

Trends in Lending

October 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.⁽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.

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.⁽²⁾ The major UK lenders⁽³⁾ 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, 40% of the stock of consumer credit, and 75% of the stock of mortgage lending at end-June 2012. 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*. 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 2012 and intelligence gathered up to end-September 2012. The discussions with the major UK lenders were conducted in the first week of October. 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/2013.pdf for future publication dates.

(2) 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.

(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

The annual rate of growth in the stock of lending to UK businesses was negative in the three months to August. The stock of lending to small and medium-sized enterprises and large businesses also contracted over this period. 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 fell slightly in the three months to August compared to the previous three months. Total net monthly consumer credit flows were broadly unchanged in this period.

Conditions in longer-term wholesale funding markets improved during 2012 Q3. Spreads over reference rates on new lending were unchanged for small and large businesses, and widened slightly for medium-sized firms, according to the Bank of England's 2012 Q3 *Credit Conditions Survey*. Spreads on quoted floating-rate mortgages were broadly unchanged in 2012 Q3, having risen since the start of the year. Effective rates on credit cards were little changed in the three months to August.

Credit availability across all business sizes was unchanged in 2012 Q3, according to respondents to the Bank of England's *Credit Conditions Survey*. Contacts of the Bank's network of Agents noted that credit was available for larger firms, especially those with strong balance sheets, while some smaller firms continued to report that they were unable to obtain credit. In recent discussions, most major UK lenders noted that demand from small and medium-sized enterprises remained muted over the quarter. The availability of secured lending to households increased significantly in the three months to beginning-September, according to respondents to the *Credit Conditions Survey*.

1 Lending to UK businesses and individuals

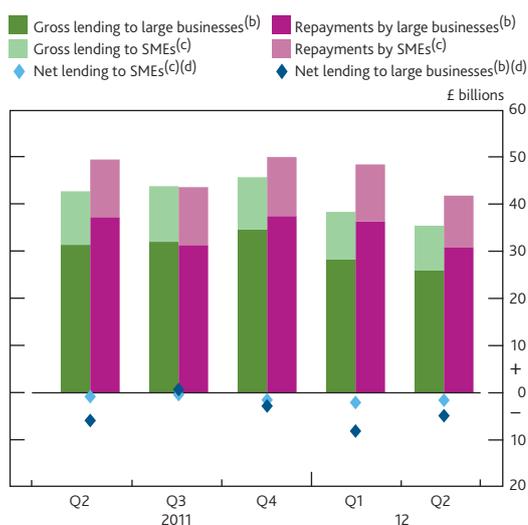
The annual rate of growth in the stock of lending to UK businesses was negative in the three months to August. The stock of lending to small and medium-sized enterprises and large businesses also contracted over this period. The annual rate of growth in the stock of secured lending to individuals was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

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

| | Averages | | | | | | 2012 | | | |
|---|----------|------|------|------|------|---------|---------|------|------|------|
| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 Q1 | 2012 Q2 | June | July | Aug. |
| Net monthly flow (£ billions) | 7.4 | 3.8 | -3.9 | -2.1 | -0.8 | -3.2 | -0.4 | 0.1 | -0.3 | -2.2 |
| Three-month annualised growth rate (per cent) | 20.8 | 10.7 | -7.7 | -5.2 | -2.0 | -6.2 | -2.9 | -1.0 | -1.7 | -2.2 |
| Twelve-month growth rate (per cent) | 16.8 | 17.9 | -1.8 | -7.1 | -3.3 | -2.9 | -3.1 | -2.6 | -2.2 | -3.1 |

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

Chart 1.1 Gross lending to and repayments by UK non-financial businesses^(a)



(a) Loans 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.

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 over £2 billion in the three months to August (**Table 1.A**). The annual rate of growth in the stock of lending to businesses was negative over this period.

