



Senior loan officer opinion survey

on bank lending practices
and credit conditions

3rd quarter 2007

Summary of the survey results

- **Lending policy:** In the second quarter of 2007, the banks slightly eased the terms and standards of granting loans for small and medium-sized enterprises (SMEs). The lending policy towards large enterprises was not changed significantly. In the segment of consumer and housing loans for households the lending policy was slightly eased.
- **Reasons for changes in lending policy:** the most important reasons for the changes in the lending policy towards enterprises were a competitive pressure of other banks and a strong increase in demand for loans. The impact of the assessment of the future economic condition and the situation on the housing market on the lending policy in the segment of housing loans is ambiguous. According to some banks it can be a rationale for tightening the lending policy in the segment of housing loans for households. In the segment of consumer loans a sustained strong competitive pressure still induces some banks to ease their lending policy.
- **Demand for corporate loans:** demand for long-term loans increased very strongly, especially in the large enterprises sector, where the scale of demand growth exceeded expectations. The growth in demand for short-term loans was strong.
- **Reasons for the change in demand for corporate loans:** the banks indicated that demand had been growing chiefly due to the increased need for investment, inventories and working capital financing as well as the importance of mergers and acquisitions as a source of demand for loans.
- **Demand for household loans:** demand for housing loans increased very strongly. The net demand for consumer loans decreased for the second time in turn, but the changes in demand noted by individual banks were discrepant.
- **Reasons for the change in demand for household loans:** the main reason for the changes in the demand for housing loans are the forecasts of the situation on the housing market. The increase in wages and salaries and the change in the structure of households' expenses contribute to the growth of demand. In the segment of consumer loans the drop in demand was most probably a symptom of a falling share of one of the largest banks in the very competitive market. According to some banks an improvement in the economic standing of households was a significant factor in the growth of demand in this segment.
- **Expected changes in lending policy:** the banks project a very strong easing of lending policy in the SME sector and a fairly strong easing in the corporate sector. Also in the sector of households the noticeable easing of lending policy is expected. In the case of consumer loans the expectations of easing the lending policy are stronger than in the segment of housing loans.
- **Expected changes in demand for loans:** the banks project a very strong increase in demand in the corporate sector. It is still to be higher in the case of long-term loans than short-term loans. In the sector of households a considerable rise in demand for consumer loans is also expected. The banks project a slight increase in demand for housing loans.

Results of the survey - overview

The survey is addressed to chairpersons of banks' credit committees. Bank's response may not take into account the opinion of the bank's other divisions than the credit division. The survey was conducted at the turn of June and July 2007 among 24 banks, whose total share of claims on enterprises and households in the total banking portfolio amounts to 79.2%.

The aggregation of the data behind the results consisted in the calculation of weighted percentages of responses and the net percentage, i.e. the difference between the structures presenting opposite trends. In line with the adopted methodology, words describing quantities (majority, half, meaningful, significant percentage of the banks, etc.) refer to the weighted percentages and not to the number of the banks. Thus, the phrase "the majority of the banks" should be understood as "the asset-weighted majority of the banks". Details concerning the calculation methodology are presented in the Appendix.

The following section presents tendencies regarding the banks' lending policy and changes in demand in the second quarter of 2007, as well as the banks' expectations for the third quarter of 2007.

Enterprises

In the second quarter of 2007 the banks slightly eased their lending policy towards the corporate sector. It was slightly stronger in the segment of small and medium-sized enterprises (SME) than in the segment of large enterprises. These changes are consistent with the banks' expectations expressed in the first quarter of 2007 except for the segment of short-term loans for large enterprises. The trend towards stabilisation of the lending policy towards enterprises is continued (cf. Figure 1).

The majority of the banks (ca. 70%) anticipate further easing of lending policy towards the sector of small and medium-sized enterprises in the third quarter of 2007. (cf. Figure 1). This group of banks includes, first of all, large universal banks. The expectations of easing the lending policy in the segment of loans for small and medium-sized enterprises have been the most optimistic since the beginning of the survey (the fourth quarter of 2003). **Approximately one third of the banks expect the easing of lending policy in the corporate segment in the third quarter.** It has been the highest net percentage in this category for six quarters. These results may reflect the conviction of banks' credit committees that the financial standing of enterprises, in particular in the SME segment, has permanently improved.

