2012 Q1

# Norges Bank's Survey of Bank Lending

## Tighter credit standards for households

25 April 2012

NORGES BANK

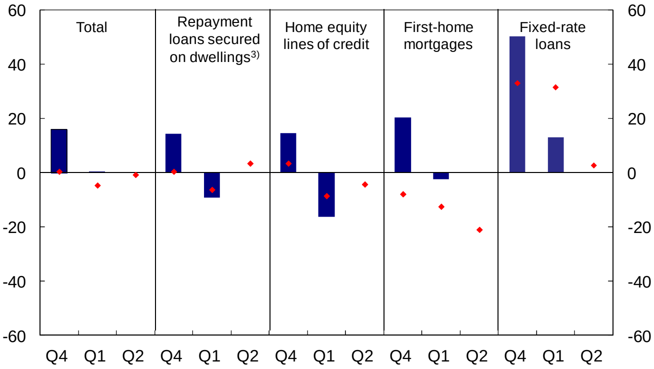
# Norges Bank's Survey of Bank Lending 2012 Q1

*Banks tightened credit standards for households in 2012 Q1, but kept credit standards for enterprises approximately unchanged. The tightening of credit standards for households is explained by Finanstilsynets (Financial Supervisory Authority of Norway) new guidelines and is reflected in stricter loan conditions. Loan conditions for enterprises have tightened. Banks do not expect further tightening in Q2 for households or for enterprises. Credit demand from households and enterprises was approximately unchanged. Banks do not expect any change in credit demand in Q2.*

Norges Bank's bank lending survey for 2012 Q1 was conducted in the period 30 March – 16 April 2012. Participating banks were asked to assess developments in credit standards and credit demand in 2012 Q1 compared with 2011 Q4 and expected developments in 2012 Q2 compared with 2012 Q1.

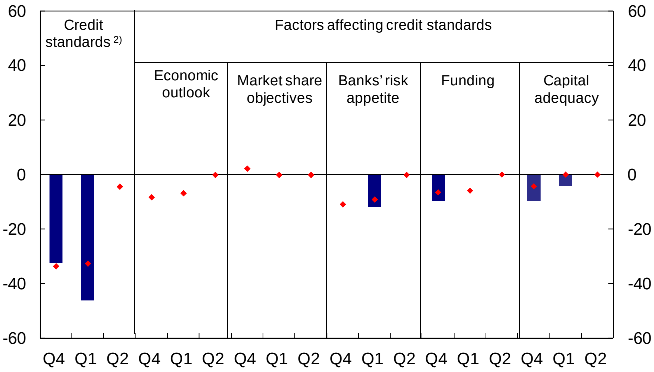
The banks in the survey use a scale of five alternative responses to indicate the degree of change in credit standards, terms and conditions and demand. Banks that report that conditions have changed 'a lot' are assigned twice the score of those reporting that conditions have changed 'a little'. The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

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



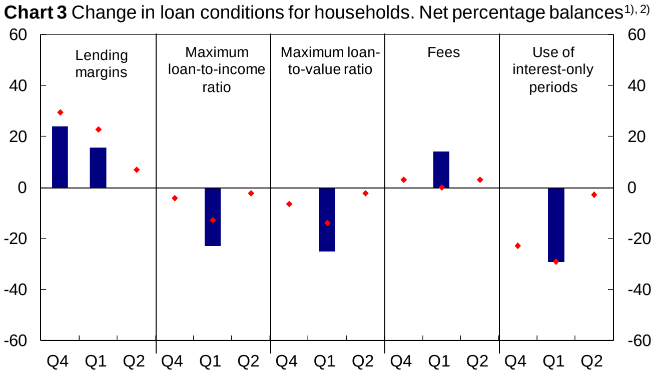

1) Net percentage balances are calculated by weighting together the responses in the survey. The blue bars show developments over the past quarter. The red diamonds show expectations over the next quarter. The red diamonds have been moved forward one quarter
2) Negative net percentage balances denote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

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



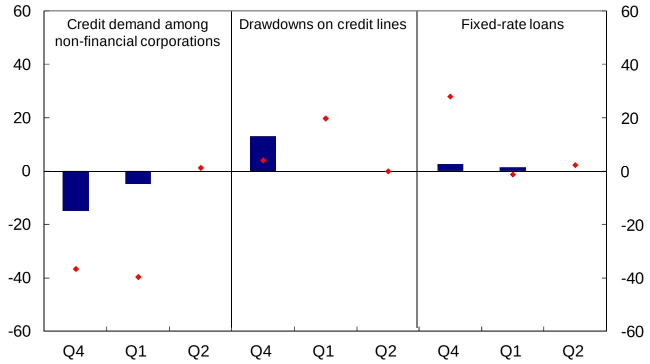

1) See footnote 1 in Chart 1
2) Negative net percentage balances denote tighter credit standards
Source: Norges Bank

