Senior loan officer survey on bank lending practices

Summary of the aggregate results of the survey for 2012 Q2
August 2012

MAGYAR NEMZETI BANK

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(August 2012)

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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. 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 2012.

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 2012 Q2, while the forward-looking questions ask respondents for their views about changes they expect over the next six-month period, i.e. in 2012 H2. Questions focus on changes perceived relative to the previous quarter: the base period is 2012 Q1 for retrospective questions and 2012 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. Based on data from the end of 2012 Q2, the surveyed institutions accounted for 91% of the banking sector in the case of housing loans outstanding, while 93 per cent in the case of consumer loans outstanding. The corporate questionnaire was completed by 7 banks, with a total market share of 80 per cent and 96 per cent 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 2012 Q2, the institutions surveyed covered 97 per cent of total municipal exposure by banks.

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According to the lending survey conducted in July 2012, the credit conditions to households were reported to have eased in 2012 Q2 for both housing and consumer loans, resulting in a modest adjustment of the broad-based tightening at the end of 2011. At the same time, for 2012 H2 banks only expected further adjustment in consumer loans.

Banks reported that they had perceived a decline in the demand for household loans compared to Q1, but they expected this trend to change during the next half year. In the case of housing loans, this shift may be brought by the launch of state interest rate subsidies scheme, resulting in a total APR (annual percentage rate charged) of 9 per cent during the early stage of the scheme, instead of the maximum 13 per cent APR.

In contrast to household loans, no adjustment was experienced in the corporate segment, where – as in previous quarters – further tightening of credit conditions was observed. Meanwhile, since 2012 Q1, lending capacity has been playing a declining role in the tightening of credit conditions, while low willingness to lend had a stronger contribution again. Compared to the previous quarter, demand for short-term loans continued to grow, while demand for long-term loans continued to decline, similarly to the trend observed in earlier periods.

In the euro area, credit conditions were reported to have tightened both in the household and corporate segments in Q2. Meanwhile, a mixed picture can be observed in the region: Polish banks eased the conditions of corporate loans, while the Czech survey reported tightening. Developments in household loans were just the opposite, as easing of Czech banks and tightening of Polish banks were reported.

Credit conditions also became tighter in the local government sector in the previous quarter which can be justified by the increasing risks in the sector perceived by the banks.

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

Segments		Supply		Perceived demand	
		2012 Q2	2012 H2 (e.)	2012 Q2	2012 H2 (e.)
Household	Housing	↑	→	↓	↑
	Consumer	↑	↑	↓	↑
Corporate		↓	↓	→	↑

Note: For supply/demand, the up-arrow denotes an increase (easing in lending conditions) and the down-arrow a decrease (tightening in lending conditions).

ADJUSTMENT IN THE CREDIT CONDITIONS TO HOUSEHOLDS

In line with the expectations reported in the previous survey, a net 25 per cent of banks reported that they had eased their credit conditions for housing loans (Chart 4), which was mainly reflected in the higher payment-to-income (PTI) ratio and loan-to-value (LTV) ratio as well as the lower interest rate spreads (Charts 5 and 6). This represented some adjustment of the broad-based tightening experienced at end-2011. A dual picture is observed in the expectations for the coming half year: on the one hand, a net 44 per cent of banks planned tightening in the premium of riskier loans, while on the other hand, further easing was expected in other price and non-price credit conditions, mainly in the case of the spread between the lending rate and the funding costs and in the case of loan origination fees. As a result of the above, a net 4 per cent of banks planned tightening in 2012 H2.

A net 7.5 per cent of banks reported that they had eased the credit conditions of consumer loans, and 22 per cent of them planned further easing in 2012 H2 (Chart 4). The easing mainly affected price conditions, but in the case of home equity loans it also had an effect on the payment-to-income and loan-to-value ratios. Within consumer loans, the only exception is motor vehicle financing, where further tightening took place (Chart 13). However, responding banks and leasing firms did not expect any further tightening over the next half year.

Similarly to the previous survey, a net 20 per cent of banks reported that they had perceived a decline in demand for consumer loans. In the case of housing loans a net 20 per cent of banks reported that they had perceived lower demand, which is significantly lower than the 50 per cent reported in the previous survey (Chart 8). However, a net 76 per cent of banks expected an upswing in demand in the household segment over the next half year.

In the case of housing loans, these expectations may be attributable to the launch of the state interest rate subsidy programme, resulting in a gradually declining interest rate subsidy for the debtor for five years. The subsidy will reduce the current APR of around 12–13 per cent, a high level reflected also in new loan volumes reaching a low point. The programme was amended in mid-July, when the maximum level of the interest rate that can be charged was raised, thus making the scheme attractive for banks that had been passive in the first half of the year. As a result, the maximum interest rate may be 13 per cent, of which the client pays, after the deduction of the subsidy, around 9 per cent in the beginning (in the first year), increasing to around 10–10.5 per cent towards the end of the interest rate subsidy scheme.

In contrast to developments in Hungary, credit conditions continued to become tighter in the euro area both for housing and consumer loans, according to the ECB's lending survey[1]. In the region, the Czech lending survey[2], published for the first time in July, reported easing in household loans, while the Polish one[3] reported tightening in credit conditions, mainly in the case of housing loans.

FURTHER TIGHTENING OF CORPORATE CREDIT CONDITIONS

Corporate credit conditions continued to become stricter in 2012 Q2. Approximately a net 30 per cent of banks indicated that they had tightened credit conditions (Chart 19) both in the case of large and medium-sized enterprises as well as small and micro-sized enterprises, which is a higher ratio compared to the data of the previous quarter. Tightening was reflected in the minimum required credit score, higher interest rate premiums and risk premiums, but also took place in the fees charged for extending loans and credit lines as well as in the monitoring requirements (Chart 20). Based on banks' responses, further tightening of credit conditions was expected for the next half year. Respondents cited economic prospects and industry-specific problems as factors contributing to tightening. The role of the weakening lending capacity declined compared to the previous quarter. Moreover, in the case of a net 16 per cent of banks the liquidity situation points to an easing of credit conditions (Chart 30).

As for the demand perceived by the banks, the trend observed in the last several quarters continued: in the latest survey, compared to the previous quarter, demand for short-term loans was reported to have increased, while demand for long-term loans was reported to have declined in the case of a net 30 per cent of banks. Looking ahead, a net 22 per cent of banks expected a further increase in the demand for short-term loans, whereas respondents did not expect any change in long-term loans in the next half year compared to Q2 (Chart 32).

Similarly to developments in Hungary, credit conditions continued to become tighter in the euro area as well in 2012 Q2. As in the previous survey, lending capacity played a marginal role in the further tightening, while it was mainly driven by willingness factors. In the region, developments in corporate credit conditions diverged from those in the household segment, as credit conditions were reported to have tightened in the Czech Republic, while eased in Poland. Similarly to corporate lending in Hungary, unfavourable sectoral and general economic prospects were the main factor contributing to the tightening in the Czech Republic, while the responses of Polish banks suggest that the easing was mainly attributable to the improving capital position and an increase in competition.

CONTINUED TIGHTENING IN THE LOCAL GOVERNMENT SECTOR

Tightening of credit conditions to the local government sector continued. A net 36 per cent of respondents indicated this direction of change in conditions (Chart 42), which was mainly reflected in the tightening of the minimum required credit score and monitoring requirements. The stricter conditions fit in well with the trend from previous quarters, as banks have

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

[2] http://www.cnb.cz/en/bank_lending_survey/index.html

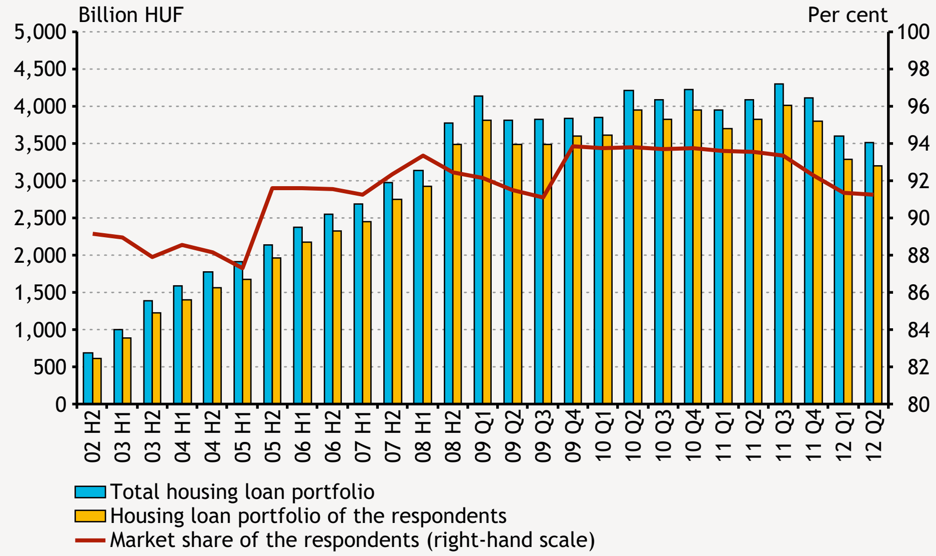
[3] http://www.nbp.pl/homen.aspx?f=/en/systemfinansowy/kredytowy2012.html

been reporting tightening conditions in every quarter since 2007 H2. This caution may be justified by the increasing credit risk since the outbreak of the crisis perceived by the banks (Chart 41). In Q2, just as in the previous quarter, perceived demand dropped. A net 6 per cent of banks reported that they had perceived such changes, whilst 24 per cent expected rising demand for the second half of the year.

