Senior loan officer opinion survey

on bank lending practices and credit conditions

1st quarter 2010

Warsaw, January 2010

Summary of the survey results

In the fourth quarter of 2009, the trend to tighten lending policy came to a halt. The standards of granting housing loans were eased, while in the case of corporate loans, the standards remained unchanged in the majority of banks. However, lending policy towards consumer loans was tightened again. The banks' responses indicate that the risk related to projected economic developments is diminishing and that this factor no longer has a considerable impact on limiting the loan supply. Banks assess their capital position better, which enabled some of them to ease their lending policies. The deteriorating quality of loan portfolios is, on the other hand, becoming the major reason why banks have been compelled to tighten the standards and terms of originating new loans.

Corporate loans

- Lending policy: the majority of the banks did not change lending standards; in net terms, the standards of granting loans to small and medium-sized enterprises and short-term loans to large enterprises were slightly eased. The banks lowered spreads on normal loans.
- Demand for loans: demand for loans from enterprises rose, mostly for short-term loans.
- Expectations for the first quarter of 2010: the banks expect the standards of granting short-term and long-term loans to be slightly eased and slightly tightened, respectively. Demand is expected to increase, especially from large enterprises.

Housing loans

- Lending policy: the banks eased the standards and terms of granting housing loans to households.
- Demand for loans: the majority of the banks experienced an increase in demand and assessed its scale as considerable.
- Expectations for the first quarter of 2010: the majority of the banks have no plans to revise their lending policies as they expect demand to grow further.

Consumer loans

- Lending policy: the banks tightened their standards of granting loans. The terms of granting loans were slightly tightened.
- Demand for loans: the banks' responses were highly discrepant; in net terms, demand slightly increased.
- Expectations for the first quarter of 2010: the banks foresee a further tightening of lending policies and expect demand for consumer loans to grow.

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, set by the bank, that the borrower is required to meet in order to obtain a loan. 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 2009 and January 2010 **among 30 banks with a total share of claims on enterprises and households in the banking sector portfolio amounting to 83.2%**.

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.

Unless otherwise indicated, the number of the banks, cited in the text, reporting a given change in their lending policies or in demand for loans means the net percentage of the banks.

The following section presents tendencies regarding the banks' lending policy and changes in demand in the fourth quarter of 2009, as well as the banks' expectations for the first quarter of 2010.

Corporate loans

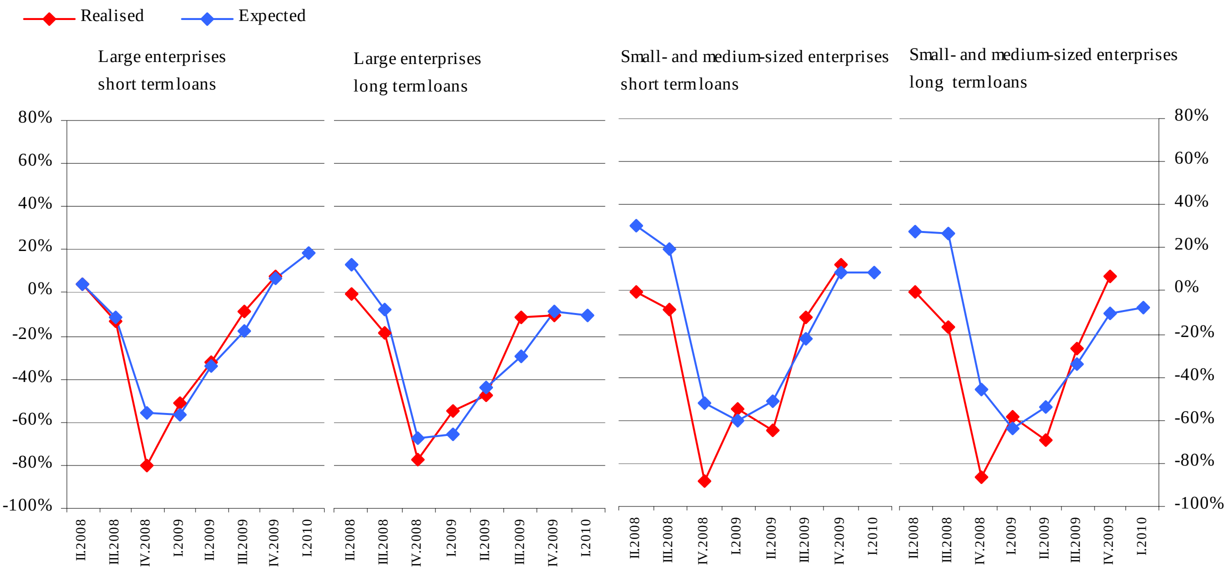
After a nearly six-quarter long period in which the standards of granting loans were tightened, lending policy in the majority of types of this credit category was eased in the fourth quarter of 2009 (see Figure 1). In net terms, lending policy was tightened only for long-term loans granted to large enterprises**. However, it is worth pointing out that in the case of all types of corporate loans, the majority of the banks did not choose to revise their lending policies.**

The banks' policy as regards the standards of granting corporate loans was more lenient towards small- and medium-sized enterprises (net percentage: 12% and 7% for short- and long-term loans, respectively) than towards large enterprises (net percentage: 8% and -10%, respectively). It may be noted that changes in lending policies were also differentiated with respect to loan maturity: relatively more banks eased standards of granting short-term loans.

