

10. Outcome of Type 1 applications



This chapter provides

More detail on the outcome of the Type 1a and Type 1b borrowing events, including the amount granted and whether security was required



Key findings

This chapter is based on all applications made, so an SME that had several Type 1 events will appear more than once in the analysis.

Across all Type 1a and 1b applications reported to date:

- 67% were made to the SME's main bank.
- 60% were for a bank loan or overdraft.
- 37% had been made online, with smaller applicants more likely to choose this channel.
- 76% were applied for in the name of the business rather than in a personal name.
- 53% were for a product the SME hadn't applied for before.

85% of all applications resulted in a facility, broadly in line with the combined loan and overdraft success rates previously reported.

- 72% were offered the facility they wanted and took it, 11% had their facility after issues and 2% took a different product from the same provider.
- 12% were declined while 4% were offered a facility but chose to decline it.
- Early data suggests those applying to their main bank (86%) or another existing provider (93%) were more likely to end the process with a facility than those applying to a new provider (65%). Indicative results for the small group applying to an online provider suggests 6 in 10 applications were successful.
- 84% of applications for bank overdrafts and 68% of applications for bank loans were successful and this was in line with previous Monitor reports.
- First time applications for a new product were less likely to be successful than those who had applied before (79% v 89%). These success rates are though higher than the 50-60% previously seen for FTAs and will be monitored as base sizes increase.



- There was no difference in success rates between applications made online (85%) and other channels (83%).

Of successful applications:

- A quarter (27%) were for £25,000 or more, ranging by size of applicant from 14% of applications made by SMEs with 0 employees to 87% of those with 50-249 employees.
- Half (46%) required security.
- Two thirds (63%) were on a fixed rate.

Three quarters of applicants turned down by their main bank said that the bank had taken some further action:

- Two thirds said the bank explained why they had been declined.
- 1 in 12 was asked to supply more information.
- 1 in 8 was told about the appeals process.
- 2 (of 48) declined applicants recalled being told about the referral process but neither took up the offer.

Overall, 8 in 10 applications were rated as having been handled to the satisfaction of the applicant (83%)

- Applications made by larger SMEs (90% if 50-249 employees) or to an existing provider (94%) were more likely to be satisfactory.
- Those applications that ended without a facility were less likely to be rated as satisfactory (17%), with 78% dissatisfied.



Taking the whole process into account, 78% of applicants were satisfied with the outcome of their application(s).

- Larger applicants were again more likely to be satisfied (93%).
- Amongst those granted everything they applied for, 95% were satisfied with the overall outcome, compared to 6 in 10 who got a mixed response (some facilities granted and some declined) and 1 in 10 of those who were declined for everything they applied for.
- In 80% of cases, applicants were either very satisfied with the outcome of their application or (if less than very satisfied) said there had been no adverse impact on their business. The main issues were that running the business was more of a struggle, they had not expanded as they would have wished, or spending cuts had had to be made (all 8%).



This is the final of the four revised chapters looking at borrowing events in the wider finance market beyond loans and overdrafts. It looks at the application process, the final outcome of these Type 1 borrowing events and the impact on the SME.

The outcome of Type 1a/1b new and renewed applications

Those who had applied for a facility to meet a finance need and those who reported making any other application for new or renewed finance were then asked a series of questions about this/these application(s), including their outcome. This chapter currently includes all Type 1a and 1b applications reported to date with the revised questionnaire (ie from those interviewed in Q1 and Q2 2018 reporting events dating back to Q1 2017).

Compared to previous reports, this section:

- Has been expanded to include applications for a wider range of products and providers other than the main bank
- Has been simplified in terms of the number of questions asked about each application

The analysis below is based on the total number of Type 1a and 1b applications made, as one SME could make several applications for different products and to different providers. Only limited sub-group analysis by provider or product is available at this stage.

