Senior loan officer survey on bank lending practices

Summary of the aggregate results of the survey for 2011 Q2
August 2011

MAGYAR NEMZETI BANK

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(Financial Stability)

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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, we also examined the developments in debt restructuring of banks, specifically in the municipality segment. 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 survey was conducted between 1 and 18 July 2011.

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 2011 Q2, while the forward-looking questions ask respondents for their views about changes they expect over the next six-month period, i.e. in 2011 H2. Questions focus on changes perceived relative to the previous quarter: the base period is 2011 Q1 for retrospective questions and 2011 Q2 for forward-looking questions.

In the case of the household segment, a total of 14 banks were involved in the interviews. 10 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 2011 Q2, the surveyed institutions accounted for 94% of the banking sector, while their percentage share in consumer loans was 94%. The corporate questionnaire was completed by 7 banks, with a total market share of 80.4% and 92% 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 2011 Q2, the institutions surveyed covered 97% of total municipal exposure by banks.

Contents

Budapest, 25 August 2011. The Magyar Nemzeti Bank has published the results of its 2011 Q2 survey of bank lending practices. The survey, conducted in the first half of July, found that banks had not tightened credit conditions for household loans and did not expect any material change during the next six months, except for unsecured consumer loans, where they expected some easing. In the corporate segment, as opposed to the previous tightening, banks reported that they had not markedly changed credit conditions. However, developments in 2011 Q2 should not be regarded as a turning point, as banks expected additional tightening due to their risk aversion.

The picture based on the replies of Hungarian banks differs slightly from that of the euro area, as a small group of euro area banks reported that they had further tightened credit conditions and plan additional tightening for the upcoming quarter. However, it is important to note that these developments in euro area household and corporate lending have taken place with an expanding private sector loan portfolio.

Banks' risk-sensitivity increased further in financing the municipal segment in 2011 Q2, with banks almost unanimously continuing to tighten credit conditions. Many banks experienced deterioration in the quality of their outstanding municipal loan and bond portfolio, resulting in a rising need for restructuring. Based on banks' replies, demand for restructuring amounted to 3-4 per cent of the total exposure in 2011 H1. Up to now, one per cent of total exposure has been restructured, but this ratio may reach 10 per cent by the end of 2011 according to banks active in the municipal sector.

The lending survey was conducted between 1 and 18 July 2011. Considering the market turbulence since the end of July, the forward-looking responses should be interpreted with caution.

Table 1
Summary table on developments in supply and perceived demand by banks

Segments		Supply		Demand	
		2011 Q2	2011 H2	2011 Q2	2011 H2
Household	Housing	→	→	↓	↑
	Consumer	→	→	↑	↑
Corporate		→	↓	↑	↑

Note: The up-arrow denotes an increase and the down-arrow a decrease.

FALLING DEMAND AND UNCHANGED CREDIT CONDITIONS FOR HOUSING LOANS

Credit conditions in household lending were reported to have remained unchanged in 2011 Q2, and banks did not expect any significant changes during the second half of the year (Annex, Chart 4). Within consumer loans, a net 10 per cent of banks[1] expected easing in unsecured loans during the next six months. In vehicle financing, a net 12 per cent of respondents (banks and leasing companies) reported that they had generally tightened credit conditions again (Annex Chart 12), while respondents did not plan any changes in the next half-year.

The diverging trends in demand for consumer and housing loans continued in Q2. A net 21 per cent of banks reported that they had perceived a drop in demand for housing loans, while 40 per cent perceived an increase in demand for consumer loans compared to the previous quarter (Annex, Chart 14). The vast majority of banks once again expected increasing demand for housing loans this year.

[1] Weighted by the market share of the difference in tightening and easing banks. The ratio does not reflect the extent of tightening/easing.

Hungarian developments in lending continue to differ from those of the euro area, where household lending is expanding.[2] In the euro area, a net 7-9 per cent of banks reported that they had tightened credit conditions of both housing and consumer loans (in contrast to the Hungarian banking sector, where conditions were reported to have remained unchanged), and a similar proportion expected tightening over the next quarter.

ALTHOUGH THERE WAS NO TIGHTENING IN THE PREVIOUS QUARTER, A TURNING POINT REMAINS STILL UNLIKELY IN THE CORPORATE SEGMENT

In contrast to earlier bank expectations, non-price credit conditions remained basically unchanged. While a net 7 per cent of banks reported that they had eased credit conditions, this easing was not substantial and merely stemmed from the fact that the market share of easing banks exceeded that of tightening banks (Annex, Chart 19). Moreover, easing only affected the credit conditions for medium and large enterprises, while conditions for small and micro-sized enterprises were reported to have remained unchanged. Hence, collateral criteria, the maximum loan size and spread on the cost of funds were reported to have eased (Annex, Charts 22 and 27), but this primarily meant easing for already creditworthy companies. There has been no turning point in corporate credit conditions, as a net 12 per cent of banks reported that they planned to tighten credit conditions in 2011 H2. The only exception might be the sector of small and micro-sized enterprises, where a net 26 per cent of banks expected to ease credit conditions over the next six months (Annex, Chart 19); at the same time, it is important to stress that such forward-looking plans for easing were not implemented in previous quarters, and therefore it remains uncertain whether they will materialise. Banks cited improvements in the liquidity position and in the perception of certain industrial sectors as contributing factors to easing, while the perception of the capital position did not contribute to additional tightening. Over the next six months, deteriorating risk tolerance and economic prospects, as well as industry-specific problems again may contribute to additional tightening, based on bank responses (Annex Chart 30).

Regarding demand, a net 32 per cent of banks reported that they perceived increasing demand for corporate loans in 2011 Q2, but once again only for short-term loans (Annex, Chart 32). At the same time, demand for long-term (primarily investment) loans still did not show any rebound, with a net 7 per cent of banks actually perceiving weaker demand compared to the previous quarter. Since the beginning of 2010 banks have been expecting future demand for long-term loans to pick up following a decline in 2009, but retrospectively, they have not perceived any substantial change. A small number of banks remained optimistic, expecting a pick-up in demand for long-term loans during the upcoming half year, while several banks no longer expected any improvement during 2011, contrary to the previous Lending Survey (Annex, Chart 32).

As regards commercial real estate loans, compared to the previous quarter a much smaller portion of banks – 7 per cent in net terms – reported that they had further tightened credit conditions (Annex, Chart 35) in every segment (housing, office, industrial (logistics) and retail [shopping centres]). Similarly to the previous quarter, banks reported that they perceived a broad-based pick-up in demand, but it is important to stress that this might have been partly attributed to the relative upswing from the trough in the commercial real estate market and partly to the refinancing of ongoing projects.

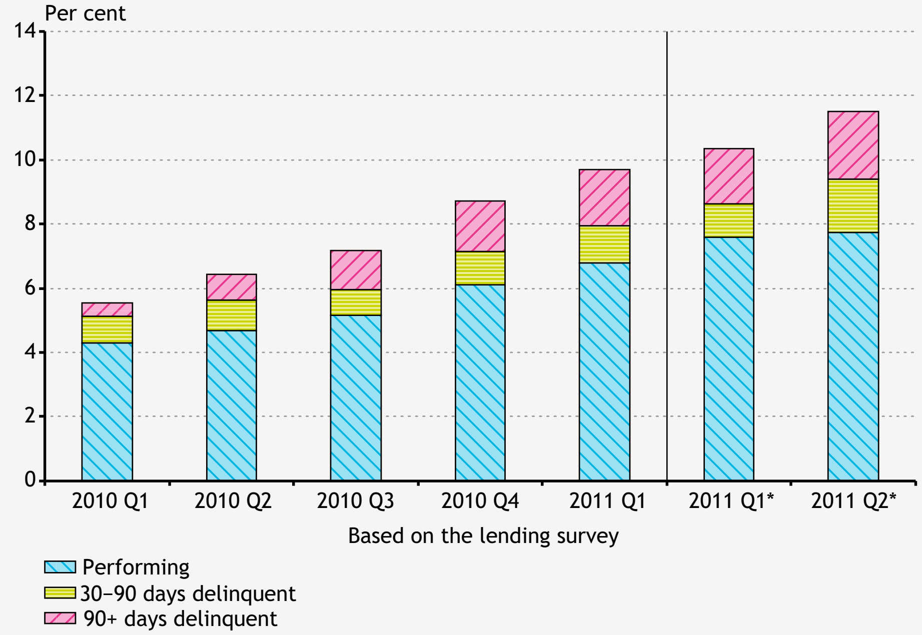
As a result of the renewed sovereign debt crisis in the euro area in early 2011, a small group of banks (net 2-4 per cent) reported that they had tightened credit conditions, while, in contrast to Hungary, the corporate loan portfolio has been growing in the euro area since the end of 2010 (it has also been growing in other CEE countries, except for the Baltic states).

[2] Based on the ECB's Lending Survey: http://www.ecb.int/stats/pdf/blssurvey_201107.pdf?1e3328db841ead96557c5fe669c91052

Box 1
Restructuring in banks' private sector loan portfolio

The outstanding amount of restructured household and corporate loans continued to increase in 2011 Q2. The ratio of restructured mortgage loans to total mortgage loans increased from 10.3 per cent to 11.5 per cent (Chart 1). At the same time, there was a tangible deterioration in the quality of restructured mortgage loans: one-third of the restructured loan portfolio was overdue by at least 30 days at the end of 2011 Q2, while this ratio was around 27 per cent in the previous quarter (considering only loans delinquent by over 90 days, the ratio increased from 16 to 18 per cent).

Chart 1
Ratio of restructured mortgage loans to total mortgage loans outstanding by delinquency category



**Note: Data based on the new data reporting requirements (banking system and branches together). Loans overdue by less than 30 days qualify as performing loans; delinquency on these loans is usually attributable to technical reasons.*
Source: MNB.

The Lending Survey also examined the restructuring of vehicle financing loans, where restructured loans outstanding increased from 10.4 to 11 per cent of total vehicle financing loans, based on banks and leasing companies' responses. One-third of restructured loans are overdue by at least 30 days in this segment as well, following a deterioration of 3 percentage points in 2011 Q2.

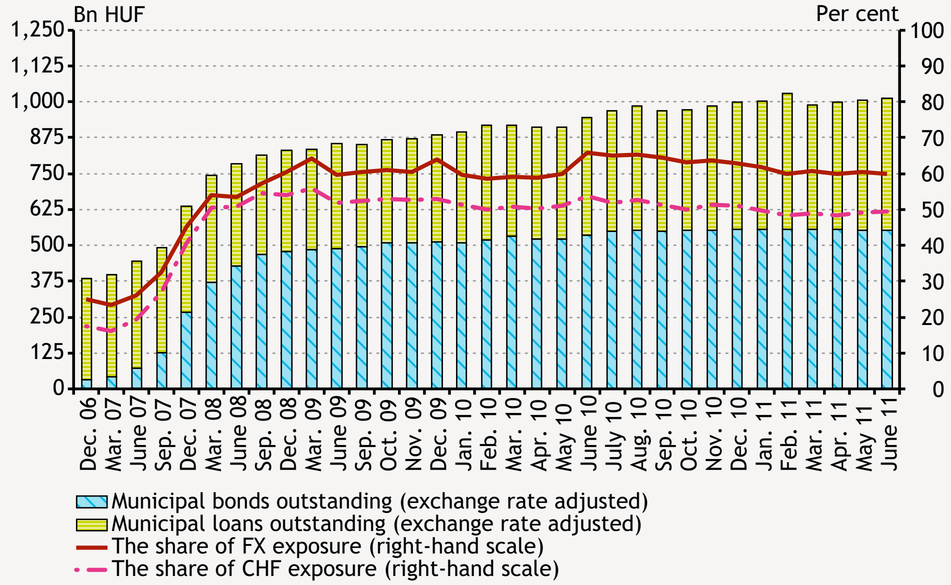
In respect of corporate loans, the ratio of restructured loans to total corporate loans outstanding increased from 6.9 to 7.8 per cent. There was, however, a marked deterioration in the portfolio quality of restructured loans: one-fourth of restructured corporate loans was delinquent over 90 days, meaning that the ratio doubled compared to the previous quarter. Based on banks' responses, the increase in restructured loans outstanding and the deterioration of the portfolio quality were not mainly driven by the commercial real estate loan portfolio in this quarter.

