Senior loan officer opinion survey

on bank lending practices and credit conditions

2nd quarter 2010

Warsaw, April 2010

Summary of the survey results

The trend to markedly tighten lending policy continues only in the segment of consumer loans to households. The standards of granting corporate loans were slightly eased for the second successive quarter. Some banks slightly tightened the standards of granting housing loans; however this action was accompanied by the fall of spreads charged on these loans.

Banks' assessment of the economic outlook with respect to corporate sector improved – this is the main factor that has an impact on easing lending policy towards corporates. On the other hand, banks' perception of households' future economic position worsened. The deteriorating quality of banks' loan portfolios remains the major reason for tightening their lending policies.

Corporate loans

- Lending policy: the standards of granting loans, except for long-term loans to small- and medium-sized enterprises, were slightly eased. The majority of the banks did not change the terms of granting loans.
- Demand for loans: demand for loans from small- and medium-sized enterprises increased; demand for long-term loans to large enterprises remained unchanged, and it fell for short-term loans.
- Expectations for the second quarter of 2010: the banks expect the standards of granting loans to be eased, and demand for loans is expected to grow. This growth is to be particularly strong for short-term loans.

Housing loans

- Lending policy: the banks slightly tightened the standards of granting loans and, at the same time, eased the terms on loan spread and on the LtV requirement.
- Demand for loans: the banks experienced an increase in demand, although their responses were discrepant.
- Expectations for the second quarter of 2010: the majority of the banks have no plans to revise their lending policies as they expect demand to grow markedly.

Consumer loans

- Lending policy: the banks tightened the standards of granting loans. The non-price terms of granting loans were slightly tightened.
- Demand for loans: in the banks' view, demand for consumer loans fell.
- Expectations for the second 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 March and April 2010 **among 29[1] banks with a total share of claims on enterprises and households in the banking sector portfolio amounting to 84.0%**.

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 first quarter of 2010 as well as the banks' expectations for the second quarter of 2010.

<u>Corporate loans</u>

The standards of granting loans to corporates were eased for the second successive quarter in the majority of categories of this loan (see Figure 1). In net terms, lending policy was slightly tightened only for long-term loans granted to small- and medium-sized enterprises**. Also** in the case of other types of corporate loans, **lending policy was not eased strongly in the first quarter of 2010, and the majority of the banks kept the standards unchanged.**

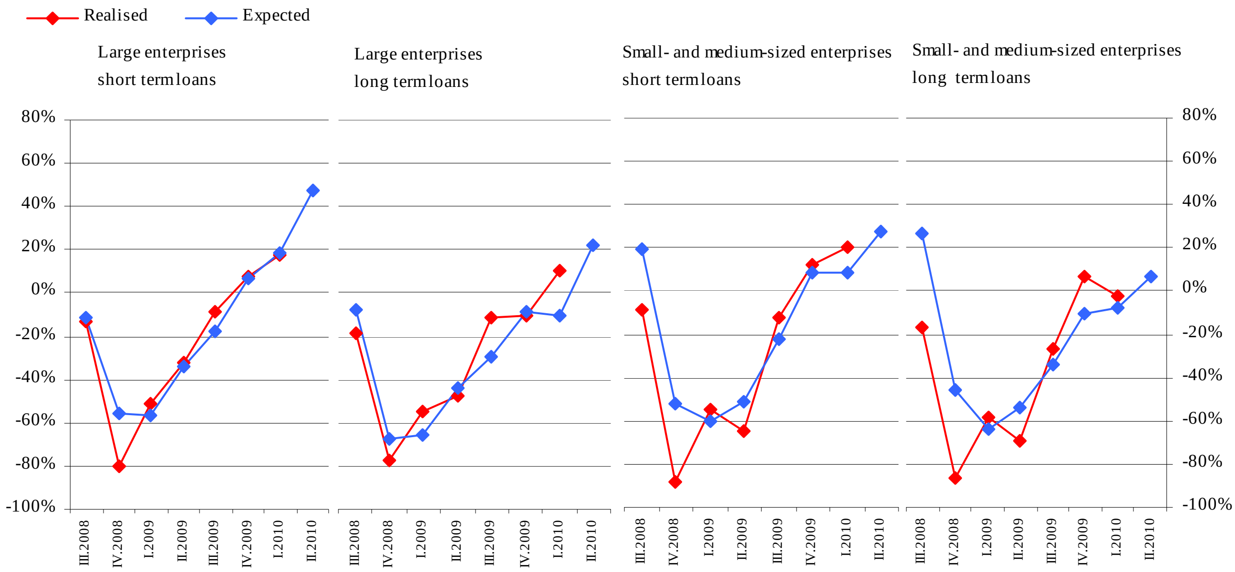
The banks' policy to ease the standards of granting corporate loans was slightly stronger with regard to short-term loans (net percentage: 18% and 21% for loans to large enterprises and SMEs, respectively) than long-term loans (net percentage: 10% and -2% for loans to large enterprises and SMEs, respectively). It is worth pointing out

