



Senior loan officer opinion survey on bank lending practices and credit conditions

2nd quarter 2012

Summary of the survey results

Corporate loans

- Lending policy: tightening mainly with regard to long-term loans to large enterprises; increase in credit spreads.
- Demand for loans: an improvement in demand for short-term loans to small and medium-sized enterprises (SMEs); a falling demand in other credit categories.
- Expectations for the second quarter of 2012: lending policy to be tightened and growth in demand for loans in the segment of SMEs.

Housing loans

- Lending policy: tightening of lending standards; increase in credit spreads and non-interest loan costs.
- Demand for loans: a fall in demand for loans, discrepant responses from the survey participants.
- Expectations for the second quarter of 2012: lending policy to be tightened and a decrease in demand for loans.

Consumer loans

- Lending policy: tightening of lending standards; decrease in maximum loan size and extension of maximum loan maturity.
- Demand for loans: growth in demand for loans, largely discrepant responses from the survey participants.
- Expectations for the second quarter of 2012: lending policy to be tightened and a fall in demand for loans.

The banks tightened lending standards in all market segments, and the tightening was strongest for housing loans. The banks also raised spreads charged on corporate and housing loans.

Risk related to the expected general economic situation was the basic factor influencing the tightening of banks' lending policy. In the case of housing loans, implementing the new provisions of Recommendation S, and in the segment of consumer loans – changes in methods of calculating clients' creditworthiness had an additional impact.

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 banks, 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 banks' divisions other than the credit divisions. The survey was conducted at the turn of March and April 2012 **among 29 banks with a total share of 83% in claims on enterprises and households in the banking sector's portfolio.**

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 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 on 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 2012 as well as banks' expectations for the second quarter of 2012.

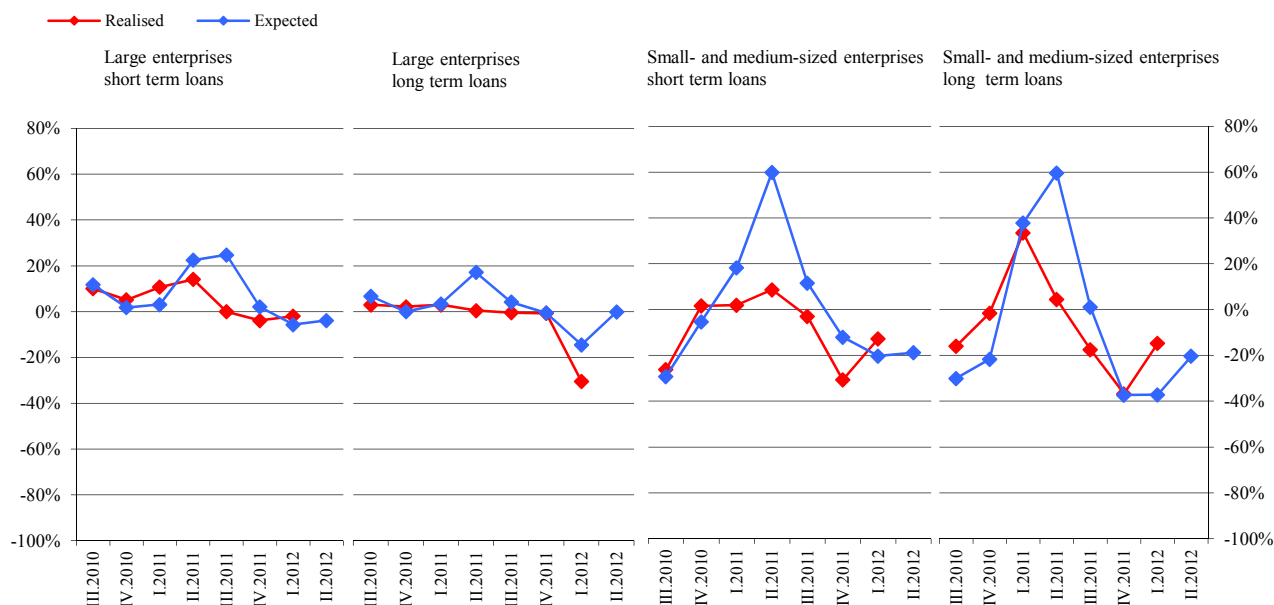
Corporate loans

In the first quarter of 2012, the strongest tightening concerned the standards of granting long-term loans to large enterprises (net percentage of around -30%, see Figure 1). Slightly less stronger tightening applied to loans to SMEs. In net terms, such a response was provided by around 15% of the banks in the case of long-term loans and around 13% – in the case of short-term loans, with the banks considering this tightening as insignificant.¹ Lending policy with regard to short-term loans to large enterprises did not change significantly.

