Senior loan officer opinion survey

on bank lending practices and credit conditions

4th quarter 2009

Warsaw, October 2009

Summary of the survey results

The banks again tightened their lending policies in all segments of the market. In the case of corporate loans and housing loans to households, the scale of the tightening of standards and terms of granting loans was, however, significantly smaller than in previous quarters. On the other hand, in the segment of consumer loans that tend to carry a higher risk, lending policy was tightened considerably. Risk related to current and projected economic developments remains the major reason why banks tighten the standards and terms of granting loans. Demand for the majority of types of credit either increased or remained at a similar level, which indicates that supply factors may have been responsible for a slowdown in the lending growth in the third quarter of 2009; with the exception of long-term loans to enterprises, where demand was reduced.

Corporate loans

- Lending policy: in the third quarter of 2009, the tightening of credit standards towards small- and medium-sized enterprises (net percentage: 13-26%) was stronger than in the case of large enterprises (net percentage: 9-11%). The banks mainly raised loan spreads on riskier loans and non-interest loan costs.
- Demand for loans: demand for short-term loans rose modestly. As for long-term loans, demand dropped.
- Expectations for the fourth quarter of 2009: the banks expect the standards of granting short-terms and long-term loans to be slightly eased and slightly tightened, respectively. Demand is expected to increase, and this increase is – to a higher degree – to concern short-term loans.

Housing loans

- Lending policy: around one fourth of the banks tightened 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, demand increased slightly.
- Expectations for the fourth quarter of 2009: the banks expect lending policy to be slightly tightened again; demand for loans is expected to grow.

Consumer loans

- Lending policy: around two thirds of the banks tightened standards of grating loans. All terms of granting loans were tightened.
- Demand for loans: a modest increase in demand was recorded by the banks.
- Expectations for the fourth quarter of 2009: the banks foresee a further tightening of lending policy and expect demand for consumer loans to grow.

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 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 2009 **among 30 banks with a total share of claims on enterprises and households in the banking sector portfolio of 83.5%**.

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

Corporate loans

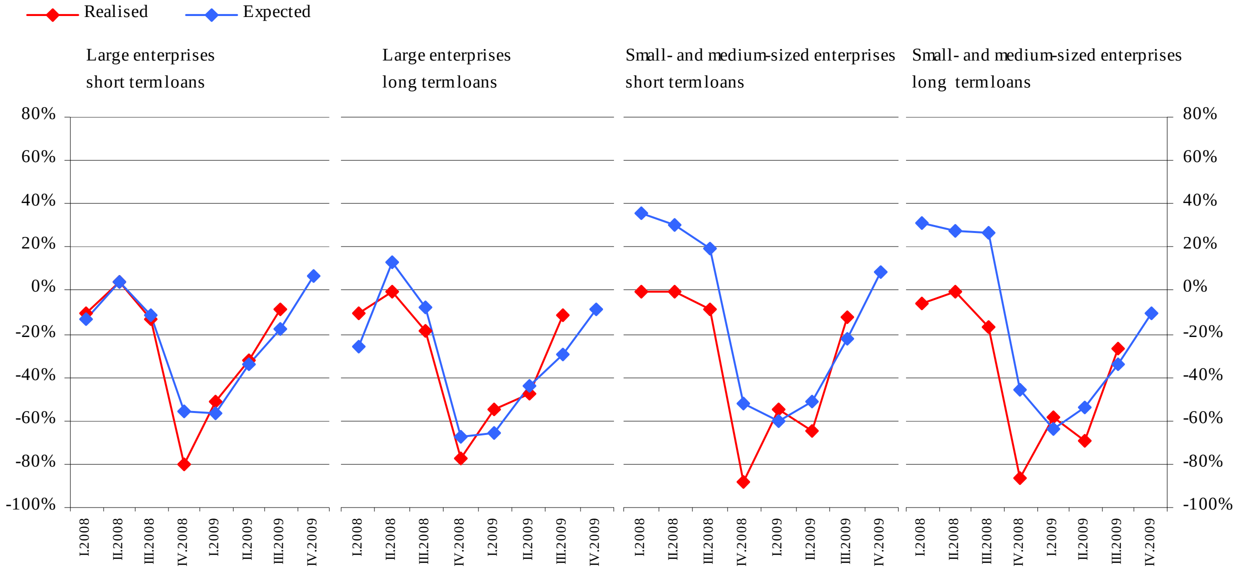
In the third quarter of 2009, the standards of granting corporate loans were tightened again. However, the scale of lending policy tightening was smaller than in previous quarters (see Figure 1), and the majority of the banks did not choose to revise the policy in this respect**.** The tightening of lending standards was smaller for loans to large enterprises and its scale was similar for short-term and long-term loans (net percentage was around -9% and -11%, respectively). As for loans to small- and medium-sized enterprises, the tightening of lending standards was more common and stronger for long-term loans (net percentage was around -26%) than for short-term ones (net percentage of around -13%).

