

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

In the 18 months to Q4 2016, 83% of all new and renewed loan and overdraft applications resulted in a facility:

- 99% of loan and overdraft renewals were successful and this has changed little over time.
- 71% of new money applications were successful. First time loan and overdraft applicants were less likely to be successful (60%) than those who had borrowed before (79%), but their success rate remained higher than previously seen.

86% of new or renewed overdraft applicants in the 18 months to Q4 2016 ended the process with a facility, with 79% of applicants offered the facility they wanted and taking it.

- Over time, success rates improved from 74% in the 18 months to Q4 2012 to 85% for the 18 months to Q2 2015 and have been stable since. Larger, older, SMEs with a better risk rating remained more likely to be successful.
- Analysis of overdraft applicants suggests that the current higher success rate reflects the profile of those applying (including fewer first time applicants and fewer Starts).
- 66% of first time overdraft applicants ended the process with a facility. Whilst this is lower than for those who had borrowed before (86%), it maintains the improvement seen between the 18 months to Q4 2013 (when 34% of first time applicants were successful) and the 18 months to Q2 2015 (when 66% were successful).



74% of loan applicants in the 18 months to Q4 2016 ended the process with a facility, with 59% of applicants offered the facility they wanted and taking it.

- Over time, success rates improved from 59% for the 18 months to Q4 2012 to 74% for the 18 months to Q4 2015 and have been stable since. Larger, older, SMEs and those who do not have a worse than average risk rating remained more likely to be successful.
- 51% of first time loan applicants ended the process with a facility. As with loans this is lower than for those who had borrowed before (81%). Unlike overdrafts there has not been the same level of increase in success rates for first time applicants (in the 18 months to Q4 2013, 45% of first time loan applicants were successful).



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 Q1 2016 onwards remains interim.

7% of loan and 5% of overdraft applicants in the 18 months to Q4 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 recent quarters of application (since Q4 2013).

Final outcome (Overdraft+Loan)

SMEs seeking new/
renewed facility – by
date of application

	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1* 2016	Q2* 2016
Unweighted base:	589	537	582	443	531	505	423	382	388	311	162
Offered what wanted and took it	56%	63%	64%	70%	68%	72%	64%	76%	68%	74%	76%
Took facility after issues**	16%	16%	11%	18%	10%	11%	14%	10%	11%	7%	11%
Have facility (any)	72%	79%	75%	88%	78%	83%	78%	86%	79%	81%	87%
Took another form of funding	6%	8%	7%	2%	6%	1%	6%	3%	*	9%	4%
No facility	23%	14%	18%	10%	16%	16%	16%	11%	21%	10%	9%

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 around 8 in 10 applications have been successful with initial data for 2016 suggesting this trend is continuing: In the first half of 2016, 83% of applicants ended the process with a facility, while indicative data for the second half of 2016 reports a success rate of 76%.



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 4 columns is now

complete and the data for the 18 months to Q2 2016 will be completed in mid-2017.

The current position for the 18 months to Q4 2016 is that 83% of all loan and overdraft applications have been successful. Renewals remained more likely to be successful (99%) than applications for new money (71%), and overdraft applications more likely to be successful (86%) than loans (73%). At this stage, these most recent success rates are in line with the equivalent applications in the 18 months to Q4 2015 and have been consistent in recent periods:

% of applicants ending process with facility – Summary table

Over time – row percentages	Q3 11	Q3 12	Q3 13	Q3 14	Q1 15	Q3 15-
By 18 month period of application	Q4 12	Q4 13	Q4 14	Q4 15	Q2 16*	Q4 16*
All loans and overdrafts	69%	68%	77%	82%	83%	83%
Loans and overdrafts - New money	54%	49%	65%	70%	69%	71%
• First time applicants	41%	39%	55%	60%	63%	60%
• Other new money	70%	69%	74%	77%	73%	79%
Loans and overdrafts - Renewals	94%	96%	97%	100%	100%	99%
All overdrafts	74%	74%	83%	86%	86%	86%
All loans	59%	58%	66%	74%	75%	73%

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 also shows that the overall success rate for loans and overdrafts combined has increased over time. From two thirds of applications being successful in the 18 months to both Q4 2012 and Q4 2013, success rates increased to 82% for the 18 months to Q4 2015 and 83% 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 have also increased over time.



More detailed analysis of all Type 1 applications (i.e. loans and overdrafts 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.

