Senior loan officer survey on bank lending practices

Summary of the aggregate results of the survey for 2012 Q3
November 2012

MAGYAR NEMZETI BANK

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(November 2012)

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The lending survey facilitates the analysis of how major banks perceive and evaluate market developments and how they develop their respective strategies, in particular their lending policies. Aggregating individual answers, weighted by banks' market shares, helps researchers draw conclusions regarding likely changes in the directions and trends in the credit market. The conclusions of this analysis always present the answers provided by senior bank officers; however in certain cases additional background information might be presented so that the user could easily oversee the tendencies. The survey was conducted between 1 and 16 October 2012.

The results of the survey are presented below in the form of a descriptive analysis and by means of charts illustrating the answers. Annex 1 contains the charts pertaining to the individual segments. The methodological background is described in details in Annex 2. Numerical data on the market shares can be found in Annex 3, and answers to the questions are presented in detail in Annexes 4, 5 and 6 (Annexes 3, 4, 5 and 6 are attached as a separate Excel file). The retrospective questions in the questionnaire relate to changes in 2012 Q3, while the forward-looking questions ask respondents for their views about changes they expect over the next six-month period, i.e. in 2012 Q4 and 2013 Q1. Questions focus on changes perceived relative to the previous quarter: the base period is 2012 Q2 for retrospective questions and 2012 Q3 for forward-looking questions.

In the case of the household segment, a total of 14 banks were involved in the interviews. 10 banks responded to questions related to housing loans, while 14 banks and 6 financial enterprises questions on consumer loans. Based on data from the end of 2012 Q3, the surveyed institutions accounted for 92 per cent of the banking sector in the case of housing loans outstanding, while 94 per cent in the case of consumer loans outstanding. The corporate questionnaire was completed by 7 banks, with a total market share of 80 per cent and 96 per cent of the corporate loan and commercial real estate loan markets, respectively. A total of 7 banks were interviewed on the subject of loans extended to municipalities. Based on data from the end of 2012 Q3, the institutions surveyed covered 97 per cent of total municipal exposure by banks.

Contents

According to the lending survey conducted in October 2012,[1] credit conditions to households were reported to have eased in 2012 Q3, mainly in terms of price factors, for both housing and consumer loans, resulting in a further adjustment of the broad-based tightening at the end of 2011. Banks did not expect any major changes in conditions over the period 2012 Q4–2013 Q1. The possible effect of the state interest rate subsidy scheme is reflected in the upturn in the demand for housing loans which is anticipated by banks over the next half year.

As in previous quarters, there was further tightening in non-price credit conditions in the corporate segment. Banks cited the economic outlook and industry-specific problems as factors contributing to tightening. Based on banks' responses, no change in corporate credit conditions is expected over the next half year.

In terms of its extent and direction, the easing in credit conditions in the household segment in 2012 Q3 was more favourable than anticipated, while the tightening that occurred in the corporate segment was in line with banks' forward-looking expectations as reported in the previous quarter.

In the euro area, credit conditions were reported to have tightened further, both in the household and corporate segments in Q3 as well. In Poland and the Czech Republic, housing loan conditions tightened, while conditions on consumer loans remained unchanged compared to the previous quarter. In the previous quarter, corporate credit conditions continued to tighten in other CEE countries as well, but a smaller share of banks reported tightening than in Hungary – similarly to the earlier trend.

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

Segments		Supply		Perceived demand	
		2012 Q3	2012 Q4–2013 Q1 (e.)	2012 Q3	2012 Q4–2013 Q1 (e.)
Household	Housing	↑	↑	↑	↑
	Consumer	↑	↑	↑	↑
Corporate		↓	→	→	↑

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

FURTHER ADJUSTMENT IN CREDIT CONDITIONS TO HOUSEHOLDS

In the previous survey, banks did not forecast any major intention to change conditions on housing loans (4 per cent planned tightening for 2012 H2), but in net terms nearly 20 per cent of banks reported that they had eased conditions on housing loans. The easing was reflected in the price conditions on loans, in loan origination fees and the interest rate spread. In addition, tightening also took place in the premium on loans with higher default risk. Accordingly, the correction continued after the broad-based tightening observed at end-2011. A contradictory picture is observed in expectations for the coming half year: overall, a net 2 per cent of banks expected to ease credit conditions, but this is the balance of the responses of two loosening banks and one tightening bank.

In net terms, nearly 9 per cent of banks reported that they eased the conditions on consumer loans in 2012 Q3, while more than 13 per cent expected further easing over the coming half year, i.e. in 2012 Q4 and 2013 Q1. The easing primarily related to price conditions; mostly it was the magnitude of the spread that charged.

Based on the previous lending survey, most of the banks had expected an upturn in demand for both housing and consumer loans. By contrast, for 2012 Q3 in net terms only 10 per cent of banks indicated stronger demand for housing loans, and only 7 per cent for consumer loans. Similarly to the previous survey, banks expected stronger demand over the next half year again: a net 77 per cent of banks in the case of housing loans and a net 31 per cent in the case of consumer loans.

[1] The survey was conducted between 1 and 16 October 2012, when the Government measures respecting the transactional tax and bank levy were not known.

Expectations regarding housing loans may be supported by the launch of the state interest rate subsidy scheme, resulting in a gradually declining interest rate subsidy for debtors over five years. The programme was amended in mid-July, when the maximum level of the interest rate that can be charged was raised; thereby making the scheme attractive for banks which had previously been passive in the first half of the year. As a result, the maximum interest rate chargeable rose to some 13 per cent: after deduction of the interest rate subsidy, the client pays around 8 per cent of this in the beginning (in the first year), with the rate increasing to around 9–10 per cent towards the end of the 5-year interest rate subsidy scheme. Banks announced the new, favourable schemes in August. The increase in demand for the state interest rate subsidy programme is indicated by the 20 per cent growth in new subsidised housing loans from 2012 Q2 to Q3. With this, in 2012 Q3 subsidised loans already amounted to more than 8 per cent of new housing loan volumes. However, it should be noted that new lending is at a historically low level. The future upswing in the interest rate subsidy will only be seen in the balance-sheet data; it will not appear in the interest rate levels reported by banks, as they report the interest rates together with the interest rate subsidy to the MNB.

TIGHTENING OF CORPORATE CREDIT CONDITIONS

Corporate credit conditions were reported to have tightened further in 2012 Q3. A net 22 per cent of banks reported that they had tightened conditions. Tightening was mainly reflected in the maximum size of credit lines, higher interest rate spreads and risk premiums, but was also implemented in loan covenants, collateral requirements and minimum required credit scores. Based on banks' responses, no change in corporate credit conditions is expected over the next half year. Respondents primarily cited the economic outlook and industry-specific problems as factors contributing to the tightening of credit conditions, while banks' capital position and changes in competition and market share goals point to easing.

As far as demand for loans is concerned, the trend observed in the last several quarters continued: demand for short-term loans increased, while demand for long-term products dropped. In the current survey, a net 41 per cent of banks indicated that they had perceived weaker demand for investment loans than in the previous quarter. Such a high share of banks indicating a decline has not been seen since 2009. Looking ahead, a net 17 per cent of banks expected a further increase in demand for short-term loans, whereas a net 19 per cent of respondents expected stronger demand for long-term loans over the next half year compared to Q3.

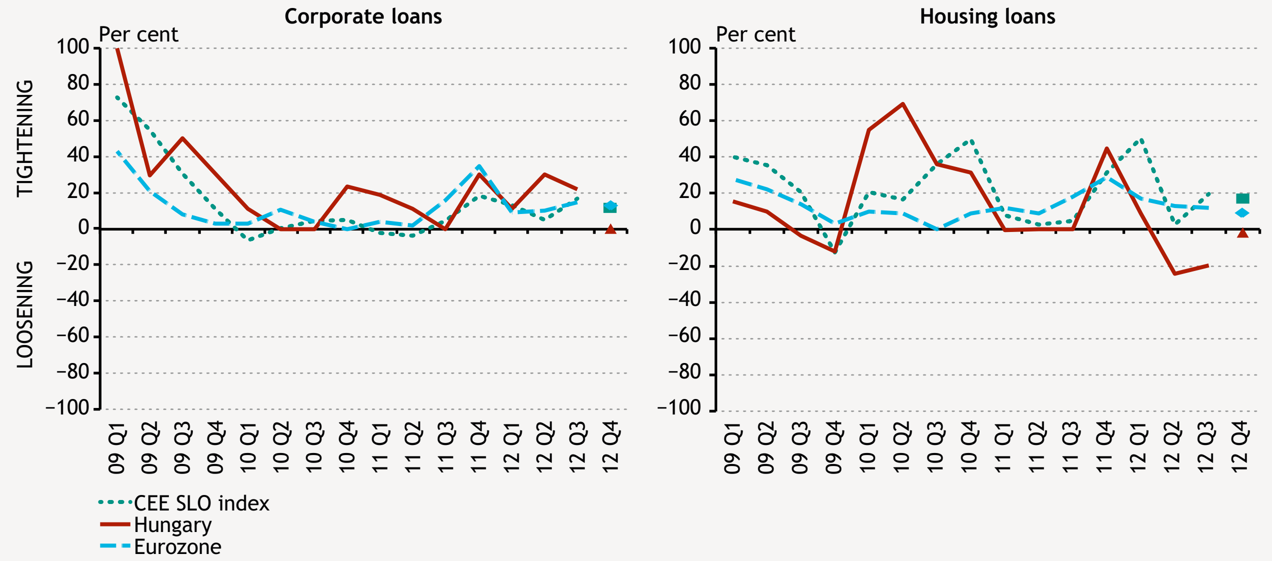
CONTINUED TIGHTENING IN THE EURO AREA AS WELL

In the household segment, credit conditions on housing loans were reported to have tightened in both the euro area[2] and the countries of the region under review (Poland[3] and the Czech Republic[4]), while conditions on consumer loans were reported to have tightened slightly in the euro area and remained unchanged in the Czech Republic and Poland compared to the previous quarter. The tightening of housing loan conditions appears in the CEE SLO-index calculated for several countries in the region as well. In the case of housing loans, tightening primarily affected the spread between lending rates and funding costs. This is reflected in a rise in the APR as well; interest rate spreads continued to increase and at present they exceed even the highest values seen before in 2009. For Q4, respondents expected further tightening in housing loan conditions in the euro area and Poland, while the responses of banks suggest easing in the Czech Republic. Based on banks' responses, consumer loan conditions are only expected to ease in Poland.

Credit conditions were reported to have tightened in the corporate segment in 2012 Q3 in the euro area and in the regional countries except Romania. Comparing the net percentage of tightening institutions in Hungary and the CEE-average, it was higher in Hungary – similarly to previous periods. Respondents indicated factors related to willingness to lend as contributing to tightening similarly to the situation in Hungary; lending capacity – and within that the capital position – resulted in tightening only in the Czech Republic and – to a lesser extent – in the euro area. In all three cases, tightening affected the premium on riskier loans as well as the spread between the funding costs and lending rates. The lending surveys do not suggest any change in trends in the last quarter of 2012 either; respondents anticipated further tightening in credit conditions.

[2] http://www.ecb.int/stats/money/surveys/lend/html/index.en.html
[3] http://www.nbp.pl/homen.aspx?f=/en/systemfinansowy/kredytowy2012.html
[4] http://www.cnb.cz/en/bank_lending_survey/index.html

Chart 1
Credit conditions in Hungary and the CEE-countries in the corporate segment and the housing loan market

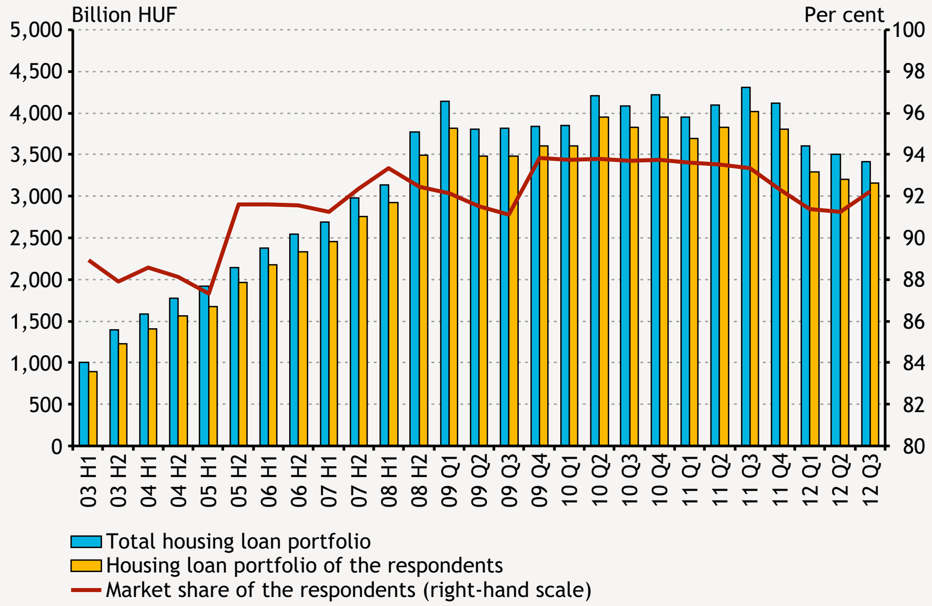


Note: The magnitude of tightening/easing is not shown in the chart. Data for Slovakia is only available for half-years; we used the same data for two quarters. Weighted average with loans to residents.
Source: ECB, national banks, MNB.

