MAGYAR NEMZETI BANK

# SENIOR LOAN OFFICER SURVEY ON BANK LENDING PRACTICES

AUGUST 2010

## Summary of the aggregate results of the survey for 2010 Q2

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*The lending survey facilitates the analysis of how major banks perceive and evaluate market developments and how they develop their respective strategies, in particular their lending policies. Additionally, for the third time, we also examined the developments in debt restructuring of banks. In addition to the household segment, this time the examination was extended to the corporate segment as well. Aggregating individual answers, weighted by banks' market shares, helps researchers draw conclusions regarding likely changes in the directions and trends in the credit market. The conclusions of this analysis always present the answers provided by senior bank officers; however in certain cases additional background information might be presented so that the user could easily oversee the tendencies.*

*The results of the survey are presented below in the form of a descriptive analysis and by means of charts illustrating the answers. Annex 1 contains the charts pertaining to the individual segments. The methodological background is described in details in Annex 2. Numerical data on the market shares can be found in Annex 3, and answers to the questions are presented in detail in Annexes 4, 5 and 6 (Annexes 3, 4, 5 and 6 are attached as a separate Excel file). The retrospective questions in the questionnaire relate to changes in 2010 Q2, while the forward-looking questions ask respondents for their views about changes they expect over the next six-month period, i.e. in 2010 H2. Questions focus on changes perceived relative to the previous quarter: the base period is 2010 Q1 for retrospective questions and 2010 Q2 for forward-looking questions.*

*In the case of the household segment, a total of 14 banks were involved in the interviews. Ten banks responded to questions related to housing loans, while 14 banks and 6 financial enterprises questions on consumer loans. With respect to housing loans, based on data from the end of 2010 Q2, the surveyed institutions accounted for 94% of the banking sector, while their percentage share in consumer loans was 93%. The corporate questionnaire was completed by seven banks, with a total market share of 83% and 93% of the corporate loan and commercial real estate loan markets, respectively. A total of 7 banks were interviewed on the subject of loans extended to municipalities. Based on data from the end of 2010 Q2, the institutions surveyed covered 97% of total municipal exposure by banks.*

# Contents

*The Magyar Nemzeti Bank released the results of its latest lending survey. The survey, which was conducted in July, found that in the household segment banks reported to have tightened their conditions on the minimum required credit score and on the maximum payment-to-income ratio level, in particular in relation to foreign currency-denominated home equity and mortgage loans. Similarly to the first quarter, in the second quarter of 2010 the banks perceived increased demand for forint-denominated housing loans.*

*According to the survey, in respect of corporate loans the tightening cycle witnessed since 2007 has ended, but the responses provided by the banks suggest that the considerably tighter credit conditions currently applied may remain in place over a longer period. In parallel with this, banks believe that the economic outlook, customer creditworthiness and their own risk tolerance do not justify any further tightening measures or substantial loosening in credit conditions.*

*In addition to lending activity, we also closely examined the loan restructuring in the outstanding portfolio. The ratio[1] of restructured loans to the outstanding increased further in the past quarter, increasing from 3.5 per cent to 4.4 per cent in the corporate segment, and from 5.2 per cent to 6.1 per cent the household segment. Furthermore, the number of unsuccessful loan restructuring attempts increased considerably as well: based on banks' responses, the ratio[2] of delinquent restructured loans in the household segment increased from 20 per cent in the first quarter to 25 per cent, from 3 per cent to 6 per cent in relation to large corporations and from 9 per cent to 18 per cent in the small and medium-sized enterprise segment in the second quarter. The increase is attributed to the fact that with time, the grace periods provided in the framework of restructuring expire, which – for lack of substantial improvement of the macroeconomic environment – leads to deterioration in the portfolio quality of restructured loans.*

## FOREIGN CURRENCY-DENOMINATED LENDING LOSES PROMINENCE IN THE HOUSEHOLD SEGMENT

In relation to housing loans, in net terms 69 per cent of banks, and in relation to consumer loans, 36 per cent of banks[3] reported to have moderately tightened their credit conditions compared to the first quarter (Annex, Chart 4), owing to the government decree on prudent lending. This was primarily true in the case of foreign currency-denominated loans (Chart 5). The vast majority of banks are not planning any further tightening during the next six months in either household segment.

In line with the expectations voiced in the previous survey, the banks reported to have moderately tightened the minimum required credit score and the maximum payment-to-income ratio in relation to housing loans (Chart 6), predominantly in connection with foreign currency-denominated loans. According to feedback from the banks, the change is attributed to the second part of the government decree on prudent lending that came into force on 11 June, which tightened the credit conditions of foreign currency-denominated loans and prohibits purely collateral-backed lending by the establishment of credit limits, which differentiate between various currency types.

In the consumer loan segment, banks predominantly tightened home equity standards, mainly in relation to foreign currency-denominated loans (Chart 5). By contrast, they did not further tighten their credit standards in the motor vehicle financing segment on the whole – in fact, some banks loosened their existing stringent interest terms in relation to forint-denominated loans (Chart 5). The effect of the government decree on prudent lending was less pronounced in relation to consumer loans, attributed to the fact that the banks had already significantly tightened their credit conditions previously during the crisis, from quarter to quarter.

On the demand side, in net terms 33 per cent of banks reported to have perceived an overall increase in demand compared to the previous quarter, in contrast with the 17 per cent reported in 2010 Q1 in relation to housing loans (Chart 9). Similarly to the previous survey, most of the banks witnessed a further increase in demand for forint-denominated loans and a further decline in demand for foreign currency-denominated loans in comparison to the previous quarter (Chart 3). In addition to the effect of the regulation, the pick-up in demand for forint-denominated loans is also attributed to the narrowing gap

[1] The outstanding amount of restructured loans to the outstanding amount of loans of the given segment.

[2] The outstanding amount of delinquent restructured loans to the outstanding amount of restructured loans of the given segment.

[3] The net percentage balance indicates the difference between tightening and easing banks weighted by their market share, in relation to credit conditions. The net percentage balance does not include the degree of tightening/easing.

between interest rates on forint-denominated and foreign currency-denominated loans. By contrast, the banks did not perceive a further increase in demand for consumer loans in the second quarter (Chart 15).

In summary, by the end of the second quarter of 2010 – before the regulatory prohibition of the mortgaging on foreign currency-denominated loans – forint-denominated loans gained a dominant position in the household mortgage loan segment, owing to demand and substantially to the supply side as well. On the supply side, this is not only attributed to the banks' business strategy, but also to a major extent to the currency differentiation applied in the government decree on prudent lending.

## END OF THE TIGHTENING CYCLE IN THE CORPORATE SEGMENT

The tightening cycle seen since 2007 ended in relation to corporate loans in the second quarter of 2010 (Chart 23), but banks' responses suggest that the currently quite tight credit conditions may remain in place over the long term. The banks' responses suggest that their lending capacity – their capital and liquidity position – is not contributing to tightening; moreover, in net terms 13 per cent of banks claim that their liquidity position would actually warrant loosening in conditions (Chart 34). Regarding the creditworthiness of borrowers – determined predominantly by the economic outlook and sector-specific factors – and banks' risk tolerance (changing risk tolerance), this was the first time since the onset of the crisis that neither of these factors necessitated tightening, although neither contributed to any definitive easing in conditions.

A net 20 per cent of banks reported to have perceived a further increase in demand for corporate loans compared to the previous quarter, but predominantly for short-term loans (Chart 36), while the upturn in demand for long-term – essentially investment-related – loans witnessed in 2010 Q1 came to a halt. The banks expect further growth in demand for long-term loans over the next six month.

The banks continue to extensively tighten the credit conditions of commercial real estate loans and no shift in this trend is expected in the next six months, either (Chart 38). In addition, the banks observed declining demand (Chart 39) and worsening portfolios (Chart 40) in all sub-segments (office, industrial, retail, residential), similarly to all quarters since the onset of the crisis, but their responses suggest that demand bottomed out in the previous quarter.

Contrary to the trends in Hungary, according to the recent lending survey of the ECB,[4] the tightening cycle in the euro area intensified again, as a net 11 per cent of banks reported to have tightened their credit conditions compared to the previous quarter, in contrast with the 3 per cent recorded in the previous survey, primarily as a result of strains on the liabilities side and liquidity tensions.

## ALTHOUGH BANKS ARE OPEN TO RESTRUCTURING DELINQUENT LOANS, EVEN THIS IS UNABLE TO HELP MORE AND MORE BORROWERS

In addition to lending activity, we closely examined loan restructuring in the outstanding portfolio. By the end of the second quarter of 2010, the outstanding amount of restructured loans increased to over 5 per cent within the large corporate loan portfolio, up from 3.5 per cent in the previous quarter. In contrast, the restructured loan portfolio stagnated in the small and medium-sized enterprise segment at around 3.5 per cent, while the figure remained around 14 per cent in relation to commercial real estate loans (Chart 46-47). The ratio of restructured loans (The outstanding amount of restructured loans to the outstanding amount of loans of the given segment) increased moderately in the household loan portfolio compared to the previous quarter. Within the respective loan portfolios, the figure rose from 4 per cent to 4.7 per cent in relation to housing loans, from 8.1 per cent to 9.4 per cent in relation to home equity loans, but stagnated around 5.5 per cent in the motor vehicle financing segment (Chart 49). The banks expect a substantial increase in the restructured portfolio by the end of 2010, both in relation to the corporate (Chart 46) and the household segment (Chart 49). This suggests that the banks continue to favour restoring the solvency of problematic customers through restructuring over immediate realisation of collateral and debt collection.

[4] See: http://www.ecb.int/stats/money/surveys/lend/html/index.en.html.

In examining the success of restructuring, it was found that the delinquency rate (over 30 days) surged in the corporate segment after restructuring (The outstanding amount of delinquent restructured loans to the outstanding amount of restructured loans of the given segment). In one quarter, the delinquency rate of over 30 days within the restructured loan portfolio rose from 9 per cent to 18 per cent for small and medium-sized enterprises and from 5 per cent to approximately 25 per cent in relation to commercial real estate loans (Chart 48). The decline was also substantial for large corporations (from 3.4 per cent to 6 per cent), albeit the level here is considerably more moderate.

The delinquency rate (over 30 days) in the household segment worsened further in the second quarter of 2010, but to a lesser extent than in the corporate segment. The delinquency rate rose from 19 per cent to 23 per cent in relation to housing loans, from 25 per cent to 30 per cent in relation to home equity loans, and from 22 per cent to 27 per cent in the motor vehicle financing segment within the restructured loan portfolio[5] (Chart 50). It should be noted that most of the restructured loans were delinquent preceding restructuring. In this regard, nearly three-fourths of restructured mortgage loans have been saved from defaulting in the household segment so far, but further deterioration is expected in the restructured loan portfolio if there is no substantial improvement in the income position of households and in employment over the next period.

The banks revealed their applied methods at the re-defaulted restructured loans in the household segment. Based on their responses, they plan to initiate the collection process/realisation of collateral in relation for nearly 40 per cent of defaulted restructured mortgage loans, and for three-fourths of such loans in relation to motor vehicle financing, while in the other cases either extension of the current restructuring method or the use of another method is planned (Chart 51). Thus, the banks do not necessarily consider future solvency to be lost in the case of re-defaulted restructured loans, but a constructive approach is required from the customers.

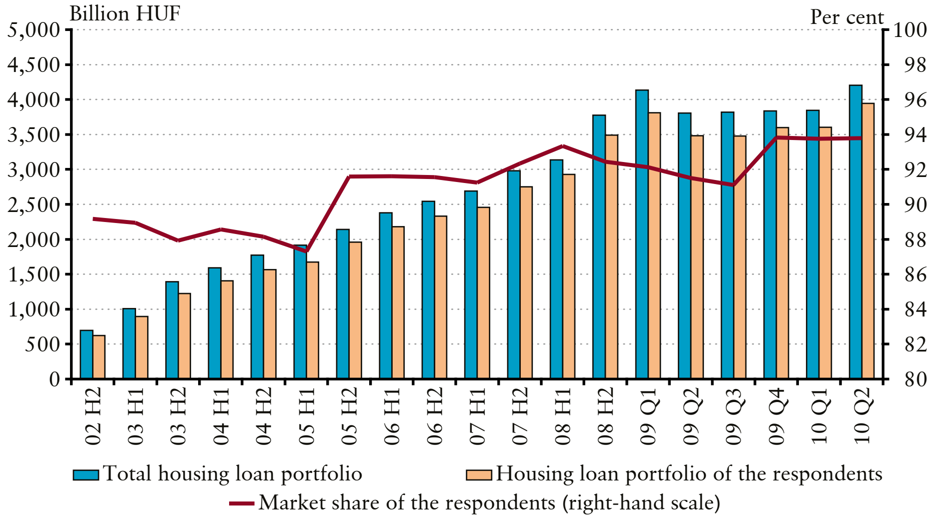
[5] Roughly half of these loans are delinquent over 90 days in the household segment.

