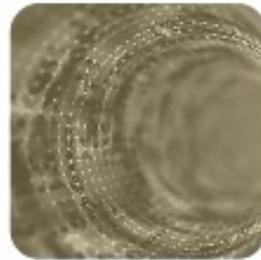


8. The build-up to applications for overdrafts and loans



This chapter is

the first of four covering Type 1 borrowing events in more detail and looks at the 'build-up' to the loan or overdraft application, why funds were required and whether advice was sought.



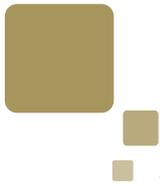
Key findings

6 in 10 overdraft applications made Q3 2015 to Q4 2017 were to renew an existing facility, increasing to 84% of applications made by those with 50-249 employees. 4 in 10 were for a new facility including a quarter of applications (23%) from those applying for the first time and these were typically smaller and younger SMEs:

- Most wanted the facility to help with cash flow (84%) while 4 in 10 (41%) were looking for a safety net and these two reasons have varied little over time
- 62% of applications were for £10,000 or less
- Almost all applied to their main bank (99%) and only to this bank and very few took advice before applying (8%).

Loan applications were more likely to be for a new facility (76%) with a third of applicants (36%) applying for their first facility and these were also typically smaller and younger SMEs:

- Loans were sort for a variety of reasons including UK expansion (25%), buying fixed assets (22%) and buying motor vehicles (20%)
- They were typically for larger sums than overdrafts (34% were for less than £10,000 and 23% were for more than £100,000) and in 7 out of 10 cases the SMEs was seeking all the funding it needed from the bank
- Loan applicants were less likely than overdraft applicants to apply to their main bank, (although most did, 86%) and less likely to only apply to one bank (although again most did, 83%). A minority took advice before applying (18%).



The data presented thus far in this report has reflected events that happened to the SME in the 12 months before they were interviewed, analysed by the date of interview. This chapter is the first of four covering Type 1 borrowing events in more detail. Type 1 events are those where the SME approached the bank looking for new or renewed overdraft or loan facilities. The first of these chapters looks at the build-up to the application, why funds were required and whether advice was sought. Subsequent chapters then detail the bank's response, the resultant loan/overdraft granted, the effect of the process on the SME and the security and fees relating to these facilities.

As these chapters examine overdraft and loan events specifically, it makes sense for the analysis to be based on when the event occurred, rather than when it was reported, and this approach has been adopted for these chapters since the Q2 2013 report.

Each chapter includes analysis, as far as is possible, on the extent to which loan and overdraft applications have changed over time. For the most recent quarters (especially those in 2017) this is only **interim** data, which is liable to change and which will be updated in subsequent reports.

However, for sub-group analysis, such as by size or risk rating, sample sizes preclude analysis at the individual quarter level and the data needs to be grouped over time to provide a more robust sample size. In order to ensure a suitable sample size, a period of 18 months has been selected. This means that rather than reporting on applications for YEQ4 2017 (i.e. all interviews conducted in the 4 quarters to Q4 2017, irrespective of when the borrowing event occurred), data is reported on the basis of 'Applications occurring in the 18 months to Q4 2017' (i.e. applications known to have been made between Q3 2016 and Q4 2017 and reported to date, irrespective of when the SME was actually interviewed).



Why were they applying?

Overdraft applications

This analysis is based on SMEs that made an application for a new or renewed overdraft facility during the most recent 18 month period, which for this report is Q3 2016 to Q4 2017. Within this 18 month time period, final data is now available for applications made up to the end of Q4 2016. Data on more recent applications (notably Q3 and Q4 2017) is still being gathered and will be updated in future waves, and so the figures quoted will be liable to change over time. All percentages quoted are therefore just of this group of applicants.

Note that this does not include SMEs who had an overdraft automatically renewed.

In Q1 2017, the question on the nature of the overdraft event was simplified to three core categories – the renewal of an existing facility, a first overdraft facility and thirdly any other new or increased overdraft facility that was not a first facility. As in previous waves, the most likely overdraft event was the renewal of an existing facility:

Nature of overdraft event		0	1-9	10-49	50-249
<u>Sought</u> new/renewed facility Q3 16-Q4 17	Total	emp	emps	emps	emps
Unweighted base:	872	90*	280	354	148
Renewing overdraft for same amount	59%	52%	68%	76%	84%
Applied for first ever overdraft facility	23%	29%	18%	5%	7%
New or increased overdraft facility but not first	17%	19%	14%	19%	9%

Q52 All SMEs seeking new/renewed overdraft facility

Amongst applicants with employees, the proportion renewing an existing facility was 70% and the proportion of first time applicants was 15% of applications made.