The banks which eased their lending policy most frequently cut their loan spreads. To a smaller extent also the extension of loan maturity and the lessening of collateral requirements have been observed. One of the banks indicated the easing of the system of credit applications and competences to approve granting loans as well as the standardisation of the offer of financing the purchase of real estates by enterprises as the symptoms of easing their lending policy. Similarly as in the previous quarter several banks tightened their lending policy towards more risky borrowers, increasing spreads on the loans granted to them (cf. Figure 2).

Figure 1
Corporate credit standards

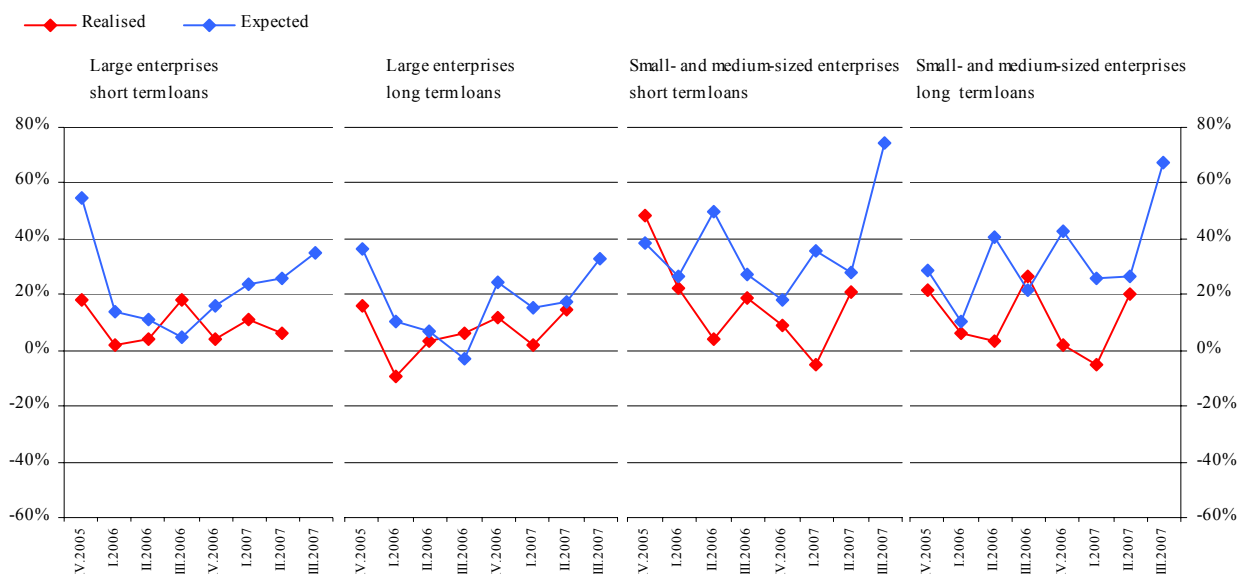
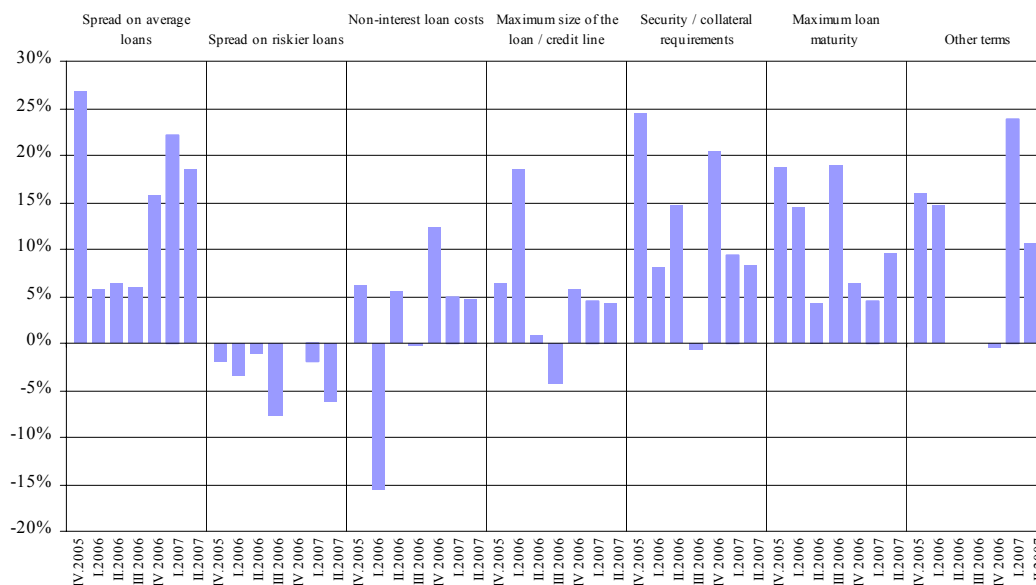


