
Senior loan officer opinion survey

on bank lending practices and credit conditions

2nd quarter 2014



Senior loan officer opinion survey

on bank lending practices and credit conditions

2nd quarter 2014

Summary of the survey results

Corporate loans

Lending policy: a tightening of the standards of granting long-term loans to large enterprises; a decrease in spreads, extension of loan maturity and an increase in maximum loan size.

Demand for loans: an increase in demand, most notably for long-term loans.

Expectations for the second quarter of 2014: an easing of the standards of granting short-term loans, a significant rise in demand, most notably for long-term loans.

Housing loans

Lending policy: a tightening of lending standards; a lower loan-to-value ratio, a shortening of loan maturity and an increase in spreads.

Demand for loans: an increase in demand for housing loans (discrepant responses).

Expectations for the second quarter of 2014: a slight easing of lending policy and a significant increase in demand.

Consumer loans

Lending policy: an easing of lending standards; extension of loan maturity and an increase in maximum loan size.

Demand for loans: no significant changes (discrepant responses).

Expectations for the second quarter of 2014: a slight easing of lending policy and a significant increase in demand.

Compared with previous quarters, there was an increased discrepancy of the banks' responses to the question about changes in lending standards for enterprises. It was, inter alia, the implementation of a new Recommendation S that had an impact on the tightening of lending standards in this respect. At the same time, the banks eased the majority of their terms on corporate loans. Most of them motivated this move by the improved quality of the loan portfolio. Despite concerns about the situation in Ukraine, the majority of the banks positively assessed the impact of future developments in the economy on lending policy. Industry-specific risk also declined significantly.

The implementation of the provisions of the new Recommendation S resulted in a tightening of lending policy in the segment of housing loans. This particularly affected the lending standards, LtV requirements and maximum loan maturity. At the same time, banks continued to raise spreads charged on housing loans. Despite the tightening of lending policy, banks expect the demand for this type of loans to rise in the second quarter of 2014.

The banks eased their lending policies in the segment of consumer loans for the fourth quarter in a row, which was due primarily to improved quality of the loan portfolio. At the same time, the competitive pressure experienced by the banks became less important. Despite a positive impact of the economic standing of households on the demand for consumer loans, there was an increase in the percentage of the banks that reported lower demand for this type of loans.

Results of the survey – overview

The objective of the survey is to define the direction of changes in the lending policy, i.e. the standards and terms of granting loans as well as changes in demand for loans in the Polish banking system. The standards of granting loans are understood as the minimum standards of creditworthiness, set by 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 March and April 2014 among 26 banks with a total share of 83% 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.

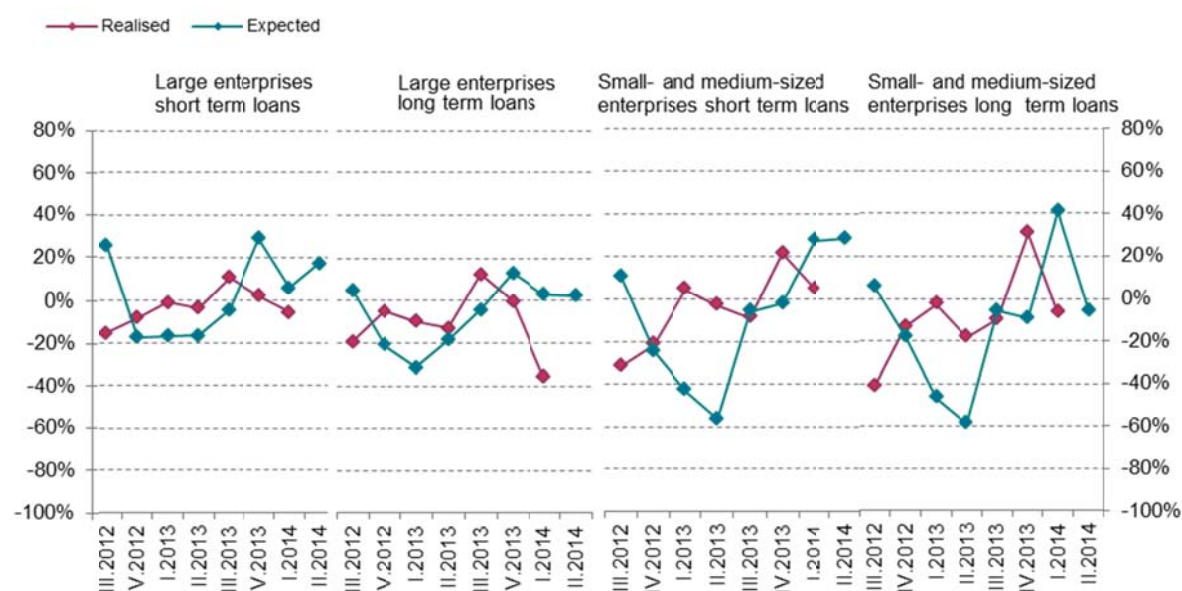
The next section presents tendencies regarding the banks' lending policy and changes in demand in the first quarter of 2014, as well as banks' expectations for the second quarter of 2014.

