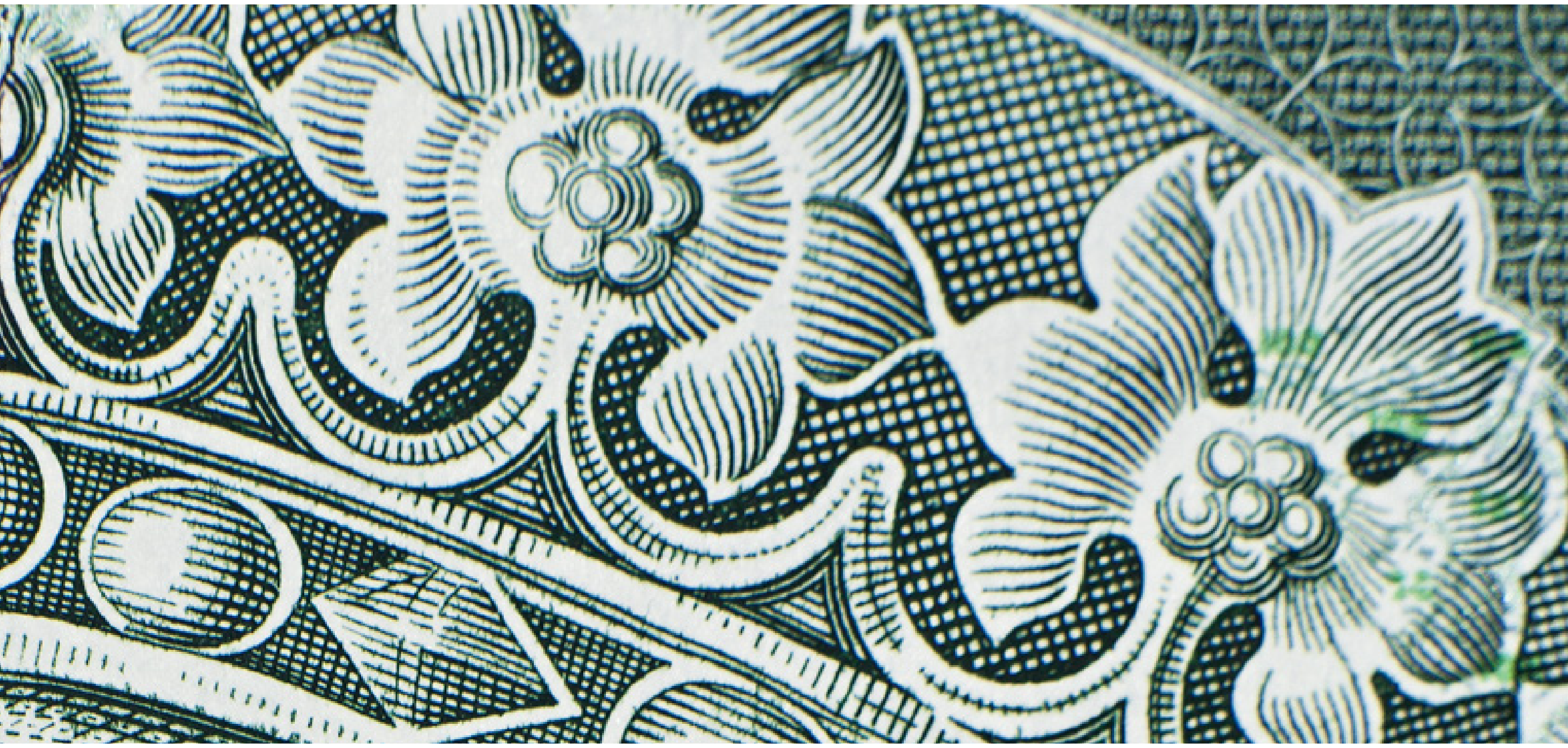
NBP Narodowy Bank Polski

Senior loan officer opinion survey

on bank lending practices and credit conditions

3rd quarter 2016



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Financial Stability Department
Warsaw, July 2016

Summary of the survey results

Corporate loans

Lending policy: no changes in corporate credit standards (except for short-term loans to small and medium-sized enterprises (SMEs), where the standards were eased); raising of credit spreads.

Demand for loans: a fall in demand from large enterprises, no changes in demand for SMEs.

