NORGES BANK'S SURVEY OF BANK LENDING

Lower lending margins

2015 Q2

16 JULY 2015

NORGES BANK

Norges Bank's Survey of Bank Lending 2015 Q2[1]

Banks report higher household credit demand in 2015 Q2. Demand for fixed-rate loans continued to increase. Corporate credit demand was approximately unchanged in Q2.

Banks report unchanged credit standards in Q2, with tighter credit standards for households expected in Q3.

Banks report lower margins on lending to both households and enterprises in Q2. Banks expect margins on lending to households to fall further in Q3.

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

Lending to households

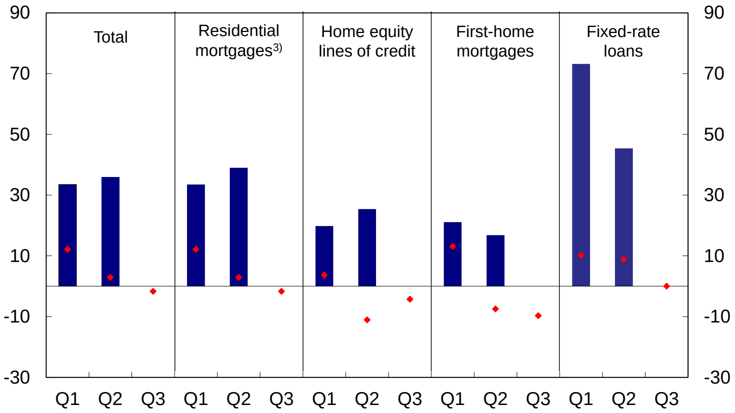
Overall household credit demand rose in Q2 and was higher than banks had expected (see Chart 1). Demand for fixed-rate loans continued to increase in Q2 after rising sharply in Q1. Banks expect overall household credit demand to remain unchanged in Q3.

Credit standards for households were unchanged in Q2 (see Chart 2). Banks expect tighter credit standards in Q3, particularly for first-home mortgages, pointing to the economic outlook, risk appetite and capital adequacy as explanatory factors. Tighter credit standards probably also reflect the government regulation concerning lending requirements for new residential mortgages that became effective on 1 July 2015. Banks announced a tightening of credit conditions for maximum loan-to-income and loan-to-value ratios in Q3 (see Chart 3).

Banks report lower margins on lending to households in Q2 (see Chart 3). Lending margins are expected to continue to fall in Q3.

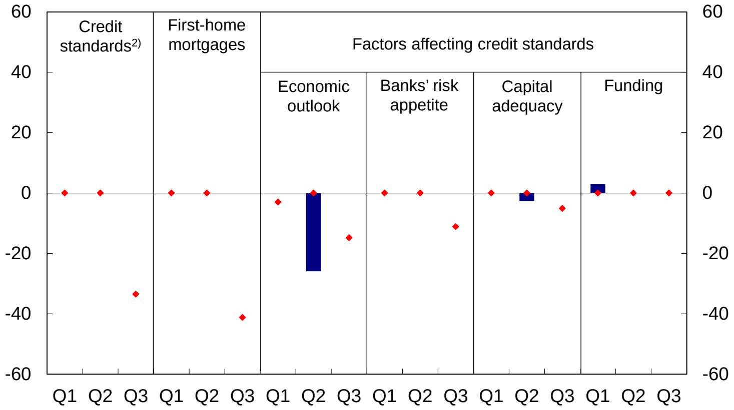
[1] The 2015 Q2 survey was conducted in the period 23 June 2015 – 7 July 2015

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



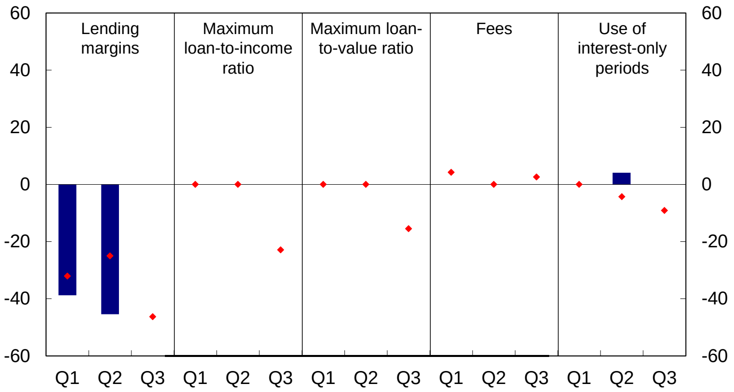
1) Net percentage balances are calculated by weighting together the responses in the survey. The blue bars show reported developments for the relevant quarter. The red diamonds show expected developments for that quarter. As from 2015 Q2, there are nine banks in the sample and the weights are based on market shares in 2014.
2) Negative net percentage balances denote falling demand.
3) Repayment loans secured on dwellings.
Source: Norges Bank

