Trends in Lending

June 2010

BANK OF ENGLAND

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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 data set covers the major UK lenders:(2) 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 network of 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 April 2010, supplemented by data from the major UK lenders and intelligence gathered up to end-May 2010. Unless stated otherwise, the data reported cover lending in both sterling and foreign currency, expressed in sterling terms. The major UK lenders' 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 major UK lenders' 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) 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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The flow of net lending to UK businesses remained negative in April, though the stock of lending to small and medium-sized enterprises has risen slightly in recent months. Indicators of corporate distress, such as the write-off rate, eased somewhat in 2010 Q1. Contacts of the Bank's network of Agents continued to report a gradual easing of credit conditions, though conditions facing smaller businesses were said to remain tighter than for their larger counterparts. The major UK lenders reported that demand for credit remained subdued. The effective interest rate on new lending to companies was broadly unchanged in April.

The flow of net mortgage lending by all UK-resident mortgage lenders edged higher in April though remained subdued. Gross lending and approvals for house purchase picked up in May, according to data from the major UK lenders. The mortgage arrears rate fell further in 2010 Q1 and the major UK lenders expected it to be broadly stable in the coming months. The overall effective rate on new mortgages was little changed in April.

Total net consumer credit flows turned slightly negative in April, with the stock of lending little changed on a year earlier. In recent discussions, the major UK lenders reported underlying demand and availability for consumer credit were unchanged. Effective interest rates on consumer credit were slightly higher than the previous month. The major UK lenders reported that recent outturns for arrears and write-offs were lower than expected, though the write-off rate on consumer credit remained high in 2010 Q1.

1 Lending to UK businesses

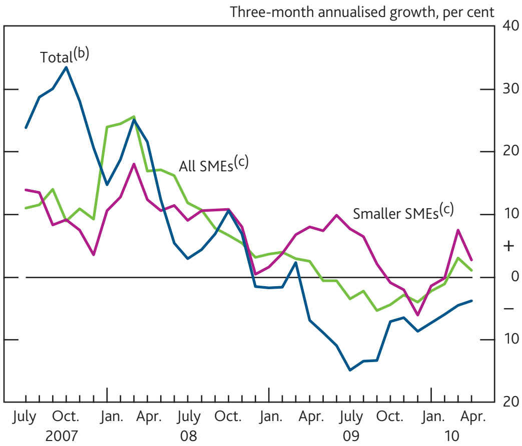
The flow of net lending to UK businesses remained negative in April, though the stock of lending to small and medium-sized enterprises has risen slightly in recent months. Indicators of corporate distress, such as the write-off rate, eased somewhat in 2010 Q1. Contacts of the Bank's network of Agents continued to report a gradual easing of credit conditions, though conditions facing smaller businesses were said to remain tighter than for their larger counterparts. The major UK lenders reported that demand for credit remained subdued. The effective interest rate on new lending to companies was broadly unchanged in April.

Table 1.A Lending to UK businesses[a]

	Averages					2010			
	2007	2008	2009	2009 Q3	2009 Q4	Jan.	Feb.	Mar.	Apr.
Net monthly flow (£ billions)	7.3	3.9	-3.8	-7.0	-2.5	-6.7	-0.1	-3.9	-0.4
Three-month annualised growth rate (per cent)	20.4	10.6	-7.5	-14.5	-6.2	-7.0	-7.3	-7.8	-3.3
Twelve-month growth rate (per cent)	16.7	17.5	-1.7	-4.6	-7.7	-9.3	-9.0	-9.4	-8.5

(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 UK businesses by size[a]



Sources: Bank of England and BIS.

(a) Data cover lending in both sterling and foreign currency, expressed in sterling terms. Three-month annualised rate of growth in the stock of lending. Non seasonally adjusted.
(b) Lending by UK monetary financial institutions to PNFCs.
(c) Source: monthly BIS survey. Lending by four major UK lenders to enterprises with annual bank account turnover under £1 million (smaller SMEs); and less than £25 million (all SMEs).

