National Bank of Romania

Bank Lending Survey

November 2016

Bank Lending Survey*

2016 Q3

November 2016

* See the Annex and the Methodological Notes for issues related to the particulars and terminology used herein at (http://www.bnr.ro/Annexes-6512.aspx).

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Summary

In 2016 Q3, banks eased credit standards on housing loans and kept them relatively unchanged for consumer credit to households. As for loans to non-financial corporations, lending conditions remained unchanged from the previous quarter. Over the next three months, credit institutions envisage credit standards to ease marginally for loans to households for house purchase and stay put for consumer credit. In addition, banks anticipate credit standards for loans to non-financial corporations to hold steady in 2016 Q4.

Table 1. Summary of banks' opinions on developments in loan supply and demand

Lending segment		Supply		Demand	
		Q3/2016	Q4/2016 (expectations)	Q3/2016	Q4/2016 (expectations)
Household sector	Loans for house and land purchase	↑	↑	↓	↑
	Consumer loans	→	→	↓	↑
Companies sector		→	→	↑	↑

Note: For the loan supply, the arrow pointing upwards/downwards/horizontally shows a(n) easing/tightening/no change of credit standards. For the loan demand, the arrow pointing upwards/downwards/horizontally shows a rise/contraction/no change, in line with banks' opinions (over the past three months and expectations over the next three months, respectively). The blue color indicates marginal changes and the red color shows moderate and large changes.

In 2016 Q3, demand for loans to households declined significantly, while corporate loan demand rose moderately. For the next quarter, credit institutions forecast higher demand for loans to both households and non-financial corporations.

A. NON-FINANCIAL CORPORATIONS

- **Credit standards** remained unchanged at aggregate level in 2016 Q3, yet those for short-term loans to small- and medium-sized enterprises eased marginally. For 2016 Q4, banks estimate that credit standards will stay the same.

- **Credit terms and conditions** eased moderately as regards the acceptable maximum loan maturity.

- **Loan demand** increased somewhat in 2016 Q3. For the next quarter, banks expect demand going up at a moderate pace for all types of loans. The loan rejection rate was relatively unchanged compared with the previous quarter.

- **Industry-specific risks**, according to banks, rose moderately in tourism, agriculture and real estate and were perceived as significantly higher for the energy sector. Credit risk saw no change irrespective of company size.

B. HOUSEHOLDS

- **Credit standards,** in 2016 Q3, were notably eased in the case of housing loans and remained relatively unchanged for consumer credit. Over the next quarter, banks envisage standards on loans for house and land purchase to continue to ease, albeit to a lesser extent, while lending conditions for consumer credit are not expected to change.

- **Credit terms and conditions** on housing loans witnessed a sizeable easing in 2016 Q3 in terms of the maximum loan-to-value (LTV) and non-interest rate charges. As for credit terms and conditions on consumer credit, an easing of non-interest rate charges was detectable.

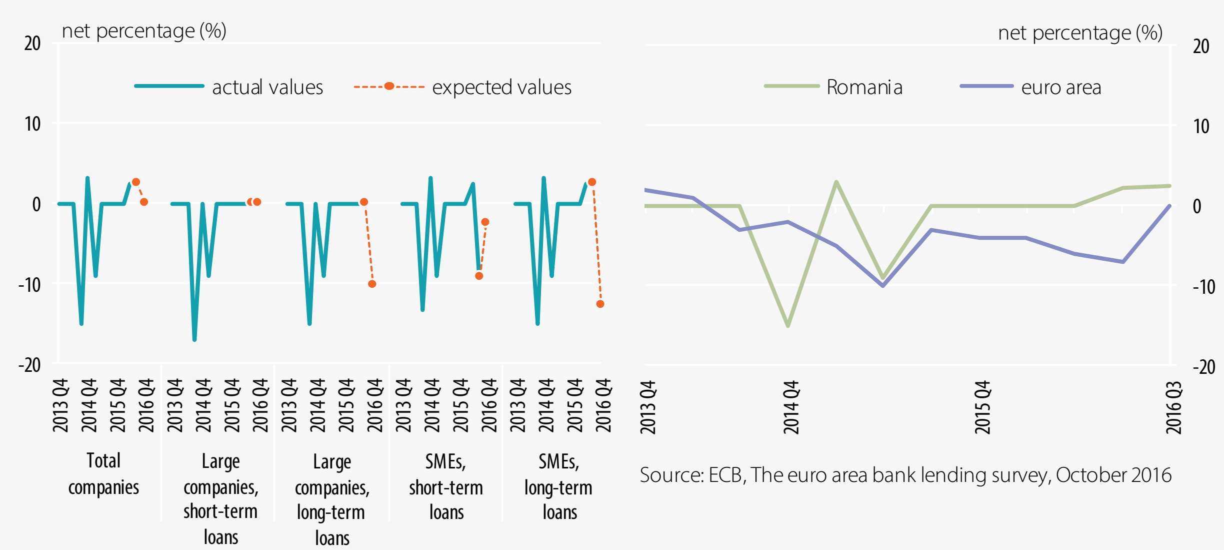
- **Loan demand** decreased for both housing loans and consumer credit in 2016 Q3. In 2016 Q4, credit institutions expect demand to rise on both lending segments, but more significantly in the case of housing loans. The loan rejection rate increased moderately for housing loans and held relatively steady for consumer credit.

