Trends in Lending

September 2009

BANK OF ENGLAND

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This publication presents the Bank of England's assessment of the latest trends in lending to the UK economy. It draws mainly on long-established official data sources, such as the existing monetary and financial statistics collected by the Bank. These data are supplemented by the results of a new data set, established by the Bank in late 2008, to provide more timely data covering aspects of lending to the UK corporate and household sectors.(1) The 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 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 July 2009, supplemented by Lending Panel data and intelligence gathered up to end-August 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.

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Executive summary

Official data in July showed the weakest flow of total net lending to UK businesses since the monthly series began in 1998. And the major UK lenders indicated that their stock of lending to businesses fell further in August. Some lenders reported that where companies have used the proceeds of capital market issuance to pay back bank debt, they have often kept the size of their facilities unchanged. Market intelligence suggests that companies have created this headroom to enable them to respond quickly to any future investment opportunities without having to negotiate new loan facilities. Lenders have yet to detect any significant increase in demand for new lending over and above the refinancing of existing facilities. For large companies, some banks and market contacts have reported a slight lengthening in the tenor of loans offered, as banks' longer-term financing costs have edged down. Banks also reported more examples where greater competition has reduced spreads. The availability of finance remains more constrained for smaller companies.

The flow of total net mortgage lending was negative in July, the first net repayment since the monthly series began in 1993. In August, the major UK lenders reported that net mortgage lending picked up slightly. That is consistent with the recovery in their approvals for house purchase since the beginning of the year, which persisted into August. There has been no increase in the proportion of lending accounted for by mortgages with loan to value ratios (LTVs) of greater than 90%. The major UK lenders remained cautious about prospects for house prices and unemployment, and with specialist mortgage lenders remaining absent from the market, they did not expect any significant reductions in spreads in the near term.

The flow of net consumer credit was negative in July. Weak consumer credit is consistent with the decline in household consumption this year, and trends seen in the previous recession. Spreads on consumer credit remain elevated, in part reflecting higher arrears and write-offs. Most of the major UK lenders expect arrears on consumer credit to increase over coming months, as they expect unemployment to rise further.

1 Lending to UK businesses

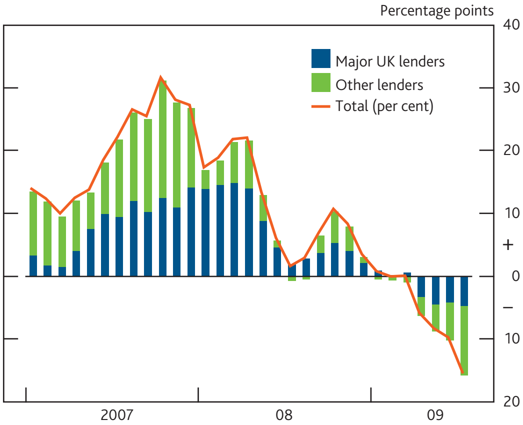
Official data in July showed the weakest flow of total net lending to UK businesses since the monthly series began in 1998. And the major UK lenders indicated that their stock of lending to businesses fell further in August. Some lenders reported that where companies have used the proceeds of capital market issuance to pay back bank debt, they have often kept the size of their facilities unchanged. Market intelligence suggests that companies have created this headroom to enable them to respond quickly to any future investment opportunities without having to negotiate new loan facilities. Lenders have yet to detect any significant increase in demand for new lending over and above the refinancing of existing facilities. For large companies, some banks and market contacts have reported a slight lengthening in the tenor of loans offered, as banks' longer-term financing costs have edged down. Banks also reported more examples where greater competition has reduced spreads. The availability of finance remains more constrained for smaller companies.

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

	Averages			2009			
	2007	2008	2009 Q1	Apr.	May	June	July
Net monthly flow (£ billions)	7.1	3.9	-0.2	-7.0	-5.0	-3.6	-15.5
Three-month annualised growth rate (per cent)	19.7	10.6	-0.2	-6.3	-8.8	-10.2	-15.7
Twelve-month growth rate (per cent)	16.6	17.1	5.7	1.2	0.1	-0.5	-3.3

(a) Lending by monetary financial institutions to private non-financial corporations. Investments and holdings of securities are not included. Seasonally adjusted.

Chart 1.1 Contributions to growth in lending to UK businesses[(a)]



(a) Lending by monetary financial institutions to private non-financial corporations. Three-month annualised growth rates in the stock of lending. Seasonally adjusted.

