

# 11

## NOT LOOKING TO BORROW

### **THIS CHAPTER PROVIDES**

at those that had not had a borrowing event, to explore whether they wanted to apply for finance in the previous 12 months and any barriers to applying.

## KEY FINDINGS

**An unfulfilled wish to borrow:** 14% of SMEs YEQ2 2019 reported a borrowing event in the previous 12 months. The remainder split into two groups: the Would-be seekers who wanted to apply but something stopped them (2% of SMEs) and the largest group, the Happy non-seekers who had not wanted to apply for any (more) finance (84% of SMEs)

**Would-be seekers:** 2% of all SMEs met the definition of a Would-be seeker of finance with little variation by company size or risk rating

- Over time the proportion of Would-be seekers has declined from 10% in 2012 to 2% from 2016 onwards
- When asked why they had not applied for finance, 35% of WBS YEQ2 2019 cited issues with the process of borrowing, such as the expense and the hassle involved. 26% cited the principle of borrowing (not losing control or being able to raise personal funds if needed) and a similar proportion cited discouragement (25%, almost all of it, 21%, where the SMEs assumed they would be turned down and so didn't ask). Finally 13% cited the current economic climate
- Over time, discouragement and the process of borrowing have typically been the key reasons for not applying for finance. In the most recent period, H1 2019, there were more mentions of the principle of borrowing (37%) ahead of discouragement (29%) but behind the process of borrowing (47%)
- Attitudinally, would-be seekers had similar attitudes to those who reported a borrowing event, but they were more likely to feel that it would be difficult for them to get finance (62%), slightly more likely to be feeling cautious about an uncertain future (67%) and somewhat less likely to say they never thought about using more finance (42%)

**Happy non-seekers:** 84% of SMEs met the definition of a Happy non-seeker of finance YEQ2 2019

- Smaller SMEs were slightly more likely to meet the definition (85% of those with 0 employees compared to 76% of those with 50-249 employees)
- The proportion of HNS increased from 68% in 2012 to 84% in 2016 and has been stable since
- Since 2015, around a quarter of HNS have been using external finance (but have chosen not to apply for any more funding). In H1 2019 this proportion was somewhat higher (38%)
- Attitudinally, HNS were less likely than their peers to be prepared to take risks to be successful (40%), or to have an ambition to be much bigger (36%), or to be happy to use finance to grow (27%). They were though less likely to feel the future was uncertain (54%) or that it would be difficult for them to get finance (38%)

**The impact of a previous decline:** 3% of all SMEs had been declined at some stage in the past, with little variation by size of SME (2-4%)

- Three-quarters of those declined said that it had made them more reluctant to apply for finance subsequently. This is the equivalent of 2% of all SMEs
- Those made more reluctant by a past decline were though more likely to be using finance now (60%) and to have had a borrowing event in the previous 12 months (39%) but they were also more likely to have been a Would-be seeker of finance (14%, albeit less than 1% of all SMEs)

As already detailed in this report, a minority of SMEs reported any borrowing event in the 12 months prior to interview. This chapter looks in more detail at those that had not had a borrowing event, to explore whether they had wanted to apply for finance in the previous 12 months, and any barriers to such an application being made. Because this chapter covers those that have not had a borrowing event, analysis continues to be based on the date of interview.

## DEFINITIONS OVER TIME

In previous reports all SMEs were allocated to one of three groups, depending of their experience in the previous 12 months of both overdrafts and loans:

- **Had an event:** those SMEs reporting any Type 1, 2 or 3 loan or overdraft borrowing event in the previous 12 months, or an automatic renewal of an overdraft facility.
- **Would-be seekers:** those SMEs that had not had a loan or overdraft borrowing event/automatic renewal, and said something had stopped them applying for either loan or overdraft funding in the previous 12 months.
- **Happy non-seekers:** those SMEs that had not had a loan/overdraft borrowing event/automatic renewal, but said that nothing had stopped them applying for either loan or overdraft funding in the previous 12 months.

From Q1 2018, the scope of the SME Finance Monitor was widened to include more products than just loans and overdrafts. The definitions in this chapter have also been widened to cover all external funding, but the structure of the three groups remains essentially the same:

- **Had an event:** those SMEs reporting a Type 1 new or renewed borrowing event in the previous 12 months, or an automatic renewal of an overdraft facility, or any Type 2 or 3 borrowing event where either the bank or the SME was looking to reduce or repay an existing facility. These events were described in more detail in Chapter 8.
- **Would-be seekers:** those SMEs that not had a borrowing event of any kind and said something had stopped them applying for finance in the previous 12 months.
- **Happy non-seekers:** those SMEs that had not had a borrowing event of any kind, but said that nothing had stopped them applying for finance in the previous 12 months.

