SME Finance Monitor

Q4 2014

An independent report by
BDRC Continental, February 2015

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Foreword

Welcome to the full report of the SME Finance Monitor for Q4 2014, which now includes data from interviews conducted up to the end of December 2014, a period which included more upbeat economic news across a number of metrics, but also concerns about the Eurozone.

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. In total, 15 waves of interviewing have been completed, with highlights reported quarterly and a full report now published every half year, following completion of the Q2 and Q4 fieldwork. This pattern of reporting will continue for 2015.

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.

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.

Shiona Davies
Editor, The SME Finance Monitor
February 2015

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 SME access to finance continues to provoke much debate, including the extent to which funding is needed by, 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 the new Business Bank is involved in a range of initiatives. 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 how this confidence might translate into increased activity or investment. The debate continues about the extent to which demand and 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 report is based on a total of 20,055 interviews with SMEs, conducted to YEQ4 2014, or more simply, the 4 quarters of 2014. This means that the interviews conducted in 2011 (three waves), 2012 and 2013 (4 waves respectively) 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 2014 data therefore includes the following four waves:

- January-March 2014 – 5,000 interviews conducted, referred to as Q1 2014
- April-June 2014 – 5,008 interviews conducted, referred to as Q2 2014
- July-September 2014 – 5,023 interviews conducted, referred to as Q3 2014
- October-December 2014 – 5,024 interviews conducted, referred to as Q4 2014

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 20,055 interviews is referred to as YEQ4 2014.

The majority of reporting is based on interviews conducted in the year to Q4 2014. The exceptions to this rule are:

- Where data is reported by loan or overdraft application date over time. In these instances, all applicants to date are 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 2014 report, this means such tables are based on all applications occurring in the 18 months between Q3 2013 and Q4 2014, to provide robust base sizes for each sub-group.
- Where SMEs are asked about their planned future behaviour, and typically their expectations for the next 3 months, comparisons are made between individual quarters.

The structure of the SME market is such that the overall 'All SME' figures quoted will be heavily influenced by the views of those with 0 employees, who make up three quarters of the SME population. As the views of these smallest SMEs can differ markedly from their larger peers, an 'All employers' figure is now also reported for some key questions, that is those SMEs with 1-249 employees.

A further quarter of 5,000 interviews, to the same sample structure, is being conducted January-March 2015. In 2015, full reports will be published after the Q2 and Q4 fieldwork, with shorter summaries published after the Q1 and Q3 fieldwork.

A third edition of the annual report, published at the end of April 2014, provided separate analysis at regional level for an in-depth assessment of local conditions during 2013. A new regional report is planned for April 2015, to report on local conditions during 2014.

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.

CONTEXT: SMEs continue to report a range of positive indicators about their business in terms of profitability, credit balances, injections of personal funds and risk ratings:

General context	
8 in 10 SMEs reported making a profit	78% of SMEs interviewed in Q4 2014 reported making a profit in their last trading period. This has increased steadily over time, having been 70% in Q4 2012.
More SMEs held more than £5k in credit balances	Most SMEs (95%) hold some credit balances. 37% of all SMEs held more than £5,000 in credit balances in 2014, up from 31% in 2011.
Fewer SMEs received injections of personal funds	29% of SMEs in 2014 reported an injection of personal funds, which was as likely to have been a choice (14%) as something they had to do (15%). The proportion receiving an injection of personal funds has declined over time (42% received an injection of funds in 2012).
SMEs reported fewer credit issues and an improving credit profile	7% of SMEs reported a credit issue, such as a bounced cheque, in Q4 2014. This was lower than in previous years (12% in Q4 2012). There has also been a steady decline over time in the proportion of SMEs with a 'worse than average' risk rating (from a peak of 56% in Q2 2013 to 43% in Q4 2014).

There are also a number of indicators of demand for finance remaining subdued: Use of external finance continues to decline across all sizes of SME, notably for the core forms of finance, with more SMEs meeting the definition of a Permanent non-borrower. 7 in 10 SMEs aim to pay down any existing debt and then remain debt free: a quarter of all SMEs might be described as 'debt averse' while a third would still be prepared to use external finance to help the business grow and develop:

Financial context	
Use of external finance was lower than in previous years	37% of SMEs were using external finance in 2014. This has declined steadily over time, having been 46% in 2011, with the decline seen across all sizes and risk rating of SME and across all ages of business with the exception of Starts.
Solus use of 'core' forms of finance were in notable decline	Between 2011 and 2014, use of 'core' forms of finance (loans, overdrafts and/or credit cards) declined from 39% to 29% of all SMEs. This was due primarily to a decline in the use of overdrafts (from 26% to 16%, albeit use in 2014 has stabilised). The proportion of SMEs who only use 'core' finance has also declined over this period from 29% to 20%, driving the decline in the use of finance overall. 17% of SMEs in 2014 used one or more of the other forms of finance (leasing, invoice finance etc) and their use has been more stable over time .
More SMEs were 'Permanent non-borrowers'	43% of SMEs met the definition of a 'Permanent non-borrower' in 2014 and this has increased over time, from 34% in 2011. Smaller SMEs remain more likely to be a PNB (48% of those with 0 employees in 2014) but a quarter of SMEs with 10-249 employees are PNBs.
1 in 3 SMEs received trade credit	31% of SMEs receive trade credit from their customers and two thirds of them (the equivalent of 21% of all SMEs) say that they need less external finance as a result. In a new question, a similar proportion of SMEs say that they offer trade credit to their customers, but such SMEs are less likely to say that they need more external finance as a result (a quarter, or 8% of all SMEs).

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64% of SMEs used 'business funding'	A wider definition of 'business funding' includes the receipt of trade credit and of injections of personal funds, alongside external finance. 37% of SMEs used external finance in 2014 while 64% used business funding, with the biggest uplift seen for those with 0 employees (from 32% to 60%).
7 in 10 SMEs aimed to pay down debt and remain debt free	71% of SMEs interviewed in Q3-4 2014 agreed that their aim was to pay down any existing debt and then remain debt free, and this varied little by size of business. Meanwhile 42% agreed that they would be happy to use external finance to help the business grow and develop.
27% of SMEs were 'debt averse' while 35% might borrow in the right circumstances	Combining the two statements above, 27% of all SMEs wanted to pay down debt and would not be happy to borrow to help the business grow – these might be described as 'debt averse'. 35% of all SMEs also wanted to pay down debt, but would be happy to borrow to finance growth, and so might apply in the right circumstances.

BORROWING EVENTS IN LAST 12 MONTHS: 16% of SMEs had experienced any form of borrowing ‘event’. There were fewer ‘Would-be seekers’ of finance and the proportion of ‘Happy non-seekers’ increased again:

Borrowing events	
A stable 8% applied for a new/renewed loan or overdraft	In 2014, a stable 8% of SMEs reported a Type 1 event (an application for a new/renewed loan or overdraft) in the previous 12 months. SMEs with employees were twice as likely to have had a Type 1 event as those with no employees.
16% had experienced any borrowing ‘event’	In 2014, 16% of all SMEs reported any borrowing event in the previous 12 months including the automatic renewal of an overdraft facility and this is stable over recent quarters, but lower than the 1 in 4 reporting an event when the Monitor started in 2011.
Fewer SMEs felt something had stopped them from applying	For 2014, 5% of SMEs were ‘Would-be seekers’ of finance who would have liked to apply for a loan/overdraft but felt that something stopped them. This proportion is declining over time, from 7% in Q4 2012 to 3% in Q4 2014. Discouragement (almost all of it indirect) and the process of borrowing remain the two main barriers to application for this group.
8 in 10 SMEs have been Happy non-seekers of finance	79% of SMEs were ‘Happy non-seekers’ of finance for the 12 months prior to interview in 2014. The proportion of SMEs in this group is increasing over time, from 73% in Q4 2012 to 82% in Q4 2014.

THE OUTCOME OF APPLICATIONS FOR NEW/RENEWED LOAN & OVERDRAFTS: Overall success rates and those for overdrafts and loans individually are showing improvement, including for first time applicants and those seeking new funding. 76% of all applications made in the 18 months to Q4 2014 resulted in a facility:

The outcome of applications	
76% of all applications in the last 18 months resulted in a facility	The success rate for new/renewed loan and overdraft facilities has improved over time. 76% of applicants ended the process with a facility in the 18 months to Q4 2014, compared to 67% for the 18 months to Q4 2013.
Success rates for new money improved	Almost all loan/overdraft renewal applications have been successful (99% for the 18 months to Q4 2014) and this has changed little over time. Success rates for new money remained somewhat lower (62% for the 18 months to Q4 2014) but have improved steadily since Q3 2013. As before, those borrowing for the first time were less likely to have been successful (57% for applications to date in 2014) than those who had borrowed before (73%) but success rates for both groups are higher in 2014 to date than in 2013.
8 in 10 overdraft applicants were successful and success rates improved	81% of overdraft applications made in the 18 months to Q4 2014 resulted in a facility (70% were offered what they wanted and took it while 11% had their facility ‘after issues’). The proportion of overdraft applicants who are successful has improved steadily over time (it was 74% for the 18 months to Q4 2013). Analysis of the SMEs applying showed that this improvement is not due to changes in the type of SMEs applying and that actual success rates are currently running ahead of the predicted success rates for such applicants.
Two thirds of loan applicants were successful and this also improved over time	65% of loan applications made in the 18 months to Q4 2014 resulted in a facility (49% were offered what they wanted and took it while 16% had their facility ‘after issues’). The proportion of loan applicants who are successful has also improved steadily over time (it was 58% for the 18 months to Q4 2013). Analysis of the SMEs applying showed that this improvement is partly due to changes in the type of SMEs applying - actual success rates were ahead of the predicted success rates for such applicants in 2 of the last 4 quarters.

THE FUTURE: The economic climate is a decreasing barrier, as is access to finance. Future appetite for finance remains flat but where an application is planned SMEs are more confident that their bank will agree to lend (albeit not as confident as current success rates indicate), and more aware of various initiatives to help them. Fewer SMEs think they will be 'would-be seekers' of finance which leaves most, as before, to be 'Happy non-seekers' of finance:

Looking ahead	
A declining proportion of SMEs saw the economic climate as a major barrier	In Q4 2014, 14% of SMEs rated the current economic climate as a major obstacle to their business. This has declined steadily over time, from a peak of 37% in Q1 2012. Amongst those with employees 'legislation and regulation' is now as likely to be seen as a major obstacle as the economic climate.
Fewer SMEs saw access to finance as a barrier	6% of all SMEs rated access to finance as a major obstacle in Q4 2014, from 12% in Q1 2013. It is now as much of an obstacle as recruiting and retaining staff and less of an obstacle than political uncertainty/future government policy (9%). It was more likely to be rated as a major obstacle by those SMEs with any future appetite for finance (13%) but this is also lower than seen previously (it was 27% in Q1 2013).
4 in 10 SMEs expected to grow	43% of SMEs expected to grow in the next 12 months and growth expectations have been fairly stable over time. Larger SMEs have become more likely to be planning to grow while the proportion of those with 0 employees planning to grow has been lower and more volatile.
6 in 10 SMEs neither used external finance nor planned to apply for any	13% of SMEs planned to apply for new/renewed finance in the 3 months after Q4 2014 and future appetite for finance has changed little over recent waves. In Q4 2014, 61% of SMEs neither used external finance nor had any plans to apply for any and this proportion has increased steadily over time, having been 50% in 2011.

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Confidence of success increased amongst future applicants but the confidence 'gap' remained	Amongst those planning to apply in the next 3 months, 54% were confident that the bank would agree, one of the highest levels of confidence to date. There remains a gap between confidence and actual success rates for both renewals (62% confident versus a current success rate of 99%) and for new money (46% confident versus a current success rate of 62%).
The economic climate remained a key barrier for the small group of 'Future would-be seekers'	12% of SMEs in Q4 2014 were 'Future would-be seekers' and this group is decreasing in size over time (in Q4 2012, 21% of SMEs were FWBS). 6 in 10 'Future would-be seekers' cited the current economic climate as the main barrier to them applying for finance, compared to 1 in 10 who felt discouraged from applying (almost all of it indirect).
Three quarters of SMEs expected to be 'Happy non-seekers' of finance	In Q4 2014, 75% of SMEs expected to be 'Happy non-seekers' of finance in the following 3 months. Over time, more SMEs have met this definition – in Q4 2012, 65% were 'Future happy non-seekers'.
Awareness of crowd funding continued to increase	27% of SMEs (excluding the Permanent non-borrowers) in 2014 were aware of crowd funding, including 1% who were using this form of finance. Awareness increased during 2014, both overall (from 18% in Q1 to 32% in Q4) and amongst those planning to apply for finance (from 25% to 45%).
Consideration of crowd funding was also up	8% of SMEs (excluding the PNBs) said that they would consider using crowd funding in the future, the equivalent of around 3 in 10 of those aware of this form of funding. Consideration increased overall from 5% to 10% across 2014, and is higher amongst those planning to apply for finance (15% for 2014).
Half of SMEs were aware of specific finance initiatives/bodies	A quarter of SMEs (28%) believed they were aware of any government or other initiatives to help SMEs access finance. Once prompted with 5 specific schemes/bodies, awareness increased to 47%. Larger SMEs were more likely to be aware (62% of those with 50-249 employees) as were those planning to apply for external finance in the next 3 months (61%).
Awareness over time of specific initiatives changed relatively little	Across all the initiatives tested in Q4 2014, individual awareness was highest for Start-up Loans (34%) and the Funding for Lending Scheme (24%). Where initiatives have been tracked over time, awareness is typically stable as is the proportion of SMEs contacted by banks to express a willingness to lend.

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 14% 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 of each sector, from 4% (Hotels & Restaurants) to 26% (Property/Business Services) of all SMEs, and the proportion in each sector that are 0 employee SMEs.

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

Analysis over time

This report is based predominantly on four waves of data gathered across 2014. 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 2014 in this report). This provides a robust sample size and allows for analysis by key sub-groups such as size, sector or external risk rating.

Each report also comments on changes in demand for credit and the outcome of applications over time. Here, it is more appropriate to analyse results based on when the **application** was made, rather than when the interview was conducted. Final data is now available for any applications made from 2010 up to and including Q4 2013 but for other more recent quarters data is still being gathered. Results for events occurring from Q1 2014 onwards are therefore still *interim* at this stage (respondents interviewed in Q1 2015 will report on events which occurred in Q1 2014 or later).

Where analysis is shown by date of application, this typically includes all interviews to date (including those conducted in 2011, 2012, and 2013 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 2014 report, this means such tables are based on all applications occurring in the 18 months between Q3 2013 and Q4 2014 to ensure a robust base size for analysis.

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

Not *all* of the previous quarters are shown in the standard quarterly tables in this report. Data from 2011 and for quarters 1-3 of 2012 is no longer routinely 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 2013 report and are shown in the final chapter of this report. These show, and will continue to show, all results over time for these key metrics.

Definitions used in this report

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

4. The general context

This chapter presents

an overview of the characteristics of SMEs in the UK. Unless otherwise stated, figures are based on all interviews conducted in the year ending Q4 2014 (YEQ4 14).

Key findings

There are a number of positive indicators for SMEs:

An increasing proportion of SMEs reported making a profit. In Q4 2014, 78% reported making a profit up from 70% in Q4 2012. The median profit made is stable at £8,000. The proportion reporting a loss has also declined somewhat over the period

Most SMEs hold credit balances (5% do not hold any). The proportion holding more than £5,000 has increased over time, from 31% in 2011 to 37% in 2014

A small and declining proportion of SMEs reported a credit issue such as an unauthorised overdraft or bounced cheque (7% in Q4 2014 from 12% in Q4 2012) and fewer SMEs have a 'worse than average' external risk rating (43% in Q4 2014 from a peak of 56% in Q2 2013)

The proportion of SMEs that plan remained stable at just over half of all SMEs while the proportion that trade internationally has increased somewhat from 10% in 2012 to 16% for 2014. Most exporters, 71%, reported that overseas sales made up a quarter or less of their total sales turnover

This chapter presents an overview of the characteristics of SMEs in the UK. Unless otherwise stated, figures are based on the 20,055 interviews conducted in the year ending Q4 2014 (that is Q1 to Q4 of 2014). There were a number of trading challenges when the survey started in 2011, and analysis of this data over time provides an indication of how SMEs have managed and continue to manage as conditions start to improve.

Profitability

In Q4 2014, 72% of SMEs reported making a profit in their most recent trading period, maintaining the improvement seen since 2013, when around 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 reports the proportion that made a profit once those 'don't know' answers had been excluded. On this basis there has been an increase in the proportion of SMEs reporting a profit over the past year and in Q4 2014 itself 78% of SMEs (excluding the DK/refused answers) were profitable, the highest level seen to date. 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.

Business performance last 12 months over time By date of interview	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014
Unweighted base:	*5000*	*5000*	*5000*	*5008*	*5028*	*5000*	*5008*	*5023*	*5024*
Made a profit	64%	64%	64%	65%	69%	69%	71%	73%	72%
Broke even	13%	13%	13%	13%	11%	13%	11%	10%	11%
Made a loss	14%	15%	16%	15%	13%	10%	12%	12%	10%
Dk/refused	9%	7%	8%	7%	6%	9%	6%	6%	8%
Median profit made	*£6k*	*£7k*	*£7k*	*£8k*	*£8k*	*£7k*	*£9k*	*£8k*	*£9k*
Made profit (excl DK)	*70%*	*69%*	*69%*	*69%*	*74%*	*75%*	*76%*	*77%*	*78%*

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

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. In Q4 2014, the median profit made was £9,000, in line with recent quarters but marginally higher than 2013, and the median loss remained just under £2,000, with little change over time.

For the period YEQ4 2014, 71% of all SMEs had been profitable, increasing by size of SME as the table below shows. The median profit, where made, was £8k, and also increased by size of SME:

Business performance last 12 months YEQ4 14 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*20,055*	*4007*	*6618*	*6425*	*3005*
Made a profit	71%	70%	75%	79%	78%
Broke even	11%	12%	9%	6%	5%
Made a loss	11%	11%	9%	7%	5%
Dk/refused	7%	7%	7%	8%	12%
Median profit made	*£8k*	*£7k*	*£14k*	*£53k*	*£241k*
Made profit (excl DK)	*77%*	*75%*	*81%*	*86%*	*88%*

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

Once the 'Don't know / refused' answers were excluded, 77% of remaining SMEs reported making a profit in the previous 12 months (YEQ4 2014), up from 70% for 2013 as a whole. This increase was seen across all size bands, and amongst smaller SMEs in particular:

- 69% of 0 employee SMEs made a profit in 2013 compared to 75% in 2014
- 1-9 employee SMEs: 75% made a profit in 2013 compared to 81% in 2014
- 10-49 employee SMEs: 81% made a profit in 2013 compared to 86% in 2014
- 50-249 employee SMEs: 84% made a profit in 2013 compared to 88% in 2014

Amongst SMEs with employees, 81% reported making a profit in 2014 (once the DK and refused answers were excluded), up from 76% in 2013.

Over time, larger SMEs have remained consistently more likely to be profitable than smaller ones. Compared to the equivalent quarters of 2012 and 2013, SMEs with fewer than 10 employees were more likely to report a profit in Q4 2014 than in either of these earlier quarters:

Made a profit in last 12 months	By date of interview								
Over time – row percentages	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014
All SMEs	64%	64%	64%	65%	69%	69%	71%	73%	72%
0 employee	62%	62%	62%	63%	68%	67%	69%	72%	71%
1-9 employees	66%	69%	68%	69%	70%	73%	75%	77%	75%
10-49 employees	71%	74%	74%	74%	78%	79%	80%	76%	79%
50-249 employees	75%	77%	76%	76%	79%	81%	77%	79%	75%

Q241 All SMEs

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

Business performance last 12 months YEQ4 14 – all SMEs	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*1511*	*2099*	*3521*	*2031*	*1785*	*1811*	*3512*	*1779*	*2006*
Made a profit	75%	75%	72%	69%	67%	71%	75%	71%	63%
Broke even	9%	8%	12%	11%	12%	11%	10%	12%	16%
Made a loss	11%	11%	9%	13%	13%	12%	9%	10%	15%
Dk/refused	5%	7%	8%	8%	9%	6%	7%	7%	6%
Median profit made	*£9k*	*£8k*	*£8k*	*£9k*	*£10k*	*£7k*	*£10k*	*£5k*	*£8k*
Made profit (excl DK)	*79%*	*80%*	*78%*	*74%*	*73%*	*76%*	*80%*	*76%*	*67%*

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

Median profits for YEQ4 2014 varied relatively little by sector, from £10k for profitable SMEs in Hotels & Restaurants and Property/Business Services, to £5k for profitable SMEs in Health, with little change over time. Reported median losses for YEQ4 2014 were £2k overall and between £1k and £2k for all sectors, with the exception of those who reported making a loss in the Hotels & Restaurants sector (£3k).

As overall, almost all sectors were more likely to report a profit in 2014 compared to 2013 (once the Dk/refused answers were excluded). The proportion of profitable SMEs in Construction increased from 68% to 78% and there was a similar percentage point increase amongst SMEs in Transport (66% to 76%). Only SMEs in the Other Community sector were less likely to report making a profit (73% in 2013, 67% in 2014).

Sales growth

From Q4 2012, all SMEs that had been trading for 3 years or more were asked 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 has remained stable at 4 in 10 since Q4 2013, with no apparent seasonal element in 2014:

Growth achieved in last 12 months – all SMEs excluding Starts By date of interview	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014
Unweighted base:	*4264*	*4311*	*4295*	*4288*	*4331*	*4254*	*4005*	*4074*	*4046*
Grown by more than 20%	12%	12%	14%	10%	13%	11%	15%	14%	12%
Grown but by less than 20%	25%	27%	30%	26%	28%	30%	27%	28%	30%
Grown	*37%*	*39%*	*44%*	*36%*	*41%*	*41%*	*42%*	*42%*	*42%*
Stayed the same	42%	40%	40%	43%	42%	45%	43%	45%	44%
Declined	21%	21%	17%	21%	17%	14%	15%	13%	14%

Q245a All SMEs trading for 3 years or more excl DK

For the period YEQ4 2014:

- 13% 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 12% and 16%)
- 29% had grown but by less than 20%, and this was more likely amongst larger SMEs (27% for those with 0 employees to 49% of those with 50-249 employees)
- This means that for YEQ4 2014, 42% of SMEs reported having grown at all in the previous 12 months, ranging from 39% of those with 0 employees to 61% of those with 50-249 employees
- 44% had stayed the same size, and this was more likely for smaller SMEs (46% for those with 0 employees to 33% of those with 50-249 employees)
- 14% had got smaller, and this was also slightly more common for smaller SMEs (15% for those with 0 employees to 6% of those with 50-249 employees)

Amongst those who reported for YEQ4 2014 that they had grown by 20% or more, just over half (57%) said that they had also achieved this level of growth for each of the two previous years, and this increased slightly by size (56% for 0 employee SMEs to 62% of those with 50-249 employees). This is the equivalent of 7% 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 expectations recorded from 2011 onwards and growth subsequently achieved, albeit that these are **different** samples of SMEs and so this is not a direct comparison between prediction and achievement.

The table below shows the proportion of SMEs 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 (by a different sample of SMEs).

In Q3 2013, 41% of SMEs 3+ years old *predicted* that they would grow in the next 12 months. In Q4 2014 almost the same proportion, 42%, (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 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%	41%	38%	40%	57%	55%
Predicted Q1 13 / Achieved Q2 14	41%	42%	41%	42%	56%	55%
Predicted Q2 13 / Achieved Q3 14	47%	42%	47%	42%	58%	60%
Predicted Q3 13 / Achieved Q4 14	41%	42%	40%	41%	61%	56%
Predicted Q4 13 / Achieved Q1 15	44%		43%		65%	

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

The analysis reported above shows that since Q4 2013, the growth achieved has been close to that predicted for both larger and smaller SMEs. In the most recent period, 41% of SMEs with 0-9 employees reported that they had grown, compared to a prediction of 40%, while for those with 10-249 employees performance was slightly lower, at 56%, than had been predicted (61%), albeit these larger SMEs were still more likely to have grown than the smaller ones.

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 (8% YEQ4 2014):

Self-reported credit issues YEQ4 14 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*20,055*	*4007*	*6618*	*6425*	*3005*
Unauthorised overdraft on account	4%	4%	4%	3%	1%
Had cheques bounced on account	3%	3%	4%	4%	3%
Problems getting trade credit	1%	1%	2%	2%	2%
Missed a loan repayment	1%	1%	1%	1%	*
Had County Court Judgement against them	1%	*	1%	1%	1%
Any of these	*8%*	*8%*	*9%*	*7%*	*5%*

Q224 All SMEs

Despite the economic conditions in recent years, SMEs have 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 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014
Total	12%	11%	10%	9%	10%	7%	9%	9%	7%
0 employee	12%	10%	9%	9%	9%	6%	9%	9%	7%
1-9 employees	12%	12%	13%	12%	13%	10%	9%	10%	7%
10-49 employees	10%	10%	8%	8%	8%	7%	6%	11%	5%
50-249 employees	7%	9%	7%	6%	7%	5%	4%	5%	6%

Q224 All SMEs

The second assessment of financial risk is the external risk rating supplied by ratings agencies Dun & Bradstreet and Experian. They use a range of business information to predict the likelihood of business failure and 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 (86%) 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 is shown below. Across the period up to Q2 2013 an increasing proportion of SMEs had a 'worse than average' external risk rating, reaching 56% in that quarter. Since then, the proportion with that rating has declined steadily, to 43% in Q4 2014. There have been slight increases over the period in those rated a low or average risk:

External risk rating (where provided) over time By date of interview	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014
Unweighted base:	*4545*	*4630*	*4535*	*4490*	*4528*	*4530*	*4607*	*4609*	*4584*
Minimal risk	5%	6%	5%	6%	7%	7%	7%	7%	8%
Low risk	9%	10%	10%	10%	11%	13%	16%	15%	17%
Average risk	32%	28%	29%	30%	31%	34%	30%	33%	33%
Worse than average risk	53%	55%	56%	54%	52%	47%	47%	45%	43%

All SMEs where risk rating provided

From Q3 2014, the SME Finance Monitor has included a number of attitude statements around Access to Finance, which are reported together in the chapter on Financial Context. One of these statements asked SMEs if they knew what their external risk rating was as a business. Across Q3 and Q4 2014 combined, 50% of SMEs agreed that they did, increasing by size of business from 47% of those with 0 employees to 70% of those with 50-249 employees.

SMEs with a minimal external risk rating were slightly more likely to say they were aware of their rating (54%) but there was relatively little variation by actual risk rating, with the least likely to be aware those with an 'average' external risk rating (48%). Those aware of their risk rating are no more likely to be using external finance (39% v 38% of all SMEs Q3-4) but they are more likely to plan (62% v 54% of all SMEs Q3-4) and are slightly more likely to have someone trained in charge of the finances (28% v 26%).

The overall YEQ4 2014 ratings are shown below by size of SME, and continued to report a better risk profile for larger SMEs:

External risk rating YEQ4 14 – all SMEs where rating provided	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*18,330*	*3356*	*5814*	*6238*	*2922*
Minimal risk	7%	5%	10%	21%	35%
Low risk	15%	11%	23%	41%	35%
Average risk	32%	34%	30%	26%	21%
Worse than average risk	45%	50%	37%	11%	9%

All SMEs where risk rating provided

Amongst SMEs with employees, 38% have a minimal or low external risk rating, 29% an average risk rating and 33% a worse than average risk rating.

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 2014 46% of SMEs with no employees had such a rating. This is the lowest level seen to date and down from 57% in the equivalent quarter of 2013. Over time, fewer SMEs in each size band have had a 'worse than average' external risk rating:

Worse than average external risk rating – row percentages By date of interview	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014
Total	53%	55%	56%	54%	52%	47%	47%	45%	43%
0 employee	58%	62%	61%	59%	57%	51%	52%	50%	46%
1-9 employees	45%	41%	46%	43%	43%	38%	37%	35%	37%
10-49 employees	18%	17%	17%	17%	18%	15%	10%	10%	9%
50-249 employees	13%	16%	15%	13%	14%	12%	11%	6%	8%

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 (59% YEQ4 2014) while those in Construction (15%) and Transport (13%) were the least likely to have such a rating:

External risk rating YEQ4 14	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*1249*	*1985*	*3204*	*1876*	*1648*	*1644*	*3265*	*1611*	*1848*
Minimal risk	36%	9%	4%	6%	4%	4%	7%	11%	5%
Low risk	23%	19%	11%	18%	19%	9%	14%	26%	17%
Average risk	19%	32%	31%	34%	29%	32%	35%	29%	37%
Worse than average risk	22%	40%	54%	43%	49%	56%	45%	34%	41%
Total Min/Low	*59%*	*28%*	*15%*	*24%*	*23%*	*13%*	*21%*	*37%*	*22%*

All SMEs where risk rating provided

As already reported, 50% of all SMEs interviewed across Q3 and Q4 2014 agreed that they were aware of their external risk rating. This varied relatively little by sector with the exception of those in the Other Community (40%) and Health (41%) sectors. Otherwise awareness ranged from 49% to 56%, with those in Manufacturing the most likely to say they knew their risk rating.

When the two types of risk rating reported above were compared, those with a worse than average risk rating were somewhat more likely to self-report a credit problem (10% v 5% of SMEs with a minimal external risk rating).

Credit balances

Almost all SMEs reported holding some credit balances. In 2014, 5% 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	2014
Unweighted base:	*11,652*	*15,020*	*14,752*	*13,039*
None	6%	4%	4%	5%
Less than £5,000	63%	66%	64%	58%
£5,000 to £50,000	27%	25%	27%	31%
More than £50,000	5%	5%	4%	6%
Average balance held	*£26k*	*£25k*	*£24k*	*£31k*

Q244 All SMEs excluding DK/refused

The majority of SMEs said that they typically held less than £5,000 in credit balances (58% in 2014), and this continued to be driven by the smaller SMEs. In 2014, 65% of 0 employee SMEs held less than £5,000 in credit balances, compared to 8% of those with 50-249 employees.

The proportion of all SMEs holding credit balances below £5,000 has declined over time from 66% in 2012, to 64% in 2013 and 58% for 2014.

Prior to 2014, a consistent one in three SMEs held more than £5,000 in credit balances (31% in 2013). For 2014, 37% of SMEs said that they held more than £5,000 in credit balances, with a resultant increase in the average balance held, to £31,000.

The table below shows the proportion of SMEs holding more than £5,000 in credit balances, and how this has increased across all sizes of SME in 2014, notably for the smaller ones. Larger SMEs remained more likely to hold credit balances in excess of £5,000:

£5,000+ Credit balances held Over time – all SMEs	2011	2012	2013	2014
0 employee	24%	22%	24%	30%
1-9 employees	50%	50%	52%	58%
10-49 employees	74%	75%	77%	79%
50-249 employees	79%	80%	85%	87%

Q244 All SMEs excluding DK/refused

The median value of credit balances held has increased slightly across 2014, from just under to just over £2,000. The amount continued to vary by size of SME, and for YEQ4 2014 was:

- £1,800 for 0 employee SMEs
- £5,200 for 1-9 employee SMEs
- £30,000 for 10-49 employee SMEs
- £159,000 for 50-249 employee SMEs

The median value of credit balances varied little by sector (£2-3k).

The next chapter reports that 16% of all SMEs have an overdraft facility (YEQ4 14). SMEs that held no credit balances were slightly less likely to have an overdraft facility (14%). The most likely to have an overdraft were SMEs with less than £5000 in credit balances (18% had an overdraft facility), declining by size of credit balance held to 11% of those with more than £50,000 in credit balances.

Excluding the 0 employee SMEs increases the proportion with no credit balances who have an overdraft to 21%. The most likely to have an overdraft remained those with less than £5,000 in credit balances (33%) declining to 15% of those with more than £50,000 in credit balances having an overdraft.

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 the proportion of SMEs undertaking these various activities, over time:

Business formality elements Over time – all SMEs By date of interview	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014
Unweighted base:	***5000***	***5000***	***5000***	***5008***	***5028***	***5000***	***5008***	***5023***	***5024***
Planning (any)	50%	54%	57%	59%	49%	53%	56%	55%	54%
- Produce regular management accounts	*38%*	*40%*	*45%*	*46%*	*38%*	*42%*	*44%*	*41%*	*41%*
- Have a formal written business plan	*29%*	*32%*	*34%*	*34%*	*27%*	*31%*	*33%*	*32%*	*33%*
International (any)	9%	10%	13%	14%	15%	15%	16%	17%	15%
*– Export goods or services**	*5%*	*6%*	*8%*	*8%*	*9%*	*9%*	*9%*	*11%*	*9%*
*- Import goods or services**	*6%*	*7%*	*9%*	*11%*	*11%*	*10%*	*11%*	*11%*	*11%*
Have qualified person in charge of finances	27%	24%	26%	27%	26%	29%	28%	27%	25%

Q223/251 All SMEs

The table below provides further analysis by key demographics:

Business Formality	Further analysis
Planning	Planning levels have been stable across 2014. The larger the SME the more likely they were to plan (YEQ4 2014 48% of those with 0 employees to 93% of those with 50-249 employees).
International	15% were undertaking international activity in Q4 2014, maintaining the improvement seen over time (for 2012 as a whole, 10% of SMEs were international, increasing to 16% for 2014 as a whole).
Financial specialist	The proportion of SMEs with a financially qualified person looking after their finances has remained relatively stable, and was 27% for 2014 as a whole. The larger the SME, the more likely they were to have a financial specialist, ranging from 24% of 0 employee companies to 75% of those with 50-249 employees. Where such a person was in charge of the finances, SMEs were somewhat more likely to plan (62% v 51% of those where there was no financial specialist), as was also the case in 2013 (65% v 51%).
Excluding the 0 employees	YEQ4 2014, the smallest SMEs remained less likely to plan or to undertake international trade. When the 0 employee businesses are excluded, the proportion of SMEs (with employees): • Who plan increased to 72% (from 54%) • Who have a qualified person in charge of the finances increased to 37% (from 27%) • Who trade internationally increased to 23% (from 15% overall).
Sector analysis	YEQ4 2014, planning ranged from 67% in the Hotels & Restaurants sector and 66% in Wholesale/Retail, to 45% in Construction. International activity remained most common in the Wholesale/Retail (27%) and Manufacturing (26%) sectors. The least likely to undertake international activity were those in the Construction sector (6%).

A further question sought to understand how important international trade was to a business. From Q4 2012, this was asked of exporters only and from Q2 2014 additional granularity has been provided, reported for the first time below, with 7 out of 10 exporters reporting that less than a quarter of their total sales come from overseas:

Percentage of turnover as sales overseas - all SMEs Q2 14 - Q4 14	All	0-9 emps	10-249 emps
Unweighted base:	*2256*	*737*	*1519*
Less than 25% of sales overseas	71%	71%	65%
25-50%	13%	12%	20%
51-75%	8%	8%	10%
76-100% of sales overseas	8%	9%	5%
Average proportion	*26%*	*26%*	*27%*

Q223x All SMEs who export, excluding DK/refused

16% of exporters said that international trade made up 50% or more of sales. This is a declining trend: in both 2012 and 2013 around 1 in 4 exporters said that exporting made up 50% or more of sales, whereas in 2014 the figure is closer to 1 in 6.

10% of all SMEs export. The equivalent of 2% of all SMEs reported that exports made up 50% or more of their sales, while the equivalent of 8% said that exports made up less than 50% of their sales. 90% of all SMEs do not export.

All SMEs were asked whether they used online banking. YEQ4 2014, 6 in 10 did (59%), increasing with size:

- 57% of 0 employee businesses use online banking
- 63% of those with 1-9 employees
- 72% of those with 10-49 employees
- 78% of those with 50-249 employees

In Q3 and Q4 2014, SMEs were asked whether they submitted invoices electronically over the internet in a format that could be processed automatically. 27% said that they used such a system, down slightly from the 33% when this question was last asked in Q2 and Q3 2013.

New questions were asked in Q1 and Q2 2014 about whether SMEs had taken any form of professional advice for their business (20% had), or whether the business holds intellectual property or other knowledge assets on its balance sheet such as patents, copyrights, trademarks or goodwill (6% did). The questions were not asked in Q3 and Q4 2014 but will be asked again in Q1 and Q2 2015.

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 2014 a fifth of SMEs (21%) said that this was the case (excluding DK answers). This is slightly lower than in 2013, when 24% of SMEs said that they belonged to a business group, a decline seen across all sizes of SME.

Business Groups	Further analysis
By size of SME	Membership was higher amongst larger SMEs: • 20% of 0 employee businesses belong to a group/body • 22% of 1-9 employee businesses • 28% of 10-49 employee businesses • 34% of 50-249 employee businesses.
By external risk rating	There was relatively little difference by risk rating: SMEs with a worse than average external risk rating were slightly less likely to belong to such groups (19%), while those with a minimal risk rating were somewhat more likely (24%).
By sector	The most likely to belong to such groups remained those in the Health sector (30%) and Property/Business Services (23%) while those in Transport remained less likely (14%).
PNBs and those using external finance	Those currently using external finance were slightly more likely to belong to such groups (23%) than those that did not use external finance (19%). There was little difference by whether the SME met the definition of a 'Permanent non-borrower' or not (19% v 22% if not a PNB).
Other demographics	There was also little variation by age of business (20-22%). Those who had someone in charge of the finances who was qualified were more likely to belong to a business group (26% v 19%).

Business Ownership

63% of *companies* have one owner, ranging from 82% of 0 employee companies to 28% of those with 50-249 employees. This means that of *all* SMEs, 82% are either sole proprietorships or companies with one owner.

A new, broader, question asked from Q2 2013 explored the extent to which the owner of the SME was also involved in other businesses. For YEQ4 2014:

- 87% reported that this was the only business the owner was involved in, managerially or strategically, decreasing with size from 89% of 0 employee SMEs, to 65% of those with 50-249 employees.
- 10% reported that the owner currently ran another business as well (8% amongst 0 employee SMEs increasing to 24% amongst those with 50-249 employees). Such businesses were somewhat more likely to be using external finance (45%) and/or to have had a borrowing event (22%).
- 3% reported that the owner had set up and run a business before (with little variation by size). These SMEs were also more likely to be using external finance (50%), or to have had a borrowing event (25%) and were less likely to be a 'Permanent non-borrower' (27%).
- 1% said the owner had provided funds for another business in the past few years, again with little variation by size of SME. This small group were also more likely to be using external finance (64%), or to have had a borrowing event (26%) and were less likely to be a 'Permanent non-borrower' (16%).

In a new question asked from Q3 2014, SMEs with employees were asked whether theirs was a family business, and if not, the broad ownership structure. Initial results for Q3-4 2014 are:

- 74% have no employees (so are not asked the question)
- 18% have employees and are family owned
- 4% have employees and are owned by directors/partners
- 3% have employees and are owned by the founder who works in the business
- 1% have employees and are owned in some other way

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 and trade credit within a business.

Key findings

In 2014, 37% of SMEs used any of the forms of external finance specified. Use of external finance has declined over time. In 2011, 46% of all SMEs used external finance and the subsequent decline to 37% in 2014 has been seen across all sizes and risk ratings of SMEs. Usage has also declined by age of business, with the exception of Starts

Use of 'core' forms of finance (loans, overdrafts and/or credit cards) has declined from 39% of all SMEs in 2011 to 29% in 2014, as the use of overdrafts has declined (from 26% to 16% over the same period, although use in 2014 itself has been relatively stable). The proportion of SMEs saying that they only use 'core' forms of finance has also declined (from 29% in 2011 to 20% in 2014) and it is this that appears to be driving the overall decline in use of external finance

17% of SMEs used one or more of the other forms of finance specified (such as leasing or invoice finance) and this has remained broadly stable over time

29% of SMEs interviewed in 2014 reported an injection of personal funds into the business in the previous year with as many saying they chose to do so (14%) as felt they had no choice (15%). Starts and SMEs with fewer than 10 employees remained more likely to report an injection of funds but the trend over time is for fewer such injections to be reported (42% of all SMEs in 2012 to 29% in 2014)

In 2014, 31% of SMEs said that they received trade credit from their suppliers. The same proportion (31%) interviewed in Q3-Q4 2014 said that they offered trade credit to their customers. Receiving trade credit is more likely to reduce the need for external finance than offering trade credit is to increase the need for external finance

A new wider definition of 'business funding' includes injections of personal funds and receipt of trade credit alongside use of external finance. While 37% of SMEs used external finance, 64% used 'business funding' and the 0 employee SMEs saw the biggest 'uplift' when this revised definition was applied (from 32% to 60%)

As the proportion using external finance declines, more SMEs are meeting the definition of a 'Permanent non-borrower' - those SMEs who are not borrowing, or applying for borrowing and who seem by the answers they provide to be unlikely to borrow in the near future. 43% of SMEs met the definition of a PNB in 2014, up from 34% in 2011. Smaller SMEs remained more likely to be a PNB (48% with 0 employees and 33% with 1-9 employees) but a quarter of larger SMEs (10-249 employees) met the PNB definition in 2014

Asked about their attitudes to using finance in the business, 71% of SMEs interviewed in Q3 and Q4 2014 agreed that they aim to repay existing debt and then be debt free, and this varied very little by size of business. Meanwhile 42% would be happy to use external finance to help the business grow and develop. Taking these two questions together, a quarter of SMEs (27%) appear debt averse (they aim to be debt free and would not be happy to use external finance to help the business grow) while a third (35%) might borrow in the right circumstances (they aim to be debt free but would be happy to use external finance to help the business grow)

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 2014 was 37%, having been 41% for 2013 as a whole.

Analysis by quarter showed use of external finance in Q4 2014 itself was 36%, broadly in line with the other quarters of 2014, but somewhat lower than the equivalent quarters of both 2012 and 2013:

Use of external finance in last 5 years Over time – all SMEs By date of interview	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014
Unweighted base:	*5000*	*5000*	*5000*	*5008*	*5028*	*5000*	*5008*	*5023*	*5024*
Use now	41%	39%	43%	41%	40%	33%	39%	40%	36%
Used in past but not now	5%	4%	3%	3%	3%	3%	3%	3%	3%
Not used at all	54%	57%	54%	56%	57%	64%	58%	58%	62%

Q14/15 All SMEs

There remain clear differences in the use of external finance by size of SME. In Q4 2014 SMEs with 50-249 employees were once again twice as likely to be using external finance as those with 0 employees:

Currently use external finance Over time – all SMEs By date of interview – row percentages	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014
All	41%	39%	43%	41%	40%	33%	39%	40%	36%
0 emp	37%	33%	38%	35%	35%	26%	35%	35%	32%
1-9 emps	53%	52%	57%	57%	53%	50%	50%	53%	44%
10-49 emps	65%	69%	67%	67%	65%	66%	59%	64%	55%
50-249 emps	68%	73%	73%	74%	74%	61%	64%	65%	61%

Q14/15 All SMEs , base varies slightly each quarter

Use of external finance has declined across the 4 years for which the SME Finance Monitor can provide data. Since 2011, when 46% of all SMEs used external finance, use of finance has fallen year by year (44% in 2012, 41% in 2013) to 37% for 2014. This is a 20% decrease in the use of external finance with similar levels of decrease seen in each size band:

- Over the same 2011-2014 time period, use of external finance amongst those with 0 employees fell from 41% to 32%
- For those with 1-9 employees it fell from 60% to 49%
- For those with 10-49 employees it fell from 74% to 61%
- For those with 50-249 employees it fell from 78% to 63%

There has also been a marked decline in the use of finance amongst businesses 2-5 years old (46% in 2011 to 33% for 2014), and amongst older businesses (52% for businesses trading for 10 years or more in 2011, to 40% in 2014). Amongst Starts however, use of external finance did not decline in 2014: having been 36% in 2011 it fell to 32% in 2013 but for 2014, 35% reported using external finance.

Overall for YEQ4 2014, more use was made of external finance by SMEs with a minimal (44%) or low (40%) external risk rating, than by those with an average (36%) or worse than average rating (35%). The table below shows use of finance by risk rating for each quarter, with relatively little variation in use of finance by risk rating for Q4 2014 itself:

Currently use external finance Over time – all SMEs By date of interview – row percentages	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014
All	41%	39%	43%	41%	40%	33%	39%	40%	36%
Minimal	57%	51%	59%	46%	46%	44%	51%	46%	35%
Low	51%	52%	48%	55%	48%	45%	44%	36%	37%
Average	45%	42%	43%	43%	40%	33%	38%	40%	33%
Worse than average	37%	35%	41%	40%	37%	28%	36%	39%	37%

Q14/15 All SMEs , base varies slightly each quarter

Analysis over time shows that, as overall, there has been around a 20% decline in use of external finance for all external risk ratings:

- From 55% in 2011 to 44% in 2014 for those with a minimal risk rating
- From 54% to 40% for those with a low risk rating
- From 46% to 36% for those with an average risk rating
- From 44% to 35% for those with a worse than average risk rating.

By sector, for YEQ4 2014 the most likely to be using external finance remained SMEs in the Wholesale/Retail (50%) and Manufacturing (44%). The least likely to be using external finance was the Health sector (28%).

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 in 2014, 77% of credit card users reported that they usually paid off the balance on their card in full each month (excl DK answers), so these businesses were not necessarily using their card as a source of finance, but as a payment mechanism. The proportion typically paying off the balance has changed very little over time (it was 79% for Q2-Q3 2013).

6% of SMEs only use credit cards of all the forms of external finance reported. 81% of this group say that they usually pay off the balance each month. This is the equivalent of 5% of all SMEs who might be considered not to be using external finance, given that they use only credit cards and typically pay the balance off each month.

Analysis of 'core' forms of finance showed that the use of overdrafts has stabilised recently, having declined longer term. (In 2011, 26% of SMEs had an overdraft). Overall use of *any* of these three forms of external finance was 28% in Q4 2014, continuing the longer term trend of declining use of these forms of finance as reported below:

Use of external finance Over time – all SMEs By date of interview	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014
Unweighted base:	*5000*	*5000*	*5000*	*5008*	*5028*	*5000*	*5008*	*5023*	*5024*
Bank overdraft	20%	19%	18%	16%	18%	14%	18%	17%	16%
Bank loan/Commercial mortgage	9%	8%	8%	8%	6%	7%	8%	7%	7%
Credit cards	15%	17%	19%	20%	16%	14%	15%	16%	14%
Any 'core' products – all SMEs	*33%*	*32%*	*33%*	*33%*	*31%*	*27%*	*30%*	*31%*	*28%*

Q15 All SMEs

Use of any of these 'core' forms of finance declined between 2011 and 2014 from 39% to 29% of all SMEs and across all sizes of business, notably the larger ones:

- 0 employees: From 34% in 2011 to 25% in 2014
- 1-9 employees: From 50% to 40%
- 10-49 employees: From 65% to 50%
- 50-249 employees: From 71% to 55%

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 20% of SMEs in 2014 with either an overdraft and/or loan, and this proportion has declined over time from 30% in 2011.

