

Results from the 2009 Finance Survey of SMEs

By IFF Research Ltd.

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Results from the 2009 Finance Survey of SMEs

1. Background

The Department for Business, Innovation and Skills (BIS) commissioned IFF Research to conduct a survey of SMEs to investigate issues around the availability of bank finance, and also the cost and terms and conditions experienced by businesses that obtained bank finance in 2009.

Where possible the survey findings are compared with the 2007 'Financing UK SMEs' survey, which was conducted by the Centre for Business Research (CBR – part of the University of Cambridge)¹, to assess the extent to which finance conditions have changed since 2007, a time before the Credit Crunch and recession.

In addition, comparisons are made, where relevant, to the Business Barometer – a survey of 500 SME employers² that takes place approximately every two months, the last published wave having had fieldwork in September 2009. This survey is also undertaken by IFF Research.

1,250 interviews were undertaken using Computer Assisted Telephone Interviewing (CATI) between the 12th October and 4th November 2009. The data for this survey has been weighted according to figures provided by BIS's Enterprise Directorate (SME Stats 2008, <http://stats.berr.gov.uk/ed/sme>). Therefore, the figures presented are representative of all UK SMEs with 0-249 employees, by size, sector, region and age of business.

In the following tables within the report a figure shown in bold for a sub-group is normally (unless stated otherwise) statistically different at the 95% confidence level against the overall figure.

The sampling frame for this survey comprises of businesses that took part in the 2008 UK SME Finance survey. The 2008 survey was sponsored by Barclays Bank and the University of Warwick and undertaken by IFF Research and comprised of 2,500 interviews – 1,250 of these being a recall study of those SMEs that had taken part in the 2004 UK SME finance survey; and a further 1,250 being new interviews.

The original 2004 UK SME Finance survey was developed by a consortium of public and private organisations led by the Bank of England that commissioned the University of Warwick to carry out an in-depth study of SME finances in the UK. IFF Research Ltd undertook the field work and completed 2,500 telephone interviews with SMEs between August and October 2004. The survey was repeated again in 2007. BIS is primarily interested in the experiences of SMEs obtaining finance since the beginning of January 2009 to assess current finance conditions and then comparing it to 2007 before the Credit Crunch and recession emerged. This report will not make any comparisons to 2008 survey results, as these form part of a longitudinal piece of work undertaken by the University of Warwick.

¹ Where comparisons are not made with this survey, this is usually because an equivalent question does not exist, or that it was previously asked in a slightly different way from UKSMEF

² Please note that whilst the UKSMEF surveys sole traders, the Business Barometer is based on SMEs with one or more employee (in addition to the owner)

2. Summary of main findings

Use of finance

- Whereas the usage of most forms have finance has remained at similar levels, or even increased on the levels seen in 2007, fewer businesses in 2009 are using commercial loans or mortgages (11 per cent, compared to 15 per cent in 2007)
- Larger SMEs are much more likely to use multiple sources of financing than smaller businesses
- The vast majority of overdrafts are held at the main bank, but SMEs are more likely to seek other providers for loans
- 88 per cent of SMEs with current accounts have business accounts, with 12 per cent using personal ones. There are fewer businesses using personal accounts than in 2007
- Less than a quarter (23 per cent) have free banking. In 2007 this proportion was 32 per cent. The average monthly bank charge among those paying is £44
- Seventy-eight per cent of SMEs have a current account that is in credit, with the average balance being +£17,224. However, 20 per cent currently have a debit balance, with the average debt being -£13,290. The size of the credit and debit increases according to the size of the business
- 5 per cent of SMEs have switched their main bank in the past year – the same proportion as seen in 2007

Demand for finance

- Only a minority – 25 per cent - sought finance in 2009. Overdrafts and loans are the most common form of finance sought (by 21 per cent combined – 19 per cent sought an overdraft, 3 per cent a loan)
- Most of the overdrafts applied for in 2009 were renewals and extensions on existing facilities (71 per cent)
- Of those seeking finance, the majority (71 per cent) sought finance for working capital followed by marketing. Just 7 per cent applied for finance to be used for investment. Overdrafts are more likely to be used for working capital, although this also applies to 54 per cent of loans sought
- Of those that did not seek finance in the last year, the vast majority (87 per cent) say they have no need for finance, with only 6 per cent thinking they would be turned down. Those with the poorest credit scores are the most likely to perceive that they will be turned down
- 22 per cent of businesses have taken steps in the last year to reduce their reliance on external finance, mainly by cutting costs

Availability of finance

- Of those seeking finance, the majority were offered it by the first source they approached (78 per cent).
- Thirty-eight per cent of SMEs seeking overdrafts or loans reported any difficulties obtaining these from the first source they approached. Twenty-two per cent of these were turned down outright, 10 per cent obtained some but not all of the money they requested, and 5 per cent obtained the full amount but only with some problems
- Difficulties were more commonly encountered with applications for overdrafts (39 per cent) rather than loans (21 per cent)
- Difficulties were more likely to have been encountered by specific sub-groups, such as those in the construction sector (55 per cent) and those with the poorest credit scores (71 per cent)
- There is some evidence that the difficulties encountered were fewer at the end of 2009 compared to the start of the year
- Thirty-four per cent of those that obtained a loan in 2009 rejected the offer on the basis that they might not be able to afford the monthly repayments, or the arrangement fees and rates were too high
- Of the overall SME population, 16 per cent of all UK SMEs were offered debt finance in 2009, 5 per cent were turned down for this by all sources, and the remaining 79 per cent did not apply

Costs and terms and conditions: Overdrafts

- The mean average overdraft facility for SMEs in 2009 is just under £20,000. It is slightly higher for overdrafts arranged in 2009 (just under £26,000). In 2007 the mean average size of an overdraft facility was higher at £37,000
- Eight-two per cent of those who arranged an overdraft in 2009 paid an arrangement fee – significantly higher than for all overdrafts as a whole
- The average fee for those arranging in 2009 was £240. On average this is 3.12% of the size of the overdraft
- 26 per cent of those arranging overdrafts in 2009 pay a fixed rate, 48 per cent a variable rate, with 27 per cent being unsure

- The average interest rate on new overdrafts obtained in 2009 is 5.82%, although the median is 3.5% suggesting some spread, particularly at the top end. The overall interest rate on overdrafts in existence in 2007 was 6.91% suggesting an overall fall in the cost of finance. The overall rate for fixed rate overdrafts in 2009 is 6.91% compared to 4.63% in 2007. This suggests that although margins have increased, the overall cost of finance is lower than in 2007 due to falls in the Bank of England interest rate, although the cost of fixed rate overdrafts has increased. This finding contradicts other evidence that shows interest rates on fixed rate lending to have fallen since 2007³.
- 19 per cent of those arranging an overdraft in 2009 needed to provide security

Costs and terms and conditions: Commercial loans and mortgages

- There is no significant difference in the amount of loan finance applied for between 2007 and 2009, although the average tenor of a loan has reduced from nearly 11 to 7 years
- 56 per cent of loans in 2009 were taken at variable rates, with 29 per cent being fixed rates (other loan takers were unsure which rate they had). This is in contrast to 2007 when the majority of rates were fixed
- The average interest rate reported in 2009 is 4.2%. Average variable rates in 2009 are 3.4%, but 7% for fixed rate loans. In 2009, average margins over Bank of England Rate were 2.93%, which were similar to the margins charged in 2007 (2-3.99). The average interest rate on a fixed rate loan in 2007 was 6.05%. The figures suggest that whilst variable rates have fallen due to the Bank of England rate decreases, fixed rates have actually risen from 2007. However, other evidence generally suggests fixed rate loans have decreased, so these findings must be interpreted with caution, especially as they are based on small sample sizes.⁴
- 23 per cent of those taking loans in 2009 needed to provide security, compared to a much higher figure of 55 per cent for loans taken in 2007
- 77 per cent of loans arranged in 2009 were subject to an arrangement fee. Among those that paid a fee the average amount was £1,195. For loans arranged in 2007 the proportion paying an arrangement fee was significantly lower at 59 per cent

³ BIS data shows the cost of fixed rate lending for SMEs has fallen by 16% on average between 2007 and 2009

⁴ BIS data shows the cost of fixed rate lending for SMEs has fallen by 16% on average between 2007 and 2009

Perceptions

- Perceptions in most areas are generally worse than the actual outcomes reported. However, those with experience seeking finance in 2009 are most likely to report that it is harder to obtain finance, particularly if they were turned down for finance
- 62% of respondents report a good or very good business relationship with their main bank, with 15% reporting a poor or very poor relationship.
- Based on all with an opinion, businesses generally perceive that it is now harder to obtain finance compared to 2007:
 - 8 per cent of businesses think it is now easier than in 2007 to get an overdraft, compared to 33% who think it is more difficult. 59 per cent of businesses do not think there has been any change since 2007
 - 5 per cent of businesses think it is now easier than in 2007 to get a secured loan, compared to 38 per cent who think it is more difficult. 56 per cent of businesses don't think there has been any change
 - 7 per cent of businesses think it is now easier than in 2007 to get an unsecured loan, compared to 48 per cent who think it is more difficult. 44 per cent of businesses do not think there has been any change
- 40 per cent of SMEs perceive the overall level of security required by banks to have increased since 2007 compared to 2 per cent perceiving it to have decreased. 36 per cent report no change
- A higher proportion of businesses perceive the cost of finance to have increased since the middle of 2007
 - 47 per cent of businesses perceive the cost of bank finance to have increased since 2007 compared to 10 per cent that perceive it to have decreased. 31 per cent perceive no change since 2007
- The majority of businesses (66 per cent) perceive their future demand for finance will be the same in 2010 compared to 2009. Although 15 per cent perceive it will be higher in 2010, an identical percentage (15 per cent) report it will be lower, suggesting no real change in the future demand for finance by SMEs
- A third of SMEs think their turnover will increase in the next 12 months, with another third thinking it will stay the same, and 31 per cent thinking it will decrease

Equity finance

- Only a small proportion (2 per cent) of SMEs claim to have issued shares in the past year. Even fewer (1 per cent) say they have ever actively sought equity finance. A further 3 per cent have considered it in the past but not sought it
- The main reasons for not considering it are because SMEs don't think they need the amount of finance that equity finance would bring (71 per cent). Others, particularly medium sized businesses, are reluctant to lose control to equity investors
- A third of SMEs would consider equity finance in the future if it were to be easier to understand and access. Nearly half of SMEs would consider it if they were unable to obtain loans or overdrafts

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2. Use of Finance

Summary

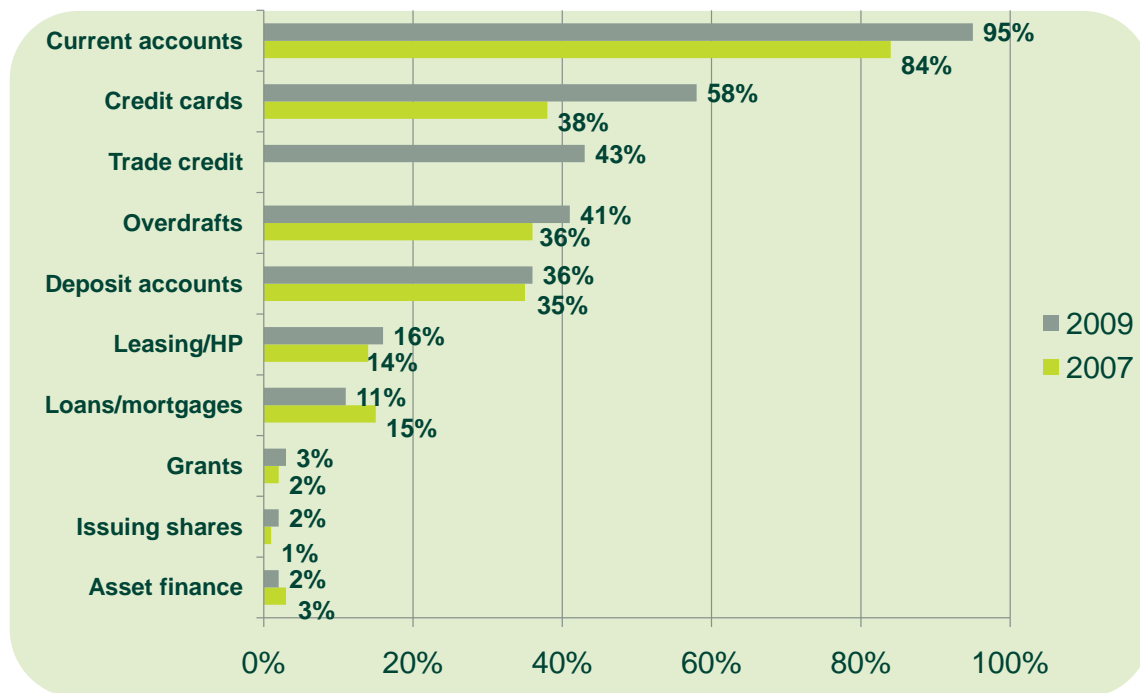
- Whereas the usage of most forms have finance has remained at similar levels, or even increased on the levels seen in 2007, fewer businesses in 2009 are using commercial loans or mortgages (11 per cent, compared to 15 per cent in 2007)
- Larger SMEs are much more likely to use multiple sources of financing than smaller businesses
- The vast majority of overdrafts are held at the main bank, but SMEs seeking loans are more likely to seek loans from other provider
- 88 per cent of SMEs with current accounts have business accounts with 12 per cent having personal accounts. There are fewer businesses using personal accounts than was the case in 2007
- Less than a quarter (23 per cent) have free banking. In 2007 this proportion was 32 per cent. The average monthly bank charge among those paying is £44
- Seventy-eight per cent of SMEs have a current account that is in credit, with the average balance being +£17,224. However, 20 per cent currently have a debit balance, with the average debt being -£13,290. The size of the credit and debit increases according to the size of the business
- 5 per cent of SMEs have switched their main bank in the past year – the same proportion as seen in 2007

Use of Finance in last 12 Months

Chart 1 below shows the forms of finance that have been used over the last 12 months for business purposes. These have not necessarily been arranged in the last 12 months, but they have been used in this period.

