View metadata, citation and similar papers at core.ac.uk
brought to you by CORE
provided by St Andrews Research Repository

Housing assets and small business investment: exploring links for theory and policy

Darja Reuschke (corresponding author)

University of St Andrews

School of Geography and Geosciences

Irvine Building, North Street

St Andrews, Fife KY16 9AL

United Kingdom

E-mail dr35@st-andrews.ac.uk

Tel. 00441334 46 3902

Duncan Maclennan

Centre for Housing Research

University of St Andrews

The Observatory Buchanan Gardens

Fife KY16 9LZ

United Kingdom

E-mail:dm103@st-andrews.ac.uk

Tel. 00441334 46 1787

Abstract

Housing market activity and firm formation are both positively correlated with the business cycle, and mortgage lending to business owners and funding of small firms have fallen in the UK since 2008. This paper explores a neglected, causal linkage between housing assets and small business investment and the economy and, in particular, draws attention to the recent reduction in small business investment consequent to a reduced capacity of entrepreneurs to withdraw or leverage housing equity. It draws on secondary data for the UK and interviews with key policy and practice stakeholders for both housing and enterprise.

Keywords: small firms, mortgage market, housing assets, equity withdrawal, financial crisis

JEL: M13, R13, G01

"Self-employed borrowers with their own limited companies are seeing their mortgage applications rejected by high street lenders due to the inflexible ways banks assess their income – leaving many of these homebuyers with limited mortgage options."

The Financial Times, 21 October 2011 (POWLEY, 2011)

1. Introduction

Since the global financial crisis of 2008 the UK economy has struggled through a sequence of overlapping difficulties. The financial crisis has become a continuing banking sector struggle to restore asset bases and profits and implement wider, safer credit rationing. The banking crisis was quickly overlain by a global reduction in the growth of trade and GDP, despite the intensive stabilisation policies of most OECD countries, and this was manifested in rising unemployment and reduced business investment (MUELLBAUER and WILLIAMS, 2011). In some countries, such as the UK, the pressures to reduce both private and public debt have prolonged recovery from recession and resulted in near zero growth (OFFICE FOR BUDGET RESPONSIBILITY, 2012).

The housing and mortgage crises of 2008, brought housing assets and mortgage finance to the centre stage of international economic policy debates (PRIEMUS and MACLENNAN, 2011; IMF, 2008). More recently, UK government concern to raise growth has been manifested in the Budget Statement with measures to raise housing market investment (HM Treasury, 2013).[i] The UK city and regional dimensions of this standard Keynesian discussion are exemplified in Centre for Cities (2013). The discussions are mainly about how mortgage rationing affects the ability of young households to step on the housing ladder (HM Treasury,

2013; MEEN, 2012; CML, 2011) and how these constraints might be relaxed or offset by government action.

Advocates for a new national growth strategy, for example Heseltine (2012), also put new business formation at the core of recovery strategies. Debates and policy strategies focus mainly on raising access to finance and the creation of a more entrepreneurial business environment (HM Treasury and BIS, 2011, 2012; HESELTINE, 2012).

In UK policy processes, from research to delivery, business investment and housing/mortgage market performance are seen as correlated but causally unrelated. In consequence, the housing market and mortgage crises and business investment sluggishness have been addressed and understood separately in national, regional and local economic policy development. The need to unpick and rethink the interrelationships between mortgage and enterprise policy and practice will be the main focus of this paper.

Since 2008 there has been a growing number of journal articles about the UK housing and mortgage crises (MEEN, 2011; PRIEMUS and MACLENNAN, 2011; SCANLON et al., 2011; DUCA et al., 2010). However, although the self-employed constitute one in seven of the workforce (ONS, 2013), their mortgage outcomes receive only passing comment (SCANLON and WHITEHEAD, 2011). This is the first paper that looks at the mortgage crisis in relation to small businesses investment in the UK. It has two aims: first, to contribute to a better understanding of the role of housing assets within the overall investment portfolios of small business owners; and second, to identify impacts of the mortgage crisis on businesses. The analysis of secondary data presented here is curtailed by the shortness of the time period since the credit crunch and limited by the paucity of data available on business finance sourced from housing assets. The effects of housing equity on business start-ups and small firm growth are likely to arise from both changes in the stock of such wealth, driven by house price changes, as well as the ability to 'withdraw' it, largely shaped by credit rationing

and mortgage regulations. The former channel for effects (house price change) is not directly investigated in this paper. The main objectives of the paper are to focus upon mortgage market effects and to draw attention to a neglected perspective in enterprise thinking and policy and practice at different geographic scales.

2. Housing and the economy

Higher rates of new firm formation have been a central concern in regional and city (or 'local') economic development strategies in the UK for three decades (see MACLENNAN AND PARR, 1979). Researchers starting from the standpoint of industrial economics or entrepreneurship studies usually explain variations in new firm formation and continuity by variables such as industrial structure, existing number of new firms, workers in small firms, economic growth, human capital and age structure (AUDRETSCH et al., 2012; ANDERSSON and KOSTER, 2011; CHENG and LI, 2010; BÖNTE et al., 2009; FRITSCH and FALCK, 2007; ACS and ARMINGTON, 2004; ARMINGTON and ZOLTAN, 2002).

A few aggregate studies have included regional housing market characteristics, and found a positive relationship between business start-ups or business survival and the state of the housing market in British regions and localities (ASHCROFT et al., 1991, 2007; COWLING and MITCHELL, 1997; BLACK et al., 1996; ROBSON, 1996). This association is reflected in spatial patterns of start-ups and self-employment level with the highest start-up and self-employment rates being in South East England and the South West (regions with high house prices and large increases in house prices during housing booms), while these have traditionally been low in the North of England and Scotland (regions with lower house prices) (MUELLER et al., 2008; ROBSON, 1998). At UK subregional level, urban locations were found to have higher new firm formation rates and small business growth (KEEBLE and

WALKER, 1994) while the level of self-employment is particularly high in rural areas (TAYLOR, 2008).

Some microeconomic studies have also found associations between housing equity and self-employment in the UK: local house price changes were found to be positively associated with self-employment entry (DISNEY and GATHERGOOD, 2009), owner-occupation and the value of housing equity increased individuals' probability of being self-employed (HENLEY, 2004; TAYLOR, 1996), and housing equity was associated with increased likelihood of the self-employed having employees (HENLEY, 2005). Studies also found a positive association of self-employment and moves which could mean that there is a connection between house sales and running one's own business (REUSCHKE, 2013; BÖHEIM and TAYLOR, 1999; FIELDING 1992).

Some interpreted the observed home-ownership/housing equity effect on both the regional start-up/self-employment level and the individual propensity to enter/be in self-employment as a wealth effect that, in turn, confirms the presence of liquidity constraints for entrepreneurship (ASHCROFT et al., 1991, 2007; TAYLOR, 1996). Some highlighted the use of housing equity for business purposes (BLACK et al., 1996).

The ratio of 'free housing equity' (that is, housing values net of mortgage debt) to GNP rose significantly in Britain through the 1990s, from 87 per cent in 1995, to a peak of 183 per cent in 2007 and still remained historically and internationally high at 160 per cent in 2011 (Pawson and Wilcox, 2013). Over the same period, as traditional housing finance circuits in the UK deregulated, the proportion of mortgage loans used for housing investment fell to less than half by 2007 as mortgage finance was persistently the lowest cost of finance available to UK households (FSA, 2012, 23).