Recent lending data

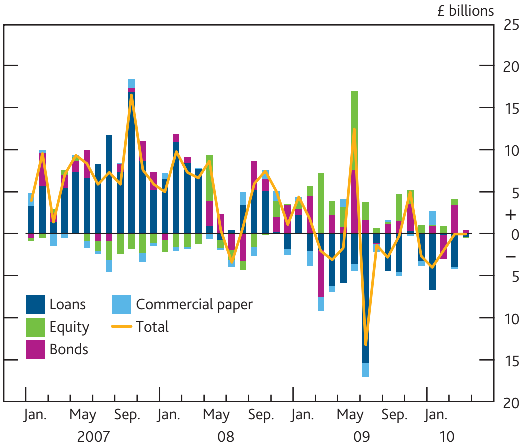
Official data covering lending by all UK-resident banks and building societies indicated that the stock of lending to businesses contracted by £0.4 billion in April, less than the reduction in March (**Table 1.A**). The three-monthly rate of contraction eased somewhat. Data from the major UK lenders indicated that their net lending weakened in May.

In some contrast to the continued contraction of the stock of lending to businesses in total, the stock of lending to small and medium-sized enterprises (SMEs) has risen slightly over recent months (**Chart 1.1**), according to survey data from the Department for Business, Innovation and Skills (BIS) covering four major UK banking groups.[1] That difference could partly reflect that SMEs have less access to alternative sources of finance such as from the capital markets than larger companies. In recent discussions most major UK lenders reported little evidence of a significant pickup in loan demand from smaller companies.

The reduction in the net repayment of corporate lending in April was accompanied by a weakening of capital market issuance — perhaps reflecting increased financial market uncertainty — such that net funds raised from banks and capital markets were flat and close to zero (**Chart 1.2**). Net bond issuance fell slightly further in May, though net equity issuance rose. In recent discussions, most major UK lenders reported that the continuation of market volatility was affecting bond issuance volumes in the near term, with some lenders noting that access to these markets was reduced. Lenders noted that businesses were not presently seeking additional bank loans as a substitute to capital market

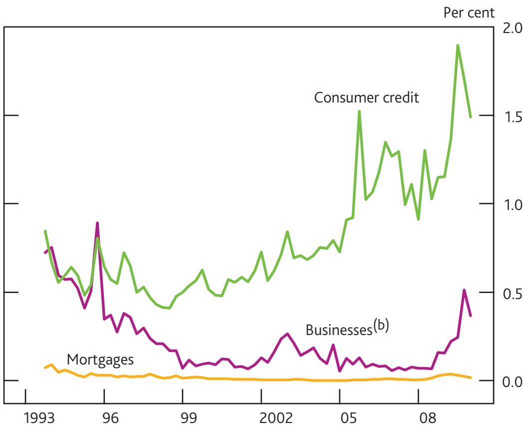
(1) For more details see the box on 'Lending to small and medium-sized enterprises (SMEs)' in *Trends in Lending*, May 2009, available at www.bankofengland.co.uk/publications/other/monetary/TrendsMay09.pdf.

Chart 1.2 Net funds raised by UK businesses[a]



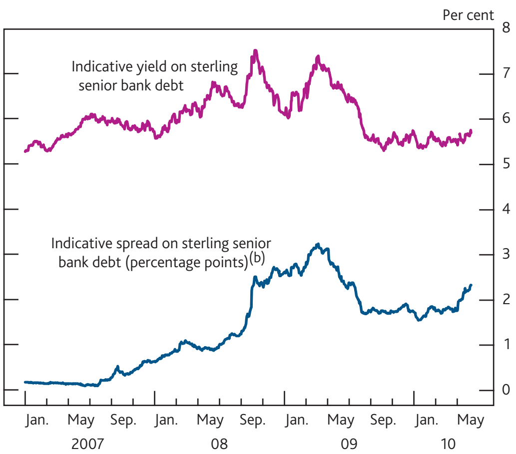
(a) Funds raised by PNFCs from UK monetary financial institutions and capital markets. Data cover funds raised in both sterling and foreign currency, expressed in sterling terms. Loans are seasonally adjusted. Bond, equity and commercial paper issuance are non seasonally adjusted.

Chart 1.3 Write-off rates on lending to UK businesses and individuals[a]



(a) Lending by UK monetary financial institutions. The series have been 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.