Chart 1: Forms of finance used in the last 12 months

Forms of finance used in last 12 months (2007 = 'now')



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Base: all SMEs (1250)

Current accounts are used by almost all SMEs (95 per cent), with credit cards for business purposes being used by 58 per cent⁵. Forty-three per cent use trade credit either as a provider or a supplier, overdrafts are held by 41 per cent, deposit accounts by 36 per cent, leasing/hire purchase is used by 16 per cent, and commercial loans and mortgages by 11 per cent.

Comparison between the 2009 survey and the 2007 Financing UK SMEs surveys cannot be exact as the older survey asks about finance 'used now', whilst the 2009 survey asks about finance used in the last 12 months. Therefore, the finding that in 2009 there are more SMEs using current accounts, credit cards and overdrafts is probably due to these facilities not being used at the time of surveying in 2007. On the other hand approximately the same proportions use deposit accounts, leasing and hire purchase, asset based finance, grants and share issues in both surveys. The real finding is that in 2009 there are significantly fewer SMEs using commercial loans or mortgages.

⁵ Some of these might be personal cards used for business purposes.

Table 1: Forms of finance used in the last 12 Months – by Sector					
	All	Primary/ Manu	Construction	TRAD	Services
n=	1250	220	179	396	455
	%	%	%	%	%
Current accounts	95	97	90	97	97
Credit cards	58	55	55	56	61
Trade credit	43	47	63	49	29
Overdrafts	41	46	40	40	42
Deposit accounts	36	38	34	29	40
Leasing/hire purchase	16	23	15	23	11
Commercial loans/mortgages	11	12	11	14	10
Grants	3	14	1	1	2
Issuing shares	2	2	3	*	2
Asset based finance	2	3	*	3	1
Average number of different types of finance (max 10)	3.07	3.37	3.12	3.12	2.95
Figures in bold are statistically significant at the 95% confidence level against the overall finding					
* = a figure of less than 0.5% but larger than zero					

Usage of different types of finance does vary by sector and size as Tables 1 and 2 illustrate. The construction industry is less likely to use current accounts than other sectors (90 per cent), whilst trade credit is more likely than average to be utilised in construction and TRAD⁶, and least in the service sector. Deposit accounts are most likely to be used in the service sector, and least in TRAD, whereas leasing and hire purchase are much more common in the primary/manufacturing sector and TRAD than they are elsewhere, particularly in the service sector. Fourteen per cent of those in primary/manufacturing claim they use grants, compared to just 1-2 per cent of those in other sectors. Overall, the average SME uses just over three of the listed types of finance, with primary/manufacturing using the most, and the service sector the fewest.

For the types of finance most of interest in this report – overdrafts and commercial loans - there are no significant differences according to sector.

⁶ TRAD = transport, retail and distribution

Table 2: Forms of finance used in the last 12 Months – by Size					
	All	Sole Trader	Micro (1-9 employees)	Small (10-49 employees)	Medium (50-249 employees)
n=	1250	198	442	379	230
	%	%	%	%	%
Current accounts	95	95	97	98	99
Credit cards	58	55	63	73	79
Trade credit	43	39	53	61	70
Overdrafts	41	38	49	54	56
Deposit accounts	36	32	45	61	66
Leasing/hire purchase	16	11	26	43	60
Commercial loans/mortgages	11	8	19	28	46
Grants	3	1	6	14	15
Issuing shares	2	1	4	4	5
Asset based finance	2	*	4	13	18
Average number of different types of finance (max 10)	3.07	2.8	3.66	4.49	5.14
Figures in bold are statistically significant at the 95% confidence level against the overall finding					
* = a figure of less than 0.5% but larger than zero					

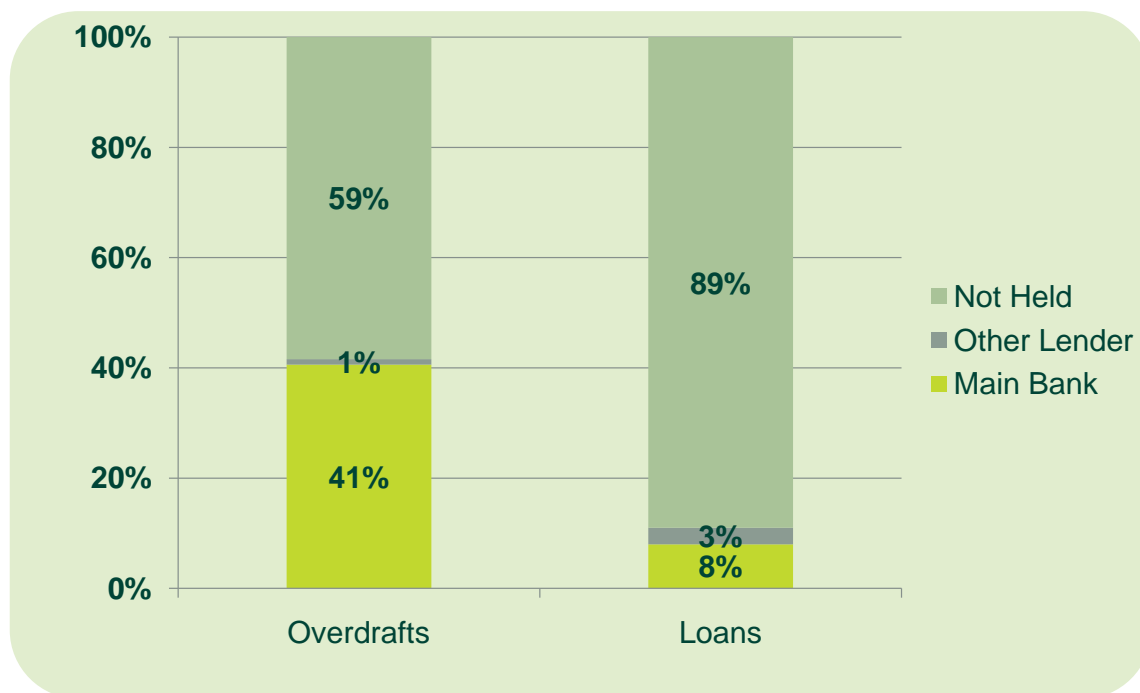
By size, it is no surprise to find the largest of the SMEs – the medium sized businesses with between 50 and 249 employees – using the most different types of finance (5.14). Sole traders use, on average, 2.8 different types. This trend occurs for all the listed types of finance – the medium-sized businesses being most likely to use them, then the small businesses (10-49 employees), then the micros (1-9 employees) and finally the sole traders. However, because of the prevalence of sole traders in the overall SME population (74 per cent), the behaviour of the sole traders is likely to be the strongest influence on figures for all SMEs as a whole.

Whether overdraft and loans held at main bank

Overdrafts tend to be held with an SME's main bank (99 per cent) with only a very small proportion (1 per cent) having another overdraft supplier. This proportion does not vary by size of business.

Chart 2: Whether overdrafts and loans held at main bank

Whether overdrafts and loans held at main bank



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Base: all SMEs (1250)

For loans, SMEs are more likely to look beyond their main bank. For SMEs overall, 8 per cent have the main bank as their main loan supplier (76 per cent of those with a loan), but an additional 3 per cent hold their main loan elsewhere (24 per cent of those with a loan).

Medium-sized businesses with loans are significantly more likely to have their loans with their main bank (88 per cent compared to 76 per cent overall). A higher proportion of those that have loans arranged in 2009 – 82 per cent - got their main loan with their main bank.

Current accounts

Eighty-eight per cent of those with current accounts have business accounts, 12 per cent have personal ones that are used for business purposes. Unsurprisingly, this varies by size of business and turnover. Fifteen per cent of sole traders have personal accounts, as do 21 per cent of those with annual turnovers of less than £50,000.

Table 3: Whether Main Current Account used for Business is a Personal or Business Account – By Size, Sector, Credit Score and Main Bank				
Base = all who use current accounts		Business	Personal	Base (n=)
All SMEs	%	88	12	1216
Size				
Sole traders	%	84	15	189
Micro	%	98	2	427
Small	%	99	1	371
Medium	%	100	0	228
Sector				
Primary/manufacturing	%	88	12	215
Construction	%	90	10	170
TRAD	%	93	7	383
Services	%	84	15	448
D&B Credit Score				
One (most creditworthy)	%	93	7	237
Two	%	93	6	335
Three	%	88	12	339
Four (least creditworthy)	%	87	13	143
Unknown	%	82	18	162
Turnover				
Less than £50,000	%	79	21	161
£50,000-£249,000	%	95	5	258
£250,000-£999,999	%	96	4	289
£1,000,000 or more	%	100	0	427
Figures in bold are statistically significant at the 95% confidence level against the overall finding				
* = a figure of less than 0.5% but larger than zero				

In the 2007 Financing UK SMEs survey a slightly higher proportion overall, fifteen per cent, used a personal current account for business purposes. This figure was 20 per cent for sole traders.

Twenty-three per cent of SMEs with current accounts pay no bank charges. This is most likely to be the case for sole traders (27 per cent) – a high proportion of whom have personal accounts used for business purposes – and least likely to be the case for medium sized businesses (5 per cent).

Table 4: Monthly Bank Charges ⁷					
Base = all with current accounts	All	Sole Trader	Micro (1-9 employees)	Small (10-49 employees)	Medium (50-249 employees)
n=	1216	189	427	371	228
	%	%	%	%	%
Nothing	23	27	14	9	5
Less than £50	45	51	32	18	6
£50-£99	9	6	17	18	9
£100-£199	5	3	8	16	13
£200-£999	3	*	10	19	30
£1000 or more	*	*	1	2	11
Don't know/refused	15	13	19	18	26
Mean (including those who pay nothing)	£30.57	£19.34	£38.37	£192.42	£544.29
Mean (of those who pay)	£43.61	£28.09	£49.53	£216.05	£574.46
Median (including those who pay nothing)	£10	£10	£12	£80	£220
Median (of those who pay)	£25	£20	£25	£100	£250
Figures in bold are statistically significant at the 95% confidence level against the overall finding					
* = a figure of less than 0.5% but larger than zero					

In the 2007 Financing UK SMEs survey a higher proportion had free banking – 32 per cent. The figure for sole traders in 2007 was 37 per cent.

Of those paying charges, the mean monthly amount is £43.61, with a median of £25. This amount increases according to the size of the business, with the mean for medium sized businesses being £575.

In 2007 the equivalent mean monthly amount was £72, meaning that average bank charges in real terms have come down since then.

⁷ Of those paying any bank charges, 65% pay these monthly, 34% quarterly and 1% annually. The quarterly charges have been divided by three to equate to the monthly charges, and the annual charges by twelve.

