

# Trends in Lending

July 2012



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.<sup>(1)</sup> 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.<sup>(2)</sup>

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.<sup>(3)</sup> The major UK lenders<sup>(4)</sup> 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-December 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 including the Bank of England's *Credit Conditions Survey*.<sup>(5)</sup> 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 May 2012 and intelligence gathered up to end-June 2012. The discussions with the major UK lenders were conducted in the first week of July. This was prior to the publication of the details of the Funding for Lending Scheme on 13 July 2012,<sup>(6)</sup> following the announcement of the scheme on 14 June.<sup>(7)</sup> Unless stated otherwise, the data reported cover lending in both sterling and foreign currency, expressed in sterling terms.

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(1) See [www.bankofengland.co.uk/statistics/Documents/2012.pdf](http://www.bankofengland.co.uk/statistics/Documents/2012.pdf) for future publication dates.

(2) For more information see *Bankstats*, March 2012, 'Lending to businesses — a new data source', available at [www.bankofengland.co.uk/statistics/Documents/ms/articles/art2mar12.pdf](http://www.bankofengland.co.uk/statistics/Documents/ms/articles/art2mar12.pdf).

(3) For a fuller background, please refer to the first edition of *Trends in Lending* available at [www.bankofengland.co.uk/publications/Documents/other/monetary/TrendsApril09.pdf](http://www.bankofengland.co.uk/publications/Documents/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.

(5) The 2012 Q2 *Credit Conditions Survey* was conducted between 14 May and 31 May 2012.

(6) See [www.bankofengland.co.uk/markets/Documents/marketnotice120713.pdf](http://www.bankofengland.co.uk/markets/Documents/marketnotice120713.pdf) for the Market Notice on the Funding for Lending Scheme.

(7) See [www.bankofengland.co.uk/publications/Documents/speeches/2012/speech587.pdf](http://www.bankofengland.co.uk/publications/Documents/speeches/2012/speech587.pdf) for the Mansion House speech by Sir Mervyn King.

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# Executive summary

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The annual rate of growth in the stock of lending to UK businesses was negative in the three months to May. The stock of lending to small and medium-sized enterprises also contracted. The annual rate of growth in the stock of secured lending to individuals was broadly unchanged. Mortgage approvals by all UK-resident mortgage lenders for house purchase were broadly unchanged in the three months to May. Net monthly consumer credit flows were positive over this period.

Spreads over reference rates on new lending widened for small and medium-sized businesses in 2012 Q2 and were broadly unchanged for large businesses, according to the Bank of England's *Credit Conditions Survey*. Spreads over Bank Rate on some quoted floating-rate mortgages have widened over the past six months, though the rate of increase has lessened over the recent past. Effective rates on credit cards were broadly unchanged in the three months to May.

Credit availability was broadly unchanged for businesses, according to respondents to the Bank of England's 2012 Q2 *Credit Conditions Survey*. Contacts of the Bank's network of Agents noted that credit was normally available for firms with strong balance sheets, while some smaller firms reported that they were still often unable to secure loans. In recent discussions, the major UK lenders noted that demand from small and medium-sized enterprises remained subdued. Lenders in the *Credit Conditions Survey* reported that demand for secured lending for house purchase had increased significantly in 2012 Q2 and expected it to remain broadly unchanged in Q3.

# 1 Lending to UK businesses and individuals

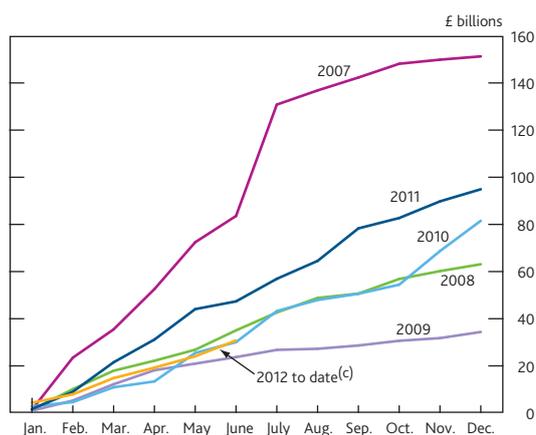
The annual rate of growth in the stock of lending to UK businesses was negative in the three months to May. The stock of lending to small and medium-sized enterprises also contracted. The annual rate of growth in the stock of secured lending to individuals was broadly unchanged. Mortgage approvals by all UK-resident mortgage lenders for house purchase were broadly unchanged in the three months to May. Net monthly consumer credit flows were positive over this period.

**Table 1.A** Lending to UK businesses<sup>(a)</sup>

	Averages						2012			
	2007	2008	2009	2010	2011	2011 Q4	2012 Q1	Mar.	Apr.	May
Net monthly flow (£ billions)	7.4	3.8	-3.9	-2.2	-0.8	0.1	-3.2	-2.0	0.4	-1.7
Three-month annualised growth rate (per cent)	20.8	10.7	-7.7	-5.2	-2.0	0.2	-6.3	-8.2	-4.9	-2.9
Twelve-month growth rate (per cent)	16.8	17.9	-1.8	-7.1	-3.3	-2.1	-2.9	-3.2	-3.5	-3.1

(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** Cumulative estimates of gross syndicated lending facilities granted to UK businesses<sup>(a)(b)</sup>



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) Data for 2012 are based on deal information available at the time of publication.

This section presents a summary of the recent data on lending to UK businesses and individuals. The annual rate of corporate lending growth and growth in the stock of lending to individuals — both secured and unsecured — remained weak.

