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BORROWING EVENTS IN MORE DETAIL

THIS CHAPTER PROVIDES

more detail on the borrowing events now reported in the SME Finance Monitor.

KEY FINDINGS

2% of SMEs reported a Type 1a borrowing event (an application for new finance as a result of a need for funding). Overall, 7 in 10 Type 1a applicants applied for a core form of finance, including 39% applying for a bank loan and 26% for a bank overdraft

- 63% applied to their main bank, typically for a bank loan (50%) or bank overdraft (38%)
- 19% applied to another provider they were already using, typically for a bank loan (46%) or leasing/hp (14%)
- 22% applied to a new provider and again a bank loan (32%) and leasing/hp (17%) were most likely to be mentioned

2% of SMEs reported a Type 1b borrowing event (another application for new or renewed finance not as a result of a need for funding). Three quarters of Type 1b applicants applied for a core form of finance, including 58% applying for a bank overdraft and 26% for a bank loan

- 66% applied to their main bank, typically for a bank overdraft (82%) or bank loan (23%)
- 13% applied to another provider they were already using, typically for leasing/hp (51%) or a commercial mortgage (35%)
- 6% applied to a new provider and again leasing/hp (58%) was most likely to have been applied for

48% of SMEs with an overdraft said that it had been automatically renewed in the previous 12 months, the equivalent of 9% of all SMEs

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).
- 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).
- Note that Type 1c events (any other application made and not already covered) were reported by very few SMEs and no further information is available on them.

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 the date of interview). Given that most of the data below is only available for interviews conducted from Q1 2018, base sizes are limited and so this chapter is currently based on all applications reported during interviews in 2018 (which might have occurred from Q1 2017 onwards).

Analysis by application date will be introduced as base sizes increase – these were previously reported in 18 month periods and so the current 24 month timeframe is only slightly longer than that previously used.

BORROWING EVENTS IN PAST 12 MONTHS – A SUMMARY

As detailed in the last chapter, and provided here for reference, 14% of SMEs reported any form of borrowing event in the previous 12 months, with the most common event the automatic renewal of an existing overdraft facility:

Borrowing events in the previous 12 months		0	1-9	10-49	50-249
YEQ4 18 all SMEs	Total	emp	emps	emps	emps
Unweighted base:	18,002	3602	5800	5800	2800
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%	2%	3%	2%
1c: Any other new/renewed application	*	*	*	*	*
Type 2/3: Cancel/pay off by bank or SME	2%	2%	3%	3%	3%
Automatic renewal of an overdraft	9%	8%	11%	12%	27%
Any borrowing event	14%	13%	17%	21%	32%

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

Each of these events is explored in more detail in the remainder of the chapter.

TYPE 1A APPLICATIONS TO MEET A NEED FOR FUNDING

In 2018, 4% of SMEs reported having had a need for funding. 63% of them went on to make a new application for finance (the equivalent of 2% of all SMEs). As the table below shows, most of these applications were for a loan or overdraft with 7 in 10 applicants applying for a 'core' form of finance:

Type of finance applied for YEQ4 18 – all SMEs with Type 1a event	Total	0-9 emp	10-249 emps
Unweighted base:	572	256	316
Bank Overdraft	26%	26%	33%
Bank Loan	39%	39%	39%
Commercial mortgage	4%	4%	9%
Credit cards	2%	3%	2%
Other overdraft	*	*	-
Other loan	3%	4%	2%
Leasing/hire purchase	5%	5%	7%
Invoice finance	1%	1%	3%
Other specified product	6%	6%	2%
DK	19%	19%	22%

Q33 NEW All SMEs meeting a need for funding with an application

Analysis of the 2% of SMEs applying to meet a funding need showed that:

- 63% of Type 1a applicants applied to their main bank
- 19% applied to another provider they were already using
- 22% applied to a new provider they had not been using previously
- 8% applied to an online platform.

The table below shows the products applied for at each of these providers, where base sizes permit.

YEQ4 18 – all SMEs with a Type 1a event	Main bank	Existing provider	New provider
Unweighted base:	383	139	102
Bank Overdraft	38%	4%	10%
Bank Loan	50%	46%	32%
Commercial mortgage	4%	10%	8%
Credit cards	3%	11%	2%
Other overdraft	-	-	*
Other loan	2%	3%	10%
Leasing/hire purchase	3%	14%	17%
Invoice finance	*	1%	1%
Other specified product	2%	8%	17%
DK	5%	20%	7%

Q33_1-3 NEW All SMEs meeting a need for funding with an application

- Applications to the main bank were primarily for loans or overdrafts (88%). Applications to other and new providers were more varied, with loans much more popular than overdrafts and commercial mortgages and leasing featuring more.
- 35 respondents applied to an online platform, almost half of them for a loan.