Figure 2
Terms on corporate loans

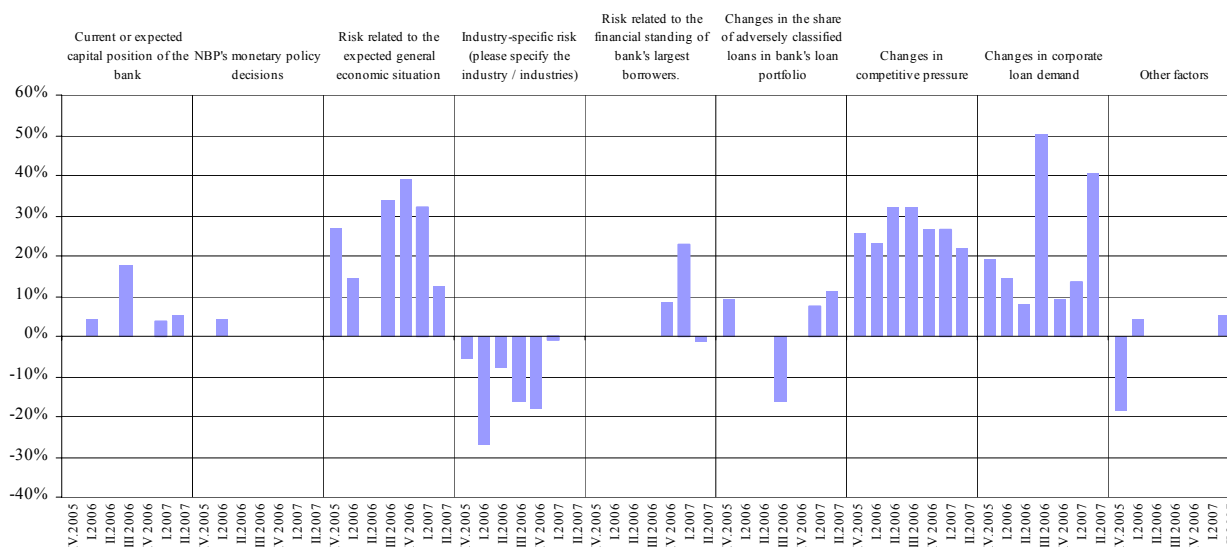


The key reason for easing the lending policy towards enterprises was a strong competitive pressure of other banks. Some banks stated that the growth in the demand for loans¹ was the reason for easing their lending policy (cf. Figure 3). It may indicate that during economic upturn and a strong demand growth these banks try to increase their market share and attract new corporate customers so that they have a broad customer base in the future. Other banks explained that the reasons for the easing of lending policy were a good capital condition and low

¹ Two out of the three banks which justified the easing of lending policy with the recorded changes in the demand for loans also noted the rise in the demand for corporate loans. The third of these banks did not record any changes in the demand.

level of classified loans. According to some banks the economic prospects still justify the easing of lending policy towards enterprises. However, this assessment is not unanimous as one of the small banks indicated this factor as the rationale for tightening the lending policy. The deterioration of the standing of the largest borrowers was the reason for tightening of lending policy by this bank.

Figure 3
Factors influencing changes in lending policies



The trend of the growth in demand for corporate loans, prevailing for a year, has been sustained. The growth in demand is significantly faster in the sector of large enterprises, where half of the banks recorded the growth in demand for short-term loans and nearly 80% of the banks noted the growth in demand for long-term loans. In the small and medium-sized enterprises segment the net percentage amounted to over one third and around a half, respectively. The rate of changes in the demand for loans for large enterprises, arising from current good economic climate, again exceeded the banks' expectations measured with the net percentage of banks expecting the growth in demand. The increase in demand for loans is more notable in the case of long-term loans than short-term loans (cf. Figure 4). Strong competitive pressure in the corporate loan market could have contributed to the fact that one of the banks declared the decrease in the recorded demand in the segment of short-term loans and long-term loans for large enterprises. In the second quarter of 2007, a relatively small scale of changes in the lending policy in the context of marked growth in demand and strong competition confirms that part of banks have exhausted the capacity to further increase their market share through easing of the lending policy.

