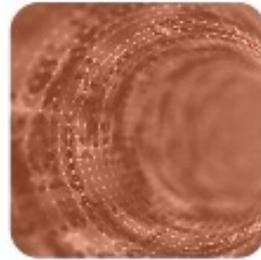


9. The outcome of the application/ renewal



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

In the 18 months to Q2 2017, 78% of all loan and overdraft applications resulted in a facility. This was somewhat lower than the 82% success rate recorded for the 18 months to Q4 2015, but still higher than the 68% recorded for the 18 months to Q4 2013.

- Loan and overdraft renewals remained the most likely to be successful (96% v 100% for the 18 months to Q4 2015)
- The success rate for applications for new loan or overdraft funding was somewhat lower, at 63%. It was also somewhat lower than the 70% seen for the 18 months to Q4 2015, a decline seen amongst both first time applicants (53% from 60%) and those applying for a new facility (73% from 77%)
- 16% of all loan and overdraft applicants ended the process without a facility. This is little changed over recent periods as slightly more applicants took other funding, but remains lower than the 26% of applicants ending the process without a facility in the 18 months to both Q4 2012 and Q4 2013.

82% of overdraft applicants ended the process with a facility.

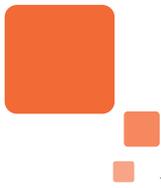
- Larger SMEs, those renewing an existing facility and those trading for more than 6 years remained more likely to end the process with a facility
- Current success rates are somewhat lower than the 86% recorded for the 18 months to Q4 2015. This is due to lower success rates for 0 employee applicants, those with a worse than average risk rating and those applying for new money, especially first time applicants
- 12% of applicants ended the process with no facility.



68% of loan applicants ended the process with a facility

- Larger SMEs, those renewing an existing facility and those trading for more than 10 years remained more likely to end the process with a facility
- Current success rates are somewhat lower than the 76% recorded for the 18 months to Q2 2016. This is due to lower success rates for 0 employee applicants and those with an average risk rating
- 25% of 25% of applicants ended the process with no facility. There is little sign yet of the referrals process, introduced in Autumn 2016, having an impact on this initially declined.

Analysis of predicted and actual success rates suggests recent overdraft applicants have been somewhat more successful than their profile would suggest, while loan applicants have typically been in line.



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 from Q3 2016 onwards remains interim.

7% of loan and 5% of overdraft applicants in the 18 months to Q2 2017 had not received an initial

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.

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 so results for the most recent quarters should always be viewed in this context. Full quarterly data on all applications since the SME Finance Monitor started can be found in the charts at the end of this report.



Application outcomes – an overview

The table below summarises the outcome for the different types of application included in this chapter over a longer time period, based on applications made in a series of 18 month periods. Data in the first 4 columns is now complete and the data for the 18 months to Q4 2016 will be completed at the end of 2017.

The current position for the 18 months to Q2 2017 is that 78% of all loan and overdraft applications have been successful. Renewals (96%) remained more likely to be successful than applications for new money (63%), and overdraft applications (82%) more likely to be successful than loans (68%), but in all instances success rates are somewhat lower than for the 18 months to Q4 2015:

% of applicants ending process with facility – Summary table

| Over time – row percentages By 18 month period of application | Q3 11 Q4 12 | Q3 12 Q4 13 | Q3 13 Q4 14 | Q3 14 Q4 15 | Q3 15- Q4 16* | Q1 16 – Q2 17* |
|--|----------------|----------------|----------------|----------------|------------------|-------------------|
| All loans and overdrafts | 69% | 68% | 77% | 82% | 80% | 78% |
| Loans and overdrafts - New money | 54% | 49% | 65% | 70% | 66% | 63% |
| • <i>First time applicants</i> | 41% | 39% | 55% | 60% | 56% | 53% |
| • <i>Other new money</i> | 70% | 69% | 74% | 77% | 78% | 73% |
| Loans and overdrafts - Renewals | 94% | 96% | 97% | 100% | 99% | 96% |
| All overdrafts | 74% | 74% | 83% | 86% | 84% | 82% |
| All loans | 59% | 58% | 66% | 74% | 73% | 68% |

All SMEs applying for a facility in the period specified, base size varies by category * Interim data

Taking a longer term view, the table above shows that the overall success rate for loans and overdrafts combined increased over time to 82% for the 18 months to Q4 2015 but has since decreased slightly to 78% currently. This is due primarily to the decrease in success rates for new money, back to levels seen at the end of 2014 and a slight decrease in the high success rates for renewals.

First time applicants have always been less likely to end the process with a facility than those who have borrowed before. Their success rate improved from 39% in the 18 months to Q4 2013 to 60% for the 18 months to Q4 2015, but then decreased to the current 53%. Success rates for other new money applications also increased over time, from 69% to 78%, but are somewhat lower in the current period (73%).



More detailed analysis of all Type 1 applications (i.e. loans and overdrafts combined) is provided later in this chapter. Before that analysis, the next section looks at the initial response from the bank to the application made, followed by more detail on overdraft applications specifically, and then on loan applications.

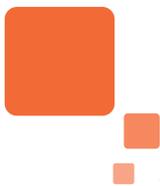
How SMEs got to the final outcome – the initial response from the bank

This analysis is based on SMEs that made an application for a new or renewed loan or overdraft facility during the 18 months from Q1 2016 to Q2 2017 (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 78% of overdraft applications was to offer the SME what it wanted, compared to 58% of loan applications. For both loans and overdrafts, larger SMEs remained much more likely to have been offered what they wanted at this initial stage:

| Initial response (Overdraft) | | 0 | 1-9 | 10-49 | 50-249 |
|--|--------------|------------|-------------|--------------|---------------|
| Sought new/renewed facility Q1 16-Q2 17 | Total | emp | emps | emps | emps |
| Unweighted base: | 808 | 86* | 247 | 324 | 151 |
| Offered what wanted | 78% | 73% | 85% | 90% | 95% |
| Offered less than wanted | 5% | 5% | 5% | 2% | 2% |
| Offered unfavourable terms & conditions | 2% | 1% | 4% | 3% | 3% |
| Declined by bank | 16% | 22% | 6% | 5% | * |

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



| Initial response (Loan) | | 0-9 | 10-49 | 50-249 |
|--|------------|------------|------------|------------|
| <u>Sought new/renewed facility Q1 16-Q2 17</u> | Total | emps | emps | emps |
| Unweighted base: | 392 | 154 | 177 | 61* |
| Offered what wanted | 58% | 56% | 79% | 94% |
| Offered less than wanted | 4% | 4% | 10% | 6% |
| Offered unfavourable terms & conditions | 6% | 6% | 3% | * |
| Declined by bank | 31% | 35% | 8% | - |

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

Additional analysis below shows that larger SMEs, those with a better risk rating and those renewing an existing facility were all more likely to receive a positive initial response from the bank:

Initial response

All seeking facility Q1 2016-Q2 2017

| | |
|---|---|
| Applicants with employees | 86% of applicants with employees were initially offered the overdraft they wanted and 68% the loan they wanted. Such applicants were less likely to have been declined at this stage – 6% of overdraft applicants and 20% of loan applicants with employees. |
| Applicants more likely to be offered what they wanted | Those applying to renew an existing facility: 97% were offered the overdraft they wanted, 77% the loan. Those with a minimal external risk rating: 90% were offered the overdraft they wanted, 96% the loan. |
| Applicants more likely to receive initial decline | Those applying for their first ever facility: 41% were initially declined for a first overdraft, 47% for a first loan. Those with a worse than average external risk rating: 26% were initially declined for an overdraft, 40% for a loan. |



