Senior loan officer opinion survey

on bank lending practices and credit conditions

1st quarter 2009

Warsaw, January 2009

Summary of the survey results

In all segments of the credit market, loan supply strongly contracted. The banks strongly tightened the standards of granting all types of loans and raised loan spreads. In the case of corporate and housing loans, the banks increased collateral requirements, which were higher than in the third quarter of 2008 r. These changes in lending policy resulted from a very high uncertainty about future economic developments, which hinders an accurate credit risk assessment by the banks. In addition, a number of banks were forced to curb the growth of lending due to growing capital constraints.

Corporate loans

- Lending policy: over 80% of the banks tightened the standards of granting loans. Also, over 80% of the banks raised their loan spreads.
- Demand for loans: demand for short-term and long-term loans to large enterprises slightly increased. Demand for long-term loans to small- and medium-sized enterprises dropped.
- Expectations for the first quarter of 2009: the banks expect a further strong tightening of lending policy towards enterprises. A slight increase in demand for short-term loans and a fall in demand for long-term loans are expected.

Housing loans

- Lending policy: 86% of the banks tightened the standards of granting loans. Around 90% of the banks raised their spreads and limited the maximum LtV ratio. A number of the banks withdrew foreign currency-denominated loans from their offer.
- Demand for loans: 70% of the banks experienced a fall in demand for housing loans, whereas 20% of the banks saw demand rise.
- Expectations for the first quarter of 2009: the banks expect a slight tightening of lending policy and a further decline of demand for housing loans.

Consumer loans

- Lending policy: the standards of granting loans were tightened by 75% of the banks. Around half of the banks raised their loan spreads.
- Demand for loans: the bank experienced a slight fall in demand.
- Expectations for the first quarter of 2009: the banks foresee a further strong tightening of lending policy and a slight fall in demand for consumer loans.

Results of the survey – overview

The objective of the survey is to define the direction of changes in the lending policy, i.e. the standards and terms of granting loans, as well as changes in 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 the loan agreement agreed by the bank and the borrower, including spread, non-interest loan costs, maximum loan size, collateral requirements and maximum loan maturity.

The survey is addressed to the chairpersons of banks' credit committees. Banks' responses may not take account of the opinions of the banks' divisions other than the credit division. The survey was conducted at the turn of December 2008 and January 2009 **among 30 banks whose total share of claims on enterprises and households in the banking sector portfolio amounts to 87%**. In order to enhance the representativeness of the analysed sample, in this edition the survey was also directed to six commercial banks that had not participated in the survey earlier.

Due to the increase of the size of the sample, data related to changes in the lending policy and demand for loans in the fourth quarter of 2008, as well as data related to expectations for the first quarter of 2009 may not be fully comparable with the data released in the survey's previous editions. To enable the reader to compare relevant periods, Appendix 2 was attached to this study. The Appendix contains figures based on the data reported by the 24 banks that have participated in the survey since its first edition in the fourth quarter of 2003. These banks' total share of claims on enterprises and households in the banking sector portfolio amounts to 74.1%.

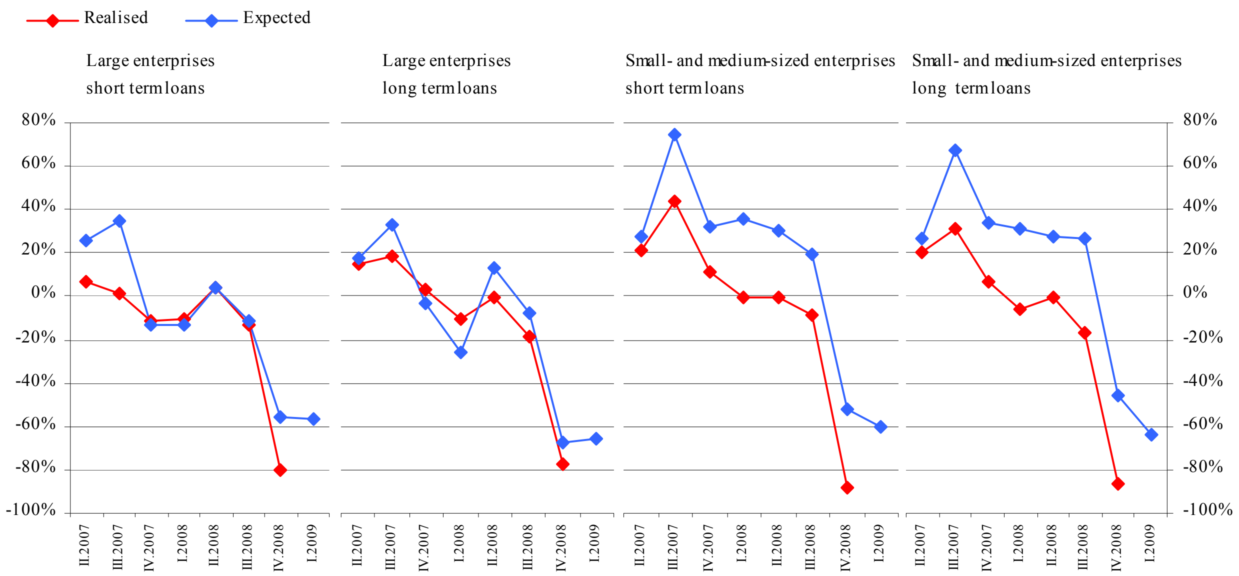
The aggregation of the data behind the results consisted in the calculation of weighted percentages of responses and the net percentage, i.e. the difference between the structures presenting opposite trends. In line with the adopted methodology, words describing quantities (majority, half, considerable, 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 Appendix 1.

The following section presents tendencies regarding the banks' lending policy and changes in demand in the fourth quarter of 2008, as well as the banks' expectations for the first quarter of 2009.

Corporate loans

In the fourth quarter of 2008, the majority of surveyed banks (around 80%) tightened the standards of granting corporate loans. The decisions to tighten the standards of granting loans were mostly in line with the banks' forecasts released in October 2008. However, the scale of the tightening was firmly bigger. Depending on the market segment, from 5% to 25% of the banks declared that changes in the standards of granting loans they made accounted for a considerable tightening of lending policy[1]. In the segment of small- and medium-sized enterprises, half of the banks expected a tightening of lending policy, whereas **approximately 90% of the banks decided to tighten the standards of granting loans** to these enterprises. The difference between the actual changes in lending policy and the banks' expectations was slightly smaller than in the segment of large enterprises. The tightening of lending standards related – to a similar extent –to all segments of the credit market (see Figure 1).

Figure 1
Corporate credit standards



Note: the Figures included in this study present the net percentage. A positive value of net percentage should be interpreted as the easing of lending policy or the growth in demand for loans, and a negative value of net percentage – the tightening of lending policy or a fall in demand for loans. Details concerning the calculation methodology are presented in Appendix 1.

