Senior loan officer opinion survey

on bank lending practices and credit conditions

2nd quarter 2009

Warsaw, April 2009

Summary of the survey results

A second quarter in a row saw a strong contraction in loan supply in all segments of the credit market. The banks tightened the standards of granting loans and raised their loan spreads. Changes in credit policies resulted from very high uncertainty about future economic developments, which hinders an accurate credit risk assessment by the banks. In addition, many banks reduced loan supply due to growing capital constraints, which was particularly noticeable in the case of corporate loans. According to the banks, the fall in loan supply is also caused by the deteriorating quality of the loan portfolio. It should be noted that a weakening demand for loans from both enterprises and households also contributed to the decrease in lending.

Corporate loans

- Lending policy: in the first quarter of 2009, over 50% of the banks tightened their standards of granting loans. Over 80% of the banks raised loan spreads.
- Demand for loans: demand for long-term loans fell. In the case of short-term lending, demand from large enterprises was stable, while demand from small- and medium-sized enterprises slightly decreased.
- Expectations for the second quarter of 2009: the banks expect lending policy towards enterprises to be further tightened. A modest increase in demand for short-term loans and a further decrease in demand for long-term loans are expected.

Housing loans

- Lending policy: around half of the banks tightened their standards of granting loans. Around 50% of the banks raised loan spreads, and 35% limited the maximum LtV ratio. Another four banks withdrew foreign currency-denominated loans from their offers.
- Demand for loans: approximately 70% of the banks experienced a fall in demand for housing loans, of which over half considered it as considerable.
- Expectations for the second quarter of 2009: the banks expect a slight tightening of lending policy and a further decline in the demand for loans.

Consumer loans

- Lending policy: the standards of granting loans were tightened by almost half of the banks. Around one fourth of the banks raised loan spreads and one third – non-interest loan costs.
- Demand for loans: the banks experienced a slight decrease in demand.
- Expectations for the second quarter of 2009: the banks foresee a further tightening of lending policy and expect demand to stabilise.

Results of the survey – overview

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 that the borrower is required to meet in order to obtain a loan, which are set by the bank. The terms of granting loans represent the features of the loan agreement agreed by 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 the banks' divisions other than the credit division. The survey was conducted at the turn of March and April 2009 **among 30 banks with total share of claims on enterprises and households in the banking sector portfolio of 84%**.

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 the 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 concerning the calculation methodology are presented in Appendix 1.

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

The following section presents tendencies regarding the banks' lending policy and changes in demand in the first quarter of 2009, as well as the banks' expectations for the second quarter of 2009.

<u>**Corporate loans**</u>

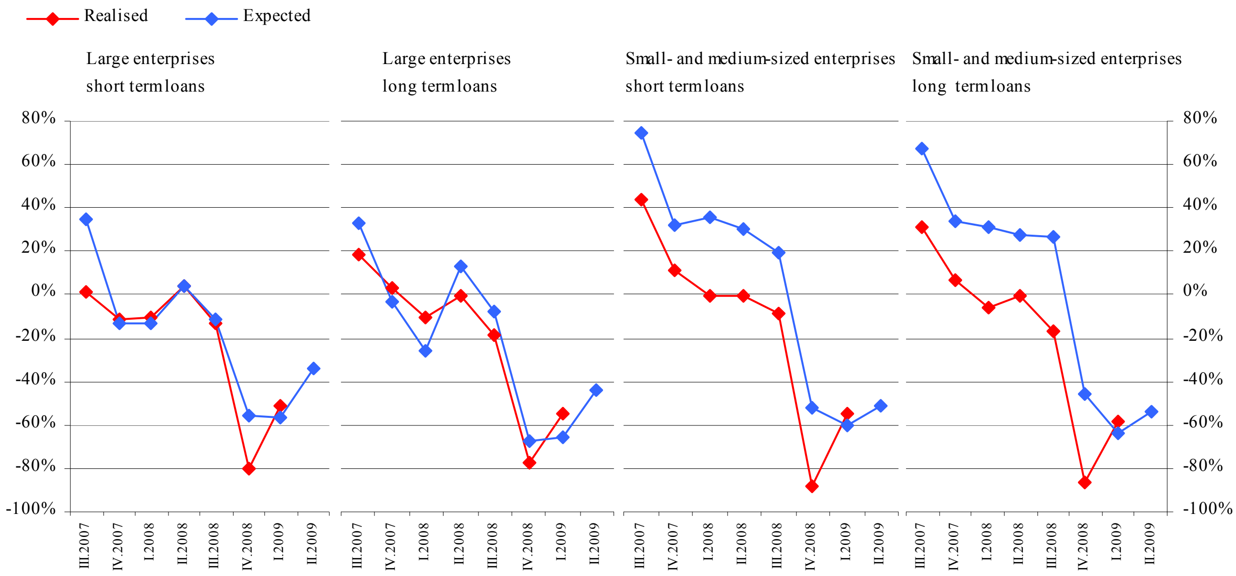
Over half of the banks surveyed tightened their standards of granting corporate loans in the first quarter of 2009. The decisions to tighten the standards were mostly in line with the banks' forecasts released at the end of the fourth quarter of 2008. More banks decided to tighten their lending policies towards small- and medium-sized enterprises than towards large ones (see Figure 1). In the majority of loan categories, most banks that tightened their lending policies considered the move as not considerable[1]. The tightening had its strongest impact in the segment of long-term loans to large enterprises, where approximately half of the banks that tightened the standards of granting loans considerably tightened their lending policies.