Chart 1.4 Indicative yield and spread on senior bank debt[a]



Source: JPMorgan Chase & Co.

(a) Sterling only. Series are not exclusively composed of UK bank debt. Data are up to 11 June 2010. The data for 7 May 2010 have been omitted due to distortions caused by limited trading volumes that day.
(b) Spreads over asset swaps.

issuance and that was only seen as likely were the volatility to be sustained.

Notwithstanding the subdued capital market issuance in recent months, the financial position of some businesses may have been strengthened by strong debt and equity issuance in 2009. More generally, indicators of corporate financial distress such as the corporate liquidations rate and write-off rate — the ratio of banks' write-offs on corporate lending to the stock of that lending — have eased recently. The corporate write-off rate fell in 2010 Q1 (**Chart 1.3**), and some lenders reported that write-offs in recent months were below expectations. Contacts of the Bank's network of Agents noted that bad debts and insolvencies remained contained. Looking forward, the major UK lenders remained cautious about the prospects for write-offs and insolvencies.

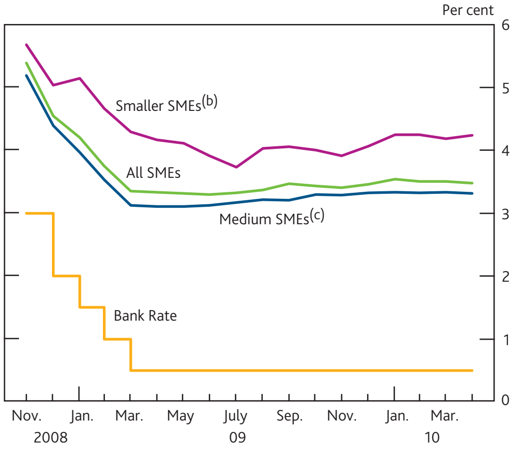
The recent performance of corporate loans had not led the major UK lenders to change their lending plans, which were also said to have been unaffected as yet by the continued funding market volatility. The major UK lenders reported loan availability was broadly unchanged on the month. Some lenders noted a pickup in competitive pressures in lending to larger corporates. The Bank's Agents continued to report a gradual easing of credit conditions, though conditions facing smaller businesses were said to remain tighter than for their larger counterparts. Contacts of the Bank's Agents and the major UK lenders reported that demand for credit remained weak.

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.

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. The intensification of market concerns over fiscal sustainability in a number of countries at the start of May resulted in heightened volatility and a reduction of liquidity in funding markets. In recent discussions, the major UK lenders reported that wholesale funding conditions remained difficult through May, particularly in term debt markets. Consistent with this, spreads over swap rates on sterling senior bank debt increased through May and into early June, though yields rose by less as swap rates fell (**Chart 1.4**). The major UK lenders reported that loan pricing for businesses was, as yet, largely unaffected by the recent market turbulence, which according to some lenders partly reflected

Chart 1.5 Indicative median interest rates on new SME variable-rate facilities[(a)]



Sources: BIS and Bank calculations.

(a) Median by value of new SME facilities priced at margins over base rates, by four major lenders.
(b) SMEs with annual turnover under £1 million.
(c) SMEs with annual turnover £1 million to £25 million.

that they had some discretion about when they approached the market for funding.

Indeed, some major UK lenders reported that loan spreads on lending to larger companies continued to fall in May, reflecting increased competitive pressures, albeit at a diminishing rate. In some contrast, indicative median interest rates on new SME variable-rate facilities have been broadly unchanged in recent months, according to the BIS survey (**Chart 1.5**). The Bank's measure of the effective interest rate on new corporate borrowing was broadly unchanged in April.