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

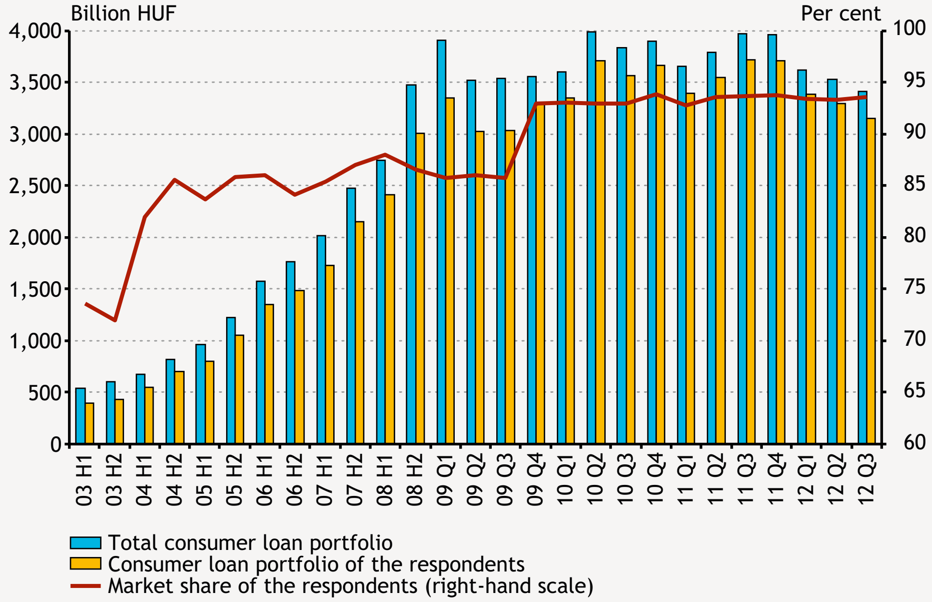
LENDING TO HOUSEHOLDS

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



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

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



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

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

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

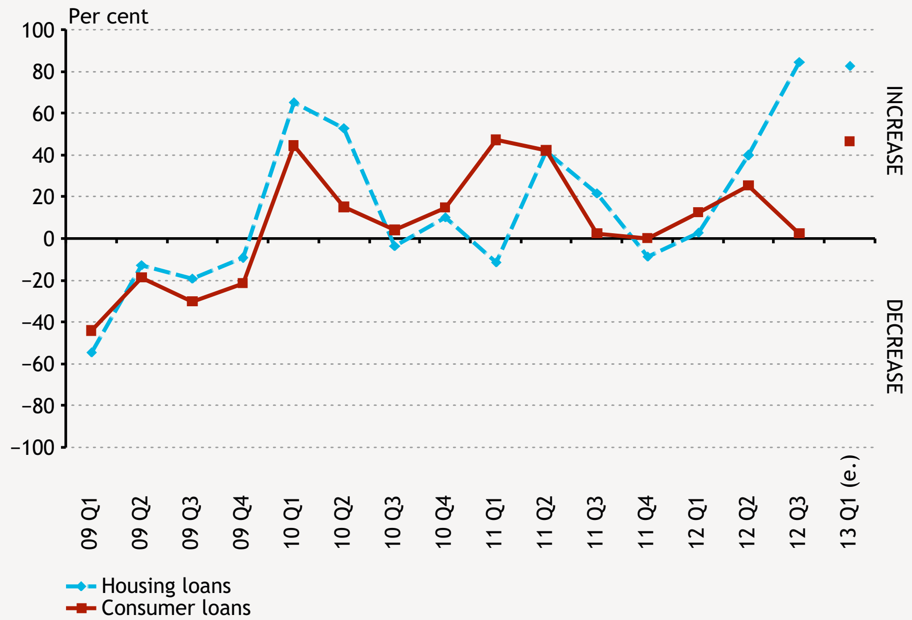
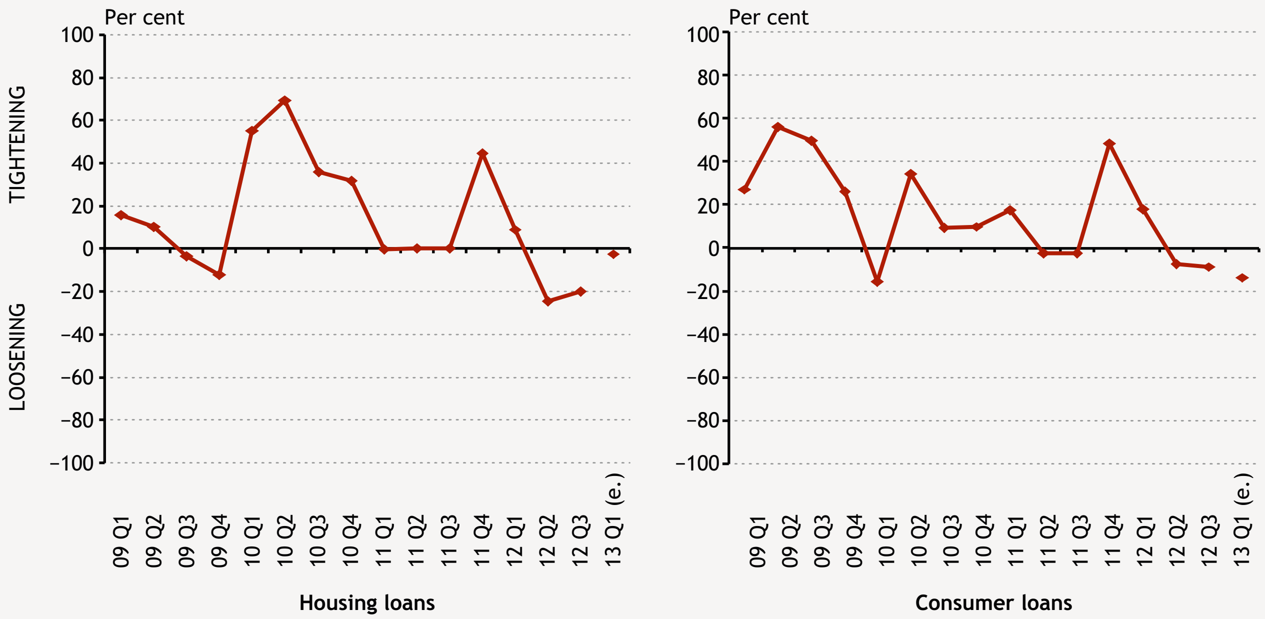
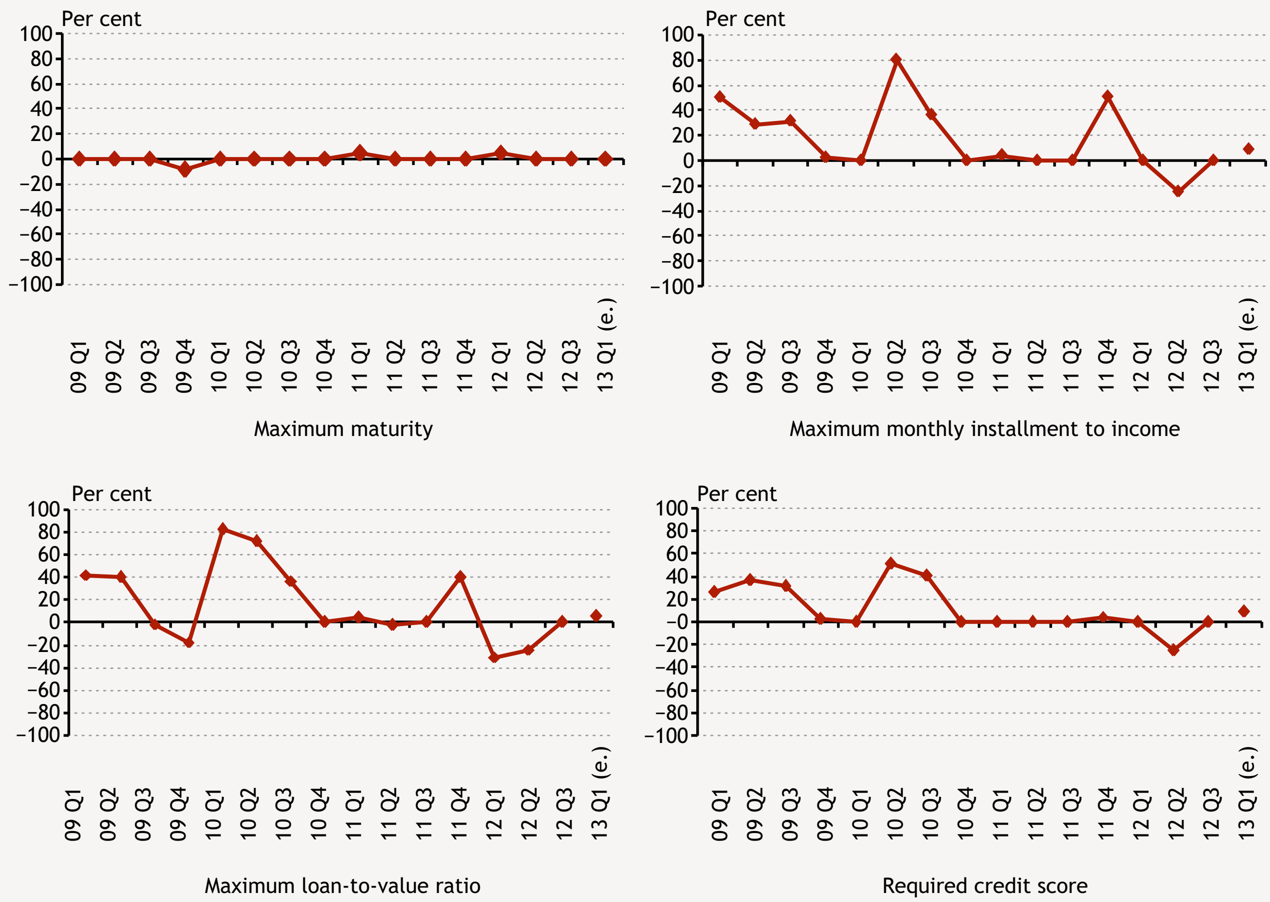


Chart 4
Credit conditions in the housing loan and consumer loan markets
(net percentage balance of respondents tightening/easing credit standards weighted by market share)



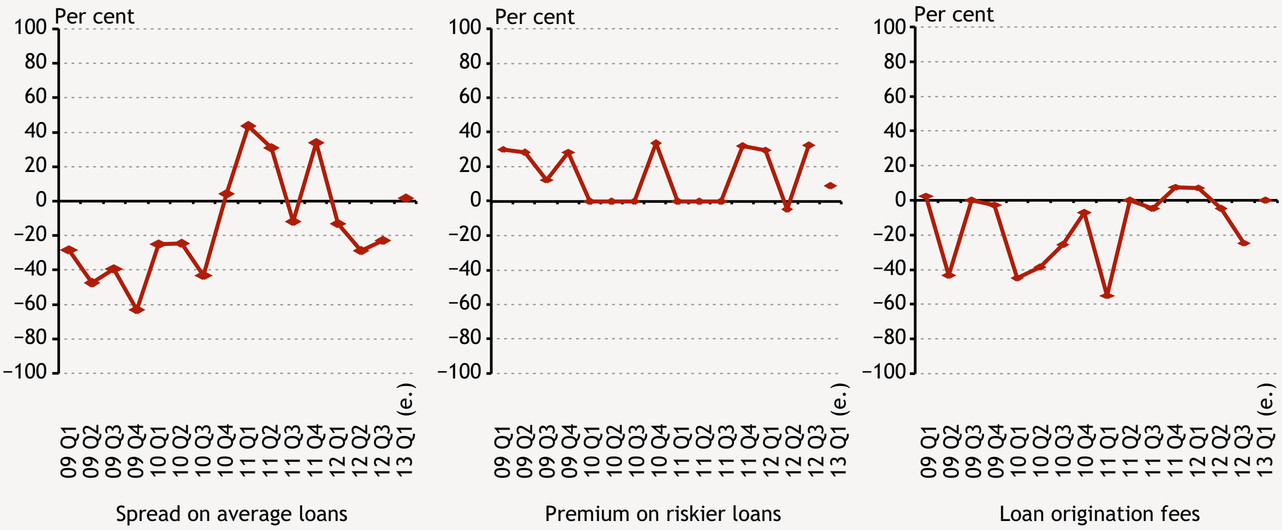
Note: The magnitude of tightening/easing is not shown in the chart.

