

9

BORROWING EVENTS IN MORE DETAIL

THIS CHAPTER PROVIDES

more detail on the borrowing events now reported in the SME Finance Monitor.

KEY FINDINGS

Type 1a events: 2% of all SMEs had a Type 1a event YEQ2 2019, as a result of a need for funding

- These were most likely to be an application for a loan (37%) or bank overdraft (20%) and made to the main bank (54%)

Type 1b events: 2% of all SMEs had a Type 1b event YEQ2 2019, an application for new or renewed finance but not directly as a result of a need for funding

- These were more likely to be for an overdraft (51%) and to the main bank (70%) than Type 1a events

Type 2/3 events: As in previous reports, very few SMEs (2%) reported that an existing facility had been cancelled/renewed by the bank or that they had sought to cancel/repay a facility

Automatic overdraft renewal: 10% of all SMEs reported the automatic renewal of an overdraft facility, This is the equivalent of 44% of SMEs with an overdraft, with little variation by size of SME

This is the third of four revised chapters looking at borrowing events in the wider finance market beyond loans and overdrafts. The previous chapter identified how many SMEs had reported borrowing events, both overall and by different demographics. This chapter looks at each of these four types of event in more detail:

- Type 1a: Where a need for funding had resulted in a borrowing event (involving any product and any provider). These are an updated and extended equivalent to the previously recorded Type 1 applications for new/renewed loan or overdraft facilities and more information about the types of application made is provided below. The final outcome of these applications is covered in the next chapter (10).
- Type 1b: Where the SME has (also) applied for any other new or renewed facility, from a list of major products. These are also part of the updated and extended equivalent to the previously recorded Type 1 applications for new/renewed loan or overdraft facilities and more information about the types of application made is provided below. The final outcome of these applications is covered in the next chapter (10).
- Type 1c events (any other application made and not already covered) were reported by very few SMEs and no further information is available on them.
- Where the SMEs overdraft had been automatically renewed: limited information is available on these events but is reported below.
- Type 2/3 events: Where the SME or the finance provider had sought to cancel or re-negotiate a facility before it was due to be repaid. Limited information is available on these events but is reported below.

This chapter is a record of events that have happened to SMEs in the 12 months prior to interview. Analysis is therefore by date of interview for the period YEQ2 2019. The next chapter, which looks at the outcome of the applications made, is based on applications made Q3 2017 to Q2 2019 and reported between Q1 2018 and Q2 2019.

BORROWING EVENTS IN PAST 12 MONTHS – A SUMMARY

As detailed in the last chapter, and provided here for reference, 14% of SMEs reported any form of borrowing event in the previous 12 months, with the most common event the automatic renewal of an existing overdraft facility:

Borrowing events in the previous 12 months		0	1-9	10-49	50-249
YE Q2 19 all SMEs	Total	emp	emps	emps	emps
Unweighted base:	18,002	3602	5800	5800	2800
Type 1 event:	4%	3%	6%	6%	3%
1a: New application re need for funding	2%	2%	4%	4%	2%
1b: New/renewed application for specific finance	2%	1%	2%	3%	1%
1c: Any other new/renewed application	*	*	*	*	*
Type 2/3: Cancel/pay off by bank or SME	2%	2%	3%	3%	2%
Automatic renewal of an overdraft	10%	9%	12%	12%	19%
Any borrowing event	14%	13%	18%	20%	24%

Pastevt Q31/50/50a/70/71/75 (25/26) All SMEs – new definition from Q1 2018

Each of these events is explored in more detail in the remainder of the chapter.

Combined data for the Type 1a and Type 1b applications can be found in the next chapter.