In the third quarter of 2007, the banks project further growth in the demand for corporate loans. The growth rate will reach a similar scale in the segment of loans for large enterprises and SMEs, which would indicate a substantial acceleration of the pace of growth in the loans for SMEs (cf. Figure 4). The banks still expect a faster increase in long-term loans than short-term loans.

Figure 4
Corporate loan demand

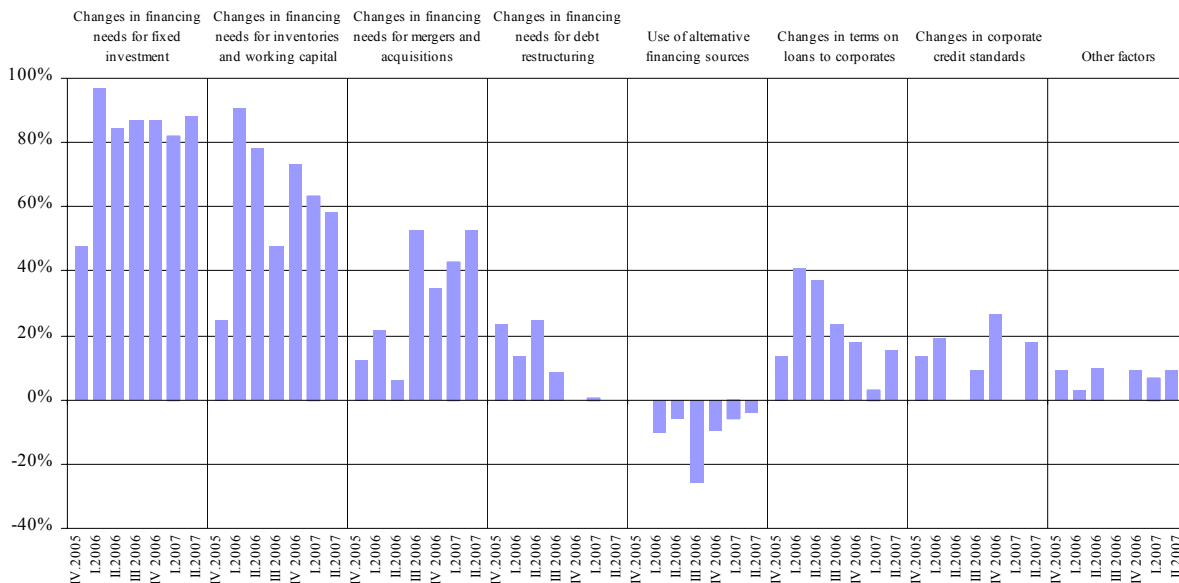


In line with 2006, in the second quarter of 2007, the growth in demand for corporate loans was mostly due to the strong increase in demand for the financing of fixed investment. The importance of the rise in demand for the financing of inventories and working capital slightly dropped in the first half-year of 2007. Concurrently, the importance of financing the activity of enterprises in mergers and acquisitions increased. These factors are related to very good economic conditions, which encourage the enterprises to broaden the scope of their operations and expand their customer base. At the same time high corporate profits can limit the demand for the external financing of current operations. The net percentage values confirm that demand for long-term (investment) loans grows faster than demand for short-term loans.

The impact of easing of the terms and standards of granting corporate loans on the demand for loans increased as compared to the first quarter of 2007, remaining, however, at a relatively low level (cf. Figure 5). According to the banks the availability of loans at other banks, differently from the previous quarters, did not constitute a factor hampering the growth in demand for the loans offered by a given bank in the second quarter of 2007. It may suggest that the period of the highest intensity of competition in the segment of corporate loans is gradually coming to an end. One of the one-off factors which, according to one of large banks, were conducive to the growth in demand was the change in the principles of granting preferential loans subsidised by the Agency for Restructuring and Modernisation of Agriculture.

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

Figure 5
Factors influencing changes in corporate loan demand



Households

In spite of the banks' expectations, expressed in the first quarter of 2007, that in the second quarter the lending policy would be strongly eased in the segment of housing loans for households, the **lending policy was further stabilised in this segment**. Over 85% of the banks did not change their lending policy in this segment. One bank tightened the terms and standards of granting housing loans, and 4 banks eased them. As in the previous quarter, approximately **one third of the banks expect further easing of the lending policy in the segment of housing loans** within a quarter (cf. Figure 6).