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



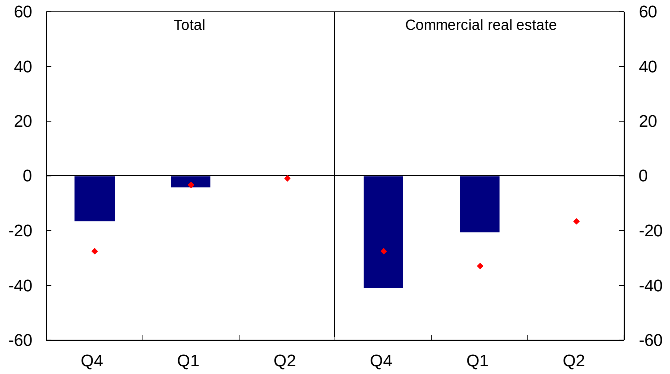

1) See footnote 1 in Chart 1
2) Positive net percentage balances for lending margins indicate higher lending margins. Positive net percentage balances for lending margins and fees denote tighter credit standards. Negative net percentage balances for maximum LTI ratio, maximum LTV ratio and use of interest-only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

**Chart 4** Credit demand among non-financial corporations and drawdowns on credit lines. Net percentage balances[1), 2)]



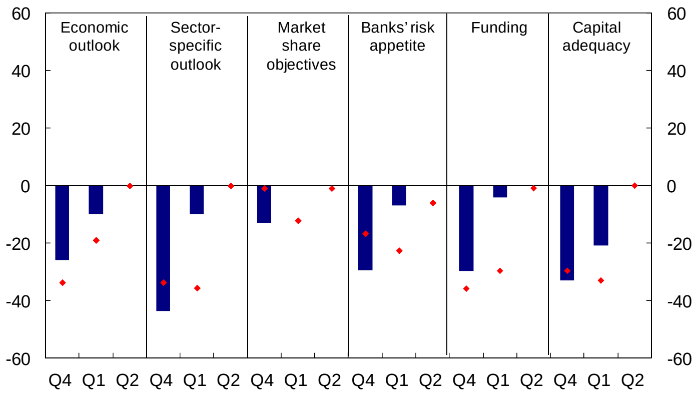

1) See footnote 1 in Chart 1
2) Positive net percentage balances denote increased demand or increased drawdowns on credit lines
Source: Norges Bank

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




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

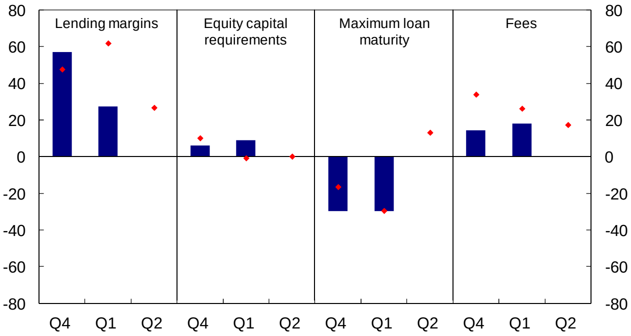
## Lending to households

Banks reported unchanged total household credit demand in 2012 Q1 (see Chart 1). In the previous bank lending survey, banks had expected slightly declining credit demand in 2012 Q1. Demand for repayment loans secured on dwellings and home equity lines of credit fell, while demand for fixed-rate loans rose. For Q2, banks expect this trend in demand for the different types of loan to continue, while total household credit demand is expected to remain unchanged.

Banks tightened credit standards for households in 2012 Q1 (see Chart 2). Some banks reported that reduced risk appetite and capital adequacy contributed to this tightening. A majority of the banks reported that the tightening reflects the changes in Finanstilsynet's guidelines for prudent residential mortgage lending. This factor is not included in the predefined factors in the survey. Banks also tightened credit standards in 2011 Q4. Banks expected credit standards for households to remain unchanged in 2012 Q2.

In line with Finanstilsynet's guidelines, banks reported that credit standard tightening in 2012 Q1 was in the form of reduced maximum loan-to-income and loan-to-value ratios and reduced use of interest-only periods (see Chart 3). There was also an increase in lending margins and fees. The changes were generally larger than had been expected in 2011 Q4. Banks expected overall credit standards to remain unchanged in 2012 Q2, with no change in lending margins, maximum debt ratios or interest-only periods.

**Chart 7** Change in loan conditions for non-financial corporations. 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 indicate tighter credit standards
Source: Norges Bank

## Lending to enterprises[1]

Banks reported only a slight decrease in corporate credit demand in 2012 Q1 (see Chart 4). The decrease was considerably smaller than expected. Utilisation rates of credit lines and demand for fixed-rate loans were unchanged. Looking ahead, banks expected total corporate credit demand to remain unchanged.

Banks' credit standards for enterprises were approximately unchanged from 2011 Q4 to 2012 Q1 (see Chart 5). Credit standards for the commercial real estate sector were, however, tightened somewhat. Both of these developments are in line with expectations. Banks expected credit standards to remain unchanged overall in 2012 Q2 and to tighten further for the commercial real estate sector.

Even though banks stated that credit standards for enterprises were approximately unchanged, some factors were reported to have a slightly negative influence on credit standards. Capital adequacy in particular was reported to have contributed to somewhat tighter credit standards. Banks did not expect that the macroeconomic or sector-specific outlook, market share objectives, the funding situation, capital adequacy or changes in risk appetite would contribute to tighter credit standards ahead (see Chart 6).

Loan conditions for enterprises have become tighter. Lending margins, equity capital requirements and fees have increased, while maximum loan maturities have decreased (see Chart 7).

[1] Non-financial corporations