Similarly as in the past three quarters, all terms of granting corporate loans, accounted for in the survey, were tightened (see Figure 2). However, the tightening was not strong and mostly affected spreads on riskier loans (net percentage: -46%) and non-interest loan costs (net percentage: -23%). The majority of the banks did not consider the tightening as considerable[1]. As for spreads charged on normal loans, the banks' responses were discrepant

[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.

(some banks decided to lower their spreads), while the terms relating to maximum loan size, loan maturity, and collateral requirements remained unchanged by a firm majority of surveyed banks.

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.

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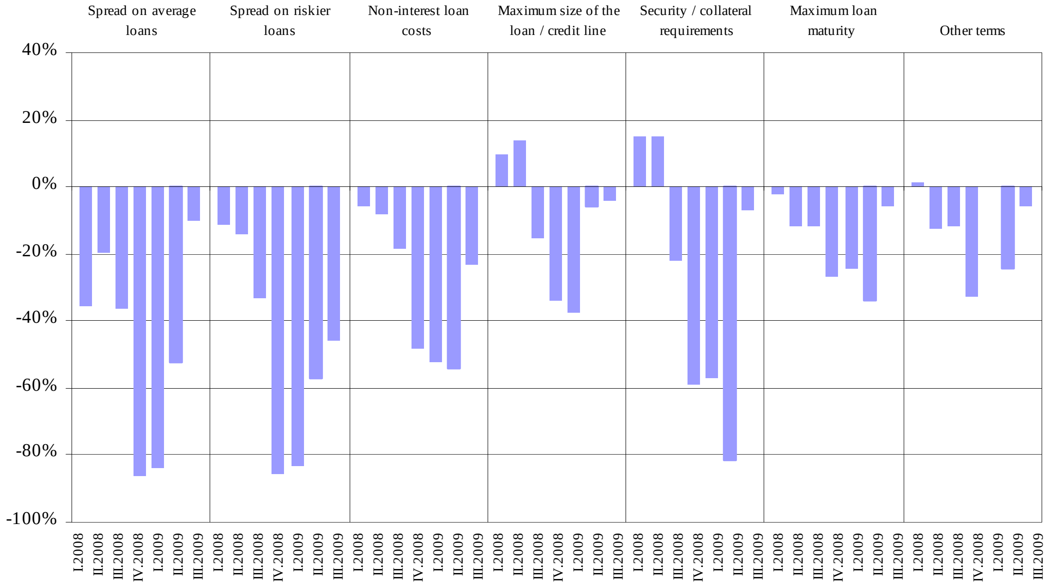
Figure 2
Terms on corporate loans

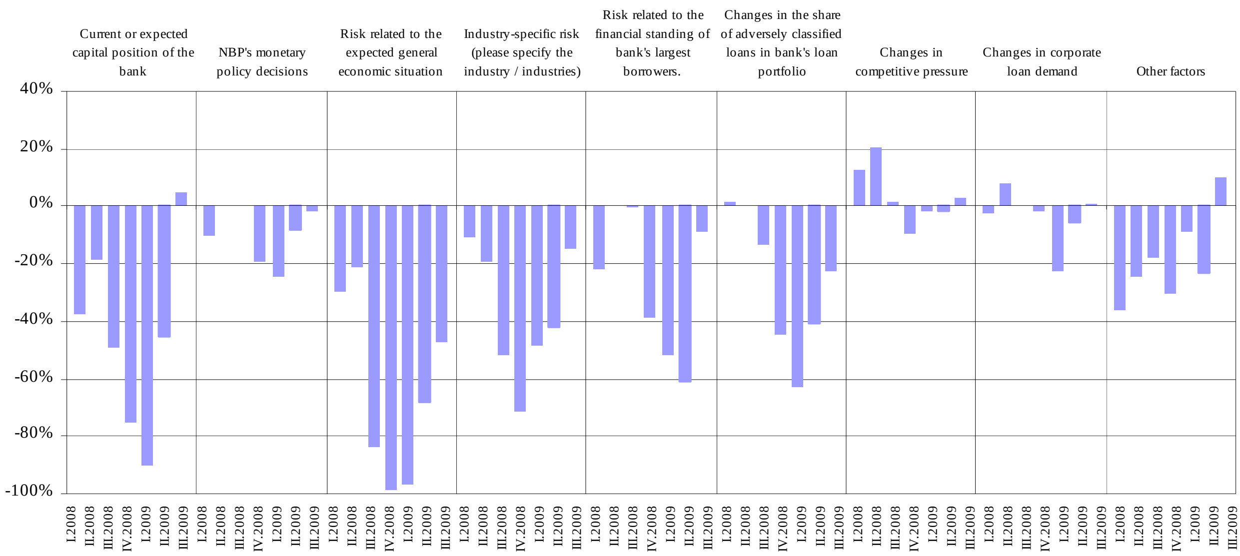


The negative economic outlook remains the major reason why the banks tighten their lending policies towards enterprises (see Figure 3). This factor was cited by around half of the banks that had tightened either the standards or terms of granting corporate loans in the third quarter of 2009. The banks' responses show that risk related to crediting specific industries and largest borrowers is diminishing (net percentage of -15% and -9%, respectively). As compared with the previous quarter, the importance of the quality of corporate loan portfolio also decreased, however, an increase of the share of irregular loans was an incentive for over one fifth of the lending policy-revising banks to tighten their standards and terms of granting loans.