Overall, 78 per cent of SMEs with current accounts say that they are currently in credit, with 20 per cent in debit and 2 per cent not knowing or refusing to say. Micro businesses are significantly more likely to be in debit at the moment (26 per cent) than other SMEs.

Table 5: Amount Held in Current Account at the Moment					
Base = all with current accounts	All	Sole Trader	Micro (1-9 employees)	Small (10-49 employees)	Medium (50-249 employees)
n=	1216	189	427	371	228
	%	%	%	%	%
All in Credit	78	80	72	80	82
- Up to £1000	14	18	6	4	6
- £1000-£4999	28	33	18	8	2
- £5000-£9999	9	9	9	8	6
- £10,000-£49,999	15	13	22	28	17
- £50,000-£99,999	3	2	6	9	10
- £100,000+	2	0	5	15	34
- In credit – DK or REF to give amount	7	6	8	8	7
Mean in credit balance	+£17,224	+£6,491	+£36,522	+£85,886	+£256,672
All in Debit	20	19	26	18	16
- Up to £1000	7	8	3	4	3
- £1000-£4999	6	7	3	2	1
- £5000-£9999	1	0	5	1	0
- £10,000-£49,999	4	3	7	4	1
- £50,000-£99,999	*	*	1	1	2
- £100,000+	1	0	3	3	8
- In debit – DK or REF to give amount	1	*	4	1	1
Mean in debit balance	-£13,290	-£4,921	-£26,003	-£55,560	-£278,299
Don't know or refused to say whether in credit/debit	2	2	2	3	2
Overall mean balance (credit and debit)	+£11,200	+£4,300	+£19,950	+£59,900	+£169,350
Figures in bold are statistically significant at the 95% confidence level against the overall finding					
* = a figure of less than 0.5% but larger than zero					

The overall mean balance held in current accounts at the time of fieldwork (Oct. 2009) was +£11,200.

Switching banks

Five per cent of SMEs with current accounts have been with their main bank less than one year. Of these, 92 per cent had switched from another bank. This equates to 5 per cent of SMEs using current account switching banks in the last year – the same proportion seen in 2007.

Although sample sizes are small, the main reasons for switching in 2009 concern high bank charges and general dissatisfaction with the service provided at the previous bank.

4. Demand for finance

Summary

- Only a minority (25 per cent) sought finance in 2009. Overdrafts and loans are the most common form of finance sought (by 21 per cent combined – 19 per cent an overdraft, 3 per cent a loan)
- Most of the overdrafts applied for in 2009 were renewals and extensions on existing facilities (71 per cent)
- Of those seeking finance, the majority (71 per cent) sought finance for working capital followed by marketing. Just 7 per cent applied for finance to be used for investment. Overdrafts are more likely to be used for working capital, although this also applies to 54 per cent of loans sought
- Of those that did not seek finance in the last year, the vast majority (87 per cent) say they have no need for finance, with only 6 per cent thinking they would be turned down. Those with the poorest credit scores are the ones most likely to think they will be turned down
- 22 per cent of businesses have taken steps in the last year to reduce their reliance on external finance, mainly by cutting costs

Applied for finance in 2009

Overall, 25 per cent of SMEs have applied for external finance since January 2009. Twenty-one per cent have applied once, and 4 per cent more than once. These figures refer to all applications for finance (not just overdrafts and loans), whether successful or unsuccessful.

Table 6: Whether External Finance Sought since January 2009 – By Size, Sector and Age of Business						
		Yes - Any	Once	More than Once	No - none	Base (n=)
All SMEs	%	25	21	4	75	1250
Size						
Sole traders	%	24	19	4	76	198
Micro	%	27	23	4	73	442
Small	%	39	33	7	61	379
Medium	%	43	29	14	57	230
Sector						
Primary/manufacturing	%	22	18	4	78	220
Construction	%	24	23	1	76	179
Transport, retail and distribution	%	33	27	6	67	396
Services	%	22	17	5	78	455
D&B Credit Score						
One (most creditworthy)	%	20	17	3	80	239
Two	%	17	14	3	83	342
Three	%	27	22	4	73	355
Four (least creditworthy)	%	35	28	7	65	149
Unknown	%	23	19	5	77	165
Age of business						
Under 2 years old	%	25	19	7	75	115
2-6 years old	%	31	29	3	69	95
7-15 years old	%	23	17	6	77	294
16+ years	%	25	21	3	75	746
Figures in bold are statistically significant at the 95% confidence level against the overall finding * = a figure of less than 0.5% but larger than zero						

This compares with 21 per cent claiming to have applied for finance in the last 6 months in the September Business Barometer. The Business Barometer is undertaken among SME employers only, so the proportion applying for finance is expected to be higher than that seen in this survey, as larger businesses have a higher propensity to seek external finance than smaller ones. Whilst it is true that the Business Barometer figure only refers to the previous six months, the real reason for the discrepancy is that this survey prompts on renewal of overdraft facilities – considering these to be finance applications. The Business Barometer has no such prompt.

As noted, larger SMEs are much more likely to have looked for external finance since the beginning of the year than smaller ones. By sector, only the businesses in the TRAD sector have a higher than average propensity to look for finance. By age of business, those which are between 2 and 6 years old are more likely than average to have sought it once, but are not more significantly likely to have sought it overall.

Because most of the sample for this survey was initially drawn from the Dun & Bradstreet database, we are able to get up-to-date credit scores for most of those interviewed – with a rating of ‘one’ indicating the most creditworthy and ‘four’ the least. A number of credit scores are unknown, often caused by late delivery of accounts.

Those with a credit score of one (the highest credit rating) tend to be older, larger and are more likely than average to be in the primary and manufacturing sectors. They, along with those with a credit score of three (who also tend to be older but are smaller businesses) are the least likely to want to change their behaviour. A profile of SMEs according to their credit score is given in the appendix of this report.

By credit score, those who are the least creditworthy (DNBCS = 4) are the most likely to have sought finance in the last year (35 per cent), and the most creditworthy (DNBCS = 1-2) are the least likely (20 and 17 per cent respectively).

Types of finance sought

Twenty-one per cent of SMEs have applied for an overdraft or loan since January 2009 (18 per cent an overdraft only, 2 per cent a loan only, and 2 per cent both). An application for an overdraft in this case includes renewal of an existing facility.

Table 7: Whether Overdrafts or Loans Applied for since January 2009						
		Any overdraft or loan	Any overdraft	Any loan	Neither	Base (n=)
All SMEs	%	21	19	3	79	1250
Size						
Sole traders	%	18	17	3	82	198
Micro	%	28	25	5	72	442
Small	%	38	34	9	62	379
Medium	%	40	35	17	60	230
Sector						
Primary/manufacturing	%	21	18	3	79	220
Construction	%	18	14	4	82	179
TRAD	%	22	21	4	78	396
Services	%	23	21	3	77	455
Age of business						
Under 2 years old	%	16	16	5	84	115
2-6 years old	%	22	16	6	78	95
7-15 years old	%	23	21	2	77	294
16+ years	%	22	20	3	78	746
D&B Credit Score						
One (most creditworthy)	%	16	13	5	84	239
Two	%	22	17	6	78	342
Three	%	23	22	2	77	355
Four (least creditworthy)	%	20	19	4	80	149
Unknown	%	19	17	3	81	165
Figures in bold are statistically significant at the 95% confidence level against the overall finding						
* = a figure of less than 0.5% but larger than zero						

Applications for overdrafts and loans were more common among larger SMEs – 40 per cent of medium sized business and 38 per cent of small businesses having applied for either in 2009.

Those with a DnB credit score of '1' were the least likely to have applied for either (16 per cent). Although significantly more likely to have applied for any form of finance, those with credit scores of '4' were not significantly more likely to have applied for overdrafts or loans. This group, which tend to be newer businesses with fewer assets, are more likely to have applied for factoring and invoice discounting than average (7 per cent of these applied for this in the last year, compared to 2 per cent of all SMEs). This group are also more likely to be making use of equity finance compared to all SMEs (7 per cent of DNBCS '4' compared to 2 per cent of all SMEs).

Most applications for overdrafts in the last year, 71 per cent, were for the renewal or extension of an existing facility. Twenty-eight per cent sought a new overdraft, and this was most likely to be the case for sole traders (35 per cent), those in the construction (64 per cent) and TRAD (41 per cent) sectors, those with the least creditworthy credit scores, and newer businesses aged under 2 years (70 per cent).

Table 8: Type of overdraft applied for since January 2009				
Base = all who applied for an overdraft since January 2009		Extension/Renewal	New Overdraft	Base (n=)
All SMEs	%	71	28	374
Size				
Sole traders	%	65	35	33
Micro	%	80	17	130
Small	%	85	15	124
Medium	%	82	18	86
Sector				
Primary/manufacturing	%	96	4	53
Construction	%	36	64	52
TRAD	%	59	41	132
Services	%	84	15	137
D&B Credit Score				
One (most creditworthy)	%	94	6	69
Two	%	85	15	104
Three	%	63	36	99
Four (least creditworthy)	%	58	41	52
Unknown	%	87	13	50
Age of business				
Under 2 years old	%	28	70	36
2-15 years old	%	73	26	111
16+ years	%	83	17	227
Figures in bold are statistically significant at the 95% confidence level against the overall finding				
* = a figure of less than 0.5% but larger than zero				

Reason for seeking finance

Of those that applied for finance, 71 per cent did so in order to gain working capital or for cashflow purposes. The next most common reason (respondents were able to give multiple reasons) was for marketing purposes, mentioned by 12 per cent.

Table 9: Reasons for Needing Finance			
Base = all who applied for finance since January 2009	All who applied for any type of finance	Applied for overdraft	Applied for loan
	n=481	n=320	n=88
	%	%	%
Working capital/cashflow	71	82	54
Marketing	12	12	15
Purchasing/leasing of vehicles and equipment	9	4	4
Investment	7	5	30
- Acquiring capital equipment or vehicles	4	3	20
- Improving buildings	2	2	2
- Research and development	1	*	2
- Buying land or buildings	1	1	5
Safety net in case of emergency	5	9	0
Property/premises maintenance	3	5	4
Acquisition of other firms	1	1	2
Other	2	2	21
Don't know	9	1	0

Figures in bold are statistically significant at the 95% confidence level against the overall finding

* = a figure of less than 0.5% but larger than zero

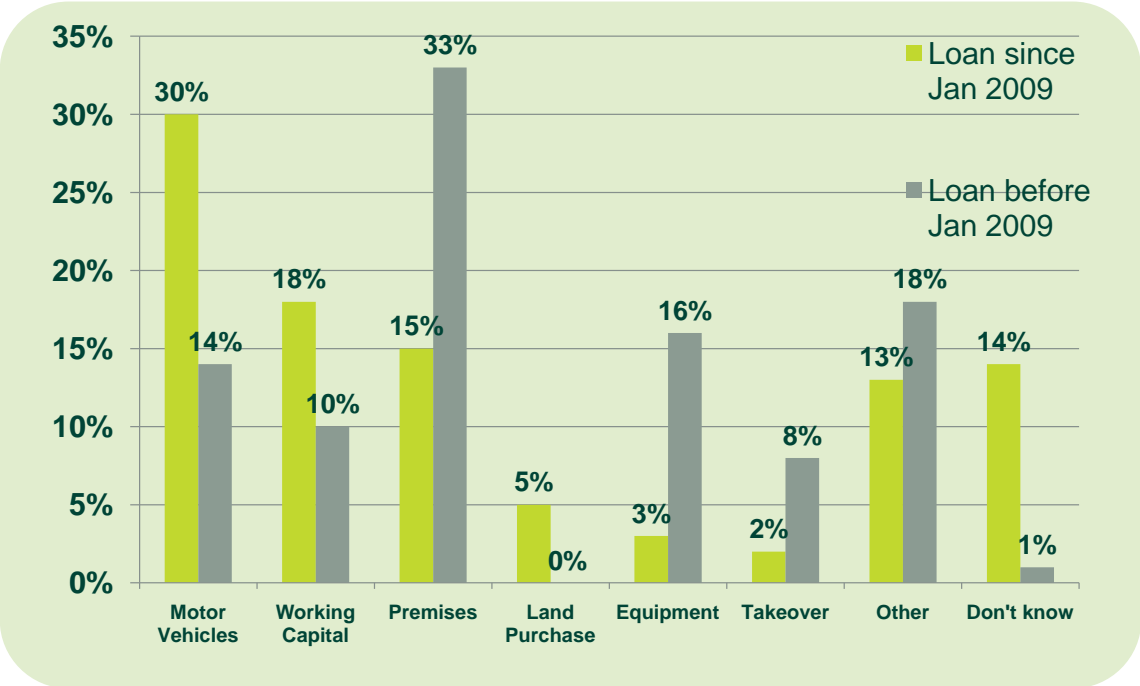
The reasons for wanting finance differ between those who sought overdrafts and those who sought loans, even though a proportion of those applying for finance sought both. Overdraft applications were predominantly for working capital and cashflow reasons (82 per cent), whilst this was only the case for 54 per cent of those seeking loans. Those seeking loans were more likely to want the money for investment reasons (30 per cent), which mainly comprised of acquisition of capital equipment or vehicles (20 per cent)⁸.