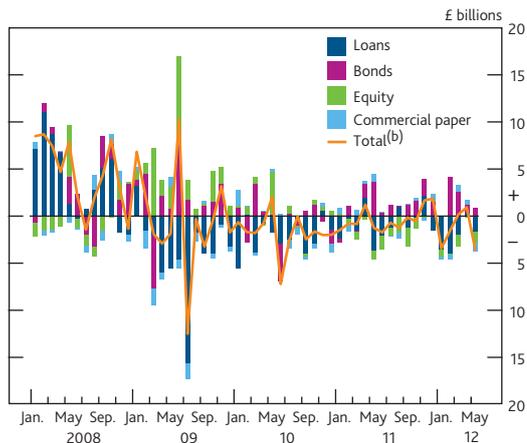
## Lending to UK businesses

Official data covering lending by all UK-resident banks and building societies indicated that the stock of lending to businesses fell by around £3 billion in the three months to May (Table 1.A). The annual rate of growth in the stock of lending to businesses by UK-resident lenders was negative in the three months to May.

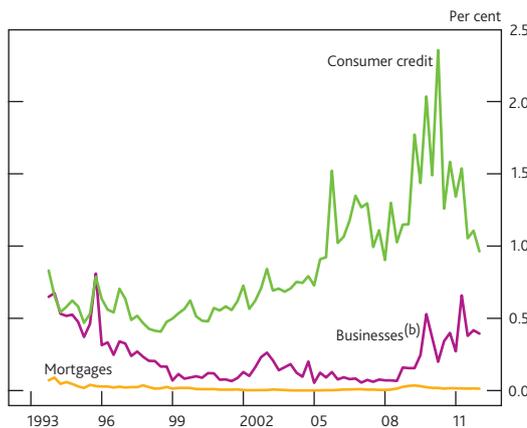
This contraction in the stock of aggregate lending to businesses has also been reflected in the stock of lending to small and medium-sized enterprises (SMEs). The box on pages 7–8 provides more details on recent trends in the stock of lending to SMEs and large businesses.

Larger companies have access to more funding sources than smaller companies, such as the syndicated lending market. The total value of gross syndicated lending facilities granted in the UK market in 2012 to date is lower than for the comparable period in 2011 (Chart 1.1). In recent discussions, most major UK lenders indicated that the subdued level of syndicated lending this year reflected a lack of mergers and acquisitions activity. Lenders also noted that some businesses had brought forward the refinancing of existing loans to 2011. Looking forward, the major UK lenders expected syndicated lending in the coming quarter to remain subdued.

Capital markets provide an alternative source of funding for large companies. Net bond issuance by UK businesses was positive over the three months to May (Chart 1.2). This was offset by negative net lending (Table 1.A) and negative net equity issuance over this period, such that the total net amount of funds raised from banks and capital markets by UK businesses was negative.

**Chart 1.2** Net funds raised by UK businesses<sup>(a)</sup>

- (a) Funds raised by PNFs 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** Write-off rates on lending to UK businesses and individuals<sup>(a)</sup>

- (a) Lending by UK monetary financial institutions. The series are calculated as quarterly write-offs divided by the corresponding loans outstanding at the end of the previous quarter. Series start in 1993 Q4. Lending in both sterling and foreign currency, expressed in sterling terms. Non seasonally adjusted.
- (b) PNFs.

**Table 1.B** Secured lending to individuals<sup>(a)</sup>

	Averages						2012			
	2007	2008	2009	2010	2011	2011 Q4	2012 Q1	Mar.	Apr.	May
Net monthly flow (£ billions)	9.0	3.4	1.0	0.6	0.8	1.1	1.1	0.9	1.0	0.6
Three-month annualised growth rate (per cent)	10.4	4.1	1.0	0.7	0.7	0.9	1.1	1.1	1.0	0.8
Twelve-month growth rate (per cent)	11.0	6.9	1.4	0.9	0.7	0.7	0.8	0.8	0.8	0.8

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

Notwithstanding the weakness of bank lending and subdued net capital market issuance over the recent past, the majority of respondents — chief financial officers of large companies — to the *Deloitte CFO Survey* for 2012 Q2 indicated that they still viewed bond issuance and bank borrowing as 'attractive' sources of finance. Respondents to the survey reported that equity issuance was considered less attractive than debt finance.

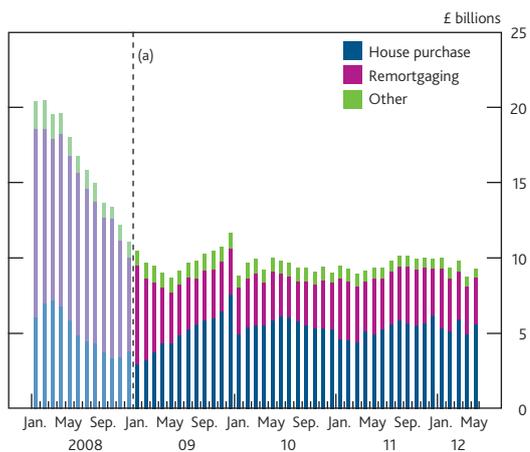
Recent indicators of corporate distress appear to be broadly stable. The rate of corporate liquidations in England and Wales was unchanged in the year to 2012 Q1. The corporate write-off rate — the ratio of banks' write-offs on corporate lending to the stock of that lending — was broadly unchanged in 2012 Q1 (**Chart 1.3**). In recent discussions, some major UK lenders reported that indicators of corporate distress such as insolvencies had performed better than expectations, which had been for an increase in the first half of 2012. Looking ahead, some major UK lenders reported that indicators of corporate distress could increase in the second half of the year.