The increase of the average capital adequacy ratio in the banking sector was the reason why the banks no longer identify their capital position as the factor constraining corporate loan supply. Individual banks with relatively high capital adequacy ratios even said that their capital position supported easing their lending policies.

Individual banks that eased their standards of granting loans identified some improvement in interbank market liquidity and related financing conditions as other factors having an impact on lending policy.

Figure 3
Factors influencing changes in lending policies



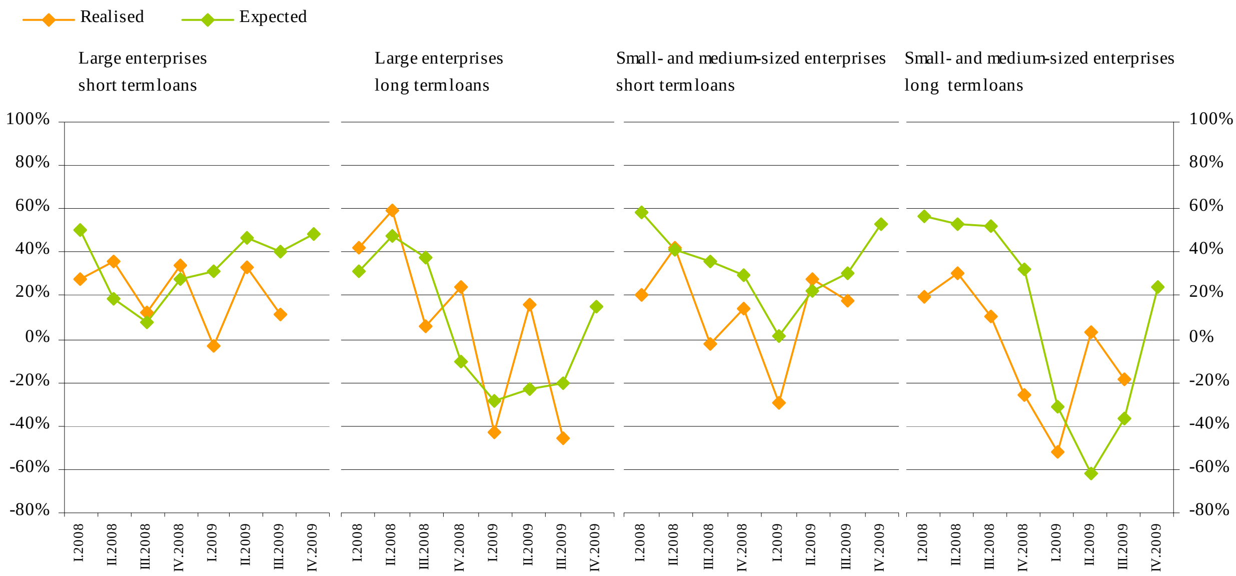
Enterprises' demand for short-term loans increased in the third quarter of 2009 (see Figure 4). However, this growth was not marked and was stronger for small- and medium-sized enterprises (net percentage: 17%) than for large ones (net percentage: 11%). At the end of the second quarter of 2009, the banks expected a higher increase in demand, in particular for loans to large enterprises.

Following some rebound in the previous quarter, **demand for long-term loans fell in the third quarter of 2009.** This fall was more common in the case of loans to large enterprises (see Figure 4). The banks' responses concerning the demand from small- and medium-sized enterprises were more discrepant (one fifth of *all* surveyed banks recorded an increase in demand). It should be noted, however, that one fourth of the banks that experienced a falling demand from small- and medium-sized enterprises considered the fall as considerable[2]. At the end of the

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

second quarter of 2009, the banks expected demand for long-term loans to decrease; however, the observed fall was stronger than expected for loans to large enterprises and smaller than expected for loans to SMEs.

Figure 4
Corporate loan demand



According to the banks, **an increase in demand** for corporate loans results primarily from **increased financing needs related to corporate debt restructuring** (see Figure 5). This factor was cited by over 70% of the banks that experienced an increase in demand. On the other hand, no bank termed the factor as considerably[3] impacting the increase in demand from enterprises. Financing needs related to corporate debt restructuring have been rising for four quarters, which may be tied to the deteriorating financial position of enterprises and – probably to a lesser degree – to substitution of FX derivatives' liabilities for loans. Unlike in the previous quarter, in the third quarter of 2009 changes in financing needs for inventories and working capital had a very small influence on the increase in demand for loans from enterprises.

