SME Finance Monitor

Q4 2013: The year in review

An independent report by BDRC Continental, February 2014

bdrc continental

providing intelligence





Contents

Page No.

| Fore | eword | 3 |
|------|--|-----|
| 1. | Introduction | |
| 2. | Management summary | 9 |
| 3. | Using this report | |
| 4. | The general context | 22 |
| 5. | Financial context – how are SMEs funding themselves? | 39 |
| 6. | An initial summary of all overdraft and loan events | 64 |
| 7. | The build up to applications for overdrafts and loans | 83 |
| 8. | The outcome of the application/ renewal | 100 |
| 9. | The impact of the application/ renewal process | 148 |
| 10. | Rates and fees – Type 1 events | 154 |
| 11. | Why were SMEs not looking to borrow in the previous 12 months? | 182 |
| 12. | The future | 197 |
| 13. | Awareness of taskforce and other initiatives | 237 |
| 14. | Selected Graphs and Charts | 262 |
| 15. | Technical Appendix | 284 |

Foreword





Welcome to the eleventh report of the SME Finance Monitor, which now includes data from interviews conducted up to the end of December 2013, a period which included more upbeat economic news across a number of metrics.

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.

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

Shiona DaviesEditor, The SME Finance Monitor
February 2014

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

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

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



The Survey Steering Group comprises representatives of the following:

Association of Chartered Certified Accountants

Barclays Bank

British Bankers' Association

Dept. for Business, Innovation and Skills

EEF the manufacturers' organisation

Federation of Small Businesses

Forum of Private Business

Growth Companies Alliance

HM Treasury

HSBC

Lloyds Banking Group

Royal Bank of Scotland

Santander

1. Introduction





The issue of SMEs access to finance continues to provoke much debate, including the extent to which funding is either needed, or available, to those businesses looking to grow and invest as economic conditions start to improve. A range of government and financial initiatives, such as the Funding for Lending scheme, have sought to make funds available for SMEs and encourage banks to lend. Alternative sources of finance, such as crowd-funding, are increasingly being discussed and planning continues for the new Business Bank. For some time the unstable economic atmosphere. including in the Eurozone, has affected business confidence and appetite for borrowing. There have been increasing signs that confidence is starting to improve, as economic indicators report a more positive position, although it is still unclear whether levels of confidence will be sustained or how they might translate into increased activity or investment. The debate continues as to the extent to which demand and/or supply issues are contributing to continued lower levels of lending to SMEs.

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

BDRC Continental was appointed to conduct this survey in order to provide a robust and respected independent source of information 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 eleventh report is based on a total of 20,036 interviews with SMEs, conducted to YEQ4 2013 or, more simply, in 2013. This means that the interviews conducted in the first seven waves (the three waves conducted during 2011 plus the four waves in 2012) are no longer included in the year ending results but they are still shown in this report where data is reported quarterly over time, or by application date.

The YEQ4 2013 data therefore includes the following four waves:

- January-March 2013 5,000 interviews conducted, referred to as Q1 2013
- April-June 2013 5,000 interviews conducted, referred to as Q2 2013
- July-September 2013 5,008 interviews conducted, referred to as Q3 2013
- October-December 2013 5,028 interviews conducted, referred to as Q4 2013

All waves were conducted using the same detailed quota profile. The results from these most recent four waves have been combined to cover a full 12 months of interviewing, and weighted to the overall profile of SMEs in the UK in such a way that it is possible to analyse results wave on wave where relevant – and the data reported for an individual quarter will be as originally reported. This combined dataset of 20,036 interviews is referred to as YEQ4 2013.





The majority of reporting is based on interviews conducted in the year to Q4 2013. The exceptions to this rule are:

- Where data is reported by loan or overdraft <u>application date over time</u>. In these instances, <u>all</u> applicants to date are eligible for inclusion, split by the quarter in which they made their application for loan and/or overdraft facilities.
- New from Q2 2013, when applications are analysed by sub-group, such as employee size, this is also now based on application date rather than date of interview. For the Q4 2013 report, this means such tables are based on all applications occurring in the <u>18 months</u> between Q3 2012 and Q4 2013, to provide robust base sizes for each sub-group.
- Where SMEs are asked about their planned <u>future</u> behaviour, and typically their expectations for the next 3 months, comparisons are made between <u>individual quarters</u>.

A further quarter of 5,000 interviews, to the same sample structure, is being conducted January to March 2014. In 2014, full reports like this one will be published after the Q2 and Q4 fieldwork, and it is anticipated that shorter summaries will be published after the Q1 and Q3 fieldwork.

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

2. Management summary



This report covers

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



There are a number of positive signals from SMEs. The proportion rating the economic climate as a major barrier to their business has declined to its lowest level to date, and in Q4 more SMEs reported making a profit, while fewer had a worse than average risk rating. A declining proportion of SMEs reported an injection of personal funds, with fewer feeling that they 'had to' put in funds.

- 21% of SMEs rated the current economic climate as a major obstacle to their business in Q4 2013, down from a peak of 37% in Q1 2012. Whilst it is still the top rated factor of those tested, amongst larger SMEs it is now no more of a barrier than 'legislation and regulation'. Indeed 64% of SMEs did not think that *any* of the factors tested represented a major obstacle, the highest proportion to date.
- 69% of SMEs interviewed in Q4 2013 reported making a profit, the highest proportion to date (64% in the equivalent quarter of 2012). This increase was across all size bands.
- 52% of SMEs in Q4 had a worse than average external risk rating. The proportion with such a rating had increased over time to 56% in Q2 2013, but is now back at levels seen in early 2012. The proportion of SMEs self-reporting a credit issue was 10% in Q4 2012, down slightly from the 12% recorded in Q4 2012.
- The proportion of SMEs receiving injections of personal funds declined in Q3 and Q4 (currently 33%). This was due to fewer SMEs feeling that they 'had to' inject funds (15% in Q4 2013 compared to 24% in Q4 2012).
- Larger SMEs were more likely to be anticipating growth in the year ahead. Analysis by size showed an increasing proportion of larger SMEs with 10-249 employees predicting growth and in Q4 around two-thirds of these SMEs expected to grow in the following 12 months. Overall, 48% of all SMEs planned to grow in the 12 months after Q4 2013, and this was stable during 2013



Use of external finance has stabilised but as many SMEs meet the definition of a Permanent non-borrower – an SME that is not using external finance and has no plans to do so.

- 40% of SMEs interviewed in Q4 2013 were using external finance and this has varied relatively little over the year, having declined during 2012. Use of 'core' forms of finance (loans, overdrafts or credit cards) has been fairly stable in recent quarters, but the longer term trend is for declining use, including the proportion of SMEs that only use these forms of finance (23% in 2013 down from 29% in 2011).
- 41% of SMEs interviewed in Q4 2013 met the definition of a 'Permanent non-borrower'. These are defined as SMEs that are not using external finance, have not applied for finance and do not have any plans to apply in the 3 months after interview. The proportion meeting this definition increased steadily during 2012, but has been more stable in 2013.

The proportion of 'Happy non-seekers' of finance increased again to the highest level seen to date. Applications for new/renewed finance were stable but limited and at lower levels in 2013 than 2012. Very few SMEs felt that something had stopped them applying for finance they had wanted.

- SMEs were most likely to meet the definition of a 'Happy non-seeker' of finance (these are SMEs who reported that they had not applied for finance and nothing had stopped them). This was the case for 79% of SMEs in the 12 months prior to Q4 2013, the highest proportion to date (up from 73% in Q4 2012).
- 8% of SMEs had applied for a new or renewed loan or overdraft facility in the 12 months prior to Q4 2013. Levels of application were stable during 2013, but at a lower level than in 2012. Overall, 17% of SMEs reported some form of borrowing 'event' in Q4 (including the automatic renewal of an overdraft), compared to 21% in the 12 months prior to Q4 2012.
- There is little sign of a frustrated demand for finance, with a declining proportion of SMEs wanting to apply for finance but feeling that something had stopped them. 4% of SMEs met this definition of a 'would-be seeker' of finance in the 12 months to Q4 2013.



Most applications were successful. Renewals were twice as likely to be successful as applications for new money and over time first time applicants have become less likely to be successful. Applications made in the first half of 2013 were somewhat less likely to be successful than in other quarters, due to lower success rates for new money applications, and this was only partly explained by the profile of applicants in these two quarters.

- Around 7 out of 10 of <u>all</u> loan and overdraft applications each quarter have resulted in a facility. Those renewing an existing facility were twice as likely to be successful (96% of those applying Q3 2012 to Q4 2013) as those applying for new funds (48%).
- As in previous years, smaller, younger SMEs and those applying for the first time were less likely to be successful. Success rates for first time applicants in 2013 to date are lower than in previous years, with 60% ending the process with no facility (up from 51% in 2012).
- Over time, more applicants have had a 'worse than average' risk rating, been a first time
 applicant, or a Start-up business and these are all factors that can adversely impact on success
 rates. Applications for new/renewed loans or overdrafts reported to date for Q1 and Q2 2013
 were less likely to be successful, although the data is still interim. Controlling for the profile of
 applicants in the first half of 2013 explains some, but not all, of the lower success rates seen
 and this will be monitored as more data is gathered.



Future appetite for finance also remained limited. Confidence that a future application would be successful remained lower than current success rates would suggest.

- 15% of SMEs planned to apply for new or renewed finance in the 3 months after interview, in line with previous quarters. Appetite amongst larger SMEs with 10-249 employees was lower in 2013 than in 2012.
- 41% of potential applicants in Q4 2013 were confident that their bank would agree to a future request, unchanged from Q3. Confidence amongst those with 10-249 employees, or a minimal/low risk rating improved in Q4 to the highest levels seen to date, and was stable for smaller applicants and those with an average or worse than average risk rating.
- Levels of confidence remained in contrast to current success levels. Success rates for renewals Q3 2012 to Q4 2013 were 96%, compared to 56% confidence amongst those planning to renew a facility, while for new funds success rates were 48% against a confidence level of 29%.

Two thirds of SMEs in Q4 2013 were 'Future happy non-seekers' of finance. Of those who qualified as a 'Future would-be seeker', very few had a need for finance already identified, but those who did were more likely to feel discouraged from applying, and less likely to cite the general economic climate as a barrier to application.

- 68% of SMEs met the definition of a 'Future happy non-seeker' of finance in Q4 2013. Between 2012 and 2013 this proportion has increased (from 63% overall) across all size bands.
- 17% of all SMEs met the definition of a 'Future would-be seeker' of finance. Almost all of these (16% of all SMEs) did <u>not</u> have an immediate identified need for finance, and an increasing majority cited the current economic climate as the main barrier to a future application (70% in Q3-4).
- Amongst the small group of SMEs (1%) who were 'Future would-be seekers' with an identified need for finance, discouragement was more of a barrier (42%) than the economic climate (33%). Almost all of this discouragement was indirect, where the SME had assumed they would be turned down and so did not plan to ask (40%).





Awareness of support measures available to help SMEs has plateaued. SMEs remain more likely to be aware of Funding for Lending than other initiatives, but over time fewer SMEs feel that it will encourage them to seek finance. Awareness of the appeals process has improved somewhat amongst those declined for a facility, but not for SMEs overall.

- 52% of SMEs were aware of *any* of the support initiatives tested, down slightly from 56% in Q3 2013.
- Funding for Lending (FLS) had the highest awareness of any individual scheme at 29%. Awareness has improved over the course of 2013 (it was 23% in Q4 2012) although Q4 was the first quarter not to record a quarter on quarter increase (awareness was 30% in Q3).
- The proportion feeling that schemes such as FLS would encourage them to apply for finance has declined during 2013. In Q4 2013, 14% of SMEs thought such schemes would provide an encouragement, down from 20% in Q4 2012. Most SMEs, 77%, said that such schemes made no difference to them as they were not looking for finance.
- Awareness of the appeals process for declined applications was 13% for SMEs as a whole in 2013 and stable over time. Amongst those who had <u>experienced</u> being declined for a facility, awareness of the appeals process was higher for applications made in 2013 than in 2012 (for overdrafts it was 19% in 2013 v 13% in 2012 and for loans 16% v 8%).



3. Using this report





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

Much of the analysis is by size of business, based on the number of employees (excluding the respondent). This is because research has repeatedly shown that SMEs are not a homogenous group in their need for external finance, or their ability to obtain it, and that

size of business can be a significant factor. The employee size bands used are the standard bands of 0 (typically a sole trader), 1-9, 10-49 and 50-249 employees.

Where relevant, analysis has also been provided by sector, age of business or other relevant characteristics of which the most frequently used is external risk rating. This was supplied for almost all completed interviews by D&B or Experian, the sample providers. Risk ratings are not available for 16% of respondents, typically the smallest ones. D&B and Experian use slightly different risk rating scales, and so the Experian scale has been matched to the D&B scale as follows:

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



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

| | Sector | % of all SMEs | % of sector that are 0 emp |
|----|---|---------------|----------------------------|
| AB | Agriculture, Hunting and Forestry; Fishing | 4% | 67% |
| D | Manufacturing | 7% | 67% |
| F | Construction | 22% | 85% |
| G | Wholesale and Retail Trade; Repairs | 12% | 57% |
| Н | 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% |
| 0 | 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 2013. In all four waves, SMEs were asked about their past behaviour during the previous 12 months, so there is an overlap in the time period each wave has reported on. These year-ending figures are defined by the date of **interview**, i.e. all interviews conducted in the year concerned.

Where results can be shown by individual quarter over time, they have been. However, small sample sizes for some lines of questioning mean that in those instances data is reported based on four quarters combined (YEQ4 2013 in this report). This provides a robust sample size and allows for analysis by key sub-groups such as size, sector or external risk rating.

Each report also comments on changes in demand for credit and the outcome of applications <u>over time</u>. Here, it is more appropriate to analyse results based on when the **application** was made, rather than when the interview was conducted. Final data is now available for any applications made in 2010, 2011, and 2012 but for other more recent quarters data is still being gathered. Results for events occurring from Q1 2013 onwards are therefore still *interim* at this stage (respondents interviewed in Q1 2014 will report on events which occurred in Q1 2012 or later).

Where analysis is shown by <u>date of application</u>, this typically includes <u>all</u> interviews to date

(including those conducted in 2011, and 2012, which are no longer included in the Year Ending data reported elsewhere), and such tables are clearly labelled in the report. New for all reports from Q2 2013 onwards, when applications made are analysed by sub-group such as employee size, this is also now based on application date rather than date of interview. For the Q4 2013 report, this means such tables are based on all applications occurring in the 18 months between Q3 2012 and Q4 2013 to ensure a robust base size for analysis.

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

This is the second report in which not *all* of the previous quarters are shown in the standard quarterly tables. Data from the first two waves (Q1-2 2011 and Q3 2011) is no longer shown, and subsequent reports will continue this policy of deleting the oldest wave before adding the latest. However, a series of key charts were developed for the Q2 2012 report and are shown in the final chapter of this report. These show, and will continue to show, <u>all</u> results over time for these key metrics.



Definitions used in this report

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

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

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

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

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

Use of external finance – SMEs are asked whether they are currently using any of the following forms of finance: Bank overdraft, Credit cards, Bank loan/Commercial mortgage, Leasing or hire purchase, Loans/equity from directors, Loans/equity from family and friends, Invoice finance, Grants, Loans from other 3rd parties, Export/import finance**Permanent non-borrower** – SMEs 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 and said that something had stopped them applying for loan/overdraft funding in the previous 12 months (a new definition used for the first time in Q4 2012)





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

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

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

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

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

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

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

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

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

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



Please note that the majority of data tables show **column** percentages, which means that the percentage quoted is the percentage of the group described at the top of the column in which the figure appears. On some occasions, summary tables have been prepared which

include **row** percentages, which means that the percentage quoted is the percentage of the group described at the left hand side of the row in which the figure appears. Where row percentages are shown, this is highlighted in the table.

4. The general context





This chapter presents

an overview of the characteristics of SMEs in the UK. Unless otherwise stated, figures are based on all interviews conducted in the year ending Q4 2013 (YEQ4 13).



Key findings

There are signs of an improving situation for SMEs, with more making a profit, higher credit balances and a slightly improving risk profile.

7 out of 10 SMEs interviewed in Q4 2013 reported making a profit, the highest proportion on the SME Finance Monitor to date. Compared to Q4 in 2012, SMEs across all size bands were now more likely to report a profit.

41% of SMEs had grown in the previous 12 months, and this proportion has been fairly stable over time. Most of those who had not grown said that they has stayed the same size (42% of all SMEs).

Growth and profitability increased with size of SME. The largest SMEs with 50-249 employees were more likely to have grown (54%) and to have been profitable (79%).

The risk profile of SMEs is improving slightly. Between Q4 2011 and Q2 2013 the proportion with a 'worse than average' external risk rating increased from 51% to 56% of SMEs but has declined since, and was 52% in Q4 2013. Self-reported credit issues, such as an unauthorised overdraft, continued to affect only a minority of SMEs (10% in Q4).

Between 2011 and 2013 the proportion holding £5,000 or more of credit balances increased amongst bigger SMEs (from 79% to 85% of SMEs with 50-249 employees, and 74% to 77% for those with 10-49 employees), but remained stable for smaller SMEs.



10% of SME owners run another business as well, and this is more common for owners of larger SMEs. Such businesses were more likely to be using external finance, and to have had a borrowing 'event' in the previous 12 months.



This chapter presents an overview of the characteristics of SMEs in the UK. Unless otherwise stated, figures are based on the 20,036 interviews conducted in the year ending Q4 2013 (that is Q1 to Q4 of 2013). There have been trading challenges since the survey started in 2011, and analysis of this data over time provides an indication of how SMEs are managing.

Profitability

In Q4 2013, 69% of SMEs reported making a profit in their most recent trading period, a slightly higher proportion than in previous quarters. As the quarterly analysis below shows, typically just under two-thirds of those interviewed each quarter reported making a profit. The proportion unable or unwilling to give an answer has varied over time, so the table also now reports the proportion that made a profit once those 'don't know' answers had been excluded. On this basis, the proportion making a profit has varied little over time, with 7 out of 10 SMEs being profitable, albeit that the Q4 2013 figure was somewhat higher than other quarters at 74%. Note that because consistently unprofitable SMEs tend to go out of business, there will be an element of 'survivorship bias' in the profit figures, potentially underestimating the proportion of unprofitable businesses in the population.

From Q4 2012, the profit and loss questions were simplified. The profit figures were collected in bands, rather than as an actual amount, and the median calculated based on mid-points. Where made, the median profit and loss figures have been stable. In Q4 2013, the median profit made was £8,000, in line with Q3, and the median loss remained at just under £2,000:

| Business performance last 12 months over time By date of interview | Q4 2011 | Q1 2012 | Q2 2012 | Q3 2012 | Q4 2012 | Q1 2013 | Q2 2013 | Q3 2013 | Q4 2013 |
|--|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Unweighted base: | 5010 | 5023 | 5000 | 5032 | 5000 | 5000 | 5000 | 5008 | 5028 |
| Made a profit | 64% | 63% | 65% | 62% | 64% | 64% | 64% | 65% | 69% |
| Broke even | 14% | 12% | 13% | 13% | 13% | 13% | 13% | 13% | 11% |
| Made a loss | 15% | 18% | 14% | 17% | 14% | 15% | 16% | 15% | 13% |
| Dk/refused | 6% | 6% | 7% | 9% | 9% | 7% | 8% | 7% | 6% |
| Median profit made | £13k | £10k | £10k | £7k | £6k | £7k | £7k | £8k | £8k |
| Made profit (excl DK) | 68% | 68% | 70% | 68% | 70% | 69% | 69% | 69% | 74% |

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





For the period YEQ4 2013, 65% of all SMEs had been profitable. The median profit, where made, was £7k, increasing with size of SME:

| Business performance last 12 months YEQ4 13 – all SMEs | Total | 0 emp | 1-9 emps | 10-49 emps | 50-249 emps |
|---|--------|-------|-------------|---------------|----------------|
| Unweighted base: | 20,036 | 4013 | 6619 | 6404 | 3000 |
| Made a profit | 65% | 64% | 69% | 75% | 77% |
| Broke even | 13% | 13% | 11% | 8% | 7% |
| Made a loss | 15% | 16% | 13% | 10% | 8% |
| Dk/refused | 7% | 7% | 7% | 7% | 8% |
| Median profit made | £7k | £6k | £12k | £50k | £232k |
| Made profit (excl DK) | 70% | 69% | 75% | 81% | 84% |

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

Once the 'Don't know / refused' answers were excluded, 70% of remaining SMEs reported making a profit in the previous 12 months (YEQ4 2013), virtually unchanged from YEQ3 2013 (69%).

Over time, larger SMEs have remained consistently more likely to be profitable than smaller ones. Compared to the equivalent quarter of 2012, SMEs of all sizes were more likely to report a profit in Q4 2013, and the Q4 2013 figures were the highest seen in each size band on the Monitor to date:

| Made a profit in last 12 months | By date of interview | | | | | | | | | |
|---------------------------------|----------------------|------------|------------|------------|------------|------------|------------|------------|------------|--|
| Over time – row percentages | Q4 2011 | Q1 2012 | Q2 2012 | Q3 2012 | Q4 2012 | Q1 2013 | Q2 2013 | Q3 2013 | Q4 2013 | |
| All SMEs | 64% | 63% | 65% | 62% | 64% | 64% | 64% | 65% | 69% | |
| 0 employee | 62% | 61% | 63% | 61% | 62% | 62% | 62% | 63% | 68% | |
| 1-9 employees | 67% | 67% | 69% | 64% | 66% | 69% | 68% | 69% | 70% | |
| 10-49 employees | 75% | 74% | 75% | 73% | 71% | 74% | 74% | 74% | 78% | |
| 50-249 employees | 74% | 74% | 77% | 72% | 75% | 77% | 76% | 76% | 79% | |

Q241 All SMEs





By sector, once the 'don't know' answers were excluded, the sectors most likely to report a profit were Agriculture, Manufacturing, Property/Business Services and Other Community. Those somewhat less likely to report a profit were SMEs in the Hotels & Restaurants and Transport sectors:

| Business performance last 12 months YEQ4 13 – all SMEs | Agric | Mfg | Constr | Whle Retail | Hotel Rest | Trans | Prop/ Bus | Health S Work | Other Comm |
|--|-------|------|--------|----------------|---------------|-------|--------------|------------------|---------------|
| Unweighted base: | 1496 | 2090 | 3505 | 2040 | 1803 | 1815 | 3510 | 1781 | 1996 |
| Made a profit | 67% | 68% | 63% | 64% | 60% | 61% | 66% | 64% | 70% |
| Broke even | 13% | 11% | 16% | 13% | 14% | 12% | 11% | 14% | 9% |
| Made a loss | 12% | 13% | 13% | 15% | 18% | 19% | 15% | 15% | 16% |
| Dk/refused | 8% | 8% | 7% | 8% | 7% | 8% | 8% | 7% | 4% |
| Median profit made | £8k | £8k | £7k | £9k | £8k | £7k | £9k | £4k | £6k |
| Made profit (excl DK) | 73% | 74% | 68% | 70% | 65% | 66% | 73% | 69% | 73% |

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

Median profits for YEQ4 2013 also varied relatively little by sector, from £9k for profitable SMEs in Wholesale/Retail and Property/Business Services, to £4k for profitable SMEs in Health. Reported median losses for YEQ4 2013 were £2k overall and were between £1k and £2k for all sectors with the exception of those who reported making a loss in the Hotels & Restaurants (£5k) or Wholesale/Retail (£4k) sectors.



Sales growth

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

As the table below shows, over time the proportion of SMEs (excluding Starts) reporting that they had grown was stable at around 4 in 10. As more data becomes available over time, it will be possible to assess whether there is a seasonal element here:

| Growth achieved in last 12 months – all SMEs excluding Starts By date of interview | Q4 2012 | Q1 2013 | Q2 2013 | Q3 2013 | Q4 2013 |
|--|------------|------------|------------|------------|------------|
| Unweighted base: | 4264 | 4311 | 4295 | 4288 | 4331 |
| Grown by more than 20% | 12% | 12% | 14% | 10% | 13% |
| Grown but by less than 20% | 25% | 27% | 30% | 26% | 28% |
| Grown | 37% | 39% | 44% | 36% | 41% |
| Stayed the same | 42% | 40% | 40% | 43% | 42% |
| Declined | 21% | 21% | 17% | 21% | 17% |

Q245a All SMEs trading for 3 years or more excl DK

For the period YEQ4 2013:

- 12% of SMEs more than 3 years old said they had grown by 20% or more in the previous 12 months, and this varied little by size of business (between 9% and 14%)
- 27% had grown by less than 20%, and this was more likely for larger SMEs (26% for those with 0 employees to 44% of those with 50-249 employees)
- This means that for YEQ4 2013, 40% of SMEs reported having grown <u>at all</u> in the previous 12 months, ranging from 38% of those with 0 employees to 54% of those with 50-249 employees
- 41% had stayed the same size, and this was more likely for smaller SMEs (42% for those with 0 employees to 34% of those with 50-249 employees)
- 19% had got smaller, and this was also slightly more common for smaller SMEs (20% for those with 0 employees to 12% of those with 50-249 employees)





Of those who reported for YEQ4 2013 that they had grown by 20% or more, just over half (56%) said that they had also achieved this level of growth for <u>each</u> of the two previous years. This is the equivalent of 6% of all SMEs 3+ years old achieving 3 years of 20%+ growth, or 5% of all SMEs.

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

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

In Q3 2012, 41% of SMEs 3+ years old *predicted* that they would grow in the next 12 months. In Q4 2013 the same proportion, 41%, (of a *different* sample of SMEs) reported that they *had* grown in the past 12 months:

| Growth predictions against expectations – all SMEs excluding Starts By date of interview | Predicted growth All SMEs | Achieved growth All SMEs | Predicted growth 0-9 emps | Achieved growth 0-9 emps | Predicted growth 10-249 emps | Achieved growth 10-249 emps |
|---|---------------------------------|--------------------------------|---------------------------------|--------------------------------|---------------------------------------|--------------------------------------|
| Predicted Q3 11 / Achieved Q4 12 | 37% | 37% | 36% | 36% | 57% | 49% |
| Predicted Q4 11 / Achieved Q1 13 | 39% | 39% | 38% | 39% | 57% | 47% |
| Predicted Q1 12 / Achieved Q2 13 | 41% | 44% | 40% | 43% | 57% | 48% |
| Predicted Q2 12 / Achieved Q3 13 | 43% | 36% | 42% | 35% | 60% | 50% |
| Predicted Q3 12 / Achieved Q4 13 | 41% | 41% | 41% | 40% | 53% | 55% |
| Predicted Q4 12 / Achieved Q1 14 | 39% | | 38% | | 57% | |

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

The analysis reported above shows slightly different trends by size of SME. Larger SMEs have typically been somewhat less likely to achieve the growth predicted, although this was not the case in the most recent quarter where 55% achieved growth against a prediction of 53%. The growth achieved by smaller SMEs has typically been closer to that predicted (40% against a prediction of 41% for the most recent time periods).



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 (10% YEQ4 2013):

| Self-reported credit issues YEQ4 13 – all SMEs | Total | 0 emp | 1-9 emps | 10-49 emps | 50-249 emps |
|---|--------|-------|-------------|---------------|----------------|
| Unweighted base: | 20,036 | 4013 | 6619 | 6404 | 3000 |
| Unauthorised overdraft on account | 5% | 5% | 5% | 3% | 2% |
| Had cheques bounced on account | 4% | 4% | 6% | 4% | 3% |
| Problems getting trade credit | 2% | 2% | 3% | 3% | 2% |
| Missed a loan repayment | 1% | 1% | 1% | 1% | * |
| Had County Court Judgement against them | 1% | 1% | 1% | 1% | 1% |
| Any of these | 10% | 9% | 13% | 8% | 7% |

Q224 All SMEs

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

| Any self-reported credit issues over time – row percentages By date of interview | Q4 2011 | Q1 2012 | Q2 2012 | Q3 2012 | Q4 2012 | Q1 2013 | Q2 2013 | Q3 2013 | Q4 2013 |
|--|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Overall | 12% | 13% | 13% | 13% | 12% | 11% | 10% | 9% | 10% |
| 0 employee | 12% | 11% | 12% | 12% | 12% | 10% | 9% | 9% | 9% |
| 1-9 employees | 14% | 19% | 17% | 16% | 12% | 12% | 13% | 12% | 13% |
| 10-49 employees | 13% | 14% | 15% | 12% | 10% | 10% | 8% | 8% | 8% |
| 50-249 employees | 8% | 9% | 10% | 10% | 7% | 9% | 7% | 6% | 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 range of business information to predict the likelihood of business failure. Their ratings have been combined to a common 4 point scale from minimal to worse than average risk. Although not all SMEs receive this external risk rating, most do (84%) and it is commonly used and understood by lenders. It has thus been used in this report for the majority of risk related analysis.

The overall risk profile in each quarter has been largely consistent over time. A slight increase over time in the proportion with a worse than average external risk rating (to 56% in Q3 2013) has not been maintained in subsequent quarters, and in Q4 2013, 52% of SMEs had such a rating:

| External risk rating (where provided) over time By date of interview | Q4 2011 | Q1 2012 | Q2 2012 | Q3 2012 | Q4 2012 | Q1 2013 | Q2 2013 | Q3 2013 | Q4 2013 |
|--|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Unweighted base: | 5010 | 5023 | 4562 | 4583 | 4545 | 4630 | 4535 | 4490 | 4528 |
| Minimal risk | 6% | 6% | 5% | 2% | 5% | 6% | 5% | 6% | 7% |
| Low risk | 10% | 12% | 11% | 13% | 9% | 10% | 10% | 10% | 11% |
| Average risk | 34% | 30% | 33% | 30% | 32% | 28% | 29% | 30% | 31% |
| Worse than average risk | 51% | 53% | 51% | 55% | 53% | 55% | 56% | 54% | 52% |

All SMEs where risk rating provided

The overall YEQ4 2013 ratings are shown below by size of SME, and continued to report a better risk profile for larger SMEs:

| External risk rating YEQ4 13 – all SMEs where rating provided | Total | 0 emp | 1-9 emps | 10-49 emps | 50-249 emps |
|--|--------|-------|----------|---------------|----------------|
| Unweighted base: | 18,183 | 3285 | 5739 | 6226 | 2933 |
| Minimal risk | 6% | 3% | 11% | 26% | 33% |
| Low risk | 10% | 7% | 17% | 28% | 27% |
| Average risk | 29% | 30% | 29% | 29% | 26% |
| Worse than average risk | 54% | 60% | 43% | 17% | 15% |

All SMEs where risk rating provided





The proportion of all SMEs with a worse than average external risk rating is driven by the ratings for 0 employee SMEs, and in Q4 2013 57% of SMEs with no employees had a worse than average rating. This was down slightly from the first half of 2013, and hence reduced the overall proportion of SMEs with such a rating. The proportion of SMEs with 10-249 employees that have a worse than average risk rating is both lower and more stable over time:

| Worse than average external risk rating – row percentages By date of interview | Q4 2011 | Q1 2012 | Q2 2012 | Q3 2012 | Q4 2012 | Q1 2013 | Q2 2013 | Q3 2013 | Q4 2013 |
|---|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Overall | 51% | 53% | 51% | 55% | 53% | 55% | 56% | 54% | 52% |
| 0 employee | 53% | 58% | 55% | 61% | 58% | 62% | 61% | 59% | 57% |
| 1-9 employees | 49% | 43% | 43% | 41% | 45% | 41% | 46% | 43% | 43% |
| 10-49 employees | 17% | 14% | 17% | 19% | 18% | 17% | 17% | 17% | 18% |
| 50-249 employees | 13% | 14% | 14% | 13% | 13% | 16% | 15% | 13% | 14% |

All SMEs where risk rating provided

By sector, SMEs in Agriculture remained much more likely than other sectors to have a minimal or low risk rating (41% YEQ4 2013) while those in Construction (11%) and Transport (12%) were the least likely to have this rating:

| External risk rating YEQ4 13 | Agric | Mfg | Constr | Whle Retail | Hotel Rest | Trans | Prop/ Bus | Health S Work | Other Comm |
|---------------------------------|-------|------|--------|----------------|---------------|-------|--------------|------------------|---------------|
| Unweighted base: | 1251 | 1946 | 3147 | 1869 | 1652 | 1645 | 3215 | 1622 | 1836 |
| Minimal risk | 23% | 8% | 3% | 6% | 5% | 3% | 5% | 8% | 8% |
| Low risk | 18% | 15% | 8% | 11% | 11% | 9% | 10% | 16% | 9% |
| Average risk | 28% | 30% | 25% | 32% | 31% | 27% | 30% | 41% | 27% |
| Worse than average risk | 31% | 48% | 64% | 50% | 53% | 62% | 54% | 35% | 57% |
| Total Min/Low | 41% | 23% | 11% | 17% | 16% | 12% | 15% | 24% | 17% |

All SMEs where risk rating provided



When the two types of risk rating reported above were compared, those with a worse than average risk rating were slightly more likely to self-report a credit problem (11% v 6% of SMEs with a minimal external risk rating).

Credit balances

Almost all SMEs reported holding some credit balances. In 2013, 4% did not hold any, and this proportion has changed very little over time, nor does it vary by size of SME, or risk rating.

| Credit balances held Over time – all SMEs | 2011 | 2012 | 2013 |
|--|--------|--------|--------|
| Unweighted base: | 11,652 | 15,020 | 14,752 |
| None | 6% | 4% | 4% |
| Less than £5,000 | 63% | 66% | 64% |
| £5,000 to £50,000 | 27% | 25% | 27% |
| More than £50,000 | 5% | 5% | 4% |
| Average balance held | £26k | £25k | £24k |

Q244 All SMEs excluding DK/refused

Most SMEs said that they typically held less than £5,000 in credit balances. In 2013 the proportion was 64%, down slightly from 2012 (66%)

Over the same period, the proportion holding more than £5,000 in credit balances stayed at around one in three, with no clear pattern over time. In 2013, 31% of SMEs said that they held more than £5,000 in credit balances.



The high proportion of SMEs with a low credit balance continued to be driven by the smaller SMEs. In 2013, 71% of 0 employee SMEs held less than £5,000 in credit balances, compared to 12% of those with 50-249 employees.

The table below shows the proportion of SMEs holding more than £5,000 in credit balances, over time. Larger SMEs remained more likely to have such funds, and the biggest increase in the proportion holding £5,000+ is amongst SMEs with 50-249 employees where 85% now hold such a sum, up from 79% in 2011:

| £5,000+ Credit balances held Over time – all SMEs | 2011 | 2012 | 2013 |
|--|------|------|------|
| 0 employee | 24% | 22% | 24% |
| 1-9 employees | 50% | 50% | 52% |
| 10-49 employees | 74% | 75% | 77% |
| 50-249 employees | 79% | 80% | 85% |

Q244 All SMEs excluding DK/refused

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

- £1,670 for 0 employee SMEs
- £3,500 for 1-9 employee SMEs
- £24,500 for 10-49 employee SMEs
- £108,700 for 50-249 employee SMEs

The median value of credit balances varied little by sector (£1k-2k).



How SMEs are managed

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

A series of questions collected information about the structure and control of the business. Those reported below reflect their contribution to other areas of analysis or Government action The Better Business Finance website highlights the perceived importance of the business plan as a key document, and analysis of Monitor

data shows business planning to be a key contributor to success rates for applications for finance. Analysis has also shown that having someone in charge of the finances who is qualified / has been trained, is another key driver of that success. The Government is keen to promote SME 'finance fitness' (preparedness for accessing finance) as well as exporting and export finance. Note that the descriptions for 'importing' and 'exporting' were changed slightly for Q2 2013, to be 'buying / selling goods or services abroad'.

The table below shows that planning levels in Q4 2013 were lower (49%) than in previous quarters of 2013 and that a similar 'dip' was also seen in the 4th quarters of 2011 and 2012. Meanwhile 15% were undertaking international activity and this proportion had increased steadily during 2013:

| Business formality elements Over time – all SMEs By date of interview | Q4 2011 | Q1 2012 | Q2 2012 | Q3 2012 | Q4 2012 | Q1 2013 | Q2 2013 | Q3 2013 | Q4 2013 |
|--|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Unweighted base: | 5010 | 5023 | 5000 | 5032 | 5000 | 5000 | 5000 | 5008 | 5028 |
| Planning (any) | 52% | 58% | 56% | 56% | 50% | 54% | 57% | 59% | 49% |
| - Produce regular management accounts | 37% | 44% | 42% | 40% | 38% | 40% | 45% | 46% | 38% |
| - Have a formal written business plan | 32% | 33% | 34% | 35% | 29% | 32% | 34% | 34% | 27% |
| International (any) | 8% | 10% | 10% | 10% | 9% | 10% | 13% | 14% | 15% |
| - Export goods or services* | 5% | 7% | 8% | 6% | 5% | 6% | 8% | 8% | 9% |
| - Import goods or services* | 6% | 7% | 6% | 7% | 6% | 7% | 9% | 11% | 11% |
| Have qualified person in charge of finances | 24% | 25% | 24% | 25% | 27% | 24% | 26% | 27% | 26% |

Q223/251 All SMEs





The reduction in SMEs that planned in Q4 2013 was seen more amongst SMEs with 0 or 1-9 employees although the figures were lower than Q3 for all size bands.

The proportion of SMEs with a financially qualified person looking after their finances has remained relatively stable, and was 26% in Q4 2013. The larger the SME, the more likely they were to have a financial specialist, ranging from 23% of 0 employee companies to 72% of those with 50-249 employees. Where such a person was in charge of the finances, SMEs were somewhat more likely to plan (56% v 46%), and this was true across all size bands.

For YEQ4 2013, the smallest SMEs remained less likely to plan or to undertake international trade. Indeed, if the 0 employee businesses are excluded, the proportion of SMEs (with employees) who:

- plan increased from 55% overall to 71%,
- who have a qualified person in charge of the finances increased to 35% (from 26%)
- and the proportion who trade internationally increased to 21% (from 13% overall).

By sector, for YEQ4 2013, planning ranged from 66% in the Hotels and Restaurants sector to 47% in Construction, while international activity was most common in the Wholesale/Retail (26%) and Manufacturing (25%) sectors. The least likely to undertake international activity were those in Construction (5%).

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

- YEQ4 2013, 24% of exporters said that international trade made up 50% or more of sales.
- Exporters with 0 employees were slightly more likely to say this (28%) with little variation by size for exporters with employees (19-20%).
- 8% of all SMEs export. The equivalent of 2% of **all** SMEs reported that exports made up 50% or more of their turnover, while 6% of all SMEs reported that exports made up less than 50% of their turnover. 92% of SMEs do not export.





All SMEs were asked whether they used online banking. YEQ4 2013, six out of ten did (61%), increasing with size:

- 59% of 0 employee businesses use online banking
- 65% of those with 1-9 employees
- 77% of those with 10-49 employees
- 84% of those with 50-249 employees

Membership of business groups or industry bodies

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

YEQ4 2013 a guarter of SMEs (24%) said that this was the case (excluding DK answers).

Membership was slightly higher amongst larger SMEs:

- 22% of 0 employee businesses belong to a group/body
- 26% of 1-9 employee businesses
- 33% of 10-49 employee businesses
- 38% of 50-249 employee businesses

SMEs with a worse than average external risk rating were slightly less likely to belong to such groups (21%). Otherwise membership varied little by risk rating (28%-29%).

There was relatively little variation by age of business (21-25%). By sector, the most likely to belong to such groups were those in the Health sector (35%) and Property/Business Services (30%) while those in Transport were less likely (16%).

Those currently using external finance were slightly more likely to belong to such groups (27%) than those that did not use external finance (21%). There was little difference by whether the SME met the definition of a 'Permanent non-borrower' or not (23% v 24% if not a PNB).

Those who had someone in charge of the finances who was qualified were more likely to belong to a business group (33%), as were those SMEs where the owner/manager was running more than one business (37%).





Business Ownership

62% of *companies* have one owner, ranging from 86% of 0 employee companies to 26% of those with 50-249 employees. This means that of *all* SMEs, 84% are either sole proprietorships or companies with one owner.

A new, broader, question asked for the first time in Q2 2013 explored the extent to which the owner of the SME was also involved in other businesses. For Q2 to Q4 2013:

- 86% reported that this was the only business the owner was involved in, managerially or strategically, decreasing with size from 88% of 0 employee SMEs, to 69% of those with 50-249 employees.
- 10% reported that the owner currently ran another business as well (8% amongst 0 employee SMEs increasing to 27% amongst those with 50-249 employees). Such businesses were somewhat more likely to be using external finance (49%), to have had a borrowing event (20%) and less likely to be a 'Permanent non-borrower' (34%).
- 3% reported that the owner had set up and run a business before (with little variation by size). Such SMEs were also more likely to be using external finance (46%), or to have had a borrowing event (26%) and were less likely to be a 'Permanent non-borrower' (25%).
- 1% said the owner had provided funds for another business in the past few years.



5. Financial context – how are SMEs funding themselves?





This chapter provides

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



Key findings

In Q4 2013, 40% of SMEs were using external finance. This proportion has remained relatively stable over recent quarters.

Larger SMEs remained more likely to be using external finance. The proportion of SMEs with 50-249 employees using external finance was 74% in Q4, and stabilised in 2013 after dropping during 2012. 65% of those with 10-49 employees used external finance, and this is also currently stable but at lower levels than were seen in 2011 and the start of 2012.

Smaller SMEs remained less likely to be using external finance. There has also been a decline in the proportion of younger SMEs using external finance (from 36% in 2011 to 32% in 2013 for Starts and 46% to 38% for those SMEs 2-5 years old).

31% of SMEs use one of the 'core' forms of finance (loans, overdrafts and/or credit cards). This has been stable over recent quarters but the longer term trend is of declining use of these forms of finance. The proportion of SMEs who *only* use one of these core forms of finance has fallen from 29% in 2011 to 23% in 2013.

33% of SMEs reported an injection of personal funds into the business in the previous 12 months, the lowest level recorded to date on the SME Finance Monitor. For the first time, fewer SMEs reported that they had felt they had to inject funds (15%) than that they had chosen to (18%).





Those that felt they *had* to put in funds were as likely to say that this was because they thought they would be turned down by a bank (so didn't ask), as they were to have actually been turned down, with half saying the injection was made for some other reason.

There are as many SMEs meeting the definition of a 'Permanent non-borrower' (41% in Q4) as there are SMEs using external finance (40%), and the proportion has increased steadily since the start of 2012. Excluding this group, who appear unlikely to become users of external finance, increases the use of finance amongst remaining SMEs to 68%.



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

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

Use of external finance for YEQ4 2013 was unchanged at 41%.

Analysis by quarter showed use of external finance in Q4 2013 itself was 40%, in line with earlier quarters of 2013, and the equivalent quarters of both 2011 and 2012:

| Use of external finance in last 5 years Over time – all SMEs By date of interview | Q4 2011 | Q1 2012 | Q2 2012 | Q3 2012 | Q4 2012 | Q1 2013 | Q2 2013 | Q3 2013 | Q4 2013 |
|---|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Unweighted base: | 5010 | 5023 | 5000 | 5032 | 5000 | 5000 | 5000 | 5008 | 5028 |
| Use now | 41% | 50% | 43% | 40% | 41% | 39% | 43% | 41% | 40% |
| Used in past but not now | 3% | 3% | 4% | 5% | 5% | 4% | 3% | 3% | 3% |
| Not used at all | 56% | 47% | 53% | 55% | 54% | 57% | 54% | 56% | 57% |

Q14/15 All SMEs



Overall, use of external finance in Q4 2013 is almost identical to the figures recorded for Q4 2011 and 2012:

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

Q14/15 All SMEs , base varies slightly each quarter

Over time, around a third of 0 employee SMEs have reported using external finance. There has been more variation in levels of use amongst those with 1-9 employees but the Q4 figures for 2011, 2012 and 2013 are very similar with just over half using external finance.

For those with 10-49 employees, use of external finance dropped between Q4 2011 (70%) and Q4 2012 (65%). It increased slightly at the start of 2013, before ending the year back at 65%. For the largest SMEs with 50-249 employees, use of external finance also

dropped between Q4 2011 and Q4 2012 (75% to 68%) but has since increased somewhat and been stable in 2013 (currently 74%).

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



Overall for YEQ4 2013, more use was made of external finance by SMEs with a minimal (50%) or low (51%) external risk rating, than by those with an average (42%) or worse than average rating (38%).

Analysis over time showed a more volatile trend in use of external finance by those with a minimal external risk rating, with lower levels of use in the most recent quarters (46% in Q4). Those with other risk ratings have reported a more consistent level of use of external finance since Q2 2012:

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

Q14/15 All SMEs, base varies slightly each quarter

By sector, for YEQ4 2013 the most likely to be using external finance remained SMEs in the Wholesale/Retail (50%) and Hotels and Restaurants (47%) sectors. The least likely to be using external finance was the Health sector (31%).

To understand more about the use of external finance over time, the table below shows the overall reported use of the 'core' forms of finance (overdrafts, loans and credit cards) by

quarter. Note that for Q2 and Q3 2013 combined, three-quarters (75%) of those who used a credit card for their business said that they usually paid off the balance in full each month, so those businesses were not necessarily using their credit cards as a source of finance, more as a payment mechanism. This figure was virtually unchanged from the last time this question was run (74% in Q3 2012). The question was not run in Q4 but will be run again in 2014.