Expectations for the third quarter of 2016: in the large enterprise segment a slight easing in lending policy by individual banks; in the SME segment: short-term loans – an easing of lending policy; long-term loans – a tightening of lending policy; a rise in demand for SMEs.

Lending policy was tightened on the assessment of risk related to expected economic conditions and the expected capital position of banks in the third quarter of 2016 (the last factor was identified by banks for the fourth time in a row; however, its impact on banks' lending policy has subsided). As in the previous edition of the survey, a fall in demand from enterprises was driven by lower financing needs for fixed investment.

Housing loans

Lending policy: a tightening of lending standards and – to a lesser extent – lending terms: collateral requirements, credit spreads and non-interest loan costs, and increasing the borrower's own contribution.

Demand for loans: a modest decrease in demand.

Expectations for the third quarter of 2016: a significant tightening of lending policy; a significant decrease in demand.

For the fourth quarter in a row, the banks tightened their standards of granting housing loans. In the banks' view, the main factor behind the lending policy change were regulatory issues: the entry into force of the Act of 14 April 2016 *on the suspension of the sale of property of the Agricultural Property Stock of the State Treasury and amendment to certain acts*. According to the banks, the tighter lending policy resulted in a slight decrease in demand.

Consumer loans

Lending policy: no major changes in lending standards; a slight reduction in credit spreads.

Demand for loans: a rise in demand.

Expectations for the third quarter of 2016: no major changes of the lending policy; a slight increase in demand.

The banks have slightly eased their lending policy in the consumer loan segment since the end of 2015. The survey results also indicate that loan demand experienced by the banks is relatively stable.

Introduction

The objective of the survey is to define the direction of changes in the lending policy, i.e. the standards and terms on loans as well as changes in demand for loans in the Polish banking system. Credit standards are understood as the minimum standards of creditworthiness, set by banks, that the borrower is required to meet to obtain a loan. Terms on loans are the features of the loan agreement 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 June and July 2016 among 25 banks with a total share of 86% in loans to 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.

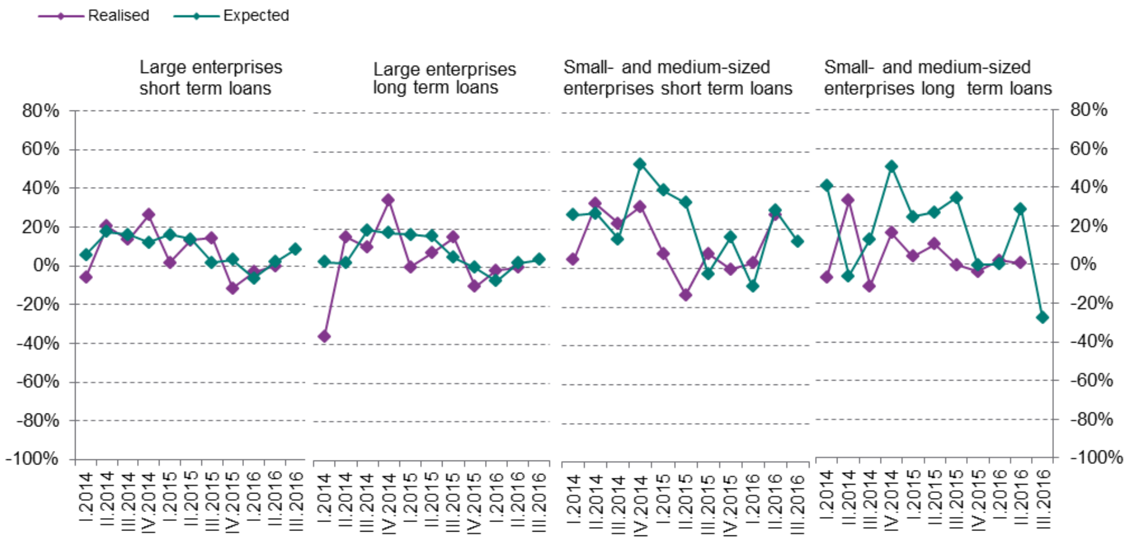
Unless otherwise indicated, the number of the banks cited in the text reporting a given change in their lending policies or in demand for loans means the net percentage of the banks.

The next section presents tendencies regarding the banks' lending policy and changes in demand in the second quarter of 2016 as well as banks' expectations for the third quarter of 2016.

