The lay of the land

The National Grid is responsible for the safe, reliable, and efficient transmission of electricity to customers across the UK. The network connects power stations with major substations ensuring the delivery of energy where demand is most needed. It is an understated but vital role.

Much like the energy that underpins modern life, the role undertaken by commercial finance intermediaries – and their lender counterparts – is largely an understated one. The remit of the NACFB and its annual membership survey is to shed light on the collective endeavours of this growing community.

EMPOWERING UK SMES

The findings from this survey tell a story rarely told, because the data it shares is unique and simply unavailable elsewhere.

The Association, led by its Members and its Patrons, knows of the value that intermediary-led lending brings to UK plc, but to be able to back-up those assertions with hard data – with demonstrable evidence – means the NACFB can justify a reputation firmly in its ascendency and safely champion a 'people first' manner of facilitating business growth.

2022 DATA

Returning for a fourth year, in a revised form, the NACFB survey features results from more questions, spanning a wider range of activity from a larger cohort of the membership than ever before. It remains the most comprehensive survey of its kind. And – for the first time ever – this year the Association approached lender Patrons to gauge activity; not just to garner an alternative perspective but also to validate key data against a corresponding source.

Over a third of the NACFB's Member firms responded to the survey and more than 50% of the trade body's lender Patrons shared their insight. This impressive data set provides assured credibility so that when declarations are made, and conclusions drawn, the NACFB can be confident that they are representative of the membership and indicative across the entire intermediary-led lending sector.

LOOKING AHEAD

If you or your organisation would like to see answers to specific questions that are not contained within these annual findings, then do please contact the trade body's team to discuss further. But for now, we leave you with the results of 2022's survey and seek to tell the story of how the year unfolded through the eyes of the NACFB community.

1 A proudly broad church

The NACFB is made up of commercial intermediaries from all walks of life and remains a uniquely broad church. The Association's community is primarily made up of two cohorts of membership, commercial finance brokers – we call these Members – and their lender counterparts, commonly known across the Association's community as Patrons.

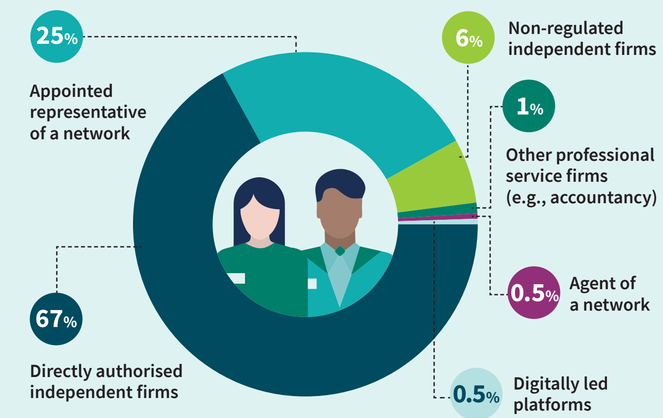
It is the NACFB's role to facilitate engagement and dialogue between the two, greasing the transactional wheels whilst ensuring knowledge is pooled, relationships are strengthened, and professional standards upheld.

Blend of NACFB Members...

2,195 brokers operate out of just over 1,047 NACFB Member firms

1.1 TYPES OF BROKERAGE

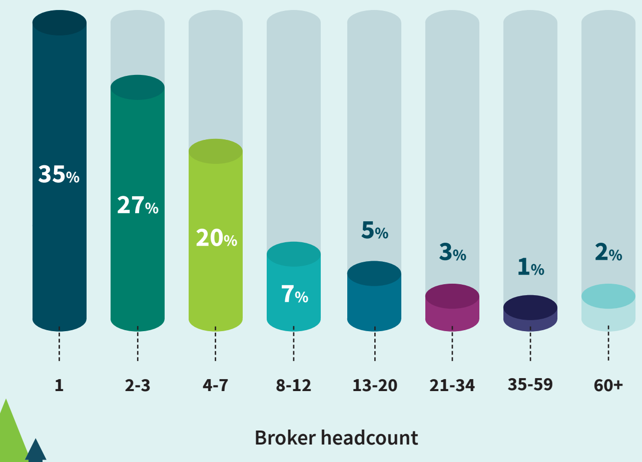
NACFB Members come in all shapes and sizes, and, for the first time, the Association asked what type of firm they consider themselves to be. ▼



It will be interesting to track responses over time to see if increasing operational costs, alongside higher regulatory burdens, will drive more directly authorised firms to join AR networks.

1.2 SIZE OF BROKERAGES

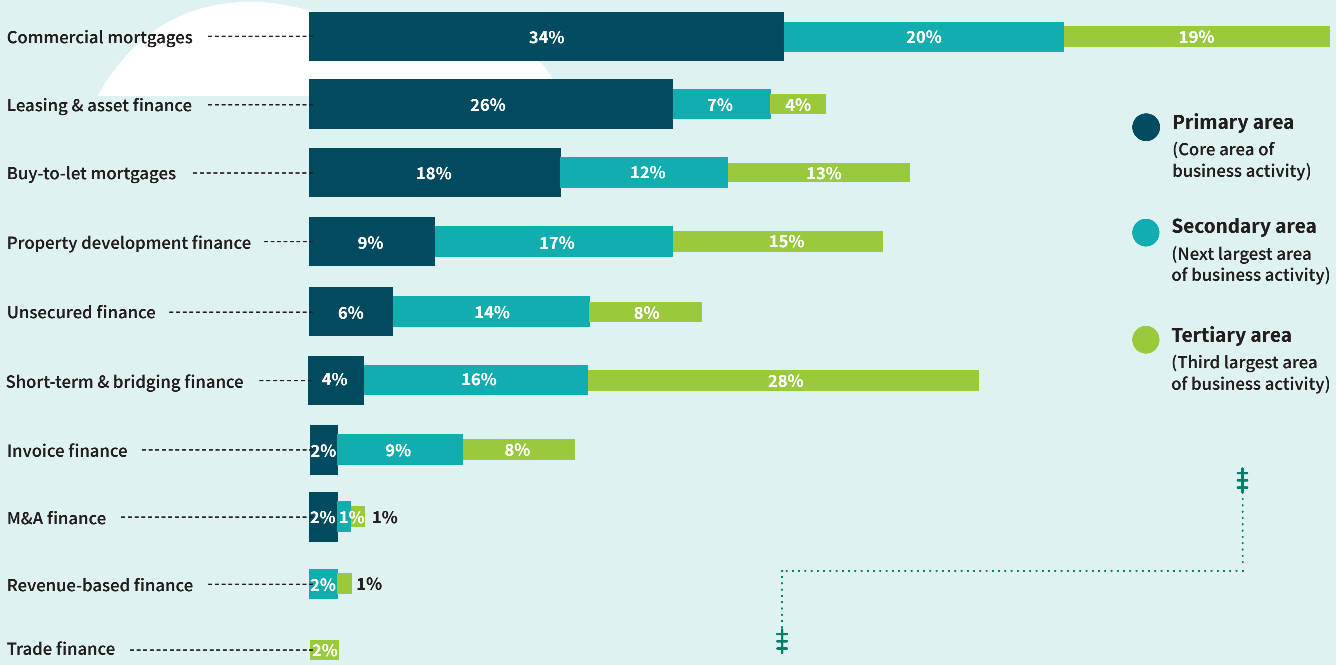
35% of firms fall into the one-person firm category – this is lower than many within the Association had anticipated. In total, nearly two thirds of Member firms have no more than three brokers. ►



1.3 MEMBER AREAS OF BUSINESS ACTIVITY

Although some Member firms offer only one type of finance, most maintain a multi-disciplinary practice. To better understand the overall product blend, the NACFB asked respondents to list their primary, secondary, and tertiary areas of business activity. The primary blend is a near exact continuation of last year's split, with just over a third of Members identifying commercial mortgages as their primary business area, whilst a quarter led with asset and leasing activities. ▼

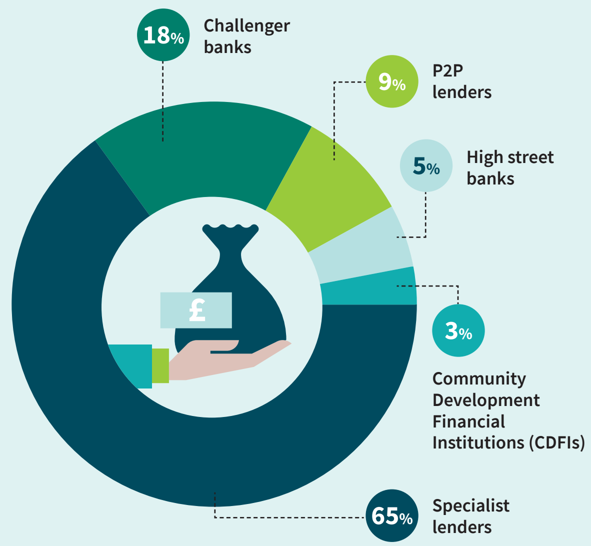
65% of all Members are property driven, with 26% leasing and asset



BUSINESS ACTIVITY FLUCTUATIONS

NACFB Patron panel blend...

At the end of 2022, there were more than 160 lenders on the Association's Patron panel, the highest the NACFB has known in its 30-year history. 2022 was also the first year that the trade body approached lender Patrons for the annual survey so whilst there is little by way of comparable historic data, the data's inclusion helps to not only broaden the survey's scope and capture a broader snapshot, but it also helps validate the data from Member brokers.



1.4 TYPE OF LENDER

◀ Despite it being difficult to neatly categorise all commercial lenders, the majority fall into one of five distinct categories.

