

Research Report

BIS

Results from the 2009
Finance Survey of Mid-cap
Businesses

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Technical Appendix

1. Background

The Department for Business, Innovation and Skills (BIS) commissioned Continental Research in late 2009 to conduct a survey with mid-cap businesses to investigate issues around access to bank finance. There is a wide spread perception that the recent economic climate had led to significant increases in difficulties associated with raising finance, and that the cost of finance is high, at a time when Bank of England interest rates are at their lowest ever rate. Although the Department had undertaken considerable research assessing SME access to finance, there was limited information on how the Credit Crunch was affecting larger businesses. For the purposes of this survey, mid-cap businesses are defined as having an annual turnover of between £10 million and £500 million.

The research was required to assess the demand for bank finance, availability and also the costs including terms and conditions of finance obtained by mid-caps in 2009 and to make comparisons with finance obtained in the period before the credit crunch during 2007. The research investigated actual reported costs together with perceptions of costs charged, to assess how closely perceptions matched reality. The research also reviewed the implications of not being able to raise all of the finance required and any changes to existing finance arrangements in 2009.

A sample of mid-cap businesses was selected using data provided by pH Group¹, which is based on Companies House records. The sample comprised of three sample groups:

- Those that had obtained secured loan finance in 2009
- Those that had characteristics associated with secured debt finance but had not obtained bank finance²

¹ Part of Experian.

² This group was derived by pH Group using statistical modelling

- Random sample of remaining companies.

This sampling approach was taken to ensure there were sufficient numbers seeking finance to ensure robust analysis on this group. The results were then weighted back to represent the profile of 20,000 mid-caps from pH Group data. The data provided by pH Group also comprised a credit reference score, which gave an indication of the relative credit quality of each firm.

Further details of the sample frame and fieldwork methodology are contained in the technical appendix at the end of the report.

2. Management Summary

2.1. Methodology

A 20 minute telephone questionnaire was designed which is outlined below:

- Current use of finance
- Demand for finance in 2009
- Loan applications in 2009
- Overdraft applications in 2009
- Loan and overdraft costs and terms and conditions in 2009 and 2007
- Perceptions of changes in access to finance between 2007 and 2009
- Other issues in 2009 such as business growth, late customer payments, use of alternative finance and measures taken to reduce dependency on finance

400 telephone interviews were completed by Continental Research during September and October 2009, comprising:

- 205 applying for finance in 2009 (108 loan / 147 overdraft)
- 195 that had not applied for finance in 2009

There was a key requirement to achieve a minimum of 200 interviews with businesses that had sought finance in 2009 to ensure robust analysis on this group. The majority of those in the sample group identified by pH as having obtained finance in 2009 matched this criteria, however, during fieldwork, a small proportion of the respondents in this sample stated that they had not applied for finance in 2009. The obtained finance sample group was also increased by achieving interviews with finance takers in the other two sample groups – the random selection and the group that shared characteristics associated with obtaining bank finance but had not been identified as recent borrowers in the pH Group data.

2.2. Main findings

2.2.1. Demand for finance in 2009

Around 40% of mid cap businesses sought external finance in 2009, and there is limited evidence that mid-cap businesses are discouraged from seeking finance, although a significant proportion have taken steps to reduce their reliance on finance in 2009.

- Mid-caps draw on a variety of different finance instruments with leasing, credit cards and overdrafts being widely used. Almost all mid-caps used at least one existing type of finance.
- 39 per cent of mid-cap businesses had tried to obtain finance in 2009. Demand was highest amongst those in the Manufacturing and Distribution sectors, larger businesses and also for those with a below average credit score.
- Of those seeking finance, the majority (71 per cent) were seeking overdrafts and 53 per cent were seeking a loan. This is equivalent to 28 per cent of all mid-caps that sought overdrafts in 2009 and 16 per cent of all mid-cap businesses that sought loans. The majority of applications were extensions of existing credit facilities and it is important to note that most overdrafts are renewed on an annual basis, thus raising demand.
- There is limited evidence to suggest mid-cap businesses are being discouraged from seeking finance following concerns that finance is less accessible.
- Although one third of all mid-caps took steps to reduce finance use in 2009, by cost cutting exercises or through improved debt management. A small proportion had reduced the credit period offered to customers and/or were taking longer to pay suppliers.
- Half of all mid-caps agreed late payments by customers was a problem and of these, 57 per cent of those felt this problem had got worse in 2009, the equivalent of over a quarter of all mid-caps.

- The main reason for seeking finance in 2009 was for working capital, which was perceived by mid-caps to have been most adversely affected by the availability of finance in 2009. Larger mid-caps (turnover £25 million to £500 million) and those in the Manufacturing sector were most likely to report that finance supply had a negative impact on their business in 2009, particularly for working capital and staffing levels.

2.2.2. Availability of finance in 2009

The majority of mid-caps can obtain some finance, although not always from the first source approached. Only a small proportion of mid-caps were unable to raise any finance.

First source approached:

- 38 per cent of those mid-caps seeking finance in 2009 reported experiencing problems from the first source approached, with 50 per cent of loan applicants and 29 per cent of overdraft applicants experiencing difficulties. This equated to 41 per cent of all loan and overdraft applications by mid-caps in 2009 having difficulties³. It is important to acknowledge even with these difficulties, 73% of loan applicants, and 75% of overdraft applicants managed to obtain some finance from the first source approached.

Subsequent sources approached:

- The majority of those experiencing problems with loan applications sought loan finance through renegotiation or trying alternative suppliers.
- The analysis in this report suggests that 8 percent of mid-caps seeking finance were unable to secure any loan finance from any source.
- Almost no overdraft applicants that experienced problems in obtaining an overdraft from the first source approached tried other providers. This

³ The proportion of total loan and overdraft applications experiencing difficulties. This analysis does not exclude those saying 'Don't know', suggesting the figure could be higher.

suggests 15% of mid-caps seeking overdraft finance were unable to obtain any finance.

2.2.3. Costs, Terms and Conditions of finance obtained in 2009 compared to 2007

Although margins have increased, generally the cost of finance is lower than in 2007 due to reductions in the Bank of England interest rates. There has not been a statistical significant increase in arrangement fees, although a higher level of security is now required for overdrafts.

- The survey suggests that interest rates and fees are comparatively lower on overdrafts than for loans (although this is based on small sample sizes).
- Comparisons between 2007 and 2009 suggest that overall interest rates for both loans and overdrafts have fallen but not in line with falls in Bank of England interest rates. Arrangement fees and the level of security required for loans had both increased marginally, although this difference is not statistically significant.
- However, there has been a statistically significant increase in the proportion of overdrafts requiring security from 27 per cent in 2007 to 40 per cent in 2009.
- There were no other statistically significant changes shown in the costs and terms analysis for loans.
- The majority of businesses did obtain their loan at the desired tenor, although a small proportion did not due to restrictions by their bank.

2.2.4. Perceptions of availability and cost

Perceptions on availability and costs of finance in 2009 generally appear to be worse than reality.

- Most businesses report having a good or very good relationship with their bank.
- Overall one third of mid-caps perceive finance to be harder to obtain in 2009 compared to 2007, and this was particularly felt by those that had sought finance in 2009. Large mid-caps were significantly more likely to perceive finance to be harder to obtain in 2009.
- However, smaller mid-caps were more likely than larger mid-caps to perceive that the cost of finance had increased (statistically significant) and that the level of security required had also increased.
- Customer demand and the economy are the most frequent obstacles reported by mid-caps. Obtaining finance was a challenge for one third of those seeking finance in 2009. This was also more likely to be stated as an obstacle by large mid-caps (17 per cent compared to 11 per cent of smaller mid-caps).
- Almost a quarter of all mid-caps perceive they will have a greater need for finance in 2010, which was higher among those that took finance in 2007 and also, for larger mid-caps.

3. Finance in 2009

3.1. Demand

Use of finance

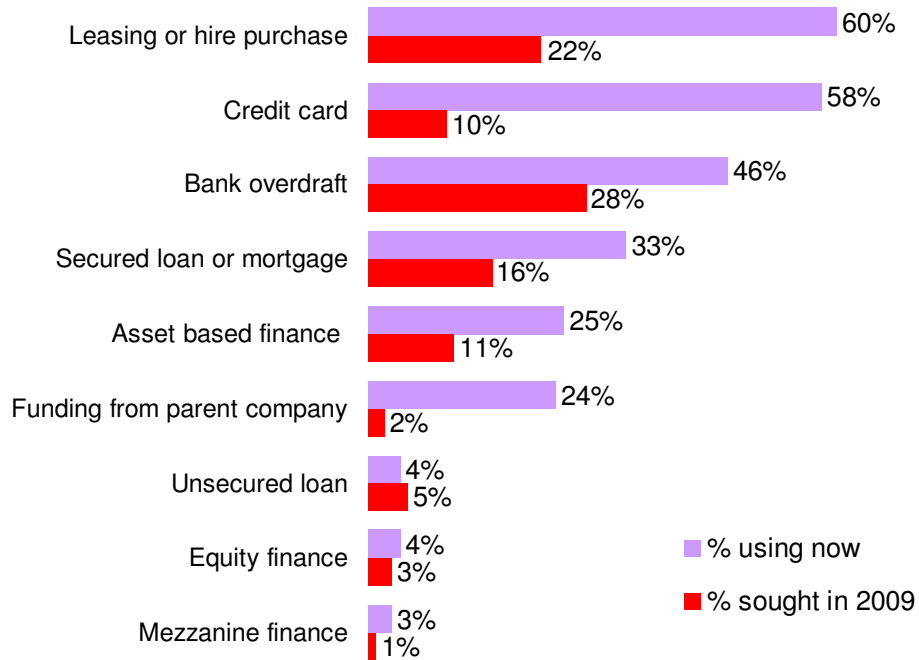
The majority (92 per cent) of mid-cap businesses surveyed currently use at least one type of finance, with a wide range of different instruments used. Leasing or hire purchase is currently used by 60 per cent of mid-caps, 46 per cent use an overdraft and 33 per cent use a secured loan. Credit cards were also very common and used by 58 per cent of mid-cap businesses.

Overall, 39 per cent of all mid-caps had tried to obtain new external finance or extend existing credit facilities in 2009, of which 44 per cent applied for a loan and 71 per cent an overdraft, suggesting that overdrafts were a more common form of finance in 2009.⁴ Of those seeking finance, three per cent sought other forms of finance such as asset based finance and leasing / hire purchase.