Where applicable, data is shown over time, accepting the changes made to the definitions in Q1 2018.

## TO WHAT EXTENT DO SMES HAVE AN UNFULFILLED WISH TO BORROW?

The table below details how many SMEs have met each of the three definitions over time. Whilst the nature of the events has changed slightly from Q1 2018, data is still comparable.

Over recent quarters, most SMEs met the definition of a Happy non-seeker of finance (83% in Q2 2019), while the proportion of Would-be seekers remained low (2% in Q2 2019). The proportion of SMEs reporting an event was 15% in Q2 2019, in line with recent quarters:

### Any events

Over time – all SMES By date of interview	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019
<b>Unweighted base:</b>	<b>4507</b>	<b>4505</b>	<b>4500</b>	<b>4500</b>	<b>4500</b>	<b>4502</b>	<b>4500</b>	<b>4500</b>	<b>4500</b>
Have had an event	15%	17%	18%	14%	15%	14%	13%	14%	15%
• <i>New or (auto) renewed facility</i>	13%	15%	16%	12%	12%	13%	12%	13%	14%
• <i>Type 2 or 3 events</i>	3%	2%	3%	3%	4%	2%	2%	2%	2%
Would-be seekers	2%	2%	2%	2%	1%	2%	1%	2%	2%
Happy non-seekers	82%	81%	80%	83%	83%	83%	85%	84%	83%

Pastevt All SMEs NEW DEFINITION Q1 2018

Happy non-seekers can, and do, use external finance (the definition is based on borrowing events in the previous 12 months, not use of finance). Since 2015 around a quarter of Happy non-seekers have been using external finance (28% for 2018), with the figure for H1 2019 somewhat higher (38%).

Permanent non-borrowers are by definition part of the Happy non-seekers group. The impact on the analysis above once these PNBs are removed is discussed later in the chapter.

## ANALYSIS BY KEY DEMOGRAPHICS

As in previous periods, SMEs with no employees were less likely to have had an 'event' than those with employees and were therefore somewhat more likely to meet the definition of a Happy non-seeker of finance:

<b>Any events</b>		0	1-9	10-49	50-249
YEQ2 19 All SMES	Total	emp	emps	emps	emps
<b>Unweighted base:</b>	<b>18,002</b>	<b>3602</b>	<b>5800</b>	<b>5800</b>	<b>2800</b>
Have had an event	14%	13%	18%	20%	24%
Would-be seekers	2%	2%	2%	1%	*
Happy non-seekers	84%	85%	79%	79%	76%

Pastfin All SMEs

SMEs with employees were more likely to have experienced a borrowing event (19%). 2% met the definition of a Would-be seeker of finance, with the largest group, as overall, the Happy non-seekers (79%).

There was little variation by risk rating, with around 8 in 10 SMEs in each category meeting the definition of a Happy non-seeker:

<b>Any events</b>		Min	Low	Avge	Worse/ Avge
YEQ2 19 All SMEs with a risk rating	Total				
<b>Unweighted base:</b>	<b>18,002</b>	<b>3291</b>	<b>5378</b>	<b>3913</b>	<b>3715</b>
Have had an event	14%	15%	16%	15%	13%
Would-be seekers	2%	1%	1%	2%	2%
Happy non-seekers	84%	85%	82%	83%	84%

Pastfin All SMEs

Those currently using external finance were no more or less likely to be a Would-be seeker (2% v 2% not using external finance) but remained much more likely to have had an event (30% v 3% of SMEs not using external finance).

