2008 Q3

Norges Bank's Survey of Bank Lending.

Continued tightening of credit standards

NORGES BANK

Norges Bank's Survey of Bank Lending 2008 Q3

Banks continued to tighten credit standards for household and corporate loans in 2008 Q3. Substantial changes were made in particular in credit standards for household loans. Tightening for loans to the commercial real estate sector was considerable. Banks expect a further tightening of credit standards for household and corporate loans in 2008 Q4.

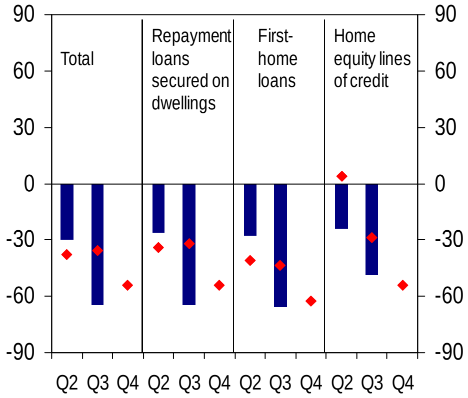
Norges Bank's Survey of Bank Lending for 2008 Q3 was conducted in the period 1 October - 10 October 2008. The respondents were asked to assess developments in credit standards and credit demand in 2008 Q3 compared with 2008 Q2 and expected developments in 2008 Q4 compared with 2008 Q3.

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 total household credit demand declined considerably in 2008 Q3 compared with 2008 Q2 (see Chart 1). The decline in demand was greater than banks had anticipated. Lower sales of houses and cars contributed to the fall in demand. Household demand for all types of loans slackened in 2008 Q3. Banks expect household demand for all types of loans to continue to slow in 2008 Q4. Demand for first-home mortgages and other secured repayment loans (car loans, boat loans, etc.) will be particularly affected.

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

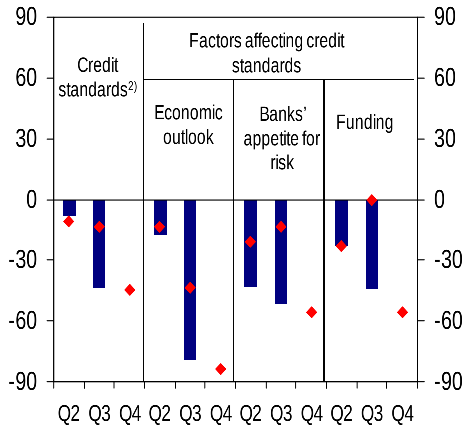


[1)] Net percentage balances are calculated by weighting together the responses in the survey. The blue bars show developments over the past quarter. The red diamonds show expectations over the next quarter. The red diamonds have been moved forward one quarter

[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)]

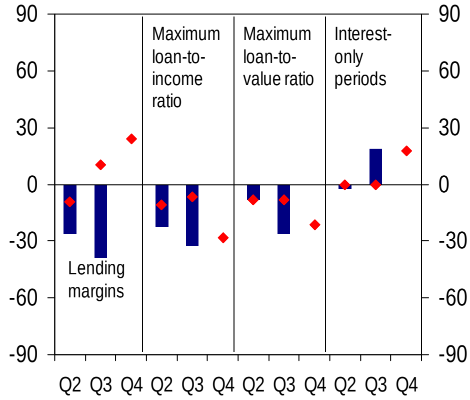


[1)] See footnote 1 of Chart 1

[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)]

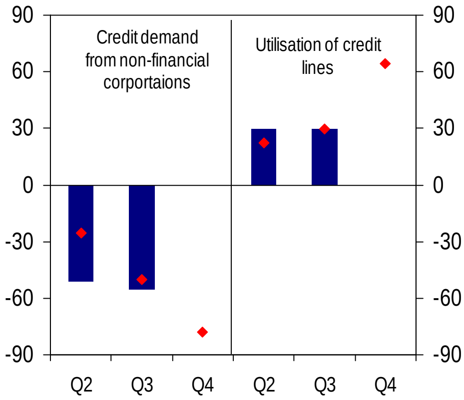


[1)] See footnote 1 of Chart 1

[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

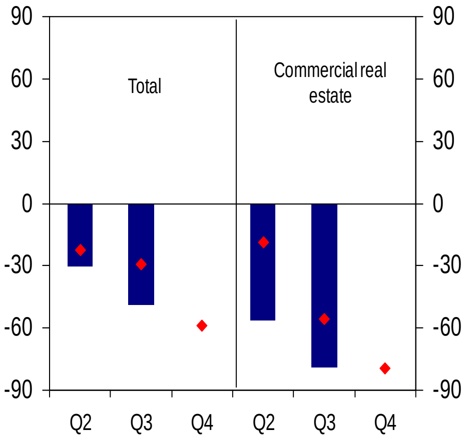
Chart 4 Credit demand from non-financial corporations and utilisation of credit lines in 2008. Net percentage balances[1), 2)]



