

11. Why were SMEs not looking to borrow in the previous 12 months?



This chapter looks

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



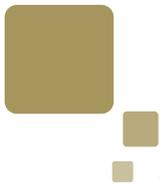
Key findings

YEQ2 2016, SMEs remained more likely to have been a Happy non-seeker of finance (81%). 15% of all SMEs reported a borrowing event (including the automatic renewal of an overdraft) while 4% were Would-be seekers of finance who had wanted to apply for a loan or overdraft but felt that something stopped them.

- The proportion of Happy non-seekers has increased over time, from 68% of SMEs in 2012 to 83% in the first half of 2016.
- The proportion reporting a borrowing event has declined over time, from 23% of SMEs in 2012 to 14% in the first half of 2016.
- The proportion of Would-be seekers has also declined over time, having been 10% in 2012

Would-be seekers are now asked one single question as to why they did not apply for a loan and/or overdraft facility. Discouragement and the process of borrowing remained the main barriers:

- 41% of WBS felt discouraged from applying. This was much more likely to be the case for smaller WBS (42% of those with 0-9 employees compared to 9% of those with 10-249 employees). This remained more likely to be indirect discouragement (where the SME believes they will be declined and so does not apply) than direct discouragement.
- 19% cited the process of borrowing as the main barrier to application (typically the expense). This was much more likely to be the case for larger WBS (19% of those with 0-9 employees compared to 40% of those with 10-249 employees).



Excluding the Permanent non-borrowers, with no apparent appetite for finance, increased the proportion of SMEs reporting an event to 29% and the Would-be seekers to 7%, but most SMEs continued to meet the definition of a Happy non-seeker of finance (65%).

Expanding the definition to include other forms of finance increased the proportion of all SMEs with a borrowing event to 24% (from 15%) but resulted in little change in the proportion of Would-be seekers (3% rather than 4%). The Happy non-seekers remained the largest group (73% from 81%).



As already detailed in this report, a minority of SMEs reported any borrowing event in the 12 months prior to interview. This chapter looks at those that had not had a borrowing event, to explore whether they had wanted to apply for loan/overdraft finance in the previous 12 months, and any barriers to such an application being made. Because this chapter covers not only those that have had a borrowing event, but also those that have not, analysis continues to be based on the date of **interview** (unlike chapters 7 to 10 which are now entirely based on when the borrowing event in question *occurred*).

All SMEs have been allocated to one of three groups, encompassing 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.

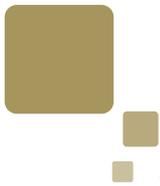
Would-be seekers: those SMEs that had not had a loan or overdraft borrowing event/automatic renewal, but said something had stopped them applying for either loan or overdraft funding in the previous 12 months.

Happy non-seekers: those SMEs that had not had a loan/overdraft borrowing event/automatic renewal, and also said that nothing had stopped them applying for either loan or overdraft funding in the previous 12 months.

Changes to definitions – a summary

Up until Q1 2016, respondents who hadn't reported a relevant loan and/or overdraft borrowing event were asked separately about wanting to apply for a loan or an overdraft. This meant that a respondent might have been allocated to two different categories, for example if they reported a loan 'event' and had also been a Would-be seeker of an overdraft. In that instance they would have been classed in this report as having had an event (due to the loan) and their answers in terms of being a Would-be seeker of an overdraft would not have been included at the analysis stage, as each respondent can only appear in one of the three categories above.

This meant that some answers (which took time to gather during the interview) were never used. So, from Q1 2016 onwards, potential Would-be seekers have been identified within the survey as those who had reported neither a loan nor an overdraft event. Such SMEs were then asked whether anything had stopped them applying for either a loan or overdraft facility and if they identified any barrier, they qualified as a would-be seeker of finance. Whilst this is a slightly different approach within the survey itself, the basis on which Would-be seekers are reported has not changed because the Monitor has only ever reported on Would-be seekers who had not had an 'event' as well.