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.

As already reported for Type 1a applications, most Type 1b applications involved a 'core' finance product. Three quarters (77%) 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):

Type of new/renewed finance applied for YEQ4 18 – all SMEs with Type 1b event	Total	0-9 emp	10-249 emps
Unweighted base:	406	188	218
Bank Overdraft	58%	59%	50%
Bank Loan	26%	26%	25%
Commercial mortgage	9%	9%	9%
Credit cards	10%	10%	19%
Other overdraft	8%	8%	9%
Other loan	5%	4%	10%
Leasing/hire purchase	16%	15%	32%
Invoice finance	4%	3%	8%
Other specified product	9%	8%	19%
Something else	17%	18%	7%

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

Analysis showed that most applications were made to the main bank, as for Type 1a applications:

- 66% of Type 1b applicants applied to their main bank
- 13% applied to another provider they were already using
- 6% applied to a new provider they had not been using previously
- 2% applied to an online platform
- 13% applied somewhere else.

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. (12% 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 the products applied for at three of these providers, albeit base sizes are somewhat limited. Those applying to their main bank were typically applying for an overdraft, while applications to another existing provider covered a wider range of products. 6 in 10 of those who applied to a new provider were looking for leasing/hire purchase:

YEQ4 18 – all SMEs with a Type 1b event	Main bank	Existing provider	New provider
Unweighted base:	264	79*	43*
Bank Overdraft	82%	3%	17%
Bank Loan	23%	14%	2%
Commercial mortgage	6%	35%	*
Credit cards	14%	6%	6%
Other overdraft	8%	18%	*
Other loan	1%	18%	1%
Leasing/hire purchase	2%	51%	58%
Invoice finance	1%	19%	2%
Other specified product	4%	18%	7%

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

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, 2% of SMEs reported any of these events in 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
YEQ4 18 all SMEs		emp	emps	emps	emps
	Total				
Unweighted base:	18,002	3602	5800	5800	2800
Type 2/3: Cancel/pay off by bank or SME	2%	2%	3%	3%	3%
• Bank sought to cancel/renegotiate	1%	1%	1%	1%	1%
• SME sought to cancel/renegotiate	2%	2%	2%	2%	2%
No Type 2/3 event	98%	98%	97%	97%	97%

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

Excluding the PNBs increases the proportion of Type 2/3 events to 5% of remaining SMEs, 1% where the bank looked to make a change and 3% 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, typically about half of SMEs with an overdraft reported that it had been automatically renewed, although the figure for Q4 2018 was slightly lower (44%). This is the equivalent of around 1 in 10 of all SMEs (9% in Q4 2018):

Experienced an automatic renewal in previous 12 mths

By date of interview

– over time

Row percentages

	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018
SMEs with overdraft	38%	47%	49%	54%	52%	48%	51%	47%	44%
‘All SMEs’ equivalent	8%	6%	10%	11%	10%	8%	9%	9%	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, 48% reported an automatic renewal and these were more common amongst those with 1-9 employees and those in Manufacturing. The equivalent of 9% of all SMEs YEQ4 2018 reported an automatic renewal (17% once the PNBs were excluded):

Automatic renewals YEQ4 2018

By date of interview – row percentages	All with Overdraft	All SMEs equivalent
All SMEs	48%	9%
0 employee	45%	8%
1-9 employees	54%	11%
10-49 employees	48%	12%
50-249 employees	50%	27%
Minimal external risk rating	48%	11%
Low external risk rating	54%	11%
Average external risk rating	51%	10%
Worse than average external risk rating	42%	7%
Agriculture	44%	11%
Manufacturing	58%	10%
Construction	49%	9%
Wholesale/Retail	45%	10%
Hotels & Restaurants	46%	9%
Transport	50%	9%
Property/Business Services etc.	52%	7%
Health	33%	9%
Other Community	52%	10%
All SMEs excluding Permanent non-borrowers	-	17%
Current using external finance	-	24%
Not currently using external finance	-	-

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