The direction of changes in lending standards was in line with expectations the banks expressed at the end of the fourth quarter of 2011, although in the case of long-term loans, the banks reported a smaller scale of lending policy tightening.

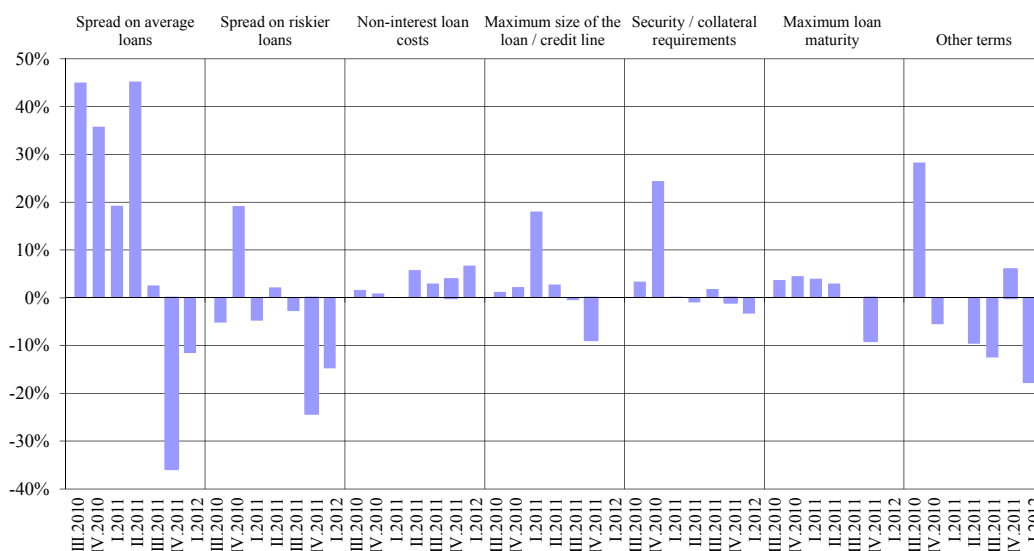
¹ The banks have a possibility of grading changes in the standards (terms) of granting loans. In this survey, the banks choose among the following options: standards (terms) were considerably tightened, standards (terms) were somewhat tightened, standards (terms) remained unchanged, standards (terms) 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 an easing of lending policy or growth in demand for loans, and a negative value of net percentage – as a tightening of lending policy or a fall in demand for loans. Details concerning the calculation methodology are presented in Appendix 1.