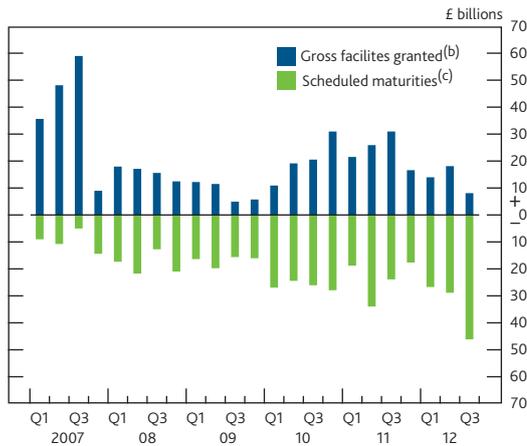
The aggregate decline in the stock of lending to businesses is consistent with data on lending to small and medium-sized enterprises (SMEs) and large businesses from a newly established Bank of England data collection.⁽¹⁾ The box on pages 7–9 provides more details on recent trends in the stock of lending to SMEs and large businesses.

Net lending to SMEs, defined as gross lending less repayments, by all monetary financial institutions (MFIs) has been negative since 2011 Q2 (**Chart 1.1**). Net lending to large businesses has been negative since 2011 Q4. Contacts of the Bank's network of Agents noted that long-term debt was often being repaid by firms at a faster rate than scheduled.

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 decreased in 2012 Q3 compared to the previous quarter (**Chart 1.2**). In recent discussions, most major UK lenders noted that the recent decline in syndicated lending volumes partly reflected ongoing macroeconomic uncertainty and a lack of mergers and acquisitions activity. Looking

(1) 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. This data collection started in April 2011.

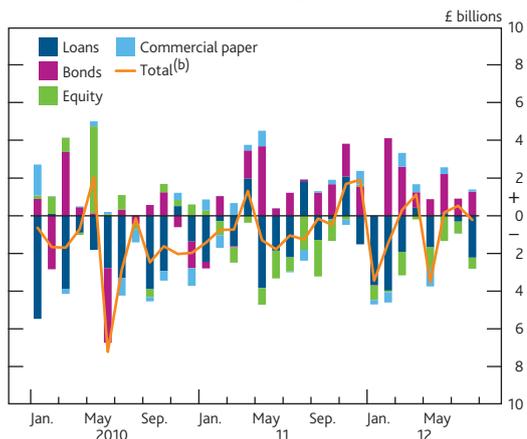
Chart 1.2 Estimates of syndicated lending facilities granted to UK businesses^(a)



Sources: Dealogic and Bank calculations.

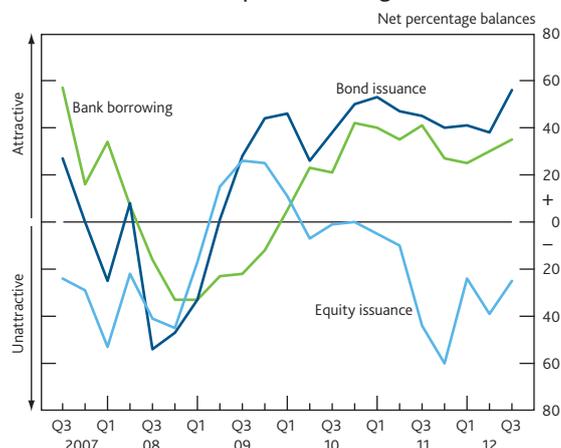
- (a) Defined broadly as PNFCS. Data cover lending facilities in both sterling and foreign currency, expressed in sterling terms. Non seasonally adjusted.
 (b) New syndicated lending facilities excluding cancelled or withdrawn facilities.
 (c) Scheduled maturities of syndicated lending facilities excluding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

Chart 1.3 Net funds raised by UK businesses^(a)



- (a) Funds raised by PNFCS from UK monetary financial institutions and capital markets. Data cover funds raised in both sterling and foreign currency, expressed in sterling terms. Loans are seasonally adjusted. Bond, equity and commercial paper issuance are non seasonally adjusted.
 (b) Owing to the method of the seasonal adjustment of this series, it may not equal the sum of its component breakdown.