# Annex 1: Charts indicating developments in loan portfolios and answers to the questionnaire

## LENDING TO HOUSEHOLDS

### Chart 1

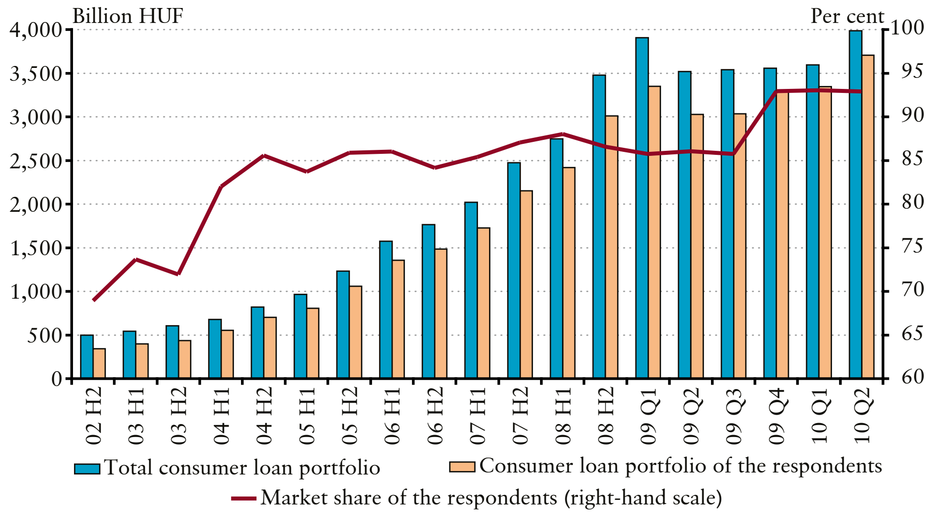
**Outstanding amount of housing loans and the market share of banks completing the questionnaire**




*Note: The number and scope of banks varied during the half-year periods under review (e.g. as a result of mergers and the inclusion of new banks). From 2009, stock data also include those for credit institutions and branches.*

### Chart 2

**Outstanding amount of consumer loans and the market share of banks completing the questionnaire**

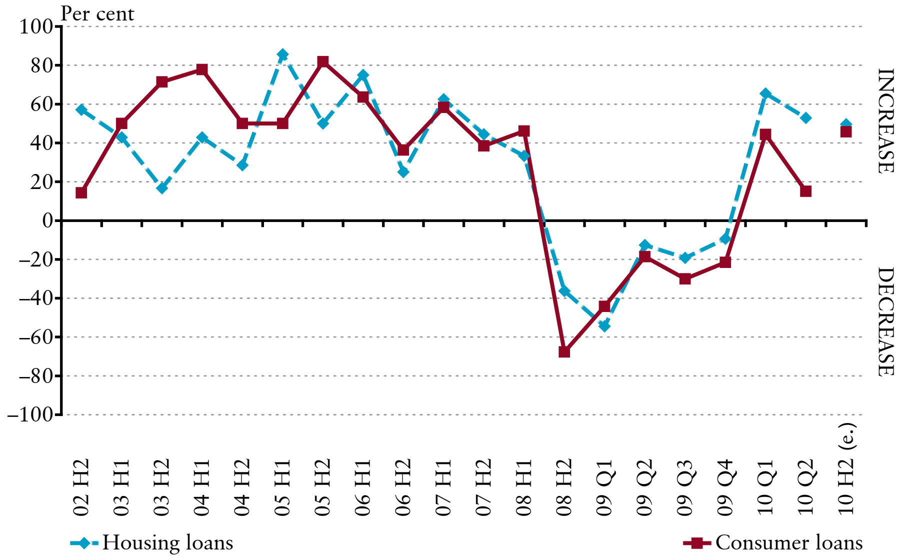



*Note: The number and scope of banks varied during the half-year periods under review. Chart 5 only plots market shares of the banks surveyed; it does not plot market shares of financial enterprises. From 2009, stock data also include those for credit institutions and branches.*

## Chart 3

### Willingness of banks to extend housing loans and consumer loans

*(net percentage balance of respondents reporting increased/decreased willingness to lend weighted my market share)*




## Chart 4

### Credit conditions/Credit standards in the housing loan and consumer loan markets

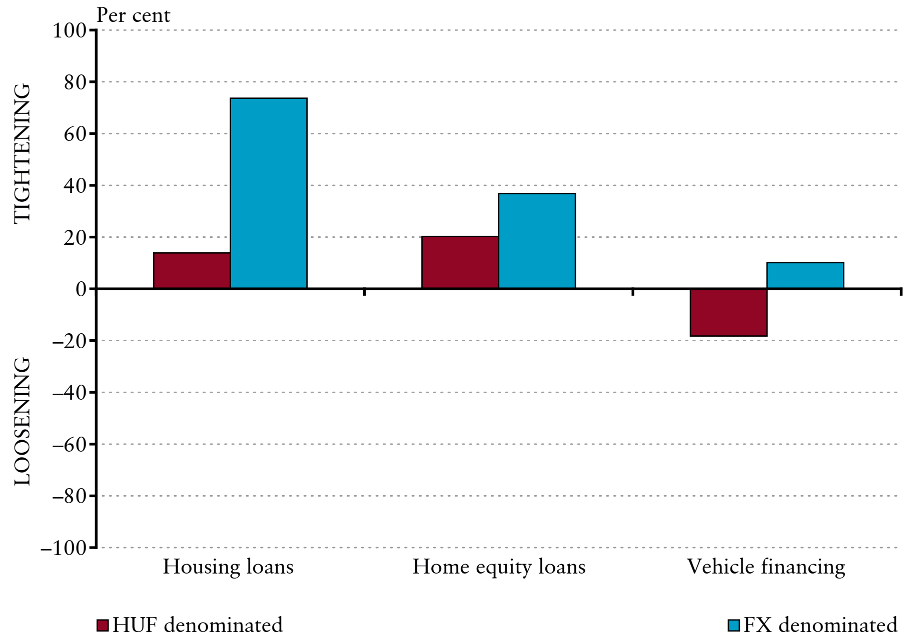
*(net percentage balance of respondents tightening/easing credit standards weighted my market share)*


*Note: The magnitude of tightening/easing is not shown in the chart.*

## Chart 5

### Credit conditions/Credit standards in the housing loan and consumer loan markets by denomination

*(net percentage balance of respondents tightening/easing credit standards weighted my market share)*

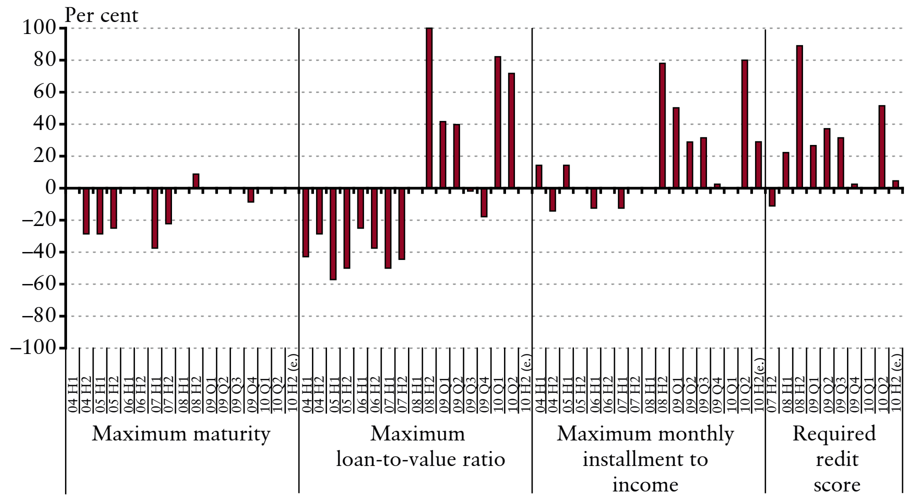



*Note: The magnitude of tightening/easing is not shown in the chart.*

## Chart 6

### Credit conditions in the housing loan market – non-pricing conditions

*(net percentage balance of respondents tightening/easing credit conditions weighted my market share)*

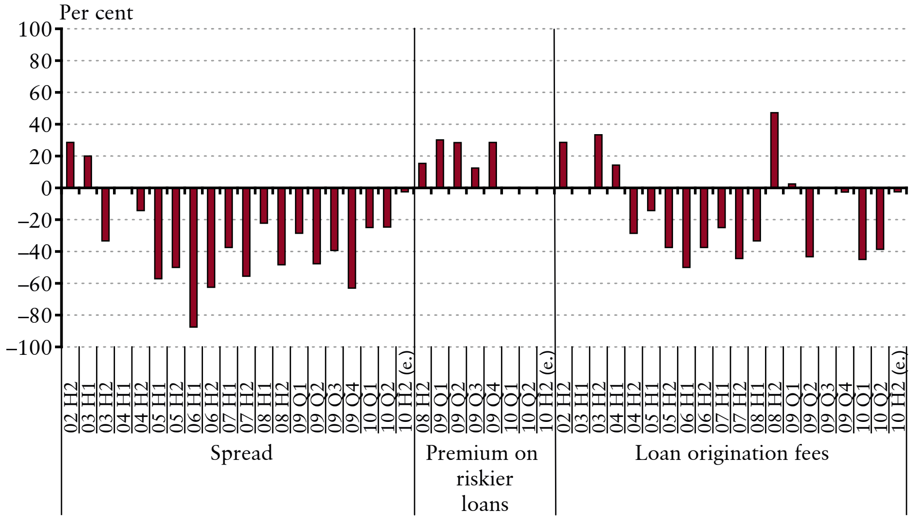



*Note: The magnitude of tightening/easing is not shown in the chart.*

## Chart 7

### Credit conditions in the housing loan market –pricing conditions

*(net percentage balance of respondents tightening/easing credit conditions weighted my market share)*

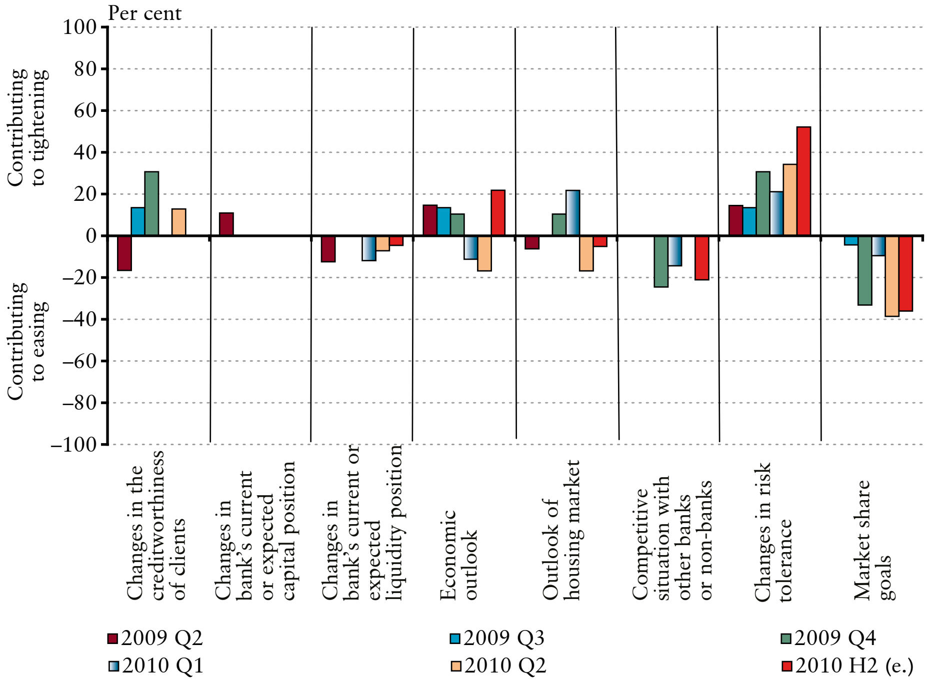



*Note: The magnitude of tightening/easing is not shown in the chart.*

## Chart 8

### Factors contributing to changes in credit standards and credit conditions in the case of housing loans

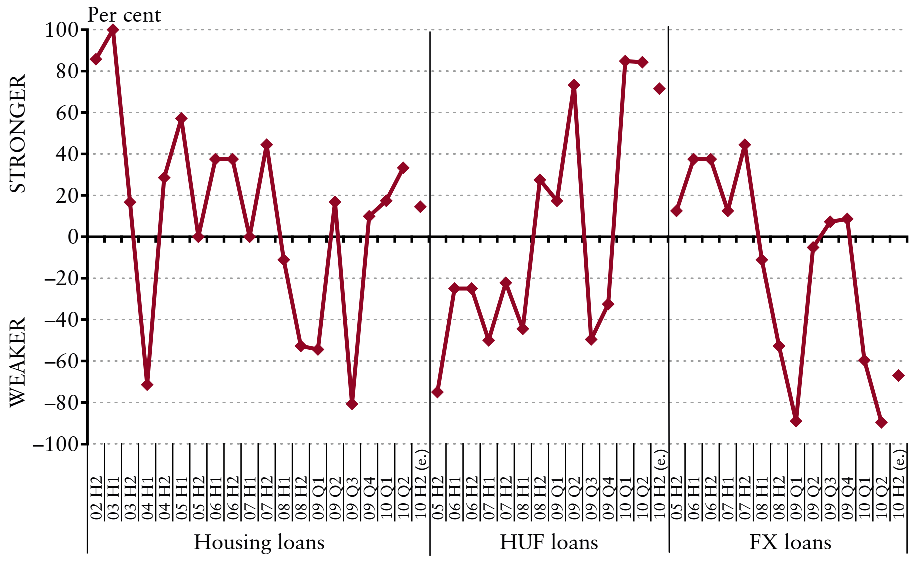
*(net percentage balance of banks indicating a contribution of individual factors to tightening or easing weighted my market share)*



## Chart 9

### Demand for housing loans

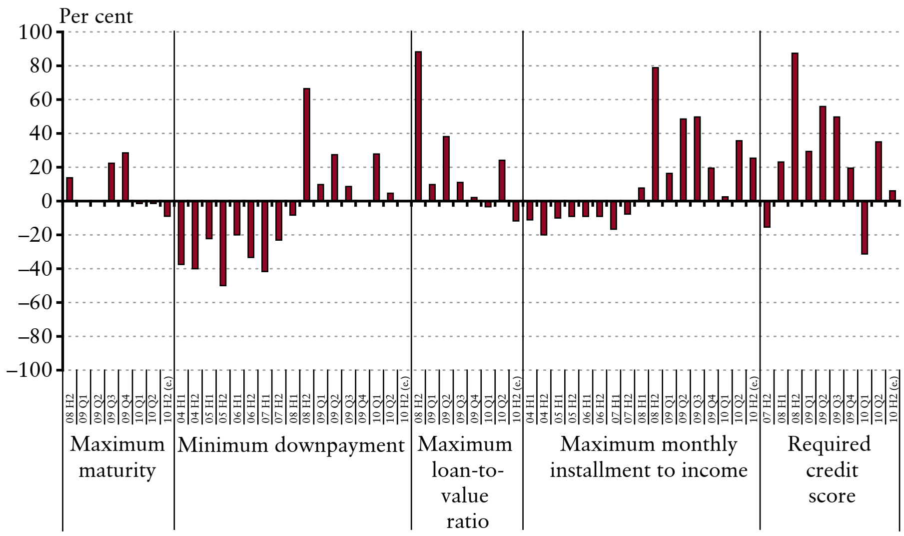
*(net percentage balance of respondents reporting increase/decrease in demand weighted my market share)*