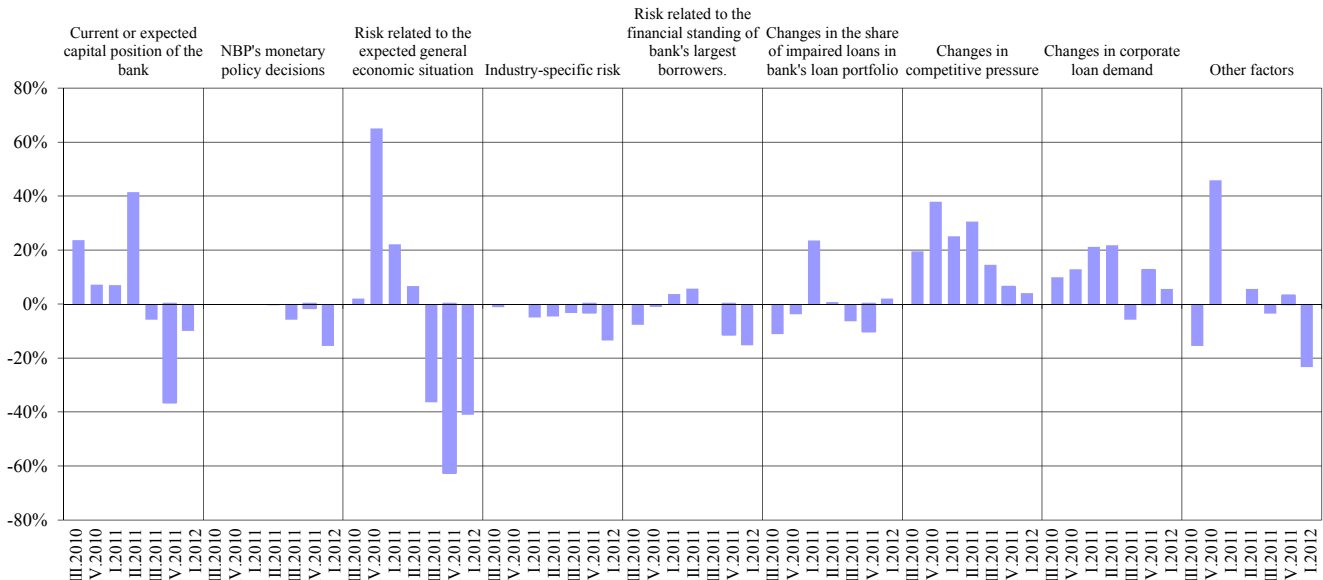
Figure 2
Terms on corporate loans



The percentage of the banks that raised spreads on loans to enterprises decreased as compared with the previous quarter (see Figure 2). Around 12% of the banks reported higher spreads, and in the case of spreads on riskier loans the percentage of responses was 15%. In parallel, around 18% of the banks tightened terms unac-

counted for in the survey, citing, inter alia, changes concerning verification of mortgage collateral value.² Other terms on granting loans to enterprises were not changed significantly.

Figure 3
Factors influencing changes in lending policies



According to the survey participating banks, risk related to the expected general economic situation remains the major factor behind tightening of lending policy towards enterprises (net percentage -41%, see Figure 3). Nearly one third of the banks indicated factors unaccounted for in the survey, listing primarily supervisory measures by the Polish Financial Supervision Authority (a portion of the banks considered the influence of this factor as considerable³). The NBP monetary policy decisions (net percentage of around -16%), risk related to the financial standing of the largest borrowers (net percentage of around -15%) and industry-specific risk (net percentage of around -14%) were identified by individual banks as reasons behind their decisions to tighten lending policy. The banks say that the fuel, steel and wood industries, the construction sector that covers infrastructure construction and housing construction, as well as sub-suppliers for this industry are all characterised by elevated risk. The banks did not identify significant factors that would justify the easing of lending policy towards enterprises.

In the first quarter of 2012, the surveyed banks reported increased demand for loans only in the segment of short-term loans to SMEs (see Figure 4). In net terms, such a response was provided by around 39% of the banks, whereas one fourth of them termed the increase as considerable.⁴

² 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, they were presented under the category "Other terms" in Figure 2.

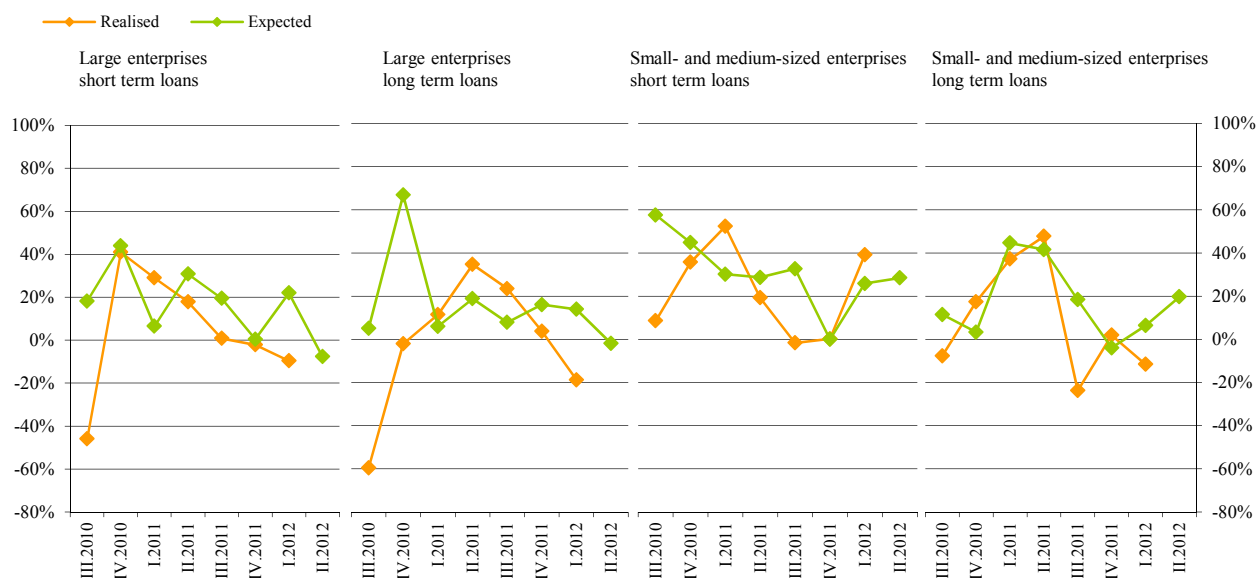
³ The banks have a possibility of grading the strength of the influence of specific factors on changes in lending policy. In this survey, the banks choose among the following options: considerable influence on a tightening of lending policy, slight influence on a tightening of lending policy, no influence on the change in lending policy, slight influence on an easing of lending policy, considerable influence on an easing of lending policy.