In H1 2018, SMEs reported a total of 694 eligible applications made in the previous 12 months, by 461 SMEs (an average of 1.5 applications each). As a comparison, SMEs interviewed in H2 2017 reported 799 loan and overdraft applications made in the previous 12 months, made by 724 applicants (an average of 1.1 applications each).



Nature of application(s) made

Further information about these applications is reported below. Two thirds of applications were made to the main bank, and 6 in 10 involved either a loan or an overdraft. Most applications were in the name of the business, half were first time applications for the particular product and a third of applications were made online:

Type 1a/1b Applications for finance reported H1 2018

Size of applicant	<p>Of the 694 applications recorded:</p> <ul style="list-style-type: none"> • 65% of applications were made by 0 employee SMEs • 25% by those with 1-9 employees • 9% by those with 10-49 employees • 1% by those with 50-249 employees <p>0 employee SMEs make up 75% of all SMEs but 65% of all applications made, while those with 10-249 employees make up 5% of all SMEs but 10% of all applications</p>
Where applied	<p>Two thirds (67%) of applications were made to the main bank, and a further 17% to another existing provider.</p> <p>7% were made to a new provider, 4% to an online platform and 5% were made elsewhere</p>
What applied for	<p>8 in 10 applications involved one of 5 products: an overdraft (30%), loan (30%), leasing (8%), commercial mortgage (7%) or credit cards (6%)</p>
Date of application	<p>Half of all these applications (51%) were made between October 2017 and March 2018. This is higher than the 40% of applications that would have been made if the applications had been spread evenly across the quarters available in each fieldwork period.</p> <p>Fewer applications were made between April and September 2017 than might have been expected from an even distribution (28% v 40%), but this may be a function of memory (as it is easier to recall more recent events) and will be monitored across future waves.</p>
Applied online	<p>A third of applications (37%) were made online. This was more likely to be the case for smaller SMEs (41% of those made by 0 employee SMEs compared to 11% of those made by SMEs with 50-249 employees) and for those applying to an existing provider that was not the main bank (51%)</p>

Continued



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Business name	<p>Three quarters of applications (76%) were made in the name of the business.</p> <p>90% of the applications made in a personal name were made by SMEs with 0 employees, and 70% were made to the main bank.</p> <p>In the Q4 2017 Monitor report, 10% of overdraft applicants were applying in a personal name, compared to 14% applying for a bank overdraft in the current data set (excluding don't know answers). Meanwhile 20% of loan applicants were applying in their personal name, compared to 28% in the current data set (excluding don't know answers).</p>
First time applicants	<p>53% of applications involved a product that had not been applied for before by that SME. This was more likely to be the case for 0 employee SMEs (57%), declining by size to 30% of those with 50-249 employees. There was little difference by provider applied to, while 59% of loan applications were for a first loan compared to 51% for overdraft applications.</p> <p>8 in 10 of the small group applying in a personal rather than business name were applying for a product for the first time, as were 8 in 10 of those who applied online.</p> <p>In the Q4 2017 Monitor report, a quarter of overdraft applicants and a third of loan applicants were applying for the first time so the current figures are somewhat higher and will be monitored going forward</p>



The final outcome

SMEs were then asked about the final outcome of these applications. When this question was previously asked (specifically for loans and overdrafts and with slightly fewer answer options), 80% of applications made in the 18 months to Q4 2017 had resulted in a facility. All comparison data reported in this section is based on applications made in the 18 months to Q4 2017 and reported in the Q4 2017 report.

3% of applications had not received a response from the lender at the time of interview and have been excluded from this chapter.

As the table below shows, 85% of the applications reported in H1 2018 resulted in a facility:

H1 18 – all applications outcome	Total	Main bank	Existing provider	New provider
<i>Unweighted base:</i>	642	402	124	65*
Offered facility wanted and took it	72%	71%	89%	61%
Offered facility after issues	11%	13%	3%	2%
Took a different product from provider	2%	2%	*	2%
<i>Have facility</i>	85%	86%	93%	65%
Offered facility but declined to take it	4%	3%	1%	9%
Turned down for facility	12%	12%	6%	26%

Q39/57 All applications for finance excluding those waiting to hear – new definition from Q1 2018

The small group applying to a new provider were somewhat less likely to end the process with a facility (65%). Indicative data for those applying to an online platform is that 6 in 10 applications resulted in a facility.