Recent lending data

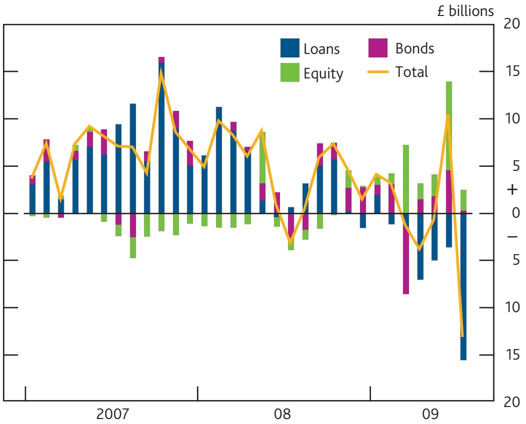
In July, official data covering lending by all UK-resident banks and building societies in all currencies showed the weakest flow of net lending since the monthly series began in 1998 (**Table 1.A**), further depressing the outstanding stock of loans to UK businesses.[(1)] And the industrial breakdown indicated that this weakness was broad-based across business sectors.

The outstanding stock of loans to UK businesses held by UK-resident foreign lenders has been contracting particularly rapidly in recent months (**Chart 1.1**), and has been reflected also in a larger fall in foreign currency lending than sterling lending. That is consistent with reports from market contacts of an increased bias towards domestic lending among banks internationally. Similarly, the Bank's June 2009 *Financial Stability Report* showed how cross-border lending has slowed more sharply than domestic lending across countries reporting to the Bank for International Settlements.

In part the large net repayment of loans in July may also reflect the unusual amount of equity raised in the previous month (**Chart 1.2**). For example, the mining company Rio Tinto accounted for most of the equity issuance in June and announced that the proceeds would be used to repay debt. Looking at cumulative net equity and bond issuance in 2009 to date, **Chart 1.3** shows that it has been spread across a number of sectors. However it is not clear that the sectors most active in the capital markets have repaid the most bank

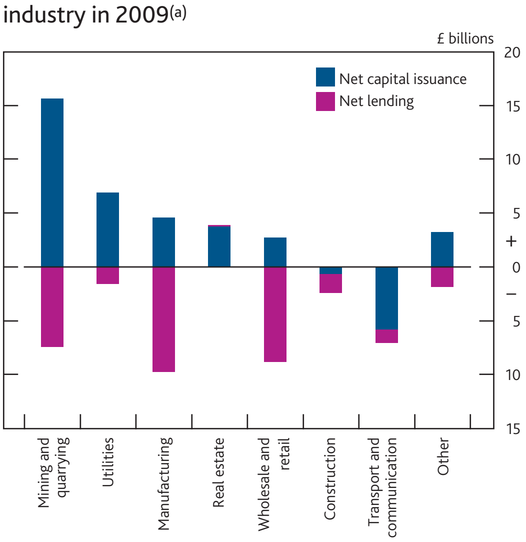
(1) Sterling-only net lending to private non-financial corporations, which is available over a longer time period but includes holdings of securities, was -£8.4 billion in July, the weakest flow since the series began in 1963. See www.bankofengland.co.uk/statistics/fm4/2009/jul/FM4.pdf.

Chart 1.2 Net funds raised by UK businesses[(a)]



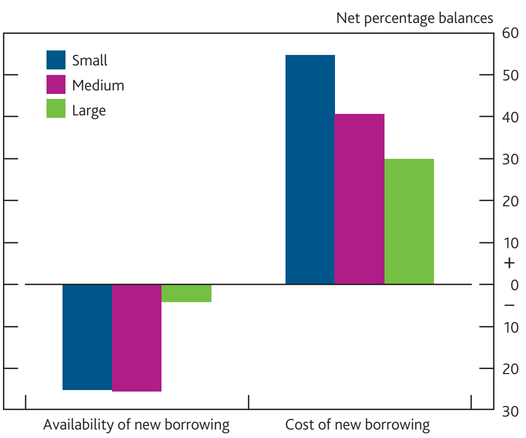
(a) Private non-financial corporations. Loans are seasonally adjusted, but bond and equity issuance is not, as it has been found not to be significantly seasonal. Commercial paper is included within bonds.

Chart 1.3 Net capital issuance and net lending by industry in 2009[(a)]



(a) For private non-financial corporations. Cumulative net positions to July 2009. Non seasonally adjusted.

Chart 1.4 Availability and cost of new borrowing for manufacturers[(a)]



Source: EEF *Business Trends Survey* 2009 Q3.

(a) The percentage of respondents to the EEF survey who reported an increase in the availability or cost of new finance, minus the percentage reporting a decline, over the previous two months. The survey was conducted between 5–26 August 2009 with 639 companies responding. Non seasonally adjusted.

debt. Some of the proceeds of capital issuance may have been used to repay loans from non UK-resident banks, which are not included in these lending data. Some major UK lenders reported that where companies have used the proceeds of capital market issuance to pay back some bank debt, they have often kept the size of their existing loan facilities unchanged, creating more borrowing headroom. Market intelligence suggests that companies have created this headroom so that, should investment opportunities arise in the future, they could respond quickly without having to negotiate new loan facilities.