1. Lending to non-financial corporations

1.1. CREDIT STANDARDS

Credit standards for non-financial corporations were generally kept unchanged in 2016 Q3, except short-term loans to small- and medium-sized enterprises, which eased marginally.

Chart 1.1. Change in credit standards



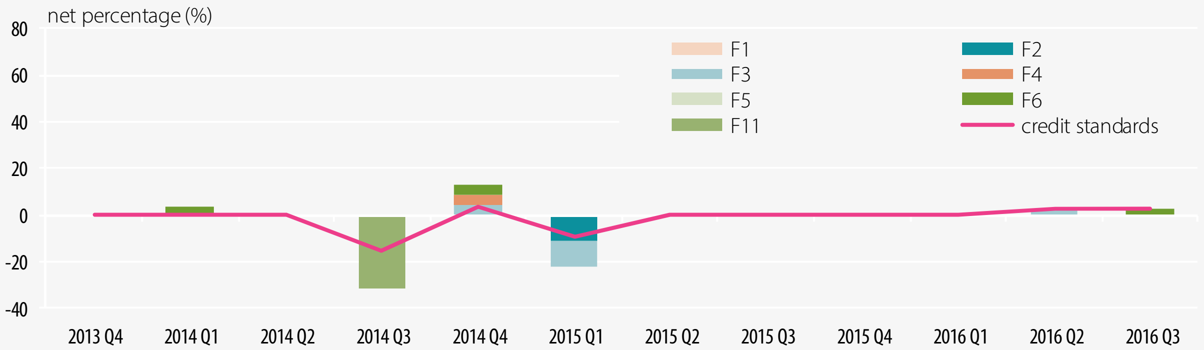
Note: Positive values of the net percentage indicate tightening credit standards. Expected values refer to both credit standards and credit terms and conditions.

For the next three months (2016 Q4), the respondent banks expect credit standards for short-term loans to remain relatively unchanged, and those for long-term loans to ease moderately, for both large companies and small- and medium-sized enterprises (Chart 1.1).

None of the factors behind the change in credit standards witnessed significant changes in 2016 Q3 (Chart 1.2).

Across the euro area, credit standards for loans to non-financial corporations held steady in 2016 Q3, thus putting an end to nine consecutive quarters of easing. The breakdown shows that credit standards were eased marginally for large companies and remained unchanged for small- and medium-sized enterprises. Similarly to the previous quarter, bank competition and risk perception towards non-financial corporations contributed to the easing of standards in the euro area, while credit institutions' cost of funds and balance sheet constraints had a neutral influence. For the next quarter (2016 Q4), euro area banks anticipate a marginal tightening of credit standards.

Chart 1.2. Factors behind the change in credit standards



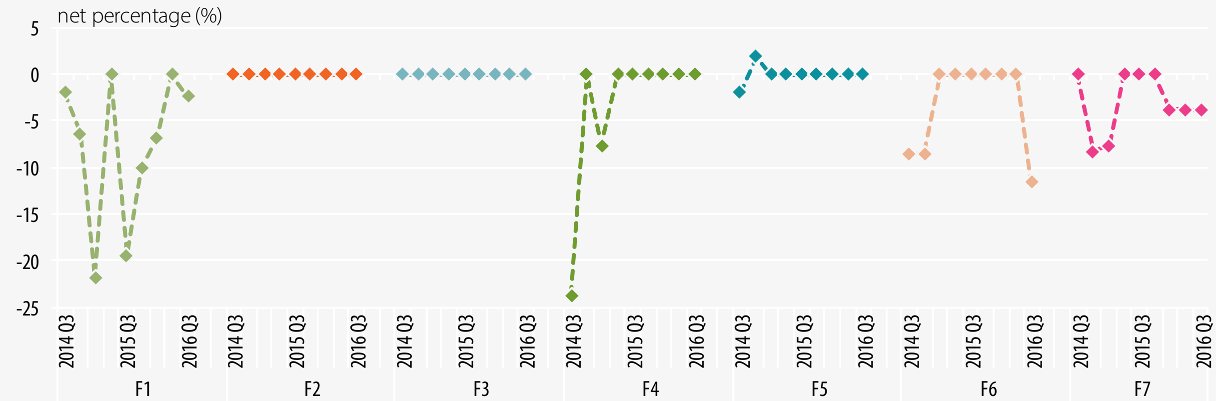
F1 – The current or expected capital position of the bank
F2 – NBR's monetary policy decisions and prudential measures
F3 – Expectations regarding general economic activity
F4 – Industry-specific risk
F5 – Changes in the share of NPLs in the bank's portfolio
F6 – Risk on collateral demanded
F7 – Risk associated with a steep increase/decrease in house prices (only for commercial mortgage-backed loans)
F8 – Pressure from bank competition
F9 – Pressure from non-bank competition
F10 – Competition from market financing (capital market and shareholders, etc.)
F11 – Other

Note: Positive values of the net percentage indicate tightening credit standards. F7, F8, F9 and F10 remained unchanged in the period under review.

1.2. CREDIT TERMS AND CONDITIONS

In 2016 Q3, credit terms and conditions for loans to non-financial corporations were left broadly unchanged, with the exception of a moderate easing of the maximum loan maturity (Chart 1.3).

Chart 1.3. Change in credit terms and conditions



F1 – Spread between average lending rate and 1M ROBOR
F2 – Premium demanded on riskier loans
F3 – Maximum loan amount
F4 – Collateral requirements
F5 – Loan covenants
F6 – Maximum maturity
F7 – Non-interest rate charges (fees, etc.)

