MAGYAR NEMZETI BANK

SENIOR LOAN OFFICER SURVEY ON BANK LENDING PRACTICES

MAY 2009

Summary of the aggregate results of the survey for 2009 Q1

Summary of the aggregate results of the survey for 2009 Q1

May 2009

Senior loan officer survey on bank lending practices

Summary of the aggregate results of the survey for 2009 Q1

May 2009

Analysis prepared by: Ákos Bakonyi and Dániel Homolya

(Financial Stability)

Published by the Magyar Nemzeti Bank

Publisher in charge: Nóra Hevesi

8–9 Szabadság tér, H-1850 Budapest

www.mnb.hu

HU ISSN 2060-9612 (on-line)

Contents

Summary

In the spring of 2003, the Magyar Nemzeti Bank launched its semi-annual Senior Loan Officer Survey, with the objective of gaining a better understanding of bank lending processes. The latest survey, conducted in April 2009, examined lending to households and corporates, as well as to local authorities. To enable closer monitoring of the qualitative aspects of developments in loan supply, the MNB conduct the survey on a quarterly basis.

In respect of household lending, the survey found that credit availability and households' demand for credit continued to decline in 2009 Q1. The number of banks reporting a further tightening in credit terms, however, was much lower compared with the previous survey. Tightening was mainly reflected in stricter non-price terms (e.g. increases in minimum required credit scores and minimum downpayment amounts, as well as declines in monthly payment-to-income ratios and loan-to-value ratios). Almost all banks reported deterioration in the quality of their loan portfolios in the period in both the housing and consumer loan segments, and majority of respondents expected further deterioration over the next quarter. Lenders did not, indicate substantial tightening in credit conditions and standards for the next six months and explained this outlook mainly with the perceived improvement in liquidity conditions. According to lending surveys conducted abroad, terms on household loans were also generally reported to have tightened, but in parallel with the Hungarian results the ratio of respondents reporting tightening also decreased.

Banks' willingness to lend to the corporate sector, and large and medium-sized companies in particular, as well as to the commercial real estate sector declined further in the period under review. According to banks' answers lower willingness to lend didn't affect lending to small and micro-sized enterprises as much as lending to other non-financial corporations. Furthermore, banks forecast their willingness to lend to the corporate sector to stagnate or slightly increase in the next half year. Demand for long term loans decreased due to lower investment activity but demand for short term loans increased thus respondents generally experienced a stronger demand for loans by the corporate sector. Banks reported further tightening in credit terms similarly to the last half year due to the unfavourable economic outlook and industry-specific problems (mainly in case of the construction sector), however liquidity was mentioned less frequently as a cause for tightening than in the last survey. Respondents experienced a slight deterioration in portfolio quality in 2009 Q1, with the majority of banks expecting this trend to continue over the next six-month period. As in the previous two surveys, a large majority of respondents reported that they had reduced the availability of commercial real estate loans, which was accompanied by continued tightening in credit conditions and standards. These results were broadly in line with the tightening reflected in surveys conducted by foreign central banks.

In respect of municipalities, credit demand increased relative to the moderate level seen in the previous survey, and banks tightened their terms further on loans to local authorities in the last quarter.

The statistical analysis of the lending survey is available in the first 2009 issue of the MNB bulletin (available in Hungarian at: http://www.mnb.hu/Engine.aspx?page=mnbhu_mnbszemle&ContentID=12520).

Aggregate results of the questionnaire[1]

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 background[2] is described 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 (Annex 3, 4, 5 and 6 are attached as a separate Excel file on the homepage of MNB). The retrospective questions in the questionnaire relate to changes in 2009 Q1, while the forward-looking questions asking respondents for their views about changes they expect over the next six-month period, i.e. in 2009 Q2–Q3. In case of questions focusing on changes perceived relative to the previous quarter the base period is 2008 Q4 for retrospective questions and 2009 Q1 for forward-looking questions.

1 HOUSEHOLD LENDING

According to the responses of banks, credit availability and demand for credit both declined further in 2009 Q1, but a significantly smaller number of lenders reported further tightening in credit terms compared with the previous survey (Chart 1). Based on forecasts for 2009 Q2–Q3, banks expect conditions in the domestic credit market to stabilise and lending activity to pick up slightly. Nearly all banks reported that the quality of their loan portfolio deteriorated in 2009 Q1 in both the housing and consumer loan segments, and majority of respondents expects further deterioration in the coming months.

After the sharp, wide-scale tightening in 2008 H2, the net percentage of banks tightening the terms on housing and consumer loans was only 20% in the review period. According to lenders' forecasts, the pace of tightening in the terms on both loan categories is expected to slow further slightly (with no further tightening expected in the terms on housing loans) over the next two quarters. Tightening was reported to be concentrated in the same non-price terms as in the previous survey (i.e. increases in minimum required credit scores and minimum downpayment amounts, as well as falls in monthly payment-to-income ratios and loan-to-value ratios), although the extent of tightening declined. The major factors contributing to tightening changed somewhat: banks indicated an improvement in liquidity conditions, on the one hand, and a deterioration in the housing market, on the other. However, lenders' risk averse behaviour, the worsening economic outlook and consequently, the expected deterioration in customers' creditworthiness continued to contribute to tightening in credit terms.

Based on the banks' responses, willingness to lend for house purchase and consumption dropped by a similar margin as in 2008 H2 (responses revealed a slight deterioration in housing loans and a modest improvement in consumer loans). Nonetheless, lenders expect a significant improvement over the next six months: they forecast an increase mainly in the supply of housing loans and do not expect the amount of consumer credit available to change significantly. Banks reported that demand for consumer loans and foreign currency-denominated housing loans had fallen more sharply than in previous periods (almost all respondents indicated a decline in demand for this category of loan). By contrast, demand for forint-denominated housing loans had risen slightly, according to responses. Demand for credit is expected to increase significantly over the next six-month period (i.e. in 2009 Q2–Q3): demand for housing loans, and foreign currency-denominated housing loans in particular, is expected to rise most sharply. Banks expect demand for consumer loans to stop declining.

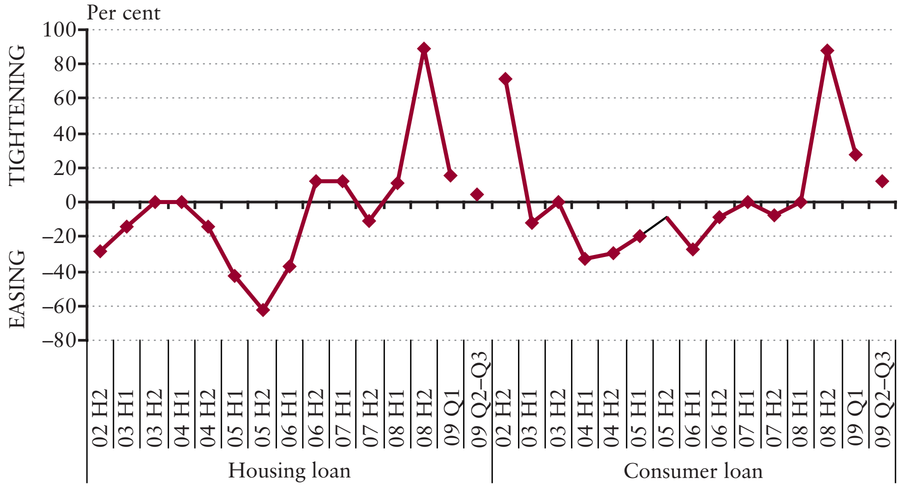
[1] Thirteen banks responded to questions related to the household segment (housing loans: nine institutions, consumer loans: thirteen banks and five financial enterprises owned by banks), while seven banks replied to questions regarding the corporate segment, and six institutions were queried on the trends in municipality lending activity. Respondents first submitted their replies to the MNB electronically, and subsequently individual banks also participated in personal interviews. Banks complete the questionnaires in electronic format on a quarterly basis, and the personal interview takes 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)



Examining the various products within the broader category of consumer credit, the decline in willingness to lend and in demand for credit mainly affected general purpose mortgage loans and motor vehicle loans over the past three months, with tighter terms registered for revolving credit facilities (such as credit cards and overdrafts) and motor vehicle loans. A significant percentage of lenders indicated that they expected the terms on revolving credit to tighten further.

