

10. Rates and fees – Type 1 events



This chapter covers

the security, interest rates and fees pertaining to overdrafts and loans granted after a Type 1 borrowing event (that is an application or a renewal) that occurred in the 18 months Q3 2015 to Q4 2016.



Key findings

Most overdrafts granted in the 18 months to Q4 2016 (83%) were for £25,000 or less.

- A third (36%) were secured, primarily on property, increasing by size of SME and of facility.
- Over time, the proportion of secured facilities has increased (from 34% of facilities granted in H2 2012 to 40% of those granted in H1 2016) as more smaller facilities were secured.
- 65% of overdrafts granted were on a fixed interest rate and this has changed very little over time. Fixed rate lending was more common for smaller facilities – 72% of facilities of less than £10,000 were on a fixed rate, compared to 35% of facilities in excess of £100,000
- Most paid a fee for their overdraft, and in most cases (69%) this was the equivalent of 2% or less of the facility granted.

Loans were typically granted for larger sums, with 86% of those granted in the 18 months to Q4 2016 being £100,000 or less.

- Half of loans (54%) were secured – 17% as a commercial mortgage and 37% as a secured business loan. As for overdrafts, loans granted to larger SMEs and for larger amounts were more likely to be secured.
- The proportion of loans (excluding commercial mortgages) that were secured has increased over time from 3 in 10 to 4 in 10.
- 73% of loans were on a fixed interest rate. Fixed rate lending was slightly less likely for larger loans above £100,000 (67%).
- Amongst loan applicants who paid a fee, 81% paid 2% or less of the sum granted.



This chapter covers the security and fees pertaining to overdrafts and loans granted after a Type 1 borrowing event (that is an application or a renewal) which occurred between Q3 2015 and Q4 2016.

The main reporting in this chapter does **not** include any overdrafts granted as the result of an automatic renewal process. These

automatically renewed overdrafts are reported on separately towards the end of this chapter.

From Q1 2016, this element of the questionnaire was revised, simplifying the question on security and removing the questions on the margin or fixed rate charged for a facility.

Overdrafts: context

The price of a facility will be a function, at least in part, of the size of the facility and the business it is granted to, whether it is secured or not, and whether it is a personal or business facility.

Successful overdraft applications Further analysis Q3 2015 to Q4 2016

Size of applicant	Of all new overdrafts successfully applied for Q3 2015 to Q4 2016: <ul style="list-style-type: none">• 59% were granted to 0 employee SMEs• 33% to 1-9 employee SMEs• 8% to 10-49 employee SMEs• 1% to 50-249 employee SMEs.
Size of facility	83% of new/renewed overdrafts granted between Q3 2015 and Q4 2016 were for £25,000 or less. This varied by size of applicant from 93% of overdrafts granted to SMEs with 0 employees to 40% of those granted to SMEs with 50-249 employees.
Personal facilities	14% of successful new/renewed overdrafts in this period were in a personal name rather than that of the business. This was much more likely to be the case for those with 0 employees (22%) than for larger SMEs (<5%).



Analysis of the size of the overdraft facility granted by recent application date is reported below. In each quarter the majority of applications have been for facilities of less than £25,000. Typically around a quarter of applications have been for larger amounts with no clear pattern over time:

Overdraft facility granted

By date of application	Q4 13	Q1 14	Q2 14	Q3 14	Q4 14	Q1 15	Q2 15	Q3 15	Q4 15	Q1* 16	Q2* 16
Unweighted base:	337	318	338	261	314	301	256	232	224	201	99*
Less than £5,000	34%	49%	42%	37%	37%	37%	48%	42%	37%	36%	47%
£5-25,000	40%	32%	30%	35%	43%	40%	34%	45%	40%	41%	38%
£25,000+	26%	20%	28%	28%	20%	22%	19%	12%	23%	23%	15%

Overdraft facility granted – all successful applicants that recall amount granted

Overdrafts: Security

From Q1 2016, those who had successfully applied for an overdraft were asked a simplified question about the security pertaining to that facility, as shown in the table below. The headline categories remained the same as in previous waves allowing this 2016 data to be combined with previous data. A third of Type 1 overdrafts (i.e. a new or renewed facility not including automatic renewals, successfully applied for between Q3 2015 and Q4 2016) were secured:

Security required (Overdraft)

<u>Successfully sought</u> new/renewed overdraft Q3 15 – Q4 16	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	793	82*	264	305	142
Any security	36%	26%	48%	64%	69%
<i>Property (business/personal)</i>	26%	18%	36%	47%	46%
<i>Other security (any)</i>	12%	9%	15%	20%	25%
No security required	64%	74%	52%	36%	31%

Q 105a All SMEs with new/renewed overdraft excluding DK



The larger the SME, the more likely it was to have a secured facility and this was also true by size of facility granted. For overdrafts successfully applied for between Q3 2015 and Q4 2016:

- 28% of overdrafts granted for less than £10,000 were secured
- 33% of overdrafts granted for £10-24,999 were secured
- 67% of overdrafts granted for £25-99,999 were secured
- 86% of overdrafts granted for £100,000 or more were secured.

