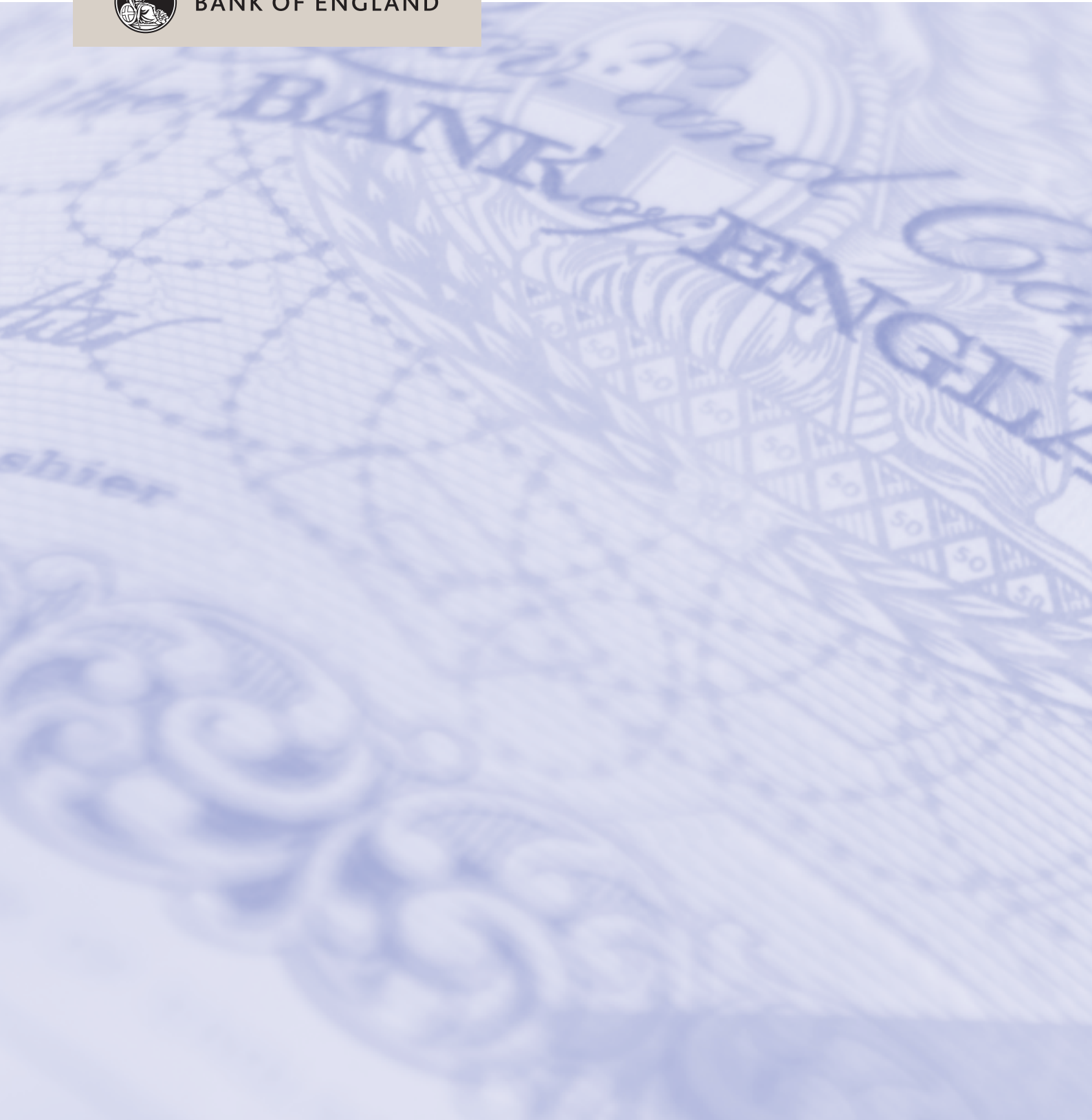


Trends in Lending

February 2010



BANK OF ENGLAND





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Trends in Lending

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This publication presents the Bank of England's assessment of the latest trends in lending to the UK economy. It draws mainly on long-established official data sources, such as the existing monetary and financial statistics collected by the Bank. These data are supplemented by the results of a new data set, established by the Bank in late 2008, to provide more timely data covering aspects of lending to the UK corporate and household sectors.⁽¹⁾ The Bank collects these data on behalf of the Lending Panel,⁽²⁾ which was established by the Chancellor in November 2008 to monitor lending to the UK economy and to promote best practice across the industry in dealing with borrowers facing financial difficulties.

The data set — referred to as 'Lending Panel data' — covers the major UK lenders:⁽³⁾ Banco Santander, Barclays, HSBC, Lloyds Banking Group, Nationwide and Royal Bank of Scotland. Together they accounted for around 65% of the stock of lending to businesses, 45% of the stock of consumer credit, and 75% of the stock of mortgage lending at the end of 2009. These data have provided a useful input to 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. The report also draws on intelligence gathered by the Bank's regional Agents and from market contacts, as well as the results of other surveys. The focus of the report is on lending, but broader credit market developments, such as those relating to trade credit or capital market issuance, may be discussed where relevant.

The report covers official data up to December 2009, supplemented by Lending Panel data and intelligence gathered up to end-January 2010. Unless stated otherwise, the data reported cover lending in both sterling and foreign currency, expressed in sterling terms. Lending Panel data are provided to the Bank on a 'best endeavours' basis. This, together with their relative timeliness, means that they may not be as accurate as established data sets. As a result, care is needed in interpreting the Lending Panel data presented in this report.

