

# 9. Borrowing events in more detail



## **This chapter provides**

More detail on the various borrowing events now reported.



## Key findings

2% of SMEs applied for finance as a result of a need for funding (a Type1a event).

- 69% applied to their main bank, 21% to another provider they were already using, 15% to a new provider and 12% to an online platform.
- 9 in 10 applications to the main bank involved a loan or an overdraft (48% for a loan and 41% for an overdraft).
- Applications to other existing providers and new providers were more varied, although loans remained popular at around a third of all applications. 20% of applications to an existing provider related to leasing and 17% to a commercial mortgage. 22% of applications to a new provider were also for a commercial mortgage.

2% of SMEs made any other application for new or renewed finance (a Type1b event).

- These events were more overdraft focussed (63%) with 8 in 10 applying for core finance of some sort.
- Almost all those applying for an overdraft (99%) applied to their main bank. Loan applications were more varied (65% to main bank) while almost half of leasing applications (44%) went to another existing provider.

9% of SMEs reported an automatic overdraft renewal, representing half of SMEs with an overdraft.

- Since the start of 2017, a consistent half of all SMEs with an overdraft have reported that it was automatically renewed.
- Automatic renewals were more frequent amongst larger SMEs (65% of overdraft users with 50-249 employees).



---

3% of SMEs reported that they, or their bank, had sought to cancel /renegotiate a facility before it was due (a Type 2/3 event), little changed over time.

- 1% of SMEs reported that the bank had sought to cancel/renegotiate a facility, with little variation by size (1-2%).
- 2% of SMEs reported that they had sought to cancel/renegotiate a facility, also with little variation by size (2-3%).



This is the third of four revised chapters looking at borrowing events in the wider finance market beyond loans and overdrafts. The previous chapter identified how many SMEs had reported borrowing events, both overall and by different demographics. This chapter looks at each of these four types of event in more detail:

- Type 1a: Where a need for funding had resulted in a borrowing event (involving any product and any provider). These are an updated and extended equivalent to the previously recorded Type 1 applications for new/renewed loan or overdraft facilities and more information about the types of application made is provided below. The final outcome of these applications is covered in the next chapter (10)
- Type 1b: Where the SME has (also) applied for any other new or renewed facility, from a list of major products. These are also part of the updated and extended equivalent to the previously recorded Type 1 applications for new/renewed loan or overdraft facilities and more information about the types of application made is provided below. The final outcome of these applications is covered in the next chapter (10)
- Type 1c: Any other application made and not already covered (reported by very few SMEs and no further information is available)
- Where the SMEs overdraft had been automatically renewed - limited information is available on these events but is reported below
- 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 (Limited information is available on these events but is reported below)

In previous Monitor reports, where application data had built up over time, reporting of borrowing events was based on those that had occurred in the last 18 months (irrespective of date of interview). Given that most of the data below is available for the first time, base sizes are limited and so this chapter is based on all applications reported during interviews in Q1 and Q2 2018 (which might have occurred from Q1 2017 onwards).



## Type 1a applications to meet a need for funding

As already reported, in H1 2018, 4% of SMEs reported having had a need for funding. 59% of them went on to make a new application for finance (the equivalent of 2% of all SMEs):

- 69% of Type 1a applicants applied to their main bank (the equivalent of 2% of all SMEs)
- 21% applied to another provider they were already using
- 15% applied to a new provider they had not been using
- 12% applied to an online platform

The table below shows the products applied for at each of these providers, where base sizes permit. Applications to online platforms are described qualitatively where possible:

- Applications to the main bank were primarily for loans or overdrafts (90%). Applications to other and new providers were more varied, with loans much more popular than overdrafts and commercial mortgages and leasing featuring more

H1 18 – all SMEs with a Type 1a event	Main bank	Existing provider	New provider
<b>Unweighted base:</b>	<b>198</b>	<b>78</b>	<b>45*</b>
Bank Loan	48%	32%	33%
Bank Overdraft	41%	2%	4%
Credit cards	5%	-	-
Other loan	4%	5%	6%
Commercial mortgage	2%	17%	22%
Leasing	1%	20%	4%
Invoice finance	1%	2%	1%
Other product	2%	6%	16%
DK	3%	21%	17%

Q33\_1-3 NEW All SMEs meeting a need for funding with an application



## Type 1b other applications

Aside from an application arising from a need for finance, all SMEs were also asked whether they had applied for any (other) new or renewed finance in the previous 12 months, over and above any Type 1a events they had already reported.

2% of all SMEs said they had and the profile of SMEs making these Type 1b applications was reported in Chapter 8.

8 in 10 of those who had applied for any form of finance had applied for a 'core' product with 6 in 10 applying for an overdraft (new or renewed):

<b>Type of finance applied for</b>	<b>Total</b>	<b>0-9 emp</b>	<b>10-249 emps</b>
<b>H1 18 – all SMEs with Type 1b event</b>			
<b>Unweighted base:</b>	<b>210</b>	<b>99</b>	<b>111</b>
<b>Core forms of finance:</b>			
-Bank overdraft	63%	64%	45%
-Credit cards	15%	15%	19%
-Bank loan	36%	38%	23%
-Commercial mortgage	10%	10%	9%
-Any other overdraft*	14%	14%	10%
-Any other loan*	7%	6%	17%
<b>Other forms of finance:</b>			
-Leasing or hire purchase	19%	17%	36%
-Loans from directors, family & friends	4%	5%	2%
-Equity from directors, family & friends	-	-	-
-Invoice finance	6%	5%	11%
-Grants	6%	5%	7%
-Crowd funding / peer to peer*	4%	4%	2%
-Asset based lending*	5%	5%	6%
-Selective/single invoice finance*	4%	5%	2%
Something else	13%	14%	8%

Q51 All SMEs who had applied for finance at Q50/a- new definition from Q1 2018\*



Sample sizes are very limited at this stage. Typically between a half and two thirds of applications were for new rather than renewed facilities, the main exception being overdrafts, where around a third were for a new rather than a renewed facility.

