



MAGYAR NEMZETI BANK

**SENIOR LOAN OFFICER
SURVEY
ON BANK LENDING
PRACTICES**

MARCH 2009

**Summary of the aggregate results
of the survey on 2008 H2**

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Analysis prepared by: Ákos Bakonyi – Dániel Homolya

Financial Stability

Summary

The Magyar Nemzeti Bank launched its semi-annual Senior Loan Officer Survey in the spring of 2003, with the objective of gaining a better understanding of bank lending processes. The latest survey, conducted in January-February 2009, examined the household and corporate lending segments, as well as the financing of municipalities by banks. The practice of the survey has been renewed: we have revised the questions in the survey, made the publication presenting the results more focused, and implemented a new weighting method for the answers (introducing market share based weighting to replace the previous practice of equal-weighting). Moreover, to enable closer monitoring of the qualitative aspects of the loan supply processes, the survey will be conducted on a quarterly basis in the future. All these changes were designed to improve the efficiency of the survey, and are in line with international best practices.

In relation to the household lending market, the survey indicated that banks' willingness to lend decreased sharply in 2008 H2, both in respect of housing loans and consumer loans. In the previous survey, banks had already reported that they would tighten policies, but the deepening crisis necessitated stronger measures than they had previously expected. Banks tightened their price and non-price credit conditions in the household lending market and this tightening will continue in 2009 H1, primarily due to clients' deteriorating payment ability, negative economic prospects, and the fact that funds have become more expensive and difficult to access. Banks cut back their Swiss franc-denominated loan supply significantly. Demand in the households' credit segment also declined considerably. Although banks did not see significant deterioration in the portfolio thus far, risks are expected to materialise as early as the next half year. The tightening trend now observed in domestic household lending has already been seen in previous foreign bank loan surveys (e.g. in the euro area, the USA, the United Kingdom).

In the corporate segment, willingness to lend declined substantially, particularly affecting loans to large and medium-sized enterprises and commercial real estate loans. Respondents perceived a further increase in demand for corporate loans: although demand for long-term loans tapered off (as a result of the decline in investment projects), stronger demand was observed for short-term loans. According to the survey, banks tightened credit conditions (both price and non-price factors), attributing the move to the unfavourable economic prospects, industry-specific issues (in the construction sector in particular), waning risk tolerance and deteriorating liquidity conditions. Respondents experienced a slight deterioration of portfolio quality in 2008 H2, and the majority of banks expect this trend to continue in the next half year as well. Regarding the corporate segment, Hungary's domestic results are largely in line with the tightening trends indicated by the surveys of foreign central banks.

In the municipal segment, banks continued to tighten credit conditions in 2008 H2 and – similarly to the previous half year – they expect moderate demand for loans to municipalities in 2009 H1.

Aggregate results of the questionnaire¹

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 individual segments. The methodological background² is described in Annex 2; numerical data on the loan portfolios are found in Annex 3; and answers to the questions are presented in detail in Annexes 4, 5 and 6 (in a separate Excel file attachment). The retrospective questions in the questionnaire refer to 2008 H2, while forward-looking questions pertain to 2009 H1. The questions focus on changes perceived relative to the previous half year; thus the basis period for retrospective questions is 2008 H1, and 2008 H2 for forward-looking questions.

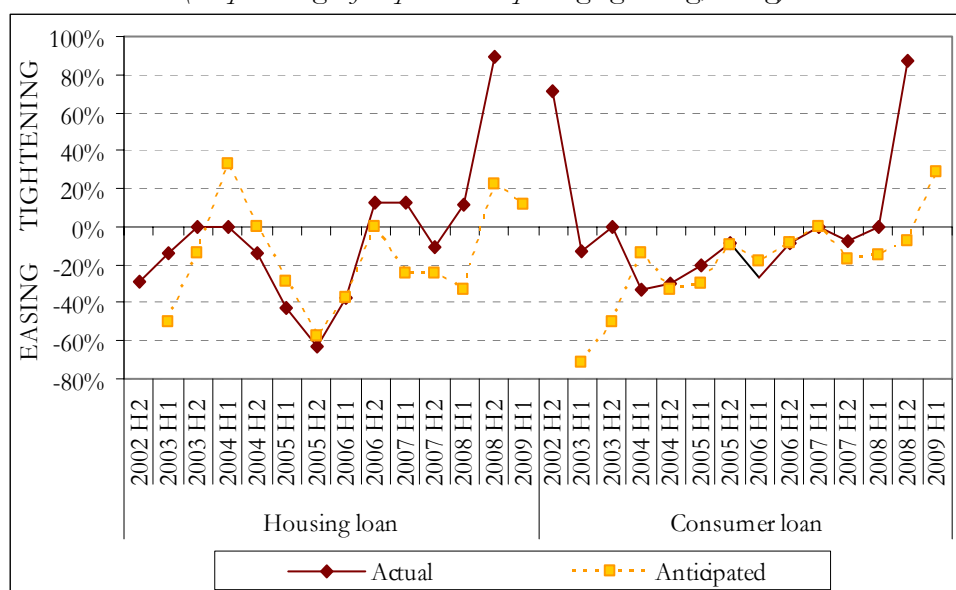
1. Household lending market

On the whole, the survey indicates that, both in respect of housing loans and consumer loans, banks' willingness to lend decreased significantly, and they all tightened credit conditions, and demand for loans decreased. Considering that banks had experienced signs of moderation and an increase in credit supply during the periods preceding this survey, the current results indicate a significant change compared to the results of previous surveys, and signal a turnaround in the credit cycle. Respondents stressed that the increasing turbulence experienced in 2008 Q4 triggered a sharp turnaround in their lending behaviour, forcing them to adopt a significantly tighter attitude in their lending behaviour. According to their projections, this trend will continue in 2009 H1. Thus far, banks have not experienced deterioration in the household loan portfolio to any significant extent, but in view of the unfavourable economic prospects, the effect of the financial crisis on the real economy and the weakening of the forint, they anticipate significant deterioration in 2009 H1. In response to the deteriorating portfolio, banks are relying more on their soft collection and hard collection activities, introducing new schemes to assist troubled clients with repaying loans (for example, by extending the term of the loans, temporary payment relief).

¹ Thirteen banks responded to questions related to the household segment (housing loans: nine institutions, consumer loans: Thirteen banks and five financial enterprises owned by banks), while seven banks replied to questions regarding the corporate segment, and six institutions were queried on the trends in municipality lending activity. Respondents first submitted their replies to the MNB electronically, and subsequently individual banks also participated in personal interviews. According to our plans, banks will complete the questionnaires in electronic format on a quarterly basis in future, and the personal interview will take place once a year, in relation to the survey conducted in Q1 of the specific year.

² Certain keywords presented in the methodological notes are worth highlighting. Willingness to lend reflects the respondent's intention to expand and increase its portfolio in the specific segment. Credit standards represent internal banking policies, which determine the type of clients and client groups of a specific bank (based on their classification according to sector, location, size, financial indicators, etc.), and the type of credit products offered to them (collateralised loans only, investment loans, overdrafts, etc.). Credit conditions can be price-related and non-price related factors. Non-price 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. Questions related to non-price factors query respondents on items such as the spread between the interest rate level and the cost of funds, and risk premium.

Chart 1 Credit conditions / credit standards in the housing loan and consumer loan markets
(net percentage of respondents reporting tightening/easing)³



Nearly all respondents reported that they had tightened credit conditions for both housing loans and consumer loans in 2008 H2, and most of them expressed their intention to tighten conditions further in 2009 H1. This tightening primarily affected non-price conditions (reflected in higher minimum credit score requirements, increased minimum downpayment amounts, a lower monthly payment-to-income ratio, and a lower loan-to-value ratio), and was mainly associated with the anticipated deterioration of credit scores resulting from the negative economic outlook, banks' risk aversion and worsening liquidity conditions. Willingness to lend decreased in both segments, and respondents signalled a decline of similar magnitude for 2009 H1 as well. Banks reported significantly weaker demand for foreign currency housing loans in 2008 H2, but experienced slightly stronger demand for forint housing loans; they expect similar trends for 2009 H1. Based on the answers received, demand for consumer loans declined to an extent similar to that of foreign exchange housing loans, and a slight decline is expected for 2009 H1. Reflecting the tighter conditions on foreign currency loans, 2008 H2 data indicated a considerable decline in Swiss franc household loans.

Examining the different product categories of consumer loans, it appears that the decline in the willingness to lend mainly affects vehicle loans and general purpose mortgage loans, and that a major decline is anticipated in demand for vehicle loans in 2009 H1. General purpose loans, personal loans and hire-purchases were subject to the most severe tightening in 2008 H2, but tightening is expected primarily in respect of vehicle loans in 2009 H1.

2. Corporate lending market⁴

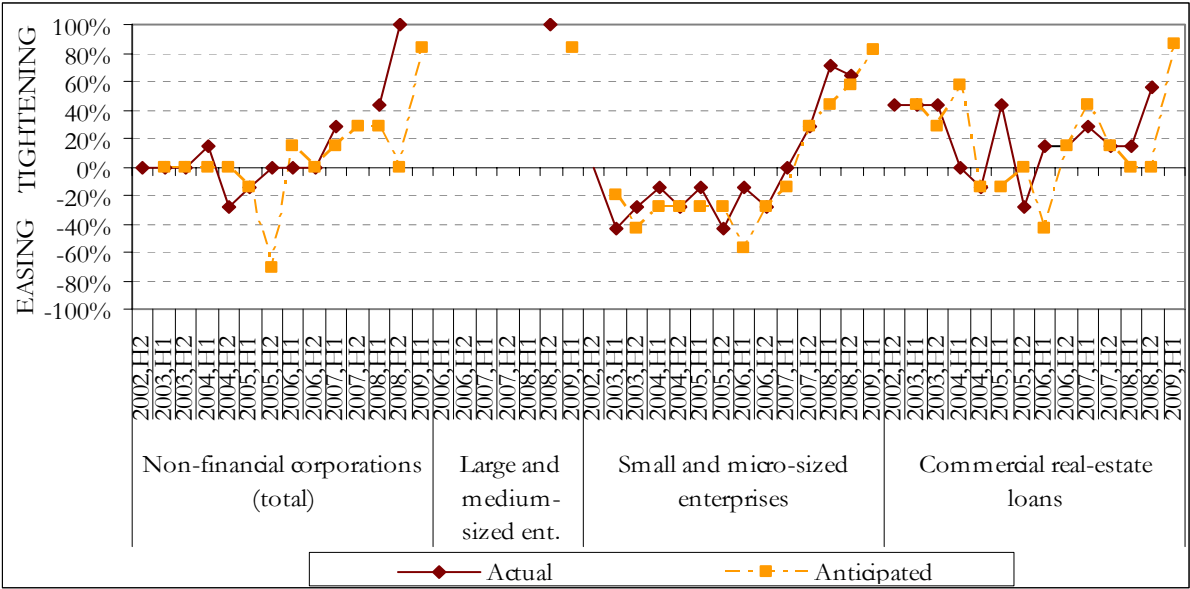
In contrast to the previous half year, the majority of institutions reported a decrease in willingness to lend in the corporate lending market. This trend particularly affected commercial real-estate (CRE) loans, as all respondents indicated restrained willingness to lend in this sub-segment. Based on the answers, this strong decline in willingness to lend was not observed in the case of small and micro-sized enterprises, although the situation might be slightly more

³ Aggregate results indicated by the charts were calculated by means of equal-weighting in previous surveys and a market share-based weighting in the current survey. The same applies to numerical data presented in the Annex.

⁴ Starting from this survey, large and medium-sized firms are classified as one category for the purposes of the questionnaire. Consequently, the survey examines corporate lending in a breakdown of large and medium-sized enterprises and small and micro-sized enterprises. We continue to use the original classification for commercial real-estate loans.

complicated considering that the respondents primarily intend to maintain their lending activity within the framework of the subsidised loan schemes (MFB, EIB, EBRD). In addition to more restrained willingness to lend, the tightening of credit standards and credit conditions already indicated by the previous two surveys continued in 2008 Q4. Both price and non-price conditions tightened. Fees and risk premia on loans increased, and banks also attempted to increase the spread on the cost of funds. As in the previous half years, however, the institutions were unable to fully transfer the increased cost of funds to their corporate clients. It should be noted that banks strengthened their monitoring activity as well and keep an even closer track of their transactions than is warranted by industry standards, which were not considered lax in the past. Parallel to applying new restrictions in their foreign currency loan supply, banks indicated another important trend: they now monitor more closely whether enterprises with foreign currency loans have sufficient foreign currency revenues, and if that is not the case, whether they have sufficient reserves to bear the burden of increased monthly payments necessitated by a potential change in the exchange rate.

Chart 2 Credit score requirements and credit standards by corporate category and for commercial real estate loans (net percentage of respondents reporting tightening/easing)



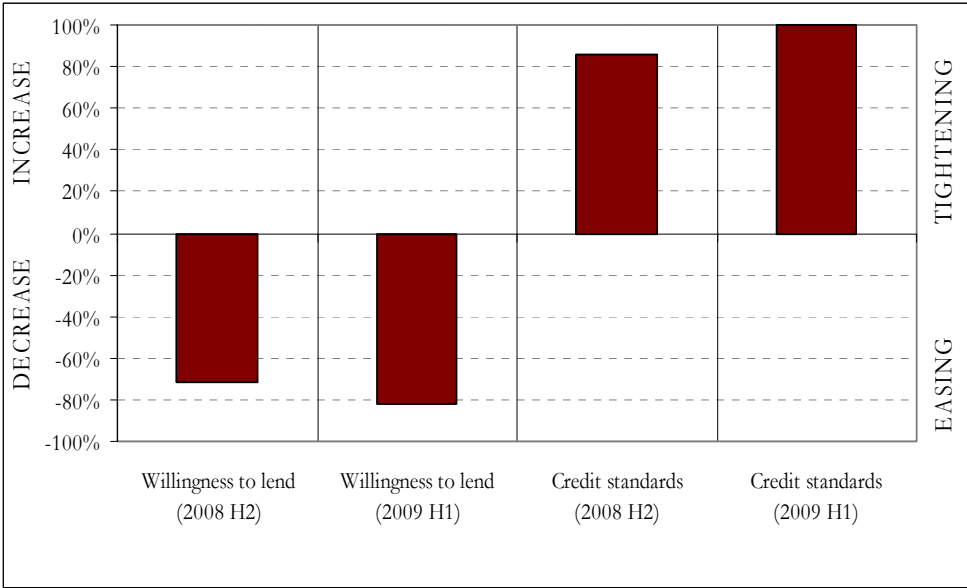
Based on the responses, the factors primarily contributing to the tightening of policies include the liquidity situation (more difficult access to funding and the persistently high cost of such), the economic outlook, certain industry-specific issues (respondents continued to report increasingly grave problems in the construction sector) and changes in risk tolerance. Demand for corporate loans has risen slightly compared to the previous half year. This growth was not homogenous: while demand for short-term loans increased, a decline in demand was observed for long-term loans. As investment projects continue to decline, banks anticipate that this trend will continue in 2009 H1. Parallel to the turbulence in financial markets, demand for corporate foreign currency loans has dropped off. On the other hand, banks do not envisage a further decline in demand for foreign currency loans in 2009 H1. In the corporate lending market, respondents experienced portfolio deterioration in 2008 H2 and expectations are the same for 2009 H1, particularly in the sectors agriculture, manufacturing, construction, tourism, financial services and real estate. Banks anticipate portfolio deterioration in nearly every sector except energy and public services (natural gas, heating and water), which experienced an improvement in the previous year, and no change is expected for these sectors in 2009 H1. In the personal interviews, senior loan officers revealed that the deterioration in prospects had forced banks to adopt a highly selective approach to individual transactions.