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



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

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



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

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

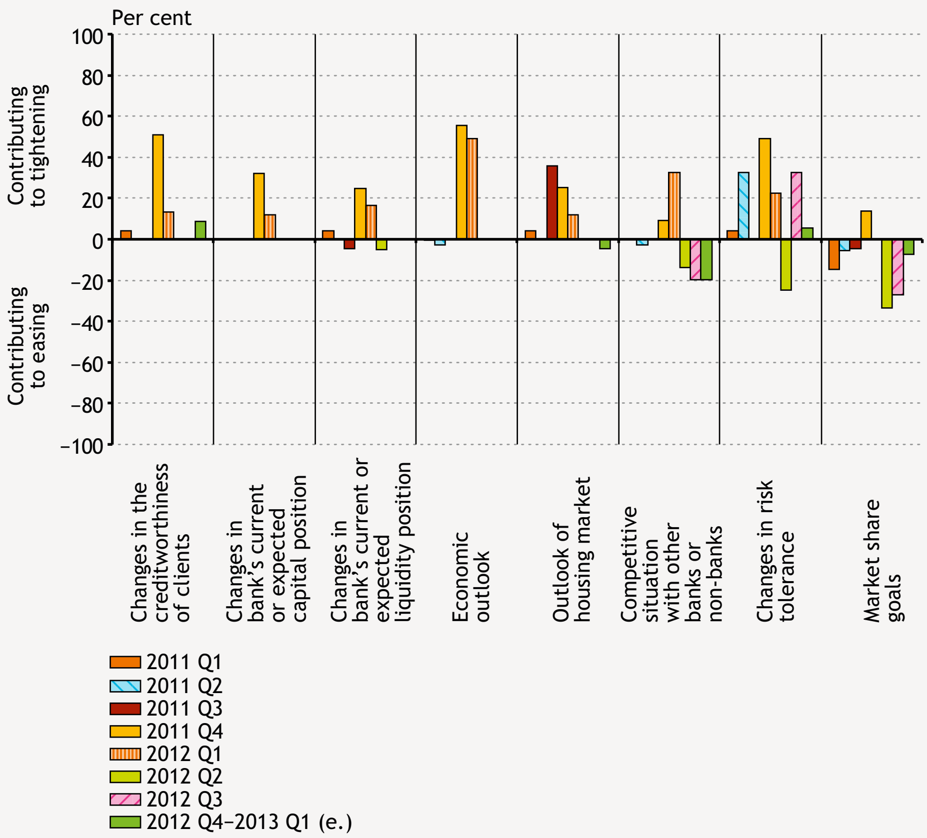


Chart 8
Perceived demand for loans in the household segment
(net percentage balance of respondents reporting increase/decrease in demand weighted by market share)

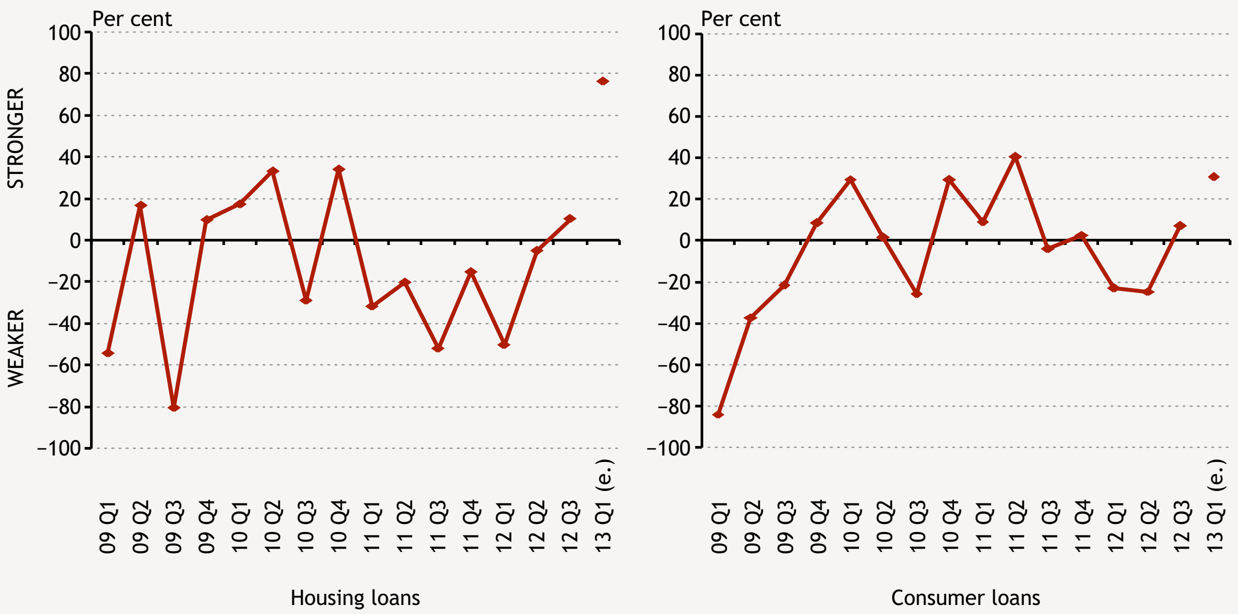
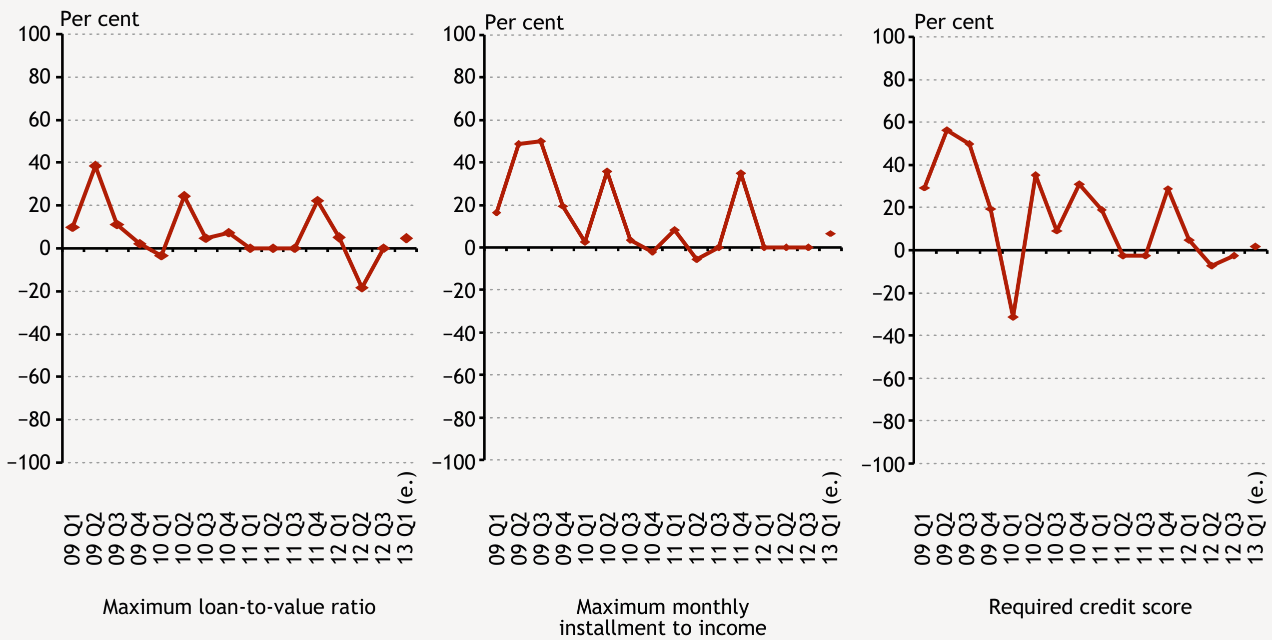
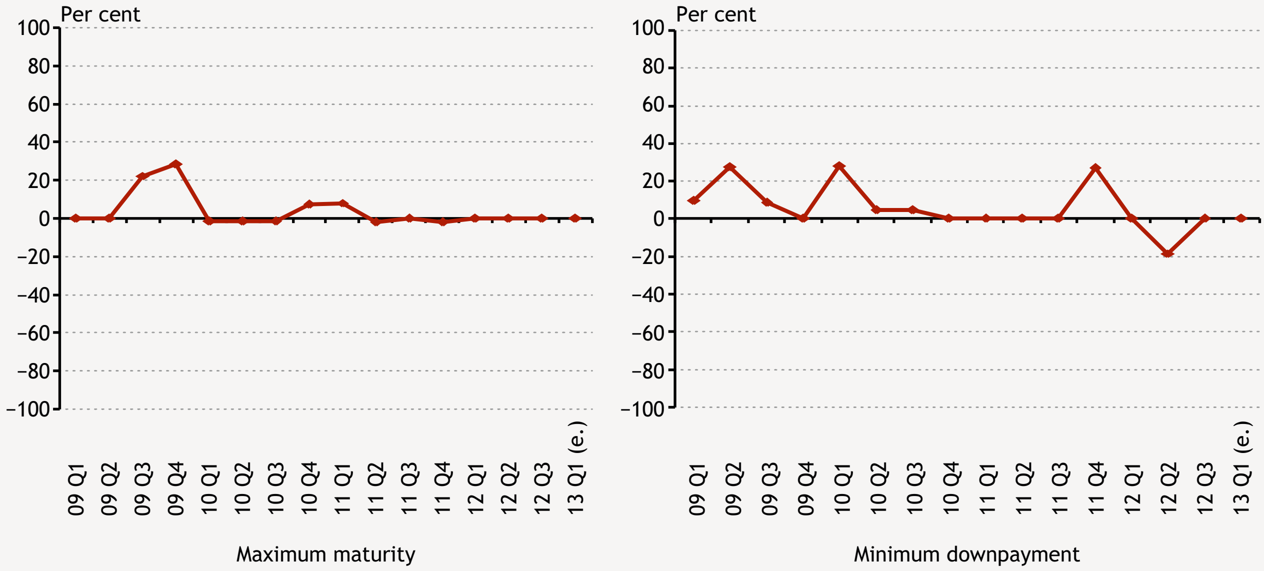


Chart 9a
Credit conditions in the consumer loan market – non-price conditions
(net percentage balance of respondents tightening/easing credit conditions weighted by market share)



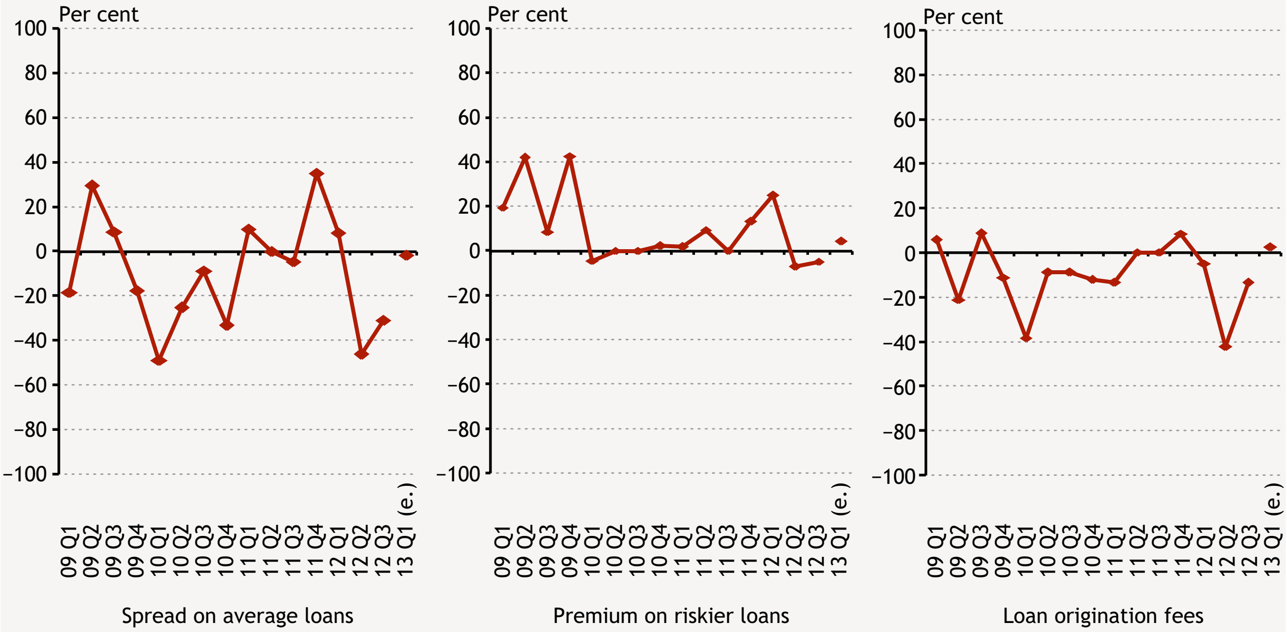
Note: The magnitude of tightening/easing is not shown in the chart.

