

7. 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 application, why funds were required and whether advice was sought.



Key findings

50% of overdraft applications in the 18 months to Q2 2016 were to renew an existing facility and this has been the main reason for application over time and across size bands. Loan applications in this current period were more likely to be for new money (69% v 37% of overdrafts) with 13% renewing a loan.

21% were applying for their first overdraft facility. This remained more common for smaller SMEs but over time fewer of these first time applicants (FTAs) have been Starts. 27% of loan applications were from FTAs with little change over recent quarters.

Working capital remained the main reason for an overdraft application (cited by 84% of those applying in the 18 months to Q2 2016). Loan applicants gave a wider range of reasons: A quarter (26%), were looking to fund expansion in the UK, 21% to buy premises and 21% to buy fixed assets. Two thirds (66%) were seeking all the loan funding required from the bank.

97% of overdraft applicants applied to their main bank and 98% only applied to one bank. Loan applicants were slightly less likely to apply to their main bank (although most, 88%, did) and slightly more likely to apply to more than one bank (15% v 2% for overdrafts).

Only a minority of overdraft applicants took advice before applying (9%) and this has varied little over time. Loan applicants were somewhat more likely to seek advice (17%).



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 the Q2 2013 report was the first to adopt this approach for these chapters.

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 Q1 and Q2 2016) this is only **interim** data, which is liable to change and which will be updated in subsequent reports.

However, for some 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 YE Q2 2016 (i.e. all interviews conducted in the 4 quarters to Q2 2016, irrespective of when the borrowing event occurred), data is now reported on the basis of 'Applications occurring in the 18 months to Q2 2016' (i.e. applications known to have been made between Q1 2015 and Q2 2016 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 2015 to Q2 2016. Within this 18 month time period, final data is now available for applications made up to the end of Q2 2015. Data on more recent applications (notably Q1 and Q2 2016) 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.

For context, in Q2 2016 this was the equivalent of 4% of all SMEs or around 200,000 businesses. Note that this does not include SMEs who had an overdraft automatically renewed.

Half of those reporting a Type 1 overdraft event that occurred between Q1 2015 and Q2 2016 said that they had been looking to renew an existing overdraft for the same amount (50%), and this remained more common amongst larger applicants:

| Nature of overdraft event | | 0 | 1-9 | 10-49 | 50-249 |
|---|--------------|------------|-------------|--------------|---------------|
| <u>Sought</u> new/renewed facility Q1 15-Q2 16 | Total | emp | emps | emps | emps |
| Unweighted base: | 1256 | 142 | 442 | 482 | 190 |
| Renewing overdraft for same amount | 50% | 44% | 58% | 65% | 68% |
| Applied for first ever overdraft facility | 21% | 24% | 16% | 7% | 3% |
| Seeking to increase existing overdraft | 9% | 7% | 13% | 11% | 12% |
| Seeking new overdraft but not first | 7% | 8% | 6% | 6% | 5% |
| Seeking additional overdraft on another account | 7% | 9% | 3% | 4% | 3% |
| Setting up facility at new bank | 4% | 4% | 2% | 5% | 4% |
| Seeking to reduce existing facility | 3% | 3% | 2% | 3% | 4% |

Q52 All SMEs seeking new/renewed overdraft facility

Around a fifth of applicants (21%) were seeking an overdraft for the very first time

- 27% of these first time applicants were Starts.
- Over time the proportion of first time overdraft applicants that were Starts has declined somewhat. In the 18 months to Q4 2012, 48% of FTAs were Starts falling to 37% for the 18 months to Q4 2015 and now 27% for the most recent period.



From Q3 2014 an additional code was added to the question above, namely 'Applying for a new overdraft but not your first'. 7% of those applying Q1 2015 to Q2 2016 said that this was the nature of their overdraft application, with little difference by size of SME and this is now included in the table above.

Amongst applicants with employees, the proportion renewing an existing facility was

59% 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. There have been too few applications reported to date for Q2 2016 to include in the table.

