Senior loan officer opinion survey

on bank lending practices and credit conditions

4th quarter 2010

Warsaw, October 2010

Summary of the survey results

In the third quarter of 2010, the majority of the banks tightened the standards of granting loans to households. In the case of corporates, this action was relatively weaker and primarily pertained to small and medium-sized enterprises.

The banks continued to ease some credit terms, chiefly with regard to loan spreads. These changes related both to loans to households and to corporates. The banks' lending policy was tightened in line with the provisions of Recommendation T.

The banks that ease their lending policies say this was primarily justified by strong competitive pressure on the market. Lending policy adjustments to Recommendation T were the main reason why the banks tightened lending policy with regard to loans to households. As for loans to corporates, one of the major factors contributing to policy tightening was persistently low quality of the loan portfolio.

Corporate loans

- Lending policy: the majority of the banks kept the standards of granting loans unchanged, and at the same time lowered spreads charged on loans.
- Demand for loans: demand for loans from large enterprises dropped.
- Expectations for the fourth quarter of 2010: the banks announce that lending policy towards large enterprises will remain unchanged and that it will be slightly tightened towards small- and medium-sized enterprises. The banks expect a relatively stronger growth in demand for loans in the segment of loans to large enterprises.

Housing loans

- Lending policy: almost half of the banks tightened the standards of granting loans, and at the same time approximately three fourths of the banks lowered spreads charged on these loans.
- Demand for loans: in net terms, the banks experienced a slight increase in demand for housing loans; however, their responses were discrepant.
- Expectations for the fourth quarter of 2010: the banks plan to continue to tighten their lending policies and expect a slightly higher demand.

Consumer loans

- Lending policy: two thirds of the banks tightened their standards of granting loans and some banks lowered spreads charged on these loans.
- Demand for loans: in the opinion of banks, demand for consumer loans has slightly decreased.
- Expectations for the fourth quarter of 2010: the banks expect lending policy to be tightened further and foresee an increase in demand.

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 September and October 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 next section presents tendencies regarding the banks' lending policy and changes in demand in the third quarter of 2010 as well as the banks' expectations for the fourth quarter of 2010.

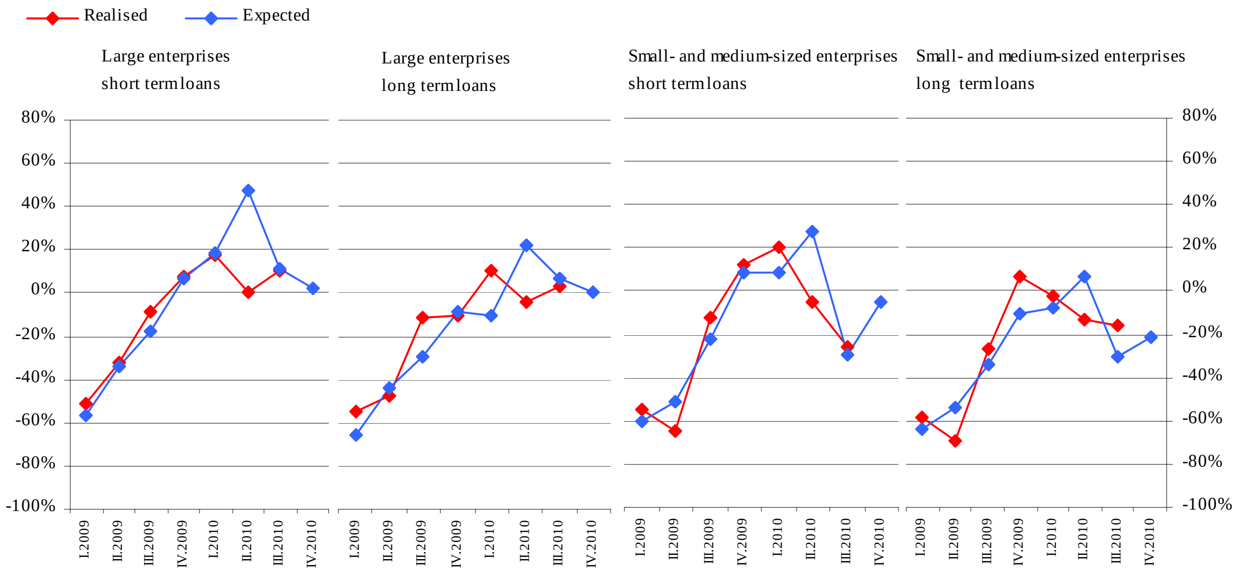
Corporate loans

In the third quarter of 2010, the standards of granting loans to corporates were left unchanged by the majority of surveyed banks (see Figure 1). In net terms, lending policy towards small- and medium-sized enterprises was tightened, and this change was relatively strongest for short-term loans (net percentage amounted to -26%). The majority of the banks did not change their lending standards for large enterprises, and their insignificant portion eased the standards, considering them as 'somewhat eased'.[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.

