NBP Narodowy Bank Polski

Senior loan officer opinion survey

on bank lending practices and credit conditions

1st quarter 2015

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Financial Stability Department
Warsaw, January 2015

Summary of the survey results

Corporate loans

Lending policy: easing of lending standards and some lending terms (spread, collateral requirements and maximum loan size).

Demand for loans: no major changes.

Expectations for the first quarter of 2015: further easing of lending policy – to a larger extent for small and medium-sized enterprises (SMEs), a rise in demand, most notably in the SME segment.

Housing loans

Lending policy: no major changes in lending standards and a slight reduction of spread and non-interest loan costs.

Demand for loans: in net terms, no major changes reported in the banking sector (discrepant responses of individual banks).

Expectations for the first quarter of 2015: significant tightening of lending policy and a fall in demand.

Consumer loans

Lending policy: easing of lending standards; changes in terms on loans included, inter alia, easing of collateral requirements, substantial lowering of spreads and a considerable increase in non-interest loan costs.

Demand for loans: a slight rise.

Expectations for the first quarter of 2015: substantial easing of lending policy and a significant rise in demand.

Easing of lending policy towards enterprises was largely due to an improvement in banks' expectations of future developments in the economy and in the condition of major borrowers. As in previous quarters, competitive pressure, mostly from other banks, contributed to lending policy easing.

For the first time since the second quarter of 2012, the survey-responding banks reduced their spreads, in net terms, on housing loans. The lending policy-easing banks explained it mostly with changes in competitive pressure, and the lending policy-tightening banks – with the implementation of the provisions of Recommendation S.

The main factor influencing the easing of lending standards in the consumer loans segment by the survey-responding banks were the NBP monetary policy decisions and, as in previous periods, a change in competitive pressure. The easing of terms on loans mainly concerned the reduction of spreads, easing of collateral requirements and extension of maximum loan maturity. A rise in consumer loan demand stemmed from increased financing needs for durable goods.

Introduction

The objective of the survey is to define the direction of changes in the lending policy, i.e. the standards and terms of granting loans as well as changes in demand for loans in the Polish banking system. The standards of granting loans are understood as the minimum standards of creditworthiness, set by banks, that the borrower is required to meet to obtain a loan. The terms of granting loans are the features of the loan agreement agreed between the bank and the borrower, including spread, non-interest loan costs, maximum loan size, collateral requirements and maximum loan maturity.

The survey is addressed to the chairpersons of banks' credit committees. Banks' responses may not take account of the opinions of banks' divisions other than the credit divisions. The survey was conducted at the turn of December 2014 and January 2015 among 26 banks with a total share of 85.8% in claims on enterprises and households in the banking sector's portfolio.

The aggregation of the data behind the results consisted in the calculation of weighted percentages of responses and the net percentage, i.e. the difference between the structures presenting opposite trends. In line with the adopted methodology, words describing quantities (majority, half, considerable, significant, percentage of the banks, etc.) refer to weighted percentages and not to the number of banks. Thus, the phrase "the majority of the banks" should be understood as "the asset-weighted majority of the banks". Details of the calculation methodology are presented in Appendix 1.

Unless otherwise indicated, the number of the banks cited in the text reporting a given change in their lending policies or in demand for loans means the net percentage of the banks.

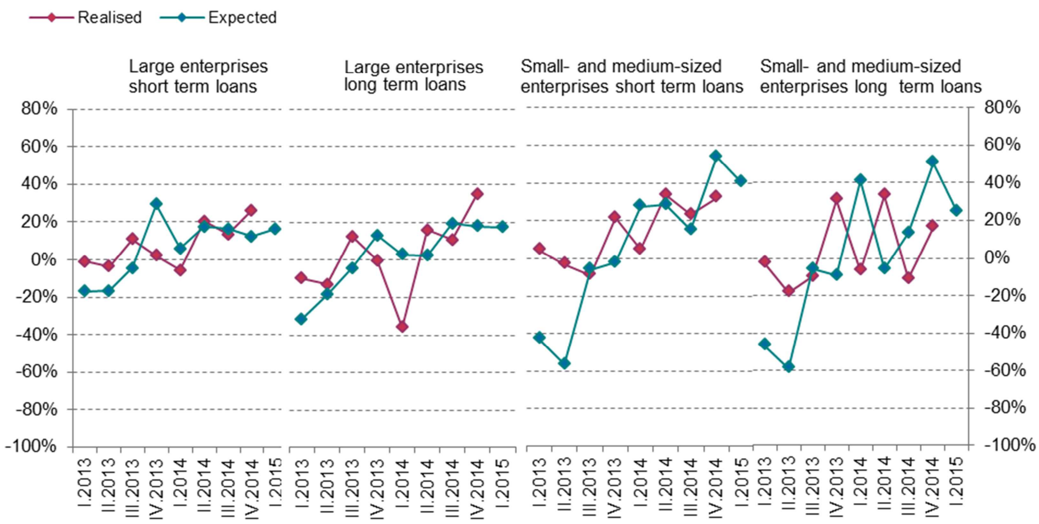
The next section presents tendencies regarding the banks' lending policy and changes in demand in the fourth quarter of 2014 as well as banks' expectations for the first quarter of 2015.

