

8. An overview of borrowing events



This chapter provides

Information on the number and range of borrowing events now captured on the SME Finance Monitor.



Key findings

4% of SMEs in H1 2018 reported a Type 1 borrowing event (an application for new or renewed finance).

- 2% made an application for finance as a result of a need for funding – a Type 1a event.
- 2% made an application for other new/renewed finance (a Type 1b event).
- Less than 1% said that any other application for borrowing had taken place.
- Despite adding new products and providers, the proportion of SMEs reporting a Type 1 event in H1 2018 was no different to 2017 (5%).

9% of SMEs reported that their overdraft had been automatically renewed (50% of all SMEs with an overdraft).

3% of SMEs reported that either they, or their bank, had decided to reduce or pay off a facility early (a Type 2/3 event).

Overall, 15% of all SMEs reported any of the borrowing events detailed above.

- This increased by size of SME (from 13% of those with 0 employees to 39% of those with 50-249 employees) as a result of more of the larger SMEs having their overdraft automatically renewed.
- There was little difference by risk rating (13% to 17%) or by sector with the exception of Agriculture (20%).
- Starts were the most likely to report an event (22%) compared to 11-14% of other SMEs by age.
- Those using external finance were more likely to report an event (36%) than those not using finance (4%) and excluding the PNBs increased the proportion of events amongst remaining SMEs to 29%.



This is the second of four revised chapters looking at borrowing events in the wider finance market beyond loans and overdrafts:

- The previous chapter looked at whether SMEs identified a need for external funding and what steps they took as a result of that need, including whether they applied for finance (a Type 1a borrowing event)
- This chapter provides an overview of all borrowing ‘events’ (including Type 1a events), and the types of SME more or less likely to have had such events
- Chapter 9 looks at all the borrowing events reported in more detail
- Chapter 10 looks specifically at the Type 1 borrowing events, the final outcome of the applications made and the impact on the SME

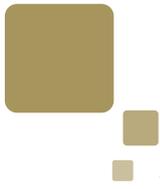
The information gathered on these events is not always directly comparable with that gathered for previous reports, but where possible historical data is shown for context. Before looking at the latest findings, the summary below looks at the changes made to how borrowing events have been defined from Q1 2018.

Borrowing event definitions 2011-2017

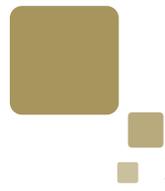
Previous SME Finance Monitor reports have focussed primarily on loan and overdraft borrowing ‘events’ reported over time by different demographics. The borrowing events include Types 1-3 described below:

- Type 1: an application for a new or renewed loan or overdraft facility. In 2017, 5% of SMEs reported such an event increasing by size from 4% of 0 employee SMEs to 10% of those with 50-249 employees
- Type 2: a decision to cancel or re-negotiate a loan or overdraft facility by the bank ahead of time. In 2017, 1% of SMEs reported such an event
- Type 3: a decision to reduce or pay of a loan or overdraft facility early by the SME. In 2017, 1% of SMEs reported such an event
- In addition, those SMEs that had an overdraft were asked if this had been automatically renewed for them in the previous 12 months. In 2017, half of SMEs with an overdraft (51%) said that it has been automatically renewed, the equivalent of 9% of all SMEs

Type 1-3 borrowing events, plus the automatic renewal of an overdraft all contributed to the previous net ‘Had an event’ code that sat beside ‘Would-be seekers’ and ‘Happy non-seekers’ to summarise behaviour in the 12 months prior to interview. In 2017, 15% of all SMEs reported a borrowing event.



SMEs were also asked whether they had applied for a range of other forms of finance, such as credit cards or invoice financing. In 2017, 12% had applied for any of the forms of finance listed, increasing by size from 11% of 0 employee SMEs to 26% of those with 50-249 employees. Including these events with the others detailed above increased the proportion of all SMEs reporting any borrowing event in 2017 to 24%.



New borrowing event definitions from Q1 2018

From Q1 2018, SMEs have been asked more broadly about borrowing events across a range of products and providers, not just loans and overdrafts. SMEs could have had one or more of these events, or none:

- Type 1a: Where a need for funding resulted in a borrowing event (involving any product and any provider) – reported in the previous chapter
- Type 1b: Where the SME had (also) applied for any other new or renewed facility, from a list of major products
- Type 1c: Any other application made and not already mentioned
- Where the SME's overdraft had been automatically renewed
- Type 2/3 events: Where the SME or the finance provider had sought to cancel or re-negotiate a facility before it was due to be repaid

These new events are summarised below for H1 2018 and show the continuing low levels of applications for finance amongst SMEs. In H1 2018, with the new questions, 15% of SMEs reported any borrowing event, with 4% reporting a Type 1 event:

Borrowing events in the previous 12 months		0	1-9	10-49	50-249
H1 2018 all SMEs	Total	emp	emps	emps	emps
Unweighted base:	9000	1800	2900	2900	1400
Type 1 event:	4%	3%	5%	7%	4%
1a: New application re need for funding	2%	2%	3%	5%	2%
1b: New/renewed application for specific finance	2%	1%	3%	3%	2%
1c: Any other new/renewed application	*	*	*	-	-
Type 2/3: Cancel/pay off by bank or SME	3%	3%	2%	4%	4%
Automatic renewal of an overdraft	9%	8%	10%	14%	33%
Any borrowing event	15%	13%	16%	23%	39%

Pastevt Q31/50/50a/70/71/75 (25/26) All SMEs – new definition from Q1 2018

Larger SMEs remained more likely to report a borrowing event but this was primarily due to a higher proportion of automatic renewals. The 50-249 SMEs were the only group to record a similar level of borrowing events in H1 2018 to 2017 as a whole (Overall, 24% of SMEs in 2017 reported any form of borrowing event).