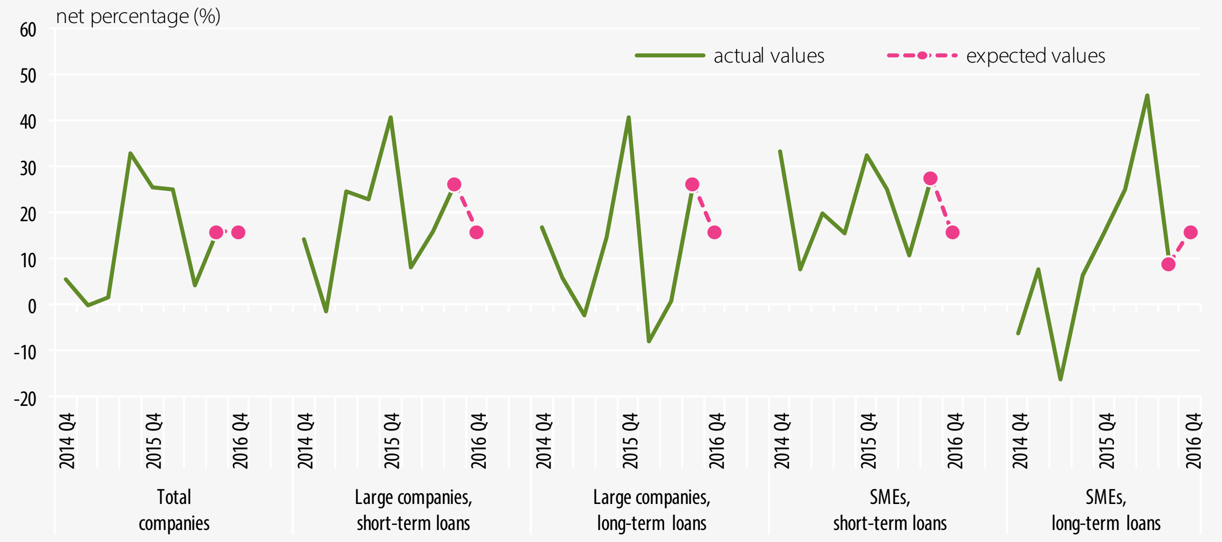
Note: Positive values of the net percentage indicate tightening credit terms and conditions.

1.3. LOAN DEMAND

According to banks, loan demand from non-financial corporations increased moderately at aggregate level in 2016 Q3 (Chart 1.4). In the case of large companies, demand for both long- and short-term loans posted notable growth. Small- and medium-sized enterprises increased significantly their demand for short-term loans and only marginally for long-term loans. For the next quarter (2016 Q4), banks envisage a moderate rise in corporate loan demand, irrespective of company size or loan maturity.

The share of rejected applications for loans to non-financial corporations remained relatively flat in 2016 Q3 compared with the previous quarter, both at aggregate level and by category.

Chart 1.4. Loan demand dynamics



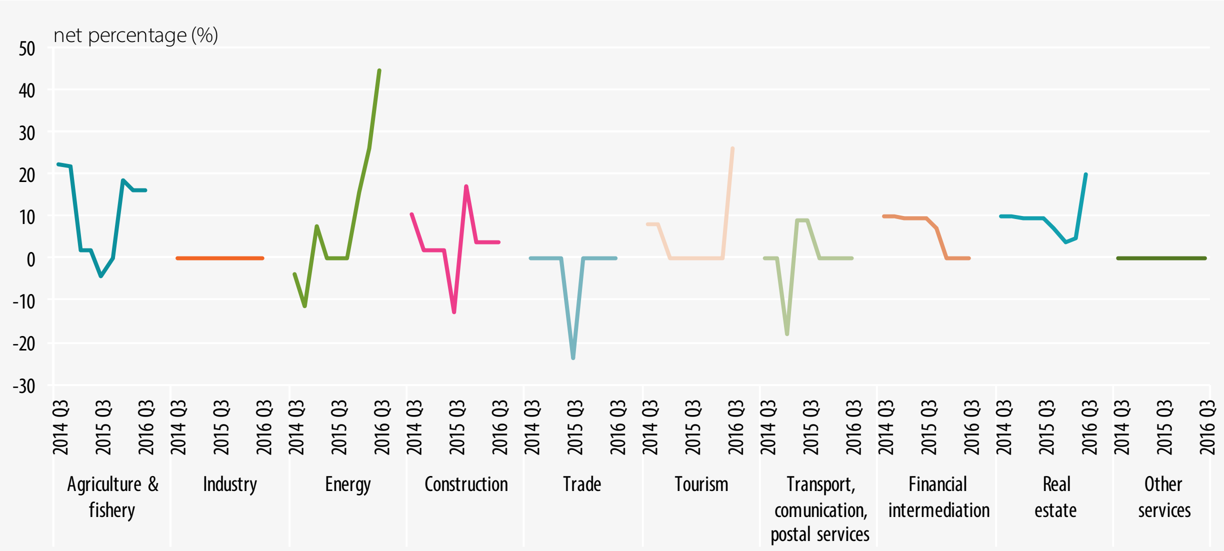
Note: Positive values of the net percentage indicate rising loan demand.

1.4. CREDIT RISK ASSOCIATED WITH LENDING TO NON-FINANCIAL CORPORATIONS

Credit institutions' responses show an increase in industry-specific risks for non-financial corporations in 2016 Q3. Specifically, credit risk associated with the companies in the energy sector is seen to be high and on the rise, while credit risk in tourism, agriculture and real estate sector is perceived to increase at a moderate pace (Chart 1.5).