Net capital issuance was more subdued in July and August, and consistent with that the major UK lenders reported lower repayments in August. But they also continued to report very little demand for any new lending over and above the refinancing of existing facilities, and so their stock of lending to UK businesses fell further in August. While several lenders expected to see some increase in mergers and acquisitions (M&A) activity, as stronger companies took advantage of relatively low asset prices, there were, as yet, only sporadic signs of this materialising. And some also commented that in order to protect their credit ratings, companies were more likely to finance M&A through equity finance rather than by borrowing from banks.

In the remainder of the year, the major UK lenders expected net capital issuance to continue to depress their net lending. That was either because companies were expected to use the proceeds of issuance to pay back loans, or because companies would borrow by issuing bonds rather than by seeking new bank loans. In part the preference for bond finance reflected ongoing constraints on banks' abilities to provide longer-term (greater than three-year) loans at a sufficiently attractive price. However, some banks and market contacts have reported a slight lengthening in the tenor of loans offered, as banks' longer-term financing costs have edged down.

Lending conditions for small and medium-sized companies (SMEs) appear more constrained than for larger companies. In part that is likely to reflect their relative lack of access to capital markets. But the Bank's regional Agents had continued to hear from smaller firms that had encountered difficulties in securing bank finance. In August a survey by the EEF, the manufacturers' organisation, indicated that over the previous two months, SMEs in the manufacturing sector were more likely to have experienced a decline in the availability of new finance, and an increase in its cost, than large companies (**Chart 1.4**).

Several of the major UK lenders reported that smaller companies faced tougher lending criteria and higher loan spreads than larger companies, because they are less well diversified and hence less able than larger companies to withstand adverse shocks. To help them manage such shocks, SMEs in particular use asset-based finance. This allows them to obtain cash now for payments owed to them, either by selling their invoices to a third party which then collects the debts (known as factoring), or by borrowing against the outstanding bills (known as invoice discounting). Data from the Asset Based Finance Association shows that in 2009 Q2 there had been a 12% decline in the amount of this finance extended compared to a year earlier. Demand for this type of finance would naturally decline as sales volumes fall. But some of the decline may reflect a reduction in the availability of this form of finance. For example, earlier in the year, contacts of the Bank's regional Agents suggested that non-banks had tightened availability. And some of the major UK lenders have reduced the percentage of invoices that they will lend against, reflecting greater risk.

Corporate loan pricing

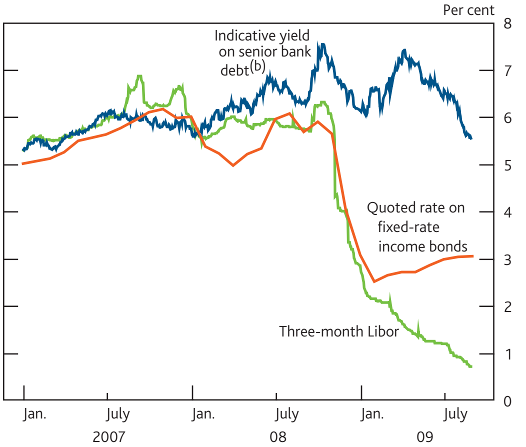
The total cost of bank finance to a company can be decomposed into the fees charged by the bank to provide facilities, the spread over a given reference rate (typically three-month Libor or Bank Rate) at which loans are offered, and the prevailing level of that reference rate in the financial markets.

One factor that lenders have cited in the past for the upward pressure on spreads over indicators of short-term funding costs, like three-month Libor or Bank Rate, has been the greater difficulty and expense of raising longer-term funding. Longer-term wholesale funding conditions for lenders have eased a little in recent months — for example secondary market yields on sterling senior bank debt have fallen (**Chart 1.5**) — moderating somewhat that influence on spreads over Libor or Bank Rate. But lenders have also been trying to reduce their reliance on wholesale funding by seeking more household deposits, for example by offering fixed-rate income bonds. Rates on these bonds have been bid up (**Chart 1.5**), which some lenders reported had offset some of the beneficial effects of cheaper wholesale funding.

On balance, some lenders reported that the easing in their longer-term wholesale funding costs had allowed them to reduce their loan spreads. This may have contributed to some reports of increased demand from companies for longer-term bank loans. Libor rates, to which around two thirds of new corporate loans are linked, have also fallen, helping to reduce the total cost of borrowing for companies. But overall, beyond tenors of around three years, bank lending was said to remain expensive relative to bond issuance for investment-grade companies.

