either 'Future would-be seekers' (55%) or 'Happy non-seekers' (49%).

Many of these initiatives are more relevant to those with an interest in seeking external finance, and therefore potentially less relevant to the 'Permanent non-borrowers' who have indicated that they are unlikely ever to seek external finance. Unlike in previous quarters, there was a difference in awareness of any of these initiatives between 'Permanent non borrowers' (44% aware of any initiatives) and other SMEs (56% aware).

Awareness over time is shown in the table below for those initiatives where comparable data is available. This shows that, over time, awareness has changed very little since the equivalent quarter of 2011:

Awareness of Taskforce initiatives Over time – all SMEs By date of interview	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012
Unweighted base:	*4792*	*5010*	*5023*	*5000*	*5032*	*5000*
A network of business mentors	21%	22%	26%	23%	23%	21%
Independently monitored appeals process	14%	10%	13%	12%	11%	10%
The Business Growth Fund	12%	12%	12%	14%	12%	14%
Regional outreach events	11%	7%	9%	8%	8%	8%
BetterBusinessFinance.co.uk	9%	9%	9%	9%	9%	10%

Q240 All SMEs where consistent wording used

The table below shows awareness over time, by size of SME, for those initiatives where comparable data is available. Again, there has been little change in awareness since the equivalent quarter of 2011, with the exception of awareness of business mentors amongst the largest SMEs and of the Business Growth Fund amongst those with 10-49 employees:

Awareness of Taskforce initiatives All SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base (Q4):	*5032*	*1006*	*1665*	*1603*	*758*
A network of business mentors Q311	21%	21%	21%	27%	24%
A network of business mentors Q411	22%	22%	21%	28%	23%
A network of business mentors Q112	26%	26%	24%	26%	28%
A network of business mentors Q212	23%	22%	26%	28%	28%
A network of business mentors Q312	23%	23%	23%	27%	30%
A network of business mentors Q412	21%	21%	22%	28%	29%
Independently monitored appeals process Q311	14%	13%	14%	17%	17%
Independently monitored appeals process Q411	10%	10%	12%	17%	17%
Independently monitored appeals process Q112	13%	13%	13%	16%	19%
Independently monitored appeals process Q212	12%	10%	15%	17%	18%
Independently monitored appeals process Q312	11%	10%	12%	17%	23%
Independently monitored appeals process Q412	10%	10%	11%	16%	17%
The Business Growth Fund Q311	12%	11%	13%	18%	22%
The Business Growth Fund Q411	12%	11%	14%	18%	22%
The Business Growth Fund Q112	12%	11%	14%	21%	25%
The Business Growth Fund Q212	14%	12%	16%	21%	23%
The Business Growth Fund Q312	12%	11%	15%	19%	25%
The Business Growth Fund Q412	14%	13%	14%	24%	25%

Continued

Continued

Regional outreach events Q311	11%	11%	11%	13%	14%
Regional outreach events Q411	7%	7%	9%	14%	10%
Regional outreach events Q112	9%	9%	9%	13%	12%
Regional outreach events Q212	8%	7%	12%	12%	11%
Regional outreach events Q312	8%	8%	8%	10%	14%
Regional outreach events Q412	8%	8%	9%	10%	12%
BetterBusinessFinance.co.uk Q311	9%	9%	10%	11%	9%
BetterBusinessFinance.co.uk Q411	9%	9%	9%	12%	9%
BetterBusinessFinance.co.uk Q112	9%	10%	8%	10%	11%
BetterBusinessFinance.co.uk Q212	9%	8%	11%	10%	10%
BetterBusinessFinance.co.uk Q312	9%	8%	10%	10%	11%
BetterBusinessFinance.co.uk Q412	10%	10%	11%	12%	9%

