Senior loan officer opinion survey

on bank lending practices and credit conditions

3rd quarter 2009

Warsaw, July 2009

Summary of the survey results

Supply factors were primarily responsible for a slowdown in the lending growth in the second quarter of 2009. The banks tightened the standards of granting all types of loans, raised loan spreads and increased collateral requirements. However, the scale of lending policy tightening was smaller than in previous quarters. Changes in credit policies resulted from adjustments to the deteriorating current economic situation and its projected future developments. Banks' capital constraints played a much less significant role than in the previous two quarters. The banks recorded an increase in demand for most types of credit, however due to limited competition in the credit market they could keep restrictions in lending standards and terms.

Corporate loans

- Lending policy: in the second quarter of 2009, the tightening of standards of granting loans to small- and medium-sized enterprises (net percentage: 65-70%) was stronger than in the case of large enterprises (net percentage: 31-48%). One third of the banks raised their loan spreads.
- Demand for loans: demand for short-term loans rose. In the case of long-term loans, demand from large enterprises increased, whereas in the case of small- and medium-sized enterprises it remained unchanged.
- Expectations for the third quarter of 2009: the banks expect lending policy towards enterprises to be further tightened. Demand for short-term loans is expected to increase, whereas demand for long-term loans – to decrease.

Housing loans

- Lending policy: around 40% of the banks tightened their standards of granting loans. The terms of granting loans were slightly tightened.
- Demand for loans: assessment of changes in demand was discrepant. In aggregated terms, a slight increase in demand occurred.
- Expectations for the third quarter of 2009: the banks expect lending policy to be slightly tightened again. Demand for loans is expected to grow.

Consumer loans

- Lending policy: 80% of the banks tightened the standards of granting loans. The terms of granting loans were somewhat tightened.
- Demand for loans: the banks reported a slight increase in demand.
- Expectations for the third quarter of 2009: the banks foresee a further tightening of lending policy and expect demand for consumer loans to increase markedly.

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 that the borrower is required to meet in order to obtain a loan, which are set by the bank. The terms of granting loans represent the features of the loan agreement agreed by the bank and the borrower, including spread, non-interest loan costs, maximum loan, 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 June and July 2009 **among 30 banks with a total share of claims on enterprises and households in the banking sector portfolio of 83.9%**.

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 second quarter of 2009, as well as the banks' expectations for the third quarter of 2009.

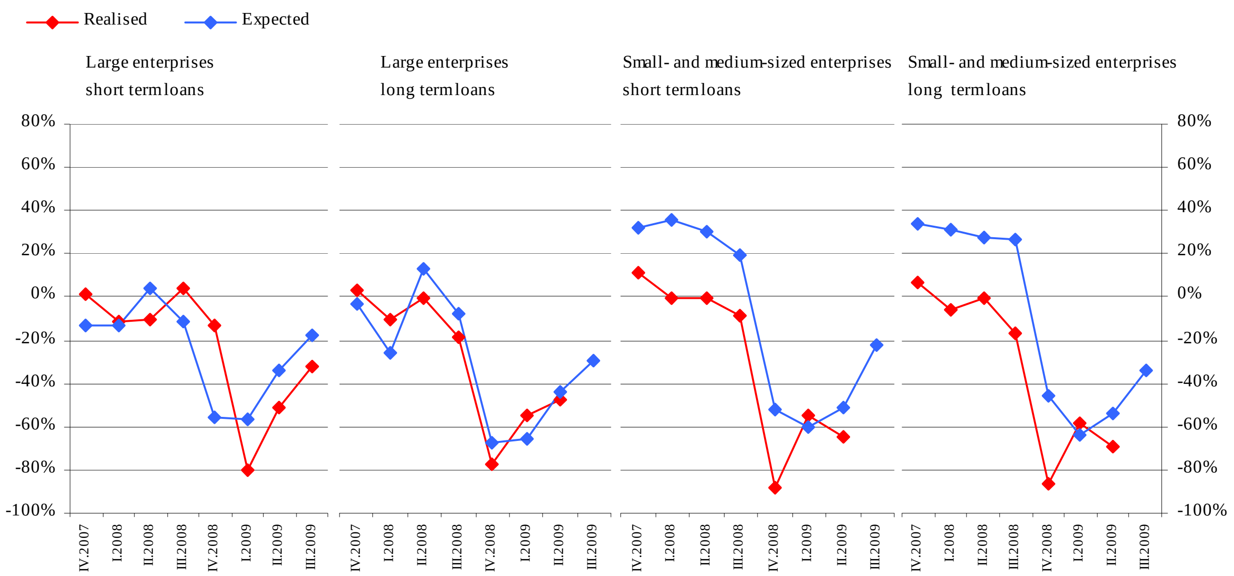
Corporate loans

In the second quarter of 2009, the standards of granting corporate loans were tightened again. The tightening of lending policy was stronger for loans to small- and medium-sized enterprises; however, no major differences between changes in standards of granting short- and long-term loans were observed in this market segment (net percentage was around 65-70%). One third of the banks tightened the standards of granting short-term loans to large companies, whereas half of the banks tightened the standards of granting long-term loans to large companies. These decisions were mostly in line with the banks' forecasts from the end of the first quarter of 2009 (see Figure 1). The share of the banks that tightened the standards of granting loans to large enterprises has been falling since the fourth quarter of 2008, which may indicate that the cycle of lending policy tightening in this segment of the credit market has been gradually coming to a halt.