Over the longer term, more overdrafts have been secured, primarily due to an increase in the proportion of overdraft facilities of £10,000 or less that were secured. Larger facilities remained more likely to be secured, although there has been some variation over time in the proportion of overdrafts for £10-24,999 that have been secured.

% of overdraft facilities that were secured

By application date Row percentages	H2 2012	H1 2013	H2 2013	H1 2014	H2 2014	H1 2015	H2 2015	H1 2016*
All overdrafts	34%	35%	34%	36%	33%	42%	37%	40%
Overdrafts of <£10,000	16%	18%	22%	24%	24%	32%	31%	30%
Overdrafts of £10-24,999	52%	49%	40%	50%	38%	45%	31%	36%
Overdrafts of £25-100,000	63%	62%	62%	53%	40%	64%	64%	74%
Overdrafts of more than £100,000	63%	72%	78%	66%	68%	74%	92%	78%

Q 105a All SMEs with new/renewed overdraft, excluding DK

Initial indications for applications made in H2 2016 are that a lower proportion were secured, due to fewer overdrafts of less than £10,000 being secured.



Overdrafts: Rates

Amongst those who gave an answer, a third (35%) said that their new/renewed overdraft was on a variable rate and this remained more likely to be the case for larger facilities granted:

Type of rate (overdraft) by facility granted

Successfully sought new/renewed overdraft

Q3 15-Q4 16 excl. DK

	Total	<£10k	£10-25k	£25-100k	£100k+
Unweighted base:	671	230	140	164	137
Variable rate lending	35%	28%	33%	56%	65%
Fixed rate lending	65%	72%	67%	44%	35%

Q 107 All SMEs with new/renewed overdraft, excluding DK

As the table below shows, when analysed by date of application the proportion of lending on a variable rate has been fairly stable at around 4 in 10, with the exception of the first half of 2015 when almost half (46%) were on a variable rate:

New/renewed overdraft rate

	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:	255	278	280	281	220	250	262	207	194	176	167
Variable rate lending	43%	43%	43%	40%	38%	38%	46%	46%	36%	38%	41%
Fixed rate lending	57%	57%	57%	60%	62%	62%	54%	54%	64%	62%	59%

Q 107 All SMEs with new/renewed overdraft, excluding DK

Questions around the margin charged for the overdraft facility are no longer asked.



Overdrafts: Fees

Most respondents (82%) were able to recall the arrangement fee that they had paid for their new/renewed overdraft facility (if any). The average fee paid was £237, and this has been fairly consistent over time.

As would be expected, fees vary by size of facility granted:

Fee paid (overdraft) by facility granted

Successfully sought new/renewed overdraft

Q3 15-Q4 16 excl. DK

	Total	Under £25k	£25-100k	£100k+
Unweighted base:	642	352	165	125
No fee paid	13%	15%	7%	8%
Less than £100	23%	26%	7%	1%
£100-199	38%	44%	8%	1%
£200-399	16%	12%	43%	7%
£400-999	6%	1%	28%	20%
£1000+	4%	1%	7%	62%
Average fee paid:	£237	£120	£413	£935
Median fee paid	£96	£93	£280	£934

Q 113/114 All SMEs with new/renewed overdraft, excluding DK

Over time, the proportion paying no fee for their overdraft has remained fairly consistent, at around 1 in 5. Current data for H2 15 and H1 16 suggests a lower proportion paid no fee (around 1 in 9), with the proportion increasing back to levels previously seen for H2 2016.

Amongst those with a new/renewed overdraft who knew both what fee they had paid and the size of the facility granted, 24% paid a fee that was equivalent to less than 1% of the facility granted and a further 45% paid the equivalent of 1-2%.



Almost all of those borrowing £25,000 or more paid a fee which was the equivalent of 2% or less of the facility granted. This compares to around half of those with a facility of £10,000 or less:

- 52% of those granted a new/renewed overdraft facility of less than £10,000 paid the equivalent of 2% or less
- 89% of those granted a new/renewed overdraft facility of £10-25,000 paid the equivalent of 2% or less
- 97% of those granted a new/renewed overdraft facility of £25-100,000 paid the equivalent of 2% or less
- 96% of those granted a new/renewed overdraft facility of more than £100,000 paid the equivalent of 2% or less.

