# NORGES BANK'S SURVEY OF BANK LENDING

## Lower margins on lending

2014 Q3
16 OCTOBER 2014

NORGES BANK

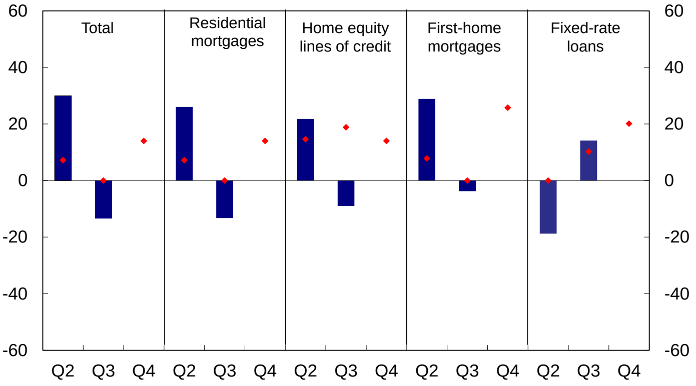
# Norges Bank's Survey of Bank Lending 2014 Q3[1]

*Credit standards for both households and non-financial enterprises were broadly unchanged in 2014 Q3. Banks report slightly lower household credit demand, after an increase in Q2. Demand is expected to pick up again somewhat in Q4.*

*Margins on lending to households and enterprises continued to fall in Q3, and banks expect further reductions in margins in Q4.*

The charts are explained in the box on the last page.

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

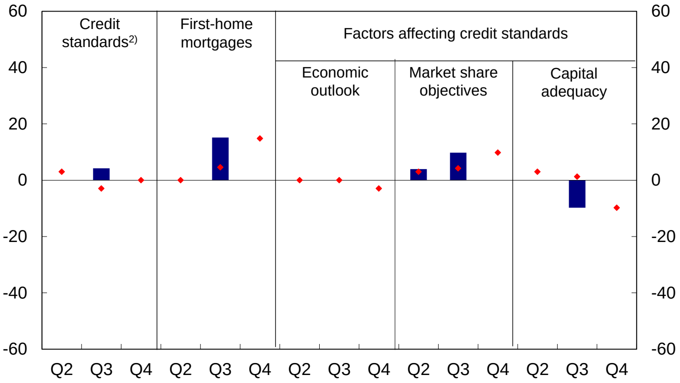



1) Net percentage balances are calculated by weighting together the responses in the survey. The blue bars show reported developments for the relevant quarter. The red diamonds show expected developments for that quarter.
2) Negative net percentage balances denote falling demand.
Source: Norges Bank

## Lending to households

Overall household credit demand declined somewhat in Q3 (see Chart 1). Banks expected unchanged demand at the end of Q2. Demand for ordinary residential mortgages and home equity lines of credit fell slightly, while demand for fixed-rate loans rose somewhat. Demand for first-home mortgages[2] had changed little since Q2. On the whole, banks expect somewhat higher household credit demand in Q4.

**Chart 2** Change in credit standards for households. Factors affecting credit standards. Net percentage balances[1)]

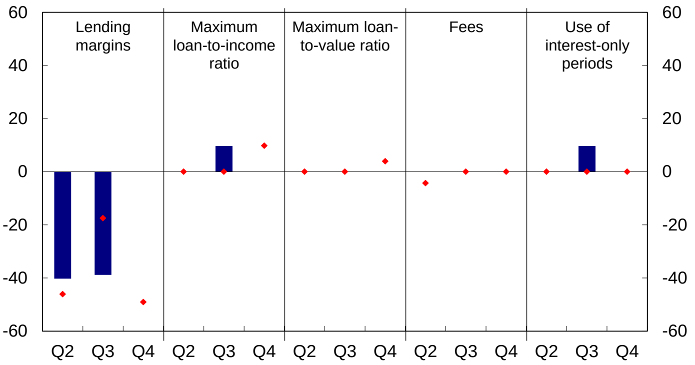



1) See footnote 1 in Chart 1.
2) Negative net percentage balances denote tighter credit standards.
Source: Norges Bank

Overall credit standards for households showed little change in Q3, in line with banks' expectations in Q2 (see Chart 2). A slight easing in credit standards was reported for first-home mortgages. Banks expect no change in overall credit standards in Q4, but some easing in credit standards for first-home mortgages.

Banks' margins on lending to households continued to fall in Q3 (see Chart 3). The decline was more pronounced than expected. Banks expect lending margins to fall further in Q4. No substantial changes were reported in other credit conditions, nor are substantial changes expected in Q4.

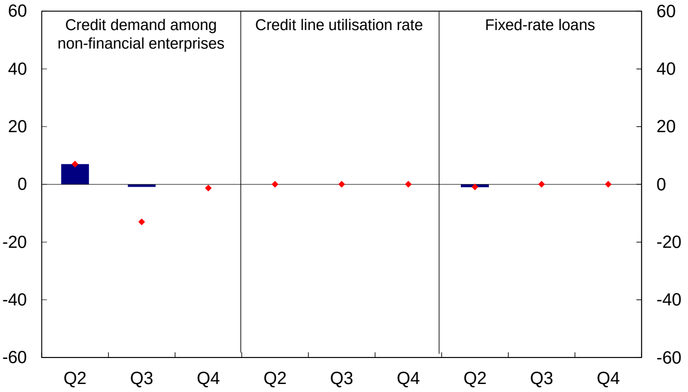
**Chart 3** Change in loan conditions for households. Net percentage balances[1), 2)]