## Chart 10

### Credit conditions in the consumer loan market –non-pricing conditions

*(net percentage balance of respondents tightening/easing credit conditions weighted my market share)*

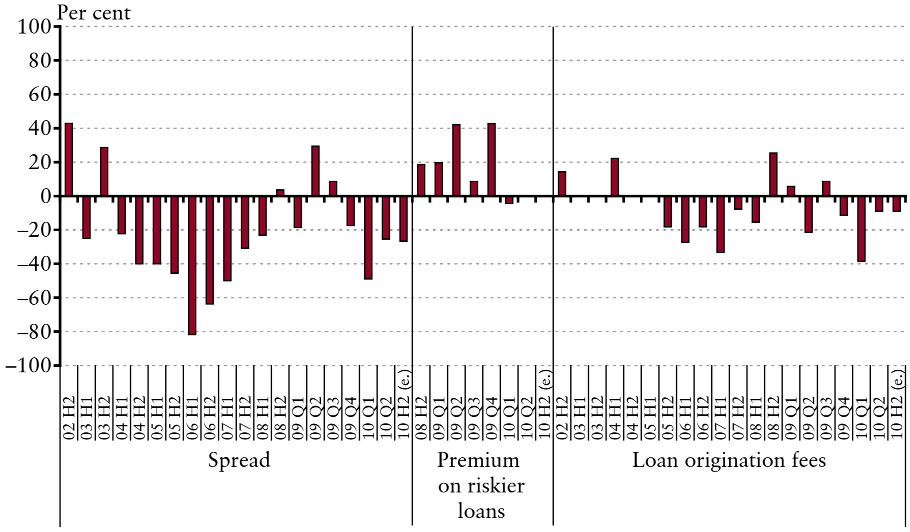



*Note: The magnitude of tightening/easing is not shown in the chart.*

## Chart 11

**Credit conditions in the consumer loan market –pricing conditions**

*(net percentage balance of respondents tightening/easing credit conditions weighted my market share)*

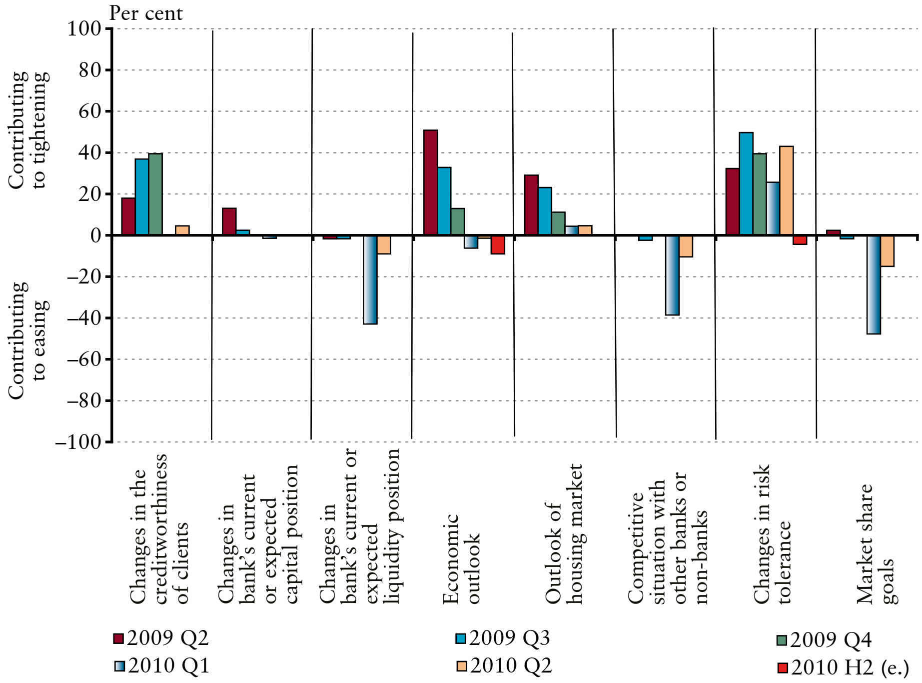



*Note: The magnitude of tightening/easing is not shown in the chart.*

## Chart 12

**Factors contributing to changes in credit standards and credit conditions in the case of consumer loans**

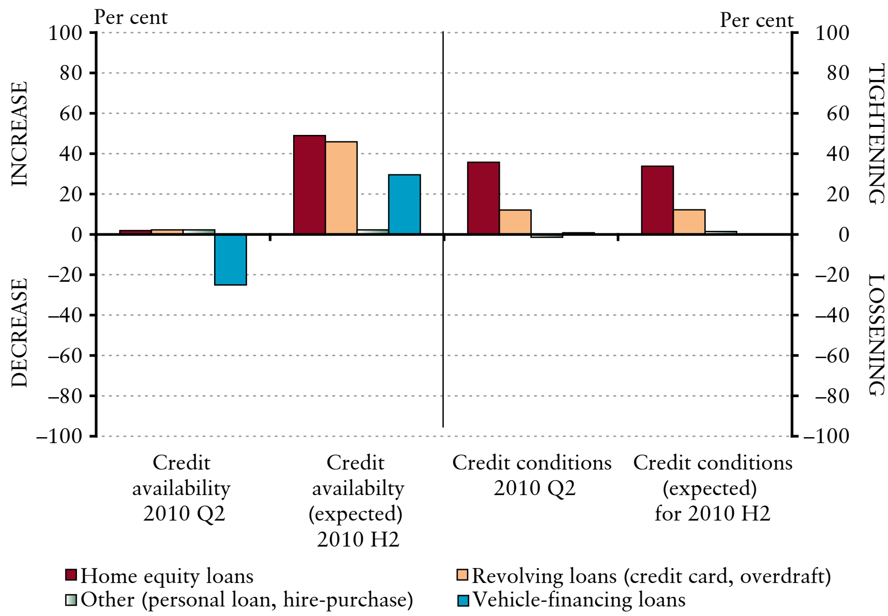
*(net percentage balance of banks indicating a contribution of individual factors to tightening or easing weighted my market share)*



## Chart 13

**Willingness to lend and credit standards/credit conditions for different consumer loan products**

*(net percentage balance of respondents weighted by market share)*

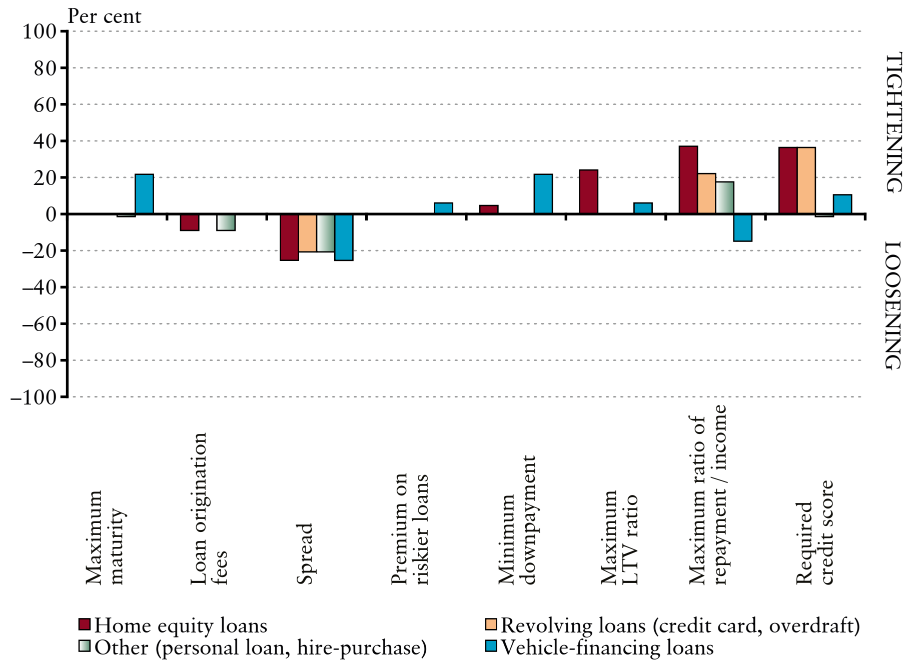



*Note: The magnitude of tightening/easing is not shown in the chart.*

## Chart 14

**Credit conditions for different consumer loan products**

*(net percentage balance of respondents tightening/easing credit conditions weighted by market share)*

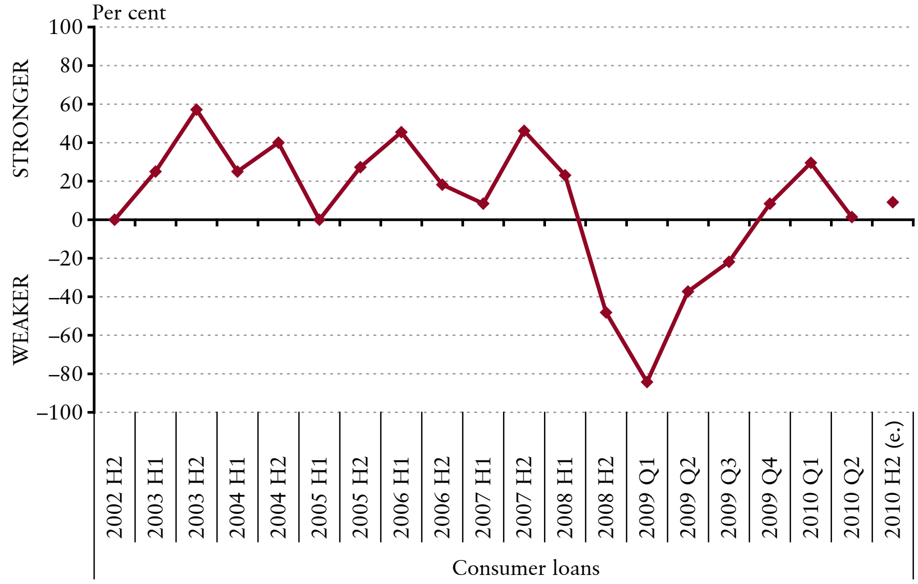



*Note: The magnitude of tightening/easing is not shown in the chart.*

## Chart 15

### Demand for consumer loans

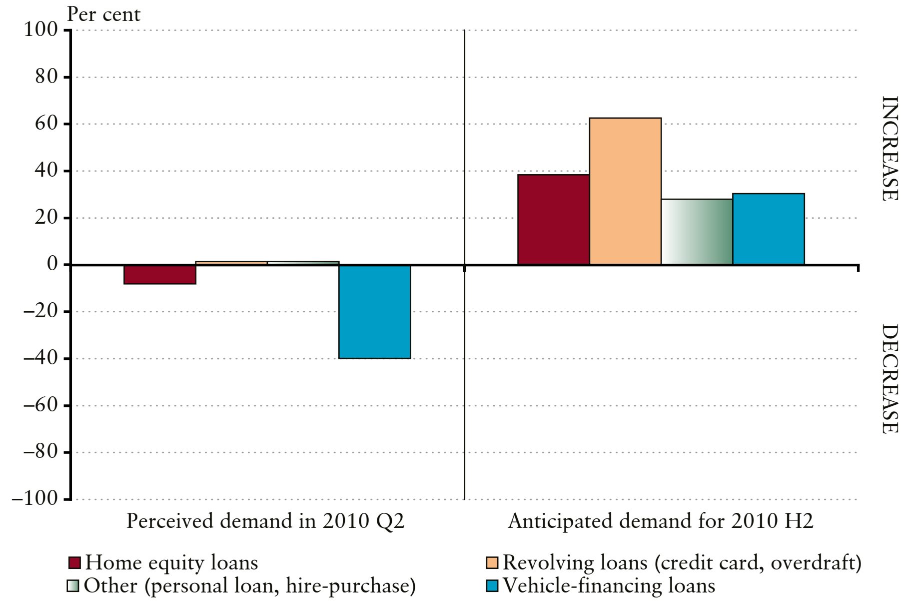
*(net percentage balance of respondents reporting increase/decrease in demand weighted by market share)*




## Chart 16

### Demand for different consumer loan products

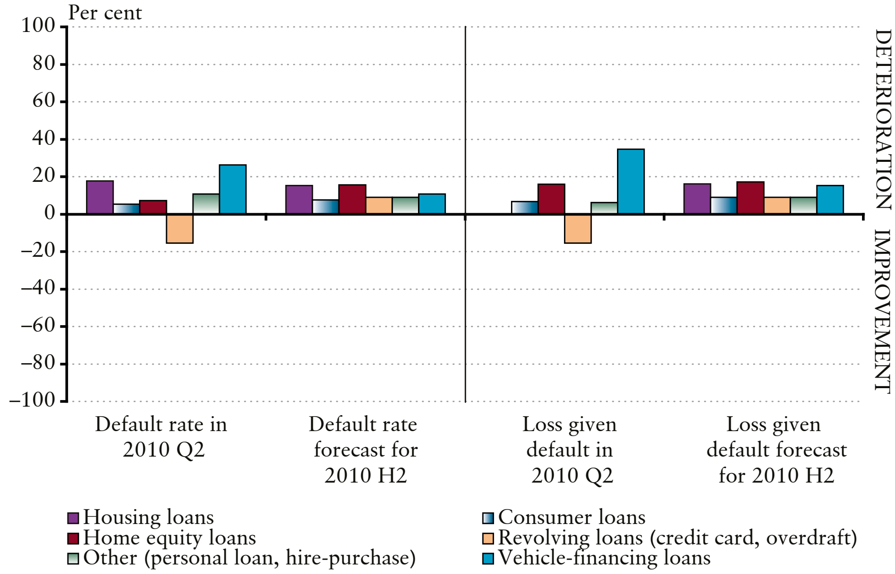
*(net percentage balance of banks reporting increase or decrease weighted by market share)*



