MAGYAR NEMZETI BANK

SENIOR LOAN OFFICER SURVEY ON BANK LENDING PRACTICES

FEBRUARY 2010

Summary of the aggregate results of the survey for 2009 Q4

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Summary

In the spring of 2003, the Magyar Nemzeti Bank (the central bank of Hungary) launched its semi-annual Senior Loan Officer Survey with the objective of gaining a better understanding of bank lending practices. The latest survey for 2009 Q4 was conducted in January and examined lending to the household and corporate sectors, as well as lending to municipalities. In order to facilitate close monitoring of the qualitative aspects of developments in loan supply, the central bank has been conducting the survey on a quarterly basis since the beginning of 2009. Furthermore, every year in January interviews are also held with senior loan officers to obtain a deeper understanding of banks' responses. This time, the survey in the household segment contained two additional questionnaires about the ongoing restructuring of outstanding loans. We hope that these will provide a comprehensive picture of past and anticipated future trends.

Similarly to the previous two quarters, in 2009 Q4 responding banks indicated a moderate decline in credit availability in the household lending segment, but with regard to future trends banks remain optimistic about their willingness to lend. However, the survey clearly reveals that banks' credit availability is accompanied with high risk aversion, which has been reflected in the cumulative tightening in non-pricing credit conditions since the outbreak of the crisis. In the case of consumer loans banks indicated that they have tightened further the credit conditions, however the proportion of tightening banks was less compared to the results of the previous survey. In respect of housing loans, banks have eased somewhat in the pricing conditions and plan further loosening in 2010 H1, mainly in the reduction of spread on cost of funds, but – for the first time since the crisis began – in the charged credit fees as well. Banks' responses suggest that it is not the macroeconomic environment that has contributed to the easing, and apart from some market participants' expectations, or hopes, if the personal interviews are quoted, the macroeconomic environment will not play a role in the next half year either. Instead, the vast majority of banks reported that market share objectives and competition for adequately solvent clients are the factors that contribute to easing. Following the unanimously perceived drop in demand from Q2 to Q3, banks did not perceive any further decline, and almost all expect to see increasing demand in 2010 H1, mainly for HUF-denominated products. According to their expectations, demand will be boosted by the falling level of interest rates and banks' more intensive presence on the market (new products and intensive campaigns). Based on the responses, it can be said that – in contrast to the risk-based competition seen before the crisis – price-based competition seems to be developing, with a focus on creditworthy customers.

Banks reported experiencing much smaller net percentage balances of portfolio deterioration in Q4 compared to previous quarters. Their restructuring efforts can be attributed to the more subdued increase in portfolio deterioration. In this survey, we complemented the standard questionnaire with two additional questionnaires focusing on banks' loan restructuring activities in the household segment (housing loans, consumer loans). Based on their responses it was found that banks have restructured nearly 2–5 per cent of their loan portfolios in order to stabilise clients' solvency and thus the quality of their portfolios. Banks generally try to achieve restructuring by extending maturities and temporarily easing of the repayment burden, primarily via own programmes. Respondents neither expect an increase in their willingness to restructure compared to the previous half year, nor except further increase in the demand, except in the vehicle financing segment.

It has to be noted that the domestic results for the tendencies in the household credit standards are consistent with that of the foreign lending surveys[1]. In the banking sector of the Eurozone and United States the proportion of tightening banks has gradually decreased, but the net percentages balance has been so far on the tightening side, while in the case of Poland and Hungary it is already on the loosening side.

In the corporate segment, credit availability remained largely unchanged in 2009 Q4 compared to the previous two quarters, except for the commercial real estate segment, where a further decline was reported. For the next half-year period, on balance more than half of the respondent banks expect more willingness to lend in the non-financial corporate segments, but commercial real estate loans continue to constitute an exception. Weighted by market share, nearly one-third of the banks

[1] For details see: ECB (http://www.ecb.int/stats/money/surveys/lend/html/index.en.html);
FED (http://www.federalreserve.gov/boarddocs/snloansurvey/201002/default.htm);
National Bank of Poland (http://www.nbp.pl/homen.aspx?f=/en/systemfinansowy/kredytowy2010.html).

tightened their corporate credit conditions in net terms, which is much smaller than the proportion of those indicating tightening in the previous report. This tightening is attributed primarily to industry-specific problems and to higher perceived risks. For the first time since the beginning of the crisis, the liquidity position at the aggregate level was reported to have contributed to easing, and based on banks' expectations this will continue in 2010 H1 as well. Another noteworthy aspect is that both for 2009 Q4 and 2010 H1 banks indicated market share objectives as the second most important factor supporting easing, which indicates a revival of activity in the lending market. Nevertheless, banks intend to achieve the increase in credit availability among creditworthy clients, implying that the risk aversion of banks is still considerable. On the whole, banks' responses suggest that in demand for working capital loans, where increase had been perceived from quarter to quarter during 2009, there was a sudden halt in 2009 Q4, while perceived demand for long-term loans continued to fall. The vast majority of respondents experienced deterioration in the quality of the corporate loan portfolio in 2009 Q4, and banks expect the trend of portfolio deterioration to continue over the next six-month period as well.

It has to be noted that the domestic results for the tendencies in the corporate sector credit standards and conditions have become similar again with the findings of ECB lending surveys. Namely, in the domestic banking sector the proportion of tightening banks decreased again in Q4 similarly to the Eurozone, where the proportion of tightening banks has been decreasing gradually since the beginning of 2009. Based on banks expectations, turning point cannot be expected over the next half year neither in the Eurozone, nor in Hungary.

Similarly to the previous survey, demand for loans in the municipalities sector continued to increase extensively in Q4 as well, and all banks expect further increase in the next half year. Banks' responses suggest that the relative decline in willingness to lend projected for end-2009 and early 2010 in the previous survey did not materialise. In fact, weighted by market share, the 26 per cent of banks in net terms increased credit availability in 2009 Q4, and almost all of them show more willingness to lend in 2010 H1 than in the previous quarter. The large majority of banks did not continue to tighten their credit standards and conditions, and they do not plan any easing from the current level. There was no further deterioration in the quality of the loan portfolio in this quarter, and banks do not expect any deterioration in the next half year either.

Aggregate results of the questionnaire[2]

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 loan portfolios 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 on the website of the MNB). **The retrospective questions in the questionnaire relate to changes in 2009 Q4, while the forward-looking questions ask respondents for their views about changes they expect over the next six-month period, i.e. in 2010 H1. Questions focus on changes perceived relative to the previous quarter: the base period is 2009 Q3 for retrospective questions and 2009 Q4 for forward-looking questions. In aggregating answers, we apply weightings calculated on the basis of outstanding loans in different segments (i.e. market share based weighting)[3].**

1 HOUSEHOLD LENDING MARKET

According to the results of the survey, net 12 per cent of respondents weighted by market share reported an easing in credit conditions in the housing loans segment, while based on the expectations for 2010 H1 in the aggregate changes in the credit conditions, a net 22 per cent of banks anticipate further easing. The majority (approximately two thirds) of banks eased spread on cost of funds, whereas net 28.6 per cent of banks reported tightening in the risk premium. In addition, for the first time since the outbreak of the crisis, easing in charged fees occurred as well, although only for a small net proportion of the respondents (net 3 per cent in 2009 Q4 and net 11 per cent anticipated for 2010 H1). The vast majority of banks did not continue to tighten non-price related factors, and looking ahead they do not plan any further tightening or easing either (partly in line with the decree on prudent lending), i.e. they intend to remain at the level of tightening which has been reached since the crisis began.

In the banks' credit supply, their ability – i.e. capital and liquidity position – is not playing a role anymore, but rather their risk-taking inclination. As a result of deteriorating macroeconomic environment the risk tolerance decreases and the anxiety over the worsening creditworthiness of the customers increases, pointing to tightening the credit standards according to one-third of the respondents. However, in the end, the growing competition for the creditworthy customers pushes downwards the interest rates (chart 10).

Only a small proportion of banks reduced credit availability in the previous quarter, similarly to the previous half year. Considering the forward-looking replies, in the next half year a net 53 per cent of banks expect an increase in credit availability, in parallel with easing in pricing credit standards. Looking at the fourth quarter, demand for housing loans increased on the whole (weighted by market share, the net percentage of banks perceiving an increase was 10 per cent), again made up of declining demand for HUF-denominated loans and growing demand for FX-denominated loans. Looking ahead to the next half-year period, the majority of banks expect an increase in demand for both FX-denominated loans and HUF-denominated loans, mainly as a result of the change in the general interest rate level, introduction of new products and more active marketing.

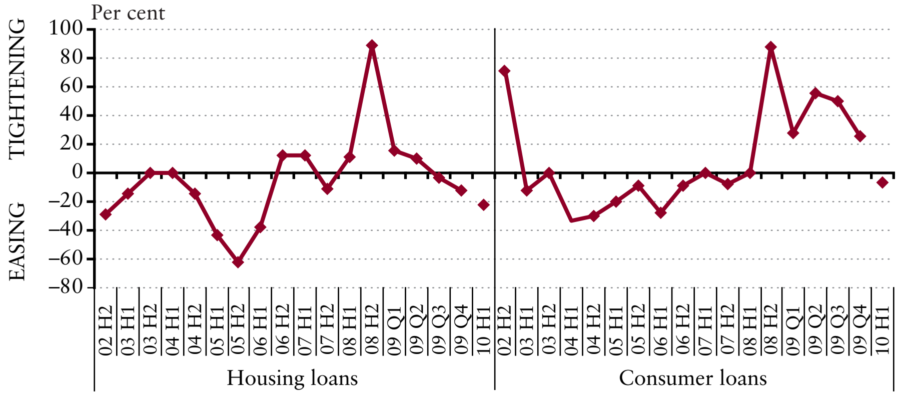
[2] Fourteen banks responded to questions related to the household segment (housing loans: 10 institutions, consumer loans: 14 banks and 6 financial enterprises), while 7 banks replied to questions regarding the corporate segment, and 7 institutions were queried on the trends in municipality lending activity. Institutions submitted their replies to MNB electronically Banks complete the questionnaires in electronic format on a quarterly basis; in addition, a personal interview takes place once a year in relation to the survey conducted in Q1 of the specific year.

[3] Vehicle financing loans are not included in the agregate consumer loans numbers on the charts.

Chart 1

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

(net percentage of respondents reporting tightening/easing)



Source: MNB.

A net 26 per cent of banks by market share indicated tightening in the consumer credit segment for 2009 Q4, resulting in the lowest proportion of tightening banks in the past two years. In net terms, nearly half the banks indicated a tightening of the premium on riskier loans in the previous quarter, but looking ahead they do not plan any further tightening in this condition. Similarly to housing loans, the vast majority of banks did not continue to tighten and do not plan to tighten non-pricing conditions. However, easing of such conditions is not envisaged either, i.e. banks intend to remain at the level of tightening reached since the crisis began. The only exception is the expectations by some banks about the tightening in the collateral requirements of home equity loans over the next half year, which reflects the fact that banks intend to maintain the difference in collateral requirements between the home equity loans and housing loans under the decree of prudent lending as well. Over the next half year, a net 10 per cent of participants by market share plan to ease their conditions, primarily in the home equity loan segment. Similarly to housing loans, easing in credit conditions is expected to be primarily in pricing credit conditions as well over the next half year, namely in a decline in charged credit fees and the spread on cost of funds. They explained their tightening steps with deterioration in clients' creditworthiness and a decline in risk tolerance, but in respect of home equity loans there is a tendency that market share objectives come to front as an easing factor. There was not any change in the credit conditions of the vehicle financing segment in the past quarter, but over the next half-year respondents expect considerable tightening as a result of the decree on prudent lending.

A net 21 per cent of respondents indicated a decline in credit availability, which coincides with the previous finding. For the next half year, a net 65 per cent of banks (weighted by market share) forecasted an increase in willingness to extend consumer credit, which is almost exclusively attributable to home equity loans. The change in risk tolerance and clients' creditworthiness will continue to point to a decline, but this will be offset by banks' market share objectives, which was indicated by two thirds of the respondents in net terms, similarly to the case of housing loans.

For the first time following the outbreak of the crisis, responding banks perceived some increase in demand for consumer credit at the aggregate level (net 8 per cent reported it weighted by market share). Considering denomination, banks perceived an increase in demand for HUF-denominated loans and a decline in demand for FX-denominated loans. For the next half-year period, in aggregate terms they do not expect any further fall in demand for FX-denominated loans, while three quarters of banks expect a further increase in demand for HUF-denominated loans. They justify these expectations with the change in the general interest rate level, introduction of new products and more active marketing.

