Trends in Lending

January 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.(1) 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.(2)

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.(3) The major UK lenders(4) 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, 45% of the stock of consumer credit, and 75% of the stock of mortgage lending at end-June 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 November 2011 and intelligence gathered up to end-December 2011. Unless stated otherwise, the data reported cover lending in both sterling and foreign currency, expressed in sterling terms.

(1) See www.bankofengland.co.uk/statistics/2012.pdf for future publication dates.
(2) For more information see www.bankofengland.co.uk/statistics/ms/articles/art2oct10.pdf and the box on a new data collection on lending to businesses in this edition of *Trends in Lending*.
(3) 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.
(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

The annual rate of growth in the stock of lending to UK businesses was negative in the three months to November. 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 households was little changed. Mortgage approvals by UK-resident mortgage lenders for house purchase were broadly unchanged in the three months to November. Total net consumer credit flows were positive over this period, though remained subdued.

Conditions in longer-term wholesale funding markets were challenging in 2011 Q4, according to the major UK lenders. In recent discussions, most major UK lenders reported that higher wholesale bank funding costs were feeding through somewhat to loan pricing on new business for some corporates. Higher wholesale bank funding costs had not yet significantly affected mortgage pricing, according to some major UK lenders. Spreads over reference rates on new lending widened for businesses in 2011 Q4, according to the Bank of England's *Credit Conditions Survey*, and were expected to widen further in the coming quarter. Spreads on some quoted fixed-rate and floating-rate mortgages widened slightly in 2011 Q4. Effective rates on all credit cards and personal loans fell in the three months to November.

Credit availability was broadly unchanged for small and large businesses and increased slightly for medium-sized firms, according to lenders in the Bank of England's 2011 Q4 *Credit Conditions Survey*. Contacts of the Bank's network of Agents reported that while firms with strong balance sheets generally had access to bank lending, small businesses often reported that lending conditions remained tight. Demand for credit from small and medium-sized enterprises was muted in 2011 Q4, according to most major UK lenders. Demand for secured and unsecured lending by households in 2011 Q4 was reported in the *Credit Conditions Survey* to have fallen.

1 Lending to UK businesses and individuals

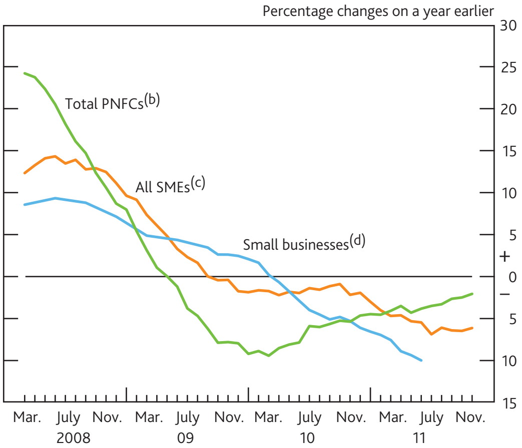
The annual rate of growth in the stock of lending to UK businesses was negative in the three months to November. The stock of lending to small and medium-sized enterprises continued to contract. The annual rate of growth in the stock of secured lending to households was little changed. Mortgage approvals by UK-resident mortgage lenders for house purchase were broadly unchanged in the three months to November. Total net consumer credit flows were positive over this period, though remained subdued.

Table 1.A Lending to UK businesses[a]

	Averages							2011		
	2007	2008	2009	2010	2011 Q1	2011 Q2	2011 Q3	Sep.	Oct.	Nov.
Net monthly flow (£ billions)	7.4	3.8	-3.9	-2.1	-1.7	-1.2	-0.4	-1.2	-0.2	1.8
Three-month annualised growth rate (per cent)	20.9	10.7	-7.7	-5.1	-3.8	-2.1	-2.8	-1.0	-0.2	0.3
Twelve-month growth rate (per cent)	16.8	17.9	-1.8	-7.1	-4.3	-3.7	-3.2	-2.8	-2.3	-2.1

(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 Lending to small and medium-sized enterprises[a]



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

(a) Rate of growth in the stock of lending. Non seasonally adjusted.
(b) Data cover lending in both sterling and foreign currency, expressed in sterling terms.
(c) Source: monthly BIS survey, 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. Data prior to January 2009 have been revised.
(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.

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

Lending to UK businesses

Official data covering lending by all UK-resident banks and building societies indicated that the stock of lending to businesses increased slightly by around £0.4 billion in the three months to November (**Table 1.A**). A decline in September and October was offset by an increase in November. The annual rate of growth in the stock of lending to UK businesses was negative over this period.

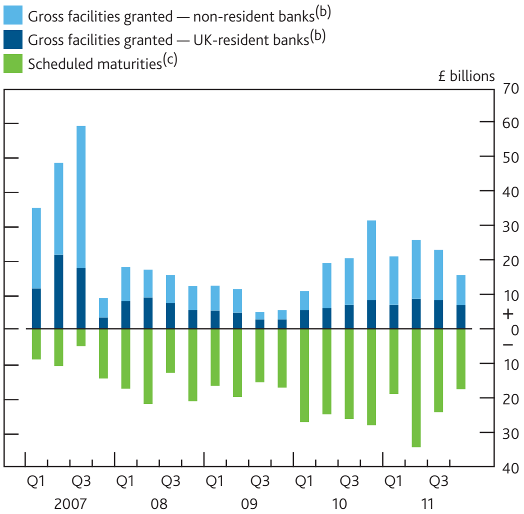
This contraction in the stock of lending to businesses over the year has been reflected in the stock of lending to small and medium-sized enterprises (SMEs) (**Chart 1.1**). Preliminary results from a new Bank of England data collection on lending to businesses[1] indicate that the stock of lending to SMEs contracted between end-April and end-November 2011. A box on page 7 provides more details on this new data set.