Corporate loans

In the first quarter of 2014, more than one third of the banks tightened their standards of granting long-term loans to large enterprises (see Figure 1). At the same time, the banks identified tightening as insignificant.¹ In the case of short-term loans, the vast majority of *all* banks did not change lending policies towards large enterprises. In net terms, the standards of granting loans to small and medium-sized enterprises (SMEs) did not change considerably, however the banks' responses were widely discrepant.

At the end of the fourth quarter of 2013, the banks did not foresee significant changes in lending standards for large enterprises and announced that they would ease lending policy in this respect towards SMEs.

Figure 1. Corporate credit standards



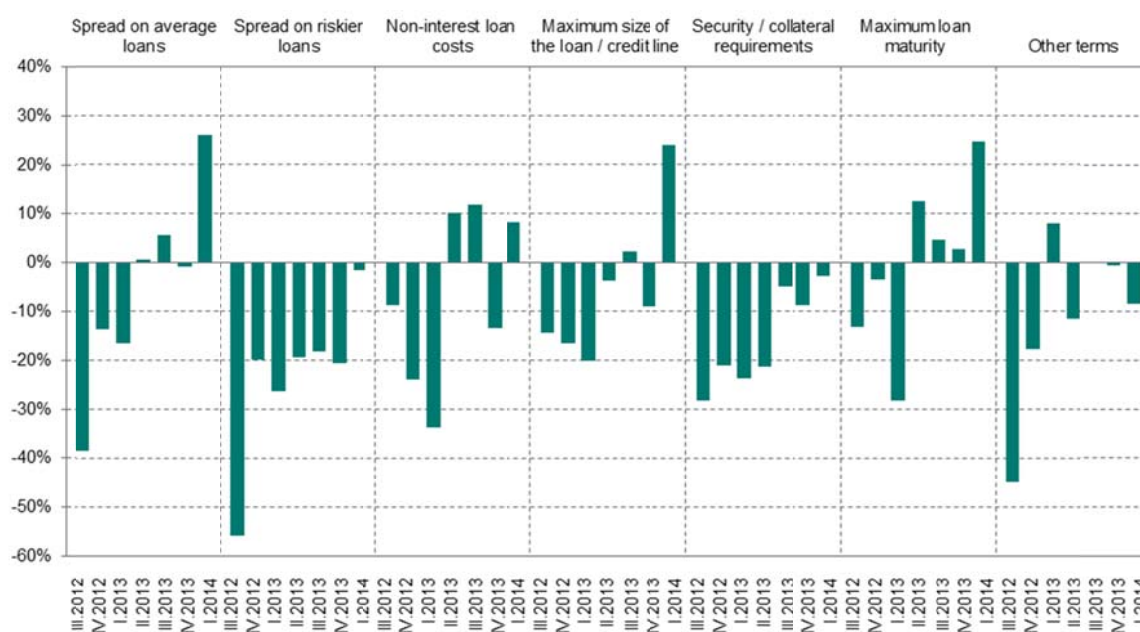
Note: Figures included in this study present the net percentage. A positive value of net percentage should be interpreted as an easing of lending policy or growth in demand for loans, and a negative value of net percentage – as a tightening of lending policy or a fall in demand for loans. Details concerning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

Over a quarter of the banks lowered their spreads on corporate loans (net percentage of around 27%, see Figure 2). A similar percentage of the banks announced that they would extend loan maturity and increase maximum loan size (in both cases, the net percentage response rate was about 25%). Individual banks lowered non-interest loan costs (net percentage of around 8%).

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.

The survey-responding banks tightened terms not accounted for in the survey. Such a response was provided by around 9% of the banks, mainly including in this category changes in the rules of verification of collateral value as a result of the implementation of the new Recommendation S *on good practices with regard to management of credit exposures that finance property and are mortgage-secured*.² Compared with previous quarters, the percentage of the banks which announced that they would raise spreads on riskier loans significantly decreased (net percentage of around -2%). Other terms on corporate loans did not change significantly.