Changes in lending policy in the fourth quarter of 2009 were mainly in line with banks' expectations expressed at the end of the third quarter of 2009.

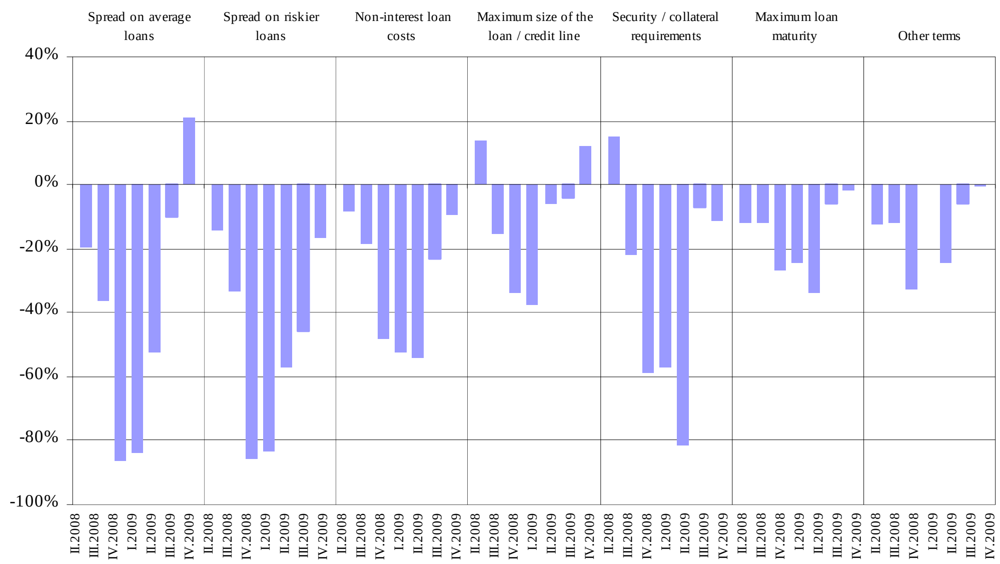
The loan spread was lowered by around 20% of the banks in the fourth quarter of 2009 (see Figure 2). The majority of the banks considered the decrease as not considerable[1]. The easing did not, however, concern spreads charged on riskier loans (net percentage -17%). In net terms, the terms of granting loans relating to maximum loan size or a credit line were also eased (net percentage: 12%).

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.

Figure 2
Terms on corporate loans



[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, stan-

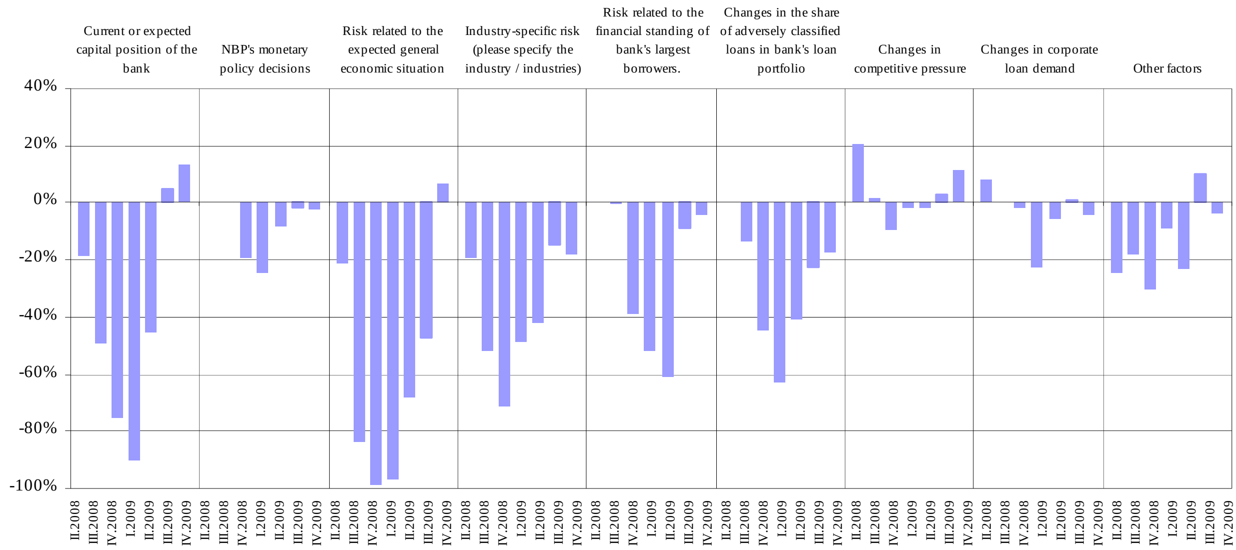
The terms of granting loans relating to non-interest loan costs and collateral requirements were slightly tightened. Around 10% of the banks chose to tighten these terms.