Larger companies have access to more funding sources than smaller companies, such as the syndicated lending market. The total value of new syndicated lending facilities granted in the UK market was lower in 2011 Q4 compared to the previous quarter (**Chart 1.2**). In recent discussions, some major UK lenders indicated that syndicated lending continued to be driven largely by the refinancing needs of companies. Some lenders noted that there were instances of foreign lenders moving away from the UK syndicated lending market in recent months. Looking forward, some major UK lenders expected syndicated lending in the coming quarter to be subdued.

Capital markets provide an alternative source of funding for larger companies. Net equity issuance by UK businesses was

(1) The sample covers at least 75% of the stock of lending to businesses overall.

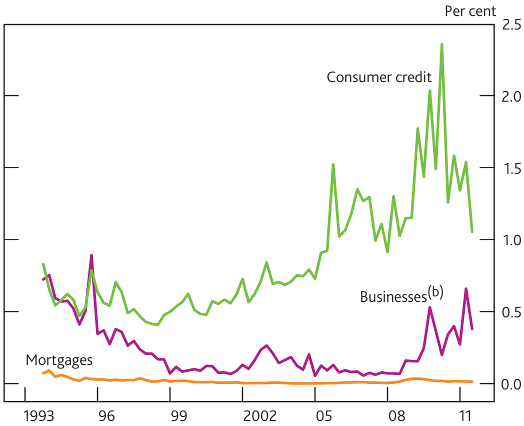
Chart 1.2 Estimates of syndicated lending facilities granted to UK businesses(a)



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.
(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 Write-off rates on lending to UK businesses and individuals(a)



(a) Lending by UK monetary financial institutions. The series are calculated as quarterly write-offs divided by the corresponding loans outstanding at the end of the previous quarter. Series start in 1993 Q4. Lending in both sterling and foreign currency, expressed in sterling terms. Non seasonally adjusted.
(b) PNFCs.

Table 1.B Secured lending to individuals(a)

	Averages							2011		
	2007	2008	2009	2010	2011 Q1	2011 Q2	2011 Q3	Sep.	Oct.	Nov.
Net monthly flow (£ billions)	9.0	3.4	1.0	0.6	1.0	0.6	0.6	0.4	1.2	0.6
Three-month annualised growth rate (per cent)	10.4	4.1	1.0	0.8	0.7	0.7	0.5	0.6	0.7	0.7
Twelve-month growth rate (per cent)	11.0	6.9	1.4	0.9	0.6	0.7	0.6	0.6	0.6	0.6

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

negative in the three months to November. Net bond issuance by UK businesses was positive in November, and with positive net lending (**Table 1.A**), the total net amount of funds raised from banks and capital markets by UK businesses was positive for the first time since April 2011. A box on pages 8–9 discusses recent trends in capital market issuance in more detail.

Recent indicators of corporate distress appear to be broadly stable. The rate of corporate liquidations was unchanged for the year to 2011 Q3. The corporate write-off rate — the ratio of banks' write-offs on corporate lending to the stock of that lending — edged down in 2011 Q3 (**Chart 1.3**), though remained elevated. In recent discussions, most major UK lenders reported that write-offs in the second half of 2011 were in line with, or slightly lower than expectations.

Secured lending to individuals

The monthly flow of net sterling mortgage lending by UK-resident mortgage lenders in the three months to November was broadly unchanged compared to the average of the previous three months (**Table 1.B**). The annual rate of growth in the stock of secured lending was little changed at 0.6% in the three months to November. According to data provided by the major UK lenders, gross flows of secured lending were little changed over this period.

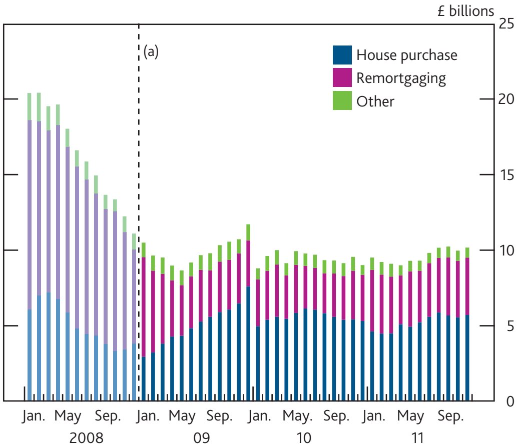
Data provided by the major UK lenders on the monthly flow of gross secured lending include a split between house purchase and the refinancing of existing mortgages (remortgaging). Gross mortgage lending for house purchase in the three months to November was broadly unchanged (**Chart 1.4**). Remortgaging activity was little changed over this period, though slightly higher compared to the same period last year.

The stability in gross lending by the major UK lenders for house purchase was reflected in the data on approvals for house purchase up to November. Mortgage approvals by UK-resident mortgage lenders for house purchase were broadly unchanged in the three months to November.

Recent indicators of mortgage distress have been little changed or have eased slightly. Data from the Council of Mortgage Lenders (CML) indicated that the mortgage arrears rate ticked down in 2011 Q3, for the ninth consecutive quarter (**Chart 1.5**). Arrears on credit-impaired and buy-to-let mortgages also fell in 2011 Q3. The write-off rate on mortgages — the ratio of write-offs on secured loans to the stock of secured lending — was little changed (**Chart 1.3**). Claims for possessions issued in the courts were broadly unchanged in the year to 2011 Q3, as were the number of properties taken into possession.

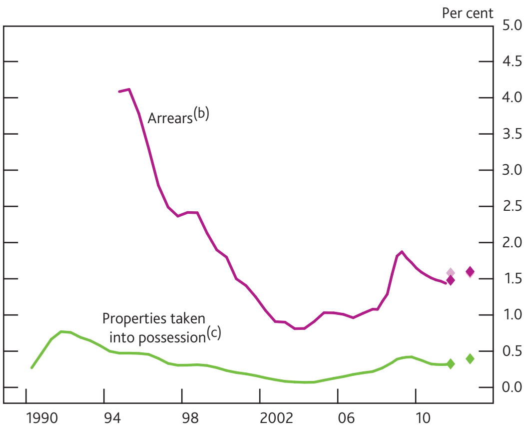
In recent discussions, some major UK lenders reported that indicators of mortgage distress over the past six months had

Chart 1.4 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 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.

