

# Trends in Lending

April 2012



BANK OF ENGLAND



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This quarterly publication presents the Bank of England's assessment of the latest trends in lending to the UK economy.<sup>(1)</sup> It draws mainly on long-established official data sources, such as the existing monetary and financial statistics collected by the Bank that cover all monetary financial institutions, and on newer data collections, established since the start of the financial crisis to cover the major UK lenders, some of which are being extended across a wider range of reporters.<sup>(2)</sup>

These data are supplemented by discussions between the major UK lenders and Bank staff, giving staff a better understanding of the business developments driving the figures and this intelligence is reflected in the report.<sup>(3)</sup> The major UK lenders<sup>(4)</sup> are Banco Santander, Barclays, HSBC, Lloyds Banking Group, Nationwide and Royal Bank of Scotland and together they accounted for around 70% of the stock of lending to businesses, 75% of the stock of mortgage lending and 45% of the stock of consumer credit at end-December 2011. The report also draws on intelligence gathered by the Bank's network of Agents and from market contacts, as well as the results of other surveys including the Bank of England's *Credit Conditions Survey*. The focus of the report is on lending, but broader credit market developments, such as those relating to capital market issuance, or trade credit, are discussed where relevant.

The report covers data up to February 2012 and intelligence gathered up to end-March 2012. Unless stated otherwise, the data reported cover lending in both sterling and foreign currency, expressed in sterling terms.

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(1) See [www.bankofengland.co.uk/statistics/Documents/2012.pdf](http://www.bankofengland.co.uk/statistics/Documents/2012.pdf) for future publication dates.

(2) For more information see [www.bankofengland.co.uk/statistics/Documents/ms/articles/art2oct10.pdf](http://www.bankofengland.co.uk/statistics/Documents/ms/articles/art2oct10.pdf) and *Bankstats*, March 2012, 'Lending to businesses — a new data source', available at [www.bankofengland.co.uk/statistics/Documents/ms/articles/art2mar12.pdf](http://www.bankofengland.co.uk/statistics/Documents/ms/articles/art2mar12.pdf).

(3) For a fuller background, please refer to the first edition of *Trends in Lending* available at [www.bankofengland.co.uk/publications/Documents/other/monetary/TrendsApril09.pdf](http://www.bankofengland.co.uk/publications/Documents/other/monetary/TrendsApril09.pdf).

(4) Membership of the group of major UK lenders is based on the provision of credit to UK-resident companies and individuals, regardless of the country of ownership.

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# Executive summary

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The annual rate of growth in the stock of lending to UK businesses was negative in the three months to February. The stock of lending to small and medium-sized enterprises continued to contract. The annual rate of growth in the stock of secured lending to individuals was broadly unchanged. Mortgage approvals by all UK-resident mortgage lenders for house purchase fell over the three months to February, though were higher than the same period last year. Net monthly consumer credit flows remained subdued and were lower, on average, in the three months to February compared to the previous three months.

Conditions in longer-term wholesale funding markets improved in 2012 Q1, according to the major UK lenders. Spreads over reference rates on new lending widened for businesses in 2012 Q1, according to the Bank of England's *Credit Conditions Survey*, and were expected to widen further in Q2. Spreads over Bank Rate on some quoted floating-rate mortgages have widened over the past six months. Effective rates on interest-bearing credit cards were broadly unchanged in the three months to February.

Credit availability was broadly unchanged for businesses and households, according to respondents to the Bank of England's 2012 Q1 *Credit Conditions Survey*. A survey of businesses conducted by the Bank's network of Agents indicated that for most businesses, credit availability was little changed since last summer. In recent discussions, some major UK lenders noted that demand from small and medium-sized enterprises remained muted over the quarter. The availability of secured lending to households was unchanged in 2012 Q1 and was expected to fall slightly in Q2, according to respondents to the *Credit Conditions Survey*.

# 1 Lending to UK businesses and individuals

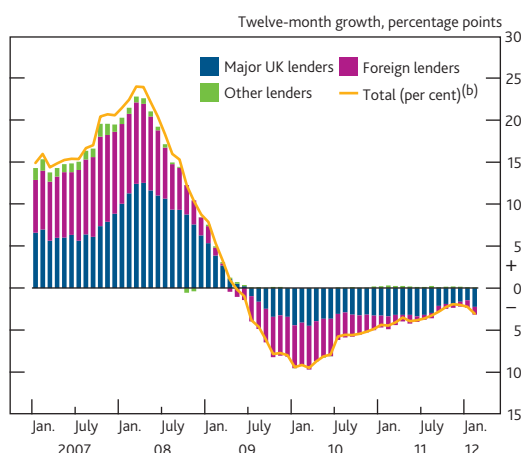
The annual rate of growth in the stock of lending to UK businesses was negative in the three months to February. The stock of lending to small and medium-sized enterprises continued to contract. The annual rate of growth in the stock of secured lending to individuals was broadly unchanged. Mortgage approvals by all UK-resident mortgage lenders for house purchase fell over the three months to February, though were higher than the same period last year. Net monthly consumer credit flows remained subdued and were lower, on average, in the three months to February compared to the previous three months.

**Table 1.A** Lending to UK businesses<sup>(a)</sup>

	Averages							2012		
	2007	2008	2009	2010	2011	2011 Q3	2011 Q4	Dec.	Jan.	Feb.
Net monthly flow (£ billions)	7.4	3.8	-3.9	-2.1	-0.8	-0.5	0.1	-1.8	-3.4	-4.0
Three-month annualised growth rate (per cent)	20.9	10.7	-7.7	-5.2	-2.0	-3.0	0.2	0.2	-2.7	-7.9
Twelve-month growth rate (per cent)	16.8	17.9	-1.8	-7.1	-3.3	-3.2	-2.1	-2.0	-2.2	-3.0

(a) Lending by UK monetary financial institutions to PNFCS. Data cover lending in both sterling and foreign currency, expressed in sterling terms. Seasonally adjusted.

**Chart 1.1** Contributions to growth in lending to UK businesses<sup>(a)</sup>



(a) Lending by UK monetary financial institutions to PNFCS. Twelve-month rate of growth in the stock of lending. Data cover lending in both sterling and foreign currency, expressed in sterling terms. Data for major UK lenders and the total are seasonally adjusted and data for foreign and other lenders are non seasonally adjusted.

(b) Owing to the method of the seasonal adjustment of this series and the allocation of certain items within the total, it may not equal the sum of its component breakdown.

This section presents a summary of the recent data on lending to UK businesses and individuals. The annual rate of growth in corporate lending and in the stock of lending to individuals — both secured and unsecured — remained weak during the past three months.

## Lending to UK businesses

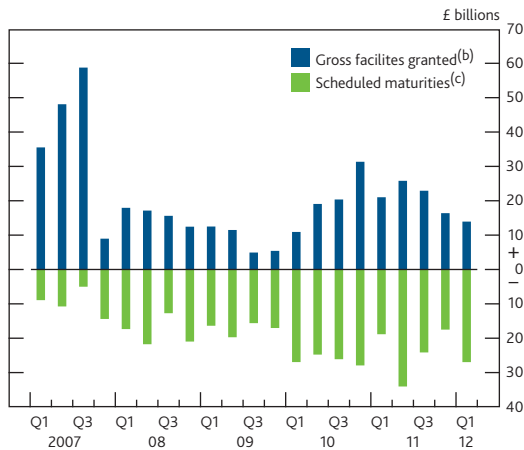
Official data covering lending by all UK-resident banks and building societies indicated that the stock of lending to businesses decreased by around £9 billion in the three months to February (Table 1.A). The net monthly flow of lending in February was at its lowest in almost two years. The annual rate of growth in the stock of lending to businesses was negative in the three months to February.

