NBP Narodowy Bank Polski

Senior loan officer opinion survey

on bank lending practices and credit conditions

4th quarter 2015

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Financial Stability Department
Warsaw, October 2015

Summary of the survey results

Corporate loans

Lending policy: a slight easing of lending standards for the majority of types of loans; a slight decrease in credit spreads.

Demand for loans: no major changes.

Expectations for the fourth quarter of 2015: no major changes in lending policy; a rise in demand.

Lending policy did not change significantly in the third quarter of 2015. Following a one-off increase in credit spread in the previous quarter, the banks lowered it again. For the eighth quarter in a row, loan demand was supported by increased financing needs for fixed investments.

Housing loans

Lending policy: a significant tightening of lending standards; a slight rise in credit spreads.

Demand for loans: a substantial fall in demand.

Expectations for the fourth quarter of 2015: lending policy to be tightened further; a rise in demand.

The banks tightened considerably their standards on housing loans although they had announced no major changes in the previous edition of the survey. For the third quarter in a row, the banks experienced a substantial fall in demand for housing loans. In the banks' view, the falling demand was driven mainly by the use of alternative funding sources.

Consumer loans

Lending policy: no major changes; an increase in non-interest loan costs.

Demand for loans: no major changes.

Expectations for the fourth quarter of 2015: no major changes in lending policy; a considerable rise in demand.

The banks increased non-interest consumer loan costs for the fourth quarter in succession. Compared to the previous edition of the survey, the impact of competitive pressure and demand for consumer loans on the banks' lending policy has lessened.

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 September and October 2015 among 25 banks with a total share of 82% 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.

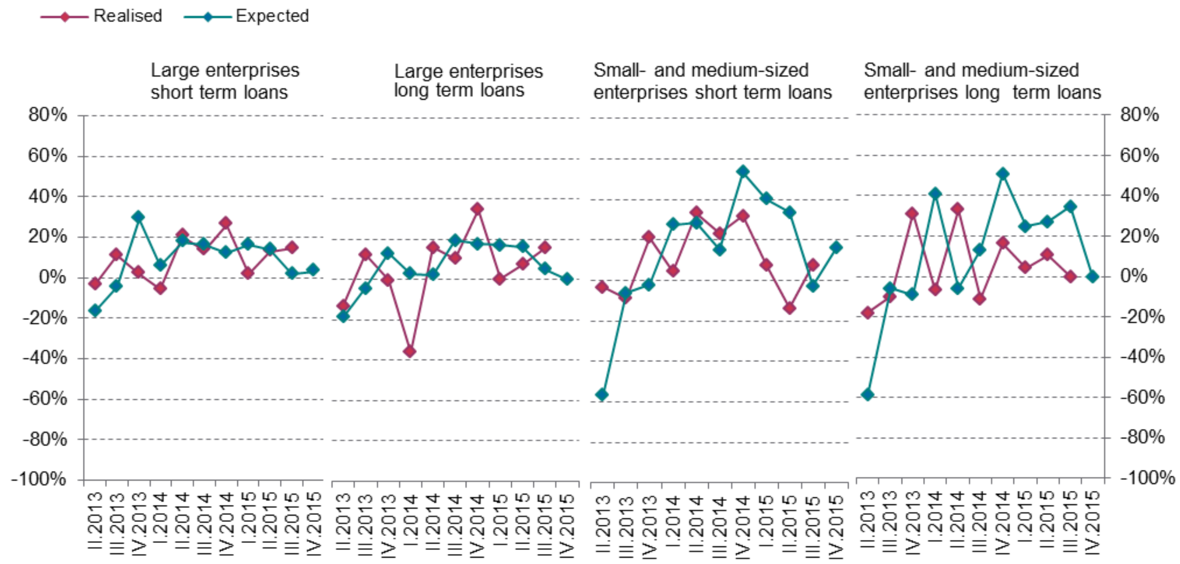
Unless otherwise indicated, the number of the banks cited in the text reporting a given change in their lending policies or in demand for loans means the net percentage of the banks.

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

Corporate loans

In the third quarter of 2015, the survey-responding banks eased slightly the standards of granting most types of corporate loans (see Figure 1). The standards of granting long-term loans to small and medium-sized enterprises (SMEs) remained unchanged.