### Secured lending to individuals

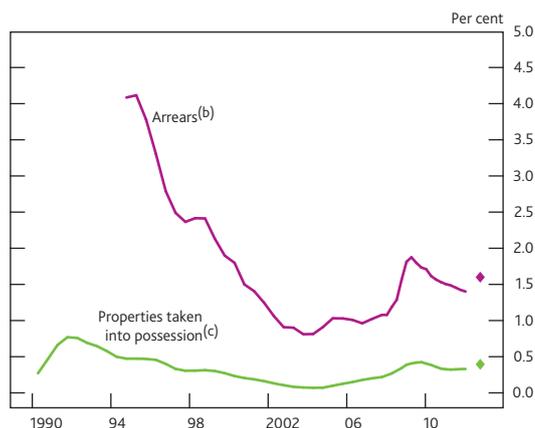
The monthly flow of net lending in sterling by UK-resident mortgage lenders in the three months to May was slightly lower compared to the average of the previous three months (**Table 1.B**). The annual rate of growth in the stock of secured lending was broadly unchanged at 0.8% in the three months to May. According to data provided by the major UK lenders, gross flows of secured lending were little changed over this period (**Chart 1.4**).

Data provided by the major UK lenders on the monthly flow of gross secured lending include a split between house purchase and the refinancing of existing mortgages (remortgaging). Gross mortgage lending for house purchase was broadly unchanged in the three months to May (**Chart 1.4**), compared with the average of the previous three months. Remortgaging activity fell slightly over the same period. Mortgage approvals by all UK-resident mortgage lenders for house purchase were broadly unchanged in the three months to May.

Recent indicators of mortgage distress have been little changed or have eased slightly. Data from the Council of Mortgage Lenders (CML) indicated that the mortgage arrears rate continued to tick down in 2012 Q1, and is now at its lowest rate since 2008 Q3 (**Chart 1.5**). The arrears rate on buy-to-let mortgages also fell in 2012 Q1, with the arrears rate on credit-impaired mortgages broadly unchanged in the three months to February. The write-off rate on mortgages — the ratio of write-offs on secured loans to the stock of secured lending — was little changed (**Chart 1.3**). Claims for possessions issued in the courts fell slightly in the year to 2012 Q1, with the number of properties taken into possession unchanged over the same period.

**Chart 1.4 Mortgage lending by the major UK lenders<sup>(a)</sup>**

(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 Mortgage arrears and possession rates<sup>(a)</sup>**

Sources: CML and Bank calculations.

- (a) Series are expressed as the proportion of the number of outstanding mortgages. Non seasonally adjusted.  
 (b) Mortgages in arrears of 2.5% or more of the outstanding mortgage balance. Data are available from end-1994, are semi-annual up to end-2007 and quarterly since then. The magenta diamond shows the latest CML forecast for end-2012 made in December 2011.  
 (c) Properties taken into possession over the preceding twelve-month period. Data are semi-annual up to end-2007 and quarterly since then. The green diamond shows the latest CML forecast for end-2012 made in December 2011.

**Table 1.C Consumer credit<sup>(a)</sup>**

	Averages							2012		
	2007	2008	2009	2010	2011	2011 Q4	2012 Q1	Mar.	Apr.	May
Net monthly flow (£ billions)	1.1	1.0	0.2	0.2	0.4	0.2	0.4	0.8	0.4	0.7
Three-month annualised growth rate (per cent)	6.5	5.4	1.1	1.2	2.3	2.0	1.6	2.5	2.9	3.7
Twelve-month growth rate (per cent)	6.1	6.4	2.8	0.8	1.9	2.3	2.2	2.3	2.2	2.4

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

In recent discussions, the major UK lenders reported that indicators of mortgage distress, such as arrears, over the past six months had been in line or slightly better than their expectations at the start of 2012. In forecasts compiled in December 2011, the CML expected the arrears rate to pick up slightly in 2012, though remaining below levels at the height of the financial crisis (**Chart 1.5**), with possessions expected to rise. Most major UK lenders expected mortgage arrears to remain broadly stable for the remainder of the year, though some noted that this depended on a stable macroeconomic outlook.

### Consumer credit

Total net consumer credit flows were positive in the three months to May (**Table 1.C**). Within this, credit card lending flows remained subdued. The annual rate of growth of consumer credit was broadly unchanged in the three months to May and remained low compared with the period prior to the financial crisis. Within this, the annual rate of growth in credit card lending fell in the three months to May, with the rate of growth in other unsecured loans, which includes student loans, increasing slightly.

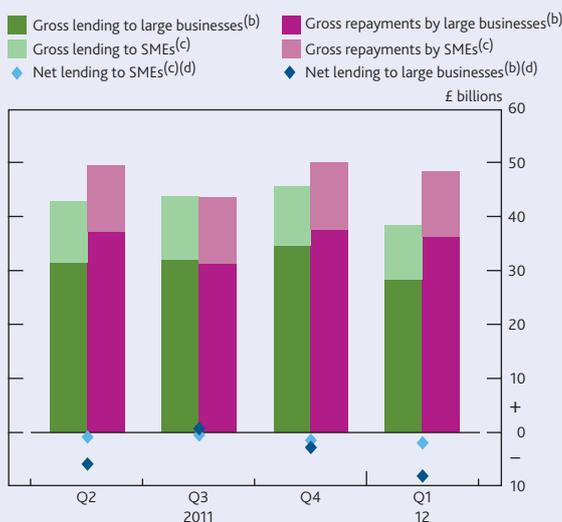
The write-off rate on consumer credit — the ratio of write-offs on unsecured loans to the stock of unsecured lending — fell in 2012 Q1, though remained high compared to rates in the 1990s (**Chart 1.3**). The rate of personal insolvencies in England and Wales was unchanged in 2012 Q1. Some major UK lenders reported that indicators of distress related to unsecured lending, such as write-offs and arrears, had performed slightly better than expectations in the first half of 2012.

## Lending to SMEs and large businesses

Developments in lending to UK businesses are a key component of the Bank of England's assessment of the latest trends in the UK economy. The lending assessment draws on long-established official data sources, such as the existing monetary and financial statistics collected by the Bank, and on newer data collections, established since the start of the financial crisis. This box provides information on lending to small and medium-sized enterprises (SMEs) and large businesses, drawing on a newly established Bank of England data collection.<sup>(1)</sup> This new data source, *Form LN: Lending to Businesses*, was introduced at a monthly frequency in April 2011.