Corporate loans

The banks eased the standards of granting corporate loans in the fourth quarter of 2014 (see Figure 1). In net terms, the largest number of banks reported easing of lending policy for long-term loans to large enterprises (net percentage of around 35%) and short-term loans to SMEs (net percentage of around 32%). The standards of granting long-term loans to SMEs were eased to the smallest extent (net percentage of around 17%).

In the previous edition of the survey, the banks expected easing of the standards of granting loans to large enterprises to a smaller extent than it actually happened in the fourth quarter of 2014. In the case of loans to SMEs, the banks announced larger scale easing of lending standards.

Figure 1. Corporate credit standards

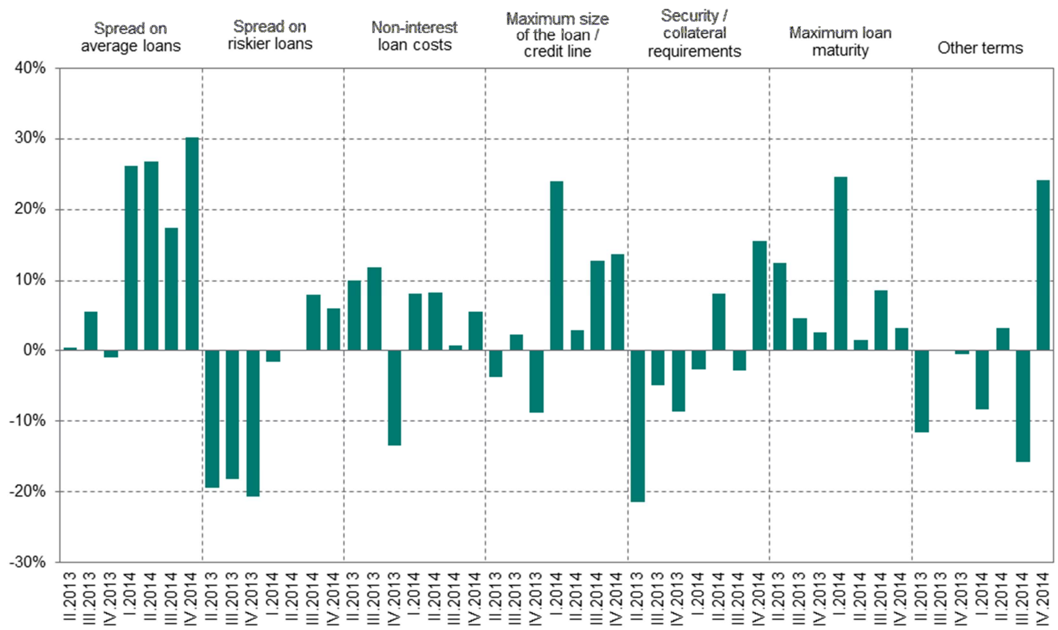


Note: Figures included in this study present the net percentage. A positive value of net percentage should be interpreted as an easing of lending policy or growth in loan demand, while a negative value of net percentage – as lending policy tightening or a drop in loan demand. Details concerning the calculation methodology are presented in Appendix 1.

The survey-responding banks slightly eased the terms on corporate loans (see Figure 2). The largest percentage of the banks reported a reduction of spreads for the fourth quarter in a row (net percentage of around 30%). At the same time, some banks increased the maximum loan size available for enterprises (net percentage of around 14%) or reduced their collateral requirements (net percentage of around 16%).

In net terms, the banks also reported easing of the terms on corporate loans not accounted for in the survey (net percentage of around 24%). The banks pointed, inter alia, to the fact that they had accepted slightly weaker collateral than before in the case of enterprises in a good financial condition with good prospects for the future as well as extended loans to enterprises with a shorter-than-required in previous periods minimum business track record. [1]