Corporate loans

In the second quarter of 2016, as announced in the previous edition of the survey, the banks did not change substantially the credit standards on loans to large enterprises (see Figure 1). **In the case of loans to SMEs, the banks eased their standards in the segment of short-term loans. On the other hand, the standards of granting long-term loans to SMEs remained unchanged, although in the previous edition of the survey the banks announced that they would be eased.**

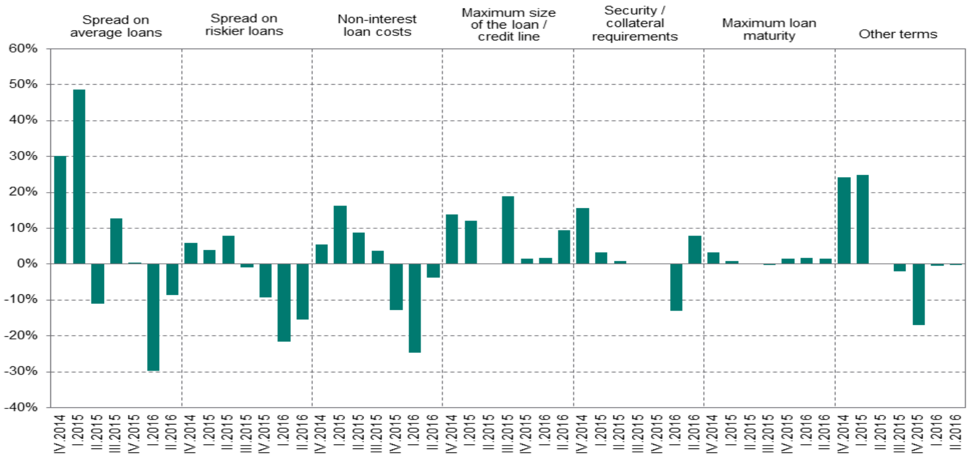
Figure 1. Credit standards on corporate loans



Note: 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 growth in loan demand, while a negative value of net percentage – as the lending policy tightening or drop in loan demand. Details concerning the calculation methodology are presented in Appendix 1.

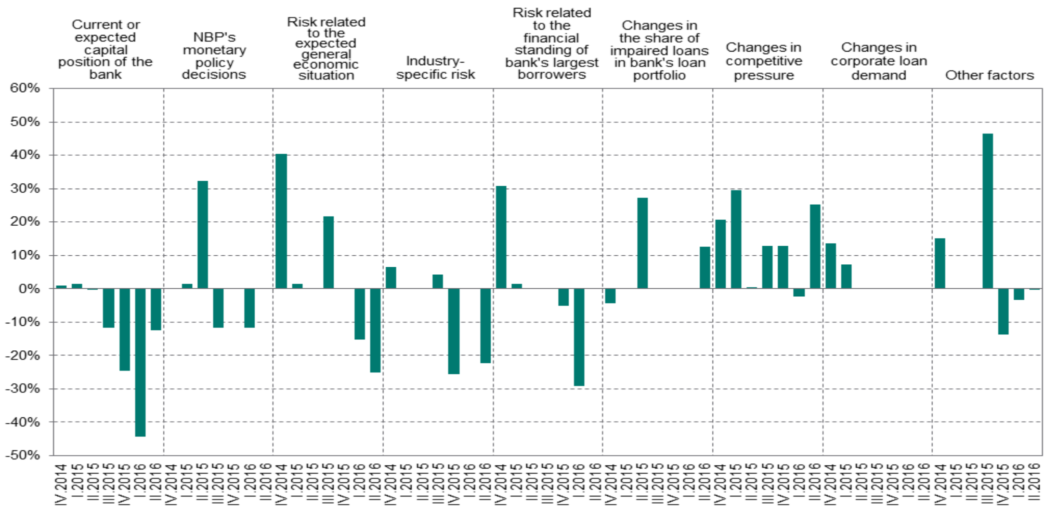
For the third quarter in succession, the survey-responding banks raised spreads on loans, including on riskier loans (net percentage of around -9% and -15% respectively, see Figure 2). At the same time, individual banks raised the maximum amount of available loans and relaxed the collateral requirements for enterprises (net percentage of around 9% and 8%, respectively). Other terms on corporate loans remained unchanged.