Similarly as in the past two quarters, all terms of granting corporate loans, accounted for in the survey, were tightened. The largest group of banks – over 80% – tightened the requirements on loan collateral (see Figure 2). The banks also raised their loan spreads on both average and riskier loans, with spreads on riskier loans being increased to a greater extent. The assessments of the scale and direction of changes in loan spreads were discrepant.

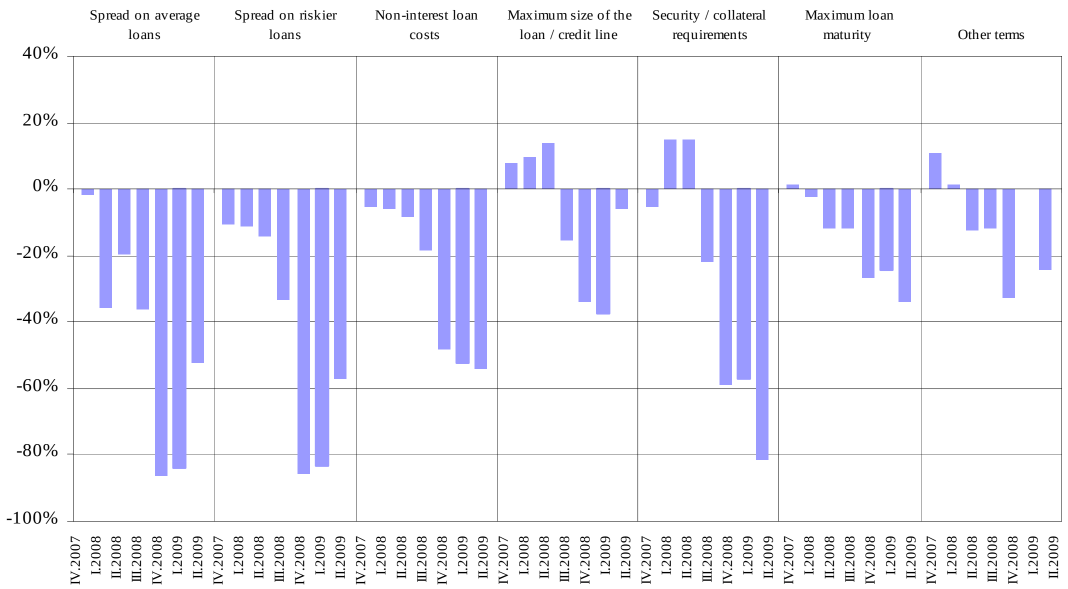
Nearly one fourth of the banks considered the spread increase as considerable[1]. On the other hand, 16% of the banks decided to decrease their spreads on corporate loans. Around half of the banks increased non-interest loan costs, whereas over one third of the banks cut short the maximum loan maturity.

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.

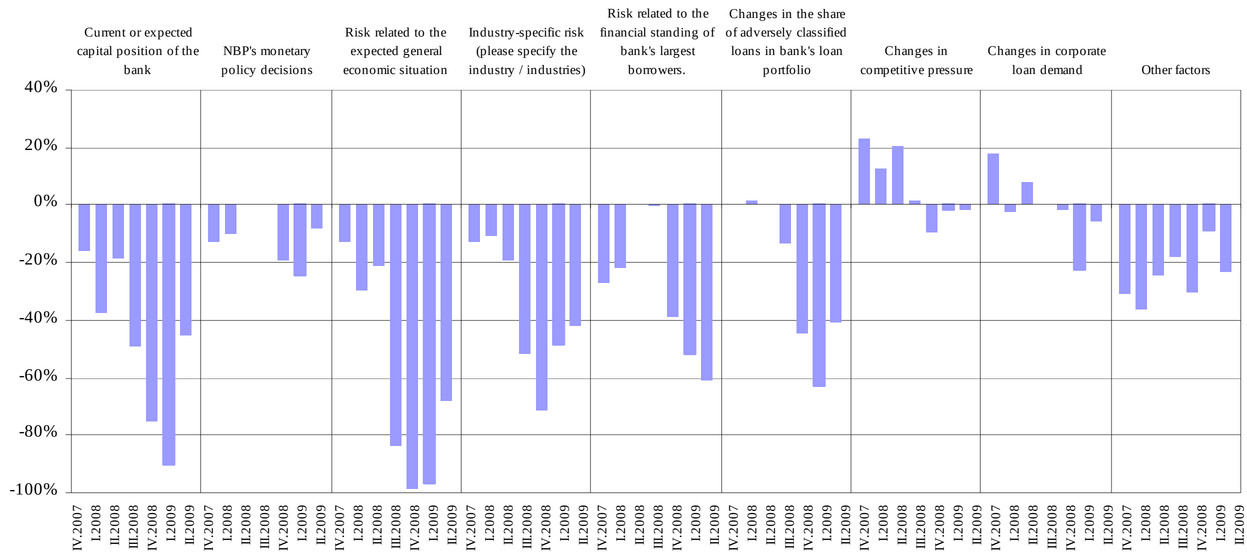
Figure 2
Terms on corporate loans



[1] 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.