An analysis of secured and unsecured overdrafts is shown below:

Unsecured and secured overdrafts	Further analysis Q3 2015 to Q4 2016
Amount borrowed	Most unsecured overdrafts were for less than £25,000 (92%) compared to 66% of secured overdrafts.
Variable rates	Secured overdrafts were somewhat more likely to be on a variable rate (46%) than unsecured overdrafts (28%).
Fees	Secured overdrafts were somewhat more likely to attract a fee (96%) than unsecured overdrafts (82%), and the average fee charged was higher (£463 secured compared to £124 unsecured). Whilst secured overdrafts typically attracted a higher fee in absolute terms, these are typically larger facilities and the fee was more likely to be the equivalent of 2% or less of the agreed facility (80%) than was the case for unsecured overdrafts (63%).



Overdraft terms: Analysis by risk rating

Sample sizes also permit some analysis of size of facility and fees by the external risk rating of the SME granted the facility. Businesses with a minimal/low risk rating typically had a larger, secured, facility:

Further analysis by risk rating Q3 2015 to Q4 2016

Amount borrowed	Most overdrafts granted to those with an average or worse than average risk rating were for less than £25,000 (86%) compared to 68% of those granted to SMEs with a minimal or low risk rating.
Security	<p>Those with a minimal or low risk rating were more likely to have a secured overdraft (46%) than those with an average or worse than average rating (32%).</p> <p>For both groups, those borrowing more than £25,000 were more likely to have a secured facility (75% for minimal/low and 68% for average/worse than average).</p>
Variable rates	There was no difference in the type of interest rate by risk rating (35% on a variable rate for both those with a minimal/low or average/worse than average risk rating).
Fees	<p>There was relatively little difference in the proportion who paid a fee for their overdraft (90% for minimal/low and 82% for average/worse than average).</p> <p>Those with a minimal/low risk rating paid a higher fee in absolute terms (£430 v £178 for those with an average or worse than average risk rating) but this was as likely to be the equivalent of 2% or less of the agreed facility (76%) as for those with an average or worse than average risk rating (72%).</p>



Overdraft terms: Analysis by sector

Overall in the 18 months Q3 2015 to Q4 2016, 83% of overdrafts successfully applied for were facilities of £25,000 or less. On limited base sizes by sector this varied relatively little (between 79% and 95%), with the exception of Agriculture where 48% of overdrafts granted were for less than £25,000.

As the table below shows, these larger overdrafts in the Agricultural sector were also more likely to be secured:

Type 1 overdraft

Successfully sought

new/ renewed overdraft Q3 15-Q4 16 excl. DK	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Hlth SWrk	Other Comm
Unweighted base:	84*	82*	132	100	42*	73*	138	52*	90*
Any security	65%	40%	29%	38%		43%	35%	35%	29%
- property	60%	27%	16%	32%		33%	19%	35%	19%
No security	35%	60%	71%	62%		57%	65%	65%	71%

Q 106 All SMEs with new/renewed overdraft excluding DK

Overall, a third of successful Type 1 overdrafts were on a variable rate (35%). On limited base sizes, overdrafts granted to SMEs in Wholesale/Retail were less likely to be on a variable rate:

Type 1 overdraft rate

Successfully sought

new/ renewed overdraft Q3 15-Q4 16 excl. DK	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Hlth SWrk	Other Comm
Unweighted base:	78*	67*	103	85*	36*	70*	122	40*	70*
Variable rate lending	57%	36%	26%	14%		42%	45%		25%
Fixed rate lending	43%	64%	74%	86%		58%	55%		75%

Q 107 All SMEs with new/renewed overdraft excluding DK



Whilst those in Agriculture paid on average a higher fee, this is a reflection of the larger overdraft facilities successfully applied for in this sector, given that they were more likely than many other sectors to pay a fee equivalent to 2% or less of the sum borrowed:

Type 1 overdraft fees

Successfully sought

new/ renewed overdraft Q3 15-Q4 16 excl. DK	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Hlth SWrk	Other Comm
<i>Unweighted base (varies):</i>	72*	69*	104	80*	39*	55*	113	41*	69*
No fee paid	18%	23%	9%	19%		14%	14%		2%
Average fee paid	£514	£186	£312	£177		£242	£273		£139
Equivalent of 2% or less paid*	88%	59%	88%	75%		63%	57%		73%

Q 113/114 All SMEs with new/renewed overdraft excluding DK



Overdrafts: Automatic renewals

As mentioned earlier in this chapter, data is available on the fees and security pertaining to overdraft facilities that were automatically renewed. The table below shows this data for all automatic renewals that occurred between Q3 2015 and Q4 2016.

