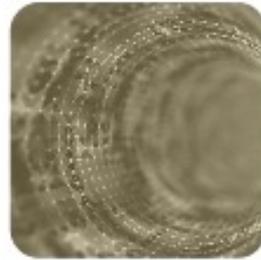


12. Why were SMEs not looking to borrow in the previous 12 months?



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

Most SMEs (85% YEQ2 2017) met the definition of a Happy non-seeker of finance, having not applied, nor wanted to apply, for finance in the 12 months prior to interview.

- The majority of SMEs in each size band were Happy non-seekers (79-87%) and the proportion has increased over time, from 68% of all SMEs in 2012 to 84% in both 2016 and the first half of 2017.

Very few SMEs (2% YEQ2 2017) met the definition of a 'Would-be seeker' of finance, where they had wanted to apply for a loan or an overdraft but something had stopped them.

- This group has declined in size over time. In 2012, 10% of SMEs were Would-be seekers of finance.

The final group, also declining over time, is those reporting a borrowing event, including the automatic renewal of an overdraft (13% of SMEs YEQ2 2017).

- SMEs with employees were more likely to report a borrowing event (18%) than those with no employees (11%)
- Over time, the proportion reporting a borrowing event has declined from 23% in 2012 to 13% in both 2016 and the first half of 2017.

Excluding the Permanent non-borrowers with little apparent appetite for finance increases the proportion with an event to 24%, and Would-be seekers to 4% but the largest group YEQ2 2017 remains the Happy non-seekers (72%).

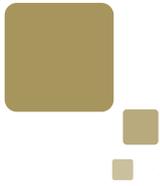


All Would-be seekers of loan and overdraft finance were asked why they had not applied. Previous changes to the questionnaire limit the analysis available.

- Amongst Would-be seekers YEQ2 2017, 47% said that they had been discouraged from applying (most, 33% were indirectly discouraged, having not applied because they thought they would be turned down). This was more likely to be the case for smaller WBS
- 23% cited the process of borrowing (cost, hassle, security etc) and this was more likely to be the case for larger WBS
- Discouragement and the process of borrowing have been the main barriers for WBS over time. Since 2015, there have been slightly more mentions of discouragement and slightly fewer mentions of the process of borrowing.

4% of all SMEs reported that they had ever been declined by the bank.

- Amongst those that had, three quarters said that it had made them more reluctant to apply for finance, the equivalent of 3% of all SMEs
- Those who were made more reluctant by a decline were now much more likely to be a Would-be seeker of finance (20%) than SMEs overall (2%), although 51% were using finance (compared to 39% of SMEs overall).



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, and 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, but 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 and/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 from amongst 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 defined and reported here 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).

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 experienced by a minority):

Any events (overdraft and loan)

Over time – all SMES By date of interview	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017
Unweighted base:	5001	5004	5003	4500	4500	4500	4500	4500	4507
Have had an event	16%	16%	17%	13%	15%	11%	14%	11%	15%
• <i>New or (auto) renewed facility</i>	14%	14%	15%	11%	13%	11%	12%	10%	13%
• <i>Type 2 or 3 events</i>	5%	4%	4%	3%	3%	2%	3%	2%	3%
Would-be seekers	2%	3%	5%	3%	2%	2%	2%	2%	2%
Happy non-seekers	82%	80%	78%	83%	83%	87%	84%	86%	82%

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 (82% in Q2 2017), while the proportion of Would-be seekers remained low (2% in Q2 2017). 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 2016, a quarter of Happy non-seekers were using external finance, increasing slightly in H1 2017 to 29%.