Nearly all respondents reported that, simultaneously with tightening their credit conditions and credit standards, willingness to lend in the commercial real estate segment had also decreased. Industrial buildings and shopping centres were slightly less affected by the decrease and tightening. While in 2008 H2 respondents anticipated deterioration in the commercial real estate loan portfolio (primarily reflecting a marked deterioration of the housing projects portfolio), banks now expect deterioration in all segments (housing, industrial buildings, shopping centres, offices) in 2009 H1.

3. Market of loans to municipalities⁵

In contrast with the bond issue boom observed in 2007 H2 and to a lesser extent in 2008 H1, banks reported stagnating or slightly falling demand in the market for loans to municipalities in 2008 H2. As in the previous half year, banks’ willingness to lend dropped further, and market agents expect this trend to continue in 2009 H1. According to the survey results, the most influential banks in this segment continued to tighten their lending standards and conditions in 2008 H2 and envisage the same trend for 2009 H1. Similar to the case in the corporate segment, this trend was reflected in the tightening of both price and non-price conditions. Demand continued to wane as municipalities perceived weakening in the demand-stimulating incentives of the loans offered by banks. Although the respondents indicated that some municipalities still enjoyed a relatively good position and had not yet issued bonds to finance future development projects, reduced risk tolerance resulting from the deepening recession did not allow for the provision of similar financing to these municipalities as in previous periods. Banks anticipate a deterioration of the municipality portfolio in 2009 H1.

Chart 3 Willingness to lend and credit standards/ credit conditions in municipal financing (net percentage of respondents reporting an increase/ decrease and tightening/ easing)

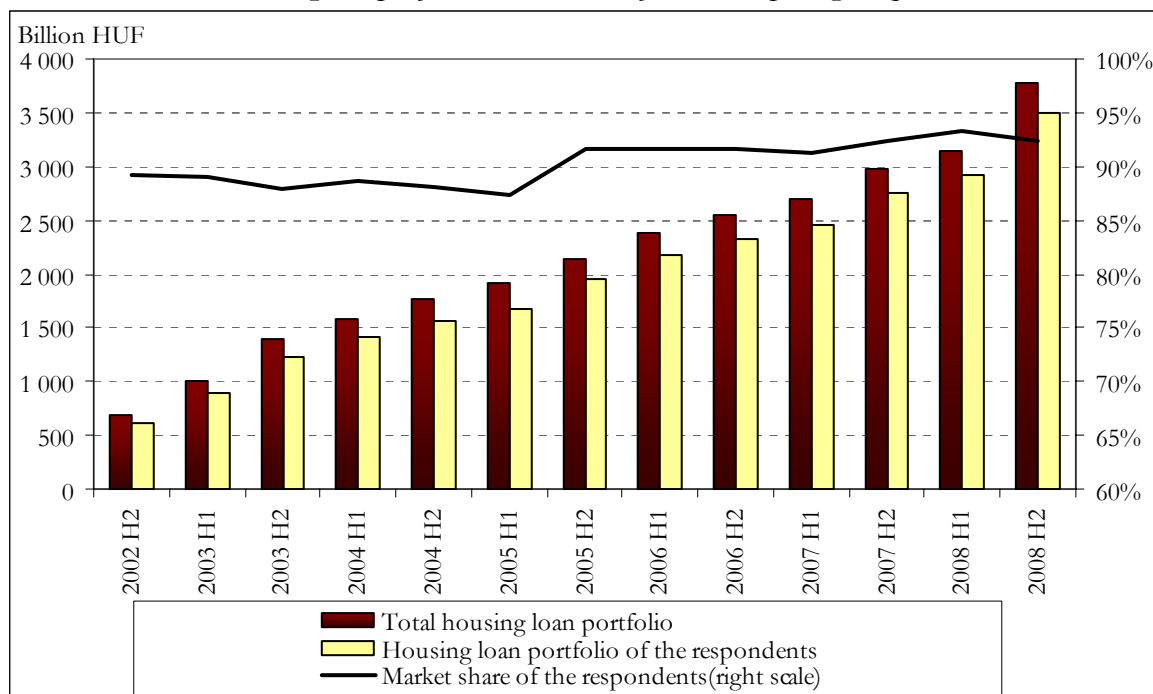


⁵ As banks’ appear to approach loan-based and bond-based funding in practically the same way, the survey examines these two forms of financing together; differences between them are primarily due to differences in the public procurement rules applied to them.

ANNEX 1 CHARTS INDICATING DEVELOPMENTS IN LOAN PORTFOLIOS AND ANSWERS TO THE QUESTIONNAIRE

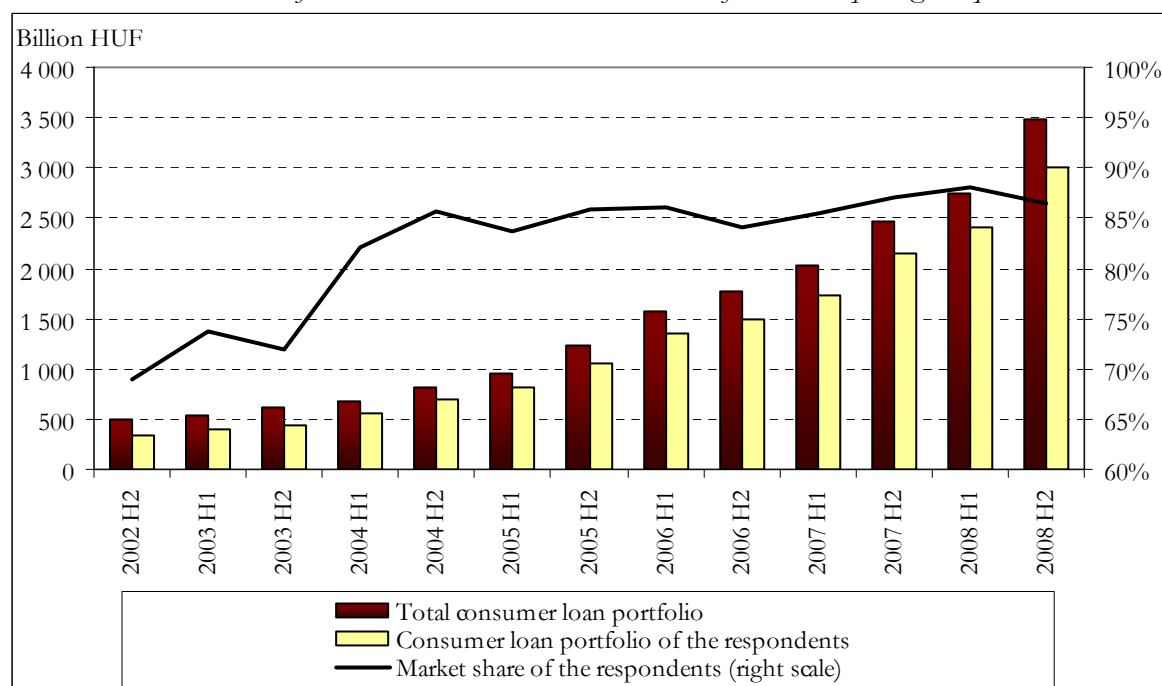
Household segment

Chart 4 Housing loan portfolios and the 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).

Chart 5 Volume of consumer loans and the market share of banks completing the questionnaire



Note: the number of banks varied during the half-year periods under review. The chart indicates the surveyed banks' market share within the banks' portfolio only; the share of financial corporations is not included.

Chart 6 Willingness of banks to extend housing loans and consumer loans
(net percentage of respondents reporting increased/ decreased willingness to lend)

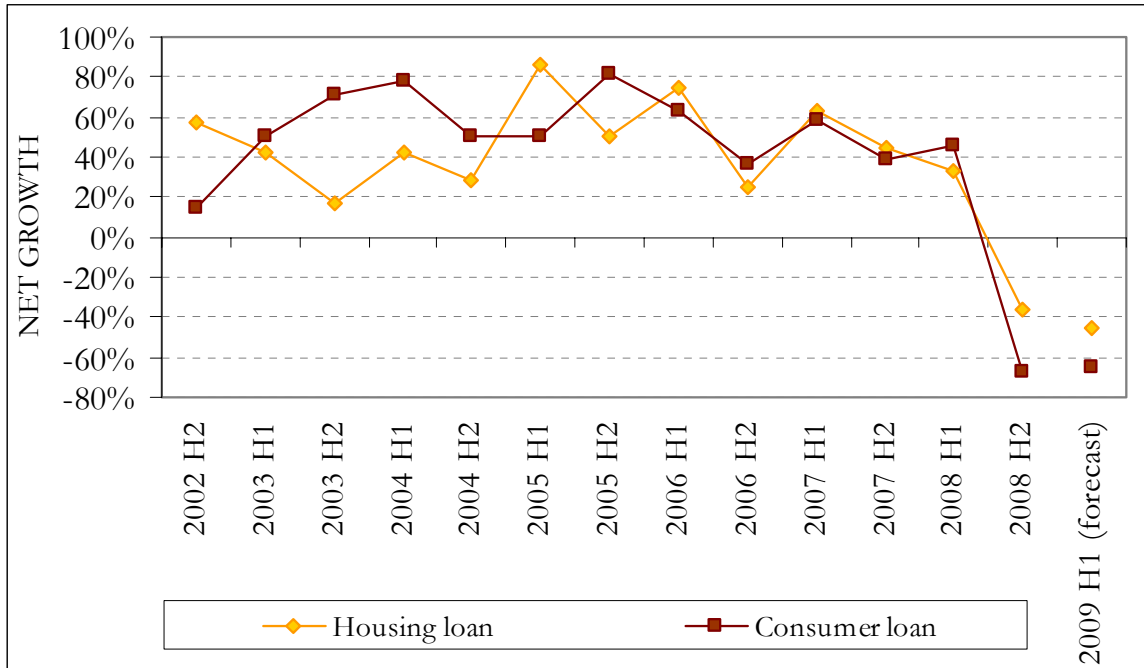


Chart 7 Credit conditions / Credit standards in the housing loan and consumer loan markets (net percentage of respondents tightening/ easing credit standards)

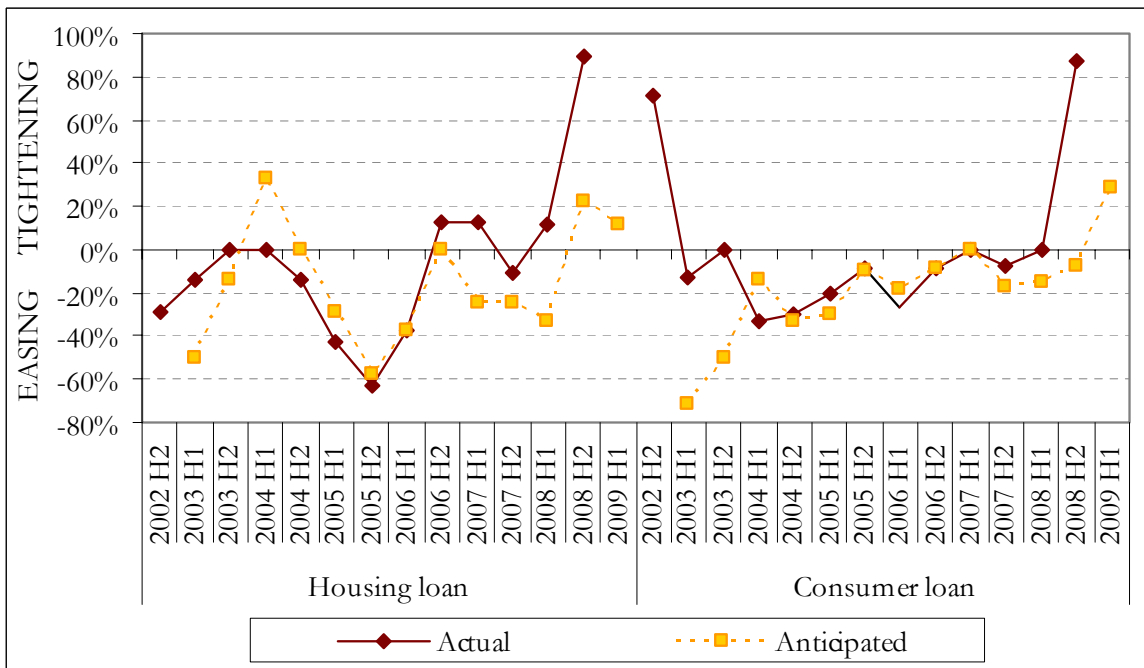


Chart 8 Credit conditions in the housing loan market
(net percentage of respondents tightening/easing credit conditions)

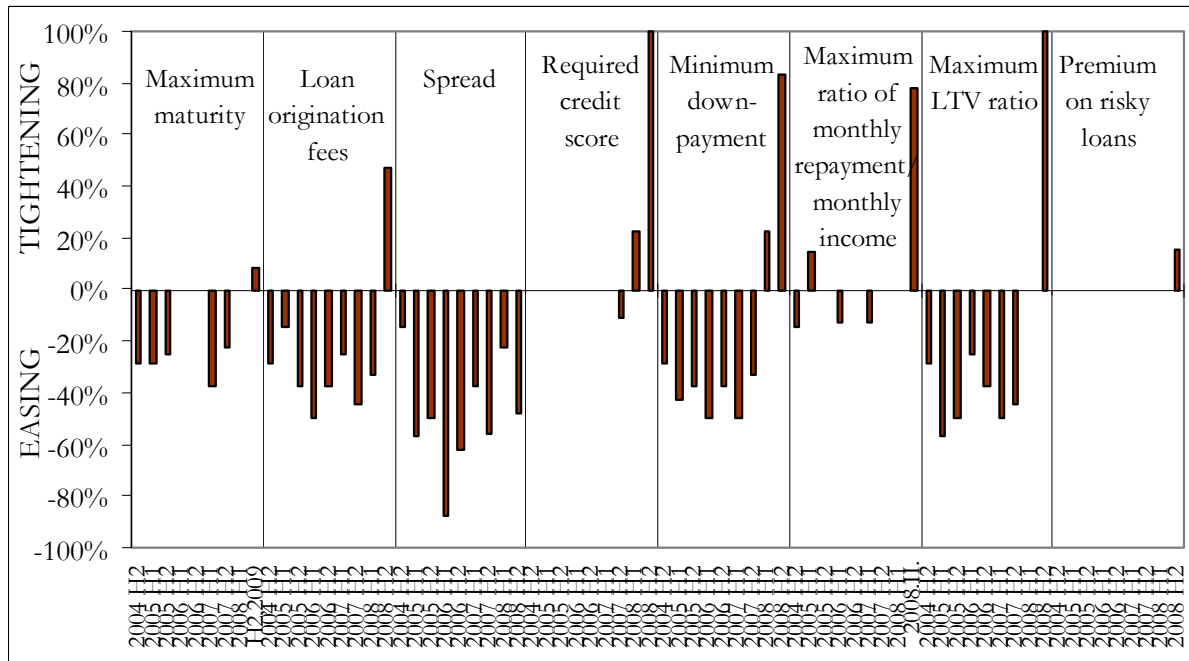


Chart 9 Factors contributing to changes in credit standards and credit conditions in case of housing loans