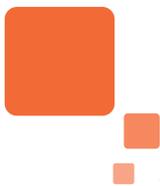
How SMEs got to the final outcome – the initial response from the bank

This analysis is based on SMEs that made an application for a new or renewed loan or overdraft facility during the 18 months from Q3 2015 to Q4 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 81% of overdraft applications was to offer the SME what it wanted, compared to 65% 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 Q3 15-Q4 16	Total	emp	emps	emps	emps
<i>Unweighted base:</i>	889	99*	304	335	151
Offered what wanted	81%	78%	85%	91%	97%
Offered less than wanted	6%	7%	4%	2%	3%
Offered unfavourable terms & conditions	2%	2%	3%	5%	*
Declined by bank	11%	13%	8%	2%	*

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



Initial response (Loan)		0	1-9	10-49	50-249
<u>Sought new/renewed facility Q3 15-Q4 16</u>	Total	emps	emps	emps	emps
Unweighted base:	487	53*	150	204	80*
Offered what wanted	65%	62%	65%	83%	91%
Offered less than wanted	5%	4%	8%	7%	5%
Offered unfavourable terms & conditions	4%	4%	5%	4%	4%
Declined by bank	25%	30%	22%	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 Q3 2015-Q4 2016

Initial response to applicants with employees	86% were initially offered the overdraft they wanted and 69% the loan they wanted. Such applicants were less likely to have been declined at this stage – 7% of overdraft applicants and 18% of loan applicants with employees were initially declined by the bank.
Applicants more likely to be offered what they wanted	Those applying to renew an existing facility: 98% were offered the overdraft they wanted, 90% the loan. Those with a minimal external risk rating: 95% were offered the overdraft they wanted, 96% the loan.
Applicants more likely to receive initial decline	Those applying for their first ever facility: 25% were initially declined for a first overdraft, 47% for a first loan. Those with a worse than average external risk rating: 14% were initially declined for an overdraft, 43% 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 typically offered what they wanted (87% for Q2 2016) and indicative data for the second half of 2016 is that this continues to be the case:

Initial response to application

SMEs seeking new/
renewed overdraft
facility

	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1*	Q2*
By date of application	13	14	14	14	14	15	15	15	15	16	16
Unweighted base (Overdraft):	379	356	367	285	340	320	280	250	237	215	105
Offered what wanted and took it	65%	72%	73%	73%	79%	77%	72%	82%	74%	86%	87%
Any issues (amount or T&C)	12%	16%	11%	9%	9%	8%	12%	8%	13%	3%	3%
Declined overdraft	23%	13%	16%	18%	11%	15%	16%	10%	13%	12%	10%

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. Current data for Q1 2016 shows that the proportion offered what they wanted was somewhat lower than in the second half of 2015, but indicative data for the second half of 2016 shows something of an improvement:

Initial response to application:

SMEs seeking new/ renewed loan 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 (Loan)	183	210	181	215	158	191	185	143	132	151	96*
Offered what wanted and took it	53%	45%	57%	57%	66%	49%	66%	48%	69%	69%	49%
Any issues (amount or T&C)	16%	20%	8%	9%	18%	22%	18%	27%	10%	2%	18%
Declined loan	31%	35%	34%	35%	16%	29%	16%	25%	20%	28%	33%

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 Q3 2015 to Q4 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. 8 in 10 overdraft applicants (80%) and 6 in 10 loan applicants (59%) were offered the facility they wanted and went on to take it with no issues:

Journey summary

All seeking facility Q3 15 – Q4 16

	Overdraft	Loan
Unweighted base:	889	487
Initially offered what they wanted and went on to take the facility with no issues	80%	59%
Initially offered what they wanted, but had issues before they got facility	2%	6%
Had issues with the initial offer, and now have a facility after issues	5%	9%
Were initially turned down, but now have a facility after issues	1%	*
Had issues with the initial offer made so took alternative funding instead	1%	-
Were initially turned down, so took alternative funding instead	3%	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%	*
Initially turned down and now have no facility at all	6%	21%

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

78% of those overdraft applicants who ended the process with no facility had been declined by the bank initially, while the remaining 22% had had issues with the offer made so did not take the facility.

For loans, 98% of the applicants who ended the process with no facility had been initially declined by the bank, leaving 2% that were made an offer but in the end did not take the facility.

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.



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 and high success rates, 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, while the “Initially declined” group provides only a qualitative assessment:

Profile of overdraft applicants Sought new/renewed facility Q3 15-Q4 16	All with response	Offered what wanted	Had issues with offer	Initially declined
Unweighted base:	889	784	61*	44*
No employees	61%	59%	66%	75%
Have employees	39%	41%	34%	25%
Starts	14%	10%	23%	31%
Trading 2-9 years	28%	24%	36%	53%
Trading 10 years+	58%	65%	41%	17%
Minimal/low risk rating	31%	33%	27%	19%
Average/worse than average risk rating	69%	67%	73%	81%
Renewing existing facility	50%	61%	7%	2%
Applying for first ever overdraft	23%	17%	42%	54%
Applying for new overdraft but not first	6%	5%	6%	12%

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

The table shows the continuing 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 their first facility.