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



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

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



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

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

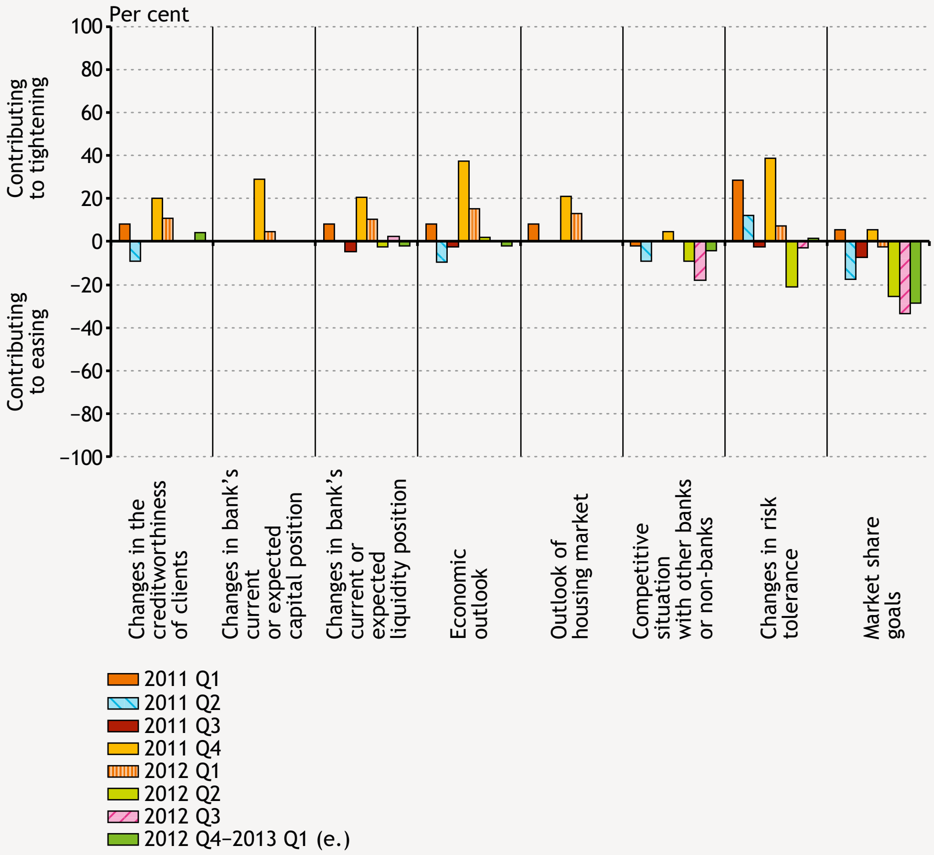
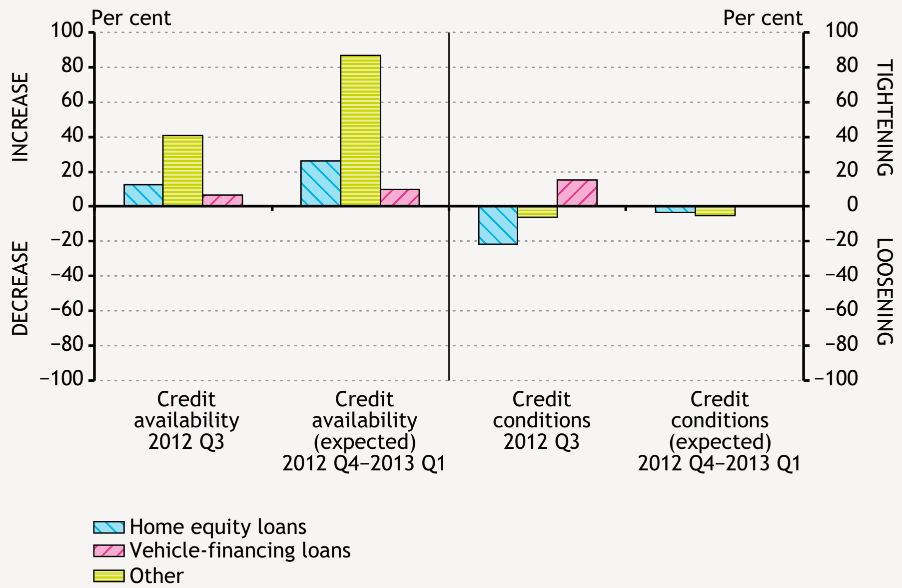
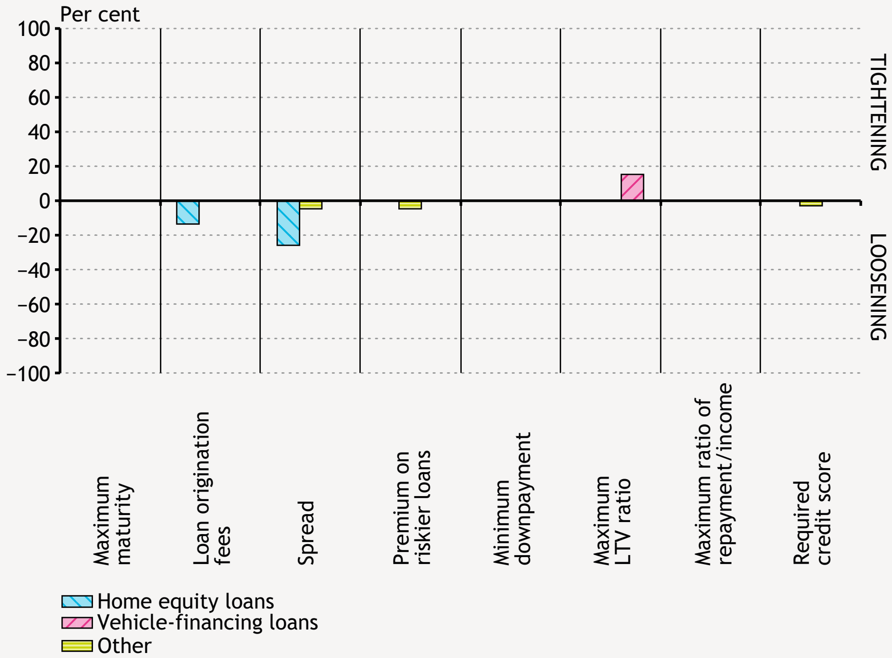


Chart 12
Willingness to lend and credit conditions for different consumer loan products
(net percentage balance of respondents weighted by market share)



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

Chart 13
Credit conditions for different consumer loan products in 2012 Q3
(net percentage balance of respondents tightening/easing credit conditions weighted by market share)



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

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

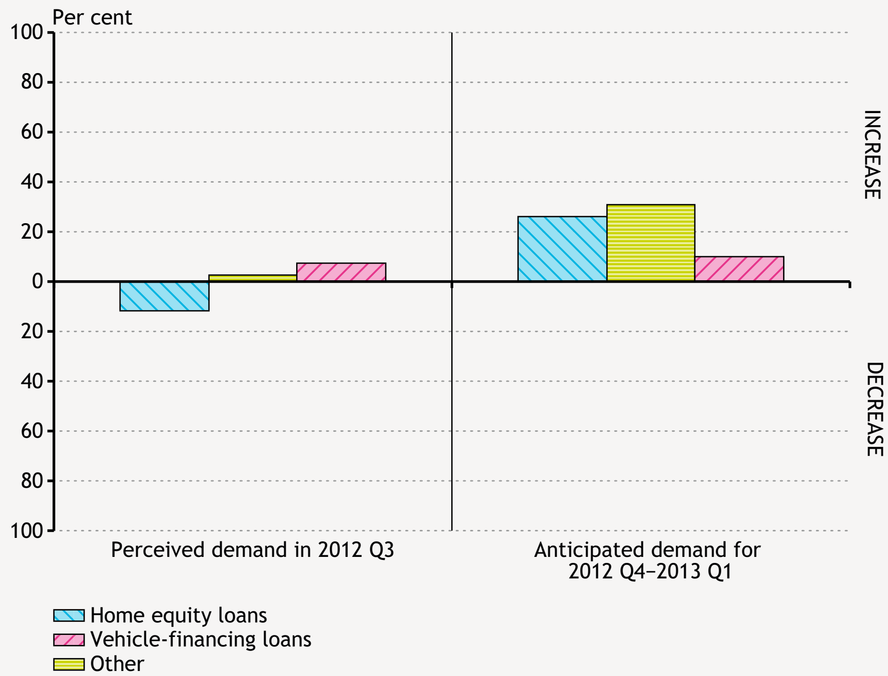
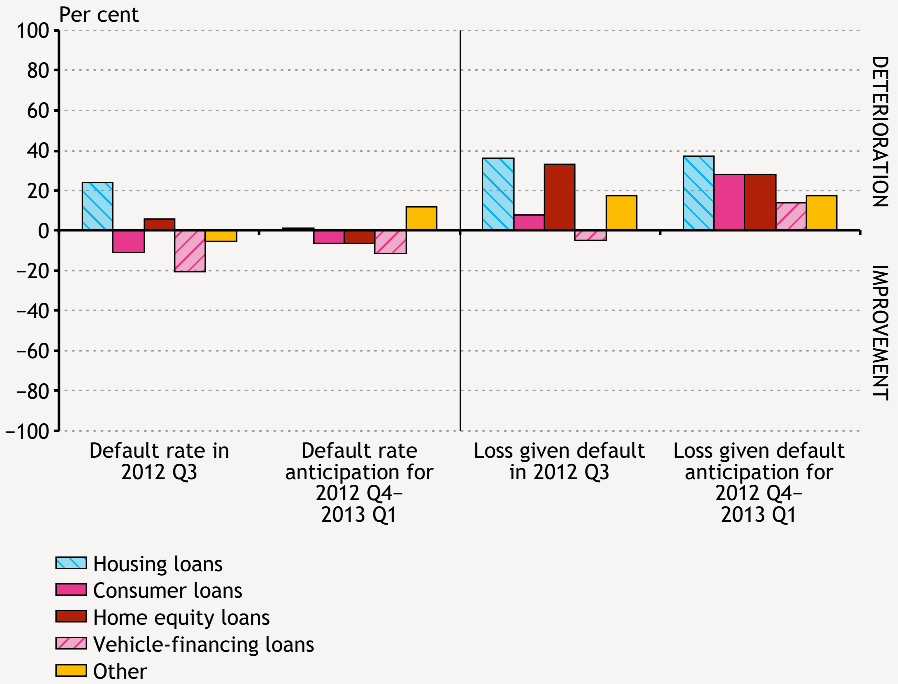
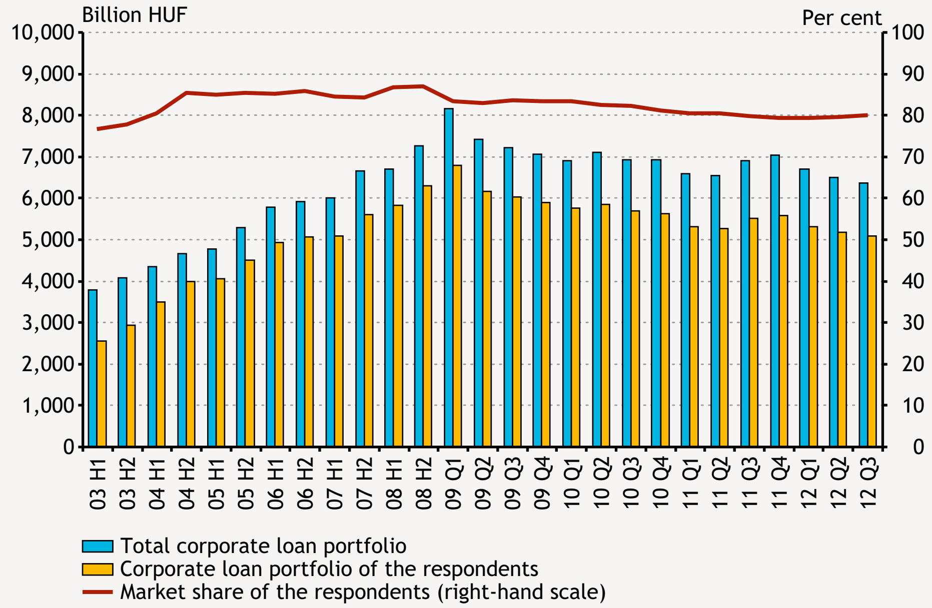


Chart 15
Default rate of loans to households and loss given default
(net percentage balance of banks reporting increase or decrease weighted by market share)