Chart 1.5 Mortgage arrears and possession rates(a)



Sources: CML and Bank calculations.

(a) Series are expressed as the proportion of the number of outstanding mortgages. Non seasonally adjusted.
(b) Mortgages in arrears of 2.5% or more of the outstanding mortgage balance. Series are expressed as the proportion of the number of outstanding mortgages. Data are available from 1994 Q4, are semi-annual up to end-2007 and quarterly since then. The light magenta diamonds show the CML forecast for end-2011 and end-2012 made in June 2011 and the dark magenta diamonds show the latest forecast for end-2011 and end-2012 made in December 2011.
(c) Properties taken into possession over the preceding twelve-month period. Series are expressed as the proportion of the number of outstanding mortgages. Data are semi-annual up to end-2007 and quarterly since then. The green diamonds show the latest CML forecast for end-2011 and end-2012 made in December 2011. This forecast is similar to that made in June 2011.

Table 1.C Consumer credit(a)

	Averages							2011		
	2007	2008	2009	2010	2011 Q1	2011 Q2	2011 Q3	Sep.	Oct.	Nov.
Net monthly flow (£ billions)	1.1	1.0	0.0	0.2	0.3	0.5	0.5	0.6	0.1	0.4
Three-month annualised growth rate (per cent)	6.5	5.4	0.2	1.1	1.7	3.2	2.5	2.6	2.1	2.0
Twelve-month growth rate (per cent)	6.1	6.4	2.0	0.6	1.1	1.8	2.3	2.5	2.3	2.5

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

been in line with, or slightly lower than their expectations formed in the middle of 2011. In forecasts compiled in December 2011, the CML expected the arrears rate to pick up slightly in 2012, though remaining below levels at the height of the recent financial crisis (**Chart 1.5**), with possessions expected to increase. Some major UK lenders expected arrears to remain broadly stable in the coming year, though noted that recent increases in unemployment could put some upward pressure on arrears in the latter part of 2012.

Consumer credit

Total net consumer credit flows were positive in the three months to November (**Table 1.C**), though remained subdued. Within the total, credit card lending was weak. Non credit card lending flows in the three months to November were similar on average to those in the previous three months. The annual rate of growth of consumer credit remained low compared with the period prior to the financial crisis.

The write-off rate on consumer credit fell in 2011 Q3, though remained high compared to rates in the 1990s (**Chart 1.3**). The rate of personal insolvencies in England and Wales fell slightly. Some major UK lenders reported that these indicators had been slightly lower than initially anticipated. Looking forward, some major UK lenders expected these indicators to be stable in the coming months.

Lending to businesses: a new data collection

Developments in lending to UK businesses are a key component of the Bank of England's assessment of the latest trends in the UK economy. The lending assessment draws on long-established official data sources, such as the existing monetary and financial statistics collected by the Bank, and on newer data collections, established since the start of the financial crisis. This box provides a summary of the work currently under way in creating a new Bank of England data set on lending to businesses.

Background

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. It was launched at a time when the UK and world economy had entered a deep downturn, with the banking and financial systems in a fragile state. This publication had been informed by a new data set, established by the Bank in late 2008 to provide more timely data covering aspects of lending by the major UK lenders to the corporate and household sectors.

The experience highlighted the long-term value of some parts of the new data set. As a result, in July 2010[1] the Bank launched a user consultation on proposals to migrate and expand to its regular statistical data collections those parts of the new data collection that were seen to have enduring value. The outcome of the user consultation was published in October 2010[2] and the first data collection from an expanded sample of reporters was for April 2011 data (via the new Form LN).

The data set

The monthly data collected via Form LN can be summarised as follows:

- gross lending and repayment flows and outstanding overdraft balances for all businesses, and for businesses grouped by industrial classification[3] or by size of business;[4]
- stock of outstanding lending classified by business size; and
- information to permit a reconciliation of these stocks and flows of lending (eg on write-offs and purchases and sales of loans).

The sample of reporters is representative, covering at least 75% of the stock of UK monetary financial institutions'[5] (MFIs') lending to businesses. Consistent with existing Bank of England statistical collections, the reporting basis is that of their legal entity and the data are collected under the Bank's *Statistical Code of Practice*.[6]

These data are not, however, collected using the Bank's statutory powers. Consultations with data suppliers suggested that there were potential difficulties in adapting source systems to identify the data requested on the new form. The Bank therefore has permitted suppliers to report data subject to reporting standards agreed bilaterally, which still ensure data quality, consistency of reporting methods and adherence to general guidelines. The objective has been to establish a data collection of current interest which can be sustained through the economic cycle.

Current plans

As definitions of the data requested are non-standard, the data submitted by the reporting sample are being trialled for an extended period (April 2011 to date) so that data-quality issues can be identified and addressed. Imputation assumptions and limited additional baseline information on non-reporters are being developed to establish aggregate estimates for all MFIs.

A *Bankstats* article providing more detail on reporting guidelines, definitions, results and outcomes will be published in Spring 2012. Monthly estimates from elements of the data set will be published in due course, following the *Bankstats* article.

