# Senior loan officer opinion survey

## on bank lending practices and credit conditions

## 3rd quarter 2013

Warsaw, July 2013

## Summary of the survey results

### Corporate loans

- Lending policy: a slight tightening of lending standards for long-term loans; higher collateral requirements and an increase in spreads on riskier loans; the extension of maximum loan maturity and lowering of non-interest loan costs.
- Demand for loans: a slight rise in demand for short-term loans to large enterprises.
- Expectations for the third quarter of 2013: no change in lending policy; a slight increase in demand for loans to large enterprises.

### Housing loans

- Lending policy: a slight easing of lending standards; an increase in spreads.
- Demand for loans: a rise in loan demand.
- Expectations for the third quarter of 2013: a slight easing of lending policy and a slight rise in loan demand.

### Consumer loans

- Lending policy: a significant easing of lending standards; an increase in maximum size of loan, a decrease in spreads, extending of maximum loan maturity.
- Demand for loans: a significant increase in loan demand.
- Expectations for the third quarter of 2013: a significant easing of lending policy and growth in loan demand.

The survey responding banks eased, for the first time in four quarters, some of their lending terms in the segment of corporate loans. In their opinion, this change was driven, inter alia, by the activation of the government programme of *De Minimis* portfolio guarantee facility. At the same time, there was a decline in the percentage of the banks that identified elevated risk associated with future developments in the economy and industry-specific risk. Changes in credit standards and lower financing needs for investment had an adverse impact on loan demand. The banks considered payment backlogs and extended payment periods as loan demand-driving factors.

For another quarter in succession, the banks reported a rise in spreads on housing loans. Despite the move, the demand for housing loans rose, which was attributed by the banks to a reduction in the availability of this type of credit at other banks and to active selling and marketing practices.

The banks substantially eased their lending policies in the segment of consumer loans, which was primarily related to the implementation of an amended Recommendation T. According to the banks, an easing of standards and terms on consumer loans helped to increase demand for this type of funding.

**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 June and July 2013 **among 27 banks with a total share of 81% 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 second quarter of 2013 as well as banks' expectations for the third quarter of the year.

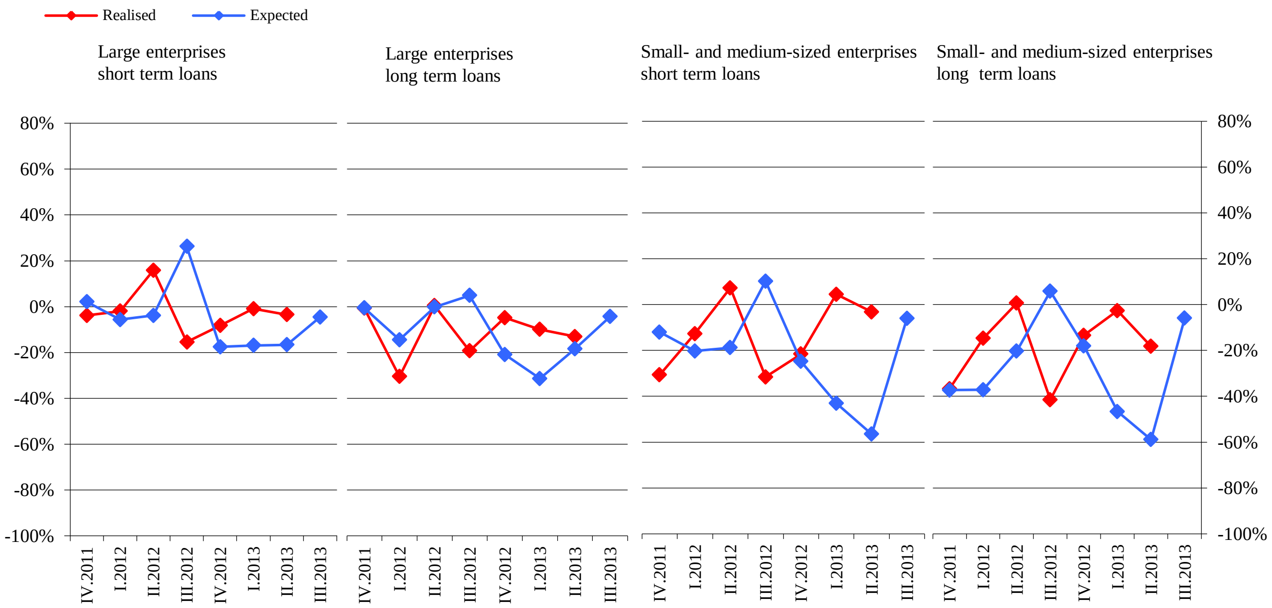
**Corporate loans**

**In the second quarter of 2013, part of the survey responding banks tightened long-term corporate credit standards** (see Figure 1). As regards loans to small and medium-sized enterprises (SMEs), approximately 18% of the banks reported a tightening of lending standards, and in the case of large enterprises – approximately 13% of the banks. The tightening was regarded as considerable[1] by, respectively, one fourth and three fourths of the banks that provided such a response. In net terms, lending policy in the segment of short-term loans remained substantially unchanged, however as regards SMEs, the responses were discrepant.