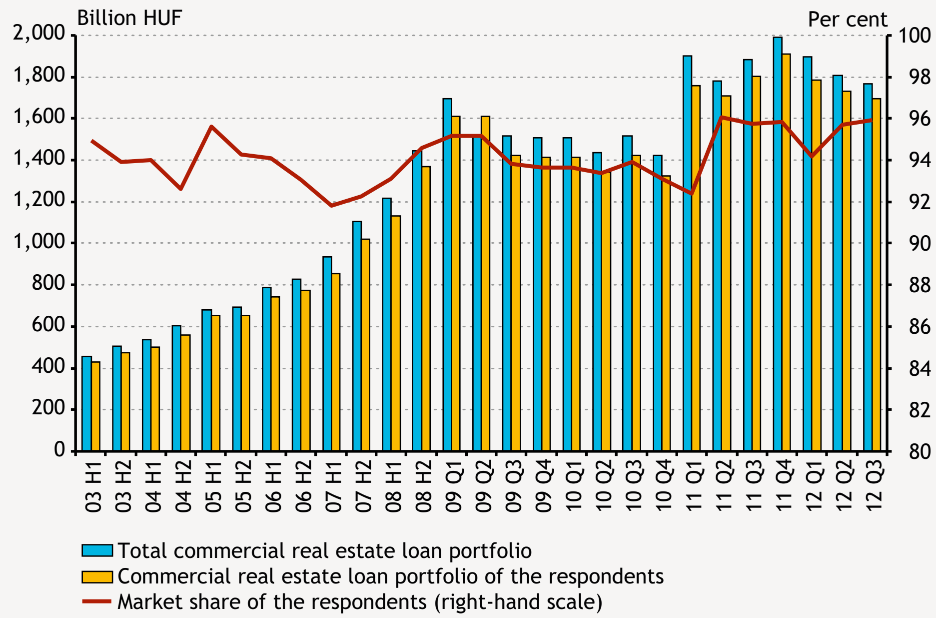
LENDING TO THE CORPORATE SECTOR

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



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

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



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

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

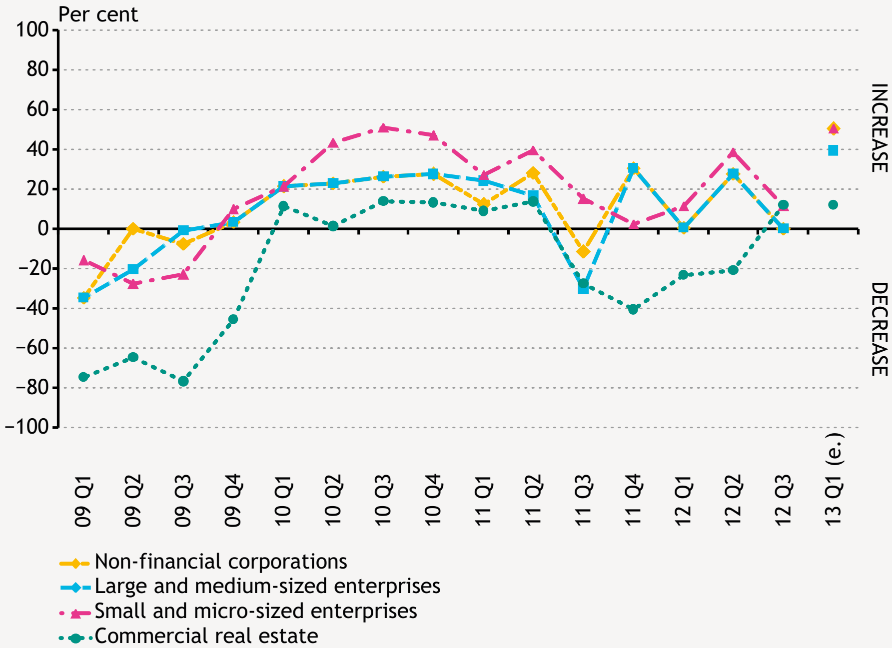
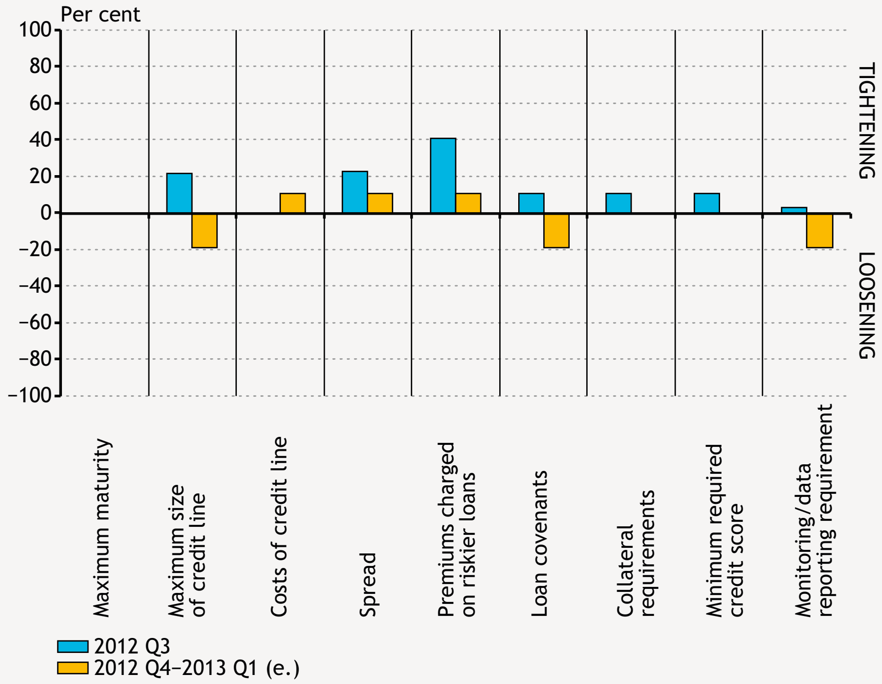


Chart 19
Credit conditions by corporate category and for commercial real estate loans
(net percentage balance of respondents reporting tightening/easing weighted by market share)

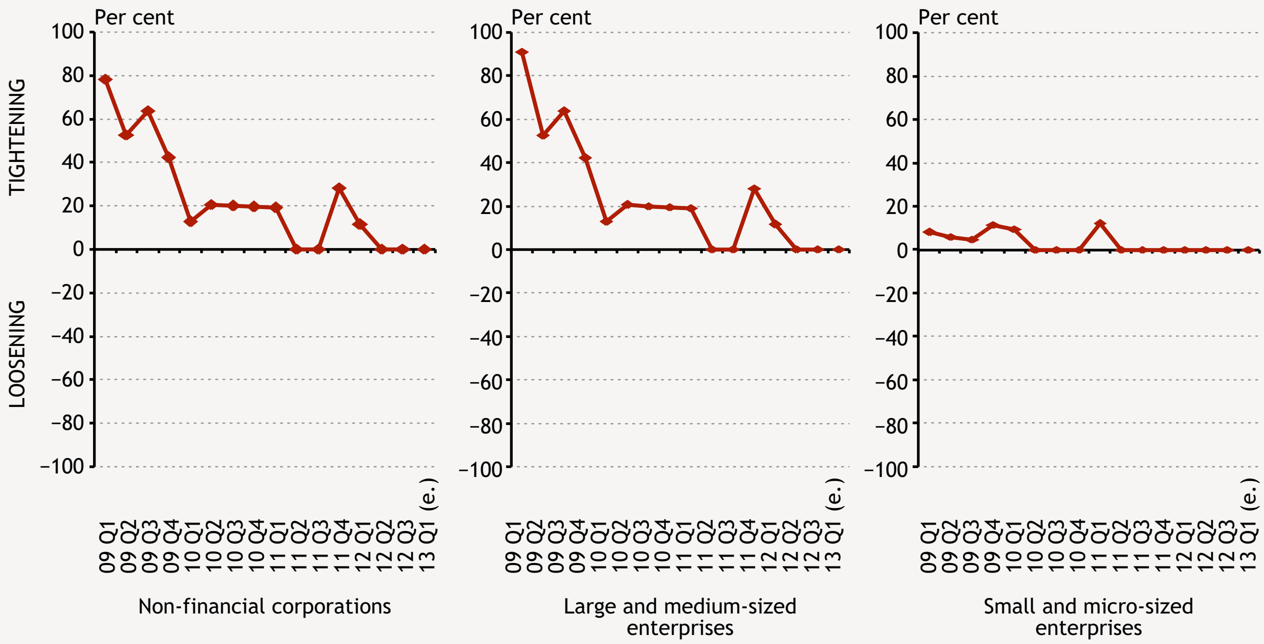
Note: The magnitude of tightening/easing is not shown in the chart.

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



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

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

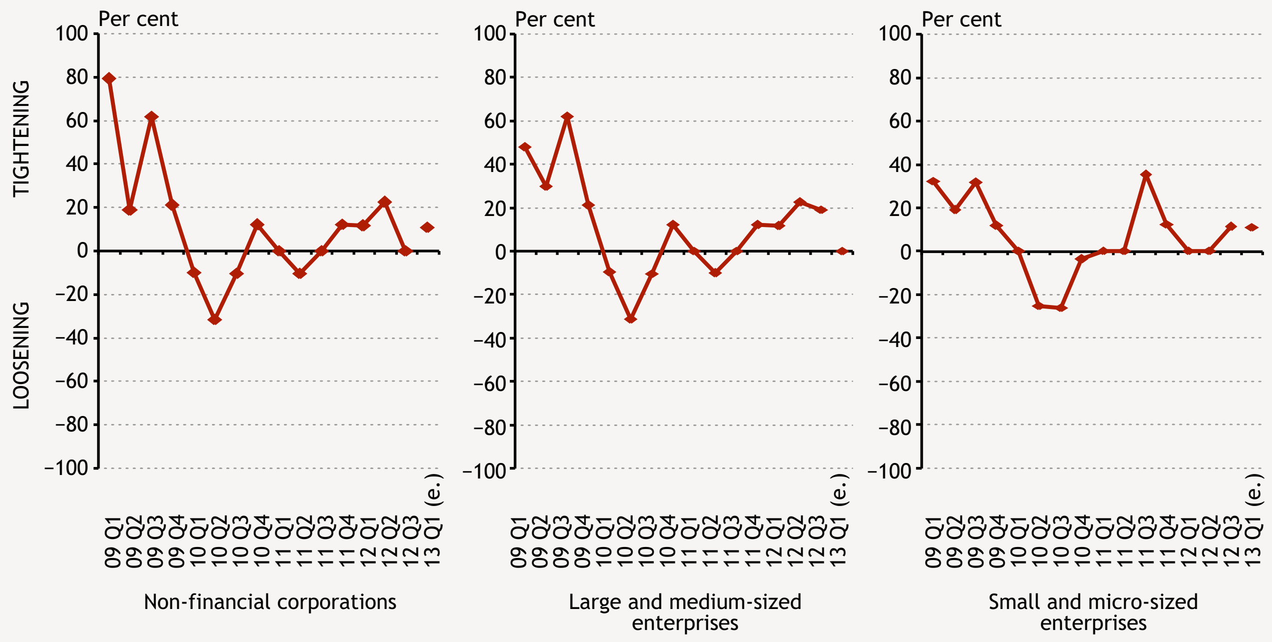


Note: The magnitude of tightening/easing is not shown in the chart.

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

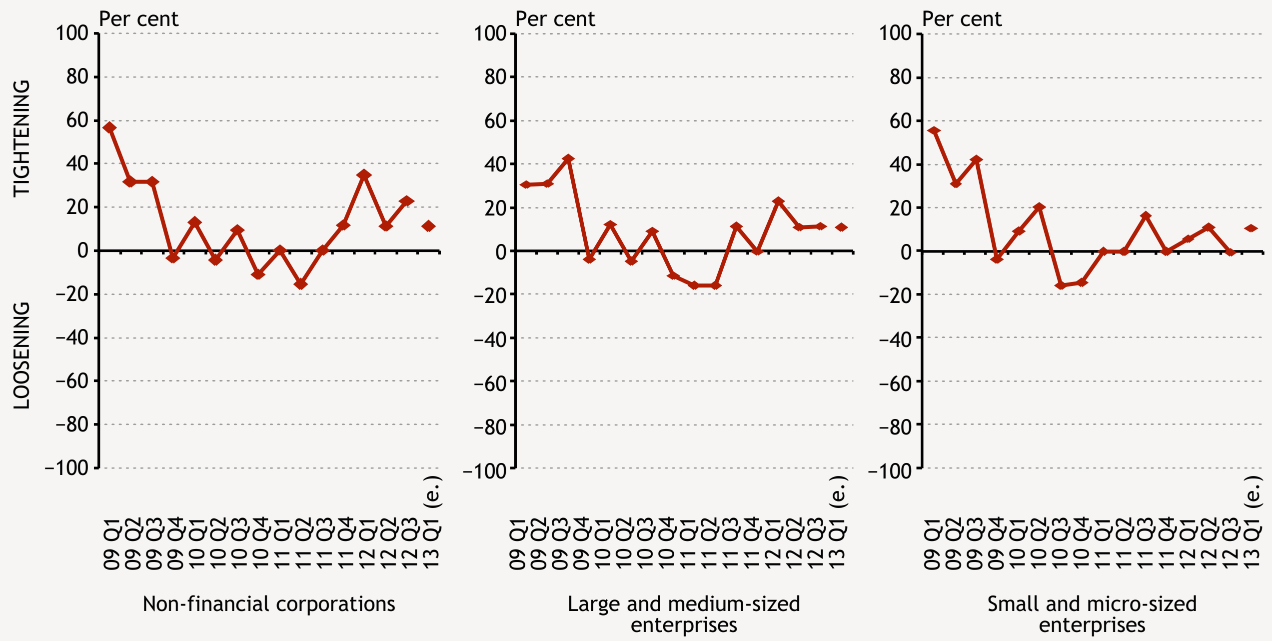
Note: The magnitude of tightening/easing is not shown in the chart.