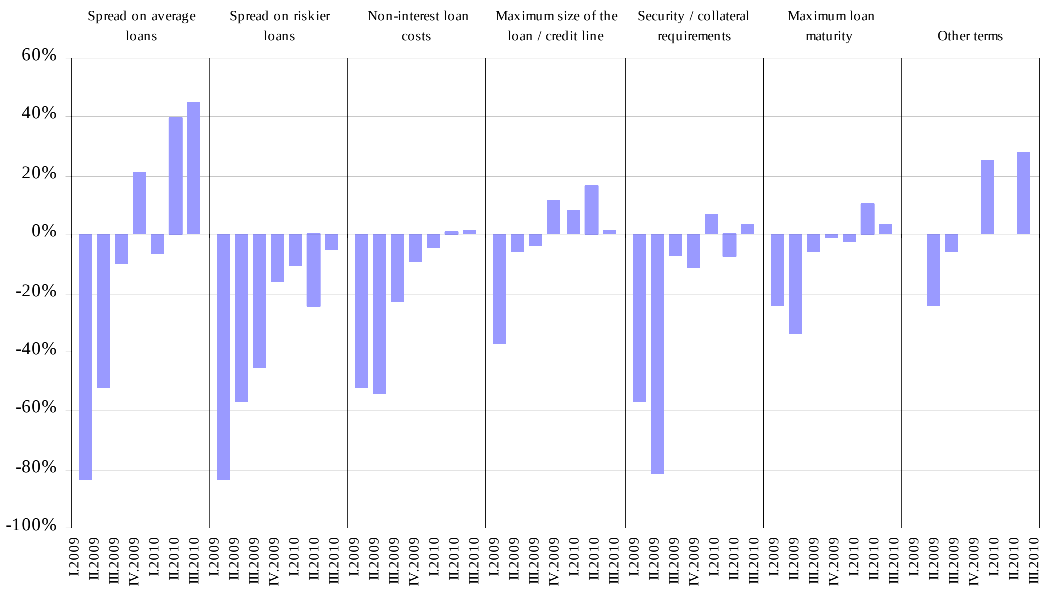
Lending policy developments in the third quarter of 2010 were largely in line with the expectations of the banks expressed at the end of the second quarter of 2010, when they announced that lending standards for large enterprises would be eased, and lending policy towards small- and medium-sized enterprises would be tightened. A minor difference between these expectations and actual changes in lending policy concerned long-term loans to SMEs, for which the tightening expectations were stronger (see Figure 1).

Figure 1
Corporate credit standards



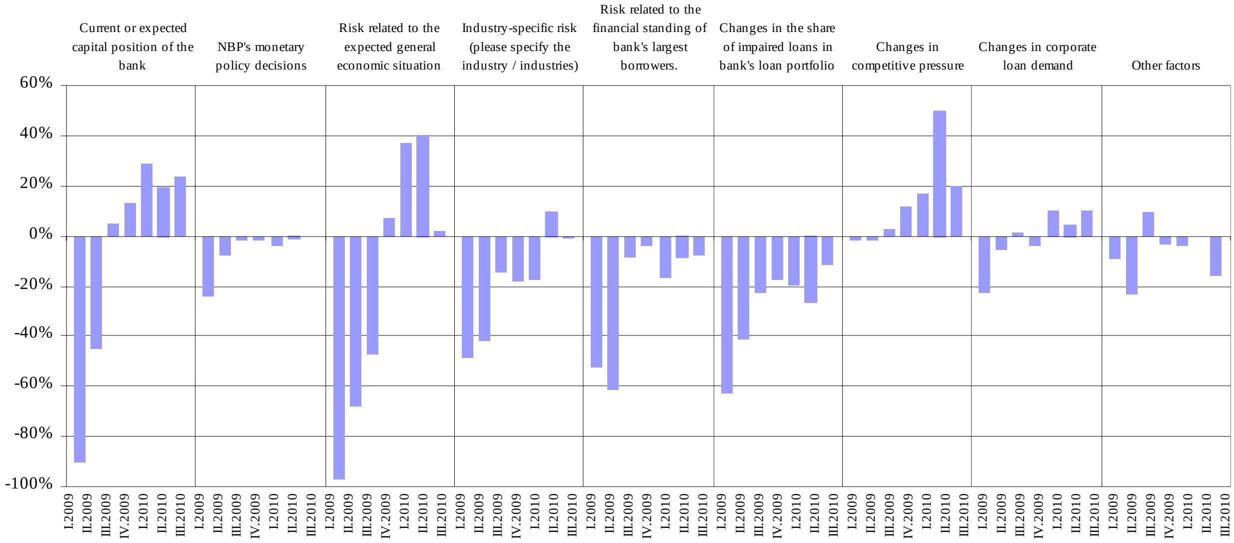
Note: figures included in this study present the net percentage. A positive value of net percentage should be interpreted as the easing of lending policy or the growth in demand for loans, and a negative value of net percentage – as the tightening of lending policy or a fall in demand for loans. Details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

Figure 2
Terms on corporate loans



As in the previous quarter, the banks kept lowering spreads on loans to corporates (net percentage was 45%). In the case of riskier loans, only around 5% banks said (see Figure 2) they had increased spreads. Other terms on crediting corporates were somewhat eased.

