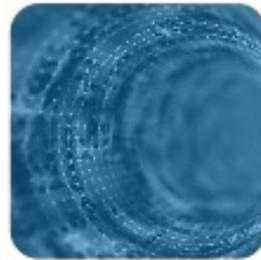


11. Rates and fees – Type 1 events



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 Q3 2016 to Q4 2017.



Key findings

Of overdraft facilities successfully applied for in the 18 months to Q4 2017:

- Half (56%) were granted to 0 employee SMEs
- 38% were secured, increasing by size of applicant to 80% of those with 50-249 employees and by size of facility to 76% of overdrafts for £100,000 or more
- 40% were on a variable rate and this was slightly more likely to be the case for facilities granted in 2017
- The average fee paid was £289, increasing by size of facility. Overall, 57% paid a fee equivalent to 2% or less of the agreed facility and this was the case for almost all facilities agreed for £25,000 or more
- The terms for automatically renewed overdrafts were similar to those who had applied for a new/renewed facility.

Of loan facilities successfully applied for in the 18 months to Q4 2017:

- Just under half (45%) were granted to 0 employee SMEs
- 64% were secured, including 19% that were commercial mortgages. Secured lending increased by size of applicant to 73% of those with 10-249 employees and by size of facility to 86% of loans for £100,000 or more
- 28% were on a variable rate and this was slightly less likely to be the case for facilities granted in 2017
- The average fee paid was £1148, increasing by size of facility. Overall, 91% paid a fee equivalent to 2% or less of the agreed facility.



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 Q3 2016 and Q4 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.

This element of the questionnaire was revised from Q1 2016, 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 was granted to, whether it was secured or not, and whether it was a personal or business facility.

Successful overdraft applications Further analysis Q3 2016 to Q4 2017

Size of applicant	<p>Of all new overdrafts successfully applied for Q3 2016 to Q4 2017:</p> <ul style="list-style-type: none">• 56% were granted to 0 employee SMEs• 33% to 1-9 employee SMEs• 9% to 10-49 employee SMEs• 1% to 50-249 employee SMEs.
Size of facility	<p>86% of new/renewed overdrafts granted between Q3 2016 and Q4 2017 were for £25,000 or less.</p> <p>This varied by size of applicant from 91% of overdrafts granted to SMEs with 0-9 employees to 42% of those granted to SMEs with 10-249 employees.</p>
Personal facilities	<p>10% 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 (11%) than for larger SMEs (3%).</p>



Analysis of the size of the overdraft facility granted by recent application date is reported below. In each quarter the majority of applications were for facilities of less than £25,000. In 2015 around 1 in 5 applications were for more than £25,000 but since Q2 2016 fewer applications have been for this amount (with the exception of initial data for Q3 2017).

Overdraft facility granted

By date of application	Q1 15	Q2 15	Q3 15	Q4 15	Q1 16	Q2 16	Q3 16	Q4 16	Q1* 17	Q2* 17	Q3* 17
Unweighted base:	301	256	232	224	218	135	124	183	231	139	69*
Less than £5,000	37%	48%	42%	37%	38%	50%	45%	41%	34%	67%	33%
£5-25,000	40%	34%	45%	40%	39%	35%	39%	50%	49%	21%	39%
£25,000+	22%	19%	12%	23%	23%	14%	17%	9%	17%	12%	28%

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. Just over a third of successful Type 1 overdrafts were secured:

Security required (Overdraft)

<u>Successfully sought</u> new/renewed overdraft Q3 16 – Q4 17	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	748	70*	230	313	135
Any security	38%	32%	41%	58%	80%
Property (business/personal)	35%	32%	36%	45%	67%
Other security (any)	4%	1%	5%	14%	14%
No security required	62%	68%	59%	42%	20%

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 Q3 2016 and Q4 2017:

- 32% of overdrafts granted for less than £10,000 were secured
- 40% of overdrafts granted for £10-24,999 were secured
- 59% of overdrafts granted for £25-99,999 were secured
- 76% of overdrafts granted for £100,000 or more were secured.