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

(2) The Lending Panel comprises Government, lenders, consumer, debt advice and trade bodies, regulators and the Bank of England. See www.hm-treasury.gov.uk/press_126_08.htm.

(3) 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

Net [lending to UK businesses](#) weakened in December. In 2009 Q4 the stock of lending to companies fell across all the main sectors of the economy for the third consecutive quarter, though the stock of lending to commercial real estate companies was broadly unchanged on a year earlier. Syndicated lending remained weak, though lenders reported further signs of renewed activity from foreign lenders. More generally, some major lenders reported downwards pressure on loan pricing for better quality companies, partly reflecting increased competition. Contacts of the Bank's Agents noted an easing in loan availability, albeit varying by borrower size and sector, and that demand for new corporate borrowing remained weak.

The flow of net [mortgage lending](#) slowed in December, though the three-month annualised rate of lending growth remained unchanged. Gross lending and mortgage approvals for house purchase fell in January, according to data from the major UK lenders. Lenders attributed part of the rise in gross mortgage lending towards the end of 2009, and its subsequent fall in January, to some homebuyers seeking to complete house purchases before the removal of stamp duty relief at the start of the year. Lenders also reported that the severe weather around the year end had depressed mortgage approvals in January. Advertised mortgage rates fell back in January, though mortgage spreads over Bank Rate or swap rates remain elevated.

The total flow of net [consumer credit](#) was slightly positive in December, though the twelve-month growth rate of the stock of lending remained negative and at a series low. Net consumer credit flows were reported by the major UK lenders to have weakened in January, partly reflecting adverse weather conditions. However, underlying demand for consumer credit was reported to remain subdued and the availability of credit tight. While effective interest rates on consumer credit fell in December, spreads over Bank Rate and Libor remained significantly wider than in late 2008.

1 Lending to UK businesses

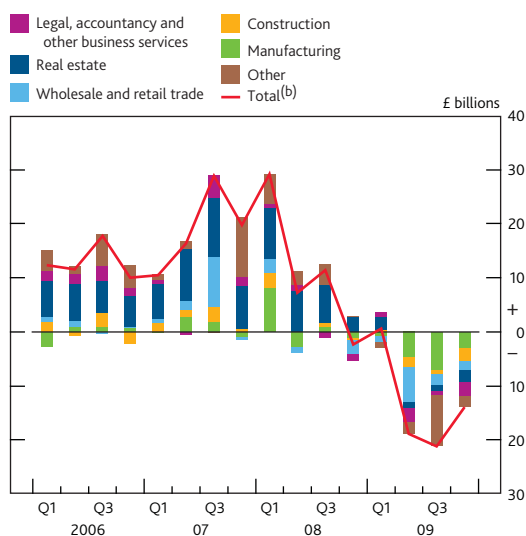
Net lending to UK businesses weakened in December. In 2009 Q4 the stock of lending to companies fell across all the main sectors of the economy for the third consecutive quarter, though the stock of lending to commercial real estate companies was broadly unchanged on a year earlier. Syndicated lending remained weak, though lenders reported further signs of renewed activity from foreign lenders. More generally, some major lenders reported downwards pressure on loan pricing for better quality companies, partly reflecting increased competition. Contacts of the Bank's Agents noted an easing in loan availability, albeit varying by borrower size and sector, and that demand for new corporate borrowing remained weak.

Table 1.A Lending to UK businesses^(a)

	Averages					2009		
	2007	2008	2009 Q1	2009 Q2	2009 Q3	Oct.	Nov.	Dec.
Net monthly flow (£ billions)	7.3	3.8	-0.6	-5.2	-6.9	-4.6	0.1	-4.3
Three-month annualised growth rate (per cent)	20.5	10.6	-0.8	-8.7	-14.5	-7.1	-6.4	-6.3
Twelve-month growth rate (per cent)	16.7	17.5	5.5	-0.1	-4.6	-7.6	-7.7	-8.1

(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 Sectoral breakdown of quarterly net lending flows^(a)



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

(b) Data for PNFCs have been estimated by subtracting elements of the industrial breakdown for non-financial corporations thought to contain mainly lending to the public sector (public administration and defence, education, health and social work and recreational, personal and community services). Data are non seasonally adjusted. For these reasons, the total quarterly flows will not exactly equal the data for PNFCs in Table 1.A.

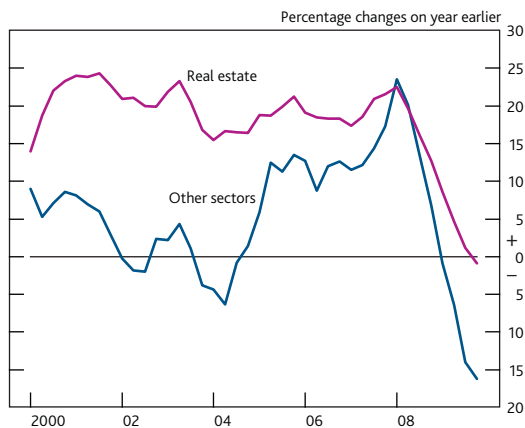
Recent lending data

Official data covering lending by all UK-resident banks and building societies indicated that lending to businesses contracted by £4.3 billion in December (Table 1.A). As a result, the twelve-month growth rate of the stock of loans fell to a new low since the monthly series began in 1999. The major UK lenders reported that their net lending flows remained weak in January.