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

Source: Norges Bank

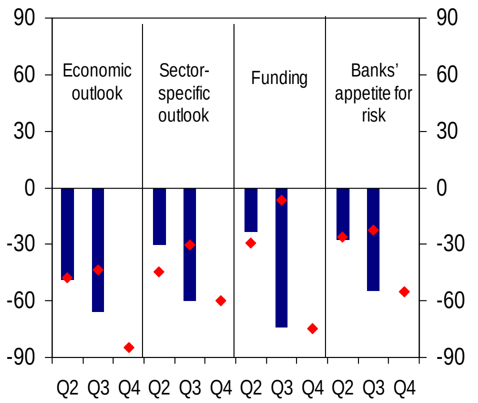
Chart 5 Change in credit standards for approving loans to non-financial corporations in 2008. Net percentage balances[1), 2)]



[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

There was a substantial change in banks' credit standards for households in 2008 Q3 (see Chart 2). A far greater share of banks tightened their credit standards for households in 2008 Q3 than in 2008 Q2. The tightening in Q3 was sharper than expected. The factors contributing most to the tightening of credit standards for households in Q3 were the economic outlook, banks' risk appetite and the funding situation. Market share objectives and an increase in defaults also contributed to a certain extent. Looking ahead, banks expect tightening of credit standards to continue as a result of the economic outlook, banks' risk appetite and the funding situation.

Banks changed a number of loan conditions for households in 2008 Q3 (see Chart 3). They reduced maximum loan-to-income and loan-to-value ratios. Banks increased interest-only periods and maximum repayment periods. Banks expect to increase their lending margins ahead and reduce maximum loan-to-income and loan-to-value ratios.

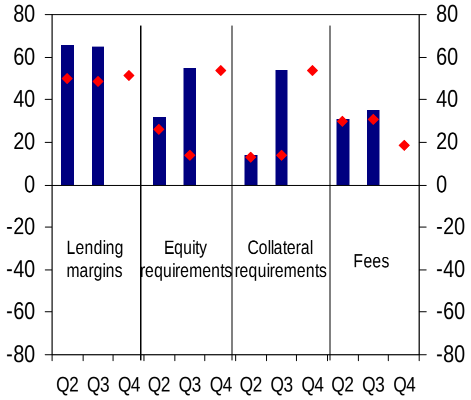
Lending to non-financial corporations

Banks reported that credit demand from non-financial corporations fell considerably and approximately as expected in 2008 Q3 compared with 2008 Q2 (see Chart 4). At the same time, the utilisation of credit lines increased, partly as a result of a decline in debt securities markets. Banks expect an even greater decrease in corporate credit demand in 2008 Q4 compared with Q3. Utilisation of credit lines is expected to increase considerably in Q4.

Banks continued to tighten credit standards for non-financial corporations in 2008 Q3 (see Chart 5). The tightening was sharper than expected and was considerable for lending to the commercial real estate sector. Banks report that they now distinguish to a greater degree between good and bad customers with regard to both pricing and credit rating. Banks expect further tightening for non-financial corporations in Q4. The considerable tightening of credit standards for the commercial real estate sector is expected to continue in Q4.

All the factors in the survey contributed to tighter credit standards for non-financial corporations in 2008 Q3. The funding situation and the economic outlook contributed most to the tightening of banks' credit standards (see Chart 6). All the factors contributed to a greater extent than expected, particularly the funding situation. Banks expect credit standards to be tightened further ahead, particularly as a result of the economic

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

outlook and the funding situation. If the funding situation does not improve, some banks fear a credit freeze in 2008 Q4.

Credit standards on lending to non-financial corporations in 2008 Q3 were primarily tightened through a considerable increase in lending margins and higher equity and collateral requirements (see Chart 7). Banks also raised fees. Banks expect to increase lending margins and equity and collateral requirements in Q4.