Analysis of 'core' forms of finance showed that in Q4 2013 the use of overdrafts stabilised at 18%, having declined across previous quarters of the Monitor. Overall use of *any* of these three forms of external finance was 31%, virtually unchanged over recent quarters, but the longer term trend is of declining use of these forms of finance as reported below:

| Use of external finance Over time – all SMEs By date of interview | Q4 2011 | Q1 2012 | Q2 2012 | Q3 2012 | Q4 2012 | Q1 2013 | Q2 2013 | Q3 2013 | Q4 2013 |
|---|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Unweighted base: | 5010 | 5023 | 5000 | 5032 | 5000 | 5000 | 5000 | 5008 | 5028 |
| Bank overdraft | 22% | 24% | 22% | 21% | 20% | 19% | 18% | 16% | 18% |
| Bank loan/Commercial mortgage | 8% | 11% | 11% | 7% | 9% | 8% | 8% | 8% | 6% |
| Credit cards | 14% | 22% | 19% | 16% | 15% | 17% | 19% | 20% | 16% |
| Any 'core' products – all SMEs | 34% | 40% | 36% | 34% | 33% | 32% | 33% | 33% | 31% |

Q15 All SMEs

Longer term, use of these 'core' forms of finance has declined between 2011 and 2013 across all sizes of business:

- From 34% in 2011 to 27% for 2013 for those with 0 employees
- From 50% to 44% for those with 1-9 employees
- From 65% to 57% for those with 10-49 employees
- From 71% to 64% for those with 50-249 employees

As reported above, many SMEs using credit cards usually pay off the balance in full each month, so this is not a form of external finance for them. Excluding credit cards from the 'core' product table above would result in 21% of SMEs in Q4 2013 with either an overdraft and/or loan, and this proportion has declined over time from 30% in Q3 2011.



From Q4 2012 those using any of these three methods of finance were asked whether <u>any</u> facilities were in their <u>personal</u> name, rather than that of the business. For YEQ4 2013, a third of those using such facilities (37%) said that there was a facility in their personal name, the equivalent of 12% of **all** SMEs having a facility in their personal name (or 19% of SMEs excluding the 'Permanent non-borrowers'). This has varied relatively little across the quarters for which the question has been asked (between 36% and 39%) and with no clear pattern over time.

The incidence of facilities in a personal name varied by size of business: amongst SMEs with loans, overdrafts and/or credit cards, half of those with 0 employees had some facility in their personal name (47%) compared to 6% of those with 50-249 employees. Those with these facilities, and who also had a worse than average risk rating, were more likely to have a facility in their own name (40%), but the equivalent figures for **all** SMEs showed little difference by risk rating:

| Have element of facility in personal name YEQ4 13 – row percentages | Of those with an overdraft, loan or credit card | Equivalent % of all SMEs | | |
|---|---|-----------------------------|--|--|
| Overall | 37% | 12% | | |
| 0 employees | 47% | 13% | | |
| 1-9 employees | 22% | 10% | | |
| 10-49 employees | 9% | 5% | | |
| 50-249 employees | 6% | 4% | | |
| Minimal risk rating | 21% | 9% | | |
| Low risk rating | 22% | 10% | | |
| Average risk rating | 39% | 13% | | |
| Worse than average risk rating | 40% | 11% | | |

Q15bbb All SMEs with one of these facilities

Those operating their business banking through a personal account were less likely to be using any external finance (28% YEQ4 13 were using any facilities, compared to 44% of those operating through a business bank account). However, if they did have any, then almost all, 85%, said that they had facilities in their personal name. Amongst those with facilities and operating a business account, just over a quarter, 29%, said there were facilities in their personal name.

Overall, SMEs using a personal account for their business were twice as likely to have a facility in their personal name as those using a business account (19% v 10%).



The table below shows the full list of the different types of funding being used by SMEs YEQ4 2013. It includes both the core forms of finance already reported and the other forms of finance on which data has been collected, some of which may also be obtained from the bank. Larger businesses continued to make use of a wider range of forms of funding:

| External finance currently used YEQ4 13 – all SMEs | Total | 0 emp | 1-9 emps | 10-49 emps | 50-249 emps |
|---|--------|-------|----------|---------------|----------------|
| Unweighted base: | 20,036 | 4013 | 6619 | 6404 | 3000 |
| 'Core' products (any) | 32% | 27% | 44% | 57% | 64% |
| -Bank overdraft | 18% | 15% | 25% | 29% | 28% |
| -Credit cards | 18% | 15% | 23% | 37% | 49% |
| -Bank loan/Commercial mortgage | 8% | 5% | 13% | 20% | 26% |
| Other forms of finance (any) | 18% | 14% | 27% | 39% | 50% |
| -Leasing or hire purchase | 8% | 5% | 12% | 26% | 37% |
| -Loans/equity from directors | 5% | 3% | 9% | 11% | 11% |
| -Loans/equity from family and friends | 5% | 5% | 7% | 3% | 2% |
| -Invoice finance | 2% | 1% | 4% | 10% | 17% |
| -Grants | 1% | 1% | 2% | 4% | 6% |
| -Loans from other 3 rd parties | 1% | 1% | 1% | 2% | 3% |
| Any of these | 41% | 35% | 54% | 67% | 73% |
| None of these | 59% | 65% | 46% | 33% | 27% |

Q15 All SMEs

SMEs that import and/or export were asked about use of Export/Import finance. YEQ4 2013, 1% of such SMEs used these products, with little variation by size of business (1-3%).

Those SMEs that are companies were also asked whether they used equity investment from third parties. Less than 1% of companies reported using this form of funding in Q4 2013.

8% of SMEs <u>only</u> used credit cards from the list above, and this varied relatively little by size of SME (7-10%).



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

With the exception of Q1 2012 and Q2 of 2013, use of <u>other</u> forms of finance has remained relatively stable, at around 1 in 6 SMEs:

| Use of external finance Over time – all SMEs By date of interview | Q4 2011 | Q1 2012 | Q2 2012 | Q3 2012 | Q4 2012 | Q1 2013 | Q2 2013 | Q3 2013 | Q4 2013 |
|---|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Unweighted base: | 5010 | 5023 | 5000 | 5032 | 5000 | 5000 | 5000 | 5008 | 5028 |
| 'Core' products (any) | 34% | 40% | 36% | 34% | 33% | 32% | 33% | 33% | 31% |
| -Bank overdraft | 22% | 24% | 22% | 21% | 20% | 19% | 18% | 16% | 18% |
| -Bank loan/Commercial mortgage | 8% | 11% | 11% | 7% | 9% | 8% | 8% | 8% | 6% |
| -Credit cards | 14% | 22% | 19% | 16% | 15% | 17% | 19% | 20% | 16% |
| Other forms of finance (any) | 15% | 22% | 18% | 15% | 15% | 15% | 21% | 18% | 17% |
| -Leasing, hire purchase or vehicle finance | 6% | 8% | 7% | 5% | 5% | 6% | 9% | 6% | 9% |
| -Loans/equity from directors | 5% | 7% | 6% | 4% | 4% | 4% | 6% | 5% | 4% |
| -Loans/equity from family & friends | 4% | 8% | 5% | 5% | 4% | 5% | 6% | 5% | 4% |
| -Invoice finance | 2% | 3% | 2% | 2% | 3% | 2% | 3% | 2% | 2% |
| -Grants | 1% | 1% | 2% | 1% | 1% | 1% | 2% | 2% | 1% |
| -Loans from other third parties | 1% | 1% | 1% | 1% | 1% | 1% | 1% | 1% | 1% |
| Any form of finance – all SMEs | 41% | 50% | 43% | 40% | 41% | 39% | 43% | 41% | 40% |

Q15 All SMEs





SMEs can use one or more of the forms of finance listed above. The table below shows how sole use of 'core' and 'other' forms of finance has varied over the three years of the SME Finance Monitor, as the proportion using none of these forms of finance increased from 54% to 59% of SMEs:

| External finance currently used - all SMEs | 2011 | 2012 | 2013 |
|--|--------|--------|--------|
| Unweighted base: | 15,128 | 20,055 | 20,036 |
| Only use 'core' products | 29% | 26% | 23% |
| Only use 'other' forms of finance | 7% | 8% | 9% |
| Use both forms of finance | 10% | 10% | 9% |
| Use none of these forms of finance | 54% | 56% | 59% |

Q15 All SMEs

Between 2011 and 2013, the proportion using only the 'core' forms of finance (loans, overdrafts or credit cards) declined from 29% to 23% of all SMEs, and across all size bands. A smaller proportion (9% in 2013) only used one of the 'other' forms of finance and this had changed little over time. Meanwhile the proportion using both 'core' and 'other' forms of finance was stable (9% in 2013).

In a new question asked for the first time in Q2 2013, 2% of SMEs (Q2 to Q4 2013) said that they were using an additional form of external finance <u>not</u> on the list detailed in full above. This varied little by size (2-4%) or risk rating (all 2%), or by sector (2-3%).

There was no difference in use of these other forms of finance by whether the SME was also

using one of the *specified* forms of external finance (2% for those using the specified forms of external finance and 2% for those not). This means that 1% of **all** SMEs are classed as nonusers of finance in this report (because they do not use any of the specified forms of external finance) but said at this question that they were using some other form of finance.

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



Injections of personal funds

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

Over the first quarters in which this question was asked, around 4 out of 10 SMEs reported an injection of personal funds in the previous 12 months. Figures for the second half of 2013 were somewhat lower than previous quarters, with 33% reporting any injection of funds in the 12 months prior to Q4 2013, and over time, fewer SMEs reported feeling that they <u>had</u> to put in funds (from a high of 26% in Q3 2012 to 15% in the current quarter):

| Personal funds in last 12 months over time – all SMEs By date of interview | Q2 2012 | Q3 2012 | Q4 2012 | Q1 2013 | Q2 2013 | Q3 2013 | Q4 2013 |
|---|------------|------------|------------|------------|------------|------------|------------|
| Unweighted base: | 5000 | 5032 | 5000 | 5000 | 5000 | 5008 | 5028 |
| Inject personal funds – you <u>chose</u> to do to help the business grow and develop | 16% | 20% | 16% | 19% | 20% | 18% | 18% |
| Inject personal funds – you felt you had no choice about this, that you <u>had</u> to do it | 25% | 26% | 24% | 21% | 22% | 20% | 15% |
| Any personal funds | 41% | 46% | 40% | 40% | 42% | 38% | 33% |
| Not something you have done | 59% | 54% | 60% | 60% | 58% | 62% | 66% |

Q15d All SMEs

- The proportion of 0 employee businesses putting in <u>any</u> funds has fallen since Q3 2012 from 49% to 34% in Q4 2013, but they remain the most likely to have put in funds.
- Amongst those with 1-9 employees the proportion putting in funds has been less variable over time (currently 35% for Q4).
- Bigger SMEs remain less likely to have put in funds, and there has been a slight decline over time here too (22% to 18% for those with 10-49 employees and 13% to 9% for those with 50-249 employees).





The analysis below is based on the combined results YEQ4 2013 to provide robust base sizes for key sub-groups.

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

| Personal funds in last 12 months YEQ4 13 – all SMEs | All | 0 emp | 1-9 emps | 10-49 emps | 50-249 emps |
|---|--------|-------|-------------|---------------|----------------|
| Unweighted base: | 20,036 | 4013 | 6619 | 6404 | 3000 |
| Inject personal funds – you <u>chose</u> to do to help the business grow and develop | 19% | 20% | 16% | 8% | 6% |
| Inject personal funds – you felt you had no choice about this, that you <u>had</u> to do it | 20% | 20% | 20% | 11% | 5% |
| Any personal funds | 39% | 40% | 36% | 19% | 11% |
| Not something you have done | 62% | 60% | 64% | 81% | 89% |

Q15d All SMEs from Q2 2012

Analysis by age of business showed that it was the youngest, start-up businesses that were most likely to have had an injection of personal funds (64%), and that this was more likely to have been a choice (37%) than a necessity (27%). 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 YEQ4 13 – all SMEs | Starts | 2-5 yrs | 6-9 yrs | 10-15 yrs | 15 yrs+ |
|---|--------|---------|---------|--------------|---------|
| Unweighted base: | 2009 | 3243 | 2421 | 3139 | 9224 |
| Inject personal funds – you <u>chose</u> to do to help the business grow and develop | 37% | 22% | 11% | 11% | 9% |
| Inject personal funds – you felt you had no choice about this, that you <u>had</u> to do it | 27% | 19% | 18% | 15% | 17% |
| Any personal funds | 64% | 41% | 29% | 26% | 26% |
| Not something you have done | 36% | 59% | 71% | 74% | 74% |

Q15d All SMEs from Q2 2012





Those using a *personal* account for their business banking were somewhat more likely to have put personal funds in at all (45% v 37% of those with a business account) but were not much more likely to have felt that they had to do so (22% with a personal account, 19% with a business account).

Analysis by external risk rating also showed different experiences. Those with a worse than average external risk rating were the most likely to have seen an injection of personal funds (47%), compared to 16% of those with a minimal external risk rating. Half of those making *any* injection of funds reported that they had felt that they had no choice, and this did not vary by risk rating:

| Personal funds in last 12 months YEQ4 13 – all SMEs | All | Min | Low | Avge | Worse/ Avge |
|--|--------|------|------|------|----------------|
| Unweighted base: | 20,036 | 3428 | 3763 | 5248 | 5744 |
| Inject personal funds – you <u>chose</u> to do to help the business grow and develop | 19% | 7% | 11% | 14% | 24% |
| Inject personal funds – you felt you had no choice about, that you <u>had</u> to do | 20% | 9% | 11% | 19% | 23% |
| Any personal funds | 39% | 16% | 22% | 33% | 47% |
| Not something you have done | 62% | 84% | 78% | 67% | 54% |

Q15d All SMEs from Q2 2012



Analysis by sector showed relatively little variation in terms of *any* injection of funds. Injections of personal funds were experienced by 36-41% of SMEs in all sectors with the exception of Manufacturing where 31% experienced an injection of funds:

| Personal funds in last 12 months YEQ4 13 – all SMEs | Agric | Mfg | Constr | Whle Retail | Hotel Rest | Trans | Prop/ Bus | Health S Work | Other Comm |
|--|-------|------|--------|----------------|---------------|-------|--------------|------------------|---------------|
| Unweighted base: | 1496 | 2090 | 3505 | 2040 | 1803 | 1815 | 3510 | 1781 | 1996 |
| <u>Chose</u> to inject | 20% | 15% | 18% | 16% | 18% | 19% | 20% | 20% | 20% |
| <u>Had</u> to inject | 18% | 16% | 20% | 20% | 23% | 21% | 20% | 17% | 17% |
| Any funds | 38% | 31% | 38% | 36% | 41% | 40% | 40% | 37% | 37% |
| Not done | 62% | 69% | 62% | 63% | 59% | 60% | 59% | 63% | 63% |

Q15d All SMEs from Q2 2012

SMEs currently using external finance were slightly more likely to have received any cash injection (42% YEQ4 2013) than those not currently using external finance (35%) and were also more likely to say they had felt that there had been no choice (26% v 15%).



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 that something had stopped them) who were most likely to have received an injection of personal funds:

| Personal funds in last 12 months YEQ4 13 – all SMEs | All | Had an event | Would- be seeker | Happy non- seeker |
|--|--------|-----------------|------------------------|-------------------------|
| Unweighted base: | 20,036 | 4863 | 856 | 14,317 |
| Inject personal funds – you <u>chose</u> to do to help the business grow and develop | 19% | 13% | 19% | 20% |
| Inject personal funds – you felt you had no choice about, that you <u>had</u> to do | 20% | 32% | 44% | 15% |
| Any personal funds | 39% | 45% | 63% | 35% |
| Not something you have done | 62% | 55% | 37% | 65% |

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

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

Data for Q2 to Q4 2013 combined showed that

- 20% of those who had felt that they had to put in funds said that it was because they had been turned down by their bank (the equivalent of 4% of <u>all SMEs</u>). This was less likely to be the view of those with 0-9 employees (20%) than those with 10-249 employees (32%).
- A similar proportion, 23%, said that they had assumed they would be turned down by the bank, so hadn't asked (also the equivalent of 4% of all SMEs, and with little difference by size).
- Just over half of those who had felt that they had to put in funds, 57%, said that they had put in funds for some other reason (the equivalent of 11% of all SMEs). This was more common amongst those with 0-9 employees (57%) than those with 10-249 employees (43%)
- The proportion saying that they had been turned down by their bank varied little by age of business, but a quarter of younger businesses (Starts and those trading for 2-5 years) said that they had assumed they would be turned down, compared to 1 in 5 older businesses



Since Q4 2012, questions about the nature of the investment made have been asked of those who reported any injection of funds into the business. For YEQ4 2013 (and excluding DK answers):

| Investment of | personal | funds |
|--------------------|----------|--------|
| IIIV COLITICITE OF | personat | Iuiius |

| Length of investment | Lenat | h of | investr | nent |
|----------------------|-------|------|---------|------|
|----------------------|-------|------|---------|------|

- 35% of SMEs that had put funds in said that this was a long term investment. 39% said the funds were a short term investment, and the remainder, 26%, said the funding was a mix of long and short-term funding. These proportions have changed little over time. The older the business, the more likely they were to make a short term investment and the less likely to make a long term investment.
- Those that had felt they 'had' to inject funds were more likely to say this was a short term investment (42%) than a long term one (32%), with 27% saying it was a mix. Those *choosing* to inject funds were as likely to say that this was a short term (37%) as a long term (38%) investment, with 25% saying it was mix.

Amount invested

- 58% of SMEs that had put funds in said that they had put in less than £5,000. This was most likely if the SME putting in funds had 0 employees (65% had put in less than £5,000) and became less likely as size increased (4% of those with 50-249 employees had put in less than £5,000). Putting in less than £5,000 was also more likely if the SME was not using external finance (65%) or was running their business through a personal bank account (77%).
- 62% of those who had chosen to put in funds said that they had put in less than £5,000, compared to 55% of those who had felt forced to put in funds. Short term investments were also more likely be for less than £5,000 (71%) compared to 47% of long term investments.
- Larger SMEs, with 10-249 employees, were unlikely to invest less than £5,000 whether as a short (15%) or long term (11%) investment. Most short term investments by smaller SMEs (0-9 employees) were for less than £5,000 (72%) compared to half where the investment was long term (48%).

Continued





Continue

Overall profile of injection of personal funds

- Putting this information together, 10% of **all** SMEs (rather than just those who had injected funds) had injected less than £5,000 as a short term investment only
- Meanwhile, 7% of all SMEs had injected more than £5,000 as a long term investment only

Use of personal accounts and accounts at other banks

Most SMEs used a business bank account (81%).

Of the 19% that used a personal account, almost all, 94%, were 0 employee businesses. Such personal accounts were more likely to be found in the Health Sector (35%) and least likely to be found in Wholesale/Retail (9%). Amongst Starts (set up within the last 2 years) 29% used a personal bank account for their business. Such personal accounts were also more likely to be used by those with a worse than average risk rating (22% compared to 6% of those with a minimal risk rating).

Year ending Q4 2013, SMEs using a personal account were:

- less likely to be using external finance (28% used external finance, compared to 44% using a business account) and less likely to have applied for new or renewed facilities (4% versus 9%)
- more likely to be a 'Permanent non-borrower' (48% v 37%), or to have put personal funds into the business (45% v 37% of those with a business account)



In 2013 99% of SMEs reported that they only used one bank for their business banking, with little difference by size. Multi-banking, whilst not seen to a significant degree in this market, has declined somewhat since 2011 amongst larger SMEs as the table below shows:

| Use one bank, row percentages | 2011 | 2013 |
|-------------------------------|------|------|
| All | 98% | 99% |
| 0 emps | 98% | 99% |
| 1-9 emps | 97% | 99% |
| 10-49 emps | 96% | 98% |
| 50-249 emps | 94% | 98% |

The 'interweaving' of business and personal funds

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

For YEQ4 2013:

- 19% of SMEs used a personal rather than a business account for their business banking
- 37% of those with an overdraft, loan or credit card facility said that one or more was in their personal name, and where a personal bank account was also used, the proportion increased to 85%. This is the equivalent of 12% of all SMEs holding one or more of these facilities in a personal name.
- 39% 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 (49%) than those who did not have any personal borrowing (35%).
- 9% 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 16% (the equivalent of less than 1% of all SMEs).
- 24% of those SMEs that had seen an overdraft automatically renewed in the previous 12 months said that this was a personal facility (the equivalent of 2% of all SMEs).





For YEQ4 2013, half of SMEs (53%) reported having one or more of these personal 'elements' to their business, and this has been consistent over time. The table below shows how this proportion varies by size, sector and external risk rating with smaller SMEs, those with a worse than average risk rating and those in the Health sector remaining the most likely to have a personal element to their business:

| Had any personal element | |
|---|---------|
| Row percentages | YEQ4 13 |
| All SMEs | 53% |
| 0 employee | 58% |
| 1-9 employees | 43% |
| 10-49 employees | 23% |
| 50-249 employees | 14% |
| Minimal external risk rating | 27% |
| Low external risk rating | 34% |
| Average external risk rating | 49% |
| Worse than average external risk rating | 61% |
| Agriculture | 53% |
| Manufacturing | 42% |
| Construction | 56% |
| Wholesale/Retail | 46% |
| Hotels and Restaurants | 51% |
| Transport | 55% |
| Property/Business Services etc. | 54% |
| Health | 61% |
| Other Community | 56% |



Recent applications for other forms of finance

The majority of this report focuses on activity around loans and overdrafts. For a complete picture of external finance applications in the 12 months prior to interview, an overview is provided below of applications for other forms of funding and the extent to which these were successful.

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

| | Total Applied for | | | | | | | |
|--|-------------------|-----------|-------|-------------|---------------|----------------|--|--|
| Other finance applied for YEQ4 13 – all SMEs | Applied | % success | 0 emp | 1-9 emps | 10-49 emps | 50-249 emps | | |
| Unweighted base: | 20,036 | Varies | 4013 | 6619 | 6404 | 3000 | | |
| Credit cards | 4% | 88% | 3% | 4% | 5% | 6% | | |
| Leasing/Hire purchase/vehicle finance | 4% | 87% | 2% | 6% | 15% | 20% | | |
| Loans/equity from directors | 3% | 90% | 2% | 5% | 5% | 4% | | |
| Loans/equity from family & friends | 3% | 84% | 3% | 4% | 2% | 1% | | |
| Grants | 1% | 59% | 1% | 2% | 5% | 6% | | |
| Invoice finance | 1% | 75% | 1% | 1% | 3% | 5% | | |
| Loans from other 3 rd parties | 1% | 72% | 1% | 1% | 2% | 1% | | |

Q222 All SMEs

Most applicants for most types of funding were successful, with larger SMEs (10-249 employees) that applied generally more likely to be successful. Base sizes are small for some products but over time the proportion applying for these products has been fairly stable, while success rates have declined somewhat.

SMEs that import or export were asked about applications for Export/Import finance. 1% had made such an application.

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

If the 'Permanent non-borrowers' (described below) are excluded, the percentage applying for *any* of these other forms of finance increases from 13% to 21% of remaining SMEs.





Taking both loan/overdraft events (and the automatic renewal of overdrafts) and these applications for other types of finance together for YEQ4 2013 showed that:

- Most SMEs, 74%, reported neither a loan/overdraft 'event' (covered in the remainder of this report), nor an application for any of the types of finance listed above
- 13% reported a loan/overdraft event, but had not applied for other forms of finance
- 8% had applied for other forms of finance but did not report a loan/overdraft event
- 4% reported both a loan/overdraft event <u>and</u> applying for one of these forms of finance

In a new question asked from Q2 2013, respondents were asked if they had applied for any other forms of external finance not already mentioned. For Q2 to Q4 2013 combined, 1% of SMEs said that they had applied for any other form of finance, half successfully and half unsuccessfully. The type of finance applied for is not recorded.



The non-borrowing SME

As this chapter has already reported, less than half of SMEs (41% YEQ4 2013) currently use external finance. Other data from this report allows for identification of those SMEs who seem firmly disinclined to borrow, defined as those that meet **all** of the following conditions:

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

These 'Permanent non-borrowers' make up 40% of SMEs (YEQ4 2013), and were more likely to be found amongst the smaller SMEs:

- 44% of 0 employee SMEs met this non-borrowing definition
- 28% of 1-9 employee SMEs
- 22% of 10-49 employee SMEs
- 17% of 50-249 employee SMEs

SMEs in the Health sector were the most likely to be a 'Permanent non-borrower' (52%), with those in Wholesale/Retail the least likely (32%). By risk rating, 37% of those with a minimal risk rating and 35% of those with a low risk rating were 'Permanent non-borrowers', compared to 40% of those with either an average or worse than average risk rating.

Around a quarter of PNBs (23%) use a personal account for their business banking, which means that the equivalent of 9% of all SMEs are 'Permanent non-borrowers' who use a personal account.



The proportion of SMEs meeting the definition of a PNB has increased over time from 34% in both 2011 and 2012 to 40% in 2013. In Q4 2013 the proportion was 41%, compared to 37% in the equivalent quarter of 2012, due primarily to more 0 employee SMEs now meeting the definition of a PNB:

| PNBs Over time – all SMEs By date of interview - row percentages | Q4 2011 | Q1 2012 | Q2 2012 | Q3 2012 | Q4 2012 | Q1 2013 | Q2 2013 | Q3 2013 | Q4 2013 |
|--|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| All SMEs | 36% | 30% | 34% | 34% | 37% | 41% | 36% | 40% | 41% |
| 0 employee | 40% | 34% | 39% | 37% | 40% | 45% | 40% | 45% | 46% |
| 1-9 employees | 25% | 21% | 24% | 27% | 30% | 30% | 25% | 28% | 30% |
| 10-49 employees | 18% | 16% | 15% | 19% | 21% | 20% | 21% | 24% | 24% |
| 50-249 employees | 14% | 11% | 13% | 20% | 17% | 15% | 17% | 17% | 17% |

The increase over time is also being driven by younger businesses. Businesses less than 10 years old were more likely to meet the definition of a PNB in 2013 (42%) than they were in 2011 (33%). Amongst those more than 10 years old, 36% meet the definition of a PNB in 2013, almost unchanged from 2011 (34%). SMEs with a worse than average external risk rating were also more likely to be a PNB in 2013 (40%) than they had been in 2011 (32%).



If these PNBs are excluded from the use of external finance table shown earlier, the proportion using external finance increases to around 7 out of 10 of remaining SMEs, with a slightly higher proportion using external finance in Q4 2013 (68%) than in the equivalent quarter of 2012 (66%):

| Use of external finance in last 5 years Over time – all SMEs excl PNBs By date of interview | Q4 2011 | Q1 2012 | Q2 2012 | Q3 2012 | Q4 2012 | Q1 2013 | Q2 2013 | Q3 2013 | Q4 2013 |
|---|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Unweighted base: | 3822 | 4022 | 3894 | 3732 | 3664 | 3649 | 3707 | 3637 | 3585 |
| Use now | 64% | 72% | 66% | 61% | 66% | 65% | 68% | 69% | 68% |
| Used in past but not now | 4% | 5% | 6% | 8% | 8% | 7% | 5% | 5% | 4% |
| Not used at all | 31% | 24% | 28% | 31% | 27% | 28% | 27% | 26% | 28% |

Q14/15 All SMEs

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

6. An initial summary of all overdraft and loan events





the full definition of each borrowing 'event' together with summary tables of their occurrence. Subsequent chapters then investigate in more detail, and over time. The chapter covers the individual waves of interviews conducted to date. In each wave, SMEs were asked about borrowing events in the previous 12 months, so overall, borrowing events may have occurred from Q2 2010 to Q4 2013. Where year ending data is provided this is YEQ4 2013.



Key findings

8% of SMEs in Q4 2013 reported a Type 1 borrowing event in the 12 months prior to interview – 5% had applied for a new or renewed overdraft and 3% for a new or renewed loan. Reports of such applications were stable during 2013, but at lower levels than seen in 2012.

SMEs of all sizes were less likely to report a Type 1 event in 2013 than in 2012. There were also fewer events reported by those with a minimal or low external risk rating. Excluding the 'Permanent non-borrowers' increases the incidence of events amongst remaining SMEs to 13% in Q4 2013 but this is also lower than in 2012.

Just under half of all overdraft holders, 44%, reported that their overdraft had been automatically renewed (the equivalent of 8% of all SMEs). Over time, the proportion of SMEs with an overdraft has declined, but the proportion of overdraft activity represented by automatic renewals is stable at 60%.



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

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

This chapter provides analysis on loan and overdraft events reported in interviews conducted to YEQ4 2013. This provides bigger base sizes and more granularity for sub-group analysis, such as by employee size band. Where possible, analysis has also been shown over time.

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

For Q2 to Q4 2013 combined, 4% said that they had done this – 1% had spoken to an adviser, 2% to their bank, and 1% had done something else:

- This varied somewhat by size, with 3% of 0 employee businesses having done something compared to 7% of those with 10-249 employees. There was little variation by risk rating (3-4%).
- Exclusion of the 'Permanent non-borrowers' increased the proportion doing something to 6%, (ranging by size from 5-8%).
- There was little difference depending on whether the SME had someone in charge of the finances who was trained (5%) or not (3%).

As already identified, many SMEs do not use external finance. Amongst those with a potential interest in finance, activity was higher but not widespread:

• Those who reported a Type 1 borrowing 'event' for a new or renewed facility in the previous 12 months were more likely to have done something (17%), and the proportion increased to 23% of those who had applied specifically for a new loan or overdraft facility. Such activity was also more likely amongst those planning to apply for or renew facilities in the 3 months after interview, and amongst future would-be seekers with a need for finance identified (both 12%)

More analysis will be conducted in future waves as base sizes increase





The rolling aggregate of demand/activity

The table below shows the percentage over time of <u>all</u> SMEs interviewed that reported a borrowing event in the 12 months prior to interview. Type 1 events remained the most common, but the proportion reporting such an event in 2013 was lower than in 2012 (8% in Q4):

| Borrowing events in the previous 12 mths. All SMEs, over time By date of interview | Q4 2011 | Q1 2012 | Q2 2012 | Q3 2012 | Q4 2012 | Q1 2013 | Q2 2013 | Q3 2013 | Q4 2013 |
|--|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Unweighted base: | 5010 | 5023 | 5000 | 5032 | 5000 | 5000 | 5000 | 5008 | 5028 |
| Type 1: New application/renewal | 9% | 12% | 11% | 10% | 9% | 8% | 9% | 7% | 8% |
| Applied for new facility (any) | 6% | 7% | 6% | 6% | 6% | 4% | 6% | 4% | 4% |
| Renewed facility (any) | 5% | 6% | 5% | 5% | 4% | 4% | 4% | 4% | 4% |
| Type 2: Cancel/ renegotiate by bank | 3% | 4% | 3% | 3% | 4% | 3% | 3% | 3% | 3% |
| Type 3: Chose to reduce/pay off facility | 1% | 2% | 1% | 1% | 2% | 2% | 2% | 1% | 2% |

Q25/26 All SMEs



The previous chapter of this report noted that 4 in 10 SMEs met the definition of a 'Permanent non-borrower' and appeared disinclined to use external finance. The table below excludes these PNBs from the sample, and shows the higher proportion of remaining SMEs that have had an event as a result. In Q4 2013, 13% of remaining SMEs reported a Type 1 event in the 12 months prior to interview. This was lower than for the equivalent quarter of 2012 (15%), but was a slight increase on the Q3 2013 figure:

| Borrowing events in the previous 12 mths. All SMEs, excluding PNBs over time By date of interview | Q4 2011 | Q1 2012 | Q2 2012 | Q3 2012 | Q4 2012 | Q1 2013 | Q2 2013 | Q3 2013 | Q4 2013 |
|---|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Unweighted base: | 3822 | 4022 | 3894 | 3732 | 3664 | 3649 | 3707 | 3637 | 3585 |
| Type 1: New application/renewal | 14% | 17% | 17% | 16% | 15% | 13% | 14% | 11% | 13% |
| Applied for new facility (any) | 9% | 10% | 10% | 10% | 9% | 7% | 9% | 6% | 7% |
| Renewed facility (any) | 7% | 9% | 8% | 7% | 7% | 7% | 6% | 6% | 7% |
| Type 2: Cancel/renegotiate by bank | 5% | 5% | 5% | 4% | 6% | 4% | 5% | 5% | 5% |
| Type 3: Chose to reduce/pay off | 2% | 2% | 2% | 1% | 3% | 3% | 3% | 2% | 3% |

Q25/26 All SMEs

Further analysis of Type 1 events over time is provided in the next chapter. The incidence of Type 2 and Type 3 events during 2013 was stable, and reported by a small minority of SMEs.



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

The remainder of this chapter looks in more detail at the 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 2013, and, unless otherwise stated, are based on <u>all</u> SMEs.

The event experienced most widely was an application for a new facility, or the renewal of an existing facility, each experienced by 4% of all SMEs:

| Borrowing events YEQ4 13 all SMEs | Total | 0 emp | 1-9 emps | 10-49 emps | 50-249 emps |
|---|--------|-------|-------------|---------------|----------------|
| Unweighted base: | 20,036 | 4013 | 6619 | 6404 | 3000 |
| Type 1: New application/renewal | 8% | 6% | 13% | 15% | 14% |
| Applied for new facility (any) | 4% | 3% | 7% | 7% | 5% |
| - applied for new loan | 2% | 2% | 4% | 4% | 4% |
| - applied for new overdraft | 3% | 2% | 5% | 4% | 2% |
| Renewed facility (any) | 4% | 3% | 7% | 10% | 11% |
| - renewed existing loan | 1% | 1% | 2% | 3% | 3% |
| - renewed existing overdraft | 3% | 2% | 7% | 9% | 9% |
| Type 2: Cancel/renegotiate by bank | 3% | 2% | 5% | 5% | 3% |
| Bank sought to renegotiate facility (any) | 2% | 2% | 3% | 4% | 3% |
| - sought to renegotiate loan | 1% | 1% | 1% | 2% | 1% |
| - sought to renegotiate overdraft | 2% | 1% | 3% | 3% | 2% |
| Bank sought to cancel facility (any) | 1% | 1% | 2% | 1% | 1% |
| - sought to cancel loan | * | * | 1% | 1% | * |
| - sought to cancel overdraft | 1% | 1% | 1% | 1% | 1% |
| Type 3: Chose to reduce/pay off facility | 2% | 1% | 2% | 3% | 2% |
| - reduce/pay off loan | 1% | 1% | 1% | 2% | 1% |
| - reduce/pay off overdraft | 1% | 1% | 1% | 1% | 1% |

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





SMEs with a minimal or low external risk rating remained slightly more likely to have had a Type 1 event:

| Borrowing events YEQ4 13 – all SMEs | Total | Min | Low | Avge | Worse/Avge | |
|---|-------------|-----|------|------|------------|--|
| Unweighted base: | 20,036 3428 | | 3763 | 5248 | 5744 | |
| Type 1: New application/renewal | 8% | 9% | 10% | 7% | 7% | |
| Applied for new facility (any) | 4% | 5% | 4% | 4% | 5% | |
| - applied for new loan | 2% | 3% | 2% | 2% | 2% | |
| - applied for new overdraft | 3% | 3% | 2% | 2% | 3% | |
| Renewed facility (any) | 4% | 6% | 7% | 4% | 3% | |
| - renewed existing loan | 1% | 2% | 2% | 1% | 1% | |
| - renewed existing overdraft | 3% | 6% | 6% | 4% | 2% | |
| Type 2: Cancel/renegotiate by bank | 3% | 4% | 3% | 2% | 3% | |
| Bank sought to renegotiate facility (any) | 2% | 3% | 2% | 2% | 2% | |
| - sought to renegotiate loan | 1% | 1% | * | 1% | 1% | |
| - sought to renegotiate overdraft | 2% | 2% | 2% | 2% | 1% | |
| Bank sought to cancel facility (any) | 1% | 2% | 1% | 1% | 1% | |
| - sought to cancel loan | * | * | * | * | 1% | |
| - sought to cancel overdraft | 1% | 1% | 1% | * | 1% | |
| Type 3: Chose to reduce/pay off facility | 2% | 4% | 2% | 1% | 1% | |
| - reduce/pay off loan | 1% | 2% | 1% | 1% | 1% | |
| - reduce/pay off overdraft | 1% | 2% | 1% | 1% | 1% | |

Q25/26 All SMEs with external risk rating



Agriculture remained the sector most likely to have had a Type 1 event, due in particular to a slightly higher level of renewals. The Hotels and Restaurants sector was also slightly more likely to have had a Type 1 event due to more applications for new facilities:

| Borrowing event in last 12 months YEQ4 13 – all SMES | Agric | Mfg | Constr | Whle Retail | Hotel Rest | Trans | Prop/ Bus | Health S Work | Other Comm |
|--|-------|------|--------|----------------|---------------|-------|--------------|------------------|---------------|
| Unweighted base: | 1496 | 2090 | 3505 | 2040 | 1803 | 1815 | 3510 | 1781 | 1996 |
| Type 1: New application/ renewal | 13% | 9% | 7% | 10% | 12% | 9% | 6% | 5% | 5% |
| Applied for new facility (any) | 7% | 5% | 4% | 6% | 8% | 6% | 3% | 4% | 2% |
| - applied for new loan | 4% | 2% | 2% | 3% | 5% | 2% | 2% | 2% | 1% |
| - applied for new overdraft | 4% | 3% | 3% | 4% | 5% | 5% | 2% | 3% | 1% |
| Renewed facility (any) | 9% | 5% | 4% | 5% | 5% | 3% | 3% | 2% | 3% |
| - renewed existing loan | 4% | 1% | 1% | 1% | 2% | 1% | 1% | * | 1% |
| - renewed existing overdraft | 8% | 4% | 3% | 4% | 5% | 3% | 2% | 2% | 2% |
| Type 2: Cancel/ renegotiate by bank | 4% | 4% | 3% | 4% | 4% | 2% | 2% | 1% | 4% |
| Bank sought to renegotiate facility (any) | 4% | 3% | 2% | 3% | 3% | 2% | 1% | 1% | 4% |
| - sought to renegotiate loan | 1% | 1% | * | 1% | 1% | * | * | * | 2% |
| - sought to renegotiate overdraft | 3% | 2% | 2% | 2% | 2% | 2% | 1% | 1% | 2% |
| Bank sought to cancel facility (any) | 1% | 1% | 1% | 2% | 1% | * | 1% | * | 1% |
| - sought to cancel loan | 1% | * | * | 1% | 1% | * | * | * | 1% |
| - sought to cancel overdraft | 1% | 1% | 1% | 2% | 1% | * | 1% | * | 1% |
| Type 3: Chose to reduce/ pay off facility | 2% | 1% | 1% | 3% | 2% | 2% | 1% | 1% | 3% |
| - reduce/pay off loan | 2% | 1% | 1% | 1% | 1% | 1% | 1% | 1% | 2% |
| - reduce/pay off overdraft | 1% | 1% | * | 2% | 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 8% to 13%:

| Borrowing events YEQ4 13 – all SMEs | Total | All excl. PNBs |
|---|--------|-------------------|
| Unweighted base: | 20,036 | 14,578 |
| Type 1: New application/renewal | 8% | 13% |
| Applied for new facility (any) | 4% | 7% |
| - applied for new loan | 2% | 4% |
| - applied for new overdraft | 3% | 5% |
| Renewed facility (any) | 4% | 7% |
| - renewed existing loan | 1% | 2% |
| - renewed existing overdraft | 3% | 6% |
| Type 2: Cancel/renegotiate by bank | 3% | 5% |
| Bank sought to renegotiate facility (any) | 2% | 4% |
| - sought to renegotiate loan | 1% | 1% |
| - sought to renegotiate overdraft | 2% | 3% |
| Bank sought to cancel facility (any) | 1% | 2% |
| - sought to cancel loan | * | 1% |
| - sought to cancel overdraft | 1% | 1% |
| Type 3: Chose to reduce/pay off facility | 2% | 3% |
| - reduce/pay off loan | 1% | 1% |
| - reduce/pay off overdraft | 1% | 1% |

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



Subsequent chapters of this report investigate those SMEs that have applied for a new overdraft or loan facility or to renew an existing one (a Type 1 event), and the outcome of that application by application date.

SMEs were only asked these follow up questions for a maximum of one loan and one overdraft event. Those that had experienced more than one event in a category were asked which had occurred most recently and were then questioned on this most recent event.

Base sizes may therefore differ from the overall figures reported above.

While reflecting on these events, it is important to bear in mind that 4 out of 10 SMEs currently use external finance while less than 1 in 10 reported one of the Type 1 borrowing 'events' in the previous 12 months. Indeed, 4 out of 10 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 <u>not</u> had a borrowing event in the 12 months prior to interview, and explores why this was the case.

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

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



Applications over time

As the table below shows, the proportion of SMEs having had any Type 1 **overdraft** event in the 12 months prior to interview was somewhat lower in 2013 than in 2012, and this was also true once the 'Permanent non-borrowers' were excluded:

| Overdraft events in previous 12 months – all SMEs, over time By date of interview | Q4 2011 | Q1 2012 | Q2 2012 | Q3 2012 | Q4 2012 | Q1 2013 | Q2 2013 | Q3 2013 | Q4 2013 |
|--|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Unweighted base: | 5010 | 5023 | 5000 | 5032 | 5000 | 5000 | 5000 | 5008 | 5028 |
| Applied for a new overdraft | 4% | 5% | 4% | 4% | 4% | 3% | 4% | 2% | 3% |
| Renewed an existing overdraft | 4% | 5% | 4% | 4% | 4% | 4% | 3% | 3% | 3% |
| Any Type 1 overdraft event | 7% | 9% | 8% | 8% | 7% | 6% | 7% | 5% | 5% |
| Any Type 1 overdraft event excluding PNBs | 10% | 13% | 12% | 12% | 11% | 10% | 10% | 9% | 9% |

Q26 All SMEs



The incidence of Type 1 **loan** events in the 12 months prior to interview was stable, but remained low. Once the 'Permanent non-borrowers' were excluded, there were slightly fewer events reported in 2013 than in 2012:

| Loan events in previous 12 months all SMEs, over time By date of interview | Q4 2011 | Q1 2012 | Q2 2012 | Q3 2012 | Q4 2012 | Q1 2013 | Q2 2013 | Q3 2013 | Q4 2013 |
|--|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Unweighted base: | 5010 | 5023 | 5000 | 5032 | 5000 | 5000 | 5000 | 5008 | 5028 |
| Applied for a new loan | 3% | 4% | 3% | 3% | 3% | 2% | 2% | 2% | 2% |
| Renewed an existing loan | 1% | 2% | 2% | 1% | 1% | 1% | 1% | 1% | 1% |
| Any Type 1 loan event | 3% | 5% | 4% | 4% | 3% | 3% | 3% | 3% | 3% |
| Any Type 1 loan event excl PNBs | 5% | 7% | 7% | 6% | 5% | 5% | 5% | 5% | 5% |

Q26 All SMEs

From Q4 2012, those that reported a Type 1 event were asked whether the application was made in the name of the business or a personal name. For YEQ4 2013, 9% of overdraft applications <u>reported</u> were made in a personal name, while for loans the figure was 16% (excluding DK answers). This means that for YEQ4 2013, the equivalent of 1% of **all** SMEs reported making an overdraft or loan application in their personal name, in the 12 months prior to interview.

It is also possible to report on the <u>types</u> of SMEs that have become more or less likely to have had *any* Type 1 event in the 12 months prior to interview, that is, an application for a new or renewed loan or overdraft facility. The table below shows the decline in the reporting of Type 1 events since 2011, across all size bands, and also once the 'Permanent non-borrowers' have been excluded. Since Q4 2012, the proportion of SMEs with employees reporting a Type 1 event has remained relatively stable, but at lower levels than previously seen. Applications from 0 employee SMEs have been more volatile, and at 5%, levels are notably lower than for SMEs with employees.

The Q4 2013 figures also show two 'groups' of SME by sector, with those in the Transport, Property/Business Services, Health and the Other Community sectors less likely to report a Type 1 event than other sectors:



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

Q26 All SMEs: base size varies by category





Other business demographics also showed some variation in incidence of a Type 1 event in Q4 2013:

| Demographic | Incidence of Type 1 events reported in Q4 2013 | | | | | | | |
|---------------------------------|---|--|--|--|--|--|--|--|
| Age of business | The incidence of Type 1 events varied less by age of business in 2013 than it had in the past: from 5% for Starts to 10% for those trading for 15 years or more in Q4. Starts remained much more likely to have applied for new facilities than to have renewed an existing facility (4% v 1%) while older businesses were somewhat more likely to have renewed (amongst those 15 years+, 4% applied for a new facility v 7% who renewed one) | | | | | | | |
| Profitable SMEs | Those who had made a loss in the previous 12 months trading were slightly more likely to have applied: Made a profit 7% had a Type 1 event Broke even 5% Made a loss 11% | | | | | | | |
| Fast Growth (20%+ last 3 years) | There was little difference by growth: Grown 20%+ last 3 yrs 8% Grown by less than this 9% Not grown in last yr 8% | | | | | | | |
| Importers/exporters | Those engaged in international trade were only slightly more likely to have had an event (9%) than those who were not (7%). Note that they are typically also larger SMEs. | | | | | | | |



Overdraft events – definition and further clarification

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

To explore this further, from Q4 2011, SMEs that had reported having an overdraft facility but that had *not* subsequently mentioned any overdraft event, were asked whether, in the

previous 12 months, their bank had automatically renewed their overdraft facility at the same level, for a further period, without their having to do anything.

The results for YEQ4 2013 are reported below and show that just under half of all overdraft holders (44%) reported that they had had such an automatic renewal, the equivalent of 8% of all SMEs:

| Any overdraft activity YEQ4 13 | All with overdraft | All SMEs |
|-------------------------------------|-----------------------|----------|
| Unweighted base: | 5085 | 20,036 |
| Had an overdraft 'event' | 28% | 5% |
| Had automatic renewal | 44% | 8% |
| Neither of these but have overdraft | 27% | 5% |
| No overdraft | - | 82% |

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

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



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

As the table below shows, those proportions then declined over time. In Q4 2013 however, 47% of SMEs with an overdraft reported an automatic renewal in the previous 12 months, a similar proportion to the last quarter of 2012.