The proportion of Would-be seekers varied relatively little by sector (1-2%). Only slightly more variation was seen in terms of Happy non-seekers, which accounted for 87% of those in the Health sector, compared to 78% of those in Wholesale/Retail (who were more likely to have had an event):

**Any events**

All SMEs YEQ2 19	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop / Bus	Hlth SWrk	Other Comm
<b>Unweighted base:</b>	<b>1200</b>	<b>1500</b>	<b>3200</b>	<b>1800</b>	<b>1200</b>	<b>2000</b>	<b>3600</b>	<b>1502</b>	<b>2000</b>
Have had an event	19%	14%	13%	20%	15%	14%	12%	10%	15%
Would-be seekers	1%	2%	1%	1%	2%	2%	1%	2%	2%
Happy non-seekers	80%	84%	85%	78%	82%	84%	85%	87%	81%

## Pastfin All SMEs

SMEs trading for up to 5 years were somewhat more likely to meet the definition of a would-be seeker, while Starts and those trading for 10 years or more were slightly more likely to have had a borrowing event. Those trading for 6-9 years were the most likely to have been a Happy non-seeker of finance (87%) with little variation otherwise by age:

**Any events**

All SMEs YEQ2 19	Starts	2-5 yrs	6-9 yrs	10-15 yrs	15+ yrs
<b>Unweighted base:</b>	<b>1815</b>	<b>1613</b>	<b>2152</b>	<b>2955</b>	<b>9467</b>
Have had an event	17%	12%	11%	15%	15%
Would-be seekers	2%	4%	1%	1%	1%
Happy non-seekers	82%	83%	87%	83%	84%

## Pastfin All SMEs

## ANALYSIS OVER TIME

The table below takes a longer term annual view back to 2012, accepting the changes to the questionnaire made over this period (summarised at the start of the chapter). The proportion of Happy non-seekers of finance rose steadily 2012 to 2016, as appetite for finance fell. Since 2017 appetite for finance may have stabilised:

<b>Any events</b>								H1
Over time – all SMEs	2012	2013	2014	2015	2016	2017	2018	2019
<i>Unweighted base:</i>	20,055	20,036	20,055	20,046	18,000	18,102	18,002	9000
Have had an event	23%	17%	16%	17%	13%	15%	14%	15%
Would-be seekers	10%	6%	5%	3%	2%	2%	2%	2%
Happy non-seekers	68%	77%	79%	80%	84%	83%	83%	83%

### Pastfin All SMEs

Analysis of SMEs with employees over time showed that they had also become less likely to have had an event (from 33% in 2012 to 19% in H1 2019), or to have been a Would-be seeker of finance (8% to 2%). As a result, the Happy non-seekers increased from 59% of SMEs with employees in 2012 to 79% in H1 2019.

The impact on these longer term trends once the Permanent non-borrowers are excluded is reported later in this chapter.

Taking a longer term view of Would-be seekers back to 2012 shows the proportion declined from 10% in 2012 to 2% in 2016 and has been stable since. The decline was most marked for smaller SMEs and those with a worse than average risk rating as larger SMEs and those with a minimal risk rating were always less likely to have been a Would-be seeker of finance.

### Would-be seekers

Over time – row percentages

By date of interview

H1

	2012	2013	2014	2015	2016	2017	2018	2019
<b>All SMEs</b>	<b>10%</b>	<b>6%</b>	<b>5%</b>	<b>3%</b>	<b>2%</b>	<b>2%</b>	<b>2%</b>	<b>2%</b>
0 employee	10%	6%	5%	4%	2%	2%	2%	2%
1-9 employees	9%	6%	4%	3%	3%	2%	2%	2%
10-49 employees	6%	3%	2%	2%	1%	1%	1%	1%
50-249 employees	4%	1%	1%	1%	1%	*	1%	*
Minimal external risk rating	4%	3%	1%	1%	2%	1%	1%	1%
Low external risk rating	7%	3%	2%	2%	1%	1%	1%	1%
Average external risk rating	8%	6%	3%	3%	2%	2%	1%	2%
Worse than average external risk rating	11%	6%	6%	4%	3%	3%	2%	2%
Agriculture	7%	4%	3%	3%	2%	2%	1%	1%
Manufacturing	8%	4%	4%	4%	3%	2%	2%	3%
Construction	10%	7%	4%	3%	2%	2%	2%	1%
Wholesale/Retail	10%	6%	5%	4%	3%	3%	1%	1%
Hotels & Restaurants	9%	7%	6%	4%	4%	3%	3%	3%
Transport	11%	8%	7%	4%	3%	3%	1%	2%
Property/Business Services etc.	9%	6%	3%	3%	2%	3%	2%	1%
Health	8%	5%	4%	2%	1%	1%	2%	2%
Other Community	11%	5%	6%	5%	2%	2%	2%	3%
All excluding PNBs	15%	10%	8%	6%	4%	4%	3%	3%

Pastfin All SMEs base size varies by category

## BARRIERS TO APPLICATION FOR WOULD-BE SEEKERS

SMEs that were identified as Would-be seekers (i.e. they had wanted to apply for finance in the 12 months prior to their interview but felt that something had stopped them) were asked about the barriers to making such an application.

