

Bounce Back Loans

March 2022



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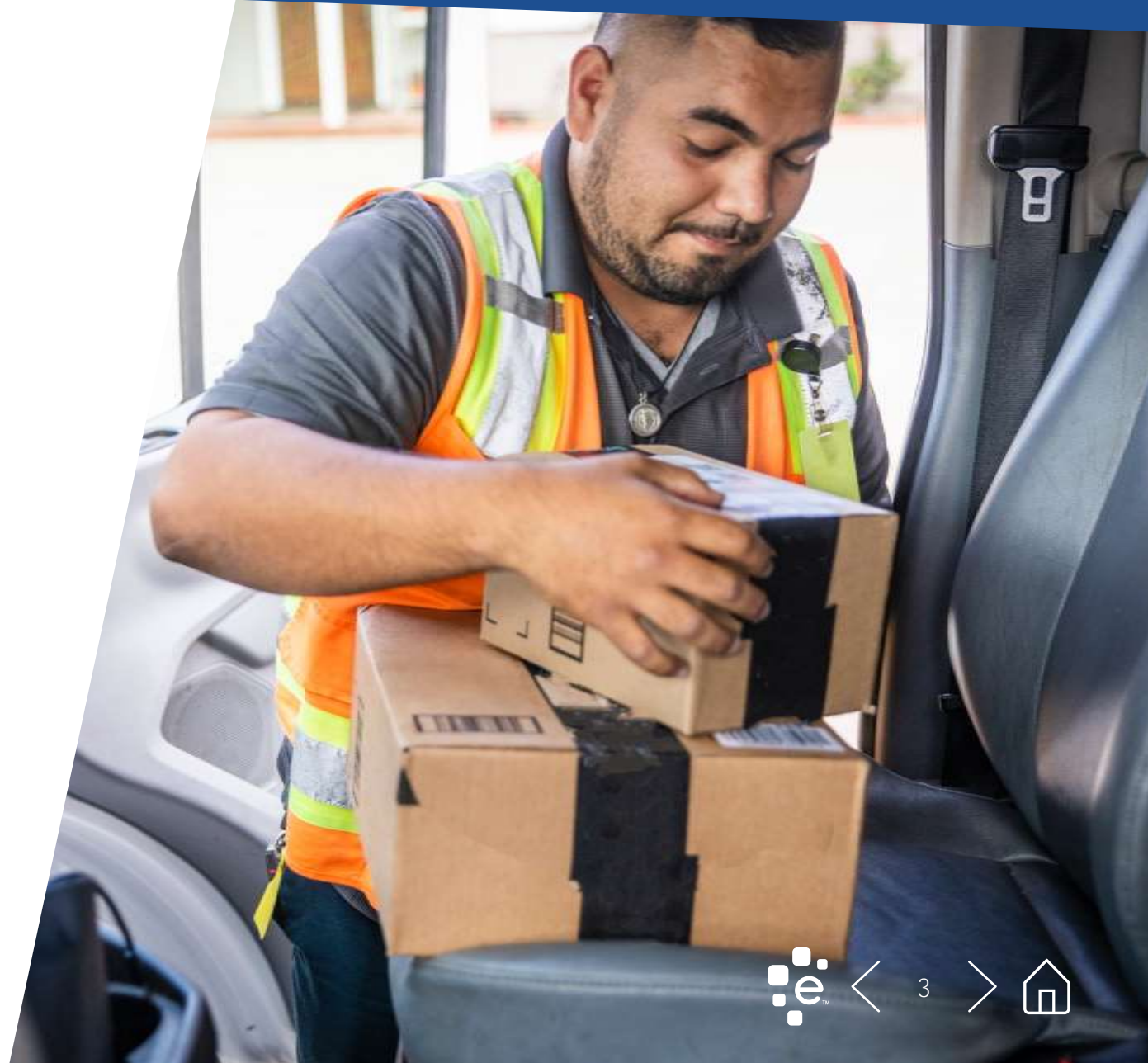


Summary



How well are SMEs paying back Bounce Back Loans?