Figure 3
Factors influencing changes in lending policies



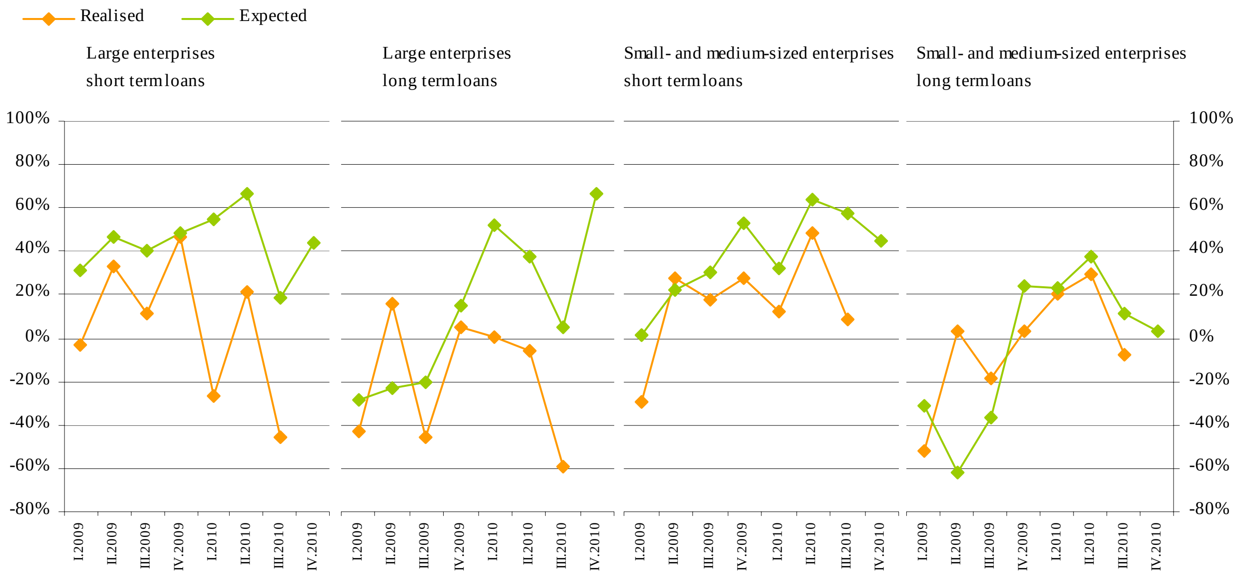
According to the banks, an easing of lending policy comes on the back of banks' favourable capital position and growing competitive pressure on the market (net percentage of 24% and 20%, respectively). As in the previous quarter, the banks experience increased competition from other banks and, to a lesser degree, from non-bank financial institutions and market sources of financing (share or debt issue). **For the first time in two quarters, did the majority of the banks consider risk related to future economic developments as a factor that is neutral for lending policy** (around 83% of *all* banks). Around 10% of the banks indicated increased demand for loans from enterprises as a reason for easing their lending policies (see Figure 3).

The banks that tightened their lending policies attributed this move mainly to factors unaccounted for in the survey (net percentage of around -16%). Implementing new methods of risk assessment of SMEs was cited as such a factor, which could have primarily contributed to the tightening of terms of granting loans. Compared to the previous quarter, **fewer banks indicated a change in the share of impaired loans in their loan portfolios as a factor behind their move to tighten lending policy** (net percentage of around -11%). The banks termed this factor as somewhat influencing the tightening of lending policy.[2]

[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.

The impact of industry-specific risk (net percentage of around -1%) on lending policy was smaller than in the previous quarter. The banks identified the construction sector as an industry exhibiting heightened credit risk, while the power sector as an industry with lower credit risk.

Figure 4
Corporate loan demand



According to surveyed banks, demand for loans from large enterprises decreased in the third quarter of 2010 (see Figure 4). As for long-term loans, around 60% of the banks reported falling demand, and in the case of short-term loans a fall in demand was registered by around 46% of the banks. At the same time, the banks taking part in the survey considered the change in demand as slight.[3] Demand for loans from large enterprises was significantly below expectations of the banks from the second quarter of 2010. In the case of short-term loans, the majority of the banks forecast a relatively stronger increase in demand.