Figure 2. Terms on corporate loans

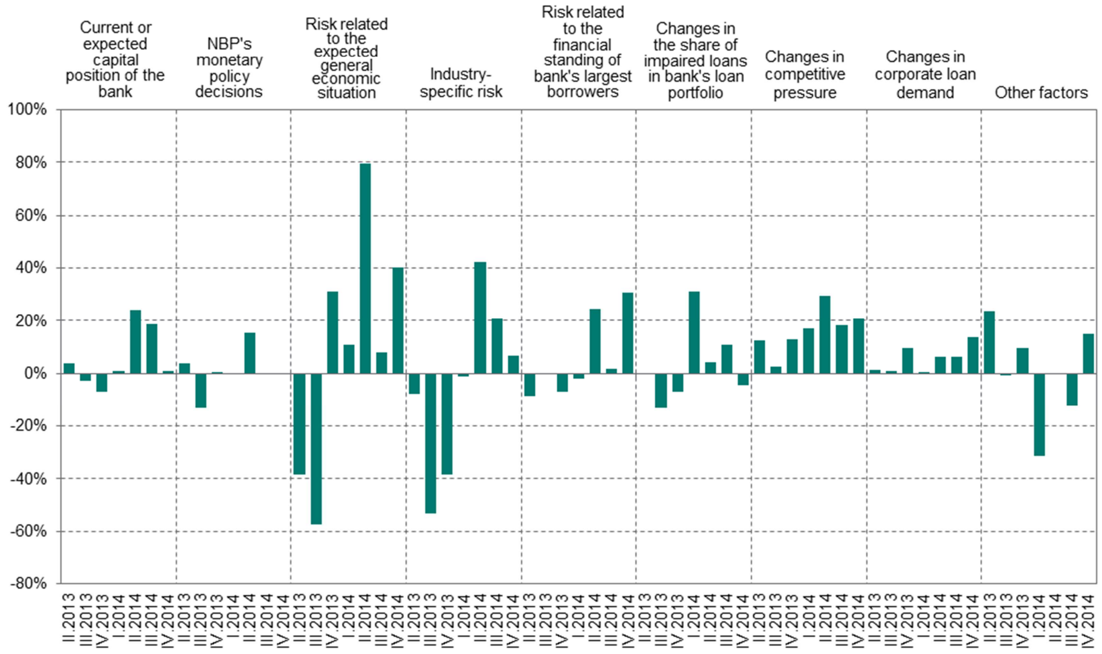


The banks, which eased their lending policy, explained the move primarily with lower risk associated with future developments in the economy and a better condition of major borrowers (net percentage of around 40% and 31%, respectively; see Figure 3). As in previous quarters, the banks also cited growth in competitive pressure (net percentage of around 21%), mainly from other banks (net percentage of around 61%).

The majority of *all* banks did not experience changes in demand for corporate loans in the fourth quarter of 2014 (see Figure 4). In the previous survey, the banks had expected demand to grow in all corporate loan categories.

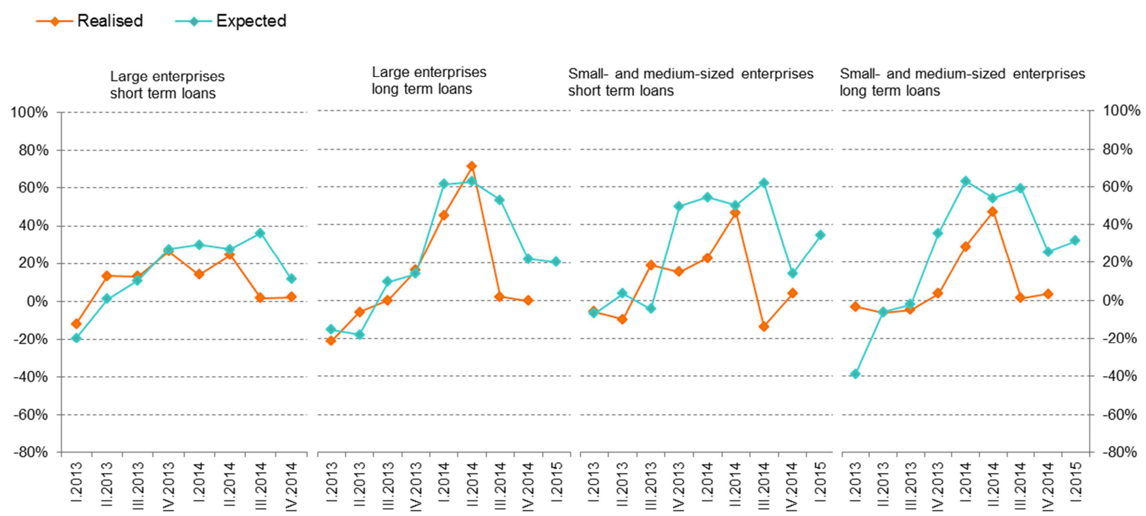
[1] According to the definition used in this survey, some of the examples of lending policy tightening cited by the banks relate to the standards of granting loans. Due to their incorrect classification by the banks, they are presented under the category “Other terms” in Figure 2.

Figure 3. Factors influencing changes in lending policy



Few banks, which experienced a rise in demand for corporate loan, explained it with higher financing needs for inventories and working capital and for fixed investments (net percentage of around 100% and 43%, respectively; see Figure 5).

