

# 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

**Borrowing events:** 13% of SMEs reported a borrowing event of some kind (Type 1, Type 2-3 or an automatically renewed overdraft) in the previous 12 months.

- Borrowing events increased by size of SME from 12% of those with 0 employees to 21% of those with 10-49 or 50-249 employees.
- There was little difference by risk rating (13-15%) or by sector (11-14%) with the exception of Agriculture and Wholesale/Retail who were more likely to report an event (20% and 19%). Excluding the PNBs increased the proportion of remaining SMEs reporting a borrowing event to 22%.
- The proportion of borrowing events in 2019 (13%) was little changed from 2018 (14%) but the largest SMEs were less likely to report an event than before (21% v 32% in 2018).

**Type 1 events:** 3% of SMEs reported a Type 1 event, with 2% making an application as a result of a need for funding and 1% making a new/renewed application for a specific form of finance.

- SMEs with 1-9 (5%) or 10-49 (6%) employees were slightly more likely to have had such an event, as were those in Agriculture (6%).
- Applications as a result of a need for funding were likely to be for a core product (36% for a bank loan and 15% for a bank overdraft) and to be made to the main bank (51%).
- Other applications for new/renewed finance were also typically for a bank overdraft (43%) or bank loan (22%), and 60% were made to the main bank.

**Other events:** 2% of SMEs reported a Type 2 or 3 event where either the bank sought to cancel or re-negotiate a facility (1% of all SMEs) or the SME sought to repay a facility early (2% of all SMEs) and this was little changed over time. More common was the automatic renewal of an existing overdraft facility, 9% of all SMEs (38% of all SMEs with an overdraft), which was more likely to be experienced by larger SMEs (17% of all with 50-249 employees).

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

- Chapter 7 looked at whether SMEs had 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 analysis is by interview date.
- 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 each of these events. This analysis is also by interview date.
- Chapter 9 looks specifically at the Type 1 borrowing events, the final outcome of the applications made and the impact of the application on the SME. This analysis is based on all applications made between Q1 2018 and Q4 2019 and reported in interviews conducted Q1 2018 to Q4 2019.

The information gathered on these events is not always directly comparable with that gathered for loans and overdrafts 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 OVER TIME

Prior to 2018, SME Finance Monitor reports focussed primarily on loan and overdraft borrowing ‘events’ reported over time by different demographics. The borrowing events included 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 off 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.

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 as a Type 1 a or b event.
- 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.

## BORROWING EVENTS IN 12 MONTHS PRIOR TO INTERVIEW

These events are summarised below for YEQ4 2019 and show the continuing low levels of applications for finance amongst SMEs. YEQ4 2019, with the new questions, 13% of SMEs reported any borrowing event, with 3% reporting a Type 1 event, in line with YEQ4 2018:

Borrowing events in the previous 12 months		0	1-9	10-49	50-249
YEQ4 19 all SMEs	Total	emp	emps	emps	emps
<b>Unweighted base:</b>	<b>18,000</b>	<b>3600</b>	<b>5800</b>	<b>5800</b>	<b>2800</b>
Type 1 event:	3%	2%	5%	6%	3%
1a: New application re need for funding	2%	1%	4%	4%	2%
1b: New/renewed application for specific finance	1%	1%	2%	3%	1%
1c: Any other new/renewed application	*	*	*	*	*
Type 2/3: Cancel/pay off by bank or SME	2%	2%	2%	4%	3%
Automatic renewal of an overdraft	9%	8%	10%	13%	17%
<b>Any borrowing event</b>	<b>13%</b>	<b>12%</b>	<b>17%</b>	<b>21%</b>	<b>21%</b>

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.

