

8. The outcome of the application/ renewal



This chapter details

what happened when the application for the new/renewed facility was made. It covers the bank's initial response through to the final outcome.



Key findings

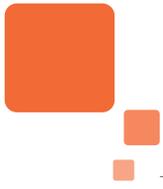
81% of all new and renewed loan and overdraft applications made in the 18 months to Q2 2016 resulted in a facility:

- This has increased steadily over time. In the 18 months to Q4 2012, 69% of such applications resulted in a facility.
- Almost all renewals have been successful in each period, so the increase overall is due to increases in success rate for new money applications (54% to 66%) and for first time applicants in particular (41% to 61%).

The initial response from the bank was to offer 77% of overdraft applicants and 60% of loan applicants what they wanted. This was more likely to be the case for larger SMEs and those looking to renew an existing facility and almost all went on to take the facility they had been offered.

14% of overdraft applicants and 26% of loan applicants were initially declined by the bank and this was more likely to be the case for smaller applicants, those applying for the first time and those with a worse than average risk rating.

- Around 1 in 6 declined loan or overdraft applicants were made aware of the appeals process (with very few going on to appeal). Around 1 in 8 were offered an alternative form of finance and/or were offered/sought external advice. Around two thirds said none of these events occurred when they were declined.
- Most of those initially declined ended the process with no facility.



At the end of the application process 84% of overdraft applicants in the 18 months to Q2 2016 had a facility (76% offered what they wanted and 8% with a facility ‘after issues’).

- Applicants with employees or a minimal/ low risk rating remained more likely to be successful, as did those renewing an existing facility.
- Overdraft success rates increased from 74% of applications made in the 18 months to Q4 2013 to 86% of applications made in the 18 months to Q4 2015, with increases seen across all sizes of SME and also for first time applicants (34% to 68%).
- Initial data for overdraft applications made in Q1 2016 suggests a slightly lower success rate (80%). This may in part be due to the profile of applicants – the model which predicts success rates based on the applicants in a given quarter suggested 82% should be successful in Q1 2016 compared to 85% of applicants in the first half of 2015.
- Including those who saw their overdraft automatically renewed by the bank increases current success rates from 84% to 93%.

72% of loan applicants in the 18 months to Q2 2016 ended the application process with a facility (56% offered what they wanted and 16% with a facility ‘after issues’).

- Applicants with 10-249 employees or a minimal risk rating remained more likely to be successful, as did those renewing an existing facility.
- Loan success rates increased from 58% of applications made in the 18 months to Q4 2013 to 73% of applications made in the 18 months to Q4 2015, with increases seen across all sizes of SME. In contrast to overdrafts, there has been little increase in success rates for first time applicants (45% to 51%).



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- Current data for loan applications made in 2015 suggests a declining success rate (to 64% for Q4 2015 itself). This may in part be due to the profile of applicants – the model which predicts success rates based on the applicants in a given quarter suggested 69% should be successful in Q4 2015 compared to 77% of applicants in Q1 2015.



This chapter follows the application journey from the initial response from the bank to the final decision. More detailed analysis is provided of the final outcome over time, and also the experiences of those applying for new funding compared to those seeking a renewal of existing facilities. Note that, unless specifically stated, this data does not include the automatic renewal of overdrafts, and that, as already explained, data for applications reported as

having taken place from Q3 2015 onwards remains interim.

8% of loan and 5% of overdraft applicants in the 18 months to Q2 2016 had not received an initial response to their application by the time of our survey. Details of these applications were included in the data in the preceding chapter but are excluded from the remainder of this analysis.

The final outcome – all loan and overdraft applications to date

Before looking in detail at the individual loan and overdraft journeys, data is provided on the outcome of **all** Type 1 applications, both loan and overdraft, by quarter of application since Q3 2013.

Final outcome (Overdraft+Loan)

SMEs seeking new/

renewed facility – by date of application	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3*	Q4*	Q1*
Unweighted base:	531	589	537	582	443	531	505	423	354	329	201
Offered what wanted and took it	62%	56%	63%	64%	70%	68%	72%	64%	77%	69%	63%
Took facility after issues**	11%	16%	16%	11%	18%	10%	11%	14%	8%	10%	9%
Have facility (any)	73%	72%	79%	75%	88%	78%	83%	78%	85%	79%	72%
Took another form of funding	4%	6%	8%	7%	2%	6%	1%	6%	3%	*	14%
No facility	23%	23%	14%	18%	10%	16%	16%	16%	12%	21%	14%

Final outcome of overdraft/loan application by date of application: * indicates interim results as data is still being gathered on events in these quarters. ** typically the amount initially offered or the terms and conditions relating to the proposed facility such as security, the interest rate or the fee

The table shows that from Q3 2014 onwards around 8 in 10 applications have been successful. Initial data for Q1 2016 suggests a somewhat lower success rate with more applicants taking another form of funding, but this is still very much interim data.



Analysis in previous reports has shown that the outcome of applications reported initially for a given quarter can be quite different from those reported subsequently as more data is gathered, and results for the most recent quarters should always be viewed in this context. Full quarterly data on all applications since the SME Finance Monitor started can be found in the charts at the end of this report.

The table below summarises the outcome for the different types of application included in this chapter over a longer time period, based on applications made in a series of 18 month periods. Data in the first 3 columns is now

complete and the data for the 18 months to Q4 2015 will be completed at the end of 2016.

The current position for the 18 months to Q2 2016 is that 81% of all loan and overdraft applications have been successful. Renewals remained more likely to be successful (99%) than applications for new money (66%), and overdraft applications more likely to be successful (84%) than loans (72%). At this stage, these most recent success rates were typically somewhat lower than for the equivalent applications to Q4 2014 and this will be monitored as more data is gathered:

% of applicants ending process with facility – Summary table

Over time – row percentages By 18 month period of application	Q3 11 Q4 12	Q3 12 Q4 13	Q3 13 Q4 14	Q3 14 Q4 15*	Q1 15 Q2 16*
All loans and overdrafts	69%	68%	77%	82%	81%
Loans and overdrafts - New money	54%	49%	65%	70%	66%
• <i>First time applicants</i>	41%	39%	55%	61%	61%
• <i>Other new money</i>	70%	69%	74%	75%	69%
Loans and overdrafts - Renewals	94%	96%	97%	100%	99%
All overdrafts	74%	74%	83%	86%	84%
All loans	59%	58%	66%	73%	72%

All SMEs applying for a facility in the period specified, base size varies by category * Interim data

Taking a longer term view, the table above shows that overall success rate for loans and overdrafts combined has increased over time. For the 18 months to both Q4 2012 and Q4 2013, two thirds of applications resulted in a facility, increasing to 77% for the 18 months to Q4 2014 and 81% currently. This is due to the increase in success rates for new money, as almost all renewals in each period have resulted in a facility.

Whilst first time applicants remained less likely to end the process with a facility than those who have borrowed before, their success rates have improved such that 6 in 10 first time applicants in the most recent periods ended the process with a facility. Success rates for other new money applications also increased over time.



More detailed analysis of all Type 1 applications (i.e. loan and overdraft combined) is provided later in this chapter. Before that analysis, the next section looks at the initial response from the bank to the application made and then provides more detail on overdraft applications specifically, and then on loan applications.

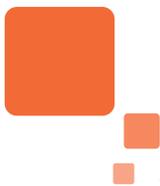
How SMEs got to the final outcome – the initial response from the bank

This analysis is based on SMEs that made an application for a new or renewed loan or overdraft facility during the 18 months from Q1 2015 to Q2 2016 (irrespective of when they were interviewed) who have received a response from the bank.