A quarter of applicants (23%) were seeking an overdraft for the very first time and this was

more likely to be the case for smaller SMEs. 36% of these first time applicants were Starts. The proportion of first time overdraft applicants that were Starts declined somewhat between the 18 months to Q4 2012 and the 18 months to Q4 2016 (48% to 31%). The current figure to Q4 2017 showed a slight increase (36%).



Analysis in previous reports showed that the application process for an overdraft, as well as the eventual outcome, varied by the reason for application. The table below shows the proportion of applications made for each reason over recent quarters, using the new question definition.

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

SMEs seeking new/ renewed facility

By application date	Q1 15	Q2 15	Q3 15	Q4 15	Q1 16	Q2 16	Q3 16	Q4 16	Q1* 17	Q2* 17	Q3* 17
Unweighted base:	334	295	259	247	248	149	135	200	246	159	79*
Renewing overdraft for same amount	53%	53%	53%	37%	50%	42%	61%	58%	58%	55%	74%
Applied for first ever overdraft facility	20%	14%	21%	32%	18%	23%	21%	29%	29%	21%	7%
New or increased overdraft facility but not first	23%	28%	24%	29%	31%	35%	17%	13%	13%	24%	19%

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



4 in 10 of overdrafts sought were for £5,000 or less, with considerable variation by size of applicant. The median amount sought as an overdraft facility has changed relatively little over time and was £5,000 for the 18 months to Q4 2017, ranging from £4,000 amongst 0 employee SMEs seeking a facility to £71,000 for those with 50-249 employees:

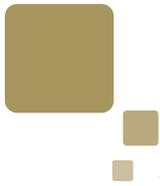
Amount initially sought, where stated		0	1-9	10-49	50-249
Sought new/renewed facility Q3 16-Q4 17	Total	emp	emps	emps	emps
Unweighted base:	770	83*	248	310	129
Less than £5,000	41%	53%	27%	4%	3%
£5,000 – £9,999	21%	25%	19%	6%	10%
£10,000 – £24,999	21%	16%	30%	25%	17%
£25,000 – £99,999	13%	6%	20%	40%	22%
£100,000+	4%	*	4%	26%	48%
Median amount sought	£5k	£4k	£9k	£36k	£71k

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

As the table below shows, 8 out of 10 overdraft applicants said that the overdraft was needed for day-to-day cash flow, with little variation by size. 4 in 10 (41%) mentioned having a safety net, also with little difference by size. As previously seen, overdrafts were much more likely to have been sought to support UK growth (15%) than expansion overseas (2%):

Purpose of overdraft sought		0	1-9	10-49	50-249
Sought new/renewed facility Q3 16-Q4 17	Total	emp	emps	emps	emps
Unweighted base:	872	90*	280	354	148
Working capital for day to day cash flow	84%	87%	79%	79%	81%
Safety net – just in case	41%	43%	39%	40%	46%
Short term funding gap	29%	31%	26%	25%	27%
Fund growth in UK	15%	16%	12%	13%	13%
Buy fixed assets	8%	5%	13%	9%	7%
Fund expansion overseas	2%	2%	1%	2%	*

Q55 All SMEs seeking new/renewed overdraft facility



From Q1 2017, SMEs have been able to nominate “to hire staff” as the reason for seeking an overdraft facility. 3% of those interviewed in 2017 gave this as a reason and more detail will be provided as sample sizes increase.

Analysis by risk rating showed that:

- Working capital remained the main reason for seeking an overdraft across all external risk ratings (from 76% of those with an average risk rating to 90% of those with a worse than average risk rating)
- Those with an average risk rating were more likely to mention a safety net (49% v 22% of those with a minimal risk rating) or funding UK growth (22% v 9-12% for other ratings)
- Those with a minimal risk rating were less likely to mention a short term funding gap (18% compared to 23-32% of those with other ratings)



Looking at the purpose of the overdraft sought over recent quarters, working capital was consistently the most mentioned purpose, followed by a safety net or to fill a short term funding gap:

Purpose of overdraft

SMEs seeking new/
renewed facility –

by application
date

	Q1 15	Q2 15	Q3 15	Q4 15	Q1 16	Q2 16	Q3 16	Q4 16	Q1* 17	Q2* 17	Q3* 17
Unweighted base:	334	295	259	247	248	149	135	200	246	159	79*
Working capital for day to day cash flow	85%	85%	83%	89%	78%	83%	86%	87%	83%	86%	69%
Safety net – just in case	42%	53%	60%	38%	34%	29%	48%	44%	38%	42%	35%
Short term funding gap	27%	34%	38%	34%	18%	30%	38%	25%	23%	35%	36%
Fund growth in UK	16%	22%	27%	23%	18%	21%	6%	11%	6%	31%	16%
Buy fixed assets	7%	14%	20%	8%	7%	18%	11%	4%	3%	11%	23%
Fund growth overseas	4%	3%	*	3%	*	1%	-	*	3%	-	7%
To hire staff (from Q1 17)	-	-	-	-	-	-	-	-	1%	2%	1%

Q55 All SMEs seeking new/renewed overdraft facility. Q315* indicates interim results for that period as data is still being gathered on events in these quarters. NB 'Growth' replaced expansion in Q2 2013

Looking longer term, most applications have been made for working capital (8 in 10 in recent 18 month periods and 84% in the latest period to Q4 2017). The proportion looking for a safety net was also stable at around 4 in 10 (41% in the latest period to Q4 2017).



More details around recent overdraft applications are provided below. Most SMEs applied to only one bank (their main bank) and few sought advice:

Overdraft applicants Sought new/renewed overdraft facility Q3 16-Q4 17

Applied to main bank	Almost all overdraft applications (99% in the 18 months to Q4 2017) were made to the SME's main bank. This varied little by size of applicant (98-100%).
Application made in a personal name	10% of overdraft applications made in the 18 months to Q4 2017 were in a personal name. This was much more common amongst smaller applicants (13% of applicants with 0 employees, compared to 6% of applicants with 1-9 employees, 3% of applicants with 10-49 and <1% of applicants with 50-249 employees). Overdraft applications remained less likely to be made in a personal name than loan applications (where 20% were in a personal name for the 18 months to Q4 2017).
How many banks were applied to	99% of those who had applied in the 18 months to Q4 2017 said that they had applied to one bank. Those with 50-249 employees were the most likely to have applied to more than one provider (5%).
Advice sought	The proportion of SMEs seeking advice before they applied for an overdraft has remained consistently low (8% amongst those applying in the 18 months to Q4 2017), and this has changed relatively little over time (it was 10% for 2013 as a whole). Advice was more likely to have been sought by larger applicants: 7% of applicants with 0 employees sought advice, compared to 11% of applicants with 1-9 employees, 9% of applicants with 10-49 and 16% of applicants with 50-249 employees
Analysis by size of facility	Those seeking a facility of more than £100,000 were more likely than other applicants to have applied to several banks (4%), and less likely to have applied to their main bank (96%) but most did just apply to their main bank.



Overdraft applications – a sector summary

Analysis by sector is restricted due to small sample sizes, notably for Health and Hotels and Restaurants. The table below shows indicative data for the overall purpose of the overdraft facility sought but no further detail will be provided until sample sizes are more robust:

Overdraft activity									
<u>Sought</u> new/ renewed facility Q3 16-Q4 17	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Hlth SWrk	Other Comm
Unweighted base:	71*	77*	158	112	47*	90*	169	48*	100
Renewing overdraft for same amount	75%	75%	64%	64%	73%	55%	54%	22%	58%
Applied for first ever overdraft facility	3%	8%	21%	24%	10%	22%	34%	9%	27%
New or increased overdraft facility but not first	23%	17%	16%	12%	17%	23%	11%	69%	14%

Q52 All SMEs seeking new/renewed overdraft facility



Loan applications

This analysis is based on SMEs that had made an application for a new or renewed loan facility during the most recent 18 month period, which for this report is Q3 2016 to Q4 2017. Within this period, final data is now available for applications made up to Q4 2016. Data on applications in the more recent quarters (especially the second half of 2017) is still being gathered and will be updated in future waves, and so the figures quoted will be liable to change over time. All percentages quoted are therefore just of this group of applicants.

There have been fewer loan events reported than overdraft events. As a result, even for applications across 18 months to Q4 2017, the same granularity of analysis is not always possible as for other areas of the report and the

smaller base sizes mean the results should be treated with some caution. For this report, the 0 and 1-9 employee bands have been merged as there were too few 0 employee applicants to report separately.

