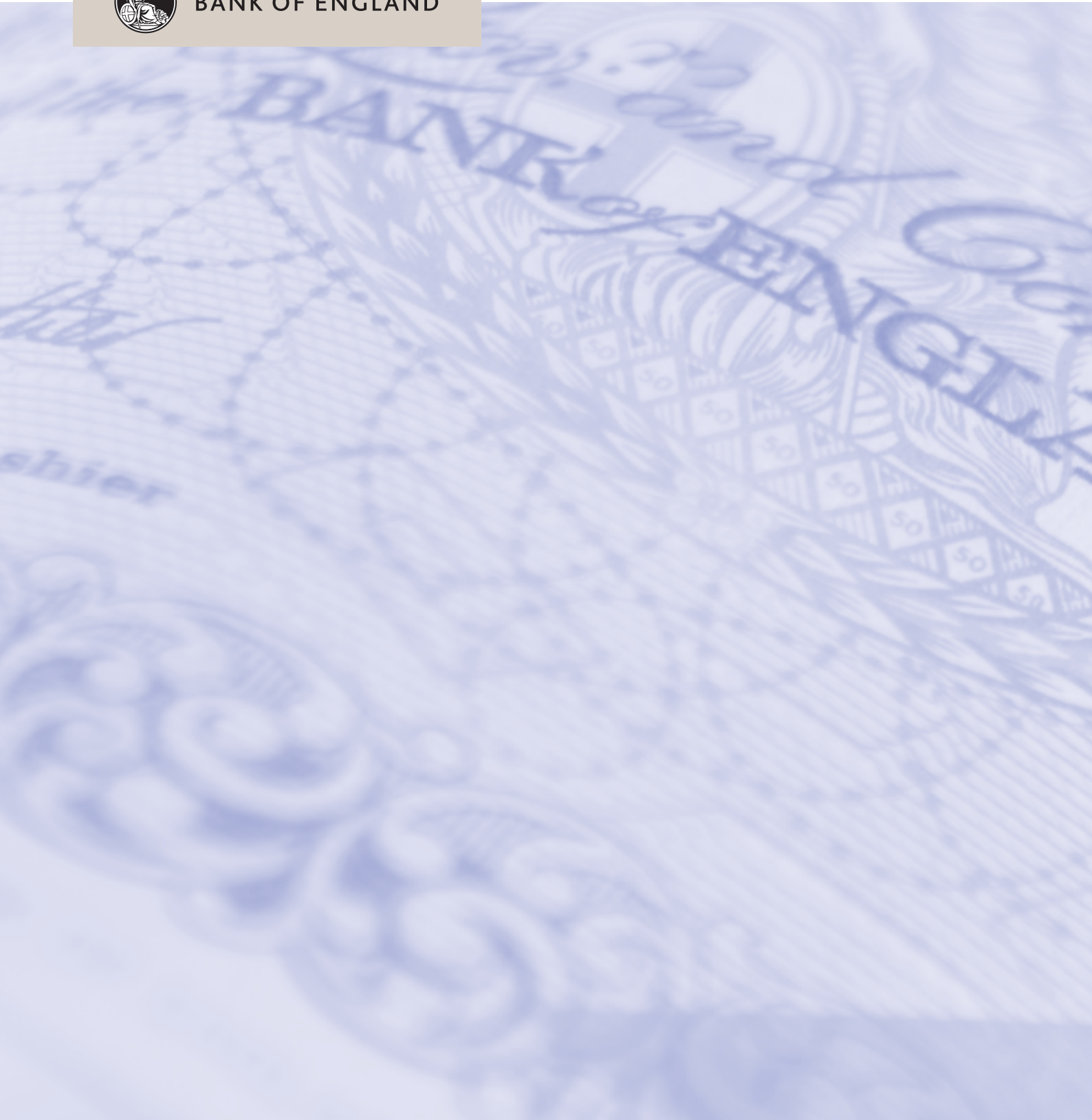


Trends in Lending

March 2010



BANK OF ENGLAND





BANK OF ENGLAND

Trends in Lending

March 2010

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 January 2010, supplemented by Lending Panel data and intelligence gathered up to end-February 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 January. The stock of lending to businesses has fallen in recent months including for lending to small and medium-sized enterprises. Indicators of corporate distress, such as the write-off rate, have risen by less than in the early 1990s and were lower than some major UK lenders expected. Contacts of the Bank's Agents reported that the overall availability of credit continued to improve, though by more for larger businesses than smaller ones. The major UK lenders reported that demand for credit remained subdued. The effective interest rate on new lending to companies was unchanged in January.