Figure 2. Terms on corporate loans



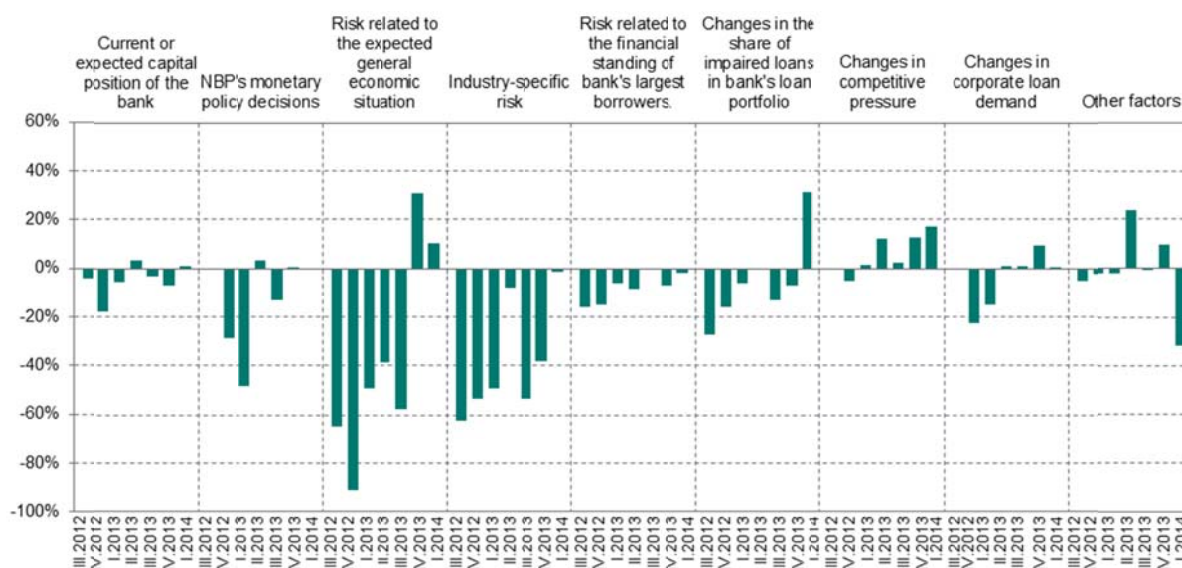
For the first time in two years, the banks' assessment of changes in the quality of the portfolio of corporate loans contributed to the easing of lending policy in this segment (net percentage of around 31%, see Figure 3). As in the previous quarter, the banks mentioned increased competitive pressure, mainly from other banks, and the risk of future developments in the economy among factors supporting an easing of lending policy (net percentage of around 17% and 11%, respectively). However, the percentage of the banks that positively assessed the impact of the expected economic situation on lending policy declined compared with the fourth quarter of 2013, and the response structure was more discrepant (according to 12% of *all* banks this factor contributed to the tightening of lending policy).

The lending policy-tightening banks justified the move almost exclusively with factors not accounted for in the survey (net percentage of around -31%). In their view, these included, *inter alia*, the implementation of the provisions of the amended Recommendation S and international instability (the conflict in

² http://www.knf.gov.pl/Images/Rekomendacja_S_18_06_2013._tcm75-34880.pdf

Ukraine). Compared with previous quarters, there was a significant decline in the percentage of the banks that justified a tighter lending policy with elevated industry-specific risk (net percentage of around -1%). Despite this, around 14% of *all* banks considered this factor as having a substantial influence on the tightening of lending policy³ (elevated risk related to renewable energy producers and enterprises engaged in co-operation with the mining industry and companies in the Baltic States). Other terms had no significant impact on the lending policy of the survey participating banks.

