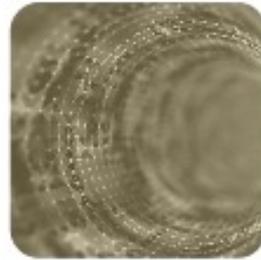


# 8. The build-up to applications for overdrafts and loans



## **This chapter is**

the first of four covering Type 1 borrowing events in more detail and looks at the 'build-up' to the loan or overdraft application, why funds were required and whether advice was sought.



## Key findings

3 in 10 applications made Q1 2016 to Q2 2017 were from first time applicants (26% for overdrafts, 32% for loans).

- Most other overdraft applications were to renew an existing facility (51% of all applications) with 16% looking for a new/increased overdraft but not their first
- Other loan applications were less likely to be for a renewal (16% of all applications) and more likely to be for a new loan but not their first (52%).

Overdrafts were typically sought for smaller amounts. 44% of applications were for less than £5,000, compared to 18% of loans.

- In both instances, larger SMEs were more likely to be seeking larger amounts. 53% of overdrafts applicants with 50-249 employees and 59% of loan applicants of that size were seeking a facility of £100,000 or more.

Most overdrafts were to fund working capital while loans were more likely to be funding expansion in the UK or the purchase of assets. There was limited evidence of shopping around:

- 82% of overdrafts were for working capital and this has changed very little over time. Almost all, 99%, applied to only one bank and that was their main bank
- Loan applications were typically to fund UK expansion (36%) and/or to buy fixed assets (32%) or motor vehicles (26%). 87% only applied to one bank (almost always their main bank).

Few applicants sought advice before applying.

- 7% of overdraft applicants sought advice before applying, increasing somewhat for larger applicants
- Loan applicants were more likely to have sought advice but still only a minority did so (18%).



The data presented thus far in this report has reflected events that had happened to the SME in the 12 months before they were interviewed, analysed by the date of interview. This chapter is the first of four covering Type 1 borrowing events in more detail. Type 1 events are those where the SME approached the bank looking for new or renewed overdraft or loan facilities. The first of these chapters looks at the build-up to the application, why funds were required and whether advice was sought. Subsequent chapters then detail the bank's response, the resultant loan/overdraft granted, the effect of the process on the SME and the security and fees relating to these facilities.

As these chapters examine overdraft and loan events specifically, it makes sense for the analysis to be based on when the event occurred, rather than when it was reported, and this approach has been adopted for these chapters since the Q2 2013 report.

Each chapter includes analysis, as far as is possible, on the extent to which loan and overdraft applications are changing over time. For the most recent quarters (especially those in 2017) this is only **interim** data, which is liable to change and which will be updated in subsequent reports.

However, for sub-group analysis, such as by size or risk rating, sample sizes preclude analysis at the individual quarter level and the data needs to be grouped over time to provide a more robust sample size. In order to ensure a suitable sample size, a period of 18 months has been selected. This means that rather than reporting on applications for YEQ2 2017 (i.e. all interviews conducted in the 4 quarters to Q2 2017, irrespective of when the borrowing event occurred), data is now reported on the basis of 'Applications occurring in the 18 months to Q2 2017' (i.e. applications known to have been made between Q1 2016 and Q2 2017 and reported to date, irrespective of when the SME was actually interviewed).



## Why were they applying?

### Overdraft applications

This analysis is based on SMEs that made an application for a new or renewed overdraft facility during the most recent 18 month period, which for this report is Q1 2016 to Q2 2017. Within this 18 month time period, final data is now available for applications made up to the end of Q2 2016. Data on more recent applications (notably Q1 and Q2 2017) is still being gathered and will be updated in future waves, and so the figures quoted will be liable to change over time. All percentages quoted are therefore just of this group of applicants.

Note that this does not include SMEs who had an overdraft automatically renewed.