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



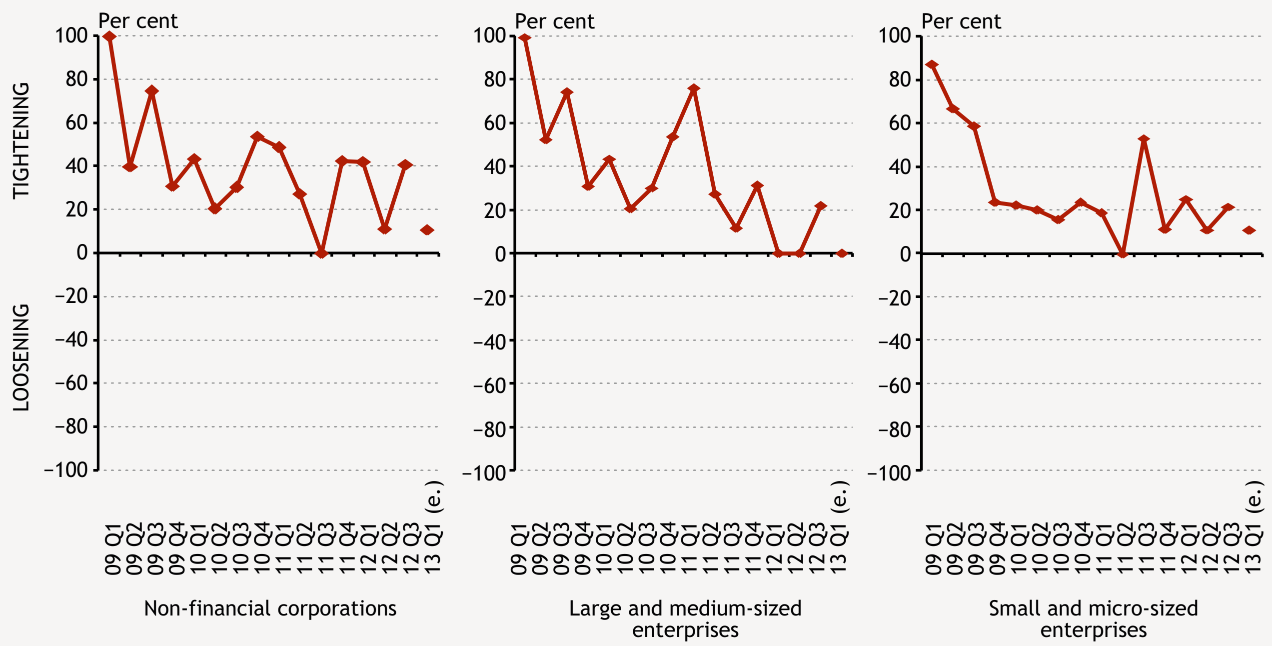
Note: The magnitude of tightening/easing is not shown in the chart.

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



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

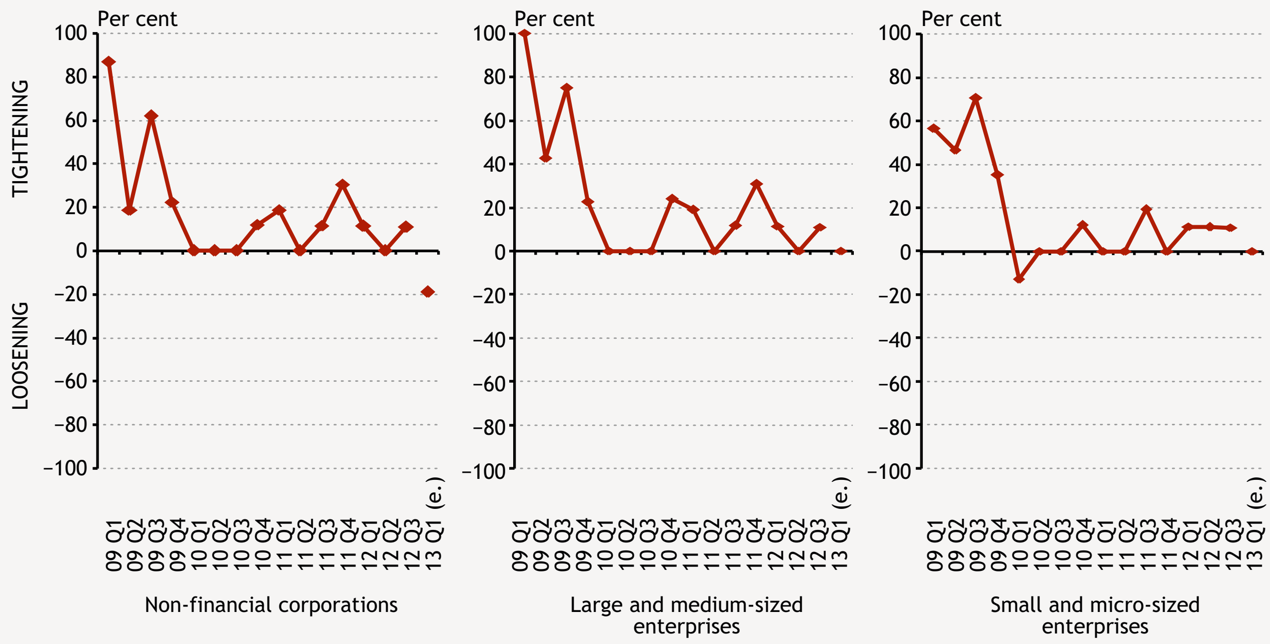
Chart 25
Premium on riskier loans by corporate category
(net percentage balance of respondents reporting tightening/easing weighted by market share)



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

Chart 26
Covenant requirements by corporate category

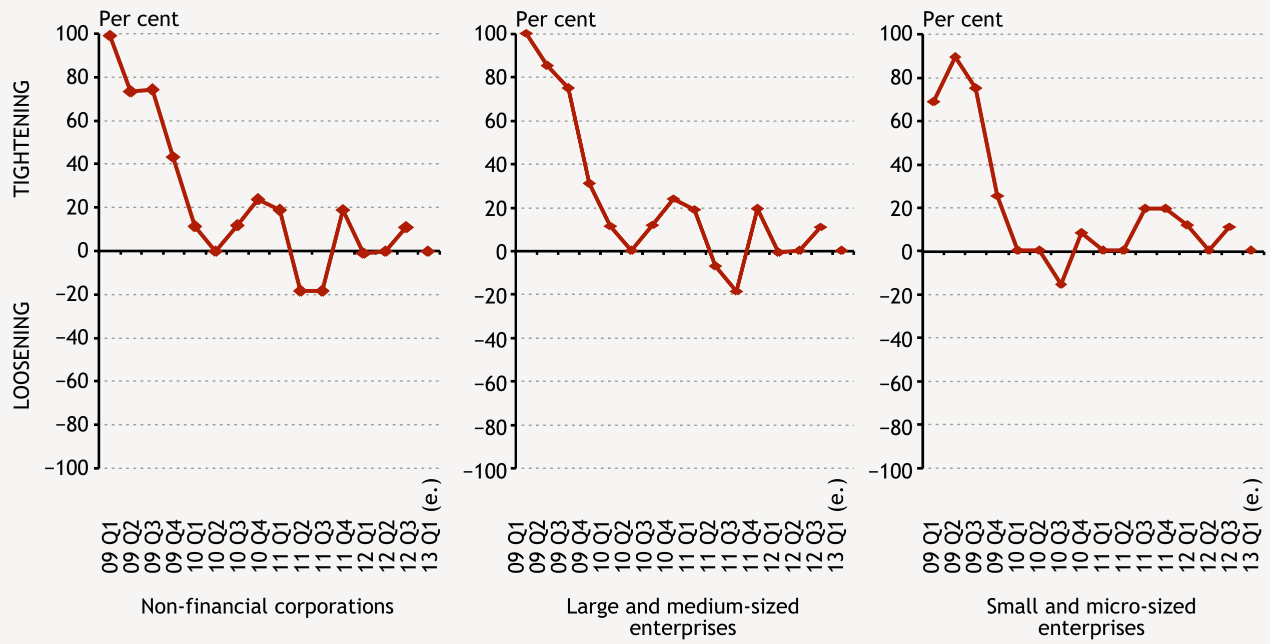
(net percentage balance of respondents reporting tightening/easing weighted by market share)



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

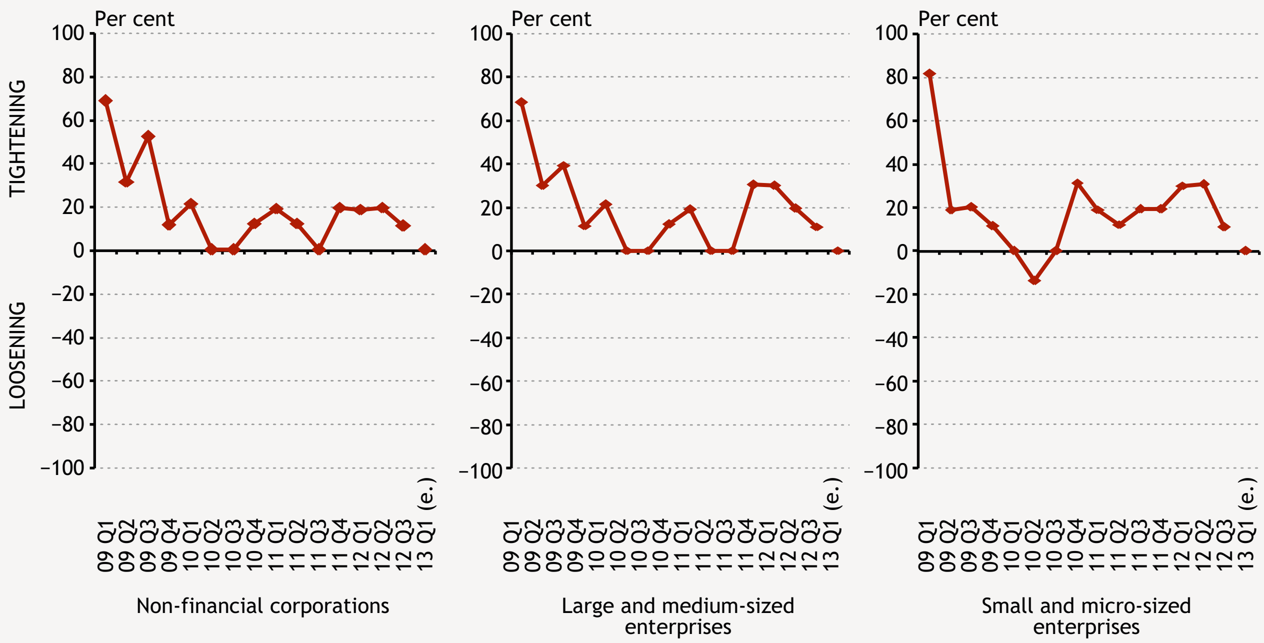
Chart 27
Collateral requirements by corporate category

(net percentage balance of respondents reporting tightening/easing weighted by market share)



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

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



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

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

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

Chart 30
Factors contributing to changes in credit conditions on corporate loans
(net percentage balance of banks indicating a contribution of individual factors to tightening or easing weighted by market share)

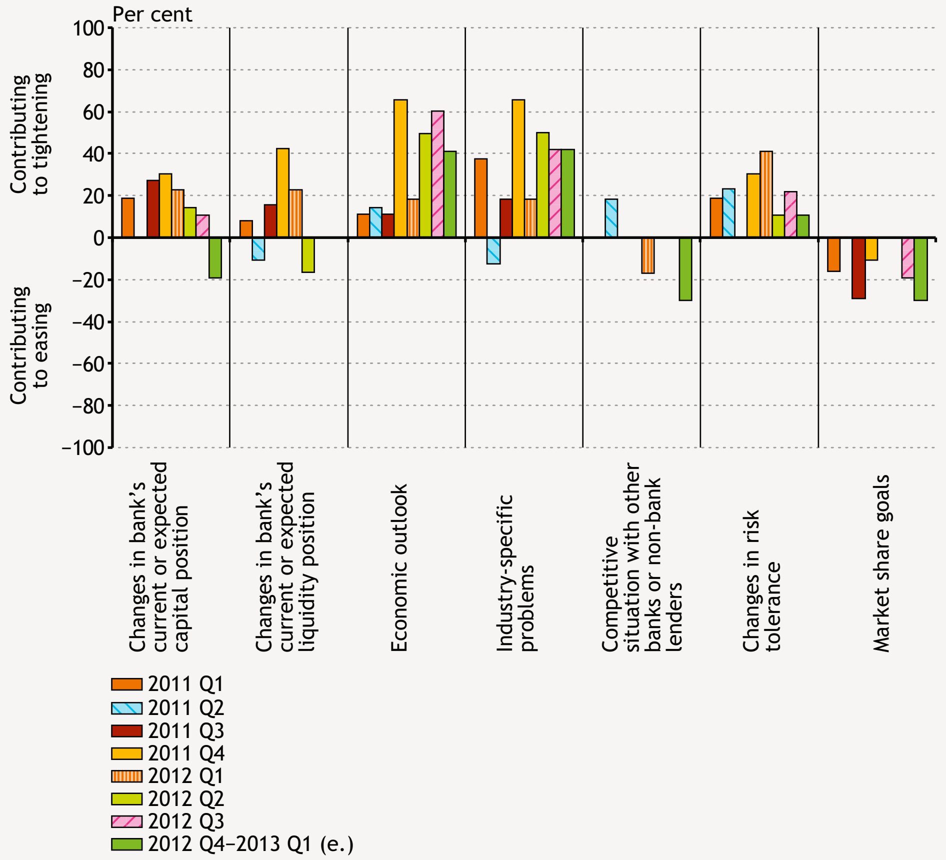


Chart 31
Perceived demand for corporate loans
(net percentage balance of respondents reporting increase/decrease in demand weighted by market share)

