



March 2010

Institute of Directors Northern Ireland Division

Bank lending survey March 2010

Overview of results

In April 2009, the IoD NI Division undertook a survey of Northern Ireland businesses to ascertain the current position on bank lending conditions and to identify the main challenges facing businesses with regard to accessing finance.

This survey was the result of meetings with the four main banks, where it became apparent that there was no empirical evidence back up anecdotal evidence on how the 'credit crunch' was really affecting businesses here and the issues that needed to be addressed.

Since the results have been published, the IoD has met with the banks and the Minister for Finance and Personnel, and given evidence to the Assembly's Finance & Personnel Committee. The survey results have been referred to in the Assembly and discussed at the Banking, Finance and Lending sub-group of the Cross Sector Advisory Forum. The survey has been accepted as the benchmark for measuring the impact of interventions.

The second, follow-up survey was completed on 4 September 2009 and the third in March 2010. Below are the results from the latest survey.

Bank lending conditions

43% of respondents indicated that conditions had worsened over the last six months, the same as the last survey, and 10% of respondents (an increase of 5%) reporting that conditions had eased.

Respondents

The majority of respondents (78%) were from organisations with 25 employees or less.

Organisation by size	April	August	March
Start Up			14%
Sole trader	11%	6%	34%
2 - 10 employees	24%	24%	17%
11 - 25 employees	15%	20%	13%
26 - 50 employees	15%	11%	6%
51+ employees	35%	39%	16%

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and industry:

Industry sector	April	August	March
Business & Financial services	30%	23%	14%
Construction	20%	15%	15%
ICT	9%	15%	10%
Manufacturing	7%	16%	8%
Agriculture & Food	6%	3%	1%
Creative & Media	5%	1%	13%
Healthcare & medical	4%	2%	5%
Hospitality, Leisure & Tourism	4%	3%	8%
Transport & Distribution	4%	4%	1%
Renewable & Waste Management	4%	2%	1%
Charity / Voluntary Sector	3%	2%	2%
Energy & Utilities	3%	4%	1%
Public Sector Agencies	2%	0%	0%
Other	2%	3%	10%
Retail	1%	7%	11%

The spread across the different banks more or less aligns with current banking spread:

Bank	April	August	March
Ulster Bank	27%	25%	28%
Northern Bank	24%	22%	18%
Bank of Ireland	23%	25%	22%
First Trust	10%	15%	18%
HSBC	8%	7%	8%
Barclays	2%	2%	1%
Abbey	-	-	4%
National Irish	1%	1%	-
Co-Operative	1%	1%	-
Alliance & Leicester	1%	1%	-

The headlines from the survey are:

- There has been an increase in business requests for finance being declined across all the products. Extensions to existing facilities and requests for new facilities are showing the highest rates of declines with over 50% of requests being turned down.
- The main purpose of the credit application are:
 - Fund working capital (sales/stock) 69%
 - To cover non/late payment of debtors 18%
 - Property related 14%
- The main reasons given when requests are declined are:
 - Bank has no appetite to provide additional funding 38%
 - The recession 17%
 - Proposition considered high risk 15%
 - Insufficient repayment capacity demonstrated 15%
 - Value of existing security / underlying asset has depleted 15%

- A significant number of those businesses that have dealt with the banks in the last six months continue to report difficulties with the process. The areas causing most frustration are:
 - Length of time taken to get a decision
 - Increased level of bureaucracy
 - Lack of local decision making
 - Increase in the amount of information required, which is adding costs to the process
- Over 40% of respondents are reporting an increase in charges:
 - 42% reported an increase in interest rates (up 8% on last survey)
 - 41% reported an increase in overdraft and Loan Fees (up 14%)
 - 40% reported an increase in Operating Charges (up 15% on last survey)
- 27% of respondents have been asked to provide personal guarantees.
- There continues to be a number of businesses, who are not aware of the different support schemes that are available
- Lack of Funding and the general economic situation are still the major obstacles to investment.
- An increasing number of businesses (47%) are considering switching banks with 14% already having switched.
- Payment terms from customers appear to have improved over the last six months with 54% of respondents having to wait over 31 days for payment, which is a decrease of almost 30% from the last survey.
- Only 14% of respondents have considered Venture Capital Funding.