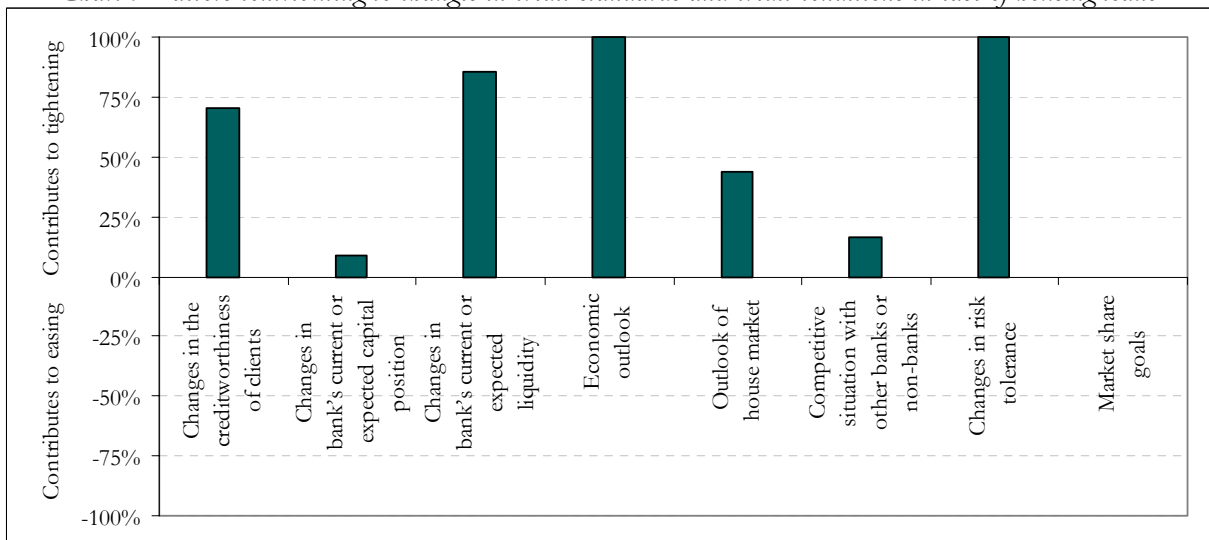


Chart 10 Demand for housing loans
(net percentage of respondents reporting an increase/decrease in demand)

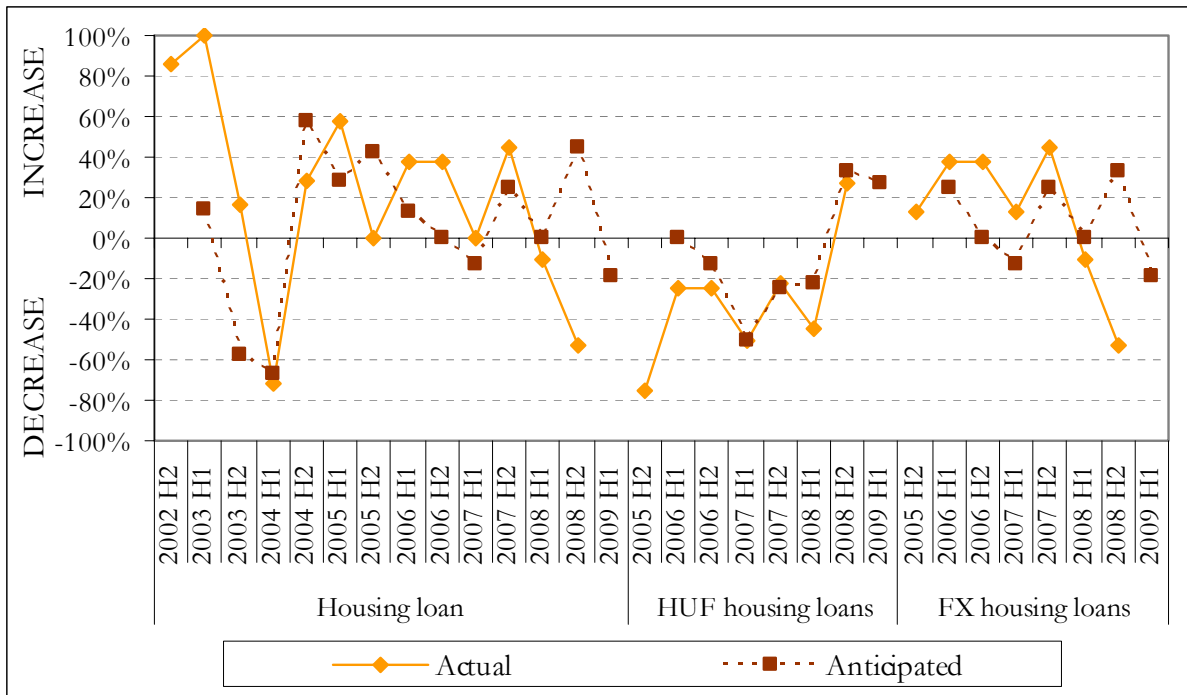


Chart 11 Credit conditions in the consumer loan market
(net percentage of respondents tightening/easing credit conditions)

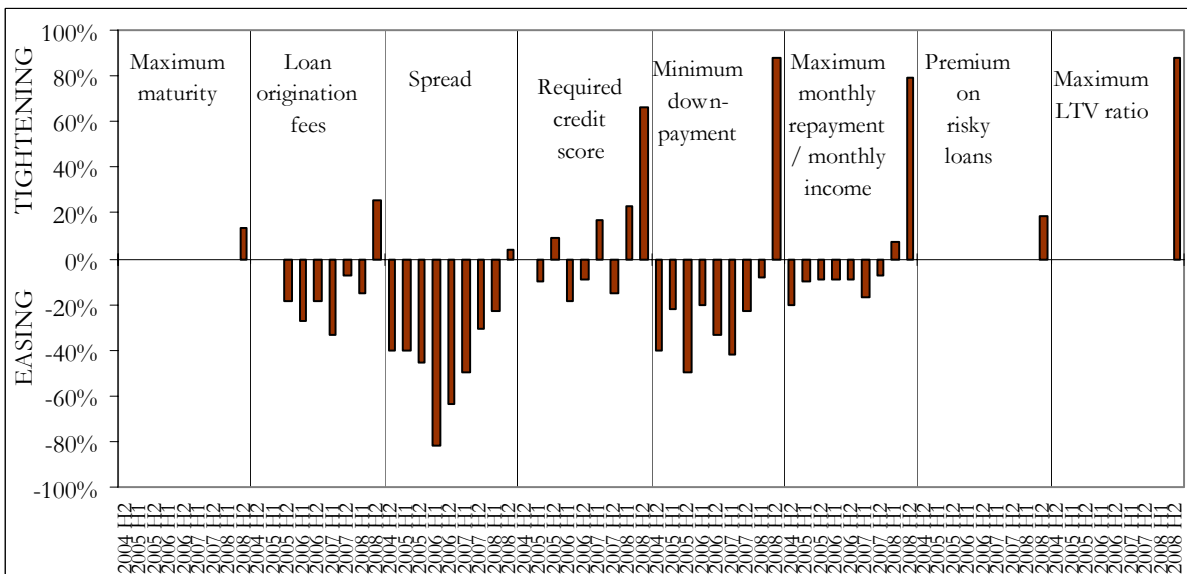


Chart 12 Factors contributing to changes in credit standards and credit conditions in case of consumer loans

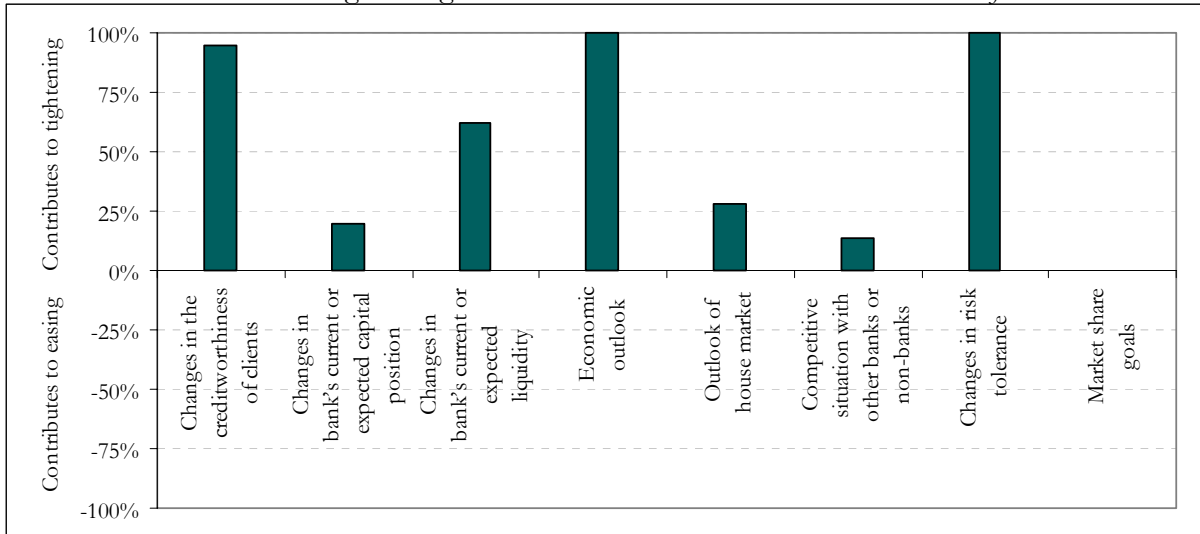


Chart 13 Willingness to lend and credit standards/ credit conditions for different consumer loan products (net ratio of banks providing the relevant answer)

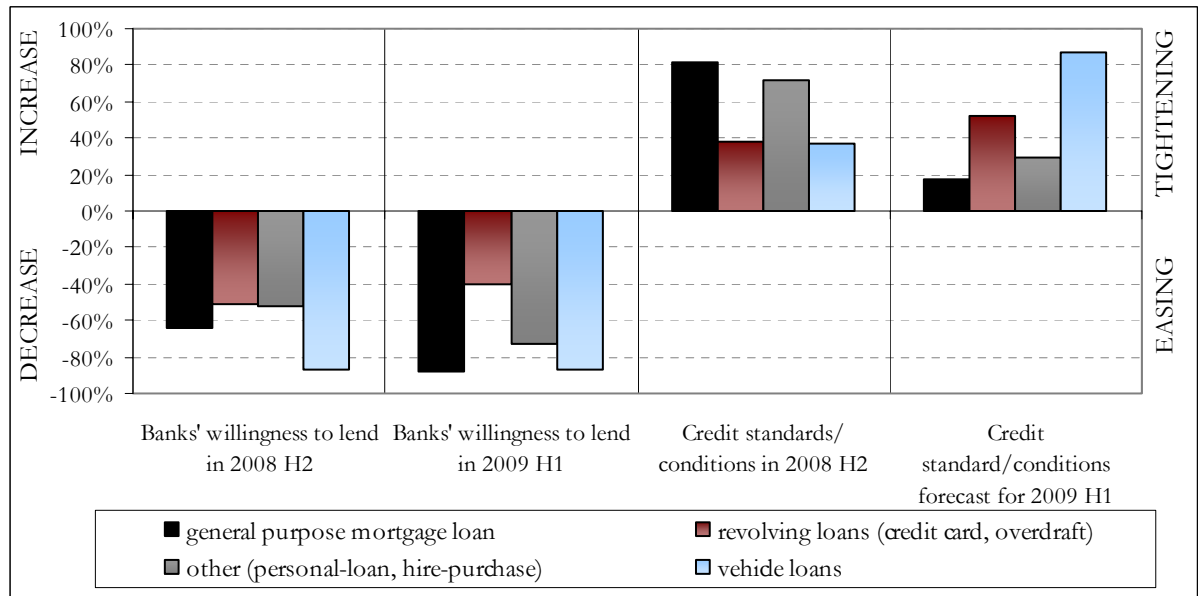


Chart 14 Credit conditions for different consumer loan products
(net percentage of respondents tightening/easing credit conditions)

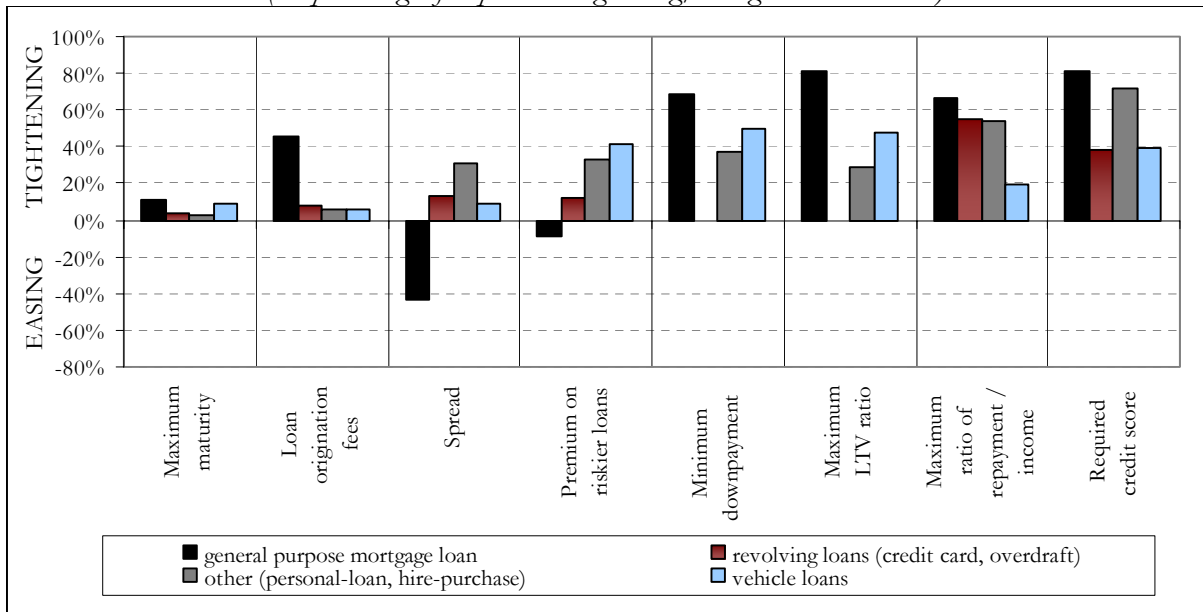


Chart 15 Demand for consumer loans
(net percentage of respondents reporting an increase/decrease in demand)