⁴ 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 change in demand, slight decrease in demand and considerable decrease in demand.

According to the banks, demand for long-term loans, especially from large enterprises, recorded the largest fall (net percentage of around -19%). In the segment of SMEs, a declining demand for long-term loans was reported by around 12% of the banks, however the responses were very discrepant.

At the end of the fourth quarter of 2011, the banks expected demand to grow in all corporate credit categories.

Figure 4
Corporate loan demand



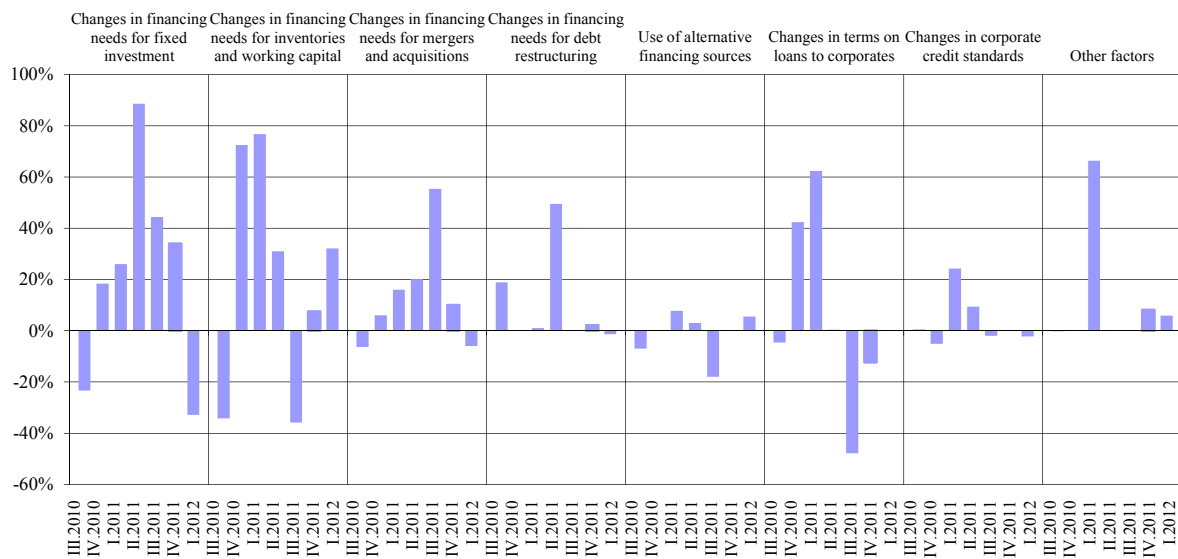
After five quarters of growth, the banks were hit by a decline in financing needs for fixed investment (see Figure 5). Such a response was provided by one third of the banks and they considered the impact of this factor on corporate loan demand as slight.⁵ The banks that had experienced a rise of demand for loans explained it by increased financing needs for inventories and working capital (net percentage of around 32%). Other factors had no considerable impact on corporate loan demand.

In the second quarter of 2012, the banks expect to tighten lending policy in the segment of loans to SMEs (see Figure 1). Both in the case of long- and short-term loans, such a response was given by around 20% of the banks. According to the survey respondents, lending policy towards large enterprises will not change significantly.

The banks expect demand for loans from SMEs to rise in the second quarter of 2012 (see Figure 4), both in the case of short-term loans (net percentage of around 28%) and long-term loans (net percentage of around 20%). The majority of the banks do not expect demand for loans from large enterprises to change.

⁵ 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.