The tables below record the initial response from the bank to applications made in this period. The initial response to 77% of overdraft applications was to offer the SME what it wanted, compared to 60% of loan applications. For both loans and overdrafts, larger SMEs remained much more likely to have been offered what they wanted at this initial stage:

Initial response (Overdraft)		0	1-9	10-49	50-249
Sought new/renewed facility Q1 15-Q2 16	Total	emp	emps	emps	emps
Unweighted base:	1200	135	420	461	184
Offered what wanted	77%	71%	86%	91%	94%
Offered less than wanted	6%	7%	3%	3%	4%
Offered unfavourable terms & conditions	4%	4%	3%	3%	1%
Declined by bank	14%	18%	7%	2%	1%

Q63 All SMEs seeking new/renewed overdraft facility that have had response



Initial response (Loan)		0	1-9	10-49	50-249
<u>Sought</u> new/renewed facility Q1 15-Q2 16		Total	emps	emps	emps
Unweighted base:	652	50*	224	254	124
Offered what wanted	60%	53%	64%	79%	89%
Offered less than wanted	8%	9%	8%	9%	5%
Offered unfavourable terms & conditions	6%	3%	9%	6%	6%
Declined by bank	26%	35%	20%	6%	*

Q158 All SMEs seeking new/renewed loan facility that have had response

Additional analysis below shows that larger SMEs, those with a better risk rating and those renewing an existing facility were all more likely to receive a positive initial response from the bank:

Initial response

All seeking facility Q1 2015 to Q2 2016

Initial response to applicants with employees	87% were initially offered the overdraft they wanted and 67% the loan they wanted. Such applicants were less likely to have been declined at this stage – 6% of overdraft applicants with employees and 17% of such loan applicants were initially declined by the bank.
Applicants more likely to be offered what they wanted	Those applying to renew an existing facility: 97% were offered the overdraft they wanted, 90% the loan. Those with a minimal external risk rating: 94% were offered the overdraft they wanted, 92% the loan.
Applicants more likely to receive initial decline	Those applying for their first ever facility: 29% were initially declined for a first overdraft, 47% for a first loan. Those with a worse than average external risk rating: 17% initially declined if applying for an overdraft, 46% if applying for a loan.



The table below looks at the initial response to overdraft applications over recent quarters by date of application. From the end of 2014 onwards, a higher proportion of applicants were offered what they wanted (78% for Q1 2016):

Initial response to application

SMEs seeking
new/ renewed

overdraft facility	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3*	Q4*	Q1*
By date of application	13	13	14	14	14	14	15	15	15	15	16
Unweighted base (Overdraft):	348	379	356	367	285	340	320	280	236	197	142
Offered what wanted and took it	72%	65%	72%	73%	73%	79%	77%	72%	81%	76%	78%
Any issues (amount or T&C)	17%	12%	16%	11%	9%	9%	8%	12%	9%	14%	3%
Declined overdraft	11%	23%	13%	16%	18%	11%	15%	16%	10%	10%	19%

Initial outcome of overdraft application by date of application: * indicates interim results as data is still being gathered on events in these quarters

With fewer loan applications made each quarter, it is harder to discern a pattern to the initial response over time, however levels of decline have typically been lower in recent quarters:

Initial response to application

SMEs seeking new/

renewed loan facility	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3*	Q4*
By date of application	13	13	13	14	14	14	14	15	15	15	15
Unweighted base (Loan)	176	183	210	181	215	158	191	185	143	118	132
Offered what wanted and took it	28%	53%	45%	57%	57%	66%	49%	66%	48%	72%	62%
Any issues (amount or T&C)	6%	16%	20%	8%	9%	18%	22%	18%	27%	5%	2%
Declined loan	65%	31%	35%	34%	35%	16%	29%	16%	25%	22%	36%

Initial outcome of loan application by date of application: * indicates interim results as data is still being gathered on events in these quarters



No further analysis has been undertaken on these initial responses to applications, as analysis by date of application shows a fairly consistent pattern between initial response and final outcome. The report concentrates instead on providing more analysis of the final outcome of the applications and how this has changed over time.

The subsequent journey

The next section of this chapter describes what happened after the initial response from the bank, up to and including the final outcome of the application. This is reported first for overdrafts and then for loans and, unless otherwise stated, is based on all Type 1 overdraft/loan applications sought Q1 2015 to Q2 2016, where data is currently available.

Before the detail is discussed of what happened after each of the possible initial responses, the journeys are summarised below. Three quarters of overdraft applicants (76%) and almost 6 in 10 loan applicants (58%) were offered the facility they wanted and went on to take it with no issues:

Journey summary

All seeking facility Q1 15 - Q2 16	Overdraft	Loan
Unweighted base:	1200	652
Initially offered what they wanted and went on to take the facility with no issues	76%	58%
Initially offered what they wanted, but had issues before they got facility	1%	3%
Had issues with the initial offer, and now have a facility after issues	6%	11%
Were initially turned down, but now have a facility	1%	3%
Had issues with the initial offer made so took alternative funding instead	*	*
Were initially turned down, so took alternative funding instead	4%	3%
Initially offered what wanted but now have no facility at all	-	*
Had issues with the initial offer made and now have no facility at all	2%	3%
Initially turned down and now have no facility at all	9%	22%

Q63/158 All SMEs seeking new/renewed overdraft or loan facility that have had response



80% of those overdraft applicants who ended the process with no facility had been declined by the bank initially, while the remaining 20% had had issues with the offer made so did not take the facility.

For loans, 89% of the applicants who ended the process with no facility had also been initially declined by the bank, leaving 1 in 10 that were

made an offer but in the end did not take the facility (almost all of them were offered a loan with terms and conditions they did not want to accept).

This is the equivalent of 2% of all overdraft applicants and 3% of all loan applicants in the last 18 months receiving an offer but ending the process with no facility.

The loan and overdraft journeys from initial application to final outcome are reported on separately below.



Profile of overdraft applicants by initial response

There continued to be differences in the demographic profile of overdraft applicants receiving each initial response from the bank and these are summarised in the table below. Note that due to limited base sizes, it is no longer possible to separate out those initially offered less than they wanted and those who cited issues with the terms and conditions of the overdraft offered, so these are combined into the 'Had issues with offer' column below.

Profile of overdraft applicants <u>Sought</u> new/renewed facility Q1 15-Q2 16	All with response	Offered what wanted	Had issues with offer	Initially declined
Unweighted base:	1200	1052	85*	63*
No employees	62%	57%	74%	83%
Have employees	38%	43%	26%	17%
Starts	10%	9%	9%	16%
Trading 2-9 years	30%	24%	48%	56%
Trading 10 years+	59%	67%	43%	28%
Minimal/low risk rating	31%	35%	28%	11%
Average/worse than average risk rating	69%	65%	72%	89%
Renewing existing facility	52%	65%	14%	2%
Applying for first ever overdraft	19%	15%	21%	40%
Applying for new overdraft but not first	7%	3%	3%	30%

All SMEs seeking new/renewed overdraft facility that have had response

The table shows the difference in profile between the three groups. Those initially offered what they wanted were typically larger, more established, businesses with a better risk rating profile. They were also more likely to be looking to renew an existing facility. By contrast, the small group of those initially declined were more likely to be 0 employee SMEs, more recently established, with an average or worse than average risk rating. They were also more likely to be seeking new funding.