The table below looks at the initial response to overdraft applications over recent quarters by date of application. From the end of 2014 onwards, a higher proportion of applicants were typically offered what they wanted (81% for Q1 2016) albeit the current figures for Q4 2016 and Q1 2017 are slightly lower at 75%:

Initial response to application

SMEs seeking new/
renewed overdraft
facility

| | 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 |
| Unweighted base (Overdraft): | 285 | 340 | 320 | 280 | 250 | 237 | 237 | 146 | 119 | 129 | 143 |
| Offered what wanted and took it | 73% | 79% | 77% | 72% | 82% | 74% | 81% | 79% | 78% | 75% | 75% |
| Any issues (amount or T&C) | 9% | 9% | 8% | 12% | 8% | 13% | 5% | 3% | 13% | 8% | 9% |
| Declined overdraft | 18% | 11% | 15% | 16% | 10% | 13% | 14% | 19% | 8% | 16% | 16% |

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 to the initial response over time. Current data for Q4 2016 shows that the proportion offered what they wanted was somewhat higher than in previous quarters (73%) but with fewer applicants having their facility ‘after issues’, the proportion initially declined remains between a quarter and a third:

Initial response to application:

SMEs seeking new/

renewed loan facility Q2 Q3 Q4 Q1 Q2 Q3 Q4 Q1 Q2 Q3* Q4*
 By date of application 14 14 14 15 15 15 15 16 16 16 16

Unweighted base (Loan) 215 158 191 185 143 132 151 109 79* 58* 75*

Offered what wanted and took it 57% 66% 49% 66% 48% 69% 69% 50% 66% 57% 73%

Any issues (amount or T&C) 9% 18% 22% 18% 27% 10% 2% 18% 18% 3% 1%

Declined loan 35% 16% 29% 16% 25% 20% 28% 32% 17% 39% 26%

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



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 Q1 2016 to Q2 2017, 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. Three quarters of overdraft applicants (75%) and almost 6 in 10 loan applicants (57%) were offered the facility they wanted and went on to take it with no issues:

Journey summary

| All seeking facility Q1 16 – Q2 17 | Overdraft | Loan |
|--|------------|------------|
| Unweighted base: | 808 | 392 |
| Initially offered what they wanted and went on to take the facility with no issues | 75% | 57% |
| 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 | 5% | 8% |
| Were initially turned down, but now have a facility after issues | * | 1% |
| Had issues with the initial offer made so took alternative funding instead | 1% | * |
| Were initially turned down, so took alternative funding instead | 4% | 6% |
| 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 | 1% | 1% |
| Initially turned down and now have no facility at all | 11% | 24% |

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



Profile of overdraft applicants by initial response

There continued to be differences in the demographic profile of overdraft applicants receiving each initial response from the bank and these are summarised in the table below. Note that due to limited base sizes and high success rates, it is no longer possible to separate out those initially offered less than

they wanted and those who cited issues with the terms and conditions of the overdraft offered, so these are combined into the ‘Had issues with offer’ column below, and both this and the “Initially declined” group can provide only a qualitative assessment of applicant demographics:

| Profile of overdraft applicants Sought new/renewed facility Q1 16-Q2 17 | All with response | Offered what wanted | Had issues with offer | Initially declined |
|--|--------------------------|----------------------------|------------------------------|---------------------------|
| Unweighted base: | 808 | 709 | 52* | 47* |
| No employees | 62% | 58% | 52% | 86% |
| Have employees | 38% | 42% | 48% | 14% |
| Starts | 15% | 11% | 25% | 31% |
| Trading 2-9 years | 24% | 20% | 31% | 40% |
| Trading 10 years+ | 61% | 69% | 44% | 29% |
| Minimal/low risk rating | 30% | 35% | 27% | 10% |
| Average/worse than average risk rating | 70% | 65% | 73% | 90% |
| Renewing existing facility | 53% | 66% | 16% | 3% |
| Applying for first ever overdraft | 24% | 14% | 53% | 63% |
| Applying for new overdraft (not first - new defn) | 22% | 19% | 31% | 34% |

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

The table shows the continuing difference in profile between the three groups. Those initially offered what they wanted were typically more established businesses with a better risk rating profile. They were also more likely to be looking to renew an existing facility. By contrast, the small group of those initially declined were more likely to be 0 employee SMEs, more recently established, with an average or worse than average risk rating. They were also more likely to be seeking their first facility.

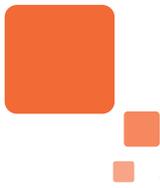


The subsequent journey – those who received an offer of an overdraft

Summarised below for all applications made in the 18 months Q1 2016 to Q2 2017 (and reported to date), is what happened after the bank's initial response to the overdraft application and any issues around the application. With the exception of those offered what they wanted, base sizes for these groups are very limited and only a qualitative analysis is currently possible:

| Initial offer | Subsequent events – all seeking overdraft Q1 2016 to Q2 2017 |
|--|--|
| Offered what wanted (78% of applicants) Q64-65 | <p>98% of those offered what they wanted went on to take their facility with no issues. Those who experienced a delay or issue said this was typically waiting for a decision, supplying further information, or a delay speaking to their RM.</p> <p>Of the 2% experiencing a delay, 1% took the facility and 1% decided not to</p> |
| Issue: offered less than wanted (5% of applicants) Q87-95 | <p>26 respondents are in this section, so the information is qualitative at best. Almost all were given a reason for being offered less than they wanted. The main reasons given were:</p> <ul style="list-style-type: none">• Credit history issues• A need for more equity in the business <p>There were also a few mentions of security being a barrier.</p> <p>13 respondents were interviewed in 2017 and so were asked the new referral question. 7 of them had applied between October 2016 and June 2017 but none of them said that the bank had offered to refer their application.</p> <p>At the end of the process:</p> <ul style="list-style-type: none">• Just over half ended up accepting the amount originally offered (almost all at the original bank)• Around a quarter managed to negotiate a higher facility at the original bank (none at another bank)• Around a quarter took some other form of funding• Very few ended the process with no facility at all. |

Continued



Continued

Issue: offered unfavourable T&C (2% of applicants)

Q96-97

26 respondents are in this section, so the information is qualitative at best.

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

- the proposed fee – 4 in 10 of these applicants
- security (the amount, type sought or cost of putting it in place) – 4 in 10
- the proposed interest rate – 2 in 10

13 respondents were interviewed in 2017 and so were asked the new referral question. 9 of them had applied between October 2016 and June 2017 and 2 of them said that the bank had offered to refer their application. Neither of these applicants agreed to be referred – 1 said that they didn't think it would change anything and 1 that they found the funding elsewhere.

At the end of the process:

- 4 in 10 applicants offered what they saw as unfavourable terms and conditions said they accepted the deal they were offered (almost all at the original bank)
- 3 in 10 managed to negotiate a better deal than the one originally offered – almost all at the bank they had originally applied to
- Less than 5% took other funding (typically funding in a personal name)
- Around a quarter 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 – 49 respondents):

| Initially declined | Subsequent events – all seeking overdraft Q1 2016 to Q2 2017 |
|---------------------------------|---|
| Reasons for decline Q70 | <p>Those declined were asked for the reasons behind the initial decline. A quarter of those initially declined said that they had not been given a reason (excluding those who could not remember the reasons given). The main reasons given were:</p> <ul style="list-style-type: none">• 4 in 10 said the decline related to their personal and/or business credit history• Around 1 in 10 mentioned asking for too much, issues around security and/or the bank not being happy with their financial forecasts |
| Advice and alternatives Q71a | <p>Those initially declined were asked which of a series of events had occurred after that decline:</p> <ul style="list-style-type: none">• A third said they were made aware of the appeals process (almost all by the bank)• A quarter were referred to external sources of help and advice (most sought it themselves)• Around 1 in 10 were offered an alternative form of finance by the bank<ul style="list-style-type: none">• Just over 4 in 10 said that none of these events occurred. <p>26 respondents were interviewed in 2017 and so were asked the new referral question. 17 of them had applied between October 2016 and June 2017 and 2 of them said that the bank had offered to refer their application. Both agreed but went on to say that they ended the application process with no facility.</p> |



Initially declined

Subsequent events – all seeking overdraft Q1 2016 to Q2 2016

Appeals

Q71a-75

From April 2011, an appeals procedure has been in operation. A third of applicants initially declined Q1 2016 to Q2 2017 said they were made aware of the appeals process, all by their bank.