The industrial breakdown of corporate lending indicated that the decline in the stock of lending since 2009 Q2 continued to be broad-based across sectors (Chart 1.1). Lending fell across all the main sectors of the economy for the third consecutive quarter in 2009 Q4. Nonetheless, the stock of real estate lending — which accounts for nearly 50% of the total stock of business loans — was broadly unchanged in 2009 Q4 on a year earlier, in contrast to the decline in the stock of loans to the rest of the corporate sector over that period (Chart 1.2). The smaller decline in lending to real estate companies relative to other sectors is likely partly to reflect lags between facilities previously granted and their subsequent drawdown — for example, as properties are developed — and the longer-term nature of loans, including those granted for property development.

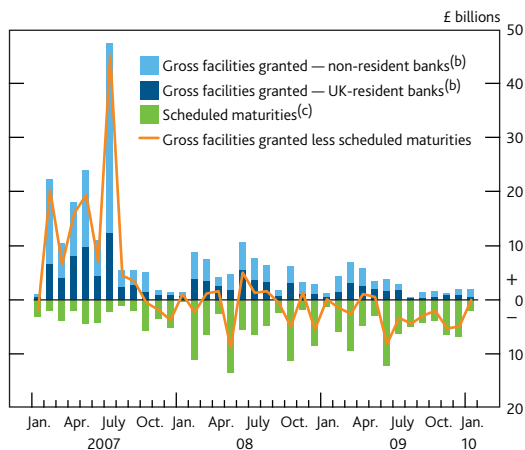
In recent discussions, the major UK lenders reported that investor demand for prime property had strengthened in recent months, driven by equity-rich investors. Perhaps reflecting the type of investor currently active in the market, lenders had yet to report a significant pickup in loan demand. Contacts of the Bank's Agents reported that commercial property development activity was weak. On the supply side, lenders reported a slight increase in credit availability to the real estate sector in the 2009 Q4 Bank of England *Credit Conditions Survey*. Some lenders have noted that their appetite to lend was limited to loans backed by prime

Chart 1.2 Growth in the stock of lending to the real estate sector and other sectors^(a)



(a) Lending by UK monetary financial institutions to UK PNFCs. See footnote (b) to Chart 1.1.

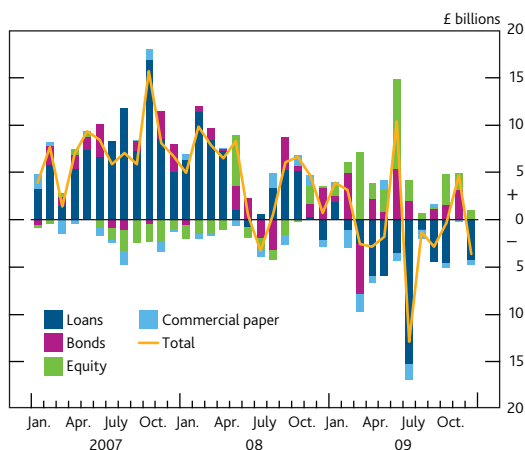
Chart 1.3 Estimates of syndicated lending facilities granted to UK businesses^(a)



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. Residency based on Dealogic's attribution at the point of origination. Where lenders' shares of a syndicated loan have not been disclosed, Dealogic assume as a default that the loan is shared equally across participating banks. Some lenders will sell on loans after origination.
 (c) Scheduled maturities of syndicated lending facilities excluding cancelled or withdrawn facilities. Actual maturities will also reflect the effects of refinancing and prepayments.

Chart 1.4 Net funds raised by UK businesses^(a)



(a) Funds raised by PNFCs from UK monetary financial institutions and capital markets. Data cover funds raised in both sterling and foreign currency, expressed in sterling terms. Loans are seasonally adjusted. Bond, equity and commercial paper issuance are non seasonally adjusted.

property. Market contacts continued to report concerns about the amount of real estate debt requiring refinancing over the next few years.⁽¹⁾

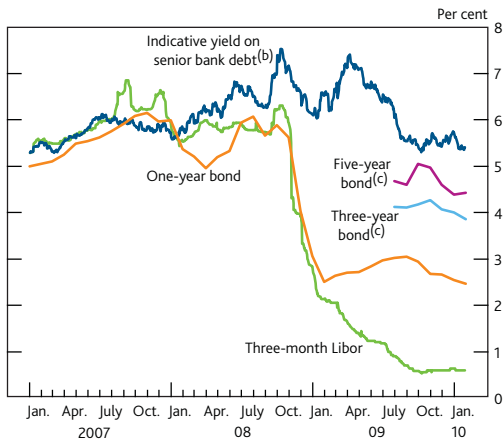
The syndicated loan market is an important source of funds for large companies, including commercial property companies. The value of new syndicated lending facilities granted to UK businesses has fallen markedly since the financial crisis began, with the amount of gross syndicated lending facilities granted in the second half of 2009 less than half that seen in the first six months of the year (Chart 1.3) and well below the values seen in the period 2003–07. And market contacts have reported that loans were generally being done on a 'club basis', where deals are pre-arranged, rather than underwritten and syndicated more widely. The decline in lending has partly reflected the earlier withdrawal of lenders from the market, including some foreign banks. However, in recent months the major UK lenders reported that some foreign lenders were renewing their activity in the UK market. Alongside that, some lenders saw signs of increased activity in leveraged lending, though noted risks to the refinancing of earlier leveraged loans maturing in coming years. The significance of these risks would in part depend on the availability of capital market finance as an alternative to such borrowing.