Renewals have consistently been the most common reason for an overdraft event:

Nature of overdraft event

| SMEs seeking new/ renewed facility | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3* | Q4* | Q1* |
|---|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| By application date | 13 | 13 | 14 | 14 | 14 | 14 | 15 | 15 | 15 | 15 | 16 |
| Unweighted base: | 365 | 390 | 377 | 375 | 295 | 356 | 334 | 295 | 245 | 206 | 149 |
| Renewing overdraft for same amount | 56% | 44% | 47% | 50% | 51% | 49% | 53% | 53% | 51% | 38% | 47% |
| Applied for first ever overdraft facility | 20% | 28% | 19% | 18% | 27% | 27% | 20% | 14% | 22% | 31% | 19% |
| Seeking to increase existing overdraft | 16% | 17% | 21% | 17% | 10% | 10% | 5% | 7% | 9% | 15% | 16% |
| Setting up facility at new bank | 3% | 4% | 6% | 2% | 1% | 5% | 6% | 1% | 3% | 6% | 1% |
| Seeking additional overdraft on another account | 3% | 2% | 3% | 7% | 4% | 4% | 3% | 12% | 7% | 7% | 9% |
| Seeking to reduce existing facility | 1% | 3% | 3% | 3% | 1% | 1% | 4% | 5% | 2% | 1% | 1% |
| A new overdraft but not first (from Q314) | - | - | - | - | 6% | 5% | 9% | 9% | 9% | 3% | 7% |

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



Over a third 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 £131,000 for those with 50-249 employees:

| Amount initially sought, where stated | | 0 | 1-9 | 10-49 | 50-249 |
|--|--------------|------------|-------------|--------------|---------------|
| Sought new/renewed facility Q1 15-Q2 16 | Total | emp | emps | emps | emps |
| Unweighted base: | 1084 | 125 | 399 | 409 | 151 |
| Less than £5,000 | 39% | 52% | 21% | 3% | 2% |
| £5,000 – £9,999 | 18% | 22% | 13% | 8% | 4% |
| £10,000 – £24,999 | 22% | 15% | 37% | 23% | 15% |
| £25,000 – £99,999 | 16% | 10% | 24% | 38% | 21% |
| £100,000+ | 5% | 2% | 6% | 27% | 58% |
| Median amount sought | £5k | £3k | £14k | £36k | £131k |

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. Almost half (45%) wanted it as a safety net and this was more likely to be the case for smaller applicants. As in previous quarters, overdrafts were much more likely to have been sought to support UK expansion (21%) than expansion overseas (2%):

| Purpose of overdraft sought | | 0 | 1-9 | 10-49 | 50-249 |
|--|--------------|------------|-------------|--------------|---------------|
| Sought new/renewed facility Q1 15-Q2 16 | Total | emp | emps | emps | emps |
| Unweighted base: | 1256 | 142 | 442 | 482 | 190 |
| Working capital for day to day cash flow | 84% | 85% | 84% | 77% | 81% |
| Safety net – just in case | 45% | 45% | 47% | 40% | 41% |
| Short term funding gap | 30% | 31% | 31% | 23% | 21% |
| Fund expansion in UK | 21% | 21% | 20% | 18% | 27% |
| Buy fixed assets | 12% | 11% | 12% | 12% | 12% |
| Fund expansion overseas | 2% | 2% | 2% | 2% | 5% |

Q55 All SMEs seeking new/renewed overdraft facility



Analysis by risk rating showed that:

- Working capital remained the main reason for seeking an overdraft across all external risk ratings. It was mentioned by 74% of those with a minimal external risk rating and 86-87% of those with other ratings.
- A safety net was mentioned more by those with an average risk rating (54%).
- There was a clearer difference by risk rating in the proportion seeking an overdraft for a short term funding gap: 21% with a minimal and 22% with a low risk rating compared to 32% with an average risk rating and 38% of those with a worse than average risk rating.