At the end of the first quarter of 2013, the banks expected a tightening of credit standards to be stronger, particularly in the case of SMEs

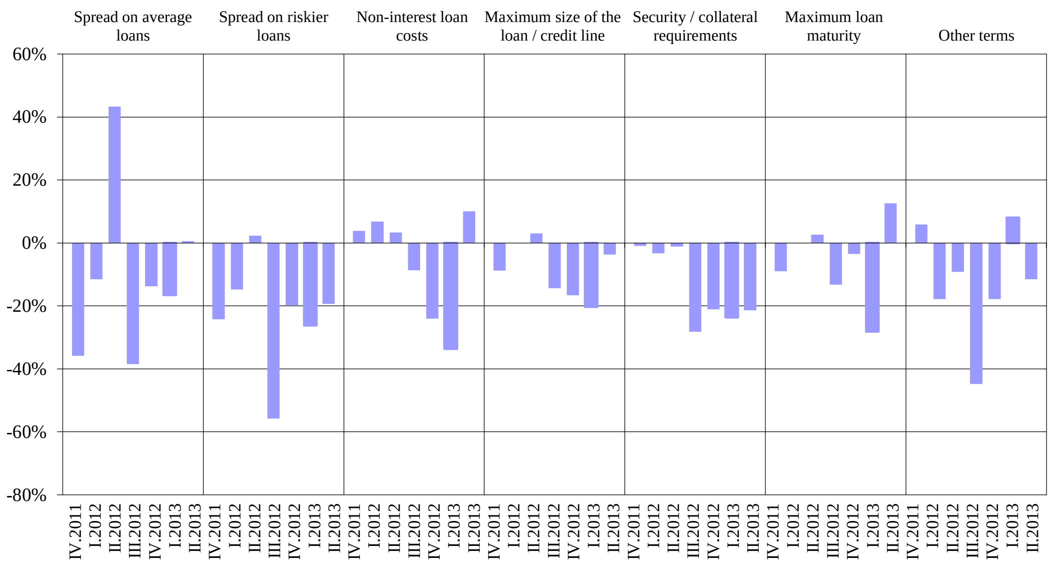
[1] The banks have a possibility of grading changes in the standards (terms) of granting loans. In this survey, the banks choose among the following options: standards (terms) were considerably tightened, standards (terms) were somewhat tightened, standards (terms) remained unchanged, standards (terms)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