## BORROWING EVENTS BY KEY DEMOGRAPHICS

Analysis by risk rating showed little difference in the proportion reporting a borrowing event:

### Borrowing events in the previous 12 months

YEQ4 19 all SMEs with risk rating	Total	Min	Low	Avg	Worse /Avg
<b>Unweighted base:</b>	<b>18,000</b>	<b>3187</b>	<b>5361</b>	<b>4171</b>	<b>3578</b>
Type 1 event	3%	4%	3%	3%	3%
1a: New application re need for funding	2%	2%	2%	2%	2%
1b: New/renewed application for specific finance	1%	2%	1%	1%	1%
1c: Any other new/renewed application	*	*	*	*	*
Type 2/3: Cancel/pay off by bank or SME	2%	3%	2%	2%	3%
Automatic renewal of an overdraft	9%	7%	11%	9%	8%
<b>Any borrowing event</b>	<b>13%</b>	<b>13%</b>	<b>15%</b>	<b>13%</b>	<b>13%</b>

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 borrowing event, along with those in Wholesale/Retail:

### Borrowing events in last 12 months

YEQ4 19 – all SMES	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>1500</b>	<b>2000</b>
Type 1 event	6%	3%	2%	5%	4%	3%	3%	1%	4%
1a: re need for funding	4%	1%	1%	3%	3%	1%	1%	1%	2%
1b: re specific finance	2%	2%	1%	2%	1%	1%	2%	1%	2%
1c: Any other	*	*	*	*	-	-	*	-	*
Type 2/3	4%	3%	1%	2%	2%	1%	2%	2%	3%
Auto renewal	13%	9%	9%	13%	9%	10%	7%	8%	8%
<b>Any borrowing event</b>	<b>20%</b>	<b>14%</b>	<b>11%</b>	<b>19%</b>	<b>14%</b>	<b>14%</b>	<b>11%</b>	<b>11%</b>	<b>14%</b>

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

Analysis by age of business showed limited differences. Those trading 6-9 years were the least likely to report a borrowing event (10%), those trading for more than 15 years the most likely (15%):

<b>Borrowing events in the previous 12 months</b>		2-5	6-9	10-15	15
YEQ4 19 all SMEs	Starts	yrs	yrs	yrs	yrs+
<b>Unweighted base:</b>	<b>1828</b>	<b>1614</b>	<b>1863</b>	<b>2899</b>	<b>9796</b>
Type 1 event	2%	4%	3%	4%	3%
1a: New application re need for funding	1%	2%	2%	2%	2%
1b: New/renewed application for specific finance	1%	2%	1%	2%	2%
1c: Any other new/renewed application	-	*	*	-	*
Type 2/3: Cancel/pay off by bank or SME	3%	2%	1%	2%	2%
Automatic renewal of an overdraft	9%	7%	7%	9%	10%
<b>Any borrowing event</b>	<b>13%</b>	<b>11%</b>	<b>10%</b>	<b>14%</b>	<b>15%</b>

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 (26%) than those not using finance (3%). Excluding the 42% of SMEs who are PNBs from the analysis increased the proportion of remaining SMEs with a borrowing event to 22%, with 5% having a Type 1 event:

<b>Borrowing events in the previous 12 months</b>		Use	No	All excl
YEQ4 19 all SMEs	Total	finance	finance	PNB
<b>Unweighted base:</b>	<b>18,000</b>	<b>10,420</b>	<b>7580</b>	<b>12,147</b>
Type 1 event	3%	6%	1%	5%
1a: New application re need for funding	2%	3%	*	3%
1b: New/renewed application for specific finance	1%	3%	1%	3%
1c: Any other new/renewed application	*	*	-	*
Type 2/3: Cancel/pay off by bank or SME	2%	3%	2%	4%
Automatic renewal of an overdraft	9%	20%	-	15%
<b>Any borrowing event</b>	<b>13%</b>	<b>26%</b>	<b>3%</b>	<b>22%</b>

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

## BORROWING EVENTS OVER TIME

The table below summarises the incidence of any borrowing event over time by key demographics (and will build over time). Whilst the overall borrowing event figure has changed little between 2018 and 2019, SMEs with 50-249 employees were less likely to report an event in 2019 (21% v 32% in 2018), as were those with a minimal risk rating (17% v 13%) or in the Health sector (15% v 11%):