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:

Purpose of overdraft

| SMEs seeking new/ renewed facility – by application date | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3* | Q4* | Q1* |
|--|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Unweighted base: | 365 | 390 | 377 | 375 | 295 | 356 | 334 | 295 | 245 | 206 | 149 |
| Working capital for day to day cash flow | 81% | 76% | 87% | 80% | 78% | 83% | 85% | 85% | 83% | 90% | 78% |
| Safety net – just in case | 47% | 42% | 48% | 40% | 38% | 47% | 42% | 53% | 58% | 40% | 29% |
| Short term funding gap | 31% | 40% | 38% | 31% | 27% | 26% | 27% | 34% | 37% | 30% | 21% |
| Fund growth in UK | 26% | 22% | 25% | 17% | 21% | 17% | 16% | 22% | 26% | 25% | 16% |
| Buy fixed assets | 17% | 7% | 10% | 19% | 17% | 22% | 7% | 14% | 20% | 7% | 9% |
| Fund growth overseas | * | 2% | 4% | 1% | 5% | 3% | 4% | 3% | * | 3% | * |

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 (79% in the 18 months to Q4 2012 and 84% in the latest period). There has been an increase in applicants looking to fund expansion in the UK (from 12% to 21%), while the proportions looking for a safety net (41% v 45% currently) or to fund a short term gap (29% v 30% currently) were very similar in the two periods.

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 15-Q2 16

| | |
|-------------------------------------|---|
| Applied to main bank | Almost all overdraft applications (97% in the 18 months to Q2 2016) were made to the SME's main bank. This varied little by size of applicant (96-99%). |
| Application made in a personal name | 14% of overdraft applications made in the 18 months to Q2 2016 were in a personal name. This was much more common amongst smaller applicants (20% 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 19% were in a personal name for the 18 months to Q2 2016). |
| How many banks were applied to | 98% of those who had applied in the 18 months to Q2 2016 said that they had applied to one bank, with little variation by size (97-98%). Further data will be provided as base sizes increase. |
| Advice sought | The proportion of SMEs seeking advice before they applied for an overdraft has remained consistently low (9% amongst those applying in the 18 months to Q2 2016), and this has changed relatively little over time (it was 10% for 2013 as a whole). |
| Advice by size of facility | Previously, advice has been more likely to have been sought for larger overdraft facilities, but this was not the case in the current period –8% sought advice for an overdraft of £5,000 or less, 11% for an overdraft of £5-100,000, and 7% sought advice for overdrafts of more than £100,000. |



Overdraft applications – a sector summary

Those in the Construction sector were more likely to be seeking their first ever overdraft (30%), while 20% of those in Agriculture were looking to increase an existing overdraft:

| Overdraft activity | | | | | | | | | |
|---|------------|------------|------------|-------------|------------|------------|------------|------------|------------|
| <u>Sought new/ renewed facility Q1 15-Q2 16</u> | Agric | Mfg | Constr | Whle Retail | Hotel Rest | Trans | Prop/ Bus | Hlth SWrk | Other Comm |
| Unweighted base: | 153 | 129 | 221 | 144 | 96* | 116 | 176 | 83* | 138 |
| Renewing overdraft for same amount | 55% | 57% | 35% | 48% | 56% | 52% | 63% | 41% | 49% |
| Applied for first ever overdraft | 5% | 24% | 30% | 27% | 24% | 21% | 12% | 17% | 15% |
| Seeking to increase existing overdraft | 20% | 4% | 18% | 8% | 11% | 4% | 10% | 5% | 2% |

Q52 All SMEs seeking new/renewed overdraft facility

Most SMEs approached their main bank (97%). The least likely to do so were applicants in Manufacturing, but even here almost all applied to their main bank (93%).

14% of all overdraft applicants said that the facility was applied for in their personal name. This was more likely to be the case for applicants from the Other Community (24%) and Construction (19%) sectors, compared to 3% in Agriculture and 4% in the Hotel & Restaurant sector. Overall, 98% of applications were made to one provider, with those in Construction most likely to have approached more than one bank (6%).

Those in Agriculture were seeking the highest median overdraft amount at £23,000. Across the other sectors the median amount sought ranged from £3-12,000.

The main purpose of the overdraft for all sectors was working capital, ranging from 93% of applicants in the Health sector to 74% of those in Agriculture. 61% of those in the Manufacturing sector wanted their facility as a safety net, compared to 31% of applicants in Health.

Those in Hotels and Restaurants or Transport were the most likely to have sought advice (both 15%) compared to 2% in the Other Community sector.



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 2015 to Q2 2016. Within this period, final data is now available for applications made up to Q2 2015. Data on applications in the more recent quarters (especially the first half of 2016) 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. For context, in Q2 2016 this was the equivalent of 2% of all SMEs or around 100,000 businesses.

