

Commercial Borrowing - UK - December 2016

Report Price: £995.00 | \$1227.03 | €1166.14

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“Post-credit crunch, the industry has faced a wave of new challenges, including unprecedented regulatory changes and, more recently, the uncertainty created following the

Brexit vote. Each factor has impacted the sector in a number of ways, requiring lenders to review and develop their positions, while maintaining a more responsible lending approach.”

Lewis Cone, B2B Analyst

This report looks at the following areas:

- **How has the UK's vote to leave the EU already impacted the market?**
- **How did challenger banks perform in 2015? Have mainstream banks reacted in any way?**
- **What does the future hold for commercial borrowing?**

Definition

Commercial borrowing is a term used to describe a funding arrangement that a business can set up with a financial institution, which enables them to fund capital expenditures or other operations they otherwise would be unable to afford.

Commercial lending includes commercial property (real estate) mortgages, loans used to purchase buildings, equipment lending, loans secured by accounts receivable, and loans intended for expansion and other corporate purposes.

The following three sectors best highlight the development of the commercial borrowing industry and are also quantified in this report:

- **Commercial property (real estate) finance**
- **SME finance**
- **Alternative finance**

Lending is defined by the Bank of England as “loans and advances (including overdrafts and claims made under sale and repurchase agreements) and finance leases granted to non-financial businesses, in all currencies”.

Data on gross flows of lending, meaning flows of new lending to and repayments of lending by businesses, are defined with respect to loans excluding overdrafts. Overdrafts are excluded from the definition of gross lending flows because the concept is difficult to define sensibly for credit products with short-term revolving characteristics.

Gross flows of lending and repayments, and thus net lending, exclude the effects of write-offs, revaluation effects, and loan transfers.

For non-financial businesses, amounts outstanding of loans (excluding overdrafts) and overdrafts are measured exclusive of accruing interest payable.

Gross lending and repayment flows are measured after the application of any interest charges to loan accounts. This means, for example, that gross lending data includes the application of any ‘capitalised interest’ and repayments data is measured after the deduction of any interest charged to the account.

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Other terms used in this report include:

Accounts receivable - money owed by customers to another entity, which has not yet been paid for. Receivables tend to come in the form of operating lines of credit and are usually due within a short time period.

Asset-based finance - a method of providing structured working capital and term loans that are secured by accounts receivable, inventory, machinery, equipment and/or property.

Bad debt - a debt that is not collectible and is effectively worthless to the creditor. This tends to occur after all attempts have been made to collect on the debt and is usually a product of the debtor going into bankruptcy or where the additional cost of pursuing the debt outweighs the amount the creditor would collect.

Commercial credit - a pre-approved amount of money issued by a bank, or other lender, to a company that can be accessed by the borrowing company at any time to help meet various financial obligations.

Crowdfunding - a way of raising finance by asking a large number of people or business owners for a small amount of money. Debt crowdfunding involves investors receiving their money back with interest (also known as peer-to-peer lending). Equity crowdfunding involves investing in an opportunity in exchange for shares or a small stake in the business, project or venture.

Effective interest rate - the weighted average of all interest rates across each type of deposit or loan account held by all clients within an economic sector.

Hire purchase - a system in which a company pays for an item or service in regular instalments, while having the use of the specified item or service.

Insolvency - when a business can no longer meet its financial obligations with a lender or lenders as debts become due.

Invoice trading - the process in which companies, particularly SMEs, auction their invoices online as a way to gain quick access to money that would otherwise be tied up.

Liquidation - when a business or firm is terminated or made bankrupt, its assets are sold and the proceeds pay creditors.

Loan write-offs - after a period of time, as dictated by regulations, has passed for banks or other lending institutions to collect 'bad debt', the institution must 'write-off' the loan and expect the debt to remain unpaid.

M4 lending - sterling lending by MFIs to the M4 private sector, including advances, acceptances, reverse repos, investments, and holdings of short-term paper.

Monetary financial institutions (MFIs) loans to non-financial businesses (NFBs) - lending in all currencies to all UK non-financial businesses classified to non-financial industry sectors.

(Net) Rate of return - the gain or loss on a loan over a specified period, expressed as a percentage increase over the initial loan amount.

Non-financial corporations - corporations that produce goods and services for the market and do not deal in financial assets and liabilities as a primary activity.

Peer-to-peer business lending - a method of debt financing that enables companies to borrow and lend money without the use of an official financial institution as an intermediary.

Syndicated loan - a loan offered by a syndicate of lenders, who work together to provide finance for a borrower. The loan may involve fixed amounts, a credit line, or a combination of the two. Interest rates can be fixed for the term of the loan or floating - based on a benchmark rate, such as the London Interbank Offered Rate (LIBOR).

All values quoted in this report are at current values unless otherwise specified.