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

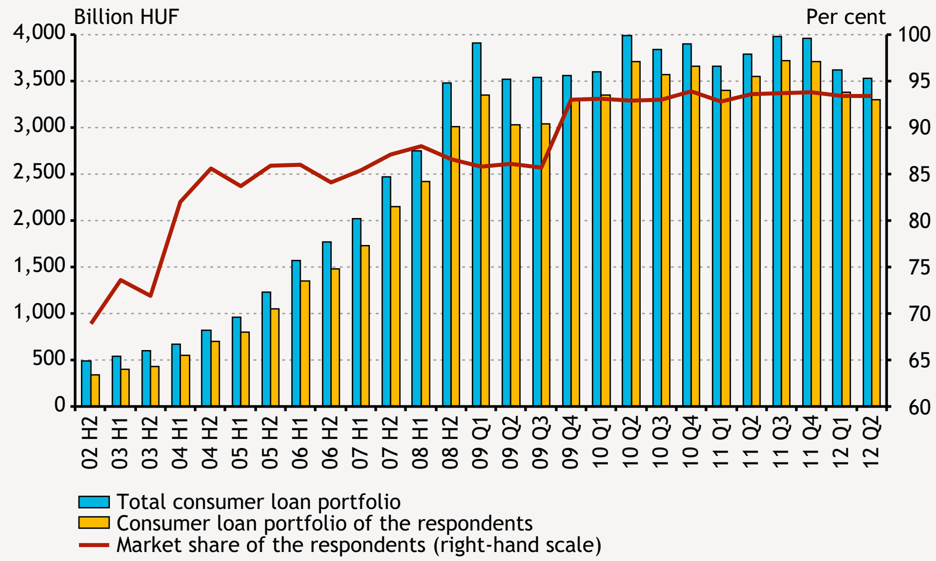
LENDING TO HOUSEHOLDS

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). As of 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. As of 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)

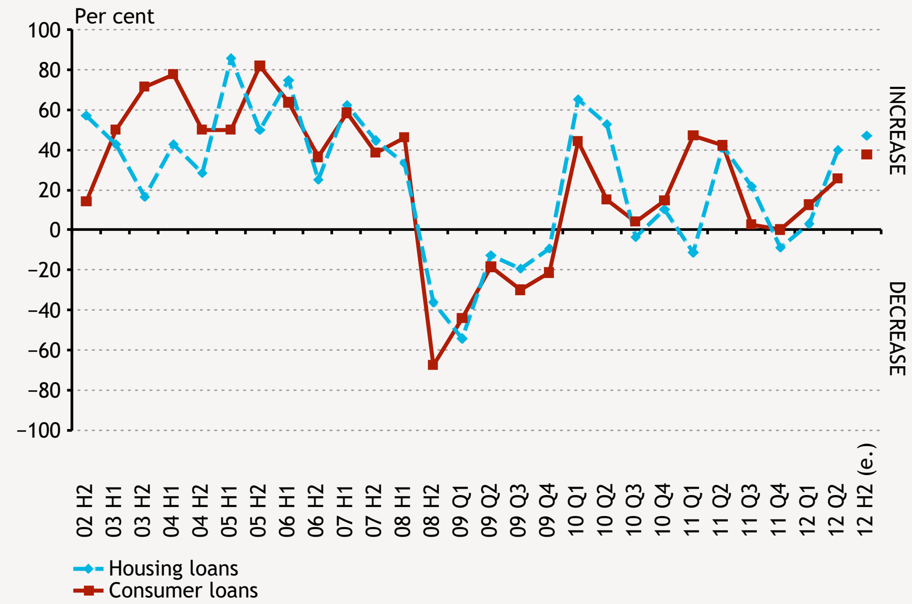
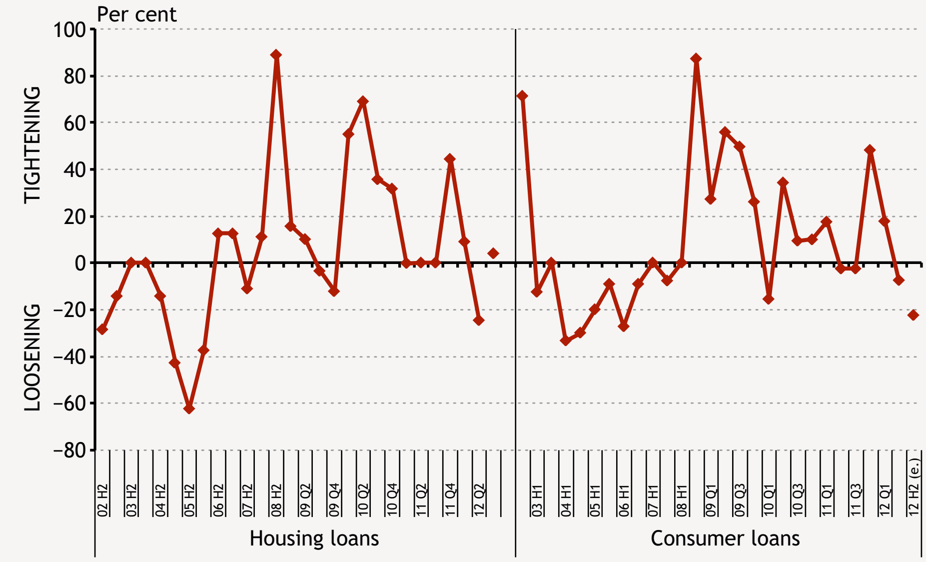
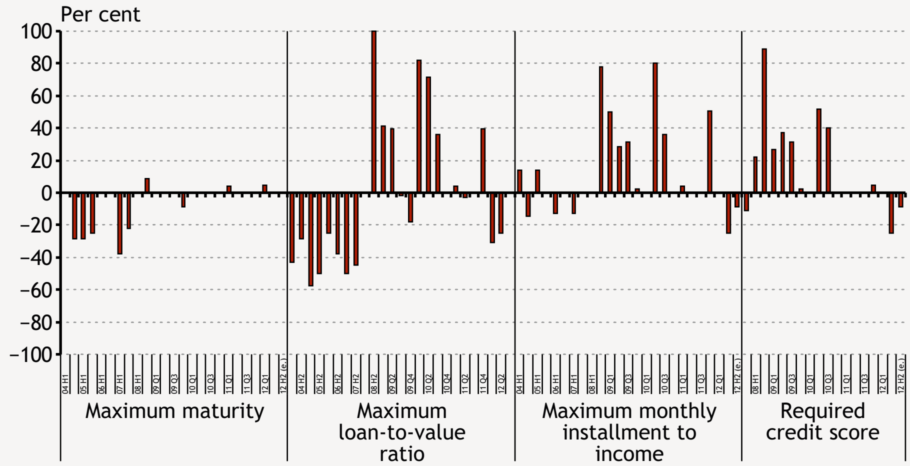


Chart 4
Credit conditions in the housing loan and consumer loan markets
(net percentage balance of respondents tightening/easing credit standards weighted by market share)



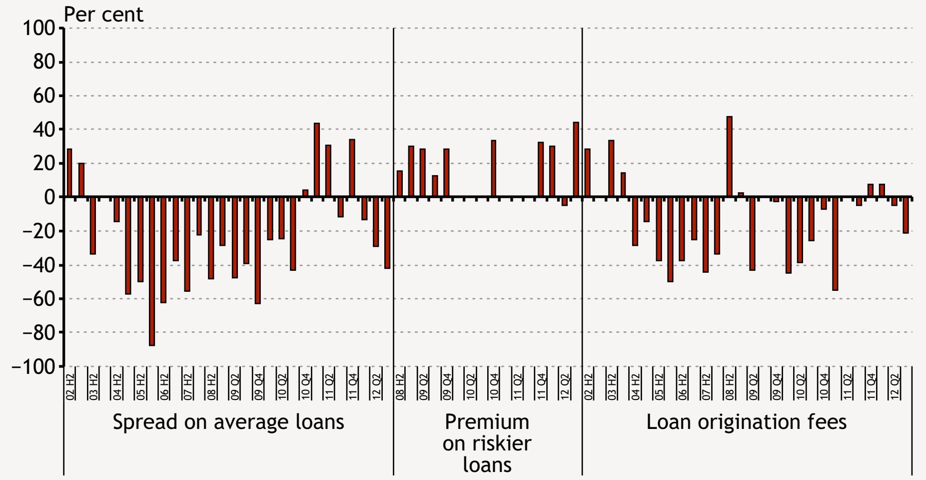
Note: The magnitude of tightening/easing is not shown in the chart.

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

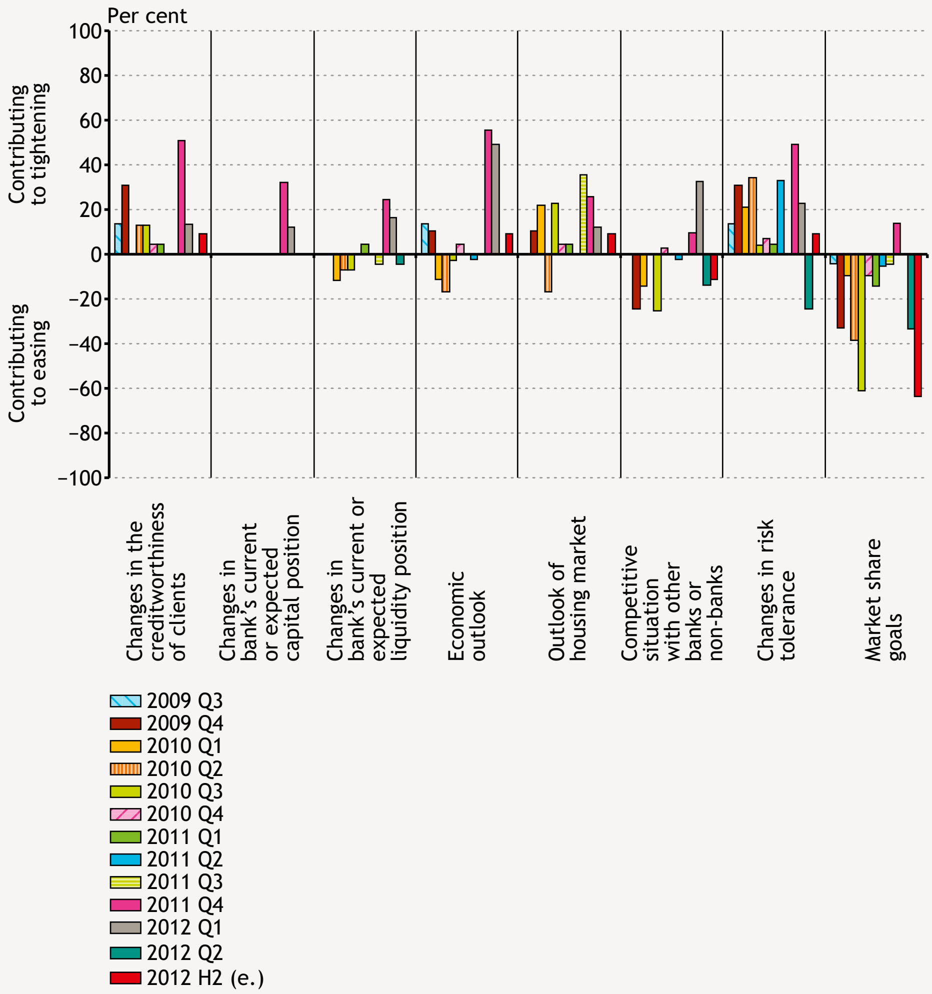


Chart 8
Perceived demand for loans in the household segment
(net percentage balance of respondents reporting increase/decrease in demand weighted by market share)