The equivalent of 8% of *all* SMEs had experienced an automatic renewal, and this has been stable during 2013, albeit at lower levels than seen in 2012:

| Experienced an automatic renewal in previous 12 mths By date of interview- row percentages | Q4 2011 | Q1 2012 | Q2 2012 | Q3 2012 | Q4 2012 | Q1 2013 | Q2 2013 | Q3 2013 | Q4 2013 |
|---|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| SMEs with overdraft | 57% | 49% | 54% | 40% | 48% | 45% | 43% | 41% | 47% |
| 'All SMEs' equivalent | 13% | 12% | 12% | 10% | 9% | 8% | 8% | 7% | 8% |

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

Over time, with fewer SMEs having an overdraft facility at all, the proportion of total overdraft activity (ie an event or a renewal) which was accounted for by an automatic renewal, has remained fairly stable. In both 2012 and 2013, 40% of overdraft activity was typically an 'event' and 60% was an 'automatic renewal'.

New questions asked from Q4 2012 provide some further detail on these automatic renewals. For YEQ4 2013, 24% of those reporting an automatic renewal said that the facility was in a personal name (a slightly higher proportion than amongst those reporting on personal lending for other loan and overdraft Type 1 events).

Data being collected on when this automatic renewal took place and the size of the facility renewed, will allow for a more direct comparison with Type 1 overdraft events as sample sizes develop over time. Initial findings are that half of these automatically renewed facilities were for sums of £5,000 or less with the majority, 8 out of 10, involving sums of £25,000 or less.



The analysis below looks at which types of business with an overdraft were more likely to have an overdraft 'event', based on YEQ4 2013 data to ensure robust base sizes.

As the table below shows, for YEQ4 2013 automatic renewals made up a higher proportion of overdraft 'activity' for 0 employee SMEs with an overdraft facility, while 32% of their overdraft activity was an 'event'. For those SMEs with employees, an 'event' was as likely to have occurred as an automatic renewal:

| Overdraft activity YEQ4 13 – All with overdraft | Total | 0 emp | 1-9 emps | 10-49 emps | 50-249 emps |
|--|-------|-------|-------------|---------------|----------------|
| Unweighted base: | 5085 | 603 | 1734 | 1896 | 852 |
| Had an overdraft 'event' | 28% | 23% | 37% | 38% | 37% |
| Had automatic renewal | 44% | 48% | 38% | 35% | 33% |
| % of overdraft activity that was 'event' | 39% | 32% | 49% | 52% | 53% |
| Neither of these but have overdraft | 27% | 29% | 25% | 27% | 29% |

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 account, it was those with an average risk rating who were more likely to have had an overdraft automatically renewed:

| Overdraft activity YEQ4 13 – All with overdraft | Total | Min | Low | Avge | Worse/Avge |
|--|-------|-----|------|------|------------|
| Unweighted base: | 5085 | 795 | 1136 | 1456 | 1277 |
| Had an overdraft 'event' | 28% | 39% | 29% | 25% | 28% |
| Had automatic renewal | 44% | 44% | 45% | 50% | 41% |
| % of overdraft activity that was 'event' | 39% | 47% | 39% | 33% | 41% |
| Neither of these but have overdraft | 27% | 17% | 26% | 24% | 31% |

Q15/ 26/26a All SMEs





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

| Overdraft activity YEQ4 13 – All with overdraft | Agric | Mfg | Constr | Whle Retail | Hotel Rest | Trans | Prop/ Bus | Health S Work | Other Comm |
|---|-------|-----|--------|----------------|---------------|-------|--------------|------------------|---------------|
| Unweighted base: | 521 | 581 | 935 | 559 | 417 | 422 | 806 | 381 | 463 |
| Had an overdraft 'event' | 38% | 29% | 28% | 33% | 35% | 29% | 23% | 21% | 27% |
| Had automatic renewal | 41% | 46% | 46% | 42% | 41% | 44% | 44% | 56% | 41% |
| % of overdraft activity that was 'event' | 48% | 39% | 38% | 44% | 46% | 40% | 34% | 27% | 40% |
| Neither of these but have overdraft | 21% | 24% | 26% | 24% | 24% | 27% | 33% | 23% | 32% |

Q15/ 26/26a All SMEs

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

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



The answers to these questions reflect the SME's perception of how their business overdraft facility had been managed by their bank. Given the low level of 'events' reported generally, these SMEs with an automatic renewal form a substantial group and, from Q2 2012, they have answered further questions about this automatic renewal. This means that the definition of 'having a borrowing event' has been adjusted to include these automatic

renewals (see Chapter 11) and some data is now available on the interest rates, security and fees relating to these automatically renewed overdraft facilities (see Chapter 10). Further questions on the amount borrowed and when this automatic renewal took place were added to the questionnaire for Q4 2012, and are being incorporated into the analysis as sample sizes permit.

7. The build up to applications for overdrafts and loans



This chapter is

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



Key findings

A third of those applying for an <u>overdraft</u> between Q3 2012 and Q4 2013 were doing so for the first time, and this was more common amongst smaller and younger SMEs. Whilst many first time applicants were Starts (37% in 2013 to date) the proportion has fallen slightly over time (from 45% in 2012). The most common type of overdraft event was the renewal of an existing facility (45% of applicants, and more common amongst larger SMEs that were applying).

Almost half of overdraft applications, 43%, were for £5,000 or less and most, 82%, were looking for working capital for day to day cash flow.

11% sought advice before they applied. Advice was more likely to be sought by those applying for higher amounts, and by those applying more recently.

Loan applicants were more likely than overdraft applicants to be applying for the first time (41%) and less likely to be renewing an existing facility (9%). In contrast to overdrafts, the proportion of first time applicants who were also Starts had increased over time from 40% in 2012 to 45% in 2013.

Loans were typically sought for UK expansion (31%) or to buy fixed assets (29%). Applicants were typically seeking a higher sum than overdraft applicants – 22% had sought less than £5,000 while as many, 21% were seeking £100,000 or more. Three quarters were looking for the bank to provide all the funding required and this was more likely to be the case for recent applications.



Loan applicants were more likely to have sought advice than overdraft applicants (19%), and again those seeking larger amounts were more likely to have sought advice.

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

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

Of more recent applications reported for 2012 and 2013 to date, some quarters have featured more often than others as a quarter where a Type 1 event *might* have occurred. Once this was controlled for, the pattern of applications for both loans and overdrafts was typically in line with an even distribution of events, especially for 2013. As identified in previous reports, there were more applications in Q1 2012 than might have been expected (for both loans and overdrafts). For loans, the proportion of applications made during each of the three remaining quarters of 2012 was somewhat below what might have been expected. For

overdrafts too, all three quarters were below what might have been expected, with the Q3 2012 figure the most different.

As these chapters examine overdraft and loan events specifically, it makes sense for the analysis to be based on when the event occurred, rather than when it was reported, and the Q2 2013 report was the first to adopt this approach for these chapters.

Each chapter includes analysis, as far as is possible, on the extent to which loan and overdraft applications are changing over time. For the most recent quarters (especially Q3 and Q4 2013) this is only **interim** data, which is liable to change and will be updated in subsequent reports.

However, for some sub-group analysis, such as by size or risk rating, sample sizes preclude analysis at the individual quarter level and the data needs to be grouped over time to provide a more robust sample size. In order to ensure a suitable sample size, a period of 18 months has been selected. This means that rather than reporting on applications for YEQ4 (i.e. all interviews conducted in the 4 quarters to Q4 2013, irrespective of when the borrowing event occurred), data is now reported on the basis of 'Applications occurring in the 18 months to Q4 2013' (i.e. applications made between Q3 2012 and Q4 2013, irrespective of when the SME was actually interviewed).

Why were they applying?

Overdraft applications

This analysis is based on the new definition of SMEs that made an <u>application</u> for a new or renewed overdraft facility during the most recent 18 month period, which for this report is Q3 2012 to Q4 2013. Within this 18 month time period, final data is now available for applications made up to the end of 2012. Data on applications in the more recent quarters (in 2013) is still being gathered and will be updated in future waves, and so the figures quoted will be liable to change over time. All percentages quoted are therefore just of this group of applicants. For context, in Q4 2013 this was the equivalent of 5% of all SMEs or around 225,000 businesses. Note that this does

<u>not</u> include SMEs who had an overdraft automatically renewed.

Just under half of those reporting a Type 1 overdraft event that occurred between Q3 2012 and Q4 2013 said that they had been looking to renew an existing overdraft for the same amount (45%), and this was more common amongst larger applicants. Around a third of applicants (30%) were seeking an overdraft for the very first time. 37% of these first time applicants were Starts. Over time the proportion of first time overdraft applicants that were Starts has declined, from 45% in 2012 to 37% for 2013 to date:

| Nature of overdraft event Sought new/renewed facility Q3 12- Q4 13 | Total | 0 emp | 1-9 emps | 10-49 emps | 50-249 emps |
|---|-------|-------|----------|---------------|----------------|
| Unweighted base: | 1914 | 185 | 683 | 716 | 330 |
| Renewing overdraft for same amount | 45% | 40% | 48% | 60% | 67% |
| Applied for first ever overdraft facility | 30% | 38% | 23% | 11% | 8% |
| Seeking to increase existing overdraft | 16% | 14% | 17% | 16% | 14% |
| Setting up facility at new bank | 2% | 3% | 2% | 3% | 2% |
| Seeking additional overdraft on another account | 4% | 3% | 7% | 4% | 4% |
| Seeking to reduce existing facility | 2% | 2% | 3% | 5% | 4% |

Q52 All SMEs seeking new/renewed overdraft facility

Analysis in previous reports had shown that the application process for an overdraft, as well as the eventual outcome, varied by the reason for application.

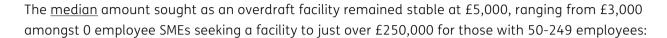
The table below shows the proportion of applications made for each reason, over time, for those quarters where sufficiently robust sample sizes exist. This shows that renewals have consistently been the main reason for an overdraft event:

| Nature of overdraft event SMEs seeking new/renewed facility By application date | Q1 11 | Q2 11 | Q3 11 | Q4 11 | Q1 12 | Q2 12 | Q3 12 | Q4 12 | Q1* 13 | Q2* 13 | Q3* 13 |
|---|----------|----------|----------|----------|----------|----------|----------|----------|-----------|-----------|-----------|
| Unweighted base: | 679 | 517 | 557 | 548 | 681 | 448 | 373 | 473 | 443 | 319 | 207 |
| Renewing overdraft for same amount | 50% | 49% | 44% | 49% | 40% | 51% | 49% | 44% | 44% | 39% | 48% |
| Applied for first ever overdraft facility | 22% | 24% | 27% | 28% | 33% | 29% | 25% | 33% | 29% | 34% | 29% |
| Seeking to increase existing overdraft | 16% | 18% | 18% | 18% | 20% | 11% | 17% | 14% | 13% | 19% | 14% |
| Setting up facility at new bank | 6% | 1% | 2% | 1% | 4% | 1% | 1% | 1% | 5% | * | 5% |
| Seeking additional overdraft on another account | 4% | 2% | 5% | 2% | 2% | 7% | 5% | 4% | 6% | 4% | 3% |
| Seeking to reduce existing facility | 2% | 5% | 3% | 2% | 1% | 2% | 1% | 3% | 3% | 4% | 1% |

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

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

Almost all overdraft applications (98% in the 18 months from Q3 12 to Q4 13) were made to the SME's main bank. This varied little by date of application – Q2 2013 saw a slightly lower proportion of applications made to main bank (95%) while in almost all other quarters, 97% or more of applications were made there.



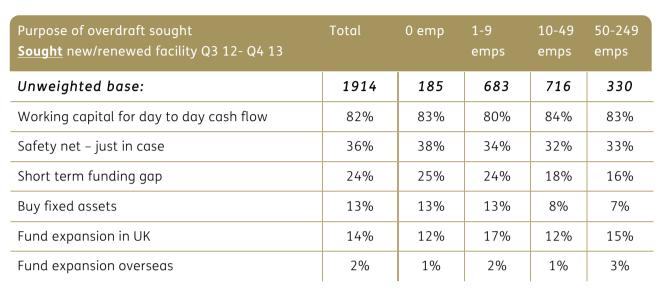
| Amount initially sought, where stated Sought new/renewed facility Q3 12- Q4 13 | Total | 0 emp | 1-9 emps | 10-49 emps | 50-249 emps |
|---|-------|-------|-------------|---------------|----------------|
| Unweighted base: | 1727 | 178 | 626 | 628 | 295 |
| Less than £5,000 | 43% | 61% | 25% | 4% | 1% |
| £5,000 - £9,999 | 16% | 16% | 18% | 7% | * |
| £10,000 - £24,999 | 23% | 17% | 32% | 19% | 6% |
| £25,000 - £99,999 | 13% | 5% | 20% | 36% | 17% |
| £100,000+ | 6% | 2% | 6% | 34% | 76% |
| Median amount sought | £5k | £3k | £10k | £49k | £259k |

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

An increasing proportion of applications/renewals were made for £5,000 or less over the course of 2010 and 2011, from around a third to a half of applications made. In 2012, 45% of applications made were for £5,000 or less, while for 2013 to date the figure is slightly lower at 43%.

As the table below shows, eight out of ten overdraft applicants said that the overdraft was needed for day to day cash flow, with little variation by size. One in three (36%) wanted it as a 'safety net', again with little variation by size.

A quarter wanted the facility to fill a short term funding gap, and this was slightly more common amongst smaller SMEs that had applied. As in previous quarters, overdrafts were much more likely to have been sought to support UK expansion (14%) than expansion overseas (2%).



Q55 All SMEs seeking new/renewed overdraft facility

'Working capital' remained the main reason for seeking an overdraft across all external risk ratings, ranging from 88% of those with a low external risk rating to 70% of those with a minimal risk rating.

Looking at the purpose of the overdraft sought over time, working capital was consistently the most mentioned purpose:

| Purpose of overdraft SMEs seeking new/renewed facility - by application date | Q1 11 | Q2 11 | Q3 11 | Q4 11 | Q1 12 | Q2 12 | Q3 12 | Q4 12 | Q1* 13 | Q2* 13 | Q3* 13 |
|--|----------|----------|----------|----------|----------|----------|----------|----------|-----------|-----------|-----------|
| Unweighted base: | 679 | 517 | 557 | 548 | 681 | 448 | 373 | 473 | 443 | 319 | 207 |
| Working capital for day to day cash flow | 90% | 78% | 80% | 79% | 81% | 75% | 80% | 78% | 89% | 90% | 79% |
| Safety net – just in case | 47% | 46% | 54% | 43% | 38% | 34% | 45% | 31% | 35% | 26% | 45% |
| Short term funding gap | 43% | 34% | 43% | 30% | 31% | 23% | 21% | 21% | 26% | 21% | 30% |
| Buy fixed assets | 17% | 13% | 16% | 11% | 9% | 12% | 13% | 16% | 10% | 12% | 18% |
| Fund growth in UK | 12% | 13% | 7% | 10% | 12% | 17% | 9% | 14% | 15% | 12% | 26% |
| Fund growth overseas | 1% | 1% | 2% | * | 2% | 1% | 1% | 1% | 3% | 2% | * |

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

The proportion of SMEs seeking advice before they applied for an overdraft remained consistently low (11% amongst those applying between Q3 2012 and Q4 2013). Advice was more likely to be sought for larger overdraft facilities – while 9% sought advice for an overdraft of £25,000 or less, 18% sought advice if they were applying for an overdraft of £25-100,000 and 15% for overdrafts of above £100,000. Interim data suggests that those applying in 2013, especially in the second half of the year, were somewhat more likely to take advice (currently 14% for applications made in H213).

Larger applicants were also somewhat more likely to have sought advice (and they are also of course likely to be seeking a larger facility). Amongst applicants with 0 employees 10%

sought advice, while amongst those with 50-249 employees 15% sought advice. There was some evidence that the increase over time in advice sought was due to more of the smaller applicants taking advice in 2013 compared to 2012.

The main reason for <u>not</u> seeking advice remained that it was not felt to be needed (57%). Both this and a view that the SME had previously been successful with an application (13%), were mentioned more by larger applicants that had not sought advice. 12% of all those not seeking advice said that they did not know who to ask, while 12% did not think it would have made any difference to the outcome of their application. Both of these were mentioned slightly more by smaller applicants who had not sought advice.

Overdraft applications – a sector summary

Those in the Transport sector remained more likely to be seeking their first ever overdraft (45%), while those in the Other Community sector remained more likely to be renewing an existing facility (72%):

| Overdraft activity Sought new/ renewed facility Q3 12- Q4 13 | Agric | Mfg | Constr | Whle Retail | Hotel Rest | Trans | Prop/ Bus | Health S Work | Other Comm |
|--|-------|-----|--------|----------------|---------------|-------|--------------|------------------|---------------|
| Unweighted base: | 216 | 199 | 332 | 212 | 201 | 164 | 286 | 134 | 170 |
| Renewing overdraft for same amount | 56% | 52% | 41% | 45% | 38% | 33% | 38% | 46% | 72% |
| Applied for first ever overdraft | 13% | 27% | 31% | 29% | 32% | 45% | 39% | 28% | 16% |
| Seeking to increase existing overdraft | 17% | 16% | 20% | 16% | 15% | 17% | 11% | 22% | 8% |

Q52 All SMEs seeking new/renewed overdraft facility

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

Those in Agriculture were seeking the highest median overdraft amount, at £40,000. The lowest median amount sought was just under £4,000 by applicants from the Transport sector.

The main purpose of the overdraft for all sectors was working capital, ranging from 92%

of applicants in Wholesale/Retail to 70% of applicants in the Property/Business Services sector. 43% of applicants in the Health sector mentioned a short term funding gap, while 25% of those in the Manufacturing sector were looking to fund growth in the UK.

Those in Manufacturing (17%) and Property/Business Services (15%) were the most likely to have sought advice for their application while those in the Other Community sector remained the least likely (4%).



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

There have been fewer loan events reported than overdraft events. As a result, even for applications in the 18 months to Q4 2013, the same granularity of analysis is not always possible as for other areas of the report, or smaller base sizes mean the results should be treated with some caution.

Loan applications were more likely than overdraft applications to be for new funding (the first two rows of the table below), with 78% of loan applicants seeking a new loan (compared to 46% for overdrafts), and 4 out of 10 saying this was their first ever loan (compared to 30% for overdrafts). As the table below shows, a first loan was more likely to be the case for smaller SMEs that had applied, and 45% of first time applicants were Starts. In contrast to overdrafts, the proportion of first time loan applicants who were Starts increased between 2012 and 2013, from 40% to 45%:

| Nature of loan event <u>Sought</u> new/renewed facility Q3 12- Q4 13 | Total | 0 emp | 1-9 emps | 10-49 emps | 50-249 emps |
|---|-------|-------|----------|---------------|----------------|
| Unweighted base: | 935 | 95* | 320 | 348 | 172 |
| Applied for first ever loan | 41% | 47% | 36% | 17% | 12% |
| New loan but not our first | 37% | 40% | 32% | 41% | 44% |
| Renewing loan for same amount | 9% | 7% | 11% | 22% | 18% |
| Topping up existing loan | 6% | 4% | 8% | 8% | 10% |
| Refinancing onto a cheaper deal | 3% | * | 6% | 8% | 11% |
| Consolidating existing borrowing | 3% | 1% | 5% | 2% | 2% |
| New loan facility after switching bank | 1% | - | 3% | 1% | 3% |

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



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

| Nature of loan event- SMEs seeking new/renewed facility – By application date | Q1 11 | Q2 11 | Q3 11 | Q4 11 | Q1 12 | Q2 12 | Q3 12 | Q4 12 | Q1* 13 | Q2* 13 | Q3* 13 |
|---|----------|----------|----------|----------|----------|----------|----------|----------|-----------|-----------|-----------|
| Unweighted base: | 302 | 273 | 282 | 310 | 305 | 241 | 202 | 244 | 195 | 143 | 105 |
| Applied for first ever loan | 40% | 33% | 41% | 32% | 46% | 37% | 50% | 38% | 34% | 39% | 44% |
| New loan but not our first | 29% | 29% | 25% | 37% | 25% | 30% | 30% | 41% | 35% | 43% | 37% |
| Renewing loan for same amount | 17% | 17% | 9% | 11% | 12% | 10% | 4% | 8% | 19% | 9% | 6% |
| Topping up existing loan | 7% | 8% | 5% | 14% | 7% | 13% | 10% | 5% | 7% | 1% | 6% |
| Refinancing onto a cheaper deal | 4% | 6% | 16% | 3% | 5% | 7% | 1% | 3% | 4% | 2% | 4% |
| Consolidating existing borrowing | 3% | 5% | 3% | 1% | 3% | 3% | 3% | 3% | 2% | 5% | * |
| New facility after switching banks (new) | | | | * | * | 1% | 1% | 2% | - | 2% | 3% |

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

Compared to overdraft applications/renewals, those for loans were slightly less likely to be made to the SME's main bank, although most of them were (90% v 98% for overdrafts).

The <u>median</u> amount sought was slightly higher, at £14,000 than for the previous period (£11,000 for Q2 12 to Q3 13). Sample sizes limit the amount of analysis possible over time, but the majority of loans sought continued to be for £100,000 or less:

| Amount initially sought, where stated Sought new/renewed facility Q3 12- Q4 13 | Total | 0 emps | 1-9 emps | 10-49 emps | 50-249 emps |
|--|-------|--------|----------|---------------|----------------|
| Unweighted base: | 830 | 86* | 298 | 300 | 146 |
| Less than £5,000 | 22% | 33% | 8% | 2% | 1% |
| £5,000 - £9,999 | 17% | 20% | 16% | 4% | * |
| £10,000 - £24,999 | 24% | 21% | 30% | 17% | 4% |
| £25,000 - £99,999 | 16% | 9% | 25% | 25% | 12% |
| £100,000+ | 21% | 16% | 22% | 53% | 83% |
| Median amount sought | £14k | £8k | £19k | £97k | £471k |

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

From Q4 2011, loan applicants have been asked about the extent to which the funding applied for represented the <u>total</u> funding required and how much the business was contributing. The results for applications made in the 18 months to Q4 2013 are shown below, with most applicants (75%) seeking all the funding they required from the bank:

| Proportion of funding sought from bank <u>Sought</u> new/renewed facility Q3 12- Q4 13 | Total | 0 emps | 1-9 emps | 10-49 emps | 50-249 emps |
|---|-------|--------|----------|---------------|----------------|
| Unweighted base: | 914 | 92* | 314 | 341 | 167 |
| Half or less of total sum required | 9% | 8% | 11% | 11% | 10% |
| 51-75% of sum required | 10% | 9% | 11% | 9% | 8% |
| 76-99% of sum required | 6% | 6% | 5% | 7% | 5% |
| All of sum required sought from bank | 75% | 77% | 73% | 72% | 77% |

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

Overall there was relatively little difference in the proportion seeking <u>all</u> the funding from the bank by size of applicant. There was slightly more variation by external risk rating, from 66% of those with an average risk rating to 84% of those with a worse than average risk rating seeking all the funding from the bank.

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

| Proportion seeking <u>all</u> funding from the bank (excl DK) Row percentages | H1 2011 | H2 2011 | H1 2012 | H2 2012 | H1* 2013 |
|--|------------|------------|------------|------------|-------------|
| All loan applicants | 79% | 69% | 64% | 69% | 81% |
| All applicants with 0-9 employees | 80% | 69% | 64% | 69% | 81% |
| All applicants with 10-249 employees | 67% | 65% | 67% | 70% | 77% |

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

Overall, these funds were likely to have been sought either to fund expansion in the UK (31%) or to purchase fixed assets (29%). Applicants with 0 employees remained more likely to be buying fixed assets or motor vehicles, while those with employees were more likely to be buying premises:

| Purpose of loan <u>Sought</u> new/renewed facility Q3 12- Q4 13 | Total | 0 emps | 1-9 emps | 10-49 emps | 50-249 emps |
|--|-------|--------|----------|------------|----------------|
| Unweighted base: | 935 | 95* | 320 | 348 | 172 |
| Fund expansion in UK | 31% | 33% | 30% | 25% | 43% |
| Buy fixed assets | 29% | 33% | 24% | 21% | 23% |
| Buy motor vehicles | 20% | 28% | 11% | 6% | 4% |
| Buy premises | 21% | 17% | 25% | 28% | 25% |
| Develop new products/services | 13% | 12% | 16% | 14% | 18% |
| Replace other funding | 7% | 2% | 13% | 12% | 7% |
| Fund expansion overseas | 1% | - | 3% | 2% | 11% |
| Take over another business | 1% | * | 3% | 2% | 5% |

Q150 All SMEs seeking new/renewed loan facility

Analysed by application date (see table below), the most common reasons for seeking loan finance remain funding expansion in the UK and buying fixed assets. There was an increase in the proportion of applications to fund premises in Q4 2012 and Q1 2013 which has not been maintained in more recent quarters.

| Purpose of loan SMEs seeking new/renewed facility – by application date | Q1 11 | Q2 11 | Q3 11 | Q4 11 | Q1 12 | Q2 12 | Q3 12 | Q4 12 | Q1* 13 | Q2* 13 | Q3* 13 |
|---|----------|----------|----------|----------|----------|----------|----------|----------|-----------|-----------|-----------|
| Unweighted base: | 302 | 273 | 282 | 310 | 305 | 241 | 202 | 244 | 195 | 143 | 105 |
| Fund expansion in UK | 28% | 19% | 26% | 30% | 31% | 39% | 35% | 32% | 17% | 36% | 44% |
| Buy fixed assets | 21% | 13% | 35% | 42% | 36% | 15% | 31% | 29% | 25% | 31% | 22% |
| Premises | 11% | 25% | 18% | 19% | 17% | 12% | 16% | 29% | 28% | 15% | 16% |
| Buy motor vehicles | 22% | 24% | 24% | 10% | 22% | 33% | 16% | 18% | 32% | 24% | 6% |
| Develop new products/services | 15% | 20% | 22% | 7% | 19% | 7% | 13% | 11% | 12% | 16% | 20% |
| Fund expansion overseas | 3% | 2% | * | 4% | 3% | 2% | 1% | 1% | 1% | 1% | 1% |

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

Whereas 11% of overdraft applicants Q3 2012 to Q4 2013 had sought external advice before applying, more loan applicants had done so, albeit still a minority (19%). As for overdrafts, advice was more likely to be sought for larger amounts of loan borrowing. While 11% of those looking to borrow less than £25,000 sought advice, this increased to 21% of those seeking £25-100,000 and 47% of those seeking to borrow more than £100,000. 44% of those who went on to successfully obtain a commercial mortgage had sought advice.

Smaller applicants remained slightly less likely to have sought advice (18% of applicants with 0-9 employees sought advice compared to 21% of those with 10-249 employees)

Analysis by date of application suggests that seeking advice was more common for applications made in 2011 (when around 1 in 5 sought advice) than for applications made in 2012 (when around 1 in 6 sought advice), while in 2013 the proportion seeking advice for a loan application was back to around 1 in 5 (on the data currently available).



Loan applications – a sector summary

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

| Loan activity Sought new/renewed facility Q3 12- Q4 13 | Agric | Mfg | Constr | Whle Retail | Hotel Rest | Trans | Prop/ Bus | Health S Work | Other Comm |
|--|-------|-----|--------|----------------|---------------|-------|--------------|------------------|---------------|
| Unweighted base: | 97* | 105 | 109 | 97* | 101 | 81* | 152 | 94* | 99* |
| Applied for first ever loan | 25% | 47% | 42% | 43% | 49% | 47% | 43% | 40% | 29% |
| New loan (other) | 35% | 39% | 47% | 33% | 25% | 36% | 27% | 53% | 50% |
| Renewing loan for same amount | 16% | 4% | 1% | 11% | 10% | 2% | 18% | 2% | 8% |

Q149 All SMEs seeking new/renewed loan facility

Most approached their main bank (90%). The least likely to do so were applicants in the Manufacturing and Other Community sectors (where 84% of applications were made to main bank).

The highest median loan amounts were sought by applicants from the Agriculture (£95k) sector. The lowest median amount sought was from applicants in Construction (£5k). Those in the Health and Other Community sectors were more likely to be seeking all the funding required from the bank while applicants from Manufacturing remained less likely.

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

Advice was sought by 1 in 3 of those in Hotels and Restaurants and the Property / Business services sector, compared to 8% of those in the Transport and Other Community sectors.

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

Around 7 out of 10 of <u>all</u> loan and overdraft applications each quarter resulted in a facility. Those renewing an existing facility were twice as likely to be successful (96% of those applying Q3 2012 to Q4 2013) as those applying for new funds (48%).

Over time, an increasing proportion of applicants have had a worse than average external risk rating. This was more common amongst first time applicants (72% in 2013 to date had such a rating, up from 61% in 2010) who make up an increasing proportion of applications made.

The data currently available on all loan and overdraft applications made in the first half of 2013 shows that they were somewhat less likely to result in a facility than applications in previous quarters, due to lower success rates for applications for new money, and that this was only partly explained by the profile of SMEs applying in those quarters.

The initial response to 61% of <u>overdraft</u> applications made Q3 2012 to Q4 2013 was to offer the applicant what they wanted. By the end of the process, 73% of applicants had an overdraft facility (including 15% who had a facility after issues) while 4% had taken other funding and 23% ended the process with no facility. Larger, longer established businesses, and those seeking to renew existing facilities, remained much more likely to end the process with a facility. Analysis by 18 month application period shows a steady overall success rate over time, albeit with lower success rates reported more recently for first time applicants, and those with a worse than average external risk rating.





Over time, as well as more overdraft applicants having a worse than average risk rating, a higher proportion have been first time applicants and fewer have been seeking to renew an existing facility. An initial analysis of more recent overdraft applications made in the first half of 2013 showed that they were somewhat more likely to have been initially declined. Those applying in Q1 2013 were also more likely to end the process with no facility (29%) but this was not the case in Q2 (23%), where more applicants had an overdraft facility 'after issues' (22%). Analysis of the profile of applicants in each quarter (size, risk rating etc) suggests that the overall success rate in Q1 2013 was lower than might have been expected, while in Q2 it was in line.

Including the overdrafts that were automatically renewed increases the proportion of applicants with an overdraft from 73% to 88%.

The initial response to 42% of <u>loan</u> applications made Q3 2012 to Q4 2013 was to offer the applicant what they wanted, while 45% were initially declined. By the end of the process, 56% of applicants had a loan (including 17% who had a loan 'after issues') while 9% had taken other funding and 35% ended the process with no facility. Analysis by 18 month application period shows a fairly stable overall success rate over time, with lower success rates reported more recently for first time applicants and those with an average or worse than average external risk rating.



Over time, as well as more loan applicants having a worse than average risk rating, a higher proportion of applicants have been Starts, and/or making a first application. Analysis by individual quarter showed those applying for a loan in Q2 2013 were somewhat more likely to have been initially declined, and to have ended the process with no facility (51% - based on interim data). Analysis of the profile of applicants in each quarter (size, risk rating etc) suggests that the Q2 2013 success rate was lower than might have been expected.

Amongst those initially declined for a loan or an overdraft, awareness and take up of the appeals process remained limited. 19% of those initially declined for an overdraft between Q3 2012 and Q4 2013 were aware of the appeals process and 12% of those initially declined for a loan over the same period. There is some evidence that those declined in 2013 were more likely to be aware of the appeals process than those declined in 2012. Amongst those aware, take-up of the appeals process remained minimal.



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

as already explained, data for applications reported as having taken place in 2013 remains interim.

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

The final outcome – all loan and overdraft applications to date

Before looking in detail at the individual loan and overdraft journeys, data is provided on the outcome of **all** Type 1 applications, both loan and overdraft, since the start of 2011. Full data on all applications since the SME Finance Monitor started can be found in the charts at the end of this report.

| Final outcome (Overdraft+Loan): SMEs seeking new/renewed facility - By date of application | Q1 11 | Q2 11 | Q3 11 | Q4 11 | Q1 12 | Q2 12 | Q3 12 | Q4 12 | Q1* 13 | Q2* 13 | Q3* 13 |
|--|----------|----------|----------|----------|----------|----------|----------|----------|-----------|-----------|-----------|
| Unweighted base: | 960 | 742 | 808 | 820 | 943 | 650 | 544 | 674 | 613 | 437 | 290 |
| Offered what wanted and took it | 58% | 61% | 55% | 62% | 55% | 54% | 51% | 58% | 51% | 41% | 53% |
| Took facility after issues** | 12% | 11% | 14% | 8% | 12% | 14% | 17% | 17% | 13% | 18% | 14% |
| Have facility (any) | 70% | 72% | 69% | 70% | 67% | 68% | 68% | 75% | 64% | 59% | 67% |
| Took another form of funding | 8% | 7% | 4% | 6% | 4% | 3% | 6% | 4% | 7% | 8% | 2% |
| No facility | 22% | 21% | 27% | 24% | 28% | 29% | 26% | 21% | 29% | 33% | 30% |

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





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

Initial data for all Type 1 applications made in Q1 and Q2 2013 shows lower success rates of 64% and 59% respectively and a higher proportion of these applicants ending the process with no facility. Analysis later in this chapter shows that:

- The lower overdraft success rate for applications made in Q1 2013 was not explained by the profile of applicants in that quarter. Interim success rates for Q2 2013 are currently somewhat higher than Q1 and more in line with the expected success rate, based on the profile of applicants in that quarter.
- The loan success rate was also lower for applications made in Q1 2013, but this can be explained by the profile of applicants. Initial data for Q2 shows lower success rates that are not currently explained by the profile of applicants, and this will be monitored in future waves.

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

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



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

This analysis is based on the new definition of SMEs that made an <u>application</u> for a new or renewed loan or overdraft facility during an 18 month period, which for this report is Q3 2012 to Q4 2013, irrespective of when they were interviewed.

The tables below record the <u>initial</u> response from the bank to applications made in this period and show the majority of applicants being offered a facility. The initial response to 61% of overdraft applications was to offer the SME what it wanted, compared to 42% of loan applications. Bigger SMEs remained much more likely to have been offered what they wanted at this initial stage:

| Initial response (Overdraft): <u>Sought</u> new/renewed facility Q3 12- Q4 13 | Total | 0 emp | 1-9 emps | 10-49 emps | 50-249 emps | |
|---|-------|-------|-------------|---------------|----------------|--|
| Unweighted base: | 1826 | 175 | 652 | 686 | 313 | |
| Offered what wanted | 61% | 55% | 65% | 80% | 88% | |
| Offered less than wanted | 9% | 9% | 10% | 8% | 5% | |
| Offered unfavourable terms & conditions | 5% | 6% | 3% | 3% | 3% | |
| Declined by bank | 25% | 30% | 22% | 9% | 4% | |

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

| Initial response (Loan): <u>Sought</u> new/renewed facility Q3 12- Q4 13 | Total | 0 emps | 1-9 emps | 10-49 emps | 50-249 emps |
|--|-------|--------|-------------|---------------|----------------|
| Unweighted base: | 868 | 91* | 301 | 319 | 157 |
| Offered what wanted | 42% | 35% | 46% | 71% | 76% |
| Offered less than wanted | 8% | 6% | 11% | 8% | 5% |
| Offered unfavourable terms & conditions | 6% | 6% | 5% | 8% | 9% |
| Declined by bank | 45% | 53% | 38% | 14% | 9% |

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



SMEs more likely to be initially offered what they wanted included those applying to renew an existing overdraft (84% were offered what they wanted) or loan (73%), and those with a minimal external risk rating (84% were offered the overdraft they wanted, 80% the loan).

SMEs more likely to be met with an initial decline included those applying for their first ever overdraft (58% were initially declined) or loan (56%) or with a worse than average external risk rating (36% initially declined if applying for an overdraft, 52% if applying for a loan).

The table below looks at the initial response to overdraft applications over time by date of application. This shows that an initial response declining an overdraft request was more common in the first half of 2012, and again in the first half of 2013, when 1 in 3 applications were initially declined. The first data available for Q3 2013 suggests this trend has not continued, but that more applicants had issues with the offer made to them by the bank (26%). All the 2013 application data is interim at this stage, and will be monitored as more data is gathered:

| Initial response: SMEs seeking new/renewed overdraft facility – by date of application | Q1 11 | Q2 11 | Q3 11 | Q4 11 | Q1 12 | Q2 12 | Q3 12 | Q4 12 | Q1* 13 | Q2* 13 | Q3* 13 |
|--|----------|----------|----------|----------|----------|----------|----------|----------|-----------|-----------|-----------|
| Unweighted base (Overdraft): | 670 | 489 | 541 | 527 | 656 | 425 | 355 | 452 | 429 | 303 | 193 |
| Offered what wanted and took it | 64% | 62% | 65% | 69% | 59% | 61% | 63% | 63% | 58% | 53% | 67% |
| Any issues (amount or T&C) | 14% | 16% | 14% | 9% | 13% | 11% | 14% | 16% | 9% | 15% | 26% |
| Declined overdraft | 22% | 22% | 21% | 21% | 27% | 28% | 23% | 21% | 34% | 31% | 7% |

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



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

| Initial response: SMEs seeking new/renewed loan facility – by date of application | Q1 11 | Q2 11 | Q3 11 | Q4 11 | Q1 12 | Q2 12 | Q3 12 | Q4 12 | Q1* 13 | Q2* 13 | Q3* 13 |
|---|----------|----------|----------|----------|----------|----------|----------|----------|-----------|-----------|-----------|
| Unweighted base (Loan) | 290 | 253 | 267 | 293 | 287 | 225 | 189 | 222 | 184 | 134 | 97* |
| Offered what wanted and took it | 50% | 64% | 41% | 50% | 56% | 47% | 36% | 51% | 48% | 27% | 41% |
| Any issues (amount or T&C) | 8% | 12% | 19% | 12% | 7% | 16% | 15% | 18% | 13% | 9% | 17% |
| Declined loan | 42% | 24% | 41% | 38% | 37% | 37% | 49% | 30% | 38% | 64% | 41% |

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 <u>final</u> outcome of the applications and how this has changed over time.



The subsequent journey

The next section of this chapter describes what happened after the initial response from the bank, up to and including the final outcome of the application. This is reported first for overdrafts and then for loans and, unless otherwise stated, is based on all Type 1 overdraft / loan applications *sought* Q3 2012 to Q4 2013, where data is currently available.

Before the detail is discussed of what happened after each of the possible initial responses, the 'journeys' are summarised below. Almost 6 out of 10 overdraft applicants (57%) and 4 out of 10 loan applicants (38%) were offered the facility they wanted and went on to take it with no issues:

| Journey summary All seeking facility Q3 2012 to Q4 2013 | Overdraft | Loan |
|--|-----------|------|
| Unweighted base: | 1826 | 868 |
| Initially offered what they wanted and went on to take the facility with no issues | 57% | 38% |
| Initially offered what they wanted, but had 'issues' before they got facility | 3% | 2% |
| Had issues with the initial offer, and now have a facility 'after issues' | 10% | 10% |
| Were initially turned down, but now have a facility | 2% | 4% |
| Had issues with the initial offer made so took alternative funding instead | * | * |
| Were initially turned down, so took alternative funding instead | 3% | 8% |
| Initially offered what wanted but now have no facility at all | * | * |
| Had issues with the initial offer made and now have no facility at all | 3% | 2% |
| Initially turned down and now have no facility at all | 21% | 31% |

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

91% of the overdraft applicants who ended the process with no facility had been declined by the bank initially while the remaining 9% were made an offer but in the end did not take the facility. This is the equivalent of 3% of all overdraft applicants in the last 18 months receiving the offer of an overdraft but ending the process with no facility.

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





Profile of overdraft applicants by initial response

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

| Initial offer | Profile – all seeking overdraft Q3 2012 to Q4 2013 |
|---|---|
| Those offered what wanted (61% of applicants) | These were typically older and more established businesses: 47% had been in business for 15 years or more (v 38% of all applicants) while 6% were Starts (v 14% of all applicants). 51% had employees (v 46% of all applicants). They were less likely to have a worse than average external risk rating (43% v 51% of all applicants) and slightly more likely to have made a profit in the previous 12 months (74% v 69% of all applicants). They were the most likely to be renewing an existing overdraft facility (63% v 46% of all applicants) and 25% were looking to borrow in excess of £25,000 (v 19% of all applicants). |
| Those offered less than wanted (9% of applicants) | Their age and size profiles were in line with applicants overall, but they were slightly more likely to have a minimal or low external risk rating (30% v 22% overall). 32% were looking to increase an existing overdraft (v 16% of all applicants). They were also somewhat more likely to have made a loss in the previous 12 months (31% v 19% of all applicants). |
| Those offered unfavourable T&C (5% of applicants) | These were typically smaller SMEs (69% had 0 employees v 54% overall) but not necessarily younger ones (14% were Starts, the same as for applicants overall). They had a better external risk rating profile: 32% had a minimal/low rating (v 22% of all applicants) and 42% had an average rating (v 27% of all applicants). They were slightly more likely to be either first time applicants (35% v 29% of applicants) or renewing an existing facility (53% v 46% of all applicants). Just over half, 54%, were looking for between £5,000 and £25,000 (v 39% of all applicants), with 10% looking for more than £25,000 (v 19% of all applicants). |
| Those initially declined (25% of all applicants) | This group continues to have a distinctive profile. They were more likely to be a Start (32% v 14% of all applicants), and less likely to have either a minimal or low external risk rating (6% v 22% of all applicants) or employees (37% v 46% of all applicants). They were also less likely to have made a profit in the previous 12 months (56% v 69% of all applicants). Two thirds, 67%, were applying for their first overdraft (v 29% of all applicants) and half, 59%, were looking for a facility of less than £5,000 (v 43% of all applicants). |



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

Summarised below for all applications made in the 18 months Q3 2012 to Q4 2013 (and reported to date), is what happened after the bank's initial response to the <u>overdraft</u> application and any issues around the application. Base sizes for some groups remain small, but some limited analysis by period of application is now possible, predominantly for those initially declined:

| Initial offer | Subsequent events - all seeking overdraft Q3 2012 to Q4 2013 |
|--|--|
| Offered what wanted (61% of applicants) | 95% of those offered what they wanted went on to take their facility with no issues. 5% experienced a delay or issue, typically waiting for a decision to be made, or valuations/legal work to be completed. 3 applicants did not take the facility offered to them in the end. |
| Issue: Offered less than wanted (9% of applicants) | These SMEs were typically offered 50-90% of what they had asked for. 15% said they were not given a reason for being offered less (excluding those who couldn't remember). |
| Q85-95 | The main reasons given were: |
| | no/insufficient security - 26% of those offered less than they wanted |
| | credit history issues - 20% |
| | • Applied for too much (18%) or a need for more equity in the business (11%) |
| | 20% said that they had not been offered advice by their lender at this stage. 15% thought the advice offered was good, while 44% thought it was poor. |
| | 73% ended up accepting the original offer made by the bank, while 5% accepted an offer at another bank for the same amount. 8% managed to negotiate a higher facility at the original bank, and 3% took some other form of funding. 13% ended the process with no facility at all. Smaller applicants were more likely to accept the original bank's offer (73% 0-9 employees v 64% 10-249 employees). |
| | 8 out of 10 of those who now have an overdraft obtained at least half of the |

response.

amount they had originally sought, typically in line with the bank's initial



Initial bank response

Subsequent events – all seeking overdraft Q3 2012 to Q4 2013

Issue: Offered unfavourable T&C (5% of applicants)

The 'unfavourable' terms and conditions were most likely to relate to:

- the proposed interest rate 38% of those offered what they saw as unfavourable T&C
- the proposed fee 35% of these applicants
- security (the amount, type sought or cost of putting it in place) –
 mentioned by 21% of these applicants

Both the fee and the interest rate continued to be mentioned more by smaller applicants, and security by larger applicants.

A minority of applicants offered what they saw as unfavourable terms and conditions, 9%, said they managed to negotiate a better deal than the one originally offered – all of them at the bank they originally applied to, and much more likely to be the case for larger applicants. 52% accepted the deal they were offered (almost all at the original bank). 3% took other funding, while a third, 36%, 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 (25% of all applicants):

| Initially declined | Subsequent events – all seeking overdraft Q3 2012 to Q4 2013 |
|---|---|
| Reasons for decline Q70 | 18% of those initially declined said that they had not been given a reason (excluding those who could not remember the reasons given). 39% said the decline related to their personal and/or business credit history (mentioned more by smaller SMEs) 13% mentioned issues around security (mentioned more by larger SMEs) Also mentioned were financial forecasts that the bank did not agree with, or the industry being 'too risky' |
| 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 (80%) the decision was communicated verbally, while a quarter (28%) received a written response (a few had both). 4 out of 10 (41%) felt that they had not been given enough information to explain the decision, and this was more common amongst larger applicants. 59% felt they had been given enough information. Over time by date of application, the proportion saying they had received enough information has moved from under to over half of such applicants. |
| Advice and alternatives Q71-80 | 14% of those initially declined said that the bank had either offered them an alternative form of funding to the declined overdraft, or suggested alternative sources of external finance. This was slightly less common for smaller applicants. Where an alternative was offered, this was most likely to be a loan or a business credit card (or invoice finance for larger applicants). Two-thirds thought the advice offered at that stage had been poor (66%), while 4% said that it had been good and 12% said they were not offered any advice (with little variation by size). More generally, 12% of those initially declined reported that they had been referred to sources of help or advice by the bank, while a further 8% sought their own external advice without a recommendation. On a small base of advice seekers, 6 out of 10 (60%) had found this external advice useful. |





| Initially declined | Subsequent events – all seeking overdraft Q3 2012 to Q4 2013 |
|--------------------|--|
| Appeals Q73-75 | From April 2011, a new appeals procedure has been in operation. The analysis below, as elsewhere in this report, is based on all applications made in the last 18 months (Q3 2012 to Q4 2013). 19% of these applicants said they were made aware of the appeals process (excluding DK). |
| | Amongst those applying in 2012, 13% said that they were made aware of the appeals process. For 2013 to date, the figure is 19%. |
| | 17% of those made aware went on to appeal, representing around 3% of those initially declined. This means that 6 SMEs interviewed for the Monitor in this period had appealed, providing at best anecdotal evidence about the process: in 3 cases the bank had not changed its decision, in 1 it had, and 2 SMEs were waiting to hear. Those that were aware of the appeals process but had not appealed typically said they did not think it would have changed anything. |
| | Taking a longer term view, of <u>all</u> overdraft applications initially declined from Q2 2011 onwards and recorded by the SME Finance Monitor, 13 SMEs have appealed. In 2 instances the bank changed its decision, in 8 the original decision was upheld and 3 were still waiting to hear at the time of interview. |
| Outcome Q81-84 | At the end of this period, 81% of applicants initially declined had no funding at all, and this was more likely if the applicant was a smaller SME (81% v 63%). 6% 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 50% or more of the funding they had initially sought. |
| | Some secured alternative funding (13%), and this was more likely for bigger applicants, with mentions of friends/family, personal borrowing or a loan. |



The final outcome - overdraft

At the end of the various 'journeys' described above, respondents reported on the final outcome of their application for a new or renewed overdraft facility. This section is based on the new definition of SMEs that made an application, and had received a response, for a new or renewed overdraft facility during the most recent 18 month period, which for this report is between Q3 2012 and Q4 2013, irrespective of when they were interviewed.