Similarly as in the fourth quarter of 2008, all terms of granting corporate loans, accounted for in the survey, were tightened. The scale of the changes was close to the ones observed in the fourth quarter of 2008**.** Over 83% of the banks raised their loan spreads (see Figure 2), of which over one third considered the increase as considerable. The banks' policy with regard to spreads on riskier loans was similar. Fifty seven percent of the banks

[1] The banks have a possibility of grading changes in the standards (terms) of granting loans. In the 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.

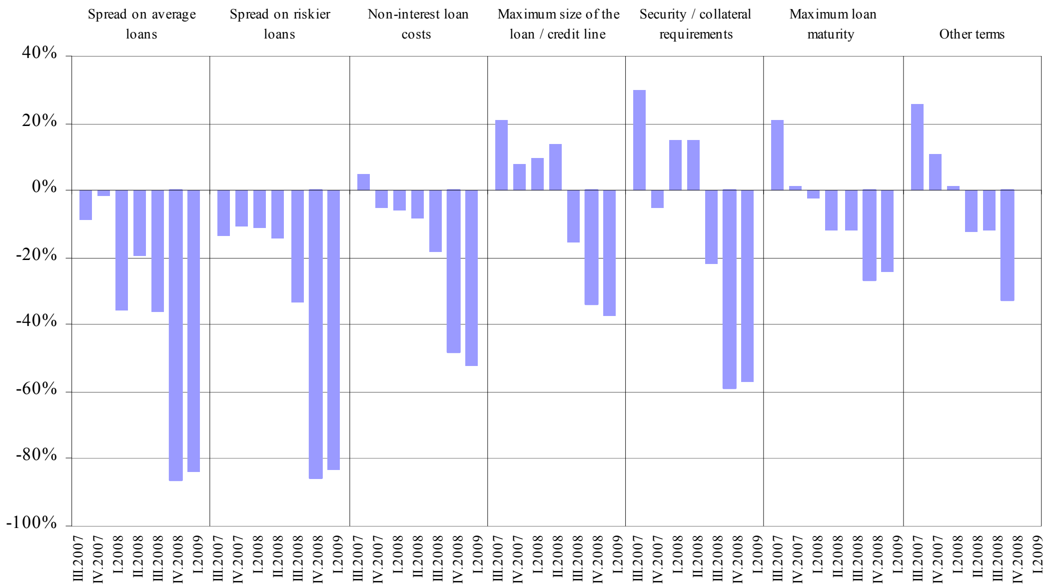
expected enterprises to present a broader range of collateral. Around half of the banks increased non-interest loan costs, whereas over one third lowered maximum loan size. For each of the terms of granting loans, the majority of the banks said the changes made had represented a slight tightening of lending policy. The smallest number of banks – around 25% – cut short the maximum loan maturity.

Figure 1
Corporate credit standards



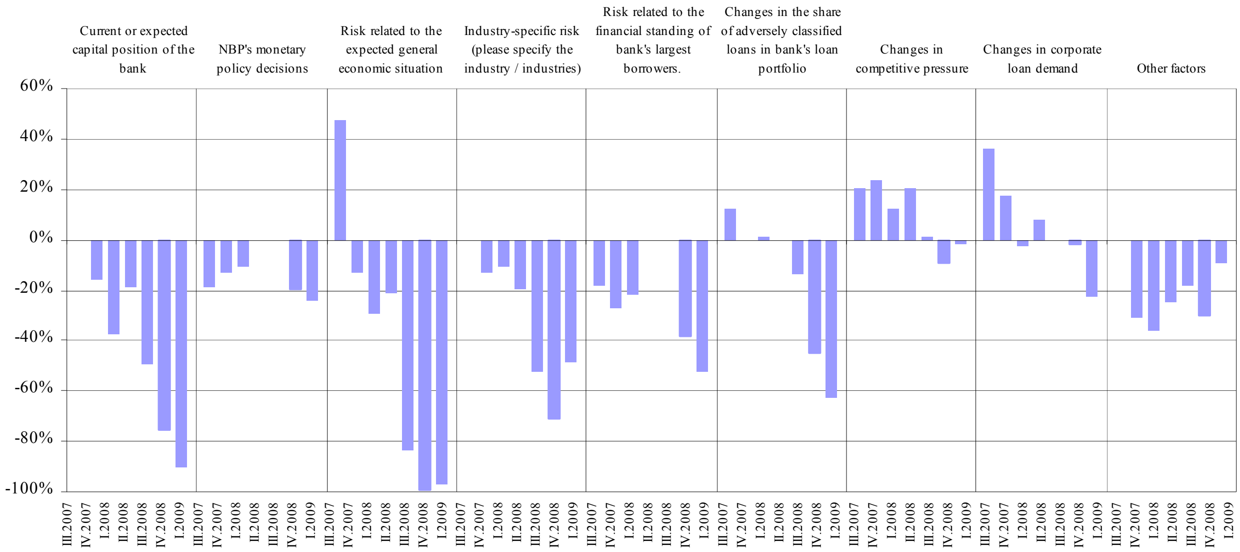
Note: the Figures included in this study present the net percentage. A positive value of net percentage should be interpreted as the easing of lending policy or the growth in demand for loans, and a negative value of net percentage – the tightening of lending policy or a fall in demand for loans. Details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

