



Senior loan officer opinion survey

on bank lending practices
and credit conditions

2nd quarter 2008

Summary of the survey results

Corporate loans

- Lending policy: the banks slightly tightened the standards of granting loans to enterprises due to the growth in risk related to the economic situation and the worsening of the banks' capital position, which probably results from fast growth in lending in recent quarters. The banks strongly increased loan spreads but lowered collateral requirements.
- Demand for loans: an increase in demand was recorded, which was stronger in the segment of long-term loans than in the segment of short-term loans. The growing financing needs for fixed investment and for working capital and inventories were the main reasons for the growth in demand.
- Expectations for the second quarter of 2008: the banks expect a slight easing of lending policy towards enterprises. According to the banks, an increase in the demand for loans to enterprises will be continued.

Housing loans

- Lending policy: the banks did not change the standards of granting housing loans. Loan spreads were increased in connection with the worsening of the economic outlook and of the banks' capital position. The changes in other terms of granting housing loans were slight.
- Demand for loans: as assessments of the direction of changes on the housing market remained negative, the demand for housing loans further declined.
- Expectations for the second quarter of 2008: the banks expect a tightening of the standards and terms of granting housing loans, which, however, according to the banks, will not halt the growth in demand for these loans.

Consumer loans

- Lending policy: the standards of granting consumer loans remained unchanged. The banks increased their loan spreads in connection with the worsening of the economic outlook and NBP interest rates increases.
- Demand for loans: in the first quarter of 2008, a further increase in demand for consumer loans was recorded; it resulted from the on-going improvement in the financial standing of households and the growing demand for financing durable goods.
- Expectations for the second quarter of 2008: for the first time in the history of the survey, the banks expect a tightening of lending policy. They expect a slight increase in the demand for 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 standards and terms of granting loans, as well as changes in 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 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 into account the opinions of the banks' other divisions than the credit division. The survey was conducted at the turn of March and April 2008 among 24 banks whose total share of claims on enterprises and households in the banking sector portfolio amounts to 76.5%.

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.

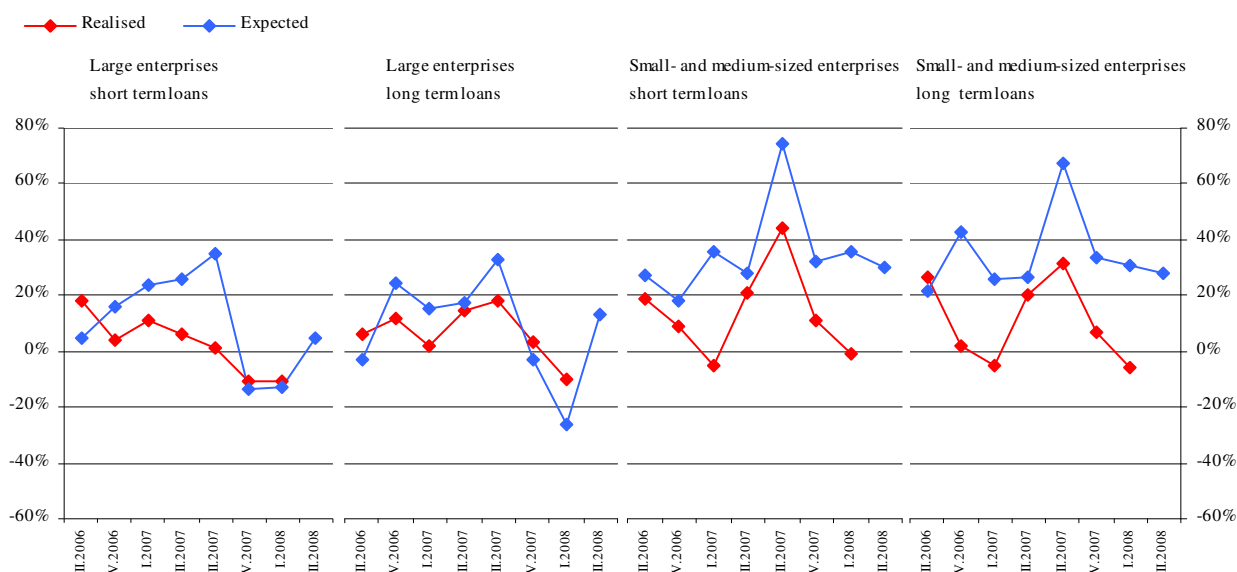
The following section presents tendencies regarding the banks' lending policy and changes in demand in the first quarter of 2008, as well as the banks' expectations for the second quarter of 2008.