Figure 2. Terms on corporate loans



In the second quarter of 2016, the current or expected capital position of the banks was, for the fourth time in a row, a factor behind their move to tighten lending policy. Compared to the previous edition of the survey, the factor's impact has diminished (net percentage of around -12%). According to some banks, expected economic conditions and increased risk associated with lending provided to some industries (the energy industry, property development industry and the agri-food sector) (net percentage of around -25% and -22%, respectively) were also responsible for a tighter lending policy. On the other hand, factors influencing the easing of lending policy by some banks included competitive pressure from other banks and a better quality of loan portfolios.

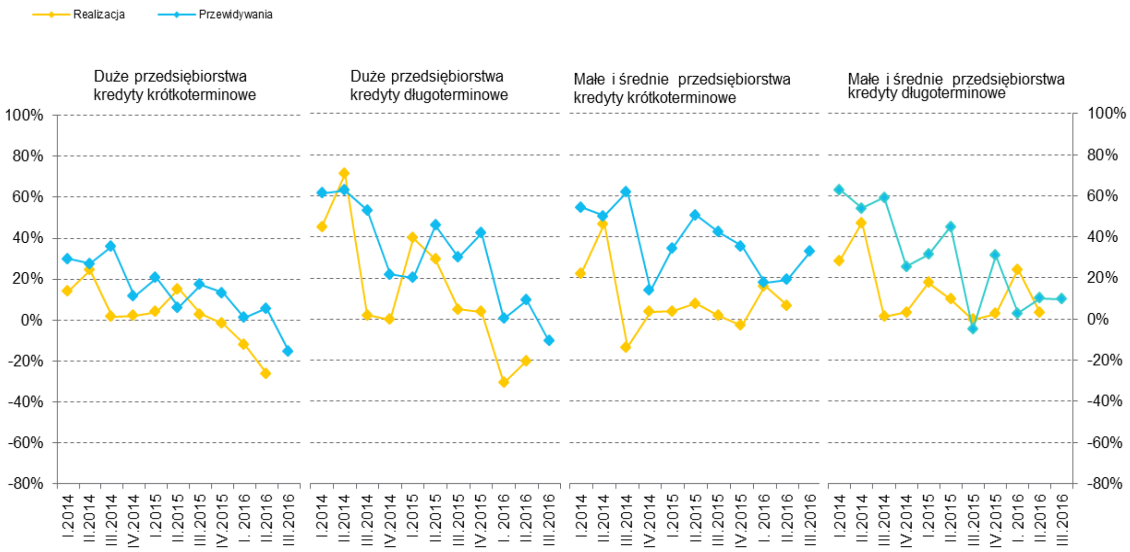
Figure 3. Factors influencing changes in lending policy



* The banks assess changes in competitive pressure from other banks, non-bank financial institutions and financial markets. The Figure shows the arithmetic mean.

In the second quarter of 2016, corporate loan demand varied depending on the size of the enterprise (see Figure 4). In the case of loans to large enterprises, the banks experienced a decrease in demand for the second quarter in succession, and the decrease was larger for short-term loans. In the case of loans to SMEs, the banks did not report a rise in demand. It should also be noted that the banks' expectations regarding developments in demand from SMEs were to a larger extent more accurate as regards the actually recorded demand than in the case of loans to large enterprises.