[1] A merger of two surveyed banks resulted in the decrease of the number of respondents from 30 to 29.

that in the case of short-term loans to small- and medium-sized enterprises, the majority of the banks that chose to ease these standards considered the move as considerable.[2]

Lending policy developments in the first quarter of 2010 were mostly in line with the expectations expressed by the banks at the end of the fourth quarter of 2009. Long-term loans to large enterprises were an exception; although at the end of the fourth quarter 2009 the banks had vowed to slightly tighten the standards, they were slightly eased.

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.

The majority of the banks kept spreads charged on their loans unchanged, however in net terms this credit term was slightly tightened (net percentage amounted to -7%, see Figure 2). In net terms, the terms on spreads charged on riskier loans, non-interest loan costs and maximum loan maturity were also tightened. The banks eased the terms on collateral requirements and increased the maximum available loan size.

The banks also pointed to other changes – unaccounted for in the survey – in lending policy towards enterprises. These primarily concerned the easing of terms on foreign currency loans.

[2] 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.

Figure 2
Terms on corporate loans

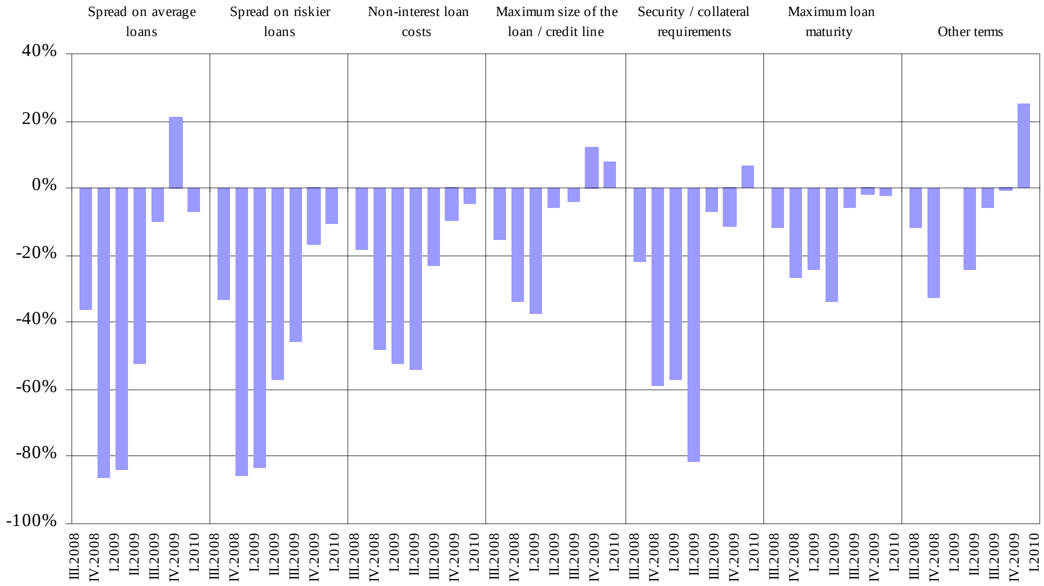
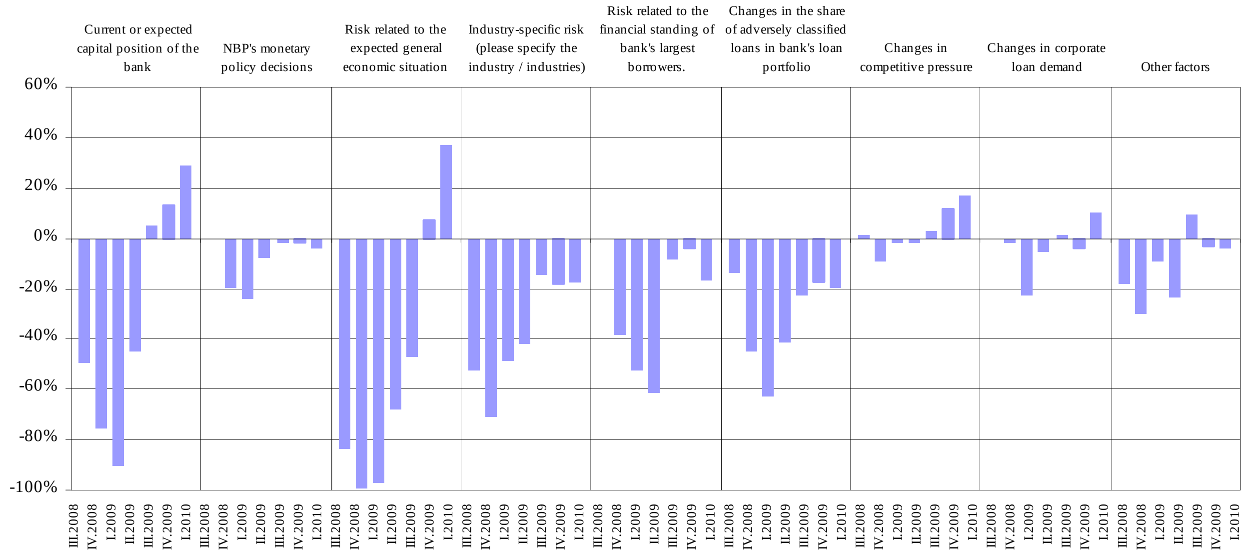