It is equivalent to 28 per cent of all mid-caps applying for a new overdraft or extending their existing facility. Although only held by a minority (4 per cent), there was also a marginally higher proportion of respondents seeking unsecured loans in 2009 compared to their current use. In contrast, 10 per cent applied for a new credit card compared to 58 per cent that currently had this facility. The relationship between those seeking a secured loan in 2009 and current use suggests that there was a weakening in demand for this facility. 11 per cent of mid-caps sought asset based finance in 2009 while a quarter currently used this facility. A minority of mid-caps had sought Equity finance in 2009, which compared closely to the small proportion currently using this form of finance.

⁴ This survey specifically asked businesses about their overdraft renewals. Other surveys undertaken for BIS like the SME Business Barometer do not include this prompt, and so the figures may not be directly comparable.

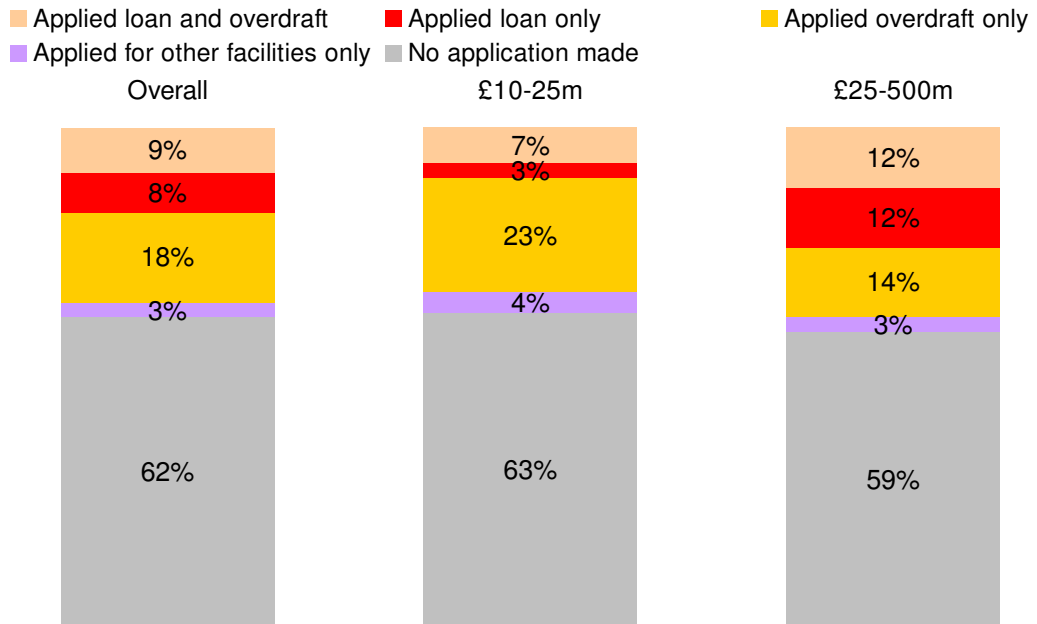
Figure 3.1.1: Existing use of finance compared to finance sought in 2009



Q6. Can you tell me for each of the following forms of finances whether your business uses it currently? / Q7. Have you tried to obtain new finance extend existing credit facilities this year & Q10. Which of the following types of finance have you sought in 2009, regardless of outcome? (Base = 400)

A quarter of 2009 finance seekers had applied for both a loan and an overdraft, comprising 9 per cent of all mid-caps. This was highest among businesses with £25m - £500m turnover that were also more likely to apply for loans while smaller mid-caps were more likely to apply for overdrafts.

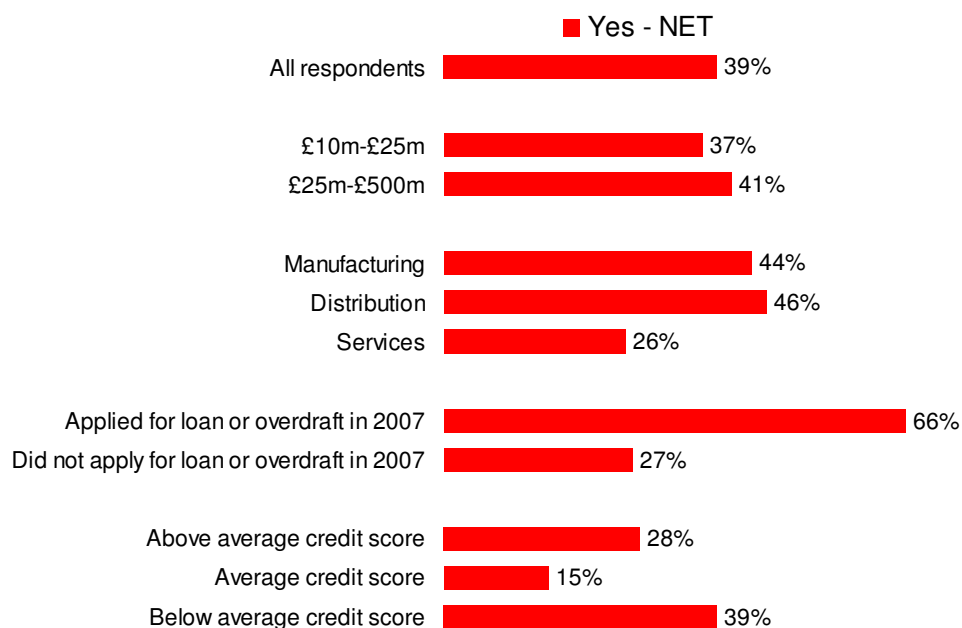
Figure 3.1.2: 2009 finance type demanded by turnover segment



Q7. Have you tried to obtain new finance extend existing credit facilities this year & Q10. Which of the following types of finance have you sought in 2009, regardless of outcome? (Bases = 400 / 177 / 223)

Demand for any finance in 2009 generally increases with turnover of the business, and was also higher among those in Manufacturing and Distribution. A significantly higher proportion of those that sought finance in 2007 had applied for finance in 2009 (66 per cent compared to just 27 per cent of those that did not seek finance in 2007). The research also suggests that those with a lower credit score were more likely to seek finance in 2009 and these results are depicted in the following chart.

Figure 3.1.3: Demand for any finance in 2009 by segment

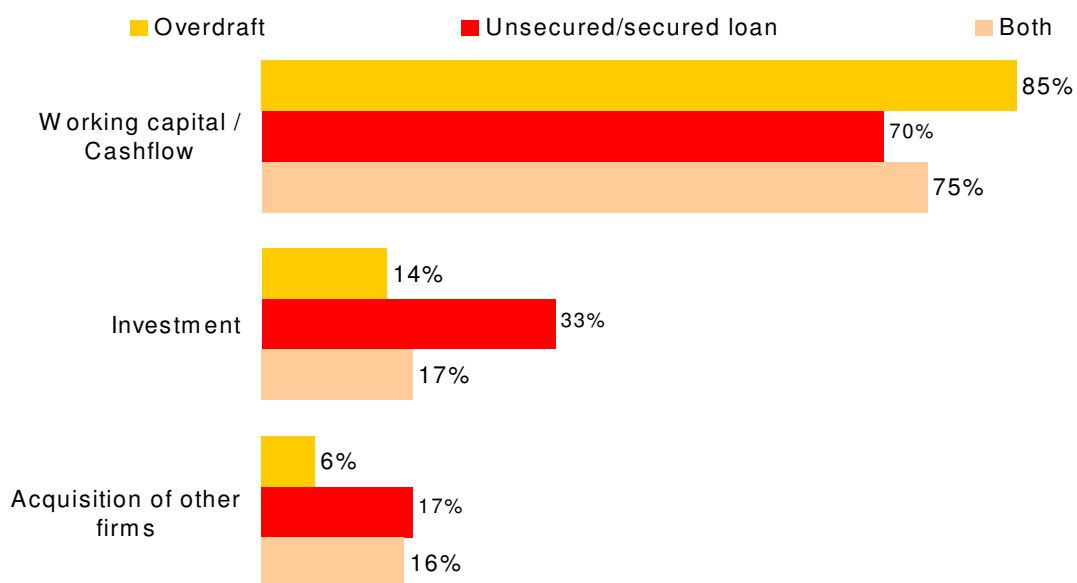


Q7. Have you tried to obtain new finance or extend existing credit facilities this year? (Base = 400 overall but varies by category: 67 - 223)

Reason for seeking finance in 2009

The majority of finance sought in 2009 was needed to meet working capital requirements (79 per cent). A further 22 per cent required finance for investment, such as to purchase or improve land or buildings, or to buy new equipment. Those seeking finance for investment or acquisition were more likely to apply for loans, while 85 per cent of overdrafts were needed for working capital.

Figure 3.1.4: Reasons for seeking finance in 2009



Q8. For which reasons have you needed new finance this year? (Base = 147 / 108 / 69)

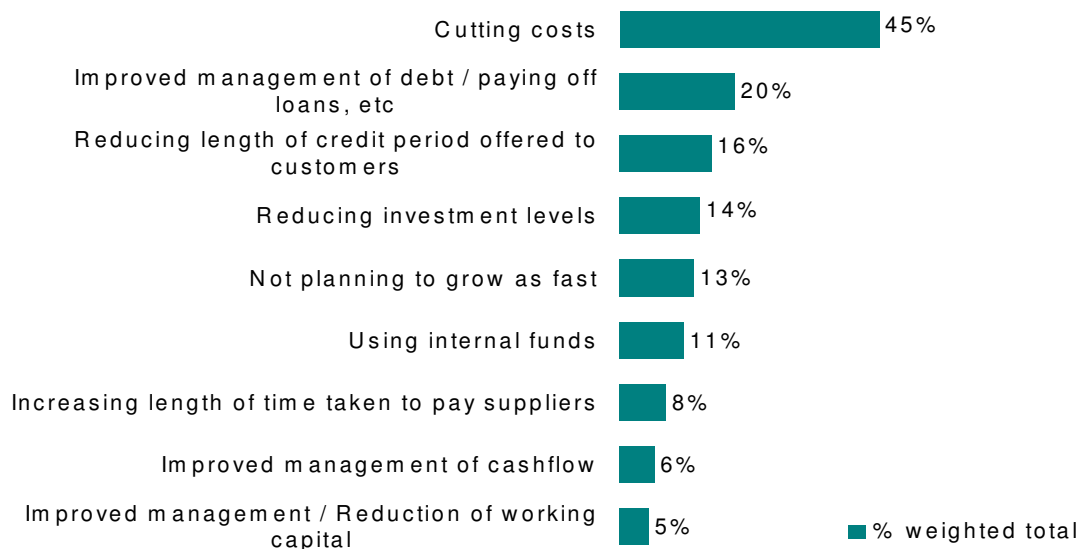
Reason for not seeking finance

For the 61 per cent not seeking finance in 2009, the majority (80 per cent) simply stated they had 'no need'. Just 7 per cent felt finance would be too expensive and 1 per cent thought they would be turned down. 22 per cent did obtain finance from alternative sources (such as parent company) a strategy most likely to be adopted by Manufacturing based businesses. 17 per cent reported they did not wish to take on additional risk.