Over half of these applicants, 58%, had the overdraft facility they wanted, and a further 15% secured an overdraft after having issues about the amount or the terms and conditions of the bank's offer. 23% of all applicants ended the process with no overdraft. Note that this table does **not** include automatically renewed overdrafts.

| Final outcome (Overdraft): <u>Sought</u> new/renewed facility Q3 12- Q4 13 | All overdraft Type 1 applicants |
|--|------------------------------------|
| Unweighted base: | 1826 |
| Offered what wanted and took it | 58% |
| Took overdraft after issues | 15% |
| Have overdraft (any) | 73% |
| Took another form of funding | 4% |
| No facility | 23% |

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

Before looking at the results in more detail for overdraft applications made in the latest 18 month period, the summary table below records the proportion who 'Have overdraft (any)' for a series of 18 month periods, stretching back to Q2 2011, by key demographics. As already explained, for the more recent 18 month periods (from Q4 2011 to Q1 2013 onwards), data is still being added as respondents in Q1 2014 can report an application made from Q1 2013 onwards.

This table shows a fairly stable overall success rate, but with somewhat lower success rates reported in more recent periods by those with a worse than average external risk rating and by first time applicants:



| % of applicants ending process with overdraft facility | | | | | | | | | |
|--|----------------|----------------|-----------------|-----------------|-----------------|-----------------|--|--|--|
| Over time – row percentages By 18 month period of application | Q2 11 Q3 12 | Q3 11 Q4 12 | Q4 11 Q1 13* | Q1 12 Q2 13* | Q2 12 Q3 13* | Q3 12 Q4 13* | | | |
| All SMEs | 74% | 74% | 73% | 72% | 73% | 73% | | | |
| 0 employee | 69% | 70% | 67% | 67% | 67% | 67% | | | |
| 1-9 employees | 79% | 79% | 77% | 77% | 78% | 79% | | | |
| 10-49 employees | 91% | 90% | 91% | 90% | 91% | 91% | | | |
| 50-249 employees | 96% | 95% | 96% | 96% | 96% | 95% | | | |
| Minimal external risk rating | 96% | 97% | 96% | 96% | 96% | 95% | | | |
| Low external risk rating | 87% | 86% | 86% | 85% | 93% | 92% | | | |
| Average external risk rating | 85% | 84% | 81% | 84% | 83% | 79% | | | |
| Worse than average external risk rating | 65% | 66% | 63% | 61% | 59% | 61% | | | |
| Agriculture | 83% | 83% | 89% | 91% | 91% | 92% | | | |
| Manufacturing | 83% | 83% | 78% | 78% | 71% | 79% | | | |
| Construction | 59% | 63% | 62% | 66% | 67% | 73% | | | |
| Wholesale/Retail | 79% | 79% | 77% | 74% | 73% | 70% | | | |
| Hotels and Restaurants | 67% | 68% | 66% | 63% | 61% | 63% | | | |
| Transport | 66% | 66% | 53% | 49% | 52% | 52% | | | |
| Property/Business Services etc. | 77% | 75% | 73% | 73% | 73% | 71% | | | |
| Health | 80% | 83% | 87% | 80% | 79% | 80% | | | |
| Other Community | 81% | 80% | 81% | 79% | 94% | 92% | | | |
| First time applicants | 35% | 36% | 37% | 36% | 33% | 34% | | | |
| Increasing an existing facility | 81% | 81% | 78% | 78% | 80% | 78% | | | |
| Renewals | 95% | 96% | 95% | 95% | 97% | 98% | | | |

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



Overdraft final outcome - applications made Q3 2012 to Q4 2013

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

| Final outcome (Overdraft): <u>Sought</u> new/renewed facility Q3 12- Q4 13 | Total | 0 emp | 1-9 emps | 10-49 emps | 50-249 emps |
|--|-------|-------|----------|---------------|----------------|
| Unweighted base: | 1826 | 175 | 652 | 686 | 313 |
| Offered what wanted and took it | 58% | 52% | 62% | 76% | 86% |
| Took overdraft after issues | 15% | 15% | 17% | 15% | 9% |
| Have overdraft (any) | 73% | 67% | 79% | 91% | 95% |
| Took another form of funding | 4% | 2% | 5% | 2% | 1% |
| No facility | 23% | 31% | 16% | 7% | 3% |

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

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

| Final outcome (Overdraft): <u>Sought</u> new/renewed facility Q3 12- Q4 13 | Total | Min | Low | Average | Worse/Avge |
|--|-------|-----|-----|---------|------------|
| Unweighted base: | 1826 | 309 | 392 | 478 | 480 |
| Offered what wanted and took it | 58% | 79% | 64% | 65% | 49% |
| Took overdraft after issues | 15% | 16% | 28% | 14% | 12% |
| Have overdraft (any) | 73% | 95% | 92% | 79% | 61% |
| Took another form of funding | 4% | 1% | * | 3% | 5% |
| No facility | 23% | 3% | 8% | 18% | 35% |

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



There were also some clear differences in success rate by sector, with applicants in Transport remaining the least likely to have been successful (52%), and those in Agriculture remaining the most likely (92%), together with those in the Other Community sector (92%):

| Final outcome (Overdraft): <u>Sought</u> new/renewed facility Q3 12- Q4 13 | Agric | Mfg | Constr | Whle Retail | Hotel Rest | Trans | Prop/ Bus | Health S Work | Other Comm |
|--|-------|-----|--------|----------------|---------------|-------|--------------|------------------|---------------|
| Unweighted base: | 209 | 191 | 313 | 204 | 190 | 158 | 272 | 129 | 160 |
| Offered what wanted and took it | 80% | 70% | 57% | 51% | 47% | 41% | 50% | 71% | 82% |
| Took overdraft after issues | 12% | 9% | 16% | 19% | 16% | 11% | 21% | 9% | 10% |
| Have overdraft (any) | 92% | 79% | 73% | 70% | 63% | 52% | 71% | 80% | 92% |
| Took another form of funding | 3% | 5% | 3% | 4% | 4% | 4% | 2% | 6% | 4% |
| No facility | 5% | 16% | 24% | 26% | 33% | 44% | 27% | 14% | 4% |

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



Mention has already been made in this report of the differences between applications for first time, increased or renewed overdrafts. As the table below shows, this was also true at the end of the application journey, with 6 out of 10 of those seeking their first overdraft ending the process with no facility:

| Final outcome (Overdraft): <u>Sought</u> new/renewed facility Q3 12- Q4 13 | Total | 1 st overdraft | Increased overdraft | Renew overdraft |
|--|-------|------------------------------|------------------------|--------------------|
| Unweighted base: | 1826 | 290 | 314 | 1020 |
| Offered what wanted and took it | 58% | 29% | 52% | 82% |
| Took overdraft after issues | 15% | 5% | 26% | 16% |
| Have overdraft (any) | 73% | 34% | 78% | 98% |
| Took another form of funding | 4% | 7% | 7% | * |
| No facility | 23% | 59% | 15% | 1% |

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

The final piece of combined analysis for applications made in the 18 months to Q4 2013 shows outcome by age of business. The older the business, the more likely they were to have been offered what they wanted. Starts were the least likely to have been successful, and this is closely linked to the table above: 77% of Starts who applied were looking for their first overdraft while a third (35%) of all first time applications were made by Starts:

| Final outcome (Overdraft): Sought new/renewed facility Q3 12- Q4 13 By age of business | Starts | 2-5 yrs | 6-9 yrs | 10-15 yrs | 15+ yrs |
|--|--------|---------|---------|-----------|---------|
| Unweighted base: | 122 | 228 | 219 | 258 | 999 |
| Offered what wanted and took it | 23% | 50% | 50% | 74% | 71% |
| Took overdraft after issues | 11% | 8% | 30% | 16% | 17% |
| Have overdraft (any) | 34% | 58% | 80% | 90% | 88% |
| Took another form of funding | 8% | 4% | 5% | 3% | 2% |
| No facility | 59% | 37% | 14% | 7% | 11% |

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





The proportion of applications/renewals made for smaller amounts of £5,000 or less increased over the course of 2010 and 2011 from around a third of applications to 52% in Q4 2011. Since then around 4 out of 10 of all applications made have been for £5,000 or less.

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

- The outcome for those applying for larger overdrafts (£25,000+) was fairly consistent over time, and around 90% of such applicants now had an overdraft
- 62% of applications for the smallest overdrafts (under £5,000) were successful in 2012, but for applications to date in 2013 the success rate is slightly lower at 56%
- Those in the middle (who applied for £5-25,000) became slightly less likely to be successful over time, from around 90% to around 80% of these applicants having an overdraft, up to the end of 2012. For applications to date in 2013, the success rate is 73%

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



Final outcome by date of application – overdrafts

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

Results for the first half of 2012 and then for Q1 2013 show a somewhat lower proportion of overdraft applications resulting in a facility and this reflected the higher proportion initially declined in those quarters.

| Final outcome (Overdraft): SMEs seeking new/renewed facility By date of application | Q1 11 | Q2 11 | Q3 11 | Q4 11 | Q1 12 | Q2 12 | Q3 12 | Q4 12 | Q1* 13 | Q2* 13 | Q3* 13 |
|---|----------|----------|----------|----------|----------|----------|----------|----------|-----------|-----------|-----------|
| Unweighted base: | 670 | 489 | 541 | 527 | 656 | 425 | 355 | 452 | 429 | 303 | 193 |
| Offered what wanted and took it | 63% | 61% | 63% | 68% | 57% | 59% | 60% | 61% | 54% | 50% | 66% |
| Took overdraft after issues | 14% | 13% | 14% | 8% | 14% | 12% | 17% | 15% | 13% | 22% | 10% |
| Have overdraft (any) | 77% | 74% | 77% | 76% | 71% | 71% | 77% | 76% | 67% | 72% | 76% |
| Took other funding | 6% | 6% | 4% | 3% | 3% | 2% | 2% | 5% | 4% | 6% | 1% |
| No facility | 17% | 20% | 18% | 21% | 27% | 26% | 22% | 19% | 29% | 23% | 23% |

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

Applicants in Q2 2013 were also somewhat more likely to have been declined initially (31%) but in that quarter a higher proportion of applicants ended the process with an overdraft facility 'after issues', (22%) boosting the overall success rate (72%). In previous quarters the proportion getting their facility 'after issues' has been closely aligned to the proportion having 'issues' with the bank's initial offer, but this is not the case in Q2 2013 when 15% had issues with the original offer compared to 22% reporting that they had their facility 'after issues'.



Further analysis of the applicants in Q2 2013 shows that 40 SMEs had 'issues' with the bank's initial offer, almost all of them (33) with the amount offered (the remaining 7 were initially offered terms and conditions they didn't like). By the time of the final outcome, there were 51 SMEs that had a facility after 'issues', made up of:

- 30 SMEs initially offered less than they wanted (the other 3 took other funding or have no facility)
- 4 SMEs initially offered terms and conditions they didn't like (the other 3 ended the process with nothing)
- Plus 9 SMEs initially offered what they wanted but who then had issues before the facility was set up
- And 8 SMEs who were initially declined but managed to negotiate a facility

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

- The proportion 'offered what they wanted and taking it' typically goes down as more data is collected for an individual quarter, while the proportion with a facility 'after issues' goes up
- The proportion taking other funding tends to increase very slightly over time, but there is no clear pattern for declines (the results do change by a margin but not consistently in one direction)
- With few exceptions the results change very little after the third wave of data is added to the total (ie the Q2 2013, and earlier, results shown below)





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

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

- The proportion of applicants with a worse than average risk rating increased from 43% in 2010 to 53% for 2012 and 51% in 2013 to date
- The proportion of first time applicants was slightly higher in both 2012 and 2013 to date (30%) than it was in either 2010 or 2011 (both 25%)
- The proportion looking to renew an overdraft facility declined from 48% of applications in 2010 to 42% to date in 2013

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

rate is then compared to the actual success rate achieved by the group, as shown in the table below

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



The model predicts a success rate between 70% and 77% for the individual quarters. The predicted success rate for the quarters from Q4 2012 onwards has typically been lower than for earlier quarters:

| Final outcome (Overdraft): SMEs seeking new/renewed facility By date of application | Q1 11 | Q2 11 | Q3 11 | Q4 11 | Q1 12 | Q2 12 | Q3 12 | Q4 12 | Q1* 13 | Q2* 13 | Q3* 13 |
|---|----------|----------|----------|----------|----------|----------|----------|----------|-----------|-----------|-----------|
| Unweighted base: | 670 | 489 | 541 | 527 | 656 | 425 | 355 | 452 | 429 | 303 | 193 |
| Have overdraft (any) | 77% | 74% | 77% | 76% | 71% | 71% | 77% | 76% | 67% | 72% | 76% |
| Predicted success rate | 77% | 77% | 75% | 75% | 70% | 74% | 76% | 72% | 72% | 71% | 73% |
| Difference | 0 | -3 | +2 | +1 | +1 | -3 | +1 | +4 | -5 | +1 | +3 |

Final outcome of overdraft application by date of application

The analysis shows that actual success rates were in line with those predicted by the model for many quarters. The lower success rate in Q1 2012 was better explained by the profile of respondents in that quarter than the lower success rate in Q2 2012. Interim results for the second half of 2012 suggest that the increase in overdraft success rates was only partly driven by an 'improving' applicant profile, and that across 2012 as a whole overdraft applications were somewhat more likely to be

agreed than the risk, size and purpose profile of applicants would suggest.

The lower success rate currently being reported for applications made in Q1 2013 has already been highlighted. The model predicted lower success rates for both that quarter, and indeed the four most recent quarters, from Q4 2011 to Q3 2013. Analysis shows that the *actual* success rates were somewhat better than predicted in the three other quarters, the exception being Q1 2013.



The impact of automatic renewals on overdraft success rates

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

The quarter in which an automatic renewal occurred has only been identified since Q4 2012. The table below is therefore based on all those applying for an overdraft Q3 2012 to Q4 2013 (as elsewhere) but then limited to those interviewed from Q4 2012 onwards, so that the

automatic renewal data and the overdraft application data are both reported on the same basis.

The table below shows the impact on overall overdraft success rates when the automatically renewed overdrafts are included. There have been many more automatic overdraft renewals than Type 1 events, so the impact has been considerable. Including those that had had an automatic renewal increases the overdraft success rate from 73% to 88%:

| Final outcome (Overdraft): Sought new/renewed facility Q3 12-Q4 13 AND interviewed Q4 12 -Q4 13 | Type 1 events | Type 1 + automatic renewal |
|---|---------------|----------------------------------|
| Unweighted base: | 1755 | 3318 |
| Offered what wanted and took it | 57% | 26% |
| Took overdraft after issues | 16% | 8% |
| Automatic renewal | - | 54% |
| Have overdraft (any) | 73% | 88% |
| Took another form of funding | 4% | 2% |
| No facility | 23% | 10% |

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



The impact of personal borrowing on overdraft applications

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

9% of those making an overdraft application in the past 18 months (Q3 2012 to Q4 2013) who were asked this question said that the facility they had sought was in a personal capacity. On this limited sample, a high proportion of these personal overdraft applications were from 0 employee SMEs and/or those seeking a facility of less than £5,000.

Sample sizes are too small currently to report on the outcome of the application by whether it was a personal or business application. Initial data suggests those applying in a personal name were slightly more likely to have been successful.

The equivalent question was also asked for the first time in Q4 2012 of those who reported the automatic renewal of an overdraft facility.

Amongst those asked the question, and who reported an automatic renewal between Q3 2012 and Q4 2013, 19% said that the facility was in a personal capacity. As with Type 1 events, such renewals were typically for 0 employee SMEs and for a facility of less than £5,000.

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



Profile of loan applicants by initial response

Having explored overdraft applications and renewals, the next section of this chapter looks at loan applications and renewals. The profile of loan applicants (who applied Q3 2012 to Q4 2013) receiving each initial answer from their bank varied:

| Initial bank response | Profile- all seeking loan Q3 2012 to Q4 2013 |
|---|--|
| Those offered what wanted (42% of applicants) | These were more established SMEs: 42% had been in business for 15 years or more (v 27% of all applicants), 53% had employees (v 43% of all applicants) and 31% had a minimal or low external risk rating (v 19% of all applicants). 79% had made a profit in the previous 12 months (v 71% of all applicants). They were less likely to be applying for their first ever loan (27% v 40% of all applicants) and slightly more likely to be renewing an existing facility (17% v 10% of all applicants). 29% were applying for a facility of £100,000 or more (v 21% of all applicants) |
| Those offered less than wanted (8% of applicants) | Those offered less than they had wanted were more likely to be Starts (38% v 23% of all applicants), but somewhat more likely to have employees (56% v 43% of all applicants). They were slightly more likely to be applying for their first ever facility (49% v 40% of all applicants) and to be looking to borrow less than £100,000 (86% v 79% of all applicants) |
| Those offered unfavourable T&C (6% of applicants) | Those offered what they considered to be unfavourable terms and conditions were somewhat more likely to be a Start (33% v 23% of all applicants), and less likely to have a minimal or low external risk rating (10% v 19% of all applicants). They were though slightly more likely to have made a profit in the previous 12 months (78% v 71% of all applicants). |
| | They were the most likely to be looking to renew an existing loan (21% v 10% of all applicants) and to be looking to borrow in excess of £100,000 (38% v 21% of all applicants). |
| Those initially declined (45% of applicants) | These were typically smaller and younger businesses: 30% of those initially declined were Starts (v 23% of all applicants) while 15% had been in business for 15 years or more (v 27% of all applicants). 33% had employees (v 43% of all applicants). 9% had a minimal or low external risk rating (v 19% of all applicants). |
| | 50% were looking for their first ever loan (v 40% of all applicants) and most, 88%, were looking to borrow less than £100,000 (v 79% of all applicants). |



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

Summarised below for all loan applications made in the 18 months Q3 2012 to Q4 2013 (and reported to date), is what happened after the bank's initial response. Base sizes for some groups remain small.

| Initial bank response | Subsequent events – all seeking loan Q3 2012 to Q4 2013 |
|---|--|
| Offered what wanted (42% of applicants) | 94% of those offered what they wanted went on to take the loan with no problems. |
| Q159-164 | 6% took the loan after some issues (typically legal work / valuation being required, the initial offer being too expensive or waiting to see the RM). |
| | 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 | These SMEs were typically offered 70% or more of what they asked for. |
| than wanted (8% of applicants) Q180-190 | 35% of those offered less than they wanted said that they had not been given a reason (excluding those who could not remember), and this was more common amongst smaller applicants. |
| | The main reasons for being offered less were: |
| | Security issues – mentioned by 20% of those offered less than they wanted |
| | Credit history – mentioned by 17% |
| | Too much existing borrowing - mentioned by 6% |
| | On a small base, the advice offered at this stage was more likely to be rated poor (39%) than good (19%) while 24% were not given any advice. |
| | 62% accepted the lower amount offered (almost all with the original bank applied to), while 20% managed to negotiate a better deal, also predominantly with the original bank. 3% took other borrowing and 16% have no facility. |
| | The SMEs in this group who obtained a loan received more than 50% of the amount they had originally sought. |

Continued





Continued

Issue: Offered unfavourable T&C (6% of applicants)

0191-195

The unfavourable terms (excluding those who didn't know) typically related to the proposed interest rate (39%).

Issues around security (level, type requested and/or cost) were mentioned by 18% of these applicants, and the proposed fee by 8%.

57% managed to negotiate a better deal (at either the original bank or another bank) while 18% accepted the deal offered, most with the original bank. 7% took another form of funding.

25% of applicants ended the process with no facility.

For those with a facility, the amount of such loans was typically in line with their original request.



The subsequent journey – those that were declined for a loan

The table below details the subsequent journey of those whose loan application was initially declined (45% of applicants). Some analysis by date of application is now possible.

| Initially declined | Subsequent events – all seeking loan Q3 2012 to Q4 2013 |
|--|--|
| Reasons for decline Q165 | 18% of the SMEs initially declined said that they had not been given a reason for the decline (excluding those who could not remember the reasons given), and this remained somewhat more likely amongst smaller applicants: |
| | 25% said that the decline related to their personal and/or business credit history (especially smaller applicants) |
| | 22% mentioned issues around security |
| | 9% said they had too much existing borrowing, while 8% said they had a weak balance sheet |
| | Analysis by date of application showed that since 2011, declined applicants have become more likely to be given a reason for the decline. Security and credit history remain the two main issues. |
| How decline was communicated | These applicants were asked how the loan decision had been communicated to them, and whether they were told enough to explain why the decision had been made. |
| | Communication methods were similar to those for the equivalent overdraft applications, in that 84% said the decision was communicated verbally, while 25% received a written response (a few received both). |
| | Those declined for a loan remained somewhat less likely to say that they had been given enough information to explain the decision (50%) than those informed about an overdraft decline (59%). |
| Advice and alternatives Q166 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. |
| | Half (58%) thought that the advice the bank had offered at that stage had been poor, 6% thought it had been good, while 11% had not been offered any advice. |

Continued





Continued

Advice and alternatives

Q166 and 171-175

The proportion saying they received no advice declined from 18% in 2012 to 3% in 2013 to date and whilst only a minority rated the advice provided as good, that proportion increased from 3% for applications made in 2010 to 7% in 2012, and 6% for 2013 to date.

More generally, 9% of those initially declined reported that they had been referred to any other sources of help or advice by the bank, while a further 14% sought their own external advice without a recommendation, with no clear trend over time.

On a small base, eight out of ten found these external sources of use, also with no clear trend over time.

Appeals

Q168-170

From April 2011, a new appeals procedure was introduced. The analysis below is based as elsewhere in this report on all applications made in the last 18 months (Q2 3012 to Q4 2013).

Amongst this group of applicants who were initially declined, 12% said that they were made aware of the appeals process by their bank (excluding DK). As for overdrafts, awareness of appeals is higher for those declined in 2013 (16%) than it was for those declined in 2012 (8%).

11% of those made aware went on to appeal, the equivalent of around 1% of SMEs that had been declined for a loan, providing anecdotal evidence at best about the appeals process. Of these 7 declined applicants, 1 appealed and the bank changed its decision, 5 appealed but the decision was upheld, 1 appealed but had not heard yet. The 28 applicants who were aware but did not appeal typically cited the view that they did not think it would have changed anything.

Taking a longer term view, of <u>all</u> loan applications initially declined from Q2 2011 onwards and recorded by the SME Finance Monitor, 19 SMEs have appealed. In 2 instances the bank changed its decision, in 14 the original decision was upheld and 3 were still waiting to hear at the time of interview.

Outcome

Q176-179

At the end of this period, 9% of those initially declined for a loan had managed to secure a loan with either the original bank or, more often, a new supplier. 19% had secured alternative funding, with friends/family and/or personal borrowing most likely to be mentioned.

72% of those initially declined did not have a facility at all, and this has changed very little year on year 2010-2012.



The final outcome - loan

At the end of the various 'loan' journeys described above, respondents reported on the final outcome of their application for a new or renewed loan facility. This section is based on the new definition of SMEs that made an <u>application</u>, and had received a response, for a new or renewed loan facility during the most recent 18 month period, which for this report is from Q3 2012 to Q4 2013, irrespective of when they were interviewed.

Just over half, 56%, of loan applicants now have a loan facility. 35% of <u>applicants</u> ended the process with no facility.

| Final outcome (Loan): <u>Sought</u> new/renewed facility Q3 12- Q4 13 | All loan Type 1 applicants |
|---|-------------------------------|
| Unweighted base: | 868 |
| Offered what wanted and took it | 39% |
| Took loan after issues | 17% |
| Have loan (any) | 56% |
| Took another form of funding | 9% |
| No facility | 35% |

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

Before looking at the results in more detail for loan applications made in the latest 18 month period, the summary table on the next page records the 'Have loan (any)' figure for a series of 18 month periods, stretching back to Q2 2011, by key demographics. Note that for the most recent 18 month periods (Q4 2011 to Q1 2013 onwards), data is still being added as respondents in Q1 2014 can report an application made from Q1 2013 onwards.

This shows fairly stable success rates, albeit based on low base sizes for some sub-groups. Over time, success rates for those with a minimal or low risk rating have remained steady, but there has been a decline in the success rate amongst those with an average or worse than average risk rating. In the most recent periods, those renewing a loan have been more likely to be successful but there has been something of a decline in success rates for first time applicants:



| % of applicants ending process with loan facility | 18 month periods | | | | | | | |
|---|------------------|----------------|-----------------|-----------------|-----------------|-----------------|--|--|
| Over time – row percentages | Q2 11 Q3 12 | Q3 11 Q4 12 | Q4 11 Q1 13* | Q1 12 Q2 13* | Q2 12 Q3 13* | Q3 12 Q4 13* | | |
| By 18 month period of application | QJ 12 | QTIZ | Q1 13 | Q2 13 | Q3 13 | Q113 | | |
| All SMEs | 58% | 58% | 60% | 58% | 56% | 56% | | |
| 0 employee | 52% | 52% | 56% | 53% | 50% | 50% | | |
| 1-9 employees | 65% | 63% | 61% | 61% | 60% | 59% | | |
| 10-49 employees | 78% | 80% | 79% | 83% | 85% | 85% | | |
| 50-249 employees | 91% | 91% | 90% | 89% | 86% | 85% | | |
| Minimal external risk rating | 86% | 89% | 87% | 88% | 87% | 90% | | |
| Low external risk rating | 71% | 70% | 77% | 74% | 74% | 71% | | |
| Average external risk rating | 62% | 61% | 60% | 57% | 58% | 55% | | |
| Worse than average external risk rating | 55% | 54% | 54% | 51% | 46% | 48% | | |
| Agriculture | 75% | 78% | 83% | 87% | 84% | 86% | | |
| Manufacturing | 54% | 60% | 54% | 58% | 63% | 60% | | |
| Construction | 42% | 41% | 46% | 45% | 47% | 54% | | |
| Wholesale/Retail | 70% | 66% | 69% | 54% | 47% | 39% | | |
| Hotels and Restaurants | 64% | 66% | 63% | 62% | 63% | 57% | | |
| Transport | 60% | 58% | 51% | 52% | 48% | 50% | | |
| Property/Business Services etc. | 56% | 53% | 59% | 57% | 57% | 58% | | |
| Health | 67% | 71% | 57% | 51% | 50% | 50% | | |
| Other Community | 53% | 57% | 66% | 75% | 71% | 67% | | |
| First time applicants | 47% | 48% | 44% | 42% | 42% | 41% | | |
| Other new facility | 60% | 61% | 64% | 64% | 58% | 60% | | |
| Renewals | 86% | 82% | 82% | 81% | 91% | 90% | | |

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





Final outcome – loan applications made Q2 2012 to Q3 2013

By size of business, smaller loan applicants remained less likely to have a facility. 85% of applicants with 10-249 employees had a loan, while 4 out of 10 of the smallest applicants ended the process with no facility:

| Final outcome (Loan): <u>Sought</u> new/renewed facility Q3 12- Q4 13 | Total | 0 emps | 1-9 emps | 10-49 emps | 50-249 emps |
|---|-------|--------|-------------|---------------|----------------|
| Unweighted base: | 868 | 91* | 301 | 319 | 157 |
| Offered what wanted and took it | 39% | 33% | 43% | 64% | 67% |
| Took loan after issues | 17% | 17% | 16% | 21% | 18% |
| Have loan (any) | 56% | 50% | 59% | 85% | 85% |
| Took another form of funding | 9% | 9% | 10% | 3% | 5% |
| No facility | 35% | 41% | 30% | 12% | 10% |

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. 9 out of 10 applicants with a minimal external risk rating had a loan, compared to half of applicants with a worse than average external risk rating (48%):

| Final outcome (Loan): <u>Sought</u> new/renewed facility Q3 12- Q4 13 | Total | Min | Low | Avge | Worse/ Avge |
|---|-------|-----|-----|------|----------------|
| Unweighted base: | 868 | 137 | 183 | 242 | 227 |
| Offered what wanted and took it | 39% | 78% | 63% | 39% | 30% |
| Took loan after issues | 17% | 12% | 8% | 16% | 18% |
| Have loan (any) | 56% | 90% | 71% | 55% | 48% |
| Took another form of funding | 9% | 2% | 10% | 12% | 8% |
| No facility | 35% | 9% | 19% | 33% | 44% |

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





Smaller sample sizes of applicants restrict the scope for analysis by sector, and the results below should be viewed as <u>indicative</u> for many sectors. Those in Agriculture were the most likely to have a loan, while those in the Wholesale/Retail and Transport sectors were more likely to end the process with no facility:

| Final outcome (Loan): Sought new/renewed facility Q3 12- Q4 13 | Agric | Mfg | Constr | Whle Retail | Hotel Rest | Trans | Prop/ Bus | Health S Work | Other Comm |
|--|-------|-----|--------|----------------|---------------|-------|--------------|------------------|---------------|
| Unweighted base: | 93* | 98* | 102 | 89* | 89* | 77* | 140 | 85* | 95* |
| Offered what wanted and took it | 76% | 43% | 50% | 27% | 32% | 40% | 33% | 29% | 25% |
| Took loan after issues | 10% | 17% | 4% | 12% | 25% | 10% | 25% | 21% | 42% |
| Have loan (any) | 86% | 60% | 54% | 39% | 57% | 50% | 58% | 50% | 67% |
| Took another form of funding | 11% | 19% | 11% | 15% | 7% | 3% | 3% | 10% | 4% |
| No facility | 3% | 22% | 35% | 46% | 37% | 47% | 39% | 41% | 29% |

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

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



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

Those applying for their first loan were more likely to end the process with no facility (49%), with a higher success rate amongst those applying for a new loan, but not their first (60%). Almost all those who renewed an existing loan now have a facility (90%):

| Final outcome (Loan): <u>Sought</u> new/renewed facility Q3 12- Q4 13 | Total | 1 st loan | New loan | Renew loan |
|---|-------|----------------------|----------|---------------|
| Unweighted base: | 868 | 226 | 317 | 152 |
| Offered what wanted and took it | 39% | 24% | 43% | 72% |
| Took loan after issues | 17% | 17% | 17% | 18% |
| Have loan (any) | 56% | 41% | 60% | 90% |
| Took another form of funding | 9% | 10% | 9% | 3% |
| No facility | 35% | 49% | 31% | 7% |

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



As with overdrafts, there were differences in outcome for loan applications by age of business and a strong link between Starts and first-time applications: 82% of Starts that applied were applying for their first loan, and 45% of all first time loan applications were from Starts:

| Final outcome (Loan): <u>Sought</u> new/renewed facility Q3 12- Q4 13. By age of business | Starts | 2-5 yrs | 6-9 yrs | 10-15 yrs | 15+ yrs |
|--|--------|------------|------------|--------------|------------|
| Unweighted base: | 84* | 121 | 114 | 123 | 426 |
| Offered what wanted and took it | 20% | 33% | 32% | 43% | 61% |
| Took loan after issues | 18% | 19% | 32% | 1% | 15% |
| Have loan (any) | 38% | 52% | 64% | 44% | 76% |
| Took another form of funding | 8% | 14% | 9% | 13% | 3% |
| No facility | 54% | 34% | 27% | 42% | 21% |

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

Success rates for SMEs trading for 10-15 years are somewhat lower than for SMEs slightly older or younger, with very few saying that they took a facility "after issues". Base sizes are small, but there are no obvious differences in size, risk rating, or purpose of facility to suggest why this might be. Amongst those declined, they were more likely to say that this was due to issues around security, or that the bank was not satisfied with their financial forecasts.

Small base sizes limit the analysis possible by size of facility over time. Across 2012 and 2013

to date, applications for £100,000 or more have made up around 15% of applications, with the exception of H2 2012 when they made up a quarter of all applications.

Half of smaller applications (under £100,000) were typically successful, with no consistent pattern over time. Applications for larger amounts (£100,000+) were more likely to be successful, and success rates improved slightly over time, from around 6 out of 10 to around 7 out of 10 of these larger applications resulting in a facility.



Final outcome by date of application – loans

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

Applications made in Q4 2012 were more likely to result in a facility (72%), with more applicants having a facility "after issues" (22%). Initial results for Q2 2013 suggest that more loans were declined that quarter, and this will be monitored as more data becomes available. There are currently too few applications reported for Q3 2013 to include in the table below:

| Final outcome (Loan): SMEs seeking new/renewed facility By date of application | Q1 11 | Q2 11 | Q3 11 | Q4 11 | Q1 12 | Q2 12 | Q3 12 | Q4 12 | Q1* 13 | Q2* 13 |
|--|----------|----------|----------|----------|----------|----------|----------|----------|-----------|-----------|
| Unweighted base: | 290 | 253 | 267 | 293 | 287 | 225 | 189 | 222 | 184 | 134 |
| Offered what wanted and took it | 48% | 62% | 39% | 47% | 52% | 44% | 35% | 50% | 46% | 25% |
| Took loan after issues | 7% | 7% | 13% | 9% | 8% | 17% | 18% | 22% | 13% | 12% |
| Have loan (any) | 55% | 69% | 52% | 56% | 60% | 63% | 53% | 72% | 59% | 37% |
| Took another form of funding | 11% | 7% | 4% | 14% | 8% | 4% | 13% | 3% | 11% | 12% |
| No facility | 34% | 24% | 44% | 30% | 32% | 35% | 34% | 25% | 29% | 51% |

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

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



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

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

- Starts: the proportion has increased from 15% in 2010 to 21% in 2012 and 22% in 2013 to date
- Making their first application: the proportion increased from 30% in 2010 to 44% in 2012, and is currently 38% for 2013
- SMEs with a worse than average external risk rating: having been stable up to 2012 (47% in 2012 itself) the proportion has increased to 59% for 2013 to date

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

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

predicted rate is then compared to the actual success rate achieved by the group, as shown in the table below.

As in previous reports, the equation was built using business size and risk rating, as well as the type of facility (first time applicant etc.), as these factors had been shown to be 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 <u>predicted</u> loan success rate over the quarters for which data is available, with predicted success rates varying between 55% and 61%:

| Final outcome (Loan): SMEs seeking new/renewed facility By date of application | Q1 11 | Q2 11 | Q3 11 | Q4 11 | Q1 12 | Q2 12 | Q3 12 | Q4 12 | Q1* 13 | Q2* 13 |
|--|----------|----------|----------|----------|----------|----------|----------|----------|-----------|-----------|
| Unweighted base: | 290 | 253 | 267 | 293 | 287 | 225 | 189 | 222 | 184 | 134 |
| Have loan (any) | 55% | 69% | 52% | 56% | 60% | 63% | 53% | 72% | 59% | 37% |
| Predicted success rate | 59% | 61% | 56% | 61% | 55% | 59% | 55% | 59% | 60% | 56% |
| Difference | -4 | +8 | -4 | -5 | +5 | +4 | -2 | +13 | -1 | -19 |

Final outcome of loan application by date of application

Two earlier quarters reported markedly lower actual success rates: Q3 2011 and Q3 2012. This analysis shows that in both instances the model predicted a lower success rate for those quarters (compared to the quarters either side), but that the actual success rate was slightly below this lower predicted rate.

The model leads us to conclude that loan applications in 2012 were more likely to be agreed than the risk, size and purpose profile of

applicants would suggest (notably so in Q4 on available data), whereas in 2011 applications were less likely to be successful than the profile suggested.

Initial data for 2013 shows that the lower success rate currently reported (on interim data) for Q2 2013 is not explained by the profile of applicants in that quarter, and this will be monitored as more data is gathered in future waves.



The impact of personal borrowing on loan applications

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

18% of those making a loan application in the past 18 months (Q3 2012 to Q4 2013) who were asked this question, said that the facility they had sought was in a personal capacity. This is somewhat higher than for overdrafts (9%).

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

Sample sizes are too small currently to report on the outcome of the application by whether it was a personal or business application, but initial data suggests that, as for overdrafts, those applying in a personal capacity were slightly more likely to have been successful.

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



Outcome analysis over time – new and renewed facilities

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

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 credit issues (missed loan repayment, problems getting trade credit etc.) were also a significant predictor of not being successful with an application for new funds.

The analysis below, as in previous reports, has been based on <u>all</u> applications made, rather than all SMEs (so an SME that had both a loan and an overdraft application will appear twice).

The table below shows that those seeking to renew an existing loan or overdraft facility in the most recent 18 month period (Q3 2012 to Q4 2013) were twice as likely to now have a facility as those seeking new funds:

| Final outcome Loans and Overdrafts combined Q312-Q413 | New funds sought | Renewals sought |
|---|---------------------|--------------------|
| Unweighted base of applications: | 1028 | 1333 |
| Offered what wanted and took it | 33% | 79% |
| Took facility after issues | 15% | 17% |
| Have facility (any) | 48% | 96% |
| Took another form of funding | 8% | 1% |
| No facility | 44% | 3% |

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 facilities.

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

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

| Final outcome (Overdraft+ Loan): Applications for renewed facilities By date of application | Q1 11 | Q2 11 | Q3 11 | Q4 11 | Q1 12 | Q2 12 | Q3 12 | Q4 12 | Q1* 13 | Q2* 13 | Q3* 13 |
|--|----------|----------|----------|----------|----------|----------|----------|----------|-----------|-----------|-----------|
| Unweighted base of applications: | 492 | 383 | 405 | 393 | 451 | 308 | 256 | 315 | 324 | 225 | 146 |
| Offered what wanted and took it | 83% | 78% | 77% | 88% | 74% | 81% | 74% | 82% | 79% | 74% | 88% |
| Took facility after issues | 10% | 11% | 10% | 9% | 11% | 11% | 21% | 15% | 16% | 20% | 9% |
| Have facility (any) | 93% | 89% | 87% | 97% | 85% | 92% | 95% | 97% | 95% | 94% | 97% |
| Took another form of funding | 2% | 3% | 1% | 1% | * | 1% | 1% | 2% | 2% | * | - |
| No facility | 6% | 8% | 12% | 2% | 15% | 7% | 4% | 1% | 3% | 6% | 3% |

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



Applications for **new** funds (whether first time applicants or not) made up over half of all applications in the most recent period (Q3 2012 to Q4 2013). Around half of applicants for new money ended the process with a facility, with around 4 out of 10 ending the process with no facility, and this has been relatively consistent quarter to quarter.

Initial indications for new money applications made in the first half of 2013 are that fewer applicants ended the process with a facility (38% in Q1 and 44% in Q2 2013) but that this lower success rate has not continued for applications made in Q3 2013. This will be monitored as more data is gathered for applications made in 2013:

| Final outcome (Overdraft+ Loan): Applications for new money By date of application | Q1 11 | Q2 11 | Q3 11 | Q4 11 | Q1 12 | Q2 12 | Q3 12 | Q4 12 | Q1* 13 | Q2* 13 | Q3* 13 |
|--|----------|----------|----------|----------|----------|----------|----------|----------|-----------|-----------|-----------|
| Unweighted base of applications: | 468 | 347 | 377 | 381 | 413 | 254 | 215 | 273 | 222 | 156 | 107 |
| Offered what wanted and took it | 40% | 46% | 39% | 45% | 41% | 31% | 37% | 38% | 27% | 24% | 37% |
| Took facility after issues | 13% | 12% | 16% | 8% | 13% | 16% | 15% | 19% | 11% | 20% | 16% |
| Have facility (any) | 53% | 58% | 55% | 53% | 54% | 47% | 52% | 57% | 38% | 44% | 53% |
| Took another form of funding | 12% | 10% | 7% | 7% | 7% | 5% | 8% | 7% | 9% | 11% | 3% |
| No facility | 35% | 33% | 38% | 40% | 39% | 48% | 40% | 37% | 53% | 45% | 44% |

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

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

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



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

| Final outcome – first time applicants Loans and Overdrafts combined By application year | In 2010 | In 2011 | In 2012 | In 2013* |
|---|---------|---------|---------|----------|
| Unweighted base of applications: | 151 | 543 | 570 | 266 |
| Offered what wanted and took it | 46% | 30% | 30% | 25% |
| Took facility after issues | 8% | 7% | 12% | 7% |
| Have facility (any) | 54% | 37% | 42% | 32% |
| Took another form of funding | 4% | 11% | 8% | 8% |
| No facility | 42% | 53% | 51% | 60% |

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

For those applying for a new facility, but not their first, the proportion ending the process with a facility varied relatively little 2010-2012. Interim data suggests more applicants in 2013 ended the process with no facility (28%), albeit that this figure is decreasing as more data is gathered for 2013 (it was 37% based on the data available for the Q3 report). This will be monitored going forward:

| Final outcome – other new money Loans and Overdrafts combined By application year | In 2010 | In 2011 | In 2012 | In 2013* |
|---|---------|---------|---------|----------|
| Unweighted base of applications: | 327 | 1030 | 585 | 274 |
| Offered what wanted and took it | 46% | 55% | 52% | 39% |
| Took facility after issues | 22% | 19% | 21% | 25% |
| Have facility (any) | 68% | 74% | 73% | 64% |
| Took another form of funding | 11% | 7% | 5% | 8% |
| No facility | 21% | 19% | 22% | 28% |

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





Previous analysis has shown that external risk rating has been a key predictor of success rates. Across all applications made, those applying for their first facility were the most likely to have a worse than average risk rating – for 2013 to date 72% of first time applicants had a worse than average external risk rating.

All three applicant groups have seen an increase between 2010 and 2013 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 year of application (base varies) | 2010 | 2011 | 2012 | 2013* |
|--|------|------|------|-------|
| First time applicants | 61% | 69% | 71% | 72% |
| Other new money | 44% | 49% | 49% | 49% |
| Renewals | 33% | 34% | 40% | 42% |

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

For the SME population as a whole, the proportion with a worse than average external risk rating has risen from 50% in 2011 to 53% in 2012 and 54% for 2013.



Further analysis of first time applicants

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

This analysis has been updated for the Q4 2013 report and shows similar issues influence the outcome for first time applicants.

First time overdraft applicants were more likely to be declined if they:

- Went into unauthorised overdraft on their account, or had had problems getting trade credit, or made a loss in the previous financial period
- Had 0 employees or were in the Transport sector

They were less likely to be declined if they:

- Were in the Health sector
- Had a website or offered performance related pay
- The business was established 10-15 years ago

For <u>loans</u>, first time applicants were more likely to be declined if:

- They had problems getting trade credit, or had a CCJ against them, or their risk rating wasn't
- They had an owner aged 18-30, or were in Construction

They were less likely to be declined if:

- They had a low external risk rating
- They imported or exported
- They were based in Scotland



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

8 out of 10 successful overdrafts were put in place within 2 weeks. Loans took slightly longer, with 54% in place in that time period. Smaller and unsecured facilities were typically put in place more quickly.

More than 9 out of 10 successful applicants said that the facility had been put in place in good time for when it was needed.

Amongst those declined, or who chose not to take the facility offered by the bank, half said that running the business was now more of a struggle. 1 in 5 had made cutbacks and a similar proportion had not expanded as they had hoped. Around a quarter, 23% thought their bank had treated them fairly during the application process.

Overall, 81% of SMEs were satisfied with their bank in 2013 (39% were 'very satisfied' and 42% were 'fairly satisfied'). Overall satisfaction has varied little over time by size of SME, but 'would-be seekers of finance' (who wanted to apply but felt that something stopped them) were less satisfied with their bank in 2013 (59%) than in 2011 (73%). Permanent non-borrowers remained more likely to be satisfied with their bank (86%) than those who has experienced any form of borrowing event.



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

New facility granted

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

8 out of 10 overdrafts were in place within 2 weeks (83%), while just over half of loans were in place in this time period (54%):

| Successful Type 1 applicants | | | | | | | | |
|--|------------|-------|--|--|--|--|--|--|
| Time taken to put facility in place Sought new/renewed facility Q2 12- Q3 13* | Overdrafts | Loans | | | | | | |
| Unweighted base: | 1454 | 588 | | | | | | |
| Within 1 week | 73% | 32% | | | | | | |
| Within 2 weeks | 10% | 22% | | | | | | |
| Within 3-4 weeks | 10% | 21% | | | | | | |
| Within 1-2 months | 4% | 11% | | | | | | |
| Longer than this | 2% | 10% | | | | | | |
| Not in place yet | 1% | 3% | | | | | | |

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

Analysis showed that secured loans were slightly less likely to be in place within a week (30%) than unsecured ones (36%), given the security processes that need to be undertaken. There was also a slight difference between secured (69%) and unsecured (75%) overdrafts that were in place within a week.