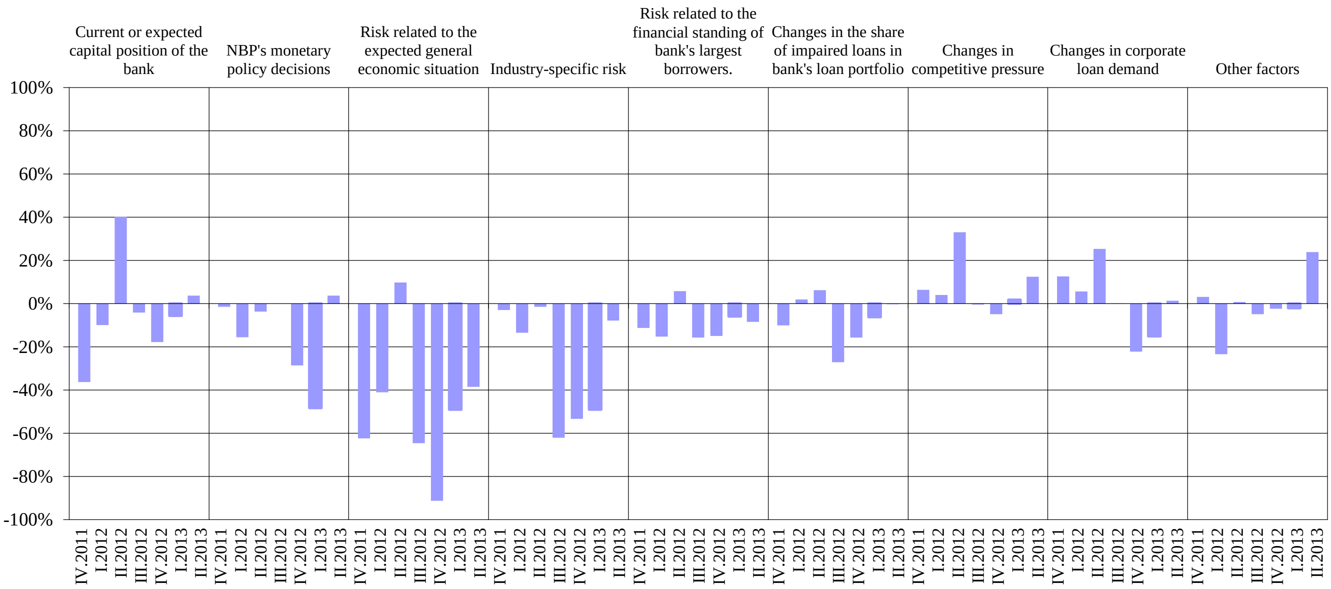

**The percentage of the banks that were tightening terms on corporate credit diminished as compared to the previous quarter** (see Figure 2). The banks surveyed by the NBP reported, first of all, tighter collateral requirements (net percentage of around -21%) and a tightening of terms related to spreads on riskier loans (net percentage of around-19%). Around 12% of the banks indicated a tightening of the terms unaccounted for in the survey, including, inter alia, raising documentation requirements for small entrepreneurs, changes in financial assessment of enterprises and LtV ratios.[2]

**In net terms, the banks extended maximum maturity and lowered non-interest loan costs, for the first time in a year.** Such a response was given by around 13% and 10% of the banks, respectively.

**According to the banks, the risk associated with future developments in the economy remained the main factor influencing lending policy tightening** (net percentage of around -39%, see Figure 3). However, a percentage of the banks to have given such a response declined for the second quarter in succession. At the same time, around one fifth of the banks that identified this factor named its impact on lending policy as considerable.[3] A group of banks that indicated industry-specific risk declined significantly in the second quarter of 2013. In net terms, such a response was provided by around 8% of the banks, however, the responses were discrepant. Construction, machinery, automotive, transport, hotel, restaurant and renewable energy-related industries were classified by the banks as riskier. In banks' view, other factors had no substantial impact on their lending policy towards enterprises.

**Almost one fourth of the banks responded that an easing of lending policy had been affected by factors unaccounted for in the survey.** Among these factors, the banks mentioned, in particular, the activation of the government programme *De Minimis* portfolio guarantee facility and a fall in liquidity costs. Changes in competitive pressure, indicated by around 12% of the survey responding banks, also had an impact on lending policy easing.

Figure 3
Factors influencing changes in lending policies




[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 are 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 lending policy tightening, slight influence on lending policy tightening, no influence on the change in lending policy, slight influence on lending policy easing, and considerable influence on lending policy easing.

**In net terms, the banks experienced a slight rise in demand only in the segment of short-term loans to large enterprises** (net percentage of around 13%, see Figure 4). In other corporate credit categories, the demand declined insignificantly, however, the responses were discrepant. The majority of *all* banks reported no changes in demand in the second quarter of 2013.