In Q1 2017, the nature of loan event question was simplified to three core categories – the renewal of an existing facility, a first loan facility and thirdly any other new or increased loan facility that was not a first facility. Loan applications were more likely than overdraft applications to be for new funding (the first two rows of the table below), with 76% of loan applicants seeking a new loan (compared to 40% for overdrafts), including 36% saying this was their first ever loan (compared to 23% for overdrafts):

Nature of loan event		0-9 emp	10-49 emps	50-249 emps
<u>Sought</u> new/renewed facility Q3 16-Q4 17	Total			
Unweighted base:	462	171	216	75*
New loan but not first	40%	39%	48%	57%
First loan	36%	39%	18%	1%
Renewed existing loan facility	24%	22%	34%	42%

Q149 All SMEs seeking new/renewed loan facility.

As the table above shows, a first loan was more likely to be the case for smaller SMEs that had applied, and 33% of first time applicants were Starts. The proportion of first time loan applicants who were Starts has varied over time, from 46% for the 18 months to Q4 2013 to 34% for the 18 months to Q4 2015 and 33% in the current 18 month period.

Excluding applicants with 0 employees reduced the proportion of first time applications from 36% to 27%.



Analysis in previous reports has shown that the application process for a loan, and the eventual outcome, varied by the reason for application. The table below shows the proportion of applications made for each reason over recent quarters, with most applications for new facilities, shown in the first two rows of the table. Note that base sizes for some quarters are below the normal threshold for the Monitor but are shown to provide at least indicative data for all quarters:

SMEs seeking new/ renewed facility

	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1*	Q2*
By application date	15	15	15	15	16	16	16	16	17	17
Unweighted base:	191	158	142	160	117	85*	72*	124	115	78*
New loan but not first	38%	39%	46%	38%	62%	56%	36%	46%	48%	29%
First loan	28%	32%	25%	20%	32%	33%	55%	21%	20%	54%
Renewed existing loan facility	25%	10%	8%	8%	5%	11%	9%	32%	32%	17%

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



The initial amount sought for a loan was typically higher than for an overdraft (14% of loans sought were for less than £5,000 compared to 41% of overdrafts sought). The median loan amount sought was £17,000. Sample sizes limit the amount of analysis possible over time, but overall the majority of loans sought have been for less than £100,000:

Amount initially sought, where stated		0-9	10-49	50-249
<u>Sought new/renewed facility Q3 16-Q4 17</u>	Total	emps	emps	emps
Unweighted base:	386	143	181	62*
Less than £5,000	14%	15%	8%	-
£5,000 – £9,999	20%	23%	4%	-
£10,000 – £24,999	25%	28%	10%	10%
£25,000 – £99,999	17%	16%	30%	29%
£100,000+	23%	19%	48%	60%
Median amount sought	£17k	£16k	£78k	£155k

Q153/154 All SMEs seeking new/renewed loan, excluding DK/refused

Loan applicants were also asked about the extent to which the funding applied for represented the total funding required and how much the business was contributing. The results for applications made in the 18 months to Q4 2017 are shown below, with 7 in 10 applicants (72%) seeking all the funding they required from the bank:

Proportion of funding sought from bank		0-9	10-49	50-249
<u>Sought new/renewed facility Q3 16-Q4 17</u>	Total	emps	emps	emps
Unweighted base:	435	160	202	73*
Half or less of total sum required	8%	8%	9%	12%
51-75% of sum required	10%	11%	8%	10%
76-99% of sum required	10%	10%	4%	4%
All of sum required sought from bank	72%	71%	78%	73%

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



There was relatively little difference in the proportion seeking all the funding from the bank by size of applicant or by risk rating.

More detailed analysis by date of loan application showed that in each period, the majority of applicants sought all the funding they required from the bank, with typically little difference by size of applicant:

Proportion seeking all funding from the bank

Over time – all seeking loan	H2	H1	H2	H1	H2	H1	H2	H1*
Row percentages	2013	2014	2014	2015	2015	2016	2016	2017
All loan applicants	75%	76%	75%	60%	67%	73%	72%	77%
All applicants with 0-9 employees	75%	77%	76%	60%	67%	73%	73%	75%
All applicants with 10-249 employees	74%	67%	68%	60%	66%	75%	70%	85%

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

Overall, these funds were likely to have been sought either to fund growth in the UK (25%) or to buy fixed assets (22%), with clear variation by size of applicant:

Purpose of loan

<u>Sought</u> new/renewed facility Q3 16-Q4 17	Total	0-9 emps	10-49 emps	50-249 emps
Unweighted base:	454	167	212	75*
Fund expansion in UK	25%	25%	25%	39%
Buy fixed assets	22%	21%	27%	27%
Buy motor vehicles	20%	22%	7%	14%
Develop new products/services	13%	12%	17%	13%
Buy premises	20%	18%	32%	30%
Replace other funding	12%	11%	12%	16%
Fund expansion overseas	1%	1%	3%	-
Take over another business	1%	1%	2%	8%