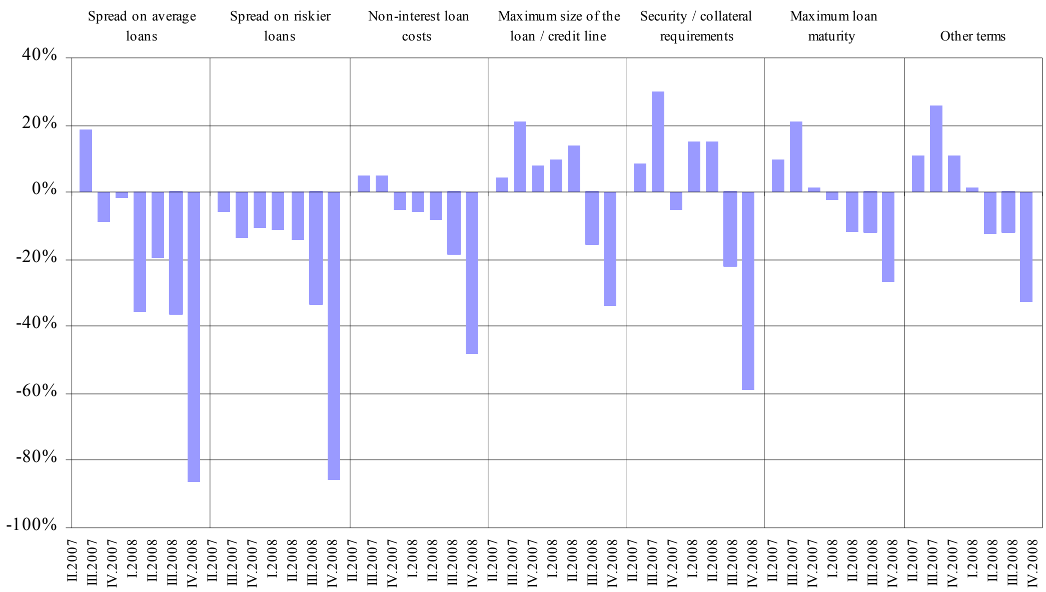
All lending terms, accounted for in the survey, were tightened. Over 80% of the banks raised loan spreads (see Figure 2), of which one third considered the increase as considerable. Almost 60% of the banks expected the enterprises to present a broader range of loan collateral. Around half of the banks raised non-interest loan costs and one third of the banks lowered maximum loan size. For each of the terms of granting loans, around 10% of the banks said that the changes made had represented a considerable tightening of lending policy. The smallest number of banks – around 25% – cut short maximum loan maturity.

The banks negatively assess the future economic outlook. Ninety nine percent of the banks pointed to the risk related to future economic situation as the reason for tightening lending policy (see Figure 3), of which as many as 88% said that this risk prompted them to considerably tighten the standards and terms of granting loans[2]. Uncer-

[1] The banks have a possibility of grading changes in the standards (terms) of granting loans. In the survey, the banks choose among the following options: standards (terms) were considerably tightened, standards (terms) were somewhat tightened, standards (terms) remained unchanged, standards (terms) were somewhat eased, standards (terms) were considerably eased.
[2] The banks have a possibility of grading the influence of factors on lending policy. In the survey, the banks choose among the following options: considerably influencing the tightening of lending policy, somewhat influencing the tightening of lending policy, not influencing lending policy, somewhat influencing the easing of lending policy, considerably influencing the easing of lending policy.

tainty about future economic climate makes it difficult for the banks to correctly assess the credit risk taken, which may induce them to strongly tighten lending policy.

Figure 2
Terms on corporate loans



Three fourths of the banks considered their current or expected capital position as a factor contributing to the tightening of lending policy. This factor has impacted the tightening of lending policy for a fifth quarter in a row, and this impact is growing in importance. This indicates that **the banks will probably be unable to maintain the current high growth rate of lending unless their regulatory capital is increased**.

Over 70% of the banks decided to tighten lending policy in response to the growing industry-specific risk. The banks indicated industries linked to the property market (development, construction and furniture making industries) and industries highly dependent on exports (motor, chemical, metal and transport industries) as particularly risky. According to approximately **45% of the banks, they were induced to tighten lending policy by the increase in their irregular loan ratios**. Among other factors impacting the tightening of lending policy, the banks cited the rising cost of financing and the policy of the parent entity (foreign bank). According to the banks, competitive pressure on the corporate loan market is diminishing. Around 15% of the banks said that the fall in competitive pressure from peer banks had been behind the decision to tighten lending policy towards enterprises.

Demand for loans from large enterprises grew in the fourth quarter of 2008 and the growth primarily concerned short-term loans. **Assessment of the direction of changes in demand for** loans was diverse among the banks. In the segment of large enterprises, around 45% of the banks reported an increase in demand for loans. At the same time, over 10% of the banks reported a decrease in demand for short-term loans and over 20% of the banks pointed to a fall in demand for long-term loans from large enterprises, which translated into values of net percentage at around 35% and around 25%, respectively. **In the case of small- and medium-sized enterprises**, a relatively modest (14%) increase in demand was experienced only for short-term loans. For the first time in the history of the survey (since the fourth quarter of 2003), **demand for short-term loans decreased** in this group of enterprises (see Figure 4). The decrease in demand for this type of loans was much stronger than expectations expressed in the third quarter of 2008.