This contraction in the stock of lending to businesses overall has also been reflected in the stock of lending to small and medium-sized enterprises (SMEs). The box on pages 7–9 provides more details on recent trends.

Corporate lending by UK-resident foreign lenders had slowed sharply since the financial crisis began. Their contribution to the contraction in the stock of lending was greater than that of the major UK lenders in the second half of 2009 and most of 2010 (Chart 1.1). Over the past year or so, the contribution of foreign lenders to the continuing contraction in the stock of lending to UK businesses has eased.

The activity of foreign lenders is likely to be concentrated in lending to larger businesses, for example, through syndicated lending. The total value of new syndicated lending facilities granted in the UK market was around one third lower in 2012 Q1 than in the same period a year ago (Chart 1.2). In recent discussions, some major UK lenders indicated that subdued syndicated lending in 2012 Q1 partly reflected a lack of mergers and acquisitions activity. Most major UK lenders reported that in recent months, some euro-area lenders were

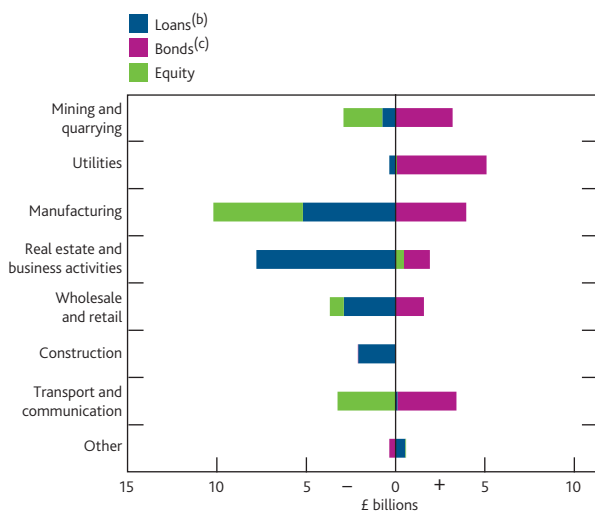
**Chart 1.2** Estimates of syndicated lending facilities granted to UK businesses<sup>(a)</sup>



Sources: Dealogic and Bank calculations.

- (a) Defined broadly as PNFCs. Data cover lending facilities in both sterling and foreign currency, expressed in sterling terms. Non seasonally adjusted.  
 (b) New syndicated lending facilities excluding cancelled or withdrawn facilities.  
 (c) Scheduled maturities of syndicated lending facilities excluding cancelled or withdrawn facilities, translated into sterling. Actual maturities will also reflect the effects of refinancing and prepayments, exchange rate changes and other effects.

**Chart 1.3** Net funds raised by UK businesses by major industrial sectors, February 2011-February 2012<sup>(a)</sup>



- (a) Funds raised from UK monetary financial institutions and capital markets. Data cover funds raised in both sterling and foreign currency, expressed in sterling terms. Data on bond and equity issuance have been revised and updated since these series were last published in January 2012 *Trends in Lending*. Non seasonally adjusted.  
 (b) The sum across the major industrial sectors is an estimate of net lending to PNFCs. This estimate can also be calculated by subtracting elements of the industrial breakdown for non-financial businesses thought to contain mainly public sector industries (for example, public administration and defence). For more details see footnote (b), Chart 1.1, February 2010 *Trends in Lending*. Data are non seasonally adjusted. For these reasons, the total flows will not be comparable to the data for PNFCs in Table 1.A.  
 (c) Commercial paper is included within bonds.

**Table 1.B** Secured lending to individuals<sup>(a)</sup>

	Averages						2011	2012		
	2007	2008	2009	2010	2011	2011 Q3	Dec.	Jan.	Feb.	
Net monthly flow (£ billions)	9.0	3.4	1.0	0.6	0.8	0.6	1.0	1.0	1.6	1.2
Three-month annualised growth rate (per cent)	10.4	4.1	0.9	0.7	0.7	0.5	0.9	1.0	1.1	1.2
Twelve-month growth rate (per cent)	11.0	6.9	1.4	0.9	0.7	0.6	0.7	0.8	0.8	0.8

- (a) Sterling lending by UK monetary financial institutions and other lenders to UK individuals. Seasonally adjusted.

moving away from the UK syndicated lending market to their domestic markets. Alongside this, some lenders noted there were instances of some Asian lenders entering this market. Looking forward, most major UK lenders expected syndicated lending to be subdued in the coming quarter.

Capital markets provide an alternative source of funding for larger companies. Net bond issuance was positive across most major industrial sectors, including utilities, over the past year or so (Chart 1.3). Net equity issuance was negative for several industrial sectors. With negative net bank lending in many industrial sectors, including manufacturing and real estate and business activities, the total net amount of funds raised from banks and capital markets by UK businesses in aggregate was negative over this period.

Notwithstanding the weakness of bank lending and subdued net capital market issuance over the recent past, the majority of respondents — chief financial officers of large companies — in the *Deloitte CFO Survey* for 2012 Q1 indicated that they still viewed bond issuance and bank borrowing as ‘attractive’ sources of finance. Respondents to the survey reported that equity issuance was considered less attractive than debt finance.

### Secured lending to individuals

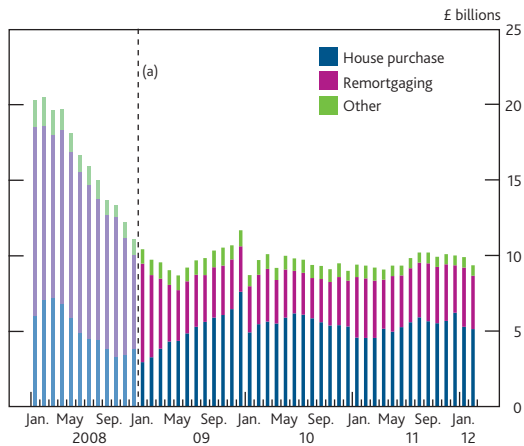
The net monthly flow of sterling mortgage lending by UK-resident mortgage lenders in the three months to February increased, on average, compared to the previous three months. The annual rate of growth in the stock of secured lending was broadly unchanged at 0.8% in the three months to February (Table 1.B). According to data provided by the major UK lenders, gross flows of secured lending decreased slightly over this period (Chart 1.4).

Data provided by the major UK lenders on the monthly flow of gross secured lending include a split between house purchase and the refinancing of existing mortgages (remortgaging). Gross mortgage lending for house purchase over the three months to February decreased (Chart 1.4), though was higher than the same period last year. Remortgaging activity was broadly similar compared to a year ago.

The decrease in gross lending by the major UK lenders for house purchase was also reflected in the data on approvals for house purchase up to February. Mortgage approvals by all UK-resident mortgage lenders for house purchase fell over the three months to February, though were higher than the same period last year.

### Consumer credit

Net monthly consumer credit flows remained subdued and were lower, on average, in the three months to February compared to the previous three months. The annual rate of growth of consumer credit was broadly unchanged over this

**Chart 1.4 Mortgage lending by the major UK lenders<sup>(a)</sup>**

(a) The split in 2008 is estimated using gross lending data and the split of loan approval values between house purchase, remortgaging and other advances. The split from 2009 onwards is reported data from the major UK lenders, rather than estimated data. Data from the major UK lenders on secured gross lending are provided to the Bank on a 'best endeavours' basis. Data cover lending in both sterling and foreign currency, expressed in sterling terms. Seasonally adjusted.