2 Mortgage lending

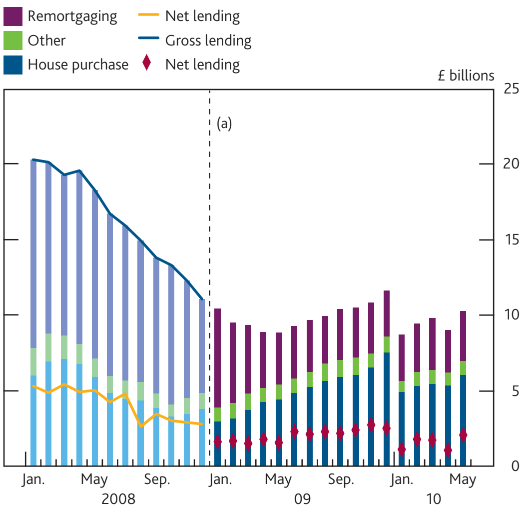
The flow of net mortgage lending by all UK-resident mortgage lenders edged higher in April though remained subdued. Gross lending and approvals for house purchase picked up in May, according to data from the major UK lenders. The mortgage arrears rate fell further in 2010 Q1 and the major UK lenders expected it to be broadly stable in the coming months. The overall effective rate on new mortgages was little changed in April.

Table 2.A Secured lending to individuals[(a)]

	Averages					2010			
	2007	2008	2009	2009 Q3	2009 Q4	Jan.	Feb.	Mar.	Apr.
Net monthly flow (£ billions)	9.0	3.4	0.9	0.8	1.4	1.5	1.8	0.2	0.5
Three-month annualised growth rate (per cent)	10.3	4.1	0.9	0.5	1.3	1.5	1.5	1.1	0.8
Twelve-month growth rate (per cent)	11.0	6.9	1.4	0.8	0.9	1.0	1.0	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 from 2009 onwards is reported data from the major UK lenders, 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 edged higher in April to £0.5 billion, and the annual rate of growth in the stock of lending remained little changed (**Table 2.A**). According to data from the major UK lenders, net mortgage lending increased in May (**Chart 2.1**), as gross lending increased by more than repayments.

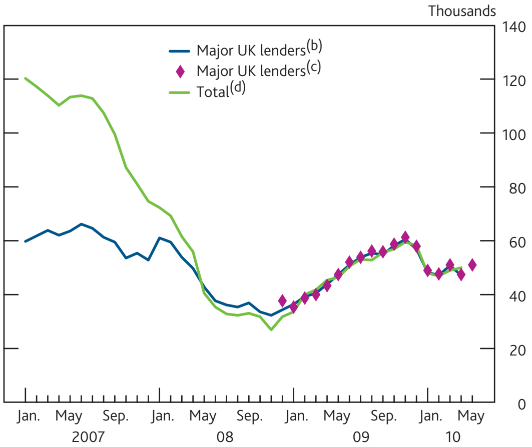
Data provided by the major UK lenders also include a split of gross lending between house purchase and the refinancing of existing mortgages (remortgaging). Gross mortgage lending for house purchase picked up in May (**Chart 2.1**), and was a little higher than at the start of the year. Remortgaging activity remained low. In the official data, total mortgage approvals for house purchase increased slightly in April. Data from the major UK lenders indicate that their approvals for house purchase edged higher in May (**Chart 2.2**), though have remained little changed in recent months.

The Royal Institution of Chartered Surveyors' new buyer enquiries balance remained positive in May, indicating rising demand for house purchase. However, the major UK lenders reported that demand for lending for house purchase remained subdued. On the supply side, the major UK lenders reported that credit availability was unchanged on the month. Overall, mortgage market activity was reported to have been little changed in recent months. Looking forward, lenders expected mortgage market activity to remain broadly flat in the coming months. The major UK lenders noted that the suspension of Home Information Packs[(1)] might induce some sellers to enter the market, though the scale of any impact on mortgage lending was unclear.

Contacts of the Bank's network of Agents reported that demand for housing, especially among first-time buyers, continued to be constrained by tight credit conditions. There has been an increase in the number of advertised products,

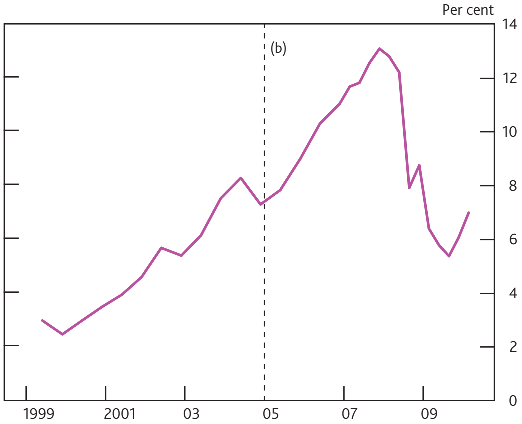
(1) For more details see www.communities.gov.uk/news/newsroom/1591783.