On limited base sizes, there were indications that awareness of the appeals process is stable: amongst those applying in 2012, 13% said that they were made aware of the appeals process, increasing to 17% for 2013 and then 22% for 2014. Awareness of appeals remained at around 1 in 5 for 2015 and 2016, with initial data for 2017 suggesting a few more applicants were made aware of the appeals process.

Since Q1 2016 11 applicants initially turned down reported that they were made aware of the appeals process. 9 did not appeal, because they did not think it would change anything, they were busy keeping the business going, and/or they accepted the banks decision. 2 appealed and in 1 case the bank changed its mind.

Outcome

Q81-84

At the end of this period:

- 7 in 10 applicants initially declined had no funding at all.
- 3 in 10 secured alternative funding
- Less than 1% managed to secure an overdraft with the original bank.



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 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 Q1 2016 to Q2 2017, irrespective of when they were interviewed.

Three quarters of these applicants (76%) had the overdraft facility they wanted, and a further 6% secured an overdraft after having issues relating to the amount or the terms and conditions of the bank’s offer. 12% of all applicants ended the process with no overdraft. Note that this table does **not** include automatically renewed overdrafts.

| Final outcome (Overdraft) | All overdraft Type 1 applicants |
|--|--|
| Sought new/renewed facility Q1 16-Q2 17 | |
| Unweighted base: | 808 |
| Offered what wanted and took it | 76% |
| Took overdraft after issues | 6% |
| Have overdraft (any) | 82% |
| Took another form of funding | 6% |
| No facility | 12% |

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 from Q3 2012 onwards.

This table shows a consistent success rate over recent 18 month periods for overdraft

applicants of around 8 in 10 which is higher than in earlier periods (74% of overdraft applicants were successful in the 18 months to Q4 2013). The slight decline in success rates for the 18 months to Q2 2017 was reflected more noticeably in the success rates for those with 0 employees, a worse than average risk rating and those applying for the first time.



% of applicants ending process with overdraft facility

Over time – row percentages

| By 18 month period of application | Q3 12 Q4 13 | Q3 13 Q4 14 | Q1 14 Q2 15 | Q3 14 Q4 15 | Q1 15 Q2 16 | Q3 15 Q4 16* | Q1 16 Q2 17* |
|---|----------------|----------------|----------------|----------------|----------------|-----------------|-----------------|
| All SMEs | 74% | 83% | 85% | 86% | 84% | 84% | 82% |
| 0 employee | 68% | 78% | 80% | 81% | 79% | 80% | 76% |
| 1-9 employees | 79% | 88% | 91% | 91% | 92% | 91% | 92% |
| 10-49 employees | 91% | 93% | 94% | 96% | 96% | 96% | 95% |
| 50-249 employees | 96% | 95% | 96% | 97% | 98% | 99% | 100% |
| Minimal external risk rating | 96% | 95% | 97% | 98% | 98% | 98% | 98% |
| Low external risk rating | 91% | 93% | 94% | 93% | 92% | 89% | 92% |
| Average external risk rating | 83% | 92% | 90% | 92% | 91% | 92% | 92% |
| Worse than average external risk rating | 59% | 72% | 79% | 81% | 79% | 76% | 69% |
| Agriculture | 90% | 93% | 95% | 95% | 95% | 96% | 95% |
| Manufacturing | 71% | 76% | 84% | 89% | 88% | 94% | 95% |
| Construction | 75% | 83% | 80% | 70% | 63% | 56% | 61% |
| Wholesale/Retail | 69% | 78% | 81% | 86% | 84% | 88% | 82% |
| Hotels & Restaurants | 65% | 82% | 90% | 91% | 93% | 91% | 93% |
| Transport | 53% | 67% | 82% | 87% | 95% | 91% | 72% |
| Property/Business Services etc. | 71% | 82% | 91% | 93% | 92% | 84% | 81% |
| Health | 87% | 94% | 80% | 82% | 84% | 97% | 97% |
| Other Community | 94% | 96% | 85% | 87% | 85% | 95% | 98% |
| First time applicants | 34% | 54% | 66% | 66% | 64% | 61% | 54% |
| Other new overdraft facility** | 78% | 77% | 73% | 85% | 69% | 79% | 75% |
| Renewals | 98% | 99% | 100% | 100% | 100% | 99% | 98% |

All SMEs applying for an overdraft in the period specified, base size varies by category. * indicates interim results for that period

** slight definition change for results from Q1 2015 onwards



Overdraft final outcome – applications made Q1 2016 to Q2 2017

Overdraft applicants with employees remained the most likely to have been offered, and taken, the overdraft they wanted and so were more likely to have a facility. Those with 0 employees remained more likely to end the process with no facility, albeit 76% were successful:

| Final outcome (Overdraft) | | | | 10-49 emps | 50-249 emps |
|--|------------|------------|------------|------------|-------------|
| <u>Sought</u> new/renewed facility Q1 16-Q2 17 | Total | 0 emp | 1-9 emps | | |
| Unweighted base: | 808 | 86* | 247 | 324 | 151 |
| Offered what wanted and took it | 76% | 72% | 83% | 86% | 89% |
| Took overdraft after issues | 6% | 4% | 9% | 9% | 11% |
| Have overdraft (any) | 82% | 76% | 92% | 95% | 100% |
| Took another form of funding | 6% | 9% | 1% | 1% | - |
| No facility | 12% | 15% | 7% | 4% | * |

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

Amongst applicants with employees, 93% ended the process with an overdraft facility (84% offered what they wanted and 9% had an overdraft after issues). 6% ended the process with no overdraft.

Analysis of the final outcome by external risk rating showed a difference for those rated a worse than average risk, where 7 in 10 ended the process with an overdraft facility compared to 9 in 10 or more in the other risk categories:

| Final outcome (Overdraft) | | | | | Worse/ Avge |
|--|------------|------------|------------|------------|----------------|
| <u>Sought</u> new/renewed facility Q1 16-Q2 17 | Total | Min | Low | Average | |
| Unweighted base: | 808 | 134 | 276 | 202 | 141 |
| Offered what wanted and took it | 76% | 89% | 88% | 83% | 65% |
| Took overdraft after issues | 6% | 9% | 4% | 9% | 4% |
| Have overdraft (any) | 82% | 98% | 92% | 92% | 69% |
| Took another form of funding | 6% | 2% | 1% | * | 13% |
| No facility | 12% | - | 8% | 7% | 18% |

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



On limited base sizes, there were relatively few differences in success rate by sector, with the exception of applicants in Construction (61%) and those in Transport (72%):