From Q4 2012 those using any of these three methods of finance were asked whether any facilities were in their personal name, rather than that of the business. For YEQ4 2014, a third of those using such facilities (35%) said that one of more facilities were in their personal name, the equivalent of 10% of **all** SMEs having a facility in their personal name (or 17% of SMEs excluding the 'Permanent non-borrowers'). This had varied relatively little across the quarters in which the question has been asked (typically between 36% and 39%).

The incidence of facilities in a personal name varied by size of business: amongst SMEs with loans, overdrafts and/or credit cards, 4 in 10 of those with 0 employees had some facility in their personal name (43%) compared to 7% of those with 50-249 employees. SMEs with these facilities, and who also had a worse than average risk rating, were more likely to have a facility in their own name (39%), but the equivalent figures for **all** SMEs showed relatively little difference by risk rating:

Have element of facility in personal name YEQ4 14 – row percentages	Of those with an overdraft, loan or credit card	Equivalent % of all SMEs
Total	**35%**	**10%**
0 employees	43%	10%
1-9 employees	23%	9%
10-49 employees	11%	5%
50-249 employees	7%	3%
Minimal risk rating	24%	8%
Low risk rating	24%	8%
Average risk rating	35%	10%
Worse than average risk rating	39%	9%

Q15bbb All SMEs with one of these facilities

From Q3 2014, in order to provide urther granularity on the use of personal finance, SMEs using loans, overdrafts or credit cards were asked whether each of these was in their personal name, rather than simply whether any of these facilities were in a personal name. Initial results for H2 2014 show similar results for each form of finance:

- 22% of those with an overdraft said it was in a personal name, 9% said they had facilities in both personal and business names
- 20% of those with a loan said it was in a personal name, 5% said they had facilities in both personal and business names
- 29% of those with a credit card said it was in a personal name, 12% said they had facilities in both personal and business names

For those with 0-9 employees, 22-31% said each of these was in a personal name and 5-13% in both personal and business names. For those with 10-249 employees the incidence was much lower. 4-6% said each of these was in a personal name and 3-6% in both personal and business names. More analysis will be provided in future waves.

Those operating their business banking through a personal account were less likely to be using any external finance (28% YEQ4 14 were using external finance, compared to 38% of those operating through a business bank account). However, if they *did* use the relevant forms of external finance, then almost all, 85%, said that some or all of the loan, overdraft or credit card facilities that they had were in their personal name. Amongst those with facilities and operating a business account, just over a quarter, 28%, said there were facilities in their personal name.

As a result, amongst all SMEs, those 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% of those using a personal account v 8% of those using a business account had a facility in their personal name).

The table below shows the full list of the different types of funding being used by SMEs YEQ4 2014. 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. From Q1 2014 the codes for loans and equity from directors or friends and family were split out - they are shown individually for the first time below. Larger businesses continued to make use of a wider range of forms of funding:

External finance currently used YEQ4 14 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*20,055*	*4007*	*6618*	*6425*	*3005*
'Core' products (any)	29%	25%	40%	50%	55%
-Bank overdraft	16%	14%	23%	25%	22%
-Credit cards	15%	12%	20%	33%	40%
-Bank loan/Commercial mortgage*	7%	5%	13%	18%	21%
Other forms of finance (any)	17%	13%	25%	37%	40%
-Leasing or hire purchase	7%	5%	12%	23%	27%
-Loans from directors, family & friends	6%	5%	10%	10%	8%
-Equity from directors, family & friends	2%	1%	4%	5%	5%
-Invoice finance	3%	2%	3%	9%	12%
-Grants	2%	1%	2%	4%	6%
-Loans from other 3rd parties	2%	1%	3%	4%	4%
Any of these	*37%*	*32%*	*49%*	*61%*	*63%*
None of these	*63%*	*68%*	*51%*	*39%*	*37%*

Q15 All SMEs

Amongst SMEs with employees, 51% were using external finance – 41% were using any form of core finance and 27% any of the other forms of finance listed.

* From Q3 2014 data has been collected separately for loans and commercial mortgages, rather than as the joint code previously used and reported above. Initial data for Q3 and Q4 combined showed that 6% of SMEs had a business loan (ranging by size from 4-16%) while 2% of SMEs had a commercial mortgage (ranging from 1-8% by size).

SMEs that import and/or export were asked about use of Export/Import finance. YEQ4 2014, 1% of such SMEs used these products, with little variation by size of business (<1-3%).

Larger SMEs are more likely to be using leasing, HP and vehicle finance than more 'traditional' bank loans. From Q1 2014 SMEs using this form of finance were asked where this funding was obtained from. SMEs could give more than one source, and the initial findings for 2014 were as follows:

- 26% obtained this funding from a bank / bank subsidiary: 17% from their main bank, 10% from another bank
- 25% from an equipment manufacturer
- 39% from another leasing provider
- 8% from a broker
- 6% from somewhere else

Amongst those using leasing, HP or vehicle finance, use of any bank for this finance increased somewhat by size (23% of 0 employee SMEs v 34% of those with 50-249 employees) driven by larger SMEs being more likely to be using their main bank (26% v 14% of those with 0 employees). They were also more likely to be using a leasing provider (48% v 34% of those with 0 employees).

The table below details the use of all of these forms of funding over time. Note that in Q2 2013 the code for leasing and HP was extended to include vehicle finance, and the proportion mentioning any of these forms of finance increased somewhat to 9% in that quarter. Loans and equity from family/friends/directors and bank loans/ commercial mortgages will be reported separately when sufficient data has been collected in further quarters.

The decline in the use of core forms of finance has already been reported. Use of other forms of finance is more stable, at around 1 in 6 SMEs in most quarters:

Use of external finance Over time – all SMEs By date of interview	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014
Unweighted base:	*5000*	*5000*	*5000*	*5008*	*5028*	*5000*	*5008*	*5023*	*5024*
'Core' products (any)	33%	32%	33%	33%	31%	27%	30%	31%	28%
-Bank overdraft	20%	19%	18%	16%	18%	14%	18%	17%	16%
-Bank loan/Commercial mortgage	9%	8%	8%	8%	6%	7%	8%	7%	7%
-Credit cards	15%	17%	19%	20%	16%	14%	15%	16%	14%
Other forms of finance (any)	15%	15%	21%	18%	17%	13%	18%	20%	16%
-Leasing, hire purchase or vehicle finance	5%	6%	9%	6%	9%	6%	7%	8%	6%
-Loans/equity from directors/family/friends*	7%	8%	11%	9%	7%	6%	9%	9%	7%
-Invoice finance	3%	2%	3%	2%	2%	2%	3%	3%	2%
-Grants	1%	1%	2%	2%	1%	1%	2%	2%	1%
-Loans from other third parties	1%	1%	1%	1%	1%	1%	1%	2%	2%
Any form of finance – all SMEs	*41%*	*39%*	*43%*	*41%*	*40%*	*33%*	*39%*	*40%*	*36%*

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 period of the SME Finance Monitor, as the proportion using none of these forms of finance increased from 54% to 63% of SMEs:

External finance currently used – all SMEs	2011	2012	2013	2014
Unweighted base:	*15,128*	*20,055*	*20,036*	*20,055*
Only use 'core' products	29%	26%	23%	20%
Only use 'other' forms of finance	7%	8%	9%	8%
Use both forms of finance	10%	10%	9%	9%
Use none of these forms of finance	54%	56%	59%	63%

Q15 All SMEs

Between 2011 and 2014, the proportion using any forms of external finance declined from 46% to 37% of all SMEs. This was almost entirely due to a smaller proportion using only the 'core' forms of finance (use of only loans, overdrafts and/or credit cards declined from 29% to 20%). 8% of SMEs in 2014 only used one of the 'other' forms of finance, and this had changed little over time. The proportion of SMEs using both 'core' *and* 'other' forms of finance was also fairly stable (9% in 2014).

In a question asked for the first time in Q2 2013, 2% of SMEs (YEQ4 2014) said that they were using an additional form of external finance not on the list detailed in full above. This did not vary by size (2%) or risk rating (1-2%), or by sector (1-2%), and has varied little over time.

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

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

Injections of personal funds

Since Q2 2012, the use of personal funds in SMEs has been explored in some detail. SMEs are asked whether personal funds had been injected into the business in the previous 12 months by the owner or any director, and whether this was something they had *chosen* to do or felt that they *had* to do. Further questions were added in subsequent waves to explore the size and nature of this funding in more detail but do not form part of the current 2014 questionnaire.

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. Since the second half of 2013, fewer SMEs have reported putting in any personal funds, with 29% of those interviewed in Q4 2014 reporting any injection of funds in the previous 12 months. This is mainly due fewer SMEs reporting that they felt that they had to put in funds (from 26% in Q3 2012 to 15% in the current quarter):

Personal funds in last 12 months over time – all SMEs By date of interview	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014
Unweighted base:	*5000*	*5000*	*5000*	*5008*	*5028*	*5000*	*5008*	*5023*	*5024*
Inject personal funds – you chose to do to help the business grow and develop	16%	19%	20%	18%	18%	15%	15%	13%	14%
Inject personal funds – you felt you had no choice about this, that you had to do it	24%	21%	22%	20%	15%	15%	15%	15%	15%
Any personal funds	*40%*	*40%*	*42%*	*38%*	*33%*	*30%*	*30%*	*28%*	*29%*
Not something you have done	60%	60%	58%	62%	66%	70%	70%	72%	71%

Q15d All SMEs

The proportion of SMEs putting in any funds has fallen over time, from 42% in 2012 (Q2-4) to 29% for 2014 as a whole, and also by size:

- Amongst 0 employee SMEs, who remained the most likely to have put in funds, the proportion doing so fell from 45% in 2012 to 30% for 2014
- Amongst those with 1-9 employees the proportion is also lower in 2014 (29%) than in 2012 (39%)
- For those with 10-49 employees, 17% of those interviewed in 2014 reported an injection of funds, down from 22% in 2012, and amongst the largest SMEs with 50-249 employees the figure is 9% for 2014, down from 13% in 2012

The analysis below is based on the combined results YEQ4 2014 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 although as already reported, this proportion is declining over time:

Personal funds in last 12 months YEQ4 14 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*20,055*	*4007*	*6618*	*6425*	*3005*
Inject personal funds – you chose to do to help the business grow and develop	14%	15%	14%	8%	5%
Inject personal funds – you felt you had no choice about this, that you had to do it	15%	15%	15%	9%	3%
Any personal funds	*29%*	*30%*	*29%*	*17%*	*9%*
Not something you have done	71%	70%	71%	83%	91%

Q15d All SMEs from Q2 2012

Amongst SMEs with employees, 27% reported any injection of personal funds – 13% because they chose to do so and 14% who felt that they had no choice.

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 (44%), and that this was more likely to have been a choice (24%) than a necessity (19%). 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 14 – all SMEs	Starts	2-5 yrs	6-9 yrs	10-15 yrs	15 yrs+
Unweighted base:	*1971*	*2528*	*2416*	*3384*	*9756*
Inject personal funds – you chose to do to help the business grow and develop	24%	19%	12%	9%	9%
Inject personal funds – you felt you had no choice about this, that you had to do it	19%	16%	13%	13%	13%
Any personal funds	*44%*	*35%*	*25%*	*21%*	*22%*
Not something you have done	56%	65%	75%	79%	78%

Q15d All SMEs from Q2 2012

Over time, Starts have always been more likely to report an injection of funds than older businesses. However, the 44% receiving an injection of funds in 2014 is down from 64% in 2013, with a decline both in those *choosing* to inject funds (from 37% of Starts to 24%) and those feeling that they *had to* (from 27% to 19%). Amongst older businesses there has also been something of a decline in injections of funds (as overall) but these have been smaller, typically around 4 or 5 percentage points. For example, amongst SMEs that have been trading for 15 years or more, injections of personal funds have declined from 26% to 22%.

Those using a *personal* account for their business banking were somewhat more likely to have put personal funds in at all (35% v 28% of those with a business account) but were not much more likely to have felt that they had to do so (16% of SMEs with a personal account, 15% 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 (36%), compared to 17% of those with a minimal external risk rating. Half of all SMEs 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 14 – all SMEs	Total	Min	Low	Avge	Worse/ Avge
Unweighted base:	*20,055*	*3255*	*5298*	*5102*	*4675*
Inject personal funds – you chose to do to help the business grow and develop	14%	8%	10%	12%	18%
Inject personal funds – you felt you had no choice about, that you had to do	15%	8%	11%	13%	18%
Any personal funds	*29%*	*17%*	*21%*	*25%*	*36%*
Not something you have done	71%	83%	79%	75%	64%

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 27-33% of SMEs in each sector:

Personal funds in last 12 months YEQ4 14 – all SMEs	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*1511*	*2099*	*3521*	*2031*	*1785*	*1811*	*3512*	*1779*	*2006*
Chose to inject	15%	13%	13%	12%	13%	13%	16%	18%	15%
Had to inject	12%	17%	15%	15%	20%	17%	13%	11%	16%
Any funds	*27%*	*30%*	*29%*	*27%*	*33%*	*30%*	*29%*	*29%*	*31%*
Not done	73%	70%	71%	73%	67%	70%	71%	71%	69%

Q15d All SMEs from Q2 2012

SMEs currently using external finance were slightly more likely to have received an injection of personal funds (35% YEQ4 2014) than those not currently using external finance (25%) and were also more likely to say they had felt that there had been no choice (22% v 11%).

Analysed by their overall financial behaviour in the previous 12 months, the 'Would-be seekers' (who had wanted to apply for finance but felt that something had stopped them) remained the most likely to have received an injection of personal funds (and to have felt that they had no choice):

Personal funds in last 12 months YEQ4 14 – all SMEs	Total	Had an event	Would-be seeker	Happy non-seeker
Unweighted base:	*20,055*	*4420*	*620*	*15,015*
Inject personal funds – you chose to do to help the business grow and develop	14%	13%	15%	14%
Inject personal funds – you felt you had no choice about, that you had to do	15%	26%	44%	11%
Any personal funds	*29%*	*40%*	*59%*	*25%*
Not something you have done	71%	60%	41%	75%

Q15d All SMEs

As already reported, the proportion of SMEs that have seen an injection of funds has declined over time, from 42% when the question was first asked in 2012 to 29% for 2014 as a whole.

- This is also true amongst those that have had a borrowing 'event' (from 52% to 40% over this period) and amongst 'Happy non-seekers' (37% to 25%)
- However, there has been much less of a decline amongst the relatively smaller group of 'Would-be seekers' of finance, from 62% in 2012 to 59% in 2014. This group is now much more likely than SMEs generally to have seen an injection of personal funds (note that the definition of a 'would-be seeker' was changed slightly at the end of 2012, but the 2013 figure under the new definition was 63% so the conclusion remains valid).

Additional data on whether these SMEs had previously been turned down by a bank (or thought that they would be), the amount of funds injected and whether this was a long or short term investment is not currently being gathered and so is not included in this report.

Use of personal accounts and accounts at other banks

Most SMEs used a business bank account (86% excluding DK answers).

Of the 14% that used a personal account, almost all, 94%, were 0 employee businesses. Excluding those with 0 employees reduces the proportion of remaining SMEs with a personal account to 3%.

Such personal accounts were more likely to be found in the Health Sector (23%) or the Construction sector (21%) and least likely to be found in Wholesale/Retail (7%), or Hotels & Restaurants (9%). Amongst Starts (set up within the last 2 years) 20% 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 (18% compared to 5% of those with a minimal or low risk rating).

YEQ4 2014, SMEs using a personal account were:

- less likely to be using external finance (28% used external finance, compared to 38% using a business account) and less likely to have applied for new or renewed facilities (5% versus 8%)
- somewhat more likely to be a 'Permanent non-borrower' (48% v 43%), or to have put personal funds into the business (35% v 28% of those with a business account)

In 2014, 99% of SMEs reported that they only used one bank for their business banking, with little difference by size. Multi-banking, not often 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	2014
All	98%	99%	99%
0 emps	98%	99%	99%
1-9 emps	97%	99%	98%
10-49 emps	96%	98%	97%
50-249 emps	94%	98%	97%

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 those interviewed YEQ4 2014:

- 14% of SMEs used a personal rather than a business account for their business banking
- 35% 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 86%. This is the equivalent of 10% of all SMEs holding one or more of these facilities in a personal name.
- 29% 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) remained more likely to have put in funds (39%)
- 10% of those reporting an application for a new or renewed overdraft in the past 12 months said it was for a personal facility, while for loans the figure was 16% (the equivalent of less than 1% of all SMEs).
- 19% 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 1% of all SMEs).

For YEQ4 2014, 4 in 10 SMEs (41%) reported having one or more of these personal 'elements' to their business, down from 48% for the year to Q2 2014, as fewer smaller SMEs with less than 10 employees say that they have any personal element to their business. The table below shows how this proportion varies by size, sector and external risk rating with smaller SMEs, those with a worse than average risk rating and those in the Health sector remaining the most likely to have a personal element to their business:

Had **any** personal element Row percentages	YEQ4 14
All SMEs	**41%**
0 employee	44%
1-9 employees	34%
10-49 employees	20%
50-249 employees	11%
Minimal external risk rating	24%
Low external risk rating	27%
Average external risk rating	38%
Worse than average external risk rating	48%
Agriculture	37%
Manufacturing	39%
Construction	44%
Wholesale/Retail	35%
Hotels & Restaurants	40%
Transport	43%
Property/Business Services etc.	39%
Health	46%
Other Community	44%

Excluding SMEs with no employees reduces the proportion of remaining SMEs with a personal element to their business to 32%.

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 reported elsewhere, amendments were made to the answer codes for Q1 2014, splitting the loans/equity codes into loans from friends and family/directors and equity from friends and family/directors. These can now be reported as the new codes.

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:

Other finance applied for YEQ4 14 – all SMEs	Total		Applied for			
	Applied	% success	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*20,055*	*Varies*	*4007*	*6618*	*6425*	*3005*
Credit cards	4%	82%	3%	5%	7%	6%
Leasing/Hire purchase/vehicle finance	4%	82%	3%	7%	14%	16%
Loans from family/friends or directors	3%	82%	3%	5%	4%	3%
Equity from family/friends or directors	1%	63%	1%	2%	2%	1%
Grants	2%	63%	1%	3%	6%	6%
Invoice finance	1%	60%	1%	2%	4%	4%
Loans from other 3rd parties	1%	46%	1%	1%	2%	2%

Q222 All SMEs

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

Base sizes are small for some products but over time the proportion applying for these products has been fairly stable. Success rates are somewhat lower for 2014 than they were in 2012 or 2013 for invoice finance (previously three quarters were typically successful), and loans from other third parties (previously around 7 in 10 were successful).

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

In a new question asked from Q2 2013, all respondents were asked if they had applied for some other form of external finance not already mentioned. For YEQ4 2014, 1% of SMEs said that they had applied for some other form of finance, half successfully and half unsuccessfully. The type of finance applied for is not recorded.

Taking both loan/overdraft events (and the automatic renewal of overdrafts) and the applications for other types of finance such as invoice finance and grants together for 2014 showed that:

- Most SMEs, 76%, 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
- 12% reported a loan/overdraft event, but had not applied for other forms of finance
- 8% had applied for other forms of finance but did not report a loan/overdraft event
- 4% reported both a loan/overdraft event and applying for one of these forms of finance

Amongst SMEs with employees, the proportion reporting both a loan/overdraft event and an application for other forms of finance is higher at 8% and the proportion reporting neither of these is lower at 66%.

Use of Trade Credit

From Q1 2014, data has been gathered on the extent to which SMEs use trade credit from their suppliers. In Q3 2014 questions were added to explore the extent to which SMEs offer trade credit to their customers and the impact that both forms of trade credit have on their use of, or need for, external finance.

YEQ4 2014, 31% of SMEs regularly purchased products or services from other businesses on credit. This increased by size of SME:

- 26% of those with 0 employees regularly purchased on credit
- 45% of those with 1-9 employees
- 58% of those with 10-49 employees
- 58% of those with 50-249 employees

Those using other forms of external finance (loans, overdrafts etc) were more likely to be using trade credit (46%) than those who were not using external finance (23%).

For Q3 and Q4 2014, SMEs were also asked whether they offered trade credit to their customers. 31% said that they did so, and this showed a similar variation by size of SME:

- 26% of those with 0 employees offer trade credit to their customers
- 41% of those with 1-9 employees
- 58% of those with 10-49 employees
- 68% of those with 50-249 employees

Those using other forms of external finance (loans, overdrafts etc) were also more likely to be offering trade credit (41%) than those who were not using external finance (24%).

The remainder of this analysis is based just on the period Q3 2014 to Q4 2014 for which full data is available on all the trade credit questions asked. In this period, 33% of SMEs said that they received trade credit and 31% offered it.

Across Q3 and Q4 2014, 17% of all SMEs both offered and received trade credit, increasing by size of business:

Trade credit in last 12 months Q3+Q4 2014 – all SMEs	Total	0 emp	1-9 emps	10-249 emps
Unweighted base:	*10,047*	*2002*	*3315*	*4730*
Both offer and receive trade credit	17%	12%	27%	44%
Receive trade credit but do not offer it	16%	15%	19%	15%
Offer trade credit but do not receive it	14%	14%	14%	15%
Have any trade credit involvement	*46%*	*41%*	*61%*	*74%*
Do not use trade credit at all	54%	59%	39%	26%

Q14y/y4 All SMEs from Q3 2014

In another new question from Q3 2014, those SMEs that received trade credit were asked whether having this trade credit meant that they had a reduced need for other forms of external finance. Two thirds of them did and this is the equivalent of 21% of all SMEs needing less external finance, as the table below shows:

Impact of receiving trade credit Q3+Q4 2014 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*10,047*	*2002*	*3315*	*3225*	*1505*
Have less of a need for external finance	21%	18%	31%	39%	43%
Do not have less of a need for external finance	10%	8%	14%	16%	17%
Not sure	1%	1%	2%	3%	3%
Do not receive trade credit	67%	73%	53%	42%	37%

Q14y/y4 All SMEs from Q3 2014

SMEs using external finance in Q3 and Q4 2014 were more likely to be using trade credit at all (45% v 25% of those who do not use external finance). They were also more likely to say that they had less of a need for external finance as a result (32%) than those not using external finance (15%) or SMEs overall (21%).

In a second new question from Q3 2014, those SMEs that offered trade credit were asked whether offering this trade credit meant that they had an increased need for other forms of external finance. A quarter did and this is the equivalent of 8% of all SMEs needing more external finance, as the table below shows:

Impact of offering trade credit Q3+Q4 2014 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*10,047*	*2002*	*3315*	*3225*	*1505*
Have more of a need for external finance	8%	6%	12%	19%	20%
Do not have more of a need for external finance	22%	20%	28%	37%	42%
Not sure	1%	*	1%	2%	5%
Do not offer trade credit	69%	74%	59%	42%	32%

Q14y/y4 All SMEs from Q3 2014

SMEs using external finance in Q3 and Q4 2014 were more likely to be offering trade credit at all (41% v 26% of those who do not use external finance). They were also more likely to say that they had more of a need for external finance as a result (15%) than those not using external finance (4%) or SMEs overall (8%).

By sector, use of trade credit varied from 18% in the Health sector and 19% in the Transport sector to 43% in the Wholesale/Retail and Manufacturing sectors. Those most likely to offer trade credit were also SMEs in the Manufacturing sector (47%):

Trade credit in last 12 months Q3+Q4 2014 – all SMEs	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*751*	*1050*	*1759*	*1019*	*901*	*909*	*1760*	*894*	*1004*
Receive credit	34%	47%	38%	43%	29%	21%	275	20%	27%
Offer credit	26%	47%	26%	33%	15%	29%	36%	18%	28%
Neither of these	56%	36%	52%	46%	65%	62%	53%	68%	59%

Q14y/y4 All SMEs from Q3 2014

The table below shows that those in Manufacturing, Construction and Wholesale/Retail were the most likely to say that they required less external finance because they received Trade Credit. Meanwhile, those in Manufacturing and Wholesale/Retail were also somewhat more likely to say that they needed more external finance because they offered their customers trade credit (Both these sectors are more likely to be receiving and offering trade credit):

Impact of trade credit Q3+Q4 2014 – all SMEs	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*751*	*1050*	*1759*	*1019*	*901*	*909*	*1760*	*894*	*1004*
Need less finance as receive TC	22%	35%	28%	27%	20%	14%	15%	11%	20%
Need more finance as offer TC	6%	15%	7%	11%	4%	6%	9%	3%	5%

Q14y/y4 All SMEs from Q3 2014

The non-borrowing SME

As this chapter has already reported, just over a third of SMEs (37% YEQ4 2014) 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 43% of SMEs (YEQ4 2014), and were more likely to be found amongst the smaller SMEs:

- 48% of 0 employee SMEs met this non-borrowing definition
- 33% of 1-9 employee SMEs
- 26% of 10-49 employee SMEs
- 26% of 50-249 employee SMEs

Amongst SMEs with employees, 32% met the definition of a 'Permanent non-borrower'.

SMEs in the Health sector remained the most likely to be a 'Permanent non-borrower' (54%), with those in Wholesale/Retail the least likely (34%), and all other sectors between 39% and 46%. There was little variance by risk rating (41% to 45%).

48% of those who use a personal account for their business banking met the definition of a 'Permanent non-borrower', which means that the equivalent of 7% of <u>all</u> 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 2011 and 2012 to 40% in 2013 and now 43% for 2014. All sizes of SME have seen an increase in PNBs over time, with 0 employee SMEs remaining the most likely to meet the definition:

PNBs Over time – all SMEs By date of interview - row percentages	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014
All SMEs	37%	41%	36%	40%	41%	48%	39%	40%	47%
0 employee	40%	45%	40%	45%	46%	54%	42%	44%	51%
1-9 employees	30%	30%	25%	28%	30%	32%	31%	29%	39%
10-49 employees	21%	20%	21%	24%	24%	22%	27%	23%	31%
50-249 employees	17%	15%	17%	17%	17%	29%	23%	22%	28%

As reported above, the increase in PNBs has been seen across all size bands:

- From 38% in 2011 to 48% in 2014 for those with 0 employees
- From 23% to 33% for those with 1-9 employees
- From 16% to 26% for those with 10-49 employees
- From 12% to 26% for those with 50-249 employees

Over the same period, there has also been an increase in PNBs within each of the external risk ratings:

- From 33% in 2011 to 41% in 2014 for those with a minimal risk rating
- From 34% to 44% for those with a low risk rating
- From 36% to 45% for those with an average risk rating
- From 32% to 43% for those with a worse than average risk rating

Businesses less than 10 years old were more likely to meet the definition of a PNB in 2014 (43%) than they were in 2011 (33%). Amongst those more than 10 years old, 44% met the definition of a PNB in 2014, an increase on 2013 as a whole (36%) having previously been almost unchanged from 2011 (34%).

If these PNBs are excluded from the 'use of external finance' table shown earlier, the proportion using external finance increases to around two thirds of remaining SMEs. 68% of remaining SMEs were using external finance in Q4 2014 (in line with the equivalent quarter of 2013 and 2012). Once the PNBs are excluded, use of external finance by remaining SMEs has varied relatively little over this period:

Use of external finance in last 5 years Over time – all SMEs excl PNBs By date of interview	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014
Unweighted base:	*3664*	*3649*	*3707*	*3637*	*3585*	*3370*	*3514*	*3576*	*3153*
Use now	66%	65%	68%	69%	68%	63%	64%	66%	68%
Used in past but not now	8%	7%	5%	5%	4%	6%	5%	4%	5%
Not used at all	27%	28%	27%	26%	28%	32%	31%	29%	27%

Q14/15 All SMEs

As already reported, the proportion of all SMEs using external finance has decreased over time, while the proportion that meet the definition of a PNB has increased. The table below shows that the pattern for those with employees is different to those with 0 employees:

Use of external finance and PNBs over time	2012	2013	2014
0 employees:			
- Use external finance	38%	35%	32%
- Permanent non borrower	37%	44%	48%
All with employees			
- Use external finance	59%	57%	51%
- Permanent non borrower	24%	27%	32%

All SMEs from 2012

Amongst 0 employee SMEs the proportion using external finance and the proportion that met the definition of a PNB were the same in 2012. Since then, use of external finance has decreased, and the proportion meeting the definition of a PNB has increased such that in 2014 there is a 16 percentage point ‘gap’ between the two figures.

For SMEs with employees, in 2012 twice as many were using external finance (59%) as met the definition of a PNB (24%) Since then there has been a decline in the proportion using external finance, and an increase in those meeting the definition of a PNB and the ‘gap’ has reduced to 19 percentage points from 35.

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’.

A wider definition of ‘Total business funding’

The ‘Permanent non-borrowers’ described in the previous section are defined by their non-use of, or appetite for, external finance (loans, overdrafts etc), and that definition will be maintained to provide consistent analysis over time.

The addition of the new questions on trade credit does, though, allow for an analysis of the use of ‘total business funding’ by SMEs in a wider sense, i.e. including both trade credit received and injections of personal funds. Note that the amount of trade credit received is not recorded, and that when last asked, the typical injection of personal funds was for a relatively small amount (often less than £5,000).

For YEQ4 2014:

- 37% of SMEs were using **external finance** as defined earlier in this chapter (i.e.loans, overdrafts, invoice finance etc).
- An additional 15% of SMEs were not using external finance but were receiving **trade credit**
- And finally, a further 12% of SMEs were using neither external finance, nor trade credit, but had seen an **injection of personal funds** into the business

Widening the definition of external funding to include not only finance but also trade credit and personal funds thus increases the proportion of SMEs using ‘business funding’ from 37% to 64%.

As the table below shows, there was a bigger 'uplift' amongst smaller SMEs when this wider business funding definition was applied:

Wider definition of business funding YEQ4 2014 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*20,055*	*4007*	*6618*	*6425*	*3005*
Use external finance	37%	32%	49%	61%	63%
Do not use finance but do use trade credit	15%	14%	18%	17%	18%
Do not use the above but injected personal funds	12%	14%	7%	2%	1%
Total business funding	*64%*	*60%*	*74%*	*80%*	*82%*

Q14y/y4 All SMEs from Q3 2014

PNBs by their very definition are not currently using external finance. Adding use of trade credit and injections of personal funds sees 37% of PNBs using 'total business funding'. For those that do not meet the definition of a PNB, the uplift is from 65% of these SMEs using external finance to 84% using 'total business funding'.

Attitudes to finance

In Q3 2014, four new attitudinal statements were added to the SME Finance Monitor, in order to improve understanding of SMEs' attitudes to finance, as well as their behaviour. The results for Q3 and Q4 2014 combined are shown below.

As already reported, 5 in 10 SMEs agreed that they were aware of their current external risk rating, which can be used by lenders to assess applications for finance:

"We are aware of what our current external credit rating is as a business" Q3-Q4 2014 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*10,047*	*2002*	*3315*	*3225*	*1505*
Strongly agree	19%	18%	23%	27%	27%
Agree	31%	30%	33%	38%	44%
Neither/nor	22%	23%	19%	18%	19%
Disagree	19%	20%	17%	13%	8%
Strongly disagree	9%	10%	8%	4%	3%
Total 'Agree'	*50%*	*48%*	*56%*	*65%*	*71%*

Q238a5 All SMEs from Q3 2014

Amongst those with employees, agreement with this statement was 58%. Awareness of the external risk rating increased by size of business and was also slightly higher amongst those planning to apply for finance in the next 3 months (58%).

3 in 10 SMEs agreed that they would struggle if interest rates were to rise by 2% or more:

"If interest rates were to increase by 2% or more, the business would be struggling" Q3-Q4 2014 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*10,047*	*2002*	*3315*	*3225*	*1505*
Strongly agree	10%	10%	10%	7%	6%
Agree	21%	21%	20%	19%	15%
Neither/nor	19%	19%	19%	22%	25%
Disagree	33%	32%	34%	35%	39%
Strongly disagree	18%	18%	16%	17%	15%
Total 'Agree'	*31%*	*31%*	*30%*	*26%*	*21%*

Q238a5 All SMEs from Q3 2014

Amongst those with employees, agreement with this statement was 29%. The impact of a potential interest rate rise was felt more by smaller SMEs than larger ones and by those who had wanted to apply for finance but felt something had stopped them (42%) and those planning to apply for finance in the next 3 months (42%).

7 in 10 SMEs agreed that their aim was to pay down debt and then remain debt free if possible, with little variation by size:

"Our aim as a business is to repay any existing finance (eg on loan or overdraft) and then remain debt free if possible" Q3-Q4 2014 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*10,047*	*2002*	*3315*	*3225*	*1505*
Strongly agree	38%	37%	40%	38%	32%
Agree	33%	34%	31%	34%	37%
Neither/nor	19%	19%	18%	18%	21%
Disagree	7%	7%	6%	6%	7%
Strongly disagree	4%	4%	4%	3%	4%
Total 'Agree'	*71%*	*71%*	*71%*	*72%*	*69%*

Q238a5 All SMEs from Q3 2014

Amongst those with employees, agreement with this statement was 72%.

Agreement was 76% once the PNBs were excluded, 79% amongst those currently using external finance, 83% amongst those that had reported a borrowing event in the previous year and 80% amongst those planning to apply in the next 3 months. This appears to be a widely held aspiration amongst SMEs, whatever their current financial position and this is explored further below.

4 in 10 SMEs agreed that they are happy to use external finance to help the business grow:

"As a business we are happy to use external finance to help the business grow and develop" Q3-Q4 2014 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*10,047*	*2002*	*3315*	*3225*	*1505*
Strongly agree	10%	9%	13%	15%	14%
Agree	32%	31%	36%	41%	42%
Neither/nor	18%	18%	19%	19%	23%
Disagree	25%	27%	21%	18%	15%
Strongly disagree	14%	16%	10%	8%	6%
Total 'Agree'	*42%*	*40%*	*49%*	*56%*	*56%*

Q238a5 All SMEs from Q3 2014

Amongst those with employees, agreement with this statement was 50%. Willingness to use external finance was higher amongst larger SMEs and also amongst those that had reported a borrowing event in the previous 12 months (62%) or planned to apply in the next 3 months (70%). Happy non-seekers, who had not sought finance and said that nothing had stopped them doing so were less likely to agree (37%).

The tables above show that while 7 out of 10 SMEs would like to pay down debt and be debt free, 4 in 10 are happy to use external finance to help the business grow. This means that there are SMEs who would both like to be debt free and are prepared to use external finance to grow. As the analysis below shows, this accounts for some 35% of all SMEs:

All SMEs Q3-4 2014 % shown are of all SMEs and sum to 100%		Our aim as a business is to repay any existing finance (eg on loan or overdraft) and then remain debt free if possible		
		Agree	Neutral	Disagree
As a business we are happy to use external finance to help the business grow and develop	Agree	35%	4%	3%
	Neutral	9%	8%	1%
	Disagree	27%	6%	6%

Q238a5 All SMEs from Q3 2014

Analysis of these groups showed that:

Attitudes to finance	Further analysis
35% pay down debt but would use finance to grow	35% of SMEs aim to pay down debt/remain debt free but would be happy to use external finance to help the business grow, suggesting that whilst they might prefer not to use external finance, they will do so in the right circumstances. 70% of this group are 0 employee SMEs, and excluding the 0 employee SMEs increases this proportion to 41% of SMEs with employees. Such SMEs are more likely to be using external finance at the moment (50%), to have had a borrowing event (26%), or to be planning to apply for finance in the next 3 months (23%). They are also more likely to be planning to grow (54%). Further statistical analysis found that what best predicted being one of these SMEs was having made a loss or broken even, having an owner under 50, having employees, an average risk rating, and to have felt that they had to inject personal funds into the business.

Continued

Continued

3% not pay down debt and would use finance to grow	3% of SMEs are perhaps attitudinally the most positive about external finance – they are not looking to pay down debt/remain debt free and would be happy to use external finance to help the business grow. 60% of this group are 0 employee SMEs and excluding the 0 employee SMEs increases this proportion to 5% of SMEs with employees. Such SMEs are more likely to be using external finance at the moment (50%), to have had a borrowing event (27%), or to be planning to apply for finance in the next 3 months (32%). They are more likely to be planning to grow (62%) but are also more likely to have a worse than average external risk rating (58%).
27% want to pay down debt and would not use finance to grow	At the other end of the scale, 27% of SMEs appear debt averse: they are looking to pay down debt/remain debt free and would not be happy to use external finance to help the business grow. 80% of this group are 0 employee SMEs and excluding the 0 employee SMEs reduces this proportion to 21% of SMEs with employees. Such SMEs are less likely to be using external finance at the moment (33%), to have had a borrowing event (13%), or to be planning to apply for finance in the next 3 months (8%). They are also less likely to be planning to grow (36%). Further statistical analysis found that what best predicted being one of these SMEs was having 0 employees, an owner aged over 65, to have chosen to put in personal funds to the business and having someone in charge of the finances who was not qualified. They were less likely to have grown by 20% or more in the previous 12 months or to have an average risk rating.

6. An initial summary of all overdraft and loan events

This chapter provides

the full definition of each borrowing 'event' together with summary tables of their occurrence. Subsequent chapters then investigate in more detail, and over time. The chapter covers the individual waves of interviews conducted to date. In each wave, SMEs were asked about borrowing events in the previous 12 months, so overall, borrowing events may have occurred from Q2 2010 to Q4 2014. Where year ending data is provided this is YEQ4 2014.

Key findings

The proportion of SMEs reporting a borrowing 'event' in the 12 months prior to interview has changed very little recently. In 2014, 8% reported a Type 1 event (an application for a new/renewed loan or overdraft) and this has been stable during 2013 and 2014, albeit at somewhat lower levels that were seen in 2011 - 2012 when 10-12% of SMEs reported such an event

In 2014, SMEs with employees were twice as likely to report a Type 1 event as those with 0 employees, and those with a minimal risk rating were slightly more likely to report an event that those with an average or worse than average risk rating

Excluding the Permanent non-borrowers who seem to have little appetite for finance increases the proportion of Type 1 events amongst remaining SMEs to 13% and this is also stable over time. The trend for overdraft applications in this group is of a very gradual decline (11% in Q4 2012 to 9% in Q4 2014), while for loans there is perhaps a slight increase

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 2014. 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.

From 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. Analysis for YEQ4 2014 is provided below:

Demographic	Making the business more likely to obtain finance YEQ4 2014
All SMEs	4% of SMEs said that they had done something to make the business more likely to obtain finance – 1% had spoken to an adviser, 2% to their bank, and 1% had done something else.
By size	3% of 0 employee businesses have done something compared to 7% of those with 10-49 or 50-249 employees.
Excluding the PNBs	Excluding the 'Permanent non-borrowers' increases the proportion doing something to 6%. This ranged by size from 5-9%, by risk rating from 5-8% and by sector from 3-9%.
Business Planning	Those who plan for their business (a business plan and/or management accounts) were no more likely to have undertaken any activity designed to make the business more likely to obtain finance (5%). 55% of SMEs might be described as undertaking 'investment ready' activity – defined here as any with a business plan and/or management accounts and/or undertaking activity so that the business was more likely to obtain finance. This varied by size from half of those with 0 employees to 9 in 10 of those with 50-249 employees. Almost all of those qualifying did so through their planning activities.
External finance	Amongst those with a potential interest in finance, activity was higher but not widespread. Those who reported a Type 1 borrowing 'event' in the previous 12 months were more likely to have done something to make the business more likely to obtain finance (12%), and the proportion increased to 24% of those who had applied specifically for a *new* loan or overdraft facility. Such activity was also somewhat more likely amongst those *planning* to apply for or renew facilities in the 3 months after interview (13%), and amongst future would-be seekers with a need for finance identified (11%).

The rolling aggregate of demand/activity

The table below shows the percentage of all SMEs interviewed that reported a borrowing event in the 12 months prior to interview. Type 1 events remained the most common and are stable over recent quarters but are lower than in 2011-2012 when 10-12% of SMEs reported a Type 1 event:

Borrowing events in the previous 12 mths. All SMEs, over time By date of interview	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014
Unweighted base:	*5000*	*5000*	*5000*	*5008*	*5028*	*5000*	*5008*	*5023*	*5024*
Type 1: New application/renewal	9%	8%	9%	7%	8%	7%	8%	8%	7%
Applied for new facility (any)	6%	4%	6%	4%	4%	5%	5%	5%	4%
Renewed facility (any)	4%	4%	4%	4%	4%	3%	4%	5%	4%
Type 2: Cancel/ renegotiate by bank	4%	3%	3%	3%	3%	3%	3%	5%	3%
Type 3: Chose to reduce/pay off facility	2%	2%	2%	1%	2%	2%	2%	3%	1%

Q25/26 All SMEs

In another new question asked for the first time in Q1 2014, SMEs using external finance were asked whether in the previous 12 months they had come to any agreement with a lender to either delay or reduce repayment of that facility:

- 2% of SMEs using external finance said that such a deal had been made (the equivalent of less than 1% of all SMEs).
- This varied little by risk rating or sector, and was only slightly higher amongst larger SMEs using external finance (2% of those with 0 employees to 4% of those with 50-249 employees).

The previous chapter of this report noted that 4 in 10 SMEs met the definition of a 'Permanent non-borrower' and therefore 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 2014, 13% of SMEs (excluding the PNBs) reported a Type 1 event in the 12 months prior to interview, in line both with recent quarters and the equivalent quarter of 2013, but lower than was seen in 2011-2012 when up to 19% of such SMEs reported a Type 1 event:

Borrowing events in the previous 12 mths. All SMEs, excluding PNBs over time By date of interview	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014
Unweighted base:	*3664*	*3649*	*3707*	*3637*	*3585*	*3370*	*3514*	*3576*	*3153*
Type 1: New application/renewal	15%	13%	14%	11%	13%	13%	13%	14%	13%
Applied for new facility (any)	9%	7%	9%	6%	7%	9%	8%	7%	8%
Renewed facility (any)	7%	7%	6%	6%	7%	6%	7%	8%	8%
Type 2: Cancel/renegotiate by bank	6%	4%	5%	5%	5%	5%	5%	8%	6%
Type 3: Chose to reduce/pay off	3%	3%	3%	2%	3%	3%	4%	4%	2%

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 remained 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 2014, and, unless otherwise stated, are based on all 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 14 all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*20,055*	*4007*	*6618*	*6425*	*3005*
Type 1: New application/renewal	8%	6%	12%	15%	12%
Applied for new facility (any)	4%	4%	7%	7%	6%
- applied for new loan	*2%*	*2%*	*4%*	*4%*	*4%*
- applied for new overdraft	*2%*	*2%*	*4%*	*4%*	*3%*
Renewed facility (any)	4%	3%	7%	11%	9%
- renewed existing loan	*1%*	*1%*	*2%*	*4%*	*4%*
- renewed existing overdraft	*3%*	*2%*	*6%*	*9%*	*6%*
Type 2: Cancel/renegotiate by bank	3%	3%	5%	6%	4%
Bank sought to renegotiate facility (any)	2%	2%	4%	5%	3%
- sought to renegotiate loan	*1%*	*	*2%*	*2%*	*1%*
- sought to renegotiate overdraft	*2%*	*1%*	*3%*	*4%*	*2%*
Bank sought to cancel facility (any)	1%	1%	2%	2%	1%
- sought to cancel loan	*1%*	*1%*	*1%*	*1%*	*1%*
- sought to cancel overdraft	*1%*	*1%*	*1%*	*1%*	*1%*
Type 3: Chose to reduce/pay off facility	2%	1%	3%	3%	2%
- reduce/pay off loan	*1%*	*1%*	*2%*	*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 YEQ2 14 – all SMEs	Total	Min	Low	Avge	Worse/Avge
Unweighted base:	*20,055*	*3255*	*5298*	*5102*	*4675*
Type 1: New application/renewal	8%	10%	9%	7%	7%
Applied for new facility (any)	4%	5%	5%	4%	5%
- applied for new loan	*2%*	*3%*	*2%*	*2%*	*3%*
- applied for new overdraft	*2%*	*2%*	*3%*	*2%*	*3%*
Renewed facility (any)	4%	7%	6%	4%	3%
- renewed existing loan	*1%*	*3%*	*2%*	*1%*	*1%*
- renewed existing overdraft	*3%*	*5%*	*5%*	*4%*	*2%*
Type 2: Cancel/renegotiate by bank	3%	4%	5%	3%	3%
Bank sought to renegotiate facility (any)	2%	3%	4%	2%	2%
- sought to renegotiate loan	*1%*	*1%*	*1%*	*1%*	*1%*
- sought to renegotiate overdraft	*2%*	*2%*	*3%*	*1%*	*2%*
Bank sought to cancel facility (any)	1%	2%	1%	2%	1%
- sought to cancel loan	*1%*	*1%*	*1%*	*1%*	*1%*
- sought to cancel overdraft	*1%*	*1%*	*1%*	*1%*	*1%*
Type 3: Chose to reduce/pay off facility	2%	3%	3%	2%	1%
- reduce/pay off loan	*1%*	*2%*	*2%*	*1%*	*1%*
- reduce/pay off overdraft	*1%*	*1%*	*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 higher level of renewals:

Borrowing event in last 12 months YEQ4 14 – all SMES	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*1511*	*2099*	*3521*	*2031*	*1785*	*1811*	*3512*	*1779*	*2006*
Type 1: New application/ renewal	14%	10%	7%	10%	9%	6%	6%	6%	8%
Applied for new facility (any)	6%	5%	4%	6%	5%	4%	4%	4%	5%
- applied for new loan	*3%*	*2%*	*2%*	*4%*	*4%*	*3%*	*2%*	*3%*	*2%*
- applied for new overdraft	*3%*	*4%*	*2%*	*4%*	*2%*	*3%*	*2%*	*2%*	*3%*
Renewed facility (any)	10%	6%	3%	5%	5%	2%	3%	3%	4%
- renewed existing loan	*4%*	*1%*	*1%*	*2%*	*2%*	*1%*	*1%*	*1%*	*1%*
- renewed existing overdraft	*8%*	*5%*	*3%*	*3%*	*3%*	*2%*	*3%*	*3%*	*3%*
Type 2: Cancel/ renegotiate by bank	4%	4%	3%	6%	4%	2%	3%	3%	3%
Bank sought to renegotiate facility (any)	3%	3%	2%	4%	3%	1%	1%	1%	3%
- sought to renegotiate loan	*1%*	*1%*	*	*1%*	*2%*	*	*1%*	*	*2%*
- sought to renegotiate overdraft	*2%*	*2%*	*2%*	*3%*	*2%*	*1%*	*1%*	*1%*	*2%*
Bank sought to cancel facility (any)	2%	2%	1%	2%	2%	1%	2%	2%	1%
- sought to cancel loan	1%	1%	*	2%	1%	*	1%	2%	*
- sought to cancel overdraft	*1%*	*1%*	*	*1%*	*1%*	*1%*	*1%*	*	*1%*
Type 3: Chose to reduce/ pay off facility	3%	2%	1%	2%	4%	3%	2%	1%	2%
- reduce/pay off loan	*2%*	*1%*	*1%*	*1%*	*3%*	*2%*	*1%*	*1%*	*1%*
- reduce/pay off overdraft	*1%*	*1%*	*1%*	*1%*	*2%*	*1%*	*1%*	*1%*	*1%*

Q25/26 All SMEs

Excluding those SMEs with no employees increases the incidence of Type 1 events to 13% of SMEs with employees, of Type 2 events to 5% and of Type 3 events to 3%.