Figure 2
Terms on corporate loans



The banks continue to negatively assess the future economic outlook. Ninety seven percent of the banks pointed to the risk related to a future economic situation as the reason for tightening their lending policies (see Figure 3), of which as many as three fourths said that this risk prompted them to considerably tighten the standards and terms of granting loans[2]. Uncertainty about future economic climate makes it difficult for the banks to correctly assess the credit risk taken, which may induce them to strongly tighten their lending policies. **The importance of the capital position for the banks' lending is also steadily rising.** Over 90% of the banks justified the tightening of lending policy with their current or expected capital position; of which over 25% reported that the level of their regulatory capital justified a considerable tightening of the lending policy. **The importance of this factor has risen in comparison with the fourth quarter of 2008.**

Figure 3
Factors influencing changes in lending policies



The results of the survey also point to an increase in the share of irregular loans in the corporate loan portfolio. The percentage of the banks identifying this factor has been steadily rising since mid-2008 and amounts to nearly 63%. **Almost half of the banks decided to tighten their lending policies in response to the growing industry-specific risk**. Most of the banks considered industries linked to the property market (development, construction and furniture making industries) and industries highly dependent on exports (motor, chemical, metal and transport industries) as particularly risky. Over half of the banks cited the risk related to the financial standing of the largest borrowers as a factor affecting the tightening of lending policy

Among other factors impacting the tightening of lending policy, the banks also cited the rising cost of financing, the depreciation of the zloty and the policy of the parent entity (foreign bank). However, these factors were mentioned only by few banks. According to the banks, competitive pressure on the corporate loan market has no significant impact on the credit policy.

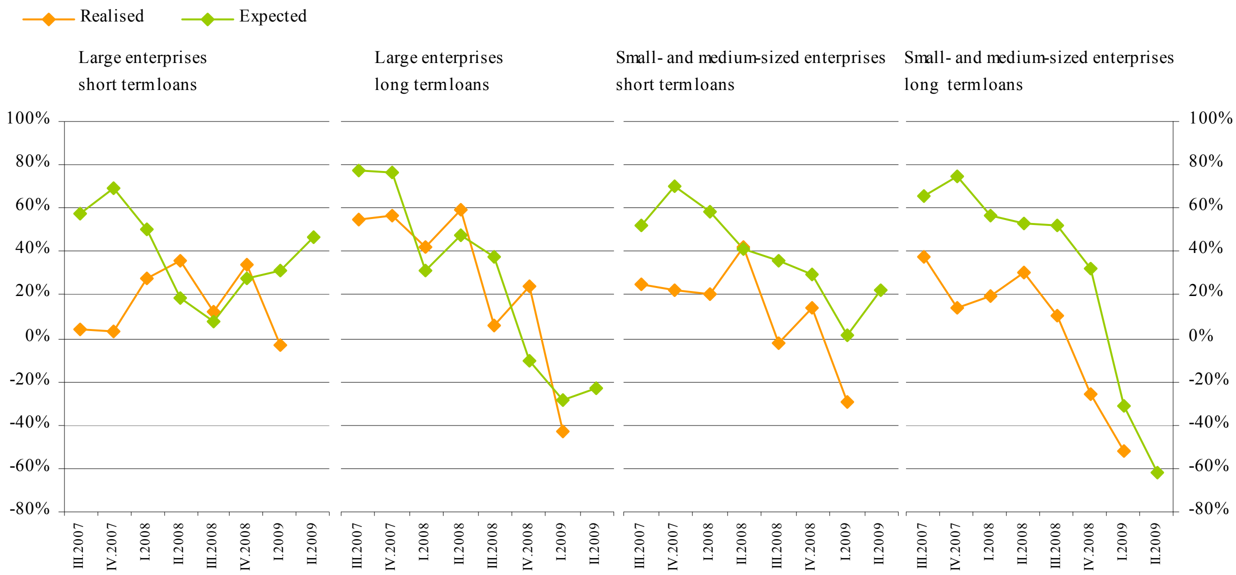
[2] The banks have a possibility of grading the influence of factors on lending policy. In the survey, the banks choose among the following options: considerably influencing the tightening of lending policy, somewhat influencing the tightening of lending policy, not influencing lending policy, somewhat influencing the easing of lending policy, considerably influencing the easing of lending policy.

Demand for loans from enterprises fell in the first quarter of 2009 and **the fall primarily concerned long-term loans**. In the case of large enterprises, the fall in demand for this type of loan was indicated by 43% of the banks whereas in the case of small- and medium-sized enterprises, the fall in demand was indicated by 52% of the banks.