In December, capital market issuance weakened, so that the net amount of funds raised by UK businesses from banks and capital markets was negative (Chart 1.4). Earlier editions of *Trends in Lending* have reported that some large businesses were using the proceeds of capital market issuance to repay bank debt, though total gross repayments eased somewhat through 2009. In contrast to the picture for businesses overall, gross repayments of borrowing by small and medium-sized enterprises rose gradually during 2009, according to data collected for the Department for Business, Innovation and Skills. In recent discussions, some major UK lenders indicated that some smaller companies were increasing their gross loan repayments in order to reduce their leverage, using internal funds generated from tighter inventory management or the postponement of investment plans. Some lenders were of the view that the de-stocking cycle was now coming to an end, consistent with earlier reports from contacts of the Bank's Agents.

The major UK lenders reported that there had been no significant change in loan availability in the past month, though some reported an increase in competition. Contacts of the Bank's regional Agents indicated that the marginal improvement in credit availability they had experienced had strengthened in recent months, albeit by a varying degree depending on firm size and sector. Demand for new lending, at current rates and fees, was reported by the major UK lenders

(1) See also pages 24–25 of the December 2009 Bank of England *Financial Stability Report*, available at www.bankofengland.co.uk/publications/fsr/2009/fsrfull0912.pdf.

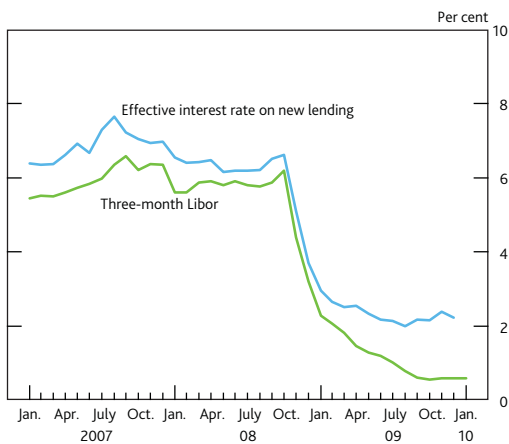
Chart 1.5 Indicators of bank funding costs^(a)



Sources: Bank of England and J.P. Morgan.

- (a) Sterling only.
 (b) This yield is from a J.P. Morgan index of sterling senior bank debt that is not exclusively composed of UK bank debt.
 (c) The three-year and five-year 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/mfsd/iadb/notesiadb/household_int.htm).

Chart 1.6 Effective interest rate on new lending to UK businesses^(a)



- (a) PNFCS. Sterling only. The Bank's effective interest rates series comprise data from 29 UK monetary financial institutions.

to remain subdued, consistent with the views of contacts of the Bank's Agents. Most of those lenders felt that weather disruption had not impacted significantly on loan demand and supply in January. However, some lenders had observed a weather-related weakening of loan demand from smaller companies.

Corporate loan pricing

The total cost of bank finance to a company can be decomposed into the fees charged by the bank to provide facilities, the spread over a given reference rate (typically three-month Libor or Bank Rate) at which loans are offered, and the prevailing level of that reference rate in the financial markets. Timely data on fees are difficult to obtain, but in line with earlier reports, contacts of the Bank's Agents have continued to report that fees remain high.

Previous editions of *Trends in Lending* have discussed the increase in spreads over reference rates on new facilities since the start of the financial crisis. To an extent, elevated spreads reflect heightened credit risk and a repricing of risk. But they are also likely to reflect the relatively high cost to banks of raising longer-term funding. In recent discussions, the major UK lenders reported that longer-term funding costs remained high relative to shorter-term reference rates, reflected also in data for senior bank debt yields and longer-term retail deposits (**Chart 1.5**). In the most recent data for December, the Bank's measure of the effective interest rate on new corporate lending eased slightly (**Chart 1.6**). Some lenders continued to report that lending spreads for better quality corporates were narrowing, partly due to increased competition from other lenders as well as the availability of funds from the capital markets. The Bank's Agents reported that lending spreads had probably narrowed a little through the second half of 2009, though remained wide relative to pre-crisis levels.

Looking forward, the major UK lenders indicated that a key factor influencing loan pricing would be the cost of longer-term wholesale funding. Lenders reported that they remained cautious about prospects for wholesale funding despite strong bond issuance by UK banks in January, partly reflecting an increase in market volatility in the second half of the month.

2 Mortgage lending

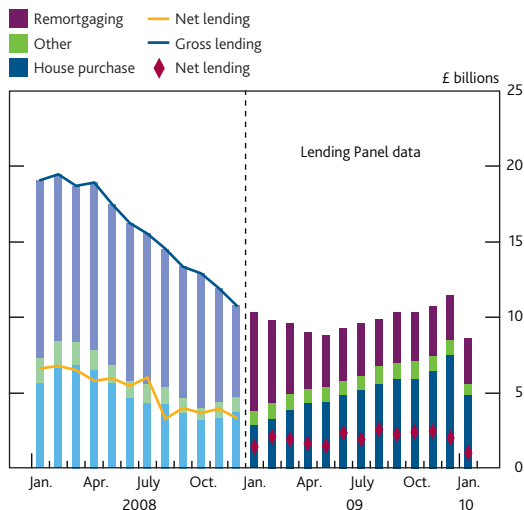
The flow of net mortgage lending slowed in December, though the three-month annualised rate of lending growth remained unchanged. Gross lending and mortgage approvals for house purchase fell in January, according to data from the major UK lenders. Lenders attributed part of the rise in gross mortgage lending towards the end of 2009, and its subsequent fall in January, to some homebuyers seeking to complete house purchases before the removal of stamp duty relief at the start of the year. Lenders also reported that the severe weather around the year end had depressed mortgage approvals in January. Advertised mortgage rates fell back in January, though mortgage spreads over Bank Rate or swap rates remain elevated.