Steps taken to reduce finance dependency

One third of UK mid-caps had taken steps to reduce dependency on finance. This was highest among smaller businesses (37 per cent of £10m-25m turnover sized businesses) and also among those seeking finance in 2009 (46 per cent). The majority had cut costs while some had improved debt and capital management.

Figure 3.1.5: Steps taken to reduce dependency on finance in 2009

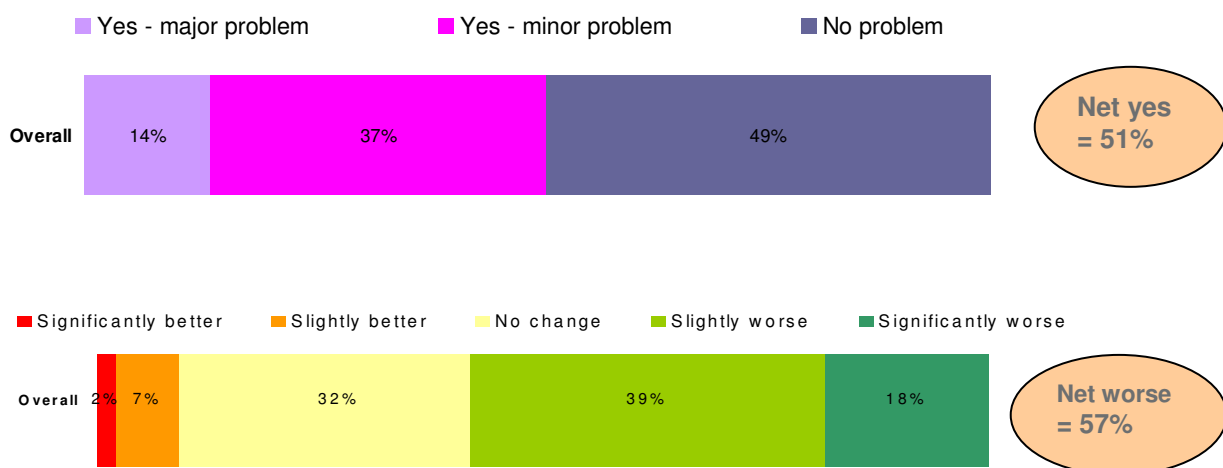


Q91. What steps have you taken? (Base = 145 who have taken steps)

Of those that had taken steps to reduce their reliance on finance, 16 per cent had reduced the credit period offered to customers and 8 per cent had increased the time taken to pay suppliers. When questioned specifically about customer payments, 51 per cent of all mid-caps agreed late payments by customers were a problem and 57 per cent of those reporting it to be a problem felt this problem had got worse in 2009, equivalent to 29 per cent of all mid-caps. The balance between those reporting the issue was getting better versus those saying it was getting worse was significantly worse for those in Services and Distribution (net balance⁵ of -52 and -56 per cent respectively compared to a balance -33 per cent in Manufacturing and -48 per cent overall). This problem is likely to be affecting business cash flow, and may lead to businesses seeking finance to support cash flow. The survey results confirm the majority of mid cap businesses are seeking finance for working capital (79%).

⁵ Net balance of those reporting it to be less of a problem and those reporting it to be a greater problem

Figure 3.1.6: Problems with late customer payments in 2009



Q102. Does your business have a problem with customers paying you later than you require them to in your normal terms of business? (Base = 400) / Q103. Has this problem got better or worse in 2009? (Base = 182)

3.2. Existing finance arrangements

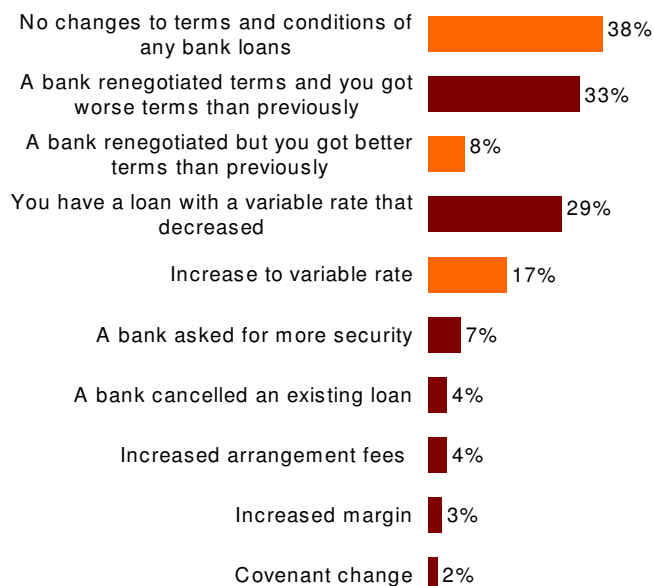
Loans

In 2009, 62 per cent of mid-caps with outstanding loans had experienced changes to the terms and conditions of these loans and 69 per cent of those with overdraft facilities had seen terms change. This leads to 72 per cent of all those with a loan or overdraft experiencing changes to the terms and conditions of either facility in 2009 (the equivalent of 42 per cent of all mid-caps). Those who had applied for new finance in 2007 or in 2009 were more likely to see a change to their existing arrangements this year. Manufacturing and Distribution mid-caps were more likely than businesses in the Services sector to report a change.

The majority of changes imposed were negative, ranging from increased fees to reduced limits. Although there were some instances of increases to loan interest

rates, these were outweighed by the proportion reporting reductions, as a result of falls in the Bank of England interest rate.

Figure 3.2.1: Changes to existing terms & conditions – loans

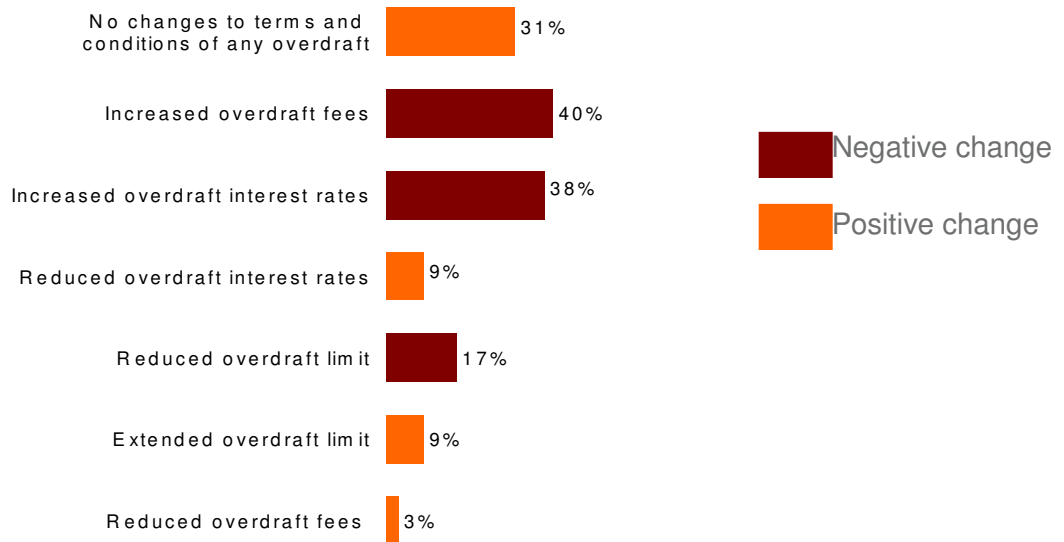


Q93. Has your business experienced any of the following changes to the terms and conditions of your existing bank loans over the last 12 months? (Base = 188)

Overdrafts

For mid-caps with existing overdrafts, 38 per cent had seen interest rates increase while only 9 per cent had their interest rate reduced. Further, fees increased for 40 per cent of mid-caps with bank overdrafts in the past 12 months. 33 per cent of those with loans stated they got worse terms than previously following renegotiations, while just 8 per cent saw terms improve.

Figure 3.2.2: Changes to existing terms & conditions – overdrafts



Q93. Has your business experienced any of the following changes to the terms and conditions of your existing bank overdrafts over the last 12 months? (Base = 220)

3.3. Outcome of 2009 finance applications

First Source Approached

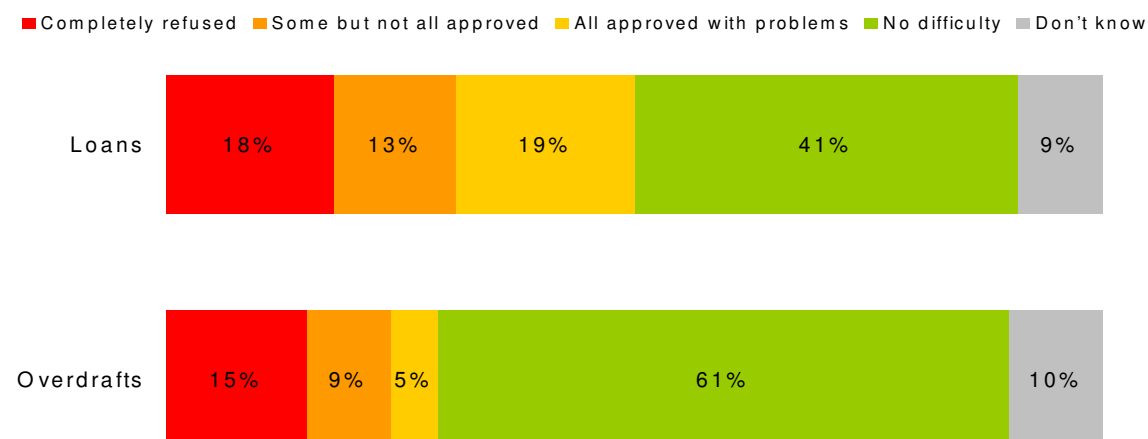
Loan applications were more likely to experience difficulties than overdraft applications, as depicted in Figure 3.3.1 below.

Among those seeking loans in 2009, 70 per cent were refinancing existing loans while 30 per cent were for new applications. The majority (86 per cent) approached their main bank for the loan with smaller businesses more likely to approach other finance providers.

Of those seeking loan finance, 50 per cent experienced some difficulties in their initial loan application, including 18 per cent that were refused outright. Those refused were most likely to have average or below average credit scores. However, 73 per cent managed to obtain at least some loan finance from the first source approached.

78 per cent of those seeking overdrafts were extending existing facilities and 80 per cent obtained the full amount originally requested. 15 per cent were unable to obtain any overdraft from the first source approached and a further 14 per cent experienced problems obtaining some, or all, of the overdraft requested. Mid-caps with below average credit scores were more likely to experience difficulties although base size was too low to report statistical significance. Overall, 75 per cent managed to obtain some overdraft finance from the first source approached.