Facilities for smaller SMEs were more likely to be made available within a week (74% for overdrafts, 33% for loans where the SME had 0-9 employees) than those for larger SMEs (59% for overdrafts and 26% for loans where the SME had 50-249 employees). In terms of facilities being made available within a *month*, there was less of a difference by size for overdrafts (93% for smaller SMEs v 87% for larger ones), but a difference still existed for loans (77% for smaller SMEs v 61% for larger SMEs).

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

- Amongst applicants with 0-9 employees, 95% said their overdraft was made available in good time, while for loans it was 94%.
- Amongst larger applicants 95% said their overdraft was made available in good time, while for loans it was 91%.

Analysis by the length of time taken for the facility to be put in place showed that overall it was those waiting a month or more who were less likely to say that the facility had been put in place in good time (51% if they had waited a month for more or an overdraft, 75% if they had waited that long for a loan, both excluding DK answers).

Analysis of the data available over time shows that applications agreed in 2013 to date were as likely to be in place in a month as those agreed in 2012, for both loans and overdrafts. Agreement that the facility was in place in 'good time' though has dropped very slightly over the same period for both loans (94% to 91% excluding DK answers) and overdrafts (97% to 94% excluding DK answers).



Impact of being unsuccessful

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

The questions asked in this section of the questionnaire were revised in Q2 2013. This means that only those who *chose* not to have a facility (rather than being declined by the bank)

were asked whether they would have ideally wanted to have a loan / overdraft. As a result base sizes are very limited at this stage (28 respondents each for loans and overdrafts) but show that around 6 out of 10 of those who applied for an overdraft, and a similar proportion of those who applied for a loan, would ideally now have a facility. The main barriers were the expense of the facility, the security required, and a perception that the bank did not want to lend to them.

A broader question around the *impact* of not having the facility originally sought was asked both of those who chose not to have a facility (but would ideally have wanted one) and those who were declined by the bank. For Q2 to Q4 2013 combined, this was the equivalent of 3% of all SMEs, so, again, base sizes are relatively small (252 for overdrafts and 203 for loans). The key issues were seen as:

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

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

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

- 23% agreed that the bank had treated them fairly (66% disagreed)
- Slightly more, 27%, thought that they might have been treated more favourably at another bank, while half, 46%, disagreed
- 48% felt that they were now seriously considering a change of bank (the equivalent of around 1% of all SMEs)





Overall bank satisfaction

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

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

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

Q220

The biggest change in levels of satisfaction over time has been amongst the 'Would-be seekers' who wanted to apply for a facility but felt that something stopped them doing so. Overall satisfaction amongst these SMEs dropped from 73% in 2011 to 59% in 2013.

The table shows a not unexpected disparity in satisfaction between those interviewed in each

year who had successfully applied to their main bank for a new loan and/or overdraft, where 8 out of 10 are satisfied, and those who had applied but ended the process with no facility, where a third are satisfied. Note that levels of satisfaction amongst the 'Permanent non-borrowers' have been consistently higher than for either of these groups.

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 third of new or renewed overdrafts granted between Q3 2012 and Q4 2013 were secured, typically on property, with overdrafts granted to larger SMEs and for larger sums more likely to be secured. Over time, the proportion of overdrafts under £25,000 that were secured has increased, especially for those granted for £10-25,000 where half are now secured, up from a third.

Overdrafts, particularly the smaller facilities, were more likely to be on a fixed rate (56%) than a variable rate (44%). The median fixed rate margin was 4.2% for facilities granted Q3 2012 to Q4 2013, and there are indications that over time more facilities are being charged at less than 3%. The median variable rate margin was +3.0% for the same period – analysis here suggests that more recent applications were more likely to be charged at 6% or more than those granted earlier.

The average fee paid for an overdraft facility was just over £350, and this has varied little over time. 7 out of 10 paid a fee that was the equivalent of 2% or less of the facility granted, and this was more common for facilities in excess of £25,000 where more than 9 out of 10 paid the equivalent of 2% or less.

17% of loans granted Q3 2012 to Q4 2013 were commercial mortgages. 26% were secured loans (typically on property) and 57% were unsecured. Larger loan facilities were more likely to be secured – 88% of those granted for £100,000 or more were secured compared to 22% of those granted for less than £25,000. This has been relatively stable over time.





Loans were typically on a fixed rate (73%), especially where the loan was for under £100,000 (81% v 51% for larger loans). The median fixed rate was 4.5%, and has changed relatively little over time. The median variable margin was +3.3%, unchanged from the previous 18 month period and also stable over time (on limited sample sizes).

The average fee paid was higher for loans than overdrafts at just under £900 but this reflects the higher sums involved, as 8 out of 10 applicants paid a fee that was the equivalent to 2% or less of their facility (compared to 7 out of 10 successful overdraft applicants).



This chapter covers the security, interest rates and fees pertaining to overdrafts and loans granted after a <u>Type 1 borrowing event</u> (that is an application or a renewal). Analysis is based on the revised definition of SMEs that made an <u>application</u> for a new or renewed overdraft or loan facility during the most recent 18 month period which for this report is between Q3 2012 and Q4 2013, irrespective of when they were interviewed.

The main reporting in this chapter does **not** include any overdrafts granted as the result of an automatic renewal process. From Q2 2012, those who had experienced an automatic overdraft renewal were asked about the security, interest rates and fees pertaining to that facility, but the quarter in which this renewal took place has only been identified from Q4 2012 onwards. These automatically renewed overdrafts are reported on <u>separately</u> towards the end of this chapter.

Overdrafts: context

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

Of all new overdrafts successfully applied for Q3 2012 to Q4 2013:

- 55% were granted to 0 employee SMEs
- 38% to 1-9 employee SMEs
- 6% to 10-49 employee SMEs
- 1% to 50-249 employee SMEs

78% of new/renewed overdrafts granted between Q3 2012 and Q4 2013 were for £25,000 or less. This varied by size from 91% of overdrafts granted to SMEs with 0 employees being under £25,000 to 17% of those granted to SMEs with 50-249 employees.

9% of successful new/renewed overdrafts in this period were in a personal name rather than that of the business (of those asked the question, which has been included from Q4 2012). This varies from 15% of 0 employee businesses with an overdraft who were asked

this question, to 2% of those with 50-249 employees.

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



| Overdraft facility granted By date of application | Q1 11 | Q2 11 | Q3 11 | Q4 11 | Q1 12 | Q2 12 | Q3 12 | Q4 12 | Q1* 13 | Q2* 13 | Q3* 13 |
|--|----------|----------|----------|----------|----------|----------|----------|----------|-----------|-----------|-----------|
| Unweighted base: | 577 | 424 | 462 | 461 | 551 | 355 | 300 | 375 | 358 | 264 | 172 |
| Less than £5,000 | 43% | 47% | 52% | 49% | 45% | 50% | 39% | 37% | 45% | 38% | 40% |
| £5-25,000 | 32% | 33% | 31% | 29% | 37% | 31% | 43% | 38% | 32% | 37% | 39% |
| £25,000+ | 25% | 21% | 17% | 22% | 18% | 19% | 19% | 24% | 23% | 25% | 20% |

Overdraft facility granted – all successful applicants that recall amount granted

Overdrafts: Security

A third (35%) of Type 1 overdrafts (i.e. a new or renewed facility not including automatic renewals, successfully applied for between Q3 2012 and Q4 2013) were secured. Larger SMEs were more likely to have provided security than smaller ones.

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

| Security required (Overdraft): <u>Successfully sought</u> new/renewed overdraft Q3 12- Q4 13 | Total | 0 emp | 1-9 emps | 10-49 emps | 50-249 emps |
|--|-------|-------|-------------|---------------|----------------|
| Unweighted base: | 1514 | 120 | 500 | 601 | 293 |
| Property (any) | 24% | 16% | 29% | 41% | 42% |
| Charge over business property | 12% | 9% | 12% | 27% | 36% |
| Charge over personal property | 13% | 9% | 17% | 15% | 8% |
| Directors/personal guarantee | 5% | 2% | 7% | 10% | 7% |
| Other security (any) | 10% | 9% | 9% | 14% | 21% |
| Any security | 35% | 26% | 41% | 57% | 61% |
| No security required | 65% | 74% | 59% | 43% | 39% |

Q 106 All SMEs with new/renewed overdraft excluding DK





Secured overdrafts were more likely where the overdraft facility was in excess of £10,000. For those successfully applied for between Q3 2012 and Q4 2013:

- 18% of overdrafts granted for less than £10,000 were secured
- 52% of overdrafts granted for £10-24,999
- 61% of overdrafts granted for £25-99,999
- 69% of overdrafts granted for £100,000 or more were secured

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

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

| % of overdraft facilities that were secured, by size of facility and date applied for Row percentages | H1 2011 | H2 2011 | H1 2012 | H2 2012 | H1 2013* |
|---|------------|------------|------------|------------|-------------|
| All overdrafts | 22% | 24% | 28% | 34% | 34% |
| Overdrafts of <£10,000 | 9% | 10% | 18% | 16% | 17% |
| Overdrafts of £10-25,000 | 28% | 39% | 33% | 52% | 52% |
| Overdrafts of £25-100,000 | 45% | 55% | 54% | 63% | 57% |
| Overdrafts of more than £100,000 | 57% | 72% | 77% | 63% | 69% |

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

Indications for applications made in H2 2013 are that around 4 in 10 overdrafts were secured.

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



Overdrafts: Rates

Amongst those who gave an answer, just under half (44%) said that their new/renewed overdraft was on a variable rate:

| Type of rate (overdraft) by facility granted: <u>Successfully sought</u> new/renewed overdraft Q3 12-Q4 13 excl. DK | Total | <£10k | £10-25k | £25- 100k | £100k+ |
|---|-------|-------|---------|--------------|--------|
| Unweighted base: | 1261 | 334 | 212 | 332 | 383 |
| Variable rate lending | 44% | 44% | 38% | 49% | 50% |
| Fixed rate lending | 56% | 56% | 62% | 51% | 50% |

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

As the table below shows, when analysed by date of application the proportion of lending on a variable rate increased during 2012 and Q1 of 2013. Initial data for applications in Q2 and Q3 2013 suggests that this trend has not continued:

| New/renewed overdraft rate | | | | | | | | | | | |
|-------------------------------|------|------|------|------|------|------|------|------|-------|-------|-------|
| By date of application | Q111 | Q211 | Q311 | Q411 | Q112 | Q212 | Q312 | Q412 | Q113* | Q213* | Q313* |
| Unweighted base: | 495 | 345 | 376 | 383 | 448 | 291 | 241 | 299 | 294 | 221 | 136 |
| Variable rate lending | 55% | 53% | 49% | 38% | 40% | 44% | 46% | 46% | 49% | 38% | 42% |
| Fixed rate lending | 45% | 47% | 51% | 62% | 60% | 56% | 54% | 54% | 51% | 62% | 58% |

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

Most of those on a variable rate overdraft (agreed in the last 18 months) said that the rate was linked to Base Rate (95%).

41% 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 and median variable rate margins paid remained lower for facilities in excess of £100,000 and were unchanged from the previous 18 month period (Q2 2012 to Q3 2013):

| Variable margin (overdraft) by facility granted: <u>Successfully sought</u> new/renewed overdraft Q3 12-Q4 13 excl. DK | Total | <£10k | £10-25k | £25-100k | £100k+ |
|--|-------|-------|---------|----------|--------|
| Unweighted base: | 556 | 117 | 92* | 154 | 193 |
| Less than 2% | 19% | 18% | 26% | 12% | 33% |
| 2.01-4% | 46% | 40% | 34% | 69% | 54% |
| 4.01-6% | 10% | 6% | 25% | 14% | 7% |
| 6%+ | 25% | 37% | 15% | 6% | 6% |
| Average margin above Base/LIBOR: | +4.4% | +5.0% | +3.9% | +3.5% | +2.9% |
| Median margin above Base/LIBOR | +3.0% | +2.9% | +2.9% | +3.0% | +2.5% |

Q 109/110 All SMEs with new/renewed variable rate overdraft, excluding DK *CARE re small base size $^{\circ}$

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

| New/renewed overdraft variable rate | | | | | | |
|-------------------------------------|-------|-------|-------|-------|-------|-------|
| By application date (half year) | H210 | H111 | H211 | H112 | H212 | H113* |
| Unweighted base: | 175 | 419 | 346 | 311 | 252 | 215 |
| <4% | 70% | 65% | 66% | 63% | 70% | 53% |
| 4-6% | 16% | 27% | 13% | 23% | 7% | 16% |
| 6%+ | 13% | 8% | 21% | 14% | 23% | 30% |
| Average margin above Base/LIBOR: | +3.6% | +3.8% | +5.1% | +4.1% | +4.2% | +4.4% |

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





The overall average and median fixed rate margins for Q3 2012 to Q4 2013 were in line with previous periods. As with the variable rate margins, those borrowing more on a fixed rate paid, on average, a lower rate:

| Fixed rate (overdraft) by facility granted: <u>Successfully sought</u> new/renewed overdraft Q3 12-Q4 13 excl. DK | Total | <£10k | £10-25k | £25-100k | £100k+ |
|---|-------|-------|---------|----------|--------|
| Unweighted base: | 491 | 129 | 89* | 123 | 150 |
| Less than 3% | 36% | 28% | 30% | 54% | 63% |
| 3.01-6% | 43% | 52% | 37% | 32% | 33% |
| 6.01-8% | 9% | 5% | 18% | 11% | 4% |
| 8%+ | 12% | 16% | 15% | 3% | - |
| Average fixed rate: | 5.0% | 5.8% | 5.4% | 3.5% | 2.7% |
| Median fixed rate | 4.2% | 4.3% | 4.3% | 2.8% | 2.3% |

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 showed an increasing proportion paid less than 3%, from a quarter of successful applicants in H2 2010 to a third in 2012. First indications for H1 2013 are that this proportion has increased again, with a resulting reduction in the average fixed rate margin:

| New/renewed overdraft fixed rate | | | | | | |
|-------------------------------------|------|------|------|------|------|-------|
| By application date (half year) | H210 | H111 | H211 | H112 | H212 | H113* |
| Unweighted base: | 130 | 310 | 273 | 276 | 213 | 192 |
| <3% | 25% | 28% | 38% | 38% | 35% | 44% |
| 3-6% | 34% | 50% | 45% | 32% | 41% | 38% |
| 6%+ | 40% | 21% | 17% | 30% | 24% | 19% |
| Average margin above Base/LIBOR: | 6.0% | 5.0% | 4.7% | 5.9% | 5.3% | 4.1% |

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



Secured overdrafts agreed between Q3 2012 and Q4 2013 were more likely to be on a fixed rate (59%) than a variable rate (41%), as were unsecured overdrafts (54% on a fixed rate and 46% a variable rate).

The average margin for a variable rate overdraft was +3.7% if it was secured or +4.5% if it was unsecured, while for fixed rate facilities, secured overdrafts were at an average rate of 4.7% compared to 5.2% for an unsecured overdraft.



Overdrafts: Fees

Most respondents (89%) were able to recall the arrangement fee that they had paid for their new/renewed overdraft facility (if any). The average fee paid was £357, and this has been fairly consistent over time.

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

| Fee paid (overdraft) by facility granted: <u>Successfully sought</u> new/renewed overdraft Q3 12-Q4 13 excl. DK | Total | <£10k | £10-25k | £25-100k | £100k+ |
|---|-------|-------|---------|----------|--------|
| Unweighted base: | 1303 | 353 | 252 | 331 | 367 |
| No fee paid | 22% | 26% | 16% | 15% | 16% |
| Less than £100 | 13% | 20% | 5% | 2% | 2% |
| £100-199 | 36% | 46% | 36% | 14% | 2% |
| £200-399 | 14% | 6% | 29% | 24% | 3% |
| £400-999 | 8% | 1% | 10% | 29% | 15% |
| £1000+ | 8% | 1% | 4% | 16% | 62% |
| Average fee paid: | £357 | £106 | £254 | £614 | £2251 |
| Median fee paid | £98 | £91 | £143 | £293 | £1197 |

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

Secured overdrafts, which are typically larger facilities, were somewhat more likely to attract a fee (88%) than unsecured overdrafts (74%), and the average fee charged was higher (£693 secured compared to £172 unsecured).



Amongst those with a new/renewed overdraft who knew both what fee they had paid and the size of the facility granted, 35% paid a fee that was equivalent to less than 1% of the facility granted and a further 34% paid the equivalent of between 1-2%.

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

- 56% of those granted a new/renewed overdraft facility of less than £10,000 paid the equivalent of 2% or less
- 82% of those granted a new/renewed overdraft facility of £10-25,000 paid the equivalent of 2% or less
- 92% of those granted a new/renewed overdraft facility of £25-100,000 paid the equivalent of 2% or less
- 97% of those granted a new/renewed overdraft facility of more than £100,000 paid the equivalent of 2% or less

Whilst secured overdrafts typically attracted a higher fee in absolute terms, this remained more likely to be the equivalent of 2% or less of the agreed facility (79%) than was the case for unsecured overdrafts (64%).

Over time, the proportion paying no fee for their overdraft has remained fairly constant, at around 18%. The exception is for applications made in H2 2012, when 27% of successful applicants said that no fee was paid.

Where a fee was paid, H2 2012 was also something of an exception, with more

overdrafts attracting a fee of £200+ (30% compared to around a quarter in other periods). However, the proportion saying they had paid the equivalent of 2% or less of the value of their facility was higher (75%) compared to around 6 out of 10 in other periods, suggesting the higher fee was a function of the size of facilities granted in that period.



Overdraft terms: Analysis by risk rating

Sample sizes also permit some analysis of size of facility, interest rates and fees by external risk rating. Businesses with a minimal/low risk rating typically had a larger facility, and if it was a facility of less than £25,000, paid a lower variable margin and fee as a proportion of that facility:

| Overdraft rates and fees summary <u>Successfully sought</u> new/renewed overdraft Q3 12-Q4 13 excl. DK | Min/Low | Average/Worse than average |
|---|---------|-------------------------------|
| Unweighted base (varies by question): | 660 | 768 |
| % borrowing £25,000 or less | 57% | 84% |
| Facility secured (Less than £25k) | 41% | 24% |
| Facility secured (£25k+) | 63% | 61% |
| Facility on a variable rate (excluding DK) | 48% | 38% |
| Average variable margin for less than £25k facility | +3.8% | +4.8% |
| Average variable margin for facility £25k+ | +3.3% | +3.2% |
| Average fixed rate for less than £25k facility* | 6.8% | 5.4% |
| Average fixed rate for facility £25k+ | 3.4% | 3.1% |
| % where fee <2% of facility (under £25k) | 87% | 63% |
| % where fee <2% of facility (£25k+) | 96% | 96% |

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



Overdraft terms: Analysis by sector

Overall in the 18 months Q3 2012 to Q4 2013, 78% of overdrafts successfully applied for were facilities of £25,000 or less. By sector this varied relatively little (between 74% and 91%), with the exception of Agriculture where 40% of overdrafts granted were for less than £25,000 and 23% were for £100,000 or more.

As the table below shows, secured overdrafts were:

- More common for overdrafts in Agriculture (60%)
- Somewhat less common for overdrafts in the Other Community (23%) and Property/Business services (24%) sectors

| Type 1 overdraft Successfully sought new/renewed overdraft Q3 12- Q4 13 excl. DK | Agric | Mfg | Constr | Whle Retail | Hotel Rest | Trans | Prop/ Bus | Health S Work | Other Comm |
|--|-------|-----|--------|----------------|---------------|-------|--------------|------------------|---------------|
| Unweighted base: | 187 | 173 | 259 | 169 | 142 | 113 | 232 | 107 | 132 |
| Any security | 60% | 43% | 33% | 42% | 26% | 25% | 24% | 44% | 23% |
| - property | 51% | 30% | 20% | 27% | 18% | 16% | 16% | 24% | 12% |
| No security | 40% | 57% | 67% | 58% | 74% | 75% | 76% | 56% | 77% |

Q 106 All SMEs with new/renewed overdraft excluding DK



Overall, just under half of Type 1 overdrafts obtained were on a variable rate (44%). This remained more likely for overdrafts granted in the Other Community sector:

| Type 1 overdraft rate Successfully sought new/renewed overdraft Q3 12- Q4 13 excl. DK | Agric | Mfg | Constr | Whle Retail | Hotel Rest | Trans | Prop/ Bus | Health S Work | Other Comm |
|--|-------|-----|--------|----------------|---------------|-------|--------------|------------------|---------------|
| Unweighted base: | 179 | 150 | 208 | 145 | 107 | 91* | 190 | 82* | 109 |
| Variable rate lending | 55% | 46% | 41% | 36% | 34% | 36% | 43% | 26% | 67% |
| Fixed rate lending | 45% | 54% | 59% | 64% | 66% | 64% | 57% | 74% | 33% |

Q 107 All SMEs with new/renewed overdraft excluding DK

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



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

| Type 1 overdraft fees Successfully sought new/renewed overdraft Q3 12- Q4 13 excl. DK | Agric | Mfg | Constr | Whle Retail | Hotel Rest | Trans | Prop/ Bus | Health S Work | Other Comm |
|--|-------|------|--------|----------------|---------------|-------|--------------|------------------|---------------|
| Unweighted base (varies): | 160 | 151 | 221 | 147 | 123 | 95* | 203 | 93* | 110 |
| No fee paid | 11% | 17% | 22% | 17% | 14% | 15% | 24% | 45% | 37% |
| Average fee paid | £824 | £589 | £230 | £382 | £477 | £249 | £287 | £118 | £171 |
| Equivalent of 2% or less paid* | 77% | 66% | 66% | 73% | 76% | 58% | 73% | 71% | 57% |

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



Overdrafts: Automatic renewals

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

below shows all automatic renewals <u>known</u> to have occurred between Q3 2012 and Q4 2013.

Data available for these automatic renewals showed that the majority (78%) were for less than £25,000 (in line with Type 1 overdraft events reported for these quarters), and they were in many ways similar to Type 1 overdraft events in the same period:

| Overdraft rates and fees summary Q312-Q413 | Automatically renewed | Type 1 overdraft event |
|--|-----------------------|---------------------------|
| Unweighted base (varies by question): | 1563 | 1514 |
| Any security required | 28% | 35% |
| Facility on a variable rate (excluding DK) | 40% | 44% |
| Average variable margin | +4.2% | +4.4% |
| Average fixed rate | 4.9% | 5.0% |
| No fee | 28% | 22% |
| Average fee paid | £201 | £357 |

All SMEs with new/renewed overdraft, excluding DK



Loans: Context

As with the overdraft section above, this section is based on the new definition of SMEs that had made an <u>application</u> for a new or renewed loan facility during an 18 month period which for this report is between Q3 2012 and Q4 2013, irrespective of when they were interviewed.

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

Of all new loans successfully applied for Q3 2012 to Q4 2013:

- 51% were granted to 0 employee SMEs
- 38% to 1-9 employee SMEs
- 10% to 10-49 employee SMEs
- 2% to 50-249 employee SMEs

74% of new/renewed loans granted in the period Q3 2012 to Q4 2013 were for £100,000 or less. By size this varied from 77% of those granted to SMEs with 0 employees to 25% of loans granted to those with 50-249 employees.

23% of successful new/renewed loans in this period were applied for in a personal name rather than that of the business (of those asked the question, which has been included from Q4

2012). 80% of these loans were for £100,000 or less.

Personal facilities will typically be priced differently to business facilities, so as an indication 26% of all loans agreed for less than £100,000 were applied for in a personal name, compared to 17% of loans £100k+. 23% of successful fixed rate loans were applied for in a personal name, compared to 19% of those on a variable rate.



Analysis of loans granted by application date shows that typically 80-90% of loans were for £100,000 or less, up to Q2 2012. Initial data for applications made since then suggests a higher proportion of loans were granted for more than £100,000, and also that fewer smaller loans were granted of less than £25,000:

| Loan facility granted By date of application | Q1 11 | Q2 11 | Q3 11 | Q4 11 | Q1 12 | Q2 12 | Q3 12 | Q4 12 | Q1* 13 | Q2* 13 |
|--|----------|----------|----------|----------|----------|----------|----------|----------|-----------|-----------|
| Unweighted base: | 220 | 193 | 204 | 212 | 206 | 165 | 131 | 173 | 128 | 100 |
| Less than £25k | 71% | 78% | 71% | 63% | 72% | 73% | 61% | 49% | 52% | 60% |
| £25-99k | 17% | 11% | 12% | 16% | 14% | 7% | 11% | 20% | 22% | 16% |
| More than £100k | 12% | 11% | 17% | 21% | 15% | 20% | 28% | 31% | 26% | 23% |

All successful loan applicants that recall amount granted



Loans: Security

17% of loans were commercial mortgages. These were much more likely to have been granted for £100,000+ and were also slightly more common amongst larger SMEs:

- 17% of successful applicants with 0-9 employees said their loan was a commercial mortgage
- 23% of successful applicants with 10-49 employees
- 21% of successful applicants with 50-249 employees

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

| Security required (Loan): <u>Successfully sought</u> new/renewed loan Q3 12-Q4 13 | Total | 0-9 emp | 10-49 emps | 50-249 emps |
|---|-------|---------|---------------|----------------|
| Unweighted base: | 620 | 234 | 256 | 130 |
| Commercial mortgage | 17% | 17% | 23% | 21% |
| Secured business loan | 26% | 24% | 41% | 50% |
| Unsecured business loan | 57% | 59% | 36% | 29% |

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

Including commercial mortgages, of new/renewed loans successfully applied for in Q3 2012 to Q4 2013:

- 22% of loans granted for less than £25,000 were secured
- 43% of loans granted for £25,000 to £100,000 were secured
- 88% of those granted for more than £100,000 were secured



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

| Security taken (loan): <u>Successfully sought</u> new/renewed loan Q3 12-Q4 13 | Total | 0-9 emp | 10-49 emps | 50-249 emps |
|--|-------|---------|---------------|----------------|
| Unweighted base: | 620 | 234 | 256 | 130 |
| Commercial mortgage | 17% | 17% | 23% | 21% |
| Secured – Property (any) | 20% | 19% | 26% | 35% |
| Business property | 13% | 12% | 18% | 32% |
| Personal property | 7% | 7% | 9% | 4% |
| Director/personal guarantees | 2% | 2% | 5% | 4% |
| Other security | 4% | 3% | 13% | 19% |
| Unsecured business loan | 57% | 59% | 36% | 29% |

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

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

| % of loan facilities that were secured, by size of facility and date applied for Row percentages | H1 11 | H2 11 | H1 12 | H2 12 | H1 13* |
|--|-------|-------|-------|-------|--------|
| All loans (excluding commercial mortgages) | 20% | 29% | 33% | 33% | 28% |
| Loans of <£100,000 (excl commercial mortgages) | 15% | 21% | 28% | 18% | 19% |
| Loans of more than £100,000 (excl commercial mortgages) | 72% | 76% | 69% | 78% | 86% |

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



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

Loans: Rates

Amongst those who knew, three quarters, 73%, said that their loan was on a fixed rate (including those with commercial mortgages). Fixed rate lending remained more common for loans than overdrafts (where 56% of facilities were on a fixed rate) and also more common for smaller loan facilities:

| Type of rate (loan) by amount granted: <u>Successfully sought</u> new/renewed loan Q3 12-Q4 13 | Total | <£100k | £100k+ |
|--|-------|--------|--------|
| Unweighted base: | 544 | 292 | 252 |
| Variable rate lending | 27% | 19% | 49% |
| Fixed rate lending | 73% | 81% | 51% |

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

Fixed rate lending was also more common where the facility was unsecured (85% v 57% for secured loans). Analysis by date of application showed that:

- Around 8 in 10 loans applied for in H2 11 and in 2012 were on a fixed rate
- Current data for H1 2013 shows the proportion on a fixed rate dropping slightly to 66% but early indications for the second half of 2013 are that the proportion has returned to around 8 out of 10 loans.

Most of those on a variable rate said that the rate was linked to Base Rate (77%), and there was little difference by size of facility or whether it was secured or not.



Amongst SMEs with a new/renewed loan, a quarter of those with a variable rate and a fifth 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: <u>Successfully sought</u> new/renewed loan Q3 12-Q4 13 | Total | <£100k | £100k+ |
|---|-------|--------|--------|
| Unweighted base: | 182 | 72* | 110 |
| Less than 2% | 26% | 19% | 35% |
| 2.01-4% | 40% | 34% | 47% |
| 4.01-6% | 18% | 19% | 18% |
| 6%+ | 16% | 28% | 1% |
| Average margin above Base/LIBOR: | +4.1% | +5.0% | +3.0% |
| Median margin above Base/LIBOR | +3.3% | +3.6% | +3.0% |

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

The overall average and median margins were unchanged from the previous 18 month period (Q3 2012 to Q4 2013).

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



The median variable rate charged was very similar for overdrafts (+3.0%) and loans (+3.3%). The median rate for fixed rate loan lending, at 4.5%, was now closer to the median rate for fixed rate overdraft lending (4.2%):

| Fixed rate (loan) by amount granted: <u>Successfully sought</u> new/renewed loan Q3 12-Q4 13 | Total | <£100k | £100k+ |
|--|-------|--------|--------|
| Unweighted base: | 281 | 164 | 117 |
| Less than 3% | 21% | 17% | 37% |
| 3.01-6% | 44% | 41% | 54% |
| 6.01-8% | 19% | 23% | 8% |
| 8%+ | 15% | 19% | 1% |
| Average fixed rate: | 6.1% | 6.8% | 3.9% |
| Median fixed rate | 4.5% | 4.5% | 4.4% |

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

The overall average fixed rate margin for loans was unchanged from the previous 18 month period (Q2 2012 to Q3 2013) while the median rate was slightly lower (having been 5.0%).

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

Secured loans, whether on a fixed or variable rate, were charged at a lower average rate than those that were unsecured. For those who successfully applied for a new/renewed loan on a variable rate between Q3 2012 and Q4 2013, a secured loan was charged at an average margin of +3.8%, an unsecured loan at an average margin of +4.8%. For fixed rate lending over the same period, the differences were more marked at 4.4% for secured loans and 7.2% for unsecured.



Loans: Fees

Almost 9 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): <u>Successfully sought</u> new/renewed loan Q3 12-Q4 13 | Total | <£100k | £100k+ |
|--|-------|--------|--------|
| Unweighted base: | 499 | 272 | 227 |
| No fee paid | 39% | 45% | 24% |
| Less than £100 | 10% | 13% | * |
| £100-199 | 13% | 15% | 7% |
| £200-399 | 12% | 14% | 6% |
| £400-999 | 10% | 7% | 21% |
| £1000+ | 16% | 6% | 42% |
| Average fee paid: | £898 | £210 | £2756 |
| Median fee paid | £92 | £25 | £515 |

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

The average fee paid for loans agreed Q3 2012 to Q4 2013 was slightly lower than in the previous report (when it was £1,000 based on all applications Q2 2012 to Q3 2013), whilst the median fee paid was virtually unchanged (previously £99).

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

Amongst those with a new/renewed loan who knew both what fee they had paid and the original loan size, 67% paid a fee that was the equivalent of less than 1% of the amount borrowed and a further 14% paid between 1-2%:

- 80% of those granted a new/renewed loan of less than £100,000 paid the equivalent of 2% or less
- 83% of those granted a new/renewed loan of more than £100,000 paid the equivalent of 2% or less



There was a difference in the proportion paying the equivalent of 2% or less for their loan by whether the loan was secured or not (86% if secured, 77% if not).

In 2011 around 8 out of 10 applicants paid the equivalent of 2% or less of their facility as a fee. In 2012 this proportion dropped slightly, to around 7 out of 10, while initial data for 2013 indicates that 9 out of 10 fees were the equivalent of 2% or less of the facility granted.

Loan terms: Analysis by risk rating

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

| Loan rates and fees summary <u>Successfully sought</u> new/renewed loan Q3 12-Q4 13 | Min/Low | Average/Worse than average | |
|--|---------|-------------------------------|--|
| Unweighted base (varies by question): | 267 | 314 | |
| % borrowing £100,000 or less | 58% | 79% | |
| Any security provided | 62% | 34% | |
| Facility on a variable rate (excluding DK) | 31% | 24% | |
| Average variable margin | +2.8% | +4.1% | |
| Average fixed rate | 4.8% | 6.8% | |
| % where fee <2% of facility | 92% | 80% | |

All SMEs with new/renewed loan, excluding DK



Loan terms: Analysis by sector (indicative)

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

74% of new/renewed loans agreed between Q2 2012 and Q3 2013 were for £100,000 or less. This typically varied little by sector, but two sectors were more likely to have loans over £100k: Property / Business Services (42%) and Agriculture (48%).

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

| Type 1 loan Successfully sought new/renewed loan Q3 12-Q4 13 | Agric | Mfg | Constr | Whle Retail | Hotel Rest | Trans | Prop/ Bus | Health S Work | Other Comm |
|--|-------|-----|--------|----------------|---------------|-------|--------------|------------------|---------------|
| Unweighted base: | 78* | 70* | 61* | 68* | 58* | | 97* | 63* | 75* |
| Commercial mtge | 12% | 17% | 16% | 12% | 16% | | 30% | 28% | 7% |
| Secured loan | 53% | 20% | 8% | 29% | 24% | | 31% | 19% | 16% |
| Unsecured loan | 35% | 63% | 76% | 59% | 60% | | 39% | 53% | 76% |

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 (73%). This was more likely for loans amongst SMEs in the Other Community, Health and Construction sectors:

| Type 1 loan rate Successfully sought new/renewed loan Q3 12-Q4 13 | Agric | Mfg | Constr | Whle Retail | Hotel Rest | Trans | Prop/ Bus | Health S Work | Other Comm |
|--|-------|-----|--------|----------------|---------------|-------|--------------|------------------|------------|
| Unweighted base: | 73* | 64* | 52* | 62* | 56* | | 84* | 51* | 65* |
| Variable rate lending | 33% | 31% | 14% | 21% | 23% | | 55% | 11% | 16% |
| Fixed rate lending | 67% | 69% | 86% | 79% | 77% | | 45% | 89% | 84% |

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

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

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

| Type 1 loan fees Successfully sought new/renewed loan Q3 12-Q4 13 | Agric | Mfg | Constr | Whle Retail | Hotel Rest | Trans | Prop/ Bus | Health S Work | Other Comm |
|--|-------|-----|--------|----------------|---------------|-------|--------------|------------------|---------------|
| Unweighted base: | 62* | 59* | 48* | 51* | 49* | | 78* | 49* | 65* |
| No fee paid | 23% | 20% | 60% | 36% | 50% | | 36% | 54% | 36% |

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

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



This chapter looks

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

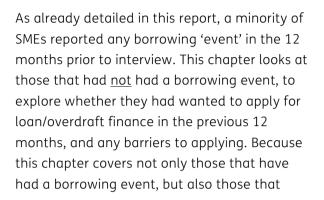


Key findings

In Q4 2013, 79% of SMEs met the definition of a 'Happy non-seeker' of finance, the highest proportion to date, and up from 73% in the equivalent quarter of 2012. Such SMEs had neither applied for external finance in the previous 12 months, nor felt that anything had stopped them from applying.

4% of SMEs met the definition of a 'Would-be seeker of finance', who had wanted to apply for a loan or overdraft but felt that something had stopped them. This was the lowest proportion to date, with fewer smaller SMEs now in this category together with fewer SMEs with an average or worse than average external risk rating.

The main barriers to applying for a loan or an overdraft remained discouragement and the process of borrowing. 41% of would-be seekers of overdraft facilities and 47% of would-be seekers of loans reported feeling discouraged, almost all of it indirect (assuming the bank would say no and not applying). 36% of would-be seekers of overdraft facilities and 33% of would-be seekers of loans reported being put off by the process of borrowing including the cost, terms and conditions and hassle.



have not, analysis continues to be based on the date of **interview** (unlike chapters 7 to 10 which are now entirely based on when the borrowing event in question *occurred*)

The definitions used in this chapter have been revised twice since the start of the SME Finance Monitor, most recently in Q4 2012.

Automatic renewals re-classified

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

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

As a result, from Q4 2012, the question used to separate the 'Happy non-seekers' from the 'Would-be seekers' was changed from:

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

То

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

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





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

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

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

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

and if they do not meet that definition either, then they are defined as a 'Happy non-seeker'.

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

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 (i.e. including automatic renewals as an 'event'), but only the shaded figures from Q4 2012 onwards reflect the new 'Would-be seeker / Happy non-seeker' definition. The change in definition means that these shaded figures are not necessarily directly comparable to previous waves, but are shown in the full time series here to help assess what impact the change in wording may have had.

As described earlier, the 'Have had an event' code includes not only applications for new or renewed loans and overdrafts (and the automatic renewal of overdrafts), but also Type 2 and Type 3 events where either the bank or the SME was looking to reduce or repay an existing facility. The table below therefore shows, beneath the 'event' line, the proportion of SMEs each quarter that have applied for a new/renewed facility or had an overdraft facility automatically renewed, and then those that have had a facility reduced/cancelled or chosen to do so (the Type 2 and 3 events):

| Any events (overdraft <u>and</u> loan) All SMES, over time By date of interview | Q4 2011 | Q1 2012 | Q2 2012 | Q3 2012 | Q4 2012 | Q1 2013 | Q2 2013 | Q3 2013 | Q4 2013 |
|---|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Unweighted base: | 5010 | 5023 | 5000 | 5032 | 5000 | 5000 | 5000 | 5008 | 5028 |
| Have had an event | 23% | 25% | 24% | 22% | 21% | 17% | 19% | 15% | 17% |
| New or (auto) renewed facility | 21% | 23% | 22% | 20% | 18% | 15% | 16% | 13% | 15% |
| • Type 2 or 3 events | 4% | 4% | 4% | 3% | 3% | 3% | 4% | 3% | 4% |
| Would-be seekers | 8% | 10% | 10% | 11% | 7% | 7% | 6% | 7% | 4% |
| Happy non-seekers | 69% | 65% | 66% | 67% | 73% | 76% | 76% | 78% | 79% |

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

This shows that the proportion of 'Happy non-seekers' was at the highest level seen since the survey started (currently 79%). 'Would-be seekers', using its new definition, were at the lowest level seen since the definition changed, as the proportion of SMEs reporting an event increased slightly.

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

The table below shows the proportion of 'Would-be seekers' by key demographic groups over time. It is those with an average or worse than average external risk rating who have become less likely to be a 'would-be seeker' of finance in recent quarters:

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

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



For 2013 as a whole, as in previous years, SMEs with no employees were less likely to have had an 'event' than those with employees. The bigger the SME, the less likely they were to be a 'Would-be seeker' of external finance:

| Any events (Overdraft <u>and</u> loan) YEQ4 13 All SMES | Total | 0 emp | 1-9 emps | 10-49 emps | 50-249 emps |
|--|--------|-------|-------------|---------------|----------------|
| Unweighted base: | 20,036 | 4013 | 6619 | 6404 | 3000 |
| Have had an event | 17% | 14% | 25% | 27% | 25% |
| Would-be seekers | 6% | 6% | 6% | 3% | 1% |
| Happy non-seekers | 77% | 80% | 68% | 71% | 74% |

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' (6%), but remained much more likely to have had an event (38%).

By risk rating, those SMEs with an average or worse than average risk rating remained slightly more likely to be 'Would-be seekers' (albeit a declining proportion over time). Those with a minimal or low risk rating were more likely to have had an event:

| Any events (Overdraft <u>and</u> loan) YEQ4 13 All SMEs with a risk rating | Total | Min | Low | Avge | Worse/ Avge |
|---|--------|------|------|------|----------------|
| Unweighted base: | 20,036 | 3428 | 3763 | 5248 | 5744 |
| Have had an event | 17% | 21% | 23% | 18% | 15% |
| Would-be seekers | 6% | 3% | 3% | 6% | 6% |
| Happy non-seekers | 77% | 76% | 75% | 76% | 79% |

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

The proportion of 'Would-be seekers' varied by sector from 4% of those in Agriculture and Manufacturing to 8% of those in the Transport sector. More variation was seen in terms of 'Happy non-seekers', which accounted for 82% of those in the Property/Business Services sector (who were less likely to have had an event), to 70% of those in Agriculture (who remained more likely to have had an event):

| Any events (overdraft and loan) All SMEs YEQ4 13 | Agric | Mfg | Constr | Whle Retail | Hotel Rest | Trans | Prop/ Bus | Health S Work | Other Comm |
|---|-------|------|--------|----------------|---------------|-------|--------------|------------------|---------------|
| Unweighted base: | 1496 | 2090 | 3505 | 2040 | 1803 | 1815 | 3510 | 1781 | 1996 |
| Have had an event | 25% | 20% | 17% | 22% | 21% | 18% | 14% | 14% | 15% |
| Would-be seekers | 4% | 4% | 7% | 6% | 7% | 8% | 6% | 5% | 5% |
| Happy non- seekers | 70% | 76% | 76% | 72% | 72% | 74% | 80% | 82% | 80% |

Q115/209 All SMEs

Analysis by age of business showed that Starts remained the most likely to be 'Would-be seekers' (9%). They were less likely to have had an event (10%), compared to 26% of those in business for 15 years or more.



Barriers to overdraft or loan application

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

These are reported below, firstly how frequently they were mentioned at all and secondly how frequently they were nominated as the <u>main</u> 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 the themes shown below, and respondents could initially nominate as many reasons as they wished for not having applied when they wanted to. For YEQ4 2013 the reasons given were:

- **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 50% of all 'Would-be seekers', which is also the equivalent of around 3% of all SMEs
- **Process of borrowing** those who did not want to apply because they thought it would be too expensive, too much hassle etc. This was given as a reason by 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 was removed as an option in Q4 2012. This was given as a reason by 21% of all 'Would-be seekers' which is the equivalent of around 1% of all SMEs
- Current economic climate those that felt that it had not been the right time to borrow.
 This was given as a reason by 12% of all 'Would-be seekers', which is the equivalent of around 1% of all SMEs

The table below shows the combined results for YEQ4 2013, and all the reasons for not applying for a loan or overdraft that are included in the summary categories above. An additional question was asked of those giving more than one reason, asking them to nominate the <u>key</u> reason for not applying, and those results form the main analysis of barriers to application later in this chapter.



| All 'Would-be seekers' | | Would have liked to apply for an overdraft | | | Would have liked to apply for a loan | | | |
|--|-------|--|----------------|-------|--------------------------------------|----------------|--|--|
| All reasons for <u>not</u> applying when wished to YEQ4 13 | Total | 0-9 emps | 10-249 emps | Total | 0-9 emps | 10-249 emps | | |
| Unweighted base: | 688 | 528 | 160 | 457 | 341 | 116 | | |
| Issues with <u>principle</u> of borrowing | 19% | 20% | 14% | 13% | 13% | 12% | | |
| -Not lose control of business | 13% | 13% | 5% | 6% | 7% | 5% | | |
| -Can raise personal funds if needed | 7% | 7% | 4% | 4% | 4% | 7% | | |
| -Prefer other forms of finance | 4% | 4% | 5% | 5% | 5% | 5% | | |
| -Go to family and friends | 5% | 5% | 1% | 2% | 2% | 1% | | |
| Issues with <u>process</u> of borrowing | 43% | 43% | 46% | 39% | 39% | 50% | | |
| -Would be too much hassle | 15% | 15% | 14% | 10% | 10% | 13% | | |
| -Thought would be too expensive | 27% | 27% | 17% | 19% | 19% | 18% | | |
| -Would be asked for too much security | 9% | 9% | 12% | 5% | 5% | 20% | | |
| -Too many terms and conditions | 13% | 13% | 15% | 11% | 11% | 16% | | |
| -Did not want to go through process | 5% | 5% | 5% | 4% | 4% | 3% | | |
| -Forms too hard to understand | 1% | 1% | 2% | 2% | 2% | 2% | | |
| Discouraged (any) | 46% | 46% | 48% | 49% | 49% | 42% | | |
| -Direct (put off by bank) | 16% | 15% | 24% | 16% | 16% | 21% | | |
| -Indirect (thought would be turned down) | 35% | 36% | 28% | 37% | 37% | 25% | | |
| Economic climate | 10% | 11% | 4% | 8% | 8% | 9% | | |
| Not the right time to apply | 10% | 11% | 4% | 8% | 8% | 9% | | |

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 <u>main</u> reason given by 'Would-be seekers' for not having applied for an overdraft or loan in the previous 12 months.

The table below details the main reasons given by 'Would-be seekers' interviewed YEQ4 2013. It shows that discouragement (much of it indirect) and the process of borrowing remained the two key barriers to applying for loans or overdrafts:

| All 'Would-be seekers' | | Would have liked to apply for an overdraft | | | Would have liked to apply for a loan | | | |
|--|-------|--|----------------|-------|--------------------------------------|----------------|--|--|
| Main reason for <u>not</u> applying when wished to YEQ4 13 | Total | 0-9 emps | 10-249 emps | Total | 0-9 emps | 10-249 emps | | |
| Unweighted base: | 688 | 528 | 160 | 457 | 341 | 116 | | |
| Discouraged (any) | 41% | 41% | 44% | 47% | 48% | 36% | | |
| -Direct (put off by bank) | 11% | 11% | 20% | 13% | 13% | 14% | | |
| -Indirect (thought would be turned down) | 29% | 29% | 24% | 34% | 35% | 22% | | |
| Issues with <u>process</u> of borrowing | 36% | 36% | 38% | 33% | 33% | 41% | | |
| Issues with <u>principle</u> of borrowing | 9% | 9% | 6% | 7% | 7% | 5% | | |
| Economic climate | 5% | 5% | 2% | 4% | 4% | 5% | | |

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

Amongst 'would-be seekers' of an overdraft, larger SMEs were more likely than smaller SMEs to report 'direct' discouragement (arising from a conversation with the bank), while smaller SMEs were more likely than larger ones to have felt indirectly discouraged about a loan. Otherwise there were few differences by size of business.