Figure 3
Factors influencing changes in lending policies

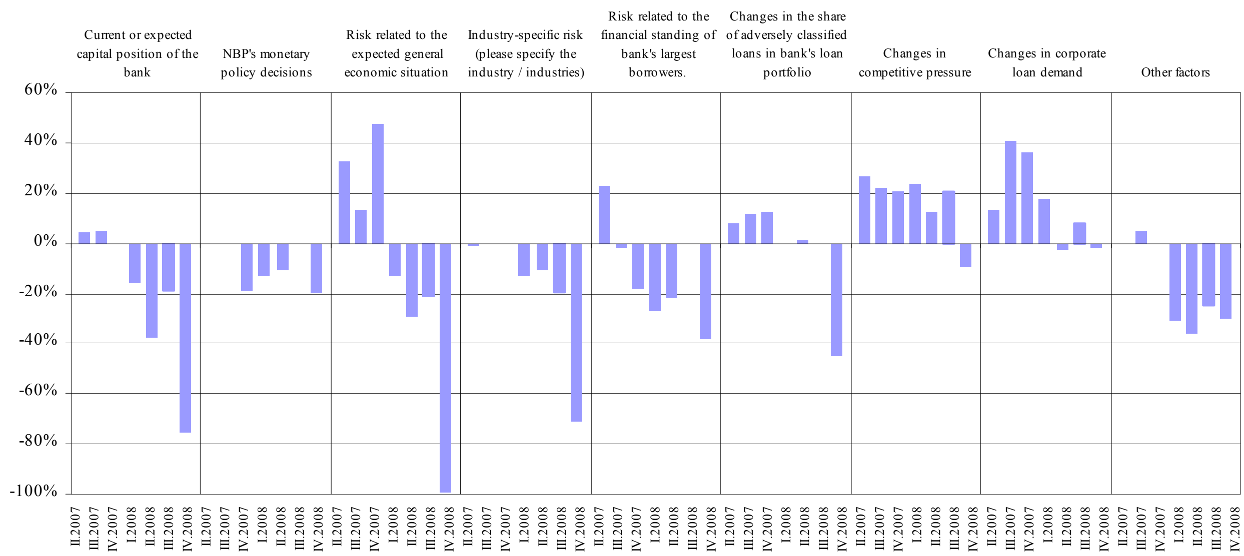


Figure 4
Corporate loan demand

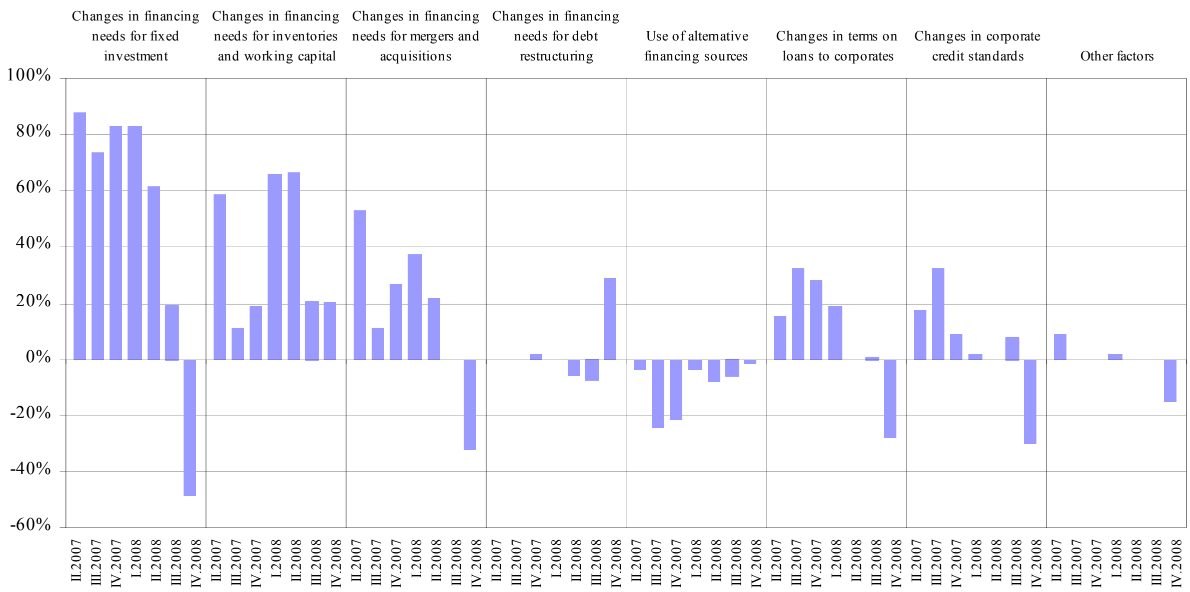
The banks that recorded an increase in demand for corporate loans attributed it to the growing needs for enterprises' inventories and working capital and to financing related to debt restructuring (see Figure 5). This probably results from the deterioration of liquidity and of the outlook for profitability of the corporate sector, which induce some companies to use more short-term loans than before.

According to the banks, **the fall in demand** for some types of corporate loans results primarily from **a fall of financing needs for fixed investment**. The fall was recorded for the first time in the history of the survey. Nearly two thirds of the banks that reported a change in demand for corporate loans pointed to the factor as contributing to a decrease in demand. Almost one fourth of the banks considered the fall in demand for investment loans as considerably contributing to a decrease in aggregated demand for loans. At the same time, approximately 20% of the banks said that financing needs for fixed investment had positively impacted demand for loans from enterprises. **The other significant factor behind the decrease in demand for corporate loans was lower financing needs for mergers and acquisitions**. The factor was cited by over 30% of the banks. Around 15% of them pointed to expected economic slowdown as the reason behind falling demand for loans. The role of alternative sources of financing as factors shaping demand for loans was insignificant.

The majority of the banks expect the lending policy towards enterprises to be further tightened in the first quarter of 2009. The tightening is to apply to all types of loans accounted for the survey (see Figure 1), with slightly more banks planning to tighten their lending policies in the segment of long-term loans (63-65%) than in the segment of short-term loans (57-60%). The banks expect the scale of the tightening to be slightly smaller than in the fourth quarter of 2008. Merely 5% to 10% of the banks expect the policy to be considerably tightened.

In the first quarter of 2009, the banks expect a further increase in demand for corporate loans from large enterprises (see Figure 4). Demand for short-term loans to small- and medium-sized enterprises is to remain stable. In the segment of long-term loans, around 45% of the banks expect demand for loans to fall. The banks' expectations are strongly discrepant as at the same time 15% of the banks expect demand for long-term loans to rise.

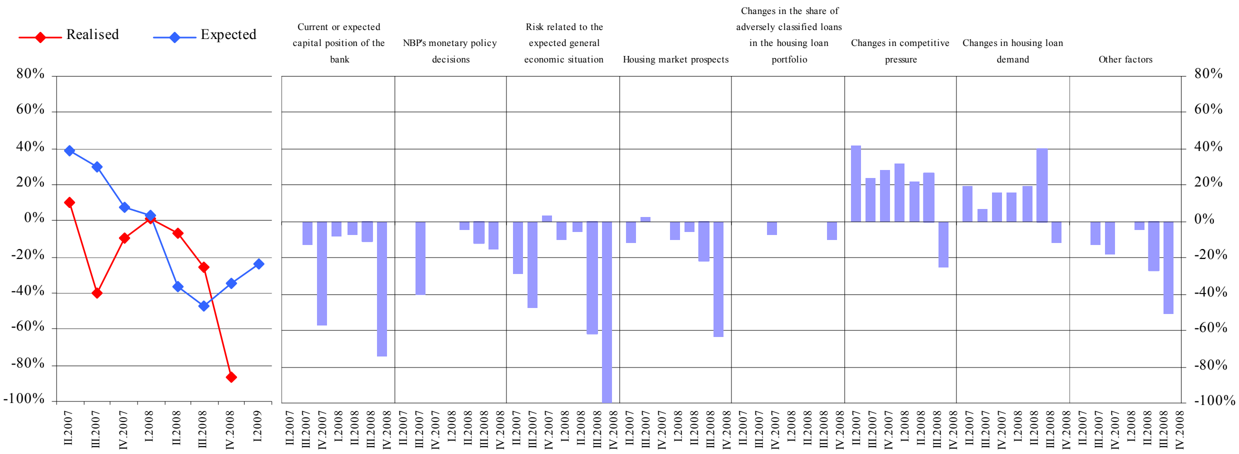
Figure 5
Factors influencing changes in corporate loan demand



Housing loans

In the fourth quarter of 2008, the banks considerably tightened lending policy with regard to housing loans (see Figure 6). Over 85% of the banks tightened the standards of granting the loans, with 20% of the banks considering the tightening as considerable. The standards of granting housing loans to households were also tightened by the banks that – in the previous edition of the survey – reported no tightening or easing their lending policies in the fourth quarter of 2008. No bank eased the standards of granting housing loans. The banks' decisions were unexpected and largely taken in response to the suddenly changing economic environment. In the third quarter of 2008, only one third of the banks had plans to tighten their lending policy in the upcoming quarter.

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



In the fourth quarter of 2008, all terms of granting housing loans were tightened. Almost all the banks raised spreads on satisfactory and riskier loans. **In the case of around three fourths of surveyed banks, loan spreads were raised considerably**. **Approximately 90% of the banks lowered the maximum loan-to-value ratio** for property purchase. Over 40% of the banks increased non-interest loan costs. Moreover, one fifth of surveyed banks cut short maximum loan maturity, and over 5% of the banks tightened terms of collateral requirements.

Two thirds of the banks also tightened other standards and terms of granting housing loans to households, which were unaccounted for in the survey. The banks pointed to the tightening of lending terms with regard to: calculation of the borrower's creditworthiness, the borrower's income statements and property appraisal rules. Two banks also tightened their lending policies for loans aimed to finance property purchase on the primary market.