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) Gross approvals from additional, more timely, data reported by the major UK lenders since late 2008.
(d) 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.

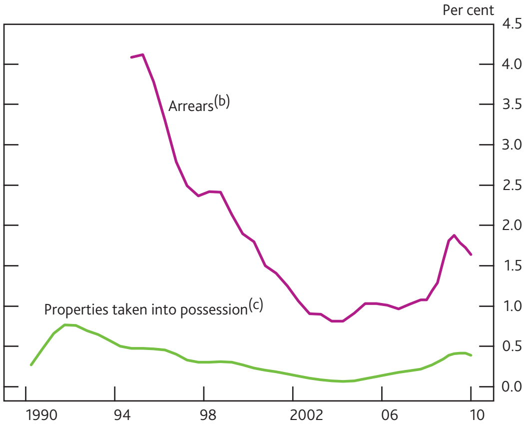
Chart 2.3 Buy to let as a proportion of gross mortgage lending(a)



Sources: CML and Bank calculations.

(a) Data are half-yearly from 1999 H1 to 2006 H2, and quarterly from 2007 Q1 to 2010 Q1. Non seasonally adjusted.
(b) There is a change in the reporting panel in 2005 H1 as a large lender submitted buy-to-let data to the CML for the first time.

Chart 2.4 Arrears and possessions 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. Data are available from 1994, are semi-annual up to end-2007 and quarterly since then.
(c) Properties taken into possession over the preceding year. Data are semi-annual up to end-2007 and quarterly since then.

including for loan to value (LTV) ratios of over 75%, which are often used by first-time buyers. However, as the box on pages 9–10 indicates, the median LTV ratio on new loans to first-time buyers has changed little over the past six months. The box also provides detail on recent trends in the first-time buyer mortgage market more generally.

In recent months, the number of advertised buy-to-let (BTL) mortgage products has risen and, based on data from the Council of Mortgage Lenders (CML), the share of gross mortgage lending advanced for BTL purposes has increased over the past six months (**Chart 2.3**). Notwithstanding some recent announcements of new entrants, some major UK lenders reported that this segment of the market continued to be constrained by the limited number of active lenders.

The slight increase in the number of advertised BTL mortgage products could partly reflect a recent reduction in arrears rates on BTL mortgages, as reported by the CML. More generally, data from the CML indicated that the overall mortgage arrears rate continued to fall in 2010 Q1 (**Chart 2.4**). The write-off rate on mortgages — the ratio of write-offs on secured loans to the stock of secured lending — remained low, relative to the 1990s recession (**Chart 1.3**). Claims for possessions issued in the courts fell for the sixth successive quarter in 2010 Q1 and the number of properties taken into possession fell slightly. The balance of major UK lenders reported that their arrears rates in recent months were broadly unchanged. Looking forward, some major UK lenders expected arrears rates to continue to be stable though they remained concerned about the risks to household distress from the economic outlook.

Mortgage pricing

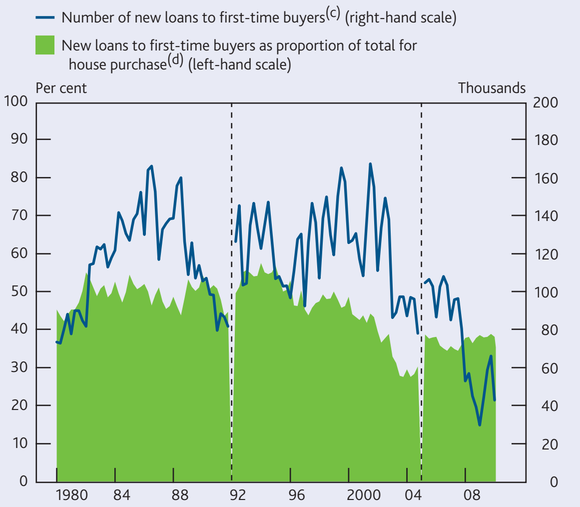
Mortgage spreads on new lending — over reference rates such as Bank Rate or swap rates — have been elevated since the start of the financial crisis. To some extent that may have reflected the earlier withdrawal of some lenders from the mortgage market and heightened credit risk.