The NACFB believes that this divide is broadly reflective of the wider intermediary-led commercial lending market. The largest subset falls within the specialist lender category, which is often a difficult category to define and may act as a 'catch-all' category, indeed many short-term and development finance lenders fall within this specialist category.

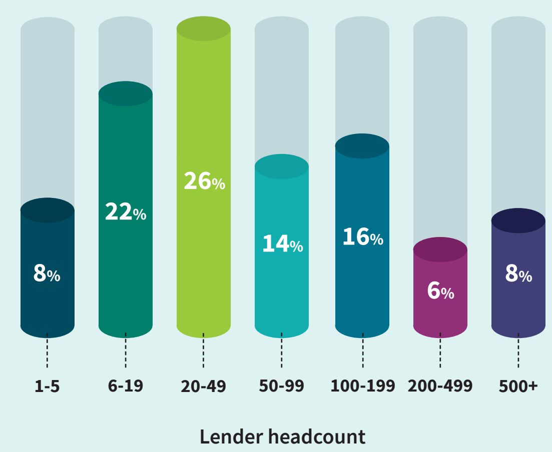
The NACFB is also making concerted efforts to develop the number of CDFIs on its panel, helping to facilitate lower ticket size transactions for clients who may also have been turned away elsewhere.

65% of NACFB Patrons are specialist lenders, 18% are challenger banks

1.5 SIZE OF LENDERS

Typically NACFB Patrons are backed by larger teams than their Member counterparts. This total headcount includes both front and back-office functions, ranging from field-based relationship and business development operatives to underwriters and in-house marketing roles.

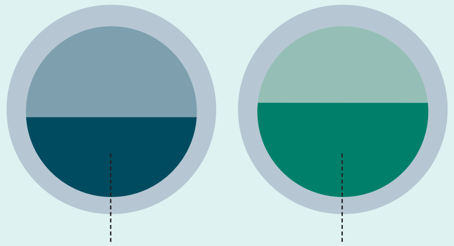
65% of NACFB Patrons said the size of their broker-facing team had grown in 2022, whilst **31%** said their size had stayed broadly the same. Just **4%** of Patron lenders reduced their headcount in 2022. Anecdotal feedback from Members in 2022 saw a drop in the satisfaction with lender service levels. This drop in service levels – coupled with an increase in headcount – suggests lenders are redeploying resource away from frontline and intermediary-facing activities. ▶



1.6 REGULATED VS NON-REGULATED LENDERS

Not all commercial lenders provide regulated products via their intermediary channel; in fact, this year's data reveals that the majority of NACFB Patrons do not.

Commercial lending mostly sits outside the regulatory perimeter; however, many providers of business lending and banking facilities are signed-up to the Lending Standard Board's Standards of Lending Practice for business customers. ▶



PATRON OFFERING FLUCTUATIONS

49% of NACFB Patrons diversified their offering in 2022

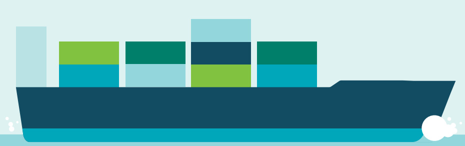
42% of NACFB Patrons kept their offering broadly the same

9% of NACFB Patrons refined or narrowed their product range

1.7 AREAS OF BUSINESS ACTIVITY

As with NACFB Members, some Patron lenders offer only one type of finance, although again, most maintain a multi-disciplinary practice. To better understand lenders' overall product blend, the NACFB asked respondents to list their primary, secondary, and tertiary areas of activity. Property brokers are typically well served, but whilst only **8%** of Patron lenders offer leasing and asset products as their primary service, **10%** see it as their secondary, and **7%** as their tertiary area of activity. The complete 2022 blend is outlined below. ▼

	Primary area (Core area of business activity)	Secondary area (Next largest area of business activity)	Tertiary area (Third largest area of business activity)
Short-term & bridging finance	30%	27%	17%
Commercial mortgages	16%	5%	14%
Property development finance	15%	18%	21%
Buy-to-let mortgages	9%	18%	21%
Leasing & asset finance	8%	10%	7%
Invoice finance	8%	5%	7%
Unsecured finance	6%	13%	7%
M&A finance	3%		3%
Revenue-based finance	3%	2%	
Pension-led finance	1%		3%
Trade finance		1%	



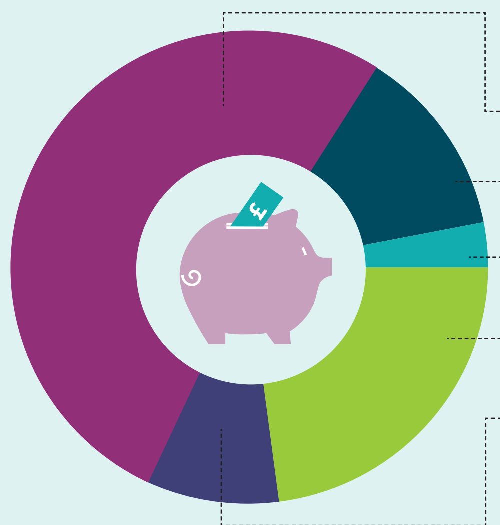
1.8 FUNDING LINE BLEND

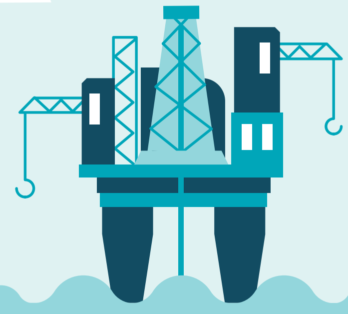
Who funds the funders? Commercial finance lenders will draw from many sources, from the more traditional deposit and savings-backed lending to alternative methods including P2P structures and government-backed schemes.

The data reveals that the majority of NACFB Patrons are funded via institutional investors. It is not uncommon for high-street lenders and challenger banks to block fund other lenders, diversifying their portfolio and exposure. The NACFB hopes to see an increase in block funding from senior lenders into the CDFI space.

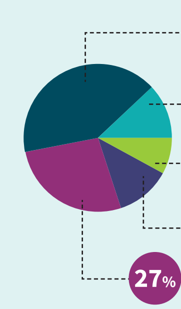
The **3%** of lenders with government-backed funding as their primary source, likely represents the **3%** of Community Development Financial Institutions (CDFIs) that make up the NACFB Patron blend, however **23%** of Patrons utilise state support as their third largest source of funds. ▼

PRIMARY FUNDING SOURCE

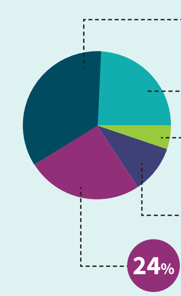




SECONDARY FUNDING SOURCE



TERTIARY FUNDING SOURCE

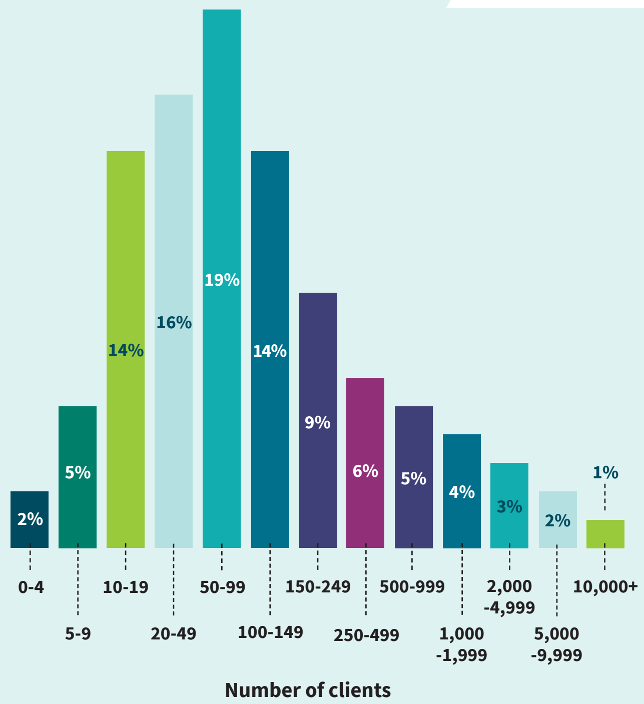


2 The clients served

Before any transactions are undertaken, before any terms are agreed and lenders approached, the intermediary-led funding process begins with the fundamentals, the people, and their businesses. It is both a truism and a cliché that SME business owners are the backbone of UK plc and it is their entrepreneurial spirit that the NACFB community seeks to, serve, protect, and nurture.

Members and their clients...

70% of NACFB Members maintain an active client base of no more than 150 clients

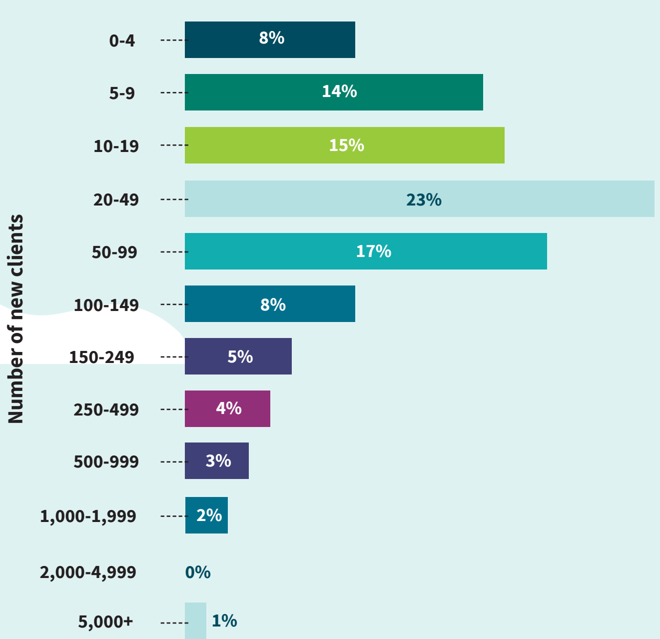


2.1 THE CLIENT BASE

▲ NACFB Members – indeed all commercial finance brokers – oversee a roster of SME clients. These clients span all industries, business sectors and corners of the UK.