Table 2.A Secured lending to individuals^(a)

	Averages					2009		
	2007	2008	2009 Q1	2009 Q2	2009 Q3	Oct.	Nov.	Dec.
Net monthly flow (£ billions)	9.0	3.4	1.0	0.7	0.8	1.1	1.6	1.2
Three-month annualised growth rate (per cent)	10.3	4.1	1.1	0.8	0.5	1.2	1.2	1.2
Twelve-month growth rate (per cent)	11.0	6.9	2.5	1.4	0.9	0.9	1.0	0.9

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

Chart 2.1 Mortgage lending by the major UK lenders^(a)



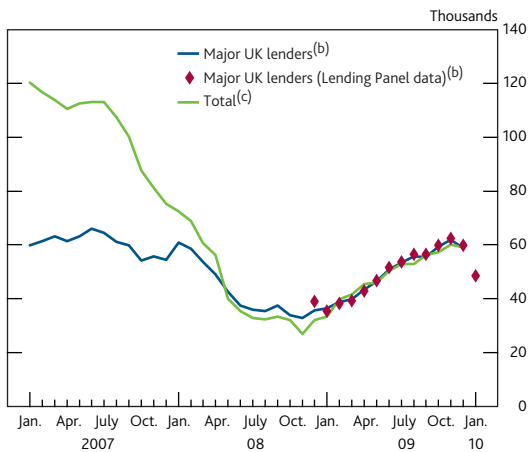
(a) The split in 2008 is estimated using gross lending data and the split of loan approval values between house purchase, remortgaging and other advances. The split using Lending Panel data in 2009 is reported, rather than estimated, data. Data cover lending in both sterling and foreign currency, expressed in sterling terms. Seasonally adjusted.

Recent lending data

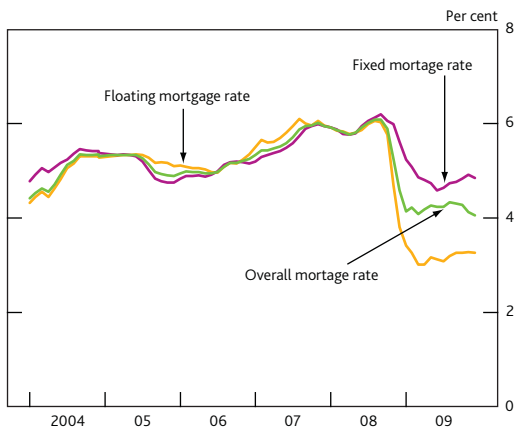
The flow of net sterling mortgage lending by all UK-resident mortgage lenders slowed in December, though the three-month annualised rate of growth in the stock of lending remained unchanged (**Table 2.A**). According to Lending Panel data, net mortgage lending by the major UK lenders decreased in January (**Chart 2.1**) as gross lending fell by more than repayments. These data indicated that gross lending for house purchase declined in January, having risen through most of 2009, while remortgaging activity remained low.

The increase in gross mortgage lending for house purchase by the major UK lenders in 2009 was also reflected in a recovery in approvals for house purchase. But approvals for house purchase edged down in December and were reported by the major UK lenders to have fallen sharply in January (**Chart 2.2**).

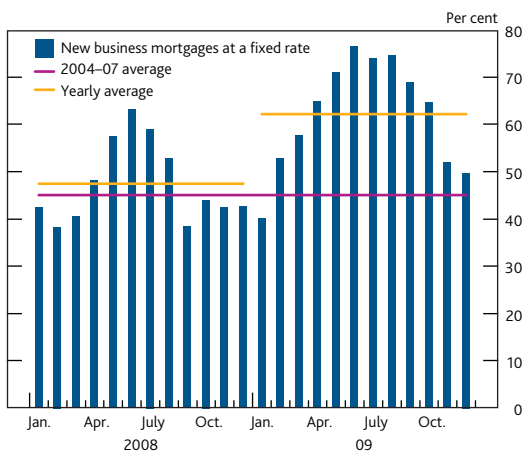
In recent discussions, the major UK lenders reported that the recent slowing of mortgage lending and approvals reflected one-off factors. Lenders attributed part of the rise in gross mortgage lending towards the end of 2009, and its subsequent fall in January, to some homebuyers seeking to complete house purchases before the removal of stamp duty relief on 1 January 2010. Some lenders saw similarities on the approvals side, with approvals being sought earlier in the year to allow for completions before the year end. Lenders also noted that the severe weather around the turn of the year had depressed mortgage approvals in January, notwithstanding a recovery of activity in the second half of the month. The impact of the weather was also observed by contacts of the Bank's regional Agents, who reported that viewings and new instructions to sell had been affected. Similarly, a sharp decline in the Royal Institution of Chartered Surveyors' (RICS) new buyer enquires index, to levels consistent with falling demand for house purchase, was attributed by RICS to the recent weather-related

Chart 2.2 Approvals for mortgages for house purchase^(a)

- (a) Data cover lending in both sterling and euros. Seasonally adjusted.
 (b) Gross approvals data.
 (c) UK monetary financial institutions and other lenders. These data are net of cancellations and hence the total can fall below the gross approvals data shown for the major UK lenders.

Chart 2.3 Effective rates on new mortgage lending^(a)

- (a) Sterling only. The Bank's effective rate interest rates series comprise data from 29 UK monetary financial institutions.