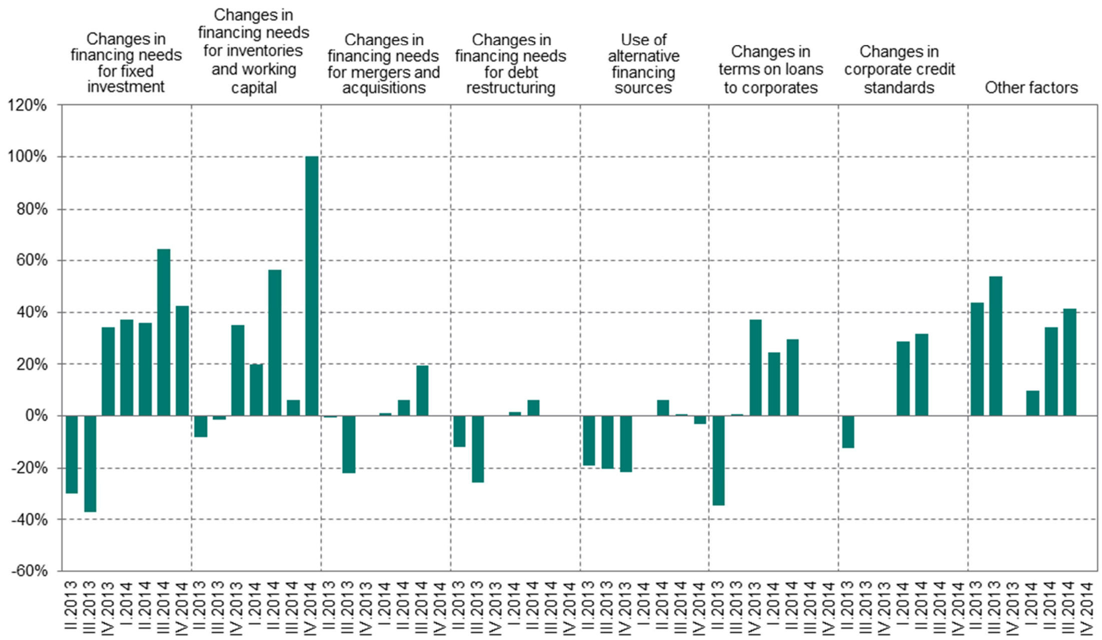
Figure 4. Corporate loan demand



The banks expect further lending policy easing towards enterprises in the first quarter of 2015 (see Figure 1). According to the banks, policy easing will, to a larger extent, concern SMEs – in the case of short-term loans, net percentage was around 40%, and in the case of long-term loans around 25%. The banks reported smaller-scale lending policy easing in the segment of loans to large enterprises. In the case of short-term and long-term loans, net percentage amounted to 16% and 17%, respectively.

The survey-responding banks expect demand for corporate loans to rise in the first quarter of 2015 (see Figure 4). This response was given by approximately 20% of the banks in the large enterprises sector (short-term and long-term loans), and around 35% of the banks in the SME sector in the case of short-term loans and 31% of the banks in the case of long-term loans.

Figure 5. Factors influencing changes in corporate loan demand

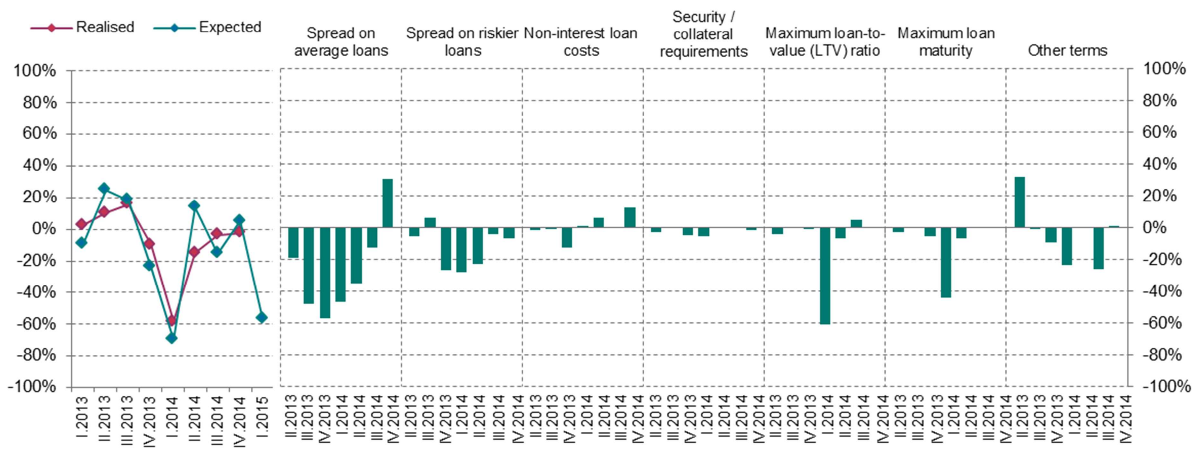


Loans to households

Housing loans

In net terms, the banks did not substantially change the standards of granting housing loans in the fourth quarter of 2014 (net percentage of around -2%, see Figure 6). Individual banks said that they would both ease and tighten lending policy slightly. In the previous issue of the survey, the banks had expected to slightly ease their lending policy (net percentage of around 5%).

