

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

The proportion of SMEs reporting any borrowing event in 2021 was unchanged from 2020:

- 17% of SMEs reported having any borrowing ‘event’ in 2021, including 11% who had applied for new or renewed funding.
- SMEs with 1-9 or 10-49 employees were the most likely to have had a borrowing event (22%) and slightly more likely to have applied for new/renewed funding (12-13%), but also to have had an overdraft automatically renewed (8-9% compared to 6% overall).
- By sector, borrowing events were more common amongst those in Transport (22%), Hotels & Restaurants (20%) and Agriculture (21%) and a third of SMEs using external finance reported an event (34%).
- There has been a slight increase in borrowing events over time, from 14% in 2018 to 17% in 2021, with increases seen across all sizes of SMEs with the exception of those with 50-249 employees where borrowing events have fallen to 11% in 2021 in line with the lower use of external finance reported. The struggling sectors of Hotels & Restaurants and Transport saw an increase in borrowing events in 2020-21

Most applications for new /renewed funding were for bank loans:

- Of those applying for new or renewed funding, 71% applied for a bank loan, increasing by size of SMEs from 68% of those with 0 employees to 91% of those with 50-249 employees. By comparison, there were few applications for the other forms of core finance: 6% for a bank overdraft and 2% for a business credit card. 20% had applied for a grant, and this was more common amongst smaller applicants.

Few SMEs reported either an automatic overdraft renewal or the cancellation/repayment of a facility:

- In 2021, 6% of all SMEs (58% of those with an overdraft) reported that their overdraft had been automatically renewed, in line with pre-pandemic levels. Half that number, 3% of all SMEs, reported either that their bank had sought to cancel reduce a facility (1%) or that they had done so themselves (2%), also in line with previous waves.

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 2020 and Q4 2021 and reported in interviews conducted in the same period (so application data for Q2 2021 onwards is interim at this stage).

The information gathered on these events is not always directly comparable with that gathered for loans and overdrafts for earlier 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 since changes were made to the questionnaire for 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.

Note that applications for a Government backed loan were not prompted for specifically at this stage, but were included by some SMEs:

- In Q2 2020, when BBLs etc were first available, 58% of those reporting a Type 1 borrowing event went on to say that they had approached a finance provider for pandemic related funding. This proportion increased to 71% in Q4 2020 before declining again to 43% of those interviewed in Q4 2020.
- There was less variation over time for those who did not report a Type borrowing event, with 12-16% going on to report a pandemic related application when prompted

BORROWING EVENTS IN 12 MONTHS PRIOR TO INTERVIEW

These events are summarised below for YEQ4 2021 and show 17% of SMEs reporting any borrowing event (unchanged from 2020 and up slightly from 13% in 2019). Over the course of 2021, as use of and need for external finance declined somewhat, so too did the proportion reporting any borrowing event (from 20% in Q1 and 19% in Q2 to 15% in Q3 and 14% in Q4):

Borrowing events in the previous 12 months		0	1-9	10-49	50-249
YEQ4 21 all SMEs	Total	emp	emps	emps	emps
Unweighted base:	16,486	3313	5466	5260	2447
Type 1 event:	11%	10%	13%	12%	6%
1a: New application re need for funding	9%	8%	11%	11%	6%
1b: New/renewed application for specific finance	2%	2%	3%	2%	*
1c: Any other new/renewed application	*	*	*	*	*
Type 2/3: Cancel/pay off by bank or SME	3%	2%	4%	4%	3%
Automatic renewal of an overdraft	6%	5%	8%	9%	3%
Any borrowing event	17%	15%	22%	22%	11%

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

SMEs with 1-9 or 10-49 employees remained 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 limited variation. Those with a low risk rating were slightly more likely to report a borrowing event of some kind:

Borrowing events in the previous 12 months

YEQ4 21 all SMEs with risk rating	Total	Min	Low	Avg	Worse /Avg
Unweighted base:	16,486	3007	4494	4549	2867
Type 1 event	11%	7%	11%	9%	12%
1a: New application re need for funding	9%	5%	9%	8%	10%
1b: New/renewed application for specific finance	2%	2%	3%	2%	3%
1c: Any other new/renewed application	*	*	-	*	*
Type 2/3: Cancel/pay off by bank or SME	3%	3%	3%	3%	2%
Automatic renewal of an overdraft	6%	6%	7%	6%	4%
Any borrowing event	17%	15%	19%	16%	16%

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 any borrowing event (due to more automatic overdraft renewals), along with those in the Transport and Hotel & Restaurant sectors who were more likely to have had a Type 1 event:

Borrowing events in last 12 months

YEQ4 21 – all SMES	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Hlth SWrk	Other Comm
Unweighted base:	982	1704	2908	1859	1167	1601	3536	1039	1690
Type 1 event	12%	11%	9%	11%	14%	14%	10%	8%	12%
1a: re need for funding	10%	10%	7%	9%	12%	12%	8%	6%	10%
1b: re specific finance	2%	2%	2%	1%	3%	4%	2%	3%	2%
1c: Any other	-	*	*	-	-	-	*	*	*
Type 2/3	2%	3%	2%	4%	3%	3%	2%	2%	2%
Auto renewal	11%	7%	7%	7%	5%	7%	5%	2%	5%
Any borrowing event	21%	19%	16%	19%	20%	22%	15%	12%	16%

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

Analysis by age of business showed limited differences with the exception of Starts (14% v 17-19% of other age groups):

Borrowing events in the previous 12 months		2-5	6-9	10-15	15
YEQ4 21 all SMEs	Starts	yrs	yrs	yrs	yrs+
Unweighted base:	882	1194	1447	2983	9980
Type 1 event	12%	14%	13%	11%	8%
1a: New application re need for funding	9%	12%	11%	10%	7%
1b: New/renewed application for specific finance	4%	3%	3%	2%	1%
1c: Any other new/renewed application	-	-	*	-	*
Type 2/3: Cancel/pay off by bank or SME	1%	2%	2%	4%	3%
Automatic renewal of an overdraft	2%	3%	6%	7%	8%
Any borrowing event	14%	18%	18%	19%	17%

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

Those using finance were much more likely to report a borrowing event (34%) than those not using finance (4%). Excluding the PNBs from the analysis increased the proportion of remaining SMEs with a borrowing event to 28%, with 17% having a Type 1 event:

Borrowing events in the previous 12 months		Use	No	All excl
YEQ4 21 all SMEs	Total	finance	finance	PNB
Unweighted base:	16,486	8611	7875	10,774
Type 1 event	11%	20%	3%	17%
1a: New application re need for funding	9%	17%	3%	15%
1b: New/renewed application for specific finance	2%	5%	1%	4%
1c: Any other new/renewed application	*	*	-	*
Type 2/3: Cancel/pay off by bank or SME	3%	4%	1%	4%
Automatic renewal of an overdraft	6%	13%	-	9%
Any borrowing event	17%	34%	4%	28%

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, with a slight increase overall from 14% in 2018 to 17% in 2021. A very similar proportion of SMEs reported any borrowing event in 2021 compared to 2020, but there was a further increase in that period for those in Manufacturing (14% in 2018 to 19% in 2021) and a decline amongst SMEs with 50-249 employees (32% in 2018 to 11% in 2021):

Had any borrowing event				
By date of interview				
Over time – row percentages	2018	2019	2020	2021
All SMEs	14%	13%	16%	17%
0 employee	13%	12%	15%	15%
1-9 employees	17%	17%	21%	22%
10-49 employees	21%	21%	24%	22%
50-249 employees	32%	21%	17%	11%
Minimal external risk rating	17%	13%	16%	15%
Low external risk rating	16%	15%	18%	19%
Average external risk rating	15%	13%	16%	16%
Worse than average external risk rating	12%	13%	16%	16%
Agriculture	19%	20%	22%	21%
Manufacturing	14%	14%	16%	19%
Construction	13%	11%	15%	16%
Wholesale/Retail	18%	19%	18%	19%
Hotels & Restaurants	14%	14%	20%	20%
Transport	15%	14%	20%	22%
Property/Business Services etc.	12%	11%	15%	15%
Health	15%	11%	12%	12%
Other Community	15%	14%	17%	16%
All SMEs excluding Permanent non-borrowers	27%	22%	28%	28%
Current using external finance	34%	26%	37%	34%
Not currently using external finance	3%	3%	5%	4%

