2008 Q2

Norges Bank's Survey of Bank Lending.

Tightening of credit standards

NORGES BANK

Norges Bank's Survey of Bank Lending 2008 Q2

Banks continued to tighten credit standards for corporate loans in 2008 Q2. Tightening of lending standards for the commercial real estate sector was considerable compared with 2008 Q1. Banks reported a marginal tightening of credit standards for loans to households in 2008 Q2. They expect a further tightening for loans to businesses and households in 2008 Q3, although the tightening for loans to households will be moderate.

Norges Bank's Survey of Bank Lending for 2008 Q2 was conducted in the period 1 July – 10 July 2008. The respondents were asked to assess developments in credit standards and credit demand in 2008 Q2 compared with 2008 Q1 and expected developments in 2008 Q3 compared with 2008 Q2.

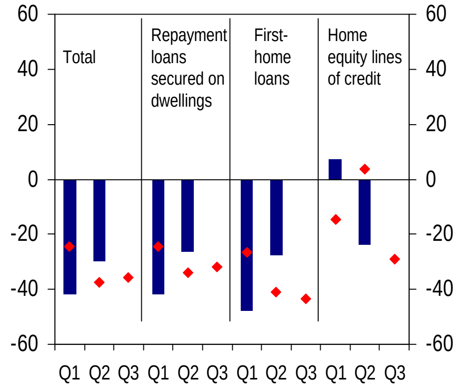
The banks in the survey use a scale of five alternative responses to indicate the degree of change in the above conditions. Banks that report that conditions have changed 'a lot' are assigned twice the score of those who report that conditions have changed 'a little'. Finally, the responses are weighted by the banks' shares of the change in lending to households and businesses respectively. The resulting net balances are scaled to lie between -100 % and 100 %. If all the banks in the sample report some tightening of credit standards, the net percentage balance will be -50 %. If some of the banks have tightened their credit standards a little without the other banks changing their credit standards, the net percentage balance will lie between 0 and -50 %. If all the banks in the sample have substantially tightened their credit standards, the net percentage balance will be -100 %.

Lending to households

Banks reported that household credit demand declined in 2008 Q2 compared with 2008 Q1 (see Chart 1). The decline in total demand was more moderate than anticipated by the banks. Demand for repayment loans secured on dwellings (traditional mortgages) and first-home mortgages fell further in Q2. Demand for home equity lines of credit also fell in spite of banks' expectations of a marginal rise. Banks expect household demand for all types of loans will continue to decline in 2008 Q3.

There was marginal tightening of banks' credit standards for loans to households in 2008 Q2 (see Chart 2). The factors that contributed to the tightening of credit standards for loans to households in 2008 Q2 were the economic outlook, banks' appetite for risk and the funding situation. Market share objectives and an increase in defaults also contributed to a certain extent. Banks expect a slight tightening of credit standards ahead as a result of the economic outlook, banks' appetite for risk and an increase in defaults. The funding

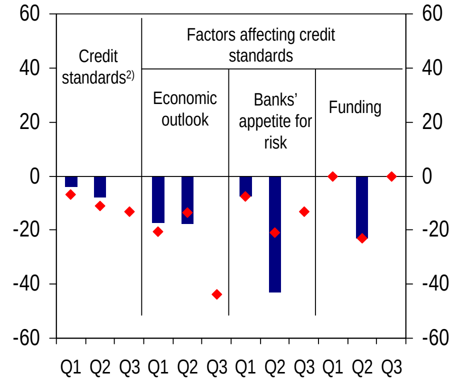
Chart 1 Household credit demand in 2008. Net percentage balances[1), 2)]



[1)] Net percentage balances are calculated by weighting together the responses in the survey. The blue bars show developments over the past quarter. The red diamonds show expectations over the next quarter. The red diamonds have been moved forward one quarter
[2)] Negative net percentage balances indicate falling demand

Source: Norges Bank

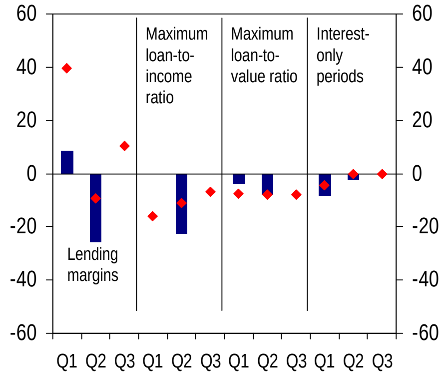
Chart 2 Change in credit standards for approving loans to households in 2008. Factors affecting credit standards. Net percentage balances[1)]



[1)] See footnote 1 of Chart 1
[2)] Negative net percentage balances indicate tighter credit standards

Source: Norges Bank

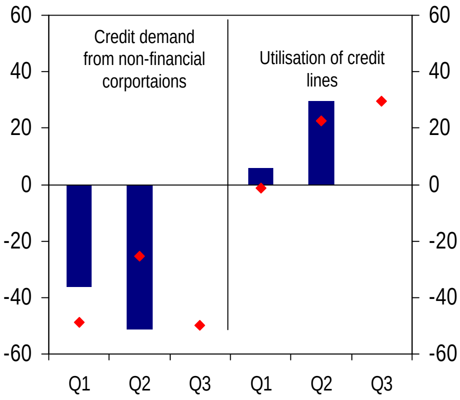
Chart 3 Change in loan conditions for households in 2008. Net percentage balances[1), 2)]



[1)] See footnote 1 of Chart 1
[2)] Positive net percentage balances for lending margins indicate higher lending margins and therefore tighter credit standards. Negative net percentage balances for maximum LTI ratio, maximum LTV ratio and use of interest-only periods indicate tighter credit standards