Since the start of the Monitor a number of other adjustments have been made to this area of the questionnaire. These are summarised below but were reported in full in the Q4 2015 report:

- From the Q2 2012 report onwards, the definition of ‘had an event’ was amended to include automatic overdraft renewals, and all respondents from Q4 2011 re-classified under the new definition.
- From Q4 2012, the question used to separate the Happy non-seekers from the Would-be seekers was changed from:
 - Would you say that you would like to have an overdraft/loan facility for the business, even though you haven't applied for one?To
 - Has anything stopped you applying for an overdraft/loan, or was it simply that you felt that the business did not need one?
- In Q4 2012, the list of reasons available to Would-be seekers, explaining why they had not applied for a loan or overdraft facility was amended when the option ‘I prefer not to borrow’ was removed
- From Q3 2015, a question has been asked that allows identification of Would-be seekers of other forms of finance (such as leasing). An initial assessment of the impact this would have on the overall Would-be seekers position is provided in this chapter but the main definition has not been changed in this report.



To what extent do SMEs have an unfulfilled wish to borrow?

The table below is based on the ‘Had an event’ definition described at the start of this chapter (i.e. including automatic renewals as an ‘event’), and (from Q1 2016) the revised Would-be seeker/Happy non-seeker questions (which define these groups in the same way as previous reports).

As described earlier, the ‘Have had an event’ code includes not only applications for new or renewed loans and overdrafts (and the

automatic renewal of overdrafts), but also Type 2 and Type 3 loan and overdraft events where either the bank or the SME was looking to reduce or repay an existing facility. The table below therefore shows, beneath the ‘event’ line, the proportion of SMEs each quarter that have applied for a new/renewed facility or had an overdraft facility automatically renewed, and then those that have had a facility reduced/cancelled or have chosen to do so (the Type 2 and 3 events):

Any events (overdraft <u>and</u> loan)									
Over time - all SMES	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
By date of interview	2014	2014	2014	2015	2015	2015	2015	2016	2016
Unweighted base:	5008	5023	5024	5038	5001	5004	5003	4500	4500
Have had an event	17%	18%	15%	18%	16%	16%	17%	13%	15%
• <i>New or (auto) renewed facility</i>	15%	14%	13%	14%	14%	14%	15%	11%	13%
• <i>Type 2 or 3 events</i>	4%	6%	3%	6%	5%	4%	4%	3%	3%
Would-be seekers	5%	5%	3%	3%	2%	3%	5%	3%	2%
Happy non-seekers	78%	77%	82%	79%	82%	80%	78%	83%	83%

Q115/209 All SMEs – new definitions from Q4 2012 – shaded figures

This shows that over recent quarters, most SMEs met the definition of a Happy non-seeker of loan or overdraft finance (83% in Q2 2016), while the proportion of Would-be seekers remained low (2% in Q2 2016). The proportion of SMEs reporting an event remained at around 1 in 6.

Happy non-seekers can, and do, use external finance (the definition is based on borrowing events in the previous 12 months). In 2015 and H1 2016, a quarter of Happy non-seekers (25%) were using external finance and this proportion has changed little over time.

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



The table below shows the small and broadly stable proportion of Would-be seekers of loan and overdraft finance over recent quarters, with smaller SMEs and those with a less favourable risk rating more likely to meet the definition:

Would-be seekers

Over time – row percentages By date of interview	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016
All SMEs	5%	5%	3%	3%	2%	3%	5%	3%	2%
0 employee	6%	6%	3%	3%	2%	4%	5%	4%	2%
1-9 employees	4%	4%	3%	4%	2%	3%	4%	3%	3%
10-49 employees	2%	2%	2%	2%	1%	2%	2%	1%	1%
50-249 employees	1%	1%	1%	1%	1%	1%	1%	*	2%
Minimal external risk rating	1%	1%	2%	1%	1%	2%	1%	3%	*
Low external risk rating	3%	1%	2%	4%	1%	2%	3%	1%	1%
Average external risk rating	3%	5%	2%	2%	2%	3%	7%	3%	2%
Worse than average external risk rating	8%	6%	5%	3%	2%	5%	6%	5%	3%
Agriculture	2%	2%	3%	2%	2%	4%	6%	3%	1%
Manufacturing	6%	4%	3%	3%	4%	4%	5%	4%	1%
Construction	6%	5%	3%	3%	2%	2%	3%	4%	1%
Wholesale/Retail	5%	4%	3%	1%	1%	6%	6%	2%	1%
Hotels & Restaurants	8%	7%	5%	5%	3%	4%	4%	3%	6%
Transport	10%	7%	8%	4%	5%	3%	5%	5%	3%
Property/Business Services etc.	3%	5%	3%	3%	2%	5%	4%	4%	3%
Health	4%	7%	1%	2%	1%	3%	1%	1%	*
Other Community	8%	8%	3%	5%	*	1%	12%	2%	3%
All excluding PNBs	9%	9%	6%	6%	4%	6%	9%	7%	4%