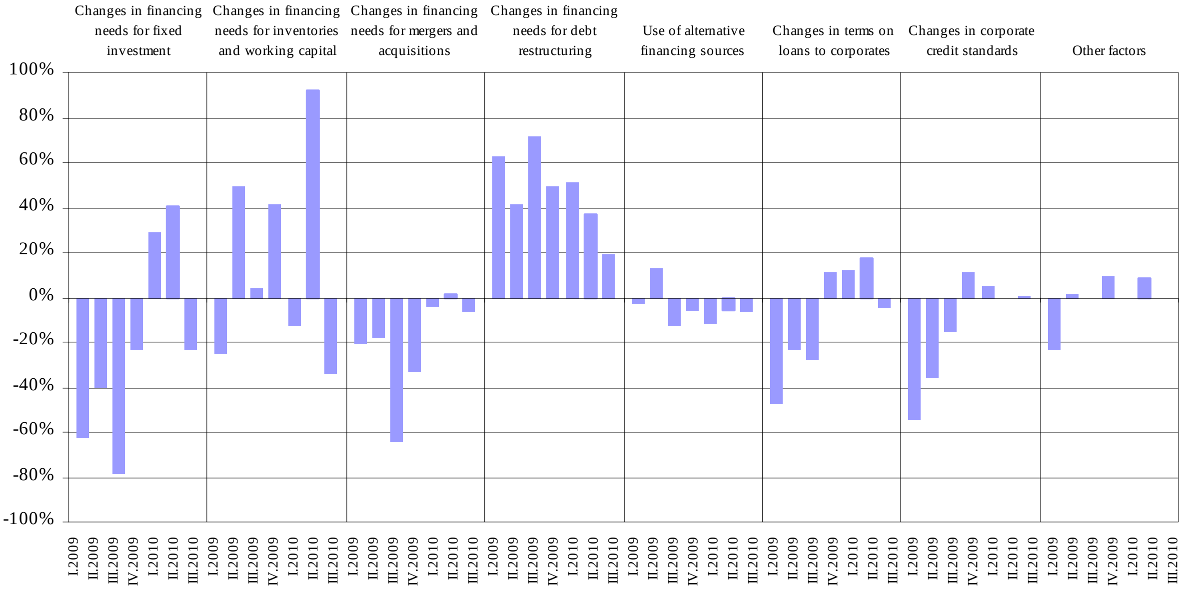
The majority of the banks were not affected by changes in loan demand from SMEs. In net terms, 9% of the banks reported an increase in demand for short-term loans, compared with over 57% expecting it at the end of the second quarter of 2010. The fall in demand for long-term loans was experienced by 8% of the banks (in net terms), and around 5% of *all* banks termed it as considerable. The expectations of a moderate increase in demand for this type of loans, expressed by the banks in the previous quarter, failed to materialise.

The fall in financing needs for inventories and working capital was the main factor influencing the decrease in demand for loans from corporates in the third quarter of 2010 (see Figure 5). This factor was identified by around 34% of the banks, with the majority assessing it as somewhat influencing

[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.

the decrease in demand.[4] The banks' responses regarding the strength and direction of the impact of this factor on loan demand were highly volatile in previous quarters.

Figure 5
Factors influencing changes in corporate loan demand



After two quarters in which demand was growing, **a fall in financing needs for fixed investment led to a decrease in corporate loan demand**. In net terms, this factor was indicated by around 23% of the banks, whereby around 10% of *all* banks described its impact as considerable. Among reasons of lesser significance for the decrease in demand for loans, the banks also mentioned the use of alternative sources of financing (net percentage of around -7%), falling needs for financing mergers and acquisitions (net percentage of around -6%) and the deterioration in the terms of crediting corporates (net percentage of around -5%).

According to the banks, **financing needs related to debt restructuring continued to positively impact the developments in demand for corporate loans**. Around 19% of surveyed banks indicated this factor; however, its significance has been systematically diminishing for three quarters.

The majority of the banks do not intend to revise their lending policy towards large enterprises in the fourth quarter of 2010 (see Figure 1). The banks' responses show that lending policy with regard to short-term loans is expected to be slightly eased. This change was announced by less than 2% of the banks.

[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.