2 CORPORATE LENDING[3]

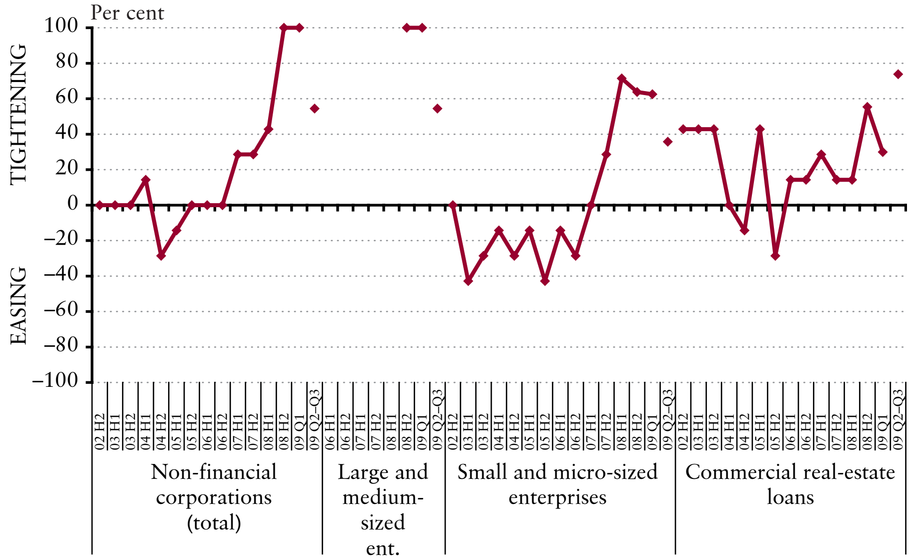
As in the pervious survey, a significant percentage of institutions reported a reduction in the availability of credit. This was most pronounced in commercial real estate lending, although some of the respondents reported unchanged willingness to lend compared to the end of 2008 (the net percentage of respondents indicating a reduction in the amount of credit they were willing to make available was 75%). Based on lenders' responses, this sharp reduction in credit availability was not reflected in lending to small and micro-sized companies. However, banks expect to maintain or slightly increase the amount outstanding of lending to the corporate sector over the next six months (the net percentage of respondents expecting to increase lending was 9%). Nearly 50% of the respondents reported that they expected to increase the availability of credit to small and micro-sized companies compared to the end of the previous quarter. With a reduction in willingness to lend, the tightening in credit conditions and standards continued, as was the case in the previous three surveys. Both price and non-price terms tightened. Based on lenders' responses, fees on lending and risk premia rose, with banks seeking to increase spreads over cost of funds. It should be noted that banks stepped up their monitoring activities over the past three months. The majority of banks indicated that they expected to tighten credit terms over the next six months, albeit less sharply than in previous periods.

Banks cited liquidity conditions (e.g. increased difficulties faced by them in accessing funds, cost of funds remaining at elevated levels), the economic outlook, certain industry-specific problems and changes in risk tolerance as the major factors contributing to the tightening in credit terms. However, they expect the importance of liquidity conditions and capital position in tightening to decline over the next six months, with the economic outlook, industry-specific issues and low risk tolerance expected to be the main factors contributing to this tightening. Based on responses of lenders, demand for corporate loans picked up slightly in 2009 Q1 compared to the previous period. However, this increase was not fully homogenous: while demand for short-term loans increased, demand for long-term loans continued to decline. Demand for

[3] Starting from the previous 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 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.

Chart 2

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



lending was concentrated in the small and micro-sized segment. The majority of banks expect demand to increase over the next six-month period, but demand for short-term loans is expected to continue to dominate, due to the decline in capital investment. With the reduction in the financial market turbulence, banks reported an increase in corporate demand for foreign currency-denominated loans, but expect demand for foreign currency-denominated loans to remain broadly flat and demand for forint loans to increase in 2009 Q2-Q3. Respondents reported deterioration in the quality of the corporate loan portfolio in the previous quarter and expect this trend to continue over the next six months. In particular, they reported that the quality of loans in manufacturing, construction, financial activities, real estate and business services has continued to deteriorate. The majority of banks expect portfolio quality to deteriorate in nearly every industry over the next six months. The only exception is electricity, gas and water supply, where only 15% of the respondents expect a deterioration in portfolio quality.

As in the previous two surveys, a significant majority of respondents (86% in net percentage terms) reported that they had reduced the availability of commercial real estate loans. This was associated with a further tightening in conditions and standards on loans. The reduction in credit availability and the tightening in credit terms was concentrated mainly in loans for home and office-building projects. Banks reported that the quality of commercial real estate loans had deteriorated in 2009 Q1 (nearly 80% expressed in net percentage terms), but a lower number of banks expect further deterioration in loan quality over the next six months: 30% of respondents based on market share.

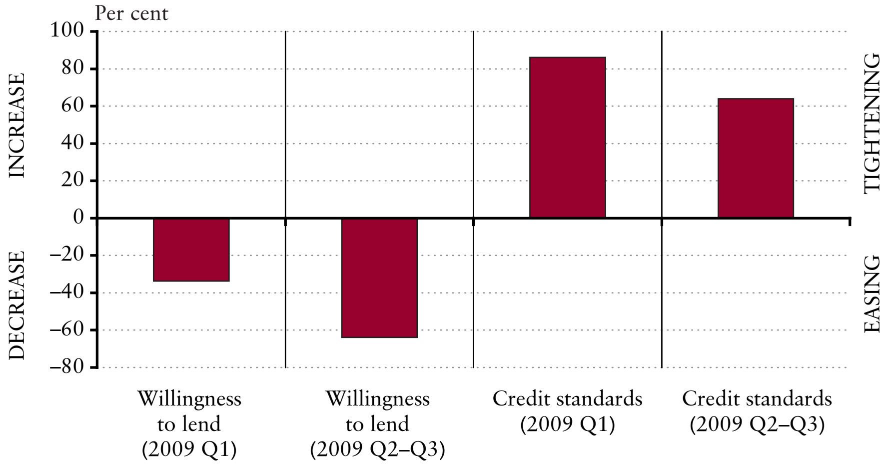
3 LENDING TO MUNICIPALITIES[4]

Banks reported that demand for loans by municipalities had stagnated or increased slightly over the past three months. Broadly consistent with the results of the previous survey, banks' willingness to lend continued to decline, with respondents expecting this trend to continue over the next six months. The survey found that the dominant banks in this segment had tightened their conditions and standards further in 2009 Q1, and that they expected to continue tightening over the next six-month period. This was also reflected in a tightening in both price and non-price terms, as was the case in the corporate segment. But as with lending to the corporate sector, municipalities' current expenditure needs were a factor contributing to

[4] 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.

Chart 3

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



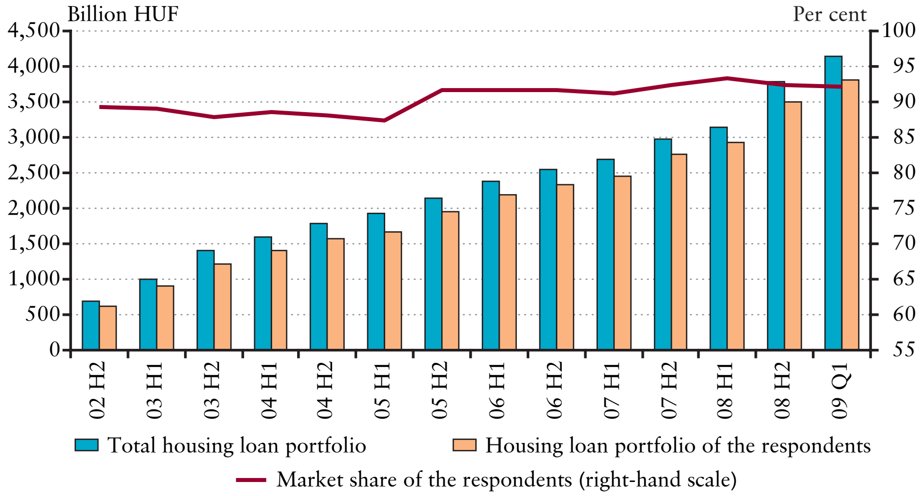
the increase in demand, rather than an increase in investments. Banks expect developments in demand over the next six months to be similar to those in 2009 Q1. At the same time, the majority of them expect the quality of municipal loan portfolio to deteriorate in 2009 Q2–Q3.

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

LENDING TO HOUSEHOLDS

Chart 4

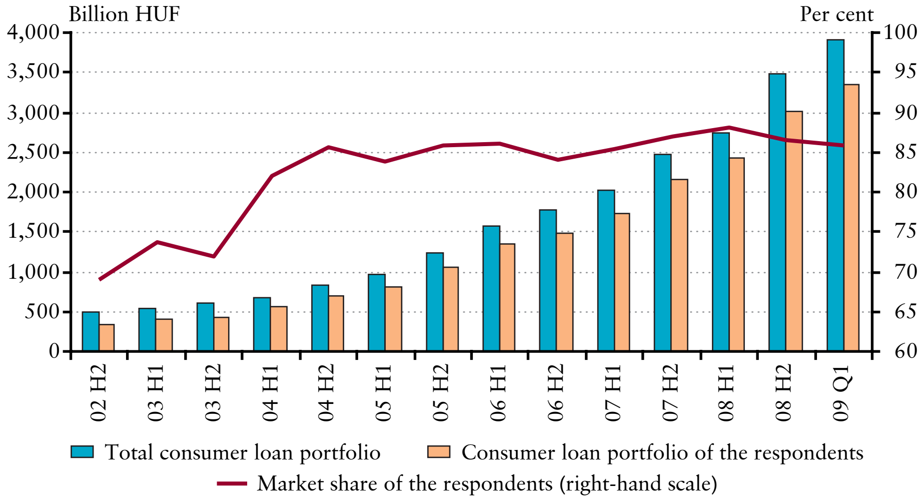
Volume of housing loans and the market share of banks completing the questionnaire