RESTRUCTURING HAS ALSO STARTED IN THE MUNICIPAL SECTOR

Banks' risk-sensitivity continued to increase in the municipal sector in 2011 Q2, and as a result, the vast majority of banks reported that they had further tightened their credit conditions (Annex, Chart 42). Simultaneously, a high proportion of banks reported that they perceived deterioration in the municipal loan portfolio and expected further deterioration in the next six months. Meanwhile, credit demand from municipalities was reported to have increased further in the past quarter, but the change was driven by operational funding rather than investment spending.

Following the boom in municipal bond issuance between 2007 and 2008, the years 2009 and 2010 only saw a subdued increase in the exposure of municipalities. Since the end of 2010, there has been no material change, and the outstanding amount of municipal debt towards the banking system has stabilised at a level of HUF 1,000 billion (Chart 2). Although the Hungarian banking system's exposure towards the municipal sector has not been increasing, the fact that over 61 per cent of the accumulated exposure is denominated in foreign currency (with CHF accounting for over 80 per cent) still represents a risk, just as the fact that the typically 3-5-year grace periods for the principal repayment of the issued bonds (amounting to HUF 550 billion) started to expire at the end of 2010, with nearly half of the bond exposure estimated to expire by the end of 2011, and 90 per cent by the end of 2013. Furthermore, in 2010 municipalities began to reduce the HUF deposits stemming from deposited shares of bond issuances. All these risks have prompted banks to proceed cautiously.

Chart 2
Total municipal bonds and loans of the banking sector

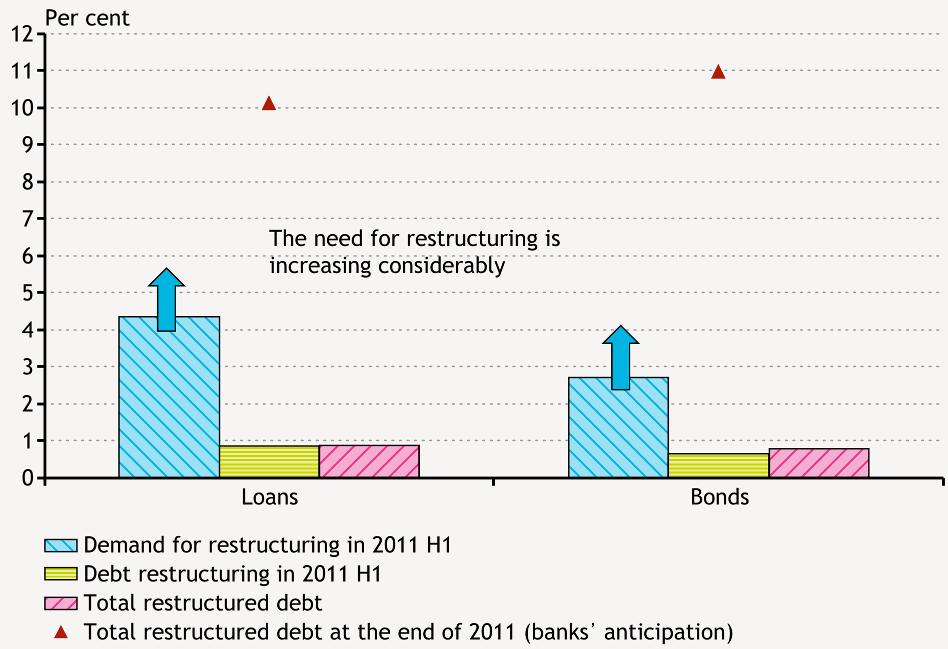


Source: MNB.

The fall in revenues, depreciation of the forint vis-à-vis the Swiss franc and commencement of the repayment of bonds have been key factors behind the increased demand for restructuring in the municipal segment as well. Based on banks' replies, demand for restructuring amounted to 3-4 per cent of the total exposure. While restructuring was negligible until the end of 2010, the ratio of restructured loans and bonds rose to nearly one per cent of the total exposure by 2011 Q2 (Chart 3). This implies that demand for restructuring has only been partially satisfied thus far, in part due to the timeframe required to renegotiate municipal transactions. Based on our survey, in addition to the extension of maturities, the most commonly applied instrument in restructuring has been the granting of full or partial moratoriums on principal repayments, while waiver of fees and interest charges has been used rarely. According to banks' expectations, restructuring will continue to increase in 2011 H2, in line with requirements of clients and the risk management policies of banks, and the ratio of restructured municipal loans and bonds may reach up to 10 per cent of the total exposure by the end of 2011.

The indebtedness of municipalities has come into focus since the submission of surveys (18th of July) due to the strengthening Swiss franc and the expiration of grace periods for principal repayment. In this period two municipality associations commented that a general 1- or 3-year moratorium should be implemented for principal repayments on all outstanding foreign currency denominated bonds. Therefore banks' expectations over municipal debt restructuring should be interpreted with caution.

Chart 3
Municipality debt restructuring in 2011
(as percentage of the total municipal loans and bonds respectively)

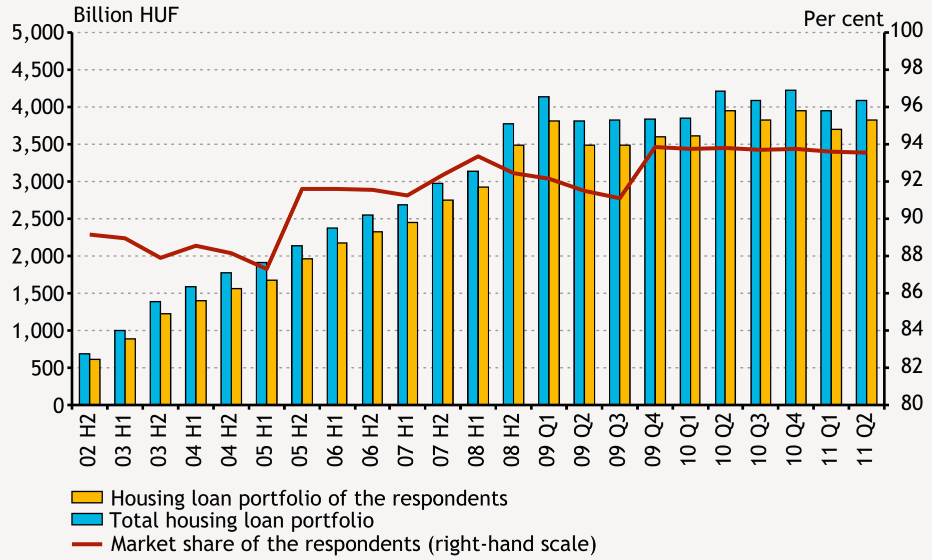


Source: MNB.

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

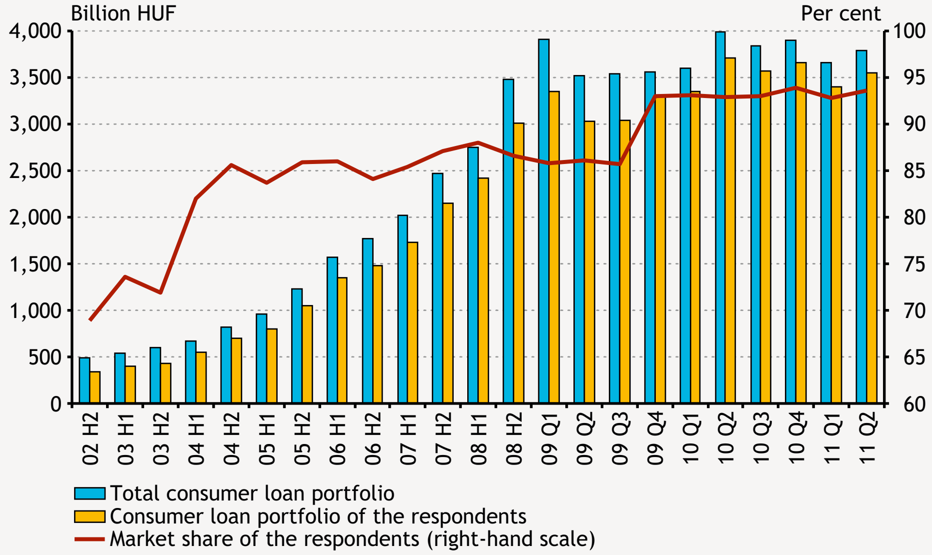
LENDING TO HOUSEHOLDS

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. The chart 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 credit availability weighted by market share)

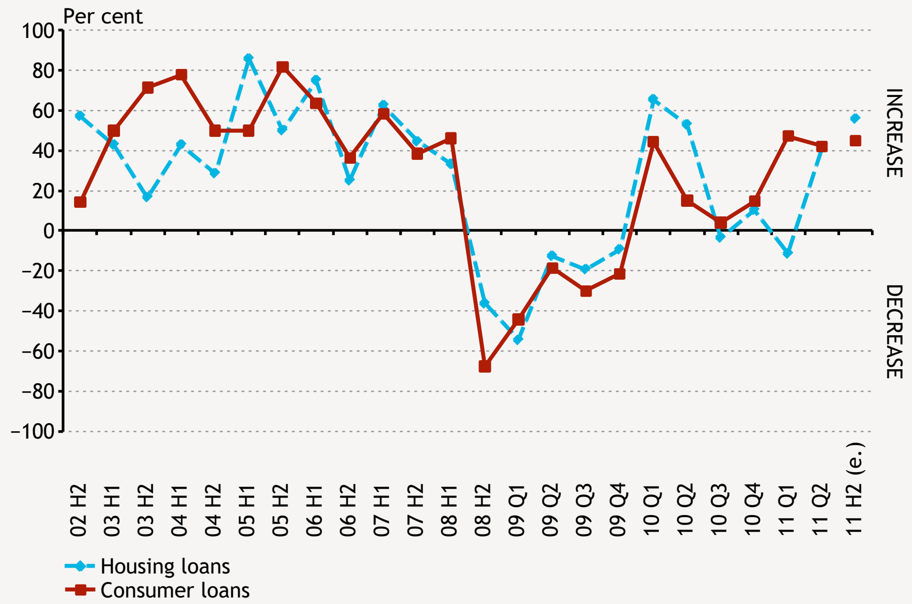
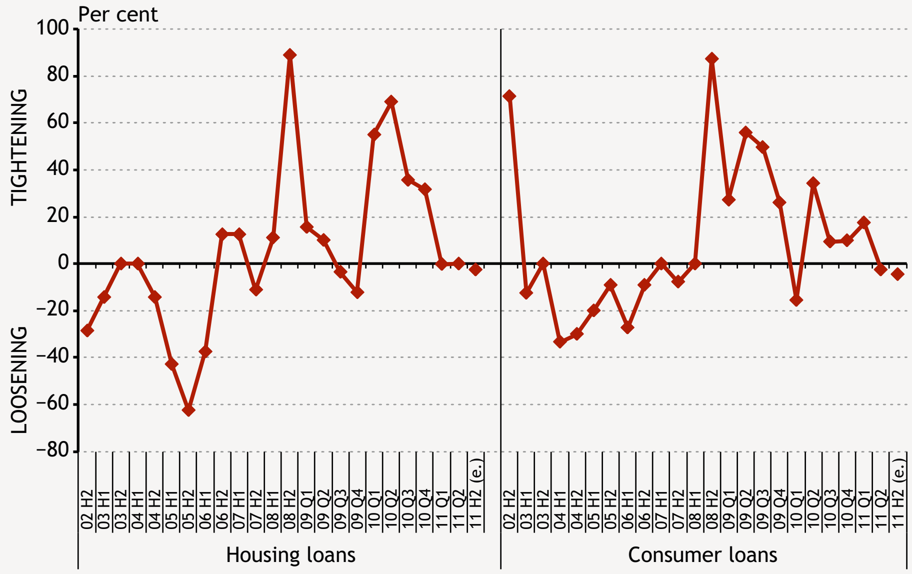
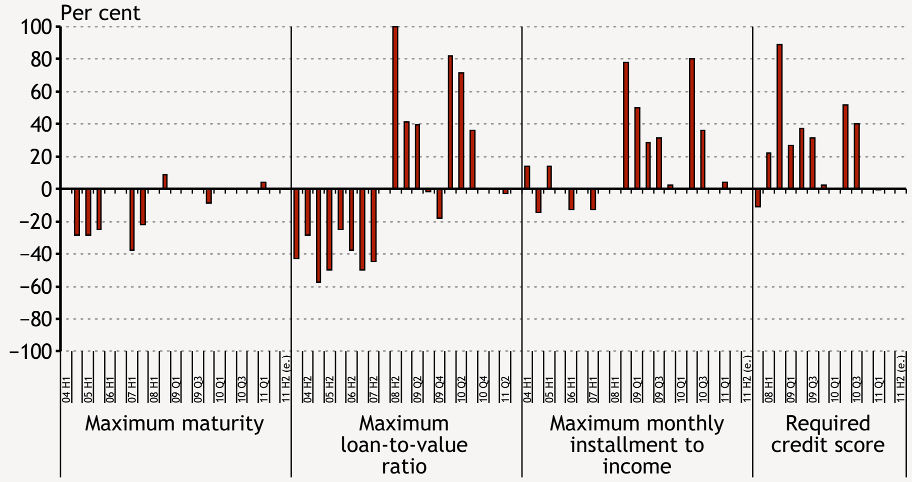