The flow of net [mortgage lending](#) by all UK-resident mortgage lenders rose in January, despite a decline in gross mortgage lending. Gross lending for house purchase rebounded somewhat in February, according to data from the major UK lenders, though their approvals for house purchase fell slightly further after sharp falls in January. The mortgage arrears rate fell further in 2009 Q4 and some major UK lenders expected mortgage arrears rates to be broadly stable in the coming months. The overall effective rate on new mortgages fell slightly in January and the major UK lenders continued to report some downward pressure on mortgage pricing due to increasing competition to lend.

The total flow of net [consumer credit](#) edged higher in January and the annual rate of decline in the stock of lending eased. The major UK lenders reported that underlying demand remained subdued and availability was relatively tight. Spreads between effective interest rates on consumer credit and Bank Rate and Libor remained significantly wider than in late 2008, partly reflecting heightened credit risk.

1 Lending to UK businesses

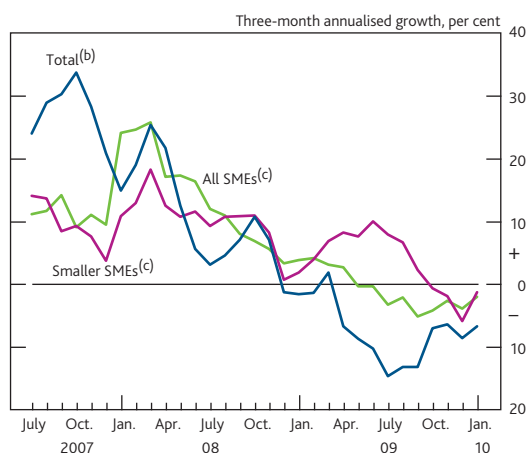
Net lending to UK businesses weakened in January. The stock of lending to businesses has fallen in recent months including for lending to small and medium-sized enterprises. Indicators of corporate distress, such as the write-off rate, have risen by less than in the early 1990s and were lower than some major UK lenders expected. Contacts of the Bank's Agents reported that the overall availability of credit continued to improve, though by more for larger businesses than smaller ones. The major UK lenders reported that demand for credit remained subdued. The effective interest rate on new lending to companies was unchanged in January.

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

	Averages					2009			2010
	2007	2008	2009 Q1	2009 Q2	2009 Q3	Oct.	Nov.	Dec.	Jan.
Net monthly flow (£ billions)	7.3	3.8	-0.6	-5.1	-7.0	-4.7	0.2	-3.4	-6.5
Three-month annualised growth rate (per cent)	20.4	10.6	-0.6	-8.8	-14.4	-7.3	-6.4	-5.7	-7.0
Twelve-month growth rate (per cent)	16.7	17.5	5.5	-0.1	-4.6	-7.6	-7.6	-7.9	-9.3

(a) Lending by UK monetary financial institutions to PNFs. 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.

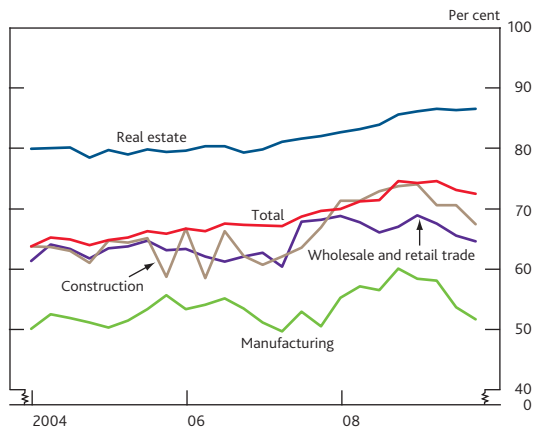
- (a) Data cover lending in both sterling and foreign currency, expressed in sterling terms. Three-month annualised rate of growth in the stock of lending. Non seasonally adjusted.
 (b) Lending by UK monetary financial institutions to PNFs.
 (c) Source: monthly BIS survey. Lending by four major UK lenders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

Recent lending data

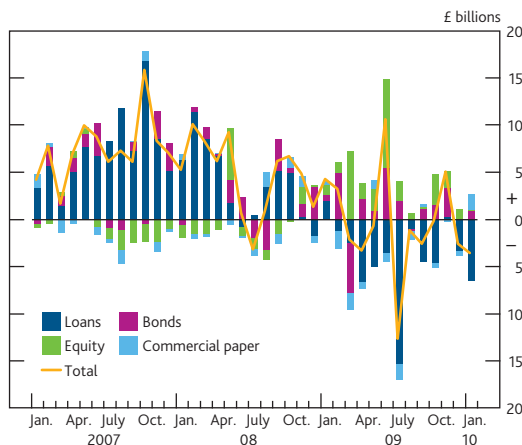
Official data covering lending by all UK-resident banks and building societies indicated that lending to businesses contracted by £6.5 billion in January (**Table 1.A**). As a result, the twelve-month growth rate of the stock of loans fell to a new low since the monthly series began in 1999. The major UK lenders reported that their net lending flows remained subdued in February, though were less weak than in January.