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Table of Contents

Executive Summary

Market size

Figure 1: UK MFIs' net loans to non-financial businesses, Q4 2014 - Q3 2016, by size of business

Figure 2: UK MFIs' cumulative net lending to UK non-financial businesses, 2014-15, by industrial sector

Market trends

Market factors

Brexit creates opportunities for business banking providers to deepen customer relationships

Commercial property transactions continue to rise

Profitability and business investment in the private sector rose in 2015 but may stagnate in 2016

Reports of falling business confidence at odds with rise in M&A activity

Industry structure

Forecast

Gross lending expected to remain stable to 2021

Figure 3: Forecast UK MFIs' net loans to non-financial businesses, 2017-21

Alternative market expected to nearly double its lending by 2021

Figure 4: Forecast UK alternative lending market, by funding type, 2017-21

Total value of outstanding debt set to rise alongside short-term market uncertainty

What we think

Key Insights

How has the UK's vote to leave the EU already impacted the market?

How did challenger banks perform in 2015? Have mainstream banks reacted in any way?

What does the future hold for commercial borrowing?

Introduction

Definitions

Methodology

Abbreviations

Market positioning

UK Economy

Key points

Overview

Figure 5: UK GDP, 2006-16

Figure 6: UK output, by industry, 2008-16

Figure 7: Quarters after GDP peak, 1979, 1990 and 2008

Inflation

Interest rates

House prices

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Figure 8: UK house price changes, 2006-16

Consumer spending

Manufacturing

Figure 9: UK manufacturing, 2014-16

Business investment

Figure 10: UK GFCF 2005-15

Imports

Exports

Market Factors

Key points

Uncertainties surrounding economic growth yet to be realised

Figure 11: GDP growth rate, Q1 2012- Q3 2016

Figure 12: GDP growth rate, Q1 2012 - Q3 2016

Brexit creates opportunities for business banking providers to deepen customer relationships

Recent market changes have provided extra barrier to providing finance to SMEs

Figure 13: Company insolvencies in England and Wales, 2011-15

Commercial property transactions continue to rise

Figure 14: Number of non-residential property transactions, 2011-15

Figure 15: Number of non-residential property transactions, 2011-15

Profitability and business investment in the private sector rose in 2015 but may stagnate in 2016

Figure 16: UK PNFCs net rate of return, Q2 2011 - Q2 2016

Figure 17: UK total business investment, 2011-16*

Figure 18: UK total business investment, 2011-16*

Reports of falling business confidence at odds with rise in M&A activity

Figure 19: Mergers and acquisitions of UK companies, 2011-2016*

Government schemes

British Business Bank

Business Finance Support Finder

Enterprise Finance Guarantee

Figure 20: EFG lending, by number and value of loans offered and by number and value of loans drawn, 2009-15*

The National Loan Guarantee Scheme

Funding for Lending Scheme

BoE Stress Test

Market Size

Key points

Net lending on a pathway to recovery...

Figure 21: UK MFIs' net loans to non-financial businesses, Q4 2014 - Q3 2016, by size of business

Figure 22: UK MFIs' net loans to non-financial businesses, Q4 2014 - Q3 2016, by size of business

... although outstanding loan amounts are on an upwards course over 2016

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Figure 23: UK total loan amounts outstanding to MFIs from non-financial businesses, November 2014 - October 2016, by size of business

Figure 24: M4 loan amounts outstanding from PNFCs, November 2014 - October 2016

Figure 25: M4 loan amounts outstanding from PNFCs, November 2014 - October 2016

Market segmentation

Figure 26: UK MFIs' cumulative net lending to UK non-financial businesses, 2014-15, by industrial sector

Figure 27: UK MFIs' cumulative net lending to UK non-financial businesses, 2014-15, by industrial sector

Further segmentation

Alternative finance

Peer-to-peer lending and crowdfunding

Funding Circle continues to lead P2P business lending

Figure 28: P2P business lending volume and market share, by lender, 2016*

Figure 29: P2P business lending volume, by lender, 2016*

Manufacturing industries and professional services apply for most P2P business loans

Figure 30: P2P business borrowers, by industrial sector, 2014

Crowdcube leads crowdfunding market, albeit with only four major competitors

Figure 31: Crowdfunding volume and market share, by lender, 2016*

Figure 32: Crowdfunding lending volume, by lender, 2016*

Bridging finance

Figure 33: UK bridging loans market value, in aggregated loan balances, 2012-16

Commercial property (real estate) finance

Upward pressure on yields due to uncertainty

Debt rises for first time since 2008

Figure 34: Aggregated value of outstanding debt in loan books secured on UK commercial property, 2011-15

Figure 35: Aggregated volume of outstanding debt in loan book secured on UK commercial property, 2011-15

Loan originations continue to rise, but uncertainties could derail momentum

Figure 36: Gross value of annual loan originations, 2011-15

UK banks and building societies' share of new loan originations declines

Figure 37: Gross value of loan originations, by allocation, 2011-15

Figure 38: Value of outstanding loan books secured on UK commercial property, 2015, by type of lender

