Senior loan officer opinion survey

on bank lending practices and credit conditions

2nd quarter 2011

Warsaw, May 2011

Summary of the survey results

In the first quarter of 2011, the banks firmly reduced the scale of tightening the standards of granting loans to households. Around one fourth of *all* banks eased lending policy both in the segment of housing loans and of consumer loans. The standards of granting loans to enterprises were eased almost solely for long-term loans to small and medium-sized enterprises (SMEs).

The banks continued to lower loan spreads, in particular on loans to enterprises and on housing loans to households. Maximum corporate loan size increased and maximum loan maturity for consumer loans was extended.

The easing of lending policy was primarily associated with growing competitive pressure, changes in loan demand and an improvement in the quality of the portfolio of loans (except for housing loans). Banks continued to attribute the lending policy tightening to the adjustments imposed on them by Recommendation T but cited also deterioration in the quality of the housing loan portfolio.

Corporate loans

- Lending policy: the banks eased the standards of granting loans, continued to lower loan spreads and increased maximum loan size.
- Demand for loans: demand for loans increased, particularly from SMEs.
- Expectations for the second quarter of 2011: lending policy to be eased, mostly with regard to SMEs. A considerable increase in demand for long-term loans to SMEs.

Housing loans

- Lending policy: 12% of the banks tightened their standards of granting loans; at the same time, the majority of the banks lowered spreads charged on loans.
- Demand for loans: in net terms, the banks registered a decrease in demand for loans, however, their responses were discrepant.
- Expectations for the second quarter of 2011: the banks intend to ease their lending policies, expecting at the same time a marked increase in demand.

Consumer loans

- Lending policy: in net terms, no major changes to the standards and terms of granting loans were reported.
- Demand for loans: in net terms, the banks experienced a decrease in demand for consumer loans, with responses being relatively discrepant.
- Expectations for the second quarter of 2011: the banks expect lending policy to be eased and demand for loans to grow significantly.

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 to obtain a loan. The terms of granting loans are the features of the loan agreement agreed between 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 2011 **among 28 banks with a total share of claims on enterprises and households in the banking sector portfolio amounting to 81%**.

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 next section presents tendencies regarding the banks' lending policy and changes in demand in the first quarter of 2011 as well as the banks' expectations for the second quarter of 2011.

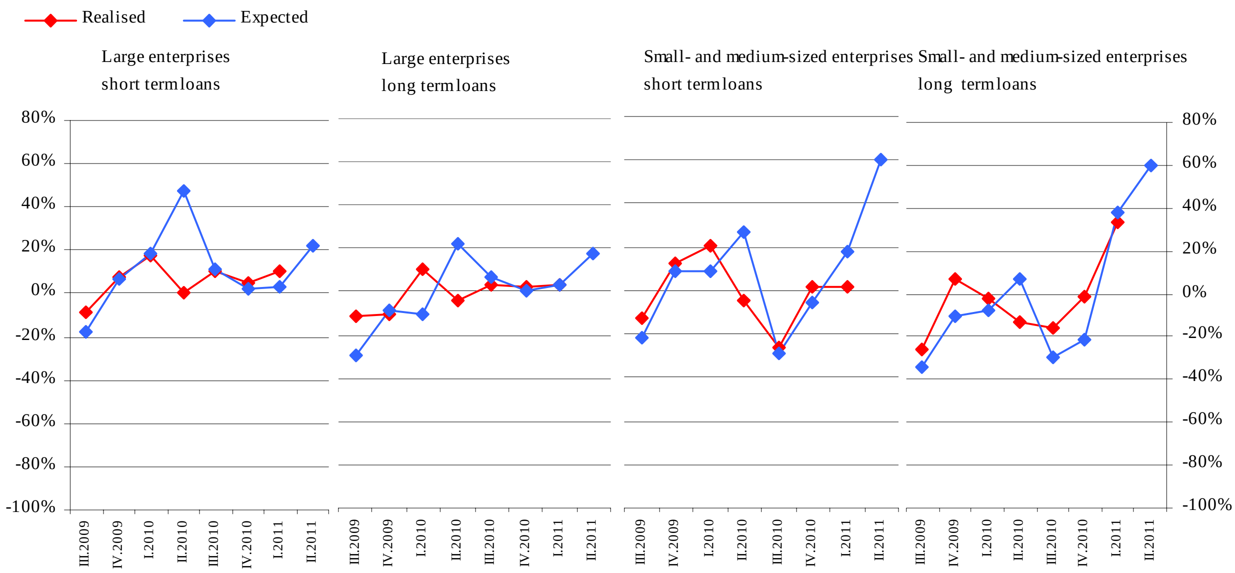
Corporate loans

In the first quarter of 2011, one third of the banks eased lending policy in the segment of long-term loans to small and medium-sized enterprises (see Figure 1). In other categories of loans to enterprises, a firm majority of *all* surveyed banks did not change their lending policies (net percentage of around 2-10%). The majority of the banks that declared changing their lending standards considered them as somewhat changed.[1]