Taken together, it can therefore be assumed that the strength of housing equity effects on business investment will have strengthened over recent business cycles and that the current mortgage crisis will have had significant negative effects on firm formation and existing small firms. Restrictions in using residential mortgages and housing equity for business funding coincide with a decline in bank lending to UK businesses since 2008 (BoE, 2013). Thus the lack of funding through housing assets will have exacerbated the access to finance problem of small businesses. This presumption is supported by a growing stream of press articles regarding the negative consequences of current mortgage policy and practice for business owners and would-be entrepreneurs. These include entrepreneurs whose mortgage applications were declined (SHAW, 2010 in *The Independent*; CHRISTIE, 2012 in *The Guardian;* POWLEY, 2011 in *The Financial Times*) and business owners seeking help in the legal advice sections of newspapers since 2011.[ii]

Little is known, however, about the direction of causality between housing assets and start-ups/self-employment.[iii] The relationship between home-ownership rates and firm formation could solely reflect cultural, social and economic correlations in patterns of home-ownership and entrepreneurship rather direct causal linkages. As regards micro studies, the finding that housing equity increases the likelihood of the self-employed having employees might suggest that housing equity is crucial for business growth in that business owners use re-mortgaging/second mortgages to fund their businesses. In similar vein, owner-occupiers might be more likely to be self-employed because they can use equity withdrawal for business purposes. On the other hand, business ownership and income gained from the business will enhance individual entrepreneurs' ability to buy their own home.

Against the background of declining bank lending to UK businesses, current debates in policy and research on business finance are focussed upon new equity finance or mezzanine finance for high potential businesses and sectors (BIS, 2012a, b; MASON and PIERRAKIS, 2011;

THE SCOTTISH GOVERNMENT, 2011; SUNLEY et al., 2005). However, the use of self-finance, as opposed to debt financed investment, by the founders of new firms has been prevalent in the UK even before the financial crisis (BANK OF ENGLAND, 2004). Other sources of finance that have been considered in the literature include informal sources provided by family and friends and credit co-operatives (PARKER, 2004). It is striking that housing assets are rarely mentioned, for example as outside collateral for debt financing (BERGER and UDELL, 2003).

If 'entrepreneurship' studies have paid relatively scant attention to housing influences it is also valid to argue that the relationships between housing assets and small firms/self-employment have been neglected by housing economics and policy. Over the last two decades, as mortgage market deregulation integrated the housing finance circuit both to national and global capital markets, there has been a growing recognition that housing equity and its withdrawal, facilitated by deregulation, had a capacity to boost household spending (MACLENNAN, 1997; SMITH and SEARLE, 2010). Empirical research, whilst noting some use of withdrawn housing equity for business and other investment (WALDRON and ZAMPOLLI, 2010), has focussed almost entirely on household consumption effects. 'Non-housing' related purposes of equity withdrawal were rarely broken down despite a large percentage share that was spent on these 'other things' (MACLENNAN and TU, 1998; PARKINSON et al., 2009; BENITO, 2009; SMITH and SEARLE, 2008). A few studies show that before the 2008 mortgage crises housing equity was used not only for consumption reasons but also for business purposes (BENITO and POWER, 2004; DAVEY and EARLEY, 2001). Unfortunately, in models that estimate the likelihood of mortgage equity withdrawal, none of these studies included self-employment status or business ownership as an influencing factor. In consequence, the impact of housing assets on business investment, and

of housing on long term economic growth and productivity, has been neglected and is largely a missing dimension in local economic development strategies.

3. Data and method

The disconnections in conceptualising how households manage and mingle business and housing assets are reflected in the ways in which existing data are collected and used. Business surveys usually collect little information about the business owners omitting information on their housing tenure, personal/households assets and household characteristics. Micro surveys, which include questions on housing and employment at household or individual level, generally lack questions on any businesses the interviewees own. Moreover, if questions on re-mortgaging/housing equity withdrawal are included, the response categories are generally broad and related to housing investments or consumption goods (e.g. British Household Panel Survey/UK Household Longitudinal Study).

The best data sources for collecting information on business finance for the UK are the UK Survey of Small- and Medium-Sized Enterprises' Finances (UKSSMEF) and the Small- and Medium-sized Enterprise Finance Monitor (SME Finance Monitor).[iv] These surveys, however, are of limited value for this study since both the value of housing assets of the business owner/director and the use of re-mortgaging/second mortgages for running a business are excluded. In both surveys the population are small- and medium-sized businesses (SMEs) with up to 250 employees in the private sector across the UK. Three samples of the UKSSMEF can be used for the analysis: 2004, 2007 and 2008.[v] The SME Finance Monitor is a repeated cross-sectional survey introduced in 2011. The public use files that were used for this study comprise businesses that were interviewed in two stages in 2011 (March-May and July-September). In both surveys start-ups are defined as those businesses

that are aged two years or less.[vi] Information on reasons for re-mortgaging, including for business purposes, is captured in the Family Resources Survey (FRS), which is a repeated cross-sectional survey on financial resources of households in the UK.

Time-series data on mortgage lending was provided for this study by the Financial Services Authority (FSA), which is the regulator of mortgages,[vii] the Council of Mortgage Lenders (CML) and the Building Societies Association (BSA). The FSA requires certain information for regulated mortgage lending. The employment status (employed in wage and salary sector, self-employed, other, retired) is reported. Unfortunately, lenders do not systematically report reasons for mortgage withdrawal and thus no detailed information is available on why households re-mortgage/take out a second mortgage. For example, the period 2007 to spring 2012 the FSA (2012, 24) could identify that approximately 12 per cent of mortgage borrowing was devoted to 'household consumption, debt consolidation and home improvement'.

It has to be noted that the self-employment category (which is used in the FRS and the mortgage lending data) does not equal business ownership. For legal reasons in the UK directors of companies are usually employed in their own businesses. Some directors may classify themselves as employed rather than self-employed. They are therefore likely to be underrepresented in the self-employment category used by lenders. Sole proprietors, freelance and partners in a business will be included in this self-employment measure.

Given the limitation of secondary data, it was important to interview key stakeholders in housing and entrepreneurship policy and practice in order to get a better understanding of current approaches and also to interpret the findings from the secondary data analyses. The interviews, which were conducted between February and November 2012, involved representatives from the CML, BSA, Federation of Small Businesses (FSB), UK Department for Business, Innovation and Skills (BIS), FSA, Scottish Enterprise, and Business Gateway,

which delivers the economic strategy of The Scottish Government in local authorities across Scotland.

4. Mortgage lending to business owners

A series of legislative changes in the 1980s and 1990s significantly deregulated the UK mortgage market and changed well established patterns of mortgage rationing (see FSA, 2012). Non-price rationing was greatly reduced, loan-to-value ratios relaxed, new sources of income allowed and loan-to-income multiples increased as well as non-verification of income extended (MACLENNAN,1997; STEPHENS and QUILGARS, 2008; STEPHENS, 2007). These changes drove increased lending and easier housing equity withdrawal, where households borrow against their housing equity, until the middle of 2007. Since 2007-8, gross secured lending to individuals has fallen sharply and lending criteria have been re-tightened. The typical loan-to-value ratio has decreased from 95% to around 75%, meaning that a higher deposit now has to be paid by borrowers than before the financial crisis (MEEN, 2012; FSA, 2012, 26). Impacts of changes in the loan-to-value ratio (or the deposit for a mortgage) on business investment cannot be tested with available data.