The subsequent journey – those who received an offer of an overdraft

Summarised below for all applications made in the 18 months Q1 2015 to Q2 2016 (and reported to date), is what happened after the bank's initial response to the overdraft application and any issues around the application. Base sizes for some groups remain small:

Initial offer	Subsequent events – all seeking overdraft Q1 2015 to Q2 2016
Offered what wanted (77% of applicants) Q64-65	99% of those offered what they wanted went on to take their facility with no issues. Those who experienced a delay or issue said this was typically supplying further information, or waiting for a decision or valuations.
Issue: offered less than wanted (6% of applicants) Q87-95	<p>15% said they were not given a reason for being offered less (excluding those who couldn't remember). The main reasons given were:</p> <ul style="list-style-type: none">• No/insufficient security - 31% of those offered less than they wanted• Credit history issues (21%)• Had too much borrowing already (9%), applied for too much (4%), or a need for more equity in the business (2%)• <1% of applicants said the bank offered them less due to the affordability of repayments (a new code). <p>At the end of the process:</p> <ul style="list-style-type: none">• 68% ended up accepting the amount originally offered (almost all, 67% at the original bank).• 17% managed to negotiate a higher facility at the original bank (none at another bank).• 2% took some other form of funding (almost always a loan from the same bank)• 15% ended the process with no facility at all. <p>Most of those who now have an overdraft obtained 80% or more of the amount they had originally sought.</p>

Continued



Continued

Issue: offered unfavourable T&C (4% of applicants)

Q96-97

The unfavourable terms and conditions were most likely to relate to:

- the proposed interest rate – mentioned by 28% of these applicants
- the proposed fee – 26%
- security (the amount, type sought or cost of putting it in place) –14%

At the end of the process:

- 34% of applicants offered what they saw as unfavourable terms and conditions said they managed to negotiate a better deal than the one originally offered – almost all at the bank they had originally applied to (33%, with 1% at another bank).
- 11% accepted the deal they were offered (almost all at the original bank).
- 13% took other funding (typically funding in a personal name),
- 42% decided not to proceed with an overdraft.



The subsequent journey – those who were declined for an overdraft

The table below details the subsequent journey of those whose overdraft application was initially declined (14% of all applicants):

Initially declined	Subsequent events – all seeking overdraft Q1 2015 to Q2 2016
Reasons for decline Q70	<p>Those declined were asked for the reasons behind the initial decline. 20% of those initially declined said that they had not been given a reason (excluding those who could not remember the reasons given):</p> <ul style="list-style-type: none">• 45% said the decline related to their personal and/or business credit history• 11% mentioned issues around security• Also mentioned were too much existing borrowing, a weak balance sheet, more equity needed or asking for too much• 1% gave the recently added answer code that the bank did not think they could afford the repayments
Advice and alternatives Q71a	<p>This section was replaced by a new, more straightforward, question in Q1 2016 but with comparable answer codes to previous waves. The answers below cover the same period as the rest of this section.</p> <p>Those initially declined were asked which of a series of events had occurred after that decline:</p> <ul style="list-style-type: none">• 18% said they were made aware of the appeals process (all by the bank)• 12% were offered an alternative form of finance by the bank• 14% were referred to external sources of help and advice (9% by the bank, and 9% sought it themselves)• 68% said that none of these events occurred



Initially declined

Subsequent events – all seeking overdraft Q1 2015 to Q2 2016

Appeals

Q73-75

From April 2011, an appeals procedure has been in operation. 18% of applicants initially declined Q1 2015 to Q2 2016 said they were made aware of the appeals process, all by their bank.

On limited base sizes, there were indications that awareness of the appeals process has stabilised after previous increases: amongst those applying in 2012, 13% said that they were made aware of the appeals process, increasing to 17% for 2013 and then 22% for 2014. Awareness of appeals for 2015 to date is 20%.

To maximise base sizes, of all overdraft applications declined since Q1 2014, 33 were made aware of the appeals process having initially been declined, with 4 SMEs going on to appeal. In 1 instance the bank changed its decision, in 3 the original decision was upheld.

- Those who did not appeal typically said that they accepted the bank's decision (a new code), or that it was too much hassle and/or they did not think it would change anything.

Outcome

Q81-84

At the end of this period:

- 69% of applicants initially declined had no funding at all.
- 8% of the SMEs initially declined had managed to secure an overdraft, typically with the original bank rather than an alternative supplier.
- Some secured alternative funding (23%), with mentions of facilities in a personal name, friends/family or a business credit card.



The final outcome – overdraft

At the end of the various journeys described above, respondents reported on the final outcome of their application for a new or renewed overdraft facility. This section is based on SMEs that made an application and had received a response for a new or renewed overdraft facility during the most recent 18 month period of Q1 2015 to Q2 2016, irrespective of when they were interviewed.

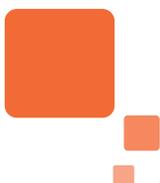
Most of these applicants (76%) had the overdraft facility they wanted, and a further 8% secured an overdraft after having issues relating to the amount or the terms and conditions of the bank’s offer. 12% of all applicants ended the process with no overdraft. Note that this table does **not** include automatically renewed overdrafts.

Final outcome (Overdraft)	All overdraft Type 1 applicants
Sought new/renewed facility Q1 15-Q2 16	
Unweighted base:	1200
Offered what wanted and took it	76%
Took overdraft after issues	8%
Have overdraft (any)	84%
Took another form of funding	4%
No facility	12%

All SMEs seeking new/renewed overdraft facility that have had response

Before looking at the detailed results for overdraft applications made in the latest 18 month period, the summary table below records the proportion who ‘Have overdraft (any)’ for a series of 18 month periods. To show the longer term context, this now reports on applications made from Q3 2012 onwards, in 18 month periods to Q2 and Q4 of each year, with the exception of the most recent 18 month periods which are shown in full (albeit on interim data).

This table shows a consistent success rate over recent 18 month periods for overdraft applicants (83-86%) compared to previous periods (74% of overdraft applicants were successful in the 18 months to Q4 2013). Larger applicants and those with a better external risk rating remained more likely to end the process with a facility. There has been an improvement over time in the success rate for first time overdraft applicants while those in Construction have seen something of a decline.



% of applicants ending process with overdraft facility

Over time – row percentages

By 18 month period of application	Q3 12 Q4 13	Q1 13 Q2 14	Q3 13 Q4 14	Q1 14 Q2 15	Q3 14 Q4 15*	Q4 14 Q1 16*	Q1 15 Q2 16*
All SMEs	74%	77%	83%	85%	86%	85%	84%
0 employee	68%	70%	78%	80%	82%	81%	80%
1-9 employees	79%	83%	88%	91%	92%	92%	92%
10-49 employees	91%	92%	93%	94%	96%	96%	96%
50-249 employees	96%	97%	95%	96%	97%	97%	98%
Minimal external risk rating	96%	95%	95%	97%	98%	96%	98%
Low external risk rating	91%	91%	93%	94%	95%	95%	94%
Average external risk rating	83%	83%	92%	90%	92%	91%	89%
Worse than average external risk rating	59%	63%	72%	79%	81%	82%	81%
Agriculture	90%	91%	93%	95%	95%	94%	93%
Manufacturing	71%	68%	76%	84%	88%	87%	85%
Construction	75%	80%	83%	80%	72%	69%	66%
Wholesale/Retail	69%	70%	78%	81%	85%	85%	83%
Hotels & Restaurants	65%	73%	82%	90%	91%	94%	94%
Transport	53%	55%	67%	82%	87%	91%	94%
Property/Business Services etc.	71%	75%	82%	91%	94%	93%	95%
Health	87%	88%	94%	80%	82%	80%	81%
Other Community	94%	94%	96%	85%	87%	86%	83%
First time applicants	34%	40%	54%	66%	68%	68%	67%
Increasing an existing facility	78%	72%	77%	73%	85%	79%	76%
Renewals	98%	99%	99%	100%	100%	100%	99%