Source: Norges Bank

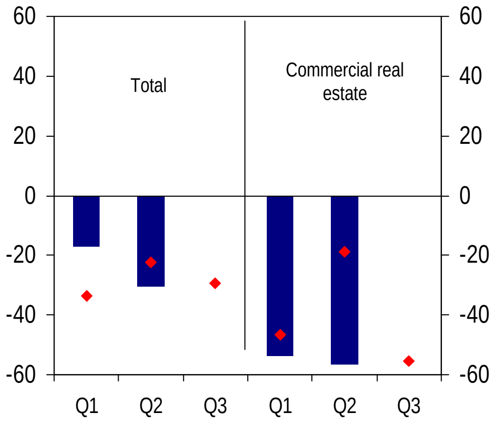
Chart 4 Credit demand from non-financial corporations and utilisation of credit lines in 2008. Net percentage balances[1), 2)]



[1)] See footnote 1 of Chart 1
[2)] Positive net percentage balances indicate increased demand or Increased utilisation of credit lines

Source: Norges Bank

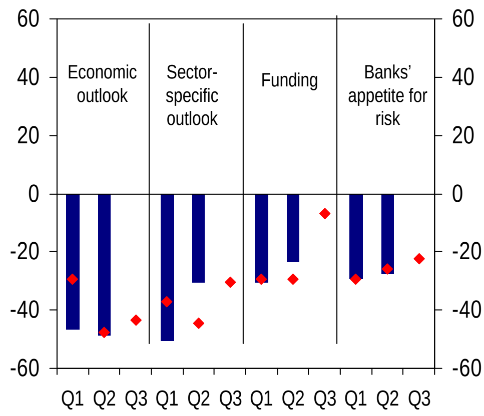
Chart 5 Change in credit standards for approving loans to non-financial corporations in 2008. Net percentage balances[1), 2)]



[1)] See footnote 1 of Chart 1
[2)] Negative net percentage balances indicate tighter credit standards

Source: Norges Bank

Chart 6 Factors affecting credit standards for approving loans to non-financial corporations in 2008. Net percentage balances[1), 2)]



[1)] See footnote 1 of Chart 1
[2)] Negative net percentage balances indicate that the factor contributes to tighter credit standards

Source: Norges Bank

situation for banks is not expected to contribute to a further tightening of credit standards.

Banks changed a number of conditions for loans to households in 2008 Q2 (see Chart 3). They reduced maximum loan-to-value ratios. There was also a marginal reduction in interest-only periods and some increase in fees, but lending margins were reduced. Banks reported that the notification period of six weeks for interest rate increases on loans to the retail market has delayed the adjustment of lending rates to the increase in the sight deposit rate. In addition, banks cited the competitive situation as a reason for the reduction in lending margins. Banks expect some increase in lending margins and fees ahead, and a further reduction in maximum loan-to-income and loan-to-value ratios.

Lending to non-financial corporations

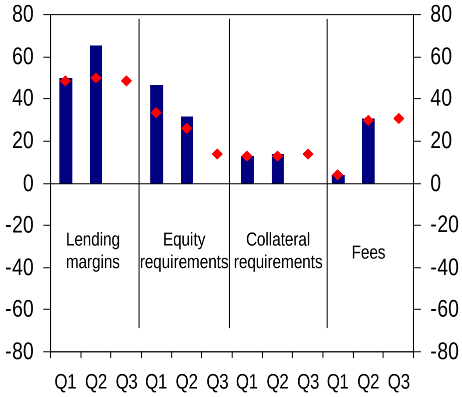
Banks reported that demand for loans from non-financial corporations fell more than expected in 2008 Q2 (see Chart 4). At the same time, the utilisation of credit lines increased. Banks expect credit demand from non-financial corporations to be considerably lower in Q3 compared with Q2. Utilisation of credit lines is expected to increase somewhat in Q3.

Banks continued to tighten credit standards on loans to non-financial corporations in Q2. The tightening was sharper than expected (see Chart 5). Tightening of lending standards for the commercial real estate sector was considerable in Q2. Banks expect further tightening of credit standards for loans to non-financial corporations in Q3. The considerable tightening on lending to the commercial real estate sector is expected to continue in Q3.

A number of factors contributed to tighter credit standards on loans to non-financial corporations in 2008 Q2. The economic outlook had a considerable impact on banks' credit standards (see Chart 6). The sector-specific outlook, the funding situation and banks' appetite for risk influenced credit standards to a certain extent. Banks also reported that some businesses are not able to satisfy the same loan conditions as previously owing to reduced debt-servicing capacity. Banks continue to expect some tightening of credit standards ahead as a result of the above factors. The economic and sector-specific outlook in particular will have a significant impact on credit standards.

Credit standards on loans to non-financial corporations in 2008 Q2 were primarily tightened through a considerable increase in lending margins and some increase in fees and equity requirements (see Chart 7). Banks also raised their collateral requirements and reduced interest-only periods and maximum repayment periods. Some banks reported more pronounced tightening in loan conditions for large businesses than for small and medium-sized businesses. Banks are expected to tighten

Chart 7 Change in loan conditions for non-financial corporations in 2008. Net percentage balances[1), 2)]



1) See footnote 1 of Chart 1

2) Positive net percentage balances for lending margins indicate higher lending margins. Positive net percentage balances for lending margins, equity requirements, collateral requirements and fees indicate tighter credit standards

Source: Norges Bank

loan conditions in Q3, particularly by increasing lending margins and fees.