However, some effects of the stricter income regulations in the new mortgage lending regime on business owners/the self-employed can be quantified. Lenders have traditionally not verified the incomes of a small proportion of borrowers that they regarded as low risk (fast-track mortgages). In addition self-certification, where borrowers were asked to verify and certify incomes themselves, was specifically introduced to assist self-employed, that is, borrowers who did not fit ‘conventional’ mortgage criteria (CML, 2005).[viii] Lenders usually charged a premium price for taking a greater risk (FSA, 2009, 47). At the peak of the mortgage market, in the UK in 2007, some 54 per cent of all mortgages issued, and 70 per

cent of those made to self-employed borrowers, were made without verification of income (FSA, 2012, 59).

The FSA now requires stricter regulations for income verification and self-certification for all mortgage lending (FSA, 2009). As a matter of fact, lenders have quickly abandoned self-certification mortgages, and mortgage sales with non-verified income have dropped sharply (FSA, 2012, 62). There were only two lenders in 2009 still providing mortgages to the self-employed without income verification (FSA, 2009). There are now effectively no self-certification mortgages in the UK mortgage market (FSA, 2012, 61). As a matter of fact, lenders now usually require three years of audited accounts or tax self-assessment from the self-employed and entrepreneurs who run their own company (interview FSA). This means that new business owners/the self-employed of less than three years standing would not be successful when applying for a mortgage even if the net cash flow from the business would safely sustain a mortgage payment.

Despite concerns that the new lending criteria would be too strict for many self-employed borrowers, the FSA confirmed its policy in December 2011 (FSA, 2011). The effect of income verification on mortgage lending to the self-employed can be illustrated by the number of mortgage sales (regulated mortgages only) by employment status before and after the financial crisis in Figure 1. After the dramatic dip in overall mortgage sales in 2008 and the first quarter in 2009, the sales to the self-employed have remained on an extremely low level (fewer than 25,000 per quarter) and even dropped again in 2012 whereas the sales to borrowers in paid employment rose slightly.

—ABOUT HERE FIGURE 1—

Whilst mortgage sales to the self-employed decreased further between 2011 and 2012, the number of self-employed people in Britain has increased by 219,000 over the same period of time. The number of people working as employees, however, has fallen since the start of the 2008 recession (ONS, 2013). In consequence, a greater percentage share of mortgages goes now to the employed than before the mortgage crisis while the share of self-employed borrowers has fallen from 17% in 2007 to 10% in 2011, as can be seen in Figure 2, which draws on data from the CML Regulated Mortgage Survey.[ix] Prior to the credit crunch the share of mortgage sales made to the self-employed (17%) was higher than their share in the workforce (13%), presumably because this was an easy and cheap way to lend money for business purposes (see FSA, 2012, 113). By end 2011 the self-employed share of mortgage sales (10%) lay far below their share in the workforce (14%). The business owners and self-employed people reported in the press as facing problems when applying for a mortgage are therefore not isolated, special cases.

—ABOUT HERE FIGURE 2—

The Regulated Mortgage Survey of the CML covers high-street banks (now the major source of UK residential loans) and other lenders but under-represents building societies (the main lenders into the 1990s). Many building societies are local and regional in scale, emphasise their 'mutual' origins and allocate mortgages, sourced from retail deposits, through more traditional 'relationship' based on personal connections to their clients. Table 1 shows annual percentage changes in mortgage lending by employment status for lenders covered by the CML mortgage survey compared with lending data by the Building Societies Association (BSA), which represents only building societies.

While the drop in mortgage lending to workers in paid employment is very similar in the CML and BSA data between 2006 and 2011, there is a substantial difference between self-employed main borrowers. Lenders covered by the CML, i.e. including high-street banks, reported a much greater drop in lending to the self-employed than did building societies. In particular, lending to the self-employed by building societies has recovered in 2011 whilst such loans from lenders in the CML Regulated Mortgage Survey have not. This may result, in part, from the prevalent use of standardised mortgage application processes in high-street banks (interview FSA) whilst building societies are more likely to base loan decisions on information gained about borrowers characteristics from a period of 'relationship' saving and borrowing. Building societies thus now seem to be a particularly important niche provider of loans for the self-employed.

—ABOUT HERE TABLE 1—

The pattern of change in mortgage lending to the self-employed differs across regions. This can be illustrated using BSA lending data (Figure 3).[x] In the East of England and the South West the drop in mortgage lending to the self-employed over 2006-2011 was far below the UK average. Also, in these regions the percentage decrease in mortgage lending was almost the same for the self-employed compared with employees (not shown in Figure 3). These are also regions were the self-employment rates are above the UK average (ONS, 2013), and building societies may have best developed practices that account for the special financial situations of the self-employed workforce. By way of contrast, Northern Ireland has seen an extraordinary drop in mortgage lending, particularly to the self-employed. It is also the only UK region that has experienced a decrease in self-employment numbers over 2008-12 (from

15% to 14%, ibid.). The drop in mortgage lending to the self-employed is also striking in the North East and the West Midlands, which chimes with low regional self-employment rates.

—ABOUT HERE FIGURE 3—

5. Business finance and housing assets

Changes in residential mortgage lending to the self-employed have been accompanied by changes in business funding based on housing assets. Table 2 shows time-series data on housing-/mortgage-related funding for businesses in the UK at four points in time, representing different lending conditions prior to the financial crisis (2004), during the mortgage and housing market crises 2007/08, and credit rationing after the credit crunch (2011). Looking first at start-ups the importance of personal savings for firm formation and its gradual increase over time stands out. These could include, for example, family housing assets (but this cannot be investigated further with these data).. Most important for this study, the use of mortgages on homes for business founders has substantially decreased over this period of time. Only one third of the percentage of business founders in 2011-09 (2%) used a mortgage on their home compared to 2004-02 (6.5%). Likewise, the use of mortgages on homes as the main source of funding has fallen by almost 50% (1.6% points) 2004-02 to 2011-09.[xi]

—ABOUT HERE TABLE 2—

Unfortunately, equity from house sales as a source of funding for start-ups is only captured in the UKSSMEF 2004. In the other surveys, this housing asset source of business finance is included in personal savings. Hence, personal savings could be derived from rising house prices or family housing assets which cannot be investigated further in this study.[xii] In total, one in 13 business start-ups in 2004-02 was using housing assets (mortgages on homes and equity from house sales together). House prices peaked in the UK in 2007, so that it can be expected that the percentage share of start-ups funded by equity from house sales was higher in 2007-05 than 2004-02. With house prices declining significantly since 2008 while credit conditions have tightened, it can be estimated that the use of housing assets for starting-up firms has now dropped to approximately 3% from 7.8% in 2004-2002 (2% from mortgages on homes as can be seen in Table 2 plus an estimated 1% from house sales).

While external funding sources are of limited significance for most entrepreneurs starting-up a business they become more important over the business cycle, particularly for business growth. Table 2 shows that housing assets are crucial in securing external funding (commercial loan or overdraft). Figure 4 provides a closer examination of the main ways of securing a commercial loan in 2011 compared to 2004, for businesses by legal status.[xiii] In total, just above one third of SMEs with new loans/overdraft facilities in 2011-10 used personal property of the owner/director as security. This applies particularly to sole traders, i.e. the largest share of businesses in the UK (BIS, 2012d), of whom 54% secured a commercial loan in 2011-10 with their personal property. For Limited Companies and Partnerships in 2011-10, personal property of the director/partner(s) was the second most important source of securing a commercial loan. Between 2004 and 2011 the use of personal property for securing a commercial loan has dropped substantially among sole proprietors and partnerships, mostly at the expense of business securities or deposits in the case of sole

proprietors and business property for partnerships. It can be assumed that this is a consequence of falling house prices and lenders' fear of negative equity.

