Senior loan officer survey on bank lending practices

Summary of the aggregate results of the survey for 2011 Q4

March 2012

MAGYAR NEMZETI BANK

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(March 2012)

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(Financial Stability)

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The lending survey facilitates the analysis of how major banks perceive and evaluate market developments and how they develop their respective strategies, in particular their lending policies. Aggregating individual answers, weighted by banks' market shares, helps researchers draw conclusions regarding likely changes in the directions and trends in the credit market. The conclusions of this analysis always present the answers provided by senior bank officers; however in certain cases additional background information might be presented so that the user could easily oversee the tendencies. The survey was conducted between 1 and 18 January 2012. Furthermore, In accordance with previous practices, we conducted interviews with the senior lending officers in January and February.

The results of the survey are presented below in the form of a descriptive analysis and by means of charts illustrating the answers. Annex 1 contains the charts pertaining to the individual segments. The methodological background is described in details in Annex 2. Numerical data on the market shares can be found in Annex 3, and answers to the questions are presented in detail in Annexes 4, 5 and 6 (Annexes 3, 4, 5 and 6 are attached as a separate Excel file). The retrospective questions in the questionnaire relate to changes in 2011 Q4, while the forward-looking questions ask respondents for their views about changes they expect over the next six-month period, i.e. in 2012 H1. Questions focus on changes perceived relative to the previous quarter: the base period is 2011 Q3 for retrospective questions and 2011 Q4 for forward-looking questions.

In the case of the household segment, a total of 14 banks were involved in the interviews. 10 banks responded to questions related to housing loans, while 14 banks and 6 financial enterprises questions on consumer loansB. ased on data from the end of 2011 Q4, the surveyed institutions accounted for 92% of the banking sector in the case of housing loans outstanding, while 94% in the case of consumer loans outstanding. The corporate questionnaire was completed by 7 banks, with a total market share of 80% and 96% of the corporate loan and commercial real estate loan markets, respectively. A total of 7 banks were interviewed on the subject of loans extended to municipalities. Based on data from the end of 2011 Q4, the institutions surveyed covered 97% of total municipal exposure by banks.

Contents

Non-price credit conditions for household loans were reported to have tightened. The tightening of conditions was reflected in the loan-to-value ratio and in personal income requirements. Price conditions for mortgage loans also became stricter, i.e. the total APR increased in the fourth quarter. With the current credit conditions, a significant part of the banking sector is focusing on the premium segment, i.e. on higher-income clientele with significant down-payment capacity and high-quality collateral. It is still uncertain whether this behaviour will continue or it is a temporary impact of the early repayment scheme at favourable exchange rate.

In the corporate segment, credit conditions were reported to have tightened as well, and a significant portion of the banking sector is planning further tightening in the next half year. In previous surveys, banks cited lower risk appetite as contributing to tightening, but in this lending survey the role of deteriorating lending capacity increased considerably. The most important factor is the deterioration in funding, which is attributable to shrinking external funding and rising foreign currency funding costs. The deterioration in lending capacity was last reported by such proportion of banks upon the outbreak of the September 2008 crisis.

The trends in Hungary are not country-specific, as credit conditions in the private sector were reported to have tightened in the euro area and the CEE region as well. Based on the ECB lending survey, the number of tightening euro-area banks jumped relative to the previous quarters. Banks cited the deteriorating economic outlook and lending capacity as reasons for tightening. Parallel to these developments, the expanding corporate lending experienced earlier recoiled in December, and – similarly to Hungary – corporate loans outstanding declined by 1–2 per cent. It may turn out in the coming months whether this development is permanent or merely temporary.

INTEREST RATE CONDITIONS ARE BECOMING STRICTER IN THE HOUSEHOLD SEGMENT

A wide range of banks reported that they had tightened non-price conditions for housing and consumer loans (Charts 4 and 12). In the case of mortgage loans, the stricter conditions are reflected in the lower loan-to-value and payment-to-income ratios, and in a stricter required credit score (Chart 5). Price conditions were also reported to have tightened in 2011 Q4 (Chart 6) as indicated in the previous survey. Banks expected further tightening of the payment-to-income ratio and required credit score over the next six months. Meetings with senior lending officers also confirmed that with the tightening a major part of the banking sector is focusing on the premium segment, i.e. on higher-income clientele with significant down-payment capacity and high-quality collateral. It is still uncertain whether this behaviour will continue or it is a temporary impact of the early repayment scheme at favourable exchange rate.

As regards unsecured consumer loans, the minimum required credit score and the payment-to-income ratio were reported to have tightened (Chart 13). In vehicle financing, some tightening banks and leasing companies reported that they had ceased EUR-denominated financing, which accounted for 15–20 per cent of new financing in 2011.[1]

Looking at the demand side, a net 15 per cent of banks reported that they had perceived decreasing demand for housing loans, while demand for consumer loans was reported to have remained unchanged in 2011 Q4 (Chart 8). Over the next six months a net 12 per cent of banks expected increasing demand for housing loans, but this only represents a relative rebound from a low level after the sharp decline in demand in the previous quarters. By contrast, as regards consumer loans, a net 12 per cent of banks anticipated lower demand in 2012 H1 relative to the last quarter of 2011. It is important to note that banks did not account for re-mortgaging in the early repayment scheme at favourable exchange rate as new lending in their responses.

WEAK CORPORATE CREDIT SUPPLY IS EXPECTED IN 2012 AS WELL

In the corporate segment, a net 30 per cent of banks[2] reported that they had tightened their credit conditions in the fourth quarter, and a significant portion of the banking sector anticipated further tightening in the first half of 2012 (Chart 19). The tightening primarily concerned credit conditions for large and medium-sized companies as well as commercial

[1] In parallel with this, tightening took place in fleet-type lending, i.e. EUR-denominated lending to entrepreneurs as well.
[2] Weighted by the market share of the difference in tightening and easing banks. The ratio does not reflect the extent of tightening/easing.

property loans, but conditions became stricter for small- and micro-sized enterprises as well. The tightening affects almost all non-price conditions, including in particular loan covenants, collateral requirements and the minimum required credit score (Chart 20). In previous surveys, banks cited lower risk appetite as contributing to tightening, but in this lending survey the role of deteriorating lending capacity increased considerably (Chart 30). The most important factor is the deterioration in funding (a net 42 per cent of banks cited for the fourth quarter, while forward-looking net 70 per cent for 2012 H1), which is attributable to shrinking external funding and rising foreign currency funding costs. The deterioration in lending capacity was last reported by such proportion of banks upon the outbreak of the September 2008 crisis.

Looking at the demand side, banks reported (net 11 per cent) that they had perceived an increase in demand for short-term corporate loans (Chart 32), similarly to earlier quarters. The steady rise in demand may partly be explained by the fact that in the first half of 2011 mainly the performance of the export sectors may indeed have added to the demand for short-term funds. On the other hand, supply of trade credit has become tighter as well, generating demand for short-term bank loans. In addition, clients may be compelled to turn to other banks, due to banks' supply constraints as well. Finally, spill-over from long-term loans was also mentioned as an argument, i.e. in lieu of postponed investment in machinery, companies are using short-term bank loans to cover the costs of maintenance and repair. Meanwhile, demand for long-term (mainly investment) loans is not rebounding. Moreover, a net 11 per cent of banks reported that they had perceived weaker demand compared to the third quarter (Chart 32). Based on the forward-looking replies, banks did not expect any rebound in demand for investment loans in 2012 H1.

Developments in credit conditions in the euro area and the region

The developments in Hungary are quite similar to what has been observed in the euro area. According to an ECB lending survey, the number of tightening euro-area banks jumped relative to the previous quarters both in the household and corporate segments.[3] Banks cited the deteriorating economic outlook and access to market financing as reasons for tightening. Moreover, some banks also indicated the deteriorating capital position. All these factors may have significantly contributed to the contraction in total corporate and household loans outstanding in the last quarter of 2011. Banks expected further tightening in early 2012, but in a smaller portion of banks and with a more favourable perception of market funding, which the ECB attributes to the introduction of the 3-year LTRO loan tender.

In the region, it is Poland and Romania for which lending surveys for the fourth quarter of 2011 are available. Based on these, tightening took place in these countries as well, in the credit conditions of the private sector. However, developments in lending in Hungary are quite different from those in Poland, as the tightening in the Polish credit market is taking place in a recovering credit market (private sector loans outstanding are expanding in the Czech Republic and Slovakia as well). At the same time, the pick-up in corporate lending experienced earlier came to a halt in December, and – similarly to Hungary – corporate loans outstanding declined by 1-2 per cent. It may turn out in the coming months whether this was attributable to balance-sheet adjustment (so-called window dressing in December) also observed earlier, or a real standstill took place in the other Visegrád countries as well.

INCREASINGLY STRICT CREDIT CONDITIONS IN THE FINANCING OF LOCAL GOVERNMENTS BY BANKS

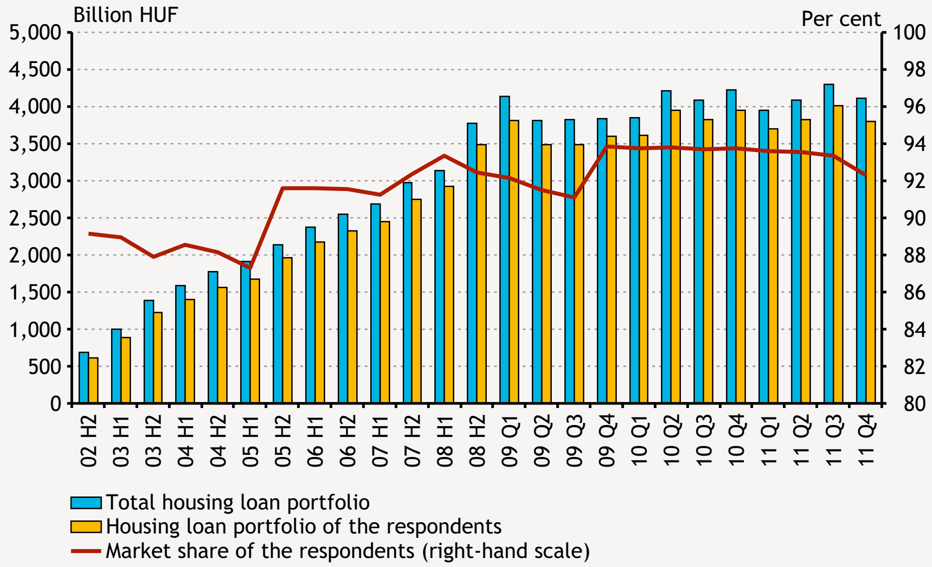
Banks' risk appetite and willingness to finance continued to decline in the local government segment (Chart 41). The majority of banks (80 per cent in net terms) reported that they had tightened their credit conditions again (Chart 42). At the meetings with senior lending officers, it became obvious that now banks consider this segment very risky. Consequently, lending is expected to be strongly restrained in the local government segment.

[3] Based on the ECB's lending survey: http://www.ecb.int/stats/money/surveys/lend/html/index.en.html.