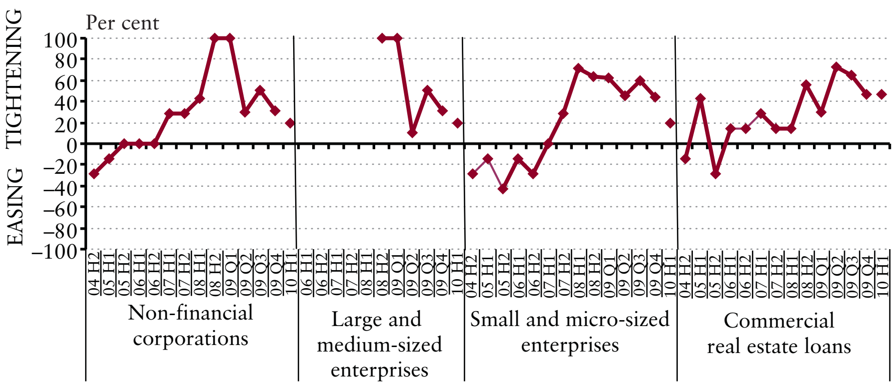
In contrast to the expectations in the previous survey, in 2009 Q4 the dynamics of the housing loan portfolio deterioration remained practically unchanged mainly as a result of restructuring efforts, as personal interviews suggest (for more details see *Special issue – Restructuring of loans in the household segment)*. Deterioration in the default rate was indicated by nearly net 10 per cent of the respondents weighted by market share in the household segment. By contrast, a higher proportion of banks (net 27 per cent) indicated that the loss given default had deteriorated. Some of them reported significant, i.e. even higher than 5 per cent deterioration as compared to consumer loans. In terms of consumer credit, substantial deterioration was perceived only in the case of home equity loans, where a net 20 per cent of banks indicated deterioration in both the default rate and loss given default. Looking ahead, although to a minimum extent the proportion of banks which still expect portfolio deterioration in housing loans is lower, and fewer banks expect further deterioration in the case of home equity loans.

2 CORPORATE LENDING MARKET[4]

As in the previous two quarters, for 2009 Q4 banks indicated nearly unchanged credit availability in the corporate lending market compared to the previous quarter. Over the next half-year period, the majority of banks envisage an increase in their willingness to lend (nearly net 70 per cent of respondents indicated an increase in the availability of loans for small and micro-sized enterprises and 60 per cent for large and medium-sized companies). The reduced credit availability in the previous quarter continued to be coupled with tightening in credit standards and conditions, although to a lesser degree and in a more concentrated manner than in the previous survey. Based on the response ratio, there are and will be major movements in price-related factors. Many respondents indicated tightening in the premium on risky clients. In addition, easing in the spread over the cost of funds has appeared among the answers[5], and a higher proportion of banks expect further easing over the next six months.

Chart 2

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



Source: MNB.

As opposed to the results of the previous survey, in this survey the liquidity position already contributed to easing instead of tightening, according to a net 23 per cent of banks by market share. Furthermore, market share objectives contributed to loosening as well, in a novel development. Industry-specific problems and a decline in risk tolerance contributed to further tightening, and a smaller group of respondents expects these factors to contribute to tightening over the next half year as well. In summary, banks are willing to and appear able to boost lending, but their risk aversion is very high at the moment. However, with an eye to market share goals banks are entering into competition for creditworthy clients by reducing pricing conditions.

In 2009, from quarter to quarter a wide range of banks perceived an increase in demand for short-term business credits. However, according to banks' responses this upward trend broke off in the last quarter and some banks even perceived a decline in demand for such loans, mainly in the case of large companies (23.7 per cent in net terms, weighted by market share). In respect of long-term loans, perceived demand continued to fall in this quarter as well as in other quarters since the crisis started (with a net 43.17 per cent indicating a decline, weighted by market share). In respect of loan denomination, demand for HUF-denominated loans increased, while banks perceived a large decline in demand for FX-denominated loans

[4] Starting from the first survey in 2009, 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 by large and medium-sized enterprises, as well as small and micro-sized enterprises. We continue to use the original classification for commercial real estate loans.

[5] Net 26 per cent of banks indicated at the large and medium-sized enterprises, but none of the respondents at the small and micro-sized enterprises.

(weighted by market share, a net 51.5 per cent indicated a decline). For the next half-year period, the majority of banks expect a renewed increase in demand in aggregate terms, which is expected to be reflected in the HUF-denominated loans, but mainly for short-term loans and from large and medium-sized companies[6].

As was the case in recent surveys, respondents reported deterioration in portfolio quality in 2009 Q4 as well. The expectation is also the same for the next half-year period, except for loss given default in the case of micro and small enterprises (Chart 37). With regard to specific sectors, almost all banks perceived portfolio deterioration in the real estate and economic services sector, in the hotel and catering sector as well as in construction, as usual since the crisis began. It is new that the proportion of those which perceived portfolio deterioration in manufacturing and financial services sectors declined. Banks forecast similar trends in portfolio quality for the next half year as well.

With regard to the commercial real estate loans, a net 46 per cent of participants reported a decline in credit availability (willingness to lend), while the other respondents indicated unchanged willingness to lend. Reduced credit availability continued to be coupled with tightening in lending conditions and a perceived decline in demand (Chart 36). Restraining and tightening appeared explicitly in all segments of commercial real estate lending (residential, retail, industrial, offices) as well, and – in contrast with the expectations indicated in the previous survey – this tightening trend is intended to be maintained. Respondents reported that the portfolio quality of commercial real estate loans deteriorated further in 2009 Q4 (in net terms, nearly 75% of the respondents expressed this opinion, around the same proportion as in the previous quarter), and many banks (nearly net 50 per cent by market share) expect further deterioration in portfolio quality. According to banks' expectations, the only exception is the offices segment, where no further deterioration is expected over the next half year (Chart 39).

3 LENDING TO MUNICIPALITIES[7]

Contrary to the projections of the previous two surveys, which had anticipated a decline in willingness to lend for 2009 H2, credit availability increased in the municipal lending segment. In net terms, 26 per cent of the respondents reported an increase in the availability of loans, in which market share objectives and the change in competitive position played and will continue to play a decisive role in 2010 H1 as well. With regard to demand, nearly 40 per cent of banks perceived an increase, while all banks expect an increase in the next half year, mainly as a result of the change in the economic policy related to municipalities and in clients' financing requirement of current expenditures and propensity to invest, as well as on account of required own funds for EU subsidies. Our survey suggests that banks' comprehensive tightening of lending standards and conditions in 2009 Q3 ceased almost completely. Based on the forward-looking responses, it seems that in the next half year lending conditions will remain at the current level which was reached in 2009 Q3. Finally, no loan portfolio deterioration took place in this quarter, and based on the responses banks do not expect any further deterioration over the next half year either (Chart 42).

[6] For long-term loans demand remains subdued based on banks' expectations

[7] 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 which apply.

Chart 3

Willingness to lend and credit standards/credit conditions in municipal financing

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

Source: MNB.

4 SPECIAL ISSUE – RESTRUCTURING OF LOANS IN THE HOUSEHOLD SEGMENT

Amongst other things, banks may respond to economic downturn and deterioration in portfolio quality by strengthening internal debt management. Restructuring problematic or potentially problematic loans may reduce the losses produced on the existing portfolio by moving some of the debt burden to a prospectively more benign period of the business cycle. Based on available data, in 2009, as a consequence of the marked portfolio deterioration, domestic banks made significant efforts to restructure loans via sophisticated programmes. We intended to survey the applied practices and preferences using an *ad hoc* questionnaire for the household lending segment[8]. For the sake of uniform assessment, restructuring was defined as follows: restructuring means that, as a result of the client's existing or expected future financial problems or deterioration in creditworthiness, the financial institution and the client amend, by mutual agreement, the contract related to the risk assumption.

Based on our survey, regarding restructuring, diversity is observed both in terms of applied methods and willingness. A strategic difference between banks is that while some of them only react expressly to the demand resulting from a payment problem, other banks approach restructuring in an explicitly supply-driven manner, preventing potential payment problems. As a proportion of loans outstanding in a given segment, restructuring was the highest in vehicle financing loans, where – based on market share – 55 per cent of the respondents indicated restructuring of around 5–10 per cent of the outstanding amount, while 15 per cent reported restructured loans above 20 per cent. Next in the imaginary ranking is the home equity loan, where, based on market share, one third of banks indicated restructuring in the 5–10 per cent band, and another 10 per cent indicated restructuring in the 10–20 per cent band compared to the relevant outstanding amount of loans (Chart 2). Finally, the relatively lowest restructuring within outstanding loans took place in housing loans, where – based on market share – 60 per cent of respondents indicated that the proportion of restructured loans was in the 0–2 per cent band and 27 per cent of them indicated that the proportion of restructured loans was in the 2–5 per cent band compared to total housing loans outstanding amount. At the surveyed banks the restructuring has been implemented via own flexible programmes, while the state-backed restructuring programme has been slightly used due to its strict conditions.

The survey suggests that banks have become increasingly willing to carry out restructuring since the onset of the crisis. At the same time, however, it can also be concluded that, keeping risk management principles in mind, banks have tended to restructure, where it was considered to be a sustainable solution to the solvency problems. This is indicated by the fact that in the case of mortgage loans on aggregate level, banks encountered a higher number of restructuring requests by clients, than

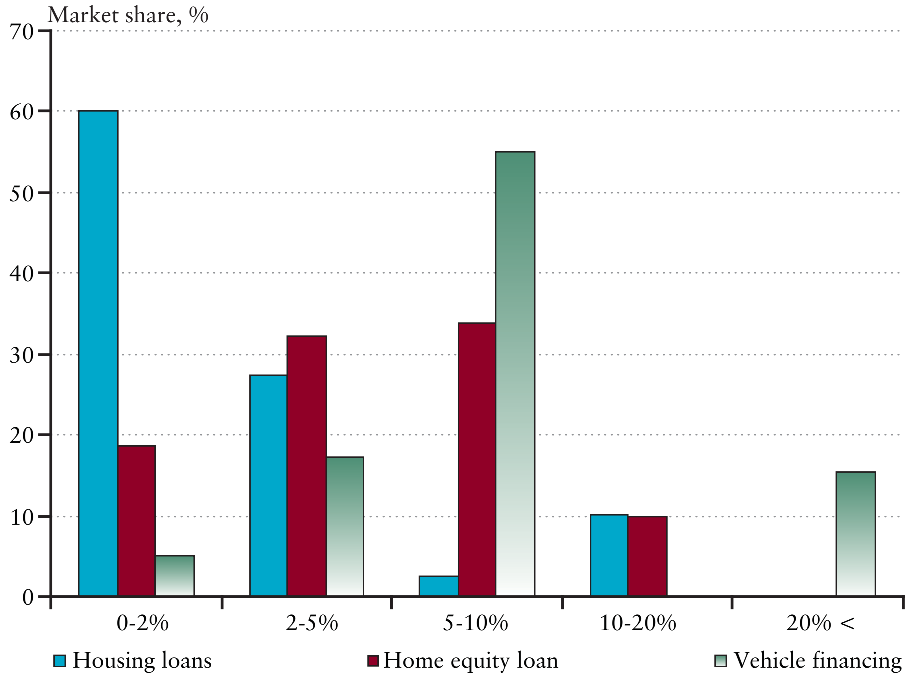
[8] The published survey deals with three distinct segments of the household market: housing loans, home equity loans and vehicle financing loans. These distinct loan products account for a significant portion of lending to the household sector. On the other hand, these types of loans represent the greatest share of households' debt service burden. The survey also examined unsecured lending, which is positioned somewhere between home equity loans and vehicle financing loans in terms of its main characteristics (e.g. the ratio of restructured loans and demand for loan restructuring).

was eventually restructured in 2009 H2. In the vehicle financing segment, presumably as a result of a preventive supply-driven restructuring policy, there was a better match between supply and demand (the ratio of restructuring carried out is closer to demand for restructuring). This phenomenon is also reflected in the fact that, based on banks' and leasing firms' responses, in aggregate terms the demand stimulating effect of market participants represented a significant, 16 per cent weight within demand factors (Chart 47), making demand stimulating effect of market participants the third most dominant factor of demand, following the income decline and exchange rate movement factors in the vehicle financing segment. The difference between mortgage and vehicle financing loans is that in the case of the former the third most important factor of demand is job loss, following the decline in income and exchange rate movement factors. Well-known demand factors (unemployment, exchange rate and declines in income) made a two-thirds contribution to the willingness underlying the restructuring actually carried out in the past half year, which meant deterioration in clients' creditworthiness from the point of view of banks. Based on banks' responses, their interests stemming from permanent or temporary portfolio improvements, and economic prospects made a one-third contribution to their restructuring willingness. With regard to the means of restructuring, priorities are broadly identical in the case of housing and home equity loans. In both segments, the three most popular tools in order of importance are extension of maturity, temporary complete allowance of the interest burdens and allowance in charged credit fees. However, it is worth emphasising that banks expect debt servicing in the provisional period as well, i.e. usually they do not use complete interest and principal repayment moratoriums simultaneously, and restructurings typically do not mean a final reduction of clients' burdens, but a rescheduling of payment obligations based on an expected future upturn in order to maintain solvency. The difference between other segments and vehicle financing is that in the latter reducing the charged fees represent a larger weight, also including the costs entailed by the restructuring. Banks do not plan any material change in the preferences of tools in the next half year.