Final outcome (Overdraft)

| <u>Sought</u> new/renewed facility Q1 16-Q2 17 | Agric | Mfg | Constr | Whle Retail | Hotel Rest | Trans | Prop/ Bus | Hlth SWrk | Other Comm |
|--|------------|------------|------------|-------------|------------|------------|------------|------------|------------|
| Unweighted base: | 83* | 74* | 152 | 98* | 45* | 83* | 150 | 40* | 83* |
| Offered what wanted and took it | 94% | 87% | 59% | 76% | 85% | 61% | 74% | 92% | 95% |
| Took overdraft after issues | 1% | 8% | 2% | 6% | 8% | 11% | 7% | 5% | 3% |
| Have overdraft (any) | 95% | 95% | 61% | 82% | 93% | 72% | 81% | 97% | 98% |
| Took another form of funding | - | - | 25% | 6% | 1% | 14% | * | - | 1% |
| No facility | 5% | 5% | 14% | 12% | 6% | 14% | 19% | 3% | * |

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

The table below uses the new simplified overdraft codes described in the previous chapter. First time applicants remained more likely than others to end the process with no facility (37%) and whilst the current success rate for first time applicants, at 54%, is still higher than the success rates previously seen for these applicants (in the 18 months to Q4 2013, 34% of FTAs were successful) it is lower than the 66% seen during 2014-15:

Final outcome (Overdraft)

| <u>Sought</u> new/renewed facility Q1 16-Q2 17 | Total | 1 st overdraft | Other overdraft | Renew overdraft |
|--|------------|---------------------------|-----------------|-----------------|
| Unweighted base: | 808 | 79* | 186 | 537 |
| Offered what wanted and took it | 76% | 44% | 66% | 95% |
| Took overdraft after issues | 6% | 10% | 9% | 3% |
| Have overdraft (any) | 82% | 54% | 75% | 98% |
| Took another form of funding | 6% | 10% | 14% | 1% |
| No facility | 12% | 37% | 11% | 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 Q2 2017 shows the outcome by the age of the business. Those trading for more than 5 years were more likely to end the process with an overdraft facility:

Final outcome (Overdraft)

| <u>Sought</u> new/renewed facility Q1 16-Q2 17 | | 2-5 | 6-9 | 10-15 | 15+ |
|--|------------|------------|------------|------------|------------|
| By age of business | Starts | yrs | yrs | yrs | yrs |
| Unweighted base: | 40* | 59* | 83* | 142 | 484 |
| Offered what wanted and took it | 55% | 54% | 85% | 93% | 84% |
| Took overdraft after issues | 5% | 9% | 7% | 3% | 6% |
| Have overdraft (any) | 60% | 63% | 92% | 96% | 90% |
| Took another form of funding | 13% | 14% | - | 1% | 4% |
| No facility | 27% | 23% | 8% | 3% | 6% |

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

The success rate for older businesses is likely to be impacted by the type of application being made. 55% of the Starts in the table above and 58% of applicants trading for 2-5 years were applying for their first overdraft, where success rates are typically lower. The older applicants were much more likely to be renewing an overdraft (70% of those trading 10-15 years and more than 15 years), where success rates are typically higher.

For the last few quarters a consistent 4 in 10 overdraft applications have been for £5,000 or less. A further 4 in 10 applications were for between £5,000 and £25,000 with the remainder, around 2 in 10, for more than £25,000.

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

- The outcome for those applying for larger overdrafts (£25,000+) has remained relatively consistent over time, and 90% or more of such applicants now had an overdraft.
- 6 in 10 applications for the smallest overdrafts (under £5,000) were successful in 2012 and 2013. The success rate improved for 2014 to around 7 in 10, which was maintained for 2015 before increasing to 8 in 10 during 2016 before returning to 7 in 10 for the current period.
- Those in the middle (who applied for £5-25,000) saw a reduction in success rates to the end of 2013, from around 90% to around 70% of these applicants. Since then success rates have increased back to the 90% level previously seen.

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 individual quarter **in which the application was made**, for those recent quarters where robust numbers were available. This shows that since the start of 2014 at least 8 out of 10 overdraft applicants have ended the process with a facility:

| Final outcome (Overdraft) | | | | | | | | | | | |
|---------------------------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| SMEs seeking new/ renewed facility | | | | | | | | | | | |
| 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 |
| Unweighted base: | 285 | 340 | 320 | 280 | 250 | 237 | 237 | 146 | 119 | 129 | 143 |
| Offered what wanted and took it | 73% | 78% | 77% | 71% | 80% | 72% | 81% | 79% | 70% | 75% | 74% |
| Took overdraft after issues | 15% | 11% | 8% | 9% | 9% | 12% | 4% | 3% | 7% | 9% | 9% |
| Have overdraft (any) | 88% | 89% | 85% | 80% | 89% | 84% | 85% | 82% | 77% | 84% | 83% |
| Took other funding | 1% | 4% | 1% | 6% | 3% | * | 8% | 4% | 14% | * | - |
| No facility | 11% | 7% | 14% | 14% | 8% | 16% | 7% | 14% | 9% | 16% | 17% |

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

Initial results post-Brexit suggest a slightly lower success rate in Q3 2016 (77%) followed by a return to the 8 in 10 success rate seen in many previous quarters.

To set all 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 which showed that size, risk rating and purpose of facility all affect the outcome of applications.



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.

From the start of 2014 the model predicted a fairly consistent overdraft success rate of around 85%, but from Q2 2016 onwards the predicted success rates have typically been somewhat lower:

Final outcome (Overdraft)

SMEs seeking new/ renewed facility

| 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 |
|-------------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Unweighted base: | 285 | 340 | 320 | 280 | 250 | 237 | 237 | 146 | 119 | 129 | 143 |
| Have overdraft (any) | 88% | 89% | 85% | 80% | 89% | 84% | 85% | 82% | 77% | 84% | 83% |
| Predicted success rate | 89% | 87% | 86% | 87% | 86% | 84% | 84% | 80% | 85% | 81% | 78% |
| Difference | -1 | +2 | -1 | -7 | +3 | - | +1 | +2 | -8 | +3 | +5 |

Final outcome of overdraft application by date of application

Comparisons between the actual and modelled success rates show differences over time:

- In 2014, success rates were in line with, or marginally ahead of those predicted.
- In Q2 2015 success rates did not match those predicted but were otherwise in line for the rest of the year
- Current data for 2016 suggests success rates were in line with predictions with the exception of Q3.
- The lower success rates predicted for Q4 2016 and Q1 2017 have been bettered by the current success rates achieved



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 table below shows the impact on overall overdraft success rates when the automatically renewed overdrafts known to have been agreed in the same period are included. There have been more automatic overdraft renewals than Type 1 events, so the overall overdraft success rate increases from 82% to 93%:

| Final outcome (Overdraft) | Type 1 events | Type 1 + automatic renewal |
|--|----------------------|-----------------------------------|
| Sought new/renewed facility Q1 16-Q2 17 | | |
| <i>Unweighted base:</i> | 808 | 2253 |
| Offered what wanted and took it | 76% | 25% |
| Took overdraft after issues | 6% | 2% |
| <i>Automatic renewal</i> | - | 66% |
| <i>Have overdraft (any)</i> | 82% | 93% |
| Took another form of funding | 6% | 2% |
| No facility | 12% | 4% |

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

Amongst those who reported the automatic renewal of an overdraft facility between Q1 2016 and Q2 2017, 10% said that the facility was renewed in a personal capacity. As with Type 1 events, such renewals were typically for 0 employee SMEs (78% of those automatically renewing a personal facility).