All SMEs applying for an overdraft in the period specified, base size varies by category. Q315* indicates interim results for that period



Overdraft final outcome – applications made Q1 2015 to Q2 2016

By size of business, overdraft applicants with more than 10 employees remained the most likely to have been offered, and taken, the overdraft they wanted and so were more likely to have a facility. Despite improving success rates, those with 0 employees remained more likely to end the process with no facility:

Final outcome (Overdraft)				10-49 emps	50-249 emps
<u>Sought</u> new/renewed facility Q1 15-Q2 16	Total	0 emp	1-9 emps		
Unweighted base:	1200	135	420	461	184
Offered what wanted and took it	76%	71%	84%	88%	93%
Took overdraft after issues	8%	9%	8%	8%	5%
Have overdraft (any)	84%	80%	92%	96%	98%
Took another form of funding	4%	4%	3%	1%	*
No facility	12%	16%	6%	2%	2%

All SMEs seeking new/renewed overdraft facility that have had response

Amongst applicants with employees, 93% ended the process with an overdraft facility (85% offered what they wanted and 8% had an overdraft after issues). 5% ended the process with no overdraft.

Analysis of the final outcome by external risk rating showed a difference for those rated a worse than average risk, where 8 in 10 ended the process with an overdraft facility compared to 9 in 10 or more in the other risk categories (albeit this is an improving picture over time):

Final outcome (Overdraft)					Worse/ Avge
<u>Sought</u> new/renewed facility Q1 15-Q2 16	Total	Min	Low	Average	
Unweighted base:	1200	175	432	274	228
Offered what wanted and took it	76%	91%	84%	77%	72%
Took overdraft after issues	8%	7%	10%	12%	9%
Have overdraft (any)	84%	98%	94%	89%	81%
Took another form of funding	4%	2%	4%	*	5%
No facility	12%	*	2%	11%	14%

All SMEs seeking new/renewed overdraft facility that have had response



There were also some differences in success rate by sector, with applicants in Construction remaining the least likely to have been successful (66%) and the most likely to end the process with no facility (24%):

Final outcome (Overdraft)

<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:	150	124	211	136	87*	111	166	80*	135
Offered what wanted and took it	89%	81%	58%	76%	86%	86%	83%	62%	76%
Took overdraft after issues	4%	4%	8%	7%	8%	8%	12%	19%	7%
Have overdraft (any)	93%	85%	66%	83%	94%	94%	95%	81%	83%
Took another form of funding	3%	1%	9%	3%	-	4%	2%	10%	1%
No facility	5%	15%	24%	14%	6%	2%	3%	10%	16%

All SMEs seeking new/renewed overdraft facility that have had response

First time applicants remained more likely than others to end the process with no facility (31%). However, the current success rate for first time applicants, at 67%, maintained the improvement seen over time for these applicants (in the 18 months to Q4 2013, 34% of FTAs were successful):

Final outcome (Overdraft)

<u>Sought new/renewed facility Q1 15-Q2 16</u>	Total	1 st overdraft	Increased overdraft	Renew overdraft
Unweighted base:	1200	125	134	751
Offered what wanted and took it	76%	59%	63%	96%
Took overdraft after issues	8%	8%	13%	3%
Have overdraft (any)	84%	67%	76%	99%
Took another form of funding	4%	2%	20%	-
No facility	12%	31%	5%	*

All SMEs seeking new/renewed overdraft facility that have had response (does not include automatic renewals)



As reported earlier, a new overdraft code has been included since Q3 2014 “Applying for a new overdraft but not our first”. On still limited base sizes, success rates for this group appear to be somewhat lower than for first time applicants. More analysis will be conducted as sample sizes increase.

The final piece of combined analysis for applications made in the 18 months to Q2 2016 shows the outcome by the age of the business. The older the business, the more likely they were to end the process with an overdraft facility:

Final outcome (Overdraft)

<u>Sought</u> new/renewed facility Q1 15-Q2 16 By age of business	Starts	2-5 yrs	6-9 yrs	10-15 yrs	15+ yrs
Unweighted base:	74*	117	107	205	697
Offered what wanted and took it	70%	48%	78%	84%	86%
Took overdraft after issues	2%	24%	2%	5%	6%
Have overdraft (any)	72%	72%	80%	89%	92%
Took another form of funding	4%	5%	6%	4%	2%
No facility	24%	24%	13%	7%	5%

All SMEs seeking new/renewed overdraft facility that have had response

The success rate for older businesses is likely to be impacted by the type of application being made. 48% of the Starts in the table above and 48% of applicants trading for 2-5 years were applying for their first overdraft. Amongst the oldest applicants, 5% were applying for their first overdraft and this group were much more likely to be renewing an overdraft (67% v 34% of Starts).



For the last few quarters a consistent 4 in 10 applications have been for £5,000 or less. A further 4 in 10 applications were for between £5,000 and £25,000 with the remainder, around 1 in 5, for more than £25,000.

A qualitative assessment of overdraft outcome by amount **applied for** over time shows that:

- The outcome for those applying for larger overdrafts (£25,000+) has remained relatively consistent over time, and 90% or more of such applicants now had an overdraft.
- 6 in 10 applications for the smallest overdrafts (under £5,000) were successful in 2012 and 2013. The success rate improved for 2014 to around 7 in 10, which has been maintained for 2015 and 2016 to date.
- Those in the middle (who applied for £5-25,000) saw a reduction in success rates to the end of 2013, from around 90% to around 70% of these applicants having an overdraft. Since then success rates have increased back to the 90% level previously seen.

Analysis on the size of overdraft facility granted over time is now provided in the chapter on rates and fees, as context for the pricing information that is provided in that chapter.



Final outcome by date of application – overdrafts

The table below shows the final outcome for Type 1 overdraft events by the individual quarter **in which the application was made**, for those recent quarters where robust numbers were available. This shows that since the start of 2014 at least 8 out of 10 overdraft applicants have ended the process with a facility:

Final outcome (Overdraft)											
SMEs seeking new/ renewed facility											
By date of application	Q3 13	Q4 13	Q1 14	Q2 14	Q3 14	Q4 14	Q1 15	Q2 15	Q3* 15	Q4* 15	Q1* 16
Unweighted base:	348	379	356	367	285	340	320	280	236	197	142
Offered what wanted and took it	72%	64%	68%	71%	73%	78%	77%	71%	80%	74%	77%
Took overdraft after issues	9%	10%	17%	13%	15%	11%	8%	9%	9%	12%	3%
Have overdraft (any)	81%	74%	85%	84%	88%	89%	85%	80%	89%	86%	80%
Took other funding	4%	5%	7%	4%	1%	4%	1%	6%	3%	*	14%
No facility	15%	21%	8%	12%	11%	7%	14%	14%	8%	13%	7%

Final outcome of overdraft application by date of application: * indicates interim results as data is still being gathered on events in these quarters

To set these results in context, an analysis has been done of the profile of applicants over time based on the analysis in this and previous reports that size, risk rating and purpose of facility all affect the outcome of applications.