With regard to expectations, in the case of housing loans a significant number of banks expect a decline in demand, with a stagnating willingness to restructure. Compared to the previous half year, in connection with restructuring a great proportion of market participants expect a decline in demand and banks' willingness in the segment of home equity loans. Compared to the other two important segments and the previous half year, a more extensive increase in demand and willingness to restructure is expected by banks and leasing firms in vehicle financing (Chart 49).

Chart 4

Dispersion of banks in the restructured outstanding amount of loans to the total outstanding amount in the relevant segment



Source: MNB.

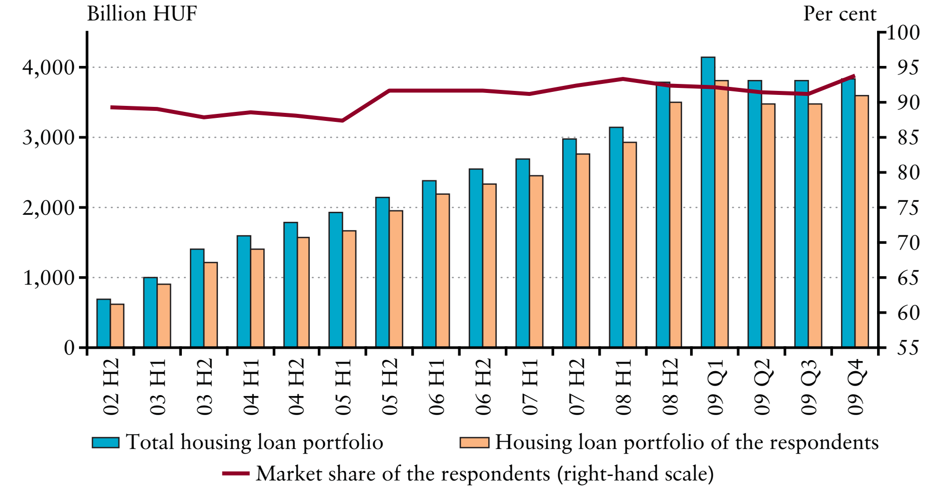
In terms of limits to supply, the other side of the coin is the probability of redefault in the case of restructured loans. Chart 50 clearly illustrates that in the case of vehicle loans 40 per cent of market participants based on market share experienced a delinquency ratio of 20–30 per cent within the restructured loans of the vehicle financing loans. In the case of housing loans the proportion of banks that could keep relapsing within 10 per cent was one third; hence the vast majority (90 per cent) of the housing loans market was able to keep the 30+ delinquency ratio within 20 per cent to the outstanding amount of restructured loans. Overall, in all the three relevant segments the majority (40 and 50 per cent weighted by market share) falls within the 10–20 per cent category as a proportion of the relevant restructured outstanding amount.

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

LENDING TO HOUSEHOLDS

Chart 5

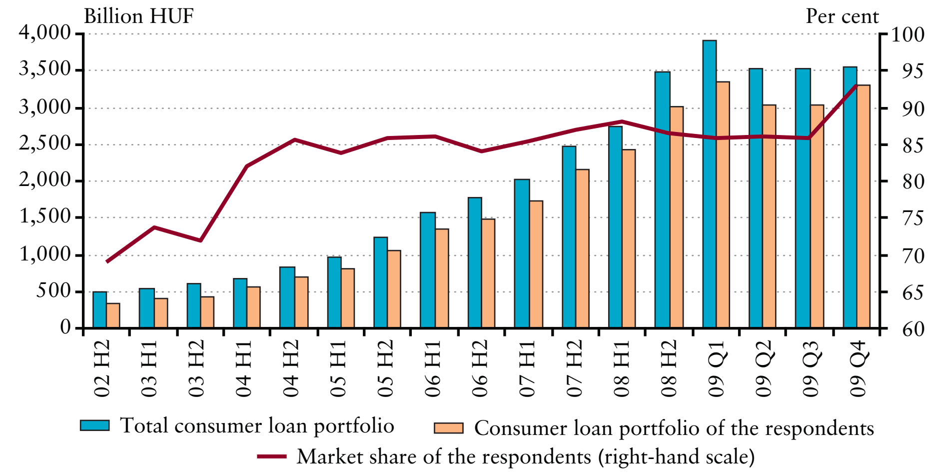
Outstanding amount of housing loans and the market share of banks completing the questionnaire



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 6

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



Note: The number and scope of banks varied during the half-year periods under review. Chart 6 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 7

Willingness of banks to extend housing loans and consumer loans

(net percentage balance of respondents reporting increased/decreased willingness to lend)

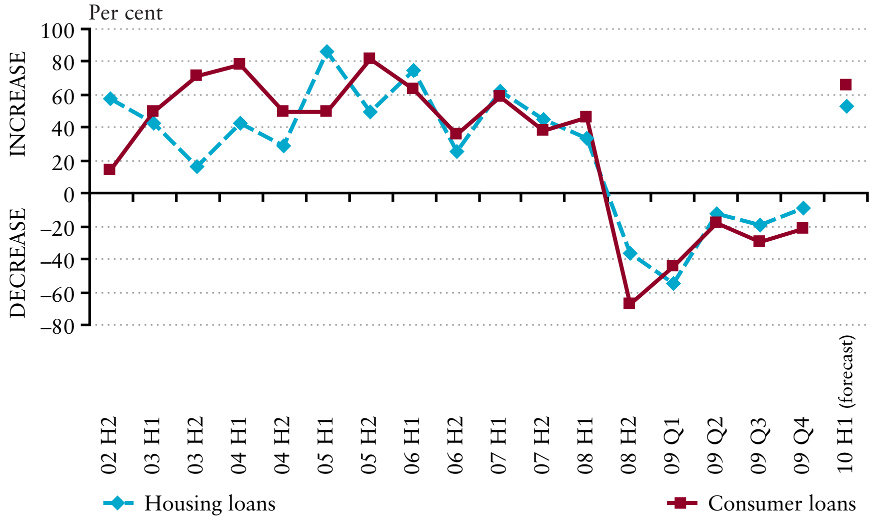


Chart 8

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

(net percentage balance of respondents tightening/easing credit standards)

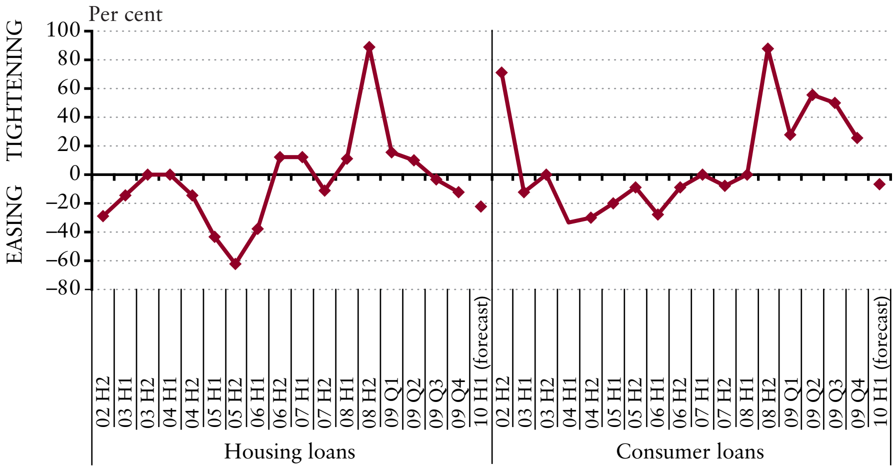


Chart 9

Credit conditions in the housing loan market

(net percentage balance of respondents tightening/easing credit conditions)

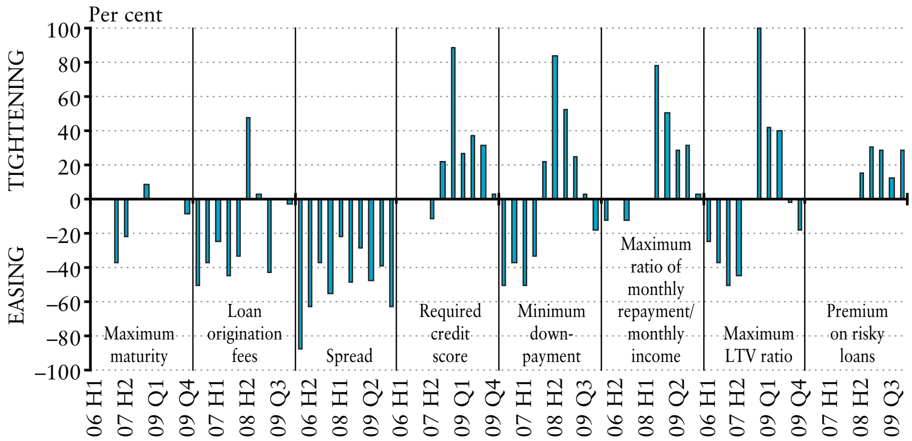


Chart 10

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

(net percentage balance of banks indicating a contribution of individual factors to tightening or easing)

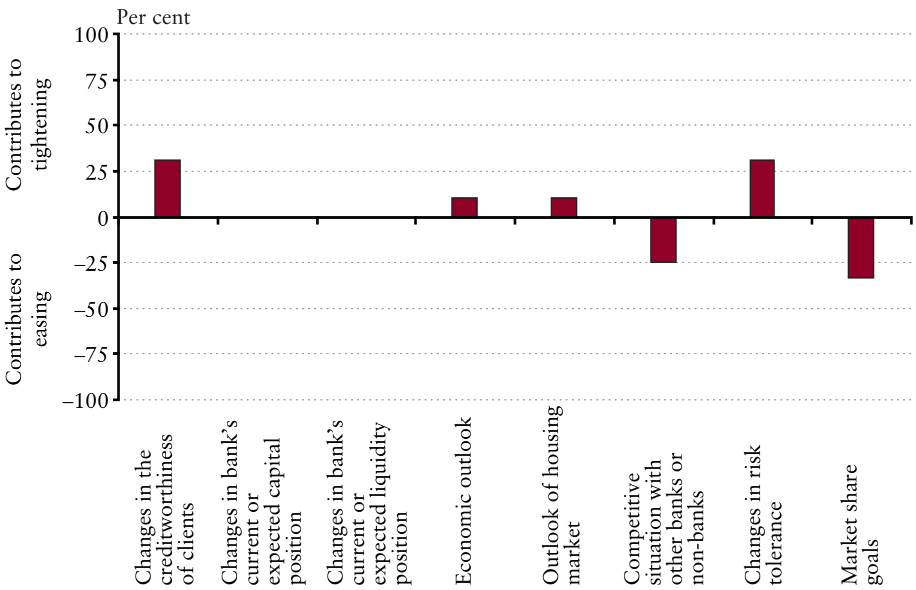


Chart 11

Demand for housing loans

(net percentage balance of respondents reporting increase/decrease in demand)

