

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



## **This chapter looks**

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



## Key findings

In 2016, 13% of all SMEs reported a borrowing event. 2% had wanted to apply for a loan or overdraft but something stopped them and so qualified as Would-be seekers of finance, leaving 84% of SMEs as Happy non-seekers who had neither applied nor wanted to apply for finance.

- Larger SMEs were somewhat more likely to have had a borrowing event but most SMEs in each size band met the definition of a Happy non-seeker.
- Excluding the Permanent non-borrowers increased the proportion of remaining SMEs reporting an event (25%) and slightly increased the proportion of Would-be seekers (4%) but most SMEs were still Happy non-seekers (70%).
- Since 2012, the proportion of 'events' has fallen (from 23% in 2012 to 13% in 2016) as has the proportion of Would-be seekers (10% to 2%) resulting in more SMEs in the Happy non-seeker category (68% to 84%)
- 29% of Happy non-seekers in 2016 were using external finance but had not applied, or felt the need to apply, for a loan or overdraft in the 12 months prior to interview.
- Expanding the definition above to include applications for other forms of finance (such as leasing) increased the proportion of 'events' to 21%, and left the Would-be seekers unchanged at 2%. 77% of SMEs were Happy non-seekers under this definition.

Amongst the small group of Would-be seekers, the main barriers to an application were discouragement, especially amongst smaller SMEs, and the process of borrowing, especially amongst larger SMEs.



A consistent 5% of SMEs reported a previous decline by a bank. Most of those who had experienced such a decline (76%) said that it had made them more reluctant to apply for finance subsequently.

- Those made more reluctant by a past decline were as likely as those who were not made more reluctant to be using external finance now (48% v 40%) and more willing to use finance to help their business grow (68% v 53%).
- However, they were also more likely to have been a Would-be seeker of finance in the previous 12 months (17% v 6%).



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

All SMEs have been allocated to one of three groups, encompassing both overdrafts and loans:

**Had an event:** those SMEs reporting any Type 1, 2 or 3 loan or overdraft borrowing event in the previous 12 months, or an automatic renewal of an overdraft facility.

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

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

## Changes to definitions over time – a summary

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

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



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

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



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

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

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

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

### Any events (overdraft and loan)

Over time – all SMES By date of interview	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
<b>Unweighted base:</b>	<b>5024</b>	<b>5038</b>	<b>5001</b>	<b>5004</b>	<b>5003</b>	<b>4500</b>	<b>4500</b>	<b>4500</b>	<b>4500</b>
Have had an event	15%	18%	16%	16%	17%	13%	15%	11%	14%
• <i>New or (auto) renewed facility</i>	13%	14%	14%	14%	15%	11%	13%	11%	12%
• <i>Type 2 or 3 events</i>	3%	6%	5%	4%	4%	3%	3%	2%	3%
Would-be seekers	3%	3%	2%	3%	5%	3%	2%	2%	2%
Happy non-seekers	82%	79%	82%	80%	78%	83%	83%	87%	84%

Q115/209 All SMEs

This shows that over recent quarters, most SMEs met the definition of a Happy non-seeker of loan or overdraft finance (84% in Q4 2016), while the proportion of Would-be seekers remained low (2% in Q4 2016). The proportion of SMEs reporting an event remained at around 1 in 6.

Happy non-seekers can, and do, use external finance (the definition is based on borrowing

events in the previous 12 months). In 2015 and H1 2016, a quarter of Happy non-seekers (25%) were using external finance, increasing in H2 2016 to 32%.

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



The table below shows the small and broadly stable proportion of Would-be seekers of loan and overdraft finance over recent quarters:

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

Q115/209 All SMEs base size varies by category



As in previous periods, SMEs with no employees were less likely to have had an ‘event’ than those with employees. Across all sizes of SME, around 8 in 10 met the definition of a Happy non-seeker of finance:

<b>Any events (Overdraft <u>and</u> loan)</b>		0	1-9	10-49	50-249
YEQ4 16 All SMES	Total	emp	emps	emps	emps
<b>Unweighted base:</b>	<b>18,000</b>	<b>3600</b>	<b>5800</b>	<b>5800</b>	<b>2800</b>
Have had an event	13%	12%	18%	21%	17%
Would-be seekers	2%	2%	3%	1%	1%
Happy non-seekers	84%	86%	79%	78%	82%

Q115/209 All SMEs- **new definitions** from Q4 2012

SMEs with employees were more likely to have experienced a borrowing event (19%). 2% met the definition of a Would-be seeker of finance, with the largest group, as overall, the Happy non-seekers (79%).