Figure 4
Corporate loan demand

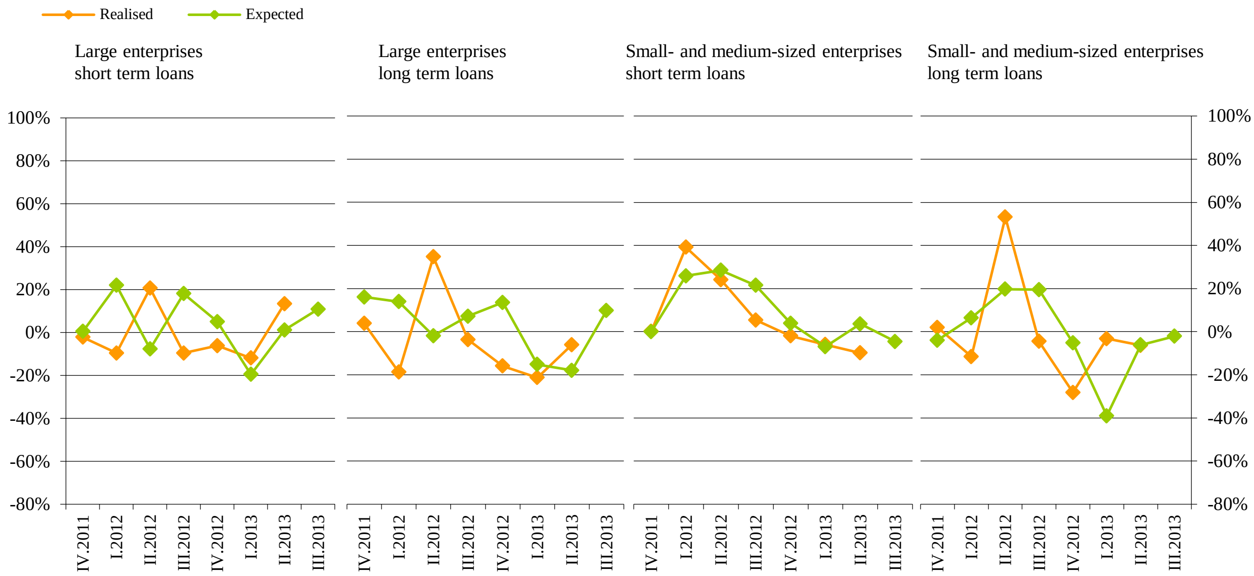
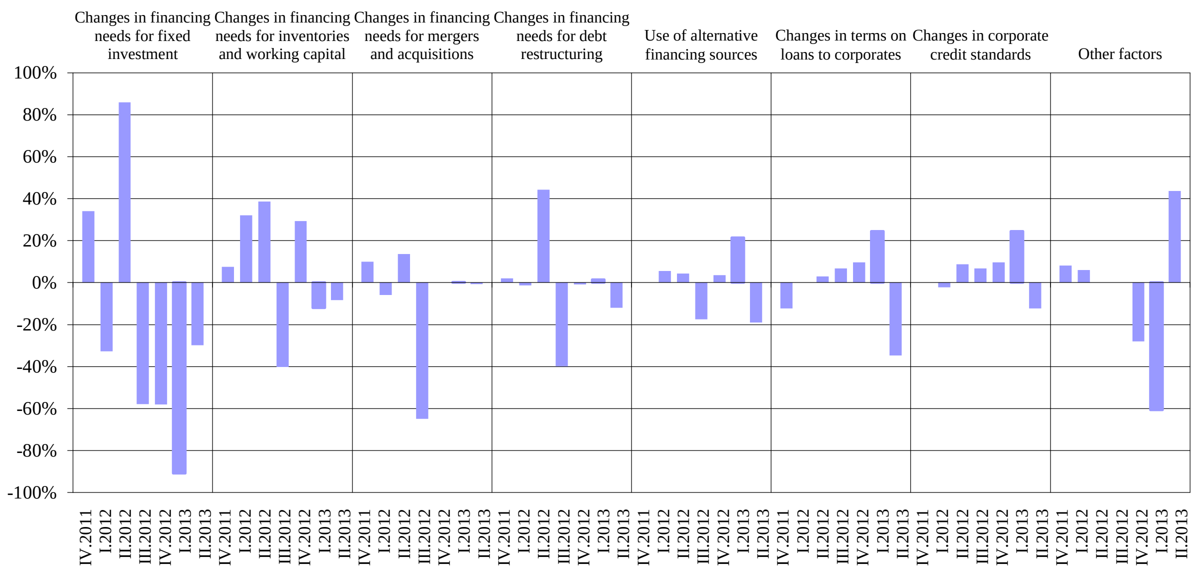



Figure 5
Factors influencing changes in corporate loan demand




**The banks that were affected by falling demand explained it primarily by changes in terms on corporate loans** (net percentage of around -35%, see Figure 5). The percentage of the banks that reported changes in financing needs for fixed investment declined significantly as compared to the previous quarter. In net terms, such a response was given by around 30% of the banks, but the responses were discrepant– according to around one fifth of all banks, this factor had an influence on the rising demand for corporate loans. The use of alternative funding sources (net percentage of around -19%), primarily in the form of loans from other banks and non-bank financial institutions, were identified by banks as factors having a negative impact on loan demand. Around 12% of the survey responding banks each indicated changes in corporate credit standards and changes in financing needs associated with debt restructuring.

**According to the banks, the corporate loan demand growth was driven by factors unaccounted for in the survey** (net percentage of around 44%). These primarily included payment backlogs and extended payment periods, and the banks described their impact on demand as considerable.[4]

**An overwhelming majority of the banks have no plans to revise their lending policies towards enterprises in the coming quarter** (see Figure 1). Individual banks announced they would slightly tighten lending policy.