This year's survey has sought to build a clearer picture of this client base, starting with just how many clients constitute a 'base'. There was much pre-survey debate over what constitutes an active client, but the team settled with a client that a Member has sourced funding for in recent years, and one that is likely to return.

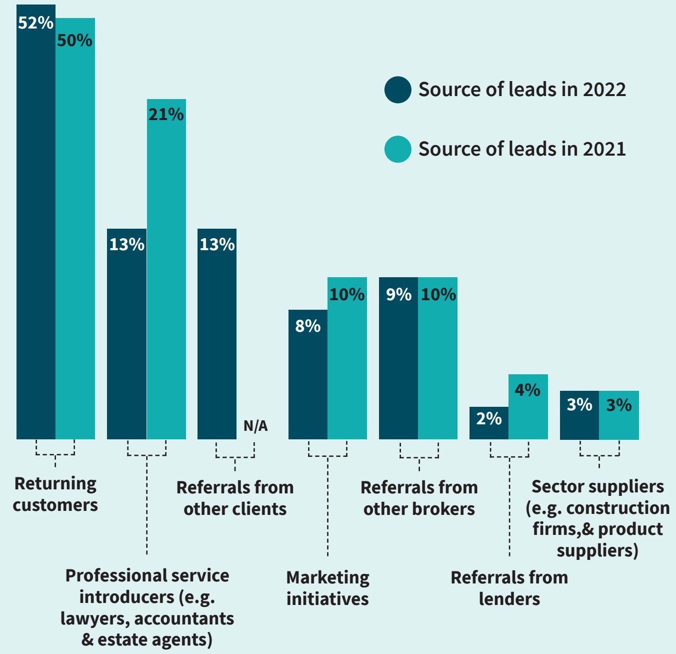
As is evident, some **70%** of NACFB Members maintain an active client base of no more than 150 clients, which suggests a real focus on client care and the nurturing of longer-term relations over a higher turnover of new clients.



2.2 NEW CLIENTS IN 2022

◄ Within this active client base, NACFB Members also welcomed new clients last year, as in new businesses to act as funding pathfinders for.

The results reveal that **60%** of NACFB Members welcomed no more than 50 new clients to their active base in 2022.



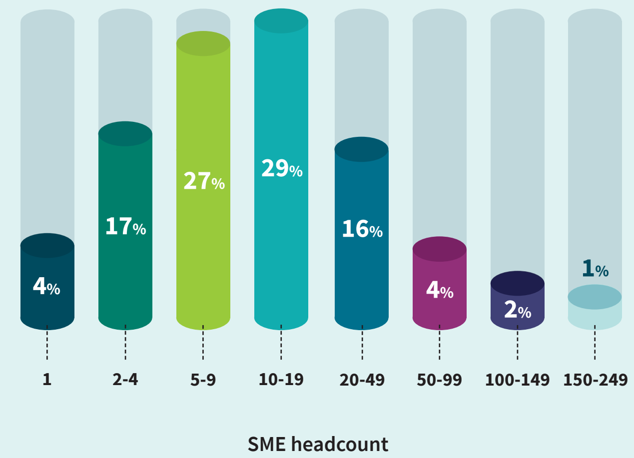
2.3 SOURCING CLIENTS

◄ NACFB Members receive their business leads from all manner of sources and much depends on the sector and type of finance. **52%** said their biggest lead source was from returning customers, whilst **13%** said they get most of their leads from professional service introducers, a figure which dropped by a third when compared with last year's data. This year the NACFB also introduced a category to include referrals from other clients.

2.4 CLIENT HEADCOUNT

Turning to the clients themselves, this year the NACFB sought to garner a clearer picture and make-up of the enterprises both Members and Patrons seek to serve. The Association asked Members to share the size of their clients in 2022 by employee count. The results will help the community better understand and articulate which end of the SME spectrum is being supported by NACFB Members.

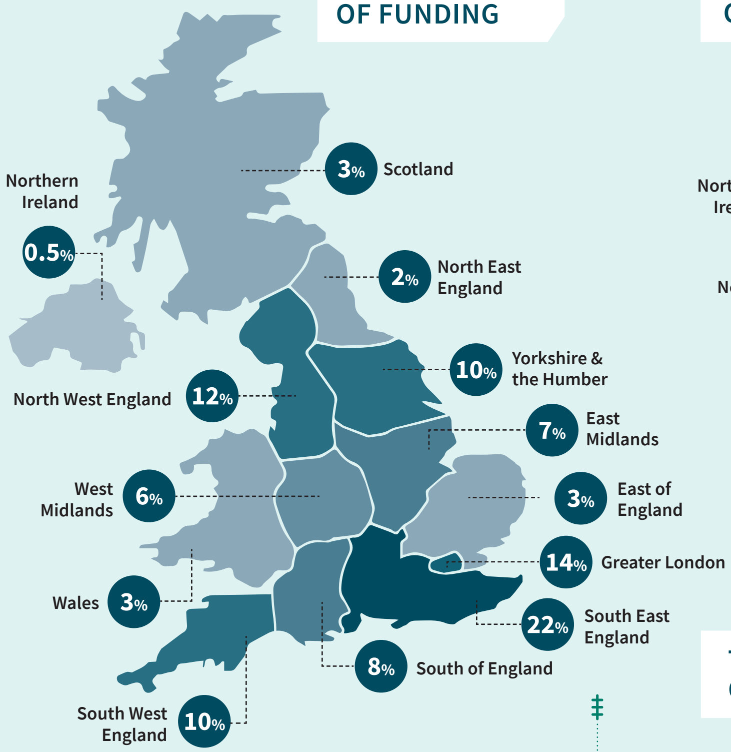
Just under half **(48%)** of those that responded shared that the average headcount of the clients they serve was no bigger than nine people. This same question was asked of NACFB Patrons, with the bandings matching almost exactly, verifying this spread across the full SME spectrum. ▶



2.5 GEOGRAPHICAL DEPLOYMENT

The oft-mooted 'Levelling-up agenda' has become something of a political carrot in recent years, long on ambition, but so far short on meaningful action and investment. But just how was intermediary-led funding spread across the UK in 2022? Previous iterations of the NACFB survey have sought to better understand the UK regions where Members' clients have deployed their funding. This year, the approach was to ask Members to rank to the top three areas where the funds they had helped originate had been utilised. The primary, secondary and tertiary areas act as something of a barometer of the funding spread across the UK. ▼

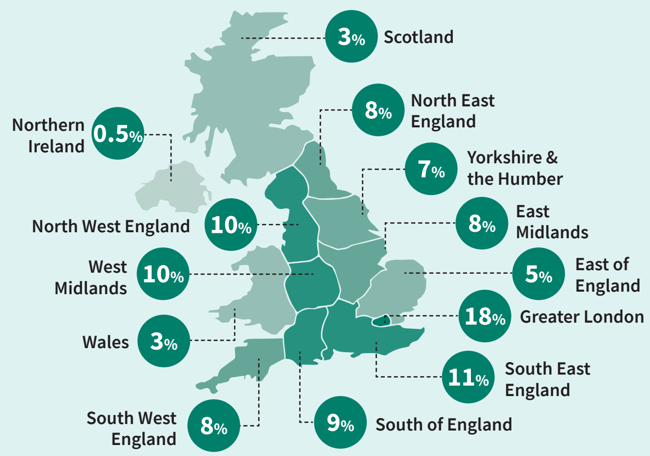
PRIMARY AREAS OF FUNDING



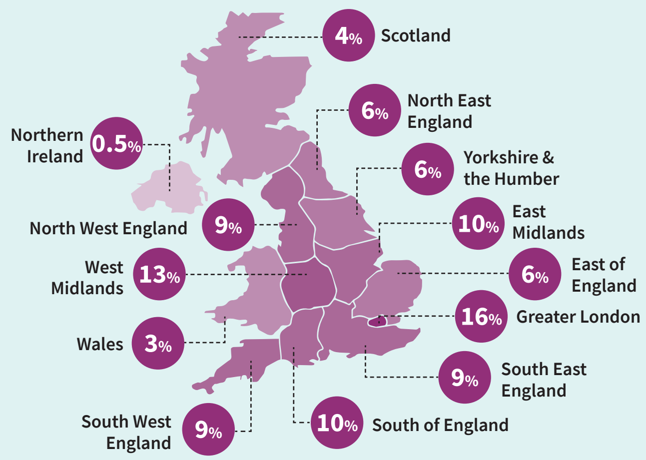
As expected, the South East of England and Greater London were the locations for just over a third **(36%)** of NACFB Members' primary funding. It should be noted that both the South West of England and Yorkshire and the Humber ranked higher than previous years, each representing **10%** of deployed funding. Whilst the North East of England represented just **2%** of Member's primary area of funding, SMEs were still being supported by the membership as it ranked highly **(10%)** in secondary areas of funding deployment.

Future versions of this survey will no doubt revise the methodology as the results garnered on this occasion do not enable the Association to draw the more granular conclusions it is seeking.

