Trends in Lending

October 2011

BANK OF ENGLAND

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This quarterly publication presents the Bank of England's assessment of the latest trends in lending to the UK economy.(1) It draws mainly on long-established official data sources, such as the existing monetary and financial statistics collected by the Bank that cover all monetary financial institutions, and on newer data collections, established since the start of the financial crisis to cover the major UK lenders, some of which are being extended across a wider range of reporters.(2)

These data are supplemented by discussions between the major UK lenders and Bank staff, giving staff a better understanding of the business developments driving the figures and this intelligence is reflected in the report.(3) The major UK lenders(4) are Banco Santander, Barclays, HSBC, Lloyds Banking Group, Nationwide and Royal Bank of Scotland and together they accounted for around 70% of the stock of lending to businesses, 45% of the stock of consumer credit, and 75% of the stock of mortgage lending at end-June 2011. The report also draws on intelligence gathered by the Bank's network of Agents and from market contacts, as well as the results of other surveys. The focus of the report is on lending, but broader credit market developments, such as those relating to capital market issuance, or trade credit, are discussed where relevant.

The report covers data up to August 2011 and intelligence gathered up to end-September 2011. Unless stated otherwise, the data reported cover lending in both sterling and foreign currency, expressed in sterling terms.

(1) See www.bankofengland.co.uk/statistics/2011.pdf for future publication dates.
(2) For more information see www.bankofengland.co.uk/statistics/ms/articles/art2oct10.pdf.
(3) For a fuller background please refer to the first edition of *Trends in Lending* available at: www.bankofengland.co.uk/publications/other/monetary/TrendsApril09.pdf.
(4) Membership of the group of major UK lenders is based on the provision of credit to UK-resident companies and individuals, regardless of the country of ownership.

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Executive summary

The stock of lending to UK businesses overall contracted in the three months to August, as did the stock of lending to small and medium-sized enterprises. The annual rate of growth in the stock of secured lending to households was broadly unchanged. Mortgage approvals by UK-resident mortgage lenders for house purchase rose in the three months to August, though remained broadly unchanged compared to a year earlier. Total net consumer credit flows were positive over this period, though remained subdued.

Conditions in longer-term wholesale funding markets were very difficult in September, according to the major UK lenders. In recent discussions, some major UK lenders reported that higher wholesale bank funding costs were starting to feed through to their internal transfer prices although, as yet, the effect on loan pricing for corporates and households was muted. Spreads over reference rates on new lending continued to narrow for larger businesses in 2011 Q3, according to the Bank of England's *Credit Conditions Survey*, though were reported to be broadly unchanged for small businesses. Spreads on quoted fixed-rate mortgages narrowed somewhat in the three months to September. Effective rates on credit cards fell, while those on personal loans rose slightly in the three months to August.

Credit availability remained broadly unchanged for businesses and increased slightly for households, according to lenders in the Bank of England's 2011 Q3 *Credit Conditions Survey*. Contacts of the Bank's network of Agents noted that larger firms continued generally to be able to access bank lending if required, though small businesses still reported that bank finance was difficult to obtain. Demand for credit from businesses remained subdued in 2011 Q3, according to most major UK lenders. Demand for secured lending by households was reported in the *Credit Conditions Survey* to have increased, with demand for buy-to-let lending picking up significantly. Demand for unsecured lending was broadly unchanged.

1 Lending to UK businesses and individuals

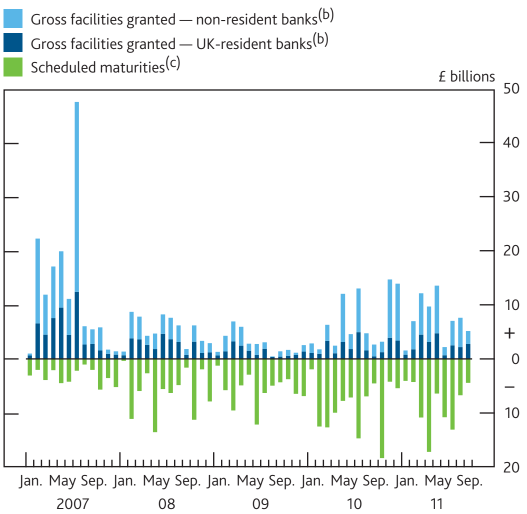
The stock of lending to UK businesses overall contracted in the three months to August, as did the stock of lending to small and medium-sized enterprises. The annual rate of growth in the stock of secured lending to households was broadly unchanged. Mortgage approvals by UK-resident mortgage lenders for house purchase rose in the three months to August, though remained broadly unchanged compared to a year earlier. Total net consumer credit flows were positive over this period, though remained subdued.

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

	Averages							2011		
	2007	2008	2009	2010	2010 Q4	2011 Q1	2011 Q2	June	July	Aug.
Net monthly flow (£ billions)	7.4	3.9	-3.9	-2.1	-1.1	-1.7	-1.3	-2.1	-1.2	0.8
Three-month annualised growth rate (per cent)	20.9	10.7	-7.7	-5.1	-4.1	-3.7	-2.2	-3.2	-5.8	-2.1
Twelve-month growth rate (per cent)	16.8	17.9	-1.8	-7.1	-5.1	-4.3	-3.8	-3.9	-3.6	-3.3

(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 Estimates of syndicated lending facilities granted to UK businesses[(a)]



Sources: Dealogic and Bank calculations.

(a) Defined broadly as PNFCs. Data cover lending facilities in both sterling and foreign currency, expressed in sterling terms. Non seasonally adjusted.
(b) New syndicated lending facilities excluding cancelled or withdrawn facilities.
(c) Scheduled maturities of syndicated lending facilities excluding cancelled or withdrawn facilities, translated into sterling. Actual maturities will also reflect the effects of refinancing and prepayments, exchange rate changes and other effects.

This section presents a summary of the recent data on lending to UK businesses and individuals. The annual rate of corporate lending growth remained negative during the past three months. In some contrast, growth in the stock of lending to individuals — both secured and unsecured — was positive over the past quarter, though remained weak.

