2012 Q3

Norges Bank's Survey of Bank Lending

Banks report higher lending margins

18 October 2012

NORGES BANK

Norges Bank's Survey of Bank Lending 2012 Q3[1]

Banks reported higher lending margins in 2012 Q3. The changes in banks' credit standards for households and enterprises overall were small, and large changes are not expected in Q4. Credit demand was broadly unchanged. In Q4, banks expect a decline in credit demand from enterprises.

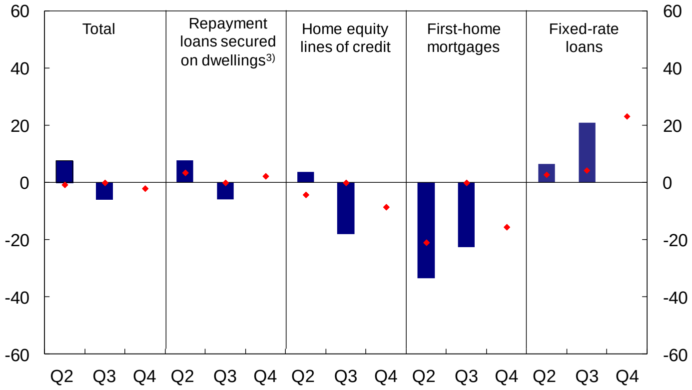
Lending to households

Banks reported a slight decline in overall household credit demand in 2012 Q3 (see Chart 1), with demand falling in particular for home equity lines of credit and first-home mortgages. At the end of Q2, banks had expected broadly unchanged household credit demand in Q3. Demand for fixed-rate loans rose, with the increase greater than expected.

Looking ahead, banks expect household credit demand to remain broadly unchanged overall, but anticipate a continued fall in demand for home equity lines of credit and first-home mortgages and a continued increase in demand for fixed-rate loans.

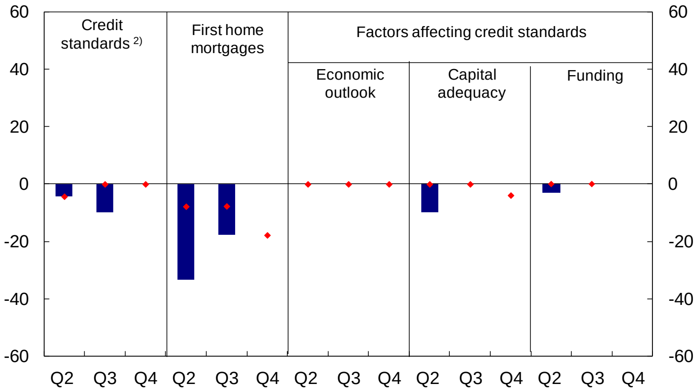
Banks tightened credit standards for households somewhat in 2012 Q3 (see Chart 2). Credit standards for first-home mortgages were tightened more than for loans overall. Banks referred to Finanstilsynet's guidelines as the reason for tighter credit standards. In the period ahead, banks expect to keep overall credit standards for households broadly unchanged, while they expect further tightening for first-home loans. Banks have tightened credit standards by setting stricter loan-to-value ratios.

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



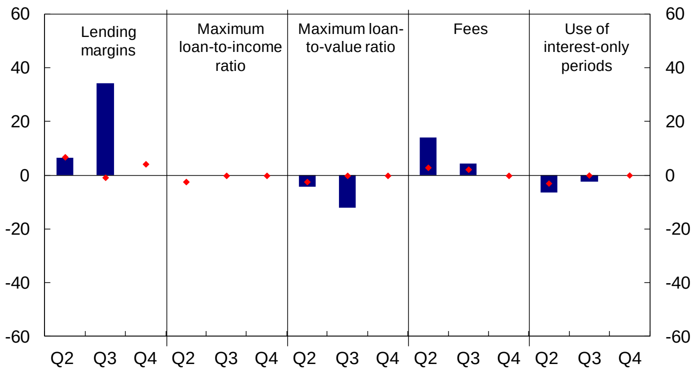
1) Net percentage balances are calculated by weighting together the responses in the survey. The blue bars show developments over the past quarter. The red diamonds show expectations over the next quarter. The red diamonds have been moved forward one quarter
2) Negative net percentage balances denote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

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



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

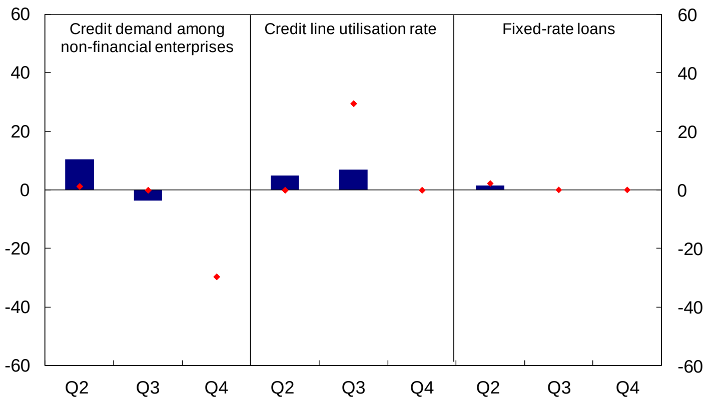
Chart 3 Change in loan conditions for households. Net percentage balances[1), 2)]