Over the quarters for which robust data is available, there were a number of trends that might be expected to have an effect on the outcome of an overdraft application:

- The proportion of applicants with a worse than average risk rating increased from 43% in 2010 to 53% for 2012. It then dropped over subsequent years (48% in 2013, 45% for 2014) to 40% for 2015 to date. Initial data for applications made in 2016 shows an increase to 60% of applicants with a worse than average risk rating.
- The proportion of first time applicants increased from 25% in 2010 and 2011 to 30% in 2012. It then dropped back again (26% for 2013 and 23% for 2014) to 21% for 2015 to date. Initial data for applications made in 2016 shows 18% of applicants were applying for their first facility.
- Starts made up 13% of applicants in 2013, increasing to 16% for 2014. In 2015 to date the proportion is somewhat lower at 13% and for 2016 just 3% of applicants have been Starts.

To understand this more fully, further analysis was undertaken using regression modelling. This takes a number of pieces of data (described below) and builds an equation using the data to predict as accurately as possible what the actual overall success rate for overdrafts should be. This equation can then be applied to a sub-set of overdraft applicants (in this case all those that applied in a certain quarter) to predict what the overdraft success

rate should be for that group. This predicted rate is then compared to the actual success rate achieved by the group, as shown in the table below.

As in previous reports, the equation was built using business size and risk rating, as well as the type of facility (first time applicant etc.) as these factors had been shown to be key influencers on the likelihood of success in a funding application.



From the start of 2014 the model has predicted a fairly consistent overdraft success rate in excess of 80%:

Final outcome (Overdraft)											
SMEs seeking new/ renewed facility											
By date of application	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3*	Q4*	Q1*
	13	13	14	14	14	14	15	15	15	15	16
Unweighted base:	348	379	356	367	285	340	320	280	236	197	142
Have overdraft (any)	81%	74%	85%	84%	88%	89%	85%	80%	89%	86%	80%
Predicted success rate	84%	79%	84%	84%	85%	83%	85%	85%	83%	80%	82%
Difference	-3	-5	+1	-	+3	+6	-	-5	+6	+6	-2

Final outcome of overdraft application by date of application

Comparisons between the actual and modelled success rates show differences over time:

- In 2013, the actual overdraft success rates achieved were somewhat lower than the model predicted.
- In the second half of 2014, actual success rates increased and moved ahead of those predicted.
- The current picture for 2015 is also mixed, with actual success rates ahead of those predicted for the second half of the year.



The impact of automatic renewals on overdraft success rates

A considerable number of SMEs had their overdraft automatically renewed by their bank. Such SMEs can be considered to be part of the 'Have an overdraft (any)' group, and thus impact on overall success rates.

The table below shows the impact on overall overdraft success rates when the automatically renewed overdrafts are included. There have been more automatic overdraft renewals than Type 1 events, so the impact is marked with the overall overdraft success rate increasing from 84% to 93%:

Final outcome (Overdraft)	Type 1 events	Type 1 + automatic renewal
Sought new/renewed facility Q1 15-Q2 16		
<i>Unweighted base:</i>	1200	2514
Offered what wanted and took it	76%	32%
Took overdraft after issues	8%	3%
<i>Automatic renewal</i>	-	58%
Have overdraft (any)	84%	93%
Took another form of funding	4%	2%
No facility	12%	5%

All SMEs seeking new/renewed overdraft facility that have had response



The impact of personal borrowing on overdraft applications

14% of those making an overdraft application in the past 18 months (Q1 2015 to Q2 2016) said that the facility they had sought was in a personal capacity and these were typically smaller SMEs looking to borrow a smaller amount:

- 89% of personal overdraft applicants had 0 employees (v 58% of business applicants)
- 50% had a worse than average risk rating (v 42% of business applicants)
- 79% were applying for £5,000 or less (v 33% of business applicants)

In terms of the outcome of the overdraft application by whether it was a personal or business application, base sizes remain limited. However, the data available has fairly consistently suggested that those applying in a personal capacity were somewhat less likely to have ended the process with a facility (68% v 88% of business applicants) and somewhat more likely to have ended the process with no facility (22% v 10% of business applicants).

Amongst those who reported the automatic renewal of an overdraft facility between Q1 2015 to Q2 2016, 14% said that the facility was renewed in a personal capacity. As with Type 1 events, such renewals were typically for 0 employee SMEs (84% of those automatically renewing a personal facility).



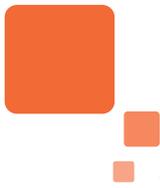
Profile of loan applicants by initial response

Having explored overdraft applications and renewals, the next section of this chapter looks at loan applications and renewals. The profile of loan applicants (who applied Q1 2015 to Q2 2016) receiving each initial answer from their bank varied. Note that due to small base sizes the 'offered less than wanted' and 'offered unfavourable T&C' groups have been combined into a 'Had issues with the offer' column for this analysis, to boost the base size:

Profile of loan applicants Sought new/renewed facility Q1 15-Q2 16	All with response	Offered what wanted	Had issues with offer	Initially declined
<i>Unweighted base:</i>	652	498	88*	66*
No employees	53%	47%	45%	70%
Have employees	47%	53%	55%	30%
Starts	20%	13%	14%	39%
Trading 2-9 years	26%	24%	23%	31%
Trading 10 years+	54%	63%	63%	30%
Minimal/low risk rating	37%	43%	48%	15%
Average/worse than average risk rating	63%	57%	52%	85%
Renewing existing facility	14%	20%	9%	*
Applying for first ever loan	27%	19%	22%	49%
Applying for new loan but not first	42%	43%	59%	30%

All SMEs seeking new/renewed loan facility that have had response

The table shows similar differences in profile between the three groups to those seen for overdraft applicants. The small group of those initially declined were more likely to be 0 employee SMEs, more recently established, with an average or worse than average risk rating and almost all were seeking new funding.



The subsequent journey – those that received the offer of a loan

Summarised below for all loan applications made in the 18 months Q1 2015 to Q2 2016 (and reported to date), is what happened after the bank's initial response. Base sizes for some groups remain small.

Initial bank response Subsequent events – all seeking loan Q1 2015 to Q2 2016

Offered what wanted
(60% of applicants)

Q159-164

94% of those offered what they wanted went on to take the loan with no problems.

5% took the loan after some issues (typically having to supply more information, waiting for a decision to be made or for security valuations).

Almost all took the full amount they had originally asked for.

1% of these applicants decided not to proceed with the loan they had been offered.

Issue: Offered less
than wanted
(8% of applicants)

Q180-190

Note that there are just 43 respondents for this section, and so results are qualitative at best.

4% of applicants said that they had not been given a reason for being offered less than they wanted. The main reasons given included:

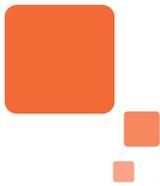
- Security issues (a quarter of these SMEs).
- Credit issues (1 in 10).
- Around 1 in 10 mentioned applying for too much or for too little or having too much borrowing already.

At the end of the process:

- 6 in 10 accepted the lower amount offered (from the original bank or elsewhere).
- 1 in 5 managed to negotiate a better deal, predominantly with another bank.
- 1% took other borrowing.
- 1 in 5 ended the process with no facility.

The SMEs in this group who obtained a loan were likely to have received more than 50% of the amount they had originally sought.

Continued



Continued

Issue: Offered unfavourable T&C (6% of applicants)

Q191-195

Note that there are just 45 respondents for this section.

The unfavourable terms (excluding those who didn't know) typically related to the proposed interest rate (half of these SMEs).