Further information on the applications that did not result in a facility is somewhat limited at this stage:

- 15 applications resulted in taking a different product to the one applied for, typically a loan with some taking a credit card. 10 of these 15 applications had originally been for an overdraft.
- There were also very few occasions where something was offered but it was declined (17 applications). This was typically because the facility was too expensive, with some saying they got a better offer elsewhere
- The 88 applications that were turned down for a facility are reported on later in this chapter, where the application was made to the main bank



The table below shows applications success rates by size of applicant. Applications made by SMEs with 10-49 employees were somewhat less likely to end the process with a facility (and were also more likely to be waiting to hear). This will be monitored as sample sizes increase:

H1 18 – all applications outcome	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	642	85*	191	283	83*
Offered facility wanted and took it	72%	70%	78%	66%	92%
Offered facility after issues	11%	12%	8%	8%	1%
Took a different product from provider	2%	2%	*	2%	*
Have facility	85%	84%	86%	76%	93%
Offered facility but declined to take it	4%	5%	1%	4%	-
Turned down for facility	12%	11%	13%	21%	7%

Q39/57 All applications for finance excluding those waiting to hear – new definition from Q1 2018

In the Q4 2017 Monitor report, the combined overdraft and loan success rate was 80% (71% offered what they wanted and 9% taking a facility after issues). The overall success rate is very similar here (85%).

Smaller SMEs had previously been less likely to end the process with a loan or overdraft facility, but this was not the case for the latest data albeit the largest applicants remained the most likely to have a facility:

- Amongst 0 employee applicants the loan/overdraft success rate was 75%, and is now 84%
- Amongst 1-9 employee applicants the loan/overdraft success rate was 86%, and is now 86%
- Amongst 10-49 employee applicants the loan/overdraft success rate was 92%, and is now 76%
- Amongst 50-249 employee applicants the loan/overdraft success rate was 98%, and is now 93%



Those applying for a product for the first time were less likely to end the process with a facility (although most did), while those applying online were as likely to have been offered the facility they wanted as those applying through another channel:

H1 18 – all applications outcome	Total	First time	Not first time	Online	Not online
Unweighted base:	642	259	376	167	466
Offered facility wanted and took it	72%	72%	71%	77%	68%
Offered facility after issues	11%	6%	16%	5%	14%
Took a different product from provider	2%	1%	2%	3%	1%
Have facility	85%	79%	89%	85%	83%
Offered facility but declined to take it	4%	5%	3%	4%	4%
Turned down for facility	12%	15%	9%	11%	13%

Q39/57 All applications for finance excluding those waiting to hear – new definition from Q1 2018

The success rate reported for first time applicants (79%) is somewhat higher than the 50-60% reported for first time loan and overdraft applicants over previous Monitor reports and will be monitored over time.

Those applying for a bank loan were more likely to be declined (26%) than those applying for an overdraft (9%), and this was also true in previous Monitor reports:

H1 18 – all applications outcome	Total	Bank OD	Bank Loan
Unweighted base:	642	184	175
Offered facility wanted and took it	72%	78%	58%
Offered facility after issues	11%	3%	8%
Took a different product from provider	2%	3%	2%
Have facility	85%	84%	68%
Offered facility but declined to take it	4%	7%	6%
Turned down for facility	12%	9%	26%

Q39/57 All applications for finance excluding those waiting to hear – new definition from Q1 2018



When the equivalent questions were last reported (excluding those waiting to hear), they gave consistent answers to those reported above:

- 85% of overdraft applicants ended the process with a facility (88% if the previous ‘took another form of funding’ code were to be included) and 11% ended the process with no facility
- 67% of loan applicants ended the process with a facility (74% if the previous ‘took another form of funding’ code were to be included) and 26% ended the process with no facility

Looking at the longer term trends, the combined and individual success rate for loans and overdrafts have changed over time. Both loan and overdraft success rates improved between the 18 months to Q4 2012 and the 18 months to Q4 2015. Since then, success rates for overdrafts have been stable while the success rates for loans have decreased somewhat back to levels seen in the 18 months to Q4 2014:

Success rates 18 mth periods

By date of application*

Over time – row percentages	Q4 12	Q4 13	Q4 14	Q4 15	Q4 16	Q4 17	Q2 18*
All applicants	69%	68%	77%	82%	81%	80%	85%
All loans	59%	58%	66%	74%	74%	67%	68%
All overdrafts	74%	74%	83%	86%	84%	85%	84%

*FROM Q1 2018: Q39/57 All applications for finance excluding those waiting to hear reported in interviews in Q1 and Q2 2018



Nature of facility granted

Of the 694 applications made, 539 resulted in a facility. Further details about these successful applications, in terms of their size, whether security was required and whether they were on a fixed or variable interest rate, is provided below.

The table below shows the size of facility granted. As would be expected, successful applications from larger SMEs were more likely to be for £25,000 or more (87%) than those from the smallest SMEs (14%):

H1 18 – size of facility granted	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	539	68*	163	231	77*
Less than £5,000	30%	37%	18%	10%	1%
£5,000 to £24,999	37%	41%	32%	19%	11%
£25,000 to £99,999	14%	6%	30%	30%	23%
£100,000 or more	10%	7%	10%	29%	51%
Don't remember	10%	10%	10%	11%	15%
£25,000+ excl DK	27%	14%	44%	66%	87%

Q41/59 All successful applications for finance – new definition from Q1 2018

7 in 10 of the small group who obtained funding from a new provider were granted £25,000 or more, compared to 2 in 10 of those obtaining a facility from their main bank:

H1 18 – size of facility granted	Total	Main bank	Existing provider	New provider
Unweighted base:	539	336	110	53*
Less than £5,000	30%	39%	13%	4%
£5,000 to £24,999	37%	31%	51%	26%
£25,000 to £99,999	14%	13%	18%	23%
£100,000 or more	10%	6%	16%	41%
Don't remember	10%	11%	3%	6%
£25,000+ excl DK	27%	21%	35%	68%

Q41/59 All successful applications for finance – new definition from Q1 2018



Half of bank overdrafts granted were for less than £5,000. Just over half of bank loans granted were for between £5,000 and £25,000:

H1 18 – size of facility granted	Total	Bank OD	Bank Loan
Unweighted base:	539	149	127
Less than £5,000	30%	53%	9%
£5,000 to £24,999	37%	18%	56%
£25,000 to £99,999	14%	16%	14%
£100,000 or more	10%	4%	8%
Don't remember	10%	10%	14%
£25,000+ excl DK	27%	21%	25%

Q41/59 All successful applications for finance – new definition from Q1 2018

In the Q4 2017 Monitor report, 14% of overdrafts and 36% of loans granted were for £25,000 or more and 36% of loans. Note that the loans category previously included commercial mortgages which would have increased the average amount granted (around three quarters of the small group of commercial mortgages reported in H1 2018 were for £25,000 or more).