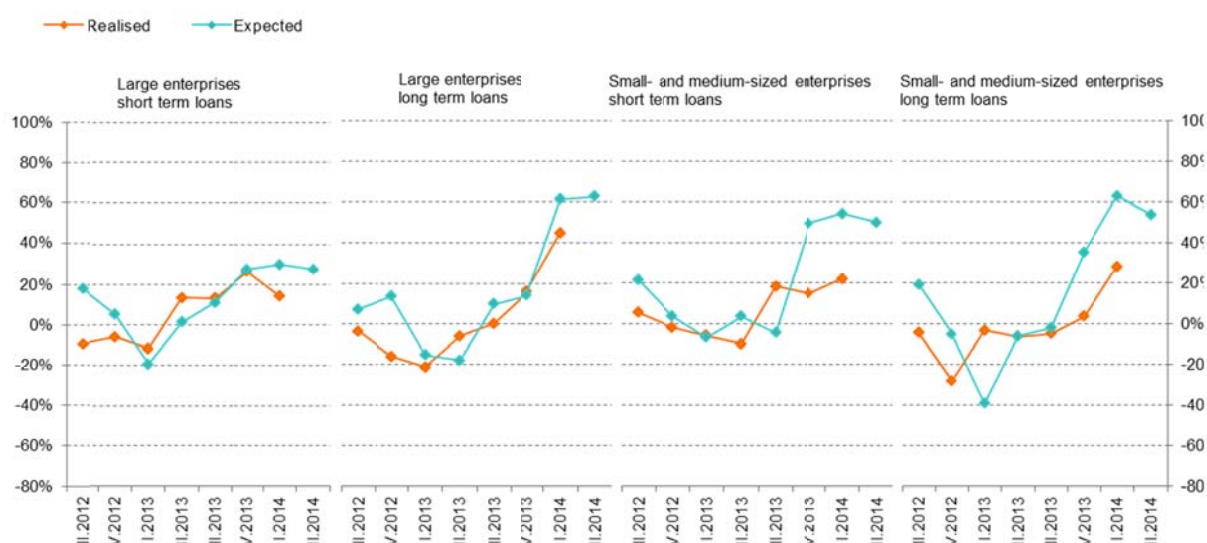
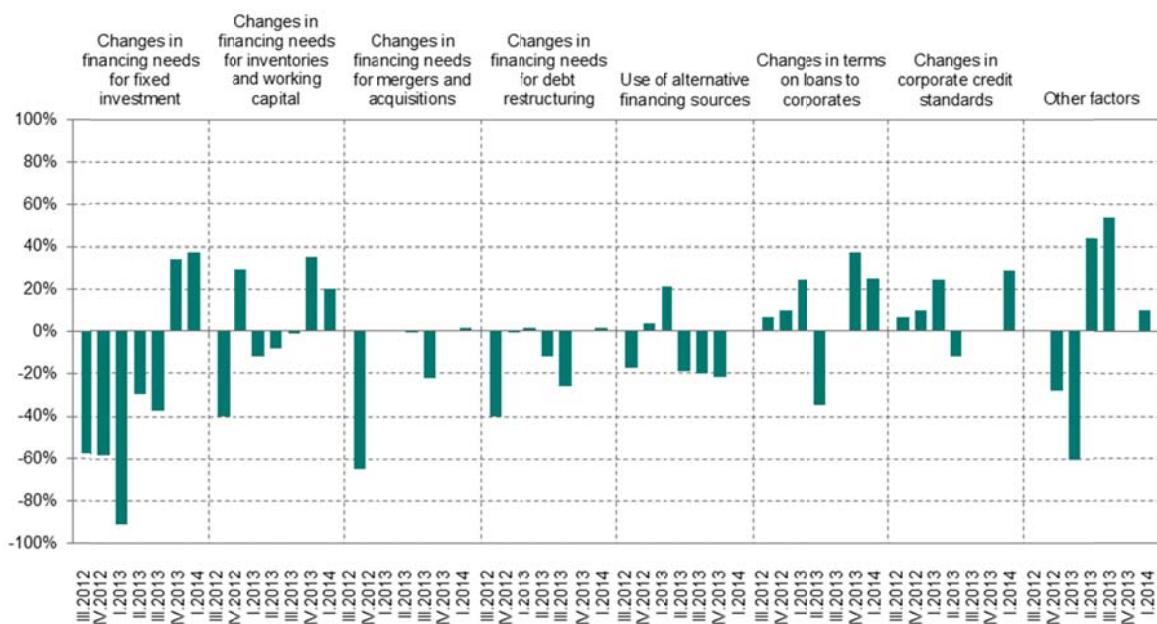
Figure 3. Factors influencing changes in lending policy



In the first quarter of 2014, the banks experienced a rise in demand for all categories of corporate loans (see Figure 4). The demand for long-term loans was relatively the strongest: in the case of large enterprises such a response was given by around 45% of the banks, and in the case of SMEs – around 30%. Higher demand for short-term loans was registered by around 14% (large enterprises) and 22% of the banks (SMEs). At the end of the fourth quarter of 2013, the banks expected greater demand.

According to the survey responding banks, the growth in demand was primarily associated with the enterprises' higher financing needs for fixed investments (net percentage of around 37%, see Figure 5). The easing of lending standards and terms by some banks was also of significance (net percentage of approximately 29% and 25%, respectively). In net terms, around one fifth of the banks pointed to the impact of changes in financing needs for inventories and working capital, although the responses were discrepant (around 18% of *all* banks found this factor as constraining the demand for corporate loans). Individual banks explained the higher demand by factors unaccounted for in the survey, including primarily the implementation of the *De Minimis* portfolio guarantee facility programme (net percentage of around 10%).

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.