## Chart 17

### Default rate of loans to households and loss given default

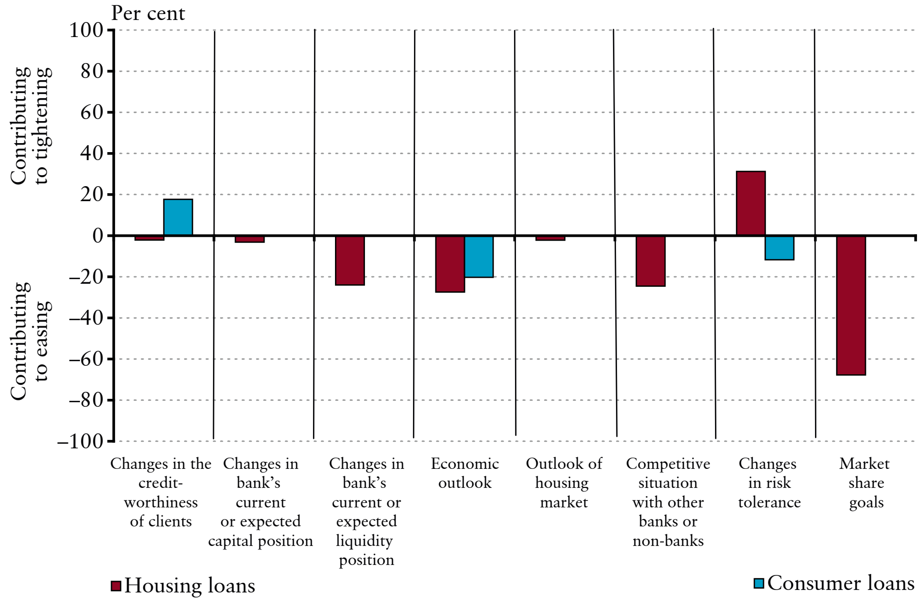
*(net percentage balance of banks reporting increase or decrease weighted by market share)*




## Chart 18

### Banks' previously projected expectations for 2010 H1 about developments in credits conditions

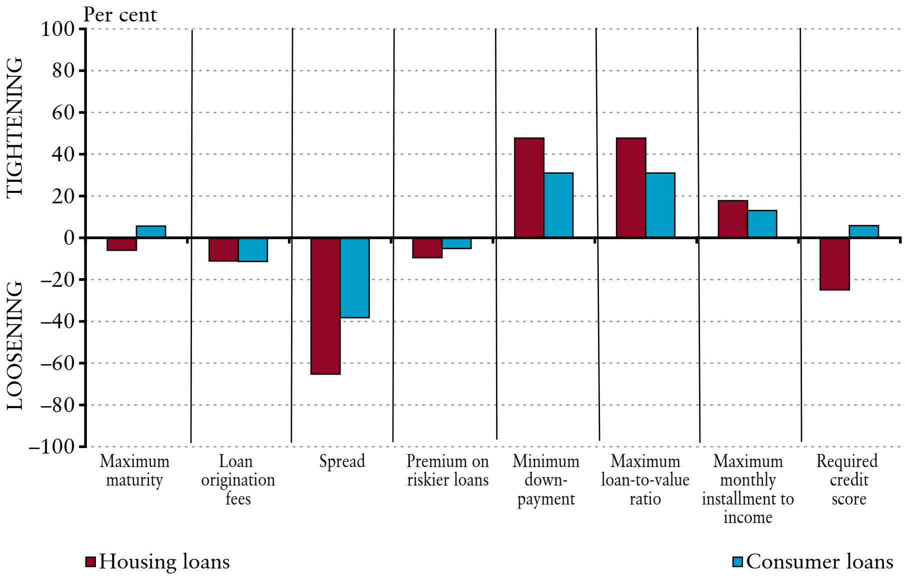
*(net percentage balance of respondents expecting tightening/easing in credit conditions weighted by market share)*




*Note: The magnitude of tightening/easing is not shown in the chart.*

**Chart 19**

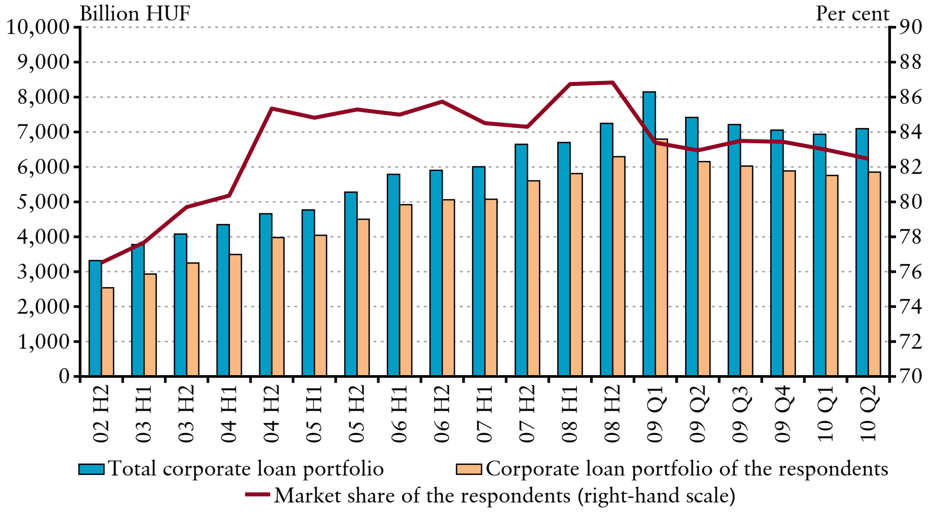
**Banks' previously projected expectations for 2010 H1 about factors determining credits conditions**
*(net percentage balance of banks indicating a contribution of individual factors to tightening or easing weighted by market share)*



# LENDING TO THE CORPORATE SECTOR

## Chart 20

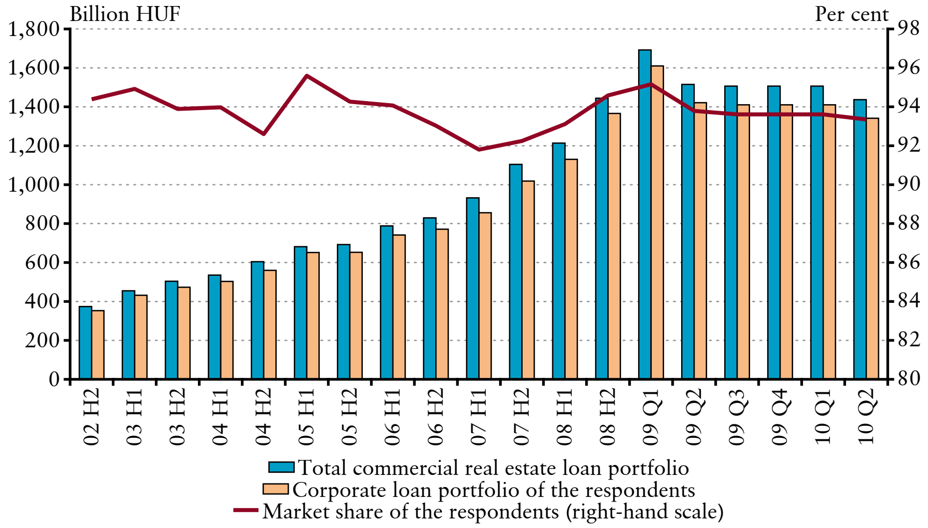
### Total corporate loan portfolio and market share of the banks completing the corporate questionnaire




*Note: From 2009, stock data also include those for credit institutions and branches.*

## Chart 21

### Volume of commercial real estate loans and share of responding banks in the total real estate loan portfolio

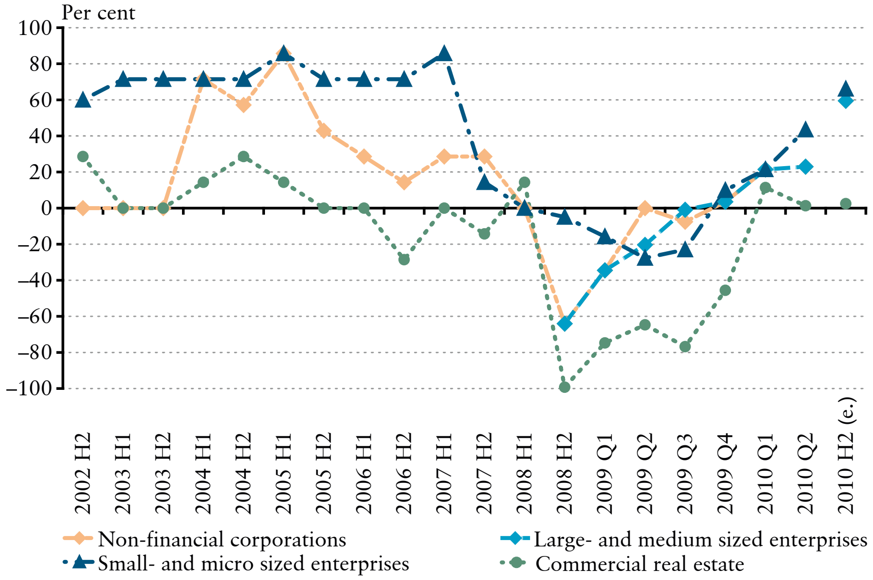



*Note: From 2009, stock data also include those for credit institutions and branches*

## Chart 22

### Willingness of banks to extend corporate loans

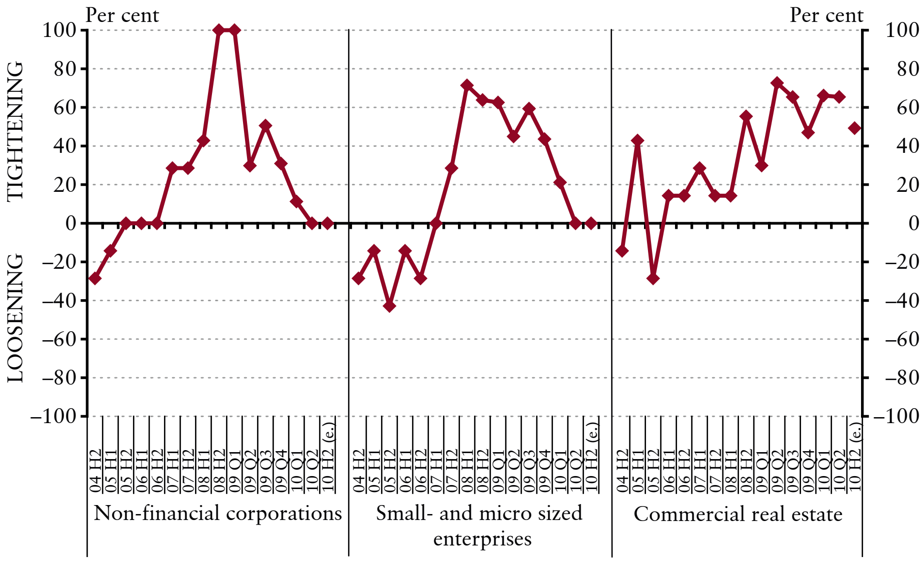
*(net percentage balance of respondents reporting increased/decreased willingness to lend weighted by market share)*




## Chart 23

### Credit conditions and credit standards by corporate category and for commercial real estate loans

*(net percentage balance of respondents reporting tightening/easing weighted by market share)*

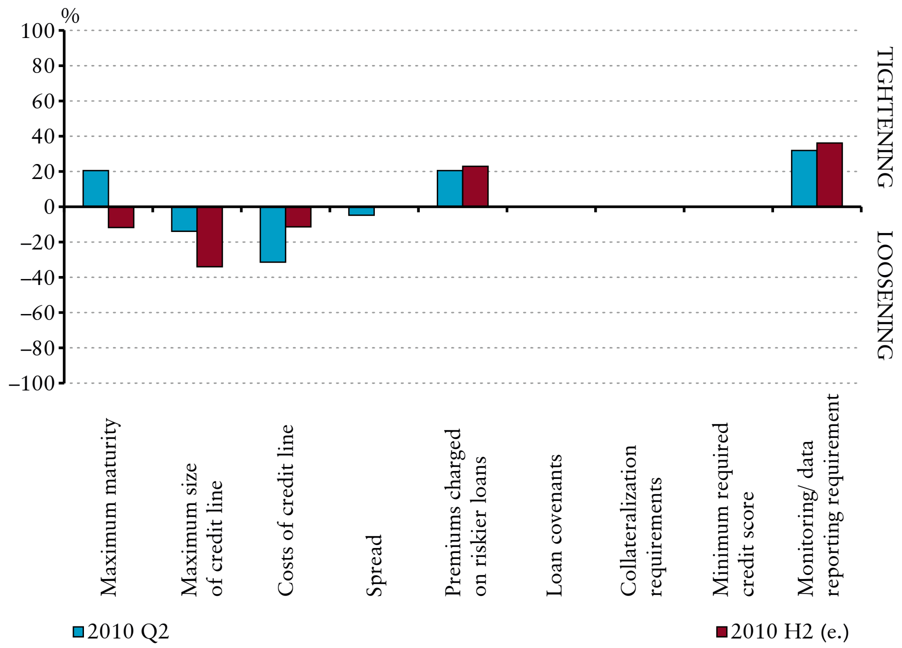



*Note: The magnitude of tightening/easing is not shown in the chart.*

## Chart 24

### Credit conditions in the corporate segment in 2009 Q2 and in 2009 Q3–Q4

*(net percentage balance of respondents reporting tightening/easing weighted by market share)*

