



---

## Senior loan officer opinion survey

on bank lending practices  
and credit conditions

---

1<sup>st</sup> quarter 2008



## Summary of the survey results

### Lending policy

- Lending policy: the banks slightly tightened the standards of granting short-term loans to large enterprises due to the growth in risk related to the financial standing of the largest borrowers. The lending policy towards small and medium-sized enterprises was slightly eased again.
- Demand for loans: a strong increase in the demand for long-term loans was recorded, first of all, in the segment of large enterprises. The demand for short-term loans slightly increased. The growing financing needs for fixed investment were the main reason for the increase in demand.
- Expectations for the first quarter of 2008: the banks expect a further tightening of lending policy towards large enterprises. The easing of lending policy towards small and medium-sized enterprises is expected. According to the banks, a strong increase in the demand for loans to enterprises will be continued.

### Housing loans

- Lending policy: the banks slightly tightened the standards of granting housing loans and increased their loan spreads. The rationale for these decisions was, first of all, the capital position of banks. Some banks still extended the maximum loan maturity for which housing loans could be granted.
- Demand for loans: there was a pronounced decrease in the demand for housing loans related to the projections of decrease in the prices of flats and the tightening of lending policy made in this market segment in the previous quarter.
- Expectations for the first quarter of 2008: the stabilisation of lending policy in the segment of housing loans is expected. The banks project further decrease in the demand for these loans.

### Consumer loans

- Lending policy: the banks eased the standards of granting consumer loans. However, at the same time the terms of granting these loans were tightened, in particular the increase in loan spreads was recorded.
- Demand for loans: a strong growth in the demand for consumer loans was recorded; it resulted from the demand for durable goods and improvement in the financial standing of households.
- Expectations for the first quarter of 2008: the banks project a slight easing lending policy and further strong increase in demand in the segment of consumer loans.

## Results of the survey - overview

The objective of the survey is to ascertain the direction of changes in the lending policy, i.e. the terms and standards of granting loans, and the demand for loans in the Polish banking system. The standards of granting loans are understood as the minimum standards of creditworthiness that the borrower is required to meet in order to obtain a loan, which are set by the bank. The terms of granting loans are the features of a loan agreement agreed by the bank and the borrower, including spread, non-interest loan costs, maximum loan size, collateral requirements and a maximum loan maturity.

The survey is addressed to the chairpersons of banks' credit committees. Banks' responses may not take into account the opinions of the banks' other divisions than the credit division. The survey was conducted at the turn of December 2007 and January 2008 among 24 banks whose total share of claims on enterprises and households in the banking sector portfolio amounts to 77.1%.

The aggregation of the data behind the results consisted in the calculation of weighted percentages of responses and the net percentage, i.e. the difference between the structures presenting opposite trends. In line with the adopted methodology, words describing quantities (majority, half, meaningful, significant percentage of the banks, etc.) refer to the weighted percentages and not to the number of banks. Thus, the phrase "the majority of the banks" should be understood as "the asset-weighted majority of the banks". Details concerning the calculation methodology are presented in the Appendix.

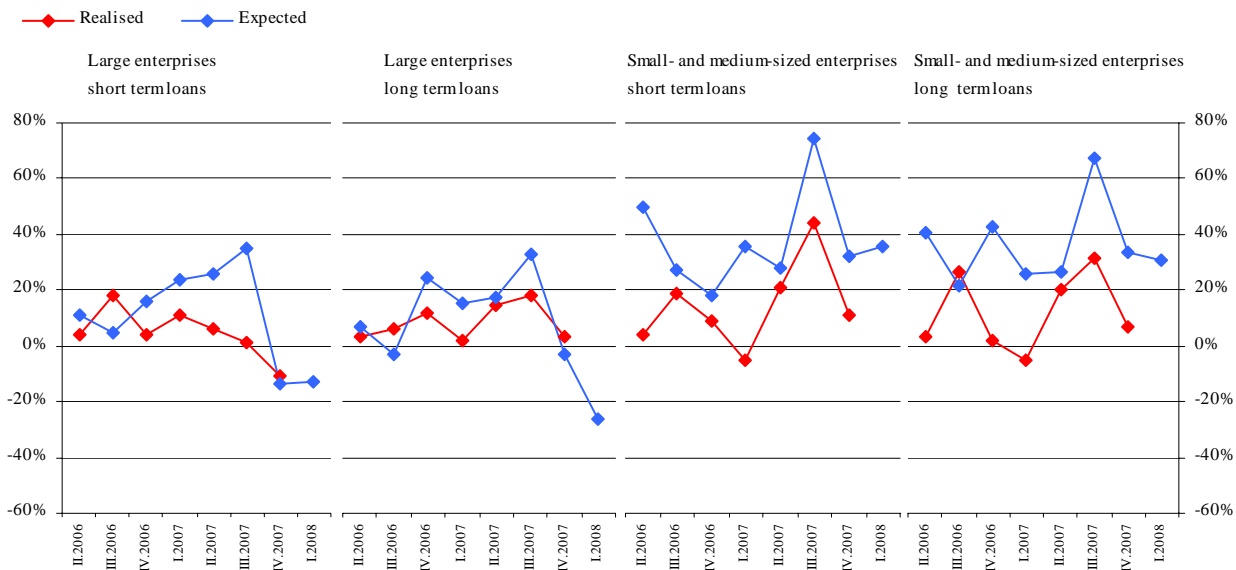
The following section presents tendencies regarding the banks' lending policy and changes in demand in the fourth quarter of 2007, as well as the banks' expectations for the first quarter of 2008.