The terms and standards of granting housing loans were slightly eased in the second quarter of 2007. The trend to increase the requirements with regard to loan-to-value ratio in the housing investment was sustained, however, it was compensated with the drop in interest and non-interest costs of a loan (cf. Figure 7). One of the banks eased the terms and standards of granting housing loans to foreign investors, increasing the permissible level of LTV ratio. Another bank limited this ratio in the case of persons financing more than one property with a loan.

The banks which eased their lending policy in the segment of housing loans in the second quarter of 2007 indicated **competitive pressure of other banks** as the **main reason** for such an action. One of the banks indicated, however, that the changes in competitive pressure in the banking sector gave grounds for the tightening of lending policy. The banks were also inclined to ease terms and standards of granting housing loans due to the increase in demand for housing loans² (cf. Figure 6). Hence it should be noted that, differently from 2006 and the first quarter of 2007, the assessment of the relations between the housing market condition, competition on the housing loans market and the lending policy is significantly polarised. This indicates **growing uncertainty as to the future changes in the segment of housing loans**. More banks tend to support the view, expressed also in the answers to additional questions, that a correction of residential property prices is likely³. Concurrently, a large part of banks

² This reason was indicated by two banks which concurrently noted the growth in demand for housing loans.

³ Two banks which tightened their terms or standards of granting loans justified such a decision with a growing risk of economic slow down and deteriorating prospects of the development of housing market condition. One of these banks also indicated such symptoms in the previous quarter.

think that there are reasons for the further easing of lending policy and expects its easing in the third quarter of 2007.

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

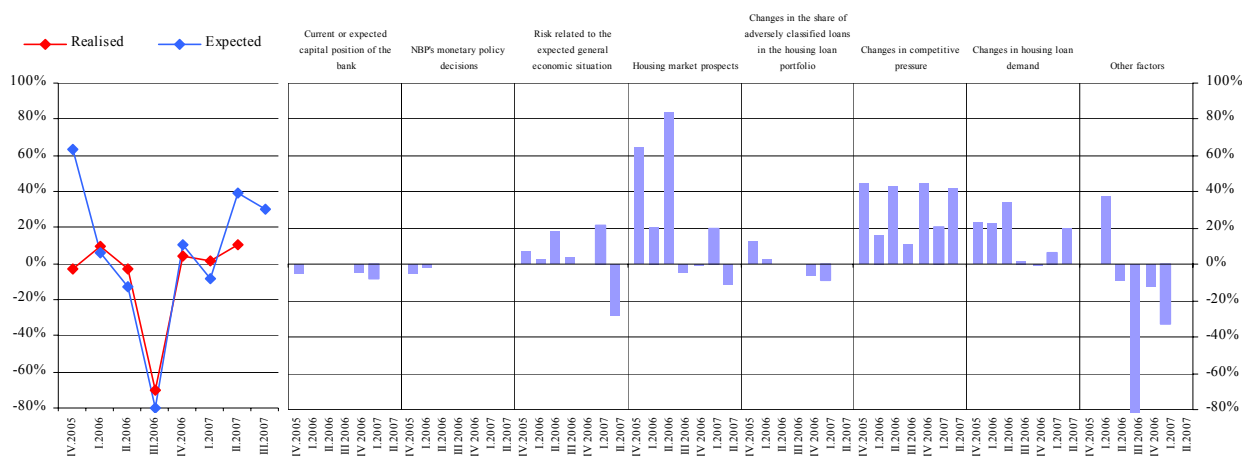
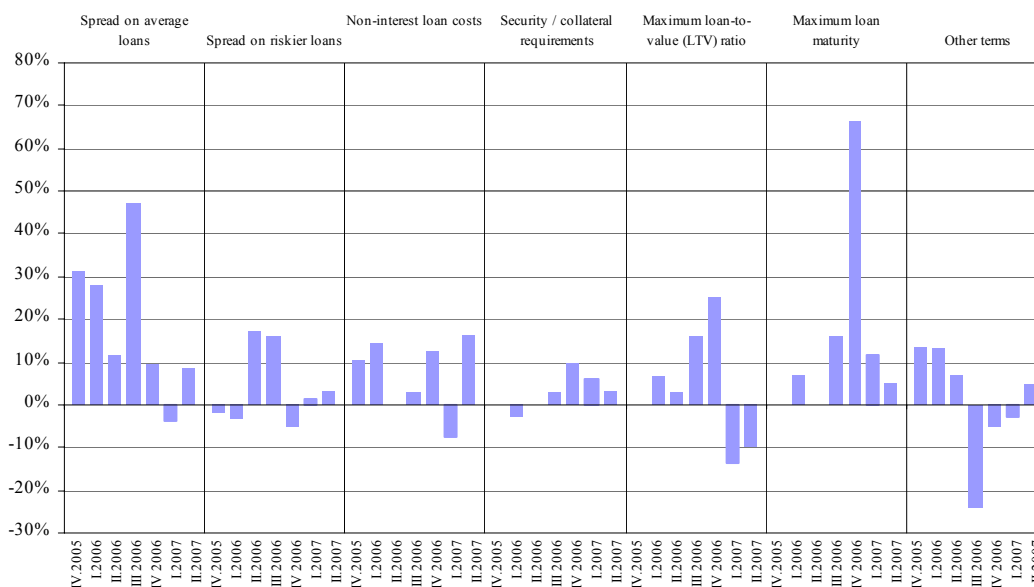