The banks assess that their capital position ceased to be the reason for constraining corporate loan supply and is now a major factor enabling them to ease lending policies (see Figure 3). The banks' assessments of risk related to economic situation also changed. An improved economic outlook and smaller uncertainty over the outlook enabled the banks to ease their lending policies. It should be noted, however, that the banks' responses were discrepant and almost one fourth of the banks believe that the economic outlook remains a factor which justifies tightening of standards and terms of granting loans to corporates.

The competitive pressure of other banks tends to have an increasing influence on the banks' policy to ease standards and terms with regard to loans to corporates. This may testify to a recovery in the corporate loan market and to an increase in competition.

The banks that **tightened their lending policy towards enterprises cited an increasing share of irregular loans in their portfolios and industry-specific risk as reasons for the tightening.** The motor, transport and construction industries and industries related to the commercial property market were identified as particularly risky.

Figure 3
Factors influencing changes in lending policies



Demand for loans from enterprises increased in the fourth quarter of 2009 (see Figure 4). The increase mainly concerned short-term loans and was stronger for large enterprises, where it was experienced by around 45% of the banks, of which nearly half considered it as considerable[2]. In the case of short-term loans to small enterprises, an increase in demand was experienced by 27% of the banks; however, no bank identified it as considerable. The majority of the banks experienced no change in demand for long-term loans both from SMEs and large enterprises.

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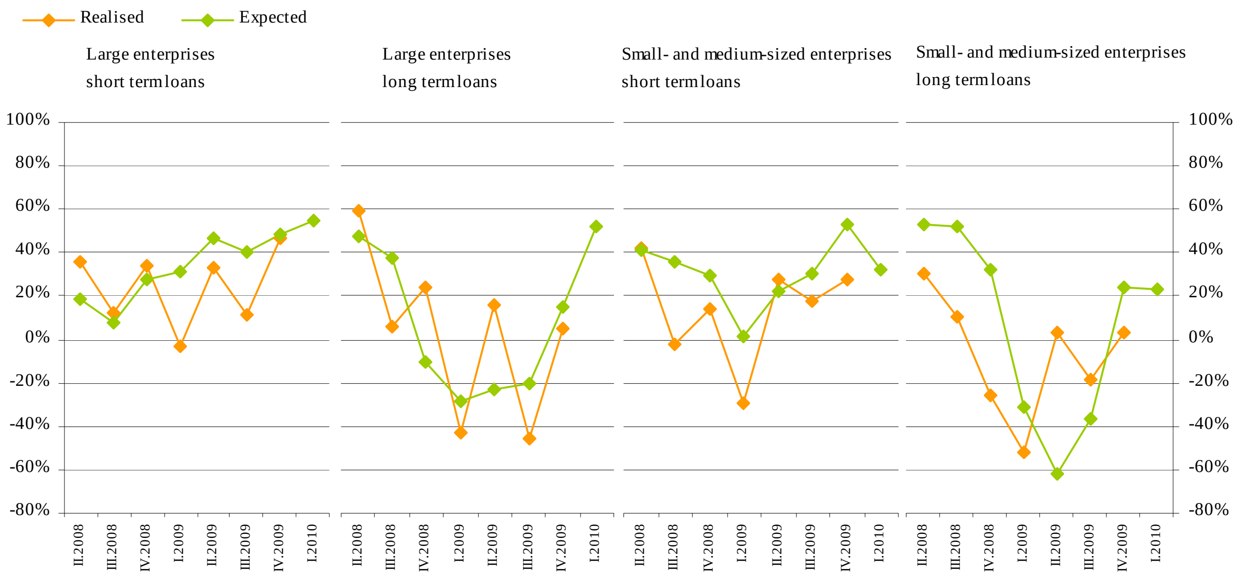
dards (terms) remained unchanged, standards (terms) were somewhat eased, standards (terms) were considerably eased.

[2] The banks have the possibility of grading the strength of changes in demand for loans. In the survey, the banks choose among the following options: considerable increase in demand, slight increase in demand, no changes in demand, slight decrease and considerable decrease in demand.

The trend in changes in demand for loans from enterprises, observed in the fourth quarter of 2009, was consistent with the banks' expectations expressed in the previous issue of the survey. However, the banks expected a slightly higher demand than actually recorded, especially from SMEs.