Chart 4
Credit conditions in the housing loan and consumer loan markets
(net percentage balance of respondents tightening/easing credit standards weighted by market share)



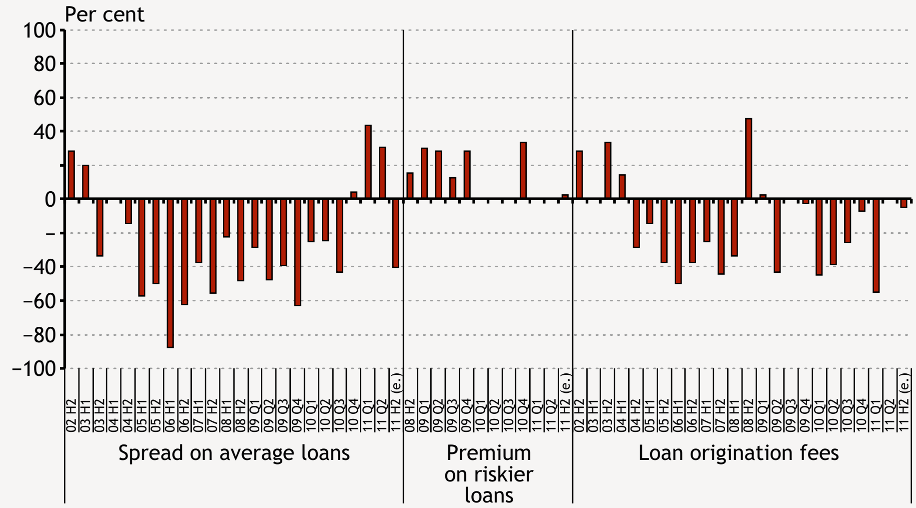
Note: The magnitude of tightening/easing is not shown in the chart.

Chart 5
Credit conditions in the housing loan market – non-price conditions
(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 6
Credit conditions in the housing loan market – price conditions
(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 7
Factors contributing to changes in credit conditions in the case of housing loans
(net percentage balance of banks indicating a contribution of individual factors to tightening or easing weighted by market share

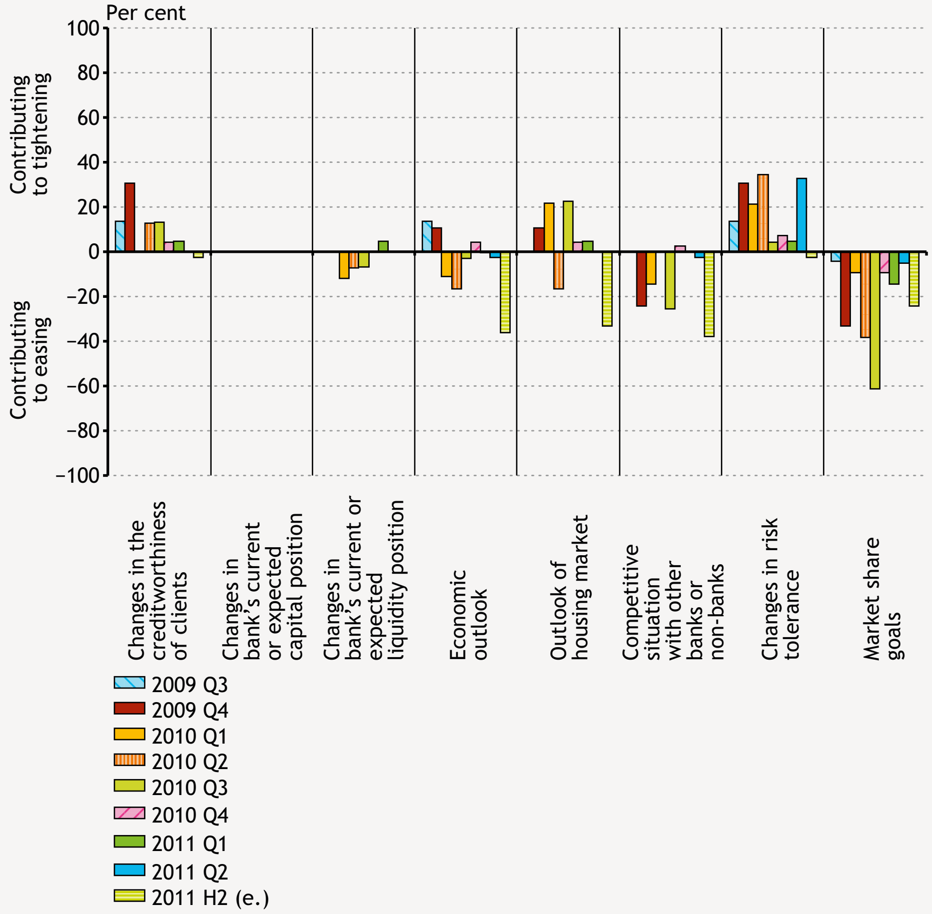


Chart 8
Perceived demand for loans in the household segment
(net percentage balance of respondents reporting increase/decrease in demand weighted by market share)

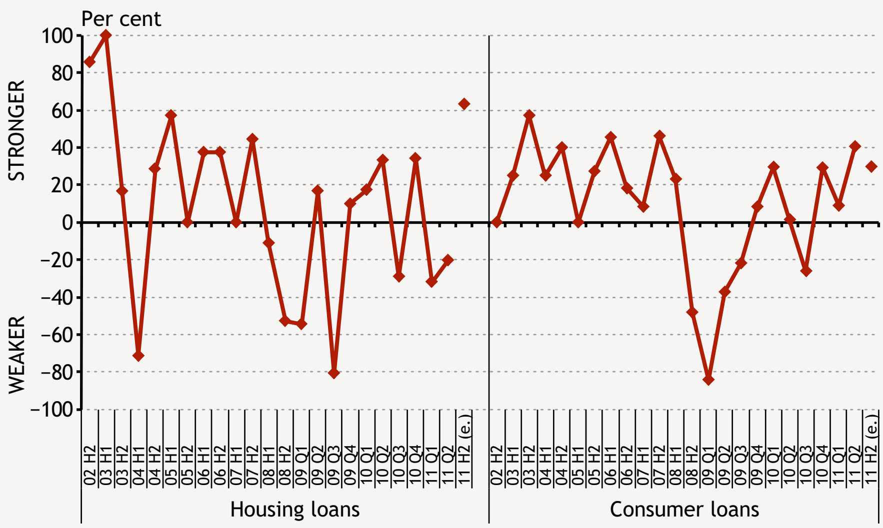
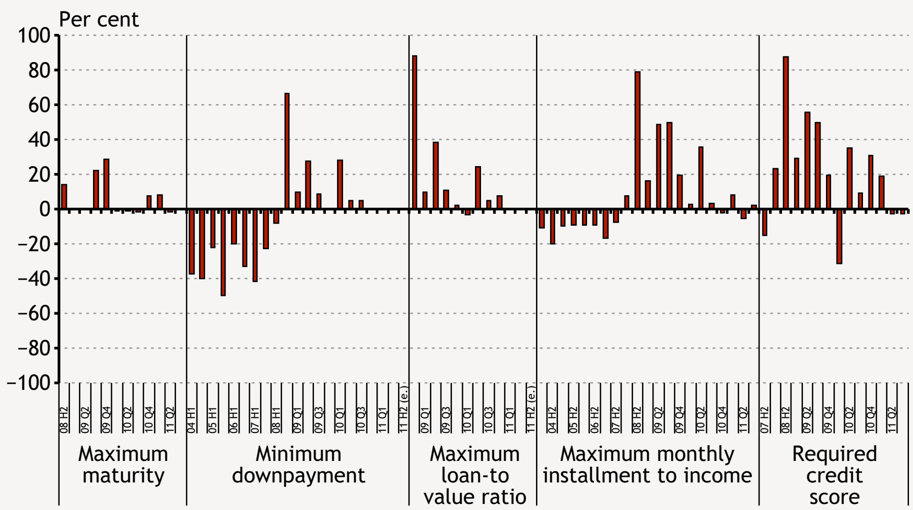
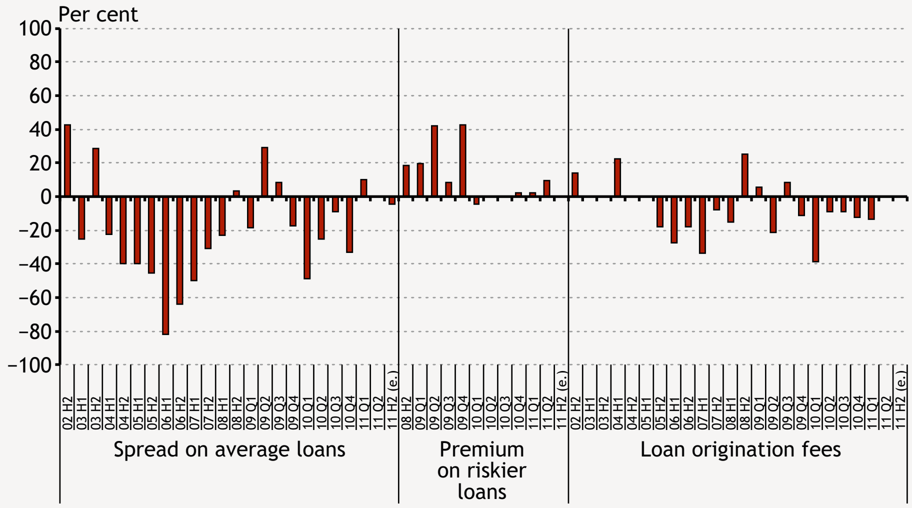


Chart 9
Credit conditions in the consumer loan market – non-price conditions
(net percentage balance of respondents tightening/easing credit conditions weighted by market share)



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

Chart 10
Credit conditions in the consumer loan market – price conditions
(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 11
Factors contributing to changes in credit conditions in the case of consumer loans
(net percentage balance of banks indicating a contribution of individual factors to tightening or easing weighted by market share)