In the segment of short-term loans to small- and medium-sized enterprises, around 30% of the banks experienced a fall in demand for loans; however, the majority of the banks said the demand had remained unchanged. The banks' responses concerning short-term loans to large enterprises were discrepant. A modest decrease in demand[3] was experienced by approximately 40% of the banks, 35% experienced a modest increase in demand and no change in demand for loans was reported by almost 25% of the banks. A net fall in demand for loans was 3%.

It should be noted that while changes in demand for long-term loans were in line with the banks' forecasts unveiled in the fourth quarter of 2008, in the case of short-term loans there is a significant discrepancy. The majority of the banks expected the demand for this type of loans to grow.

Figure 4
Corporate loan demand



According to the banks, **the fall in demand** for some types of corporate loans results primarily from a **decrease in financing needs for fixed investment**. The decrease was recorded for the second quarter in a row. Over 60% of the banks that reported a change in demand for corporate loans pointed to this factor as contributing to the decrease in demand. Over 44% of these banks considered a decrease in demand for investment loans as considerably contributing to a fall in aggregated demand for loans. **Tightening of the standards and terms of granting loans was another major significant factor behind the decrease in demand for corporate loans**. These factors were cited by 55% and 48% of the banks, respectively. Moreover, the lowered demand for loans was justified with a fall in financing needs for inventories and working capital and in financing needs for mergers and acquisitions.

The banks that recorded an increase in demand for corporate loans attributed it to the growing needs for financing related to debt restructuring (see Figure 5). The lower financing needs for fixed investment, working capital and inventories, may indicate that enterprises scale down their operations and their demand for loans is

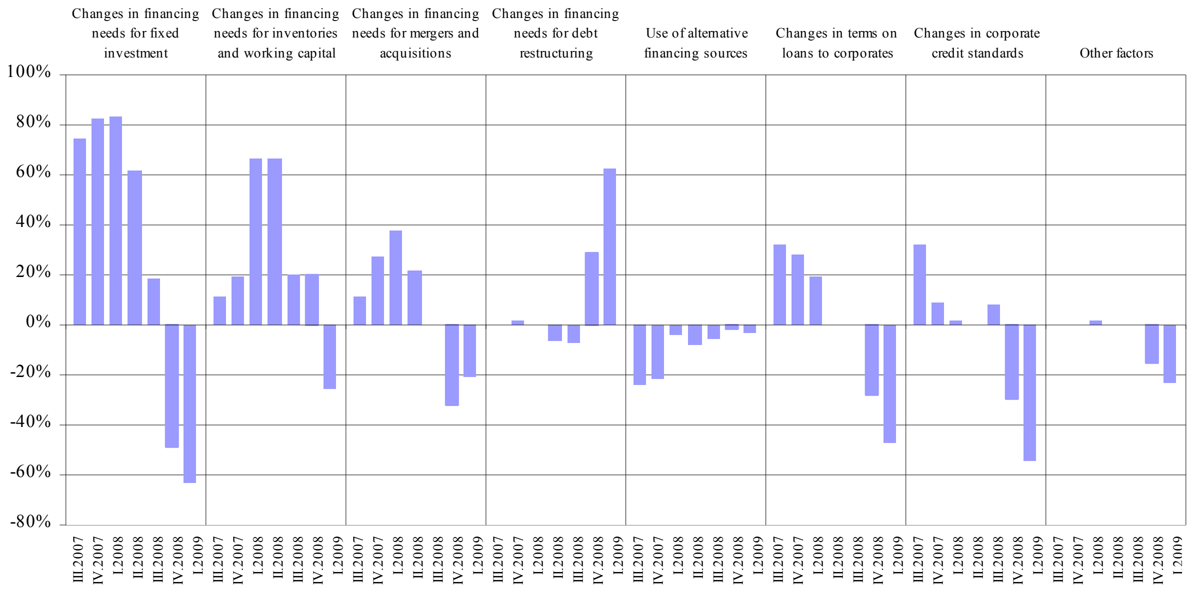
[3] The banks have a possibility of grading changes in demand. In the survey, the banks choose among the following options: demand increased considerably, demand somewhat increased, demand remained unchanged, demand somewhat decreased, demand decreased considerably.

mainly related to the need of rolling over already contracted loans. In the case of some banks, the increase in demand – stemming from the need to restructure corporate debt – might have been related to enterprises' liabilities resulting from currency options contracts.

Around half of the banks expect the lending policy towards small- and medium-sized enterprises to be further tightened in the second quarter of 2009. The tightening is to apply to both long- and short-term loans (see Figure 1); ten percent of the banks planning to tighten the policy assess the tightening as considerable in the case of long-term loans (compared to around 1% in the case of short-term loans). **The banks that anticipate a change in their lending policies towards large enterprises declare a tightening of the policy.** The tightening should have a stronger impact on long-term loans (net percentage: 43%) than on short-term loans (net percentage: 34%). Thus, in the second quarter of 2009 the scale of policy tightening of loans for small- and medium-sized enterprises will be similar to that observed in the first quarter of the year, and it will be slightly smaller for loans to large enterprises.