Q240 All SMEs

Analysis over time by sector for those initiatives for which comparable data is available is provided below, but first, a table showing results for the new list of initiatives, by sector, for Q4 2012. Awareness of Funding for Lending splits into two groups – those sectors where around 1 in 5 were aware (Manufacturing, Construction, Hotels and Restaurants, and Other Community) and those where 1 in 4 were aware (Agriculture, Wholesale/Retail, Transport, Property/Business Services and Health):

% aware of Initiatives Q4 12 – 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*	*505*	*450*	*452*	*876*	*447*	*500*
New support from the Bank of England called Funding for Lending*	25%	19%	21%	26%	19%	27%	26%	25%	19%
Government support schemes for access to finance such as Enterprise Finance Guarantee Scheme etc*	23%	18%	16%	29%	12%	19%	27%	25%	17%
A network of business mentors	16%	23%	14%	22%	15%	17%	28%	21%	26%
Other alternative sources of business finance such as Asset based finance etc*	12%	15%	11%	20%	10%	12%	25%	18%	19%
The Business Growth Fund	11%	12%	12%	18%	9%	13%	16%	12%	10%
BetterBusinessFinance.co.uk	6%	7%	10%	11%	12%	9%	11%	11%	14%
Independently monitored appeals process	7%	10%	8%	14%	11%	10%	11%	11%	11%
Regional outreach events	5%	6%	6%	11%	5%	11%	8%	8%	13%
Any of these	*51%*	*48%*	*45%*	*56%*	*46%*	*50%*	*56%*	*53%*	*61%*
None of these	*49%*	*52%*	*55%*	*44%*	*54%*	*50%*	*44%*	*47%*	*39%*

Q240 All SMEs * indicates new or amended question

A detailed breakdown of awareness over time by sector is provided below:

% aware Over time by date of interview	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
A network of business mentors Q311	27%	26%	15%	20%	16%	25%	26%	25%	17%
Q411	15%	30%	16%	17%	18%	20%	27%	23%	25%
Q112	21%	23%	21%	22%	21%	24%	27%	31%	39%
Q212	18%	22%	17%	20%	22%	16%	34%	24%	24%
Q312	18%	20%	17%	23%	21%	20%	29%	34%	23%
Q412	16%	23%	14%	22%	15%	17%	28%	21%	26%
Independently monitored appeals process Q311	16%	19%	12%	14%	14%	16%	15%	12%	10%
Q411	11%	13%	8%	11%	12%	16%	11%	6%	11%
Q112	10%	10%	15%	13%	11%	17%	12%	14%	11%
Q212	9%	8%	10%	12%	13%	14%	14%	11%	13%
Q312	12%	8%	10%	12%	9%	10%	11%	9%	11%
Q412	7%	10%	8%	14%	11%	10%	11%	11%	11%
The Business Growth Fund Q311	13%	22%	9%	10%	12%	10%	13%	9%	12%
Q411	16%	14%	6%	9%	11%	16%	18%	10%	9%
Q112	11%	13%	9%	11%	12%	17%	15%	14%	9%
Q212	11%	12%	8%	9%	12%	14%	21%	12%	16%
Q312	13%	12%	9%	10%	12%	8%	18%	10%	12%
Q412	11%	12%	12%	18%	9%	13%	16%	12%	10%

Continued

Continued

Regional outreach events Q311	12%	21%	8%	10%	10%	13%	12%	11%	11%
Q411	9%	8%	7%	9%	7%	10%	8%	5%	6%
Q112	8%	9%	8%	7%	8%	12%	11%	14%	5%
Q212	8%	6%	3%	7%	8%	4%	11%	10%	16%
Q312	11%	6%	6%	7%	8%	6%	10%	9%	11%
Q412	5%	6%	6%	11%	5%	11%	8%	8%	13%
BetterBusinessFinance.co.uk Q311	10%	15%	8%	11%	13%	8%	8%	12%	10%
Q411	11%	8%	9%	4%	10%	11%	9%	6%	13%
Q112	6%	9%	8%	5%	12%	13%	10%	15%	12%
Q212	10%	11%	5%	5%	8%	6%	12%	10%	12%
Q312	9%	4%	7%	9%	11%	14%	8%	12%	10%
Q412	6%	7%	10%	11%	12%	9%	11%	11%	14%

