Senior loan officer opinion survey

on bank lending practices and credit conditions

4th quarter 2008

Warsaw, October 2008

Summary of the survey results

Corporate loans

- Lending policy: the banks tightened the standards of granting loans to enterprises. An over year-long upward trend of spreads on both normal and riskier loans persisted. The tightening of lending policy was mainly related to the risk concerning future economic situation.
- Demand for loans: a slight increase in demand was observed, which concerned all but short-term loans to small and medium-sized enterprises. The growing financing needs for fixed investment and for working capital and inventories were the main reasons for the growth in demand.
- Expectations for the fourth quarter of 2008: the banks expect a considerable tightening of lending policy towards both groups of enterprises. According to the banks, the demand for long-term loans to large enterprises will be falling, whereas the demand for other corporate loans will be growing.

Housing loans

- Lending policy: lending policy towards housing loans was tightened. The banks raised their loan spreads again, increased non-interest loan costs and lowered the maximum loan-to-value ratio. This was related to the future economic situation risk.
- Demand for loans: the demand for housing loans slightly decreased, which the banks attributed to the situation on the housing market and to the tightening of terms of granting housing loans.
- Expectations for the fourth quarter of 2008: the banks expect further tightening of lending policy and also a fall in demand for housing loans.

Consumer loans

- Lending policy: the standards and terms of granting loans were tightened. The banks raised loan spreads for riskier loans in connection with the worsening of the economic outlook.
- Demand for loans: the third quarter of 2008 saw an increase in demand for consumer loans, which as the banks assessed, resulted from the growing demand for financing durable goods and an improvement in the financial standing of households.
- Expectations for the fourth quarter of 2008: the banks expect a marked tightening of lending policy. At the same time, they expect a slight 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 the 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 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 September and October 2008 among 24 banks whose total share of claims on enterprises and households in the banking sector portfolio amounts to 72.1%.

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.

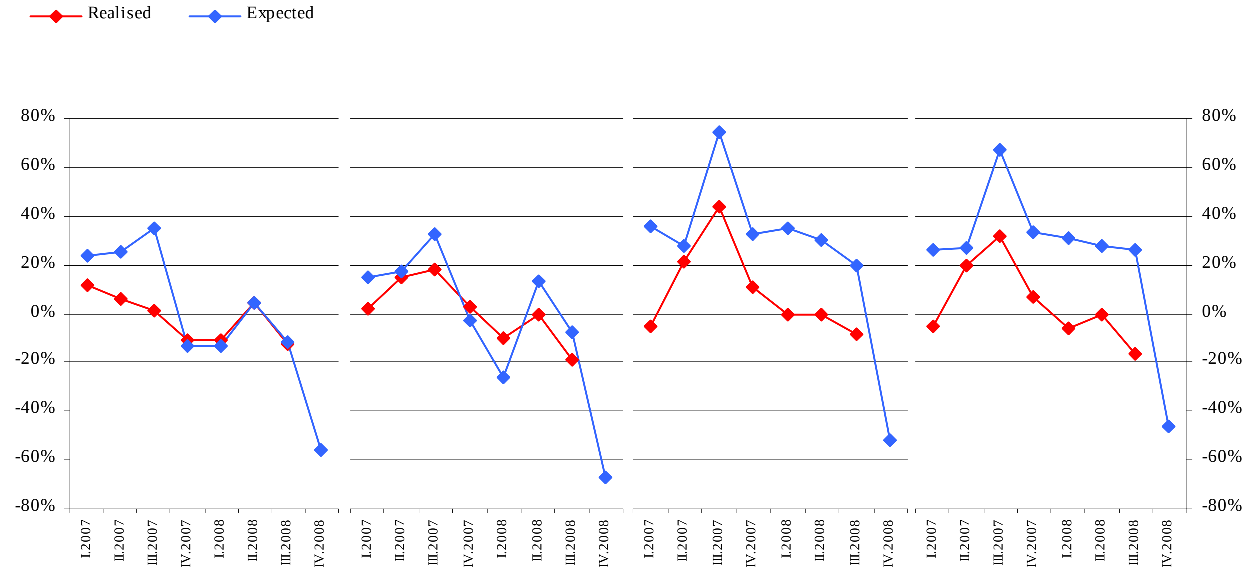
The following section presents tendencies regarding the banks' lending policy and changes in demand in the third quarter of 2008, as well as the banks' expectations for the fourth quarter of 2008.