Q115/209 All SMEs base size varies by category



As in previous periods, SMEs with no employees were less likely to have had an ‘event’ than those with employees. The bigger the SME, the less likely they were to have been a Would-be seeker of external finance:

Any events (Overdraft <u>and</u> loan)		0	1-9	10-49	50-249
YEQ2 16 All SMES	Total	emp	emps	emps	emps
Unweighted base:	19,007	3800	6203	6103	2901
Have had an event	15%	13%	21%	24%	19%
Would-be seekers	4%	4%	3%	1%	1%
Happy non-seekers	81%	83%	76%	75%	80%

Q115/209 All SMEs- new definitions from Q4 2012

SMEs with employees were more likely to have experienced a borrowing event (22%). 3% met the definition of a Would-be seeker of finance, with the largest group, as overall, the Happy non-seekers (76%).

By risk rating, those SMEs with a worse than average risk rating remained somewhat less likely to have had an event but across all risk ratings the majority of SMEs met the definition of a Happy non-seeker:

Any events (Overdraft <u>and</u> loan)					Worse/
YEQ2 16 All SMEs with a risk rating	Total	Min	Low	Avge	Avge
Unweighted base:	19,007	2965	5907	4231	4276
Have had an event	15%	18%	20%	16%	13%
Would-be seekers	4%	2%	2%	4%	5%
Happy non-seekers	81%	80%	78%	81%	82%

Q115/209 All SMEs- new definitions from Q4 2012

Those currently using external finance were no more or less likely to be a Would-be seeker (4% v 3% not using external finance), but remained much more likely to have had an event (39% v 2% not using external finance).



The proportion of Would-be seekers varied relatively little by sector (1-5%). More variation was seen in terms of Happy non-seekers, which accounted for 87% of those in the Health sector (who were less likely to have had an event), compared to 73% of those in Agriculture (who were more likely to have had an event):

Any events (overdraft and loan)

All SMEs YEQ2 16	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Hlth SWrk	Other Comm
Unweighted base:	1350	1790	3349	1912	1500	1909	3550	1645	2002
Have had an event	23%	21%	15%	21%	20%	12%	12%	12%	18%
Would-be seekers	4%	4%	3%	4%	4%	4%	4%	1%	5%
Happy non-seekers	73%	75%	82%	75%	76%	84%	85%	87%	78%

Q115/209 All SMEs

Analysis by age of business continued to show that the older the business the more likely they were to have had a borrowing event and the less likely to be a Happy non-seeker of finance (albeit 8 in 10 SMEs that have been trading for 10 years or more do meet the definition of a HNS):

Any events (overdraft and loan)

All SMEs YEQ2 16	Starts	2-5 yrs	6-9 yrs	10-15 yrs	15+ yrs
Unweighted base:	1909	2062	2207	3130	9699
Have had an event	9%	13%	15%	19%	19%
Would-be seekers	6%	5%	2%	3%	2%
Happy non-seekers	85%	82%	83%	79%	79%

Q115/209 All SMEs



Taking a longer term view, back to 2012, and accepting the slight changes to the questionnaire made over this period (and summarised at the start of the chapter) shows that the proportion of Happy non-seekers of finance has risen year on year, as fewer SMEs either reported a borrowing event or met the definition of a Would-be seeker:

Any events (overdraft and loan)					H1
Over time – all SMEs	2012	2013	2014	2015	2016
<i>Unweighted base:</i>	20,055	20,036	20,055	20,046	9000
Have had an event	23%	17%	16%	17%	14%
Would-be seekers	10%	6%	5%	3%	3%
Happy non-seekers	68%	77%	79%	80%	83%

Q115/209 All SMEs

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



An expanded definition of Would-be seekers

Mention was made earlier in this report of a new question from Q3 2015 which asked those who had not applied for any other form of finance (such as leasing or invoice discounting) whether something had stopped them applying (in much the same way as those who had not applied for a loan or an overdraft have been asked the questions that define a Would-be seeker of finance).