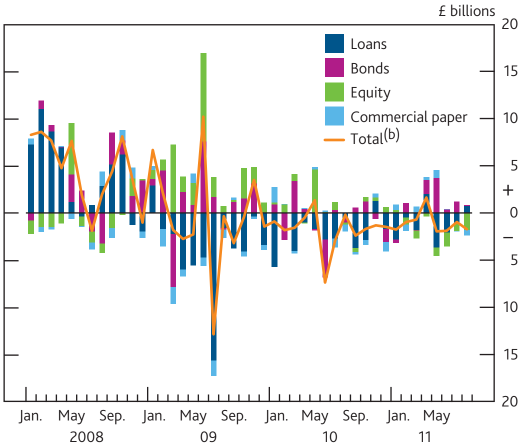
Lending to UK businesses

Official data covering lending by all UK-resident banks and building societies indicated that the stock of lending to businesses contracted by around £2.5 billion in the three months to August (**Table 1.A**). The contraction in the stock of lending to businesses overall has been reflected in the stock of lending to small and medium-sized enterprises (SMEs). As a box on pages 7–8 discusses in more detail, the stock of lending to SMEs continued to contract in the three months to August.

Larger companies have access to more funding sources than smaller companies, such as the syndicated lending market. The total value of new syndicated lending facilities granted in the UK market fell back a little in the three months to September compared to the previous three months (**Chart 1.1**). In recent discussions, some major UK lenders reported that there was no discernible change in the activity of foreign lenders in this market. Some lenders noted that issuance in the syndicated lending market in September continued to be largely driven by companies' refinancing needs rather than by mergers and acquisitions. A number of major UK lenders noted that some businesses were bringing forward their refinancing plans, partly in response to concerns about potentially higher pricing in the coming months.

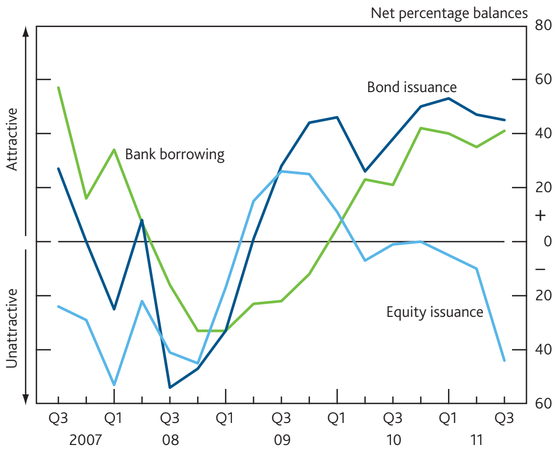
Capital markets provide an alternative source of funding for larger companies. Net equity issuance by UK businesses has been negative since February this year (**Chart 1.2**), and in August was the lowest recorded since November 2007, mostly reflecting significant share buybacks by a small number of

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.
(b) Owing to the method of the seasonal adjustment of this series, it may not equal the sum of its component breakdown.

Chart 1.3 *Deloitte CFO Survey*: attractiveness of different sources of corporate funding[a]



Source: *Deloitte CFO Survey 2011 Q3*.

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

Table 1.B Secured lending to individuals[a]

	Averages							2011		
	2007	2008	2009	2010	2010 Q4	2011 Q1	2011 Q2	June	July	Aug.
Net monthly flow (£ billions)	9.0	3.4	1.0	0.7	0.4	1.0	0.6	-0.1	0.7	0.6
Three-month annualised growth rate (per cent)	10.4	4.1	0.9	0.8	0.7	0.8	0.7	0.6	0.5	0.4
Twelve-month growth rate (per cent)	11.0	6.9	1.4	0.9	0.8	0.6	0.7	0.6	0.7	0.6

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

companies. Net bond issuance by UK businesses was positive in recent months. Net capital market issuance overall was negative in August and, while partly offset by positive net lending (**Table 1.A**), the total net amount of funds raised from banks and capital markets by UK businesses continued to be negative.

Notwithstanding the recent weakness of bank lending and capital market issuance, the majority of respondents — chief financial officers of very large companies — to the *Deloitte CFO Survey* for 2011 Q3 indicated that they still viewed bond issuance as the most favoured source of funding, with equity issuance becoming more 'unattractive' (**Chart 1.3**). More generally, debt financing was viewed as an 'attractive' source of funding with a balance of respondents viewing bank borrowing almost as favourably as bond issuance.

Secured lending to individuals

The monthly flow of net sterling mortgage lending by all UK-resident mortgage lenders picked up in July and August, following weak flows in June (**Table 1.B**). The annual rate of growth in the stock of secured lending was broadly unchanged at 0.6% in the three months to August. According to data provided by the major UK lenders, gross flows of secured lending increased over this period.

Data provided by the major UK lenders on gross lending include a split of gross lending between house purchase and the refinancing of existing mortgages (remortgaging). Gross mortgage lending for house purchase in the three months to August was higher than over the previous three months (**Chart 1.4**), though remained low compared with the period prior to the financial crisis. Over the past year, gross mortgage lending by the major UK lenders for house purchase has remained broadly unchanged. Remortgaging activity was little changed in the three months to August and slightly lower compared to the start of the year. In recent discussions, some major UK lenders reported that they did not expect to experience an increase in remortgaging activity until prospects of an increase in Bank Rate were evident.

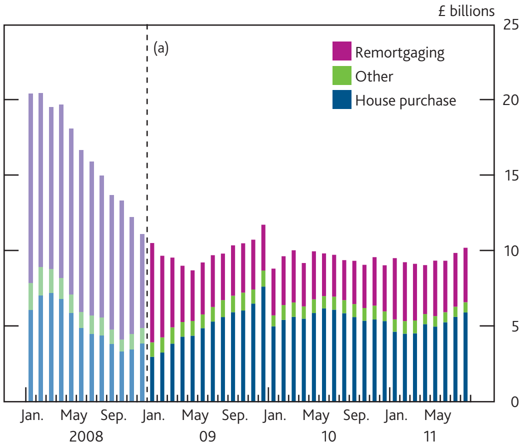
The stability in gross lending by the major UK lenders for house purchase over the past year was reflected in the data on approvals for house purchase up to August (**Chart 1.5**). Mortgage approvals by all UK-resident mortgage lenders for house purchase rose in the three months to August, though remained broadly unchanged compared to a year earlier. In recent discussions, some major UK lenders reported that lending to first-time buyers was little changed over the summer. Looking forward, the major UK lenders expected mortgage approvals in 2011 to be broadly flat.