The banks that recorded a fall in demand for corporate loans attributed the fall to a decrease in financing needs for fixed investment (see Figure 5). This demand has fallen for three quarters; however it was most noticeable in the third quarter of 2009. Over 75% of the banks indicated that changes in financing needs for fixed investment contributed to the fall in demand for loans, of which 40% considered this influence as considerable. **Over 60% of the banks also said that demand for loans had fallen on account of lower financing needs for mergers and acquisitions.** According to the banks, the fall in demand for loans also resulted from the use of alternative sources of financing, including primarily the use of own funds and issuance of debt securities and shares.

The banks' forecasts with regard to lending policy in the fourth quarter of 2009 are discrepant with respect to different credit categories (see Figure 1). **The standards of granting short-term loans are expected to be eased,** both for large (net percentage: 6%) and SMEs (net percentage: 9%)**.** Should these forecasts materialise,

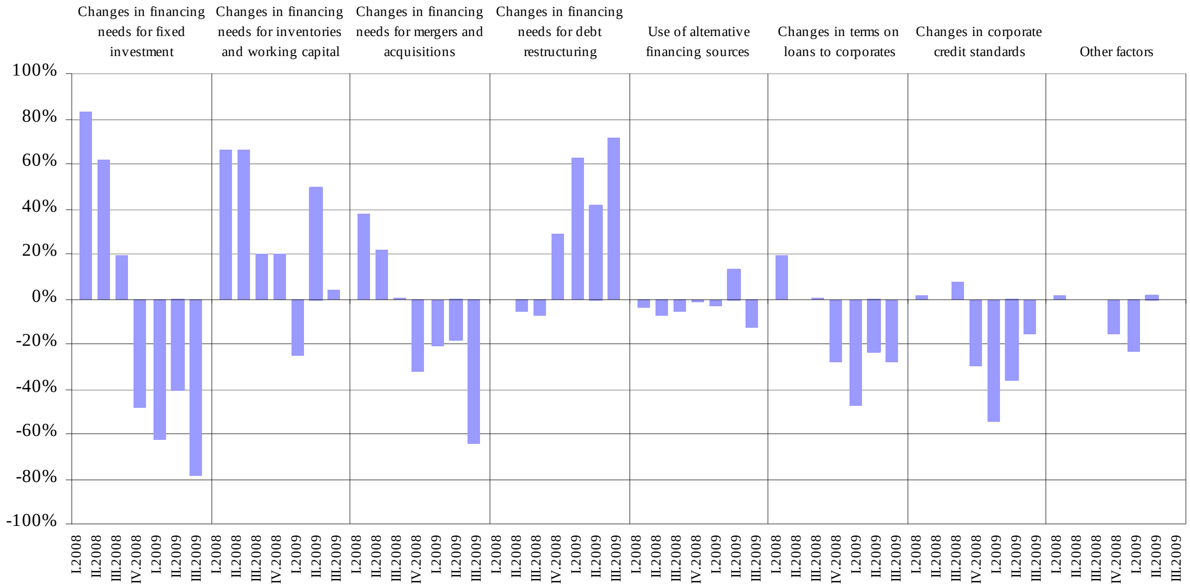
[3] The banks have a possibility of grading the strength of the influence of specific factors on changes in demand for loan. In the survey, the banks choose among the following options: considerably influencing an increase in demand, somewhat influencing an increase in demand, not influencing change in demand, somewhat influencing a decrease in demand and considerably influencing a decrease in demand.

this easing of the standards of granting short-term loans to the two groups of enterprises would be the first since the third quarter of 2007.

According to the banks' forecasts, the standards of granting long-term corporate loans will be tightened. This tightening is to apply both to loans to large and small- and medium-sized enterprises (net percentage: -8% and -11%, respectively). It should be noted, however, that net percentage figures for lending policy forecasts both for long- and short-term loans are not high, and the majority of the banks (over 80% for each credit category) do not plan to revise their standards of granting corporate loans.

The banks expect enterprises to increase their demand for loans in the fourth quarter of 2009 (see Figure 4). This growth should – to a larger extent – concern short-term loans, which is expected by around half of the banks polled in the survey. For long-term loans, the banks' responses were more discrepant, as net percentage was 15% and 24% for large enterprises and SMEs, respectively.