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 5

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



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

Chart 6

Willingness of banks to extend housing loans and consumer loans

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

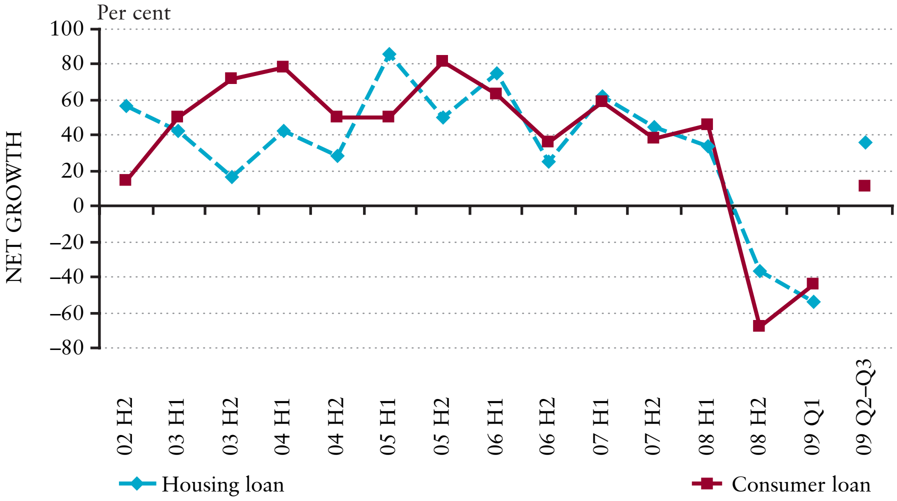


Chart 7

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

(net percentage of respondents tightening/easing credit standards)

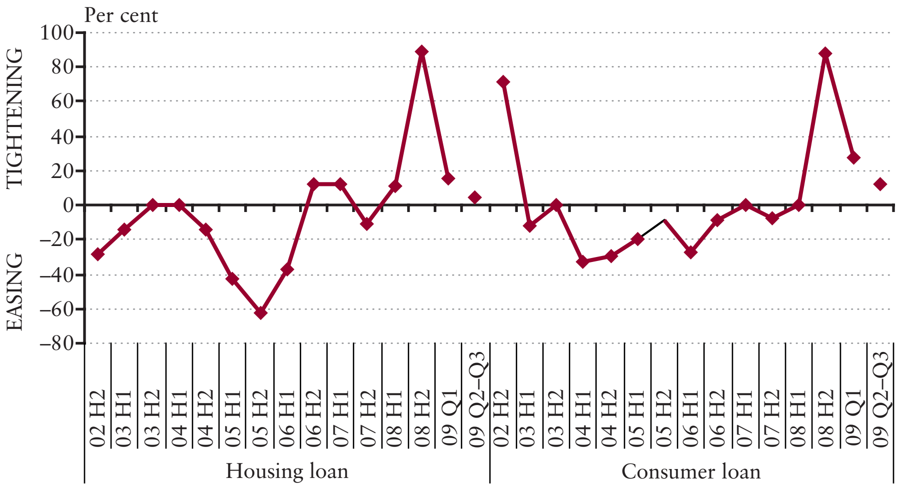


Chart 8

Credit conditions in the housing loan market

(net percentage of respondents tightening/easing credit conditions)

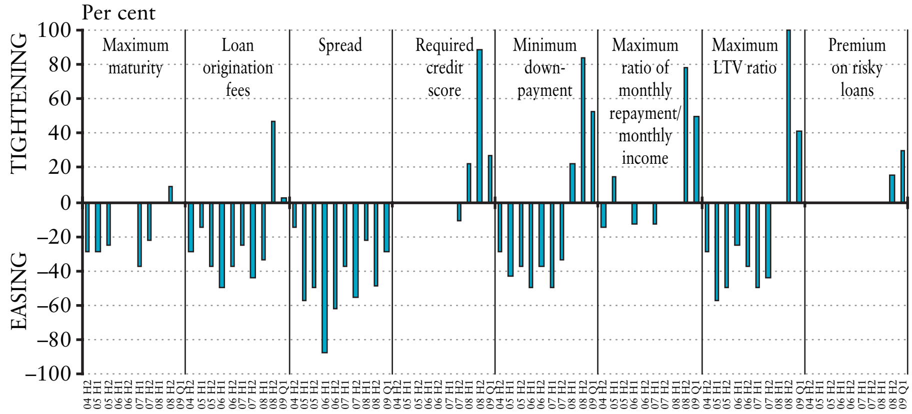


Chart 9

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

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

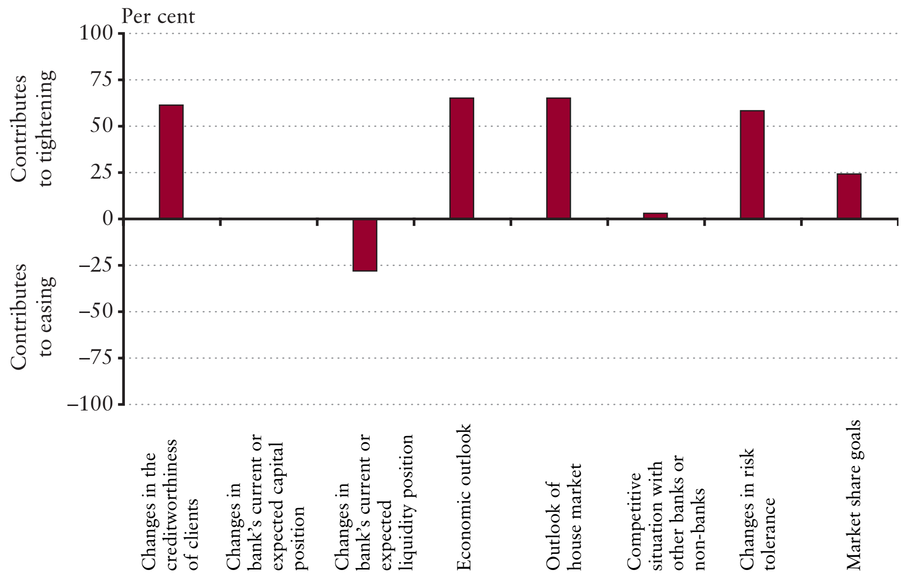


Chart 10

Demand for housing loans

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

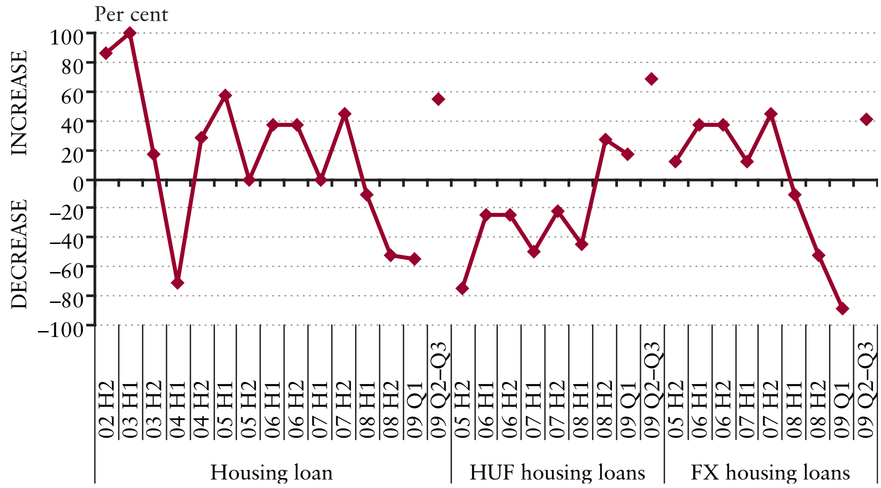


Chart 11

Credit conditions in the consumer loan market

(net percentage of respondents tightening/easing credit conditions)

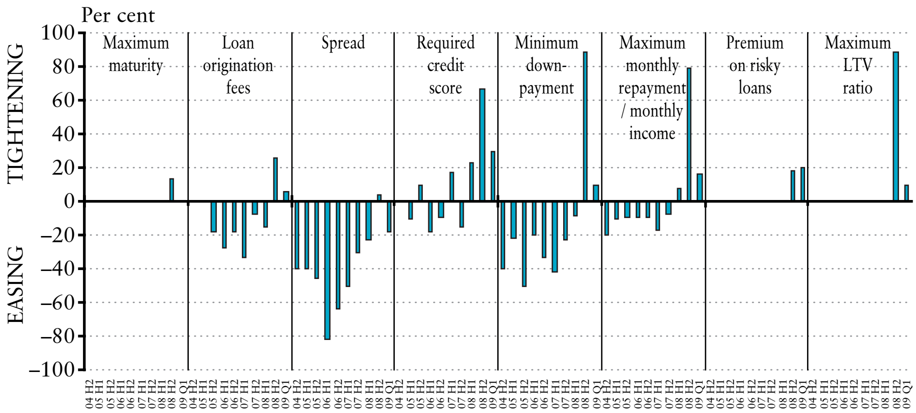


Chart 12

Factors contributing to changes in credit standards and credit conditions in case of consumer loans
(net percentage of banks indicating a contribution of individual factors to tightening or easing)