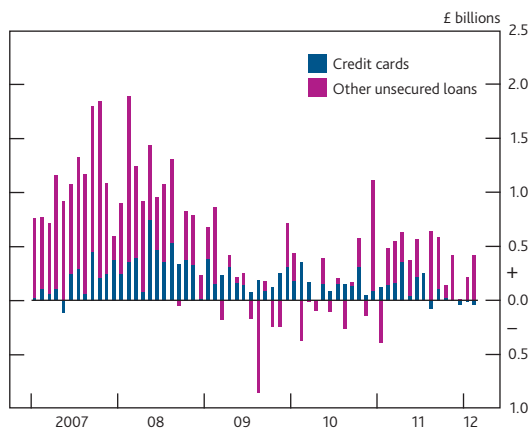
period (**Table 1.C**) remaining low compared with the period prior to the financial crisis.

Within the total, net credit card lending flows remained close to zero in February for the fifth consecutive month (**Chart 1.5**). In recent discussions, the major UK lenders noted that consumers were continuing to pay down personal debt. Looking ahead, some lenders expected net credit card lending flows to be subdued in the coming months. Lending flows on other unsecured credit in the three months to February were slightly lower, on average, to those in the previous three months.

**Table 1.C Consumer credit<sup>(a)</sup>**

	Averages							2011	2012	
	2007	2008	2009	2010	2011	2011 Q3	2011 Q4	Dec.	Jan.	Feb.
Net monthly flow (£ billions)	1.1	1.0	0.2	0.2	0.4	0.5	0.2	0.0	0.2	0.4
Three-month annualised growth rate (per cent)	6.5	5.4	1.1	1.2	2.3	2.6	1.9	1.0	1.1	1.1
Twelve-month growth rate (per cent)	6.1	6.4	2.8	0.8	1.9	2.3	2.3	2.0	2.3	2.2

(a) Sterling lending by UK monetary financial institutions and other lenders to UK individuals. Seasonally adjusted.

**Chart 1.5 Net consumer credit lending flows<sup>(a)</sup>**

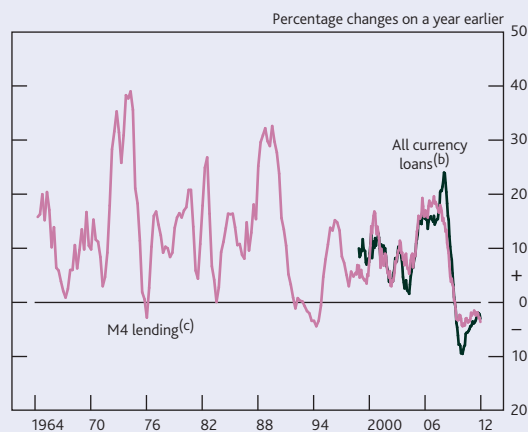
(a) Sterling lending by UK monetary financial institutions and other lenders to UK individuals. Seasonally adjusted.

## Trends in lending — three years on

The Bank of England launched *Trends in Lending* in April 2009 to present the Bank's assessment of the latest developments in lending to the UK economy. This box steps back from the regular quarterly assessment to provide a summary of trends in lending over the past three years using Bank of England statistics and data from other sources on lending to businesses and individuals.

The growth rate in the stock of lending to businesses by all UK-resident monetary financial institutions (MFIs) in 2006 and 2007 was over 15% on average, on a twelve-month basis (**Chart A**). It fell sharply from early 2008 and subsequently weakened further such that the stock of lending has contracted since mid-2009. The decline in the stock of lending in the second half of 2009 and most of 2010 partly reflected a slowdown in corporate lending by UK-resident foreign lenders, though their contribution to the contraction has eased over the past year or so (**Chart 1.1**).

**Chart A** Lending to UK businesses<sup>(a)</sup>



- (a) Lending by UK monetary financial institutions to PNFCs. Rate of growth in the stock of lending. Seasonally adjusted.  
 (b) Data cover lending (loans) in both sterling and foreign currency, excluding the effects of securitisations and loan transfers, expressed in sterling terms. For more details see **Table 1**.  
 (c) M4 lending to PNFCs excluding the effects of securitisations and loan transfers. Data cover sterling lending (loans and securities) only. For more details see **Table 1**. Growth rates prior to September 1998 are provided on a quarterly frequency and monthly thereafter.

The contraction in the stock of lending to UK businesses over the recent past is evident across a range of measures:

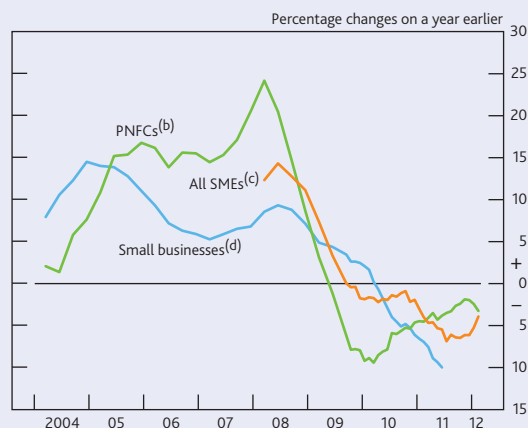
- The growth rate in the stock of lending, where lending is defined as sterling loans by UK MFIs to UK private non-financial corporations (PNFCs) and securities bought from them (**Chart A**).
- The growth rate in the stock of lending, where lending is defined as loans by UK MFIs to UK PNFCs in sterling and foreign currencies, expressed in sterling terms (**Chart A**).
- Data from a new Bank of England survey on lending to businesses which indicate that the amounts outstanding of

loans (excluding overdrafts) from UK MFIs to UK non-financial businesses decreased between end-April 2011 and end-February 2012.<sup>(1)</sup>

A broad description of these measures and main differences between them is provided in **Table 1**.

The overall weakness in the growth of lending to UK businesses in 2009 and 2010 masked differences in lending growth by size of business — for example for small and medium-sized enterprises (SMEs) (**Chart B**). Earlier issues of *Trends in Lending* noted that lending growth rates for SMEs had been stronger than for businesses overall during 2009, perhaps reflecting their relative lack of access to alternative sources of finance such as capital markets. Lending growth for all SMEs has been negative since late 2009 and has been below that for PNFCs as a whole since March 2011 (**Chart B**).

**Chart B** Lending to small and medium-sized enterprises<sup>(a)</sup>



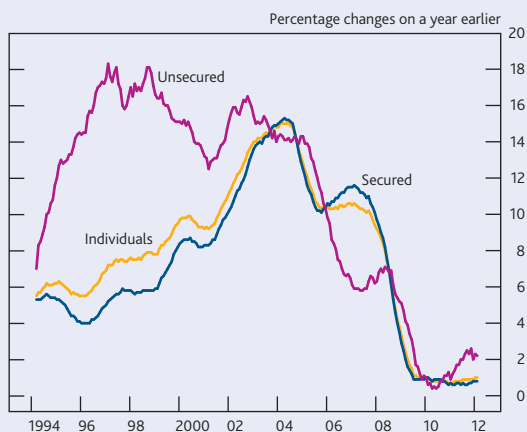
Sources: Bank of England, BBA, BIS and Bank calculations.

- (a) Rate of growth in the stock of lending. Non seasonally adjusted. Growth rates prior to September 2009 are presented on a quarterly frequency and monthly thereafter.  
 (b) For more details see footnote (b) to **Chart A**.  
 (c) Source: monthly BIS survey and Bank calculations. Lending by four UK lenders to enterprises with annual bank account debit turnover less than £25 million. Data cover lending in both sterling and foreign currency, expressed in sterling terms.  
 (d) Source: BBA. Lending by seven UK lenders to commercial businesses with an annual bank account debit turnover of up to £1 million. Sterling only. This survey terminated at June 2011. Available at [www.bba.org.uk/statistics/small-business](http://www.bba.org.uk/statistics/small-business).