Figure 3
Factors influencing changes in lending policies

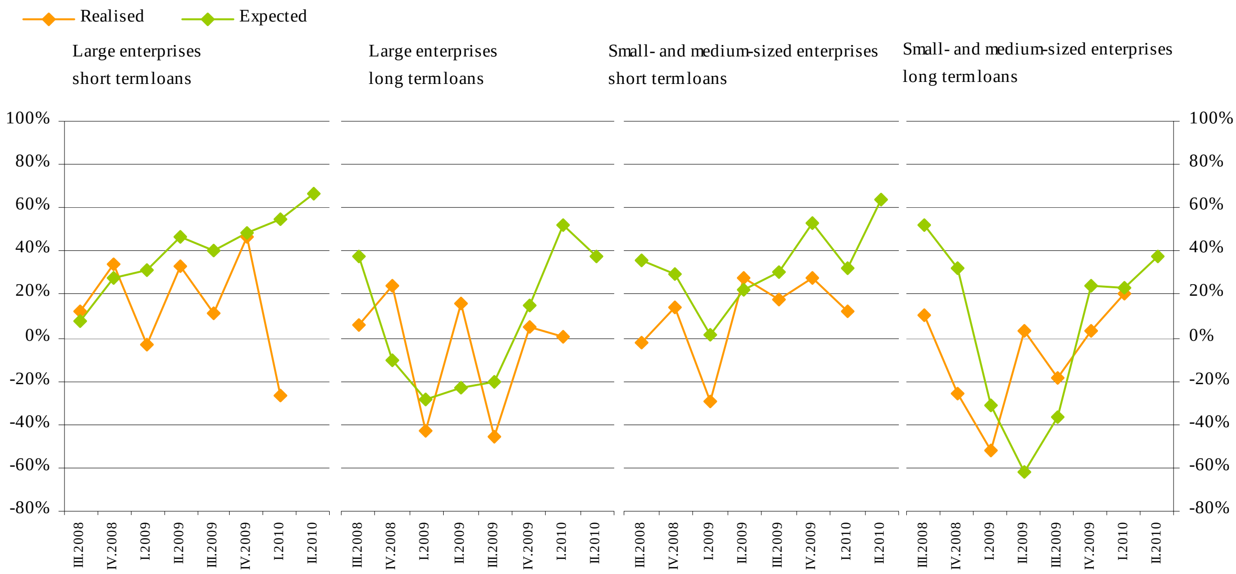


The banks that eased their lending policies towards enterprises attributed the move mainly to their sound capital position and lower risk related to future economic developments. The impact of the latter factor on loan supply is positive for the second successive quarter, which suggests that the banks' assessment of the general situation of the corporate sector is good (see Figure 3)., On the other hand, in the view of the banks, the general economic position of entities from particular industries worsened. **The banks that tightened lending policy mainly cited the risk related to lending provided to largest borrowers and industry-specific risk** as reasons for this action (net percentage was each about 17%). Paper and paperboard production, metal and furniture industries, printing, textile industries and construction, logistics, land transport, transport via pipelines and the energy sector were identified by banks as most risky.

The increasing share of irregular loans in the loan portfolios had a substantial influence on the tightening of lending policy by some banks (net percentage – 19%).

On the other hand, the growing competitive pressure of other banks had an impact on easing this policy.

Figure 4
Corporate loan demand



Demand for loans from small- and medium-sized enterprises increased in the first quarter of 2010 (see Figure 4). This increase mostly concerned long-term loans and was contained to a small group of banks. The majority of the banks that reported an increase in demand considered it as slight.[3] At the end of the fourth quarter of 2009, the banks expected demand for loans to SMEs to grow, but on a slightly larger scale.