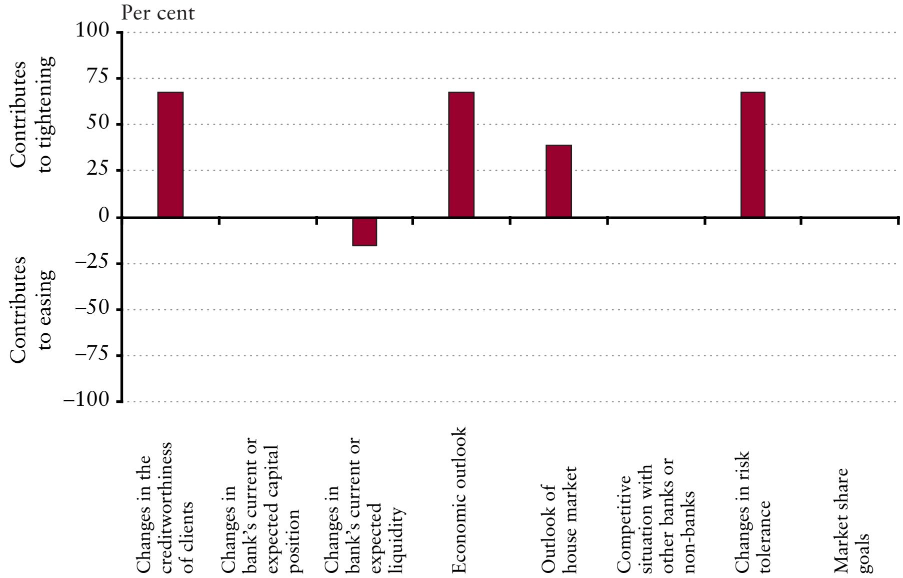


Chart 13

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

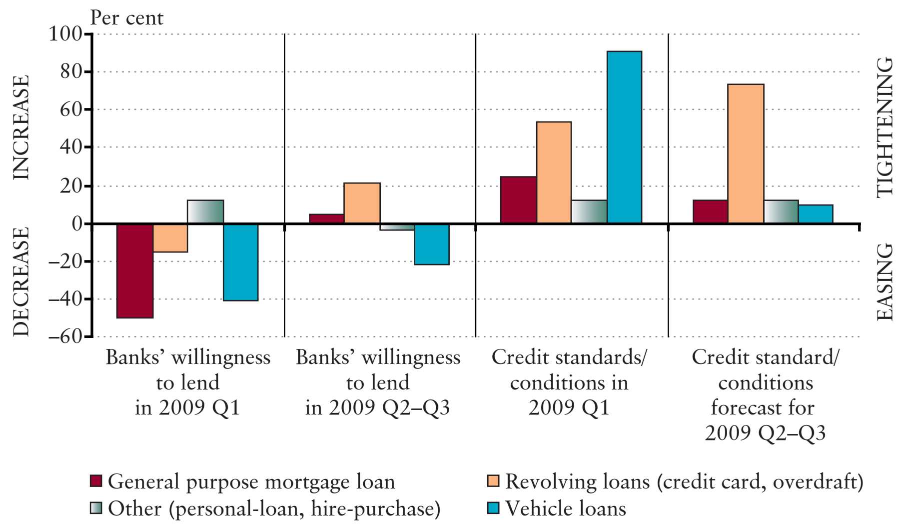


Chart 14

Credit conditions for different consumer loan products

(net percentage of respondents tightening/easing credit conditions)

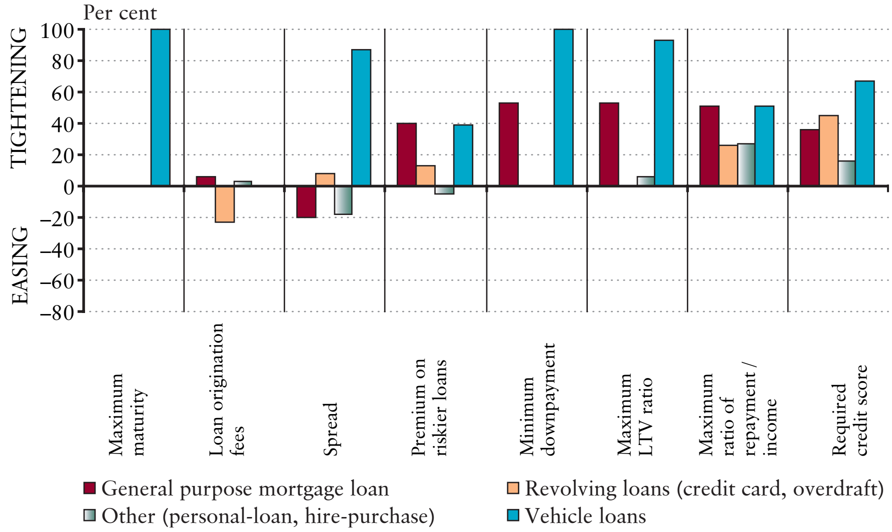


Chart 15

Demand for consumer loans

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

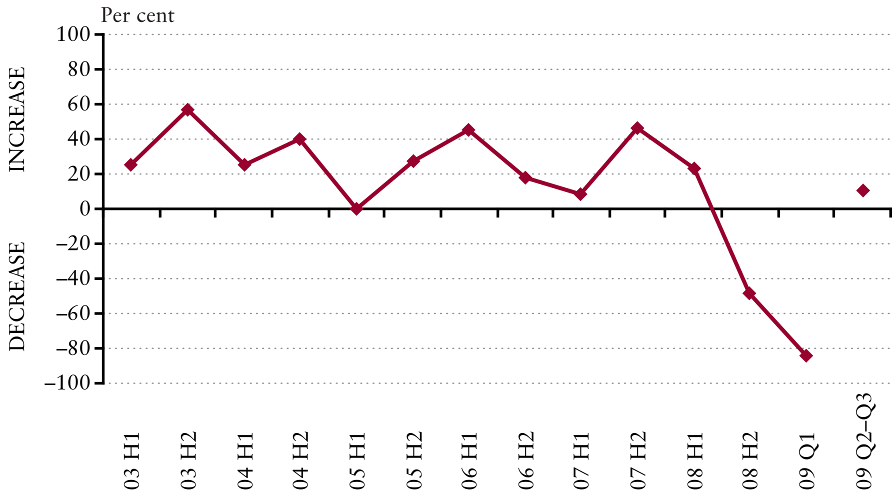


Chart 16

Demand for different consumer loan products

(ratio of banks providing the relevant answer)

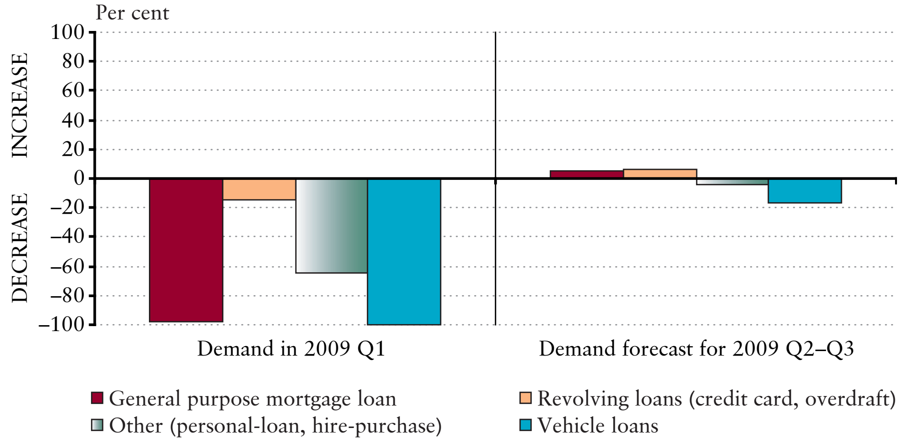
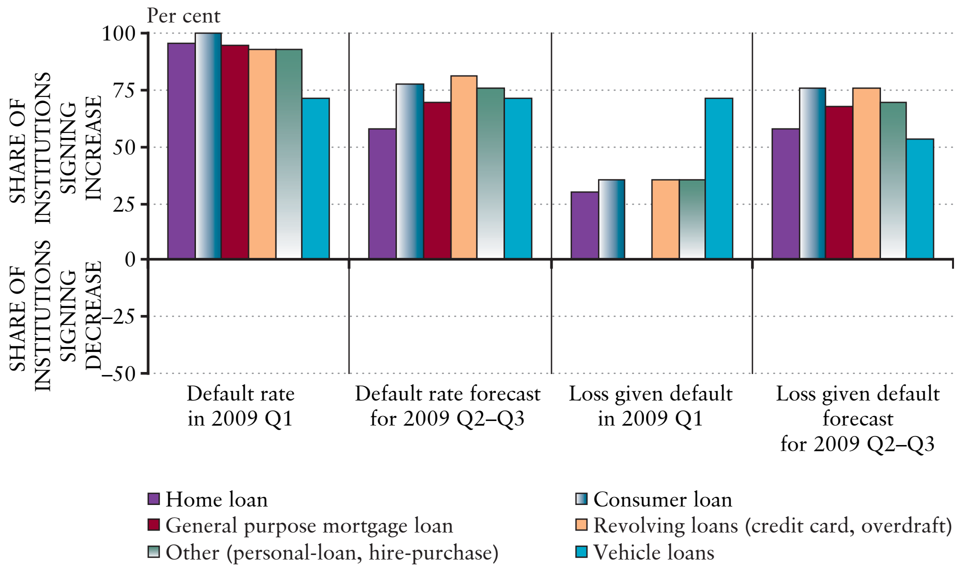


