Senior loan officer opinion survey

on bank lending practices and credit conditions

3rd quarter 2010

Warsaw, July 2010

Summary of the survey results

In the third quarter in succession, the gradual easing of some elements of lending policy in the segment of corporate and housing loans is accompanied by tightening of standards of granting consumer loans.

In the second quarter of 2010, the banks lowered spreads on corporate and housing loans, slightly revising lending standards. While the tightening of lending policy for consumer loans pertains consistently to lending standards, the terms of granting loans remain relatively stable.

The banks that ease lending policy say this is primarily justified by their assessment of risk related to the economic outlook and, in the case of housing loans, by developments in the property market. Deterioration in the quality of the banks' loan portfolios remains a major reason for tightening lending policy.

Corporate loans

- Lending policy: the majority of the banks did not change the standards of granting loans, lowering at the same time spreads charged on these loans.
- Demand for loans: demand for all but long-term loans to large enterprises increased.
- Expectations for the third quarter of 2010: the banks vow to ease slightly their lending policy towards large enterprises, and to tighten it towards small- and medium-sized enterprises. The banks expect demand for loans to grow, especially in the segment of short-term loans to SME.

Housing loans

- Lending policy: in net terms, the banks slightly eased the standards of granting loans; at the same time, the majority of the banks lowered spreads charged on the loans.
- Demand for loans: the banks experienced an increase in demand for housing loans.
- Expectations for the third quarter of 2010: the banks intend to tighten their lending policies; at the same time they do not expect demand to change markedly.

Consumer loans

- Lending policy: the banks tightened the standards of granting loans. The terms of granting them remained unchanged.
- Demand for loans: according to the banks, demand for consumer loans increased, however their responses were discrepant.
- Expectations for the third quarter of 2010: the banks expect lending policy to be tightened further and foresee an increase in demand for consumer loans.

Results of the survey – overview

The objective of the survey is to define the direction of changes in the lending policy, i.e. the standards and terms of granting loans as well as changes in demand for loans in the Polish banking system. The standards of granting loans are understood as the minimum standards of creditworthiness, set by the bank, that the borrower is required to meet in order to obtain a loan. The terms of granting loans are the features of the loan agreement agreed by the bank and the borrower, including spread, non-interest loan costs, maximum loan size, collateral requirements and maximum loan maturity.

The survey is addressed to the chairpersons of banks' credit committees. Banks' responses may not take account of the opinions of the banks' divisions other than the credit division. The survey was conducted at the turn of June and July 2010 **among 29 banks with a total share of claims on enterprises and households in the banking sector portfolio amounting to 82%**.

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 2010 as well as the banks' expectations for the third quarter of 2010.

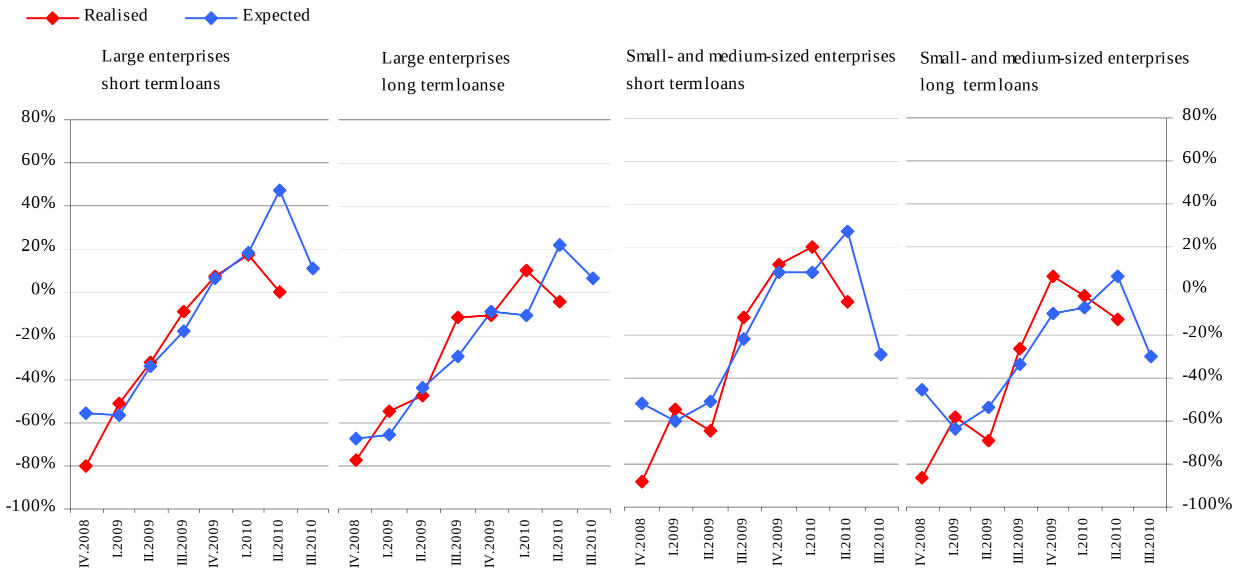
Corporate loans

In the second quarter of 2010, the majority of surveyed banks left their standards of granting loans to corporates unchanged (see Figure 1). In net terms, lending policy was slightly tightened, with the exception of short-term loans to large enterprises. The tightening was relatively strongest for long-term loans to small- and medium-sized enterprises (net percentage amounted to -13%), however no bank considered it as considerable.[1]

Lending policy developments in the second quarter of 2010 were not in line with the expectations expressed by the banks at the end of the first quarter of 2010, when they vowed to ease the standards of granting loans. The majority of these banks eventually left the standards of granting loans to corporates unchanged. The biggest difference between these expectations and actual changes in lending policy concerned short-term loans, for which the easing expectations were the strongest (see Figure 1).