### Corporate loans

**In the fourth quarter of 2007, the banks slightly changed their standards of granting corporate loans.** The standards of granting long-term loans to large enterprises remained unchanged. For the first time since 2004 the standards of granting short-term loans to large enterprises were tightened. The banks continue to slightly ease the standards of granting loans to small and medium-sized enterprises. The changes in the lending policy towards large enterprises were in line with the expectations expressed in the third quarter of 2007. In the segment of loans to small and medium-sized enterprises, the trend is maintained that the banks expect a stronger easing of the standards of granting loans than their later realisation (see Figure 1).

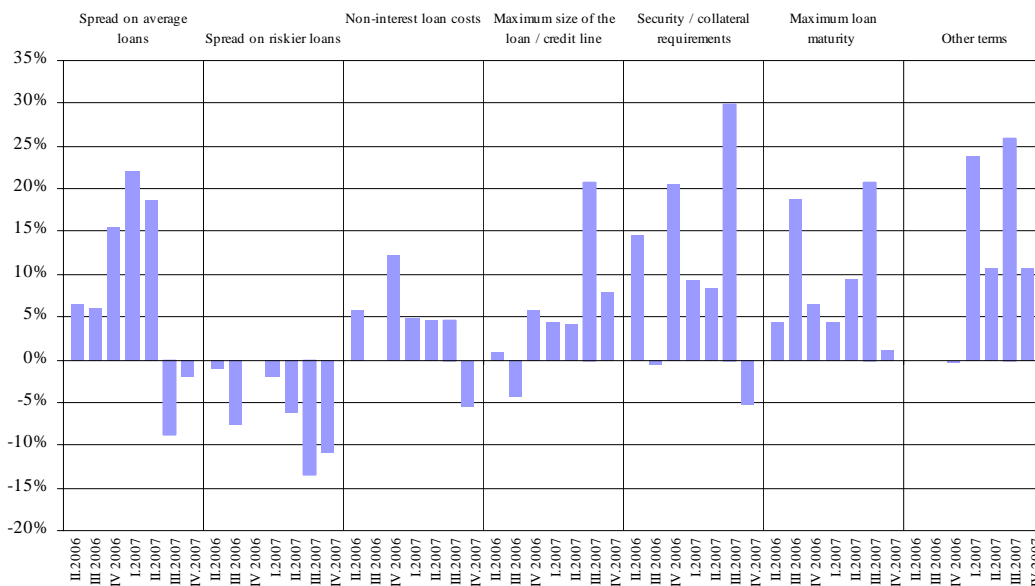
**The terms of granting loans to enterprises were slightly tightened** The banks' spreads on higher risk loans increased most (see Figure 2). One bank decided to tighten all the terms of granting loans to enterprises. Other banks made very few changes in the lending policy they pursued. One large bank decided to increase the maximum available loan size. A few small banks tightened the terms of granting loans, mainly by increasing spreads.

Figure 1  
Corporate credit standards



Note: The Figures included in this document present the net percentage. A positive value of net percentage should be interpreted as the easing of lending policy or growth in demand for loans, and a negative value of net percentage as the tightening of lending policy or decrease in demand for loans. Details concerning the calculation methodology are presented in the Appendix.