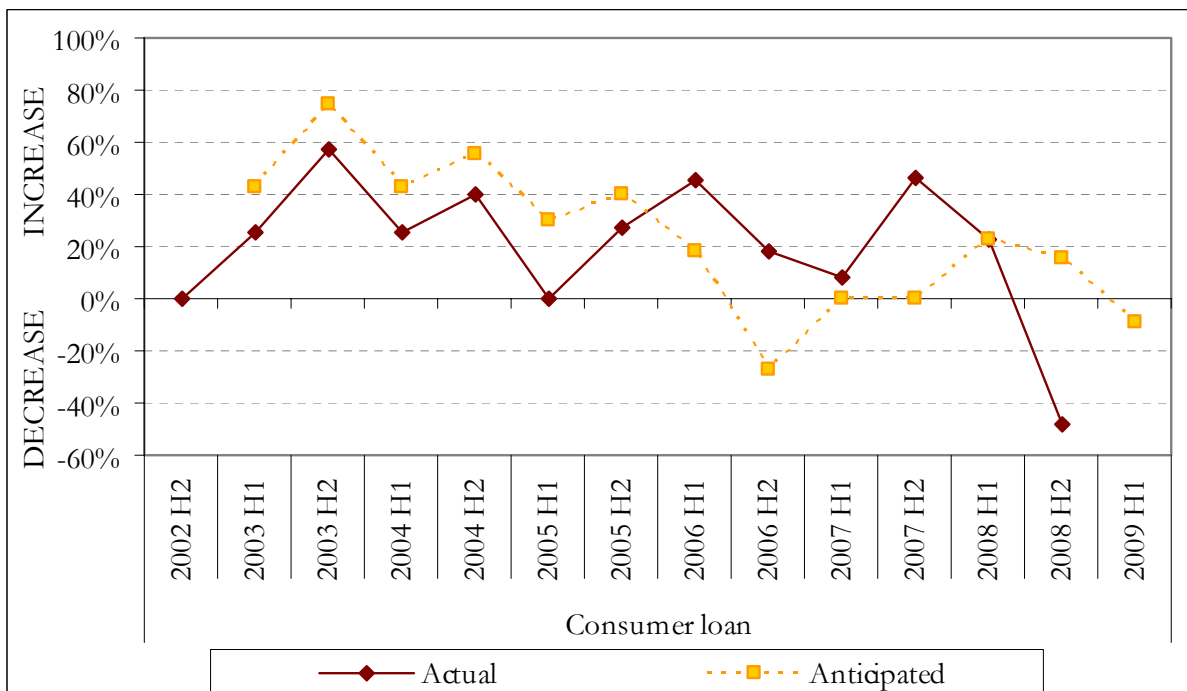


Chart 16 Demand for different consumer loan products (ratio of banks providing the relevant answer)

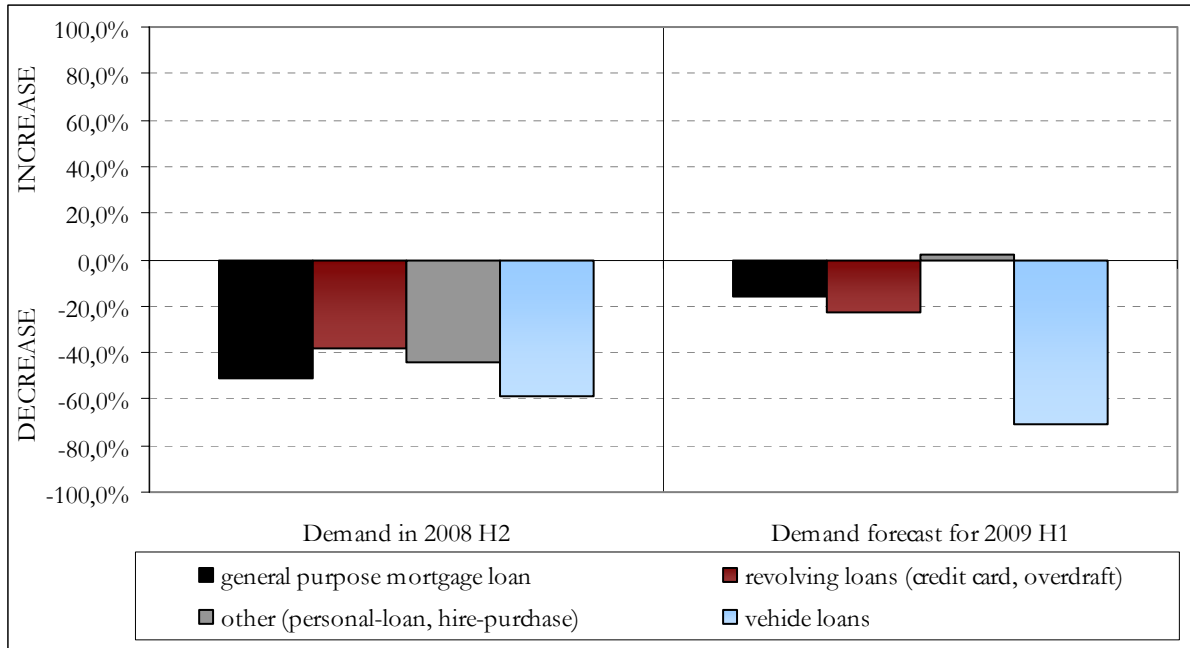
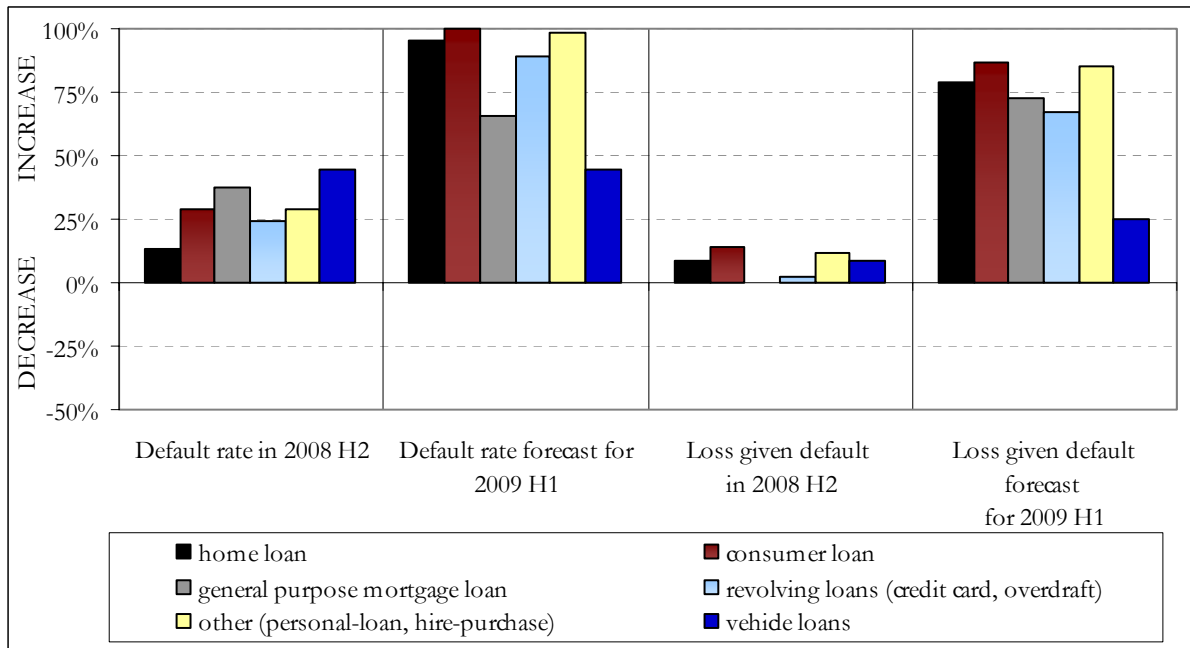


Chart 17 Default rate of loans to households and loss given default



Corporate segment

Chart 18 Total corporate loan portfolio and market share of the banks completing the corporate questionnaire

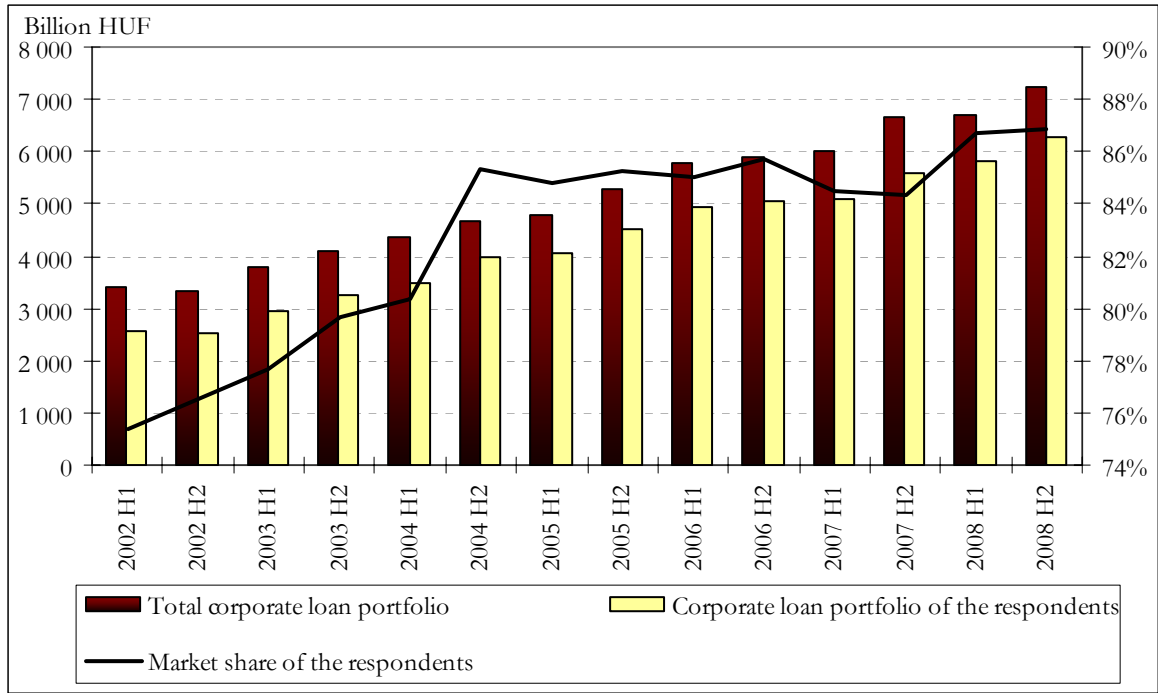


Chart 19 Volume of commercial real estate loans and share of responding banks in the total real estate loan portfolio

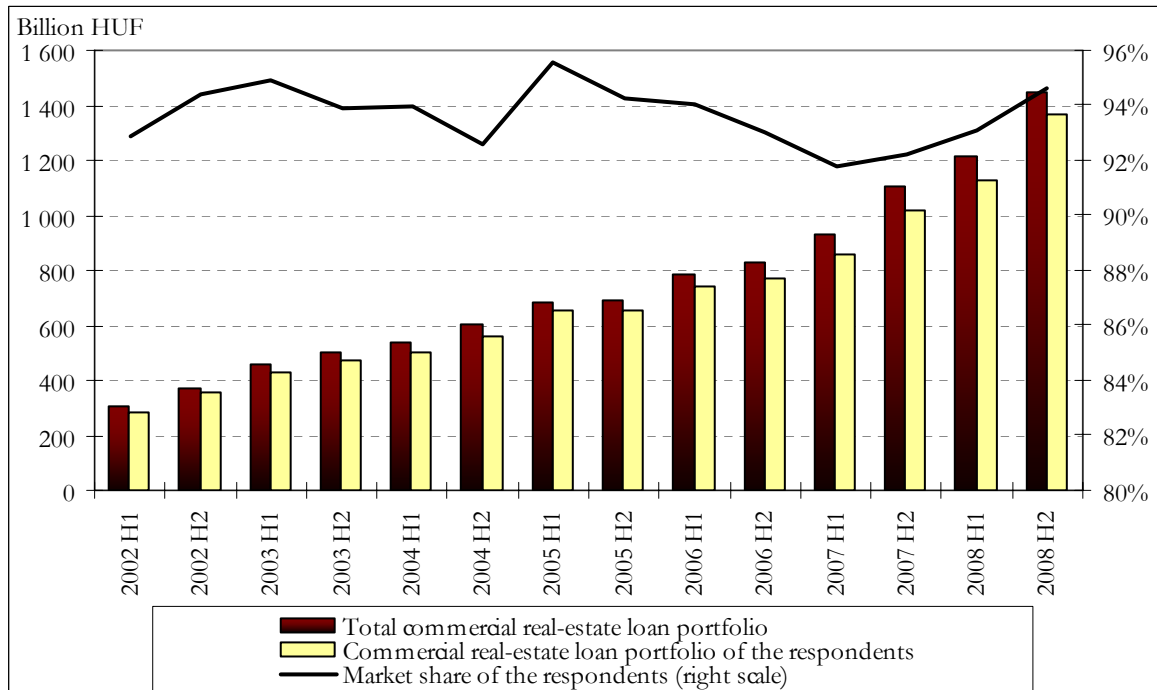


Chart 20 Willingness of banks to extend corporate loans
(net percentage of respondents reporting increased/ decreased willingness to lend)