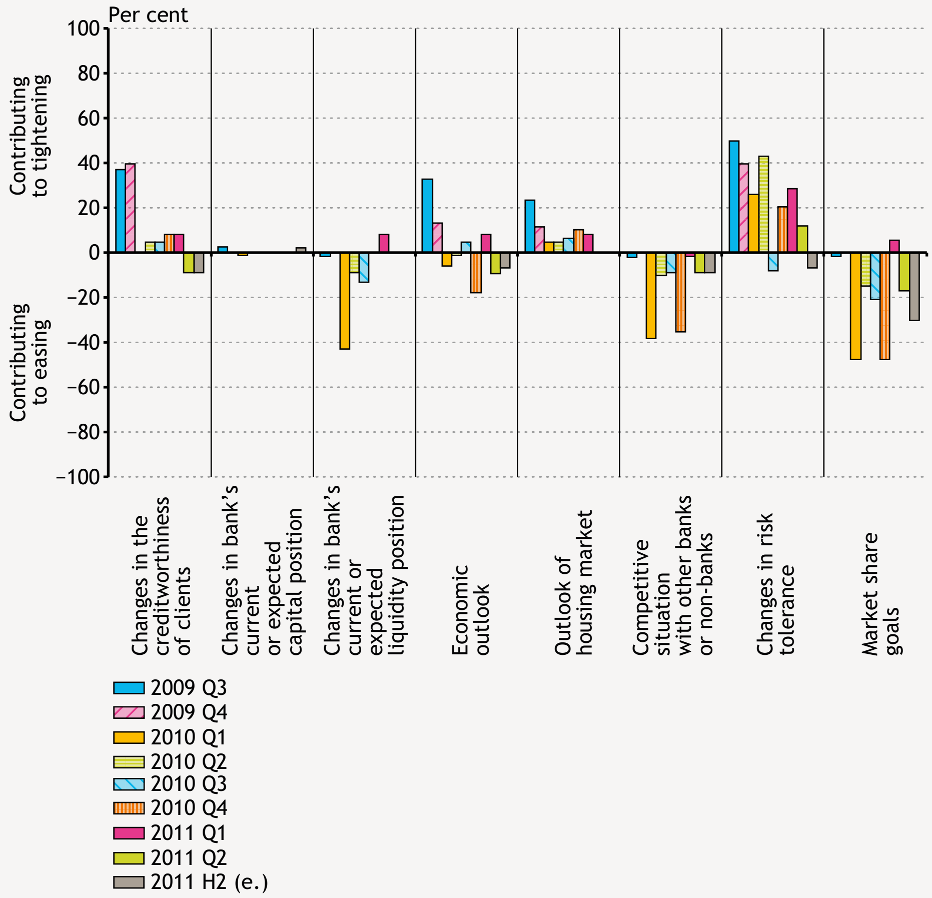
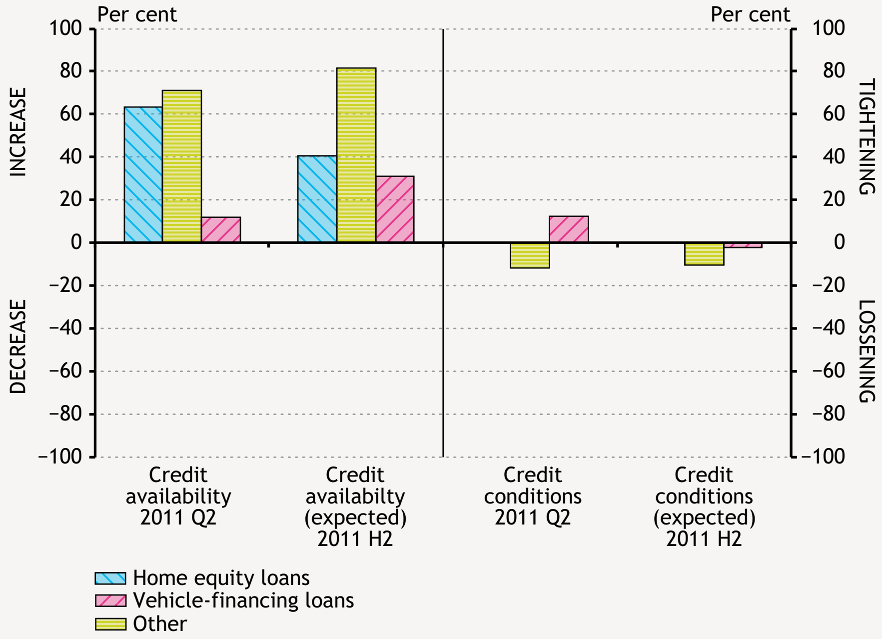
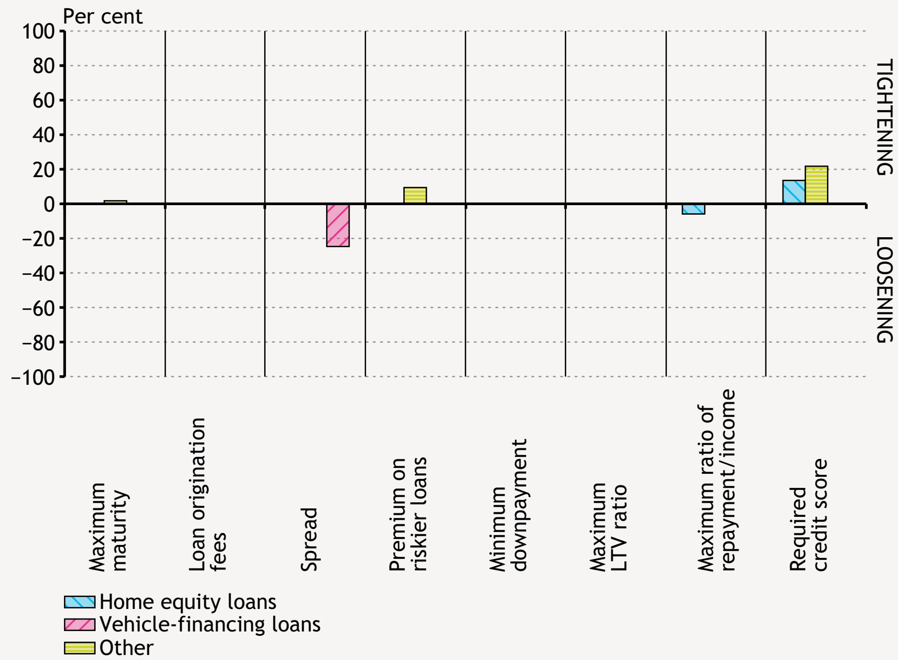


Chart 12
Willingness to lend and credit conditions for different consumer loan products
(net percentage balance of respondents weighted by market share)



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

Chart 13
Credit conditions for different consumer loan products in 2011 Q2
(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 14
Demand for different consumer loan products
(net percentage balance of banks reporting increase or decrease weighted by market share)

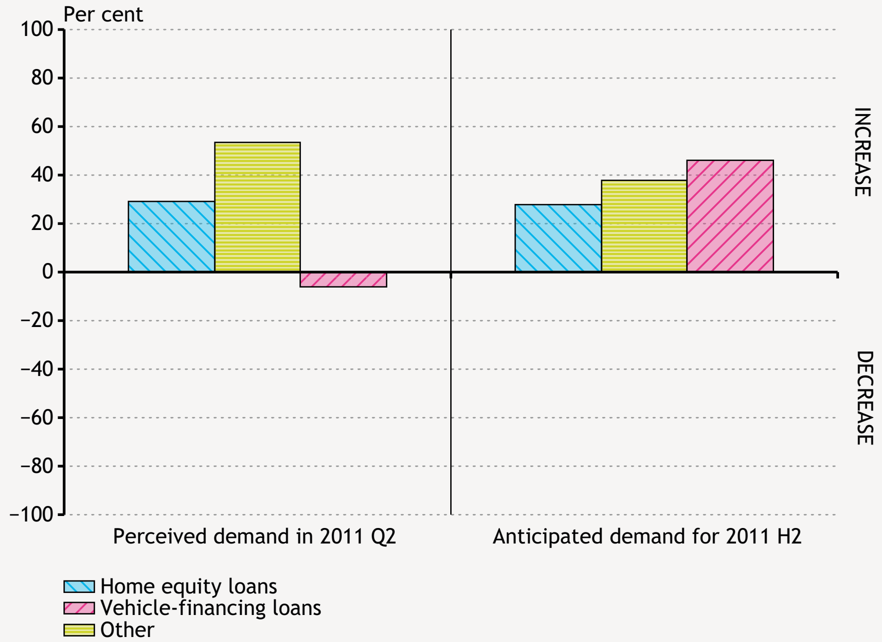
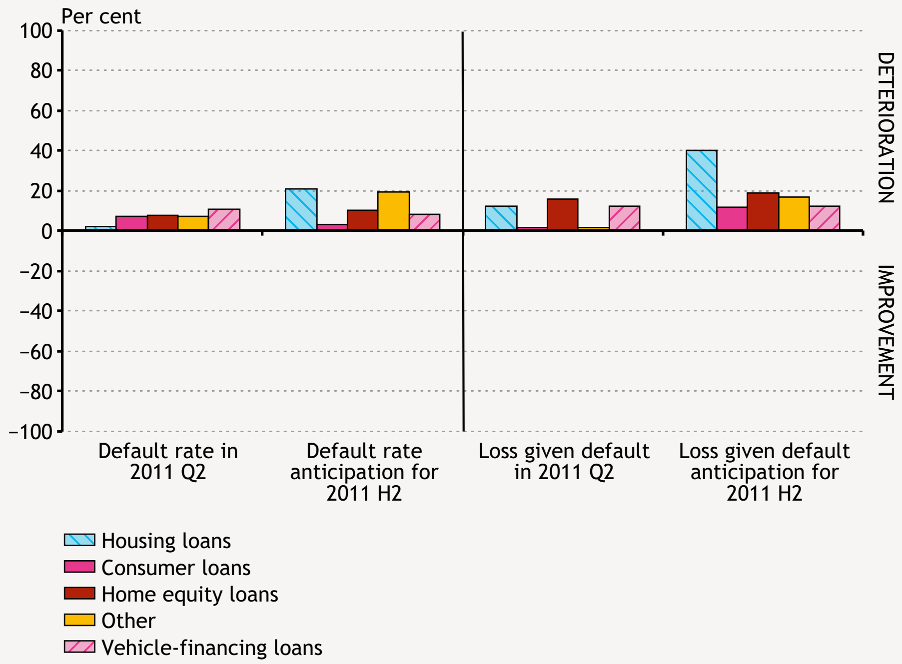
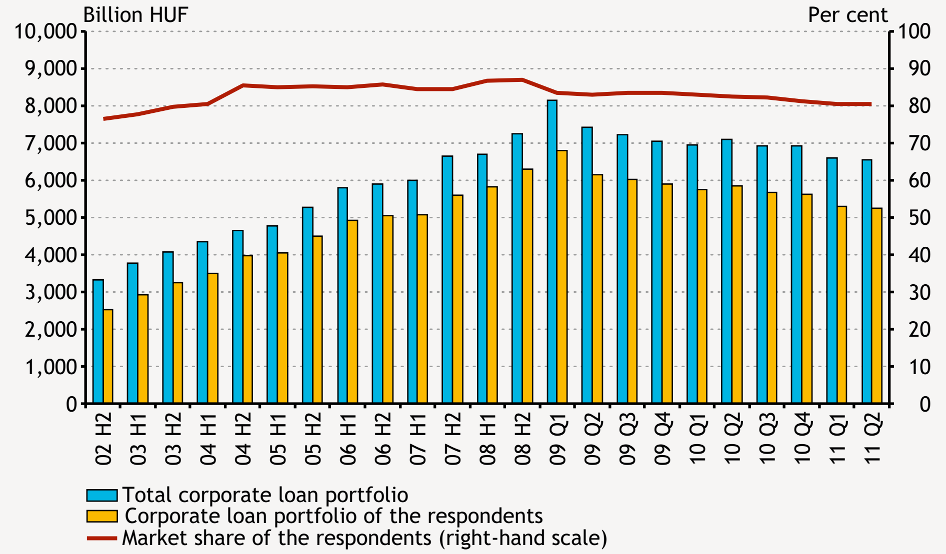


Chart 15
Default rate of loans to households and loss given default
(net percentage balance of banks reporting increase or decrease weighted by market share)



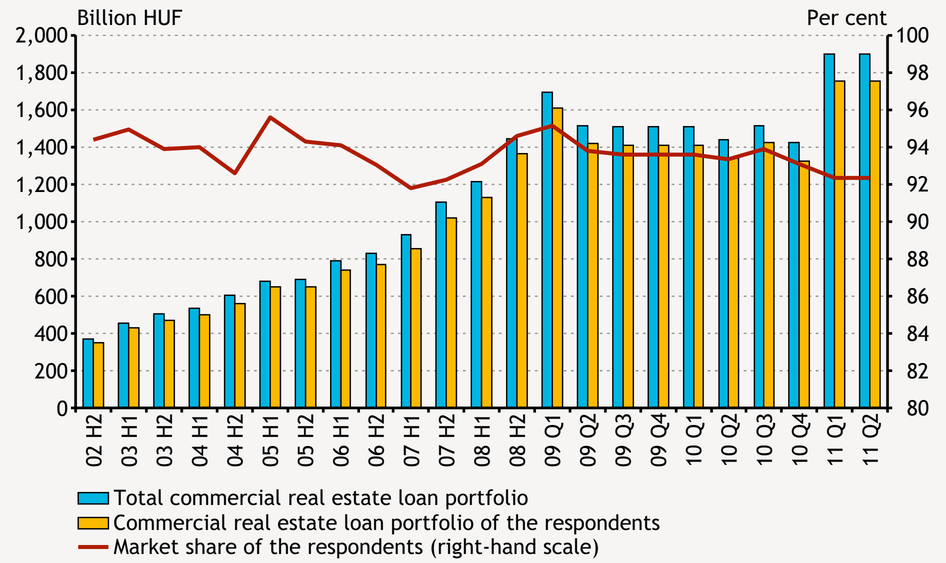
LENDING TO THE CORPORATE SECTOR

Chart 16
Outstanding amount of corporate loans and the market share of banks completing the questionnaire



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

Chart 17
Outstanding amount of commercial real estate loans and the market share of banks completing the questionnaire



Note: From 2009, stock data also include those for credit institutions and branches. From 2011 the data includes loans for commercial real esteta purchase, not just for developement.

