

BANK REFUSAL RATE REMAINS HIGH

- **52 % Refusal rate in three months to end of May.**
- **Demand for SME lending at 32%, lowest since June 2011.**
- **Poor access to credit continues to stall recovery.**
- **60% experienced an increase in bank charges.**
- **ISME calls for outsourcing of risk assessment, while Irish bankers are trained.**

ISME, Tuesday 3rd June 2014.

The results of the latest ISME Quarterly Bank Watch Survey released today (3rd June) by ISME, the Irish Small & Medium Enterprises Association, show a reduction in demand for bank credit and a continuing high refusal rate in the three months to end of May. The Association called for a speeding up of legislation to start the Strategic Banking Corporation of Ireland (SBCI), for which the ISME has been lobbying since the bank crash of 2010.

Commenting on the results of the survey, ISME CEO, Mark Fielding, said **“The ‘hunger march’ for finance continues. How can we even hope to beat the recession when our SMEs are being refused bank loans and even when ‘lucky enough’ to get a loan, are hit with over-stringent collateral requirements and higher interest rates? The acceptance, without question by Government, of ‘sugar-coated’ lending figures from the banks must stop and more pressure exerted on banks to lend, based on the merits of applicants, rather than the need to reduce banks’ balance sheets”.**

“The fact that 93% of SMEs disbelieve the banks and 71% believe that Government has had a negative or neutral impact on SME lending is an indication of the distrust of banks and the perception of the performance of the current administration in relation to this problem.”

The survey, conducted in the week ending 30th May had 1,083 owner managers of SMEs respond, a rate of 12%. This provides a strong indication of the real SME lending environment. The headline statistics are as follows:

- **52% of companies who applied for funding in the last three months were refused credit by their banks, a slight improvement on the 54% refusal rate, seen in the previous quarter.**
- **32% of respondents had requested additional or new bank facilities in the last 3 months, a reduction from 39% in the previous quarter and lowest demand since June 2011.**
- **20% of initial bank decisions were made within one week; a deterioration from the 23% in the previous quarter.**
- **On average, the decision time has increased to just over 4 weeks and the wait to drawdown has increased from 3 to 5 weeks.**
- **11% of respondents who required bank finance did not apply for various reasons, a decrease from 17% in the previous quarter.**
- **Of those 42% were actually discouraged by bank from making application and another 33% were afraid of a reduction in existing facilities.**
- **50% of respondents are customers of their bank for over 20 years, while 85% are over 5 years.**
- **Of the 48% approved for funding, only 43% have drawn down the finance either fully or in part.**
- **46% of requests were for term loans, with 34% for overdrafts, or alterations to existing facilities, while invoice discounting/factoring accounted for 5% of requests, with 20% requesting leasing.**
- **60% of respondents had increases in bank charges imposed, while 20% have suffered increased interest.**
- **Reductions in overdrafts were demanded of 23% of SMEs, down from 35% in the previous quarter.**
- **71% state that the Government is having either a negative or no impact on SME lending.**
- **72% are aware of the Credit Review Office, while 58% are aware of the Credit Guarantee Scheme and 44% know about the Micro Finance scheme, up from 41% in previous quarter.**
- **74% of owner/managers are in favour of an alternative Strategic Investment Bank.**
- **Only 32% of respondents are aware of the code of conduct for business lending to SMEs.**

“Transacting banking business has become almost impossible because of the calibre of yellow pack relationship managers in banks. They can’t read a set of figures, are frightened by the word risk and scared to make a lending decision, for fear of career reprisal. In addition, their ability to act as an advocate for an SME when decisions are pushed ‘upstairs’ is abysmal, due to a combination of ignorance, fear and career protection. ISME pointed out the lack of expertise on numerous occasions since 2009, to be met with the usual denials from the

banks. It is now time to outsource risk assessment to bankers with that experience. It might be opportune to take some KfW bank staff as well as their money”, according to Fielding .

The Association, called on the Government to:

- Demand honest and reliable reporting from the rescued banks, through the Department of Finance and Central Bank.
- Introduce immediately the alternative bank/fund (SBCI) to release working capital funds to SMEs.
- Investigate other sources of finance that can be made available to viable cash starved SMEs.
- Increase in SME finance availability, by insisting on adherence to bank bail-out conditions.
- Increase promotion of the government Partial Guarantee scheme and the Microfinance scheme.
- Use the Partial Guarantee scheme to bridge funding gaps in businesses attempting to rehouse loans from the ‘deserting’ and ‘withdrawing’ banks.
- Outsource better management for bailed-out banks to oversee lending policy and its activity.

“Irish SMEs are significantly more reliant on bank overdrafts and short term debt at 60% than their EU-28 counterparts at 39%. This reliance has led to financial fragility, especially when the banking system has ‘let us down’ and the length of debtor days is extending. It is therefore important that alternative sources of finance and alternative methods of financing are encouraged for Irish SMEs. In essence, as well as ‘right-sizing’ their business, SMEs must begin to ‘right-size’ their finances.”

“In the short to medium term, Irish SMEs are ‘stuck’ with the small number of banks that we have and the responsibility falls on Government, through the Central Bank to oversee and regulate the bailed-out banks who remain. Regulation was outsourced and improved, it is now time to outsource the SME lending function, within the rescued banks”, concluded Fielding.

ENDS.

For further information contact:

Mark Fielding
Chief Executive
Tel: 01 6622755
Mobile: 087 2519675

Notes for Editors.

	June'13	Sept '13	Dec '13	Mar' 14	June' 14
Required change in bank facilities in last 3 months	<u>41%</u>	<u>36%</u>	<u>37%</u>	<u>39%</u>	<u>32%</u>
Unsuccessful	<u>44%</u>	<u>58%</u>	<u>50%</u>	<u>54%</u>	<u>52%</u>
Approached bank	<u>89%</u>	<u>88%</u>	<u>90%</u>	<u>83%</u>	<u>89%</u>
Made Informal Approach.	<u>79%</u>	<u>77%</u>	<u>84%</u>	<u>83%</u>	<u>83%</u>
Made Formal (written) Approach.	<u>61%</u>	<u>63%</u>	<u>59%</u>	<u>59%</u>	<u>54%</u>
Banks making more difficult access finance	<u>67%</u>	<u>66%</u>	<u>59%</u>	<u>61%</u>	<u>64%</u>
Aware of Banks' appeals procedure	<u>60%</u>	<u>64%</u>	<u>64%</u>	<u>60%</u>	<u>60%</u>
Aware of the Credit Review Office.	<u>64%</u>	<u>71%</u>	<u>69%</u>	<u>65%</u>	<u>72%</u>
Aware of Credit Guarantee Scheme	<u>58%</u>	<u>56%</u>	<u>56%</u>	<u>51%</u>	<u>58%</u>
Aware of Micro Finance Scheme	<u>37%</u>	<u>28%</u>	<u>36%</u>	<u>41%</u>	<u>44%</u>

ISME is the only independent voice of Small & Medium business in Ireland, representing in excess of 9,000 members across all sectors. The Association is owned and run by owner managers and is independent of big business, government and unions; the TRUE voice of the Irish SME. www.isme.ie