Data from the recently established Bank of England survey on lending to businesses also point to a contraction in lending to SMEs in the second half of 2011. Net lending to SMEs by UK MFIs, defined as gross lending less repayments, was negative from 2011 Q2 to 2011 Q4.

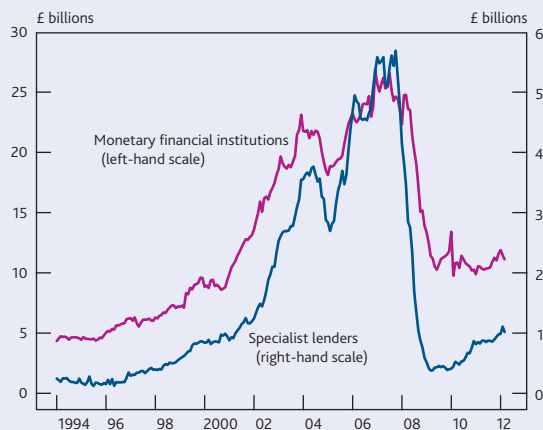
Growth in the stock of lending to individuals started to slow ahead of the recession in 2008 and fell sharply thereafter, reflecting falls in the rate of growth in the stock of secured and unsecured lending (**Chart C**). Growth in the stock of both secured and unsecured lending since 2008 has remained positive, albeit at low levels.



**Chart C** Lending to Individuals<sup>(a)</sup>

(a) Sterling lending by UK monetary financial institutions and other lenders to UK individuals. Rate of growth in the stock of lending. Seasonally adjusted.

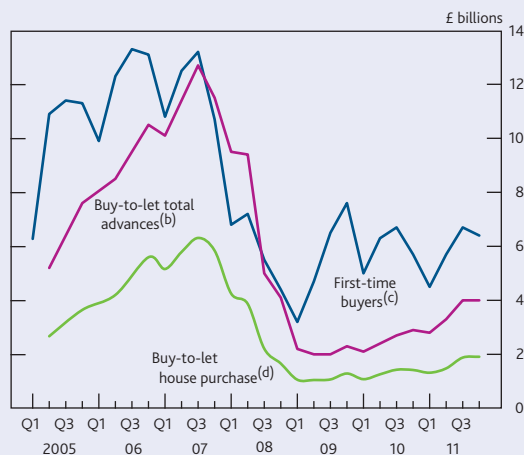
Gross mortgage lending by UK monetary financial institutions and specialist lenders declined in 2008 (**Chart D**). Gross mortgage lending by UK monetary financial institutions has been broadly stable since then, though for specialist lenders<sup>(2)</sup> — who currently account for around 10% of the total — lending has picked up in the past 18 months. In recent discussions, some major UK lenders suggested that the increase in lending by specialist lenders over the recent past partly reflected an increase in lending for buy-to-let (BTL) purposes.

**Chart D** Gross mortgage lending flows by lender grouping<sup>(a)</sup>

(a) Sterling gross secured lending by UK monetary financial institutions and specialist lenders to UK individuals. Specialist lenders include stand-alone lenders, non-bank subsidiaries of UK monetary financial institutions and prior to 2010, special purpose vehicles. Seasonally adjusted.

Lending to first-time buyers (FTBs) and for BTL purposes represent important components of the housing market. Data from the Council of Mortgage Lenders showed that following the onset of the financial crisis, gross BTL lending fell more sharply than overall mortgage lending. Over the past two years that pattern of lending has to some extent reversed, with gross buy-to-let lending having risen (**Chart E**) and total gross mortgage lending broadly unchanged. In recent discussions,

some major UK lenders noted the increasing presence of some mainstream participants and specialist lenders in the BTL market.

**Chart E** Gross secured lending flows to buy-to-let and first-time buyers<sup>(a)</sup>

Source: CML.

- (a) Sterling lending. Non seasonally adjusted.  
 (b) Quarterly gross lending data from 2007 onwards. Data cover lending for house purchase, remortgaging and other advances. Prior to 2007, half-yearly data are used: these are shown divided by two for comparison with the quarterly data.  
 (c) First-time buyers will include some buyers who have previously owned a property, but are not in owner-occupation at the time of the purchase. Estimates from the CML suggest that around 20% of first-time buyers fall into this category.  
 (d) Data for house purchase. See footnote (b) for more details.

First-time buyers have accounted on average for over 35% of new house purchase loans since 2005. Alongside a broader decline in lending for house purchase, gross lending to first-time buyers fell sharply in 2007 and 2008 before rising somewhat in 2009 (**Chart E**). As reported in June 2010 *Trends in Lending*, a number of major UK lenders suggested that this partly reflected pent-up demand from FTBs returning to the market following the financial crisis. Gross lending to FTBs has remained broadly stable over the past two years. In recent discussions, some major UK lenders noted that some FTBs may have brought forward their house purchase to the start of this year before the end of temporary stamp duty relief for FTBs in March 2012.

- (1) *Bankstats*, March 2012, 'Lending to businesses — a new data source', available at [www.bankofengland.co.uk/statistics/Documents/ms/articles/art2mar12.pdf](http://www.bankofengland.co.uk/statistics/Documents/ms/articles/art2mar12.pdf).  
 (2) See box on 'Specialist mortgage lending', February 2010, *Trends in Lending*, for details. Available at [www.bankofengland.co.uk/publications/Documents/other/monetary/trendsfebruary10.pdf](http://www.bankofengland.co.uk/publications/Documents/other/monetary/trendsfebruary10.pdf).

**Table 1** Definitions of selected Bank of England series on lending to UK businesses<sup>(a)</sup>

	M4 lending (M4Lx) to PNFCs	Lending to PNFCs	Gross lending to and repayments by non-financial businesses <sup>(b)</sup>	Gross lending to and repayments by SMEs <sup>(b)(c)</sup>
Currency	Sterling	Sterling and foreign currency, expressed in sterling terms	Sterling and foreign currency, expressed in sterling terms	Sterling and foreign currency, expressed in sterling terms
<b>Main components</b>				
Loans	✓	✓	✓	✓
Securities	✓			
Reverse repos <sup>(d)</sup>	✓	✓	✓	✓
Overdrafts	✓	✓		
Other	✓ <sup>(e)</sup>	✓ <sup>(e)</sup>		
<b>IADB codes</b>				
Amounts outstanding	BC57	B8EY	n.a.	n.a.
Changes	VWNQ	B93K	n.a.	n.a.
Twelve-month growth rate	VWNU	BZ2Q <sup>(f)</sup>	n.a.	n.a.
<b>Reference</b>				
	Bank of England statistical release 'Sectoral breakdown of aggregate M4 and M4 lending', Table B <sup>(g)</sup>	Bank of England statistical release 'Sectoral breakdown of aggregate M4 and M4 lending', Table C <sup>(g)</sup> ; Table 1.A, April 2012 <i>Trends in Lending</i>	<i>Bankstats</i> , March 2012 'Lending to businesses — a new data source' <sup>(h)</sup>	

(a) Lending by UK monetary financial institutions to PNFCs, unless stated otherwise. PNFCs exclude sole traders. Seasonally adjusted unless stated otherwise. Codes for selected Bank series on lending to businesses for amounts outstanding, changes (flows) and growth rates, which can be accessed via the Bank's Interactive Database, are also provided. Movements in amounts outstanding can reflect breaks in data series as well as underlying flows. For changes and growth rates data, users are recommended to refer directly to the appropriate series. Further details can be found at [www.bankofengland.co.uk/statistics/Pages/iadb/notesiadb/changes.aspx](http://www.bankofengland.co.uk/statistics/Pages/iadb/notesiadb/changes.aspx).