A negative economic outlook remains the major reason behind the banks' decisions to tighten their lending policies towards enterprises. This factor was cited by over two thirds of the banks that had tightened either the standards or terms of granting corporate loans in the second quarter of 2009. Sixty percent of the banks said that the risk related to the financial standing of the largest borrowers had contributed to the tightening of lending policies (see Figure 3). However, many of these banks did not tighten the terms of granting loans to large enterprises, but only set more restrictive terms. **In comparison with the past two quarters, the importance of the capital position of the banks as a factor to halt lending has declined.** This was supported by the fact that the majority of the banks retained their 2008 profits and that the zloty appreciated in the second quarter of 2009, which led to an increase of the average capital adequacy ratio in the banking sector. The current or expected capital position of the banks was cited as the rationale for tightening of their lending policies by 45% of the banks that tightened lending policy towards enterprises, compared to 90% in the first quarter of 2009.

Figure 3
Factors influencing changes in lending policies



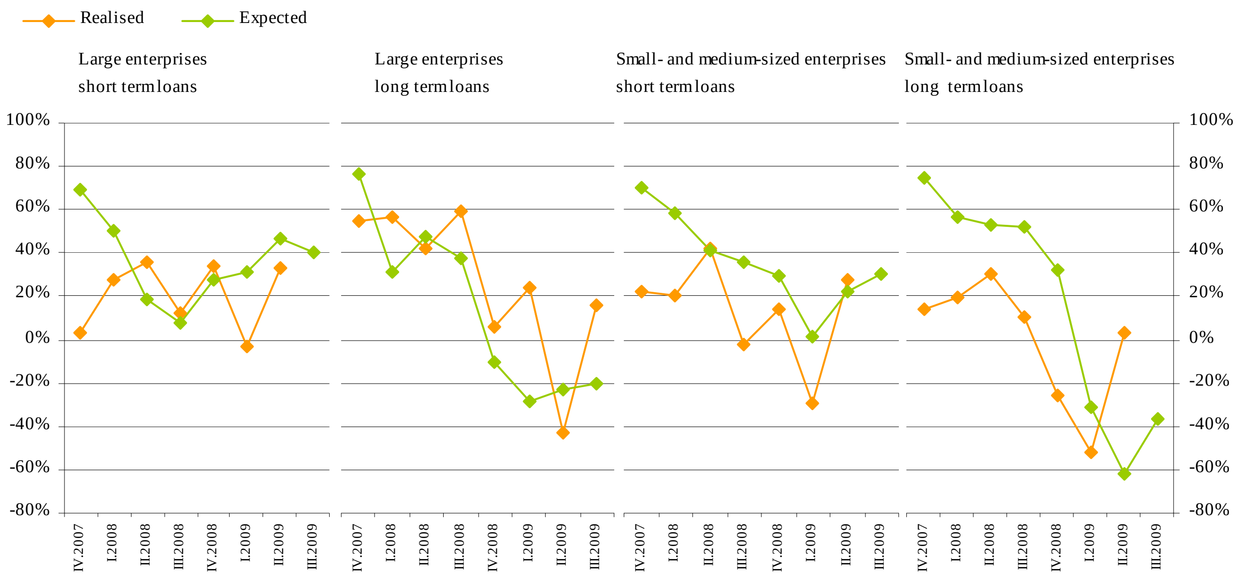
The results of the survey indicate that the growing share of irregular loans in the corporate loan portfolio translates into the banks' lending policy. Forty percent of the banks identified the increase of the irregular loans ratio as contributing to the tightening of lending policy. Similarly as in the case of the capital constraints, the importance of the factor diminished in comparison with the first quarter of 2009. **Also, around 40% of the banks tightened lending policy in response to the growing industry-specific risk**. The motor and transport industries and sections of the economy linked to the property market (construction and furniture industries) were most frequently mentioned as particularly risky. Other industries identified by the banks in the survey were the food, metal and chemical industries, retail trade and mining.

Restrictions in availability of interbank funding and macroeconomic developments were other factors mentioned by the banks as influencing the tightening of lending policy. These factors were cited by individual banks. According to the banks, competitive pressure in the corporate loan market has no significant impact on the credit policy.