YEQ2 2016, 2% of those asked the question said that yes, something had stopped them applying for one of these other forms of finance. This is the equivalent of 2% of all SMEs.

It is therefore now possible to provide a revised analysis of activity:

- The 'event' category can be expanded to include not just loans and overdrafts but those who applied for another form of finance (such as invoice discounting).
- The Would-be seeker category can be expanded to include those who wanted to apply for one of these other forms of finance but felt that something stopped them.

As the table below shows, initial indications are that the impact of including Would-be seekers of other forms of finance in a revised definition of Would-be seekers overall, is minimal. The proportion with an 'event' increases from 15% to 24% and the proportion of Happy non-seekers reduces accordingly:

Any events (overdraft and loan)	Original definition	Revised definition
YEQ2 16		
<i>Unweighted base:</i>	19,007	19,007
Have had a loan/overdraft event	15%	24%
Would-be seekers	4%	3%
Happy non-seekers	81%	73%

Q115/209i/Q222b3 All SMEs

Further analysis will be provided as base sizes permit, but these additional Would-be seekers have not been included in any other analysis in this chapter.



Barriers to overdraft or loan application

SMEs that were identified as Would-be seekers (i.e. they had wanted to apply for an overdraft/loan 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 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.

As described at the start of this chapter, this is now only asked once, across both loans and overdrafts, instead of separately for each form of finance. This limits the trend data available over the longer term, but some analysis has been provided of the answers given by loan and overdraft Would-be seekers on a combined basis for 2014 and 2015.

The key reasons given in H1 2016 were:

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 48% of all Would-be seekers in 2015 and by 33% in H1 2016 (the equivalent of 1% of all SMEs)

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 42% of all Would-be seekers in 2015 and by 45% in H1 2016 (the equivalent of 1% of all SMEs)

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 29% of all Would-be seekers in 2015 and by 23% in H1 2016 (the equivalent of <1% of all SMEs)

Current economic climate – those that felt that it had not been the right time to borrow. This was given as a reason by 11% of all Would-be seekers in 2015 and by 15% in H1 2016 (the equivalent of 1% of all SMEs)



The table below shows the combined results for H1 2016, and all the reasons for not applying for a loan or overdraft that are included in the summary categories above.

All reasons for not applying for loan or overdraft when wanted to

All Would-be seekers H1 16	Total	0-9 emps	10-249 emps
Unweighted base:	185	124	61*
Issues with <u>process</u> of borrowing	33%	33%	49%
-Would be too much hassle	10%	10%	6%
-Thought would be too expensive	17%	18%	16%
-Would be asked for too much security	14%	14%	7%
-Too many terms and conditions	10%	10%	13%
-Did not want to go through process	9%	9%	10%
-Forms too hard to understand	4%	4%	5%
Discouraged (any)	45%	46%	11%
-Direct (put off by bank)	20%	20%	6%
-Indirect (thought would be turned down)	34%	34%	8%
Issues with <u>principle</u> of borrowing	23%	23%	22%
-Not lose control of business	6%	6%	8%
-Can raise personal funds if needed	11%	11%	6%
-Prefer other forms of finance	5%	5%	9%
-Go to family and friends	9%	9%	10%
Economic climate	15%	15%	17%
Not the right time to apply	15%	15%	17%

Q210 All Would-be seekers SMEs that wished they had applied for an overdraft or a loan – NEW DEFINITION



An additional question was asked of those giving more than one reason, asking them to nominate the key reason for not applying. The remaining analysis focuses on the main reason given by Would-be seekers for not having applied for an overdraft or loan in the previous 12 months.

Discouragement and the ‘process of borrowing’ have typically been the two main reasons for not applying for a facility. For the new question in H1 2016 discouragement was the main barrier for Would-be seekers with 0-9 employees whilst larger Would-be seekers were more likely to cite the ‘process of borrowing’:

Main reason for not applying for loan or overdraft when wanted to		0-9	10-249
All Would-be seekers H1 16	Total	emps	emps
<i>Unweighted base:</i>	185	124	61*
Discouraged (any)	41%	42%	9%
-Direct (put off by bank)	16%	16%	3%
-Indirect (thought would be turned down)	25%	26%	6%
Issues with <u>process</u> of borrowing	19%	19%	40%
Issues with <u>principle</u> of borrowing	17%	17%	12%
Economic climate	9%	9%	12%
<i>None of these</i>	5%	5%	22%

Q116a/Q210a All SMEs that wished they had applied for an overdraft or a loan

Larger Would-be seekers who cited the ‘process of borrowing’ as their main reason typically mentioned the expense, followed by the terms and conditions and not wanting to go through the process.