SECONDARY AREAS OF FUNDING



TERTIARY AREAS OF FUNDING

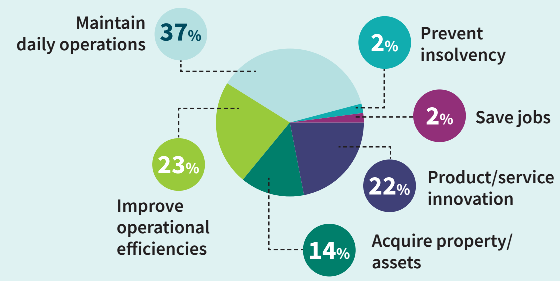


2.6 REASONS FOR FUNDING

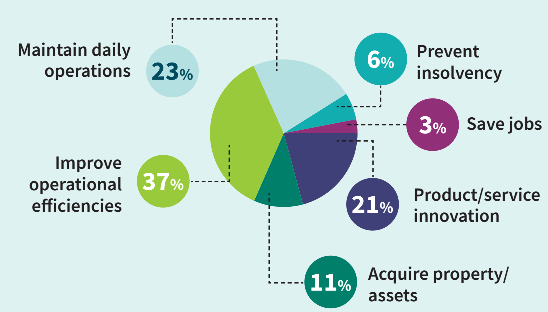
Beyond the more tangible aspects of an SME client, perhaps their most interesting attribute is the reason behind their seeking of commercial finance. When constructing this survey question the NACFB sought to understand what level of finance was for proactive growth funding as opposed to more distressed borrowing. Given their propensity to embed themselves into the inner workings of an enterprise, NACFB Members are well placed to ascertain the drivers and motivations behind their clients' borrowing.

Respondents were asked to rank the top three most common ways the funding they helped source in 2022 had supported their clients. The available options were carefully selected to reflect proactive growth funding (to help clients innovate their products/services, to help them acquire property/assets, and to help improve operational efficiency) whereas the remaining reasons for funding would point to more distressed borrowing (to help maintain daily operations, to prevent insolvency, and to directly save jobs). ►

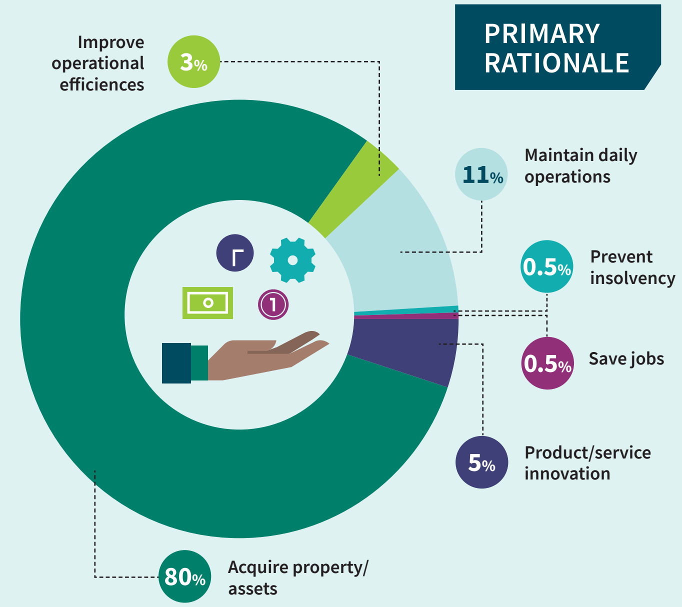
SECONDARY RATIONALE



TERTIARY RATIONALE



PRIMARY RATIONALE



The results reveal that overwhelmingly the most common primary reason for borrowing in 2022 was to acquire property or assets, which suggests a fairly high degree of proactive growth borrowing. However, it is worth highlighting that chief among the secondary reasons for borrowing is the enterprise's desire to maintain daily operations. It can be argued that if a client is seeking to borrow in order to simply maintain daily operations, then that in itself is a form a distressed borrowing.

The survey revealed that of the primary reasons SMEs borrowed in 2022, **88%** were driven by growth ambitions, whereas only **12%** of borrowing was for reasons that imply more distressed factors.

The NACFB also asked Patron lenders to outline the growth to distressed borrowing ratio, with the results largely aligning, which seems to verify the driving forces behind borrower demands.

It should be acknowledged that the methodological underpinning of this question, in that the SMEs themselves were not directly asked, means that the results can only ever be treated as indicative, but they remain noteworthy, nonetheless.

88% of borrowing in 2022 was to enable growth ambitions

2.7 ADDITIONAL CLIENT MAKE-UP

NACFB Members further revealed that on average **35%** of their clients sought to refinance in 2022, up three percentage points on 2021. This slight increase may well have been driven by steadily rising interest rates, with businesses opting to restructure their finance over longer repayment schedules.

To develop a clearer picture of client make-up the NACFB also asked Members if they currently collected diversity data (both on client gender and ethnic background), **82%** said they do not do so currently, with only **7%** saying that they recorded any meaningful data. ►

DIVERSITY DATA

82% of Members collect diversity data

7% of Members do not collect diversity data

◄ Another key issue of 2022 was that of sustainable finance. The number of lenders offering green funding solutions is growing, but is the demand from clients? We asked NACFB Members if they had seen an increase in clients seeking green funding solutions this year. **23%** of Member respondents said they had seen an increase in clients seeking sustainable loan products, **27%** said fewer SMEs have enquired about green funding solutions, with **50%** sharing that interest had stayed broadly the same. Last year, **79%** of respondents said they had seen no increase of interest in sustainable borrowing.

GREEN FUNDING SOLUTIONS

23% of Members saw an increase in green funding enquiries

27% of Members saw a decrease in green funding enquiries

50% of Members saw no change

2.8 THE VALUE OF THE BROKER

The NACFB asked its Member brokers what percentage of their clients had ended up utilising a different solution to the one they had initially enquired about (i.e. a client may have enquired about a term loan but ended up drawing down an invoice finance facility following the broker's counsel).

Over a quarter (**28%**) of intermediary-led transactions resulted in a client selecting a different solution to the one they had initially enquired about. This points to the clear and demonstrable value that the partnering with a commercial finance broker can provide.

28% of brokers' transactions resulted in a client selecting a different solution to the one they had initially enquired about

29% of successfully funded new clients had been turned away for funding elsewhere

To further demonstrate the value that an NACFB Member can bring to a small business client, on average last year, **29%** of successfully funded new clients had been turned away for funding elsewhere. This significant data point includes successfully funded business that may have been turned away for debt financing either directly from their bank or through other types of finance, including equity funding. These are businesses that may not otherwise have received growth capital and is perhaps the starkest evidence to date of how much value engaging with an NACFB Member can bring by unlocking access to finance.

Patrons and their clients...

NACFB Patron lenders, those who ultimately release the capital, enjoy a more nuanced approach to client service. Whilst some brokers retain close contact with their clients throughout the funding journey, others are happy to take a step back and allow the lender to have a more hands-on approach. Neither option is wrong, but fundamentally it does mean that a lender must also see the intermediary as a client as well as the SME that receives the funding. Herein lies the art of intermediary-led lending, the delicate balancing of interests, relationships, and resource.

PANEL SIZE FLUCTUATIONS

68% of Patrons saw their broker panel size increase

26% of Patrons said their broker panel size stayed broadly the same

6% of Patrons saw their broker panel size decrease

2.10 TIERING INTERMEDIARIES

With an average full panel size of **927** firms, it is little wonder that lenders most commonly work with comparatively smaller 'active panels'. The NACFB asked Patrons how many of their full panel they work with consistently – as in transacting business from them more than twice a year. Under these parameters, respondents revealed a more manageable average figure of **223** broker firms who successfully complete business with them on a more frequent basis.

70% of NACFB Patrons' total lending to UK SMEs was through the commercial intermediary channel

2.9 PATRON PANEL SIZES

Lenders of all sizes maintain panels of brokers, much like brokers themselves will maintain panels of lenders. In 2022, the average full broker panel for NACFB Patrons was **927** firms. This means that – on average – 927 organisations could introduce business to a typical commercial lender at any one time. **68%** of respondents said that this number had increased year-on-year, whilst **26%** said it had broadly remained the same. Just **6%** of NACFB Patrons said their full broker panel size had decreased in 2022.

Such an increase in panel size suggests lenders are becoming more open to new lead generation sources. It could also point to increasing levels of competition in the intermediary space, but perhaps most accurately it hints as to why many brokers are grappling with a perceptible decline in lender service levels. Simply put, accompanying an increase in lender headcount is an increase in the number of intermediaries they serve.

On average, **61%** of respondents' broker panels were NACFB Members. A growing number of Patrons will only transact business with NACFB Members, assured by the Association's Minimum Standards Reviews.

The average full broker panel for NACFB Patrons was 927 firms, of this only 223 are frequently used

2.11 DIRECT TO INTERMEDIARY RATIO

The blend of NACFB Patrons means that some lend directly to SMEs as well as via the intermediary route. Others offer no direct model whatsoever, relying entirely on brokers and introducers for their business. In 2022, **70%** of NACFB Patrons' total lending to UK SMEs was through the commercial intermediary channel. Whilst there is no historically comparative data, the fact that nearly three quarters of commercial lending is via intermediaries, clearly demonstrates the value of the channel and the reliance upon it by many lenders.

42% of intermediary-led commercial finance applications were successfully drawn down in 2022.