Chart 17

Default rate of loans to households and loss given default

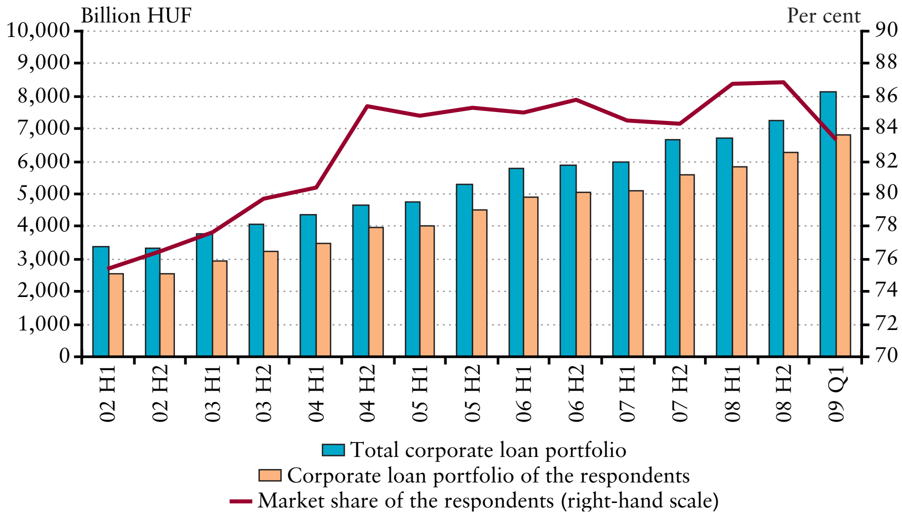
(net percentage of banks reporting an increase or decrease)



LENDING TO THE CORPORATE SECTOR

Chart 18

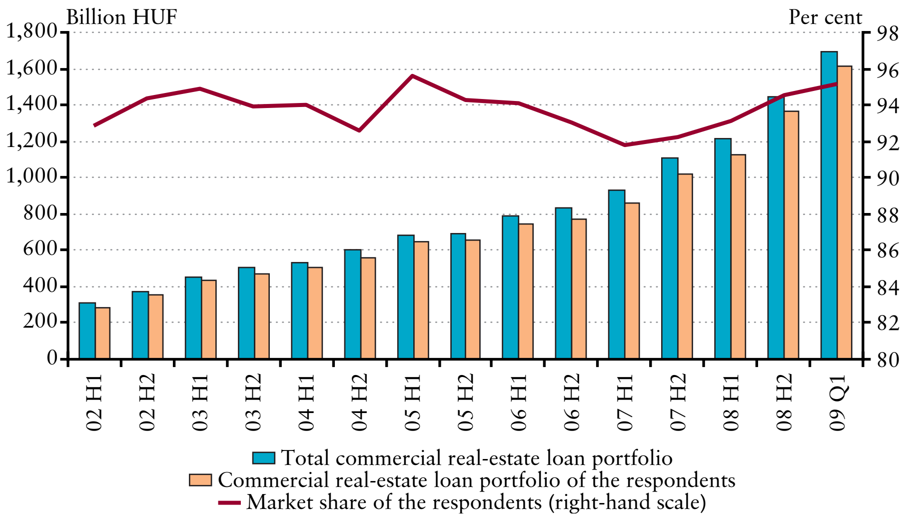
Total corporate loan portfolio and market share of the banks completing the corporate questionnaire



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

Chart 19

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 20

Willingness of banks to extend corporate loans

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

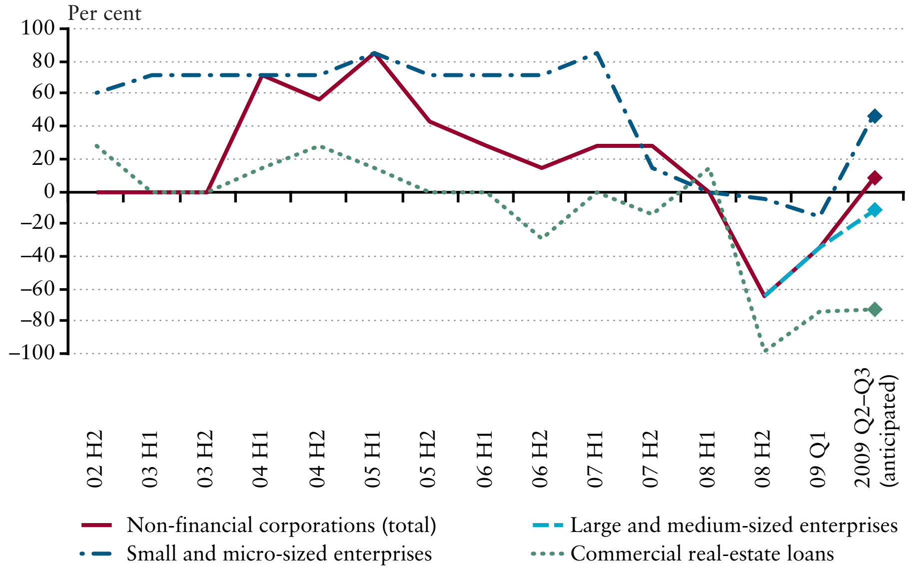


Chart 21

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

(net percentage of respondents reporting tightening/easing)

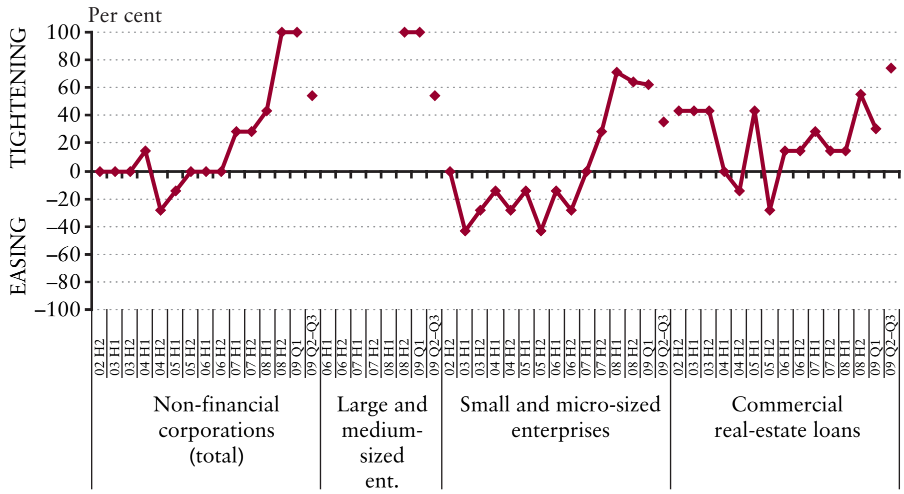


Chart 22

Credit conditions in the corporate segment in 2009 Q1 and in 2009 Q2–Q3

(ratio of banks providing the relevant answer)

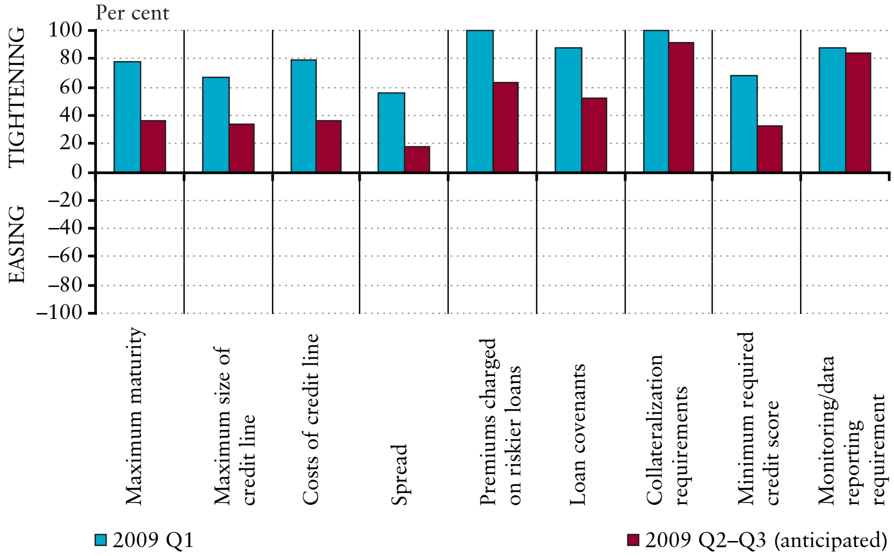


Chart 23

Maximum maturities by corporate category

(net percentage of respondents reporting tightening/easing)

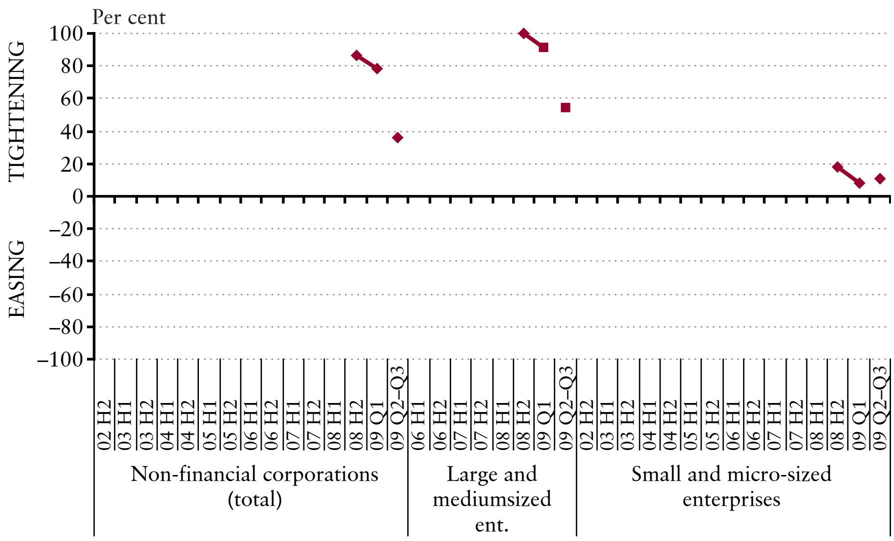


Chart 24

Maximum size of loans/credit lines by corporate category

(net percentage of respondents reporting tightening/easing)