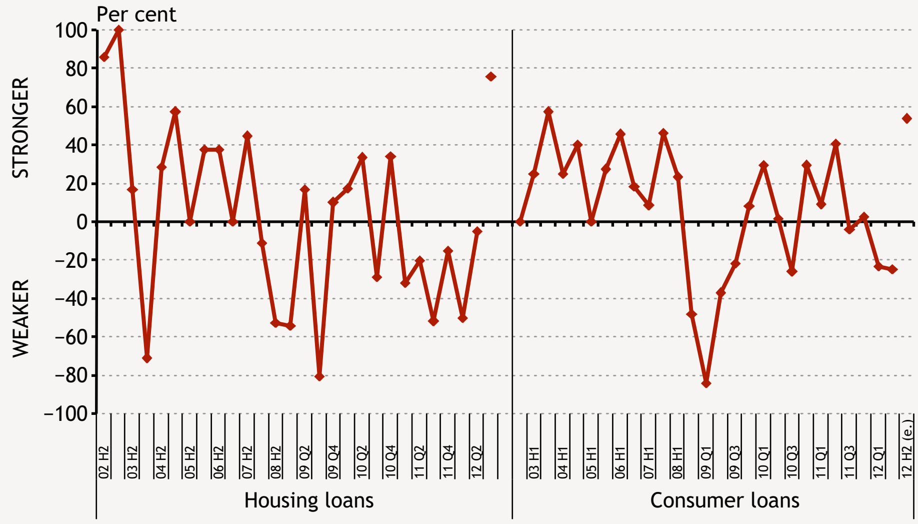
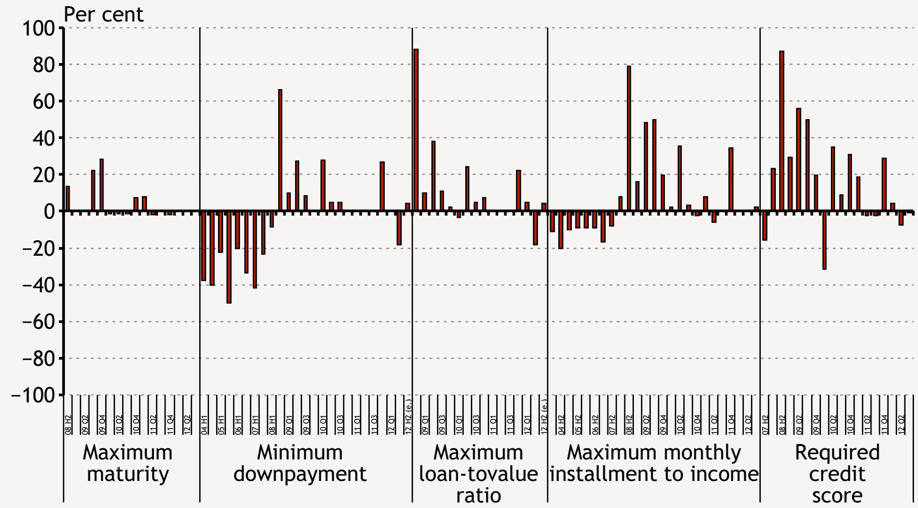
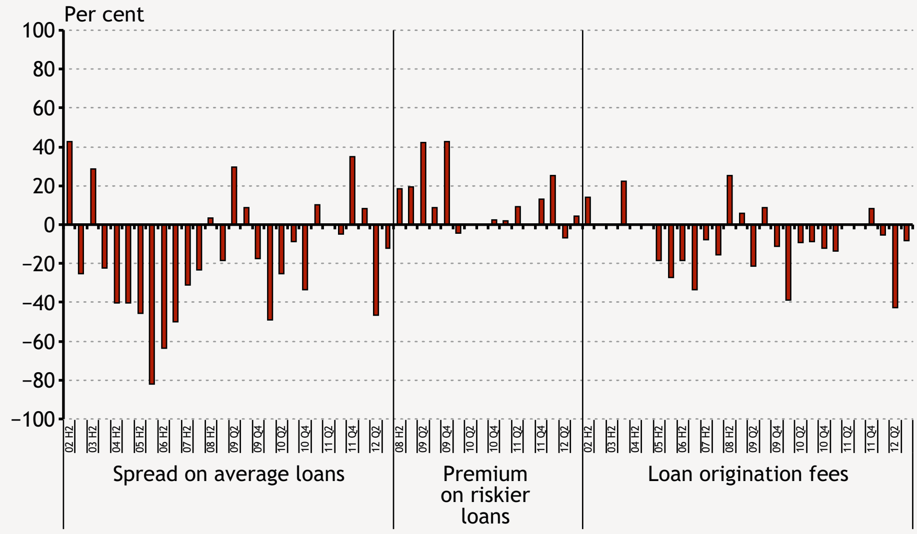


Chart 9
Credit conditions in the consumer loan market – non-price conditions
(net percentage balance of respondents tightening/easing credit conditions weighted by market share)



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)

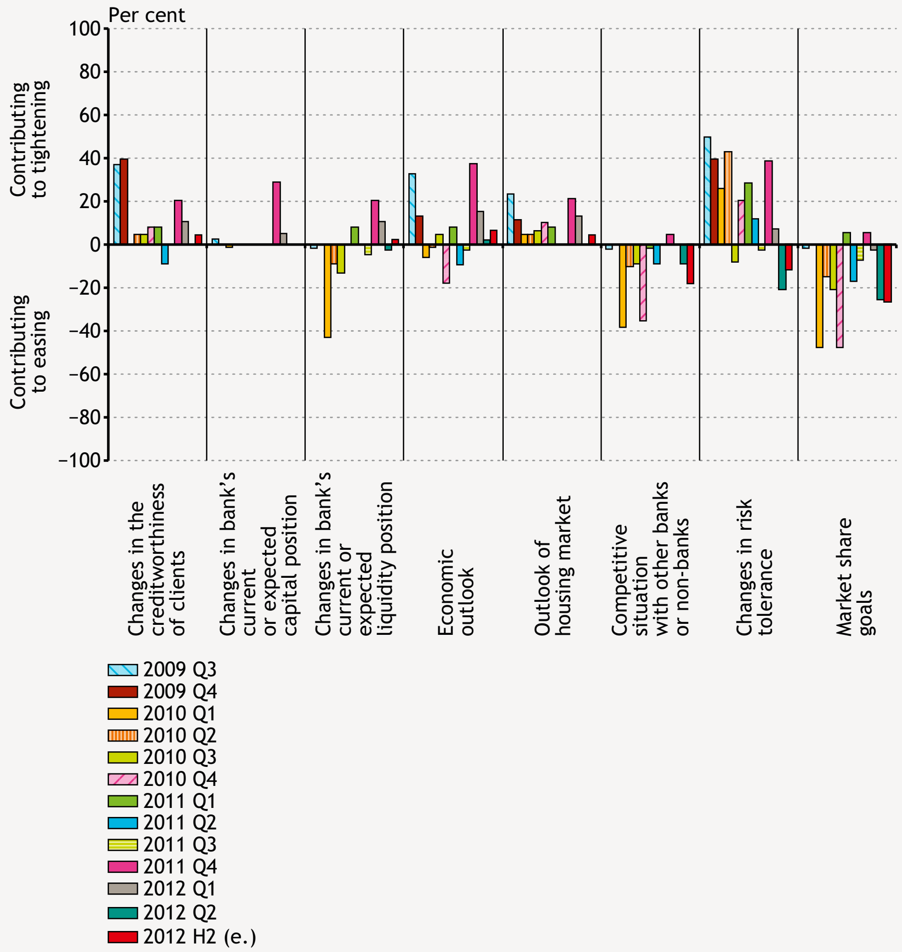
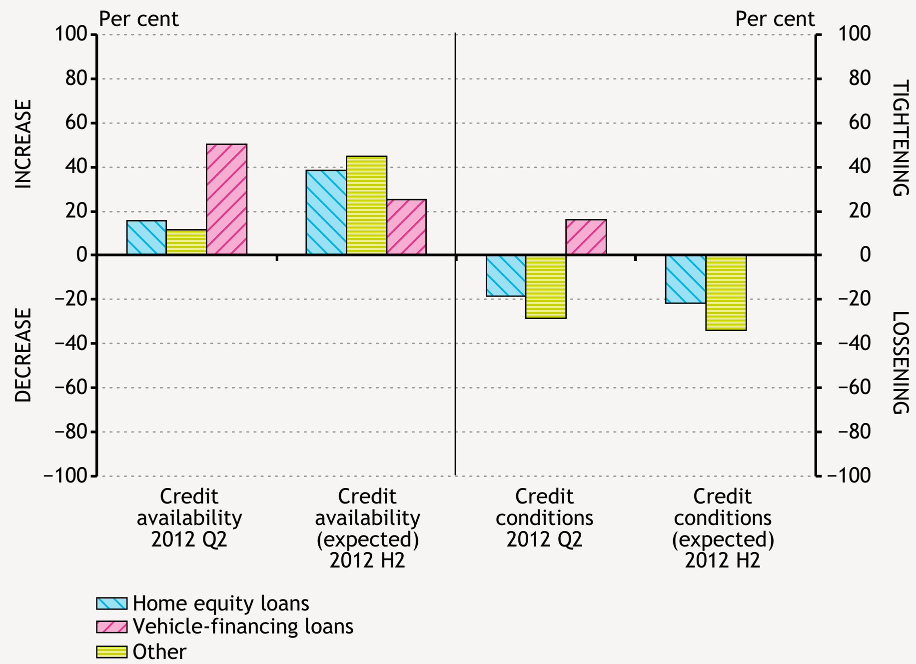


Chart 12

Willingness to lend and credit conditions for different consumer loan products

(net percentage balance of respondents weighted by market share)

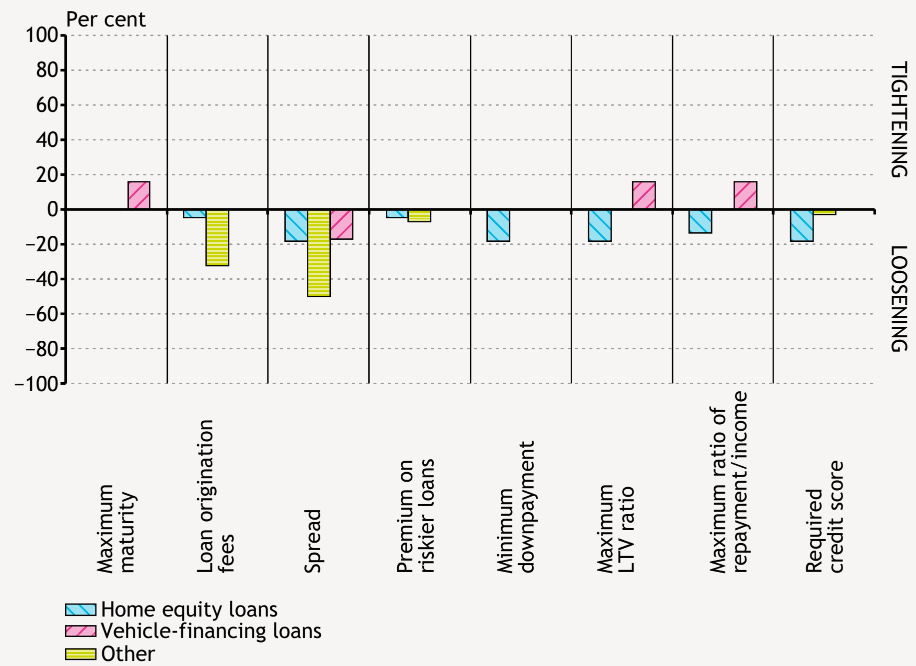


Note: The magnitude of tightening/easing is not shown in the chart.