<b>Had any borrowing event</b>		
<b>By date of interview</b>		
<b>Over time – row percentages</b>	<b>2018</b>	<b>2019</b>
<b>All SMEs</b>	<b>14%</b>	<b>13%</b>
0 employee	13%	12%
1-9 employees	17%	17%
10-49 employees	21%	21%
50-249 employees	32%	21%
Minimal external risk rating	17%	13%
Low external risk rating	16%	15%
Average external risk rating	15%	13%
Worse than average external risk rating	12%	13%
Agriculture	19%	20%
Manufacturing	14%	14%
Construction	13%	11%
Wholesale/Retail	18%	19%
Hotels & Restaurants	14%	14%
Transport	15%	14%
Property/Business Services etc.	12%	11%
Health	15%	11%
Other Community	15%	14%
All SMEs excluding Permanent non-borrowers	27%	22%
Current using external finance	34%	26%
Not currently using external finance	3%	3%

## BORROWING EVENTS IN PAST 12 MONTHS – BY EVENT TYPE

14% of SMEs reported any form of borrowing event in the previous 12 months, with the most common the automatic renewal of an overdraft facility (9% of all SMEs)

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

## TYPE 1A APPLICATIONS TO MEET A NEED FOR FUNDING

YEQ4 2019, 3% of SMEs reported having had a need for funding. 57% of them went on to make a new application for finance (the equivalent of 2% of all SMEs having a Type 1a event). As the table below shows, most of these applications were for a loan or overdraft with 6 in 10 applicants applying for a 'core' form of finance:

Type of finance applied for YEQ4 19 – all SMEs with Type 1a event	Total	0-9 emp	10-249 emps
<b>Unweighted base:</b>	<b>503</b>	<b>240</b>	<b>263</b>
Bank Overdraft	15%	15%	19%
Bank Loan	36%	36%	36%
Commercial mortgage	6%	7%	4%
Credit cards	1%	1%	1%
Other overdraft	-	-	-
Other loan	4%	4%	4%
Leasing/hire purchase	4%	3%	7%
Invoice finance (any)	*	*	2%
Other specified product	11%	11%	7%
DK	32%	32%	33%

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:

- 51% of Type 1a applicants applied to their main bank
- 28% applied to another provider they were already using
- 28% applied to a new provider they had not been using previously
- 12% applied to an online platform.

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

YEQ4 19 – all SMEs with a Type 1a event	Main bank	Existing provider	New provider
<b>Unweighted base:</b>	<b>268</b>	<b>169</b>	<b>122</b>
Bank Overdraft	30%	19%	3%
Bank Loan	49%	40%	38%
Commercial mortgage	8%	4%	9%
Credit cards	2%	3%	1%
Other overdraft	-	*	-
Other loan	*	4%	12%
Leasing/hire purchase	1%	14%	8%
Invoice finance	*	1%	1%
Other specified product	3%	17%	30%
DK	15%	14%	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 (79%). Applications to other and new providers covered a wider range of products, with loans much more popular than overdrafts and commercial mortgages and leasing featuring more.
- 45 respondents applied to an online platform, 6 in 10 of them for a loan (primarily a bank loan).

## TYPE 1B OTHER APPLICATIONS

Aside from an application arising directly 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 earlier in this chapter.

Like Type 1a applications, most Type 1b applications involved a ‘core’ finance product. Two thirds (64%) of those who had applied for any form of finance had applied for a ‘core’ product with almost 5 in 10 applying for an overdraft (46% new or renewed including “other overdrafts”):

Type of new/renewed finance applied for YEQ4 19 – all SMEs with Type 1b event	Total	0-9 emp	10-249 emps
<b>Unweighted base:</b>	<b>359</b>	<b>149</b>	<b>210</b>
Bank Overdraft	43%	43%	38%
Bank Loan	22%	22%	23%
Commercial mortgage	7%	7%	6%
Credit cards	6%	6%	14%
Other overdraft	8%	8%	6%
Other loan	5%	5%	7%
Leasing/hire purchase	14%	12%	34%
Invoice finance	2%	1%	11%
Other specified product	9%	8%	22%
Something else	22%	23%	12%