Figure 2  
Terms on corporate loans



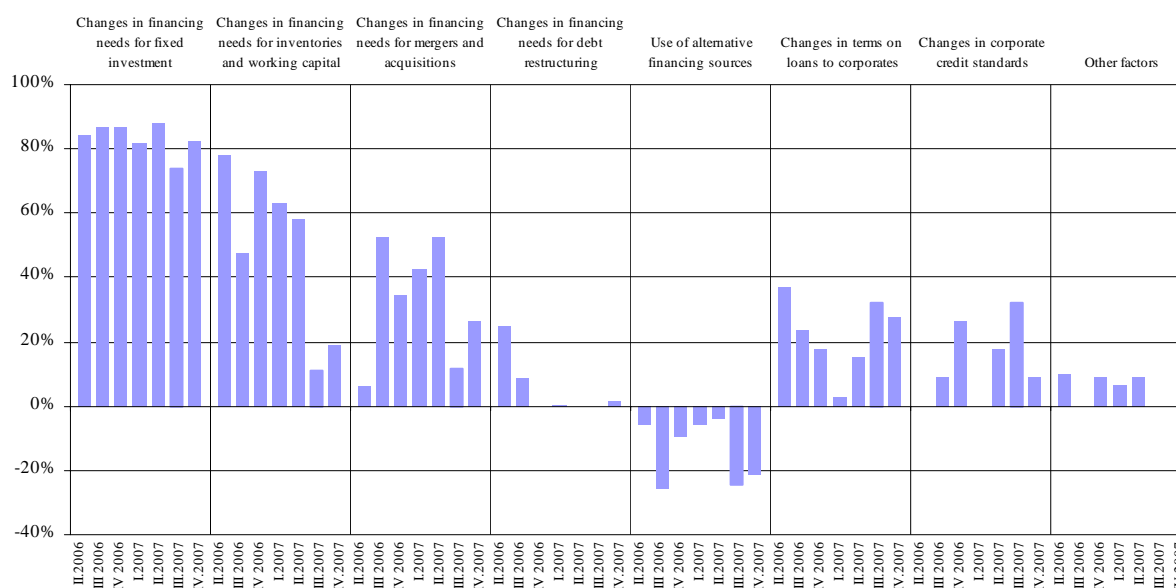
According to the banks, **the increase in risk related to the financial standing of the largest borrowers was the most important reason for tightening the lending policy towards enterprises in the fourth quarter of 2007** (see Figure 3). The banks which indicated this reason tightened their standards of granting long-term loans to large enterprises and tightened some terms of granting loans to enterprises. 15% of banks which changed their lending policy justified the decision to tighten the standards of granting loans to enterprises with the deterioration of bank's capital position. One of these banks additionally indicated the intention to limit the supply of loans as the reason for tightening the lending policy resulting from the worsening of liquidity situation and the need to introduce the New Basel Capital Accord. Approximately 10% of the banks tightened their lending policy in response to interest rates increases by the Monetary Policy Council.



According to the banks, continuously growing financing needs for enterprises' fixed investment were the major factor stimulating the growth in demand for corporate loans (see Figure 5). Based on monetary statistics it may be assumed that this category covers mainly the financing of real estate.<sup>1</sup> The importance of this factor has remained at a very high level since the beginning of 2006. Similarly as in the third quarter of 2007, according to the banks a positive influence of the changes in financing needs for inventories and working capital on the demand for loans was low. One third of the banks which noted the changes in demand regarded this factor as favouring the decrease in demand for loans; over half of the banks expressed an opposite opinion. However, these assessments are not confirmed by monetary statistics, in line with which operating loans and overdrafts to enterprises increased in October and November 2007 by 4.1%.<sup>2</sup> It suggests that an absolute change in demand for loans was higher in the banks which recorded the growth in demand than in the banks which recorded the decrease in demand for short-term loans to enterprises.

The large banks which eased the terms or standards of granting loans to enterprises regarded such actions as contributing to the growth in demand for loans. In turn, the banks which declared to tighten lending policy towards enterprises stated that their decisions had not had an impact on the demand.

Figure 5  
Factors influencing changes in corporate loan demand



The impact of using alternative sources of finance for enterprises, as compared to bank loans, as a factor negatively affecting the demand for loans has remained at a high level (see Figure 5). It results both from the higher utilisation of internal financing, which probably impacts mainly the demand for short-term loans, and from the intensified competition of market financing. Approximately one third of the banks decided that the possibility of using the debt securities market by enterprises curbed the demand for loans. One fourth of the banks tended to support the view that stock market financing could have such an impact on the credit market. According to the banks, the use of loans at other competing banks did not translate into the demand for loans recorded in individual

<sup>1</sup> Over the first two months of the fourth quarter of 2007, the value of investment loans granted to enterprises increased by 0.4%, however, the value of loans for the purchase of real estate increased by 5.8%.

<sup>2</sup> In the corresponding period of the third quarter of 2007, this growth was 1.5%.

banks. It may indicate that the competition in the market of loans to enterprises is weakening, which may be related to the lack of possibilities of further easing of lending policy towards large enterprises.