The changes in lending standards in the first quarter of 2011 were in line with expectations the banks had expressed towards the end of the fourth quarter of 2010, except for short-term loans to SMEs for which the banks forecast a stronger easing of lending policy (see Figure 1).

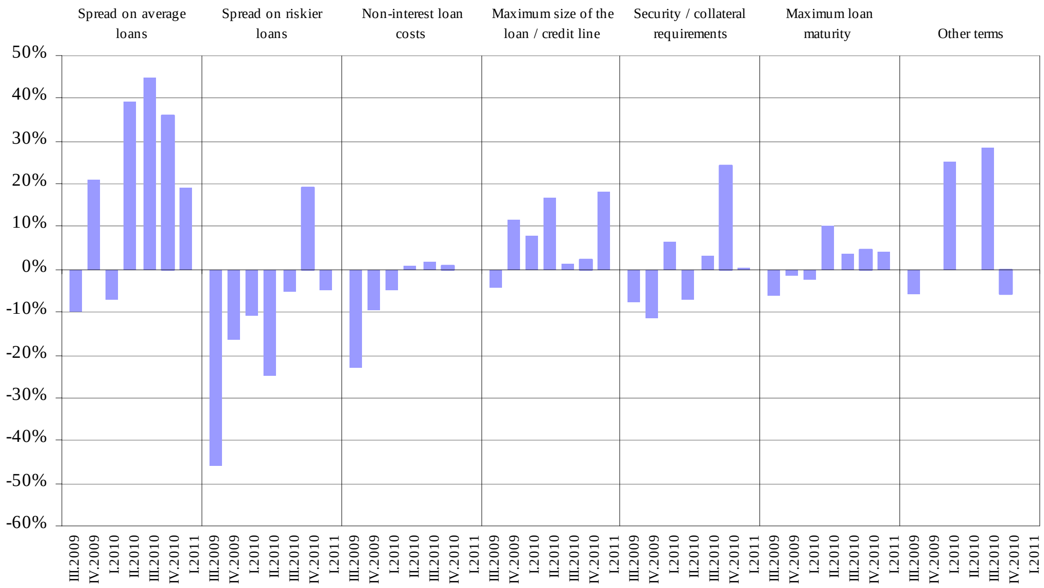
[1] The banks have a possibility of grading changes in the standards (terms) of granting loans. In this survey, the banks choose among the following options: standards (terms) were considerably tightened, standards (terms) were somewhat tightened, standards (terms) remained unchanged, standards (terms) were somewhat eased, standards (terms) were considerably eased.

Figure 1
Corporate credit standards



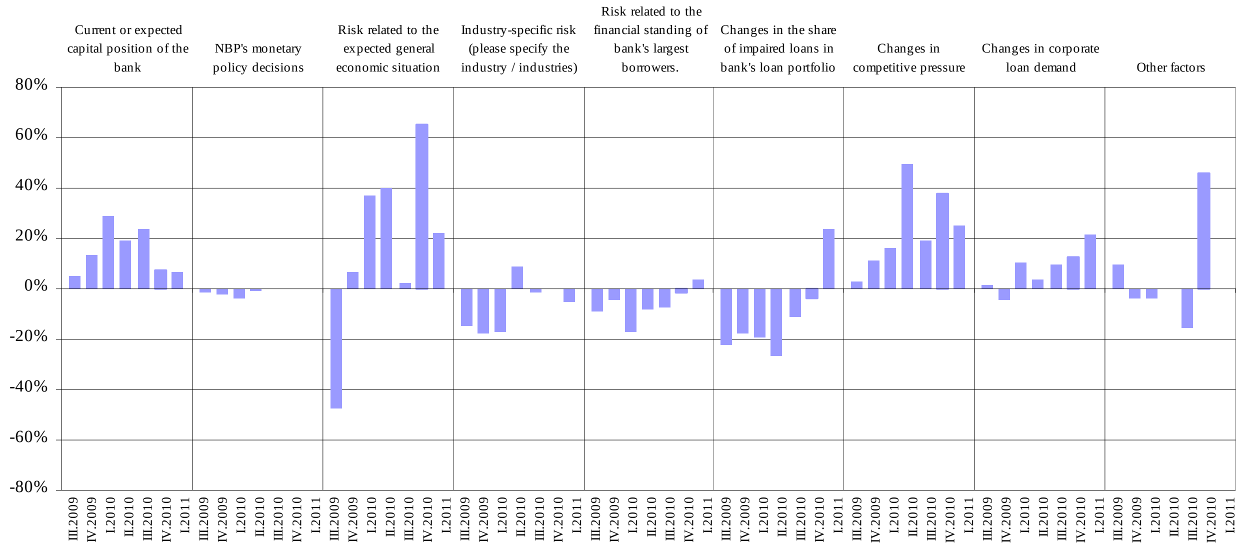
Note: figures included in this study present the net percentage. A positive value of net percentage should be interpreted as the easing of lending policy or the growth in demand for loans, and a negative value of net percentage – as the tightening of lending policy or a fall in demand for loans. Details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

