Trends in Lending

November 2009

BANK OF ENGLAND

BANK OF ENGLAND

Trends in Lending

November 2009

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 new 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, 50% of the stock of consumer credit, and 70% of the stock of mortgage lending at the end of 2008. 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 September 2009, supplemented by Lending Panel data and intelligence gathered up to end-October 2009. 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.

Contents

Executive summary

The flow of net lending to UK businesses remained negative in September and lending to companies fell across all the main sectors of the economy in 2009 Q3. Net capital market issuance has slowed in recent months, which lenders attributed to many businesses having already raised the funding planned for 2009 earlier in the year. Syndicated lending remained weak. The major UK lenders expected demand for new lending to remain subdued during the remainder of the year. While some business contacts of the Bank's Agents — particularly from larger firms outside of the property sectors — reported that credit availability had eased, many others continued to report concerns over access to finance. The major UK lenders reported that an increase in competitive pressures had led to some narrowing of spreads on lending to larger businesses.

The flow of total net mortgage lending slowed in September though the annual rate of lending growth remained broadly unchanged. Mortgage approvals for house purchase increased in October, according to data from the major UK lenders. Gross lending for house purchase has risen in recent months, reflecting an increase in lending to first-time buyers, as well as to home movers. In contrast, gross mortgage lending for buy-to-let purposes has remained very subdued. Effective interest rates on secured lending were little changed in September. The major UK lenders reported that secured credit availability and demand had both increased somewhat in recent months.

Total net consumer credit flows remained negative in September. Gross credit card lending has remained weak in recent months alongside subdued spending on credit cards. In September, effective rates on credit cards and overdrafts remained broadly flat, though the rate on personal loans increased. The major UK lenders expected consumer credit to remain weak over coming months reflecting further tightening in both credit availability and demand.

1 Lending to UK businesses

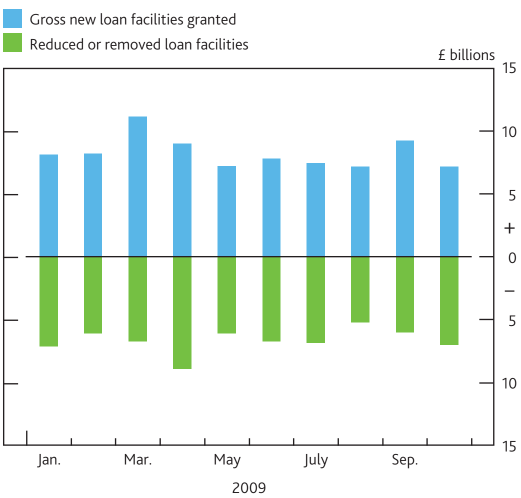
The flow of net lending to UK businesses remained negative in September and lending to companies fell across all the main sectors of the economy in 2009 Q3. Net capital market issuance has slowed in recent months, which lenders attributed to many businesses having already raised the funding planned for 2009 earlier in the year. Syndicated lending remained weak. The major UK lenders expected demand for new lending to remain subdued during the remainder of the year. While some business contacts of the Bank's Agents — particularly from larger firms outside of the property sectors — reported that credit availability had eased, many others continued to report concerns over access to finance. The major UK lenders reported that an increase in competitive pressures had led to some narrowing of spreads on lending to larger businesses.

Table 1.A Lending to UK businesses[(a)]

	Averages				2009		
	2007	2008	2009 Q1	2009 Q2	July	Aug.	Sep.
Net monthly flow (£ billions)	7.3	3.9	-0.7	-5.1	-15.6	-1.1	-4.6
Three-month annualised growth rate (per cent)	20.2	10.6	-0.6	-8.8	-16.0	-13.4	-14.3
Twelve-month growth rate (per cent)	16.6	17.4	5.5	-0.1	-3.6	-4.3	-6.0

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

Chart 1.1 Corporate loan facilities granted and reduced[(a)(b)]



(a) Lending Panel data for major UK lenders.
(b) Data for UK PNFCs has been estimated by subtracting elements of the industrial breakdown for UK non-financial corporations thought to contain mainly lending to the UK public sector (public administration and defence, education, health and social work and recreational, personal and community services). Data cover lending in both sterling and foreign currency, expressed in sterling terms. Non seasonally adjusted.