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:

Would-be seekers									
Over time – row percentages	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
By date of interview	2015	2015	2015	2016	2016	2016	2016	2017	2017
All SMEs	2%	3%	5%	3%	2%	2%	2%	2%	2%
0 employee	2%	4%	5%	4%	2%	2%	2%	2%	2%
1-9 employees	2%	3%	4%	3%	3%	2%	3%	3%	2%
10-49 employees	1%	2%	2%	1%	1%	1%	2%	1%	1%
50-249 employees	1%	1%	1%	*	2%	2%	1%	1%	*
Minimal external risk rating	1%	2%	1%	3%	*	1%	3%	2%	1%
Low external risk rating	1%	2%	3%	1%	1%	1%	1%	2%	2%
Average external risk rating	2%	3%	7%	3%	2%	2%	1%	2%	1%
Worse than average external risk rating	2%	5%	6%	5%	3%	3%	3%	2%	3%
Agriculture	2%	4%	6%	3%	1%	2%	2%	2%	1%
Manufacturing	4%	4%	5%	4%	1%	4%	1%	*	2%
Construction	2%	2%	3%	4%	1%	2%	1%	2%	2%
Wholesale/Retail	1%	6%	6%	2%	1%	4%	3%	3%	3%
Hotels & Restaurants	3%	4%	4%	3%	6%	2%	4%	3%	5%
Transport	5%	3%	5%	5%	3%	2%	2%	2%	4%
Property/Business Services etc.	2%	5%	4%	4%	3%	*	2%	3%	3%
Health	1%	3%	1%	1%	*	1%	2%	*	*
Other Community	*	1%	12%	2%	3%	2%	3%	3%	1%
All excluding PNBs	4%	6%	9%	7%	4%	4%	3%	4%	4%

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 and therefore somewhat more likely to meet the definition of a Happy non-seeker of finance:

Any events (Overdraft <u>and</u> loan)		0	1-9	10-49	50-249
YEQ2 17 All SMES	Total	emp	emps	emps	emps
Unweighted base:	18,007	3604	5802	5801	2800
Have had an event	13%	11%	18%	19%	19%
Would-be seekers	2%	2%	3%	1%	1%
Happy non-seekers	85%	87%	80%	79%	80%

Q115/209 All SMEs- new definitions from Q4 2012

SMEs with employees were more likely to have experienced a borrowing event (18%). 2% met the definition of a Would-be seeker of finance, with the largest group, as overall, the Happy non-seekers (80%).

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:

Any events (Overdraft <u>and</u> loan)					Worse/ Avge
YEQ2 17 All SMEs with a risk rating	Total	Min	Low	Avge	Avge
Unweighted base:	18,007	3102	5513	4118	3773
Have had an event	13%	14%	18%	14%	11%
Would-be seekers	2%	2%	1%	2%	3%
Happy non-seekers	85%	85%	81%	85%	86%

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 (2% v 2% not using external finance), but remained much more likely to have had an event (31% v 1% 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 YEQ2 17	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Hlth SWrk	Other Comm
Unweighted base:	1202	1502	3200	1803	1203	2001	3599	1497	2000
Have had an event	20%	17%	13%	17%	14%	10%	13%	10%	11%
Would-be seekers	2%	2%	2%	3%	4%	3%	2%	1%	2%
Happy non-seekers	78%	81%	86%	79%	83%	87%	85%	89%	87%

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 YEQ2 17	Starts	2-5 yrs	6-9 yrs	10-15 yrs	15+ yrs
Unweighted base:	1805	1850	2094	2993	9265
Have had an event	11%	10%	8%	15%	17%
Would-be seekers	4%	2%	2%	2%	2%
Happy non-seekers	86%	88%	90%	83%	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 (summarised at the start of the chapter). The proportion of Happy non-seekers of finance has risen steadily, as appetite for finance fell with fewer SMEs either reporting a borrowing event or meeting the definition of a Would-be seeker. Figures for H1 2017 are in line with 2016:

Any events (overdraft and loan)							H1
Over time – all SMEs	2012	2013	2014	2015	2016	2017	
<i>Unweighted base:</i>	20,055	20,036	20,055	20,046	18,000	9,007	
Have had an event	23%	17%	16%	17%	13%	13%	
Would-be seekers	10%	6%	5%	3%	2%	2%	
Happy non-seekers	68%	77%	79%	80%	84%	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 H1 2017), 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 H1 2017.

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).