Chart 18
Willingness of banks to extend corporate loans

(net percentage balance of respondents reporting increased/decreased credit availability weighted by market share)

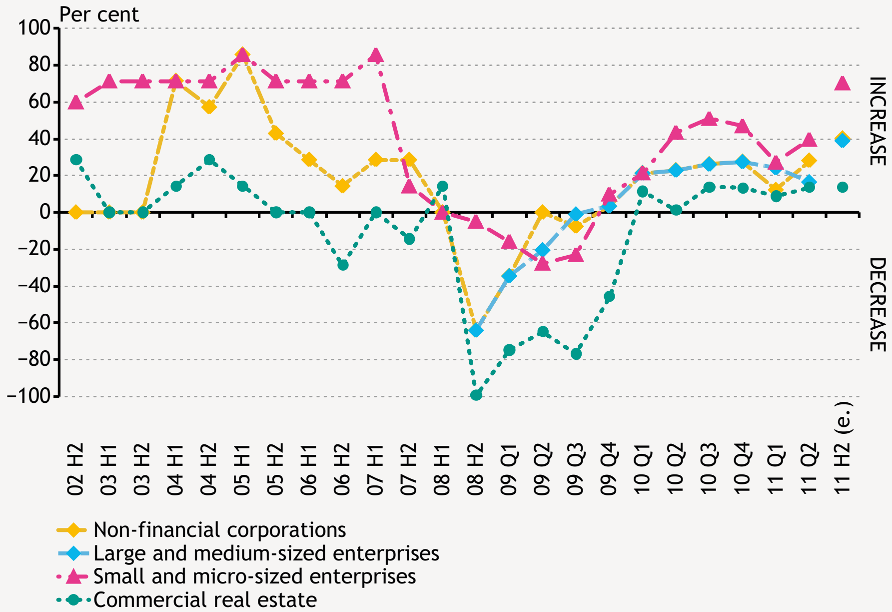
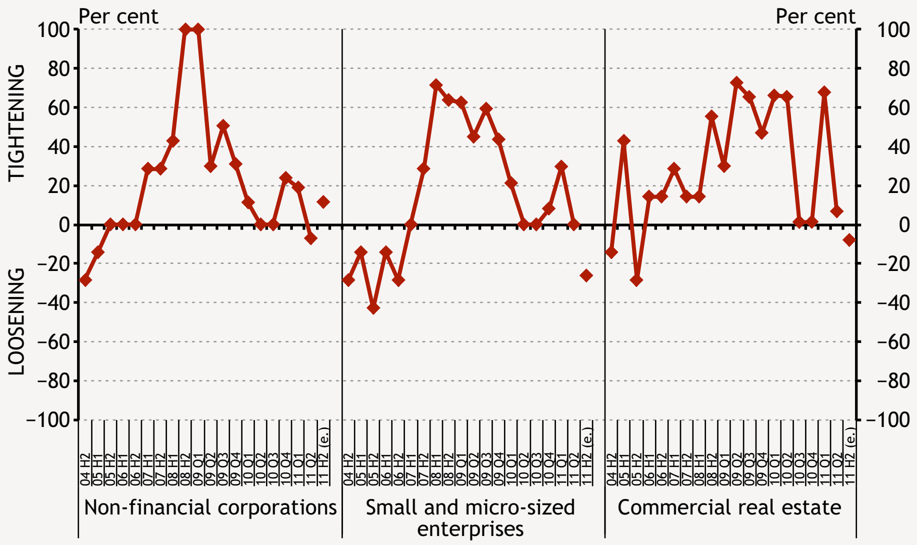


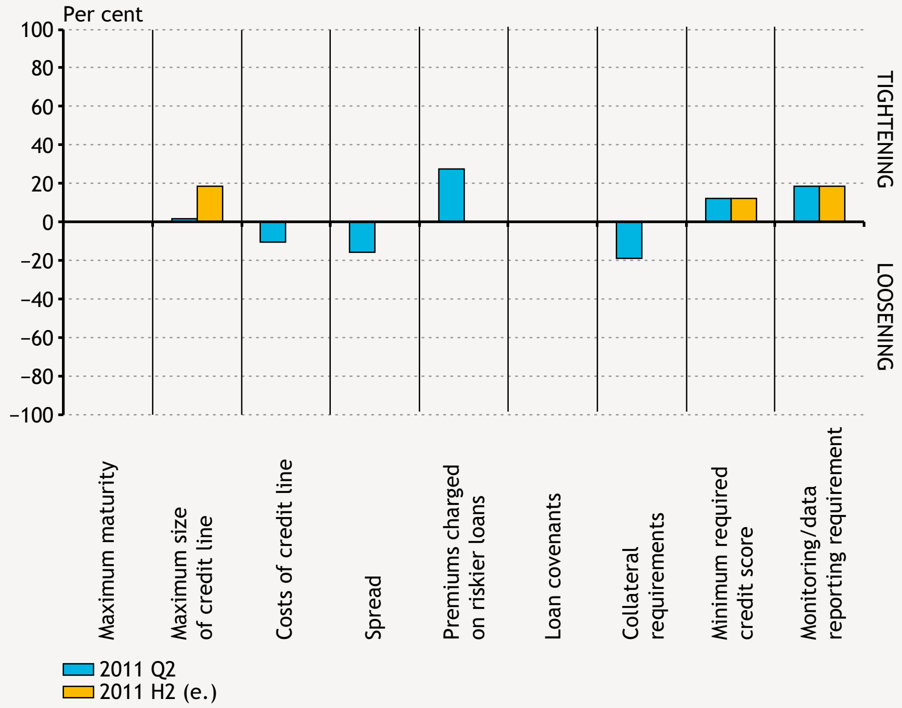
Chart 19
Credit conditions by corporate category and for commercial real estate loans

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



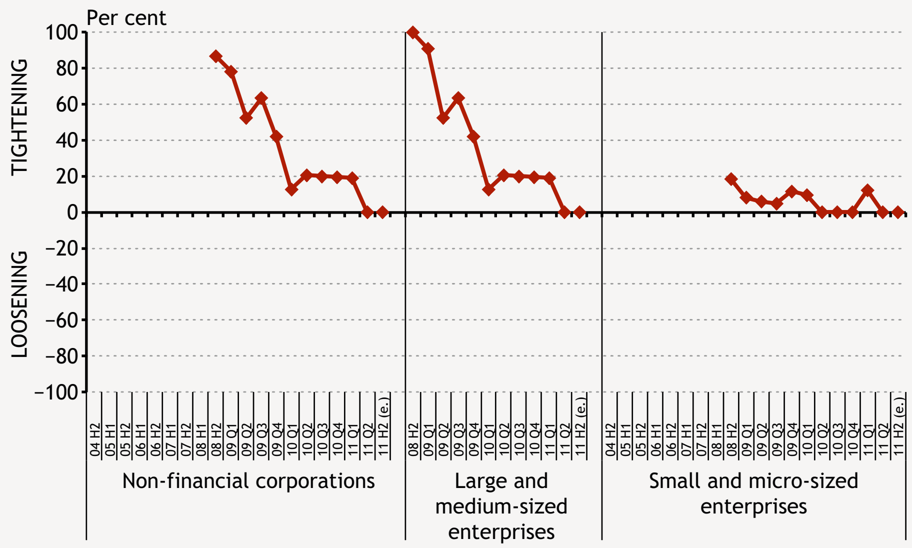
Note: The magnitude of tightening/easing is not shown in the chart.

Chart 20
Credit conditions in the corporate category
(net percentage balance of respondents reporting tightening/easing weighted by market share)



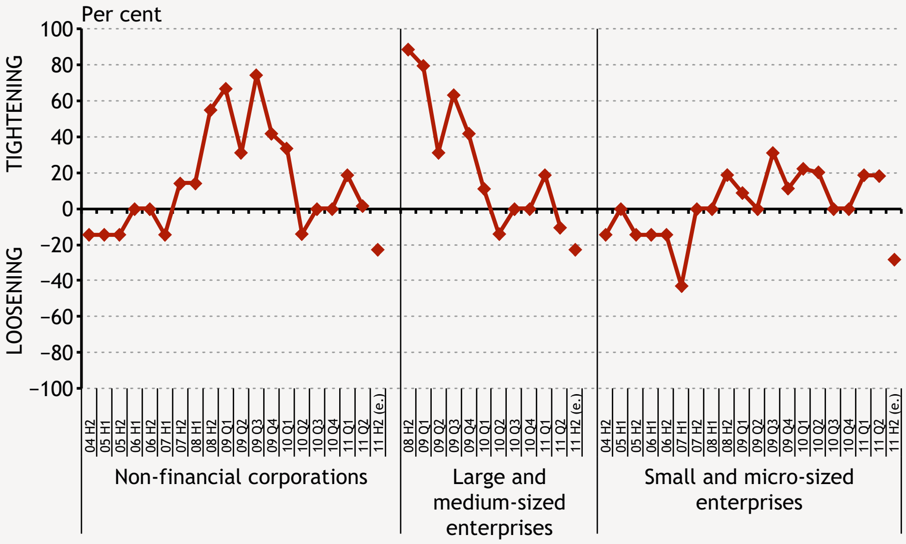
Note: The magnitude of tightening/easing is not shown in the chart.

Chart 21
Maximum maturities by corporate category
(net percentage balance of respondents reporting tightening/easing weighted by market share)



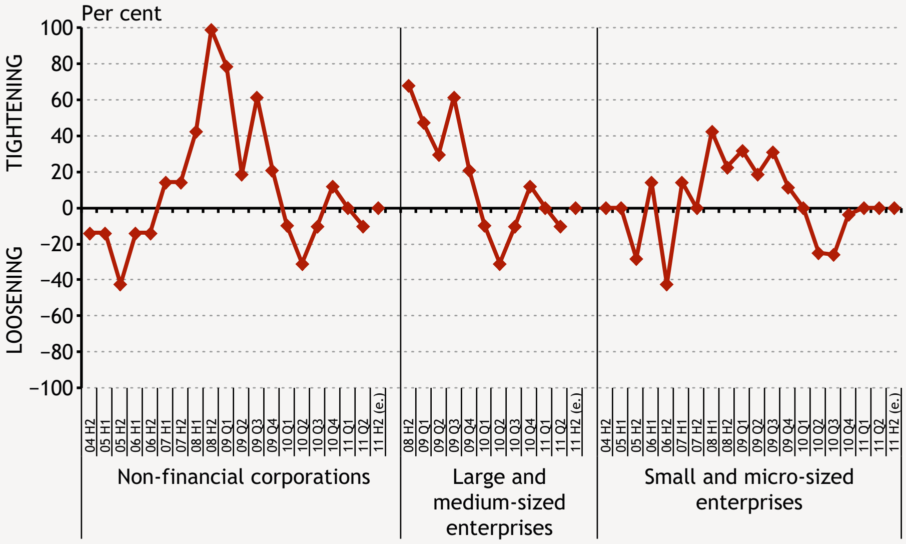
Note: The magnitude of tightening/easing is not shown in the chart.

Chart 22
Maximum size of loans/credit lines by corporate category
(net percentage balance of respondents reporting tightening/easing weighted by market share)



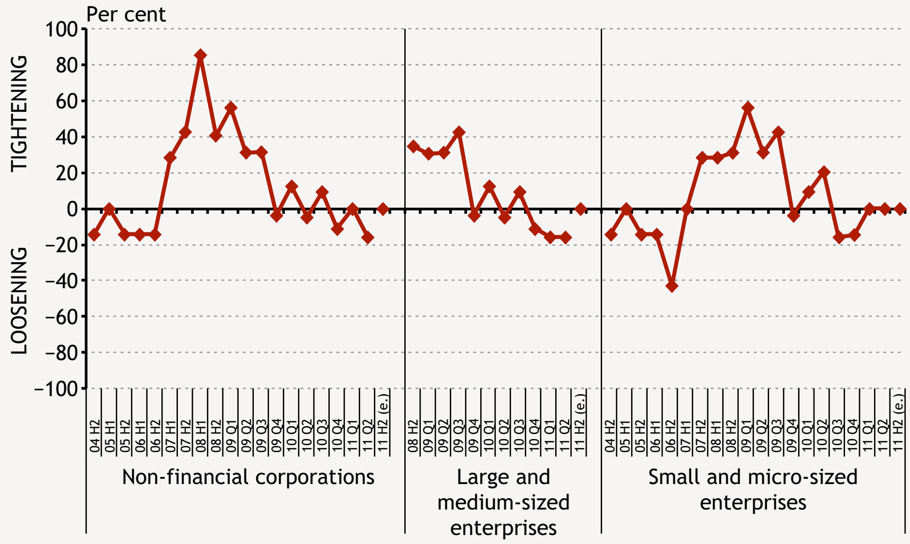
Note: The magnitude of tightening/easing is not shown in the chart.