The table below repeats this detailed analysis for all SMEs 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 14 – all SMEs	Total	All excl. PNBs
Unweighted base:	*20,055*	*13,613*
Type 1: New application/renewal	8%	13%
Applied for new facility (any)	4%	8%
- applied for new loan	*2%*	*4%*
- applied for new overdraft	*2%*	*4%*
Renewed facility (any)	4%	7%
- renewed existing loan	*1%*	*2%*
- renewed existing overdraft	*3%*	*6%*
Type 2: Cancel/renegotiate by bank	3%	6%
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%	3%
- sought to cancel loan	*1%*	*2%*
- sought to cancel overdraft	*1%*	*1%*
Type 3: Chose to reduce/pay off facility	2%	3%
- reduce/pay off loan	*1%*	*2%*
- reduce/pay off overdraft	*1%*	*2%*

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 37% of 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 not had a borrowing event in the 12 months prior to interview, and explores why this was the case.

Type 2 (bank cancellation or renegotiation) and Type 3 (SME reducing/repaying facility) events remain rare and at stable levels. No further detail is therefore provided on these events in this report, and from Q3 2014 no further questions were asked about the detail of these events. This will be reviewed should the proportion of SMEs reporting such events start to increase.

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

Applications over time

As the table below shows, the proportion of SMEs having had any Type 1 **overdraft** event in the 12 months prior to interview has remained almost unchanged since Q3 2013, 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 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014
Unweighted base:	*5000*	*5000*	*5000*	*5008*	*5028*	*5000*	*5008*	*5023*	*5024*
Applied for a new overdraft	4%	3%	4%	2%	3%	3%	3%	2%	2%
Renewed an existing overdraft	4%	4%	3%	3%	3%	3%	4%	4%	3%
Any Type 1 overdraft event	*7%*	*6%*	*7%*	*5%*	*5%*	*5%*	*6%*	*5%*	*5%*
Any Type 1 overdraft event excluding PNBs	*11%*	*10%*	*10%*	*9%*	*9%*	*9%*	*9%*	*9%*	*9%*

Q26 All SMEs

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

Loan events in previous 12 months all SMEs, over time By date of interview	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014
Unweighted base:	*5000*	*5000*	*5000*	*5008*	*5028*	*5000*	*5008*	*5023*	*5024*
Applied for a new loan	3%	2%	2%	2%	2%	2%	3%	3%	2%
Renewed an existing loan	1%	1%	1%	1%	1%	1%	1%	2%	1%
Any Type 1 loan event	*3%*	*3%*	*3%*	*3%*	*3%*	*3%*	*4%*	*4%*	*3%*
Any Type 1 loan event excl PNBs	*5%*	*5%*	*5%*	*5%*	*5%*	*6%*	*6%*	*7%*	*6%*

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 2014, 10% of overdraft applications reported were made in a personal name, while for loans the figure was 16% (excluding DK answers). This means that for YEQ4 2014, 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 types of SMEs that have become more or less likely to have had *any* Type 1 event in the 12 months prior to interview, that is, an application for a new or renewed loan or overdraft facility. Across the period shown, the proportion reporting a Type 1 event has been relatively stable (7-9%), overall and by size band. However, Type 1 events are now somewhat less common than they were in either 2011 (12%) or 2012 (11%) and this is also true once the PNBs have been excluded (18% in 2011 and 16% in 2012).

Had **any Type 1** event New application/ renewal Over time – row percentages	**By date of interview** Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014
All SMEs	9%	8%	9%	7%	8%	7%	8%	8%	7%
0 employee	8%	6%	7%	4%	5%	5%	6%	6%	5%
1-9 employees	14%	14%	13%	13%	14%	10%	13%	14%	12%
10-49 employees	15%	17%	14%	15%	15%	16%	12%	18%	12%
50-249 employees	14%	16%	15%	13%	14%	11%	9%	16%	12%
Minimal external risk rating	17%	9%	11%	9%	9%	11%	10%	10%	9%
Low external risk rating	12%	12%	8%	10%	9%	11%	9%	8%	8%
Average external risk rating	8%	7%	9%	6%	7%	4%	7%	10%	6%
Worse than average external risk rating	10%	7%	8%	6%	7%	7%	8%	7%	7%
Agriculture	16%	13%	13%	15%	11%	12%	15%	15%	14%
Manufacturing	9%	7%	13%	7%	10%	7%	10%	11%	11%
Construction	8%	6%	8%	6%	9%	6%	6%	8%	6%
Wholesale/Retail	13%	10%	10%	10%	12%	9%	12%	10%	10%
Hotels & Restaurants	13%	14%	12%	9%	12%	8%	9%	10%	8%
Transport	8%	10%	13%	9%	5%	6%	8%	5%	5%
Property/Business Services etc.	10%	7%	6%	6%	6%	6%	6%	6%	6%
Health	7%	4%	10%	4%	3%	5%	8%	6%	6%
Other Community	6%	8%	6%	3%	5%	7%	9%	11%	5%
All SMEs excluding 'Permanent non-borrowers'	15%	13%	14%	11%	13%	13%	13%	14%	13%

Q26 All SMEs: base size varies by category

Other business demographics also showed less variation in incidence of a Type 1 event in Q4 2014:

Demographic	Incidence of Type 1 events reported in Q4 2014
Age of business	The incidence of Type 1 events varied very little by age of business (6-8%). Starts did though remain more likely to have applied for new facilities than to have renewed an existing facility (6% v 2%) while older businesses were somewhat more likely to have renewed (amongst those 15 years+, 3% applied for a new facility v 5% who renewed one).
Profitable SMEs	There was no difference in events by performance in the previous 12 months trading whether the business made a profit, broke even or made a loss (6-7%).
Growth	Those who had grown by more than 20% in the past year were somewhat more likely to have had a Type 1 event: Grown 20%+ 10% Grown by less than this 8% Not grown in last yr 6%.
Importers/exporters	Those engaged in international trade were slightly more likely to have had an event (11%) than those who were not (6%). Note that they are typically also larger SMEs.

Overdraft events – definition and further clarification

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

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

The results for YEQ4 2014 are reported below and show that 4 out of 10 overdraft holders (39%) reported that they had had such an automatic renewal, the equivalent of 6% of all SMEs:

Any overdraft activity YEQ4 14	All with overdraft	All SMEs
Unweighted base:	*4469*	*20,055*
Had an overdraft 'event'	30%	5%
Had automatic renewal	39%	6%
Neither of these but have overdraft	30%	5%
No overdraft	-	84%

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

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

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

As the table below shows, those proportions have since declined over time. In Q4 2014, 39% of SMEs with an overdraft reported an automatic renewal in the previous 12 months, in line with other quarters in 2014 but somewhat lower than 2012 or 2013.

The equivalent of 6% of *all* SMEs had experienced an automatic renewal, and this is also in line with recent quarters but somewhat lower than 2012:

Experienced an automatic renewal in previous 12 mths By date of interview- row percentages	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014
SMEs with overdraft	48%	45%	43%	41%	47%	42%	39%	38%	39%
'All SMEs' equivalent	9%	8%	8%	7%	8%	6%	7%	7%	6%

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* (i.e.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', while in 2014 it was 42%.

New questions asked from Q4 2012 provide some further detail on these automatic renewals. For YEQ4 2014, 19% 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 has also been collected on when this automatic renewal took place and the size of the facility renewed. The proportion of automatic renewals that were in a personal name was higher for applications made in 2013 (21%) than in 2012 (16%) but then lower again for 2014 (13% to date). A consistent half of applications were for £5,000 or less. Most applications were for £25,000 or less and this has changed little over time (87% for 2012 to 84% for 2014 to date).

The analysis below looks at which types of business with an overdraft were more likely to have an overdraft 'event', based on YEQ4 2014 data to ensure robust base sizes.

As the table below shows, for SMEs with an overdraft facility, overdraft 'events' made up a higher proportion of overdraft 'activity' for those with employees:

Overdraft activity YEQ4 14 – All with overdraft	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*4469*	*575*	*1572*	*1669*	*653*
Had an overdraft 'event'	30%	26%	37%	40%	36%
Had automatic renewal	39%	40%	40%	33%	28%
% of overdraft activity that was 'event'	*43%*	*39%*	*48%*	*55%*	*56%*
Neither of these but have overdraft	30%	34%	23%	27%	37%

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:

Overdraft activity YEQ4 14 – All with overdraft	Total	Min	Low	Avge	Worse/Avge
Unweighted base:	*4469*	*597*	*1328*	*1280*	*923*
Had an overdraft 'event'	30%	34%	34%	28%	31%
Had automatic renewal	39%	39%	36%	47%	36%
% of overdraft activity that was 'event'	*43%*	*47%*	*49%*	*37%*	*46%*
Neither of these but have overdraft	30%	27%	30%	25%	34%

Q15/ 26/26a All SMEs

Amongst those with an overdraft, analysis by sector showed relatively little variation, with the exception of those in Agriculture or Manufacturing where overdraft 'events' made up a higher proportion of overdraft activity:

Overdraft activity YEQ4 14 – All with overdraft	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*470*	*492*	*803*	*531*	*361*	*412*	*652*	*322*	*426*
Had an overdraft 'event'	43%	37%	31%	27%	29%	22%	26%	27%	34%
Had automatic renewal	30%	34%	39%	33%	45%	43%	45%	35%	46%
% of overdraft activity that was 'event'	*59%*	*52%*	*44%*	*45%*	*39%*	*34%*	*37%*	*44%*	*43%*
Neither of these but have overdraft	27%	29%	30%	39%	26%	35%	29%	37%	19%

Q15/ 26/26a All SMEs

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 that 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 now 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

48% of overdraft applications made in the last 18 months (Q3 2013 to Q4 2014) were to renew an existing facility. A quarter of applicants (23%) were seeking their first ever overdraft while 16% were looking to increase the size of an existing overdraft

Loan applications over the same period were less likely to be a renewal (8%) and more likely to be for new funding: 38% were first time applicants and 41% were seeking a new loan but not their first

Overdrafts were often required for working capital (82% for applications made Q3 2013 to Q4 2014) and this has been consistent over time. Over time, more have mentioned wanting an overdraft to fund growth in the UK (22%). Loans applied for in the last 18 months had a wider range of purposes: 36% to fund expansion in the UK, 24% to buy fixed assets, 21% to buy premises and 19% to develop new products and services

Almost all overdraft applications (99%) were made to the applicant's main bank, and indications from a new question are that almost all applied to just one bank. Loan applications were somewhat different - 88% of applications were made to the applicant's main bank (and this proportion is declining over time) while 8 in 10 applied to just one bank

As before, a minority of applicants sought advice before applying, especially for overdrafts (8% v 19% of those applying for a loan). Advice was more likely to be sought for a larger facility and those who did not seek advice typically felt that they did not need it

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.

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 2014) 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 Q2 2014, irrespective of when the borrowing event occurred), data is now reported on the basis of 'Applications occurring in the 18 months to Q4 2014' (i.e. applications made between Q3 2013 and Q4 2014, irrespective of when the SME was actually interviewed).

Why were they applying?

Overdraft applications

This analysis is based on the revised definition of SMEs that made an application for a new or renewed overdraft facility during the most recent 18 month period, which for this report is Q3 2013 to Q4 2014. Within this 18 month time period, final data is now available for applications made up to the end of Q4 2013. Data on applications in the more recent quarters (in 2014) 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 2014 this was the equivalent of 5% of all SMEs or around 230,000 businesses. Note that this does not include SMEs who had an overdraft automatically renewed.

Just under half of those reporting a Type 1 overdraft event that occurred between Q3 2013 and Q4 2014 said that they had been looking to renew an existing overdraft for the same amount (48%), and this was more common amongst larger applicants. Around a quarter of applicants (23%) were seeking an overdraft for the very first time. 33% of these first time applicants were Starts. Over time the proportion of first time overdraft applicants that were Starts has declined somewhat, from 45% in 2012 to 36% for 2014 to date:

Nature of overdraft event **Sought** new/renewed facility Q3 13- Q4 14	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*1644*	*156*	*592*	*632*	*264*
Renewing overdraft for same amount	48%	40%	56%	64%	65%
Applied for first ever overdraft facility	23%	30%	18%	7%	6%
Seeking to increase existing overdraft	16%	16%	16%	14%	15%
Setting up facility at new bank	4%	5%	3%	4%	5%
Seeking additional overdraft on another account	4%	4%	3%	5%	4%
Seeking to reduce existing facility	2%	2%	2%	4%	2%

Q52 All SMEs seeking new/renewed overdraft facility

Excluding applicants with no employees increases the proportion renewing an existing facility to 58% and reduces the first time applicants to 16% of applications made.

From Q3 2014 an additional code was added to the question above, namely 'Applying for a new overdraft but not your first'. 5% of those interviewed in Q3 and Q4 2014 said that this was the nature of their overdraft application, with little difference by size of SME. There was a slight reduction in the proportion saying they were looking to increase an existing overdraft. This additional code will be incorporated into the analysis as sample sizes permit.

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.

Renewals have consistently been the most common reason for an overdraft event:

Nature of overdraft event SMEs seeking new/renewed facility By application date	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13	Q1* 14	Q2* 14	Q3* 14
Unweighted base:	*681*	*448*	*373*	*473*	*482*	*388*	*365*	*390*	*336*	*304*	*173*
Renewing overdraft for same amount	40%	51%	49%	44%	45%	42%	56%	44%	48%	49%	45%
Applied for first ever overdraft facility	33%	29%	25%	33%	28%	31%	20%	28%	19%	20%	29%
Seeking to increase existing overdraft	20%	11%	17%	14%	13%	17%	16%	17%	20%	12%	13%
Setting up facility at new bank	4%	1%	1%	1%	5%	2%	3%	4%	6%	2%	2%
Seeking additional overdraft on another account	2%	7%	5%	4%	7%	5%	3%	2%	3%	8%	6%
Seeking to reduce existing facility	1%	2%	1%	3%	3%	3%	1%	3%	3%	3%	*

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

The median amount sought as an overdraft facility remained relatively stable at £6,000, ranging from £4,000 amongst 0 employee SMEs seeking a facility to just over £250,000 for those with 50-249 employees:

Amount initially sought, where stated **Sought** new/renewed facility Q3 13- Q4 14	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*1418*	*141*	*527*	*537*	*213*
Less than £5,000	35%	51%	18%	5%	3%
£5,000 – £9,999	20%	24%	17%	4%	2%
£10,000 – £24,999	21%	13%	34%	20%	5%
£25,000 – £99,999	16%	8%	24%	39%	19%
£100,000+	8%	4%	7%	32%	71%
Median amount sought	*£6k*	*£4k*	*£12k*	*£47k*	*£253k*

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

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. 4 in 10 (42%) wanted it as a 'safety net', again with relatively little variation by size. As in previous quarters, overdrafts were much more likely to have been sought to support UK expansion (22%) than expansion overseas (2%):

Purpose of overdraft sought **Sought** new/renewed facility Q3 13- Q4 14	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*1644*	*156*	*592*	*632*	*264*
Working capital for day to day cash flow	82%	83%	81%	81%	77%
Safety net – just in case	42%	43%	40%	39%	35%
Short term funding gap	34%	38%	31%	22%	19%
Fund expansion in UK	22%	22%	21%	19%	18%
Buy fixed assets	12%	11%	13%	11%	6%
Fund expansion overseas	2%	3%	2%	3%	3%

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 81% of those with a low external risk rating to 87% of those with an average risk rating. Those with a minimal risk rating were somewhat less likely to say that they had a short term funding gap (18% v 31-36% for the other ratings).

Looking at the purpose of the overdraft sought over time, working capital was consistently the most mentioned purpose. Funding growth in the UK has been mentioned more in recent quarters than in 2011 or 2012:

Purpose of overdraft SMEs seeking new/renewed facility - by application date	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13	Q1* 14	Q2* 14	Q3* 14
Unweighted base:	*681*	*448*	*373*	*473*	*482*	*388*	*365*	*390*	*336*	*304*	*173*
Working capital for day to day cash flow	81%	75%	80%	78%	89%	88%	81%	76%	86%	80%	88%
Safety net – just in case	38%	34%	45%	31%	35%	30%	47%	42%	46%	38%	31%
Short term funding gap	31%	23%	21%	21%	28%	19%	31%	40%	38%	31%	30%
Fund growth in UK	12%	17%	9%	14%	15%	16%	26%	22%	26%	14%	20%
Buy fixed assets	9%	12%	13%	16%	10%	10%	17%	7%	11%	13%	10%
Fund growth overseas	2%	1%	1%	1%	3%	4%	*	2%	4%	1%	7%

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

More details around the overdraft applications made are provided below:

Overdraft applicants	**Sought** new/renewed facility Q3 13- Q4 14
Applied to main bank	Almost all overdraft applications (99% in the 18 months to Q4 14) were made to the SME's main bank. This varied little by date of application – Q2 2013 being the slight exception with 95% of applications made to main bank.
Application made in a personal name	7% of overdraft applications made in the 18 months to Q4 2014 were in a personal name. This was more common amongst smaller applicants (9% amongst applicants with 0 employees compared to 2% of applicants with either 10-49 or 50-249 employees). Overdraft applications were less likely to be made in a personal name than loan applications (14% for the 18 months to Q4 2014).
How many banks were applied to	In a new question, 97% of those interviewed in Q3 and Q4 2014 said that they had applied to one bank, with little variation by size (98% of those with 0-9 employees and 97% of those with 10-249 employees). Further data will be provided as base sizes increase.
Advice sought	The proportion of SMEs seeking advice before they applied for an overdraft has remained consistently low (8% amongst those applying between Q3 2013 and Q4 2014), and this has changed relatively little over time (it was 10% for 2013 as a whole, compared to 8% for applications in 2014 to date).
Advice by size of facility	Advice was more likely to be sought for larger overdraft facilities – while 6% sought advice for an overdraft of £5,000 or less, and 9% for an overdraft of £5-100,000, 16% sought advice for overdrafts of more than £100,000.
Reasons for not seeking advice	The main reason for not seeking advice remained that it was not felt to be needed (57%), mentioned almost equally by larger and smaller applicants that had not sought advice. A view that the SME had previously been successful with an application (15%) was mentioned more by larger applicants that had not sought advice. 13% of all those not seeking advice said that they did not know who to ask, while 16% 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 (41%), while 26% of those in Agriculture and 22% of those in Construction were looking to increase an existing overdraft:

Overdraft activity **Sought** new/ renewed facility Q3 13- Q4 14	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	***192***	***186***	***299***	***187***	***112***	***123***	***265***	***109***	***171***
Renewing overdraft for same amount	56%	44%	42%	49%	54%	40%	51%	41%	54%
Applied for first ever overdraft	5%	31%	23%	27%	23%	41%	20%	15%	28%
Seeking to increase existing overdraft	26%	14%	22%	13%	10%	15%	14%	7%	10%

Q52 All SMEs seeking new/renewed overdraft facility

Most approached their main bank (99%). The least likely to do so were applicants from the Health (93%) and Manufacturing sectors (96%), but even here almost all applied to their main bank. 7% of all overdraft applicants said that the facility was applied for in their personal name. This was more likely to be the case for applicants from the Health sector (21%).

Those in Agriculture were seeking the highest median overdraft amount at £26,000. For all other sectors the median amount sought ranged from £4-8,000.

The main purpose of the overdraft for all sectors was working capital, ranging from 88% of applicants in the Wholesale/Retail sector to 72% of those in the Other Community sector. This latter sector was more likely than others to say they wanted this facility as a safety net (66%, along with the Health sector 62%). Those in Wholesale/Retail were more likely to cite UK growth as the reason for wanting a facility (35%)

Those in Property/Business Services or Health were the most likely to have sought advice for their application (both 12%) while those in Construction were the least likely (3%).

Loan applications

This analysis is based on the revised definition of SMEs that had made an application for a new or renewed loan facility during the most recent 18 month period, which for this report is Q3 2013 to Q4 2014, irrespective of when they were interviewed. Within this 18 month time period, final data is now available for applications made up to the end of Q4 2013. Data on applications in the more recent quarters (in 2014) 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 2014 this was the equivalent of 3% of all SMEs or around 140,000 businesses.

There have been fewer loan events reported than overdraft events. As a result, even for applications across 18 months to Q4 2014, 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 79% of loan applicants seeking a new loan (compared to 39% for overdrafts), and 4 out of 10 saying this was their first ever loan (compared to 23% for overdrafts). As the table below shows, a first loan was more likely to be the case for smaller SMEs that had applied, and 26% of first time applicants were Starts. As with overdrafts, the proportion of first time loan applicants who were Starts was lower for 2014 to date (22% but on a limited base) than in previous years, having been stable between 2012 and 2013 at 40%:

Nature of loan event **Sought** new/renewed facility Q3 13- Q4 14	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*873*	*88**	*291*	*335*	*159*
Applied for first ever loan	38%	48%	27%	17%	21%
New loan but not our first	41%	41%	41%	43%	42%
Renewing loan for same amount	8%	5%	12%	14%	15%
Topping up existing loan	7%	5%	8%	11%	7%
Refinancing onto a cheaper deal	4%	1%	7%	10%	8%
Consolidating existing borrowing	1%	-	2%	3%	1%
New loan facility after switching bank	1%	*	2%	2%	5%

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

Excluding applicants with 0 employees reduces the proportion of first time applications to 26% of loan applications.

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 (which is not yet the case for Q3 2014). Most applications were for new facilities, shown in the first two rows of the table:

Nature of loan event- SMEs seeking new/renewed facility – By application date	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13	Q1* 14	Q2* 14
Unweighted base:	*305*	*241*	*202*	*244*	*223*	*187*	*193*	*217*	*170*	*173*
Applied for first ever loan	46%	37%	50%	38%	34%	45%	42%	41%	41%	32%
New loan but not our first	25%	30%	30%	41%	37%	39%	32%	39%	33%	51%
Renewing loan for same amount	12%	10%	4%	8%	17%	7%	16%	5%	10%	6%
Topping up existing loan	7%	13%	10%	5%	6%	1%	3%	7%	13%	7%
Refinancing onto a cheaper deal	5%	7%	1%	3%	5%	2%	4%	5%	2%	3%
Consolidating existing borrowing	3%	3%	3%	3%	2%	3%	*	2%	*	1%
New facility after switching banks (new)	*	1%	1%	2%	*	4%	2%	1%	1%	*

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

The median amount sought was £17,000. Sample sizes limit the amount of analysis possible over time, but the majority of loans sought continued to be for £100,000 or less:

Amount initially sought, where stated **Sought** new/renewed facility Q3 13- Q4 14	Total	0 emps	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*751*	*76**	*259*	*283*	*133*
Less than £5,000	14%	20%	8%	2%	3%
£5,000 – £9,999	19%	25%	14%	4%	1%
£10,000 – £24,999	26%	25%	29%	15%	3%
£25,000 – £99,999	26%	26%	27%	29%	11%
£100,000+	15%	4%	23%	50%	83%
Median amount sought	*£17k*	*£10k*	*£23k*	*£87k*	*£460k*

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

Loan applicants were also asked about the extent to which the funding applied for represented the total funding required and how much the business was contributing. The results for applications made in the 18 months to Q4 2014 are shown below, with most applicants (74%) seeking all the funding they required from the bank:

Proportion of funding sought from bank **Sought** new/renewed facility Q3 13- Q4 14	Total	0 emps	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*838*	*83**	*282*	*321*	*152*
Half or less of total sum required	13%	14%	11%	11%	13%
51-75% of sum required	6%	2%	10%	10%	9%
76-99% of sum required	7%	6%	7%	9%	9%
All of sum required sought from bank	74%	77%	71%	70%	68%

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

Overall there was relatively little difference in the proportion seeking all the funding from the bank by size of applicant (68-77%). There was slightly more variation by external risk rating: 89% of those with a minimal risk rating sought all the funding compared to 72-75% across the other risk ratings.

More detailed analysis over time by date of loan application (H2 11 to H2 14) shows most applicants in each period sought all the funding they required from the bank, notably in the first half of 2013:

Proportion seeking all funding from the bank (excl DK) Row percentages	H2 2011	H1 2012	H2 2012	H1 2013	H2 2013	H1* 2014	H2* 2014
All loan applicants	69%	64%	69%	78%	75%	76%	67%
All applicants with 0-9 employees	69%	64%	69%	78%	75%	76%	68%
All applicants with 10-249 employees	65%	67%	70%	76%	74%	68%	58%

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 (36%) or to purchase fixed assets (24%), with relatively little variation by size of applicant. Applicants with 0 employees remained more likely to be buying motor vehicles, while those with employees were more likely to be buying premises:

Purpose of loan **Sought** new/renewed facility Q3 13- Q4 14	Total	0 emps	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*873*	*88**	*291*	*335*	*159*
Fund expansion in UK	36%	39%	33%	30%	37%
Buy fixed assets	24%	26%	21%	22%	25%
Buy motor vehicles	15%	18%	12%	6%	6%
Buy premises	21%	19%	23%	28%	29%
Develop new products/services	19%	20%	20%	13%	10%
Replace other funding	9%	4%	16%	15%	10%
Fund expansion overseas	2%	1%	3%	2%	6%
Take over another business	4%	4%	5%	3%	4%

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:

Purpose of loan SMEs seeking new/renewed facility – by application date	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13	Q1* 14	Q2* 14
Unweighted base:	*305*	*241*	*202*	*244*	*223*	*187*	*193*	*217*	*170*	*173*
Fund expansion in UK	31%	39%	35%	32%	16%	37%	35%	39%	37%	33%
Buy fixed assets	36%	15%	31%	29%	27%	28%	20%	26%	27%	28%
Premises	17%	12%	16%	29%	28%	28%	19%	21%	26%	15%
Buy motor vehicles	22%	33%	16%	18%	29%	18%	9%	18%	6%	21%
Develop new products/services	19%	7%	13%	11%	12%	13%	21%	24%	15%	14%
Fund expansion overseas	3%	2%	1%	1%	1%	3%	1%	2%	*	3%

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

Further details about the loan applications made are summarised in the table below:

Loan applicants	**Sought** new/renewed facility Q3 13- Q4 14
Applied to main bank	88% of loan applications were made to the SMEs main bank, compared to 99% of overdraft applications. Applications made in 2014 to date were less likely to have been made to the main bank (85%) than those made in 2013 (92%) and this was true for both smaller and larger applicants.
Application made in a personal name	14% of loan applications made in the 18 months to Q4 2014 were in a personal rather than a business name. This was more common amongst smaller applicants (14% of those with 0 employees and 15% of those with 1-9 employees) than larger ones (7% if 10-49 employees and 2% if 50-249 employees), and more common overall than for overdraft applications (where 7% were in a personal name).
How many banks were applied to	In a new question from Q3 2014, 85% of those interviewed in Q3 and Q4 2014 said that they had applied to one bank, with some variation by size (86% of those with 0-9 employees and 80% of those with 10-249 employees). This is somewhat lower than the 97% of overdraft applicants who only applied to one bank. Further data will be provided as base sizes increase.
Advice sought	Whereas 8% of overdraft applicants in the 18 months to Q4 2014 had sought external advice before applying, more loan applicants had done so, albeit still a minority (19%).
Advice by size of facility	As with overdrafts, advice was more likely to be sought for larger amounts of loan borrowing. While 14% of those looking to borrow less than £25,000 sought advice, this increased to 28% of those seeking £25-100,000 and 33% of those seeking to borrow more than £100,000.
Reasons for not seeking advice	Half of those applicants that had not sought advice, 52%, said that it was because they did not need it, mentioned more by larger applicants who had not sought advice. Smaller applicants remained more likely to say that they did not know who to ask (mentioned by 18% overall). 13% said that they had been successful with applications in the past and 10% said they did not think it would make much difference, neither of which varied much by size.

Loan applications – a sector summary

Those in the Agriculture sector were less likely to be applying for their first ever loan, and more likely to be renewing an existing facility:

Loan activity **Sought** new/renewed facility Q3 13- Q4 14	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*99**	*87**	*102*	*105*	*90**	*77**	*139*	*85**	*89**
Applied for first ever loan	15%	44%	56%	34%	32%	44%	33%	49%	34%
New loan (other)	31%	29%	38%	40%	46%	28%	53%	40%	42%
Renewing loan for same amount	21%	7%	2%	7%	8%	5%	7%	6%	18%

Q149 All SMEs seeking new/renewed loan facility

Most approached their main bank (88%). The least likely to do so were applicants in the Health sector (where 68% of applications were made to main bank). 14% of all loan applicants said that the facility was applied for in their personal name. This ranged from 35% of applicants from the Health sector and 22% in Construction to 6% of those in Manufacturing.

The highest median loan amounts were sought by applicants from the Agriculture sector (£39k). The lowest median amounts sought were from applicants in Construction (£7k). Those in Agriculture 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 Agriculture for fixed assets and those in Manufacturing for the development of new products and services.

Advice was sought by 19% of loan applicants overall but by 8% of those in Manufacturing and Construction (and by 16-25% of applicants in other 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

The success rate for **all** applications (new/renewed loan or overdraft facilities) is improving over time. It was 76% for applications made in the 18 months to Q4 2014, compared to 67% for the 18 months to Q4 2013

Almost all loan/overdraft renewals were successful (99% for the 18 months to Q4 2014). Success rates for new money were somewhat lower (62%) but have improved steadily since Q3 2013, improving the overall success rate. Those who had borrowed before were more likely to be successful in their application for new funds (73% for applications to date in 2014) than first time applicants (57%) but after previous declines the success rates for both groups are now higher than in 2013

The initial response to 72% of overdraft applications and 53% of loan applications was to offer the applicant what they wanted, and such applicants were typically larger, more established SMEs with a minimal risk rating. Loan applicants were twice as likely as overdraft applicants to be met with an initial decline (32% v 16%) and this was more likely to be the case for smaller, younger SMEs and those applying for their first facility

At the end of the process, 81% of overdraft applicants in the 18 months to Q4 2013 had a facility (70% were offered what they wanted and took it while 11% had their facility 'after issues'). Amongst those applying for a loan over the same period 65% had a facility (49% were offered what they wanted and took it while 16% had their facility 'after issues')

The proportion of overdraft applicants ending the process with a facility has improved steadily over time (it was 74% for the 18 months to Q4 2013). Smaller applicants and those applying for the first time remained less likely to be successful than other applicants but their success rates have increased. Analysis by the type of applicant shows that the recent increase in overdraft success rates is not entirely explained by the profile of applicants and that since the start of 2014, the actual success rate has been ahead of the predicted success rate by a widening margin

The proportion of loan applicants ending the process with a facility has also improved somewhat over time (it was 58% for the 18 months to Q4 2013). Those applying for the first time remained less likely to be successful than other applicants but their success rates have increased. Analysis by the type of applicant shows that the recent increase in loan success rates is partly explained by the profile of applicants – of the most recent four quarters, two have had a higher success rate than predicted

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 2014 remains interim.

6% of loan and 5% of overdraft applicants in the 18 months to Q4 2014 had not received a response to their application by the time of our survey. Details of these applications were included in the data in the preceding chapter but 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 Q1 2012. Full data on all applications since the SME Finance Monitor started can be found in the charts at the end of this report. For the 18 months to Q4 2014, 76% of all applications were successful and this success rate is improving over time (it was 67% for the 18 months to Q4 2013):

Final outcome (Overdraft+Loan): SMEs seeking new/renewed facility - By date of application	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13	Q1* 14	Q2* 14	Q3* 14
Unweighted base:	*943*	*650*	*544*	*674*	*678*	*548*	*531*	*589*	*471*	*464*	*239*
Offered what wanted and took it	55%	54%	51%	58%	51%	43%	62%	56%	62%	68%	76%
Took facility after issues**	12%	14%	17%	17%	13%	15%	11%	16%	16%	10%	11%
Have facility (any)	*67%*	*68%*	*68%*	*75%*	*64%*	*58%*	*73%*	*72%*	*78%*	*78%*	*87%*
Took another form of funding	4%	3%	6%	4%	7%	8%	4%	6%	9%	4%	2%
No facility	28%	29%	26%	21%	30%	33%	23%	23%	13%	18%	12%

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

The table shows that, following a slight 'dip' in success rates in Q1 and Q2 2013, success rates for applications made in recent quarters have improved steadily over time to around 8 in 10 applicants having a facility (albeit the results for the most recent quarters are still based on interim data).

The further analysis model suggests that the increased success rate for overdrafts is not a reflection of the profile of applicants in those quarters, with success rates for applications made in 2014 above those predicted by the model. For loans the picture is more mixed. The model predicts slightly higher success rates for recent quarters based on the profile of applicants, which have been exceeded in 2 of the last 4 quarters for which robust data is available.

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 results for the most recent quarters should always be viewed in this context.

Further analysis of all Type 1 applications (i.e.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. Before that analysis, 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 revised definition of SMEs that made an application for a new or renewed loan or overdraft facility during the 18 months from Q3 2013 to Q4 2014 (irrespective of when they were interviewed) who have received a response from the bank.

The tables below record the initial response from the bank to applications made in this period. The initial response to 72% of overdraft applications was to offer the SME what it wanted, compared to 53% of loan applications. Larger SMEs remained much more likely to have been offered what they wanted at this initial stage:

Initial response (Overdraft): **Sought** new/renewed facility Q3 13- Q4 14	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*1573*	*152*	*563*	*605*	*253*
Offered what wanted	72%	67%	76%	83%	90%
Offered less than wanted	6%	6%	6%	5%	3%
Offered unfavourable terms & conditions	6%	7%	5%	6%	2%
Declined by bank	16%	20%	12%	6%	4%

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

Initial response (Loan): **Sought** new/renewed facility Q3 13- Q4 14	Total	0 emps	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*820*	*81**	*269*	*317*	*153*
Offered what wanted	53%	49%	57%	73%	84%
Offered less than wanted	7%	6%	9%	3%	6%
Offered unfavourable terms & conditions	8%	9%	5%	10%	3%
Declined by bank	32%	36%	29%	13%	6%

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

Amongst applicants with employees, 77% were initially offered the overdraft they wanted and 60% the loan they wanted. Such applicants were less likely to have been declined at this stage – 11% of overdraft applicants with employees were initially declined by the bank, and 26% of loan applicants with employees.

SMEs more likely to be initially offered what they wanted included those applying to renew an existing overdraft (90% were offered what they wanted) or loan (88%), and those with a minimal external risk rating (90% were offered the overdraft they wanted, 72% the loan).

SMEs more likely to be met with an initial decline included those applying for their first ever overdraft (39% were initially declined) or loan (41%) or with a worse than average external risk rating (26% initially declined if applying for an overdraft, 42% 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 up until the middle of 2013, around 6 in 10 applicants were initially offered what they wanted. Since then, the proportion has increased and is closer to 8 in 10 for the most recent quarters. Application data for 2014 is of course 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 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13	Q1* 14	Q2* 14	Q3* 14
Unweighted base (Overdraft):	*656*	*425*	*355*	*452*	*466*	*372*	*348*	*379*	*315*	*298*	*165*
Offered what wanted and took it	59%	61%	63%	63%	57%	57%	72%	65%	72%	76%	79%
Any issues (amount or T&C)	13%	11%	14%	16%	8%	14%	17%	12%	15%	9%	4%
Declined overdraft	27%	28%	23%	21%	35%	29%	11%	23%	13%	15%	17%

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

With fewer loan applications made each quarter, it is harder to discern a pattern over time. As with the data on overdrafts, the most recent data for 2014 is still interim:

Initial response: SMEs seeking new/renewed loan facility – by date of application	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13	Q1* 14	Q2* 14
Unweighted base (Loan)	*287*	*225*	*189*	*222*	*212*	*176*	*183*	*210*	*156*	*166*
Offered what wanted and took it	56%	47%	36%	51%	49%	28%	53%	45%	53%	59%
Any issues (amount or T&C)	7%	16%	15%	18%	14%	6%	16%	20%	9%	8%
Declined loan	37%	37%	49%	30%	37%	65%	31%	35%	37%	33%

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

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

The subsequent journey

The next section of this chapter 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 2013 to Q4 2014, 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. 7 out of 10 overdraft applicants (69%) and 5 out of 10 loan applicants (48%) were offered the facility they wanted and went on to take it with no issues:

Journey summary All seeking facility Q3 2013 to Q4 2014	Overdraft	Loan
Unweighted base:	*1573*	*820*
Initially offered what they wanted and went on to take the facility with no issues	69%	48%
Initially offered what they wanted, but had 'issues' before they got facility	1%	4%
Had issues with the initial offer, and now have a facility 'after issues'	8%	11%
Were initially turned down, but now have a facility	1%	2%
Had issues with the initial offer made so took alternative funding instead	1%	*
Were initially turned down, so took alternative funding instead	4%	7%
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	4%	4%
Initially turned down and now have no facility at all	12%	22%

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

83% of those overdraft applicants who ended the process with no facility had been declined by the bank initially, while the remaining 17% were made an offer but in the end did not take the facility. This is the equivalent of 4% of all overdraft applicants in the last 18 months receiving the offer of an overdraft but ending the process with no facility.

For loans, 83% of the applicants who ended the process with no facility had also been initially declined by the bank, leaving 17% 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 2013 to Q4 2014
Those offered what wanted (72% of applicants)	These SMEs were typically larger and well established: they were more likely to have been in business for 15+ years (45% v 38% of all overdraft applicants) and very few were Starts (9% v 17% of all overdraft applicants). They were also more likely to have a minimal or low risk rating (32% v 26% of all overdraft applicants). They were the least likely to be applying for their first overdraft (14% v 23% of all overdraft applicants) and more likely to be seeking a facility in excess of £25,000 (28% v 24% of all overdraft applicants).
Those offered less than wanted (6% of applicants)	These SMEs were younger and seeking a smaller overdraft: They were more likely to be a Start (38% v 17% of all overdraft applicants) and to have a worse than average risk rating (62% v 46% of all overdraft applicants). 55% were 0 employee SMEs v 54% of all overdraft applicants. They were more likely to be looking to increase an existing overdraft (24% v 16% of all overdraft applicants) with 54% seeking a facility of £5,000 or less (v 35% of all overdraft applicants).
Those offered unfavourable T&C (6% of applicants)	These SMEs were more likely to be 0 employee SMEs (61% v 54% of all overdraft applicants), to have an average external risk rating (42% v 27% of all overdraft applicants and to be a Start (27% v 17% of all overdraft applicants). They were typically either seeking their first overdraft facility (37% v 23% of all overdraft applicants) or looking to renew an existing facility (43% v 48% of all overdraft applicants) and unlikely to be extending an existing facility (5% v 16% of all overdraft applicants). They were likely to be seeking a facility of £5,000 or less (47% v 35% of all overdraft applicants), although 27% were looking for £25,000+ (v 24% of all overdraft applicants).
Those initially declined (16% of all applicants)	These SMEs continue to have a more distinctive profile: 68% were 0 employee SMEs (v 54% of all overdraft applicants) and 73% had a worse than average external risk rating (v 46% of all overdraft applicants). 17% had been in business for 15 years or more (v 38% of all overdraft applicants) 57% were seeking their first overdraft facility (v 23% of all overdraft applicants) and just 9% were looking for more than £25,000 (v 24% of all overdraft applicants.

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

Summarised below for all applications made in the 18 months Q3 2013 to Q4 2014 (and reported to date), is what happened after the bank's initial response to the overdraft application and any issues around the application. Base sizes for some groups remain small:

Initial offer	Subsequent events - all seeking overdraft Q3 2013 to Q4 2014
Offered what wanted (72% of applicants) Q64-65	98% of those offered what they wanted went on to take their facility with no issues. 2% experienced a delay or issue, typically supplying further information, or waiting for valuations/legal work to be completed.
Issue: Offered less than wanted (6% of applicants) Q85-95	These SMEs were typically offered 40-90% of what they had asked for (no clear pattern over time on a small base). New answer codes of reasons for being offered less than they wanted were added in Q1 2014, meaning that answers given by those interviewed in 2013 are not directly comparable with those interviewed more recently. The 2014 answers are shown below: 8% said they were not given a reason for being offered less (excluding those who couldn't remember). The main reasons given were: • credit history issues – 34% of those offered less than they wanted • a need for more equity in the business (31%) • no / insufficient security (16%) or applied for too much (6%) • 5% of applicants interviewed in 2014 said the bank offered them less due to the affordability of repayments (a new code). 15% said that they had not been offered advice by their lender at this stage. 29% received advice they rated as good, while 38% thought it was poor. Sample sizes are limited but qualitatively, in 2014, such applicants were more likely to be offered advice and to rate it as good. 19% managed to negotiate a higher facility at the original bank, and 2% at another bank. 51% ended up accepting the original offer made by the bank, while 3% accepted an offer at another bank for the same amount. 3% took some other form of funding while 22% ended the process with no facility at all. 9 out of 10 of those who now have an overdraft obtained at least half of the amount they had originally sought, typically in line with the bank's initial response.

Initial bank response	Subsequent events – all seeking overdraft Q3 2013 to Q4 2014
Issue: Offered unfavourable T&C (6% of applicants) Q96-97	The 'unfavourable' terms and conditions were most likely to relate to: • the proposed fee – 53% of those offered what they saw as unfavourable T&C • the proposed interest rate – 23% of these applicants • security (the amount, type sought or cost of putting it in place) – mentioned by 24% of these applicants. The fee continued to be mentioned more by smaller applicants, and security by larger applicants. 21% of applicants offered what they saw as unfavourable terms and conditions said they managed to negotiate a better deal than the one originally offered – 18% at the bank they had originally applied to and 3% at another bank. 49% accepted the deal they were offered (almost all at the original bank). 13% took other funding, while 29% 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 (16% of all applicants):

Initially declined	Subsequent events – all seeking overdraft Q3 2013 to Q4 2014
Reasons for decline Q70	New answer codes for the reasons behind the initial decline were added in Q1 2014, meaning that answers given by those interviewed in 2013 are not directly comparable with those interviewed in 2014. Answers provided in 2014 are shown below. 14% of those initially declined said that they had not been given a reason (excluding those who could not remember the reasons given): • 42% said the decline related to their personal and/or business credit history • 4% mentioned issues around security • Also mentioned were too much existing borrowing, a weak balance sheet or asking for too little • 2% of those interviewed in 2014 gave the new answer code that the bank did not think they could afford the repayments.
How decline was communicated Q70a-b	These questions were not asked in 2014.
Advice and alternatives Q71-80	10% 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. Where an alternative was offered, this was most likely to be invoice finance, a credit card, or occasionally a loan. Two-thirds thought the advice offered by their lender at that stage had been poor (62%), while 13% said that it had been good and 13% said they were not offered any advice (with little variation by size). On limited base sizes there is no clear pattern for being offered advice over time, but such advice was more likely to be rated as good in 2014. More generally, 4% of those initially declined reported that they had been referred to sources of help or advice by the bank, while a further 4% sought their own external advice without a recommendation. On a small base of advice seekers, 6 out of 10 had found this external advice useful.

Initially declined	Subsequent events – all seeking overdraft Q3 2013 to Q4 2014
Appeals Q73-75	From April 2011, a new appeals procedure has been in operation. 17% of applicants initially declined Q3 2013 to Q4 2014 said they were made aware of the appeals process (excluding DK) – 12% by their bank and 5% by someone else. There are some indications that awareness of appeals is increasing: amongst those applying in 2012, 13% said that they were made aware of the appeals process. For 2013 the figure was 17%, and for 2014 to date 25%. 15% of those made aware said that they went on to appeal, representing around 2% of those initially declined. This means that 3 SMEs interviewed for the Monitor in this period had appealed and in all 3 cases the bank had not changed its decision. 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 <u>reported</u> since Q3 2012, 16 SMEs have appealed. In 3 instances the bank changed its decision, in 10 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, 70% of applicants initially declined had no funding at all, and this was more likely if the applicant was a smaller SME (70% v 47%). 9% 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 80% or more of the funding they had initially sought. Some secured alternative funding (21%), 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 revised 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 of Q3 2013 to Q4 2014, irrespective of when they were interviewed.

Most of these applicants, 70%, had the overdraft facility they wanted, and a further 11% secured an overdraft after having issues related to the amount or the terms and conditions of the bank's offer. 14% of all applicants ended the process with no overdraft. Note that this table does **not** include automatically renewed overdrafts.

Final outcome (Overdraft): **Sought** new/renewed facility Q3 13- Q4 14	All overdraft Type 1 applicants
Unweighted base:	*1573*
Offered what wanted and took it	70%
Took overdraft after issues	11%
Have overdraft (any)	*81%*
Took another form of funding	4%
No facility	14%

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

Before looking at the detailed results 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 2013, by key demographics. As already explained, for the more recent 18 month periods (from Q4 2012 - Q1 2014 onwards), data is still being added as respondents in Q1 2015 will be able to report on an application made from Q1 2014 onwards.