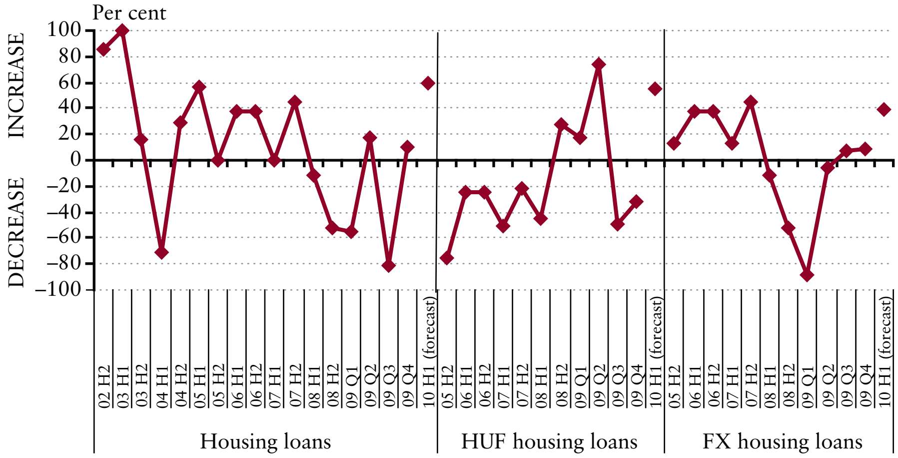


Chart 12

Credit conditions in the consumer loan market

(net percentage balance of respondents tightening/easing credit conditions)

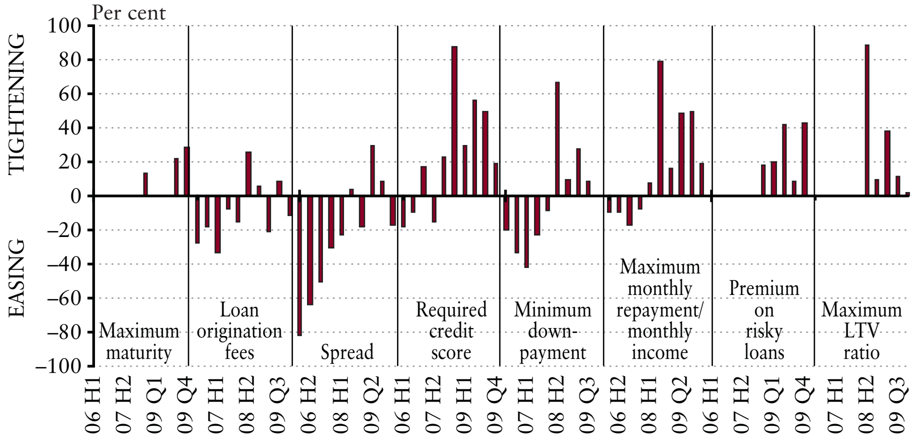


Chart 13

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

(net percentage balance of banks indicating a contribution of individual factors to tightening or easing)

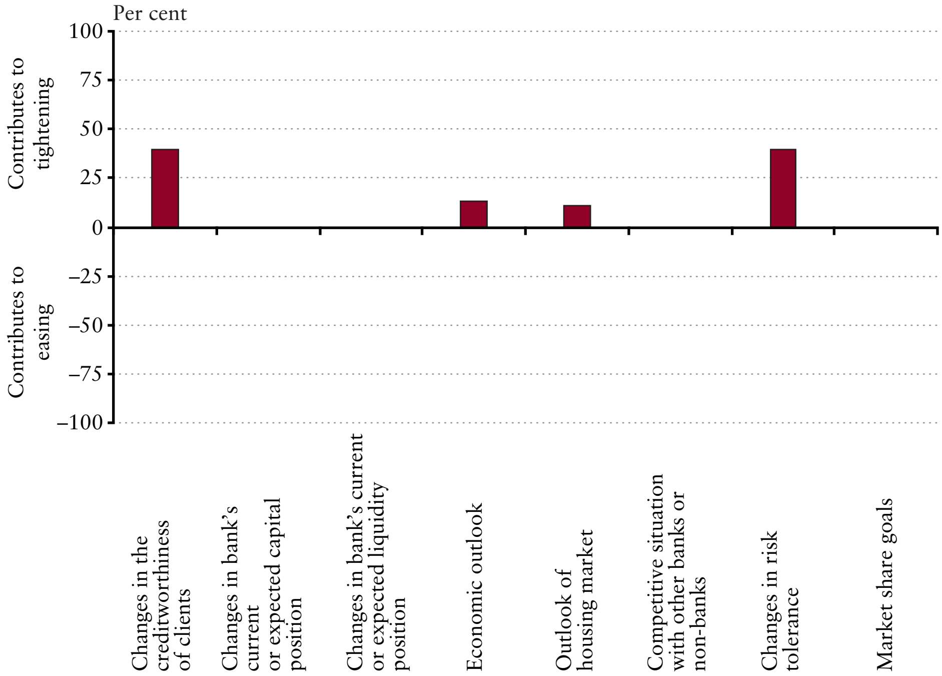


Chart 14

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

(net ratio of banks providing the relevant answer)

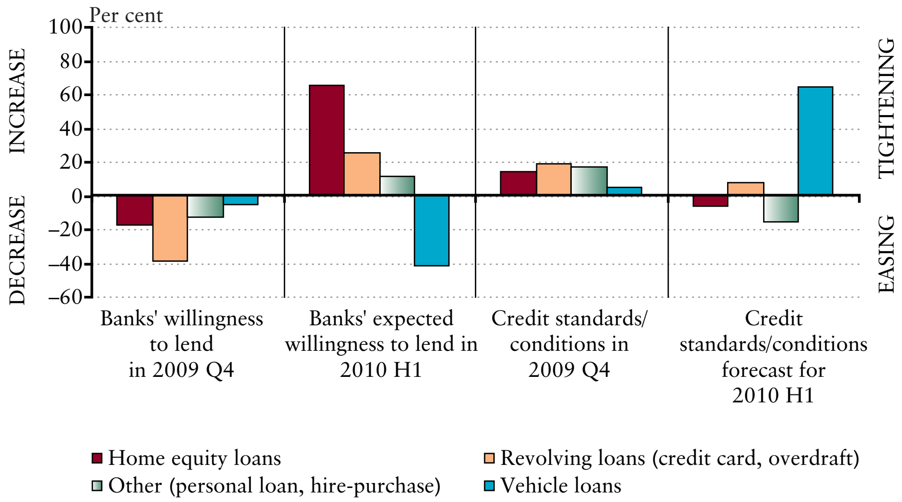


Chart 15

Credit conditions for different consumer loan products

(net percentage balance of respondents tightening/easing credit conditions)

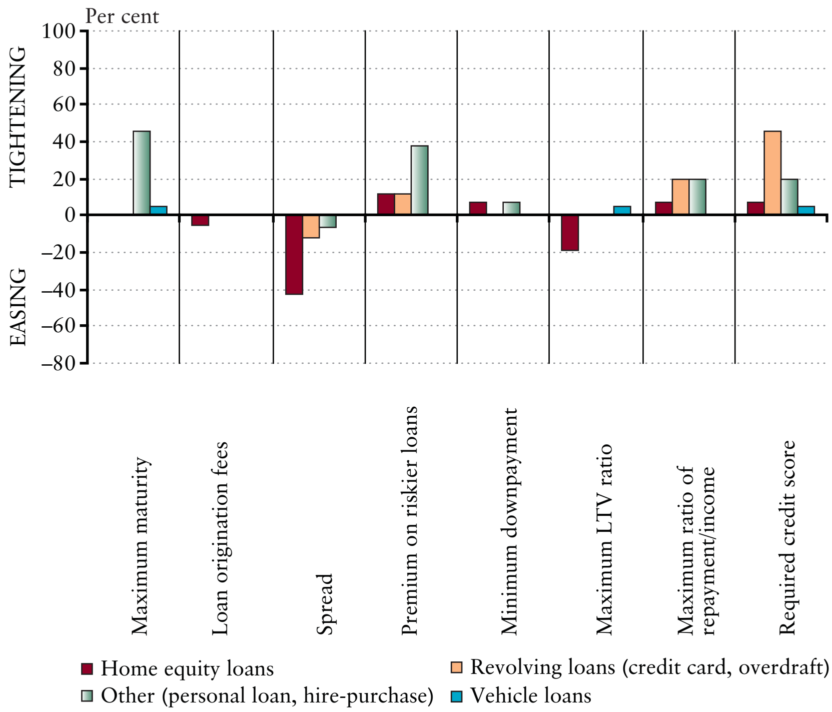


Chart 16

Demand for consumer loans

(net percentage balance of respondents reporting increase/decrease in demand)

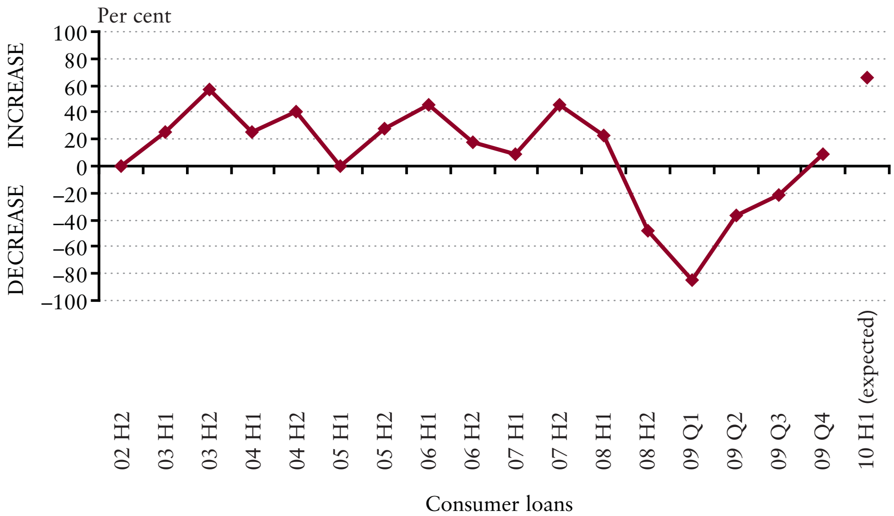


Chart 17

Demand for different consumer loan products

(ratio of banks providing the relevant answer)

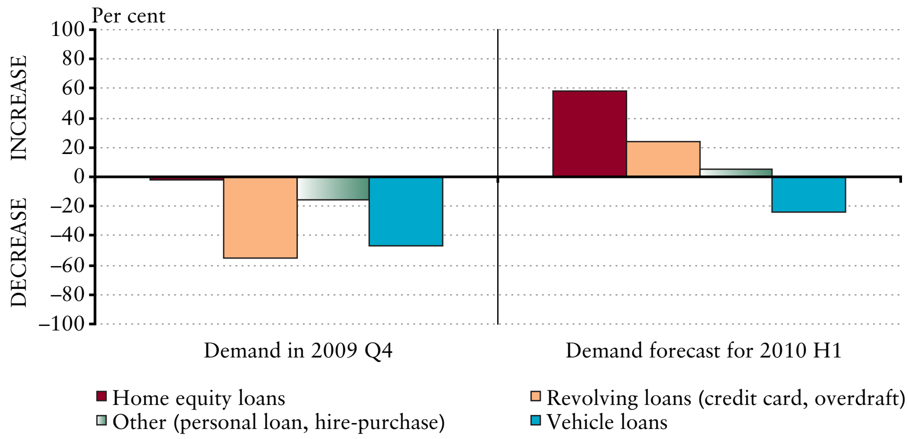
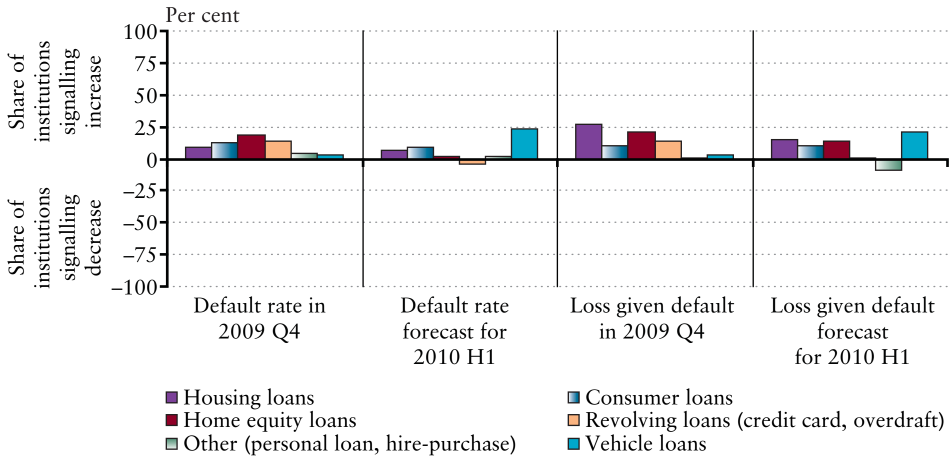