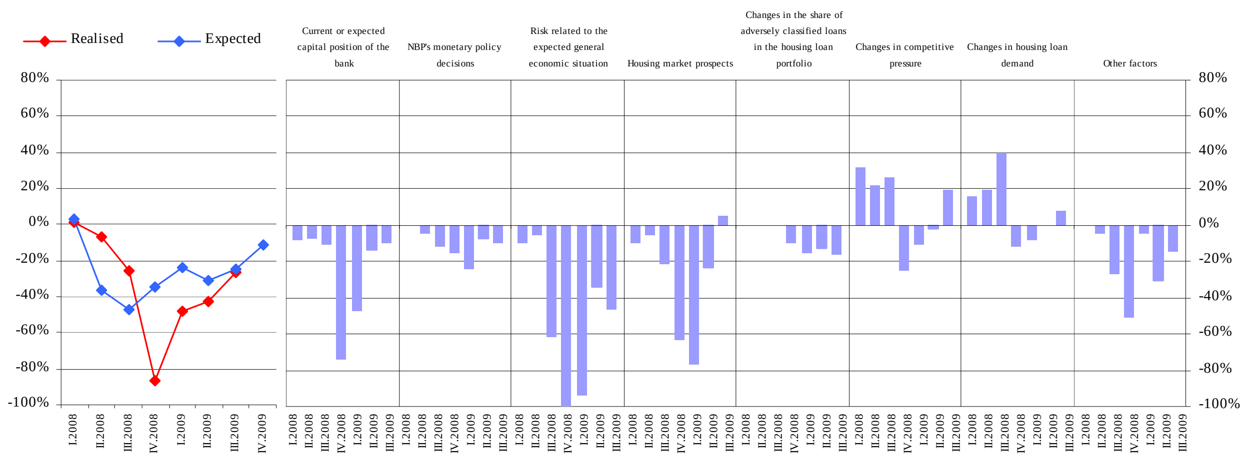
Figure 5
Factors influencing changes in corporate loan demand



Housing loans

In the third quarter of 2009, the banks again tightened lending policy with regard to housing loans (see Figure 6). **However, the scale of the tightening was smaller than in previous quarters**. The standards of granting housing loans were tightened by around one fourth of the banks, which was in line with expectations released at the end of the second quarter of 2009.

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



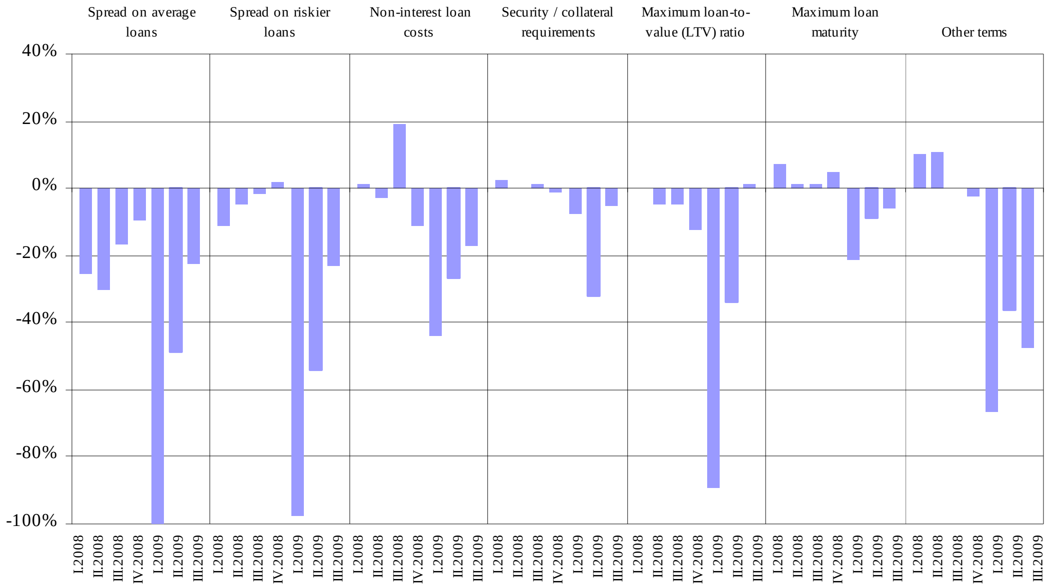
The number of banks that tighten the terms of granting housing loans has been steadily falling. In net terms, almost all the terms accounted for in the survey were tightened (see Figure 7), but it was due to responses from individual banks as the majority of the surveyed institutions did not make any changes in this respect. The largest number of banks chose to tighten the terms relating to loan spreads and non-interest loan costs. However, it should be pointed out that individual banks moved to ease the above terms. The loan-to-value requirements were also highly discrepant, as a similar percentage of the banks decided to increase and decrease the maximum LtV. No bank chose to change maximum loan maturity.

Individual banks decided to tighten other terms of granting housing loans, unaccounted for in the survey, such as property valuation fees, implementation of various lending rules for foreigners and Poles whose income is generated abroad. Other measures identified by the banks consisted in a change in the terms of granting loans – e.g. decisions to change the permissible level of income gearing of the borrower taking out loans.