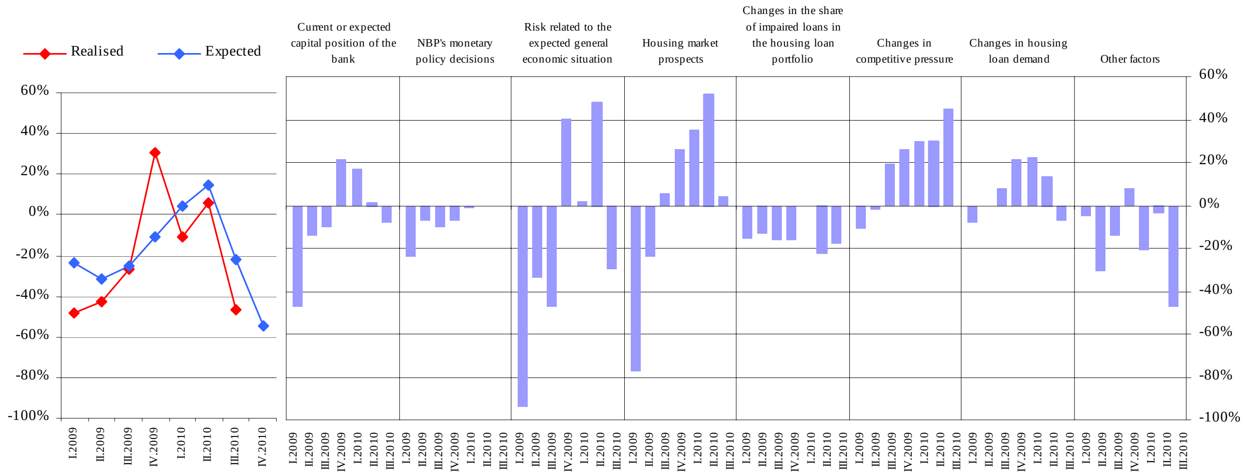
In the case of loans to SMEs, the banks expect lending policy in the fourth quarter of 2010 to be tightened. Tightening is to be stronger for long-term than for short-term loans (net percentage around -22% and -5%, respectively). The majority of surveyed banks do not plan to revise their lending policies.

The banks expect demand for corporate loans to grow in the fourth quarter of 2010 (see Figure 4). This growth is to relate primarily to long-term loans to large enterprises (net percentage of around 67%). The banks also expect a strong rise in demand for short-term loans, both from large enterprises and SMEs (net percentage of around 44% and 45%, respectively). In net terms, merely around 3% of the banks expect demand for long-term loans to SMEs to grow; however, the banks’ responses are discrepant (a similar number of banks expect an increase and decrease in demand for this type of loans).

Housing loans

In the third quarter of 2010, almost half of the banks tightened the standards of granting housing loans to households (net percentage of around 46%). Over half of *all* banks tightened lending policy and around 10% of *all* banks eased it. The banks described these changes as inconsiderable. Changes in the standards of granting housing loans in the third quarter of 2010 were stronger than expected at the end of the second quarter of 2010 (see Figure 6).

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

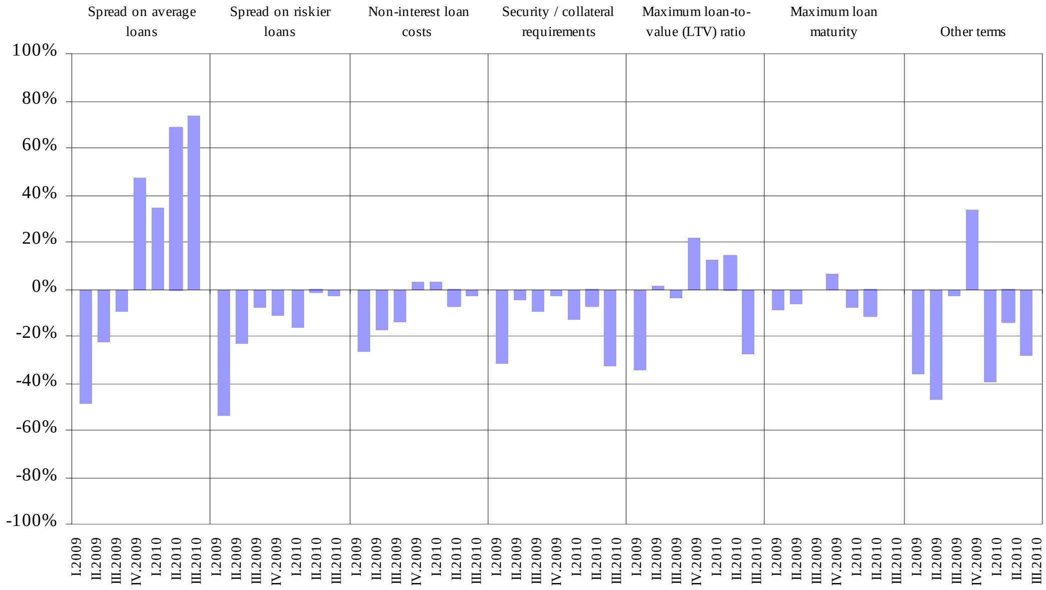


Around 74% of the banks lowered loan spreads (see Figure 7), and the majority of these banks termed the move as insignificant. At the same time, a small group of banks raised spreads on riskier loans (net percentage of around -3%). **Other terms on housing loans were either tightened or remained unchanged.** One third of the banks tightened collateral requirements, and 28% lowered the maximum Loan-to-Value ratio. Around 30% of the banks also indicated a tightening of terms unaccounted for in the survey, citing, among other things, capping the maximum real estate loan size. At the same time, the banks cited extension of grace periods on repayment on principal as an element of easing terms on housing loans.