By company size, credit institutions considered that, in 2016 Q3, credit risk held steady for all categories of SMEs (microenterprises, small-sized enterprises, medium-sized enterprises), as well as for large companies (Chart 1.6).

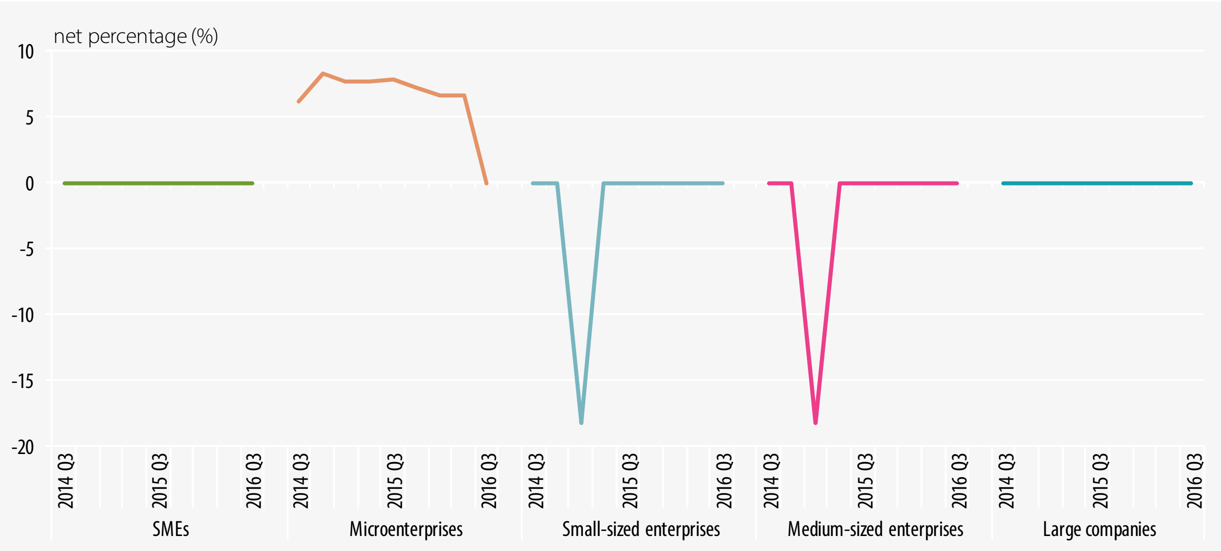
Chart 1.5. Credit risk by sector



Note: Positive values of the net percentage indicate rising credit risk.

The loss given default (LGD[1]) estimated by banks for the defaulted loans[2] in 2016 Q3 remained relatively unchanged from the previous quarter at about 40 percent.

Chart 1.6. Credit risk by company size



Note: Positive values of the net percentage indicate rising credit risk.

[1] The information regarding LGD for the loans to companies and households should be interpreted with caution, considering the short data series available to banks for quantifying this indicator.

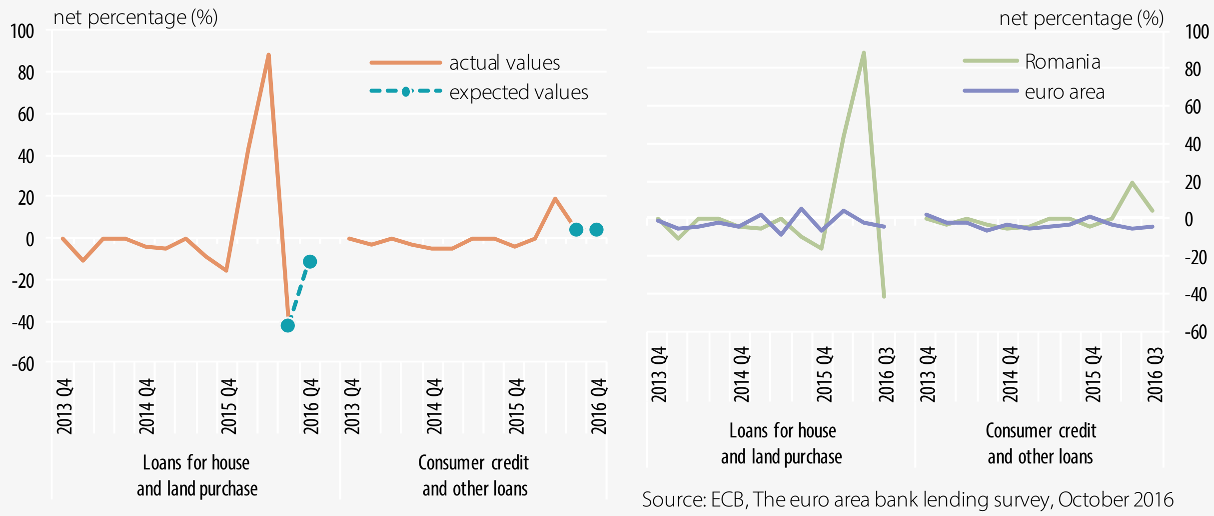
[2] Default is defined pursuant to NBR Regulation No. 5/2013.

2. Lending to households

2.1. CREDIT STANDARDS

Credit standards for housing loans posted a notable easing after two quarters of significant tightening following the enactment of Law No. 77/2016 on the discharge of mortgage-backed debts through transfer of title over immovable property. For the coming quarter, banks anticipate credit standards for this type of loans to ease further, albeit marginally (Chart 2.1).