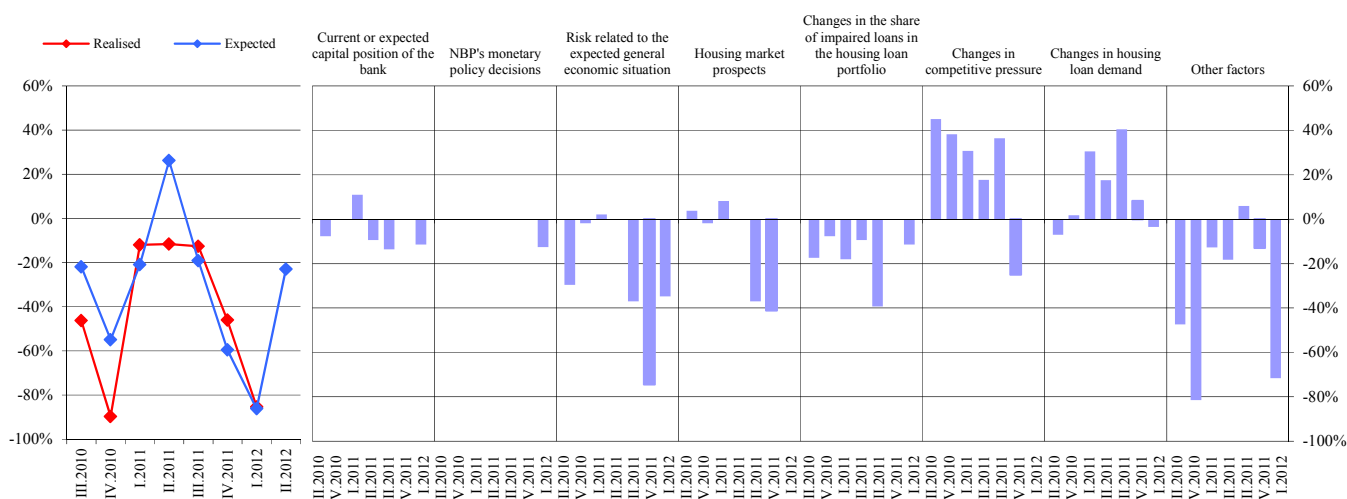
Figure 5
Factors influencing changes in corporate loan demand



Housing loans

In line with expectations expressed at the end of the previous quarter, a firm majority of the banks tightened lending policy in the segment of housing loans in the first quarter of 2012 (net percentage of around -85%, see Figure 6). Among these banks, around 42% termed the tightening as considerable.

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

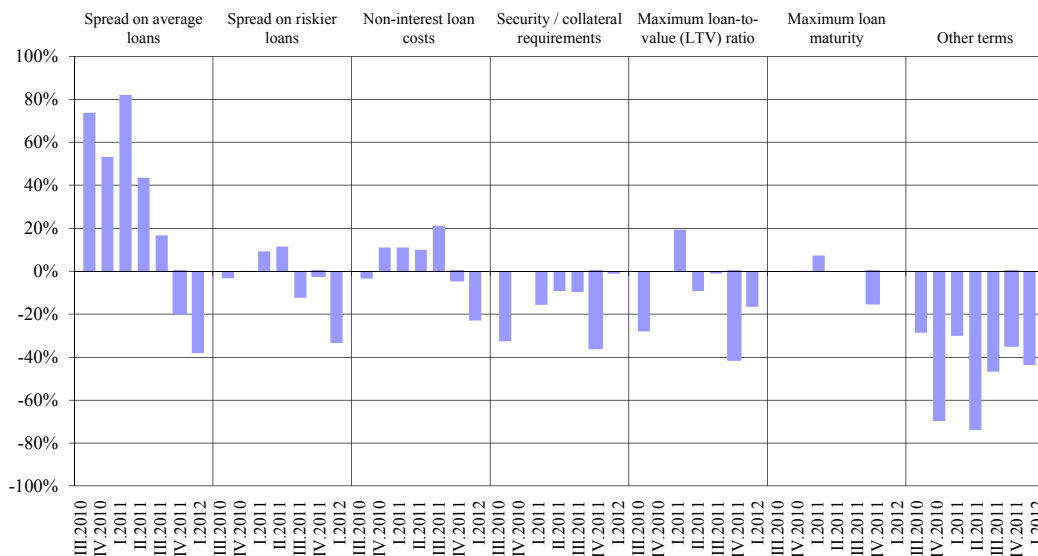


The tightening of the terms of granting housing loans in the first quarter of 2012 applied primarily to loan costs (see Figure 7). The surveyed banks raised spreads charged on loans total (net percentage of around -38%) and on riskier loans (net percentage of around -33%). At the same time, non-interest loan costs were also tightened (net percentage of around -23%). Around 44% of the banks tightened the terms unaccounted for in the survey, mentioning primarily changes in the rules of creditworthiness calculation related to the implementation of the new provisions of Recommendation S.⁶ Individual banks increased the collateral requirements (net percentage of around -17%). In net terms, the surveyed banks eased no term on housing loans in the first quarter of 2012.

The banks explained the tightening of lending policy in the segment of housing loans mainly by factors unaccounted for in the survey, indicating primarily the need to implement the new provisions of Recommendation S (net percentage of around -72%, see Figure 6). Over half of the banks that provided such a response considered the influence of this factor as considerable. Compared with the previous quarter, the percentage of the banks indicating risk related to the expected general economic situation decreased (net percentage of around -35%). Other factors influencing lending policy indicated by the banks also included the NBP monetary policy decisions (net percentage of around -13%), own current and expected capital position and changes in the quality of housing loan portfolio (in both cases, the net percentage of the responses was around -12%).