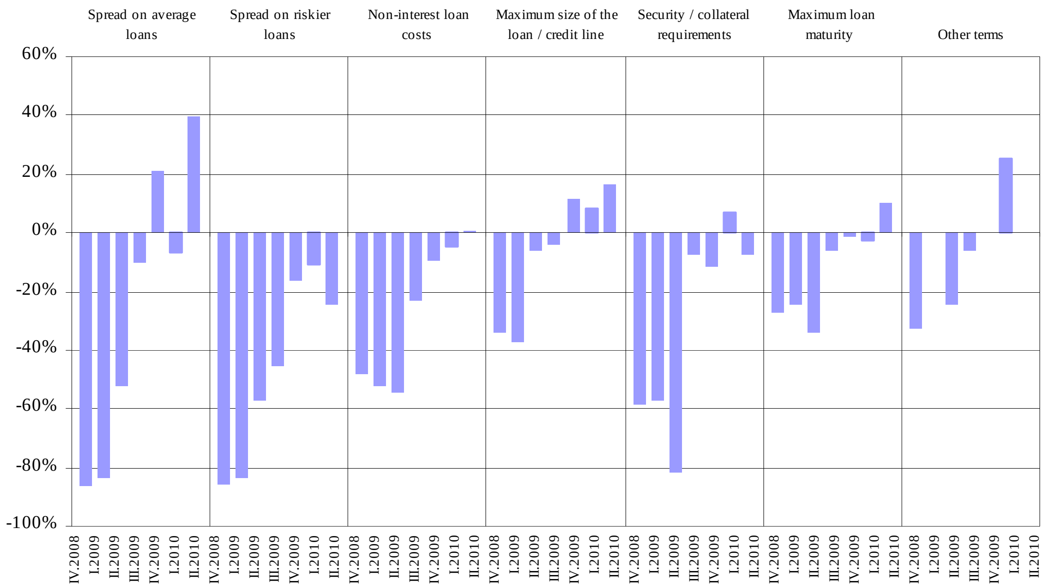
[1] The banks have a possibility of grading changes in the standards (terms) of granting loans. In this survey, the banks choose among the following options: standards (terms) were considerably tightened, standards (terms) were somewhat tightened, standards (terms) remained unchanged, standards (terms)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

Figure 1
Corporate credit standards



Note: 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 – as the tightening of lending policy or a fall in demand for loans. Details concerning the calculation methodology are presented in Appendix 1.

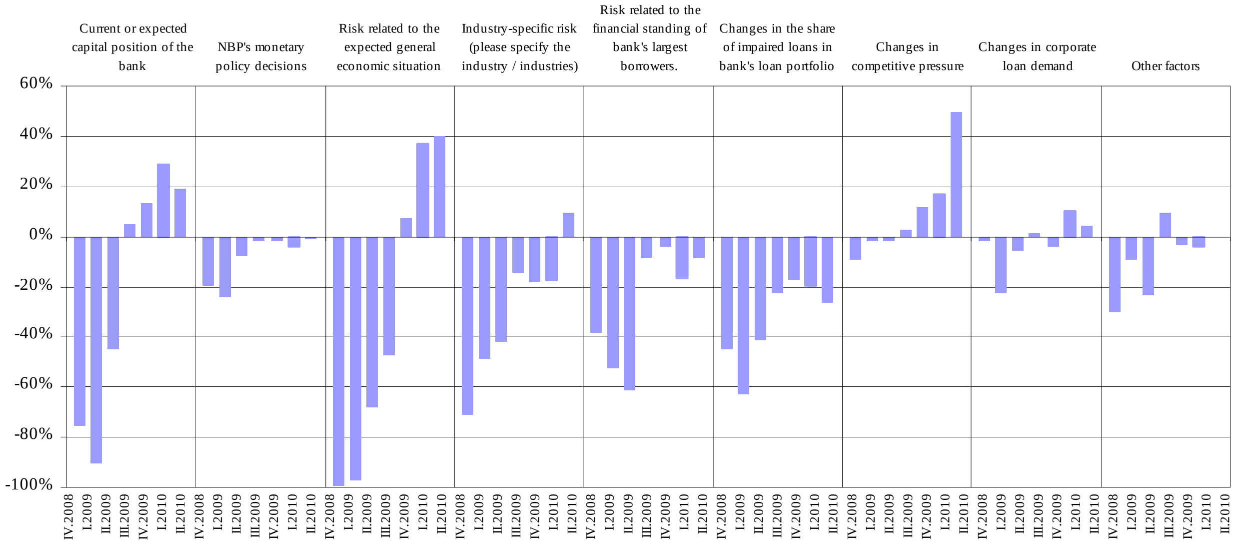
Figure 2
Terms on corporate loans



Around 40% banks lowered spreads charged on loans granted to corporates. The decrease did not concern riskier loans; in the case of these loans, one fourth of the banks increased their spreads (see Figure 2). The banks also eased the terms on maximum loan/credit line size and extended maximum loan maturity (net percentage was 17% and 10%, respectively).