Figure 4
Corporate loan demand



According to the banks, **similarly as in the previous quarter, an increase in demand for corporate loans results** primarily **from increased financing needs related to corporate debt restructuring** (see Figure 5). This factor was cited by half of the banks that experienced an increase in demand. Financing needs related to corporate debt restructuring, which has had a significant impact on the growth in demand for a fifth quarter in succession, may be tied to the enterprises' financial position that deteriorated on the back of the economic slowdown, and – most likely to a lesser degree – to the conversion of FX derivatives' liabilities into loans. **Changes in financing needs for inventories and working capital were the other major factor influencing this growth in demand for loans**. The majority of the banks that indicated this factor considered it as considerably [3] influencing the increase in demand.

Some of the banks that eased their standards or terms of granting corporate loans in the fourth quarter of 2009 said that this may have boosted enterprises' interest in loans.

The banks that recorded a fall in demand for corporate loans attributed the fall chiefly to a decrease in financing needs for mergers and acquisitions (see Figure 5). This factor was cited by around one third of the banks that reported lower demand. **The banks also indicated that demand for loans had fallen on account of lower financing needs for fixed investment.** This demand has been falling for five quarters, however in the fourth quarter of 2009 its decrease was relatively lowest. Moreover, the banks' responses on the impact of financing needs for fixed investment on demand for loans were discrepant. Some of the banks indicated this factor as contributing to the rise in demand for loans from enterprises.

[3] The banks have a possibility of grading the strength of the influence of specific factors on changes in demand for loan. In the survey, the banks choose among the following options: considerably influencing an increase in demand, somewhat influencing an increase in demand, not influencing change in demand, somewhat influencing a decrease in demand and considerably influencing a decrease in demand.

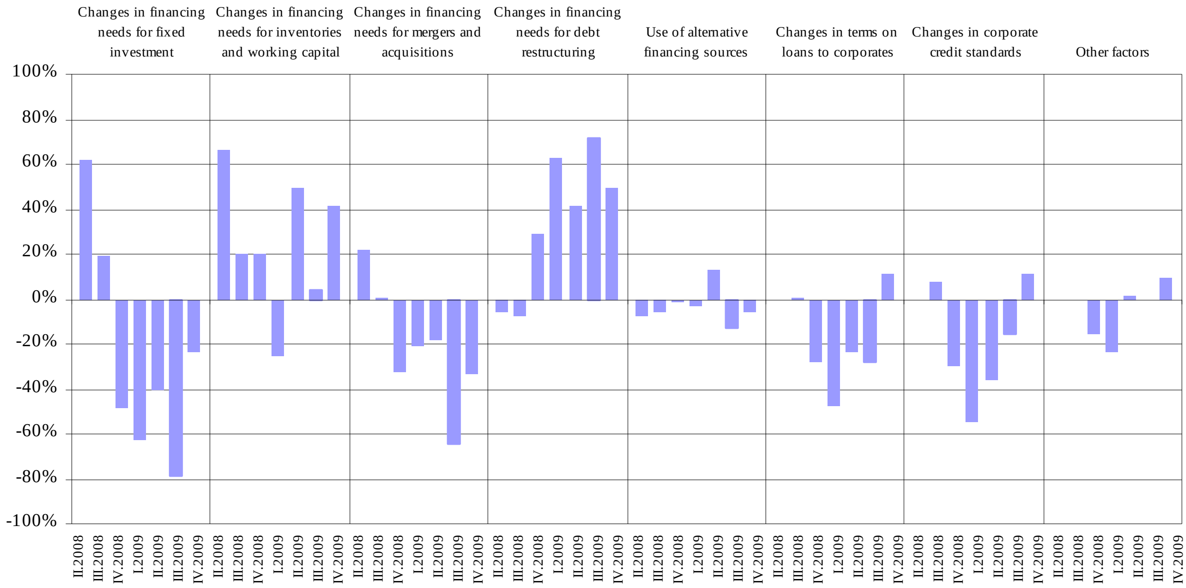
The banks' lending policy forecasts for the first quarter of 2010 are discrepant with respect to different credit categories (see Figure 1). **The standards and terms of granting short-term loans are supposed to be eased for** both large (net percentage 18%) and small- and medium-sized enterprises (net percentage 9%). Should these forecasts materialise, lending policy towards short-term loans would be eased for a second successive quarter.

According to the banks, lending policy towards long-term loans will be tightened. This tightening is to apply both to loans to large enterprises and to SMEs (net percentage -11% and -8%, respectively).

It should be emphasized, however, that net percentage figures for lending policy forecasts for long- and short-term loans are not high, and the majority of the banks (around 80% for each credit category) have no plans to revise their standards of granting corporate loans.

The banks expect enterprises to increase their demand for loans in the first quarter of 2010 (see Figure 4). This increase is, to a larger extent, to concern loans to large enterprises, where increased demand for short- and long-term loans is expected by over half of the banks. In the case of loans to SMEs, an increase in demand is to be stronger for short-term loans than long-term loans (net percentage 33% and 23%, respectively).