Chart 2.1. Changes in credit standards for loans to households



Source: ECB, The euro area bank lending survey, October 2016

Note: Positive values of the net percentage indicate tightening credit standards. Expected values refer to both credit standards and credit terms and conditions.

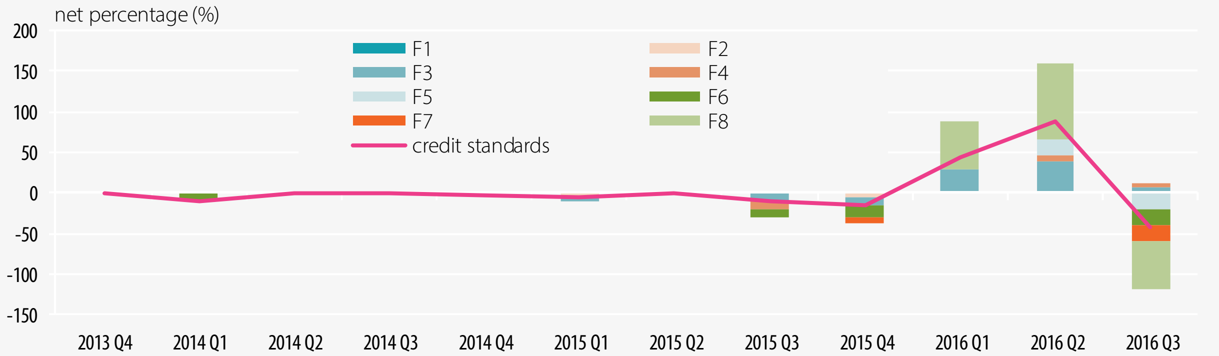
Credit standards for consumer credit remained unchanged in 2016 Q3 and a status-quo is envisaged for 2016 Q4 too.

Credit institutions in the euro area continued to ease credit standards for housing loans and consumer credit in 2016 Q3. For the next three months, credit institutions expect a further easing of credit standards for housing loans and a status-quo of credit standards for consumer credit.

2.2. PARTICULARS OF HOUSING LOANS (HOUSE AND LAND PURCHASE)

In 2016 Q3, the main contributors to the easing of credit standards for housing loans were: factors aiming at reducing the pressures posed by legislative changes, i.e. the effects of enacting Law No. 77/2016 on the discharge of mortgage-backed debts through transfer of title over immovable property included in “Other factors” (Chart 2.2), the change in competition in the banking and non-bank sectors, as well as the change in the share of non-performing loans for house purchase in the bank’s portfolio.

Chart 2.2. Factors behind the change in credit standards



F1 – The current or expected capital position of the bank
F2 – NBR's monetary policy decisions and prudential measures
F3 – Expectations regarding general economic activity
F4 – Expectations on real-estate market (change in the probability of a steep increase/decrease in house prices)
F5 – Changes in the share of non-performing housing loans in the bank's portfolio
F6 – Pressure from bank competition*
F7 – Pressure from non-bank competition*
F8 – Other factors

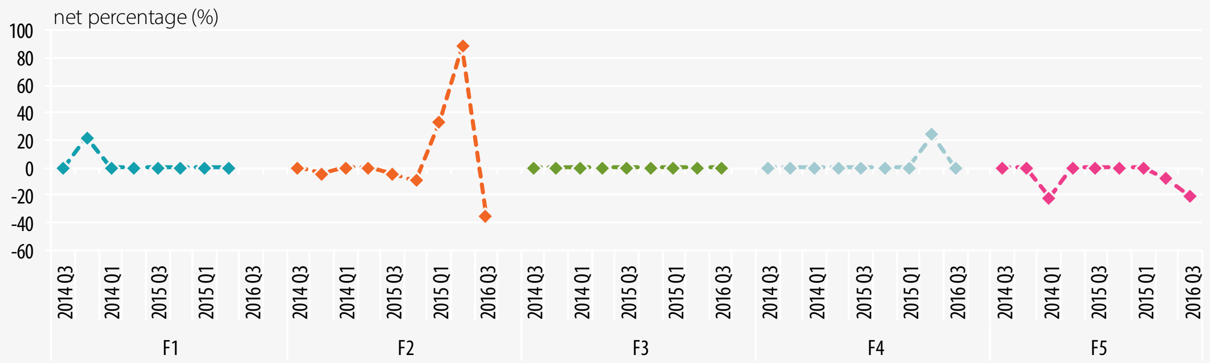
* increase in competition – easing; decrease in competition – tightening

Note: Positive values of the net percentage indicate tightening credit standards.

(i) Credit terms and conditions

The credit terms and conditions on loans for house and land purchase that banks eased in 2016 Q3 were the maximum loan-to-value (LTV) ratio and the non-interest rate charges (Chart 2.3). No changes were reported for the other credit terms and conditions on housing loans in 2016 Q3.