The implementation of Recommendation T, which was cited by the banks as a factor unaccounted for in the survey (see Figure 6), **was the main reason for tightening lending policy**. The need to adjust to the Recommendation T requirements was indicated by over half of *all* banks (net percentage of around -47%), mostly describing its impact on lending policy as insignificant. Approximately 30% of the banks found the risk of the expected economic situation as supporting the tightening of lending policy in the third quarter of 2010. The growing share of impaired loans in the loan portfolio (net percentage of around -18%) is still indicated by the banks as the major reason behind lending policy tightening; however, the impact of this factor has diminished compared with the previous quarter.

The banks' responses show that growing competitive pressure on the market (net percentage of around 45%), brought by universal and mortgage banks as well as non-bank financial institutions, **is the reason why they feel inclined to ease their lending policies**. **Intensified competition results in lower loan spreads despite tighter lending standards.** In the third quarter of 2010, the positive impact of housing market prospects on the easing of lending policy diminished considerably (net percentage of around 4%).

Figure 7
Terms on housing loans

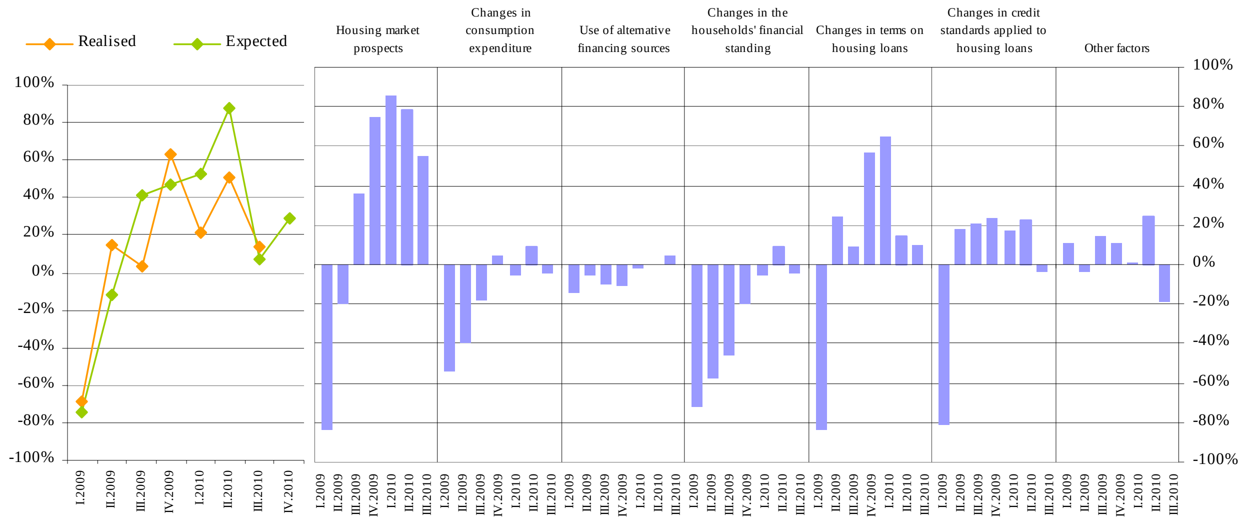


The majority of the banks registered an insignificant increase in demand for housing loans in the third quarter of 2010 (net percentage of around 14%); however, their responses were discrepant. Compared with the previous quarter, more banks reported an inconsiderable fall in demand for this type of credit (around 32% of *all* banks) or no change in demand (around 22% of *all* banks). The increase in demand for housing loans was slightly higher than expected in the second quarter of 2010 (see Figure 8).

The banks attributed increased demand primarily to housing market prospects (see Figure 8) f**or the fifth consecutive quarter**. This factor was indicated by around 55% of the banks, which implies a decrease, compared with the previous quarter. Other factors had little influence on the growth in demand for housing loans.

According to one fifth of the banks, factors unaccounted for in the survey negatively impacted demand. First of all, the banks cited the impact of marketing campaigns by rival banks. The impact of competitive pressure is also confirmed by the analysis of the customer use of alternative sources of financing. Around 21% of *all* banks said that the registered fall in demand had been a consequence of the potential customers choosing the other banks' offer. The majority of these banks termed the impact of this factor as considerable. Some banks that had pointed to competition as a factor negatively influencing demand eased the terms on housing loans.

Figure 8
Demand for housing loans and factors influencing its changes



The banks foresee further tightening of lending policy in the segment of housing loans in the fourth quarter of 2010 (see Figure 6). Compared with the previous quarter, the number of banks declaring a tightening of lending policy (net percentage of around -55%) increased, as did the scale of expected changes (one fourth of *all* banks expect a major tightening). The banks' forecasts may be related to the need to implement the remaining provisions of Recommendation T in the fourth quarter of 2010.