Corporate loans

In the first quarter of 2008, the banks only slightly tightened the standards of granting corporate loans. In the case of large enterprises, the banks tightened the standards of granting loans for a second quarter in a row, which was in line with expectations expressed at the end of the fourth quarter of 2007. For the first time in a year, the standards of granting loans to small and medium-sized enterprises were tightened. This tightening was unexpected (see Figure 1).

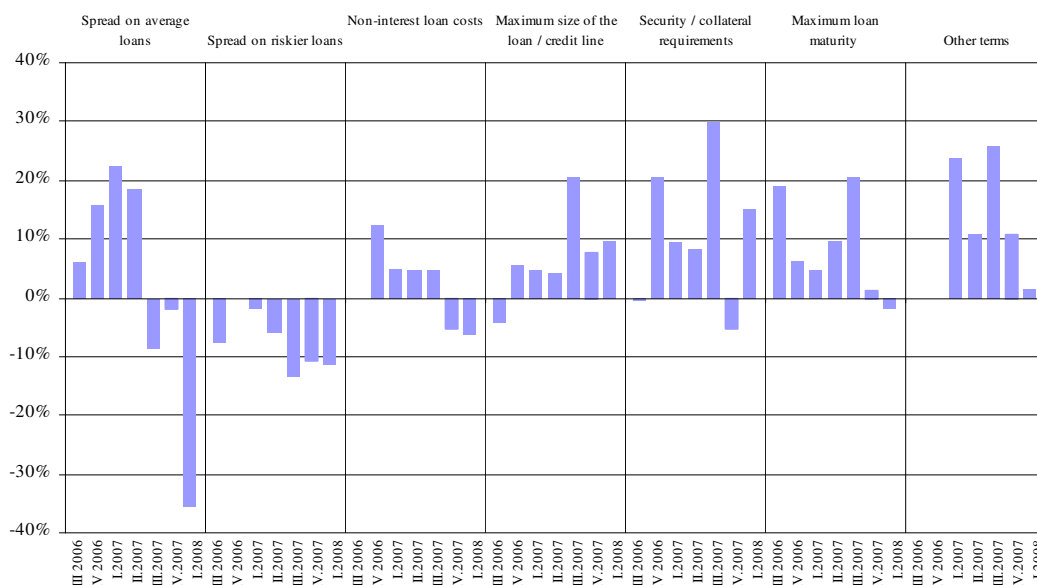
The terms of granting loans to enterprises were also tightened. Approximately one third of the banks increased loan spreads (see Figure 2). A few banks increased non-interest loan costs. The banks still lowered the collateral requirements for corporate loans and increased available loan sizes. At the same time, two small banks decided to limit the maximum loan size.