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



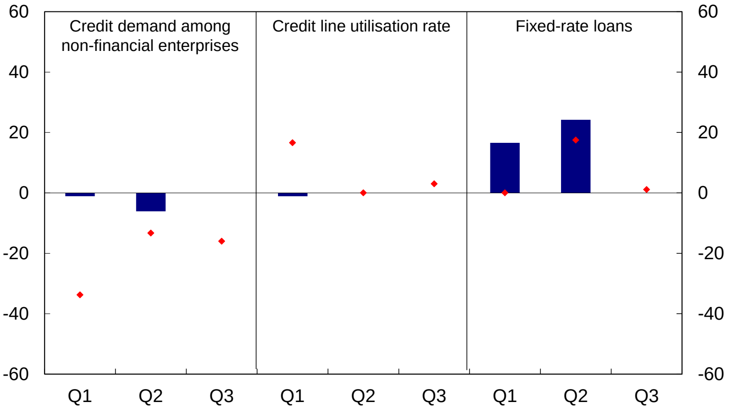
1) See footnote 1 in Chart 1.
2) Negative net percentage balances denote tighter credit standards.
Source: Norges Bank

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



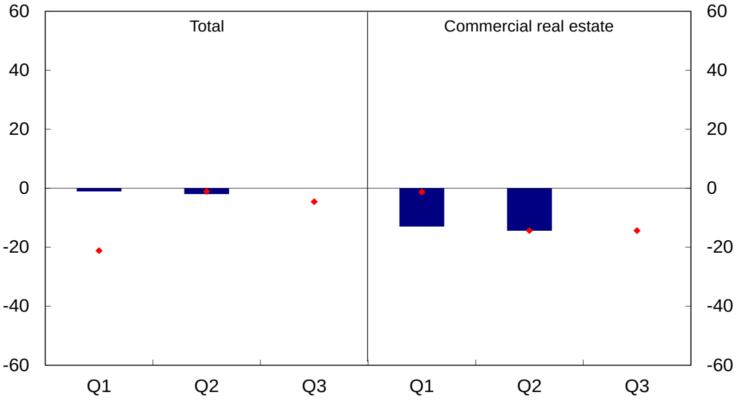
1) See footnote 1 in Chart 1.
2) Positive net percentage balances for lending margins denote higher lending margins. Positive net percentage balances for lending margins and fees denote tighter credit standards. Negative net percentage balances for maximum LTI ratio, maximum LTV ratio and use of interest-only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

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



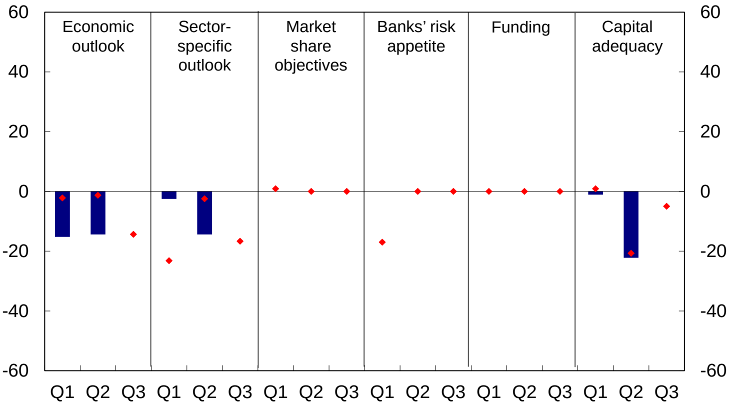
1) See footnote 1 in Chart 1.
2) Positive net percentage balances denote increased demand or increased credit line utilisation rate.
Source: Norges Bank

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



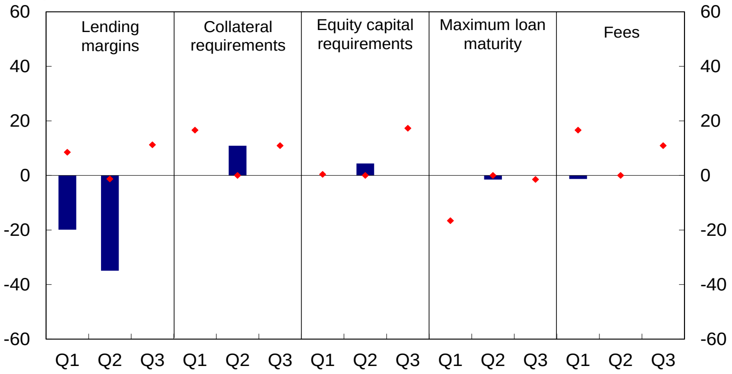
1) See footnote 1 in Chart 1.
2) Negative net percentage balances denote tighter credit standards.
Source: Norges Bank

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, collateral requirements, 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

Overall credit demand from non-financial enterprises was approximately unchanged in Q2 (see Chart 4). Demand for fixed-rate loans increased somewhat in Q2. Banks expect slightly lower corporate credit demand in Q3.

Banks report unchanged credit standards for non-financial enterprises overall in Q2 (see Chart 5). Credit standards are expected to be approximately unchanged in Q3. Banks report slightly tighter credit standards for commercial property enterprises. Banks reported the economic outlook, sector-specific factors and capital adequacy as factors pointing towards tighter credit standards (see Chart 6).

Banks report lower margins on lending to enterprises in Q2 (see Chart 7). No changes in lending margins had been expected. A slight increase in margins is expected in Q3. Banks also expect a slight tightening of some other credit conditions in Q3.

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%.