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## Senior loan officer opinion survey

on bank lending practices  
and credit conditions

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2<sup>nd</sup> quarter 2007



### Summary of the survey results

- **Lending policy:** In the first quarter of 2007, the banks slightly eased the terms and standards of granting loans for large enterprises. The lending policy towards SMEs was slightly tightened. In the segment of consumer and housing loans for households the lending policy did not considerably change.
- **Reasons for changes in lending policy:** the most important reason for the changes in the lending policy towards enterprises was the competitive pressure of other banks and decrease, in the banks' assessment, in the risk related to the expected economic conditions. The competitive pressure was also a key factor of changing the lending policy towards the households sector in the banks which changed the terms and standards of granting loans to households. The assessment of the prospects for the development of housing market gradually ceases to give grounds for easing of lending policy.
- **Demand for corporate loans:** demand for loans increased strongly in the large enterprises sector and noticeably in the SMEs sector. Quickly growing demand for long-term loans suggests further acceleration in the growth rate of investments.
- **Reasons for the change in demand for corporate loans:** the banks indicated that demand had been growing chiefly due to the increased need for investment, inventories and working capital financing. The role of mergers and acquisitions as a source of demand for loans rises.
- **Demand for household loans:** the demand for housing loans slightly dropped in line with expectations. In the whole sector the observed demand for consumer loans decreased with a considerable differentiation of changes in demand noted by individual banks.
- **Reasons for the change in demand for household loans:** according to the banks the main reason for the changes in the demand for housing loans are expectations of the further growth in housing prices. Growing available loan size offsets the impact of the improvement in the economic standing of households. In the segment of consumer loans an important reason for the changes in demand was the change in the economic standing of households. The decrease in demand was most probably a symptom of falling share of some large banks in the very competitive market.
- **Expected changes in lending policy:** the banks project the easing of lending policy in the corporate sector. In the sector of households the noticeable easing of lending policy is expected. In the case of housing loans the easing is to be the strongest for the last one and half a year.
- **Expected changes in demand for loans:** the banks project an accelerated increase in demand in the corporate sector, stronger in the case of long-term loans than short-term loans. In the sector of households a considerable rise in demand for consumer loans is also expected. The banks project a new increase in demand for housing loans. It may result from the expectations of a weaker growth rate in housing prices, which may halt the decrease in their availability.

## Results of the survey - overview

The survey is addressed to chairpersons of banks' credit committees. Bank's response may not take into account the opinion of the bank's other divisions than the credit division. The survey was conducted at the turn of March and April 2007 among 24 banks, whose total share of claims on enterprises and households in the total banking portfolio amounts to 76.6%.

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 the 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 first quarter of 2007, as well as the banks' expectations for the second quarter of 2007.

## Enterprises

**In the first quarter of 2007, the banks made only slight adjustments to their lending policy towards the corporate sector.** They somewhat eased the terms and standards of granting loans to large enterprises and slightly tightened those for SMEs. These changes do not confirm the previously expressed expectations of a relatively strong easing of lending policy for enterprises in the first quarter of 2007. The scale of easing the terms and standards of granting loans was smaller than in the fourth quarter of 2006, which means the trend to stabilise the banks' lending policy for the corporate sector is sustained (cf. Figure 1).

**The majority of the banks (ca. 75%-80%) do not anticipate changes in lending policy towards the corporate sector in the second quarter of 2007. The other banks expect that in the second quarter the lending policy will be eased** in all segments of the corporate loan market. Such declarations are made, first of all, by universal banks. A slightly stronger easing of lending policy is expected in the segment of short-term loans than in the case of long-term loans. The easing of lending policy is to be stronger towards the SME sector than towards large enterprises. These expectations, especially with regard to the SME sector should be, however, interpreted with great caution, as the banks' tendency to exhibit an overly optimistic assessment of the future evolution of the terms and standards of granting loans to enterprises has been historically observed (cf. Figure 1).

The banks which eased their lending policy most frequently cut their loan spreads. The lessening of requirements related to the collateral and, to a smaller extent, also the increase in maximum loan size as well as the extension of loan maturity have been observed. One bank indicated the easing of other terms and standards of granting loans, without specifying their nature. The tightening of lending policy was limited to increasing the restrictiveness of standards of granting loans (cf. Figure 2).

