

# 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:** 16% of SMEs reported having any borrowing ‘event’ in 2020, including 8% who had applied for new or renewed finance, 7% who saw an overdraft automatically renewed and 3% who saw a facility cancelled/repaid early either at their own request or that of the bank. SMEs with 1-9 or 10-49 employees were more likely to report a borrowing event (21% and 24%), as were sectors that have struggled with the pandemic, notably the Hotel & Restaurant sector and Transport (both 20%).

**Type 1 events:** 6% of SMEs reported a borrowing event as a result of a need for funding, with the vast majority (7 in 10) applying for a bank loan. Bank loans were also the main product (5 in 10) for those applying for any other new or renewed finance.

**Automatic renewal of overdrafts:** In the second half of 2019 around a third of SMEs with an overdraft said that it had been automatically renewed. In 2020 this proportion increased to 50% in Q1 and to 6 in 10 for Q2-4. As fewer SMEs overall had an overdraft facility, the increase did not affect the equivalent proportion of all SMEs reporting an automatic renewal of an overdraft (7% of all SMEs in each quarter of 2020).

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 Q3 2019 and Q4 2020 and reported in interviews conducted in the same period.

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 how borrowing events have been defined 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 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 2020 and show 16% of SMEs reporting any borrowing event, up slightly from 13% in 2019. Over the course of 2020, as use of and need for external finance increased, so too did the proportion reporting any borrowing event (from 15% in Q1 and 14% in Q2 to 18% in Q3 and 19% in Q4):

<b>Borrowing events in the previous 12 months</b>		<b>0</b>	<b>1-9</b>	<b>10-49</b>	<b>50-249</b>
<b>YEQ4 20 all SMEs</b>	<b>Total</b>	<b>emp</b>	<b>emps</b>	<b>emps</b>	<b>emps</b>
<b>Unweighted base:</b>	<b>17,768</b>	<b>3567</b>	<b>5838</b>	<b>5611</b>	<b>2752</b>
Type 1 event:	8%	7%	11%	12%	9%
1a: New application re need for funding	6%	6%	8%	9%	7%
1b: New/renewed application for specific finance	2%	2%	4%	4%	2%
1c: Any other new/renewed application	*	*	*	*	*
Type 2/3: Cancel/pay off by bank or SME	3%	3%	4%	4%	2%
Automatic renewal of an overdraft	7%	6%	10%	11%	8%
<b>Any borrowing event</b>	<b>16%</b>	<b>15%</b>	<b>21%</b>	<b>24%</b>	<b>17%</b>

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

SMEs with 1-9 or 10-49 employees were more likely than their peers to report a borrowing event, with higher proportions reporting a Type 1 event for new/renewed finance and/or the automatic renewal of an overdraft facility.

## BORROWING EVENTS BY KEY DEMOGRAPHICS

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

<b>Borrowing events in the previous 12 months</b>					
YEQ4 20 all SMEs with risk rating	Total	Min	Low	Avg	Worse /Avg
<b>Unweighted base:</b>	<b>17,768</b>	<b>3012</b>	<b>4935</b>	<b>4823</b>	<b>3582</b>
Type 1 event	8%	5%	9%	8%	8%
1a: New application re need for funding	6%	4%	6%	6%	7%
1b: New/renewed application for specific finance	2%	2%	3%	2%	2%
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	7%	9%	9%	7%	6%
<b>Any borrowing event</b>	<b>16%</b>	<b>16%</b>	<b>18%</b>	<b>16%</b>	<b>16%</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 the Hotel & Restaurant and Transport sectors:

<b>Borrowing events in last 12 months</b>									
YEQ4 20 – all SMES	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Hlth SWrk	Other Comm
<b>Unweighted base:</b>	<b>1155</b>	<b>1583</b>	<b>3043</b>	<b>1838</b>	<b>1227</b>	<b>1921</b>	<b>3642</b>	<b>1384</b>	<b>1975</b>
Type 1 event	10%	7%	7%	9%	12%	13%	8%	6%	7%
1a: re need for funding	8%	6%	5%	7%	9%	9%	6%	4%	6%
1b: re specific finance	3%	2%	2%	1%	3%	4%	3%	2%	2%
1c: Any other	*	*	*	-	*	*	*	-	*
Type 2/3	4%	3%	3%	3%	4%	2%	3%	1%	4%
Auto renewal	11%	7%	7%	7%	7%	8%	6%	6%	6%
<b>Any borrowing event</b>	<b>22%</b>	<b>16%</b>	<b>15%</b>	<b>18%</b>	<b>20%</b>	<b>20%</b>	<b>15%</b>	<b>12%</b>	<b>17%</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 most likely to report a borrowing event (18%), those trading for less than 2 years the least likely (14%):