The proposed fee was mentioned by 1 in 5 of these applicants, and 1 in 5 mentioned issues around security (level, type requested and/or cost).

By the end of the process:

- Around a third managed to negotiate a better deal (half at the original bank).
- Half accepted the deal offered, again most with the original bank.
- Less than 5% took another form of funding.
 - 1 in 5 applicants ended the process with no facility.

For those with a facility, the amount of such loans was typically 70% or more of their original request.



The subsequent journey – those that were declined for a loan

The table below details the subsequent journey of those whose loan application was initially declined (26% of applicants – 66 respondents).

Initially declined	Subsequent events – all seeking loan Q1 2015 to Q2 2016
Reasons for decline Q165	<p>10% of the SMEs initially declined said that they had not been given a reason for the decline (excluding those who could not remember the reasons given). The main reasons given were:</p> <ul style="list-style-type: none">• 52% said that the decline related to their personal and/or business credit history (especially smaller applicants).• 4% mentioned issues around security.• 7% said that they had too much existing borrowing.
Advice and alternatives Q166-7 and 171-175	<p>This section was replaced by a new, more straightforward, question in Q1 2016 but with comparable answer codes to previous waves. The answers below cover the same period as the rest of this section.</p> <p>Those initially declined were asked which of a series of events had occurred after that decline:</p> <ul style="list-style-type: none">• 15% said they were made aware of the appeals process (15% by the bank and 7% by someone else).• 15% were offered an alternative form of finance by the bank.• 11% were referred to external sources of help and advice (6% by the bank, and 6% sought it themselves).• 65% said that none of these events occurred.



Initially declined

Subsequent events – all seeking loan Q1 2015 to Q2 2016

Appeals

Q168-170

From April 2011, an appeals procedure was introduced. Amongst this group of applicants who were initially declined, 15% said that they were made aware of the appeals process. Awareness of the appeals system has varied between 8% and 14% since 2012 and is 11% for 2015 to date.

Taking a longer-term view to maximise base sizes, of all loan applications reported on the Monitor from Q1 2014, 35 SMEs were made aware of the appeals process having initially been declined. 13 went on to appeal: in 5 instances the bank changed its decision, in 6 the original decision was upheld and 2 were still waiting to hear at the time of interview.

Those who didn't appeal typically accepted the banks decision (a new code) and/or didn't think it would have changed anything.

Outcome

Q176-179

At the end of this period:

- 6% of those initially declined for a loan had managed to secure a loan with either the original bank or a new supplier.
- 14% had secured alternative funding, with friends/family most likely to be mentioned.
- 81% of those initially declined did not have a facility at all.



The final outcome – loan

At the end of the various loan journeys described above, respondents reported on the final outcome of their application for a new or renewed loan facility. This section is based on SMEs that made an application and had received a response for a new or renewed loan facility during the most recent 18-month period of Q1 2015 to Q2 2016, irrespective of when they were interviewed.

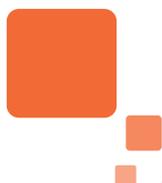
Three quarters (72%) of loan applicants now have a loan facility. 24% of applicants ended the process with no facility.

Final outcome (Loan)	All loan Type 1 applicants
<u>Sought</u> new/renewed facility Q1 15-Q2 16	
<i>Unweighted base:</i>	652
Offered what wanted and took it	56%
Took loan after issues	16%
<i>Have loan (any)</i>	72%
Took another form of funding	4%
No facility	24%

All SMEs seeking new/renewed loan facility that have had response

Before looking at the results for loan applications made in the latest 18 month period in more detail, the summary table below records the proportion who ‘Have loan (any)’ for a series of 18 month periods, stretching back to Q3 2012, by key demographics. As for overdrafts, this shows a series of 18 month periods ending in Q2 and Q4 of each year, apart from the more recent (and interim) 18 month periods of data.

Over the periods shown in the table success rates have improved from around 60% to around 70% of loan applicants. Improvements were seen across all size bands and risk ratings with the exception of those with a worse than average risk rating. First time loan applicants have not seen the increase in success rates reported by those seeking a first overdraft.



% of applicants ending process with loan facility

Over time – row percentages

By 18 month period of application	Q3 12 Q4 13	Q1 13 Q2 14	Q3 13 Q4 14	Q1 14 Q2 15	Q3 14 Q4 15*	Q4 14 Q1 16*	Q1 15 Q2 16*
All SMEs	58%	58%	66%	69%	73%	68%	72%
0 employee	52%	52%	59%	62%	65%	57%	66%
1-9 employees	61%	63%	72%	76%	78%	77%	76%
10-49 employees	85%	85%	87%	88%	92%	93%	93%
50-249 employees	87%	92%	94%	95%	96%	98%	97%
Minimal external risk rating	82%	75%	80%	89%	98%	99%	98%
Low external risk rating	78%	79%	85%	83%	88%	86%	88%
Average external risk rating	63%	64%	74%	73%	83%	83%	85%
Worse than average external risk rating	46%	47%	52%	51%	52%	43%	52%
Agriculture	86%	86%	86%	91%	94%	94%	93%
Manufacturing	67%	74%	83%	87%	59%	60%	56%
Construction	56%	53%	58%	56%	63%	57%	60%
Wholesale/Retail	47%	49%	63%	66%	74%	70%	75%
Hotels & Restaurants	55%	48%	55%	66%	70%	65%	66%
Transport	42%	47%	48%	51%	43%	45%	55%
Property/Business Services etc.	58%	57%	63%	68%	87%	86%	92%
Health	57%	54%	76%	78%	86%	79%	79%
Other Community	62%	69%	72%	75%	71%	63%	74%
First time applicants	45%	45%	55%	53%	51%	45%	49%
Other new facility	60%	59%	71%	78%	85%	80%	80%
Renewals	89%	82%	76%	82%	96%	96%	100%

All SMEs applying for a loan in the period specified, base size varies by category CARE re interim data. Q315* indicates interim results for that period



Final outcome – loan applications made Q1 2015 to Q2 2016

By size of business, smaller loan applicants remained less likely to end the process with a facility. 97% of applicants with 50-249 employees had a loan, while 3 in 10 of the smallest applicants ended the process with no facility:

Final outcome (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:	652	50*	224	254	124
Offered what wanted and took it	56%	53%	58%	71%	79%
Took loan after issues	16%	13%	18%	22%	18%
Have loan (any)	72%	66%	76%	93%	97%
Took another form of funding	4%	5%	2%	1%	-
No facility	24%	29%	23%	5%	3%

All SMEs seeking new/renewed loan facility that have had response

Amongst loan applicants with employees, 80% ended the process with a loan (61% were offered what they wanted and 19% had the loan after issues). 19% ended the process with no loan facility.