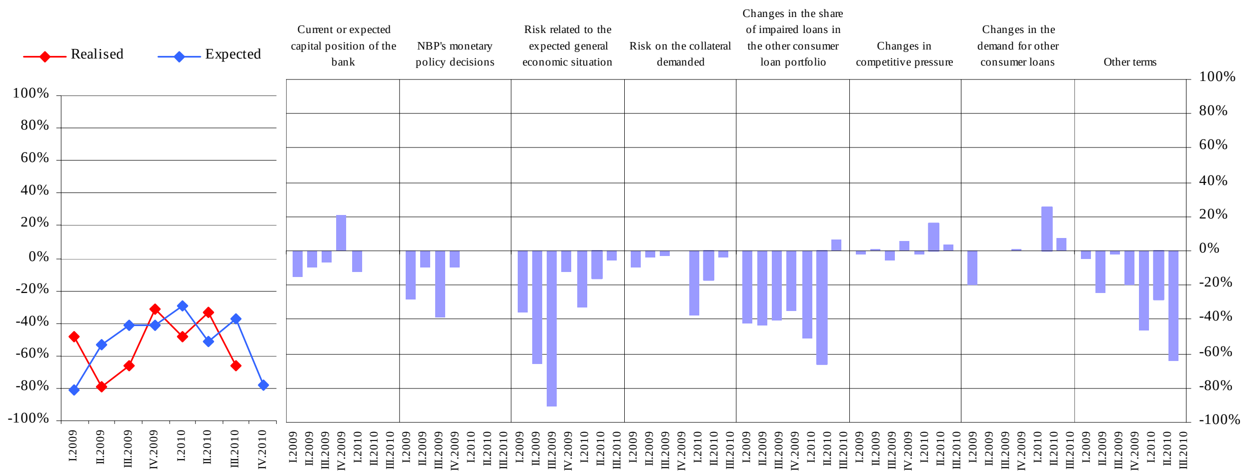
The banks expect a stronger increase in demand for housing loans in the fourth quarter of 2010 (see Figure 8). Around 30% of the banks expect this demand to grow, and two thirds have described the expected growth as significant.

Consumer loans

The banks continued to tighten the standards of granting consumer loans in the third quarter of 2010 (see Figure 9). The standards were tightened by two thirds of the banks, and all termed the scale of tightening as inconsiderable. In their responses in the second quarter of 2010, the banks did expect lending policy to be tightened; however, when compared with these expectations, the policy was tightened by twice as many banks in the third quarter of 2010.

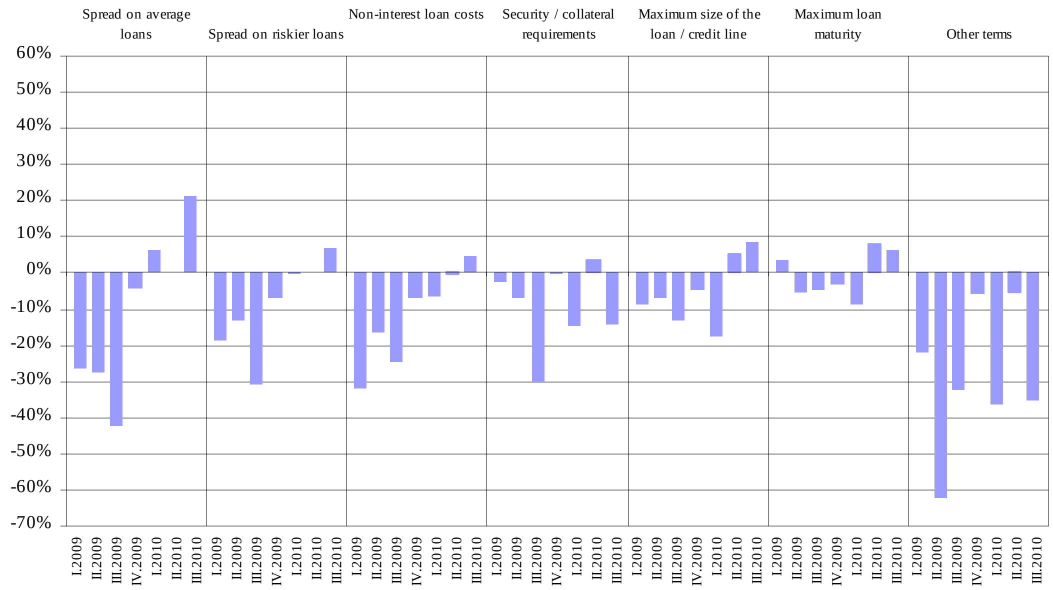
Tightening of terms unaccounted for in the survey was indicated by over one third of the banks (see Figure 10). However, the banks' responses show that the changes related mostly to the standards of granting loans. The banks mentioned not only tightening of customer creditworthiness verification procedures and adjusting lending policy to the Recommendation T requirements, but also lowering non-interest loan costs during promotional campaigns and easing of the parameters of creditworthiness assessment models. **The requirements regarding consumer loan collaterals were raised** (net percentage -14%).