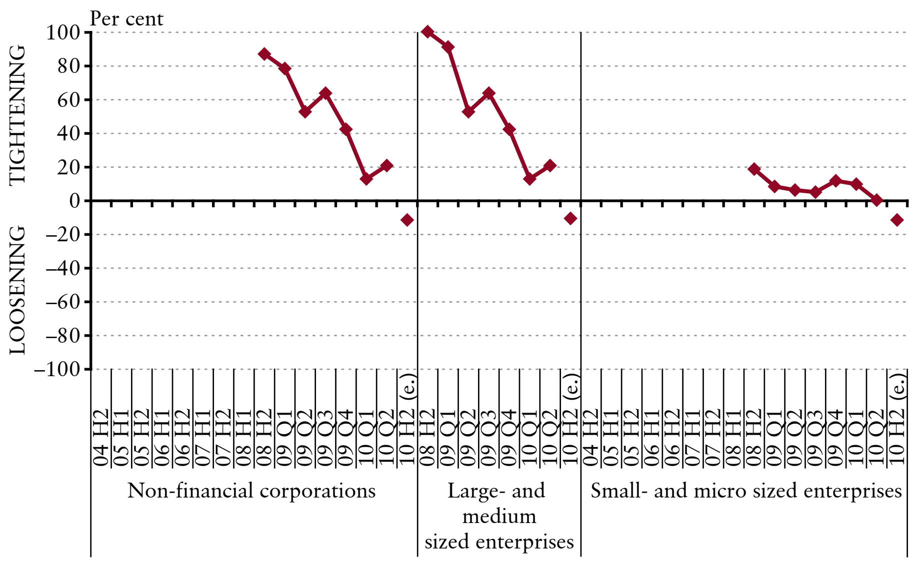



*Note: The magnitude of tightening/easing is not shown in the chart.*

## Chart 25

### Maximum maturities by corporate category

*(net percentage balance of respondents reporting tightening/easing weighted by market share)*

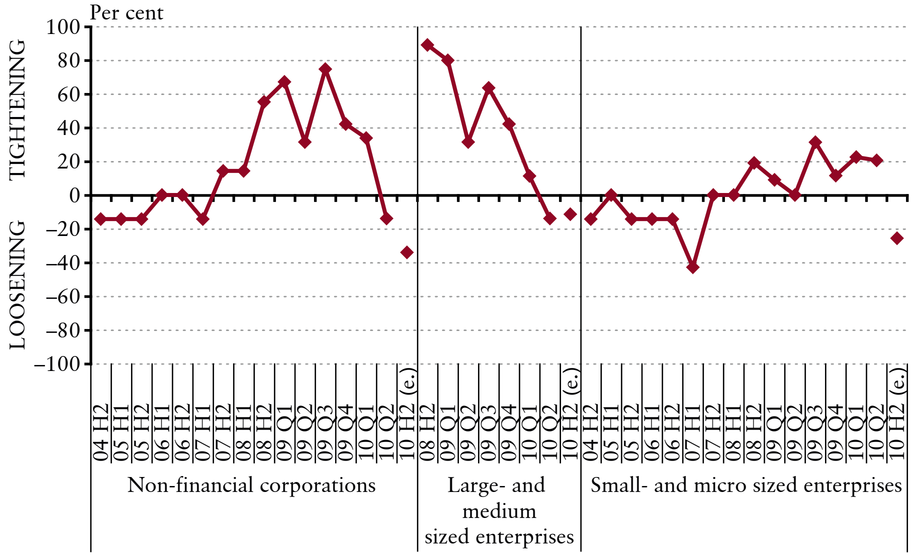



*Note: The magnitude of tightening/easing is not shown in the chart.*

## Chart 26

**Maximum size of loans/credit lines by corporate category**

*(net percentage balance of respondents reporting tightening/easing weighted by market share)*

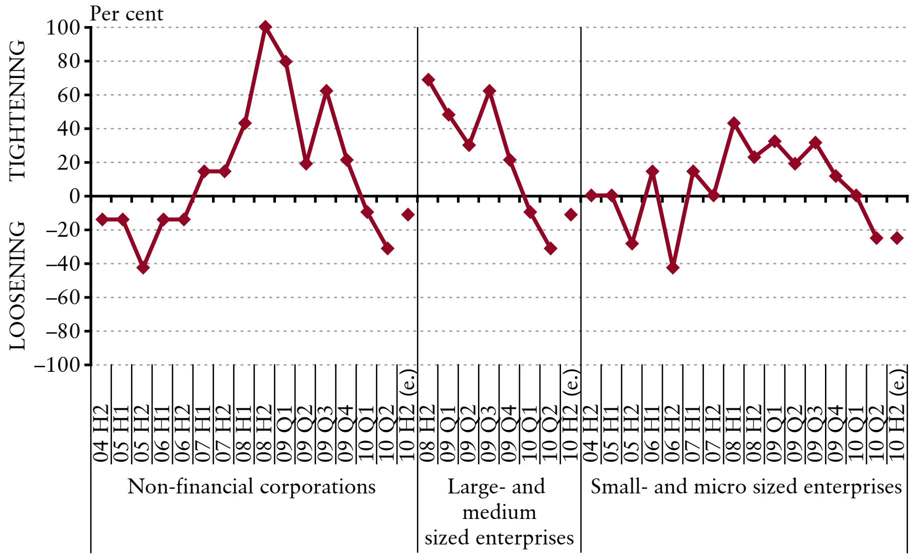



*Note: The magnitude of tightening/easing is not shown in the chart.*

## Chart 27

**Fee(s) charged for extending loans/credit lines by corporate category**

*(net percentage balance of respondents reporting tightening/easing weighted by market share*

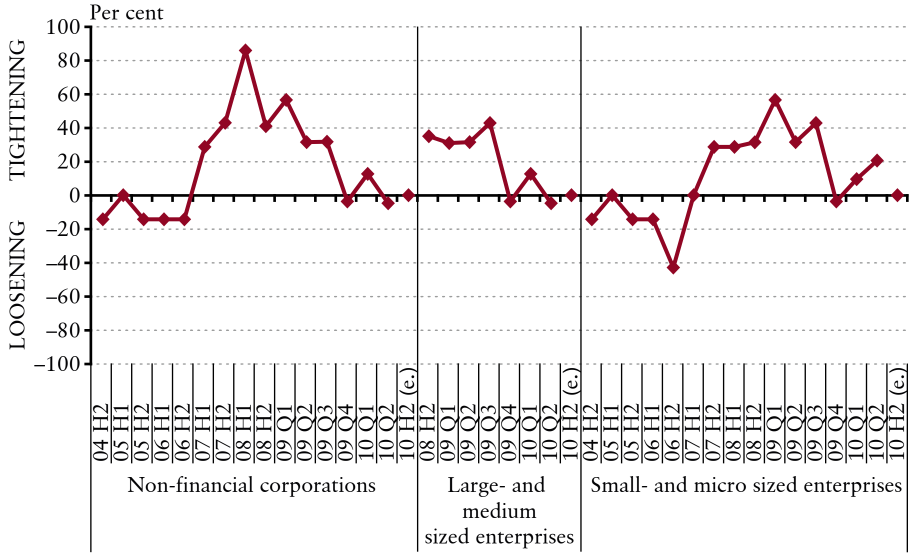



*Note: The magnitude of tightening/easing is not shown in the chart.*

## Chart 28

### Spread between lending rates and cost of funds by corporate category

*(net percentage balance of respondents reporting tightening/easing weighted by market share)*

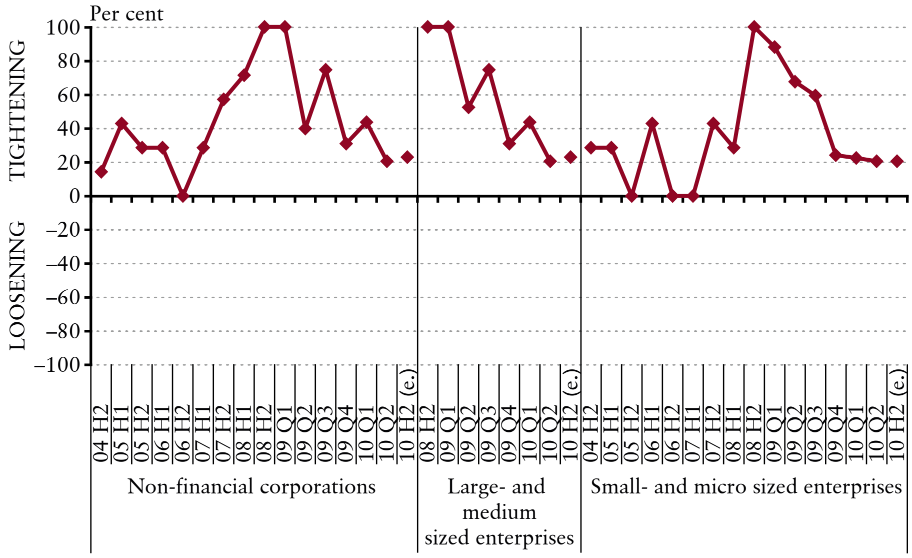



*Note: The magnitude of tightening/easing is not shown in the chart.*

## Chart 29

### Premium on higher risk loans by corporate sector

*(net percentage balance of respondents reporting tightening/easing weighted by market share)*

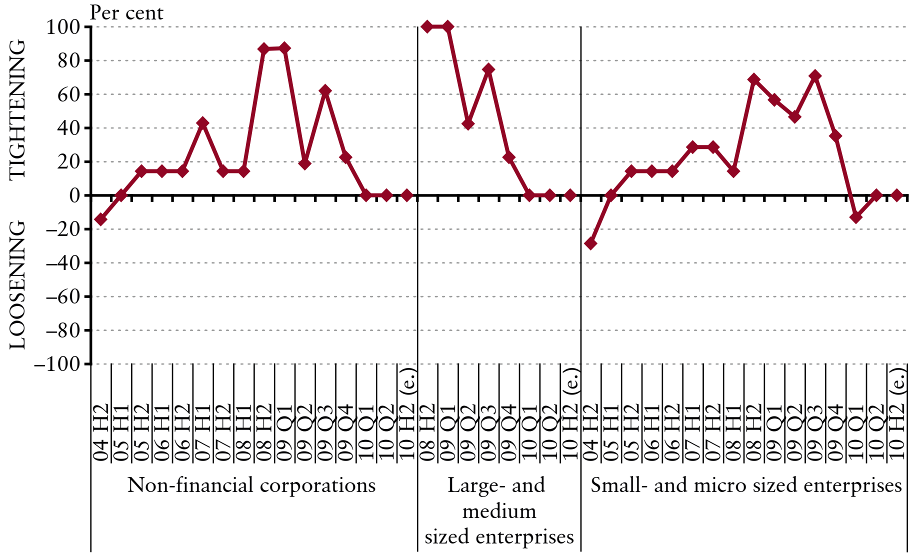



*Note: The magnitude of tightening/easing is not shown in the chart.*

## Chart 30

### Covenant requirements by corporate category

*(net percentage balance of respondents reporting tightening/easing weighted by market share)*

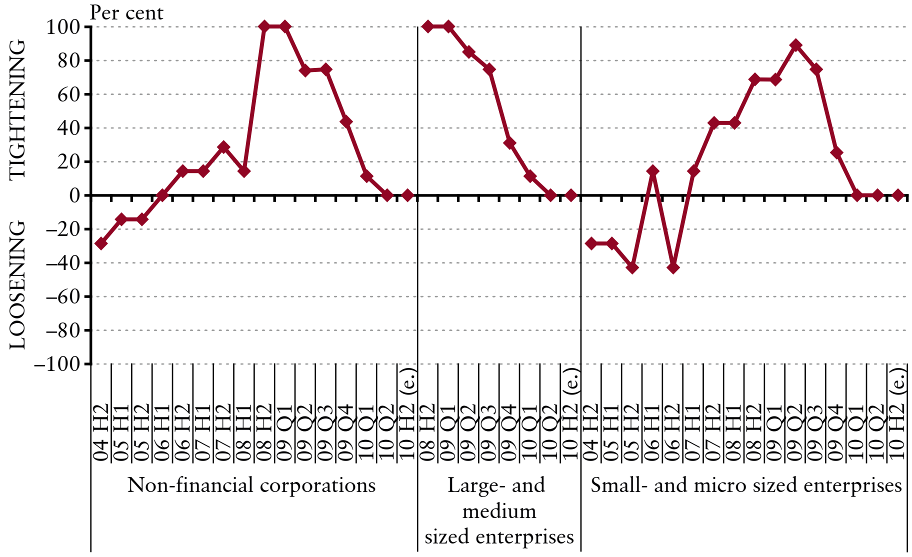



*Note: The magnitude of tightening/easing is not shown in the chart.*

## Chart 31

### Collateralisation requirements by corporate category

*(net percentage balance of respondents reporting tightening/easing weighted by market share)*

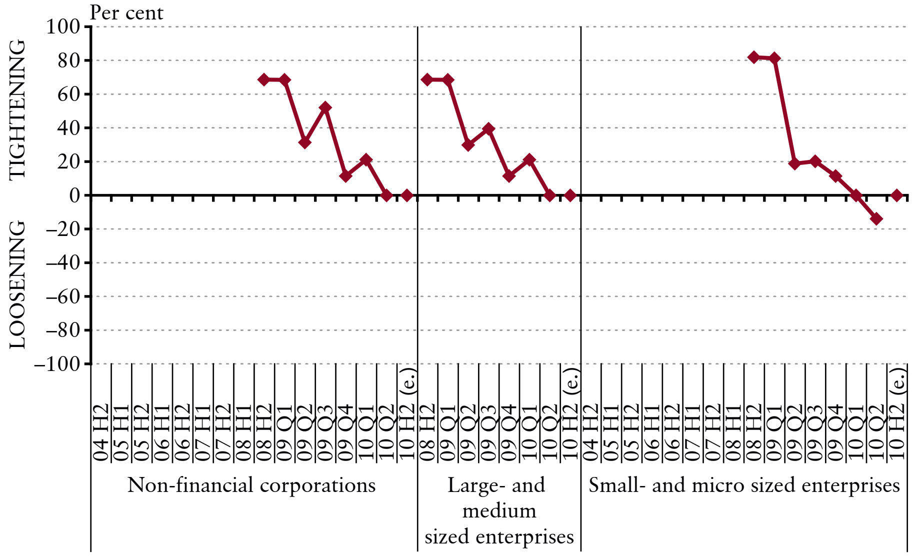



*Note: The magnitude of tightening/easing is not shown in the chart.*

## Chart 32

### Minimum required credit score by corporate category

*(net percentage balance of respondents reporting tightening/easing weighted by market share)*