In the second quarter of 2009, the banks expect the demand for short-term loans from enterprises to grow (see Figure 4). This growth is to be stronger in the case of loans to large enterprises. **In the segment of long-term loans, over 60% of the banks expect the demand for loans to large enterprises to fall.** A fall in the demand for long-term loans to small- and medium-sized enterprises is forecasted by around 23% of the banks; however, the banks' responses on the issue are discrepant.

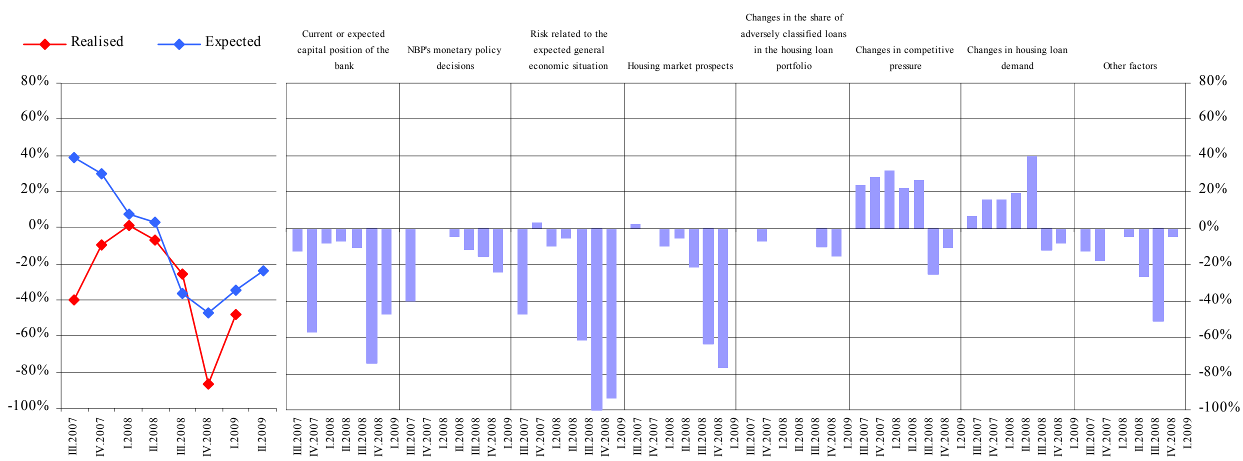
Figure 5
Factors influencing changes in corporate loan demand



Housing loans

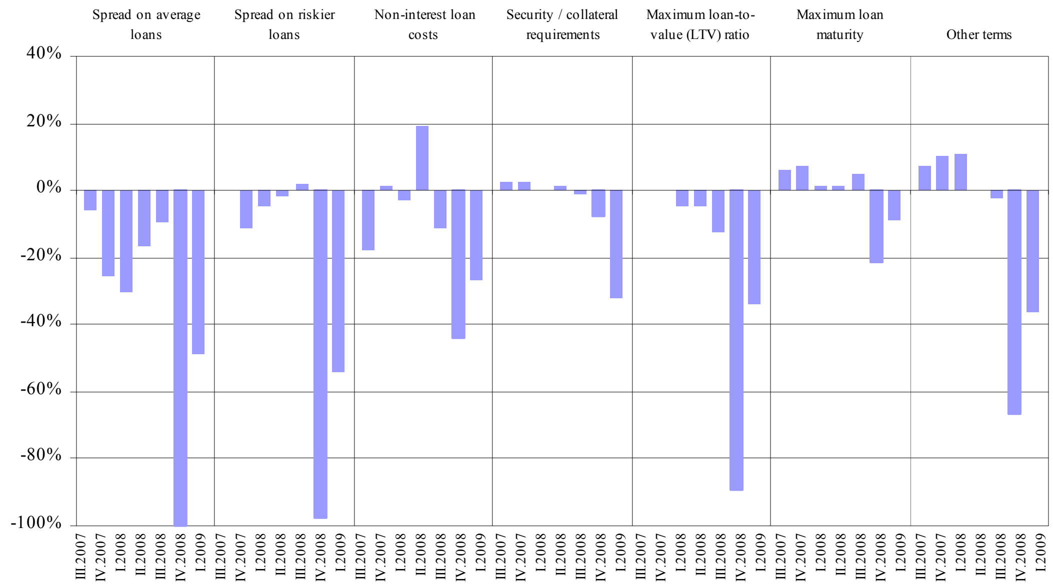
In the first quarter of 2009, the banks again tightened lending policy with regard to housing loans (see Figure 6). Around half of the banks tightened the standards of granting loans, of which one fifth considered the move to be considerable. Lending policy was tightened by fewer banks than in the previous quarter. The standards of granting housing loans to households were also tightened by those banks that – in the previous edition of the survey – had neither declared their intention to tighten nor ease the policy in the first quarter of 2009. **The tightening of lending policy had a stronger impact on foreign currency-denominated loans than on zloty loans**. Individual banks with a low market share eased the standards of granting housing loans.