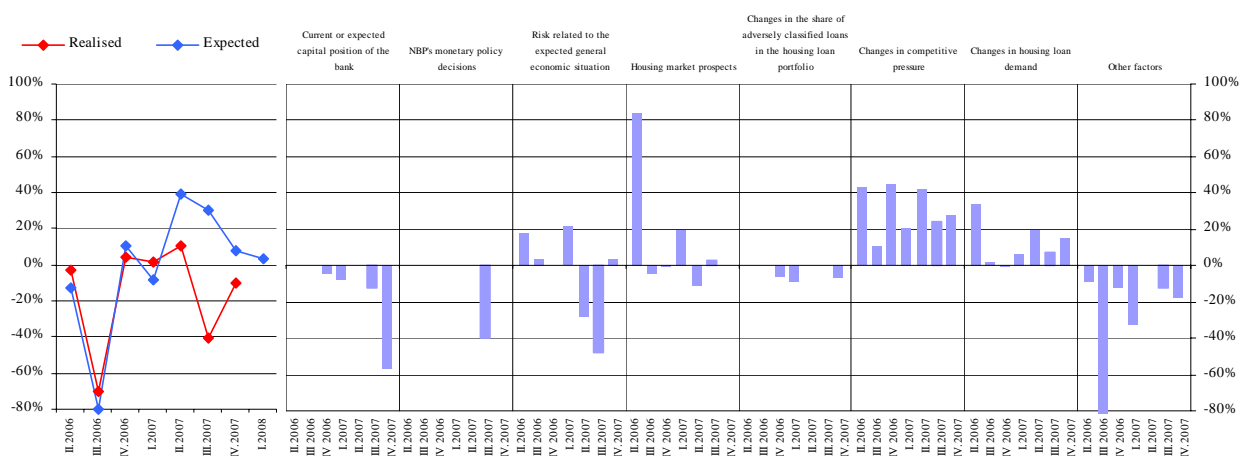
**The banks expect further tightening of the lending policy towards large enterprises in the first quarter of 2008.** All the banks which tightened their terms or standards of granting such loans in the fourth quarter of 2007 intend to continue such actions in the following quarter. The banks' expectations related to the lending policy towards SMEs are somewhat discrepant (see Figure 1). Over one third of the banks intend to ease the terms or standards of granting long-term loans to SMEs. At the same time, one fifth of the banks expect to tighten the terms or standards of granting long-term loans to SMEs. The New Basel Capital Accord can have a significant impact on the lending policy towards small enterprises. Such enterprises can be treated as retail customers, which allows the banks to apply preferential methods of calculating the capital requirement.

Although in the two last quarters the scale of growth in demand for loans to enterprises was much lower than banks' expectations, the **banks expect a strong increase in demand in the first quarter of 2008** (see Figure 4). This growth is to be slightly stronger in the segment of loans to SMEs than in the segment of loans to large enterprises. The banks which in the fourth quarter of 2007 noted a decrease in demand for loans to enterprises regard this decrease as a temporary phenomenon, expecting demand in the first quarter of 2008 to grow

## Housing loans

**In the fourth quarter of 2007 the banks slightly tightened the standards of granting housing loans** (see Figure 6). At the same time, one fourth of the banks decided to increase loan spreads on housing loans (see Figure 7). However, the extension of maximum loan maturity was still observed. The changes of other terms of granting housing loans were very slight. As at the end of the third quarter of 2007, the banks expected the lending policy in this segment to be slightly eased (see Figure 6).