Corporate loans

In the third quarter of 2008, the standards of granting corporate loans were tightened. In the case of large enterprises, this policy was in line with expectations expressed in the second quarter of 2008. The tightening of standards of granting loans to small and medium-sized enterprises did not reflect the banks' expectations from the previous quarter when the banks had expected the lending standards to be eased. The difference between the actual changes in lending policy towards this group of enterprises and the banks' expectations has been visible for the third quarter in a row. The tightening of lending standards applied to a similar extent short-term and long-term loans (see Figure 1).

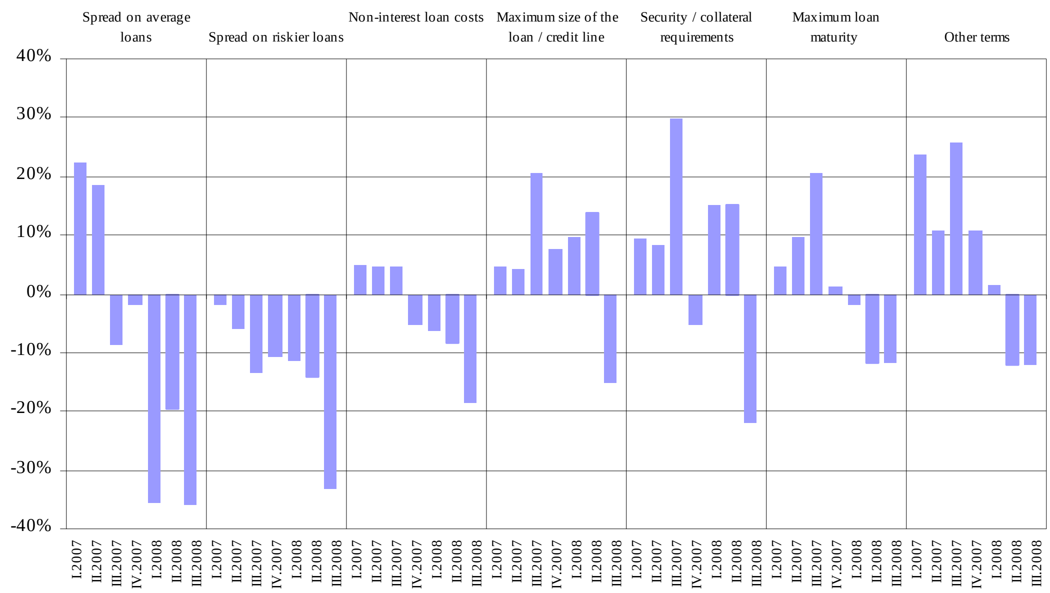
All terms of granting loans to enterprises, included in the survey, were tightened. Thirty six percent of the banks raised their loan spreads (see Figure 2). In the case of 11% of the banks, the move represented a considerable increase. Around 33% of the banks also raised spreads on riskier loans. Approximately 20% of the banks increased also non-interest loan costs. Following a period of easing the terms of granting loans for maximum loan size and collateral requirements, the banks tightened these terms in the third quarter of 2008. Like in the second quarter of the year, over 11% of the banks resolved to cut short the maximum loan maturity.