In net terms, the banks slightly tightened the terms on granting loans with regard to collateral requirements. However, the banks' responses on the issue were discrepant – some banks chose to ease this term.

Figure 3
Factors influencing changes in lending policies



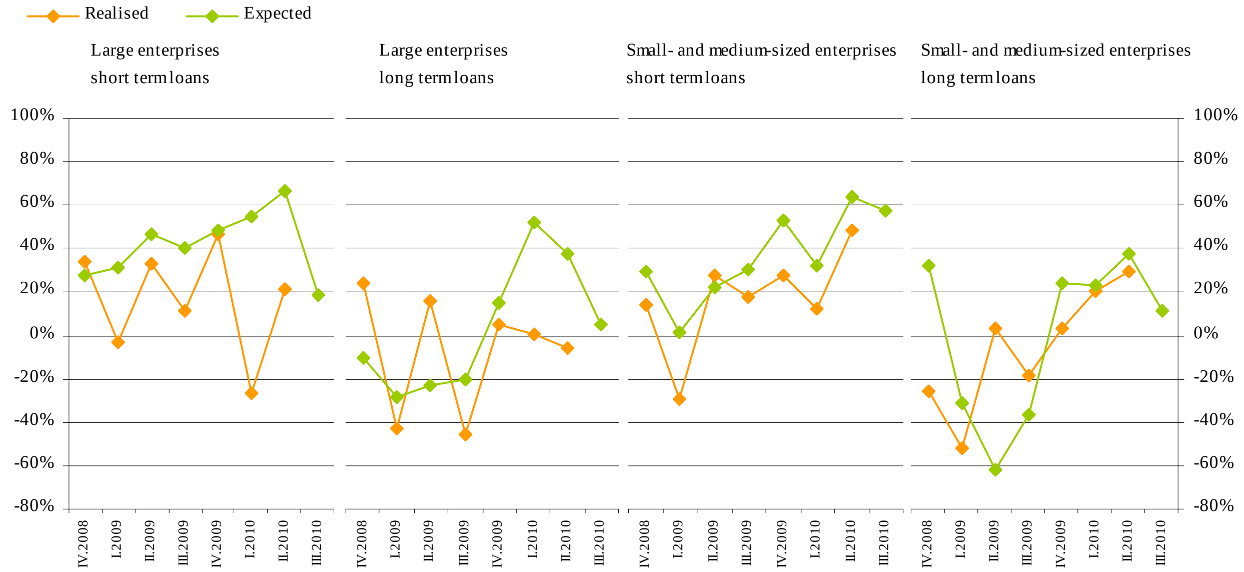
According to the banks, growing competitive pressure on the market is the main factor influencing the easing of lending policy. This factor was identified by around half of the banks, whereby they assess competition intensifies mainly from other banks and, to a lesser extent, from non-bank financial institutions and market sources of financing, such as share or debt issue. This may indicate that in the conditions of heightened competition the banks ease their lending policies in fear of losing their share in the market of loans to corporates.

As in the previous quarter, **approximately 40% of the banks indicated that risk related to expected economic developments justified lending policy easing** (see Figure 3). It should also be noted that in net terms, for the first time since the third quarter of 2007, the banks were not compelled to tighten their lending policies by risk related to the economic position of specific industries. Individual banks indicated the motor vehicle sector as an industry whose crediting presently involves substantial risk.

The banks that tightened their lending policies attributed the move mainly to the change in the share of impaired loans in their loan portfolios (net percentage amounted to around -27%). One fourth of the banks that indicated this factor considered its influence on the easing of lending policy as considerable.[2] They were mainly the banks that had recently registered a relatively high increase in the value of impaired loans against the average in the banking sector as a whole.

[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: considerably influencing the tightening of lending policy, somewhat influencing the tightening of lending policy, not influencing changes in lending policy, somewhat influencing the easing of lending policy, considerably influencing the easing of lending policy.

Figure 4
Corporate loan demand



Demand for loans from small- and medium-sized enterprises increased in the second quarter of 2010 (see Figure 4). This increase mostly concerned short-term loans and was experienced by around half of the surveyed banks. At the same time, the majority of these banks termed this increase as slight.[3] Around 30% of the banks registered an increase in demand for long-term loans. Similarly as in the case of short-term loans, this growth was not termed as considerable. At the end of the first quarter of 2010, the banks expected demand for loans to SME to grow, however, on a slightly larger scale.

In the case of loans to large enterprises, the banks experienced an increase in demand for short-term loans (see Figure 4). The growth in demand was reported by 20% of the banks, whereas at the end of the first quarter of 2010, it was expected by over 65% of the banks. **In net terms, demand for long-term loans to large enterprises slightly fell**. However, the majority of the banks experienced no changes in demand for this loan type. The expectations of a strong increase in demand, expressed by the banks in the previous quarter, failed to materialise.