In Q1 2017, the question on the nature of the overdraft event was simplified to three core categories – the renewal of an existing facility, a first overdraft facility and thirdly any other new or increased overdraft facility that was not a first facility. As in previous waves, the most likely overdraft event was the renewal of an existing facility:

<b>Nature of overdraft event</b>		<b>0</b>	<b>1-9</b>	<b>10-49</b>	<b>50-249</b>
<u>Sought</u> new/renewed facility Q1 16-Q2 17	Total	emp	emps	emps	emps
<b>Unweighted base:</b>	<b>832</b>	<b>90*</b>	<b>258</b>	<b>329</b>	<b>155</b>
Renewing overdraft for same amount	51%	45%	59%	66%	71%
Applied for first ever overdraft facility	26%	33%	16%	5%	3%
New or increased overdraft facility but not first	23%	22%	24%	27%	25%

Q52 All SMEs seeking new/renewed overdraft facility

A quarter of applicants (26%) were seeking an overdraft for the very first time:

- 35% of these first time applicants were Starts
- The proportion of first time overdraft applicants that were Starts declined somewhat between the 18 months to Q4 2012 and the 18 months to Q4 2016 (48% to 31%). The current figure shows no further decline (35%)



Amongst applicants with employees, the proportion renewing an existing facility was 61% and the proportion of first time applicants was 14% of applications made.

Analysis in previous reports showed that the application process for an overdraft, as well as the eventual outcome, varied by the reason for application. The table below shows the proportion of applications made for each reason over recent quarters, using the new question definition.

Renewals have consistently been the most common reason for an overdraft event and increasingly so in recent quarters:

SMEs seeking new/ renewed facility By application date	Q1	Q2	Q3	Q4	Q1	Q2	Q3*	Q4*	Q1*
	15	15	15	15	16	16	16	16	17
<b>Unweighted base:</b>	<b>334</b>	<b>295</b>	<b>259</b>	<b>247</b>	<b>248</b>	<b>149</b>	<b>122</b>	<b>131</b>	<b>146</b>
Renewing overdraft for same amount	53%	53%	53%	37%	50%	42%	60%	50%	60%
Applied for first ever overdraft facility	20%	14%	21%	32%	18%	23%	22%	37%	27%
New or increased overdraft facility but not first	23%	28%	24%	29%	31%	35%	18%	12%	12%

Q52 All SMEs seeking new/renewed overdraft facility. \* indicates interim results as data is still being gathered on events in these quarters



4 in 10 of overdrafts sought were for £5,000 or less, with considerable variation by size of applicant. The median amount sought as an overdraft facility has changed relatively little over time and is currently £5,000, ranging from £3,000 amongst 0 employee SMEs seeking a facility to £88,000 for those with 50-249 employees:

<b>Amount initially sought, where stated</b>		<b>0</b>	<b>1-9</b>	<b>10-49</b>	<b>50-249</b>
<b>Sought new/renewed facility Q1 16-Q2 17</b>	<b>Total</b>	<b>emp</b>	<b>emps</b>	<b>emps</b>	<b>emps</b>
<b>Unweighted base:</b>	<b>738</b>	<b>85*</b>	<b>237</b>	<b>282</b>	<b>134</b>
Less than £5,000	44%	56%	28%	4%	5%
£5,000 – £9,999	22%	25%	19%	8%	9%
£10,000 – £24,999	17%	11%	30%	24%	15%
£25,000 – £99,999	13%	8%	21%	36%	17%
£100,000+	4%	1%	3%	28%	53%
<b>Median amount sought</b>	<b>£5k</b>	<b>£3k</b>	<b>£9k</b>	<b>£36k</b>	<b>£88k</b>

Q58/59 All SMEs seeking new/renewed overdraft facility, excluding DK/refused

As the table below shows, 8 out of 10 overdraft applicants said that the overdraft was needed for day-to-day cash flow, with little variation by size. Just over a third (38%) mentioned having a safety net, also with little difference by size. As in previous quarters, overdrafts were much more likely to have been sought to support UK expansion (17%) than expansion overseas (1%):

<b>Purpose of overdraft sought</b>		<b>0</b>	<b>1-9</b>	<b>10-49</b>	<b>50-249</b>
<b>Sought new/renewed facility Q1 16-Q2 17</b>	<b>Total</b>	<b>emp</b>	<b>emps</b>	<b>emps</b>	<b>emps</b>
<b>Unweighted base:</b>	<b>832</b>	<b>90</b>	<b>258</b>	<b>329</b>	<b>155</b>
Working capital for day to day cash flow	82%	84%	76%	83%	80%
Safety net – just in case	38%	36%	40%	40%	38%
Short term funding gap	27%	26%	28%	27%	33%
Fund expansion in UK	17%	19%	15%	13%	15%
Buy fixed assets	9%	6%	13%	9%	8%
Fund expansion overseas	1%	1%	2%	1%	1%

Q55 All SMEs seeking new/renewed overdraft facility



From Q1 2017, SMEs have also been able to nominate “to hire staff” as the reason for seeking an overdraft facility. 5% of those interviewed in 2017 to date gave this as a reason and more detail will be provided as sample sizes increase.