Chart 23
Fee(s) charged for extending loans/credit lines by corporate category
(net percentage balance of respondents reporting tightening/easing weighted by market share)



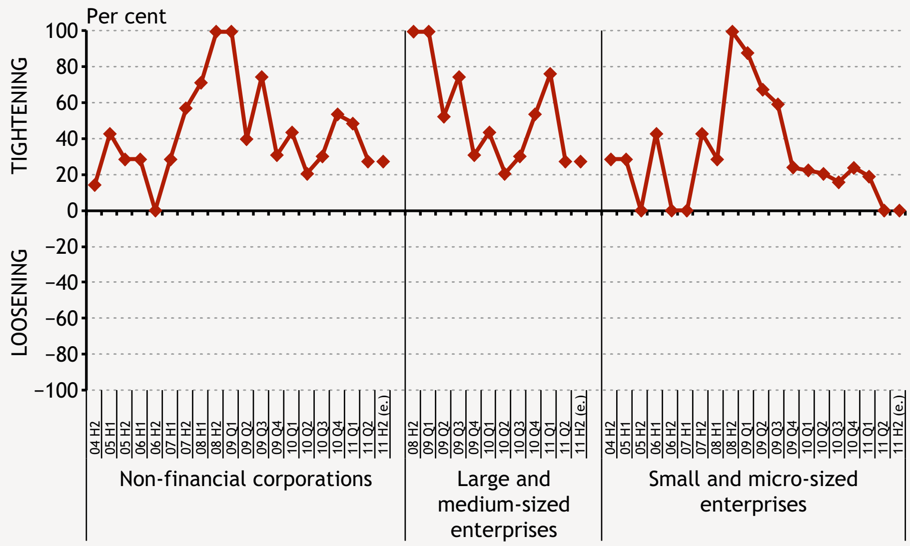
Note: The magnitude of tightening/easing is not shown in the chart.

Chart 24
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.

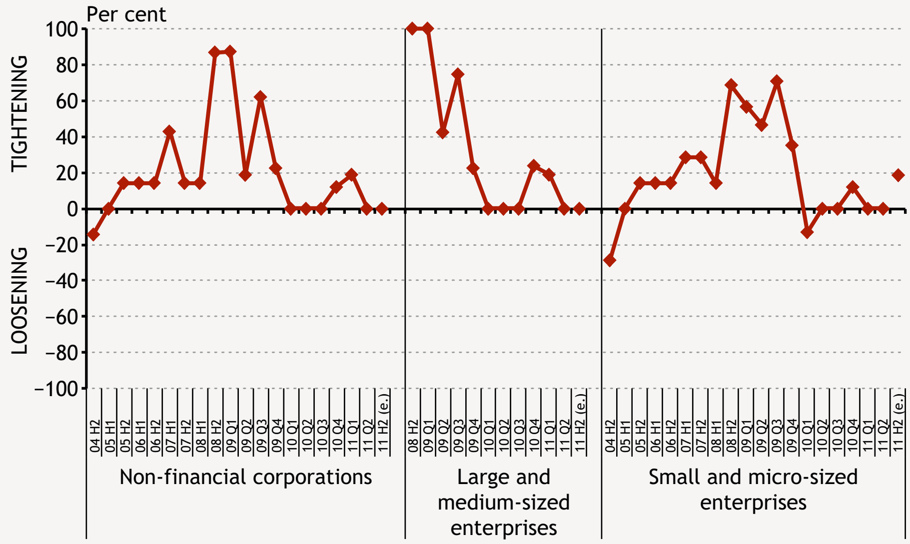
Chart 25
Premium on riskier loans by corporate category
(net percentage balance of respondents reporting tightening/easing weighted by market share)



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

Chart 26
Covenant requirements by corporate category

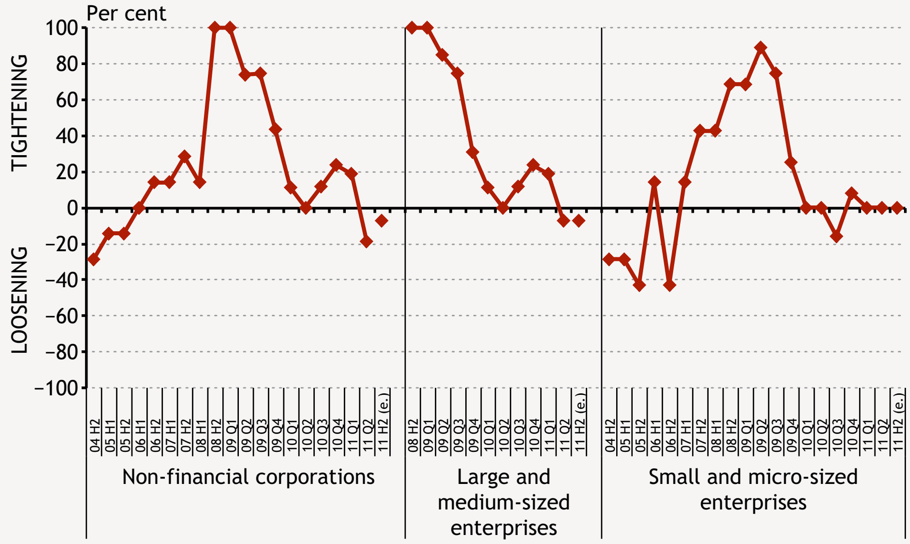
(net percentage balance of respondents reporting tightening/easing weighted by market share)



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

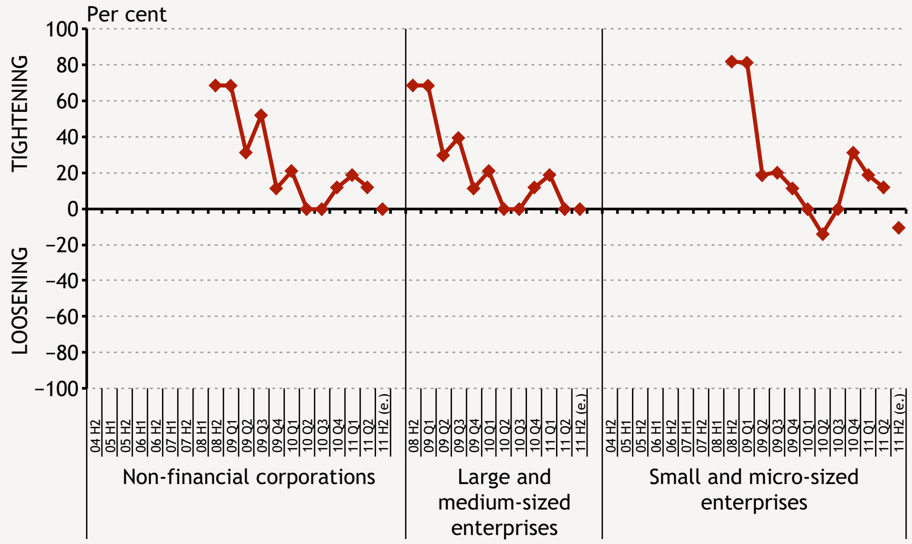
Chart 27
Collateral requirements by corporate category

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



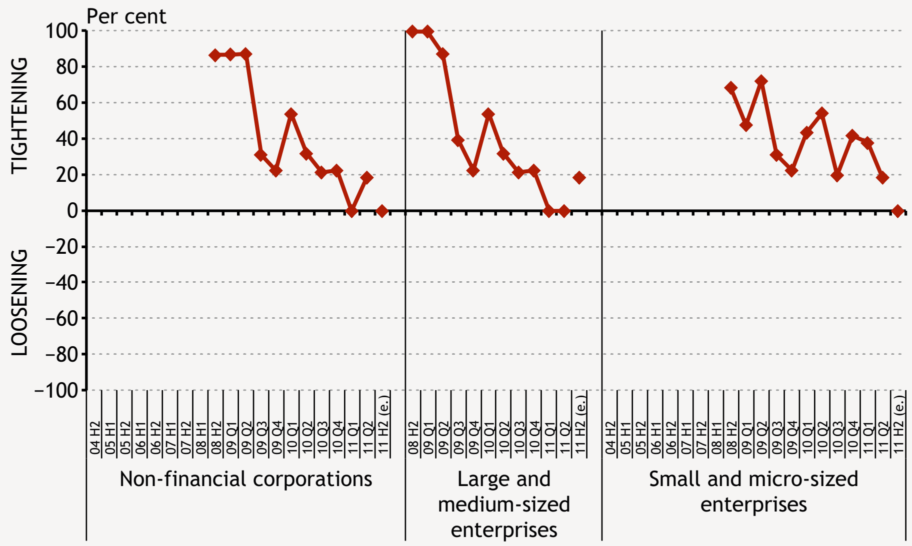
Note: The magnitude of tightening/easing is not shown in the chart.

Chart 28
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 29
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 30
Factors contributing to changes in credit conditions on corporate loans
(net percentage balance of banks indicating a contribution of individual factors to tightening or easing weighted by market share)

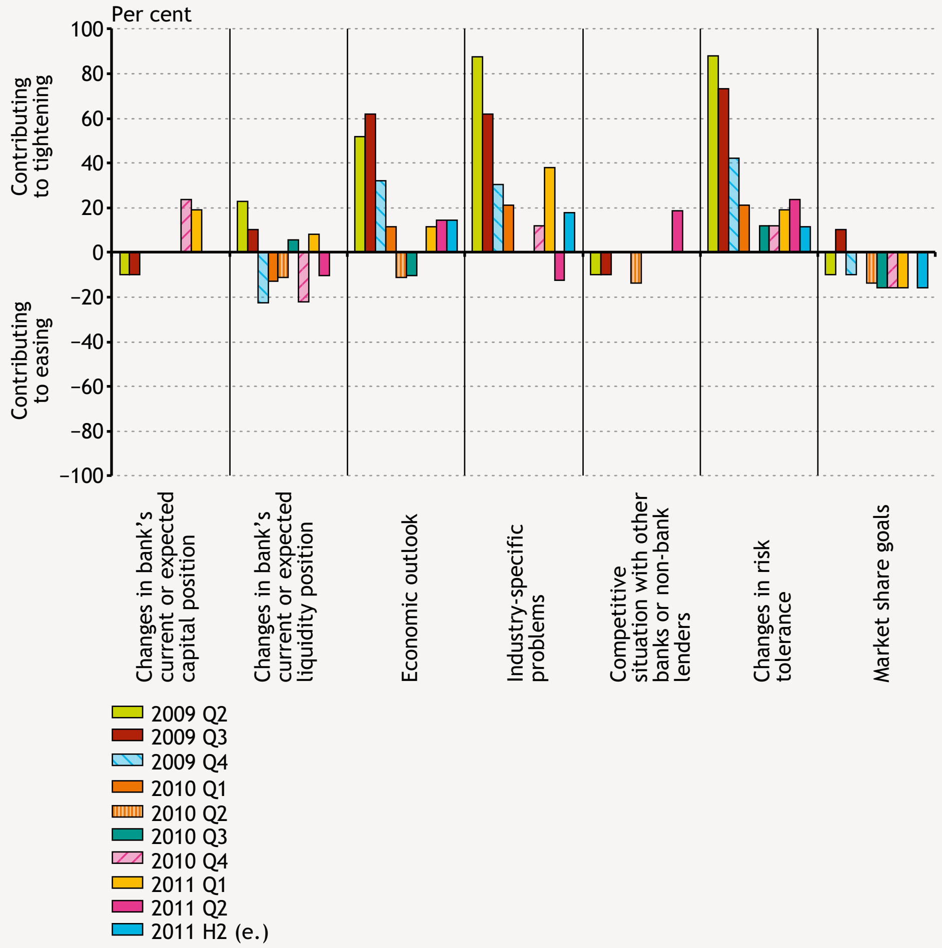


Chart 31
Perceived demand for corporate loans
(net percentage balance of respondents reporting increase/decrease in demand weighted by market share)