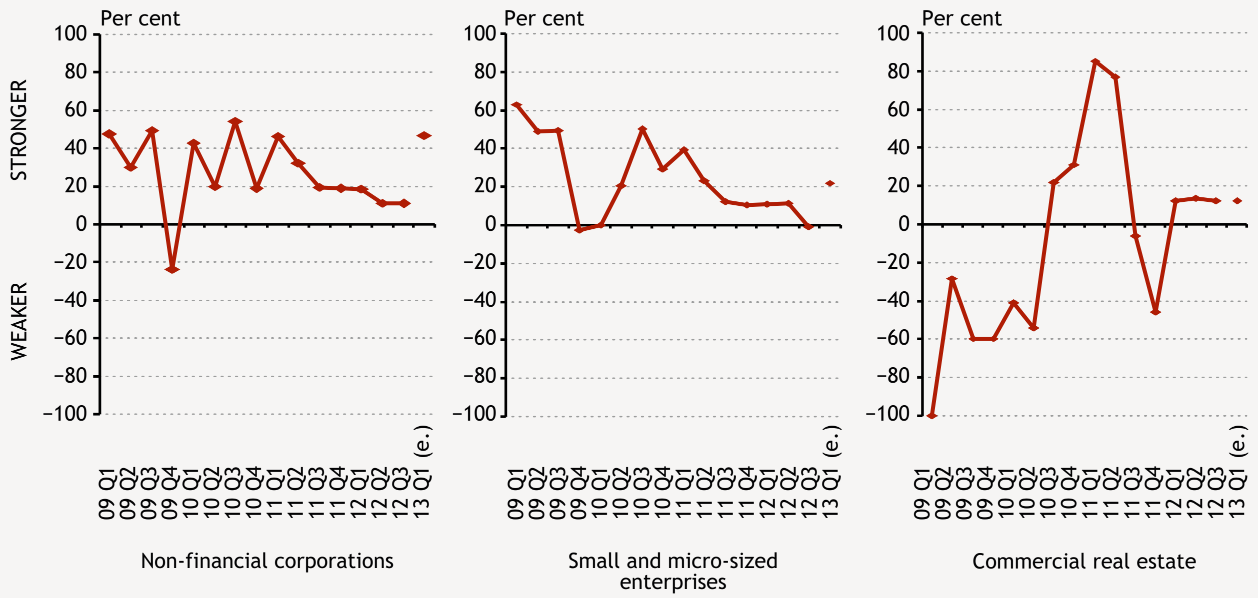


Chart 32
Perceived demand for corporate loans by maturity
(net percentage balance of respondents reporting increase/decrease in demand weighted by market share)

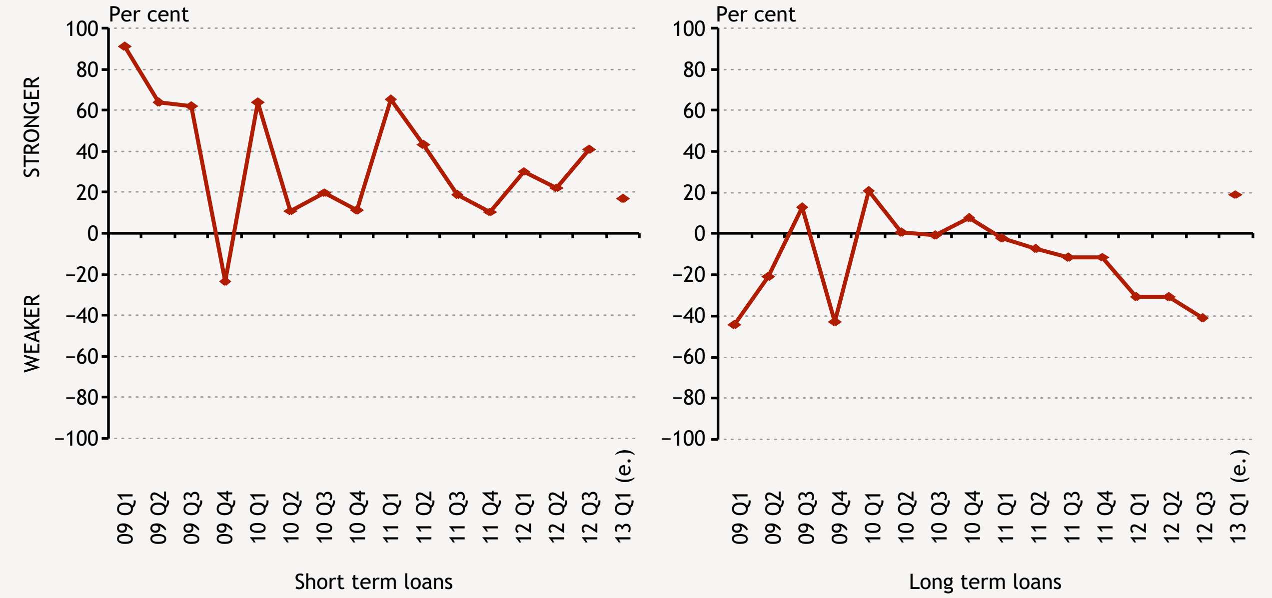


Chart 33
Factors contributing to corporations' demand for loans based on banks' perceptions
(net percentage balance of banks indicating a contribution of individual factors to increase or decrease weighted by market share)

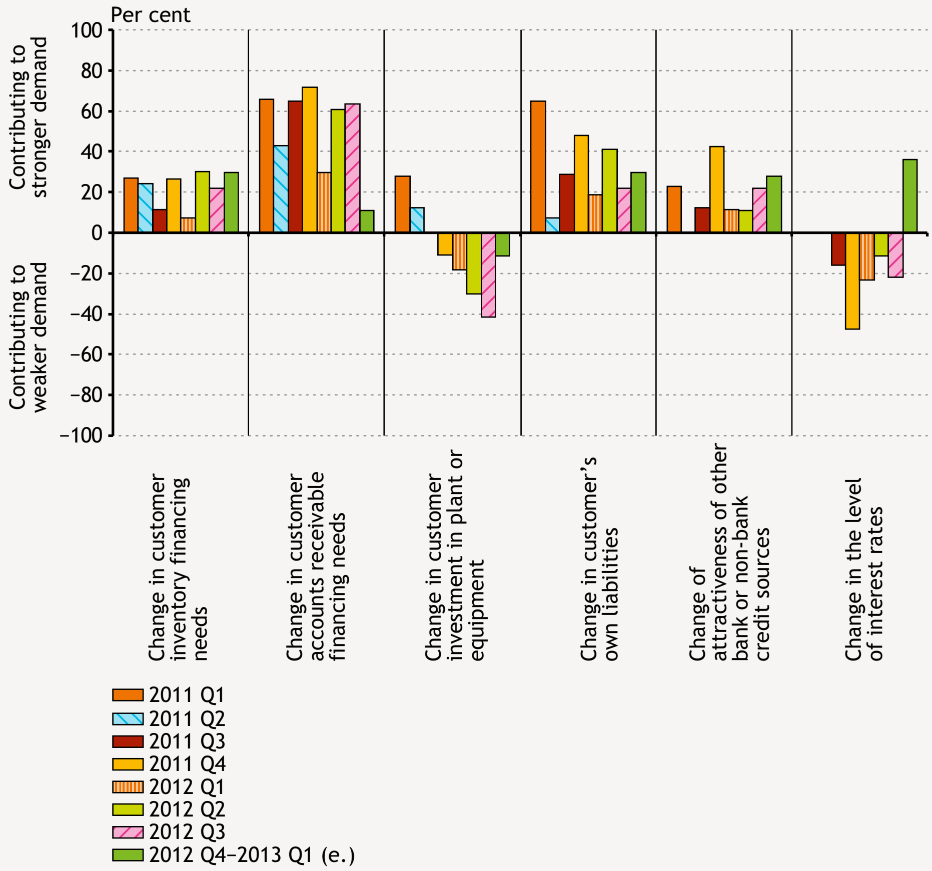


Chart 34
Changes in loan portfolio quality by sector
(net percentage balance of respondents reporting improvement/deterioration weighted by market share)

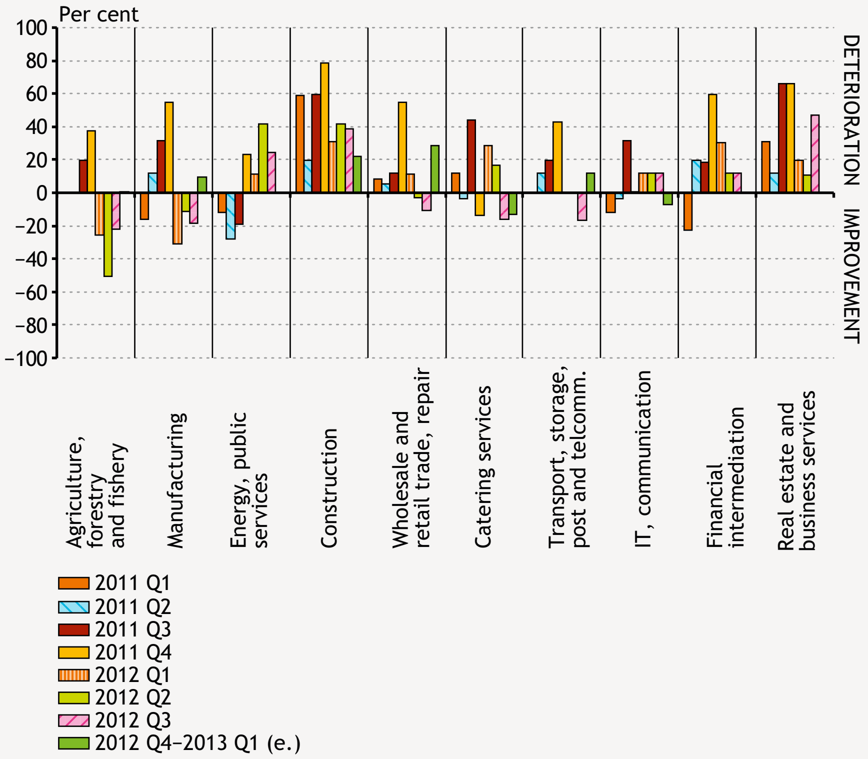
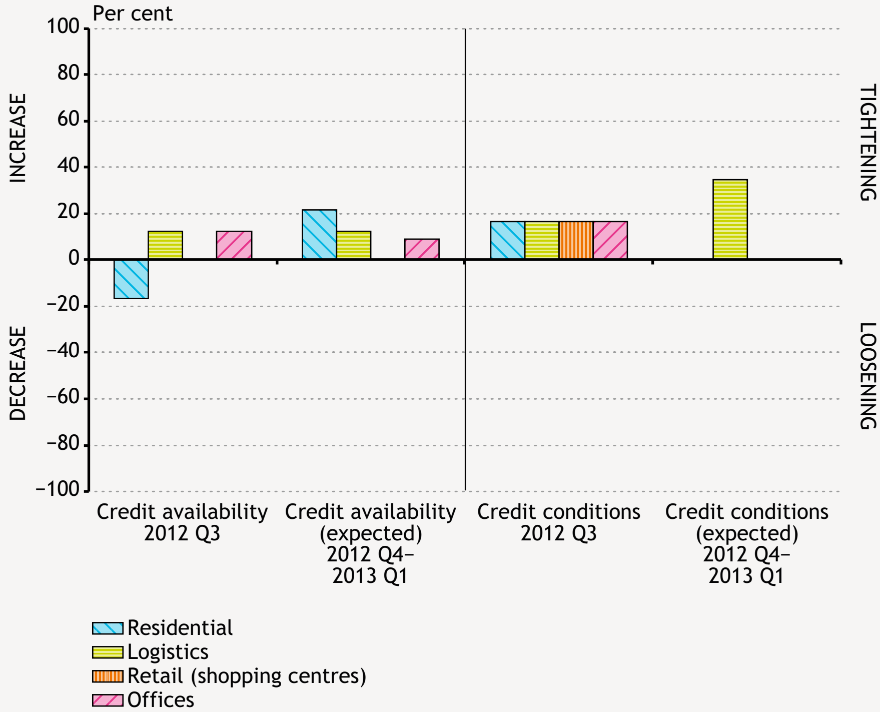


Chart 35
Credit availability (willingness to lend) and credit conditions in the commercial real estate segment
(net percentage balance of respondents reporting an increase/decrease and tightening/easing weighted by market share)



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

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

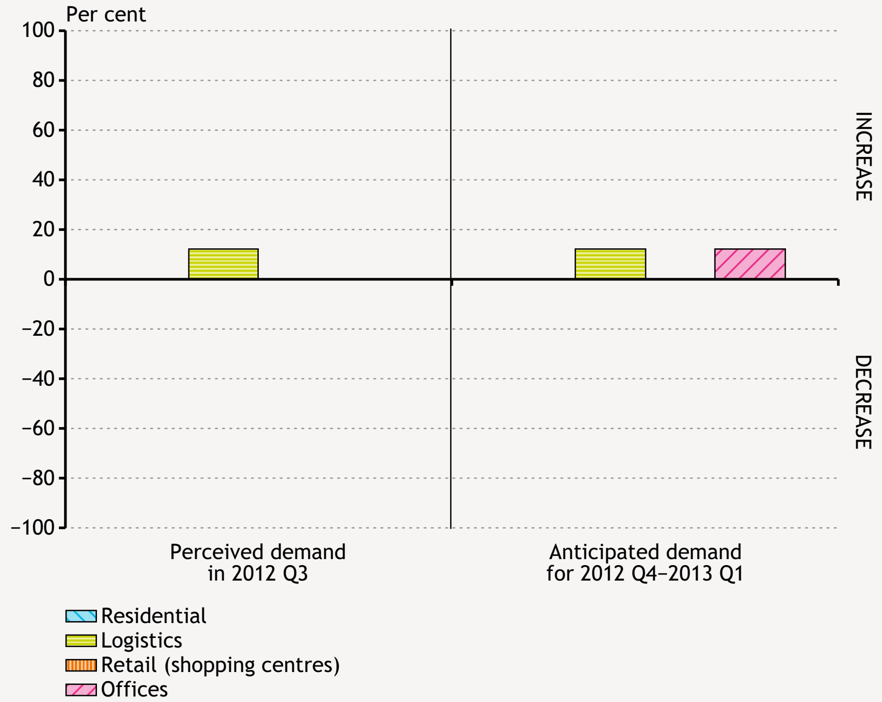


Chart 37
Developments in perceptions of risk associated with corporate loans based on answers provided on default rate and loss given default
(net percentage balance of respondents reporting increased/decreased risk weighted by market share)