There have been fewer loan events reported than overdraft events. As a result, even for applications across 18 months to Q2 2016, 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.

Loan applications were more likely than overdraft applications to be for new funding (the first two rows of the table below), with 69% of loan applicants seeking a new loan (compared to 37% for overdrafts), including 27% saying this was their first ever loan (compared to 21% for overdrafts):

| Nature of loan event | | 0 emp | 1-9 emps | 10-49 emps | 50-249 emps |
|---|--------------|--------------|-----------------|-------------------|--------------------|
| <u>Sought</u> new/renewed facility Q1 15-Q2 16 | Total | | | | |
| <i>Unweighted base:</i> | 703 | 56* | 244 | 271 | 132 |
| New loan but not our first | 42% | 47% | 35% | 43% | 41% |
| Applied for first ever loan | 27% | 25% | 32% | 23% | 13% |
| Renewing loan for same amount | 13% | 12% | 14% | 9% | 17% |
| Topping up existing loan | 7% | 8% | 6% | 8% | 5% |
| Refinancing onto a cheaper deal | 8% | 9% | 7% | 9% | 13% |
| Consolidating existing borrowing | 2% | - | 3% | 5% | 4% |
| New loan facility after switching bank | 1% | - | 3% | 2% | 6% |

Q149 All SMEs seeking new/renewed loan facility. 'New loan but not first' combination of codes 'New loan for new purchase' and 'New loan as hadn't had one recently'



As the table above shows, a first loan was more likely to be the case for smaller SMEs that had applied, and 37% of first time applicants were Starts. The proportion of first time loan applicants who were Starts was lower than in previous years, but stable across more recent periods. In the 18 months to Q4 2013, 46% of first time applicants were also Starts, compared to 34% for the 18 months to Q4 2015 and 37% for the current period.

Excluding applicants with 0 employees increases the proportion of first time applications slightly from 27% to 30%.

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 where sufficiently robust sample sizes exist (insufficient data currently exists for applications made in 2016). Most applications were for new facilities, shown in the first two rows of the table, but over time fewer applications have been for a *first* facility:

Nature of loan event

| SMEs seeking new/ renewed facility – By application date | Q2 13 | Q3 13 | Q4 13 | Q1 14 | Q2 14 | Q3 14 | Q4 14 | Q1 15 | Q2 15 | Q3* 15 | Q4* 15 |
|--|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Unweighted base: | 187 | 193 | 217 | 196 | 224 | 167 | 202 | 191 | 158 | 128 | 140 |
| New loan but not our first | 39% | 32% | 39% | 33% | 45% | 41% | 43% | 38% | 39% | 41% | 37% |
| Applied for first ever loan | 45% | 42% | 41% | 43% | 28% | 30% | 28% | 28% | 32% | 28% | 24% |
| Renewing loan for same amount | 7% | 16% | 5% | 9% | 13% | 5% | 7% | 25% | 10% | 10% | 5% |
| Topping up existing loan | 1% | 3% | 7% | 12% | 11% | 11% | 6% | 2% | 11% | 1% | 18% |
| Refinancing onto a cheaper deal | 2% | 4% | 5% | 2% | 2% | 4% | 15% | 3% | 5% | 16% | 13% |
| Consolidating existing borrowing | 3% | * | 2% | * | 1% | 3% | * | 2% | 2% | 1% | 2% |
| New facility after switching banks (new) | 4% | 2% | 1% | 1% | * | 7% | 1% | 1% | * | 2% | 1% |

Q149 All SMEs seeking new/renewed loan facility. Q315* 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 (13% of loans sought were for less than £5,000 compared to 39% of overdrafts sought). The median loan amount sought was £15,000. Sample sizes limit the amount of analysis possible over time, but overall the majority of loans sought were for £100,000 or less:

| Amount initially sought, where stated | | 0 | 1-9 | 10-49 | 50-249 |
|--|--------------|-------------|-------------|--------------|---------------|
| Sought new/renewed facility Q1 15-Q2 16 | Total | emps | emps | emps | emps |
| Unweighted base: | 599 | 51* | 212 | 225 | 111 |
| Less than £5,000 | 13% | 20% | 6% | 2% | * |
| £5,000 – £9,999 | 18% | 26% | 11% | 6% | 1% |
| £10,000 – £24,999 | 31% | 39% | 27% | 11% | 2% |
| £25,000 – £99,999 | 16% | 7% | 27% | 27% | 18% |
| £100,000+ | 21% | 9% | 29% | 54% | 79% |
| Median amount sought | £15k | £8k | £24k | £95k | £294k |