Recent lending data

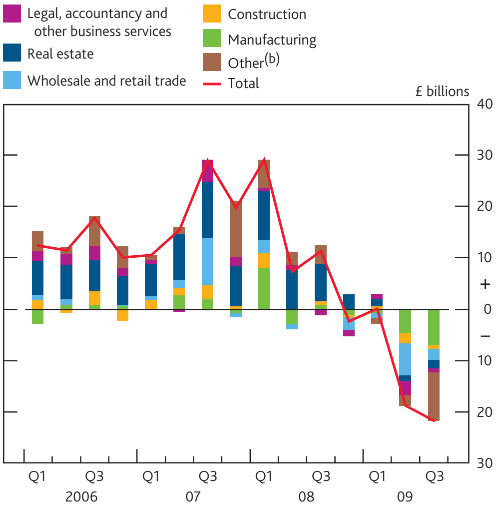
Official data covering lending by all UK-resident banks and building societies indicated that lending to businesses contracted by £4.6 billion in September (**Table 1.A**). As a result, the twelve-month growth rate fell to a new low since the monthly series began in 1999. Net lending by the major UK lenders remained weak in October.

Lending Panel data suggest that the value of gross new corporate loan facilities granted by the major UK lenders fell in October after having increased in September (**Chart 1.1**). Over the year, gross new facilities have been largely matched by reduced or removed loan facilities. Consistent with that, in discussions with the Bank the major UK lenders have said that a high proportion of recent new facilities has been associated with the refinancing or restructuring of their existing customers' facilities. This refinancing could add to gross lending flows but not to net new lending. The box on pages 6–7 discusses recent trends in facilities granted in more detail.

The industrial breakdown of corporate lending indicates that the decline in the stock of lending in recent months has continued to be broad-based across sectors (**Chart 1.2**). In 2009 Q3, as in Q2, lending fell across all the main sectors of the economy, a pattern not seen previously since the series began in 1997.

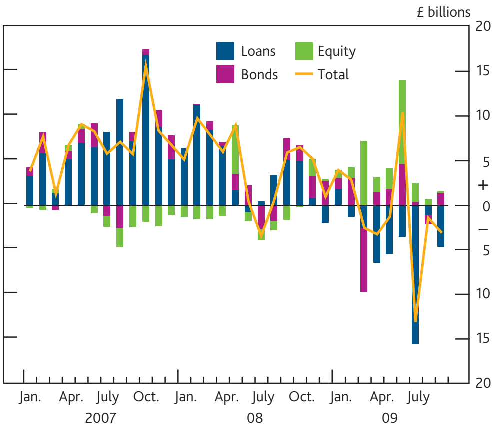
Loans to the real estate sector account for nearly 50% of the total stock of lending to private non-financial corporations (PNFCs). In the past six months, lending to the real estate sector has contracted, albeit by less than in some other sectors (**Chart 1.2**). In recent discussions, the major UK lenders reported that they expected net real estate lending to remain

Chart 1.2 Sectoral breakdown of net lending flows[(a)]



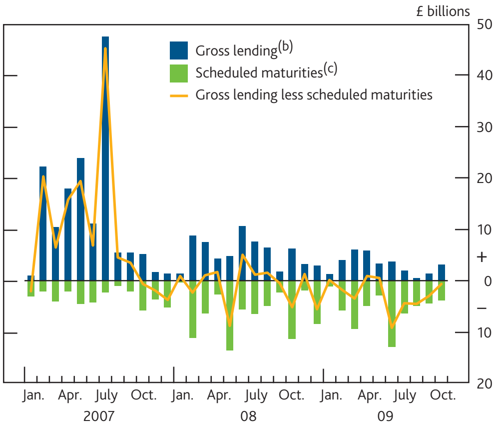
(a) Lending by UK monetary financial institutions. See footnote (b) to **Chart 1.1**.
(b) The main contributors in 2009 Q3 were mining (-£5.2 billion) and transport and communication (-£1.9 billion).

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 lending in both sterling and foreign currency, expressed in sterling terms. Loans are seasonally adjusted. Bond and equity issuance are non seasonally adjusted. Commercial paper is included within bonds.

Chart 1.4 Estimates of syndicated lending facilities 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. Actual maturities will also reflect the effects of refinancing and prepayments.

subdued in coming months. They continued to indicate that they would be prepared to accommodate breaches of loan to value covenants, rather than foreclose, where debt service appeared to be secure. Although there was some evidence of a rise in demand for investment in prime property backed by financially strong tenants, lenders reported that this had yet to feed through to higher demand for lending. The Bank's regional Agents reported in October that non-residential private sector construction activity had continued to shrink, with a negligible pipeline of new projects to replace completed work. The major UK lenders reported that new real estate lending was largely reflecting the refinancing of existing loans. Market contacts have highlighted the large amount of real estate bank debt requiring refinancing over the next few years.