Figure 1  
Corporate credit standards

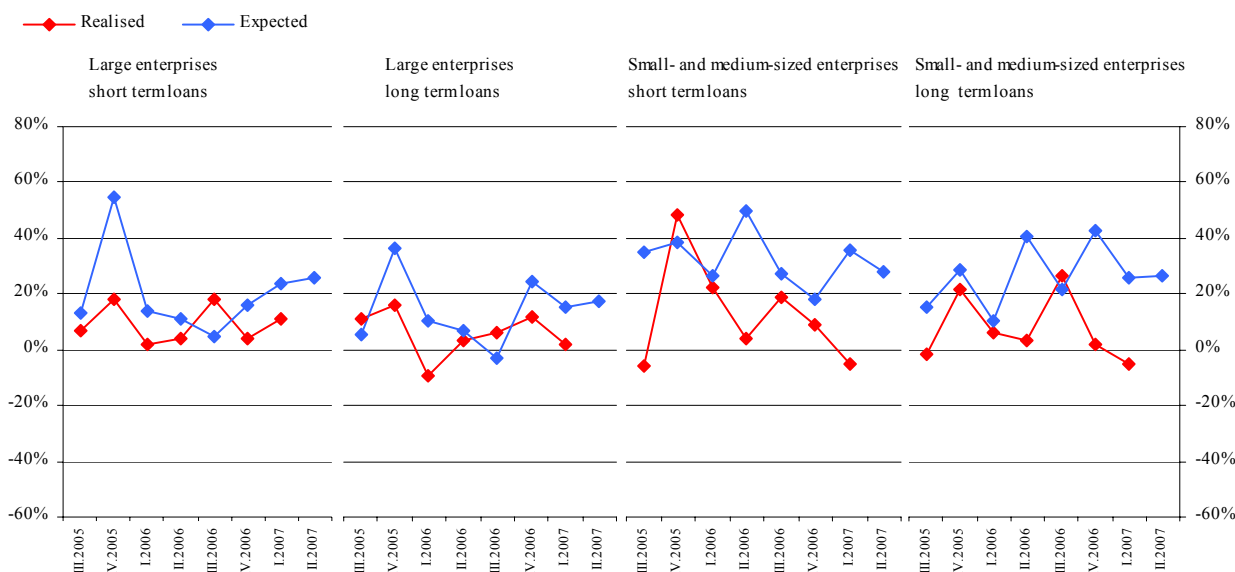
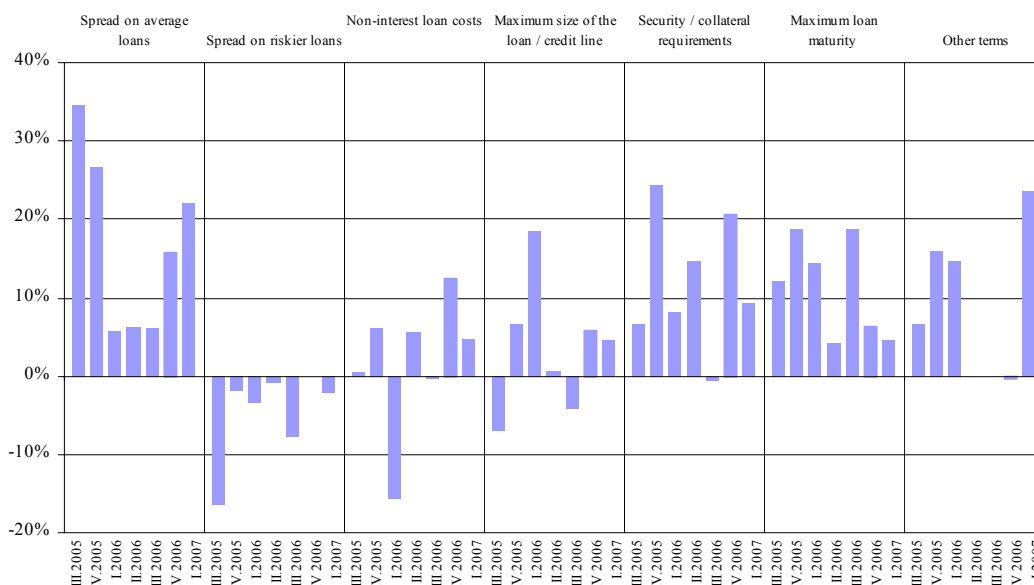
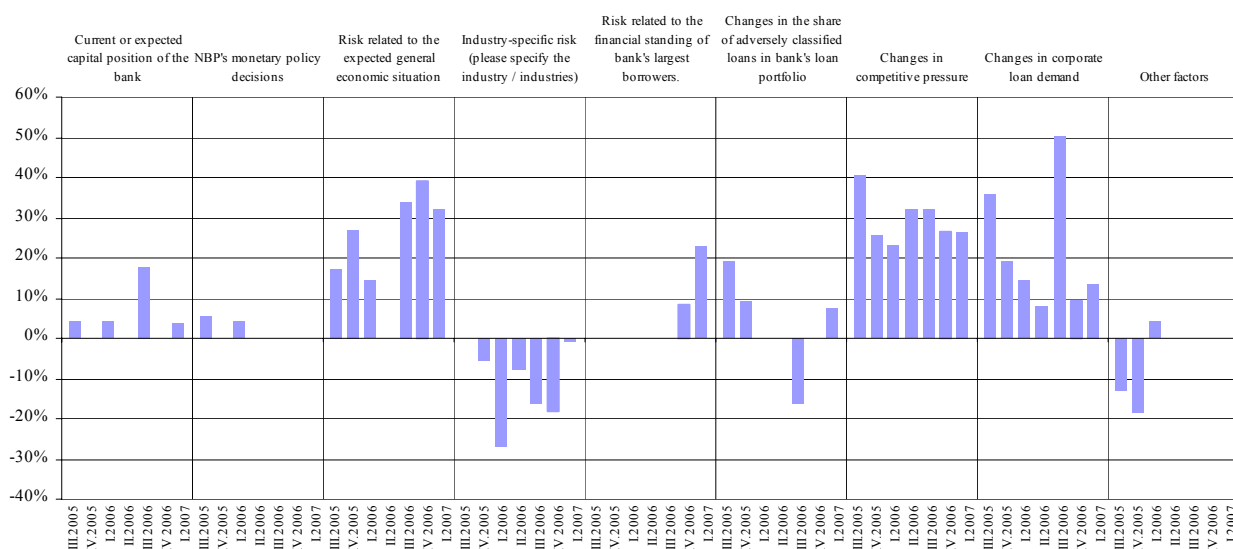