This table shows a steady improvement in overdraft success rates over recent 18 month periods, to 81% for the current period, which is the highest recorded to date on the SME Finance Monitor. The improvement is driven by applicants with fewer than 10 employees, while success rates for larger applicants remain higher and more stable. There has also been an improvement in the success rate amongst first time applicants, currently 49%, albeit they remain less likely to be successful than other applicants.

% of applicants ending process with overdraft facility	18 month periods						
Over time – row percentages By 18 month period of application	Q1 12 Q2 13	Q2 12 Q3 13	Q3 12 Q4 13	Q4 12 Q1 14*	Q1 13 Q2 14*	Q2 13 Q3 14*	Q3 13 Q4 14*
All SMEs	**72%**	**74%**	**74%**	**75%**	**76%**	**80%**	**81%**
0 employee	66%	68%	68%	69%	69%	74%	75%
1-9 employees	77%	78%	79%	81%	83%	86%	87%
10-49 employees	90%	91%	91%	91%	92%	92%	93%
50-249 employees	96%	96%	96%	96%	96%	96%	96%
Minimal external risk rating	96%	97%	96%	95%	95%	95%	96%
Low external risk rating	85%	91%	91%	90%	91%	90%	91%
Average external risk rating	84%	83%	83%	83%	82%	89%	90%
Worse than average external risk rating	61%	60%	59%	63%	63%	66%	68%
Agriculture	91%	91%	90%	88%	90%	91%	91%
Manufacturing	78%	70%	71%	68%	68%	72%	72%
Construction	65%	68%	75%	77%	79%	84%	85%
Wholesale/Retail	74%	73%	69%	72%	70%	71%	74%
Hotels & Restaurants	63%	62%	65%	70%	73%	77%	82%
Transport	48%	51%	53%	54%	54%	62%	67%
Property/Business Services etc.	73%	73%	71%	74%	76%	79%	77%
Health	82%	84%	87%	87%	88%	88%	95%
Other Community	79%	95%	94%	93%	94%	95%	95%
First time applicants	36%	34%	34%	37%	40%	44%	49%
Increasing an existing facility	78%	78%	78%	75%	73%	78%	76%
Renewals	94%	97%	98%	99%	99%	99%	99%

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

Overdraft final outcome - applications made Q3 2013 to Q4 2014

By size of business, overdraft applicants with more than 10 employees remained the most likely to have been offered, and taken, the overdraft they wanted and so were more likely now to have a facility. 1 in 5 applicants with 0 employees ended the process with no facility:

Final outcome (Overdraft): **Sought** new/renewed facility Q3 13- Q4 14	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*1573*	*152*	*563*	*605*	*253*
Offered what wanted and took it	70%	66%	74%	80%	87%
Took overdraft after issues	11%	10%	13%	13%	8%
Have overdraft (any)	*81%*	*76%*	*87%*	*93%*	*95%*
Took another form of funding	4%	5%	3%	2%	1%
No facility	14%	19%	9%	5%	3%

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

Amongst applicants with employees, 88% ended the process with an overdraft facility (75% offered what they wanted and 13% had an overdraft after issues). 9% ended the process with no overdraft.

Analysis of the final outcome by external risk rating showed a clear difference for those rated a worse than average risk, where a quarter ended their journey with no facility at all:

Final outcome (Overdraft): **Sought** new/renewed facility Q3 13- Q4 14	Total	Min	Low	Average	Worse/Avge
Unweighted base:	*1573*	*229*	*440*	*406*	*383*
Offered what wanted and took it	70%	87%	79%	74%	59%
Took overdraft after issues	11%	9%	12%	16%	9%
Have overdraft (any)	*81%*	*96%*	*91%*	*90%*	*68%*
Took another form of funding	4%	2%	5%	1%	7%
No facility	14%	2%	4%	9%	25%

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 (66%), and those in Agriculture still more likely (91%), together with those in the Health (96%) and Other Community sectors (95%):

Final outcome (Overdraft): **Sought** new/renewed facility Q3 13- Q4 14	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*185*	*181*	*284*	*175*	*104*	*123*	*249*	*109*	*163*
Offered what wanted and took it	83%	58%	76%	60%	68%	63%	66%	65%	87%
Took overdraft after issues	8%	15%	9%	14%	14%	3%	11%	31%	8%
Have overdraft (any)	*91%*	*73%*	*85%*	*74%*	*82%*	*66%*	*77%*	*96%*	*95%*
Took another form of funding	2%	11%	5%	2%	5%	6%	4%	3%	2%
No facility	6%	16%	10%	25%	13%	27%	19%	2%	3%

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. First time applicants remain more likely than others to end the process with no facility (45%) but the success rate for first time applicants, at 49%, is higher than has been seen in recent periods:

Final outcome (Overdraft): **Sought** new/renewed facility Q3 13- Q4 14	Total	1st overdraft	Increased overdraft	Renew overdraft
Unweighted base:	*1573*	*177*	*238*	*956*
Offered what wanted and took it	70%	43%	61%	89%
Took overdraft after issues	11%	6%	15%	10%
Have overdraft (any)	*81%*	*49%*	*76%*	*99%*
Took another form of funding	4%	6%	16%	*
No facility	14%	45%	8%	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 2014 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 - 46% of these Starts were looking for their first overdraft while a third (30%) of all the first time applications above were made by Starts:

Final outcome (Overdraft): **Sought** new/renewed facility Q3 13- Q4 14 By age of business	Starts	2-5 yrs	6-9 yrs	10-15 yrs	15+ yrs
Unweighted base:	*113*	*138*	*167*	*266*	*889*
Offered what wanted and took it	40%	63%	76%	76%	82%
Took overdraft after issues	22%	7%	14%	7%	9%
Have overdraft (any)	*62%*	*70%*	*90%*	*83%*	*91%*
Took another form of funding	5%	7%	2%	7%	2%
No facility	33%	22%	9%	9%	7%

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

The proportion of Starts with a facility 'after issues' is higher than in previous periods due to a higher proportion with this outcome for applications made in 2014. This though is still interim data and will be monitored over time.

The proportion of applications/renewals made for £5,000 or less increased over the course of 2010 and 2011 to half of all applications. Since then the proportion of applications made for £5,000 or less has declined steadily and is currently 34% of applications made in 2014 to date.

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, and this was also the case for 2013 (61%). For applications made to date in 2014 the success rate is somewhat higher at 71%.
- Those in the middle (who applied for £5-25,000) became slightly less likely to be successful over time, from around 90% to around 70% of these applicants having an overdraft, up to the end of 2013. For applications to date in 2014 the success rate is somewhat higher at 85%.

Analysis on the size of overdraft facility granted over time is now provided in the chapter on rates and fees, as context for the pricing information 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. This shows that in most quarters since Q3 2013, at least 8 out of 10 applicants have ended the process with an overdraft facility:

Final outcome (Overdraft): SMEs seeking new/renewed facility By date of application	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13	Q1* 14	Q2* 14	Q3* 14
Unweighted base:	*656*	*425*	*355*	*452*	*466*	*372*	*348*	*379*	*315*	*298*	*165*
Offered what wanted and took it	57%	59%	60%	61%	53%	54%	72%	64%	68%	74%	79%
Took overdraft after issues	14%	12%	17%	15%	13%	20%	9%	10%	17%	11%	8%
Have overdraft (any)	*71%*	*71%*	*77%*	*76%*	*66%*	*74%*	*81%*	*74%*	*85%*	*85%*	*87%*
Took other funding	3%	2%	2%	5%	4%	5%	4%	5%	8%	1%	1%
No facility	27%	26%	22%	19%	30%	21%	15%	21%	7%	14%	12%

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 and Q1 2014 were more likely to report that they took their overdraft 'after issues' – applicants in Q2 2013 were somewhat more likely than others to have been declined initially, but this was not the case on the data currently available for Q1 2014, which will be monitored going forward.

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

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

- The proportion of applicants with a worse than average risk rating increased from 43% in 2010 to 53% for 2012. It then dropped slightly to 48% in 2013 and is currently 47% for 2014 to date.
- The proportion of first time applicants increased from 25% in 2010 and 2011 to 30% in 2012. It then dropped back again to 26% for 2013 and is currently 22% for 2014 to date.

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

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

The model predicts an overdraft success rate between 71% and 80% for the individual quarters. The predicted success rate for the quarters in 2014 has typically been somewhat higher than for earlier quarters:

Final outcome (Overdraft): SMEs seeking new/renewed facility By date of application	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13	Q1* 14	Q2* 14	Q3* 14
Unweighted base:	*656*	*425*	*355*	*452*	*466*	*372*	*348*	*379*	*315*	*298*	*165*
Have overdraft (any)	*71%*	*71%*	*77%*	*76%*	*66%*	*74%*	*81%*	*74%*	*85%*	*85%*	*87%*
Predicted success rate	71%	74%	78%	74%	75%	75%	80%	75%	80%	77%	76%
Difference	0	-3	-1	+2	-9	-1	+1	-1	+5	+8	+11

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 up to the start of 2014 (with the exception of Q1 2013 when the lower success rate was not predicted by the model). The increase in actual success rates in 2014 is not entirely explained by the profile of applicants, as the 'gap' between the current and predicted success rate widens.

The impact of automatic renewals on overdraft success rates

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 been identified since Q4 2012.

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 81% to 91%:

Final outcome (Overdraft): Sought new/renewed facility Q3 13-Q4 14	Type 1 events	Type 1 + automatic renewal
Unweighted base:	***1573***	***2840***
Offered what wanted and took it	70%	33%
Took overdraft after issues	11%	6%
Automatic renewal	-	*52%*
Have overdraft (any)	***81%***	***91%***
Took another form of funding	4%	2%
No facility	14%	7%

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.

7% of those making an overdraft application in the past 18 months (Q3 2013 to Q4 2014) said that the facility they had sought was in a personal capacity. On this limited sample, around two thirds of these personal overdraft applications were from 0 employee SMEs and/or those seeking a facility of less than £5,000, with half having a worse than average external risk rating.

Sample sizes are too small currently to report on the outcome of the application by whether it was a personal or business application. However, excluding the personal applications does not alter the overdraft success rate for applications made in the most recent 18 month period.

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 who reported an automatic renewal between Q3 2013 and Q4 2014, 18% 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.

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 2013 to Q4 2014) receiving each initial answer from their bank varied. Note that due to small base sizes the 'offered less than wanted' and 'offered unfavourable T&C' groups have been combined for this report, to boost the base size to over 100 applicants:

Initial bank response	Profile- all seeking loan Q3 2013 to Q4 2014
Those offered what wanted (53% of applicants)	These were typically more established SMEs: 42% had been in business for 15 years or more (v 29% of all loan applicants) and 48% had employees (v 43% of all applicants). They had the best external risk rating profile, with 33% having a minimal or low risk rating (v 23% of all loan applicants). They were less likely to be applying for their first ever loan (29% v 38% of all loan applicants), with 44% looking for a new loan but not their first (v 41% of all loan applicants). 47% were applying for a loan in excess of £25,000 (v 41% of loan applicants overall).
Those offered less than wanted / unfavourable T&Cs (15% of applicants)	These SMEs were more likely to be Starts (24% v 18% overall). Their risk and employee profile was in line with applicants overall. This group was the most likely to be applying for a loan in excess of £25,000 (53% v 47% of all loan applicants) and also the most likely to be applying for their first ever loan (53% v 38% of all loan applicants).
Those initially declined (32% of applicants)	As with the equivalent overdraft applicants, those initially declined for a loan had a more distinctive profile. They were less likely to be an established business (17% in business for 10 years or more v 42% of all loan applicants) and more likely to be a one man band (65% had 0 employees v 57% of all loan applicants). They were also more likely to have a worse than average risk rating (62% v 46% of all loan applicants). Half, 49%, were applying for their first ever loan (v 38% of all loan applicants) and 77% were seeking a facility of £25,000 or less (v 59% of all loan applicants).

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

Summarised below for all loan applications made in the 18 months Q3 2013 to Q4 2014 (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 2013 to Q4 2014
Offered what wanted (53% of applicants) Q159-164	92% of those offered what they wanted went on to take the loan with no problems. 7% took the loan after some issues (typically waiting to see the RM or for a decision to be made or having to supply more information). Almost all took the full amount they had originally asked for. 1% of these applicants decided not to proceed with the loan they had been offered.
Issue: Offered less than wanted (7% of applicants) Q180-190	Note that there are just 44 respondents for this section, and so results are qualitative at best. These SMEs were typically offered 50% or more of what they asked for. New answer codes have been included from Q1 2014, meaning that the results for interviews in 2013 are not strictly comparable so only 2014 answers are reported. On small base sizes, it remains true that security remains the main reason for not being offered the whole amount asked for and that very few of these most recent applicants said that they had not been given a reason (<5%, excluding those who could not remember). On a small base, the advice offered at this stage was more likely to be rated good (half) than poor (a quarter) while 7% were not given any advice. Two thirds accepted the lower amount offered (half with the original bank applied to), while 1 in 10 managed to negotiate a better deal, predominantly with the original bank. 4% took other borrowing and 1 in 5 has 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 (8% of applicants) Q191-195	The unfavourable terms (excluding those who didn't know) typically related to the proposed interest rate (57%). The proposed fee was mentioned by 35% of these applicants, and issues around security (level, type requested and/or cost) by 19%. 56% managed to negotiate a better deal (at either the original bank or another bank) while 6% accepted the deal offered, most with the original bank. 18% took another form of funding. 37% 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 (32% of applicants). Some analysis by date of application is possible.

Initially declined	Subsequent events – all seeking loan Q3 2013 to Q4 2014
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). The answer codes available were changed in Q1 2014 and while the main reasons given remain the same, the results are not directly comparable so only the 2014 results are shown below: • 30% said that the decline related to their personal and/or business credit history (especially smaller applicants) • 25% mentioned issues around security • 13% said they had a weak balance sheet while 3% said they had too much existing borrowing
How decline was communicated Q165a-b	These questions were not asked in 2014.
Advice and alternatives Q166-7 and 171-175	9% of those initially declined said that the bank had either offered them an alternative form of funding to the declined loan or suggested alternative sources of external finance. Two thirds (61%) thought that the advice their lender had offered at that stage had been poor, 14% thought it had been good while 9% had not been offered any advice. The proportion saying they received no advice has declined over time 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 14% for the most recent 18 month period. More generally, 11% of those initially declined reported that they had been referred to any other sources of help or advice by the bank, while a further 7% sought their own external advice without a recommendation, with no clear trend over time. On a small base, 8 in 10 found these external sources of use, also with no clear trend over time.

Initially declined	Subsequent events - all seeking loan Q3 2013 to Q4 2014
Appeals Q168-170	From April 2011, a new appeals procedure was introduced. The analysis below is mainly based as elsewhere in this report on all applications made in the last 18 months (Q3 2013 to Q4 2014). Amongst this group of applicants who were initially declined, 11% said that they were made aware of the appeals process (9% by their bank and 2% by someone else, excluding DK). Unlike overdrafts, awareness of appeals has not increased for more recent applications - awareness of appeals was slightly higher for those declined in 2013 (14%) than it was for those declined in 2012 (8%), but is 10% for 2014 to date. 19% of those made aware went on to appeal, the equivalent of around 2% of SMEs that had been declined for a loan, providing anecdotal evidence at best about the appeals process. Of these 6 declined applicants, 2 appealed and the bank changed its decision, 2 appealed but the decision was upheld, 2 appealed but had not heard yet. The 18 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 reported on the Monitor from Q3 2012, 25 SMEs have appealed. In 7 instances the bank changed its decision, in 13 the original decision was upheld and 5 were still waiting to hear at the time of interview.
Outcome Q176-179	At the end of this period, 8% of those initially declined for a loan had managed to secure a loan with either the original bank or a new supplier. 22% had secured alternative funding, with friends/family and/or personal borrowing most likely to be mentioned. 70% of those initially declined did not have a facility at all, and this has changed very little year on year.

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 revised definition of SMEs that made an application and had received a response for a new or renewed loan facility during the most recent 18 month period of Q3 2013 to Q4 2014, irrespective of when they were interviewed.

Just over half, 65%, of loan applicants now have a loan facility. 27% of applicants ended the process with no facility.

Final outcome (Loan): **Sought** new/renewed facility Q3 13- Q4 14	All loan Type 1 applicants
Unweighted base:	*820*
Offered what wanted and took it	49%
Took loan after issues	16%
Have loan (any)	*65%*
Took another form of funding	7%
No facility	27%

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

Before looking at the results for loan applications made in the latest 18 month period in more detail, the summary table below records the proportion who 'Have loan (any)' for a series of 18 month periods, stretching back to Q1 2012, by key demographics. As already explained, for the more recent 18 month periods (Q4 2012 – Q1 2014 onwards), data is still being added as respondents in Q1 2015 can report on an application made from Q1 2014 onwards.

The table shows a steadily improving success rate, with 65% of loan applicants in the current 18 month period ending the process with a facility (albeit this is interim data). The increase in success rates has been seen across most size bands and risk ratings, with the exception of applicants with 10-49 employees (where success rates are stable) and those with a minimal risk rating (where success rates are currently somewhat lower than were seen in 2013).

% of applicants ending process with loan facility	18 month periods						
Over time – row percentages By 18 month period of application	Q1 12 Q2 13	Q2 12 Q3 13	Q3 12 Q4 13	Q4 12 Q1 14*	Q1 13 Q2 14*	Q2 13 Q3 14*	Q3 13 Q4 14*
All SMEs	56%	56%	58%	59%	58%	60%	65%
0 employee	51%	50%	52%	53%	52%	52%	61%
1-9 employees	61%	61%	61%	63%	63%	67%	68%
10-49 employees	84%	84%	85%	86%	85%	86%	86%
50-249 employees	88%	87%	87%	90%	92%	92%	94%
Minimal external risk rating	89%	88%	82%	80%	80%	83%	82%
Low external risk rating	74%	76%	78%	79%	80%	83%	86%
Average external risk rating	58%	59%	63%	64%	64%	71%	72%
Worse than average external risk rating	48%	45%	46%	48%	47%	45%	55%
Agriculture	87%	84%	86%	91%	85%	85%	82%
Manufacturing	60%	65%	67%	71%	72%	81%	81%
Construction	44%	46%	56%	55%	55%	55%	56%
Wholesale/Retail	53%	51%	47%	54%	48%	49%	60%
Hotels & Restaurants	62%	62%	55%	53%	49%	54%	52%
Transport	50%	45%	42%	36%	46%	49%	60%
Property/Business Services etc.	57%	58%	58%	62%	58%	57%	62%
Health	45%	46%	57%	52%	57%	72%	85%
Other Community	62%	61%	62%	59%	66%	65%	78%
First time applicants	40%	40%	45%	45%	44%	48%	56%
Other new facility	63%	59%	60%	60%	59%	59%	66%
Renewals	81%	91%	89%	91%	94%	94%	94%

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

Final outcome – loan applications made Q3 2013 to Q4 2014

By size of business, smaller loan applicants remained less likely to have a facility. 94% of applicants with 50-249 employees had a loan, while 3 out of 10 of the smallest applicants ended the process with no facility:

Final outcome (Loan): <u>**Sought**</u> new/renewed facility Q3 13- Q4 14	Total	0 emps	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*820*	*81**	*269*	*317*	*153*
Offered what wanted and took it	49%	46%	50%	68%	80%
Took loan after issues	16%	15%	18%	18%	14%
Have loan (any)	***65%***	***61%***	***68%***	***86%***	***94%***
Took another form of funding	7%	8%	7%	4%	4%
No facility	27%	30%	25%	10%	2%

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

Amongst loan applicants with employees, 71% ended the process with a loan (53% were offered what they wanted and 18% had the loan after issues). 22% ended the process with no loan facility.

As with overdrafts, there was a clear difference in outcome by external risk rating. Applicants with a minimal or low external risk rating were more likely to have been offered the loan they wanted than those with a worse than average risk rating:

Final outcome (Loan): <u>**Sought**</u> new/renewed facility Q3 13- Q4 14	Total	Min	Low	Avge	Worse/ Avge
Unweighted base:	*820*	*127*	*231*	*222*	*179*
Offered what wanted and took it	49%	70%	71%	53%	35%
Took loan after issues	16%	12%	15%	19%	20%
Have loan (any)	***65%***	***82%***	***86%***	***72%***	***55%***
Took another form of funding	7%	11%	*	10%	8%
No facility	27%	7%	14%	17%	38%

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 indicative for many sectors. Those in Agriculture, Health or Manufacturing were the most likely to have a loan, while those in the Construction, Wholesale/Retail or Hotel and Restaurant sectors were more likely to end the process with no facility:

Final outcome (Loan): **Sought** new/renewed facility Q3 13- Q4 14	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*95**	*79**	*96**	*99**	*81**	*74**	*131**	*80**	*85**
Offered what wanted and took it	69%	43%	53%	42%	37%	37%	48%	73%	49%
Took loan after issues	13%	38%	3%	18%	15%	23%	14%	12%	29%
Have loan (any)	*82%*	*81%*	*56%*	*60%*	*52%*	*60%*	*62%*	*85%*	*78%*
Took another form of funding	4%	*	10%	3%	6%	11%	14%	5%	4%
No facility	14%	18%	35%	37%	41%	29%	24%	9%	18%

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

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

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, albeit that success rates for first time loan applicants have shown some signs of improvement in recent periods.

Those applying for their first loan remained more likely to end the process with no facility (37%), with a higher success rate amongst those applying for a new loan, but not their first (66%). Almost all those who renewed an existing loan now have a facility (94%):

Final outcome (Loan): **Sought** new/renewed facility Q3 13- Q4 14	Total	1st loan	New loan	Renew loan
Unweighted base:	*820*	*190*	*333*	*121*
Offered what wanted and took it	49%	35%	55%	83%
Took loan after issues	16%	21%	11%	11%
Have loan (any)	*65%*	*56%*	*66%*	*94%*
Took another form of funding	7%	7%	10%	*
No facility	27%	37%	24%	6%

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 given the link between Starts and first-time applications - 53% of these Starts were applying for their first loan, and 22% of all first time loan applications were from Starts:

Final outcome (Loan): **Sought** new/renewed facility Q3 13- Q4 14 By age of business	Starts	2-5 yrs	6-9 yrs	10-15 yrs	15+ yrs
Unweighted base:	*67**	*98**	*106*	*129*	*420*
Offered what wanted and took it	46%	36%	29%	57%	71%
Took loan after issues	15%	10%	18%	13%	22%
Have loan (any)	*61%*	*46%*	*47%*	*70%*	*93%*
Took another form of funding	15%	9%	4%	13%	2%
No facility	24%	44%	49%	17%	6%

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

Half of smaller applications (under £100,000) were typically successful, with no consistent pattern over time, although applications made in 2014 are currently more likely to have been successful (61%).

Applications for larger amounts (£100,000+) were more likely to be successful and success rates had previously improved from around 6 out of 10 to around three quarters of these larger applications. Again interim data for applications of this size made in 2014 suggests that they remained more likely to be successful (82%).

Final outcome by date of application – loans

The table below shows the outcome by date of application. In 2012 and up to Q3 2013, a fairly consistent 1 in 3 applications resulted in no loan facility. Since then, the proportion ending the process with no facility has been closer to a quarter and around two thirds of applicants have ended the process with a loan facility.

There are currently too few applications reported for Q3 2014 to include in the table below:

Final outcome (Loan): SMEs seeking new/renewed facility By date of application	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13	Q1* 14	Q2* 14	Q3* 14
Unweighted base:	***287***	***225***	***189***	***222***	***212***	***176***	***183***	***210***	***156***	***166***	
Offered what wanted and took it	52%	44%	35%	50%	46%	27%	46%	42%	48%	58%	
Took loan after issues	8%	17%	18%	22%	12%	9%	15%	26%	13%	8%	
Have loan (any)	***60%***	***63%***	***53%***	***72%***	***58%***	***36%***	***61%***	***68%***	***61%***	***66%***	
Took another form of funding	8%	4%	13%	3%	11%	11%	3%	8%	11%	8%	
No facility	32%	35%	34%	25%	31%	52%	36%	24%	28%	26%	

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

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

Over the quarters for which robust data is available:

- Starts: the proportion increased from 15% in 2010 to 23% in 2012, and is currently 21% for 2014 to date
- Making their first application: the proportion increased from 30% in 2010 to 43% in 2012, and is currently 36% for 2014
- SMEs with a worse than average external risk rating: having been stable up to 2012 (47% in 2012 itself) the proportion increased to 53% for 2013 but is currently 41% for 2014 to date.

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

Further analysis was undertaken using regression modelling. This analysis takes a number of pieces of data (described below) and builds an equation using the data to predict as accurately as possible what the actual overall success rate for loans should be. This equation can 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 predicted loan success rate over the quarters for which data is available varying between 55% and 63%, with a slight increase in the predicted success rate over time:

Final outcome (Loan): SMEs seeking new/renewed facility By date of application	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13	Q3* 13	Q4* 13	Q1* 14	Q2* 14
Unweighted base:	*287*	*225*	*189*	*222*	*212*	*176*	*183*	*210*	*156*	*166*
Have loan (any)	*60%*	*63%*	*53%*	*72%*	*58%*	*36%*	*61%*	*68%*	*61%*	*66%*
Predicted success rate	55%	59%	57%	63%	63%	58%	61%	60%	64%	62%
Difference	+5	+4	-4	+9	-5	-22	0	+8	-3	+4

Final outcome of loan application by date of application

Data for 2013 shows that the lower success rate reported for Q2 2013 was not explained by the profile of applicants in that quarter. From Q3 2013 to Q2 2014, actual success rates have been above 60%. The model suggests that this is partly a reflection of the profile of those applying but not entirely so, with current success rates exceeding those predicted in 2 of the 4 quarters.

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.

14% of those making a loan application in the past 18 months (Q3 2013 to Q4 2014) said that the facility they had sought was in a personal capacity. This is somewhat higher than for overdrafts (7%).

On this currently limited sample, many of these applications were from 0-9 employee SMEs and for less than £25,000.

Sample sizes are too small currently to report on the outcome of the application by whether it was a personal or business application, but excluding those that were personal applications does not affect the success rate.

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.

The analysis below, as in previous reports, has been based on all applications made, rather than all SMEs (so an SME that had both a loan and an overdraft application will appear twice). Initially this analysis included all applications made since the Monitor started. However, this is now a considerable period of time and so in line with the analysis elsewhere in this chapter, results are now shown just for applications made in the **last 18 months** (between Q3 2013 and Q4 2014)

The table below shows that those seeking to renew an existing loan or overdraft facility were more likely to have ended the process with a facility than those seeking new funds. The margin between the two groups has narrowed somewhat over time as the success rate for new money improves (in previous waves, those renewing have been twice as likely to be successful as those seeking new funds):

Final outcome Loans and Overdrafts combined Q3 13 – Q4 14	New funds sought	Renewals sought
Unweighted base of applications:	*1189*	*1077*
Offered what wanted and took it	48%	88%
Took facility after issues	14%	11%
Have facility (any)	*62%*	*99%*
Took another form of funding	9%	*
No facility	29%	1%

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

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 almost all applicants typically ended the process with a renewed facility:

Final outcome (Overdraft+ Loan): Applications for renewed facilities By date of application	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13	Q1* 14	Q2* 14	Q3* 14
Unweighted base of applications:	*451*	*308*	*256*	*315*	*352*	*281*	*252*	*242*	*219*	*206*	*106*
Offered what wanted and took it	74%	81%	74%	82%	78%	78%	90%	89%	77%	90%	97%
Took facility after issues	11%	11%	21%	15%	16%	17%	8%	9%	21%	9%	2%
Have facility (any)	*85%*	*92%*	*95%*	*97%*	*94%*	*95%*	*98%*	*98%*	*98%*	*99%*	*99%*
Took another form of funding	*	1%	1%	2%	2%	*	*	*	*	*	*
No facility	15%	7%	4%	1%	4%	4%	2%	1%	2%	*	1%

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 6 in 10 of all applications in the most recent period (Q3 2013 to Q4 2014). The table below shows how success rates for new money were stable to Q3 2013, as around half ended the process with a facility (with the exception of Q1 and Q2 2013 when success rates were somewhat lower).

In 2014, success rates have been somewhat higher, with two-thirds of applicants successful in the first half of the year. Only initial data for applications made in Q3 is available, but it suggests that this upward trend might continue:

Final outcome (Overdraft+ Loan): Applications for new money By date of application	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13	Q1* 14	Q2* 14	Q3* 14
Unweighted base of applications:	*413*	*254*	*215*	*273*	*244*	*198*	*253*	*304*	*224*	*241*	*121*
Offered what wanted and took it	41%	31%	37%	38%	26%	24%	43%	40%	51%	55%	63%
Took facility after issues	13%	16%	15%	19%	10%	17%	13%	19%	13%	10%	16%
Have facility (any)	*54%*	*47%*	*52%*	*57%*	*36%*	*41%*	*56%*	*59%*	*64%*	*65%*	*79%*
Took another form of funding	7%	5%	8%	7%	9%	10%	7%	9%	14%	6%	2%
No facility	39%	48%	40%	37%	54%	49%	38%	32%	21%	29%	19%

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

It is also possible to look at the outcome over time for those applying specifically for their **first** overdraft/loan facility. The proportion of all applications/renewals being made by first time borrowers increased from around a quarter of applications made in 2010 to one in three in 2013 but is once again a quarter for applications made in 2014 to date. Over the same period the proportion of all new money applications being made by first time applicants increased from less than half to around 6 out of 10, before declining again to just under half for applications made in 2014 to date.

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

The proportion of first time applicants ending the process with no facility increased somewhat between 2010 and 2013, but that trend does not appear to be continuing for applications made in 2014. The initial data available suggests that success rates have increased for 2014, with half of first time applicants ending the process with a facility rather than 4 in 10:

Final outcome – first time applicants Loans and Overdrafts combined By application year	In 2010	In 2011	In 2012	In 2013	In 2014*
Unweighted base of applications:	*151*	*543*	*570*	*408*	*182*
Offered what wanted and took it	46%	30%	30%	25%	49%
Took facility after issues	8%	7%	12%	11%	8%
Have facility (any)	*54%*	*37%*	*42%*	*36%*	*57%*
Took another form of funding	4%	11%	8%	8%	8%
No facility	42%	53%	51%	55%	35%

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. It then dropped to 62% for 2013, but initial data for applications made in 2014 suggests that the success rate has returned to previous levels:

Final outcome – other new money Loans and Overdrafts combined By application year	In 2010	In 2011	In 2012	In 2013	In 2014*
Unweighted base of applications:	*327*	*1030*	*585*	*742*	*450*
Offered what wanted and took it	46%	55%	52%	45%	58%
Took facility after issues	22%	19%	21%	17%	15%
Have facility (any)	*68%*	*74%*	*73%*	*62%*	*73%*
Took another form of funding	11%	7%	5%	10%	11%
No facility	21%	19%	22%	28%	16%

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 2014 to date 68% of first time applicants had a worse than average external risk rating, compared to 31% of those renewing an existing facility.

All three applicant groups saw an increase between 2010 and 2013 in the proportion of applicants with a worse than average risk rating. As the table below shows, in 2014 there are some signs of an improvement in risk profile for all except the first time applicants with fewer applicants having a worse than average risk rating:

% of applicants with worse than average external risk rating (Overdraft+ Loan): By year of application (base varies)	2010	2011	2012	2013	2014*
First time applicants	61%	69%	71%	69%	68%
Other new money	44%	49%	49%	45%	40%
Renewals	33%	34%	40%	36%	31%

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 rose from 50% in 2011 to 54% in 2013 but was 45% in 2014.

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 overdrafts (81%) and half of loans (53%) were in place within a week. 97% of all successful overdraft applicants and 85% of loan applicants agreed that the facility was in place in good time for when it was needed. Those waiting more than a month were less likely to agree (and 6% of overdraft applicants and 26% of loan applicants waited longer than a month, including those who did not yet have their facility in place)

72% of successful overdraft applicants interviewed in 2014 described the application process as 'low effort', compared to 54% of successful loan applicants

This difference was due in part to the views of those who had their loan 'after issues'. Where this was the case, 21% rated the loan application a 'low effort' experience compared to 54% of loan applicants offered what they wanted. Overdraft applicants were more likely than loan applicants to say the process was 'low effort' whether they had their facility after issues (54%) or had been offered what they wanted (75%)

Amongst those who chose not to take the facility offered, or who were declined by the bank, two-thirds did not think the bank had treated them fairly, while a quarter thought they would have been treated better elsewhere

Those declined for a facility by their main bank were half as likely to be satisfied with their bank overall (40%) as those who had been successful (84%). Satisfaction with their bank amongst SMEs overall is stable over time (82% for 2014 as a whole) but amongst the small group of 'would-be seekers' of finance, satisfaction has fallen from 73% in 2011 to 48% in 2014

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, and 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 from submitting their application to putting their new facility in place and whether this was in 'good time' for when they needed it. In line with the revised analysis approach elsewhere, the table below is based on all applications made in the last 18 months, Q3 2013 to Q4 2014.

8 out of 10 overdrafts were in place within 2 weeks (84%), while just over half of loans were in place in this time period (53%):

Successful Type 1 applicants Time taken to put facility in place **Sought** new/renewed facility Q3 13- Q4 14*	Overdrafts	Loans
Unweighted base:	*1340*	*641*
Within 1 week	68%	32%
Within 2 weeks	16%	21%
Within 3-4 weeks	10%	21%
Within 1-2 months	3%	9%
Longer than this	2%	13%
Not in place yet	1%	4%

Q101a and Q196a All SMEs that have applied/renewed Q1 2013 to Q2 2014, excluding DK

Further analysis is provided in the table below.

Time taken & impact	Successful Type 1 applicants Q3 2013 to Q4 2014
Time taken by sector	Overdrafts in the Health sector were more likely to be agreed within a week (87%), compared to 55% in the Other Community sector. For other sectors the proportion agreed within a week varied relatively little (63-77%). Base sizes are small for loans - those in the Health sector were again more likely to have a facility agreed in a week (55%) while for other sectors it ranged between 22% and 39%.
By level of security	Secured loans were slightly less likely to be in place within a week (25%) than unsecured ones (39%), given the security processes that need to be undertaken. There was also a small difference between secured (71%) and unsecured (67%) overdrafts that were in place within a week.
By size of SME	Facilities for smaller SMEs were more likely to be made available within a week (69% for overdrafts, 33% for loans where the SME had 0-9 employees) than those for larger SMEs (63% for overdrafts and 22% for loans where the SME had 10-249 employees). In terms of facilities being made available within a *month*, there was less of a difference by size for overdrafts (94% for smaller SMEs v 89% for larger ones) than for loans (75% for smaller SMEs v 65% for larger SMEs).
In place in good time?	Most applicants agreed that the facility had been put in place in good time for when it was needed, with overdraft applicants more likely to agree (97%) than loan applicants (85%).
In place in good time, by size of SME	The main difference was amongst smaller applicants. Despite typically waiting longer for their facility, larger applicants were as likely to agree that their facility was in place in good time: • Amongst applicants with 0-9 employees, 97% said their overdraft was made available in good time, while for loans it was 85%. • Amongst larger applicants 94% 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 (70% if they had waited a month for more or an overdraft, 67% if they had waited that long for a loan, both excluding DK answers).

Analysis of the data available over time shows that a consistently high percentage of overdrafts (90%+) were in place within a month, with 93%+ of respondents saying the facility was available in good time.

The pattern for loans is less consistent, with applications in the first half of each year typically more likely to be in place within a month (80-88%) compared to those made in the second half of the year (67-74%). The proportion saying the loan was in place in good time was consistently above 90% up until 2014, but is currently around the 80% mark for successful applications to date.

'Effort' required to obtain a new facility

From Q1 2014, successful Type 1 loan and overdraft applicants were asked how much effort they had to expend to get their new facility. This question is derived from various academic studies from Harvard Business School which claim that the more 'effort' a situation requires, the less satisfied the customer and the less likely they are to remain loyal in future. A score is given between 1 and 5 (where 5 is high effort) and the net score of low-high effort calculated. The higher the net score the better, but negative net scores are not uncommon in other banking studies undertaken.

Initial results are that the overdraft process involved a lower effort than the loan process. This, though, is due to more overdraft applicants being offered the facility they wanted, as it is the loan applicants who got their facility 'after issues' who give a markedly different effort score.

Customer effort	Successful Type 1 applicants Q3 2013 to Q4 2014
Overdraft applicants	72% of successful Type 1 overdraft applicants interviewed in 2014 described the process as 'low effort'. 10% described it has 'high effort', a net score of +62.
Loan applicants	54% of successful Type 1 loan applicants interviewed in 2014 described the process as 'low effort'. 28% described it has 'high effort', a net score of +26.
Effort if offered what wanted	75% of successful overdraft applicants who were 'offered what they wanted and took it' rated this as a low effort experience, with a net effort score of +67. 65% of successful loan applicants who were 'offered what they wanted and took it' rated this as a low effort experience, with a net effort score of +45, somewhat lower than the equivalent overdraft applicants.
Effort if have facility after issues	Amongst those who had their overdraft facility 'after issues', 54% rated it a low effort experience (compared to 75% offered what they wanted) and the net score was also lower at +27. Amongst those who had their loan facility 'after issues', 21% rated it a low effort experience (compared to 65% of those offered what they wanted) and the net score was -38.

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. Base sizes are very limited but show that around half 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 declined by the bank. For YEQ4 2014 combined, this was the equivalent of 2% of all SMEs, so again, base sizes are relatively small. The key issues were seen as:

- Running the business is more of a struggle
- Have had to make cutbacks on spending
- Not expanded / improved the business as would have hoped

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:

- 21% agreed that the bank had treated them fairly (62% disagreed)
- 28% thought that they might have been treated more favourably at another bank, while a third, 31%, disagreed
- 39% felt that they were now seriously considering a change of bank (the equivalent of just under 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 annual results for 2011 to 2014 are shown below.

Overall satisfaction has remained stable over time – for 2014 the overall satisfaction score was 82%, made up of 39% who are 'very satisfied' and 43% who are 'fairly satisfied' with their main bank.

Very/fairly satisfied with main bank Over time – row percentages	2011	2012	2013	2014
Total	*81%*	*80%*	*81%*	*82%*
0 emps	82%	81%	81%	82%
1-9 emps	78%	77%	79%	80%
10-49 emps	80%	80%	83%	83%
50-249 emps	85%	84%	86%	88%
PNB	87%	86%	86%	86%
Type 1 event: facility at main bank	82%	81%	82%	84%
Type 1 event: no facility at main bank	32%	36%	35%	40%
Would-be seekers of finance	73%	68%	59%	48%
Happy non-seekers of finance	87%	85%	84%	85%

Q220

The overall satisfaction 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 4 out of 10 are satisfied (albeit this has improved somewhat since 2011). Note that levels of satisfaction amongst the 'Permanent non-borrowers' have consistently been somewhat higher than for either of these groups.

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 48% in 2014. The definition of a 'wbs' changed slightly in Q4 2012, and this group is getting smaller over time (3% of SMEs in Q4 2014), but their attitude to their bank appears to be hardening.

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 18 months Q3 2013 to Q4 2014.

Key findings

Three quarters of overdrafts granted in the 18 months to Q4 2014 were for £25,000 or less. 36% were secured, ranging from 25% of overdrafts for less than £10,000 to 70% of those for £100,000 or more. The proportion of overdrafts that are secured has increased somewhat over time and overdrafts of £10,000 or less agreed in H1 2014 were twice as likely to be secured as they were in 2011

58% of overdrafts granted in the 18 months to Q4 2014 were on a fixed rate and this has varied relatively little over time. The median fixed rate was 4.0% compared to a median variable margin of +2.9%. Those borrowing more continued to pay a somewhat lower margin for their facility

Most overdraft applicants paid a fee (83%) and the average fee paid, at £378, has varied relatively little over time. Half of those with an overdraft of £10,000 or less paid a fee equivalent to 2% of less of the facility granted, compared to 98% of those with an overdraft of £100,000 or more

85% of loans granted in the 18 months to Q4 2014 were for £100,000 or less and this proportion has increased somewhat over time. 44% were secured (including commercial mortgages), ranging from 25% of loans for less than £25,000 to 84% of those for £100,000 or more with no clear pattern over time

68% of loans granted in the 18 months to Q4 2014 were on a fixed rate with no clear pattern over time. The median fixed rate was 4.4% compared to a median variable margin of +2.9%. Those borrowing more continued to pay a somewhat lower margin for their facility

40% of loan applicants said they had not paid a fee. The average fee paid was £1303, with most paying the equivalent of 2% or less of the sum borrowed: 81% of those with a loan of £100,000 or less paid a fee equivalent to 2% of less of the facility granted, compared to 79% of those with a loan of £100,000 or more

This chapter covers the security, interest rates and fees pertaining to overdrafts and loans granted after a Type 1 borrowing event (that is an application or a renewal). Analysis is based on the revised definition of SMEs that made an application for a new or renewed overdraft or loan facility during the most recent 18 month period, which for this report is between Q3 2013 and Q4 2014, 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, while the quarter in which this renewal took place has been identified from Q4 2012 onwards. These automatically renewed overdrafts are reported on separately towards the end of this chapter.

Overdrafts: context

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

Of all new overdrafts successfully applied for Q3 2013 to Q4 2014:

- 51% were granted to 0 employee SMEs
- 41% to 1-9 employee SMEs
- 7% to 10-49 employee SMEs
- 1% to 50-249 employee SMEs.

77% of new/renewed overdrafts granted between Q3 2013 and Q4 2014 were for £25,000 or less. This varied by size from 87% of overdrafts granted to SMEs with 0 employees to 26% of those granted to SMEs with 50-249 employees.

7% of successful new/renewed overdrafts in this period were in a personal name rather than that of the business. This varied from 9% of overdrafts granted to 0 employee businesses to 2% of those with 50-249 employees.

Analysis of the overdraft facility granted by application date, reported below, shows that half or more of overdrafts granted have been for £5,000 or more. Between 2011 and 2013, the proportion of overdrafts agreed each year for more than £5,000 increased somewhat from 52% to 60%, and is currently 56% for 2014 to date.

Overdraft facility granted By date of application	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13	Q1* 14	Q2* 14	Q3* 14
Unweighted base:	*551*	*355*	*300*	*375*	*385*	*325*	*309*	*337*	*282*	*276*	*149*
Less than £5,000	45%	50%	39%	37%	45%	34%	46%	34%	48%	45%	34%
£5-25,000	37%	31%	43%	38%	32%	40%	37%	40%	33%	29%	35%
£25,000+	18%	19%	19%	24%	24%	26%	17%	26%	20%	26%	31%

Overdraft facility granted – all successful applicants that recall amount granted

Overdrafts: Security

A third (36%) of Type 1 overdrafts (i.e. a new or renewed facility not including automatic renewals, successfully applied for between Q3 2013 and Q4 2014) 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): **Successfully sought** new/renewed overdraft Q3 13- Q4 14	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*1355*	*116*	*470*	*535*	*234*
Property (any)	23%	15%	29%	40%	38%
Charge over business property	*10%*	*7%*	*11%*	*22%*	*28%*
Charge over personal property	*12%*	*7%*	*18%*	*18%*	*8%*
Directors/personal guarantee	3%	*	6%	8%	8%
Other security (any)	12%	13%	10%	16%	24%
Any security	36%	28%	42%	56%	59%
No security required	64%	72%	58%	44%	41%

Q 106 All SMEs with new/renewed overdraft excluding DK

The larger the facility, the more likely it was to be secured. For those successfully applied for between Q3 2013 and Q4 2014:

- 25% of overdrafts granted for less than £10,000 were secured
- 46% of overdrafts granted for £10-24,999
- 55% of overdrafts granted for £25-99,999
- 70% 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 since the second half of 2012 were somewhat more likely to be secured than those applied for in 2011, with some increase across all size bands. Overdrafts of less than £10,000 applied for in H1 2014 were more than twice as likely to be secured as those applied for in 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	H2 2013	H1 2014*
All overdrafts	22%	24%	28%	34%	35%	34%	38%
Overdrafts of <£10,000	9%	10%	18%	16%	18%	22%	26%
Overdrafts of £10-25,000	28%	39%	33%	52%	49%	40%	51%
Overdrafts of £25-100,000	45%	55%	54%	63%	62%	62%	59%
Overdrafts of more than £100,000	57%	72%	77%	63%	72%	78%	63%

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

Initial indications for applications made in H2 2014 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, 4 in 10 (42%) said that their new/renewed overdraft was on a variable rate:

Type of rate (overdraft) by facility granted: **Successfully sought** new/renewed overdraft Q3 13-Q4 14 excl. DK	Total	<£10k	£10-25k	£25-100k	£100k+
Unweighted base:	*1175*	*369*	*206*	*306*	*294*
Variable rate lending	42%	39%	46%	47%	53%
Fixed rate lending	58%	62%	54%	53%	47%

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 has been fairly stable at around 4 in 10, with the exception of the period Q3 2012 to Q1 2013 when closer to half of overdrafts were on a variable rate:

New/renewed overdraft rate By date of application	Q112	Q212	Q312	Q412	Q113	Q213	Q313	Q413	Q114*	Q214*	Q314*
Unweighted base:	*448*	*291*	*241*	*299*	*317*	*273*	*255*	*278*	*237*	*230*	*129*
Variable rate lending	40%	44%	46%	46%	49%	42%	43%	43%	44%	39%	46%
Fixed rate lending	60%	56%	54%	54%	51%	58%	57%	57%	56%	61%	54%

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

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

45% of those with a new/renewed variable rate overdraft and 31% 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:

Variable margin (overdraft) by facility granted: **Successfully sought** new/renewed overdraft Q3 13-Q4 14 excl. DK	Total	<£10k	£10-25k	£25-100k	£100k+
Unweighted base:	*478*	*113*	*77**	*132*	*156*
Less than 2%	40%	50%	28%	32%	36%
2.01-4%	39%	28%	46%	51%	51%
4.01-6%	8%	8%	12%	5%	7%
6%+	13%	14%	14%	12%	6%
Average margin above Base/LIBOR:	*+3.2%*	*+3.1%*	*+3.6%*	*+3.2%*	*+2.8%*
Median margin above Base/LIBOR	*+2.9%*	*+2.0%*	*+2.8%*	*+2.9%*	*+2.4%*

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

Analysis by date of application is limited by the number of respondents answering this question, and so has been based on a half year rather than quarterly analysis. The table below shows there was an increase over time in the proportion of overdrafts being charged at +6% or more, to 25% for those overdrafts recorded for H1 2013. More recent overdrafts though have been less likely to be charged at that rate (15% for H1 2014 to date), and the average margin has therefore also declined:

New/renewed overdraft variable rate By application date (half year)	H111	H211	H112	H212	H113	H213	H114*
Unweighted base:	*419*	*346*	*311*	*252*	*243*	*232*	*182*
<4%	65%	66%	63%	70%	61%	83%	77%
4-6%	27%	13%	23%	7%	13%	8%	8%
6%+	8%	21%	14%	23%	25%	9%	15%
Average margin above Base/LIBOR:	+3.8%	+5.1%	+4.1%	+4.2%	+4.2%	+2.9%	+3.5%

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

As with the variable rate margins, those borrowing more on a fixed rate paid, on average, a lower rate:

Fixed rate (overdraft) by facility granted: **Successfully sought** new/renewed overdraft Q3 13-Q4 14 excl. DK	Total	<£10k	£10-25k	£25-100k	£100k+
Unweighted base:	*429*	*128*	*77**	*129*	*95**
Less than 3%	43%	40%	51%	42%	60%
3.01-6%	40%	36%	46%	52%	38%
6.01-8%	7%	10%	2%	4%	1%
8%+	9%	14%	1%	2%	2%
Average fixed rate:	*4.3%*	*5.0%*	*3.2%*	*3.3%*	*2.9%*
Median fixed rate	*4.0%*	*4.2%*	*3.0%*	*3.1%*	*1.9%*

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

Analysis by date of application is limited by the number of respondents answering this question. Across 2011, 2012 and the first half of 2013 an increasing proportion of successful applicants were paying less than 3% on their fixed rate overdraft. This trend did not continue in the second half of 2013, but initial data for the first half of 2014 suggests that once again there has been an increase in applicants paying less than 3% these overdrafts:

New/renewed overdraft fixed rate By application date (half year)	H111	H211	H112	H212	H113	H213	H114*
Unweighted base:	*310*	*273*	*276*	*213*	*224*	*205*	*169*
<3%	28%	38%	38%	35%	44%	28%	59%
3-6%	50%	45%	32%	41%	39%	44%	38%
6%+	21%	17%	30%	24%	18%	28%	4%
Average margin above Base/LIBOR:	*5.0%*	*4.7%*	*5.9%*	*5.3%*	*4.1%*	*5.4%*	*3.0%*

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

Overdrafts: Fees

Most respondents (86%) were able to recall the arrangement fee that they had paid for their new/renewed overdraft facility (if any). The average fee paid was £378, and this has been fairly consistent over time.