Figure 2
Terms on corporate loans



In the first quarter of 2011, the banks surveyed by the NBP continued to lower spreads on loans extended to enterprises. However, the percentage of the banks that provided such a response decreased in comparison with previous quarters (net percentage of around 19%). At the same time, a similar percentage of the banks declared to increase maximum loan size or a credit line offered to enterprises (net percentage of around 18%). Following the decrease of spreads on riskier loans in the previous quarter, around 5% of the banks, in net terms, again tightened lending policy in this respect in the first quarter of 2011. In their view, other terms of crediting were not changed significantly (see Figure 2).

Figure 3
Factors influencing changes in lending policies



According to the banks, the rise of competitive pressure was a major factor behind the easing of lending policy (net percentage of around 25%, see Figure 3). The banks that provided this response pointed solely to competition from other banks. For the first time since the first quarter of 2008, the banks considered changes in the quality of the corporate loan portfolio as a factor prompting them to ease their lending policies (net percentage of around 24%). The percentage of the banks that cited lower risk related to expected economic situation as a reason for easing their lending policies towards enterprises decreased (net percentage of around 22%). The majority of the banks termed the influence of these factors as slight.[2]

The banks that tightened their lending policies attributed this move solely to industry-specific risk (net percentage -5%). The car industry and property development business were identified by the banks as riskier industries.

In the first quarter of 2011, the banks recorded an increase in demand for all types of corporate loans (see Figure 4). The largest percentage of the banks pointed to the growth in demand from SMEs. In the case of short-term loans, such a response was given by around 52% of the banks, and for long-term loans – by around 37%.

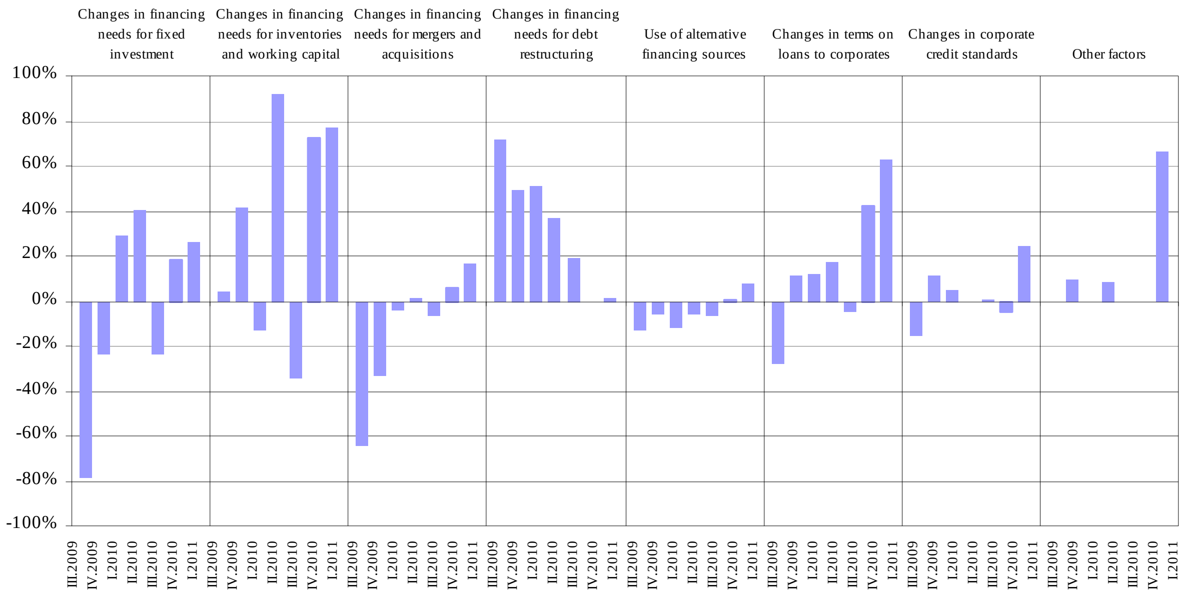
[2] The banks have a possibility of grading the strength of the influence of specific factors on changes in lending policy. In this survey, the banks choose among the following options: considerable influence on a tightening of lending policy, slight influence on a tightening of lending policy, no influence on the change in lending policy, slight influence on an easing of lending policy, considerable influence on an easing of lending policy.