Figure 2  
Terms on corporate loans



The key reasons for easing the lending policy by the banks in the first quarter of 2007 was the decrease in risk, which resulted from the improving economic conditions, as well as the competitive pressure of other banks (cf. Figure 3). The banks indicated also that the improving standing of the largest borrowers gave grounds for the easing of lending policy. Individual banks specified the improvement in the quality of credit portfolio and competition of direct market financing as the rationale for easing of lending policy in the corporate sector. The deterioration of the quality of credit portfolio was the reason for tightening of lending policy by one bank.

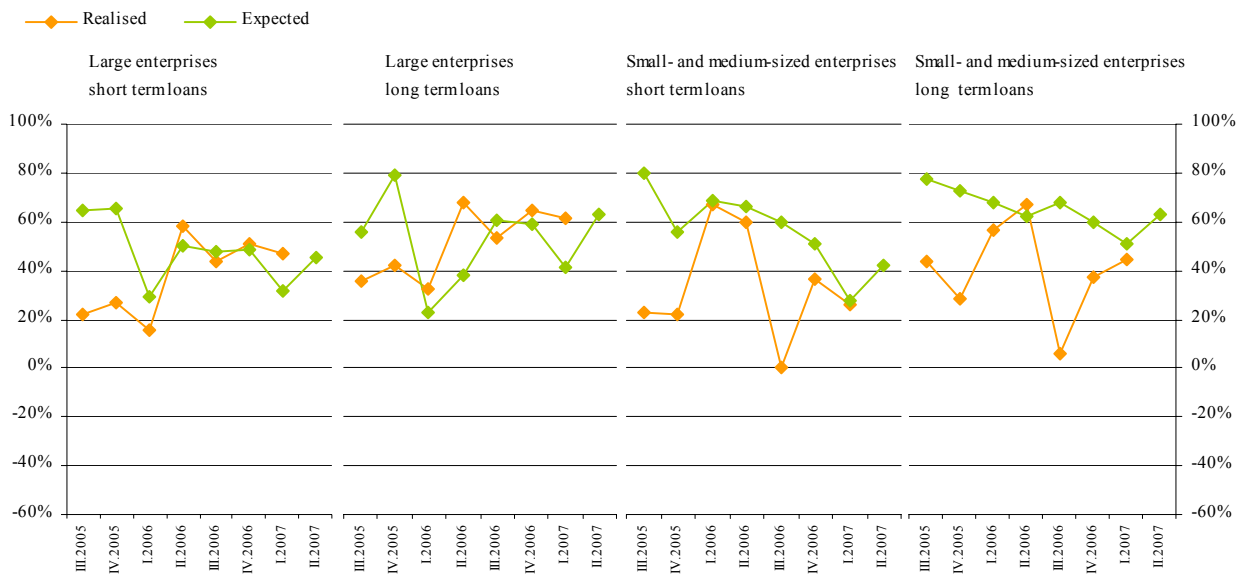
Figure 3  
Factors influencing changes in lending policies