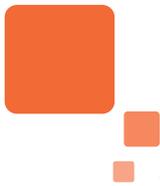


The subsequent journey – those who received an offer of an overdraft

Summarised below for all applications made in the 18 months Q3 2015 to Q4 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 Q3 2015 to Q4 2016
Offered what wanted (81% of applicants) Q64-65	98% 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 waiting for a decision, supplying further information, or valuations.
Issue: offered less than wanted (6% of applicants) Q87-95	18% said they were not given a reason for being offered less (excluding those who couldn't remember). The main reasons given were: <ul style="list-style-type: none">• No/insufficient security - 26% of those offered less than they wanted• Credit history issues (22%)• 19% said they were told their industry was 'too risky'• Had too much borrowing already (10%), applied for too much (7%), or a need for more equity in the business (5%). <p>At the end of the process:</p> <ul style="list-style-type: none">• 45% ended up accepting the amount originally offered (almost all, 42% at the original bank)• 25% managed to negotiate a higher facility at the original bank (none at another bank)• 16% took some other form of funding• 14% 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 (2% of applicants)

Q96-97

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

- the proposed interest rate – mentioned by 43% of these applicants
- security (the amount, type sought or cost of putting it in place) –26%
- the proposed fee – 4%.

At the end of the process:

- 16% 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 (15%, with 1% at another bank).
- 5% accepted the deal they were offered (almost all at the original bank)
- 21% took other funding (typically funding in a personal name)
- 59% 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 (11% of all applicants):

Initially declined	Subsequent events – all seeking overdraft Q3 2015 to Q4 2016
Reasons for decline Q70	<p>Those declined were asked for the reasons behind the initial decline. 19% 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">• 48% said the decline related to their personal and/or business credit history• 22% asked for too much• 11% mentioned issues around security• 11% mentioned needing more equity.
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">• 26% were offered an alternative form of finance by the bank• 17% were referred to external sources of help and advice (7% by the bank, and 17% sought it themselves)• 11% said they were made aware of the appeals process (all by the bank)• 59% said that none of these events occurred.



Initially declined

Subsequent events – all seeking overdraft Q3 2015 to Q4 2016

Appeals

Q71a-75

From April 2011, an appeals procedure has been in operation. 11% of applicants initially declined Q3 2015 to Q4 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 declined 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 was 19% but for 2016 to date is 7%.

To maximise base sizes, of all overdraft applications declined since Q3 2014, 24 were made aware of the appeals process having initially been declined, with 3 SMEs going on to appeal. In 1 instance the bank changed its decision, in 2 the original decision was upheld.

Those who did not appeal typically said it was too much hassle and/or they did not think it would change anything.

Outcome

Q81-84

At the end of this period:

- 57% of applicants initially declined had no funding at all.
- 13% of the SMEs initially declined had managed to secure an overdraft, typically with the original bank rather than an alternative supplier.
- 30% secured alternative funding, with mentions of facilities in a personal name 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 Q3 2015 to Q4 2016, irrespective of when they were interviewed.

Most of these applicants (79%) had the overdraft facility they wanted, and a further 7% secured an overdraft after having issues relating to the amount or the terms and conditions of the bank’s offer. 8% of all applicants ended the process with no overdraft. Note that this table does **not** include automatically renewed overdrafts.

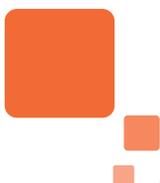
Final outcome (Overdraft)	All overdraft Type 1 applicants
Sought new/renewed facility Q3 15-Q4 16	
Unweighted base:	889
Offered what wanted and took it	79%
Took overdraft after issues	7%
Have overdraft (any)	86%
Took another form of funding	5%
No facility	8%

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.

This table shows a consistent success rate over recent 18 month periods for overdraft

applicants (currently 86%) which is higher than in earlier 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	Q1 15 Q2 16*	Q3 15 Q4 16*
All SMEs	74%	77%	83%	85%	86%	85%	86%
0 employee	68%	70%	78%	80%	81%	81%	83%
1-9 employees	79%	83%	88%	91%	91%	92%	91%
10-49 employees	91%	92%	93%	94%	96%	96%	97%
50-249 employees	96%	97%	95%	96%	97%	98%	99%
Minimal external risk rating	96%	95%	95%	97%	98%	98%	98%
Low external risk rating	91%	91%	93%	94%	93%	91%	90%
Average external risk rating	83%	83%	92%	90%	92%	91%	95%
Worse than average external risk rating	59%	63%	72%	79%	81%	82%	79%
Agriculture	90%	91%	93%	95%	95%	94%	96%
Manufacturing	71%	68%	76%	84%	89%	87%	93%
Construction	75%	80%	83%	80%	70%	66%	56%
Wholesale/Retail	69%	70%	78%	81%	86%	83%	90%
Hotels & Restaurants	65%	73%	82%	90%	91%	93%	89%
Transport	53%	55%	67%	82%	87%	95%	91%
Property/Business Services etc.	71%	75%	82%	91%	93%	95%	94%
Health	87%	88%	94%	80%	82%	84%	97%
Other Community	94%	94%	96%	85%	87%	85%	95%
First time applicants	34%	40%	54%	66%	66%	68%	66%
Increasing an existing facility	78%	72%	77%	73%	85%	81%	86%
Renewals	98%	99%	99%	100%	100%	100%	98%