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

<b>Any events (Overdraft <u>and</u> loan)</b>					Worse/ Avge
YEQ4 16 All SMEs with a risk rating	Total	Min	Low	Avge	Avge
<b>Unweighted base:</b>	<b>18,000</b>	<b>2999</b>	<b>5535</b>	<b>4040</b>	<b>3877</b>
Have had an event	13%	15%	18%	14%	11%
Would-be seekers	2%	2%	1%	2%	3%
Happy non-seekers	84%	83%	81%	84%	85%

Q115/209 All SMEs- **new definitions** from Q4 2012

Those currently using external finance were no more or less likely to be a Would-be seeker (3% v 2% not using external finance), but remained much more likely to have had an event (33% v 2% not using external finance).



The proportion of Would-be seekers varied relatively little by sector (1-4%). More variation was seen in terms of Happy non-seekers, which accounted for 89% of those in the Health sector (who were less likely to have had an event), compared to 78% of those in Agriculture (who were more likely to have had an event):

**Any events (overdraft and loan)**

All SMEs YEQ4 16	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Hlth SWrk	Other Comm
<b>Unweighted base:</b>	<b>1200</b>	<b>1501</b>	<b>3199</b>	<b>1804</b>	<b>1203</b>	<b>1999</b>	<b>3597</b>	<b>1497</b>	<b>2000</b>
Have had an event	20%	16%	14%	18%	15%	10%	11%	10%	16%
Would-be seekers	2%	3%	2%	3%	4%	3%	2%	1%	2%
Happy non-seekers	78%	81%	84%	79%	81%	87%	87%	89%	81%

Q115/209 All SMEs

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

**Any events (overdraft and loan)**

All SMEs YEQ4 16	Starts	2-5 yrs	6-9 yrs	10-15 yrs	15+ yrs
<b>Unweighted base:</b>	<b>1807</b>	<b>1921</b>	<b>2231</b>	<b>3008</b>	<b>9033</b>
Have had an event	10%	11%	10%	16%	18%
Would-be seekers	4%	3%	2%	2%	2%
Happy non-seekers	87%	86%	89%	82%	81%

Q115/209 All SMEs



The table below takes a longer term view back to 2012, accepting the slight changes to the questionnaire made over this period (and summarised at the start of the chapter). The proportion of Happy non-seekers of finance has risen year on year, as appetite for finance fell with fewer SMEs either reporting a borrowing event or met the definition of a Would-be seeker:

<b>Any events (overdraft and loan)</b>					
<b>Over time – all SMEs</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
<b><i>Unweighted base:</i></b>	<b>20,055</b>	<b>20,036</b>	<b>20,055</b>	<b>20,046</b>	<b>18,000</b>
Have had an event	23%	17%	16%	17%	13%
Would-be seekers	10%	6%	5%	3%	2%
Happy non-seekers	68%	77%	79%	80%	84%

**Q115/209 All SMEs**

As had already been reported, SMEs with 0 employees have less of an appetite for finance, but their responses form the majority of the “All SME” figures quoted. Analysis of SMEs with employees over time shows that they have also become less likely to have had an event (from 33% in 2012 to 19% in 2016), or to have been a Would-be seeker of finance (8% to 2%). As a result, the Happy non-seekers have increased from 59% of SMEs with employees in 2012 to 79% in 2016.

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



## An expanded definition of Would-be seekers

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

YEQ4 2016, 2% of those asked the question said that yes, something had stopped them applying for one of these other forms of finance. This is the equivalent of 2% of all SMEs.