An objective in developing this new data collection was to provide good-quality data on stocks and flows on business lending to the SME and large sectors on a consistent basis. Some existing surveys, both qualitative and quantitative, have focused only on lending to SMEs. In addition, a core requirement in the data set was to obtain a decomposition of net new lending into new ('gross') lending and repayments. In the data set, gross flows are fully reconciled to changes in amounts outstanding by accounting for net acquisitions of loan books, write-offs of loans and miscellaneous other adjustments.

**Chart A** Gross lending to and repayments by UK non-financial businesses<sup>(a)</sup>



- (a) Lending by UK monetary financial institutions to UK non-financial businesses and repayments by them. Data exclude overdrafts. Data cover lending in both sterling and foreign currency, expressed in sterling terms. Non seasonally adjusted.  
 (b) Large businesses are those with annual debit account turnover on the main business account over £25 million.  
 (c) Small and medium-sized enterprises (SMEs) are those with annual debit account turnover on the main business account less than £25 million.  
 (d) Net lending is defined as gross lending less repayments.

Form LN falls outside the Bank's statutory information powers specified under the Bank of England Act 1998. The form is presently reported by 19 lenders on an individual entity basis and is designed to generate a target coverage of around 75% of the stock of all UK monetary financial institutions' (MFIs) lending to private non-financial corporations. Data are grossed up to all-MFIs estimates using standard approaches and additional information. The scope of lending to 'UK businesses' is defined as MFI lending in all currencies to UK residents, covering all UK non-financial industry sectors. The data are for *drawn* credit facilities, with amounts outstanding ('stocks') reported for loans and overdrafts.

The amount outstanding of all currency loans (excluding overdrafts) from all MFIs to UK businesses was estimated to be around £450 billion at end-May 2012. Of this total, around 35% represented lending to SMEs.<sup>(2)</sup> Compared to end-May 2011, amounts outstanding for all businesses and SMEs have decreased by around 5%.

Data on amounts outstanding of overdraft finance are also collected. Overdrafts are estimated to have accounted for approximately 8% of the aggregate amount of loans and overdrafts outstanding to all businesses at end-May 2011. For SMEs, the share of overdrafts was slightly higher at 11%. These shares of overdrafts in total finance stood at 7% and 10%, respectively, at end-May 2012.

Changes over time in the amounts outstanding will reflect the effects of write-offs, loan sales and purchases, and other adjustments, as well as the impact of gross flows of new lending and repayments. Net lending to large businesses, defined as gross lending less repayments, was negative in three of the last four quarters (**Chart A**). In recent discussions, some major UK lenders noted that large businesses had alternative sources of funding, including access to capital markets.

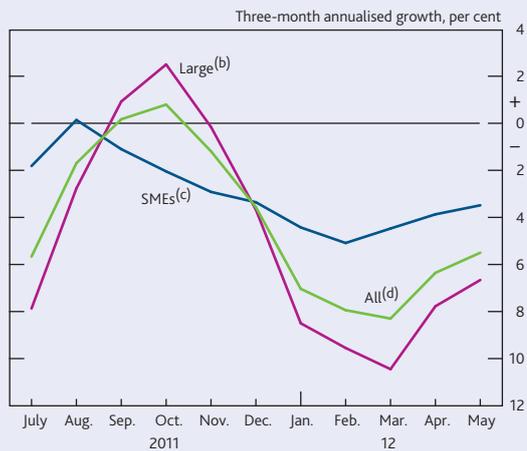
Net lending to SMEs was negative in each quarter from 2011 Q2 to 2012 Q1 (**Chart A**). The share of SMEs in gross lending and repayments (excluding overdrafts) is on average around a quarter over this period.

Earlier editions of *Trends in Lending*<sup>(3)</sup> have noted the contraction in the stock of lending to SMEs since late 2009. The three-month annualised growth rate in the stock of lending to SMEs, derived from Form LN data, has been negative for most of the period since the collection started in April 2011 (**Chart B**). The growth rate in the stock of lending to large businesses has also been negative for most months in the period from July 2011 to May 2012. Lending growth for non-financial businesses overall has thus been negative since

late 2011. This is consistent with estimates of the growth in the stock of lending by UK MFIs to UK private non-financial corporations published in existing monetary statistics by the Bank.

Key series based on this new data collection will be published in due course.

**Chart B** Lending to non-financial businesses, by size<sup>(a)</sup>



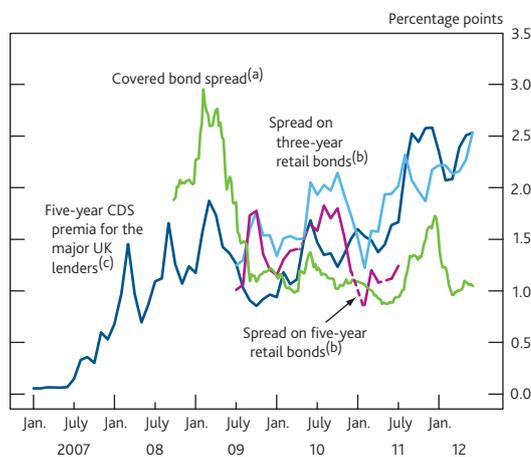
- (a) Three month-annualised growth in the stock of lending. Lending by UK monetary financial institutions to UK non-financial businesses. Data exclude overdrafts. Data cover lending in both sterling and foreign currency, expressed in sterling terms. Non seasonally adjusted.
- (b) Large businesses are those with annual debit account turnover on the main business account over £25 million.
- (c) Small and medium-sized enterprises (SMEs) are those with annual debit account turnover on the main business account less than £25 million.
- (d) All non-financial businesses are the sum of large businesses and SMEs.