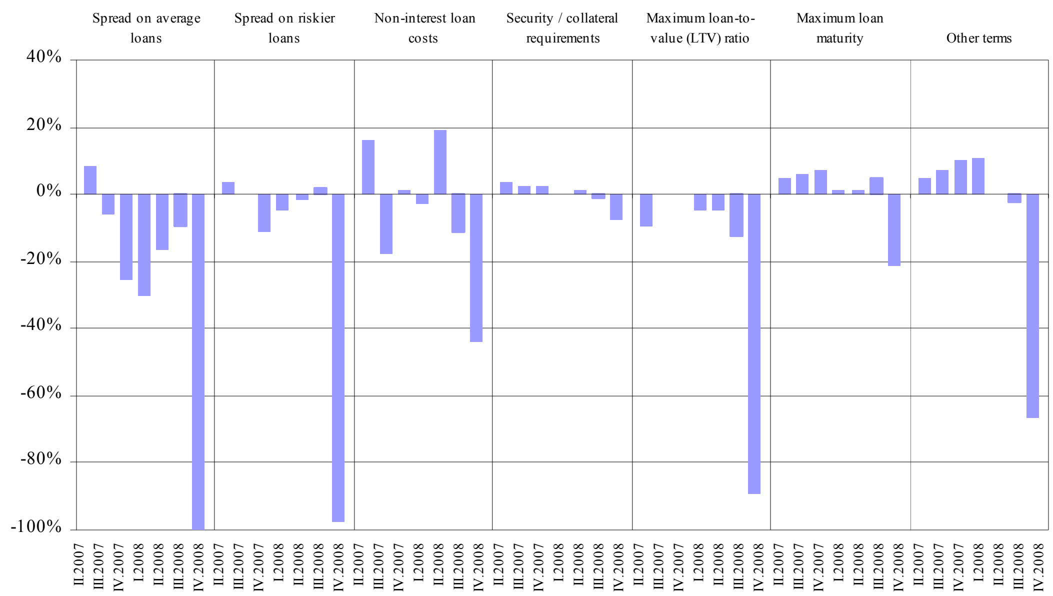
In the case of the majority of the banks, the tightening of lending policy for Swiss franc-denominated housing loans was stronger. Several banks (with a considerable market share) entirely suspended origination of new Swiss franc-denominated loans, and some other banks considerably tightened the standards of granting these loans.

Similarly, as in the case of corporate loans, the banks' lending policy decisions were influenced by high uncertainty about future economic developments and regulatory capital levels. All the surveyed banks said that the risk related to the expected general economic situation had had a major impact on tightening lending policy towards housing loans (see Figure 6). Two thirds of the banks assessed this impact as considerable. Additionally, the banks were induced by forecasted housing market developments to tighten their lending policy towards housing loans. This factor was identified by approximately two thirds of the banks. For over 70% of the banks, unfavour-able

assessment related to the current and expected capital position of the banks was cited as the reason for tightening the lending policy. The banks' responses indicate that competition on the market of housing loans has diminished. For the first time in the history of the survey, the change in competitive pressure had a negative impact on the banks' lending policy.

Among other factors that were unaccounted for in the survey, the banks identified problems in hedging foreign exchange and interest rate risk, high financing costs and Recommendation S as factors behind the decision to tighten lending policy.

Figure 7
Terms on housing loans



In the fourth quarter of 2008, around 70% of the banks experienced a fall in demand for housing loans (see Figure 8), with half of the banks identifying it as considerable[3]. In the case of around 20% of the banks, demand for housing loans grew. This growth mainly applied to foreign currency-denominated loans (primarily Swiss franc-denominated loans) and was observed by the banks that tightened their lending policies in this segment to a lesser degree. In aggregated terms, the decrease in demand for housing loans was much larger than expected by the banks at the end of the third quarter of 2008 when around 15% of the banks expected this demand to fall.

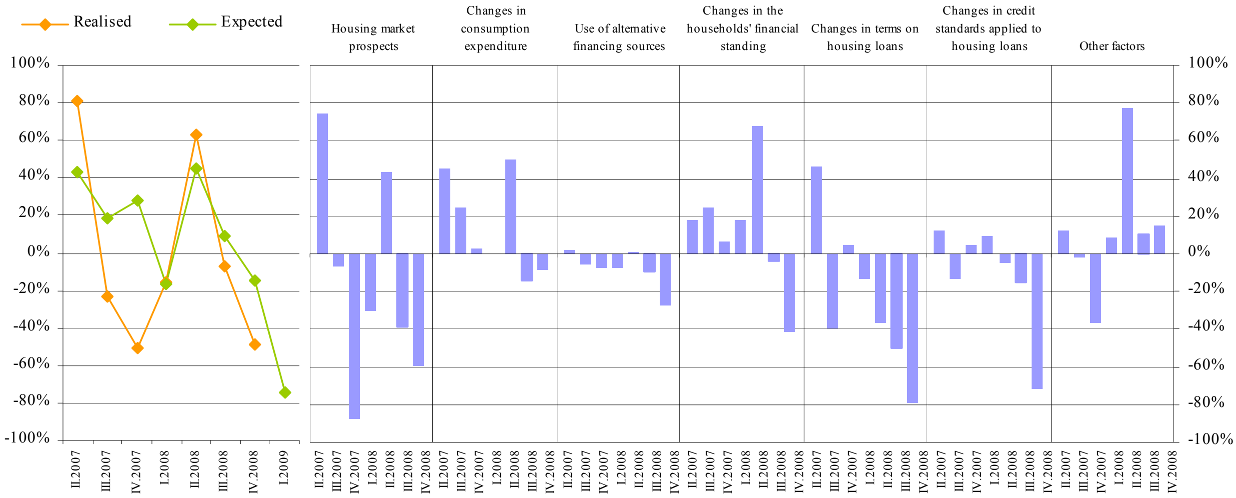
According to approximately 60% of the banks that reported decreased demand for housing loans, the decrease was supported by forecasts of housing market developments (see Figure 8). Uncertainty about future price developments on this market might have induced households to put off their property purchase transac-tions. **A change in the terms and standards of granting housing loans was** another **significant factor**

[3] The banks have a possibility of grading changes in demand. In the survey, the banks choose among the following options: demand increased considerably, demand somewhat increased, demand remained unchanged, demand somewhat decreased, demand decreased considerably.

contributing to the decrease in realised demand. These factors were identified by 79% and 72% of the banks, respectively. The rising cost of housing loan and its lower availability resulted in some prospective borrowers giving up loan taking. According to around 40% of the banks, decreased demand for housing loans was caused by changes in the financial standing of households. The banks that recorded a rise in demand attributed it, among others, to a promotional campaign of the bank and greater attractiveness of banking loans as the form of financing purchase of residential property.

Around one third of surveyed banks expect a further tightening of lending policy in the segment of housing loans in the fourth quarter of 2008. According to the majority of these banks, the tightening will not be significant. Around 10% of the banks plan to ease their lending policies regarding housing loans. **A further fall in demand for housing loans is expected** (see Figure 8). According to 35% of the banks, the fall will be considerable. Just one bank expects demand for housing loans to grow.

Figure 8
Demand for housing loans and factors influencing its changes



Consumer loans

In the fourth quarter of 2008, the standards of granting consumer loans were markedly tightened again (see Figure 9). Over 75% of the banks decided to tighten the standards. The observed change was in line with the banks' forecasts from the third quarter of 2008.