Chart 18

Default rate of loans to households and loss given default

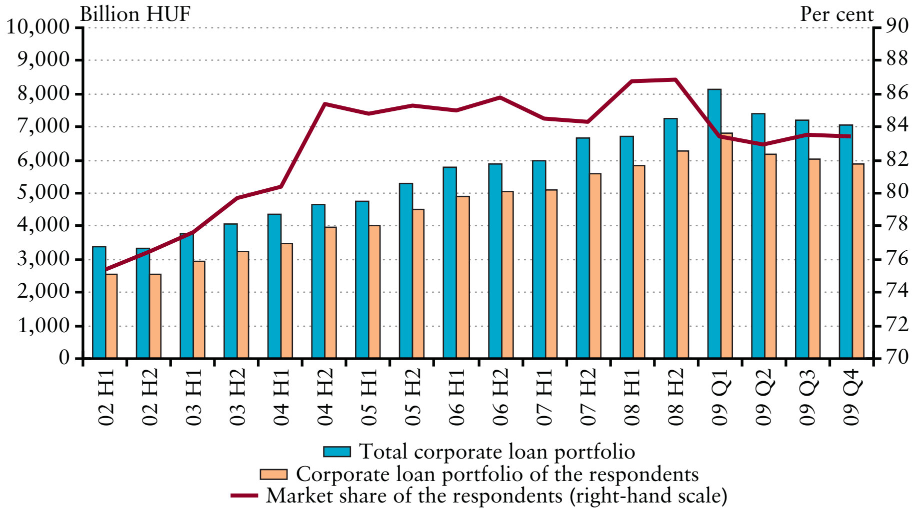
(net percentage balance of banks reporting increase or decrease)



LENDING TO THE CORPORATE SECTOR

Chart 19

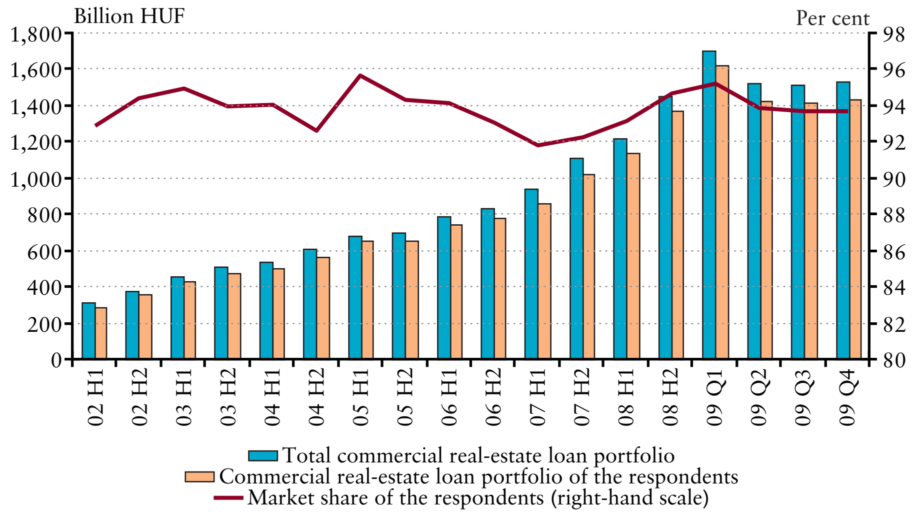
Total corporate loan portfolio and market share of the banks completing the corporate questionnaire



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

Chart 20

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



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

Chart 21

Willingness of banks to extend corporate loans

(net percentage balance of respondents reporting increased/decreased willingness to lend)

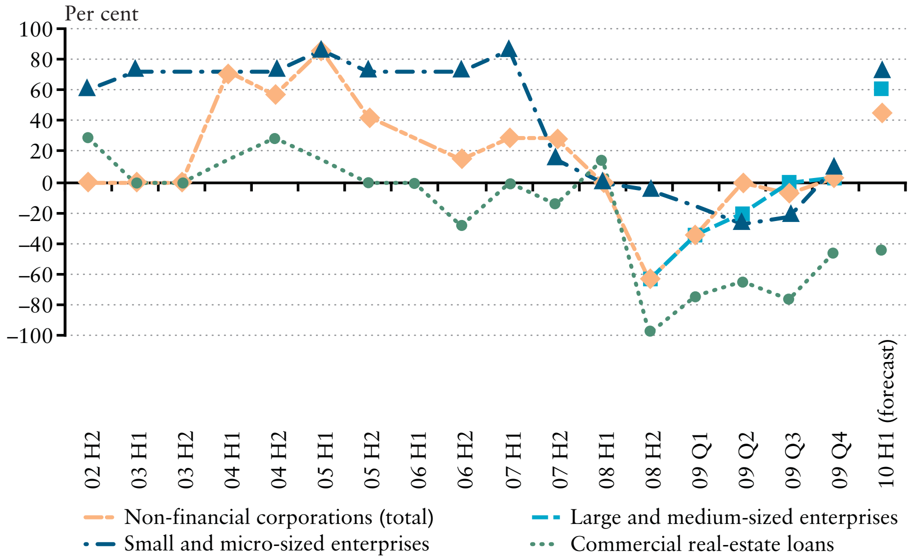


Chart 22

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

(net percentage balance of respondents reporting tightening/easing)

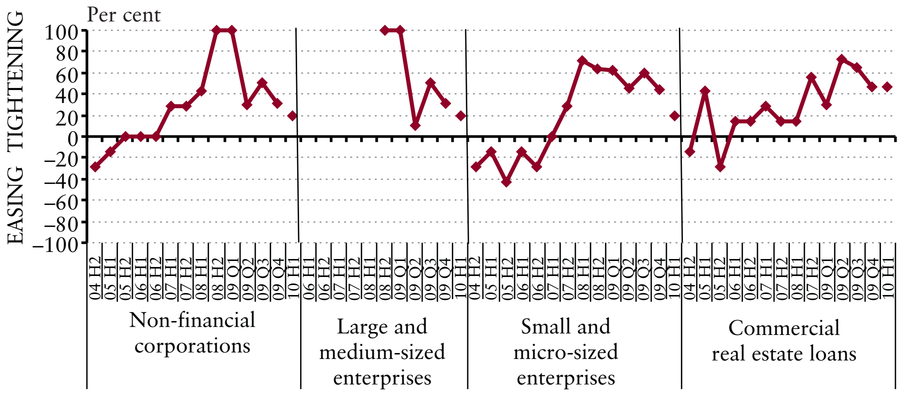


Chart 23

Credit conditions in the corporate segment

(ratio of banks providing the relevant answer)

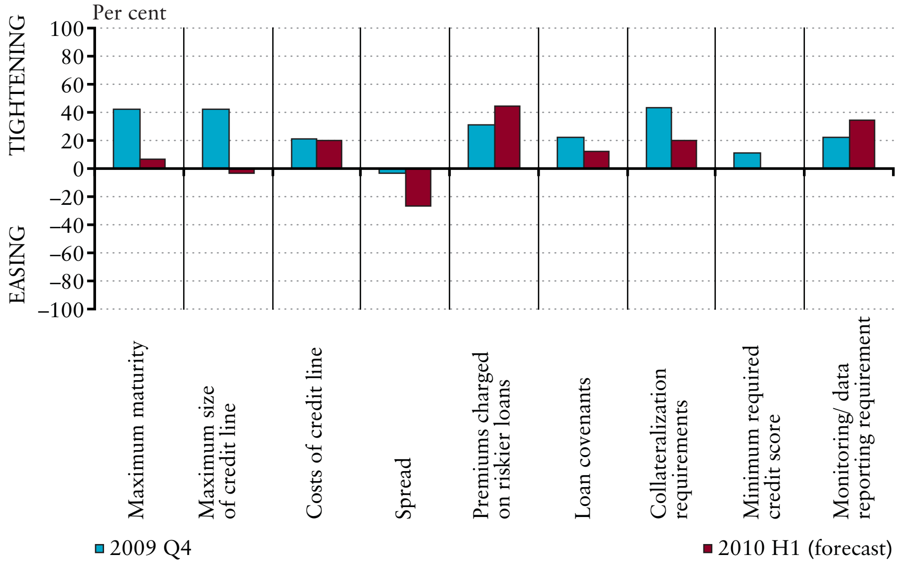


Chart 24

Maximum maturities by corporate category

(net percentage balance of respondents reporting tightening/easing)

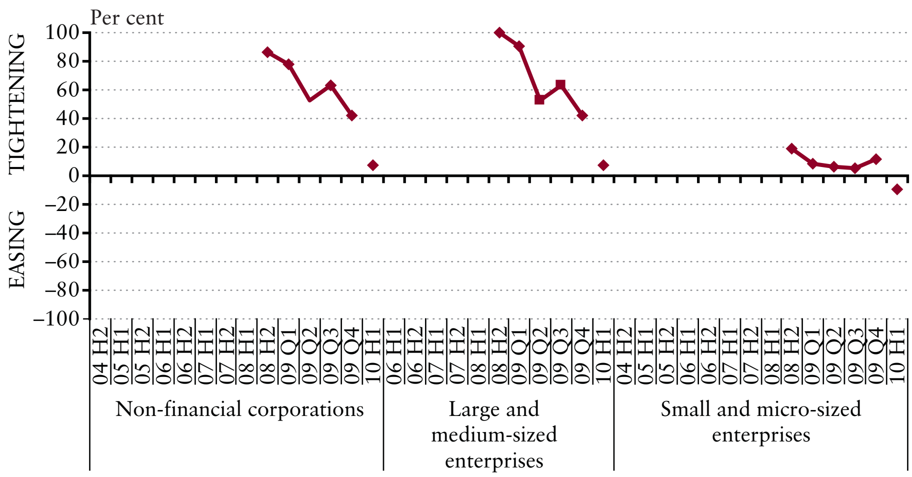


Chart 25

Maximum size of loans/credit lines by corporate category

(net percentage balance of respondents reporting tightening/easing)

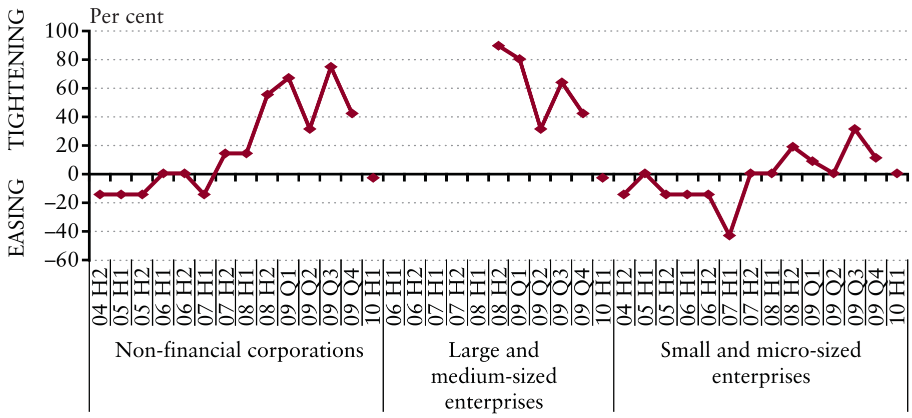


Chart 26

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

(net percentage balance of respondents reporting tightening/easing)

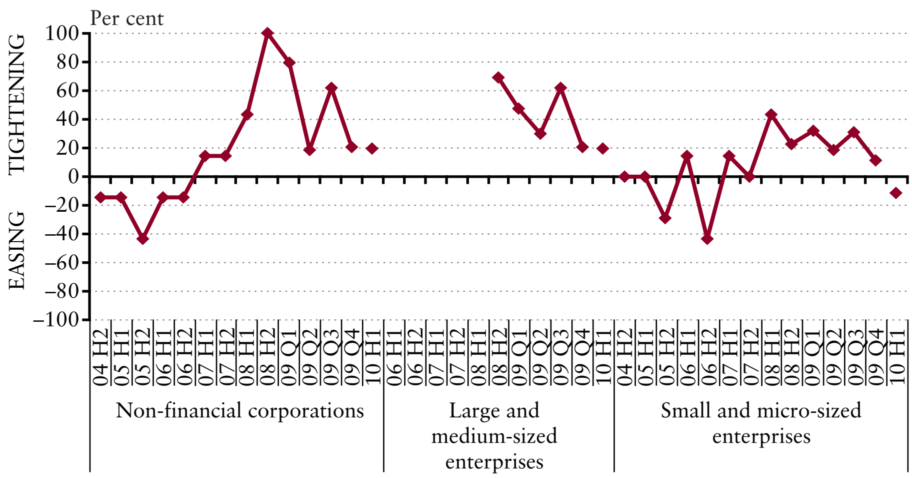


Chart 27

Spread between lending rates and cost of funds by corporate category

(net percentage balance of respondents reporting tightening/easing)