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

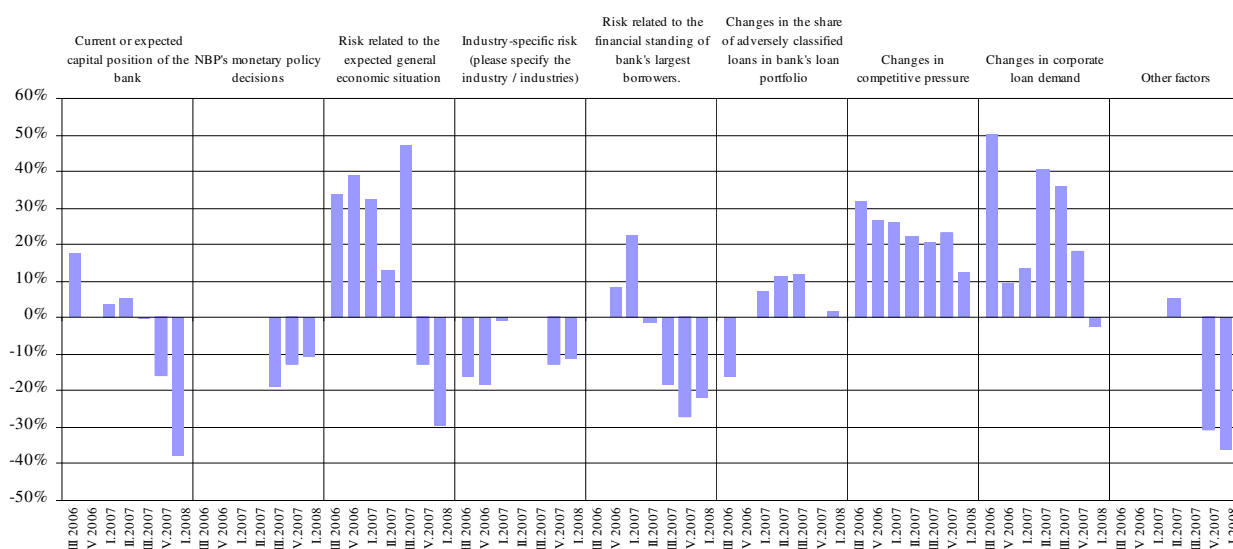


The banks' deteriorating capital position was the primary reason for the tightening of lending policy towards enterprises (see Figure 3). Two of the banks which cited the cause said that it had considerably influenced the tightening of their lending policies¹. The deterioration of the banks' capital position results from the fast growth in lending, as well as from the necessity to cover the capital requirement for operational risk, introduced in the resolutions of the Commission for Banking Supervision transposing the CRD directive into Polish law. Nearly one

¹ The banks have a possibility of grading the influence of factors on the 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.

third of the banks assessed that the economic prospects had justified the introduction of more rigorous standards of granting loans to enterprises. Similarly as in previous quarters, the banks saw the growth in risk related to the financial standing of the largest borrowers and responded with tightening of lending policy. The role of competition pressure of other financial institutions, including banks, as a factor favouring the easing of the standards and terms of granting loans to enterprises, decreases on an on-going basis. One of the banks even indicated that the competitive situation on the credit market made it significantly tighten the lending policy. Among other factors impacting the tightening of lending policy, one bank cited expectations regarding the future liquidity of the money market and the cost of obtaining funds.

Figure 3
Factors influencing changes in lending policies

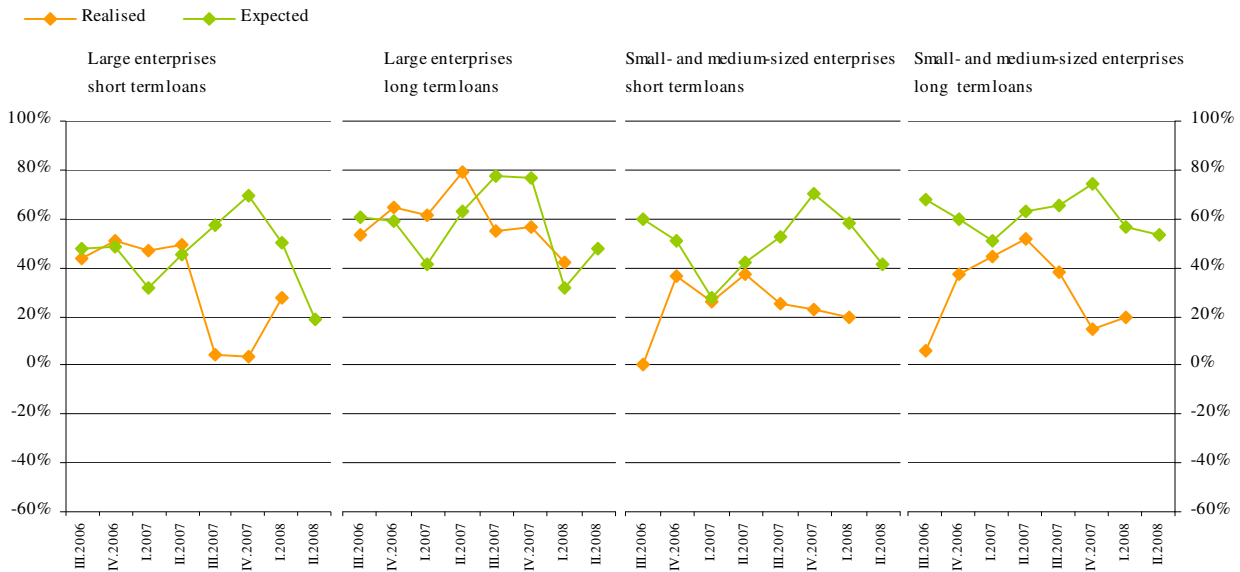


The banks recorded the growth in demand for loans to enterprises in the first quarter of 2008. It was strongest in the segment of long-term loans to large enterprises. The banks' opinions were, however, discrepant, as two banks reported a decrease in demand for long-term loans to large enterprises. After the two quarters of stabilisation, a slight increase was noted in demand for short-term loans to large enterprises although one bank reported a decrease in demand in this segment. The increase in demand in the segment of loans to small and medium-sized enterprises was also small (see Figure 4).