Chart 2.4 Share of fixed-rate products in new mortgage lending^{(a)(b)}

- (a) Share, by value, of fixed-rate products in total value of new lending. Sterling only.
 (b) For more information on annual data for 2004-07 see Anghaei, M and Mash, A (2009), 'Distribution of effective interest rates data', *Monetary and Financial Statistics* article, Bank of England, available at www.bankofengland.co.uk/statistics/ms/articles/art2mar09.pdf.

disruptions.⁽¹⁾ A number of major UK lenders reported that underlying mortgage demand was little changed on the month.

On the supply side, some lenders continued to report a gradual increase in the availability of higher LTV products. This was consistent with data collected by Moneyfacts Group which showed the number of mortgage products being offered with LTV ratios of 75% or more rose in January to its highest level since September 2008. This is also consistent with the views of estate agent contacts of the Bank's Agents who reported that there were further signs of a marginal easing in mortgage availability, though the lack of credit was still seen to be constraining housing market activity. A number of the major UK lenders noted that the availability of funding for mortgages was a potential constraint on lending, especially for specialist mortgage lenders. A box on pages 9-10 looks at the activities of specialist lenders, many of which have withdrawn from the market since the start of the financial crisis.

Mortgage pricing

In the second half of 2009, the Bank's measure of the effective rate on new floating and fixed-rate mortgages rose (Chart 2.3). With swap rates having fallen and Bank Rate remaining unchanged, these data indicate that spreads over traditional reference rates — such as Bank Rate for floating-rate mortgages or swaps rates for fixed-rate mortgages — rose over that period. Elevated spreads are reported by lenders partly to reflect high long-term funding costs relative to shorter-term reference rates (Chart 1.5). Mortgage spreads are also likely to reflect heightened credit risk and the effect of the earlier withdrawal of some other lenders on competition.

However, the most recent data on quoted mortgage rates indicated that advertised mortgage rates fell in January, with the average rate for tracker mortgages declining by around 30 basis points. That is consistent with reports from the major UK lenders of some recent increase in competitive pressures in mortgage lending. But lenders remained cautious about the outlook for mortgage funding and the possible effect on mortgage pricing, notwithstanding the covered bond issues and securitisations undertaken by some major UK lenders in January.

The overall effective rate on new mortgages has fallen in recent months as borrowers have increasingly opted for floating-rate mortgages (Chart 2.4), which have carried a lower rate than for fixed-rate mortgages. In addition to that rate differential, lenders noted that the popularity of floating-rate mortgages had risen as borrowers' expectations of when Bank Rate would start to rise had been pushed out.

(1) Available at www.rics.org/site/scripts/download_info.aspx?downloadID=4735&fileID=5828.

Specialist mortgage lending

Specialist mortgage lenders generally provide mortgage loans for niche markets that fall outside the scope of mainstream mortgage lending for owner-occupiers. This box explains some of the main types of specialist lending and the data published on such lending by the Bank of England. It also summarises some of the recent trends seen in the data, informed by discussions with the major UK lenders.

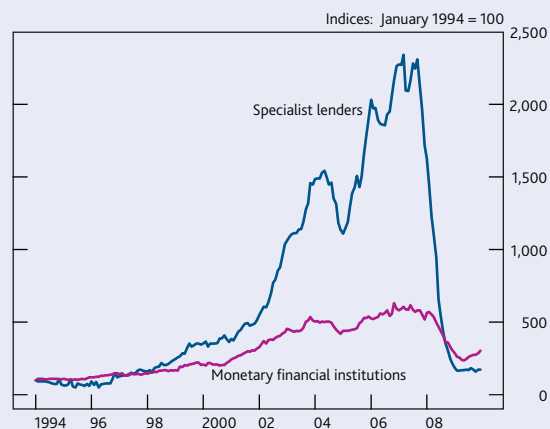
Specialist lenders differ from mainstream lenders in a number of ways. In general they focus on one or more specialised markets, such as buy-to-let or self-certified mortgages, or lending to customers with adverse credit histories (**Table 1**). Such lending may be more risky than mainstream mortgage lending. Specialist lenders' funding methods have also tended to differ from those of mainstream lenders because they are not typically able to access household deposits directly. As a result, specialist lenders have tended to rely more heavily on wholesale markets for funding, mainly by issuing bonds, often in the form of residential mortgage-backed securities. Specialist lenders also tend to rely on intermediaries, rather than a branch network, for the sale of mortgages.

In the Bank of England mortgage lending statistics, specialist lenders are defined as all UK-resident mortgage lenders that are not monetary financial institutions.⁽¹⁾ Under this definition, specialist lenders include both 'stand alone' specialist lenders and non-bank lending subsidiaries of monetary financial institutions. The specialist lender data also include mortgages held in special purpose vehicles (SPVs), arising from securitisations by any type of lender, and so may overstate specialist lender activity.⁽²⁾ Excluding these SPVs, specialist lenders accounted for around 11% of the total stock of mortgage lending at the end of December 2009, with around a fifth of that accounted for by independent specialist lenders and the rest by bank and building society subsidiaries.

Gross lending data are less likely to be distorted by SPVs, which are designed to hold securitised portfolios rather than undertake new lending. During the early part of this decade, gross lending by specialist lenders grew faster than that of

monetary financial institutions (**Chart A**), aided by the wide availability of wholesale funding, and rising house prices which appeared to mitigate some of the immediate lending risks. But since the start of the financial crisis gross mortgage lending by specialist lenders has contracted sharply — and more rapidly than for mainstream lenders. The share of specialist lenders in total gross mortgage lending fell from 18% in March 2007 to just over 3% in December 2009. The number of house purchase loans approved by specialist lenders also fell sharply in late 2007 and 2008 and has since remained very low, in some contrast to banks, whose approvals started growing again in late 2008.