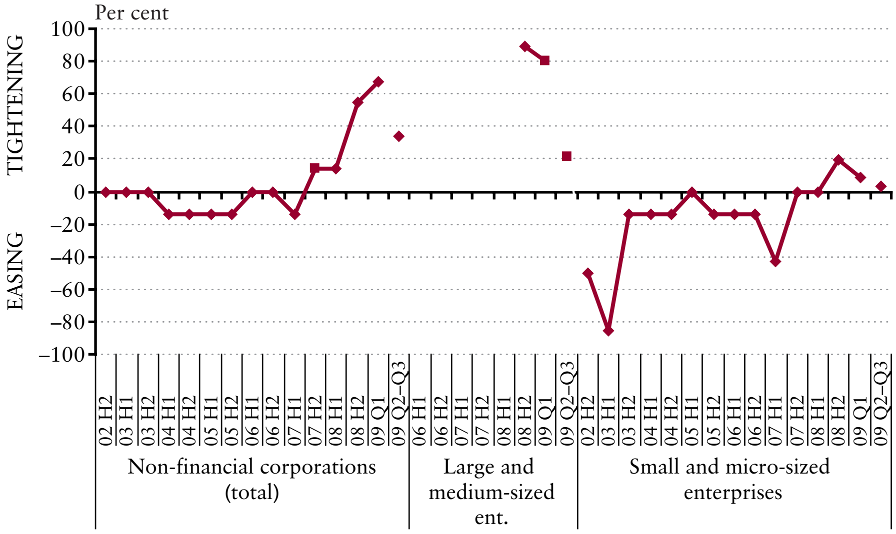


Chart 25

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

(net percentage of respondents reporting tightening/easing)

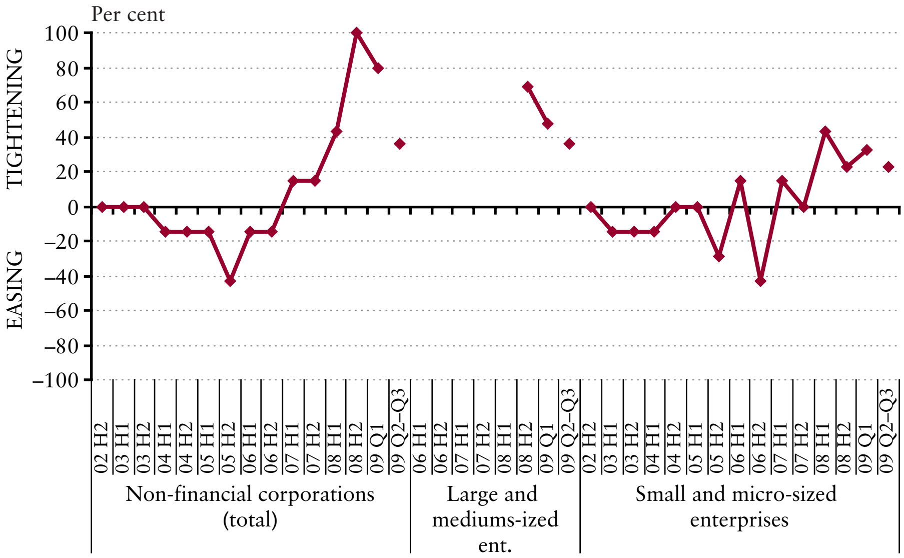


Chart 26

Spread between lending rates and cost of funds by corporate category

(net percentage of respondents reporting tightening/easing)

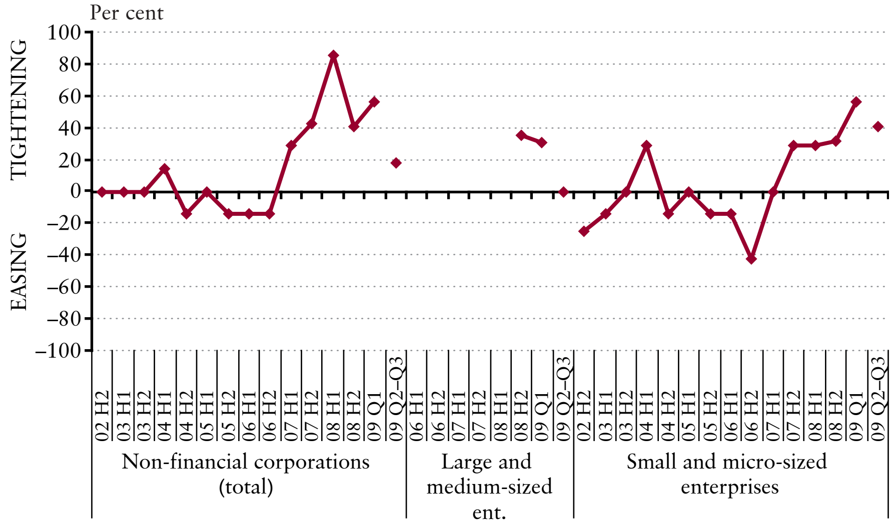


Chart 27

Premium on higher risk loans by corporate sector

(net percentage of respondents reporting tightening/easing)

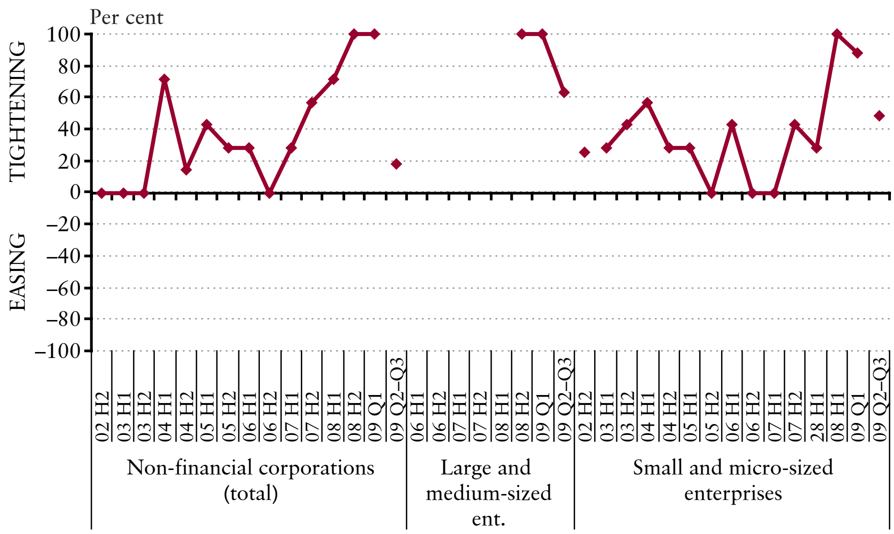


Chart 28

Covenant requirements by corporate category

(net percentage of respondents reporting tightening/easing)

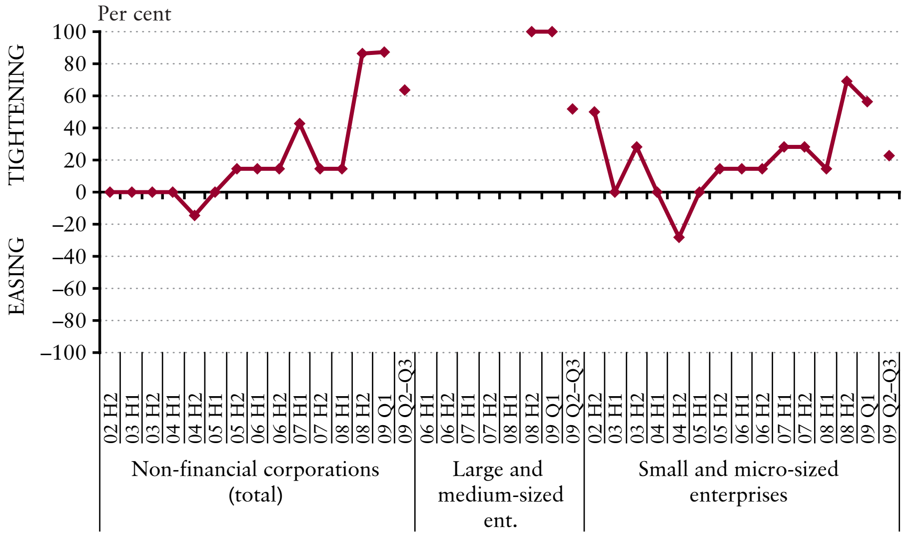


Chart 29

Collateralisation requirements by corporate category

(net percentage of respondents reporting tightening/easing)