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). Presumably, this category also covers the financing of the purchase of real estate by enterprises. For two years, it has remained the most important reason behind the growth in demand for corporate loans.

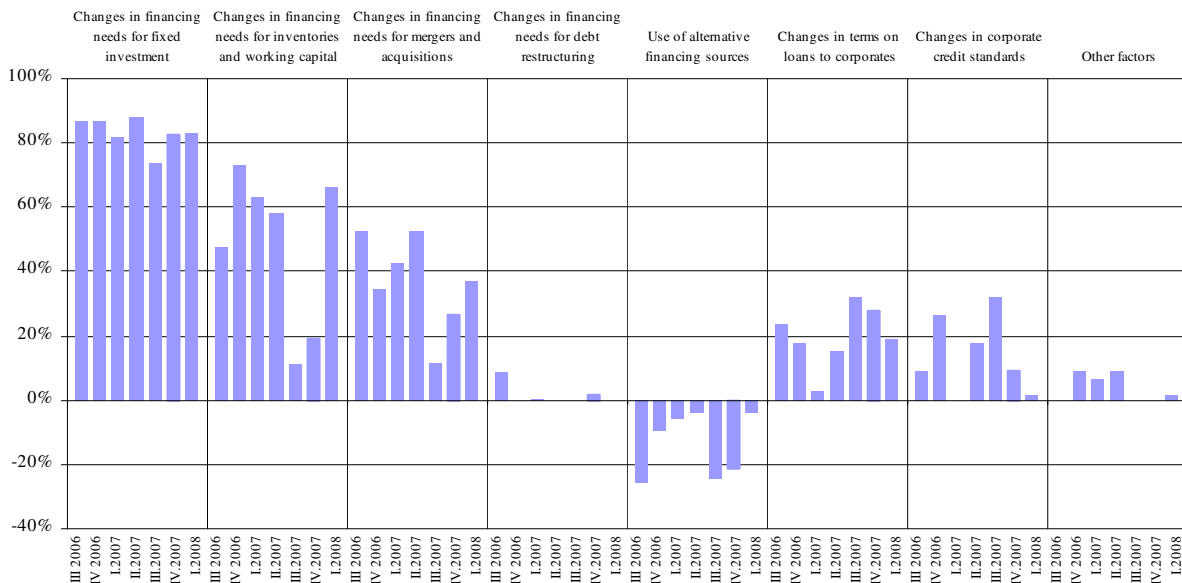
Again, after the two-quarter break, the banks regarded the growth in financing needs for inventories and working capital as significantly contributing to the growth in demand for loans. This relates to the revival in demand for short-term loans to large enterprises. The importance of mergers and acquisitions as contributing to the growth in demand for corporate loans is also slowly rising.

Figure 4
Corporate loan demand



The impact of competition from the alternative sources of finance for enterprises on the demand for loans was low (see Figure 5). The demand for loans was curbed most by the availability of loans at other banks and of finance from non-bank financial institutions. However, the opinion that the demand for loans offered by a given bank is curbed by the competition was shared by merely 20% of the banks. It may imply that in the face of a high demand for loans competition pressure on the market is being eased. According to the banks, the demand for loans was supported by the situation on the market for corporate debt securities. The banks that expressed the view recorded an increase in demand for loans to large enterprises.