Large enterprises exhibited an increased demand primarily for short-term loans (net percentage of 29%). The majority of the banks considered changes in demand as slight.[3]

The rise in demand for corporate loans was congruent with expectations expressed by the banks in the fourth quarter of 2010, except for short-term loans to large enterprises. The banks expected a lower increase in demand in this loan category.

Figure 4
Corporate loan demand

Figure 5
Factors influencing changes in corporate loan demand



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

As in the previous quarter, the increase in demand for corporate loans was primarily driven by the rise in financing needs for inventories and working capital (see Figure 5). Such an answer was given by over three fourths of the banks, with around 7% of *all* banks assessing the influence of this factor as considerable.[4] The share of the banks that identified the easing of the terms of crediting corporates as contributing to higher demand grew to over 62%. A similar percentage of the banks listed factors unaccounted for in the survey, including a new product line. One fifth of the banks positively assessed the impact of revised lending standards on demand from enterprises. The importance of enterprises' financing needs for fixed investment (net percentage of 26%) and for mergers and acquisitions (net percentage of 16%) also increased. No corporate loan demand-constraining factors were identified by the banks.

The banks expect lending policy in the sector of small and medium-sized enterprises to be eased significantly in the second quarter of 2011 (see Figure 1). In the category of short-term and long-term loans, such a response was provided by nearly 60% of the banks. In the segment of loans to large enterprises, around 23% of the banks declared to ease their lending policies for short-term loans and around 17% of the banks for long-term loans. The majority of the banks, however, do not expect changes in lending policy in the category of loans to large enterprises.

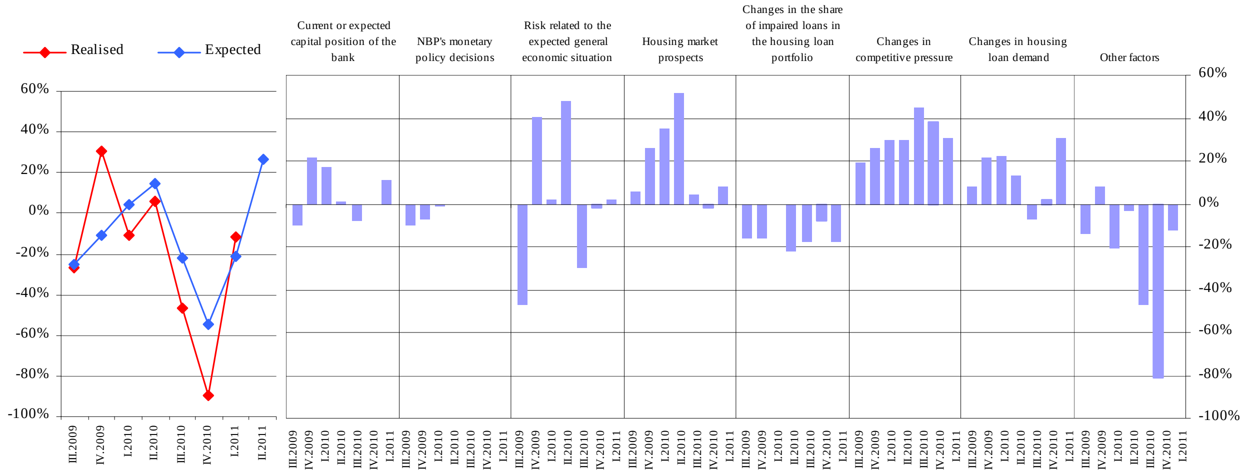
According to the banks participating in this survey, a rise in demand in the second quarter of 2011 will primarily affect long-term loans to SMEs (see Figure 4). Such a response was given by around 42% of the banks, while around 29% noted that a rise in demand would affect short-term loans to SMEs. In the case of loans to large enterprises, the banks expect a stronger increase in demand for short-term loans (net percentage of around 31%) than for long-term loans (net percentage of around 19%).