The rise in financing needs for inventories and working capital was the main factor influencing an increase in corporate demand for loans in the second quarter of 2010. This factor was indicated by over 90% of the banks, with the majority assessing it as somewhat influencing an increase in demand.[4] In it worth noting that in the previous quarter, the changes in financing needs for inventory and working capital had an adverse impact on loan demand developments.

In the second successive quarter, **growing financing needs for fixed investment had an impact on the rise of enterprises' demand for loans** (see Figure 5). This factor was cited by around 40% of the banks that had experi-

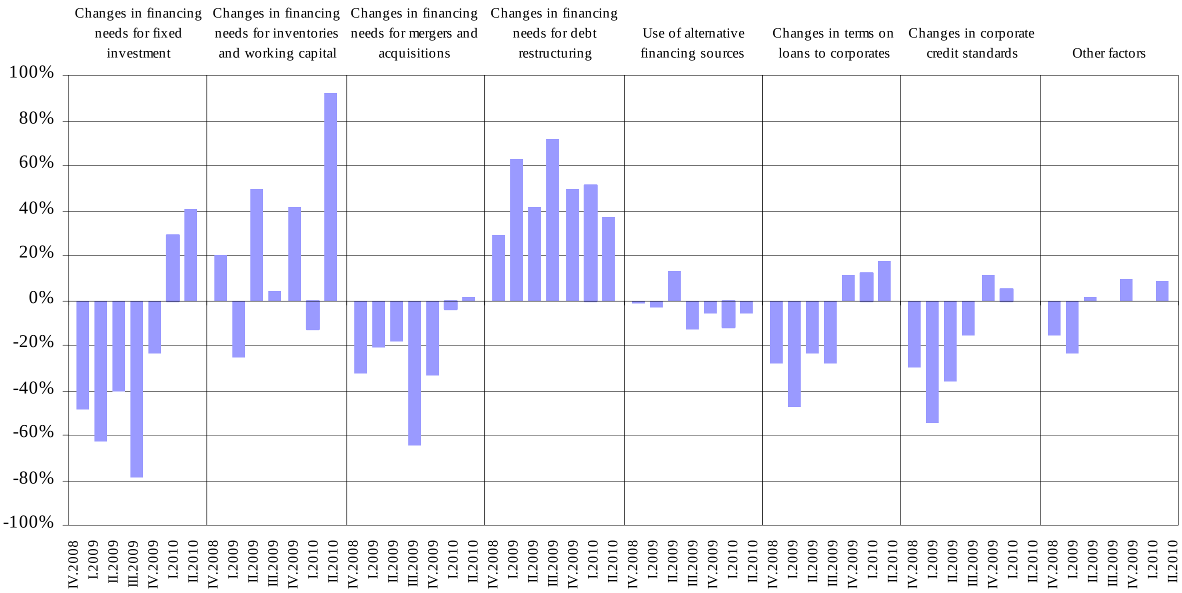
[3] The banks have a possibility of grading the strength of changes in demand for loans. In this survey, the banks choose among the following options: considerable increase in demand, slight increase in demand, no changes in demand, slight decrease in demand and considerable decrease in demand.

[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: considerably influencing an increase in demand, somewhat influencing an increase in demand, not influencing a change in demand, somewhat influencing a decrease in demand, considerably influencing a decrease in demand.

enced increased demand. **Financing needs related to debt restructuring again had an influence on the rise of demand**, however its significance for changes in loan demand fell in comparison with previous quarters. The banks that eased their lending policies assessed that this action may also have had an impact on enterprises' increased demand for loans.

The banks that had experienced a falling demand for loans from enterprises did not identify the factor which – in their view – would have significantly contributed to decrease in demand.

Figure 5
Factors influencing changes in corporate loan demand



The banks plan to slightly ease lending policies towards large enterprises in the third quarter of 2010 (see Figure 1). Easing is to be stronger for short-term loans than for long-term ones (net percentage is 12% and 7%, respectively). The majority of the banks, however, have no plans to revise their lending policies.

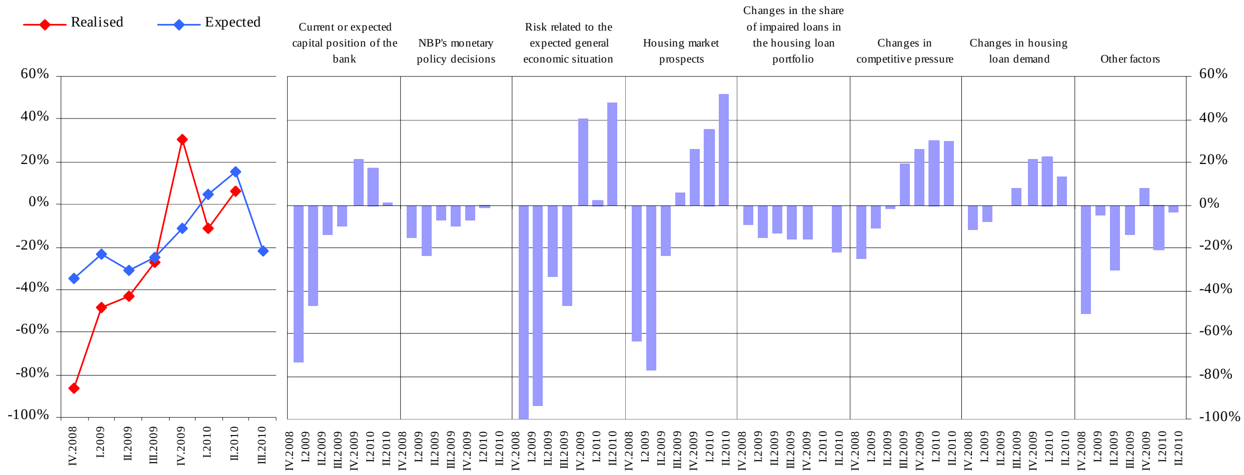
In the case of loans to small- and medium-sized enterprises, the banks announce tightening of their lending policies in the third quarter of 2010. Tightening is, to an approximate extent, concern short-term and long-term loans (net percentage is each around -30%).