Figure 5
Factors influencing changes in corporate loan demand



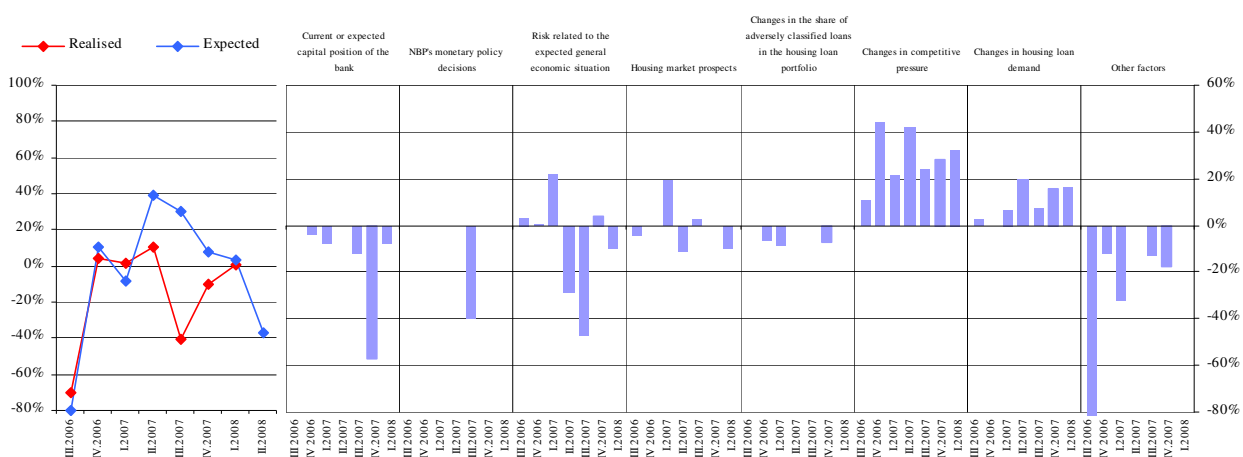
The banks expect lending policy towards large enterprises to be slightly eased in the second quarter of 2008. The banks' expectations were characterised by a large discrepancy. Nearly 20% of the banks plan to ease their lending policies, and around 10% of the banks project the tightening of lending policy in the segment. Around one third of the banks expect the lending policy towards small and medium-sized enterprises to be eased (see Figure 1). However, the history of how the plans were accomplished shows that these expectations may be inflated. **The banks that expect the tightening of standards and terms of granting loans to enterprises in the second quarter of 2008 were tightening their lending policies in the first quarter of 2008; therefore they expect the scale of the changes to increase.**

In the second quarter of 2008, the banks expect an increase in the demand for corporate loans (see Figure 4). This growth is to be slightly stronger in the segment of loans to small and medium-sized enterprises than in the segment of loans to large enterprises. The banks forecast that the segment of short-term loans for large enterprises will be characterised by a relatively smallest scale of growth in demand.

Housing loans

In the first quarter of 2008, the banks slightly changed the standards of granting housing loans (see Figure 6). Two banks tightened the standards and two banks eased them. At the same time, nearly one third of the banks decided to increase loan spreads on housing loans, which means that the spreads were increased for the third successive quarter (see Figure 7). The banks slightly changed the remaining terms of granting housing loans (see Figure 6), in particular expanding the base of clients who can enjoy the benefits of a simplified procedure. The banks' decisions regarding the standards of granting housing loans did not differ from expectations from the fourth quarter of 2007.

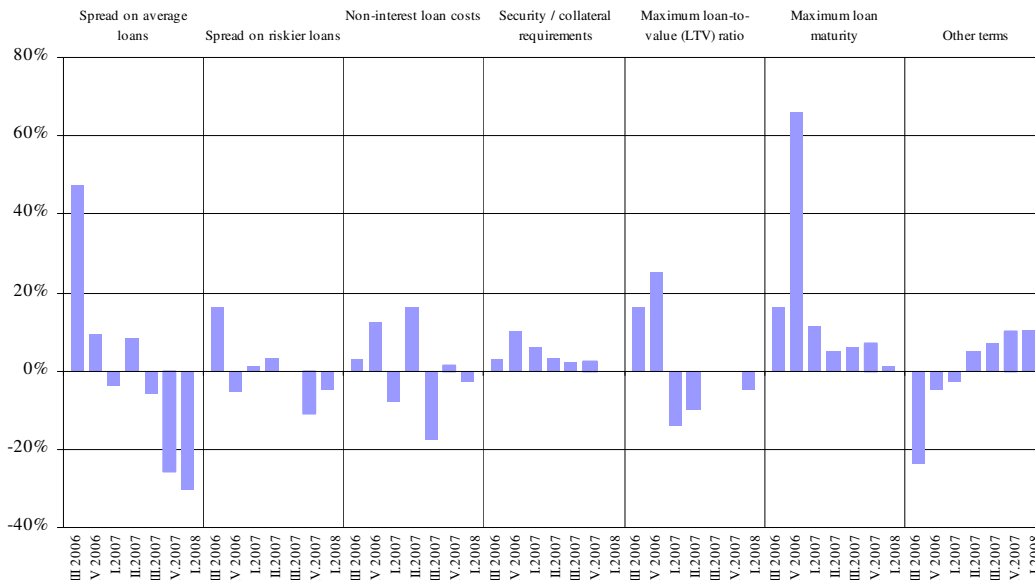
Figure 6
Lending policy and factors influencing its changes – housing loans