The deteriorating credit quality of borrowers — reflected by higher write-offs in 2009 Q2 (**Chart 1.6**) — is also reported to have contributed to higher spreads over the past year, to cover the higher expected cost of default. In line with their previous experience, the major UK lenders expect improvements in

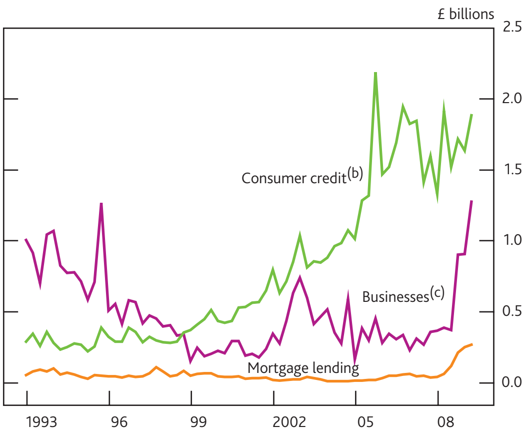
Chart 1.5 Indicators of bank funding costs(a)



Sources: Bank of England and J.P. Morgan.

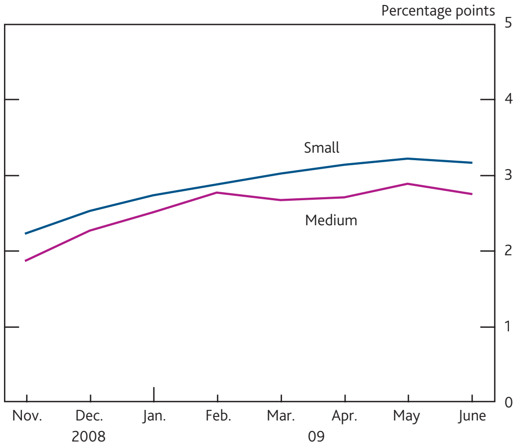
(a) Sterling only.
(b) This yield is from a J.P. Morgan index of sterling senior bank debt that is not exclusively composed of UK bank debt.

Chart 1.6 Write-offs on lending to UK businesses and individuals(a)



(a) Lending by monetary financial institutions. Non seasonally adjusted.
(b) Sterling only.
(c) Private non-financial corporations.

Chart 1.7 Spreads over base rates on lending to small and medium-sized companies[(a)]



Sources: Department for Business Innovation and Skills and Bank calculations.

(a) Medians by value of loans. These data are reported on a 'best endeavours' basis and so are less reliable than established data sources.

indicators of corporate distress to lag any recovery in the economy.

Several major UK lenders reported that, particularly for larger companies who can access capital markets, competition to provide loans had become more prevalent in recent months, contributing to some compression of spreads. Competition to lend to SMEs had increased by less, though some lenders continued to report examples where greater availability of credit, for example from those banks with lending commitments related to the Government's Asset Protection Scheme, had led to some reduction in spreads. Data collected as part of the Department for Business Innovation and Skills's survey of lending to SMEs points to some flattening off in spreads in recent months (**Chart 1.7**).

Looking forward, some lenders indicated that, despite upward pressure on retail funding costs, a further easing in their longer-term wholesale funding costs or greater competition might lead to some further compression of spreads over Libor or Bank Rate.

2 Mortgage lending

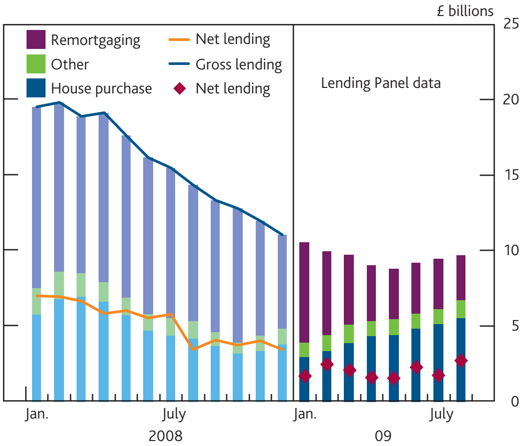
The flow of total net mortgage lending was negative in July, the first net repayment since the monthly series began in 1993. In August, the major UK lenders reported that net mortgage lending picked up slightly. That is consistent with the recovery in their approvals for house purchase since the beginning of the year, which persisted into August. There has been no increase in the proportion of lending accounted for by mortgages with loan to value ratios (LTVs) of greater than 90%. The major UK lenders remained cautious about prospects for house prices and unemployment, and with specialist mortgage lenders remaining absent from the market, they did not expect any significant reductions in spreads in the near term.