Figure 6. Standards and terms on housing loans

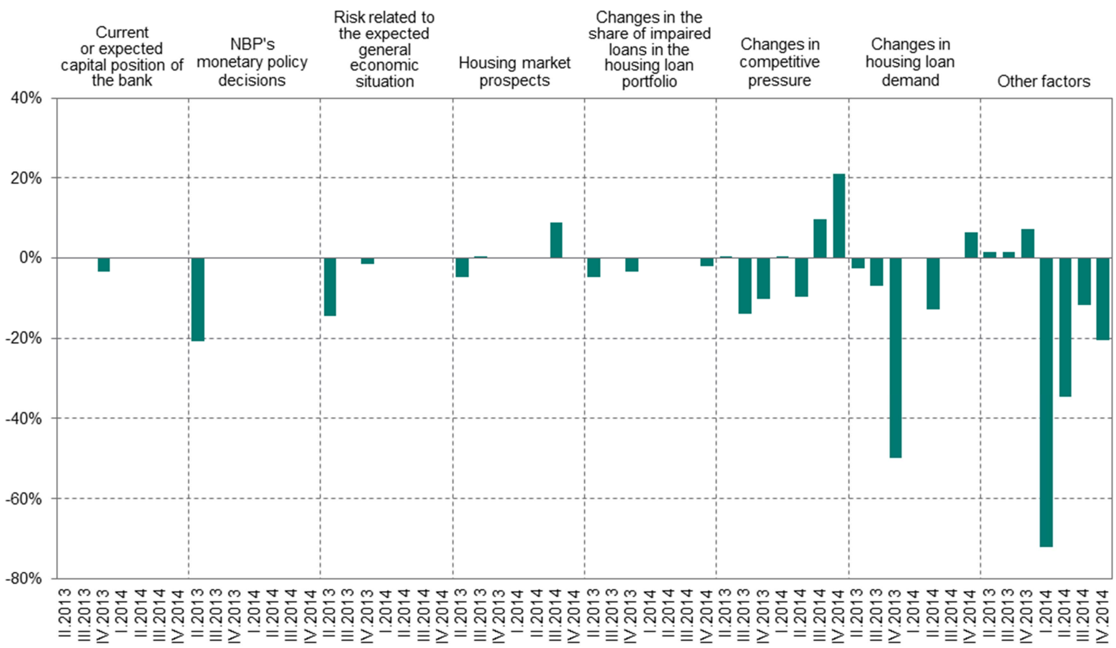


Terms on housing loans, excluding spreads, also did not change. Spreads were reduced (net percentage of around 31%), however the responses were discrepant – around 8% of *all* banks said that they would increase their spreads slightly. In net terms, the banks decreased non-interest loan costs slightly (net percentage of around 13%).

The banks whose lending policy was eased explained the move primarily by changes in competitive pressure (net percentage of around 21%, see Figure 7), mainly from other banks. Individual banks, which tightened their lending policy, listed the factors unaccounted for in the survey (net percentage of around -21%), i.e. implementation of the provisions of Recommendation S and clarification of the rules of real estate value calculation. The banks' responses show that the remaining factors had no substantial impact on lending policy in the housing loans segment.

The demand for housing loans did not change significantly in the fourth quarter of 2014 (net percentage of around 5%, see Figure 8), although in the previous issue of the survey the banks had expected the demand to grow substantially due to the last quarter of application of a high LtV limit, i.e. 95%[2] (net percentage of around 69%). However, the responses were discrepant – the growth in demand was felt by around 19% of *all* banks, and the fall in demand – by around 15% of *all* banks.