Demand for loans from enterprises increased in the second quarter of 2009 and **the increase was stronger for short-term loans**. Thirty three percent of the banks reported a net increase in demand for loans to large enterprises, as 28% reported a net increase in demand for loans to small- and medium-sized enterprises. For long-term loans, net percentage figures were 15% and 2%, respectively. However, the assessment of the direction of changes in demand for loans was discrepant. A small group of banks experienced a fall in demand for short-term loans to large enterprises. In the segment of long-term loans to large enterprises, 35% of the banks recorded a rise in demand, and 20% of the banks said demand had fallen; in the case of long-term loans to small- and medium-sized enterprises, the percentage of banks that reported an increased demand amounted to 25% and was only slightly higher than the percentage of banks that experienced a decrease in demand.

Changes in demand for short-term loans were close to the expectations the banks unveiled in the first quarter of 2009. A considerable discrepancy between the expectations and the actual change in demand for loans was observed in the case of long-term loans. The banks expected the demand to fall at a scale close to that recorded in the first quarter of 2009.

Figure 4
Corporate loan demand



According to the banks, **the increase in demand** for corporate loans results primarily from **an increase in financing needs for inventories and working capital**. This factor was cited by 50% of the banks, which represents the highest net percentage figure for one year. **Increased financing needs related to corporate debt restructuring was the other significant factor behind the demand growth** – it was identified by 41% of the banks. Twenty eight percent of the banks considered the growing financing needs related to corporate debt restructuring as considerably influencing the growth in demand for loans[2]. The demand for financing of this type has been rising for three quarters, which may be related to the deteriorating financial position of enterprises and substitution of FX deriva-

[2] 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.

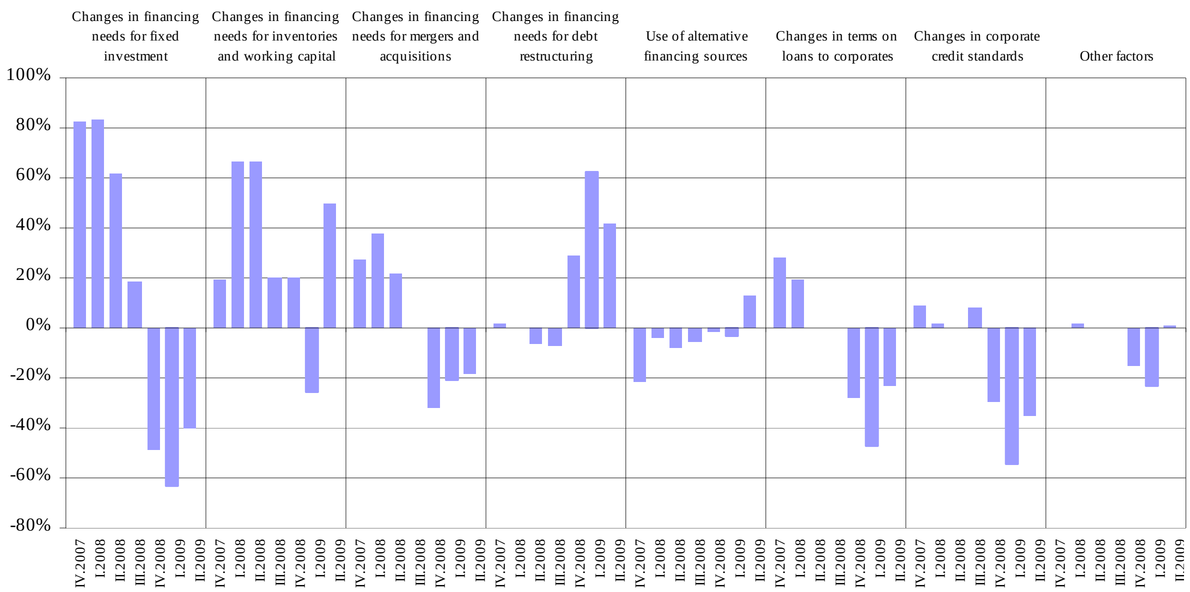
tives' liabilities for loans. The growth in demand for loans was to a lesser degree supported by the restricted availability of the alternative sources of financing enterprises' activities, primarily loans in other banks, and their own funds. These factors were identified by around 30% banks that reported a change in demand for loan.

The banks that recorded a fall in demand for corporate loans attributed this mainly to a decrease in financing needs for fixed investment (see Figure 5), which have been falling for three quarters. However, assessment of the impact of this factor is not clear. Over half of the banks found that a change in demand for financing fixed investment had considerably contributed to the fall in demand for corporate loans, which implies a further decline in the demand for investment loans in comparison with the previous quarter. On the other hand, according to one fourth of the banks there was an increase in financing needs for enterprises' investments. The banks also said that demand for loan had fallen on account of lower financing needs for mergers and acquisitions.

The banks expect the lending policy towards enterprises to be further tightened in the third quarter of 2009. This tightening is to apply to all types of corporate loans (see Figure 1), and slightly **more banks plan to tighten the policy towards small- and medium-sized enterprises than towards large enterprises**. Changes in lending policy are supposed to be more common in the segment of long-term loans than in the segment of short-term loans. The banks' expectations regarding the future course of lending policy towards enterprises have been the most optimistic for four quarters.