—ABOUT HERE FIGURE 4—

The value of personal property used for securing a commercial loan is available in the UKSSMEF 2004 and 2008 (with differing response items used).[xiv] As is shown in Table 2, the majority of owners/directors used more than £100,000 of equity in their homes to secure a loan for business purposes both in 2004 and 2008, suggesting that most business owners/directors used a large share of their net housing equity. However, this percentage share is lower in 2008 than in 2004. This might reflect lenders requiring other sources of security (in addition to personal property) when house prices started to fall after 2008. Another explanation is that business owners/directors were less willing to extract large shares of their housing equity as security for their business as they feared that falling or negative equity might raise the prospect of losing their homes in times of economic crisis (interview Business Gateway).

—ABOUT HERE TABLE 3—

Business owners and directors of small firms also use housing assets for business funding through re-mortgaging or taking out a second mortgage on their home[xv], for example when they were declined finance by financial institutions or because it is cheaper/easier than applying for a commercial loan (interview FSB). Table 3 reports the percentage of households that re-mortgaged for business reasons in 2005/06 compared with 2010/11. The

drop in total re-mortgaging for business purposes from 3.5% to 3.1% in the UK is equivalent to a decrease of 38,000 borrowers. Looking only at re-mortgager households where at least one adult person ran a business, the percentage of households that took out a new mortgage on their mortgaged property for business purposes, has decreased by almost a half over this period.[xvi]

6. Policy implications

The main policy implications of this research are that in the UK patterns of and decisions about housing equity and residential mortgages are, for some households, closely interrelated with the formation and growth of small businesses. Housing market outcomes and current mortgage market functioning and practices need to be taken seriously as a business policy issue. Mortgage lending to business owners/directors has changed dramatically since the financial crisis and so has funding of small firms and start-ups based on housing assets. The self-employed are particularly hard hit by the cut in secured mortgage lending (and this also applies to owners of companies who pay themselves a small salary). Due to stricter income regulations for mortgage lending, those who started-up a business cannot apply for a mortgage, and business owners including those who run their own limited company as director also face severe problems in re-mortgaging due to variable earnings. Enterprise policy and research need to pay attention to this trend in mortgage lending for three reasons.

First, more difficult access to housing- or mortgage-based lending for businesses will undermine the aspirations of would-be entrepreneurs. This is particularly true for young potential entrepreneurs who have not purchased homes. Research shows that currently a much higher required deposit-to-price ratio for house purchase now than in the past has resulted in a fall of loans to first-time buyers (SCANLON and WHITEHEAD, 2011).

Younger households now face particular difficulties in buying their own homes (HEATH, 2008) and, at the same time, however, both the private and social rental sector are not attractive alternatives for many. Private renting can be more expensive than owner-occupation (SCANLON and WHITEHEAD, 2004). As a result, the mean age of first-time buyers (without assistance) rose from 30 in 2008 to 33 in 2011 (CML, 2011). Student loans are another factor that might has impacted on a rising entry age into owner-occupation. This might also result in late entries into self-employment since setting-up a business might mean variable and insecure income. Current self-employment figures confirm this trend as 84% of the increase in self-employed workers since 2008 was driven by those aged 50 or older (ONS, 2013).

Young people are the focus of new initiatives to foster entrepreneurship in the UK and in the devolved administrations (e.g. New Enterprise Allowance scheme at UK level, Business Gateway National in Scotland). Current mortgage practices and the state of regional housing markets, however, run counter to these efforts. This, in turn, calls into question the UK's long held, cross-government commitments to promote extensive and early home-ownership. Arguably, the UK wasted the benefits of the long boom in raising the prices of existing dwellings (in both urban and rural areas, see Taylor (2008)) rather than in forming the human and business capital that would facilitate growth. Britain has put the demand for home-ownership, in the past fuelled by the expectation of unearned and untaxed housing capital gains, ahead of the creation of the conditions that would facilitate growth and entrepreneurship for the long term. Business ventures by young entrepreneurs will thus be facilitated by expanding/improving the UK rental sector as risks could be mitigated and start-up capital accumulated (that otherwise would be spend on a deposit for a mortgage and transaction and maintenance costs).[xvii]

Secondly, current mortgage practices will impact on individual's spatial mobility behaviour and thus on the functioning of labour markets and housing markets. Moving to a new place to start-up a business has become extremely difficult since business starters are increasingly unable to apply successfully for a mortgage after having moved. Previous research showed that entrepreneurs have been spatially mobile prior to setting up their businesses, for example to access venture capital (KEEBLE and TYLER, 1995; HARRISON et al., 2004; ZOOK, 2005; LEVIE, 2007). Home-based business entrepreneurs were also found to be fairly mobile over long distances (REUSCHKE and VAN HAM, 2013). The economic potential of mobile entrepreneurial and creative people for regional economic development (FLORIDA, 2002) will thus be negatively affected by current mortgage practices. Owners of existing businesses with variable and/or little earnings find it also difficult to move due to income restrictions on re-mortgaging. Thus they are forced to stay in place if their applications for re-mortgaging are turned down.

Thirdly, the tightening of mortgage lending criteria has resulted in mortgages on homes being less frequently used for start-ups. This might be unproblematic if other sources of funding were available for (potential) business founders and owners/directors of small firms. However, mortgage credit has been the cheapest form of loan available to households (FSA, 2012, 22), and in times of credit rationing access to all loans (including those based on housing assets) has become more difficult both for young and established businesses. Young businesses are more likely to be small. The Bank of England reports in its recent lending review that SMEs have faced a greater tightening of credit conditions since 2008 than larger businesses (BoE, 2012). For instance, loan fees are higher for SMEs than larger businesses while the highest interest rates are paid by small businesses (BoE, 2013, 9), which is indicative for their risk assessment by lenders. The new SME Finance Monitor, which was launched as a response to recent trends in lending to SMEs, finds that, consistent with these

trends, business start-ups are less successful when applying for new loan facilities than older businesses (BDRC Continental, 2013, 109). Accordingly, there has been a rise in the number of business start-ups that use very little start-up capital[xviii].

More generally, the recent decline in owner-occupation with a mortgage (FSA, 2012, p. 16) may have impacted negatively on the UK home-based business sector, assuming that home-based business entrepreneurs are more likely to be homeowners since tenants are often restricted in using their homes for business purposes. This could not be investigated with the data nor has the existing home-based business literature paid attention at housing issues. Future research that investigates more broadly the relationship between housing tenure and small businesses will be able to inform a needed debate on whether home-ownership or private renting is better suited to facilitate business formation and entrepreneurship and in what circumstances.

In order to fill the gap in debt finance, policy at different geographic scales has aimed to provide loan guarantee or funding schemes for businesses (e.g. Enterprise Finance Guarantee at UK level, East Scotland Investment Fund). Another pillar to boost the entrepreneurial economy, while reducing unemployment at the same time, is the New Enterprise Allowance scheme, which was introduced in 2011 to help the unemployed to start-up their own business (with a weekly allowance, small loan, and mentoring). Generally speaking, these measures are helpful for existing businesses to get access to term loans/overdraft facilities or for people to get started with a business at a very low investment scale. These schemes do not, however, solve the problems new entrepreneurs face in applying for a mortgage and that dissuade many from pursuing business ideas. Traditional funding schemes (e.g. the East Scotland Investment Fund) also ignore the heightened fears that business owners have in providing their homes as a security for loan. The problem of mortgage applications could be tackled by guarantee schemes. Existing enterprise guarantee schemes could be extended to individual mortgages.