Analysis by risk rating shows that those with a minimal or low risk rating were somewhat more likely to report a borrowing event than those with an average or worse than average rating, primarily due to a higher proportion of automatic overdraft renewals:

Borrowing events in the previous 12 months

H1 2018 all SMEs with risk rating	Total	Min	Low	Avg	Worse/ Avg
Unweighted base:	9000	1508	2729	2049	2099
Type 1 event	4%	3%	4%	4%	4%
1a: New application re need for funding	2%	2%	3%	2%	3%
1b: New/renewed application for specific finance	2%	1%	2%	2%	1%
1c: Any other new/renewed application	*	-	-	*	*
Type 2/3: Cancel/pay off by bank or SME	3%	3%	3%	3%	3%
Automatic renewal of an overdraft	9%	12%	10%	9%	8%
Any borrowing event	15%	17%	16%	15%	13%

Pastevt Q31/50/50a/70/71/75 (25/26) All SMEs – new definition from Q1 2018

Those in Agriculture remained somewhat more likely to report a Type 1 (or indeed any) borrowing event:

Borrowing events in last 12 months

H1 18 – all SMES	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Hlth SWrk	Other Comm
Unweighted base:	600	750	1600	900	600	1001	1799	750	1000
Type 1 event	8%	4%	2%	6%	5%	6%	3%	3%	4%
1a: re need for funding	5%	3%	1%	5%	5%	3%	2%	1%	2%
1b: re specific finance	4%	1%	1%	1%	2%	3%	1%	2%	3%
1c: Any other	*	-	-	-	-	*	*	-	-
Type 2/3	4%	2%	3%	3%	3%	4%	3%	3%	4%
Auto renewal	11%	10%	10%	10%	7%	8%	7%	9%	8%
Any borrowing event	20%	16%	14%	17%	14%	16%	12%	15%	15%

Pastevt Q31/50/50a/70/71/75 (25/26) All SMEs – new definition from Q1 2018



Analysis by age of business shows that 22% of Starts reported a borrowing event, compared to 11-14% of older SMEs. This was due to more Starts reporting the automatic renewal of an overdraft facility, as they were no more likely to report a Type 1 event:

Borrowing events in the previous 12 months					
H1 2018 all SMEs	Starts	2-5 yrs	6-9 yrs	10-15 yrs	15 yrs+
Unweighted base:	200	893	1019	1594	4586
Type 1 event	5%	4%	4%	4%	3%
1a: New application re need for funding	3%	3%	3%	2%	2%
1b: New/renewed application for specific finance	3%	1%	1%	2%	2%
1c: Any other new/renewed application	*	*	-	*	-
Type 2/3: Cancel/pay off by bank or SME	5%	3%	4%	2%	3%
Automatic renewal of an overdraft	14%	5%	5%	9%	8%
Any borrowing event	22%	11%	12%	14%	14%

Pastevt Q31/50/50a/70/71/75 (25/26) All SMEs – new definition from Q1 2018

Those already using finance were more likely to report a borrowing event (36%) compared to 4% of those not using finance. Excluding the almost half of SMEs who are PNBs from the analysis increased the proportion of remaining SMEs with a borrowing event to 29%, with 8% having a Type 1 event:

Borrowing events in the previous 12 months				
H1 2018 all SMEs	Total	Use finance	No finance	All excl PNB
Unweighted base:	9000	4517	4483	5603
Type 1 event	4%	9%	1%	8%
1a: New application re need for funding	2%	5%	1%	5%
1b: New/renewed application for specific finance	2%	4%	1%	3%
1c: Any other new/renewed application	*	*	-	*
Type 2/3: Cancel/pay off by bank or SME	3%	5%	3%	6%
Automatic renewal of an overdraft	9%	25%	-	17%
Any borrowing event	15%	36%	4%	29%

Pastevt Q31/50/50a/70/71/75 (25/26) All SMEs – new definition from Q1 2018



The table below summarises the incidence of any borrowing event by key demographics (and will build over time). Larger SMEs and those with a better risk rating were more likely to report such an event, as were those in Agriculture. Once the PNBs are excluded, 3 in 10 remaining SMEs reported a borrowing event:

Had any borrowing event

By date of interview

Over time – row percentages

H1 2018

	H1 2018
All SMEs	15%
0 employee	13%
1-9 employees	16%
10-49 employees	23%
50-249 employees	39%
Minimal external risk rating	17%
Low external risk rating	16%
Average external risk rating	15%
Worse than average external risk rating	13%
Agriculture	20%
Manufacturing	16%
Construction	14%
Wholesale/Retail	17%
Hotels & Restaurants	14%
Transport	16%
Property/Business Services etc.	12%
Health	15%
Other Community	15%
All SMEs excluding Permanent non-borrowers	29%
Current using external finance	36%
Not currently using external finance	4%