Figure 3.3.1: Initial outcome of 2009 loan and overdraft applications



Q13. Did you have difficulties in having this loan approved from the first source approached (Base = 108) / Q40. Did you have difficulties in having this overdraft approved from the first source approached? (Base = 147)

69 respondents applied for both a loan and an overdraft. Among these joint applications, 58 per cent said both were agreed with no difficulty, 34 per cent had problems with both applications while 3 per cent had problems with their overdraft but not their loan and 5 per cent had problems with the loan but not their overdraft. If don't know answers are excluded, 42 per cent of those applying for both a loan and an overdraft had difficulties with at least one application, equating to 14 per cent of all mid-cap businesses, and 36 per cent of those seeking finance.

There was some evidence that larger mid-caps with a turnover between £25m and £500m were more likely to experience difficulties obtaining loan finance, with 28 per cent of £10-£25m businesses having difficulty compared to 33 per cent of £25m-£500m mid-caps (although this result is to be treated with caution due to low base sizes and a high level of don't knows among smaller mid-caps). Smaller businesses also appeared less likely to have problems obtaining overdraft finance. Excluding those saying 'don't know', 72 per cent of small mid-caps had no difficulty compared to 63 per cent of larger mid-caps. It is normally expected that the larger the

businesses, the less likely it is to experience problems raising finance, and so this finding must be treated with caution, for the reasons mentioned above.

Subsequent Sources Approached

Mid cap businesses may obtain finance from alternative funding sources if they are unable or have problems raising finance from the first source approached.

Of those that experienced difficulties obtaining loans, half renegotiated and 56 per cent of these ultimately succeeded in obtaining finance. This leaves just 8 per cent of mid-caps seeking loan finance that could not obtain loan finance from any source.

Of those refused an overdraft, very few mid-caps sought an overdraft from another supplier and just 2 per cent successfully obtained an overdraft from another source. This leaves 15 per cent of all overdraft applicants unable to obtain overdraft finance from any source.

The table below shows the overall proportion of loan and overdraft applications that were successful in raising finance, and then derives it the proportion of all mid-cap businesses (including those that did not seek any finance).

Figure 3.3.2: Final outcome⁶ of 2009 loan and overdraft applications

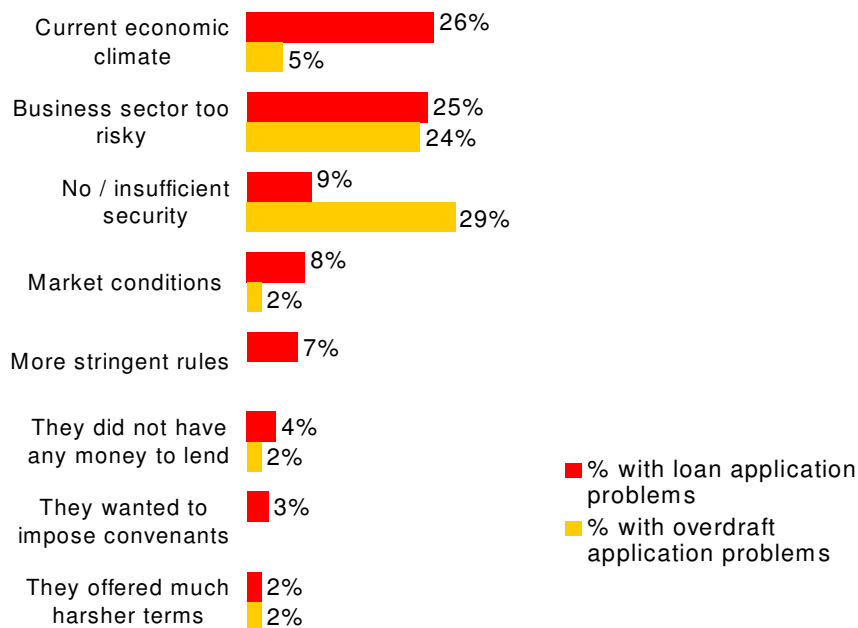
Loan or overdraft Outcome	% of loan and overdraft applications	% of all mid-caps
No problems	55%	19%
Offered some finance	30%	12%
No finance obtained	15%	5%
TOTAL	100%	36%

⁶ Includes first and subsequent sources approached

Reasons for difficulty in raising finance

Respondents were asked the reasons why they thought they had difficulty raising finance. Businesses' perceptions may be different to the actual reason the bank gave for rejecting their loan or overdraft applications. Reasons given for difficulties experienced in loan applications were mostly based on the current economic climate or the business sector considered as too risky by the bank. Insufficient security was identified as a reason by 28 per cent of overdraft applications experiencing problems, compared to 9 per cent of loan applications experiencing difficulties.

Figure 3.3.3: Reasons reported by mid-cap businesses for loan and overdraft application problems



Q14. What reasons were given for your loan application being turned down/having problems? (Base = 57) / Q41. What reasons were given for your overdraft application being turned down/having problems? (Base = 57)

Impact of not being able to raise loan finance

Of those not being able to raise finance, a few said it had no effect on the business while others felt it led to them not being able to grow the business as quickly as wanted or cancelling / scaling back investment plans. A minority got into serious financial difficulties. Those that were completely refused their first application and were unsuccessful with subsequent applications were more likely to say it led to them cancelling or scaling back investment plans. Those that experienced problems initially but were successful in raising some finance were more likely to say it pushed up costs or the business got into serious financial difficulties.

Loan Draw Down

92 per cent of those that ultimately obtained loan finance were offered the full amount requested. However, only 70 per cent of mid-caps drew down the loan offered. Reasons given for not taking the loan finance at this time were due to respondents no longer needing the extra finance or putting the loan offer on hold. A minority stated that they did not take out the loan due to strict terms, high rates or fees. 76 per cent obtained the loan at their desired tenor with those in Manufacturing or with poorer credit scores more likely to want a longer loan tenor than offered by the finance provider.

4. Finance in 2007

4.1. Demand

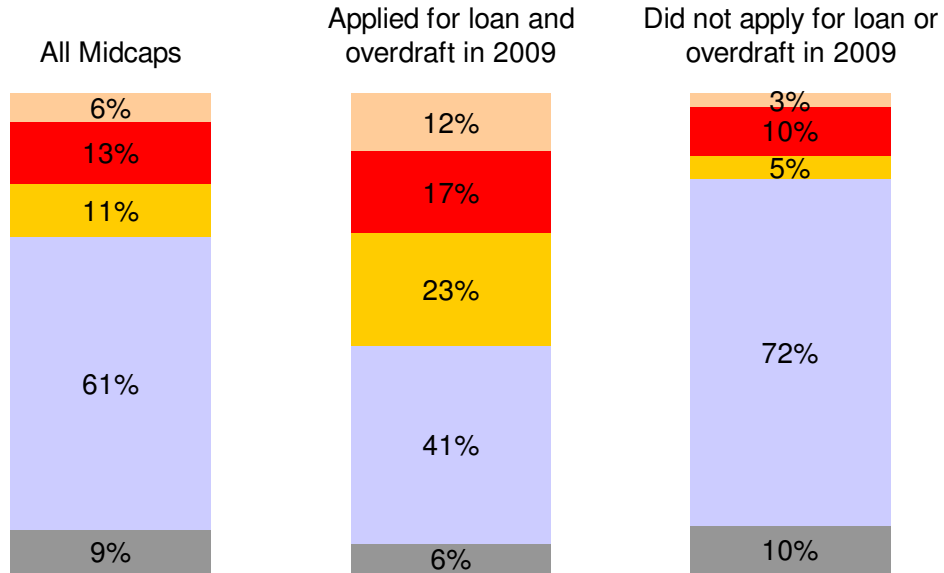
Overall 30 per cent of mid-caps could recall obtaining a loan or overdraft in 2007 compared to 31 per cent that successfully obtained some loan or overdraft finance in 2009. It is important to note that 9 per cent reported 'don't know' for 2007 compared to zero per cent in 2009. Excluding 'don't knows' leaves 33% of mid-caps obtaining a loan or overdraft in 2007.

Figure 4.1.3 showed that those who applied for a loan or overdraft in 2007 were significantly more likely to apply for finance in 2009. Figure 4.1.1 below demonstrates that 30 per cent of all mid-caps obtained finance in 2007, with loans slightly more common than overdrafts. This difference could also be partially accounted for by issues of recall. For instance, overdraft extensions are generally more straightforward than loan applications and so could be less likely to be remembered.

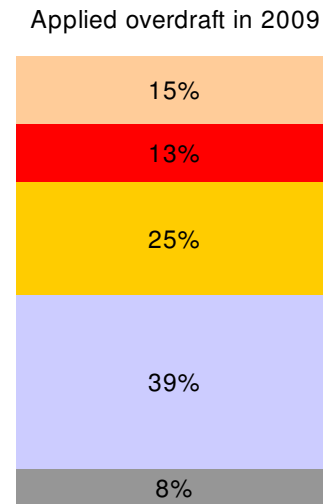
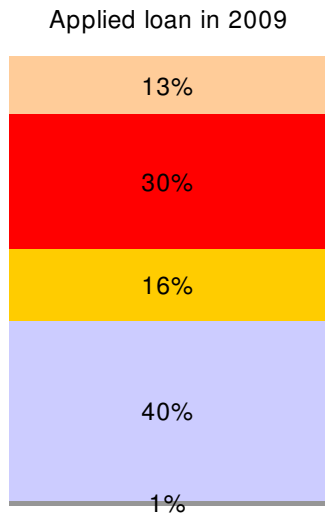
Further investigation of the overlap between the types of finance sought in 2007 and 2009 finance reveals that 17 percent of those that applied for a loan or overdraft in 2009 had applied for a loan in 2007 and 23 per cent an overdraft, so that overall 52 per cent of 2009 finance seekers that had also sought a loan or overdraft in 2007. Of those that did not apply for a loan or overdraft in 2009, just 18 per cent had applied for either a loan or overdraft in 2007, with loans most common. However, 10 per cent of this group could not recall whether the business had made a loan or overdraft application in 2007.

Those that applied for a loan in 2009 were more likely to have applied for a loan in 2007 while those that applied for an overdraft were more likely to have applied for an overdraft or both a loan and an overdraft during 2007.