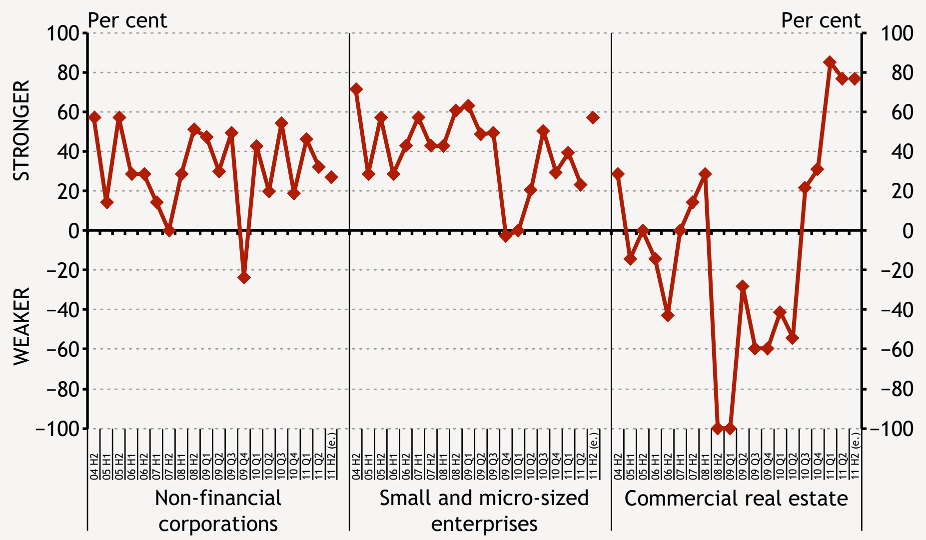


Chart 32
Perceived demand for corporate loans by maturity
(net percentage balance of respondents reporting increase/decrease in demand weighted by market share)

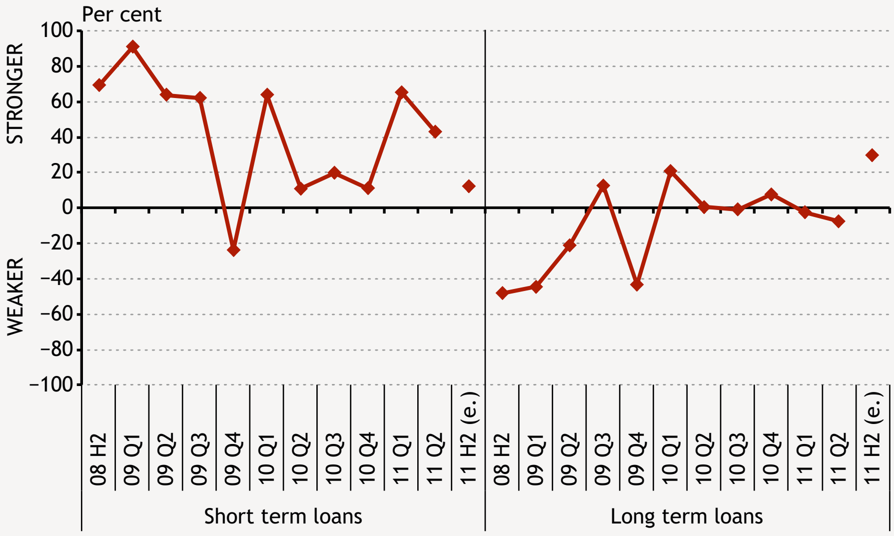


Chart 33
Factors contributing to corporations'demand for loans based on banks'perceptions
(net percentage balance of banks indicating a contribution of individual factors to increase or decrease weighted by market share)

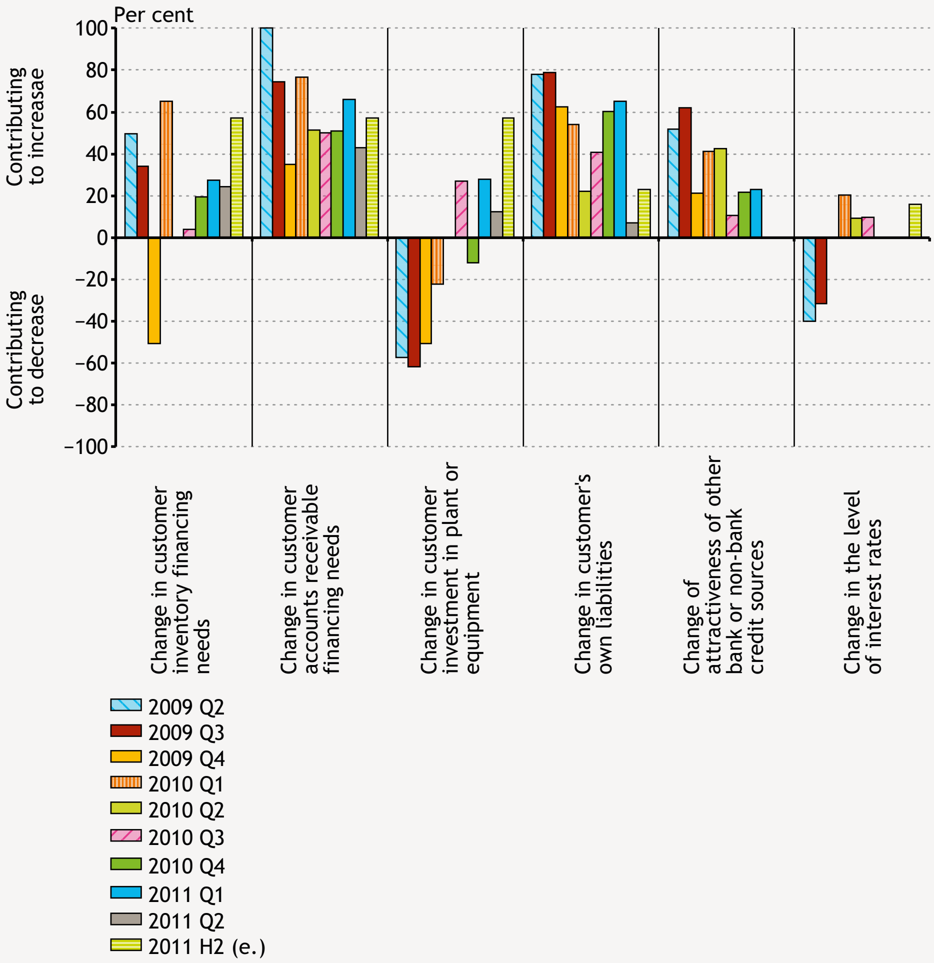


Chart 34
Changes in loan portfolio quality by sector

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

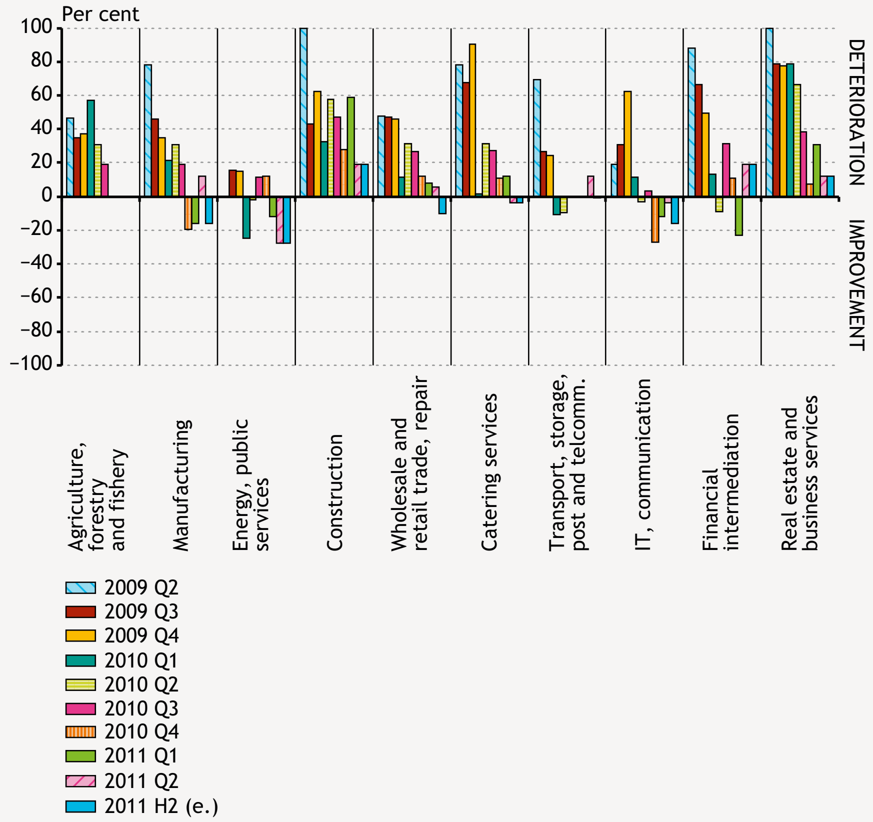
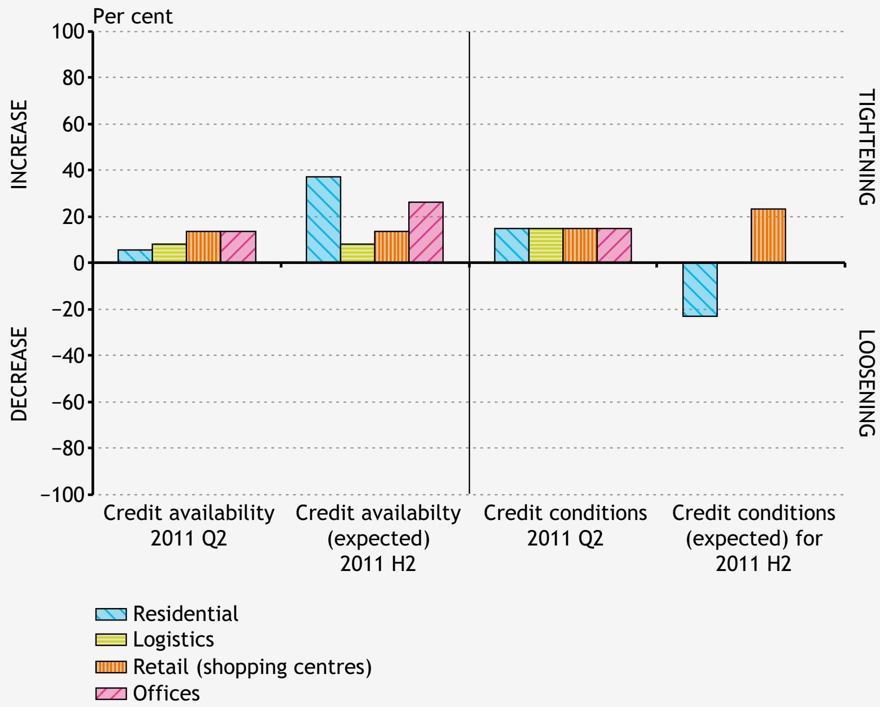


Chart 35
Credit availability (Willingness to lend) and credit conditions in the commercial real-estate segment

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



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

Chart 36
Demand for loans in specific segments of the commercial real-estate market
(net percentage balance of respondents reporting an increase/decrease in demand weighted by market share)

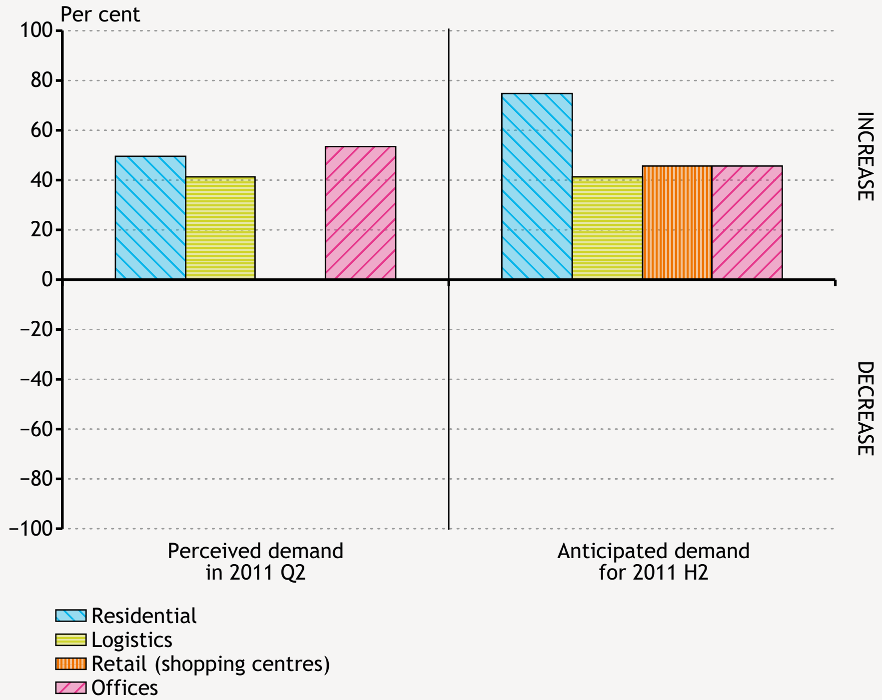


Chart 37
Developments in perceptions of risk associated with corporate loans based on answers provided on default rate and loss given default
(net percentage balance of respondents reporting increased/decreased risk weighted by market share)