In the case of loans to large enterprises, the banks experienced a decrease in demand for short-term loans (see Figure 4). This clearly went against banks' expectations – at the end of the fourth quarter of 2009 the majority of the banks expected demand to grow. **Demand for long-term loans to large enterprises remained unchanged**. Also in this case the expectations of a strong increase in demand, expressed by the banks in the previous quarter, failed to materialise.

For the first time in five quarters, **growing needs for fixed investment had an impact on the rise in enterprises' demand for loans** (see Figure 5). This factor was cited by around one third of the banks that had experienced an increased in demand. **Financing needs related to debt restructuring had also a significant influence on the rise in demand**; this factor was identified for the sixth time in succession. The banks that eased their lending policies assessed that it may also have had an impact on enterprises' increased demand for loans.

Changes in financing needs for inventories and working capital, and **the use of alternative sources of financing,** including primarily own funds (net percentage was each -12 %), **were factors influencing a decrease in**

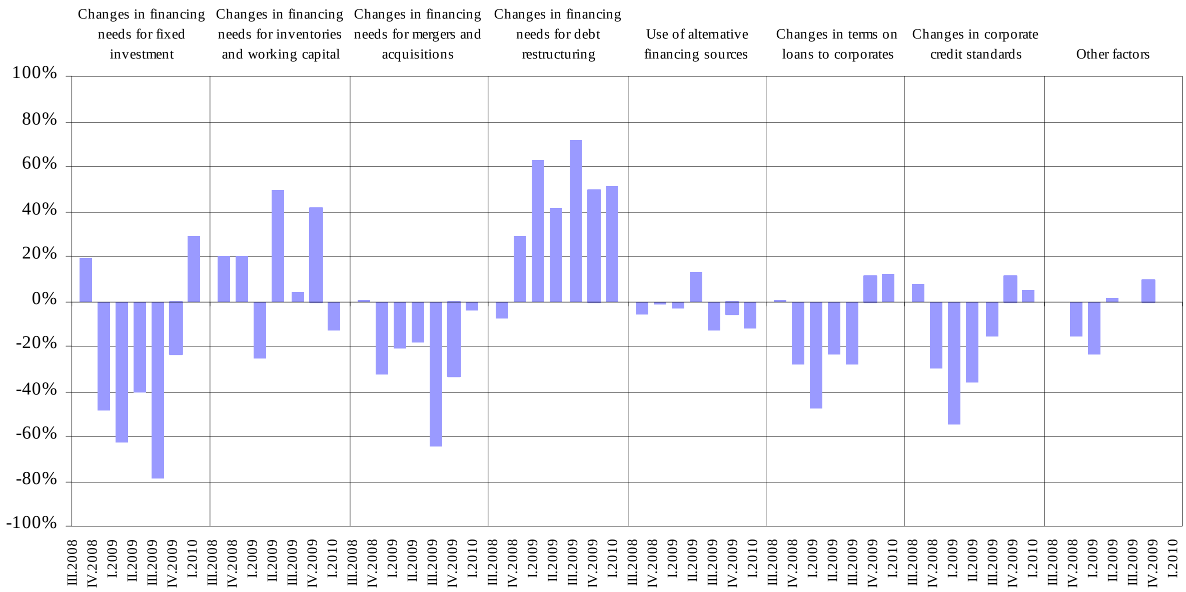
[3] The banks have the possibility of grading the strength of changes in demand for loans. In the survey, the banks choose among the following options: considerable increase in demand, slight increase in demand, no changes in demand, slight decrease and considerable decrease in demand.

demand for loans (short-term loans, in particular). The majority of the banks that cited these factors considered their impact as somewhat influencing the fall in demand[4].

The banks plan to ease lending policy towards enterprises in the second quarter of 2010. The scale of easing will vary with regard to different types of loans (see Figure 1). Easing is to be stronger for loans to large enterprises and is to concern, to a larger extent, short-term loans than long-term ones (net percentage 47% and 22%, respectively). In the case of loans to SMEs, easing of lending policy is to be stronger for short-term loans (27%) than long-term ones (6%).

The banks expect demand for loans from enterprises to rise in the second quarter of 2010 (see Figure 4). This growth is, to a larger extent, to concern short-term loans (net percentage 67% and 63% for large enterprises and SMEs, respectively). Also, thirty eight percent of the banks expect demand for long-terms loans to grow – both in the case of loans to large enterprises and to SMEs.