The banks indicated the increase in risk related to the economic outlook and housing market developments as the major reasons for the tightening of lending policy in the segment of housing loans. It may indicate that the banks realise that a crystallisation of macroeconomic risk and a further decrease in the prices of dwellings are possible. In addition, one of the banks held that the deterioration of its capital position had contributed to its decision to tighten its lending policy (see Figure 6). The deterioration might have resulted from fast growth in the bank's lending in previous quarters. **The banks who were easing the terms and standards of granting hous-**

ing loans, justified the decisions with the mounting pressure of competition while the demand was declining. In the opinion of one bank, the influence of competition pressure on the easing of lending policy was significant.

Figure 7
Terms on housing loans



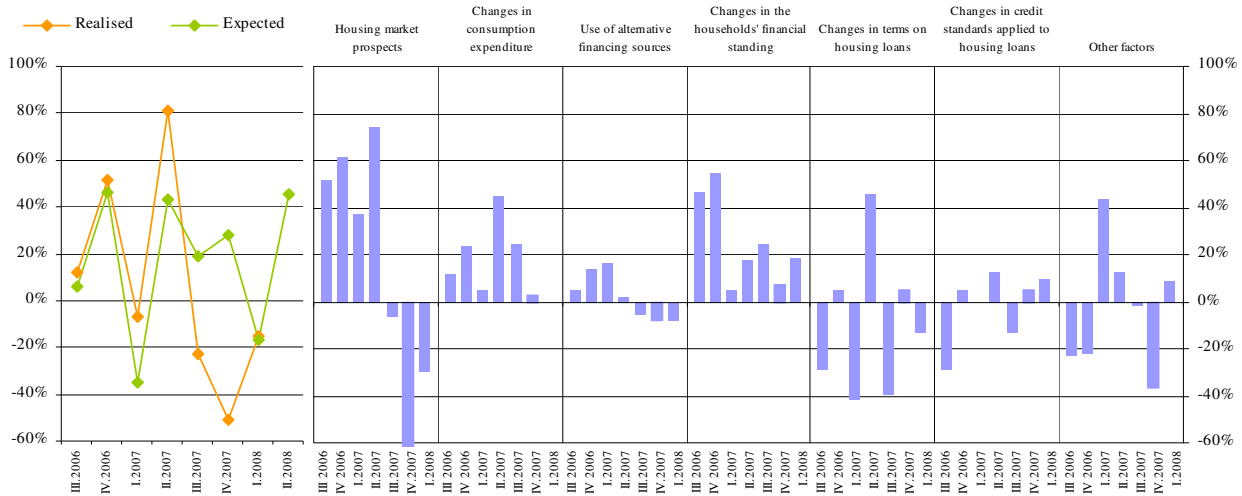
In the first quarter of 2008, the demand for housing loans decreased for the third time in a row (see Figure 8). Over 40% of the banks noted a decrease in demand, including one bank regarding the decrease as significant². Three banks reported an increase in demand for housing loans. These are chiefly medium-sized banks in which foreign currency-denominated loans account for a considerable part of newly granted housing loans. The changes in demand reflected the banks' expectations presented in the fourth quarter of 2007.

The projections of housing market developments were a dominant reason for the decrease in demand for housing loans (see Figure 8). It may be assumed that the projections of the decrease in the prices of residential real estate and of the growth in the supply of dwellings result in limiting speculative demand and make households put off decisions to purchase dwellings till later. Among other factors which shaped the demand for housing loans, the banks indicated the tightening of standards and terms of granting loans lasting from the third quarter of 2007.

The banks expect a strong tightening of lending policy in the segment of housing loans in the second quarter of 2008. Forty five percent of the banks intend to tighten the terms or standards of granting loans whereas 8% expect to ease them. The strongest – in a year – growth in demand for housing loans is expected (see Figure 8). Coupled with the tightening of lending policy, which arises from the negative prospects for housing market developments, this may imply that according to the banks the hitherto and expected decrease in the prices of dwellings in the near term should translate into an increase in demand for dwellings and housing loans.