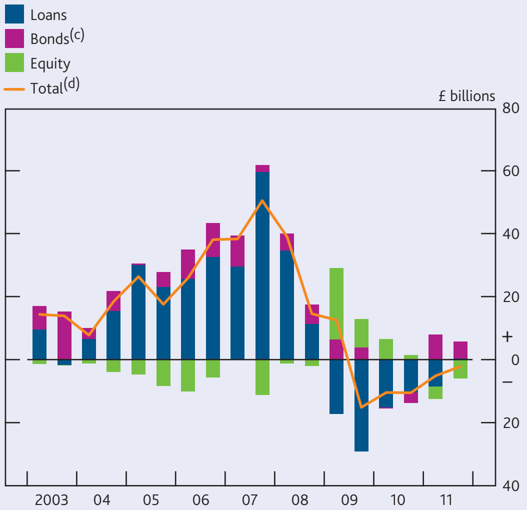
(1) July 2010 *Bankstats*, 'Proposed changes to *Trends in Lending* and the associated data set: a user consultation', available at www.bankofengland.co.uk/statistics/ms/articles/art2jul10.pdf.
(2) October 2010 *Bankstats*, 'Proposed changes to *Trends in Lending* and the associated data set: a summary of the user consultation and how the Bank intends to proceed', available at www.bankofengland.co.uk/statistics/ms/articles/art2oct10.pdf.
(3) These are high-level industrial classifications (for example, construction, manufacturing and real estate activities) and are based on the Standard Industrial Classification of Economic Activities (SIC) 2007. More information is available here: www.ons.gov.uk/ons/guide-method/classifications/current-standard-classifications/standard-industrial-classification/index.html.
(4) The preferred metric is annual debit account turnover on the main business account of less than £1 million, from £1 million to £25 million, and over £25 million for smaller SMEs (small and medium-sized enterprises), medium SMEs and large businesses respectively.
(5) UK monetary financial institutions is a statistical grouping comprising banks and building societies.
(6) Available at www.bankofengland.co.uk/statistics/about/code.pdf.

Recent trends in capital market issuance

For some larger corporates, capital market issuance provides an alternative source of finance to lending from the banking sector. Earlier editions of *Trends in Lending* in 2009 and 2010(1) provided assessments of trends in UK capital market issuance. This box provides an update on how issuance evolved in 2011 and the factors underlying those developments.

Net bond issuance was positive in 2011 (**Chart A**). This partly reflected that the cost of bond issuance for some corporates was lower than the cost of borrowing from banks, according to most major UK lenders. Lenders also reported that tenors on corporate bonds were typically longer than tenors on bank loans, which suited those corporates requiring longer-term funding. Some lenders noted that while demand for UK corporate bonds was potentially being stimulated by investors who considered UK businesses to be relatively 'safe havens', merger and acquisition activity — a driver of bond issuance — was subdued in 2011.

Chart A Net funds raised by UK businesses(a)(b)

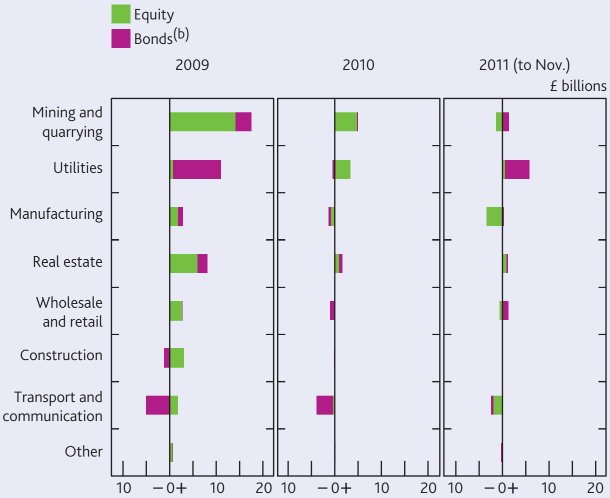


(a) Data are half yearly. Data for 2011 H2 are for July-November.
(b) Funds raised by PNFCs from UK monetary financial institutions and capital markets. Data cover funds raised in both sterling and foreign currency, expressed in sterling terms. Loans are seasonally adjusted. Net bond, equity, and commercial paper issuance are non seasonally adjusted.
(c) Commercial paper is included within bonds.
(d) Owing to the method of the seasonal adjustment of this series, it may not equal the sum of its component breakdown.

In contrast to net bond issuance, net equity issuance was negative in 2011, following two years of positive net issuance (**Chart A**). Equity markets were difficult in 2011 Q4, according to most major UK lenders. Similarly to 2008–10, Initial Public Offerings (IPOs) were low in 2011 as relatively few companies floated their shares on the stock market.(2) Weak net equity issuance in 2011 mostly reflected significant share buybacks by some large corporates.

As **Chart B** shows, net equity issuance was negative across most major industrial sectors in 2011, with positive net issuance only in the real estate and utilities sectors. In contrast, there was positive net bond issuance in several industrial sectors, including utilities, mining and quarrying, and wholesale and retail.

Chart B Net capital issuance by UK businesses in 2009–11 by major industrial sectors(a)



(a) Funds raised by PNFCs from capital markets. Data cover funds raised in both sterling and foreign currency, expressed in sterling terms. Data are non seasonally adjusted.
(b) Commercial paper is included within bonds.

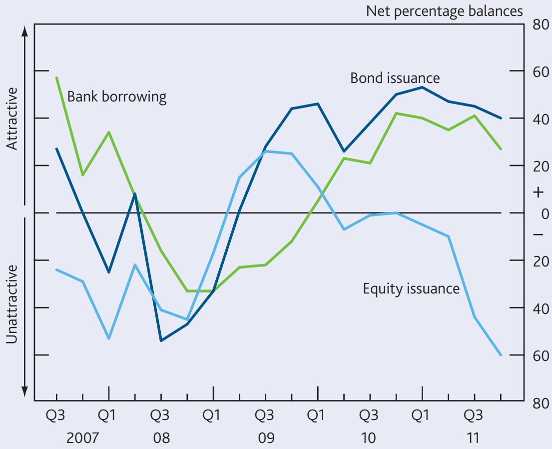
The mining and quarrying and utilities sectors have typically accessed capital markets, rather than bank lending, for capital expenditure requirements, according to most major UK lenders. In recent years, bank lending to these sectors has been relatively small, with these industrial sectors each currently accounting for 2% of the stock of lending to UK businesses.