Figure 5
Factors influencing changes in corporate loan demand

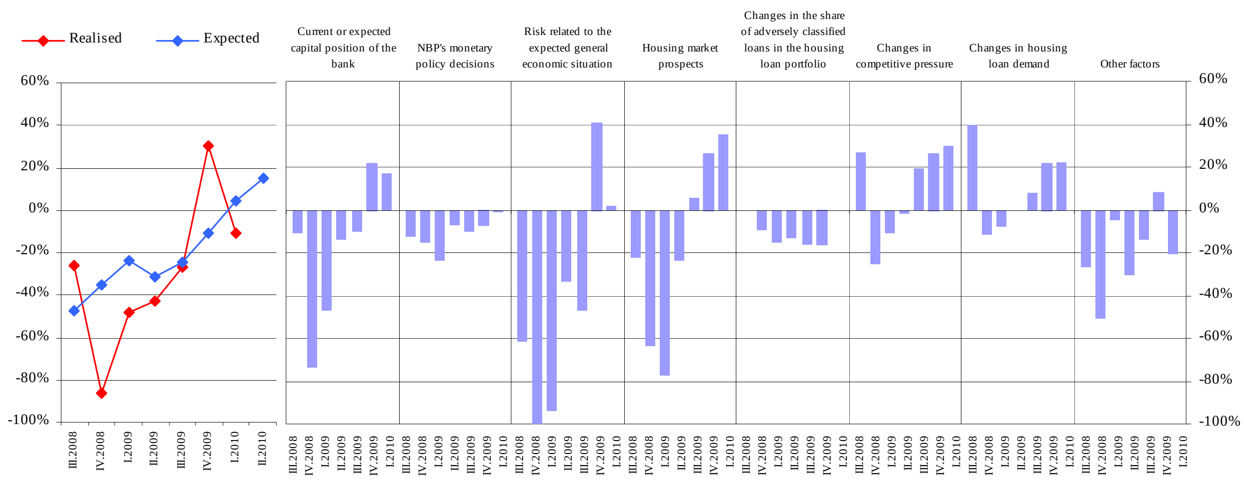


[4] The banks have a possibility of grading the strength of the influence of specific factors on changes in demand for loan. In the survey, the banks choose among the following options: considerably influencing an increase in demand, somewhat influencing an increase in demand, not influencing change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

Housing loans

The banks tightened the standards of granting housing loans to households in the first quarter of 2010 (see Figure 6). However, the scale of the tightening was not significant, whereas the banks' responses were very discrepant – around one third of *all* surveyed banks did not change their lending standards and approximately 30% of *all* banks chose to ease them. The changes in the criteria of granting housing loans in the first quarter of 2010 were not in line with the expectations the banks had expressed at the end of the fourth quarter of 2009. Some banks that had planned no changes in this aspect of lending policy did choose to tighten the criteria in the next quarter.

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



Over one third of the surveyed banks chose to lower loan spreads in the first quarter of 2010. The majority of them termed this move as insignificant. On the other hand, spreads on riskier loans were raised (see Figure 7). In addition, a small number of banks decided to tighten their collateral requirements and terms on maximum loan maturity (net percentage: -14% and -8%, respectively).

Around 12% banks, in net terms, increased the maximum Loan-to-Value ratio for loan origination. However, the banks' responses were not homogenous as some banks tightened the LtV requirements for borrowers.

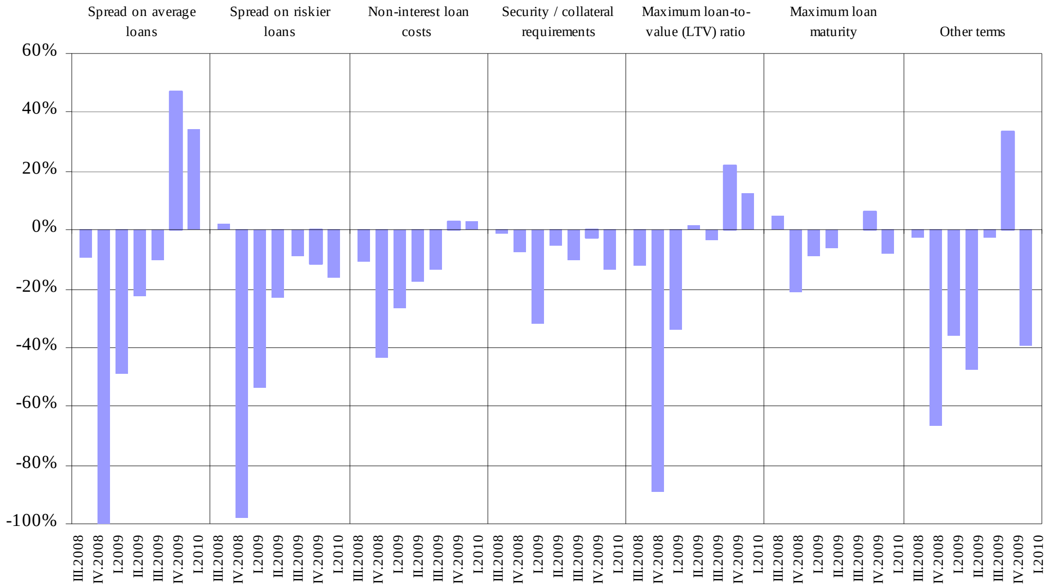
Nearly 40% of the banks tightened other terms on housing loans, that were unaccounted for in the survey. Similarly as in previous quarters, the banks' responses related to the standards of granting housing loans. They concerned raising customer creditworthiness assessment requirements and intensified customer verification with the Credit Information Bureau.