Some large commercial property companies were among those that contributed to very strong capital issuance earlier in the year. In more recent months, capital market issuance has slowed (**Chart 1.3**). The major UK lenders indicated that investor appetite for issuance remained fairly strong. Rather, they attributed the slowing to many businesses having already raised the funding planned for 2009 earlier in the year, including some issuance that had been delayed while markets were impaired during 2008.

For larger firms, raising funds on the capital markets can substitute for other forms of finance such as syndicated lending. The box in the August 2009 *Trends in Lending* showed that the flow of syndicated lending facilities to UK businesses had declined sharply since it peaked in July 2007 and the financial crisis began. The amount of gross syndicated lending in 2009 to date has been around half that in 2008 (**Chart 1.4**). The major UK lenders reported that the volume of lending had been low in recent months. Perhaps reflecting the earlier withdrawal of lenders — including foreign lenders — those loans completed had been largely transacted on a 'club basis', where deals are pre-arranged between lenders rather than being underwritten and syndicated more widely. However, some lenders continued to report cases where foreign banks were looking to enter the UK market.

Overall, demand for new bank lending was expected by the major UK lenders to remain subdued during the remainder of the year. The outlook for 2010 would depend on the prospects for working capital and mergers and acquisitions activity in particular. On the supply side, the major UK lenders noted signs of increasing competition among those lenders currently active in the market. Some business contacts of the Bank's regional Agents — particularly from larger firms outside of the property sectors — also reported that credit availability had eased. But many others continued to report concerns over access to finance. Financing constraints were cited as a factor pressing down on investment plans, albeit secondary to concerns about the economic outlook. A broadly similar view

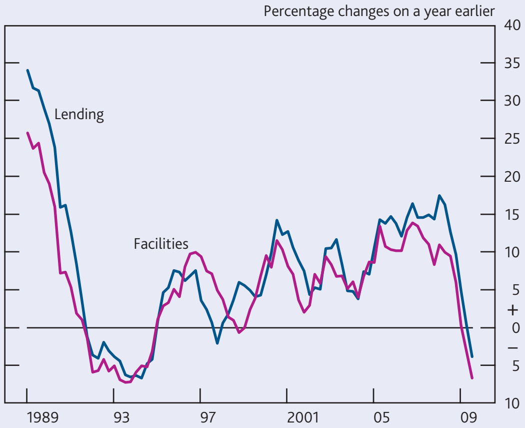
Corporate credit facilities

Lenders generally extend credit to businesses by providing facilities from which funds can be drawn down. This box explains the main types of credit facilities offered by lenders and the data published by the Bank on those provided to UK businesses. It also summarises some of the recent trends seen in that data, informed by discussions with the major UK lenders and other market contacts.

A credit facility is an agreement between a lender (or a group of lenders) and a borrower, in which the former sets out the conditions on which it will advance credit, up to a specified amount, within a defined period. Facilities can generally be grouped under three broad headings[1] — overdraft, revolving and term loan. Each has a particular set of characteristics and the decision on which is used will depend on the purpose for which the borrower requires credit. For example, a smaller company looking to finance a relatively small amount of working capital, possibly at short notice, might look to use an overdraft facility; whereas a company looking to finance a large capital investment project might look to arrange a term loan facility. Revolving facilities effectively combine aspects of the two: typically financing more substantial amounts of working capital than is done through overdrafts, but also some capital expenditure and other core financing requirements. **Table 1** summarises the key features of these facilities.

The Bank collects and publishes data on facilities as part of its industrial analysis of lending by UK-resident banks and building societies. Those data show that in aggregate, growth in facilities granted to private non-financial corporations (PNFCs) and the associated lending follow the same general path, but that there is some variation in how closely the two move together (**Chart A**).

Chart A Growth in the stock of UK corporate credit facilities and lending[a]



(a) Loans and facilities to PNFCs by UK monetary financial institutions. The underlying data cover facilities and lending in both sterling and foreign currency, expressed in sterling terms. Non seasonally adjusted.