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

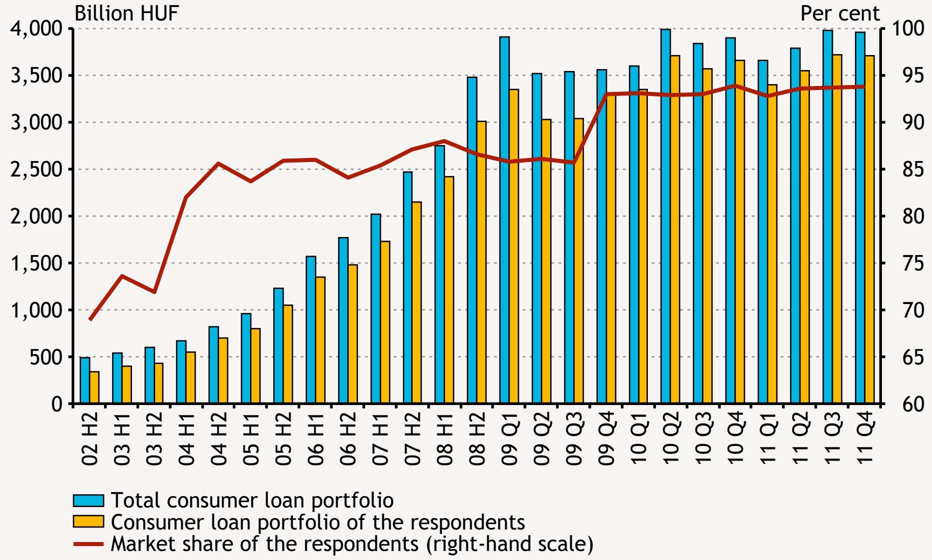
LENDING TO HOUSEHOLDS

Chart 1
Outstanding amount of housing loans and the market share of banks completing the questionnaire



Note: The number and scope of banks varied during the half-year periods under review (e.g. as a result of mergers and the inclusion of new banks). From 2009, stock data also include those for credit institutions and branches.

Chart 2
Outstanding amount of consumer loans and the market share of banks completing the questionnaire



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

Chart 3
Willingness of banks to extend housing loans and consumer loans

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

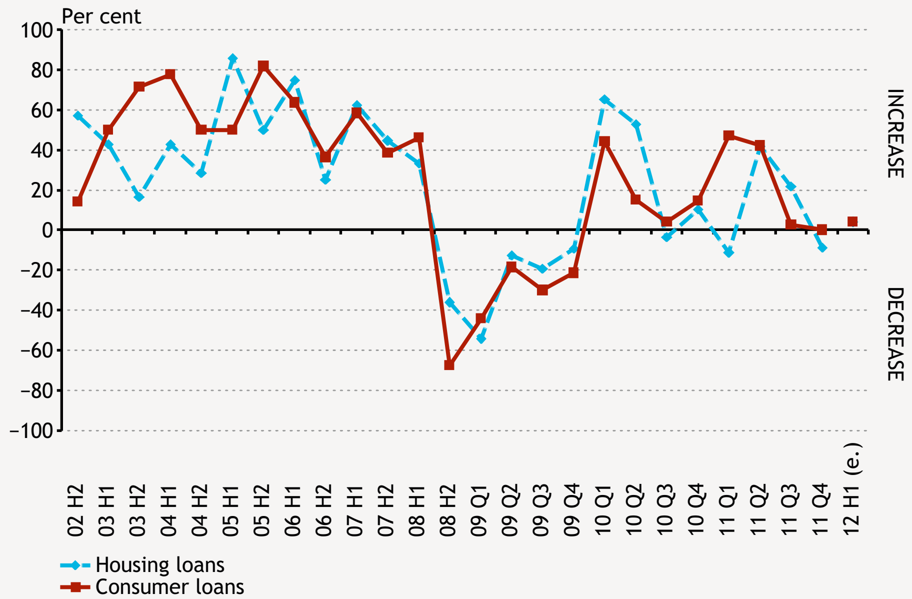
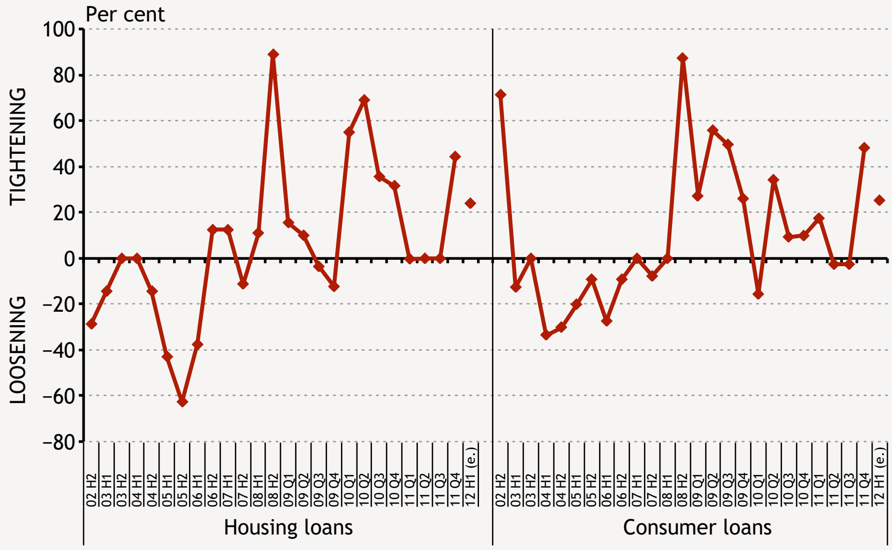
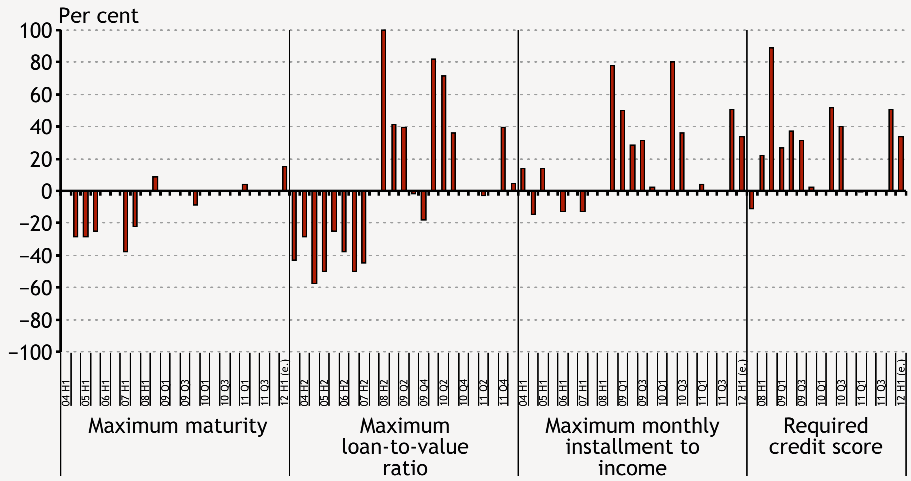


Chart 4
Credit conditions in the housing loan and consumer loan markets
(net percentage balance of respondents tightening/easing credit standards weighted by market share)



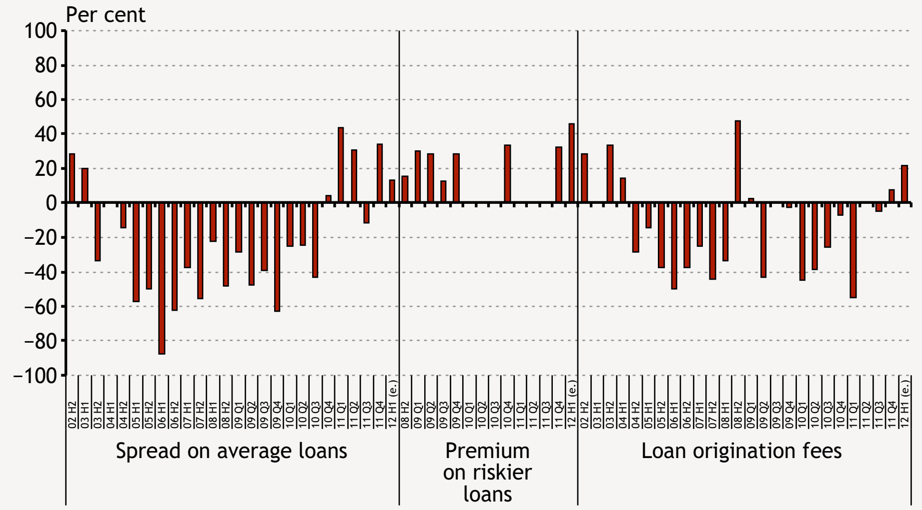
Note: The magnitude of tightening/easing is not shown in the chart.

Chart 5
Credit conditions in the housing loan market – non-price conditions
(net percentage balance of respondents tightening/easing credit conditions weighted by market share)



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

Chart 6
Credit conditions in the housing loan market – price conditions
(net percentage balance of respondents tightening/easing credit conditions weighted by market share)



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

Chart 7
Factors contributing to changes in credit conditions in the case of housing loans
(net percentage balance of banks indicating a contribution of individual factors to tightening or easing weighted by market share

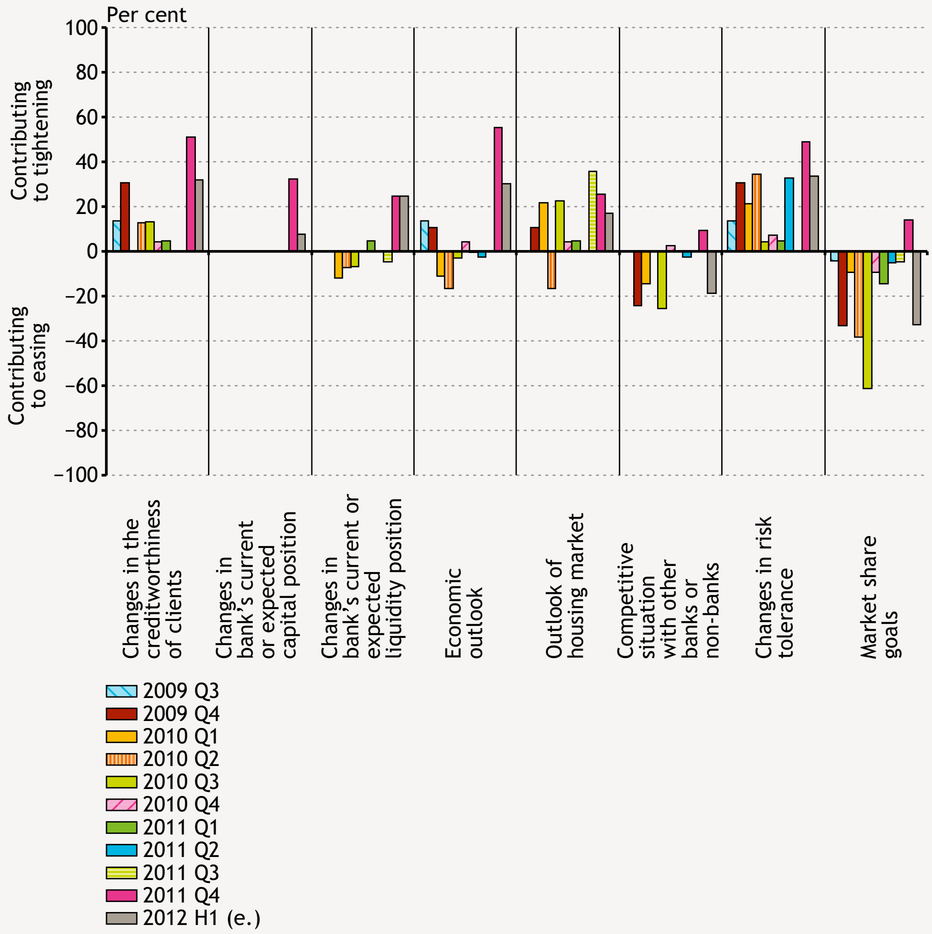


Chart 8
Perceived demand for loans in the household segment
(net percentage balance of respondents reporting increase/decrease in demand weighted by market share)