Q240 All SMEs

A further initiative was only asked to 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 remained fairly stable at 11% in Q4 (10% in Q3 and 7-13% across previous quarters). Awareness amongst smaller SMEs with loans remained slightly lower: 0-9 employees 11% in Q4 (9% in Q3) whilst awareness for 10-249 employees was 13% (15% in Q3 and most previous quarters)

Finally, the independent appeals initiative is of particular relevance to certain types of SME, and so is shown again below, based on the most relevant types of SME:

Initiative	Awareness
The independently monitored lending appeals process	As reported earlier, amongst all those who, since April 2011, had applied for an overdraft and initially been declined, 14% said that they had been made aware of the appeals process while for loans the equivalent figure was 8%. Overall awareness of the appeals process (at Q240) remained limited. In Q4 2012 it was 10%, ranging from 10% of those with 0 employees to 17% of those with 50-249 employees. Awareness did not increase once the 'Permanent non-borrowers' were excluded (11%), nor when focused just on those that have had an event (9%) or an unsuccessful application in the past 12 months (9%).

Funding for Lending

New questions were asked in Q4 2012 around awareness of the Funding for Lending Scheme. As reported above, 23% of SMEs reported that they were aware of this scheme.

Those aware of Funding for Lending were asked whether they were aware of their bank offering finance options under this scheme. A third (31%) of those aware of Funding for Lending said that they were aware of something their bank was offering. This was the equivalent of 7% of all SMEs as the table below shows:

Awareness of Funding for Lending Q4 12 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*5000*	*1000*	*1650*	*1600*	*750*
Aware bank was offering finance options	7%	7%	8%	12%	14%
Aware of scheme but not of bank offering	16%	14%	19%	23%	30%
Awareness (any)	*23%*	*21%*	*27%*	*35%*	*45%*
Not aware of Funding for Lending	77%	79%	73%	65%	55%

Q240 / 240XX All SMEs

The largest SMEs were more likely to be aware of options available from the bank (14%) than those with 0 employees (7%).

Given the nature of the scheme, it is appropriate to also 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 Q4 12 All excluding PNBs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*3664*	*609*	*1162*	*1268*	*625*
Aware bank was offering finance options	7%	6%	7%	12%	14%
Aware of scheme but not of bank offering	18%	17%	20%	25%	31%
Awareness (any)	*25%*	*24%*	*27%*	*37%*	*45%*
Not aware of Funding for Lending	75%	76%	72%	62%	55%

Q240 / 240XX All SMEs excluding PNBs

One further piece of analysis looks at awareness by future borrowing intentions. As the table below shows, those with plans to apply/renew in the next 3 months were the most likely to be aware of Funding for Lending per se, if not of bank actions specifically. 'Future would-be seekers' of finance were no more likely than the 'Happy non-seekers' to be aware of Funding for Lending:

Awareness of Funding for Lending Q4 12 All SMEs	Plan to apply	Future WBS	Future HNS	Future HNS excl. PNB
Unweighted base:	*876*	*880*	*3244*	*1908*
Aware bank was offering finance options	9%	5%	8%	7%
Aware of scheme but not of bank offering	25%	17%	13%	15%
Awareness (any)	*34%*	*22%*	*21%*	*22%*
Not aware of Funding for Lending	66%	78%	79%	77%

Q240 / 240XX All SMEs

Questions were asked in Q2 and Q3 2012 about the impact the National Loan Guarantee scheme (with a 1% discount on loans, hire purchase or leasing) might have on SMEs' appetite for finance. For 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, 1 in 5 SMEs in Q4 2012 (20%) thought such schemes would encourage them to apply for funding, the equivalent of around 900,000 SMEs. The biggest single group, 72% of all SMEs, 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 Q4 2012	All SMEs	PNBs	Non PNB
Unweighted base:	*4330*	*1159*	*3171*
Now more likely to apply for funding	20%	7%	27%
No difference because do not want funding	72%	84%	65%
No difference as interest rates not main consideration for finance	4%	4%	4%
Now less likely to apply for this type of finance	4%	5%	4%