As different types of facilities meet differing financing needs there are varying lags between the granting of facilities and resultant lending. For example, lending might quickly follow the granting of a facility in the retail/wholesale sector, where the ability to make swift adjustments to working capital finance may be required to accommodate changes in stocks. But in the construction and commercial property development sectors, credit tends to be required over an extended period and is often drawn down in tranches over time — for example, to fund building projects as they move through the various phases towards completion.

Table 1 Stylised characteristics of corporate credit facilities

	Overdraft facility	Revolving facility	Term Loan facility
Availability	By arrangement — can be established quickly	By arrangement — longer time to establish	By arrangement — longer time to establish
Facility committed for a specified period?	Uncommitted and typically reviewed annually	Yes	Yes
Main uses	Working capital finance	Working capital finance, capital expenditure finance, and other core financing requirements	Acquisition finance, capital expenditure finance and other core financing requirements
Repayable on demand?	Yes — but typically subject to a notice period	No — drawings and repayments may be made with some flexibility ahead of full repayment when the facility matures	No — agreed repayment schedule
Can lending that has been paid back be subsequently reborrowed?	Yes	Yes	No
Standard charges	Arrangement fee Interest margin	Arrangement fee Commitment fee Interest margin	Arrangement fee Commitment fee Early repayment fee Interest margin
Typical contractual tenor of funds drawn down	Daily	Short to medium term — typically one to three months, but can be as short as one week and as long as six months (the tenor of the facility itself can be up to five years)	Longer term — typically three to five years, but can be 30 years or more

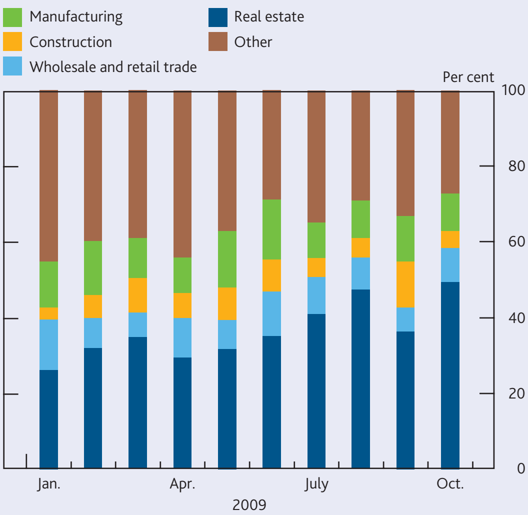
Since the end of 2008, the existing Bank data set on facilities and lending has been supplemented by the Lending Panel data, which include additional information on facilities granted by the major UK lenders — in particular data on gross monthly flows. And more recently still, in July 2009 the Bank started collecting and publishing a monthly industrial breakdown of deposits and lending — including data on facilities — where previously these data had been available only quarterly.[2] These data, alongside intelligence from the major UK lenders and other market contacts have highlighted a number of recent developments, including:

- PNFCs' unused credit facilities fell by nearly £30 billion over the past year. Earlier in the year, the major UK lenders reported that borrowers had cancelled unused facilities as investment plans were cut back and as charges on unused facilities rose to reflect higher capital requirements under the new Basel II capital adequacy framework. In more recent months, however, unused corporate facilities have stabilised.

- Since the start of the year, on average over a third of gross new facilities granted each month have been to businesses in the real estate sector[3] (**Chart B**), which the major UK lenders have explained largely reflects the refinancing of existing facilities. Market contacts have highlighted the large amount of real estate bank debt requiring refinancing over the next few years.

- In the early months of 2009 some major UK lenders reported an increased appetite among borrowers for putting in place arrangements, often well in advance, to extend facilities on expiry.[4] Recent market intelligence suggests that improved market conditions have reduced concerns about refinancing. Consistent with this, the major UK lenders have reported a tailing off in demand for early refinancing, citing improved bank lending and capital market conditions, and also that in many cases companies needing such advance commitments made the arrangements earlier in the year.