Figure 4. Corporate loan demand**Figure 5.** Factors influencing changes in corporate loan demand

The banks expect lending policy for short-term loans, especially in the SME sector, to be eased in the second quarter of 2014 (net percentage of around 28%, see Figure 1). In the case of short-term loans to large

enterprises, such a response was provided by around 18% of the banks. They do not expect the standards and terms of granting long-term loans to change significantly in the coming quarter.

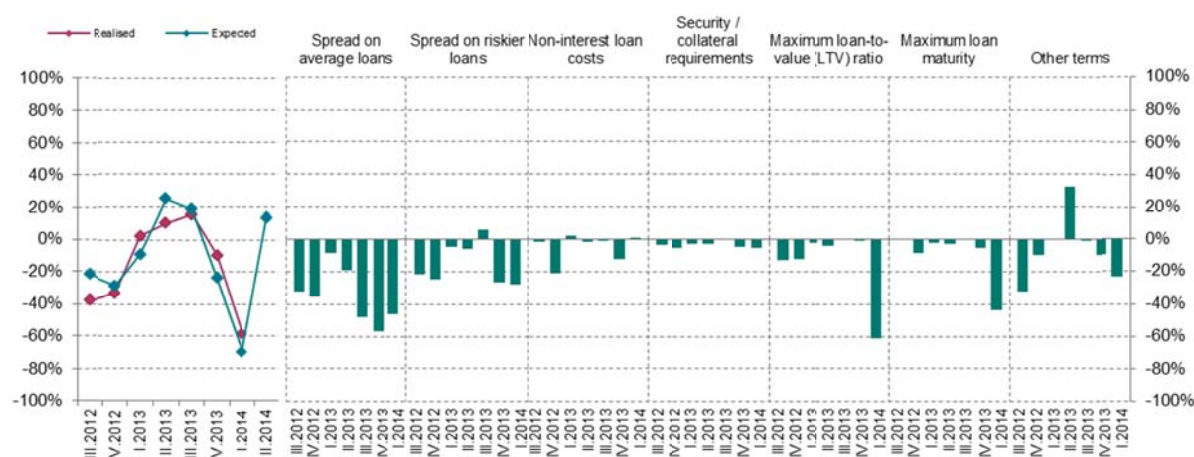
According to the survey responding banks, corporate loan demand will rise in the second quarter of 2014 (see Figure 4). The largest proportion of the banks expect demand for long-term loans to grow: in the case of large enterprises the net percentage response rate was around 63%, and in the case of SMEs – around 57%. According to the banks, higher demand for short-term loans would be primarily reported by SMEs (net percentage of 50%). In the segment of short-term loans to large enterprises, such expectations were expressed by slightly more than one fourth of the surveyed banks.

Housing loans

Housing loans

In line with expectations formulated in the previous edition of the survey, the majority of the banks tightened the standards of granting housing loans in the first quarter of 2014 (see Figure 6). In net terms, such a response was provided by around 59% of the banks, however around 14% of *all* banks announced that they would ease their lending policies.

Figure 6. Standards of and terms on housing loans



Over half of the survey participating banks lowered the loan-to-value ratio in the first quarter of 2014 (net percentage of around -61%). Compared with the previous editions of the survey, the percentage of the banks that had shortened maximum loan maturity, increased considerably (net percentage of around -44%). The tightening of lending terms continued to relate to spreads on housing loans, including also riskier loans (net percentage of around -46% and -28%, respectively). In net terms, around one fifth of the banks cited tighter terms unaccounted for in the survey, but the responses were discrepant and related primarily to the implementation of the provisions of Recommendation S on the calculation of creditworthiness and changes in the rules of granting foreign currency-denominated loans.⁴ No term on housing loans was eased significantly in the first quarter of 2014.