The banks expect demand for loans from enterprises to rise in the third quarter of 2010 (see Figure 4). The expected growth is primarily to concern short-term loans to small- and medium-sized enterprises (net percentage 58%). On the other hand, an increase in demand for short-term loans from large enterprises is expected by 18% of the banks. Fewer banks expect demand for long-term loans to grow (net percentage is 12% and 5%, respectively for loans to SME and to large enterprises).

Housing loans

The standards of granting housing loans to households were not changed by the majority of the banks in the second quarter of 2010 (see Figure 6). The responses of other banks that had changed their lending standards were discrepant, and in net terms lending policy was slightly eased. The changes in the standards of granting loans in the second quarter of 2010 were close to the expectations expressed by the banks at the end of the first quarter of 2010, although some banks that had announced to ease their lending policies in the end did not go ahead with the plan.

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



Nearly 70% of the banks resolved to lower loan spreads. The majority of them termed the move as insignificant. Spreads on riskier loans remained unchanged (see Figure 7). In addition, around 14% of the banks decided to raise the maximum Loan-to-Value ratio for loan origination. The percentage of banks that decreased the LtV requirement for borrowers is not high, but this term of granting loans was eased for the third quarter in a row.

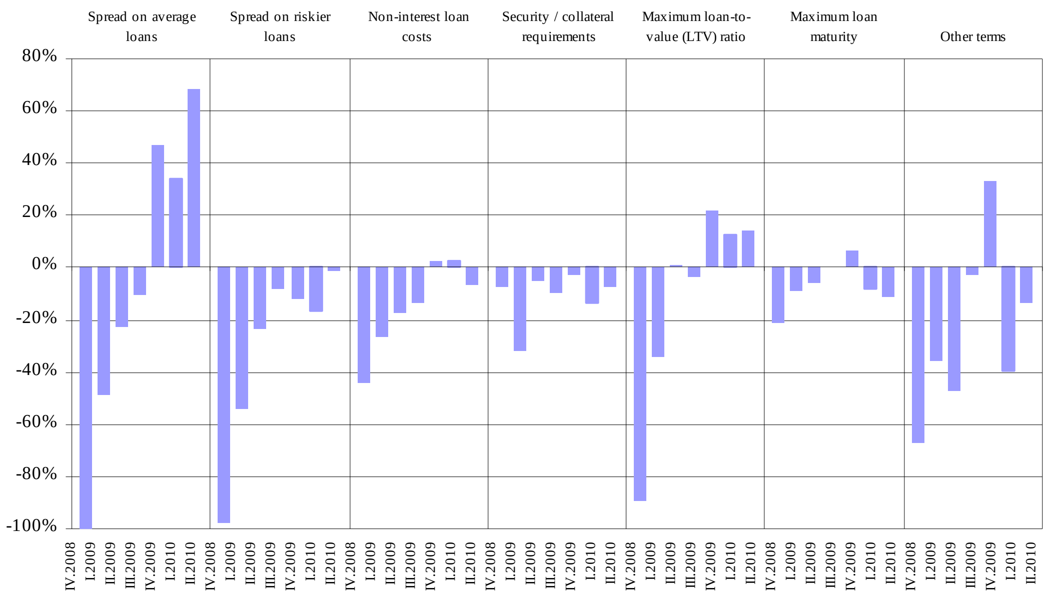
Other terms of granting housing loans were slightly tightened. The banks cut the maximum loan maturity, raised non-interest loan costs and tightened collateral requirements (net percentage amounting to -11%, -7% and -7%, respectively).

The terms on housing loans, unaccounted for in the survey, were tightened by around 13% of the banks. Similarly as in previous quarters, the banks' responses however, related to a large extent, to terms of granting housing loans. They concerned raising customer creditworthiness assessment requirements and intensified customer verification with the Credit Information Bureau.

The main reason for easing lending policy was the improved perception of risk related to future developments in the property market and general economic situation (see Figure 6). Growing competition on the market of housing loans was also a significant factor influencing the easing of lending policy. According to the banks, competitive pressure had a significant impact on the liberalisation of lending policy in the fourth successive quarter.