The impact of personal borrowing on overdraft applications

13% of those making an overdraft application in the past 18 months (Q1 2016 to Q2 2017) said that the facility they had sought was in a personal capacity and these were typically smaller SMEs looking to borrow a smaller amount:

- 91% of personal overdraft applicants had 0 employees (v 58% of business applicants)
- 71% were applying for £5,000 or less (v 40% of business applicants)
- 75% had a worse than average risk rating v 41% of business applicants).

In terms of the outcome of the overdraft application by whether it was a personal or business application, base sizes remain limited. Those applying in a personal capacity in the 18 months to Q2 2017 were no more or less likely to be declined (11% v 12% of business applicants) but slightly more likely to take another form of funding (13% v 4%) and therefore slightly less likely to now have an overdraft facility (76% v 84%).



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 Q1 2016 to Q2 2017) 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 into a ‘Had issues with the offer’ column for this analysis, to boost the base size but both this and the “initially declined” data should be considered as qualitative:

| Profile of loan applicants Sought new/renewed facility Q1 16-Q2 17 | All with response | Offered what wanted | Had issues with offer | Initially declined |
|---|--------------------------|----------------------------|------------------------------|---------------------------|
| Unweighted base: | 392 | 299 | 41* | 52* |
| No employees | 56% | 49% | 50% | 71% |
| Have employees | 44% | 51% | 50% | 29% |
| Starts | 27% | 13% | 11% | 58% |
| Trading 2-9 years | 22% | 21% | 18% | 24% |
| Trading 10 years+ | 51% | 66% | 71% | 18% |
| Minimal/low risk rating | 25% | 34% | 18% | 8% |
| Average/worse than average risk rating | 75% | 66% | 82% | 92% |
| Renewing existing facility | 17% | 22% | 9% | 10% |
| Applying for first ever loan | 32% | 26% | 19% | 48% |
| Applying for new loan but not first | 51% | 52% | 71% | 42% |

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

The table shows similar differences in profile to those seen for overdraft applicants with the small group of those initially declined more likely to be 0 employee SMEs, more recently established, with an average or worse than average risk rating. Almost all were seeking new funding and half were first time applicants.



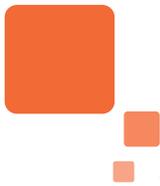
The subsequent journey – those that received the offer of a loan

Summarised below for all loan applications made in the 18 months Q1 2016 to Q2 2017 (and reported to date), is what happened after the bank's initial response. With the exception of those offered what they wanted, base sizes for these groups are very limited and only a qualitative analysis is currently possible:

Initial bank response Subsequent events – all seeking loan Q1 2016 to Q2 2017

| | |
|---|--|
| Offered what wanted (58% of applicants) | 91% of those offered what they wanted went on to take the loan with no problems. |
| Q159-164 | 9% took the loan after some issues (typically having to supply more information or waiting for security valuations). Almost all took the full amount they had originally asked for. |
| Issue: Offered less than wanted (4% of applicants) | Note that there are just 25 respondents for this section, and so results are qualitative at best. |
| Q182-190 | All applicants said that they had been given a reason for being offered less than they wanted. The main reasons given were: <ul style="list-style-type: none">• 5 in 10 mentioned security issues• Around 3 in 10 mentioned applying for the wrong amount (evenly split between too much and too little)• Up to 1 in 10 mentioned credit issues, the industry being too risky and/or the bank not being satisfied with their financial forecasts |
| | 8 respondents were interviewed in 2017 and so were asked the new referral question. 6 of them had applied between October 2016 and June 2017 with 1 offered the opportunity for a referral but declining (they found the funding elsewhere) and 5 saying that the bank had not offered to refer their application. |
| | At the end of the process: |
| | <ul style="list-style-type: none">• 8 in 10 accepted the lower amount offered (from the original bank or elsewhere)• 1 in 10 or less managed to negotiate a better deal, took other borrowing or ended the process with no facility. |

Continued



Continued

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

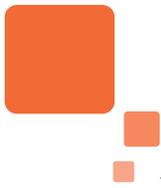
Q191-195

Note that there are just 16 respondents for this section, and so results are qualitative at best.

The unfavourable terms (excluding those who didn't know) typically related to the proposed fee (almost half of these applicants) or the interest rate (3 in 10). There were few mentions of issues around security (level, type requested and/or cost).

6 respondents were interviewed in 2017 and so were asked the new referral question. 5 of them had applied between October 2016 and June 2017 with 1 offered the opportunity for a referral but declining (they found the funding elsewhere) and 4 saying that the bank had not offered to refer their application.

By the end of the process about two thirds had agreed a facility with their main bank with about half of them improving on the deal initially offered. The remainder had no facility.



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 (31% of applicants – 52 respondents).

| Initially declined | Subsequent events – all seeking loan Q1 2016 to Q2 2017 |
|----------------------------------|---|
| Reasons for decline Q165 | <p>1 in 6 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).</p> <p>The main reasons given were:</p> <ul style="list-style-type: none">• 3 in 10 said that the decline related to their personal and/or business credit history (especially smaller applicants).• Almost as many mentioned issues around security.• Just under 10% mentioned applying for either too much or too little |
| Advice and alternatives Q165b | <p>Those initially declined were asked which of a series of events had occurred after that decline:</p> <ul style="list-style-type: none">• A quarter were referred to external sources of help and advice (mostly by the bank).• 1 in 7 were offered an alternative form of finance by the bank.• 1 in 8 said they were made aware of the appeals process.• Half said that none of these events occurred (in line with those initially declined for an overdraft). <p>29 respondents were interviewed in 2017 and so were asked the new referral question. 22 of them had applied between October 2016 and June 2017 but none said that they were offered the opportunity for a referral.</p> |



Initially declined

Subsequent events – all seeking loan Q1 2016 to Q2 2017

Appeals

Q168-170

From April 2011, an appeals procedure was introduced. Amongst this group of applicants who were initially declined, 12% said that they were made aware of the appeals process. Awareness of the appeals system has varied between 6% and 14% since 2012 (but none of the handful of applicants in 2017 to date were aware of it).

Of all loan applications reported on the Monitor in this period 6 SMEs were made aware of the appeals process having initially been declined. 2 went on to appeal: in both cases the original decision was upheld.

Those who didn't appeal typically didn't think it would have changed anything or felt it was too much hassle.

Outcome

Q176

At the end of this period:

- 7 in 10 of those initially declined did not have a facility at all.
- Half of the rest (1 in 7 of those initially declined for a loan) had managed to secure a loan with either the original bank or a new supplier.
- The other half (1 in 7) had secured alternative funding, with friends/family most likely to be mentioned.



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 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 Q1 2016 to Q2 2017, irrespective of when they were interviewed.

Two thirds (68%) of loan applicants now have a loan facility. 25% of applicants ended the process with no facility.

| Final outcome (Loan) | All loan Type 1 applicants |
|---|-----------------------------------|
| <u>Sought</u> new/renewed facility Q1 16-Q2 17 | |
| <i>Unweighted base:</i> | 392 |
| Offered what wanted and took it | 53% |
| Took loan after issues | 15% |
| <i>Have loan (any)</i> | 68% |
| Took another form of funding | 6% |
| No facility | 25% |

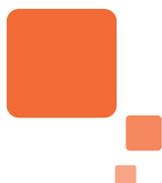
All SMEs seeking new/renewed loan facility that have had response

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 Q3 2012, by key demographics. As for overdrafts, this shows a series of 18 month periods.

Over the periods shown in the table loan success rates improved from around 60% to over 70% of applications, albeit the interim

success rate for the current period is slightly lower (68%) and will be monitored in future waves. First time loan applicants have not seen the sort of increase in success rates reported by other loan applicants, or by those seeking a first overdraft.