<b>Borrowing events in the previous 12 months</b>		2-5	6-9	10-15	15
YEQ4 20 all SMEs	Starts	yrs	yrs	yrs	yrs+
<b>Unweighted base:</b>	<b>1604</b>	<b>1450</b>	<b>1655</b>	<b>2892</b>	<b>10,167</b>
Type 1 event	9%	11%	10%	8%	7%
1a: New application re need for funding	7%	8%	7%	6%	5%
1b: New/renewed application for specific finance	2%	3%	3%	2%	2%
1c: Any other new/renewed application	*	*	*	*	*
Type 2/3: Cancel/pay off by bank or SME	3%	3%	3%	2%	4%
Automatic renewal of an overdraft	4%	5%	6%	7%	9%
<b>Any borrowing event</b>	<b>14%</b>	<b>17%</b>	<b>18%</b>	<b>15%</b>	<b>17%</b>

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

Those using finance were more likely to report a borrowing event (37%) than those not using finance (5%). Excluding the PNBs from the analysis increased the proportion of remaining SMEs with a borrowing event to 28%, with 14% having a Type 1 event:

<b>Borrowing events in the previous 12 months</b>		Use	No	All excl
YEQ4 20 all SMEs	Total	finance	finance	PNB
<b>Unweighted base:</b>	<b>17,768</b>	<b>9020</b>	<b>8748</b>	<b>12,010</b>
Type 1 event	8%	19%	2%	14%
1a: New application re need for funding	6%	15%	1%	11%
1b: New/renewed application for specific finance	2%	6%	1%	4%
1c: Any other new/renewed application	*	*	*	*
Type 2/3: Cancel/pay off by bank or SME	3%	4%	3%	5%
Automatic renewal of an overdraft	7%	19%	-	11%
<b>Any borrowing event</b>	<b>16%</b>	<b>37%</b>	<b>5%</b>	<b>28%</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. A slightly higher proportion of SMEs reported any borrowing event in 2020, including those in the Hotel & Restaurant and Transport sectors, while SMEs with 50-249 employees became less likely to report an event (32% in 2018 to 17% in 2020):

<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>2020</b>
<b>All SMEs</b>	<b>14%</b>	<b>13%</b>	<b>16%</b>
0 employee	13%	12%	15%
1-9 employees	17%	17%	21%
10-49 employees	21%	21%	24%
50-249 employees	32%	21%	17%
Minimal external risk rating	17%	13%	16%
Low external risk rating	16%	15%	18%
Average external risk rating	15%	13%	16%
Worse than average external risk rating	12%	13%	16%
Agriculture	19%	20%	22%
Manufacturing	14%	14%	16%
Construction	13%	11%	15%
Wholesale/Retail	18%	19%	18%
Hotels & Restaurants	14%	14%	20%
Transport	15%	14%	20%
Property/Business Services etc.	12%	11%	15%
Health	15%	11%	12%
Other Community	15%	14%	17%
All SMEs excluding Permanent non-borrowers	27%	22%	28%
Current using external finance	34%	26%	37%
Not currently using external finance	3%	3%	5%

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

16% of SMEs reported any form of borrowing event in the previous 12 months, with the most common a Type 1 event (new facility or renewal -8% 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

As reported in the previous chapter, 9% of SMEs reported having had a need for funding in 2020 and 8 in 10 went on to make a new application for finance (the equivalent of 6% of all SMEs having a Type 1a event). As the table below shows, most of these applications were for a loan with three quarters of applicants applying for a ‘core’ form of finance:

Type of finance applied for YEQ4 20 – all SMEs with Type 1a event	Total	0-9 emp	10-249 emps
<b>Unweighted base:</b>	<b>1332</b>	<b>655</b>	<b>677</b>
Bank Loan	69%	69%	68%
Bank Overdraft	8%	8%	6%
Commercial mortgage	1%	1%	1%
Credit cards	2%	3%	*
Other overdraft	*	-	*
Other loan	4%	4%	3*
Leasing/hire purchase	1%	1%	1%
Invoice finance (any)	*	-	*
Other specified product*	16%	17%	9%
DK	9%	9%	15%

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

The main mention for ‘other specified product’ was grants (14%).

Analysis of the 6% of SMEs applying to meet a funding need showed that:

- 72% of Type 1a applicants applied to their main bank
- 8% applied to another provider they were already using
- 14% applied to a new provider they had not been using previously
- 6% applied to an online platform.