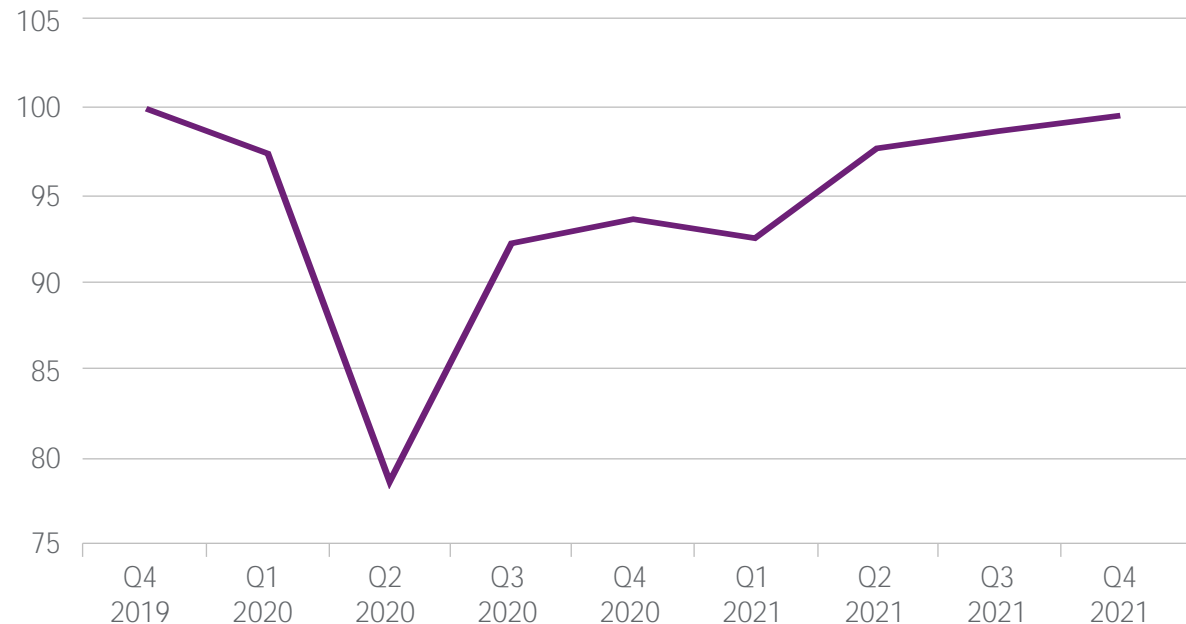
- Government-backed BBLS in 2020 saw unprecedented levels of commercial borrowing in the UK.
- Whilst the government will bear the cost of BBLS which go bad, UK lenders will face administration, reputation and re-financing costs.
- UK lenders must carefully monitor and manage their SME portfolios to minimise the impact of failed BBLS.
- To aid this, using our bureau data, Experian has analysed BBLS performance across the market to help lenders understand the evolving SME landscape and their ability to pay back.
- As a leading UK bureau, Experian has coverage of approximately 85% of BBLS, providing a well informed view of the market. The data we have used in this pack is from December 2021.



The UK economy has reached pre-Covid levels

- In 2020, the UK economy suffered the deepest annual contraction on record as GDP shrank by 9.8% in the year.
- GDP growth climbed throughout 2021 to equal its pre-Covid level (February 2020).
- Economists had predicted surpassing pre-Covid GDP in Q4 2021 which failed to materialise, in part hindered by the threat of Omicron in late Q4 2021.

GDP, Q4 (Oct to Dec) 2019 to Q4 (Oct to Dec) 2021, UK



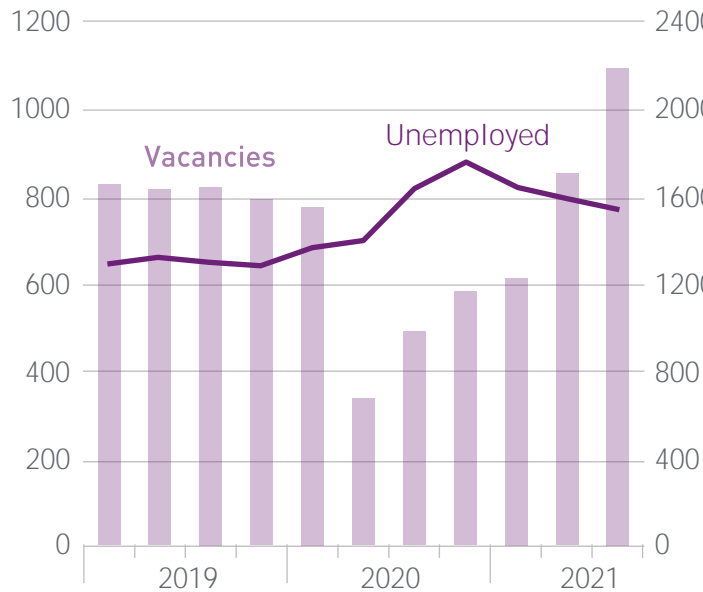
Index, 2019 Q4 = 100

Source: OECD

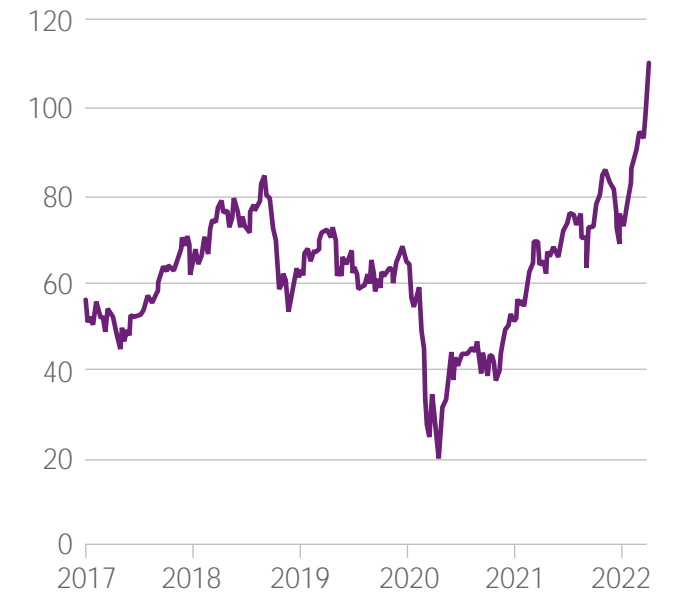
However, further challenges remain ahead