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

	Averages			2009			
	2007	2008	2009 Q1	Apr.	May	June	July
Net monthly flow (£ billions)	9.0	3.4	1.0	0.9	0.2	0.1	-0.4
Three-month annualised growth rate (per cent)	10.4	4.0	1.2	0.9	0.5	0.4	0.0
Twelve-month growth rate (per cent)	11.0	6.9	2.4	1.6	1.3	1.1	0.8

(a) Sterling lending by 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. Seasonally adjusted.

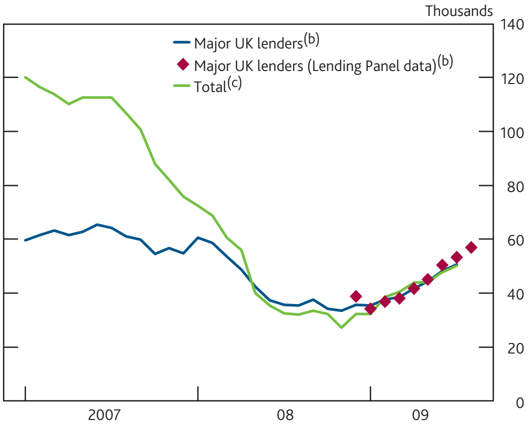
Recent lending data

The flow of total net mortgage lending by all UK-resident banks and building societies was negative in July (**Table 2.A**), the first net repayment since the monthly series began in 1993. That reflected a decline in net lending by specialist mortgage lenders, who continue to shrink their mortgage books because it remains very difficult for them to raise new finance in the wholesale markets. Net mortgage lending by the major UK lenders remained positive. And in August they reported a slight pickup in net mortgage lending (**Chart 2.1**). That reflected an increase in gross lending and a decline in repayments. Data collected from the major UK lenders for the Lending Panel provide a split of gross lending — lending before repayments are deducted — between house purchase and the refinancing of existing mortgages (remortgaging). **Chart 2.1** shows that gross mortgage lending for house purchase continued to increase in August, offsetting a further slight decline in remortgaging activity.

The increase in gross mortgage lending for house purchase by the major UK lenders reflects the recovery in approvals for house purchase since the beginning of the year, which persisted into August (**Chart 2.2**). The Royal Institution of Chartered Surveyors' (RICS) survey indicated that new buyer enquiries continued to rise in August, suggesting that demand for mortgages for house purchase may strengthen further. The major UK lenders report that demand for remortgaging remains very weak. That reflects the higher cost of new mortgages relative to the rates borrowers are currently paying on existing mortgages (see mortgage pricing section below).

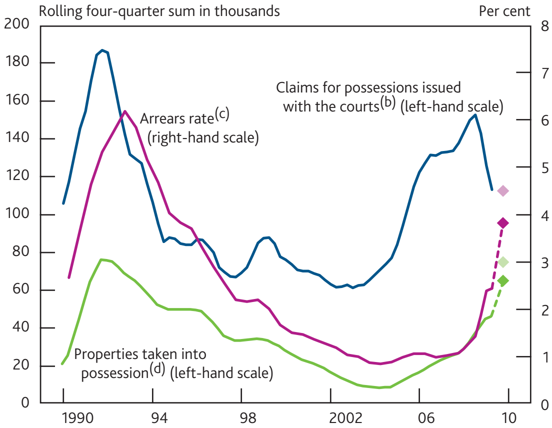
On the supply side, the major UK lenders reported that the proportion of mortgages approved edged higher to just over 80% in August, compared to around 70% at the turn of the year. In earlier months, some major UK lenders had reported that signs of stabilisation in the housing market,

Chart 2.2 Approvals for mortgages for house purchase(a)



(a) Seasonally adjusted.
(b) Gross approvals data.
(c) 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.

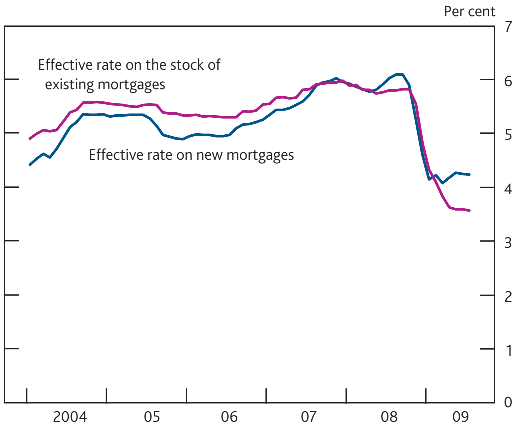
Chart 2.3 Arrears and possessions(a)



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) Data estimated prior to 1994. Data are semi-annual up to end-2007 and quarterly since then. Magenta diamonds show the CML forecasts for end-2009 made at the beginning of the year and in June when it was revised down (darker magenta).
(d) Data are semi-annual up to end-2007 and quarterly since then. Green diamonds show the CML forecasts for end-2009 made at the beginning of the year and in June when it was revised down (darker green).

