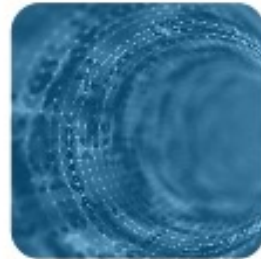


# 11. Rates and fees – Type 1 events



## **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 Q1 2016 to Q2 2017.



## Key findings

Small base sizes limit the amount of analysis possible in this chapter.

Most overdrafts (83%) were for £25,000 or less. Loans were typically somewhat larger, with 85% granted for £100,000 or less.

37% of overdrafts and 56% of loans (including commercial mortgages) were secured, often on property.

The majority of facilities were on a fixed rate: 6 in 10 overdrafts and 7 in 10 loans were on a fixed rate.

Most overdraft applicants paid a fee for their facility (16% didn't). 60% paid a fee that was equivalent to 2% or less of the facility granted.

Fewer loan applicants paid a fee for their facility (44% didn't). 81% paid a fee that was equivalent to 2% or less of the facility granted.



This chapter covers the security and fees pertaining to overdrafts and loans granted after a Type 1 borrowing event (that is an application or a renewal) which occurred between Q1 2016 and Q2 2017.

The main reporting in this chapter does **not** include any overdrafts granted as the result of an automatic renewal process. These automatically renewed overdrafts are reported on separately towards the end of this chapter.

From Q1 2016, this element of the questionnaire was revised, simplifying the question on security and removing the questions on the margin or fixed rate charged for a facility.

## Overdrafts: context

The price of a facility 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.

### Successful overdraft applications Further analysis Q1 2016 to Q2 2017

Size of applicant	<p>Of all new overdrafts successfully applied for Q1 2016 to Q2 2017:</p> <ul style="list-style-type: none"><li>• 57% were granted to 0 employee SMEs</li><li>• 32% to 1-9 employee SMEs</li><li>• 9% to 10-49 employee SMEs</li><li>• 1% to 50-249 employee SMEs.</li></ul>
Size of facility	<p>83% of new/renewed overdrafts granted between Q1 2016 and Q2 2017 were for £25,000 or less.</p> <p>This varied by size of applicant from 87% of overdrafts granted to SMEs with 0-9 employees to 43% of those granted to SMEs with 10-249 employees.</p>
Personal facilities	<p>12% of successful new/renewed overdrafts in this period were in a personal name rather than that of the business. This was much more likely to be the case for those with 0-9 employees (14%) than for larger SMEs (2%).</p>



Analysis of the size of the overdraft facility granted by recent application date is reported below. In each quarter the majority of applications have been for facilities of less than £25,000. In Q2 and Q3 2016, more applications were for smaller sums (<£5000) but this was not maintained in the most recent quarters:

### Overdraft facility granted

By date of application	Q3 14	Q4 14	Q1 15	Q2 15	Q3 15	Q4 15	Q1 16	Q2 16	Q3* 16	Q4* 16	Q1* 17
<b>Unweighted base:</b>	<b>261</b>	<b>314</b>	<b>301</b>	<b>256</b>	<b>232</b>	<b>224</b>	<b>218</b>	<b>135</b>	<b>112</b>	<b>119</b>	<b>138</b>
Less than £5,000	37%	37%	37%	48%	42%	37%	38%	50%	46%	30%	30%
£5-25,000	35%	43%	40%	34%	45%	40%	39%	35%	37%	59%	50%
£25,000+	28%	20%	22%	19%	12%	23%	23%	14%	17%	11%	20%

Overdraft facility granted - all successful applicants that recall amount granted

## Overdrafts: Security

From Q1 2016, those who had successfully applied for an overdraft were asked a simplified question about the security pertaining to that facility, as shown in the table below. The headline categories remained the same as in previous waves allowing this 2016 data to be combined with previous data. A third of Type 1 overdrafts (i.e. a new or renewed facility not including automatic renewals, successfully applied for between Q1 2016 and Q2 2017) were secured:

### Security required (Overdraft)

<u>Successfully sought</u> new/renewed overdraft Q1 16 - Q2 17	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
<b>Unweighted base:</b>	<b>714</b>	<b>67*</b>	<b>214</b>	<b>292</b>	<b>141</b>
<b>Any security</b>	<b>37%</b>	<b>32%</b>	<b>38%</b>	<b>62%</b>	<b>73%</b>
<i>Property (business/personal)</i>	29%	26%	29%	48%	57%
<i>Other security (any)</i>	9%	7%	10%	17%	16%
<b>No security required</b>	<b>63%</b>	<b>68%</b>	<b>62%</b>	<b>38%</b>	<b>27%</b>