Lenders have also partly attributed elevated mortgage spreads to higher longer-term wholesale funding costs. In recent discussions, some lenders noted that there was a risk of upwards pressure on mortgage spreads if recent market volatility was sustained, though at present that volatility was yet to affect loan pricing materially. Consistent with that, the Bank's measure of the overall effective interest rate on new mortgages was little changed in April at 3.9% and advertised mortgage rates were also broadly unchanged in May.

Recent trends in lending to first-time buyers

First-time buyers (FTBs) represent an important component of the mortgage market, accounting on average for almost 40% of new house purchase loans over the past decade (**Chart A**). In general, FTBs tend to be younger and purchase less expensive properties than home movers. They also tend to borrow at higher loan to value (LTV) ratios — around 90% historically. This box reviews the recent trends in lending to FTBs, informed by discussions with the major UK lenders.

Chart A Number of new loans to first-time buyers[a][b]



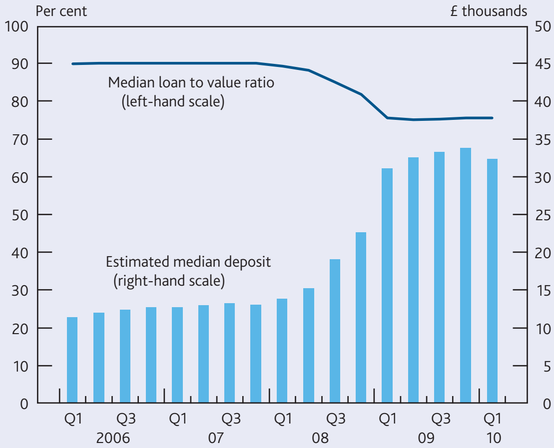
Source: CML.

(a) Data before 1992 Q2 are for building societies only, based on a 5% sample of mortgage completions. Data from 1992 Q2 are estimates for all lenders, grossed up to represent the total market size, with two different surveys used before and after 2005 Q2. Non seasonally adjusted.
(b) First-time buyers will include some buyers who have previously owned a property, but are not in owner-occupation at the time of the purchase. Estimates from the CML suggest that around 20% of stated first-time buyers may fall into this category.
(c) Quarterly data to 2010 Q1.
(d) Quarterly data to 2010 Q1 and monthly data for April 2010.

Alongside a broader decline in lending for house purchase, the number of new loans advanced to FTBs fell sharply in 2007 and 2008, reaching 30,000 in 2009 Q1 (**Chart A**) — the lowest quarterly value reported since records began in 1974. Following some recovery in 2009, loan numbers fell back in 2010 Q1, remaining significantly below the levels seen immediately before the crisis, and those of the early 1990s.

In terms of the supply of credit to FTBs, the availability of high LTV products fell back during the crisis, as evidenced, for example, by the fall in the number of 90% plus LTV products advertised in Moneyfacts,[1] and lender responses to the Bank of England's *Credit Conditions Survey*. As a result, the median LTV ratio on new loans to FTBs fell from 90% in 2007 to 75% in 2009, with the estimated median deposit required rising from £13,000 to some £33,000 (**Chart B**). It is likely that house price falls, funding and capital constraints, and a reassessment of the risk on high LTV mortgages all contributed to reduced availability of these products.

Chart B Median loan to value ratio and deposit on new loans to first-time buyers[a]



Sources: CML and Bank calculations.

(a) The median deposit size is estimated using data on the median size of the loan, and the median LTV ratio for FTBs. Non seasonally adjusted.