Similarly as in the segment of corporate loans, uncertainty about future economic conditions was the major factor contributing to the tightening of lending policy (net percentage amounted to -47%). Moreover, the banks' responses indicate that the quality of housing loan portfolio is deteriorating. The percentage of the banks identifying this factor rose to approximately 17%. **Capital constraints tend to have a smaller impact on the lending policies of the banks.** Merely 10% of the banks that revised their lending policies made the move under the influence of deteriorating current or expected capital position. Other factors, which were unaccounted for in the survey, had also contributed to the tightening of lending policy in the segment of housing loans. These primarily included changes in risk assessment models at some banks and implementation of the recommendations of the Polish Financial Supervision Authority on revising credit worthiness assessment rules.

As in the previous quarter, the banks that eased their lending policy on housing loans made these changes in anticipation of an improvement of macroeconomic conditions and of developments in the property market against existing forecasts. **It is worth pointing out that for the first time in four quarters, the change in the competitive pressure had an influence on easing lending policies by some banks**. This may imply that following a period of heavy constraints in housing loan supply, the situation on the market is stabilizing.

Figure 7
Terms on housing loans



In the third quarter of 2009, the opinions of banks on demand for housing loans were highly discrepant. The percentage of the banks that reported a decrease in demand, increase in demand or no changes in demand for loans, was close, which resulted in a slight net increase in demand (see Figure 8). The demand for housing loans observed in the third quarter of 2009 differed significantly from expectations from the end of the second quarter of 2009. A considerable number of banks that had expected this demand to grow reported either no change or even a decrease in demand, as compared with the previous quarter.

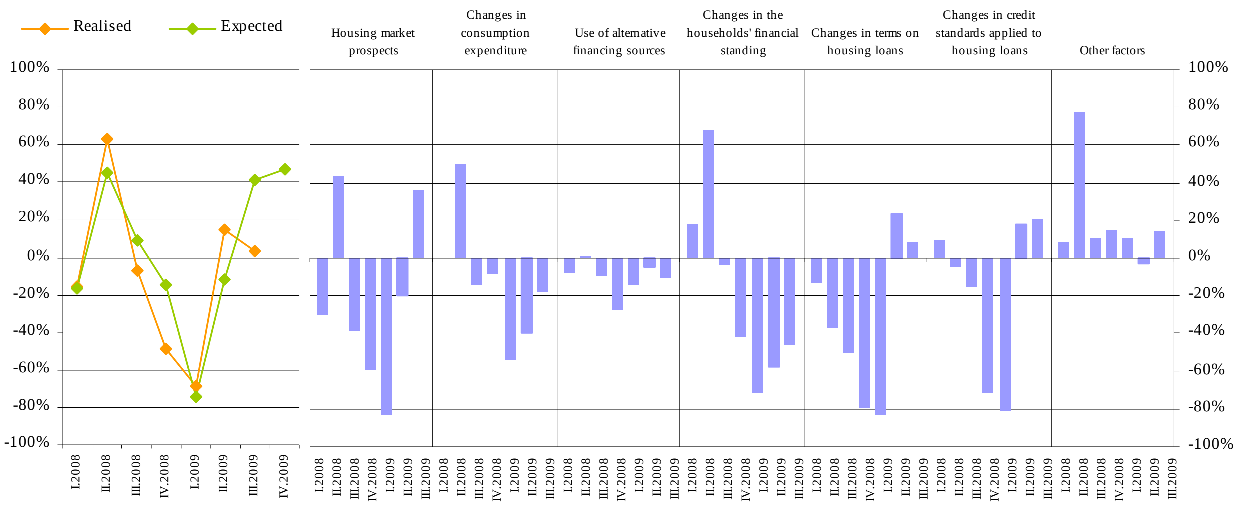
The growth in demand experienced by the banks was mainly attributed to forecasts of developments in the property market. The expected stabilisation of prices in the property market after a period of substantial price falls may have encouraged customers to seek housing loans in the third quarter of 2009. The banks that eased either their standards or terms of housing loans indicated that this factor may also have impacted the increase in demand for loans.

According to the banks, the worsening financial position of households had a negative impact on the level of demand for housing loans (see Figure 8). This factor was cited by over 45% of the banks that reported a change in demand for loans. Moreover, according to the opinions of several banks that reported decreased demand the decrease was prompted by the households using alternative sources of financing, particularly loans from other banks. This may corroborate the thesis of intensified competition in the market of housing loans.

Eleven percent of the banks announce their intention to further tighten their lending policies in the segment of housing loans (see Figure 6). **However, the majority of the banks do not plan to revise their lending**

policies, and individual banks declare they will slightly ease their lending standards and terms. **Nearly half of the banks expect demand for housing loans to grow** (see Figure 8). The banks, whose demand growth forecasts from the end of the second quarter of 2009 did not materialise in the third quarter of 2009, also expect the demand to grow.