In the third quarter of 2009, the banks expect demand for short-term loans from enterprises to grow further (see Figure 4). This growth should to a higher degree concern loans to large enterprises. **In the segment of long-term loans, the banks foresee the demand to further decline**. However, a small group of banks (around 11-18%) expect the demand for long-term loans to grow, with some banks expecting this growth to be considerable.

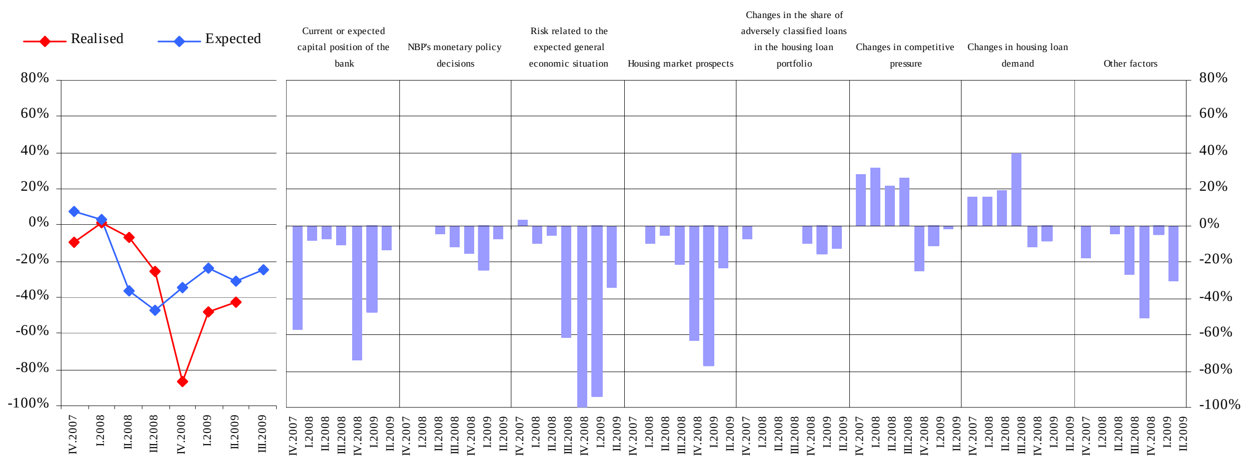
Figure 5
Factors influencing changes in corporate loan demand



Housing loans

In the second quarter of 2009, the banks again tightened lending policy with regard to housing loans (see Figure 6). As in the previous quarter, around 40% of the banks tightened the standards of granting these loans. Due to the fact that in the past two quarters the prevailing number of surveyed banks stopped originating foreign currency-denominated loans, the analyzed changes in lending policy apply to zloty loans.

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



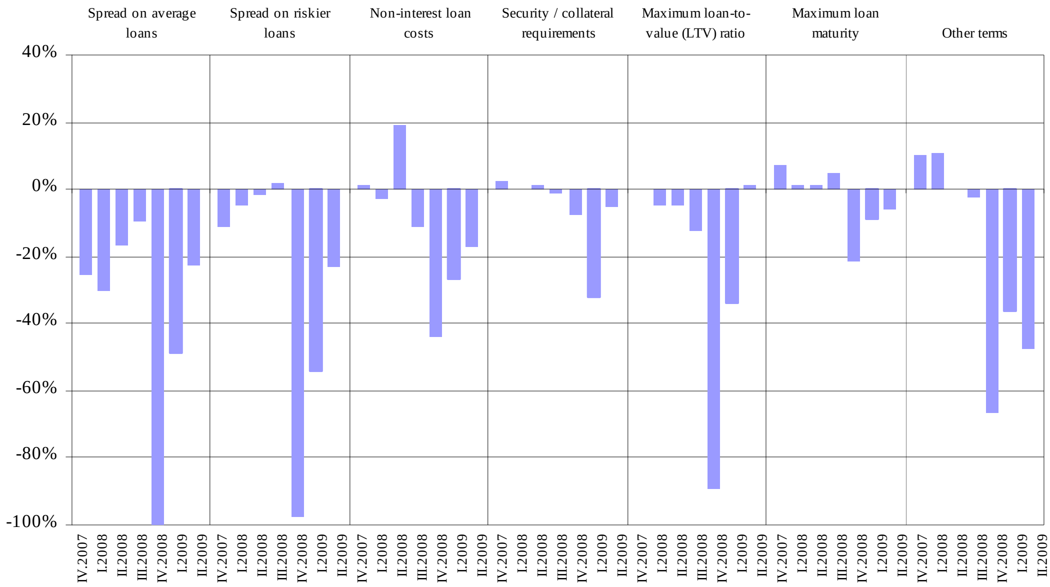
The majority of the terms of granting housing loans were tightened again. However, unlike in the previous two quarters, the terms were not tightened by all of the surveyed banks**.** Approximately one fourth of the banks resolved to raise spreads. Some of them considered the increase as a considerable tightening of lending policy. A large group of the banks that raised their loan spreads also tightened lending policy with regard to non-interest loan costs. In the case of the maximum loan-to-value ratio, there was a very insignificant (net) easing of lending policy (net percentage: 1.4%), as a similar number of banks decided to tighten and ease the LtV requirements. The remaining terms of granting housing loans were slightly tightened by around 5-6% banks.