Q 105a All SMEs with new/renewed overdraft excluding DK



The larger the SME, the more likely it was to have a secured facility and this was also true by size of facility granted. For overdrafts successfully applied for between Q1 2016 and Q2 2017:

- 30% of overdrafts granted for less than £10,000 were secured
- 37% of overdrafts granted for £10-24,999 were secured
- 62% of overdrafts granted for £25-99,999 were secured
- 74% of overdrafts granted for £100,000 or more were secured.

Over the longer term, more overdrafts have been secured, primarily due to an increase in the proportion of overdraft facilities of £10,000 or less that were secured. Initial data for the second half of 2016 suggests fewer overdrafts have been secured (26%) although, qualitatively, this does not look as if it has remained the case for the limited number of overdraft applications successfully made in H1 2017.

**% of overdraft facilities that were secured**

By application date Row percentages	H1 2013	H2 2013	H1 2014	H2 2014	H1 2015	H2 2015	H1 2016	H2 2016*
All overdrafts	35%	34%	36%	33%	42%	37%	39%	26%
Overdrafts of <£10,000	18%	22%	24%	24%	32%	31%	30%	18%
Overdrafts of £10-24,999	49%	40%	50%	38%	45%	31%	36%	30%
Overdrafts of £25-100,000	62%	62%	53%	40%	64%	64%	71%	53%
Overdrafts of more than £100,000	72%	78%	66%	68%	74%	92%	77%	82%

Q 105a All SMEs with new/renewed overdraft, excluding DK



## Overdrafts: Rates

Amongst those who gave an answer, 4 in 10 (39%) said that their new/renewed overdraft was on a variable rate and this remained more likely to be the case for larger facilities granted:

### Type of rate (overdraft) by facility granted

#### Successfully sought new/renewed overdraft

Q1 16-Q2 17 excl. DK

	Total	<£10k	£10-25k	£25-100k	£100k+
<b>Unweighted base:</b>	<b>614</b>	<b>209</b>	<b>124</b>	<b>143</b>	<b>138</b>
Variable rate lending	39%	37%	31%	48%	66%
Fixed rate lending	61%	63%	69%	52%	34%

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 first half of 2015 when almost half (46%) were on a variable rate and the majority of 2016 when 3 in 10 were on a variable rate:

### New/renewed overdraft rate

	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3*	Q4*	Q1*
By date of application	14	14	15	15	15	15	16	16	16	16	17
<b>Unweighted base:</b>	<b>220</b>	<b>250</b>	<b>262</b>	<b>207</b>	<b>194</b>	<b>176</b>	<b>181</b>	<b>111</b>	<b>89*</b>	<b>97*</b>	<b>111</b>
Variable rate lending	38%	38%	46%	46%	36%	38%	44%	30%	33%	30%	53%
Fixed rate lending	62%	62%	54%	54%	64%	62%	56%	70%	67%	70%	47%

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

Questions around the margin charged for the overdraft facility are no longer asked.



## Overdrafts: Fees

Most respondents (87%) were able to recall the arrangement fee that they had paid for their new/renewed overdraft facility (if any). The average fee paid was £241, 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

Q1 16-Q2 17 excl. DK

	Total	Under £25k	£25-100k	£100k+
<b>Unweighted base:</b>	<b>593</b>	<b>321</b>	<b>139</b>	<b>133</b>
No fee paid	16%	17%	11%	6%
Less than £100	17%	20%	7%	1%
£100-199	42%	49%	9%	9%
£200-399	14%	11%	36%	10%
£400-999	7%	3%	33%	13%
£1000+	4%	1%	5%	60%
<b>Average fee paid:</b>	<b>£241</b>	<b>£123</b>	<b>£386</b>	<b>£1928</b>
<b>Median fee paid</b>	<b>£98</b>	<b>£92</b>	<b>£279</b>	<b>£945</b>

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

Over time, typically 1 in 5 successful applicants paid no fee for their overdraft. In H2 15 and H1 16 a lower proportion paid no fee (around 1 in 9), with the proportion increasing back to levels previously seen for H2 2016.