YEQ2 2017, 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:

Any events (overdraft and loan) – original and new definition		Original definition	Revised definition
YEQ2 17			
Unweighted base:		18,007	18,007
Have had an event		13%	21%
Would-be seekers		2%	2%
Happy non-seekers		85%	77%

Q115/209i/Q222b3 All SMEs

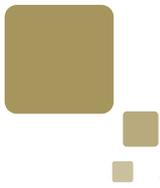
70% of those defined as a WBS in the original definition remained in this category under the new definition, while a quarter moved into the ‘event’ category because they had applied for another form of finance. 90% of HNS in the original definition remained in this category under the new definition, while 9% 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.



Analysis over time is limited at this stage, but is shown below in half year periods from when the question was first asked. In H2 2015 a quarter of SMEs (26%) reported a loan/overdraft or other borrowing event, decreasing to 20% for H2 2016, before recovering slightly in H1 2017 (23%). The proportion of would-be seekers remains limited and 7 in 10 or more SMEs meet the alternate definition of a Happy non-seeker of finance:

Any events – new definition	H2	H1	H2	H1
Over time – all SMEs	2015	2016	2016	2017
<i>Unweighted base:</i>	10,007	9000	9000	9007
Have had an event	26%	22%	20%	23%
Would-be seekers	4%	3%	2%	2%
Happy non-seekers	70%	75%	78%	75%

Q115/209i/Q222b3 All SMEs



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 YEQ2 2017 were:

Process of borrowing – those who did not want to apply because they thought it would be too expensive, too much hassle etc. This was given as a reason by 36% of all Would-be seekers YEQ2 2017 (the equivalent of 1% of all SMEs), down slightly from 48% in 2015

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 48% of all Would-be seekers YEQ2 2017 (the equivalent of 1% of all SMEs), up slightly from 42% in 2015

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 24% of all Would-be seekers YEQ2 2017 (the equivalent of <1% of all SMEs), almost unchanged from 2015 (29%)

Current economic climate – those that felt that it had not been the right time to borrow. This was given as a reason by 10% of all Would-be seekers YEQ2 2017 (the equivalent of <1% of all SMEs) and unchanged from 2015 (11%).



The table below shows the results for YEQ2 2017, 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 YEQ2 17 excluding DK	Total	0-9 emps	10-249 emps
Unweighted base:	288	207	81*
Issues with <u>process</u> of borrowing	36%	35%	43%
-Would be too much hassle	10%	10%	16%
-Thought would be too expensive	17%	17%	9%
-Would be asked for too much security	3%	3%	14%
-Too many terms and conditions	6%	6%	11%
-Did not want to go through process	7%	7%	11%
-Forms too hard to understand	5%	5%	3%
Discouraged (any)	48%	49%	27%
-Direct (put off by bank)	18%	18%	11%
-Indirect (thought would be turned down)	38%	39%	17%
Issues with <u>principle</u> of borrowing	24%	24%	22%
-Not lose control of business	10%	10%	7%
-Can raise personal funds if needed	9%	9%	8%
-Prefer other forms of finance	5%	4%	8%
-Go to family and friends	6%	6%	5%
Economic climate	10%	10%	13%
-Not the right time to apply	10%	10%	13%

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 given over time for not applying for a facility. The latest data shows discouragement as 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:

Main reason for not applying for loan or overdraft when wanted to		0-9	10-249
All Would-be seekers YEQ2 17 excluding DK	Total	emps	emps
<i>Unweighted base:</i>	286	207	79*
Discouraged (any)	47%	48%	20%
-Direct (put off by bank)	14%	14%	9%
-Indirect (thought would be turned down)	33%	34%	10%
Issues with <u>process</u> of borrowing	23%	23%	37%
Issues with <u>principle</u> of borrowing	15%	15%	16%
Economic climate	7%	7%	9%
<i>None of these</i>	3%	3%	15%

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

Amongst all Would-be seekers with employees, the process of borrowing was as much of a barrier as discouragement: 36% reported feeling 'discouraged' while 35% cited the process of borrowing. Around 1 in 6 mentioned the principle of borrowing (18%) and just a few mentioned the current economic climate (3%).