Consumer credit

Total consumer credit flows were positive in the three months to August (**Table 1.C**), though remained subdued. The annual rate of growth of consumer credit increased over this period, though remained low compared with the period prior to the financial crisis.

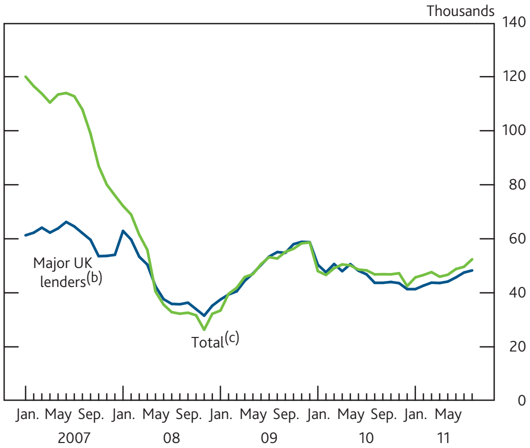
Within the total, net credit card lending remained weak and was zero in August, the lowest flow since May 2007. Non credit card lending flows in the three months to August were similar, on average, to those in the previous three months with the annual rate of growth in the stock of lending the highest since March 2009.

Chart 1.4 Mortgage lending by the major UK lenders[a]



(a) The split in 2008 is estimated using gross lending data and the split of loan approval values between house purchase, remortgaging and other advances. The split from 2009 onwards is reported data from the major UK lenders, rather than estimated data. Data from the major UK lenders on secured gross lending are provided to the Bank on a 'best endeavours' basis. Data cover lending in both sterling and foreign currency, expressed in sterling terms. Seasonally adjusted.

Chart 1.5 Approvals for mortgages for house purchase[a]



(a) Seasonally adjusted.
(b) Gross approvals data covering lending in both sterling and euros.
(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. Data cover lending in sterling only.

Table 1.C Consumer credit[a]

	Averages							2011		
	2007	2008	2009	2010	2010 Q4	2011 Q1	2011 Q2	June	July	Aug.
Net monthly flow (£ billions)	1.1	1.0	0.0	0.2	0.5	0.3	0.5	0.5	0.3	0.5
Three-month annualised growth rate (per cent)	6.5	5.5	0.1	1.1	1.7	1.8	3.0	2.8	2.4	2.5
Twelve-month growth rate (per cent)	6.1	6.5	1.9	0.5	1.1	1.2	1.8	1.9	2.0	2.3

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

Lending to small and medium-sized enterprises

This box provides an update on lending to small and medium-sized enterprises (SMEs), based on data collected in a regular survey of major lenders by the Department for Business, Innovation and Skills (BIS) and wider information. It follows boxes in April 2011 and earlier editions of *Trends in Lending*, and looks at developments over the past six months.

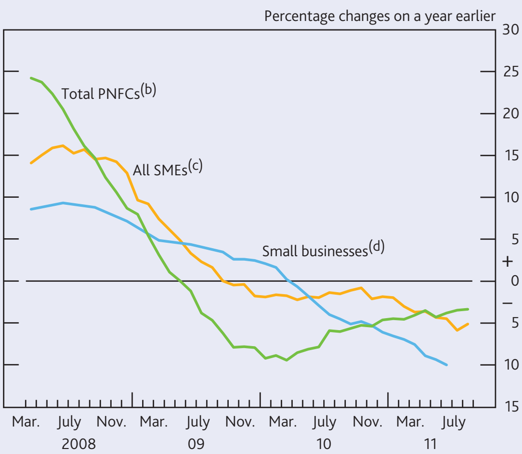
The data and survey evidence presented in this update have coincided more recently with stresses in bank funding markets and a more negative outlook for the broader economy. Not all SMEs require external debt finance, but those that do are particularly reliant on banks for their borrowing needs and will be potentially affected if current strains persist.

Recent data

SMEs are defined in the BIS survey as businesses with an annual turnover of up to £25 million. The survey covers data supplied by four major banking groups.[1] Total lending to SMEs reported in the survey accounts for around a quarter of the stock of lending to all UK businesses by banks and building societies.

The BIS data over recent months have indicated that growth rates of the stock of lending to SMEs are more negative than the position six months ago. The annual growth rate stood at -5% in August 2011 (**Chart A**). Lending growth for SMEs has been below that for private non-financial corporations (PNFCs) as a whole since May 2011.

Chart A Lending to small and medium-sized enterprises[a]



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

(a) Rate of growth in the stock of lending. Non seasonally adjusted.
(b) Data cover lending in both sterling and foreign currency, expressed in sterling terms.
(c) Source: monthly BIS survey; Bank calculations. Lending by four UK lenders to enterprises with annual bank account debit turnover less than £25 million. Data cover lending in both sterling and foreign currency, expressed in sterling terms.
(d) Source: BBA. Lending by seven UK lenders to commercial businesses with an annual bank account debit turnover of up to £1 million. Sterling only. This survey terminates at June 2011. www.bba.org.uk/statistics/article/small-business-support-december-2010/small-business/.

Data published by the British Bankers' Association (BBA) on the stock of lending to small businesses, defined as turnover of up to £1 million, and which are available up to June 2011, have shown negative lending growth rates for this sector, with the annual rate standing at -10% in June 2011.[2]

Data available from the BIS survey indicate that the value of applications and approvals of new and renewed credit facilities to SMEs have continued in most recent months at rates significantly below their levels of twelve months ago.

Supply and demand

Respondents to the Bank of England's 2011 Q3 *Credit Conditions Survey* reported that credit availability was little changed for medium-sized companies and had increased slightly for small businesses. Overall credit availability for SMEs was expected to remain broadly unchanged in 2011 Q4. Demand for credit, however, was reported to have fallen for smaller businesses in Q3 and was expected to fall for both small and medium-sized businesses in Q4. Lenders in the survey commented that companies were reluctant to hold increased levels of debt given a more uncertain economic outlook and a fall in consumer confidence.