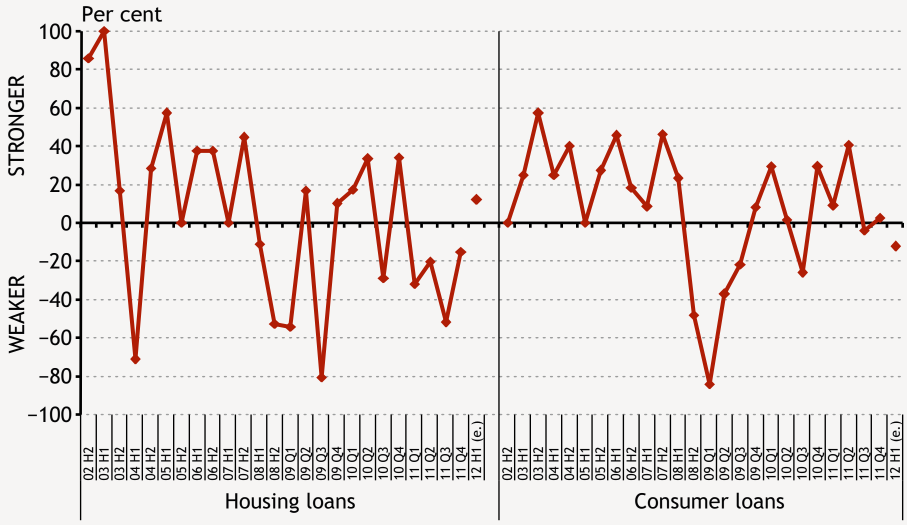
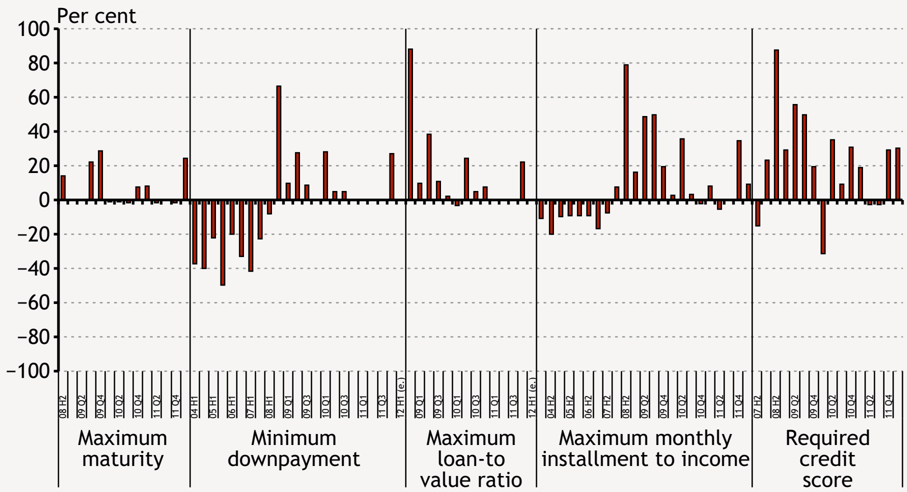
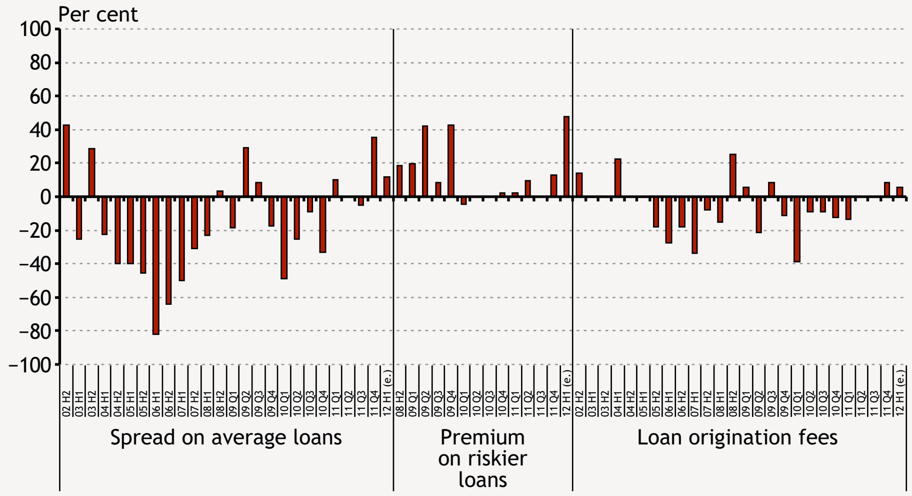


Chart 9
Credit conditions in the consumer loan market – non-price conditions
(net percentage balance of respondents tightening/easing credit conditions weighted by market share)



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

Chart 10
Credit conditions in the consumer loan market – price conditions
(net percentage balance of respondents tightening/easing credit conditions weighted by market share)



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

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

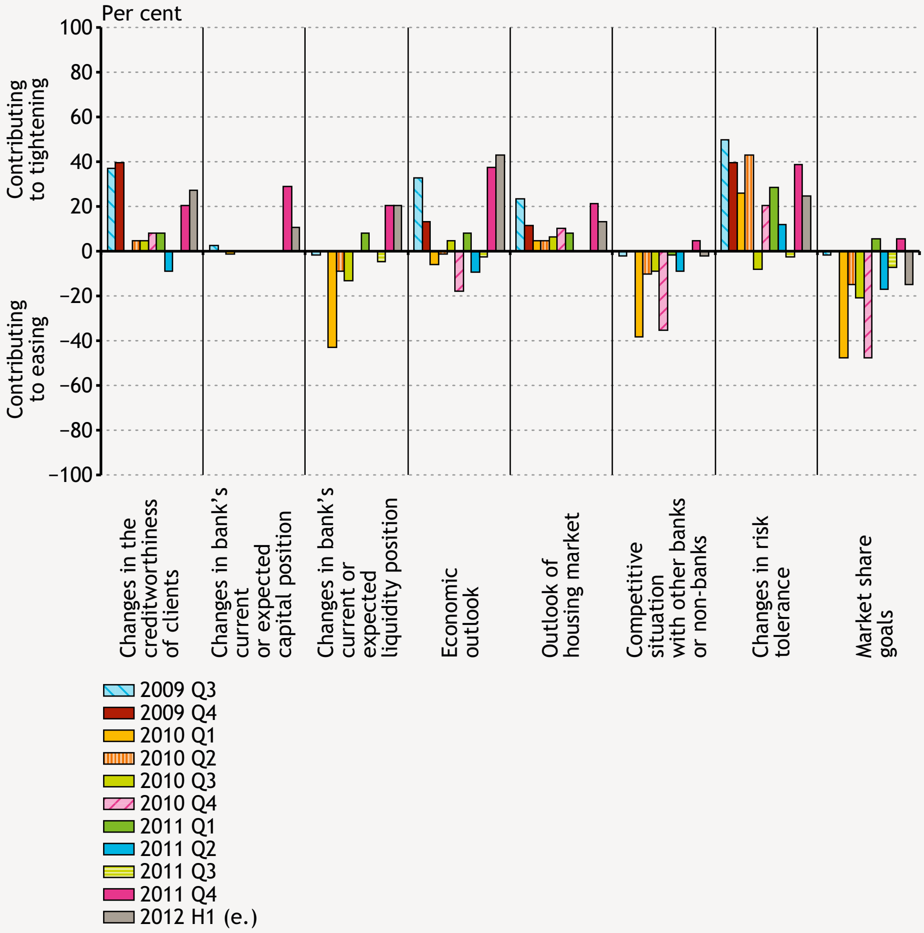
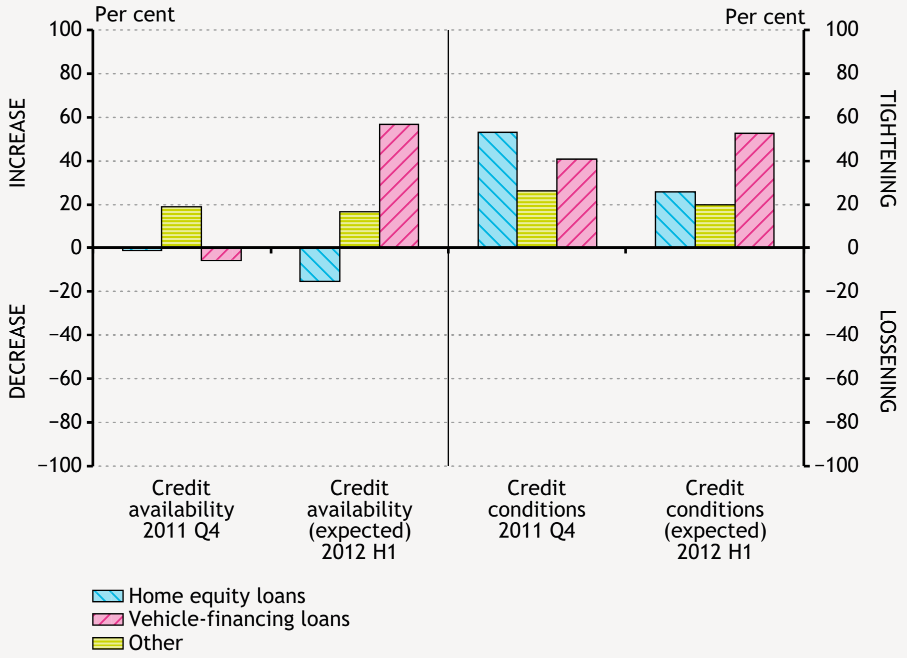
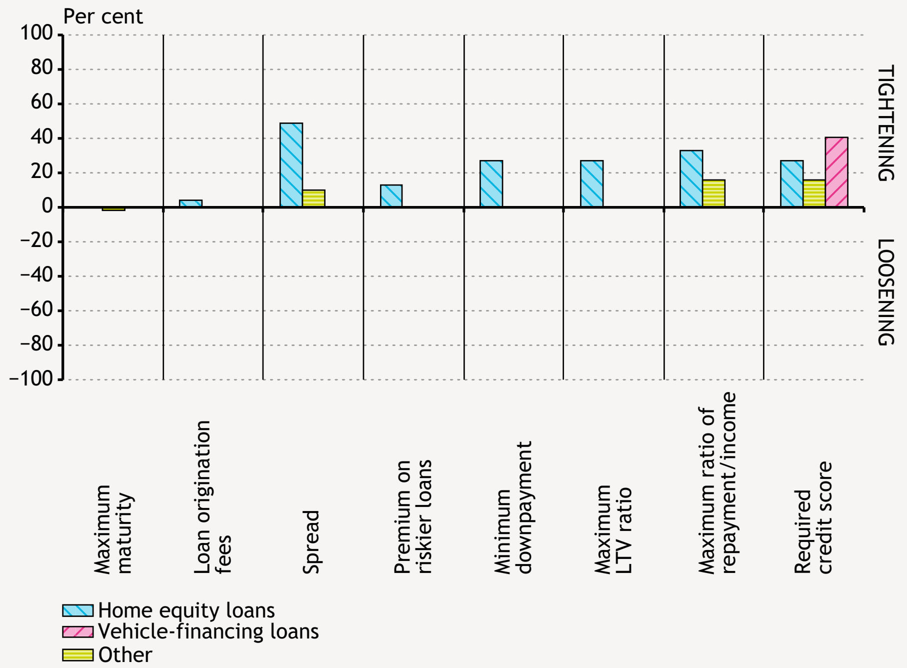