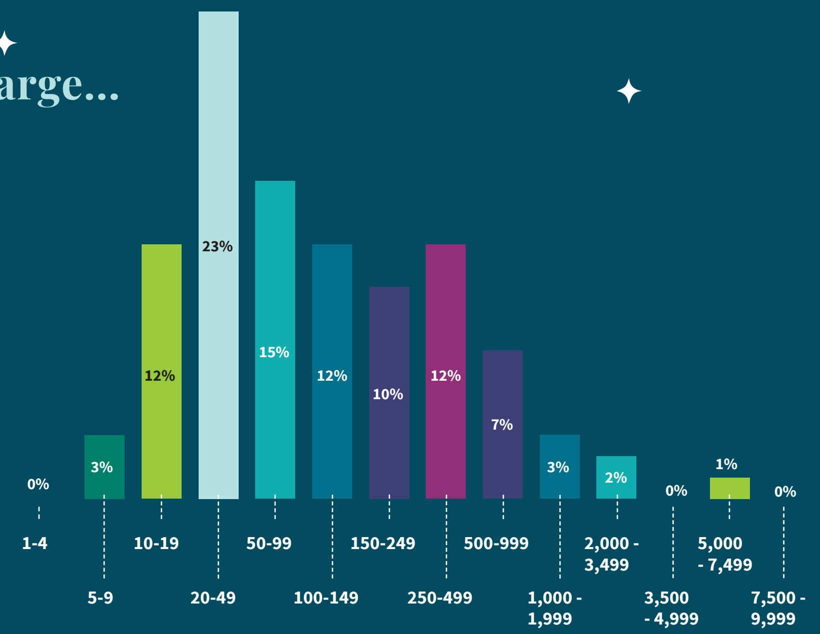
3 The transactional arena

To those unfamiliar with the wide array of work undertaken across the NACFB membership, it can sometimes be a challenge to visualise and accurately articulate just how substantial the funding network's contribution to the UK's SME funding landscape is. The following is an attempt to illuminate just how integral the NACFB community remains in post-COVID efforts to keep Moving Britain Forward.

How Members led the charge...

3.1 AVERAGE TRANSACTIONAL DATA BY VOLUME

Some NACFB Member brokers focus on bigger ticket transactions and may complete fewer than ten transactions a year. Others transact smaller ticket values and are therefore more reliant upon volume.



VOLUME FLUCTUATIONS

37% of NACFB Members said their total transaction volume was more in 2022 than in 2021. Just **14%** said the total number of transactions was less, whilst **49%** said it had remained broadly the same.

3.2 AVERAGE TRANSACTIONAL DATA BY VALUE

For the last four years the NACFB has tracked the average loan size per primary area of business activity for brokers. This figure fluctuates and is affected by all manner of factors that impact client demand and confidence.

TYPE OF FINANCE	AVERAGE SIZE OF LOAN IN 2022	AVERAGE SIZE OF LOAN IN 2021	AVERAGE SIZE OF LOAN IN 2020	AVERAGE SIZE OF LOAN IN 2019
Development finance	£1,494,000	£1,138,000	£1,292,000	£1,571,000
Commercial mortgages	£814,000	£569,000	£612,000	£519,000
M&A finance	£677,000	£792,000	N/A	N/A
Short-term & bridging loans	£625,000	£269,000	£480,000	£544,000
Factoring & invoice finance	£497,000	£696,000	£478,000	£372,000
Buy-to-let finance	£475,000	£364,000	£319,000	£356,000
Cashflow finance	N/A	£445,000	£446,000	N/A
Unsecured finance	£130,000	£128,000	£145,000	£140,000
Leasing & asset finance	£81,000	£80,000	£130,000	£51,000
AVERAGE ACROSS ALL FINANCE TYPES	£563,000	£459,000	£391,000	£355,000

The average NACFB Member transaction size of £563,000 represents a **23%** increase on 2021's total. The average size loan category's most popular modal response continues to fall within the £200,000-£500,000 range, which accounted for **32%** of all responses in 2022 and **30%** in 2021. This remains the most frequent response from across most types of finance, except for the leasing and asset finance space that saw the range value of £30,000-£50,000 most commonly selected both in 2022 and 2021. The most common range of unsecured finance transactions dipped from £150,000-£200,000 in 2021 to £75,000-£100,000 in 2022. The higher mean average loan size of £563,000 is influenced by responses in the higher value categories.

Finance types that saw a decrease in 2022 were in both the invoice finance and mergers and acquisition spaces, with each respectively seeing a **29%** and **15%** year-on-year drop in deal value.

34% of Member responses said their average transaction value increased in 2022, **16%** said it had decreased whilst exactly half of the membership (**50%**) said it had stayed broadly the same.

"The short-term lending sector remained largely unscathed during the recent rising cost of living issues," shared Vic Jannels, CEO of the Association of Short Term Lenders. He continued: "The latest figures for 2022 suggest that average loan sizes rose to around the £550,000, tallying with the NACFB data, whilst loan to values remained fairly conservative. This is good news, but it is important to note that provable exit routes remain crucial and a strict priority for all stakeholders."

The average NACFB Member transaction size of £563,000 – a 23% increase on 2021's total

TOTAL VALUE FLUCTUATIONS

48% of Members said their total transactional value increased

17% of Members said their total transactional value decreased

35% said it had remained broadly the same

The total amount introduced by NACFB Members in 2022 was £45 billion – a 10% increase on 2021's value of £40.9 billion

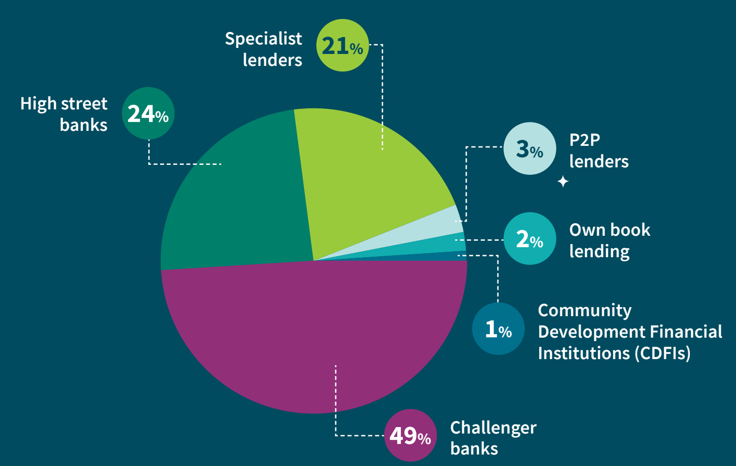
3.3 TOTAL TRANSACTIONAL DATA BY VALUE

The total amount introduced by NACFB Members in 2022 was **£45 billion** – a **10%** increase on 2021's value of £40.9 billion. **48%** of respondents said that the total value they successfully introduced to lenders in 2022 was higher than in 2021. Just **17%** said their volume was lower whilst **35%** of Members said it was broadly the same.

3.4 TYPES OF LENDERS SELECTED

The term vanilla is frequently used to describe more standard transactions, but in reality, nuance can be found in any aspect of a commercial finance loan. One such area is in the broker and clients' selection of lender that ultimately goes on to provide the capital. In a new addition to the survey, the NACFB sought to gather insight into the transactional split of lenders by type. Simply put, the Association sought to ascertain the most common types of lender through which surveyed intermediaries successfully placed business in 2022.

As this was the first time the question was asked of NACFB Members, the Association is keen to build over time a more accurate picture of the types of lenders selected and the blend across the entire membership.



3.5 GOVERNMENT-BACKED LOAN SCHEMES

The latest iteration of the Recovery Loan Scheme (RLS) was introduced by the British Business Bank in 2022, the Bank continues to administer the scheme on behalf of the Secretary of State for BEIS.

One key change from the previous iteration of the scheme is that (for most borrowers) there is no longer any requirement to confirm they have been affected by COVID-19. The maximum facility size is still £2 million, at least for borrowers outside the scope of the Northern Ireland Protocol, and £1 million for those in scope of the Northern Ireland Protocol.

In 2022, **86%** of NACFB Patrons did not complete a single intermediary-led transaction through the Recovery Loan Scheme. Of these lenders, **18%** said that this is because they themselves can provide better terms than those within the scheme, **15%** of them said it was simply not profitable for them to engage with the RLS, and **13%** said the scheme's criteria was too restrictive.

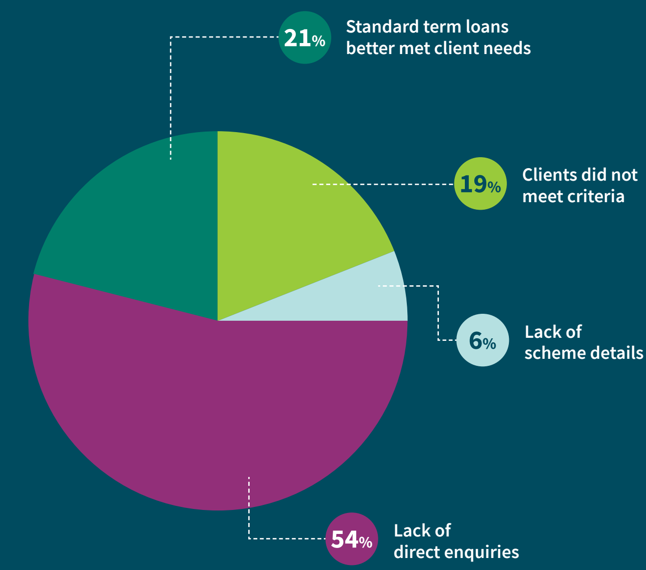
Of those NACFB Patrons that were accredited and those that did utilise the scheme, the overwhelming majority (**93%**) completed less than 150 transactions through it in 2022. The survey only concerned broker introduced transactions so there may well be higher figures for the SMEs approaching scheme accredited lenders directly.

55% of NACFB Members did not complete a transaction through the RLS in 2022, a further **22%** undertook no more than four transactions through the scheme across the same period of time.

86% of NACFB Patrons and 55% of Members did not complete a single RLS transaction in 2022

3.6 REASONS FOR LACK OF RLS ENGAGEMENT

There are myriad rationalisations for why scheme take-up is demonstrably lower than in recent years. The NACFB asked its Members for the reasons why RLS engagement had dropped.