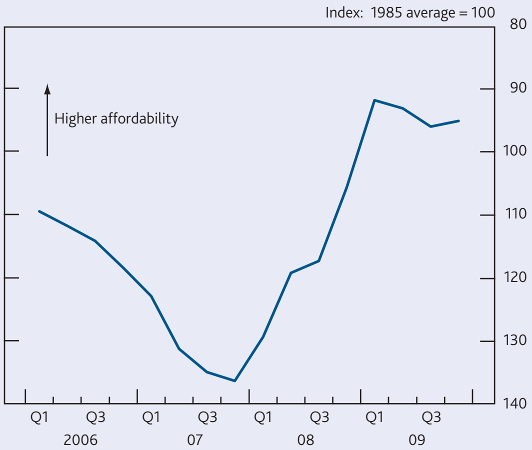
Although there is little direct evidence available, FTB demand for mortgages is likely to have fallen during the earlier stages of the crisis, given the wider fall in demand for house purchase indicated by the Royal Institution of Chartered Surveyors' new buyer enquiries balance. Spreads on high LTV products — relative to standard reference rates such as Bank Rate or swap rates — have increased markedly since the start of the crisis, and by significantly more than spreads on low LTV products,[2] which is also likely to have suppressed FTBs' demand for mortgages. However, FTB activity rose in 2009 (**Chart A**). A number of major UK lenders suggested that this partly reflected pent-up demand from FTBs coming back to the market, perhaps encouraged by lower house prices. Lenders also noted that stamp duty relief had brought forward some planned purchases.

The number of loans advanced to FTBs fell back in 2010 Q1, but remains higher than a year ago, with the recent fall reported to mainly reflect one-off factors, such as adverse weather and the removal of stamp duty relief at the end of 2009. Responses to the *Credit Conditions Survey* indicate that the supply of loans at higher LTV ratios increased in 2009 Q4 and 2010 Q1, though this has not yet materially affected the lending figures, as the median LTV ratio on new loans to FTBs has remained around 75% over the past six months (**Chart B**).

While the share of new house purchase loans accounted for by FTBs has not changed materially since the start of the financial crisis (**Chart A**), the characteristics of FTBs able to access the market appear to have changed somewhat. Research by the Council of Mortgage Lenders suggests that in late 2009, around 85% of FTBs aged under 30 had to rely on assistance, for example from parents, to raise the large deposits required, compared to 45% of FTBs in 2006–07, and less than 10% in 1995. Given the definitions used for FTBs, a significant proportion of unassisted FTBs may also consist of 'returners' — those who have previously owned property but are not in owner-occupation at the time of purchase, and may find it easier to finance the deposits.

For those FTBs who have been able to raise the required deposits, servicing mortgage repayments may have become easier overall. Notwithstanding elevated spreads on lending at high LTV ratios, the Nationwide FTB affordability index shows that repayments affordability, measured as the proportion of initial mortgage payments to take-home pay, improved throughout 2008 and remained relatively high in 2009 (**Chart C**). This is likely to reflect in part the low level of Bank Rate and its effect on mortgage rates, and the reduction in loan sizes induced by higher deposit requirements and lower house prices.

Chart C Repayments affordability for first-time buyers[a]



Source: Nationwide.

(a) Nationwide first-time buyer affordability index estimates the proportion of initial mortgage payments to take-home pay. Inverted scale. Higher numerical values of the index indicate lower affordability. Non seasonally adjusted.

Looking forward, in recent discussions the major UK lenders expected lending to FTBs to remain subdued over the next twelve months. Although the stamp duty relief on FTB property purchases valued up to £250,000 was expected to provide a modest boost to demand, most lenders said that deposit requirements would continue to constrain lending.

(1) See **Chart 2.3** in the May 2010 edition of *Trends in Lending*, available at www.bankofengland.co.uk/publications/other/monetary/TrendsMay10.pdf.
(2) See **Chart 2.4** in the May 2010 edition of *Trends in Lending*.

3 Consumer credit

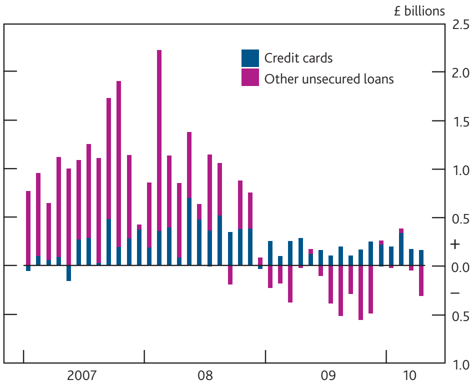
Total net consumer credit flows turned slightly negative in April, with the stock of lending little changed on a year earlier. In recent discussions, the major UK lenders reported underlying demand and availability for consumer credit were unchanged. Effective interest rates on consumer credit were slightly higher than the previous month. The major UK lenders reported that recent outturns for arrears and write-offs were lower than expected, though the write-off rate on consumer credit remained high in 2010 Q1.