The changes to the question definition and answer codes available mean that there are only two Year Ending figures to compare over time. For both YEQ3 2013 and YEQ4 2013 discouragement and the process of borrowing were the key barriers, with only slight differences between the scores in each wave.

Analysis by external risk rating also showed discouragement and the process of borrowing as the main barriers. Discouragement was more of a barrier for those with an average or worse than average external risk rating:

| All 'Would-be seekers' | | Would have liked to apply for an overdraft | | | Would have liked to apply for a loan | | | |
|--|-------|--|---------------|-------|--------------------------------------|---------------|--|--|
| Main reason for <u>not</u> applying when wished to YEQ4 13 | Total | Min/ Low | Avge / WTA | Total | Min/ Low | Avge / WTA | | |
| Unweighted base: | 688 | 103 | 479 | 457 | 71* | 321 | | |
| Discouraged (any) | 41% | 29% | 41% | 47% | 33% | 53% | | |
| -Direct (put off by bank) | 11% | 7% | 12% | 13% | 8% | 14% | | |
| -Indirect (thought would be turned down) | 29% | 22% | 28% | 34% | 25% | 39% | | |
| Issues with <u>process</u> of borrowing | 36% | 29% | 37% | 33% | 37% | 30% | | |
| Issues with <u>principle</u> of borrowing | 9% | 19% | 9% | 7% | 6% | 4% | | |
| Economic climate | 5% | 6% | 4% | 4% | 11% | 3% | | |

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

In the previous period (YEQ3 13), 31% of 'Would-be seekers' of loans cited the principle of borrowing as their main barrier to application, while for YEQ4 13 the figure is 6%. This is because in Q4 2012, 38% of such 'Would-be seekers' of loans gave the principle of borrowing as their main reason. This figure is not included in the latest Year Ending figures and since then there have been very few mentions of this factor as a barrier to application.

Base sizes are too small for analysis by sector.

'Would-be seekers' represent a minority of all SMEs (6%). The table below shows, for the main reasons given by 'Would-be seekers', the equivalent proportion of <u>all</u> SMEs:

| Main reason for not applying YEQ4 13 | Would-be overdraft seekers | overdraft | | All SMEs |
|--|----------------------------------|-----------|-----|----------|
| Unweighted base: | 688 | 20,036 | 457 | 20,036 |
| Discouraged (any) | 41% | 2% | 47% | 1% |
| -Direct (put off by bank) | 11% | * | 13% | * |
| -Indirect (thought I would be turned down) | 29% | 1% | 34% | 1% |
| Issues with <u>process</u> of borrowing | 36% | 2% | 33% | 1% |
| Issues with <u>principle</u> of borrowing | 9% | * | 7% | * |
| Economic climate | 5% | * | 4% | * |
| None of these/DK | 8% | * | 8% | * |
| Had event/Happy-non seeker | | 95% | - | 97% |

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

The equivalent of 2% of all SMEs reported having felt discouraged from applying for an overdraft, compared to 1% discouraged from applying for a loan.



The effect of the 'Permanent non-borrower'

As identified earlier in this report, 4 in 10 of all SMEs meet the definition of a 'Permanent non-borrower'. If such SMEs are excluded from the analysis in this chapter (because there is no indication from their answers that they will borrow), the population of SMEs reduces to around 2.7 million from 4.5 million.

The proportion of 'Happy non-seekers' declines to 62% but remains the largest group:

| Any events (Overdraft <u>and</u> loan) YEQ4 13 – all SMES | All SMEs | All SMEs excl. pnb |
|--|----------|-----------------------|
| Unweighted base: | 20,036 | 14,578 |
| Have had an event | 17% | 28% |
| Would-be seekers | 6% | 10% |
| Happy non-seekers | 77% | 62% |

Q115/209 All SMEs

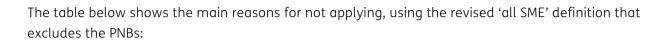
For YEQ4 2013, once the PNBs are excluded, 10% of remaining SMEs met the definition of a 'Would-be seeker', compared to 6% of all SMEs.

The table below shows the pattern over time, once the PNBs have been excluded. This shows the same recent increase in 'Happy non-seekers' as for SMEs overall:

| Any events (overdraft <u>and</u> loan) All SMES, excluding PNBs, over time By date of interview | Q4 2011 | Q1 2012 | Q2 2012 | Q3 2012 | Q4 2012 | Q1 2013 | Q2 2013 | Q3 2013 | Q4 2013 |
|---|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Unweighted base: | 3822 | 4022 | 3894 | 3732 | 3664 | 3649 | 3707 | 3637 | 3585 |
| Have had an event | 36% | 35% | 37% | 34% | 33% | 29% | 29% | 26% | 29% |
| Would-be seekers | 13% | 15% | 15% | 17% | 11% | 12% | 9% | 11% | 7% |
| Happy non-seekers | 51% | 50% | 48% | 49% | 57% | 59% | 62% | 63% | 64% |

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





| Main reason for not applying when wished to – YEQ4 13 | Would-be overdraft seekers | All SMEs excl. pnb | Would-be loan seekers | All SMEs excl. pnb |
|---|----------------------------------|-----------------------|--------------------------|-----------------------|
| Unweighted base: | 688 | 14,578 | 457 | 14,578 |
| Discouraged (any) | 41% | 3% | 47% | 2% |
| -Direct (put off by bank) | 11% | 1% | 13% | 1% |
| -Indirect (thought I would be turned down) | 29% | 2% | 34% | 2% |
| Issues with <u>process</u> of borrowing | 36% | 3% | 33% | 2% |
| Issues with <u>principle</u> of borrowing | 9% | 1% | 7% | * |
| Economic climate | 5% | 1% | 4% | * |

Q116a/Q210a All SMEs v all that wished they had applied for an overdraft or a loan

12. The future





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

Half of SMEs expected to grow in the next 12 months, with larger SMEs more optimistic about their prospects. Most of those planning to grow expected to do so in existing markets, with few signs of SMEs planning to *start* exporting to achieve growth.

Whilst the current economic climate remained the main obstacle to running the business of those tested, it was much less likely to be rated a major obstacle than before. In Q4 2013 21% of SMEs rated it a major obstacle, down from 37% at the start of 2012.

Those with *any* appetite for finance in the next 3 months remained more likely to rate the economic climate as a major obstacle (27% in Q4) but this has decreased over time. Such SMEs were typically more likely see each of the factors tested as a barrier, including access to finance (18% compared to 8% overall, but lower than in recent quarters when around a quarter saw it as a major obstacle).

64% of SMEs did not think that *any* of the factors tested represented a major obstacle to their business and this proportion has risen steadily over time from 51% at the start of 2012.

15% of SMEs thought it likely that they would apply for new or renewed funding in the 3 months after interview, with little variation over time. Confidence that the bank would agree to their request was stable overall at 41%, with larger would-be applicants and those with a minimal or low external risk rating showing increased levels of confidence. These potential applicants remained less confident of success than current actual success rates would suggest.





15% of SMEs interviewed in Q4 planned to apply for finance with the majority, 68%, meeting the definition of a 'Future happy non-seeker' of finance with no plans or wish to apply. Indeed, 56% of all SMEs in 2013 neither used external finance, <u>nor</u> expressed any wish to apply for any in the three months after interview, and this is an increasing proportion over time (from 50% in 2011). There has also been a decline in the proportion of SMEs planning to inject personal funds into the business (17% in Q4).

18% of SMEs met the definition of a 'Future would-be seeker' of finance, although it is important to note that very few of them (1% of all SMEs) had a precise need for finance already identified. This proportion is declining somewhat over time, as more SMEs meet the definition of a 'Future happy non-seeker' of finance.

Unlike those who had been would-be seekers of finance in the past, the key barrier for these 'Future would-be seekers' remained a reluctance to borrow in the current economic climate, mentioned by 72% in Q4 2013. The small group that had a need for finance identified saw other barriers however, with 42% feeling discouraged from applying (almost all of it indirect) while 21% had issues with the process of borrowing (33% were reluctant to borrow in the current climate).



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

This chapter reports on growth objectives and perceived barriers to future business

performance. It then explores SMEs' intentions for the next 3 months in terms of finance and the reasons why SMEs think that they will/will not be applying for new/renewed finance in that time period. Most of this chapter therefore is based on Q4 2013 data gathered between October and December, when there were continued signs of 'green shoots' and a number of positive economic indicators were published.



Growth plans for next 12 months

SMEs were asked about their future growth plans.

For all quarters up to and including Q3 2012, this was phrased as 'Which of the following do you feel describes your growth objectives over the next year?' For Q4 2012 and subsequent quarters this was changed to 'Which of the following do you feel describes your plans for the business over the next year?' The answer codes remained unchanged.

As shown in the table below, over time SMEs have given similar answers to this question in each quarter, with between 4 and 5 out of 10 planning to grow. In Q4 2013 48% were planning to grow, up from 44% in the equivalent quarter of 2012:

| Growth in next 12 mths All SMEs, over time By date of interview | Q4 2011 | Q1 2012 | Q2 2012 | Q3 2012 | Q4 2012 | Q1 2013 | Q2 2013 | Q3 2013 | Q4 2013 |
|---|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Unweighted base: | 5010 | 5023 | 5000 | 5032 | 5000 | 5000 | 5000 | 5008 | 5028 |
| Grow substantially | 7% | 6% | 6% | 8% | 7% | 7% | 8% | 6% | 7% |
| Grow moderately | 37% | 42% | 41% | 39% | 37% | 41% | 43% | 41% | 41% |
| All with objective to grow | 44% | 48% | 47% | 47% | 44% | 48% | 51% | 47% | 48% |
| Stay the same size | 47% | 42% | 44% | 45% | 48% | 43% | 41% | 43% | 44% |
| Become smaller | 5% | 5% | 3% | 4% | 4% | 4% | 3% | 3% | 3% |
| Plan to sell/pass on/close | 4% | 6% | 5% | 5% | 5% | 5% | 5% | 6% | 5% |

Q225 All SMEs New Question wording in Q4 2012





In Q4 2013 as in other quarters, the bigger the SME the more likely they were to be planning to grow:

| Plans to grow in next 12 mths Q4 13 only | Total | 0 emp | 1-9 emps | 10-49 emps | 50-249 emps |
|---|-------|-------|-------------|---------------|----------------|
| Unweighted base: | 5028 | 1011 | 1663 | 1604 | 750 |
| Grow substantially | 7% | 6% | 9% | 11% | 8% |
| Grow moderately | 41% | 40% | 44% | 53% | 61% |
| All with objective to grow | 48% | 46% | 53% | 64% | 69% |
| Stay the same size | 44% | 46% | 40% | 34% | 29% |
| Become smaller | 3% | 3% | 2% | 1% | 2% |
| Plan to sell/pass on/close | 5% | 6% | 5% | 2% | 1% |

Q225 All SMEs New Question wording in Q4 2012

SMEs that met the 'Permanent non-borrower' definition in Q4 2013 remained less likely to have plans to grow (38%) than those that didn't meet the definition (55%).

SMEs that had injected personal funds in the previous 12 months were more likely to be planning to grow (57%) than those who had not (43%) and this was true for Starts (67% v 56%) as well as older businesses (52% v 41%).

The table on the next page summarises the growth plans/objectives of SMEs by key demographics over time. There were some changes:

- The 0 employee SMEs were more likely to be planning to grow in Q4, back to levels previously seen. This narrowed the gap that had emerged in Q3 between this group and those with employees
- Growth aspirations amongst those with a minimal external risk rating returned to previous levels
- Growth aspirations increased amongst those in Wholesale/Retail, but recent anticipated levels
 of growth amongst those in the Hotels & Restaurant and Transport sectors have not been
 maintained in Q4





| Objective to grow (any) in next | | | | | | | | | |
|---|------|------|------|------|------|------|------|------|------|
| 12 months | | | | | | | | | |
| Over time – row percentages | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| By date of interview | 2011 | 2012 | 2012 | 2012 | 2012 | 2013 | 2013 | 2013 | 2013 |
| All SMEs | 44% | 48% | 47% | 47% | 44% | 48% | 51% | 47% | 48% |
| 0 employee | 43% | 46% | 46% | 45% | 41% | 47% | 50% | 43% | 46% |
| 1-9 employees | 49% | 51% | 50% | 49% | 49% | 51% | 56% | 56% | 53% |
| 10-49 employees | 56% | 56% | 59% | 52% | 58% | 54% | 57% | 60% | 64% |
| 50-249 employees | 62% | 65% | 66% | 61% | 61% | 66% | 65% | 69% | 69% |
| Minimal external risk rating | 37% | 49% | 48% | 42% | 34% | 43% | 48% | 40% | 50% |
| Low external risk rating | 41% | 39% | 41% | 35% | 39% | 40% | 49% | 50% | 44% |
| Average external risk rating | 35% | 43% | 40% | 38% | 36% | 44% | 43% | 40% | 38% |
| Worse than average external risk rating | 53% | 54% | 53% | 56% | 50% | 55% | 57% | 51% | 52% |
| Agriculture | 37% | 42% | 44% | 35% | 38% | 42% | 48% | 37% | 44% |
| Manufacturing | 42% | 51% | 47% | 50% | 39% | 53% | 50% | 51% | 49% |
| Construction | 42% | 37% | 38% | 33% | 37% | 38% | 47% | 40% | 39% |
| Wholesale/Retail | 48% | 50% | 55% | 51% | 46% | 51% | 49% | 46% | 58% |
| Hotels and Restaurants | 45% | 39% | 33% | 42% | 38% | 40% | 49% | 53% | 42% |
| Transport | 44% | 38% | 40% | 41% | 38% | 55% | 43% | 55% | 39% |
| Property/Business Services etc. | 46% | 49% | 57% | 52% | 50% | 52% | 58% | 52% | 51% |
| Health | 55% | 53% | 48% | 49% | 45% | 52% | 53% | 45% | 46% |
| Other Community | 40% | 66% | 47% | 58% | 48% | 54% | 52% | 46% | 55% |
| All 'Permanent non-borrowers' | 37% | 38% | 42% | 41% | 37% | 48% | 46% | 39% | 38% |
| All excluding PNBs | 48% | 51% | 50% | 49% | 47% | 48% | 54% | 52% | 55% |

Q225 All SMEs base size varies by category





From Q4 2012, those planning to grow were asked a newly simplified question about how this growth would be achieved. As in previous quarters, most of those planning to grow, 86%, planned to increase sales in existing markets, the equivalent of 4 out of 10 of all SMEs:

| How plan to grow Q4 13 | All planning to grow | All SMEs |
|------------------------------------|----------------------|----------|
| Unweighted base: | 2729 | 5028 |
| Increase sales in existing markets | 86% | 39% |
| Sell in new markets in UK | 22% | 10% |
| Sell in new markets overseas | 6% | 3% |

Q226 All SMEs planning to grow excluding DK / All SMEs

Overall, more SMEs planned to grow by selling to new markets in the UK (10% of all SMEs) than overseas (3%).

Exporters remained slightly more likely to be predicting growth (In Q4 13, 53% reported that they planned to grow compared to 47% of non-exporters). As the table below shows, while a quarter of those already exporting planned to sell into new markets overseas (29%, the equivalent of 2% of all SMEs), very few who do not currently export thought that they would start to do so (4%, the equivalent of 1% of all SMEs):

| How plan to grow Q4 13 - those planning to grow | All who plan to grow and currently export | All who plan to grow and do not currently export |
|---|---|--|
| Unweighted base: | 526 | 2203 |
| Increase sales in existing markets | 76% | 87% |
| Sell in new markets in UK | 39% | 20% |
| Sell in new markets overseas | 29% | 4% |

Q226 All SMEs planning to grow excluding DK

Since this question was first asked in Q4 2012, the answers given by non-exporters have changed very little from those reported above. Over the same time period, the proportion of exporters planning to enter <u>new</u> overseas markets fell from 46% in Q4 2012 to 25% in Q3 2013, before increasing slightly to 29% in Q4.



Obstacles to running the business in the next 12 months

From Q4 2011, SMEs have been asked to rate the extent to which <u>each</u> 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 2013 as in all previous quarters:

- The **current economic climate** was rated as a major obstacle (8-10) by 21% of SMEs in Q4 2013. Whilst it remains the top rated barrier, this is a declining proportion of SMEs over time
- Legislation and regulation was the next most important obstacle. By comparison to the economic climate, this was rated a major obstacle by 11% of SMEs, however for those with 10 or more employees this is now almost as much of a barrier as the economic climate
- Cash flow and issues with late payment was rated a major obstacle by 10%
- Access to external finance was similarly rated, with 8% of SMEs seeing it as a major obstacle
- 6% of SMEs rated **availability of relevant advice** for their business as a major obstacle for the year ahead
- Finally, 3% rated **staff related issues** as a major obstacle

The analysis below looks at the barriers perceived in Q4 2013, by key sub-groups. Details of how these views have changed over time are provided later in this chapter.





| Extent of obstacles in next 12 months Q4 13 only – all SMEs | Total | 0 emp | 1-9 emps | 10-49 emps | 50-249 emps |
|--|-------|-------|-------------|---------------|----------------|
| Unweighted base: | 5028 | 1011 | 1663 | 1604 | 750 |
| The current economic climate (mean score) | 4.8 | 4.7 | 5.2 | 4.9 | 4.9 |
| - 8-10 major obstacle | 21% | 20% | 24% | 17% | 14% |
| - 5-7 moderate obstacle | 36% | 34% | 39% | 42% | 47% |
| - 1-4 limited obstacle | 43% | 45% | 37% | 39% | 39% |
| Legislation and regulation (mean score) | 3.5 | 3.3 | 4.0 | 4.4 | 4.3 |
| - 8-10 major obstacle | 11% | 10% | 16% | 17% | 11% |
| - 5-7 moderate obstacle | 25% | 23% | 28% | 33% | 38% |
| - 1-4 limited obstacle | 62% | 65% | 54% | 49% | 49% |
| Cash flow/issues with late payment (mean score) | 3.2 | 3.0 | 3.8 | 3.6 | 3.5 |
| - 8-10 major obstacle | 10% | 8% | 15% | 11% | 9% |
| - 5-7 moderate obstacle | 22% | 21% | 23% | 26% | 22% |
| - 1-4 limited obstacle | 68% | 70% | 61% | 62% | 68% |
| Access to external finance (mean score) | 2.7 | 2.6 | 3.1 | 2.8 | 2.8 |
| - 8-10 major obstacle | 8% | 7% | 11% | 7% | 5% |
| - 5-7 moderate obstacle | 15% | 14% | 19% | 18% | 19% |
| - 1-4 limited obstacle | 73% | 75% | 67% | 72% | 74% |
| Availability of relevant advice (mean score) | 2.6 | 2.6 | 2.8 | 2.7 | 2.5 |
| - 8-10 major obstacle | 6% | 6% | 7% | 5% | 2% |
| - 5-7 moderate obstacle | 17% | 16% | 19% | 18% | 15% |
| - 1-4 limited obstacle | 75% | 76% | 72% | 75% | 81% |
| Staff related issues (mean score) | 1.8 | 1.6 | 2.4 | 3.2 | 3.2 |
| - 8-10 major obstacle | 3% | 3% | 6% | 7% | 5% |
| - 5-7 moderate obstacle | 8% | 5% | 15% | 23% | 25% |
| - 1-4 limited obstacle | 87% | 91% | 79% | 70% | 70% |

Q227a All SMEs



New analysis for this wave shows that in Q4 2013, almost two thirds of SMEs, 64%, did not rate <u>any</u> of these potential obstacles as a major obstacle (scoring 8-10). This varied relatively little by size.

The current economic climate was the most important obstacle of those tested in Q4 across all external risk ratings (albeit that for those with a low risk rating 'legislation and

regulation' is now as much of a barrier). It was mentioned slightly more by those with an average or worse than average external risk rating but compared to Q3 most SMEs were less likely to see this as a major barrier in Q4 (with the exception of those with a minimal rating where the score was stable). Those with a minimal risk rating were the most likely to say that none of the factors tested was a major obstacle (71%):

| Extent of obstacles in next 12 months Q4 13 only – all SMEs | Total | Min | Low | Avge | Worse/Avge |
|--|-------|-----|-----|------|------------|
| 8-10 impact score | | | | | |
| Unweighted base: | 5028 | 852 | 949 | 1344 | 1383 |
| The current economic climate | 21% | 19% | 17% | 22% | 23% |
| Legislation and regulation | 11% | 15% | 17% | 15% | 9% |
| Cash flow/issues with late payment | 10% | 10% | 8% | 10% | 10% |
| Access to external finance | 8% | 5% | 5% | 6% | 10% |
| Availability of relevant advice | 6% | 4% | 4% | 6% | 7% |
| Staff related issues | 3% | 4% | 5% | 5% | 3% |
| None of these rated a 'major obstacle' | 64% | 71% | 66% | 62% | 62% |

Q227a All SMEs for whom risk ratings known



Those planning to grow were slightly more likely than those with no plans to see access to external finance and availability of advice as major barriers. The current economic climate remains more likely to be seen as a barrier by those with no plans to grow, albeit it was mentioned by 23% in Q4 compared to 29% in Q3. Those with no plans to grow were slightly more likely to say that none of these factors presented a major obstacle to them (66%):

| Extent of obstacles in next 12 months Q4 13 only – all SMEs 8-10 impact score | Total | Plan to grow | No plans to grow |
|---|-------|-----------------|---------------------|
| Unweighted base: | 5028 | 2791 | 2237 |
| The current economic climate | 21% | 19% | 23% |
| Legislation and regulation | 11% | 11% | 12% |
| Cash flow/issues with late payment | 10% | 11% | 8% |
| Access to external finance | 8% | 10% | 6% |
| Availability of relevant advice | 6% | 8% | 4% |
| Staff related issues | 3% | 4% | 3% |
| None of these rated a 'major obstacle' | 64% | 62% | 66% |

Q227a All SMEs



More differences were seen depending on whether the SME was a 'Permanent non-borrower' or not. PNBs were less likely to see any of these issues as major barriers (74% said that none of them were), notably cash flow and access to external finance:

| Extent of obstacles in next 12 months Q4 13 only – all SMEs 8-10 impact score | Total | PNB | Not PNB |
|---|-------|------|---------|
| Unweighted base: | 5028 | 1443 | 3585 |
| The current economic climate | 21% | 17% | 24% |
| Legislation and regulation | 11% | 9% | 13% |
| Cash flow/issues with late payment | 10% | 4% | 14% |
| Access to external finance | 8% | 3% | 12% |
| Availability of relevant advice | 6% | 3% | 8% |
| Staff related issues | 3% | 2% | 4% |
| None of these rated a 'major obstacle' | 64% | 74% | 57% |

Q227a All SMEs



Clear differences continued to be seen by whether the SME planned to apply for new/renewed facilities in the next three months, or would like to (the 'Future would-be seekers' – FWBS), compared to the future 'Happy non-seekers' of external finance. Those with plans/aspirations to apply were more likely to see these issues as major obstacles notably access to finance, cash flow and the economic climate, while 52% did not rate any of them as a major obstacle, compared to 70% of 'Happy non-seekers':

| Extent of obstacles in next 12 months Q4 13 only – all SMEs 8-10 impact score | Total | Plan to apply or FWBS | Future HNS | Future HNS excl. PNB |
|---|-------|-----------------------------|---------------|----------------------------|
| Unweighted base: | 5028 | 1676 | 3352 | 1909 |
| The current economic climate | 21% | 27% | 18% | 20% |
| Legislation and regulation | 11% | 13% | 10% | 13% |
| Cash flow/issues with late payment | 10% | 17% | 6% | 9% |
| Access to external finance | 8% | 18% | 3% | 4% |
| Availability of relevant advice | 6% | 11% | 3% | 3% |
| Staff related issues | 3% | 6% | 2% | 3% |
| None of these rated a 'major obstacle' | 64% | 52% | 70% | 64% |

Q227a All SMEs

The future 'Happy non-seeker' category described above includes those SMEs that meet the definition of a 'Permanent non-borrower' which indicates that they are unlikely to borrow. Such SMEs have been excluded from the 'Happy non-seeker' definition in the final column above. This increases most of the scores slightly.



The economic climate was the most likely to be rated by SMEs as a major obstacle to running the business, with the highest score given by SMEs in the Hotels and Restaurants sector (the only sector where the proportion seeing this as a barrier has increased Q3 to Q4, from 26% to 30%). Those in Agriculture were less likely to rate the economic climate as a major barrier in Q4, and for this sector legislation and regulation is now more of a barrier:

| Extent of obstacles in next 12 months Q4 13 only – all SMEs 8-10 impact scores | Agric | Mfg | Constr | Whle Retail | Hotel Rest | Trans | Prop/ Bus | Health S Work | Other Comm |
|--|-------|-----|--------|----------------|---------------|-------|--------------|------------------|---------------|
| Base: | 371 | 530 | 880 | 521 | 452 | 455 | 884 | 439 | 496 |
| The current economic climate | 13% | 19% | 25% | 21% | 30% | 20% | 16% | 24% | 25% |
| Legislation and regulation | 18% | 14% | 10% | 10% | 13% | 13% | 10% | 9% | 12% |
| Cash flow/issues with late payment | 9% | 11% | 13% | 13% | 15% | 12% | 9% | 4% | 3% |
| Access to external finance | 9% | 10% | 6% | 11% | 14% | 11% | 7% | 7% | 5% |
| Availability of relevant advice | 6% | 4% | 5% | 8% | 10% | 4% | 5% | 5% | 9% |
| Staff related issues | 3% | 4% | 2% | 7% | 7% | 2% | 3% | 4% | 1% |
| None of these rated a 'major obstacle' | 60% | 70% | 63% | 59% | 56% | 63% | 68% | 78% | 68% |

Q227All SMEs

78% of those in the Health sector reported that none of these factors were a major obstacle to them, compared to 60% of those in Agriculture. Analysis of the scores for the individual factors suggests that there is a small group of Health sector SMEs giving two or three 8-10 scores each, whereas in Agriculture there is a larger group giving one or two of these 8-10 scores each.



Obstacles to running the business in the next 12 months

- over time

Nine waves of data can now be compared. The summary table below shows that the current economic climate was most likely to be rated a 'major obstacle' in all quarters, but since Q1 2012 the proportion doing so has decreased slightly each quarter, from a third to a fifth of SMEs.

Over the same period, an increasing proportion of SMEs reported that <u>none</u> of these factors presented a major obstacle to them (from 52% for 2012 as a whole to 58% for 2013):

| Extent of obstacles in next 12 months All SMEs over time 8-10 impact score By date of interview | Q4 11 | Q1 12 | Q2 12 | Q3 12 | Q4 12 | Q1 13 | Q2 13 | Q3 13 | Q4 13 |
|---|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Unweighted base: | 5010 | 5023 | 5000 | 5032 | 5000 | 5000 | 5000 | 5008 | 5028 |
| The current economic climate | 35% | 37% | 35% | 34% | 31% | 32% | 28% | 26% | 21% |
| Legislation and regulation | 14% | 14% | 14% | 13% | 12% | 14% | 14% | 14% | 11% |
| Cash flow/issues with late payment | 11% | 14% | 14% | 14% | 11% | 12% | 11% | 11% | 10% |
| Access to external finance | 10% | 11% | 11% | 13% | 10% | 12% | 10% | 10% | 8% |
| Availability of relevant advice | 5% | 5% | 6% | 6% | 6% | 7% | 6% | 6% | 6% |
| Staff related issues | 3% | 3% | 2% | 2% | 3% | 3% | 3% | 3% | 3% |
| None of these rated a 'major obstacle' | 53% | 51% | 51% | 53% | 55% | 54% | 58% | 57% | 64% |

Q227 All SMEs





The lower proportion of SMEs rating the current economic climate as a barrier in Q4 2012 is due to lower scores from SMEs with no employees, who have 'caught-up' with their larger peers. Between Q2 and Q3 the proportion of SMEs with employees that rated the current economic climate as a major barrier dropped by 6-7 percentage points for each of the size bands, but didn't change for the 0 employee SMEs. In Q4 2013 the scores of those with employees were more stable while those of the 0 employee SMEs dropped:

- from 27% to 20% for those with 0 employees
- Unchanged at 24% for those with 1-9 employees
- from 20% to 17% for those with 10-49 employees
- Unchanged at 14% for those with 50-249 employees

Comparing the end of 2013 to the start of 2012, the proportion seeing the economic climate as a major obstacle has almost halved (37% in Q1 2012 to 21% in Q4 2013). The biggest percentage decreases were seen for Agriculture (33% to 13%), Property/Business services (34% to 16%), Wholesale/Retail (43% to 21%) and Transport (40% to 20%), as well as amongst those with plans to apply for finance in the three months after interview (49% to 25%). By comparison, those in the Health sector (26% to 24%) and Other Community sector (30% to 25%) along with Hotels and Restaurants (39% to 30%) had seen a much smaller drop over the same period.

Access to finance is the key theme of this report. In Q4 2013, 8% of SMEs rated this as a major obstacle, and those who did were also more likely to rate the other factors as major obstacles, notably the current economic climate (50%) and cash flow (46%).

Over time there has been relatively little variation in the overall proportion of SMEs rating access to finance as a 'major obstacle', shown in the table overleaf. The 8% figure recorded for Q4 2013 is the lowest to date, and reflects lower scores by the 0 employee SMEs. Once the PNBs are excluded, 12% of remaining SMEs rated access to finance as a 'major obstacle', also the lowest level seen to date:



| Over time – row percentages | Q4 11 | Q1 12 | Q2 12 | Q3 12 | Q4 12 | Q1 13 | Q2 13 | Q3 13 | Q4 13 |
|---|-----------|-----------|----------|----------|----------|----------|----------|----------|-----------|
| By date of interview | _ | ı | ı | ı | ı | ı | ı | ı | ı |
| All SMEs | 10% | 11% | 11% | 13% | 10% | 12% | 10% | 10% | 8% |
| 0 employee | 10% | 10% | 10% | 12% | 9% | 11% | 10% | 10% | 7% |
| 1-9 employees | 12% | 15% | 15% | 15% | 13% | 15% | 12% | 12% | 11% |
| 10-49 employees | 12% | 10% | 11% | 11% | 9% | 11% | 10% | 8% | 7% |
| 50-249 employees | 8% | 8% | 8% | 7% | 8% | 5% | 5% | 5% | 5% |
| Minimal external risk rating | 8% | 4% | 12% | 9% | 8% | 5% | 4% | 5% | 5% |
| Low external risk rating | 7% | 11% | 8% | 10% | 8% | 8% | 5% | 4% | 5% |
| Average external risk rating | 9% | 9% | 6% | 10% | 8% | 11% | 11% | 9% | 6% |
| Worse than average external risk rating | 12% | 13% | 14% | 14% | 11% | 15% | 13% | 12% | 10% |
| Agriculture | 10% | 11% | 8% | 13% | 10% | 10% | 12% | 5% | 9% |
| Manufacturing | 8% | 12% | 12% | 12% | 7% | 6% | 9% | 11% | 10% |
| Construction | 9% | 13% | 11% | 11% | 11% | 12% | 11% | 10% | 6% |
| Wholesale/Retail | 15% | 13% | 14% | 12% | 15% | 9% | 9% | 12% | 11% |
| Hotels and Restaurants | 14% | 21% | 15% | 16% | 14% | 19% | 12% | 13% | 14% |
| Transport | 14% | 14% | 15% | 17% | 11% | 14% | 14% | 14% | 11% |
| Property/Business Services etc. | 8% | 8% | 9% | 12% | 9% | 13% | 9% | 9% | 7% |
| Health | 7% | 5% | 7% | 7% | 4% | 11% | 10% | 6% | 7% |
| Other Community | 9% | 12% | 15% | 19% | 9% | 13% | 12% | 11% | 5% |
| Use external finance | 13% | 15% | 16% | 19% | 14% | 16% | 14% | 14% | 10% |
| | | | 2121 | 2.00/ | 210/ | 2.70/ | 2/0/ | 250/ | 1.00/ |
| Plan to borrow/FWBS | 22% | 22% | 24% | 26% | 21% | 27% | 24% | 25% | 18% |
| Plan to borrow/FWBS Future Happy non-seekers | 22% 4% | 22% 4% | 4% | 5% | 5% | 4% | 4% | 4% | 18% 3% |

Q227a_2 All SMEs, base sizes vary



Financial requirements in the next 3 months

SMEs were asked to consider their financial plans over the next 3 months. The proportion planning to apply/renew had changed relatively little over time, and the proportion planning to renew/apply in Q4 2013 (15%) was in line with most previous quarters:

| % likely in next 3 months All SMEs, over time By date of interview | Q4 2011 | Q1 2012 | Q2 2012 | Q3 2012 | Q4 2012 | Q1 2013 | Q2 2013 | Q3 2013 | Q4 2013 |
|--|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Unweighted base: | 5010 | 5023 | 5000 | 5032 | 5000 | 5000 | 5000 | 5008 | 5028 |
| Will have a need for (more) external finance | 11% | 13% | 13% | 11% | 13% | 13% | 12% | 11% | 11% |
| Will apply for more external finance | 8% | 10% | 9% | 8% | 8% | 9% | 9% | 7% | 8% |
| Renew existing borrowing at same level | 8% | 9% | 8% | 6% | 8% | 8% | 7% | 7% | 9% |
| Any apply/renew | 14% | 16% | 14% | 12% | 14% | 15% | 14% | 12% | 15% |
| Reduce the amount of external finance used | 7% | 11% | 8% | 7% | 8% | 7% | 7% | 7% | 7% |
| Inject personal funds into business | 26% | 30% | 23% | 23% | 22% | 22% | 21% | 21% | 17% |

Q229 All SMEs

In all quarters to date, more SMEs have identified a need for finance than thought they would apply for it (11% v 8% in Q4). The predicted level of applications/renewals in the coming quarter was also typically higher than the actual level of applications/renewals seen subsequently (from different SMEs) – typically 14% of SMEs have said that they planned to apply for finance, but levels of application are currently around 8%.



Amongst those SMEs that are companies, there continued to be limited interest in seeking new equity finance:

| % likely in next 3 months All companies, over time By date of interview | Q4 2011 | Q1 2012 | Q2 2012 | Q3 2012 | Q4 2012 | Q1 2013 | Q2 2013 | Q3 2013 | Q4 2013 |
|---|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Unweighted base: | 2714 | 2904 | 2905 | 2975 | 2837 | 2944 | 2936 | 3063 | 2890 |
| Any new equity | 6% | 5% | 4% | 4% | 4% | 2% | 3% | 5% | 3% |

Q229 All companies

In Q4 2013, there continued to be a difference in appetite for finance by size of business. SMEs with 1-9 or 10-49 employees had the highest, and an increasing, appetite for finance. Amongst those with no employees appetite for finance increased to 13% from 10%, but these SMEs remained the only group more likely to anticipate an injection of personal funds (18%, but down from 22% in Q3):

| % likely in next 3 months Q4 13 only – all SMEs | Total | 0 emp | 1-9 emps | 10-49 emps | 50-249 emps |
|--|-------|-------|-------------|---------------|----------------|
| Unweighted base: | 5028 | 1011 | 1663 | 1604 | 750 |
| Will have a need for (more) external finance | 11% | 10% | 14% | 13% | 12% |
| Will apply for more external finance | 8% | 7% | 12% | 11% | 10% |
| Renew existing borrowing at same level | 9% | 8% | 14% | 11% | 9% |
| Any apply/renew | 15% | 13% | 20% | 18% | 14% |
| Reduce the amount of external finance used | 7% | 6% | 10% | 9% | 8% |
| Inject personal funds into business | 17% | 18% | 15% | 8% | 4% |

Q229 All SMEs



Before looking at future applications for finance in more detail, the analysis below looks at the role of personal funding of SMEs. From Q2 2012, data has been available on the extent to which personal funds have either been injected into SMEs in the past, or such injections were thought likely in the future. Since the start of 2012, fewer SMEs have thought it likely that personal funds will be injected into the business in future (17% in Q4 2013). Data earlier in this report showed that the proportion of SMEs that had actually seen an injection of funds was also declining over time.

The table below shows how the injection of personal funds past and present combine, so that trends over time can be established. Q4 2013 saw the highest proportion to date of SMEs that had neither put in funds, nor thought it likely they would do so (62%). The proportion that had both put in funds in the past *and* planned to do so in future declined somewhat over time from 17% of SMEs in Q2 2012 to 12% in Q4 2013:

| Injections of personal funds All SMEs, over time By date of interview | Q2 2012 | Q3 2012 | Q4 2012 | Q1 2013 | Q2 2013 | Q3 2013 | Q4 2013 |
|---|------------|------------|------------|------------|------------|------------|------------|
| Unweighted base: | 5000 | 5032 | 5000 | 5000 | 5000 | 5008 | 5028 |
| Have injected personal funds and likely to do so again | 17% | 18% | 15% | 16% | 14% | 14% | 12% |
| Have not put in personal funds but likely to do so | 5% | 5% | 7% | 7% | 7% | 7% | 5% |
| Have injected personal funds but unlikely to do so again | 24% | 28% | 26% | 24% | 27% | 24% | 21% |
| Have not put in personal funds and not likely to do so | 53% | 49% | 53% | 54% | 52% | 55% | 62% |

Q229/Q15d-d2 All SMEs

Turning back to future applications for <u>external</u> finance, the table overleaf summarises the change in likely applications/renewals over time for key demographic groups. Comparing Q4 2013 with the equivalent quarters in 2012 and 2011 shows future appetite for finance decreasing amongst larger SMEs with 50-249 employees, and varying over time for those with a minimal or low external risk rating while the appetite amongst those with an average or worse than average risk rating has been more stable:





| % likely to apply or renew in | | | | | | | | | |
|--|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| next 3 months Over time – row percentages By date of interview | Q4 2011 | Q1 2012 | Q2 2012 | Q3 2012 | Q4 2012 | Q1 2013 | Q2 2013 | Q3 2013 | Q4 2013 |
| All SMEs | 14% | 16% | 14% | 12% | 14% | 15% | 14% | 12% | 15% |
| 0 employee | 12% | 14% | 12% | 10% | 13% | 13% | 12% | 10% | 13% |
| 1-9 employees | 21% | 23% | 20% | 18% | 18% | 19% | 18% | 18% | 20% |
| 10-49 employees | 24% | 23% | 22% | 19% | 19% | 20% | 15% | 16% | 18% |
| 50-249 employees | 25% | 20% | 21% | 18% | 17% | 19% | 16% | 14% | 14% |
| Minimal external risk rating | 16% | 15% | 12% | 16% | 20% | 14% | 12% | 12% | 12% |
| Low external risk rating | 16% | 20% | 15% | 13% | 19% | 16% | 12% | 13% | 12% |
| Average external risk rating | 9% | 16% | 12% | 11% | 13% | 15% | 12% | 12% | 13% |
| Worse than average external risk rating | 16% | 17% | 16% | 13% | 13% | 15% | 15% | 12% | 16% |
| Agriculture | 17% | 21% | 18% | 12% | 21% | 16% | 12% | 15% | 22% |
| Manufacturing | 13% | 11% | 24% | 16% | 13% | 12% | 17% | 8% | 16% |
| Construction | 13% | 18% | 13% | 9% | 15% | 11% | 14% | 14% | 12% |
| Wholesale/Retail | 18% | 15% | 16% | 17% | 17% | 24% | 12% | 15% | 21% |
| Hotels and Restaurants | 22% | 22% | 15% | 17% | 15% | 18% | 13% | 14% | 14% |
| Transport | 17% | 15% | 12% | 14% | 15% | 13% | 17% | 16% | 17% |
| Property/Business Services etc. | 12% | 15% | 13% | 9% | 10% | 14% | 12% | 12% | 14% |
| Health | 11% | 13% | 9% | 10% | 14% | 13% | 16% | 9% | 10% |
| Other Community | 14% | 18% | 14% | 16% | 15% | 14% | 14% | 8% | 14% |
| Objective to grow | 19% | 21% | 17% | 15% | 18% | 18% | 17% | 17% | 19% |
| No objective to grow | 10% | 11% | 11% | 9% | 11% | 12% | 10% | 8% | 11% |
| All SMEs excluding PNBs | 22% | 23% | 21% | 18% | 22% | 25% | 21% | 20% | 25% |

Q229 All SMEs base size varies by category





Working capital remained the most frequently mentioned purpose of future funding. Since Q4 2012 there has been something of an increase in the proportion of SMEs seeking finance who mention growth overseas as their reason for applying (7% in Q4 2013), back to levels seen previously, but this remained less likely than funding for UK growth (25% in Q4 2013):

| Use of new/renewed facility All planning to seek/renew, over time By date of interview | Q4 2011 | Q1 2012 | Q2 2012 | Q3 2012 | Q4 2012 | Q1 2013 | Q2 2013 | Q3 2013 | Q4 2013 |
|--|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Unweighted base: | 1046 | 1062 | 977 | 842 | 876 | 931 | 774 | 813 | 854 |
| Working capital | 59% | 60% | 69% | 60% | 62% | 61% | 64% | 60% | 58% |
| Plant & machinery | 26% | 29% | 25% | 27% | 24% | 23% | 29% | 24% | 27% |
| UK growth* | 22% | 22% | 20% | 26% | 14% | 28% | 27% | 32% | 25% |
| Premises | 7% | 8% | 5% | 8% | 6% | 5% | 8% | 5% | 9% |
| New products or services | 7% | 13% | 10% | 7% | 9% | 8% | 7% | 11% | 10% |
| Growth overseas* | 4% | 5% | 3% | 4% | 1% | 3% | 4% | 5% | 7% |

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



Consideration by those planning to apply of any of the 'core' lending products (overdrafts, loans and credit cards) and/or any other forms of lending, are shown below. Both were lower in Q4 than in previous quarters, with a quarter of those planning to apply saying they would not consider <u>any</u> of these forms of funding:

| % of those seeking/renewing finance that would consider form of funding, over time By date of interview | Q4 2011 | Q1 2012 | Q2 2012 | Q3 2012 | Q4 2012 | Q1 2013 | Q2 2013 | Q3 2013 | Q4 2013 |
|--|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Unweighted base: | 1046 | 1062 | 977 | 842 | 876 | 931 | 774 | 813 | 854 |
| 'Core' product consideration | 69% | 71% | 73% | 71% | 72% | 70% | 61% | 72% | 65% |
| -Bank overdraft | 49% | 48% | 56% | 49% | 53% | 50% | 45% | 53% | 44% |
| -Bank loan/Commercial mortgage | 40% | 40% | 40% | 43% | 35% | 40% | 34% | 40% | 35% |
| -Credit cards | 17% | 19% | 20% | 16% | 20% | 18% | 16% | 23% | 20% |
| Other product consideration | 55% | 61% | 59% | 63% | 59% | 60% | 61% | 66% | 50% |
| -Grants | 35% | 35% | 38% | 36% | 36% | 43% | 40% | 47% | 32% |
| -Loans/equity from family/friends | 22% | 23% | 21% | 21% | 20% | 16% | 21% | 19% | 14% |
| -Leasing or hire purchase | 18% | 21% | 23% | 24% | 21% | 21% | 23% | 28% | 22% |
| Loans/equity from directors | 18% | 14% | 10% | 13% | 10% | 12% | 15% | 19% | 10% |
| Loans from other 3 rd parties | 10% | 11% | 7% | 15% | 12% | 15% | 14% | 16% | 15% |
| Invoice finance | 6% | 9% | 9% | 7% | 9% | 8% | 7% | 9% | 6% |
| None of these | 17% | 14% | 13% | 10% | 17% | 14% | 24% | 15% | 25% |

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

Despite lower levels of consideration overall, 25% of potential applicants in Q4 2013 said that they would **only** consider one or more of the core products, a similar proportion to previous quarters prior to Q2 and Q3 2013. In those two most recent quarters fewer SMEs said they would only consider a core product (15% and 20% of those planning to apply).



Lower consideration in Q4 2013 was driven by the 0 employee SMEs planning to seek/renew finance, and to a certain extent those with 1-9 employees. Levels of consideration amongst SMEs with 10-249 employees were similar, or indeed slightly higher, in Q4 than in Q3:

| % of those seeking/renewing finance would consider funding – Q4 13 only | Total | 0 emp | 1-9 emps | 10-49 emps | 50-249 emps |
|---|-------|-------|-------------|---------------|----------------|
| Unweighted base: | 854 | 132 | 324 | 290 | 108 |
| 'Core' product consideration | 65% | 66% | 62% | 65% | 72% |
| -Bank overdraft | 44% | 44% | 43% | 42% | 42% |
| -Bank loan/Commercial mortgage | 35% | 33% | 38% | 39% | 40% |
| -Credit cards | 20% | 23% | 16% | 18% | 26% |
| Other product consideration | 50% | 44% | 62% | 63% | 67% |
| -Grants | 32% | 28% | 42% | 36% | 34% |
| -Loans/equity from family & friends | 14% | 13% | 14% | 11% | 10% |
| -Leasing or hire purchase | 22% | 20% | 24% | 39% | 50% |
| -Loans/equity from directors | 10% | 7% | 14% | 18% | 18% |
| -Loans from other 3 rd parties | 15% | 15% | 15% | 18% | 17% |
| -Invoice finance | 6% | 4% | 10% | 16% | 19% |
| None of these | 25% | 26% | 23% | 18% | 6% |

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

Between Q3 2013 and Q4 2013:

- Consideration of core products by 0 employee SMEs with an appetite for finance fell from 74% to 66%, and of other products from 66% to 44% (largely due to lower consideration of grants, and loans from directors)
- Amongst those with 1-9 employees, core consideration fell from 71% to 62%, while consideration of other forms of finance was more stable (65% to 62%)
- Amongst those with 10-49 employees, core consideration increased slightly (60% to 65%), and consideration of other products was stable (62% to 63%)
- Amongst those with 50-249 employees, consideration of core products increased from 59% to 72%, and consideration of other products was stable (67% in both quarters)





Those planning to apply via loan, overdraft, leasing, invoice finance and/or credit cards were asked how confident they were that their bank would agree to this request. In Q4 the lower levels of consideration of these products, reported above, meant that a slightly smaller proportion of all potential applicants (69%) were asked this question compared to other quarters (when the figure was around three-quarters).