² The banks have a possibility of grading the 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 and demand decreased considerably.

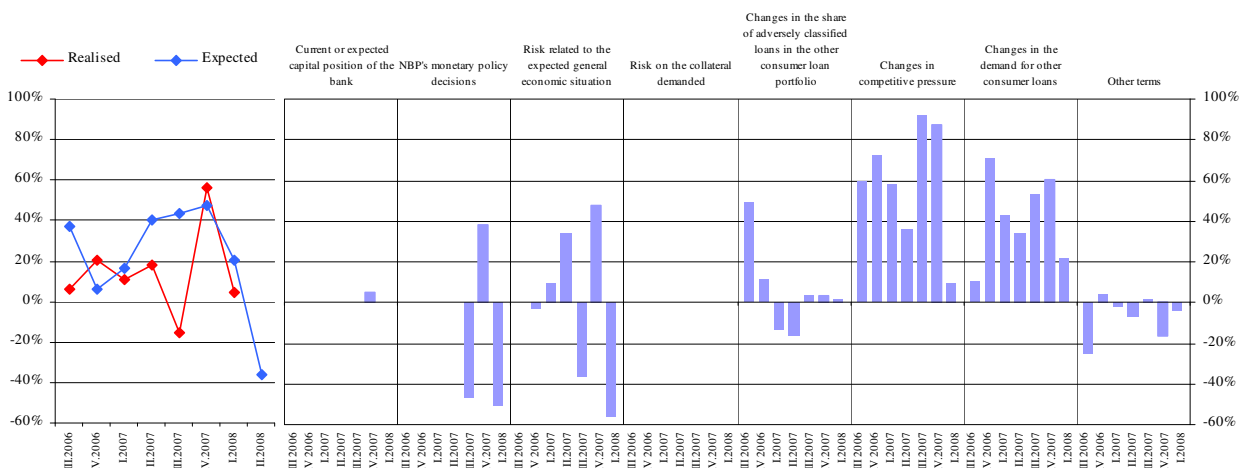
Figure 8
Demand for housing loans and factors influencing its changes



Consumer loans

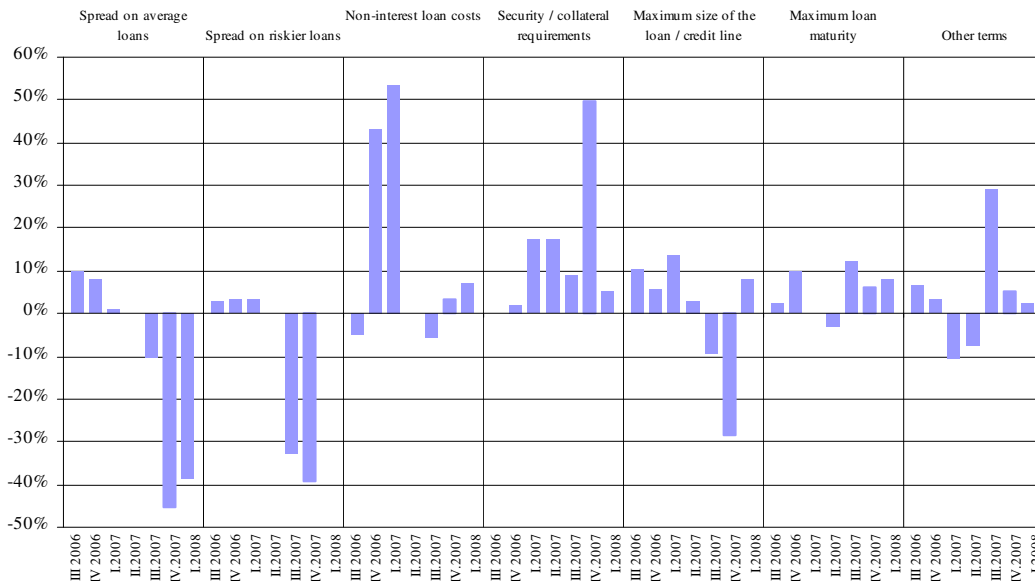
In the first quarter of 2008, the standards of granting consumer loans to households were not considerably changed (see Figure 9). Around 20% of the banks eased the standards whereas around 15% chose to tighten them. At the end of the fourth quarter of 2007, the banks expected a slight easing of lending policy in the segment of consumer loans.