This requires, in turn, that better connections between traditional business services (e.g. Business Gateway across Scotland) and mortgage lenders need to be developed. This brings regionally operating banks and building societies into play. Also, business services need to extend their advisory support into ‘service plus’ activities. A similar trend can be observed for housing associations. Many social housing providers are no longer limited to the management of their housing stock but have diversified into ‘housing plus’ activities such as the promotion of the employability of their tenants. Increasingly, their attention is turning to ways in which they can not only house younger households but help them accumulate savings within a well organised mid-market rental sector.

These changes require a cultural change in both housing and economic development policy and practice, especially at regional and local scales. Within the housing sector there needs to be a much more explicit consideration of how housing policy and provision impact on businesses and the economy. Remarkably, in England, the Homes and Communities Agency have been given a brief to foster pro-economy housing investments but yet they are excluded from the Local Economic Partnerships (LEPs) unfolding in England. The silo-based policy divide between housing and enterprise policy runs deep in England, from Whitehall to cities and counties. Change is needed, and in the devolved administrations too. Enterprise policy also has to embrace a more realistic, wider view of how households live, save and spend. An essential step into this direction would be for local development agencies such as the LEPs in England to consider the personal context of those who start and run a business. They need to make the connections to housing options, outcomes and mortgage finance. Similar shifts are needed in the different institutional landscapes of the devolved areas of the UK, which would involve Scottish Enterprise, Highland and Island Enterprise and Business Gateway in Scotland as key players of delivering business support.

Recent policy and research initiatives seek to better understand firm formation, business finance and survival. A thriving sector of small firms will be a key component of both cyclical recovery and long term growth. Understanding these processes, and removing the caveats that appear throughout this paper, requires multilevel and longitudinal research that follows nascent entrepreneurs and business owners over time, links firm data with micro data and includes control groups. Investigating in greater depth the mix of personal and business finance over the business cycle within the context of local and regional housing market conditions and changes would contribute to a deeper understanding of regional and local entrepreneurships as well as creating a more effective housing system for the UK.

Acknowledgement

This research was supported by an Early Career Grant to Darja Reuschke from the Regional Studies Association. We thank Bob Pannell of the Council of Mortgage Lenders, Andrew Gall of the Building Societies Association and Lorna O'Brien of the Financial Services Authority for analysing their mortgage data by employment status for this paper. We also thank all interview partners for providing useful information on enterprise and mortgage practices. We are also grateful to Colin Mason and two anonymous referees for useful comments and suggestions.

References

ACS Z. J. and ARMINGTON C. (2004) Employment Growth and Entrepreneurial Activity in Cities, Regional Studies 38, 911-27;

ANDERSSON M. and KOSTER S. (2011) Sources of persistence in regional start-up rates-evidence from Sweden, Journal of Economic Geography 11, 179-201;

ARMINGTON C. and ZOLTAN J. (2002) The Determinants of Regional Variation in New Firm Formation, Regional Studies 36, 33-45;

ASHCROFT B., LOVE J. H. and MALLOY E. (1991) New Firm Formation in the British Counties with Special Reference to Scotland, Regional Studies 25, 395-409;

ASHCROFT B., PLOTNIKOVE M. and RITCHIE D. (2007) New Firm Formation in British Counties: Comparing the 1990s with the 1980s, CPPR Working Paper No. 6, University of Strathclyde, Glasgow;

AUDRETSCH D. B., FALCK O., FELDMAN M. P. and HEBLICH S. (2012) Local Entrepreneurship in Context, Regional Studies 46, 379-389;

BANK OF ENGLAND (2004) Finance for Small Firms – An Eleventh Report. BoE: London.

BANK OF ENGLAND (2012): Trends in Lending April 2012. BoE: London.

BANK OF ENGLAND (2013): Trends in Lending July 2013. BoE: London.

BDRC CONTINENTAL (2011) SME Finance Monitor. To what extent have SMEs had issues accessing bank finance? London.

BDRC CONTINENTAL (2013): SME Finance Monitor Q4 2012: The year in review. London.

BENITO A. (2009) Who Withdraws Housing Equity and Why? Economica 76, 51-70;

BENITO A. and POWER J. (2004) Housing equity and consumption: insights from the Survey of English Housing, Bank of England Quarterly Bulletin, Autumn 2004, 302-308;

BERGER A. N. and UDELL G. F. (2003) Small Business and Debt Finance, in ACS Z. J. and AUDRETSCHD. B. (Eds) Handbook of Entrepreneurship Research, pp. 299-328, Kluwer.

BIS (Department for Business, Innovation & Skills) (2012a) Boosting Finance Options for Business, Business Finance and Tax team Department for Business, Innovation and Skills, London;

BIS (Department for Business, Innovation & Skills) (2012b) SME Access to External Finance, BIS Economics Paper No. 16, London;

BIS (Department for Business, Innovation & Skills) (2012c) The Impact of the Financial Crisis on Bank Lending to SMEs. Econometric Analysis from the UK Survey of SME Finance, Report prepared by S. Fraser, London;

BIS (Department for Business, Innovation & Skills) (2012d) Business Population Estimates for the UK and Regions 2012, Statistical Release 17th October 2012, BIS, London;

BLACK J., MEZA DE D. and JEFFREYS D. (1996) House Price, the Supply of Collateral and the Enterprise Economy, The Economic Journal 106, 60-75;

BÖHEIM R. and TAYLOR M.(1999) Residential mobility, housing tenure and the labour market in Britain, Institute for Economic and Social Research Working Paper 16/1999, Essex University, Colchester;

BÖNTE W., FALCK O. and HEBLICH S. (2009) The Impact of Regional Age Structure on Entrepreneurship, Economic Geography 85, 269-87;

CENTRE FOR CITIES (2013) Outlook for Cities 2013, Centre for Cities, London.

CHENG S. and LI H. (2011) Spatially Varying Relationships of New Firm Formation in the United States, Regional Studies 45, 773-789;

CHRISTIE J. (2012) When self-employment meant the end of my mortgage hopes, The Guardian 23 March;

CML (Council of Mortgage Lenders) (2005) News & views – The Newsletter from the Council of Mortgage Lenders 22, 22th November 2005;

CML (Council of Mortgage Lenders) (2011) First-time buyers and affordability: a fresh perspective, News & views 24 (http://www.cml.org.uk/cml/publications/newsandviews/104/390);

CONTINENTAL RESEARCH (2008) Survey of SME Finances 2007, Technical Report, UK Data Archive Study Number 6049, Essex University, Colchester [data provider];

COWLING M. and MITCHELL P. (1997) The Evolution of U.K. Self-Employment: A Study of Government Policy and the Role of the Macroeconomy, The Manchester School LXV 4, 427-442;

DAVEY M. and EARLEY F. (2001) Mortgage Equity Withdrawal, Council of Mortgage Lenders, London;

DISNEY R. and GATHERGOOD J. (2009) Housing wealth, liquidity constraints and self-employment, Labour Economics 16, 79-88;

DUCA J. V., MUELLBAUER J. and MURPHY A. (2010) Housing markets and the financial crisis of 2007-2009: Lessons for the future, Journal of Financial Stability 6, 203-217;

FAIRLIE R. W. and KRASHINSKY H. A. (2012) Liquidity constraints, household wealth, and entrepreneurship revisited, Review of Income and Wealth 58(2), 279-306;

FIELDING A. J. (1992) Migration and Social Mobility: South East England as an Escalator Region, Regional Studies 26, 1-15;

FLORIDA R. (2002) The Rise of the Creative Class, Basic Books, New York.