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 Q3 2015 to Q4 2016

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. Those with 0 employees remained more likely to end the process with no facility, albeit 83% were successful and this has increased over time:

Final outcome (Overdraft)					
<u>Sought new/renewed facility Q3 15-Q4 16</u>	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	889	99*	304	305	151
Offered what wanted and took it	79%	77%	81%	89%	94%
Took overdraft after issues	7%	6%	10%	8%	5%
Have overdraft (any)	86%	83%	91%	97%	99%
Took another form of funding	5%	7%	2%	1%	*
No facility	8%	10%	8%	3%	1%

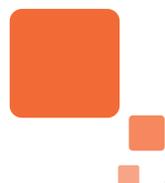
All SMEs seeking new/renewed overdraft facility that have had response

Amongst applicants with employees, 92% ended the process with an overdraft facility (83% offered what they wanted and 9% had an overdraft after issues). 7% 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:

Final outcome (Overdraft)					
<u>Sought new/renewed facility Q3 15-Q4 16</u>	Total	Min	Low	Average	Worse/ Avge
Unweighted base:	889	139	297	219	164
Offered what wanted and took it	79%	91%	82%	83%	72%
Took overdraft after issues	7%	7%	8%	12%	7%
Have overdraft (any)	86%	98%	90%	95%	79%
Took another form of funding	5%	2%	*	*	10%
No facility	8%	*	9%	5%	11%

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



There were few differences in success rate by sector, with the exception of applicants in Construction who remained the least likely to have been successful (56%) and the most likely to end the process with no facility (24%):

Final outcome (Overdraft)

<u>Sought</u> new/renewed facility Q3 15–Q4 16	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Hlth SWrk	Other Comm
Unweighted base:	92*	89*	160	109	51*	82*	152*	58*	96*
Offered what wanted and took it	93%	89%	47%	87%	78%	77%	85%	91%	87%
Took overdraft after issues	3%	4%	9%	3%	11%	14%	9%	6%	8%
Have overdraft (any)	96%	93%	56%	90%	89%	91%	94%	97%	95%
Took another form of funding	4%	1%	19%	5%	-	6%	1%	2%	*
No facility	1%	6%	24%	5%	11%	4%	6%	2%	5%

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 (29%). However, the current success rate for first time applicants, at 66%, 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</u> new/renewed facility Q3 15–Q4 16	Total	1 st overdraft	Increased overdraft	Renew overdraft
Unweighted base:	889	102	137	526
Offered what wanted and took it	79%	57%	73%	96%
Took overdraft after issues	7%	9%	13%	2%
Have overdraft (any)	86%	66%	86%	98%
Took another form of funding	5%	4%	12%	1%
No facility	8%	29%	1%	1%

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 limited base sizes, success rates for this group appear to be somewhat lower than for first time applicants, with more taking other forms of funding.

The final piece of combined analysis for applications made in the 18 months to Q4 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 new/renewed facility Q3 15-Q4 16</u>		2-5	6-9	10-15	15+
By age of business	Starts	yrs	yrs	yrs	yrs
Unweighted base:	60*	82*	83*	150	514
Offered what wanted and took it	61%	59%	88%	84%	90%
Took overdraft after issues	2%	19%	7%	4%	5%
Have overdraft (any)	63%	78%	95%	88%	95%
Took another form of funding	16%	5%	-	1%	4%
No facility	21%	17%	5%	10%	1%

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. 52% of the Starts in the table above and 56% of applicants trading for 2-5 years were applying for their first overdraft, where success rates are typically lower. Amongst the oldest applicants, 4% were applying for their first overdraft and this group were much more likely to be renewing an overdraft (73% v 26% of Starts), where success rates are typically higher.



For the last few quarters a consistent 4 in 10 overdraft 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 2 in 10, 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 was maintained for 2015 before increasing to 8 in 10 for 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. 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	Q4 13	Q1 14	Q2 14	Q3 14	Q4 14	Q1 15	Q2 15	Q3 15	Q4 15	Q1* 16	Q2* 16
Unweighted base:	379	356	367	285	340	320	280	250	237	215	105
Offered what wanted and took it	64%	68%	71%	73%	78%	77%	71%	80%	72%	85%	87%
Took overdraft after issues	10%	17%	13%	15%	11%	8%	9%	9%	12%	2%	3%
Have overdraft (any)	74%	85%	84%	88%	89%	85%	80%	89%	84%	87%	90%
Took other funding	5%	7%	4%	1%	4%	1%	6%	3%	*	9%	6%
No facility	21%	8%	12%	11%	7%	14%	14%	8%	16%	5%	4%

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

Base sizes for the 2 quarters post Brexit (Q3 and Q4 2016) do not yet allow for the analysis shown above, but a qualitative assessment of the applications reported to date across H2 2016 suggests 8 in 10 applicants were successful.