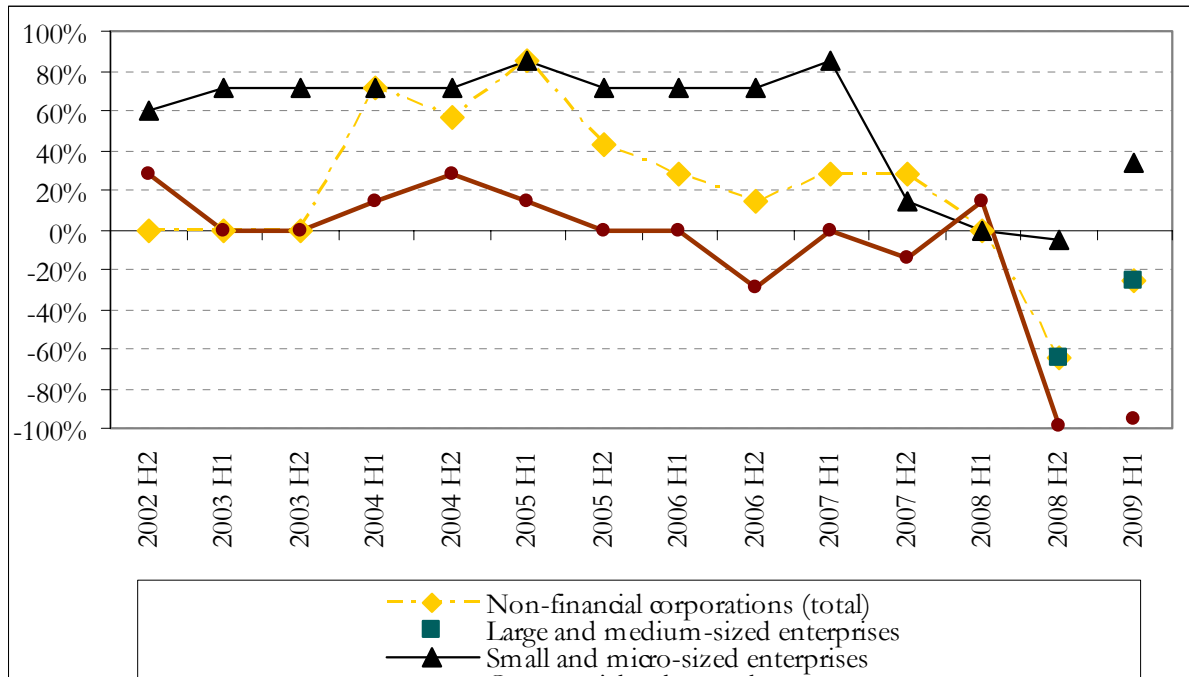


Chart 21 Credit score requirements and credit standards by corporate category and for commercial real estate loans
(net percentage of respondents reporting tightening/ easing)

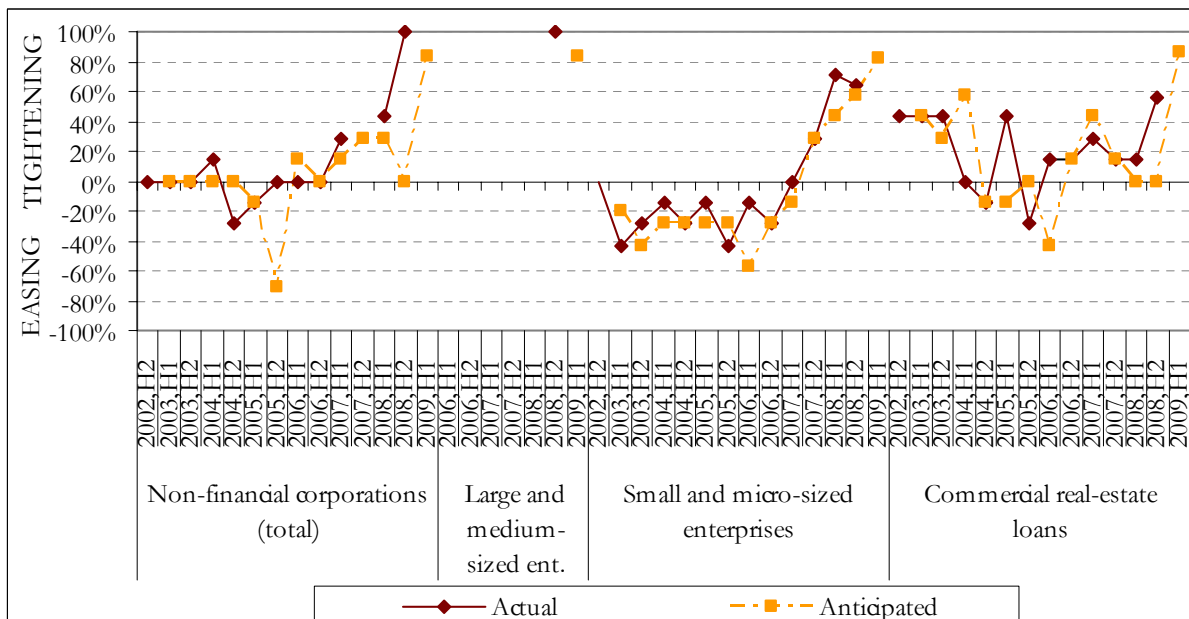


Chart 22 Credit conditions in the corporate segment in 2008 H2 and in 2009 H1
(ratio of banks providing the relevant answer)

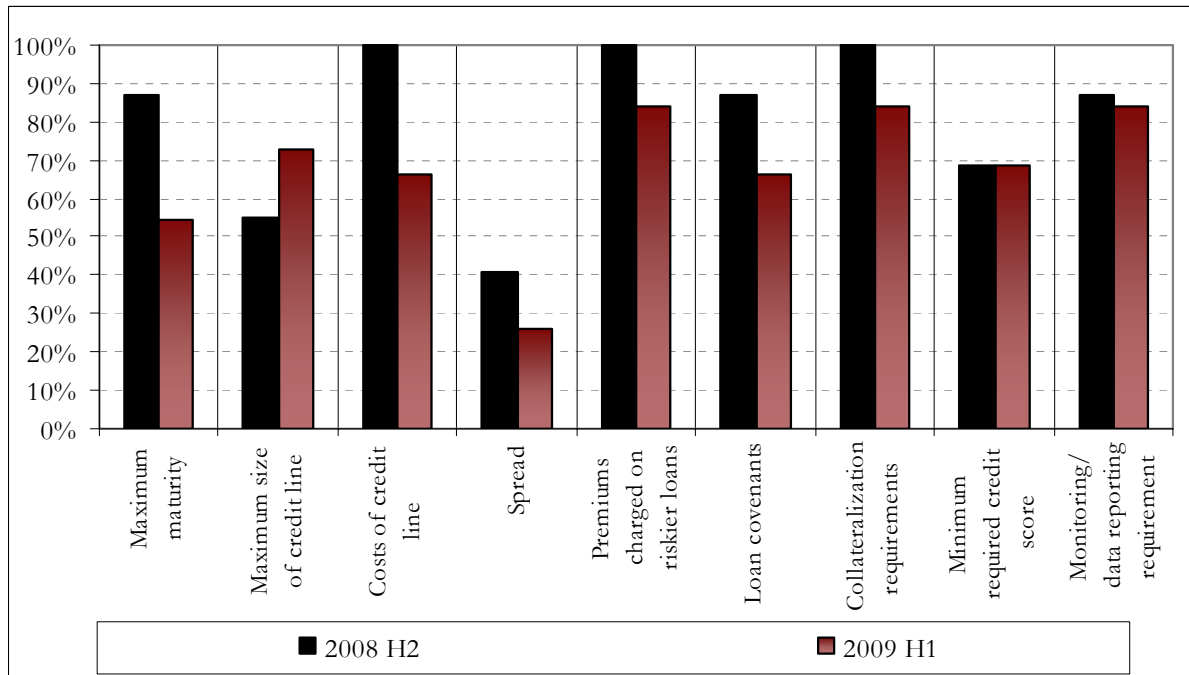


Chart 23 Maximum maturities by corporate category
(net percentage of respondents reporting tightening/ easing)

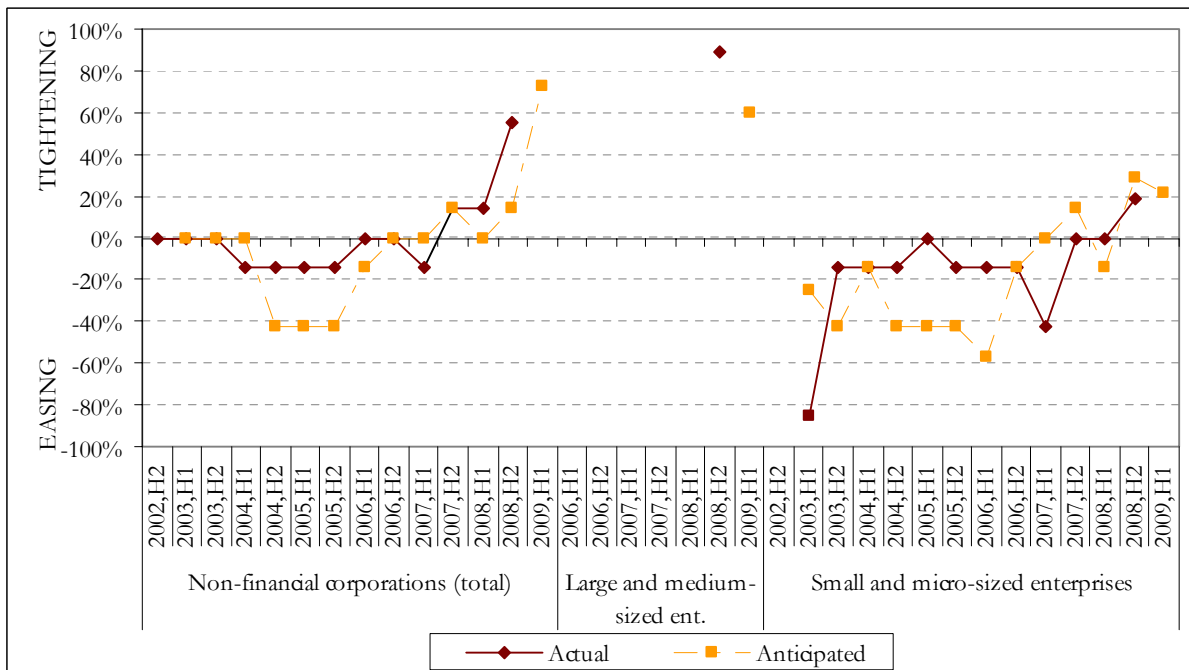


Chart 24 Maximum size of loans/ credit lines by corporate category
(net percentage of respondents reporting tightening/ easing)

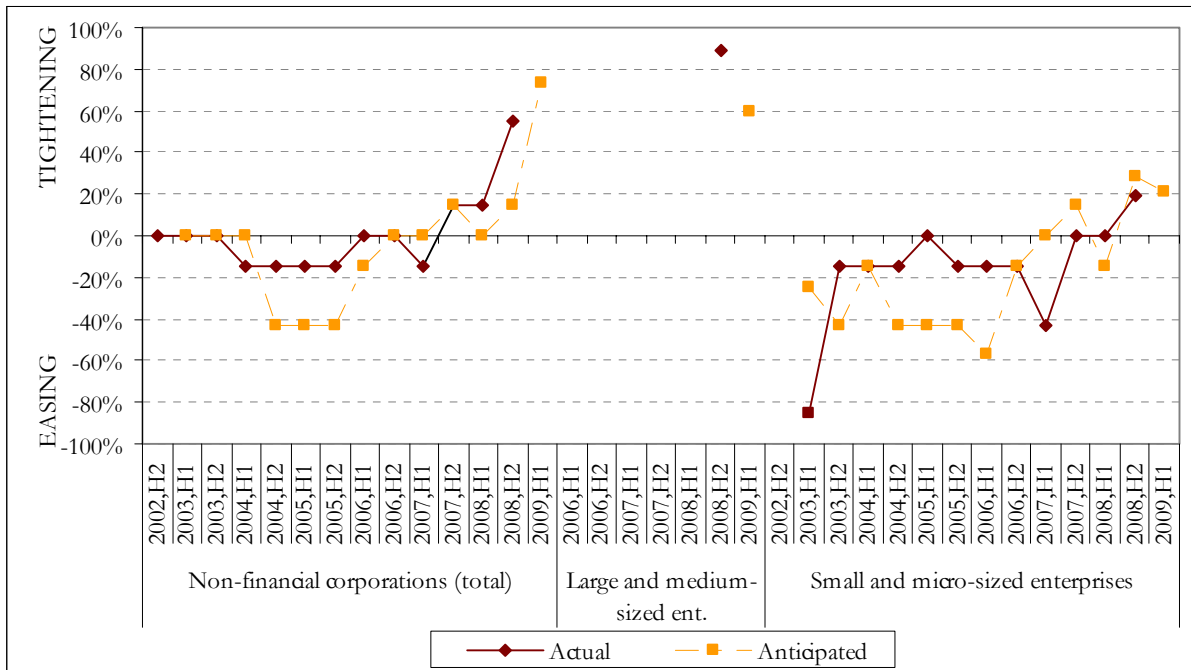


Chart 25 Fee(s) charged for extending loans/ credit lines by corporate category
(net percentage of respondents reporting tightening/ easing)

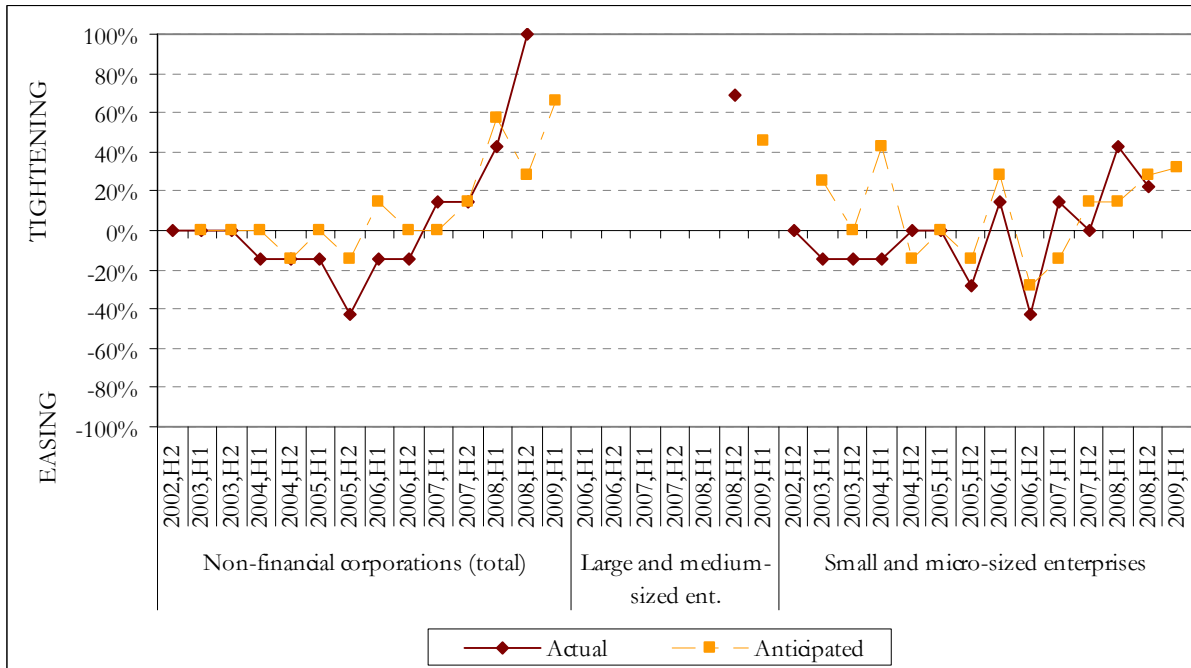


Chart 26 Spread between lending rates and cost of funds by corporate category
(net percentage of respondents reporting tightening/ easing)