(b) Net lending, derived from these series is defined as gross lending less repayments. Survey also includes data on amounts outstanding. Non seasonally adjusted.

(c) Lending by UK monetary financial institutions to and repayments by enterprises with annual main account turnover less than £25 million. Data for non-financial businesses.

(d) See section on claims under sale and repurchase agreements in [www.bankofengland.co.uk/statistics/Pages/iadb/notesiadb/mfis\\_exlcb.aspx](http://www.bankofengland.co.uk/statistics/Pages/iadb/notesiadb/mfis_exlcb.aspx) for more details.

(e) Includes acceptances, holdings of short-term paper and excludes the effects of securitisations and loan transfers.

(f) The code for the non seasonally adjusted annual growth rate shown in **Chart B** is B7L1.

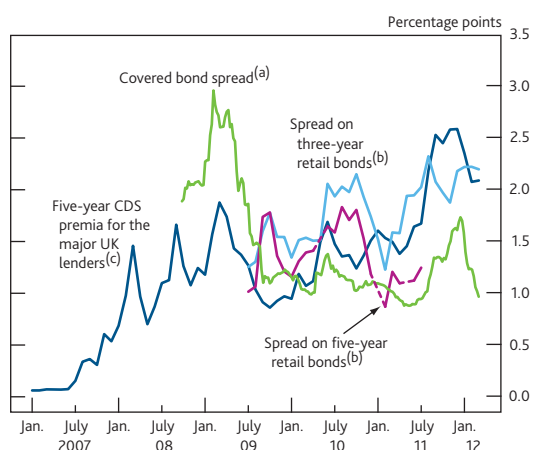
(g) Available at [www.bankofengland.co.uk/statistics/Pages/calendar/default.aspx](http://www.bankofengland.co.uk/statistics/Pages/calendar/default.aspx).

(h) Available at [www.bankofengland.co.uk/statistics/Documents/ms/articles/art2mar12.pdf](http://www.bankofengland.co.uk/statistics/Documents/ms/articles/art2mar12.pdf).

## 2 Loan pricing

Conditions in longer-term wholesale funding markets improved in 2012 Q1, according to the major UK lenders. Spreads over reference rates on new lending widened for businesses in 2012 Q1, according to the Bank of England's *Credit Conditions Survey*, and were expected to widen further in Q2. Spreads over Bank Rate on some quoted floating-rate mortgages have widened over the past six months. Effective rates on interest-bearing credit cards were broadly unchanged in the three months to February.

Chart 2.1 Indicative long-term funding spreads



Sources: Bank of England, Bloomberg, JPMorgan Chase & Co., Markit Group Limited and Bank calculations.

- (a) From January 2012 onwards, the data show a weighted average of the spread between covered bonds of any maturity issued by UK banks and equivalent-maturity swap rates, weighted by the outstanding value of each bond. Before January 2012, the data show a simple average and include bonds with a maturity of between three and five years only.
- (b) Sterling only. Spread over the relevant swap rate. The three-year and five-year retail bond rates are weighted averages of rates from banks and building societies within the Bank of England's normal quoted rate sample with products meeting the specific criteria (see [www.bankofengland.co.uk/statistics/Pages/iadb/notesiadb/household\\_int.aspx](http://www.bankofengland.co.uk/statistics/Pages/iadb/notesiadb/household_int.aspx)). The series for the five-year bond is not published for May 2010, January, May, August 2011–March 2012 as fewer than three institutions in the sample offered products in that period.
- (c) The spread on long-term wholesale bonds is proxied by an unweighted average of the five-year CDS premia for the major UK lenders.

This section discusses recent developments in loan pricing for businesses and individuals, based on statistical data, survey evidence and discussions with the major UK lenders.

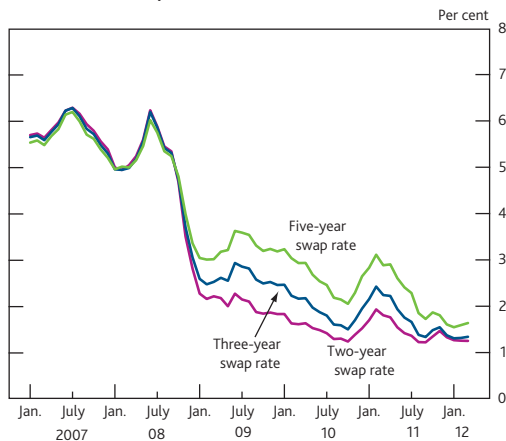
The total cost of bank finance to a company or individual can generally be decomposed into the fees charged by the lender to provide loan facilities, the spread over a given reference rate (such as three-month Libor or Bank Rate) at which loans are offered, and the prevailing level of that reference rate in the financial markets.

Previous editions of *Trends in Lending* have discussed the increase in spreads over reference rates on new lending since the start of the financial crisis. To some extent, elevated spreads reflect heightened credit risk on lending and a repricing of risk by lenders. But they are also likely to reflect the relatively high cost to lenders of raising longer-term funding.

Conditions in longer-term wholesale funding markets improved in 2012 Q1, according to the major UK lenders. In recent discussions, lenders noted that senior unsecured debt markets had reopened, having been effectively closed in 2011 Q4. The improvement in wholesale funding markets partly reflected the impact of the European Central Bank's longer-term refinancing operations (LTRO) in December 2011 and February 2012, according to the major UK lenders.

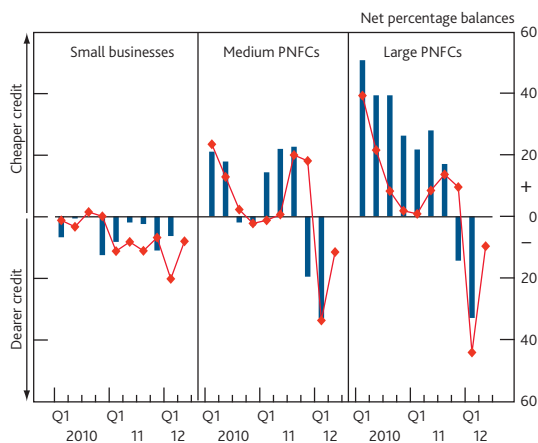
Spreads in longer-term wholesale funding markets had tightened in 2012 Q1 compared to 2011 Q4, though remained elevated compared to 2011 Q1, according to most major UK lenders. An indicative measure of the cost of bank wholesale debt — the five-year CDS premia of the major UK lenders — fell in 2012 Q1 (Chart 2.1). Covered bond spreads also fell over this period.

Looking ahead, some major UK lenders expected spreads on term wholesale funding to be little changed over the next

**Chart 2.2** Swap rates at different maturities<sup>(a)</sup>

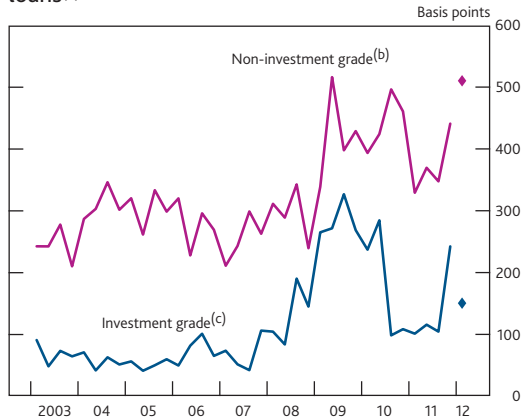
Sources: Bloomberg and Bank calculations.