Analysis by external risk rating showed discouragement was the main barrier for both groups, with those with an average or worse than average external risk rating more likely to cite indirect discouragement:

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

All Would-be seekers YEQ2 17 excluding DK	Total	Min/ Low	Avge/WTA
Unweighted base:	286	84*	169
Discouraged (any)	47%	42%	49%
-Direct (put off by bank)	14%	20%	13%
-Indirect (thought would be turned down)	33%	22%	35%
Issues with <u>process</u> of borrowing	23%	22%	26%
Issues with <u>principle</u> of borrowing	15%	27%	14%
Economic climate	7%	2%	6%
None of these	3%	5%	3%

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

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 from 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 the 2015 results from the previous question to the results in 2016 and H1 2017 of the new, combined, question. This shows that discouragement remained the key barrier:

All reasons for not applying for loan or overdraft			
Over time – all Would-be seekers	2015	2016*	H1 2017
<i>Unweighted base:</i>	485	318	139
Discouraged (any)	42%	45%	51%
Issues with <u>process</u> of borrowing	48%	32%	26%
Issues with <u>principle</u> of borrowing	29%	26%	11%
Economic climate	11%	13%	6%

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

In all instances, the two key reasons for not applying have been discouragement (almost all of it indirect) which has increased slightly over time, and the process of borrowing, which has decreased as a reason.

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

There is currently little evidence of Would-be seekers giving different reasons for not applying in the second half of 2016 (post-Brexit) compared to the first half of the year, or citing different reasons in 2017.



Would-be seekers constitute a minority of all SMEs (2%). The table below shows, for the main reasons given by Would-be seekers for YEQ2 2017, the equivalent proportion of all SMEs:

Main reason for not applying YEQ2 17	Would-be seekers	All SMEs
Unweighted base:	286	18,007
Discouraged (any)	47%	1%
-Direct (put off by bank)	14%	*
-Indirect (thought I would be turned down)	33%	1%
Issues with <u>process</u> of borrowing	23%	*
Issues with <u>principle</u> of borrowing	15%	*
Economic climate	7%	*

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, almost 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.

24% of this group of SMEs excluding PNBs reported a borrowing event, compared to 13% of SMEs overall:

Any events (Overdraft <u>and</u> loan)		
YEQ2 17 – all SMES	All SMEs	All SMEs excl. PNB
Unweighted base:	18,007	11,821
Have had an event	13%	24%
Would-be seekers	2%	4%
Happy non-seekers	85%	72%

Q115/209 All SMEs

The proportion of Happy non-seekers declines to 72% 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. Until Q2 2016 the proportion reporting an event had been broadly stable at around 30%. It then dropped to 23% in Q3 2016 and remained at the lower level in the second half of 2016 and into 2017 but was 28% in Q2 2017:

Any events (overdraft <u>and</u> loan)										
All SMES, excluding PNBs										
– over time	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	
By date of interview	2015	2015	2015	2016	2016	2016	2016	2017	2017	
Unweighted base:	3195	3258	3338	2854	3008	2755	3017	3011	3038	
Have had an event	32%	30%	30%	26%	29%	23%	23%	21%	28%	
Would-be seekers	4%	6%	9%	7%	4%	4%	3%	4%	4%	
Happy non-seekers	64%	63%	61%	67%	67%	73%	73%	74%	68%	

Q115/209 All SMEs excluding PNBs



Accepting the slight changes in definition over time, the proportion of SMEs (excluding the PNBs) reporting a borrowing event remained fairly stable between 2012 and 2015, before dropping to 25% for 2016 and the first half of 2017. 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 71% in H1 2017:

Any events (overdraft and loan)							H1
Over time – excl PNBs	2012	2013	2014	2015	2016	2017	2017
Unweighted base:	15,312	14,578	13,613	13,011	11,634	6049	
Have had an event	35%	28%	28%	32%	25%	25%	
Would-be seekers	15%	10%	8%	6%	4%	4%	
Happy non-seekers	51%	62%	64%	62%	70%	71%	

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:

Main reason for not applying when wished to	Would-be seekers	All SMEs excl. pnb
YE Q2 17		
Unweighted base:	286	11,821
Discouraged (any)	47%	2%
-Direct (put off by bank)	14%	1%
-Indirect (thought I would be turned down)	33%	1%
Issues with <u>process</u> of borrowing	23%	1%
Issues with <u>principle</u> of borrowing	15%	1%
Economic climate	7%	*

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

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 question was added to the SME Finance Monitor from Q1 2014.