Figure 1. Corporate credit standards



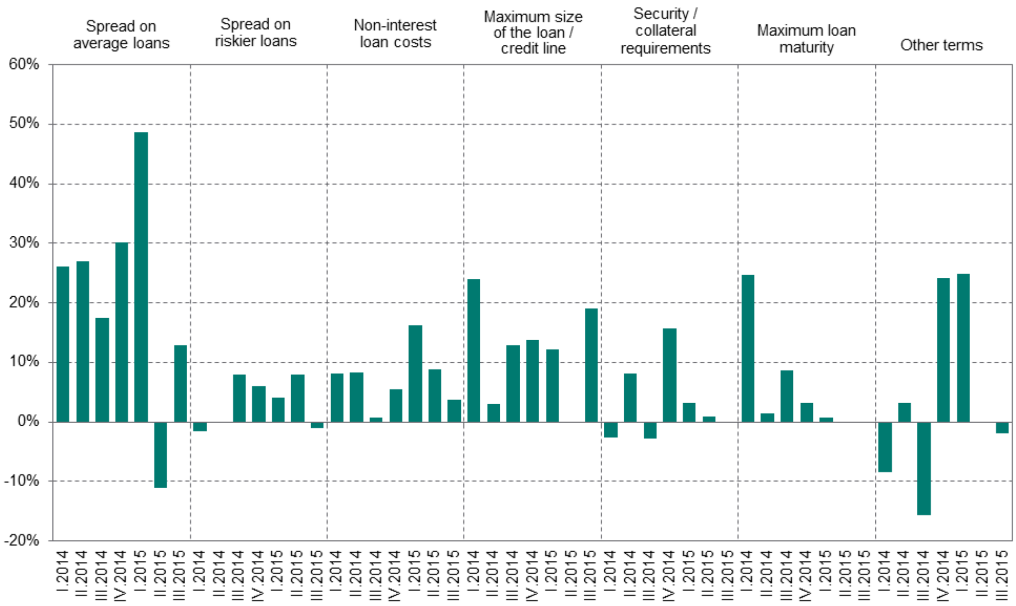
Note: Figures included in this study present the net percentage. A positive value of net percentage should be interpreted as an easing of lending policy or growth in loan demand, while a negative value of net percentage – as lending policy tightening or a drop in loan demand. Details concerning the calculation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

In the third quarter of 2015, the survey-participating banks reported that they had lowered their credit spreads (net percentage of around 13%). However, the banks' responses were discrepant as around 27% of *all* banks decreased the spread slightly and around 13% of *all* banks increased it slightly.[1]

[1] 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 eased considerably.

The easing of terms on corporate loans also concerned maximum loan size (net percentage of 19%, see Figure 2).