The banks that eased either standards or terms of granting housing loans cited mainly forecasts of developments in the property market (see Figure 6**).** Increased competition in the market of housing loans and changes in households' demand for his type of loan were also essential factors influencing the banks' move to ease their lending policies. It can therefore be stated that after a period of weak competition and prudent lending policies, some banks renewed efforts to increase their market share by liberalising standards and terms of granting loans. It is also worth noting that according to the banks' assessment, their capital position allows them to increase loan supply.

The banks that tightened their lending policies justified this move by factors that were unaccounted for in the survey. These factors included higher households' spending, higher prices and adjusting banks' offers to the market average.

It is worth pointing out that compared with the previous quarter, the banks' assessment of the economic outlook is less optimistic. In net terms, it had no significant impact on their lending (see Figure 6), but some banks that tightened the standards of granting housing loans indicated that this had been related to the deterioration in the economic outlook.

Figure 7
Terms on housing loans



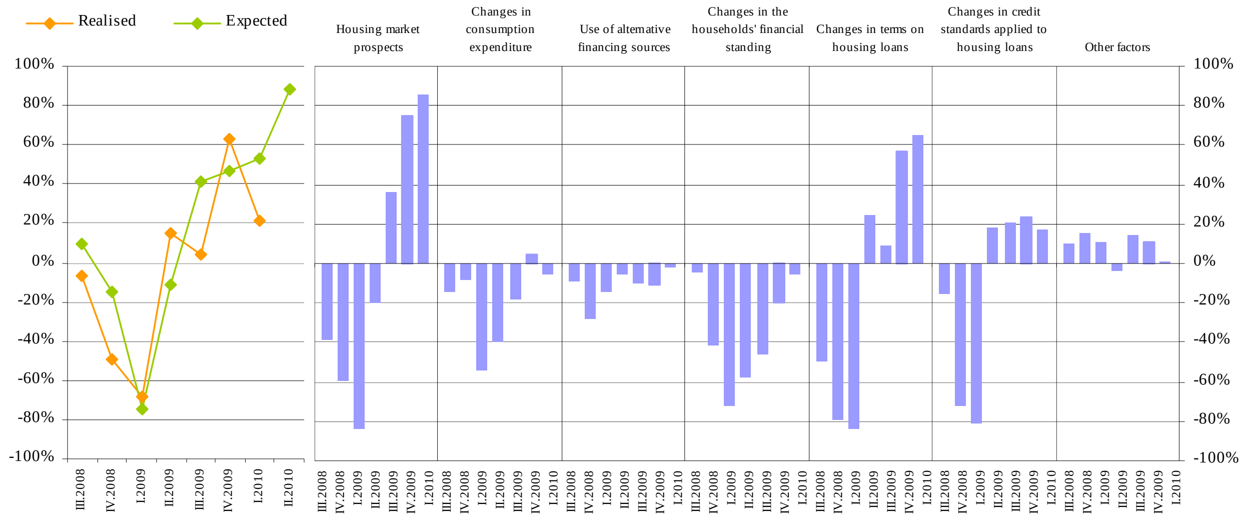
Over 20% of the banks experienced an increase in demand for housing loans in the first quarter of 2010, and one third of them considered this increase as significant. At the end of the fourth quarter of 2009, the banks had expected demand to grow, however to a larger scale than they actually grew (see Figure 8).

The increase in demand recorded by the banks was primarily attributed to forecasts of property market developments. The anticipated stabilisation of prices in the property market may have encouraged customers to apply for housing loans in the first quarter of 2010. The banks that eased the terms of granting housing loans indicated that this factor may also have had an impact on the rise in demand for loans (see Figure 8).

Other factors had a modest impact on the changes in demand for housing loans. Individual banks that reported the fall in demand for loans attributed the fact to changes in consumer spending and the deterioration in the financial position of households.

Fifteen percent of the banks intend to ease their lending policies in the segment of housing loans in the second quarter of 2010 (see Figure 6). A firm majority of *all* banks have no plans to revise their lending policies in his respect. **Over 85% of the banks expect demand for housing loans to grow** (see Figure 8). In the view of the majority of the banks, this growth should not be considerable.