(a) Swap rates are monthly averages of daily data.

**Chart 2.3** *Credit Conditions Survey*: spreads over reference rates on lending to corporates by firm size<sup>(a)(b)</sup>

(a) Net percentage balances are calculated by weighting together the responses of those lenders who answered the question. The blue bars show the responses over the previous three months. The red diamonds show the expectations over the next three months. Expectations balances have been moved forward one quarter so that they can be compared with the actual outturns in the following quarter.

(b) A positive balance indicates that spreads over reference rates have become narrower, such that all else being equal, it is cheaper for corporates to borrow.

**Chart 2.4** Average estimated spreads on syndicated loans<sup>(a)</sup>

Sources: Dealogic and Bank calculations.

(a) Average disclosed spreads over reference rates in the currency in which loan tranches are denominated, weighted by tranche size. Classification may be adjusted if ratings change over the life of the loan providing this is confirmed by the banks involved in the loan. The share of loans for which spread details are disclosed varies over time. Non seasonally adjusted. Data for 2012 Q1, denoted by diamonds, are based on deal information available at the time of publication.

(b) Non-investment grade is Dealogic leveraged and highly leveraged categories.

(c) Investment grade is classified by Dealogic as a rating of BBB- or higher, on announcement of the loan. If there is no rating then the loan spread on origination is used as the basis for classification, with any spread up to 250 basis points classified as investment grade.

quarter. Some lenders noted that these spreads could increase if there was further negative news from the euro area.

Spreads over reference rates on some longer-term retail deposits — such as those for three-year fixed-rate bonds over equivalent-maturity swap rates — were broadly unchanged over 2012 Q1, though were higher than a year ago (Chart 2.1). The limited movement in spreads on three-year fixed-rate bonds in 2012 Q1 reflected little change in relevant swap rates (Chart 2.2) and deposit rates over this period. Most major UK lenders reported that competition in the retail funding market had remained strong over the quarter. Some lenders expected this competition to continue in the near-term until the end of the ISA (individual savings account) season.

### Corporate loan pricing

Spreads over reference rates on new lending for large businesses widened significantly in 2012 Q1, according to the Bank of England's *Credit Conditions Survey* (Chart 2.3), with fees and commissions also increasing. Consistent with this, the balance of respondents in the *Deloitte CFO Survey* reported credit to be 'costly' in 2012 Q1, though the balance was lower than a year earlier.

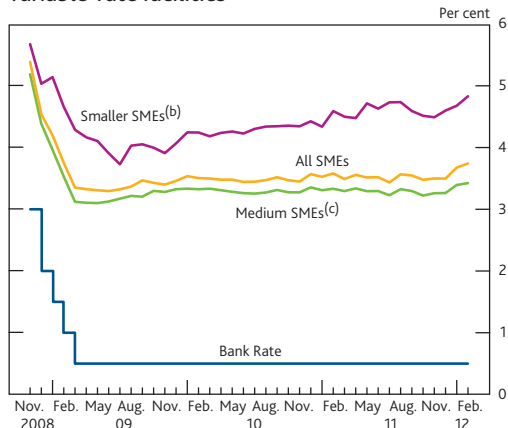
Spreads on syndicated lending, which typically apply to lending for larger businesses, narrowed in the investment grade segment in 2012 Q1, according to Dealogic data (Chart 2.4). Spreads on non-investment grade syndicated loans rose over this period. In recent discussions, some major UK lenders reported that upward pressure on pricing of syndicated loans to some corporates had lessened.

Spreads over reference rates on lending to small and medium-sized businesses widened in 2012 Q1, according to lenders in the *Credit Conditions Survey* (Chart 2.3). Respondents to the survey reported that fees and commissions had increased on loans to medium-sized firms, and were unchanged for small businesses. Indicative median interest rates (Chart 2.5) and spreads on new variable-rate facilities to small and medium-sized enterprises overall have risen in recent months, according to survey data from the Department for Business, Innovation and Skills.

The effective interest rate on new borrowing for businesses overall, which may include new lending on facilities arranged earlier at low pre-crisis rates, rose slightly over the three months to February. The balance of respondents to a recent survey from the Bank's network of Agents on credit conditions<sup>(1)</sup> reported that the cost of finance for firms had increased since last summer. Looking ahead, lenders in the *Credit Conditions Survey* expected spreads on lending to businesses of all sizes to increase in 2012 Q2.

(1) See box in April 2012 *Agents' Summary of Business Conditions*, available at [www.bankofengland.co.uk/publications/Documents/agentssummary/agsum12apr.pdf](http://www.bankofengland.co.uk/publications/Documents/agentssummary/agsum12apr.pdf).

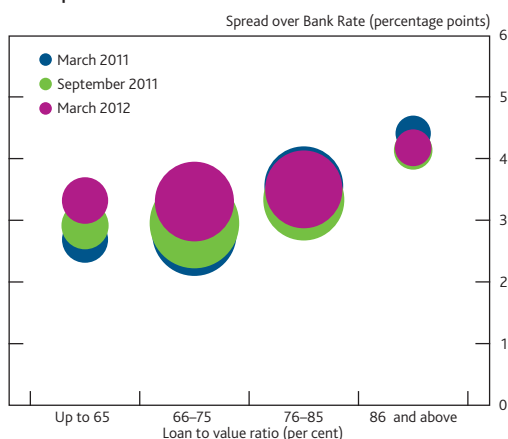
**Chart 2.5** Indicative median interest rates on new SME variable-rate facilities<sup>(a)</sup>



Sources: Bank of England, BIS and Bank calculations.

- (a) Median by value of new SME facilities priced at margins over base rates, by four major UK lenders (Barclays, HSBC, Lloyds Banking Group and Royal Bank of Scotland). Data cover lending in both sterling and foreign currency, expressed in sterling terms.  
 (b) SMEs with annual bank account debit turnover under £1 million.  
 (c) SMEs with annual bank account debit turnover between £1 million and £25 million.

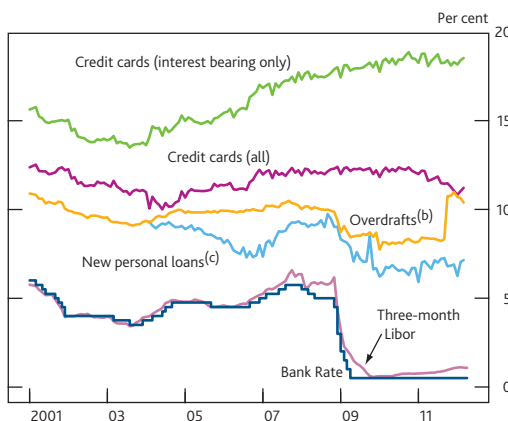
**Chart 2.6** Number of floating-rate mortgage products and spreads across LTV ratios<sup>(a)(b)</sup>



Sources: Moneyfacts Group and Bank calculations.

- (a) End-month advertised rates for products with different loan to value (LTV) ratios.  
 (b) Size of bubble reflects number of products. The spread is calculated over Bank Rate at the end-month for the relevant period. The first observation on the left is for products up to 65% LTV, the second is for products in the 66%–75% range, the third is for products in the 76%–85% range and the final observation on the right is for products above 86% LTV.