- (1) For more details see the box on page 7 of January 2012 *Trends in Lending*, available at [www.bankofengland.co.uk/publications/Documents/other/monetary/trendsjanuary12.pdf](http://www.bankofengland.co.uk/publications/Documents/other/monetary/trendsjanuary12.pdf) and *Bankstats*, March 2012, 'Lending to businesses — a new data source', available at [www.bankofengland.co.uk/statistics/Documents/ms/articles/art2mar12.pdf](http://www.bankofengland.co.uk/statistics/Documents/ms/articles/art2mar12.pdf).
- (2) SMEs are defined in Form LN as enterprises with annual debit account turnover on the main business account less than £25 million.
- (3) See, for example, the box on pages 7–9 of April 2012 *Trends in Lending*, available at [www.bankofengland.co.uk/publications/Documents/other/monetary/trendsapril12.pdf](http://www.bankofengland.co.uk/publications/Documents/other/monetary/trendsapril12.pdf).

## 2 Loan pricing

Spreads over reference rates on new lending widened for small and medium-sized businesses in 2012 Q2 and were broadly unchanged for large businesses, according to the Bank of England's *Credit Conditions Survey*. Spreads over Bank Rate on some quoted floating-rate mortgages have widened over the past six months, though the rate of increase has lessened over the recent past. Effective rates on credit cards were broadly unchanged in the three months to May.

**Chart 2.1** Indicative long-term funding spreads



Sources: Bank of England, Bloomberg, JPMorgan Chase & Co., Markit Group Limited and Bank calculations.

- (a) From January 2012 onwards, the data show a weighted average of the spread between covered bonds of any maturity issued by UK banks and equivalent-maturity swap rates, weighted by the outstanding value of each bond. Before January 2012, the data show a simple average and include bonds with a maturity of between three and five years only.
- (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/statistics/Pages/iadb/notesiadb/household\\_int.aspx](http://www.bankofengland.co.uk/statistics/Pages/iadb/notesiadb/household_int.aspx)). The series for the five-year bond is not published for May 2010, January, May, August 2011-June 2012 as fewer than three institutions in the sample offered products in that period.
- (c) The spread on long-term wholesale bonds is proxied by an unweighted average of the five-year CDS premia for the major UK lenders.

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.

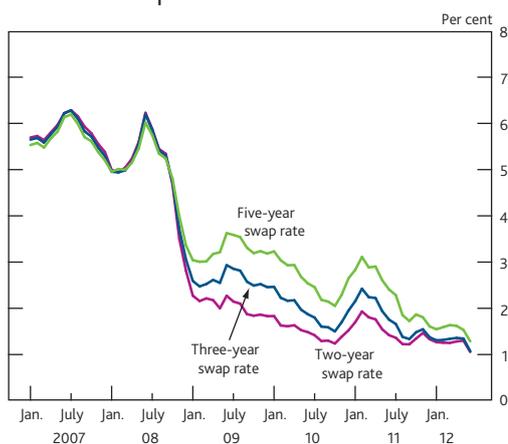
The total cost of bank finance to a company or individual can generally be decomposed into the fees charged by the lender to provide loan facilities, the spread over a given reference rate (such as three-month Libor or Bank Rate) at which loans are offered, and the prevailing level of that reference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

According to most major UK lenders, secured and senior unsecured debt markets remained open during the last three months. Some lenders also noted that some institutions had taken the opportunity of improved conditions in longer-term wholesale funding markets earlier in 2012 to finance the majority of their funding requirements for this year.

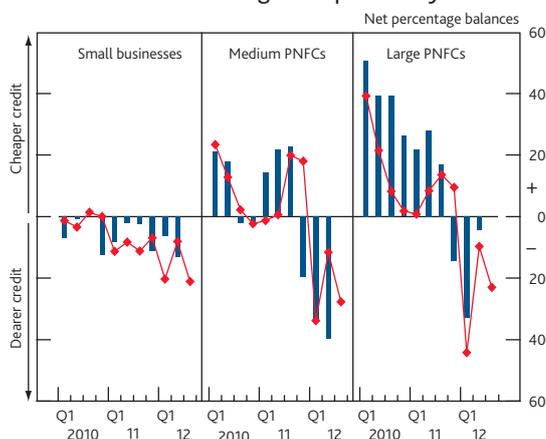
Spreads in longer-term wholesale funding markets were higher in 2012 Q2 compared to the previous quarter, according to some major UK lenders. An indicative measure of the spread, over relevant swap rates, of bank wholesale debt — the five-year CDS premia of the major UK lenders — increased in 2012 Q2 (**Chart 2.1**). In recent discussions, some major UK lenders noted that spreads in longer-term wholesale funding markets had fallen a little in recent weeks. Covered bond spreads were broadly unchanged over recent 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 — increased over 2012 Q2 (**Chart 2.1**). That primarily reflected movements in relevant

**Chart 2.2** Swap rates at different maturities<sup>(a)</sup>

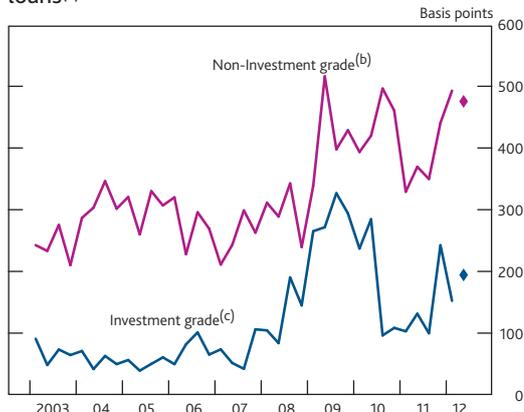
Sources: Bloomberg and Bank calculations.