The views on demand for credit by SMEs expressed by respondents to the *Credit Conditions Survey* were broadly consistent with those of SMEs themselves, as reported in the *SME Finance Monitor*, a survey of small and medium-sized businesses commissioned by the BBA Business Finance Taskforce and published in July.[3] Results from this survey suggested that SMEs' demand for finance remained muted, in part because companies were reluctant to borrow in the current climate. But some respondents also reported that they had felt directly or indirectly 'discouraged' from applying for finance, for reasons such as issues with the process of borrowing from banks or an anticipation of refusal.

The outlook reported in the latest *Credit Conditions Survey* was largely corroborated in recent discussions with the major UK lenders. The major UK lenders gave mixed responses on SME demand for credit; some lenders reported muted demand, whereas others reported a marked decline in demand. Some lenders also reported an increasing incidence of businesses paying down debt ahead of contractual requirements. Falling credit demand was reported by some lenders to have been more pronounced for smaller SMEs. The major UK lenders also reported that cash balances of SMEs had increased, on account of reduced investment spending by businesses, among other reasons.

The major UK lenders stated that credit availability to SMEs remained unchanged or had eased. Most major UK lenders reported that their expectations for SME credit conditions during 2012 were less optimistic than their expectations six months ago. Under this outlook, which they attributed to current economic uncertainties, SMEs were expected to continue to have a reduced risk appetite and to be cutting back on investment and non-essential spending.

Concerns about credit availability have been reported, however, by business contacts of the Bank's network of Agents. Contacts of the Agents reported that credit conditions continued to be tighter for SMEs compared to larger corporates. Small businesses and new business start-ups still found it difficult to gain access to credit.

The Bank's Agents also reported that some small firms were holding sizable cash balances because of concerns about the continuing availability of overdraft facilities. They reported that some small firms were reluctant to approach banks out of concern for an increase in the cost of existing borrowings, or reductions in overdraft limits, and sometimes had resorted to the use of personal loans instead.

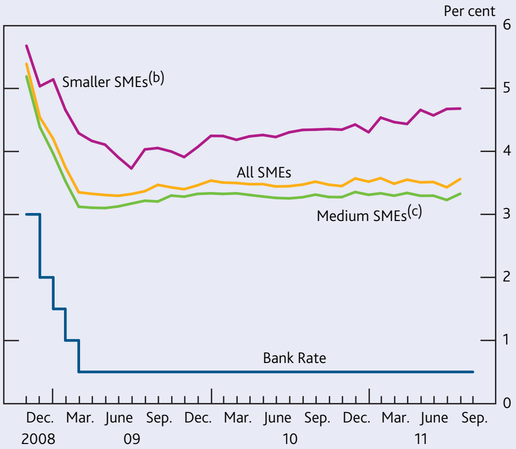
Evidence from the July 2011 *CBI Quarterly SME Trends Survey*,[(4)] covering manufacturing firms, indicated little change in SMEs' business optimism over the past six months. Investment intentions for the year ahead, however, were reported to be 'substantially lower' than in the previous twelve months.

Loan pricing

Estimates of median interest rates charged on new variable-rate loan and overdraft facilities to medium SMEs remained broadly unchanged over the past six months, according to BIS survey data (**Chart B**). However, estimates of rates charged to smaller SMEs, in particular, continued to drift upwards. The Bank's Agents reported that small businesses had commented that where loans were available, fees remained elevated and the application process was often drawn out. Some major UK lenders reported that the average pricing of SME credit facilities, where these were determined by credit score models, had automatically increased over recent months as credit quality of new applications had marginally deteriorated.

With respect to forward-looking influences on credit pricing, respondents to the *Credit Conditions Survey* reported that spreads on lending and fees and commissions had continued to fall for medium-sized businesses in 2011 Q3, and were little changed for small businesses. Default rates and losses given default were reported to have fallen for both small and medium-sized firms over the past six months, although some pickup in these quantities was expected in 2011 Q4 for medium-sized firms. Most major UK lenders, however, reported little evidence so far of deterioration in their existing SME credit portfolios.

Chart B 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 (Barclays, HSBC, Lloyds Banking Group and Royal Bank of Scotland). Data cover lending in both sterling and foreign currency, expressed in sterling terms.
(b) SMEs with annual bank account debit turnover under £1 million.
(c) SMEs with annual bank account debit turnover £1 million to £25 million.

(1) Barclays, HSBC, Lloyds Banking Group and Royal Bank of Scotland.
(2) The BBA measure covers lending to small businesses of up to £1 million annual bank account debit turnover, and is derived from a wider panel of reporting banks than the BIS measure. The BBA have announced that this data series will be replaced at a future date by a new data set based on an SMEs definition of turnover up to £25 million. See www.bba.org.uk/statistics/article/small-business-support-may-june-201111/small-business/.
(3) *SME Finance Monitor*, by BDRC Continental, July 2011. Available at www.sme-finance-monitor.co.uk/.
(4) *CBI Quarterly SME Trends Survey*, July 2011. Available at www.cbi.org.uk/pdf/2011.07-SME-Trends.pdf.

2 Loan pricing

Conditions in longer-term wholesale funding markets were very difficult in September, according to the major UK lenders. In recent discussions, some major UK lenders reported that higher wholesale bank funding costs were starting to feed through to their internal transfer prices although, as yet, the effect on loan pricing for corporates and households was muted. Spreads over reference rates on new lending continued to narrow for larger businesses in 2011 Q3, according to the Bank of England's *Credit Conditions Survey*, though were reported to be broadly unchanged for small businesses. Spreads on quoted fixed-rate mortgages narrowed somewhat in the three months to September. Effective rates on credit cards fell, while those on personal loans rose slightly in the three months to August.