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



Other terms on consumer loans were eased. Over one fifth of the banks slightly lowered spreads charged on this type of loans, and the decrease also applied to riskier loans (net percentage of around 7%). Some banks increased the maximum loan size and maturity for the second consecutive quarter (net percentage of around 9% and 6%, respectively). This means that as in previous quarters, the tightening of lending policy with regard to consumer loans applied mainly to standards rather than terms of granting loans.

Figure 10
Terms on consumer loans



Nearly two thirds of the banks cited factors unaccounted for in the survey as reasons for tightening lending policy with regard to consumer loans (see Figure 9). According to the banks, the implementation of Recommendation T provisions was the major reason for the tightening. The impact of factors related to the risk of future developments in the economy and the risk related to foreclosing collateral was considered by the banks as insignificant.

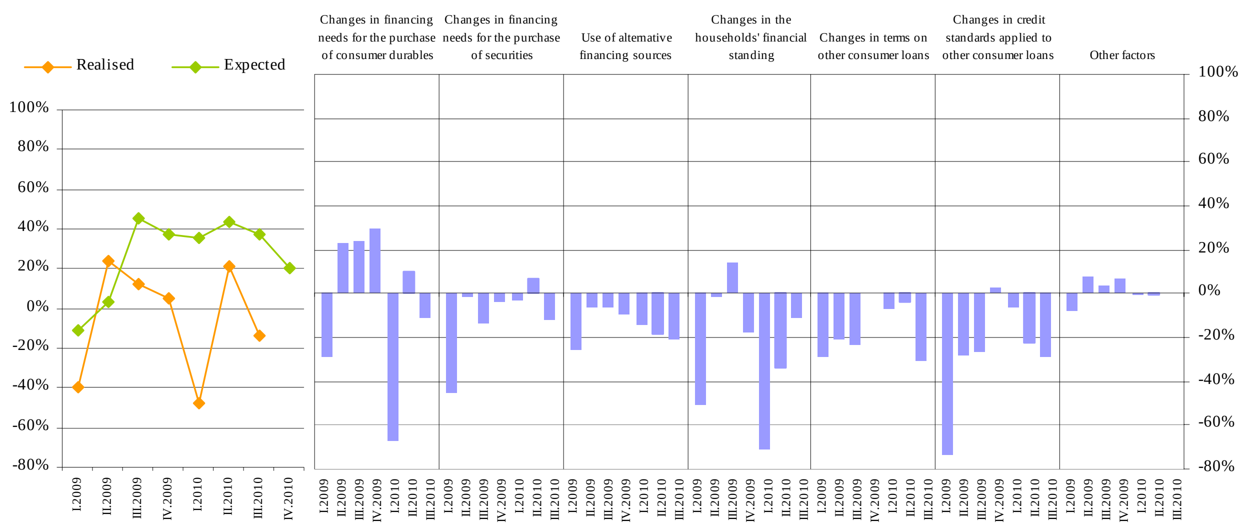
The majority of the banks found factors listed in the survey as neutral for their lending policies. It should be pointed out, however, that for the first time since 2008 Q2 a small group of banks defined the change in the share of impaired loans in the portfolio of consumer loans as a factor that supported easing lending policy. The influence of this factor was termed as considerable.

In net terms, the third quarter of 2010 saw a fall in households demand for consumer loans (see Figure 11). Falling demand was experienced by around 30% of *all* banks, and over half of *all* banks did not register any changes in demand. In the second quarter of 2010, the banks expected a strong increase in the demand for consumer loans.

The banks that recorded lower demand for consumer loans cited tighter lending standards and terms as the reason for this negative development. In the survey, such an answer was provided by 30% and 29% of the banks, respectively, and the impact of changes in lending policy on demand was assessed as insignificant. When asked to name reasons for lower demand, around 20% of the banks identified the availability of alternative sources of financing for households, primarily loans obtained from other banks (net percentage of around -20%), and sources other than loans and savings (net percentage of around -26%). Fewer banks than in previous two quarters recorded a negative impact of the financial position of households on demand for consumer loans (net percentage amounting to -11%).

According to the survey results, the banks will continue tightening the standards of granting loans to households in the fourth quarter of 2010 (see Figure 9). Such expectations were voiced by approximately three fourths of the banks. Around 17% of *all* banks termed the scale of the expected tightening action as considerable. **At the same time, the banks expect demand for consumer loans to grow** (net percentage of around 21%; 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.