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

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

As the table below shows, the impact of including Would-be seekers of other forms of finance in a revised definition of Would-be seekers overall, is minimal. The proportion with an ‘event’ increases from 13% to 21% and the proportion of Happy non-seekers reduces accordingly:

<b>Any events (overdraft and loan)</b>		Original definition	Revised definition
YEQ4 16			
<b>Unweighted base:</b>		<b>18,000</b>	<b>18,000</b>
Have had a loan/overdraft event		13%	21%
Would-be seekers		2%	2%
Happy non-seekers		84%	77%

Q115/209i/Q222b3 All SMEs

Three quarters of those defined as a WBS in the original definition remained in this category under the new definition, while a quarter moved into the ‘event’ category because they had applied for another form of finance. 91% of HNS in the original definition remained in this category under the new definition, while 8% moved into the ‘event’ category and 1% into the WBS category. The additional Would-be seekers under the revised definition have not been included in any other analysis in this chapter.



## Barriers to overdraft or loan application

SMEs that were identified as Would-be seekers (i.e. they had wanted to apply for an overdraft/loan in the 12 months prior to their interview, but felt that something had stopped them) were asked about the barriers to making such an application.

These are reported below, firstly in terms of how frequently they were mentioned at all and secondly how frequently they were nominated as the main barrier.

The reasons have been grouped into the themes shown below, and respondents could initially nominate as many reasons as they wished for not having applied when they wanted to.

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

The key reasons given in 2016 were:

**Process of borrowing** – those who did not want to apply because they thought it would be too expensive, too much hassle etc. This had been given as a reason by 48% of all Would-be seekers in 2015 and by 32% in 2016 (the equivalent of 1% of all SMEs)

**Discouragement** – those that had been put off, either directly (they made informal enquiries of the bank and were put off) or indirectly (they thought they would be turned down by the bank so did not ask). This was given as a reason by 42% of all Would-be seekers in 2015 and by 45% in 2016 (the equivalent of 1% of all SMEs)

**Principle of borrowing** – those that did not apply because they feared they might lose control of their business, or preferred to seek alternative sources of funding. This was given as a reason by 29% of all Would-be seekers in 2015 and by 26% in 2016 (the equivalent of <1% of all SMEs)

**Current economic climate** – those that felt that it had not been the right time to borrow. This was given as a reason by 11% of all Would-be seekers in 2015 and by 13% in 2016 (the equivalent of <1% of all SMEs).



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

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

All Would-be seekers YEQ4 16 excluding DK	Total	0-9 emps	10-249 emps
<b>Unweighted base:</b>	<b>320</b>	<b>225</b>	<b>95*</b>
Issues with <u>process</u> of borrowing	32%	32%	49%
-Would be too much hassle	9%	9%	12%
-Thought would be too expensive	17%	17%	9%
-Would be asked for too much security	9%	9%	10%
-Too many terms and conditions	7%	7%	12%
-Did not want to go through process	9%	9%	7%
-Forms too hard to understand	3%	3%	6%
Discouraged (any)	45%	46%	17%
-Direct (put off by bank)	19%	19%	6%
-Indirect (thought would be turned down)	34%	34%	11%
Issues with <u>principle</u> of borrowing	26%	26%	22%
-Not lose control of business	8%	8%	6%
-Can raise personal funds if needed	11%	11%	9%
-Prefer other forms of finance	5%	5%	8%
-Go to family and friends	9%	9%	6%
Economic climate	13%	13%	15%
-Not the right time to apply	13%	13%	15%

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



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

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

<b>Main reason for not applying for loan or overdraft when wanted to</b>		<b>0-9</b>	<b>10-249</b>
<b>All Would-be seekers YEQ4 16 excluding DK</b>	<b>Total</b>	<b>emps</b>	<b>emps</b>
<b>Unweighted base:</b>	<b>318</b>	<b>225</b>	<b>93*</b>
Discouraged (any)	42%	43%	11%
-Direct (put off by bank)	15%	15%	5%
-Indirect (thought would be turned down)	27%	28%	5%
Issues with <u>process</u> of borrowing	20%	19%	43%
Issues with <u>principle</u> of borrowing	18%	18%	13%
Economic climate	10%	9%	12%
<b>None of these</b>	<b>4%</b>	<b>4%</b>	<b>17%</b>

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

Larger Would-be seekers who cited the process of borrowing as their main reason typically mentioned the hassle, terms and conditions and being asked to provide security.