- The labour market is forecasted to show healthy growth with unemployment continuing to decline.
- However, the unfolding crisis in Ukraine will stifle economic growth. Both Russia and Ukraine are major suppliers of oil & gas to Europe. The current global price of oil is \$110 per barrel, a five year peak and an increase on the spike of \$85 per barrel in October 2021 during the fuel shortages.
- Experian forecasts a baseline scenario of CPI peak of 8.3% in Q4 2022 as a result of the crisis. To help offset rising inflation, the Bank of England increased the interest rate to 0.5% in February 2022, with Experian predicting a further increase of 0.75% in Q4 2022.

Vacancies vs. number of unemployed, thousands



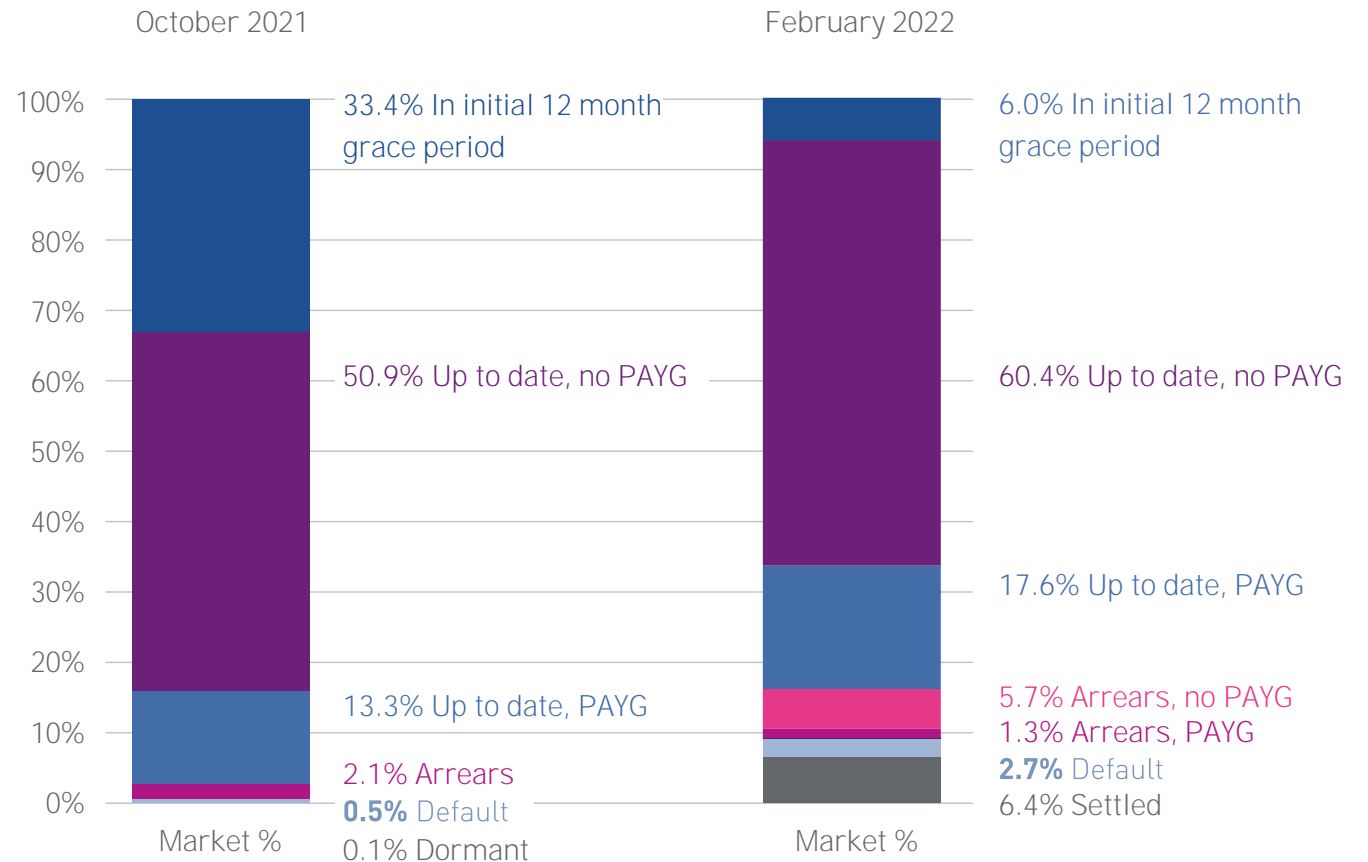
Global oil price, \$ per barrel



Source: OECD, Morningstar

Current Bounce Back Loan status

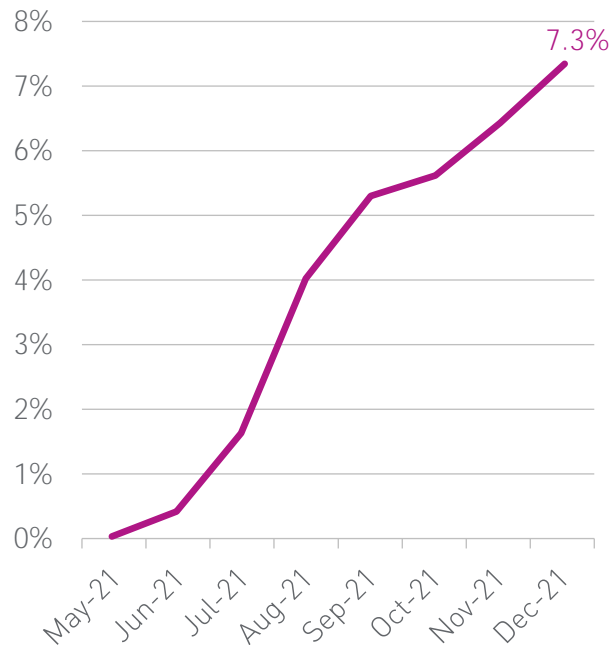
- 93% of BBLS reported to Experian have started repayments – and 6.4% have already settled which is promising figure given the economic challenges for SMEs across 2020-21.