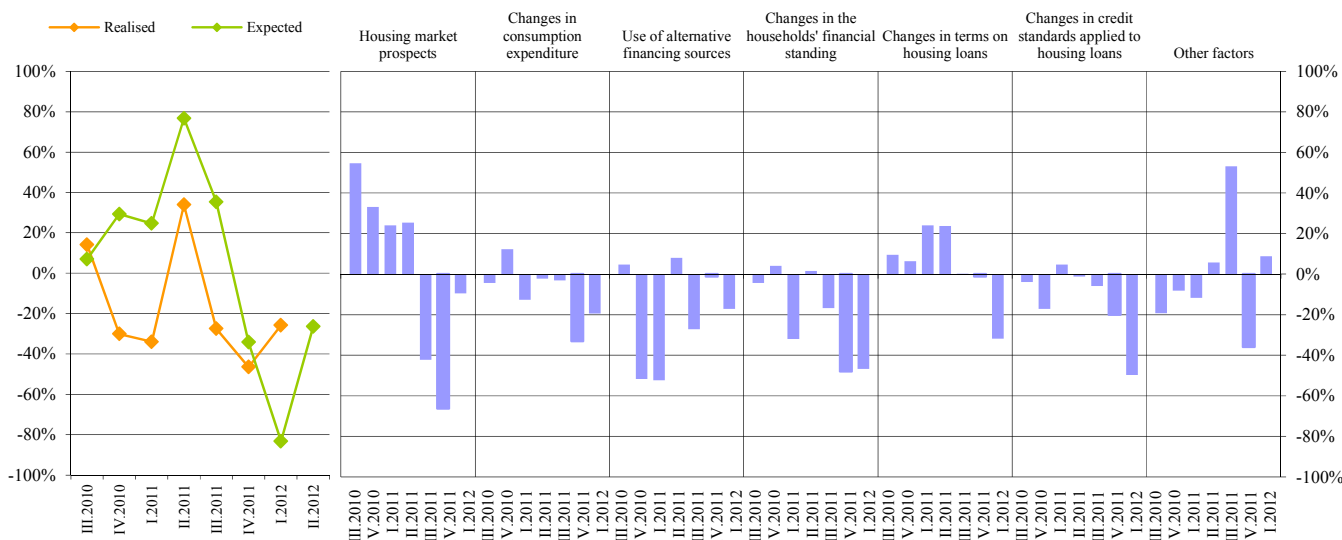
⁶ According to the definition used in this survey, the examples of lending policy tightening, cited by the banks, relate to the standards of granting loans. Due to their incorrect classification by the banks, they were presented under the category “Other terms” in Figure 7.

Figure 7
Terms on housing loans



In net terms, over one fourth of the banks were hit by the decline in demand for housing loans in the first quarter of 2012 (see Figure 8). Almost half of the banks that provided such a response termed the decrease considerable. However, the responses were very discrepant: as many as around 28% of *all* banks reported a rise in demand for housing loans. At the end of the previous quarter, the banks participating in the survey expected a sharper decrease in demand.

Figure 8
Demand for housing loans and factors influencing its changes



According to the banks, the lower demand for housing loans resulted from a tighter lending policy and the deterioration in the financial standing of households. The tightening of the standards and the terms of granting housing loans was indicated by 50% and 32% of the banks, respectively. On the other hand, changes in the financial standing of households were mentioned by around 47% of the banks. Changes in consumer spending (net percentage of around -19%) and the use of alternative sources of financing (net percentage of around -17%), including exclusively loans from other banks, were cited by individual banks as reasons supporting the decrease in demand. Compared with previous quarters, there was a considerable decrease in the percentage of the banks indicating housing market prospects (net percentage of around -9%).