Please note that results for the sectors in particular should be treated as indicative due to small sample sizes (all <60).



% of applicants ending process with loan facility

Over time – row percentages

| By 18 month period of application | Q3 12 Q4 13 | Q3 13 Q4 14 | Q1 14 Q2 15 | Q3 14 Q4 15 | Q1 15 Q2 16 | Q3 15 Q4 16* | Q1 16 Q2 17* |
|---|----------------|----------------|----------------|----------------|----------------|-----------------|-----------------|
| All SMEs | 58% | 66% | 69% | 74% | 76% | 73% | 68% |
| 0 employee | 52% | 59% | 62% | 68% | 72% | 69% | 60% |
| 1-9 employees | 61% | 72% | 76% | 78% | 76% | 74% | 73% |
| 10-49 employees | 85% | 87% | 88% | 91% | 93% | 95% | 94% |
| 50-249 employees | 87% | 94% | 95% | 96% | 98% | 98% | 99% |
| Minimal external risk rating | 82% | 80% | 89% | 98% | 99% | 98% | 98% |
| Low external risk rating | 78% | 85% | 83% | 88% | 88% | 95% | 89% |
| Average external risk rating | 63% | 74% | 73% | 84% | 88% | 88% | 75% |
| Worse than average external risk rating | 46% | 52% | 51% | 53% | 59% | 60% | 61% |
| Agriculture | 86% | 86% | 91% | 94% | 94% | 97% | 92% |
| Manufacturing | 67% | 83% | 87% | 60% | 61% | 53% | 76% |
| Construction | 56% | 58% | 56% | 63% | 58% | 57% | 61% |
| Wholesale/Retail | 47% | 63% | 66% | 77% | 82% | 91% | 74% |
| Hotels & Restaurants | 55% | 55% | 66% | 71% | 66% | 66% | 62% |
| Transport | 42% | 48% | 51% | 47% | 59% | 53% | 40% |
| Property/Business Services etc. | 58% | 63% | 68% | 87% | 92% | 82% | 78% |
| Health | 57% | 76% | 78% | 88% | 84% | 79% | 68% |
| Other Community | 62% | 72% | 75% | 71% | 78% | 78% | 67% |
| First time applicants | 45% | 55% | 53% | 51% | 56% | 50% | 51% |
| Other new loan facility** | 60% | 71% | 78% | 86% | 80% | 80% | 74% |
| Renewals | 89% | 76% | 82% | 96% | 99% | 96% | 82% |

All SMEs applying for a loan in the period specified, base size varies by category CARE re SMALL base sizes and interim data. * indicates interim results for that period. ** slight definition change for results from Q1 2015 onwards



Final outcome – loan applications made Q1 2016 to Q2 2017

Smaller loan applicants remained less likely to end the process with a facility. Most applicants with 10-249 employees had a loan, while a quarter of the smaller applicants ended the process with no facility:

| Final outcome (Loan) | | 0-9 emps | 10-49 emps | 50-249 emps |
|--|--------------|-----------------|-------------------|--------------------|
| <u>Sought new/renewed facility Q1 16-Q2 17</u> | Total | | | |
| Unweighted base: | 392 | 154 | 177 | 61* |
| Offered what wanted and took it | 53% | 51% | 73% | 88% |
| Took loan after issues | 15% | 14% | 21% | 11% |
| Have loan (any) | 68% | 65% | 94% | 99% |
| Took another form of funding | 6% | 7% | 3% | - |
| No facility | 25% | 28% | 4% | 1% |

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

Amongst loan applicants with employees, 79% ended the process with a loan (62% were offered what they wanted and 17% had the loan after issues). 20% ended the process with no loan facility.

Current base sizes preclude a full analysis by risk rating. As the table below shows a quarter of those with an average or worse than average risk rating ended the process with no loan facility:

| Final outcome (Loan) | | Min / Low | Avge/Worse Avge |
|--|--------------|------------------|------------------------|
| <u>Sought new/renewed facility Q1 16-Q2 17</u> | Total | | |
| Unweighted base: | 392 | 211 | 154 |
| Offered what wanted and took it | 53% | 71% | 52% |
| Took loan after issues | 15% | 20% | 14% |
| Have loan (any) | 68% | 91% | 66% |
| Took another form of funding | 6% | 1% | 9% |
| No facility | 25% | 8% | 25% |

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

Smaller sample sizes do not currently allow analysis for detailed analysis by sector.



Analysis earlier in this report showed that the initial response from the bank was typically more positive for the renewal of existing loan facilities and less positive for new facilities. The analysis below shows that this was also the case at the end of the process. Those applying for their first loan remained more likely to end the process with no facility (39%):

| Final outcome (Loan) | | | | |
|--|--------------|----------------------------|-----------------|-------------------|
| <u>Sought new/renewed facility Q1 16-Q2 17</u> | Total | 1st loan | New loan | Renew loan |
| <i>Unweighted base:</i> | 392 | 81* | 220 | 91* |
| Offered what wanted and took it | 53% | 46% | 53% | 69% |
| Took loan after issues | 15% | 5% | 21% | 13% |
| <i>Have loan (any)</i> | 68% | 51% | 74% | 82% |
| Took another form of funding | 6% | 9% | 4% | 9% |
| No facility | 25% | 39% | 22% | 9% |

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



As with overdrafts, there were clear differences in outcome for loan applications by age of business. On limited base sizes, Starts were the least likely to have been successful (43%) compared to 90% of those trading for 15 years or more. As well as reflecting their business age, this is likely to also be a reflection of what they were applying for - half of these Starts were applying for their first loan, compared to 8% of those trading for more than 15 years:

Final outcome (Loan)

| <u>Sought</u> new/renewed facility Q1 16-Q2 17 By age of business | Starts – 5 years | 6-9 yrs | 10-15 yrs | 15+ yrs |
|--|---------------------|------------|--------------|------------|
| Unweighted base: | 64* | 52* | 56* | 220 |
| Offered what wanted and took it | 32% | 46% | 71% | 72% |
| Took loan after issues | 11% | 23% | 14% | 18% |
| Have loan (any) | 43% | 69% | 85% | 90% |
| Took another form of funding | 14% | 1% | 1% | 1% |
| No facility | 44% | 30% | 14% | 9% |

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

The majority of loans applied for were for less than £100,000. Success rates for smaller applications (under £100,000) have shown signs of increase over time. In 2013, half of such applications were successful, increasing to 6 in 10 for 2014 and 7 in 10 for applications in 2015 and 2016 to date. Indicative data for

2017 to date suggests a lower success rate currently or around 4 in 10.

Applications for larger amounts (£100,000+) have been more likely to be successful and success rates have maintained the previous improvement seen from around 8 out of 10 to around 9 in 10 of these larger applications.



Final outcome by date of application – loans

The table below shows the outcome by recent quarter of application. Data has been included for Q2-Q4 of 2016 even though the sample sizes are below the normal 100 threshold, to provide indicative data for loans during 2016.

There is no clear pattern over time but success rates for applications made in 2015 are somewhat higher than those made in 2016 to date:

Final outcome (Loan)

SMEs seeking new/
renewed facility

| By date of application | Q2 14 | Q3 14 | Q4 14 | Q1 15 | Q2 15 | Q3 15 | Q4 15 | Q1 16 | Q2 16 | Q3* 16 | Q4* 16 |
|---------------------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Unweighted base: | 215 | 158 | 191 | 185 | 143 | 132 | 151 | 109 | 79* | 58* | 75* |
| Offered what wanted and took it | 54% | 64% | 47% | 62% | 45% | 67% | 62% | 48% | 61% | 48% | 67% |
| Took loan after issues | 7% | 24% | 9% | 19% | 28% | 11% | 9% | 20% | 22% | 12% | 8% |
| Have loan (any) | 61% | 88% | 56% | 81% | 73% | 78% | 71% | 68% | 83% | 60% | 75% |
| Took another form of funding | 12% | 4% | 10% | * | 4% | 5% | - | 11% | * | 2% | 1% |
| No facility | 27% | 8% | 34% | 19% | 23% | 17% | 29% | 22% | 17% | 39% | 24% |

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

There is no clear pattern of application results post-Brexit.