- Including loans on Pay As You Go, over 77% of loans carrying an outstanding balances of £29.6bn are repaying to schedule.
- However, loans representing 16% of the total proportion and carrying a balance of £8.1bn have taken up some form of PAYG forbearance.
- This is a considerable increase on our October 2021 analysis which identified 13.1% of loan-holders which had requested forbearance measures.



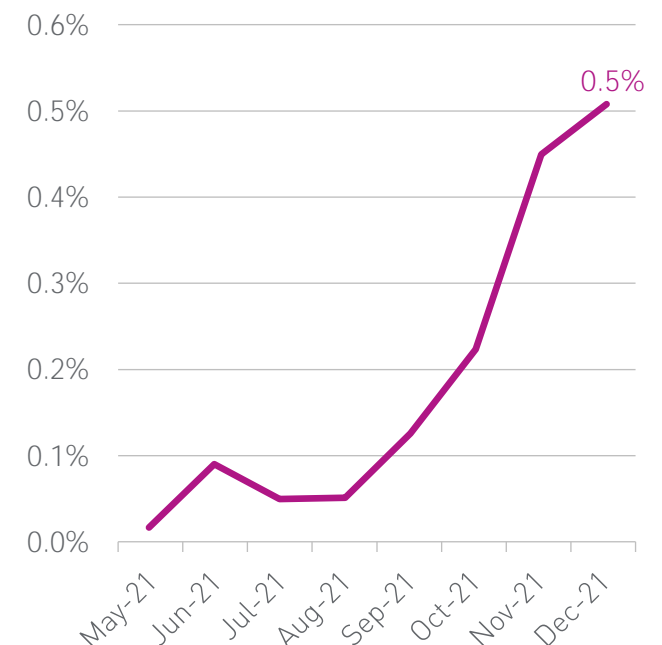
Arrears, defaults and missed payments

- While the majority of loans are repaying to schedule, arrears and defaults rates are rising sharply. In October 2021, Experian reported 2.1% arrears and 0.5% defaults. The rate of arrears have more than doubled and defaults has increased five fold.
- Loans carrying balances of £2.6bn and representing 7.3% of open BBLS are currently one or more payments behind schedule.

Percentage of open loans that are one or more payments behind schedule



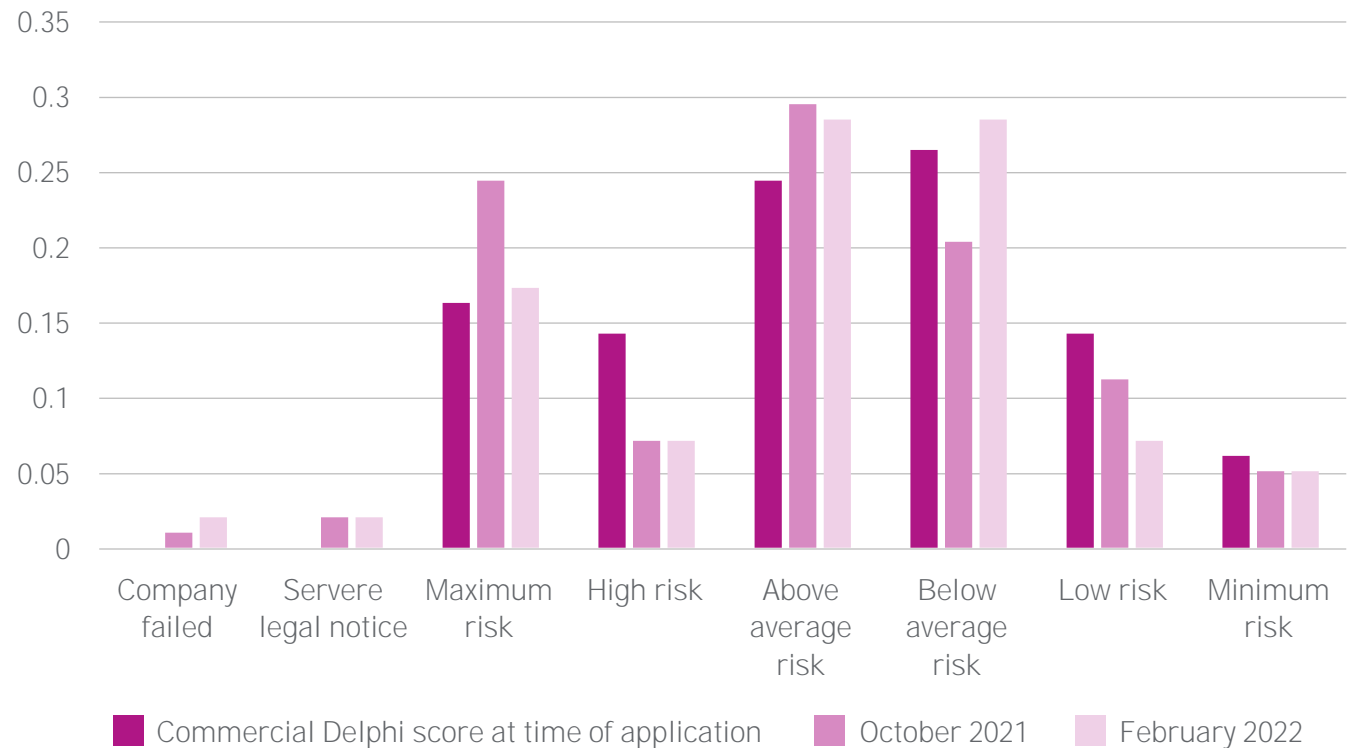
Percentage of open loans that have defaulted in the month