These are reported below, firstly in terms of how frequently they were mentioned at all and secondly how frequently they were nominated as the main barrier.

The reasons have been grouped into the themes shown below, and respondents could initially nominate as many reasons as they wished for not having applied when they wanted to.

The reasons given YEQ2 2019, using the new questionnaire structure were:

**Discouragement** – those that had been put off, either directly (they made informal enquiries of the bank and were put off) or indirectly (they thought they would be turned down by the bank so did not ask). This was given as a reason by 30% of all Would-be seekers YEQ2 2019 and was somewhat less of an issue than in previous years (50% in 2017).

**Process of borrowing** – those who did not want to apply because they thought it would be too expensive, too much hassle etc. This was given as a reason by 41% of all Would-be seekers YEQ2 2019, up slightly from 37% for 2018, but having been 48% in 2017.

**Principle of borrowing** – those that did not apply because they feared they might lose control of their business, or preferred to seek alternative sources of funding. This was given as a reason by 33% of all Would-be seekers YEQ2 2019, up from 19% in 2017 and back to levels previously seen (29% in 2015).

**Current economic climate** – those that felt that it had not been the right time to borrow. This was given as a reason by 15% of all Would-be seekers YEQ2 2019, down slightly from 19% for 2018 which was the highest level seen to date (9% in 2017).

The table below shows the results for YEQ2 2019, and all the reasons for not applying for finance that are included in the summary categories above. An additional question was asked of those giving more than one reason, asking them to nominate the key reason for not applying and these are also shown in the table below:

All Would-be seekers YEQ2 19 excluding DK	All reasons	Main reason
<b>Unweighted base:</b>	<b>228</b>	<b>207</b>
Issues with <u>process</u> of borrowing	41%	35%
-Would be too much hassle	14%	8%
-Thought would be too expensive	21%	19%
-Would be asked for too much security	5%	1%
-Too many terms and conditions	8%	4%
-Did not want to go through process	10%	3%
-Forms too hard to understand	2%	*
Discouraged (any)	30%	25%
-Direct (put off by bank)	8%	4%
-Indirect (thought would be turned down)	24%	21%
Issues with <u>principle</u> of borrowing	33%	26%
-Not lose control of business	9%	2%
-Can raise personal funds if needed	16%	13%
-Prefer other forms of finance	8%	4%
-Go to family and friends	10%	7%
Economic climate	15%	13%
-Not the right time to apply	15%	13%

Q32/77 and Q32b/77b (210/210a) All Would-be seekers SMEs that wished they had applied for finance excl DK

1 in 3 (35%) gave the process of borrowing as their main reason for not seeking finance, specifically the expense and the hassle. A quarter of Would-be seekers cited as their main reason either discouragement (most of it indirect where the SME assumes they will be turned down and so does not apply) or the principle of borrowing, notably an ability to raise personal funds.

13% cited the economic climate, down slightly from 17% for 2018 which was the highest level recorded to date. As reported later though, this remained lower than when SMEs look forward, where 6 in 10 of Future would-be seekers cite the economic climate (or their performance in that climate) as the reason why they won't be applying for finance in future.

Accepting the changes made to the way in which Would-be seekers have been defined over time, the table below shows, on an annual basis from 2015, any mentions of each of the four key themes by Would-be seekers:

<b>All reasons for not applying for finance</b>					H1
Over time – all Would-be seekers	2015	2016	2017	2018	2019
<b>Unweighted base:</b>	<b>485</b>	<b>318</b>	<b>277</b>	<b>225</b>	<b>125</b>
Discouraged (any)	42%	45%	50%	29%	29%
Issues with <u>process</u> of borrowing	48%	32%	48%	37%	47%
Issues with <u>principle</u> of borrowing	29%	26%	19%	29%	37%
Economic climate	11%	13%	9%	19%	10%

Q32/77 and Q32b/77b (210/210a) All Would-be seekers SMEs that wished they had applied for finance excl DK

In the past, the two key reasons for not applying were discouragement (almost all of it indirect) and the process of borrowing. In 2018, the reasons became more evenly spread across the 4 potential categories than previously, while in H1 2019 there were more mentions again of the process of borrowing and also the principle, both ahead of discouragement which remains at lower levels than previously seen.