⁸ The wording of the equivalent questions in the 2007 Financing UK SMEs survey and the Business Barometer are such that the datasets are not directly comparable.

The main reason for needing a commercial loan or mortgage differed between those that arranged their loan in 2009, and those that were arranged previously. Thirty per cent of loans taken in the last year were for the purpose of buying motor vehicles, compared to just 14 per cent of those obtained previously. Loans in 2009 were also more likely to be used to fund working capital. The previously obtained loans were more likely to have been used to improve premises, buy equipment or for takeovers.

Chart 3: Main reason for needing commercial loan/mortgage

Main reason for needing commercial loan/mortgage



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Base: all with loans (arranged since 2009 = 78; before Jan 2009 = 225)

Reasons for not seeking finance

Of those with no current commercial loans or mortgages, and who did not apply for any in the last 12 months, six per cent did not apply because they thought they would be turned down, and 87 per cent because they did not need a loan or mortgage. Although the question and responses were asked slightly differently, 80 per cent of respondents that did not apply for a loan in the 2007 Financing UK SME survey reported they did not need this type of finance.

Table 10: Reasons for not applying for a loan in last year					
Base = all with no loans/mortgages and no loan applications in the last 12m		Thought they would be turned down	No need for one	Neither reason	Base (n=)
All SMEs	%	6	87	6	915
Size					
Sole traders	%	6	88	6	180
Micro	%	6	84	10	344
Small	%	2	91	7	265
Medium	%	1	95	5	125
Sector					
Primary/manufacturing	%	8	84	7	170
Construction	%	5	94	1	135
TRAD	%	5	88	7	272
Services	%	7	84	9	338
D&B Credit Score					
One (most creditworthy)	%	*	97	3	173
Two	%	2	94	4	248
Three	%	3	90	6	279
Four (least creditworthy)	%	12	83	5	97
Unknown	%	16	71	13	118
Age of business					
Under 2 years old	%	9	86	5	98
2-15 years old	%	7	88	5	290
16+ years	%	4	87	9	527
Figures in bold are statistically significant at the 95% confidence level against the overall finding					
* = a figure of less than 0.5% but larger than zero					

Larger SMEs were the least likely to think they would be turned down. Those with a credit rating of 4 or an unknown credit rating were the most likely to think this (12 and 16 per cent respectively).

Dependency on External Finance

Twenty-two per cent of SMEs claim they have taken steps to reduce their dependency on external finance in the last year. Despite being more likely to seek external finance, this was more likely to be the case the larger the size of the business. It is also the case for those with the poorest credit score.

Table 11: Whether Taken Steps to Reduce Dependency on External Finance in the Last Year

		Yes	No	Don't know	Base
All SMEs	%	22	76	2	1250
Size					
Sole traders	%	19	79	1	198
Micro	%	28	68	3	442
Small	%	27	72	1	379
Medium	%	33	66	*	230
Sector					
Primary/manufacturing	%	24	74	2	220
Construction	%	16	84	*	179
TRAD	%	25	71	4	396
Services	%	22	76	1	455
Age of business					
Under 2 years old	%	19	81	*	115
2-6 years old	%	34	64	2	95
7-15 years old	%	22	77	1	294
16+ years	%	19	79	3	746
D&B Credit Score					
One (most creditworthy)	%	14	85	1	239
Two	%	26	73	1	342
Three	%	12	85	2	355
Four (least creditworthy)	%	30	70	*	149
Unknown	%	36	61	3	165

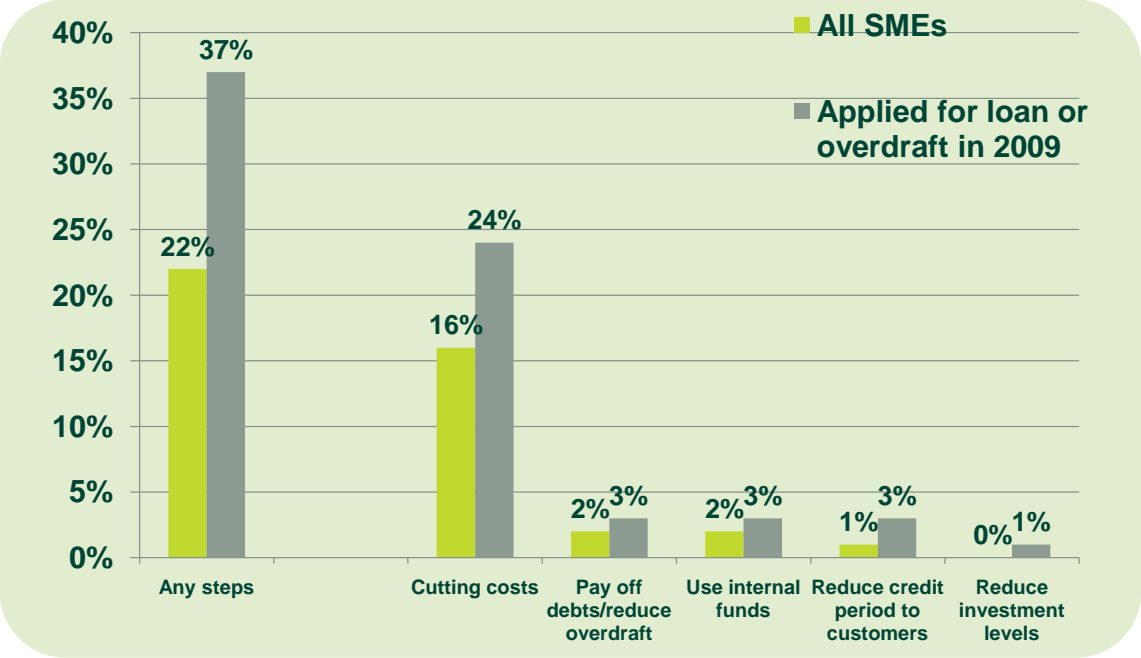
Figures in bold are statistically significant at the 95% confidence level against the overall finding

* = a figure of less than 0.5% but larger than zero

By sector, construction businesses are the least likely to have taken measures (16 per cent). By age of business, those aged between 2 to 6 years are more likely than average to have taken measures (34 per cent).

Chart 4: Steps taken to reduce dependency on external finance in the last year

Steps taken to reduce dependency on external finance in the last year



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Base: all SMEs (1250)/applied for loan or overdraft in 2009 (415)

Cutting costs is the step most likely to have been taken by those who are trying to reduce their dependency on external finance (16 per cent of all SMEs). Costs are even more likely to have been cut by those who sought loans or overdrafts in 2009 (24 per cent of these cut costs).

5. Availability of finance (loans and overdrafts)

Summary

- The majority of those that sought finance were offered it by the first source they approached (78 per cent)
- Thirty-eight per cent of SMEs seeking overdrafts or loans reported any difficulties obtaining these from the first source they approached. Twenty-two per cent of these were turned down outright, 10 per cent obtained some but not all of the money they requested, and 5 per cent obtained the full amount but only with some problems
- Difficulties were more commonly encountered with applications for overdrafts (39 per cent) rather than loans (21 per cent)
- Difficulties were more likely to have been encountered by specific sub-groups, such as those in the construction sector (55 per cent) and those with the poorest credit scores (71 per cent)
- There is some evidence that the difficulties encountered were fewer the end of 2009
- Thirty-four per cent of those that applied for a loan in 2009 rejected the offer on the basis that they might not be able to afford the monthly repayments, or the arrangement fees and rates were too high
- Of the SME population, 16 per cent of all UK SMEs were offered debt finance in 2009, 5 per cent were turned down for this by all sources, and the remaining 79 per cent did not apply.

Difficulties in raising finance

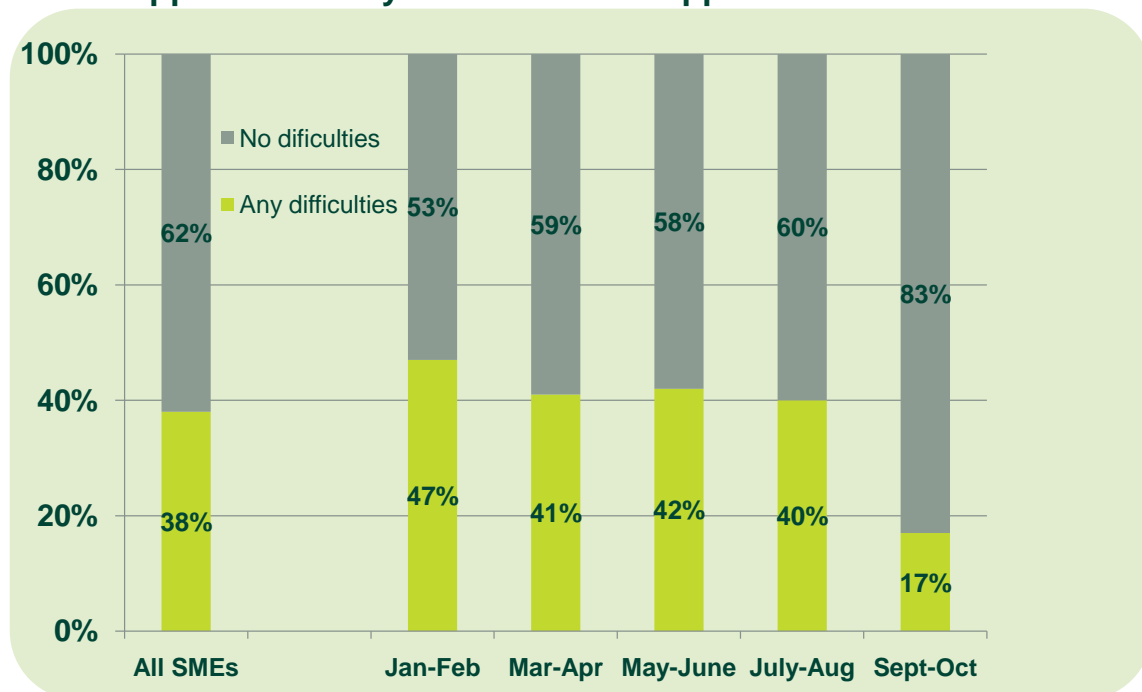
The majority of businesses (78 per cent) applying for finance got some finance from the first source approached. Of those applying for overdrafts or loans, thirty-eight per cent reported any difficulties from the first source they approached. This was most likely to be the case for sole traders (41 per cent). Difficulties were most likely to be seen in the construction sector (55 per cent), and among those with a poorer credit scores of '4' (71 per cent). This shows that those with poor credit scores, who tend to be newer businesses with few assets, have the most problems obtaining finance.

Table 12: Any difficulties obtaining overdrafts and loans since January 2009 – from the first source approached				
Base = all who applied for an overdraft or loan since Jan 09		Any difficulties	No difficulties	Base (n=)
All SMEs	%	38	62	415
Size				
Sole traders	%	41	59	36
Micro	%	34	66	144
Small	%	25	75	138
Medium	%	26	74	97
Sector				
Primary/manufacturing	%	24	76	60
Construction	%	55	45	58
TRAD	%	46	54	148
Services	%	30	70	149
D&B Credit Score				
One (most creditworthy)	%	23	77	78
Two	%	9	91	116
Three	%	36	64	106
Four (least creditworthy)	%	71	29	59
Unknown	%	54	46	56
Age of business				
Under 2 years old	%	40	60	36
2-15 years old	%	43	57	126
16+ years	%	31	69	253
Figures in bold are statistically significant at the 95% confidence level against the overall finding				
* = a figure of less than 0.5% but larger than zero				

Least likely to have difficulties were businesses aged 16 years or older (31 per cent had difficulties), and small and medium sized businesses (25 and 26 per cent respectively). Both those with credit scores of '1' and '2' had fewer difficulties than average (although perhaps surprisingly those with a score of '1' had more difficulties than those with scores of '2').