4 out of 10 of these prospective applicants were confident in Q4 2013 that the bank would lend to them. This is in line with levels of confidence seen in most quarters since Q2 2012:

| Confidence bank would lend All planning to seek finance, over time by date of interview | Q4 11 | Q1 12 | Q2 12 | Q3 12 | Q4 12 | Q1 13 | Q2 13 | Q3 13 | Q4 13 |
|--|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| Unweighted base: | 763 | 834 | 781 | 649 | 669 | 713 | 547 | 607 | 610 |
| Very confident | 22% | 19% | 15% | 10% | 15% | 17% | 4% | 12% | 20% |
| Fairly confident | 24% | 33% | 24% | 23% | 28% | 23% | 26% | 29% | 21% |
| Overall confidence | 46% | 52% | 39% | 33% | 43% | 40% | 30% | 41% | 41% |
| Neither/nor | 26% | 20% | 25% | 22% | 23% | 32% | 31% | 32% | 26% |
| Not confident | 28% | 28% | 35% | 45% | 33% | 27% | 40% | 27% | 33% |
| Net confidence (confident – not confident) | +18 | +24 | +4 | -12 | +10 | +13 | -10 | +14 | +8 |

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

As the tables below show, whilst overall confidence has not changed Q3 to Q4 2013, prospective applicants with a minimal or low external risk rating, and those with 10-249 employees, were slightly more confident their bank would agree to their future request.



Over time, confidence amongst potential applicants with 0-9 employees has been more volatile, as the table below shows.

Confidence amongst bigger potential applicants with 10-249 employees remained higher than for smaller potential applicants, and Q4 2013 saw an increase in confidence to 63%:

| Overall confidence bank would lend All planning to seek finance, over time | Overall | 0-9 emps | 10-249 emps |
|--|---------|----------|----------------|
| By date of interview | | | |
| Q1-2 2011 | 42% | 40% | 57% |
| Q3 2011 | 43% | 42% | 63% |
| Q4 2011 | 46% | 46% | 61% |
| Q1 2012 | 52% | 52% | 61% |
| Q2 2012 | 39% | 37% | 60% |
| Q3 2012 | 33% | 32% | 54% |
| Q4 2012 | 43% | 43% | 55% |
| Q1 2013 | 40% | 40% | 60% |
| Q2 2013 | 30% | 29% | 60% |
| Q3 2013 | 41% | 40% | 57% |
| Q4 2013 | 41% | 40% | 63% |

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



The table below shows how each quarter, potential applicants with a minimal/low external risk rating were more confident of success than those with an average or worse than average risk rating. Levels of confidence have fluctuated over time for both groups, with confidence improving in Q4 for those with a minimal/low risk rating:

| Overall confidence bank would lend All planning to seek finance, over time By date of interview | Overall | Min/low | Av/Worse than avge |
|---|---------|---------|--------------------------|
| Q1-2 2011 | 42% | 57% | 38% |
| Q3 2011 | 43% | 65% | 38% |
| Q4 2011 | 46% | 69% | 46% |
| Q1 2012 | 52% | 65% | 49% |
| Q2 2012 | 39% | 50% | 37% |
| Q3 2012 | 33% | 51% | 28% |
| Q4 2012 | 43% | 58% | 43% |
| Q1 2013 | 40% | 70% | 33% |
| Q2 2013 | 30% | 56% | 27% |
| Q3 2013 | 41% | 64% | 39% |
| Q4 2013 | 41% | 73% | 40% |

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

Those planning to renew remained more confident of success than those planning to apply for a new facility. Analysis shows that overall confidence in Q4 2013 improved for those planning to renew (56%, recovering from a low of 38% in Q2) and was stable amongst those planning to apply for new facilities (unchanged from 29% in Q3, and up from 25% in Q2).

These levels of confidence remained in contrast to the actual outcome of applications. Success rates for renewals in the last 18 months are 96% compared to confidence levels of 56%, while for new funds success rates in the same period are 48% against a confidence level of 29%.

Key driver analysis conducted for the Q3 2013 report showed that amongst those planning to apply, confidence was higher amongst older, profitable businesses, with a minimal risk rating. Factors that made potential applicants less confident of success included being a younger business, having had a credit issue, not being aware of FLS, or using a personal account.



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

In Q4 2013, 15% of all SMEs reported plans to apply for or renew facilities in the following 3 months, leaving the majority (85%) with no such plans. A third of that majority (34%) were current users of external finance, the rest were not. This means that, for Q4 2013, 57% of all SMEs neither used external finance nor had any immediate plans to apply for any. This proportion has increased over time, from 50% in 2011, to 53% in 2012 and 56% in 2013.

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

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

These 'Future would-be seekers' can then be split into 2 further groups:

- those that had already identified that they were likely to need external finance in the coming three months (and could foresee barriers to an application to meet that need)
- those that thought it unlikely that they would have a need for external finance in the next 3 months but who thought there would be barriers to their applying, were a need to emerge

As reported later in this chapter, very few of the 'Future would-be seekers' have an actual need for finance identified, and thus they are somewhat different to the 'Would-be seekers' of the past 12 months, *all* of whom had a need for finance identified that they did not apply for.

These definitions have not been changed, unlike the equivalent question for *past* behaviour featured earlier in this report (although the option 'I prefer not to borrow' as a reason why 'Future would-be seekers' were not planning to seek facilities was removed in Q4 2012, as it was for past behaviour).



The table below shows the picture over time, and a broadly stable position during 2013:

| Future finance plans All SMEs, over time By date of interview | Q4 2011 | Q1 2012 | Q2 2012 | Q3 2012 | Q4 2012 | Q1 2013 | Q2 2013 | Q3 2013 | Q4 2013 |
|---|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Unweighted base: | 5010 | 5023 | 5000 | 5032 | 5000 | 5000 | 5000 | 5008 | 5028 |
| Plan to apply/renew | 14% | 16% | 14% | 12% | 14% | 15% | 14% | 12% | 15% |
| 'Future would-be seekers' – with identified need | 2% | 2% | 3% | 3% | 2% | 3% | 2% | 2% | 1% |
| 'Future would-be seekers' – no immediate identified need | 18% | 23% | 19% | 22% | 19% | 16% | 17% | 15% | 16% |
| 'Happy non-seekers' | 66% | 60% | 64% | 63% | 65% | 67% | 67% | 70% | 68% |

Q230/239 All SMEs

A comparison between 2012 and 2013 as a whole showed that:

- The proportion of 'Happy non-seekers' increased both overall (63% to 68%) and across all employee size bands
- The proportion planning to apply/renew was stable overall (14% in both years), but while appetite for finance was stable for those with 0-9 employees, it fell slightly for larger SMEs
- The proportion of 'Future would-be seekers' fell overall (23% to 18%) and for those with 0 employees (25% to 19%), but was more stable for those with employees



As has been discussed elsewhere in this report, around 4 out of 10 SMEs can be described as 'Permanent non-borrowers' based on their past and indicated future behaviour. The table below shows future plans over time once this group has been excluded. The Q4 2013 figures show an increase in future appetite for finance (to 25%), and a slightly decline in the proportion of 'Future happy non-seekers' albeit that they remain the largest single group, as overall:

| Future finance plans SMEs excluding PNB, over time By date of interview | Q4 2011 | Q1 2012 | Q2 2012 | Q3 2012 | Q4 2012 | Q1 2013 | Q2 2013 | Q3 2013 | Q4 2013 |
|---|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Unweighted base: | 3822 | 4022 | 3894 | 3732 | 3664 | 3649 | 3707 | 3637 | 3585 |
| Plan to apply/renew | 22% | 23% | 21% | 18% | 22% | 25% | 21% | 20% | 25% |
| 'Future would-be seekers' – with identified need | 3% | 3% | 5% | 4% | 4% | 5% | 3% | 4% | 2% |
| 'Future would-be seekers' – no immediate identified need | 28% | 32% | 29% | 33% | 29% | 27% | 27% | 26% | 28% |
| 'Happy non-seekers' | 47% | 42% | 45% | 44% | 44% | 44% | 48% | 50% | 45% |

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

In 2013 there were slightly more 'Future happy non-seekers' amongst this group of SMEs than there were in 2012 (47% from 44%) and slightly more planning to apply/renew (23% from 21%). As a result there were fewer 'Future would-be seekers' of finance (31% from 35%).

The table below shows how the proportion of 'Future would-be seekers' has changed over time. At 18%, the overall figure for Q4 2013 was one of the lowest reported to date. Compared to the equivalent quarter of 2012:

- The proportion of 0 employee businesses meeting the definition of a 'Future would-be seeker' has declined gradually over time, although they remain more likely than the larger SMEs to meet the definition
- There are fewer 'Future would-be seekers' across all risk ratings with the exception of those with a low risk
- There are fewer 'Future would-be seekers' in a range of sectors including Agriculture and Manufacturing





| Future would-be seekers | | | | | | | | | |
|--|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Over time – row percentages By date of interview | Q4 2011 | Q1 2012 | Q2 2012 | Q3 2012 | Q4 2012 | Q1 2013 | Q2 2013 | Q3 2013 | Q4 2013 |
| All SMEs | 20% | 25% | 22% | 25% | 21% | 19% | 19% | 17% | 18% |
| 0 employee | 20% | 26% | 24% | 25% | 22% | 19% | 20% | 19% | 18% |
| 1-9 employees | 21% | 22% | 19% | 23% | 19% | 19% | 18% | 15% | 18% |
| 10-49 employees | 13% | 14% | 16% | 14% | 14% | 15% | 16% | 10% | 14% |
| 50-249 employees | 15% | 16% | 14% | 13% | 15% | 16% | 15% | 11% | 13% |
| Minimal external risk rating | 11% | 14% | 18% | 13% | 14% | 10% | 13% | 7% | 11% |
| Low external risk rating | 14% | 19% | 22% | 23% | 17% | 18% | 10% | 15% | 17% |
| Average external risk rating | 20% | 20% | 22% | 20% | 19% | 19% | 17% | 17% | 15% |
| Worse than average external risk rating | 23% | 29% | 23% | 26% | 23% | 19% | 23% | 21% | 18% |
| Agriculture | 20% | 27% | 23% | 25% | 22% | 15% | 21% | 17% | 16% |
| Manufacturing | 18% | 29% | 17% | 26% | 20% | 17% | 17% | 20% | 14% |
| Construction | 25% | 24% | 29% | 23% | 20% | 21% | 20% | 15% | 19% |
| Wholesale/Retail | 25% | 27% | 25% | 25% | 24% | 16% | 23% | 21% | 19% |
| Hotels and Restaurants | 17% | 27% | 27% | 24% | 26% | 22% | 19% | 20% | 22% |
| Transport | 24% | 26% | 21% | 27% | 21% | 28% | 24% | 22% | 19% |
| Property/Business Services etc. | 17% | 23% | 20% | 26% | 21% | 18% | 18% | 15% | 16% |
| Health | 18% | 20% | 14% | 21% | 13% | 20% | 13% | 14% | 12% |
| Other Community | 14% | 22% | 22% | 23% | 22% | 15% | 18% | 21% | 20% |
| All SMEs excluding PNBs | 31% | 35% | 34% | 37% | 33% | 32% | 30% | 30% | 30% |

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



To understand this further, the table below shows all the reasons given by 'Future would-be seekers' in Q4 2013 for thinking they would not apply for finance in the next three months, and highlights the continued impact of the current economic climate:

| Reasons for not applying (all mentions) All 'Future would-be seekers' Q4 13 only | Overall | 0-9 emps | 10-249 emps |
|--|---------|-------------|----------------|
| Unweighted base: | 822 | 476 | 346 |
| Reluctant to borrow now (any) | 74% | 73% | 80% |
| -Prefer not to borrow in economic climate | 52% | 52% | 35% |
| -Predicted performance of business | 23% | 22% | 47% |
| Issues with <u>principle</u> of borrowing | 2% | 2% | 1% |
| -Not lose control of business | * | * | * |
| -Can raise personal funds if needed | 1% | 1% | 1% |
| -Prefer other forms of finance | * | * | - |
| -Go to family and friends | * | * | * |
| Issues with <u>process</u> of borrowing | 15% | 16% | 10% |
| -Would be too much hassle | 7% | 7% | 3% |
| -Thought would be too expensive | 9% | 10% | 4% |
| -Bank would want too much security | 3% | 3% | 1% |
| -Too many terms and conditions | 1% | 1% | 1% |
| -Did not want to go through process | * | * | 1% |
| -Forms too hard to understand | 2% | 2% | 1% |
| Discouraged (any) | 14% | 14% | 9% |
| -Direct (Put off by bank) | 3% | 3% | 2% |
| -Indirect (Think I would be turned down) | 13% | 13% | 8% |

Q239 'Future would-be seekers' SMEs



Those SMEs that gave more than one reason for being unlikely to apply for new/renewed facilities were asked for the <u>main</u> reason, and all the main reasons given over time are shown below.

A reluctance to borrow now, at 72%, was even more clearly the main reason for not applying for external finance in Q4 2013 than in previous quarters. Over time, more of those giving this as their main reason said it was due to not

wanting to borrow in the current economic climate (now 51%), while 1 in 5 mentioned the predicted performance of their business.

The proportion of 'Future would-be seekers' who cited discouragement as their main barrier was somewhat lower in Q4 2013. It was cited by 11% of 'Future would-be seekers' and, as before, almost all of this was indirect discouragement:

| Main reason for not applying 'Future would-be seekers' over time By date of interview | Q4 11 | Q1 12 | Q2 12 | Q3 12 | Q4 12 | Q1 13 | Q2 13 | Q3 13 | Q4 13 |
|---|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| Unweighted base: | 862 | 980 | 927 | 975 | 880 | 867 | 861 | 691 | 822 |
| Reluctant to borrow now (any) | 52% | 54% | 49% | 49% | 50% | 63% | 60% | 60% | 72% |
| -Prefer not to borrow in economic climate | 39% | 37% | 31% | 36% | 37% | 40% | 42% | 44% | 51% |
| -Predicted performance of business | 14% | 17% | 18% | 13% | 13% | 23% | 18% | 16% | 22% |
| Issues with <u>principle</u> of borrowing | 13% | 14% | 14% | 16% | 12% | 6% | 4% | 1% | 2% |
| Issues with <u>process</u> of borrowing | 15% | 14% | 14% | 12% | 15% | 13% | 13% | 13% | 12% |
| Discouraged (any) | 14% | 11% | 14% | 16% | 17% | 12% | 16% | 16% | 11% |
| -Direct (Put off by bank) | 2% | 2% | 1% | 1% | 1% | 3% | 3% | 1% | 1% |
| -Indirect (Think I would be turned down) | 12% | 9% | 13% | 15% | 16% | 10% | 14% | 15% | 10% |

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

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



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

Before looking at their reasons for being a 'Future would-be seeker' in more detail, there are some demographic differences between the two groups that may affect the reasons they give:

- Those with a need identified were somewhat less likely to have a minimal or low external risk rating (7% v 13% of those with no need identified). There were no differences in 2013 by size between the two groups of 'Future would-be seekers'.
- However, those with a need identified were typically younger businesses (30% were Starts v 21% for would-be seekers with no immediate need and 24% were 10+ years old compared to 37% of those with no immediate need). They were also more likely to have self-reported a credit issue (26% v 13% with no immediate need predominantly going into unauthorised overdraft and/or having a cheque bounced).
- Those with an immediate need are more 'involved' in financial matters. They are more likely to be using external finance already (55% v 40%). They are also more likely to either have had a borrowing event in the previous 12 months (35% v 13%) or to have been a 'would-be seeker' (24% v 12%) and thus unlikely to have been a 'Happy non-seeker' in the past (41% v 75% of those with no immediate need). On a limited base size, those with an immediate need who had applied for a facility in the 12 months prior to interview were somewhat less likely to have been successful.
- They were somewhat less likely to have been profitable (54% v 62% with no immediate need) but were more likely to be predicting growth for the next 12 months (63% v 45% of those with no immediate need)

Results for these SMEs are reported on a two quarter rolling basis to boost base sizes for the 'Future would-be seekers' with an identified need (there are no Q3-4 2012 rolling figures due to changes made to the questionnaire in Q4 2012).





For those with an identified need for finance, the main barrier continued to be discouragement (42%). As before, almost all of this is indirect discouragement, where the SME assumes they would be turned down and so does not apply. A reluctance to borrow in the current economic climate was also mentioned more in Q4, back in line with previous quarters:

| Main reason for not applying The 'Future would-be seekers' with identified need | Q1-2 | Q2-3 | Q4-1 | Q1-2 | Q2-3 | Q3-4 |
|---|------|------|------|------|------|------|
| | 2012 | 2012 | 2013 | 2013 | 2013 | 2013 |
| Unweighted base: | 213 | 226 | 220 | 190 | 151 | 149 |
| Reluctant to borrow now (any) | 38% | 35% | 37% | 33% | 24% | 33% |
| -Prefer not to borrow in economic climate | 33% | 30% | 32% | 29% | 20% | 26% |
| -Predicted performance of business | 5% | 5% | 5% | 4% | 5% | 6% |
| Issues with <u>principle</u> of borrowing | 4% | 3% | 3% | 9% | 6% | 1% |
| Issues with <u>process</u> of borrowing | 10% | 12% | 22% | 23% | 19% | 21% |
| Discouraged (any) | 44% | 46% | 36% | 32% | 46% | 42% |
| - Direct (Put off by bank) | 6% | 4% | 3% | 5% | 6% | 2% |
| -Indirect (Think I would be turned down) | 39% | 42% | 33% | 27% | 40% | 40% |

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

Those with an immediate need made up 10% of all 'Future would-be seekers' in Q4 2013, but made up 33% of all *discouraged* 'Future would-be seekers'.



As the table below shows, amongst those 'Future would-be seekers' with <u>no</u> specific need for finance in mind, a reluctance to borrow in the current climate presents much more of a barrier, and this is increasingly due to the general economic climate rather than the performance of the SME specifically. Discouragement is much less likely to be mentioned by this group, but where it is, it is likely to be indirect:

| Main reason for not applying The 'Future would-be seekers' | Q1-2 | Q2-3 | 04-1 | Q1-2 | Q2-3 | Q3-4 |
|--|------|------|------|------|------|------|
| with no identified need | 2012 | 2012 | 2013 | 2013 | 2013 | 2013 |
| Unweighted base: | 1694 | 1676 | 1527 | 1538 | 1401 | 1364 |
| Reluctant to borrow now (any) | 53% | 51% | 59% | 66% | 65% | 70% |
| -Prefer not to borrow in economic climate | 34% | 35% | 39% | 43% | 46% | 50% |
| -Predicted performance of business | 19% | 17% | 20% | 23% | 19% | 20% |
| Issues with <u>principle</u> of borrowing | 15% | 17% | 10% | 5% | 2% | 2% |
| Issues with <u>process</u> of borrowing | 14% | 13% | 13% | 11% | 12% | 11% |
| Discouraged (any) | 8% | 11% | 12% | 12% | 12% | 10% |
| - Direct (Put off by bank) | 1% | 1% | 2% | 2% | 1% | 1% |
| -Indirect (Think I would be turned down) | 7% | 9% | 10% | 9% | 11% | 9% |

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



Other analysis of all 'Future would-be seekers', such as by size and risk rating, is possible based just on the latest quarter, Q4 2013.

By size, a reluctance to borrow now was the top reason for both smaller and larger SMEs:

| Main reason for not applying 'Future would-be seekers' by size Q4 13 only | Overall | 0-9 emps | 10-249 emps |
|---|---------|----------|-------------|
| Unweighted base: | 822 | 476 | 346 |
| Reluctant to borrow now (any) | 72% | 72% | 80% |
| -Prefer not to borrow in economic climate | 51% | 51% | 33% |
| -Predicted performance of business | 22% | 21% | 47% |
| Issues with <u>principle</u> of borrowing | 2% | 2% | 1% |
| Issues with <u>process</u> of borrowing | 12% | 12% | 8% |
| Discouraged (any) | 11% | 11% | 9% |
| -Direct (Put off by bank) | 1% | 1% | 2% |
| -Indirect (Think I would be turned down) | 10% | 10% | 7% |

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

In Q4, a reluctance to borrow now was mentioned more by 0-9 employee SMEs than in Q3 (72% from 60% in Q3) There were also slightly more mentions of this factor by larger SMEs in Q4 (80% from 75% amongst those with 10-249 employees). For the 0-9 employee 'Future would-be seekers' this was due to more mentions of both the current economic climate, and their own performance, but for the larger

'Future would-be seekers' there were fewer mentions of the economic climate in Q4 (33% v 44%) and more mentions of their own performance (47% from 31%).

Mentions of discouragement dropped between Q3 and Q4 for those 'Future would-be seekers' with 0-9 employees (11% from 16%) but were more stable for larger SMEs (9% from 11%).



The table below shows the main reasons for not applying given in Q4 2013 by 'Future would-be seekers', split by risk rating. A reluctance to borrow now was the main, and increasing, barrier across the risk ratings:

| Main reason for not applying 'Future would-be seekers' by risk rating Q4 13 only | Min/Low | Avge | Worse/ Avge |
|--|---------|------|----------------|
| Unweighted base: | 264 | 191 | 261 |
| Reluctant to borrow now (any) | 75% | 79% | 71% |
| -Prefer not to borrow in economic climate | 49% | 56% | 46% |
| -Predicted performance of business | 26% | 23% | 26% |
| Issues with <u>principle</u> of borrowing | 3% | 1% | 1% |
| Issues with <u>process</u> of borrowing | 14% | 10% | 11% |
| Discouraged (any) | 6% | 7% | 14% |
| -Direct (Put off by bank) | * | * | 1% |
| -Indirect (Think I would be turned down) | 6% | 6% | 13% |

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



Key driver analysis of all 'Future would-be seekers' in the year to Q3 2013 showed that certain types of SME were more likely to cite the economy as the barrier, rather than discouragement. These included those that have had self-reported credit issues, where the business had got smaller, made a loss or broken even, or where they planned to grow substantially in the next 12 months.

The types of 'Future would-be seeker' more likely to identify discouragement as the barrier

included those with a minimal to average external risk rating, those who import, older businesses and also those with 0 employees.

To put all these results in context, the table below shows the equivalent figures for each reason for <u>all</u> SMEs in Q4 2013. 1 in 9 of all SMEs (13%) 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 13 only – the Future would-be seekers | Main reason | All SMEs Q3 | All SMEs excl. PNB |
|--|-------------|-------------|-----------------------|
| Unweighted base: | 822 | 5028 | 3585 |
| Reluctant to borrow now (any) | 72% | 13% | 22% |
| -Prefer not to borrow in economic climate | 51% | 9% | 15% |
| -Predicted performance of business | 22% | 4% | 7% |
| Issues with <u>principle</u> of borrowing | 2% | * | * |
| Issues with <u>process</u> of borrowing | 12% | 2% | 3% |
| Discouraged (any) | 11% | 2% | 3% |
| -Direct (Put off by bank) | 1% | * | * |
| -Indirect (Think I would be turned down) | 10% | 2% | 3% |

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

The table above also shows the equivalent proportion of SMEs *excluding* the 'Permanent non-borrowers'. Of those SMEs that *might* be interested in seeking finance (once the PNBs had been excluded), 22% were put off by the current economic climate (including their performance in that climate), up slightly from 18% in Q3.

13. Awareness of taskforce and other initiatives





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



Key findings

Half of all SMEs, 52%, were aware of any of the initiatives tested in Q4, down somewhat from 56% in Q3.

Funding for Lending (FLS) continues to attract the highest levels of awareness (29%) albeit this was the first quarter that did not see an increase in awareness for this scheme (30% were aware in Q3).

Awareness of other initiatives is broadly stable over time.

8% of all SMEs were aware of their bank offering funding under FLS, with larger SMEs more likely to be aware (18% for those with 50-249 employees).

Over time, fewer SMEs have reported that schemes like FLS made them more likely to apply for finance. In Q4 2013, 14% felt more encouraged, in line with Q3, but lower than the 20% reported in Q4 2012. Most, 77% said that such schemes made no difference to them because they were not looking for external finance.

A quarter of SMEs (26%, excluding the Permanent non-borrowers) were aware of crowd funding in Q4 2013, up slightly from Q3 (24%). This included 2% who had applied for such funding. Those who were planning to apply for finance in the next 3 months were somewhat more likely to be aware of this source of funding (30%).



13% of SMEs had been contacted in the previous 3 months by either their own or another bank, expressing a willingness to lend. Such SMEs were more likely to be aware of schemes like FLS than those who had not been contacted, and although they were no more likely to be planning to apply for finance, they were more confident that any application would be successful.



In October 2010, the Business Finance Taskforce agreed to a range of initiatives with the aim of supporting SMEs in the UK. This final section of the report looks at awareness amongst SMEs of some of those commitments, together with other relevant initiatives. This part of the survey was also revised and updated for Q4 2012, so results are not always directly comparable over time.

The first table covers those initiatives potentially relevant to all SMEs, based on the updated list of initiatives, and for Q4 2013 only. It shows that Funding for Lending continued to achieve higher levels of awareness than other schemes, across all sizes of SME:

| Awareness of Taskforce initiatives Q4 13 – all SMEs asked new question | Total | 0 emp | 1-9 emps | 10-49 emps | 50-249 emps |
|---|-------|-------|-------------|---------------|----------------|
| Unweighted base: | 5028 | 1011 | 1663 | 1604 | 750 |
| New support from the Bank of England called Funding for Lending* | 29% | 27% | 33% | 37% | 46% |
| Government support schemes for access to finance such as Enterprise Finance Guarantee Scheme etc* | 21% | 20% | 24% | 29% | 41% |
| A network of business mentors | 21% | 20% | 24% | 25% | 30% |
| Other alternative sources of business finance such as Asset based finance etc* | 18% | 17% | 23% | 29% | 37% |
| The Lending Code / principles* | 17% | 15% | 21% | 22% | 28% |
| The Business Growth Fund | 14% | 13% | 18% | 20% | 26% |
| Independently monitored appeals process | 12% | 12% | 14% | 16% | 21% |
| BetterBusinessFinance.co.uk | 10% | 10% | 11% | 11% | 9% |
| Regional outreach events | 8% | 7% | 10% | 9% | 10% |
| Any of these | 52% | 49% | 57% | 63% | 70% |
| None of these | 48% | 51% | 43% | 37% | 30% |

Q240 All SMEs * indicates new or amended question



Awareness of each initiative was very slightly lower in Q4 than in Q3. As a result, awareness of *any* of these initiatives, at 52%, was somewhat lower than the 56% seen in Q3, but back in line with the first half of 2013 when the revised list was first introduced. This overall awareness increased by size of business from 49% of 0 employee SMEs (down from 54% in Q3) to 70% of those with 50-249 employees (down from 78% in Q3).

For 10% of all SMEs in Q4 2013, Funding for Lending was the <u>only</u> initiative they were aware of (slightly higher than the 6-7% in Q2 and Q3)

Those SMEs that had someone in charge of the finances with training/qualifications were more likely to be aware of any of these initiatives (60%) than those who did not (49%) but this is also likely to be a reflection of the fact that these are typically larger SMEs.

For 2013 as a whole, 37% of all SMEs were aware of either of the Government led initiatives (FLS and other support schemes for access to finance). A similar proportion, 36%,

was aware of any of the banking led initiatives (a network of business mentors, Lending Code, appeals, the BetterBusinessFinance website and outreach events). In both cases awareness increased by size, with around half of the largest SMEs being aware of each of these sets of initiatives

63% of SMEs looking to apply for new/renewed facilities in the next 3 months were aware of any of these initiatives in Q4 2013 (compared to 66% in Q3). They remained more aware than the 'Future would-be seekers' (49%, from 53% in Q3) or the 'Future happy non-seekers' (50%, from 55% in Q3).

As many of these initiatives are aimed at those with an interest in seeking external finance, they are potentially less relevant to the 'Permanent non-borrowers' who have indicated that they are unlikely to seek external finance. As in previous quarters there was a difference in awareness of any of these initiatives between 'Permanent non-borrowers' (45% aware of any initiatives in Q4 2013) 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 of individual initiatives had changed very little:

| Awareness of Taskforce initiatives Over time – all SMEs By date of interview | Q4 11 | Q1 12 | Q2 12 | Q3 12 | Q4 12 | Q1 13 | Q2 13 | Q3 13 | Q4 13 |
|--|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Unweighted base: | 5010 | 5023 | 5000 | 5032 | 5000 | 5000 | 5000 | 5000 | 5028 |
| A network of business mentors | 22% | 26% | 23% | 23% | 21% | 21% | 23% | 23% | 21% |
| Independently monitored appeals process | 10% | 13% | 12% | 11% | 10% | 13% | 12% | 14% | 12% |
| The Business Growth Fund | 12% | 12% | 14% | 12% | 14% | 14% | 16% | 15% | 14% |
| Regional outreach events | 7% | 9% | 8% | 8% | 8% | 8% | 8% | 9% | 8% |
| BetterBusinessFinance. co.uk | 9% | 9% | 9% | 9% | 10% | 9% | 9% | 9% | 10% |

Q240 All SMEs where consistent wording used



The table below shows awareness by size of SME for those initiatives where full comparable data is available over time. This shows a stable position during 2013:

| Awareness of Taskforce initiatives All SMEs | Total | 0 emp | 1-9 emps | 10-49 emps | 50-249 emps |
|--|-------|-------|-------------|---------------|----------------|
| Unweighted base (Q4): | 5028 | 1011 | 1663 | 1604 | 750 |
| A network of business mentors Q112 | 26% | 26% | 24% | 26% | 28% |
| A network of business mentors Q212 | 23% | 22% | 26% | 28% | 28% |
| A network of business mentors Q312 | 23% | 23% | 23% | 27% | 30% |
| A network of business mentors Q412 | 21% | 21% | 22% | 28% | 29% |
| A network of business mentors Q113 | 21% | 21% | 23% | 26% | 32% |
| A network of business mentors Q213 | 23% | 23% | 22% | 24% | 26% |
| A network of business mentors Q313 | 23% | 22% | 26% | 27% | 33% |
| A network of business mentors Q413 | 21% | 20% | 24% | 25% | 30% |
| Independently monitored appeals process Q112 | 13% | 13% | 13% | 16% | 19% |
| Independently monitored appeals process Q212 | 12% | 10% | 15% | 17% | 18% |
| Independently monitored appeals process Q312 | 11% | 10% | 12% | 17% | 23% |
| Independently monitored appeals process Q412 | 10% | 10% | 11% | 16% | 17% |
| Independently monitored appeals process Q113 | 13% | 12% | 13% | 16% | 22% |
| Independently monitored appeals process Q213 | 12% | 11% | 13% | 17% | 18% |
| Independently monitored appeals process Q313 | 14% | 13% | 17% | 18% | 26% |
| Independently monitored appeals process Q413 | 12% | 12% | 14% | 16% | 21% |

Continued





Continued

| The Business Growth Fund Q112 | 12% | 11% | 14% | 21% | 25% |
|----------------------------------|-----|-----|-----|-----|-----|
| The Business Growth Fund Q212 | 14% | 12% | 16% | 21% | 23% |
| The Business Growth Fund Q312 | 12% | 11% | 15% | 19% | 25% |
| The Business Growth Fund Q412 | 14% | 13% | 14% | 24% | 25% |
| The Business Growth Fund Q113 | 14% | 13% | 16% | 21% | 27% |
| The Business Growth Fund Q213 | 16% | 15% | 16% | 22% | 29% |
| The Business Growth Fund Q313 | 15% | 14% | 17% | 22% | 35% |
| The Business Growth Fund Q413 | 14% | 13% | 18% | 20% | 26% |
| Regional outreach events Q112 | 9% | 9% | 9% | 13% | 12% |
| Regional outreach events Q212 | 8% | 7% | 12% | 12% | 11% |
| Regional outreach events Q312 | 8% | 8% | 8% | 10% | 14% |
| Regional outreach events Q412 | 8% | 8% | 9% | 10% | 12% |
| Regional outreach events Q113 | 8% | 7% | 8% | 10% | 11% |
| Regional outreach events Q213 | 8% | 7% | 8% | 8% | 9% |
| Regional outreach events Q313 | 9% | 9% | 10% | 9% | 9% |
| Regional outreach events Q413 | 8% | 7% | 10% | 9% | 10% |
| BetterBusinessFinance.co.uk Q112 | 9% | 10% | 8% | 10% | 11% |
| BetterBusinessFinance.co.uk Q212 | 9% | 8% | 11% | 10% | 10% |
| BetterBusinessFinance.co.uk Q312 | 9% | 8% | 10% | 10% | 11% |
| BetterBusinessFinance.co.uk Q412 | 10% | 10% | 11% | 12% | 9% |
| BetterBusinessFinance.co.uk Q113 | 9% | 8% | 10% | 10% | 11% |
| BetterBusinessFinance.co.uk Q213 | 9% | 9% | 10% | 9% | 9% |
| BetterBusinessFinance.co.uk Q313 | 9% | 8% | 13% | 10% | 11% |
| BetterBusinessFinance.co.uk Q413 | 10% | 10% | 11% | 11% | 9% |

Q240 All SMEs





As already mentioned, a number of initiatives were included for the first time in Q4 2012. Analysis over time is therefore more limited, but is shown below for the quarters for which it is available. With the exception of FLS, awareness is broadly stable over time:

| Awareness of more recent initiatives All SMEs | Total | 0 emp | 1-9 emps | 10-49 emps | 50-249 emps |
|---|-------|-------|-------------|---------------|----------------|
| Unweighted base (Q2): | 5028 | 1011 | 1663 | 1604 | 750 |
| Funding for Lending Q412 | 23% | 21% | 27% | 35% | 45% |
| Funding for Lending Q113 | 27% | 24% | 32% | 37% | 43% |
| Funding for Lending Q213 | 29% | 27% | 34% | 40% | 48% |
| Funding for Lending Q313 | 30% | 28% | 35% | 41% | 51% |
| Funding for Lending Q413 | 29% | 27% | 33% | 37% | 46% |
| Government support schemes Q412 | 22% | 21% | 24% | 32% | 42% |
| Government support schemes Q113 | 24% | 22% | 28% | 32% | 41% |
| Government support schemes Q213 | 23% | 22% | 24% | 31% | 36% |
| Government support schemes Q313 | 24% | 22% | 29% | 34% | 45% |
| Government support schemes Q413 | 21% | 20% | 24% | 29% | 41% |
| Alternative sources of finance Q412 | 17% | 16% | 20% | 29% | 37% |
| Alternative sources of finance Q113 | 19% | 17% | 24% | 31% | 42% |
| Alternative sources of finance Q213 | 16% | 15% | 19% | 26% | 35% |
| Alternative sources of finance Q313 | 20% | 17% | 27% | 32% | 40% |
| Alternative sources of finance Q413 | 18% | 17% | 23% | 29% | 37% |
| The Lending Code Q412 | 17% | 17% | 17% | 23% | 27% |
| The Lending Code Q113 | 18% | 16% | 20% | 25% | 31% |
| The Lending Code Q213 | 18% | 17% | 20% | 25% | 29% |
| The Lending Code Q313 | 18% | 17% | 22% | 27% | 36% |
| The Lending Code Q413 | 17% | 15% | 21% | 22% | 28% |



Analysis over time by sector is also provided below, but first, a table showing results for the revised list of initiatives, by sector, for Q4 2013. Overall awareness ranged from 66% amongst those in the Other Community sector to 41% for those in Transport:

| % aware of Initiatives Q4 13 – all SMEs asked new question | Agric | Mfg | Constr | Whle Retail | Hotel Rest | Trans | Prop/ Bus | Health S Work | Other Comm |
|---|-------|-----|--------|----------------|---------------|-------|--------------|------------------|---------------|
| Unweighted base: | 371 | 530 | 880 | 521 | 452 | 455 | 884 | 439 | 496 |
| New support from the Bank of England called Funding for Lending* | 27% | 27% | 24% | 24% | 25% | 21% | 39% | 18% | 35% |
| Government support schemes for access to finance such as Enterprise Finance Guarantee Scheme etc* | 18% | 23% | 13% | 19% | 16% | 19% | 29% | 18% | 28% |
| A network of business mentors | 14% | 21% | 16% | 15% | 16% | 15% | 29% | 21% | 27% |
| Other alternative sources of business finance such as Asset based finance etc* | 16% | 25% | 10% | 19% | 11% | 12% | 27% | 15% | 20% |
| The Lending Code | 19% | 16% | 12% | 14% | 15% | 11% | 21% | 14% | 24% |
| The Business Growth Fund | 14% | 11% | 10% | 15% | 14% | 12% | 19% | 11% | 15% |
| BetterBusinessFinance.co.uk | 6% | 8% | 9% | 11% | 10% | 7% | 11% | 6% | 15% |
| Independently monitored appeals process | 10% | 11% | 9% | 14% | 12% | 11% | 16% | 12% | 11% |
| Regional outreach events | 7% | 4% | 8% | 10% | 8% | 7% | 9% | 9% | 7% |
| Any of these | 50% | 52% | 42% | 50% | 48% | 41% | 60% | 42% | 66% |
| None of these | 50% | 48% | 58% | 50% | 52% | 59% | 40% | 58% | 37% |

Q240 All SMEs * indicates new or amended question





A detailed breakdown of awareness over time by sector is provided below, firstly for those initiatives where full comparable data is available over time:

| % aware Over time by date of interview | Agric | Mfg | Constr | Whle Retail | Hotel Rest | Trans | Prop/ Bus | Health S Work | Other Comm |
|--|-------|-----|--------|----------------|---------------|-------|--------------|------------------|---------------|
| A network of business mentors Q112 | 21% | 23% | 21% | 22% | 21% | 24% | 27% | 31% | 39% |
| Q212 | 18% | 22% | 17% | 20% | 22% | 16% | 34% | 24% | 24% |
| Q312 | 18% | 20% | 17% | 23% | 21% | 20% | 29% | 34% | 23% |
| Q412 | 16% | 23% | 14% | 22% | 15% | 17% | 28% | 21% | 26% |
| Q113 | 20% | 25% | 14% | 17% | 18% | 18% | 26% | 29% | 26% |
| Q213 | 23% | 20% | 15% | 18% | 22% | 24% | 31% | 24% | 24% |
| Q313 | 19% | 20% | 19% | 21% | 22% | 16% | 33% | 23% | 22% |
| Q413 | 14% | 21% | 16% | 15% | 16% | 15% | 29% | 21% | 27% |
| Independently monitored appeals process Q112 | 10% | 10% | 15% | 13% | 11% | 17% | 12% | 14% | 11% |
| Q212 | 9% | 8% | 10% | 12% | 13% | 14% | 14% | 11% | 13% |
| Q312 | 12% | 8% | 10% | 12% | 9% | 10% | 11% | 9% | 11% |
| Q412 | 7% | 10% | 8% | 14% | 11% | 10% | 11% | 11% | 11% |
| Q113 | 13% | 9% | 10% | 9% | 15% | 9% | 11% | 22% | 24% |
| Q213 | 10% | 8% | 8% | 13% | 14% | 16% | 17% | 15% | 5% |
| Q313 | 10% | 5% | 14% | 14% | 16% | 10% | 18% | 11% | 20% |
| Q413 | 10% | 11% | 9% | 14% | 12% | 11% | 16% | 12% | 11% |

Continued





Continued

| The Business Growth Fund | 11% | 13% | 9% | 11% | 12% | 17% | 15% | 14% | 9% |
|--------------------------|-----|-------|-----|-----|-----|-----|-----|-----|-----|
| Q112 | | | | | | | | | |
| Q212 | 11% | 12% | 8% | 9% | 12% | 14% | 21% | 12% | 16% |
| Q312 | 13% | 12% | 9% | 10% | 12% | 8% | 18% | 10% | 12% |
| Q412 | 11% | 12% | 12% | 18% | 9% | 13% | 16% | 12% | 10% |
| Q113 | 14% | 16% | 7% | 11% | 15% | 11% | 19% | 12% | 18% |
| Q213 | 15% | 13% | 11% | 16% | 14% | 15% | 20% | 17% | 19% |
| Q313 | 14% | 13% | 11% | 14% | 16% | 13% | 19% | 12% | 15% |
| Q413 | 14% | 11% | 10% | 15% | 14% | 12% | 19% | 11% | 15% |
| Regional outreach events | 8% | 9% | 8% | 7% | 8% | 12% | 11% | 14% | 5% |
| Q112 | | | | | | | | | |
| Q212 | 8% | 6% | 3% | 7% | 8% | 4% | 11% | 10% | 16% |
| Q312 | 11% | 6% | 6% | 7% | 8% | 6% | 10% | 9% | 11% |
| Q412 | 5% | 6% | 6% | 11% | 5% | 11% | 8% | 8% | 13% |
| Q113 | 8% | 11% | 6% | 7% | 9% | 5% | 8% | 7% | 12% |
| Q213 | 6% | 5% | 5% | 6% | 8% | 9% | 10% | 10% | 8% |
| | 8% | 7% | 8% | 7% | 9% | 11% | 10% | 10% | 12% |
| Q313 | 0% | . , , | | | | | | | |
| Q313 Q413 | 7% | 4% | 8% | 10% | 8% | 7% | 9% | 9% | 7% |

Continued





Continued

| BetterBusinessFinance.co.uk Q112 | 6% | 9% | 8% | 5% | 12% | 13% | 10% | 15% | 12% |
|-------------------------------------|-----|-----|-----|-----|-----|-----|-----|-----|-----|
| Q212 | 10% | 11% | 5% | 5% | 8% | 6% | 12% | 10% | 12% |
| Q312 | 9% | 4% | 7% | 9% | 11% | 14% | 8% | 12% | 10% |
| Q412 | 6% | 7% | 10% | 11% | 12% | 9% | 11% | 11% | 14% |
| Q113 | 8% | 14% | 6% | 8% | 14% | 4% | 8% | 7% | 17% |
| Q213 | 9% | 11% | 6% | 9% | 13% | 9% | 9% | 13% | 13% |
| Q313 | 6% | 6% | 7% | 11% | 11% | 8% | 10% | 10% | 9% |
| Q413 | 6% | 8% | 9% | 11% | 10% | 7% | 11% | 6% | 15% |

Q240 All SMEs



For those initiatives included for the first time in Q4 2012 analysis over time is more limited, but is shown below for the quarters for which it is available:

| % aware Over time by date of interview | Agric | Mfg | Constr | Whle Retail | Hotel Rest | Trans | Prop/ Bus | Health S Work | Other Comm |
|--|-------|-----|--------|----------------|---------------|-------|--------------|------------------|---------------|
| Funding for Lending Q412 | 25% | 19% | 21% | 26% | 19% | 27% | 26% | 25% | 19% |
| Q113 | 28% | 32% | 25% | 26% | 27% | 26% | 33% | 29% | 13% |
| Q213 | 30% | 32% | 22% | 30% | 32% | 32% | 35% | 28% | 28% |
| Q313 | 33% | 25% | 27% | 33% | 28% | 31% | 33% | 28% | 31% |
| Q413 | 27% | 27% | 24% | 24% | 25% | 21% | 39% | 18% | 35% |
| Government support schemes Q412 | 23% | 18% | 16% | 29% | 12% | 19% | 27% | 25% | 17% |
| Q113 | 25% | 29% | 19% | 23% | 29% | 17% | 27% | 31% | 25% |
| Q213 | 20% | 24% | 16% | 21% | 24% | 25% | 29% | 20% | 26% |
| Q313 | 21% | 21% | 20% | 28% | 23% | 25% | 30% | 16% | 22% |
| Q413 | 18% | 23% | 13% | 19% | 16% | 19% | 29% | 18% | 28% |
| Alternative sources of finance Q412 | 12% | 15% | 11% | 20% | 10% | 12% | 25% | 18% | 19% |
| Q113 | 16% | 21% | 10% | 17% | 17% | 18% | 27% | 22% | 23% |
| Q213 | 17% | 15% | 11% | 13% | 17% | 21% | 22% | 16% | 15% |
| Q313 | 19% | 16% | 12% | 22% | 18% | 17% | 30% | 21% | 14% |
| Q413 | 16% | 25% | 10% | 19% | 11% | 12% | 27% | 15% | 20% |

Continued





Continued

| The Lending Code Q412 | 12% | 20% | 13% | 18% | 12% | 13% | 17% | 18% | 25% |
|-----------------------|-----|-----|-----|-----|-----|-----|-----|-----|-----|
| Q113 | 18% | 20% | 13% | 16% | 18% | 14% | 20% | 22% | 23% |
| Q213 | 19% | 17% | 12% | 18% | 17% | 20% | 23% | 20% | 15% |
| Q313 | 17% | 10% | 14% | 18% | 18% | 14% | 25% | 18% | 21% |
| Q413 | 19% | 16% | 12% | 14% | 15% | 11% | 21% | 14% | 24% |

Q240 All SMEs



A further initiative was only asked of those SMEs directly affected by it, as detailed below:

| Initiative | Awareness |
|---|--|
| Loan refinancing talks, 12 months ahead – asked of SMEs with a loan | Awareness of this initiative amongst SMEs with loans was 10% in Q4, down slightly from Q3 (15%) but in line with previous quarters (where it has ranged from 7-13%) |
| | This was due to awareness amongst smaller SMEs with loans returning to Q2 levels (9% from 15% in Q3), whilst awareness for 10-249 employees also declined to 16% (from 21% in Q3, and also similar to awareness in Q2) |

Finally, the independent appeals initiative is of particular relevance to certain types of SME, and so is shown in more detail below:

| Initiative | Awareness |
|---|--|
| The independently monitored lending appeals process | As reported earlier, amongst all those who, in the 18 months between Q3 2012 and Q4 2013, had applied for an overdraft and initially been declined, 19% said that they had been made aware of the appeals process while for loans the equivalent figure was 12%. In both instances awareness amongst those applying in 2013 to date was higher than for those who applied in 2012 (16% v 8% for loans and 19% v 13% for overdrafts). |
| | Overall awareness of the appeals process (asked of <u>all</u> SMEs at Q240) was 13% for 2013 as a whole (and 14% once the PNBs were excluded), and the proportion has varied little quarter by quarter (12-14%). Awareness for 2013 increased by size of SME from 12% of those with 0 employees to 22% of those with 50-249 employees. |
| | There was little difference in awareness by past financial behaviour (those who had experienced a borrowing event, would be seekers etc). Looking forward, 15% of those with plans to borrow in the next 3 months were aware of the appeals process, compared to 11% of 'Future would-be seekers'. |



Funding for Lending

New questions were asked from Q4 2012 around awareness of the Funding for Lending Scheme. As reported above, in Q4 2013 29% of SMEs reported that they were aware of this scheme (up from 23% when this question was first asked, but Q4 was the first time that awareness did not increase quarter on quarter).