4% of SMEs reported a declined banking facility at some time in the past and this has changed very little over time:

Previous decline by bank	All SMEs YEQ2 2017
By size of SME	<p>The largest SMEs were somewhat less likely to report a previous decline:</p> <ul style="list-style-type: none">• 4% of 0 employee SMEs• 5% of those with 1-9 employees• 4% of those with 10-49 employees• 2% of those with 50-249 employees <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 (4-5%)</p>
Use of external finance	<p>6% of those currently using external finance had experienced a previous decline, compared to 3% of those who had not used external finance in the past 5 years (and 7% 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, 77% said that this had made them more reluctant to apply for bank finance subsequently (the equivalent of 3% 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 53% 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 (83%) than those with a minimal, low or average external risk rating (69-72%).



The tables below explore this reluctance in more detail, across all SMEs. 3% of all SMEs had been made more reluctant by a previous decline, increasing to 5% once the PNBs had been excluded. Larger SMEs remained somewhat less likely to have been impacted:

Impact of previous decline by bank		0	1-9	10-49	50-249
All SMEs YEQ2 17	Total	emps	emps	emps	emps
Unweighted base:	18,007	3604	5802	5801	2800
More reluctant to apply after a decline	3%	3%	4%	2%	1%
Declined but not more reluctant	1%	1%	2%	1%	1%
Have not been declined in past	96%	96%	94%	97%	98%

Q240x and Q240y All SMEs

Impact of previous decline by bank		0	1-9	10-49	50-249
All SMEs YEQ2 17 excl PNBs	Total	emps	emps	emps	emps
Unweighted base:	11,821	1873	3651	4130	2167
More reluctant to apply after a decline	5%	6%	5%	3%	1%
Declined but not more reluctant	1%	1%	2%	2%	1%
Have not been declined in past	93%	93%	93%	95%	98%

Q240x and Q240y All SMEs excluding PNBs



There was relatively little difference overall by risk rating:

Impact of previous decline by bank					
All SMEs YE Q2 17	Total	Min	Low	Avg	Worse/ Avg
Unweighted base:	18,007	3102	5513	4118	3773
More reluctant to apply after a decline	3%	3%	3%	3%	4%
Declined but not more reluctant	1%	1%	1%	1%	1%
Have not been declined in past	96%	96%	96%	96%	95%

Q240x and Q240y All SMEs

Amongst those currently using external finance, 4% had become more reluctant to apply as the result of a previous decline, compared to 6% 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 currently 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 (38%) 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 (20%) than either those not put off by their decline (7%) or those who had never been declined (1%).



Impact of previous decline by bank		Made more reluctant by decline	Declined but not made more reluctant	Not previously declined
All SMEs YEQ2 17	All SMEs			
Unweighted base:	18,007	468	245	17,294
Using external finance	39%	51%	58%	38%
Have had an event	13%	30%	35%	12%
Would-be seekers	2%	20%	7%	1%
Happy non-seekers	85%	51%	58%	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 20% 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 from 38% to 73%, while those made more reluctant by a previous decline remain more likely to be a would-be seeker of finance:

Impact of previous decline by bank		Made more reluctant by decline	Declined but not made more reluctant	Not previously declined
All SMEs YEQ2 17 excl PNBs	All SMEs			
Unweighted base:	11,821	415	195	11,211
Using external finance	72%	60%	80%	73%
Have had an event	24%	35%	48%	23%
Would-be seekers	4%	23%	9%	3%
Happy non-seekers	72%	41%	43%	74%

Q240x and Q240y and Q115/209 All SMEs excluding PNBs

A similar pattern was seen for future borrowing intentions. Excluding the PNBs, 20% of remaining SMEs were planning to apply for finance in the next 3 months. Amongst those who had been made more reluctant by a decline this proportion was higher (40%) and consequently they were less likely to meet the definition of a Future happy non-seeker of finance (41% v 72% of all SMEs excluding the PNBs).