

# Commercial Borrowing - UK - December 2016

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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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#### 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

Commercial Property Monthly

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