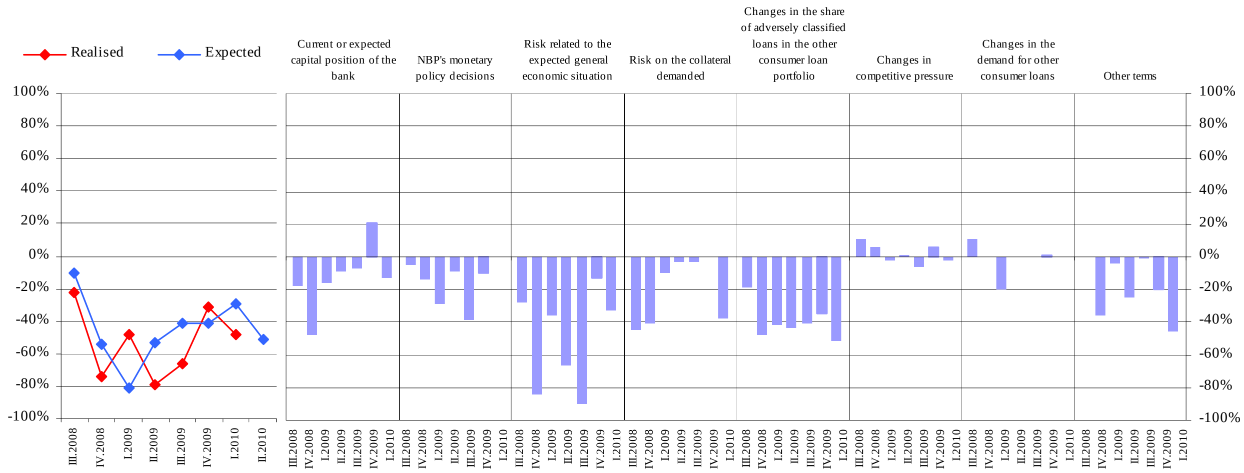
Figure 8
Demand for housing loans and factors influencing its changes



Consumer loans

The standards of granting consumer loans to households were tightened again in the first quarter of 2010, and the scale of the tightening was larger (see Figure 9). Fewer than half of the banks decided to tighten the standards. The majority of the banks that tightened the standards of granting consumer loans considered this move as insignificant. Lending policy was also tightened by those thanks that at the end of the fourth quarter of 2009 had not announced plans to change their policies towards consumer loans.

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

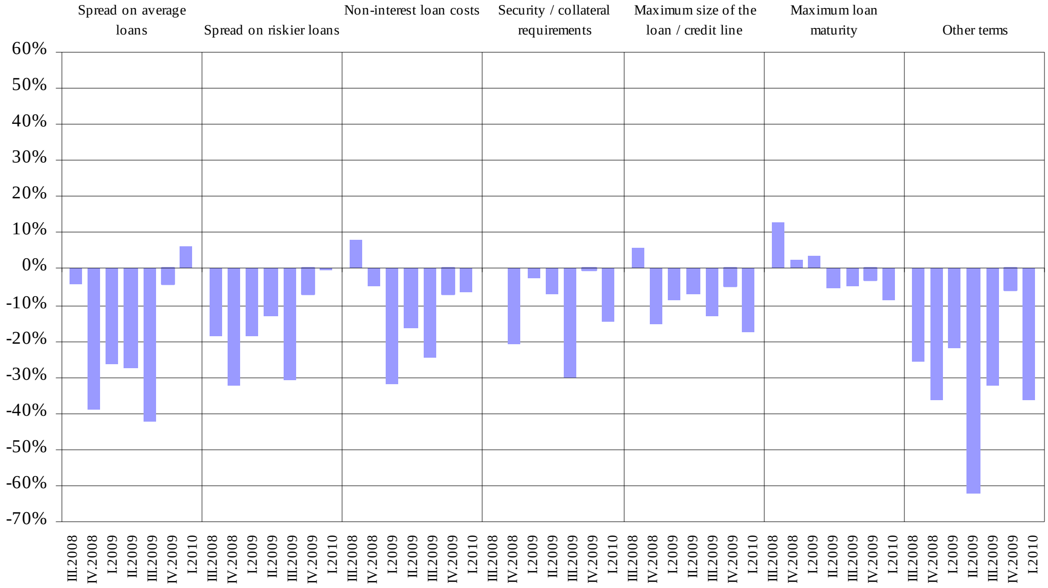


As in the previous quarter, **lending policy tightening in the segment of consumer loans applied mainly to the terms of granting loans**. The terms of consumer loans were tightened by a smaller portion of the surveyed banks (see Figure 10). The price terms on loans: spreads on normal and riskier loans, and non-interest loan costs remained unchanged by the majority of the surveyed banks.

The tightening of lending terms primarily applied to collateral requirements, maximum loan size and maximum loan maturity (net percentage from -9% to -17%); however this tightening was not termed as considerable.