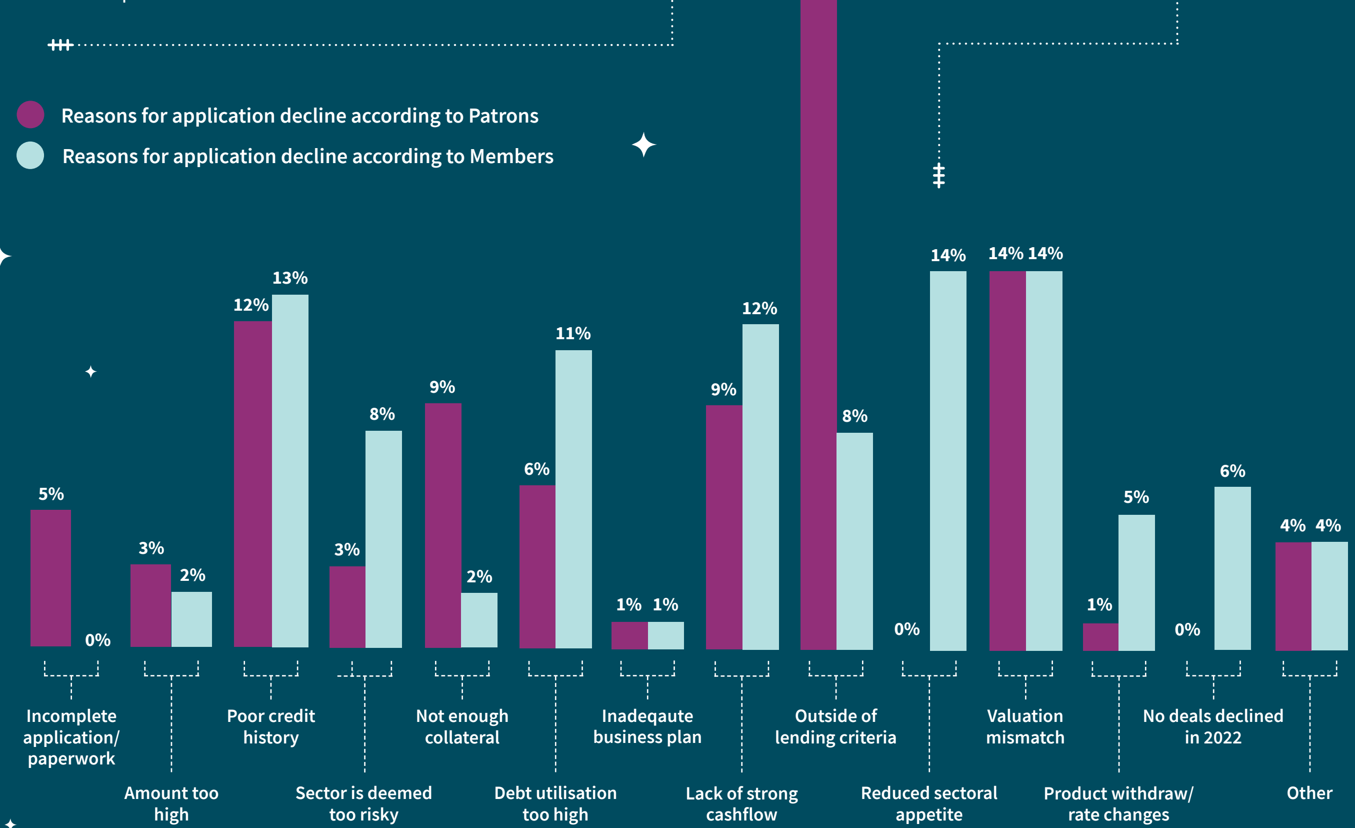
It is evident that COVID is no longer directly impacting trading conditions to the level it once did, but borrowers may also be more reticent to take on additional debt, and competition has seemingly returned to the market from commercial lenders offering products on comparative terms.

Lending appetite...

Last year's NACFB survey revealed that whilst some lenders remained open and ready for business throughout COVID, others did step back, tightening their criteria, and reducing their appetite in certain business sectors. At the end of 2022, the Association asked both Patrons and Members why funding applications had generally been turned away to help build a more accurate picture of the funding landscape and to establish whether appetites had developed.

3.7 WHY LENDERS SAID NO

Understanding the reasons why a lender declines to fund a broker's client is as often as important as knowing the reasons why it was transacted. The NACFB asked both Patron lenders and Member brokers to outline the top reasons why deals were declined in 2022.



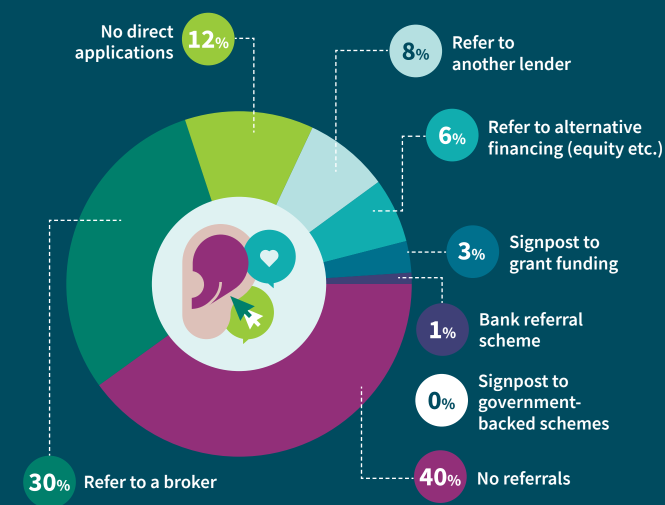
The reasons for transactions being declined in 2022 is revealing not just because of the areas where there is clear correlation between the two cohorts of membership but perhaps as revealingly where there is clear divergence. It is unlikely that an NACFB Member would select incomplete paperwork as the reason for a transaction being declined, but lenders highlighted this as a concern. Brokers may do well to reflect upon whether a lender is in receipt of as much paperwork as possible from the outset, a common gripe of many an underwriter.

On the flipside, it is highly unlikely a lender is going to overtly declare that a commercial transaction has been declined on the basis of reduced sectoral appetite, but it is clear that from their vantage point brokers believe that this is the case all too often.

The data isn't suggesting either cohort has been disingenuous with their responses, it is entirely possible to see two different and legitimate perspectives on the same transaction, neither lens is distorting too much. The reality – and indeed possible truth – behind any summation of decline reasons most likely falls somewhere between these two data sets.

3.8 POST-DECLINE ACTIVITY

If an intermediary-led transaction is declined by a lender, the broker is often well placed to source funding via a number of other options. Such plurality of choice remains one of the key benefits for SMEs of enlisting the support of commercial finance brokers. But what of those direct enquiries from small business owners to lenders? When they're declined – for whatever reason – what happens next to those enterprises? The NACFB asked Patron lenders just that.



Quite staggeringly, **40%** of NACFB Patrons do not have a formal referral system in place for those direct enquiries that have been declined. This is a significant number of UK enterprises that are not receiving any direction or signposting of where to go after a funding rejection. The Association is seeking to address this group of borrowers, as many could have their 'no' turned into a 'yes' through the professional support and guidance of an NACFB Member.

40% of NACFB Patrons do not have a formal referral system in place for declined direct funding applications

4 The regulatory perimeter

Embracing professionalism and the highest of standards lies at the very heart of the NACFB's remit. The enterprises we have spoken about thus far in the survey findings rely upon the entire lending community to uphold a framework that puts their interests first.

2022 saw the Financial Conduct Authority (FCA) use its new powers to more swiftly cancel or change what regulated activities firms are permitted to transact. FCA regulated entities are required to prove they are carrying out the regulated activities they are permitted to or face losing their permission. This new power is available following changes that now permit the regulator to streamline and shorten their removals process. The FCA now provides a firm with two warnings if it believes they are not using their regulatory permission and is now empowered to cancel or change the permission.

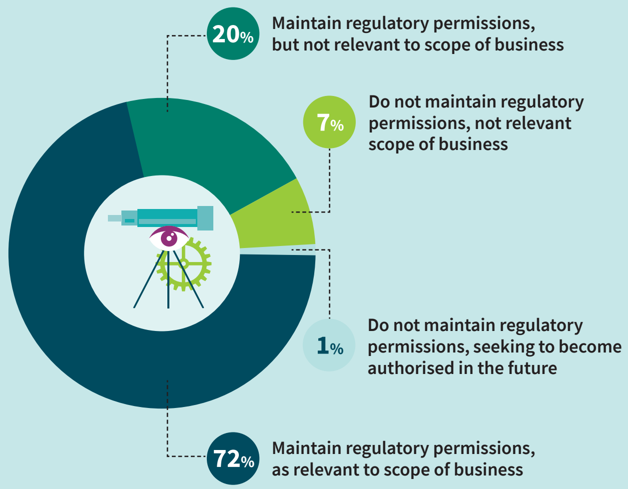
2022 also saw the FCA timetable the roll out of its Consumer Duty framework. In what is heralded as the largest regulatory shake-up for a generation, the regulator's new consumer-focused principles require firms to act and deliver good outcomes for retail customers. NACFB Members and Patrons have been embracing such a philosophy for years, indeed they pride themselves on it, so the measures will merely formalise trading practices to which firms have long-since become accustomed.

Brokers in a regulatory framework...