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



Increasing the credit price was the major change of lending policy in the segment of consumer loans in the first quarter of 2008. Similarly as in the fourth quarter of 2007, around 40% of the banks increased loan spreads on consumer loans (see Figure 10). The spreads' increase did not relate to higher risk loans. Other terms of granting consumer loans were slightly eased; in particular the banks extended the maximum loan maturity and increased maximum available loan sizes.

Figure 10
Terms on consumer loans



In the first quarter of 2008, the tightening of lending policy in the segment of consumer loans was influenced by increases of NBP interest rates and the worsening perception of the risk related to the future economic situation (see Figure 9). It should be noted that all the banks that indicated the significance of the increases of NBP interest rates as contributing to the tightening of lending policy regarded that this factor had considerably impacted their decisions. However, it seems that the increase in loan spreads by some banks could have been motivated by the NBP interest rate increases. On the other hand, the share of the importance of economic prospects in the decisions shows that at least some of the banks increased their spreads in order to compensate the estimated increase of the risk of granting loans to the household sector.

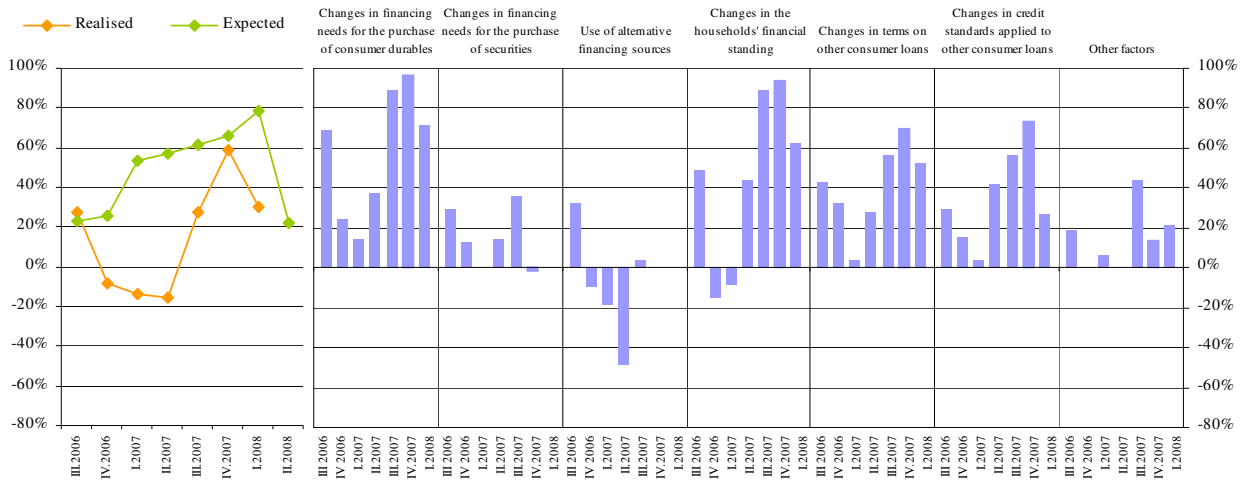
Some 10% of the banks that changed their lending policies introduced the changes in response to strong competition pressure on the part of other financial institutions, first of all non-bank institutions.

The increase in demand for consumer loans in the first quarter of 2008 was reported by around 30% of the banks being surveyed. Fifteen percent of the banks noted a significant increase in the demand for consumer loans. At the end of the fourth quarter of 2007, the banks expected a much larger scale of the growth in demand (see Figure 11).

The increase in financing needs for the purchases of durable goods and an improvement in the financial standing of households were the two major causes of the growth in demand for consumer loans. The factors were indicated by the majority of the banks that recorded the growth in demand (see Figure 11). These were other banks than the ones that justified the tightening of standards or terms of granting consumer loans with the worsening of economic prospects. Three banks stated that the growth in demand had been supported by their promotional campaigns.

In the second quarter of 2008, the banks expect the lending policy in the segment of consumer loans to be tightened (see Figure 9). This is the first such a case in the history of the survey (since the fourth quarter of 2003). Nearly half of the banks expect a tightening of lending policy as approximately 10% of the banks expect the policy to be eased. At the same time, nearly 30% of the banks expect the demand for consumer loans to grow (see Figure 11).

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 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.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.