Chart 12
Willingness to lend and credit conditions for different consumer loan products
(net percentage balance of respondents weighted by market share)



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

Chart 13
Credit conditions for different consumer loan products in 2011 Q4
(net percentage balance of respondents tightening/easing credit conditions weighted by market share)



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

Chart 14
Demand for different consumer loan products
(net percentage balance of banks reporting increase or decrease weighted by market share)

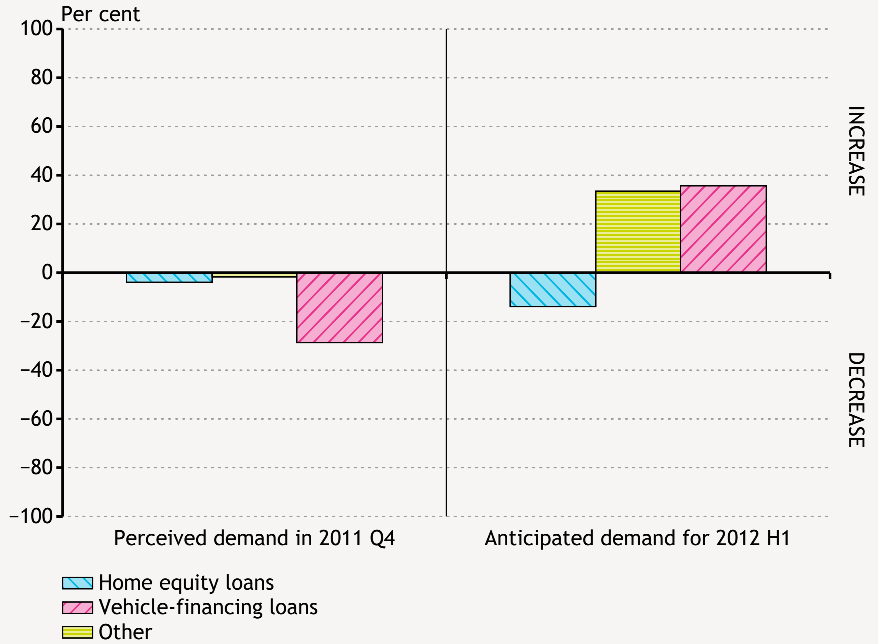
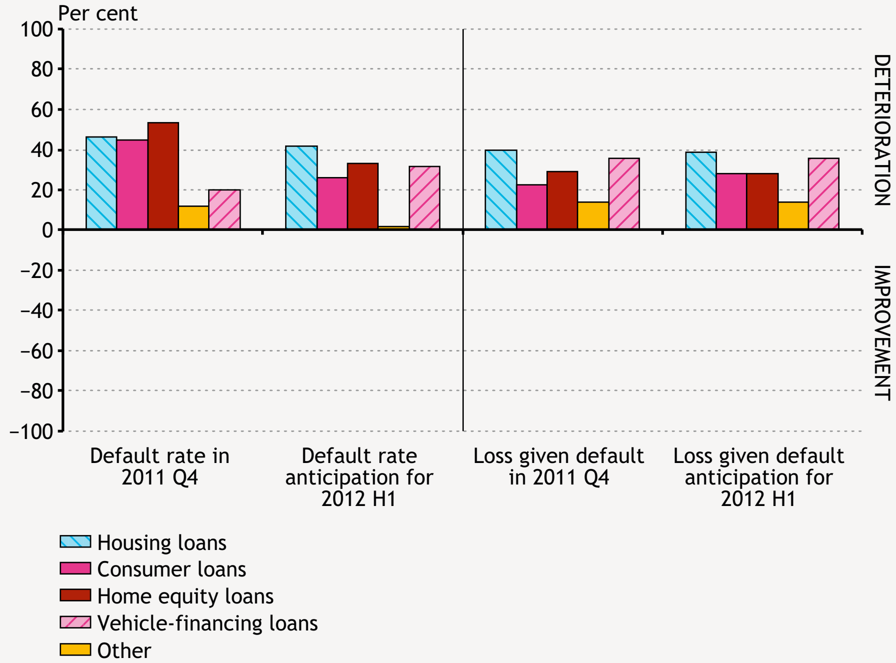
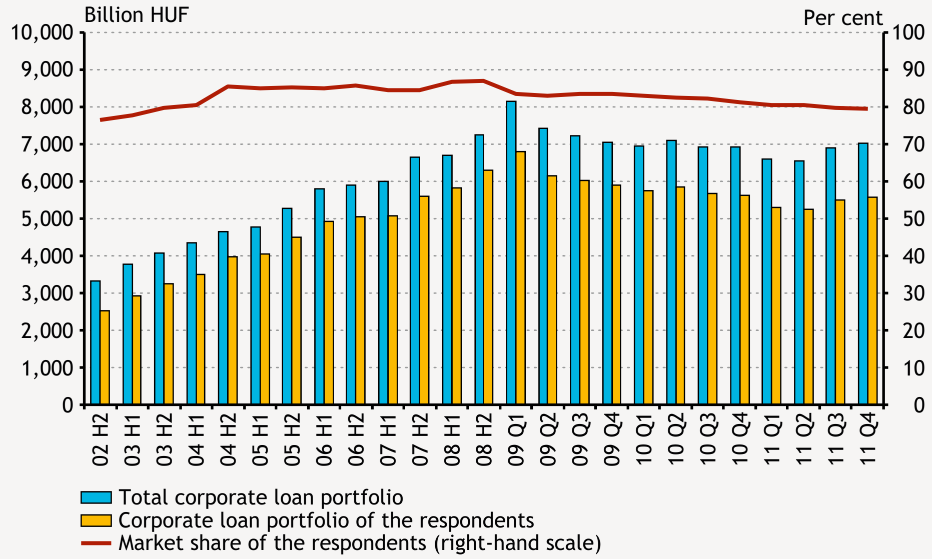


Chart 15
Default rate of loans to households and loss given default
(net percentage balance of banks reporting increase or decrease weighted by market share)



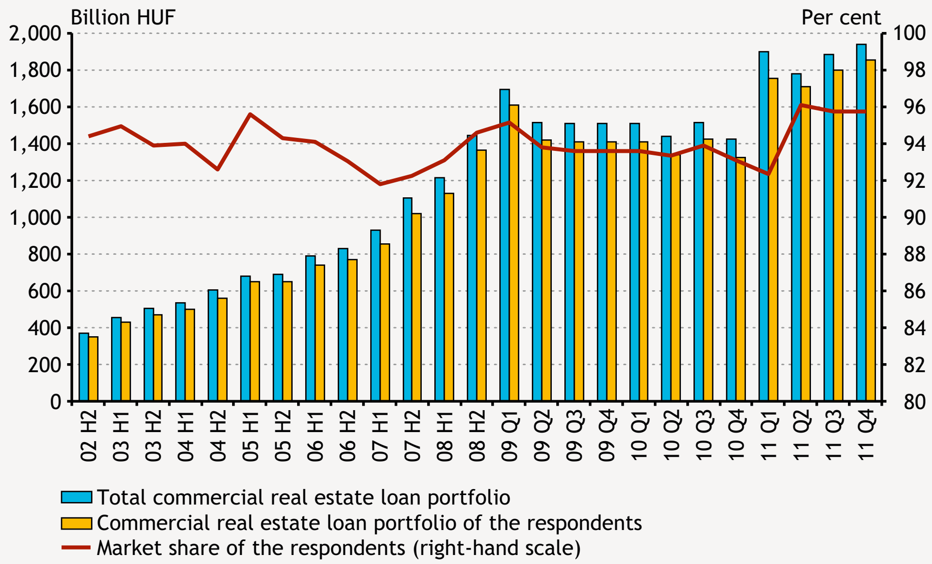
LENDING TO THE CORPORATE SECTOR

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



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

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



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

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

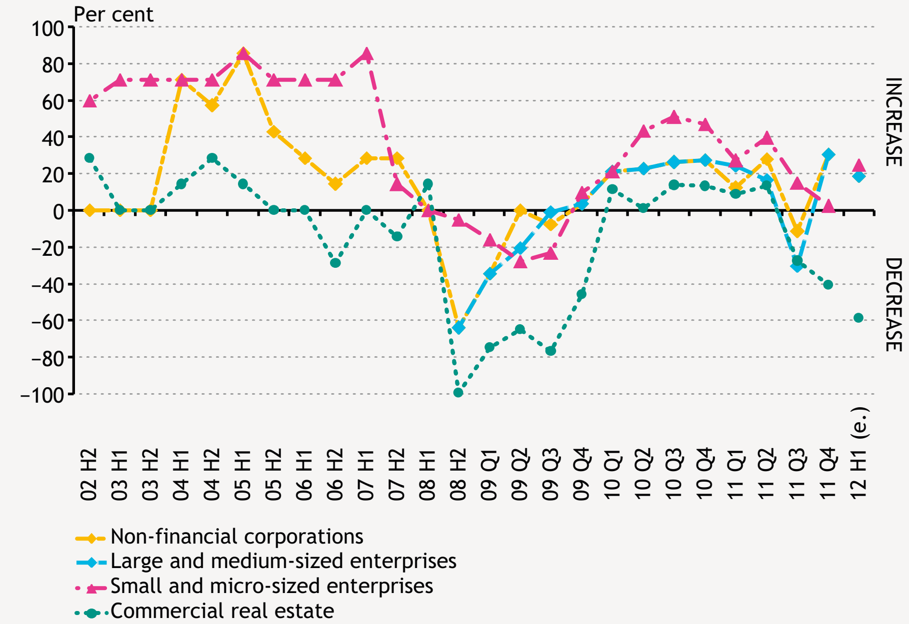
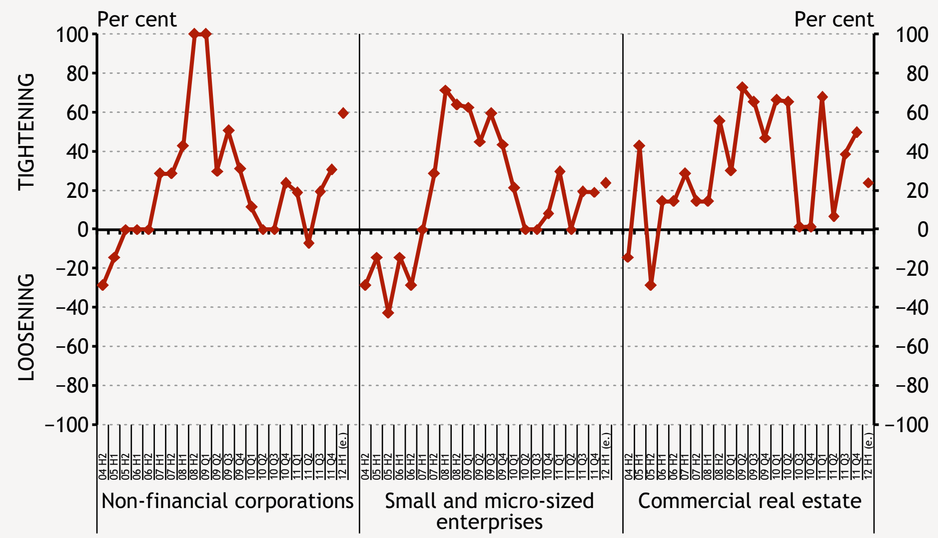
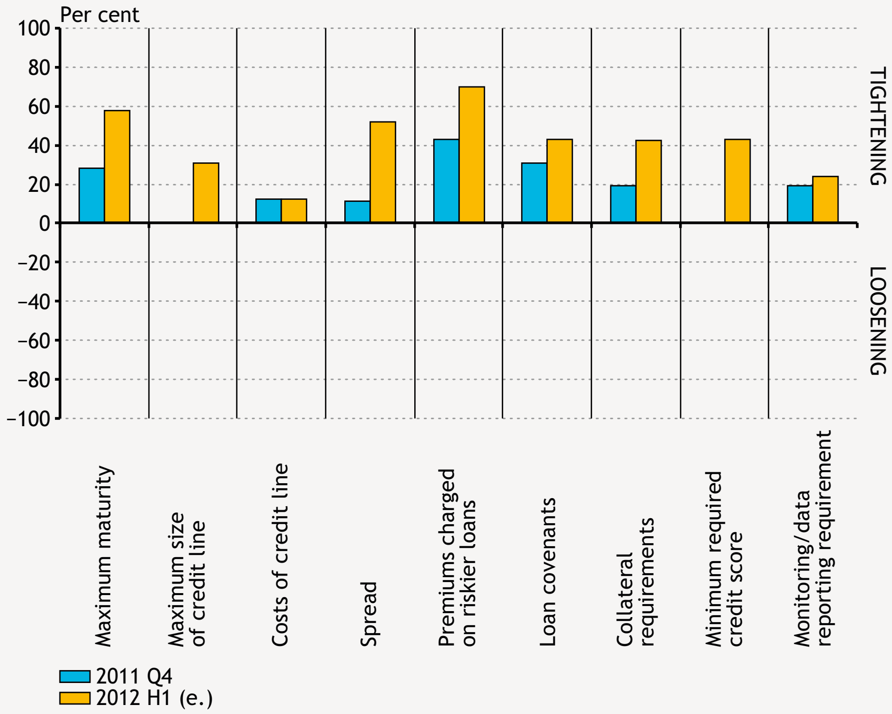