Around one third of the banks also tightened other terms on consumer loans, unaccounted for the in the survey. In addition to the responses concerning to a larger extent the standards on consumer loans (creditworthiness assessment, customer verification), the banks also indicated tightening of terms of granting loans to new customers.

Figure 10
Terms on consumer loans



The growing risk related to origination of consumer loans remains the main reason why lending policy in this segment of loans has been tightened. The deterioration in the quality of consumer loans was cited as a reason for lending policy tightening by over 50% of the banks that had changed their lending policies (see Figure 9). Nearly half of them said that this factor had considerably impacted the tightening.

As in the case of housing loans, **the banks' assessment of the economic outlook worsened**. In net terms, approximately 35% of the banks indicated that this outlook warrants their decision to tighten the standards and terms of granting loans. **Over one third of the banks tightened lending policy after they had negatively assessed the possibility to recover the loan collateral.**

Among other reasons unaccounted for in the survey, excessive indebtedness of households and the increase in households' spending were mentioned as reasons for tightening lending policy towards consumer loans.

According to the banks, demand for consumer loans from households fell slightly in the first quarter of 2010. The majority of the banks termed the fall as insignificant. This implies that their expectations from the fourth quarter of 2009, when some 40% of the banks had expected demand to grow, failed to materialise (see Figure 11).

The banks that reported a decrease in demand for consumer loans attributed this decrease primarily to the fall in financing needs for durable goods.[5] The demand fell after the three quarters in which financing needs

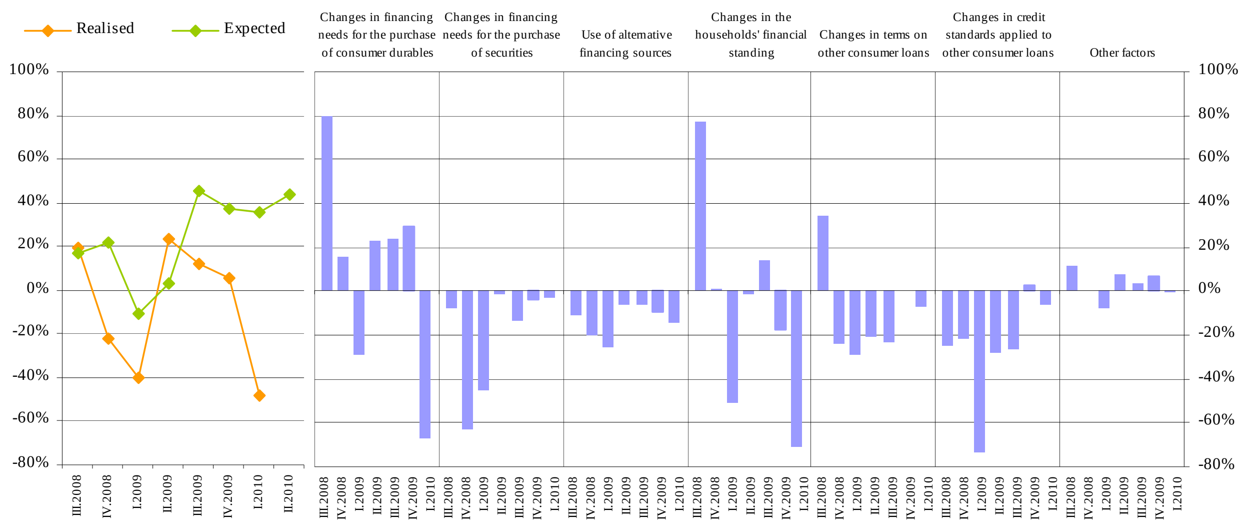
[5] Although the banks participating in the survey are asked to ignore seasonal factors in their assessment of changes in demand for loans, the fall in demand for consumer loans and in financing needs for durable goods in the first quarter of 2010 may be – to some extent – seasonal. This is indicated by results of the surveys from the corresponding quarters of previous years.

for durable goods had influenced the rise in demand for loans (see Figure 11). According to the banks, **changes in the economic condition of households were the other significant factor influencing the fall in demand for loans**. This is confirmed by the deterioration in the assessment of the economic situation, especially with regard to households.

The tighter terms and standards of granting consumer loans, and the use of alternative sources of financing were other factors influencing, yet to a lesser degree, a falling demand in loans.

The banks expect lending policy in the segment of consumer loans to be further tightened in the second quarter of 2010 (see Figure 9). These expectations were expressed by around 50% of the banks, with the majority of them expecting the policy to be only slightly tightened. **The banks expect demand for consumer loans to grow** (net percentage was 43%, see Figure 11); the majority of these banks are banks whose expectations with regard to higher demand in the first quarter of 2010 did not materialise.

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 29 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.