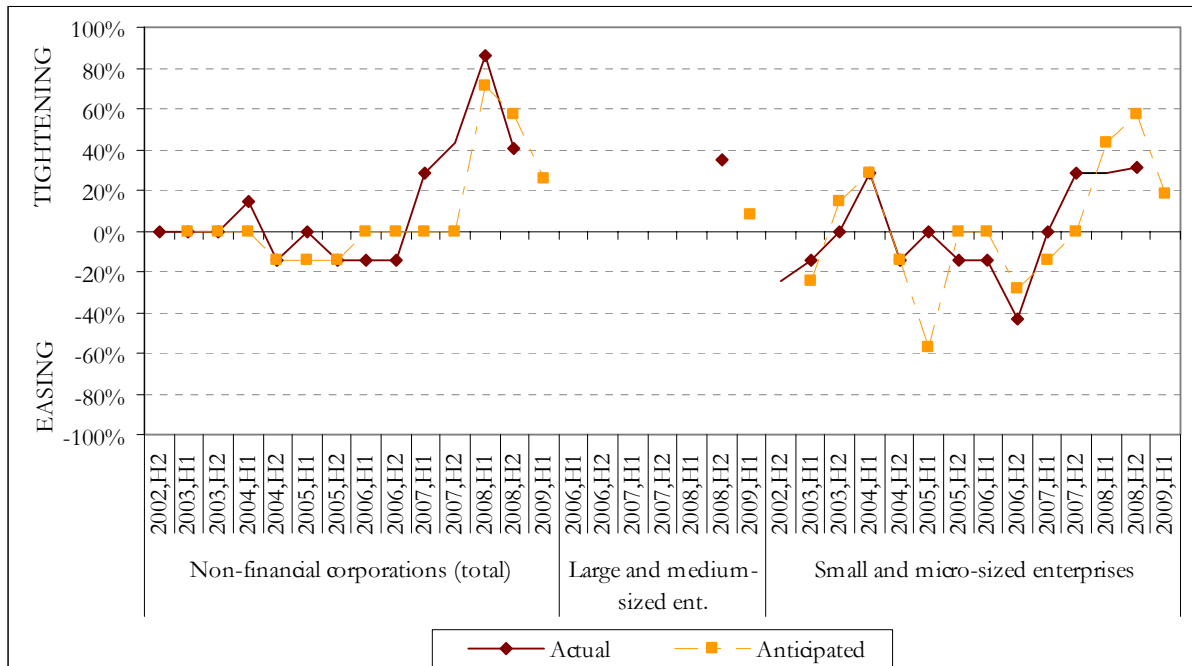


Chart 27 Premium on higher risk loans by corporate sector
(net percentage of respondents reporting tightening/ easing)

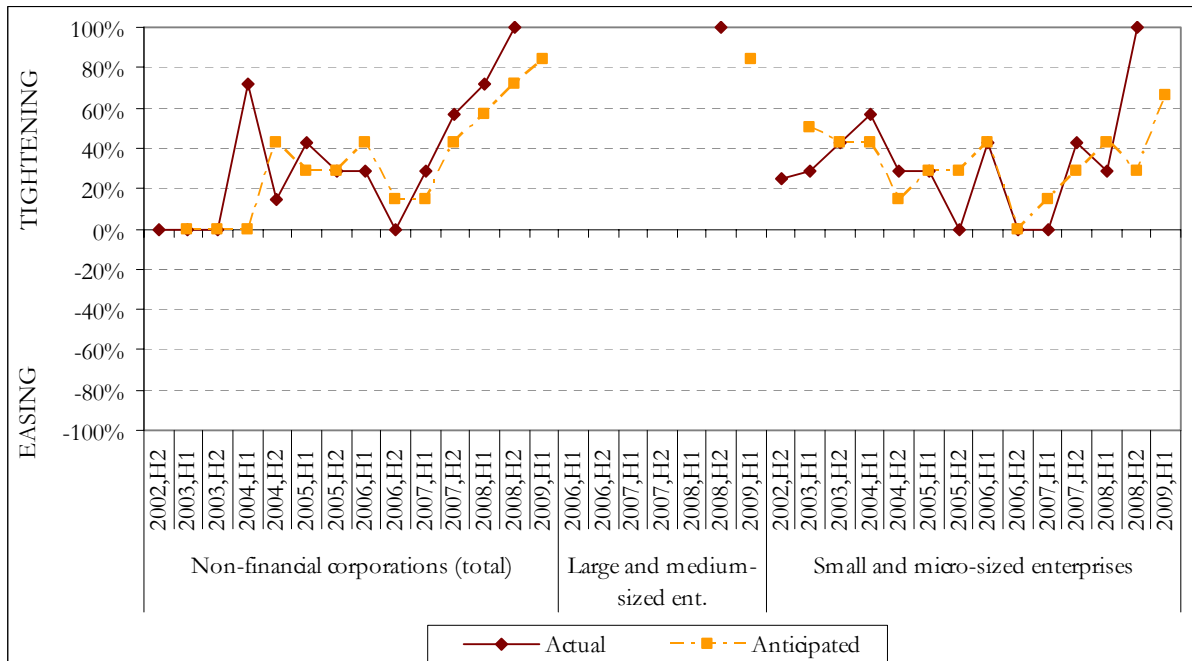


Chart 28 Covenant requirements by corporate category
(net percentage of respondents reporting tightening/easing)

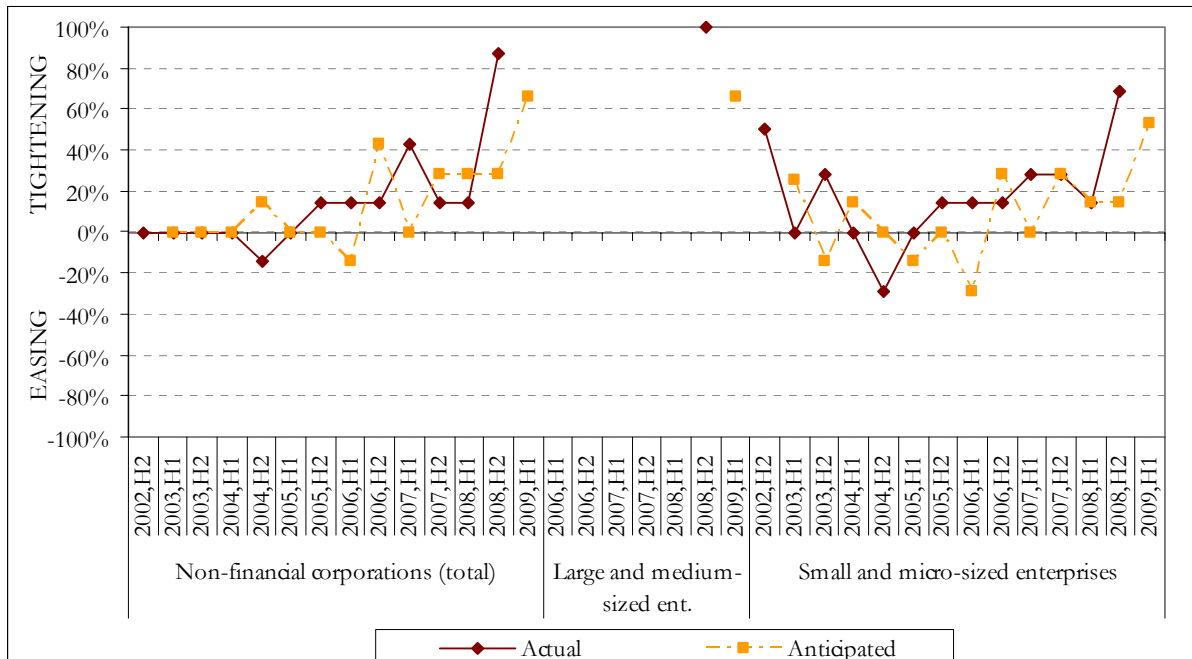


Chart 29 Collateralisation requirements by corporate category
(net percentage of respondents reporting tightening/easing)

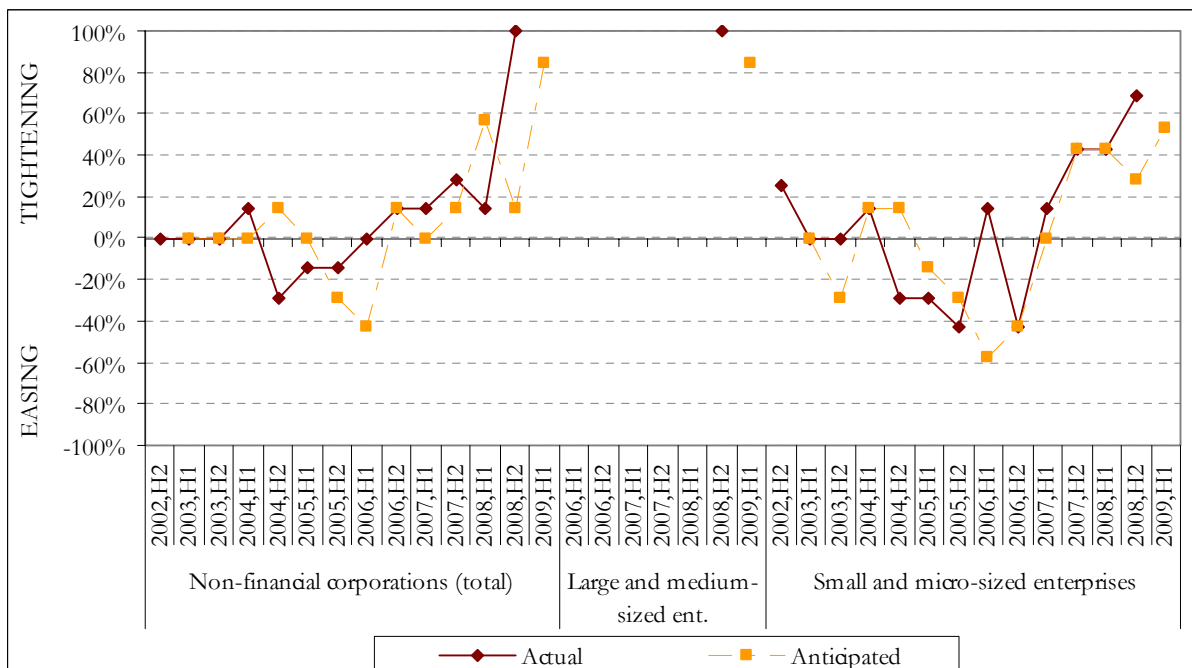


Chart 30 Minimum required credit score by corporate category
(net percentage of respondents reporting tightening/easing)

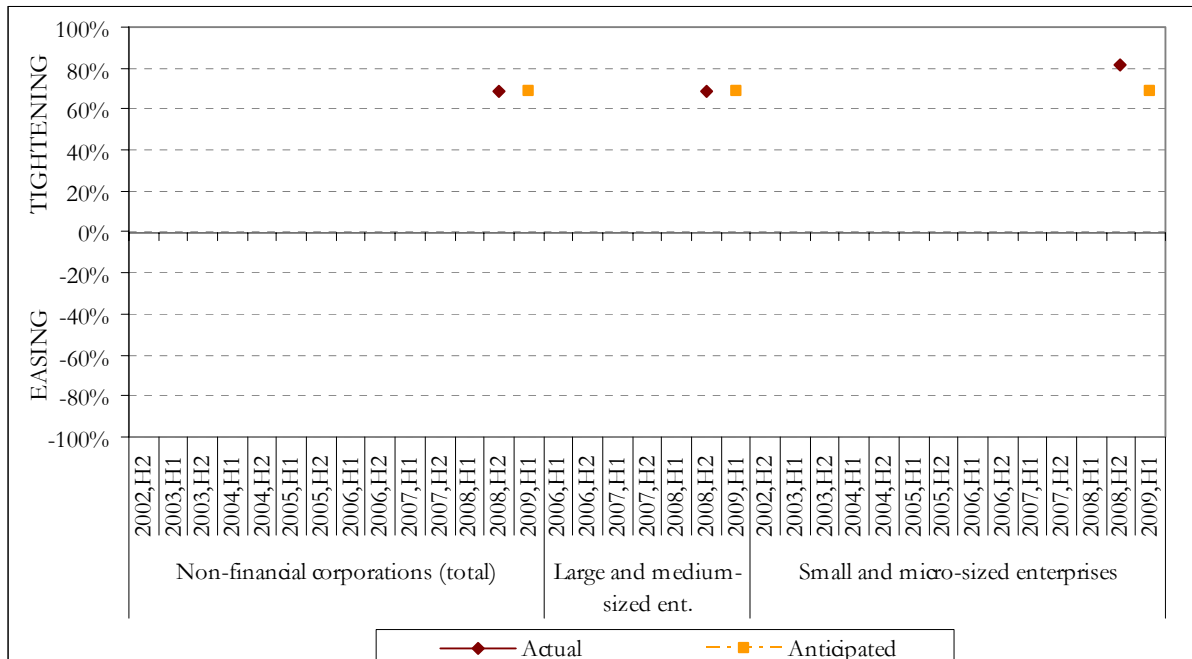


Chart 31 Monitoring/Reporting requirements by corporate category
(net percentage of respondents reporting tightening/easing)

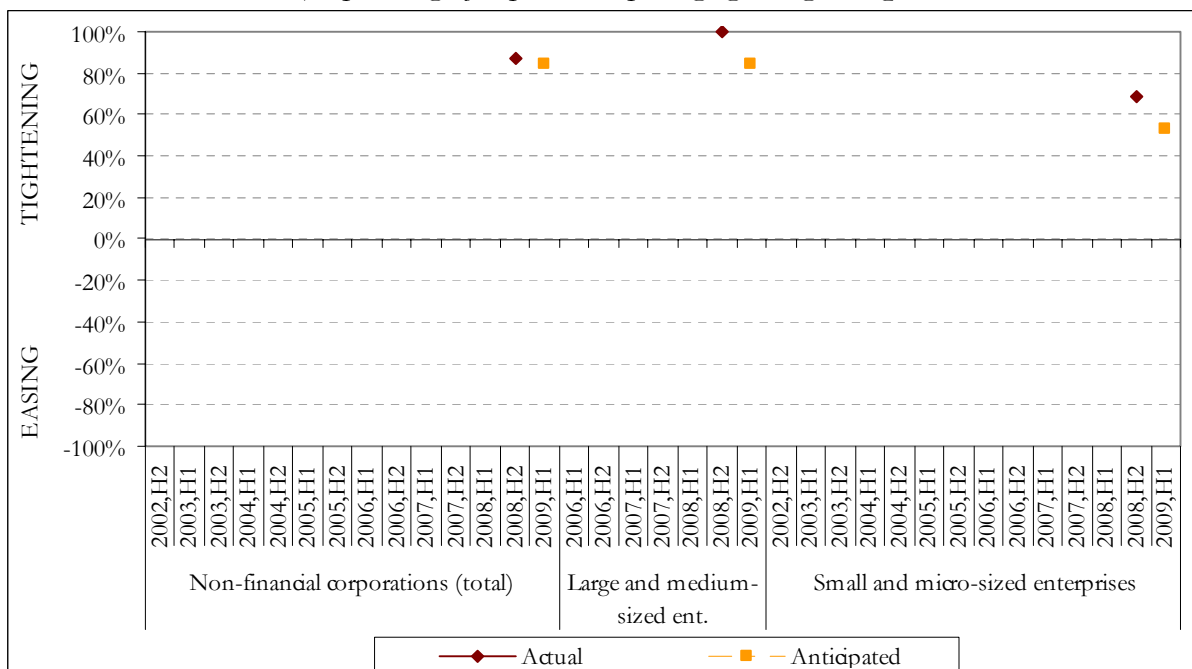


Chart 32 Factors contributing to changes in credit standards and credit conditions in case of corporate loans