Figure 7. Factors influencing changes in lending policy – housing loans



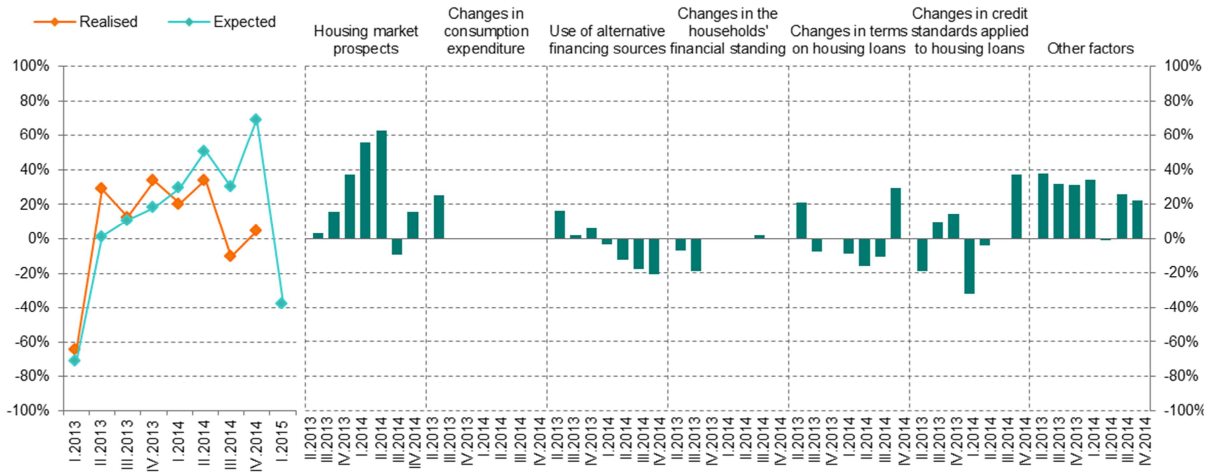
The banks, which felt a rise in demand for housing loans, named the changes in the terms and standards of granting housing loans as the main reasons for the growth (net percentage of around 30% and 37%, respectively). The banks also indicated other factors not accounted for in the survey (net percentage of around 22%), including the implementation of the provisions of Recommendation S, and housing market forecasts (net percentage of around 16%).

According to the banks hit by a falling demand for housing loans, the lower demand was primarily driven by the use of alternative funding sources by clients. In net terms, such a response was provided by around 21% of the banks that pointed mainly to the use of loans from other banks as the reason for the fall.

In net terms, the banks say that they will tighten lending standards significantly in the segment of housing loans in the first quarter of 2015 (net percentage of around -57%, see Figure 6) **and expect the demand for such loans to fall** (net percentage of around 38%, see Figure 8). The banks' announcements may be connected with the entry into force in January 2015 of a new lower LtV supervisory limit for housing loans, i.e. 90%.

[2] See Recommendation S *on good practices with regard to management of credit exposures that finance property and are mortgage-secured,* KNF, June 2013, http://www.knf.gov.pl/Images/Rekomendacja_S_18_06_2013._tcm75-34880.pdf.

Figure 8. Demand for housing loans and factors influencing its changes



Consumer loans

In net terms, the banks eased the terms on granting consumer loans in the last quarter of 2014 (net percentage of around 18%, see Figure 9), which was in line with their expectations from the previous issue of the survey.

The easing of lending terms concerned mainly spreads on loans and spreads on riskier loans (net percentage of around 70% and 44%, respectively). The banks also eased their collateral requirements (net percentage of around 23%), extended maximum loan maturity (net percentage of around 16%) and increased maximum loan size (net percentage of around 10%). Lending terms not accounted for in the survey also contributed to easing of lending terms. Such a response was given by around 8% of the banks which indicated, inter alia, changes in the borrower's income statement, an increase in the loan value for selected rating groups or changes in the rules of granting loans to persons with incomes in riskier industries. Moreover, the banks tightened – in net terms – lending terms by raising non-interest loan costs (net percentage of around 41%), with individual banks qualifying the extent of the phenomenon as considerable.[3]

According to the survey-responding banks, the NBP monetary policy decisions was the main factor that affected lending policy easing (see Figure 10). In net terms, such a response was provided by around 56% of the banks, with around 54% of *all* banks qualifying the impact as substantial. The changes in competitive pressure was another factor contributing to lending policy easing in the fourth quarter of 2014. Such a response was provided by around 26% of the survey-responding banks, of which the majority pointed to

[3] The banks have a possibility of grading changes in the standards (terms) of granting loans. In this survey, the banks choose among the following options: standards (terms) were considerably tightened, standards (terms) were somewhat tightened, standards (terms) remained unchanged, standards (terms) were somewhat eased, standards (terms) were considerably eased.