In line with the banks' expectations expressed in the previous edition of the survey, **the trend of the fast growth in demand for corporate loans, prevailing since the second quarter of 2006, has been sustained.** The growth in demand for corporate loans is faster than it was expected in the previous quarter. In spite of the fact that the announced by the banks easing of lending policy with regard to SMEs did not take place, the loan demand declared by SMEs was very close to the banks' forecasts. It suggests that the growth in enterprises' economic activity, especially the increase in investments, exceeded the banks' expectations. **The increase in demand for loans is more notable in the case of long-term loans than short-term loans** (cf. Figure 4). In spite of favourable market conditions, ca. 7% of the banks recorded a drop in demand in the first quarter of 2007, which can be a symptom of increasing competition. Combined with the slight changes in the lending policy, it can indicate that the possibilities of further easing of the terms and standards of granting loans for enterprises, especially for large ones, are gradually running out.

Depending on the segment, **ca. 40%-60% of the banks expect that in the second quarter of 2007 the demand for corporate loans will grow faster than in the first quarter of 2007.** The growth rate is to accelerate in the SMEs sector. Demand for long-term loans is expected to grow stronger than demand for short-term loans (cf. Figure 4), probably driven by strong expectations of further fast increase in investments.

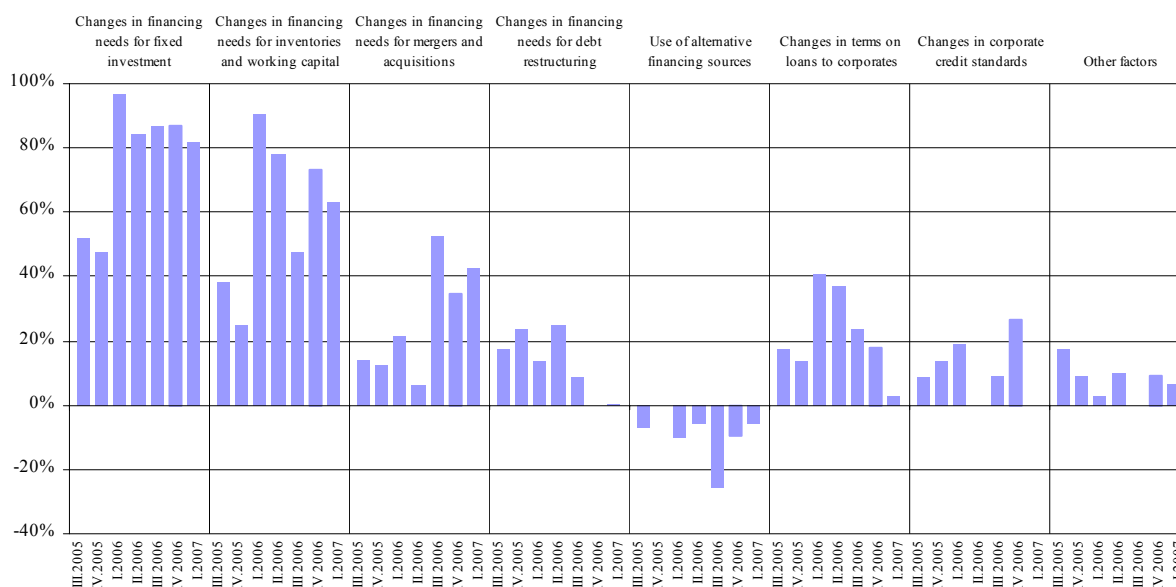
Figure 4  
Corporate loan demand



In line with 2006, in the first quarter of 2007, the growth in demand for corporate loans was mostly due to the strong increase in demand for financing of investments as well as the rise in demand for financing of inventories and working capital. Since the third quarter of 2006, a significant factor of loan demand growth has also been an intensified activity of enterprises in mergers and acquisitions. These factors are related to very good economic conditions, which make the enterprises broaden the scope of their operations and expand their own customer base not only through investments but also through mergers and acquisitions. The net percentage, measuring the power of impact of these factors on demand growth slightly decreased in the case of demand for financing of investments, inventories and working capital as well as it increased in the case of financing mergers and acquisitions. The net percentage values confirm that demand for long-term (investment) loans grows faster than demand for short-term loans. The impact of easing of the terms and standards of granting corporate loans on demand for loans was very small. The influence of alternative (to bank loans) sources of financing on demand for loans was further limited (cf. Figure 5). According to the banks, the utilisation of enterprises' own funds and other banks' loans remains a factor hampering the growth in demand for corporate loans. It indicates that a strong competitive pressure in this market segment is sustained. One of the large banks regarded the changes in the conditions of financing through shares issue as a factor conducive to the rise in demand for loans.

