Press Release

EVALUATING CHANGES IN BANK LENDING TO SMES OVER 2001-12: ONGOING TIGHT CREDIT CONDITIONS?

NIESR Discussion Paper No. 408, by Angus Armstrong, E Phillip Davis, Iana Liadze and Cinzia Rienzo

Is the slow growth in bank lending to SMEs due to constrained credit supply or simply banks turning away riskier borrowers? Our analysis suggests that five years after the start of the financial crisis there is evidence of constrained credit supply after taking account of changes in the riskiness of borrowers. This implies that tight bank lending conditions for SMEs remain a headwind for the UK economy.

- **Are applications for bank loans by SMEs more likely to be rejected?** We control for firm risk and other relevant characteristics in our analysis and still find rejection rates for bank loans are generally higher in 2011-12 than 2008-9.
- **Have banks taken advantage of low interest rates to raise margins?** We find margins on SME term lending are at a sustained high level since 2008-9, controlling for firm risk and other characteristics. Overdraft rates are higher in 2010-12 than 2008-9, suggesting profits may have been boosted via this route.
- **Have collateral requirements and arrangement fees been boosted since 2008-9?** There is no evidence this has been the case, suggesting that supply constraints operate via credit rationing (rejection or higher margins).
- **Have high risk SMEs been disproportionately affected by supply constraints?** No, we find that it is actually the low and average risk SMEs that have suffered credit tightening since 2008-9.
- **Is it new or renewals finance that is most affected by lending constraints?** Since 2011, there seems to have been a tightening of credit for renewals, which may reflect poor lending decisions made for the original financing during the boom up to 2007**.**
- **Is SME lending affected by uncertainty to a greater extent than general corporate lending?** This is suggested by the data, as share price and growth uncertainty seem to have a greater impact on SME lending than on aggregate corporate lending. Uncertainty measures may be capturing the shift to risk aversion by banks since the financial crisis.

Notes to Editors:

This research was commissioned by the Department for Business, Innovation and Skills under an award entitled *'Changes in Bank Lending to SMEs'*.

The NIESR Discussion Paper will be posted on our website on Monday, 15th April, 2013 at noon: www.niesr.ac.uk

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