Evolving Commercial Delphi scores

- Based on current company risk scores, £1.2bn of open BBL balances would be expected to default very soon.
- An additional £6.6bn is currently held by companies with a 'maximum risk' profile.
- Whilst we can see a doubling in failed companies; positively, compared with our analysis in October 2021, the percentage of 'maximum risk' and 'above average risk' businesses has decreased. We can see more businesses moving into 'below average risk'.

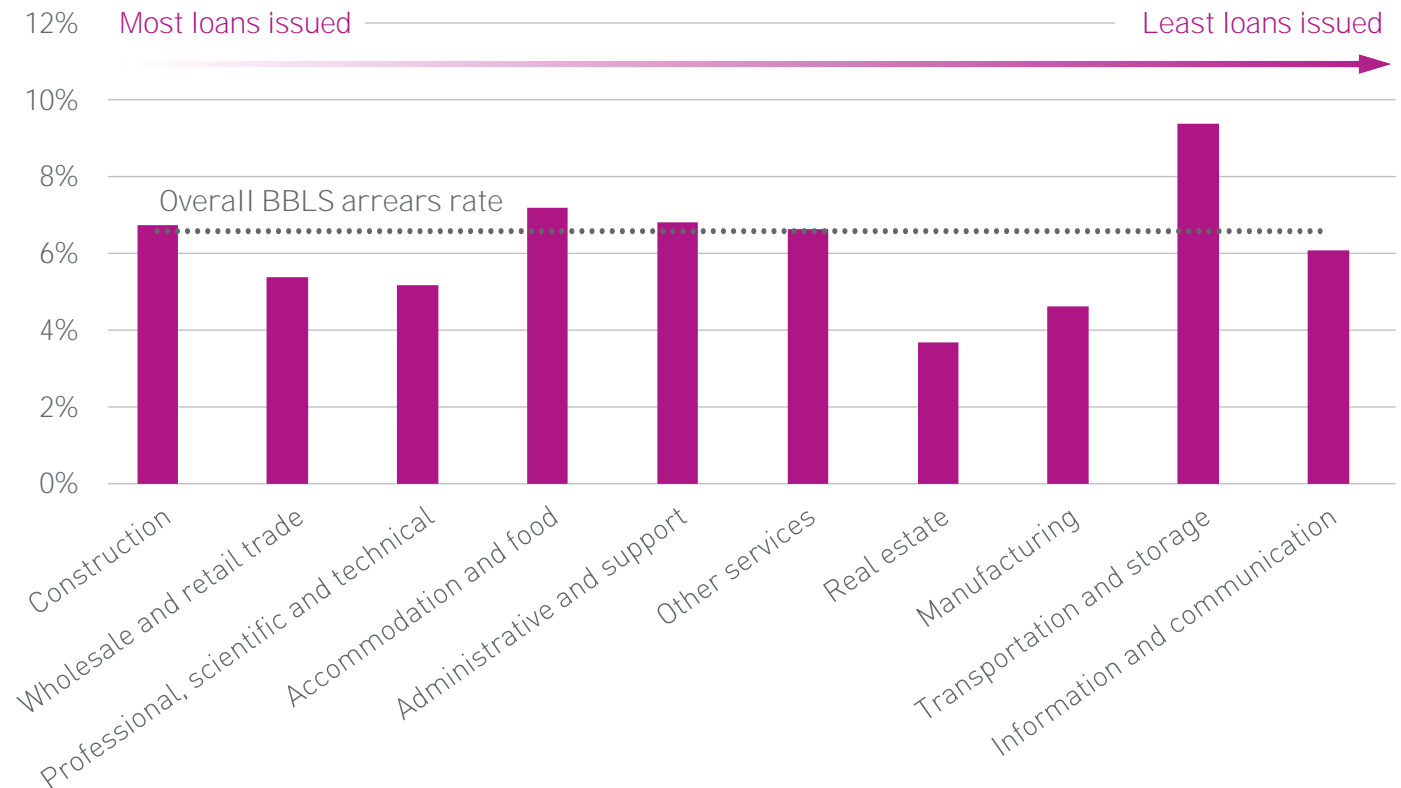
Commercial Delphi Scores over time



Performance by sector

- There are now some clear under and over-performing industry sectors.
- More than 1 in 10 of open loans issued to companies in the transportation and storage sector are now one or more payment behind schedule, with accommodation and food and administration and support services also struggling.