Figure 7
Terms of housing loans



The lending policy in the segment of consumer loans for households was slightly eased. Nearly one fourth of the banks (first of all the banks with a small market share) eased the terms and standards of granting consumer loans, while one medium-sized bank tightened them. **Relatively strong expectations of the further easing of lending policy within one quarter are sustained** (cf. Figure 8). More than half of the banks declare that they expect easing of the terms and standards of granting such loans. Two banks expect tightening the lending policy in this segment.

The decisions of individual banks on the terms and standards of granting consumer loans for households were somewhat discrepant. In each category in which the banks declared changing the terms and standards of lending at least one bank eased and at least one bank tightened the lending policy. Ca. 20% of banks decided to

extend the loan maturity, of which one bank regarded the implemented changes as significant easing of the lending policy. Ca. 10% of banks decreased and 10% of banks increased the maximum size of consumer loans (cf. Figure 9). The changes of other terms and standards of granting consumer loans were related to the decrease in income requirements and the change in the credit scoring system parameters which enable to single out more effectively a group of the most reliable applicants.

According to the banks which **eased the terms and standards of granting consumer loans the main reason for that was the competitive pressure** of other banks. The examined banks indicated also that the noted changes in demand give grounds for easing the lending policy. According to one of the large banks the deteriorating quality of loan portfolio was the reason for tightening the standards and some terms of consumer loans (cf. Figure 8).

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

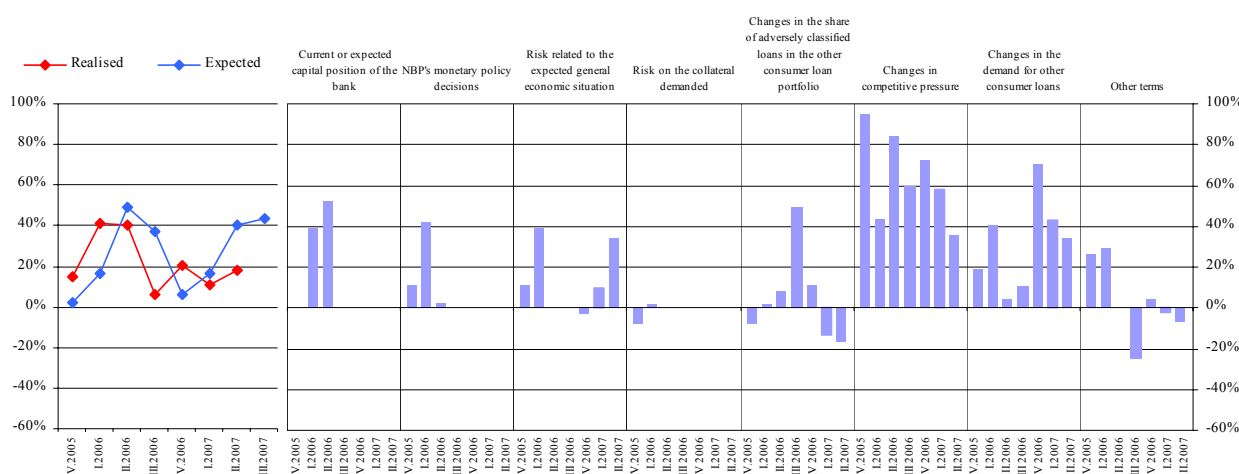
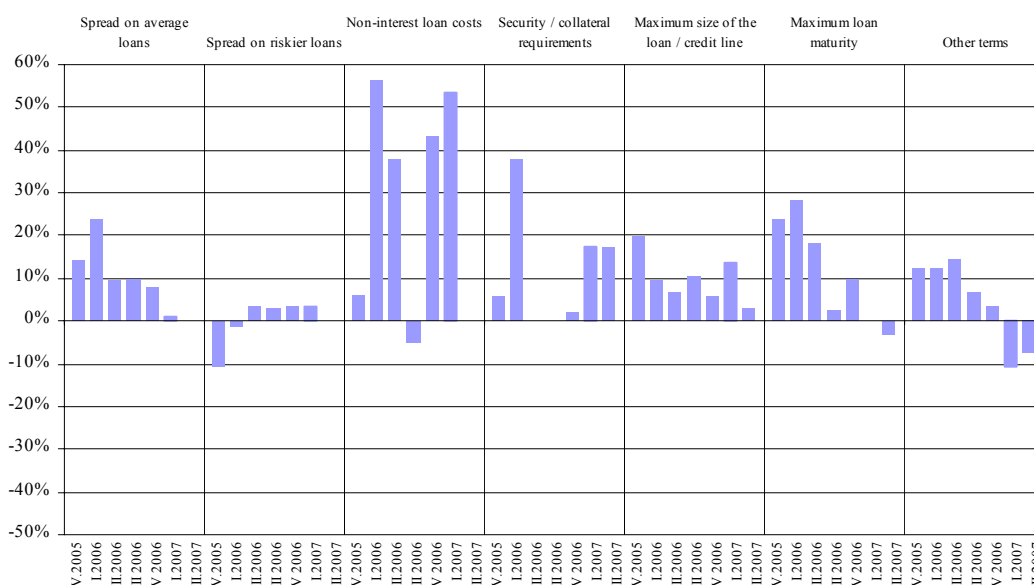