Amongst Would-be seekers with employees, the reasons given for not seeking a facility were similar to reasons overall. 35% reported feeling ‘discouraged’ while 33% cited the ‘process of borrowing’. Around 1 in 10 mentioned the principle of borrowing (12%) or the ‘Current economic climate’ (11%).



Analysis by external risk rating showed discouragement was also the main barrier for those with an average or worse than average external risk rating:

Main reason for not applying for loan or overdraft when wanted to

All Would-be seekers H1 16	Total	Min/ Low	Avge/WTA
Unweighted base:	185	49*	109
Discouraged (any)	41%	6%	42%
-Direct (put off by bank)	16%	1%	18%
-Indirect (thought would be turned down)	25%	5%	23%
Issues with <u>process</u> of borrowing	19%	34%	14%
Issues with <u>principle</u> of borrowing	17%	45%	17%
Economic climate	9%	12%	11%
None of these	5%	3%	6%

Q116a/Q210a All SMEs that wished they had applied for an overdraft or a loan

Those with a minimal or low risk rating were less likely to have felt discouraged from applying. On a very limited base, almost half cited the principle of borrowing, mentioning in particular being able to get finance from family and friends.

Base sizes are currently too small for analysis by sector.



Previous analysis over time has tracked the reasons for not applying for an overdraft separately to those for not applying for a loan. This makes comparisons over time with the new question introduced in Q1 2016 more difficult. The table below shows, on an annual basis for 2014 and 2015, any mentions of each of the four key themes by Would-be seekers, whether they had been put off applying for a loan or an overdraft and compares them to the first results in 2016 of the new, combined, question. This shows that discouragement remained the key barrier:

Main reason for not applying for loan or overdraft when wanted to			H1
Over time – all Would-be seekers	2014	2015	2016*
<i>Unweighted base:</i>	620	485	185
Discouraged (any)	41%	37%	41%
Issues with <u>process</u> of borrowing	40%	34%	19%
Issues with <u>principle</u> of borrowing	15%	16%	17%
Economic climate	4%	6%	9%

Q116a/Q210a All SMEs that wished they had applied for an overdraft or a loan – question changed in 2016

In both instances, the two main reasons for not applying have been discouragement (almost all of it indirect) and the ‘process of borrowing’. This was also true for the new, combined, question albeit with clear differences by size of Would-be seeker (the smaller WBS were more likely to have felt discouraged, the larger ones to have been put off by the ‘process of borrowing’).

The new combined question will be tracked over time in future reports.



Would-be seekers constitute a minority of all SMEs (3%). The table below shows, for the main reasons given by Would-be seekers for H1 2016, the equivalent proportion of all SMEs:

Main reason for not applying	Would-be seekers	All SMEs
H1 16		
Unweighted base:	185	9000
Discouraged (any)	41%	1%
-Direct (put off by bank)	16%	*
-Indirect (thought I would be turned down)	25%	1%
Issues with <u>process</u> of borrowing	19%	1%
Issues with <u>principle</u> of borrowing	17%	1%
Economic climate	9%	*

Q116a/Q210a All SMEs v all that wished they had applied for an overdraft or a loan – **NEW DEFINITION**

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



The effect of the Permanent non-borrower

As identified earlier in this report, half of all SMEs met the definition of a Permanent non-borrower and this proportion has increased steadily over time. If such SMEs are excluded from the analysis in this chapter (because there is no indication from their answers that they will borrow), the population of SMEs reduces to around 2.7 million from 5 million.

29% of this group of SMEs excluding PNBs reported a borrowing event:

Any events (Overdraft <u>and</u> loan)			
YEQ2 16 – all SMES		All SMEs	All SMEs excl. PNB
Unweighted base:		19,007	12,458
Have had an event		15%	29%
Would-be seekers		4%	7%
Happy non-seekers		81%	65%

Q115/209 All SMEs

The proportion of Happy non-seekers declines to 65% but remains the largest group and 7% of these SMEs met the definition of a Would-be seeker, compared to 4% of all SMEs.