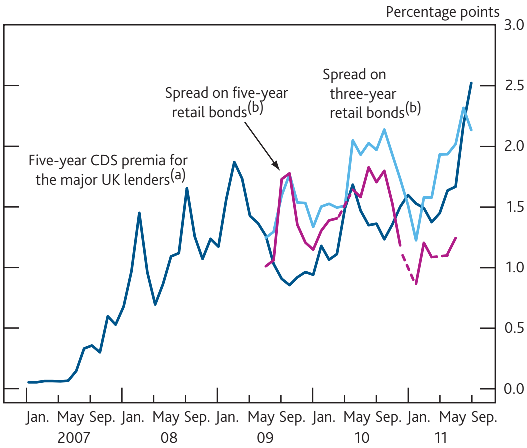
This section discusses recent developments in loan pricing for businesses and individuals, based on statistical data, survey evidence and discussions with the major UK lenders.

The total cost of bank finance to a company or individual can generally be decomposed into the fees charged by the lender to provide loan facilities, the spread over a given reference rate (such as three-month Libor or Bank Rate) at which loans are offered, and the prevailing level of that reference rate in the financial markets.

Previous editions of *Trends in Lending* have discussed the increase in spreads over reference rates on new lending since the start of the financial crisis. To some extent, elevated spreads reflect heightened credit risk on lending and a repricing of risk. But they are also likely to reflect the relatively high cost to lenders of raising longer-term funding.

Conditions in longer-term wholesale funding markets were very difficult in September, according to the major UK lenders. Some lenders noted that there had been some covered bond issuance in late August. However, the major UK lenders reported that conditions in senior unsecured debt markets were challenging. Funding costs for wholesale debt had increased according to some major UK lenders, which they reported primarily reflected concerns about the vulnerabilities associated with the indebtedness of several euro-area governments and banks. An indicative measure of the spread, over relevant swap rates, of bank wholesale debt — the five-year credit default swap (CDS) premia of the major UK lenders — picked up sharply since July (**Chart 2.1**) and in September stood at higher levels than in 2008 and 2009.

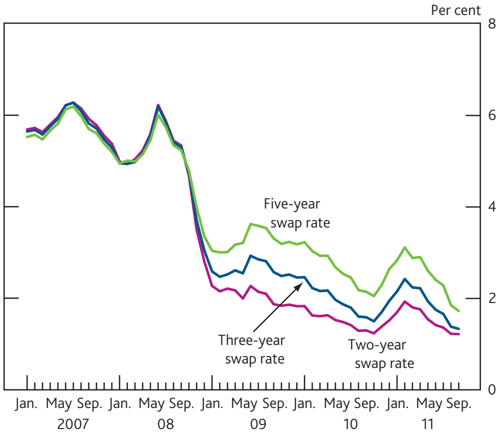
Chart 2.1 Indicative long-term funding spreads



Sources: Bank of England, Bloomberg, Markit Group Limited and Bank calculations.

(a) The spread on long-term wholesale bonds is proxied by an unweighted average of the five-year CDS premia for the major UK lenders.
(b) Sterling only. Spread over the relevant swap rate. The three-year and five-year retail bond rates are weighted averages of rates from banks and building societies within the Bank of England's normal quoted rate sample with products meeting the specific criteria (see www.bankofengland.co.uk/mfsd/iadb/notesiadb/household_int.htm). The series for the five-year bond is not published for May 2010, January, May, August and September 2011 as fewer than three institutions in the sample offered products in that period.

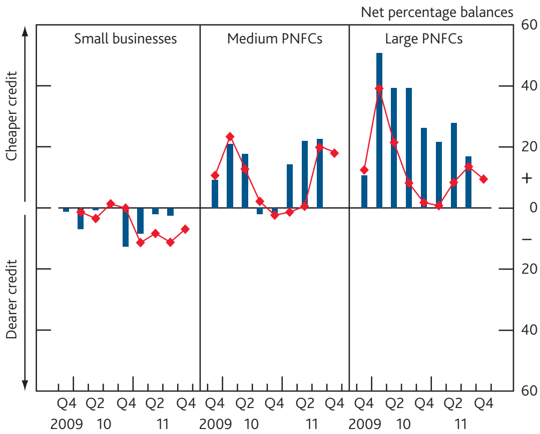
Chart 2.2 Swap rates at different maturities(a)



Sources: Bloomberg and Bank calculations.

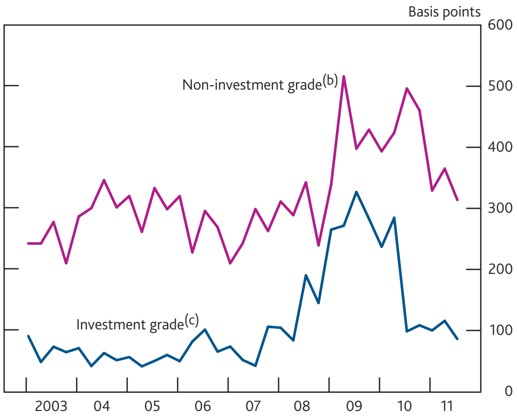
(a) Swap rates are monthly averages of daily data.

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



(a) Net percentage balances are calculated by weighting together the responses of those lenders who answered the question. The blue bars show the responses over the previous three months. The red diamonds show the expectations over the next three months. Expectations balances have been moved forward one quarter so that they can be compared with the actual outturns in the following quarter.
(b) A positive balance indicates that spreads over reference rates have become narrower, such that all else being equal, it is cheaper for corporates to borrow.

Chart 2.4 Average estimated spreads on syndicated loans(a)



Sources: Dealogic and Bank calculations.

(a) Average disclosed spreads over reference rates in the currency in which loan tranches are denominated, weighted by tranche size. Classification may be adjusted if ratings change over the life of the loan providing this is confirmed by the banks involved in the loan. The share of loans for which spread details are disclosed varies over time. Non seasonally adjusted.
(b) Non-investment grade is Dealogic leveraged and highly leveraged categories.
(c) Investment grade is classified by Dealogic as a rating of BBB- or higher, on announcement of the loan. If there is no rating then the loan spread on origination is used as the basis for classification, with any spread up to 250 basis points classified as investment grade.