Would-be seekers constituted a minority of all SMEs (2%). The table below shows, for the main reasons given by Would-be seekers for YEQ2 2019, the equivalent proportion of all SMEs:

<b>Main reason for not applying</b>	<b>Would-be seekers</b>	<b>All SMEs</b>
<b>YEQ2 19</b>		
<b>Unweighted base:</b>	<b>207</b>	<b>18,002</b>
Issues with <u>process</u> of borrowing	35%	2%
Discouraged (any)	25%	1%
-Direct (put off by bank)	4%	*
-Indirect (thought I would be turned down)	21%	*
Issues with <u>principle</u> of borrowing	26%	1%
Economic climate	13%	*

Q32/77 and Q32b/77b (210/210a) All Would-be seekers SMEs that wished they had applied for finance excl DK

The equivalent of 1% of all SMEs reported having felt discouraged from applying for a facility.

## WOULD-BE SEEKERS - ATTITUDES TO FINANCE

Earlier in this report a series of attitude statements about external finance showed key variations by different demographics. These statements are repeated here for YEQ2 2019 analysed by recent borrowing behaviour, to provide additional insight into those who had, or had not, applied for finance.

The table below typically shows similar attitudes between those that have had an event and the Would-be seekers who wanted to apply, with the exception of Would-be seekers being more likely to think that it would be difficult for them to get finance, and less likely to say they never think about using (more) finance:

<b>Attitudes to finance</b> YEQ2 19 – all SMEs	<b>Had an event</b>	<b>Would-be seeker</b>	<b>Happy non-seeker</b>
<b>Unweighted base:</b>	<b>3387</b>	<b>203</b>	<b>14,351</b>
Plans based on what can afford ourselves	80%	80%	81%
Accept slower growth rather than borrow	74%	71%	72%
Increase in cost of credit would discourage application	63%	59%	49%
Never think about using (more) external finance	47%	42%	51%
Because the future feels uncertain we are being very cautious with our plans for the business	63%	67%	54%
As a business we are prepared to take risks to become more successful	52%	49%	40%
My impression is that it is quite difficult for businesses like ours to get external finance	53%	62%	38%
Happy to use finance to help business grow	48%	48%	27%
We have a long term ambition to be a significantly bigger business	51%	48%	36%

### Q96 (238a5) All SMEs

Happy non-seekers of finance were not as prepared to take risks as other SMEs, nor as happy to use finance to grow, nor as likely to have a longer term ambition to be bigger. They were though less likely to feel the future was uncertain or that it would be difficult for them to get finance if they wanted.

## THE EFFECT OF THE PERMANENT NON-BORROWER

42% of all SMEs met the definition of a Permanent non-borrower. If such SMEs were excluded from the analysis in this chapter (because there is no indication from their answers that they will borrow), the population of SMEs would reduce to around 2.7 million from 5 million.

25% of this group of SMEs excluding PNBs reported a borrowing event, compared to 14% of SMEs overall:

<b>Any events</b>		All SMEs	All SMEs excl. PNB
YE Q2 19 – all SMES			
<b>Unweighted base:</b>		<b>18,002</b>	<b>11,753</b>
Have had an event		14%	25%
Would-be seekers		2%	3%
Happy non-seekers		84%	71%

### Pastfin All SMEs

The proportion of Happy non-seekers declined from 84% to 71% but remained the largest group and 3% met the definition of a Would-be seeker, compared to 2% of all SMEs.

The table below shows the pattern over recent quarters, once the PNBs had been excluded. Up to Q3 2018 around 3 in 10 SMEs (excluding the PNBs) reported a borrowing event, but this proportion reduced to a quarter for Q4 2018 (24%) and has been stable since:

<b>Any events</b>										
<b>All SMES, excluding PNBs – over time</b>										
<b>By date of interview</b>	Q2 17	Q3 17	Q4 17	Q1 18	Q2 18	Q3 18	Q4 18	Q1 19	Q2 19	
<b>Unweighted base:</b>	<b>3038</b>	<b>2890</b>	<b>3001</b>	<b>2735</b>	<b>2868</b>	<b>2848</b>	<b>2843</b>	<b>2906</b>	<b>3156</b>	
Have had an event	28%	32%	32%	28%	29%	28%	24%	26%	24%	
Would-be seekers	4%	4%	4%	4%	3%	4%	3%	3%	3%	
Happy non-seekers	68%	64%	64%	66%	67%	67%	72%	71%	72%	

### Pastfin All SMEs excluding PNBs

On an annual basis and accepting the changes in definition over time, the proportion of SMEs (excluding the PNBs) reporting a borrowing event has been fairly stable (25-28%) with the exception of 2012 (35%) and 2015 (32%) .