[4] The banks have a possibility of grading the strength of the influence of specific factors on changes in demand for loans. In this survey, the banks choose among the following options: considerable influence on the increase in demand, slight influence on the increase in demand, no influence on the change in demand, slight influence on the decrease in demand, considerable influence on the decrease in demand.

Housing loans

The first quarter of 2011 saw a slight tightening of the standards of granting housing loans (see Figure 6). In net terms, lending policy in this respect was tightened by 12% of the banks. Their responses were discrepant and approximately one fourth of *all* banks decided to ease the standards of granting housing loans. The changes (in net terms) in lending policy in the first quarter were in line with announcements the banks made at the end of 2010.

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



The banks surveyed by the NBP again lowered their spreads charged on housing loans (see Figure 7). Over 80% of the banks made this move, of which one forth considered the decrease as considerable. To a lesser extent, these decreases affected spreads charged on riskier loans and non-interest loan costs. Nearly 20% of the banks also slightly eased their LtV terms.

Over 30% of the banks tightened other terms on housing loans, unaccounted for in the survey. The tightening related primarily to customer creditworthiness assessment procedures.[5] Individual banks indicated that they had tightened their customer creditworthiness assessment procedures for customers applying for foreign currency loans.

In the banks' view, the growing share of impaired loans in the portfolio of housing loans was the major factor contributing to the tightening of lending policy (see Figure 6). Such a response was given by around 18% of the banks.

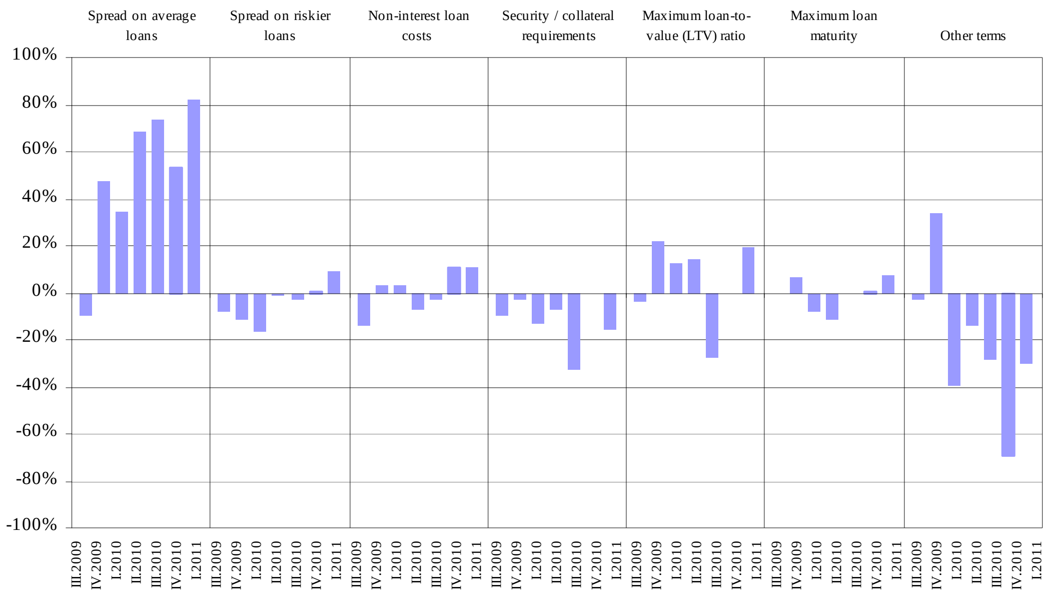
Other factors unaccounted for in the survey were indicated by 13% of the banks. In the first quarter of 2011, individual banks were adjusting their lending policies to the relevant provisions of Recommendation T.[6] The banks

[5] According to the definition used in this survey, the examples of lending policy tightening, cited by the banks, relate to the standards of granting loans. Due to their incorrect classification by the banks, in Figure 7 they were presented under the category "Other terms".
[6] The banks have to follow all recommendations included in Recommendation T from the end of December 2010.

also indicated these amendments to the Act on the Land and Mortgage Registers that may likely diminish the extent to which loan exposures are hedged.[7]

The banks that eased their lending policies justified the action primarily by the steady growth of market competition (net percentage of around 31%). This growth was primarily driven by competition from other commercial banks. Among reasons for easing lending policy, the fall in demand for housing loans was identified equally often. As indicated later in the text, this factor may be partially associated with the increase in competitive pressure.