Chart 13

Credit conditions for different consumer loan products in 2012 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)

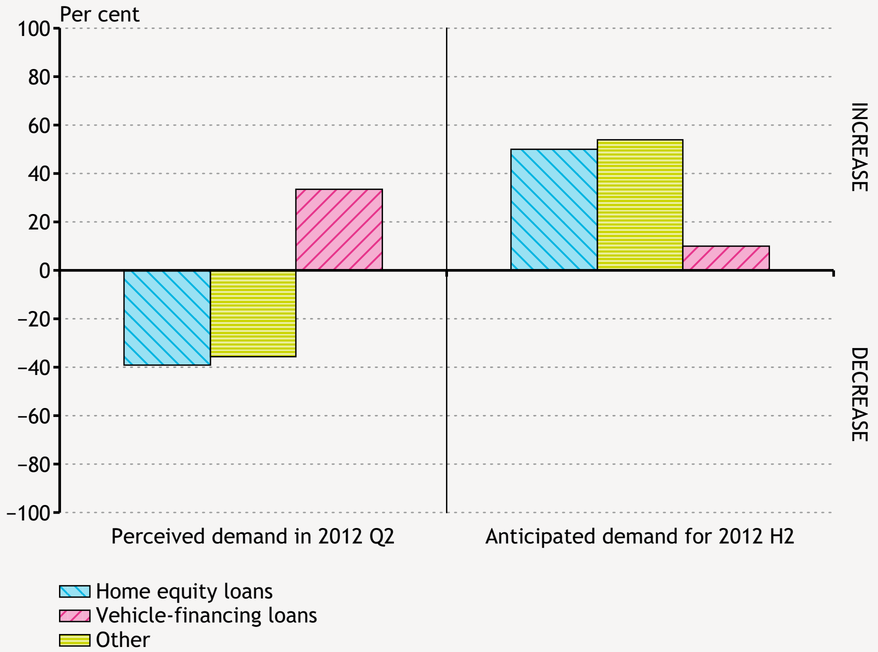
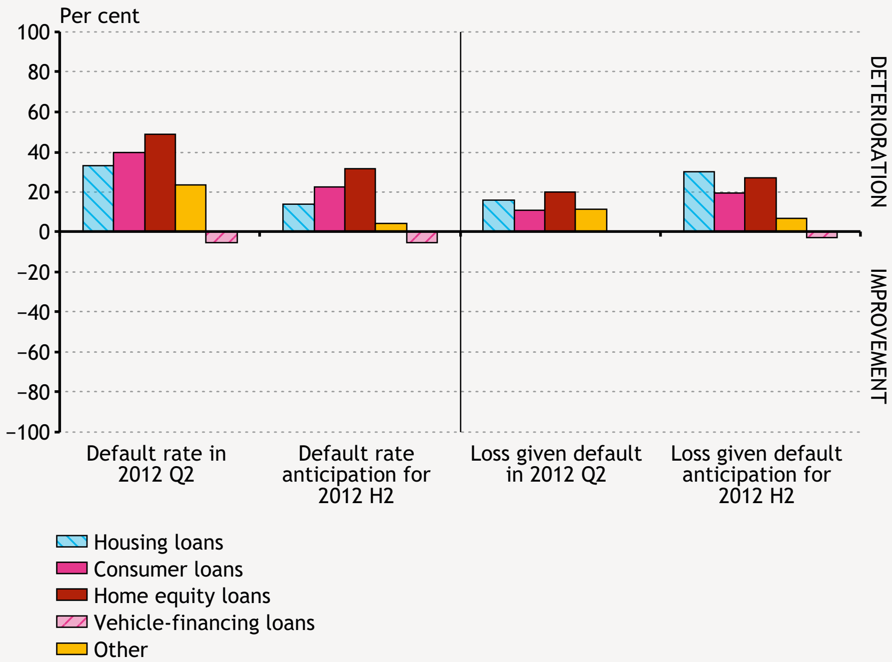


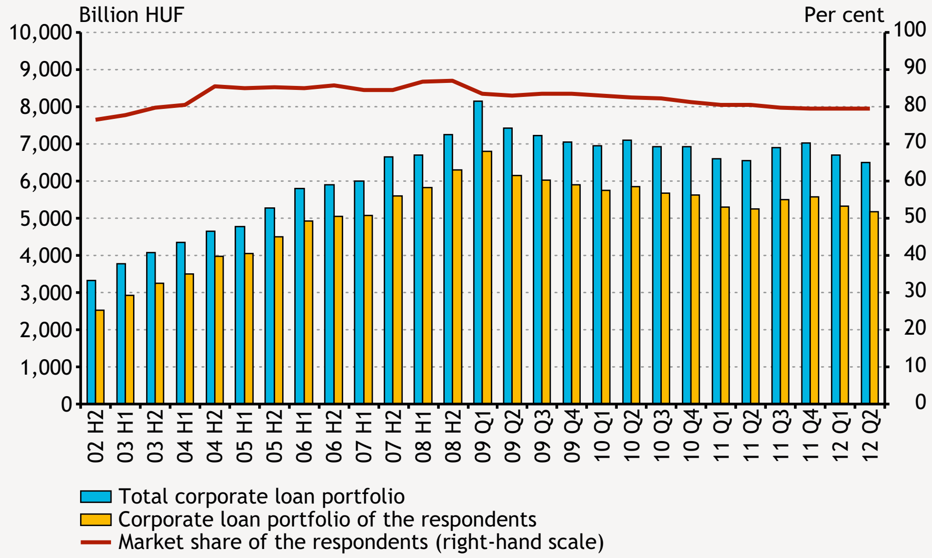
Chart 15
Default rate of loans to households and loss given default

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



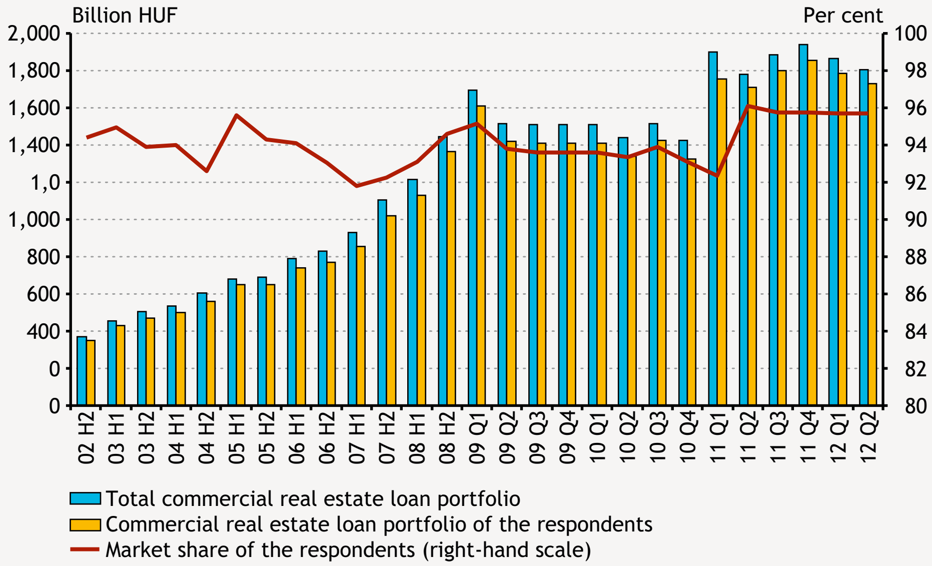
LENDING TO THE CORPORATE SECTOR

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



Note: As of 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: As of 2009, stock data also include those for credit institutions and branches. As of 2011 the data includes loans for commercial real estate purchase, not just for development.

Chart 18
Willingness of banks to extend corporate loans
(net percentage balance of respondents reporting increased/decreased credit availability weighted by market share)

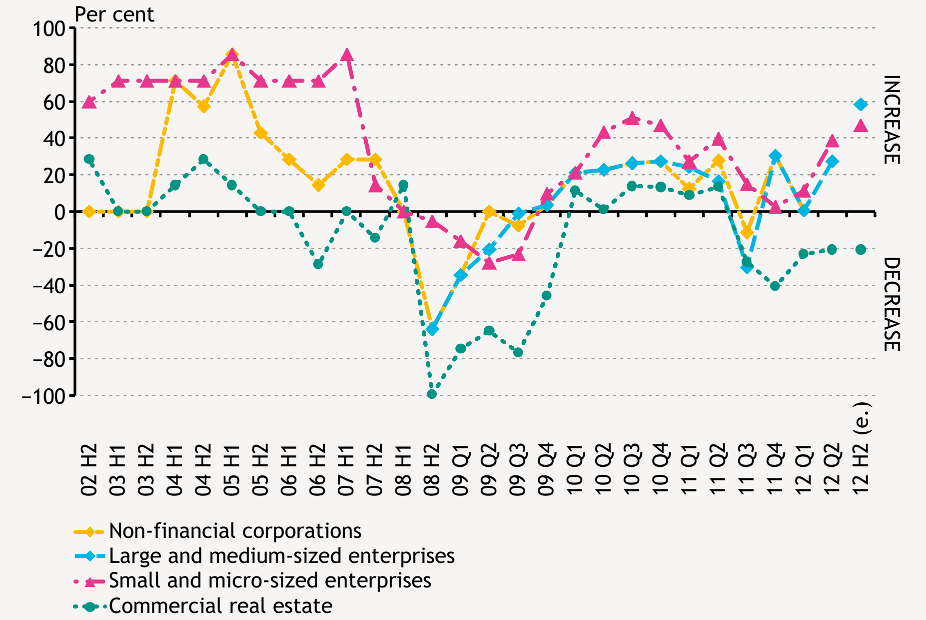
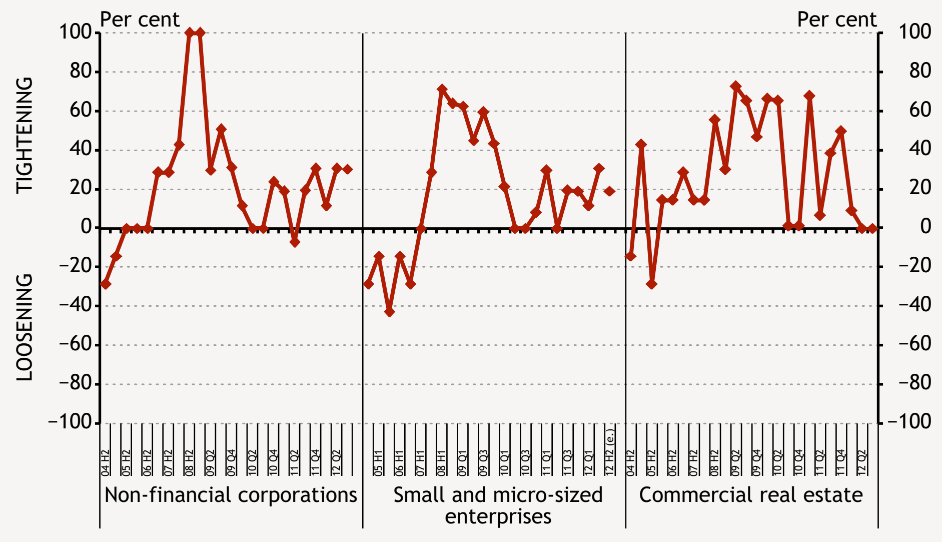
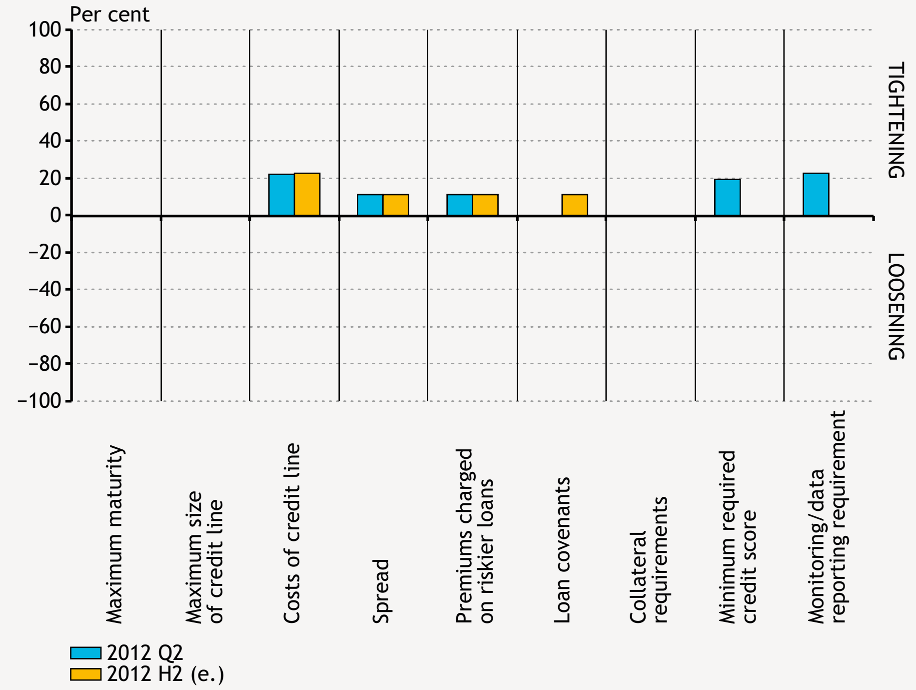