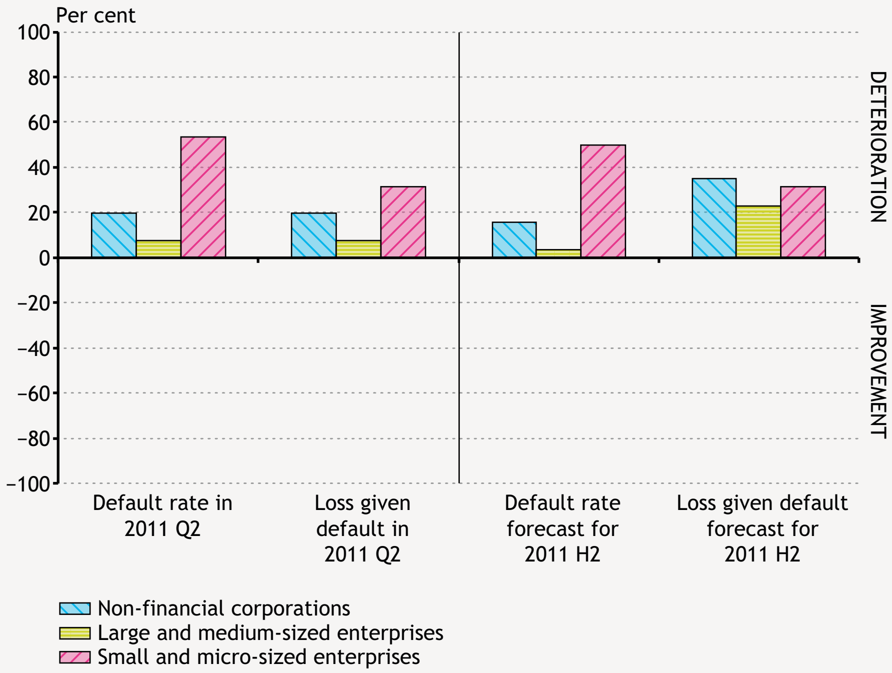
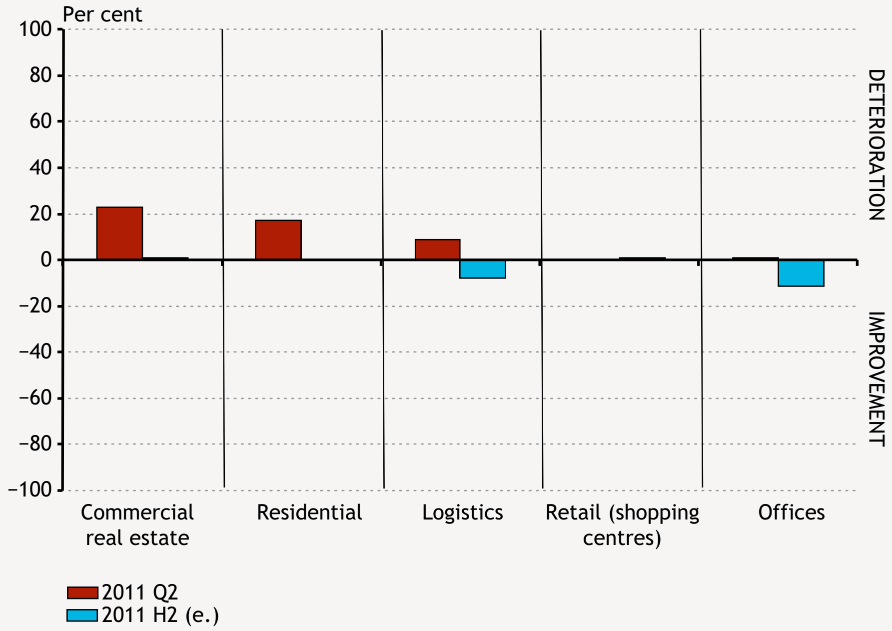
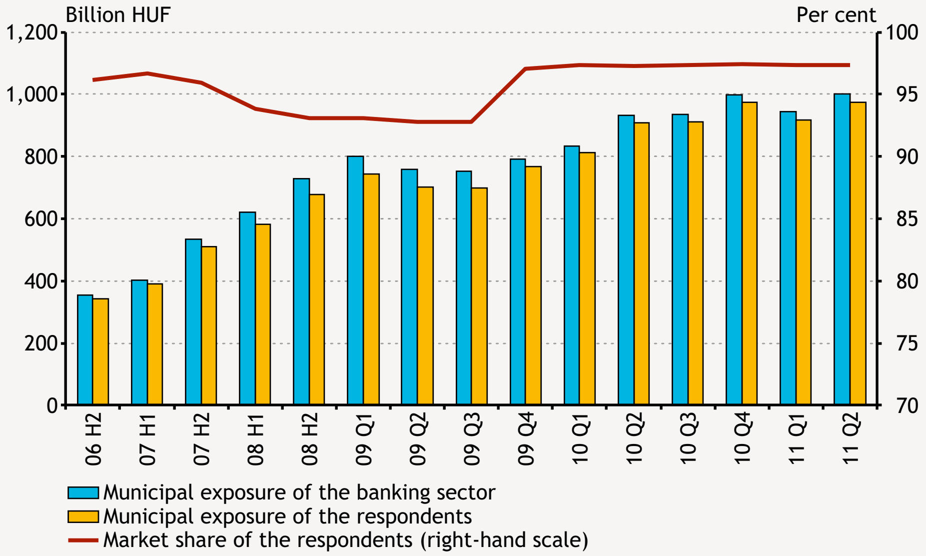


Chart 38
Changes in the quality of the commercial real estate loan portfolio
(net percentage balance of respondents reporting improvement/deterioration weighted by market share)



LENDING TO MUNICIPALITIES

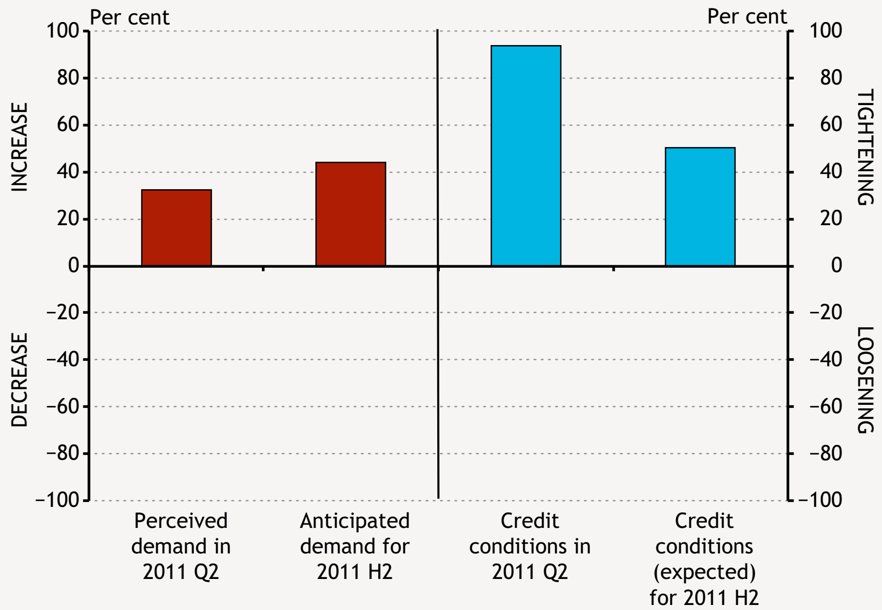
Chart 39
Total exposure to municipalities and the share of banks completing the questionnaire



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

Chart 40
Perceived demand for loans and credit conditions in lending to municipalities

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



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

Chart 41
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 by market share)

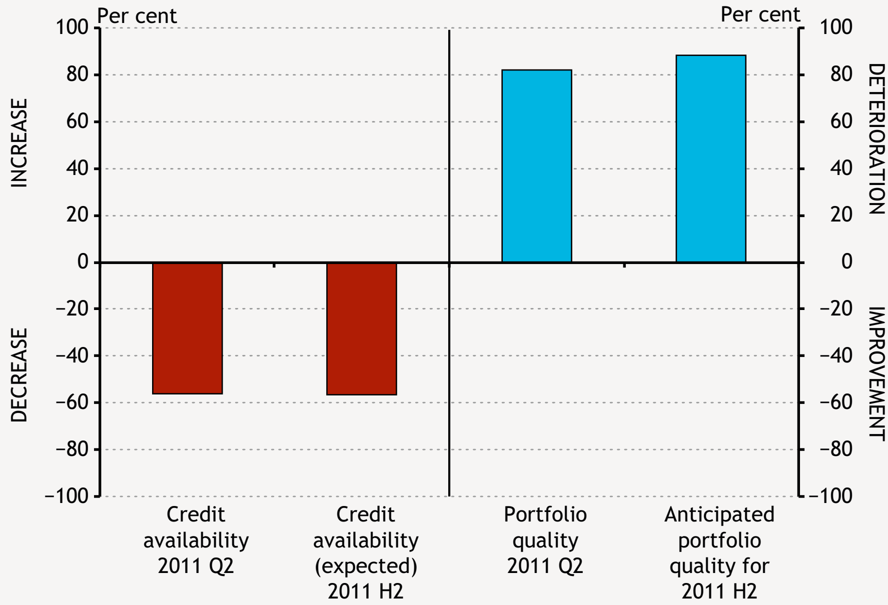
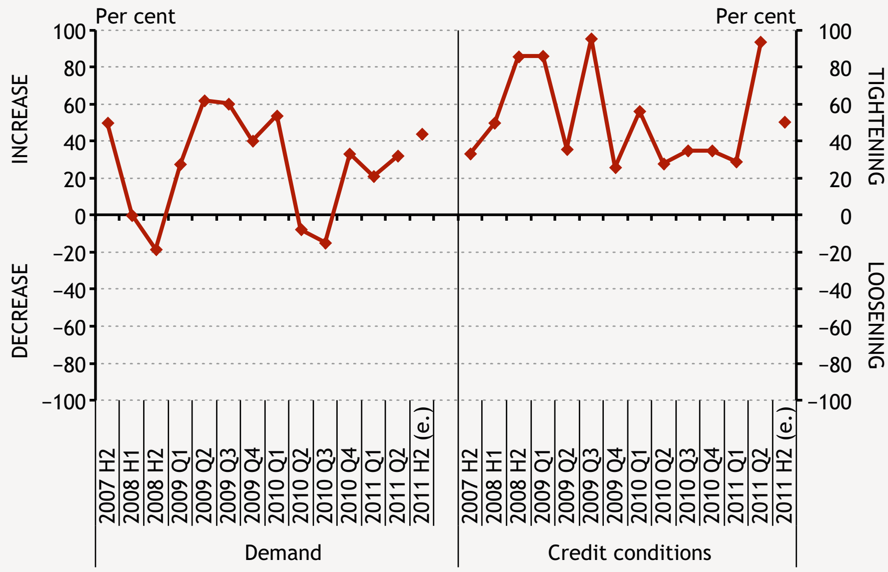


Chart 42
Perceived demand by banks and credit conditions in lending to municipalities since 2007 H2
(net percentage balance of respondents reporting an increase/decrease and tightening/easing weighted by market share)



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

Annex 2: Methodological notes

In terms of methodology – starting from January 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 2011 Q2 in July 2011), whereas forward-looking questions contain projections for the upcoming half year (e.g. for 2011 H2 in July 2011), relative to the trends of the previous quarter year (previous half year in the past).

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**[3], 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.

[3] 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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Summary of the aggregate results of the survey for 2011 Q2

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