Table 3.A Consumer credit(a)

	Averages					2010			
	2007	2008	2009	2009 Q3	2009 Q4	Jan.	Feb.	Mar.	Apr.
Net monthly flow (£ billions)	1.1	0.9	-0.1	-0.3	-0.1	0.2	0.4	0.1	-0.1
Three-month annualised growth rate (per cent)	6.5	5.2	-0.2	-0.7	-1.1	0.4	1.5	1.3	0.7
Twelve-month growth rate (per cent)	6.1	6.3	1.7	0.9	-0.2	-0.2	0.0	0.1	-0.1

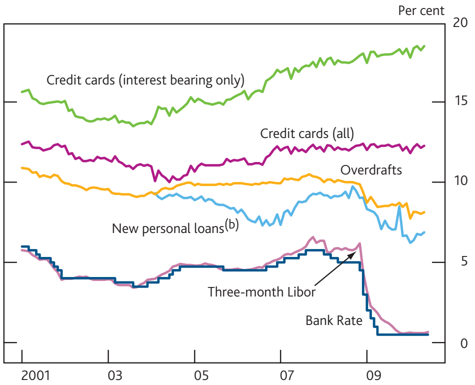
(a) Sterling lending by UK monetary financial institutions and other lenders to UK individuals. Seasonally adjusted.

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) Sterling only. The Bank's effective interest rates series comprise data from 30 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-May and for effective rates to end-April. Non seasonally adjusted.
(b) Only available from January 2004.

Recent lending data

Total net consumer credit flows turned slightly negative in April (**Table 3.A**) having been positive over the previous four months. The annual growth rate of the stock of lending also fell but remained close to zero. Within the total, net credit card lending flows were unchanged on the previous month remaining positive, while the flow of other unsecured lending declined notably (**Chart 3.1**). In recent discussions, the major UK lenders reported that net lending flows for consumer credit remained weak in May, and underlying demand for consumer credit was broadly unchanged. Similarly, no changes to the availability of consumer credit were reported.

Consumer credit pricing

Effective interest rates on personal loans, overdrafts and credit cards all edged higher in April (**Chart 3.2**). Consequently, spreads between effective interest rates and Bank Rate and Libor were slightly wider than the previous month. Looking through these recent movements, spreads on consumer credit remain significantly wider than in late 2008.

Elevated spreads, relative to Bank Rate and Libor, are reported by lenders partly to reflect heightened credit risk on consumer credit. Most major UK lenders reported that recent outturns for arrears and write-offs were lower than expected. Consistent with that, the quarterly write-off rate on consumer credit fell to 1.5% in 2010 Q1 from 1.9% in 2009 Q3, though it remained above the average level of the past decade (**Chart 1.3**).

Abbreviations

BIS — Department for Business, Innovation and Skills.
BTL — buy to let.
CML — Council of Mortgage Lenders.
FTB — first-time buyer.
Libor — London interbank offered rate (see below).
LTV ratio — loan to value ratio (see below).
PNFCs — private non-financial corporations (see below).
SMEs — small and medium-sized enterprises.

Glossary

Arrears rate The number of loans in arrears divided by the number of mortgages outstanding.
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 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.
Liquidations rate The number of corporate liquidations divided by the number of active companies.
Loan approvals Lenders' firm offers to advance credit.
Loan to value (LTV) ratio Ratio of outstanding loan amount to the market value of the asset against which the loan is secured (normally residential or commercial property).
London interbank offered rate (Libor) The rate of interest at which banks borrow funds from each other, in marketable size, in the London interbank market.
Major UK lenders Banco Santander, Barclays, HSBC, Lloyds Banking Group, Nationwide and Royal Bank of Scotland.
Monetary financial institutions A statistical grouping comprising banks and building societies.
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.
Possessions rate The number of properties taken into possession divided by the number of mortgages outstanding.
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.
Term debt Debt raised for a fixed period of time.
Write-off rate The value of loans that are written off by lenders as a proportion of the stock of loans.

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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