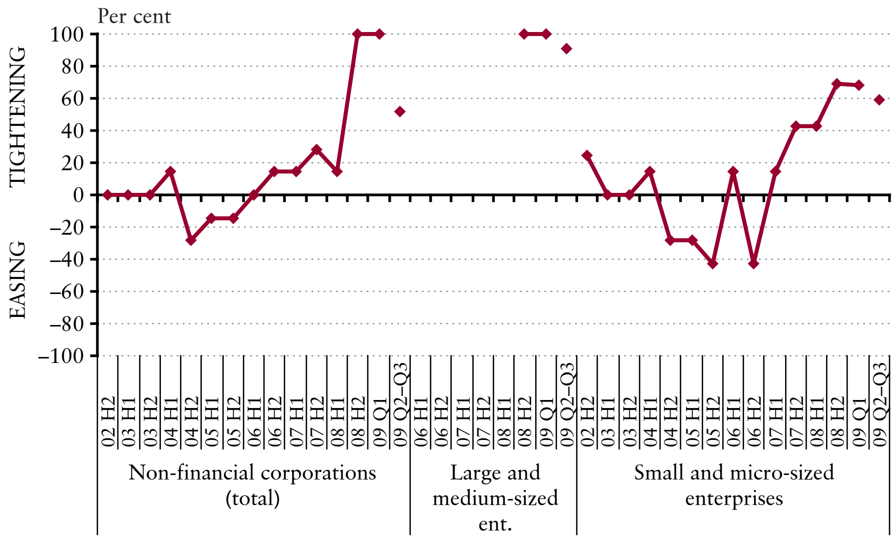


Chart 30

Minimum required credit score by corporate category

(net percentage of respondents reporting tightening/easing)

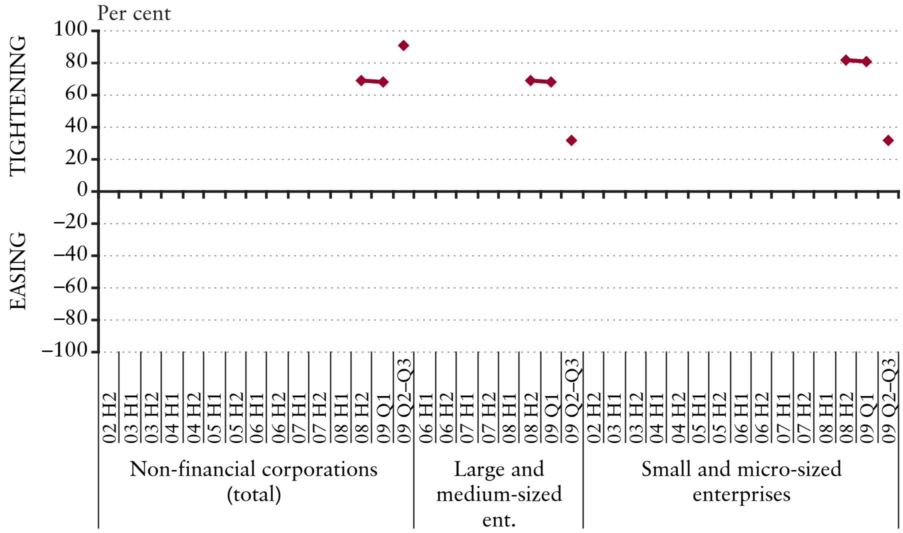


Chart 31

Monitoring/Reporting requirements by corporate category

(net percentage of respondents reporting tightening/easing)

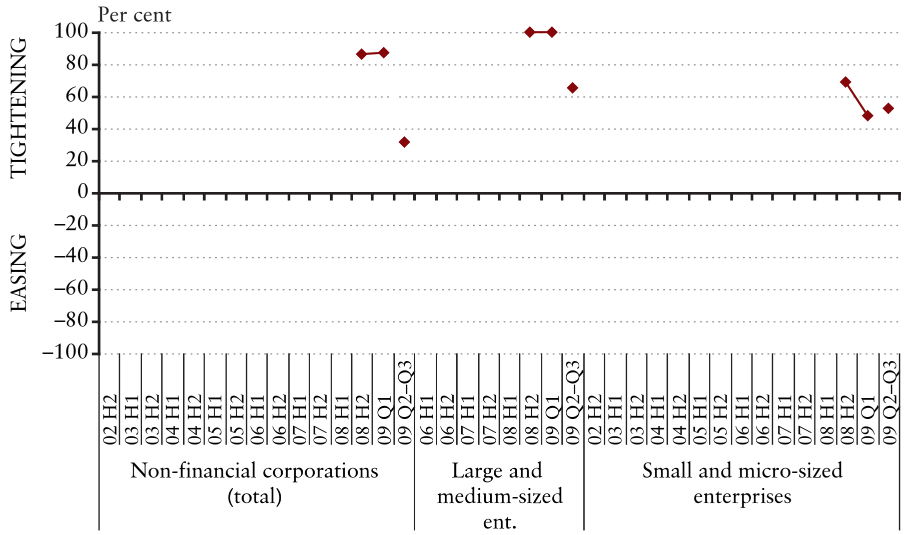


Chart 32

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

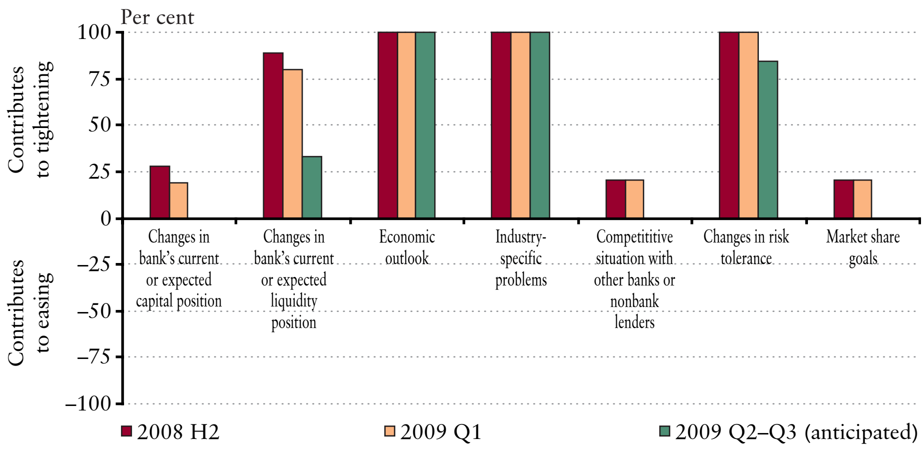


Chart 33

Loan demand by corporate size

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

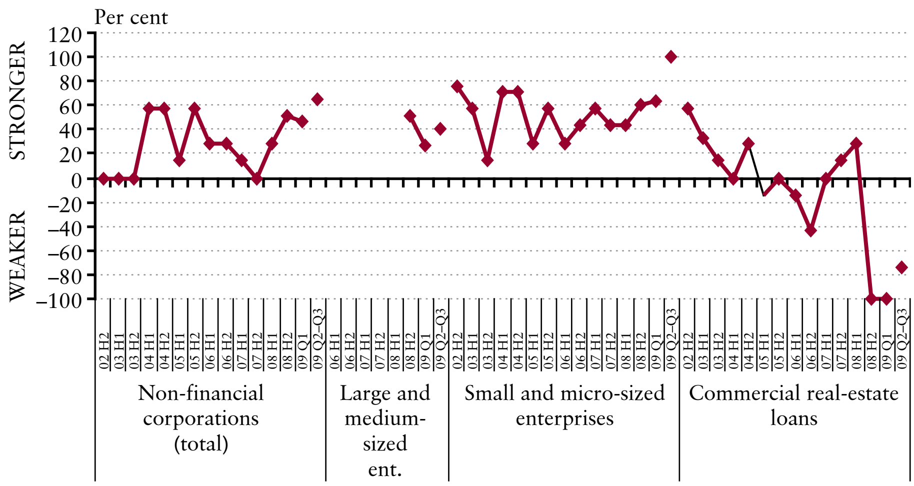


Chart 34

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)

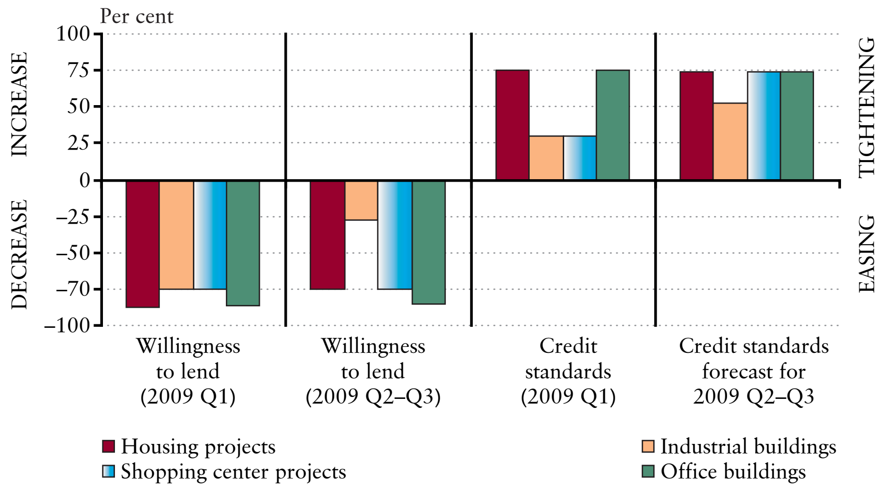


Chart 36

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

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

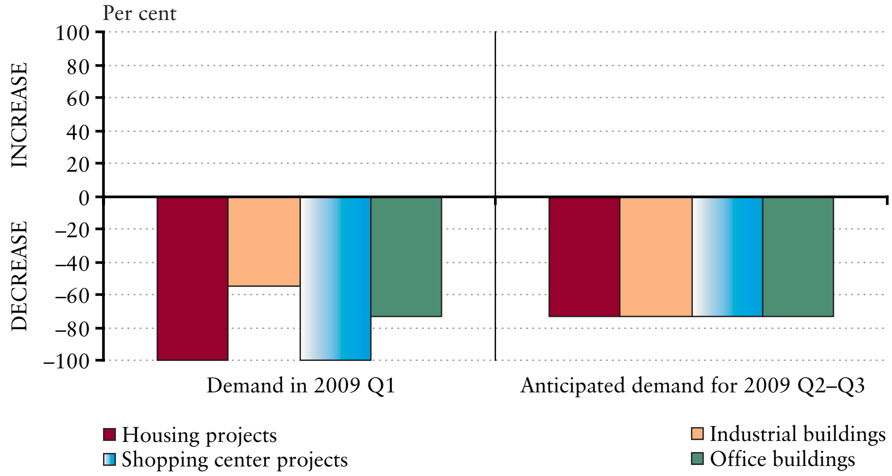


Chart 37

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

(net percentage of respondents reporting increased/decreased risk)