The tightening of terms of granting loans in the segment of consumer loans was less severe than in the case of housing and corporate loans. The upward trend of loan spreads for consumer loans from mid-2007 persisted in the fourth quarter of 2008. This increase, reported by over 40% of the banks involved both normal and riskier loans (see Figure 10). Other terms of granting loans were also tightened. In particular, over 22% of the banks tightened terms of collateral requirements, 15% of the banks decreased maximum loan size, and approximately 13% of the banks increased non-interest loan costs. Around one third of the banks also tightened other standards and terms of granting consumer loans, which were unaccounted for in the survey. They were primarily related to consumer loans denominated in foreign currencies that play a minor role in financing consumption.

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

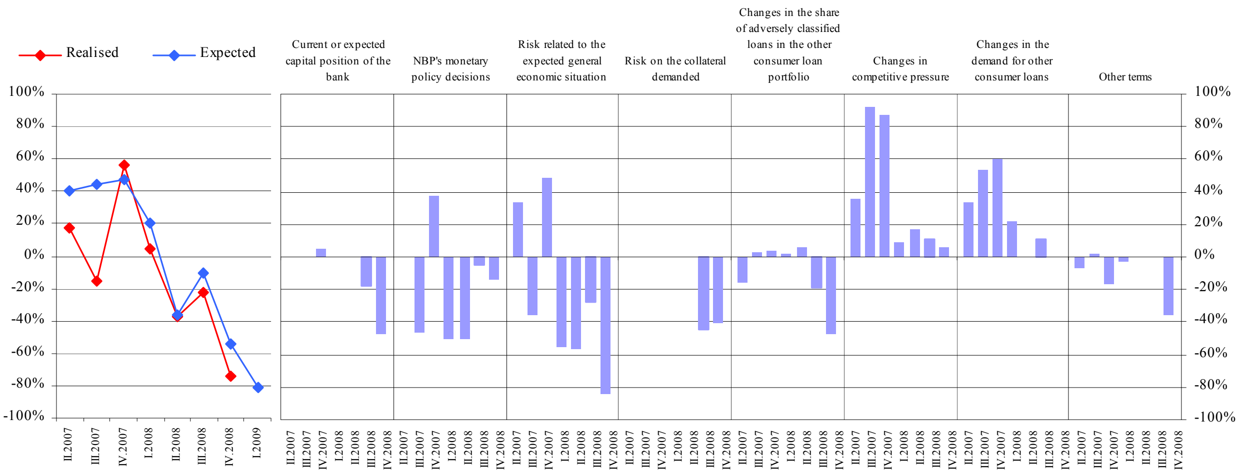
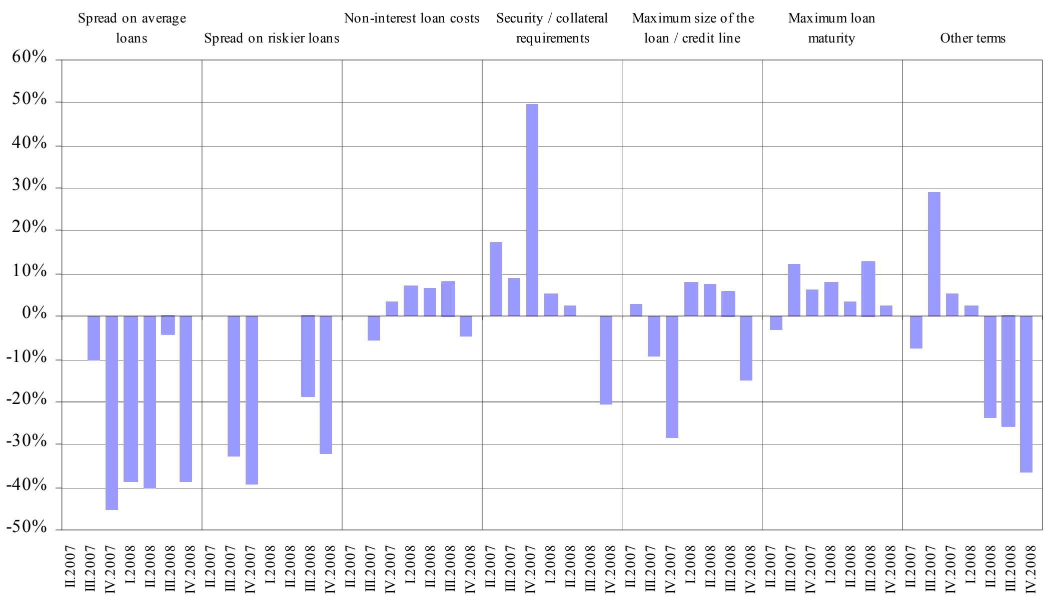


Figure 10
Terms on consumer loans



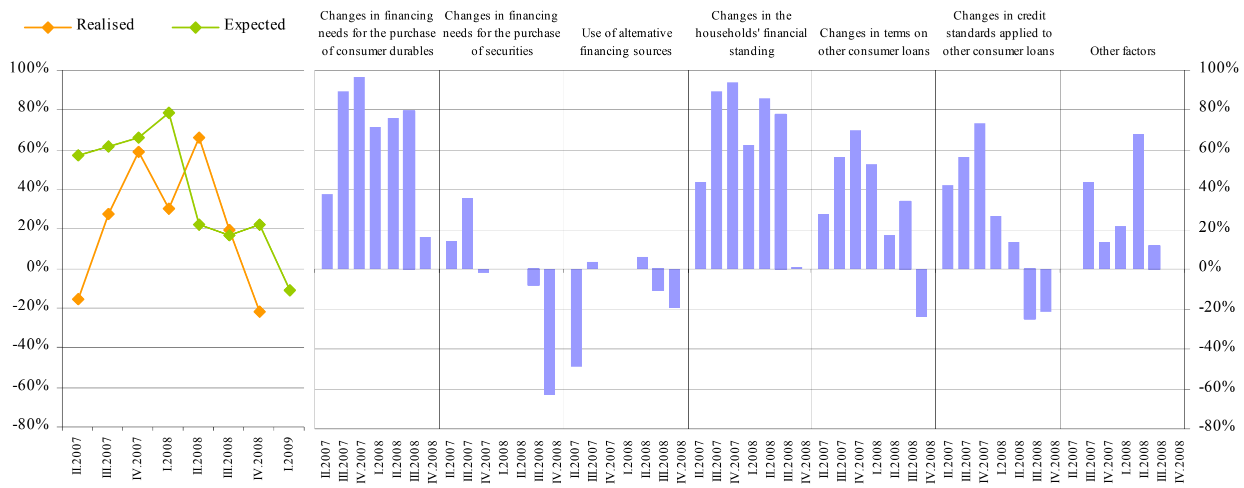
The risk related to the expected general economic situation was again one of the main reasons behind the banks' decisions to tighten lending policy in the segment of consumer loans. This factor was identified by over 85% of the banks. Similarly, as in the case of other types of credit, lending policy was also tightened in response to the worsening of the banks' current and expected capital position (see Figure 9). A high percentage (over 55%) of the responses on the change of the share of irregular loans in the consumer loan portfolio indicates that a significant number of the banks see a considerable deterioration of the quality of the loan portfolio, which induces them to respond. The tightening of lending policy in the fourth quarter of 2008 also stemmed from the risk related to realisation of collateral requirements. **Among other factors unaccounted for in the survey, the banks cited primarily the rising cost of financing in the interbank market.**

In the fourth quarter of 2008, the banks recorded a fall in demand for consumer loans (net percentage amounted to -22%). It should be noted, however, that banks' responses were not clear-cut. Forty percent of the banks reported a fall, whereas 18% reported an increase in demand for loans. At the end of the third quarter of 2008, the banks expected demand for consumer loans to increase (see Figure 11).