Chart 5: Any difficulties obtaining overdrafts and loans in 2009 from first source approached – by latest month of application

Any difficulties obtaining overdrafts and loans in 2009 from first source approached – by latest month of application



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Base: all applying for overdraft or loan in 2009 (415)

There is some variance in difficulties experienced according to the latest month of application for overdrafts and loans. Whilst the proportion experiencing any difficulties up to August 2009 is consistent at between 40 and 47 per cent, only 17 per cent of those applying in September or October experienced difficulties.

Whilst there were difficulties for 39 per cent of those applying for overdrafts in 2009, this only occurred for 21 per cent of those that applied for loans in the same period. The most common difficulty for those applying for an overdraft was being turned down outright (28 per cent of those applying), followed by getting some but not all of the money they requested (9 per cent).

Table 13: Type of difficulties encountered since January 09 when applying for overdrafts or loans (from first source approached)			
Base = all who applied for an overdraft or loan since January 2009	Applied for either overdraft or loan	Applied for overdraft	Applied for loan
n=	415	374	102
	%	%	%
Turned down outright	22 ⁹	28	11
Got some, but not all of money requested	10	9	5
Got the full amount applied for, but with some problems	5	4	6
ANY DIFFICULTIES	38	39	21
NO DIFFICULTIES	62	61	79
Offered finance	78	72	89
Figures in bold are statistically significant at the 95% confidence level against the overall finding			
* = a figure of less than 0.5% but larger than zero			

Overall, 22 per cent of SMEs that applied for either overdrafts or loans were turned down outright (see footnote below). This proportion varies significantly by size, sector and age of business:

- 29 per cent of sole traders that applied were turned down, compared to 13 per cent of micro businesses, and 4 per cent of small and medium sized ones
- 46 per cent of those that applied with a credit score of '4' (least creditworthy) were turned down, compared to 22 per cent of those with a credit score of '3', 2 per cent of those with a credit score of '2', 7 per cent of those with a credit score of '1' (most creditworthy), and 34 per cent of those with an unknown credit score
- 50 per cent of those that applied in the construction sector were turned down, compared to 28 per cent in the TRAD sector, 13 per cent in the service sector, and 1 per cent of primary/manufacturing that applied
- 43 per cent of businesses that applied aged between 2 and 6 years old were turned down. Other businesses of different ages were no more likely to have been turned down

⁹ This refers to the percentage of all who applied for either overdrafts or loans that were turned down (for one or the other if only applying for one of these, or both if applying for both)

The 2007 Financing UK SMEs survey does not ask specifically about applications made in the last year, rather the last three years. However, there is an indication that there were fewer refusals in 2007, with only 9 per cent of those who had applied for an overdraft in the previous three years being rejected outright by the first source they approached, and only 4 per cent of those who had applied for loans were similarly rejected.

Of those turned down for an overdraft in 2009 the main reasons given for this were having no security (24 per cent), the sector being too risky (13 per cent) and a lack of a credit history (10 per cent). The construction sector appears most affected by these first two reasons. Twenty-seven per cent claim no reason was given to them.

For loans the main reasons given for being turned down related to poor business credit history (25 per cent) and poor personal credit history (20 per cent). These reasons mainly affected sole traders. Micro and small businesses that were turned down were more likely to cite lack of security.

The sample size for those who were denied loans or did not get the full loan funding they needed is very small – just 15 businesses¹⁰. Of these, about half claimed the lack of finance had very little effect on them, whilst about a quarter claimed they could not grow to the extent they wanted or had to scale back their investment plans.

Subsequent sources of finance obtained

Of those turned down for an overdraft by the first source they approached, only 1 per cent managed to get an overdraft elsewhere – meaning that the proportion who applied but did not get an overdraft at all is the same as the proportion turned down by the first source they approached (28 per cent). Fifteen per cent of these people also applied for loans, with about half of these also being turned down.

Of all those turned down for a loan in 2009 by the first source they approached, only a small proportion (3 per cent) were able to finally get a loan, although for about half of these the decision is currently pending. Again, this means that the proportion who applied but did not get a loan at all is the same as the proportion turned down by the first source they approached (11 per cent).

Thirty-four per cent of those that were offered a loan in 2009 decided not to take up the offer. This was most likely to be the case for businesses with the best credit scores (e.g. 65 per cent of those with a credit score of '1'), and older businesses (e.g. 65 per cent of those aged 7-15 years old). The main reasons for this concerned worries about not being able to afford the monthly repayments (most prevalent among sole traders) and the expensive fees and interest rates (most prevalent among older businesses and those with better credit scores).

¹⁰ This question was not asked of those denied overdrafts

Overall, 75 per cent of those that had applied for an overdraft or loan in 2009 ended up getting some finance. This figure takes into account those that were rejected by all sources, and those that decided not to take up loans. Again, there are significant differences in this proportion according to size, sector, age and credit score:

- 69 per cent of sole traders that applied got finance, compared to 84 per cent of micro businesses, and 94 per cent of small and medium sized ones
- 50 per cent of those that applied with a credit score of '4' got finance, compared to 74 per cent of those with a credit score of '3', 96 per cent of those with a credit score of '2', 93 per cent of those with a credit score of '1', and 68 per cent of those with an unknown credit score
- 49 per cent of those that applied in the construction sector got finance, compared to 63 per cent in the TRAD sector, 86 per cent in the service sector, and 99 per cent of primary/manufacturing that applied
- 57 per cent of businesses that applied aged between 2 and 6 years old got finance. Other businesses of different ages were no more likely to have been turned down

The figures indicate that out of all SMEs in the UK, 16 per cent took debt finance in 2009, 5 per cent were turned down for this by all sources or decided not to take it up, and the remaining 79 per cent did not apply.

6. Cost and terms and conditions: Overdrafts

Summary

- The mean average overdraft facility for SMEs in 2009 is just under £20,000. It is slightly higher for overdrafts arranged in 2009 (just under £26,000). In 2007 the mean average size of an overdraft facility was higher at £37,000
- Eight-two per cent of those who arranged an overdraft in 2009 paid an arrangement fee – significantly higher than for all overdrafts as a whole
- The average fee for those arranging in 2009 was £240. On average this is 3.12% of the size of the overdraft
- 26 per cent of those arranging overdrafts in 2009 pay a fixed rate, 48 per cent a variable rate, with 27 per cent being unsure
- The average interest rate on new overdrafts obtained in 2009 is 5.82%, although the median is 3.5% suggesting some spread, particularly at the top end. The overall interest rate on overdrafts in existence in 2007 was 6.91% suggesting an overall fall in the cost of finance. The overall rate fixed rate overdrafts in 2009 is 6.91% compared to 4.63% in 2007. This suggests that although margins have increased, the overall cost of finance is lower than in 2007 due to falls in the Bank of England interest rate, although the cost of fixed rate overdrafts has increased. This finding contradicts other evidence that shows interest rates on fixed rate loans to have fallen since 2007¹¹.
- 19 per cent of those arranging an overdraft in 2009 needed this provide security

¹¹ BIS data shows the cost of fixed rate lending for SMEs has fallen by 16% on average between 2007 and 2009.

Table 14: Summary of overdraft costs and terms: 2009 compared to 2007				
	a	b	c	d
	All overdrafts arranged in 2009 (n=321)	All overdrafts used in 2009 (n=641)	All overdrafts used in 2007 ¹² (n=1,141)	Difference (between b and c)
Average overdraft facility	Mean = £25,981	Mean = £19,832	Mean = £34,317	Significantly lower facility in 2009
% taken at variable rates	48%	48%	47%	No significant change
% taken at fixed rates	26%	36%	34%	No significant change
Average overall interest rate	Mean = 5.82%	Mean = 5.44%	Mean = 6.91%	Lower overall interest rate in 2009
Average fixed rate interest rate	Mean = 6.91%	Mean = 6.45%	Mean = 4.62% ¹³	Higher fixed rate in 2009
Average (perceived) variable margin over Bank of England base rate	Mean = 3.76%	Mean = 3.66%	Mean = 2.43%	Higher margin in 2009
% paying arrangement fee	82%	63%	59%	No significant change
Average arrangement fee (for those that paid)	£284	£247	No data	No comparison
% having to offer security	19%	19%	21%	No significant change

¹² Based on analysis of the 2007 Financing UK SMEs Survey

¹³ It is unlikely that average interest rates on fixed rate overdrafts would be below 5% in 2007, given that Bank of England interest rates were on average 5.5% in 2007

Characteristics of overdrafts

The mean average overdraft facility is just under £20,000, with the median being £4,000. As might be expected, this varies considerably according to the size of the SME.

Base = all with overdrafts	All	Sole Trader	Micro (1-9 employees)	Small (10-49 employees)	Medium (50-249 employees)	All who applied since January 2009
n=	641	75	223	203	139	321
	%	%	%	%	%	%
Less than £1000	17	24	3	1	4	13
£1,000-£4,999	34	42	17	4	0	39
£5,000-£9,999	12	11	16	4	2	10
£10,000-£49,999	24	19	35	30	9	22
£50,000-£99,999	4	1	7	21	10	6
£100,000+	5	*	9	30	71	6
Don't know/refused	5	2	12	9	5	5
Mean	£19,832	£6,758	£29,389	£106,209	£422,748	£25,981
Median	£4,000	£2,500	£10,000	£50,000	£225,000	£4,000

Figures in bold are statistically significant at the 95% confidence level against the overall finding
 * = a figure of less than 0.5% but larger than zero

There are few differences in the size of the facility between those who applied for an overdraft (and were successful) since January 2009, and those that applied earlier.

Fifty-one per cent have an overdraft facility for less than £5,000. This compares with 32 per cent in the 2007 survey, where the mean average size of the overdraft facility was £37,000.

¹⁴ Some outlying high values have been excluded from this analysis

Arrangement fees

Sixty-three per cent paid an arrangement fee for their overdraft facility, with 24 per cent paying nothing and 14 per cent being unsure. Sole traders were the least likely to pay an arrangement fee (57 per cent). In 2007, 59 per cent were paying overdraft fees.

Eight-two per cent of those with an overdraft arranged in 2009 paid an arrangement fee – significantly higher than for all overdrafts as a whole.

Base = all with overdrafts	All	Sole Trader	Micro (1-9 employees)	Small (10-49 employees)	Medium (50-249 employees)	Applied since Jan 09
n=	641	75	223	203	139	321
	%	%	%	%	%	%
Nothing	24	31	10	11	16	15
Less than £100	13	14	12	5	3	17
£100-£199	30	31	32	14	3	41
£200-£399	10	8	16	16	9	14
£400+	9	5	17	37	54	9
Don't know/refused	14	12	14	17	16	3
ANY OVERDRAFT FEE	63	57	76	71	68	82
Mean (including those who paid nothing)	£178	£82	£292	£707	£1,977	£240
Mean (excluding those who paid nothing)	£247	£127	£330	£820	£2,439	£284
Median (including those who paid nothing)	£100	£65	£150	£300	£900	£100
Median (including those who paid nothing)	£140	£100	£150	£400	£1,700	£100
Figures in bold are statistically significant at the 95% confidence level against the overall finding						
* = a figure of less than 0.5% but larger than zero						

The mean average arrangement fee for overdrafts arranged in 2009 was £240.

¹⁵ Some outlying high values have been excluded from this analysis

Of those that paid arrangement fees since January 2009, the mean average fee as a proportion of the total facility offered was 3.12% (median = 2.5%). This varied by the size of the facility offered, the percentage being higher the lower the amount offered.

Base = all with overdrafts arranged since January 2009	All	Less than £10k overdraft facility	£10k-£99k overdraft facility	£100k+ overdraft facility
n=	249	53	113	83
	%	%	%	%
Less than 1%	15	4	30	60
1-2.49%	33	18	64	31
2.5-4.99%	24	37	3	*
5% or more	27	41	3	9
Mean	3.12%	4.23%	1.28%	1.09%
Median	2.5%	4%	1%	0.7%

NB: Table is based on those with overdrafts that arranged since January 2009 and know size of overdraft facility and paid an arrangement fee and know how much this fee was

Figures in bold are statistically significant at the 95% confidence level against the overall finding

* = a figure of less than 0.5% but larger than zero

¹⁶ Some outlying high values have been excluded from this analysis

Interest rates and margins

Of the overdrafts successfully applied for since January 2009, 26 per cent had a fixed rate, 48 per cent a variable rate, with 27 per cent being unsure whether the rate was fixed or variable. Small and medium sized businesses were the most likely to know they had a variable rate.