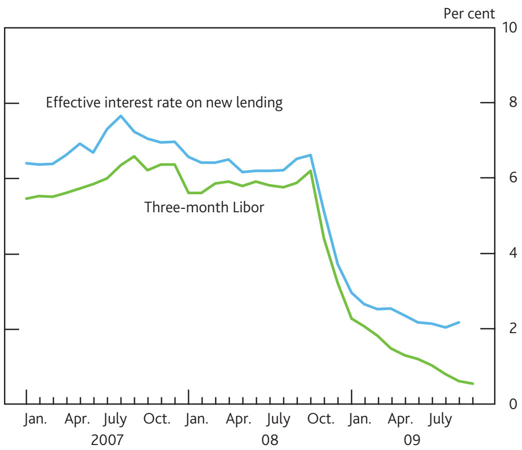
Chart B Industrial breakdown of gross new facilities granted to UK businesses[a]



(a) Lending Panel data for major UK lenders for gross new facilities granted to PNFCs. See footnote (b) to **Chart 1.1**.

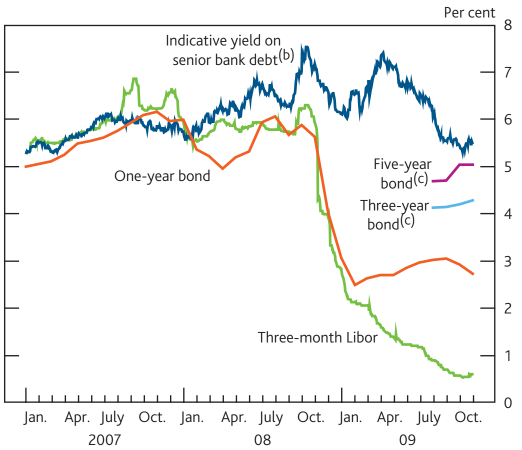
(1) An additional source of credit for businesses is invoice discounting, which provides working capital finance — typically in greater amounts than is available through an overdraft — secured against businesses' sales ledgers. A key characteristic of invoice discounting is that the amount of credit available automatically increases or decreases as businesses' activity (debtor book) levels change, without the need for renegotiation.
(2) See www.bankofengland.co.uk/statistics/ms/2009/oct/tabc1.2.xls.
(3) A box on lending to the real estate sector appeared in the June 2009 *Trends in Lending* (page 6): available at www.bankofengland.co.uk/publications/other/monetary/TrendsJune09.pdf.
(4) See June 2009 *Trends in Lending* (page 4) for a discussion of the use of 'forward start agreements': available at www.bankofengland.co.uk/publications/other/monetary/TrendsJune09.pdf.

Chart 1.5 Effective interest rate on new lending to UK businesses(a)



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

Chart 1.6 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 those banks and building societies within the Bank's quoted rate sample with suitable products.

was reported by respondents to the British Chambers of Commerce's November 2009 *Monthly Business Survey*.

Corporate loan pricing

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

The Bank's *Credit Conditions Surveys* have pointed to increases in spreads over reference rates on new facilities since the start of the financial crisis. Through the year, that has also been increasingly reflected in the Bank's measure of effective interest rates on new or refinanced corporate lending (**Chart 1.5**), though these data could also include rates on new lending drawn from facilities agreed at lower spreads before the crisis.

To some extent, elevated spreads are likely to reflect heightened credit risk and a repricing of risk. But some major UK lenders have also pointed to the greater difficulty and cost in raising longer-term funding as a key factor contributing to the upward pressure on spreads. Rates on longer-term retail deposits — such as three and five-year fixed-rate income bonds — have edged higher in recent months (**Chart 1.6**). And while longer-term wholesale funding conditions have eased somewhat, secondary market yields on sterling senior bank debt remain high relative to three-month Libor.

Most recently, some major UK lenders indicated that an increase in competitive pressures had led to some narrowing of spreads on lending to larger businesses, with spreads on lending to smaller companies reported to have been less affected. In part, that appeared to reflect the continued attractiveness of the capital markets as an alternative means of raising finance for larger companies.

2 Mortgage lending

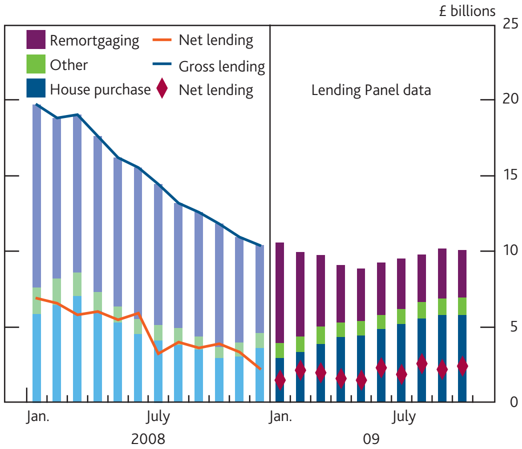
The flow of total net mortgage lending slowed in September though the annual rate of lending growth remained broadly unchanged. Mortgage approvals for house purchase increased in October, according to data from the major UK lenders. Gross lending for house purchase has risen in recent months, reflecting an increase in lending to first-time buyers, as well as to home movers. In contrast, gross mortgage lending for buy-to-let purposes has remained very subdued. Effective interest rates on secured lending were little changed in September. The major UK lenders reported that secured credit availability and demand had both increased somewhat in recent months.