Chart 19
Credit conditions by corporate category and for commercial real estate loans
(net percentage balance of respondents reporting tightening/easing weighted by market share)



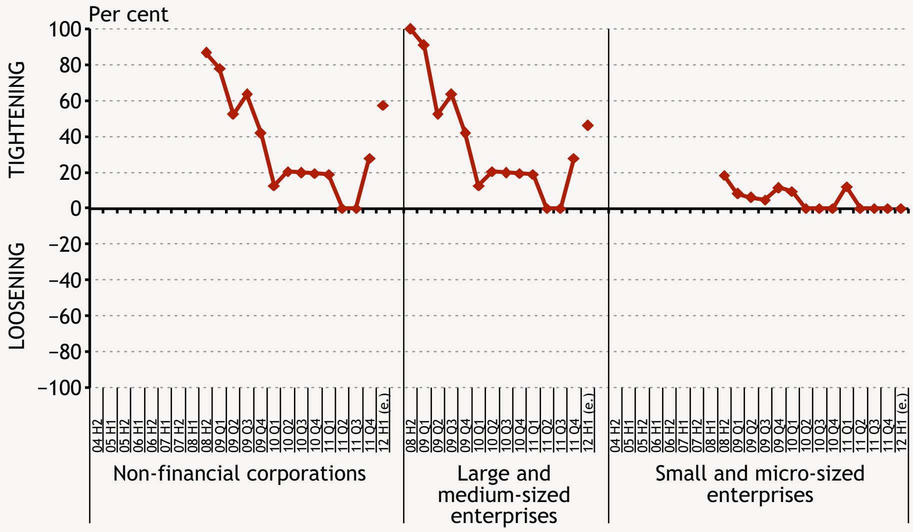
Note: The magnitude of tightening/easing is not shown in the chart.

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



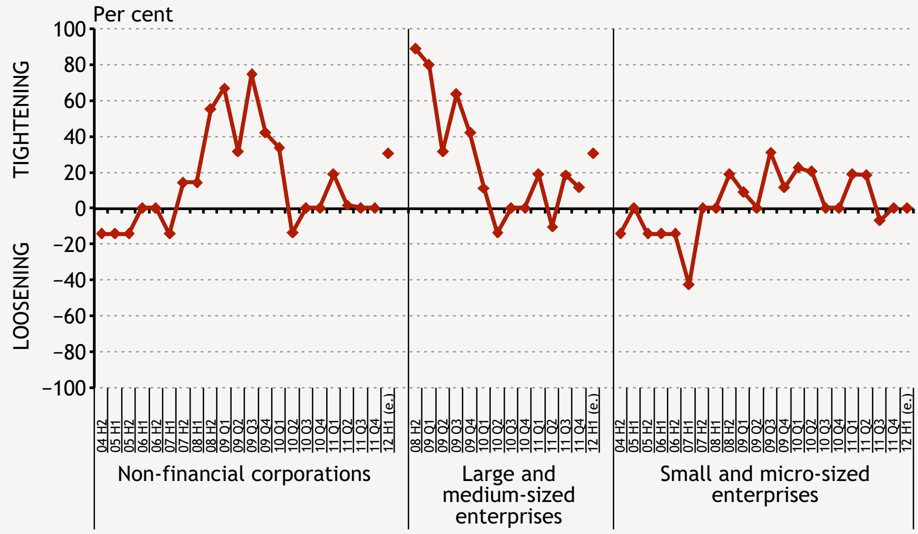
Note: The magnitude of tightening/easing is not shown in the chart.

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



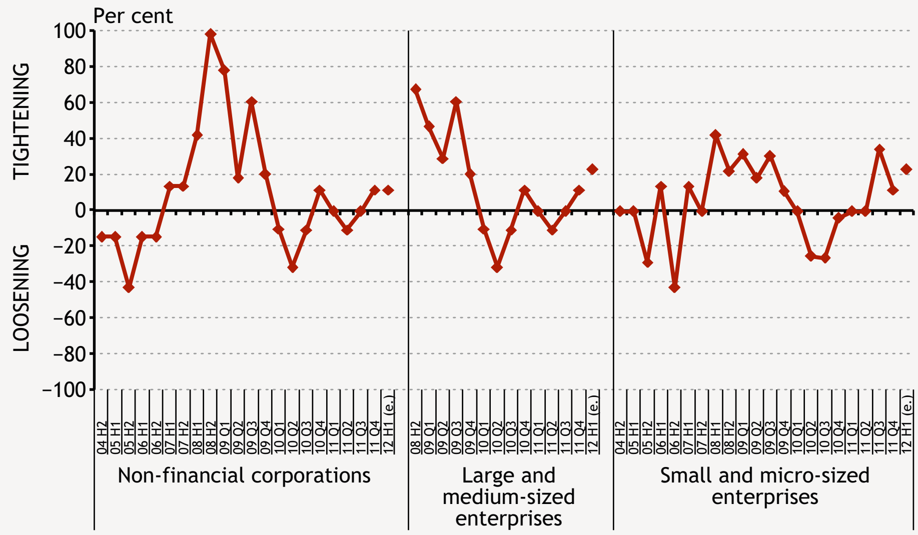
Note: The magnitude of tightening/easing is not shown in the chart.

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



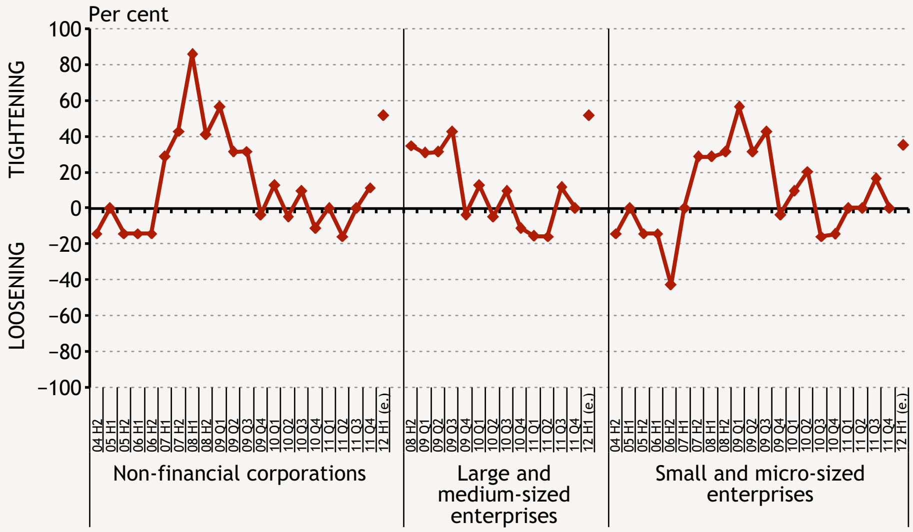
Note: The magnitude of tightening/easing is not shown in the chart.

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



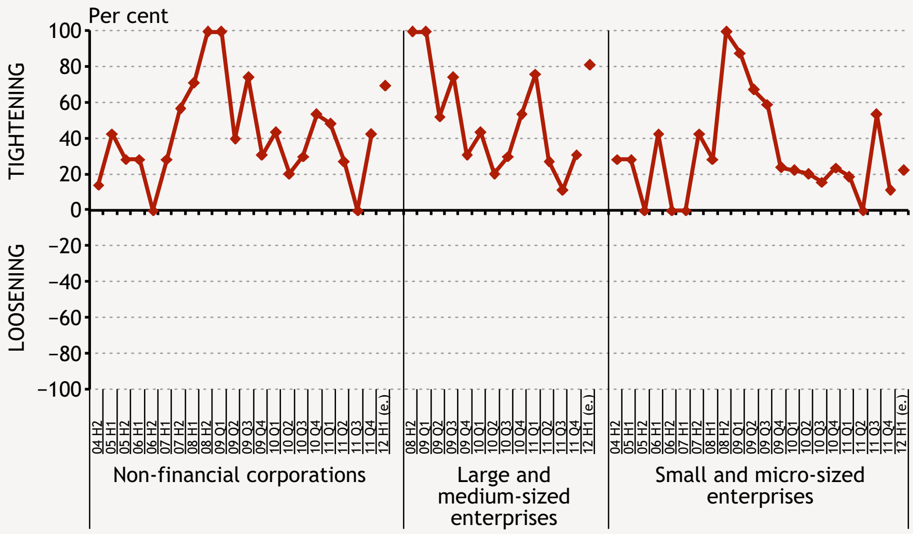
Note: The magnitude of tightening/easing is not shown in the chart.