FRASER S. A. (2005) UK Survey of SEM Finances, Survey Instrument, Warwick: Centre for Small and Medium-Sized Enterprises, Warwick Business School;

FRASER S. A. (2009) UK Survey of SEM Finance 2008. User Guide, Centre for Small and Medium-Sized Enterprises, Warwick Business School, Warwick;

FRITSCH M. and FALCK O. (2007) New Business Formation by Industry over Space and Time: A Multidimensional Analysis, Regional Studies 41, 157-172;

FSA (Financial Services Authority) (2009) Mortgage Market Review DP09/3, FSA, London;

FSA (Financial Services Authority) (2011) Mortgage Market Review. Consultation Paper CP11/31, FSA, London;

FSA (Financial Services Authority) (2012) Mortgage Market Review Data Pack. Supplement to PS12/16, FSA, London;

FSB (Federation of Small Businesses) (2008) Putting the economy back on track: Business Support and Finance, FSB, London;

FSB (Federation of Small Businesses) (2012) The FSB 'Voice of Small Business' Member Survey, FSB, London;

HARRISON R. T., COOPER S. Y. and MASON, C. M. (2004) Entrepreneurial Activity and the Dynamics of Technology-based Cluster Development: The Case of Ottawa, Urban Studies 41, 1045-1070;

HEATH S. (2008) Housing choices and issues for young people in the UK, Joseph Rowntree Foundation, York;

HENLEY A. (2004) Self-Employment Status: The Role of State Dependence and Initial Circumstances, Small Business Economics 22, 67-82;

HENLEY A. (2005) Job Creation by the Self-employed: The Roles of Entrepreneurial and Financial Capital, Small Business Economics 25, 175-196;

HESELTINE M (2012) No Stone Unturned: in pursuit of Growth, Department for Business, Innovation and Skills, London;

HM TREASURY (2013) The UK Budget 2013. HM Treasury, London;

HM TREASURY and BIS (2011) The Plan to Growth. HM Treasury and BIS, London;

HM TREASURY and BIS (2012) Plan for Growth: Implementation Update (March 2012), HM Treasury and BIS, London;

HURST E. and LUSARDI A. (2004) Liquidity Constraints, Household Wealth, and Entrepreneurship, Journal of Political Economy 112(2), 319-347;

IMF (2008) World Economic Outlook (April). Housing and the Business Cycle, IMF, Washington;

KEEBLE D. and TYLER P. (1995) Enterprising Behaviour and the Urban-Rural Shift, Urban Studies 32, 975-997;

KEEBLE D. and WALKER S. (1994) New Firm, Small Firms and Dead Firms: Spatial Patterns and Determinants in the UK, Regional Studies 28, 411-427;

LEVIE J. (2007) Immigration, In-Migration, Ethnicity and Entrepreneurship in the United Kingdom, Small Business Economics 28, 143-169;

MACLENNAN D. and PARR J. B. (Eds) (1979) Regional Policy: Past Experiences and New Directions. Martin Robertson, Oxford.

MACLENNAN D. and TU Y. (1998) Changing Housing Wealth in the UK, 1985-1993: Household Patterns and Consequences, Scottish Journal of Political Economy 45(4), 447-65;

MACLENNAN, D. (1997) The UK Housing Market: Up, Down and Where Next. in WILLIAMS P. (Ed) Sustainable Housing Policies, pp. 22-53. Chapman Press, London.

MASON C. and PIERRAKIS Y. (2011) Venture Capital, the Regions and Public Policy: The United Kingdom since the Post-2000 Technology Crash, Regional Studies, DOI:10.1080/0034304.2011.588203;

MEEN G. (2011) The economic consequences of mortgage debt, Journal of Housing and the Built Environment 26, 263-276;

MEEN G. (2012) Housing and the Economy, in CLAPHAM D. F., CLARK W. A. V. and GIBB K. (Eds) The SAGE Handbook of Housing Studies, pp. 251-273, SAGE, London.

MUELLBAUER J. and WILLIAMS D. M. (2011) Credit Conditions and the Real Economy: the Elephant in the Room, Centre for Economic Policy Research Discussion Paper 8386, London;

MUELLER P., VAN STEL A. and STOREY D. J. (2008) The effects of new firm formation on regional development over time: The case of Great Britain, Small Business Economics 30, 59-71;

OFFICE FOR BUDGET RESPONSIBILITY (2012) Fiscal sustainability report July 2012, Her Majesty's Stationery Office, London;

ONS (Office for National Statistics) (2013) Self-employed up 367,000 in four years, mostly since 2011, ONS, London;

PARKER S. C. (2004) The Economics of Self-employment and Entrepreneurship, Cambridge, Cambridge University Press.

PARKINSON S., SEARLE B. A., SMITH S. J., STOAKES A. and WOOD G. (2009) Mortgage Equity Withdrawal in Australia and Britain: Towards a Wealth-fare State? European Journal of Housing Policy 9, 365-389;

PAWSON H. and WILCOX S. (2013) UK Housing Review 2013, Chartered Institute of Housing, Coventry.

POWLEY T. (2011) Self-employed face mortgage hurdles, Financial Times 21st October;

PRIEMUS H. and MACLENNAN D. (2011) The credit crunch, interrelations between (in)stability of housing markets and the general economy: setting the scene, Journal of Housing and the Built Environment 26, 237-243;

REUSCHKE D. (2013) Self-employment, Internal Migration and Place Embeddedness, Population, Space and Place, DOI: 10.1002/psp.1759;

REUSCHKE D. and VAN HAM M. (2013) Testing the 'residential rootedness'–hypothesis of self-employment for Germany and the UK, Environment and Planning A 45, 1219-1239;

ROBSON M. T. (1996) Housing Wealth, Business Creation and Dissolution, in the U.K. Regions, Small Business Economics 8, 39-48;

ROBSON M. T. (1998) Self-employment in the UK regions, Applied Economics 30, 313-322;

SCANLON K. and WHITEHEAD C. (2004) International trends in housing tenure and mortgage finance, The Council of Mortgage Lenders, London;

SCANLON K. and WHITEHEAD C. (2011) The UK mortgage market: responding to volatility, Journal of Housing and the Built Environment 26, 277-293;

SCANLON K., LUNDE J. and WHITEHEAD C. (2011) Responding to the Housing and Financial Crisis: Mortgage Lending, Mortgage Products and Government Policies, International Journal of Housing Policy 11, 23-49;

SHAW E. (2010) Self-employed borrowers face tough times, The Independent 29th August 2010;

SMITH S. J. and SEARLE B. A. (2008) Dematerilising Money? Observations on the Flow of Wealth from Housing to Other Things, Housing Studies 23, 21-43;

SMITH S. J. and SEARLE B. A. (2010) The Blackwell Companion to the Economics of Housing, The Housing Wealth of Nations, Blackwell, Oxford.

STEPHENS M. (2007) Mortgage Market Deregulation and its Consequences, Housing Studies 22, 201-220;

STEPHENS M. and QUILGARS D. (2008) Sub-prime Mortgage Lending in the UK, International Journal of Housing Policy 8, 197-215;

SUNLEY P., KLAGGE B., BERNDT C. and MARTIN R. (2005) Venture Capital Programmes in the UK and Germany: In What Sense Regional Policies? Regional Studies 39, 255-273;

TAYLOR M. P. (1996) Earnings, Independence or Unemployment: Why become self-employed? Oxford Bulletin of Economics and Statistics 58, 253-265;

TAYLOR, M. (2008) Living working countryside. The Taylor Review of Rural Economy and Affordable Housing. Department for Communities and Local Government: London.