Figure 4.1.1: Demand for finance in 2007 compared to 2009



■ Applied loan and overdraft in 2007
■ Applied loan only in 2007
■ Applied overdraft only in 2007
■ No loan or overdraft in 2007
■ Don't know



Q10. Which of the following types of finance have you sought in 2009? (Overdrafts, secured & unsecured loans) / Q59. Now I'd like you to think back two years to 2007. During any time in 2007, did your business take out loans or agree new or extend existing facilities? (Base = 400 / 186 / 214 / 147 / 108)

4.2. Costs and terms comparison (2009 compared to 2007)

It is important to acknowledge that this analysis relies on the ability of respondents to accurately recall the terms and conditions of loan and overdrafts taken out in 2009 and 2007. There is also likely to be an element of inaccurate recall for 2007 finance arrangements. In particular, it is felt unlikely that average loan and overdraft rates would have been below 5 per cent in 2007 given Bank of England interest rates were on average 5.5% in 2007.

It is also important to note that the analysis is based on low sample sizes, which leads to wide margins of uncertainty around the true figure. Therefore, it is recommended that care is taken in interpreting the figures, as many of the differences are not statistically significant.

Loans

Analysis of the terms and conditions of loans arranged in 2009 compared to 2007 shows that overall interest rates charged had fallen, but the level and proportion paying fees had increased, although not significantly. The fall in overall interest rates was less than the decline in the Bank of England base rates over the same time period, implying an increase in margins between 2007 and 2009. Particularly margins set over LIBOR appear to have increased, although the base sizes are too small to be conclusive.

Although the results show there appears to be a greater requirement to provide security in order to obtain loan finance, or to have covenants built in with 38 per cent requiring covenants in 2007 compared to 49 per cent in 2009, the difference is not statistically significant. This may imply the figures are comparable to one another and there may not have been a real increase in the level of security required.

Figure 4.2.1: Analysis of loan costs and terms – 2009 compared to 2007

	2009	2007	Change	Bases
Amount of <u>loan finance</u> applied for	£11m (£3.7m)	-	-	103
Average loan tenor	4.7	5.9	Up	69 / 83
% at variable rate	62%	75%	Down	69 / 83
% at fixed rate	36%	25%	Up	69 / 83
Average interest rate charged	4.2% (3.9%)	4.5%	Down	62 / 72
Average margins over BOE	2.8% (2.5%)	1.6% (1.2%)	Up	20 / 26
Average margins over LIBOR	3.6% (3.5%)	1.3% (1.3%)	Up	24 / 26
% who had to pay arrangement fees	83%	78%	Up	69 / 85
Fee amount	£32,000	£28,000	Up	47 / 50
Fee as % of loan	1.3% (1.2%)	-	-	45
Fee amount (all loans, excluding DK)	£26,000	£20,000	Up	68 / 85
% had to offer security / % with covenants built in	46% / 49%	40% / 38%	Up	69 / 85
% value of security taken	100%	79%	Up	35 / 42

[Key: Mean (Median)]

The average length of the loan appears to have increased slightly although again the sample base is too low to be conclusive. It is important to acknowledge that none of the results in the table are statistically different to one another, suggesting no significant deterioration in the terms and conditions on loans between 2009 and 2007. However, this will in part be due to the small sample sizes.

Overdrafts

A comparison between overdrafts obtained in 2009 with 2007 is in the following table. This provides some evidence of stricter terms as the proportion of new overdrafts requiring security has increased significantly from 27 in 2007 to 40 per in 2009. None of the other measures in the table are significantly different.

Figure 4.2.2: Analysis of overdraft costs and terms – 2007 compared to 2009

	2009	2007	Change	Bases
Overdraft limit applied for	£3.8m (£1.0m)	-	-	137
% variable rate	73%	83%	Down	118 / 82
% fixed rate	23%	13%	Up	118 / 82
Average interest rate charged	2.6%	4.0%	Down	103 / 65
Average margins over BOE	2.3 (2.0)	1.7 (1.5)	Up	57 / 47
Average margins over LIBOR	2.4 (2.3)	1.6 (1.5)	Up	28 / 17
% of those who had to pay arrangement fees	79%	71%	Up	118 / 85
Fee amount	£15,000	£12,000	Up	75 / 51
Fee as % of overdraft	1.8% (1.0%)	-	-	62
Fee amount	£12,000	£8,000	Up	116 / 83
% had to offer security / % covenants built in	40% / 20%	27% / 19%	Up	118 / 84
% value of security taken	80%	84%	Down	53 / 31

[Key: Mean (Median)]

Overall interest rates have decreased between 2007 and 2009 but less so than the decline in the Bank of England interest rate over the same period. This is confirmed by margins over LIBOR and Bank of England interest rate increasing over this period, although off set by decreases in Bank of England Interest Rate. The proportion paying arrangement fees and the value of arrangement fees was also higher for overdrafts in 2009 compared to 2007 although this difference is not statistically significant.

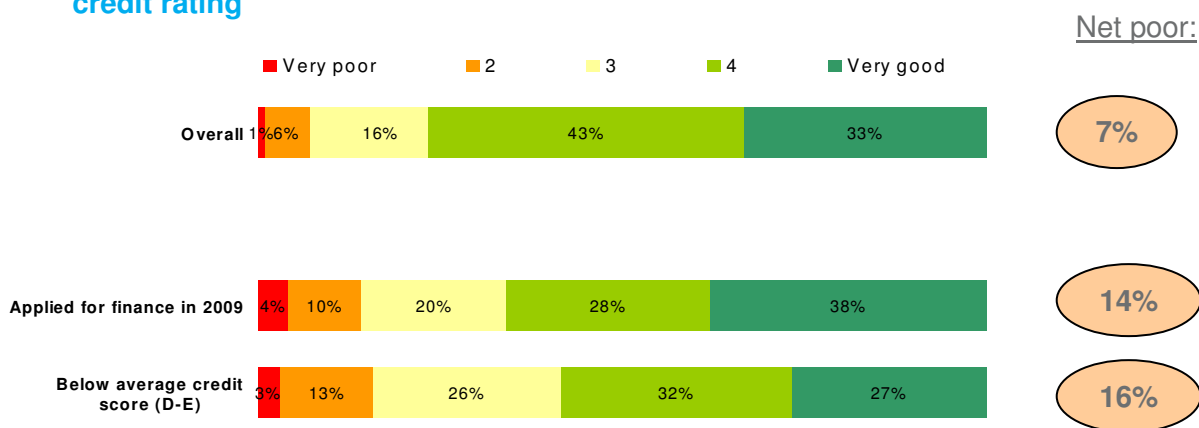
5. Perceptions

This section covers business perceptions of availability of finance and cost. Given the results from the previous sections, that most businesses obtain finance, and the overall cost is lower than in 2007 for most businesses, it appears that perceptions are generally worse than reality. However, perceptions are generally worse for those businesses obtaining finance in 2009, suggesting the application process may be more vigorous and comprehensive than previously.

5.1. Relationship with main bank

Mid-caps generally have a positive perception of their relationship with their main bank. One third of mid-caps rated the relationship as excellent and just seven per cent gave a poor or very poor rating. Those applying for finance in 2009 and with below average credit scores were more likely to report a poor relationship with their bank, as depicted below.

Figure 5.1.2: Perceived relationship with main bank, by finance history and credit rating



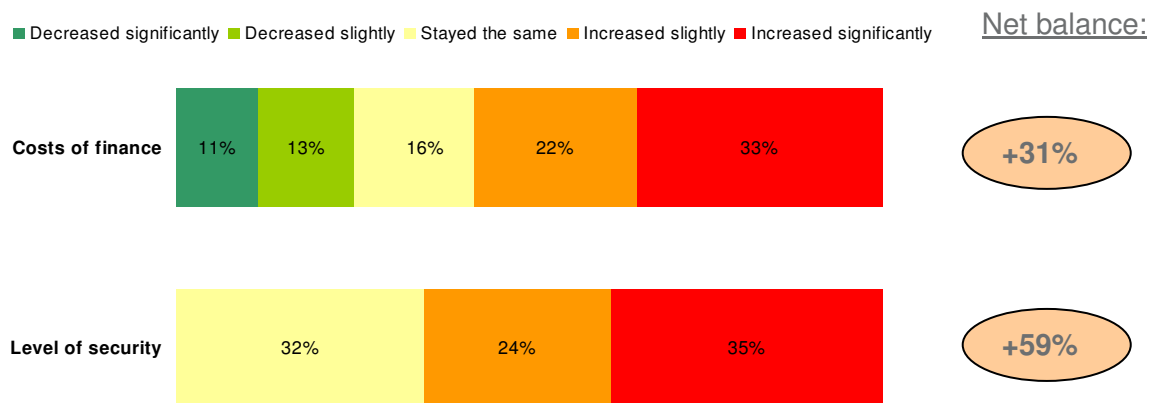
This positive relationship is also confirmed by the low levels of mid-caps switching banks. Just 7 per cent had changed their main bank in the last 3 years, with less than 1 per cent switching over the past 12 months. These businesses were most likely to move away from one of the main high street banks.

5.2. Costs & Security

This section covers business perceptions on the cost, security and availability of finance between 2009 and 2007. These questions were asked to all businesses, not just those that sought finance in 2009 and 2007. Some of the questions have a high proportion of don't knows where the respondent felt not to have the experience to give an answer.

Over half of mid-caps (55 per cent) perceived that the overall cost of finance had increased since 2007, although a quarter (24 per cent) recognised there had been a decline. The balance between those perceiving an increase and those believing there has been a decrease is +31 per cent, showing that a third more mid-caps believe costs have increased. An overwhelming majority felt that the level of security required by banks had increased since the middle of 2007, with 59 per cent perceiving an increase but none perceiving a decrease.

Figure 5.2.1: Perceived costs of finance and security required – 2009 compared to 2007



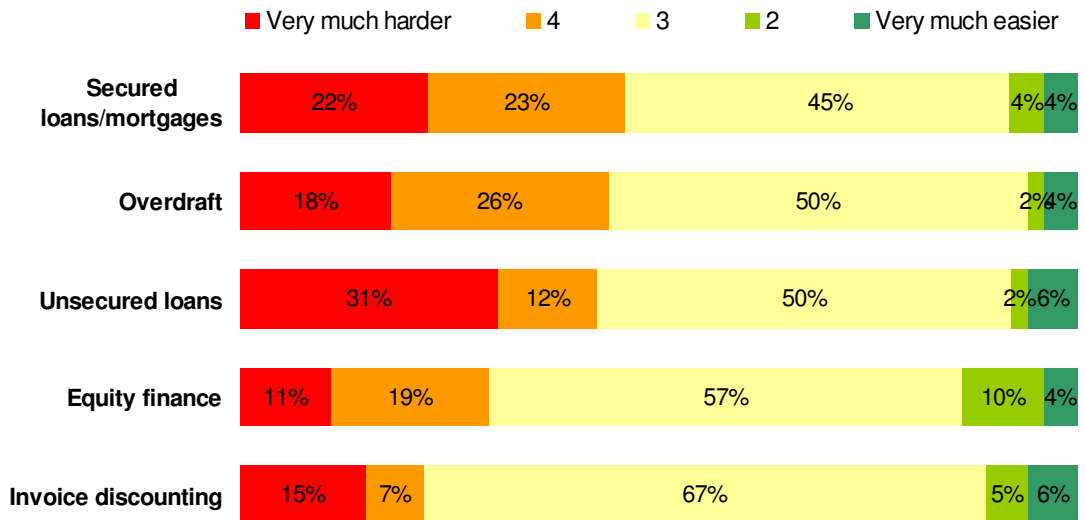
Q96. Thinking specifically about bank finance, would you say that the overall cost of bank finance has increased, decreased or stayed the same compared to the middle of 2007? (Base = 400) / Q97. And would you say the level of security or covenants required by the banks has increased? (Base = 400)

Small mid-caps (turnover £10 million to £25 million) were significantly more likely to perceive that the cost of finance had increased since 2007, with a net balance reporting an increase of 39 per cent compared to 24 per cent of large mid-caps (turnover £25 million to £500 million). Those in Distribution were least likely to perceive that costs had increased with a net balance of just 15 per cent.