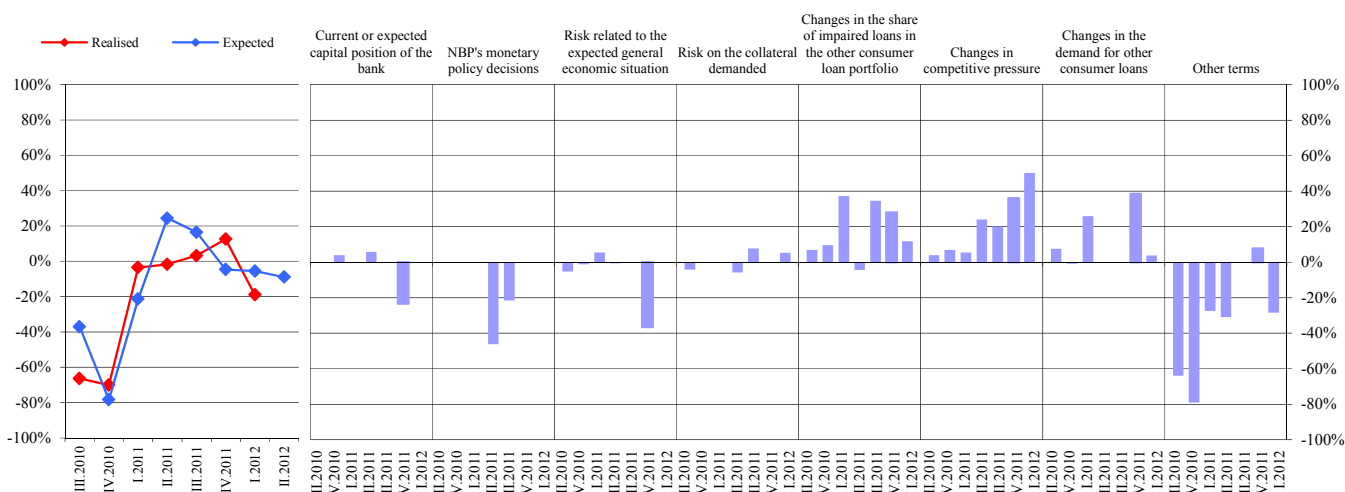
Almost one fourth of the banks expect lending policy concerning housing loans to be tightened further in the second quarter of 2012 (see Figure 6). In parallel, around 62% of *all* banks do not expect changes in this respect.

Banks' expectations suggest that demand for housing loans will decrease further in the forthcoming quarter (net percentage of around -27%, see Figure 8). One fourth of the banks that provided such an answer described the expected fall as considerable.

Consumer loans

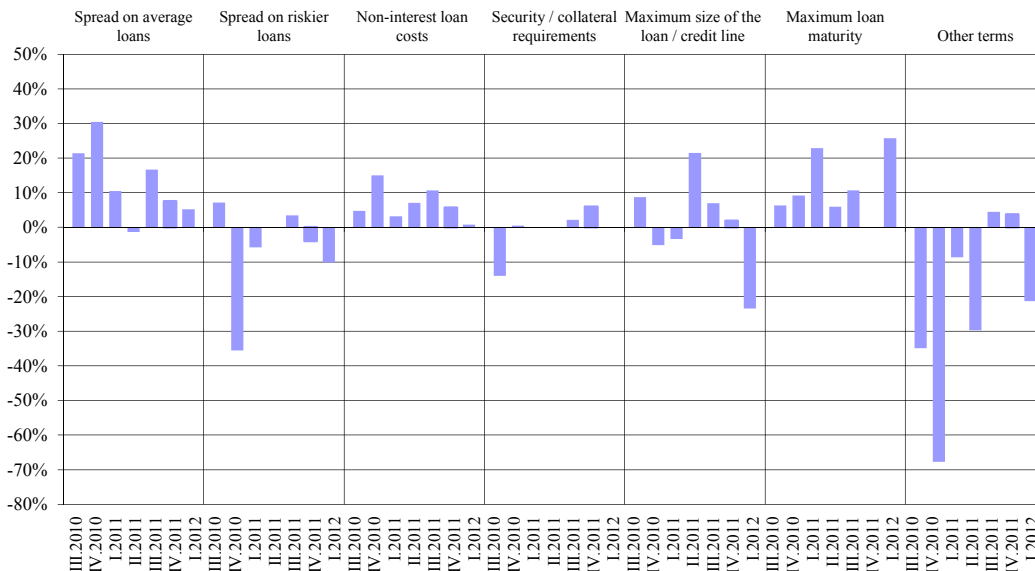
In the first quarter of 2012, the survey participants tightened the standards of granting consumer loans (net percentage of around -19%, see Figure 9). In the previous edition of the survey, the banks expected lending policy to be tightened to a lesser extent.

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



The majority of the terms on consumer loans were not changed significantly in the first quarter of 2012 (see Figure 10). The banks extended only maximum maturity of this type of loans (net percentage of around 26%), at the same time lowering maximum loan size (net percentage of around -23%).

Figure 10
Terms on consumer loans



The banks that had tightened their lending policies attributed this action exclusively to factors unaccounted for in the survey (net percentage of around -29%, see Figure 9). These factors included, inter alia, changes in creditworthiness assessment models, implementation of recommendations arising from examinations carried out by the Polish Financial Supervision Authority as well as an increase in household expenses.