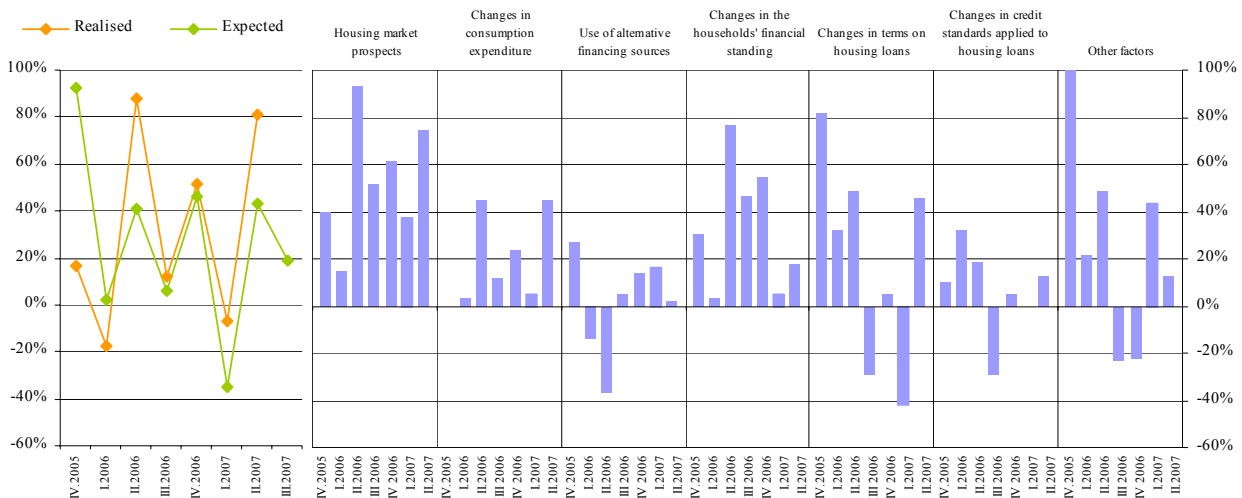
Figure 9
Terms on consumer loans



The banks assessed that **in the second quarter of 2007 a very strong demand for housing loans was recorded**. Over 80% of banks noted the rise in demand and 45% of banks assessed this growth as considerable⁴. The scale of growth in the demand for housing loans was clearly higher than the expectations as at the end of the first quarter (cf. Figure 10). The value of net percentage has reached the highest level since the second quarter of 2006, in which the growth in demand had been preceded by the implementation of *Recommendation S* tightening some standards of granting foreign currency housing loans. It cannot, however, be excluded that in spite of the enquiry in the survey about the seasonally adjusted demand the noted rise in demand may be partially seasonal. Since the survey was first conducted the highest growth in demand for housing loans over a year has always been recorded in the second quarter of each year.