Figure 4. Corporate loan demand

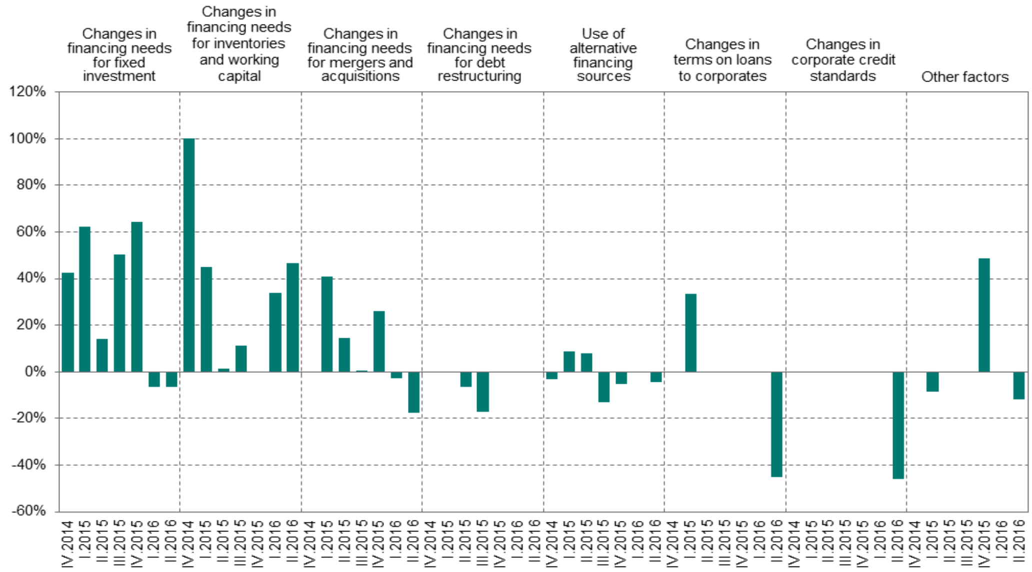


The banks that experienced a fall in corporate loan demand explained it primarily by the change in the standards and terms on corporate loans (net percentage of around -46% and -45% respectively, see Figure 5). The fall in loan demand from enterprises was also driven by a decrease in financing needs for mergers and acquisitions (net percentage of around -18%). For the second time in over two years, lower loan demand from enterprises resulted from lower financing needs for fixed investments (net percentage of around -6%). The banks that saw the demand rise attributed the increase to higher financing needs for inventories and working capital (net percentage of around 47%).

In the third quarter of 2016, individual banks expect the lending policy to be eased in the large enterprise sector (see Figure 1). In the case of loans to SMEs, the banks expect to ease the lending policy slightly for short-term loans and to tighten it for long-term loans.

The banks expect demand in the segment of loans to large enterprises to drop slightly in the third quarter of 2016 (see Figure 4). On the other hand, an increase in demand will be noticeable only in the segment of loans to SMEs, short-term loans in particular (net percentage of around 33%).

Figure 5. Factors influencing changes in corporate loan demand



Loans to households

Housing loans

In the second quarter of 2016, in line with their announcements from the previous edition of the survey, the banks tightened the standards on housing loans (net percentage of around -27%, see Figure 6). The extent to which the lending policy was tightened was smaller than declared.

For the second quarter in a row, the survey-responding banks declared an increase in the collateral requirements for borrowers (net percentage of around -17%). At the same time, individual banks tightened other terms on housing loans: they raised credit spreads and non-interest loan costs, and increased the borrower's own contribution.

The tightening of the standards on housing loans materialized mainly due to factors not included in the survey (net percentage of around -93%, see Figure 7). Among those factors, the banks named the entry into force of the Act of 14 April 2016 *on the suspension of the sale of property of the Agricultural Property Stock of the State Treasury and amendment to certain acts*. Other factors that led to the tightening of the lending policy also included housing market forecasts and a change in competitive pressure (net percentage of around -21% and -11%).