The table below shows the pattern over recent quarters, once the PNBs have been excluded. The proportion reporting an event has been broadly stable at around 30%:

Any events (overdraft <u>and</u> loan)									
All SMES, excluding PNBs – over time	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
By date of interview	2014	2014	2014	2015	2015	2015	2015	2016	2016
Unweighted base:	3514	3576	3153	3220	3195	3258	3338	2854	3008
Have had an event	27%	30%	29%	35%	32%	30%	30%	26%	29%
Would-be seekers	9%	9%	6%	6%	4%	6%	9%	7%	4%
Happy non-seekers	64%	61%	65%	59%	64%	63%	61%	67%	67%

Q115/209 All SMEs excluding PNBs



Taking a longer term view, from 2012, and accepting the slight changes in definition in that time, shows that the proportion of SMEs (excluding the PNBs) reporting a borrowing event has been fairly stable since 2013 while the proportion of Would-be seekers of finance has declined as it has overall. Initial results for 2016 showed fewer of these SMEs reporting an event and more meeting the definition of a Happy non-seeker:

Any events (overdraft and loan)						H1
Over time – excl PNBs	2012	2013	2014	2015	2016	
Unweighted base:	15,312	14,578	13,613	13,011	5862	
Have had an event	35%	28%	28%	32%	27%	
Would-be seekers	15%	10%	8%	6%	5%	
Happy non-seekers	51%	62%	64%	62%	67%	

Q115/209 All SMEs excl PNBs

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

Main reason for not applying when wished to – H1 16	Would-be seekers	All SMEs excl. pnb
Unweighted base:	185	5862
Discouraged (any)	41%	2%
-Direct (put off by bank)	16%	*
-Indirect (thought I would be turned down)	25%	1%
Issues with <u>process</u> of borrowing	19%	1%
Issues with <u>principle</u> of borrowing	17%	1%
Economic climate	9%	*

Q116a/Q210a All SMEs v all that wished they had applied for an overdraft or a loan

The equivalent of 2% of all SMEs (excluding the PNBs) reported having felt discouraged from applying for a loan or overdraft facility.



The longer term impact of previous declines

Separate qualitative research conducted amongst discouraged Would-be seekers revealed that a number of these SMEs 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 new question was added to the SME Finance Monitor from Q1 2014.

6% 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 2016
By size of SME	<p>Smaller SMEs were somewhat more likely to report a previous decline:</p> <ul style="list-style-type: none">• 6% of 0 employee SMEs• 6% of those with 1-9 employees• 5% of those with 10-49 employees• 2% of those with 50-249 employees <p>Amongst SMEs with employees, 6% had previously been declined.</p>
Excluding the PNBs	<p>Once the PNBs were excluded, 9% of remaining SMEs had experienced a previous decline (compared to 2% of PNBs).</p>
Risk rating	<p>There was very little difference by risk rating (5% for all bands except worse than average where 6% had been declined).</p>
Use of external finance	<p>8% of those currently using external finance had experienced a previous decline, compared to 4% of those who had not used external finance in the past 5 years (and 12% of the small group that had used finance in the past but were not using it now).</p>

Amongst SMEs who had experienced a previous decline:

- 71% said that this had made them more reluctant to apply for bank finance subsequently (the equivalent of 4% of all SMEs). The smaller the SME experiencing the decline, the more likely they were to say they had been made more reluctant.
- By external risk rating, those declined with an average or worse than average risk rating were slightly more likely to have been made more reluctant than those with a minimal or low external risk rating.



The tables below explore this reluctance in more detail, based on all SMEs. 4% of all SMEs had been made more reluctant by a previous decline, increasing to 6% once the PNBs had been excluded. Larger SMEs remained somewhat less likely to have been impacted:

Impact of previous decline by bank		0	1-9	10-49	50-249
All SMEs YEQ2 16	Total	emps	emps	emps	emps
<i>Unweighted base:</i>	19,007	3800	6203	6103	2901
More reluctant to apply after a decline	4%	4%	4%	3%	1%
Declined but not more reluctant	2%	2%	2%	2%	2%
Have not been declined in past	94%	94%	94%	95%	98%