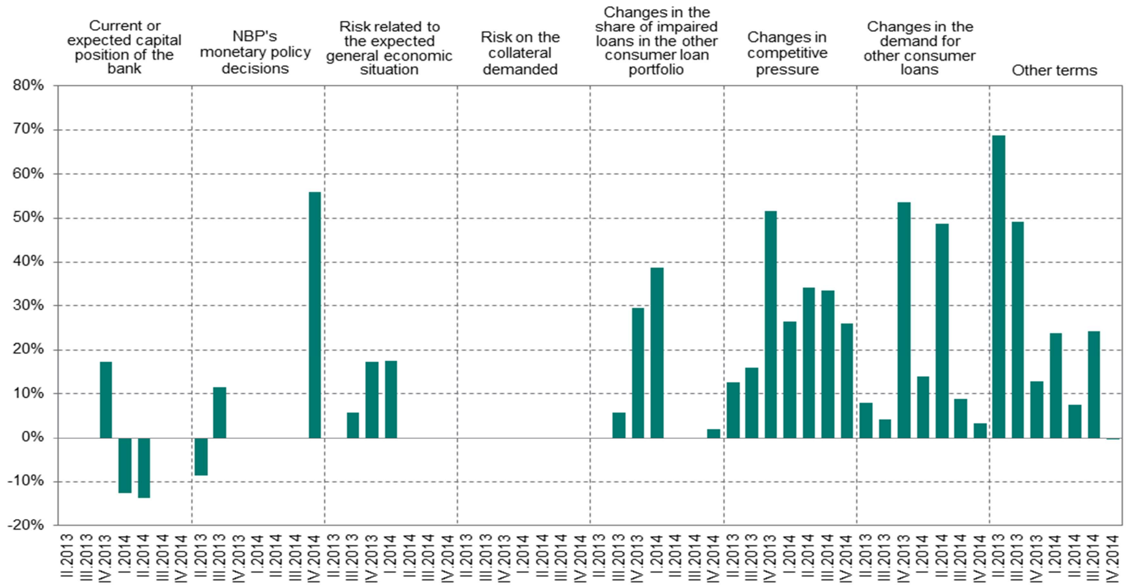
competition of other banks. In the banks' view, the remaining factors did not have an influence on lending policy in this segment.

Figure 9. Standards and terms on consumer loans

The survey-participating banks experienced a slight rise in demand for consumer loans in the fourth quarter of 2014 (see Figure 11). In net terms, such a response was given by 15% of the banks. In the previous issue of the survey, the banks had expected a larger scale increase in consumer loan demand.

According to the banks, demand growth was mainly fuelled by higher financing needs for durable goods (net percentage of around 48%). Compared with the previous quarter, there was an increase in the percentage of the banks, which attributed the higher demand to other factors unaccounted for in the survey (net percentage of around 40%), of which around 22% of *all* banks considered the impact as substantial. The survey-responding banks said that these factors included a cut in interest rates by the Monetary Policy Council and the sale of consumer loans via alternative distribution channels. According to the banks, the demand was also supported by the improved economic situation of households (net percentage of around 22%) and the relaxation of the terms and standards of granting consumer loans (net percentage of around 14% and 24%, respectively).

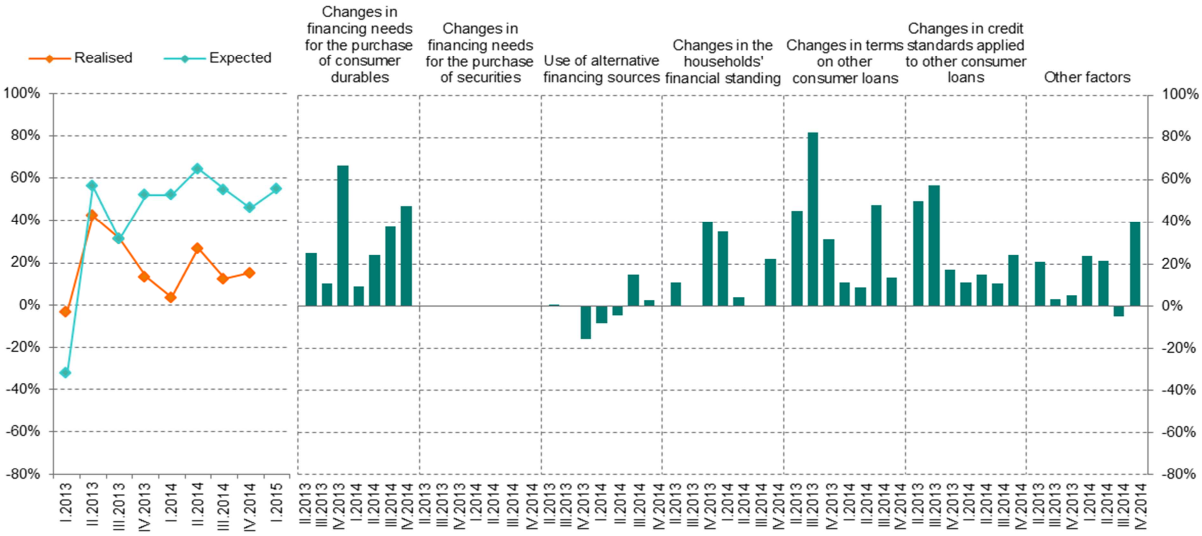
Figure 10. Factors influencing changes in lending policy – consumer loans



The survey-responding banks expect to substantially ease their lending policy in the segment of consumer loans in the first quarter of 2015 (net percentage of around 41%, see Figure 9).