To set all 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 which showed that size, risk rating and purpose of facility all affect the outcome of applications.



Over time, there have been 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 is currently 49%, up from 40% in 2015. Over time, the proportion with this rating has varied, having increased from 43% in 2010 to 53% for 2012, before falling to 40% in 2015 and then increasing again.
- The proportion of first time applicants has remained consistent across 2015 and 2016 (21%) having declined from a peak of 30% in 2012.
- Starts have made up 12-16% of applicants since 2013.

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	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1*	Q2*
	13	14	14	14	14	15	15	15	15	16	16
Unweighted base:	379	356	367	285	340	320	280	250	237	215	105
Have overdraft (any)	74%	85%	84%	88%	89%	85%	80%	89%	84%	87%	90%
Predicted success rate	79%	84%	84%	85%	83%	86%	87%	86%	83%	85%	82%
Difference	-5	+1	-	+3	+6	-1	-7	+3	+1	+2	+8

Final outcome of overdraft application by date of application

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

- In 2014, success rates were in line with, or marginally ahead of those predicted.
- The first half of 2015 saw higher predicted success rates, which were not initially matched by the success rates achieved, but with an improving picture in the second half of the year.
- Interim data for the first half of 2016 suggests current success rates are somewhat ahead of those predicted.



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 known to have been agreed in the same period are included. There have been more automatic overdraft renewals than Type 1 events, so the overall overdraft success rate increases from 86% to 95%:

Final outcome (Overdraft)	Type 1 events	Type 1 + automatic renewal
Sought new/renewed facility Q3 15-Q4 16		
<i>Unweighted base:</i>	889	2124
Offered what wanted and took it	79%	29%
Took overdraft after issues	7%	3%
<i>Automatic renewal</i>	-	63%
<i>Have overdraft (any)</i>	86%	95%
Took another form of funding	5%	2%
No facility	8%	3%

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

Amongst those who reported the automatic renewal of an overdraft facility between Q3 2015 and Q4 2016, 16% said that the facility was renewed in a personal capacity. As with Type 1 events, such renewals were typically for 0 employee SMEs (82% of those automatically renewing a personal facility).



The impact of personal borrowing on overdraft applications

15% of those making an overdraft application in the past 18 months (Q3 2015 to Q4 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 56% of business applicants)
- 74% were applying for £5,000 or less (v 34% of business applicants)
- However there was less of a difference by risk rating than previously seen (46% had a worse than average risk rating v 45% 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, while those applying in a personal capacity have in the past typically been somewhat less likely to have ended the process with a facility, this was not the case for the 18 months to Q4 2016 (82% v 88% of business applicants) nor were they more likely to have ended the process with no facility at all (7% v 9% of business applicants).



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 Q3 2015 to Q4 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 Q3 15-Q4 16	All with response	Offered what wanted	Had issues with offer	Initially declined
<i>Unweighted base:</i>	487	378	54*	55*
No employees	62%	59%	52%	73%
Have employees	38%	41%	48%	27%
Starts	27%	20%	10%	51%
Trading 2-9 years	25%	25%	19%	26%
Trading 10 years+	48%	55%	71%	23%
Minimal/low risk rating	24%	29%	34%	4%
Average/worse than average risk rating	76%	71%	66%	96%
Renewing existing facility	7%	10%	7%	*
Applying for first ever loan	29%	21%	19%	53%
Applying for new loan but not first	43%	48%	48%	30%

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

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



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

Summarised below for all loan applications made in the 18 months Q3 2015 to Q4 2016 (and reported to date), is what happened after the bank's initial response. Base sizes for some groups remain very limited.

Initial bank response Subsequent events – all seeking loan Q3 2015 to Q4 2016

Offered what wanted
(65% of applicants)

Q159-164

92% of those offered what they wanted went on to take the loan with no problems.

7% took the loan after some issues (typically having to supply more information, waiting for security valuations or for a decision to be made).

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
(5% of applicants)

Q182-190

Note that there are just 29 respondents for this section, and so results are qualitative at best.

5% of applicants said that they had not been given a reason for being offered less than they wanted. The main reasons given included:

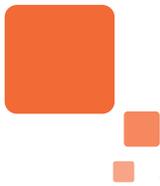
- Security issues (a third of these SMEs)
- Credit issues (1 in 7)
- Around 1 in 7 mentioned applying for too much.

At the end of the process:

- 9 in 10 accepted the lower amount offered (from the original bank or elsewhere)
- A few managed to negotiate a better deal, predominantly with another bank
- None took other borrowing
- 1 in 10 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 (4% of applicants)

Q191-195

Note that there are just 25 respondents for this section, and so results are qualitative at best.

The unfavourable terms (excluding those who didn't know) typically related to the proposed interest rate (a third of these SMEs) or the proposed fee (almost half of these applicants) There were few mentions of issues around security (level, type requested and/or cost).