Figure 8
Demand for housing loans and factors influencing its changes



Consumer loans

The standards of granting consumer loans to households were tightened for the fourth successive quarter (see Figure 9). These standards were tightened by over 65% of the banks, of which over one fifth considered the move as considerable. The scale of the tightening of the lending standards is larger than indicated by expectations released by the banks at the end of the second quarter of 2009.

The trend to tighten the terms of granting loans in the segment of consumer loans persisted in the third quarter of 2009. In addition, the percentage of the banks that tightened their lending terms rose in comparison with the second quarter of 2009. The banks mostly decided to raise their loan spreads (see Figure 10). Spreads were raised by over 40% of the banks, however no bank raised it considerably. The banks more frequently raised spreads on average loans than on riskier ones. The terms on collateral requirements and non-interest loan costs were also tightened (by around 30% and 25% banks, respectively); the terms of maximum loan were tightened to a lesser extent.

Approximately one third of the banks identified also other lending terms, which were not accounted for in the survey, but some of them consisted in changing their lending standards. These were, among others, additional customer verification with the Credit Information Bureau, raising customer creditworthiness requirements, revision of the risk assessment system or lowering the loan-to-value ratio for car purchases.

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

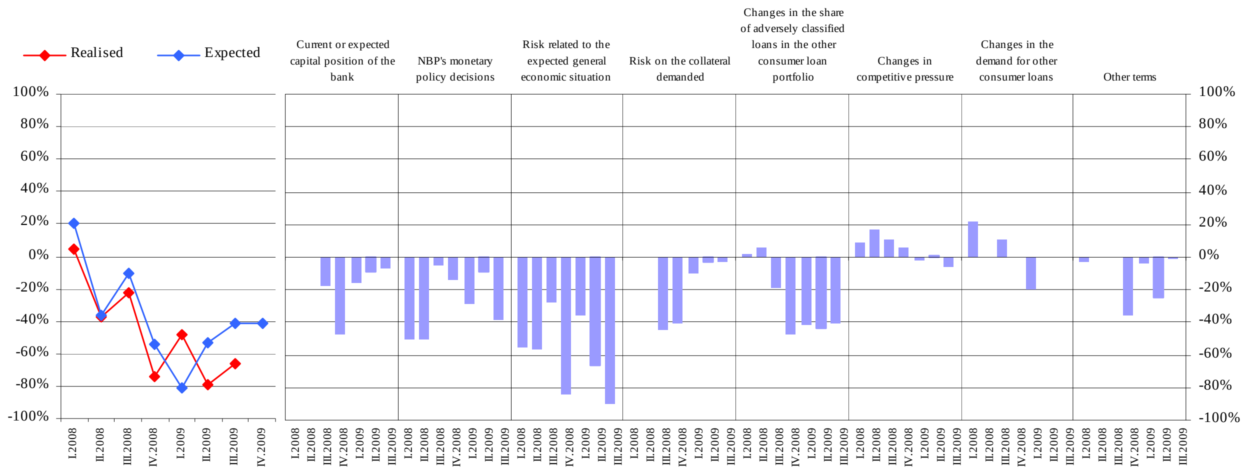
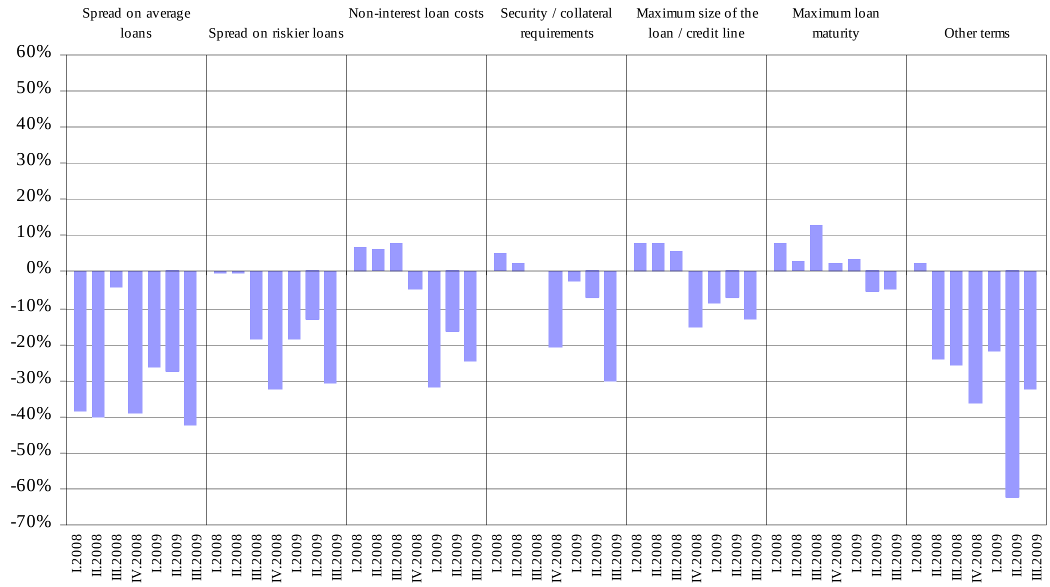