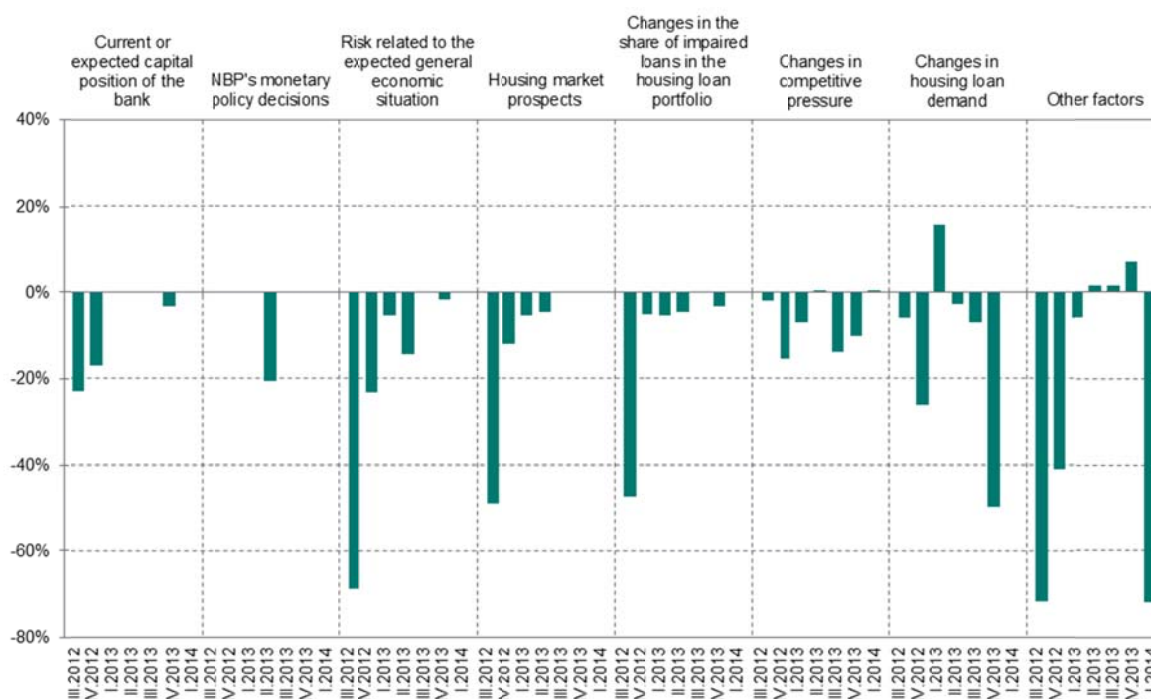
The banks explained changes in lending policy almost exclusively by factors unaccounted for in the survey (net percentage of around -72%, see Figure 7). A firm majority of these banks pointed to the need to

⁴ According to the definition used in this survey, some of 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 6.

implement the new Recommendation S⁵, as individual banks announced that the shift in their strategy would involve curbing the growth rate of the housing loan portfolio.

Around one fifth of the banks experienced higher demand for housing loans in the first quarter of 2014 (see Figure 8). However, the responses remain highly discrepant – lower demand was indicated by around 32% of *all* banks, of which almost half described the fall in demand as considerable.⁶ In net terms, the change in demand was close to the expectations made by the banks at the end of the previous quarter.

Figure 7. Factors influencing changes in lending policy – housing loans



The percentage of the banks that explained the growth in demand by housing market forecasts rose for the fourth successive quarter (net percentage of around 56%). In net terms, more than one third of the banks indicated factors that were not accounted for in the survey, however the responses were discrepant. The banks that experienced higher demand mentioned the impact of the *Home for the Young* scheme and higher competitiveness of their offer among the drivers of growth in demand.

According to the banks, the demand for housing loans was primarily constrained by changes in lending policy. Around 32% of the banks indicated the tightening of lending standards, with over one third consid-

⁵ The banks had until 1 January 2014 to implement the provisions of Recommendation S on the terms on housing loans.

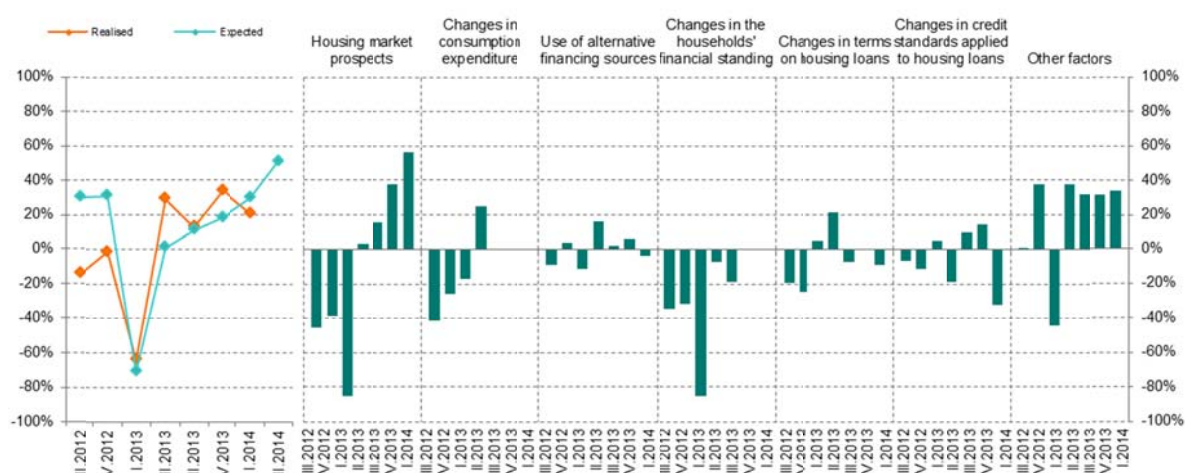
⁶ The banks have a possibility of grading the strength of changes in demand for loans. In this survey, the banks choose among the following options: a considerable increase in demand, a slight increase in demand, no change in demand, a slight decrease in demand and a considerable decrease in demand.

ering the impact of this factor as considerable.⁷ Far less important was the tightening of lending terms on housing loans – in net terms, such a response was given by around 9% of the banks.