Almost half of the banks said that other terms of granting loans to households, which were unaccounted for in the survey, had been tightened. However, the measures indicated by the banks consisted in changing the standards of granting loans – these were, among others, decisions on the classification of borrowers' projects by the property developer's credit risk level, an increase of the borrower's minimum amount of living costs and on a 20% increase of the amount of an instalment loan in foreign-currency loan application analysis. Another two banks stopped originating foreign currency loans.

Similarly as in the segment of corporate loans, uncertainty about future economic conditions was the main factor contributing to the lending policy tightening (net percentage: 34%), but the importance of macroeconomic threats to changes in lending policy fell significantly in comparison with the previous two quarters (see Figure 6). A smaller group of banks (around 23%) supported their decision to tighten lending policy with unfavourable projections of property market developments. **Capital constraints tend to have a smaller impact on banks' lending policies.** Merely 14% banks that revised their lending policies made the move under the influence of deteriorating current or expected capital position. The banks' responses show that competition in the market of housing loans has weakened. Again, a change in competitive pressure had an influence on tightening the banks' lending policies.

The banks that eased lending policies on housing loans made these changes in anticipation of an improvement of macroeconomic conditions and of developments in the property market against existing forecasts.

Figure 7
Terms on housing loans



In the second quarter of 2009, net percentage representing changes in demand for housing loans was positive (see Figure 8). The opinions of individual banks about the direction and scale of changes in the demand were highly discrepant. Over 50% of the banks reported an increase in demand, with 17% of the banks considering the increase as considerable. On the other hand, almost 40% of the banks recorded a decrease in demand and 12% termed is as considerable. The banks' expectations with regard to changes in demand in the second quarter of 2009, expressed in the previous edition of the survey, were much less discrepant and were characterised by a slight superiority of forecasts of falling demand.

The increase in demand for housing loans, according to the banks, **was primarily prompted by changes in the standards and terms of granting these loans**. Given the fact that in the whole banking sector the monthly increases in housing loans in the second quarter of 2009 (adjusting for exchange rate movements) were close to increases recorded in the first quarter of the year, it may be assumed that the increase in demand was concentrated in the banks pursuing less restrictive lending policies. The remaining banks, in particular the banks that stopped originating foreign currency loans, recorded a fall in demand.

According to approximately 60% of the banks that experienced a change in demand for housing loans, the fall was prompted by the worsening financial position of households[3] (see Figure 8). Large part of banks justified the decrease in demand for housing loans with the growing consumer expenditure of households. The majority of the banks that reported a decrease in demand said that the decrease had also been prompted by the unfa-

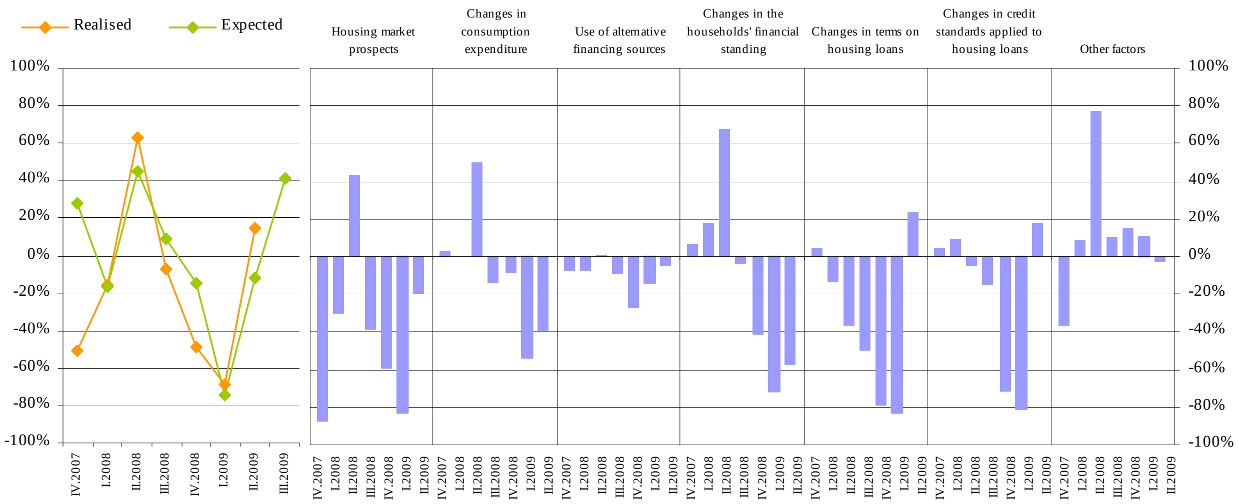
[3] This development was also indicated by the banks that reported an increase in demand for housing loans.

vourable forecasts of developments in the property market. More than 10% of the banks considered these forecasts as greatly influencing the decrease in demand.