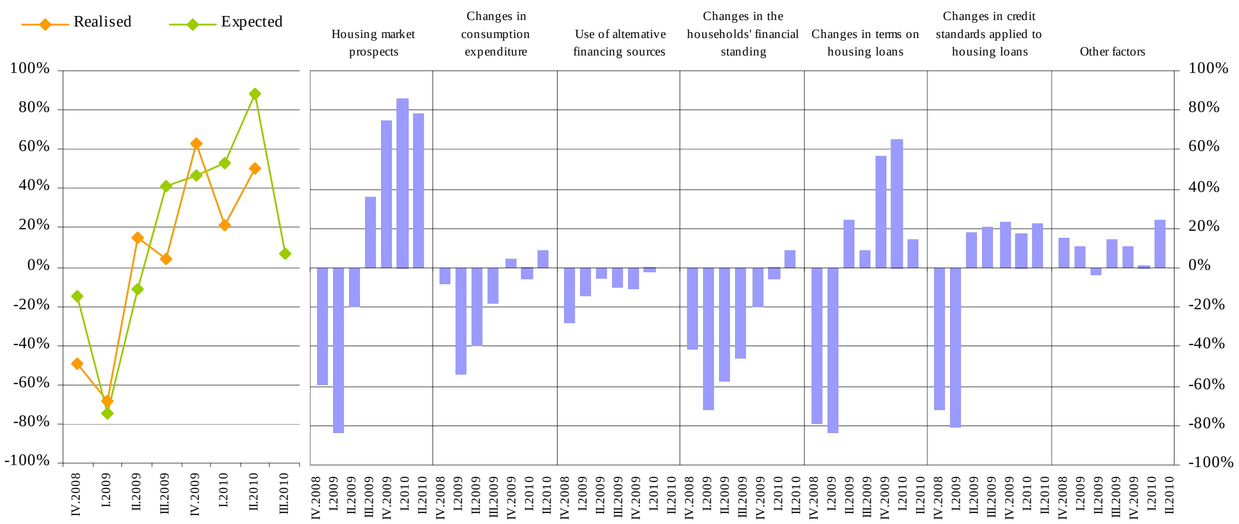
The banks that tightened their lending policies justified the move by the increase in the share of impaired loans in their loan portfolios, with the majority of them considering the factor's impact as considerable.

Figure 7
Terms on housing loans



In the second quarter of 2010, the increase in demand for housing loans was felt by the majority of the banks (see Figure 8), and for one third of them it was a significant increase. At the end of the first quarter of 2010, the banks expected demand to grow, however on a larger scale than it actually did.

Figure 8
Demand for housing loans and factors influencing its changes



The increase in demand registered by the banks was primarily attributed to forecasts of developments in the property market. The banks that eased their terms on housing loans indicated that this factor may also have had an impact on the rise in demand for loans (see Figure 8).

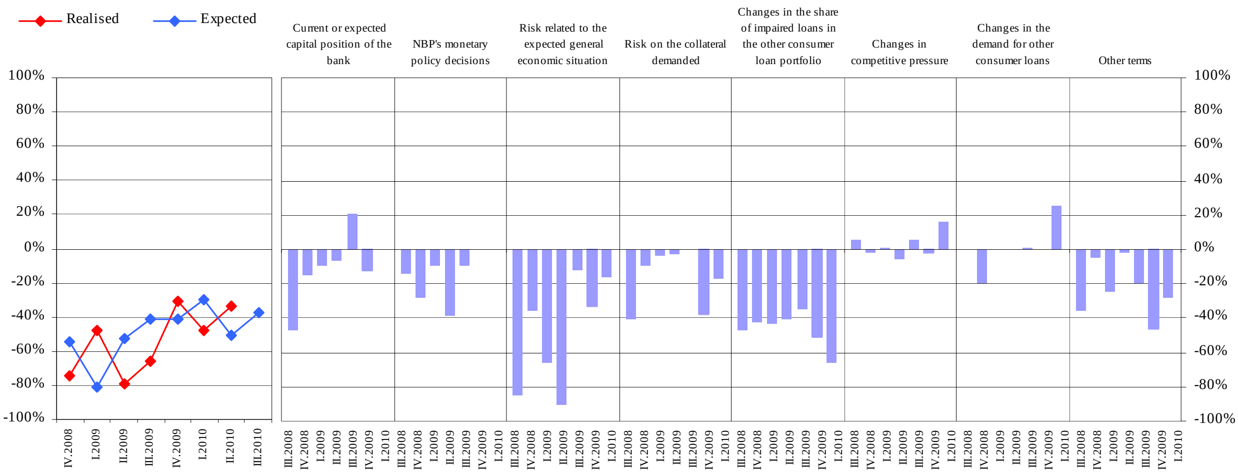
Other factors listed in the survey had an insignificant influence on housing loan demand developments. However, the banks pointed out that intensified advertising campaigns conducted both by them and other rival banks may have had a significant impact on demand for loans. Individual banks also identified seasonal factors related to the start of the construction season.

According to banks' announcements, lending policy in the segment of housing loans will be tightened in the third quarter of 2010 (see Figure 6). The banks' responses were not homogenous; some banks plans to ease the standards and terms of granting loans. **The majority of the banks do not expect demand for housing loans in the coming quarter to change** (see Figure 8).

Consumer loans

The standards of granting consumer loans to households were again tightened in the second quarter of 2010 (see Figure 9). The standards were tightened by about one third of the banks, and all of them termed the scale of the action as slight. In the previous quarter, the banks announced plans to tighten their lending policies in the second quarter of 2010, however not all of them tightened them in the end.