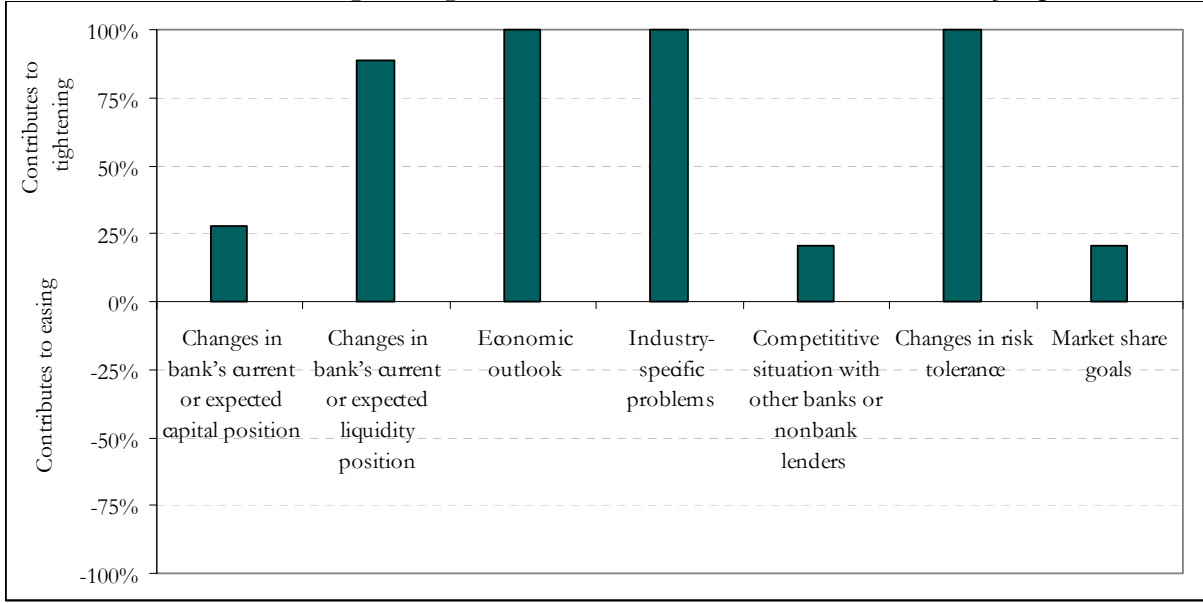
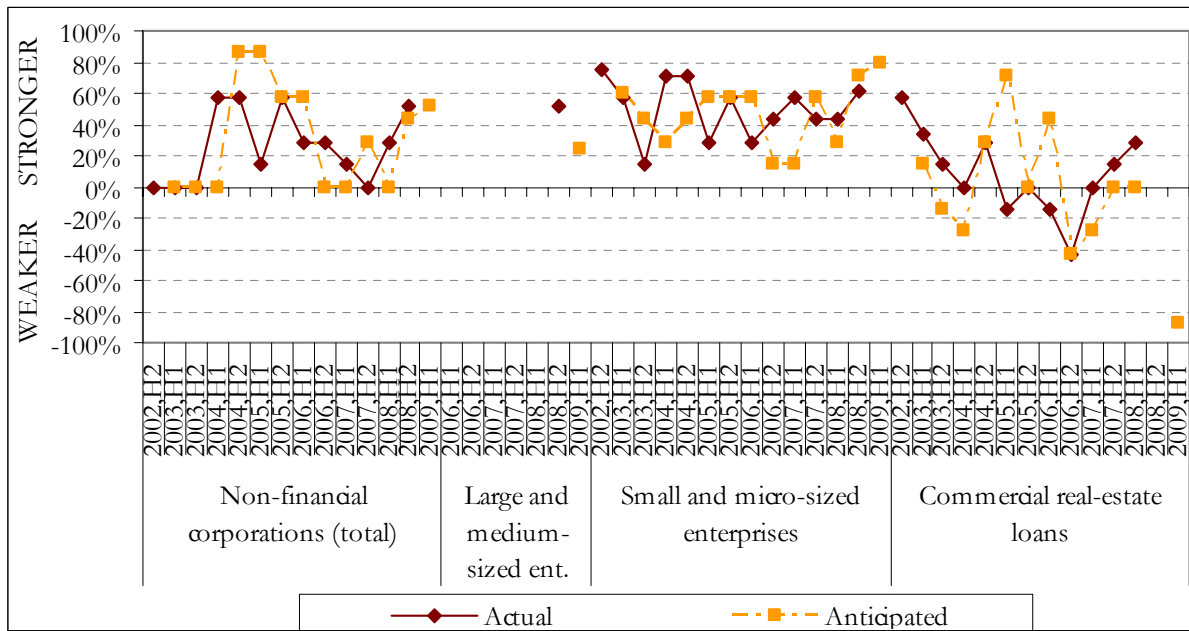


Chart 33 Loan demand by corporate size (net percentage of respondents reporting an increase/decrease in demand)



*Chart 34 Changes in loan portfolio quality by sector
(net percentage of respondents reporting improvement/deterioration)*

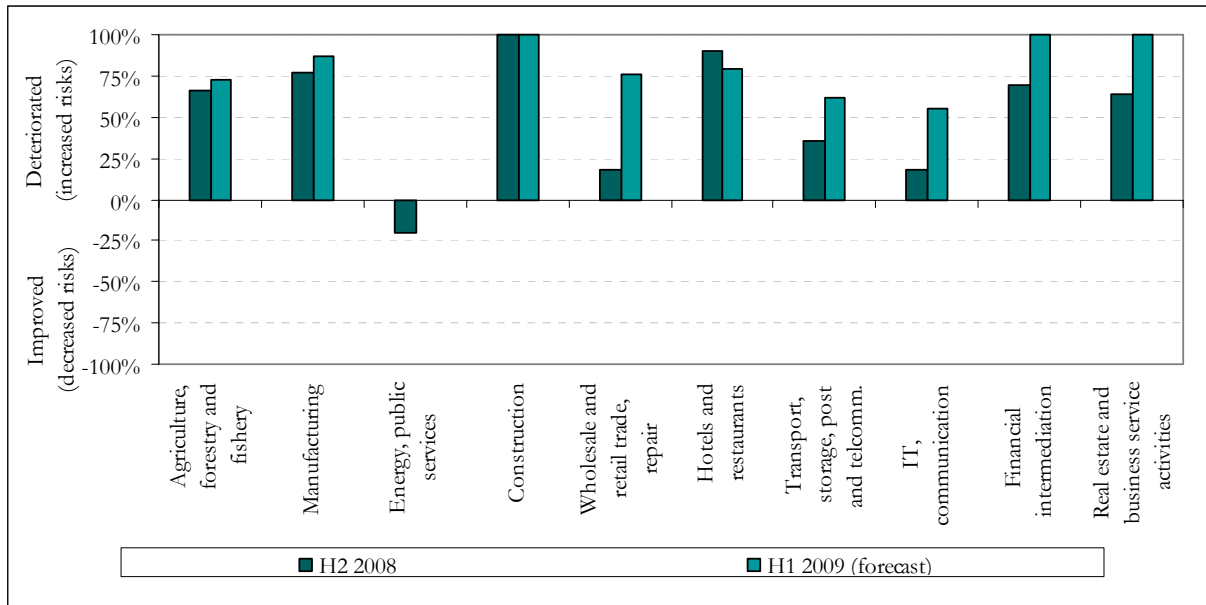


Chart 35 Willingness to lend (volume of loans) and credit standards/ credit conditions for commercial real-estate loans

(net percentage of respondents reporting an increase/ decrease and tightening/ easing)

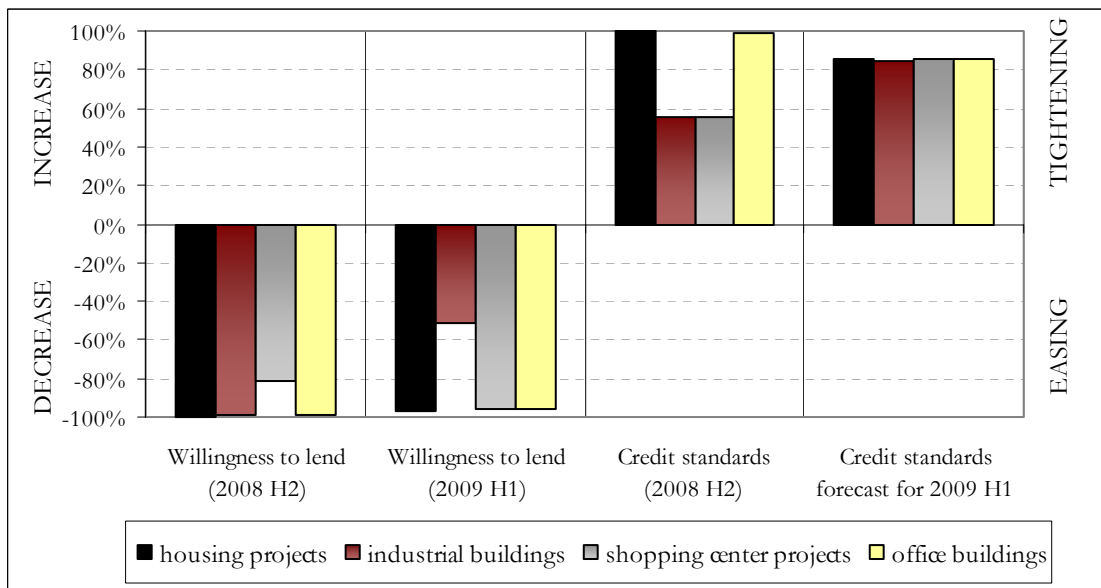


Chart 36 Demand for loans in specific market segments of the commercial real-estate market
(net percentage of respondents reporting an increase/decrease in demand)

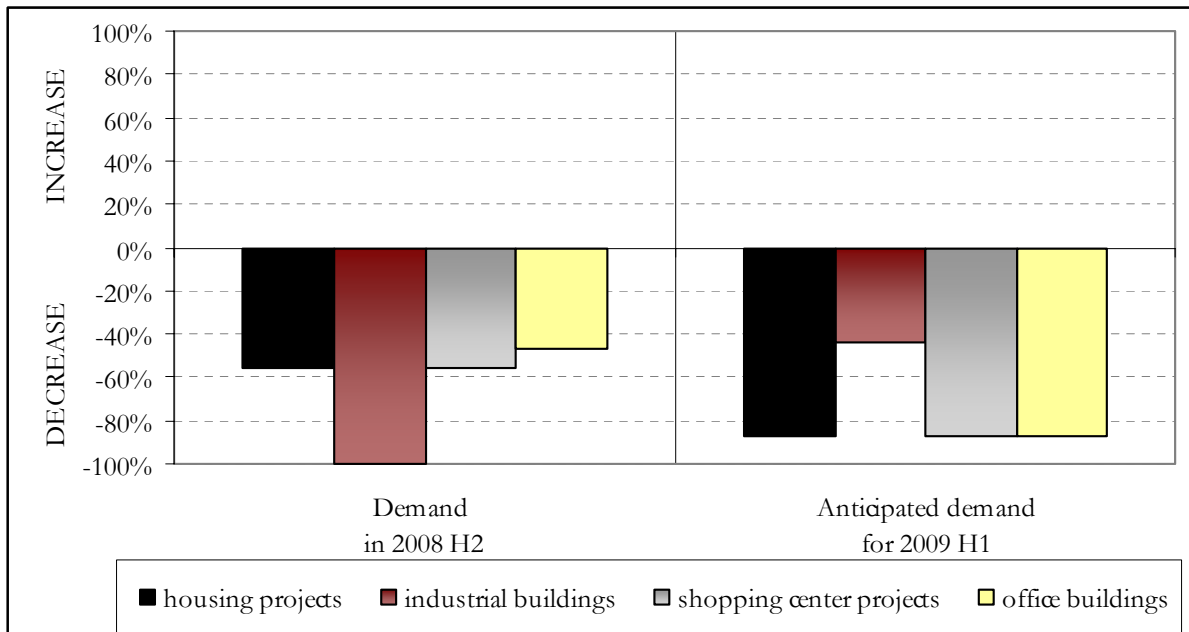
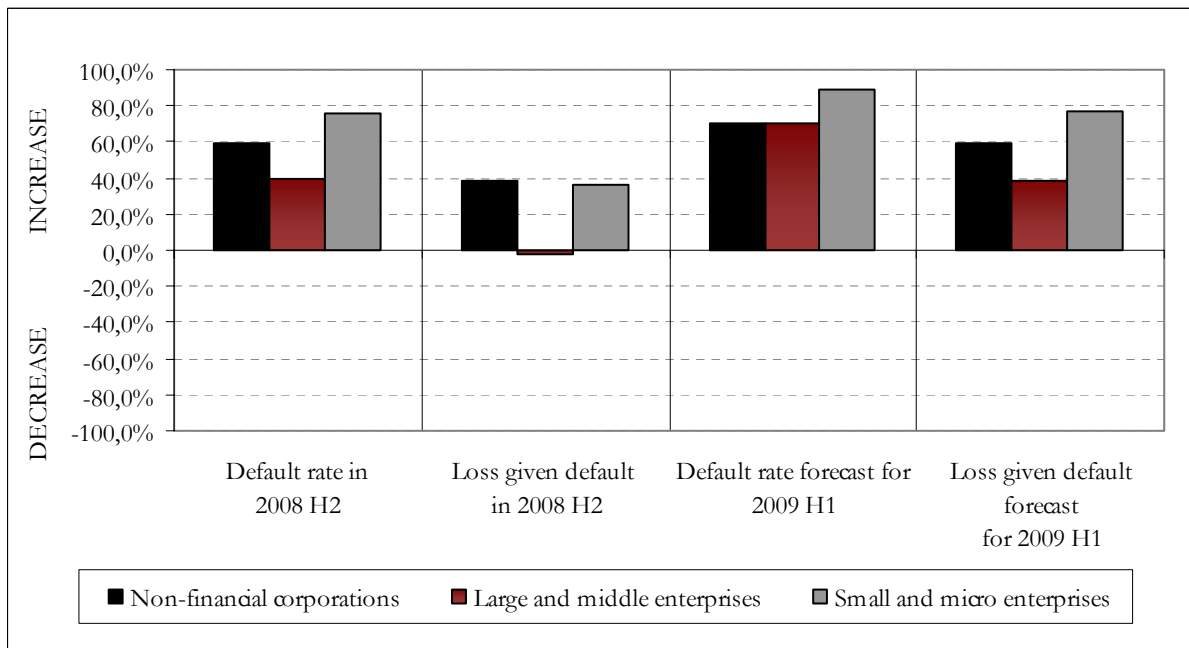
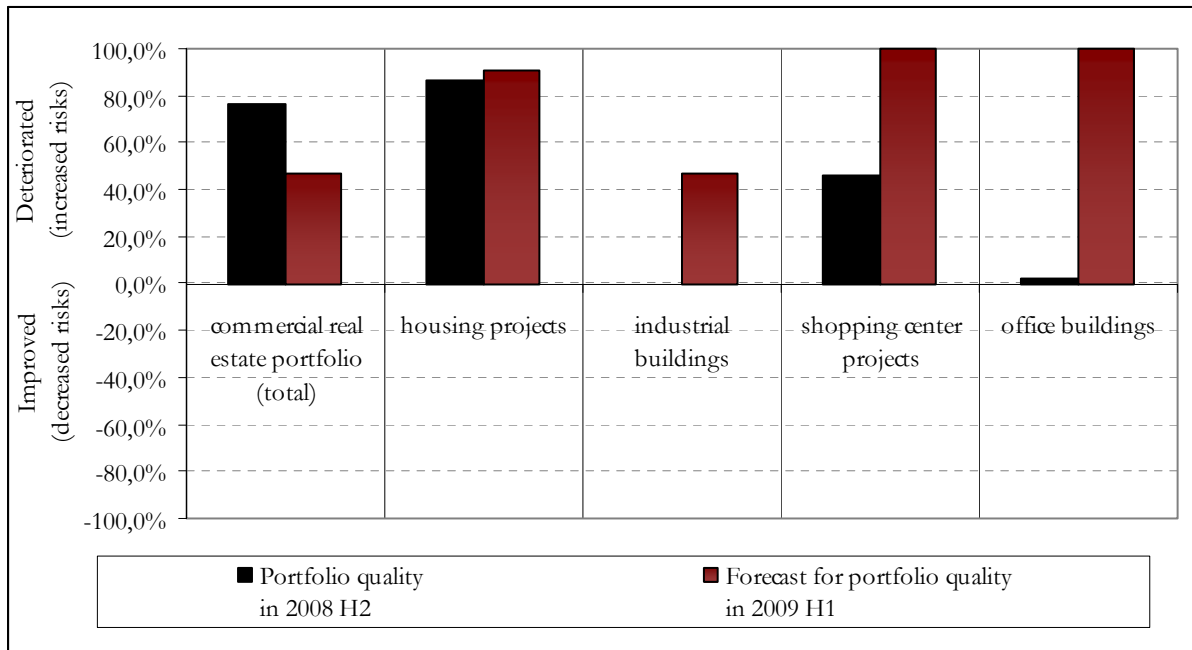