For the total corporate sector and for small and medium-sized enterprises (SMEs) overall, the stock of lending fell during 2009. However, within the SME sector, the stock of lending to smaller companies increased for much of the year. Over recent months, lending to smaller companies has weakened so that the stock of such lending has also contracted, albeit at a slower rate than for lending to businesses overall (**Chart 1.1**). Lenders have reported that smaller companies, like businesses overall, were seeking to reduce debt levels, though smaller companies would remain more reliant on bank finance than larger companies whose access to capital market finance was greater. The box on pages 7–8 discusses the recent trends in lending to SMEs in more detail.

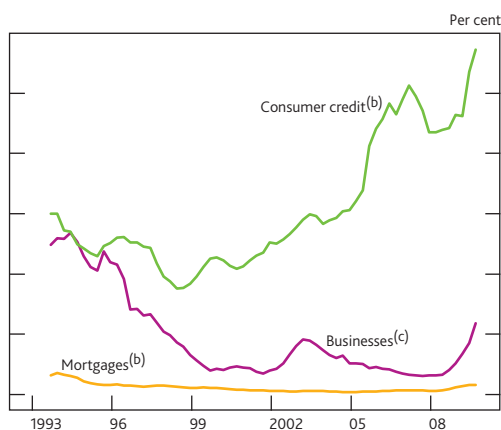
The fall in the stock of lending to businesses in 2009 has been accompanied by a decline in the utilisation of facilities by businesses overall. The aggregate utilisation rate — the extent to which lending facilities are drawn down by borrowers — declined by around 2 percentage points over the year (**Chart 1.2**). Lenders reported that many businesses were retaining facilities when paying down bank debt, partly because arranging new facilities could be more expensive than relying on existing arrangements. In contrast to the aggregate picture, however, the utilisation rate of commercial real estate facilities remained high in 2009 (**Chart 1.2**), perhaps reflecting the weakness of the commercial property market. Some commercial property companies may have been using facilities more intensively to finance properties that have been

Chart 1.2 Corporate loan facility utilisation rates^{(a)(b)}

- (a) The utilisation rate is defined as the proportion of the total stock of facilities that has been drawn down. Lending by UK monetary financial institutions to UK PNFCs. Data cover lending in both sterling and foreign currency, expressed in sterling terms. Non seasonally adjusted.
- (b) Data for the total (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).

Chart 1.3 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 1.4 Write-off rates on lending to UK businesses and individuals^(a)

- (a) Lending by UK monetary financial institutions. These figures are calculated as annualised quarterly write-offs divided by the corresponding loans outstanding at the end of the previous quarter. The data are presented as four-quarter moving averages. Series start in 1993 Q4. Lending in both sterling and foreign currency, expressed in sterling terms. Non seasonally adjusted.
- (b) Sterling only.
- (c) PNFCs.

developed but not sold. And some lenders have reported that few new real estate facilities were being set up.

The major UK lenders reported that, over the past year, some larger companies had also paid down debt on facilities using funds raised by capital market issuance. Net capital market issuance in January was lower than the monthly average in 2009 and the net amount of funds raised by UK businesses from UK banks and capital markets was negative (Chart 1.3).

Strong capital issuance during 2009 may have helped some businesses strengthen their financial position. 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 remained lower than in the early 1990s and lower than some lenders expected. Nonetheless, the corporate write-off rate rose further in the year to 2009 Q4 (Chart 1.4). While some major UK lenders had not seen any increase recently in the number of businesses requesting forbearance measures, they were cautious about prospects for write-offs and insolvencies were the economy to weaken again. Some lenders were concerned that write-offs and insolvencies could rise even as the economy recovered if some businesses with weakened balance sheets expanded beyond their capacity to finance themselves.