Chart A Gross mortgage lending by lender grouping^(a)



(a) Sterling gross secured lending by UK monetary financial institutions and specialist lenders. Specialist lenders include stand alone lenders, SPVs and non-bank subsidiaries of UK monetary financial institutions. Seasonally adjusted.

One area of specialist lending not included in the Bank's mortgage lending and approvals data is second-charge mortgages (**Table 1**). Data from the Finance and Leasing Association, which represents around 85% of the second-charge mortgage market, suggest that gross second-charge mortgage lending has fallen by 84% between 2008 and 2009.

The major UK lenders have suggested that the main reason for the weak specialist lender activity is their difficulty in raising wholesale funding — particularly in securitisation markets. This has made it difficult for specialist lenders to refinance

Table 1 Some stylised definitions of specialist mortgage lending types

Type of lending	Description of lending activity	Risk/loan quality
Buy-to-let	Mortgages for a property which is rented out, rather than occupied by the owner. Rental income generally covers mortgage payments.	Arrears historically low, though grew rapidly in the earlier stages of the crisis.
Self-certified	Mortgages which do not require borrower income to be verified. Originally designed to provide easier access the mortgage market for the self-employed and people with irregular incomes.	Generally higher risk as income is not verified.
Credit-impaired	Mortgages advanced to customers with adverse credit histories, who are likely to be refused by mainstream lenders.	Higher risk due to adverse credit history.
Second-charge mortgages	A second loan secured on a property in addition to the 'first-charge' mortgage used to purchase the property. Subordinate to the first-charge mortgage, which in the event of default will be repaid first. Not included in the Bank of England mortgage lending statistics.	Higher risk as the lender does not have first charge over the property and is less likely to be repaid in the event of default.

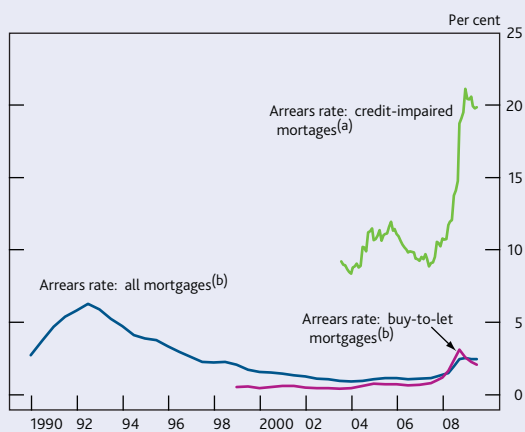
maturing liabilities and has severely limited the funds available to finance new lending. Many institutions have ceased new lending altogether.

Specialist lender activity is also likely to have been constrained as higher unemployment has led to increased arrears during the recession (**Chart B**). Although arrears have generally risen by less than in the previous recession, partly reflecting low interest rates, arrears on riskier forms of lending extended by some specialist lenders — such as credit-impaired mortgages — appear to have been most affected. Arrears on buy-to-let mortgages, which have been low historically, grew faster than those for the mortgage market as a whole in the earlier stages of the crisis, though have fallen back

somewhat in recent months. The falls in house prices between late 2007 and early 2009, combined with uncertainty around the future path of house prices, are likely to have further reduced specialist lenders' appetite for riskier types of lending.

Lenders have responded by withdrawing products and tightening lending criteria. Data from the Moneyfacts Group show that the number of advertised self-certified and buy-to-let products has fallen sharply since early 2008, with no self-certified products advertised since November 2009, compared to 760 such products in February 2008. According to the Council of Mortgage Lenders (CML), the maximum loan to value ratio on buy-to-let lending has fallen from 85% in 2007 to 75% in 2009.

Chart B Arrears rates: buy-to-let, credit-impaired and the wider mortgage market



Sources: CML, Moody's and Bank calculations.

- (a) Moody's delinquency rate on 'non-conforming' securitised mortgages is used as a proxy for the arrears rate on credit-impaired mortgages. A large proportion of 'non-conforming' mortgages are credit-impaired, but the two definitions are not identical. The delinquency rate shows the proportion of mortgages in arrears of 90 days or more. Data are monthly, available from January 2004. Non seasonally adjusted.
- (b) CML arrears data are semi-annual up to end-2007 and quarterly since then. Buy-to-let data are available from 1999. Data for all mortgages are estimated prior to 1994 H2. The arrears rate shows the proportion of mortgages over three months in arrears. Buy-to-let arrears exclude cases where a receiver of rent has been appointed. Non seasonally adjusted.

In recent discussions, the major UK lenders viewed prospects for the specialist lending market as uncertain and dependent on the ability of specialist lenders to raise funds from the wholesale markets. Although there had been a number of recent securitisations and covered bond issues by major UK banks, most major UK lenders thought that independent specialist lenders would continue to find it difficult to access these markets. The funding constraints ought to be less pervasive for 'specialist' subsidiaries of larger lenders with retail deposit bases. But larger lenders also had a diminished appetite for risk and faced funding challenges, and were reported to favour mainstream lending, indicating that the activities of their 'specialist' subsidiaries were likely to remain subdued. The future of the market would also depend on changes to regulation. Recent proposals put forward by the FSA in its *Mortgage Market Review*,⁽³⁾ point towards a more stringent regulation of the specialist lending market, including a potential ban on self-certified mortgages. Overall, the major UK lenders thought that the specialist lending market was unlikely to approach pre-crisis activity levels in the near future.