The increase in demand for corporate loans and its reasons suggest that the continuing growth in investments in the corporate sector is partially financed with bank loans. Financing directly on the financial markets is not considered by the banks as a significant competition for bank loans.

Figure 5  
Factors influencing changes in corporate loan demand



## Households

In line with the expectations, in the first quarter of 2007, **the changes in lending policy in the segment of housing loans for households were insignificant.** A definite majority of the banks (84.5%) did not change their lending policy in this segment (cf. Figure 6). 7% of the banks slightly tightened the terms and standards of granting housing loans, and 8.5% of the banks eased them. In the second quarter the banks expect the strongest, for one and half a year, easing of lending policy in the segment of housing loans.

The banks which in the first quarter eased their lending policy in the segment of housing loans indicated competitive pressure of other financial institutions, including other banks, as a reason for such an action. The optimistic assessment of future economic situation and the continuing growth in housing prices also gave grounds for easing the terms and standards of granting housing loans. One of the banks which tightened its lending policy in this segment indicated the increase in the share of classified loans in the housing loans portfolio and the decrease in the capital adequacy ratio as the reason for tightening the lending policy (cf. Figure 6). Another bank decided that the development prospects of housing market situation are a reason for tightening the terms and standards of granting housing loans. Other reasons for changes in lending policy include, first of all, the consequences of ownership changes in one of the large banks.

In the first quarter of 2007, the terms and standards of granting housing loans were subject to slight changes. The banks still extended the maximum loan maturity. At the same time the requirements with regard to loan-to-value ratio were increased and non-interest credit costs were raised (cf. Figure 7). Loan spreads stabilised at a low level. It indicates that in spite of strong competitive pressure the banks are not able to considerably ease the terms of granting housing loans without a considerable increase in the risk they take. The changes in the terms and standards of granting loans which facilitate the acquisition of new customers are compensated with the increase in the restrictiveness of requirements related to collateral and effective loan price. Unlike in 2005 and in the first half of 2006, the majority of the banks assess that the prospects for the development of situation in the housing market are neutral for lending policy.



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

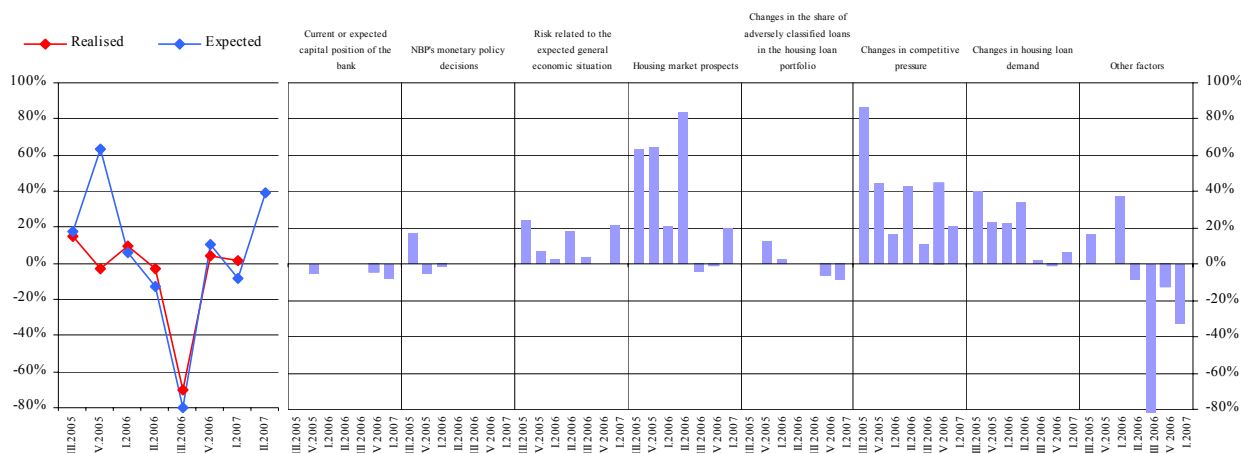
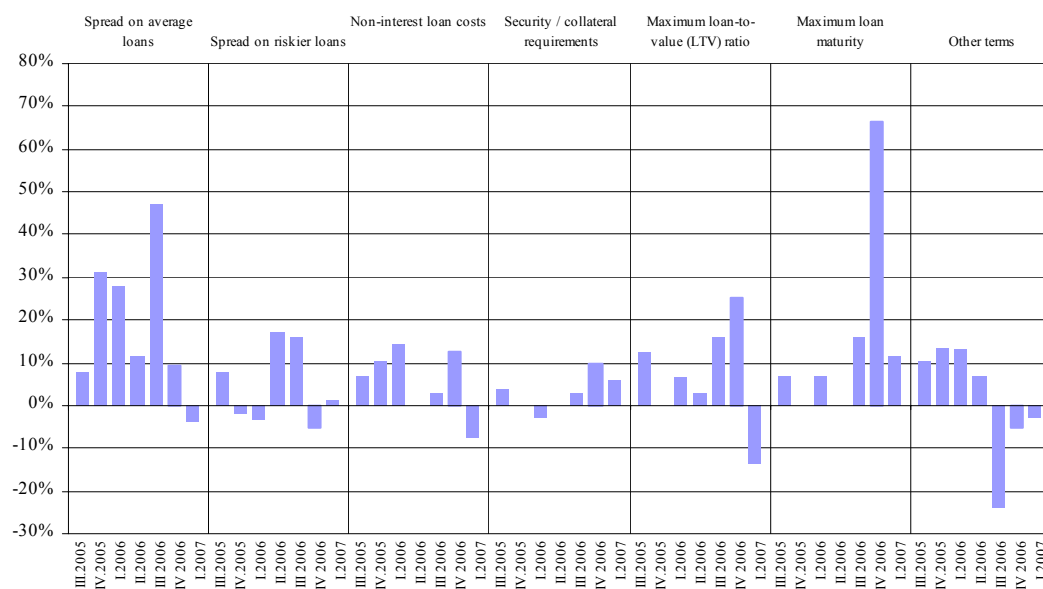


