

## Quarterly Bank Watch Report Q4'18

Wednesday 23<sup>rd</sup> January 2019

### **Demand for Credit High and Bank Charges Exacerbate**

- SME demand for credit is at 30%.
- Loan refusal rates decrease from 29% to 12%.
- 14% waiting longer than 10 weeks from permission to drawdown.
- 45% stated that banks are making it more difficult to access finance.
- Businesses wait on average 8 weeks from decision to drawdown.
- Lack of awareness of alternative sources of finance continues.
- 11% of SMEs pay between €5,000-€10,000 p.a. in Bank Charges (excluding interest).

ISME, the Irish SME Association, today (23<sup>rd</sup> January) released its quarterly Bank Watch survey for Q4'18. The results show a decrease in loan refusal rates, decreasing from 29% to 12%. Demand for credit remains high at 30%. Waiting time from decision to drawdown is on average 8 weeks. The Association highlights the need for more credit to be made available to SMEs and the length of time it's taking for SMEs to access finance. It calls for banks to promote the SBCI funds in a more coordinated manner.

#### **ISME CEO Neil McDonnell said:**

*"While a decrease in loan refusal rates is welcome, demand for credit remained high in last quarter of 2018. Without sufficient access to finance many businesses will struggle. It remains unacceptable to have a business waiting on average 8 weeks from decision to drawdown. The fact many businesses are waiting more than 10 weeks from permission to drawdown has a negative impact on the SME sector. This type of delay is starving already cash-strapped SMEs.*

*Bank Charges have been identified as a particular cause of concern for the SME sector in this research. The fact that 10% of SMEs are paying €2,500-€5,000 and 11% pay between €5,000-€10,000 every year in bank fees is a major cause of concern. "*

#### **Mr. McDonnell added:**

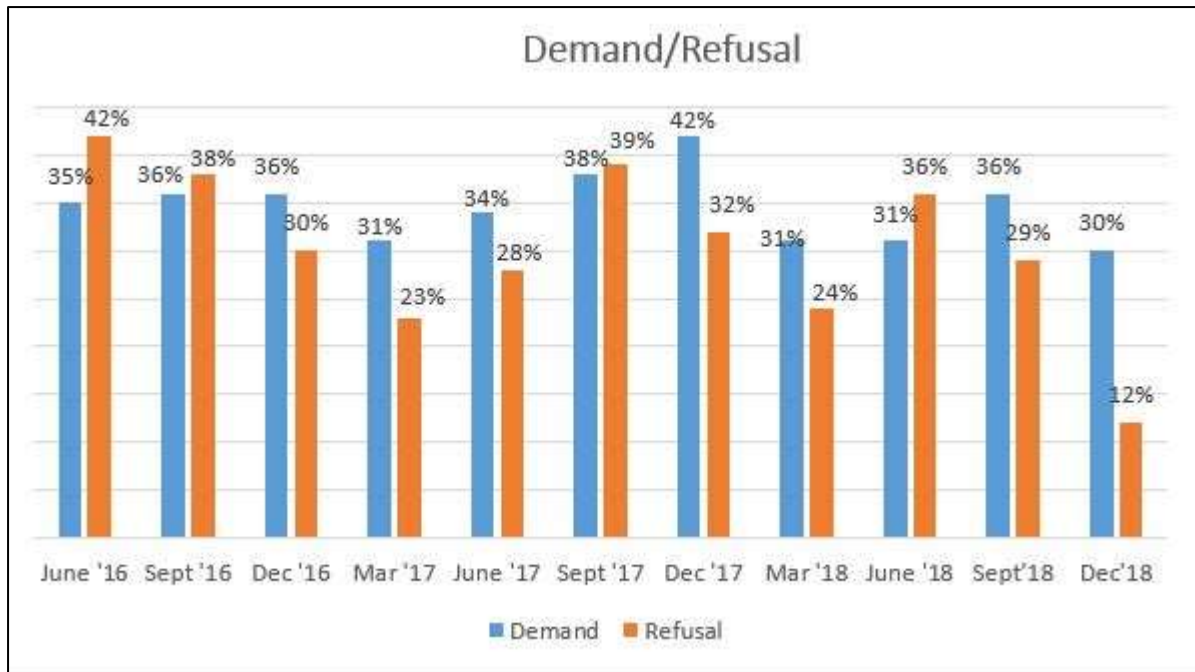
*"We are encouraging SMEs to tap into alternative sources of finance. Our reliance on the main pillars banks is unhealthy and this needs to change in 2019."*

The main findings from the 641 respondents in the third week of December are as follows:

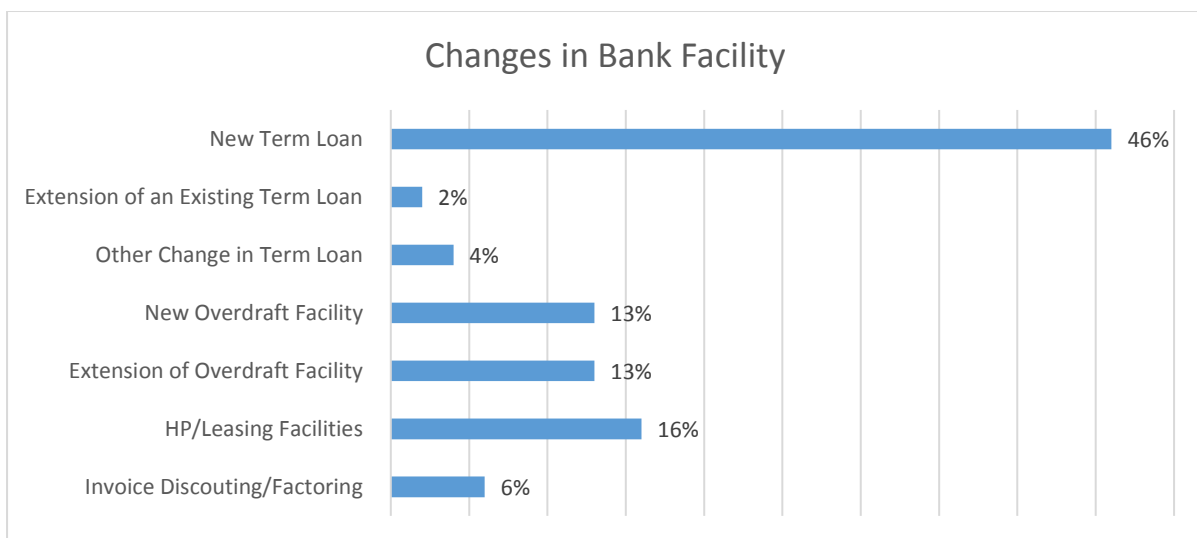
- 30% of respondents required additional or new bank facilities in the last 3 months of 2018, down 6% on Q3'18.
- 12% of companies who applied for funding were refused credit by their banks, a decrease on the 29% in Q3'18.
- Awareness of the Credit Review Office was at 70%. There was a nominal decrease in awareness of the Credit Guarantee Scheme from 67% to 66%, while awareness about the microfinance scheme dropped from 57% to 53% in Q4'18.
- 18% of applications were awaiting a decision late-December.
- On average, businesses are waiting 5 weeks for an initial decision on loan applications. The wait time for drawdown was 3 weeks.
- 25% of initial bank decisions were made within the first week; an increase from 17% on previous quarter. 14% are waiting 4 to 6 weeks, while 14% are waiting more than 10 weeks.
- 57% of those who required funding made a formal application, an increase from 55% in the previous three months, while informal applications increased from 70% to 79%.
- Of the 73% approved for funding, (6% of whom were partially successful), 47% have drawn down finances either fully or in part.
- 45% of respondents had cause to be concerned about bank fees and charges.
- 57% state that the Government is having either a negative or no impact on SME lending compared to 63% in the previous Quarter.
- 7% of businesses report that their debt has been sold by their lender to another institution.
- 52% have been with their bank for 20+ years.
- 20% of SMEs spend between €100-€250 on Bank Charges (excluding interest), 48% between €250 and €2500, 10% between €2500-€5000, 11% between €5000-10,000, 4% between €10,000-€20,000. The remainder pay in excess of €20,000.

**The Association, called on the Government to:**

- SBCI funds to be promoted by banks and used appropriately for SMEs.
- Investigate other sources of finance that can be made available to viable cash-starved SMEs.
- A reduction in bank charges and the exorbitant interest rates charged to SMEs.



	Dec'17	Mar'18	June'18	Sept'18	Dec'18
<b>Required change in bank facilities in last 3 months</b>	42%	31%	31%	36%	30%
<b>Unsuccessful</b>	32%	24%	36%	29%	12%
<b>Approach the Bank</b>	86%	72%	84%	79%	84%
<b>Made Informal Approach</b>	73%	77%	70%	75%	79%
<b>Made Formal (Written) Approach</b>	63%	47%	50%	55%	58%
<b>Banks making it more difficult for SMEs</b>	50%	49%	54%	52%	43%
<b>Aware of banks appeals procedure</b>	54%	55%	58%	63%	58%
<b>Aware of Credit Review Office</b>	76%	74%	68%	68%	70%
<b>Aware of Credit Guarantee Scheme</b>	70%	66%	67%	66%	66%
<b>Aware of Micro Finance Scheme</b>	65%	60%	52%	57%	53%



46% of respondents requested a 'New Term Loan', 2% requested an 'Extension of an Existing Term Loan', 4% requested 'other changes' to their term loan', and 13% requested a 'new overdraft facility'. 13% applied for an 'Extension of Overdraft Facility' compared to 21% in Q3. A further 16% requested HP/Leasing facilities, while 6% applied for Invoice Discounting/Factoring.

### **Bank Charges**

As an example of the current business banking charges regime, one of Ireland's pillar banks has just advised of the following revision of customer charges, applying from 16<sup>th</sup> Feb:

- |                             |           |
|-----------------------------|-----------|
| • Quarterly maintenance fee | +180%     |
| • Branch transactions       | +37.5%    |
| • Cheques lodged            | +129%     |
| • Automated:                | no change |
| • Cash in                   | +20%      |
| • Cash out                  | +20%      |
| • Cash exchanged            | +20%      |
| • Fast cash paid in         | +20%      |

**ENDS.**

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#### **Note to Editors:**

**This survey was conducted in the third week of December, covering the final quarter of 2018. There were 641 SME owner manager respondents.**