Figure 7
Terms on housing loans



In the first quarter of 2011, a fall in demand for housing loans was registered by 34% of the banks (see Figure 8). However, the responses provided by the banks were discrepant – over 19% of *all* banks witnessed a slight rise in demand for housing loans. Towards the end of the fourth quarter of 2010, the banks expected demand in this category of loans to grow. For the second quarter in a row, the banks' forecasts concerning demand developments differ considerably from their actual figures.

According to the banks, the use of alternative sources of financing was the main reason for lower demand for housing loans (net percentage of around -52%), including primarily loans at other banks. This factor and also relatively very discrepant responses on changes in demand may be the evidence that the banks reporting a fall in demand for loans refer only to their own services and their assessment is a result of growing competition for customers from other institutions.

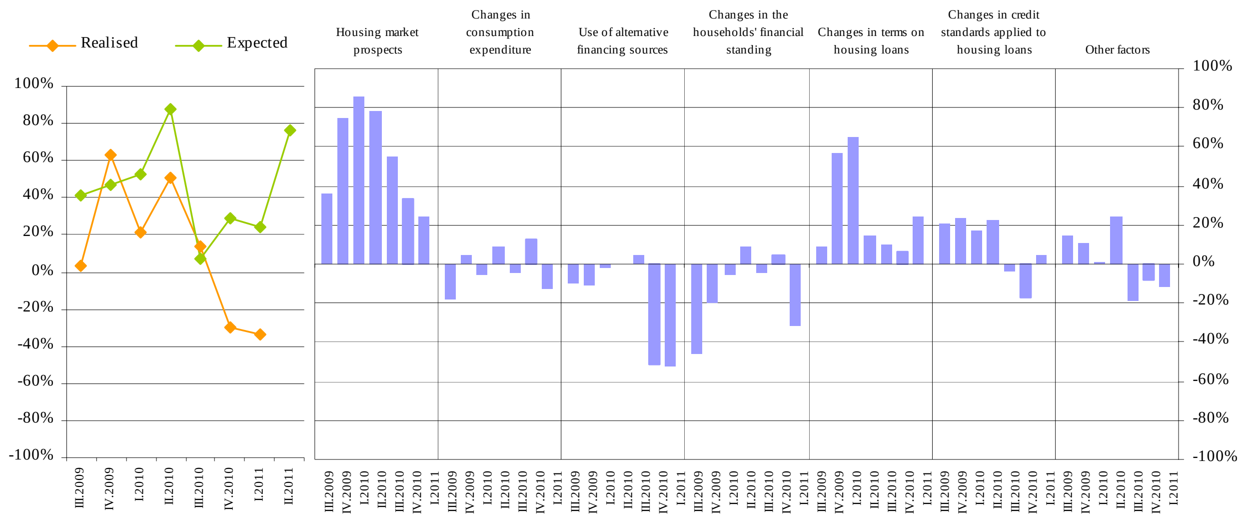
Changes in the economic standing of households were primarily mentioned by the banks as factors indicating a general decrease in household demand for housing loans (net percentage -32%).

[7] Amendments to the Act on the Land and Mortgage Registers provide for, inter alia, the option of securing several receivable debts by one mortgage and the option of making use of a vacated mortgage position by the owner.

It should also be noted that the fall in demand in the first quarter of the year may, to a certain extent, be of seasonal character, which is reflected in data on housing loan increases in the first three months of a year over the past decade.

For the seventh quarter in a row, the banks which experienced a rise in demand attributed this increase primarily to housing market prospects (see Figure 8). However, the importance of this factor has been steadily diminishing, and in the first quarter of 2011 it was identified by around 24% of the banks. Easing the terms on housing loans was the other basic demand-stimulating factor. This factor was also identified by around 24% of the banks.

Figure 8
Demand for housing loans and factors influencing its changes



In net terms, over 25% of the banks expect lending policy in the segment of housing loans to be eased in the second quarter of 2011 (see Figure 6). However, no bank has plans to significantly ease the standards and terms of granting loans, and approximately three fourths of *all* banks do not intend to revise their policy in this respect.