Amongst all Would-be seekers with employees, the process of borrowing was as much of a barrier as discouragement. 34% reported feeling 'discouraged' while 32% cited the process of borrowing, around 1 in 6 mentioned the principle of borrowing (17%) and 1 in 12 the current economic climate (8%).



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

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

All Would-be seekers YEQ4 16 excluding DK	Total	Min/ Low	Avge/WTA
<b>Unweighted base:</b>	<b>318</b>	<b>86*</b>	<b>193</b>
Discouraged (any)	42%	11%	43%
-Direct (put off by bank)	15%	4%	17%
-Indirect (thought would be turned down)	27%	7%	26%
Issues with <u>process</u> of borrowing	20%	27%	17%
Issues with <u>principle</u> of borrowing	18%	49%	17%
Economic climate	10%	8%	10%
<b>None of these</b>	<b>4%</b>	<b>2%</b>	<b>5%</b>

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

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

Base sizes are currently too small for analysis by sector.



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

<b>Reasons for not applying for loan or overdraft when wanted to</b>		
<b>Over time – all Would-be seekers</b>	<b>2015</b>	<b>2016*</b>
<b><i>Unweighted base:</i></b>	<b>485</b>	<b>318</b>
Discouraged (any)	42%	45%
Issues with <u>process</u> of borrowing	48%	32%
Issues with <u>principle</u> of borrowing	29%	26%
Economic climate	11%	13%

Q210a All SMEs that wished they had applied for an overdraft or a loan – question changed in 2016 and now excludes DK

In both instances, the two key reasons for not applying have been discouragement (almost all of it indirect) and the process of borrowing.

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

There is no evidence of Would-be seekers giving different reasons for not applying in the second half of the year (post-Brexit) compared to the first half of the year.



Would-be seekers constitute a minority of all SMEs (2%). The table below shows, for the main reasons given by Would-be seekers for 2016, the equivalent proportion of all SMEs:

<b>Main reason for not applying</b>	<b>Would-be seekers</b>	<b>All SMEs</b>
<b>YEQ4 16</b>		
<b><i>Unweighted base:</i></b>	<b>318</b>	<b>18,000</b>
Discouraged (any)	42%	1%
-Direct (put off by bank)	15%	*
-Indirect (thought I would be turned down)	27%	*
Issues with <u>process</u> of borrowing	20%	1%
Issues with <u>principle</u> of borrowing	18%	1%
Economic climate	10%	*

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

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



## The effect of the Permanent non-borrower

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

25% of this group of SMEs excluding PNBs reported a borrowing event:

<b>Any events (Overdraft <u>and</u> loan)</b>			
YEQ4 16 – all SMES		All SMEs	All SMEs excl. PNB
<b>Unweighted base:</b>		<b>18,000</b>	<b>11,634</b>
Have had an event		13%	25%
Would-be seekers		2%	4%
Happy non-seekers		84%	70%

Q115/209 All SMEs

The proportion of Happy non-seekers declines to 70% but remains the largest group and 4% of these SMEs met the definition of a Would-be seeker, compared to 2% of all SMEs.

The table below shows the pattern over recent quarters, once the PNBs have been excluded. The proportion reporting an event had been broadly stable at around 30%, but was somewhat lower in the second half of 2016:

<b>Any events (overdraft <u>and</u> loan)</b>									
All SMES, excluding PNBs – over time									
By date of interview	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
<b>Unweighted base:</b>	<b>3153</b>	<b>3220</b>	<b>3195</b>	<b>3258</b>	<b>3338</b>	<b>2854</b>	<b>3008</b>	<b>2755</b>	<b>3017</b>
Have had an event	29%	35%	32%	30%	30%	26%	29%	23%	23%
Would-be seekers	6%	6%	4%	6%	9%	7%	4%	4%	3%
Happy non-seekers	65%	59%	64%	63%	61%	67%	67%	73%	73%

Q115/209 All SMEs excluding PNBs



Taking a longer term view, from 2012, and accepting the slight changes in definition in that time, shows that the proportion of SMEs (excluding the PNBs) reporting a borrowing event remained fairly stable between 2012 and 2015, before dropping to 25% in 2016. The proportion of Would-be seekers of finance declined more steadily over time (15% to 4%). As a result, the proportion of Happy non-seekers has increased from 51% of SMEs excluding the PNBs in 2012 to 60% in 2016:

<b>Any events (overdraft and loan)</b>					
Over time – excl PNBs	2012	2013	2014	2015	2016
<b>Unweighted base:</b>	<b>15,312</b>	<b>14,578</b>	<b>13,613</b>	<b>13,011</b>	<b>11,634</b>
Have had an event	35%	28%	28%	32%	25%
Would-be seekers	15%	10%	8%	6%	4%
Happy non-seekers	51%	62%	64%	62%	70%

Q115/209 All SMEs excl PNBs

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

<b>Main reason for not applying when wished to – YE Q4 16</b>	<b>Would-be seekers</b>	<b>All SMEs excl. pnb</b>
<b>Unweighted base:</b>	<b>318</b>	<b>11,634</b>
Discouraged (any)	42%	2%
-Direct (put off by bank)	15%	1%
-Indirect (thought I would be turned down)	27%	1%
Issues with <u>process</u> of borrowing	20%	1%
Issues with <u>principle</u> of borrowing	18%	1%
Economic climate	10%	*

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

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



## The longer term impact of previous declines

Previous qualitative research conducted amongst discouraged Would-be seekers revealed that a number of these SMEs felt discouraged due to a previous decline from a bank, which might have occurred a number of years before. In order to understand the impact of such declines on the wider SME population as a whole, a new question was added to the SME Finance Monitor from Q1 2014.

5% of SMEs reported a declined banking facility at some time in the past and this has changed very little over time:

<b>Previous decline by bank</b>	<b>All SMEs YEQ4 2016</b>
By size of SME	<p>Smaller SMEs were somewhat more likely to report a previous decline:</p> <ul style="list-style-type: none"><li>• 5% of 0 employee SMEs</li><li>• 5% of those with 1-9 employees</li><li>• 4% of those with 10-49 employees</li><li>• 2% of those with 50-249 employees</li></ul> <p>Amongst SMEs with employees, 5% had previously been declined.</p>
Excluding the PNBs	<p>Once the PNBs were excluded, 7% of remaining SMEs had experienced a previous decline (compared to 2% of PNBs).</p>
Risk rating	<p>There was little difference by risk rating (4% for all bands except for those with a worse than average rating where 6% had been declined).</p>
Use of external finance	<p>6% of those currently using external finance had experienced a previous decline, compared to 4% of those who had not used external finance in the past 5 years (and 10% of the small group that had used finance in the past but were not using it now).</p>

Amongst SMEs who had experienced a previous decline:

- 76% said that this had made them more reluctant to apply for bank finance subsequently (the equivalent of 4% of all SMEs). The smaller the SME experiencing the decline, the more likely they were to say they had been made more reluctant (79% of 0 employee SMEs that had been declined compared to 40% of such SMEs with 50-249 employees).
- By external risk rating, those declined with a worse than average risk rating were slightly more likely to have been made more reluctant (80%) than those with a minimal, low or average external risk rating (69-71%).



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

<b>Impact of previous decline by bank</b>		<b>0</b>	<b>1-9</b>	<b>10-49</b>	<b>50-249</b>
<b>All SMEs YEQ4 16</b>	<b>Total</b>	<b>emps</b>	<b>emps</b>	<b>emps</b>	<b>emps</b>
<b><i>Unweighted base:</i></b>	<b>18,000</b>	<b>3600</b>	<b>5800</b>	<b>5800</b>	<b>2800</b>
More reluctant to apply after a decline	4%	4%	4%	2%	1%
Declined but not more reluctant	1%	1%	2%	2%	1%
Have not been declined in past	95%	95%	95%	96%	98%

Q240x and Q240y All SMEs

<b>Impact of previous decline by bank</b>		<b>0</b>	<b>1-9</b>	<b>10-49</b>	<b>50-249</b>
<b>All SMEs YEQ4 16 excl PNBs</b>	<b>Total</b>	<b>emps</b>	<b>emps</b>	<b>emps</b>	<b>emps</b>
<b><i>Unweighted base:</i></b>	<b>11,634</b>	<b>1821</b>	<b>3592</b>	<b>4113</b>	<b>2108</b>
More reluctant to apply after a decline	6%	6%	6%	3%	1%
Declined but not more reluctant	1%	1%	2%	2%	1%
Have not been declined in past	93%	93%	93%	95%	97%