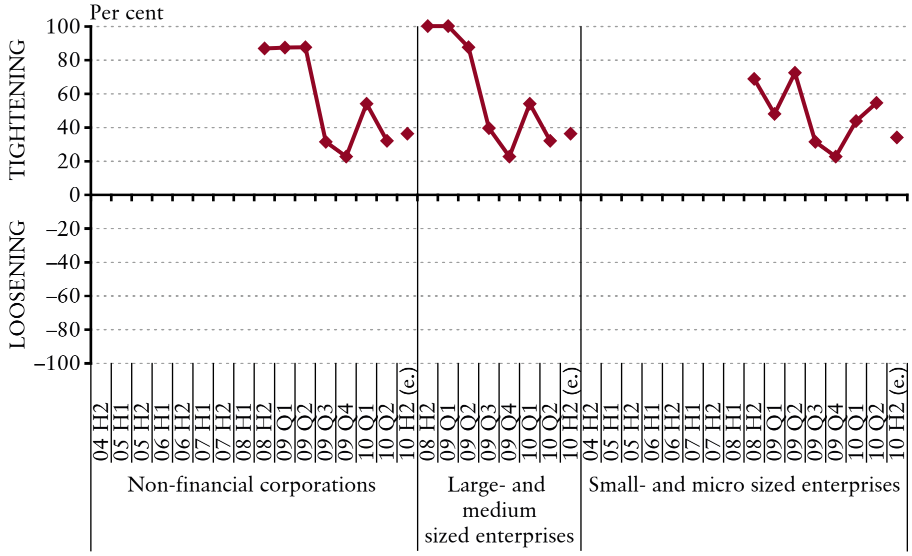



*Note: The magnitude of tightening/easing is not shown in the chart.*

## Chart 33

### Monitoring/reporting requirements by corporate category

*(net percentage balance of respondents reporting tightening/easing weighted by market share)*

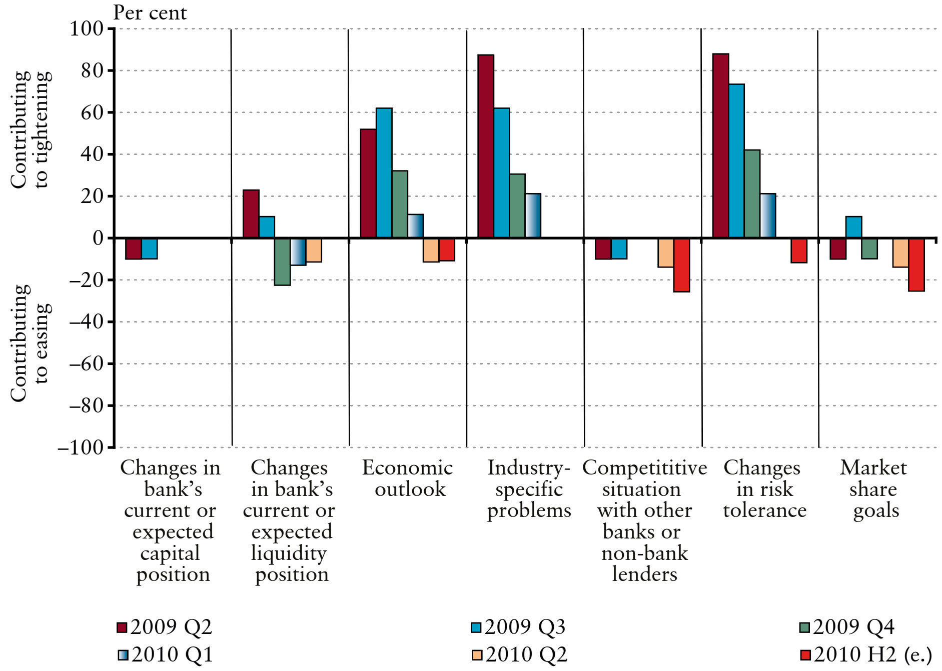



*Note: The magnitude of tightening/easing is not shown in the chart.*

## Chart 34

### Factors contributing to changes in credit standards and terms on corporate loans

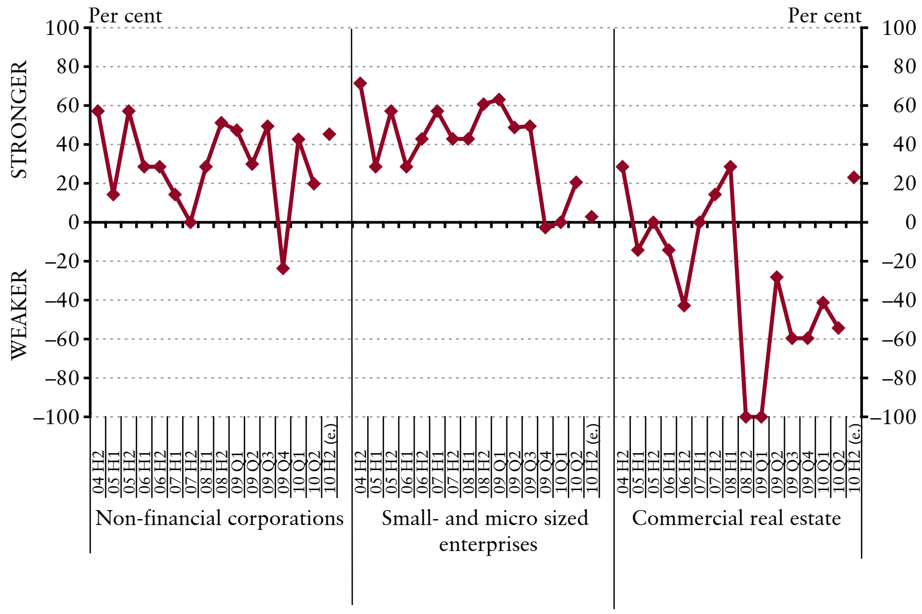
*(net percentage balance of banks indicating a contribution of individual factors to tightening or easing weighted my market share)*




## Chart 35

### Loan demand by corporate size

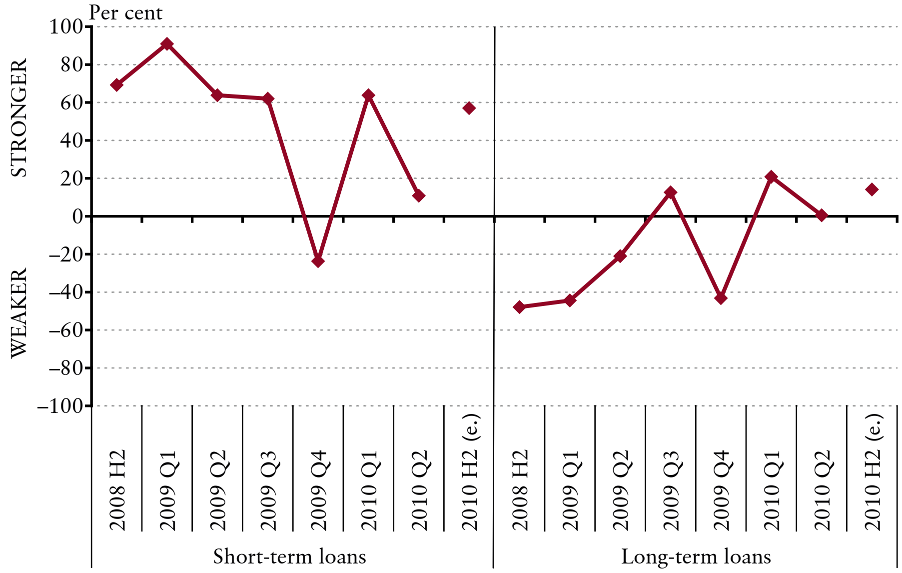
*(net percentage balance of respondents reporting increase/decrease in demand weighted by market share)*



## Chart 36

### Loan demand by maturity

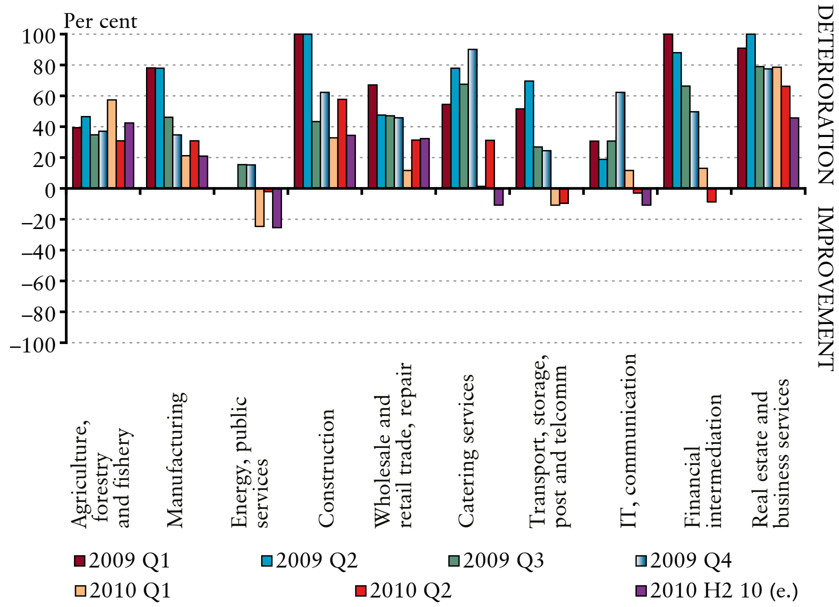
*(net percentage balance of respondents reporting increase/decrease in demand weighted my market share)*




## Chart 37

### Changes in loan portfolio quality by sector

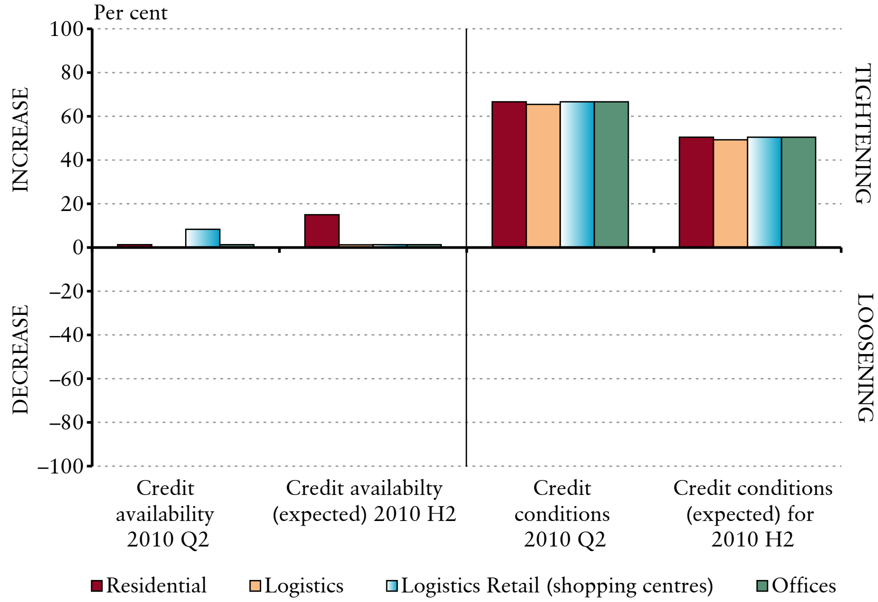
*(net percentage balance of respondents reporting improvement/deterioration weighted my market share)*



## Chart 38

### Credit availability (willingness to lend) and credit standards/credit conditions for commercial real-estate loans

*(net percentage balance of respondents reporting an increase/decrease and tightening/easing weighted my market share)*

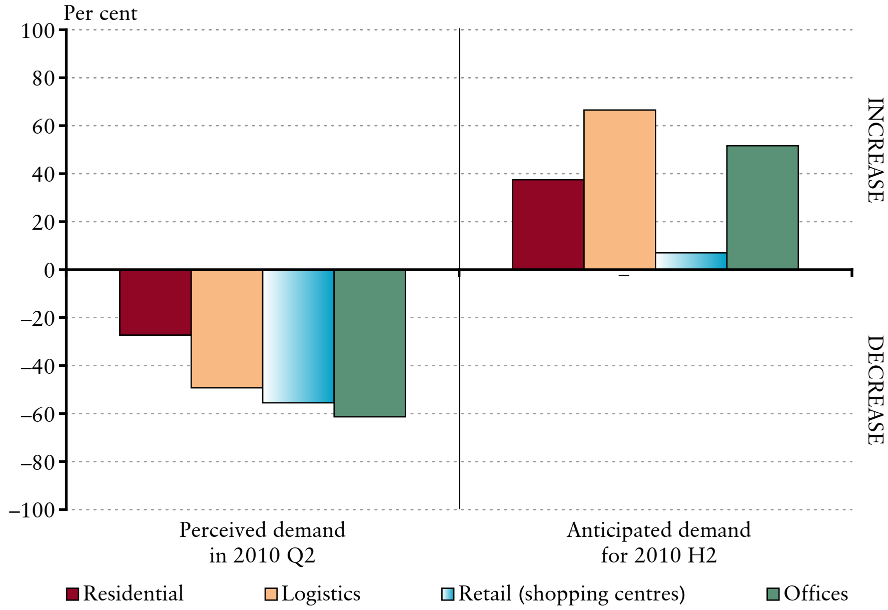



*Note: The magnitude of tightening/easing is not shown in the chart.*

## Chart 39

### Demand for loans in specific segments of the commercial real estate market

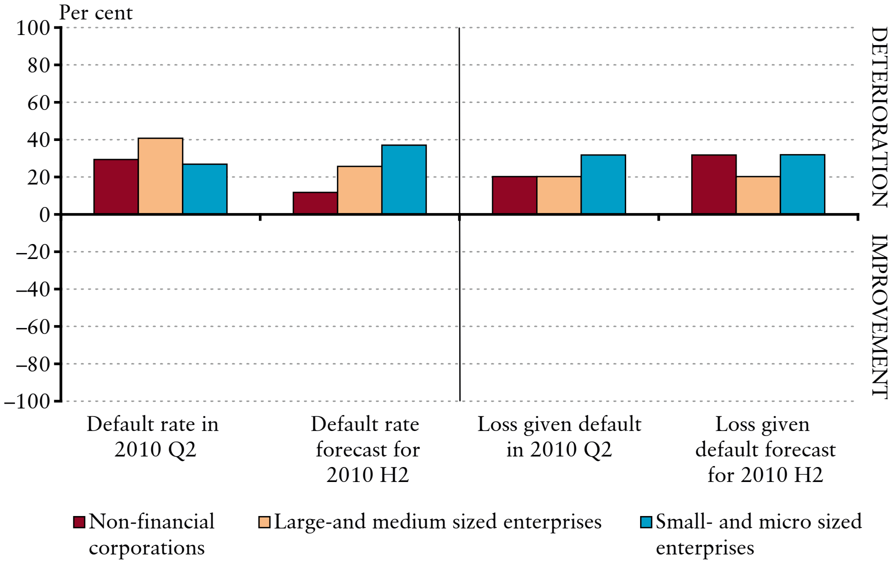
*(net percentage balance of respondents reporting an increase/decrease in demand weighted my market share)*