Those aware of Funding for Lending were asked whether they were aware of their bank offering finance options under this scheme. A quarter of those aware of Funding for Lending said that they were, the equivalent of 8% of all SMEs, as the table below shows (Note that due to rounding the 'any awareness' figures do not always quite match those reported for awareness of Funding for Lending earlier in the chapter):

| Awareness of Funding for Lending Q4 13 – all SMEs | Total | 0 emp | 1-9 emps | 10-49 emps | 50-249 emps |
|--|-------|-------|-------------|---------------|----------------|
| Unweighted base: | 5028 | 1011 | 1663 | 1604 | 750 |
| Aware bank was offering finance options | 8% | 7% | 12% | 14% | 18% |
| Aware of scheme but not of bank offering | 21% | 20% | 21% | 22% | 27% |
| Awareness (any) | 29% | 27% | 33% | 36% | 45% |
| Not aware of Funding for Lending | 71% | 73% | 67% | 64% | 55% |

Q240 / 240XX All SMEs

The largest SMEs were more likely to be aware of FLS overall and specifically of options available from their bank (18%, down slightly from 22% in Q3) than those with 0 employees (7%, unchanged from Q2 and Q3).



Given the nature of the scheme, it is also appropriate to report awareness of Funding for Lending excluding the 'Permanent non-borrowers'. As the table below shows, excluding them has a slight impact on overall awareness and awareness of bank activity specifically:

| Awareness of Funding for Lending Q4 13 All excluding PNBs | Total | 0 emp | 1-9 emps | 10-49 emps | 50-249 emps |
|--|-------|-------------|-------------|---------------|----------------|
| Unweighted base: | 3585 | 55 <i>7</i> | 1169 | 1237 | 622 |
| Aware bank was offering finance options | 8% | 6% | 12% | 15% | 20% |
| Aware of scheme but not of bank offering | 24% | 24% | 23% | 25% | 29% |
| Awareness (any) | 32% | 30% | 35% | 40% | 49% |
| Not aware of Funding for Lending | 68% | 70% | 65% | 60% | 51% |

Q240 / 240XX All SMEs excluding PNBs

One further piece of analysis looks at awareness by future borrowing intentions. Those with plans to apply/renew in the next 3 months were slightly more likely to be aware of Funding for Lending per se, if not of bank actions specifically (albeit their awareness level was slightly lower than in Q3 when it was 36%). 'Future would-be seekers' of finance remained less likely to be aware of FLS (but their awareness increased to 29% in Q4 from 26% in Q3):

| Awareness of Funding for Lending Q4 13 All SMEs | Plan to apply | Future WBS | Future HNS | Future HNS excl. PNB |
|--|------------------|---------------|---------------|-------------------------|
| Unweighted base: | 854 | 822 | 3352 | 1909 |
| Aware bank was offering finance options | 9% | 8% | 8% | 7% |
| Aware of scheme but not of bank offering | 25% | 21% | 20% | 25% |
| Awareness (any) | 34% | 29% | 28% | 32% |
| Not aware of Funding for Lending | 66% | 71% | 72% | 68% |

Q240 / 240XX All SMEs





Questions were asked in Q2 and Q3 2012 about the impact that the National Loan Guarantee scheme (with a 1% discount on loans, hire purchase or leasing) might have on SMEs' appetite for finance. From Q4 2012, the question responses were kept in the same format but the question was broadened to explore the impact of the 'various initiatives that have been announced to help reduce the cost of finance to SMEs', and naming the NLGS and Funding for Lending specifically.

Overall, the proportion of SMEs that thought such schemes would encourage them to apply for funding has declined slightly over time. In Q4 2013, it stood at 14%, the equivalent of around 650,000 SMEs, and the same proportion as Q3. The biggest single group, 77% of all SMEs in Q4 2013, said that such schemes made no difference as they were not looking for funding:

| Effect of NLGS / Funding for Lending All SMEs asked new question over time | Q4 2012 | Q1 2013 | Q2 2013 | Q3 2013 | Q4 2013 |
|--|------------|------------|------------|------------|------------|
| Unweighted base: | 4330 | 4471 | 4460 | 4529 | 4391 |
| Now more likely to apply for funding | 20% | 18% | 16% | 14% | 14% |
| No difference because do not want funding | 72% | 75% | 77% | 77% | 77% |
| No difference as interest rates not main consideration for finance | 4% | 3% | 3% | 2% | 4% |
| Now less likely to apply for this type of finance | 4% | 5% | 4% | 7% | 5% |

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 5% of this group thought such schemes might encourage them to apply (the equivalent of 2% of all SMEs).

Excluding the 'Permanent non-borrowers', 20% of remaining SMEs in Q4 2013 thought such a scheme would make them more likely to apply for funding (unchanged from Q3):

| Effect of NLGS / Funding for Lending All SMEs asked new question Q4 13 | All SMEs | PNBs | Non PNB |
|---|----------|------|------------|
| Unweighted base: | 4391 | 1224 | 3167 |
| Now more likely to apply for funding | 14% | 5% | 20% |
| No difference because do not want funding | 77% | 89% | 69% |
| No difference as interest rates not main consideration for finance | 4% | 2% | 5% |
| Now less likely to apply for this type of finance | 5% | 3% | 6% |

Q238d All SMEs, excluding DK



Analysis by size shows that in Q4 it was SMEs with 1-9 employees that were most likely to say such schemes made them more likely to apply for funding:

| Effect of NLGS / Funding for Lending All SMEs asked new question Q4 13 Excluding PNBs | Overall | 0 emps | 1-9 emps | 10-49 emps | 50-249 emps |
|---|---------|--------|-------------|---------------|----------------|
| Unweighted base: | 3167 | 473 | 1034 | 1084 | 576 |
| Now more likely to apply for this type of funding | 20% | 19% | 24% | 18% | 15% |
| No difference because do not want funding | 69% | 69% | 67% | 75% | 80% |
| No difference as interest rates not main consideration for finance | 5% | 6% | 4% | 3% | 2% |
| Now less likely to apply for this type of finance | 6% | 6% | 4% | 4% | 3% |

Q238d All SMEs, excluding DK and 'Permanent non-borrowers'

Those with a worse than average external risk rating were now the most likely to feel encouraged to apply (all excluding PNBs):

- 13% of those rated a minimal risk thought they were now more likely to apply
- 18% of those rated a low risk
- 16% of those rated an average risk
- 23% of those rated a worse than average risk (up from 19% in Q3)

Also more likely to apply (again excluding PNBs) were:

- Those who had been 'Would-be seekers' of finance in the 12 months prior to interview (32%)
- Those with plans to borrow in the next 3 months (37%)
- Starts (26%)



Analysis over time shows how likelihood to apply has changed by key subgroup (all excluding PNBs).

Compared to the equivalent quarter of 2012, the impact that this funding might make is now lower, both overall and across all groups below:

| Now more likely to apply for funding All SMEs asked new question over time Excluding PNBs – row percentages | Q4 2012 | Q1 2013 | Q2 2013 | Q3 2013 | Q4 2013 |
|---|------------|------------|------------|------------|------------|
| Overall | 27% | 25% | 22% | 20% | 20% |
| 0 emps | 26% | 24% | 20% | 20% | 19% |
| 1-9 emps | 32% | 27% | 27% | 18% | 24% |
| 10-49 emps | 25% | 23% | 19% | 18% | 18% |
| 50-249 emps | 22% | 19% | 16% | 14% | 15% |
| Minimal external risk rating | 21% | 17% | 18% | 16% | 13% |
| Low external risk rating | 22% | 21% | 15% | 12% | 18% |
| Average external risk rating | 24% | 20% | 20% | 21% | 16% |
| Worse than average external risk rating | 30% | 29% | 24% | 19% | 23% |
| Plan to apply in next 3 months | 42% | 43% | 48% | 37% | 37% |
| Would-be seeker in next 3 months | 30% | 23% | 19% | 21% | 21% |
| Happy non-seeker in next 3 months | 17% | 16% | 12% | 12% | 11% |

Q238d All SMEs, excluding DK and PNBs



Analysis conducted in Q4 2012 identified that the types of business more likely to be 'encouraged to apply' by FLS were those that were more 'developed' (with management accounts, trading online etc.) and also those facing credit issues (such as a missed loan repayment).

When this analysis was updated for the Q2 2013 report, those with credit issues remained more likely to be encouraged to apply, notably those reporting problems getting trade credit, or who had a CCJ against them. The second 'developed' group, who had innovated, had a business plan or imported, were also identified

This analysis will be updated in future waves.

in this analysis as being more encouraged to apply.

Other groups more likely to be encouraged were those with less than £25,000 in credit balances, those in the Transport sector and those with an above average external risk rating, as well as future and past 'Would-be seekers' and those with plans to apply in the next 3 months. Those less likely to be encouraged included businesses that were more than 5 years old, and those in the Other Community sector, and those who had met the definition of a 'Happy non-seeker' for the previous 12 months.



Crowd Funding

Questions on crowd funding were originally included in the SME Finance Monitor in Q2 and Q3 2012, when awareness of the concept was 18%, varying by size from 17% of 0 employee SMEs to 27% of those with 50-249 employees. Excluding the PNBs with little apparent appetite for finance did not change these figures.

When the question was re-introduced for the Q2 2013 survey the answers available were extended to cover both awareness *and* use of crowd funding. In both Q2 and Q3 2013 the awareness of crowd funding was 24% (excluding PNBs). For Q4 2013, overall awareness is up slightly, at 26%, as a consistent 2% of SMEs reported that they had applied for such funding (the equivalent of around 90,000 SMEs):

| Awareness of crowd funding All SMEs excl PNBs asked new question Q4 13 | Overall | 0 emps | 1-9 emps | 10-49 emps | 50-249 emps |
|--|---------|--------|-------------|---------------|----------------|
| Unweighted base: | 3585 | 557 | 1169 | 1237 | 622 |
| Aware and have applied for crowd funding | 2% | 2% | 3% | 2% | 2% |
| Aware but have not applied | 24% | 22% | 27% | 29% | 38% |
| Aware (any) | 26% | 24% | 30% | 31% | 40% |
| Not aware | 74% | 76% | 70% | 69% | 60% |

Q238a2 All SMEs excl PNBs

Combining the results for Q2-Q4 2013 (and excluding the PNBs), overall awareness was 25%:

- Awareness varied little by external risk rating (24-28%).
- By sector, awareness was highest amongst those in the Property/Business Services sector (35%) followed by Manufacturing (27%) and the Other Community sector (26%). For all other sectors awareness varied relatively little (18%-23%).
- Awareness was also slightly higher for those who had either had a borrowing event in the previous 12 months (28%), or were planning to apply/renew in the next 3 months (30%), or where the person in charge of the finances was qualified (32%).



Bank communication about lending

Analysis has 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 2013, 13% of all SMEs said that they had received such a contact in the previous 3 months (10% of SMEs had heard from their main bank, while 5% had heard from another bank), in line with previous quarters:

| Approached by <u>any</u> bank in last 3 mths All SMEs | Q4 11 | Q1 12 | Q2 12 | Q3 12 | Q4 12 | Q1 13 | Q2 13 | Q3 13 | Q4 13 |
|---|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| All SMEs | 15% | 15% | 12% | 13% | 13% | 14% | 11% | 12% | 13% |
| 0 emps | 15% | 14% | 10% | 12% | 11% | 13% | 10% | 10% | 13% |
| 1-9 emps | 17% | 16% | 15% | 14% | 15% | 18% | 14% | 14% | 15% |
| 10-49 emps | 20% | 18% | 20% | 17% | 18% | 19% | 17% | 17% | 21% |
| 50-249 emps | 26% | 24% | 28% | 23% | 25% | 24% | 20% | 24% | 23% |
| All SMEs excluding PNBs | 15% | 15% | 11% | 13% | 14% | 16% | 11% | 12% | 15% |

Q221 All SMEs

Those who had been approached were more likely to be aware of Funding for Lending (38%) than those who had not been approached (27%), and specifically of their bank offering something under the scheme (15% v 7%). Such SMEs in Q4 were no more likely to be planning to apply in the next 3 months than those who had not been approached (both 15%) but if they were, they were also more confident that their bank would agree to their request (52% v 39%). They were slightly more likely to say that

schemes such as FLS encouraged them to apply for finance (17% v 14%).

Those who had heard from a bank were typically slightly bigger and with a somewhat better external risk rating profile than those who had not been contacted, and these factors are also likely to have impacted on awareness and confidence. More detailed analysis would therefore be needed to explore the actual impact that contact from a bank has had.

14. SelectedGraphs andCharts



This chapter presents

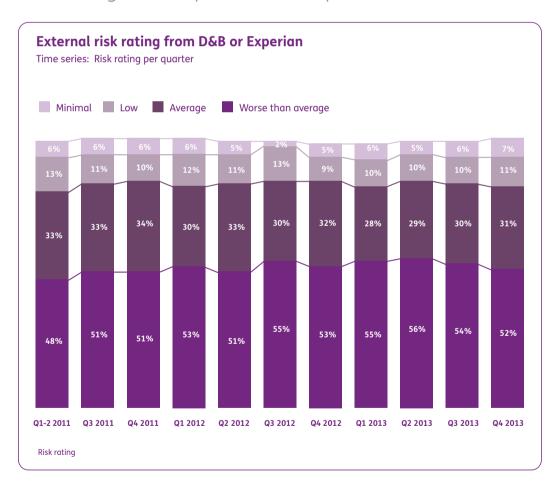
some of the key data in graphical form to provide data on longer term trends.



Much of the data in this report is provided and analysed over time, typically by quarter. After eleven waves of the SME Finance Monitor, the tables containing data for each quarter are becoming too large to fit comfortably on a page. Moving forward therefore, all such tables will show the most recent nine quarters of data, and the older quarters will be removed. In order to show longer term trends and provide

context for the current data, a series of charts has been developed and presented in this chapter. These take the key questions from each of the main chapters and show all the data available to date. At the bottom of each chart there is a reference to the page in the main report where the current data is presented in a table, and a summary of the trend shown.

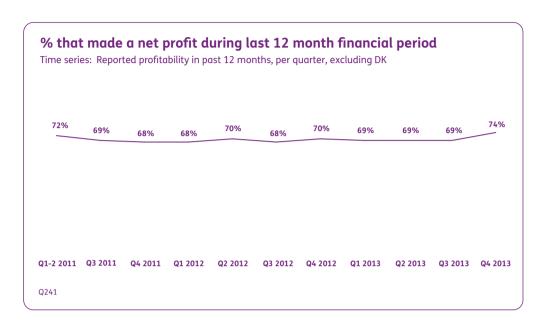
Charts reflecting data reported in Chapter 4



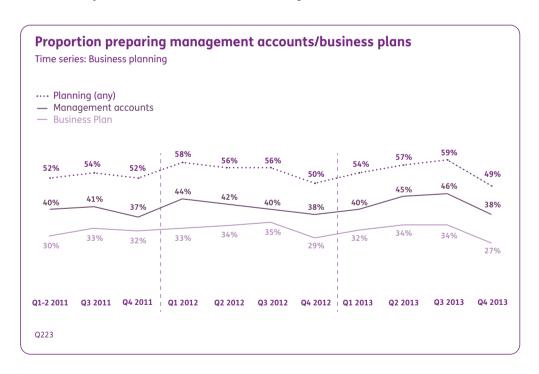
This chart relates to information on page 31: Over the course of 2013, the proportion of SMEs with a "worse than average" external risk rating has declined back to levels seen at the start of 2012.







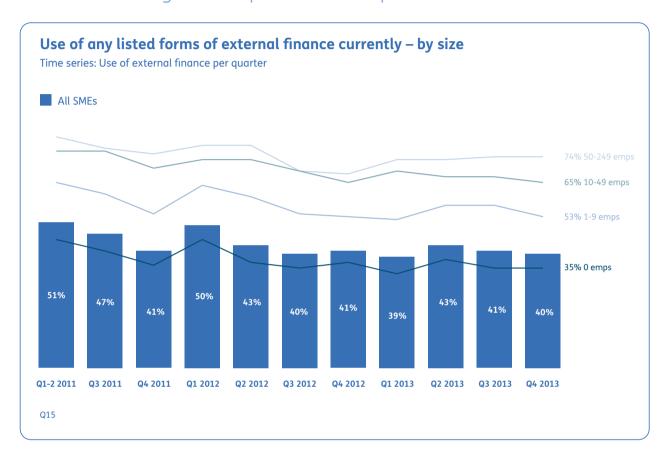
This chart relates to information on page 25: The proportion making a profit in the previous 12 months trading period is broadly stable over time, albeit at its highest level to date in Q4 2013 (74%).



This chart relates to information on page 35: In Q4 2013 fewer SMEs reported that they undertook any planning activity (49%) with a decline both in those producing regular management accounts and those with a business plan. This Q4 "dip" has also been seen in previous years.

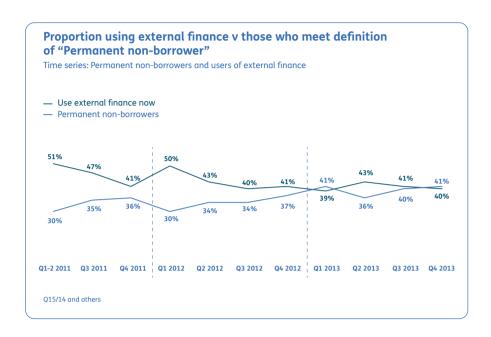


Charts reflecting data reported in Chapter 5

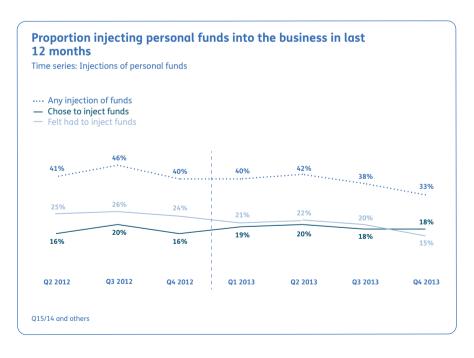


This chart relates to information on page 43: The proportion of SMEs using any of the types of external finance listed has stabilised in recent quarters.





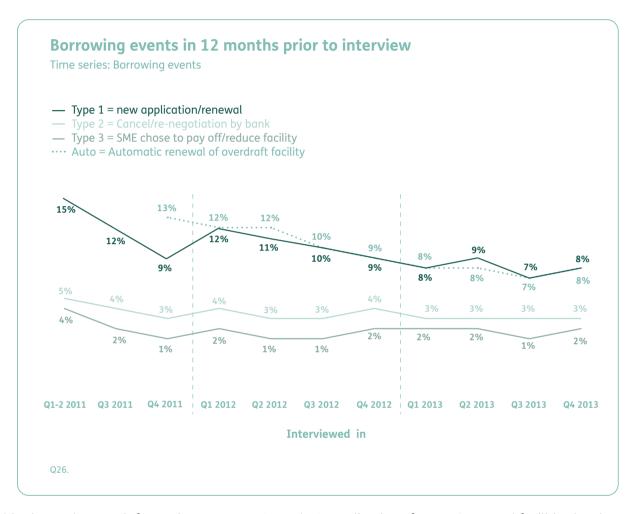
This chart relates to information on pages 43 and 62: There are as many 'Permanent non-borrowers' amongst SMEs as there are those using external finance. PNBs indicate by their answers to various questions in the survey that they are not currently using external finance and are unlikely to do so in future.



This chart relates to information on page 50: Over time, fewer SMEs have reported any injection of personal funds into the business. In Q4 2013, for the first time more of these injections were something that the owner/directors had chosen to do (18%) rather than felt that they had no choice but to do (15%).

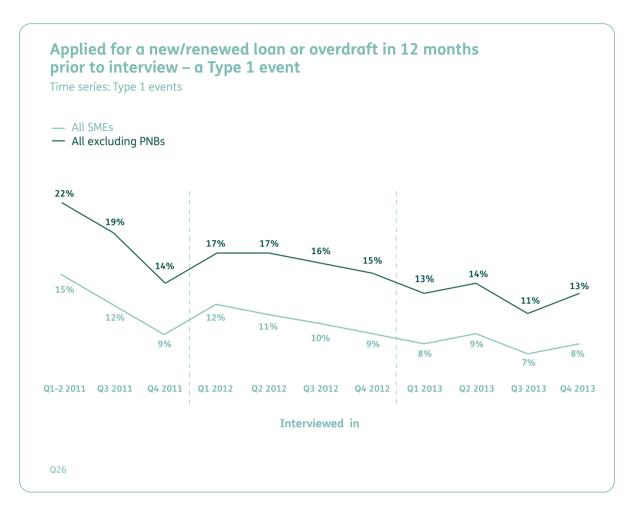


Charts reflecting data reported in Chapter 6



This chart relates to information on pages 67 and 79: Applications for new/renewed facilities has been fairly flat across 2013, and consistently lower than in previous years.

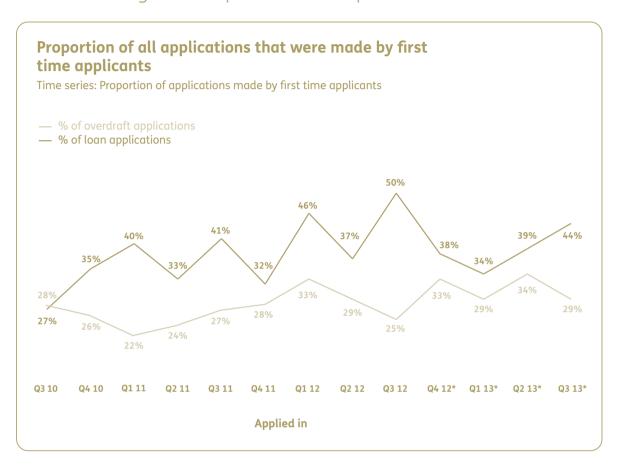




This chart relates to information on pages 67 and 68: A similar pattern is revealed for applications for new/renewed facilities once the PNBs are excluded from the analysis.



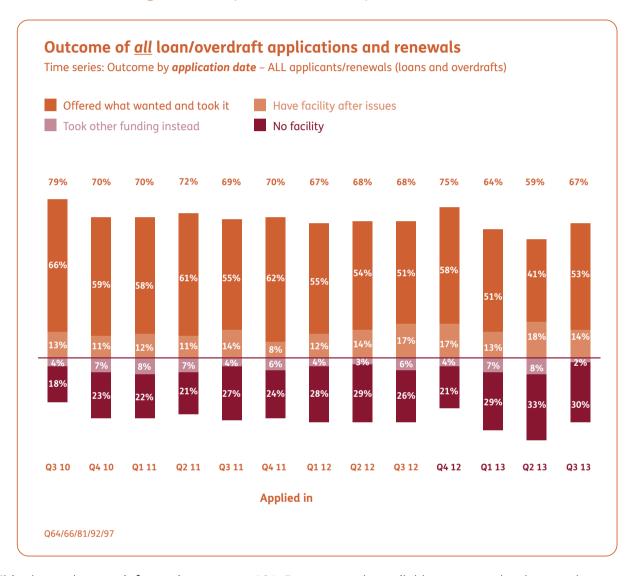
Charts reflecting data reported in Chapter 7



This chart relates to information on pages 88 and 94: The patterns are not consistent over time, but first time applicants are typically making up a higher proportion of applicants over time.

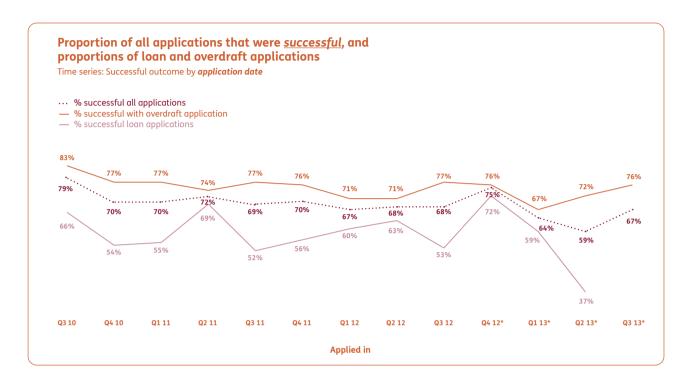


Charts reflecting data reported in Chapter 8



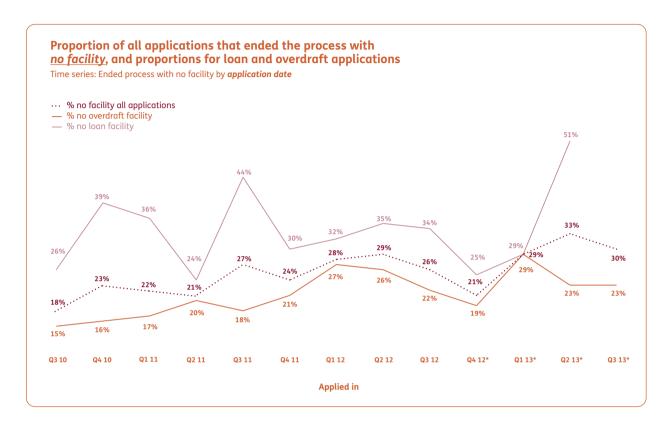
This chart relates to information on page 104: Data currently available suggests that loan and overdrafts applications made in the first half of 2013 were somewhat less likely to be successful.





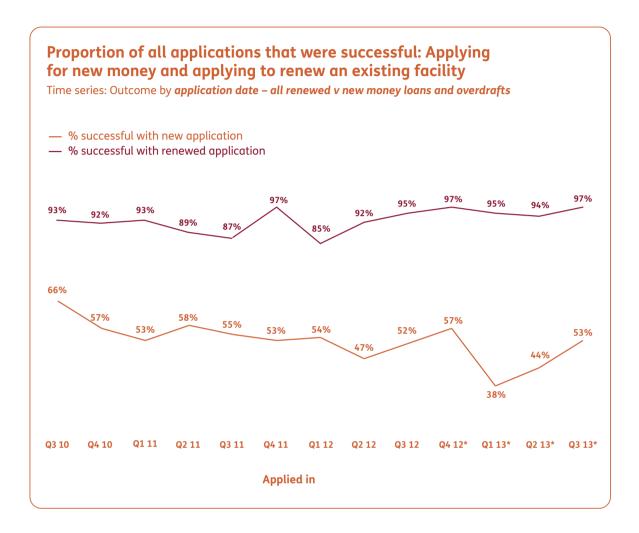
This chart relates to information on pages 104, 121 and 138: Over time, the success rate for applications for new/renewed overdrafts has been stable. Interim data for 2013 suggests a lower success rate for applications made in Q1, with higher success rates for applications made later in the year. Success rates for loans follow no clear pattern and initial data for applications made in Q2 2013 suggest they were less likely to be successful.





This chart relates to information on pages 104, 121 and 138: The proportion of overdraft applications that ended in no facility increased gradually over time up to Q1 2012. Since then the proportion has been broadly stable with around a quarter of applications ending with no facility. Around a third of loan applications typically ended with no facility.

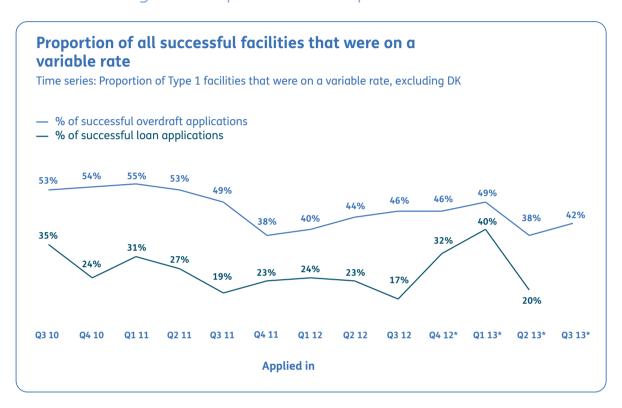




This chart relates to information on pages 143 and 144: Applications for renewed facilities are more likely to be successful than those for new money, with around 9 out of 10 resulting in a facility. Around half of applications for new money are typically successful – success rates dropped to a third for applications made in Q1 2013 but appear to be improving for later quarters.



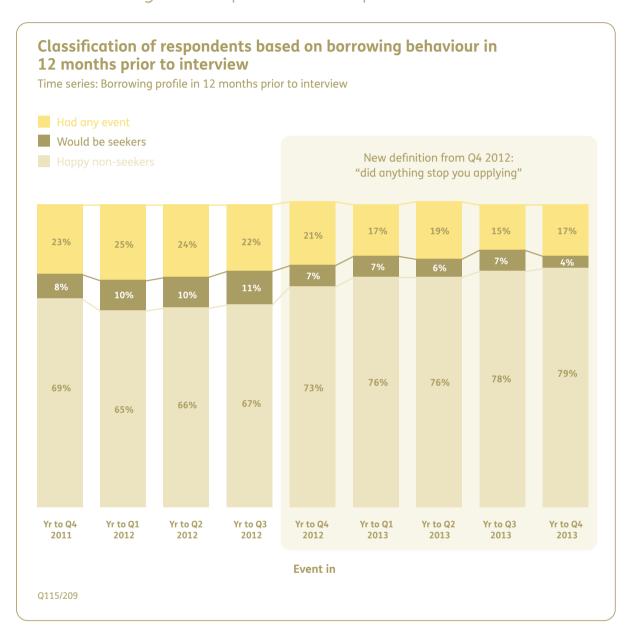
Charts reflecting data reported in Chapter 10



This chart relates to information on pages 160 and 175: Overdrafts were slightly less likely to be on a variable rate in more recent quarters, but remain more likely to be on such a rate than loans.

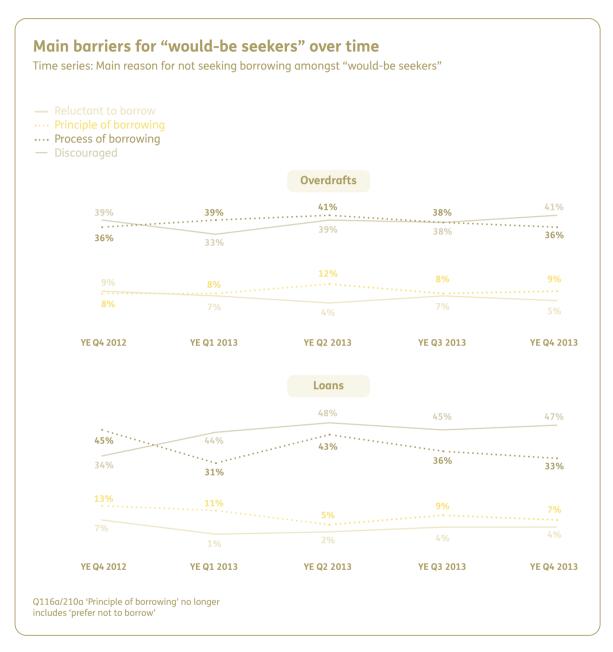


Charts reflecting data reported in Chapter 11



This chart relates to information on page 186: The proportion of SMEs that meet the definition of a 'Happy non-seeker' of finance (based on their behaviour in the 12 months prior to interview) has increased again. 8 out of 10 SMEs now meet this definition, compared to less than 7 out of 10 at the start of 2012.

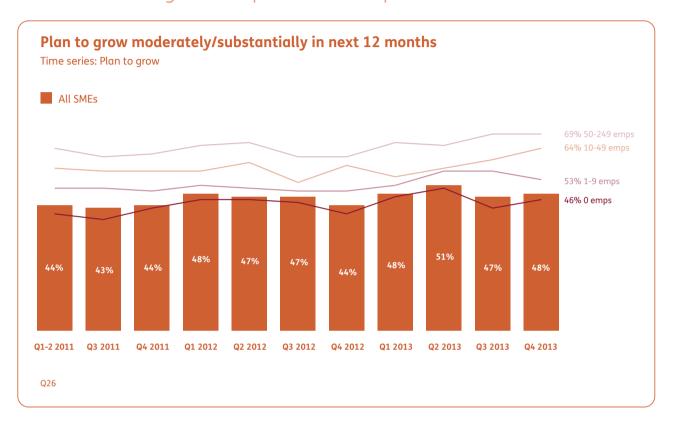




This chart relates to information on page 189: Discouragement and the process of borrowing remain the main barriers for 'Would-be seekers' who would have liked to apply for a loan or overdraft but felt that something stopped them.

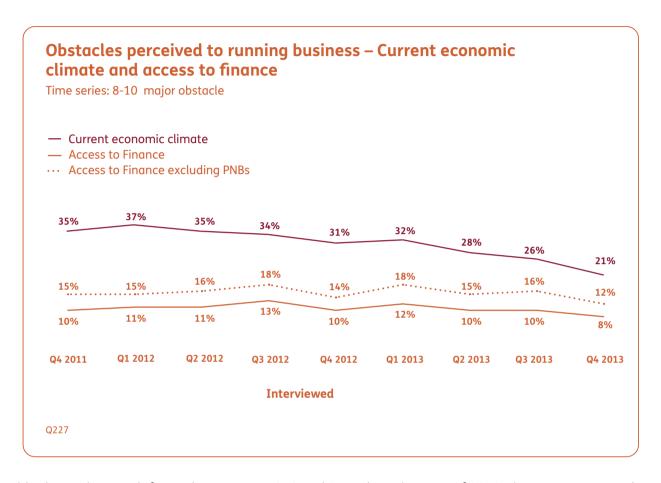


Charts reflecting data reported in Chapter 12



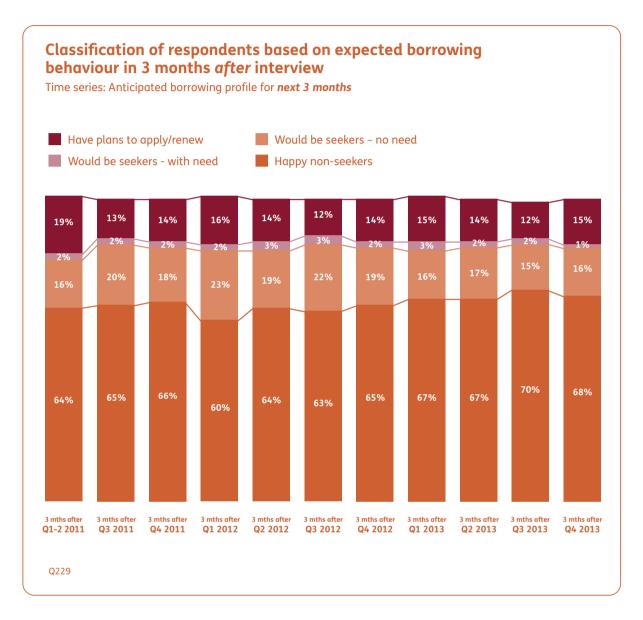
This chart relates to information on pages 201 and 203: Half of SMEs plan to grow in the next 12 months. Since the start of 2013, an increasing proportion of larger SMEs have planned to grow.





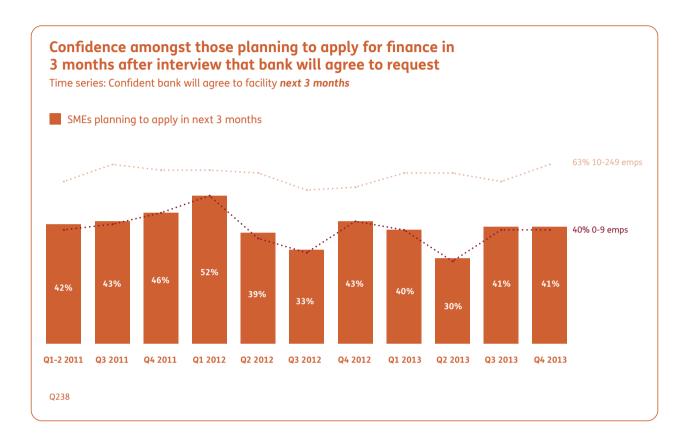
This chart relates to information on pages 212 and 214: Since the start of 2012, the current economic climate has become less of a barrier to SMEs, although it remains the most likely to be nominated.





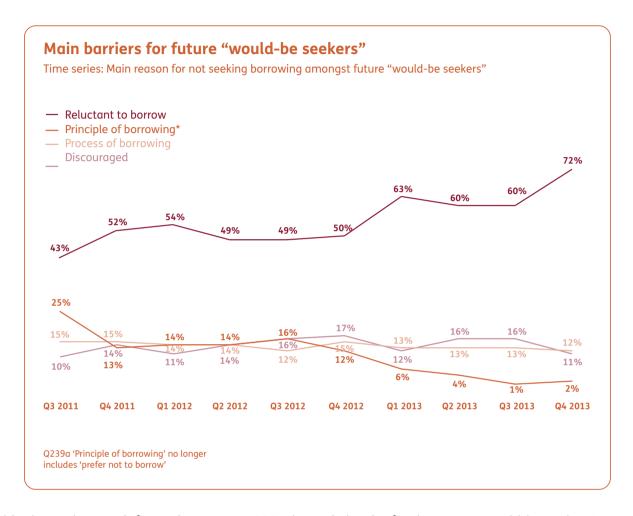
This chart relates to information on page 226: Looking forward, appetite for finance in the 3 months after interview has been fairly stable during 2013. The proportion of 'Future happy non-seekers' has increased, as it has for past behaviour, leaving slightly fewer SMEs meeting the definition of a 'Future would-be seeker of finance'.





This chart relates to information on pages 222 and 223: Overall confidence amongst potential future applicants that the bank will agree to their request has stabilised after a drop in Q2, but has improved slightly in Q4 for larger potential applicants.

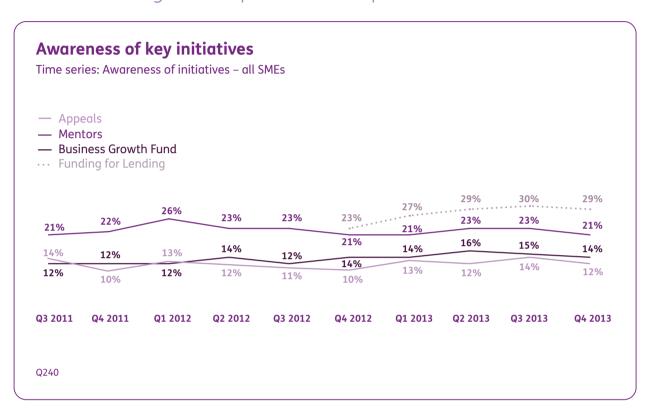




This chart relates to information on page 230: The main barrier for the 'Future would-be seekers' remains a reluctance to borrow in the current economic climate, mentioned increasingly during 2013. For the minority with an identified need, the climate is mentioned less and discouragement is more of a barrier.

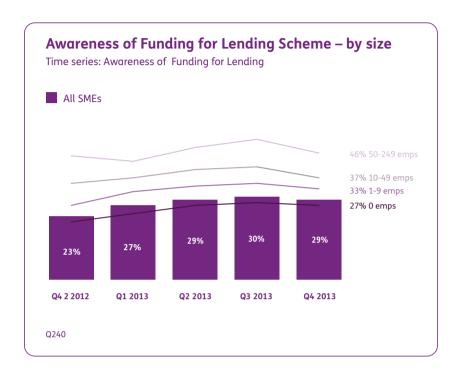


Charts reflecting data reported in Chapter 13

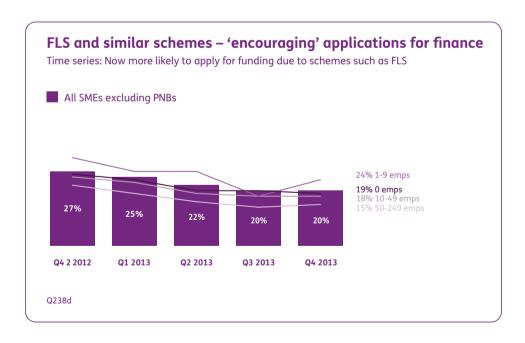


This chart relates to information on pages 242 and 245: Awareness of key initiatives designed to support SMEs has remained flat.





This chart relates to information on page 245: 1 in 3 SMEs is aware of Funding for Lending (FLS). Awareness in Q4 is stable, having previously increased steadily over time.



This chart relates to information on page 258: Over time, fewer SMEs have reported that schemes like FLS provide an incentive to apply for external finance.

15. Technical Appendix



This chapter covers

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



Eligible SMEs

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

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

The respondent was the person in charge of managing the business's finances. No changes have been made to the screening criteria in any of the waves conducted to date.



Sample structure

Quotas were set overall by size of business, by number of employees, as shown below. The classic B2B sample structure over-samples the larger SMEs compared to their natural representation in the SME population, in order to generate robust sub-samples of these bigger SMEs. Fewer interviews were conducted with 0 employee businesses to allow for these extra interviews. This has an impact on the *overall*

weighting efficiency (once the size bands are combined into the total), which is detailed later in this chapter.

The totals below are for all interviews conducted YEQ4 2013 – each quarter's sample matched the previous quarters as closely as possible.

| Business size | Universe | % of universe | Total sample size | % of sample |
|-------------------|-----------|---------------|----------------------|-------------|
| Overall | 4,548,843 | 100% | 20,036 | 100% |
| 0 employee (resp) | 3,366,144 | 74% | 4013 | 20% |
| 1-9 employees | 1,008,024 | 22% | 6619 | 33% |
| 10-49 employees | 144,198 | 3% | 6404 | 32% |
| 50-249 employees | 26,383 | 1% | 3000 | 15% |



Overall quotas were set by sector and region as detailed below. In order to ensure a balanced sample, these overall region and sector quotas were then allocated <u>within</u> 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% | 1496 | 7% |
| D Manufacturing (C) | 302,032 | 7% | 2090 | 11% |
| F Construction (F) | 1,017,210 | 22% | 3505 | 18% |
| G Wholesale etc. (G) | 561,689 | 12% | 2040 | 10% |
| H Hotels etc. (I) | 156,001 | 4% | 1803 | 9% |
| I Transport etc. (H&J) | 314,705 | 7% | 1815 | 9% |
| K Property/Business Services (L,M,N) | 1,194,629 | 26% | 3510 | 18% |
| N Health etc. (Q) | 279,280 | 6% | 1781 | 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% | 2413 | 12% |
| South West | 454,884 | 10% | 1817 | 9% |
| East | 454,884 | 10% | 1796 | 9% |
| East Midlands | 272,931 | 6% | 1406 | 7% |
| North East | 136,465 | 3% | 1001 | 5% |
| North West | 454,884 | 10% | 1802 | 9% |
| West Midlands | 318,419 | 7% | 1800 | 9% |
| Yorks & Humber | 318,419 | 7% | 1801 | 9% |
| Scotland | 318,419 | 7% | 1601 | 8% |
| Wales | 181,954 | 4% | 1200 | 6% |
| Northern Ireland | 136,465 | 3% | 999 | 5% |



Weighting

The weighting regime was initially applied separately to each quarter. The four most recent quarters were then combined and grossed to the total of 4,548,843 SMEs, based on BIS SME data.

This ensured that each individual wave is representative of all SMEs while the total interviews conducted in a 4 quarter period gross to the total of all SMEs.

| | | 0 | 1-49 | 50-249 | |
|----|--|--------|--------|--------|--------|
| АВ | 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% |
| Н | 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% |
| 0 | Other Community, Social and Personal Service Activities | 9.60% | 1.99% | 0.02% | 11.61% |
| | | 74.09% | 25.33% | 0.58% | |



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

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

Overall rim weights were then applied for regions:

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

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



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

| Business size | Sample size | Weighting efficiency | Effective sample size | Significant differences |
|-------------------|-------------|-------------------------|--------------------------|----------------------------|
| Overall | 20,036 | 27% | 5410 | +/- 2% |
| 0 employee (resp) | 4013 | 79% | 3170 | +/- 2% |
| 1-9 employees | 6619 | 77% | 5097 | +/- 2% |
| 10-49 employees | 6404 | 78% | 4995 | +/- 2% |
| 50-249 employees | 3000 | 82% | 2460 | +/- 3% |

Analysis techniques

CHAID (or Chi-squared Automatic Interaction Detection) is an analytical technique which uses Chi-squared significance testing to determine the most statistically significant differentiator on some target variable from a list of potential discriminators. It uses an iterative process to grow a 'decision tree', splitting each node by the most significant

differentiator to produce another series of nodes as the possible responses to the differentiator. It continues this process until either there are no more statistically significant differentiators or it reaches a specified limit. When using this analysis, we usually select the first two to three levels to be of primary interest.



This report is the largest and most detailed study of SMEs' views of bank finance ever undertaken in the UK. More importantly, this report is one of a series of quarterly reports. So not only is it based on a large enough sample for its findings to be robust, but over time the dataset has been building into a hugely valuable source of evidence about what is really happening in the SME finance market.

A report such as this can only cover the main headlines emerging from the results.

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.