**Detailed Results from IoD Northern Ireland Division Survey
March 2010**

1 Has your organisation noticed any difference in your bank's lending conditions since end of August 2009?

	April	August	March	Change
Very much easier	2%	0%	2%	+2%
Somewhat easier	1%	5%	8%	+3%
Much the same	37%	44%	25%	-19%
	40%	49%	35%	
Somewhat tougher	27%	23%	19%	-4%
Very much tougher	26%	21%	24%	+3%
	53%	44%	43%	-1%
Don't know	7%	7%	22%	
TOTALS:	100%	100%	100%	

2 Since the end of August 2009, has your organisation either accepted or been declined any of the following?

	Accepted April	Accepted Fully Aug	Accepted Fully March 10	Accepted Partially Aug	Accepted Partially March 10	Declined April	Declined Aug	Declined Mar 10
Renewal of existing bank overdraft	80%	67%	49%	23%	23%	20%	10%	28%
Renewal of existing bank loan	93%	67%	50%	25%	21%	7%	9%	29%
Extension to existing bank overdraft	45%	23%	33%	31%	11%	55%	46%	56%
Extension of existing bank loan	63%	37%	21%	16%	5%	37%	47%	74%
New bank overdraft	36%	42%	23%	16%	6%	64%	42%	71%
New bank loan	50%	50%	36%	23%	6%	50%	27%	58%
Other, please specify	25%	60%	50%			75%	40%	50%

Other facilities specified (Mar 10):

- Bond Issue (accepted)
- Credit card / debit card (declined)
- Free Banking for one year (accepted)
- Review period of existing facility shortened from 12 months to 3 months and cost for review the same

3. If you have applied for credit since the end of August 2009 what was the purpose of the credit application?

To fund working capital i.e. sales / stock	69%
Capex	5%
To make an acquisition	7%
Debt Consolidation	9%
To cover non or late payment of customers / debtors	18%
To cover losses	5%
To meet a tax liability	5%
Property Related	14%
Other	10%

Other Purposes specified

- Restructuring of overdraft to loan+overdraft to fund business development
- to Fund final prototype and product launch
- funding for a new van
- Business start

4. If you have been declined for credit what reason(s) did you bank give you?

Poor Business Case	2%
Proposition considered high risk	15%
Already in default or breach of banking covenants	5%
Insufficient repayment capacity demonstrated	15%
Value of existing security / underlying asset has depleted	15%
The recession	17%
Bank has no appetite to provide additional funding at present	38%
In the bank's view, your balance sheet does not need more debt at present	5%
Other	20%

Other Reasons given:

- not enough money being deposited into my account
- they required my books but as I was newly self employed they thought I would not meet their criteria
- high sales funnel for new product but no confirmed orders - catch 22 as sales would convert with completion of prototype
- didn't give me one just told me it wasn't possible
- I wasn't bringing enough money into my account.

5. Comments on decision making process (Mar 10):

- Aided by Government Guarantee Scheme
- Awful! Our loans equate to 30% of our assets value. They don't want to lend any money for funding a development of 8 houses in the first phase where there are 6 of these sold with deposits paid!! Property is classed as high risk!!
- Bank seems to be prolonging the process by asking for supplementary and more detailed information than before.
- Banks do not care about client from abroad....
- Decision seemed to be made before even meeting; there was nothing there for me.
- EFG loan sold misleadingly by banks one offer made with 100% personal guarantee required not 25% as advertised.
- Extremely slow, poor service with the Bank not prepared to take any risk whatsoever and placing unnecessary constraints on the company and directors. As an ex Banker I've found the process unbelievably slow (over 7 months).
- harsh
- Incredible long winded additional security required despite using the government guarantee scheme
- Interest rates are low but now our interests on loans are 20% higher plus they demand insurance to cover the 'risk' of the loan which they did not do before

- just wasn't happy with the way it was dealt with
- Much stricter requirements, greater time to decision than previously.
- not printable
- only want to deal with copper fastened lending propositions
- painfully slow
- regrettable but not surprising
- Seemingly arbitrary. We are in profit, and although they initially reduced our OD facility from 8500 to 2000 to zero, they were desperate for us to take a loan out for the same amounts.
- Slow and not very helpful
- Slow and very onerous security conditions for a relatively small facility
- The bank agreed the loan under guarantee
- The decision making process remains unclear - bank staff does not appear to be fully trained for this period of tight lending.
- The size of the debt consolidation made it difficult to find enough banks with enough appetite on their own, syndication risk was an issue for bank therefore forcing you into negotiating with consortium of banks. As a result bond markets much better route.
- Too long - we had to arrange for all directors to meet a solicitor face to face to sign personal guarantees despite our solicitors being based in Belfast and our directors in London. Would not accept a video call.
- Unaccommodating. Make out they are very supportive but in reality they penalise underperformance and don't give support when most needed.
- very final, didn't really give option for appeal
- Very much slower
- very slow
- Very slow to get answers
- Very slow to get any decisions always stalling looking for more information
- very unfair
- very very slow
- We did not have agreed facilities from Sept 2008 until Dec 2009- thankfully it's been resolved & the bank apologised for our rough treatment.
- With 35 years of using overdraft/bank funding for our business we believe that the current status of 'Business Bank Manager' are more akin to 'Account Managers'. Discretion seems to be a thing of the past.