Chart 2.4 Effective interest rates on new and existing mortgages(a)



(a) The Bank's effective interest rates series comprise data from 28 monetary financial institutions.

lower-than-expected arrears, and the spreads prevailing on higher LTV products, had made them a little more inclined to lend at higher LTV ratios. Data collected for the Home Finance Forum (see the box on page 10) show that this has been reflected in a slight increase in the proportion of loans for house purchase advanced with LTVs of 76%–90%. However, the proportion of new lending accounted for by mortgages with LTVs of greater than 90% has fallen a little since the beginning of the year.

The major UK lenders reported no further increase in their appetite to lend at high LTVs over the past month. They remained cautious about the sustainability of the recovery in the housing market as they expected further increases in unemployment. Data from the Council of Mortgage Lenders (CML) for 2009 Q2 indicated a slight flattening off in the trend for arrears and properties taken into possession. The CML and the major UK lenders attributed that to the beneficial effect of lower interest rates and increased forbearance by the lenders — for example claims for possessions issued with the courts have fallen markedly since 2008 Q3. Reflecting these trends, in June the CML revised down their forecasts for arrears and possessions (**Chart 2.3**). Nevertheless, the CML still expected an increase in arrears and possessions in the second half of the year.

The major UK lenders thought that specialist mortgage lenders, who had accounted for a large share of new lending at higher LTVs prior to the financial crisis, did not have sufficient funding capacity to re-enter the mortgage market in the near future. LTV restrictions, rather than affordability criteria such as loan to income ratios, were currently the most binding constraints on first-time buyers according to the major UK lenders.

Mortgage pricing

In July, the Bank's measure of the overall effective rate on new mortgages remained close to 4%, as it has been since the beginning of the year (**Chart 2.4**). That is significantly higher than the effective rate paid on the stock of existing mortgages. Standard variable rates, to which existing mortgages tend to revert once fixed or discounted terms expire, have fallen relative to the rates charged on new mortgages, reducing the incentive to remortgage. By contrast, in the years leading up to the financial crisis, the effective rate on new mortgage lending was persistently lower than for the existing stock, encouraging very buoyant remortgaging activity.

Fixed-rate mortgages currently account for around three quarters of new mortgage lending. In August, quoted (advertised) two-year fixed mortgage rates remained unchanged, despite a fall in two-year swap rates (**Chart 2.5**), leading to a further widening in the spread between them. Overall, lenders have attributed most of the increase in spreads over the past year to an increase in their longer-term

The Home Finance Forum

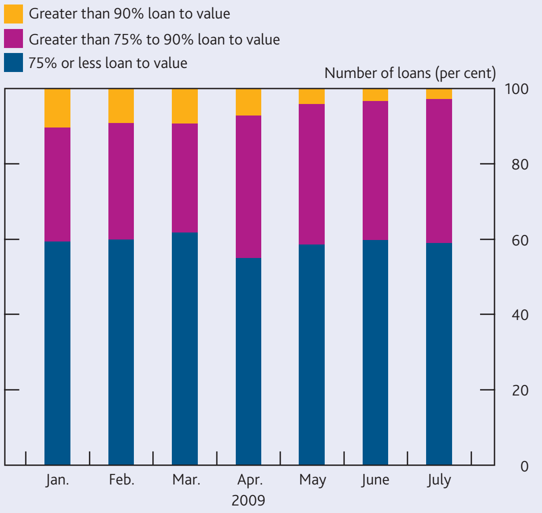
The Lending Panel, announced at the time of the Pre-Budget Report 2008, was set up to monitor lending to UK businesses and households. As part of this approach, the Home Finance Forum (HFF), chaired by Paul Myners, the Financial Services Secretary to the Treasury, brings together lenders, trade bodies, consumer groups, government, regulators and the Bank of England to monitor mortgage markets and encourage best practice in these markets. In addition to the Lending Panel data set, HM Treasury (HMT) established a new survey of mortgage lending early in 2009 to inform the work of the HFF and the Lending Panel. Eleven banking groups participate in a monthly survey, accounting for around 80% of the total stock of mortgage lending at the end of June 2009. The Bank of England collects the data for this survey, which is a key input to the Lending Panel's analysis of mortgage markets alongside HMT's ongoing conversations with the individual banks and other sources of data.

The new data set provides a wide range of information, for example: new mortgage lending disaggregated by product type and loan to value ratio (LTV); pricing on mortgage loans; and the number of arrears and possessions. Like the Lending Panel data, these data are reported on a 'best endeavours' basis and so may not be as accurate as more established data sets. Nonetheless, a number of trends are apparent from the data collected during the first half of this year.