Figure 6. Standards and terms on housing loans

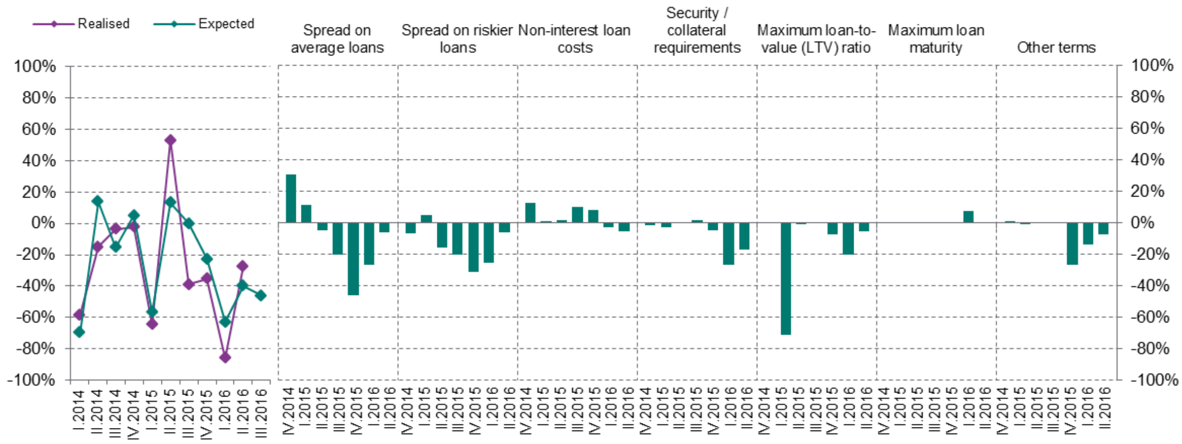
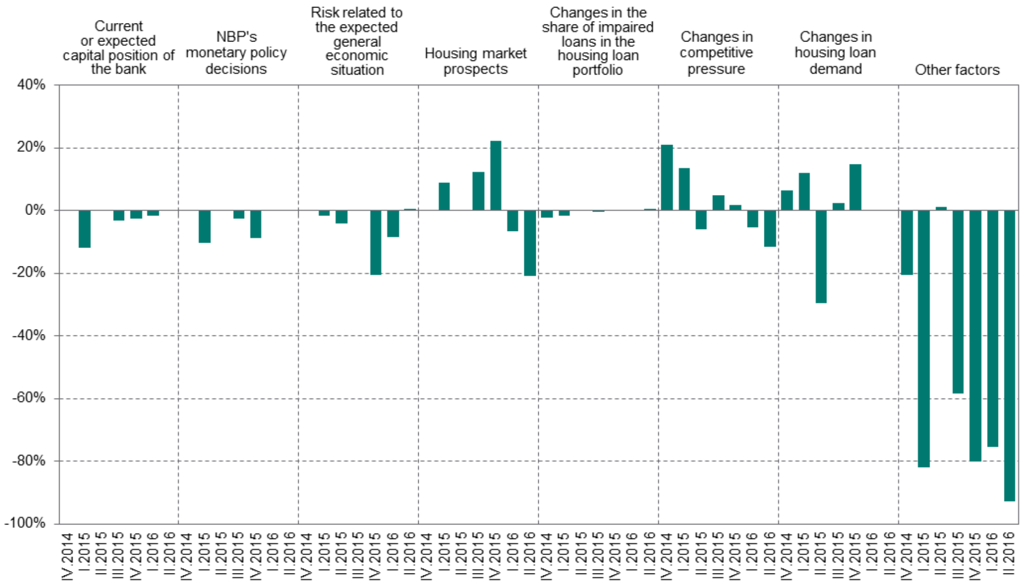


Figure 7. Factors influencing changes in lending policy – housing loans



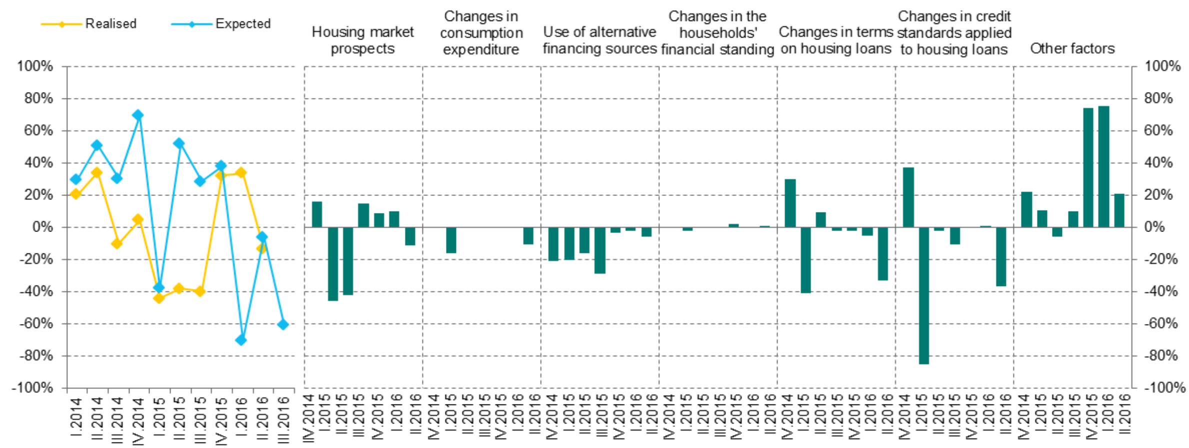
* The banks assess changes in competitive pressure from other universal banks, other mortgage banks and non-bank financial institutions. The Figure shows the arithmetic mean.

In the second quarter of 2016, the banks saw a fall in demand for housing loans, which was in line with their expectations from the previous edition of the survey (net percentage of around -14%, see Figure 8).

According to the banks, the main drivers of falling demand were tighter standards and terms on housing loans (net percentage of around -37% and -33% respectively, see Figure 8). Moreover, the fall in housing demand observed by the banks was driven by housing market forecasts and increased consumer spending by households (net percentage of around -11% and -11%, respectively). On the other hand, borrowers' concerns that the funds earmarked for subsidizing loans in 2017 under the government aid scheme "Housing for the Young"[1] would be fully depleted contributed to growth in demand. The funding is provided depending on the order of receipt of the borrower's loan application by the bank.