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 2016 are shown below, with most applicants (66%) seeking all the funding they required from the bank:

| Proportion of funding sought from bank | | 0 | 1-9 | 10-49 | 50-249 |
|--|--------------|-------------|-------------|--------------|---------------|
| Sought new/renewed facility Q1 15-Q2 16 | Total | emps | emps | emps | emps |
| Unweighted base: | 670 | 54* | 237 | 251 | 128 |
| Half or less of total sum required | 14% | 14% | 15% | 14% | 10% |
| 51-75% of sum required | 12% | 13% | 10% | 13% | 10% |
| 76-99% of sum required | 8% | 8% | 9% | 10% | 17% |
| All of sum required sought from bank | 66% | 66% | 66% | 62% | 63% |

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. This was notably the case between H1 2013 and H2 2014. In 2015 a slightly lower proportion had sought all the funding (69% in H2 2015):

Proportion seeking all funding from the bank

| Over time – all seeking loan | H1 | H2 | H1 | H2 | H1 | H2 | H1 | H2* |
|--------------------------------------|------|------|------|------|------|------|------|------|
| Row percentages | 2012 | 2012 | 2013 | 2013 | 2014 | 2014 | 2015 | 2015 |
| All loan applicants | 64% | 69% | 78% | 75% | 76% | 75% | 60% | 69% |
| All applicants with 0-9 employees | 64% | 69% | 78% | 75% | 77% | 76% | 60% | 70% |
| All applicants with 10-249 employees | 67% | 70% | 76% | 74% | 67% | 68% | 60% | 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 (26%) or to buy premises or fixed assets (both 21%), with clear variation by size of applicant:

| Purpose of loan | | 0 | 1-9 | 10-49 | 50-249 |
|--|------------|------------|------------|------------|------------|
| <u>Sought</u> new/renewed facility Q1 15-Q2 16 | Total | emps | emps | emps | emps |
| Unweighted base: | 703 | 56* | 244 | 271 | 132 |
| Fund expansion in UK | 26% | 20% | 33% | 28% | 37% |
| Buy premises | 21% | 15% | 27% | 32% | 36% |
| Buy fixed assets | 21% | 16% | 26% | 24% | 30% |
| Develop new products/services | 20% | 21% | 21% | 16% | 10% |
| Buy motor vehicles | 22% | 30% | 14% | 11% | 9% |
| Replace other funding | 8% | 5% | 12% | 15% | 12% |
| Fund expansion overseas | 1% | - | 2% | 2% | 2% |
| Take over another business | 1% | - | 2% | 3% | 5% |

Q150 All SMEs seeking new/renewed loan facility



The table below shows the most common reasons for seeking a new loan by application date up to Q4 2015 (the latest for which robust data is available). In the second half of 2015 a higher proportion of applications were for motor vehicles:

| Purpose of loan | | | | | | | | | | | |
|---|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| SMEs seeking new/ renewed facility – by application date | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3* | Q4* |
| Unweighted base: | 187 | 193 | 217 | 196 | 224 | 167 | 202 | 191 | 158 | 128 | 140 |
| Fund expansion in UK | 37% | 35% | 39% | 34% | 35% | 26% | 13% | 32% | 21% | 15% | 23% |
| Premises | 28% | 19% | 21% | 29% | 14% | 21% | 21% | 29% | 27% | 8% | 24% |
| Buy fixed assets | 28% | 20% | 26% | 25% | 25% | 20% | 14% | 11% | 19% | 21% | 19% |
| Develop new products/services | 13% | 21% | 24% | 20% | 17% | 11% | 17% | 17% | 20% | 29% | 11% |
| Buy motor vehicles | 18% | 9% | 18% | 5% | 17% | 19% | 23% | 13% | 11% | 34% | 27% |
| Fund expansion overseas | 3% | 1% | 2% | * | 2% | 3% | 3% | 1% | 2% | 1% | - |

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

Looking longer term:

- A similar proportion of the loan applications made in the 18 months to Q4 2012 were to fund UK expansion (32%), compared to 26% in the latest 18 month period to Q2 2016.
- The proportion looking to buy fixed assets has decreased (32% v 21% currently).