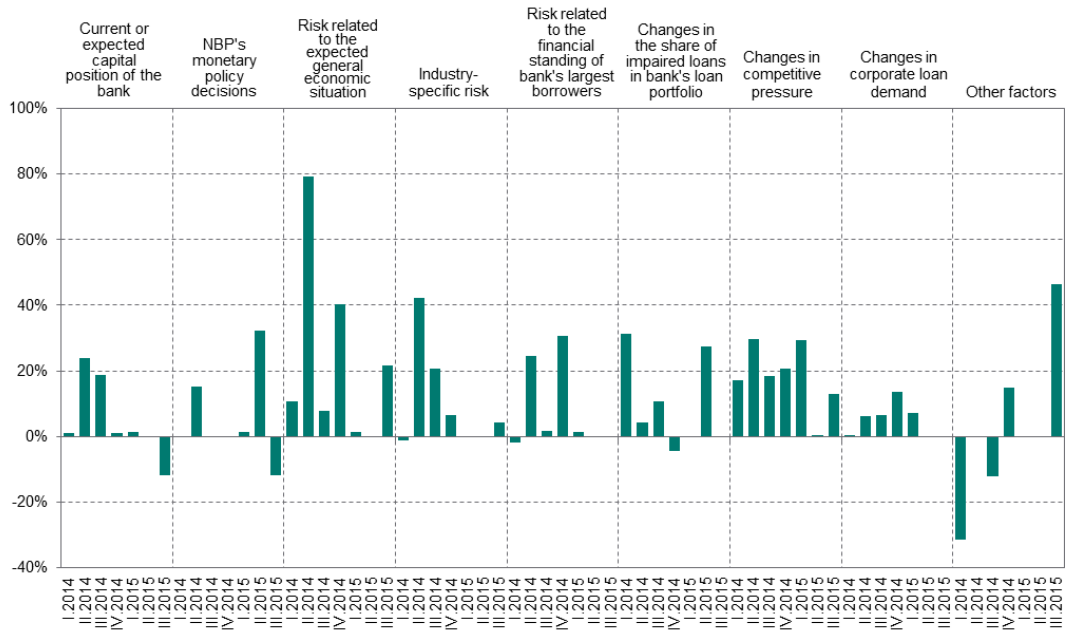
Figure 2. Terms on corporate loans



According to the banks, a drop in risk related to the economic situation and a rise in competitive pressure (net percentage of around 22% and 13%[2], respectively) **led to lending policy easing**. Compared with the previous edition of the survey, the banks say that the impact of the Monetary Policy Council (MPC) policy decisions and the quality of the loan portfolio on their lending policy has diminished significantly. The easing of lending policy was also driven by factors not accounted for in the survey, i.e. changes in the procedures of some banks that facilitated the documentation requirements for entrepreneurs.

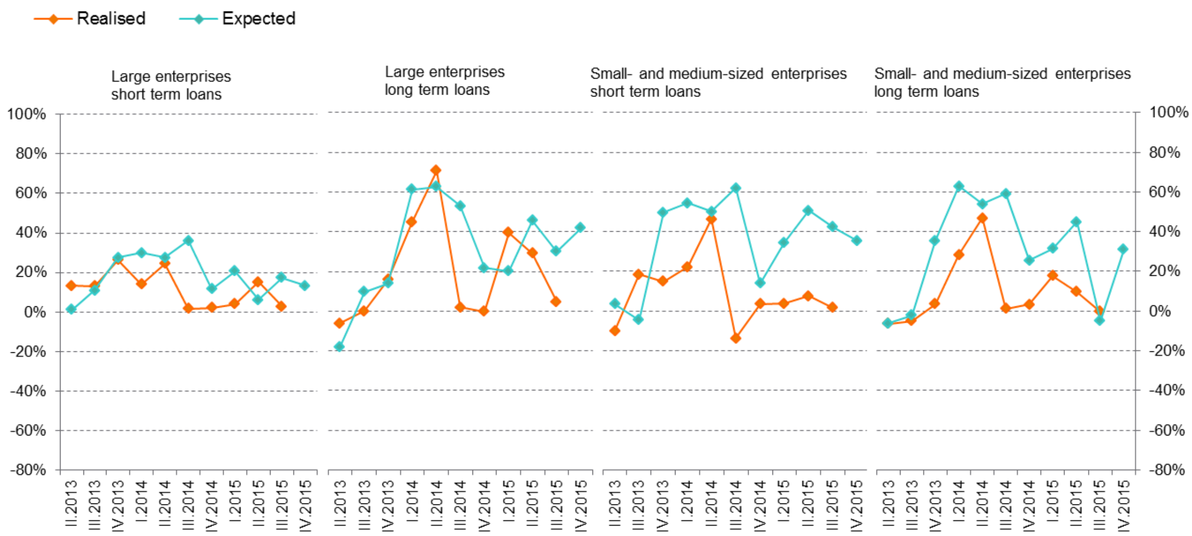
[2] The banks assess changes in competitive pressure from other banks, non-bank financial institutions and financial markets. The Figure shows the arithmetic mean.

Figure 3. Factors influencing changes in lending policy



In the third quarter of 2015, the majority of the banks did not experience a rise in corporate loan demand (see Figure 4). In the previous edition of the survey, the banks expected demand to be much higher, especially for short-term loans to SMEs and long-term loans to large enterprises.