Figure 6  
Lending policy and factors influencing its changes – housing loans

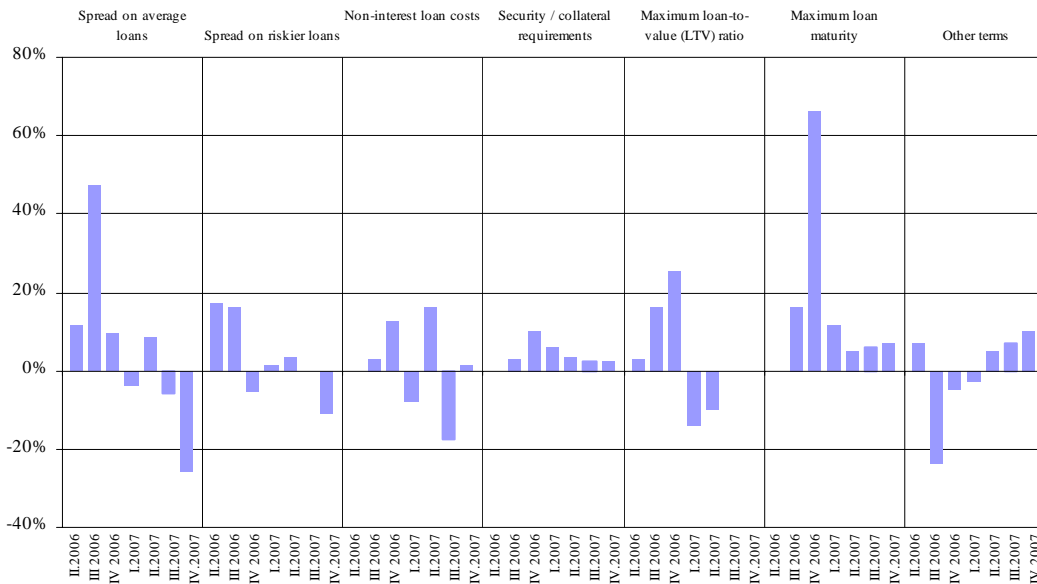


**The banks indicated the current and expected capital position of the bank as the most important reason for tightening the lending policy in the segment of housing loans.** This position worsened in previous quarters as a result of fast growth in lending. Such a rationale was indicated both by the banks controlled by domestic entities and the banks which are members of international capital groups. The strength of this factor indicates that some domestic banks will have to raise capital so that the dynamic increase in assets could be continued. The easing of



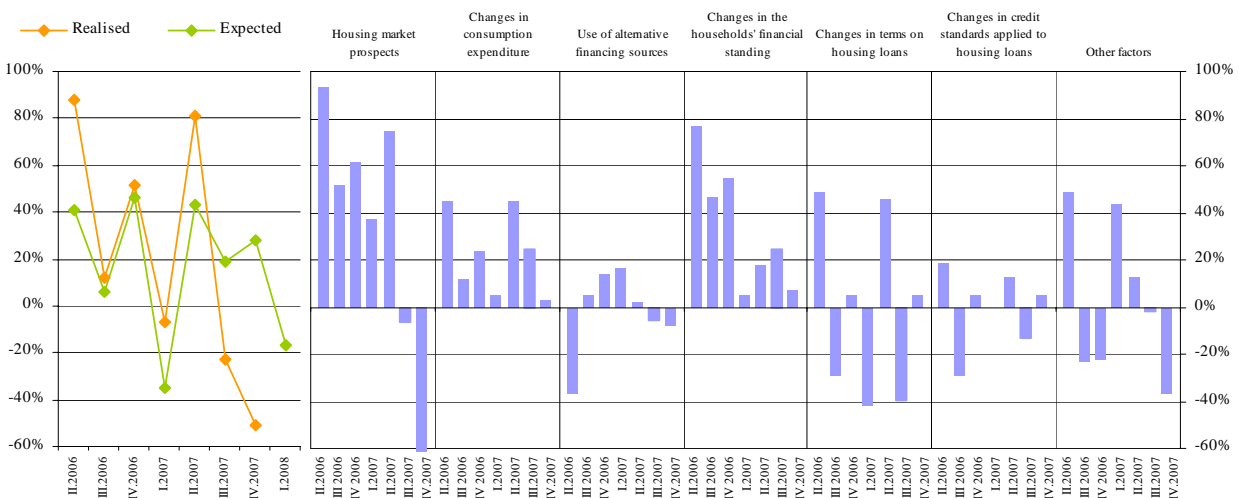
lending policy was supported by the sustained strong competition pressure in the sector and a strong decrease in demand for housing loans (see Figure 6). However, one bank decided to tighten the lending policy in relation to the growing share of non-performing housing loans in its loan portfolio.

Figure 7  
Terms on housing loans



The banks assessed that a **strong decrease in demand for housing loans took place in the fourth quarter of 2007**. 13% of the banks regarded this decrease in demand in the fourth quarter as significant and according to ca. 40% of the banks this decrease was slight. The decrease in demand was noted, first of all, by the banks with the highest share in the housing loans market. The direction and scale of these changes were a large surprise for the banks which at the end of the third quarter projected a slight increase in demand for housing loans (see Figure 8).