By the end of the process two thirds had agreed a facility with their main bank with about half improving on the deal initially offered. 6% had no facility.



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 (25% of applicants – 55 respondents).

Initially declined	Subsequent events – all seeking loan Q3 2015 to Q4 2016
Reasons for decline Q165	<p>16% 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">• 4 in 10 said that the decline related to their personal and/or business credit history (especially smaller applicants).• 1 in 10 said that they had too much existing borrowing and the same proportion mentioned a weak balance sheet.• A few mentioned issues around security.
Advice and alternatives Q165b	<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">• 1 in 6 were offered an alternative form of finance by the bank.• The same proportion were referred to external sources of help and advice (mostly by the bank).• 1 in 8 said they were made aware of the appeals process (half by the bank and half by someone else).• 6 in 10 said that none of these events occurred (in line with those initially declined for an overdraft).



Initially declined

Subsequent events – all seeking loan Q3 2015 to Q4 2016

Appeals

Q168-170

From April 2011, an appeals procedure was introduced. Amongst this group of applicants who were initially declined, 12% said that they were made aware of the appeals process. Awareness of the appeals system has varied between 6% and 14% since 2012 but is 18% for 2016 to date.

Taking a longer-term view to maximise base sizes, of all loan applications reported on the Monitor from Q3 2014, 29 SMEs were made aware of the appeals process having initially been declined. 11 went on to appeal: in 5 instances the bank changed its decision, in 5 the original decision was upheld and 1 was still waiting to hear at the time of interview.

Those who didn't appeal typically didn't think it would have changed anything or felt it was too much hassle.

Outcome

Q176

At the end of this period:

- 2% of those initially declined for a loan had managed to secure a loan with either the original bank or a new supplier.
- 13% had secured alternative funding, with friends/family most likely to be mentioned.
- 85% 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 Q3 2015 to Q4 2016, irrespective of when they were interviewed.

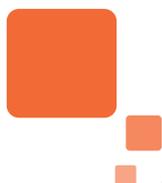
Three quarters (73%) of loan applicants now have a loan facility. 23% of applicants ended the process with no facility.

Final outcome (Loan)	All loan Type 1 applicants
<u>Sought</u> new/renewed facility Q3 15-Q4 16	
<i>Unweighted base:</i>	487
Offered what wanted and took it	59%
Took loan after issues	14%
<i>Have loan (any)</i>	73%
Took another form of funding	3%
No facility	23%

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.

Over the periods shown in the table loan success rates have improved from around 60% to over 70% of applications with improvements seen across all size bands. First time loan applicants have not seen the sort of increase in success rates reported by other loan applicants, or 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	Q1 15 Q2 16*	Q3 15 Q4 16*
All SMEs	58%	58%	66%	69%	74%	75%	73%
0 employee	52%	52%	59%	62%	68%	72%	70%
1-9 employees	61%	63%	72%	76%	78%	76%	75%
10-49 employees	85%	85%	87%	88%	91%	93%	96%
50-249 employees	87%	92%	94%	95%	96%	98%	99%
Minimal external risk rating	82%	75%	80%	89%	98%	99%	99%
Low external risk rating	78%	79%	85%	83%	88%	88%	94%
Average external risk rating	63%	64%	74%	73%	84%	88%	92%
Worse than average external risk rating	46%	47%	52%	51%	53%	59%	57%
Agriculture	86%	86%	86%	91%	94%	94%	96%
Manufacturing	67%	74%	83%	87%	60%	58%	49%
Construction	56%	53%	58%	56%	63%	58%	56%
Wholesale/Retail	47%	49%	63%	66%	77%	82%	92%
Hotels & Restaurants	55%	48%	55%	66%	71%	65%	63%
Transport	42%	47%	48%	51%	47%	60%	64%
Property/Business Services etc.	58%	57%	63%	68%	87%	92%	83%
Health	57%	54%	76%	78%	88%	84%	78%
Other Community	62%	69%	72%	75%	71%	78%	75%
First time applicants	45%	45%	55%	53%	51%	54%	51%
Other new facility	60%	59%	71%	78%	86%	82%	81%
Renewals	89%	82%	76%	82%	96%	100%	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 Q3 2015 to Q4 2016

Smaller loan applicants remained less likely to end the process with a facility. Most applicants with 10-249 employees had a loan, while a quarter of the smaller applicants ended the process with no facility:

Final outcome (Loan)		0	1-9	10-49	50-249
<u>Sought</u> new/renewed facility Q3 15-Q4 16	Total	emps	emps	emps	emps
Unweighted base:	487	53*	150	204	80*
Offered what wanted and took it	59%	58%	59%	74%	80%
Took loan after issues	14%	12%	16%	22%	19%
Have loan (any)	73%	70%	75%	96%	99%
Took another form of funding	3%	5%	1%	1%	-
No facility	23%	25%	24%	3%	2%

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

Amongst loan applicants with employees, 79% ended the process with a loan (62% were offered what they wanted and 17% had the loan after issues). 19% ended the process with no loan facility.