Figure 7  
Terms of housing loans



The changes in lending policy in the segment of consumer loans were strongly polarised. Ca. 69% of the banks did not change their lending policy in this segment. Among the banks declaring easing of their lending policy (20%), 8% of the asset-weighted banks considerably eased their lending policy. At the same time ca. 10% of the banks tightened terms and standards of granting loans. **The banks' forecasts for the second quarter of 2007 assume the strongest (for the last year) easing of lending policy in this segment (in ca. 40% of the asset-weighted banks),** however, one of the banks expects the tightening of lending policy (cf. Figure 8). The banks projecting the easing of lending policy with regard to consumer loans in this quarter mostly did not change the terms and standards of granting these loans in the previous quarter.

The main reason for changing the terms and standards of granting consumer loans was competitive pressure which was exerted on the surveyed banks, to the same extent, by other banks and non-bank financial institutions.

The banks which observed the decrease in demand for consumer loans responded with the easing of lending policy. The factor influencing the tightening of lending policy was the deterioration of the quality of credit portfolio in some banks (cf. Figure 8).

In the first quarter of 2007, more than half of the banks decided to decrease non-interest costs of consumer loans. This means the continuation of the trend present since the beginning of 2006. The banks relatively often reduced the collateral requirements (cf. Figure 9). Some banks increased the maximum loan size and extended the maximum loan maturity. In two banks tightening of the terms and standards of granting loans resulted from the introduction of additional documentation requirements.