Figure 10
Terms on consumer loans



Risk related to future economic developments remains the major reason why lending policy in the segment of consumer loans was tightened. This factor was cited by approximately 90% of the banks that revised their lending policies (see Figure 9). An increase of the irregular loans ratio had also a considerable impact on changes in lending policy towards consumer loans. Similarly as in previous three quarters, around 40% of the banks cited this factor to justify tightening either the standards or terms of granting consumer loans. In the third quarter of 2009, around 40% of the banks said that the NBP monetary policy decisions had had an influence on lending policy tightening. Reductions in the official interest rates in previous quarters and keeping them unchanged in the third quarter of 2009 contributed to the fall of maximum interest the banks can charge their clients[4]. This fact may have induced the banks to tighten the standards or other non-interest terms of granting loans.

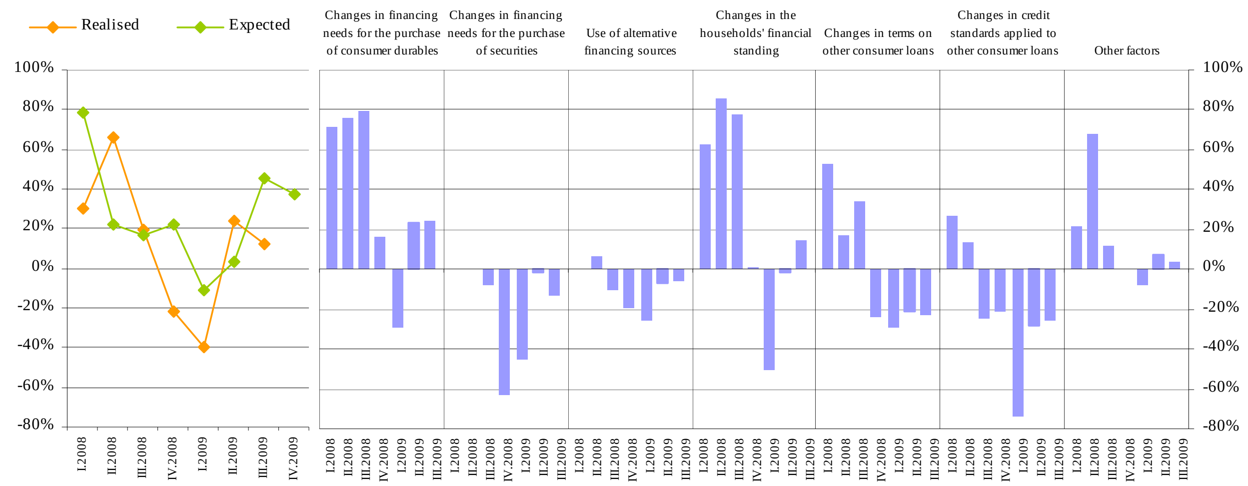
In the third quarter of 2009, the banks recorded an increased demand for consumer loans to households (net percentage: 12%). However, it should be noted that the banks' responses were discrepant – over one fourth of *all* banks experienced an increase in demand. As at the end of the second quarter of 2009, the banks had expected demand for consumer loans to grow, however, to a larger scale than they actually grew (see Figure 11).

The banks that recorded a modest increase in demand for consumer loans attributed the increase primarily to the growth in financing needs for durable goods. Similarly as in the previous quarter, this factor was cited by around 24% of the banks (see Figure 11). The banks unequivocally assess changes in the economic position of households. In aggregated terms, these changes contributed to the growth in demand (net percentage: 14%), however, a group of around 20% of the banks considered the changes as negatively affecting the demand for loans.

The banks said the fall in demand for consumer loans was prompted by the tightening of lending policy, which may have discouraged a number of households from applying for consumer loans. The impact of the fall of financing needs for securities purchase was also visible. However, it should be kept in mind that this type of credit represents a modest share of the portfolio of loans granted to households.

In the fourth quarter of 2009, the banks expect lending policy in the segment of consumer loans to be further tightened (see Figure 9). Such expectations were expressed by around 40% of the banks, with 9% of the banks expecting the policy to be tightened considerably. Lending policy is also to be tightened by the banks that did so in the third quarter of 2009. **The banks mostly expect demand for consumer loans to grow (**see Figure 11), although at the same time a small group of banks expects it to drop.

Figure 11
Demand for consumer loans and factors influencing its changes



[4] A maximum interest resulting from legal acts cannot exceed fourfold of the amount of the Lombard rate of the NBP.

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.