16% of these automatic renewals were in a personal name (v 14% of Type 1 overdrafts granted). They were in many ways quite similar to Type 1 overdraft events in the same period:

Overdraft rates and fees summary Q3 15-Q4 16	Automatically renewed	Type 1 overdraft event
<i>Unweighted base (varies by question):</i>	1235	830
Any security required	32%	36%
Facility on a variable rate (excluding DK)	39%	35%
No fee	20%	13%
Average fee paid	£290	£237

All SMEs with new/renewed overdraft, excluding DK



Loans: Context

As with the overdraft section above, this section is based on SMEs that had made an application for a new or renewed loan facility during the latest 18 month period which for this report is between Q3 2015 and Q4 2016.

The price of a facility will be a function, at least in part, of the size of the facility and of the business granted that facility, whether it is secured or not, and whether it is a personal or business facility.

Successful loan applications Further analysis Q3 2015 to Q4 2016

Size of applicant	<p>Of all new loans successfully applied for between Q3 2015 and Q4 2016:</p> <ul style="list-style-type: none">• 61% were granted to 0 employee SMEs• 30% to 1-9 employee SMEs• 8% to 10-49 employee SMEs• 1% to 50-249 employee SMEs.
Size of facility	<p>86% of new/renewed loans granted in the period Q3 2015 to Q4 2016 were for £100,000 or less. By size of applicant this varied from 93% of loans granted to SMEs with 0 employees to 39% of loans granted to those with 50-249 employees.</p>
Personal facilities	<p>24% of successful new/renewed loans in this period had been applied for in a personal name rather than that of the business. 99% of these loans were for £100,000 or less (albeit this is based on a small number of loans).</p> <p>35% of 0 employee SMEs with a new/renewed loan said the facility was in a personal name, while amongst those with employees very few were in a personal name (1-9%).</p> <p>Personal facilities will typically be priced differently to business facilities, so as an indication 27% of all loans agreed for less than £100,000 were applied for in a personal name, compared to 1% of loans £100k+.</p>



Analysis of loans granted by recent application quarter is shown below. Base sizes are limited and trends over time are not clear but there are currently fewer larger loans of £100k or more compared to the period Q4 2014 to Q2 2015:

Loan facility granted	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1*
By date of application	13	14	14	14	14	15	15	15	15	16
Unweighted base:	164	152	177	133	163	166	122	119	130	86*
Less than £25k	63%	59%	64%	72%	52%	63%	41%	67%	60%	70%
£25-99k	27%	23%	21%	12%	14%	13%	16%	17%	30%	19%
More than £100k	10%	19%	15%	16%	33%	24%	43%	15%	10%	11%

All successful loan applicants that recall amount granted

Loans: Security

17% of all loans were commercial mortgages (excluding don't know answers). These were much more likely to have been granted for £100,000+ and to larger applicants:

- 15% of successful applicants with 0-9 employees said their loan was a commercial mortgage
- 30% of successful applicants with 10-49 employees
- 27% of successful applicants with 50-249 employees.

All other successful loan applicants were asked whether any security was required for their loan. In line with the changes made to the questions about the security required for overdraft facilities, these questions have also been simplified and are reported in the new format below.



Smaller SMEs remained more likely to have an unsecured loan:

Security required (Loan)		0-9 emp	10-49 emps	50-249 emps
Successfully sought new/renewed loan Q3 15-Q4 16	Total			
Unweighted base:	416	152	189	75*
Commercial mortgage	17%	15%	30%	28%
Secured business loan	37%	36%	48%	55%
<i>Property (business/personal)</i>	29%	28%	42%	42%
<i>Other security (any)</i>	16%	16%	13%	19%
Unsecured business loan	46%	49%	22%	18%

Q 198a All SMEs with new/renewed loan excl. DK

Including commercial mortgages, of new/renewed loans successfully applied for in Q3 2015 to Q4 2016:

- 37% of loans granted for less than £25,000 were secured
- 86% of loans granted for £25,000 to £100,000 were secured
- 73% of those granted for more than £100,000 were secured.