Q240x and Q240y All SMEs excluding PNBs



There was relatively little difference overall by risk rating:

<b>Impact of previous decline by bank</b>					
All SMEs YEQ4 16	Total	Min	Low	Avge	Worse/ Avge
<b>Unweighted base:</b>	<b>18,000</b>	<b>2999</b>	<b>5535</b>	<b>4040</b>	<b>3877</b>
More reluctant to apply after a decline	4%	3%	3%	3%	4%
Declined but not more reluctant	1%	1%	1%	1%	1%
Have not been declined in past	95%	96%	96%	96%	94%

Q240x and Q240y All SMEs

Amongst those currently using external finance, 5% had become more reluctant to apply as the result of a previous decline, compared to 7% of those that had used finance in the past five years but were not using it currently and 3% of those who have not used external finance for at least the past 5 years.

Analysis was then undertaken to see what impact this previous decline might have had on actual use of external finance and borrowing behaviour in the 12 months prior to interview. As the table below shows:

- Around half of those who had previously been declined were using any external finance, and this did not vary much by whether that decline had made them more reluctant to seek finance or not.
- Those who had never been declined were less likely to be using external finance (37%) and more likely to qualify as a Happy non-seeker of finance (86%).
- Those who reported that the decline had made them more reluctant to apply for bank finance were more likely to meet the definition of a Would-be seeker of finance (17%) than either those not put off by their decline (6%) or those who had never been declined (2%).



<b>Impact of previous decline by bank</b>		<b>Made more reluctant by decline</b>	<b>Declined but not made more reluctant</b>	<b>Not previously declined</b>
<b>All SMEs YEQ4 16</b>	<b>All SMEs</b>			
<b>Unweighted base:</b>	<b>18,000</b>	<b>491</b>	<b>288</b>	<b>17,221</b>
Using external finance	37%	48%	40%	37%
Have had an event	13%	35%	27%	12%
Would-be seekers	2%	17%	6%	2%
Happy non-seekers	84%	49%	67%	86%

Q240x and Q240y and Q115/209 All SMEs

To put these figures in context, less than 1% of all SMEs were Would-be seekers of finance who had been made more reluctant by a previous decline (the 17% group shown above).

The table below presents the same analysis once the PNBs have been excluded. This increases the use of finance amongst those with no previous decline, while those made more reluctant by a previous decline remain more likely to be a would-be seeker of finance:

<b>Impact of previous decline by bank</b>		<b>Made more reluctant by decline</b>	<b>Declined but not made more reluctant</b>	<b>Not previously declined</b>
<b>All SMEs YEQ4 16 excl PNBs</b>	<b>All SMEs</b>			
<b>Unweighted base:</b>	<b>11,634</b>	<b>428</b>	<b>217</b>	<b>10,989</b>
Using external finance	70%	58%	63%	71%
Have had an event	25%	41%	43%	24%
Would-be seekers	4%	20%	9%	3%
Happy non-seekers	70%	39%	48%	73%

Q240x and Q240y and Q115/209 All SMEs excluding PNBs

A similar pattern was seen for future borrowing intentions. Excluding the PNBs, 23% of remaining SMEs were planning to apply for finance in the next 3 months. Amongst those who had experienced a decline this proportion was higher (44%) and consequently they were less likely to meet the definition of a Future happy non-seeker of finance (29% v 54% of all SMEs excluding the PNBs).



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

<b>Impact of previous decline by bank</b>		<b>Made more reluctant by decline</b>	<b>Declined but not made more reluctant</b>	<b>Not previously declined</b>
<b>% agree – all SMEs YEQ4 16</b>	<b>All SMEs</b>			
<b><i>Unweighted base:</i></b>	<b>18,000</b>	<b>491</b>	<b>288</b>	<b>17,221</b>
Repay existing finance and remain debt free	67%	80%	72%	67%
Happy to use finance to help business grow	43%	68%	53%	42%
Plans based on what can afford ourselves	80%	79%	78%	80%

Q240x and Q240y and Q238a5 All SMEs

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