Bank lending to corporates continued to contract in 2011 (**Chart A**). Positive net capital issuance partially offset this reduction, though total net funds raised by UK businesses from UK monetary financial institutions and capital markets remained negative in 2011.

Notwithstanding the recent weakness of bank lending, the majority of respondents to the *Deloitte CFO Survey* for 2011 Q4 — which covers very large companies — indicated that they still viewed bank borrowing as an 'attractive' source of finance (**Chart C**). Bond issuance remained the most favoured source of funding for a balance of chief financial officers in the survey. In recent discussions, most major UK lenders noted a preference for bond issuance as a source of external funding for large corporates. The attractiveness of equity issuance as a source of funding continued to decline for a balance of respondents in the *Deloitte CFO Survey*.

Looking forward, some major UK lenders indicated that they expected little change in overall capital market issuance in 2012. Investors were likely to be attracted to the returns on

Chart C *Deloitte CFO Survey*: attractiveness of different sources of corporate funding[(a)]



Source: *Deloitte CFO Survey* 2011 Q4.

(a) Net percentage balances are calculated as the percentage of respondents who reported that each source of funding was 'attractive' less the percentage who reported that it was 'unattractive'. A positive balance indicates that a net balance of respondents find that particular source of funding 'attractive'.

high-grade corporate bonds when compared to the historically low yields available on gilts, though merger and acquisition activity was expected to remain subdued, according to some major UK lenders. Additionally, corporates' requirements to access capital markets for external finance could reduce due to lower levels of investment prompted by current macroeconomic uncertainties.[(3)] The Monetary Policy Committee's asset purchase programme should help to support investors' demand for equities and corporate bonds.[(4)]

(1) See the box 'Capital market issuance and bank lending' in *Trends in Lending*, December 2009, available at www.bankofengland.co.uk/publications/other/monetary/TrendsDecember09.pdf and the box 'An update of capital market issuance' in *Trends in Lending*, August 2010, available at www.bankofengland.co.uk/publications/other/monetary/TrendsAugust10.pdf.
(2) See Pattani, A, Vera, G and Wackett, J (2011), 'Going public: UK companies' use of capital markets', *Bank of England Quarterly Bulletin*, Vol. 51, No. 4, pages 319–30, available at www.bankofengland.co.uk/publications/quarterlybulletin/qb1104.pdf.
(3) For more details, see reference in footnote (2).
(4) See November 2011 *Inflation Report*, page 12 available at www.bankofengland.co.uk/publications/inflationreport/ir11nov.pdf.

2 Loan pricing

Conditions in longer-term wholesale funding markets were challenging in 2011 Q4, according to the major UK lenders. In recent discussions, most major UK lenders reported that higher wholesale bank funding costs were feeding through somewhat to loan pricing on new business for some corporates. Higher wholesale bank funding costs had not yet significantly affected mortgage pricing, according to some major UK lenders. Spreads over reference rates on new lending widened for businesses in 2011 Q4, according to the Bank of England's *Credit Conditions Survey*, and were expected to widen further in the coming quarter. Spreads on some quoted fixed-rate and floating-rate mortgages widened slightly in 2011 Q4. Effective rates on all credit cards and personal loans fell in the three months to November.

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.

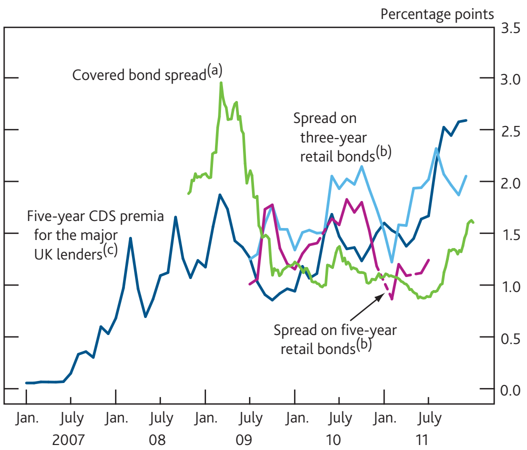
The total cost of bank finance to a company or individual can generally be decomposed into the fees charged by the lender to provide loan facilities, the spread over a given reference rate (such as three-month Libor or Bank Rate) at which loans are offered, and the prevailing level of that reference 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. 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 were challenging in 2011 Q4, according to the major UK lenders. Some lenders noted that senior unsecured debt markets were virtually closed and spreads in these markets had widened relative to earlier in 2011. Funding costs for wholesale debt remained elevated according to the major UK lenders, which they reported primarily reflected concerns about the vulnerabilities associated with the indebtedness of a number of euro-area governments and banks. An indicative measure of the spread over relevant swap rates of bank wholesale debt — the five-year CDS premia of the major UK lenders — increased slightly in 2011 Q4 (**Chart 2.1**). Covered bond spreads also increased over this period.

Conditions in term wholesale funding markets improved somewhat in the first week of January, according to some

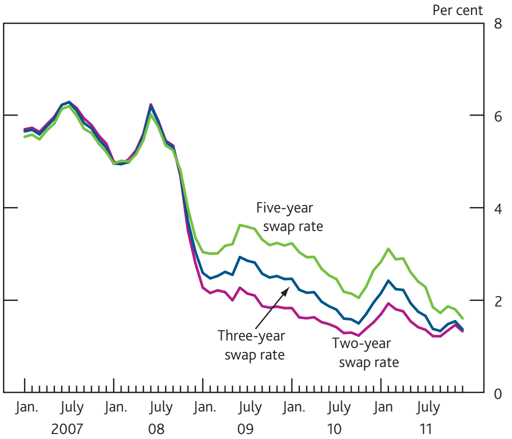
Chart 2.1 Indicative long-term funding spreads



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

(a) The data show a simple average of the spread between covered bonds with a maturity of between three and five years issued by UK banks and equivalent-maturity swap rates.
(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/mfsd/iadb/notesiadb/household_int.htm). The series for the five-year bond is not published for May 2010, January, May, August-December 2011 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.