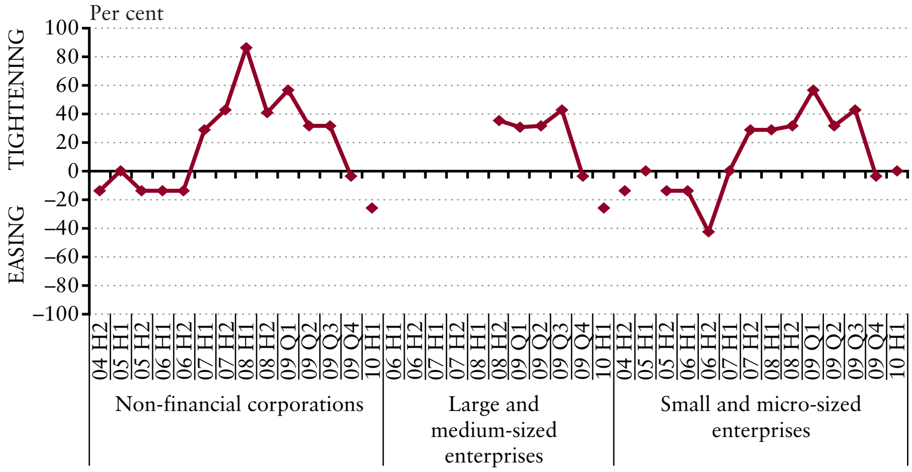


Chart 28

Premium on higher risk loans by corporate sector

(net percentage balance of respondents reporting tightening/easing)

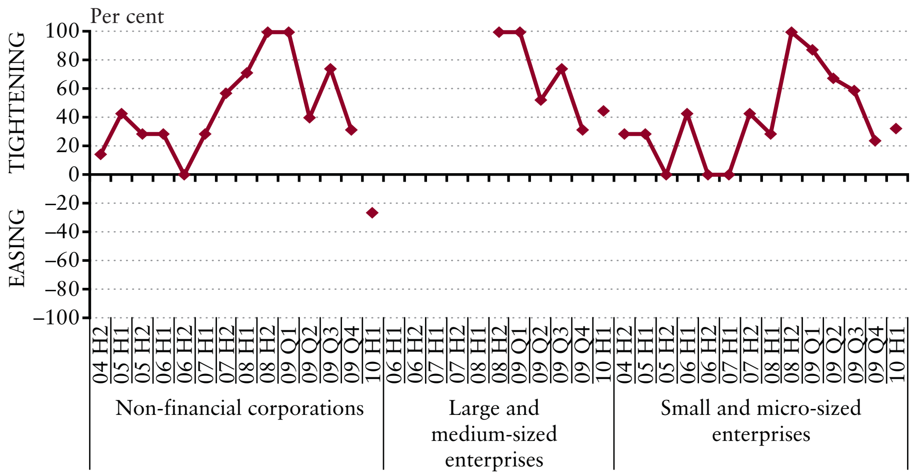


Chart 29

Covenant requirements by corporate category

(net percentage balance of respondents reporting tightening/easing)

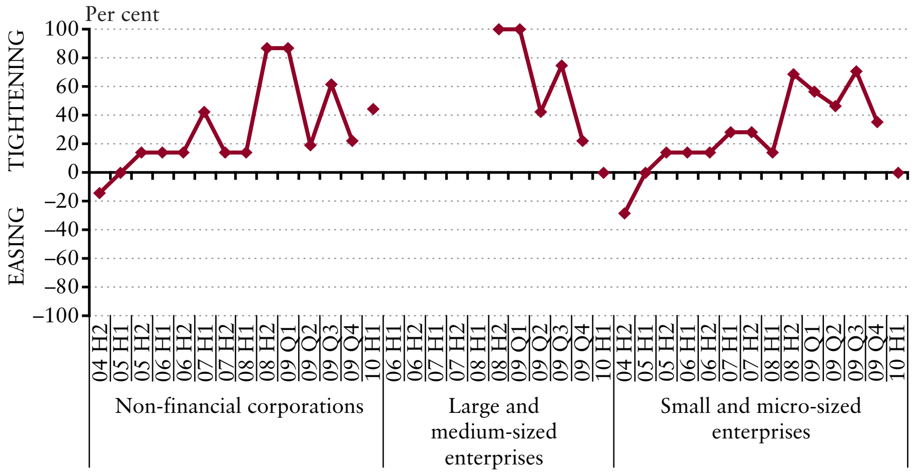


Chart 30

Collateralisation requirements by corporate category

(net percentage balance of respondents reporting tightening/easing)

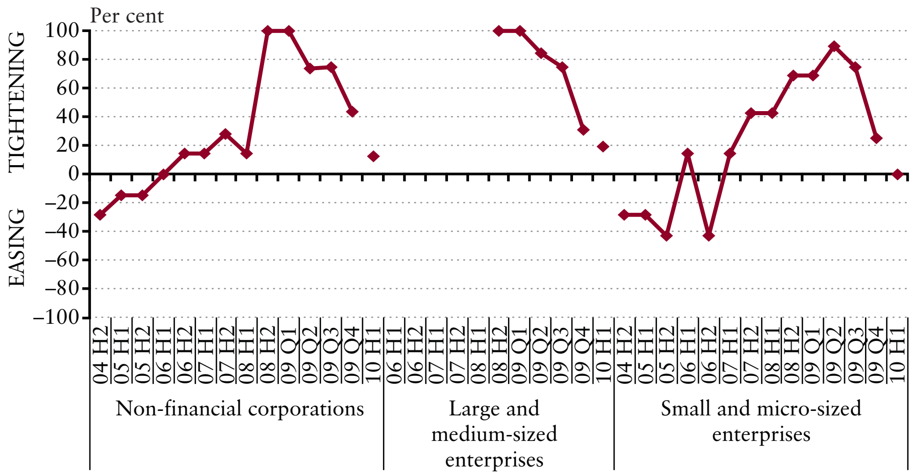


Chart 31

Minimum required credit score by corporate category

(net percentage balance of respondents reporting tightening/easing)

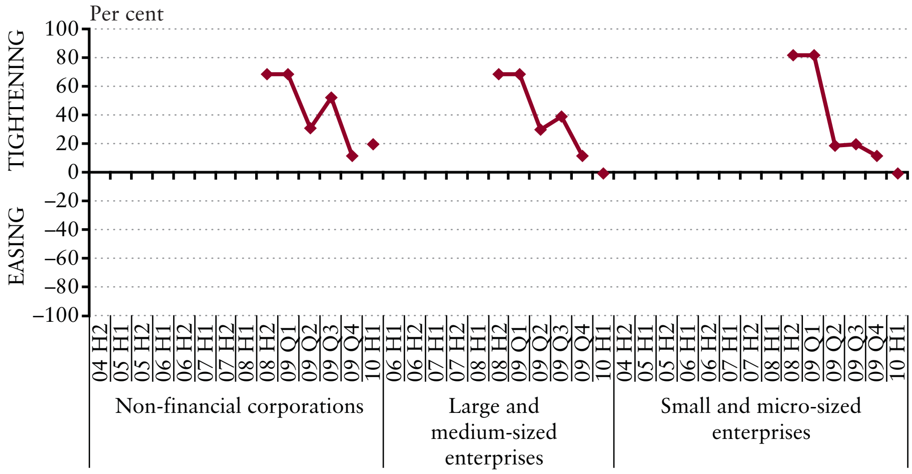


Chart 32

Monitoring/reporting requirements by corporate category

(net percentage balance of respondents reporting tightening/easing)

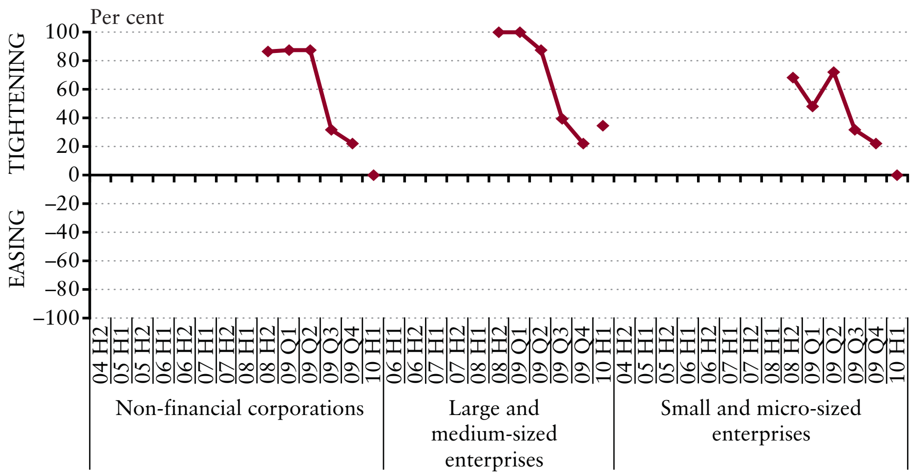


Chart 33

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

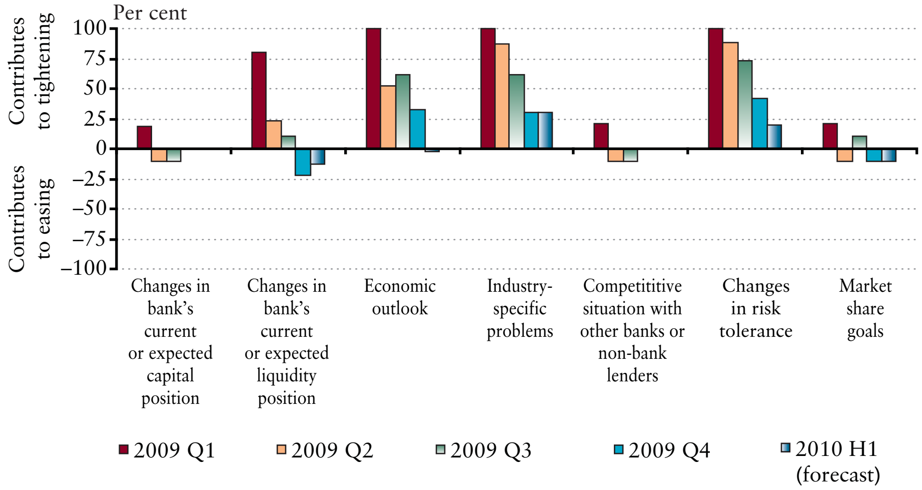


Chart 34

Loan demand by corporate size

(net percentage balance of respondents reporting increase/decrease in demand)

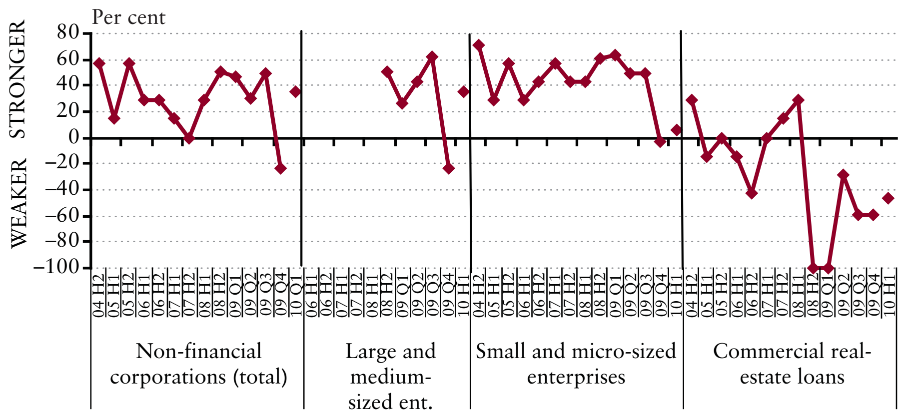


Chart 35

Changes in loan portfolio quality by sector

(net percentage balance of respondents reporting improvement/deterioration)