Since the beginning of the year, the number of loans advanced each month for house purchase in the 76%–90% LTV range is reported to have increased as a proportion of the total (**Chart A**). That is consistent with data from Moneyfacts Group indicating a slight increase in the availability of mortgage products in this LTV range. But the share of loans advanced at LTVs of above 90% has edged lower over this period. According to Moneyfacts Group, very few products are available in this LTV range.

Many mortgagors are reverting to the SVR with their existing lenders when their fixed or discounted terms expire (as discussed in the mortgage lending section). But the proportion of new lending for house purchase accounted for by fixed-rate products has increased, and stood at more than 80% in July 2009 (**Chart B**). The share of tracker and SVR mortgage products has declined, to 12% and 3% respectively. Data from Moneyfacts Group indicate that the relative availability of fixed-rate and variable-rate products has remained almost unchanged since the beginning of the year. Some lenders have indicated that households may have increasingly chosen fixed-rate products to insure against future increases in Bank Rate.

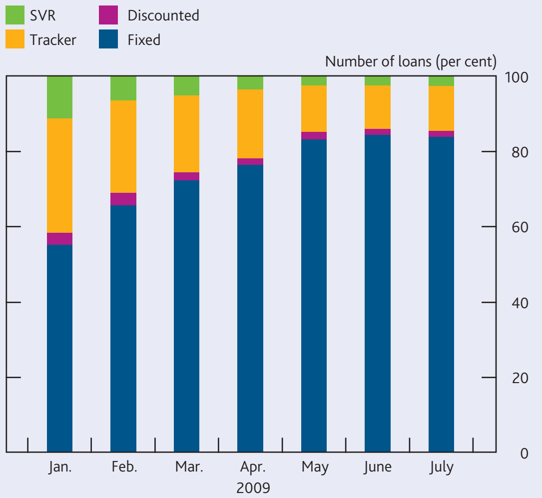
Chart A New mortgage loans by loan to value ratios[(a)]



Source: HM Treasury.

(a) Data up to April include a degree of estimation. Only five banking groups are included in the chart for data consistency reasons. Covers FSA-regulated loans for house purchase only. Non seasonally adjusted.

Chart B New mortgage loans by product type[(a)]

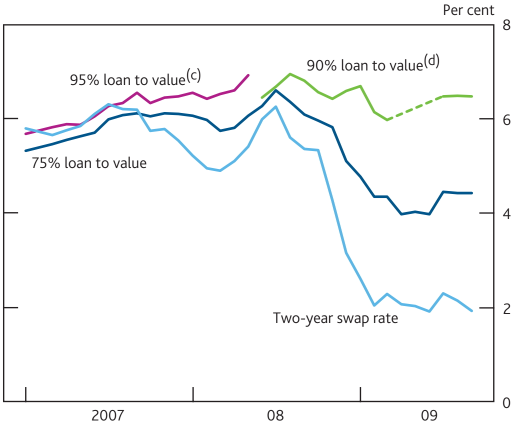


Source: HM Treasury.

(a) Only five banking groups are included in the chart for data consistency reasons. Covers FSA-regulated loans for house purchase only. Non seasonally adjusted.

Reported possessions have changed little in recent months. But possessions of houses on which buy-to-let mortgages have been drawn have risen as a share of all possessions. The data suggest that around 1% of loans in arrears are taken into possession each month. Low interest rates, early action by lenders to put borrowers on revised repayment plans, and greater forbearance, are likely to have moderated arrears and possessions.

Chart 2.5 Quoted interest rates on two-year fixed-rate mortgages[(a)(b)]



(a) The Bank's quoted interest rates series comprise data from up to 31 monetary financial institutions.
(b) End-month rates.
(c) Series finishes in April 2008, as thereafter only two or fewer products are offered.
(d) 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 two or fewer products were offered in that period.

funding costs relative to standard reference rates like swap rates, greater credit risk, and a more realistic pricing of risk. While their longer-term wholesale funding costs had eased a little in recent months, some lenders reported that aggressive competition for retail deposits had bid up deposit rates. Lenders remained cautious about prospects for house prices and unemployment, and with specialist mortgage lenders remaining absent from the market, they did not expect any significant reductions in spreads in the near term.

The extra cost of borrowing at 90%-plus LTV relative to 75% LTV remains much higher than prior to the onset of the financial crisis (**Chart 2.5**). While some lenders thought this differential might come down if the recovery in house prices persisted, any signs of greater competition to lend were currently more focused on lower LTV lending.