In recent discussions, some major UK lenders reported that higher wholesale bank funding costs were starting to feed through to their internal transfer prices although, as yet, the effect on loan pricing for corporates and households was muted. Lenders noted, however, that if current conditions in term wholesale funding markets did not improve then higher funding costs were likely to be passed through to loan pricing in the coming months.

Spreads over reference rates on some longer-term retail deposits — such as those over equivalent-maturity swap rates for three-year fixed-rate bonds — picked up in July and August before falling slightly in September (**Chart 2.1**). The movements in spreads in 2011 Q3 primarily reflected movements in relevant swap rates during this period (**Chart 2.2**), with deposit rates falling by less than swap rates for three-year fixed-rate bonds. Most major UK lenders reported that competition in the retail funding market had remained intense over the quarter. Looking ahead, some lenders believed that current retail deposit rates were unsustainably high.

Corporate loan pricing

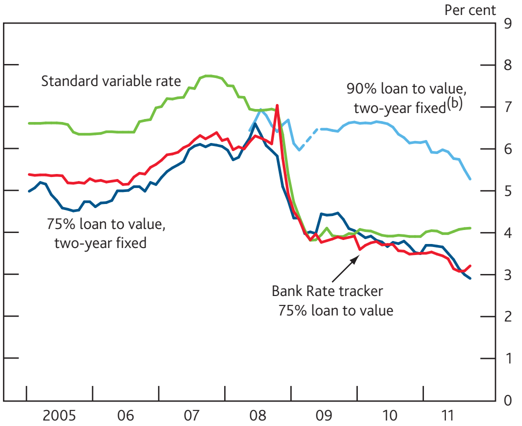
Spreads over reference rates on new lending for large businesses continued to narrow in 2011 Q3, according to the Bank of England's *Credit Conditions Survey* (**Chart 2.3**), with fees and commissions also reported to have fallen. In some contrast, the balance of respondents in the *Deloitte CFO Survey* reporting credit to be 'costly' in 2011 Q3 was broadly unchanged, though remained lower than a year earlier.

Spreads on syndicated lending, which typically apply to lending for larger businesses, fell in 2011 Q3 according to Dealogic data (**Chart 2.4**). In recent discussions, some major UK lenders reported that spreads had started to widen in the non-investment grade segment of the market. Most major UK lenders noted that higher wholesale funding costs and current concerns regarding sovereign debt issues in the euro area were starting to put upward pressure on syndicated lending spreads and they expected these to widen in the coming months.

Spreads over reference rates on lending to medium-sized businesses had also narrowed (**Chart 2.3**) and fees and commissions had fallen in 2011 Q3, according to lenders in the *Credit Conditions Survey*. For small businesses, however, respondents to the *Credit Conditions Survey* reported that spreads, fees and commissions were broadly unchanged over this period. A box on pages 7–8 provides more details of loan pricing to SMEs including estimates of interest rates on new variable-rate facilities for SMEs, derived from Department for Business, Innovation and Skills data.

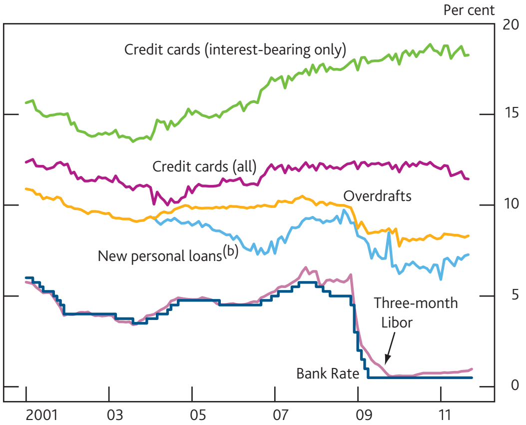
Looking forward, lenders in the 2011 Q3 *Credit Conditions Survey*, which was conducted in mid-August to early

Chart 2.5 Quoted interest rates on fixed-rate and floating-rate mortgages(a)



(a) Sterling only. The Bank's quoted interest rates series is currently compiled using data from up to 25 UK monetary financial institutions. End-month rates. Non seasonally adjusted.
(b) Series is only available on a consistent basis back to May 2008, as earlier periods require a greater degree of estimation, and is not published for March-May 2009 as only fewer than three products were offered in that period.

Chart 2.6 Effective interest rates on consumer credit(a)



(a) Sterling only. The Bank's effective interest rates series are currently compiled using data from 25 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-September and for effective rates to end-August. Non seasonally adjusted.
(b) Only available from January 2004.

September, expected spreads on lending to medium-sized and large companies to narrow further in the coming quarter. Spreads were expected to widen slightly for small businesses.

The Bank's measure of the effective interest rate on new borrowing for businesses overall, which may include new lending on facilities arranged earlier at low pre-crisis rates, remained little changed in the three months to August. In recent discussions, some major UK lenders expected loan pricing across business sizes to experience some upward pressure in coming months from higher funding costs.

Mortgage pricing

The Bank's measure of the effective overall mortgage rate on new lending fell by around 30 basis points in the three months to August. Within that, the effective fixed mortgage rate fell more than the effective floating mortgage rate. Similar to the effective new fixed mortgage rate, some of the Bank's measures of quoted rates on fixed-rate mortgages have also fallen in the three months to September (**Chart 2.5**). With swap rates having fallen by less (**Chart 2.2**), spreads over swap rates on these quoted fixed-rate mortgages have narrowed somewhat.

The Bank's measures of headline quoted floating-rate mortgages, such as the Bank Rate tracker, were broadly unchanged in 2011 Q3 (**Chart 2.5**) such that spreads over Bank Rate have changed little, remaining elevated. In recent discussions, most major UK lenders reported that the majority of borrowers coming to the end of their fixed-rate deals were continuing to move on to the lenders' standard variable rates.

Respondents to the 2011 Q3 *Credit Conditions Survey* reported that spreads on total new secured lending had fallen, primarily reflecting a fall in spreads on prime lending, and were expected to fall further in 2011 Q4. Fees on secured lending were reported to have increased slightly in 2011 Q3, but were expected to decrease in the coming quarter. Looking forward, some major UK lenders noted that loan pricing for secured lending would be subject to similar upward pressure from higher funding costs as for lending to businesses in the coming months.