Over time more overdrafts have been secured, primarily due to an increase in the proportion of overdraft facilities of £10,000 or less that were secured. Data for the second half of 2016 showed fewer overdrafts were secured (30%) but the initial data for H1 2017 showed 4 in 10 overdrafts were secured:

% of overdraft facilities that were secured

By application date	H2	H1	H2	H1	H2	H1	H2	H1
Row percentages	2013	2014	2014	2015	2015	2016	2016	2017*
All overdrafts	34%	36%	33%	42%	37%	39%	30%	43%
Overdrafts of <£10,000	22%	24%	24%	32%	31%	30%	21%	42%
Overdrafts of £10-24,999	40%	50%	38%	45%	31%	36%	40%	33%
Overdrafts of £25-100,000	62%	53%	40%	64%	64%	71%	56%	57%
Overdrafts of > £100,000	78%	66%	68%	74%	92%	77%	83%	57%

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



Overdrafts: Rates

Amongst those who gave an answer, 4 in 10 (40%) said that their new/renewed overdraft was on a variable rate and this remained more likely to be the case for the largest facilities granted:

Type of rate (overdraft) by facility granted

Successfully sought new/renewed overdraft

Q3 16-Q4 17 excl. DK

	Total	<£10k	£10-25k	£25-100k	£100k+
Unweighted base:	630	212	142	151	125
Variable rate lending	40%	42%	30%	36%	53%
Fixed rate lending	60%	58%	70%	64%	47%

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

As the table below shows, when analysed by date of application the proportion of lending on a variable rate was fairly stable at around 4 in 10. The proportion in 2016 was somewhat lower than in 2015, but initial data for 2017 suggested that around half of overdrafts were on a variable rate:

New/renewed overdraft rate

	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1*	Q2*
By date of application	15	15	15	15	16	16	16	16	17	17
Unweighted base:	262	207	194	176	181	111	99*	150	178	113
Variable rate lending	46%	46%	36%	38%	44%	30%	36%	34%	54%	49%
Fixed rate lending	54%	54%	64%	62%	56%	70%	64%	66%	46%	51%

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 (81%) were able to recall the arrangement fee that they had paid for their new/renewed overdraft facility (if any). The average fee paid was £289, and this has been fairly consistent over time.

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

Fee paid (overdraft) by facility granted

<u>Successfully sought new/renewed overdraft</u> Q3 16-Q4 17 excl. DK	Total	Under £25k	£25-100k	£100k+
Unweighted base:	600	336	148	116
No fee paid	18%	19%	18%	3%
Less than £100	23%	26%	5%	2%
£100-199	34%	37%	11%	13%
£200-399	12%	10%	27%	14%
£400-999	7%	4%	33%	6%
£1000+	6%	4%	7%	62%
Average fee paid:	£289	£184	£465	£2164
Median fee paid	£99	£97	£295	£1457

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

In earlier waves, around 1 in 5 successful applicants paid no fee for their overdraft. Since H2 2015 this proportion has varied: In H2 15 and H1 16 it fell to around 1 in 9, before increasing back to 1 in 5 for H2 16 and H1 17. Early indications for H2 17 were that around 1 in 9 paid no fee.

Amongst those with a new/renewed overdraft who knew both what fee they had paid and the size of the facility granted, 28% paid a fee that was equivalent to less than 1% of the facility granted and a further 29% 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:

- 53% of those granted a new/renewed overdraft facility of less than £25,000 paid the equivalent of 2% or less
- 94% of those granted a new/renewed overdraft facility of £25-100,000 paid the equivalent of 2% or less
- 96% 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:

Unsecured and secured overdrafts	Further analysis Q3 2016 to Q4 2017
Amount borrowed	Most unsecured overdrafts were for less than £25,000 (91%) compared to 75% of secured overdrafts.
Variable rates	Secured overdrafts were somewhat more likely to be on a variable rate (48%) than unsecured overdrafts (37%).
Fees	Secured overdrafts were somewhat more likely to attract a fee (96%) than unsecured overdrafts (75%), and the average fee charged was higher (£460 secured compared to £196 unsecured). Whilst secured overdrafts typically attracted a higher fee in absolute terms, these were typically larger facilities and the fee was as likely to be the equivalent of 2% or less of the agreed facility (61%) as it was for unsecured overdrafts (55%).