(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<sup>(a)(b)</sup>

(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<sup>(a)</sup>

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. Data for 2012 Q2, denoted by diamonds, are based on deal information available at the time of publication. 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.

swap rates during this period (**Chart 2.2**), with deposit rates on three-year fixed-rate bonds broadly unchanged. Most major UK lenders reported that pricing on individual savings accounts (ISAs) had started to fall following the recent end of the main ISA season.

### Corporate loan pricing

Spreads over reference rates on new lending for large businesses were broadly unchanged in 2012 Q2 according to the Bank of England's *Credit Conditions Survey*, which was conducted in mid-to-late May (**Chart 2.3**). Lenders in the survey reported fees and commissions to be unchanged. The balance of respondents to the *Deloitte CFO Survey 2012 Q2* — which covers large companies — reported credit to be 'cheap' for the first time since the survey began in 2007 Q3.

Spreads on syndicated lending, which typically apply to lending for larger businesses, rose for investment grade loans, and fell slightly for non-investment grade loans in 2012 Q2, according to Dealogic data (**Chart 2.4**). In recent discussions, some major UK lenders reported that the pricing for syndicated loans for high-quality names was competitive and expected this to continue in the coming quarter.

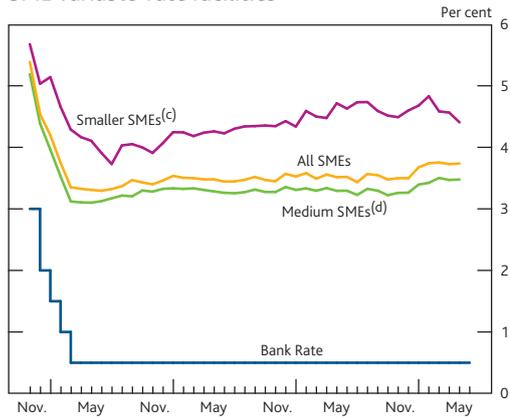
Spreads over reference rates on new lending to small and medium-sized businesses widened in 2012 Q2 (**Chart 2.3**) according to lenders in the *Credit Conditions Survey*. Fees and commissions had increased for medium-sized firms but were broadly unchanged for smaller firms according to respondents to the survey. Indicative median interest rates (**Chart 2.5**) and spreads on new variable-rate facilities to small and medium-sized enterprises overall have been stable in recent months, according to survey data from the Department for Business, Innovation and Skills. Median estimates of rates charged to smaller companies fell slightly in the three months to May.

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 May. Lenders in the 2012 Q2 *Credit Conditions Survey*, which was conducted prior to the Bank and Treasury announcement to introduce a Funding for Lending Scheme to tackle the high level of funding costs directly, expected spreads on lending to businesses of all sizes to rise markedly in the next three months.

### Mortgage pricing

Some of the Bank's measures of quoted rates on fixed-rate mortgages increased in 2012 Q2 compared to the previous quarter. With swap rates falling over 2012 Q2 (**Chart 2.2**), spreads over swap rates on these quoted fixed-rate mortgages have widened this quarter. Spreads over Bank Rate on some quoted floating-rate mortgages have widened over the past six months (**Chart 2.6**), though the rate of increase has

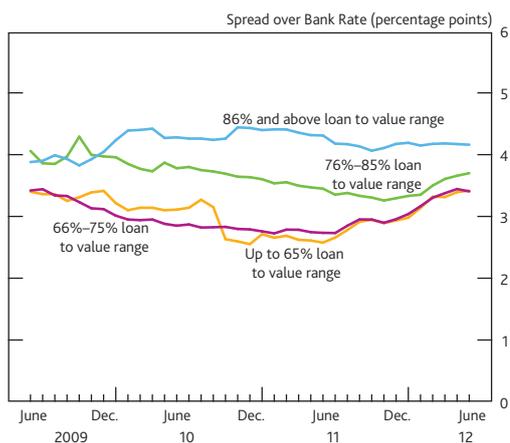
**Chart 2.5** Indicative median interest rates on new SME variable-rate facilities<sup>(a)(b)</sup>



Sources: Bank of England, BIS and Bank calculations.

- (a) Median by value of new SME facilities priced at margins over base rates, by four major UK 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) Data for April are provisional and may be subject to revision.  
 (c) SMEs with annual bank account debit turnover under £1 million.  
 (d) SMEs with annual bank account debit turnover between £1 million and £25 million.

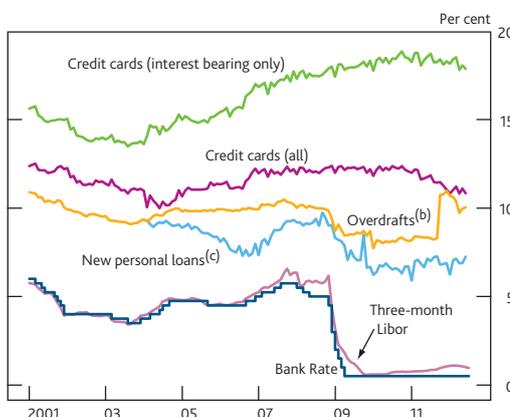
**Chart 2.6** Spreads on floating-rate mortgage products across LTV ratios<sup>(a)</sup>



Sources: Moneyfacts Group and Bank calculations.

- (a) Spreads on end-month advertised rates for products within different loan to value (LTV) ranges. The spread for each LTV range is calculated over Bank Rate as at end-month.