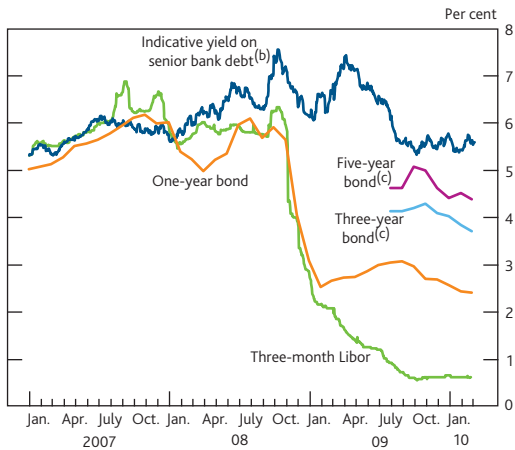
The major UK lenders reported that there had been no significant change in loan availability in the past month. The Bank's Agents indicated that the availability of credit continued to improve, though by more for larger businesses than smaller ones. The major UK lenders reported that demand for credit remained subdued, which was echoed by the contacts of the Bank's Agents.

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. Contacts of the Bank's Agents have continued to report elevated fees on new lending.

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 are likely to 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. Rates on longer-term retail deposits — such as three and five-year fixed-rate income bonds — fell in February, though remain high relative to reference rates (Chart 1.5). In some contrast, secondary market yields on sterling senior bank debt edged higher in February. Some — but not all — major UK lenders reported a

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).

tightening in the availability of longer-term wholesale funding over January and February. Looking forward, some major UK lenders were concerned about the risk of wholesale funding costs rising as markets increasingly focused on the amount of funding that UK banks would need to refinance over the coming years.⁽¹⁾

In the most recent data for January, the Bank's measure of the effective interest rate on new corporate lending remained broadly unchanged at 2.2%. Notwithstanding the possibility of higher future funding costs, some major UK lenders reported that competition to lend was continuing to put downwards pressure on loan pricing to large, high-quality companies.

(1) This was also highlighted in pages 7–8 in the December 2009 Bank of England *Financial Stability Report*, available at www.bankofengland.co.uk/publications/fsr/2009/fsrfull0912.pdf.

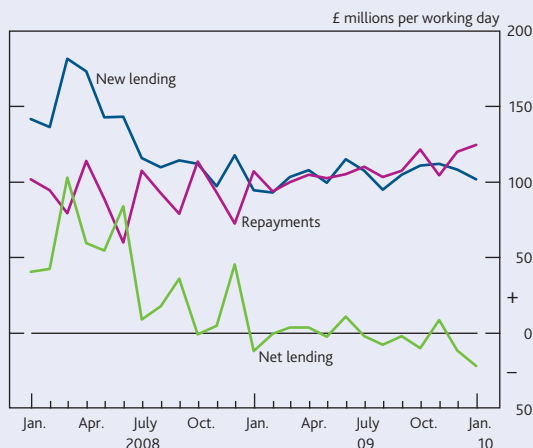
Lending to small and medium-sized enterprises

Previous editions of *Trends in Lending* have reviewed lending to small and medium-sized enterprises (SMEs), using the results of a survey by Department for Business, Innovation and Skills (BIS), introduced in order to inform the work of the Small Business Finance Forum, as well as evidence from other sources. The Bank of England's *Inflation Report* published in February assessed how SMEs have been affected by the recession.⁽¹⁾ This box provides an updated analysis of lending to this sector.

SMEs are defined in the BIS survey as businesses with an annual turnover of up to £25 million, and are split into smaller and medium-sized categories according to a turnover threshold of £1 million. The survey covers data from four major UK banking groups.⁽²⁾ Lending to SMEs by these four banks amounts to nearly a quarter of the total stock of lending to businesses by all banks and building societies. Like the position for businesses overall, and as reported in Section 1, the stock of bank lending to SMEs has contracted during recent months.

Changes in outstanding stocks of bank credit represent the net effects of flows of new lending and repayments of existing facilities. The BIS survey distinguishes between loans and overdrafts extended to SMEs. For loans, which constitute the greater part of bank credit to SMEs, recent falls in the total stock of lending appear to be associated with an approximately flat profile for new lending, but a rising profile for repayments. Repayments during 2009 were 17% greater than in 2008 (Chart A).

Chart A Loans to SMEs: flows of new lending, repayments and net lending^(a)



Sources: BIS and Bank calculations.

(a) Per working day, monthly average. Monthly data from four major lenders for sterling and foreign currency term loans to SMEs with up to £25 million bank account turnover, expressed in sterling terms. Non seasonally adjusted.