Figure 6
Lending policy and factors influencing its changes – housing loans



Similarly as in the fourth quarter of 2008, all terms of granting housing loans were tightened. However, the scale of the tightening was much smaller than in the previous quarter**.** Around half of the banks raised spreads, both on normal and riskier loans. **The majority of the banks that increased their spreads considered the increase as considerable.** Almost 35% of the banks also lowered the maximum loan-to-value ratio for property purchase. Approximately 27% of the banks increased non-interest loan costs. One third of the banks surveyed tightened the terms of collateral requirements, and over 9% cut short maximum loan maturity.

Figure 7
Terms on housing loans



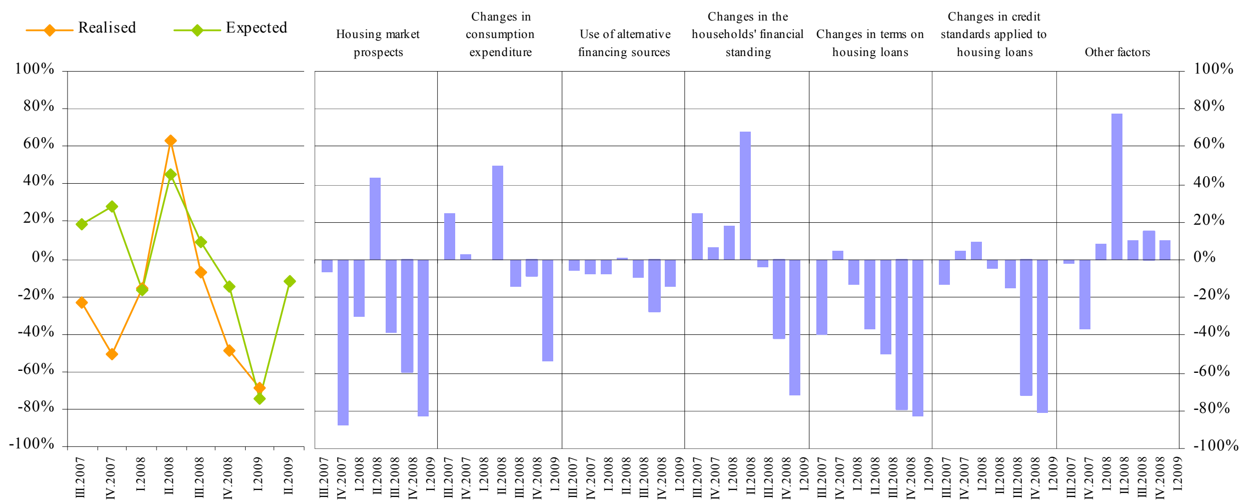
Over 36% of the banks also tightened other standards and terms of granting loans to households, which were unaccounted for in the survey. One bank tightened its lending policy for loans aimed at financing property purchase on the primary market.

Another four banks entirely suspended origination of foreign currency-denominated housing loans, and some other banks considerably tightened the standards of granting these loans, compared to zloty-denominated loans.

Similarly as in the segment of corporate loans, the banks' lending policy decisions were influenced by high uncertainty about future economic developments. Around 95% of the banks participating in the survey said that the risk related to the expected general economic situation had had a major impact on tightening lending policy towards housing loans (see Figure 6). For nearly half of these banks this impact turned out to be considerable. However, individual banks said that the expected general economic situation had had an influence in the easing of lending policy, with one bank assessing this impact as considerable. This points to a certain disproportion in the banks' assessment of the future economic developments. **Also, the banks were induced by the projection of housing market developments to tighten their lending policies towards housing loans**. This factor was identified by over 77% of the banks. For over 47% of the banks, the unfavourable assessment related to the current and expected capital position of a bank was cited as the reason for tightening lending policy. The banks' responses show that competition on the market of housing loans has diminished. Again, a change in competitive pressure had an influence on the banks' stricter lending policies.

Among other factors that were unaccounted for in the survey, the banks identified a decrease in the liquidity of the interbank and property markets and the depreciation of the zloty as factors behind the decision to tighten lending policies.

Figure 8
Demand for housing loans and factors influencing its changes



In the first quarter of 2009, almost 70% of the banks experienced a fall in demand for housing loans (see Figure 8), of which over 50% termed the fall as considerable. In the case of around 10% of the banks, demand for housing loans grew. In aggregated terms, the decrease in demand for housing loans was in line with the banks' forecasts from the fourth quarter of 2008.

According to over 80% of the banks that reported decreased demand for housing loans, the fall was supported by the forecasts of developments in the housing market (see Figure 8). Uncertainty about future price developments on this market might have induced households to put off property purchase transactions. **A change in the terms and standards of granting housing loans was** another **very significant factor contributing to the decrease in demand.** These factors were identified by 83% and 81% of the banks, respectively. The rising cost of a housing loan and its lower availability led some potential borrowers to give up taking the loan. Individual banks that eased the standards and terms of granting loans argued that this move had contributed to the growth in demand. **Around 72% of the banks attributed the fall in demand for housing loans to the deteriorating financial standing of households.**

Nearly one third of the banks surveyed expect the lending policy in the segment of housing loans to be further tightened in the second quarter of 2009. However, the majority of these banks say that the tightening will not be considerable. A few among the banks with a very low market share plan to ease their policy in respect to housing loans. A further fall in demand for housing loans is expected (see Figure 8). However, the banks' responses were discrepant as 21% of all banks expect the demand to grow slightly.