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.

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 that the predicted loan success rate increased during 2014, peaking at 80% for Q1 2015 but has declined somewhat since then:

Final outcome (Loan)

SMEs seeking new/

| renewed facility By date of application | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3* | Q4* |
|--|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| | 14 | 14 | 14 | 15 | 15 | 15 | 15 | 16 | 16 | 16 | 16 |
| Unweighted base: | 215 | 158 | 191 | 185 | 143 | 132 | 151 | 109 | 79* | 58* | 75* |
| Have loan (any) | 61% | 88% | 56% | 81% | 73% | 78% | 71% | 68% | 73% | 60% | 75% |
| <i>Predicted success rate</i> | 69% | 71% | 73% | 80% | 78% | 76% | 71% | 71% | 73% | 69% | 72% |
| Difference | -8 | +17 | -17 | +1 | -5 | +2 | - | -3 | - | -9 | +3 |

Final outcome of loan application by date of application

Analysis shows that neither the higher success rate reported for applications in Q3 2014 (88%) nor the lower rate for Q4 2014 (56%) were explained by a change in the profile of applicants, as the predicted success rate remained almost unchanged (71-73%). The lower success rates predicted from Q4 2015 onwards have typically been reflected in the actual success rates achieved, although indicative data for Q3 2016 suggests that actual success rates fell short of this lower predicted rate.



The impact of personal borrowing on loan applications

21% of those making a loan application in the past 18 months (Q1 2016 to Q2 2017) said that the facility they had sought was in a personal capacity, compared to 13% for overdrafts.

On a limited sample, those applying in a personal capacity were:

- Less likely to have employees (22% v 53% of those applying in a business capacity)
- Less likely to be seeking a loan in excess of £25,000 (13% v 37% for those applying in a business capacity)
- More likely to have a worse than average external risk rating for the business (61% v 46% for those applying in a business capacity).

In terms of the outcome of personal loan applications, base sizes remain limited. However, current data suggests that 5 in 10 of those applying in a personal capacity ended the process with a facility (compared to 7 in 10 applying in a business capacity) while 4 in 10 ended the process with no facility (compared to 2 in 10 applying in a business capacity).



Outcome analysis over time – all loan and overdraft applications

This chapter has reported separately thus far 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. As the summary table at the start of this chapter showed, renewals have been consistently been more successful with some improvements seen over time in the success rates of those applying for new money, including first time applicants.

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). It provides both an immediate snapshot of the results of applications made in recent quarters and also a longer term view, across a series of 18 month periods ending in Q4 of each year.

The table shows that typically 8 in 10 of all applications made have been successful but with slightly lower success rates (7 in 10) currently being reported for Q3 2016 and Q1 2017 which will be monitored over time:

Final outcome (Overdraft+Loan)

SMEs seeking new/
renewed facility – by
date of application

| | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3* | Q4* | Q1* |
|---------------------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Unweighted base: | 443 | 531 | 505 | 423 | 382 | 388 | 346 | 225 | 177 | 204 | 203 |
| Offered what wanted and took it | 70% | 68% | 72% | 64% | 76% | 68% | 71% | 73% | 62% | 72% | 65% |
| Took facility after issues** | 18% | 10% | 11% | 14% | 10% | 11% | 9% | 9% | 9% | 9% | 8% |
| Have facility (any) | 88% | 78% | 83% | 78% | 86% | 79% | 80% | 82% | 71% | 81% | 73% |
| Took another form of funding | 2% | 6% | 1% | 6% | 3% | * | 9% | 3% | 10% | 1% | 6% |
| No facility | 10% | 16% | 16% | 16% | 11% | 21% | 11% | 15% | 20% | 18% | 20% |

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



Taking a longer term view of all applications shows that success rates increased over time, from 69% for the 18 months to Q4 2012 to 82% for the 18 months to Q4 2015. Interim data for the most recent periods shows a slightly lower success rate (currently 78%) and a marginal increase in those taking another form of funding:

Final outcome – all applications

| Loans and Overdrafts combined All applications made | Q3 11 Q4 12 | Q3 12 Q4 13 | Q3 13 Q4 14 | Q3 14 Q4 15 | Q3 15 Q4 16* | Q1 16 Q2 17* |
|--|----------------|----------------|----------------|----------------|-----------------|-----------------|
| Unweighted base of applications: | 4439 | 3564 | 3213 | 2672 | 1722 | 1200 |
| Offered what wanted and took it | 56% | 53% | 63% | 70% | 71% | 70% |
| Took facility after issues | 13% | 15% | 14% | 12% | 9% | 8% |
| Have facility (any) | 69% | 68% | 77% | 82% | 80% | 78% |
| Took another form of funding | 5% | 6% | 6% | 3% | 4% | 6% |
| No facility | 26% | 26% | 18% | 15% | 15% | 16% |

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

78% of all loan and overdraft applications in the 18 months to Q2 2017 and reported to date, resulted in a facility. 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 (96%) than those seeking new funds (63%):

| Final outcome Loans and Overdrafts combined Q1 16 – Q2 17 | New funds sought | Renewals sought |
|--|---------------------|--------------------|
| Unweighted base of applications: | 542 | 628 |
| Offered what wanted and took it | 53% | 92% |
| Took facility after issues | 10% | 4% |
| Have facility (any) | 63% | 96% |
| Took another form of funding | 10% | 2% |
| No facility | 27% | 2% |

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



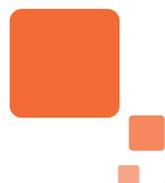
Further analysis of these two different types of application over recent quarters compares the outcome for renewals to the outcomes for new and specifically first time facilities, by date of application. Around half of all applications involved the renewal of an existing facility.

The outcome of applications for **renewed** loans/overdrafts over recent quarters is detailed below. It shows almost all such applicants ended the process with a renewed facility, although current data for Q3 2017 and Q1 2017 saw 9 in 10 being successful:

Final outcome (Overdraft+ Loan) – renewed facilities

| By date of application | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3* | Q4* | Q1* |
|---|-------------|------------|-------------|-------------|-------------|-------------|------------|------------|------------|-------------|------------|
| | 14 | 14 | 15 | 15 | 15 | 15 | 16 | 16 | 16 | 16 | 17 |
| Unweighted base of applications: | 200 | 237 | 246 | 193 | 168 | 152 | 161 | 109 | 87* | 108 | 137 |
| Offered what wanted and took it | 89% | 91% | 95% | 97% | 97% | 89% | 98% | 90% | 86% | 97% | 86% |
| Took facility after issues | 11% | 7% | 5% | 3% | 3% | 11% | 1% | 8% | 3% | 3% | 5% |
| Have facility (any) | 100% | 98% | 100% | 100% | 100% | 100% | 99% | 98% | 89% | 100% | 91% |
| Took another form of funding | * | - | - | - | - | - | 1% | - | 8% | - | 5% |
| No facility | * | 2% | * | - | * | - | * | 2% | 3% | - | 4% |

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



Taking a longer term view of renewals shows that in all periods, back to the 18 months to Q4 2012, the vast majority of applications have been successful with 9 in 10 now offered the facility they wanted:

Final outcome – renewals

| Loans and Overdrafts combined Renewals | Q3 11 Q4 12 | Q3 12 Q4 13 | Q3 13 Q4 14 | Q3 14 Q4 15 | Q3 15 Q4 16* | Q1 16 Q2 17* |
|---|----------------|----------------|----------------|----------------|-----------------|-----------------|
| Unweighted base of applications: | 1859 | 1767 | 1430 | 1196 | 785 | 628 |
| Offered what wanted and took it | 84% | 81% | 86% | 93% | 94% | 92% |
| Took facility after issues | 10% | 15% | 11% | 6% | 5% | 4% |
| Have facility (any) | 94% | 96% | 97% | 99% | 99% | 96% |
| Took another form of funding | * | 1% | 1% | * | 1% | 2% |
| No facility | 5% | 3% | 2% | * | * | 2% |

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

Turning now to applications for new money and the final outcome for applications for **new** funds (whether first time applicants or not) made over recent quarters is shown in the table below. There is variability by quarter, with a third of the most recent applicants ending the process with no facility:

Final outcome (Overdraft+ Loan) – applications for new money

| By date of application | Q2 14 | Q3 14 | Q4 14 | Q1 15 | Q2 15 | Q3 15 | Q4 15 | Q1 16 | Q2 16 | Q3* 16 | Q4* 16 |
|---|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Unweighted base of applications: | 305 | 219 | 264 | 233 | 205 | 182 | 201 | 174 | 106 | 85* | 92* |
| Offered what wanted and took it | 55% | 58% | 59% | 55% | 37% | 61% | 59% | 52% | 68% | 45% | 50% |
| Took facility after issues | 10% | 23% | 12% | 10% | 21% | 13% | 11% | 13% | 5% | 12% | 13% |
| Have facility (any) | 65% | 81% | 71% | 65% | 58% | 74% | 70% | 65% | 73% | 57% | 63% |
| Took another form of funding | 8% | 3% | 10% | 2% | 11% | 6% | * | 15% | 5% | 11% | 1% |
| No facility | 26% | 16% | 20% | 32% | 31% | 20% | 30% | 20% | 23% | 33% | 35% |

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



Taking a longer term view of applications for new money shows that success rates increased from around 5 in 10 in the 18 months to Q4 2013 to 7 in 10 applicants in the 18 months to Q4 2015. Success rates since have been slightly lower (currently 63%). This is mainly due to a slight increase in those taking another form of funding as, since the 18 months to Q4 2014, a consistent quarter of new money:

Final outcome – new money

| Loans and Overdrafts combined | Q3 11 | Q3 12 | Q3 13 | Q3 14 | Q3 15 | Q1 16 |
|--|-------------|-------------|-------------|-------------|------------|------------|
| All new money applications | Q4 12 | Q4 13 | Q4 14 | Q4 15 | Q4 16* | Q2 17* |
| <i>Unweighted base of applications:</i> | 2311 | 1326 | 1607 | 1304 | 840 | 542 |
| Offered what wanted and took it | 40% | 34% | 50% | 56% | 57% | 53% |
| Took facility after issues | 14% | 15% | 15% | 14% | 11% | 10% |
| <i>Have facility (any)</i> | 54% | 49% | 65% | 70% | 66% | 63% |
| Took another form of funding | 7% | 8% | 8% | 5% | 6% | 10% |
| No facility | 38% | 43% | 26% | 25% | 26% | 27% |

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

The success rate for new money combines the outcome of loan and overdraft applications made by first time applicants with the outcome for those who have borrowed before. First time applicants now make up a smaller proportion of all new money applications – they currently make up 47% of all new money applications in the 18 months to Q2 2017 compared to 66% for the 18 months to Q4 2013.



The table below shows the current success rates for new money applications made in the 18 months to Q2 2017 (63% overall), analysed by whether the SME was applying for a first facility or had borrowed before. Those who have borrowed before remained more likely to end the process with a facility (73%) than those who were applying for the first time (53%):

Final outcome – new money

| Loans and Overdrafts combined Q1 16 – Q2 17 | First time applicants | Other new money |
|--|--------------------------|--------------------|
| Unweighted base of applications: | 160 | 382 |
| Offered what wanted and took it | 45% | 61% |
| Took facility after issues | 8% | 12% |
| Have facility (any) | 53% | 73% |
| Took another form of funding | 9% | 10% |
| No facility | 38% | 17% |

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

The success rate for first time loan/overdraft applicants increased from 41% in the 18 months to Q4 2012 to 60% for the 18 months to Q4 2015. It is currently slightly lower, at 53%:

Final outcome – first time

| applicants | Q3 11 | Q3 12 | Q3 13 | Q3 14 | Q3 15 | Q1 16 |
|---|------------|------------|------------|------------|------------|------------|
| Loans and Overdrafts combined | Q4 12 | Q4 13 | Q4 14 | Q4 15 | Q4 16* | Q2 17* |
| Unweighted base of applications: | 840 | 658 | 493 | 399 | 259 | 160 |
| Offered what wanted and took it | 30% | 27% | 41% | 49% | 47% | 45% |
| Took facility after issues | 11% | 12% | 14% | 11% | 9% | 8% |
| Have facility (any) | 41% | 39% | 55% | 60% | 56% | 53% |
| Took another form of funding | 8% | 9% | 6% | 5% | 6% | 9% |
| No facility | 51% | 53% | 39% | 34% | 38% | 38% |

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



Success rates for other new money applicants remained higher than for first time applicants and had increased steadily over time, albeit interim data for the current period shows a slightly lower success rate (73%):

| Final outcome – other new money | | | | | | |
|--|-------------|------------|-------------|------------|------------|------------|
| Loans and Overdrafts combined | Q3 11 | Q3 12 | Q3 13 | Q3 14 | Q3 15 | Q1 16 |
| Other applications | Q4 12 | Q4 13 | Q4 14 | Q4 15 | Q4 16* | Q2 17* |
| <i>Unweighted base of applications:</i> | 1471 | 668 | 1114 | 905 | 581 | 382 |
| Offered what wanted and took it | 52% | 47% | 58% | 60% | 65% | 61% |
| Took facility after issues | 18% | 22% | 16% | 17% | 13% | 12% |
| <i>Have facility (any)</i> | 70% | 69% | 74% | 77% | 78% | 73% |
| Took another form of funding | 6% | 8% | 10% | 5% | 6% | 10% |
| No facility | 23% | 23% | 16% | 18% | 16% | 17% |

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



Previous analysis has shown that external risk rating has been a key predictor of success rates. First time applicants have always been the most likely to have a worse than average risk rating, reflecting the fact that they are typically younger and smaller businesses. For 2016 to date 7 in 10 FTAs had such a risk rating, with indications for 2017 of a rising proportion with this risk rating (currently 88%). Amongst other seekers of new money, 4 in 10 have a worse than average risk rating, back to the levels seen in 2013:

% of applicants with worse than average external risk rating

| Overdraft + Loan By year of application (base varies) | In 2011 | In 2012 | In 2013 | In 2014 | In 2015 | In 2016* | In 2017* |
|--|------------|------------|------------|------------|------------|-------------|-------------|
| First time applicants | 69% | 71% | 69% | 67% | 55% | 67% | 88% |
| Other new money | 49% | 49% | 45% | 34% | 35% | 45% | 42% |
| Renewals | 34% | 40% | 36% | 29% | 35% | 34% | 25% |

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. It then declined somewhat to just below 50% (46% in 2015, 49% for 2016, and 45% in the first half of 2017).