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

	Averages				2009		
	2007	2008	2009 Q1	2009 Q2	July	Aug.	Sep.
Net monthly flow (£ billions)	9.0	3.4	1.1	0.6	-0.3	1.3	0.9
Three-month annualised growth rate (per cent)	10.4	4.0	1.2	0.8	0.2	0.4	0.6
Twelve-month growth rate (per cent)	11.0	6.9	2.4	1.3	0.8	0.9	0.8

(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

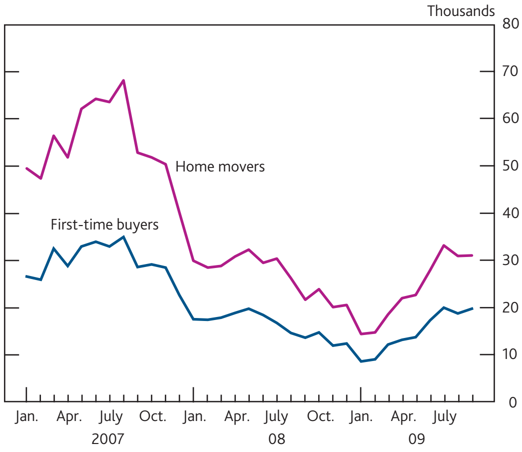
The flow of total net mortgage lending by all UK-resident mortgage lenders slowed to £0.9 billion in September, but remained higher than the lows seen in the middle of the year (**Table 2.A**). The annual rate of growth in the stock of lending remained broadly unchanged. According to Lending Panel data, net mortgage lending by the major UK lenders increased slightly in October (**Chart 2.1**) — while gross lending decreased slightly there was a bigger fall in repayments. Lending Panel data also provide a split of gross lending between house purchase and the refinancing of existing mortgages (remortgaging). **Chart 2.1** shows that gross mortgage lending for house purchase was unchanged in October, while remortgaging activity fell further.

The gradual increase in gross mortgage lending for house purchase by the major UK lenders in recent months reflects the recovery in mortgage approvals for house purchase since the beginning of the year. In the Lending Panel data for October, the major UK lenders reported that approvals for house purchase rose to around 61,000, from some 56,000 in September. The Royal Institution of Chartered Surveyors' (RICS) new buyer enquiries balance continued to rise in October pointing to a further increase in demand for mortgages for house purchase. However, the volume of housing transactions remained low by historical standards.

The rise in gross lending for house purchase has reflected an increase in lending to first-time buyers as well as to home movers, according to data from the Council of Mortgage Lenders (CML) (**Chart 2.2**). The RICS September 2009 *Housing Market Survey*[(1)] showed a similar picture, with a net balance of more than a quarter of respondents indicating that the number of new buyer enquiries from first-time buyers had increased

(1) RICS *Housing Market Survey* Additional Questions September 2009. Available at www.rics.org/site/scripts/download_info.aspx?downloadID=3857.

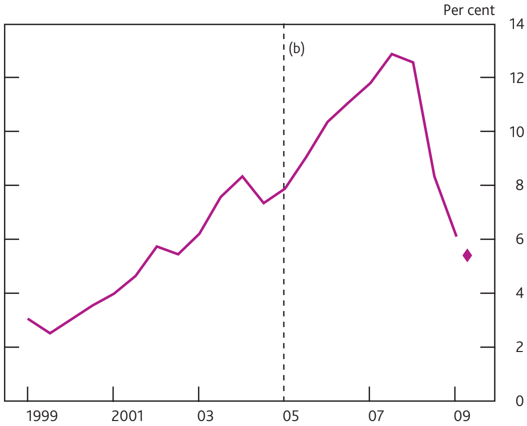
Chart 2.2 Number of loans for house purchase[a]



Source: CML.

(a) First-time buyers will include some buyers who have previously owned a property, but are not in owner-occupation at the time of this purchase. Estimates from the CML suggest that around 20% of stated first-time buyers may in fact fall into this category. Non seasonally adjusted.