Chart 36

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

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

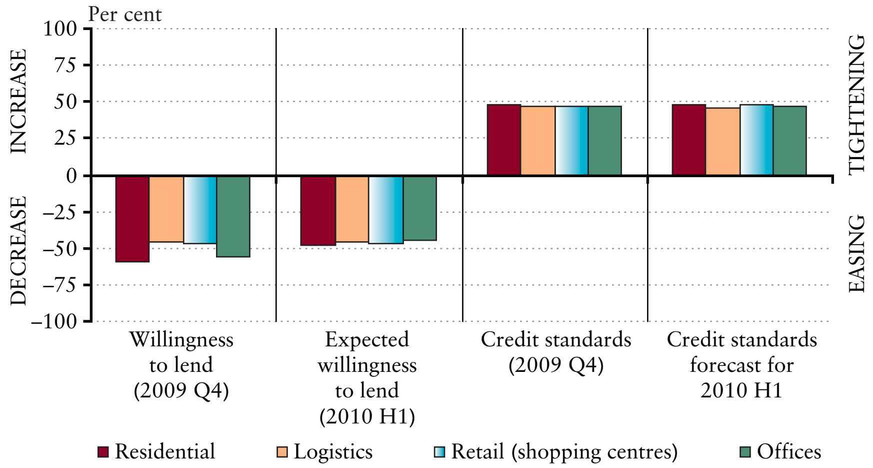


Chart 37

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

(net percentage balance of respondents reporting an increase/decrease in demand)

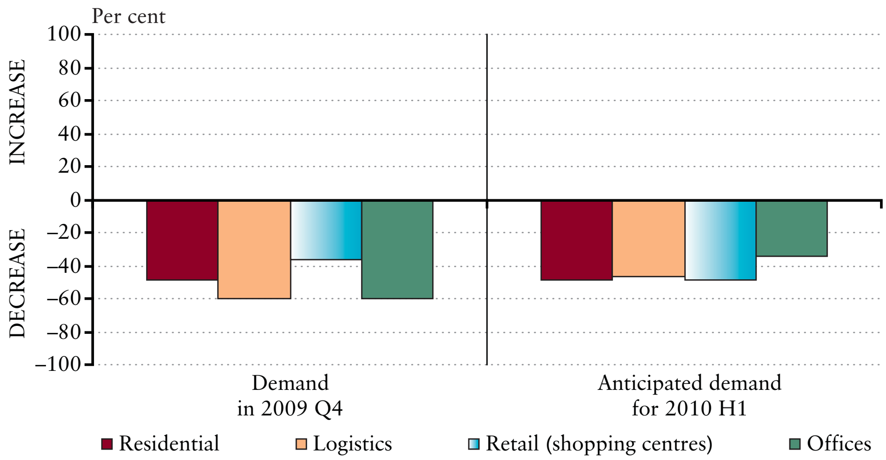


Chart 38

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)

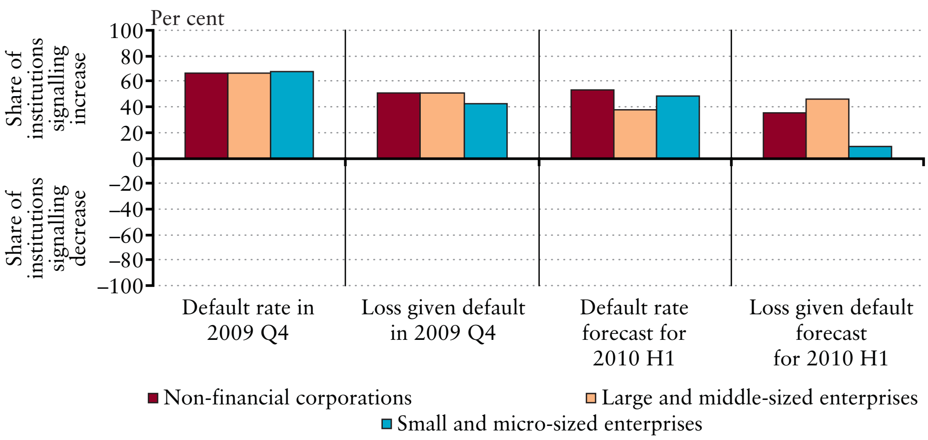
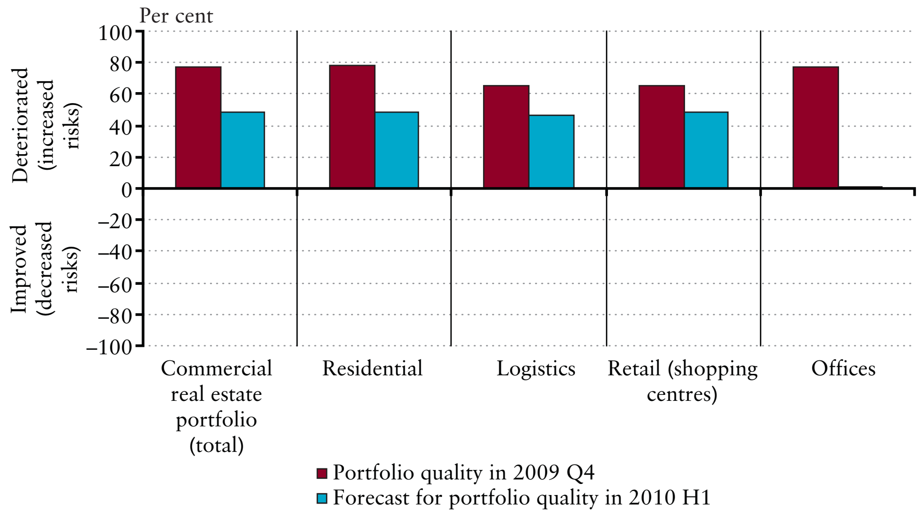


Chart 39

Changes in the quality of the commercial real estate loan portfolio

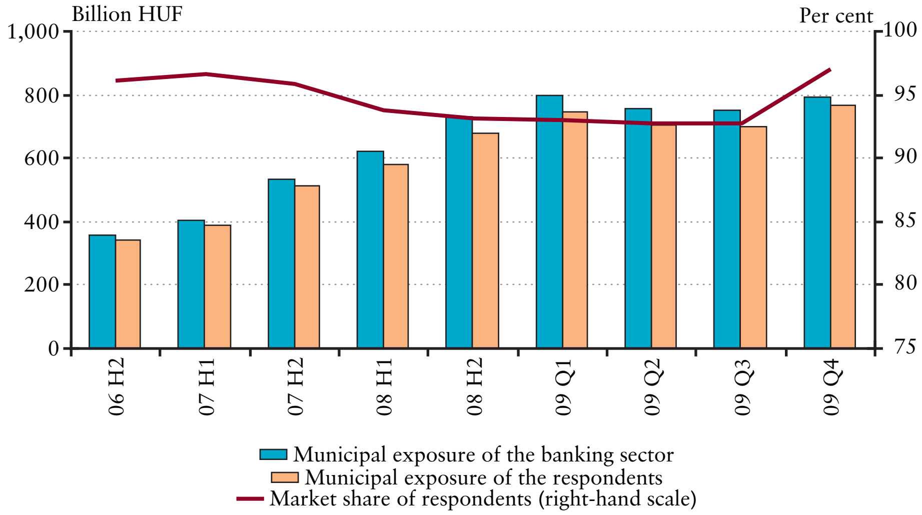
(net percentage balance of respondents reporting improvement/deterioration)



LENDING TO MUNICIPALITIES

Chart 40

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 41

Willingness to lend and credit standards/credit conditions in lending to municipalities

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

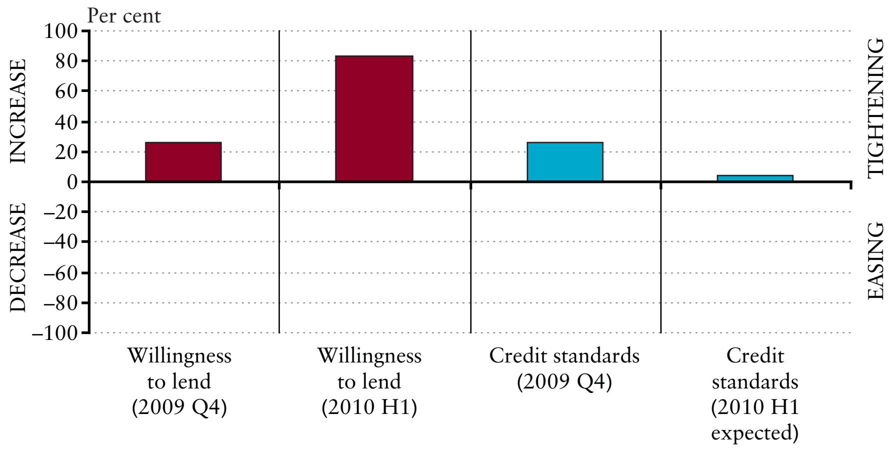


Chart 42

Demand for loans and portfolio quality in lending to municipalities

(net percentage balance of respondents reporting an increase/decrease and deterioration/improvement)

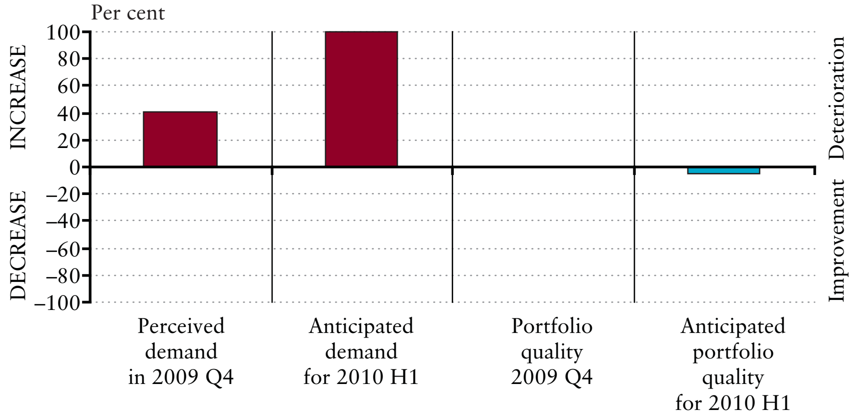
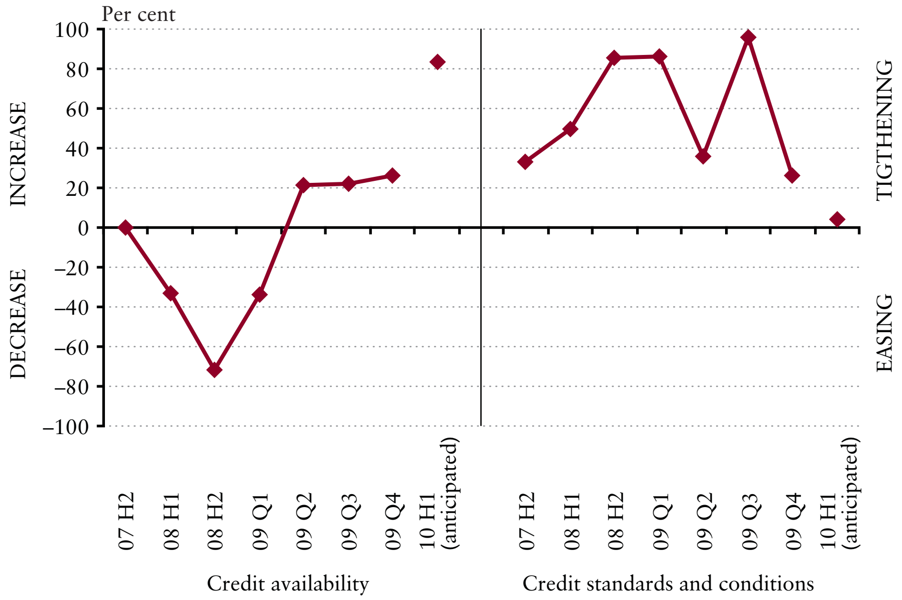


Chart 43

Willingness to lend and credit standard in lending to municipalities since 2007 H2



SPECIAL ISSUE – RESTRUCTURING IN THE HOUSEHOLD SEGMENT

Chart 44

Dispersion of banks in the outstanding amount of restructured loans and perceived demand to the total outstanding amount of housing loans at the end of 2009