Figure 8  
Lending policy and factors influencing its changes – consumer loans

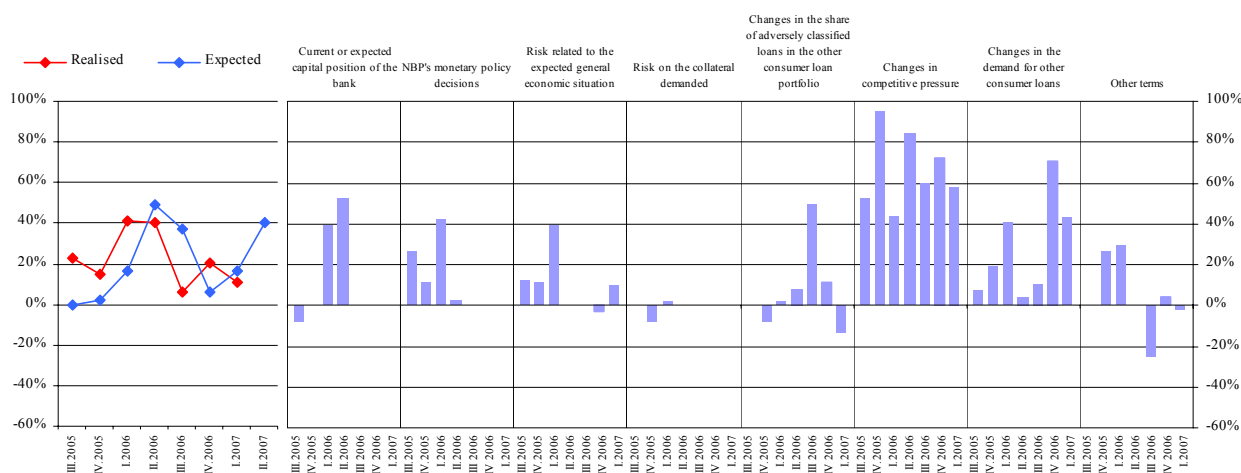
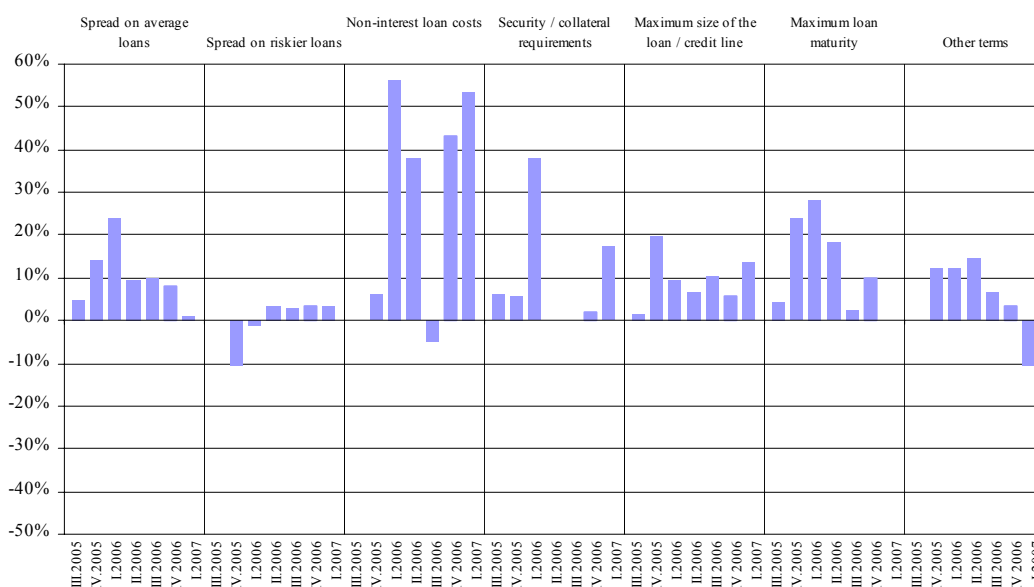


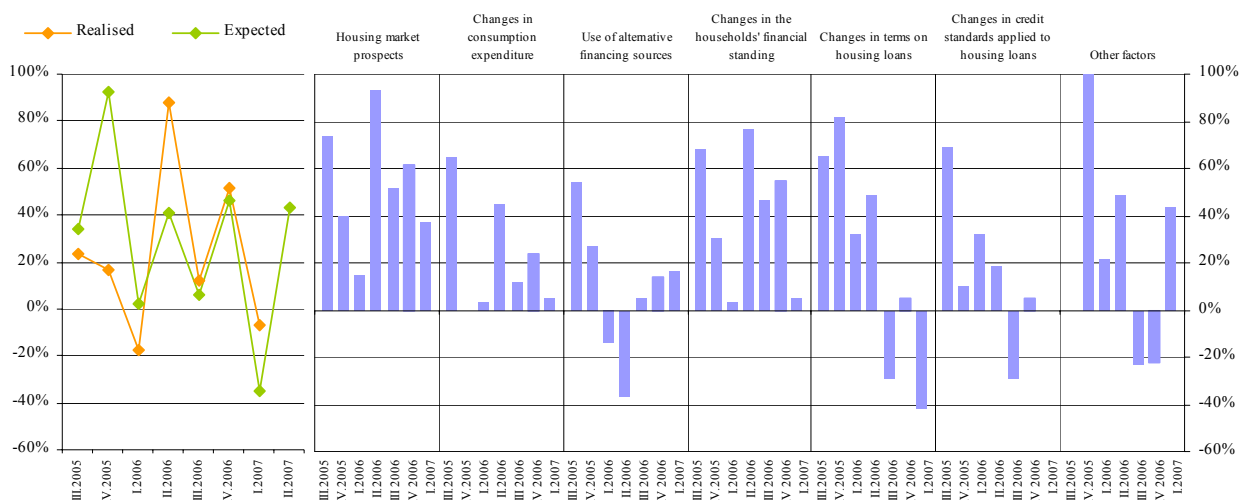
Figure 9  
Terms on consumer loans



In the first quarter of 2007, among the banks which noticed the changes in demand for housing loans (28% of the banks), the majority observed the decrease in demand. The direction of demand change was properly indicated in the banks' forecasts but the scale of demand drop was smaller than expected (cf. Figure 10). The decrease in demand was reported by some banks specialised in granting foreign currency loans. Concurrently, four banks with small total share in the banking sector's claims due from the housing loans noted the growth in demand for housing loans. These banks mainly grant zloty housing loans.