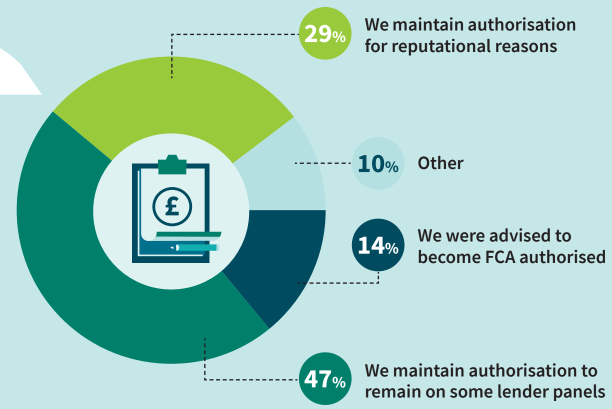
4.1 INSIDE OF SCOPE

In 2022, just **17%** of NACFB Members' commercial finance transactions were regulated, up one percentage point on 2021. In addition, NACFB Patrons shared that just **10%** of their overall commercial transactions last year fell within the regulatory perimeter.

Paradoxically, regardless of the fact that only a consistently small percentage of transactions fall within the regulatory scope, a considerable proportion **(92%)** of NACFB Members shared that, nonetheless, they do hold FCA credit broking permissions. From a distance, these two data points seem at odds with one another, so the NACFB sought to understand why Members choose to hold permissions, their purpose, and attitudes to them. ▶



20% of NACFB Members are maintaining permissions even though they are not relevant to their scope of business



Lenders in a regulatory framework...

4.3 LENDERS' APPROACH TO AUTHORISATION

With a significant number of Member firms sharing that they maintain regulatory permissions simply to remain on some lender panels, the NACFB asked Patron respondents to share their insight. **34%** of respondents revealed that they expect all commercial brokers on their panel to maintain regulatory permissions for all transactions, whereas **56%** outlined that they did not expect brokers on their panel to maintain regulatory permissions for non-regulated transactions.

The NACFB is keen to monitor prevailing attitudes and will share with the FCA findings with a view to informing their ongoing reviews of the sector.

34% of NACFB Patrons expect all commercial brokers on their panel to maintain regulatory permissions for all transactions

4.2 THE HALO EFFECT

◀ The question then is begged, why are **20%** of NACFB Members maintaining regulatory permissions despite them not being applicable to their business? The Association put this very question to those Members.

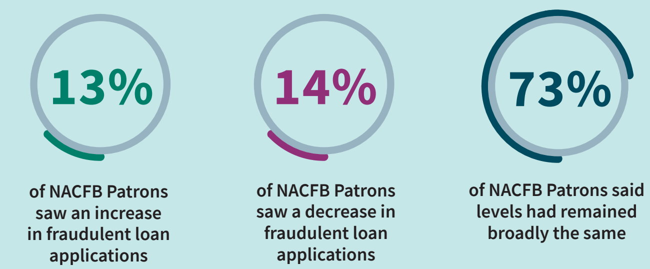
It emerges that some firms are clearly maintaining their permissions both to remain on some lender panels and (although perhaps the two reasons overlap) for reputational reasons. The FCA's 'use it or lose it' approach is attempting to disrupt the 'halo effect' and it remains to be seen what longer-term impact this will have.

4.4 FRAUDULENT ACTIVITY

The last UK recession was at the peak of the COVID-19 pandemic in 2020. During that time, cases of fraud rose by **24%** according to the latest England and Wales crime figures. Now, as we approach the next fiscal downturn, it is highly probable that fraud will also be on the up. For the first time the NACFB asked its membership for their insight into fraudulent loan enquiries.

13% of NACFB Patrons said they had seen an increase of fraudulent loan applications (including direct enquiries) in 2022, whereas **14%** said they had seen less. **73%** said it had remained broadly the same. ▼

OBSERVED FRAUDULENT ACTIVITY



It is however not unreasonable to assume that lenders are less likely to stumble across an instance of fraud from an application that has first been triaged by a commercial finance broker. When NACFB Members were asked whether they had seen an increase in fraudulent loan enquiries in 2022, just **8%** said they had with **45%** sharing that they had seen less instances than the year prior.

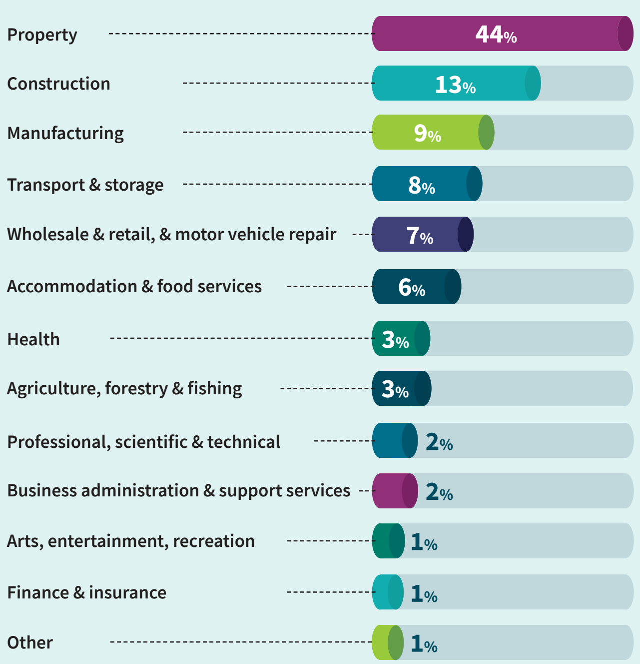
5 Business sectors and the future

Surveys of economists at the end of 2022 in the US, eurozone and the UK were unremittingly bleak, stuffed with predictions of recession, higher unemployment, and continued inflationary problems. The head of the IMF, Kristalina Georgieva, talked of a tougher 12 months ahead and expects a third of the world to experience a recession. It is fairly depressing stuff.

However, the NACFB community has weathered all manner of storms in the name of serving UK plc, including what is nearing a dozen 'once in a generation' crises in the last decade alone. Owing to their unique vantage point, sitting between SME and lender, NACFB Members remain expertly placed to gauge business confidence, market fluctuations and overall commercial lending outlook. This final section of survey results explores both NACFB Members' and Patrons' sectoral analysis and tentatively engages in some horizon scanning.

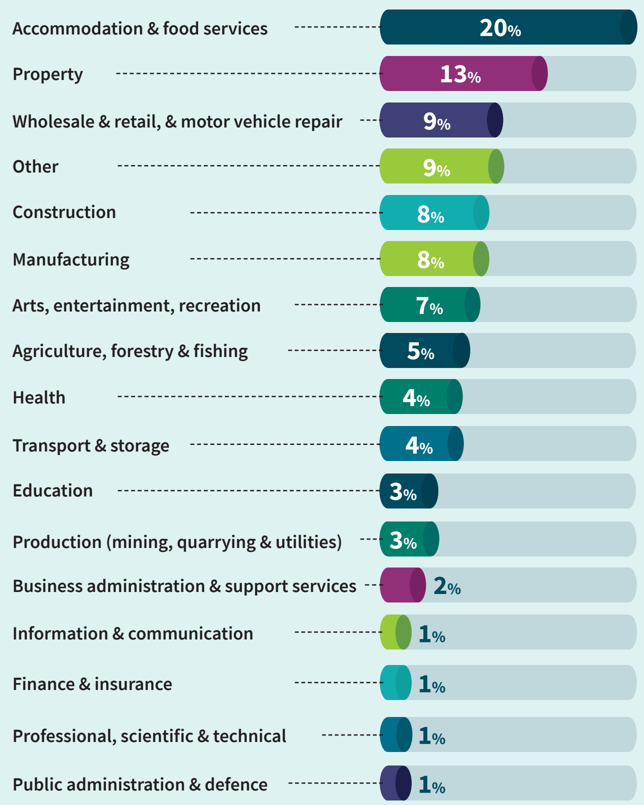
5.1 LINES OF INCREASED ENQUIRY

It is important to understand the sectors that NACFB Members are receiving enquiries from. Such data nods towards demand and can be juxtaposed against prevailing lender appetites. It is worth noting whether the sectors with a high number of enquiries are being met with the requisite lender appetite. NACFB Members were asked to name the business sector they had received the most enquiries from in 2022. ▼



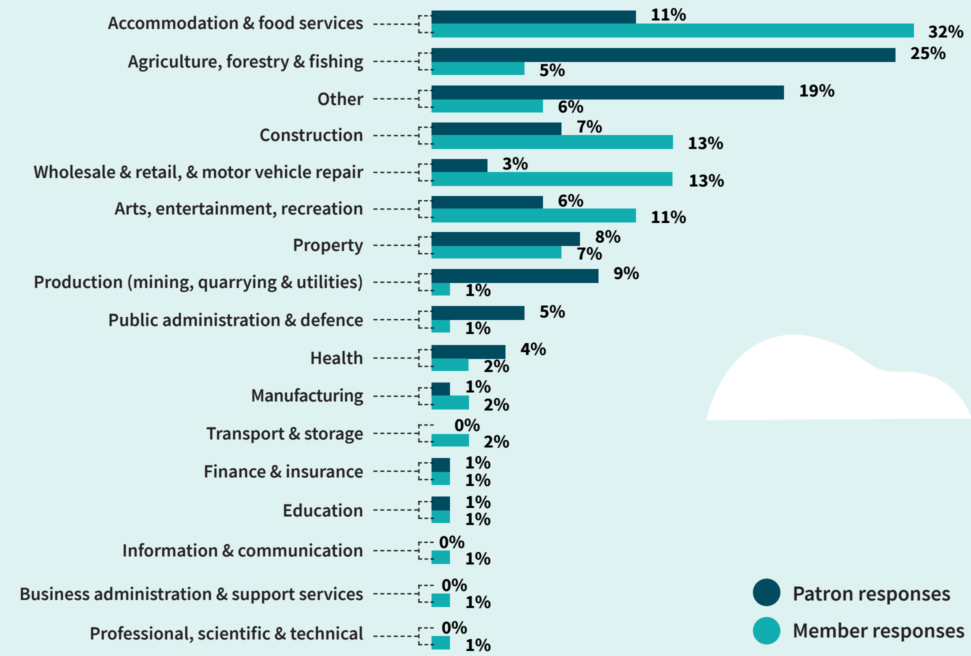
5.2 LINES OF DECREASED ENQUIRY

As well as increased enquiries from certain sectors, NACFB Members were also asked to select the area in which they had seen the biggest slowdown of enquiries. ▼