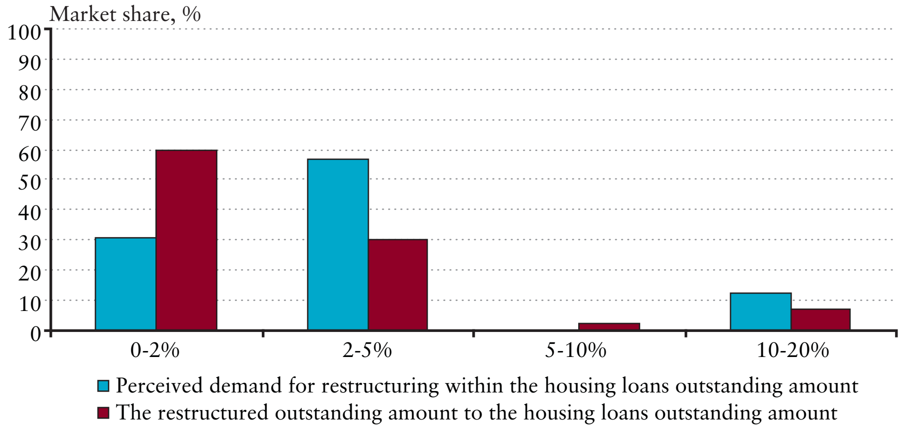


Chart 45

The dispersion of banks in the outstanding amount of restructured loans and perceived demand to the total outstanding amount of home equity loans at the end of 2009

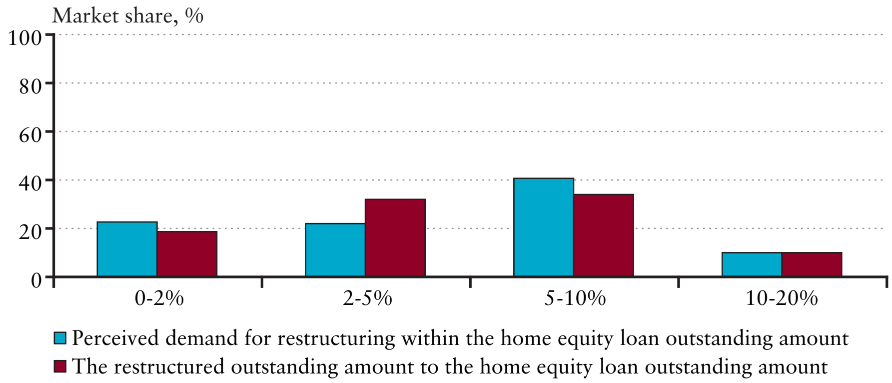


Chart 46

The dispersion of banks in the outstanding amount of restructured loans and perceived demand to the total outstanding amount of vehicle financing loans at the end of 2009

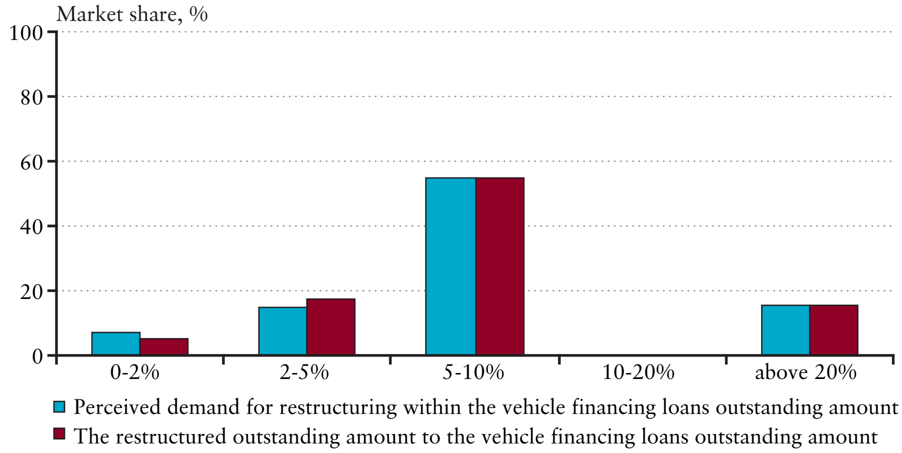


Chart 47

Contributing factors to perceived demand according to banks' answers

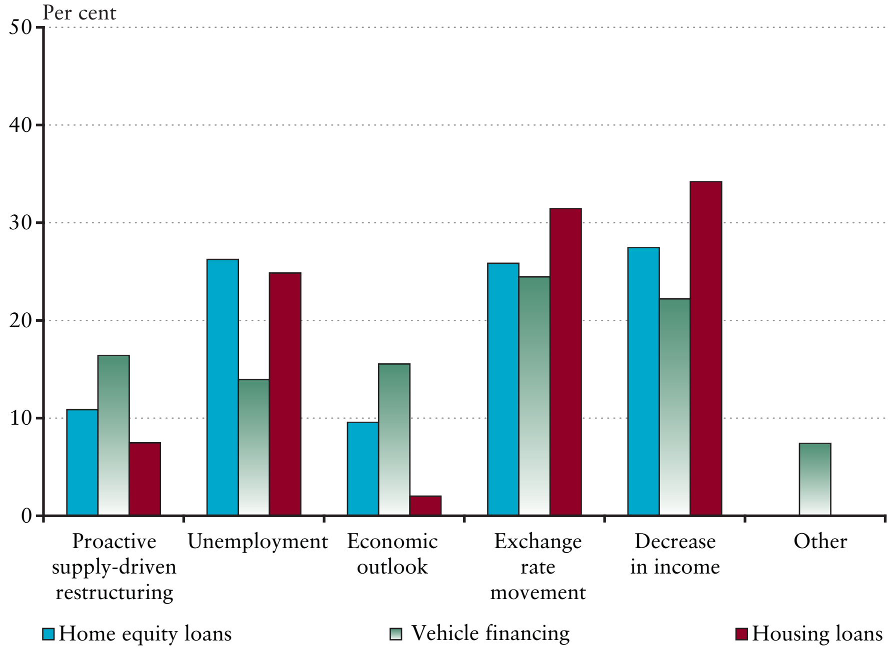


Chart 48

Contributing factors to the willingness to restructure according to banks' answers

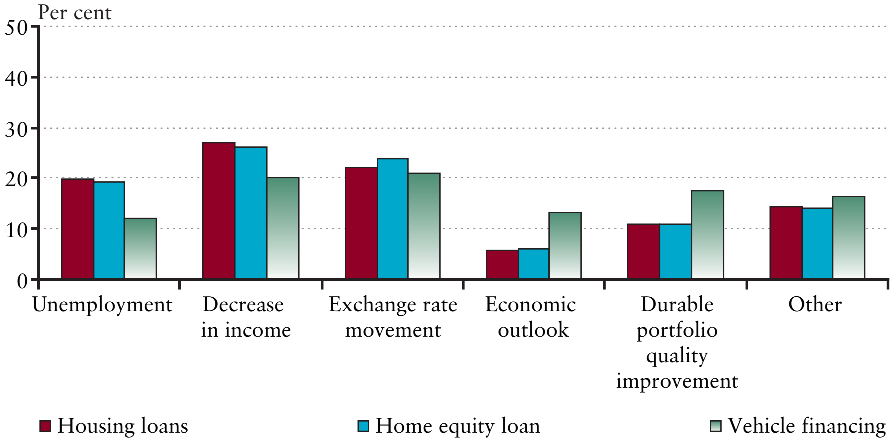


Chart 49

Net balance percentage of anticipated demand and supply for 2010 H1 weighted by market share

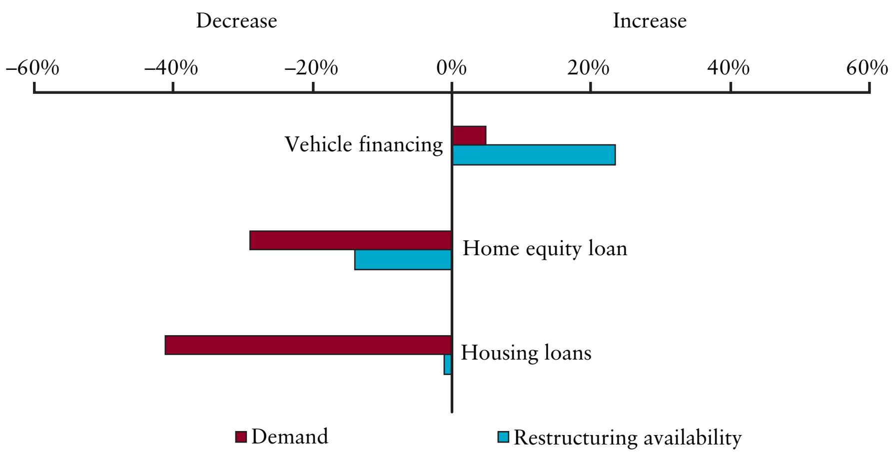
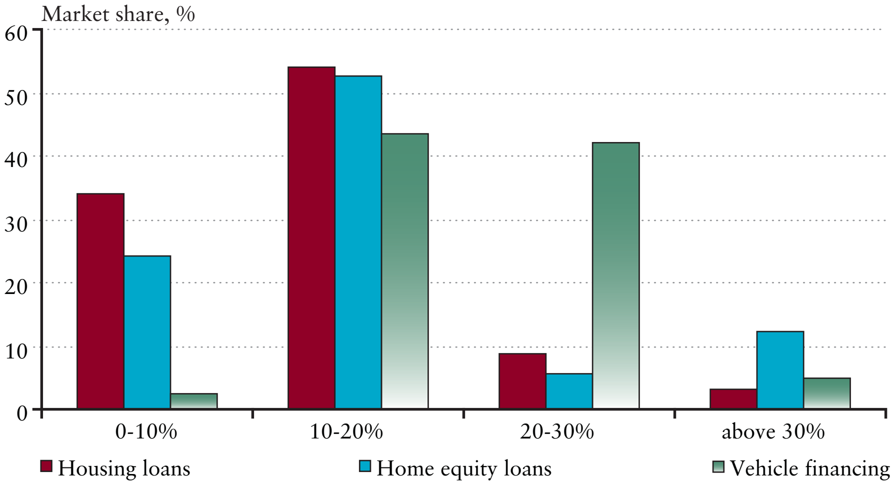


Chart 50

The dispersion of banks by the delinquent restructured loans within restructures in the relevant segment



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 in the credit market. The conclusions of this analysis always present the answers provided by senior bank officers rather than our own expert opinion. The survey covers household, corporate and municipal lending activities.

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 collection system. Leasing companies associated with the banks surveyed gave written answers in response to questions regarding motor vehicle financing.

In the case of the household segment, a total of 14 banks were involved in the interviews. Ten banks responded to questions related to housing loans, while 14 banks and 5 financial enterprises questions on consumer loans.[9] With respect to housing loans, based on data from the end of 2009 Q4, the surveyed institutions accounted for 93.8% of the banking sector,[10] while their percentage share in consumer loans was 92.9%.

The corporate questionnaire was completed by seven banks, with a total market share of 83.5% and 93.6% of the corporate loan and commercial real estate loan markets, respectively.

A total of 6 banks were interviewed on the subject of loans extended to municipalities. Based on data from the end of 2009 Q3, the institutions surveyed covered 92.87% of total municipal exposure by banks.

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. Information about current issues and trends covering the complete bank operation, 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 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 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 perception relative to the quarter preceding the survey, or relative to the current quarter or for the upcoming half year in the case of a forecast.

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

[9] The number and scope of banks varied during the six-month periods under review (e.g. as a result of mergers). Initially, after the survey began (with the exception of December 2003) we 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, while this January we complemented the number of banks with an additional one. As regards 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, and finally in this survey an additional leasing company and a bank were added.

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

- 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 quarter preceding the survey, or relative to the current half year or for the upcoming quarter 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 to be granted (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 conditions and standards, 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) which are available on the homepage of MNB in Excel format). The presentation of the results follows the structure of the relevant questionnaire for all three lending segments (household, corporate and municipal). As a rule, retrospective questions in the questionnaire refer to the previous quarter year (previous half year in the past), (e.g. to 2009 Q4 in January 2010), whereas forward-looking questions contain projections for the upcoming half year (e.g. for 2010 H1 in January 2010), relative to the trends of the previous quarter year (previous half year in the past). Since 2009 the survey has been conducted on a quarterly basis; in future surveys retrospective questions have had a reference period of a quarter, while forward-looking questions have covered a half-year period.

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

Senior loan officer survey on bank lending practices
Summary of the aggregate results of the survey for 2009 Q4

February 2010

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