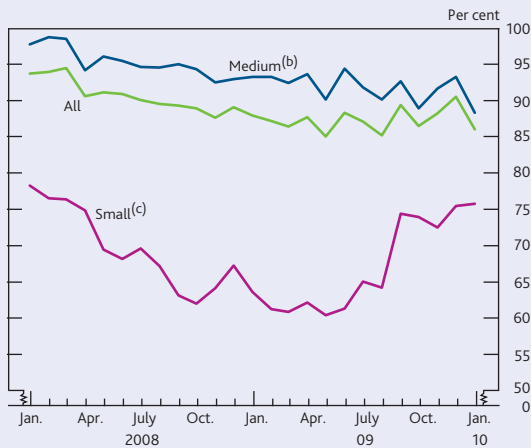
A significant fraction of repayment flows represented early repayments or were in excess of contracted terms, according to reports from some of the lenders. There may be a number of reasons for rising repayments of bank credit facilities. The major UK lenders have reported that repayments of facilities partly reflected cash savings from reductions in inventory levels and postponements of investment decisions. More generally, businesses are reported to be taking a cautious view on their debt levels.

Overdraft facilities, which account for about 13% of the outstanding stock of bank credit to SMEs, declined relatively more than did loans over 2009. Given that overdrafts are typically renewed on an annual basis, changes in the volume of this form of finance may be more sensitive than for loans to shorter-term cyclical influences and changes in businesses' working capital positions. A declining role for overdraft finance might also reflect longer-term demand influences, for example, changing attitudes by SMEs to the risks of reliance on this form of finance, or supply influences, as banks adjust to higher capital requirements on overdrafts under new capital adequacy standards. For example, banks have reported taking a more systematic approach during 2009 towards their application of arrangement and similar fees on credit facilities, and some SMEs may have reduced or cancelled overdrafts so as to avoid fees associated with underused facilities.

Looking across facilities more generally, the BIS data indicate a moderate increase in the proportion of smaller SME credit applications that have been approved by lenders since September 2009 (Chart B). According to the *2009 Finance Survey of SMEs*, commissioned by BIS, the proportion of SME credit applications encountering 'any difficulties' fell to 17% in the period covering September and October 2009 (the latest available data), from a range of 40% to 47% earlier in the year.⁽³⁾ Lenders have not, however, indicated any significant changes in their credit approval policies with respect to SMEs over the past six months, so the increase in the rate of approvals may reflect an improvement in the average credit quality of applications.

Across the SME sector overall, however, approval rates have been little changed over the past six months, and values of applications and approvals of new facilities have remained weak. Lenders have recently reported to BIS that the SME market was improving but still fragile. Contacts of the Bank's Agents reported that the availability of bank credit eased marginally in February, continuing the reported trend over recent months, although price and non-price terms of lending remained little changed.

Certain other indicators of SME credit are suggestive of weakness, or flatness, of demand. At a seminar of the Small Business Finance Forum in February, representatives of

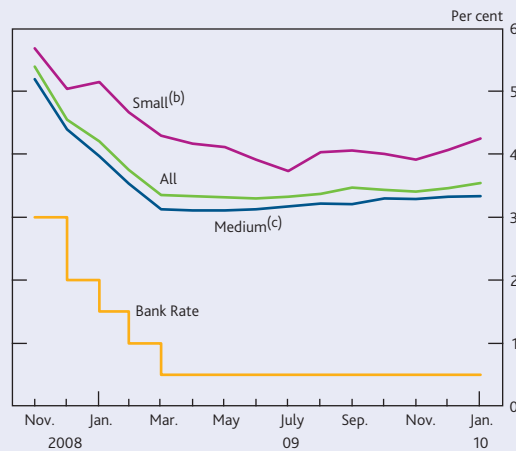
Chart B Approval rates for new facilities to SMEs^(a)

Sources: BIS and Bank calculations.

- (a) Monthly approvals of new loans and new or renewed overdrafts to SMEs by four major lenders, in sterling and foreign currency, expressed as a percentage of value of applications in same period.
 (b) SMEs with annual turnover £1 million to £25 million.
 (c) SMEs with annual turnover under £1 million.

small businesses and banks reported that a lack of confidence among SMEs was the predominant influence behind currently weak lending to the sector. In a survey by the Forum of Private Business and Graydon UK in January 2010, access to finance was ranked third out of some 16 listed issues of concern as reported by directors of small businesses (behind cash flow and credit control, and sales and turnover).⁽⁴⁾ Data from BIS show that overdraft utilisation rates in January, at 53% and 55% for smaller and medium-sized SMEs respectively, have fallen a little since mid-2009.

Demand for credit will partly depend on its cost. Based on the BIS data, estimates of median interest rates charged on new and renewed loan and overdraft facilities indicate that on facilities linked to banks' base rates, interest rates for smaller SMEs have increased a little since mid-2009 (**Chart C**). Most lenders have not reported any increases in their fees and charges tariffs, but they seem to be applying such charges more widely than before: according to the *2009 Finance Survey of SMEs*, 77% of loans arranged in 2009 were subject to arrangement fees compared to 59% in 2007.

Chart C 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.