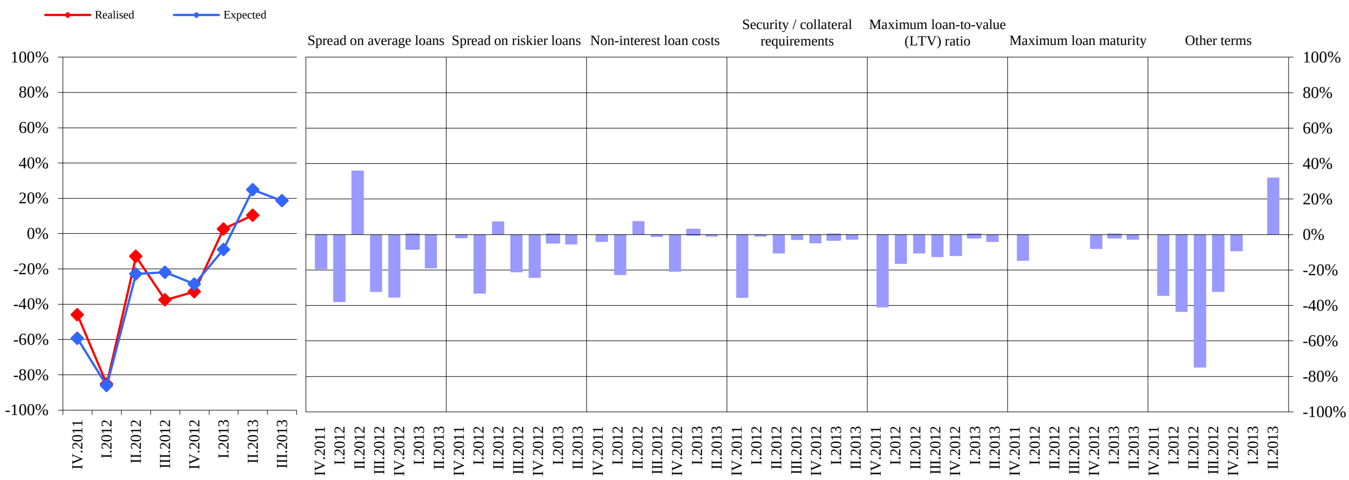
**In the third quarter of 2013, the banks expect demand to rise slightly in the segment of loans to large enterprises** (see Figure 4). As regards short-term loans, the net percentage of responses amounted to around 11%, and as regards long-term loans – around 10%. According to the banks, the demand in the segment of loans to SMEs will not change in the coming quarter.

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

## Housing loans

**In net terms, the banks slightly eased the terms on housing loans in the second quarter of 2013** (net percentage of around 10%, see Figure 6). However, the responses were discrepant – around 10% of *all* banks said they would tighten lending policy in this segment. At the end of the previous quarter, the banks announced easing of lending terms on a larger scale.

Figure 6
Standards and terms on housing loans




**As in previous quarters, the banks raised spreads on housing loans.** The net percentage of the responses stood at around 19%, with 22% of *all* banks reporting an easing of this term. Almost one third of the banks indicated that they would ease the terms unaccounted for in the survey, mainly mentioning an easing of credit standards and changes in their product range.[5] Other terms were not substantially changed in the second quarter of 2013.

**The lending policy tightening banks justified the move primarily by NBP monetary policy decisions** (net percentage of around -21%, see Figure 7). However, the assessment of this factor was very discrepant – around 18% of *all* banks said that it had contributed to easing of lending policy. The tightening of lending policy remained linked to the heightened risk of future economic developments, which was indicated by around 14% of the responding banks. In their view, other factors had no bearing on lending policy in the segment of housing loans.

**The banks surveyed by the NBP experienced a rise in demand for housing loans in the second quarter of 2013** (net percentage of around 29%, see Figure 8). At the same, around 14% of *all* banks termed the rise as considerable. At the end of the previous quarter, the banks – in net terms – expected no changes in demand for housing loans.

**The highest percentage of the banks identified factors unaccounted for in the survey as the reason for demand growth** (net percentage of around 38%). The factors mentioned by the banks included a reduction in the availability of housing loans at other banks, bolstering of own distribution network and marketing campaigns. One fourth of the banks explained the loan growth with changes in households' consumer spending, and around 21% –

[5] Due to their incorrect classification by the banks, they are presented under the category "Other terms" in Figure 6.

with improved terms on housing loans. The use of alternative funding sources, primarily loans extended by other banks, was indicated by around 16% of the banks.

**The banks that had experienced a fall in demand attributed this decrease to tighter housing loan standards** (net percentage of around -19%). Approximately 15% of *all* banks considered the influence of the factor as significant. Unlike in previous quarters, housing market forecasts and changes in the economic standing of households did not negatively influence the demand. According to the surveyed banks, these factors had no significant impact on developments in housing loan demand.