Amongst those with a new/renewed overdraft who knew both what fee they had paid and the size of the facility granted, 23% paid a fee that was equivalent to less than 1% of the facility granted and a further 37% paid the equivalent of 1-2%.



Almost all of those borrowing £25,000 or more paid a fee which was the equivalent of 2% or less of the facility granted. This compares to around 4 in 10 of those with a facility of £10,000 or less:

- 42% of those granted a new/renewed overdraft facility of less than £10,000 paid the equivalent of 2% or less
- 91% of those granted a new/renewed overdraft facility of £10-25,000 paid the equivalent of 2% or less
- 96% of those granted a new/renewed overdraft facility of £25-100,000 paid the equivalent of 2% or less
- 97% of those granted a new/renewed overdraft facility of more than £100,000 paid the equivalent of 2% or less.

An analysis of secured and unsecured overdrafts is shown below:

<b>Unsecured and secured overdrafts</b>	<b>Further analysis Q1 2016 to Q2 2017</b>
Amount borrowed	Most unsecured overdrafts were for less than £25,000 (91%) compared to 70% of secured overdrafts.
Variable rates	Secured overdrafts were somewhat more likely to be on a variable rate (48%) than unsecured overdrafts (34%).
Fees	Secured overdrafts were somewhat more likely to attract a fee (96%) than unsecured overdrafts (78%), and the average fee charged was higher (£440 secured compared to £130 unsecured).  Whilst secured overdrafts typically attracted a higher fee in absolute terms, these are typically larger facilities and the fee was as likely to be the equivalent of 2% or less of the agreed facility (65%) than was the case for unsecured overdrafts (59%).





## Overdraft terms: Analysis by risk rating

Sample sizes also permit some analysis of size of facility and fees by the external risk rating of the SME granted the facility. Businesses with a minimal/low risk rating typically had a larger, secured, facility:

### Further analysis by risk rating Q1 2016 to Q2 2017

Amount borrowed	Most overdrafts granted to those with an average or worse than average risk rating were for less than £25,000 (86%) compared to 69% of those granted to SMEs with a minimal or low risk rating.
Security	<p>Those with a minimal or low risk rating were more likely to have a secured overdraft (46%) than those with an average or worse than average rating (32%).</p> <p>For both groups, those borrowing more than £25,000 were more likely to have a secured facility (69% for minimal/low and 63% for average/worse than average).</p>
Variable rates	Those with an average or worse than average risk rating were somewhat more likely to be on a variable rate (46% v 36%)
Fees	<p>Those with a minimal or low risk rating were more likely to have paid a fee for their overdraft (90% for minimal/low and 78% for average/worse than average).</p> <p>Those with a minimal/low risk rating paid a higher fee in absolute terms (£446 v £153 for those with an average or worse than average risk rating) but this was as likely to be the equivalent of 2% or less of the agreed facility (68%) as for those with an average or worse than average risk rating (67%).</p>



## Overdraft terms: Analysis by sector

Overall in the 18 months Q1 2016 to Q2 2017, 83% of overdrafts successfully applied for were facilities of £25,000 or less. On limited base sizes by sector this varied relatively little (between 73% and 96%), with the exception of Agriculture where 51% of overdrafts granted were for less than £25,000.

As the table below shows, these larger overdrafts in the Agricultural sector were also more likely to be secured:

### Type 1 overdraft

#### Successfully sought

new/ renewed

overdraft

Q1 16-Q2 17 excl. DK

Agric Mfg Constr Whle Retail Hotel Rest Trans Prop/ Bus Hlth SWrk Other Comm

	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Hlth SWrk	Other Comm
<b>Unweighted base:</b>	<b>76*</b>	<b>69*</b>	<b>130</b>	<b>85*</b>	<b>38*</b>	<b>72*</b>	<b>129</b>	<b>38*</b>	<b>77*</b>
Any security	69%	39%	46%	42%		41%	34%		18%
- property	68%	31%	30%	34%		36%	22%		18%
No security	31%	61%	54%	58%		59%	66%		82%

Q 105a All SMEs with new/renewed overdraft excluding DK

Overall, 4 in 10 of successful Type 1 overdrafts were on a variable rate (39%). On limited base sizes, overdrafts granted to SMEs in Construction or the Other Community sector were less likely to be on a variable rate:

### Type 1 overdraft

rate

#### Successfully sought

new/ renewed

overdraft

Q1 16-Q2 17 excl. DK

Agric Mfg Constr Whle Retail Hotel Rest Trans Prop/ Bus Hlth SWrk Other Comm

	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Hlth SWrk	Other Comm
<b>Unweighted base:</b>	<b>73*</b>	<b>61*</b>	<b>105</b>	<b>77*</b>	<b>35*</b>	<b>60*</b>	<b>110</b>	<b>28*</b>	<b>65*</b>
Variable rate lending	47%	48%	17%	27%		62%	48%		9%
Fixed rate lending	53%	52%	83%	73%		38%	52%		91%

Q 107 All SMEs with new/renewed overdraft excluding DK



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

**Type 1 overdraft fees**

Successfully sought

new/ renewed overdraft

Q1 16-Q2 17 excl. DK	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Hlth SWrk	Other Comm
<i>Unweighted base (varies):</i>	<i>67*</i>	<i>57*</i>	<i>101</i>	<i>72*</i>	<i>36*</i>	<i>58*</i>	<i>110</i>	<i>30*</i>	<i>62*</i>
No fee paid	11%	36%	10%	8%		11%	17%		8%
Average fee paid	£516	£209	£297	£336		£279	£172		£179
Equivalent of 2% or less paid*	89%	77%	60%	55%		67%	49%		69%

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



## Overdrafts: Automatic renewals

As mentioned earlier in this chapter, data is available on the fees and security pertaining to overdraft facilities that were automatically renewed. The table below shows this data for all automatic renewals that occurred between Q1 2016 and Q2 2017.

10% of these automatic renewals were in a personal name (v 12% of Type 1 overdrafts granted). They were in many ways quite similar to Type 1 overdraft events in the same period:

<b>Overdraft rates and fees summary</b> Q1 16-Q2 17	<b>Automatically renewed</b>	<b>Type 1 overdraft event</b>
<i>Unweighted base (varies by question):</i>	<b>1364</b>	<b>752</b>
Any security required	26%	37%
Facility on a variable rate (excluding DK)	43%	39%
No fee	20%	16%
Average fee paid	£293	£241

All SMEs with new/renewed overdraft, excluding DK



## Loans: Context

As with the overdraft section above, this section is based on SMEs that had made an application for a new or renewed loan facility during the latest 18 month period which for this report is between Q1 2016 and Q2 2017.

The price of a facility 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.

### Successful loan applications      Further analysis Q1 2016 to Q2 2017

Size of applicant	<p>Of all new loans successfully applied for between Q1 2016 and Q2 2017:</p> <ul style="list-style-type: none"><li>• 51% were granted to 0 employee SMEs</li><li>• 34% to 1-9 employee SMEs</li><li>• 13% to 10-49 employee SMEs</li><li>• 2% to 50-249 employee SMEs.</li></ul>
Size of facility	<p>85% of new/renewed loans granted in the period Q1 2016 to Q2 2017 were for £100,000 or less. By size of applicant this varied from 89% of loans granted to SMEs with 0-9 employees to 59% of loans granted to those with 10-249 employees.</p>
Personal facilities	<p>22% of successful new/renewed loans in this period had been applied for in a personal name rather than that of the business. By size of applicant this varied from 26% of loans granted to SMEs with 0-9 employees to 4% of loans granted to those with 10-249 employees.</p> <p>Personal facilities will typically be priced differently to business facilities, so as an indication 26% of all loans agreed for less than £100,000 were applied for in a personal name, compared to 2% of loans £100k+.</p>



Analysis of loans granted by recent application quarter is shown below. Base sizes are limited and trends over time are not clear but in Q2 2016 there are currently more larger loans of £100k or more than in the previous period Q3 2015 to Q1 2016:

<b>Loan facility granted</b>	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1*	Q2*
<b>By date of application</b>	14	14	14	14	15	15	15	15	16	16
<b>Unweighted base:</b>	<b>152</b>	<b>177</b>	<b>133</b>	<b>163</b>	<b>166</b>	<b>122</b>	<b>119</b>	<b>130</b>	<b>97*</b>	<b>72*</b>
Less than £25k	59%	64%	72%	52%	63%	41%	67%	60%	70%	56%
£25-99k	23%	21%	12%	14%	13%	16%	17%	30%	18%	17%
More than £100k	19%	15%	16%	33%	24%	43%	15%	10%	11%	27%

All successful loan applicants that recall amount granted

## Loans: Security

13% of all loans were commercial mortgages (excluding don't know answers). These were much more likely to have been granted for £100,000+ and to larger applicants:

- 12% of successful applicants with 0-9 employees said their loan was a commercial mortgage
- 20% of successful applicants with 10-249 employees.