Chart 1.4 Deloitte CFO Survey: attractiveness of different sources of corporate funding^(a)



- (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 percentage balance of respondents find that particular source of funding 'attractive'.

forward, some major UK lenders expected syndicated lending in the coming quarter to remain subdued.

Capital markets provide an alternative source of funding for larger companies. Net bond issuance has been positive since February 2012 (**Chart 1.3**). In recent discussions, some major UK lenders reported that stronger bond issuance over the recent past partly reflected a preference by corporates for this type of financing over bank lending due to the more attractive pricing and longer tenors available in this market. Net capital market issuance overall was positive in the three months to August, despite negative net equity issuance over that period. This was offset by negative net lending (**Table 1.A**) such that the total net amount of funds raised from banks and capital markets by UK businesses was broadly flat in the three months to August.

Notwithstanding the recent weakness of bank lending, the majority of respondents — chief financial officers of large companies — to the *Deloitte CFO Survey 2012 Q3* indicated that they still viewed bank lending and bond issuance as 'attractive' forms of financing (**Chart 1.4**). The survey reported that low rates of interest on corporate debt have made corporate bonds more attractive as a form of finance than at any time in the past five years. Respondents to the survey reported that equity issuance was considered less attractive than debt finance.

Secured lending to individuals

The average monthly flow of net lending in sterling by UK-resident mortgage lenders in the three months to August, while positive, was weaker 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 in the three months to August. According to data provided by the major UK lenders, gross flows of secured lending fell slightly in this period compared to the previous three months (**Chart 1.5**).

Data provided by the major UK lenders on the monthly flow of gross lending include a split between house purchase and the refinancing of existing mortgages (remortgaging). Gross mortgage lending for house purchase was little changed in the three months to August compared to the previous three months, while remortgaging activity fell (**Chart 1.5**). Mortgage approvals by all UK-resident mortgage lenders for house purchase fell slightly in the three months to August compared to the previous three months.

Consumer credit

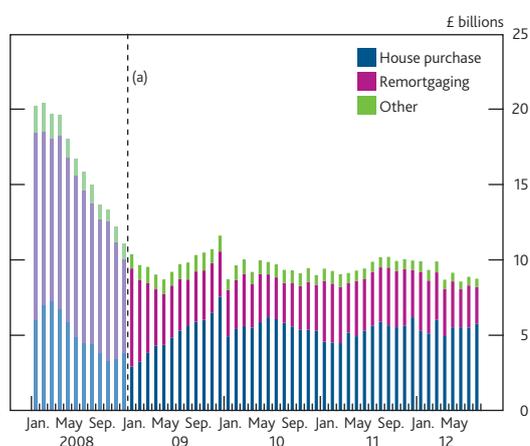
Total net monthly consumer credit flows (excluding student loans) were broadly unchanged in the three months to August compared to the previous three months (**Table 1.C**). Within this, other unsecured lending flows and credit card lending were both unchanged.

Table 1.B Secured lending to individuals^(a)

| | Averages | | | | | | | 2012 | | |
|---|----------|------|------|------|------|---------|---------|------|------|------|
| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 Q1 | 2012 Q2 | June | July | Aug. |
| Net monthly flow (£ billions) | 9.0 | 3.4 | 1.0 | 0.6 | 0.8 | 1.2 | 0.4 | -0.3 | 0.9 | -0.3 |
| Three-month annualised growth rate (per cent) | 10.4 | 4.1 | 0.9 | 0.7 | 0.7 | 1.1 | 0.7 | 0.4 | 0.4 | 0.1 |
| Twelve-month growth rate (per cent) | 11.0 | 6.9 | 1.4 | 0.9 | 0.7 | 0.8 | 0.8 | 0.8 | 0.8 | 0.7 |

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

The annual rate of growth of consumer credit (excluding student loans) was negative in the three months to August. Within this, the annual rate of growth in the stock of credit card lending was positive while the annual rate of growth in the stock of other unsecured lending was negative over the same period.

Chart 1.5 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.