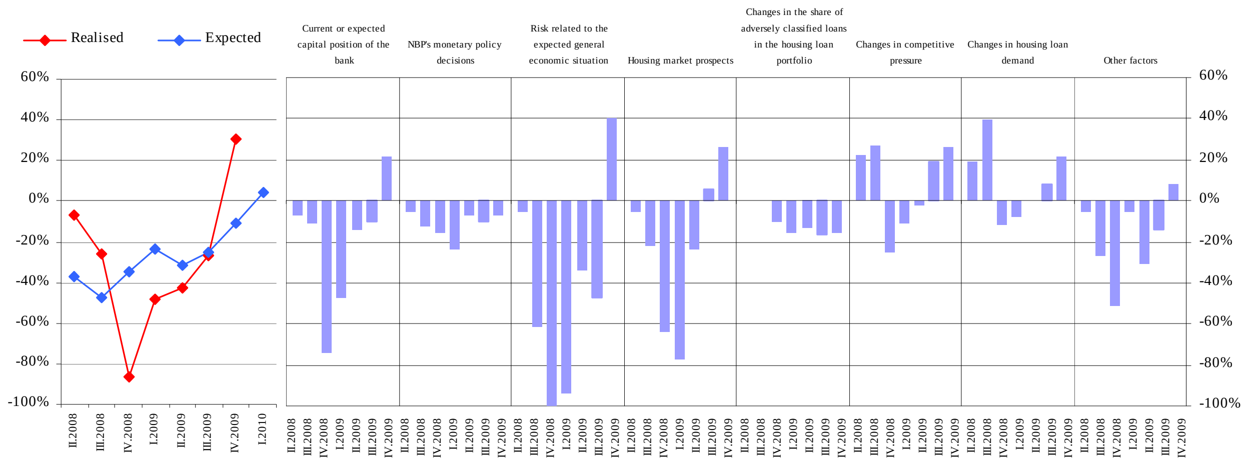
Figure 5
Factors influencing changes in corporate loan demand



Housing loans

In the fourth quarter of 2009, the banks eased lending policies with regard to housing loans (see Figure 6). All the banks that chose to make the move termed the scale of easing the policy as insignificant. The standards of granting housing loans were not eased in line with the expectations the banks expressed at the end of the third quarter of 2009, when – in net terms – the majority of the banks planned to tighten them. The actual lending policy of the banks that were making plans to tighten it mostly remained unchanged, and several banks that had no plans to change their lending policy eased it in the fourth quarter of 2009.

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



In the fourth quarter of 2009, the banks eased most terms of granting housing loans. It is worth noting that these terms were eased after the four quarters in which the banks had consistently tightened all terms of granting loans (see Figure 7). **The majority of the banks lowered loan spreads** (net percentage was 47%), however terming the decrease as insignificant. Only spreads on riskier loans were slightly tightened. The banks also increased the maximum Loan-to-Value ratio for dwelling purchase. Other terms of granting housing loans listed in the survey, i.e. non-interest loan costs, collateral requirements and maximum loan maturity were kept unchanged by the majority of the surveyed banks (net percentage did not exceed 7%).

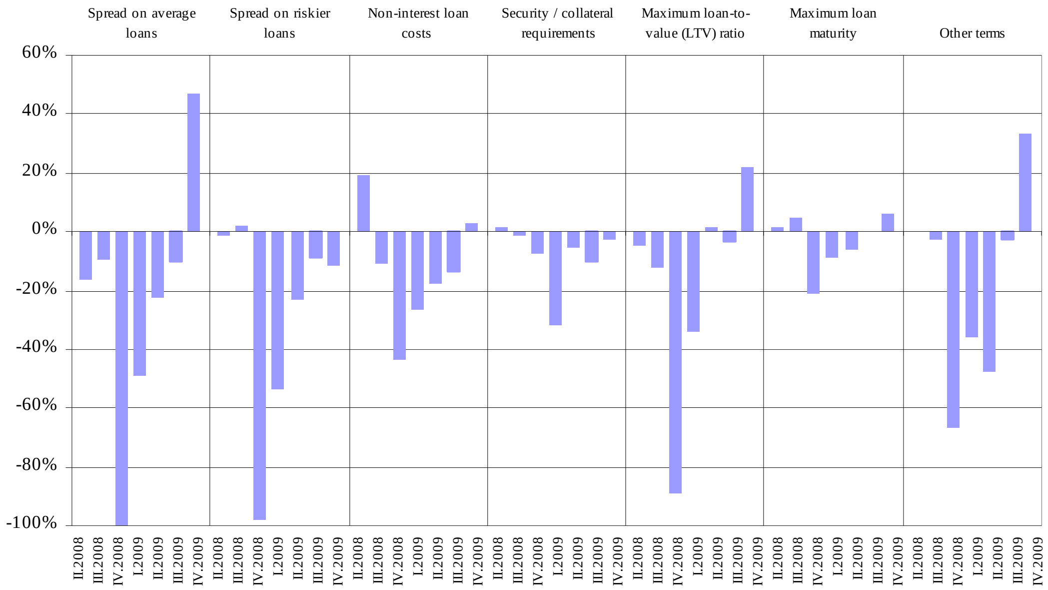
One third of the banks also eased other terms of granting loans, that were unaccounted for in the survey. **The easing mainly concerned terms on foreign currency loans, as individual banks decided to re-introduce this type of credit into their offers.** Individual banks eased the terms on the maximum age of the borrower applying for a housing loan.