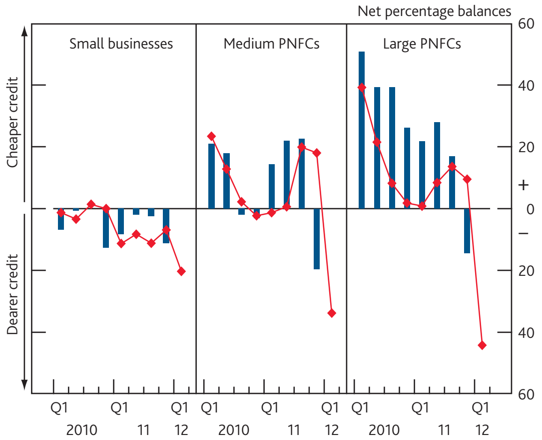
Chart 2.2 Swap rates at different maturities(a)



Sources: Bloomberg and Bank calculations.

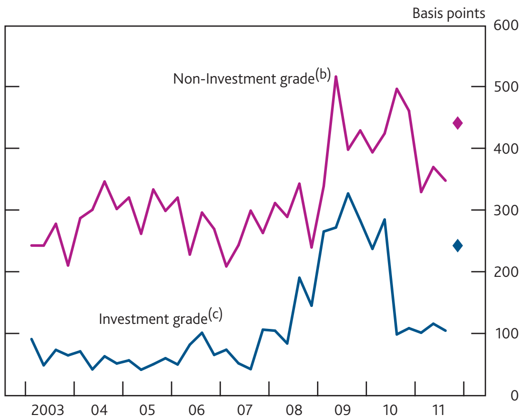
(a) Swap rates are monthly averages of daily data.

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



(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(a)



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 2011 Q4, 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.

major UK lenders. Looking forward, lenders expected wholesale funding costs to remain elevated until there was a resolution to the euro-area issues and greater clarity on some regulatory proposals. In recent discussions, some major UK lenders reported that higher wholesale bank funding costs were feeding through to their internal transfer prices.

Spreads over reference rates on some longer-term retail deposits — such as those over equivalent-maturity swap rates for three-year fixed-rate bonds — fell in October and November before picking up in December (**Chart 2.1**). The movements in spreads in 2011 Q4 primarily reflected movements in relevant swap rates during this period (**Chart 2.2**), with deposit rates on three-year fixed-rate bonds broadly unchanged. Most major UK lenders reported that competition in the retail funding market had remained intense over the quarter and some lenders expected it to remain so in 2012 Q1.

Corporate loan pricing

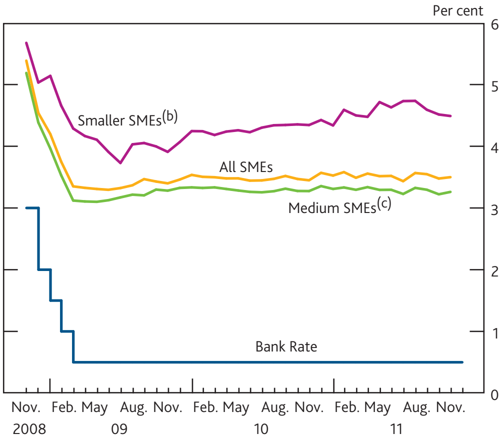
Spreads over reference rates on new lending for large businesses widened in 2011 Q4, according to the Bank of England's *Credit Conditions Survey* (**Chart 2.3**), with fees and commissions broadly unchanged. Consistent with this, the balance of respondents — chief financial officers of very large companies — in the *Deloitte CFO Survey* reporting credit to be 'costly' in 2011 Q4 increased and was higher than a year earlier.

Spreads on syndicated lending, which typically apply to lending for larger businesses, increased in 2011 Q4 according to Dealogic data (**Chart 2.4**). In recent discussions, some major UK lenders reported that higher term wholesale funding costs were affecting the pricing of syndicated lending, and they expected further upward pressure in pricing in the coming months.

Spreads over reference rates on lending to small and medium-sized businesses widened (**Chart 2.3**) and fees and commissions increased slightly in 2011 Q4, according to lenders in the *Credit Conditions Survey*. Indicative median interest rates (**Chart 2.5**) and spreads on new variable-rate facilities to small and medium-sized enterprises overall have been stable in recent months, according to survey data from the Department for Business, Innovation and Skills. Looking forward, lenders in the *Credit Conditions Survey* expected spreads on lending to businesses of all sizes to increase in the coming quarter.

The effective interest rate on new borrowing for businesses overall, which may include new lending on facilities arranged earlier at low pre-crisis rates, remained little changed in the three months to November. In recent discussions, most major UK lenders reported that higher wholesale bank funding costs were feeding through somewhat to loan pricing on new business for some corporates.

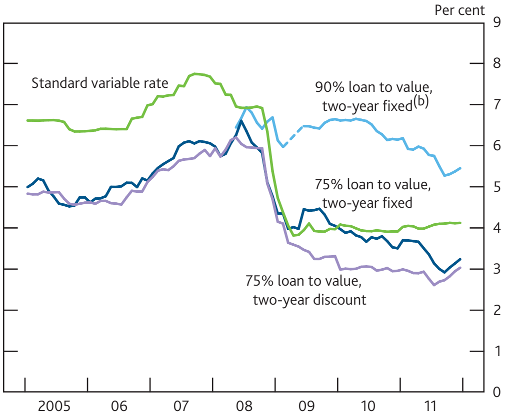
Chart 2.5 Indicative median interest rates on new SME variable-rate facilities[(a)]



Sources: Bank of England, BIS and Bank calculations.