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

Analysis showed that more of these applications were made to the main bank:

- 60% of Type 1b applicants applied to their main bank
- 16% applied to another provider they were already using
- 16% applied to a new provider they had not been using previously
- 4% applied to an online platform
- 4% 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 any 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. Half of those who applied to a new provider were looking for leasing/hire purchase:

YEQ4 19 – all SMEs with a Type 1b event	Main bank	Existing provider	New provider
<b>Unweighted base:</b>	<b>205</b>	<b>79*</b>	<b>54*</b>
Bank Overdraft	73%	2%	22%
Bank Loan	33%	22%	8%
Commercial mortgage	8%	1%	4%
Credit cards	9%	12%	3%
Other overdraft	7%	8%	*
Other loan	7%	*	2%
Leasing/hire purchase	2%	37%	49%
Invoice finance	1%	3%	5%
Other specified product	3%	28%	16%

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 YEQ4 2019:

Type 2/3 events in the previous 12 months		0	1-9	10-49	50-249
YEQ4 19 all SMEs	Total	emp	emps	emps	emps
<b>Unweighted base:</b>	<b>18,000</b>	<b>3600</b>	<b>5800</b>	<b>5800</b>	<b>2800</b>
Type 2/3: Cancel/pay off by bank or SME	2%	2%	2%	4%	3%
• Bank sought to cancel/renegotiate	1%	1%	1%	1%	1%
• SME sought to cancel/renegotiate	2%	1%	2%	3%	2%
No Type 2/3 event	98%	98%	98%	96%	97%

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

There was little variation by risk rating (2-3%) or sector (1-3% with the exception of Agriculture, 4%). Excluding the PNBs increased the proportion of Type 2/3 events to 4% of remaining SMEs, 1% where the bank looked to make a change and 3% where the SME did so.

## 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, whilst previously about half of SMEs with an overdraft reported that it had been automatically renewed, since Q4 2018 the proportion has declined, to 32% for Q4 2019. This was the equivalent of 7% of all SMEs, rather than the 1 in 10 previously seen:

### Experienced an automatic renewal in previous 12 mths

#### By date of interview

– over time

Row percentages	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019
SMEs with overdraft	52%	48%	51%	47%	44%	46%	41%	34%	32%
‘All SMEs’ equivalent	10%	8%	9%	9%	9%	10%	10%	8%	7%

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

Analysis showed that the decline in automatic renewals was across all sizes of SME with an overdraft, with the exception of those with 10-49 employees, and across all risk ratings. By sector, those in Manufacturing saw the biggest drop in automatic renewals from YEQ2 2019.

The summary table below for YEQ4 2019 shows that amongst SMEs with an overdraft, 38% reported an automatic renewal and these were more common amongst those with 1-9 or 10-49 employees and those in Wholesale/Retail. The equivalent of 9% of all SMEs reported an automatic renewal (15% once the PNBs were excluded):

#### Automatic renewals YEQ4 2019

By date of interview – row percentages	All with Overdraft	All SMEs equivalent
<b>All SMEs</b>	<b>38%</b>	<b>9%</b>
0 employee	37%	8%
1-9 employees	41%	10%
10-49 employees	43%	13%
50-249 employees	34%	17%
Minimal external risk rating	32%	7%
Low external risk rating	44%	11%
Average external risk rating	44%	9%
Worse than average external risk rating	36%	8%
Agriculture	44%	13%
Manufacturing	38%	9%
Construction	33%	9%
Wholesale/Retail	47%	13%
Hotels & Restaurants	38%	9%
Transport	46%	10%
Property/Business Services etc.	35%	7%
Health	29%	8%
Other Community	45%	8%
All SMEs excluding Permanent non-borrowers	-	15%
Current using external finance	-	20%

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