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

Fee paid (overdraft) by facility granted: **Successfully sought** new/renewed overdraft Q3 13-Q4 14 excl. DK	Total	<£10k	£10-25k	£25-100k	£100k+
Unweighted base:	*1145*	*330*	*218*	*324*	*273*
No fee paid	17%	24%	10%	6%	11%
Less than £100	17%	25%	8%	3%	3%
£100-199	33%	38%	45%	13%	3%
£200-399	15%	9%	25%	27%	8%
£400-999	9%	1%	9%	31%	17%
£1000+	9%	2%	3%	20%	59%
Average fee paid:	*£378*	*£134*	*£257*	*£724*	*£1966*
Median fee paid	*£126*	*£76*	*£149*	*£396*	*£1409*

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

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

Amongst those with a new/renewed overdraft who knew both what fee they had paid and the size of the facility granted, 29% paid a fee that was equivalent to less than 1% of the facility granted and a further 38% 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:

- 50% of those granted a new/renewed overdraft facility of less than £10,000 paid the equivalent of 2% or less
- 84% of those granted a new/renewed overdraft facility of £10-25,000 paid the equivalent of 2% or less
- 90% of those granted a new/renewed overdraft facility of £25-100,000 paid the equivalent of 2% or less
- 98% of those granted a new/renewed overdraft facility of more than £100,000 paid the equivalent of 2% or less

Where a fee *was* paid, more overdrafts agreed in recent periods attracted a fee of £200+ (30-38% 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 is relatively stable at around 7 in 10.

An analysis of secured and unsecured overdrafts is shown below:

Unsecured and secured overdrafts	Further analysis Q3 2013 to Q4 2014
Amount borrowed	Secured overdrafts were more likely to be over £25,000 (39%) than unsecured overdrafts (15%), albeit most overdrafts (whether secured or unsecured) are for lower amounts.
Fixed & variable rates	56% of secured overdrafts were on a fixed rate, as were a similar proportion of unsecured overdrafts (57%).
Variable margin	The average variable margin charged was +3.4% if the overdraft was secured, or 3.0% if it was unsecured.
Fixed rate	The average fixed rate was 3.7% if the overdraft was secured, or 5.0% if it was unsecured.
Fees	Secured overdrafts were somewhat more likely to attract a fee (86%) than unsecured overdrafts (79%), and the average fee charged was higher (£652 secured compared to £226 unsecured). 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 (71%) than was the case for unsecured overdrafts (65%).

Overdraft terms: Analysis by risk rating

Sample sizes also permit some analysis of size of facility, interest rates and fees by the external risk rating of the SME granted the facility. Businesses with a minimal/low risk rating typically had a larger facility and paid somewhat less for it:

Overdraft rates and fees summary **Successfully sought** new/renewed overdraft Q3 13-Q4 14 excl. DK	Min/Low	Average/Worse than average
Unweighted base (varies by question):	*635*	*680*
% borrowing £25,000 or less	57%	84%
Facility secured (Less than £25k)	35%	28%
Facility secured (£25k+)	59%	58%
Facility on a variable rate (excluding DK)	51%	37%
Average variable margin for less than £25k facility	+2.1%	+3.5%
Average variable margin for facility £25k+	+2.9%	+3.2%
Average fixed rate for less than £25k facility*	2.7%	4.8%
Average fixed rate for facility £25k+	3.0%	3.4%
% where fee <2% of facility (under £25k)	79%	59%
% where fee <2% of facility (£25k+)	91%	97%

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

Overdraft terms: Analysis by sector

Overall in the 18 months Q3 2013 to Q4 2014, 77% of overdrafts successfully applied for were facilities of £25,000 or less. By sector this varied relatively little (between 75% and 84%), with the exception of Agriculture where 51% of overdrafts granted were for less than £25,000.

As the table below shows, secured overdrafts were:

- More common for overdrafts in Agriculture (58%)
- Somewhat less common for overdrafts in the Other Community sector (22%).

Type 1 overdraft **Successfully sought** new/renewed overdraft Q3 13-Q4 14 excl. DK	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*165*	*160*	*245*	*148*	*88**	*100*	*217*	*95**	*137*
Any security	58%	33%	35%	51%	26%	31%	32%	26%	22%
- property	*49%*	*19%*	*18%*	*28%*	*19%*	*20%*	*20%*	*10%*	*19%*
No security	42%	67%	65%	49%	74%	69%	68%	74%	78%

Q 106 All SMEs with new/renewed overdraft excluding DK

Overall, just under half of Type 1 overdrafts obtained were on a variable rate (42%). On limited base sizes, overdrafts granted to SMEs in Construction were less likely to be on a variable rate:

Type 1 overdraft rate **Successfully sought** new/renewed overdraft Q2 13-Q4 14 excl. DK	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*153*	*134*	*211*	*124*	*76**	*81**	*196*	*72**	*128*
Variable rate lending	53%	52%	25%	54%	46%	43%	52%	32%	31%
Fixed rate lending	47%	48%	75%	46%	54%	57%	48%	68%	69%

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 the Hotel & Restaurant sector were more likely to pay a fee for their facility. Whilst those in Agriculture paid on average a higher fee, this is in part a reflection of the larger overdraft facilities successfully applied for in this sector, given that they were as likely as 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 13-Q4 14 excl. DK	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base (varies):	*144*	*133*	*212*	*123*	*75**	*77**	*184*	*75**	*122*
No fee paid	23%	15%	14%	19%	5%	31%	14%	34%	16%
Average fee paid	£604	£500	£229	£282	£427	£296	£544	£158	£345
Equivalent of 2% or less paid*	74%	82%	71%	55%	64%	74%	59%	92%	67%

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, data is 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 revised analysis structure, the table below shows all automatic renewals known to have occurred between Q3 2013 and Q4 2014.

The majority of these automatic renewals (85%) were for less than £25,000 (in line with Type 1 overdraft events reported for these quarters), and they were somewhat more likely to be in a personal name (18% v 7% of Type 1 overdrafts). They were though in many ways similar to Type 1 overdraft events in the same period:

Overdraft rates and fees summary Q3 13-Q4 14	Automatically renewed	Type 1 overdraft event
Unweighted base (varies by question):	*1188*	*1355*
Any security required	26%	36%
Facility on a variable rate (excluding DK)	39%	42%
Average variable margin	+3.2%	+3.2%
Average fixed rate	5.4%	4.3%
No fee	23%	17%
Average fee paid	£215	£378

All SMEs with new/renewed overdraft, excluding DK

Loans: Context

As with the overdraft section above, this section is based on the revised definition of SMEs that had made an application for a new or renewed loan facility during an 18 month period which for this report is between Q3 2013 and Q4 2014, 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 between Q3 2013 and Q4 2014:

- 54% were granted to 0 employee SMEs
- 36% to 1-9 employee SMEs
- 8% to 10-49 employee SMEs
- 2% to 50-249 employee SMEs.

85% of new/renewed loans granted in the period Q3 2013 to Q4 2014 were for £100,000 or less. By size this varied from 95% of those granted to SMEs with 0 employees to 26% of loans granted to those with 50-249 employees.

14% of successful new/renewed loans in this period were applied for in a personal name rather than that of the business). 90% of these loans were for £100,000 or less (albeit this is based on a small number of loans).

Personal facilities will typically be priced differently to business facilities, so as an indication 15% of all loans agreed for less than £100,000 were applied for in a personal name, compared to 10% of loans £100k+.

Analysis of loans granted by application date shows that in recent quarters a lower proportion of loans granted were for £100,000 or more, compared to the period Q3 2012 to Q2 2013 when around a quarter of facilities agreed were for £100,000+:

Loan facility granted By date of application	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13	Q1* 14	Q2* 14
Unweighted base:	*206*	*165*	*131*	*173*	*147*	*130*	*141*	*164*	*130*	*139*
Less than £25k	72%	73%	61%	49%	52%	60%	45%	63%	54%	64%
£25-99k	14%	7%	11%	20%	22%	13%	41%	27%	26%	23%
More than £100k	15%	20%	28%	31%	26%	27%	14%	10%	19%	14%

All successful loan applicants that recall amount granted

Loans: Security

15% of loans were commercial mortgages. These were much more likely to have been granted for £100,000+ and in this most recent period those with 0-9 employees were less likely to say their loan was a commercial mortgage:

- 14% of successful applicants with 0-9 employees said their loan was a commercial mortgage
- 23% of successful applicants with 10-49 employees
- 20% 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 remained more likely to have an unsecured loan:

Security required (Loan): **Successfully sought** new/renewed loan Q3 13-Q4 14	Total	0-9 emp	10-49 emps	50-249 emps
Unweighted base:	*644*	*237*	*263*	*144*
Commercial mortgage	15%	14%	23%	20%
Secured business loan	29%	28%	36%	43%
Unsecured business loan	56%	57%	41%	36%

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

Including commercial mortgages, of new/renewed loans successfully applied for in Q3 2013 to Q4 2014:

- 25% of loans granted for less than £25,000 were secured
- 63% of loans granted for £25,000 to £100,000 were secured
- 84% 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): **Successfully sought** new/renewed loan Q3 13-Q4 14	Total	0-9 emp	10-49 emps	50-249 emps
Unweighted base:	*644*	*237*	*263*	*144*
Commercial mortgage	15%	14%	23%	20%
Secured – Property (any)	22%	21%	23%	24%
Business property	*14%*	*14%*	*16%*	*20%*
Personal property	*8%*	*8%*	*6%*	*5%*
Director/personal guarantees	1%	1%	6%	4%
Other security	7%	6%	10%	21%
Unsecured business loan	56%	57%	41%	36%

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

Analysis by date of application, at the half year level, shows that a fairly consistent three quarters of 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. Overall then, typically between a quarter and a third of loans that were not commercial mortgages were 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	H2 13	H1 14*
All loans (excluding commercial mtges)	20%	29%	33%	33%	26%	35%	32%
Loans of <£100,000 (excl commercial mtges)	15%	21%	28%	18%	17%	31%	25%
Loans of more than £100,000 (excl commercial mtges)	72%	76%	69%	78%	82%	76%	75%

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, 68% said that their loan was on a fixed rate (including those with commercial mortgages). Fixed rate lending remained somewhat more common for loans than overdrafts (where 58% of facilities were on a fixed rate) and also more common for smaller loan facilities:

Type of rate (loan) by amount granted: **Successfully sought** new/renewed loan Q3 13-Q4 14	Total	<£100k	£100k+
Unweighted base:	*551*	*318*	*233*
Variable rate lending	32%	30%	43%
Fixed rate lending	68%	70%	57%

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

Analysis by when the application took place showed that 76% of loan applications granted in 2012 were on a fixed rate. In the first half of 2013 this fell slightly to 61%, before increasing again to 75% for the applications reported to date in the second half of 2013. Initial data for the first half of 2014 suggests that around two thirds of successful applications were on a fixed rate.

Analysis by size of loan over time is more qualitative in nature due to limited sample sizes. It suggests that while most loans under £100,000 are on a fixed rate, this proportion has declined somewhat over time from around 8 in 10 to 6 in 10 in the first half of 2014. The pattern for loans over £100,000 is less clear but typically around 6 in 10 loans are on a fixed rate.

Most of those on a variable rate said that the rate was linked to Base Rate (80%).

Amongst SMEs with a new/renewed loan, 34% of those with a variable rate and 12% of those with a fixed rate were unable/refused to say what rate they were paying. These 'Don't know' answers have been excluded from the analysis below, but this does reduce the sample sizes, particularly for loans under £100,000:

Variable margin (loan) by amount granted: **Successfully sought** new/renewed loan Q3 13-Q4 14	Total	<£100k	£100k+
Unweighted base:	*197*	*91**	*106*
Less than 2%	28%	30%	20%
2.01-4%	45%	46%	44%
4.01-6%	18%	13%	35%
6%+	9%	11%	1%
Average margin above Base/LIBOR:	*+3.1%*	*+3.1%*	*+3.4%*
Median margin above Base/LIBOR	*+2.9%*	*+2.8%*	*+2.9%*

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

Analysis over individual time periods is restricted by the sample sizes available, but *indications* are that for loans successfully applied for over recent periods, the average variable margin charged has been broadly stable at around +3%.

The median variable rate charged was the same for overdrafts and loans (+2.9%). The median rate for fixed rate loan lending, at 4.4%, remained relatively close to the median rate for fixed rate overdraft lending (4.0%):

Fixed rate (loan) by amount granted: **Successfully sought** new/renewed loan Q1 13-Q2 14	Total	<£100k	£100k+
Unweighted base:	*256*	*150*	*106*
Less than 3%	26%	24%	41%
3.01-6%	41%	41%	41%
6.01-8%	24%	25%	16%
8%+	9%	10%	2%
Average fixed rate:	*5.1%*	*5.2%*	*4.2%*
Median fixed rate	*4.4%*	*4.4%*	*4.3%*

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

Analysis by date of application is limited by the number of respondents answering this question, but indicative results were that the average fixed rate had been around 5% in recent half year periods.

Loans: Fees

78% of respondents were able to recall the arrangement fee that they paid for their loan (if any). As with overdrafts, those borrowing a smaller amount typically paid a lower fee in absolute terms:

Fee paid (loan): **Successfully sought** new/renewed loan Q3 13-Q4 14	Total	<£100k	£100k+
Unweighted base:	*474*	*263*	*211*
No fee paid	40%	45%	17%
Less than £100	10%	11%	4%
£100-199	15%	18%	1%
£200-399	8%	8%	8%
£400-999	9%	9%	10%
£1000+	18%	9%	59%
Average fee paid:	*£1303*	*£836*	*£3640*
Median fee paid	*£90*	*£11*	*£1730*

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

The median fee paid was virtually unchanged over time while 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, 59% paid a fee that was the equivalent of less than 1% of the amount borrowed and a further 22% paid between 1-2%:

- 81% of those granted a new/renewed loan of less than £100,000 paid the equivalent of 2% or less
- 79% of those granted a new/renewed loan of more than £100,000 paid the equivalent of 2% or less

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. In 2013 this proportion increased again to 86% and initial data for 2014 indicates that once again around 8 out of 10 fees were the equivalent of 2% or less of the facility granted.

An analysis of secured and unsecured loans is shown below:

Unsecured and secured loans	Further analysis Q3 2013 to Q4 2014
Amount borrowed	96% of unsecured loans granted between Q3 2013 and Q4 2014 were for less than £100,000 compared to 71% of secured loans (including commercial mortgages).
Fixed & variable rates	Fixed rate lending was more common where the facility was unsecured (79% v 56% for secured loans).
Variable margin	For those who successfully applied for a new/renewed loan on a variable rate, a secured loan was charged at an average margin of +3.5% and an unsecured loan at an average margin of +2.6%.
Fixed rate	For fixed rate lending, the average rates were 4.6% for secured loans and 5.3% for unsecured.
Fees	Those successful with an unsecured loan were more likely to say that no fee was taken (50%) than those with a secured loan, and paid a smaller fee on average (£135 v £2763). There was though only a small difference in the proportion paying the equivalent of 2% or less for their loan by whether the loan was secured or not (82% if secured, 80% if not).

Loan terms: Analysis by risk rating

Sample sizes also permit analysis of size of facility, interest rates and fees by external risk rating. Those with a minimal/low external risk rating remained more likely to be typically borrowing more, paying a variable rate and paying a lower margin/rate:

Loan rates and fees summary **Successfully sought** new/renewed loan Q3 13-Q4 14	Min/Low	Average/Worse than average
Unweighted base (varies by question):	*328*	*290*
% borrowing £100,000 or less	76%	88%
Any security provided	46%	45%
Facility on a variable rate (excluding DK)	45%	27%
Average variable margin	+2.9%	+3.7%
Average fixed rate	4.3%	5.0%
% where fee <2% of facility	77%	79%

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 but one sector are now below 100, even across an 18 month time period. This section continues to be included, but can provide only *indicative* loan data, and no figures are shown where a sector has fewer than 50 respondents answering.

85% of new/renewed loans agreed between Q3 2013 and Q4 2014 were for £100,000 or less. This typically varied little by sector (87-95%), with the exception of Agriculture (68%), Hotels & Restaurants (72%) and Property / Business Services (74%).

On limited base sizes, new/renewed loans in the Wholesale/Retail sector were more likely to have been commercial mortgages, while those in Construction and Health were more likely to be unsecured:

Type 1 loan **Successfully sought** new/renewed loan Q3 13-Q4 14	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*83**	*70**	*67**	*79**	*55**	*54**	*100*	*66**	*70**
Commercial mtge	11%	8%	3%	30%	25%	6%	10%	18%	21%
Secured loan	41%	34%	20%	22%	21%	48%	44%	6%	24%
Unsecured loan	48%	58%	77%	48%	54%	46%	46%	76%	54%

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

Overall, 68% of Type 1 loans were on a fixed rate. This appeared less likely for loans amongst SMEs in the Property/Business Services sector:

Type 1 loan rate **Successfully sought** new/renewed loan Q3 13-Q4 14	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*74**	*57**	*55**	*71**			*86**	*56**	*65**
Variable rate lending	40%	27%	40%	30%			48%	14%	7%
Fixed rate lending	60%	73%	60%	70%			52%	86%	93%

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

Base sizes preclude any further analysis of rates, or fees.

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

This chapter looks

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

Key findings

In 2014, 16% of SMEs reported a borrowing 'event' in the previous 12 months, 5% would have liked to apply for a loan or overdraft but felt that something had stopped them (the 'would-be seekers') and most SMEs (79%) met the definition of a 'Happy non-seeker' of finance

The proportion of SMEs reporting an 'event' has been relatively stable recently (albeit when the Monitor first reported in 2011 up to 1 in 4 SMEs reported a borrowing 'event'). The proportion of 'would-be seekers' has declined from 7% in Q4 2012 to 3% in Q4 2014 and the proportion of 'Happy non-seekers' has increased from 73% to 82% over the same period

SMEs with employees were more likely to have experienced a borrowing 'event' (24% in 2014). This is, though, lower than in 2012 (when 33% reported an event) as the proportion of 'Happy non-seekers' increased (from 59% in 2012 to 72% in 2014)

Excluding the Permanent non-borrowers increases the proportion of remaining SMEs that have reported a borrowing event to 28% for 2014, while 8% were 'Would-be seekers'. The largest group remained the 'Happy non-seekers' (64%)

When the 'Would-be seekers' were asked what had stopped them applying, discouragement and the process of borrowing were the main reasons. 38% of those who would have liked to apply for an overdraft, and 44% of those who would have liked to apply for a loan, cited discouragement as their main barrier, almost all of it indirect (where the SME assumes they will be turned down and so does not approach a bank). The process of borrowing was cited by 35% of those who would have liked to apply for an overdraft, and 36% of those who would have liked to apply for a loan

Analysis over time shows that discouragement (almost all of it indirect) has always been the key barrier for those who had wanted to apply for a loan while for those who had wanted to apply for an overdraft discouragement and the process of borrowing have alternated as the main barrier

6% of SMEs had ever been declined for a banking facility. Most of those declined said that this had made them more reluctant to apply for finance subsequently, the equivalent of 5% of all SMEs. These SMEs were more likely to classify themselves as a 'Would-be seeker' of finance (21% v 5% of all SMEs) but almost half (44%) had experienced a borrowing 'event' in the previous 12 months (v 16% of all SMEs)

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

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 not 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.

Changes to definitions used over time

There have been a number of changes made in this chapter, albeit that the last change was made in Q4 2012. They are summarised below for information.

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 include these automatic renewals, and all respondents from Q4 2011 re-classified under the new definition.

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

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

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?

To

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

Those that said 'yes, 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.

Would-be seekers – explanation codes

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

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

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'), and new 'Would-be seeker / Happy non-seeker' definition. Figures from before the definition changes in Q4 2012 are shown in the longer term trend charts at the end of this report.

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 chose to do so (the Type 2 and 3 events):

Any events (overdraft and loan) All SMES, over time By date of interview	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014
Unweighted base:	*5000*	*5000*	*5000*	*5008*	*5028*	*5000*	*5008*	*5023*	*5024*
Have had an event	21%	17%	19%	15%	17%	14%	17%	18%	15%
• *New or (auto) renewed facility*	*18%*	*15%*	*16%*	*13%*	*15%*	*13%*	*15%*	*14%*	*13%*
• *Type 2 or 3 events*	*3%*	*3%*	*4%*	*3%*	*4%*	*3%*	*4%*	*6%*	*3%*
Would-be seekers	7%	7%	6%	7%	4%	4%	5%	5%	3%
Happy non-seekers	73%	76%	76%	78%	79%	82%	78%	77%	82%

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

This shows that most SMEs meet the definition of a 'Happy non-seeker' of external finance and that this has been at a somewhat higher level during 2014 (79% for 2014 as a whole, and 82% in Q4 2014 itself) than previously. 'Would-be seekers' remained at the lower level seen post the definition change. The proportion of SMEs reporting an event remained at around 1 in 6. This is somewhat lower than the figures seen when the Monitor first started (when up to 1 in 4 SMEs reported a borrowing 'event').

'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 reduction in the proportion of 'Would-be seekers' by key demographic groups over time. Compared to Q4 2013, smaller SMEs are now somewhat less likely to meet the definition:

Would-be seekers Over time – row percentages By date of interview	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014
All SMEs	**7%**	**7%**	**6%**	**7%**	**4%**	**4%**	**5%**	**5%**	**3%**
0 employee	7%	7%	6%	7%	4%	4%	6%	6%	3%
1-9 employees	7%	7%	5%	7%	5%	5%	4%	4%	3%
10-49 employees	4%	4%	3%	3%	2%	3%	2%	2%	2%
50-249 employees	2%	2%	1%	1%	1%	1%	1%	1%	1%
Minimal external risk rating	2%	4%	2%	2%	3%	2%	1%	1%	2%
Low external risk rating	5%	3%	2%	3%	4%	2%	3%	1%	2%
Average external risk rating	5%	6%	6%	8%	4%	2%	3%	5%	2%
Worse than average external risk rating	7%	7%	6%	7%	4%	4%	8%	6%	5%
Agriculture	3%	7%	3%	3%	5%	4%	2%	2%	3%
Manufacturing	8%	6%	4%	5%	3%	2%	6%	4%	3%
Construction	6%	7%	9%	7%	5%	4%	6%	5%	3%
Wholesale/Retail	9%	8%	5%	7%	5%	8%	5%	4%	3%
Hotels & Restaurants	6%	7%	6%	8%	8%	3%	8%	7%	5%
Transport	6%	11%	7%	10%	5%	4%	10%	7%	8%
Property/Business Services etc.	7%	7%	6%	7%	3%	2%	3%	5%	3%
Health	4%	9%	2%	6%	2%	4%	4%	7%	1%
Other Community	9%	4%	3%	7%	5%	6%	8%	8%	3%
All excluding PNBs	11%	12%	9%	11%	7%	8%	9%	9%	6%

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

As in previous periods, 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 and loan) YEQ4 14 All SMES	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*20,055*	*4007*	*6618*	*6425*	*3005*
Have had an event	16%	13%	24%	25%	19%
Would-be seekers	5%	5%	4%	2%	1%
Happy non-seekers	79%	82%	72%	73%	80%

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

SMEs with employees were somewhat more likely to have experienced a borrowing ‘event’ (24%). 4% met the definition of a ‘Would-be seeker’ of finance, with the largest group, as overall, the ‘Happy non-seekers’ (72%). Over time, SMEs with employees have also became less likely to report a borrowing ‘event’ (33% did so in 2012) and more likely to be a ‘Happy non-seeker’ (59% in 2012).

Those currently using external finance were no more or less likely to be a ‘Would-be seeker’ (5% v 4% not using external finance), but remained much more likely to have had an event (39% v 3% not using external finance).

By risk rating, those SMEs with a minimal or low risk rating remained somewhat more likely to have had an event but across all risk ratings 8 out of 10 SMEs met the definition of a ‘Happy non-seeker’:

Any events (Overdraft and loan) YEQ4 14 All SMEs with a risk rating	Total	Min	Low	Avge	Worse/ Avge
Unweighted base:	*20,055*	*3255*	*5298*	*5102*	*4675*
Have had an event	16%	20%	18%	17%	14%
Would-be seekers	5%	1%	2%	3%	6%
Happy non-seekers	79%	79%	80%	80%	80%

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

The proportion of 'Would-be seekers' varied relatively little by sector (3-7%). More variation was seen in terms of 'Happy non-seekers', which accounted for 84% of those in the Health sector (who were less likely to have had an event), compared to 73% of those in Wholesale/Retail (who were more likely to have had an event):

Any events (overdraft and loan) All SMEs YEQ4 14	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	***1511***	***2099***	***3521***	***2031***	***1785***	***1811***	***3512***	***1779***	***2006***
Have had an event	23%	19%	14%	21%	20%	16%	14%	12%	16%
Would-be seekers	3%	4%	4%	5%	6%	7%	3%	4%	6%
Happy non-seekers	75%	78%	81%	73%	74%	77%	83%	84%	77%

Q115/209 All SMEs

Analysis by age of business showed that Starts remained more likely to be 'Would-be seekers' (7%, along with those businesses trading for 2-5 years). Starts were less likely to have had an event (11%), compared to 21% of those in business for 15 years or more.

Barriers to overdraft or loan application

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

These are reported below, firstly how frequently they were mentioned at all and secondly how frequently they were nominated as the main barrier.

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 2014 the reasons given were:

- Process of borrowing – those who did not want to apply because they thought it would be too expensive, too much hassle etc. This was given as a reason by 51% of all 'Would-be seekers', which is the equivalent of around 2% of all SMEs.
- Discouragement – those that had been put off, either directly (they made informal enquiries of the bank and were put off) or indirectly (they thought they would be turned down by the bank so did not ask). This was given as a reason by 44% of all 'Would-be seekers', which is the equivalent of around 2% 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. This was given as a reason by 26% 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 10% of all 'Would-be seekers', which is the equivalent of less than 1% of all SMEs.

The table below shows the combined results for YEQ4 2014, 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 key 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 not applying when wished to YEQ4 14	Total	0-9 emps	10-249 emps	Total	0-9 emps	10-249 emps
Unweighted base:	475	344	131	346	254	92*
Issues with principle of borrowing	26%	26%	14%	15%	15%	20%
-Not lose control of business	9%	9%	7%	3%	3%	13%
-Can raise personal funds if needed	12%	13%	6%	9%	9%	9%
-Prefer other forms of finance	9%	9%	8%	3%	3%	4%
-Go to family and friends	6%	6%	3%	6%	6%	1%
Issues with process of borrowing	45%	45%	47%	45%	45%	46%
-Would be too much hassle	13%	13%	12%	9%	9%	13%
-Thought would be too expensive	27%	27%	14%	26%	26%	17%
-Would be asked for too much security	6%	6%	19%	9%	9%	16%
-Too many terms and conditions	17%	17%	17%	7%	7%	17%
-Did not want to go through process	9%	9%	8%	5%	5%	6%
-Forms too hard to understand	2%	2%	3%	1%	1%	3%
Discouraged (any)	42%	42%	38%	46%	46%	39%
-Direct (put off by bank)	10%	10%	18%	17%	17%	14%
-Indirect (thought would be turned down)	34%	34%	26%	34%	34%	30%
Economic climate	11%	11%	9%	5%	5%	5%
Not the right time to apply	11%	11%	9%	5%	5%	5%

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

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

The table below details the main reasons given by 'Would-be seekers' interviewed YEQ4 2014. 'Discouragement' and the 'Process of borrowing' remain the two key issues. 90% or more of those who gave 'discouragement' as one of their reasons for not having applied (in the previous table) went on to cite it as their main reason, compared to around three quarters of those nominating the 'process of borrowing' who then went on to nominate it as their main reason.

All 'Would-be seekers'	Would have liked to apply for an overdraft			Would have liked to apply for a loan		
Main reason for not applying when wished to YEQ4 14	Total	0-9 emps	10-249 emps	Total	0-9 emps	10-249 emps
Unweighted base:	***475***	***344***	***131***	***346***	***254***	***92****
Discouraged (any)	38%	38%	34%	44%	44%	35%
-Direct (put off by bank)	*9%*	*8%*	*15%*	*12%*	*12%*	*9%*
-Indirect (thought would be turned down)	*30%*	*30%*	*19%*	*32%*	*32%*	*26%*
Issues with process of borrowing	35%	35%	35%	36%	36%	40%
Issues with principle of borrowing	14%	14%	5%	10%	10%	10%
Economic climate	4%	4%	7%	2%	2%	2%
None of these	***9%***	***9%***	***19%***	***8%***	***8%***	***13%***

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 either a loan or an overdraft, or to mention the principle of borrowing for an overdraft. Otherwise there were few differences by size of business.

Amongst 'Would-be seekers' with employees, the reasons given for not seeking a facility were very similar to reasons overall. For overdrafts, 40% reported feeling 'discouraged' while 35% cited the process of borrowing and for loans both discouragement and the process of borrowing were cited by 37% of such 'would-be seekers'.

Previous changes to the question definition and answer codes available limit the time series data available. The table below shows the main reasons given for not having applied, shown by half year to provide robust base sizes. This shows that for loans, discouragement has always been the top reason (by a varying degree) with the process of borrowing second.

For overdrafts, there has been more variability in the scores, with discouragement and the process of borrowing alternating as the top reason. Within the discouragement category, direct discouragement has been relatively consistent, and always at a lower level compared to the more variable indirect discouragement:

All 'Would-be seekers'	Overdraft				Loan			
Main reason for not applying when wished to over time	H113	H213	H114	H214	H113	H213	H114	H214
Unweighted base:	*376*	*312*	*254*	*221*	*241*	*216*	*188*	*158*
Discouraged (any)	36%	47%	44%	32%	46%	50%	41%	48%
-Direct (put off by bank)	*11%*	*12%*	*7%*	*10%*	*14%*	*12%*	*10%*	*15%*
-Indirect (thought would be turned down)	*25%*	*34%*	*37%*	*23%*	*32%*	*38%*	*31%*	*33%*
Issues with process	40%	31%	34%	36%	36%	28%	40%	31%
Issues with principle	10%	7%	12%	15%	8%	5%	7%	13%
Economic climate	6%	5%	2%	6%	2%	6%	4%	1%
None of these	*8%*	*10%*	*8%*	*11%*	*8%*	*11%*	*8%*	*7%*

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, much of it indirect, while the process of borrowing was the main barrier for half of those with a minimal or low risk rating who would had would have liked to apply for an overdraft:

All 'Would-be seekers'	Would have liked to apply for an overdraft			Would have liked to apply for a loan		
Main reason for not applying when wished to YEQ4 14	Total	Min/ Low	Avge / WTA	Total	Min/ Low	Avge / WTA
Unweighted base:	***475***	***96****	***315***	***346***	***76****	***220***
Discouraged (any)	38%	19%	38%	44%	33%	46%
-Direct (put off by bank)	*9%*	*5%*	*8%*	*12%*	*8%*	*15%*
-Indirect (thought would be turned down)	*30%*	*14%*	*30%*	*32%*	*25%*	*31%*
Issues with process of borrowing	35%	50%	33%	36%	29%	35%
Issues with principle of borrowing	14%	13%	17%	10%	9%	9%
Economic climate	4%	12%	3%	2%	7%	3%
None of these	***9%***	***6%***	***9%***	***8%***	***22%***	***7%***

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

Base sizes are too small for analysis by sector.

'Would-be seekers' represent a minority of all SMEs (5%). The table below shows, for the main reasons given by 'Would-be seekers', the equivalent proportion of all SMEs:

Main reason for not applying YEQ4 14	Would-be overdraft seekers	All SMEs	Would-be loan seekers	All SMEs
Unweighted base:	*475*	*20,055*	*346*	*20,055*
Discouraged (any)	38%	1%	44%	1%
-Direct (put off by bank)	*9%*	*	*12%*	*
-Indirect (thought I would be turned down)	*30%*	*1%*	*32%*	*1%*
Issues with process of borrowing	35%	1%	36%	1%
Issues with principle of borrowing	14%	*	10%	*
Economic climate	4%	*	2%	*

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

The equivalent of 1% of all SMEs reported having felt discouraged from applying for an overdraft, and the same proportion felt 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 met the definition of a 'Permanent non-borrower' and this proportion has increased steadily over time. 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 2.6 million from 4.5 million.

28% of this group of SMEs excluding PNBS reported a borrowing 'event'. The proportion of 'Happy non-seekers' declines to 64% but remains the largest group:

Any events (Overdraft and loan) YEQ4 14 – all SMES	All SMEs	All SMEs excl. pnb
Unweighted base:	*20,055*	*13,613*
Have had an event	16%	28%
Would-be seekers	5%	8%
Happy non-seekers	79%	64%

Q115/209 All SMEs

For YEQ4 2014, once the PNBs are excluded, 8% of remaining SMEs met the definition of a 'Would-be seeker', compared to 5% of all SMEs.

The table below shows the pattern over time, once the PNBs have been excluded. This shows a slight increase in 'Happy non-seekers' – in 2013 62% met the definition compared to 64% in 2014, with a corresponding decline in 'Would-be seekers' (10% to 8%):

Any events (overdraft and loan) All SMES, excluding PNBs, over time By date of interview	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014
Unweighted base:	*3664*	*3649*	*3707*	*3637*	*3585*	*3370*	*3514*	*3576*	*3153*
Have had an event	33%	29%	29%	26%	29%	28%	27%	30%	29%
Would-be seekers	11%	12%	9%	11%	7%	8%	9%	9%	6%
Happy non-seekers	57%	59%	62%	63%	64%	65%	64%	61%	65%

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

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

Main reason for not applying when wished to – YEQ4 14	Would-be overdraft seekers	All SMEs excl. pnb	Would-be loan seekers	All SMEs excl. pnb
Unweighted base:	*475*	*13,613*	*346*	*13,613*
Discouraged (any)	38%	2%	44%	2%
-Direct (put off by bank)	*9%*	*	*12%*	*1%*
-Indirect (thought I would be turned down)	*30%*	*2%*	*32%*	*1%*
Issues with process of borrowing	35%	2%	36%	2%
Issues with principle of borrowing	14%	1%	10%	*
Economic climate	4%	*	2%	*

Q116a/Q210a All SMEs v all that wished they had applied for an overdraft or a loan

The equivalent of 2% of all SMEs (excluding the PNBs) reported having felt discouraged from applying for an overdraft, and the same proportion felt discouraged from applying for a loan.

The longer term impact of previous declines

Separate qualitative research conducted amongst the 'discouraged would-be seekers' revealed that a number of these SMEs felt discouraged due to a previous decline from a bank, which might have occurred a number of years ago. In order to understand the impact of such declines on the wider SME population as a whole, a new question was added to the SME Finance Monitor from Q1 2014 and is reported below, based on the data for Q1-Q4 2014 combined.

6% of SMEs reported that they had *ever* been declined for a banking facility:

Previous decline by bank	All SMEs YEQ4 14
By size of SME	Smaller SMEs were more likely to have been declined: • 6% of 0 employee SMEs • 7% of those with 1-9 employees • 5% of those with 10-49 employees • 3% of those with 50-249 employees.
Excluding the PNBs	10% of remaining SMEs once the PNBs were excluded have ever been declined (1% of PNBs have ever been declined).
Risk rating	By risk rating there was little difference for those with a minimal, low or average risk rating (4-5%) while 7% of those with a worse than average risk rating said that they had experienced a previous decline.
Use of external finance	10% of those currently using external finance had experienced a previous decline, increasing to 12% of the small group of SMEs that had used finance in the past five years but were not using it currently.

Of those SMEs who had experienced a previous decline:

- 75% said that this had made them more reluctant to apply for bank finance subsequently. This was the case across all size bands except the largest SMEs where half had been made more reluctant.
- By external risk rating, two thirds of those with a minimal risk rating who had experienced a decline said that they had been made more reluctant, compared to around three quarters of those with a worse than average risk rating.

The table below shows that the equivalent of 5% of *all* SMEs had been made more reluctant to apply by a previous decline, rising to 7% once the PNBs have been excluded.

The largest SMEs were somewhat less likely to have been affected by a previous decline, both overall and once the PNBs (with little apparent appetite for finance) had been excluded:

Impact of previous decline by bank All SMEs YEQ4 14	Total	0 emps	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*20,055*	*4007*	*6618*	*6425*	*3005*
More reluctant to apply after a decline	5%	4%	5%	4%	2%
Declined but not more reluctant	2%	1%	2%	1%	2%
Have not been declined in past	94%	94%	93%	95%	97%

Q240x and Q240y All SMEs

Impact of previous decline by bank All SMEs YEQ4 14 excl PNBs	Total	0 emps	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*13,613*	*2111*	*4470*	*4795*	*2237*
More reluctant to apply after a decline	7%	8%	7%	5%	3%
Declined but not more reluctant	2%	2%	3%	2%	2%
Have not been declined in past	90%	90%	90%	94%	96%

Q240x and Q240y All SMEs excluding PNBs

Those with a worse than average risk rating were more likely to have been made more reluctant to apply by a previous decline:

Impact of previous decline by bank All SMEs YEQ4 14	Total	Min	Low	Avge	Worse/ Avge
Unweighted base:	*20,055*	*3255*	*5298*	*5102*	*4675*
More reluctant to apply after a decline	5%	3%	3%	3%	6%
Declined but not more reluctant	2%	2%	1%	1%	2%
Have not been declined in past	94%	95%	96%	95%	93%

Q240x and Q240y All SMEs

Amongst those currently using external finance, 7% were more reluctant to apply, increasing to 9% of those that had used finance in the past five years but were not using it currently.

Analysis was then undertaken to see what impact this previous decline had had on borrowing behaviour in the 12 months prior to interview. As the table below shows:

- Most of those who had never been declined were currently 'Happy non-seekers' of finance
- Those who reported that the decline had made them more reluctant to apply for bank finance were more likely to meet the definition of a 'would-be seeker' of finance (21%) than either those not put off by their decline (8%) or those who had never been declined (4%):

Impact of previous decline by bank All SMEs YEQ4 14	All SMEs	Made more reluctant by decline	Declined but not made more reluctant	Not previously declined
Unweighted base:	*20,055*	*801*	*319*	*18,935*
Have had an event	16%	44%	39%	14%
Would-be seekers	5%	21%	8%	4%
Happy non-seekers	79%	35%	52%	82%

Q240x and Q240y and Q115/209 All SMEs

A similar pattern of behaviour is seen once the PNBs have been excluded, with those made more reluctant to apply due to a previous decline the most likely to be a 'would-be seeker' of finance:

Impact of previous decline by bank				
All SMEs YEQ4 14 excl PNBs	All SMEs excl PNBs	Made more reluctant by decline	Declined but not made more reluctant	Not previously declined
Unweighted base:	*13,613*	*752*	*284*	*12,577*
Have had an event	28%	49%	44%	26%
Would-be seekers	8%	24%	9%	7%
Happy non-seekers	64%	27%	47%	67%

Q240x and Q240y and Q115/209 All SMEs excluding PNBs

Whilst those made more reluctant to apply due to a previous decline are the most likely to be a 'would-be seeker' of finance, they are also more likely to report a borrowing 'event' – 49% compared to 28% of all SMEs excluding the PNBs.

A similar pattern was seen when analysed by future borrowing intentions – 46% of those previously declined planned to apply in the next 3 months compared to 24% of SMEs overall (excluding the PNBs), 32% were 'would-be seekers' (compared to 28% overall) and 23% were 'Happy non-seekers' (compared to 49% overall).

12. The future

This chapter reports

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

Key findings

Looking forward, 43% of SMEs expected to grow in the next 12 months and this has been relatively stable over time. The larger the SME the more likely they were to be planning to grow (39% for 0 employee SMEs in Q4 2014 compared to 69% for those with 50-249 employees). There has been a fairly steady increase in the proportion of SMEs with employees planning to grow, whilst amongst the 0 employee SMEs growth predictions have been lower and more volatile

Almost all of those planning to grow expected to achieve this through additional sales in the UK (97% of those planning to grow). 9% planned to grow through additional overseas sales, the equivalent of 4% of all SMEs

When asked to rate future obstacles to their business, 69% of SMEs in Q4 2014 felt that <u>none</u> of the issues cited were a 'major obstacle'. This has increased over time (it was 55% in Q4 2012) despite the addition of an extra issue in Q3 2014

The issue most likely to be rated a major obstacle was 'the current economic climate'. 14% of SMEs in Q4 2014 rated it a major obstacle and it was more of an obstacle for those with any interest in finance in the next 3 months (19%), those planning to grow (17%) and those in Agriculture or the Hotel and Restaurant sector (both 21%).

The importance of the current economic climate has though declined over time (in Q1 2012, 37% of SMEs rated it a major obstacle). As a result 'legislation and regulation' (which is rated a major obstacle by a fairly consistent 11% of all SMEs) is now as much of an obstacle for those with employees as the economic climate

Access to external finance was rated a major obstacle by 6% of all SMEs. This has also declined somewhat over time (it was 12% in Q1 2013) and is now as likely to be rated a major obstacle as the availability of advice or issues recruiting and retaining staff. Excluding the PNBs with apparent limited appetite for finance increased the proportion rating access to finance an issue in Q4 2014 to 10% whilst amongst those with any appetite for finance in the next 3 months the figure was 13%, also lower than in previous quarters (it was 27% amongst those with any appetite for finance in Q1 2013)

Over time, the proportion of SMEs predicting that they will have a need for external finance has fallen from 13% in Q4 2012 to 8% in Q4 2014. Over the same period, the proportion planning to inject personal funds has also declined (from 22% to 14%) suggesting this is not being used as an alternative source of finance

13% of SMEs had plans to apply for new/renewed finance in the three months after Q4 2014. This proportion has remained stable over recent quarters. Analysis in Q4 2014 showed that 61% of all SMEs neither used external finance, nor had any plans to apply for any. This proportion has increased steadily over time, having been 50% in 2011

Amongst those SMEs with plans to apply, consideration of the 'core' products (loans, overdrafts and credit cards) has declined over time (from 72% in 2012 to 65% in 2014) mirroring the decline in usage reported earlier.

Consideration of 'other' forms of finance has also declined (61% to 54% over the same period) as the proportion of SMEs who were not considering any of the forms of finance listed increased from 14% to 23% (most of them said that they had not decided what form of finance they would use)

Whilst future appetite for finance is unchanged, confidence amongst those planning to apply that the bank would agree to a request has risen to 54%. This is one of the highest levels reported to date, due to increased confidence amongst smaller applicants and those seeking new money

That said, the confidence 'gap' remains, with SMEs less confident of success than current success rates would suggest. Confidence amongst those planning to renew is currently 62% compared to a success rate of 99% and for new money is 46% against a success rate of 62%

12% of SMEs were future 'Would-be seekers' of finance, most (11% of all SMEs) with no immediate need for finance identified. This group is decreasing in size over time (it was 21% of all SMEs in Q4 2012). The key barrier to application remains the economic climate, cited by 61% of future 'Would-be seekers' as the main reason they would not be applying for finance (and more likely to be mentioned by those with no immediate need identified). Discouragement was mentioned by 9% of all future 'Would-be seekers' in Q4 2014, one of the lowest levels seen to date and most of it indirect (it remains more of an issue for those with a need for finance identified)

With appetite for finance stable and fewer future 'Would-be seekers' of finance, the proportion of SMEs that meet the definition of a future 'Happy non-seeker' of finance has increased over time, from 65% in Q4 2012 to 75% of SMEs in Q4 2014

Having reviewed performance over the 12 months prior 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 2014 data gathered between October and December, when a number of positive economic indicators were published, but there were concerns about the future of the Eurozone.

Growth plans for next 12 months

SMEs were asked about their growth plans.

From Q4 2012 this has been phrased as 'Which of the following do you feel describes your plans **for the business** over the next year?' (prior to this it was phrased as 'Which of the following do you feel describes your growth objectives over the next year?') The answer codes remained unchanged.