6, 7, 8 has your organisation noticed any difference in charges since April 09?

Change	Interest Rates		O/D & Loan Fees		Operating Charges	
	Aug 09	Mar 10	Aug 09	Mar 10	Aug 09	Mar 10
No Change	65%	53%	72%	55%	74%	56%
Decrease	1%	5%	1%	4%	1%	4%
Increase 0-5%	24%	27%	14%	24%	16%	27%
Increase 6-10%	4%	5%	6%	4%	5%	5%
Increase 11-20%	1%	5%	1%	4%	2%	1%
Increase 21-30%	1%	1%	2%	1%	1%	3%
Increase over 30%	4%	4%	4%	8%	1%	4%
Total Increase (April 09)	34% (48%)	42%	27% (32%)	41%	25% (32%)	40%

9 Since the end of April 2009, have you been asked to provide a personal guarantee against your business debt?

	April	August	March '10
Yes	20%	26%	27%
No	80%	74%	73%

10 Has your organisation made a loan application under the terms of the scheme?

April 09

	Yes & loan accepted	Yes & loan declined	No	Don't know
Enterprise Finance Guarantee Scheme	2%	1%	93%	4%
Capital for Enterprise Fund	0%	0%	96%	4%
Working Capital Scheme	1%	1%	94%	4%
European Investment Bank Fund UK	0%	1%	95%	4%
Framework of small amounts of capital aid (INI)	0%	0%	96%	4%
Accelerated Support Fund (INI)	0%	0%	95%	5%

August 09

	Yes & loan accepted	Yes & Loan Partially Accepted	Yes & loan declined	No
Enterprise Finance Guarantee Scheme	2%	0%	2%	96%
Accelerated Support Fund (INI)	1%	0%	0%	99%
Short Term Aid Scheme	1%	2%	0%	97%
Business Payment Support Service	6%	2%	0%	92%

March 10

	Yes & loan accepted	Yes & Loan Partially Accepted	Yes & loan declined	No
Enterprise Finance Guarantee Scheme	9%	2%	6%	83%
Capital for Enterprise Fund	1%	0%	0%	99%
Short Term Aid Scheme	1%	0%	1%	98%
Ulster Bank SME Fund	1%	1%	4%	94%
Business Payment Support Service	1%	1%	0%	98%

11 Comments on experience of applying for any of the above schemes (March 2010):

- Accountants, Bank staff, Government bodies and SME owners do not know all of these are available or how to get acc
- Adds additional cost in terms of interest rate.
- banks don't have any interest in enterprise finance guarantee scheme
- Did not know about them.
- Did not know of such schemes
- Did not know we could
- Have not applied because the above is too bureaucratic and time consuming
- Have not required their services yet.
- I applied for a Business loan from the prince's trust, which were very helpful and not only gave me the money but a lot of support and help while starting my business.
- I didn't apply for any as my start up costs were very low in comparison to other companies/ sole traders. Loans would be pointless to pay back as such little capital needed and high interest rates plus I knew as I didn't have a great credit rating this would reflect on the applications and outcome.
- I get turned down for because of the recession so I stopped asking
- I have never been advised or heard of the schemes
- I have no knowledge of them.
- I have not applied for any loans as I do not wish to get further into dept, but rather begin to pay off my existing debts.
- Initially told by bank we didn't qualify and then they discovered we did. Although the scheme is guaranteed by government, they still insisted on personal guarantees.
- Most of these schemes were not made available / known to me.
- never heard of them
- Never heard or told about them
- not sufficiently aware of details
- Short Term Aid Scheme too cumbersome and were advised not to go for as INI did not have direct control. Have applied for ASF but is a long process!
- unhelpful to SME's
- Very difficult
- Wasn't aware that many of the above schemes were available.
- We didn't know of the availability.
- We have received letters of support from Lord Davies Treasury, J Donaldson MLA and S Wilson MLA Minister for Finance stating the we were ideal for EFG
- Weren't aware.