Chart 37 Developments in the risk perception regarding corporate loans based on the answers provided on default rate and loss given default
(net percentage of respondents reporting increased/decreased risk)



*Chart 38 Changes in the quality of the commercial real-estate loan portfolio
(net percentage of respondents reporting improvement/deterioration)*



Municipality segment

Chart 39 Total municipal exposure and the share of banks completing the municipality questionnaire

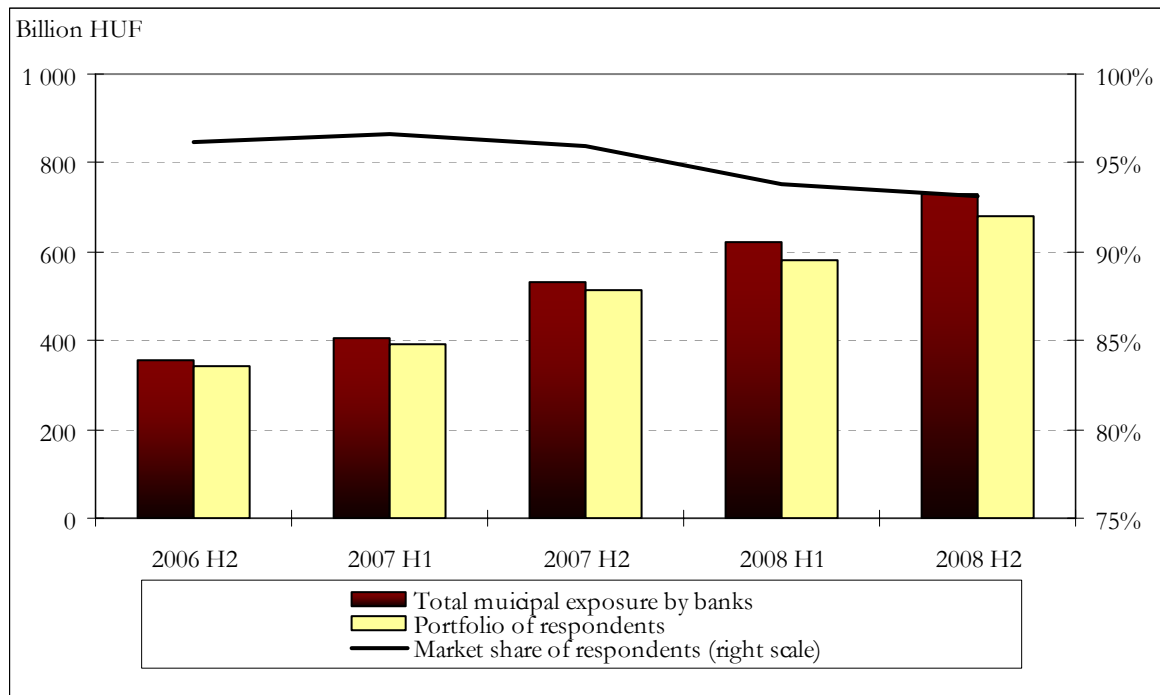
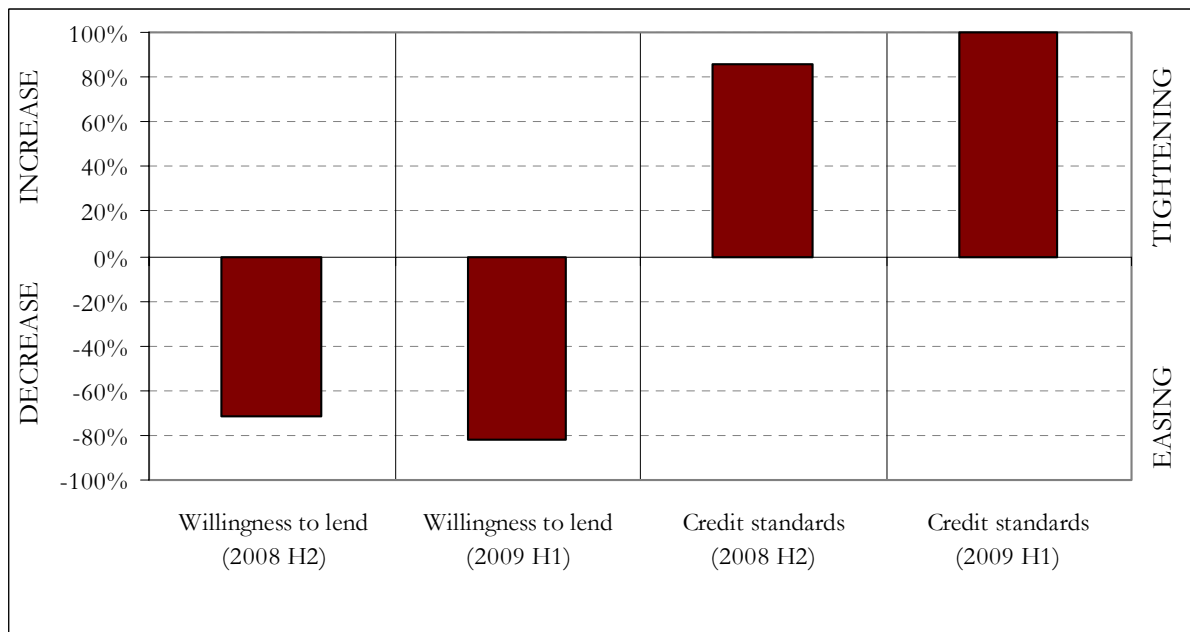
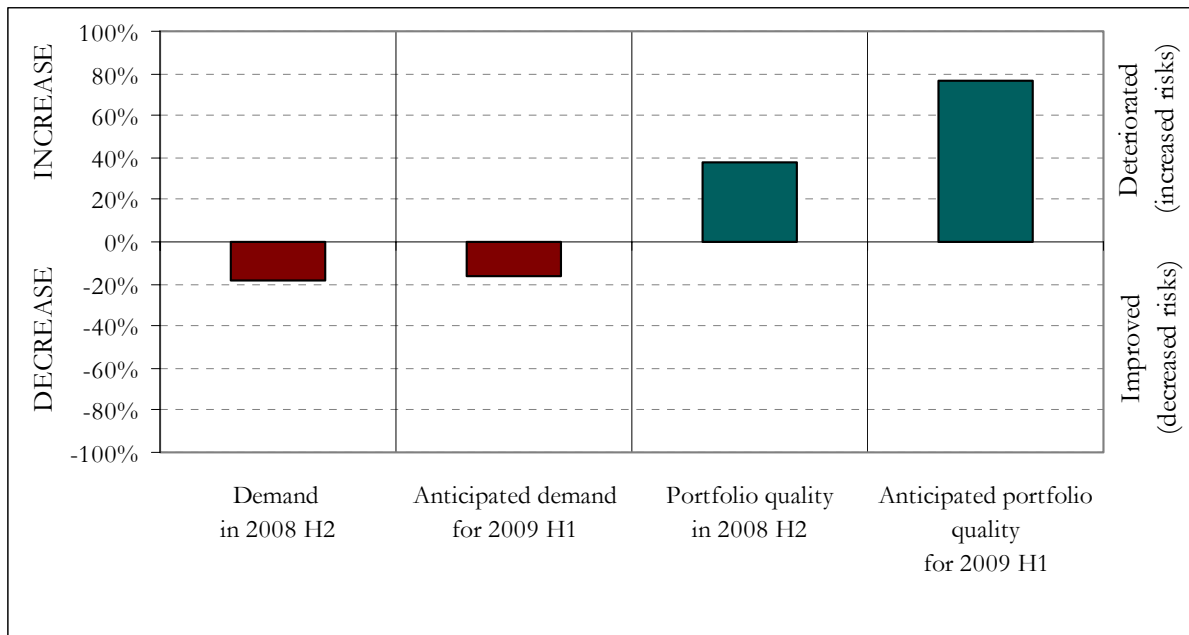


Chart 40 Willingness to lend and credit standards/ credit conditions in municipal financing (net percentage of respondents reporting an increase/ decrease and tightening/ easing)



*Chart 41 Demand for loans and portfolio quality in municipal financing
(net percentage of respondents reporting an increase/ decrease and deterioration/ improvement)*



ANNEX 2 METHODOLOGICAL NOTES

The lending survey facilitates an analysis of how major banks perceive and evaluate market developments and how they develop their respective strategies, in particular their lending policies, based on the management's and owners' assessment of the situation. Aggregating individual, micro-level answers helps researchers draw conclusions regarding likely changes in the directions and trends of the credit market. Conclusions of this analysis invariably present answers provided by senior bank officers rather than our own expert opinion. The survey covers household, corporate and municipal lending activity.

In accordance with the established practice, the questionnaires were sent to senior loan officers at the credit institutions involved in the survey. They transmitted their replies via EBEAD, the MNB's electronic data reception system. After receiving the replies, an interview was set up for the respondents to answer questions and to complete a questionnaire - also containing fixed questions -, allowing the opportunity for more thorough explanations. Leasing companies associated with the banks surveyed only gave written answers in response to questions regarding motor vehicle financing.

In case of the household segment, a total of 13 banks were involved in the interviews. 9 banks responded to questions related to housing loans, while 13 banks and 5 financial enterprises owned by banks covered questions on consumer loans⁶. With respect to housing loans, based on data from the end of 2008 H2, the surveyed institutions accounted for 92.4% of the banking sector⁷, while their percentage share in consumer loans was 86.6%.

The corporate questionnaire was completed by seven banks, with a total market share of 86.8% and 94.6% of the corporate loan and commercial real estate loan markets, respectively.

In total, 6 banks were interviewed on the subject of loans extended to municipalities. Based on data from the end of 2008 H1, the institutions surveyed covered 93% of total municipal exposure by banks.

In terms of methodology – starting from the survey conducted in January 2009 – the survey consists of the standard questionnaire only in each segment. Information on current issues and trends, which varied for each survey conducted in the past, will be obtained primarily through the “market intelligence” practice of the MNB.

The standard part of the questionnaire queried respondents on changes in willingness to lend (volume of loans), credit standards and credit/disbursement conditions, as well as changes in demand (observed and expected for the next half year) and in portfolio quality as perceived by the respondent, and changes in the risk assessment of different sectors in 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 and trends in the risk assessment of different sectors:

- 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

⁶ The number and scope of banks varied during the half-year periods under review (e.g. as a result of mergers). Upon launch of the survey (with the exception of December 2003), we initially conducted interviews with seven banks on the subject of housing loans; the number of banks surveyed increased to eight in December 2005, and to nine in December 2007. Regarding consumer loans, we initially interviewed seven banks. The number of surveyed banks increased to nine in 2004 H1, then rose to ten at the end of 2004, eleven at the end of 2006, twelve in July 2007 and thirteen in January 2008.

⁷ For the purposes of our analysis, the banking sector does not include Eximbank, KELER and the Hungarian Development Bank (MFB).

perception relative to the half year preceding the survey, or relative to the current half year 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 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:

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

Credit standards represent internal banking policies, which determine the type of clients and client groups of a specific bank (based on their classification according to sector, location, size, financial indicators, etc.), and the type of credit products offered to them (collateralised loans only, investment loans, overdrafts, etc.).

In terms of credit conditions, 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.

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

The questionnaire is presented in Annexes 4, 5 and 6 (along with aggregated results where numeric answers were provided). The presentation of the results follows the structure of the relevant questionnaire for all three lending segments (household, corporate and municipal segments). As a rule, retrospective questions in the questionnaire refer to the previous half year (e.g. to 2008 H1 in July 2008), whereas forward-looking questions contain projections for the upcoming half year (e.g. for 2008 H2 in July 2008), relative to the trends of the previous half year. From 2009 the survey will be conducted on a quarterly basis; in future surveys retrospective questions will have a reference period of a quarter, while forward-looking questions will cover 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).