Over time SMEs have given similar answers to this question in each quarter, with between 4 and 5 out of 10 planning to grow. In Q2 of 2013 and then again in Q2 2014 there was something of a 'spike' in the proportion planning to grow that was not maintained in subsequent quarters of those years. In Q4 2014 43% were planning to grow, in line with the equivalent quarter of 2012, but slightly lower than Q4 2013 (when 48% were planning to grow):

Growth in next 12 mths All SMEs, over time By date of interview	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014
Unweighted base:	*5000*	*5000*	*5000*	*5008*	*5028*	*5000*	*5008*	*5023*	*5024*
Grow substantially	7%	7%	8%	6%	7%	5%	9%	8%	7%
Grow moderately	37%	41%	43%	41%	41%	40%	44%	38%	36%
All with objective to grow	***44%***	***48%***	***51%***	***47%***	***48%***	***45%***	***53%***	***46%***	***43%***
Stay the same size	48%	43%	41%	43%	44%	45%	40%	43%	46%
Become smaller	4%	4%	3%	3%	3%	3%	3%	5%	4%
Plan to sell/pass on/close	5%	5%	5%	6%	5%	5%	4%	7%	7%

Q225 All SMEs New Question wording in Q4 2012

In Q4 2014 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 14 only	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*5024*	*1001*	*1665*	*1607*	*751*
Grow substantially	7%	5%	11%	10%	13%
Grow moderately	36%	34%	41%	53%	56%
All with objective to grow	*43%*	*39%*	*52%*	*63%*	*69%*
Stay the same size	46%	49%	41%	34%	29%
Become smaller	4%	4%	3%	1%	1%
Plan to sell/pass on/close	7%	8%	4%	1%	*

Q225 All SMEs New Question wording in Q4 2012

Amongst SMEs with employees, 54% were planning to grow (11% substantially).

SMEs that met the 'Permanent non-borrower' definition in Q4 2014 remained less likely to have plans to grow (38%) than those that didn't meet the definition (48%).

SMEs that had injected personal funds in the previous 12 months were more likely to be planning to grow (55%) than those who had not (38%) and this was true for Starts (68% v 52%) as well as older businesses (50% v 35%).

The table on the next page summarises the growth plans/objectives of SMEs by key demographics over time, including by size of SME:

- SMEs with 0 employees are less likely to be planning to grow – over time there has been more volatility in their figures, reaching 50% in both Q2 2013 and 2014, before reducing again
- SMEs with 1-9 employees were increasingly likely to be planning to grow up to Q2 2014, but the two most recent quarters have seen somewhat fewer SMEs of this size planning to grow
- SMEs with 10-49 employees saw an increase in the proportion planning to grow across 2013 and most of 2014, but a somewhat smaller proportion said they planned to grow in Q4 2014
- SMEs with 50-249 employees remained the most likely to be planning to grow and this proportion has not changed much since Q3 2013

Objective to grow (any) in next 12 months Over time – row percentages By date of interview	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014
All SMEs	**44%**	**48%**	**51%**	**47%**	**48%**	**45%**	**53%**	**45%**	**43%**
0 employee	41%	47%	50%	43%	46%	41%	50%	41%	39%
1-9 employees	49%	51%	56%	56%	53%	57%	59%	55%	52%
10-49 employees	58%	54%	57%	60%	64%	68%	67%	69%	63%
50-249 employees	61%	66%	65%	69%	69%	72%	72%	68%	69%
Minimal external risk rating	34%	43%	48%	40%	50%	51%	47%	41%	40%
Low external risk rating	39%	40%	49%	50%	44%	48%	51%	41%	40%
Average external risk rating	36%	44%	43%	40%	38%	39%	49%	40%	39%
Worse than average external risk rating	50%	55%	57%	51%	52%	49%	56%	51%	50%
Agriculture	38%	42%	48%	37%	44%	43%	40%	39%	25%
Manufacturing	39%	53%	50%	51%	49%	59%	61%	44%	55%
Construction	37%	38%	47%	40%	39%	34%	43%	37%	34%
Wholesale/Retail	46%	51%	49%	46%	58%	53%	60%	53%	50%
Hotels & Restaurants	38%	40%	49%	53%	42%	50%	46%	40%	41%
Transport	38%	55%	43%	55%	39%	39%	39%	34%	34%
Property/Business Services etc.	50%	52%	58%	52%	51%	47%	56%	47%	45%
Health	45%	52%	53%	45%	46%	45%	46%	55%	50%
Other Community	48%	54%	52%	46%	55%	55%	68%	55%	49%
All 'Permanent non-borrowers'	37%	48%	46%	39%	38%	40%	45%	38%	38%
All excluding PNBs	47%	48%	54%	52%	55%	51%	57%	50%	48%

Q225 All SMEs base size varies by category

Those planning to grow were asked how this growth would be achieved. In Q3 2014 the possible answer codes were expanded to split out 'sales in existing markets' into UK sales and overseas sales. Selling to existing markets in the UK is the main way in which growth will be achieved (for 97% of those planning to grow), and overall, more SMEs planned to grow by selling to new markets in the UK (8% of all SMEs) than overseas (2%):

How plan to grow Q4 14	All planning to grow	All SMEs
Unweighted base:	***2593***	***5008***
Sell in the UK	97%	40%
Increase sales in existing markets in UK	*87%*	*36%*
Sell in new markets in UK	*19%*	*8%*
Sell overseas	9%	4%
Increase sales in existing markets overseas	*6%*	*2%*
Sell in new markets overseas	*5%*	*2%*

Q226 All SMEs planning to grow excluding DK / All SMEs

Exporters remained somewhat more likely to be predicting growth (in Q4 14, 57% reported that they planned to grow compared to 41% of non-exporters). As the table below shows, while a quarter of those already exporting planned to sell into new markets overseas (24%, the equivalent of 1% of all SMEs), very few who do not currently export thought that they would start to do so (2%, albeit also the equivalent of 1% of all SMEs):

How plan to grow Q4 14	All planning to grow who export	All planning to grow who do not export
Unweighted base:	***535***	***2058***
Sell in the UK	92%	98%
Increase sales in existing markets in UK	*84%*	*88%*
Sell in new markets in UK	*26%*	*18%*
Sell overseas	45%	5%
Increase sales in existing markets overseas	*33%*	*2%*
Sell in new markets overseas	*24%*	*2%*

Q226 All SMEs planning to grow excluding DK

The table below summarises these differences between exporters and non-exporters over time. The first table below shows that exporters have been more likely to be planning to grow each quarter than those that do not export:

Plan to grow By date of interview Row percentages	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014
Exporters	55%	65%	64%	59%	53%	67%	69%	58%	57%
Non-exporters	43%	47%	50%	46%	47%	44%	51%	44%	41%

Q225 All SMEs New Question wording in Q4 2012

The second table is based on those planning to grow and summarises how this growth is to be achieved. Existing markets are the main target for both exporters and non-exporters. Over time, exporters have become somewhat less likely to say that they will export to new markets overseas, although there is no clear pattern over time:

How plan to grow By date of interview Row percentages	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014
In existing markets:									
Exporters	*69%*	*85%*	*77%*	*83%*	*76%*	*83%*	*87%*	*85%*	*89%*
Non-exporters	*88%*	*88%*	*90%*	*90%*	*83%*	*89%*	*84%*	*79%*	*86%*
New UK markets:									
Exporters	*45%*	*36%*	*43%*	*29%*	*39%*	*35%*	*27%*	*33%*	*26%*
Non-exporters	*19%*	*22%*	*21%*	*21%*	*19%*	*18%*	*20%*	*26%*	*17%*
New overseas markets:									
Exporters	*45%*	*38%*	*30%*	*25%*	*29%*	*28%*	*21%*	*28%*	*24%*
Non-exporters	*4%*	*4%*	*4%*	*5%*	*3%*	*3%*	*3%*	*3%*	*2%*

Q226 All SMEs planning to grow

Obstacles to running the business in the next 12 months

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

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

In Q3 2014, some amendments were made to this question:

- 'Staff related issues' was amended to be 'Issues recruiting and retaining skilled staff'.
- A new factor was added 'Political uncertainty and future government policy'.
- Any SMEs that did not rate any of the factors 8-10 (a major obstacle) were asked whether there was anything else that they saw as an obstacle that was not on this list.

The economic climate remained the key issue in Q4 2014 as in all previous quarters, but by a narrowing margin:

- The **current economic climate** was rated as a major obstacle (8-10) by 14% of SMEs in Q4 2014. 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. It was rated a major obstacle by 11% of SMEs, but is now as much of a barrier as the economic climate for those with employees.
- 9% rated the new barrrier of **political uncertainty/government policy** as a major obstacle.
- **Cash flow and issues with late payment** was rated a major obstacle by 8%.
- 6% of SMEs rated **availability of relevant advice** for their business as a major obstacle for the year ahead.
- **Access to external finance** was similarly rated, with 6% of SMEs seeing it as a major obstacle.
- 6% also rated the amended barrier of **recruiting and retaining staff** as a major obstacle.

The analysis below looks at the barriers perceived in Q4 2014, 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 14 only – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*5024*	*1001*	*1665*	*1607*	*751*
The current economic climate (mean score)	4.3	4.2	4.7	4.4	4.3
- 8-10 major obstacle	*14%*	*13%*	*15%*	*12%*	*9%*
- 5-7 moderate obstacle	*36%*	*34%*	*39%*	*40%*	*41%*
- 1-4 limited obstacle	*48%*	*50%*	*43%*	*44%*	*47%*
Legislation and regulation	3.7	3.5	4.2	4.2	4.1
- 8-10 major obstacle	*11%*	*10%*	*14%*	*15%*	*12%*
- 5-7 moderate obstacle	*27%*	*26%*	*32%*	*29%*	*32%*
- 1-4 limited obstacle	*58%*	*61%*	*49%*	*51%*	*50%*
Political uncertainty/future govt policy	3.4	3.3	3.7	3.7	3.6
- 8-10 major obstacle	*9%*	*9%*	*9%*	*9%*	*7%*
- 5-7 moderate obstacle	*27%*	*26%*	*30%*	*31%*	*27%*
- 1-4 limited obstacle	*60%*	*62%*	*56%*	*54%*	*59%*
Cash flow/issues with late payment	3.0	2.8	3.5	3.2	3.0
- 8-10 major obstacle	*8%*	*7%*	*11%*	*7%*	*6%*
- 5-7 moderate obstacle	*19%*	*18%*	*24%*	*21%*	*21%*
- 1-4 limited obstacle	*71%*	*73%*	*62%*	*67%*	*69%*
Access to external finance	2.6	2.5	3.0	2.7	2.6
- 8-10 major obstacle	*6%*	*6%*	*9%*	*5%*	*3%*
- 5-7 moderate obstacle	*17%*	*16%*	*19%*	*17%*	*16%*
- 1-4 limited obstacle	*72%*	*74%*	*67%*	*73%*	*74%*
Availability of relevant advice	2.7	2.7	2.9	2.7	2.5
- 8-10 major obstacle	*6%*	*6%*	*6%*	*4%*	*2%*
- 5-7 moderate obstacle	*19%*	*18%*	*21%*	*20%*	*18%*
- 1-4 limited obstacle	*73%*	*74%*	*69%*	*71%*	*74%*
Recruiting/retaining staff	2.4	2.1	3.1	3.7	3.7
- 8-10 major obstacle	*6%*	*5%*	*8%*	*11%*	*9%*
- 5-7 moderate obstacle	*14%*	*11%*	*23%*	*27%*	*27%*
- 1-4 limited obstacle	*77%*	*81%*	*66%*	*58%*	*60%*
None of these are major obstacles	69%	71%	64%	67%	71%

Q227a All SMEs

Amongst SMEs with employees, the proportion rating each factor a 'major obstacle' did not vary much from SMEs overall (15% for the current economic climate, 14% for legislation and regulation and 8% for access to external finance).

In Q4 2014, 69% of SMEs did not rate any of these potential obstacles as a major obstacle (scoring 8-10) with no clear pattern by size. This is slightly higher than previous quarters, despite the addition of an extra potential barrier in political uncertainty.

Analysis by risk rating showed that the current economic climate remained the most important obstacle of those tested in Q4 for those with a worse than average risk rating. Across the other external risk ratings 'legislation and regulation' is now as much of a barrier:

Extent of obstacles in next 12 months Q4 14 only – all SMEs 8-10 impact score	Total	Min	Low	Avge	Worse/Avge
Unweighted base:	*5024*	*835*	*1475*	*1192*	*1082*
The current economic climate	14%	13%	10%	13%	16%
Legislation and regulation	11%	14%	12%	13%	10%
Political uncertainty/future govt policy	9%	12%	7%	8%	9%
Cash flow/issues with late payment	8%	10%	6%	6%	9%
Access to external finance	6%	7%	5%	4%	8%
Availability of relevant advice	6%	8%	3%	6%	7%
Recruiting/retaining staff	6%	9%	7%	6%	5%
None of these rated a 'major obstacle'	*69%*	*65%*	*75%*	*69%*	*68%*

Q227a All SMEs for whom risk ratings known

The current economic climate is more likely to be seen as a barrier by those with plans to grow. Over the course of 2014, the proportion of those planning to grow who saw the economic climate as a major obstacle stabilised (it was 19% in Q1 2014 and is now 17%). By contrast, amongst those with no plans to grow, the economic climate has become less of a barrier (it was 21% in Q1 2014 and is now 11%). Those with no plans to grow were also more likely to say that none of these factors presented a major obstacle to them (74%):

Extent of obstacles in next 12 months Q4 14 only – all SMEs 8-10 impact score	Total	Plan to grow	No plans to grow
Unweighted base:	*5024*	*2687*	*2337*
The current economic climate	14%	17%	11%
Legislation and regulation	11%	12%	11%
Political uncertainty/future govt policy	9%	9%	9%
Cash flow/issues with late payment	8%	10%	5%
Access to external finance	6%	8%	5%
Availability of relevant advice	6%	7%	4%
Recruiting/retaining staff	6%	7%	5%
None of these rated a 'major obstacle'	*69%*	*63%*	*74%*

Q227a All SMEs

More differences were seen depending on whether the SME was a 'Permanent non-borrower' or not. PNBs remained less likely to see any of these issues as major barriers (76% said that none of them were), notably cash flow and access to external finance:

Extent of obstacles in next 12 months Q4 14 only – all SMEs 8-10 impact score	Total	PNB	Not PNB
Unweighted base:	*5024*	*1871*	*3153*
The current economic climate	14%	11%	16%
Legislation and regulation	11%	9%	13%
Political uncertainty/future govt policy	9%	8%	10%
Cash flow/issues with late payment	8%	4%	11%
Access to external finance	6%	2%	10%
Availability of relevant advice	6%	4%	7%
Recruiting/retaining staff	6%	4%	8%
None of these rated a 'major obstacle'	*69%*	*76%*	*63%*

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. Half, 58%, did not rate any of them as a major obstacle, compared to 73% of 'Happy non-seekers':

Extent of obstacles in next 12 months Q4 14 only – all SMEs 8-10 impact score	Total	Plan to apply or FWBS	Future HNS	Future HNS excl. PNB
Unweighted base:	*5024*	*1331*	*3693*	*1822*
The current economic climate	14%	19%	12%	14%
Legislation and regulation	11%	14%	10%	12%
Political uncertainty/future govt policy	9%	11%	8%	9%
Cash flow/issues with late payment	8%	14%	5%	8%
Access to external finance	6%	13%	4%	7%
Availability of relevant advice	6%	9%	4%	5%
Recruiting/retaining staff	6%	9%	5%	7%
None of these rated a 'major obstacle'	*69%*	*58%*	*73%*	*68%*

Q227a All SMEs

The future 'Happy non-seeker' category described above includes those SMEs that met the definition of a 'Permanent non-borrower', which indicates that they are unlikely to borrow. Such SMEs have been excluded from the 'Happy non-seeker' definition in the final column above. This increases most of the scores slightly, and reduces the proportion saying that none of these was an obstacle from 73% to 68%.

The economic climate was the most likely to be rated by SMEs as a major obstacle to running the business, with the highest score still given by SMEs in the Hotels & Restaurants sector (21%). SMEs in Agriculture, Manufacturing and Construction were as likely, or almost as likely, to rate legislation and regulation as a major barrier as they were the current economic climate:

Extent of obstacles in next 12 months Q4 14 only – all SMEs 8-10 impact scores	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*376*	*524*	*880*	*510*	*451*	*455*	*880*	*447*	*501*
The current economic climate	21%	15%	11%	12%	21%	13%	12%	18%	16%
Legislation and regulation	19%	14%	11%	12%	15%	15%	10%	7%	8%
Political uncertainty/future govt policy	15%	7%	8%	10%	8%	12%	9%	7%	6%
Cash flow/issues with late payment	11%	10%	9%	8%	6%	7%	6%	5%	8%
Access to external finance	7%	5%	5%	11%	8%	12%	4%	4%	7%
Availability of relevant advice	9%	3%	5%	5%	7%	9%	6%	3%	5%
Recruiting/retaining staff	7%	7%	6%	6%	5%	5%	5%	4%	7%
None of these rated a 'major obstacle'	*57%*	*65%*	*73%*	*65%*	*63%*	*66%*	*71%*	*77%*	*70%*

Q227All SMEs

77% of those in the Health sector reported that none of these factors were a major obstacle to them, compared to 57% in Agriculture.

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

The summary table below shows the proportion of SMEs rating each factor a ‘major obstacle’ across the most recent nine waves of the Monitor. The current economic climate was the most likely to be rated a ‘major obstacle’ in all quarters, but since Q1 2012 (when 37% rated it a major obstacle) the proportion doing so has decreased steadily each quarter, from 1 in 3 to 1 in 7 SMEs.

Over the same period, an increasing proportion of SMEs reported that none of these factors presented a major obstacle to them (from 52% for 2012 as a whole to 58% for 2013 and to 66% for 2014, despite the addition of an extra factor in Q3 2014):

Extent of obstacles in next 12 months All SMEs over time 8-10 impact score By date of interview	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13	Q1 14	Q2 14	Q3 14	Q4 14
Unweighted base:	*5000*	*5000*	*5000*	*5008*	*5028*	*5000*	*5008*	*5023*	*5024*
The current economic climate	31%	32%	28%	26%	21%	20%	17%	16%	14%
Legislation and regulation	12%	14%	14%	14%	11%	12%	12%	12%	11%
Political uncertainty/ future govt policy	-	-	-	-	-	-	-	12%	9%
Cash flow/issues with late payment	11%	12%	11%	11%	10%	8%	10%	9%	8%
Access to external finance	10%	12%	10%	10%	8%	7%	8%	7%	6%
Availability of relevant advice	6%	7%	6%	6%	6%	5%	6%	5%	6%
Recruiting/retaining staff*	*3%*	*3%*	*3%*	*3%*	*3%*	*2%*	*3%*	7%	6%
None of these rated a ‘major obstacle’	*55%*	*54%*	*58%*	*57%*	*64%*	*66%*	*65%*	*64%*	*69%*

Q227 All SMEs – Staff factor changed in Q3 2014 from ‘staff related issues’

*from Q3 2014 the barrier ‘staff issues’ was replaced by ‘Issues recruiting and retaining staff’

‘Political uncertainty and future government policy’ was included as a potential obstacle for the first time in Q3 2014. The 12% rating it a ‘major obstacle’ in Q3 2014 included 23% of SMEs in Scotland, perhaps as a result of the majority of the fieldwork period being conducted in the run up to the Scottish referendum. In Q4 2014, 12% of Scottish SMEs rated political uncertainty and future government policy as a major obstacle.

As mentioned above, a new question was asked for the first time in Q3 2014 to understand whether those who had not rated *any* of the factors as a ‘major obstacle’ had any other barriers in mind. Across the two quarters for which this question has been asked, no clear issues have emerged.

Access to finance is the key theme of this report. In Q4 2014, 6% of SMEs rated this as a major obstacle, the lowest level recorded to date.

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 ‘peak’ figure to date for access to finance was in Q3 2012, when 13% of all SMEs, and 18% of SMEs excluding PNBs, rated access to finance as a major obstacle. Since then the proportion has declined gradually to 6% of all SMEs in Q4 2014 (and 10% excluding the PNBs). Access to finance has also become less of an obstacle for those with any appetite for future finance (to 13% in Q4 2014, half the level seen at the start of 2013).

Access to finance – 8-10 impact scores Over time – row percentages By date of interview	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13	Q1 14	Q2 14	Q3 14	Q4 14
All SMEs	10%	12%	10%	10%	8%	7%	8%	7%	6%
0 employee	9%	11%	10%	10%	7%	6%	9%	7%	6%
1-9 employees	13%	15%	12%	12%	11%	9%	8%	10%	9%
10-49 employees	9%	11%	10%	8%	7%	7%	6%	6%	5%
50-249 employees	8%	5%	5%	5%	5%	4%	4%	3%	3%
Minimal external risk rating	8%	5%	4%	5%	5%	4%	4%	4%	7%
Low external risk rating	8%	8%	5%	4%	5%	6%	4%	5%	5%
Average external risk rating	8%	11%	11%	9%	6%	5%	7%	6%	4%
Worse than average external risk rating	11%	15%	13%	12%	10%	9%	11%	9%	8%
Agriculture	10%	10%	12%	5%	9%	5%	5%	6%	7%
Manufacturing	7%	6%	9%	11%	10%	10%	12%	4%	5%
Construction	11%	12%	11%	10%	6%	8%	7%	7%	5%
Wholesale/Retail	15%	9%	9%	12%	11%	6%	10%	10%	11%
Hotels & Restaurants	14%	19%	12%	13%	14%	12%	10%	13%	8%
Transport	11%	14%	14%	14%	11%	12%	10%	11%	12%
Property/Business Services etc.	9%	13%	9%	9%	7%	3%	8%	6%	4%
Health	4%	11%	10%	6%	7%	5%	4%	10%	4%
Other Community	9%	13%	12%	11%	5%	9%	12%	5%	7%
Use external finance	14%	16%	14%	14%	10%	10%	12%	11%	10%
Plan to borrow/FWBS	21%	27%	24%	25%	18%	16%	17%	17%	13%
Future Happy non-seekers	5%	4%	4%	4%	3%	3%	4%	3%	4%
All SMEs excluding PNBs	14%	18%	15%	16%	12%	11%	12%	11%	10%

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 2014 (13%) was in line with most previous quarters:

% likely in next 3 months All SMEs, over time By date of interview	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014
Unweighted base:	*5000*	*5000*	*5000*	*5008*	*5028*	*5000*	*5008*	*5023*	*5024*
Will have a need for (more) external finance	13%	13%	12%	11%	11%	9%	10%	11%	8%
Will apply for more external finance	8%	9%	9%	7%	8%	7%	8%	9%	7%
Renew existing borrowing at same level	8%	8%	7%	7%	9%	7%	9%	10%	8%
Any apply/renew	*14%*	*15%*	*14%*	*12%*	*15%*	*12%*	*14%*	*15%*	*13%*
Reduce the amount of external finance used	8%	7%	7%	7%	7%	5%	9%	9%	7%
Inject personal funds into business	22%	22%	21%	21%	17%	15%	16%	20%	14%

Q229 All SMEs

In all quarters to date, more SMEs have identified a need for finance than thought they would apply for it (albeit the gap is narrow in Q4 8% v 7%). The predicted level of applications/renewals in the coming quarter remained higher than the actual level of applications/renewals seen subsequently (from different SMEs). Whilst around 14% of SMEs have said that they planned to apply for finance, levels of application have been 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 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014
Unweighted base:	*2837*	*2944*	*2936*	*3063*	*2890*	*2831*	*2999*	*2826*	*2822*
Any new equity	*4%*	*2%*	*3%*	*5%*	*3%*	*2%*	*4%*	*5%*	*5%*

Q229 All companies

In Q4 2014, there continued to be a difference in appetite for finance by size of business. SMEs with 1-9 employees had the highest appetite for finance (19%). Amongst those with no employees, appetite for finance was stable at 11%, and these SMEs remained the only group more likely to anticipate an injection of personal funds (14%, albeit down from 22% in Q3 2013) than an application for new/renewed finance:

% likely in next 3 months Q4 14 only – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*5024*	*1001*	*1665*	*1607*	*751*
Will have a need for (more) external finance	8%	7%	11%	11%	10%
Will apply for more external finance	7%	6%	10%	9%	9%
Renew existing borrowing at same level	8%	7%	12%	11%	11%
Any apply/renew	*13%*	*11%*	*19%*	*16%*	*15%*
Reduce the amount of external finance used	7%	6%	9%	9%	8%
Inject personal funds into business	14%	14%	13%	7%	5%

Q229 All SMEs

Amongst SMEs with employees, 18% have plans to apply/renew in the next 3 months and 11% believe they will have a need for (more) external finance.

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 year, 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 (14% in Q4 2014). Data earlier in this report showed that the proportion of SMEs that had actually seen an injection of funds had also declined over time.

The table below shows how the injection of personal funds past and present combine, so that trends can be established. Over time an increasing proportion of SMEs had neither put in funds, nor thought it likely they would do so (66% in Q4 2014). The proportion that had both put in funds in the past *and* planned to do so in future has declined somewhat over time (having been 17% of SMEs in Q2 2012) and was 9% in Q4 2014:

Injections of personal funds All SMEs, over time By date of interview	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014
Unweighted base:	*5000*	*5000*	*5000*	*5008*	*5028*	*5000*	*5008*	*5023*	*5024*
Have injected personal funds and likely to do so again	15%	16%	14%	14%	12%	10%	11%	12%	9%
Have not put in personal funds but likely to do so	7%	7%	7%	7%	5%	5%	5%	8%	5%
Have injected personal funds but unlikely to do so again	26%	24%	27%	24%	21%	20%	19%	16%	20%
Have not put in personal funds and not likely to do so	53%	54%	52%	55%	62%	65%	65%	64%	66%

Q229/Q15d-d2 All SMEs

Turning back to future applications for external finance, the table on the next page summarises the change in likely applications/renewals over time for key demographic groups. Comparing Q4 2014 with the equivalent quarters in 2012 and 2013 shows a fairly consistent appetite for finance overall (13-15% in each quarter).

% likely to apply or renew in next 3 months Over time – row percentages By date of interview	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014
All SMEs	**14%**	**15%**	**14%**	**12%**	**15%**	**12%**	**14%**	**15%**	**13%**
0 employee	13%	13%	12%	10%	13%	9%	13%	12%	11%
1-9 employees	18%	19%	18%	18%	20%	19%	18%	23%	19%
10-49 employees	19%	20%	15%	16%	18%	20%	15%	23%	16%
50-249 employees	17%	19%	16%	14%	14%	11%	13%	17%	15%
Minimal external risk rating	20%	14%	12%	12%	12%	11%	18%	15%	10%
Low external risk rating	19%	16%	12%	13%	12%	18%	13%	11%	13%
Average external risk rating	13%	15%	12%	12%	13%	10%	11%	16%	10%
Worse than average external risk rating	13%	15%	15%	12%	16%	11%	15%	15%	16%
Agriculture	21%	16%	12%	15%	22%	12%	18%	17%	13%
Manufacturing	13%	12%	17%	8%	16%	14%	18%	17%	15%
Construction	15%	11%	14%	14%	12%	10%	13%	12%	11%
Wholesale/Retail	17%	24%	12%	15%	21%	15%	17%	25%	18%
Hotels & Restaurants	15%	18%	13%	14%	14%	16%	14%	21%	15%
Transport	15%	13%	17%	16%	17%	15%	19%	11%	15%
Property/Business Services etc.	10%	14%	12%	12%	14%	9%	11%	12%	12%
Health	14%	13%	16%	9%	10%	8%	11%	16%	8%
Other Community	15%	14%	14%	8%	14%	13%	16%	15%	11%
Objective to grow	18%	18%	17%	17%	19%	16%	19%	21%	16%
No objective to grow	11%	12%	10%	8%	11%	8%	9%	10%	10%
All SMEs excluding PNBs	22%	25%	21%	20%	25%	22%	23%	25%	24%

Q229 All SMEs base size varies by category

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

Use of new/renewed facility All planning to seek/renew, over time By date of interview	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014
Unweighted base:	*876*	*931*	*774*	*813*	*854*	*790*	*792*	*1023*	*787*
Working capital	62%	61%	64%	60%	58%	63%	49%	51%	62%
Plant & machinery	24%	23%	29%	24%	27%	20%	32%	26%	20%
UK growth*	14%	28%	27%	32%	25%	27%	36%	31%	23%
Premises	6%	5%	8%	5%	9%	6%	12%	13%	8%
New products or services	9%	8%	7%	11%	10%	7%	13%	11%	5%
Growth overseas*	1%	3%	4%	5%	7%	4%	6%	7%	5%

Q230 All planning to apply for/renew facilities in next 3 months. *Growth replaced expansion in Q2 2013

Over time, slightly fewer SMEs planning to apply/renew mentioned Working Capital (63% in 2012 to 56% in 2014) but it remained the most mentioned reason for application. More SMEs mentioned UK growth as a reason (20% in 2012 to 29% in 2014), while the proportion mentioning plant and machinery was stable at around a quarter in each year.

The table below details what types of finance those planning to apply would consider for their new/renewed finance. Over time, fewer SMEs planning to apply/renew have said that they would consider the 'core' forms of finance (72% in 2012 to 65% for 2014) and this mirrors the decline in the use of such forms of finance reported earlier.

Consideration of 'other' forms of finance has also declined (61% in 2012 to 54% in 2014) as the proportion saying 'none of these' increased from 14% to 23%.

SMEs planning to apply who say 'none of these' are now asked whether they just haven't decided what form of finance they want, or are actively considering another form of finance not listed. In Q4 2014, most of those saying 'none of these' (85%) said that they had not decided what they might use. The equivalent of 3% of all SMEs said that they were considering another form of finance that was not listed.

Consideration amongst those planning to apply of any of the 'core' lending products (overdrafts, loans and credit cards) and/or 'other' forms of borrowing, is shown below:

% of those seeking/renewing finance that would consider form of funding, over time By date of interview	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014
Unweighted base:	*876*	*931*	*774*	*813*	*854*	*790*	*792*	*1023*	*787*
'Core' product consideration	72%	70%	61%	72%	65%	62%	63%	68%	65%
-Bank overdraft	53%	50%	45%	53%	44%	43%	42%	44%	43%
-Bank loan/Commercial mortgage	35%	40%	34%	40%	35%	36%	34%	45%	43%
-Credit cards	20%	18%	16%	23%	20%	11%	18%	20%	14%
Other product consideration	59%	60%	61%	66%	50%	46%	62%	56%	51%
-Grants	36%	43%	40%	47%	32%	31%	42%	37%	31%
-Loans/equity from family/friends or directors	24%	20%	27%	28%	19%	14%	21%	25%	23%
-Leasing or hire purchase	21%	21%	23%	28%	22%	21%	31%	23%	21%
Loans from other 3rd parties	12%	15%	14%	16%	15%	10%	16%	15%	11%
Invoice finance	9%	8%	7%	9%	6%	6%	8%	10%	8%
None of these	*17%*	*14%*	*24%*	*15%*	*25%*	*29%*	*22%*	*21%*	*23%*

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

26% of potential applicants in Q4 2014 said that they would **only** consider one or more of the core products, a similar level to other quarters.

The table below shows levels of consideration in Q4 2014 by the size of SME considering funding. The codes for bank loan and commercial mortgage were separated in Q3 2014, and are shown separately below for the first time. The two codes for loans and equity from family, friends or directors are also shown separately below – the combined codes for these products will be used in the time series data shown above until more data is available.

% of those seeking/renewing finance would consider funding – Q4 14 only	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*787*	*98**	*304*	*273*	*112*
'Core' product consideration	**65%**	**67%**	**61%**	**57%**	**52%**
-Bank overdraft	43%	47%	37%	33%	34%
-Bank loan	38%	39%	35%	37%	32%
-Commercial mortgage	13%	13%	14%	11%	7%
-Credit cards	14%	15%	13%	17%	16%
Other product consideration	**51%**	**47%**	**58%**	**64%**	**59%**
-Grants	31%	30%	34%	36%	35%
-Loans from family & friends & directors	21%	20%	23%	18%	15%
-Leasing or hire purchase	21%	18%	26%	30%	36%
-Equity from family & friends & directors	11%	10%	12%	14%	8%
-Loans from other 3rd parties	11%	9%	15%	18%	14%
-Invoice finance	8%	8%	8%	14%	15%
None of these	*23%*	*22%*	*25%*	*22%*	*28%*

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

The balance between consideration of 'core' and 'other' forms of funding changes by size of SME. Whilst those with 0 employees are more likely to consider core forms of finance, the opposite is true for those with 10-49 or 50-249 employees, driven by higher levels of consideration for leasing, hp and to some extent invoice finance.

Amongst SMEs with employees, 60% would consider one or more 'core' products for their future lending, while 59% would consider one or more of the other forms of borrowing. 25% said they would not consider any of these.

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 2014, half of these prospective applicants (54%) were confident that the bank would lend to them. This is the highest level of confidence seen amongst prospective applicants to date (52% were confident in Q1 2012):

Confidence bank would lend All planning to seek finance, over time by date of interview	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13	Q1 14	Q2 14	Q3 14	Q4 14
Unweighted base:	*669*	*713*	*547*	*607*	*610*	*574*	*538*	*699*	*526*
Very confident	15%	17%	4%	12%	20%	25%	25%	18%	31%
Fairly confident	28%	23%	26%	29%	21%	21%	18%	28%	23%
Overall confidence	*43%*	*40%*	*30%*	*41%*	*41%*	*46%*	*43%*	*46%*	*54%*
Neither/nor	23%	32%	31%	32%	26%	19%	31%	23%	19%
Not confident	33%	27%	40%	27%	33%	36%	26%	30%	28%
Net confidence (confident – not confident)	*+10*	*+13*	*-10*	*+14*	*+8*	*+10*	*+17*	*+16*	*+26*

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

Confidence amongst prospective applicants with employees was 55% in Q4 2014. This has also increased during 2014, having been 49% in Q4 2013.

As the table below shows, it is the prospective applicants with 0-9 employees (whose confidence has been more volatile over time) that have become more confident recently that their bank would agree to their future request. Those with a minimal/low external risk rating have always been more confident of success than those with an average or worse than average rating, but levels of confidence for both groups have fluctuated over time:

Overall confidence bank would lend All planning to seek finance, over time. By date of interview	Total	0-9 emps	10-249 emps	Min/low	Av/Worse than avge
Q4 2012	43%	43%	55%	58%	43%
Q1 2013	40%	40%	60%	70%	33%
Q2 2013	30%	29%	60%	56%	27%
Q3 2013	41%	40%	57%	64%	39%
Q4 2013	41%	40%	63%	73%	40%
Q1 2014	46%	45%	61%	67%	41%
Q2 2014	43%	42%	67%	60%	41%
Q3 2014	46%	45%	70%	77%	44%
Q4 2014	54%	53%	65%	58%	54%

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 2014 improved for those planning to renew (62%, recovering from a low of 38% in Q2 2013) and also amongst those planning to apply for new facilities (46% from 29% in Q4 2013). In both instances larger SMEs were more confident of success.

These levels of confidence remained in contrast to the actual outcome of applications. Success rates for renewals in the last 18 months were 99% compared to confidence levels of 62%, while for new funds success rates in the same period were 62% against a confidence level of 46%.

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

In Q4 2014, 13% of all SMEs reported plans to apply for or renew facilities in the following 3 months, leaving the majority (87%) with no such plans. A third of that majority (30%) were current users of external finance, the rest were not. This means that, for Q4 2014, 61% of all SMEs neither used external finance nor had any immediate plans to apply for any. This proportion has increased gradually over time, from 50% in 2011 to 60% for 2014.

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 already identified, and thus they are somewhat different from the 'Would-be seekers' of the past 12 months, *all* of whom reported having an identified need for finance that they had not applied for.

There have been no changes over time to these definitions, 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. A comparison across the equivalent Q4 for 2012, 2013 and 2014 shows that:

- The proportion of 'Future would-be seekers' has fallen (from 21% to 12% of SMEs)
- There has been an increase in the proportion of 'Future happy non-seekers' (65% to 75%) and they continue to be the largest group
- Appetite for future finance remained stable over the period

Future finance plans All SMEs, over time By date of interview	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014
Unweighted base:	*5000*	*5000*	*5000*	*5008*	*5028*	*5000*	*5008*	*5023*	*5024*
Plan to apply/renew	14%	15%	14%	12%	15%	12%	14%	15%	13%
'Future would-be seekers' – with identified need	2%	3%	2%	2%	1%	1%	1%	2%	1%
'Future would-be seekers' – no immediate identified need	19%	16%	17%	15%	16%	15%	17%	14%	11%
'Happy non-seekers'	65%	67%	67%	70%	68%	72%	68%	69%	75%

Q230/239 All SMEs

Amongst SMEs with employees in Q4 2014 18% had plans to apply/renew while 12% met the definition of a 'Future would-be seeker' and the 'Future happy non-seekers' remained the largest group at 70%.

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, with a higher proportion planning to apply (24% in Q4 2014) and fewer 'Future happy non-seekers' (53%) although they remain the largest single group, as overall:

Future finance plans SMEs excluding PNB, over time By date of interview	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014
Unweighted base:	*3664*	*3649*	*3707*	*3637*	*3585*	*3370*	*3514*	*3576*	*3153*
Plan to apply/renew	22%	25%	21%	20%	25%	22%	23%	25%	24%
'Future would-be seekers' – with identified need	4%	5%	3%	4%	2%	3%	1%	3%	2%
'Future would-be seekers' – no immediate identified need	29%	27%	27%	26%	28%	29%	28%	24%	21%
'Happy non-seekers'	44%	44%	48%	50%	45%	46%	48%	48%	53%

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

Comparing across Q4 for 2012, 2013 and 2014 shows the same trends as for SMEs overall:

- The 'Future happy non-seekers' remain the largest group, and their proportion has increased somewhat over the period (44% to 53%)
- The proportion of 'Future would-be seekers' has decreased somewhat (from 33% to 23%)
- Appetite for future finance remained stable over the period

The table below shows how the proportion of 'Future would-be seekers' has changed over time. At 12%, the overall figure for Q4 2014 was one of the lowest reported to date, with the decline over time across all size bands and for all but those with a minimal external risk rating:

Future would-be seekers Over time – row percentages By date of interview	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014
All SMEs	**21%**	**19%**	**19%**	**17%**	**18%**	**16%**	**18%**	**16%**	**12%**
0 employee	22%	19%	20%	19%	18%	17%	18%	18%	12%
1-9 employees	19%	19%	18%	15%	18%	16%	19%	12%	12%
10-49 employees	14%	15%	16%	10%	14%	13%	16%	8%	9%
50-249 employees	15%	16%	15%	11%	13%	13%	18%	8%	8%
Minimal external risk rating	14%	10%	13%	7%	11%	15%	10%	13%	12%
Low external risk rating	17%	18%	10%	15%	17%	11%	13%	13%	8%
Average external risk rating	19%	19%	17%	17%	15%	18%	17%	15%	10%
Worse than average external risk rating	23%	19%	23%	21%	18%	18%	21%	18%	16%
Agriculture	22%	15%	21%	17%	16%	19%	16%	15%	15%
Manufacturing	20%	17%	17%	20%	14%	14%	14%	13%	9%
Construction	20%	21%	20%	15%	19%	18%	19%	20%	13%
Wholesale/Retail	24%	16%	23%	21%	19%	16%	20%	12%	11%
Hotels & Restaurants	26%	22%	19%	20%	22%	17%	21%	16%	12%
Transport	21%	28%	24%	22%	19%	20%	18%	16%	14%
Property/Business Services etc.	21%	18%	18%	15%	16%	14%	18%	18%	12%
Health	13%	20%	13%	14%	12%	12%	15%	15%	11%
Other Community	22%	15%	18%	21%	20%	19%	16%	12%	11%
All SMEs excluding PNBs	33%	32%	30%	30%	30%	31%	29%	27%	23%

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 2014 for thinking that they would not apply for finance in the next three months. It highlights the continued reluctance to borrow in the current environment, whether due to the predicted performance of their business specifically, or the economic climate more generally:

Reasons for not applying (all mentions) All 'Future would-be seekers' Q4 14 only	Total	0-9 emps	10-249 emps
Unweighted base:	*544*	*335*	*209*
Reluctant to borrow now (any)	61%	61%	69%
-Prefer not to borrow in economic climate	*37%*	*37%*	*36%*
-Predicted performance of business	*24%*	*24%*	*33%*
Issues with principle of borrowing	7%	7%	3%
-Not lose control of business	*	*	*1%*
-Can raise personal funds if needed	*5%*	*5%*	*1%*
-Prefer other forms of finance	*1%*	*1%*	-
-Go to family and friends	*1%*	*1%*	-
Issues with process of borrowing	15%	15%	14%
-Would be too much hassle	*9%*	*9%*	*8%*
-Thought would be too expensive	*5%*	*5%*	*3%*
-Bank would want too much security	*1%*	*1%*	*2%*
-Too many terms and conditions	*1%*	*1%*	*1%*
-Did not want to go through process	*	*	*1%*
-Forms too hard to understand	*	-	*2%*
Discouraged (any)	11%	11%	15%
-Direct (Put off by bank)	1%	1%	1%
-Indirect (Think I would be turned down)	*10%*	*10%*	*14%*

Q239 'Future would-be seekers' SMEs

Those SMEs that gave more than one reason for being unlikely to apply for new/renewed facilities were asked for the main reason, and all the main reasons given over time are shown below.

A reluctance to borrow now, at 61%, was the main reason for not applying for external finance in Q4 2014. The proportion of 'Future would-be seekers' who gave discouragement as their main barrier was slightly lower than previous quarters (9%) and, as before, virtually all of this was indirect discouragement:

Main reason for not applying 'Future would-be seekers' over time By date of interview	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13	Q1 14	Q2 14	Q3 14	Q4 14
Unweighted base:	*880*	*867*	*861*	*691*	*822*	*765*	*876*	*580*	*544*
Reluctant to borrow now (any)	50%	63%	60%	60%	72%	64%	58%	53%	61%
-Prefer not to borrow in economic climate	*37%*	*40%*	*42%*	*44%*	*51%*	*46%*	*42%*	*40%*	*37%*
-Predicted performance of business	*13%*	*23%*	*18%*	*16%*	*22%*	*18%*	*16%*	*13%*	*24%*
Issues with principle of borrowing	12%	6%	4%	1%	2%	3%	4%	5%	5%
Issues with process of borrowing	15%	13%	13%	13%	12%	15%	15%	15%	13%
Discouraged (any)	17%	12%	16%	16%	11%	14%	15%	13%	9%
-Direct (Put off by bank)	*1%*	*3%*	*3%*	*1%*	*1%*	*1%*	*	*2%*	*
-Indirect (Think I would be turned down)	*16%*	*10%*	*14%*	*15%*	*10%*	*13%*	*15%*	*11%*	*9%*
None of these	*6%*	*6%*	*7%*	*10%*	*3%*	*4%*	*8%*	*14%*	*12%*

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

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

90% of past 'would-be seekers' who cited discouragement as one of the reasons for not applying went on to cite it as the main reason, and this was also the case amongst the future would-be seekers. The process of borrowing (85%) and the principle of borrowing (76%) were less likely to be converted into the main reason for not borrowing by future would-be seekers. The economic climate though was the most likely to become the main reason, with 98% of future would-be seekers who cited it as one of their reasons going on to cite it as the main reason for not applying.

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.

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.

For those with an identified need for finance, a reluctance to borrow in the current economic climate was more likely to be mentioned as the main barrier (38% Q3-4 14) than discouragement (26%). This is a change from 2013, when discouragement was mentioned more often and was the top reason for not applying. As before, virtually all discouragement is indirect, where the SME assumes they would be turned down and so does not apply:

Main reason for not applying The 'Future would-be seekers' **with identified need**	Q4-1 2013	Q1-2 2013	Q2-3 2013	Q3-4 2013	Q4-1 2014	Q1-2 2014	Q2-3 2014	Q3-4 2014
Unweighted base:	*220*	*190*	*151*	*149*	*127*	*96**	*103*	*86**
Reluctant to borrow now (any)	37%	33%	24%	33%	41%	35%	30%	38%
-Prefer not to borrow in economic climate	*32%*	*29%*	*20%*	*26%*	*35%*	*28%*	*18%*	*17%*
-Predicted performance of business	*5%*	*4%*	*5%*	*6%*	*7%*	*6%*	*12%*	*22%*
Issues with principle of borrowing	3%	9%	6%	1%	3%	4%	6%	6%
Issues with process of borrowing	22%	23%	19%	21%	20%	21%	25%	20%
Discouraged (any)	36%	32%	46%	42%	27%	23%	23%	26%
- Direct (Put off by bank)	*3%*	*5%*	*6%*	*2%*	*	*	*	*
-Indirect (Think I would be turned down)	*33%*	*27%*	*40%*	*40%*	*26%*	*22%*	*23%*	*26%*
None of these	*2%*	*3%*	*5%*	*3%*	*9%*	*17%*	*16%*	*10%*

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

As the table below shows, amongst those 'Future would-be seekers' with no specific need for finance in mind, a reluctance to borrow in the current climate presents much more of a barrier, and this is more likely to be 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, almost all of it is indirect:

Main reason for not applying The 'Future would-be seekers' **with no identified need**	Q4-1 2013	Q1-2 2013	Q2-3 2013	Q3-4 2013	Q4-1 2014	Q1-2 2014	Q2-3 2014	Q3-4 2014
Unweighted base:	*1527*	*1538*	*1401*	*1364*	*1460*	*1545*	*1353*	*1038*
Reluctant to borrow now (any)	59%	66%	65%	70%	71%	63%	58%	58%
-Prefer not to borrow in economic climate	*39%*	*43%*	*46%*	*50%*	*50%*	*45%*	*43%*	*41%*
-Predicted performance of business	*20%*	*23%*	*19%*	*20%*	*21%*	*18%*	*14%*	*17%*
Issues with principle of borrowing	10%	5%	2%	2%	2%	4%	5%	5%
Issues with process of borrowing	13%	11%	12%	11%	13%	14%	14%	14%
Discouraged (any)	12%	12%	12%	10%	11%	14%	13%	10%
- Direct (Put off by bank)	*2%*	*2%*	*1%*	*1%*	*1%*	*1%*	*1%*	*1%*
-Indirect (Think I would be turned down)	*10%*	*9%*	*11%*	*9%*	*10%*	*13%*	*12%*	*8%*
None of these	*6%*	*6%*	*9%*	*7%*	*3%*	*5%*	*10%*	*13%*

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

Other analysis of all 'Future would-be seekers', such as by size and risk rating, is based just on the latest quarter, Q4 2014.