TYPE 1A APPLICATIONS TO MEET A NEED FOR FUNDING

YEQ2 2019, 4% of SMEs reported having had a need for funding. 55% of them went on to make a new application for finance (the equivalent of 2% of all SMEs having a Type 1a event). As the table below shows, most of these applications were for a loan or overdraft with 6 in 10 applicants applying for a 'core' form of finance:

Type of finance applied for YEQ2 19 – all SMEs with Type 1a event	Total	0-9 emp	10-249 emps
Unweighted base:	533	257	276
Bank Overdraft	20%	20%	23%
Bank Loan	37%	37%	43%
Commercial mortgage	5%	5%	6%
Credit cards	1%	1%	*
Other overdraft	*	*	-
Other loan	3%	3%	5%
Leasing/hire purchase	7%	7%	5%
Invoice finance	*	*	2%
Other specified product	8%	8%	4%
DK	26%	26%	25%

Q33 NEW All SMEs meeting a need for funding with an application

Analysis of the 2% of SMEs applying to meet a funding need showed that:

- 54% of Type 1a applicants applied to their main bank
- 25% applied to another provider they were already using
- 28% applied to a new provider they had not been using previously
- 8% applied to an online platform.

The table below shows the products applied for at each of these providers, where base sizes permit.

YEQ2 19 – all SMEs with a Type 1a event	Main bank	Existing provider	New provider
Unweighted base:	323	148	123
Bank Overdraft	34%	13%	9%
Bank Loan	52%	54%	39%
Commercial mortgage	5%	3%	7%
Credit cards	1%	12%	2%
Other overdraft	-	-	*
Other loan	-	3%	9%
Leasing/hire purchase	4%	8%	16%
Invoice finance	*	1%	1%
Other specified product	4%	12%	17%
DK	8%	17%	6%

Q33_1-3 NEW All SMEs meeting a need for funding with an application

- Applications to the main bank were primarily for loans or overdrafts (86%). Applications to other and new providers covered a wider range of products, with loans much more popular than overdrafts and commercial mortgages and leasing featuring more.
- 35 respondents applied to an online platform, a third of them for a loan.

TYPE 1B OTHER APPLICATIONS

Aside from an application arising directly from a need for finance, all SMEs were also asked whether they had applied for any (other) new or renewed finance in the previous 12 months, over and above any Type 1a events they had already reported.

2% of all SMEs said they had and the profile of SMEs making these Type 1b applications was reported in Chapter 8.

Like Type 1a applications, most Type 1b applications involved a 'core' finance product. 7 in 10 (68%) of those who had applied for any form of finance had applied for a 'core' product with 5 in 10 applying for an overdraft (new or renewed):

Type of new/renewed finance applied for YEQ2 19 – all SMEs with Type 1b event	Total	0-9 emp	10-249 emps
Unweighted base:	392	176	216
Bank Overdraft	51%	52%	49%
Bank Loan	18%	17%	27%
Commercial mortgage	9%	9%	7%
Credit cards	6%	5%	17%
Other overdraft	5%	5%	7%
Other loan	5%	5%	4%
Leasing/hire purchase	12%	10%	29%
Invoice finance	2%	1%	10%
Other specified product	7%	6%	20%
Something else	21%	22%	7%

Q51 All SMEs who had applied for finance at Q50/a– new definition from Q1 2018*

Analysis showed that more of these applications were made to the main bank:

- 70% of Type 1b applicants applied to their main bank
- 11% applied to another provider they were already using
- 11% applied to a new provider they had not been using previously
- 4% applied to an online platform
- 4% applied somewhere else.

If a respondent mentioned a product at this stage that they had already mentioned applying for as a Type 1a event to meet a funding need, then no further questions were asked about that product. (10% of Type 1b applicants had also reported any Type 1a event). Such SMEs were still asked about any other products they had applied for.

The table below shows the products applied for at three of these providers, albeit base sizes are somewhat limited. Those applying to their main bank were typically applying for an overdraft, while applications to another existing provider covered a wider range of products. 4 in 10 of those who applied to a new provider were looking for leasing/hire purchase:

YEQ2 19 – all SMEs with a Type 1b event	Main bank	Existing provider	New provider
Unweighted base:	246	79*	51*
Bank Overdraft	80%	4%	32%
Bank Loan	25%	7%	10%
Commercial mortgage	7%	28%	3%
Credit cards	8%	12%	2%
Other overdraft	6%	10%	*
Other loan	5%	5%	2%
Leasing/hire purchase	2%	39%	41%
Invoice finance	1%	5%	2%
Other specified product	3%	4%	15%

Q51 All SMEs who had applied for finance at Q50/a– new definition from Q1 2018*

An individual SME could have made one or more Type 1a applications for a funding need and/or made one or more other type 1b applications. As a result, further analysis has been provided in the next chapter at *application* rather than SME level (so an SME that made two applications will appear twice in the data reporting on potentially different experiences and outcomes).