Chart 2.3. Credit terms and conditions for housing loans

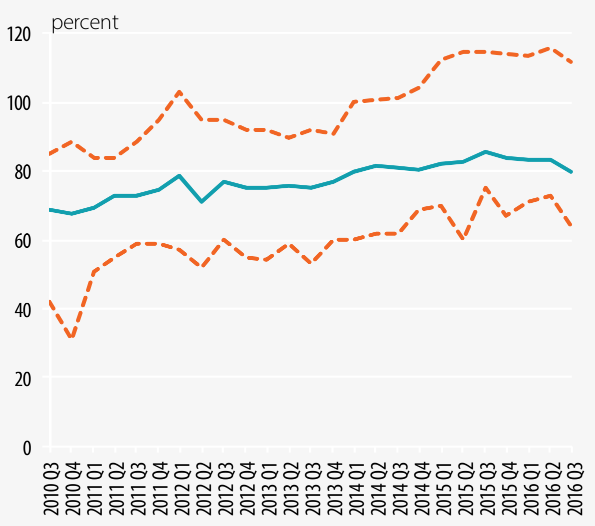


F1 – Spread between average lending rate and 1M ROBOR (higher spread – tightening; lower spread – easing)
F2 – Maximum LTV (loan amount to collateral value)
F3 – Maximum monthly debt service to monthly income (higher = easing; lower = tightening)
F4 – Maximum maturity (higher = easing; lower = tightening)
F5 – Non-interest rate charges (fees, etc.)

Note: Positive values of the net percentage indicate tightening credit terms and conditions.

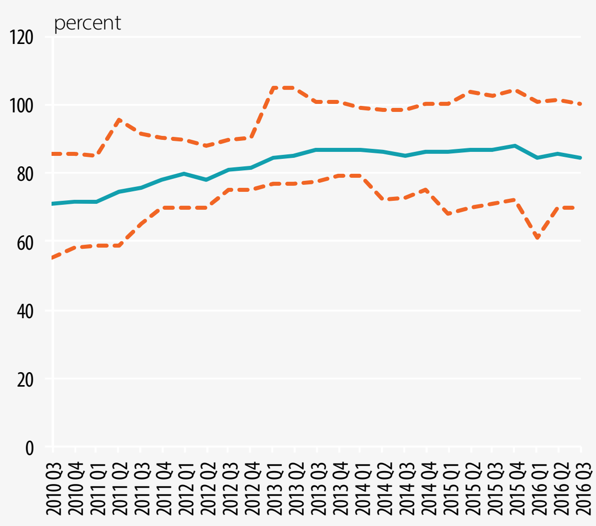
The average LTV ratio for new housing loans granted over the last three months stood at 80 percent (Chart 2.4), slightly lower than in the previous quarter, while the average LTV ratio for the total housing loan stock further stood around 85 percent (Chart 2.5).

Chart 2.4. LTV – bank average and the fluctuation range for new housing loans granted in the quarter under review



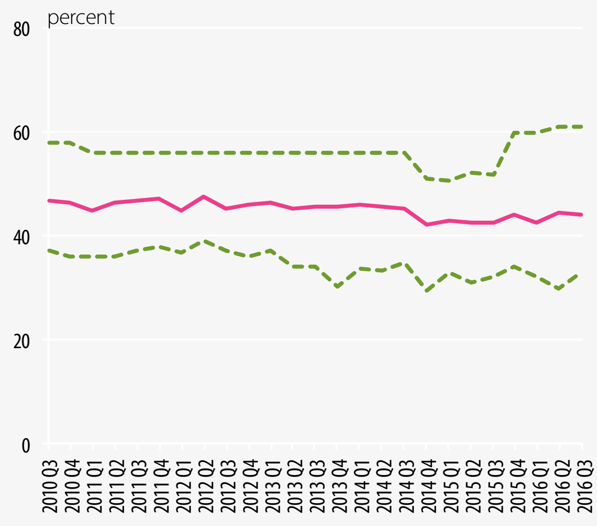
Note: The fluctuation range is set by the lowest and highest values reported by respondent banks

Chart 2.5. LTV – bank average and the fluctuation range for outstanding housing loans



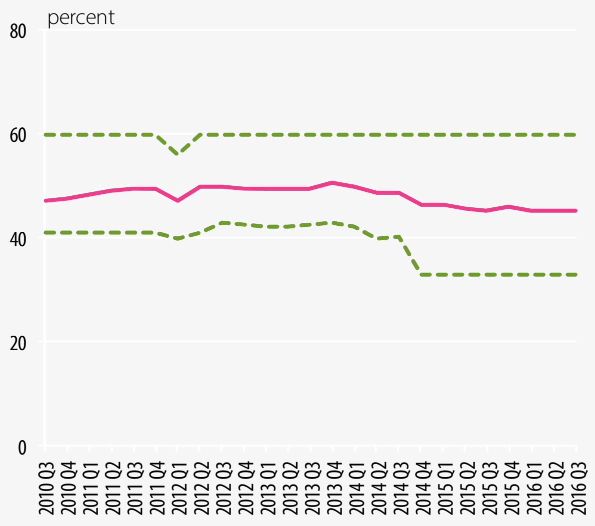
Note: The fluctuation range is set by the lowest and highest values reported by respondent banks

Chart 2.6. Indebtedness – bank average and the fluctuation range for new housing loans granted in the quarter under review



Note: The fluctuation range is set by the lowest and highest values reported by respondent banks