Consumer loans

The standards of granting loans to households were again tightened in the first quarter of 2009 (see Figure 9). Forty eight percent of the banks decided to tighten their lending standards. The observed change was in line with the banks' forecasts from the fourth quarter of 2008, although some banks that had originally planned not to tighten their lending policies did so.

The tightening of terms of granting loans in the segment of consumer loans was less severe than in the case of housing and corporate loans. The upward trend of loan spreads on consumer loans that started in mid-2007 persisted in the first quarter of 2009. The increase, reported by over 25% of the banks, involved both normal and riskier loans (see Figure 10). However, some banks with a modest market share decided to slightly reduce the spreads. Other terms of granting loans were also tightened. In particular, 32% of the banks increased non-interest loan costs and 9% of the banks reduced maximum loan size.

Figure 9
Lending policy and factors influencing its changes – consumer loans

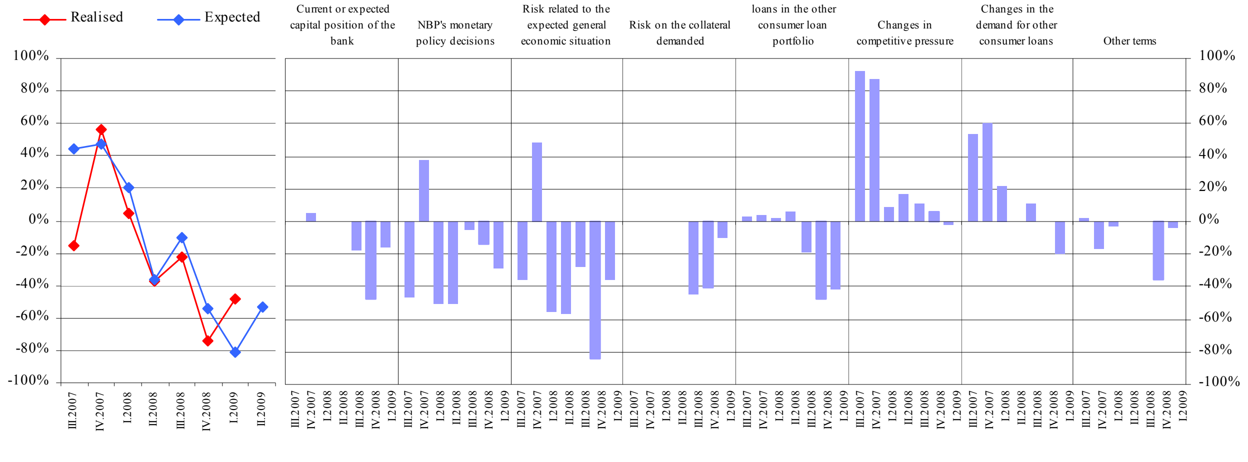
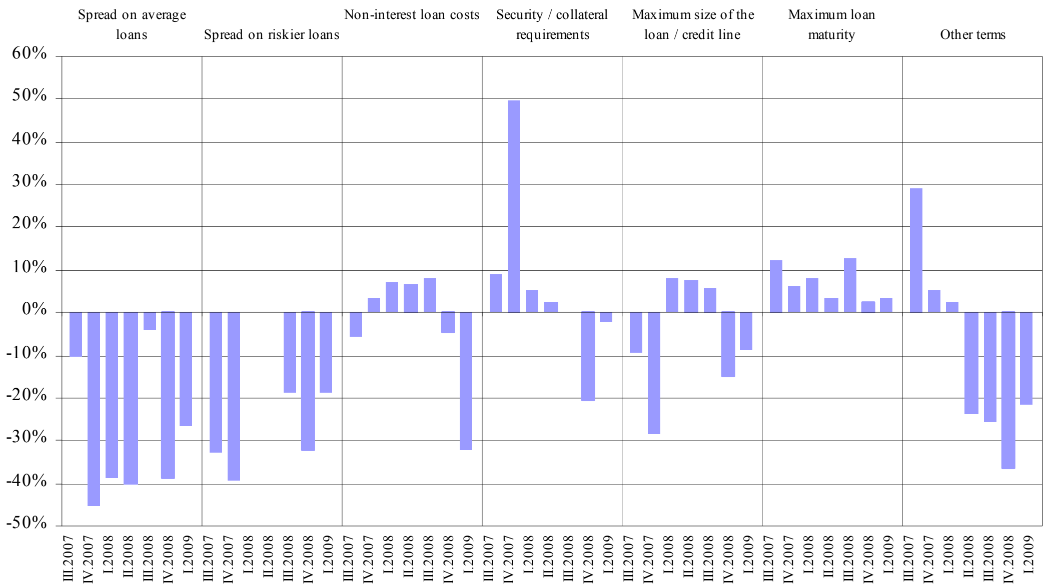