Approximately 25% of the banks surveyed expect the lending policy in the segment of housing loans to be further tightened in the third quarter of 2009 (see Figure 6). The majority of these banks say that the policy will be only slightly tightened. **The banks expect demand for housing loans to grow** (see Figure 8), and should their expectations materialise, the scale of this growth would be the largest since the second quarter of 2008.

Figure 8

Demand for housing loans and factors influencing its changes



Consumer loans

The standards of granting consumer loans to households were tightened by nearly 80% of the banks in the second quarter of 2009 (see Figure 9). One third of the banks considered the changes made with regard to terms of granting consumer loans as a considerable tightening of their lending policy. The standards of granting loans were tightened on the scale larger than suggested by the expectations the banks presented at the end of the first quarter of 2009.

The trend to tighten the terms of granting loans in the segment of consumer loans persisted in the second quarter of 2009. Percentage of the banks that tightened the terms fell in comparison to the first quarter of 2009. The banks mostly decided to raise their loan spreads. Similarly as in the previous quarter, the move was made by over 25% of the banks (see Figure 10). The banks more often raised spreads on average loans than on riskier ones. The remaining lending terms were also tightened. In particular, 16% of the banks increased non-interest loan costs. Other changes concerning the terms of granting consumer loans, indicated by the banks, included restrictions in availability of simplified creditworthiness analysis procedures (including documentation of the borrowers' income as confirmed by their income statement) and an introduction of the requirement of third party loan guarantee.

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

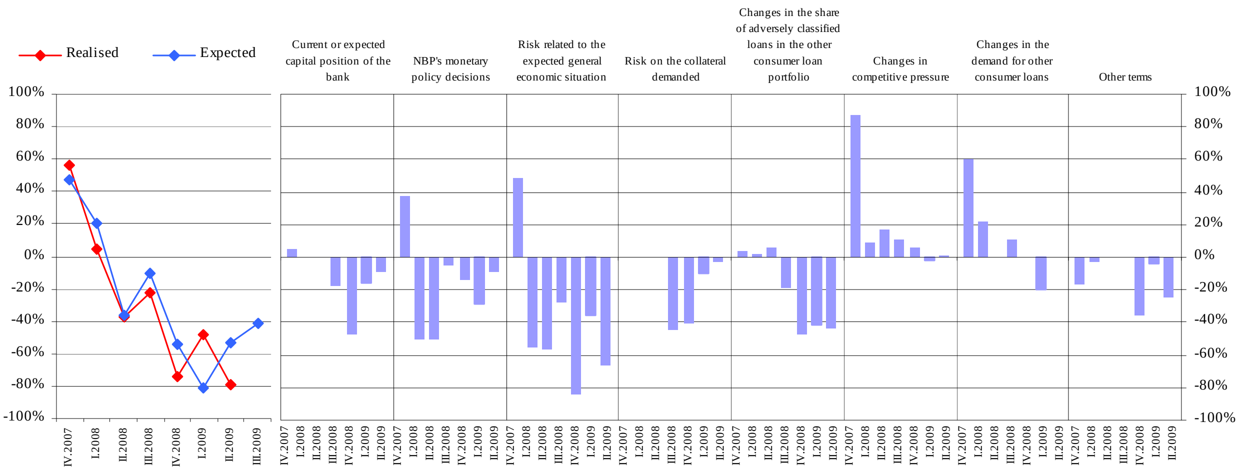
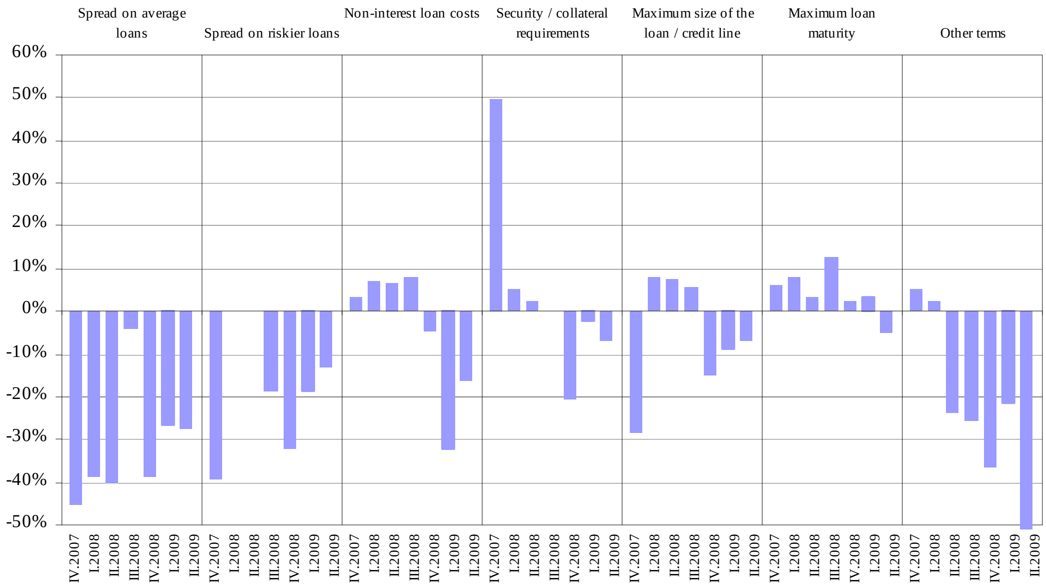