The banks' assessments of economic outlook are more optimistic. Risk related to expected economic developments, which was the major factor behind the banks' policy to ease lending policy in previous quarters**, in the fourth quarter of 2009 was cited as one of the reasons for easing standards and terms of granting housing loans** (net percentage amounted to 40%). Lending policy in the fourth quarter of 2009 was also eased on account of forecasts of developments in the property market and a change in competitive pressure (net 26% each). The significance of the latter factor for the banks making decisions on easing their lending policies testifies to a gradual intensification of competition in the market of housing loans.

The capital position of the banks was no longer identified as a factor constraining housing loan supply. Some of the banks even said that their capital position allowed them to ease the standards and terms of granting loans.

The banks that had tightened lending policy on housing loans justified the move primarily with the increase of the share of irregular loans in the portfolio of housing loans.

Figure 7
Terms on housing loans



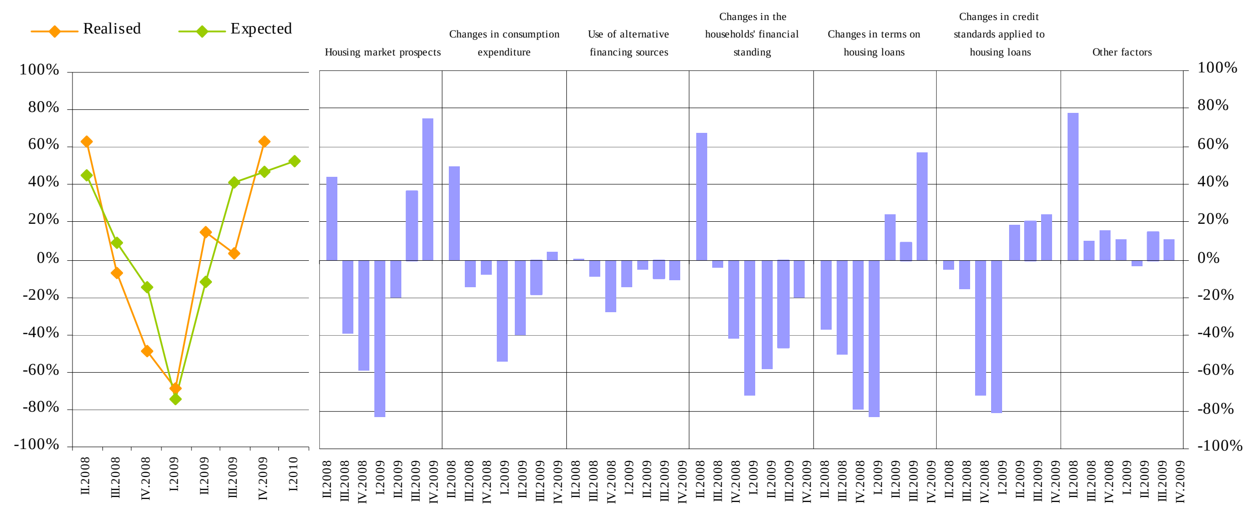
A firm majority of the banks (net percentage: 63%) **experienced an increase in demand for housing loans in the fourth quarter of 2009.** This development was in line with the banks' expectations expressed at the end of the third quarter of 2009, although the actual scale of the increase slightly beat banks' expectations (see Figure 8). It should also be emphasized that the banks that recorded an increase in demand termed it as considerable.

The increase in demand recorded by the banks was primarily attributed to forecasts of property market developments. The expected stabilisation of prices in the property market after a period of substantial price falls may have encouraged customers to apply for housing loans in the fourth quarter of 2009. The banks that eased the standards or terms of housing loans indicated that this fact may also have had an impact on the rise in demand (see Figure 8).

The banks that reported a falling demand for housing loans attributed the fact mainly to a change in households' economic position. It is worth noting, however, that the banks' responses on the impact of this factor were discrepant. Some banks indicated the factor as positively affecting the level of demand. Moreover, according to several banks that reported decreased demand, the decrease was prompted by households that had used alternative sources of financing, particularly loans from other banks. This may corroborate the argument that competition in the market of housing loans has intensified.

The majority of the banks have no plans to revise their lending policies in the segment of housing loans in the first quarter 2010 (see Figure 6). Sixteen percent of *all* the banks intend to ease the standards and terms of granting loans, and around 11% plan to tighten them. The banks that eased the policy in the fourth quarter of 2009 mainly plan to keep it unchanged. **Over half of the banks expect demand for housing loans to grow** (see Figure 8). However, according to the banks this growth should not be substantial.