Chart 19
Credit conditions by corporate category and for commercial real estate loans
(net percentage balance of respondents reporting tightening/easing weighted by market share)



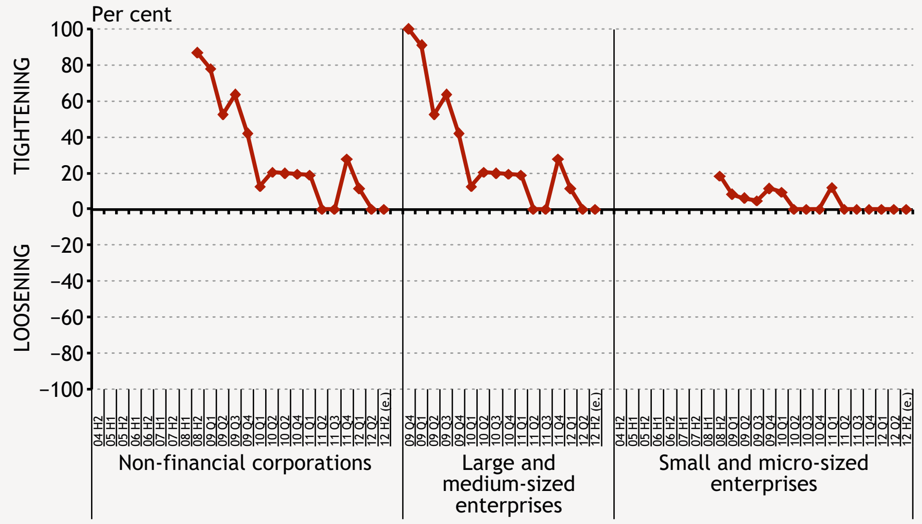
Note: The magnitude of tightening/easing is not shown in the chart.

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



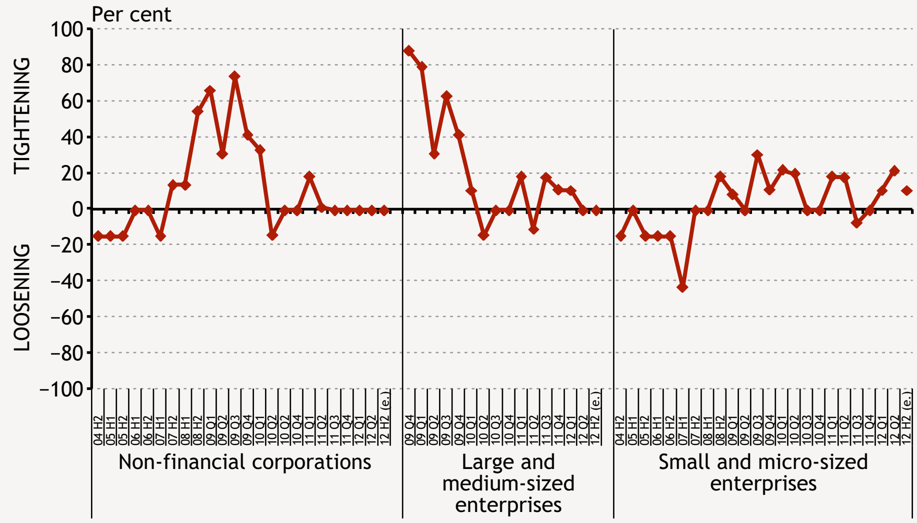
Note: The magnitude of tightening/easing is not shown in the chart.

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



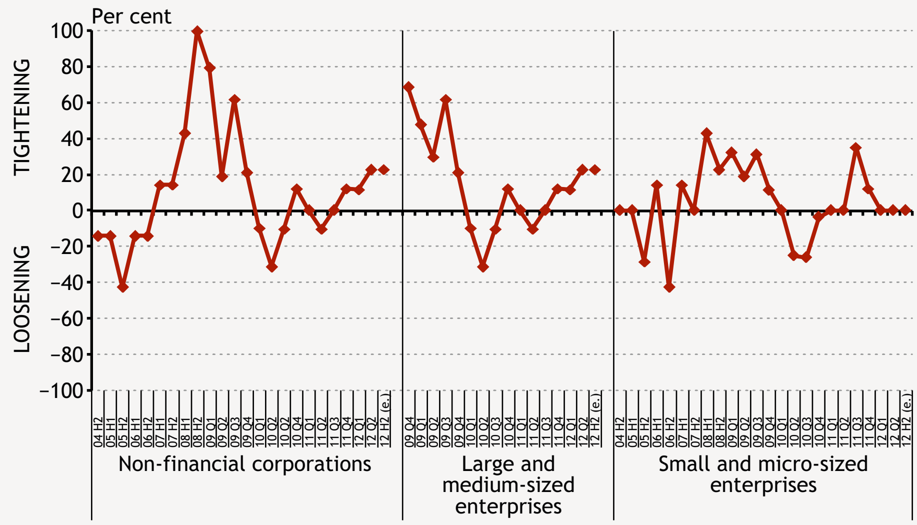
Note: The magnitude of tightening/easing is not shown in the chart.

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



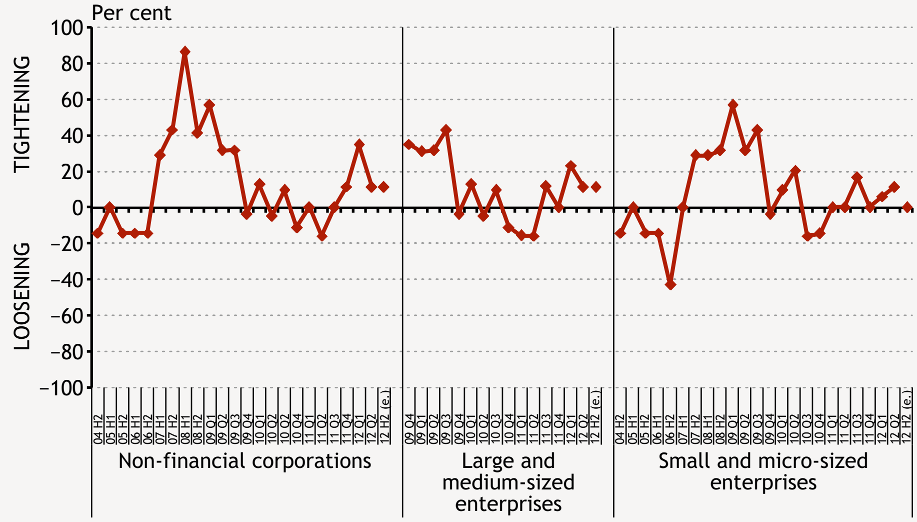
Note: The magnitude of tightening/easing is not shown in the chart.

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)



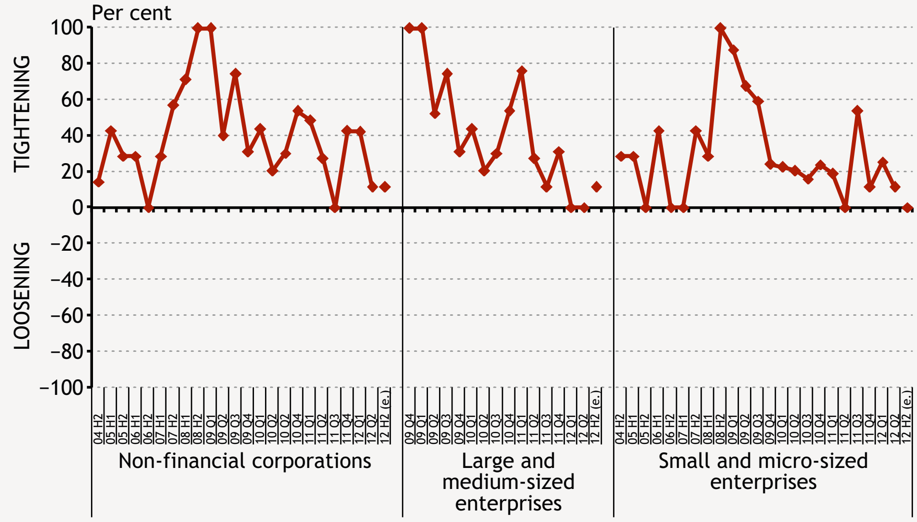
Note: The magnitude of tightening/easing is not shown in the chart.

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)



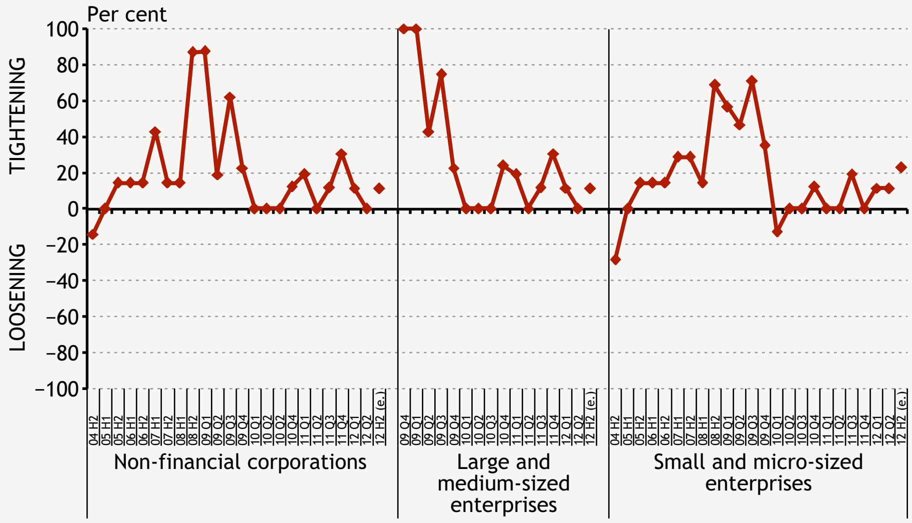
Note: The magnitude of tightening/easing is not shown in the chart.