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

| Loan applicants | <u>Sought new/renewed loan facility Q1 15-Q2 2016</u> |
|-------------------------------------|---|
| Applied to main bank | <p>88% of loan applications were made to the SME's main bank, compared to 97% of overdraft applications.</p> <p>There was little difference by size of applicant but those looking for more than £100k were less likely to look elsewhere (9%) than those seeking smaller amounts (15-17%).</p> |
| Application made in a personal name | <p>19% of loan applications made in the 18 months to Q2 2016 were in a personal rather than a business name. This was more common amongst smaller applicants (26% of applicants with 0 employees applied in a personal name and 71% of those applying in a personal name were 0 employee SMEs). Those applying for more than £100k were less likely to be applying in a personal name (9%).</p> <p>Personal applications for loans were also more common overall than for overdraft applications (where 14% were in a personal name).</p> |
| How many banks were considered | <p>In a new question from Q1 2016, loan applicants were asked how many banks they <i>considered</i> applying to. 25% of applicants asked had considered applying to more than one bank but, as reported below, 15% actually did so.</p> |
| How many banks were applied to | <p>85% of those who applied in the 18 months to Q2 2016 said that they had applied to one bank, with limited variation by size (83-87%). This is somewhat lower than the 98% of overdraft applicants who only applied to one bank. Those seeking a larger loan (£100k+) were somewhat more likely to apply to more than one bank (24%).</p> |
| Advice sought | <p>A minority of loan applicants in the 18 months to Q2 2016 had sought external advice before applying (17%) but they remained more likely to have done so than overdraft applicants (9%). 0 employee applicants were less likely to have sought advice (11%) compared to around a quarter of those with employees.</p> |
| Advice by size of loan facility | <p>Advice was more likely to be sought for larger amounts of loan borrowing. While 11% of those looking to borrow less than £25,000 sought advice, this increased to 36% of those seeking £25-100,000 and 26% of those seeking to borrow more than £100,000.</p> |



Loan applications – a sector summary

Analysis by sector is somewhat limited as currently no sectors have more than 100 applicants for the most recent period. These results should therefore be treated with caution and as indicative:

Loan activity

| <u>Sought new/renewed facility</u> Q1 15-Q2 16 | Agric | Mfg | Constr | Whle Retail | Hotel Rest | Trans | Prop/ Bus | Hlth SWrk | Other Comm |
|---|------------|------------|------------|----------------|---------------|------------|--------------|--------------|---------------|
| Unweighted base: | 97* | 75* | 96* | 84* | 76* | 63* | 99* | 53* | 60* |
| Applied for first ever loan | 16% | 36% | 30% | 25% | 37% | 29% | 18% | 14% | 40% |
| New loan (other) | 50% | 54% | 39% | 31% | 20% | 42% | 45% | 76% | 46% |
| Renewing loan for same amount | 21% | 5% | 2% | 24% | 20% | 7% | 19% | 6% | 2% |

Q149 All SMEs seeking new/renewed loan facility

Most SMEs approached their main bank (88%). The least likely to do so were applicants in the Health sector (where 61% of applications were made to the main bank). 19% of all loan applicants said that the facility was applied for in their personal name and this was more likely to be the case for applicants in Health (49%) compared to 5% in Agriculture.

The median loan amounts sought varied from £38k in the Property/Business Services sector to £7k in the Other Community Sector. Those in Agriculture were more likely to be seeking all the funding required from the bank (75%) while applicants from Manufacturing were less likely (48%). 15% overall applied initially to more

than one bank and this was more likely to be the case for those in Transport (22%).

For most sectors, the main purpose of the loan was either UK expansion or the purchase of premises. Those in Wholesale/Retail, Agriculture and Property/Business Services were more likely to be seeking funds for UK expansion, those in Hotels & Restaurants were more likely to be funding premises while those in Construction and Transport were more likely to be funding vehicles.

Advice was sought by 17% of loan applicants overall with wide variations across sectors (albeit on limited base sizes). 34% in the Hotel & Restaurant sector sought advice compared to 5% in the Other Community sector.