Figure 1
Corporate credit standards



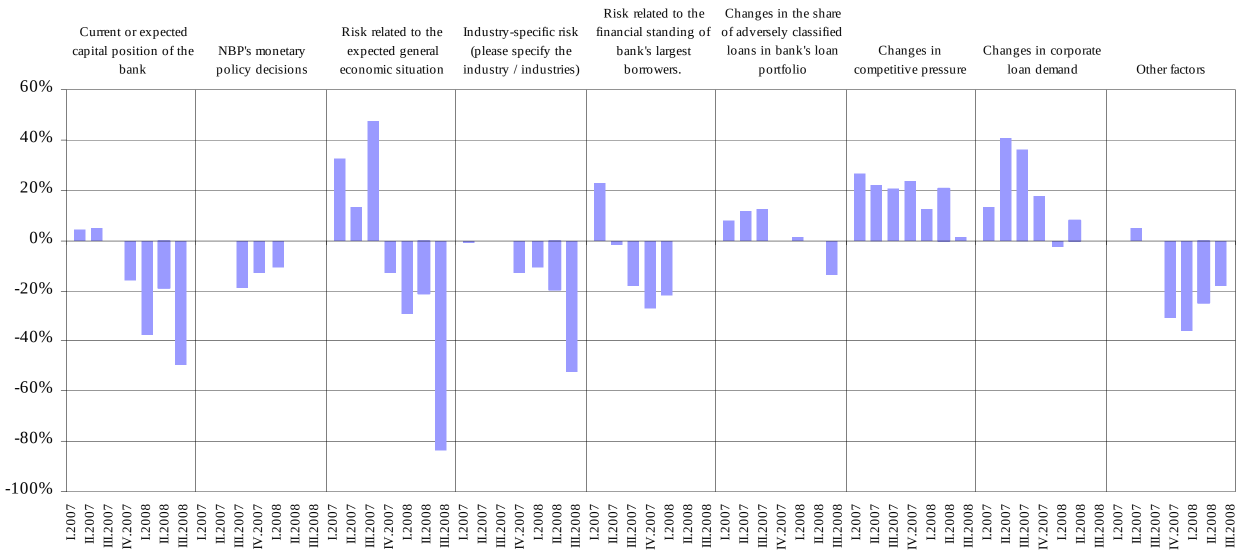
Note: the Figures included in this study present the net percentage. A positive value of net percentage should be interpreted as the easing of lending policy or the growth in demand for loans, and a negative value of net percentage – as the tightening of lending policy or a fall in demand for loans. Details concerning the calculation methodology are presented in Appendix 1.

Figure 2
Terms on corporate loans



The banks negatively assess the economic situation outlook. Over 83% of the banks pointed to the risk related to the future economic situation as the reason for tightening the lending policy (see Figure 3). Two of the banks that cited this reason to change their lending policies said that it had considerably influenced their decision to tighten the policy[1]. Almost half of the banks argued that their decision to tighten lending policy had also been influenced by current or expected capital position of the bank. This factor has had an impact on the tightening of lending policy for a fourth quarter in a row. Also, nearly half of the banks decided to tighten their lending policies in response to the growing industry-specific risk with the property sector, the transport industry and industries displaying a high share of exports in the sales structure being seen as particularly risky. Among other factors impacting the tightening of lending policy, the banks cited a crisis in the banking sector, liquidity costs and policy of the parent entity (foreign banks). According to the banks, competitive pressure had a small influence on the change of their lending policies, unlike in previous quarters when it was a factor influencing the easing of lending policies.

Figure 3
Factors influencing changes in lending policies



The banks recorded an insignificant growth in demand for loans to large enterprises in the third quarter of 2008. This growth was experienced to a similar extent for long- and short-term loans. **In the case of small and medium-sized enterprises, the demand growth occured only for long-term loans**. The demand for short-term loans in this group of enterprises marginally decreased (see Figure 4).

The banks' opinions on demand developments were discrepant, especially with regard to demand for short-term loans. In the case of loans to large enterprises, around 9% of the banks reported a decrease in demand, while around 21% pointed to a decrease in demand; in the case of loans to small and medium-sized enterprises around 14% of the banks reported a fall in demand, whereas around 12% – a rise in demand.

According to the banks' assessments, growing financing needs for enterprises' fixed investment, inventories and working capital were the major factors stimulating the growth in demand for corporate loans (see Figure 5). Presumably, the first of the categories also includes the financing of property purchase by enterprises. The importance of this factor has markedly diminished, reaching its lowest level since the end of 2005.

[1] The banks have a possibility of grading the influence of factors on lending policy. In the survey, the banks choose among the following options: considerably influencing the tightening of lending policy, somewhat influencing the tightening of lending policy, not influencing lending policy, somewhat influencing the easing of lending policy, considerably influencing the easing of lending policy.

The banks' responses with regard to the impact of financing needs for enterprises' inventories and working capital on the demand for corporate loans were discrepant. Approximately 55% of the banks said this factor had had an influence on the growth in demand for loans, while approximately 35% said it had had an influence on the fall in demand for loans (these were mostly banks that reported a fall in demand for short-term loans to small and medium-sized enterprises).

The banks that recorded a fall in demand for corporate loans attributed it to changes in financing needs related to debt restructuring and the use of alternative sources of finance.