- The rising cost of oil will perpetuate challenges amongst the transport industry.
- Rising energy costs also present a challenge to many UK businesses, particularly felt by the accommodation and food sector. Businesses are not protected under the government's energy price cap. Rising energy costs for businesses could therefore be unlimited, and as such impact their ability to pay back BBLS.

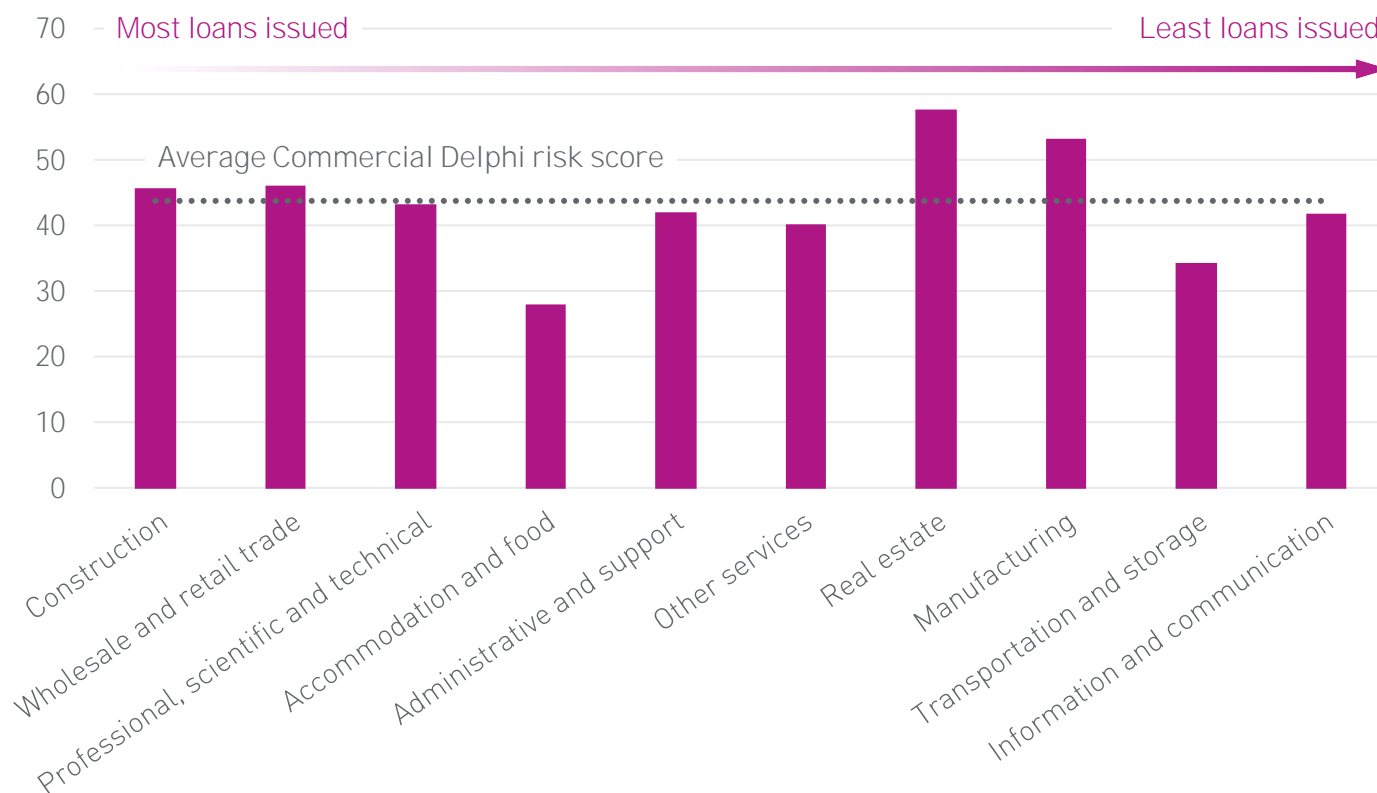
Arrears rates by sector (top 10 sectors ranked by number of loans issued)



Risk by sector

- Commercial Delphi risk scores mirror the industry arrear rates, in that the higher the risk profile, the higher the arrear rate – which is to be expected.