The proportion of Would-be seekers declined significantly 2012-16 (15% to 4%) but has been stable since. As a result, the proportion of Happy non-seekers has been around 7 in 10 since 2016, up from 51% in 2012:

<b>Any events</b>								
Over time – excl PNBs	2012	2013	2014	2015	2016	2017	2018	H1 2019
<b>Unweighted base:</b>	<b>15,312</b>	<b>14,578</b>	<b>13,613</b>	<b>13,011</b>	<b>11,634</b>	<b>11,940</b>	<b>11,294</b>	<b>6062</b>
Have had an event	35%	28%	28%	32%	25%	28%	27%	25%
Would-be seekers	15%	10%	8%	6%	4%	4%	3%	3%
Happy non-seekers	51%	62%	64%	62%	70%	67%	68%	72%

Pastfin All SMEs excl PNBs

The table below shows the main reasons for not applying, using the revised ‘all SME’ definition that excludes the PNBs:

<b>Main reason for not applying when wished to</b>	<b>Would-be seekers</b>	<b>All SMEs excl. PNB</b>
<b>YEQ2 19</b>		
<b>Unweighted base:</b>	<b>207</b>	<b>11,753</b>
Issues with <u>process</u> of borrowing	35%	1%
Discouraged (any)	25%	1%
-Direct (put off by bank)	4%	*
-Indirect (thought I would be turned down)	21%	*
Issues with <u>principle</u> of borrowing	26%	1%
Economic climate	13%	*

Q32b/77b (210a) All SMEs v all that wished they had applied for an overdraft or a loan

The equivalent of 1% of all SMEs (excluding the PNBs) reported having felt discouraged from applying for a facility.

## THE LONGER TERM IMPACT OF PREVIOUS DECLINES

Previous qualitative research conducted amongst Would-be seekers revealed that a number of them felt discouraged due to a previous decline from a bank, which might have occurred a number of years before. In order to understand the impact of such declines on the wider SME population as a whole, a question was added to the SME Finance Monitor from Q1 2014, which has remained unchanged.

3% of SMEs reported a declined banking facility at some time in the past and this has changed very little over time:

Previous decline by bank	All SMEs YEQ2 2019
By size of SME	<p>There was relatively little difference by size of SME:</p> <ul style="list-style-type: none"> <li>• 3% of 0 employee SMEs</li> <li>• 4% of those with 1-9 employees</li> <li>• 3% of those with 10-49 employees</li> <li>• 2% of those with 50-249 employees</li> </ul> <p>Amongst SMEs with employees, 4% had previously been declined.</p>
Excluding the PNBs	Once the PNBs were excluded, 5% of remaining SMEs had experienced a previous decline (compared to 1% of PNBs).
Risk rating	1% of those with a minimal risk rating had experienced a decline, compared to 3% of SMEs with other risk ratings.
Use of external finance	4% of those currently using external finance had experienced a previous decline, compared to 2% of those who had not used external finance in the past 5 years (and 7% of the small group that had used finance in the past but were not using it now).

Amongst SMEs who had experienced a previous decline, 75% said that this had made them more reluctant to apply for bank finance subsequently (the equivalent of 2% of all SMEs).

- The smaller the SME experiencing the decline, the more likely they were to say they had been made more reluctant (78% of 0 employee SMEs that had been declined compared to 35% of such SMEs with 50-249 employees).
- Once the PNBs had been excluded, 81% of remaining SMEs experiencing a decline had been made more reluctant.
- Those declined who had a minimal risk rating were less likely to have been made more reluctant (64%) than those with any other rating (75-78%).
- Amongst those currently using finance, 78% of SMEs experiencing a decline had been made more reluctant.