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 14 only	Total	0-9 emps	10-249 emps
Unweighted base:	*544*	*335*	*209*
Reluctant to borrow now (any)	61%	60%	67%
-Prefer not to borrow in economic climate	*37%*	*37%*	*35%*
-Predicted performance of business	*24%*	*23%*	*33%*
Issues with principle of borrowing	5%	5%	2%
Issues with process of borrowing	13%	13%	12%
Discouraged (any)	9%	9%	14%
-Direct (Put off by bank)	*	*	*1%*
-Indirect (Think I would be turned down)	*9%*	*9%*	*13%*

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

Excluding the 'Future would-be seekers' with 0 employees makes little difference to the overall picture above. 70% of FWBS with employees cited a reluctance to borrow now, with 38% citing the current climate and 32% their own performance. 11% cited discouragement.

Over time, a reluctance to borrow has been more likely to have been cited by larger FWBS (typically 8 in 10 each quarter) than smaller FWBS (around 6 in 10 each quarter). During 2014 itself though, these larger FWBS have become somewhat less likely to mention a reluctance to borrow (from 8 in 10 in the first half of the year to 6 in 10 in the second half).

Smaller FWBS have been somewhat more likely to cite discouragement and the process of borrowing (both around 1 in 7) than larger FWBS (typically mentioned by less than 1 in 10), all relatively stable over time.

The table below shows the main reasons for not applying given in Q4 2014 by 'Future would-be seekers', split by risk rating. A reluctance to borrow now remained the main barrier across the risk ratings:

Main reason for not applying 'Future would-be seekers' by risk rating Q4 14 only	Total	Min/Low	Avge	Worse/Avge
Unweighted base:	***544***	***209***	***133***	***152***
Reluctant to borrow now (any)	61%	67%	67%	57%
-Prefer not to borrow in economic climate	*37%*	*35%*	*42%*	*35%*
-Predicted performance of business	*24%*	*31%*	*26%*	*23%*
Issues with principle of borrowing	5%	*	*	7%
Issues with process of borrowing	13%	9%	14%	15%
Discouraged (any)	9%	10%	10%	9%
-Direct (Put off by bank)	*	*2%*	*	-
-Indirect (Think I would be turned down)	*9%*	*8%*	*10%*	*9%*

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

To put all these results in context, the table below shows the equivalent figures for each reason for all SMEs in Q4 2014. 7% of all SMEs 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 14 only – the Future would-be seekers	Main reason	All SMEs Q4	All SMEs excl. PNB
Unweighted base:	*544*	*5024*	*3153*
Reluctant to borrow now (any)	61%	7%	14%
-Prefer not to borrow in economic climate	*37%*	*4%*	*8%*
-Predicted performance of business	*24%*	*3%*	*5%*
Issues with principle of borrowing	5%	1%	1%
Issues with process of borrowing	13%	2%	3%
Discouraged (any)	9%	1%	2%
-Direct (Put off by bank)	*	*	*
-Indirect (Think I would be turned down)	*9%*	*1%*	*2%*

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), 14% were put off by the current economic climate (including their performance in that climate).

13. Awareness of taskforce and other initiatives

This final section of the report looks

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

Key findings

In 2014, 27% of SMEs (excluding the Permanent non-borrowers) were aware of 'crowd funding', including 1% who are currently using it. Awareness was slightly lower amongst those with 0 employees (25% aware) than those with employees (30% aware)

Awareness increased during 2014, both overall (from 18% in Q1 2014 to 32% in Q4) and also amongst those with plans to apply in the next 3 months (25% to 45%)

8% of SMEs in 2014 said that crowd funding was a source of finance they were aware of and would consider using in future. This also increased somewhat over 2014 (from 5% to 10%) and was the equivalent, for the year as a whole, of 3 in 10 of those aware of crowd funding saying that they would consider using it. As with awareness, consideration is higher amongst those with plans to apply in the next 3 months (15%)

A quarter of all SMEs (28%) believed they were aware of government and other initiatives to help make funding available to SMEs. Once prompted with the names of 5 schemes/bodies, awareness was 47% and increased by size of SME (45% if 0 employees to 62% if 50-249 employees).

Excluding the Permanent non-borrowers who have little apparent appetite for finance increased awareness to 53% and amongst those with plans to apply in the next 3 months awareness was 61%

37% of SMEs were aware of any of the other initiatives tested (including business mentors and the independently monitored appeals process). Overall awareness across all the initiatives tested was 57%, ranging by size from 56% of those with 0 employees to 70% of those with 50-249 employees. Excluding the PNBs increased overall awareness to 62% and amongst those with plans to apply it was 69%

The individual initiatives with the highest levels of awareness were Start up loans (34% in Q4 2014) and the Funding for Lending scheme (24%). Awareness of other individual initiatives ranged from 10-19%.

Where initiatives have been tracked over time, awareness is broadly stable and the proportion of SMEs contacted by a bank to discuss lending has changed very little over time

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 has been revised several times, most recently in Q3 2014, so results are not always directly comparable over time.

The main change for Q3 2014 was the introduction of a general awareness question around access to finance initiatives, before SMEs were prompted with a list of specific initiatives which has also been revised.

Spontaneous awareness of funding initiatives

In Q4 2014, 28% of SMEs said that they were aware of any initiatives from Government or other bodies to help make funding available to SMEs (before they were prompted with examples of such schemes):

- Awareness of any initiatives varied by size of SME from 27% of those with 0 employees to 41% of those with 50-249 employees.
- Excluding the PNBs, with little apparent appetite for finance, increased awareness only slightly to 30%, but awareness was higher amongst those planning to apply for external finance in the next 3 months (37%).

Prompted awareness of funding initiatives

From Q3 2014 a revised list of funding initiatives has been used, and the question has been asked in a slightly different way. As the table below shows, when prompted with the various schemes listed, 47% of SMEs were aware of one or more of these specific schemes, increasing by size:

Awareness of specific funding initiatives Q4 14 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*5024*	*1001*	*1665*	*1607*	*751*
Start Up Loans*	34%	34%	35%	37%	42%
Funding for Lending	24%	22%	29%	33%	39%
Enterprise Finance Guarantee Scheme*	17%	16%	21%	27%	31%
The Business Growth Fund	15%	13%	19%	21%	28%
The British Business Bank*	10%	9%	13%	15%	17%
Any of these	*47%*	*45%*	*51%*	*55%*	*62%*
None of these	*53%*	*55%*	*49%*	*45%*	*38%*

Q240 All SMEs * indicates new or amended question

Amongst those with employees, 52% were aware of any of these initiatives.

Businesses established in the last 2 years were slightly more likely to be aware of Start Up Loans (39%) and also had slightly higher overall awareness (55%) than older businesses (48% for those 2-5 years old, 43-45% for all other age bands).

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 excluding the 'Permanent non-borrowers' increased overall awareness, to 53% in Q4 2014. More detailed analysis of awareness excluding PNBs is provided below.

Amongst those with plans to apply in the next 3 months, prompted awareness of any of these initiatives was also higher at 61%.

As is often the case with measures like this there was an increase in awareness between spontaneous awareness of *any* initiatives (the 28% reported at the start of this chapter) and net awareness of any of the initiatives when prompted with individual scheme names (the 47% reported in the table above). In this instance the uplift was 19 percentage points, and increased slightly by size (18 points for 0 employees to 21 points for those with 10-49 or 50-249 employees). There was also more of a gap between spontaneous and prompted awareness once the Permanent non borrowers were excluded (23 points) and amongst those planning to apply in the next 3 months (24 points).

Please note that from Q3 2014, no further questions have been asked about the impact of schemes such as Funding for Lending on appetite for finance.

Prompted awareness of other initiatives

The table below shows awareness of the other initiatives tested in Q4 2014:

Awareness of initiatives Q4 14 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*5024*	*1001*	*1665*	*1607*	*751*
A network of business mentors	19%	19%	20%	23%	26%
The Lending Code/principles	17%	16%	22%	25%	28%
Independently monitored appeals process	12%	11%	14%	17%	21%
BetterBusinessFinance.co.uk	14%	13%	16%	16%	18%
Any of these	*37%*	*36%*	*40%*	*43%*	*48%*
None of these	*63%*	*64%*	*60%*	*57%*	*52%*

Q240 All SMEs * indicates new or amended question

Amongst those with employees, 41% were aware of any of these initiatives. Once the PNBs are excluded, awareness increased slightly to 39%, and awareness was also 39% amongst those planning to apply for new/renewed finance in the next 3 months.

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 6% in Q4, and this has dropped somewhat over recent quarters (it was 12% in Q2 2014, in line with previous quarters). Awareness amongst smaller SMEs with loans was 6% (from 12% in Q2), whilst awareness for 10-249 employees had also fallen (8% from 17% in Q2).

As it applies only to specific SMEs, this initiative is not included in any of the overall summary tables below.

Awareness of all initiatives by key groups

57% of all SMEs were aware of any of the initiatives tested in Q4 2014. This varied by size of business from 56% of those with no employees to 70% of those with 50-249 employees. Those with a minimal or low risk rating were somewhat more likely to be aware of any of these initiatives (61%) than those with an average or worse than average risk rating (56%).

The table below details awareness of all the initiatives tested in Q4 2014 by sector. Overall awareness varied from 50% for Hotels & Restaurants and Transport to 63% for Manufacturing:

% aware of Initiatives Q4 14 – all SMEs	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Health S Work	Other Comm
Unweighted base:	*376*	*524*	*880*	*510*	*451*	*455*	*880*	*447*	*501*
A network of business mentors	20%	19%	15%	14%	12%	17%	22%	27%	24%
Independently monitored appeals process	15%	14%	10%	6%	11%	13%	15%	10%	13%
The Lending Code/principles	22%	17%	15%	15%	14%	14%	21%	15%	19%
The Business Growth Fund	13%	14%	9%	15%	11%	12%	22%	16%	11%
Funding for Lending	30%	26%	22%	25%	20%	19%	28%	22%	21%
Enterprise Finance Guarantee Scheme*	20%	17%	17%	13%	15%	11%	24%	16%	13%
Start Up Loans*	40%	32%	35%	31%	27%	29%	38%	34%	31%
The British Business Bank*	11%	10%	8%	8%	9%	10%	14%	11%	8%
BetterBusinessFinance.co.uk	8%	13%	11%	15%	14%	16%	19%	12%	9%
Any of these	*62%*	*63%*	*54%*	*55%*	*50%*	*50%*	*62%*	*58%*	*58%*
None of these	*38%*	*37%*	*46%*	*45%*	*50%*	*50%*	*38%*	*42%*	*42%*

Q240 All SMEs * indicates new or amended question

Excluding the 'Permanent non-borrowers' with little apparent interest in external finance increases awareness of *any* initiatives, as has already been reported. The table below shows awareness of all the individual initiatives tested in Q4 2014, once these PNBs have been excluded:

Awareness of initiatives Q4 14 – all SMEs excluding PNBs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*3153*	*482*	*1025*	*1113*	*533*
A network of business mentors	20%	19%	22%	24%	27%
Independently monitored appeals process	12%	11%	15%	18%	20%
The Lending Code/principles	19%	17%	24%	26%	29%
The Business Growth Fund	16%	14%	19%	21%	30%
Funding for Lending	26%	25%	30%	34%	39%
Enterprise Finance Guarantee Scheme*	19%	17%	23%	28%	34%
Start Up Loans*	38%	39%	36%	38%	45%
The British Business Bank*	10%	8%	13%	14%	18%
BetterBusinessFinance.co.uk	14%	14%	16%	16%	17%
Any of these	*62%*	*61%*	*64%*	*68%*	*72%*
None of these	*38%*	*39%*	*36%*	*32%*	*28%*

Q240 All SMEs * indicates new or amended question

Excluding the 'Permanent non-borrowers' typically increased awareness of individual initiatives by a few percentage points and overall awareness to 62% in Q4 2014 (from 57% of all SMEs).

Amongst those with plans to apply in the next 3 months, prompted awareness was also higher at 69%.

Awareness over time for all SMEs is shown in the table below. The initiatives tested in Q4 2014 included some that were tested for the first time in Q3 2014 or where the wording changed at that stage (indicated by the shaded area) and some that have been tracked consistently over the period shown:

Awareness of Taskforce initiatives Over time – all SMEs By date of interview	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13	Q1 14	Q2 14	Q3 14	Q4 14
Unweighted base:	*5000*	*5000*	*5000*	*5000*	*5028*	*5000*	*5008*	*5023*	*5024*
A network of business mentors	21%	21%	23%	23%	21%	22%	23%	22%	19%
Independently monitored appeals process	10%	13%	12%	14%	12%	12%	13%	14%	12%
The Lending Code/principles	17%	18%	18%	18%	17%	18%	19%	21%	17%
The Business Growth Fund	14%	14%	16%	15%	14%	13%	16%	16%	15%
Funding for Lending	23%	27%	29%	30%	29%	27%	29%	25%	24%
Enterprise Finance Guarantee Scheme*	22%	24%	23%	24%	21%	17%	22%	22%	17%
Start Up Loans*	-	-	-	-	-	-	-	35%	34%
The British Business Bank*	-	-	-	-	-	-	-	13%	10%
BetterBusinessFinance.co.uk	10%	9%	9%	9%	10%	11%	14%	14%	14%

Q240 All SMEs – shading indicates new question format in Q3 2014 which may affect comparability EFGS data previous collected as: Other Government support schemes for access to finance such as the Enterprise Finance guarantee scheme,-and support for exporters through UK Export Finance

For those initiatives where trend data is available, the picture is broadly stable. Awareness of the BetterBusinessFinance website has increased slightly in 2014, while awareness of the Funding for Lending Scheme has dropped slightly.

This second table also shows awareness of initiatives over time, but excludes the 'Permanent non-borrowers':

Awareness of Taskforce initiatives Over time – all SMEs excl PNBs By date of interview	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13	Q1 14	Q2 14	Q3 14	Q4 14
Unweighted base:	*3664*	*3649*	*3707*	*3637*	*3585*	*3370*	*3514*	*3576*	*3153*
A network of business mentors	23%	21%	23%	24%	22%	23%	25%	21%	20%
Independently monitored appeals process	11%	14%	13%	15%	13%	13%	14%	15%	12%
The Lending Code/principles	18%	18%	19%	19%	17%	18%	20%	20%	19%
The Business Growth Fund	14%	14%	17%	15%	16%	13%	18%	16%	16%
Funding for Lending	25%	30%	32%	32%	32%	28%	32%	25%	26%
Enterprise Finance Guarantee Scheme*	23%	27%	24%	24%	25%	19%	24%	21%	19%
Start Up Loans*	-	-	-	-	-	-	-	36%	38%
The British Business Bank*	-	-	-	-	-	-	-	13%	10%
BetterBusinessFinance.co.uk	10%	9%	10%	9%	12%	12%	15%	16%	14%

Q240 All SMEs – shading indicates new question format in Q3 2014 which may affect comparability EFGS data previous collected as: Other Government support schemes for access to finance such as the Enterprise Finance guarantee scheme,-and support for exporters through UK Export Finance

For those initiatives where trend data is available, the picture is also broadly stable once the PNBs are excluded. As overall, awareness of the BetterBusinessFinance website has increased slightly in 2014, while awareness of the Funding for Lending Scheme has dropped slightly.

The independently monitored appeals process

Not all SMEs borrow, or have any appetite for external finance. Initiatives such as the independently monitored appeals process therefore will not be immediately relevant to many SMEs. Awareness of this initiative is shown in more detail below for 2014 as a whole, amongst those SMEs for whom it could have particular relevance:

The appeals process	Awareness
Awareness amongst those declined for a loan or overdraft	As reported earlier, amongst all those who, in the 18 months between Q3 2013 and Q4 2014, had applied for an overdraft and initially been declined, 17% said that they had been made aware of the appeals process, with higher awareness amongst those declined in 2014 (25%). For loans the equivalent figure was 11% with no increase over time.
Overall general awareness	Overall awareness of the appeals process (asked of all SMEs at Q240) was 13% for 2014 as a whole, unchanged from 2013 as a whole (and 14% once the PNBs were excluded, also unchanged from 2013).
Overall awareness by size	Awareness increased by size of SME. Excluding the PNBs, 13% of remaining SMEs with 0 employees were aware of appeals, increasing to 20% of those with 50-249 employees.
Awareness by interest in finance	Overall, there was little variation in awareness amongst those SMEs that had reported a borrowing event, or who planned to apply for external finance in the coming months. 18% of those who had applied for a new/renewed overdraft in 2014 were aware of the appeals process, and the equivalent figure for loans was 19%. Amongst those who ended the process with no facility, awareness was lower (10% for overdrafts and 7% for loans).

Crowd Funding

Questions on crowd funding have gone through several iterations in the SME Finance Monitor. They were originally included 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 was up slightly, at 26% (again excluding PNBs), as a consistent 2% of SMEs reported that they had applied for such funding (the equivalent of around 90,000 SMEs).

The question was revised again for Q1 2014, to provide more granularity on applications for crowd funding.

Crowd funding	
Overall awareness	Across 2014, awareness of crowd funding has continued to increase, from 18% in Q1 to 32% in Q4 (excluding PNBs). Awareness has also increased during 2014 amongst those planning to apply for external finance, from 25% in Q1 to 45% in Q4 2014. 30% of SMEs with employees were aware of crowd funding, excluding PNBs.
Consideration	Consideration of crowd funding as a source of funding for their business is 8% for 2014 as a whole (excluding PNBs). This has increased slightly across the year from 5% in Q1 to 10% in Q4. Amongst those with plans to apply for finance, consideration of crowd funding is 15% for 2014 as a whole and has increased over the course of the year from 11% to 18%.

The table below is based on 2014 as a whole to maximise base sizes:

Awareness and use of crowd funding All SMEs excl PNBs asked new question Q1-4 2014	Total	0 emps	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*13,613*	*2111*	*4470*	*4795*	*2237*
Aware of crowd funding	27%	25%	30%	31%	31%
- *Using crowd funding*	*1%*	*1%*	*1%*	*1%*	*1%*
- *Unsuccessfully applied for crowd funding*	*	*	*1%*	*	*
- *Would consider applying in future*	*8%*	*8%*	*10%*	*8%*	*6%*
- *Would not consider applying*	*17%*	*16%*	*19%*	*21%*	*24%*
Not aware	73%	75%	70%	69%	69%
% aware who would consider	*30%*	*32%*	*33%*	*26%*	*19%*

Q238a2 All SMEs excl PNBs

8% of all SMEs are not using crowd funding but would consider applying for it in future, the equivalent of 30% of all those aware of crowd funding. Most of those who are aware of crowd funding say that they would not consider using it (63% of those aware, which is the equivalent of 17% of all SMEs excluding PNBs).

Bank communication about lending

SMEs were asked whether, in the 3 months prior to interview, they had been contacted by either their main bank, or another bank, expressing a willingness to lend.

In Q4 2014, 14% 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), and this has changed very little over time:

Approached by any bank in last 3 mths All SMEs	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13	Q1 14	Q2 14	Q3 14	Q4 14
All SMEs	13%	14%	11%	12%	13%	13%	14%	14%	14%
0 emps	11%	13%	10%	10%	13%	13%	14%	12%	12%
1-9 emps	15%	18%	14%	14%	15%	15%	15%	17%	17%
10-49 emps	18%	19%	17%	17%	21%	19%	16%	21%	17%
50-249 emps	25%	24%	20%	24%	23%	15%	19%	24%	22%
All SMEs excluding PNBs	14%	16%	11%	12%	15%	13%	15%	14%	16%

Q221 All SMEs

Amongst SMEs with employees, 17% reported in Q4 2014 that they had been approached by a bank (12% by their main bank and 6% by another bank).

Contact from bank	
Approaches over time	The proportion being approached by a bank at all has varied very little over time (13% in 2012 and 2013 compared to 14% in 2014). There has been a very slight increase in contact from the main bank (8% in 2012 to 10% in 2014) while contact from other banks is almost unchanged (6% in 2012 to 5% in 2014).
Impact on awareness	Those who had been contacted by a bank were more likely to be aware of the funding initiatives tested earlier in this chapter (63% v 44% that had not been approached) and of the other initiatives (53% v 34%). As a result they also had higher awareness of any of the initiatives tested (74% v 55%).
Awareness of specific initiatives	Those who had been contacted by a bank were more likely to be specifically aware of Start-up Loans (45% v 33% not contacted), Funding for Lending (34% v 23% not contacted) and EFGS (26% v 19% not contacted).

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. More detailed analysis would therefore be needed to explore the actual impact that contact from a bank has had.

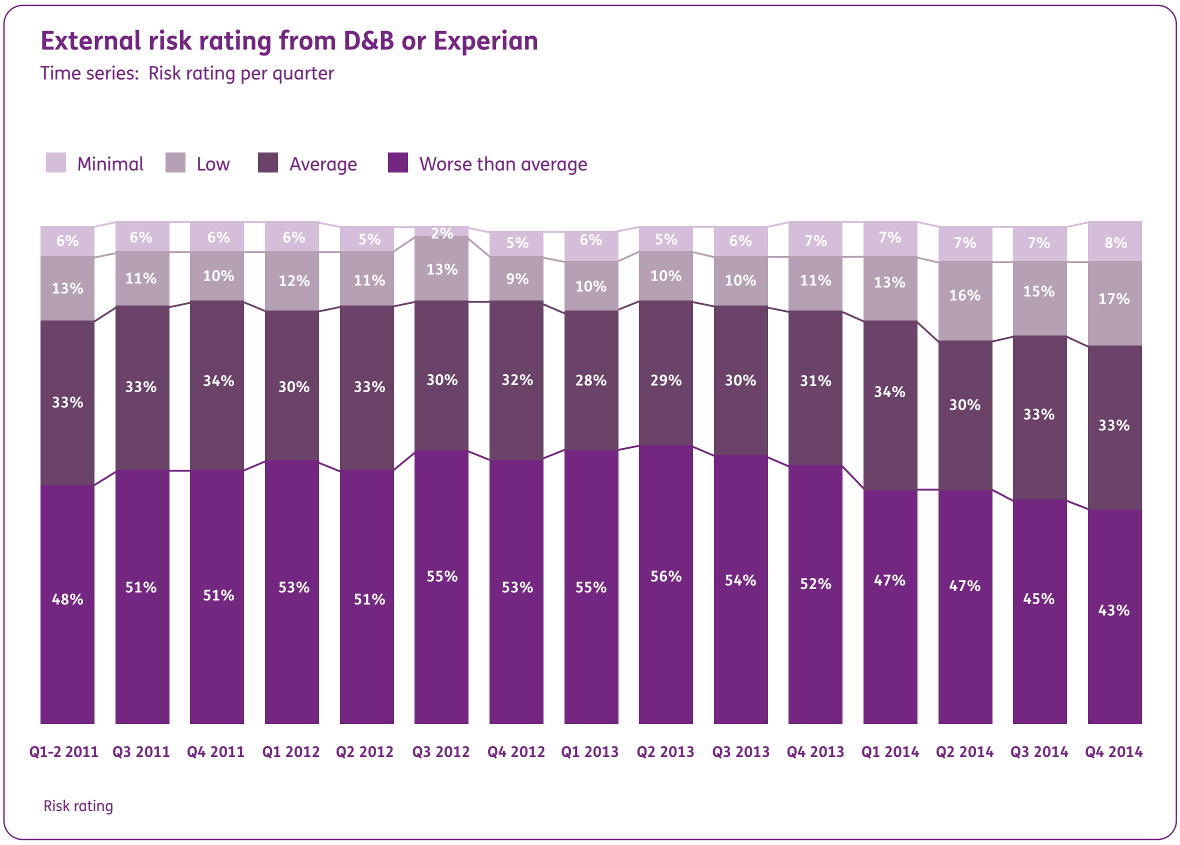
14. Selected Graphs and Charts

This chapter presents

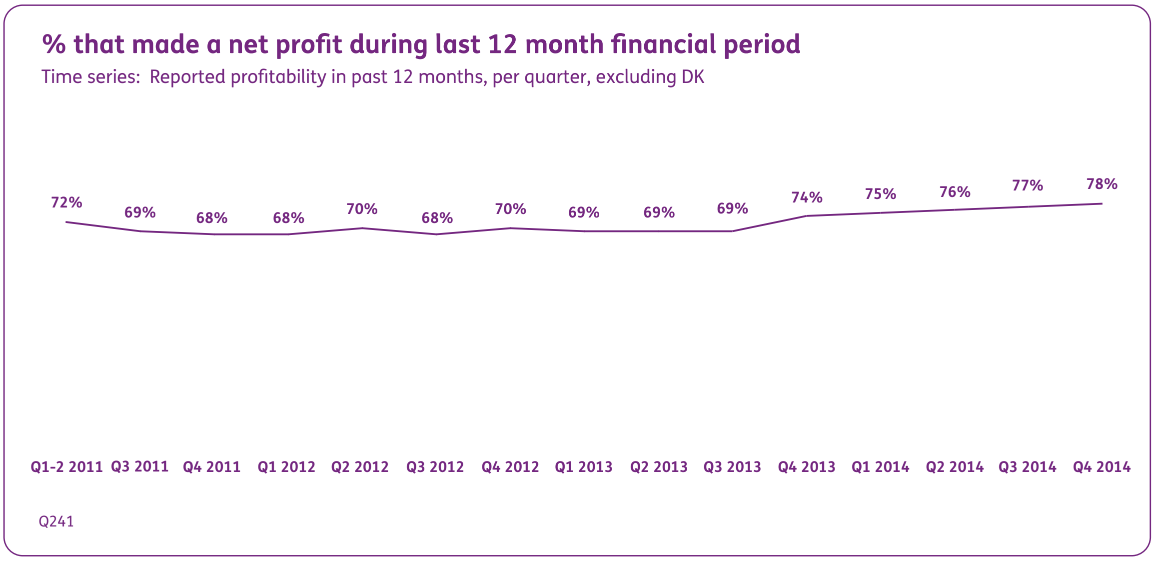
some of the key data in graphical form to provide data on longer term trends.

Much of the data in this report is provided and analysed over time, typically by quarter. After fifteen 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.

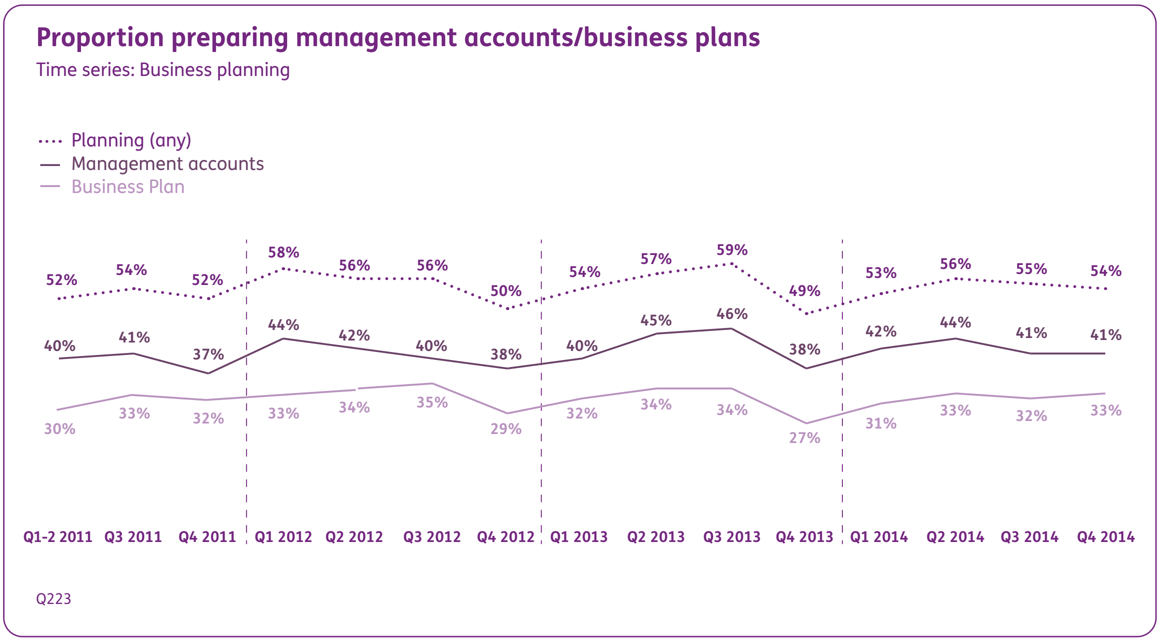
Charts reflecting data reported in Chapter 4



This chart relates to the analysis found on page 34 of the main report. Since Q2 2013, the proportion of SMEs with a 'worse than average' risk rating has declined gradually from 56% to 43% in Q4 2014.

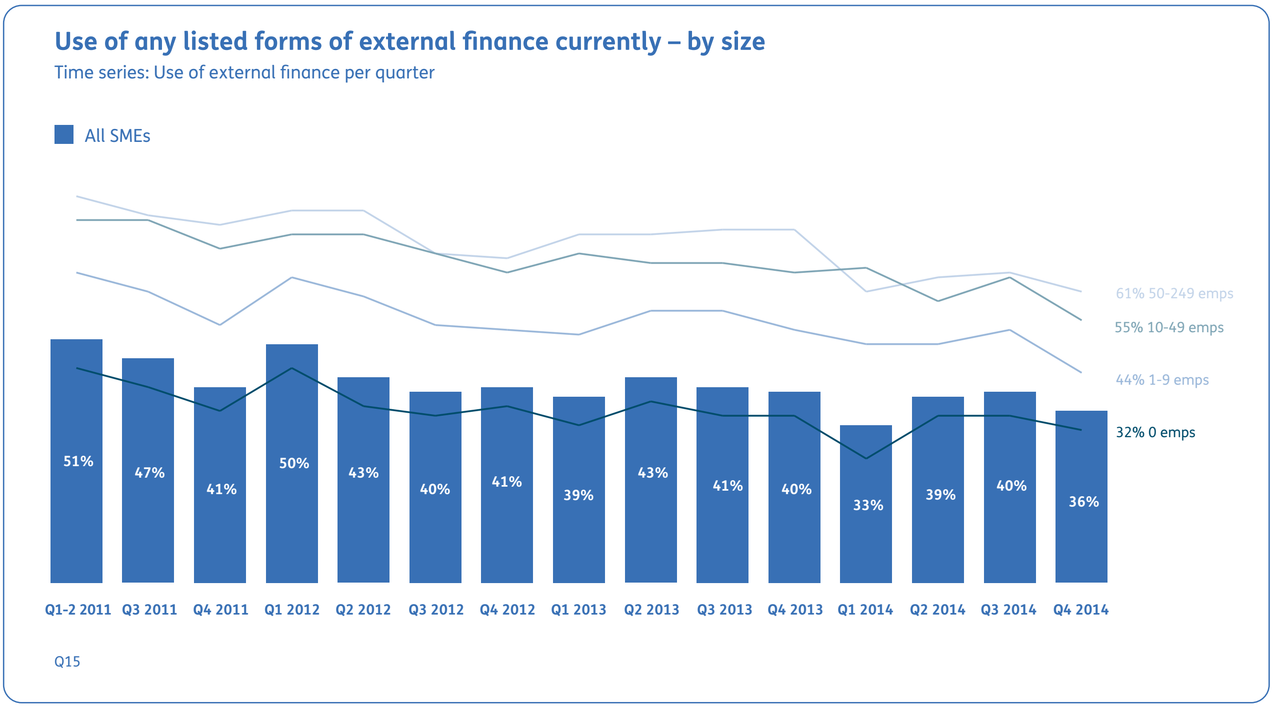


This chart relates to the analysis found on page 26 of the main report. The proportion of SMEs reporting a profit in the previous 12 months trading has improved over recent quarters to 78% in Q4 2014.

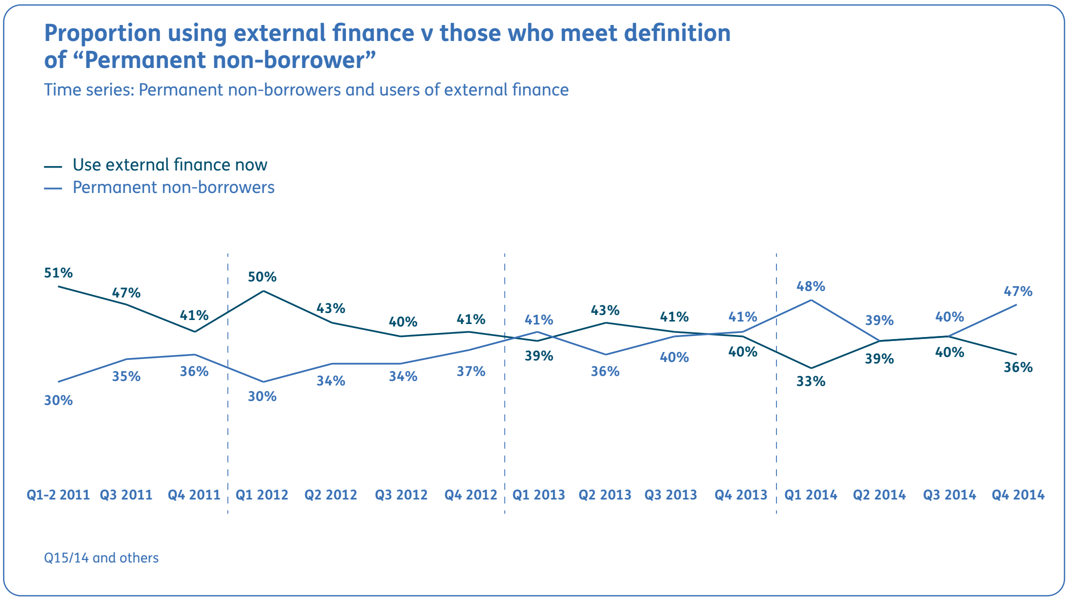


This chart relates to the analysis found on page 39 of the main report. Over half of SMEs plan (54%), and this has been stable during 2014.

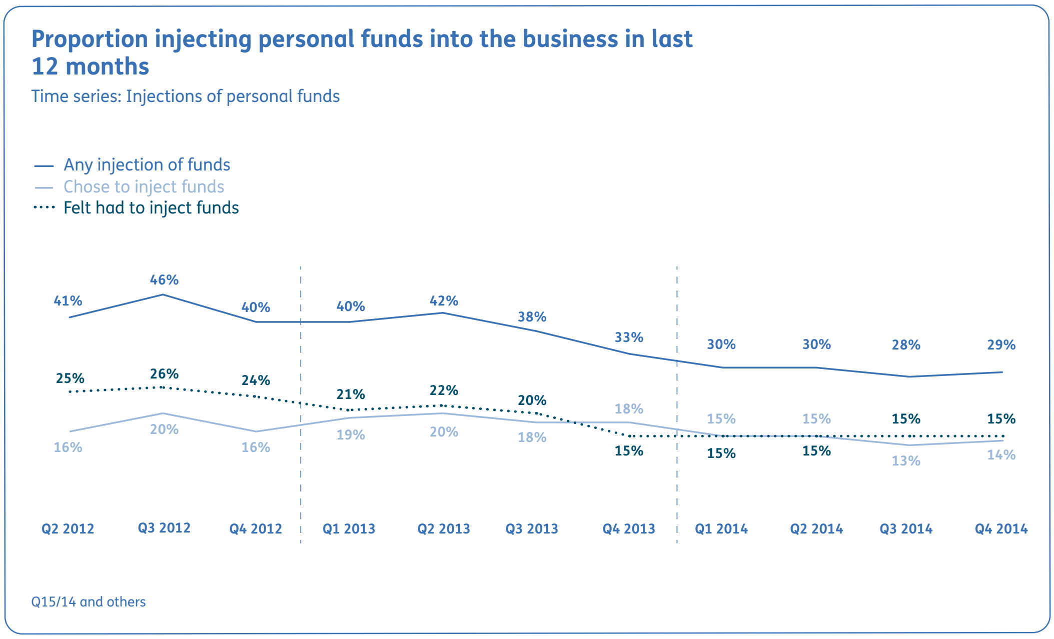
Charts reflecting data reported in Chapter 5



This chart relates to the analysis found on page 50 of the main report. 36% of SMEs reported using external finance in Q4 2014, at the lower end of the range seen since 2012. Between 2011 and 2014 the proportion of SMEs using external finance fell from 46% to 37%



This chart relates to the analysis found on pages 50 and 75 of the main report. In Q4 2014, there were more SMEs that met the definition of a 'Permanent non-borrower' then there were SMEs using external finance, as the proportion of PNBs continued to increase somewhat over time.

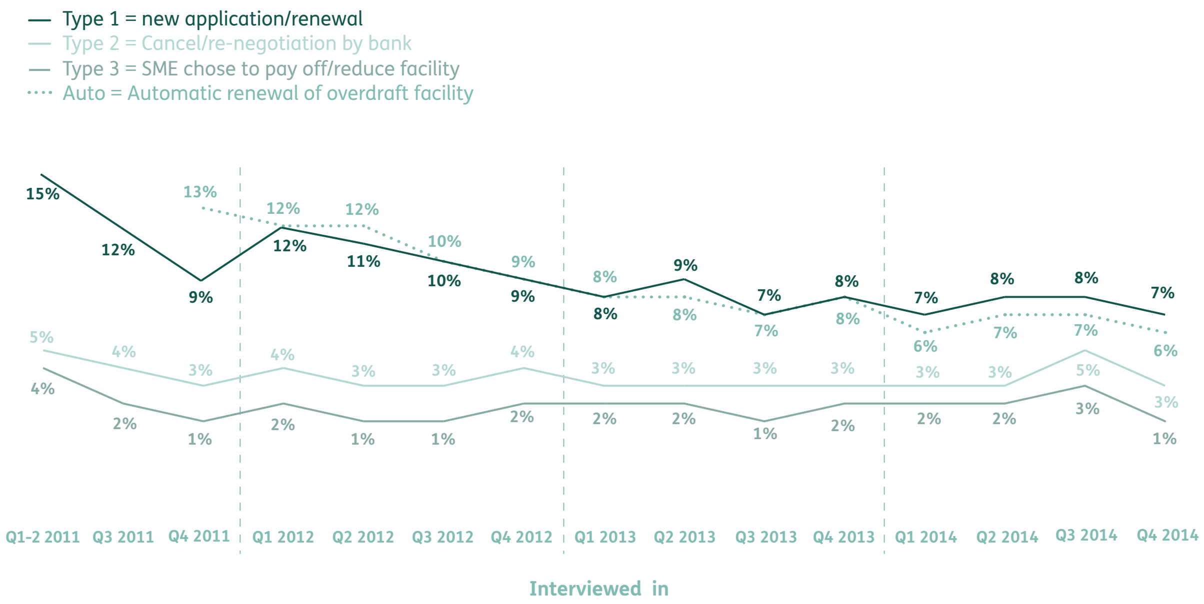


This chart relates to the analysis found on page 60 of the main report. A stable 29% of SMEs reported any injection of personal funds into the business in the 12 months prior to Q4 2014. Over time, this proportion has declined, having been 40% at the start of 2013. This is mainly due to fewer SMEs reporting that an injection of funds 'had' to be made.

Charts reflecting data reported in Chapter 6

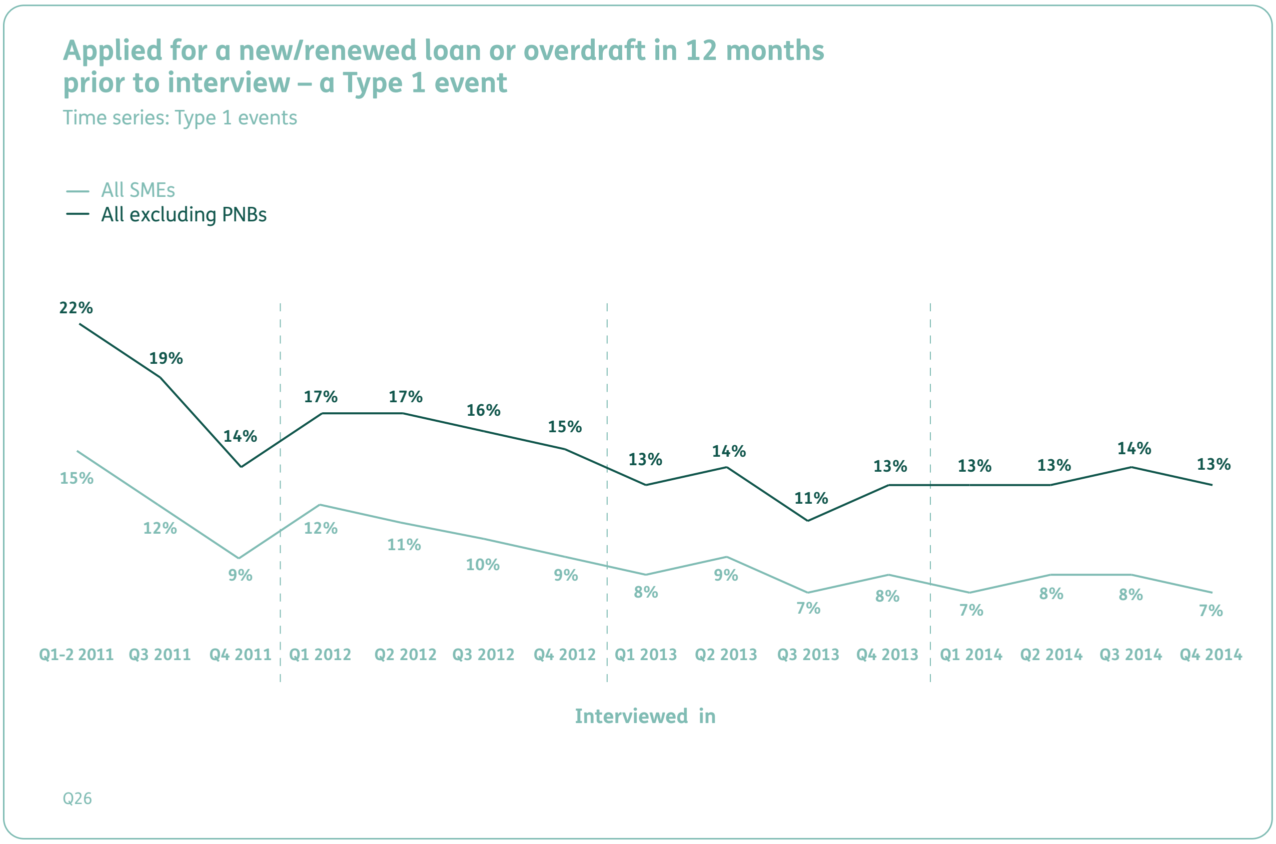
Borrowing events in 12 months prior to interview

Time series: Borrowing events



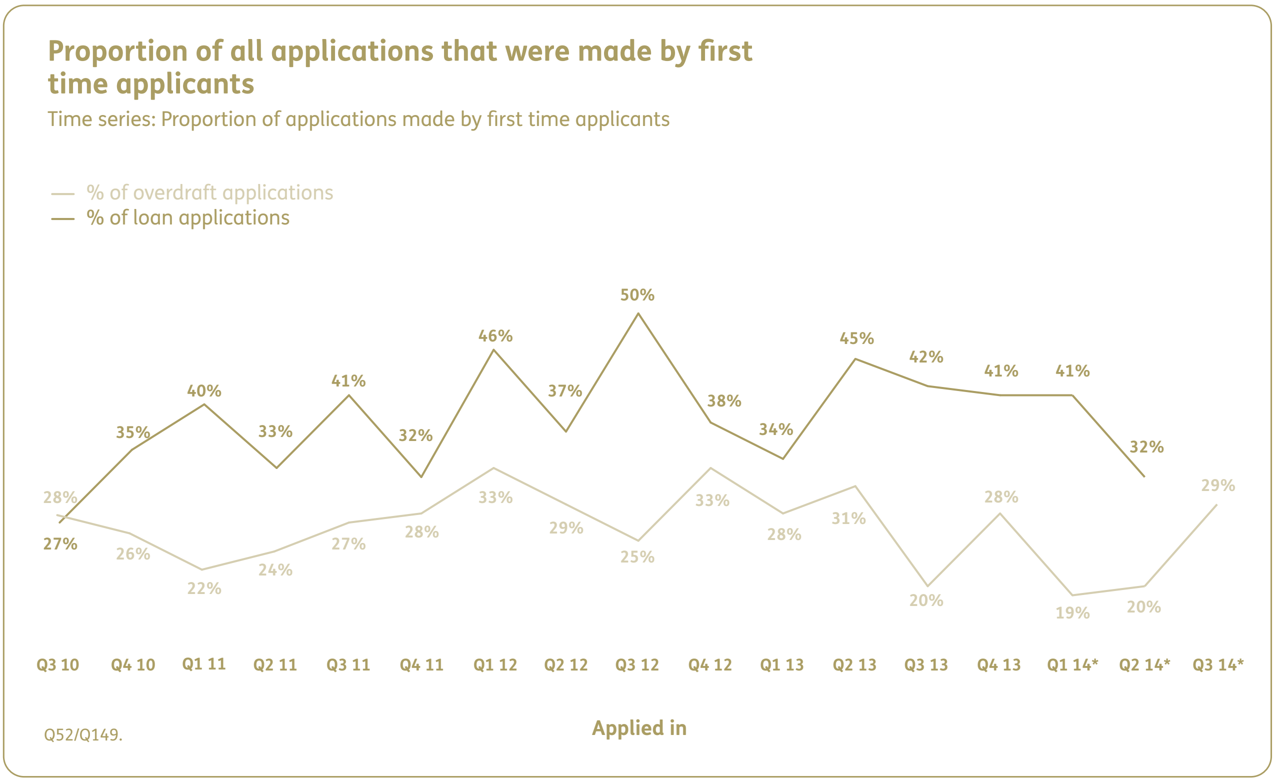
Q26.

This chart relates to the analysis found on pages 90 and 102 of the main report. The proportion of SMEs reporting a borrowing event in the 12 months prior to interview remained stable but lower than in previous years.