[1] According to the provisions of the Act of 27 September 2013 *on State aid in first-time home purchase by the young*, in the event of the impossibility of using the subsidy of own contribution in 2016 it is possible to file an application with the subsidy payment date scheduled for 2017.

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

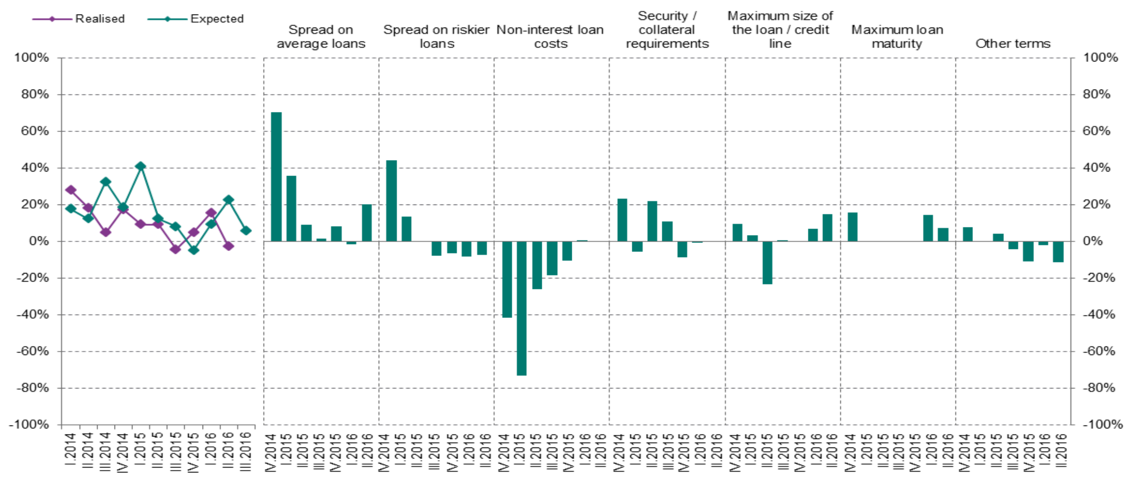


The banks say that in the third quarter of 2016 they will continue to tighten lending policy in the housing loan segment (net percentage of around -46%, see Figure 8) **and expect loan demand to fall significantly** (net percentage of around -60%).

Consumer loans

In the second quarter of 2016, the banks did not change the standards of granting consumer loans (see Figure 9).

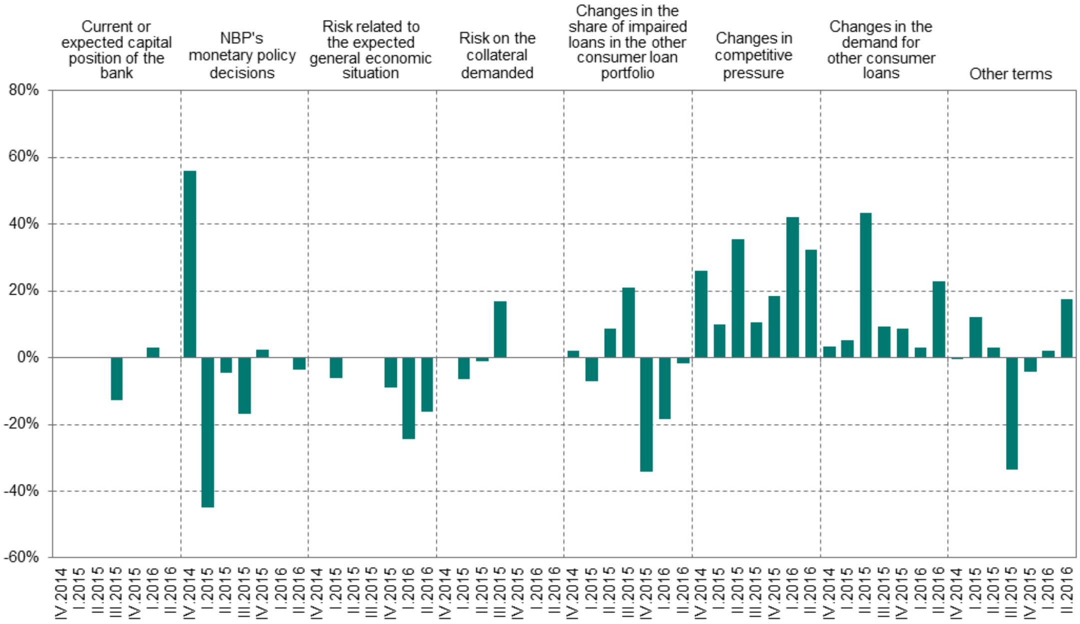
Figure 9. Standards and terms on consumer loans