If a respondent mentioned a product at this stage that they had already mentioned applying for as a Type 1a event to meet a funding need, then no further questions were

asked about that product. (16% of Type 1b applicants had also reported a Type 1a event). Such SMEs were still asked about any other products they had applied for.

The table below shows where these applications were made, by product, where base sizes allow. While bank overdrafts were typically sourced from the main bank, bank loans and leasing were more likely to be applied for away from the main bank:

### Where applied to

H1 18 – all SMEs with Type 1b event

Overdraft

Bank loan

Leasing

**Unweighted base:**

97

48\*

64\*

Main bank

99%

65%

7%

Other provider known

-

8%

44%

New provider

-

2%

11%

Finance platform

-

-

1%

Other provider

1%

26%

37%

Q52 NEW All SMEs applying for product

An individual SME could have made one or more Type 1a applications for a funding need and/or made one or more other type 1b applications. As a result, further analysis has been provided in the next chapter at *application* rather than SME level (so an SME that made two applications will appear twice in the data reporting on potentially different experiences and outcomes).

The rest of this chapter provides the more limited information available on Type 2/3 events and the automatic renewal of overdraft facilities.



## Type 2 and Type 3 events

All SMEs were asked whether either of the following had happened to them:

- A bank sought to cancel or renegotiate a facility before it was due to be repaid
- The SME decided to cancel or renegotiate a facility before it was due to be repaid

In previous SME Finance Monitor reports, 1-2% of SMEs reported such an event.

As the table below shows, 3% of SMEs reported any of these events in H1 2018 and this was slightly more likely to have been due to the SME deciding to cancel or renegotiate a facility:

Type 2/3 events in the previous 12 months		0	1-9	10-49	50-249
H1 2018 all SMEs	Total	emp	emps	emps	emps
<b>Unweighted base:</b>	<b>9000</b>	<b>1800</b>	<b>2900</b>	<b>2900</b>	<b>1400</b>
Type 2/3: Cancel/pay off by bank or SME	3%	3%	2%	4%	4%
• Bank sought to cancel/renegotiate	1%	1%	1%	1%	2%
• SME sought to cancel/renegotiate	2%	3%	2%	2%	3%
No Type 2/3 event	97%	97%	98%	96%	96%

Q75 (25/26) All SMEs – new definition from Q1 2018

Excluding the PNBs increases the proportion of Type 2/3 events to 6% of remaining SMEs, 2% where the bank looked to make a change and 5% where the SME did so. There was little variation by risk rating or sector.



## Automatic renewal of overdrafts

Overdrafts are usually granted for a period of 12 months or less, but it was apparent in early Monitor reports that not all those with an overdraft facility went on to report having had an overdraft ‘event’ in the 12 months prior to interview.

To explore this further, such SMEs were asked whether, in the previous 12 months, their bank had automatically renewed their overdraft

facility at the same level, for a further period, without their having to do anything. This question was not changed in the Q1 2018 re-design and data over time is provided.

As the table below shows, about half of SMEs with an overdraft reported that it had been automatically renewed (51% in Q2 2018) and this is the equivalent of around 1 in 10 of all SMEs (9% in Q2 2018):

### Experienced an automatic renewal in previous 12 mths

By date of interview

– over time

Row percentages

	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018
SMEs with overdraft	48%	52%	38%	47%	49%	54%	52%	48%	51%
‘All SMEs’ equivalent	8%	8%	8%	6%	10%	11%	10%	8%	9%

Q71/15 (15/ 26/26a) All SMEs who now have an overdraft/all SMEs



The summary table below shows that amongst SMEs with an overdraft, 50% reported an automatic renewal and these were more common amongst larger SMEs and those in Manufacturing or Hotels & Restaurants. The equivalent of 9% of all SMEs in H1 2018 reported an automatic renewal:

### Automatic renewals H1 2018

By date of interview – row percentages	All with Overdraft	All SMEs equivalent
<b>All SMEs</b>	<b>50%</b>	<b>9%</b>
0 employee	48%	8%
1-9 employees	54%	10%
10-49 employees	52%	14%
50-249 employees	65%	33%
Minimal external risk rating	51%	12%
Low external risk rating	52%	10%
Average external risk rating	53%	9%
Worse than average external risk rating	47%	8%
Agriculture	45%	11%
Manufacturing	58%	10%
Construction	58%	10%
Wholesale/Retail	46%	10%
Hotels & Restaurants	50%	7%
Transport	53%	8%
Property/Business Services etc.	58%	7%
Health	31%	9%
Other Community	45%	8%
All SMEs excluding Permanent non-borrowers	-	17%
Current using external finance	-	25%
Not currently using external finance	-	-

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