BORROWING EVENTS IN PAST 12 MONTHS – BY EVENT TYPE

17% 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 -11% of all SMEs)

In previous reports, Type 1a and 1b events have been shown separately at this stage. However, with limited base sizes, and success rates being reported across all Type 1a/b events in the next chapter, these two events have been combined for the analysis shown below.

TYPE 1A/B APPLICATIONS FOR NEW/RENEWED FUNDING

11% of SMEs reported making an application for new/renewed funding whether as a result of a need for funding (9%) or some other new/renewed application (2%). 9 in 10 applicants only applied for one product and, as the table below shows, most of these applications were for a loan:

Main types of finance applied for YEQ4 21 – all SMEs with Type 1a/b event	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	1760	319	685	601	155
Bank Loan	71%	68%	77%	84%	91%
Grants	20%	21%	20%	10%	4%
Bank Overdraft	6%	6%	8%	4%	1%
Other loan	5%	5%	5%	6%	3%
Leasing/hire purchase	2%	2%	3%	3%	2%
Credit cards	2%	3%	2%	*	-
Other overdraft	1%	1%	1%	-	-
Commercial mortgage	1%	1%	2%	*	1%
Invoice finance (any)	*	*	1%	1%	-

Q33/52s NEW All SMEs with a Type1a/b application

The next chapter provides more detail on the applications made, at an application rather than applicant level.

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 2021, with little variation by size of SME:

Type 2/3 events in the previous 12 months		0	1-9	10-49	50-249
YEQ4 21 all SMEs	Total	emp	emps	emps	emps
Unweighted base:	16,486	3313	5466	5260	2447
Type 2/3: Cancel/pay off by bank or SME	3%	2%	4%	4%	3%
• Bank sought to cancel/renegotiate	1%	1%	1%	1%	*
• SME sought to cancel/renegotiate	2%	2%	3%	3%	3%
No Type 2/3 event	97%	98%	96%	96%	97%

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

There was no variation by risk rating (2-3%) and little by sector (2-4%). 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 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 and 2021 over half of SMEs with an overdraft said it had been automatically renewed (57% in Q4 2021). With fewer SMEs having an overdraft, this remained the equivalent of 5-6% of all SMEs, in line with earlier waves:

Experienced an automatic renewal in previous 12 mths

By date of interview

– over time

Row percentages

	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021
SMEs with overdraft	32%	50%	60%	57%	61%	54%	63%	57%	57%
‘All SMEs’ equivalent	7%	7%	7%	7%	7%	5%	6%	6%	6%

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

The summary table below for YEQ4 2021 shows that amongst SMEs with an overdraft, 58% reported an automatic renewal and these were more common amongst those with 0 or 1-9 employees and those Agriculture. The equivalent of 6% of all SMEs reported an automatic renewal (13% once the PNBs were excluded):

Automatic renewals YEQ4 2021

By date of interview – row percentages	All with Overdraft	All SMEs equivalent
All SMEs	58%	6%
0 employee	58%	5%
1-9 employees	58%	8%
10-49 employees	56%	9%
50-249 employees	20%	3%
Minimal external risk rating	55%	6%
Low external risk rating	62%	7%
Average external risk rating	61%	6%
Worse than average external risk rating	51%	4%
Agriculture	67%	11%
Manufacturing	56%	7%
Construction	60%	7%
Wholesale/Retail	58%	7%
Hotels & Restaurants	51%	5%
Transport	62%	7%
Property/Business Services etc.	58%	5%
Health	50%	2%
Other Community	49%	5%
All SMEs excluding Permanent non-borrowers	58%	9%
Current using external finance	58%	13%

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