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

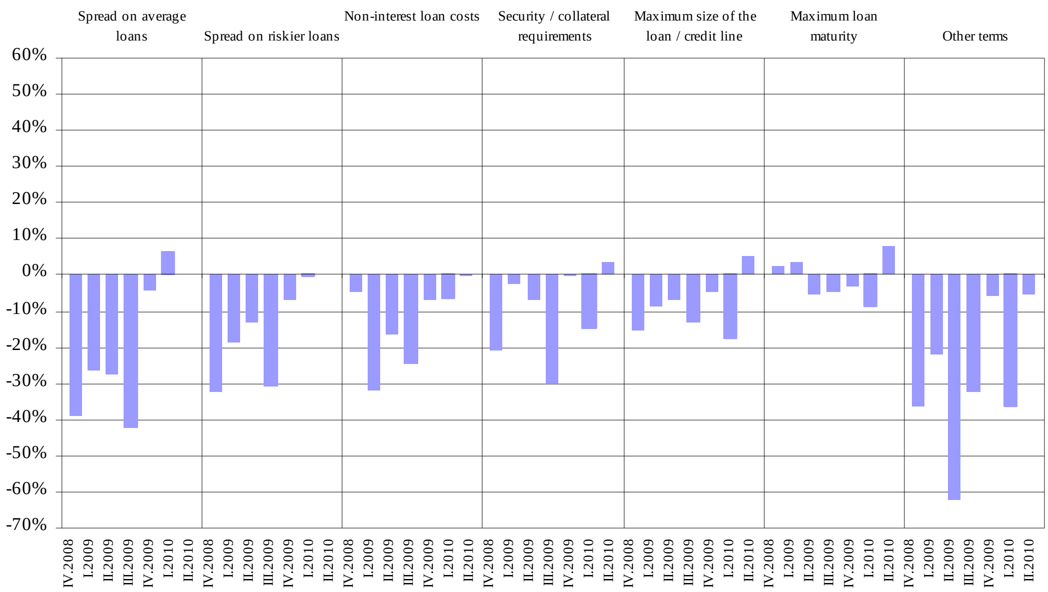


The majority of the banks kept all terms on consumer loans unchanged (see Figure 10). This means that it is the third quarter in a row in which the tightening of lending policy in the segment of consumer loans relates primarily to the standards and not terms of granting loans.

Terms on consumer loans for maximum loan maturity, maximum loan size and collateral requirements were slightly eased in net terms (net percentage at 8 %, 5% and 4%, respectively).

Some banks also identified other terms on consumer loans, unaccounted for in the survey. In addition to the responses relating to a larger extent to lending standards (creditworthiness assessment, customer verification), the banks also identified the easing of terms on non-interest loan costs during promotional campaigns.

Figure 10
Terms on consumer loans



According to the banks, the materialisation of risk accumulated on banks' balance sheets remains the major reason for tightening lending policy. Approximately two thirds of the banks that revised their lending policies pointed to deterioration in the quality of consumer loan portfolio as the reason for tightening lending policy (see Figure 9).

The less favourable assessment of the economic outlook and of the possibility to recover the loan collateral had also contributed to the tightening of lending policy in the segment of consumer loans. However, these factors were identified by fewer banks than in the first quarter of 2010 (see Figure 9).

Among other reasons unaccounted for in the survey, the banks that tightened their lending policies explained the move by the need to adjust lending policy to the provisions of Recommendation T.

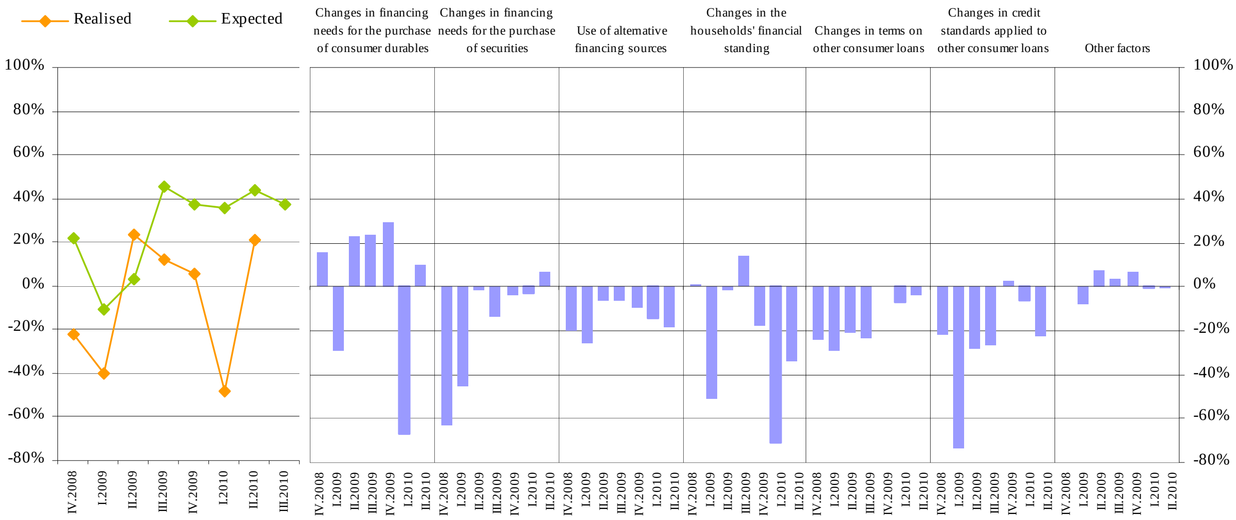
In the second quarter of 2010, demand for consumer loans from households increased, in net terms (see Figure 11). However, the responses of the banks were very discrepant, and over 20% of *all* banks registered a drop in demand for loans. At the end of the first quarter of 2010, the banks expected a bigger rise in loan demand.