12 Has your organisation had to postpone / stop investments due to:

	Yes (April)	Yes (Aug)	Yes Mar 10	No (April)	No (Aug)	No Mar 10
Lack of funding	40%	49%	49%	60%	51%	51%
Lack of confidence in the market	42%	48%	36%	58%	52%	64%
Currency exchange rates	19%	9%	8%	81%	91%	92%
General economic climate		61%	49%		39%	51%
Other reason, please specify	12%	6%	4%	88%	94%	96%

Other reasons specified:

- Unforeseen circumstances mainly due to workmen, season and funding processes
- Lack of cash flow

13 Has your organisation considered using venture capital or 'angel' investment?

	Aug 09	Mar 10
Yes	22%	14%
No	78%	86%

Comments:

- our sector would not give the returns vc`s require and amount would be too low for them to consider
- Again this is something I am not aware of
- I do not know what this is.
- Yes however we are looking for a small amount of funds to supplement INI grants to get the product to market
- Not formal
- do not even know what is it capital or 'angel' investment
- Never heard of the schemes
- We are unsure what this entails.
- I have never heard of these before
- don't know what it is

14 Which of the following banks does your organisation have a banking relationship with?

April 09

Bank	Percent	Bank	Percent
Ulster Bank	27%	National Irish	1%
Northern Bank	24%	Don't know	1%
Bank of Ireland	23%	Co-operative Bank	1%
First Trust	10%	Citi	1%
HSBC	8%	Bank of New York	1%
Barclays	2%	Alliance & Leicester	1%
		Abbey	1%

August 09

Bank	Main	Secondary
Ulster Bank	25%	8%
Northern Bank	22%	11%
Bank of Ireland	25%	12%

First Trust	15%	4%
HSBC	7%	7%
Barclays	2%	
National Irish Bank	1%	
Co-Operative	1%	
Alliance & Leicester	1%	

March 10

Bank	Main	Secondary
Ulster Bank	28%	9%
Northern Bank	18%	26%
Bank of Ireland	22%	35%
First Trust	18%	17%
HSBC	8%	13%
Barclays	1%	
Abbey	4%	

15, 16 Is your organisation considering switching banks?

	April	Aug	March '10
Yes	27%	42%	47%
Yes - Switched	-	8%	14%
Yes – Did not switch	-	34%	33%
No	64%	57%	49%
Don't know	9%	1%	4%

Comments

- Always looking for the best deals
- cheaper banking
- Currently switching due to moving from one town to another for convenience.
- In the current climate we do not think any of the other banks would be interested.
- Just waiting for the right time to do it.
- No point at the moment they are all the same
- Not easy as most have similar attitude
- Thought about it but too tied in to current bank.
- We are considering changing in 2010

17 Have your payment terms, the number of days it is taking to receive payment, increased during 2009?

	Aug 09	Mar 10
Yes	61%	44%
No	39%	56%

18 What is the average number of days it is taking to receive payment?

	Aug 09	Mar 10
Up to 30 Days	18%	46%
31 to 60 Days	46%	32%
61 to 90 Days	24%	18%
Over 90 Days	12%	4%

19 List any areas in which you would be interested in receiving advice or training assistance with regard to banking issues.

- Advice on reasonable Lenders
- Assistance with how to apply for a small overdraft
- Benefits of business accounts with banks
- how to deal with the banks on a daily basis
- How to prepare for the bank properly, how to get the most from my bank and how to get my accountant to help the process.
- how to switch without any burden
- I would like to know more about any grant schemes I could apply for. I have a product range which I would like to introduce to this Business. It would be something I created and I know that most businesses in my line of work have products which they sell.
- In business today, the uncertainty of the retail market, consumer confidence and credit insurance prove to be our issues and if you can provide some clarity or certainty we would be grateful
- Internet merchant accounts.
- Negotiation. Guarantees Control over term of Lending Contract
- Other sources of support
- Raising finance through grant aid schemes, community development, local councils to fund projects related to conservation, heritage and tourism
- Securing more bank funding
- Use of overdrafts to allow for emergency cash flow and to avoid charges.

20 Size of your company?

	April	Aug	Mar 10
Start-Up			14%
Sole trader	11%	6%	34%
2 - 10 employees	24%	24%	17%
11 - 25 employees	15%	20%	13%
26 - 50 employees	15%	11%	6%
51+ employees	35%	39%	16%

21 Sector?

	April	August	March 10
Business & Financial services	30%	23%	14%
Construction	20%	15%	15%
ICT	9%	15%	10%
Manufacturing	7%	16%	8%
Agriculture & Food	6%	3%	1%
Creative & Media	5%	1%	13%
Healthcare & medical	4%	2%	5%
Hospitality, Leisure & Tourism	4%	3%	8%
Transport & Distribution	4%	4%	1%
Renewable & Waste Management	4%	2%	1%
Charity / Voluntary Sector	3%	2%	2%
Energy & Utilities	3%	4%	1%
Public Sector Agencies	2%	0%	0%
Other Services	2%	3%	10%
Retail	1%	7%	11%

22 Have you responded to any of the previous two IoD Banking surveys in 2009?

Yes, to both	15%
Yes, to one	13%
No	72%