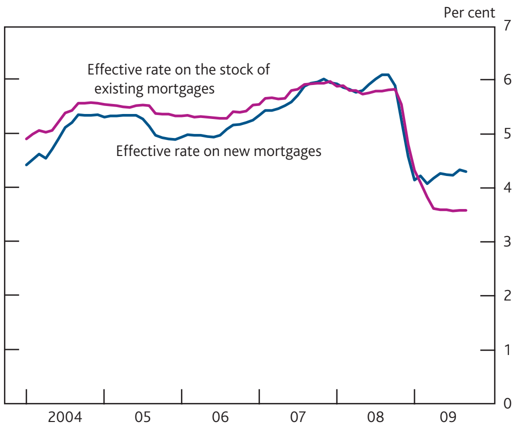
Chart 2.3 Buy-to-let as a proportion of gross mortgage lending[a]



Sources: CML and Bank calculations.

(a) Data are half-yearly except for 2009 Q3. The diamond shows a quarterly observation for 2009 Q3. Non seasonally adjusted.
(b) There is a step change in 2005 H1 as a large lender submitted buy-to-let data to the CML for the first time. Hence, comparisons between 2004 H2 and 2005 H1 cannot be made on a like-for-like basis.

Chart 2.4 Effective mortgage rates[a]



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

over the three months to August. While first-time buyer data could potentially include some buyers who have owned property before but are no longer owner-occupiers, estimates from the CML suggest that they have tended to not be a large proportion of the total. Lenders reported that recent initiatives to lend at higher LTVs and family assistance with deposits were factors contributing to rising lending to first-time buyers.

In contrast, gross mortgage lending advanced for buy-to-let purposes has remained very subdued. Although CML data showed a slight rise in gross buy-to-let lending in 2009 Q3, buy-to-let lending continued to decline as a share of total gross mortgage lending (**Chart 2.3**). The major UK lenders reported that the buy-to-let market was weak and was expected to remain so, in part reflecting the limited number of active lenders and tight LTV criteria.

Secured credit availability overall was reported by the major UK lenders to have increased recently, due largely to improvements in bank funding costs, the rise in house prices in 2009 Q3 and as low interest rates had contributed to lower than expected arrears. This was consistent with the results of the 2009 Q3 *Credit Conditions Survey*, in which lenders reported expectations of a rise in credit availability in 2009 Q4. However, most major UK lenders expected house prices to remain broadly flat during 2010 and, in their most recent market commentary, the CML expected only a modest increase in gross and net mortgage lending next year.[1]

Mortgage pricing

In September, the Bank's measure of the overall effective interest rate on new mortgages was broadly unchanged (**Chart 2.4**). The major UK lenders have reported that elevated mortgage spreads on new lending — over reference rates such as Bank Rate or swap rates — partly reflect high longer-term wholesale funding costs. These had eased somewhat in recent months, though longer-term retail funding costs such as interest rates on three or five-year fixed-rate bonds had edged higher (see Section 1). The level of spreads is also likely to reflect heightened credit risk and relatively low levels of competition in the market, given the earlier withdrawal of other lenders.

In contrast to the position before the financial crisis, the Bank's measure of the overall effective rate on new mortgages has been higher than the effective rate on the stock of existing mortgages during 2009, with the gap between them increasing somewhat in recent months. That pattern has contributed to the low demand by borrowers to remortgage and is reflected in the continued weakness in gross lending for remortgaging (**Chart 2.1**).

(1) See www.cml.org.uk/cml/publications/marketcommentary/186.

3 Consumer credit

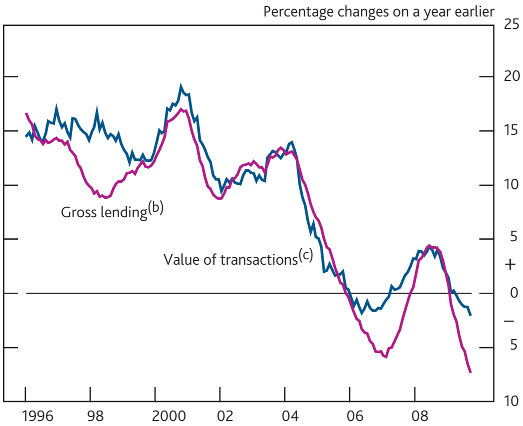
Total net consumer credit flows remained negative in September. Gross credit card lending has remained weak in recent months alongside subdued spending on credit cards. In September, effective rates on credit cards and overdrafts remained broadly flat, though the rate on personal loans increased. The major UK lenders expected consumer credit to remain weak over coming months reflecting further tightening in both credit availability and demand.