(1) Bank of England *Inflation Report*, February 2010, available at www.bankofengland.co.uk/publications/inflationreport/ir10feb3.pdf.

(2) Barclays, HSBC, Lloyds Banking Group and Royal Bank of Scotland.

(3) *Results from the 2009 Finance Survey of SMEs*, IFF Research Ltd., published by Department for Business, Innovation and Skills, February 2010, available at www.bis.gov.uk/assets/biscore/enterprise/docs/10-636-2009-finance-survey-smes-results.pdf.

(4) *Finance and Credit Management*, research report by Forum of Private Business and Graydon UK, January 2010, available at www.epolitix.com/fileadmin/epolitix/stakeholders/FPB_Graydon.pdf.

2 Mortgage lending

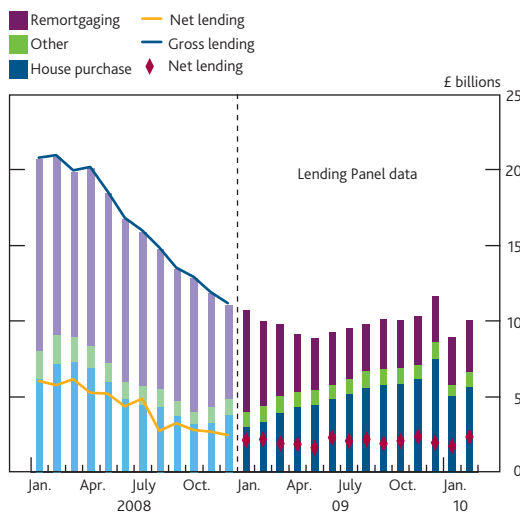
The flow of net mortgage lending by all UK-resident mortgage lenders rose in January, despite a decline in gross mortgage lending. Gross lending for house purchase rebounded somewhat in February, according to data from the major UK lenders, though their approvals for house purchase fell slightly further after sharp falls in January. The mortgage arrears rate fell further in 2009 Q4 and some major UK lenders expected mortgage arrears rates to be broadly stable in the coming months. The overall effective rate on new mortgages fell slightly in January and the major UK lenders continued to report some downward pressure on mortgage pricing due to increasing competition to lend.

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

	Averages					2009			2010
	2007	2008	2009 Q1	2009 Q2	2009 Q3	Oct.	Nov.	Dec.	Jan.
Net monthly flow (£ billions)	9.0	3.4	1.0	0.7	0.8	1.1	1.6	1.2	1.5
Three-month annualised growth rate (per cent)	10.3	4.1	1.1	0.8	0.6	1.2	1.2	1.3	1.4
Twelve-month growth rate (per cent)	11.0	6.9	2.5	1.4	0.9	0.9	1.0	0.9	1.0

(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)



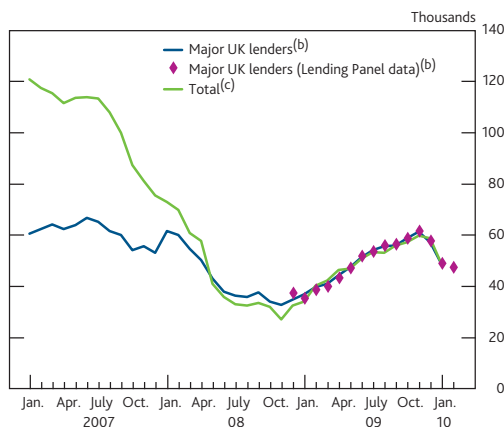
(a) The split in 2008 is estimated using gross lending data and the split of loan approval values between house purchase, remortgaging and other advances. The split using Lending Panel data in 2009 is reported, rather than estimated, data. Data cover lending in both sterling and foreign currency, expressed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

Recent lending data

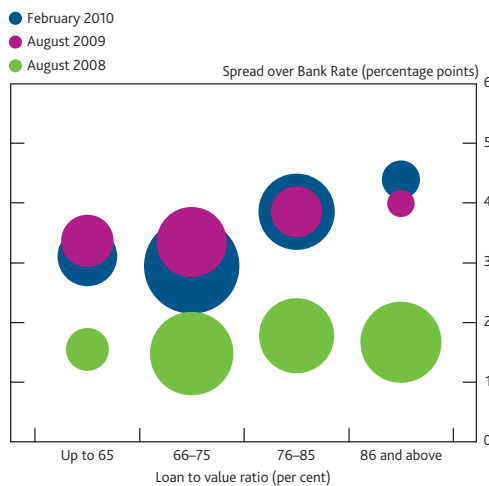
The flow of net sterling mortgage lending by all UK-resident mortgage lenders rose in January, despite a decline in gross mortgage lending. The annual rate of growth in the stock of lending remained broadly unchanged (Table 2.A). According to Lending Panel data, net mortgage lending by the major UK lenders increased in February (Chart 2.1) as gross lending increased by more than repayments. The data indicated that gross lending for house purchase picked up slightly in February, returning to the monthly flow seen before the fluctuations around the turn of the year. Remortgaging activity remained low.