Offices and retail property still dominate the share of loans allocated, but the industrial and hotel sectors are strengthening their market share

Figure 39: Allocation of outstanding loans to investment and owner-occupied property, by type of use, 2014

Loans secured against 'alternative' real estate overtakes traditional real estate for the first time

SME Finance

SME funding gap

Improvements made to alternative finance accessibility

London and the south east account for a third of SME lending in Britain

Figure 40: SME turnover and lending, by region, December 2015

Figure 41: SME lending, by region, December 2015

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SMEs most in need of finance for cash flow and capital equipment

Figure 42: SME lending, by reason, 2015

Value of SME loan balances has declined since 2013

Figure 43: Value of SME loan balances, by region, 2012-16*

Figure 44: Value of SME loan balances, by Region, 2012-15

Market Trends

Key points

Business confidence influences borrowing demand, but latest index figures draw concern

Figure 45: Business confidence index, per half-year, 2006-16

Figure 46: Business confidence index, per half-year, 2006-16

Write offs on loans to non-financial companies continues to fall

Figure 47: Write offs of loans to PNFCs from banks and building societies, 2011-16*

Demand for credit falls in 2016 with availability stagnating

Figure 48: Availability of corporate credit to PNFCs in the last three months, Q4 2010 - Q3 2016, by business size

Figure 49: Availability of corporate credit to PNFCs in the last three months, Q4 2010 - Q3 2016, by business size

Figure 50: Demand for corporate credit by PNFCs in the last three months, Q4 2010 - Q3 2016, by business size

Figure 51: Demand for corporate credit to PNFCs in the last three months, Q4 2010 - Q3 2016, by business size

Commercial lending rates experience further decline

Figure 52: Average interest rate for UK MFI new advances to PNFCs, at October in 2012-16

Funding for Lending scheme extended once again until 2018

Figure 53: Net loans to UK SMEs from FLS participants, 2014-15

Figure 54: Net loans to UK SMEs from FLS participants, 2014-15

Industry Structure

Key points

Industry development

Challenger banks on the rise, but market obstacles likely to protect existing players

Banking license application process has been made easier, but the number of application withdrawals has risen...

... and therefore the number of banks and building societies has remained fairly constant since 2013

Figure 55: Number of banks and building societies operating in the UK, 2013-16

Figure 56: Number of banks and building societies operating in the UK, 2013-15

Company Profiles

Aldermore Bank

Figure 57: Financial analysis of Aldermore Bank plc, 2011-15

Company strategy

Barclays Plc

Figure 58: Financial analysis of Barclays plc, 2011-15

Company strategy

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Clydesdale Bank Plc

Figure 59: Financial analysis of Clydesdale Bank Plc, 2012-16

Company strategy

Funding Circle

Figure 60: Financial analysis of Funding Circle, 2011-15

Company strategy

GE Capital UK

Figure 61: Financial analysis of GE Capital Bank Limited, 2011-15

Company strategy

HSBC Bank plc

Figure 62: Financial analysis of HSBC Bank, 2011-15

Company strategy

Lloyds Banking Group

Figure 63: Financial analysis of Lloyds Banking Group, 2011-15

Company strategy

RBS Group

Figure 64: Financial analysis of RBS Group, 2011-15

Company strategy

Santander UK

Figure 65: Financial analysis of Santander UK Plc, 2011-15

Company strategy

Shawbrook Bank

Figure 66: Financial analysis of Shawbrook, 2011-15

Company strategy

Figure 67: Profiled companies' combined turnover, 2011-15

Forecast

Key points

Traditional (mainstream) lenders

Gross lending expected to remain stable to 2021

Figure 68: Forecast UK MFIs' net loans to non-financial businesses, 2017-21

Figure 69: Forecast UK MFIs' net loans to non-financial businesses, 2017-21

Loan write-offs anticipated to decline to 2019 before rising thereafter

Figure 70: Write offs of loans to PNFCs from banks and building societies, 2017-21

SME finance

Alternative finance

Alternative market expected to nearly double its lending by 2021

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Figure 71: Forecast UK alternative lending market, by funding type, 2017-21

Figure 72: Forecast UK alternative lending market, by funding type, 2017-21

Commercial property (real estate) finance

Lower economic growth and the low interest rate environment will impact commercial mortgage lending

Figure 73: Forecast gross value of annual loan originations, 2016-20

Figure 74: Forecast gross value of annual loan originations, 2016-20

Total value of outstanding debt set to rise alongside short-term market uncertainty

Figure 75: Forecast value of outstanding debt in loan books secured on UK commercial property, 2016-20

Figure 76: Forecast value of outstanding debt in loan books secured on UK commercial property, 2016-20

Further Sources and Contacts

Trade associations

Asset Based Finance Association

British Bankers' Association

British Private Equity & Venture Capital Association

Finance and Leasing Association

Loan Market Association

National Association of Commercial Finance Brokers

Trade magazines

Bridging & Commercial

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