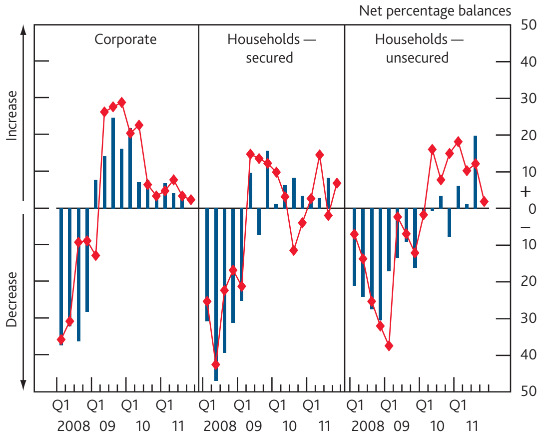
Consumer credit pricing

Effective rates on credit cards fell, while those on new personal loans increased slightly in the three months to August (**Chart 2.6**). Respondents to the 2011 Q3 *Credit Conditions Survey* reported that spreads on credit card lending eased slightly over the previous three months, while spreads on non credit card lending had increased. More generally, spreads between effective rates and Bank Rate and Libor for consumer credit as a whole, remain significantly wider than in late 2008, which lenders report partly reflects heightened credit risk on this form of lending. Lenders in the *Credit Conditions Survey* expected that spreads on total unsecured lending would be broadly unchanged in 2011 Q4.

3 Credit supply and demand

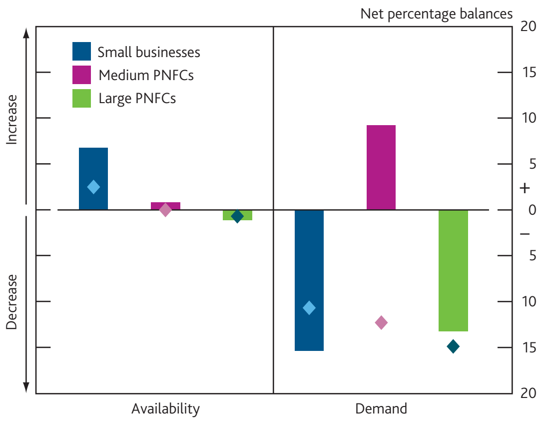
Credit availability remained broadly unchanged for businesses and increased slightly for households, according to lenders in the Bank of England's 2011 Q3 *Credit Conditions Survey*. Contacts of the Bank's network of Agents noted that larger firms continued generally to be able to access bank lending if required, though small businesses still reported that bank finance was difficult to obtain. Demand for credit from businesses remained subdued in 2011 Q3, according to most major UK lenders. Demand for secured lending by households was reported in the *Credit Conditions Survey* to have increased, with demand for buy-to-let lending picking up significantly. Demand for unsecured lending was broadly unchanged.

Chart 3.1 *Credit Conditions Survey*: availability of credit[(a)]



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

Chart 3.2 *Credit Conditions Survey*: availability and demand for credit across firm sizes reported in the 2011 Q3 survey[(a)(b)]



(a) Net percentages are calculated by weighting together the responses of those lenders who answered the question. The bars in the chart show the net percentage balance reported over the three months to early September. The diamonds show the associated expectations for the next three months.
(b) In the first panel, a positive balance indicates that more credit is available. In the second panel, a positive balance indicates an increase in demand.

The amount of lending and its price depend on the interaction of demand and supply factors. Disentangling the separate influences of changes in the supply of, and demand for, credit is difficult though survey data can help. This section looks at recent trends in credit supply and demand, drawing on surveys, reports from the Bank's network of Agents and discussions with the major UK lenders.

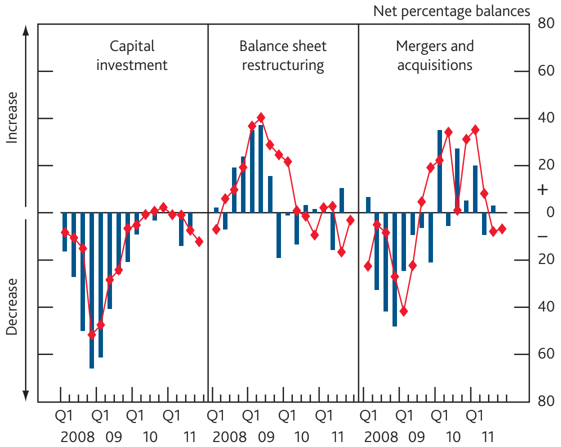
Credit conditions for businesses

Credit availability for businesses overall was broadly unchanged in 2011 Q3 according to respondents to the *Credit Conditions Survey* (**Chart 3.1**). Within that, respondents reported that credit availability had increased slightly for small businesses (**Chart 3.2**). Contacts of the Bank's network of Agents noted that small businesses still reported that bank finance was difficult to obtain and that large and medium-sized firms with strong balance sheets had access to bank lending, if required. A balance of respondents to the *Deloitte CFO Survey* for 2011 Q3 — which covers very large companies — continued to view credit as 'available'.

Looking forward, respondents to the *Credit Conditions Survey* expected credit availability to remain broadly unchanged for the corporate sector in the coming quarter. In recent discussions, the major UK lenders reported that current developments in bank funding markets had not yet affected their lending plans for the corporate sector for the rest of the year. A few contacts of the Bank's Agents reported a tightening in borrowing conditions as a result of the recent financial market turbulence.