The table below provides further information on the applications that were successful, with half requiring security and 6 in 10 being on a fixed interest rate:

Successful applications for finance reported H1 2018

Security	<p>Almost half of all successful applications (46% excluding DK answers) required security. Those with a facility from their main bank were somewhat less likely to require security (40%) than those applying to another provider known to them (70%). There was less variation by size of applicant (41% of applications made by SMEs with 1-9 employees to 57% of those with 50-249 employees).</p> <p>Around a third of both loans and overdrafts were secured. Bank overdrafts were as likely to be secured as they were previously (33% of successful applications v 38% in the Q4 2017 report) while loans were slightly less likely to be secured (37% v 55% in the Q4 2017 report excluding commercial mortgages).</p>
Interest rate	<p>63% of successful applications were on a fixed interest rate (excluding DK answers). This was most likely to be the case for those using a new provider to them (93%) and those applicants with 1-9 (78%) or 10-49 (79%) employees.</p> <p>46% of successful bank overdraft applications were on a fixed rate, in line with previous reports (46%). Successful loan applications were more likely to be on a fixed rate (74%) and this is also in line with previous reports (72%).</p>

Q42/60 and Q43/61 All successful applications for finance – new definition from Q1 2018 excluding DK



Unsuccessful applications

12% of all applications reported in H1 2018 were declined (excluding those waiting to hear). On limited base sizes, the types of SME more likely to be declined included:

- Those applying for a bank loan – 30% of applications but 65% of declines
- Those with 10-49 employees - 8% of applications but 15% of declines
- Those applying to a new provider – 6% of applications but 12% of declines
- First time applicants – 53% of applications, 68% of declines

Any applicants who were declined by their main bank were asked further questions about the way the decline was handled. This question was asked once to each SME, rather than for *each* main bank decline (if they had more than one). This means that base sizes will not tally exactly with previous analysis.

48 SMEs had been turned down by their main bank for a finance product or products, so limited analysis is available at this stage.

Unsuccessful applications for finance reported H1 2018

Bank response	<p>Two thirds of these unsuccessful applicants said that the bank explained to them why it could not offer them the facility they had applied for. This was slightly more likely to be the case for the smallest applicants.</p> <p>8% were asked to supply more information (typically the larger applicants) and 5% were referred to an external source of advice.</p> <p>Three quarters said that the bank had taken some action (including on appeals or referrals described below).</p>
Referrals	<p>2 applicants said that they were offered the opportunity to have their application referred to an online platform. Both applicants had 10-49 employees and neither took up the offer of a referral.</p>
Appeals	<p>12% of these applicants said they were made aware of their bank's appeals process. No further information is available on the outcome.</p>

Q46/64 and Q47/65 All unsuccessful applicants for finance at main bank – new definition from Q1 2018



Satisfaction with the way the application was handled

SMEs were asked, for each application that had received a response, how satisfied they were with the way the application had been handled. Overall 8 in 10 were satisfied, with satisfaction somewhat lower for applications made by SMEs with 10-49 employees (75%) who were also less likely to have ended the application process with a facility:

H1 18 – Application handling satisfaction	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	642	85*	191*	283*	83*
Very satisfied	56%	59%	49%	55%	68%
Fairly satisfied	27%	26%	31%	20%	22%
Satisfied	83%	85%	80%	75%	90%
Not very satisfied	6%	6%	4%	7%	5%
Not at all satisfied	10%	8%	11%	16%	5%
Don't know	1%	-	4%	2%	-

Q45/63 All applications for finance that had received response – new definition from Q1 2018

Those who applied to a provider they knew were more likely to be satisfied with the way the application was handled:

H1 18 – Application handling satisfaction	Total	Main bank	Existing provider	New provider
Unweighted base:	642	402	124	65*
Very satisfied	56%	51%	81%	43%
Fairly satisfied	27%	32%	13%	36%
Satisfied	83%	83%	94%	79%
Not very satisfied	6%	7%	2%	1%
Not at all satisfied	10%	9%	4%	17%
Don't know	1%	1%	*	3%

Q45/63 All applications for finance that had received response – new definition from Q1 2018



Those who had applied for a bank overdraft were somewhat more satisfied with the applications process than those who applied for a bank loan:

H1 18 – Application handling satisfaction	Total	Bank OD	Bank Loan
Unweighted base:	642	184	175
Very satisfied	56%	49%	54%
Fairly satisfied	27%	38%	17%
Satisfied	83%	87%	71%
Not very satisfied	6%	7%	10%
Not at all satisfied	10%	5%	17%
Don't know	1%	2%	2%

Q45/63 All applications for finance that had received response – new definition from Q1 2018

In the previous SME Finance Monitor report, 76% of overdraft applicants and 69% of loan applicants had been satisfied with the application process they had been through.