Figure 8
Demand for housing loans and factors influencing its changes



Consumer loans

The standards of granting consumer loans to households were tightened again in the fourth quarter of 2009 (see Figure 9). However, the scale of lending policy tightening was smaller than in previous quarters. Over half of *all* surveyed banks decided to tighten lending standards. The banks' responses were not homogenous; some banks eased the standards of granting loans and therefore net percentage amounted to around -31%. The majority of the banks that tightened the standards of granting consumer loans considered this action as insignificant. The scale of lending standards' tightening was close to expectations presented at the end of the third quarter of 2009.

Lending policy tightening in the segment of consumer loans primarily applied to the terms of granting loans. The terms of consumer loans were tightened by a relatively small portion of the surveyed banks (see Figure 10). In net terms, fewer than 10% of the banks decided to raise loan spreads on both normal and riskier loans and to increase non-interest loan costs. A similar percentage of the banks resolved to cut short maximum loan maturity and to reduce maximum loan size.

In addition, individual banks altered the terms of the loan-to-value requirement for car purchases and introduced insurance for cash loans.

The deterioration in the quality of consumer loan portfolio is now the major reason why lending policy in the segment of consumer loans has been tightened. This factor was cited by 35% of the banks that changed their lending policies (see Figure 9), and over one third of these banks cited this factor to justify significant lending policy tightening. The banks have consistently indicated this factor for six quarters, which reflects a steady rise of the irregular loans ratio in the period.

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

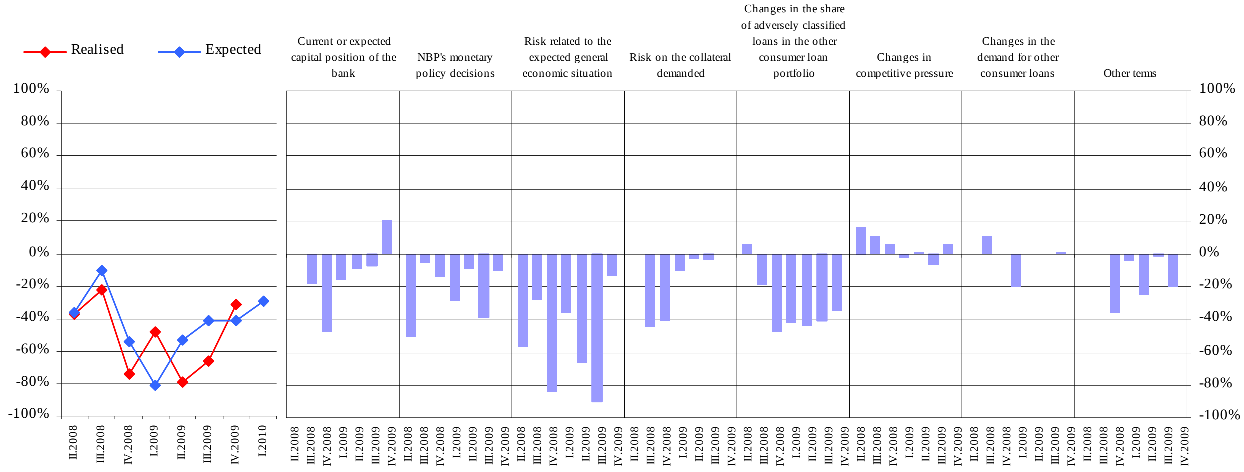
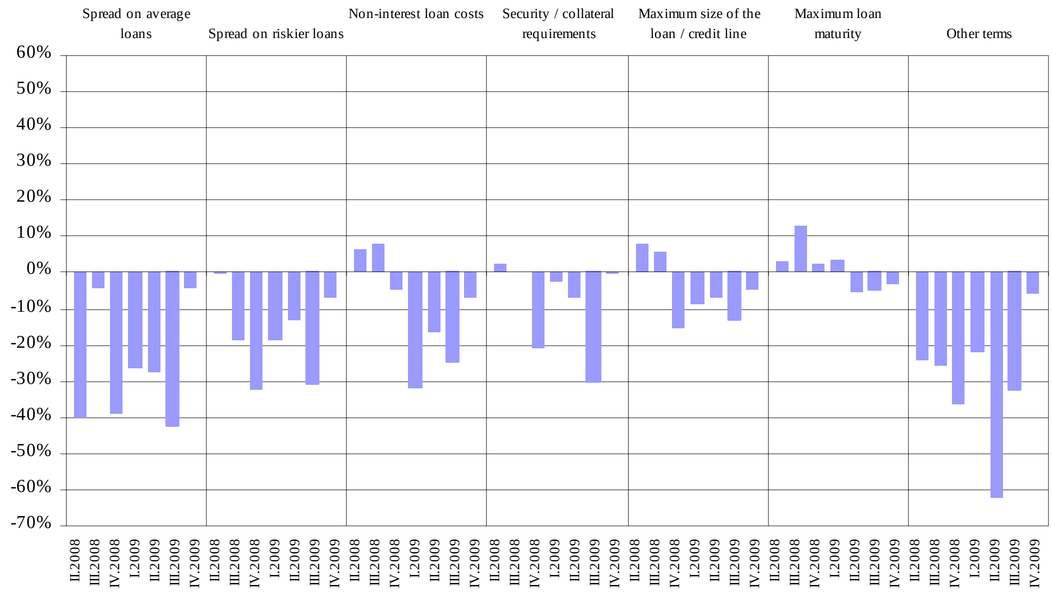