Q238d All SMEs, excluding DK

As might be expected, appetite for finance was much lower amongst those that met the definition of a 'Permanent non-borrower', although 7% of this group thought such schemes might encourage them to apply (the equivalent of less than 2% of all SMEs). Excluding the 'Permanent non-borrowers', 27% of remaining SMEs thought such a scheme would make them more likely to apply for the types of finance the scheme covered, and this compares to 23% of SMEs (excluding PNBs) asked the similar question about NLGS in Q2 and Q3 2012.

Appetite for finance was slightly higher amongst smaller SMEs (excluding PNBs):

Effect of NLGS / Funding for Lending All SMEs asked new question Q4 12 Excluding PNBs	Overall	0 emps	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*3171*	*549*	*1001*	*1079*	*542*
Now more likely to apply for this type of funding	27%	26%	32%	25%	22%
No difference because do not want funding	65%	67%	59%	67%	70%
No difference as interest rates not main consideration for finance	4%	4%	6%	5%	6%
Now less likely to apply for this type of finance	4%	4%	4%	3%	3%

Q238d All SMEs, excluding DK and 'permanent non-borrowers'

Those with a poorer external risk rating remained slightly more likely to say that they would now be more likely to apply for such lending products (all excluding PNBs):

- 21% of those rated a minimal risk thought they were now more likely to apply
- 22% of those rated a low risk
- 24% of those rated an average risk
- 30% of those rated a worse than average risk

Also more likely to apply were (again excluding PNBs):

- 'Future would-be seekers' of finance with an immediate need (56%)
- Those with plans to borrow in the next 3 months (42%)
- Those who had been 'would-be seekers' of finance in the 12 months prior to interview (40%)

Key driver analysis was conducted on all respondents in Q4 2012 to understand the types of SME which were more likely to say that schemes such as FFL made them more likely to consider applying for finance. This shows a mix of business backgrounds – including those that have had a self-reported credit event (notably missing a loan repayment or problems getting trade credit), but also the more "developed" SMEs that import, have innovated, use quality management systems, produce regular management accounts or trade online, and those with a past or current appetite for finance:

More likely to apply	Less likely to apply
Established 2-5 years ago	In the Health or Other Community sectors
Importer	Owner aged over 50
Credit balances £5k+	CCJ against the company
Plan to apply/renew in next 3 months	Low external risk rating
Past 'Would-be seeker'	Past or future 'Happy non-seeker'
Missed a loan repayment	
Problems getting trade credit	
Produce regular management accounts	
Developed new product/service in last 3 yrs.	
Have a website	
Use total quality management	

Bank communication about lending

In Q4 2012 when this data was being collected, Funding for Lending was 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 Q4 2012, 13% of all SMEs said that they had received such a contact in the previous 3 months (8% of SMEs had heard from their main bank, while 6% had heard from another bank). This was similar to previous quarters (albeit contact levels were slightly higher in 2011 at 15%).

Excluding the 'Permanent non borrowers' changes this figure only slightly, to 14% in Q4 2012. By size this varies from 13% of 0 employees saying they had been contacted to 26% of those with 50-249 employees (all excluding PNBs).

Those who had been approached were more likely to be aware of Funding for Lending (28%) than those who had not been approached (22%), but no more likely to say that schemes like this encouraged them to apply for finance (18% v 17%).

More generally, they were no more likely to be planning to apply for new or renewed finance in the next 3 months (16% v 14%) but amongst those planning to apply, those that had been approached by a bank were more confident they would be successful (62%) than those who had not been approached (41%).

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 impact on awareness and confidence. More detailed analysis would therefore be needed to explore the actual impact that contact from a bank has had.