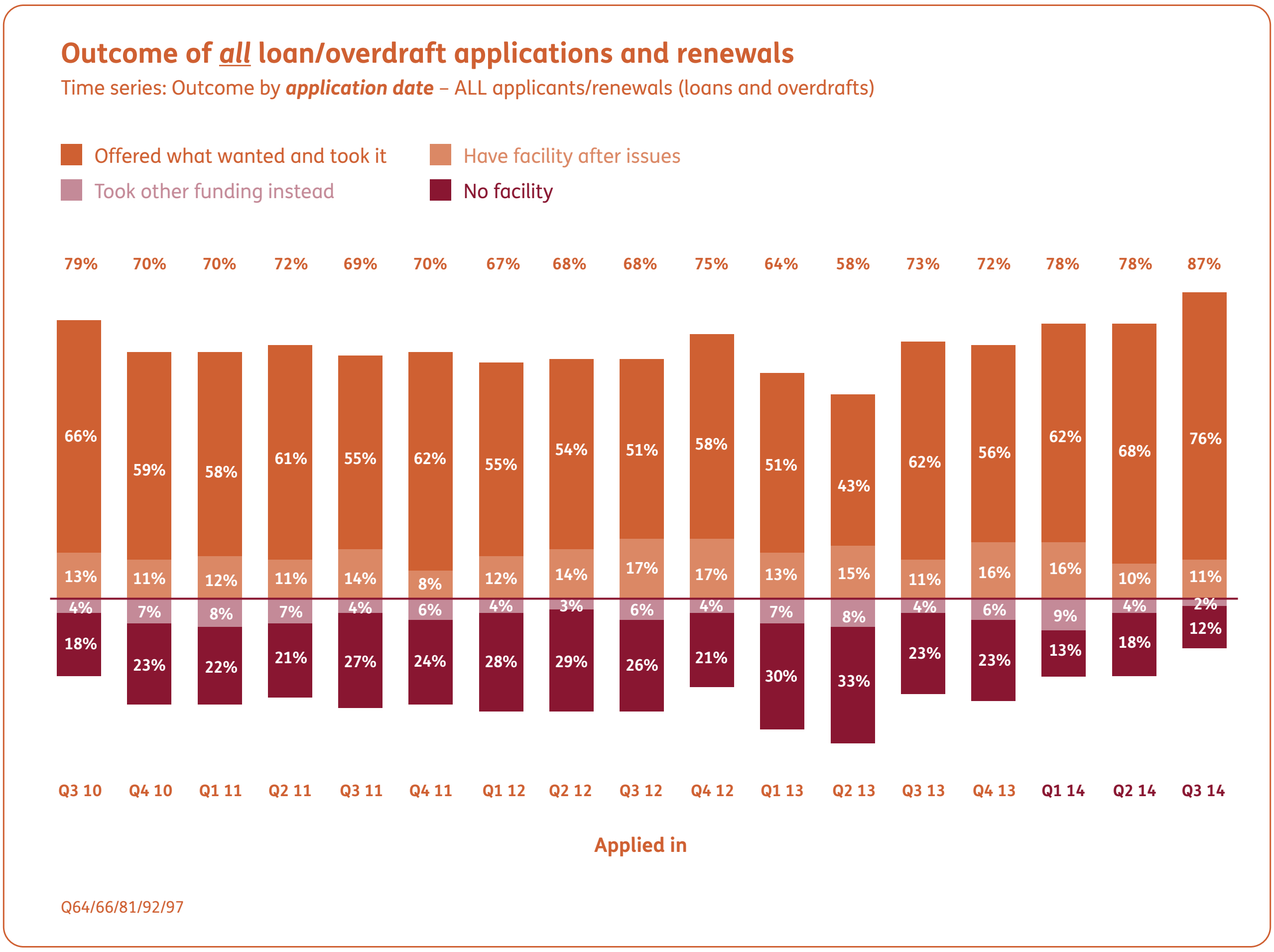
This chart relates to the analysis found on page 90 and 91 of the main report. Excluding the PNBs who seem unlikely to borrow, increases the proportion of SMEs reporting an application for a new or renewed facility. Applications levels were stable, but as for SMEs overall, lower than in previous years.

Charts reflecting data reported in Chapter 7

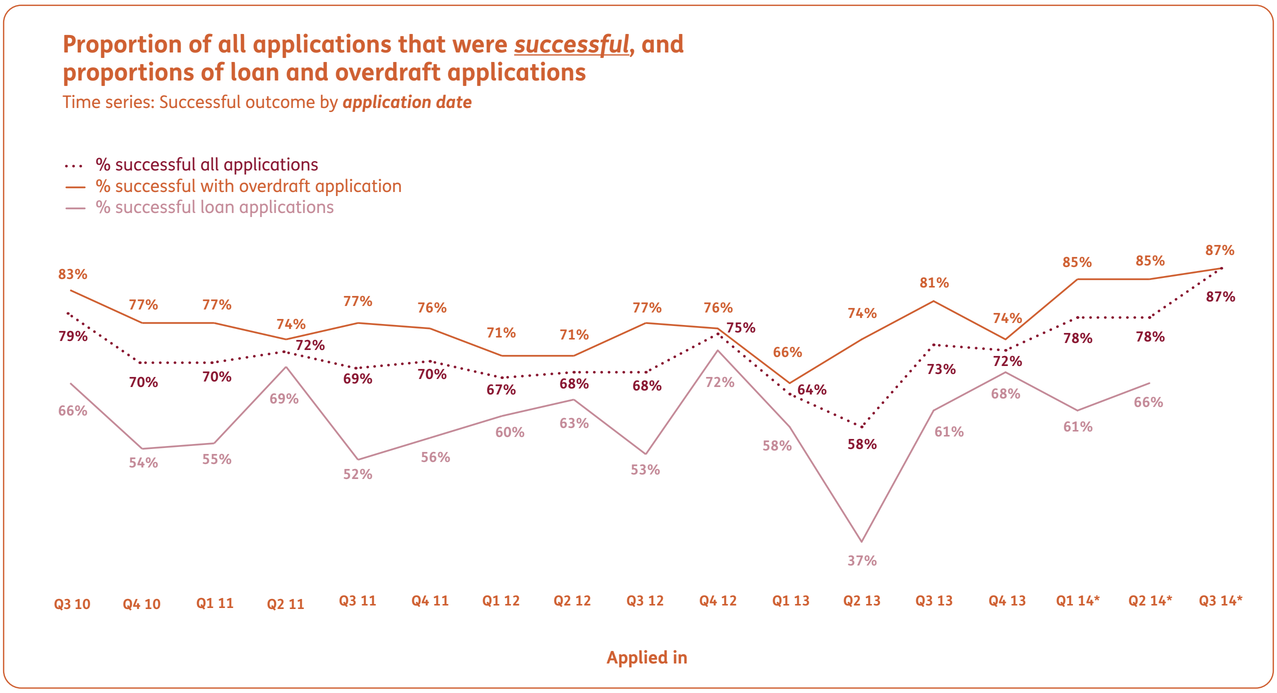


This chart relates to the analysis found on pages 109 and 115 of the main report. The patterns are not consistent over time, but a higher proportion of loan applicants were seeking their first facility compared to overdraft applicants.

Charts reflecting data reported in Chapter 8



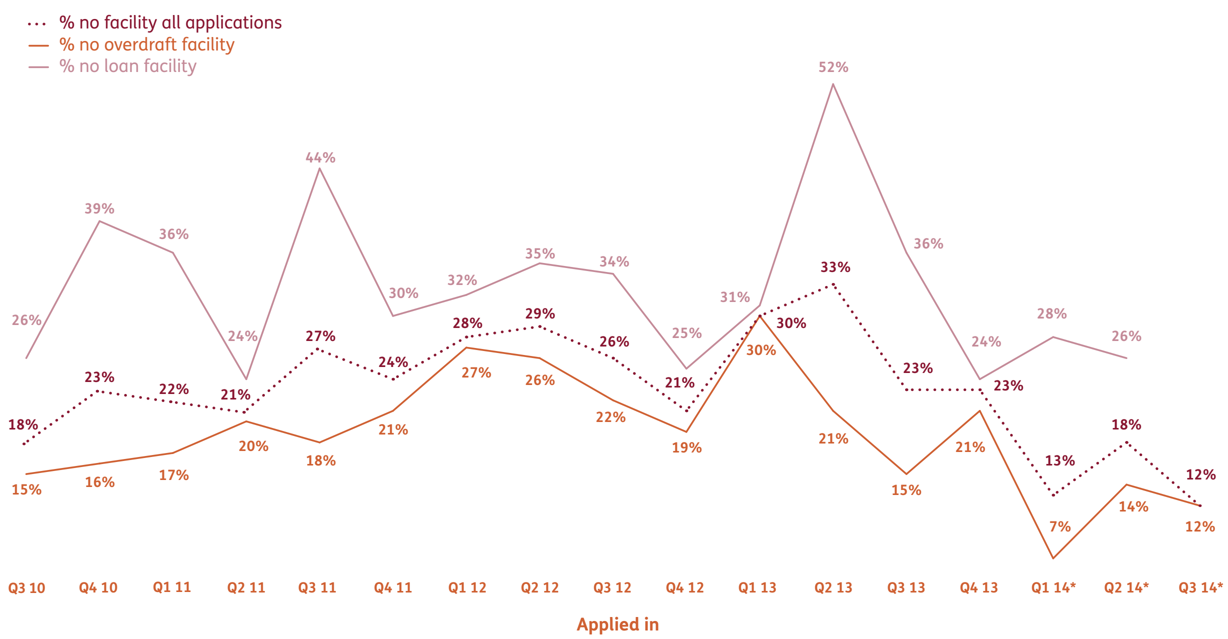
This chart relates to the analysis found on page 124 of the main report. Success rates for all applications have improved somewhat in recent quarters and were 76% for applications made in the 18 months to Q4 2014



This chart relates to the analysis found on pages 124, 141 and 156 of the main report. The success rates for overdrafts have improved in recent quarters and are currently at the highest levels seen to date. The success rates for loans follow a less consistent pattern but have recovered from the ‘dip’ in Q2 2013

Proportion of all applications that ended the process with *no facility*, and proportions for loan and overdraft applications

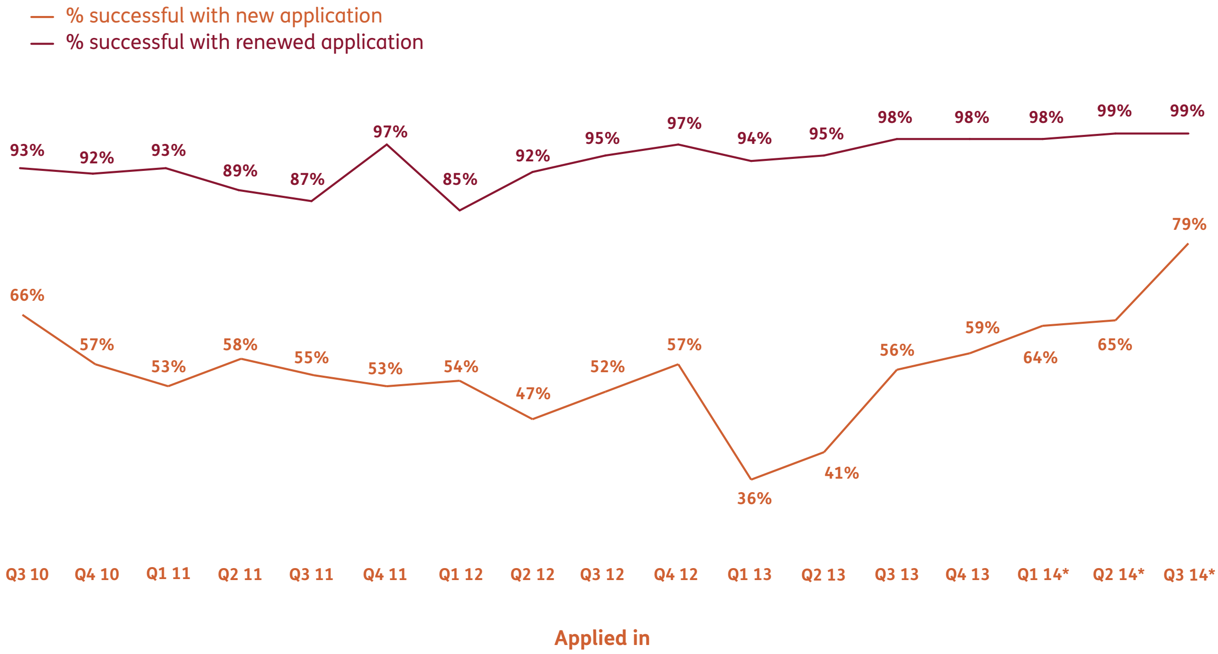
Time series: Ended process with no facility by ***application date***



This chart relates to the analysis found on pages 124, 141 and 156 of the main report. After a period of stability during 2012, the proportion of overdraft and loan applicants ending the process with no facility has been more variable, but broadly declining, over recent quarters (on interim data).

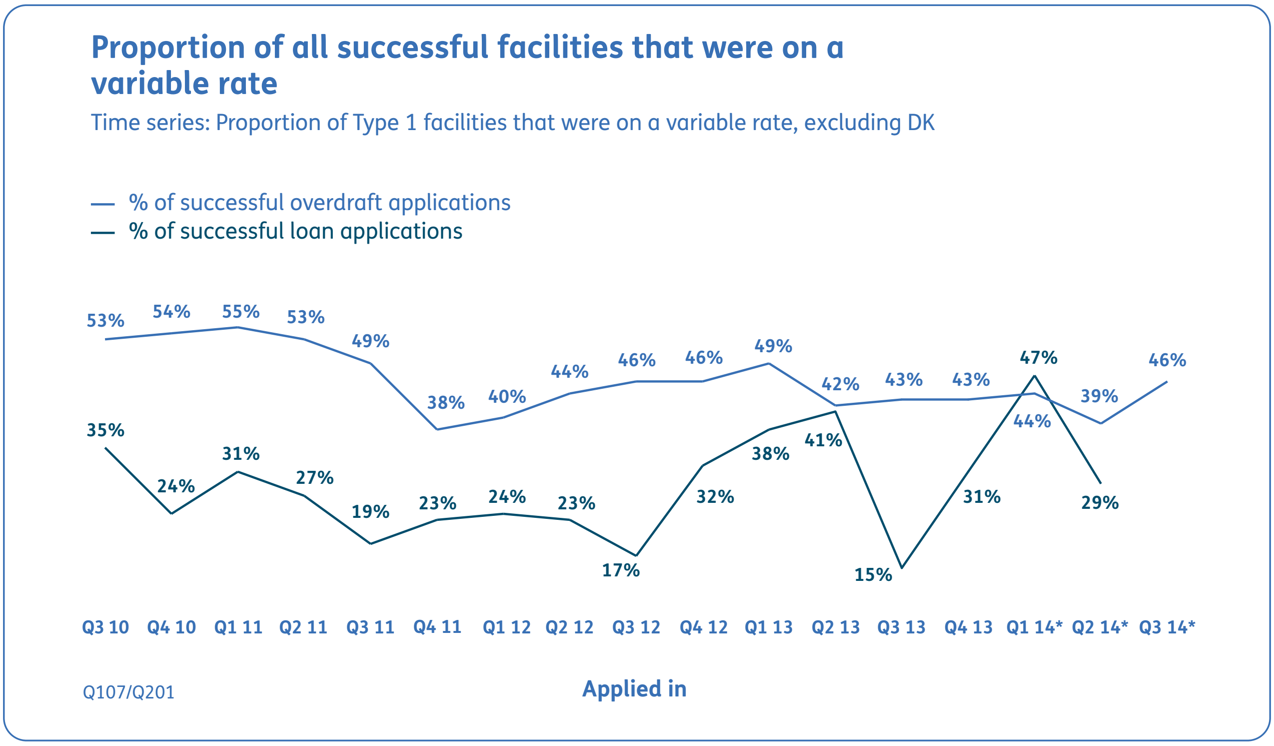
Proportion of all applications that were successful: Applying for new money and applying to renew an existing facility

Time series: Outcome by ***application date – all renewed v new money loans and overdrafts***



This chart relates to the analysis found on pages 160 and 161 of the main report. The success rate for renewed facilities has been very consistent over time, with almost all applicants renewing their loan/overdraft successfully. Success rates for new money are lower, but after a ‘dip’ in the first half of 2013, they have improved steadily since.

Charts reflecting data reported in Chapter 10

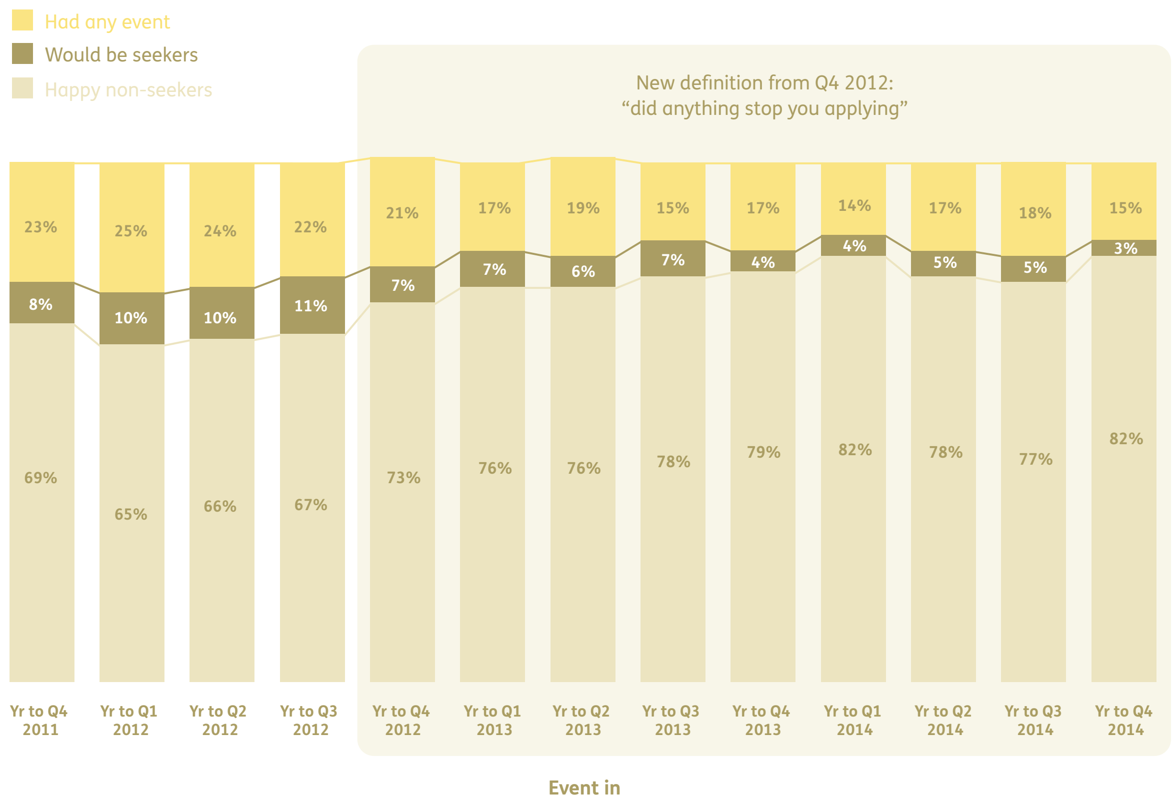


This chart relates to the analysis found on pages 178 and 192 of the main report. New/renewed overdrafts remained more likely to be on a variable rate than the equivalent loan facilities. Loans granted between Q4 2012 and Q2 2013 were more likely to be on a variable rate but the trend for the most recent applications is unclear (on interim data).

Charts reflecting data reported in Chapter 11

Classification of respondents based on borrowing behaviour in 12 months prior to interview

Time series: Borrowing profile in 12 months prior to interview

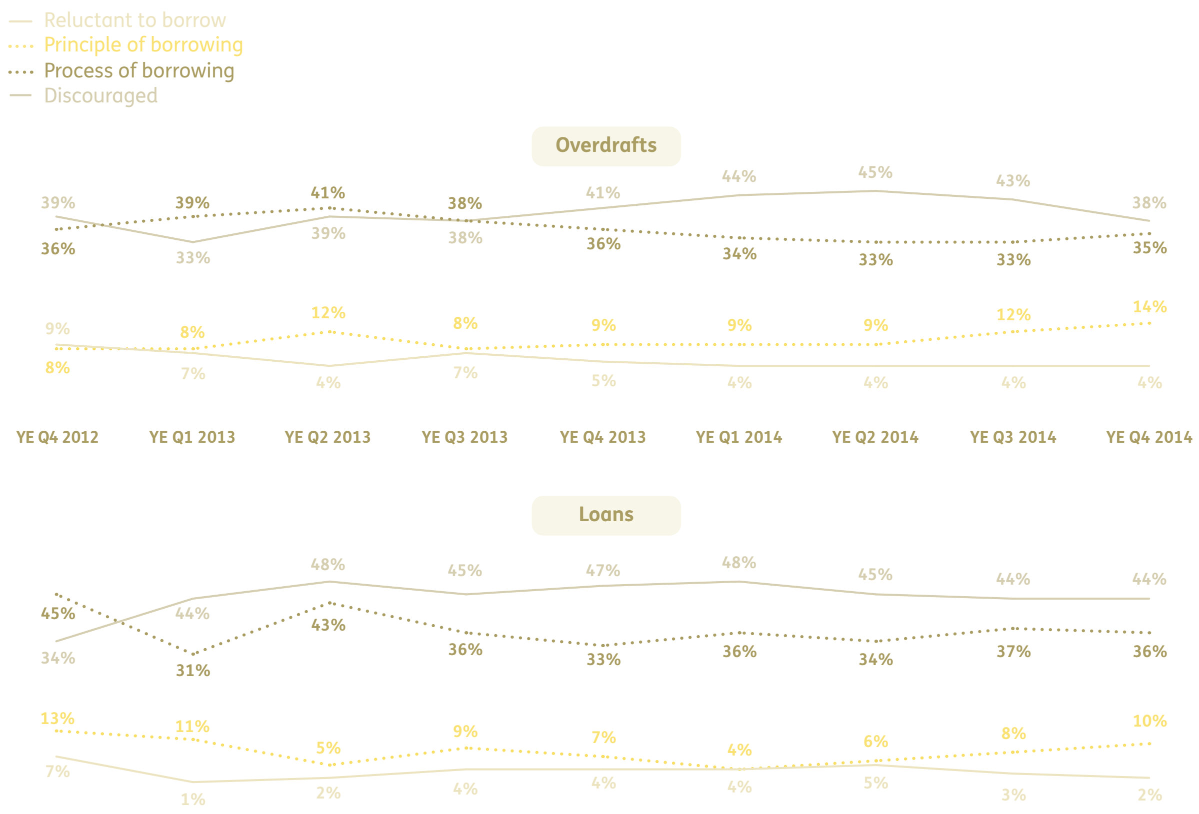


Q115/209

This chart relates to the analysis found on page 205 of the main report. Most SMEs met the definition of a 'Happy non-seeker' of finance based on their behaviour in the 12 months prior to interview and this remained at a higher level (82% in Q4 2014) than was seen in 2012, as the proportion of 'would-be seekers' declined.

Main barriers for “would-be seekers” over time

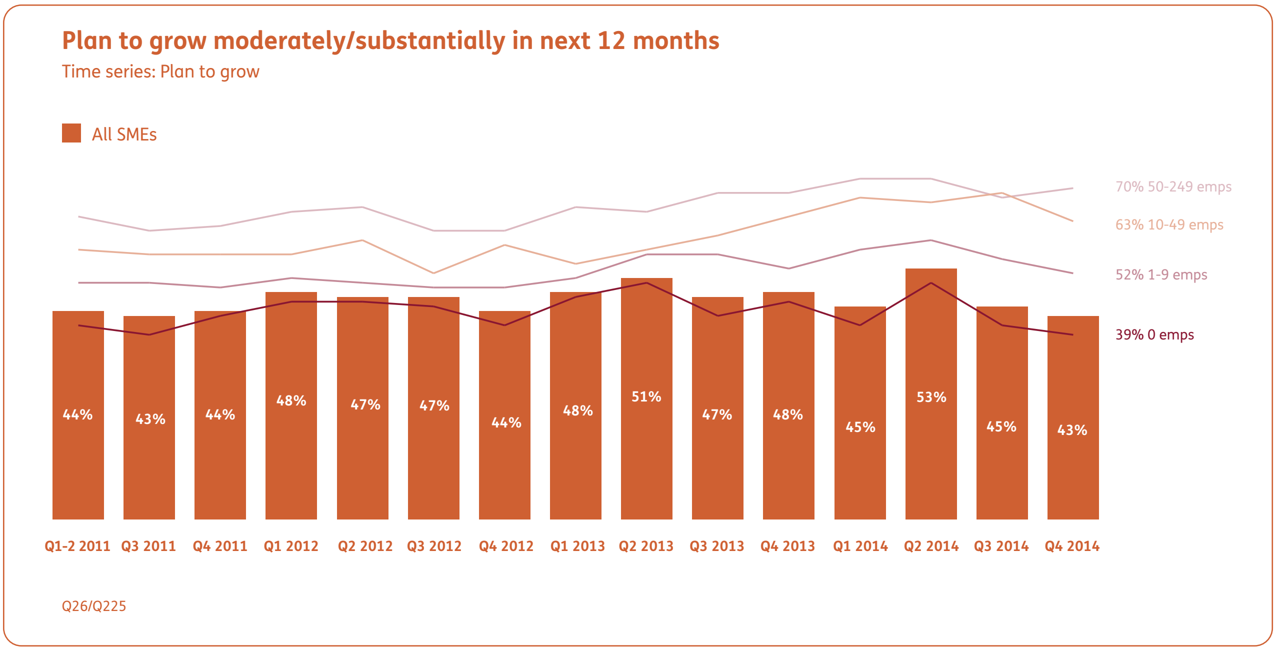
Time series: Main reason for not seeking borrowing amongst “would-be seekers”



Q116a/210a ‘Principle of borrowing’ no longer includes ‘prefer not to borrow’

This chart relates to the analysis found on page 211 of the main report. Discouragement and the process of borrowing remained the main barriers to those SMEs that would have liked to apply for a loan or overdraft but felt that something stopped them.

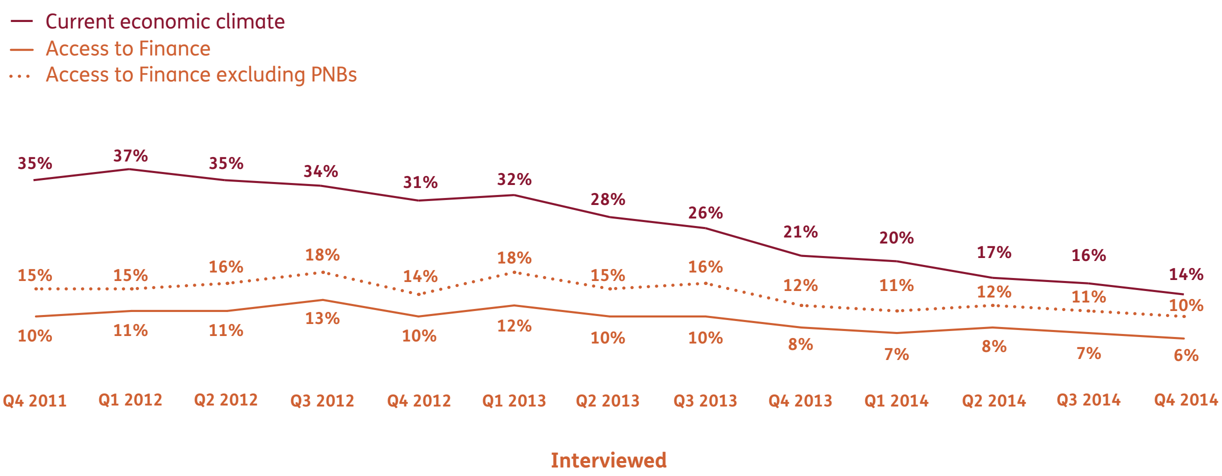
Charts reflecting data reported in Chapter 12



This chart relates to the analysis found on page 229 of the main report. 43% of SMEs in Q4 2014 planned to grow, somewhat lower than seen in recent quarters. SMEs with employees remained more likely to be planning to grow.

Obstacles perceived to running business – Current economic climate and access to finance

Time series: 8-10 major obstacle

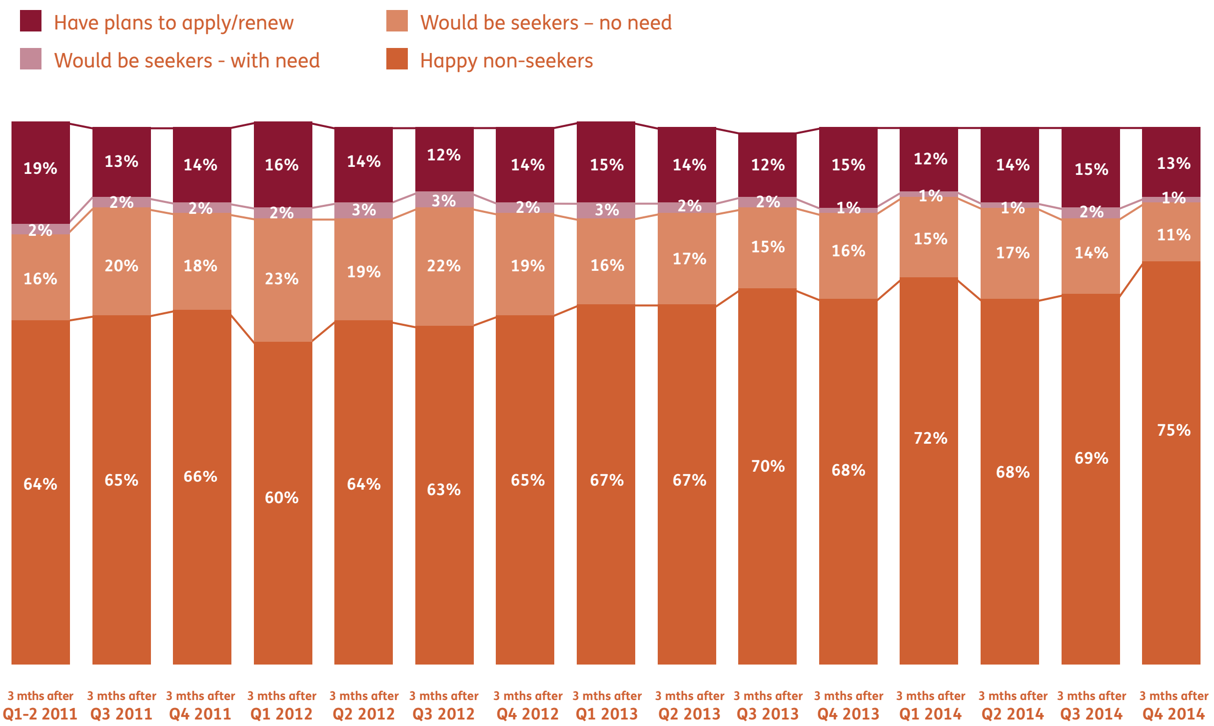


Q227

This chart relates to the analysis found on page 239 and 241 of the main report. The importance of the economic climate as a major obstacle to SMEs continued to decline, although it remained the most likely to be nominated. Access to finance remained less likely to be cited as a major obstacle.

Classification of respondents based on expected borrowing behaviour in 3 months *after* interview

Time series: Anticipated borrowing profile for ***next 3 months***

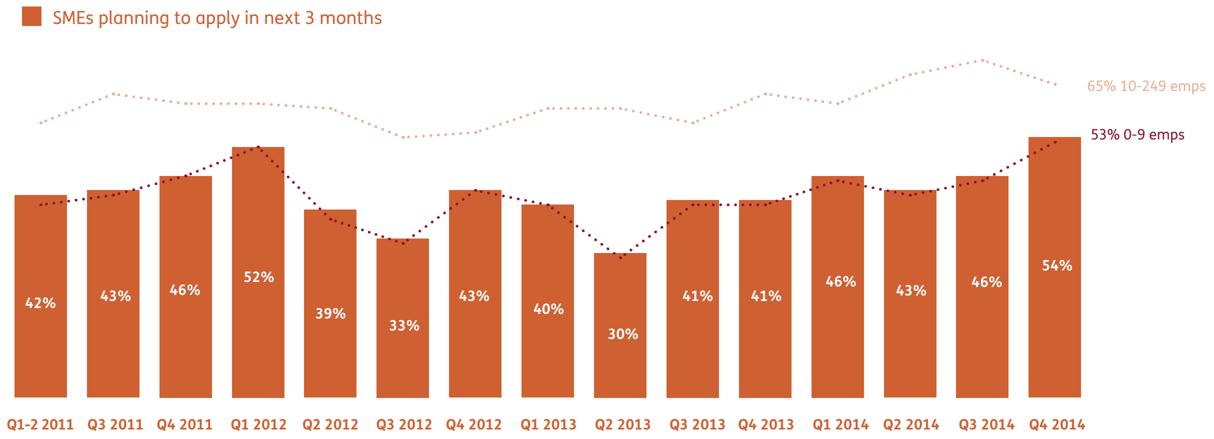


Q229

This chart relates to the analysis found on page 252 of the main report. Future appetite for finance has remained stable over recent quarters. The largest group remained the 'Future happy non-seekers' and they have increased steadily over time as the proportion of 'Future would-be seekers' declined.

Confidence amongst those planning to apply for finance in 3 months after interview that bank will agree to request

Time series: Confident bank will agree to facility ***next 3 months***

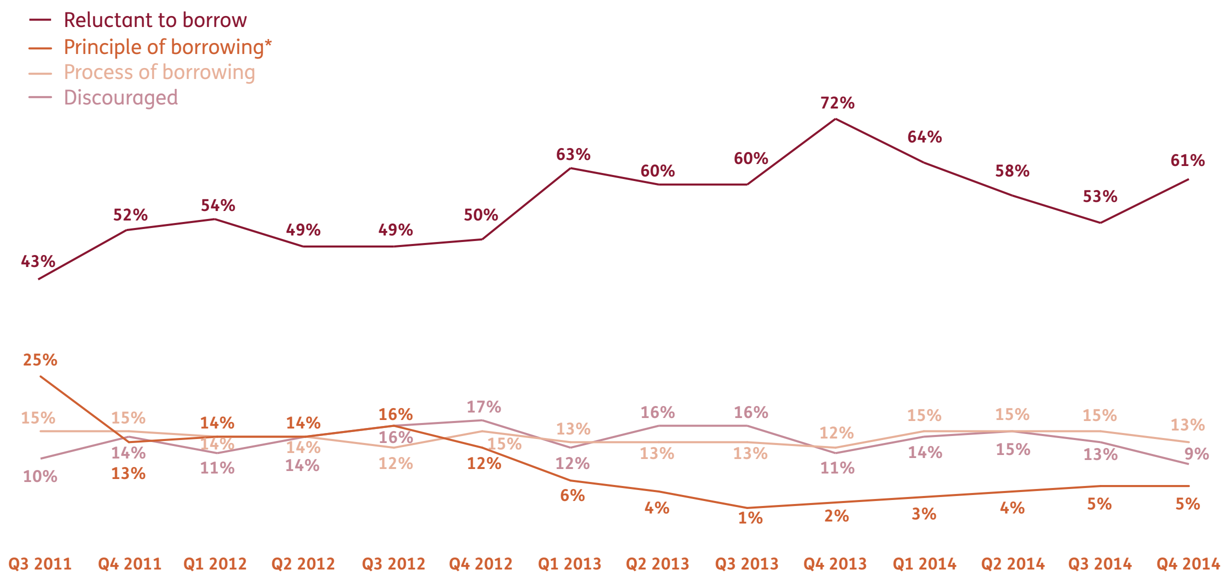


Q238

This chart relates to the analysis found on page 249 of the main report. Overall confidence amongst future applicants that their bank will agree to lend has improved over recent quarters, but remains lower than actual success rates.

Main barriers for future "would-be seekers"

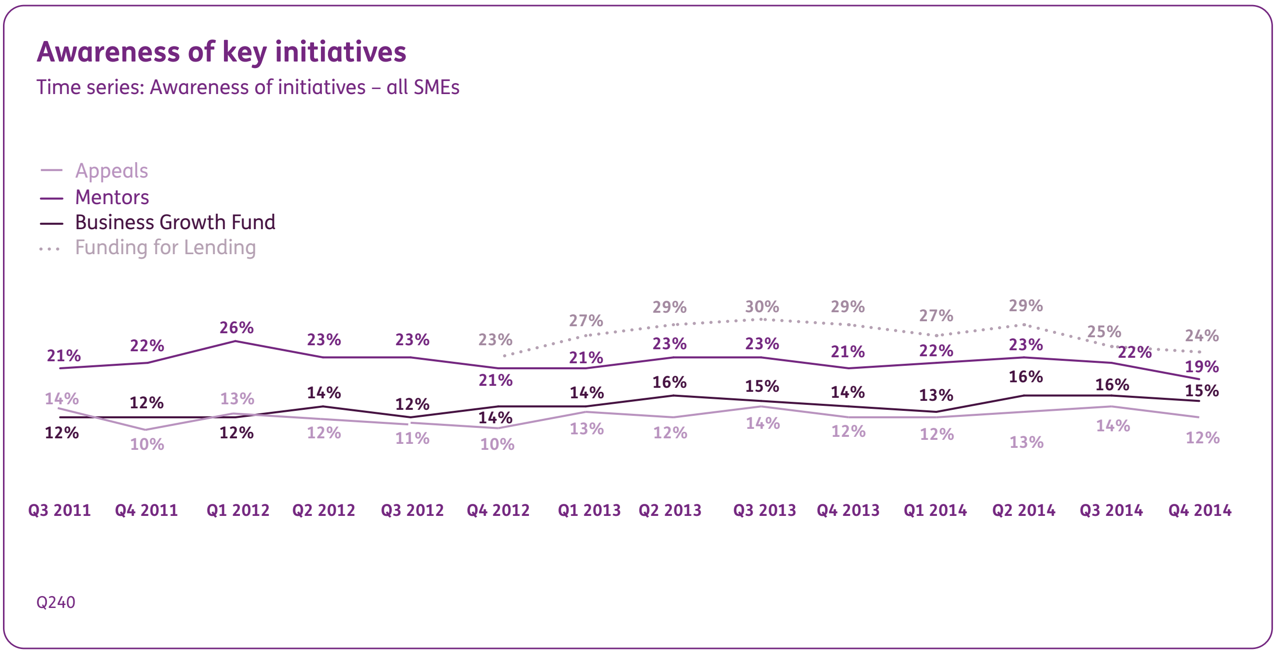
Time series: Main reason for not seeking borrowing amongst future "would-be seekers"



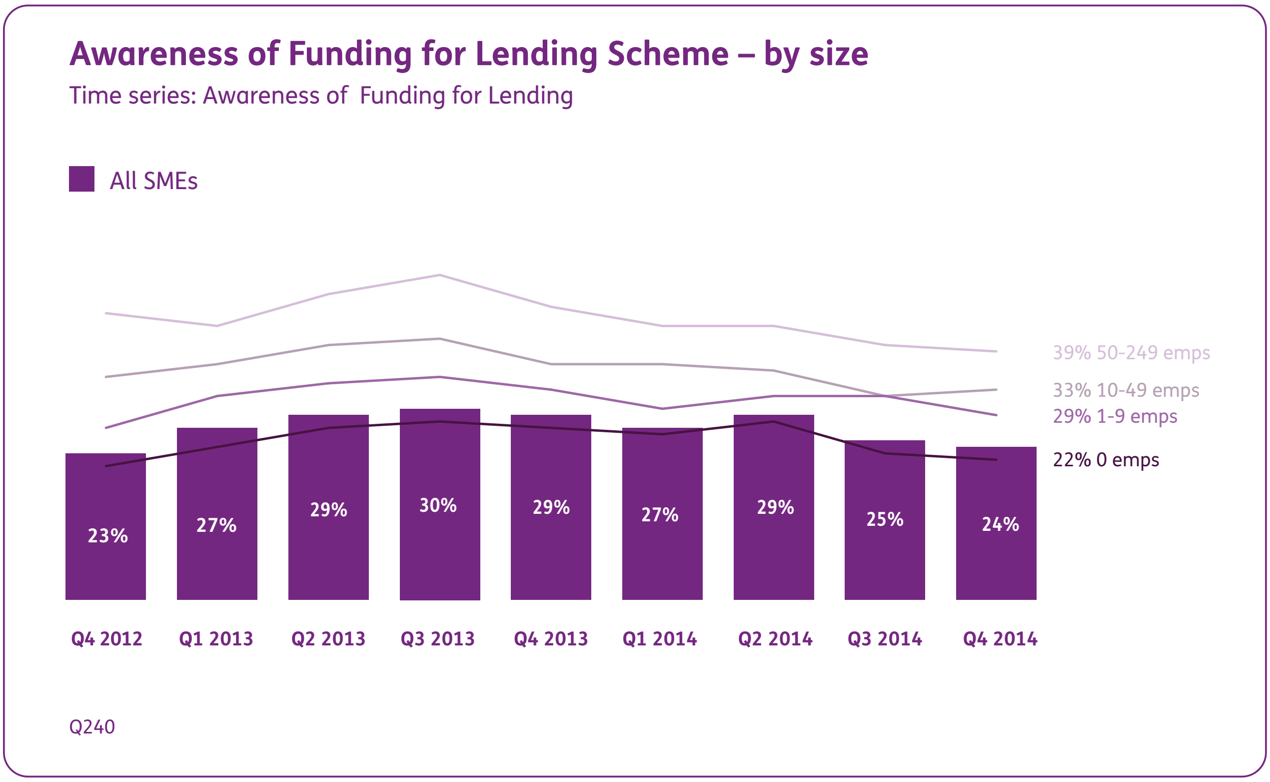
Q239a 'Principle of borrowing' no longer includes 'prefer not to borrow'

This chart relates to the analysis found on page 256 of the main report. A reluctance to borrow in the current economic climate remained the main barrier amongst 'Future would-be seekers' of finance, albeit it has been mentioned slightly less in more recent quarters.

Charts reflecting data reported in Chapter 13



This chart relates to the analysis found on page 271 of the main report. Awareness of key initiatives designed to support SMEs with access to finance remained stable over time.



This chart relates to the analysis found on page 266 of the main report. Awareness of the Funding for Lending scheme is somewhat lower in the second half of 2014 than in earlier quarters.

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 2014 – each quarter's sample matched the previous quarters as closely as possible.

Business size	Universe	% of universe	Total sample size	% of sample
Total	4,548,843	100%	20,055	100%
0 employee (resp)	3,366,144	74%	4007	20%
1-9 employees	1,008,024	22%	6618	33%
10-49 employees	144,198	3%	6425	32%
50-249 employees	26,383	1%	3005	15%

Overall quotas were set by sector and region as detailed below. In order to ensure a balanced sample, these overall region and sector quotas were then allocated within employee size band to ensure that SMEs of all sizes were interviewed in each sector and region.

Business sector* SIC 2007 in brackets)	Universe	% of universe	Total sample size	% of sample
AB Agriculture etc. (A)	195,285	4%	1511	7%
D Manufacturing (C)	302,032	7%	2099	11%
F Construction (F)	1,017,210	22%	3521	18%
G Wholesale etc. (G)	561,689	12%	2031	10%
H Hotels etc. (I)	156,001	4%	1785	9%
I Transport etc. (H&J)	314,705	7%	1811	9%
K Property/Business Services (L,M,N)	1,194,629	26%	3512	18%
N Health etc. (Q)	279,280	6%	1779	8%
O Other (R&S)	528,011	12%	2006	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%	2396	12%
South East	727,815	16%	2439	12%
South West	454,884	10%	1813	9%
East	454,884	10%	1797	9%
East Midlands	272,931	6%	1393	7%
North East	136,465	3%	1002	5%
North West	454,884	10%	1803	9%
West Midlands	318,419	7%	1808	9%
Yorks & Humber	318,419	7%	1799	9%
Scotland	318,419	7%	1614	8%
Wales	181,954	4%	1201	6%
Northern Ireland	136,465	3%	990	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	
AB	Agriculture, Hunting and Forestry; Fishing	2.87%	1.42%	0.01%	4.30%
D	Manufacturing	4.42%	2.08%	0.14%	6.64%
F	Construction	19.03%	3.29%	0.04%	22.36%
G	Wholesale and Retail Trade; Repairs	7.03%	5.22%	0.10%	12.35%
H	Hotels & Restaurants	0.90%	2.48%	0.04%	3.42%
I	Transport, Storage and Communication	5.93%	0.95%	0.03%	6.91%
K	Real Estate, Renting and Business Activities	19.37%	6.76%	0.13%	26.26%
N	Health and Social work	4.94%	1.15%	0.06%	6.14%
O	Other Community, Social and Personal Service Activities	9.60%	1.99%	0.02%	11.61%
		74.09%	25.33%	0.58%	

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

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

Overall rim weights were then applied for regions:

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

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

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

Business size	Sample size	Weighting efficiency	Effective sample size	Significant differences
Total	20,055	27%	5415	+/- 2%
0 employee (resp)	4007	79%	3165	+/- 2%
1-9 employees	6618	77%	5095	+/- 2%
10-49 employees	6425	78%	5011	+/- 2%
50-249 employees	3005	82%	2464	+/- 3%

Analysis techniques

CHAID (or Chi-squared Automatic Interaction Detection) is an analytical technique which uses Chi-squared significance testing to determine the most statistically significant differentiator on some target variable from a list of potential discriminators. It uses an iterative process to grow a 'decision tree', splitting each node by the most significant differentiator to produce another series of nodes as the possible responses to the differentiator. It continues this process until either there are no more statistically significant differentiators or it reaches a specified limit. When using this analysis, we usually select the first two to three levels to be of primary interest.

This report is the largest and most detailed study of SMEs' views of bank finance ever undertaken in the UK. More importantly, this report is one of a series of quarterly reports. So not only is it based on a large enough sample for its findings to be robust, but over time the dataset has been building into a hugely valuable source of evidence about what is really happening in the SME finance market.

A report such as this can only cover the main headlines emerging from the results.

Information within this report and extracts and summaries thereof are not offered as advice, and must not be treated as a substitute for financial or economic advice. This report represents BDRC Continental's interpretation of the research information and is not intended to be used as a basis for financial or investment decisions. Advice from a suitably qualified professional should always be sought in relation to any particular matter or circumstance.

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