Figure 8  
Demand for housing loans and factors influencing its changes



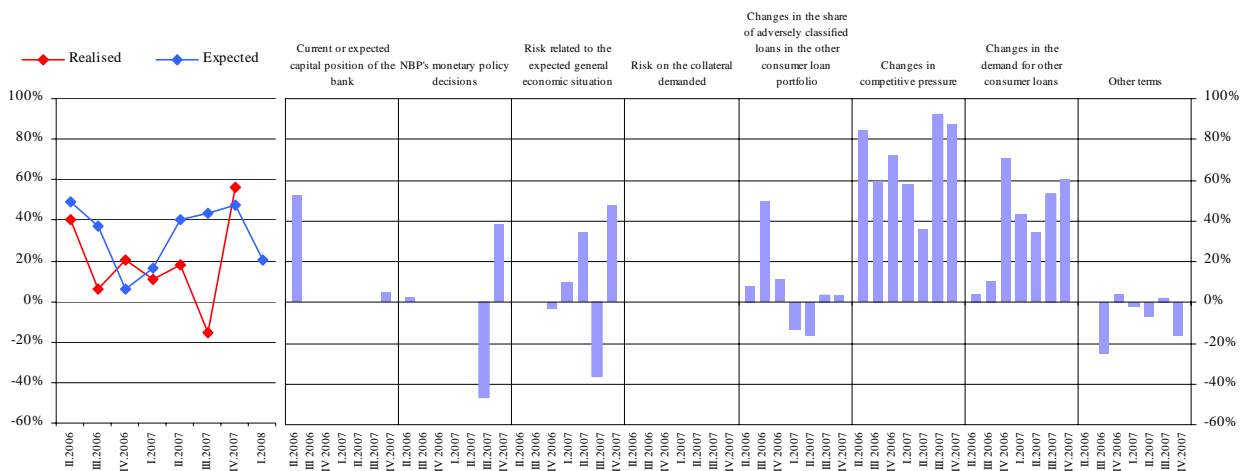
The projections of developments in the housing market (see Figure 8) were a dominant reason for the decrease in demand for housing loans. It may be expected that the projections of the decrease in the prices of residential real estate and of the growth in the supply of flats resulted in households' refraining from purchasing flats. Such projections could have also resulted in limiting speculative demand. Among other factors which shaped the demand for housing loans, the banks indicated lagged effects of tightening the terms and standards of granting loans in the third quarter of 2007.

The banks expect the stabilisation of lending policy in the housing loans segment in the first quarter of 2008. A further decrease in the demand for housing loans is expected (see Figure 8). However, the pace of decrease in demand is to fall as compared to the previous quarter. It seems that the key factor of the demand for housing loans will be the assessment of future developments in the housing market.

### Consumer loans

In the fourth quarter of 2007, the standards of granting consumer loans to households were strongly eased. One third of the banks regarded the changed standards of granting consumer loans as a considerable easing of lending policy.<sup>3</sup> The scale of easing the standards of granting consumer loans has been the largest for two and a half years. The banks' credit committees had expected such a change for three quarters (see Figure 9).

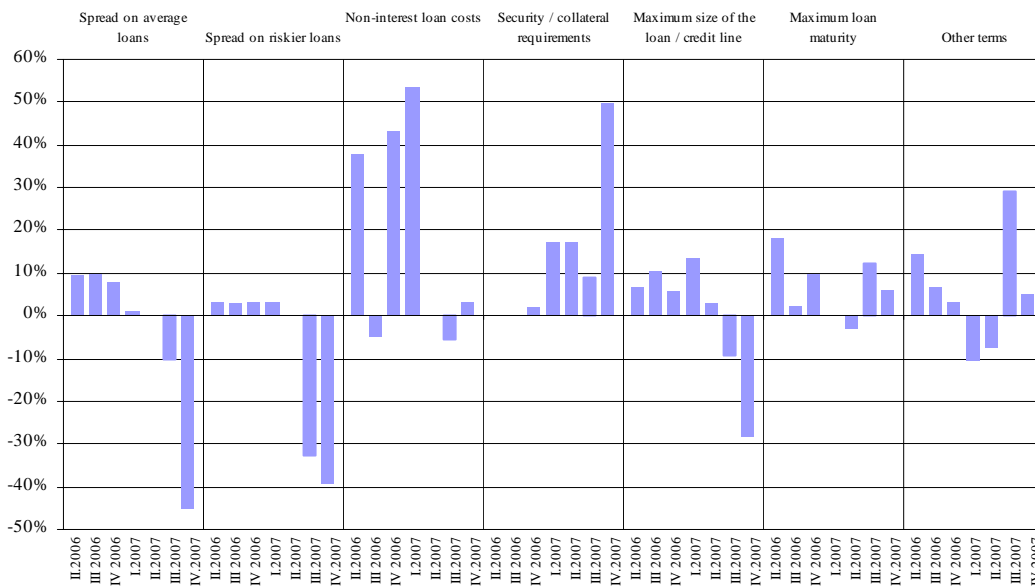
Figure 9  
Lending policy and factors influencing its changes – consumer loans



The banks eased the standards of granting consumer loans and tightened the terms of granting them. Nearly half of the banks increased loan spreads and ca. 30% of banks decreased the maximum available loan size (see Figure 10). The increase in spreads related both to standard loans and higher risk loans. The banks limited the scope of collateral requirements for consumer loans. Coupled with the limitation of documentary requirements as well as less restrictive standards of granting loans, it indicates that **some banks decided to undertake higher credit risk in order to obtain higher interest income**. The banks which eased the terms of granting consumer loans extended somewhat the maximum loan maturity and decreased non-interest loan costs.