5.3. Access to finance

Almost half of mid-caps perceive finance to be harder to obtain in 2009 compared to 2007. This analysis excludes those without the necessary experience to rate access to finance (i.e. those answering don't know or not applicable). Almost half able to give an opinion perceived overdrafts, secured and unsecured loans to be harder to obtain in 2009 compared to 2007. Even with smaller bases, those reporting access to equity finance and invoice discounting to be harder in 2009 were still significantly lower at 30 and 17 per cent respectively.

Figure 5.3.1: Perceptions of access to finance – 2009 compared to 2007

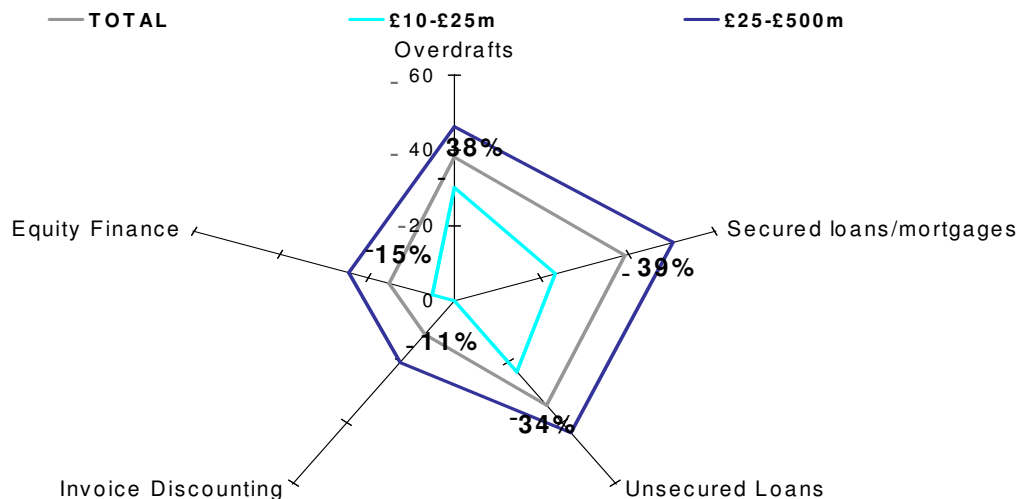


Q95. Compared to this time in 2007, would you say it is now easier or harder for your business to obtain the following forms of finance? (Base = 219 / 308 / 161 / 131 / 95)

Those who had applied for a loan in 2009 were significantly more likely to perceive that access to loans and overdrafts was harder in 2009 compared to those applying for just an overdraft or no finance at all in 2009. Those with experience of obtaining finance in 2007 were more likely to say that access is harder across all finance types in 2009.

Further analysis by turnover bands revealed that larger mid-caps were more likely to perceive access to finance to be harder in 2009. The net balance (the percentage saying harder minus the percentage saying easier), is shown in the chart below with the values shown for the overall base. The most negative perceptions go to the outside of the chart such that the larger the web, the higher the perception that there is a problem. The difference in net balances reported between small and larger mid-caps was statistically significant for all types, with the largest difference reported for secured loans (net -50 per cent of large mid-caps compared to -23 per cent for small mid-caps).

Figure 5.3.2: Perceptions of access to finance (2007 vs 2009) by turnover



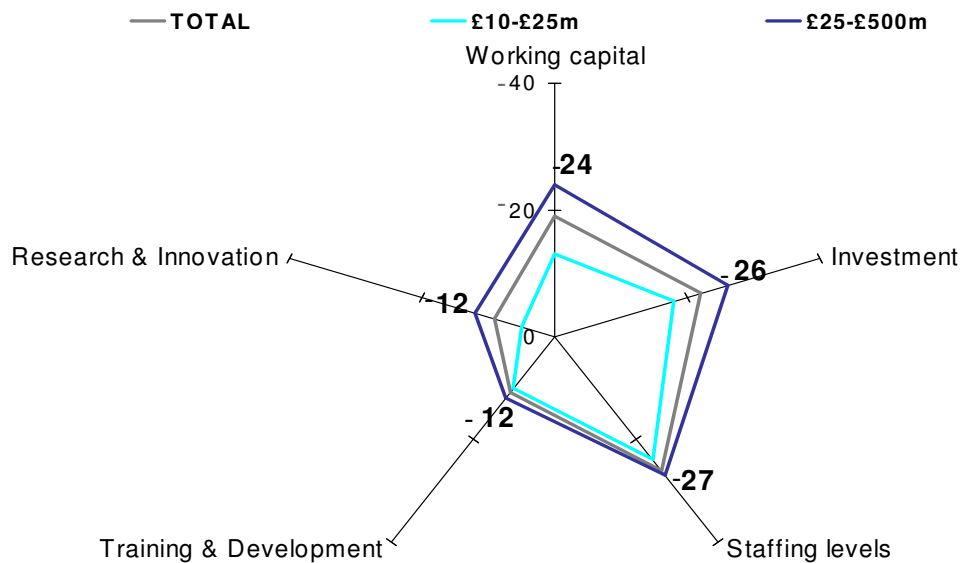
Q95. Compared to this time in 2007, would you say it is now easier or harder for your business to obtain the following forms of finance? % Net balance (Base = 400 / 177 / 223)

5.4. Impact of finance supply on business

The survey questioned the impact of the availability of finance on specific business needs, such as working capital and investment. The question was framed so that finance could be viewed as being a positive or negative impact on these specific business issues. The net balance (those reporting a positive impact minus those reporting a negative impact) is charted below for each business issue, according to size and sector. The values shown are for all respondents (as previous chart).

The majority felt that finance availability was having a negative impact, with staffing levels and investment being the most adversely affected. While research and innovation was least negatively impacted but still had a net negative balance of -9 per cent. The chart shows that larger mid-caps with a turnover between £25 million and £500 million were most likely to see a negative impact on all issues, with a balance of -27 per cent for staffing levels.

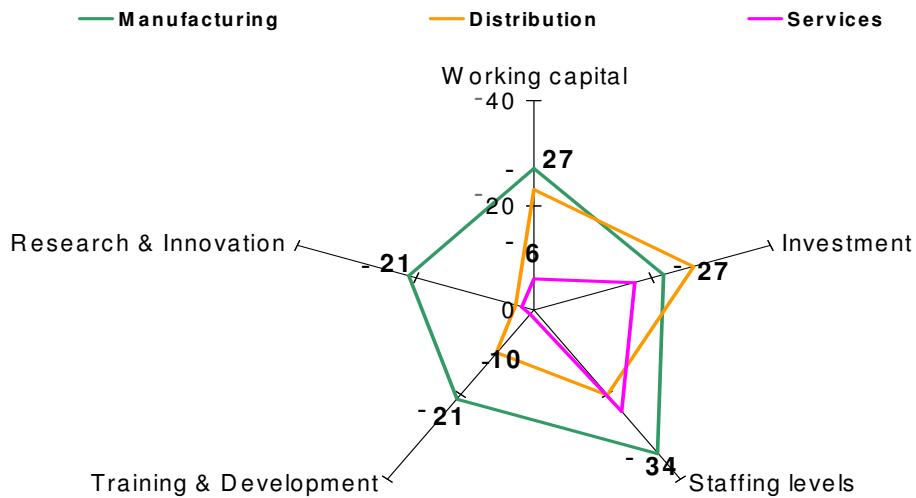
Figure 5.4.1: Impact of finance supply in 2009, overall and by turnover



Q89. To what extent has the current supply of finance in 2009 had an impact on the following in your business? % Net balance (Base = 400 / 177 / 223)

Mid-caps in the Services sector were least likely to report a negative impact overall, particularly for research, training and working capital. The Manufacturing sector was most likely to report that finance supply was negatively impacting the business across all issues, with a net balance of -27 per cent for working capital and -23 per cent for staffing levels. Respondents in the Distribution sector had the highest negative balance for investment at -27 per cent.

Figure 5.4.2: Impact of finance supply in 2009, by sector



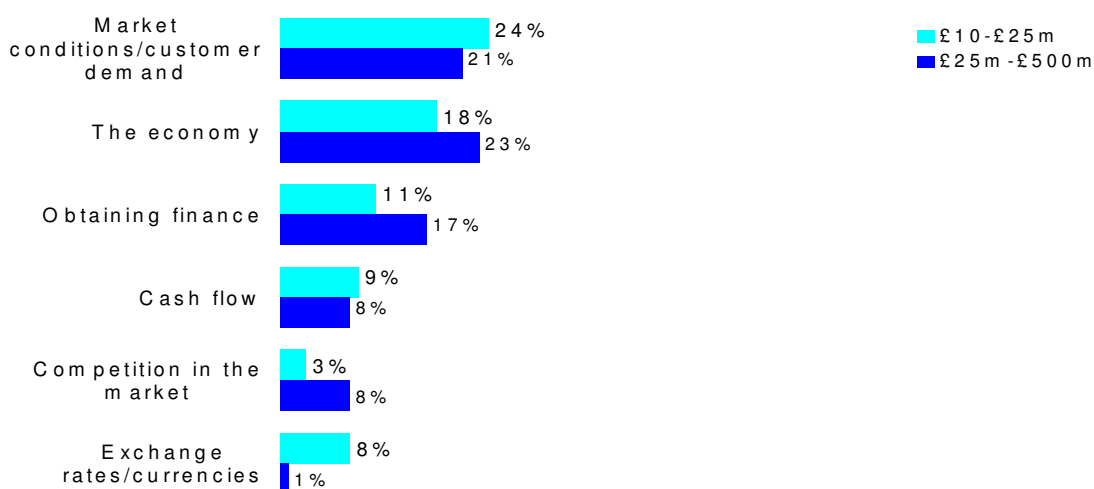
Q89. To what extent has the current supply of finance in 2009 had an impact on the following in your business? % Net balance (Base = 132 / 129 / 139)

5.5. Business Obstacles

The highest obstacle reported by mid-caps in 2009 was market conditions / customer demand, stated by 23 per cent of all mid-caps, followed by the economy (21 per cent). Obtaining finance was an obstacle for 17 per cent of large mid-caps (turnover £25m-£500m) compared to 11 per cent of smaller mid-caps, equating to 14 per cent overall. Larger businesses were also more likely to state competition to be a challenge while exchange rates were more of an issue for smaller mid-caps.