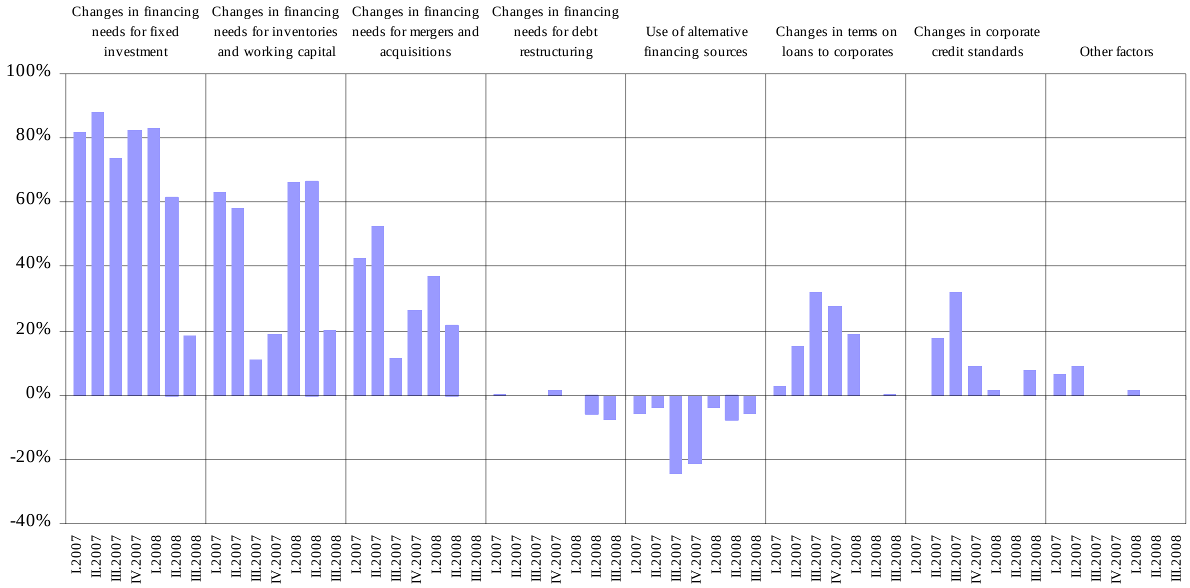
Among alternative sources of finance, mainly availability of lending by other banks and issues of debt securities had a negative impact on the demand of enterprises for loans. According to 40% of the banks, the lower availability of capital on the stock market, reflected in the falling number of IPOs and in the relative stock prices of listed companies, had an influence on the growth in demand for corporate loans.

Figure 4
Corporate loan demand

The majority of the banks expect the lending policy towards enterprises to be tightened in the fourth quarter of 2008. The tightening will apply to all types of corporate loans listed in the survey (see Figure 1). The tightening of lending policy towards enterprises will have its strongest impact in the segment of long-term loans to large enterprises, where 12.3% of the banks expect lending policy to be considerably tightened. Only two banks expect lending policy to be eased, of which one bank expects the policy to be eased towards short-term loans to large enterprises, and the other expects the policy to be eased towards all loans to small and medium-sized enterprises.

The banks expect further growth in demand for corporate loans in the fourth quarter of 2008 (see Figure 4). The expectations do not refer to long-term loans to large enterprises, where 18.6% of the banks expect a slight decrease in loan demand.

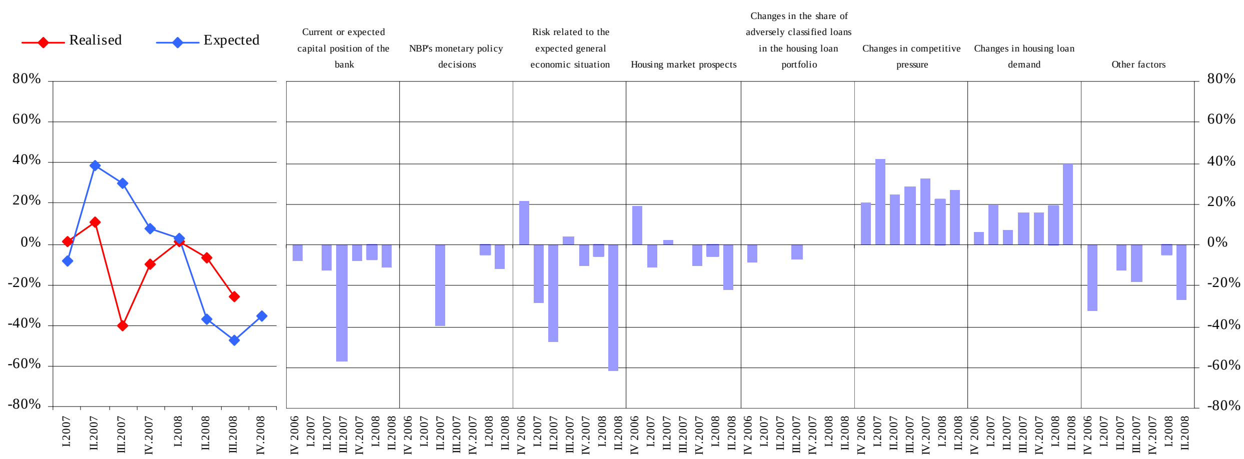
Figure 5
Factors influencing changes in corporate loan demand