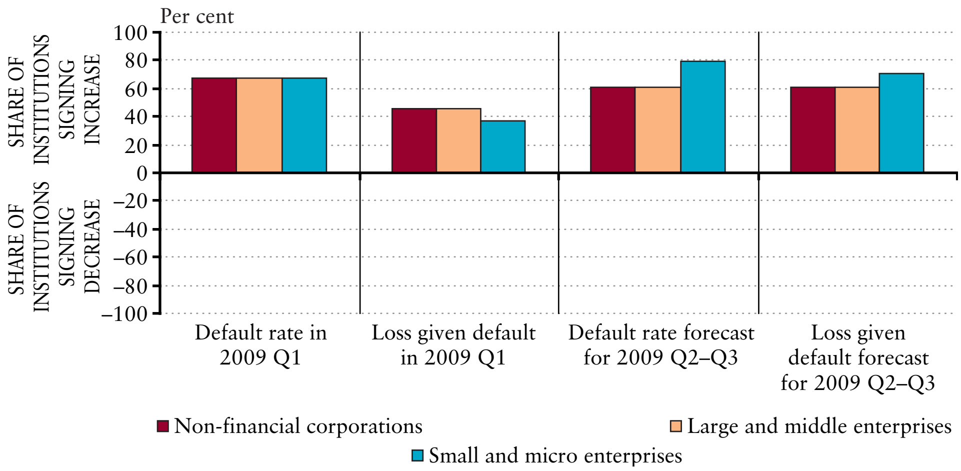
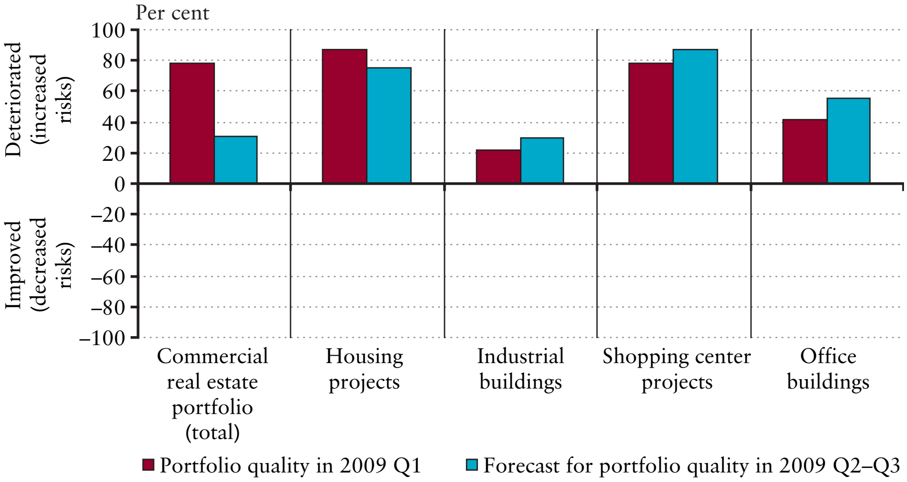


Chart 38

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

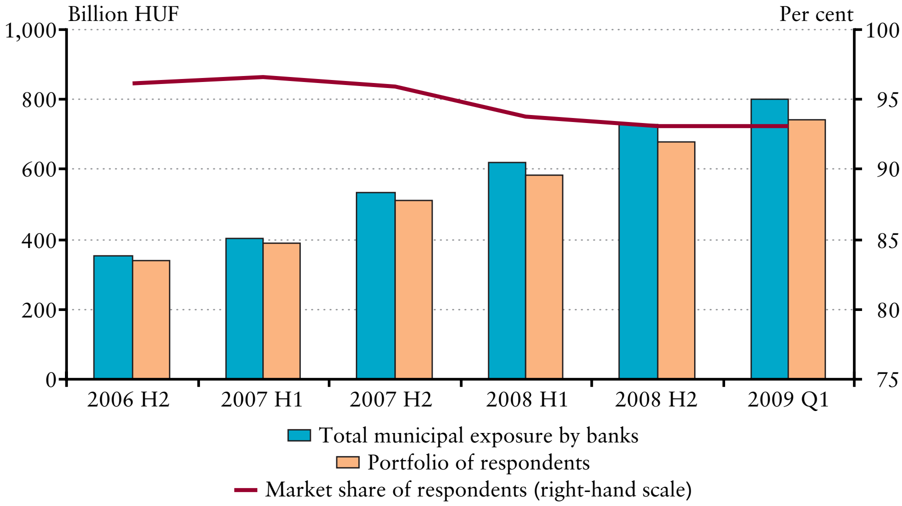
(net percentage of respondents reporting improvement/deterioration)



LENDING TO LOCAL AUTHORITIES

Chart 39

Total exposure to local authorities and the share of banks completing the questionnaire



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

Chart 40

Willingness to lend and credit standards/credit conditions in lending to local authorities

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

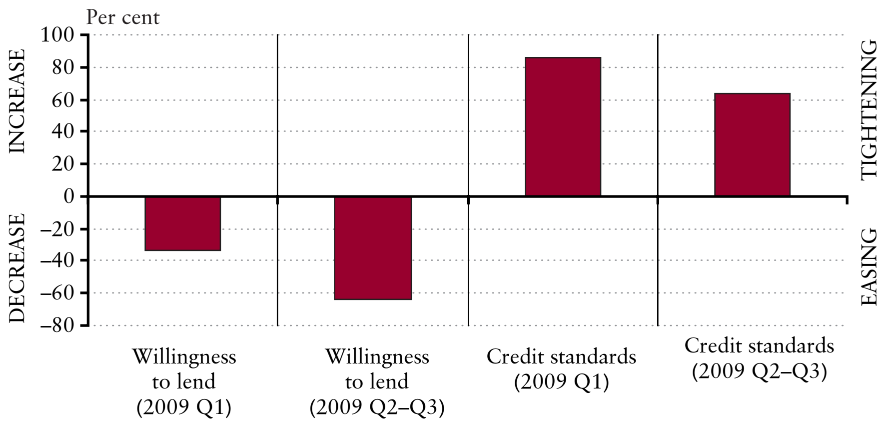
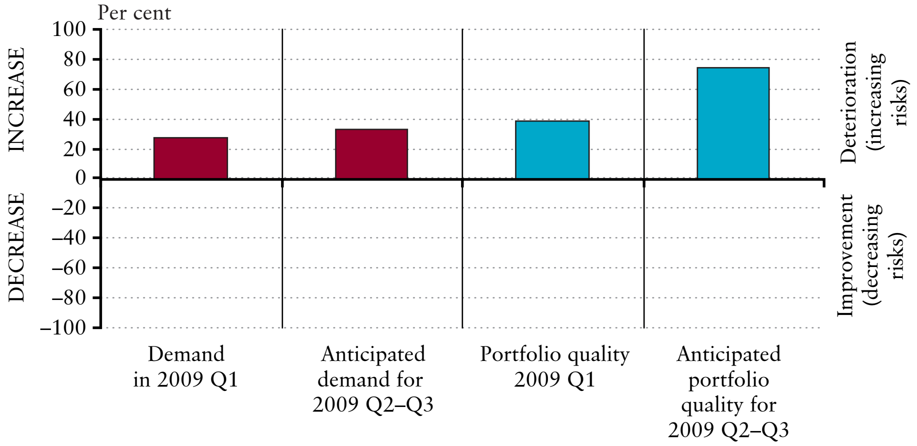


Chart 41

Demand for loans and portfolio quality in lending to local authorities

(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 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 reception 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 13 banks were involved in the interviews. Nine banks responded to questions related to housing loans, while 13 banks and 4 financial enterprises owned by banks covered questions on consumer loans.[5] With respect to housing loans, based on data from the end of 2009 Q1, the surveyed institutions accounted for 92.1% of the banking sector,[6] while their percentage share in consumer loans was 85.9%.

The corporate questionnaire was completed by seven banks, with a total market share of 83.4% and 95.2% 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 2008 H1, the institutions surveyed covered 93.1% 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 asked respondents for 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 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.

[5] 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. 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.

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

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 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) 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 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).

Senior loan officer survey on bank lending practices
Summary of the aggregate results of the survey for 2009 Q1

May 2009

Print: D-Plus
H–1037 Budapest, Csillaghegyi út 19–21.