In the second quarter of 2016, the survey-participating banks lowered credit spreads, increased the maximum loan size and extended maximum loan maturity (net percentage of around 20%, 15% and 7%, respectively). Other terms on consumer loans remained unchanged.

The banks that had eased the terms on consumer loans identified a rise in competitive pressure[2] and a shift in consumer loan demand (net percentage of around 32% and 23% respectively) as the main reasons for doing so. Moreover, the entry into force of the maximum limit for non-interest costs in a consumer loan[3] also helped to ease the terms. In turn, the banks that had tightened the lending terms explained it mainly by the expected economic situation (see Figure 10).

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



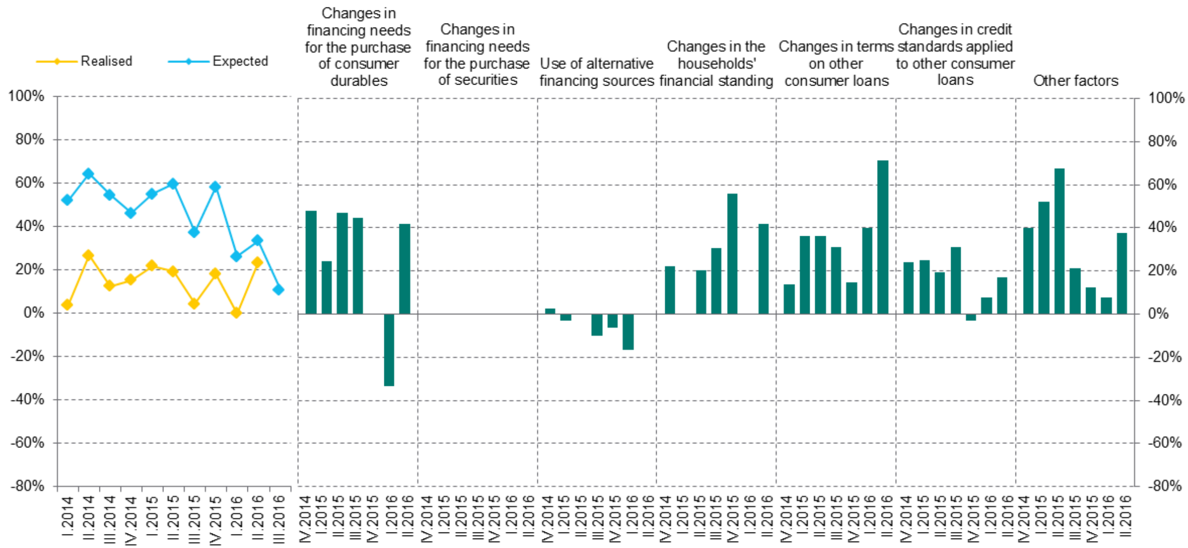
* The banks assess changes in competitive pressure from other banks and non-bank financial institutions. The Figure shows the arithmetic mean.

According to the surveyed banks, consumer loan demand increased in the second quarter of 2016 (net percentage of around 23%, see Figure 11). For the first time in over four years, the banks' expectations regarding demand developments from the previous edition of the survey were accurate.

[2] The banks assess changes in competitive pressure from other banks and non-bank financial institutions. The Figure shows the arithmetic mean.

[3] Adaptation to the Act of 5 August 2015 *on amending the act on financial market supervision and certain other acts*.

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



The banks which had seen growth in demand explained it mainly by the change in the terms on consumer loans, an increase in financing needs for durable goods and the changing economic situation of households (net percentage of around 71%, 42% and 42%, see Figure 11).

The banks expect no major changes in lending policy in the third quarter of 2016 (net percentage of around 6%, see Figure 9) **as around 11% of the banks expect demand for consumer loans to grow** (see Figure 11).

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 25 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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