Housing loans

As in the previous quarter, **in the third quarter of 2008 the banks tightened lending policy with regard to housing loans** (see Figure 6). Around one fourth of the banks tightened standards of granting housing loans, of which one bank regarded the changes as considerable tightening of its lending policy. Nearly 3% of the banks slightly eased the standards of granting housing loans.

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



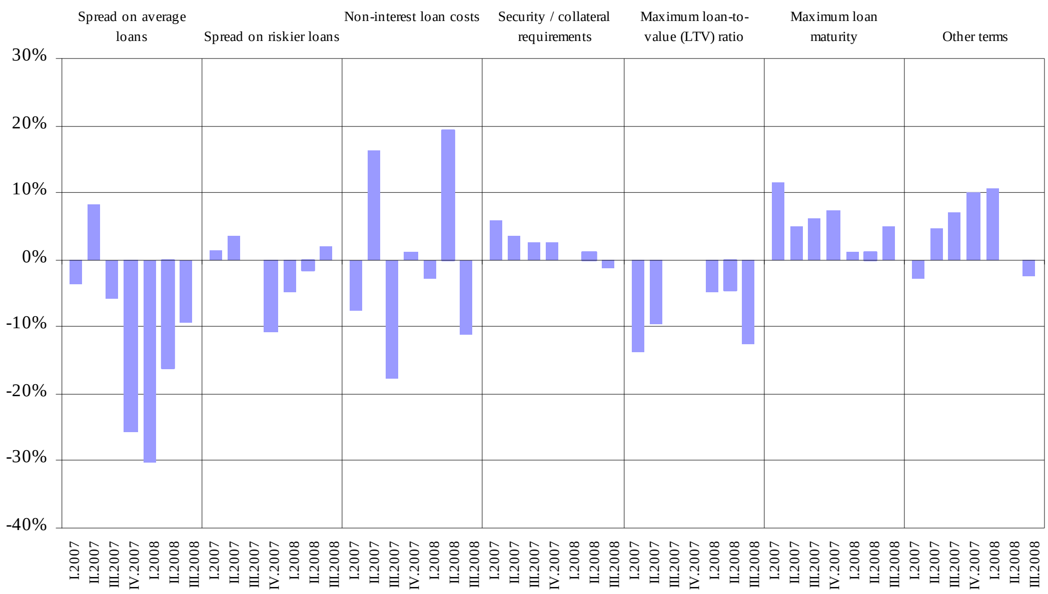
The tendency, observed since mid-2007, **to raise loan spreads on housing loans persisted**[2] (see Figure 7). Spreads (also on riskier loans) were lowered by merely 3% of the banks that reported a considerable decrease in demand for housing loans. The banks increased non-interest loan costs. They also lowered the maximum loan-to-value ratio that has been decreasing for a third quarter in a row. The maximum loan maturity terms were eased. However, only 5% of the banks decided to extend it. Among other standards and terms of granting housing loans, individual banks reduced their requirements on documents to be submitted, increased the amount of a single tranche and broadened the range of acceptable income for some types of housing loans. One bank tightened terms for calculating borrower's creditworthiness.

Decisions of the majority of the banks that changed their lending policies in the segment of housing loans were in line with the expectations expressed by these banks in the second quarter of 2008.

As in the case of corporate loans, **the risk related to the expected general economic situation had a major impact on tightening lending policy towards housing loans** (see Figure 6). The reason was identified by approximately 62% of the banks; however none of them considered this influence as considerable. Similarly as in previous quarters, the current and expected capital position of the banks, Monetary Policy Council decisions and projections of housing market developments were cited as the rationale behind the tightening of lending policy. Other reasons, unaccounted for in the survey, mentioned by individual banks were: implementation of the recommendation of the Polish Financial Supervision Authority on changing creditworthiness assessment principles and the necessity to increase the profitability of the given loan, which may be linked to expectations of higher credit risk realisation.