**Chart 2.7** Effective interest rates on consumer credit<sup>(a)</sup>



- (a) Sterling only. The Bank's effective interest rates series are currently compiled using data from 24 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-June and for effective rates to end-May. Non seasonally adjusted.  
 (b) The rate rise in September 2011 reflects system improvements and changes to reporting practices by one institution.  
 (c) Only available from January 2004.

lessened over the recent past. Respondents to the 2012 Q2 *Credit Conditions Survey* reported that spreads on total new secured lending had widened markedly over the previous quarter. Fees on secured lending were little changed in 2012 Q2, according to lenders in the survey. In recent discussions, most major UK lenders indicated that previous increases in the cost of funding in 2011 Q4 had been fully passed through into pricing on new mortgage lending. Respondents to the 2012 Q2 *Credit Conditions Survey* reported that spreads on total new secured lending were expected to widen further in Q3.

### Consumer credit pricing

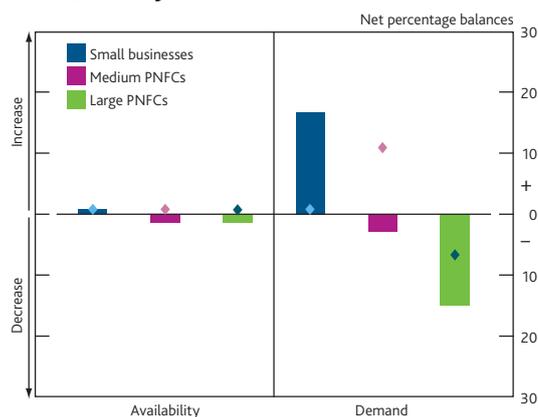
Effective rates on credit cards were broadly unchanged in the three months to May (**Chart 2.7**). Respondents to the 2012 Q2 *Credit Conditions Survey* reported that spreads on credit card lending were unchanged over the previous three months, while spreads on non credit card lending had narrowed slightly.

More generally, spreads between effective rates and Bank Rate and Libor for consumer credit as a whole remained 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 spreads on total unsecured lending to remain unchanged in 2012 Q3. Some major UK lenders indicated that there had been little recent change in loan pricing on consumer credit products, and did not expect any significant changes in the coming months.

### 3 Credit supply and demand

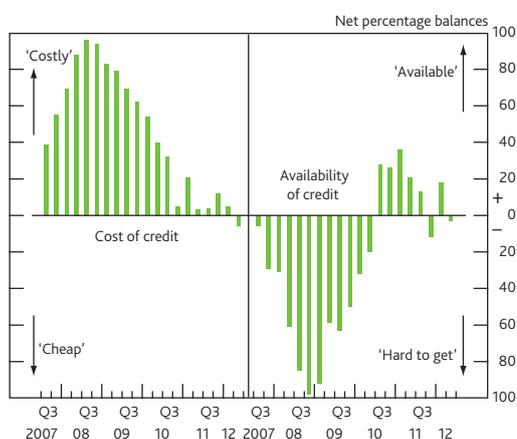
Credit availability was broadly unchanged for businesses, according to respondents to the Bank of England's 2012 Q2 *Credit Conditions Survey*. Contacts of the Bank's network of Agents noted that credit was normally available for firms with strong balance sheets, while some smaller firms reported that they were still often unable to secure loans. In recent discussions, the major UK lenders noted that demand from small and medium-sized enterprises remained subdued. Lenders in the *Credit Conditions Survey* reported that demand for secured lending for house purchase had increased significantly in 2012 Q2 and expected it to remain broadly unchanged in Q3.

**Chart 3.1** *Credit Conditions Survey*: availability and demand for credit across firm sizes reported in the 2012 Q2 survey<sup>(a)(b)</sup>



- (a) Net percentage balances 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 late May. 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.

**Chart 3.2** *Deloitte CFO Survey*: cost and availability of credit<sup>(a)</sup>



- (a) Net percentage balances for the cost of credit are calculated as the percentage of respondents reporting that bank credit is 'costly' less the percentage reporting that it is 'cheap'. Net percentage balances for the availability of credit are calculated as the percentage of respondents reporting that credit is 'available' less the percentage of respondents reporting that it is 'hard to get'. A positive balance indicates that a net balance of respondents report that credit is costly or there is availability of credit.

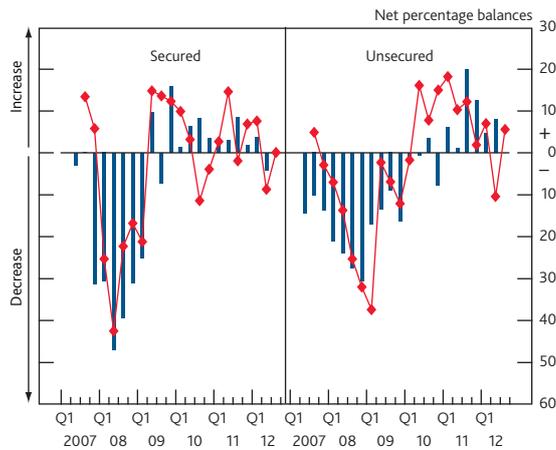
The amount of lending and its price depend on the interaction of demand and supply factors. Disentangling the separate influences of changes in the supply of, and demand for, credit is difficult though survey data can help. This section looks at recent trends in credit supply and demand, drawing on surveys,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

#### Credit conditions for businesses

Credit availability across all business sizes was broadly unchanged in 2012 Q2 according to respondents to the *Credit Conditions Survey* (Chart 3.1). Respondents to the *Deloitte CFO Survey* 2012 Q2 — which covers large companies — reported credit availability to have deteriorated in Q2 compared to Q1 (Chart 3.2). Chief financial officers in the survey saw macroeconomic uncertainty and the outlook for demand as having played a far greater role than the availability of finance in influencing recent decisions on capital spending. Contacts of the Bank's network of Agents noted that credit was normally available for firms with strong balance sheets, while some smaller firms reported that they were still often unable to secure loans. Looking forward, lenders in the *Credit Conditions Survey*, which was conducted in mid-to-late May, expected credit availability to be broadly unchanged for firms of all sizes in the coming quarter.