Market conditions / customer demand was more likely to be stated as an obstacle by those in Manufacturing, (34 per cent) who were less likely to state the general economy (14 per cent). Obtaining finance was an issue for 18 per cent of Manufacturing and Distribution mid-cap businesses compared to 9 per cent of the Service sector. This was seen as an obstacle for 32 per cent of those seeking finance in 2009 (statistically significant).

Figure 5.5.1: Business Obstacles, by turnover

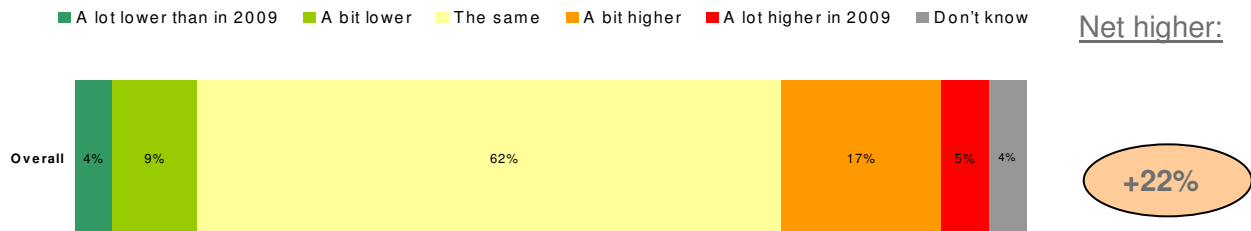


Q99. Now thinking more generally about the current challenges for UK business, what would you say is the biggest obstacle to the success of your business? (Base = 400)

5.6. Demand for finance in 2010

Demand for finance in 2010 is expected to be moderately higher than in 2009. 22 per cent of all mid-caps expected to have a greater need for finance in 2010 compared to 13 per cent expecting demand to be lower. Larger mid-caps were slightly more likely to expect a greater need in 2010, 26 per cent compared to 17 per cent of smaller mid-caps. There was some variation in finance history, with those seeking finance in 2007 most likely to expect to seek more finance (30 per cent) while 23 per cent of 2009 finance seekers expected to have a greater demand in 2010.

Figure 5.6.1: Business challenges, by turnover

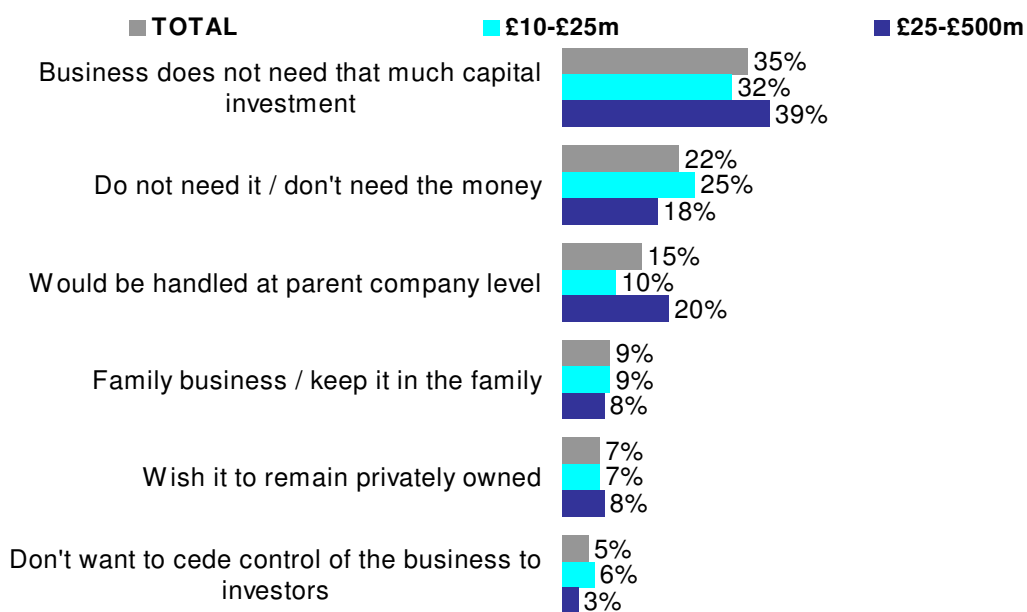


Q92. If at all, how do you think your need for external finance will change in 2010 compared to 2009? (Base = 400 / 205 / 135)

5.7. Equity finance

7 per cent of mid-caps currently use or have used equity finance in the past 3 years. A series of questions about equity finance were asked to all companies that did not have PLC status (373 respondents). Of these, 8 per cent had actively sought equity finance before and a further 7 per cent had considered but not sought. Larger mid-caps, those seeking loan finance and with those with poorer credit scores were all more likely to actively seek equity finance. Services companies were more likely to actively seek equity finance while Manufacturing have considered but not sought.

Figure 5.7.1: Reasons why would not consider Equity finance, by turnover



Q86. Why would you not consider equity finance? Would you say...

(Base = 294 / 139 / 155)

Of the 83 per cent that had not considered raising equity finance, half had no need, feeling the business did not need that much capital investment. Some mentioned it would be handled at parent company level while 9 per cent wanted to 'keep it in the

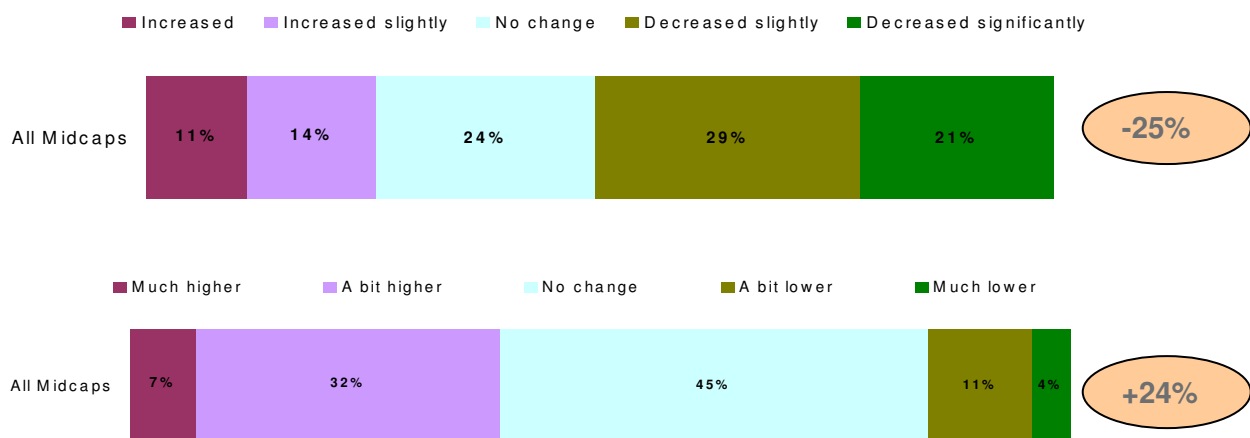
family' and 7 per cent wanted it to remain privately owned. 44 per cent would consider raising equity finance in the future if they had difficulty raising loan or overdraft finance. However, raising equity finance was given by only one respondent as a way to cut dependency on external finance. Only 6 per cent of respondents perceived this form of finance to be harder to obtain now than in 2007, the lowest of all forms of finance, although this may reflect the small number of firms seeking this type of finance.

5.8. Predicted growth

A higher proportion of mid-cap businesses are expecting to increase sales in the next 12 months compared to expecting them to fall. However, nearly half (45%) are expecting sales to be at a similar level to now.

Figure 5.8.1: Past and predicted turnover

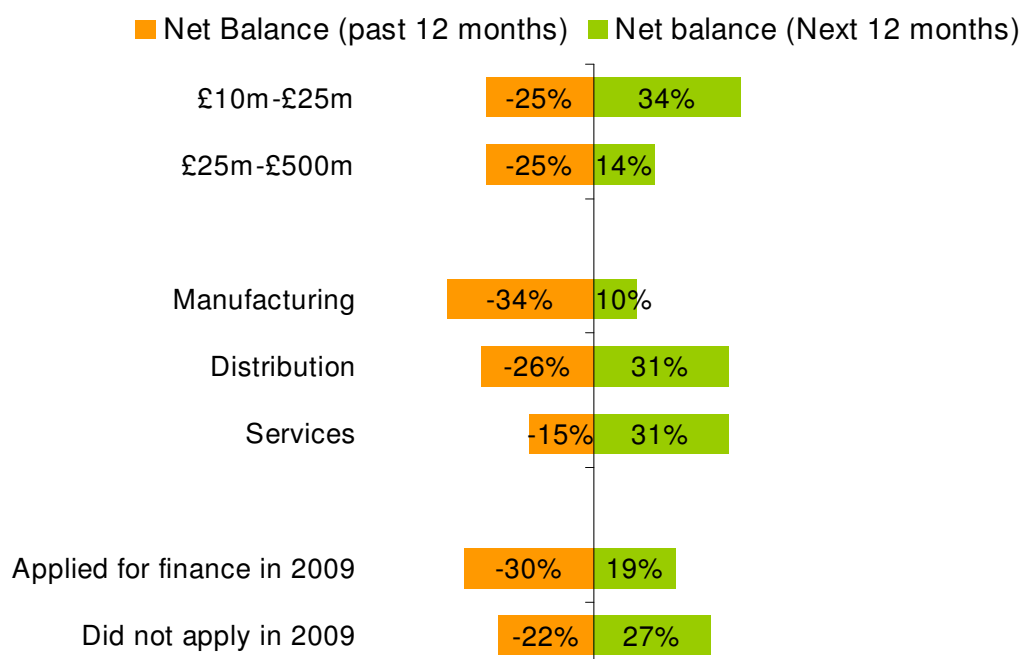
Net balance:



Q.100 Has your business increased or decreased its turnover in the past 12 months, or has there been no change? (Base = 400) / Q.101 How do you expect business turnover in the next 12 months to compare to current levels? (Base = 400)

There were stronger future prospects overall compared to the growth experienced by mid-caps in 2009. Smaller mid-caps were more likely to predict growth in 2010. The following chart also shows that those seeking finance in 2009 were slightly less positive about both their past growth, and future growth prospects, than those that did not apply for finance in 2009.