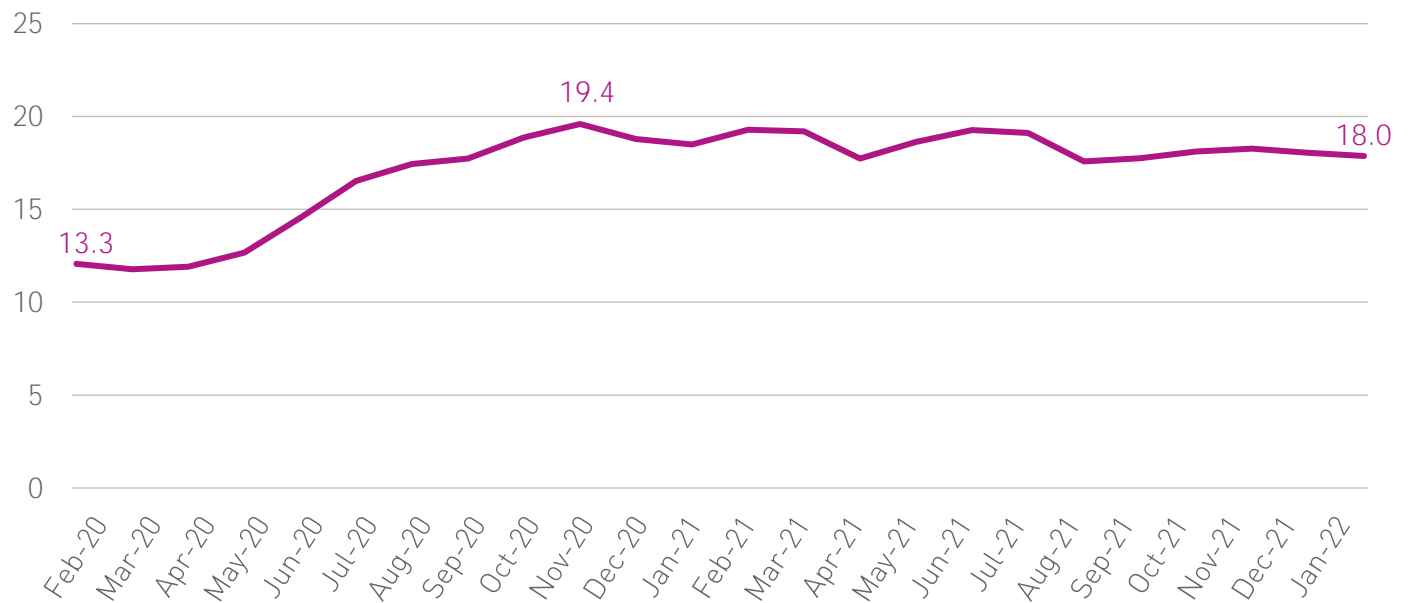
Commercial Delphi Gen6 risk score by sector (top 10 sectors ranked by number of loans issued)



Payment performance trend

- The headline Days Beyond Term measure for companies that took BBLS is now 18 (down from a pandemic peak of 19.4 in November 2020) – a positive indicator for the health of UK SMEs.

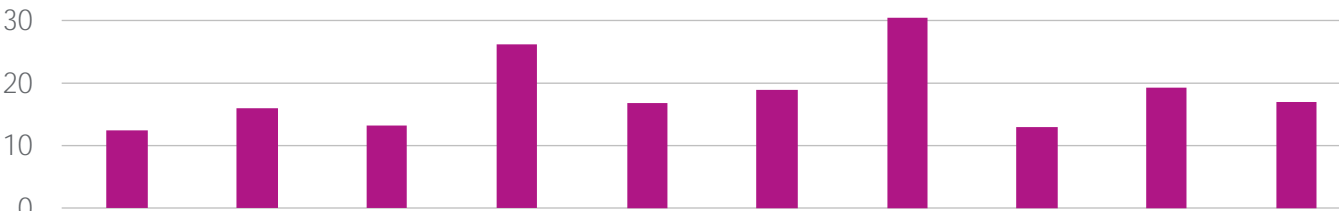
Average Days Beyond Term



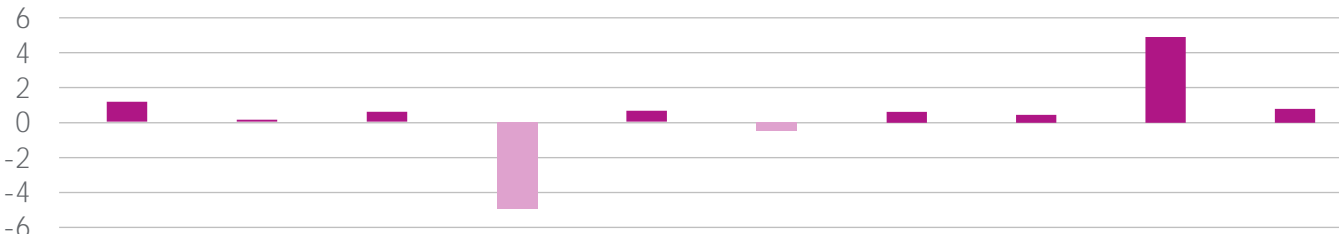
Payment performance by sector

- At sector level, despite having the second highest DBT score currently, companies in the accommodation and food services sector improved the most during the final quarter.
- In contrast, we saw a sharp rises in DBT for companies in transportation and storage, likely a result of fuel shortages and set to continue as the situation unfolds in Ukraine.