Chart 24
Spread between lending rates and cost of funds by corporate category
(net percentage balance of respondents reporting tightening/easing weighted by market share)



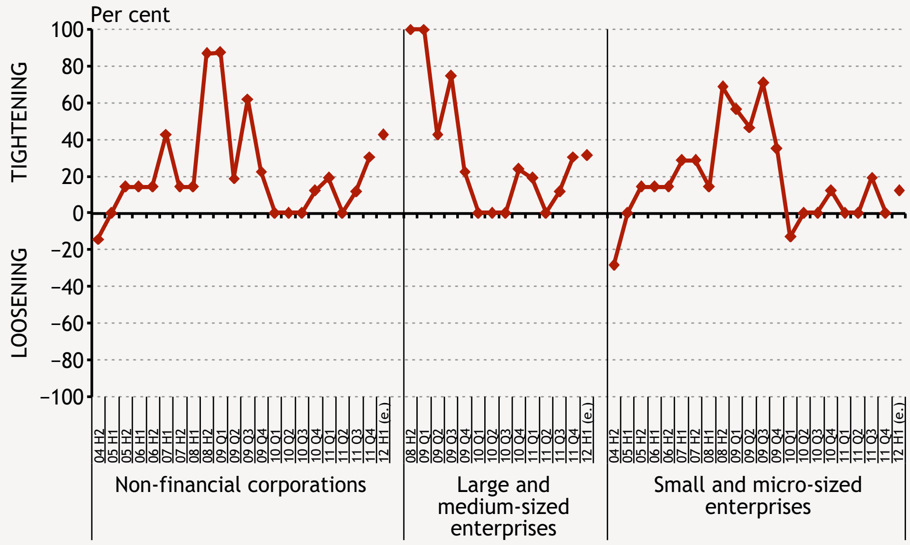
Note: The magnitude of tightening/easing is not shown in the chart.

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



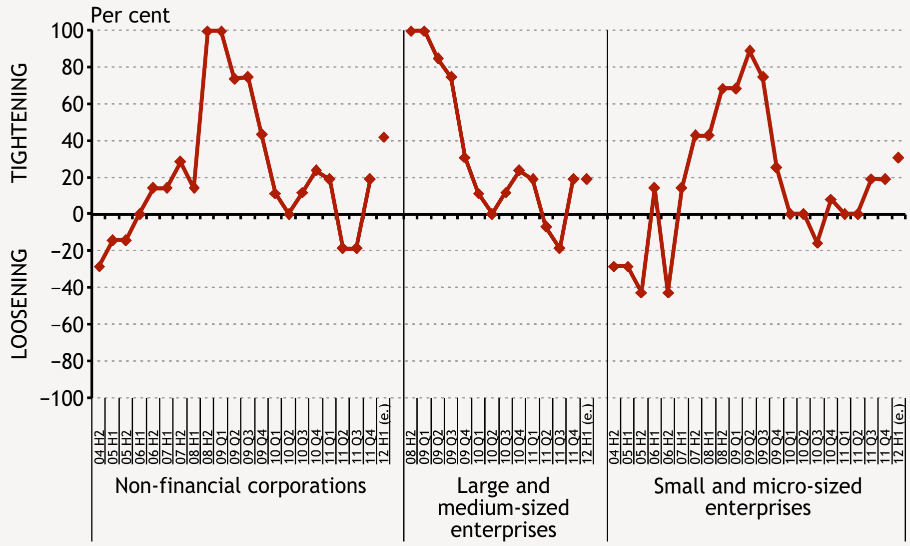
Note: The magnitude of tightening/easing is not shown in the chart.

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



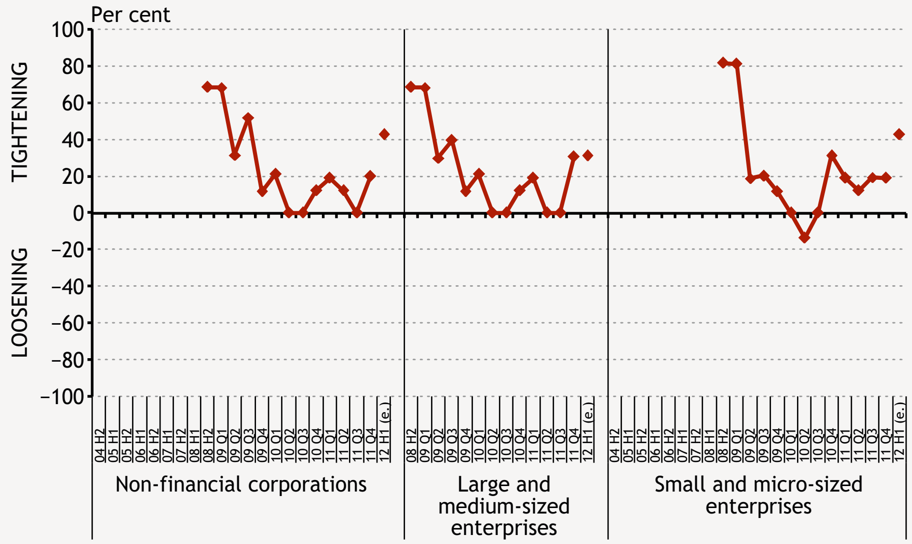
Note: The magnitude of tightening/easing is not shown in the chart.

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



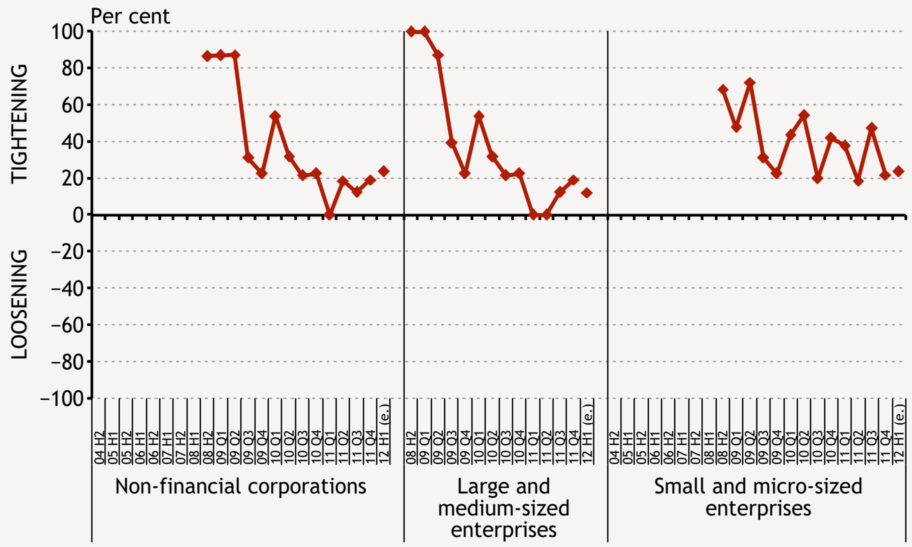
Note: The magnitude of tightening/easing is not shown in the chart.

Chart 28
Minimum required credit score by corporate category
(net percentage balance of respondents reporting tightening/easing weighted by market share)



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

Chart 29
Monitoring/reporting requirements by corporate category
(net percentage balance of respondents reporting tightening/easing weighted by market share)



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

Chart 30
Factors contributing to changes in credit conditions on corporate loans

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

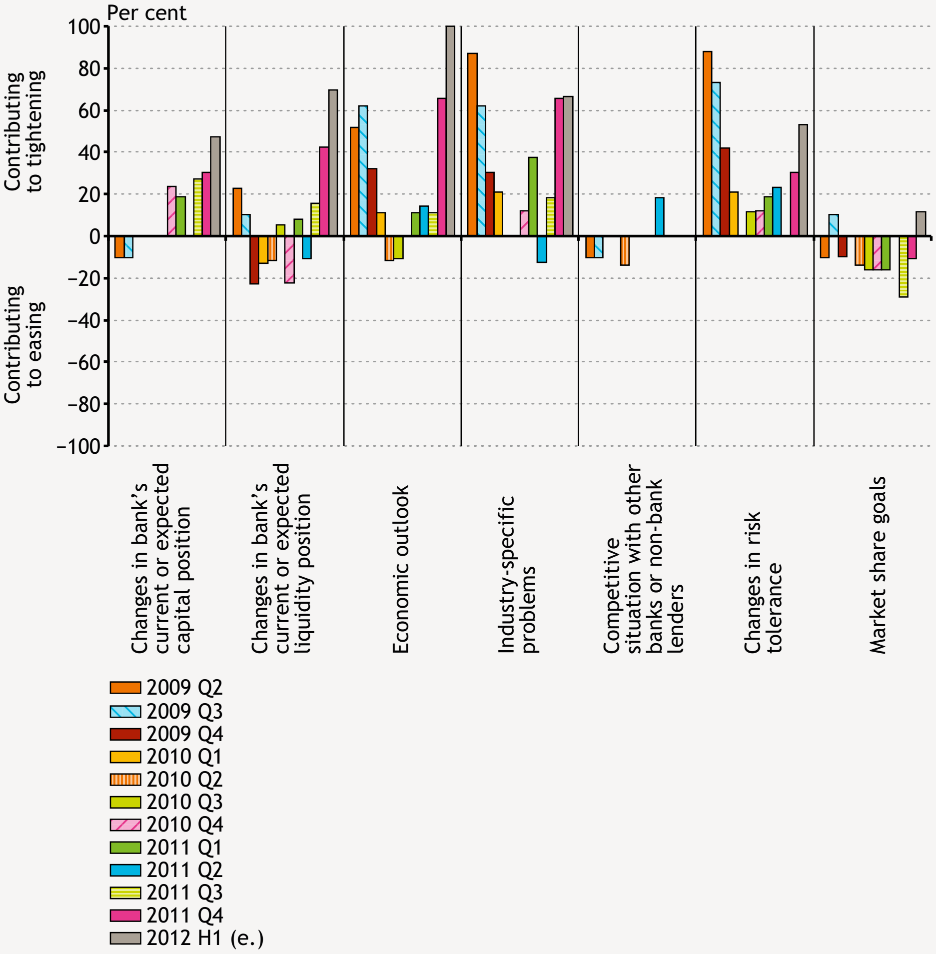


Chart 31
Perceived demand for corporate loans

(net percentage balance of respondents reporting increase/decrease in demand weighted by market share)

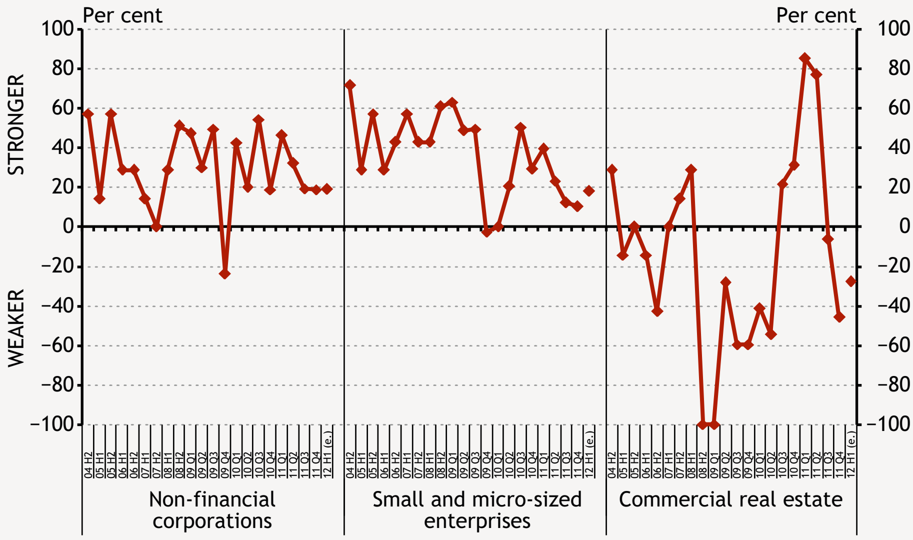


Chart 32
Perceived demand for corporate loans by maturity
(net percentage balance of respondents reporting increase/decrease in demand weighted by market share)