Figure 7
Factors influencing changes in lending – housing loans

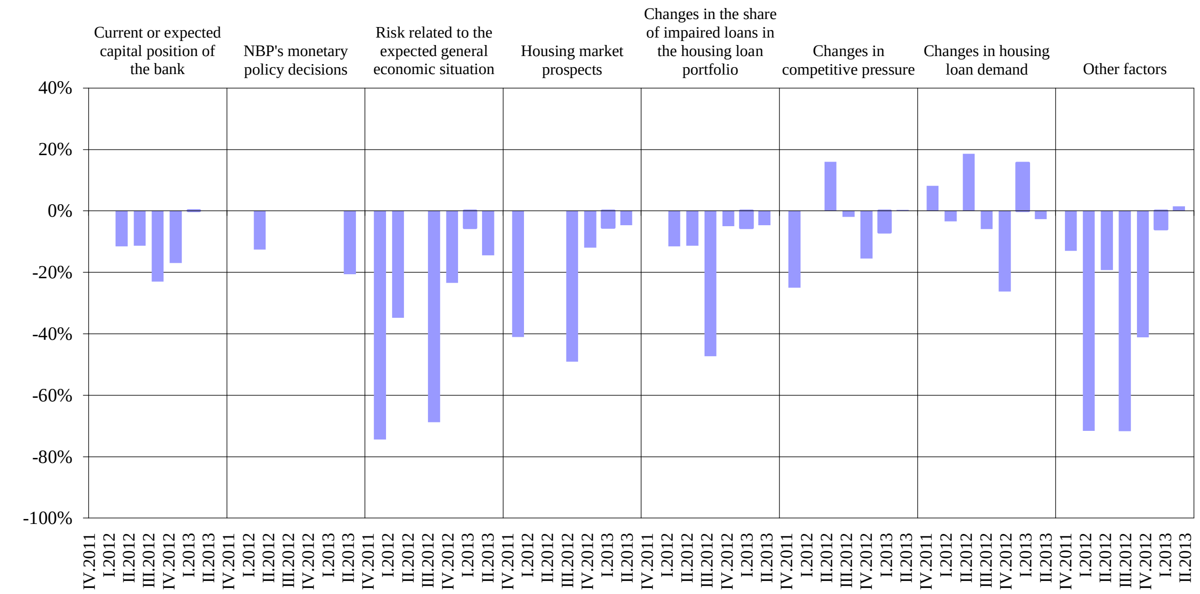
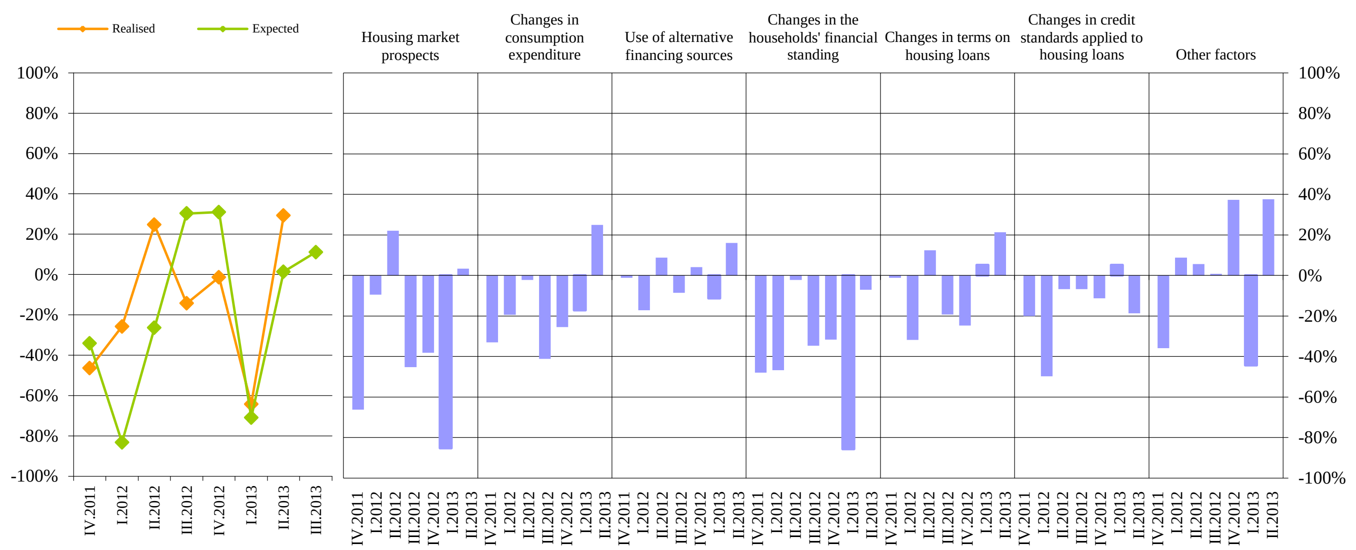



Figure 8
Demand for housing loans and factors influencing its changes



**In net terms, the banks expect lending policy to be eased in the coming quarter** (net percentage of around 19%, see Figure 6). The majority of *all* banks do not intend to make changes in this respect.