Compared to overdrafts, there was a clearer difference in outcome by external risk rating. Applicants with a worse than average external risk rating were much less likely to have ended the process with a facility:

Final outcome (Loan)		Min	Low	Avg	Worse/ Avg
<u>Sought</u> new/renewed facility Q1 15-Q2 16	Total				
Unweighted base:	652	111	235	142	113
Offered what wanted and took it	56%	83%	60%	72%	38%
Took loan after issues	16%	15%	28%	13%	14%
Have loan (any)	72%	98%	88%	85%	52%
Took another form of funding	4%	-	*	-	9%
No facility	24%	1%	12%	15%	40%

All SMEs seeking new/renewed loan facility that have had response where risk rating known



Smaller sample sizes of applicants restrict the scope for analysis by sector, and the results below should be viewed as indicative in all sectors (results for Health are not shown as the sample is now below 50). Those in Agriculture and Property/Business Services remained the most likely to end the process with a loan, while those in the Transport sector were less likely to end the process with a facility:

Final outcome (Loan)

<u>Sought</u> new/renewed facility Q1 15-Q2 16	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Hlth SWrk	Other Comm
Unweighted base:	89*	69*	92*	78*	73*	58*	91*		55*
Offered what wanted and took it	87%	51%	50%	62%	46%	46%	62%		67%
Took loan after issues	6%	5%	10%	13%	20%	9%	30%		7%
Have loan (any)	93%	56%	60%	75%	66%	55%	92%		74%
Took another form of funding	-	2%	-	*	4%	10%	2%		18%
No facility	7%	42%	40%	24%	30%	35%	7%		8%

All SMEs seeking new/renewed loan facility that have had response



Analysis earlier in this report showed that the initial response from the bank was typically more positive for the renewal of existing loan facilities and less positive for new facilities. The analysis below shows that this was also the case at the end of the process. Those applying for their first loan remained more likely to end the process with no facility (39%). Most other applicants were successful:

Final outcome (Loan)				
<u>Sought new/renewed facility Q1 15-Q2 16</u>	Total	1st loan	New loan	Renew loan
<i>Unweighted base:</i>	652	154	265	95*
Offered what wanted and took it	56%	40%	58%	87%
Took loan after issues	16%	9%	22%	13%
<i>Have loan (any)</i>	72%	49%	80%	100%
Took another form of funding	4%	12%	*	-
No facility	24%	39%	20%	-

All SMEs seeking new/renewed loan facility that have had response



As with overdrafts, there were differences in outcome for loan applications by age of business. On limited base sizes, Starts were the least likely to have been successful (45%) – half of these Starts were applying for their first loan. Those trading for more than 15 years were the most likely to have been successful (they were much less likely to be a FTA and more likely to be renewing an existing loan facility):

Final outcome (Loan)

<u>Sought</u> new/renewed facility Q1 15-Q2 16		2-5	6-9	10-15	15+
By age of business	Starts	yrs	yrs	yrs	yrs
Unweighted base:	51*	55*	85*	103*	358
Offered what wanted and took it	38%	48%	52%	48%	72%
Took loan after issues	7%	18%	17%	21%	17%
Have loan (any)	45%	66%	69%	69%	89%
Took another form of funding	18%	-	*	-	*
No facility	38%	34%	31%	31%	11%

All SMEs seeking new/renewed loan facility that have had response

Success rates for smaller applications (under £100,000) have shown signs of increase over time. In 2013, half of such applications were successful, increasing to 6 in 10 for 2014 and almost 7 in 10 for applications to date in 2015.

Applications for larger amounts (£100,000+) were more likely to be successful and success rates have improved from around 8 out of 10 to around 9 in 10 of these larger applications.

There are currently too few applications reported for 2016 to include them in this analysis.



Final outcome by date of application – loans

The table below shows the outcome by recent quarter of application. There is no clear pattern over time but success rates for applications made in 2015 are currently somewhat higher than those made in previous years:

Final outcome (Loan)

SMEs seeking new/
renewed facility

By date of application	Q2 13	Q3 13	Q4 13	Q1 14	Q2 14	Q3 14	Q4 14	Q1 15	Q2 15	Q3* 15	Q4* 15
Unweighted base:	176	183	210	181	215	158	191	185	143	118	132
Offered what wanted and took it	27%	46%	42%	52%	54%	64%	47%	62%	45%	70%	59%
Took loan after issues	9%	15%	26%	12%	7%	24%	9%	19%	28%	6%	5%
Have loan (any)	36%	61%	68%	64%	61%	88%	56%	81%	73%	76%	64%
Took another form of funding	11%	3%	8%	9%	12%	4%	10%	*	4%	5%	-
No facility	52%	36%	24%	26%	27%	8%	34%	19%	23%	19%	36%

Final outcome of loan application by date of application: * indicates interim results as data is still being gathered on events in these quarters

To set these results in context, an analysis has been done of applicants over time based on the premise that size, risk rating and purpose of facility all affect the outcome of applications.

Over the quarters for which robust data is available:

- Starts: the proportion increased from 15% in 2010 to 23% in 2012. It then declined back to 16% for 2014 before starting to increase again (19% for 2015 and 27% for 2016 to date)
- First time applicants: the proportion increased from 30% of applicants in 2010 to 43% in 2012. Since then, the proportion of first time applicants has declined (32% in 2014, 28% for 2015) to 24% for 2016 to date
- The proportion of applicant SMEs with a worse than average external risk rating has varied over time: having been stable up to 2012 (47% in 2012 itself) the proportion increased to 53% for 2013 but was then 40% for 2014 and is currently 34% for 2015 to date. Initial indications for 2016 are that it may have increased again (currently half of 2016 applicants had a worse than average risk rating).



These are all factors that analysis has shown are likely to affect the loan success rate over time.

Further analysis was undertaken using regression modelling. This analysis takes a number of pieces of data (described below) and builds an equation using the data to predict as accurately as possible what the actual overall success rate for loans should be. This equation can be applied to a subset of loan applicants (in this case all those that applied in a certain quarter) to predict what the loan success rate should be for that group. This predicted rate is then compared to the actual success rate achieved by the group, as shown in the table below.

As in previous reports, the equation was built using business size and risk rating, as well as the type of facility (first time applicant etc.), as these factors had been shown to be key influencers on the likelihood of being successful in an application for funding.

Analysis using this approach is shown below. This shows that the predicted loan success rate was somewhat higher during 2014 than 2013, peaking at 77% for Q1 2015 but has declined somewhat since then:

Final outcome (Loan)

SMEs seeking new/

renewed facility

By date of application

	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3*	Q4*
	13	13	13	14	14	14	14	15	15	15	15
Unweighted base:	176	183	210	181	215	158	191	185	143	118	132
Have loan (any)	36%	61%	68%	64%	61%	88%	56%	81%	73%	76%	64%
Predicted success rate	61%	66%	65%	70%	69%	71%	71%	77%	74%	72%	69%
Difference	-25	-5	+3	-6	-8	+17	-15	+4	-1	+4	-5

Final outcome of loan application by date of application

Analysis shows that neither the higher success rate reported for applications in Q3 2014 (88%) nor the lower rate for Q4 2014 (56%) were explained by a change in the profile of applicants, as the predicted success rate remained unchanged. The declining predicted success rate during 2015 has been reflected in the actual success rates achieved.



The impact of personal borrowing on loan applications

19% of those making a loan application in the past 18 months (Q1 2015 to Q2 2016) said that the facility they had sought was in a personal capacity, compared to 14% for overdrafts.

On this currently limited sample, those applying in a personal capacity were more likely to have a worse than average external risk rating for the business (49% v 34% for those applying in a business capacity) and were less likely to have employees (27% v 52% of those applying in a business capacity) or to be seeking a loan in excess of £25,000 (28% v 40% for those applying in a business capacity).

In terms of the outcome of personal loan applications, base sizes remain limited. However, current data suggests that those applying in a personal capacity were somewhat less likely to have ended the process with a facility (63% v 74% of business applicants) and somewhat more likely to have ended the process with no facility (36% v 22% of business applicants).

Further detail will be provided in future reports, as sample sizes permit.