Compared to overdrafts, there was a clearer difference in outcome for those with a worse than average external risk rating who remained 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 Q3 15-Q4 16	Total				
Unweighted base:	487	75*	170*	115*	88*
Offered what wanted and took it	59%	83%	63%	76%	46%
Took loan after issues	14%	17%	31%	16%	11%
Have loan (any)	73%	99%	94%	92%	57%
Took another form of funding	3%	-	*	-	6%
No facility	23%	1%	6%	9%	37%

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. Those in Agriculture and Wholesale/Retail were the most likely to end the process with a loan, while those in the Manufacturing or Construction sector were less likely to end the process with a facility:

Final outcome (Loan)

<u>Sought new/renewed facility Q3 15-Q4 16</u>	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Hlth SWrk	Other Comm
<i>Unweighted base:</i>	52*	47*	68*	59*	47*	53*	71*	48*	42*
Offered what wanted and took it	95%	38%	52%	73%	42%	45%	76%	42%	
Took loan after issues	1%	11%	4%	19%	21%	19%	7%	36%	
<i>Have loan (any)</i>	96%	49%	56%	92%	63%	64%	83%	78%	
Took another form of funding	-	-	-	-	1%	11%	1%	-	
No facility	4%	51%	44%	8%	36%	25%	16%	22%	

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 (38%). Most other applicants were successful:

Final outcome (Loan)				
<u>Sought new/renewed facility Q3 15-Q4 16</u>	Total	1st loan	New loan	Renew loan
<i>Unweighted base:</i>	487	117	185	54*
Offered what wanted and took it	59%	44%	69%	63%
Took loan after issues	14%	7%	12%	37%
<i>Have loan (any)</i>	73%	51%	81%	100%
Took another form of funding	3%	11%	*	-
No facility	23%	38%	18%	-

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 (52%) – 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 applying for a new loan but not their first):

Final outcome (Loan)

<u>Sought</u> new/renewed facility Q3 15-Q4 16		2-5	6-9	10-15	15+
By age of business	Starts	yrs	yrs	yrs	yrs
Unweighted base:	48*	47*	60*	68*	264
Offered what wanted and took it	43%	63%	44%	68%	72%
Took loan after issues	9%	13%	23%	14%	16%
Have loan (any)	52%	76%	67%	82%	88%
Took another form of funding	11%	1%	-	-	*
No facility	37%	23%	33%	18%	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 7 in 10 for applications in 2015 and 2016 to date.

Applications for larger amounts (£100,000+) have been 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.



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)

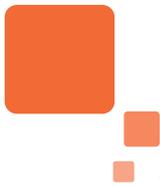
SMEs seeking new/
renewed facility

By date of application	Q3 13	Q4 13	Q1 14	Q2 14	Q3 14	Q4 14	Q1 15	Q2 15	Q3 15	Q4 15	Q1* 16
Unweighted base:	183	210	181	215	158	191	185	143	132	151	96*
Offered what wanted and took it	46%	42%	52%	54%	64%	47%	62%	45%	67%	62%	46%
Took loan after issues	15%	26%	12%	7%	24%	9%	19%	28%	11%	9%	20%
Have loan (any)	61%	68%	64%	61%	88%	56%	81%	73%	78%	71%	66%
Took another form of funding	3%	8%	9%	12%	4%	10%	*	4%	5%	-	11%
No facility	36%	24%	26%	27%	8%	34%	19%	23%	17%	29%	23%

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

There is currently insufficient data to report on applications post Brexit (Q3 and Q4 2016) but initial indications are that around 7 in 10 applications resulted in a facility.

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 time, where robust data is available:

- Starts: 29% of current applicants are Starts, up from 19% in 2015. Over time the proportion has varied – the proportion of Starts increased from 15% in 2010 to 23% in 2012, before declining to 16% in 2014 and then increasing again to the 29% seen currently.
- First time applicants: currently 37% of applicants are applying for the first time, up from 26% in 2015. This proportion has also varied over time, initially increasing between 2010 and 2012 from 20% to 43%, then declining to 26% for 2015.
- The proportion of applicant SMEs with a worse than average external risk rating: Half of current applicants have this rating, up from 33% in 2015. In 2013, 53% of applicants had this rating, before the proportion then declined to 33% in 2015.

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 sub-set 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 increased during 2014, peaking at 80% for Q1 2015 but has declined somewhat since then:

Final outcome (Loan)

SMEs seeking new/
renewed 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:	183	210	181	215	158	191	185	143	132	151	96*
Have loan (any)	61%	68%	64%	61%	88%	56%	81%	73%	78%	71%	66%
Predicted success rate	66%	65%	70%	69%	71%	71%	80%	78%	79%	73%	72%
Difference	-5	+3	-6	-8	+17	-15	+1	-5	-1	-2	-6

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 at 71%. The lower predicted success rates for Q4 2015 and Q1 2016 have been reflected in the actual success rates achieved.