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



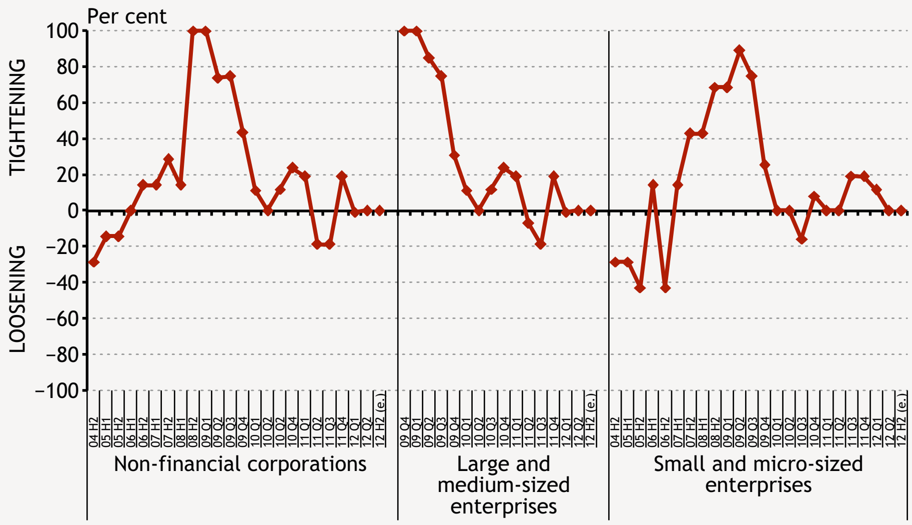
Note: The magnitude of tightening/easing is not shown in the chart.

Chart 26
Covenant requirements by corporate category
(net percentage balance of respondents reporting tightening/easing weighted by market share)



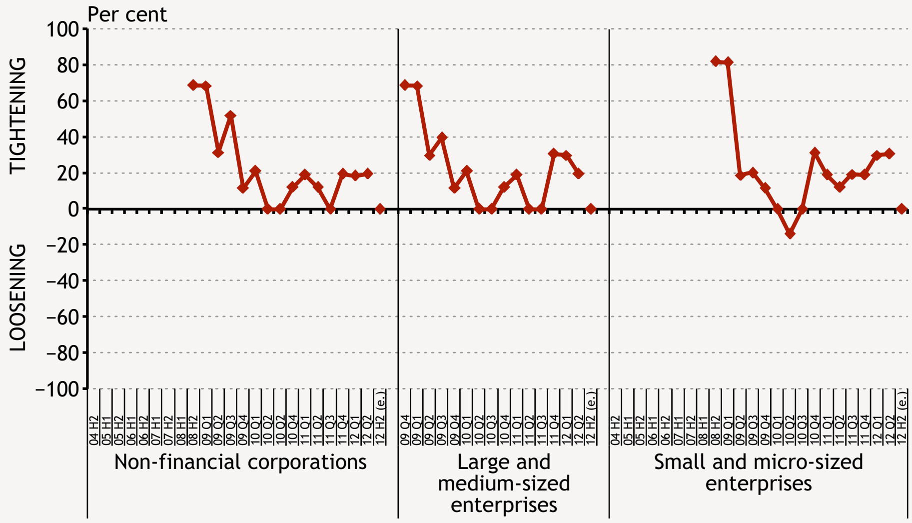
Note: The magnitude of tightening/easing is not shown in the chart.

Chart 27
Collateral requirements by corporate category
(net percentage balance of respondents reporting tightening/easing weighted by market share)



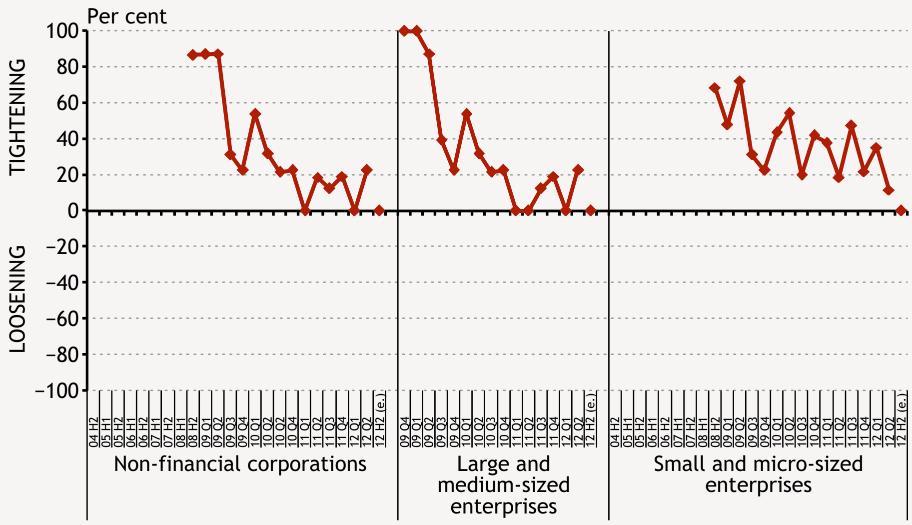
Note: The magnitude of tightening/easing is not shown in the chart.

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)

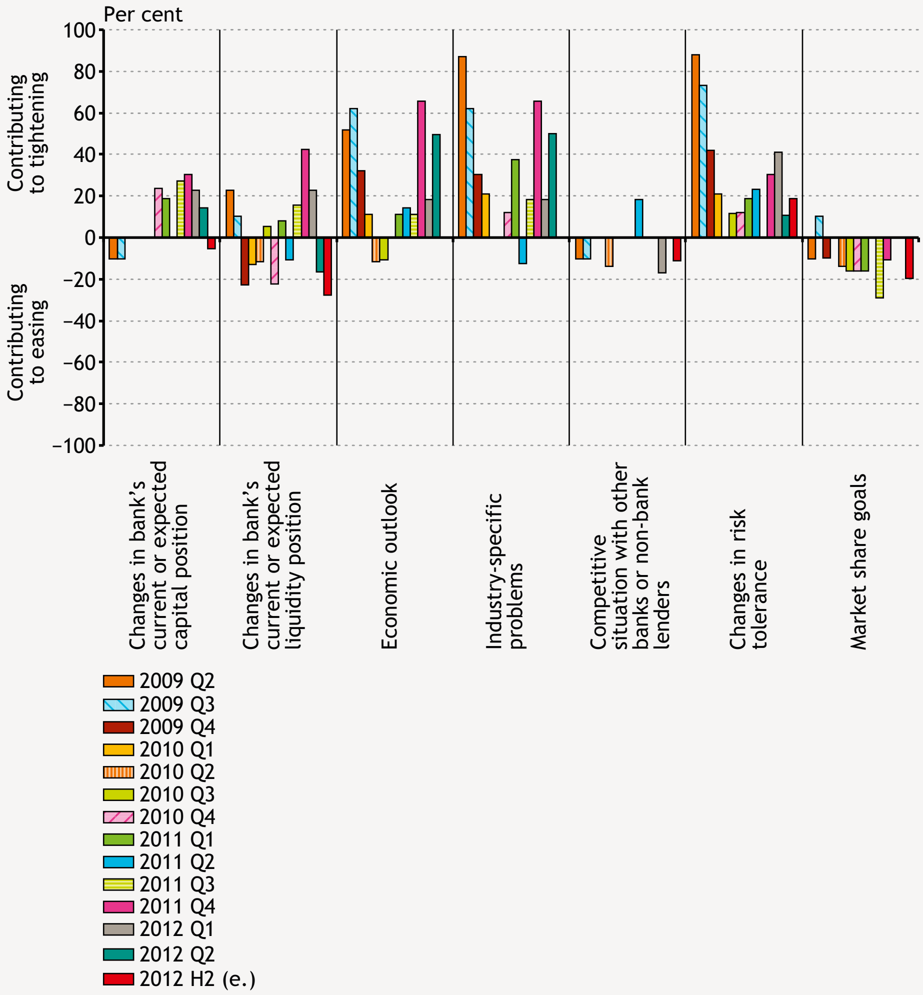


Chart 31
Perceived demand for corporate loans
(net percentage balance of respondents reporting increase/decrease in demand weighted by market share)

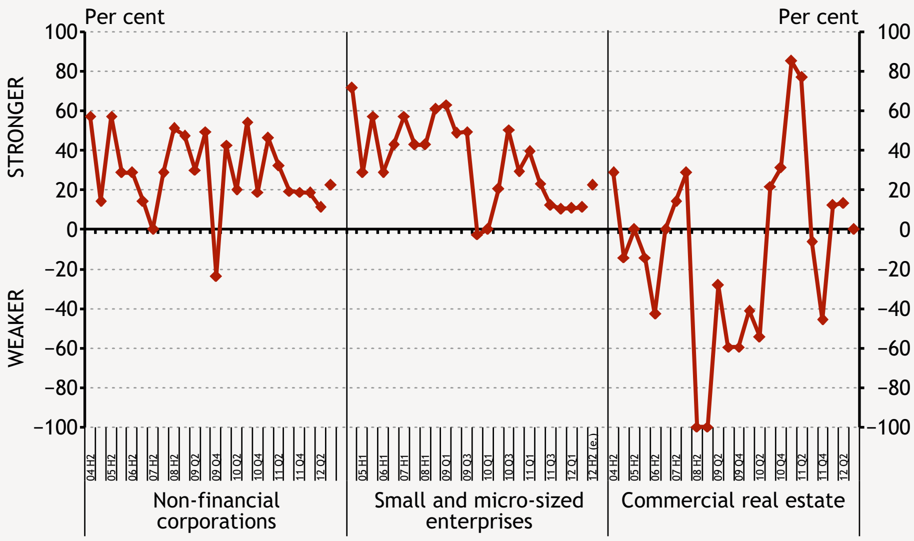


Chart 32
Perceived demand for corporate loans by maturity
(net percentage balance of respondents reporting increase/decrease in demand weighted by market share)