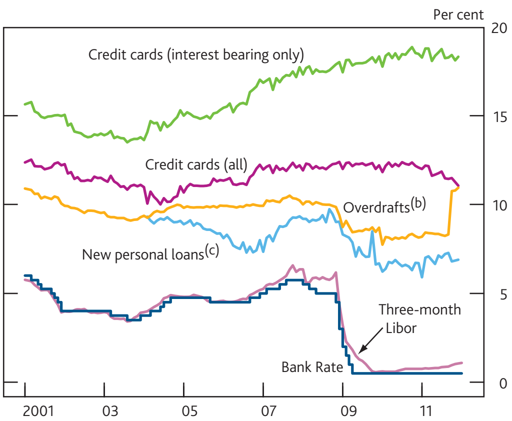
(a) Median by value of new SME facilities priced at margins over base rates, by four major UK lenders (Barclays, HSBC, Lloyds Banking Group and Royal Bank of Scotland). Data cover lending in both sterling and foreign currency, expressed in sterling terms.
(b) SMEs with annual bank account debit turnover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

Chart 2.6 Quoted interest rates on fixed-rate and floating-rate mortgages[(a)]



(a) Sterling only. The Bank's quoted interest rates series are currently compiled using data from up to 24 UK monetary financial institutions. End-month rates. Non seasonally adjusted.
(b) Series is only available on a consistent basis back to May 2008, as earlier periods require a greater degree of estimation, and is not published for March-May 2009 as only fewer than three products were offered in that period.

Chart 2.7 Effective interest rates on consumer credit[(a)]



(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-December and for effective rates to end-November. 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 2011 Q4 (**Chart 2.6**). With some swap rates having decreased (**Chart 2.2**), spreads over swap rates on these quoted fixed-rate mortgages had widened slightly. The Bank's measures of certain quoted floating-rate mortgages, such as the two-year discount rate at 75% loan to value ratio, had also increased slightly in 2011 Q4 (**Chart 2.6**) such that spreads over Bank Rate widened, remaining elevated.

Respondents to the 2011 Q4 *Credit Conditions Survey* reported that spreads on total new secured lending had narrowed slightly over the previous quarter. Fees on secured lending were little changed in 2011 Q4. Higher wholesale bank funding costs had not yet significantly affected mortgage pricing, according to some major UK lenders.

Consumer credit pricing

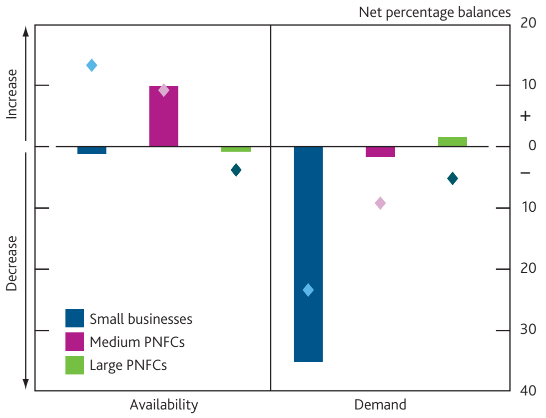
Effective rates on all credit cards and new personal loans fell in the three months to November (**Chart 2.7**). Respondents to the 2011 Q4 *Credit Conditions Survey* reported that spreads on credit card lending had been broadly unchanged over the previous three months, while spreads on non credit card lending had narrowed.

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. Lenders in the *Credit Conditions Survey* expected spreads on total unsecured lending to increase in 2012 Q1 (**Chart 2.7**). In recent discussions, some major UK lenders indicated that recent higher funding costs had not been passed through as yet to pricing on credit cards.

3 Credit supply and demand

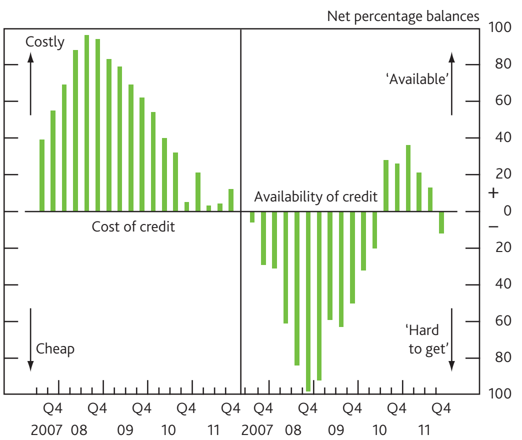
Credit availability was broadly unchanged for small and large businesses and increased slightly for medium-sized firms, according to lenders in the Bank of England's 2011 Q4 *Credit Conditions Survey*. Contacts of the Bank's network of Agents reported that while firms with strong balance sheets generally had access to bank lending, small businesses often reported that lending conditions remained tight. Demand for credit from small and medium-sized enterprises was muted in 2011 Q4, according to most major UK lenders. Demand for secured and unsecured lending by households in 2011 Q4 was reported in the *Credit Conditions Survey* to have fallen.

Chart 3.1 *Credit Conditions Survey*: availability and demand for credit across firm sizes reported in the 2011 Q4 survey(a)(b)



(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 December. 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(a)



(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 was broadly unchanged for small and large businesses and increased slightly for medium-sized firms in 2011 Q4, according to lenders to the *Credit Conditions Survey* (**Chart 3.1**). The net balance of respondents to the *Deloitte CFO Survey* 2011 Q4 — which covers very large companies — viewed the availability of credit as 'hard to get' for the first time since 2010 Q2 (**Chart 3.2**). Contacts of the Bank's network of Agents reported that while firms with strong balance sheets generally had access to bank lending, small businesses often reported that lending conditions remained tight. Looking forward, lenders in the *Credit Conditions Survey* expected credit availability to remain broadly unchanged for large companies in the coming quarter, with an increase in availability for small and medium-sized firms.