(1) UK monetary financial institutions (MFIs) consist of UK banks and building societies. Gross and net mortgage lending by MFIs and specialist lenders are published in *Bankstats* Table A5.3, available at www.bankofengland.co.uk/statistics/ms/2010/jan/ta5.3.xls.

(2) In data for January 2010, to be released on 1 March 2010, and subsequently, SPVs of MFIs will be consolidated and so will be excluded from the specialist lending data.

(3) Available at www.fsa.gov.uk/pubs/discussion/dp09_03.pdf.

3 Consumer credit

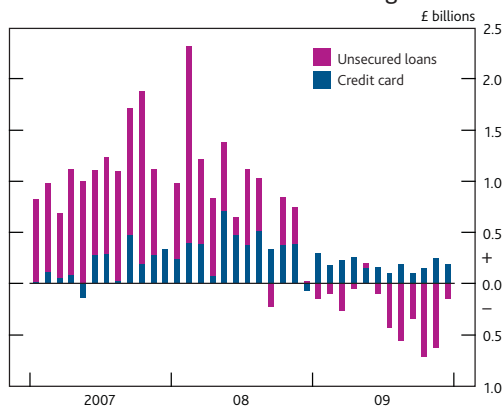
The total flow of net consumer credit was slightly positive in December, though the twelve-month growth rate of the stock of lending remained negative and at a series low. Net consumer credit flows were reported by the major UK lenders to have weakened in January, partly reflecting adverse weather conditions. However, underlying demand for consumer credit was reported to remain subdued and the availability of credit tight. While effective interest rates on consumer credit fell in December, spreads over Bank Rate and Libor remained significantly wider than in late 2008.

Table 3.A Consumer credit^(a)

	Averages					2009		
	2007	2008	2009 Q1	2009 Q2	2009 Q3	Oct.	Nov.	Dec.
Net monthly flow (£ billions)	1.1	0.9	0.1	0.2	-0.3	-0.6	-0.4	0.1
Three-month annualised growth rate (per cent)	6.5	5.1	0.7	0.7	-0.9	-2.0	-2.0	-1.5
Twelve-month growth rate (per cent)	6.1	6.3	3.7	2.3	0.8	-0.1	-0.5	-0.5

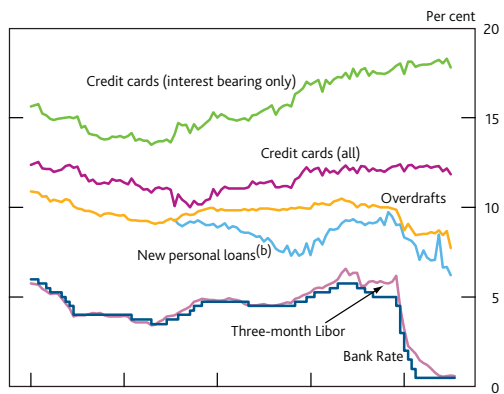
(a) Unsecured sterling lending by UK monetary financial institutions and other lenders to UK individuals. Seasonally adjusted.

Chart 3.1 Net consumer credit lending flows^(a)



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

Chart 3.2 Effective interest rates on consumer credit^(a)



(a) The Bank's effective interest rates series comprise data from 29 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.

(b) Only available from January 2004.

Recent lending data

Total net consumer credit flows turned slightly positive in December following five consecutive months of negative flows (**Table 3.A**). The twelve-month growth rate in the stock of lending remained at -0.5%, its lowest level since the series began in 1994. Within the total, net credit card lending flows were little changed (**Chart 3.1**). Unsecured net lending flows remained negative, though less so than in recent months.

The major UK lenders reported that total net consumer credit flows weakened in January. Applications for credit cards and personal loans were below both the level of a year earlier and the monthly average for 2009. This was partly attributed to adverse weather conditions, although it was noted that underlying demand for consumer credit remained subdued. The major UK lenders reported no significant change in the availability of consumer credit, which was expected to remain relatively tight.

Consumer credit pricing

The effective interest rate on personal loans and overdrafts edged lower in December (**Chart 3.2**). The effective rate on interest-bearing credit cards also declined slightly, to 17.8% from the November figure of 18.3% — the highest rate since the series began in 1999. As a result, spreads between effective interest rates and Bank Rate and Libor narrowed a little. Looking through recent movements, spreads on consumer credit remain significantly wider than in late 2008, which the major UK lenders reported largely reflects heightened credit risk.

Abbreviations

CML — Council of Mortgage Lenders.
Libor — London interbank offered rate (see below).
LTV — loan to value ratio (see below).
MFIs — monetary financial institutions.
PNFCs — private non-financial corporations (see below).
RICS — Royal Institution of Chartered Surveyors.
SPVs — special purpose vehicles (see below).

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).

Covered bonds A secured bond issued by a bank or other financial institution. The bond is secured not only on the institution's assets generally, but also on a particular pool of assets, typically mortgage loans, that are specifically designated as collateral.

Effective interest rates The weighted average of calculated interest rates on various types of 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 commit 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 ratio (LTV) 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.

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.

Private non-financial corporations All corporations whose primary activity is non-financial, and that are not controlled by central or local government.

Reference rate The rate on which loans to businesses are set, with an agreed margin over the reference rate (typically these will be Bank Rate or Libor).

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.

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.