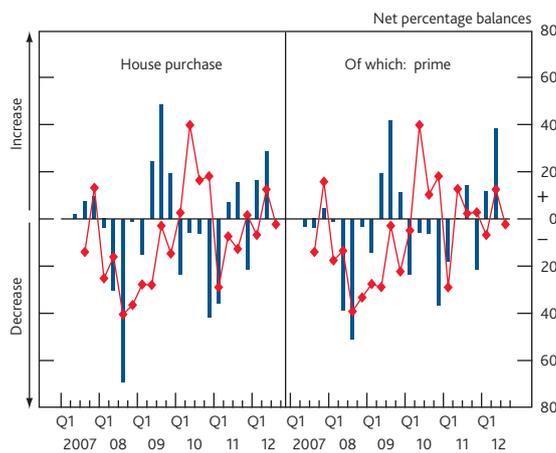
Demand for credit from small companies rose in 2012 Q2, according to lenders in the *Credit Conditions Survey* (Chart 3.1). In recent discussions, the major UK lenders noted that demand from SMEs remained subdued. Respondents to the *Credit Conditions Survey* reported that demand for credit from medium-sized firms was broadly unchanged and fell for large firms. Contacts of the Bank's Agents noted that larger businesses often had favourable access to credit, but frequently had little appetite to borrow, preferring instead to pay down existing debt, or use internal sources to fund investment. Demand for credit was expected to be unchanged

**Chart 3.3 Credit Conditions Survey: availability of credit to households<sup>(a)</sup>**



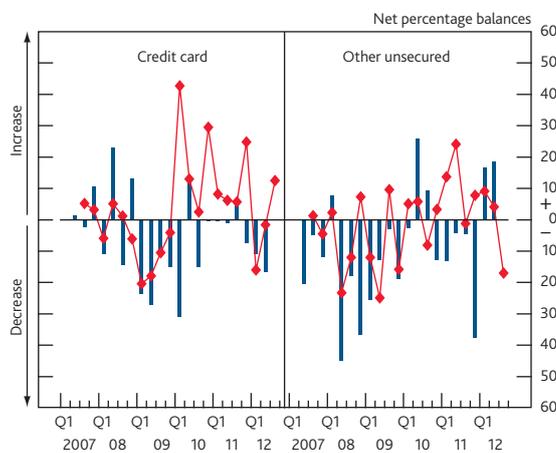
(a) See footnote (a) to Chart 2.3. A positive balance indicates that more credit is available.

**Chart 3.4 Credit Conditions Survey: demand for household secured lending<sup>(a)</sup>**



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

**Chart 3.5 Credit Conditions Survey: demand for household unsecured lending<sup>(a)</sup>**



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

for small firms, to increase for medium-sized companies and to fall slightly for large companies in 2012 Q3, according to respondents to the *Credit Conditions Survey*.

### Credit conditions for households

The amount of new secured credit made available to households was broadly unchanged in 2012 Q2 for the third consecutive quarter, according to respondents to the *Credit Conditions Survey* (Chart 3.3). Similarly, in recent discussions, some major UK lenders reported that the overall availability of secured lending remained broadly flat. Respondents to the *Credit Conditions Survey* expected the availability of secured credit to be broadly unchanged in 2012 Q3 and within this, availability of secured lending to borrowers with high loan to value ratios to decline markedly.

Overall demand for secured lending for house purchase was reported to have increased significantly in the three months to May, according to a balance of respondents to the *Credit Conditions Survey* (Chart 3.4). Within that, demand for prime lending increased and lenders in the survey noted that this may have partly reflected demand being brought forward ahead of the end of the temporary stamp duty relief for first-time buyers in March 2012. The Royal Institution of Chartered Surveyors' new buyer enquiries balance was negative in June, indicating a fall in demand for house purchase. Lenders in the *Credit Conditions Survey* expected demand for secured lending for house purchases to be broadly unchanged in the next three months.

Contacts of the Bank's Agents reported that there had been signs of weakening in the housing market in recent months, with some contacts suggesting that this drop-off in activity was, in part, the consequence of transactions having been brought forward ahead of the end of relief on stamp duty in March. Looking ahead, most major UK lenders expected overall housing market activity to be broadly unchanged in 2012. Most major UK lenders expected house prices in 2012 to be little changed or to decline slightly.

In some contrast to secured lending, respondents to the *Credit Conditions Survey* indicated that the amount of unsecured credit made available to households increased slightly in 2012 Q2 (Chart 3.3). The availability of unsecured credit was expected to increase a little further in 2012 Q3, according to respondents to the survey.

Total demand for consumer credit had fallen in 2012 Q2 according to respondents to the *Credit Conditions Survey*. Within this, demand for credit card lending had fallen in the last three months, and demand for other unsecured lending had increased (Chart 3.5). Demand for unsecured credit was expected to increase slightly in 2012 Q3, according to respondents to the survey.

## Abbreviations

**BIS** — Department for Business, Innovation and Skills.  
**CDS** — credit default swap.  
**CFO** — chief financial officer.  
**CML** — Council of Mortgage Lenders.  
**ISA** — individual savings account.  
**Libor** — London interbank offered rate (see below).  
**LTV ratio** — loan to value ratio (see below).  
**MFIs** — monetary financial institutions (see below).  
**PNFCs** — private non-financial corporations (see below).  
**SMEs** — small and medium-sized enterprises.

## Glossary

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

**Businesses** Private non-financial corporations.

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

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

**Facility** An agreement in which a lender sets out the conditions on which it is prepared to 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.

**Individual entity** Refers to an individual authorised bank or building society, and represents the level at which lenders are required to report their statistical data.

**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 (MFIs)** 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 repayments of debt in a given period.

**Private non-financial corporations (PNFCs)** All corporations (and partnerships) 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.

## 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.