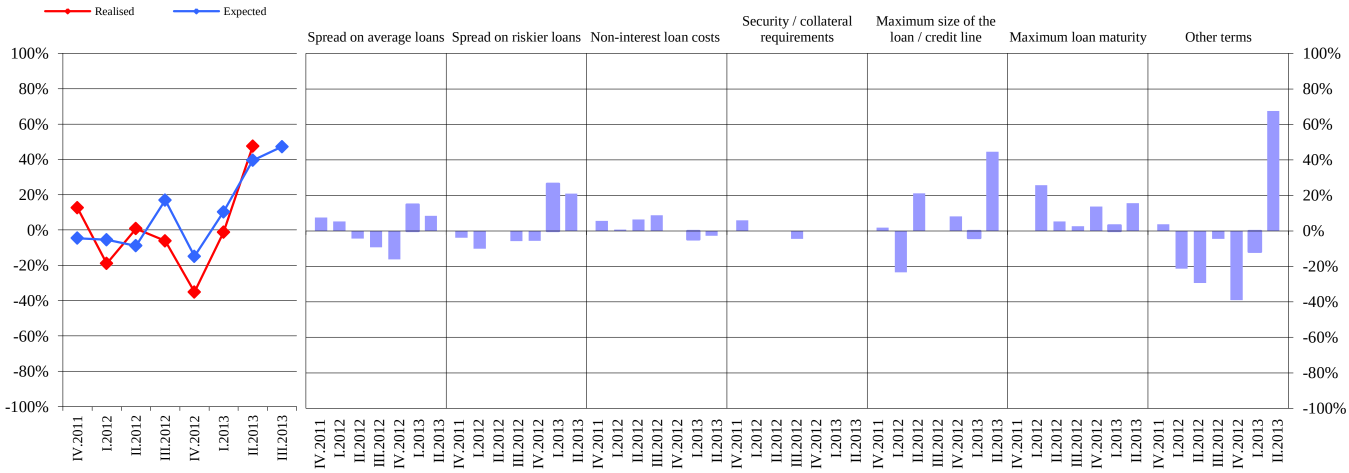
**The survey responding banks expect housing loan demand to grow in the third quarter of 2013** (net percentage of 11%, see Figure 8). At the same time, the majority of *all* banks expect no changes in demand.

## Consumer loans to households

**The standards of granting loans were eased by nearly half of the banks in the second quarter of 2013** (see Figure 9). Their responses were in line with expectations expressed in the previous edition of the survey.

**Lending policy was also eased with regard to the terms on consumer loans.** The highest percentage of the banks raised the maximum amount of loans on offer (net percentage of around 45%). At the same time, the banks lowered spreads both on riskier loans (net percentage of 21%) and all loans (net percentage of around 9%). Individual banks explained these changes with the NBP monetary policy decisions. An extension of maximum maturity was reported by approximately16% of the banks. Over two thirds of them indicated terms unaccounted for in the survey, however they mainly cited streamlined credit procedures resulting from the implementation of the amended Recommendation T.[6] Other terms on consumer loans were not changed substantially.

Figure 9
Standards and terms on consumer loans




**The easing of lending policy resulted primarily from factors unaccounted for in the survey, with the amended Recommendation T named as one of them** (net percentage of around 69%, see Figure 10). Changes in competitive pressures were indicated by around 13% of the banks which experienced them from other banks. Individual banks explained the easing of lending policy with changes in demand for consumer loans (net percentage of 8%).

[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 are presented under the category “Other terms” in Figure 9.

**The banks whose lending policy was tightened said it was a result of NBP monetary policy decisions.** In net terms, such a response was given by around 9% of the banks, however the assessment of the impact of this factor was very discrepant (around 10% of all banks said that it contributed to easing of their lending policies).