The fall in demand for consumer loans resulted primarily from increased use of savings (own funds) in financing consumption and the halt in demand for durable goods. Financing needs for durable goods**,** which had a considerable impact on the growth in demand for consumer loans in the past, markedly stabilised in the fourth quarter of 2008 (see Figure 11). In addition, the higher cost of consumer loan and its lower availability had negatively influenced is attractiveness to households, which – when coupled with worse consumer confidence – had an impact on the fall of realised demand for loan. The majority of the banks that reported falling demand for loans also pointed to a change in financing needs for purchase of securities. However, it should be kept in mind that these loans represent an insignificant part of the consumer loans granted by banks.

In the first quarter of 2009, the banks expect lending policy in the segment of consumer loans to be further tightened (see Figure 9). These expectations are expressed by a firm majority of the banks and they assess the tightening of lending policy to be considerable. Merely 19% of the banks plan not to revise their lending policies and no bank plans to ease it. **The banks expect demand for consumer loans to slightly fall** (see Figure 11). In particular, twenty four percent of the banks expect this demand to slightly grow and 13% expect it to slightly fall.

Figure 11
Demand for consumer loans and factors influencing its changes



Appendix 1

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.[2]

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 30 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.[3] Where a bank marked "*Not applicable*" in the response options, a weight of 0 was assigned. Thus while calculating

[2] 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.

[3] 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.

Appendix 2 – Results comparable with previous quarters' results

In order to maintain comparability of the results released in this study with those presented in the previous editions of the *Senior loan officer opinion survey on bank lending practices and credit conditions*, it has been decided to present the results for the sample of 24 banks (surveyed since its first edition of the fourth quarter of 2003) in a separate Appendix. In the fourth quarter of 2008, the total share of the banks in the portfolio of the banking sector's claims on enterprises and households amounted to 74.1%.

The trends occurring in the sample of 24 banks do not differ significantly from the trends observed in the whole sample of 30 banks. Detailed results of the sample of 24 banks are shown in Figures 2.1-2.11.