Figure 10
Terms on consumer loans



Risk related to future economic developments, which was the major reason behind lending policy tightening for consumer loans in previous quarters, was mentioned merely by around 12% of the banks in the fourth quarter of 2009. The responses on the factor's impact on the direction of changes in the standards and terms of granting loans were discrepant. Similarly as in the case of housing loans, **the capital position of the banks has ceased to exert an influence on lending policy tightening**, and it even enables some of the banks to increase consumer loan supply.

Among other reasons unaccounted for in the survey, excessive indebtedness of households was cited as reason for tightening lending policies towards consumer loans.

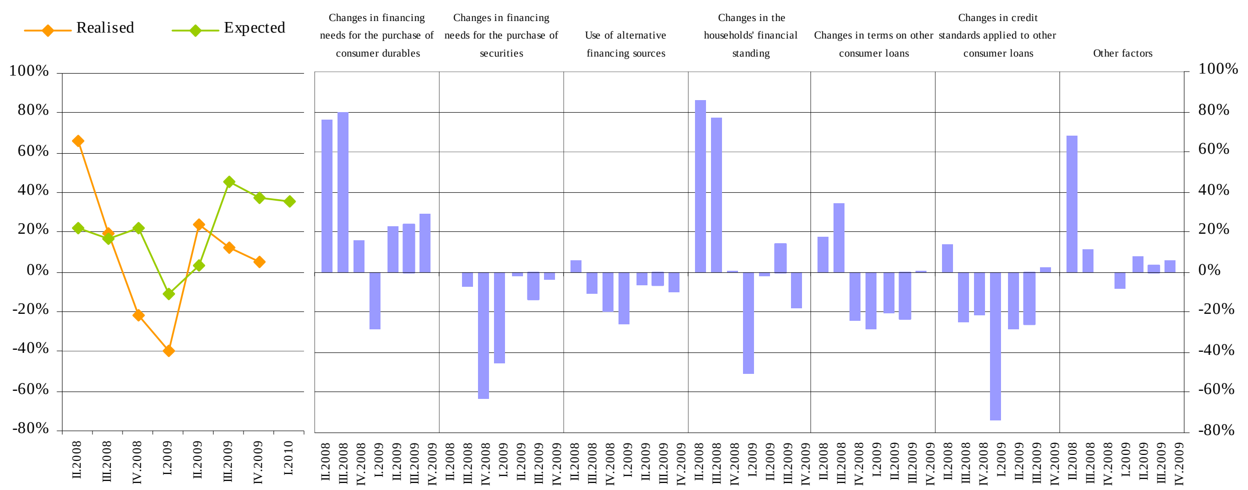
In the fourth quarter of 2009, the banks recorded a modest increase in demand for consumer loans to households (net percentage was 5%). However, it should be noted that the banks' responses were highly discrepant. Around one third of the banks each reported an increase, a fall or no change in demand for loans. Among the respondents that reported increased demand, a firm majority termed it as considerable. At the end of the third quarter of 2009, the banks expected demand for consumer loans to grow, however to a much larger scale than the actual rise (see Figure 11).

The banks that recorded an increase in demand for consumer loans attributed the increase primarily to the growth in financing needs for durable goods. Similarly as in the previous quarter, this factor was cited by around one fourth of the banks (see Figure 11). Moreover, the banks that recorded higher demand said the increase had been supported by their promotional campaigns and newly-offered products.

The banks that experienced a fall in demand for consumer loans said the fall was prompted by changes in the economic position of households. However, these assessments were not unequivocal. In aggregate terms, this factor contributed to a decrease in demand (net percentage -18%), but 30% of *all* the banks considered the changes in the economic condition of households as positively affecting loan demand.

The banks expect lending policy in the segment of consumer loans to be further tightened in the first quarter of 2010 (see Figure 9). Such expectations were expressed by around 40% of *all* the banks, with the majority of them expecting the policy to be slightly tightened. Only three banks intend to ease the standards and terms of granting consumer loans. **The banks expect a rise in demand for consumer loans** (net percentage amounted to 36%) (see Figure 11), although at the same time a small group of banks expects it to fall considerably.

Figure 11
Demand for consumer loans and factors influencing its changes



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.[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.