Expectations regarding higher demand for consumer loans in the first quarter of 2015 were voiced by approximately 55% of the banks (see Figure 11); however, the banks' expectations regarding demand growth in this credit category differ substantially from the observed changes in demand.

Figure 11. Demand for consumer loans and factors influencing its changes



Appendix 1

Methodology

The results of surveys are presented in the form of structures, i.e. the percentages of banks, which chose a given option in response to particular questions. Banks' responses are weighted with the share of the given bank in the market segment to which a given question relates. Weighing of responses is a solution frequently applied in preparation of results of qualitative surveys.[1]

The importance of particular banks in a given market segment is represented by the share of loans outstanding of a given bank in the loan portfolio of all 26 banks responded to the survey, broken down by particular types of loans. The following table presents the market segment to which particular questions refer, and the type of loans outstanding which was used to calculate the shares of particular banks in a given market segment.

Table 1. Market segment and the respective type of loans taken into account in calculation of the weights

Questions no.	Market segment	Type of loans
1, 4, 6, 7	Short-term loans to small and medium enterprises	Loans outstanding from small and medium enterprises with the basic term to maturity of up to one year, together with the outstanding on the current account
1, 4, 6, 7	Short-term loans to large enterprises	Loans outstanding from large enterprises with the basic term to maturity of up to one year, together with the outstanding on the current account
1, 4, 6, 7	Long-term loans to small and medium enterprises	Loans outstanding from small and medium enterprises with the basic term to maturity above 1 year
1, 4, 6, 7	Long-term loans to large enterprises	Loans outstanding from large enterprises with the basic term to maturity above 1 year
2, 3, 5	Total corporate loans	Total amount of loans outstanding from state-owned enterprises and companies, private enterprises and companies as well as cooperatives and sole traders
8, 9, 10, 13, 14, 16, 17	Housing loans to households	Housing loans to persons
8, 11, 12, 13, 15, 16, 17	Consumer and other loans to households	Total loans outstanding from persons less housing loans to persons

Note: All types of claims relate to residents only.
Source: NBP.

[1] Cf.: M. Bieć *„Business survey: Methods, techniques, experience"*, Papers and Materials of the Research Institute for Economic Development, No. 48, Warsaw School of Economics, pp. 71-114.

Thus a weight, corresponding to a given bank's share in a given market segment is assigned to particular responses. At the calculations of weights the average amount of claims of a given type in the two first months covered by the survey, was taken into account.[2] Where a bank marked "Not applicable" in the response options, a weight of 0 was assigned. Thus while calculating the structures for particular questions, only banks being active in a particular market segment were taken into account.

Apart from structures, the so-called net percentage was calculated for each response, that is the difference between the percentages of responses showing opposing directions of changes. This magnitude indicates a general tendency in the specific market segment. The method of calculating the net percentage for particular questions is presented in the following Table 2.

Table 2. Method of calculating the net percentage

Questions no.	Definition of net percentage
1, 2, 8, 9, 11	The difference between the percentage of responses „Eased considerably" and „Eased somewhat" and the percentage of responses "Tightened considerably" and "Tightened somewhat". A negative index indicates a tendency of tightening the credit standards.
3, 10, 12	The difference between the percentage of responses "Contributed considerably to the easing of lending policies" and "Contributed somewhat to the easing of lending policies" and the percentage of responses "Contributed considerably to the tightening of lending policies" and "Contributed somewhat to the tightening of lending policies". A negative index indicates a given factor's greater contribution to the tightening than to the easing of lending policies.
4, 13	The difference between the percentage of responses „Increased considerably" and „ Increased somewhat" and the percentage of responses „Decreased considerably" and „Decreased somewhat". A positive index indicates an increase in demand.
5, 14, 15	The difference between the percentage of responses „Contributed considerably to higher demand" and „Contributed somewhat to higher demand" and the percentage of responses „Contributed considerably to lower demand" and „Contributed somewhat to lower demand". A positive index means that a given factor contributed to an increase in demand, and a negative one – to a decrease in demand.
6, 16	The difference between the percentage of responses „Ease considerably" and „Ease somewhat" and the percentage of responses „Tighten considerably" and „Tighten somewhat". A positive index indicates the expected easing of the lending policies.
7, 17	The difference between the percentage of responses „Increase considerably" and „Increase somewhat" and the percentage of responses „Decrease considerably" and „Decrease somewhat". A positive index indicates the expected increase in demand.

Source: NBP.

[2] No data on claims loans of particular banks in the third month of the period are available at the time of analysing the results of the survey, due to an about three-week delay in reporting..

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