**Chart 2.7** Effective interest rates on consumer credit<sup>(a)</sup>



- (a) Sterling only. The Bank's effective interest rates series are currently compiled using data from 24 UK monetary financial institutions. The rate for personal loans is for new business. For the other series the rates shown are for the stock of lending, as comparable data for new lending are not available. Data for Bank Rate and three-month Libor are to end-March and for effective rates to end-February. Non seasonally adjusted.  
 (b) The rate rise in September 2011 reflects system improvements and changes to reporting practices by one institution.  
 (c) Only available from January 2004.

## Mortgage pricing

Some of the Bank's measures of quoted rates on fixed-rate mortgages increased in 2012 Q1. As swap rates have been broadly unchanged over the quarter (**Chart 2.2**), spreads over swap rates on these quoted fixed-rate mortgages have widened. Spreads over Bank Rate on some quoted floating-rate mortgages have widened in the past six months, with spreads on products at LTV ratios up to 75% having risen by over 30 basis points (**Chart 2.6**). In recent discussions, the major UK lenders indicated that mortgage pricing in the overall market had increased over the past quarter.

Respondents to the 2012 Q1 *Credit Conditions Survey* reported that spreads on total new secured lending widened markedly over the previous quarter, the first reported increase in spreads since 2009 Q3. Looking ahead, lenders in the survey expected a further widening in spreads on secured lending rates in 2012 Q2, reflecting further pass-through of elevated funding costs which had been exerting downward pressure on margins over the recent past.

## Consumer credit pricing

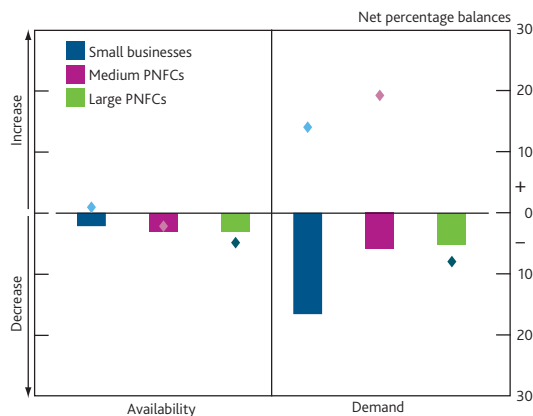
Effective rates on interest-bearing credit cards were broadly unchanged in the three months to February (**Chart 2.7**). More generally, spreads between effective rates and Bank Rate and Libor for consumer credit as a whole remain significantly wider than in late 2008, which lenders report partly reflects heightened credit risk on this form of lending. Respondents to the 2012 Q1 *Credit Conditions Survey* reported that spreads on credit card lending were broadly unchanged over the previous three months, and were not expected to change in Q2. In recent discussions, some major UK lenders reported that they had not increased credit card pricing in the previous quarter. Looking ahead, most lenders did not expect to increase credit card pricing in the coming three months.

Respondents to the 2012 Q1 *Credit Conditions Survey* reported that spreads on non credit card lending had narrowed in Q1, and were expected to narrow further over the coming quarter. Looking ahead, some major UK lenders did not expect any significant changes in pricing of other unsecured lending over the next three months.

# 3 Credit supply and demand

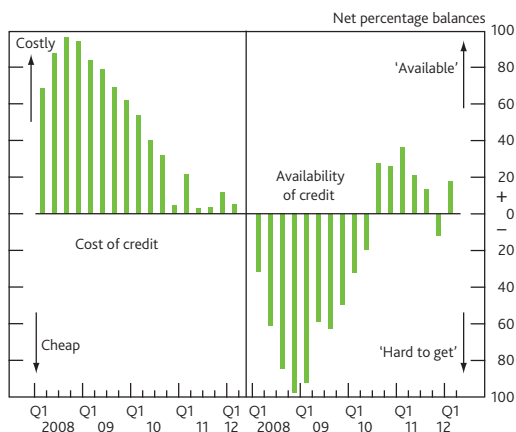
Credit availability was broadly unchanged for businesses and households, according to respondents to the Bank of England's 2012 Q1 *Credit Conditions Survey*. A survey of businesses conducted by the Bank's network of Agents indicated that for most businesses, credit availability was little changed since last summer. In recent discussions, some major UK lenders noted that demand from small and medium-sized enterprises remained muted over the quarter. The availability of secured lending to households was unchanged in 2012 Q1 and was expected to fall slightly in Q2, according to respondents to the *Credit Conditions Survey*.

**Chart 3.1** *Credit Conditions Survey*: availability and demand for credit across firm sizes reported in the 2012 Q1 survey<sup>(a)(b)</sup>



- (a) Net percentage balances are calculated by weighting together the responses of those lenders who answered the question. The bars in the chart show the net percentage balance reported over the three months to early March. The diamonds show the associated expectations for the next three months.
- (b) In the first panel, a positive balance indicates that more credit is available. In the second panel, a positive balance indicates an increase in demand.

**Chart 3.2** *Deloitte CFO Survey*: cost and availability of credit<sup>(a)</sup>



- (a) Net percentage balances for the cost of credit are calculated as the percentage of respondents reporting that bank credit is costly less the percentage reporting that it is cheap. Net percentage balances for the availability of credit are calculated as the percentage of respondents reporting that credit is available less the percentage of respondents reporting that it is 'hard to get'. A positive balance indicates that a net balance of respondents report that credit is costly or there is availability of credit.

The amount of lending and its price depend on the interaction of demand and supply factors. Disentangling the separate influences of changes in the supply of, and demand for, credit is difficult though survey data can help. This section looks at recent trends in credit supply and demand, drawing on surveys, reports from the Bank's network of Agents and discussions with the major UK lenders.

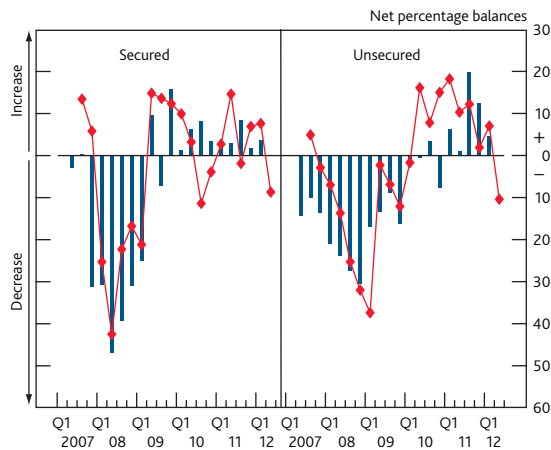
## Credit conditions for businesses

Credit availability across all business sizes was broadly unchanged in 2012 Q1, according to respondents to the *Credit Conditions Survey* (Chart 3.1). The net balance of respondents to the *Deloitte CFO Survey* 2012 Q1 — which covers large companies — viewed credit as 'available', having reported credit availability as 'hard to get' in 2011 Q4 (Chart 3.2). A survey of businesses conducted by the Bank's network of Agents indicated that, amongst those surveyed, credit availability was little changed since last summer for most businesses.<sup>(1)</sup> Looking forward, lenders in the *Credit Conditions Survey* expected credit availability to be broadly unchanged for firms of all sizes in the coming quarter.

Demand for credit from firms of all sizes fell slightly in 2012 Q1, according to respondents to the *Credit Conditions Survey* (Chart 3.1). In contrast, a survey of businesses conducted by the Bank's Agents indicated that the demand for loans had risen a little. In recent discussions, some major UK lenders noted that demand from SMEs remained muted over the quarter. Demand for credit was expected to increase for small and medium-sized companies in 2012 Q2, but fall slightly for large companies, according to respondents to the *Credit Conditions Survey*.