1) See footnote 1 in Chart 1.
2) Positive net percentage balances for lending margins denote higher lending margins. Positive net percentage balances for lending margins and fees denote tighter credit standards. Negative net percentage balances for maximum LTI ratio, maximum LTV ratio and use of interest-only periods denote tighter credit standards.
Source: Norges Bank

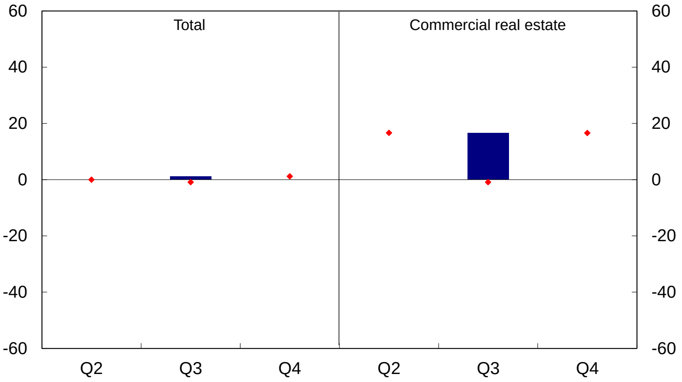
[1] The 2014 Q3 survey was conducted in the period 26 September – 13 October 2014.
[2] The weights each bank is assigned for calculating demand and credit standards for first-home mortgages have been changed. This reflects the increase in the number of banks now offering first-home mortgages. The series have been revised back to 2014 Q1.

**Chart 4** Credit demand among non-financial enterprises and credit line utilisation rate. Net percentage balances[1), 2)]



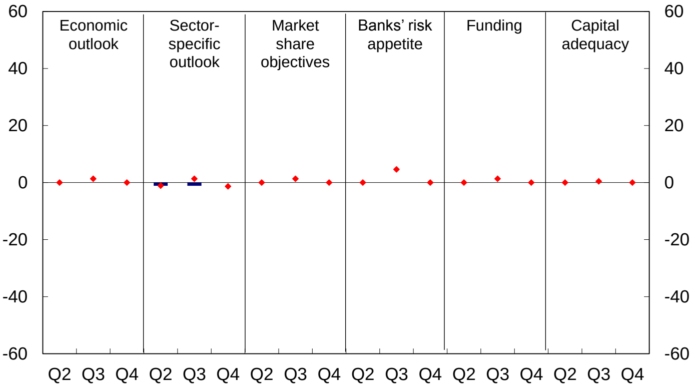

1) See footnote 1 in Chart 1.
2) Positive net percentage balances denote increased demand or increased credit line utilisation rate.
Source: Norges Bank

**Chart 5** Change in credit standards for non-financial enterprises. Net percentage balances[1), 2)]



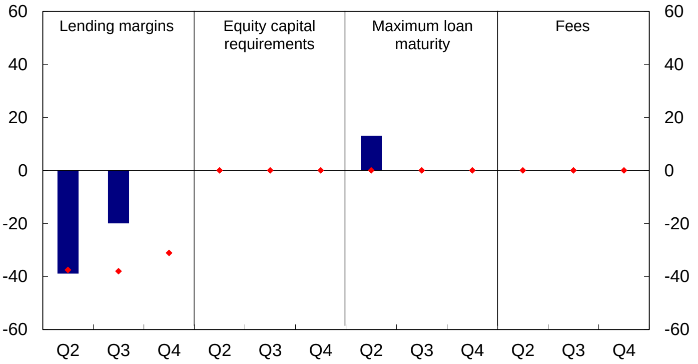

1) See footnote 1 in Chart 1.
2) Negative net percentage balances denote tighter credit standards.
Source: Norges Bank

**Chart 6** Factors affecting credit standards for non-financial enterprises. Net percentage balances[1), 2)]




1) See footnote 1 in Chart 1.
2) Negative net percentage balances denote tighter credit standards.
Source: Norges Bank

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




1) See footnote 1 in Chart 1.
2) Positive net percentage balances for lending margins denote higher lending margins. Positive net percentage balances for lending margins, equity capital requirements and fees denote tighter credit standards. Negative net percentage balances for maximum loan maturity denote tighter credit standards.
Source: Norges Bank

## Lending to non-financial enterprises

Banks report unchanged corporate credit demand in Q3 (see Chart 4). Banks had been anticipating somewhat lower demand. Credit line utilisation and demand for fixed-rate loans were unchanged in Q3. Banks expect approximately unchanged corporate credit demand in Q4.

Overall credit standards for enterprises changed only slightly in Q3 (see Charts 5 and 6). This was in line with previous expectations, and banks do not expect any changes in credit standards in Q4. Banks report a slight easing in credit standards for commercial real estate.

Banks report lower margins on lending to enterprises in Q3 (see Chart 7). Margins declined less than previously expected. Banks expect lending margins to continue to fall in Q4. No changes are expected in other credit conditions for enterprises.

The banks in the survey are asked to assess developments in credit standards and credit demand over the past quarter, compared with the previous quarter. They are also asked to assess expectations over the next quarter, compared with the past quarter.

In the survey, there is a scale of five alternative responses to indicate the degree of change in credit standards, terms and conditions and demand. Banks that report that conditions have changed 'a lot' are assigned twice the score of those reporting that conditions have changed 'a little'. The responses are weighted by the banks' shares of the change in lending to households and to nonfinancial enterprises 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 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%.