The rest of this chapter provides the more limited information available on Type 2/3 events and the automatic renewal of overdraft facilities.

TYPE 2 AND TYPE 3 EVENTS

All SMEs were asked whether either of the following had happened to them:

- A bank sought to cancel or renegotiate a facility before it was due to be repaid.
- The SME decided to cancel or renegotiate a facility before it was due to be repaid.

In previous SME Finance Monitor reports, 1-2% of SMEs reported such an event.

As the table below shows, 2% of SMEs reported any of these events YEQ2 2019:

Type 2/3 events in the previous 12 months		0	1-9	10-49	50-249
YEQ2 19 all SMEs	Total	emp	emps	emps	emps
Unweighted base:	18,002	3602	5800	5800	2800
Type 2/3: Cancel/pay off by bank or SME	2%	2%	3%	3%	2%
• Bank sought to cancel/renegotiate	*	*	1%	1%	1%
• SME sought to cancel/renegotiate	1%	1%	2%	2%	1%
No Type 2/3 event	98%	98%	97%	97%	98%

Q75 (25/26) All SMEs – new definition from Q1 2018

There was little variation by risk rating or sector. Excluding the PNBs increased the proportion of Type 2/3 events to 3% of remaining SMEs, 1% where the bank looked to make a change and 3% where the SME did so.

AUTOMATIC RENEWAL OF OVERDRAFTS

Overdrafts are usually granted for a period of 12 months or less, but it was apparent in early Monitor reports that not all those with an overdraft facility went on to report having had an overdraft ‘event’ in the 12 months prior to interview.

To explore this further, such SMEs 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. This question was not changed in the Q1 2018 re-design and data over time is provided.

As the table below shows, typically about half of SMEs with an overdraft reported that it had been automatically renewed, although since Q4 2018 the proportion has been somewhat lower (41% for Q2 2019). This remains the equivalent of around 1 in 10 of all SMEs (10% in Q2 2019):

Experienced an automatic renewal in previous 12 mths

By date of interview

– over time	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Row percentages	2017	2017	2017	2018	2018	2018	2018	2019	2019
SMEs with overdraft	49%	54%	52%	48%	51%	47%	44%	46%	41%
‘All SMEs’ equivalent	10%	11%	10%	8%	9%	9%	9%	10%	10%

Q71/15 (15/ 26/26a) All SMEs who now have an overdraft/all SMEs

The summary table below for YEQ2 2019 shows that amongst SMEs with an overdraft, 44% reported an automatic renewal and these were more common amongst those with 1-9 employees and those in Manufacturing or the Other Community sector. The equivalent of 10% of all SMEs reported an automatic renewal (17% once the PNBs were excluded):

Automatic renewals YEQ2 2019

By date of interview – row percentages	All with Overdraft	All SMEs equivalent
All SMEs	44%	10%
0 employee	43%	9%
1-9 employees	48%	12%
10-49 employees	45%	12%
50-249 employees	42%	19%
Minimal external risk rating	37%	9%
Low external risk rating	50%	12%
Average external risk rating	51%	11%
Worse than average external risk rating	41%	8%
Agriculture	46%	14%
Manufacturing	51%	10%
Construction	41%	10%
Wholesale/Retail	46%	13%
Hotels & Restaurants	46%	10%
Transport	49%	10%
Property/Business Services etc.	45%	8%
Health	27%	7%
Other Community	54%	11%
All SMEs excluding Permanent non-borrowers	-	17%
Current using external finance	-	23%

Pastevt Q31/50/50a/70/71/75 (25/26) All SMEs – new definition from Q1 2018