The banks that registered an increase in demand for consumer loans did not mention the factor that would have a key impact on an increase in demand (see Figure 11). **The largest number of banks pointed to the increase in financing needs for durable goods**, but the number of the banks was insignificant (net percentage of around 10%), and the responses were discrepant.

The banks that had registered a fall in demand for consumer loans attributed the decrease mainly to changes in the economic condition of households. According to the banks, significant factors influencing the fall in demand included the use of alternative sources of financing and the tightening of lending policy by the banks.

According to banks' expectations, the policy to tighten the standards of granting consumer loans to households is to continue in the third quarter of 2010 (see Figure 9). These expectations were voiced by approximately 40% of the banks. **At the same time, the banks expect demand for consumer loans to grow** (net percentage amounted to 38%; see Figure 11).

Figure 11
Demand for consumer loans and factors influencing its changes



Appendix 1

Methodology

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

The importance of particular banks in a given market segment is represented by the share of loans outstanding of a given bank in the loan portfolio of all 29 banks responded to the survey, broken down by particular types of loans. The following table presents the market segment to which particular questions refer, and the type of loans outstanding which was used to calculate the shares of particular banks in a given market segment.

Table 1

Market segment and the respective type of loans taken into consideration in calculation of the weights

Questions no.	Market segment	Type of loans
1, 4, 6, 7	Short-term corporate loans	Loans outstanding from state-owned enterprises and companies, private enterprises and companies as well as cooperatives and sole traders with the basic term to maturity of up to one year, together with the outstanding on the current account
	Long-term corporate loans	Loans outstanding from state-owned enterprises and companies, private enterprises and companies as well as cooperatives and sole traders with the basic term to maturity above 1 year
2, 3, 5	Total corporate loans	Total amount of loans outstanding from state-owned enterprises and companies, private enterprises and companies as well as cooperatives and sole traders
8, 9, 10, 13, 14, 16, 17	Housing loans to households	Housing loans to persons
8, 11, 12, 13, 15, 16, 17	Consumer and other loans to households	Total loans outstanding from persons less housing loans to persons

Note: All types of claims relate to residents only. In the case of corporates the distribution between large enterprises and small and medium-sized enterprises was not retained, due to a lack of relevant data in banking statistics.

Source: NBP.

Thus a weight, corresponding to a given bank's share in a given market segment is assigned to particular responses. At the calculations of weights the average amount of claims of a given type in the two first months of the period covered by the survey, was taken into account.[3] Where a bank marked "*Not applicable*" in the response options, a weight of 0 was assigned. Thus while calculating

[2] Cf.: M. Bieć „*Business survey: Methods, techniques, experience*", Papers and Materials of the Research Institute for Economic Development, No. 48, Warsaw School of Economics, pp. 71-114.

[3] No data on claims loans of particular banks in the third month of the period are available at the time of analysing the results of the survey, due to an about three-week delay in reporting.

the structures for particular questions, only banks being active in a particular market segment were taken into account.

Apart from structures, the so-called net percentage was calculated for each response, that is the difference between the percentages of responses showing opposing directions of changes. This magnitude indicates a general tendency in the specific market segment. The method of calculating the net percentage for particular questions is presented in the following Table 2.

Table 2

Method of calculating the net percentage

Questions no.	Definition of net percentage
1, 2, 8, 9, 11	The difference between the percentage of responses „Eased considerably” and „Eased somewhat” and the percentage of responses “Tightened considerably” and “Tightened somewhat”. A negative index indicates a tendency of tightening the credit standards.
3, 10, 12	The difference between the percentage of responses “Contributed considerably to the easing of lending policies” and “Contributed somewhat to the easing of lending policies” and the percentage of responses “Contributed considerably to the tightening of lending policies” and “Contributed somewhat to the tightening of lending policies”. A negative index indicates a given factor’s greater contribution to the tightening than to the easing of lending policies.
4, 13	The difference between the percentage of responses „Increased considerably” and „ Increased somewhat” and the percentage of responses „Decreased considerably” and „Decreased somewhat”. A positive index indicates an increase in demand.
5, 14, 15	The difference between the percentage of responses „Contributed considerably to higher demand” and „Contributed somewhat to higher demand” and the percentage of responses „Contributed considerably to lower demand” and „Contributed somewhat to lower demand”. A positive index means that a given factor contributed to an increase in demand, and a negative one – to a decrease in demand.
6, 16	The difference between the percentage of responses „Ease considerably” and „Ease somewhat” and the percentage of responses „Tighten considerably” and „Tighten somewhat”. A positive index indicates the expected easing of the lending policies.
7, 17	The difference between the percentage of responses „Increase considerably” and „Increase somewhat” and the percentage of responses „Decrease considerably” and „Decrease somewhat”. A positive index indicates the expected increase in demand.

Source: NBP.