Similar to the pattern for gross lending, mortgage approvals for house purchase fell sharply in January. Lending Panel data indicate that mortgage approvals for house purchase made by the major UK lenders fell slightly further in February (Chart 2.2).

The February edition of *Trends in Lending* reported the view of some major UK lenders that the recent slowing of gross lending and approvals for house purchase was partly due to one-off factors. Some homebuyers were reported to have brought forward house purchases before the removal of stamp duty relief on 1 January 2010 and the severe weather around the turn of the year was said to have reduced activity. In recent discussions, some major UK lenders reported that while those one-off factors had receded, approvals and completions were still being affected to some extent given the lags involved. Demand for secured lending recovered somewhat in February, according to some of the major UK lenders, but remained weaker than they expected. The Royal Institution of Chartered Surveyors' new buyer enquiries index rebounded in February to levels consistent with rising demand for mortgages for house purchase, though remained lower than levels seen during 2009.

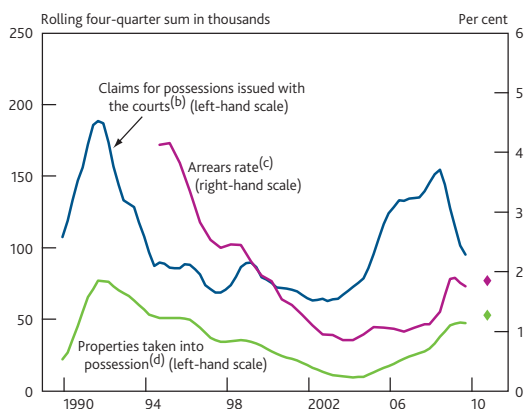
Chart 2.2 Approvals for mortgages for house purchase^(a)

- (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 Floating-rate mortgage spreads and product availability across LTV ratios^{(a)(b)}

Sources: Moneyfacts Group and Bank calculations.

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

Chart 2.4 Arrears and possessions^(a)

Sources: CML, Ministry of Justice (England and Wales) and Bank calculations.

- (a) Non seasonally adjusted.
 (b) Ministry of Justice possession claims data prior to 1999 are sourced from manual counts made by court staff and may include instances of double-counting.
 (c) Proportion of 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. The maroon diamond shows the latest CML forecast made in November for end-2010.
 (d) Data are semi-annual up to end-2007 and quarterly since then. The green diamond shows the latest CML forecasts made in November for end-2010.

On the supply side, some major UK lenders reported that credit availability had not changed significantly during the past month. Over the past six months, however, the numbers of advertised fixed and floating-rate mortgage products have increased, including those with higher loan to value (LTV) ratios, as **Chart 2.3** shows for floating-rate mortgages. Estate agent contacts continued to report that the availability of mortgage finance had improved somewhat in recent months, though remained a restraint on activity.

The increased availability of secured lending could partly reflect an improvement in lenders' expectations of mortgage distress. Data from the Council of Mortgage Lenders (CML) indicated that the mortgage arrears rate fell further in 2009 Q4 (**Chart 2.4**) and 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 early 1990s (**Chart 1.4**). The major UK lenders reported that their arrears rates in recent months were lower than they expected, partly because the unemployment rate had not risen in line with their expectations. Claims for possessions issued in the courts fell for the fifth successive quarter in a row in 2009 Q4 and properties taken into possession remained broadly flat. Looking forward, some major UK lenders expected mortgage arrears rates to be broadly stable in coming months. Some lenders noted that they generally stress tested loan applications and so did not expect a significant effect on arrears from future interest rate rises. However, a number of lenders remained concerned about the risk of renewed falls in house prices and further rises in unemployment, and the possible effect on arrears and housing market activity in 2010.

Mortgage pricing

The Bank's measure of the overall effective interest rate on new mortgages fell slightly in January. 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 which the major UK lenders have partly attributed to higher longer-term wholesale funding costs (see Section 1). Heightened credit risk and the effects of the earlier withdrawal of some other lenders on competition are also likely to be reflected in the level of spreads. Spreads over Bank Rate for advertised floating-rate mortgage products in February were higher compared to their level 18 months ago (**Chart 2.3**).