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

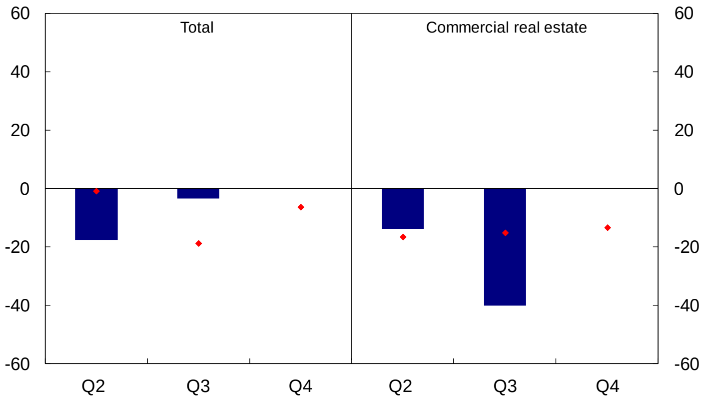
[1] The survey for 2012 Q3 was conducted in the period 29 September – 9 October 2012

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



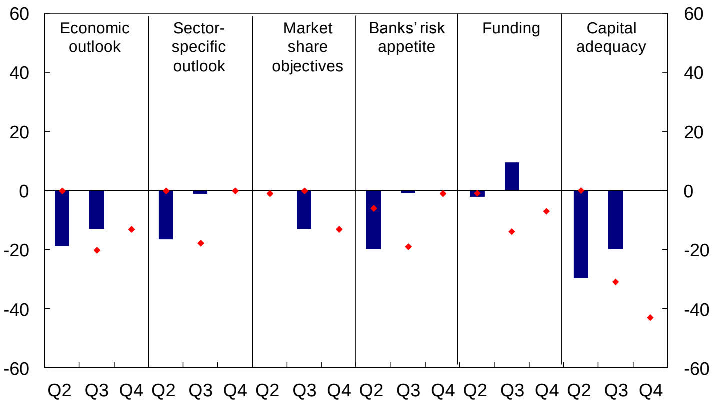
1) See footnote 1 in Chart 1
2) Positive net percentage balances denote increased demand or increased credit line utilisation rate
Source: Norges Bank

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

More banks reported higher lending margins in 2012 Q3 (see Chart 3). In the previous quarter, they had expected unchanged lending margins going forward. In the course of autumn, banks' borrowing costs have likely fallen more than expected. Loan conditions for households are expected to be kept broadly unchanged in 2012 Q4.

Lending to enterprises[2]

Banks reported broadly unchanged corporate credit demand in 2012 Q3 (see Chart 4). There was a slight increase in the credit line utilisation rate, while demand for fixed-rate loans remained unchanged. Changes were broadly in line with expectations, except for the credit line utilisation rate, where the increase was weaker than expected. In 2012 Q4, banks expect a fall in overall corporate credit demand.

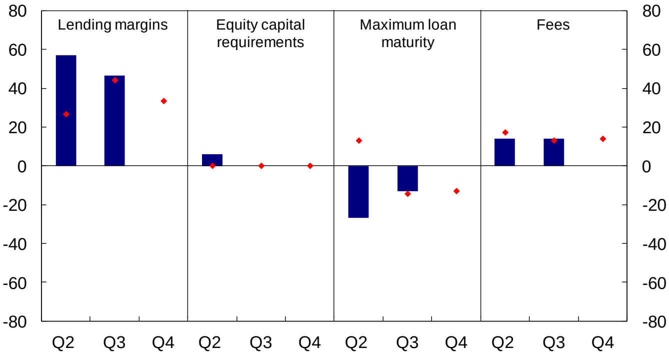
Overall bank credit standards for enterprises remained broadly unchanged in 2012 Q3 (see Chart 5), though banks had been anticipating some tightening. However, banks tightened credit standards for the commercial property sector more than expected in the previous quarter. Banks expect only minor tightening of credit standards for enterprises in 2012 Q4.

Banks reported capital adequacy as the primary factor contributing to tighter credit standards (see Chart 6), but the economic outlook and market share objectives also played a role. They still expect capital adequacy to contribute to tighter credit standards ahead. The funding situation contributed in isolation to easing credit standards for enterprises.

Banks also increased their lending margins on corporate loans in 2012 Q3 (see Chart 7). Tighter credit standards entailed some reduction in maximum repayment periods and some increase in fees. Banks expect an increase in lending margins and fees and further tightening of repayment periods in 2012 Q4.

[2] Non-financial enterprises

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 indicate tighter credit standards
Source: Norges Bank

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 non-financial 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 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%.