The expected increase in housing prices and the drop in the utilisation of own funds for housing purposes were, according to the banks, the key factors influencing the growth in housing loans demand in the first quarter of 2007. Last year the importance of forecasts of future trends on the housing market as determinants of demand consistently decreased. For the first time for a year and for the second time since the survey was first conducted the banks did not notice the improvement in the economic standing of households taking housing loans. It may suggest that in the borrowers' households the increase in income is absorbed by the growth in housing loans size, which results from the rise in housing prices. An important factor hampering the increase in demand was the tightening of the terms and standards of granting housing loans (cf. Figure 10), probably due to the banks' growing requirements as to loan-to-value ratio.

Figure 10  
Demand for housing loans and factors influencing its change

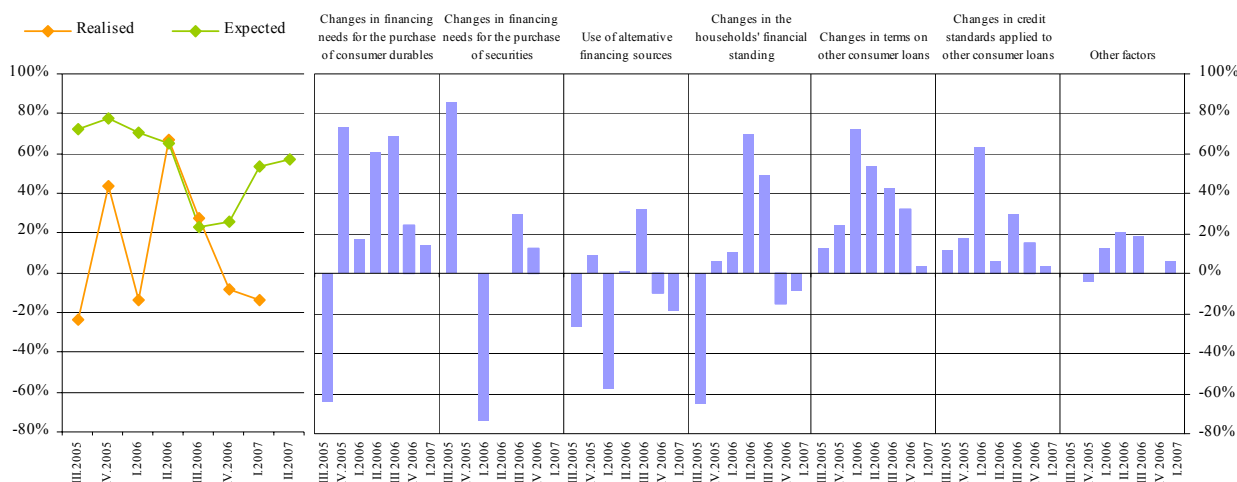


In the second quarter of 2007, the banks expect the increase in demand for housing loans, whereas two small banks expect a considerable increase in demand (cf. Figure 10). It seems that such expectations may result from the forecasts of relatively small growth in housing prices in metropolitan areas as compared to the previous year. If such a scenario were to materialise in the second quarter, the decrease in the availability of flats (due to high prices) could be halted, which would be conducive to the increase in demand for housing loans.

In the segment of consumer loans the banks noted an unexpected slight drop in demand as compared to the fourth quarter of 2006. Approximately 40% of the banks recorded a decrease in demand, ca. one fourth – an increase in demand. Despite weak realisation of forecasts from the previous quarter, the majority of the banks still project that in the second quarter of 2007 demand for consumer loans will strongly increase (cf. Figure 11).

According to the banks which recorded the rise in demand for consumer loans in the first quarter of 2007, its key reasons were the change in the economic standing of households and growing demand for financing the purchase of durable goods. The banks which recorded the decrease in demand justified it, first of all, with the competition of other banks which, in the opinion of one of the large banks, contributed to a substantial drop in demand for loans noted in this bank. They also indicated the tightening of terms and standards of granting loans and insufficient advertising as the reason for the decrease in demand for consumer loans (cf. Figure 11).

Figure 11  
Demand for consumer loans and factors influencing its change



**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.<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 July and August 2006, that is 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 September 2006 were 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.