Analysis by risk rating showed that:

- Working capital remained the main reason for seeking an overdraft across all external risk ratings (80-85%)
- A safety net was mentioned more by those with an average risk rating (49%)
- Those with a minimal risk rating were less likely to mention a short term funding gap (14% compared to 28-32% of those with other ratings) or UK growth (7% compared to 15-17% for other ratings)

Looking at the purpose of the overdraft sought over recent quarters, working capital was consistently the most mentioned purpose, followed by a safety net or to fill a short term funding gap. There have been no consistent trends in applications made post-Brexit, although mentions of a safety net are somewhat higher from Q3 2016 onwards than they were in the first half of 2016:

### Purpose of overdraft

SMEs seeking new/ renewed facility – by application date	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3*	Q4*	Q1*
<b>Unweighted base:</b>	<b>295</b>	<b>356</b>	<b>334</b>	<b>295</b>	<b>259</b>	<b>247</b>	<b>248</b>	<b>149</b>	<b>122</b>	<b>131</b>	<b>146</b>
Working capital for day to day cash flow	78%	83%	85%	85%	83%	89%	78%	83%	86%	87%	79%
Safety net – just in case	38%	47%	42%	53%	60%	38%	34%	29%	49%	45%	43%
Short term funding gap	27%	26%	27%	34%	38%	34%	18%	30%	39%	26%	26%
Fund growth in UK	21%	17%	16%	22%	27%	23%	18%	21%	6%	15%	7%
Buy fixed assets	17%	22%	7%	14%	20%	8%	7%	18%	11%	5%	4%
Fund growth overseas	5%	3%	4%	3%	*	3%	*	1%	-	1%	6%

Q55 All SMEs seeking new/renewed overdraft facility. Q315\* indicates interim results for that period as data is still being gathered on events in these quarters. NB 'Growth' replaced expansion in Q2 2013



Looking longer term, most applications have been made for working capital (8 in 10 in recent 18 month periods and 82% in the latest period to Q2 2017). The proportion looking for a safety net has also been stable at around 4 in 10 (currently 38%), but there has been an increase in applicants looking to fund expansion in the UK (from 12% to 22%, currently 17%).

More details around recent overdraft applications are provided below. Most SMEs applied to only one bank (their main bank) and few sought advice:

### **Overdraft applicants**    Sought new/renewed overdraft facility Q1 16-Q2 17

Applied to main bank	Almost all overdraft applications (99% in the 18 months to Q2 2017) were made to the SME's main bank. This varied little by size of applicant (98-100%).
Application made in a personal name	13% of overdraft applications made in the 18 months to Q2 2017 were in a personal name. This was much more common amongst smaller applicants (19% of applicants with 0 employees, compared to 4% of applicants with 1-9 employees, 2% of applicants with 10-49 and 1% of applicants with 50-249 employees).  Overdraft applications remained less likely to be made in a personal name than loan applications (where 21% were in a personal name for the 18 months to Q2 2017).
How many banks were applied to	99% of those who had applied in the 18 months to Q2 2017 said that they had applied to one bank, with little variation by size (95-100%).
Advice sought	The proportion of SMEs seeking advice before they applied for an overdraft has remained consistently low (7% amongst those applying in the 18 months to Q2 2017), and this has changed relatively little over time (it was 10% for 2013 as a whole). Larger SMEs that applied for an overdraft were more likely to have sought advice (14% of those with 10-49 employees and 17% of those with 50-249 employees).
Analysis by size of facility	Very few applications were made away from the main bank, or to more than one potential provider, but those that were typically related to overdrafts of £100,000 or more. Those seeking larger overdrafts were also somewhat more likely to have sought advice: 5% sought advice for an overdraft of £5,000 or less, 6% for an overdraft of £5-100,000, and 12% sought advice for overdrafts of more than £100,000.