14. 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 YEQ4 2012 – each quarter's sample matched the previous quarter's results as closely as possible.

Business size	Universe	% of universe	Total sample size	% of sample
Overall	**4,548,843**	100%	20,055	100%
0 employee (resp)	3,366,144	74%	4020	20%
1-9 employees	1,008,024	22%	6621	33%
10-49 employees	144,198	3%	6405	32%
50-249 employees	26,383	1%	3009	15%

Overall quotas were set by sector and region as detailed below. In order to ensure a balanced sample, these overall region and sector quotas were then allocated within employee size band to ensure that SMEs of all sizes were interviewed in each sector and region.

Business sector* SIC 2007 in brackets)	Universe	% of universe	Total sample size	% of sample
AB Agriculture etc. (A)	195,285	4%	1501	7%
D Manufacturing (C)	302,032	7%	2107	11%
F Construction (F)	1,017,210	22%	3528	18%
G Wholesale etc. (G)	561,689	12%	2021	10%
H Hotels etc. (I)	156,001	4%	1806	9%
I Transport etc. (H&J)	314,705	7%	1815	9%
K Property/Business Services (L,M,N)	1,194,629	26%	3509	18%
N Health etc. (Q)	279,280	6%	1772	8%
O Other (R&S)	528,011	12%	1996	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%	2400	12%
South East	727,815	16%	2427	12%
South West	454,884	10%	1816	9%
East	454,884	10%	1788	9%
East Midlands	272,931	6%	1398	7%
North East	136,465	3%	1003	5%
North West	454,884	10%	1814	9%
West Midlands	318,419	7%	1804	9%
Yorks & Humber	318,419	7%	1797	9%
Scotland	318,419	7%	1610	8%
Wales	181,954	4%	1198	6%
Northern Ireland	136,465	3%	1000	5%

Weighting

The weighting regime was initially applied separately to each quarter. The four were then combined and grossed to the total of 4,548,843 SMEs, based on BIS SME data.

This ensured that each individual wave is representative of all SMEs while the total interviews conducted weight to the total of all SMEs.

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

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

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

Overall rim weights were then applied for regions:

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

Finally a weight was applied for 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 the weighting efficiency. Whereas the efficiency is 77% or more for the individual employee bands, the overall efficiency is reduced to 27% by the employee weighting, and this needs to be considered when looking at whether results are statistically significant:

Business size	Sample size	Weighting efficiency	Effective sample size	Significant differences
Overall	20,055	27%	5415	+/- 2%
0 employee (resp)	4020	79%	3176	+/- 2%
1-9 employees	6621	77%	5098	+/- 2%
10-49 employees	6405	78%	4996	+/- 2%
50-249 employees	3009	82%	2467	+/- 3%

Analysis techniques

CHAID (or Chi-squared Automatic Interaction Detection) is an analytical technique which uses Chi-squared significance testing to determine the most statistically significant differentiator on some target variable from a list of potential discriminators. It uses an iterative process to grow a 'decision tree' splitting each node by the most significant differentiator to produce another series of nodes as the possible responses to the differentiator. It continues this process until either there are no more statistically significant differentiators or it reaches a specified limit. When using this analysis, we usually select the first two to three levels to be of primary interest.

This report is the largest and most detailed study of SMEs' views of bank finance ever undertaken in the UK. More importantly, this report is one of a series of quarterly reports. So, not only is it based on a large enough sample for its findings to be robust, but over time the dataset has been building into a hugely valuable source of evidence about what is really happening in the SME finance market.

A report such as this can only cover the main headlines emerging from the results.

Information within this report and extracts and summaries thereof are not offered as advice, and must not be treated as a substitute for financial or economic advice. This report represents BDRC Continental's interpretation of the research information and is not intended to be used as a basis for financial or investment decisions. Advice from a suitably qualified professional should always be sought in relation to any particular matter or circumstance.

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