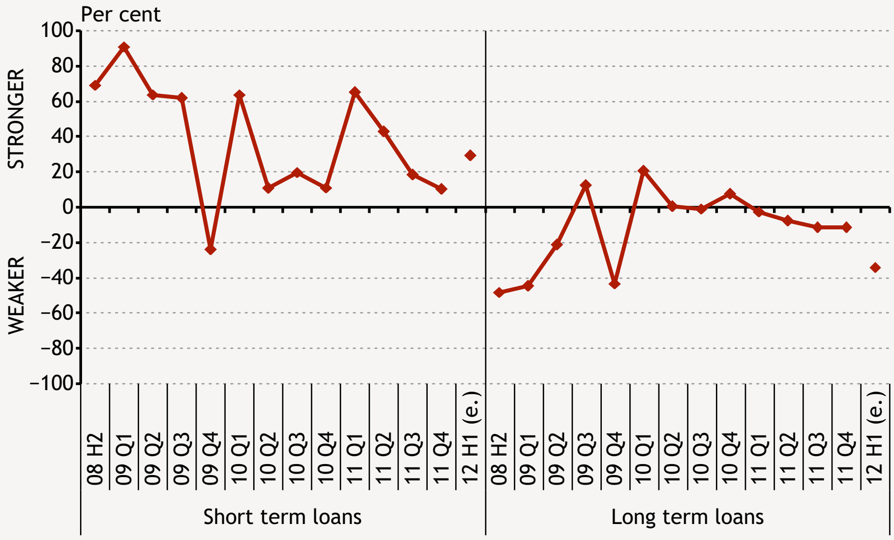


Chart 33
Factors contributing to corporations' demand for loans based on banks' perceptions
(net percentage balance of banks indicating a contribution of individual factors to increase or decrease weighted by market share)

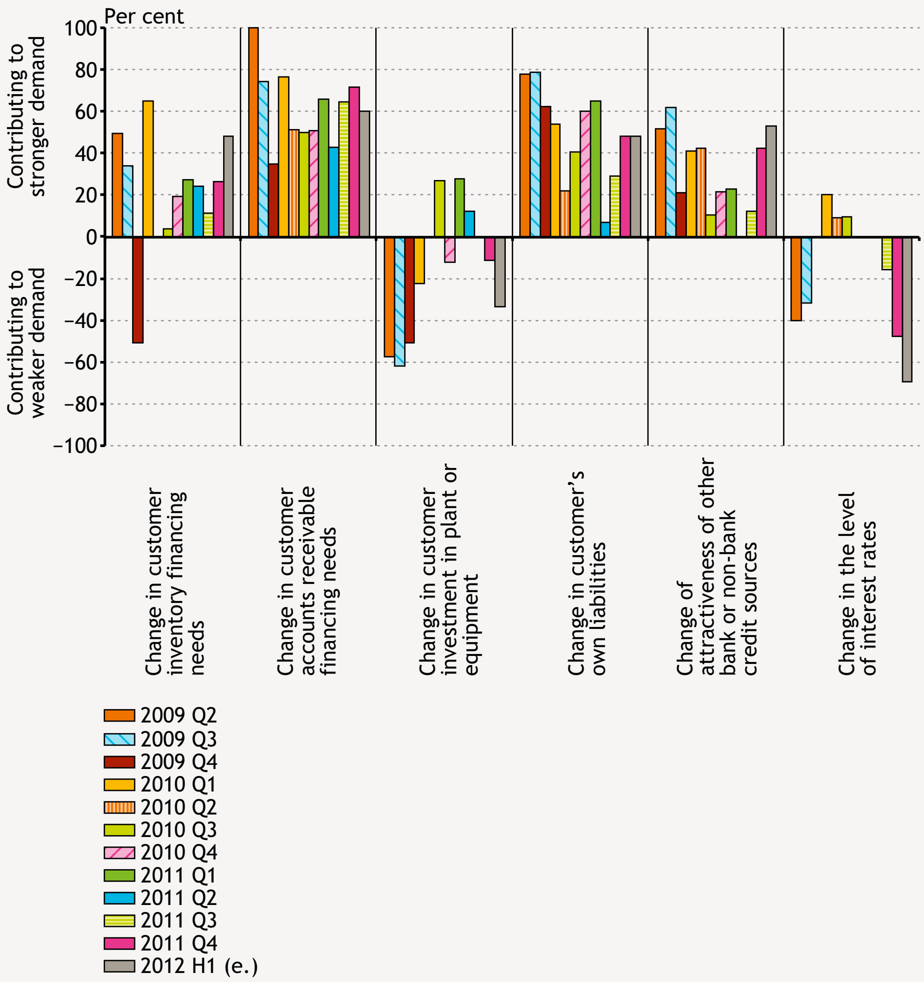


Chart 34
Changes in loan portfolio quality by sector
(net percentage balance of respondents reporting improvement/deterioration weighted by market share)

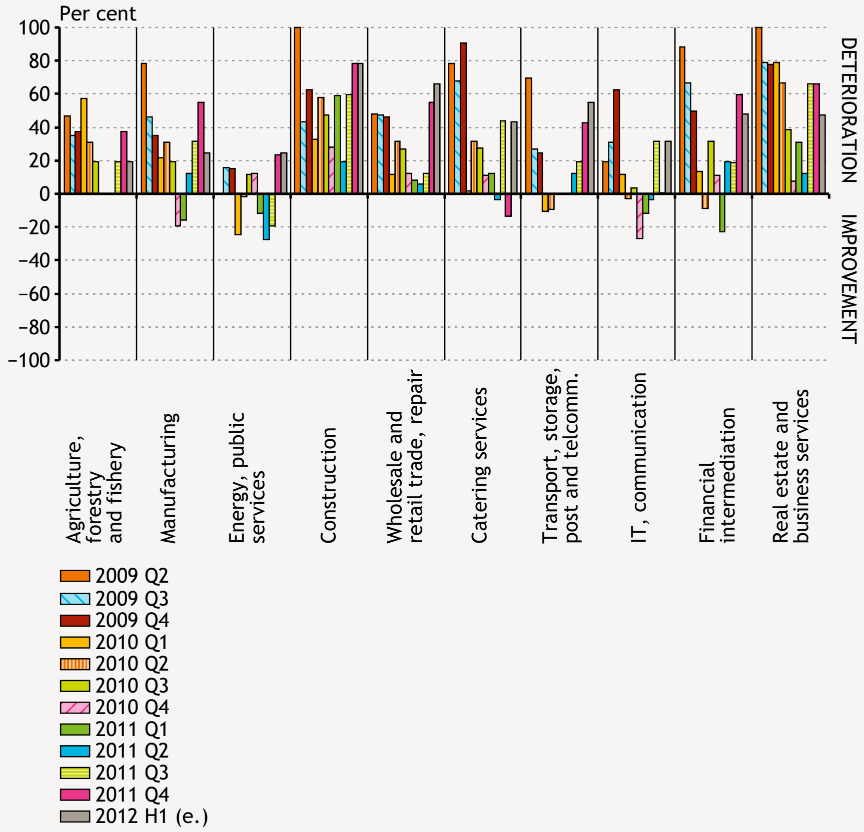
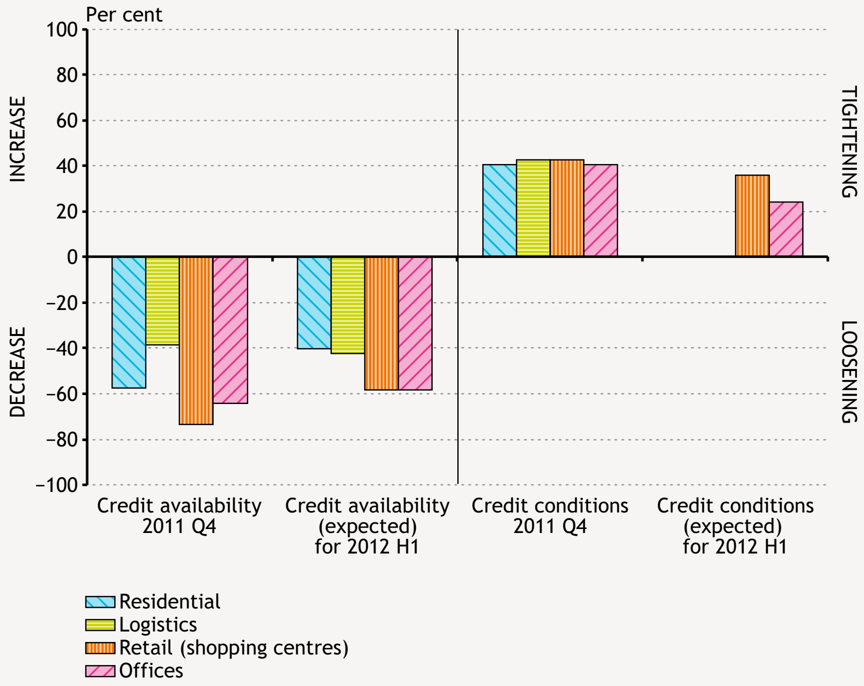


Chart 35
Credit availability (Willingness to lend) and credit conditions in the commercial real estate segment
(net percentage balance of respondents reporting an increase/decrease and tightening/easing weighted by market share)



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

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

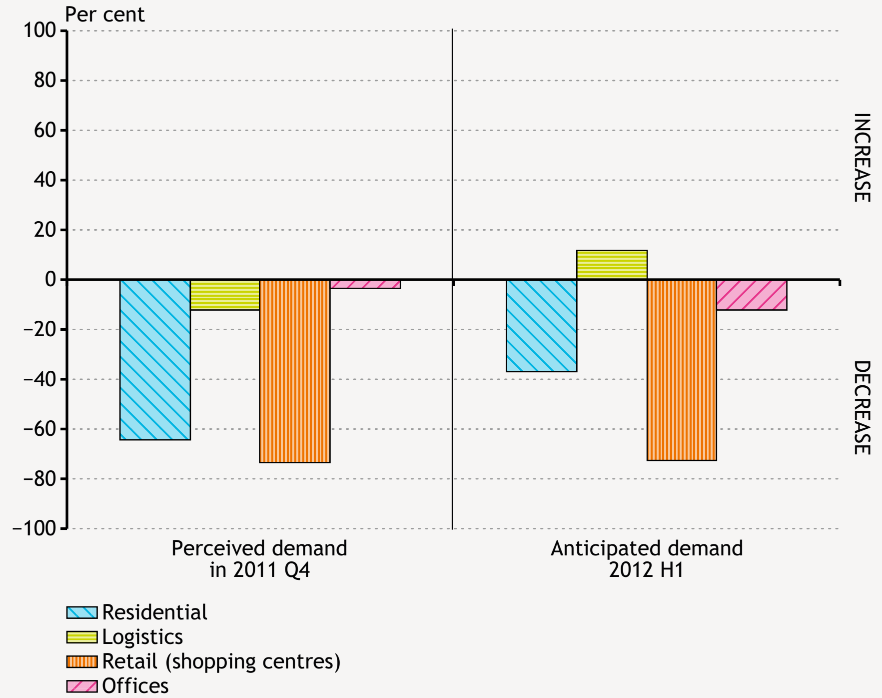
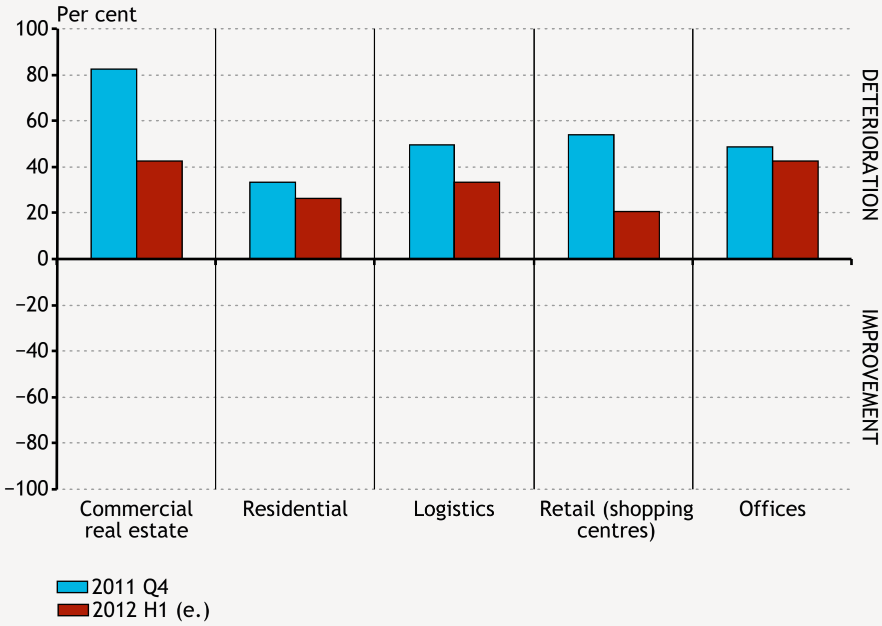