## Overdraft applications – a sector summary

Analysis by sector is restricted due to small sample sizes, notably for Health and Hotels and Restaurants. The table below shows the overall purpose of the overdraft facility sought but no further detail will be provided until sample sizes are more robust:

### Overdraft activity

<u>Sought</u> new/ renewed facility Q1 16-Q2 17	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Hlth SWrk	Other Comm
<b>Unweighted base:</b>	<b>84*</b>	<b>76*</b>	<b>157</b>	<b>102</b>	<b>45*</b>	<b>87*</b>	<b>152*</b>	<b>42*</b>	<b>87*</b>
Renewing overdraft for same amount	81%	58%	53%	49%	57%	54%	39%	41%	62%
Applied for first ever overdraft facility	2%	15%	14%	20%	17%	31%	41%	11%	30%
New or increased overdraft facility but not first	18%	25%	33%	30%	27%	15%	19%	47%	8%

Q52 All SMEs seeking new/renewed overdraft facility



## Loan applications

This analysis is based on SMEs that had made an application for a new or renewed loan facility during the most recent 18 month period, which for this report is Q1 2016 to Q2 2017. Within this period, final data is now available for applications made up to Q2 2016. Data on applications in the more recent quarters (especially the first half of 2017) is still being gathered and will be updated in future waves, and so the figures quoted will be liable to change over time. All percentages quoted are therefore just of this group of applicants.

There have been fewer loan events reported than overdraft events. As a result, even for applications across 18 months to Q2 2017, the same granularity of analysis is not always possible as for other areas of the report and the

smaller base sizes mean the results should be treated with some caution. For this report, the 0 and 1-9 employee bands have been merged as there were too few 0 employee applicants to report separately.

In Q1 2017, the nature of loan event question was simplified to three core categories – the renewal of an existing facility, a first loan facility and thirdly any other new or increased loan facility that was not a first facility. Loan applications were more likely than overdraft applications to be for new funding (the first two rows of the table below), with 83% of loan applicants seeking a new loan (compared to 49% for overdrafts), including 32% saying this was their first ever loan (compared to 26% for overdrafts):

<b>Nature of loan event</b>		<b>0-9 emp</b>	<b>10-49 emps</b>	<b>50-249 emps</b>
<b><u>Sought</u> new/renewed facility Q1 16-Q2 17</b>	<b>Total</b>			
<b><i>Unweighted base:</i></b>	<b>431</b>	<b>169</b>	<b>197</b>	<b>65*</b>
New loan but not first	52%	51%	58%	64%
First loan	32%	33%	22%	8%
Renewed existing loan facility	16%	16%	20%	29%

Q149 All SMEs seeking new/renewed loan facility.

As the table above shows, a first loan was more likely to be the case for smaller SMEs that had applied, and 49% of first time applicants were Starts. The proportion of first time loan applicants who were Starts has varied over time, dropping from 46% for the 18 months to Q4 2013 to 34% for the 18 months to Q4 2015 before increasing again over time to 49% in the current 18 month period.

Excluding applicants with 0 employees reduces the proportion of first time applications slightly from 32% to 27%.



Analysis in previous reports has shown that the application process for a loan, and the eventual outcome, varied by the reason for application. The table below shows the proportion of applications made for each reason over recent quarters, with most applications for new facilities, shown in the first two rows of the table. Note that base sizes for recent quarters are below the normal threshold for the Monitor but are shown to provide indicative data on more recent applications:

<b>SMEs seeking new/ renewed facility</b>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>	<b>Q1*</b>	<b>Q2*</b>	<b>Q3*</b>	<b>Q4*</b>
<b>By application date</b>	<b>15</b>	<b>15</b>	<b>15</b>	<b>15</b>	<b>16</b>	<b>16</b>	<b>16</b>	<b>16</b>
<b><i>Unweighted base:</i></b>	<b>191</b>	<b>158</b>	<b>142</b>	<b>160</b>	<b>117</b>	<b>85*</b>	<b>65*</b>	<b>85*</b>
New loan but not first	38%	39%	46%	38%	62%	56%	33%	56%
First loan	28%	32%	25%	20%	32%	33%	59%	10%
Renewed existing loan facility	25%	10%	8%	8%	5%	11%	8%	34%