The banks that eased their lending policies for housing loans justified the decision primarily by changes in demand for housing loans and mounting competitive pressure.

Figure 7
Terms on housing loans



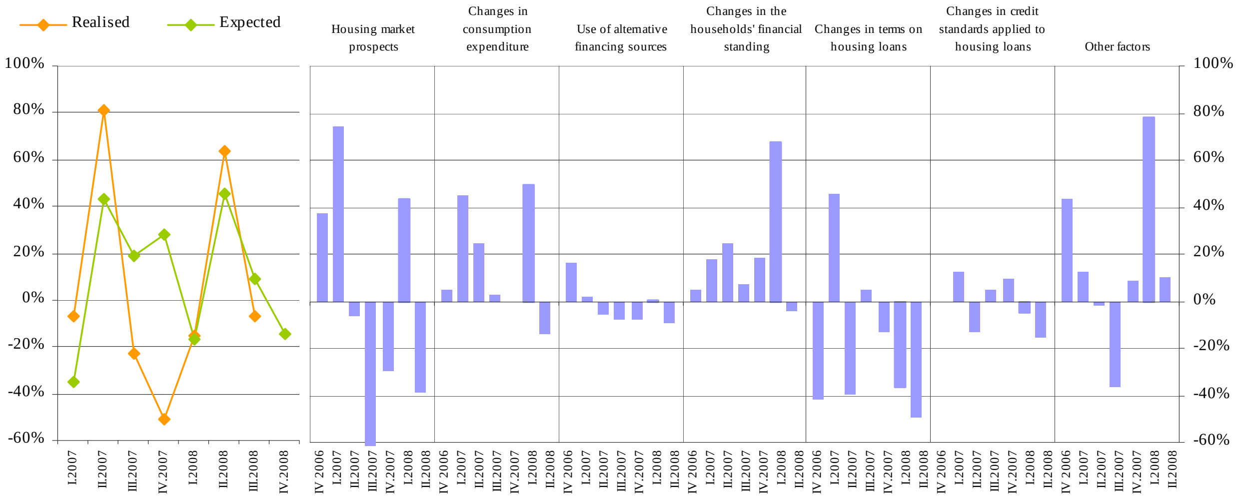
[2] One bank lowered loan spreads, but it did so only towards the end of the quarter covered by the survey. Moreover, the reduction was temporary and at the start of the fourth quarter the spreads were raised. Therefore, the reduction was not taken into account in the figures presented in this study.

In the third quarter of 2008, over 18% of the banks reported a fall in demand for housing loans (see Figure 8), including two banks that reported a considerable fall[3]. In the case of around 12% of the banks, the demand for housing loans slightly increased. This growth applied mainly to foreign currency-denominated loans (primarily Swiss franc-denominated loans). A slight decrease in demand for housing loans in the third quarter of 2008 was not in line with the expectations the banks expressed at the end of the second quarter when they had expected a slight increase in demand.

According to approximately 40% of the banks that reported decreased demand for housing loans, this decrease was influenced by the projections of developments on the housing market (see Figure 8). Uncertainty about future price developments on this market might have induced households to put off their property purchase transactions. **Changes in terms and standards of granting housing loans was** another **significant factor contributing to the decrease in demand**. Thus, the banks' tightening of lending policies had an influence on lower interest in this type of credit. One of the banks that reported an increase in demand attributed the increase to the development of its distribution network.

Over one third of surveyed banks expect a further tightening of lending policy in the segment of housing loans in the fourth quarter of 2008. In the opinion of around 14% of the banks, the tightening of lending policy will be considerable. One of the banks that eased its lending policy in the third quarter of 2008 plans to further ease it slightly. **A slight decrease in demand for housing loans is expected** (see Figure 8). Seventy percent of the banks expect the demand for housing loans to remain unchanged in the fourth quarter.