Figure 10
Terms on consumer loans



The growth of the share of irregular loans in the loan portfolio was the main reason why lending policy in the segment of consumer loans was tightened. This factor was identified by 42% of the banks, of which over one third said the tightening was considerably affected by the deteriorating quality of the loan portfolio. Similarly as in the case of other types of credit, lending policy in the segment of consumer loans was tightened in response to the worsening of the banks' current and expected capital position (15% of the banks) and the risk related to the expected general economic situation (36% of the banks) (see Figure 9). A tighter lending policy in the first quarter of 2009 also resulted from the monetary policy decisions made by the National Bank of Poland. The gradual lowering of the official interest rates, including the lombard rate[4], had an impact on the fall of the maximum interest the banks are now allowed to charge on customers. Therefore, some banks might have been induced to limit loan availability due to the inability to charge an adequate credit risk premium, i.e. a high spread.

In the first quarter of 2009, the banks recorded a drop in demand for consumer loans to households (net percentage amounted to -40%). It should be noted, however, that the banks' responses were not clear-cut. Approximately 50% of the banks reported a slight fall, whereas 10% – a modest increase in demand for loans. At the end of the fourth quarter of 2008, eleven percent of the banks expected a fall in demand (see Figure 11).

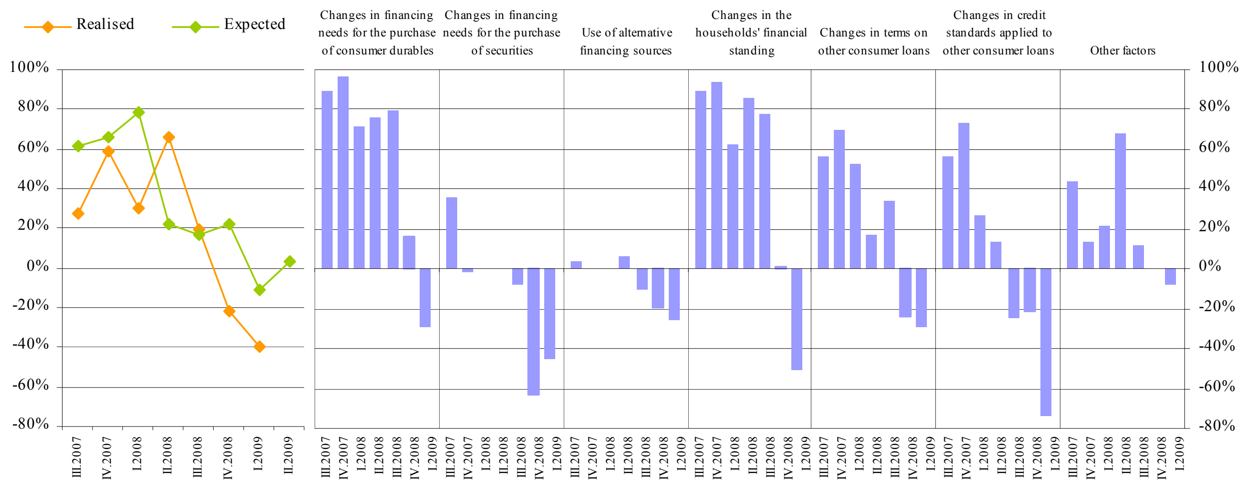
The fall in demand for consumer loans resulted primarily from a change in the financial standing of households. Moreover, according to the banks, the financing needs for durable goods fell for the first time since the third quarter of 2005 (see Figure 11). Households also used their savings to finance consumption to a larger extent than before. In addition, higher costs of consumer loan and its lower availability had negatively influenced

[4] A maximum interest resulting from legal acts cannot exceed fourfold of the amount of the lombard rate of the National Bank of Poland.

its attractiveness to households, which – when coupled with worse consumer confidence – had an impact on the fall of demand for loans. Almost half of the banks that reported a fall in demand for loans also pointed to a change in financing needs for securities' purchase. However, it should be kept in mind that this type of loans represent an insignificant part of loans granted by the banks to households.

The banks expect lending policy in the segment of consumer loans to be further tightened in the second quarter of 2009 (see Figure 9). These expectations were expressed by over 50% of the banks, but they assessed the tightening of lending policy not to be considerable. No bank intends to ease the standards of granting consumer loans. **The majority of the banks do not expect a change in demand for consumer loans** (see Figure 11).

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.[2]

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 30 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 consideration in calculation of the weights

Questions no.	Market segment	Type of loans
1, 4, 6, 7	Short-term corporate loans	Loans outstanding from state-owned enterprises and companies, private enterprises and companies as well as cooperatives and sole traders with the basic term to maturity of up to one year, together with the outstanding on the current account
	Long-term corporate loans	Loans outstanding from state-owned enterprises and companies, private enterprises and companies as well as cooperatives and sole traders 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. In the case of corporates the distribution between large enterprises and small and medium-sized enterprises was not retained, due to a lack of relevant data in banking statistics.

Source: NBP.

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 of the period covered by the survey, was taken into account.[3] Where a bank marked "*Not applicable*" in the response options, a weight of 0 was assigned. Thus while calculating

[2] 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.

[3] 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.

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.