3 Consumer credit

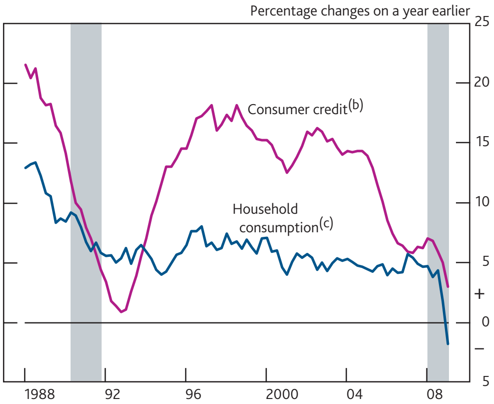
The flow of net consumer credit was negative in July. Weak consumer credit is consistent with the decline in household consumption this year, and trends seen in the previous recession. Spreads on consumer credit remain elevated, in part reflecting higher arrears and write-offs. Most of the major UK lenders expect arrears on consumer credit to increase over coming months, as they expect unemployment to rise further.

Table 3.A Consumer credit[a]

	Averages			2009			
	2007	2008	2009 Q1	Apr.	May	June	July
Net monthly flow (£ billions)	1.1	0.9	0.1	0.2	0.2	0.1	-0.2
Three-month annualised growth rate (per cent)	6.4	5.1	1.0	0.6	0.8	1.0	0.2
Twelve-month growth rate (per cent)	6.1	6.3	3.7	2.7	2.2	2.0	1.4

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

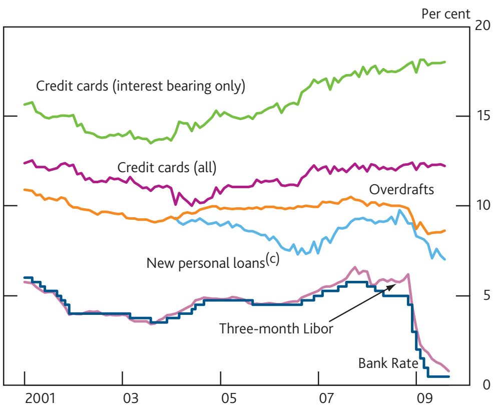
Chart 3.1 Growth in consumer credit and household consumption[a]



Sources: Bank of England and ONS.

(a) Shaded areas mark periods of recession. Seasonally adjusted data.
(b) Unsecured sterling lending by monetary financial institutions and other lenders to UK individuals. Quarterly series used, available from 1987.
(c) Household final consumption expenditure at current market prices.

Chart 3.2 Effective interest rates on consumer credit[a][b]



(a) The Bank's effective interest rates series comprise data from 28 monetary financial institutions.
(b) 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.
(c) Only available from January 2004.

Recent lending data

The flow of net consumer credit was negative in July (**Table 3.A**). And the annual growth rate in the stock of consumer credit is now the lowest observed since the monthly series began in 1993. The weakness in consumer credit appears consistent with the fall in household consumption this year, and trends observed in the previous recession (**Chart 3.1**). The major UK lenders reported that weak consumer credit flows persisted into August. They had yet to detect any significant signs of an increase in demand for consumer credit, and the proportion of applications accepted remained broadly unchanged on the month.

Consumer credit pricing

Effective interest rates on personal loans and overdrafts have fallen since late 2008, though by much less than Bank Rate and Libor. By contrast, rates on credit cards have remained broadly unchanged (**Chart 3.2**). The resulting increase in spreads over the past year has coincided with an increase in arrears, as reported in the 2009 Q2 *Credit Conditions Survey*, and in 2009 Q2 write-offs on consumer credit picked up (**Chart 1.6**). Most of the major UK lenders expect arrears on consumer credit to increase over coming months, as they expect unemployment to rise further.

Abbreviations

CML – Council of Mortgage Lenders.
HFF – Home Finance Forum.
Libor – London interbank offered rate (see below).
LTV – loan to value ratio (see below).
M&A – mergers and acquisitions.
ONS – Office for National Statistics.
RICS – Royal Institution of Chartered Surveyors.
SMEs – small and medium-sized companies.
SVR – standard variable rate.

Glossary

Asset Protection Scheme A Government scheme that provides lenders with partial protection, in return for a fee, against credit losses on portfolios of assets.

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 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 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.

Quoted interest rates The weighted average of a sample of advertised deposit and loan rates: weights calculated from Bank of England statistical collections.

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.

Specialist mortgage lenders Non-bank, non-building society lenders specialising in mortgage lending — funded mainly in wholesale markets, for example through securitisation, rather than deposits.

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 funding Funds raised for a fixed period of time.

Symbols and conventions

Except where otherwise stated the source of data in charts and tables 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)