Q240x and Q240y All SMEs

Impact of previous decline by bank		0	1-9	10-49	50-249
All SMEs YEQ2 16 excl PNBs	Total	emps	emps	emps	emps
<i>Unweighted base:</i>	12,458	1877	4022	4405	2154
More reluctant to apply after a decline	6%	7%	6%	4%	1%
Declined but not more reluctant	2%	2%	2%	2%	2%
Have not been declined in past	91%	91%	92%	94%	97%

Q240x and Q240y All SMEs excluding PNBs



Those with a poorer external risk rating were slightly more likely to have been made more reluctant by a previous decline:

Impact of previous decline by bank					Worse/ Avge
All SMEs YEQ2 16	Total	Min	Low	Avge	
<i>Unweighted base:</i>	19,007	2965	5907	4231	4276
More reluctant to apply after a decline	4%	3%	3%	4%	5%
Declined but not more reluctant	2%	2%	2%	1%	2%
Have not been declined in past	94%	95%	95%	95%	94%

Q240x and Q240y All SMEs

Amongst those currently using external finance, 6% had become more reluctant to apply as the result of a previous decline, compared to 7% of those that had used finance in the past five years but were not using it currently and 3% 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:

- Half of those who had previously been declined were using any external finance, and this did not vary much by whether that decline had made them more reluctant to seek finance or not.
- Those who had never been declined were less likely to be using external finance (35%) and more likely to qualify as a Happy non-seeker of finance (83%).
- Those who reported that the decline had made them more reluctant to apply for bank finance were more likely to meet the definition of a Would-be seeker of finance (16%) than either those not put off by their decline (10%) or those who had never been declined (3%).



Impact of previous decline by bank		Made more reluctant by decline	Declined but not made more reluctant	Not previously declined
All SMEs YEQ2 16	All SMEs			
Unweighted base:	19,007	612	323	18,072
Using external finance	36%	51%	46%	35%
Have had an event	15%	39%	32%	14%
Would-be seekers	4%	16%	10%	3%
Happy non-seekers	81%	45%	59%	83%

Q240x and Q240y and Q115/209 All SMEs

To put these figures in context, less than 1% of all SMEs were Would-be seekers of finance who had been made more reluctant by a previous decline (the 16% group shown above).

The table below presents the same analysis once the PNBs have been excluded. Amongst remaining SMEs there was little difference in their current use of external finance by whether they had previously been declined:

Impact of previous decline by bank		Made more reluctant by decline	Declined but not made more reluctant	Not previously declined
All SMEs YEQ2 16 excl PNBs	All SMEs			
Unweighted base:	12,458	547	262	11,649
Using external finance	68%	60%	63%	68%
Have had an event	29%	46%	43%	27%
Would-be seekers	7%	18%	13%	6%
Happy non-seekers	65%	36%	44%	67%

Q240x and Q240y and Q115/209 All SMEs excluding PNBs



Just under half of those who had previously been declined reported a borrowing event, irrespective of whether that decline had made them more reluctant (46%) or not (43%). However, those who felt more reluctant were somewhat more likely to be a Would-be seeker of finance (18%) than either those who were not made more reluctant (13%) or those who had not been declined at all (6%).

A similar pattern was seen for future borrowing intentions. Excluding the PNBs, 25% of remaining SMEs were planning to apply for

finance in the next 3 months. Amongst those who had experienced a decline this proportion was higher (47%) and consequently they were less likely to meet the definition of a Future happy non-seeker of finance (30% v 53% of all SMEs excluding the PNBs), with no difference in the proportion that were Future would-be seekers of finance.

Finally, the table below looks at the impact of a previous decline on attitudes to external finance:

Impact of previous decline by bank		Made more reluctant by decline	Declined but not made more reluctant	Not previously declined
% agree – all SMEs YE Q2 16	All SMEs			
Unweighted base:	19,007	612	323	18,072
Repay existing finance and remain debt free	71%	81%	81%	70%
Happy to use finance to help business grow	46%	69%	57%	43%
Plans based on what can afford ourselves	80%	82%	78%	80%

Q240x and Q240y and Q238a5 All SMEs

This shows little variation in levels of agreement about basing plans on what the business can afford. Similarly, most in each group would prefer to be debt free but this came through slightly more strongly for those who had experienced a previous decline. The statement with most variation was willingness to use finance to help the business grow, where those who had experienced a previous decline were more willing to consider using finance than those who had never been declined.