In recent months, however, the major UK lenders reported some downward pressure on mortgage pricing due to increasing competition to lend. Some lenders noted that price competition was greater towards the lower end of the LTV spectrum. For example, advertised floating-rate products at LTV ratios of 75% or less have seen some falls in spreads over the past six months (**Chart 2.3**). In contrast, spreads on very high LTV lending have widened, perhaps reflecting limited appetite among lenders for high-risk lending.

3 Consumer credit

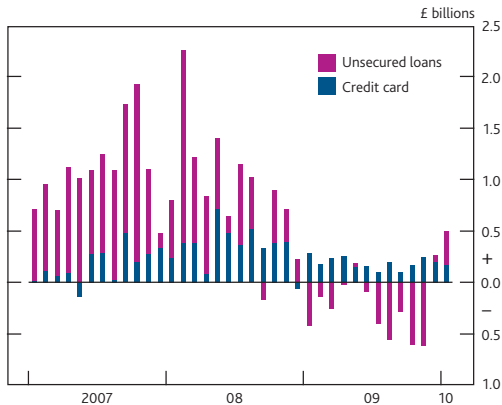
The total flow of net consumer credit edged higher in January and the annual rate of decline in the stock of lending eased. The major UK lenders reported that underlying demand remained subdued and availability was relatively tight. Spreads between effective interest rates on consumer credit and Bank Rate and Libor remained significantly wider than in late 2008, partly reflecting heightened credit risk.

Table 3.A Consumer credit^(a)

	Averages					2009			2010
	2007	2008	2009 Q1	2009 Q2	2009 Q3	Oct.	Nov.	Dec.	Jan.
Net monthly flow (£ billions)	1.1	0.9	0.0	0.2	-0.3	-0.4	-0.4	0.3	0.5
Three-month annualised growth rate (per cent)	6.5	5.2	0.4	0.6	-0.8	-1.7	-1.7	-1.0	0.7
Twelve-month growth rate (per cent)	6.1	6.3	3.7	2.3	0.8	0.0	-0.5	-0.4	-0.2

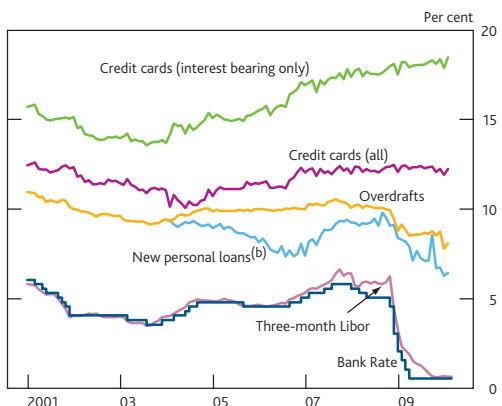
(a) Unsecured sterling lending by UK monetary financial institutions and other lenders to UK individuals. Seasonally adjusted.

Chart 3.1 Net unsecured 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 edged higher in January (**Table 3.A**), and the annual rate of decline in the stock of lending eased. Within the total, net credit card lending flows were broadly unchanged while net unsecured lending increased (**Chart 3.1**). The rise in unsecured lending was largely accounted for by UK lenders other than banks and building societies.

Some of the major UK lenders reported that underlying demand for consumer credit was expected to remain subdued as consumers sought to reduce their levels of unsecured debt. Applications for credit cards and personal loans in February were reported by the major UK lenders to have remained below both the level of a year earlier and the monthly average for 2009. The major UK lenders reported no significant change in the availability of consumer credit.

Consumer credit pricing

The effective interest rate on personal loans, overdrafts and credit cards all edged higher in January following modest falls in December (**Chart 3.2**). As a result, spreads between effective interest rates and Bank Rate and Libor widened, reversing some of the narrowing seen in the previous month. Looking through these recent movements, spreads on consumer credit remained significantly wider than in late 2008, which the major UK lenders have reported partly reflects heightened credit risk.

The write-off rate on consumer credit has increased sharply in recent quarters, and in the year to 2009 Q4 was at the highest level recorded since the series began in 1993 (**Chart 1.4**). Rising write-offs have mirrored increasing personal insolvencies, which in 2009 Q4 were at the highest level since the series began in 1960. Some of the major UK lenders have reported that, although high, the levels of arrears and write-offs in recent months were lower than expected, which they attributed to better-than-anticipated unemployment outcomes. While the economic outlook remained uncertain, the major UK lenders were expecting arrears to stabilise, or in some cases to fall, over the coming months.

Abbreviations

BIS — Department for Business, Innovation and Skills.

CML — Council of Mortgage Lenders.

Libor — London interbank offered rate (see below).

LTV — loan to value ratio (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 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 registered companies.
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 (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 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.
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 loan	A loan provided 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.