All other successful loan applicants were asked whether any security was required for their loan. In line with the changes made to the questions about the security required for overdraft facilities, these questions have also been simplified and are reported in the new format below (note that due to DK answers at this second question, the figures for commercial mortgages do not exactly match those quoted above, based on a single question).



Smaller SMEs remained more likely to have an unsecured loan:

<b>Security required (Loan)</b>		<b>0-9 emp</b>	<b>10-249 emps</b>
<u>Successfully sought new/renewed loan Q1 16-Q2 17</u>	<b>Total</b>		
<b>Unweighted base:</b>	<b>320</b>	<b>107</b>	<b>213</b>
Commercial mortgage	14%	13%	21%
Secured business loan	42%	40%	54%
<i>Property (business/personal)</i>	36%	34%	48%
<i>Other security (any)</i>	15%	16%	8%
Unsecured business loan	44%	48%	25%

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

Including commercial mortgages, of new/renewed loans successfully applied for in Q1 2016 to Q2 2017:

- 43% of loans granted for less than £25,000 were secured
- 86% of loans granted for £25,000 to £100,000 were secured
- 65% of those granted for more than £100,000 were secured.



Analysis by date of application at the half year level, shows that most loans granted for more than £100,000 (*excluding* commercial mortgages) were secured. Loans for under £100,000 were less likely to be secured, but such security has become more likely over time. Currently then, around 4 in 10 of all loans that were not commercial mortgages were secured, with initial indications for H2 2016 of an increase in that proportion to 6 in 10:

#### % of loan facilities that were secured

Application date Row percentages	H1 2013	H2 2013	H1 2014	H2 2014	H1 2015	H2 2015	H1 2016*	H2 2016*
All loans (excluding commercial mtges)	26%	35%	31%	34%	45%	41%	43%	62%
Loans of <£100,000 (excl commercial mtges)	17%	31%	24%	20%	38%	36%	44%	
Loans of £100,000 or more (excl commercial mtges)	82%	76%	72%	83%	73%	91%	37%	

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

## Loans: Rates

Amongst those who knew, 72% 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 61% of facilities were on a fixed rate) and also more common for smaller loan facilities:

#### Type of rate (loan) by amount granted

<u>Successfully sought</u> new/renewed loan Q1 16-Q2 17	Total	<£100k	£100k+
<b>Unweighted base:</b>	<b>292</b>	<b>189</b>	<b>103</b>
Variable rate lending	28%	28%	31%
Fixed rate lending	72%	72%	69%

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

Analysis by when the application took place showed that typically around 7 in 10 loans have been on a fixed rate, with no clear trend over time. Initial data for the latest applications suggests slightly fewer, around 1 in 6, have been on a fixed rate.





## Loans: Fees

72% 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:

<b>Fee paid (loan)</b>			
<b>Successfully sought new/renewed loan Q1 16-Q2 17</b>	<b>Total</b>	<b>&lt;£100k</b>	<b>£100k+</b>
<b>Unweighted base:</b>	<b>232</b>	<b>140</b>	<b>92*</b>
No fee paid	44%	45%	39%
Less than £100	10%	13%	2%
£100-199	14%	17%	3%
£200-399	13%	13%	10%
£400-999	8%	8%	9%
£1000+	11%	5%	37%
<b>Average fee paid:</b>	<b>£978</b>	<b>£193</b>	<b>£3918</b>
<b>Median fee paid</b>	<b>£38</b>	<b>£32</b>	<b>£184</b>

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

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

- 78% of those granted a new/renewed loan of less than £100,000 paid the equivalent of 2% or less.
- 94% of those granted a new/renewed loan of more than £100,000 paid the equivalent of 2% or less.

The proportion paying the equivalent of 2% or less has been around 8 in 10 each year with the exception of 2012 when around 7 out of 10 paid a fee of this proportion.

Further analysis by risk rating, security and sector is not currently possible with the limited base sizes.