Figure 4. Corporate loan demand



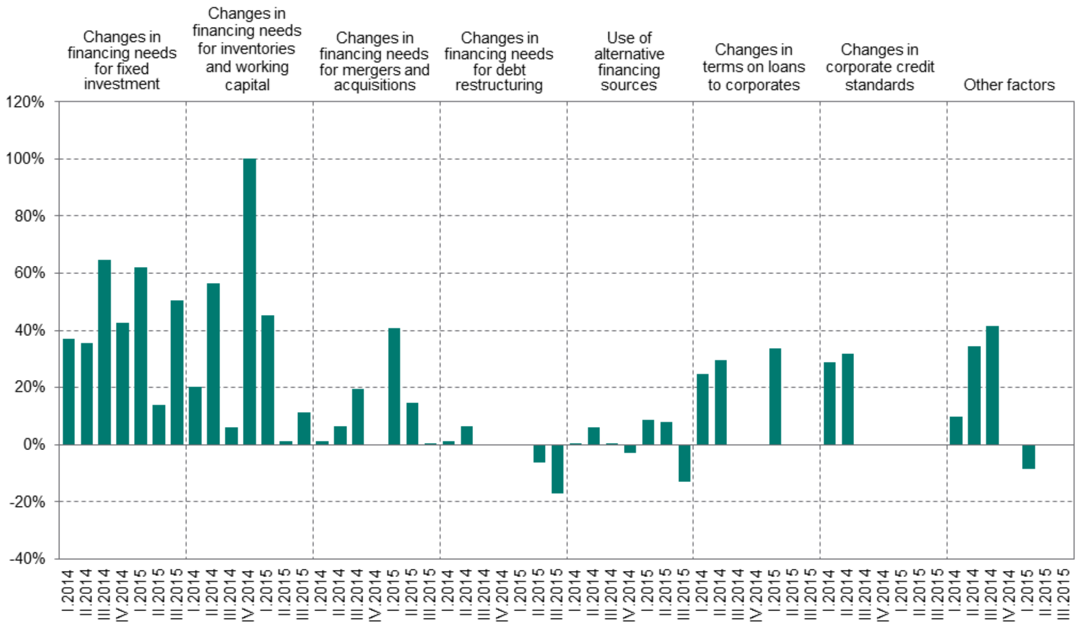
The banks that had experienced a rise in corporate loan demand explained it by higher needs for fixed investments (net percentage of around 50%, see Figure 5). The growth in financing needs for fixed investments was identified by the survey-responding banks as a factor supporting corporate loan demand for the past eight quarters.

The banks that saw corporate loan demand drop explained it by the use of alternative funding sources and a fall of financing needs related to debt restructuring (net percentage of around -17% and -13%, respectively).

The survey-responding banks do not expect major changes in lending policy in the corporate loan segment in the fourth quarter of 2015 (see Figure 1), with the exception of short-term loans to SMEs, where the policy is set to be eased (net percentage of around 16%).

The banks expect corporate demand for most credit categories to grow in the fourth quarter of 2015 (see Figure 4). The banks expect that the smallest increase in demand will be experienced in the segment of short-term loans to large enterprises (net percentage of around 13%).