According to the banks, the growth in demand was, first of all, impacted by the forecasts of future trends on the housing market. Three fourths of the banks indicated it was the reason for the growth in demand, out of which over 40% of banks stated that it had a considerable impact on the growth in demand. Nearly half of the banks indicated the changes in the consumer expenses of households and the easing of the terms and standards of granting housing loans as the reasons for the growth in demand. This result is surprising as in the previous half-year the terms and standards of granting housing loans were only slightly eased. The utilisation of the sources of financing alternative to the bank's loan, including the loans obtained at other banks, were assessed as neutral for the demand for loans (cf. Figure 10).

Figure 10
Demand for housing loans and factors influencing its change



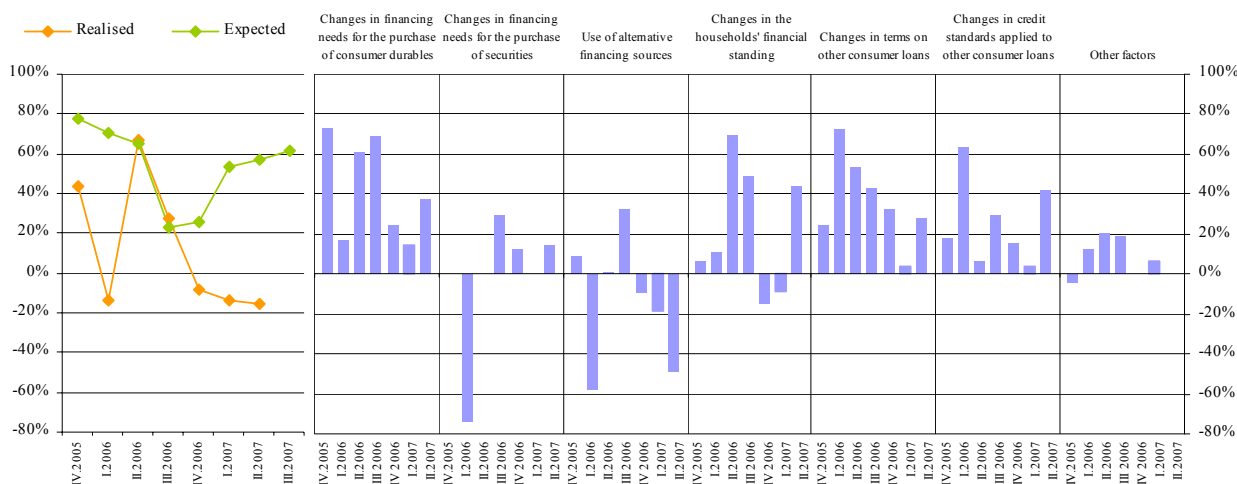
In the second quarter of 2007, the banks expect a slight increase in demand for housing loans (cf. Figure 10). Provided that the housing prices in metropolitan areas remain stable, a sustained strong increase in wages and salaries, additionally stimulated by the decrease in the disability pension contribution since 1 July 2007, could be the source of growth in demand.

⁴ Banks have a possibility to grade the changes in demand. In the survey they can select from among the following options: demand will increase considerably, demand will increase somewhat, demand will remain unchanged, demand will ease somewhat, demand will ease considerably, difficult to say. A corresponding possibility of grading occurs in the case of assessing the impact of individual factors on the changes in demand.

In the segment of consumer loans the banks noted a drop in the net demand resulting, first of all, from the sustained drop in demand for the loans offered by one of the large banks. Concurrently, four banks recorded the rise in demand. **Approximately 60% of the banks expect the growth in demand for consumer loans in the third quarter of 2007** (cf. Figure 11)

According to the banks which recorded the rise in demand for consumer loans in the second quarter of 2007, its key reasons were the improvement in the economic condition of households, growing demand for financing the purchase of durable goods as well as the decrease in the terms and standards of granting consumer loans. The banks which recorded the decrease in demand justified it, in the first turn, with the competition of other banks which, in the opinion of one of the large banks, contributed to a substantial drop in demand for loans noted by this bank. The increase in household savings also contributed to the decrease in the demand for consumer loans (cf. Figure 11).

Figure 11
Demand for consumer loans and factors influencing its change



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.