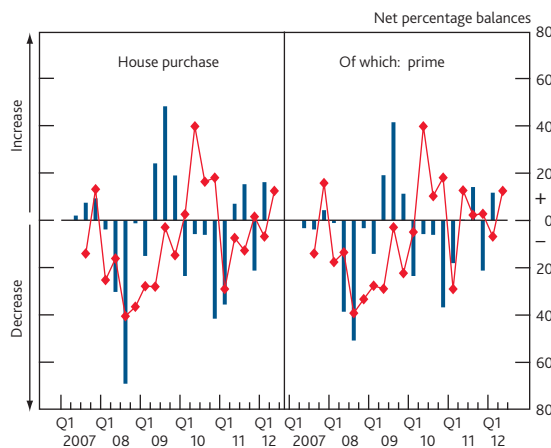
(1) See footnote (1), Section 2, page 11.

**Chart 3.3 Credit Conditions Survey: availability of credit to households<sup>(a)</sup>**



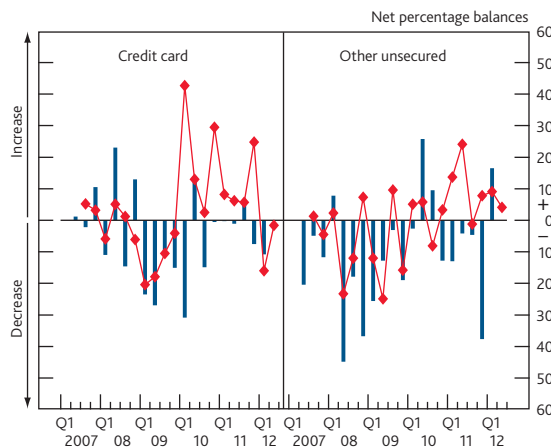
(a) See footnote (a) to Chart 2.3. A positive balance indicates that more credit is available.

**Chart 3.4 Credit Conditions Survey: demand for household secured lending<sup>(a)</sup>**



(a) See footnote (a) to Chart 2.3. A positive balance indicates an increase in demand.

**Chart 3.5 Credit Conditions Survey: demand for household unsecured lending<sup>(a)</sup>**



(a) See footnote (a) to Chart 2.3. A positive balance indicates an increase in demand.

### Credit conditions for households

The amount of new secured credit made available to households was broadly unchanged in 2012 Q1, according to respondents to the *Credit Conditions Survey* (Chart 3.3). Lenders in the survey reported that while credit availability had increased slightly for borrowers with low loan to value (LTV) ratios, availability had decreased for borrowers with high LTV ratios. Respondents to the survey expected the availability of secured credit to fall slightly in 2012 Q2, affecting borrowers across the LTV range.

Household demand for secured lending for house purchase increased in 2012 Q1, according to a balance of respondents to the *Credit Conditions Survey*. Within that, demand for prime lending increased (Chart 3.4). Demand for buy-to-let lending had fallen slightly, for the first time in eight quarters, according to lenders in the survey. The Royal Institution of Chartered Surveyors' new buyer enquiries balance increased slightly in March, indicating a small increase in demand for house purchase. Respondents to the *Credit Conditions Survey* expected an increase in demand for secured lending for house purchase in the next three months.

Contacts of the Bank's Agents reported that the level of activity in the housing market had risen in recent months, although it remained significantly below its pre-recession level. They noted that part of the rise in activity was a result of an increase in confidence among prospective buyers. Contacts also suggested that some of the improvement was due to an increase in demand which had been brought forward ahead of the end of the temporary stamp duty relief for first-time buyers in March 2012. In recent discussions, some major UK lenders also noted that some first-time buyers may have brought forward their house purchase to the start of the year. Some lenders expected overall housing market activity to be broadly unchanged in 2012. The major UK lenders expected house prices in 2012 to be little changed or to decline slightly.

As with secured lending, respondents to the *Credit Conditions Survey* indicated that the amount of unsecured credit made available to households was broadly unchanged in 2012 Q1 (Chart 3.3). The availability of unsecured credit was expected to fall in 2012 Q2, according to respondents to the survey.

Total demand for consumer credit fell slightly in 2012 Q1 according to respondents to the *Credit Conditions Survey*. Within this, demand for credit card lending had fallen in the last three months, and demand for other unsecured lending had increased (Chart 3.5). Demand for unsecured credit was expected to be broadly unchanged in 2012 Q2, according to respondents to the survey.

## Abbreviations

**BBA** — British Bankers' Association.  
**BIS** — Department for Business, Innovation and Skills.  
**BTL** — buy-to-let.  
**CDS** — credit default swap.  
**CFO** — chief financial officer.  
**CML** — Council of Mortgage Lenders.  
**FTB** — first-time buyer.  
**Libor** — London interbank offered rate (see below).  
**LTV ratio** — loan to value ratio (see below).  
**MFIs** — monetary financial institutions (see below).  
**PNFCs** — private non-financial corporations (see below).  
**SMEs** — small and medium-sized enterprises.

## Glossary

**Bank Rate** The official rate paid on commercial bank reserves by the Bank of England.

**Businesses** Private non-financial corporations.

**Consumer credit** Borrowing by UK individuals to finance expenditure on goods and/or services. Consumer credit is split into two components: credit card lending and 'other' lending (mainly overdrafts and other loans/advances).

**Effective interest rates** The weighted average of calculated interest rates on various types of sterling deposit and loan accounts. The calculated annual rate is derived from the deposit or loan interest flow during the period, divided by the average stock of deposit or loan during the period.

**Facility** An agreement in which a lender sets out the conditions on which it is prepared to advance a specified amount to a borrower within a defined period.

**Gross lending** The total value of new loans advanced by an institution in a given period.

**Loan approvals** Lenders' firm offers to advance credit.

**Loan to value (LTV) ratio** Ratio of outstanding loan amount to the market value of the asset against which the loan is secured (normally residential or commercial property).

**London interbank offered rate (Libor)** The rate of interest at which banks borrow funds from each other, in marketable size, in the London interbank market.

**Major UK lenders** Banco Santander, Barclays, HSBC, Lloyds Banking Group, Nationwide and Royal Bank of Scotland.

**Monetary financial institutions** A statistical grouping comprising banks and building societies (MFIs).

**Mortgage lending** Lending to households, secured against the value of their dwellings.

**Net lending** The difference between gross lending and gross repayments of debt in a given period.

**Non-financial businesses** A grouping comprising PNFCs, sole traders, non-profit institutions and public sector entities.

**Private non-financial corporations (PNFCs)** All corporations (and partnerships) whose primary activity is non-financial and that are not controlled by central or local government.

**Reference rate** The rate on which loans are set, with an agreed margin over the reference rate (typically this will be Bank Rate, Libor or a swap rate).

**Remortgaging** A process whereby borrowers repay their current mortgage in favour of a new one secured on the same property. A remortgage would represent the financing of an existing property by a different mortgage lender.

**Special purpose vehicles** In this context, an undertaking whose sole purpose is to issue securities or hold assets underlying the issue of securities that are offered for sale to the public, sold on the basis of private placements, or held by the institution that originated the underlying assets.

**Specialist lenders** Providers of mortgage loans for niche markets that generally fall outside the scope of mainstream mortgage lending.

**Swap rate** The fixed rate of interest in a swap contract in which floating-rate interest payments are exchanged for fixed-rate interest payments. Swap rates are a key factor in the setting of fixed mortgage rates.

## Symbols and conventions

Except where otherwise stated the source of data in charts is the Bank of England.

On the horizontal axes of graphs, larger ticks denote the first observation within the relevant period, eg data for the first quarter of the year.