The tables below explore this reluctance in more detail, across all SMEs. 2% of all SMEs had been made more reluctant by a previous decline with larger SMEs somewhat less likely to have been impacted:

<b>Impact of previous decline by bank</b>		0	1-9	10-49	50-249
All SMEs YEQ2 19	Total	emps	emps	emps	emps
<b>Unweighted base:</b>	<b>18,002</b>	<b>3602</b>	<b>5800</b>	<b>5800</b>	<b>2800</b>
More reluctant to apply after a decline	2%	2%	3%	2%	1%
Declined but not more reluctant	1%	1%	1%	1%	1%
Have not been declined in past	97%	97%	96%	97%	98%

Q78su (240x and Q240y) All SMEs

A similar pattern was seen once the PNBs were excluded:

<b>Impact of previous decline by bank</b>		0	1-9	10-49	50-249
All SMEs YEQ2 19 excl PNBs	Total	emps	emps	emps	emps
<b>Unweighted base:</b>	<b>11,753</b>	<b>2034</b>	<b>3518</b>	<b>3892</b>	<b>2309</b>
More reluctant to apply after a decline	4%	4%	4%	3%	1%
Declined but not more reluctant	1%	1%	1%	2%	1%
Have not been declined in past	95%	96%	94%	96%	98%

Q78su (240x and Q240y) All SMEs excluding PNBs

There remained relatively little difference overall by risk rating:

<b>Impact of previous decline by bank</b>					
All SMEs YEQ2 19	Total	Min	Low	Avge	Worse/ Avge
<b>Unweighted base:</b>	<b>18,002</b>	<b>3291</b>	<b>5378</b>	<b>3913</b>	<b>3715</b>
More reluctant to apply after a decline	2%	1%	3%	3%	2%
Declined but not more reluctant	1%	1%	1%	1%	1%
Have not been declined in past	97%	99%	97%	97%	97%

Q78su (240x and Q240y) All SMEs

Amongst those currently using external finance, 3% had become more reluctant to apply as the result of a previous decline, compared to 6% of the small group that had used finance in the past five years but were not using it currently and 1% of those who have not used external finance for at least the past 5 years.

Analysis was then undertaken to see what impact this previous decline might have had on actual use of external finance and borrowing behaviour in the 12 months prior to interview. As the table below shows:

- Those who reported that the decline had made them more reluctant to apply for bank finance were none the less more likely to be using finance (60%), and slightly more likely to have had an event (39%) than other SMEs. They were though the most likely to meet the definition of a Would-be seeker of finance (14%) than either those not put off by their decline (2%) or those who had never been declined (1%).
- Those who had been declined but said it had not made them more reluctant were also likely to be using external finance (51%) and almost as likely as those made more reluctant by a decline to have had an event (34%).
- Those who had never been declined were less likely to be using external finance (42%) and more likely to qualify as a Happy non-seeker of finance (85%). 13% had had a borrowing event, compared to around a third of those previously declined.

<b>Impact of previous decline by bank</b>		<b>Made more reluctant by decline</b>	<b>Declined but not made more reluctant</b>	<b>Not previously declined</b>
All SMEs YEQ2 19	All SMEs			
<b>Unweighted base:</b>	<b>18,002</b>	<b>339</b>	<b>193</b>	<b>17,470</b>
Using external finance	42%	60%	51%	42%
Have had an event	14%	39%	34%	13%
Would-be seekers	2%	14%	2%	1%
Happy non-seekers	84%	44%	63%	85%

Q78/78b and pastfin (240x and Q240y and Q115/209) All SMEs

To put these figures in context, less than 1% of all SMEs had been made more reluctant by a previous decline and were currently Would-be seekers of finance (the 14% group shown above).

The table below presents the same analysis once the PNBs had been excluded. Use of external finance increased as a result in all groups, but more markedly for those who had never been declined (from 42% to 76%). The most likely to be using finance were those who had not been made more reluctant by a decline (82%) while those made more reluctant by a decline were now the least likely (70%):

<b>Impact of previous decline by bank</b>		<b>Made more reluctant by decline</b>	<b>Declined but not made more reluctant</b>	<b>Not previously declined</b>
All SMEs YEQ2 19 excl PNBs	All SMEs			
<b>Unweighted base:</b>	<b>11,753</b>	<b>307</b>	<b>161</b>	<b>11,285</b>
Using external finance	75%	70%	82%	76%
Have had an event	25%	45%	55%	24%
Would-be seekers	3%	16%	4%	2%
Happy non-seekers	71%	34%	40%	72%

Q78/78b and pastfin (240x and Q240y and Q115/209) All SMEs excluding PNBs

Whilst those with no previous decline were likely to be using finance, they were less likely than the other groups to have had a borrowing event (24%) and most still met the definition of a Happy non-seeker of finance (72%).