THE GUARDIAN (2011) Will self-employment limit my mortgage changes? 14th December 2012;

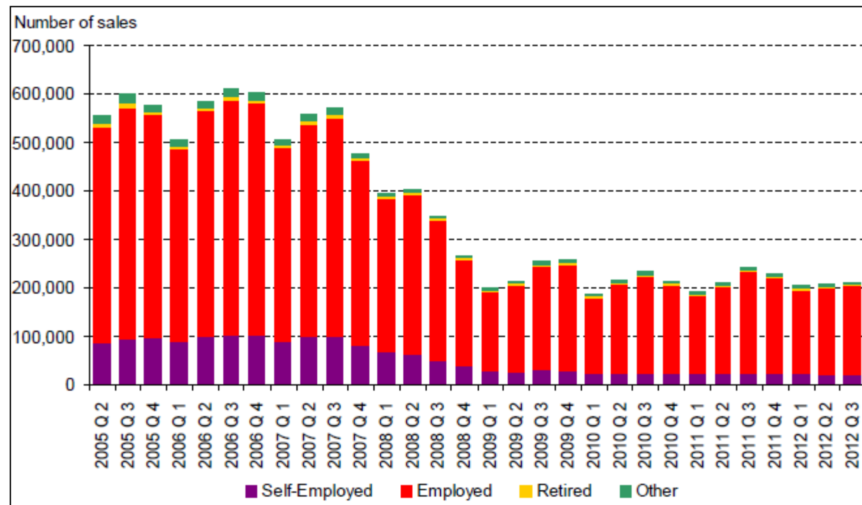
THE GUARDIAN (2012) Will being self-employed impact on our ability to get a mortgage? 8th February 2012;

THE SCOTTISH GOVERNMENT (2011) The Government Economic Strategy, The Scottish Government, Edinburgh;

WALDRON M. and ZAMPOLLI F. (2010) The Rise in Home Prices and Household Debt in the UK: Potential Causes and Implications, in SMITH S. J. and SEARLEB. A. (Eds) The Blackwell Companion to the Economics of Housing. The Housing Wealth of Nations, pp. 105-125, Blackwell, Oxford.

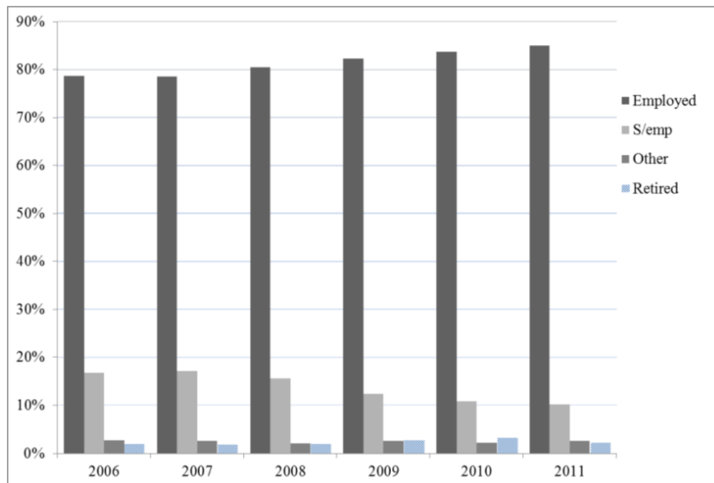
ZOOK M A, (2005) The Geography of the Internet industry: venture capital, dot-coms, and local knowledge, Blackwell, Malden, Oxford, Victoria.

Figure 1. Regulated mortgage sales in quarter, by employment status of main borrower



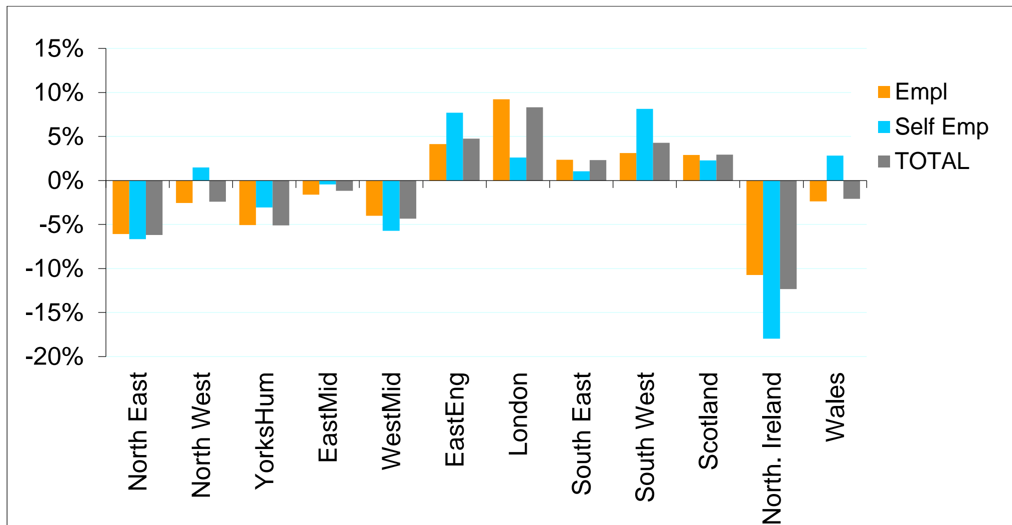
Source: FSA Product Sales Data (PSD)

Figure 2. Regulated mortgage lending by year by main borrower employment status, percentage by number of loans



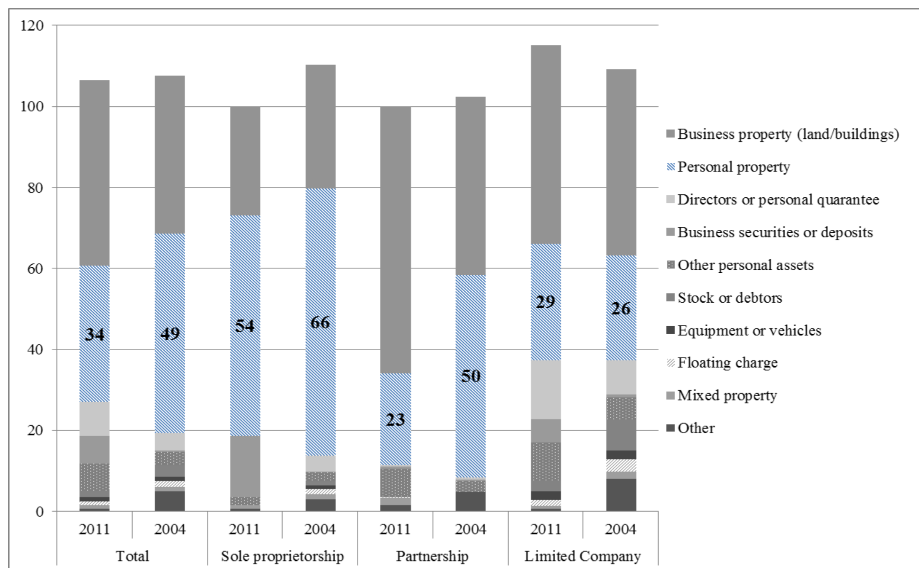
Source: Regulated Mortgage Survey of the Council of Mortgage Lenders
Authors' compilation

Figure 3. Difference in change in lending volume across regions against UK total 2006 to 2011, Building Societies



Notes: ONS Government Office Regions
Source: Building Societies Association

Figure 4. All sources of securing a commercial loan in 2011 and 2004 by legal status, in per cent