Figure 10
Terms on consumer loans



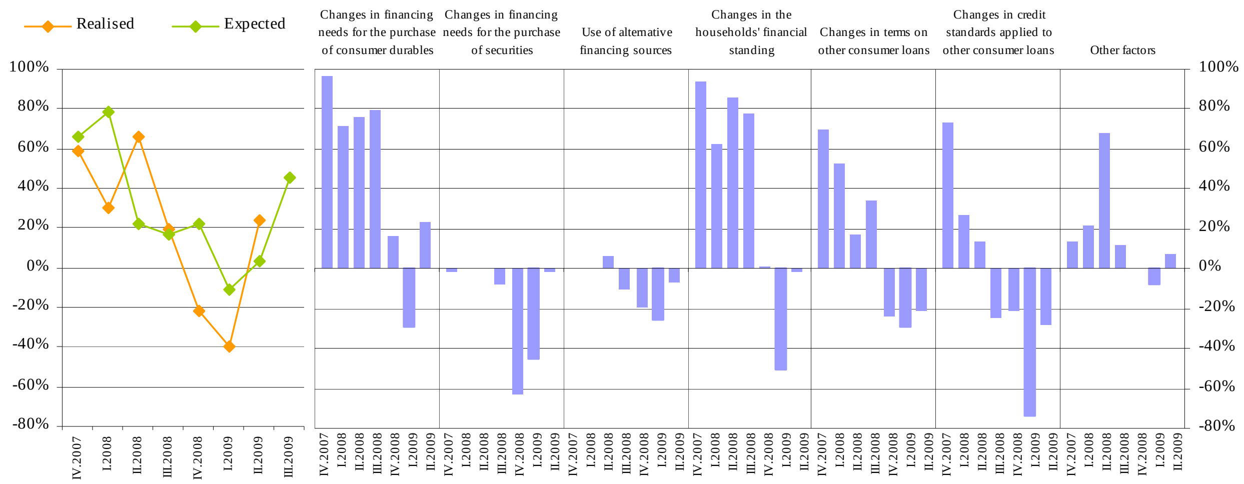
The growing risk related to future economic developments was the major reason why lending policy in the segment of consumer loans was tightened. This factor was identified by 66% of the banks. Thirty one percent of the banks considered the impact of this factor as considerable. The importance of this factor increased in the second quarter of 2009 (see Figure 9), differently than in the remaining segments of the credit market. An increase of the irregular loans ratio had also a considerable influence on changes in lending policy towards consumer loans. Similarly as in the previous two quarters, slightly over 40% of the banks cited this factor to justify tightening either the standards or terms of granting consumer loans. The capital position of the banks and the decreases of official interest rates were of much less importance.

In the second quarter of 2009, the banks recorded an increase in demand for consumer loans to households (net percentage was 24%). It should be noted, however, that the banks' responses were discrepant. Approximately 40% of the banks reported this demand to fall modestly whereas almost 15% reported a modest increase in demand. At the end of the first quarter of 2009, the banks forecast stabilisation of demand for consumer loans (see Figure 11).

The banks, which recorded an increase in demand for consumer loans, attributed the increase primarily to the growth in financing needs for durable goods after their fall in the previous quarter (see Figure 11). A group of around 40% of the banks assessed that the increase in demand had also been supported by a change in the economic position of households. However, the direction of the impact of the factor was not clear as according to another group of banks, similar in size, it resulted in a decrease in demand for consumer loans. In consequence, net percentage was -2%. The other explanations of the decrease in demand for consumer loans were that households had to a greater extent used their savings to finance consumer goods purchases and that lending policy had been tightened. The latter factor may have discouraged a number of households from applying for consumer loans.

The banks expect lending policy in the segment of consumer loans to be further tightened in the third quarter of 2009 (see Figure 9). Such expectations were expressed by over 40% of the banks, with 13% of the banks expecting to tighten the policy considerably. No bank has plans to ease either the standards or terms of granting consumer loans. **The majority of the banks expect demand for consumer loans to grow** and at the same time a small group of banks expect the demand to fall (see Figure 11).

Figure 11
Demand for consumer loans and factors influencing its changes



Appendix

Methodology

The results of surveys are presented in the form of structures, i.e. the percentages of banks, which chose a given option in response to particular questions. Banks' responses are weighted with the share of the given bank in the market segment to which a given question relates. Weighing of responses is a solution frequently applied in preparation of results of qualitative surveys.[2]

The importance of particular banks in a given market segment is represented by the share of loans outstanding of a given bank in the loan portfolio of all 30 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.