In the coming quarter, the banks plan to ease slightly their lending policies in the segment of housing loans (net percentage of around 14%, see Figure 6). At the same time, approximately 86% of *all* banks announced that they would make no changes in this respect.

In net terms, over half of the banks expect higher demand for housing loans in the second quarter of 2014 (see Figure 8). At the same time, around 11% of *all* banks expect this demand to fall.

Figure 8. Demand for housing loans and factors influencing its changes



Consumer loans

In the first quarter of 2014, the survey responding banks continued to ease the standards of granting consumer loans (net percentage of 28%, see Figure 9). The share of the banks that eased the policy in this regard was slightly higher than expected in the previous edition of the survey.

Some banks increased the maximum size of loans on offer and extended maximum loan maturity (net percentage of around 13% and 11%, respectively). As in the previous quarter, the highest percentage of the

⁷ 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.

banks said that they would relax lending terms unaccounted for in the survey (net percentage of around 30%), however, including mainly simpler documentation requirements.⁸

Individual banks raised credit spreads on riskier loans and increased non-interest loan costs (net percentage of around -8% and -7%, respectively). Other terms on consumer loans did not change significantly.

Figure 9. Standards of and terms on consumer loans



The percentage of the banks that explained the easing of lending policy by an improvement in the quality of the consumer loan portfolio grew for the third quarter in a row (see Figure 10). Such a response was provided by around 39% of the banks, of which almost half found the impact of this factor as considerable. More than one fourth of the surveyed banks indicated a rise in competitive pressure, mostly from other banks. Factors not accounted for in the survey were mentioned by around 24% of the banks, and these included both the implementation of the new Recommendation T on good practices with regard to risk management of retail credit exposures⁹ and changes in the area of customer segmentation.¹⁰ According to the banks, the easing of lending policy was also driven by the lower risk of future developments in the economy (net percentage of around 17%). Compared with the previous quarter, there was a decline in the percentage of

⁸ According to the definition used in this survey, some of 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.

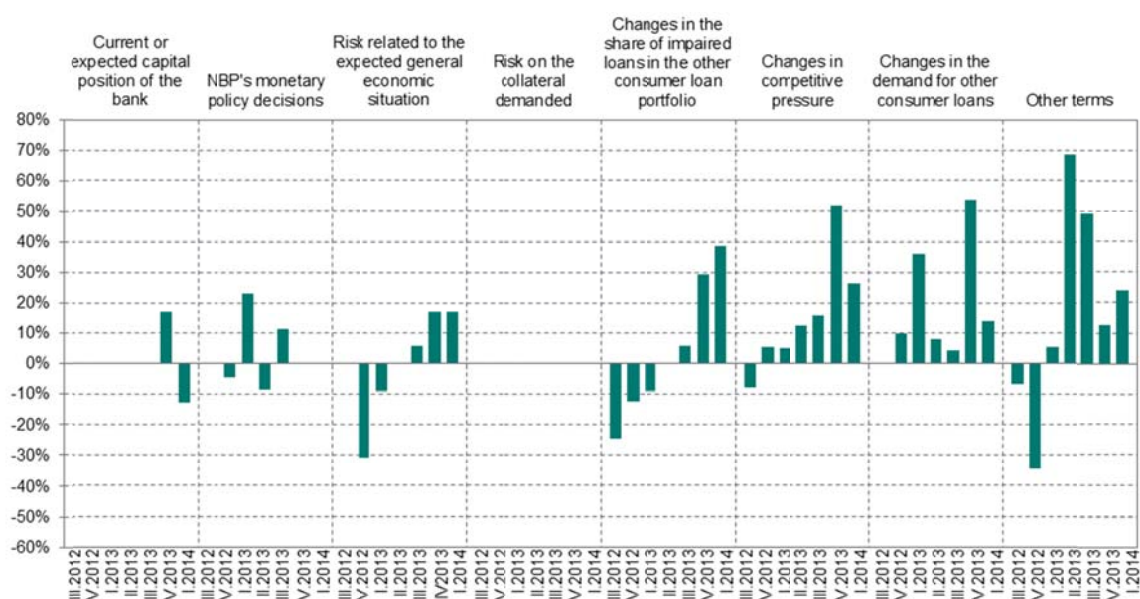
⁹ http://www.knf.gov.pl/Images/RekomendacjaT_tcm75-33586.pdf