Q150 All SMEs seeking new/renewed loan facility excluding DK/refused



The table below shows the most common reasons for seeking a new loan by application date up to Q2 2017, the latest for which indicative base sizes are available. Expansion in the UK remained the most common reason for seeking funds, while the increase in loans for the purchase of fixed assets seen in the first half of 2016 does not appear to have been maintained:

Purpose of loan

SMEs seeking new/
renewed facility – by
application date

	Q1 15	Q2 15	Q3 15	Q4 15	Q1 16	Q2 16	Q3 16	Q4 16	Q1* 17	Q2* 17
Unweighted base:	191	158	142	160	113	85*	69*	123	112	78*
Fund expansion in UK	32%	21%	20%	28%	39%	48%	34%	16%	19%	23%
Premises	29%	27%	12%	20%	15%	11%	5%	27%	17%	19%
Buy fixed assets	11%	19%	18%	22%	46%	42%	33%	12%	26%	18%
Develop new products/services	17%	20%	30%	12%	27%	31%	7%	12%	11%	14%
Buy motor vehicles	13%	11%	29%	22%	27%	23%	29%	10%	21%	38%
Fund expansion overseas	1%	2%	1%	*	4%	*	*	1%	*	3%

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

Quarterly data can make it difficult to discern longer term trends over time. Analysis of a series of 18 month application periods shows that since the 18 months to Q4 2013:

- Typically a third of loans have been for UK expansion. The current proportion (to Q4 2017) was 25%, due to fewer such applications from Q4 2016 onwards.
- The proportion looking to buy fixed assets declined from 27% in the 18 months to Q4 2013 to 17% in the 18 months to Q4 2015 and 22% currently. Almost half of the loans sought in the first half of 2016 were for this purpose but the proportion has been lower subsequently.



Further details about the loan applications made are summarised in the table below. Loan applicants remained somewhat more likely than overdraft applicants to approach a bank other than their own (although most didn't):

Loan applicants	<u>Sought new/renewed loan facility Q3 16-Q4 17</u>
Applied to main bank	86% of loan applications were made to the SME's main bank, compared to 99% of overdraft applications. Loan applicants with 10-249 employees were somewhat more likely to go to their bank (90%) than smaller applicants (85%).
Application made in a personal name	20% of loan applications made in the 18 months to Q4 2017 were in a personal rather than a business name. This was more common amongst smaller applicants (22% of applicants with 0-9 employees applied in a personal name compared to 6% of larger applicants). Personal applications were also more common overall for loans than for overdrafts (where 10% of applications were in a personal name).
How many banks were considered	In a new question from Q1 2016, loan applicants were asked how many banks they <i>considered</i> applying to. 20% of applicants had considered applying to more than one bank and, as reported below, 17% actually did so.
How many banks were applied to	83% of those who applied in the 18 months to Q4 2017 said that they had applied to one bank, somewhat lower than the 99% of overdraft applicants who only applied to one bank. Loan applicants with 10-249 employees were no more likely to apply to more than one bank (18%) than smaller applicants (17%)
Advice sought	A minority of loan applicants in the 18 months to Q4 2017 had sought external advice before applying (18%) but they remained more likely to have done so than overdraft applicants (8%).
Analysis by size of loan facility	Those seeking funding of £100,000 or more were likely to initially consider several providers (35% v 18%) and to go on to apply to more than one bank (32% v 16%). They were also more likely to seek advice (38% v 12%).



Loan applications – a sector summary

Analysis by sector is restricted due to small sample sizes, and all results should be treated with caution. The table below shows the overall purpose of the loan facility sought but no further detail will be provided until sample sizes are more robust:

Loan activity									
Sought new/ renewed facility				Whle	Hotel		Prop/	Hlth	Other
Q3 16-Q4 17	Agric	Mfg	Constr	Retail	Rest	Trans	Bus	SWrk	Comm
Unweighted base:	47*	42*	70*	49*	37*	50*	77*	32*	58*
New loan (not first)	49%	32%	62%	33%	30%	44%	27%	59%	45%
Applied for first ever loan	15%	35%	22%	39%	44%	50%	37%	28%	41%
Renewing loan for same amount	36%	33%	15%	28%	26%	6%	36%	13%	14%

Q149 All SMEs seeking new/renewed loan facility