Table 18: Type of interest rate on overdraft					
Base = all with overdrafts arranged since January 2009		Fixed	Variable	Don't know	Base (n=)
All SMEs	%	26	48	27	321
Size					
Sole traders	%	23	44	33	25
Micro	%	31	49	20	112
Small	%	25	65	9	110
Medium	%	20	70	9	73
Sector					
Primary/manufacturing	%	17	48	35	46
Construction	%	21	37	43	42
TRAD	%	25	42	33	114
Services	%	29	52	19	119
D&B Credit Score					
One (most creditworthy)	%	36	49	15	58
Two	%	37	49	14	96
Three	%	21	46	32	82
Four (least creditworthy)	%	28	29	43	43
Unknown	%	20	61	19	42
Figures in bold are statistically significant at the 95% confidence level against the overall finding					
* = a figure of less than 0.5% but larger than zero					

The type of interest rate paid by the recent arrangers is not that different from all overdraft holders as a whole – 26 per cent of who pay a fixed rate, 43 per cent a variable rate, and 31 per cent not knowing.

These last figures compare with 34 per cent of all overdraft holders paying a fixed rate in 2007, 47 per cent a variable rate, and 19 per cent not knowing.

The mean average interest rate paid on an overdraft arranged in 2009 is 5.82% (median = 3.5%). This varies between a mean of 6.91% on a fixed rate overdraft, to 5.63% on a variable rate.

Table 19: Interest rates paid on overdrafts arranged since January 2009 ¹⁷				
Base = all with overdrafts arranged since January 2009	All	Variable rate	Fixed rate	Don't know if variable or fixed
n=	321	197	82	42
	%	%	%	%
Less than 2%	8	14	1	1
2.00%-3.99%	26	39	15	12
4.00%-5.99%	10	15	12	*
6.00%-9.99%	9	10	12	4
10% or more	11	13	19	0
Don't know/refused	35	9	41	82
Mean	5.82%	5.63%	6.91%	3.95%
Median	3.5%	3.0%	6.0%	3.0%
Figures in bold are statistically significant at the 95% confidence level against the overall finding				
* = a figure of less than 0.5% but larger than zero				

The overall rate paid by all SMEs with overdrafts (i.e. not just those that arranged in 2009) is 5.44% for variable rated overdrafts, and 6.45% for fixed rates, which is slightly lower than the interest rates on overdrafts arranged in 2009. This compares with the 2007 figures which were 4.62% for fixed rates, and 6.91% for all rates.

In October 2007 the Bank of England base lending rate was 5.75%. In October 2009 it was 0.5%. Therefore, although the variable rate overall is lower in 2009, the interest rate being charged above the Bank of England base lending rate is in fact much higher. The interest rate on fixed rate overdrafts has also risen.

¹⁷ Please note that all figures given for interest rates are based on respondent recall, and these findings should be interpreted with caution.

Terms and conditions

Nineteen per cent of those who applied successfully for an overdraft in 2009 needed to provide security, with a further 3 per cent needing to provide covenants.

Table 20: Whether security or covenants needed to obtain overdraft					
Base = all with overdrafts arranged since January 2009		Security	Covenants	Neither	Base (n=)
All SMEs	%	19	3	78	321
Size					
Sole traders	%	6	0	94	25
Micro	%	35	5	60	112
Small	%	44	10	46	110
Medium	%	36	25	39	73
Sector					
Primary/manufacturing	%	30	4	65	46
Construction	%	48	*	51	42
TRAD	%	23	7	70	114
Services	%	9	2	89	119
D&B Credit Score					
One (most creditworthy)	%	34	8	59	58
Two	%	25	2	73	96
Three	%	8	1	91	82
Four (least creditworthy)	%	46	6	48	43
Unknown	%	18	8	74	42
Figures in bold are statistically significant at the 95% confidence level against the overall finding					
* = a figure of less than 0.5% but larger than zero					

Only 6 per cent of sole traders needed to provide security, compared to 37 per cent of larger SMEs. One quarter of medium-sized businesses needed covenants. The low proportion of sole traders needing to provide security perhaps relates to their lack of assets.

Those in the primary/manufacturing and construction sectors were the ones most likely to need to provide security (30 and 48 per cent respectively), as were the least creditworthy (46 per cent).

Overall, 19 per cent of all those with overdrafts facilities needed to provide security. The figure is slightly but insignificantly lower than the 21% seen in 2007.

7. Cost and terms and conditions: Commercial loans and mortgages

Summary

- There is no significant difference in the amount of loan finance applied for between 2007 and 2009, although the average tenor of a loan has reduced from nearly 11 to 7 years
- 56 per cent of loans in 2009 were taken at variable rates, with 29 per cent being fixed rates (other loan takers were unsure which rate they had). This is in contrast to 2007 when the majority of rates were fixed
- The average interest rate reported in 2009 is 4.2%. Average variable rates in 2009 are 3.4%, but 7% for fixed rate loans. In 2009, average margins over Bank of England Rate were 2.93%, which were similar to the margins charged in 2007 (2-3.99). The average interest rate on a fixed rate loan in 2007 was 6.05%. The figures suggest that whilst variable rates have fallen due to the Bank of England rate decreases, fixed rates have actually risen from 2007. However, other evidence generally suggests fixed rate loans have decreased, so these findings must be interpreted with caution, especially as they are based on small sample sizes.¹⁸
- 23 per cent of those taking loans in 2009 needed to provide security, compared to a much higher figure of 55 per cent for loans taken in 2007
- 77 per cent of loans arranged in 2009 were subject to an arrangement fee. Among those that paid a fee the average amount was £1,195. For loans arranged in 2007 the proportion paying an arrangement fee was significantly lower at 59 per cent

¹⁸ BIS data shows the cost of fixed rate lending for SMEs has fallen by 16% on average between 2007 and 2009.

Table 21: Summary of loan costs and terms: 2009 compared to 2007			
	Loans arranged in 2009 (n=78)	Loans arranged in 2007 ¹⁹ (n=108)	Difference
Amount applied for	Mean = £142,525	Mean = £144,105	No significant difference
Average loan tenor	Mean = 7 years	Mean = 10.8 yrs	Shorter tenor in 2009
% taken at variable rates	56%	35%	Significantly more variable loans in 2009
% taken at fixed rates	29%	62%	Significantly fewer fixed rate loans in 2009
Average overall interest rate	Mean = 4.2%	No data	No comparison
Average fixed rate loan interest rate	Mean = 7.0%	Mean = 6.05%	Higher fixed interest rate in 2009
Average (perceived) variable margin over Bank of England base rate	Mean = 2.93%	2-3.99% range	No significant change
% paying arrangement fee	77%	59%	Significantly higher percentage in 2009
Average arrangement fee (for those that paid)	Mean = £1,195	No data	No comparison
% having to offer security	23%	55%	Significantly lower proportion offering security in 2009

¹⁹ Based on analysis of the 2007 Financing UK SMEs Survey to identify loans taken out in 2007

Characteristics of loans

The mean average size of a loan arranged in 2009 was £142,525, with a much lower median at £15,000. Loans obtained before January 2009 were much larger with a mean of £260,800 and a median of £40,000.

Table 22: Size of loan ²⁰		
Base = all with loans	Arranged loan since January 2009	Arranged loan before January 2009
	n=78	n=225
	%	%
Less than £5000	15	15
£5000-£49,999	62	34
£50,000-£99,999	2	12
£100,000-£499,999	13	25
£500,000-£999,999	3	4
£1,000,000 or more	5	6
Don't know/refused	1	5
Mean	£142,525	£260,800
Median	£15,000	£40,000

Figures in bold are statistically significant at the 95% confidence level against the overall finding
 * = a figure of less than 0.5% but larger than zero

In the 2007 survey the mean average size of a loan was £417,000, and £144,105 for loans taken out in 2007.

²⁰ Some outlying high values have been excluded from this analysis

The mean average length of tenor for loans arranged since January 2009 was 7 years with a median of 5 years. For loans arranged before January 2009 the mean average was longer at 10 years, with a median of 6 years. This suggests that loans arranged in 2009 have a shorter tenor.

Table 23: Length of time for loan to be paid		
Base = all with loans	Arranged loan since January 2009	Arranged loan before January 2009
	n=78	n=225
	%	%
Less than 2 years	8	14
3-4 years	16	14
5-7 years	46	22
8-10 years	22	12
10-15 years	7	8
More than 15 years	2	20
Don't know	*	9
Mean	7 years	10 years
Median	5 years	6 years
Figures in bold are statistically significant at the 95% confidence level against the overall finding * = a figure of less than 0.5% but larger than zero		

This compares with the 2007 survey where the mean average tenor was 12 years for all with loans, and 10.8 years for loans taken out in 2007. The 2007 survey shows 26% of all outstanding loans or mortgages had a tenor of more than 15 years, compared to just 2 per cent of those arranged in 2009.

Of those arranging loans in 2009, 95 per cent got the tenor they wanted, and only 5 per cent wanted a longer term. Of the few that did not get the term they wanted, half were not granted the longer term by the bank, and half would not pay the higher interest rates associated with the longer term.

Thirteen per cent of those that arranged a loan in 2009 have been unable to make some of the repayments. This compares with 6 per cent of those that arranged before 2009 missing any repayments in the last 12 months. In the 2007 survey the equivalent figure for the last 12 months was 11 per cent.

Arrangement fees

Seventy-seven per cent of loans arranged in 2009 were subject to an arrangement fee. Only 64 per cent of loans arranged previously had an arrangement fee, but the reason this figure is significantly less is mainly due to the higher proportion who have forgotten what the arrangement fee was.

The 2007 survey shows that only 59 per cent of loans arranged in that year had an arrangement fee.

Table 24: Fees paid to arrange loan ²¹		
Base = all with loans	Arranged loan since January 2009	Arranged loan before January 2009
	n=78	n=225
	%	%
Nothing	18	16
Less than £500	48	28
£500-£999	13	11
£1,000-£4,999	11	13
£5,000 or more	5	11
Don't know/refused	5	20
ANY ARRANGEMENT FEE	77	64
Mean (including nothing)	£965	£2,640
Mean (excluding nothing)	£1,195	£3,300
Median (including nothing)	£150	£250
Median (excluding nothing)	£300	£600

Figures in bold are statistically significant at the 95% confidence level against the overall finding

* = a figure of less than 0.5% but larger than zero

For those paying an arrangement fee in 2009, the mean average amount was £1,195, with a median of £300. The average arrangement fee for those with outstanding loans that arranged beforehand was higher with a mean of £3,300 and a median of £600. No comparative figures are available for the 2007 survey.

²¹ Some outlying high values have been excluded from this analysis

Interest rates and margins

Fifty-six per cent of loans obtained since January 2009 have a variable interest rate, most of these being linked to the Bank of England base rate. Twenty-nine per cent of recently arranged loans are fixed rate, with 14 per cent not knowing whether they are fixed or variable.

Table 25: Type of interest rate		
Base = all with loans	Arranged loan since January 2009	Arranged loan before January 2009
	n=78	n=225
	%	%
All variable loans	56	40
- Tied to Bank of England base rate	52	20
- Tied to lender's base rate	2	7
- Tied to LIBOR	2	11
All fixed rate loans	29	44
Don't know if fixed or variable	14	15
Figures in bold are statistically significant at the 95% confidence level against the overall finding * = a figure of less than 0.5% but larger than zero		

Loans arranged before January 2009 are more likely to be fixed rate (44 per cent). Of the variable loans arranged before this date half were tied to the Bank of England base, and about a quarter were tied to LIBOR. In 2007 40 per cent of all outstanding loans were fixed rate, and 54 per cent variable rated.

The mean average interest rate paid on loans arranged since January 2009 is 4.17% (median = 3.00%). The rate contrasts between a mean of 3.38% paid on variable rated loans, and 6.98% on fixed rate loans.

Table 26: Average interest rates paid on loans ²²		
Base = all with loans	Arranged loan since January 2009	Arranged loan before January 2009
	n=78	n=225
	%	%
All – mean	4.17%	5.12%
All – median	3.00%	5.00%
Variable – mean	3.38%	3.84%
Variable – median	2.50%	3.50%
Fixed – mean	6.98%	6.38%
Fixed - median	7.9%	7.0%
Figures in bold are statistically significant at the 95% confidence level against the overall finding		
* = a figure of less than 0.5% but larger than zero		

Loans arranged before January 2009 have slightly higher rates – 5.12% overall as a mean. The variable rates for these loans are higher with a mean of 3.84%, although the mean fixed rate is slightly lower than for the more recent arrangers at 6.38%.