Table 3.A Consumer credit[(a)]

	Averages				2009		
	2007	2008	2009 Q1	2009 Q2	July	Aug.	Sep.
Net monthly flow (£ billions)	1.1	0.9	0.1	0.2	-0.3	-0.4	-0.3
Three-month annualised growth rate (per cent)	6.4	5.1	1.0	0.7	-0.1	-1.1	-1.6
Twelve-month growth rate (per cent)	6.1	6.3	3.7	2.3	1.3	0.7	0.5

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

Chart 3.1 Gross credit card lending and transaction values[(a)]



Sources: The UK Cards Association and Bank calculations.

(a) Annual growth rates are calculated on twelve-month rolling sums for each series. Sterling only. Seasonally adjusted.
(b) Gross credit card sterling lending by UK monetary financial institutions to UK individuals.
(c) Value of credit card transactions for UK purchases only. These include transactions on foreign issued cards and do not include cash advances.

Recent lending data

Total net consumer credit flows remained negative in September, and the twelve-month growth rate in the stock of lending fell to a new low since the series began in 1994 (**Table 3.A**). In October, the major UK lenders in aggregate reported that both net lending flows and applications for unsecured credit had declined further.

In recent discussions, some major UK lenders have reported that weak unsecured lending has been associated with subdued consumer spending. Consistent with that, **Chart 3.1** shows the recent fall in gross credit card lending has coincided with a decline in the value of credit card transactions. A survey by PricewaterhouseCoopers[(1)] conducted in September, pointed to a further reduction in credit card usage with only 9% of consumers surveyed planning to use more credit in the next three months compared with 14% in 2008. Most recently, however, contacts of the Bank's regional Agents have reported tentative signs that the slowdown in consumer spending — characterised in part by a sharp reduction in demand for big-ticket items — may have started to bottom out.

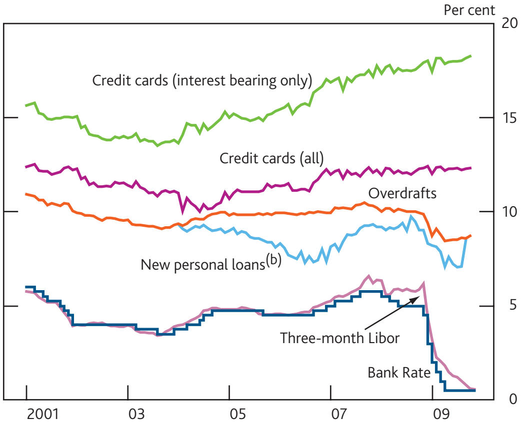
Looking forward, the major UK lenders reported that the weakness in unsecured lending was expected to continue over coming months, consistent with reports of borrowers seeking to reduce their burden of unsecured debt. In contrast to the picture for secured credit, some lenders expected to tighten unsecured credit availability further in coming months, in part due to high levels of credit losses on unsecured lending. Consistent with that, The Insolvency Service reported that personal insolvencies rose further in 2009 Q3.

Consumer credit pricing

Effective rates on credit cards and overdrafts remained broadly flat in September. By contrast, effective interest rates on

(1) *Precious Plastic 2010*: available at www.pwc.co.uk/eng/publications/precious_plastic.html.

Chart 3.2 Effective interest rates on consumer credit[(a)]



(a) The Bank's effective rate 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.

personal loans increased on the month (**Chart 3.2**). The increase in spreads over the past year between effective rates on consumer credit and Bank Rate or Libor is reported by lenders to have largely reflected heightened credit risk on consumer credit.

Abbreviations

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).
RICS – Royal Institution of Chartered Surveyors.

Glossary

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

Basel II An international framework for banks' capital requirements (revised from the previous Basel I framework).

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 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 loans advanced by an institution in a given period.

Loan approvals Lenders' firm offers to advance credit.

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

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

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

Monetary financial institutions A statistical grouping comprising banks and building societies.

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

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

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

Reference rate The rate on which loans 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, but from 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 original or remaining time until repayment of the principal on a loan or other debt instrument.

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.

ISSN: 2040-4042 (online)