The impact of personal borrowing on loan applications

22% of those making a loan application in the past 18 months (Q3 2015 to Q4 2016) said that the facility they had sought was in a personal capacity, compared to 15% for overdrafts.

On a limited sample, those applying in a personal capacity were less likely to have employees (19% v 45% of those applying in a business capacity) or to be seeking a loan in excess of £25,000 (20% v 34% for those applying in a business capacity) but were no more likely to have a worse than average

external risk rating for the business (48% v 45% 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 no less likely to have ended the process with a facility (75% v 73% of business applicants) or to have ended the process with no facility (25% v 23% of business applicants).



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 Q3 2015 and Q4 2016) and which have been reported to date.

83% of all loan and overdraft applications in the 18 months to Q4 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 (71%). 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 Q3 15 – Q4 16		
<i>Unweighted base of applications:</i>	699	580
Offered what wanted and took it	60%	94%
Took facility after issues	11%	5%
<i>Have facility (any)</i>	71%	99%
Took another form of funding	7%	1%
No facility	22%	1%

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	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1*
	13	13	14	14	14	14	15	15	15	15	16
Unweighted base of applications:	252	242	244	255	200	237	246	193	168	152	145
Offered what wanted and took it	90%	89%	79%	79%	89%	91%	95%	97%	97%	89%	99%
Took facility after issues	8%	9%	19%	11%	11%	7%	5%	3%	3%	11%	1%
Have facility (any)	98%	98%	98%	90%	100%	98%	100%	100%	100%	100%	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 outcome for applications for **new** funds (whether first time applicants or not) made over recent quarters is shown in the table below. There is variability by quarter:

Final outcome (Overdraft+ Loan) – applications for new money											
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 of applications:	253	304	262	305	219	264	233	205	182	201	155
Offered what wanted and took it	43%	40%	53%	55%	58%	59%	55%	37%	61%	59%	55%
Took facility after issues	13%	19%	13%	10%	23%	12%	10%	21%	13%	11%	12%
Have facility (any)	56%	59%	66%	65%	81%	71%	65%	58%	74%	70%	67%
Took another form of funding	7%	9%	13%	8%	3%	10%	2%	11%	6%	*	16%
No facility	38%	32%	21%	26%	16%	20%	32%	31%	20%	30%	17%

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 41% of all new money applications in the 18 months to Q4 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 Q4 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 (79%) than those who were applying for the first time (60%) and this has been a consistent trend over time:

Final outcome – new money

Loans and Overdrafts combined Q3 15 – Q4 16	First time applicants	Other new money
Unweighted base of applications:	219	480
Offered what wanted and took it	52%	66%
Took facility after issues	8%	13%
Have facility (any)	60%	79%
Took another form of funding	7%	7%
No facility	33%	14%

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

Over time, the success rate for first time loan/overdraft applicants has increased, from 41% in the 18 months to Q4 2012 to 60% for both the 18 months to Q4 2016 and 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	Q3 15
	Q4 12	Q4 13	Q4 14	Q4 15	Q4 16*
Unweighted base of applications:	840	658	493	399	219
Offered what wanted and took it	30%	27%	41%	49%	52%
Took facility after issues	11%	12%	14%	11%	8%
Have facility (any)	41%	39%	55%	60%	60%
Took another form of funding	8%	9%	6%	5%	7%
No facility	51%	53%	39%	34%	33%

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



Success rates for other new money applicants remained higher than for first time applicants and had increased steadily over time:

Final outcome – other new money

Loans and Overdrafts combined	Q3 11	Q3 12	Q3 13	Q3 14	Q3 15
Other applications	Q4 12	Q4 13	Q4 14	Q4 15	Q4 16*
Unweighted base of applications:	1471	668	1114	905	480
Offered what wanted and took it	52%	47%	58%	60%	66%
Took facility after issues	18%	22%	16%	17%	13%
Have facility (any)	70%	69%	74%	77%	79%
Took another form of funding	6%	8%	10%	5%	7%
No facility	23%	23%	16%	18%	14%

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. First time applicants have always been the most likely to have a worse than average risk rating, reflecting the fact that they are typically younger and smaller businesses. For 2016 to date some three-quarters of FTAs had such a risk rating, the highest proportion seen to date. Amongst other seekers of new money, almost half have a worse than average risk rating, back to the levels seen in 2011-12:

% of applicants with worse than average external risk rating

Overdraft + Loan	In	In	In	In	In	In
By year of application (base varies)	2011	2012	2013	2014	2015	2016*
First time applicants	69%	71%	69%	67%	55%	76%
Other new money	49%	49%	45%	34%	35%	48%
Renewals	34%	40%	36%	29%	35%	34%

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. In 2015, 46% had a worse than average risk rating, increasing slightly to 49% for 2016, so applicants have followed a similar pattern.