5.3 AREAS OF LENDING RELUCTANCE

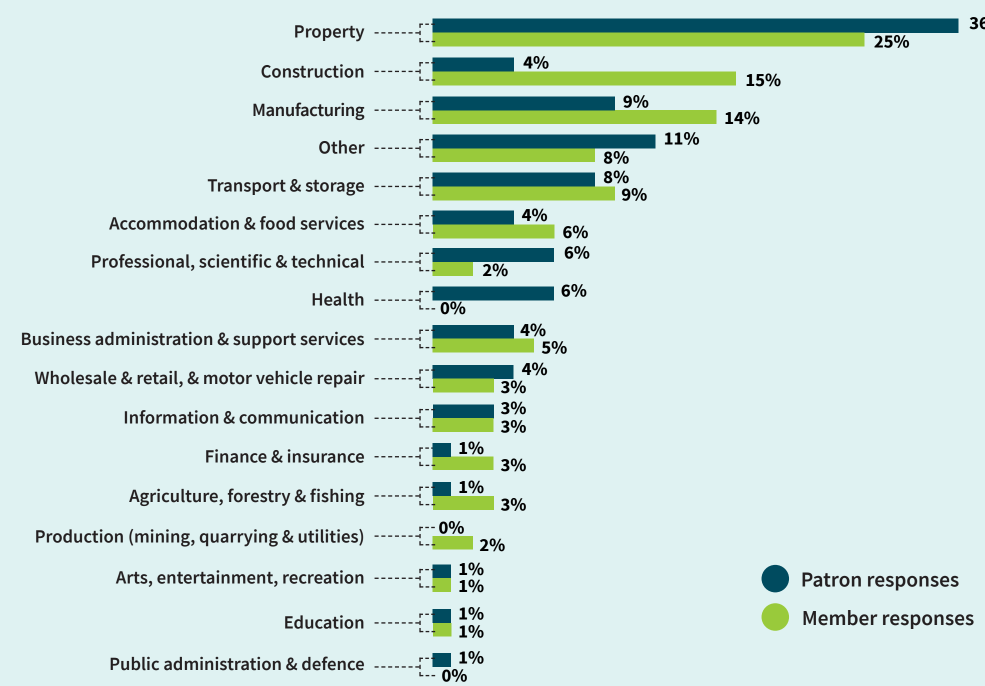
When trying to develop a picture of overall lending appetite, it is again worth comparing viewpoints. We start with an analysis of the data that followed when both membership cohorts were asked for the business areas where lenders had been most reluctant or had least appetite to lend to in 2022. ▶



5.4 AREAS OF ANTICIPATED GROWTH

◀ Whilst reading the stones is fiendishly complex in the era of the unexpected that we currently cohabit, the NACFB also asked both membership cohorts to select a business sector where growth is anticipated this year.

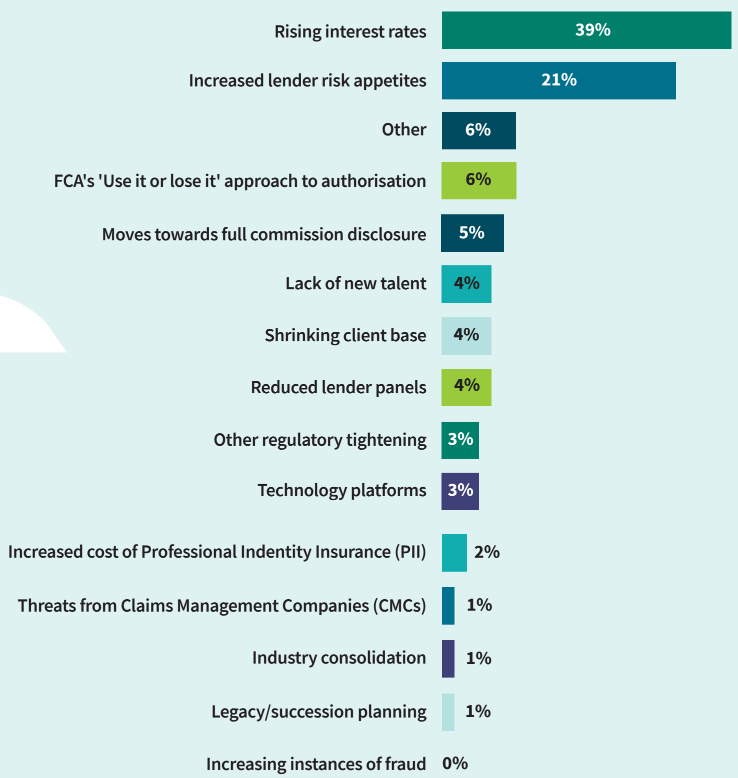
It is clear that although there are areas of overlap, both Patrons and Members share different perspectives of the same transactional base. As outlined earlier in these findings, it is not just the areas of correlation that strike interest, it is worth observing where the disparities emerge – unfortunately we can only speculate as to why such discrepancies emerge.



Threats and challenges in 2023...

Despite – or indeed because of – the battle-hardened nature of both NACFB Members and Patrons, both cohorts of membership remain vigilant and ready to respond to threats both old and new, foreseen, and unforeseen. The Association asked both parts of the membership what they anticipated as the biggest threat to their organisation's commercial finance lending activity.

Whilst both cohorts operate within the same industry, they do face uniquely different challenges, from lenders contending with drops in service levels and acquiring the right talent, to brokers responding to regulatory reporting and reputational concerns. All of this is thrown into the mix as we present the aspects on the risk radars of survey respondents.



5.5 THREATS TO MEMBER FIRMS

◀ It is worth noting that in 2021's survey of Members only, their number one concern **(21%)** was the rising cost of Professional Indemnity Insurance (PII) premiums. A further **12%** of Members viewed the FCA's plans and proposals as the biggest threat to their business.

Remarkably, last year's number one concern – that of increase PII costs – no longer ranks highly at all on the radar of NACFB Members. This is no doubt a result of the Association's tireless efforts to launch its very own alternative. 2022 heralded the arrival of the NACFB Mutual, launched to address the rising cost of premiums. To date it has saved policyholders £250,000 whilst delivering average savings of up to **30%** compared to previous PII premiums.

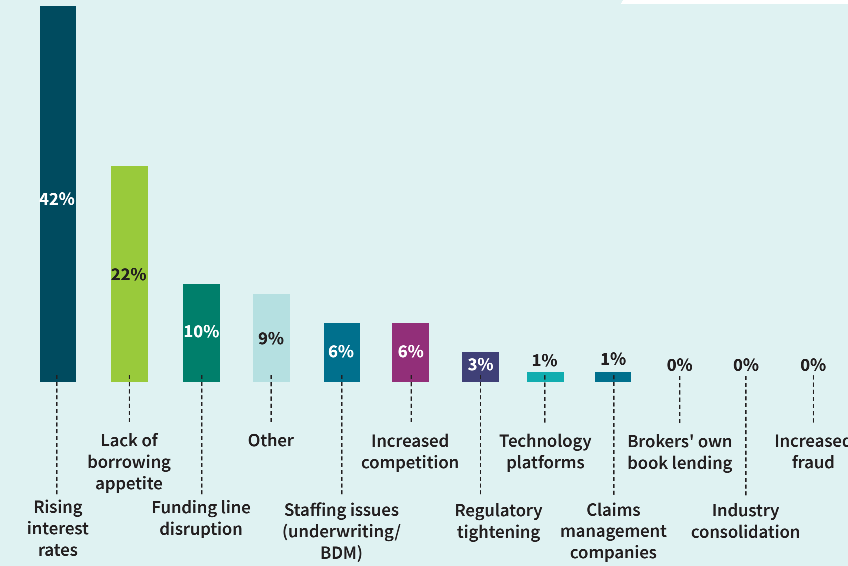
Last year, rising interest rates gave **39%** of NACFB Members sleepless nights. Combined with concerns over increased lender risk appetites, the majority of brokers' fears appear to be emanating from elements frustratingly beyond their control.

5.6 THREATS TO PATRON FIRMS

Much like all other questioning directed at Patrons, this was the first time the NACFB had sought to formally record the threats lenders perceive to be the biggest to their commercial lending operation. ▶

Much like their broker counterparts, a significant proportion of lenders perceive rising interest rates as the biggest threat to their operation. Rising rates impact the terms that a lender is able to provide to an NACFB Member's client, it impacts their risk appetite, but it also directly influences the cost at which they themselves can borrow from their funders.

Notably, not a single NACFB Patron or Member highlighted increasing instances of fraud as a threat to their business. Whilst this is no doubt testament to the vigilance and preventative measures put in place across the sector, it is important such confidence does not lead to complacency.



42% of NACFB Patrons and 39% of Members viewed rising interest rates as the biggest threat to their business

Thank you to all the NACFB Members and Patrons that completed last year's survey. The results help to inform key stakeholders of the tangible value that engaging with the community can bring. They also help to quantify activities beyond just the transactional and illuminate areas where, historically, there has been little by way of supporting data.

If you wish to speak with one of the team regarding the latest survey data, or if you want to see an expanded range of questioning for 2023's survey, then please do let the team know via press@nacfb.org.uk