Figure 5. Factors influencing changes in corporate loan demand



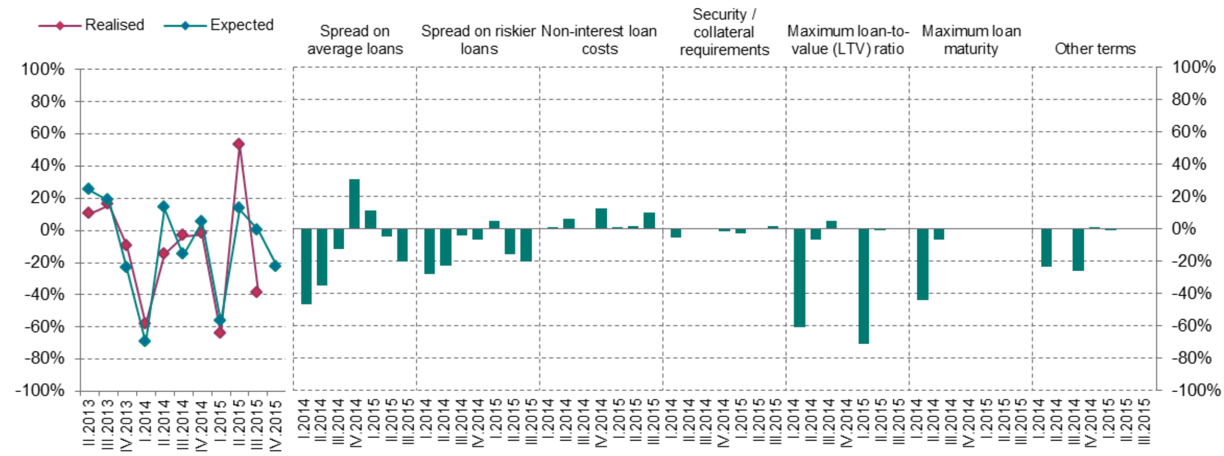
Loans to households

Housing loans

In the third quarter of 2015, the banks tightened the standards of granting housing loans considerably (net percentage of around -39%, see Figure 6). In the previous edition of the survey, the banks had expected no changes in lending standards. The discrepancy between the plans and actions of the banks resulted, among others, from the fact that the standards had been tightened by a small group of banks with a big market share.

According to the banks, the standards of granting housing loans were tightened mainly due to factors unaccounted for in the survey (net percentage of around 58%)**,** i.e. the recommendation of the Polish Financial Supervision Authority on raising minimum household spending when calculating the borrower's creditworthiness, and an increase in the cost of financing.

Figure 6. Standards and terms on housing loans



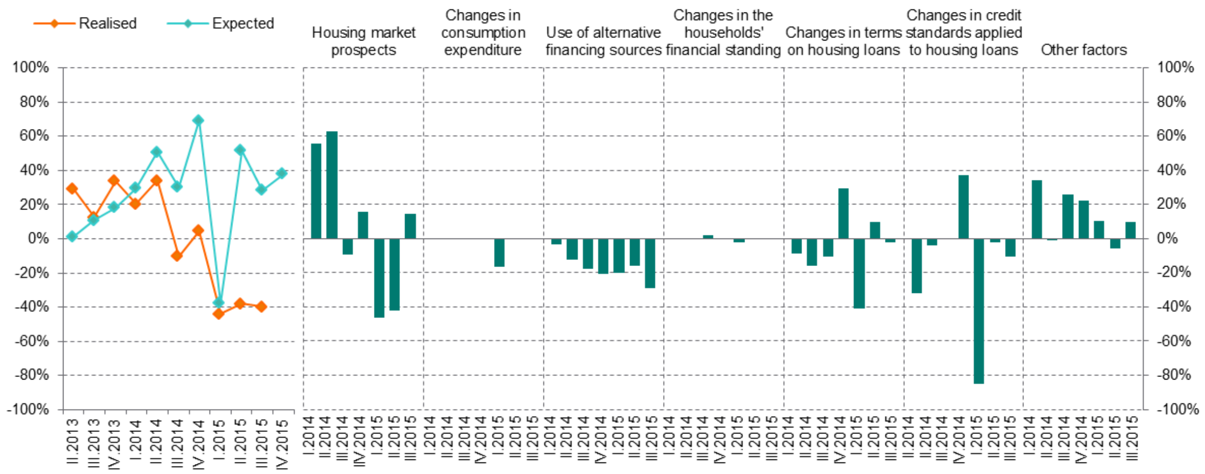
The surveyed banks said that they would equally raise credit spreads and credit spreads on riskier loans (net percentage of around 20%, respectively). At the same time, the banks reduced non-interest loan costs (net percentage of around 10%). Other terms on housing loans did not change.

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

The third quarter of 2015 was another quarter in which the banks were affected by a considerable decline in demand for housing loans (net percentage of around -40%, see Figure 8)**.** The banks expected demand to grow in the previous edition of the survey.

The banks affected by falling demand for housing loans cited the use of alternative sources of funding by clients (inter alia, use of low interest-bearing savings – net percentage of 29%) **and a change in credit standards** (net percentage of around 10%) **as the main factors behind the fall**.