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 facility:

Further analysis by risk rating Q3 2016 to Q4 2017

Amount borrowed	Those with a worse risk rating were somewhat more likely to have been granted an overdraft of less than £25,000 (72% of those with a minimal risk rating, 69% with a low risk rating, 86% with an average risk rating and 95% of those with a worse than average risk rating)
Security	There was relatively little difference in the proportion of facilities that were secured by risk rating (35-45%)
Variable rates	Nor was there a clear pattern by risk rating for facilities on variable rates (50% of those with a minimal risk rating, 40% with a low risk rating, 32% with an average risk rating and 51% of those with a worse than average risk rating)
Fees	Those with a minimal risk rating were more likely to have paid a fee for their overdraft (93%) compared to 74-85% for other risk ratings. Those with a minimal or low risk rating paid a higher fee in absolute terms (£522 and £433) than those with an average or worse than average risk rating (£212 and £189). For most of those with a minimal risk rating this represented 2% or less of the facility granted (82%) compared to 62% of those with a low or average risk rating and 52% of those with a worse than average risk rating



Overdraft terms: Analysis by sector

Overall in the 18 months Q3 2016 to Q4 2017, 85% of overdrafts successfully applied for were facilities of £25,000 or less. On limited base sizes by sector this varied relatively little (between 85% and 93%), with the exception of Agriculture where 54% of overdrafts granted were for less than £25,000.

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

Type 1 overdraft

Successfully sought

new/ renewed

overdraft

Q3 16-Q4 17 excl. DK	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Hlth SWrk	Other Comm
Unweighted base:	65*	64*	132	96*	41*	75*	146	41*	88*
Any security	58%	40%	36%	40%	33%	45%	34%	40%	30%
- property	57%	38%	31%	38%	33%	42%	29%	40%	28%
No security	42%	60%	64%	60%	67%	55%	66%	60%	70%

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



Overall, 4 in 10 of successful Type 1 overdrafts were on a variable rate (40%). 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

Q3 16-Q4 17 excl. DK	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Hlth SWrk	Other Comm
Unweighted base:	60*	53*	100	86*	38*	59*	129	28*	77*
Variable rate lending	37%	41%	16%	37%		67%	46%		17%
Fixed rate lending	63%	59%	84%	63%		33%	54%		83%

Q 107 All SMEs with new/renewed overdraft excluding DK

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

Type 1 overdraft fees

Successfully sought new/ renewed overdraft

Q3 16-Q4 17 excl. DK	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Hlth SWrk	Other Comm
Unweighted base (varies):	41*	54*	105	84*	39*	58*	119	30*	70*
No fee paid	18%	20%	9%	12%		5%	17%		43%
Average fee paid	£757	£235	£274	£439		£366	£162		£179
Equivalent of 2% or less paid*	79%	63%	56%	57%		45%	51%		78%

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



Overdrafts: Automatic renewals

As mentioned earlier in this chapter, data is also 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 Q3 2016 and Q4 2017.

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

Overdraft rates and fees summary Q3 16-Q4 17	Automatically renewed	Type 1 overdraft event
<i>Unweighted base (varies by question):</i>	1547	748
Any security required	32%	38%
Facility on a variable rate (excluding DK)	57%	40%
No fee	15%	18%
Average fee paid	£356	£289

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 Q3 2016 and Q4 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 was secured or not, and whether it was a personal or business facility.

Successful loan applications Further analysis Q3 2016 to Q4 2017

Size of applicant	<p>Of all new loans successfully applied for between Q3 2016 and Q4 2017:</p> <ul style="list-style-type: none">• 45% were granted to 0 employee SMEs• 38% to 1-9 employee SMEs• 15% to 10-49 employee SMEs• 2% to 50-249 employee SMEs
Size of facility	<p>83% of new/renewed loans granted in the period Q3 2016 to Q4 2017 were for £100,000 or less. By size of applicant this varied from 87% of loans granted to SMEs with 0-9 employees to 63% of loans granted to those with 10-249 employees.</p>
Personal facilities	<p>15% 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 17% of loans granted to SMEs with 0-9 employees to 3% 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 16% of all loans agreed for less than £100,000 were applied for in a personal name, compared to 8% of loans £100k+.</p>