Source: Weighted data, SME Finance Monitor 2011 and UKSSMEF 2004. Percentages displayed for businesses with up to 250 employees, which applied successfully for a loan over the past 12 months (SME Finance Monitor) or currently use a loan (UKSSMEF) respectively.
Authors' calculations

Table 1. Annual percentage change of number of loans by main borrower employment status, CML and BSA

Annual change	Total lending		Employed		Self-employed	
	CML	BSA	CML	BSA	CML	BSA
2007	-8.3	-8.1	-8.5	-8.8	-6.5	-12.4
2008	-33.1	-23.8	-31.4	-24.0	-38.7	-23.1
2009	-33.7	-48.6	-32.1	-49.8	-47.6	-49.2
2010	-6.9	2.3	-5.3	3.0	-18.3	-5.3
2011	2.5	20.6	4.1	20.7	-3.7	16.0
Total 2006-11	-61.2	-55.7	-58.0	-56.7	-76.4	-62.4

Source: Regulated Mortgage Survey of the Council of Mortgage Lenders and Building Societies Association
Authors' compilation

Table 2. Business finance and housing assets in the UK, in per cent

	2004	2007	2008	2011
Start-up: all sources of finance				
Personal savings	69.4	75.4	76.8	81.0
Mortgage on home	6.5	4.3	3.1	2.0
Equity from house sale	1.3	-	-	-
Start-up: main source of finance				
Personal savings	65.5	70.9	69.8	74.6
Mortgage on home	3.4	2.8	2.2	1.8
Commercial loan				
Security was required[1]	38.3	56.0	39.6	28.0
Security: personal property[2]	49.2	-	30.5	33.6
Overdraft				
Security was required[1]	25.8	20.5	19.5	26.2
Security: personal property[2]	-	-	-	36.9
Value of personal property as security[3,4]				
<£50,000	5.3	-	22.4	-
£50,000 - <£100,000	12.9	-	13.4	-
£100,000 - <£250,000	56.3	-	-	-
£250,000 - <£500,000	14.5	-	-	-
£100,000 - <£499,999	-	-	42.0	-
£500,000+	11.1	-	11.1	-
N businesses	2,500	2,514	2,500	10,118
N start-ups	147	275	160	1,013
N commercial loan/mortgage	844	628	671	571
N security for commercial loan/mortgage	438	395	358	282
N security for overdraft required				699

Source: Weighted data, UKSSMEF 2004, 2007 and 2008; SME Finance Monitor 2011

[1] The UKSSMEF 2004, 2007 and 2008 questionnaires ask for the single largest business loan/overdraft facilities currently used while the SME Finance Monitor asks for new bank loans/overdraft facilities over the past 12 months.

[2] Businesses that were required to provide security.

[3] Businesses that provided personal property as security.

[4] The response items were changed 2008 to 2004.

Authors' calculations

Table 3. Re-mortgaging for business purposes

	2005/06	2010/11
All re-mortgager households	3.5% (147,000)	3.1% (109,000)
Re-mortgager households with 1 person running a business	10.9%	7.0%

Source: Family Resources Survey (FRS), grossing factor
Authors' compilation

---

[i] Some commentators have raised concerns that the new measures to boost housing in the 2013 budget will generate another house price bubble in London and the rest of the South East.

[ii]For example, "*Will self-employment limit my mortgage changes?"* in *The Guardian* on14th December 2011 or *"Will being self-employed impact on our ability to get a mortgage?"* in *The Guardian* on 8th February 2012.

[iii] There is also a debate in economics about the presence of financial constraints for becoming an entrepreneur (see for example Hurst and Lusardi, 2004; Fairlie and Krashinsky, 2012).

[iv]The UKSSMEF is sponsored by the Economic and Social Research Council and Barclays Bank (http://dx.doi.org/10.5255/UKDA-SN-6314-1 for the 2008 survey, http://dx.doi.org/10.5255/UKDA-SN-6049-1 for 2007 and http://dx.doi.org/10.5255/UKDA-SN-5326-1 for 2004). The SME Finance Monitor is sponsored by the British Bankers' Association and the Business Finance Taskforce and administrated by BDRC Continental (http://dx.doi.org/ 10.5255/UKDA-SN-6888-4).

[v]No public use file is available for the 2009 survey (as at August 2013).

[vi]Weights are provided to resemble the actual SME composition in terms of business size (number of employees), sector and region. The weighing also includes start-ups in the SME Finance Monitor (at 20%) but not in the UKSSMEF. These differing weighting measures applied in the UKSSMEF and the SME Finance Monitor might bias the reported weighted results (for more information on sampling and weighting see FRASER (2005, 2009) for UKSSMEF 2004 and 2008, CONTINENTAL

RESEARCH (2008) for UKSSMEF 2007 and BDRC CONTINENTAL (2011) for SME Finance Monitor 2011).

[vii] On 1 April 2013 The Financial Services Authority (FSA) was replaced by two new regulatory bodies; the Financial Conduct Authority (FCA) and a subsidiary of the Bank of England, the Prudential Regulation Authority (PRA).

[viii] With the rapid growth in sub- and near-prime lending in the UK until 2007, however, self-certification mortgages were also increasingly provided to other borrowers.

[ix]The CML members cover ca. 95% of the UK residential mortgage market according to the CML.

[x] No regional data are available for the Regulated Mortgage Survey of the CML or FSA Product Sales Data (PSD).

[xi] While mortgages on homes were the fourth most important funding source prior to the mortgage crisis, other internal sources (gifts from friends and family, credit card) were more frequently used by start-ups in 2011-09 (not shown in Table 2 but data can be obtained from the authors on request).

[xii] It should also be recognised that changes in housing wealth might affect business behaviour without entrepreneurs increasing or lowering mortgage borrowing. Housing wealth might simply make investors feel more or less secure or confident or changes in housing wealth could induce more or less saving and or borrowing through other financial instruments. Available data only allow a broad brush picture to be painted.

[xiii]Note that the SME Finance Monitor 2011 asks for securities of loans businesses successfully applied for over the past 12 months while the UKSSMEF questionnaire asks for the largest outstanding loan. The surprising drop in required securities for a commercial loan in 2011 to 2008 might be (partially) due to this measurement difference. However, Fraser (in BIS, 2012c) found no significant differences in incidences of loan collateralisation before and after the financial crisis.

[xiv]The value of housing assets of the business owner/director is not given.

[xv] In the case of mortgage withdrawal through re-mortgaging, the existing mortgage is refinanced either with the same or a different lender and at the same time debt is increased. In contrast, a second mortgage is a new, additional loan taken out with another lender for the same property. A second mortgage is subordinate to a first mortgage and is usually charged with higher interest rates (see Davey and Earley, 2001). The number of households which took out a second mortgage in the FRS is small which is why here only re-mortgaging is reported.

[xvi]The member survey of the Federation of Small Businesses (FSB) reports similar trends. While 6% of the sampled businesses used a second mortgage as a source of business finance in 2008, this percentage share had fallen to 2% by 2012 (FSB, 2008, 2012).

[xvii] In the UK Budget Statement for 2013 the Chancellor recommitted the government to promoting home ownership for young households, largely through providing loan guarantees for higher loan-to-value mortgages and through taking a 'silent' mortgage on up to 20 per cent of the value of a new home. The potential implications for small business owners were not given any explicit attention (HM Treasury, 2013).

[xviii] In the SME Finance Monitor 2011 just above half of all new businesses established in 2011-09 used less than £5,000 to start-up their businesses (own calculation).