Figure 2.1
Corporate credit standards – sample of 24 banks

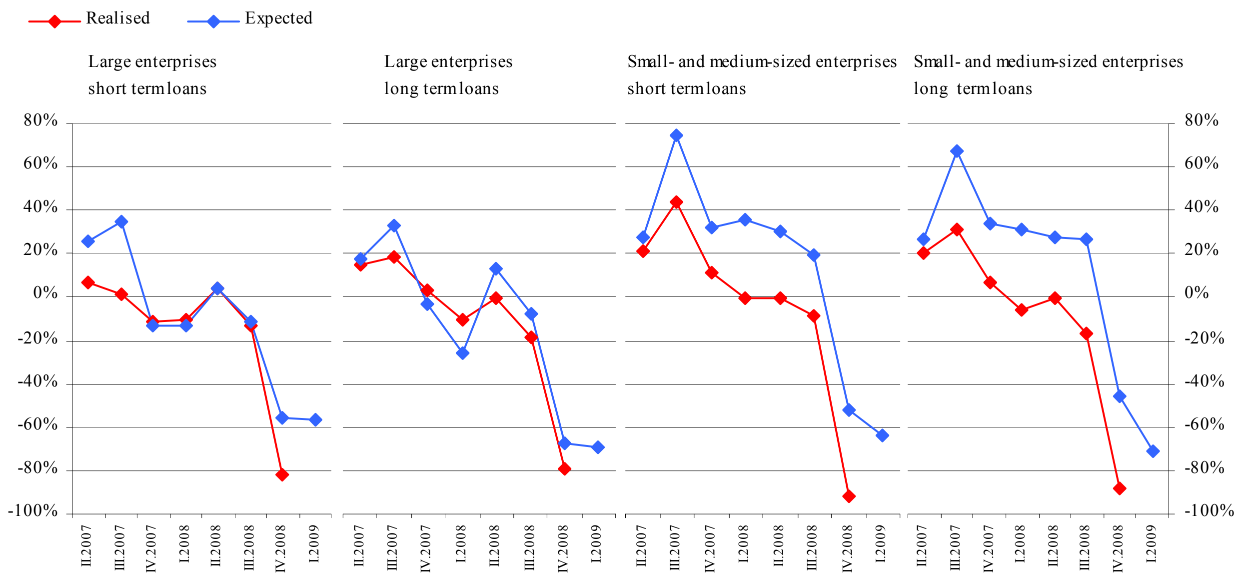


Figure 2.2
Terms on corporate loans – sample of 24 banks

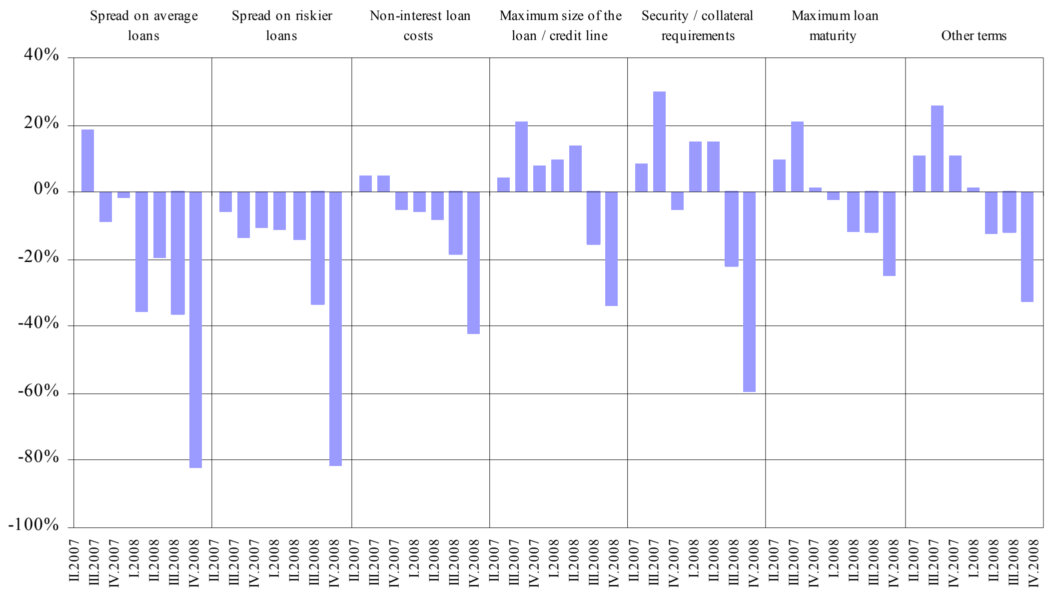


Figure 2.3
Factors influencing changes in lending policies – sample of 24 banks

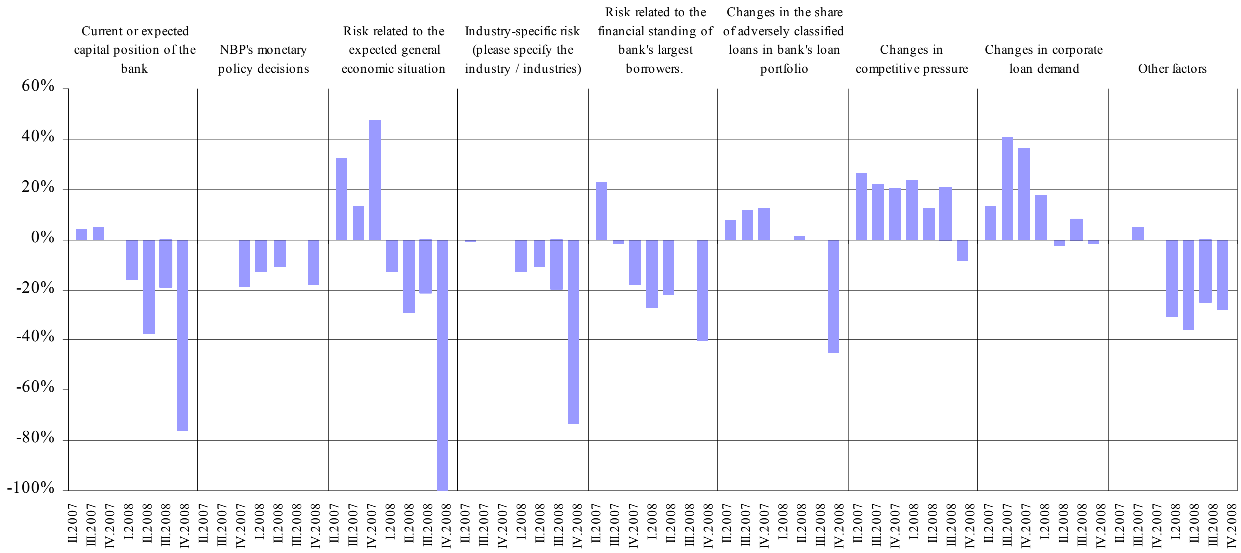


Figure 2.4
Corporate loan demand

Figure 2.5
Factors influencing changes in corporate loan demand – sample of 24 banks

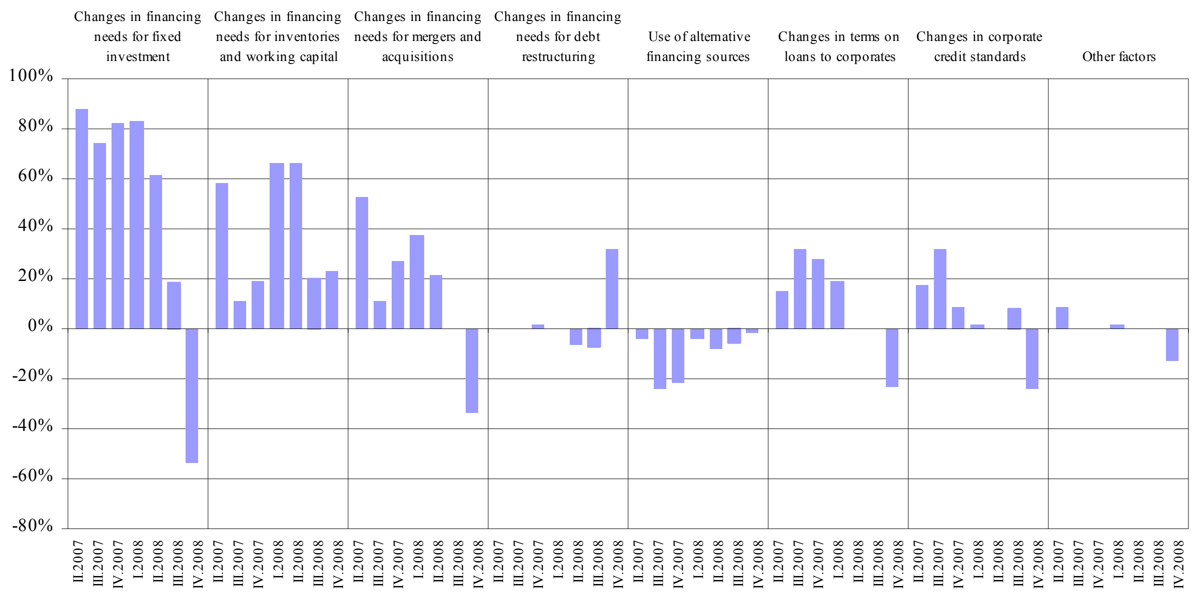


Figure 2.6
Lending policy and factors influencing its changes – housing loans, sample of 24 banks