Q149 All SMEs seeking new/renewed loan facility. \* indicates interim results for that period as data is still being gathered on events in these quarters



The initial amount sought for a loan was typically higher than for an overdraft (18% of loans sought were for less than £5,000 compared to 44% of overdrafts sought). The median loan amount sought was £16,000. Sample sizes limit the amount of analysis possible over time, but overall the majority of loans sought have been for less than £100,000:

<b>Amount initially sought, where stated</b>			0-9	10-49	50-249
<u>Sought new/renewed facility Q1 16-Q2 17</u>	Total		emps	emps	emps
<b>Unweighted base:</b>	<b>370</b>		<b>148</b>	<b>165</b>	<b>57*</b>
Less than £5,000	18%		20%	2%	-
£5,000 – £9,999	15%		16%	5%	4%
£10,000 – £24,999	35%		38%	18%	11%
£25,000 – £99,999	18%		17%	26%	26%
£100,000+	14%		10%	49%	59%
<b>Median amount sought</b>	<b>£16k</b>		<b>£15k</b>	<b>£78k</b>	<b>£190k</b>

Q153/154 All SMEs seeking new/renewed loan, excluding DK/refused

Loan applicants were also asked about the extent to which the funding applied for represented the total funding required and how much the business was contributing. The results for applications made in the 18 months to Q2 2017 are shown below, with most applicants (74%) seeking all the funding they required from the bank:

<b>Proportion of funding sought from bank</b>			0-9	10-49	50-249
<u>Sought new/renewed facility Q1 16-Q2 17</u>	Total		emps	emps	emps
<b>Unweighted base:</b>	<b>415</b>		<b>163</b>	<b>187</b>	<b>65*</b>
Half or less of total sum required	8%		7%	10%	16%
51-75% of sum required	9%		9%	11%	11%
76-99% of sum required	10%		10%	7%	10%
All of sum required sought from bank	74%		74%	72%	62%

Q155 All SMEs seeking new/renewed loan, excluding DK/refused



There was relatively little difference in the proportion seeking all the funding from the bank by size of applicant or by risk rating.

More detailed analysis by date of loan application shows that in each period, the majority of applicants sought all the funding they required from the bank, with little difference by size of applicant:

#### Proportion seeking all funding from the bank

Over time – all seeking loan	H1	H2	H1	H2	H1	H2	H1	H2*
Row percentages	2013	2013	2014	2014	2015	2015	2016	2016
All loan applicants	78%	75%	76%	75%	60%	67%	73%	72%
All applicants with 0-9 employees	78%	75%	77%	76%	60%	67%	73%	73%
All applicants with 10-249 employees	76%	74%	67%	68%	60%	66%	75%	66%

Q155 All SMEs seeking new/renewed loan, excluding DK/refused

Overall, these funds were likely to have been sought either to fund expansion in the UK (36%) or to buy fixed assets (32%), with clear variation by size of applicant:

Purpose of loan		0-9	10-49	50-249
<u>Sought new/renewed facility Q1 16-Q2 17</u>	Total	emps	emps	emps
<b>Unweighted base:</b>	<b>422</b>	<b>163</b>	<b>194</b>	<b>65*</b>
Fund expansion in UK	36%	36%	29%	39%
Buy fixed assets	32%	33%	23%	23%
Buy motor vehicles	26%	27%	11%	20%
Develop new products/services	19%	20%	18%	17%
Buy premises	13%	11%	28%	29%
Replace other funding	17%	17%	11%	15%
Fund expansion overseas	1%	1%	2%	2%
Take over another business	1%	1%	2%	9%

Q150 All SMEs seeking new/renewed loan facility excluding DK/refused



The table below shows the most common reasons for seeking a new loan by application date up to Q4 2016, the latest for which indicative base sizes are available. Expansion in the UK remained the most common reason for seeking funds, while the increase in loans for the purchase of fixed assets seen in the first half of 2016 does not appear to have been maintained:

<b>Purpose of loan</b>											
<b>SMEs seeking new/ renewed facility – by application date</b>	<b>Q2 14</b>	<b>Q3 14</b>	<b>Q4 14</b>	<b>Q1 15</b>	<b>Q2 15</b>	<b>Q3 15</b>	<b>Q4 15</b>	<b>Q1 16</b>	<b>Q2 16</b>	<b>Q3* 16</b>	<b>Q4* 16</b>
<b>Unweighted base:</b>	<b>224</b>	<b>167</b>	<b>202</b>	<b>191</b>	<b>158</b>	<b>142</b>	<b>160</b>	<b>113</b>	<b>85*</b>	<b>62*</b>	<b>85*</b>
Fund expansion in UK	35%	26%	13%	32%	21%	20%	28%	39%	48%	35%	23%
Premises	14%	21%	21%	29%	27%	12%	20%	15%	11%	5%	18%
Buy fixed assets	25%	20%	14%	11%	19%	18%	22%	46%	42%	28%	13%
Develop new products/services	17%	11%	17%	17%	20%	30%	12%	27%	31%	8%	6%
Buy motor vehicles	17%	19%	23%	13%	11%	29%	22%	27%	23%	32%	15%
Fund expansion overseas	2%	3%	3%	1%	2%	1%	*	4%	*	1%	1%

Q150 All SMEs seeking new/renewed loan facility. \* indicates interim results as data is still being gathered on events in these quarters

Quarterly data can make it difficult to discern longer term trends over time. Analysis of a series of 18 month application periods shows that since the 18 months to Q4 2013:

- Typically a third of loans have been for UK expansion.
- The proportion looking to buy fixed assets declined from 27% in the 18 months to Q4 2013 to 17% in the 18 months to Q4 2015 but is currently 32%.



Further details about the loan applications made are summarised in the table below. Loan applicants remained somewhat more likely than overdraft applicants to approach a bank other than their own (although most didn't):

<b>Loan applicants</b>	<b><u>Sought new/renewed loan facility Q1 16-Q2 17</u></b>
Applied to main bank	84% of loan applications were made to the SME's main bank, compared to 99% of overdraft applications. Loan applicants with 10-249 employees were somewhat more likely to go to their bank (90%) than smaller applicants (83%).
Application made in a personal name	21% of loan applications made in the 18 months to Q2 2017 were in a personal rather than a business name. This was more common amongst smaller applicants (23% of applicants with 0-9 employees applied in a personal name compared to 5% of larger applicants). Personal applications were also more common overall for loans than for overdrafts (where 13% of applications were in a personal name).
How many banks were considered	In a new question from Q1 2016, loan applicants were asked how many banks they <i>considered</i> applying to. 18% of applicants asked had considered applying to more than one bank but, as reported below, 13% actually did so.
How many banks were applied to	87% of those who applied in the 18 months to Q2 2017 said that they had applied to one bank, somewhat lower than the 99% of overdraft applicants who only applied to one bank. Loan applicants with 10-49 employees were somewhat more likely to apply to more than one bank (20%) than smaller applicants (12%)
Advice sought	A minority of loan applicants in the 18 months to Q2 2017 had sought external advice before applying (18%) but they remained more likely to have done so than overdraft applicants (7%).
Analysis by size of loan facility	Those seeking funding of £100,000 or more were much less likely to be applying in a personal name (5% v 20% of those seeking less than £100k). They were more likely to initially consider several providers (29% v 15%) and to go on to apply to more than one bank (24% v 10%). They were also more likely to seek advice (30% v 16%).



## Loan applications – a sector summary

Analysis by sector is restricted due to small sample sizes, and all results should be treated with caution. The table below shows the overall purpose of the loan facility sought but no further detail will be provided until sample sizes are more robust:

<b>Loan activity</b>									
<u>Sought new/</u> renewed facility				Whle	Hotel		Prop/	Hlth	Other
Q1 16-Q2 17	Agric	Mfg	Constr	Retail	Rest	Trans	Bus	SWrk	Comm
<i>Unweighted base:</i>	<b>48*</b>	<b>43*</b>	<b>62*</b>	<b>48*</b>	<b>39*</b>	<b>47*</b>	<b>60*</b>	<b>31*</b>	<b>53*</b>
New loan (not first)	74%	51%	55%	40%	48%	54%	39%	88%	55%
Applied for first ever loan	4%	20%	33%	43%	42%	32%	37%	7%	39%
Renewing loan for same amount	22%	30%	12%	17%	10%	14%	24%	6%	6%

Q149 All SMEs seeking new/renewed loan facility