Analysis by date of application at the half year level, shows that most loans granted for more than £100,000 (excluding commercial mortgages) were secured. Loans for under £100,000 were less likely to be secured, but such security has become more likely over time. Currently then, around 4 in 10 of all loans that were not commercial mortgages were secured:

% of loan facilities that were secured

Application date	H2	H1	H2	H1	H2	H1	H2	H1
Row percentages	2012	2013	2013	2014	2014	2015	2015	2016*
All loans (excluding commercial mtges)	33%	26%	35%	31%	34%	45%	41%	41%
Loans of <£100,000 (excl commercial mtges)	18%	17%	31%	24%	20%	38%	36%	
Loans of £100,000 or more (excl commercial mtges)	78%	82%	76%	72%	83%	73%	91%	

Q 200 All SMEs with new/renewed loan, excluding DK and those with commercial mortgage

Loans: Rates

Amongst those who knew, 73% said that their loan was on a fixed rate (including those with commercial mortgages). Fixed rate lending remained somewhat more common for loans than overdrafts (where 65% of facilities were on a fixed rate) and also more common for smaller loan facilities:

Type of rate (loan) by amount granted

<u>Successfully sought</u> new/renewed loan Q3 15-Q4 16	Total	<£100k	£100k+
Unweighted base:	365	235	130
Variable rate lending	27%	26%	33%
Fixed rate lending	73%	74%	67%

Q 198 All SMEs with new/renewed loan, excluding DK

Analysis by when the application took place showed that typically around 7 in 10 loans have been on a fixed rate, with no clear trend over time.



Analysis by size of loan over time is more qualitative in nature due to limited sample sizes. It suggests that between 7 and 8 in 10 loans under £100,000 were on a fixed rate. Recent loans above £100,000 were somewhat less likely to be on a fixed rate, with currently around two thirds being on a fixed rate.

Loans: Fees

72% of respondents were able to recall the arrangement fee that they paid for their loan (if any). As with overdrafts, those borrowing a smaller amount typically paid a lower fee in absolute terms:

Fee paid (loan)			
<u>Successfully sought new/renewed loan Q3 15-Q4 16</u>	Total	<£100k	£100k+
Unweighted base:	312	196	166
No fee paid	45%	49%	26%
Less than £100	12%	13%	3%
£100-199	14%	16%	1%
£200-399	10%	10%	9%
£400-999	10%	8%	21%
£1000+	10%	4%	40%
Average fee paid:	£1117	£183	£6252
Median fee paid	£20	£7	£656

Q 207/208 All SMEs with new/renewed fixed rate loan, excluding DK

Amongst those with a new/renewed loan who knew both what fee they had paid and the original loan size, 57% paid a fee that was the equivalent of less than 1% of the amount borrowed and a further 24% paid between 1-2%:

- 80% of those granted a new/renewed loan of less than £100,000 paid the equivalent of 2% or less.
- 92% of those granted a new/renewed loan of more than £100,000 paid the equivalent of 2% or less.

The proportion paying the equivalent of 2% or less has been around 8 in 10 each year with the exception of 2012 when around 7 out of 10 paid a fee of this proportion.



An analysis of unsecured and secured loans (including commercial mortgages) is shown below:

Unsecured and secured loans Further analysis Q3 2015 to Q4 2016

Amount borrowed	Almost all unsecured loans were for less than £100,000 (92%) compared to 81% of secured loans.
Fixed rates	Unsecured loans were more likely to be on a fixed rate (88%) than secured loans (62%).
Fees	Secured loans were somewhat more likely to attract a fee (66%) than unsecured loans (43%), and the average fee charged was higher (£2049 secured compared to £136 unsecured). Whilst secured loans typically attracted a higher fee in absolute terms, this was as likely to be the equivalent of 2% or less of the agreed facility (79%) as unsecured loans (83%).

Loan terms: Analysis by risk rating

Sample sizes also permit analysis of size of facility and fees by external risk rating. Those with a minimal/low external risk rating remained more likely to be typically borrowing more:

Risk rating Further analysis Q3 2015 to Q4 2016

Amount borrowed	Most successful applicants with an average or worse than average risk rating were borrowing less than £100,000 (90%) compared to 78% of those with a minimal or low risk rating.
Security	58% of loans to minimal/low risk SMEs were secured, compared to 53% of those made to those with an average/worse than average risk rating.
Fixed rates	65% of loans to minimal/low risk SMEs were on a fixed rate v 75% of those made to SMEs with an average/worse than average risk rating.
Fees	Those with a minimal/low risk rating were more likely to pay a fee at all (78% v 43% with an average/worse than average risk rating). Those with a minimal or low risk rating paid a higher average fee (£3477 v £267 for those with an average or worse than average risk rating). This in part reflects the larger facilities granted but they were less likely to have paid the equivalent of 2% or less as a fee (63% v 90% for those with an average or worse than average risk rating).



Loan terms: Analysis by sector

The small proportion of SMEs reporting a successful loan event means that base sizes for all sectors are now below 100, even across an 18 month time period and many are below 50. This section therefore cannot be reported at present.