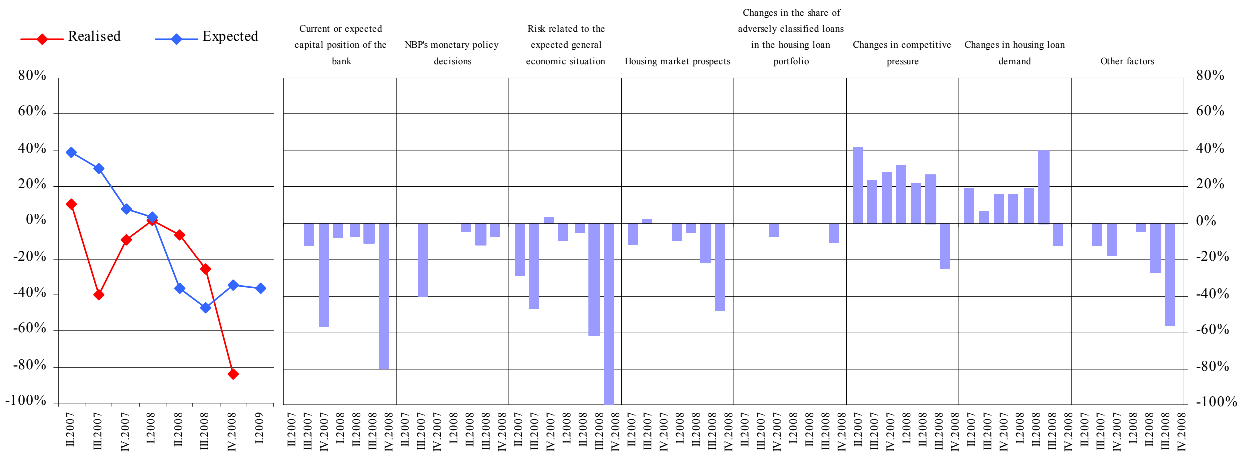


Figure 2.7
Terms on housing loans – sample of 24 banks

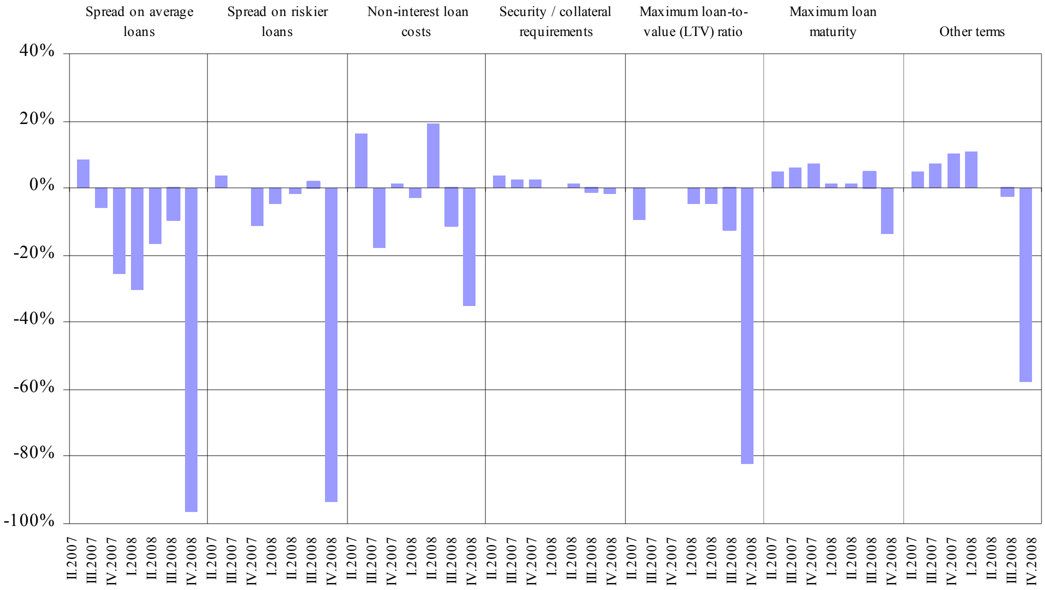


Figure 2.8
Demand for housing loans and factors influencing its changes – sample of 24 banks

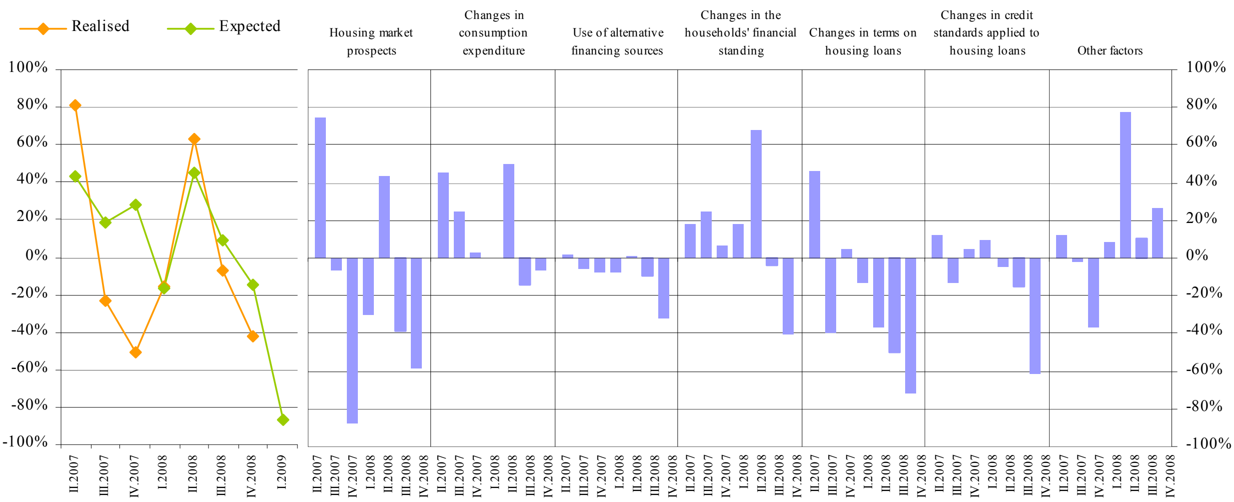


Figure 2.9
Lending policy and factors influencing its changes – consumer loans, sample of 24 banks

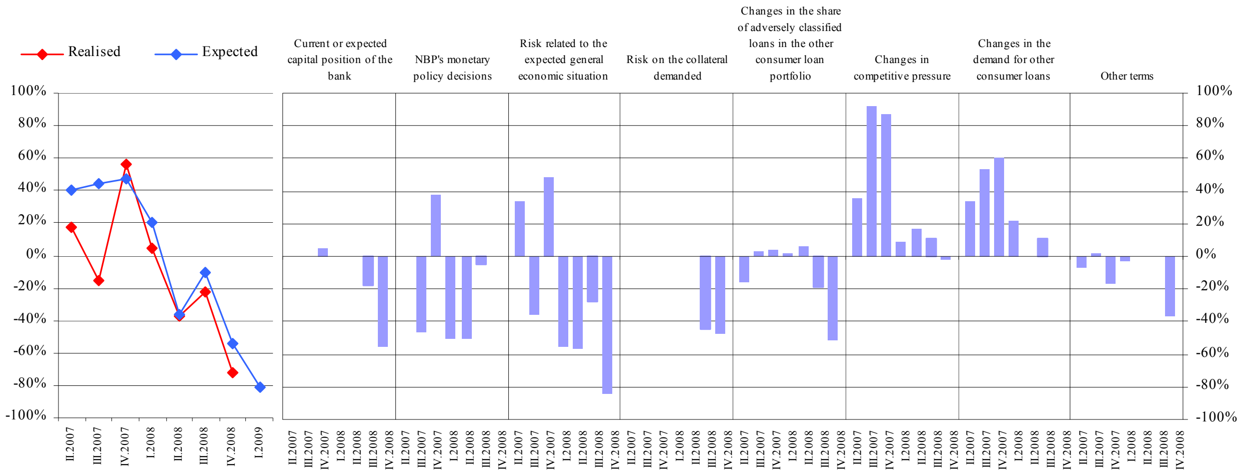


Figure 2.10
Terms on consumer loans – sample of 24 banks

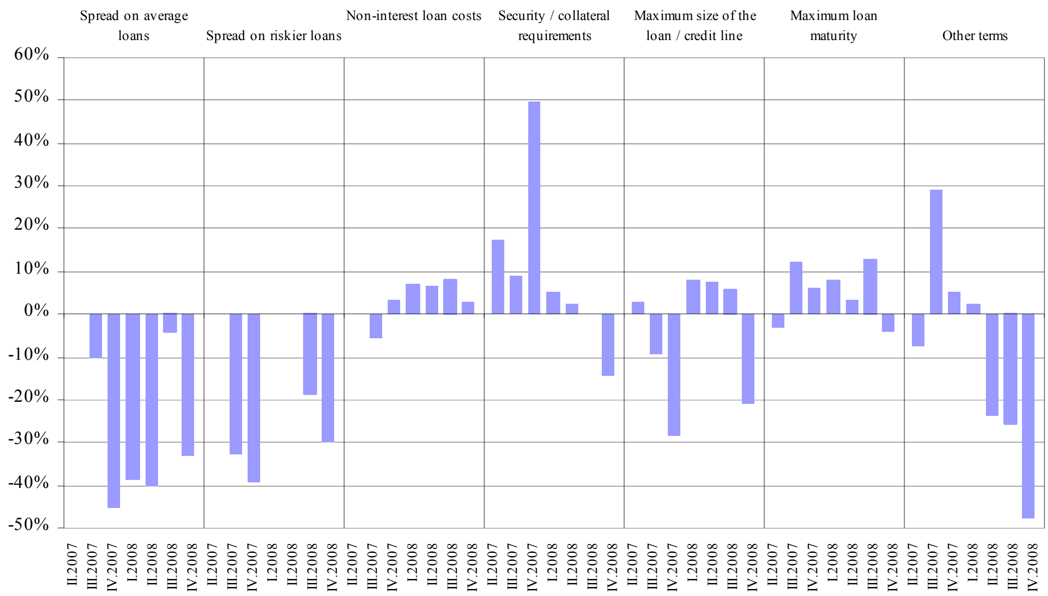


Figure 2.11
Demand for consumer loans and factors influencing its change – sample of 24 banks