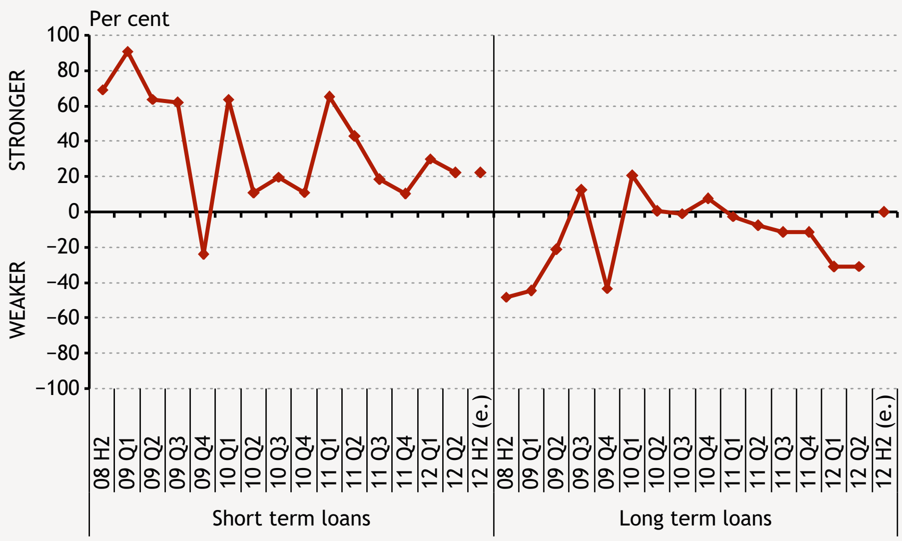


Chart 33
Factors contributing to corporations' demand for loans based on banks' perceptions
(net percentage balance of banks indicating a contribution of individual factors to increase or decrease weighted by market share)

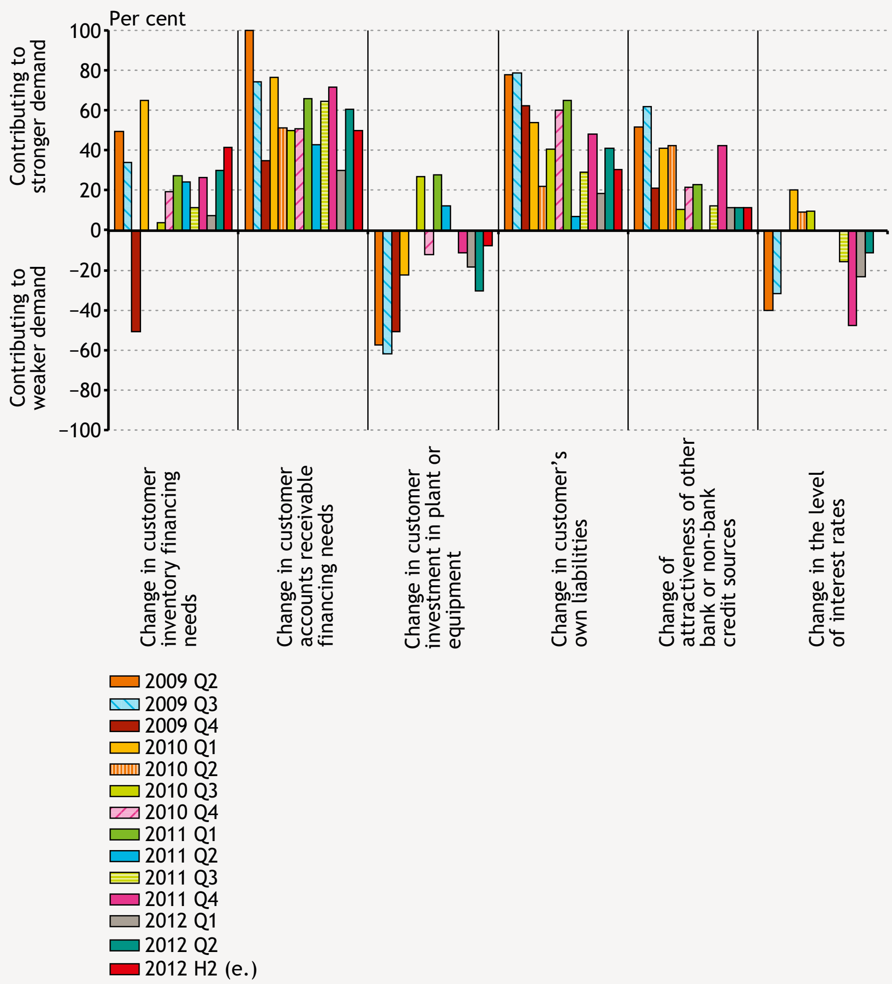


Chart 34
Changes in loan portfolio quality by sector
(net percentage balance of respondents reporting improvement/deterioration weighted by market share)

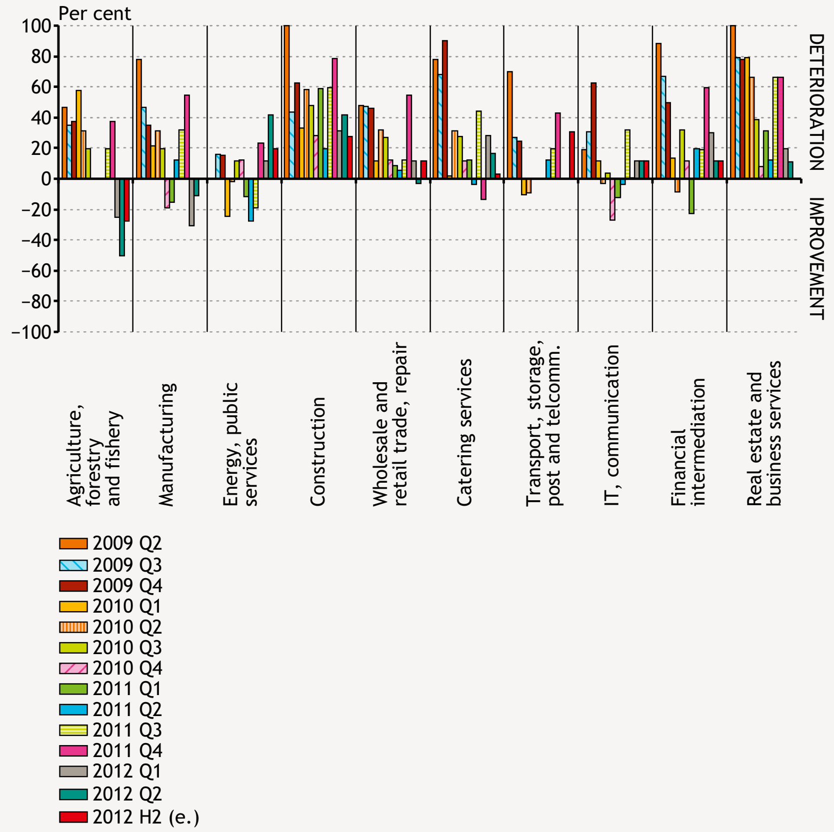
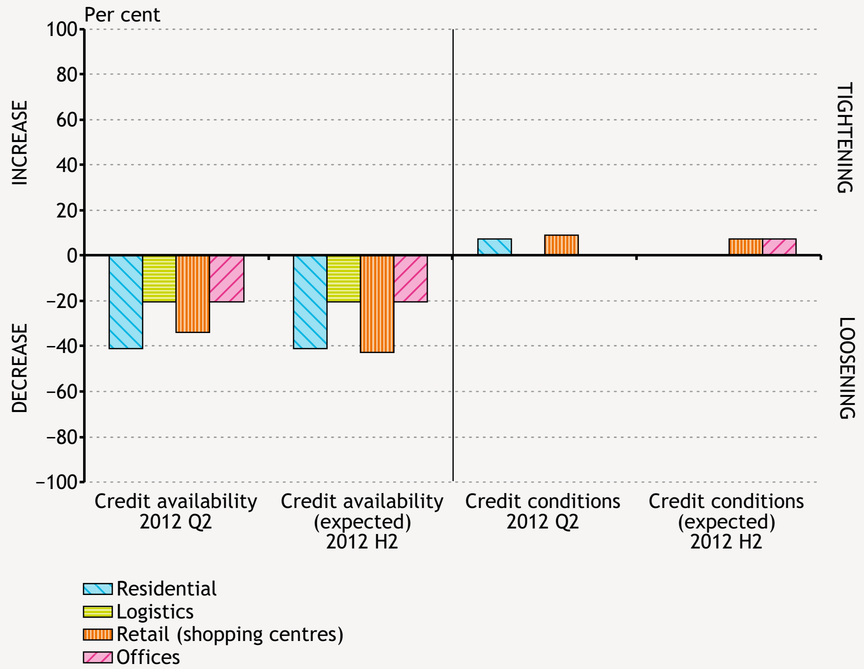


Chart 35
Credit availability (Willingness to lend) and credit conditions in the commercial real estate segment
(net percentage balance of respondents reporting an increase/decrease and tightening/easing weighted by market share)



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)

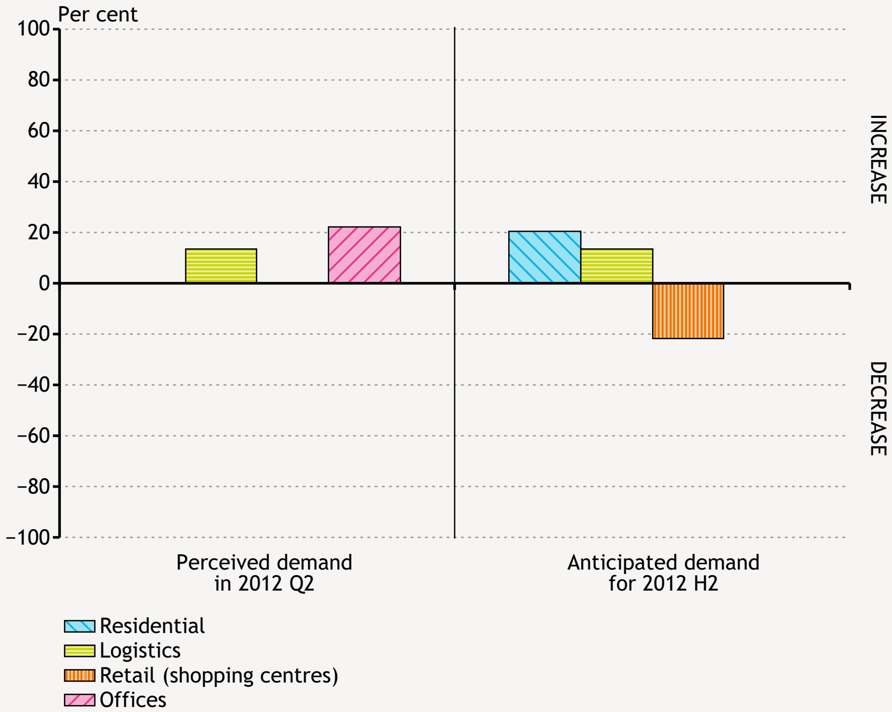


Chart 37
Developments in perceptions of risk associated with corporate loans based on answers provided on default rate and loss given default
(net percentage balance of respondents reporting increased/decreased risk weighted by market share)