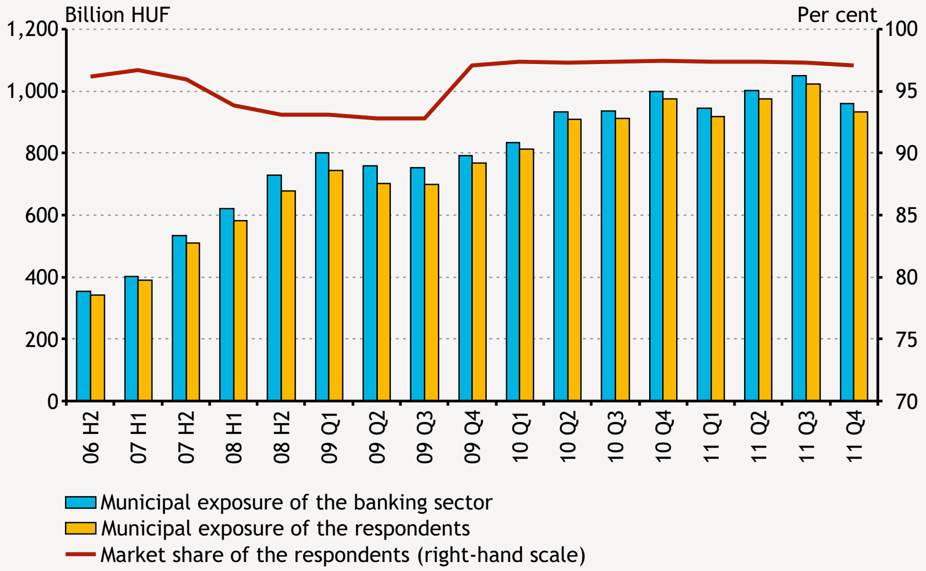
Chart 37
Developments in perceptions of risk associated with corporate loans based on answers provided on default rate and loss given default
(net percentage balance of respondents reporting increased/decreased risk weighted by market share)

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



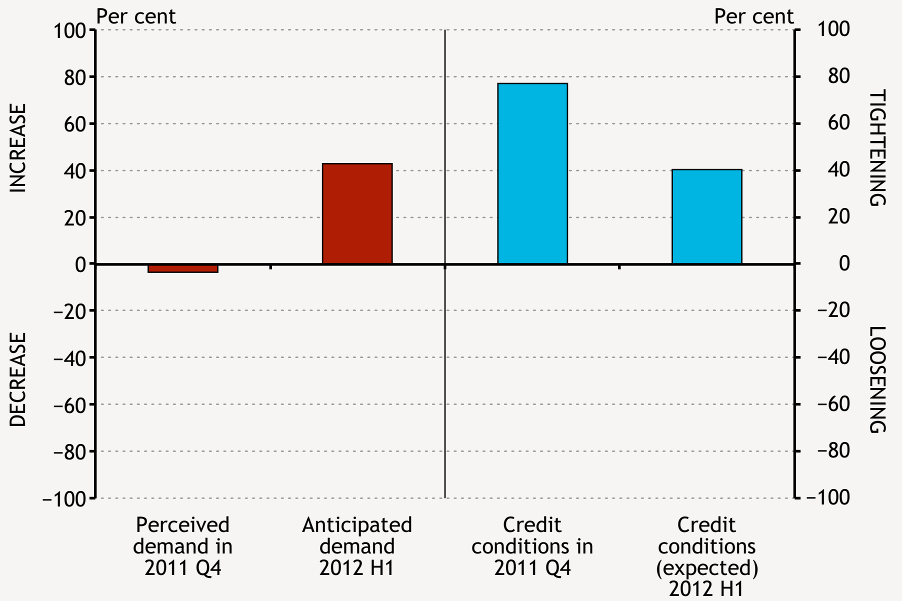
LENDING TO MUNICIPALITIES

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



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

Chart 40
Perceived demand for loans and credit conditions in lending to municipalities
(net percentage balance of respondents reporting an increase/decrease and tightening/easing weighted by market share)



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

Chart 41
Credit availability (Willingness to lend) and portfolio quality in lending to municipalities
(net percentage balance of respondents reporting an increase/decrease and deterioration/improvement weighted by market share)

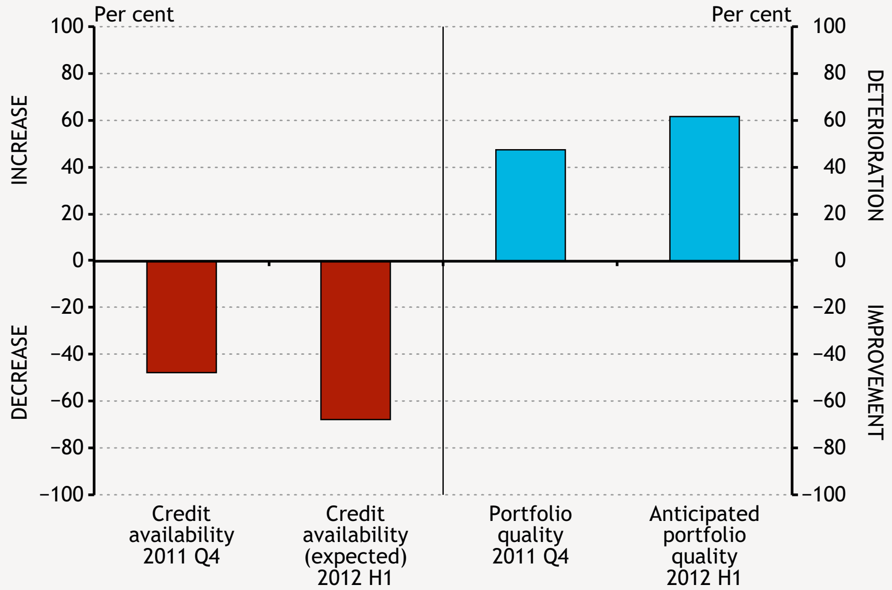
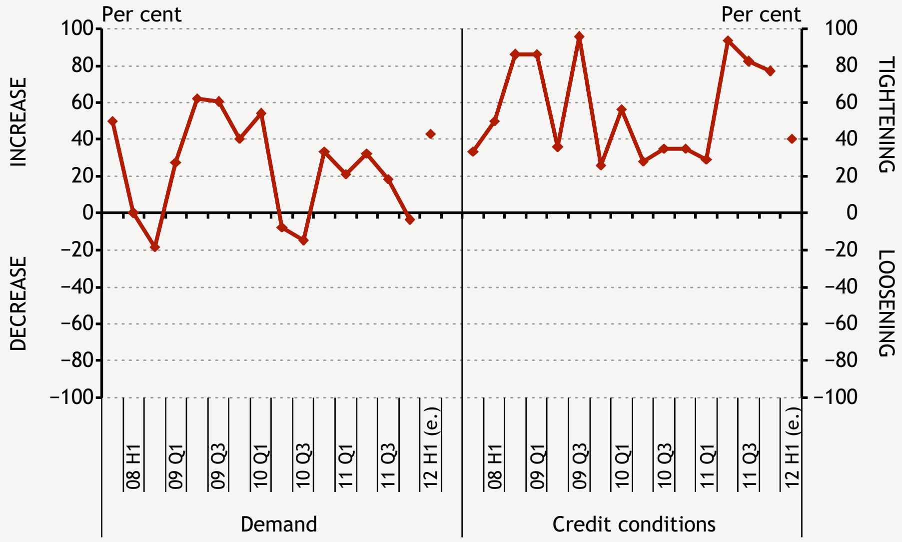


Chart 42
Perceived demand and credit conditions in lending to municipalities since 2007 H2
(net percentage balance of respondents reporting an increase/decrease and tightening/easing weighted by market share)



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

Annex 2: Methodological notes

In terms of methodology – starting from January 2010 – the survey consists of the standard questionnaire in each segment, and we might also ask ad hoc questions of current concerns related to the lending segment. The retrospective questions in the questionnaire refer to the previous quarter year (previous quarter in the past), (e.g. to 2011 Q4 in January 2012), whereas forward-looking questions contain projections for the upcoming half year (e.g. for 2012 H1 in January 2012), relative to the trends of the previous quarter year (previous half year in the past).

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

The standard part of the questionnaire asked respondents for changes in willingness to lend (volume of loans), credit standards and credit/disbursement conditions, as well as changes in demand (observed in the last quarter and, as expected for the next half year, seasonally adjusted changes in new credit applications) and in portfolio quality as perceived by the respondent, and changes in the risk assessment of different sectors in the case of the corporate questionnaire. The survey applied a five-step scaling to assess changes in the willingness to lend, demand, standards/conditions, risk parameters, however on the charts we only show the direction, excluding magnitude:

- A rating of 1 reflects a considerable increase in demand and in willingness to lend, a considerable tightening in credit standards/credit conditions, a considerable increase in housing prices and risk parameters and, in the case of the risk assessment of sectors, a score of 1 indicates a considerable increase in risk perception relative to the half year preceding the survey, or relative to the current half year or for the upcoming half year in the case of a forecast.

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

- A rating of 5 reflects a considerable decrease in demand and in willingness to lend, a considerable loosening of credit standards/credit conditions, a considerable decline in housing prices and risk parameters and, in the case of the risk assessment of sectors, a rating of 5 indicates a significantly safer climate relative to the half year preceding the survey, or relative to the current half year or for the upcoming half year in the case of a forecast.

Ratings of 2 and 4 allow for an intermediate assessment between two extremes (e.g. demand increasing to some extent).

Keywords used for the purposes of the questionnaire are defined as follows:

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

In terms of **credit conditions**[4], there is a distinction between price-related and non-price related factors. Non-price related credit conditions (such as collateralisation requirements, loan covenants, maximum size of loans/credit lines, etc.) represent specific contractual terms; the bank will not disburse the loan unless these conditions are met. Regarding the non-price related factors, the survey queried respondents on items such as the spread between the interest rate level and the cost of funds, and risk premium.

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

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