<sup>3</sup> Banks have a possibility of grading the changes in lending policy. In the survey, the banks select among the options: eased considerably, eased somewhat, remained basically unchanged, tightened somewhat, tightened.

Figure 10  
Terms on consumer loans

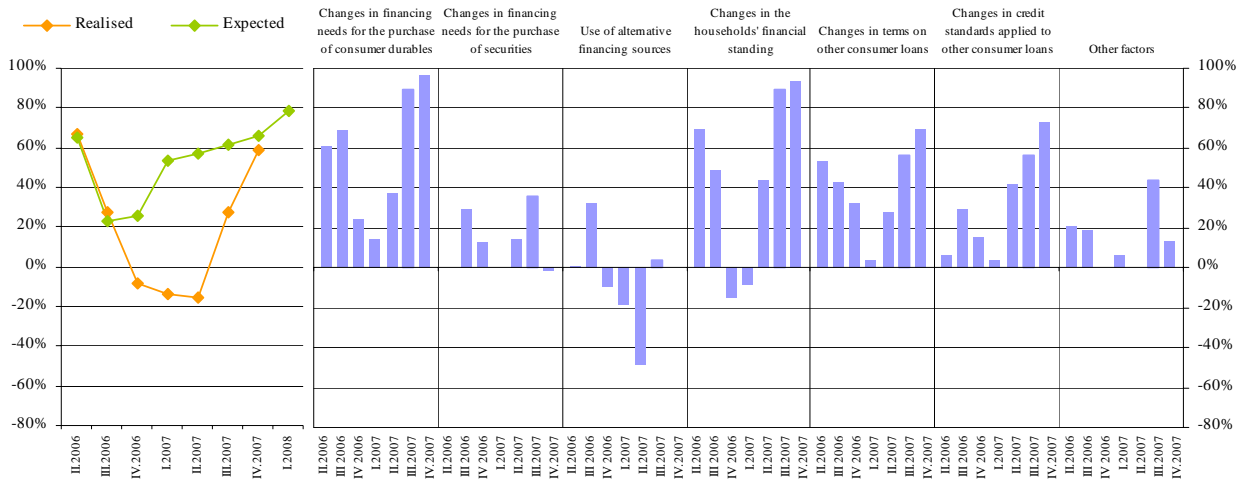


**Strong competition pressure and the increase in demand for loans** (see Figure 9) **were the major reasons for easing the lending policy in the segment of consumer loans.** With relation to the decrease in the banks' ability to generate future profits in the segment of housing loans as a result of the decrease in demand and lower level of spreads, it seems that in the case of some banks consumer loans could become a strategic product due to high spreads. These banks could respond to the growing demand with easing the lending policy in order to use the economies of scale and develop a strong position in this market segment. Approximately half of the banks justified the decision to ease the standards of granting consumer loans with a favourable assessment of the future economic situation. A similar percentage of banks decided that the reason for easing the lending policy was the increases in NBP interest rates in the fourth quarter of 2007. The increase in interest rates, decreasing banks' relative spreads on the variable interest products, could induce these banks to enhance the competitiveness of offer in the segment yielding high spreads. According to 10% of banks the decisions of the Monetary Policy Council were the rationale behind the decision to tighten the lending policy. These banks increased loan spreads on consumer loans, therefore they could treat the increase in NBP interest rates as a pretext for increasing the credit price.

**Demand for consumer loans increased in the fourth quarter of 2007 in ca. 60% of surveyed banks.** It was in line with the expectations expressed at the end of the third quarter of 2007 (see Figure 11).

The two most important reasons for the growth in demand for consumer loans were: the increase in financing needs for the purchases of durable goods and an improvement in the financial standing of households. These factors were indicated by nearly all the banks which recorded the growth in demand. Ca. 70% of these banks stated that the easing of the terms and standards of granting consumer loans contributed to the growth in demand (see Figure 11). Similarly as in the previous quarter, the impact of competition of financing at other banks and use of household savings for consumer purposes on the demand for consumer loans was close to zero.