¹⁰ Some of the reasons behind a tightening of lending policy, indicated by the banks, describe changes in the standards of granting loans. Due to their incorrect classification by the banks, they are presented under the category "Other factors" in Figure 10.

the banks that mentioned changes in consumer loan demand as exerting an impact on lending policy. The net percentage response rate amounted to 14%, however according to around 13% of *all* banks this factor led to the tightening of lending policy.

Individual banks included their current and expected capital position in the reasons behind the tightening of lending policy (net percentage of around -13%). Other factors had no significant impact on lending policy in the segment of consumer loans.

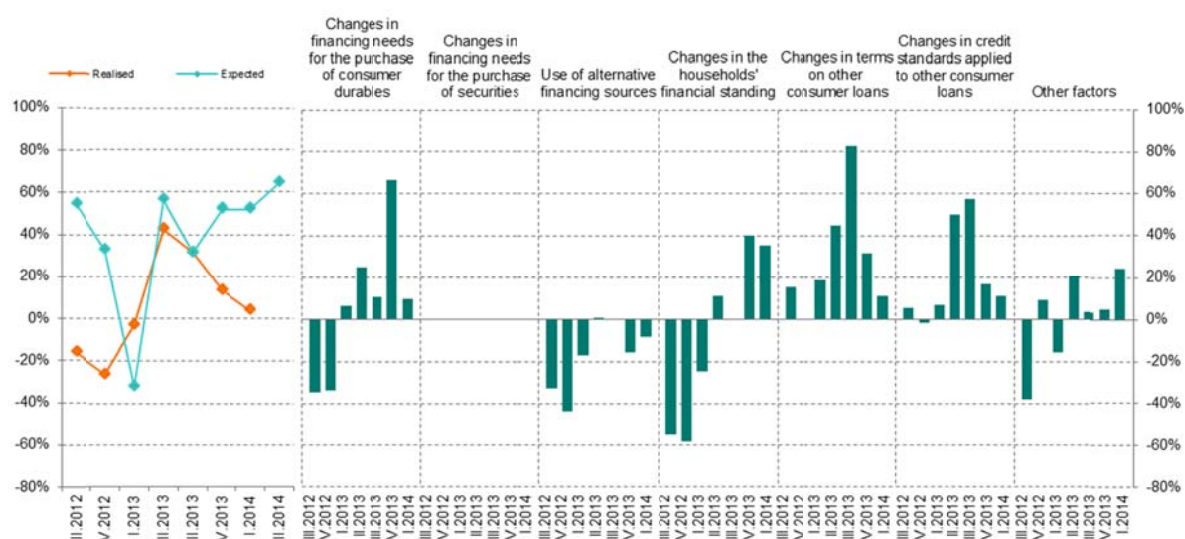
Figure 10. Factors influencing changes in lending policy – consumer loans



Consumer loan demand did not change significantly in the first quarter of 2014 (see Figure 11). The net percentage response rate was around 4%, however the banks' opinions differed – around 21% of *all* banks were affected by lower demand. In the previous edition of the survey, the banks expected demand for consumer loans to rise significantly.

The banks that experienced higher demand explained it primarily by a better economic standing of households (net percentage of around 36%). Almost one fourth of the banks indicated factors not accounted for in the survey, mainly including promotions and marketing campaigns. The percentage of the banks that attributed the higher demand to the easing of lending standards and terms (in both cases, the net percentage was around 11%) decreased for the second quarter in a row. Compared with the fourth quarter of 2103, the importance of households' financing needs for durable goods also declined (net percentage of around 10%).

According to individual banks, the use of alternative funding by households was a consumer loan demand-constraining factor (net percentage of around -8%). The banks mainly cited the use of household savings and funding sources other than bank loans.

Figure 11. Demand for consumer loans and factors influencing its changes

The survey-responding banks expect lending policy to be slightly eased in the second quarter of 2014 (net percentage of around 12%, see Figure 9). The vast majority of *all* banks announced that they would not change their lending policy in the segment of consumer loans.

The banks expect demand for consumer loans to grow significantly in the second quarter of 2014 (net percentage of 64%, see Figure 11), however their expectations have differed significantly from actual changes in demand for the last two quarters.

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.¹

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 26 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 account 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.

Source: NBP.

¹ 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.² 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.

² 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..

www.nbp.pl