Outcome analysis over time – new and renewed facilities

This chapter has reported separately thus far on the overdraft and loan journeys made, from initial application to the final outcome. It has shown how, for both loans and overdrafts, those applying for new money typically had a different experience from those seeking to renew an existing facility. This final piece of analysis looks specifically at applications for new or renewed funding, whether on loan **or** overdraft. As the summary table at the start of this chapter showed, renewals have been consistently successful with improvements seen over time in the success rates of those applying for new money, including first time applicants.

The analysis below, as in previous reports, has been based on all applications made, rather than all SMEs (so an SME that had both a loan and an overdraft application will appear twice).

In line with the analysis elsewhere in this chapter, results are typically shown for applications made in the **last 18 months** (between Q1 2015 and Q2 2016) and which have been reported to date.

81% of all loan and overdraft applications in the 18 months to Q2 2016, and reported to date, resulted in a facility. The table below shows that those seeking to renew an existing loan or overdraft facility were more likely to have ended the process with a facility (99%) than those seeking new funds (66%). The margin between the two groups has narrowed somewhat over time as the success rate for new money improves (in earlier waves, those renewing were twice as likely to be successful as those seeking new funds):

Final outcome	New funds sought	Renewals sought
Loans and Overdrafts combined Q1 15 – Q2 16		
<i>Unweighted base of applications:</i>	890	846
Offered what wanted and took it	53%	95%
Took facility after issues	13%	4%
<i>Have facility (any)</i>	66%	99%
Took another form of funding	7%	-
No facility	28%	*

Final outcome of overdraft/loan application by type of finance sought



Further analysis looks at these applications over recent quarters and compares the outcome for renewals to the outcomes for new and specifically first time, facilities, by date of application. Around 4 in 10 of all applications involved the renewal of an existing facility.

The outcome of applications for **renewed** loans/overdrafts over recent quarters is detailed below. It shows almost all such applicants ended the process with a renewed facility:

Final outcome (Overdraft+ Loan) – renewed facilities

By date of application	Q3 13	Q4 13	Q1 14	Q2 14	Q3 14	Q4 14	Q1 15	Q2 15	Q3* 15	Q4* 15	Q1* 16
<i>Unweighted base of applications:</i>	252	242	244	255	200	237	246	193	157	129	103
Offered what wanted and took it	90%	89%	79%	79%	89%	91%	95%	97%	97%	92%	98%
Took facility after issues	8%	9%	19%	11%	11%	7%	5%	3%	3%	7%	2%
Have facility (any)	98%	98%	98%	90%	100%	98%	100%	100%	100%	99%	100%
Took another form of funding	*	*	*	6%	*	-	-	-	-	-	-
No facility	2%	1%	2%	4%	*	2%	*	-	*	-	*

Final outcome of overdraft/loan application by date of application: * indicates interim results as data is still being gathered on events in these quarters



The final outcomes for applications for **new** funds (whether first time applicants or not) made over recent quarters are shown in the table below. It shows typically higher success rates in the most recent quarters compared to 2013, but with some variability by quarter:

Final outcome (Overdraft+ Loan) – applications for new money

By date of application	Q2 13	Q3 13	Q4 13	Q1 14	Q2 14	Q3 14	Q4 14	Q1 15	Q2 15	Q3* 15	Q4* 15
Unweighted base of applications:	198	253	304	262	305	219	264	233	205	169	171
Offered what wanted and took it	24%	43%	40%	53%	55%	58%	59%	55%	37%	63%	58%
Took facility after issues	17%	13%	19%	13%	10%	23%	12%	10%	21%	10%	11%
Have facility (any)	41%	56%	59%	66%	65%	81%	71%	65%	58%	73%	69%
Took another form of funding	10%	7%	9%	13%	8%	3%	10%	2%	11%	6%	*
No facility	49%	38%	32%	21%	26%	16%	20%	32%	31%	21%	31%

Final outcome of overdraft/loan application by date of application: * indicates interim results as data is still being gathered on events in these quarters

The success rate for new money combines the outcome of loan and overdraft applications made by first time applicants with the outcome for those who have borrowed before. First time applicants now make up a smaller proportion of all new money applications – they made up 44% of all new money applications in the 18 months to Q2 2016 compared to 66% for the 18 months to Q4 2013.



The table below shows the current success rates for new money applications made in the 18 months to Q2 2016, analysed by whether the SME was applying for a first facility or had borrowed before. Those who have borrowed before were more likely to end the process with a facility (69%) than those who were applying for the first time (61%) and this has been a consistent trend over time:

Final outcome – new money

Loans and Overdrafts combined Q1 15 – Q2 16	First time applicants	Other new money
Unweighted base of applications:	279	611
Offered what wanted and took it	52%	53%
Took facility after issues	9%	16%
Have facility (any)	61%	69%
Took another form of funding	6%	7%
No facility	34%	24%

Final outcome of overdraft/loan application by type of finance sought

Over time, the success rates for first time loan/overdraft applicants have increased, from 41% in the 18 months to Q4 2012 to 61% for the current 18 month period. As already reported, this is due to increasing success rates for first time overdraft applicants, as success rates for first time loan applicants were little changed over recent quarters:

Final outcome – first time applicants Loans and Overdrafts combined	Q3 11	Q3 12	Q3 13	Q3 14	Q1 15
	Q4 12	Q4 13	Q4 14	Q4 15*	Q2 16*
Unweighted base of applications:	840	658	493	387	279
Offered what wanted and took it	30%	27%	41%	50%	52%
Took facility after issues	11%	12%	14%	11%	9%
Have facility (any)	41%	39%	55%	61%	61%
Took another form of funding	8%	9%	6%	5%	6%
No facility	51%	53%	39%	33%	34%

Final outcome of overdraft/loan application by type of finance sought



Success rates for other new money applicants remained higher than for first applicants. Having increased steadily up to the 18 months to Q4 2015, the success rate for the latest period is somewhat lower (but still interim):

Final outcome – new money

Loans and Overdrafts combined	Q3 11	Q3 12	Q3 13	Q3 14	Q1 15
Other applications	Q4 12	Q4 13	Q4 14	Q4 15*	Q2 16*
Unweighted base of applications:	1471	668	1114	874	611
Offered what wanted and took it	52%	47%	58%	59%	53%
Took facility after issues	18%	22%	16%	16%	16%
Have facility (any)	70%	69%	74%	75%	69%
Took another form of funding	6%	8%	10%	5%	7%
No facility	23%	23%	16%	19%	24%

Final outcome of overdraft/loan application by type of finance sought

Previous analysis has shown that external risk rating has been a key predictor of success rates. Across all applications made, those applying for their first facility were the most likely to have a worse than average risk rating – for 2015 to date 62% of first time applicants had a worse than average external risk rating, compared to 30% of those renewing an existing facility.

All three applicant groups saw an increase between 2010 and 2013 in the proportion of applicants with a worse than average risk rating. Since then, fewer applicants in each of these groups have had a worse than average risk rating:

% of applicants with worse than average external risk rating

Overdraft + Loan	In	In	In	In	In	In
By year of application (base varies)	2010	2011	2012	2013	2014	2015*
First time applicants	61%	69%	71%	69%	67%	62%
Other new money	44%	49%	49%	45%	34%	35%
Renewals	33%	34%	40%	36%	29%	30%

Final outcome of overdraft/loan application by date of application: * indicates interim results as data is still being gathered on events in these quarters

For the SME population as a whole, the proportion with a worse than average external risk rating rose from 50% in 2011 to 54% in 2013 but was 46% for 2015, so applicants have followed a similar pattern.