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

YEQ4 20 – all SMEs with a Type 1a event	Main bank	Existing provider	New provider
<b>Unweighted base:</b>	<b>1028</b>	<b>181</b>	<b>170</b>
Bank Overdraft	9%	6%	5%
Bank Loan	84%	37%	30%
Commercial mortgage	*	2%	1%
Credit cards	1%	3%	2%
Other overdraft	*	-	-
Other loan	3%	3%	9%
Leasing/hire purchase	*	8%	5%
Invoice finance	*	1%	*
Other specified product	7%	39%	59%
DK	1%	5%	3%

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

- Applications to the main bank were primarily for loans (84%).
- 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. The ‘other specified product’ was typically grants (24% of those applying to an existing provider and 54% applying to a new provider).
- 67 respondents applied to an online platform, half of them for a 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 and there were more mentions of bank loans than previously. Almost all of the 'other specified product' mentions were for grants (28%):

Type of new/renewed finance applied for YEQ4 20 – all SMEs with Type 1b event	Total	0-9 emp	10-249 emps
<b>Unweighted base:</b>	<b>591</b>	<b>292</b>	<b>299</b>
Bank Loan	48%	48%	46%
Bank Overdraft	24%	25%	18%
Leasing/hire purchase	12%	11%	27%
Other loan	8%	8%	9%
Credit cards	7%	7%	7%
Other overdraft	2%	2%	3%
Commercial mortgage	1%	1%	2%
Invoice finance	1%	1%	3%
Other specified product	29%	28%	30%
Something else	4%	4%	7%

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

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

- 66% of Type 1b applicants applied to their main bank
- 8% applied to another provider they were already using
- 10% applied to a new provider they had not been using previously
- 2% applied to an online platform
- 14% 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. (17% 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 bank loan or an overdraft, while applications to another existing provider covered a wider range of products. Most of those who applied to another existing provider were looking for leasing/hire purchase, while 6 in 10 of those applying to a new provider were looking for a grant (under 'other specified product'):

YEQ4 20 – all SMEs with a Type 1b event	Main bank	Existing provider	New provider
<b>Unweighted base:</b>	<b>342</b>	<b>82</b>	<b>72</b>
Bank Overdraft	34%	1%	-
Bank Loan	64%	3%	14%
Commercial mortgage	1*	*	1%
Credit cards	8%	3%	11%
Other overdraft	3%	-	-
Other loan	2%	1%	9%
Leasing/hire purchase	3%	88%	16%
Invoice finance	1%	1%	3%
Other specified product	6%	5%	60%

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, 3% of SMEs reported any of these events YEQ4 2020, with little variation by size of SME:

Type 2/3 events in the previous 12 months		0	1-9	10-49	50-249
YEQ4 20 all SMEs	Total	emp	emps	emps	emps
<b>Unweighted base:</b>	<b>17,768</b>	<b>3567</b>	<b>5838</b>	<b>5611</b>	<b>2752</b>
Type 2/3: Cancel/pay off by bank or SME	3%	3%	4%	4%	2%
• Bank sought to cancel/renegotiate	1%	1%	1%	1%	*
• SME sought to cancel/renegotiate	2%	2%	3%	4%	2%
No Type 2/3 event	97%	97%	96%	96%	98%

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

There was no variation by risk rating (3%) and little by sector (1-4%). Excluding the PNBs increased the proportion of Type 2/3 events to 5% of remaining SMEs, 1% where the bank looked to make a change and 4% 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 available.

Previously about half of SMEs with an overdraft reported that it had been automatically renewed. There was then a decline from Q4 2018 to 32% for Q4 2019, but in 2020 over half of SMEs with an overdraft said it had been automatically renewed (61% in Q4 2020). With fewer SMEs having an overdraft, this remained the equivalent of 7% of all SMEs, in line with Q4 2019:

### Experienced an automatic renewal in previous 12 mths

#### By date of interview

- over time	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020
Row percentages									
SMEs with overdraft	44%	46%	41%	34%	32%	50%	60%	57%	61%
‘All SMEs’ equivalent	9%	10%	10%	8%	7%	7%	7%	7%	7%

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

The summary table below for YEQ4 2020 shows that amongst SMEs with an overdraft, 57% reported an automatic renewal and these were more common amongst those with 0 or 1-9 employees and those in the Health sector. The equivalent of 7% of all SMEs reported an automatic renewal (12% once the PNBs were excluded):

#### Automatic renewals YEQ4 2020

By date of interview – row percentages	All with Overdraft	All SMEs equivalent
<b>All SMEs</b>	<b>57%</b>	<b>7%</b>
0 employee	57%	6%
1-9 employees	57%	10%
10-49 employees	54%	11%
50-249 employees	40%	8%
Minimal external risk rating	63%	9%
Low external risk rating	56%	9%
Average external risk rating	56%	7%
Worse than average external risk rating	57%	6%
Agriculture	58%	11%
Manufacturing	50%	7%
Construction	54%	7%
Wholesale/Retail	52%	7%
Hotels & Restaurants	51%	7%
Transport	59%	8%
Property/Business Services etc.	59%	6%
Health	80%	6%
Other Community	57%	6%
All SMEs excluding Permanent non-borrowers	-	12%
Current using external finance	-	19%

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