Figure 8
Demand for housing loans and factors influencing its changes



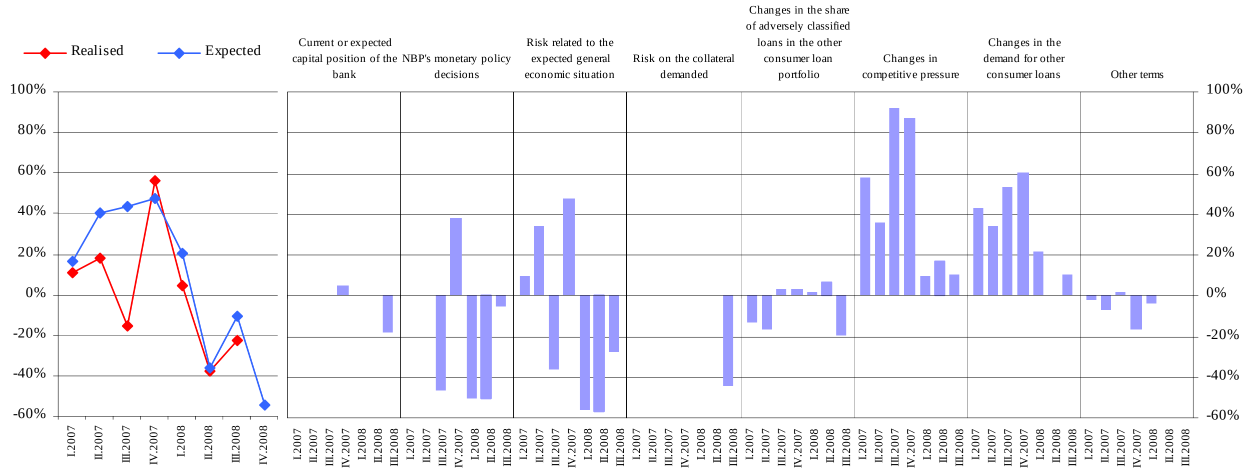
[3] The banks have a possibility of grading changes in demand. In the survey, the banks choose among the following options: demand increased considerably, demand somewhat increased, demand remained unchanged, demand somewhat decreased and demand decreased considerably.

Consumer loans

In the third quarter of 2008, the standards of granting consumer loans to households were tightened again (see Figure 9). Around one fourth of the banks decided to tighten the standards. This change was in line with the banks' forecasts from the second quarter of 2008.

Figure 9

Lending policy and factors influencing its changes – consumer loans



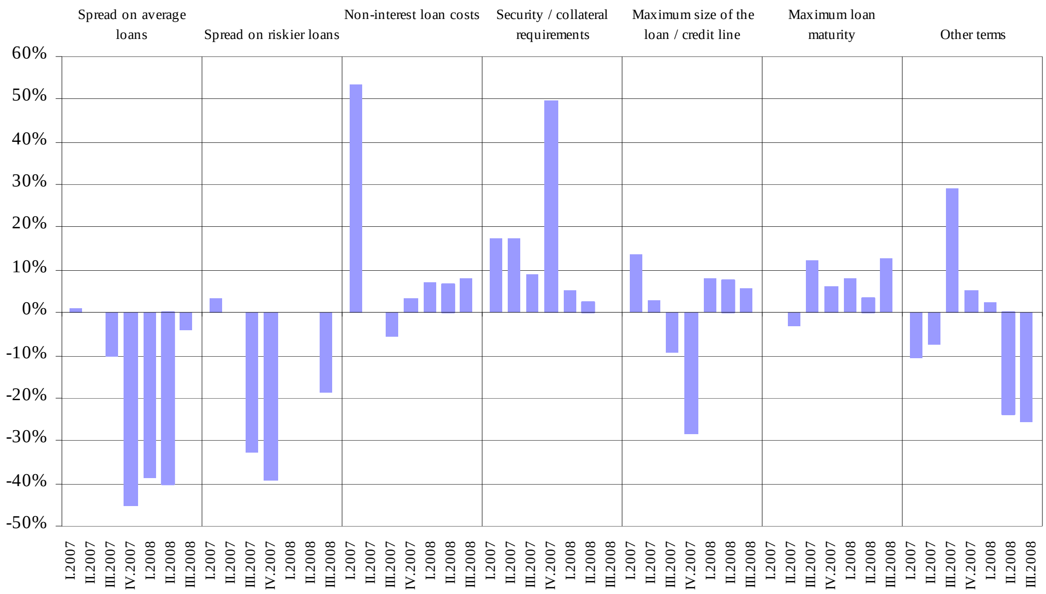
In the third quarter of 2008, the tendency, started in mid-2007, to raise loan spreads on consumer loans was maintained. However, unlike in previous two quarters, this increase involved mainly riskier loans (see Figure 10). Other standards of granting consumer loans, unaccounted for in the survey, were also tightened, which was primarily influenced by changes in the banks' scoring systems. Other terms of granting consumer loans, included in the survey, were slightly eased. In particular, nearly 10% of the banks increased maximum loan sizes, and nearly 13% extended the maximum loan maturity. One of the banks reduced its non-interest loan costs, but the reduction lasted only for its promotional campaign. The collateral requirements for consumer loans remained unchanged.