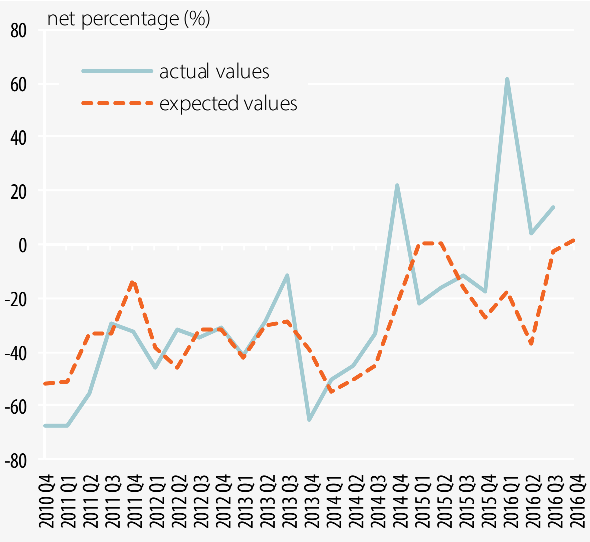
Chart 2.7. Indebtedness – bank average and the fluctuation range for outstanding housing loans



Note: The fluctuation range is set by the lowest and highest values reported by respondent banks

Average indebtedness for new housing loans came in at 44 percent (Chart 2.6) and that for the total housing loan portfolio equalled 45 percent (Chart 2.7). The values remained unchanged from the previous quarter (2016 Q2).

Chart 2.8. House price developments according to banks' assessments



Note: Positive values of the net percentage indicate an increase in house prices.

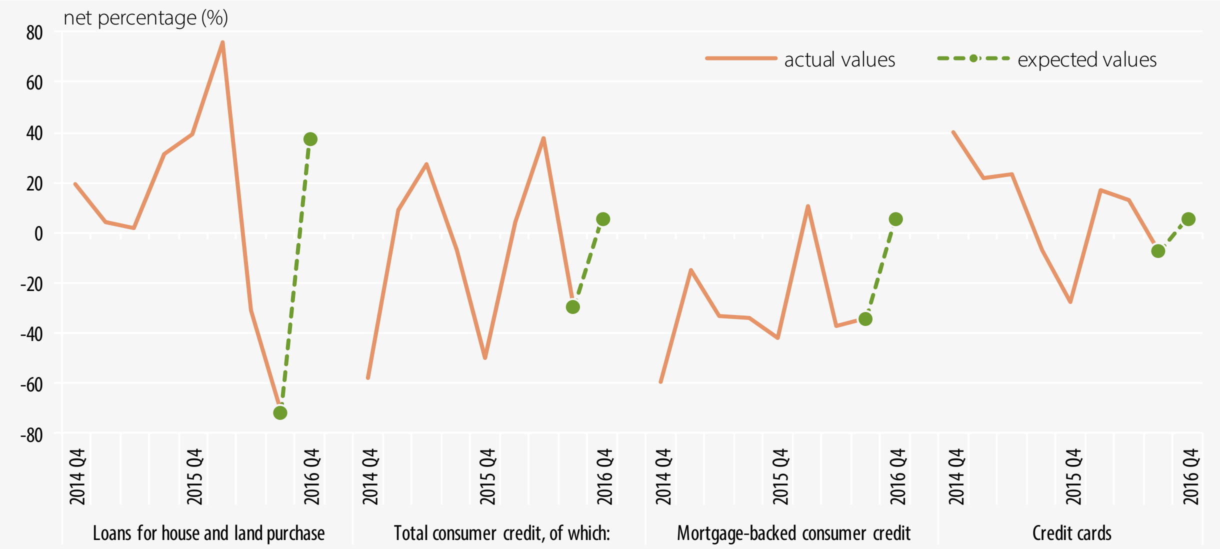
(ii) Housing loan demand and house prices

According to local banks, house prices went up moderately in 2016 Q3. For the next three months, they are expected to remain relatively unchanged (Chart 2.8).

Demand for loans for house and land purchase decreased considerably in 2016 Q3 (Chart 2.9), but for the next three months banks expect a notable rise in the demand for housing loans.

Furthermore, 2016 Q3 saw a marked increase in the number of rejected applications for housing loans.

Chart 2.9. Changes in loan demand

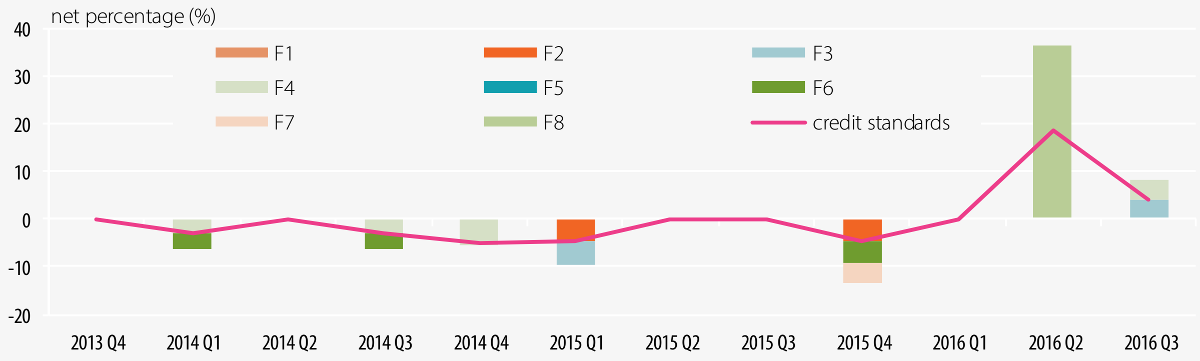


Note: Positive values of the net percentage indicate an increase in loan demand.

2.3. CONSUMER CREDIT PARTICULARS

In 2016 Q3, the factors that have an impact on credit standards did not undergo changes for consumer credit (Chart 2.10).