## Chart 40

### Developments in perceptions of risk associated with corporate loans based on answers provided on default rate and loss given default

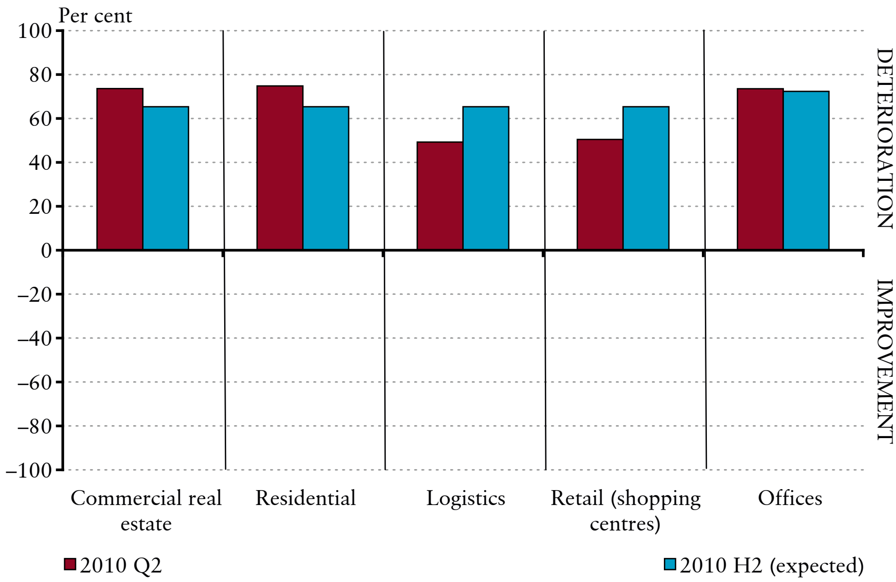
*(net percentage balance of respondents reporting increased/decreased risk weighted my market share)*




## Chart 41

### Changes in the quality of the commercial real estate loan portfolio

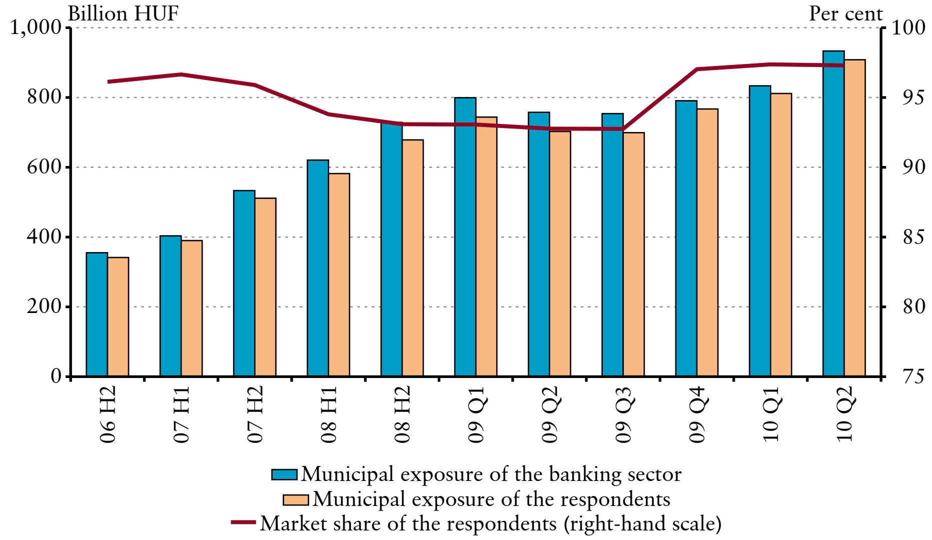
*(net percentage balance of respondents reporting improvement/deterioration weighted my market share)*



## LENDING TO MUNICIPALITIES

### Chart 42

**Total exposure to municipalities and the share of banks completing the questionnaire**

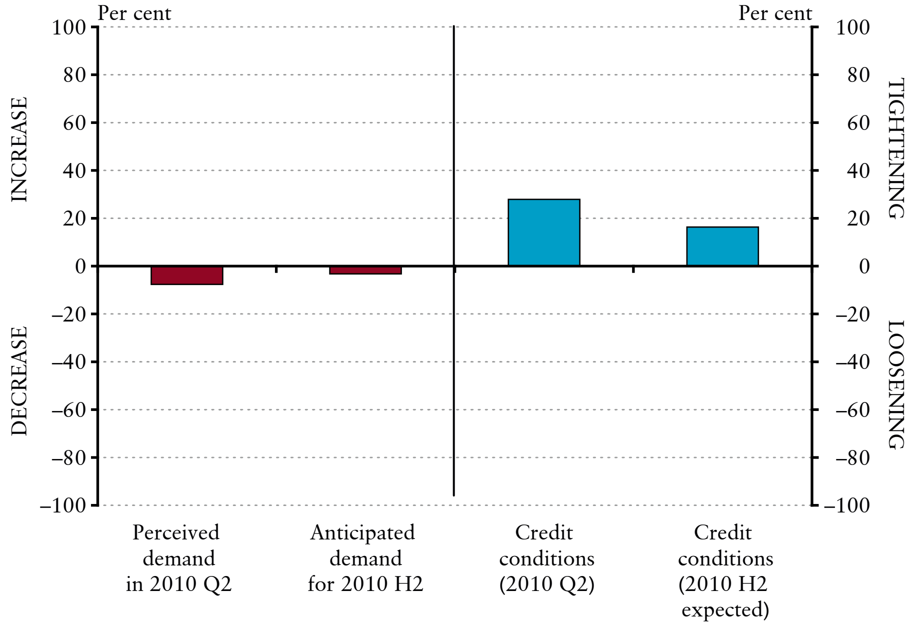



*Note: From 2009, stock data also include those for credit institutions and branches.*

### Chart 43

**Perceived demand for loans and credit standards/credit conditions in lending to municipalities**

*(net percentage balance of respondents reporting an increase/decrease and tightening/easing weighted my market share)*

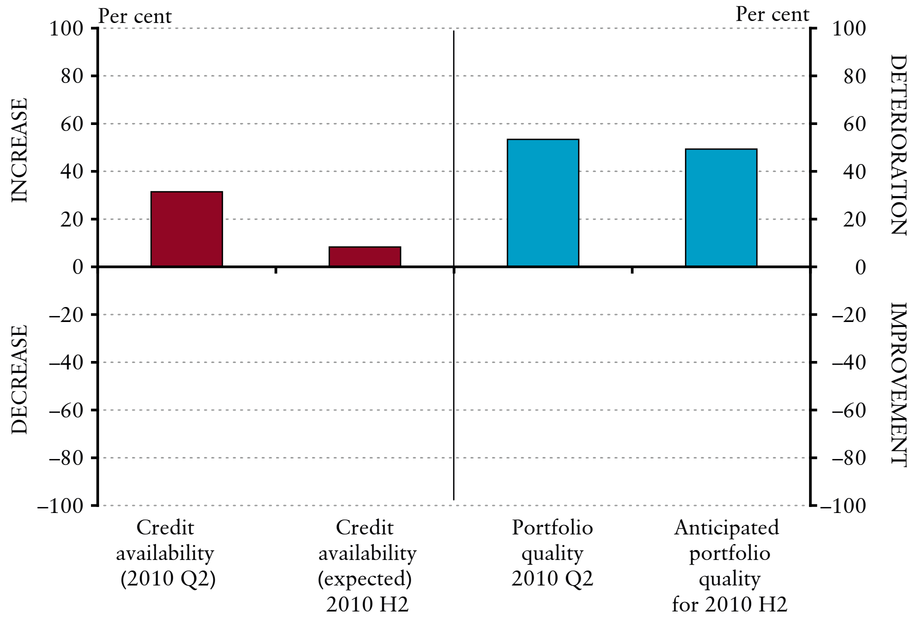



*Note: The magnitude of tightening/easing is not shown in the chart.*

## Chart 44

**Credit availability (willingness to lend) and portfolio quality in lending to municipalities**

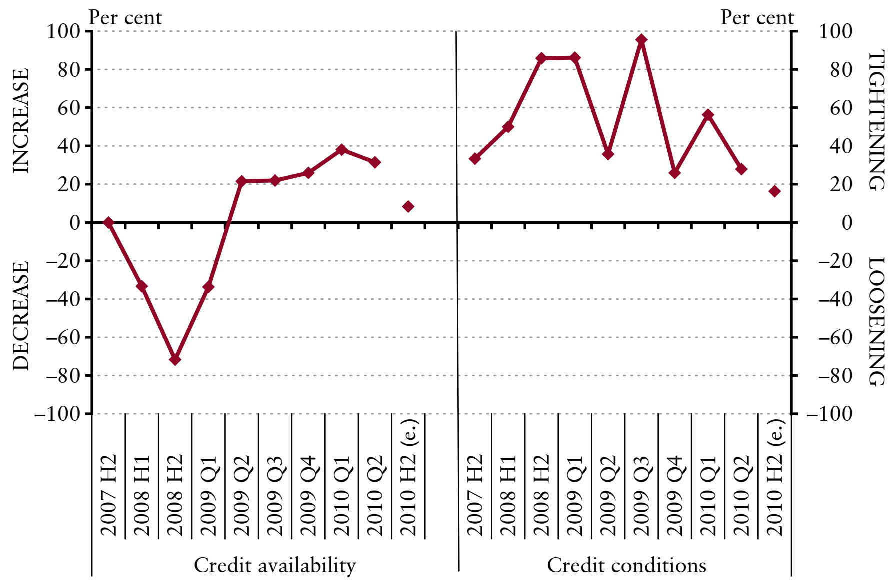
*(net percentage balance of respondents reporting an increase/decrease and deterioration/improvement weighted my market share)*




## Chart 45

**Credit availability (willingness to lend) and credit conditions in lending to municipalities since 2007 H2**

*(net percentage balance of respondents reporting an increase/decrease and tightening/easing weighted my market share)*

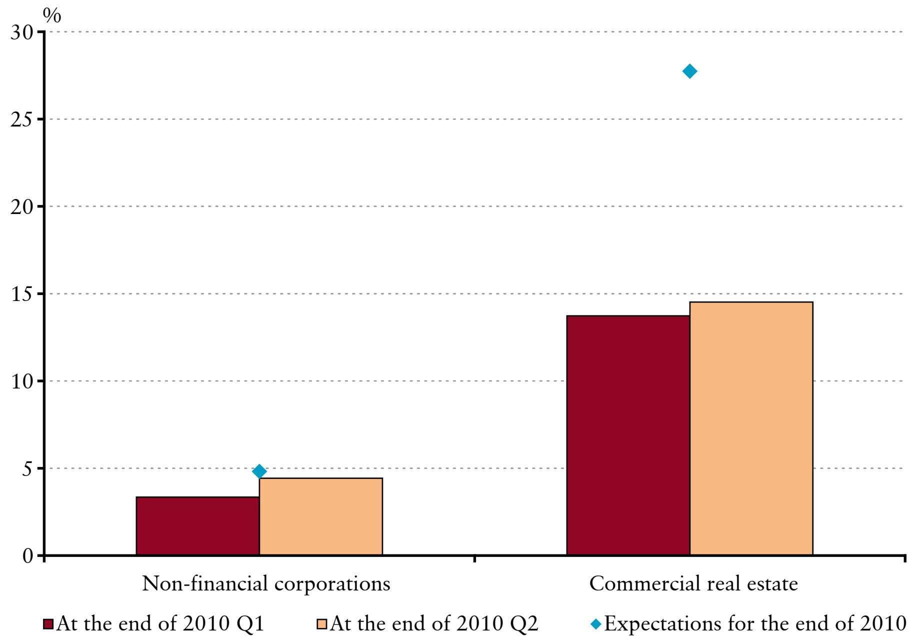



*Note: The magnitude of tightening/easing is not shown in the chart.*

## SPECIAL ISSUE – RESTRUCTURING IN THE HOUSEHOLD AND CORPORATE SEGMENTS

**Chart 46**

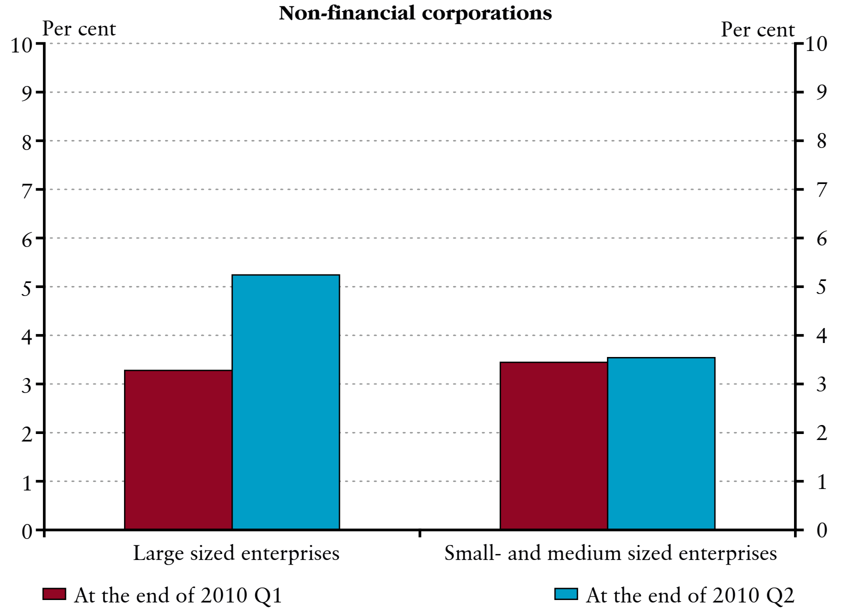
**The restructured loans within the outstanding amount of non-financial corporate loans, and commercial real estate loans at the responding banks and their expectations for the end of year**