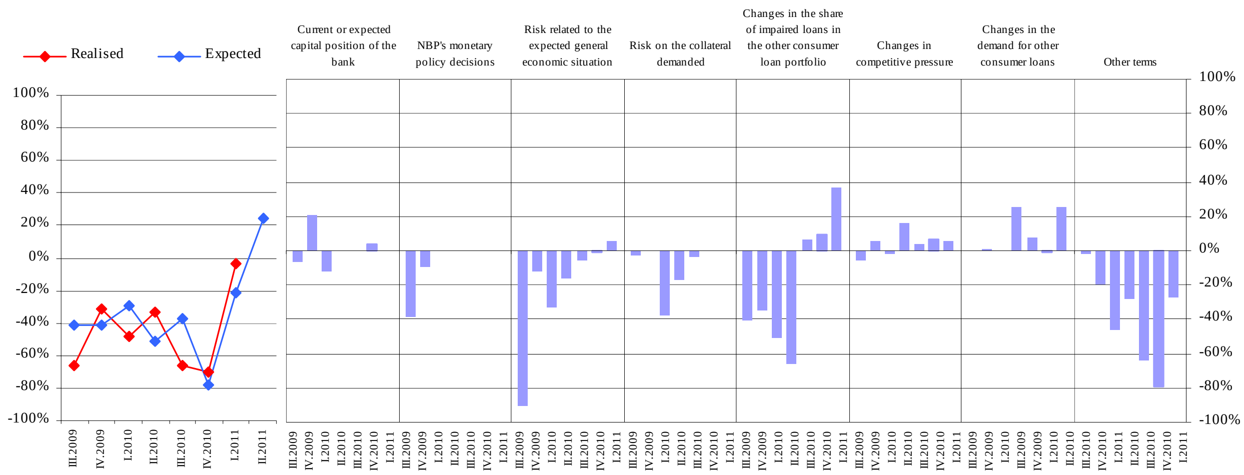
Over three fourths of the banks expect demand for housing loans to grow in the second quarter of 2011 (see Figure 8). The majority of the banks expect this demand to rise slightly.

Consumer loans

In the first quarter of 2011 – for the first time since the second quarter of 2008 – the standards of granting consumer loans to households were not markedly tightened (see Figure 9). Over half of *all* banks did not revise lending policy, and around 20-25% of all banks either eased or tightened it. In consequence, lending policy was, in net terms, very slightly (net percentage of around -4%) tightened.

The majority of the terms on consumer loans were not markedly changed in the first quarter of 2011 (see Figure 10). Lending policy was slightly eased as far as maximum loan maturity (net percentage of around 23%) and loan spread (around 11%) were concerned. However, the banks slightly increased spreads on riskier loans.

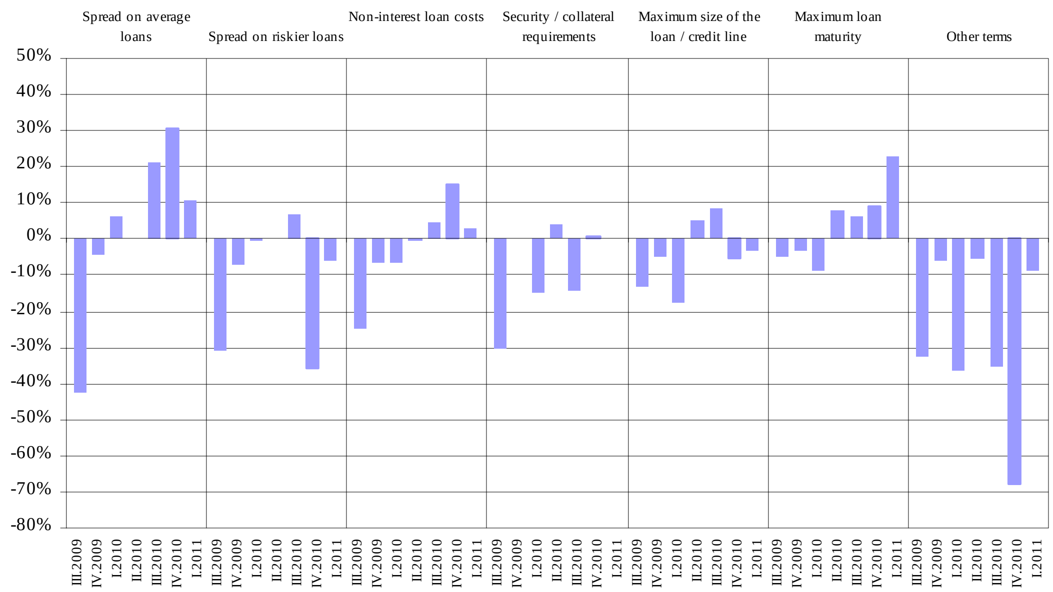
Figure 9
Lending policy and factors influencing its changes – consumer loans