Chart 2.10. Factors behind the change in credit standards



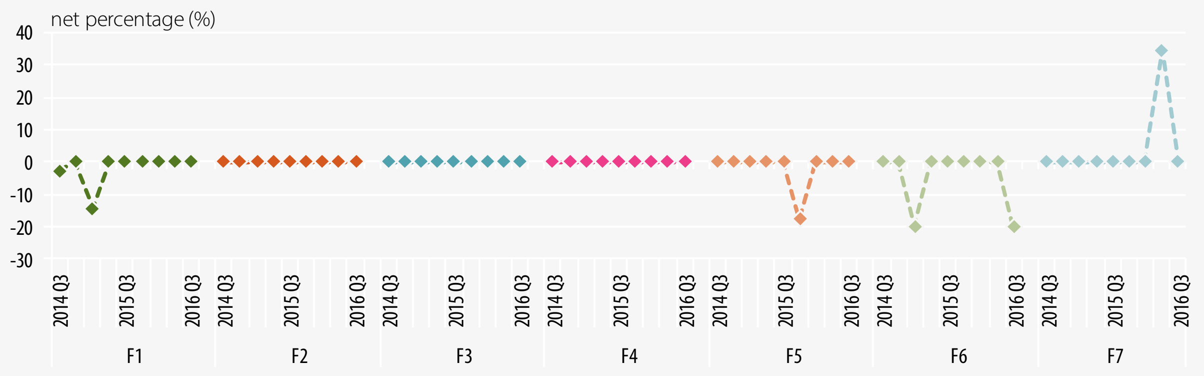
F1 – The current or expected capital position of the bank
F2 – NBR's monetary policy decisions and prudential measures
F3 – Expectations regarding general economic activity
F4 – Risk on borrower's creditworthiness
F5 – Risk on collateral demanded
F6 – Pressure from bank competition*
F7 – Pressure from non-bank competition*
F8 – Other factors

* increase in competition – easing; decrease in competition – tightening
Note: Positive values of the net percentage indicate tightening credit standards.

(i) Credit terms and conditions

In 2016 Q3, credit institutions kept unchanged most of the credit terms and conditions for consumer credit, with the main change being reported for non-interest rate charges, which saw a moderate easing (Chart 2.11).

Chart 2.11. Consumer credit terms and conditions



F1 – Spread between average lending rate and 1M ROBOR (higher spread – tightening; lower spread – easing)
F2 – Minimum down payment (increase = tightening; decrease = easing)
F3 – Maximum monthly debt service to monthly income (higher = easing; lower = tightening)
F4 – Maximum maturity (higher = easing; lower = tightening)
F5 – Maximum loan amount (higher = easing; lower = tightening)
F6 – Non-interest rate charges (fees, etc.)
F7 – Other

Note: Positive values of the net percentage indicate tightening credit terms and conditions.

(ii) Consumer credit demand

In 2016 Q3, consumer credit demand shrank significantly amid a notable decline in the demand for mortgage-backed consumer credit, to which added the moderate fall in the demand for non-mortgage-backed consumer credit (Chart 2.9). In 2016 Q3, the number of rejected loan applications remained unchanged from the previous quarter.

For 2016 Q4, credit institutions expect households to post a marginal rise in consumer credit demand.

(iii) Loss given default (LGD[3])

In 2016 Q3, the average loss given default (LGD) for housing loans and mortgage-backed consumer credit stood at about 35 percent and 40 percent respectively, while for non-mortgage-backed consumer credit and credit cards, it came in at nearly 60 percent. At aggregate level, LGD for defaulted loans to households[4] was of approximately 45 percent.

[3] The information on LGD should be interpreted with caution, considering the short data series available to banks for quantifying this indicator.

[4] Default is defined according to NBR Regulation No. 5/2013.

ANNEX

The survey is conducted on a quarterly basis by the NBR in January, April, July and October. It is based on a questionnaire (released as part of the May 2008 analysis) which is sent to the top 10 banks. These banks were selected based on their market share in terms of loans to companies and households, accounting for approximately 80 percent of the loan stock.

The questionnaire has two sections, tracking separately the characteristics of loans to: (A) non-financial corporations and (B) households. The questions focus on banks' opinions regarding:

- credit standards (internal credit regulations or criteria governing credit institutions' lending policy);
- credit terms and conditions (loan covenants set up by lenders and borrowers in the loan agreement such as interest rate, collateral, maturity etc.);
- risks associated with lending;
- loan demand; and
- other specific details (expectations regarding the average house price per square meter, debt service to household income, loan-to-value ratio etc.).

Responses are analysed in terms of net percentage.

With respect to credit standards, the net percentage is the difference between the share of banks reporting tightening credit standards and that of banks reporting an easing thereof. A positive net percentage shows that a larger proportion of banks tightened credit standards (net tightening), whereas a negative net percentage indicates that a larger proportion of banks eased them (net easing).

As for loan demand, the net percentage is the difference between the share of banks reporting an increase in loan demand and the share of banks reporting a decline. A positive net percentage shows that a larger proportion of banks reported an increase in loan demand, whereas a negative net percentage indicates that a larger proportion of banks reported a decline in loan demand. The net percentage is computed by taking into account the respondent banks' market share. All other responses are treated in a similar manner. Positive values of the net percentage are explained in the chart notes.

The survey covers the opinions regarding developments over the past three months and expectations over the next three months.