In 2007 the mean average variable rate paid (on all variable loans held then) was 8.4% - 2.7% over the base rate at the time. The mean average 2009 variable loan is a similar amount over the base rate.

From the 2007 survey the mean average fixed rate paid on loans arranged in 2007 was 6.05% - lower than that paid on outstanding fixed rate loans in 2009. However, BIS data shows the cost of fixed rate lending for SMEs has fallen by 16% on average between 2007 and so these findings must be interpreted with caution, especially as they are based on small sample sizes.

For variable rates on loans arranged in 2009, the average margin above the Bank of England base rate was 2.93% (sample sizes for LIBOR and bank lending rate are too small to report).

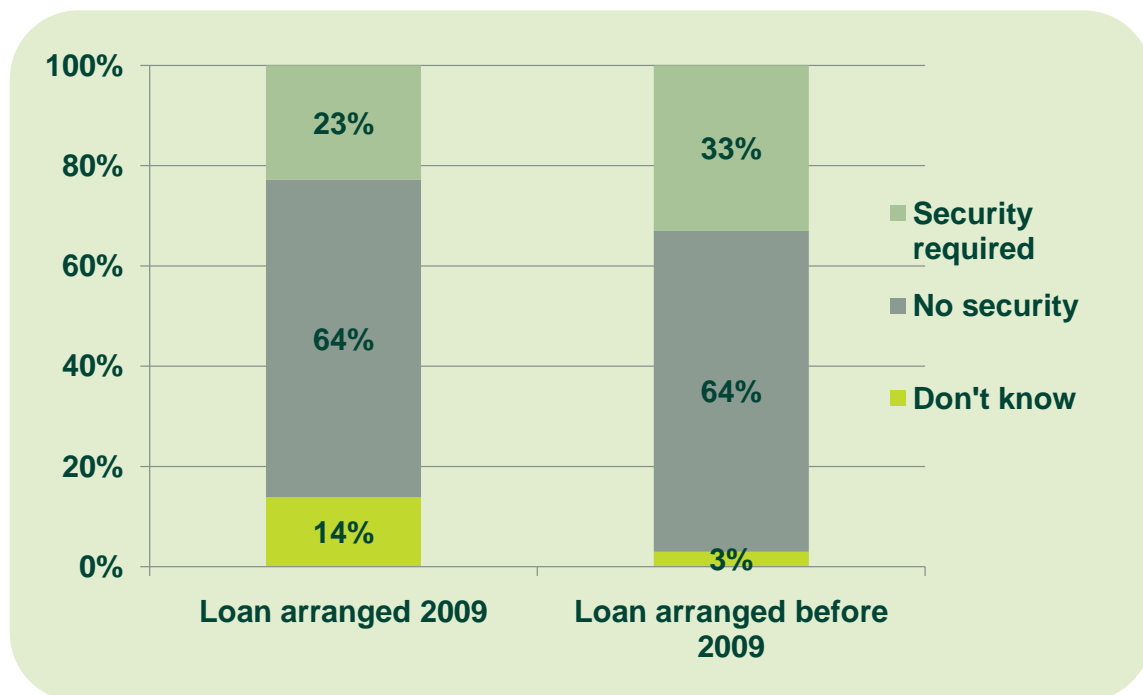
²² Some outlying high values have been excluded from this analysis

Terms and conditions

Twenty-three per cent of loans arranged in 2009 required security, compared to 33 per cent of those obtained beforehand – although the difference between these figures is largely explained by the higher proportion of ‘don’t know’ answers for the 2009 loans. The security required was most likely to be on the business property (10 per cent of loans arranged in 2009), a personal property (6 per cent of 2009 loans, or director/personal guarantees (6 per cent of 2009 loans).

Chart 6: Whether security was required to get loan

Whether security required to get loan



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Base: all with loans (arranged in 2009 = 78; arranged before = 225)

In 2007 56 per cent of those holding loans were required to offer security (55 per cent of new loans taken out in 2007 required security).

8: Perceptions

Summary

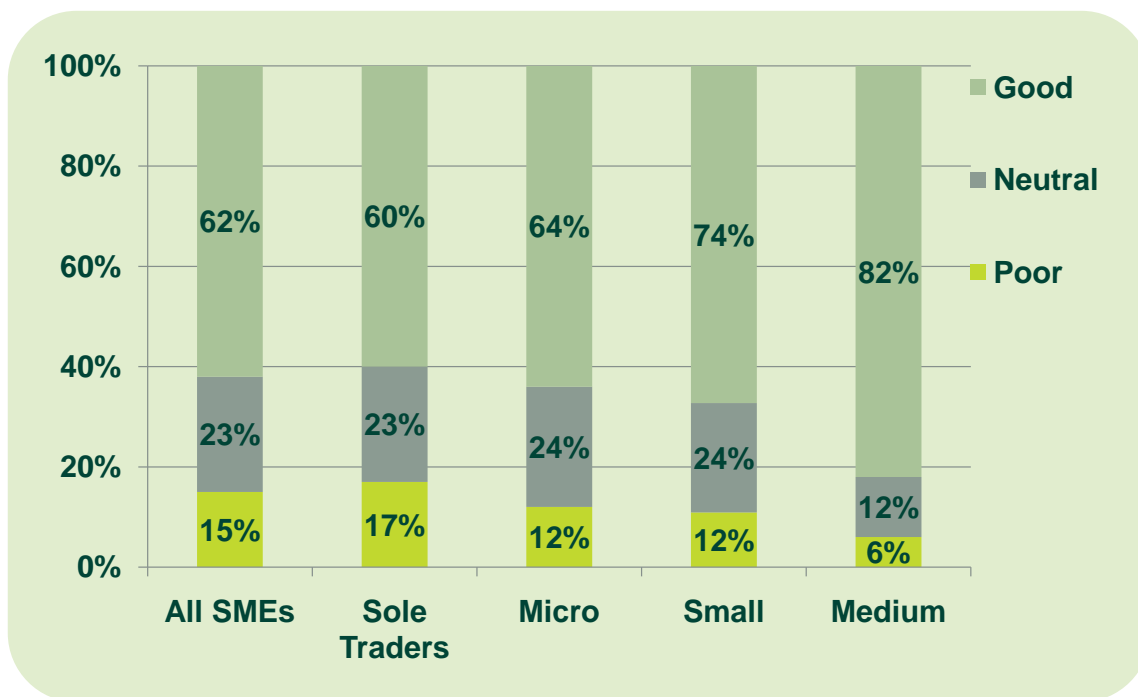
- Perceptions in most areas are generally worse than the actual outcomes reported. However, those with experience seeking finance in 2009 are most likely to report that it is harder to obtain finance, particularly if they were turned down for finance
- 62% of respondents report a good or very good business relationship with their main bank, with 15% reporting a poor or very poor relationship.
- Based on all with an opinion, businesses generally perceive that it is now harder to obtain finance compared to 2007:
 - 8 per cent of businesses think it is now easier than in 2007 to get an overdraft, compared to 33% who think it is more difficult. 59 per cent of businesses do not think there has been any change since 2007
 - 5 per cent of businesses think it is now easier than in 2007 to get a secured loan, compared to 38 per cent who think it is more difficult. 56 per cent of businesses don't think there has been any change
 - 7 per cent of businesses think it is now easier than in 2007 to get an unsecured loan, compared to 48 per cent who think it is more difficult. 44 per cent of businesses do not think there has been any change
- 40 per cent of SMEs perceive the overall level of security required by banks to have increased since 2007 compared to 2 per cent perceiving it to have decreased. 36 per cent report no change
- A higher proportion of businesses perceive the cost of finance to have increased since the middle of 2007
 - 47 per cent of businesses perceive the cost of bank finance to have increased since 2007 compared to 10 per cent that perceive it to have decreased. 31 per cent perceive no change since 2007
- The majority of businesses (66 per cent) perceive their future demand for finance will be the same in 2010 compared to 2009. Although 15 per cent perceive it will be higher in 2010, an identical percentage (15 per cent) report it will be lower, suggesting no real change in the future demand for finance by SMEs
- A third of SMEs think their turnover will increase in the next 12 months, with another third thinking it will stay the same, and 31 per cent thinking it will decrease

Relationship with bank

62 per cent of SMEs report that they have a good relationship with their main bank (a score of 4 or 5 on a scale of 5). 23 per cent have a neutral relationship (3 out of 5), and for 15 per cent the relationship is poor (1 or 2 out of 5).

Chart 7: Relationship with bank

Relationship with bank



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Base: all SMEs (1250)

There is a contrast in the relationship with banks according to size of SME, with sole traders being more likely to rate this as 'poor' (17 per cent), compared to 12 per cent of micros, 8 per cent of small businesses and 6 per cent of medium sized businesses.

There are significant differences in the ratings according to DnB Credit Scores. Thirty-three per cent of those with a credit rating of '4' rate the relationship with their bank as poor, compared to just 6 per cent of those with a credit rating of '1'. By sector, TRAD businesses give the worst ratings (21 per cent rate as poor), with primary/manufacturing giving the best ratings (just 5 per cent rate as poor). Perhaps surprisingly, there are no significant differences in the 'poor' ratings according to age of business, although businesses aged 16 years plus are more likely to give a 'good' rating (68 per cent).

Availability of finance

When asked in 2009 whether it is now harder or easier to get particular types of finance compared to 2007, more SMEs thought it was harder than easier.

Table 27: Compared to 2007, whether easier or harder now to obtain the following types of finance		
Base = all SMEs	All SMEs	Applied for loan or overdraft 2009
	n=1250	n=415
	%	%
Overdrafts		
Easier	8	5
No change	59	48
Harder	33	47
Secured commercial loans/mortgages		
Easier	5	6
No change	56	44
Harder	38	50
Unsecured commercial loans		
Easier	7	3
No change	44	27
Harder	48	70
New equity finance/issuing new shares		
Easier	10	8
No change	63	51
Harder	28	41
Invoice discounting/factoring		
Easier	7	6
No change	64	42
Harder	29	52
Figures in bold are statistically significant at the 95% confidence level against the overall finding		
* = a figure of less than 0.5% but larger than zero. 'Don't know' answers are excluded from the calculation		

Thirty-three per cent of SMEs think it is now harder to obtain an overdraft, with only 8 per cent thinking it is easier. Among those applying for finance in 2009 an even larger proportion – 47 per cent – think it is harder.

Thirty-eight per cent think it is now harder to obtain a secured commercial loan or mortgage, with just 5 per cent thinking it easier. Among those applying for finance in 2009, 50 per cent think it is harder. Forty-eight per cent think it is now harder to obtain an unsecured commercial loan, with just 7 per cent thinking it easier. Among those applying for finance in 2009, 50 per cent think it is harder.

Twenty-eight per cent think it is harder to obtain equity finance now, with 10 per cent thinking it easier. Again, those applying for finance in 2009 are more likely to think it is hard. Finally, 7 per cent think it is now easier to obtain asset based finance, and 29 per cent think it is harder.

Unsurprisingly, those who applied for finance in 2009 but were unable to get any were significantly more likely to think it is now harder to get all types of finance. Almost 100 per cent of these people agreed it was harder in 2009 to get overdrafts and loans.

Cost and securitisation

Forty-seven per cent of SMEs think the overall cost of bank finance has increased since 2007, with only 10 per cent thinking it has decreased. Although all sub-groups are more likely to think that the cost has increased rather than decreased, those most likely to think there has been a decrease are the small and medium-sized businesses (15 and 19 per cent respectively).

		Increased	Stayed the same	Decreased	Base (n=)
All SMEs	%	47	31	10	1250
Size					
Sole traders	%	47	31	9	198
Micro	%	47	32	12	442
Small	%	50	24	15	379
Medium	%	50	27	19	230
Sector					
Primary/manufacturing	%	36	36	13	220
Construction	%	51	39	4	179
TRAD	%	43	31	12	396
Services	%	50	25	12	455
Age of business					
Under 2 years old	%	29	48	11	115
2-6 years old	%	47	21	8	95
7-15 years old	%	61	22	10	294
16+ years	%	45	32	11	746
D&B Credit Score					
One (most creditworthy)	%	33	42	10	239
Two	%	46	25	13	342
Three	%	49	28	10	355
Four (least creditworthy)	%	47	39	5	149
Unknown	%	50	30	12	165

Figures in bold are statistically significant at the 95% confidence level against the overall finding

²³ Don't know and refused (4% overall) are not shown in this table

Forty per cent of SMEs think that the level of security or covenants required by banks has increased since 2007, with only 2 per cent thinking that the requirement has decreased. In this instance those most likely to think the requirement has increased are the larger businesses (the ones most likely to be required to offer security), and those that applied for loans in 2009.