Figure 10
Factors influencing changes in lending policy – consumer loans

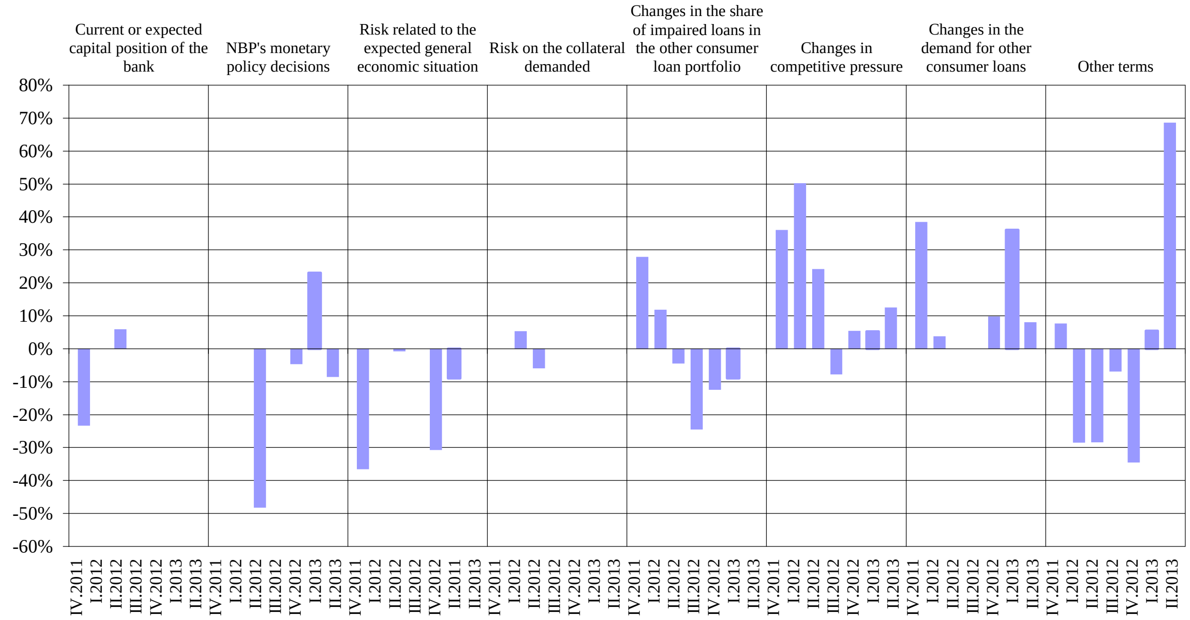
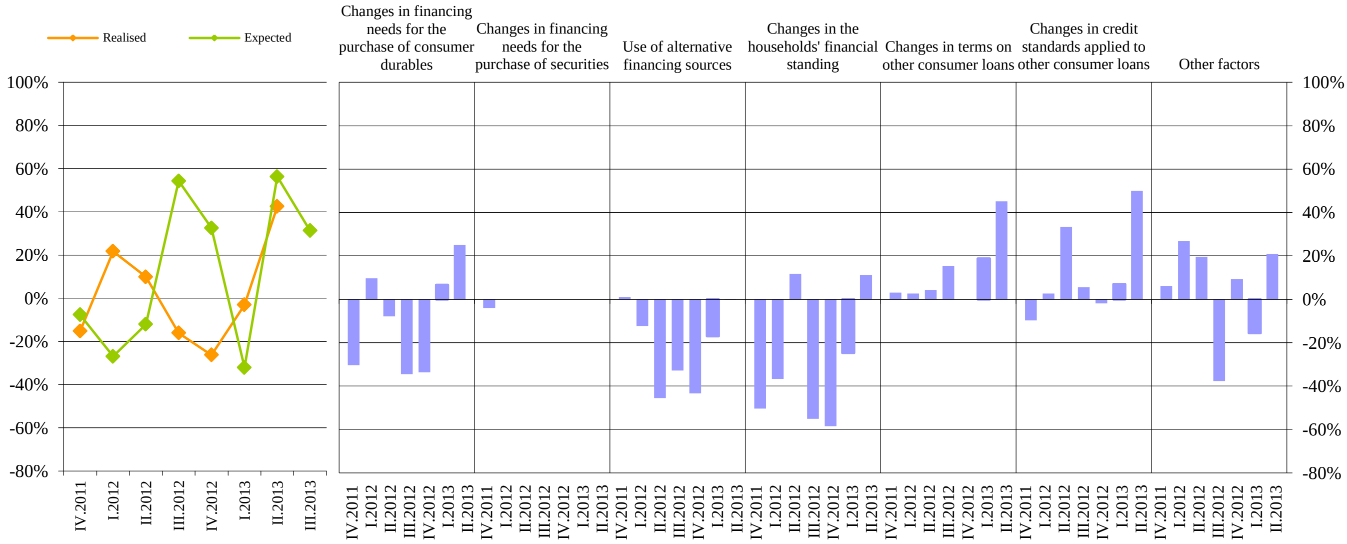



Figure 11
Demand for consumer loans and factors influencing its changes




**The surveyed banks reported a significant rise in consumer loan demand in the second quarter of 2013** (net percentage of around 43%, see Figure 11). At the end of the previous quarter such a change in demand was expected by a slightly higher percentage of the banks.

**According to the banks, an easing of standards and terms on consumer loans was the main reason for the increased demand** (net percentage of approximately 50% and approximately 45%, respectively). One fourth of the banks indicated a rise in financing needs for durable goods, and one fifth mentioned factors not accounted for in the survey, including promotion activities and marketing campaigns. Changes in the economic standing of households were indicated by the banks as the reason for the demand growth for the first time in four quarters. In net terms, such a response was provided by 11% of the banks; however, at the same time 14% of *all* banks found this factor as conducive to a decrease in the demand for consumer loans.

**The banks expect lending policy in the segment of consumer loans to be eased substantially in the third quarter of 2013** (net percentage of around 47%, see Figure 9).

**Almost one third of the survey responding banks expect the demand for consumer loans to grow in the forthcoming quarter** (see Figure 11). At the same time, around half of *all* banks do not expect this demand to change.

## 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 27 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.