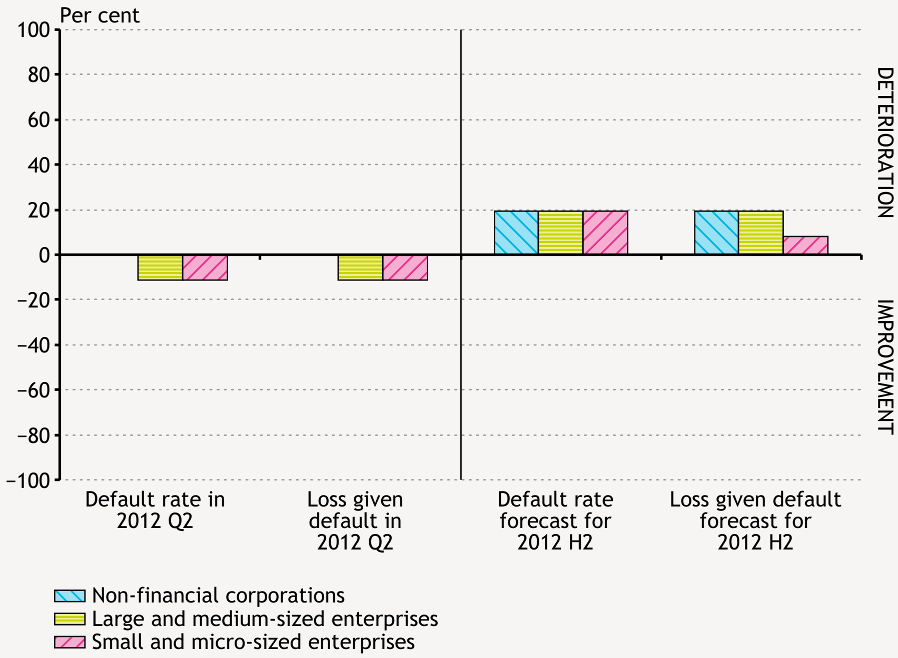
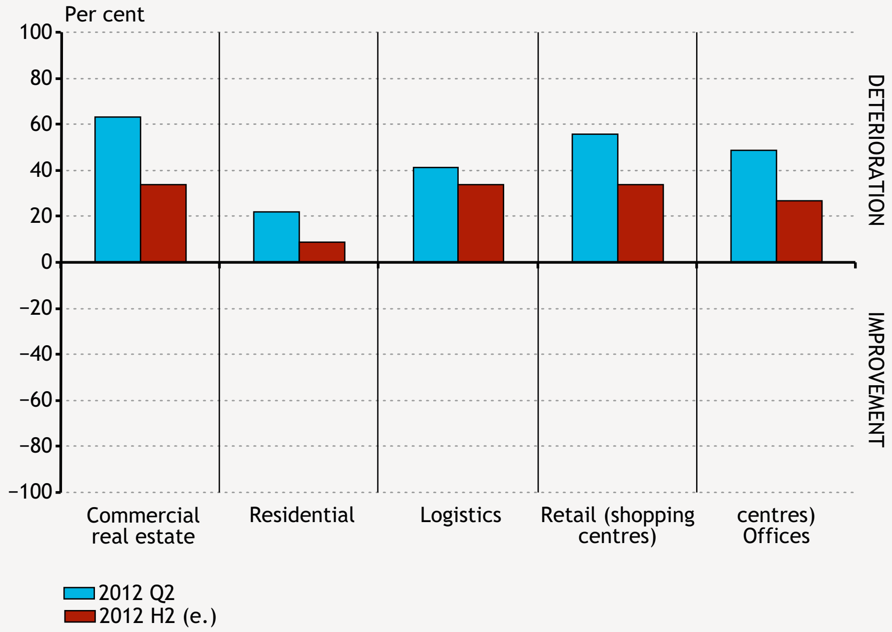
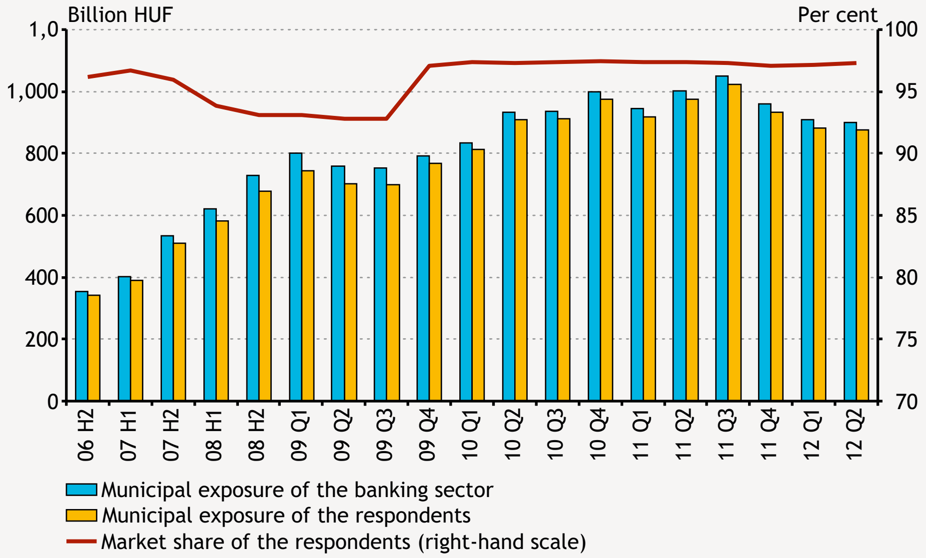


Chart 38
Changes in the quality of the commercial real estate loan portfolio
(net percentage balance of respondents reporting improvement/deterioration weighted by market share)



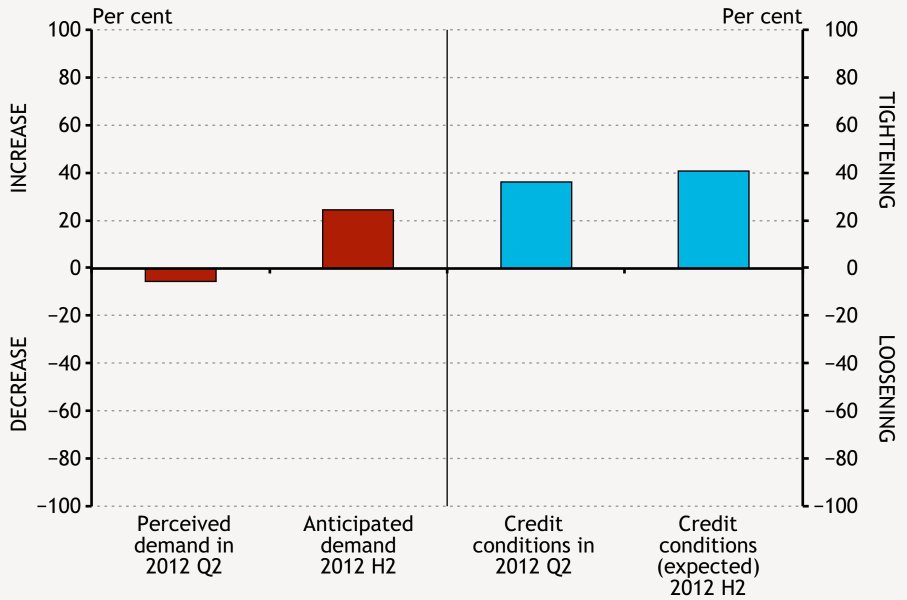
LENDING TO MUNICIPALITIES

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



Note: As of 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)

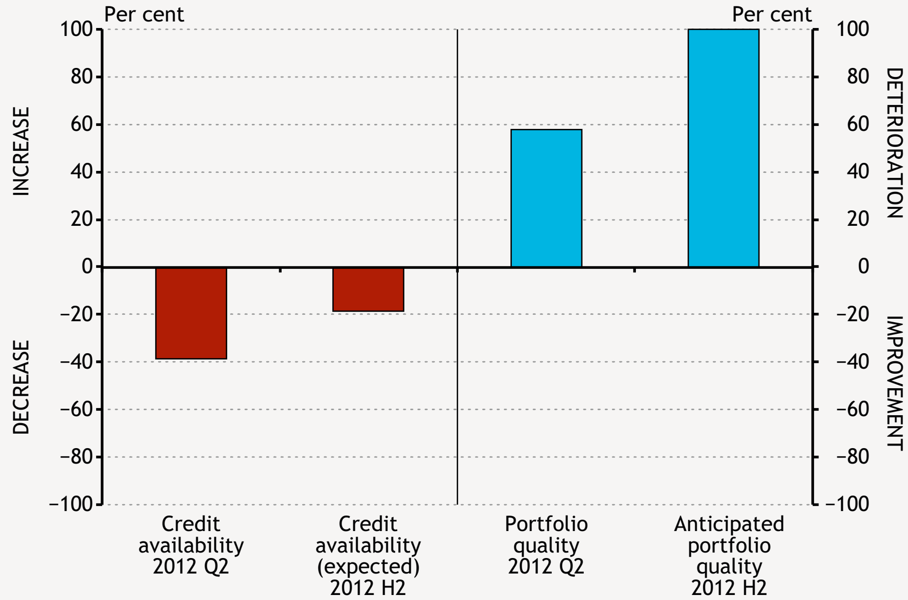
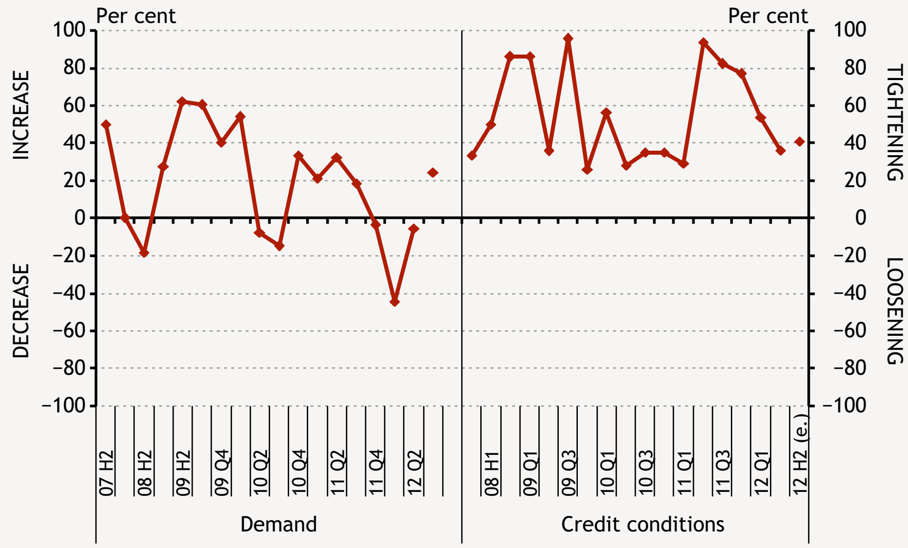


Chart 42
Perceived demand and credit conditions in lending to municipalities since 2007 H2
(net percentage balance of respondents reporting an increase/decrease and tightening/easing weighted by market share)



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 2012 Q2 in July 2012), whereas forward-looking questions contain projections for the upcoming half year (e.g. for 2012 H2 in July 2012), 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**[4], 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.

[4] 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.

Senior loan officer survey on bank lending practices

Summary of the aggregate results of the survey for 2012 Q2

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