Average Days Beyond Term, by sector



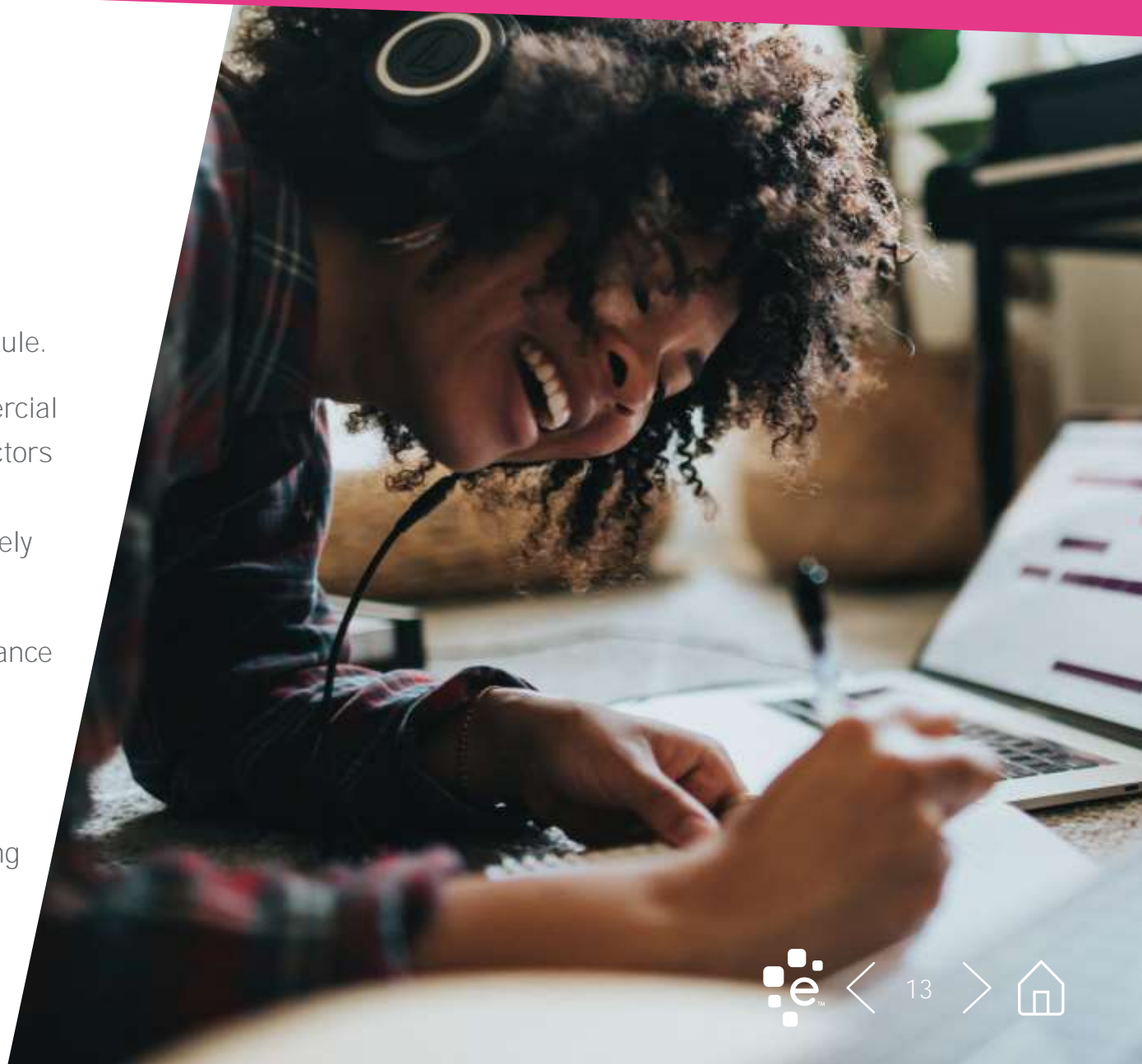
Quarter on Quarter change



Construction
Wholesale and retail trade
Professional, scientific and technical
Accommodation and food
Administrative and support
Other services
Real estate
Manufacturing
Transportation and storage
Information and communication

A cautiously positive picture

- Overall, Experian's BBLS analysis paints a cautiously positive picture. On average, Commercial Delphi scores and days beyond terms are improving, and the majority of loan holders (60%) are paying to schedule.
- Drilling down to sector level, we see alignment between high Commercial Delphi scores and high arrear rates, which is unsurprising. Some sectors are clearly struggling more than others, with transport and storage standing out as a key challenge. Businesses in this sector unfortunately face further challenges in 2022.
- More than 18% of loan holders have requested some form of forbearance measures. A total of 9.7% of the BBLS population are currently in arrears and default, and an additional £6.6bn of loans are currently in maximum risk.
- Lenders need to monitor their portfolios carefully to identify struggling business, reduce the impact and support UK businesses during the challenging economic landscape ahead.





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