Figure 5.8.2: Past and predicted turnover, by segment



Q.100 Has your business increased or decreased its turnover in the past 12 months, or has there been no change? (Base = 400) / Q.101 How do you expect business turnover in the next 12 months to compare to current levels? (Base = 400) where Net balance = % saying 'increase' - % saying 'decrease'

A. Technical Appendices

400 interviews were conducted between the 22nd September and 29th October 2009 using Computer Assisted Telephone Interviewing (CATI). The following data shows the sample composition, by size, sector, region and whether the respondent had sought finance in 2009.

Figure A.1: Sample composition (Unweighted and Weighted)

	Unweighted		Weighted & grossed	
	n=	%	n=	%
Turnover				
£10m - £25m	177	44.3%	9,851	49.2%
£25m - £100m	175	43.7%	7,931	39.6%
£100m-£250m	38	9.5%	1,470	7.3%
£250m - £500m	10	2.5%	770	3.9%
Sector				
Manufacturing	132	33%	6,527	32.6%
Distribution	129	32.2%	6,734	33.6%
Services	139	34.8%	6,762	33.8%
Region				
North	96	24%	5,013	25.0%
Midlands	93	23.2%	4,828	24.1%
South	211	52.8%	10,182	50.9%
Sought finance in 2009	205	51.2%	7,787	38.9%
Did not seek finance 2009	195	48.8%	12,236	61.1%
Total	400	100	20,023	100

Weighting was applied by size and sector (see section 2.2). Statistical significance testing in this reported was conducted at the 95 per cent confidence limit.

Fieldwork

One week prior to interviewing, the sample went through a 'warming up' period, whereby potential respondents were telephoned about the prospective survey, and a research verification letter was sent when requested. This enabled potential respondents to prepare for the survey, to ensure they had the information about their loan or overdraft applications to hand.

Fieldwork commenced on 21st September 2009 using a small team of experienced business to business interviewers. Interviewers were fully briefed and monitored throughout fieldwork to maintain high quality standards. Supervisors, interviewers and the project manager regularly met to discuss fieldwork progress and address any issues that arose. After the first week of fieldwork, the proportion that agreed to participate but then screened out was quite high. This was found to be owing to the requirement to exclude subsidiary companies. Upon agreement with BIS, this condition was removed so as not to restrict the number of achievable interviews. A new question was then added to establish whether the parent company had sought finance on behalf of the subsidiary company under interview.

Interviews ranged in length from 12 to 20 minutes, depending on the respondent's financial experiences in 2009 and whether they also has experience of finance applications in 2007. For instance those that had applied for both a loan and an overdraft in 2007 and 2009 would complete the full questionnaire. The average interview length was 18 minutes.

A minimum of 10 per cent of all interviews were back checked to ensure Interviewer Quality Control Standards (IQCS) were adhered to.

Weighting

The results were initially weighted to match the original profile of mid-caps according to the Companies House database, on both turnover and industry sector. The following table details the weighting profile used, and compares the interviews

achieved to demonstrate that the interviews were achieved in line with the population profile. This resulted in a very high weighting efficiency of 99 per cent.⁷

Figure A.2 Mid-caps weighting profile by size and sector

	£10-25m	£25-100m	£100-500m	Total
Manufacturing	15.8%	13.3%	3.5%	32.6%
Distribution	15.3%	14.0%	4.4%	33.6%
Services	18.1%	12.3%	3.4%	33.8%
Total	49.2%	39.6%	11.2%	100.0%

Figure A.2 Interviews achieved by size and sector

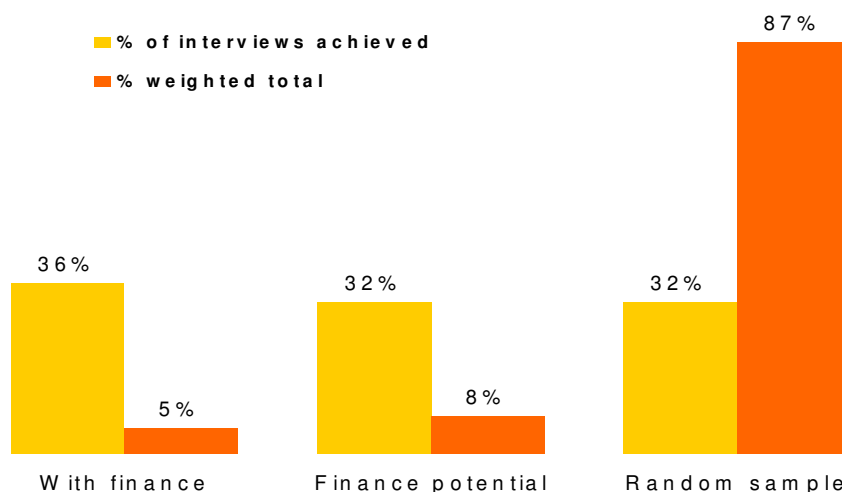
	£10-25m	£25-100m	100-500m	Total
Manufacturing	14.8%	14.8%	3.5%	33.0%
Distribution	13.8%	15.0%	3.5%	32.3%
Services	15.8%	14.0%	5.0%	34.8%
Total	44.3%	43.8%	12.0%	100.0%

Base = 400

A second layer of weighting was then required in order to account for the over-sampling of businesses that were identified as having taken finance in 2009. This was necessary to ensure that overall results reported were representative of the target population and not skewed towards finance seekers. This had a more significant impact on the weighting efficiency, yielding a final weighting efficiency score of 40 per cent. The following chart details the number of interviews achieved in each sample group and compares how each sample group was represented in the original database, which was used for the second weighting profile.

⁷ A weighting efficiency is also known as the research 'design effect'. It provides an estimate of the loss in efficiency of the profile required compared to the profile obtained through weighting.

Figure A.4 Weighting by sample type vs interviews achieved



Base = 400

Non response

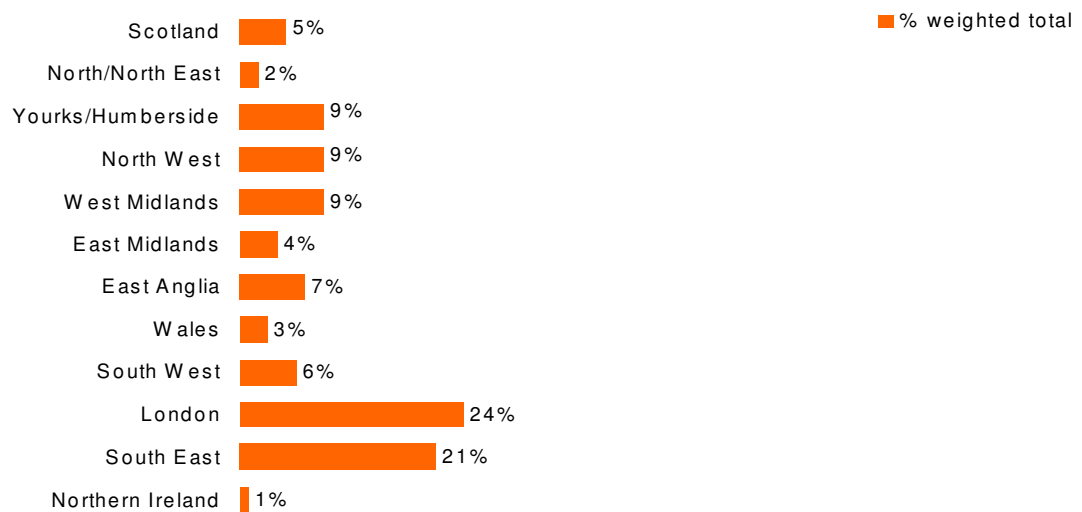
There was some level of non response within the survey: 8 per cent of productive phone calls made were refusals, equating to 28 per cent of the available sample. A further 34 per cent of calls made during fieldwork were 'unproductive' (no reply / engaged, etc). Excluding phone problems, 19 per cent agreed to take part in the survey, this equated to 14 per cent of the available sample (although this does not account for appointments that were made but not realised during the fieldwork period. On average, 28 productive phone calls were made per interview achieved.

Within the survey, there were a number of questions that created a high proportion of don't knows or refusals, particularly questions referring to interest rates for 2007 finance applications, where 20 per cent could not recall loan interest rates and 26 per cent did not know overdraft interest rates from 2007. 17 per cent could not recall the amount of fee payable from their 2007 loan application. For such questions, the lack of recall led to low base sizes that need to be treated with caution.

10 per cent of respondents could not answer the questions around difficulties with 2009 loan and overdraft applications while 17 per cent could not recall the tenor arrangement and 20 per cent did not know the value of security required. However, there was a lower level of don't know for the value of security required in 2007, at 11 per cent.

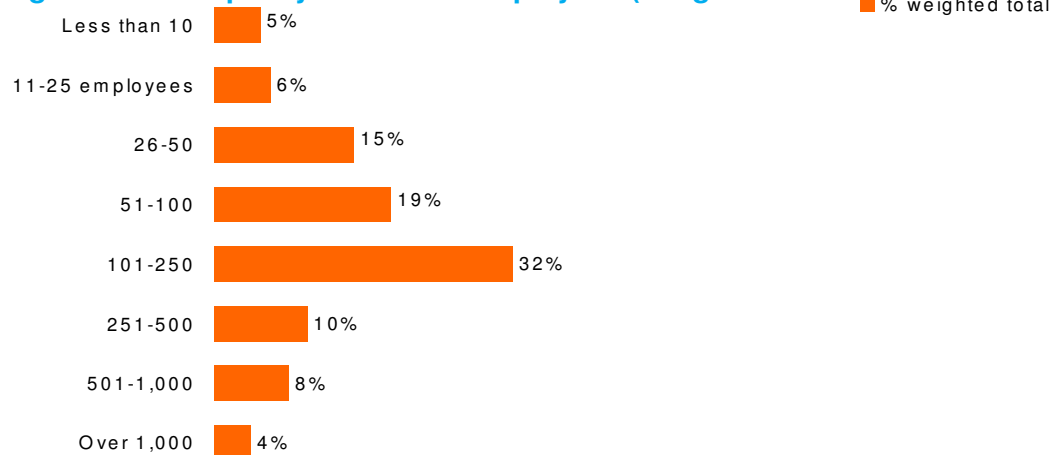
Sample profile

Figure A.5: Sample by government region (Weighted)



Region taken from postcode (Base = 400)

Figure A.6: Sample by number of employees (Weighted)



Q106. How many employees (including yourself) are there in the company in the UK, including both full and part time workers? (Base = 400)



Continental Research
132-140 Goswell Road
London EC1V 7DY

t: 020 7490 5944
f: 020 7490 1174