The risk related to the expected general economic situation was again one of the main reasons for the banks' decision to tighten their lending policies in the segment of consumer loans. Approximately 45% of the banks tightened lending policy in response to the growing collateral-related risk (see Figure 9). Furthermore, 17.6% of the banks indicated the current and expected capital position of the bank, and 25% of the banks - the change in the share of irregular loans in the consumer loan portfolio as contributing to the tightening of their lending policy. One large bank also indicated the recommendations of the Polish Financial Supervision Authority on changing creditworthiness assessment principles as the factor inducing it to tighten lending policy in the segment of consumer loans.

Around 10% of the banks indicated competitive pressure from other financial institutions as the factor influencing their decisions to ease lending policy. These banks adjusted their offer to market requirements, primarily with regard to maximum loan maturity and collateral requirement. Competitive pressure from other banks offering consumer loans and from non-bank financial institutions was significant.

The growth in demand for consumer loans in the third quarter of 2008 was reported by over 25% of surveyed banks. Therefore, this growth was not so marked as in the previous quarter when it was reported by nearly two thirds of the banks. At the end of the second quarter of 2008, the banks expected a slightly smaller increase in demand for consumer loans (see Figure 11).

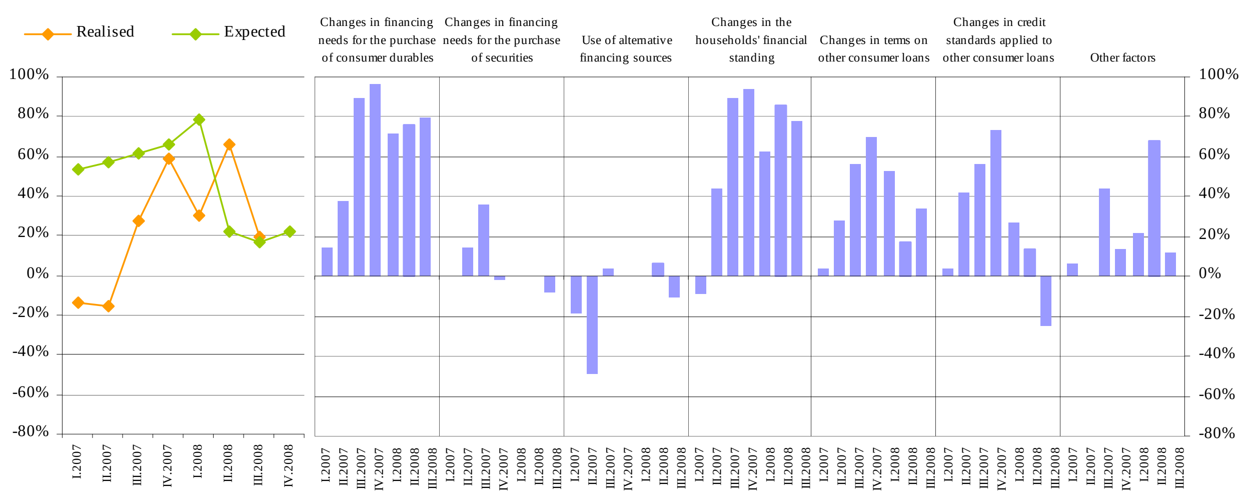
Figure 10
Terms on consumer loans



An improvement in the financial standing of households and an increase in financing needs for durable goods purchases were the two major causes of the growth in demand for consumer loans. These factors were identified by the majority of the banks that reported an increased demand (see Figure 11). The banks that eased terms of granting consumer loans indicated that the move had also had a positive influence on demand. One bank justified the growth in demand for consumer loans by its promotional campaigns.

In the fourth quarter of 2008, the banks expect the lending policy in the segment of consumer loans to be furthered tightened (see Figure 9). These expectations concern a firmly higher percentage of banks than in the third quarter of 2008. Fifty three percent of the banks expect the lending policy to be slightly tightened, 10% expect it to be considerable. **At the same time, approximately 22% of the banks expect the demand for consumer loans to continue to grow** (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 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.