Figure 11  
Demand for consumer loans and factors influencing its changes



**In the first quarter of 2008, the banks expect a slight easing of lending policy in the segment of consumer loans. At the same time, nearly 80% of the banks expect growth in demand for these loans.**

**Appendix***Methodology*

The results of surveys are presented in the form of structures, i.e. the percentages of banks, which chose a given option in response to particular questions. Banks' responses are weighted with the share of the given bank in the market segment to which a given question relates. Weighing of responses is a solution frequently applied in preparation of results of qualitative surveys.<sup>2</sup>

The importance of particular banks in a given market segment is represented by the share of loans outstanding of a given bank in the loan portfolio of all 24 banks responded to the survey, broken down by particular types of loans. The following table presents the market segment to which particular questions refer, and the type of loans outstanding which was used to calculate the shares of particular banks in a given market segment.

**Table 1**

**Market segment and the respective type of loans  
taken into consideration in calculation of the weights**

Questions no.	Market segment	Type of loans
1, 4, 6, 7	Short-term corporate loans	Loans outstanding from state-owned enterprises and companies, private enterprises and companies as well as cooperatives and sole traders with the basic term to maturity of up to one year, together with the outstanding on the current account
	Long-term corporate loans	Loans outstanding from state-owned enterprises and companies, private enterprises and companies as well as cooperatives and sole traders with the basic term to maturity above 1 year
2, 3, 5	Total corporate loans	Total amount of loans outstanding from state-owned enterprises and companies, private enterprises and companies as well as cooperatives and sole traders
8, 9, 10, 13, 14, 16, 17	Housing loans to households	Housing loans to persons
8, 11, 12, 13, 15, 16, 17	Consumer and other loans to households	Total loans outstanding from persons less housing loans to persons

Note: All types of claims relate to residents only. In the case of corporates the distribution between large enterprises and small and medium-sized enterprises was not retained, due to a lack of relevant data in banking statistics.

Source: NBP.

Thus a weight, corresponding to a given bank's share in a given market segment is assigned to particular responses. At the calculations of weights the average amount of claims of a given type in the two first months of the period covered by the survey, was taken into account.<sup>3</sup> Where a bank marked "Not applicable" in the response options, a weight of 0 was assigned. Thus while calculating

<sup>2</sup> Cf.: M. Bieć „*Business survey: Methods, techniques, experience*”, Papers and Materials of the Research Institute for Economic Development, No. 48, Warsaw School of Economics, pp. 71-114.

<sup>3</sup> No data on claims loans of particular banks in the third month of the period are available at the time of analysing the results of the survey, due to an about three-week delay in reporting.

the structures for particular questions, only banks being active in a particular market segment were taken into account.

Apart from structures, the so-called net percentage was calculated for each response, that is the difference between the percentages of responses showing opposing directions of changes. This magnitude indicates a general tendency in the specific market segment. The method of calculating the net percentage for particular questions is presented in the following Table 2.

**Table 2****Method of calculating the net percentage**

Questions no.	Definition of net percentage
1, 2, 8, 9, 11	The difference between the percentage of responses „Eased considerably” and „Eased somewhat” and the percentage of responses “Tightened considerably” and “Tightened somewhat”. A negative index indicates a tendency of tightening the credit standards.
3, 10, 12	The difference between the percentage of responses “Contributed considerably to the easing of lending policies” and “Contributed somewhat to the easing of lending policies” and the percentage of responses “Contributed considerably to the tightening of lending policies” and “Contributed somewhat to the tightening of lending policies”. A negative index indicates a given factor’s greater contribution to the tightening than to the easing of lending policies.
4, 13	The difference between the percentage of responses „Increased considerably” and „Increased somewhat” and the percentage of responses „Decreased considerably” and „Decreased somewhat”. A positive index indicates an increase in demand.
5, 14, 15	The difference between the percentage of responses „Contributed considerably to higher demand” and „Contributed somewhat to higher demand” and the percentage of responses „Contributed considerably to lower demand” and „Contributed somewhat to lower demand”. A positive index means that a given factor contributed to an increase in demand, and a negative one – to a decrease in demand.
6, 16	The difference between the percentage of responses „Ease considerably” and „Ease somewhat” and the percentage of responses „Tighten considerably” and „Tighten somewhat”. A positive index indicates the expected easing of the lending policies.
7, 17	The difference between the percentage of responses „Increase considerably” and „Increase somewhat” and the percentage of responses „Decrease considerably” and „Decrease somewhat”. A positive index indicates the expected increase in demand.

Source: NBP.