Credit demand from smaller companies fell sharply in 2011 Q4, according to a balance of respondents to the *Credit Conditions Survey* (**Chart 3.1**). Most major UK lenders noted that demand from small and medium-sized enterprises was muted in Q4, as wider macroeconomic concerns led to a reduction in business confidence. Ongoing demand was largely limited to working capital credit rather than for investment purposes, according to some major UK lenders. Respondents to the *Credit Conditions Survey* indicated that demand from medium-sized and large companies was broadly flat. Demand for credit from small companies was expected to fall significantly in 2012 Q1, with a slight decrease in demand expected from medium-sized and large businesses, according to lenders in the *Credit Conditions Survey*.

Credit conditions for households

The amount of new secured credit made available to households was broadly unchanged in 2011 Q4, according to respondents to the *Credit Conditions Survey* (**Chart 3.3**). In recent discussions, most major UK lenders indicated that there had been some rise in the availability of secured lending at high loan to value (LTV) ratios. Looking forward, lenders in the *Credit Conditions Survey* expected the availability of secured credit to households to increase slightly in 2012 Q1, with the rise concentrated on borrowers with high LTV ratios.

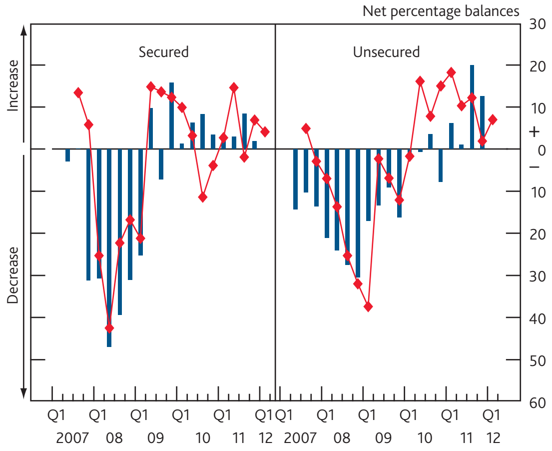
Household demand for secured lending for house purchase fell in 2011 Q4, according to a balance of respondents to the *Credit Conditions Survey* (**Chart 3.4**), reflecting a decrease in demand for prime lending. The Royal Institution of Chartered Surveyors' new buyer enquiries balance for 2011 Q4 was broadly unchanged compared to the previous quarter, indicating little change in demand for house purchases. Lenders in the *Credit Conditions Survey* expected a slight fall in demand for secured lending for house purchases and buy-to-let properties in the next three months.

Contacts of the Bank's Agents reported that the level of activity in the housing market remained subdued across the quarter, which they attributed to concerns about the economic outlook. They also noted that first-time buyers typically still struggled to raise the deposit to secure a mortgage. Looking forward, some major UK lenders expected housing market activity to be stable in 2012. Most major UK lenders expected house prices in 2012 to remain little changed or to decline slightly.

In some contrast to secured lending, respondents to the *Credit Conditions Survey* indicated that the availability of unsecured credit had increased for households in 2011 Q4 (**Chart 3.3**), with a rise in credit card limits. A further small rise in the amount of unsecured credit available was expected in 2012 Q1, according to respondents to the survey.

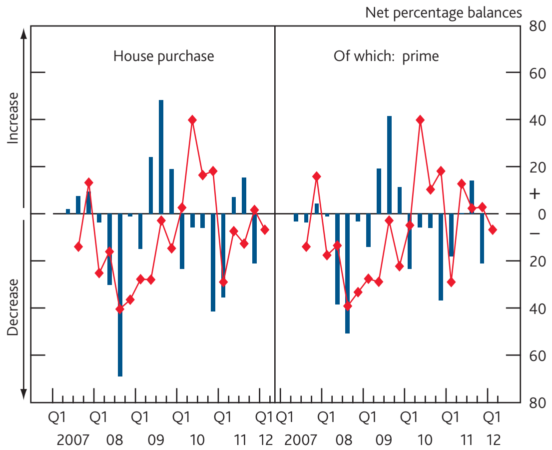
Total demand for consumer credit fell in 2011 Q4, according to respondents to the *Credit Conditions Survey*. This reflected a small fall in demand for credit card lending and a larger decrease for other unsecured lending (**Chart 3.5**). Demand for credit card lending was expected to fall further in 2012 Q1 according to respondents to the survey, although demand for other unsecured lending was expected to rise slightly.

Chart 3.3 *Credit Conditions Survey*: availability of credit to households[(a)]



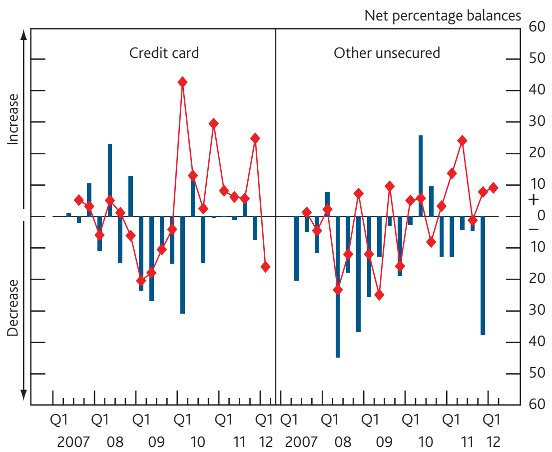
(a) See footnote (a) to **Chart 2.3**. A positive balance indicates that more credit is available.

Chart 3.4 *Credit Conditions Survey*: demand for household secured lending[(a)]



(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[(a)]



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

Abbreviations

BBA — British Bankers' Association.
BIS — Department for Business, Innovation and Skills.
CDS — credit default swap.
CFO — chief financial officer.
CML — Council of Mortgage Lenders.
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 (MFIs) 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 (PNFCs) 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 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.

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.

Tenor The time remaining until repayment of the principal on a loan or other debt instrument.

(Internal) Transfer price Typically represents both the rate at which funds are provided to business units by lenders' treasuries to make loans and the rate at which the deposits raised by businesses are remunerated.

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.

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