Analysis of levels of satisfaction by the outcome of the application is still somewhat limited for some categories:

- 95% of applications where the SME was offered what they wanted resulted in a satisfied rating with the way the application had been handled (68% very satisfied). Similar overall satisfaction levels were recorded by those who got their facility after issues (9 in 10, with 5 in 10 very satisfied)
- 17% of declined applications were satisfied with the way the application had been handled, and 78% were dissatisfied
- Base sizes for the other groups are very limited, but those who turned down the product offered were less satisfied than those who took another product offered by the provider



Impact of the overall application process

Those who had applied for finance to meet a need for funding and those who reported making any other application for new or renewed finance were then asked some further questions about the impact on the SME of this/these application(s):

- All those applying for finance to meet a need for funding were then asked (once) how satisfied they were with the outcome of their Type 1a funding application(s) to meet that need.
- Similarly, those applying for other new or renewed finance were asked (once) how satisfied they were with the outcome of this/ these Type 1b application(s).

An individual respondent can therefore appear a maximum of twice in the results below while those who had not yet heard about their application(s) were excluded from this question.

415 applicant responses have been reported and almost 8 in 10 were satisfied with the outcome of their application(s):

H1 18 – Application outcome satisfaction	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	415	55*	131	179	50*
Very satisfied	56%	57%	55%	55%	76%
Fairly satisfied	22%	21%	25%	26%	17%
Satisfied	78%	78%	80%	81%	93%
Not very satisfied	6%	6%	6%	7%	1%
Not at all satisfied	14%	16%	11%	9%	4%
Don't know	1%	-	4%	3%	1%

Q46/64 All applicants for finance that had received response – new definition from Q1 2018

Almost all of the small group of largest SME applicants were satisfied with their outcome (93%), declining somewhat by size to 78% of 0 employee applicants.

Analysis by whether the facility was granted or not is limited at this stage, but amongst those

who were granted everything they applied for, 95% were satisfied with the overall outcome, compared to 6 in 10 who got a mixed response (some facilities granted and some declined) and 1 in 10 of those who were declined for everything they applied for.



Those applicants that were less than 'very satisfied' with the outcome of their application were asked whether there had been any negative impact on the running of their business as a result of these applications not being entirely satisfactory. In order to present the views of all applicants, the table below also

includes those who were very satisfied with the outcome of their application (and not asked this question) and shows that 8 in 10 were either very satisfied with the outcome of their application or said that there had been no negative impact:

H1 18 – Application outcome satisfaction	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	415	55*	131	179	50*
Very satisfied	56%	57%	55%	55%	76%
No adverse impact	24%	24%	23%	26%	14%
Very satisfied / no adverse impact	80%	81%	78%	81%	90%
Running the business more of a struggle	8%	7%	10%	11%	5%
Not expanded as would have liked	8%	11%	1%	9%	*
Made spending cuts	8%	11%	3%	5%	1%
Deferred expenditure/investment	5%	7%	2%	2%	1%
Not improved business as would have liked	6%	7%	3%	6%	-
Made staff redundant	1%	-	3%	2%	1%
Other negative impact	6%	8%	2%	1%	4%
Don't know	1%	-	4%	3%	1%

Q46/64 and Q49/67 All applicants for finance that had received response – new definition from Q1 2018

The most frequently mentioned negative impacts (as in previous Monitor reports) were that running the business was more of a struggle, expansion had been limited or spending cuts made, all more likely to be mentioned by smaller applicants and the small group where facilities were not granted.