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

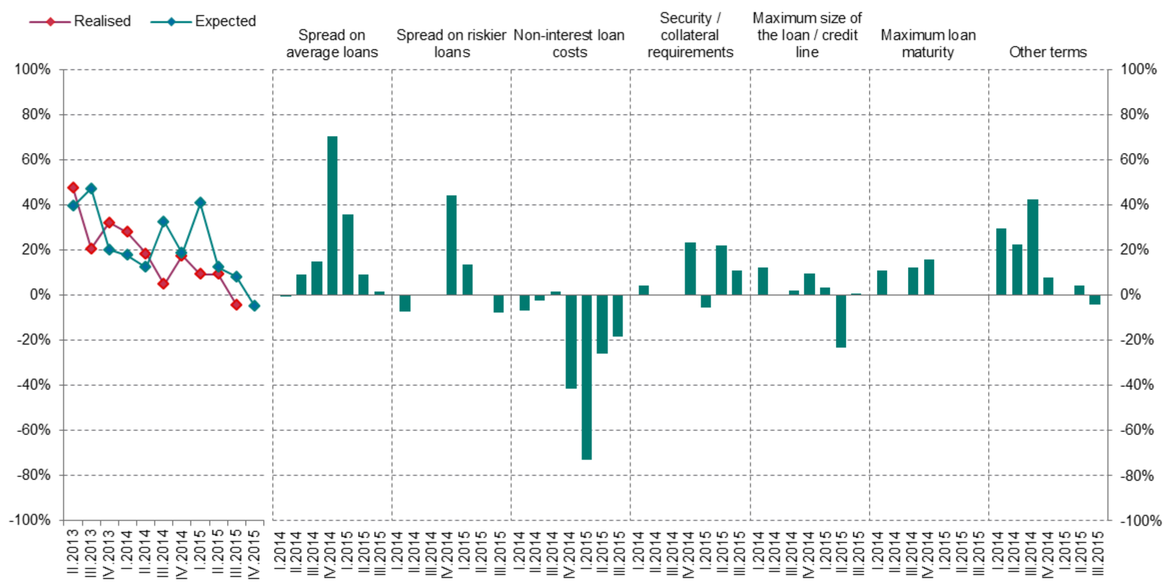


In the fourth quarter of 2015, the banks declare that they will continue to tighten lending policy in the housing loan segment and expect the demand for the loans to grow (net percentage of around 38%, see Figure 8). However, it has to be pointed out that the banks' expectations of housing loan demand growth have been substantially higher than actual changes in demand over two quarters.

Consumer loans

In the third quarter of 2015, the banks did not change their lending standards for consumer loans considerably (net percentage of around -4%, see Figure 9).

Figure 9. Standards and terms on consumer loans

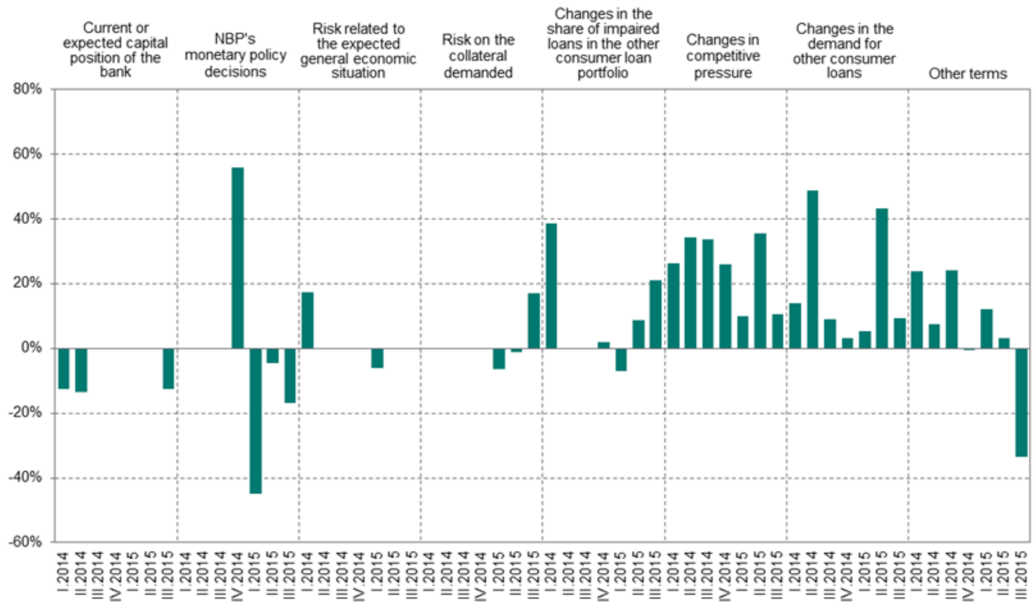


Some banks raised non-interest loan costs for a fourth quarter in a row (net percentage of around -18%). This should be linked to low NBP interest rates having a direct impact on the level of spreads[3] and the banks' attempts to maintain the current profitability on this loan. **On the other hand, the banks reduced their collateral requirements for borrowers** (net percentage of around 11%).