Table 29: Perception whether the overall level of security or covenants required by banks has increased or decreased since middle of 2007 ²⁴					
		Increased	Stayed the same	Decreased	Base (n=)
All SMEs	%	40	36	2	1250
Size					
Sole traders	%	38	36	2	198
Micro	%	47	33	2	442
Small	%	48	35	4	379
Medium	%	58	34	*	230
Sector					
Primary/manufacturing	%	35	41	2	220
Construction	%	34	43	3	179
TRAD	%	51	32	1	396
Services	%	39	32	2	455
Age of business					
Under 2 years old	%	45	27	3	115
2-6 years old	%	51	24	*	95
7-15 years old	%	38	31	4	294
16+ years	%	36	46	1	746
D&B Credit Score					
One (most creditworthy)	%	43	38	*	239
Two	%	33	40	2	342
Three	%	33	38	3	355
Four (least creditworthy)	%	53	31	*	149
Unknown	%	51	28	3	165
Applied for finance in 2009					
Any	%	55	32	2	504
Overdraft or loans	%	59	28	1	415
Overdraft	%	57	29	1	374
Loans	%	86	9	3	102
Figures in bold are statistically significant at the 95% confidence level against the overall finding					
* = a figure of less than 0.5% but larger than zero					

²⁴ Don't know and refused (4% overall) are not shown in this table

Future demand for finance

Fifteen per cent of SMEs think they will need more external finance in 2010 than they had in 2009, with the same proportion saying that they will need less. Younger businesses and those in the TRAD sector are the ones most likely to think they will need more finance, as are those with unknown credit scores.

Table 30: Whether need for external finance will change in 2010 compared to 2009 ²⁵					
		More needed	The same	Less needed	Base (n=)
All SMEs	%	15	66	15	1250
Size					
Sole traders	%	13	69	13	198
Micro	%	19	56	22	442
Small	%	21	61	16	379
Medium	%	15	58	24	230
Sector					
Primary/manufacturing	%	12	63	24	220
Construction	%	14	67	14	179
TRAD	%	22	57	16	396
Services	%	12	71	14	455
Age of business					
Under 2 years old	%	25	54	21	115
2-6 years old	%	7	73	15	95
7-15 years old	%	18	69	11	294
16+ years	%	10	67	16	746
D&B Credit Score					
One (most creditworthy)	%	5	77	8	239
Two	%	7	76	16	342
Three	%	15	68	14	355
Four (least creditworthy)	%	16	56	20	149
Unknown	%	27	54	15	165
Applied for finance in 2009					
Any	%	26	43	26	504
Overdraft or loans	%	26	48	22	415
Overdraft	%	28	47	21	374
Loans	%	31	47	19	102
Figures in bold are statistically significant at the 95% confidence level against the overall finding					
* = a figure of less than 0.5% but larger than zero					

²⁵ Don't know and refused (4% overall) are not shown in this table

Expectations of future turnover growth

Thirty-four per cent of SMEs expect their turnover to increase in the next 12 months, with 31 per cent thinking it will decrease. The newer businesses are most confident in this respect, with 57 per cent of those aged 2 years or less thinking turnover will increase. Linked to this, 56 per cent of the least creditworthy businesses also think turnover will increase.

		Increase	Stayed the same	Decrease	Base (n=)
All SMEs	%	34	33	31	1250
Size					
Sole traders	%	35	34	29	198
Micro	%	33	32	34	442
Small	%	31	37	30	379
Medium	%	36	25	36	230
Sector					
Primary/manufacturing	%	34	33	33	220
Construction	%	40	21	39	179
TRAD	%	33	39	23	396
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Under 2 years old	%	57	33	10	115
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D&B Credit Score					
One (most creditworthy)	%	32	20	48	239
Two	%	30	33	35	342
Three	%	30	41	27	355
Four (least creditworthy)	%	56	21	23	149
Unknown	%	29	38	32	165
Applied for finance in 2009					
Any	%	36	32	28	504
Overdraft or loans	%	37	36	26	415
Overdraft	%	38	35	26	374
Loans	%	29	36	33	102

Figures in bold are statistically significant at the 95% confidence level against the overall finding
 * = a figure of less than 0.5% but larger than zero

²⁶ Don't know and refused (4% overall) are not shown in this table

8: Equity finance

Summary

- Only a small proportion (2 per cent) of SMEs claim to have issued shares in the past year. Even fewer (1 per cent) say they have ever actively sought equity finance. A further 3 per cent have considered it in the past but not sought it
- The main reasons for not considering it are because SMEs don't think they need the amount of finance that equity finance would bring (71 per cent). Others, particularly medium sized businesses, are reluctant to lose control to equity investors
- A third of SMEs would consider equity finance in the future if it were to be easier to understand and access. Nearly half of SMEs would consider it if they were unable to obtain loans or overdrafts

Only 2 per cent of SMEs claim to have issued shares in the past year. This is most likely to have happened among medium sized businesses (7 per cent), those with a credit score of '4' (7 per cent), and companies aged less than 2 years old (7 per cent). Interestingly, 11 per cent of those that applied for a bank loan in 2009 have also issued shares in the last year.

Issuing shares is considered to be separate from equity finance as only 1 per cent of all SMEs claim to have actively sought equity finance at any stage in their history. This is more likely to be the case among small (3 per cent) and medium-sized (4 per cent) businesses.

A further 3 per cent of SMEs have considered equity finance in the past but not actively sought it. This is most likely to be the case for micro businesses (7 per cent), those in the construction sector (6 per cent), and businesses aged between 7 and 15 years (9 per cent).

The vast majority – 95 per cent – have neither sought equity finance, nor considered it in the past.

Less than 1 per cent of all SMEs claim to have sought equity finance from business angels or Venture Capitalists in the last year.

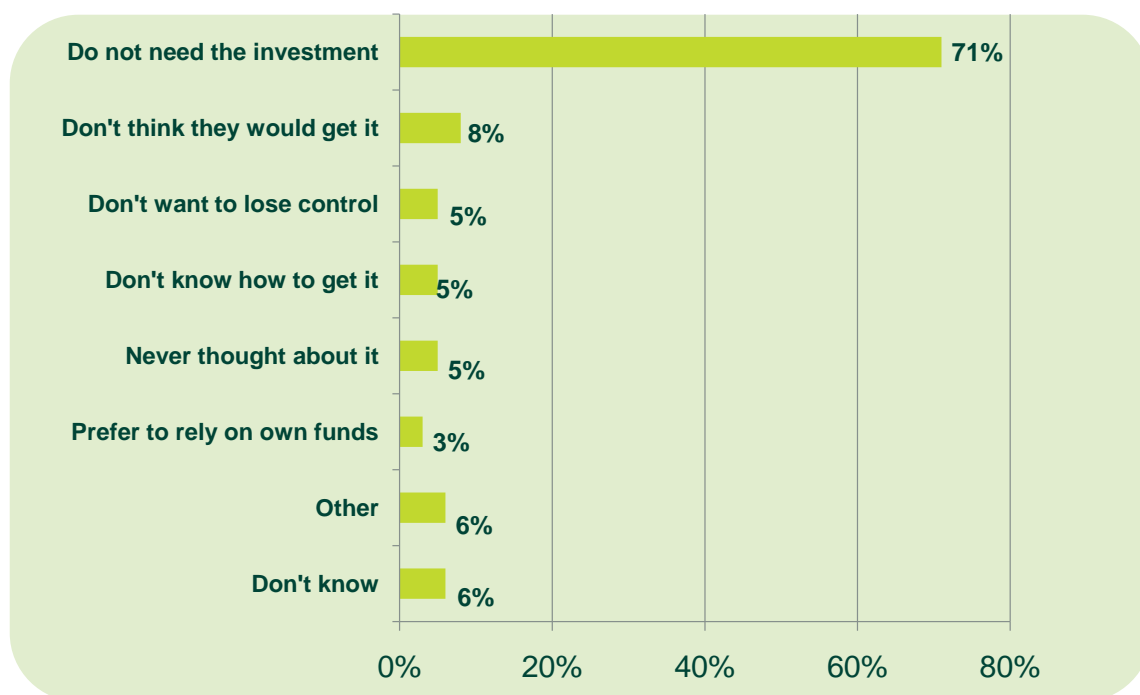
The over-riding reason for not considering equity finance is because SMEs do not think they need a significant level of capital investment (71 per cent). This view is likely to be held according to size of business, with 73 per cent of sole traders that have never considered equity finance saying this, but only 51 per cent of medium sized businesses.

Eight per cent of SMEs that have never considered equity finance do not think they would get the finance. Perhaps surprisingly this view is most likely to be held by the most creditworthy companies (credit score '1' = 13 per cent, credit score '2' = 11 per cent), but also those aged 2-6 years old (13 per cent), as well as those in the construction sector (12 per cent).

Five per cent do not want to lose control of their business to investors. Most likely to think this are the medium sized businesses (23 per cent of those that have not considered equity finance).

Chart 8: Reasons for not considering equity finance

Reasons for not considering equity finance



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Innovation & Skills

Base: all SMEs who have never considered equity finance (1167)

Excluding those that have actively sought equity finance in the past, 33 per cent of SMEs would consider it in the future if it was easier to understand and obtain. This was most likely to be the case in the TRAD sector (45 per cent), and among micro businesses (40 per cent).

Forty-six per cent of all SMEs would consider equity finance in the future if they had difficulty obtaining a loan or overdraft in the future. This percentage rises to 79 per cent for those who have applied for a loan in 2009.

Appendix: Achieved Profiles

The table below shows the actual number of interviews achieved according to category (unweighted figures) Data were then weighted to be representative of the SME population according to targets collated by BIS.

Table 32: Unweighted and Weighted Data				
	Unweighted		Weighted	
Size	n=	%	n=	%
Sole trader	198	16	919	74
Micro Business (1-9 employees)	442	35	277	22
Small Business (10-49 employees)	379	30	46	4
Medium Business (50-249 employees)	230	18	7	1
Sector				
Primary/manufacturing	220	18	137	11
Construction	179	14	279	22
Transport, retail and distribution	396	32	288	23
Services	455	36	546	44
Age of Business				
Under 2 years old	115	9	224	18
2-6 years old	95	8	169	14
7-15 years old	294	24	359	28
16 years or more	746	60	507	41
Region				
East of England	102	8	127	10
East Midlands	115	9	84	7
London	110	9	210	17
North East	89	7	36	3
Northern Ireland	53	4	34	3
North West	123	10	119	10
Scotland	77	6	84	7
South East	141	11	201	16
South West	115	9	119	10
Wales	99	8	53	4
West Midlands	128	10	95	8
Yorkshire & the Humber	98	8	90	7
Total	1250	100	1250	100

The table below shows the weighted profiles of the five credit score categories.

Table 33: Profile According to Dun & Bradstreet Credit Scores						
	All	CS1	CS2	CS3	CS4	CS Unknown
n=	1250	239	342	355	149	165
Size	%	%	%	%	%	%
Sole traders	74	51	67	85	83	52
Micro	22	34	26	13	15	44
Small	4	13	6	2	2	3
Medium	1	2	1	*	*	*
Sector	%	%	%	%	%	%
Primary/manufacturing	11	21	13	8	11	12
Construction	22	18	7	24	39	20
Transport, retail and distribution	23	12	11	22	36	30
Services	44	49	69	45	14	38
Age of business	%	%	%	%	%	%
Under 2 years old	18	1	9	18	45	10
2-6 years old	14	18	17	9	17	15
7-15 years old	28	19	24	31	17	39
16+ years	41	62	49	42	22	36
Registered for VAT	%	%	%	%	%	%
Yes	54	76	55	54	48	51
No	46	24	45	46	52	49
Turnover	%	%	%	%	%	%
Less than £50,000	41	39	40	39	48	43
£50,000-£249,000	33	25	34	41	22	27
£250,000-£999,999	13	15	14	11	14	15
£1,000,000 or more	4	14	7	2	3	5
Refused/don't know	9	7	6	8	14	12
Figures in bold are statistically significant at the 95% confidence level against the overall finding * = a figure of less than 0.5% but larger than zero						