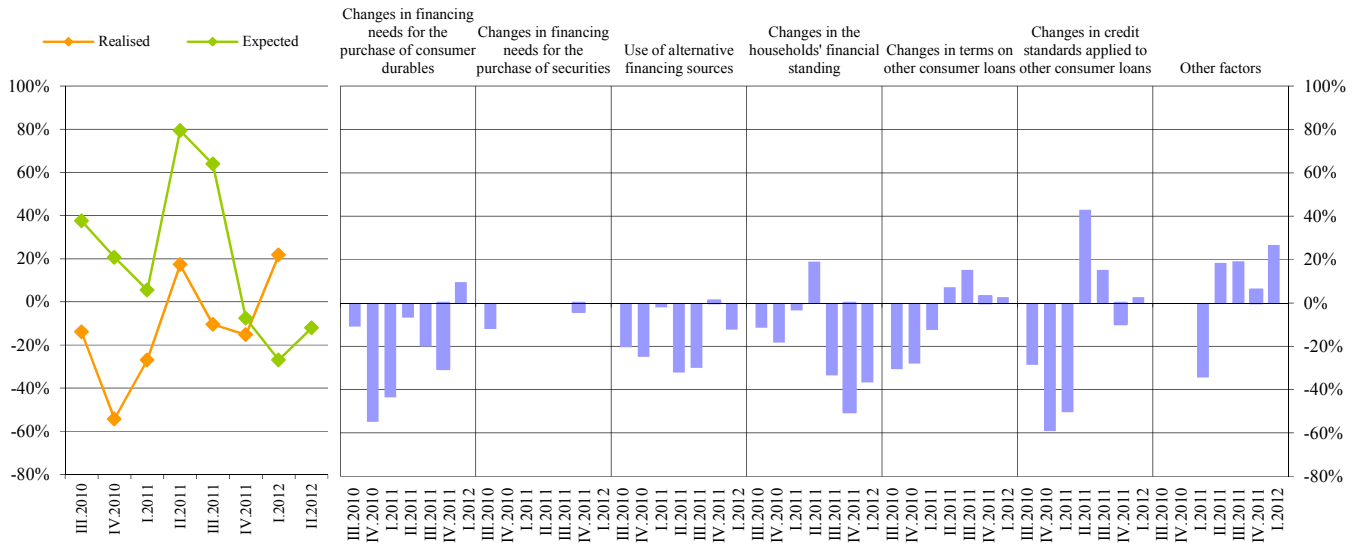
Over half of the banks indicated that heightened competitive pressure had contributed to the easing of lending policy. The banks indicated both competition from other banks (such a response was provided by around 62% of *all* banks) and non-bank financial institutions (around 39% of *all* banks). Changes in the quality of consumer loan portfolio (net percentage of around 12%) were the other significant factor behind the easing of lending policy.

In the first quarter of 2012, the banks reported an increase in demand for consumer loans (see Figure 11). In net terms, this response was given by around 22% of the surveyed banks; however these responses were very discrepant (over one fourth of *all* banks reported a falling demand, with the majority of these banks considering it as considerable). At the end of the fourth quarter of 2011, the banks expected demand for consumer loans to fall.

According to the banks, the growth in demand for consumer loans was primarily driven by factors unaccounted for in the survey (net percentage of around 27%, see Figure 11), i.e. changes in the range of products offered to the clients, marketing activity and seasonal factors. Over 40% of the banks that responded in this way assessed the impact of these factors as considerable. For the first time since the second quarter of 2010, the banks had reported higher financing needs for the purchase of consumer durables (net percentage of around 10%).

The banks hit by the fall in demand mostly pointed to the deterioration in the financial standing of households (net percentage of around -37%). According to the banks, the use of alternative sources of financing was also a significant factor (net percentage of around -12%) – these included only loans extended by other banks (around 34% of *all* banks termed the impact of this factor as considerable).

Figure 11
Demand for consumer loans and factors influencing its changes



The banks expect the standards of granting consumer loans to be slightly tightened further in the second quarter of 2012 (net percentage of around -9%, see Figure 9). Three fourths of *all* banks do not expect changes in this respect.

The banks participating in the survey expect demand for consumer loans to fall slightly (net percentage of around -12%, see Figure 11), however almost half of *all* banks expect no changes in demand for this form of financing.

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 loans to small and medium enterprises	Loans outstanding from small and medium enterprises with the basic term to maturity of up to one year, together with the outstanding on the current account
1, 4, 6, 7	Short-term loans to large enterprises	Loans outstanding from large enterprises with the basic term to maturity of up to one year, together with the outstanding on the current account
1, 4, 6, 7	Long-term loans to small and medium enterprises	Loans outstanding from small and medium enterprises with the basic term to maturity above 1 year
1, 4, 6, 7	Long-term loans to large enterprises	Loans outstanding from large enterprises 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.

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.

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 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 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.

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..