Analysis of loans granted by recent application quarter is shown below. Base sizes are limited and quarterly trends over time are not clear but in both 2016 as a whole and 2017 to date around 6 in 10 loans were for less than £25,000, 2 in 10 were for £25-99k and the remainder were for more than £100k:

Loan facility granted	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1*	Q2*
By date of application	15	15	15	15	16	16	16	16	17	17
Unweighted base:	166	122	119	130	97*	72*	52*	94*	96*	60*
Less than £25k	63%	41%	67%	60%	70%	56%	59%	72%	60%	70%
£25-99k	13%	16%	17%	30%	18%	17%	33%	11%	22%	20%
More than £100k	24%	43%	15%	10%	11%	27%	8%	17%	19%	10%

All successful loan applicants that recall amount granted

Loans: Security

17% of all loans were commercial mortgages (excluding don't know answers). These were much more likely to have been granted to those seeking more than £100,000 (32% v 14% of those seeking less than £100,000) but with little difference just by size of SME (17% of applicants with 0-9 employees and 19% of 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 were also simplified and are reported in the new format below (note that due to DK answers at this second question, the figures for commercial mortgages may not exactly match those quoted above, based on a single question).



Smaller SMEs remained more likely to have an unsecured loan:

Security required (Loan)		0-9 emp	10-249 emps
<u>Successfully sought new/renewed loan Q3 16-Q4 17</u>	Total		
Unweighted base:	340	102	238
Commercial mortgage	19%	19%	20%
Secured business loan	45%	43%	53%
<i>Property (business/personal)</i>	38%	35%	49%
<i>Other security (any)</i>	11%	12%	5%
Unsecured business loan	36%	38%	27%

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

Including commercial mortgages, 64% of new/renewed loans successfully applied for in Q3 2016 to Q4 2017 were secured, increasing by size of facility:

- 58% of loans granted for less than £25,000 were secured
- 59% of loans granted for £25,000 to £100,000 were secured
- 86% 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 remained less likely than larger facilities to be secured, but such security became more likely over time. Currently then, around 5 in 10 of all loans that were not commercial mortgages were secured:

% of loan facilities that were secured									
Application date	H1	H2	H1	H2	H1	H2	H1	H2	H1
Row percentages	13	13	14	14	15	15	16	16	17*
All loans (excluding commercial mtges)	26%	35%	31%	34%	45%	41%	43%	55%	48%
Loans of <£100,000 (excl commercial mtges)	17%	31%	24%	20%	38%	36%	44%	52%	41%
Loans of £100,000 or more (excl commercial mtges)	82%	76%	72%	83%	73%	91%	37%	71%	87%

Q 198a 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 60% of facilities were on a fixed rate) and also more common for smaller loan facilities:

Type of rate (loan) by amount granted

<u>Successfully sought</u> new/renewed loan Q3 16-Q4 17	Total	<£100k	£100k+
Unweighted base:	319	208	111
Variable rate lending	28%	26%	35%
Fixed rate lending	72%	74%	65%

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 were on a fixed rate, with no clear trend over time. Interim data for applications in 2017 suggests something of an increase to 8 in 10 loans on a fixed rate.



Loans: Fees

66% of respondents were able to recall the arrangement fee that they paid for their loan (if any). As with overdrafts, those borrowing a smaller amount typically paid a lower fee in absolute terms:

Fee paid (loan)

Successfully sought new/renewed loan Q3 16-Q4 17

	Total	<£100k	£100k+
Unweighted base:	243	145	98*
No fee paid	43%	49%	20%
Less than £100	15%	16%	8%
£100-199	13%	15%	5%
£200-399	10%	10%	8%
£400-999	5%	6%	2%
£1000+	15%	3%	57%
Average fee paid:	£1148	£211	£4665
Median fee paid	£19	-	£1263

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, 74% paid a fee that was the equivalent of less than 1% of the amount borrowed and a further 17% paid between 1-2%:

- 93% of those granted a new/renewed loan of less than £100,000 paid the equivalent of 2% or less.
- 83% of those granted a new/renewed loan of more than £100,000 paid the equivalent of 2% or less.

The proportion paying the equivalent of 2% or less has been around 8 in 10 each year. Current indications for 2017 were that 9 in 10 had paid the equivalent of 2% or less as a fee.

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