[3] The level of NBP interest rates is particularly important for consumer loans whose interest is markedly higher than that of housing and corporate loans. In accordance with Article 359 of the Polish Civil Code, the maximum amount of interest resulting from an act in law shall not exceed annually the amount of the Lombard credit rate of Narodowy Bank Polski multiplied by four.

The banks which had tightened the terms on consumer loans cited the MPC monetary policy decisions and factors unaccounted for in the survey, including the end of price promotion and the limits on consumer loans to potentially riskier clients, as the main reasons for doing so. On the other hand, the banks which had eased the terms on consumer loans explained it mainly by lower risk associated with recovery of the loan collateral, competitive pressure growth[4] and better quality of the consumer loan portfolio (see Figure 10).

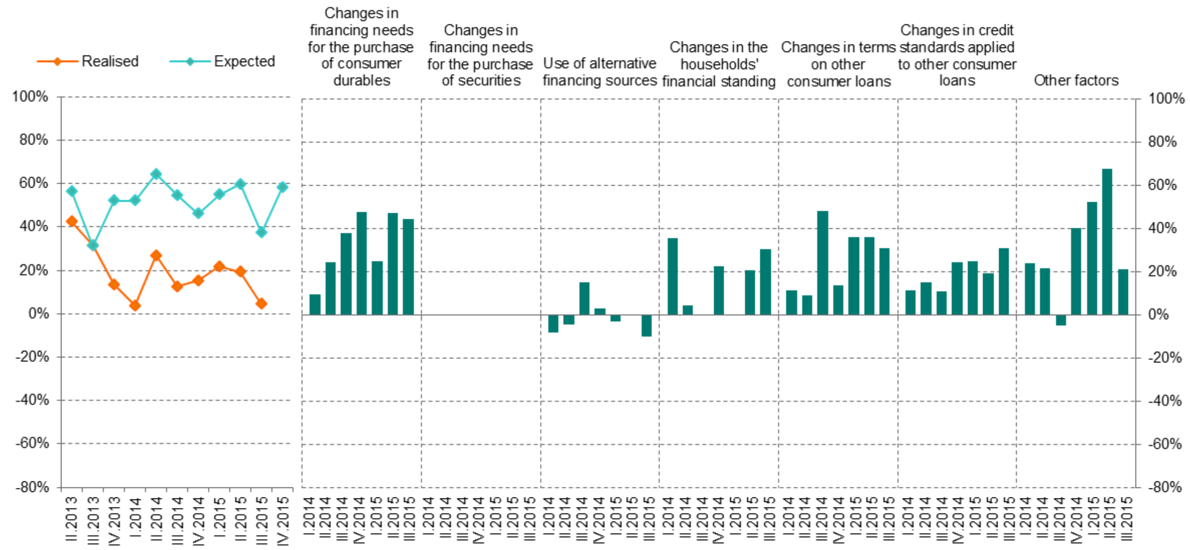
Figure 10. Factors influencing changes in lending policy – consumer loans



The majority of the survey-responding banks experienced no change in demand for consumer loans in the third quarter of 2015, and in net terms a very slight increase was observed (net percentage of around 5%**,** see Figure 11). In the previous edition of the survey, the banks expected consumer loan demand to grow more noticeably.

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

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



According to the banks, the rise in demand was mainly driven by higher financing needs for durable goods (net percentage of around 45%) and **a change in the economic standing of households** (net percentage of around 31%). In the banks' view, the growth of demand was – for another successive quarter – supported by the easing of standards and terms of granting consumer loans.

The banks do not expect major changes in lending policy in the fourth quarter of 2015 (net percentage of around -5%, see Figure 9).

Around 58% of the banks expect consumer loan demand to rise in the last quarter of 2015 (see Figure 11). However, the banks' expectations of consumer loan demand growth have substantially exceeded actual changes in demand over two years.

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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