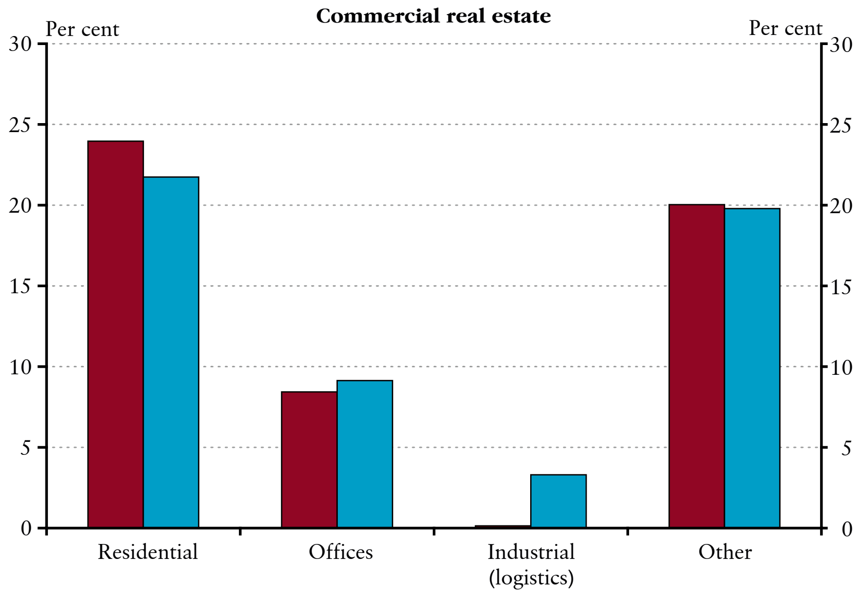



*Note: weighted by market share.*

## Chart 47

**The restructured loans within the outstanding amount of non-financial corporate loans, and commercial real estate loans of the given sub-segment at the responding banks**

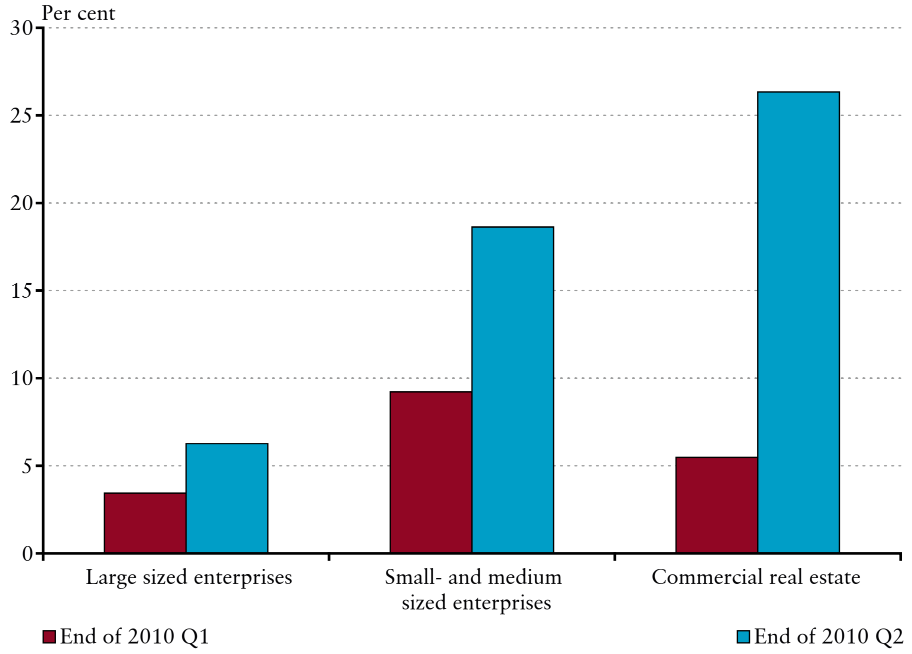



*Note: weighted by market share.*

## Chart 48

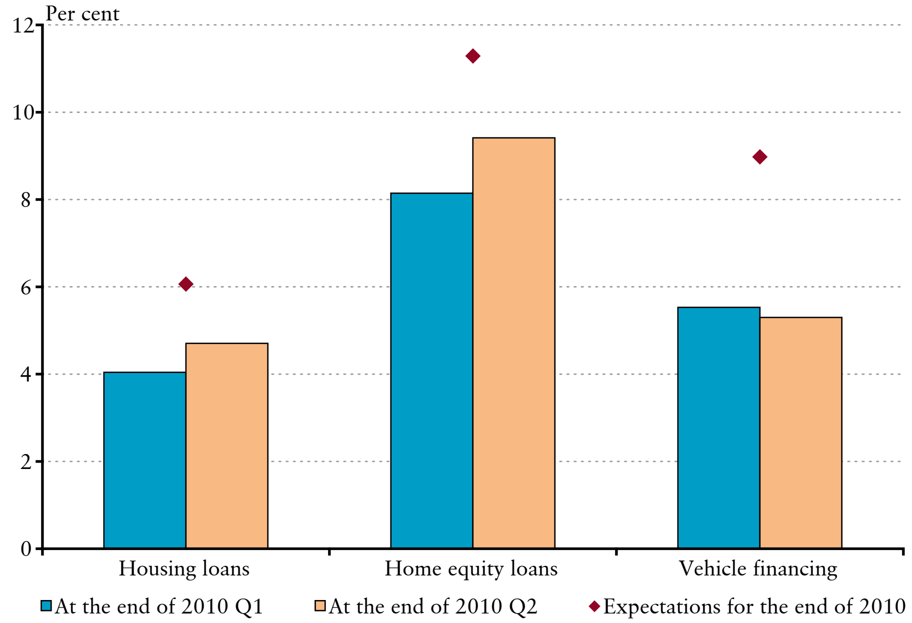
### The delinquent restructured loans (30+) within total restructured loans of the given sub-segment




*Note: weighted by market share.*

## Chart 49

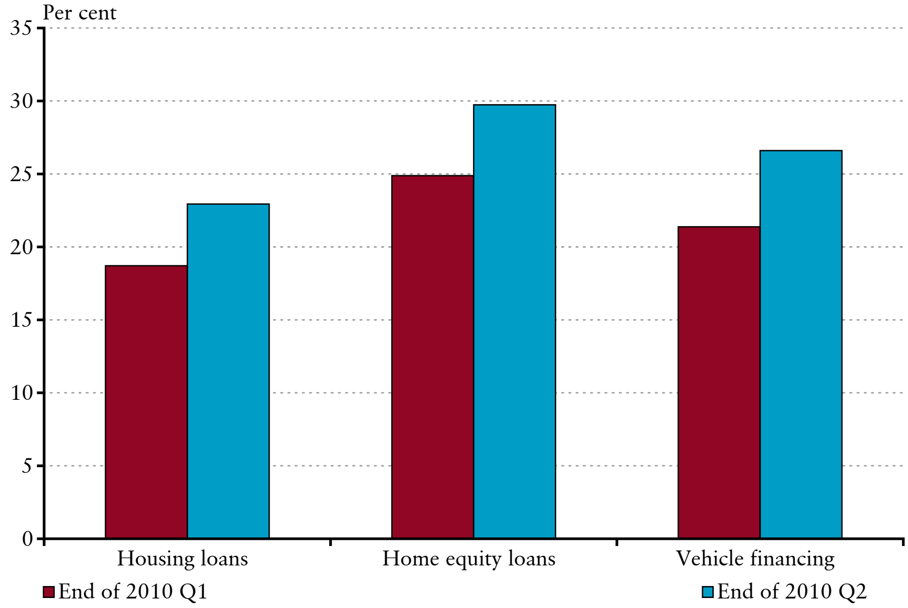
### The restructured loans within the outstanding amount of loans to household sub-segments at the responding banks and their expectations for the end of year




*Note: Weighted by market share.*

## Chart 50

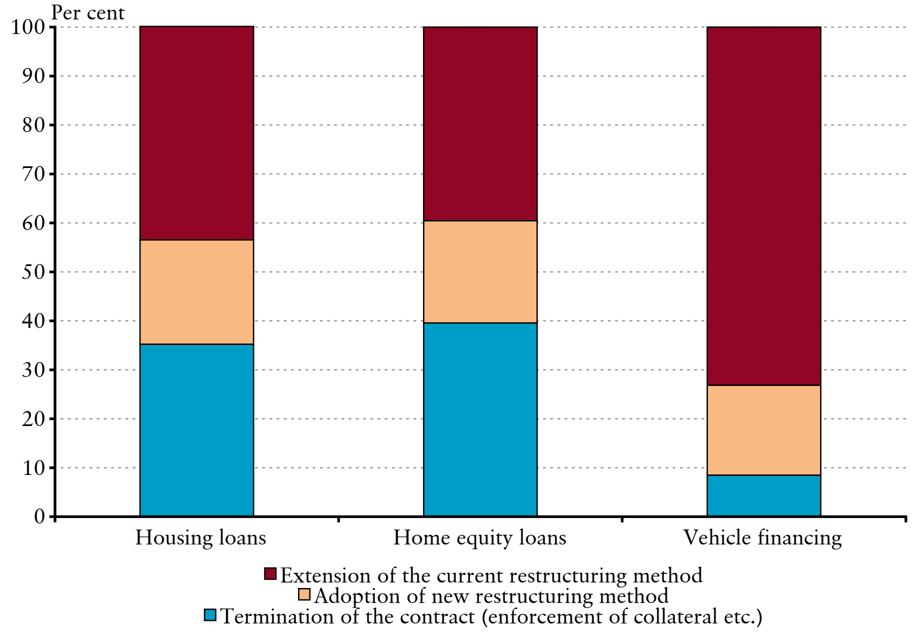
**The delinquent restructured loans (30+) within total restructured loans of the given sub-segment in the household segment**




*Note: weighted by market share.*

## Chart 51

**The applied methods at the redefaulted (90+) restructured loans according to the banks**




*Note: Weighted by market share. Banks responded to intervals in the questionnaire. In the calculations we used the upper boundaries of the intervals, while the open-end interval (aboove 30 per cent) was determined in a way to obtain the 100 per cent from the sum of the answers.*

# Annex 2: Methodological notes

In terms of methodology – starting from July 2010 – the survey consists of the standard questionnaire in each segment, and we might also ask *ad hoc* questions of current concerns related to the lending segment.

The retrospective questions in the questionnaire refer to the previous quarter year (previous quarter in the past), (e.g. to 2010 Q2 in July 2010), whereas forward-looking questions contain projections for the upcoming half year (e.g. for 2010 H2 in July 2010), relative to the trends of the previous quarter year (previous half year in the past). Since 2009 the survey has been conducted on a quarterly basis; in future surveys retrospective questions have had a reference period of a quarter, while forward-looking questions have covered a half-year period.

To indicate changes, the survey used the so-called net change indicator, expressed as a percentage of respondents. This indicator is calculated as follows: market share-weighted ratio of respondents projecting a change (tightening/increasing/strengthening) minus market share-weighted ratio of respondents projecting a change in the opposite direction (easing/decreasing/weakening).

The standard part of the questionnaire asked respondents for changes in willingness to lend (volume of loans), credit standards and credit/disbursement conditions, as well as changes in demand (observed in the last quarter and, as expected for the next half year, seasonally adjusted changes in new credit applications) and in portfolio quality as perceived by the respondent, and changes in the risk assessment of different sectors in the case of the corporate questionnaire. The survey applied a five-step scaling to assess changes in the willingness to lend, demand, standards/conditions, risk parameters, however on the charts we only show the direction, excluding magnitude:

- A rating of 1 reflects a considerable increase in demand and in willingness to lend, a considerable tightening in credit standards/credit conditions, a considerable increase in housing prices and risk parameters and, in the case of the risk assessment of sectors, a score of 1 indicates a considerable increase in risk perception relative to the half year preceding the survey, or relative to the current half year or for the upcoming half year in the case of a forecast.

- A rating of 3 indicates an unchanged assessment, both for the current half year and for the forecast pertaining to the upcoming half year.

- A rating of 5 reflects a considerable decrease in demand and in willingness to lend, a considerable loosening of credit standards/credit conditions, a considerable decline in housing prices and risk parameters and, in the case of the risk assessment of sectors, a rating of 5 indicates a significantly safer climate relative to the half year preceding the survey, or relative to the current half year or for the upcoming half year in the case of a forecast.

Ratings of 2 and 4 allow for an intermediate assessment between two extremes (e.g. demand increasing to some extent).

Keywords used for the purposes of the questionnaire are defined as follows:

Credit availability (willingness to lend) reflects the respondent's intention to expand and increase its portfolio in the specific segment.

In terms of credit conditions[6], there is a distinction between price-related and non-price related factors. Non-price related credit conditions (such as collateralisation requirements, loan covenants, maximum size of loans/credit lines, etc.) represent specific contractual terms; the bank will not disburse the loan unless these conditions are met. Regarding the non-price related factors, the survey queried respondents on items such as the spread between the interest rate level and the cost of funds, and risk premium.

[6] As credit standards and credit conditions are interrelated concepts, we surveyed overall changes in credit conditions and standards, followed by a separate query on individual credit conditions.

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