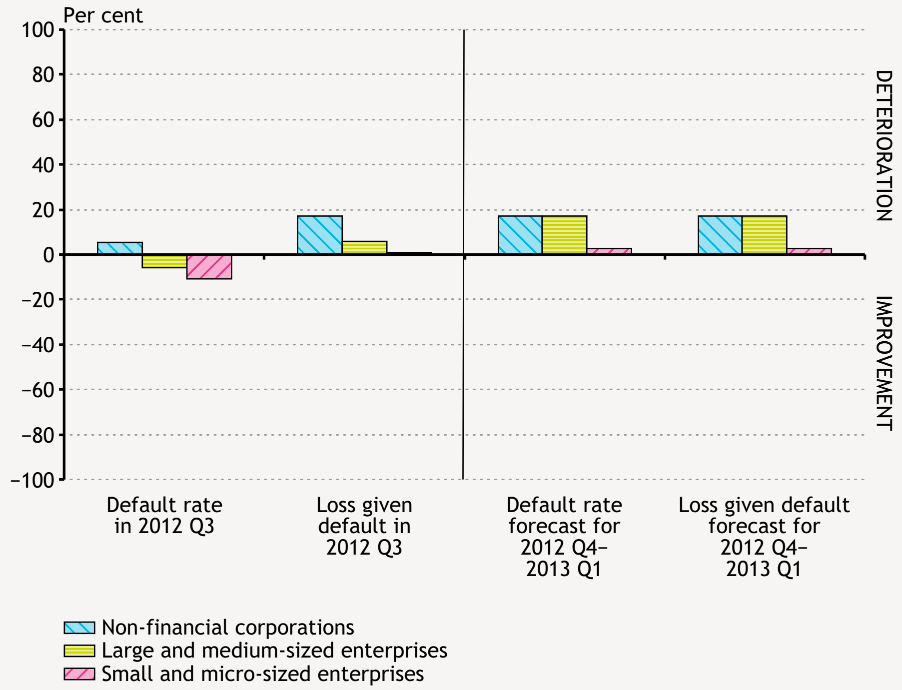
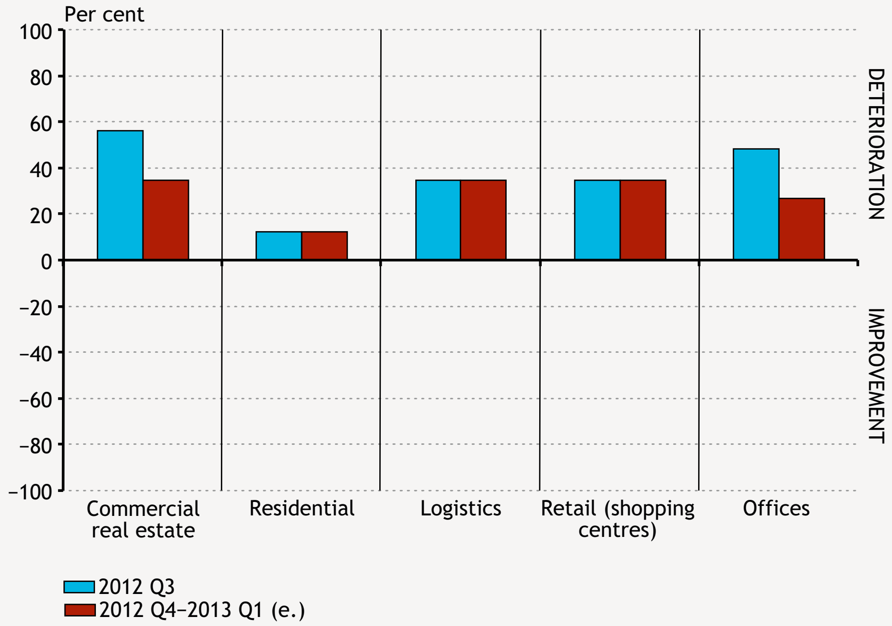
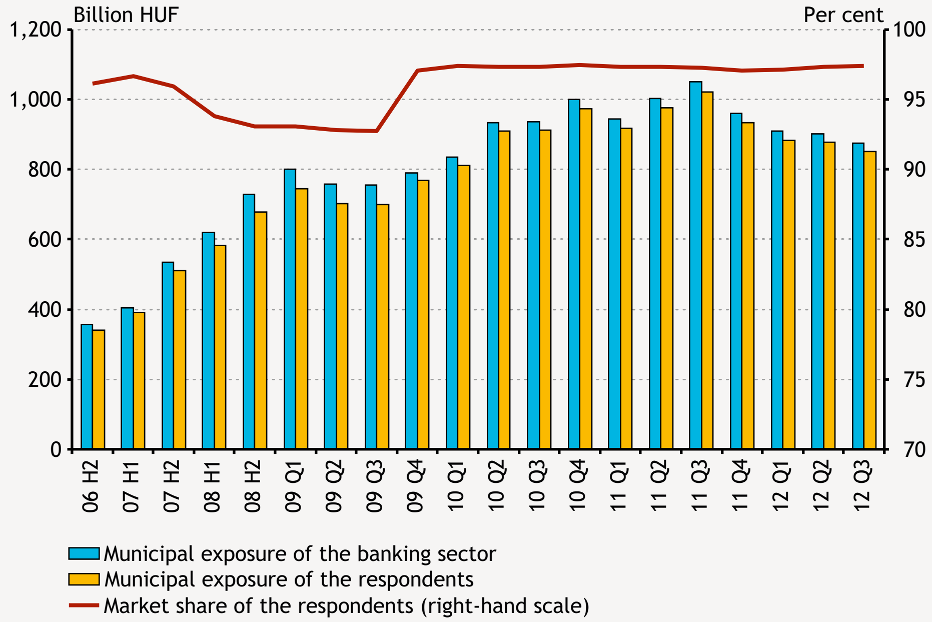


Chart 38
Changes in the quality of the commercial real estate loan portfolio
(net percentage balance of respondents reporting improvement/deterioration weighted by market share)



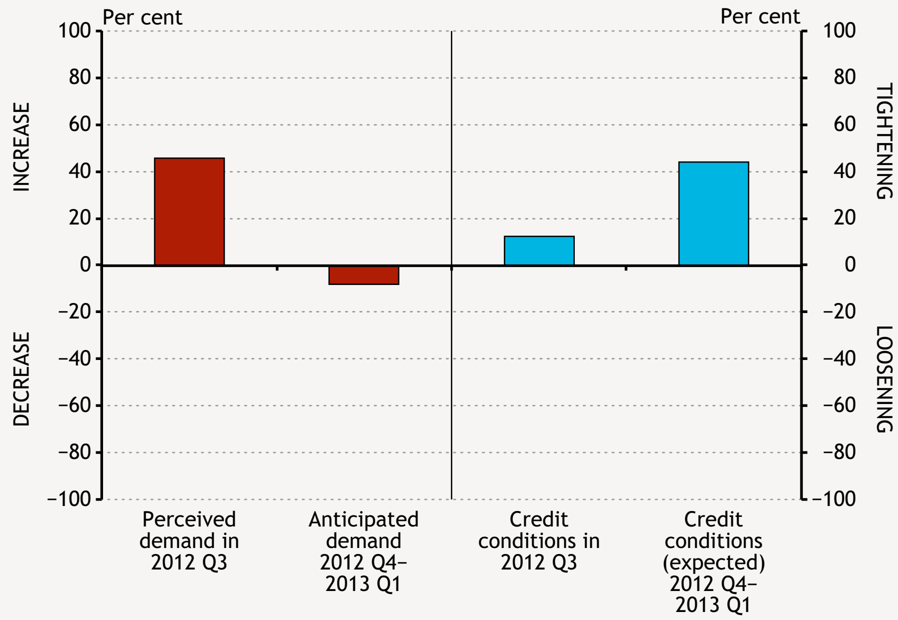
LENDING TO MUNICIPALITIES

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



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

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



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

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

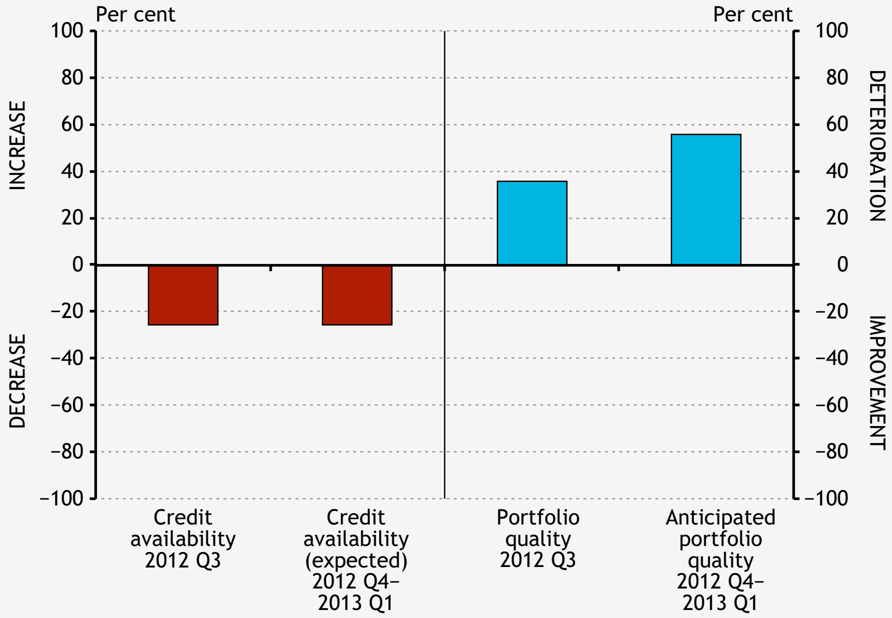
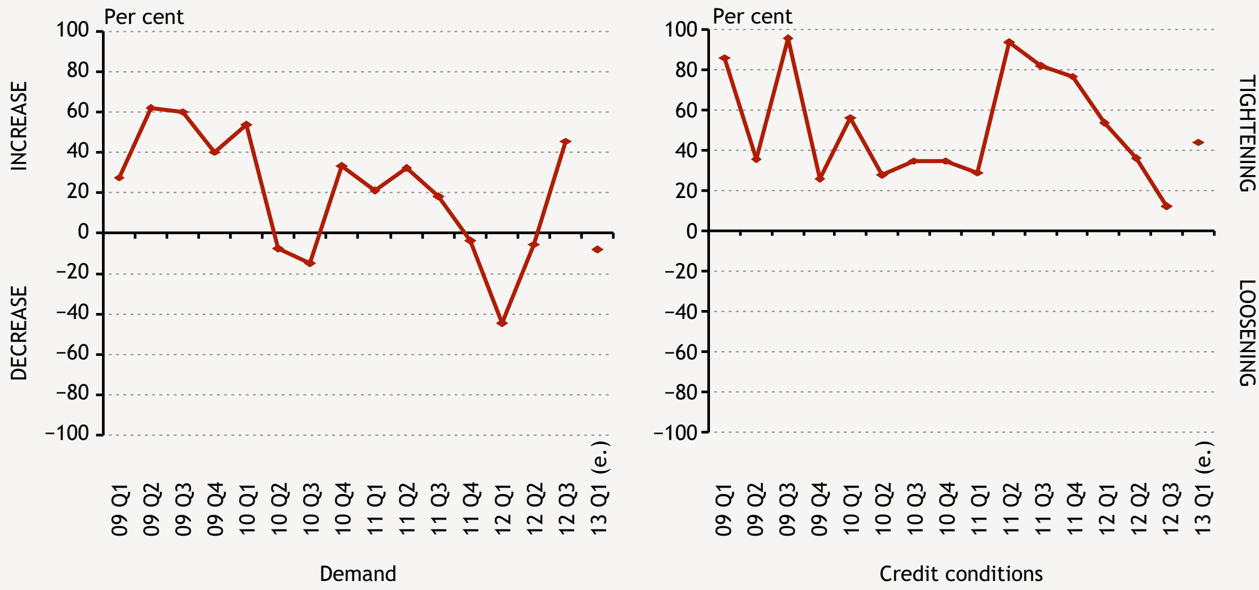


Chart 42
Perceived demand and credit conditions in lending to municipalities
(net percentage balance of respondents reporting an increase/decrease and tightening/easing weighted by market share)



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

Annex 2: Methodological notes

In terms of methodology – starting from January 2010 – the survey consists of the standard questionnaire in each segment, and we might also ask ad hoc questions of current concerns related to the lending segment. The retrospective questions in the questionnaire refer to the previous quarter year (previous quarter in the past), (e.g. to 2012 Q3 in October 2012), whereas forward-looking questions contain projections for the upcoming half year (e.g. for 2012 Q4-2013 Q1 in October 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/decreasing 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**[5], 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.

[5] 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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