The majority of the banks cited factors unaccounted for in the survey as reasons for tightening their lending policies in the segment of consumer loans (see Figure 9). The banks that had failed to fully implement the provisions of Recommendation T identified the ongoing adjustments as a major factor responsible for the change in their policies in the first quarter of 2011.

The banks that had eased lending policy justified this action with a change in the share of impaired loans in the portfolio of consumer loans (net percentage of around 37%) and **a change in loan demand** (net percentage of around 26%). According to the majority of the banks, other factors listed in the survey were neutral for their lending policies.

Figure 10
Terms on consumer loans

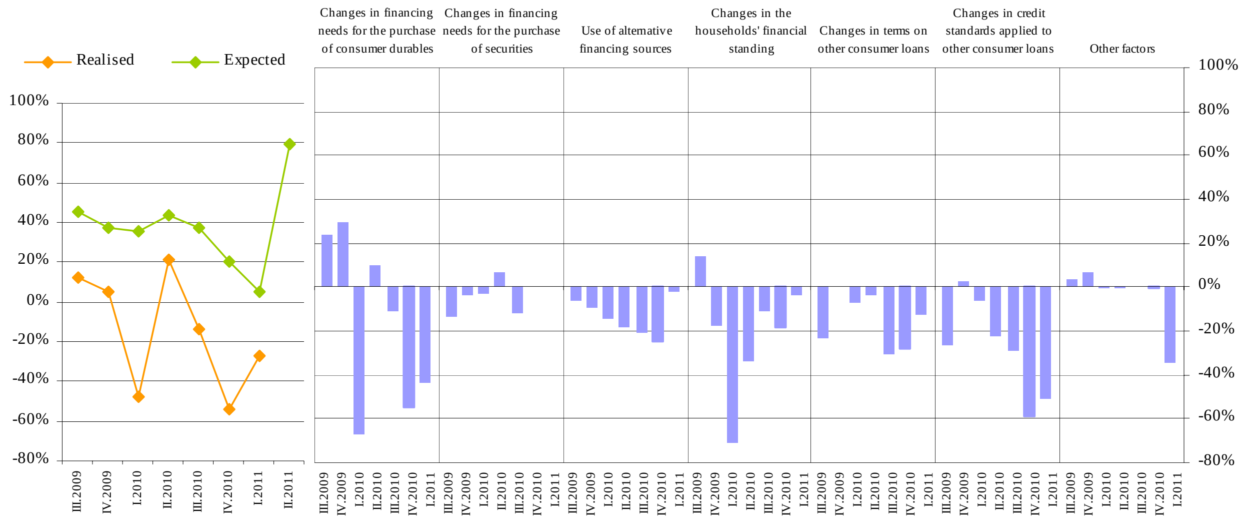


Approximately 27% of the banks (in net terms) reported a fall in household demand for consumer loans (see Figure 11). At the same time, growing demand was experienced by nearly 30% of *all* banks, which points to big discrepancy in assessment among banks. Consumer loan demand developments differed from banks' expectations in the fourth quarter of 2010 (see Figure 11).

Tighter lending standards and the fall in financing needs for durable goods (net percentage of around -50% and around -44%, respectively) **were again mentioned by the banks as the main reasons for lower consumer loan demand**. The majority of these banks considered their influence as slight. Over one third of the banks also identified other factors that were unaccounted for in the survey, including, primarily, a seasonal nature of changes in consumer loan demand.

The banks that registered an increase in demand for consumer loans in the first quarter of 2011 did not identify any factors that might have greatly contributed to this increase (see Figure 11).

Figure 11
Demand for consumer loans and factors influencing its changes



The banks expect lending policy in the segment of consumer loans to be somewhat eased in the second quarter of 2011 (see Figure 9). This type of changes is expected by nearly one fourth of the banks. If lending policy in the second quarter of 2011 was in line with banks' expectations, this would be the first quarter in three years in which the standards of granting loans would be eased.

As in the case of housing loans, a firm majority of the banks expect demand for consumer loans to grow in the second quarter of 2011 (see Figure 11).

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.