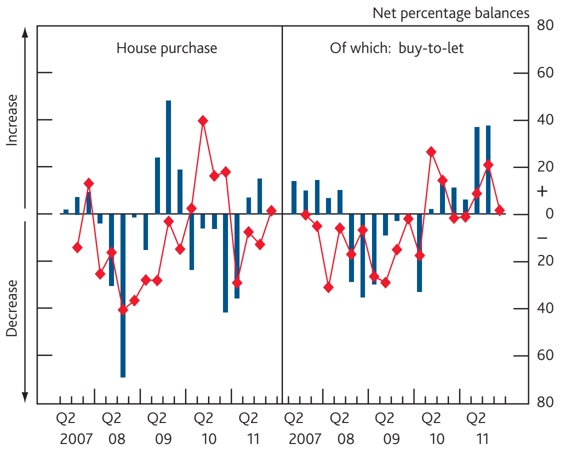
Demand for credit from medium-sized companies increased slightly in 2011 Q3, according to a balance of respondents to the *Credit Conditions Survey* (**Chart 3.2**). In contrast, respondents to the survey indicated that demand from small and large companies had fallen. In recent discussions, most

Chart 3.3 *Credit Conditions Survey*: drivers of change in demand for corporate lending[(a)]



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

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



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

major UK lenders reported that demand for credit from businesses overall was subdued, reflecting general macroeconomic factors and a lack of confidence. Lenders noted that deposits from businesses had increased over the recent past as some businesses sought to deleverage or postpone investment due to current economic conditions. This is consistent with the view of respondents to the 2011 Q3 *Credit Conditions Survey* who reported that capital investment intentions were reducing demand for credit (**Chart 3.3**). Across all firm sizes, demand for credit was expected to fall in 2011 Q4, according to lenders in the *Credit Conditions Survey* (**Chart 3.2**).

Credit conditions for households

The availability of new secured credit to households increased slightly in 2011 Q3, according to respondents to the *Credit Conditions Survey* (**Chart 3.1**). Within that, the availability of new secured lending at loan to value (LTV) ratios greater than 75% also increased over the quarter, while the availability of new lending at low LTV ratios was reported to be broadly unchanged. Looking forward, lenders in the survey expected the availability of secured credit at high LTV ratios to households to increase in 2011 Q4, with availability at low LTV ratios remaining broadly unchanged.

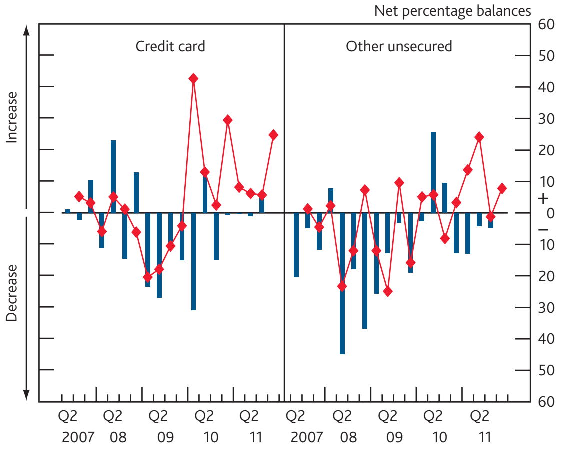
Household demand for secured lending for house purchase increased in 2011 Q3, according to a balance of respondents to the *Credit Conditions Survey* (**Chart 3.4**). Within that, demand for buy-to-let lending increased significantly. Similarly, in recent discussions, most major UK lenders reported that demand for buy-to-let lending continued to increase, partly reflecting rising rental yields. The Royal Institution of Chartered Surveyors' (RICS) new buyer enquiries balance increased slightly in 2011 Q3, indicating a slight increase in demand for house purchase. Respondents to the *Credit Conditions Survey* expected demand for secured lending for house purchase and buy-to-let properties to be broadly unchanged in the next three months.

Contacts of the Bank's Agents reported that the level of activity in the housing market remained depressed, partly reflecting concerns about future incomes. Respondents to the August 2011 *RICS UK Housing Market Survey*[(1)] suggested that the main factors adversely contributing to activity in the housing market were the general level of economic uncertainty and the lack of mortgage availability. In recent discussions, the major UK lenders reported that housing market activity was expected to be broadly flat over the rest of the year.

In some contrast to secured lending, total demand for consumer credit was broadly unchanged in 2011 Q3 according to respondents to the *Credit Conditions Survey*. Looking ahead

(1) Available at www.rics.org/site/download_feed.aspx?fileID=10407&fileExtension=PDF.

Chart 3.5 *Credit Conditions Survey*: demand for household unsecured lending(a)



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

to 2011 Q4, lenders in the survey expected demand for credit card borrowing to increase sharply, with demand for other unsecured lending rising modestly (**Chart 3.5**).

On credit availability, respondents to the *Credit Conditions Survey* reported that the amount of unsecured credit made available to households increased in 2011 Q3 (**Chart 3.1**). The amount of unsecured credit available was expected to be broadly unchanged in 2011 Q4 according to respondents to the survey.

Abbreviations

BBA — British Bankers' Association.
BIS — Department for Business, Innovation and Skills.
CBI — Confederation of British Industry.
CDS — credit default swap.
CFO — chief financial officer.
Libor — London interbank offered rate (see below).
LTV ratio — loan to value ratio (see below).
PNFCs — private non-financial corporations (see below).
RICS — Royal Institution of Chartered Surveyors.
SMEs — small and medium-sized enterprises.

Glossary

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

Businesses Private non-financial corporations.

Consumer credit Borrowing by UK individuals to finance expenditure on goods and/or services. Consumer credit is split into two components: credit card lending and 'other' lending (mainly overdrafts and other loans/advances).

Effective interest rates The weighted average of calculated interest rates on various types of sterling deposit and loan accounts. The calculated annual rate is derived from the deposit or loan interest flow during the period, divided by the average stock of deposit or loan during the period.

Facility An agreement in which a lender sets out the conditions on which it is prepared to advance a specified amount to a borrower within a defined period.

Gross lending The total value of new loans advanced by an institution in a given period.

Loan approvals Lenders' firm offers to advance credit.

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

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

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

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

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

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

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

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

Remortgaging A process whereby borrowers repay their current mortgage in favour of a new one secured on the same property. A remortgage would represent the financing of an existing property by a different mortgage lender.

Swap rate The fixed rate of interest in a swap contract in which floating-rate interest payments are exchanged for fixed-rate interest payments. Swap rates are a key factor in the setting of fixed mortgage rates.

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

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

Symbols and conventions

Except where otherwise stated the source of data in charts is the Bank of England.

On the horizontal axes of graphs, larger ticks denote the first observation within the relevant period, eg data for the first quarter of the year.

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