Table 1.C Consumer credit^{(a)(b)}

| | Averages | | | | | | | 2012 | | |
|---|----------|------|------|------|------|---------|---------|------|------|------|
| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 Q1 | 2012 Q2 | June | July | Aug. |
| Net monthly flow (£ billions) | 0.8 | 0.6 | -0.2 | -0.2 | -0.1 | -0.1 | 0.0 | 0.1 | -0.2 | -0.1 |
| Three-month annualised growth rate (per cent) | 5.3 | 3.9 | -1.3 | -1.4 | -0.5 | -1.8 | 0.1 | 0.1 | 0.0 | -0.6 |
| Twelve-month growth rate (per cent) | 4.9 | 5.1 | 0.8 | -1.8 | -0.8 | -0.7 | -0.7 | -0.5 | -0.6 | -0.7 |

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

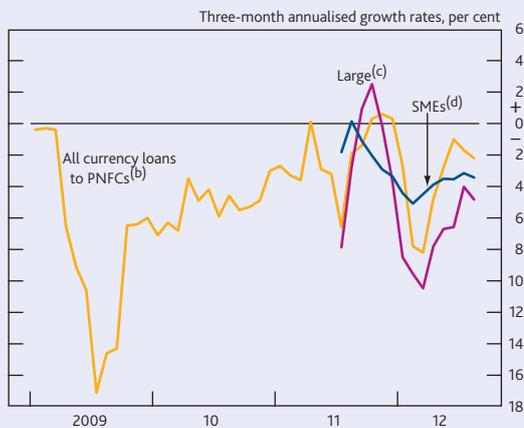
(b) Consumer credit consists of credit card lending and other loans and advances. Consumer credit data exclude student loans.

Lending to the UK real economy in 2012 to date

Trends in Lending presents the Bank of England's assessment of the latest developments in lending to the UK economy. This box reports on lending to the UK real economy in 2012 to date.

The three-month annualised growth rate in the stock of lending to private non-financial corporations (PNFCs) has been negative in 2012 to date (**Chart A**).⁽¹⁾ Data from a recently established Bank of England collection on lending to businesses also point to a contraction in lending to small and medium-sized enterprises (SMEs) and large firms in 2012, with the rate of contraction easing slightly.⁽²⁾

Chart A Lending to UK businesses^(a)



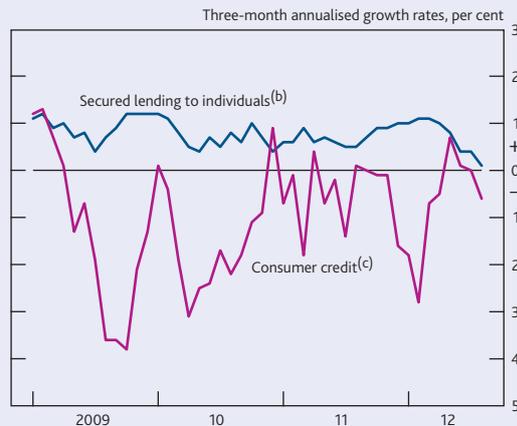
- (a) Three month-annualised growth in the stock of lending. Data cover lending by UK monetary financial institutions in both sterling and foreign currency, expressed in sterling terms. Non seasonally adjusted, except where stated otherwise.
- (b) Lending (loans) by UK monetary financial institutions to private non-financial corporations, excluding the effects of securitisations and loan transfers. Seasonally adjusted. For more details, see **Table 1**.
- (c) Lending (loans) to large businesses, defined as those with annual debit account turnover on the main business account over £25 million. Data exclude overdrafts. For more details, see **Table 1**.
- (d) Lending (loans) to small and medium-sized enterprises (SMEs), defined as those with annual debit account turnover on the main business account less than £25 million. Data exclude overdrafts. For more details, see **Table 1**.

The three-month annualised growth rate in the stock of secured lending to individuals, while remaining positive in 2012 (**Chart B**), has fallen since April and in August was at its lowest since the series began in 1987 Q2. The growth rate in the stock of unsecured lending to individuals (excluding student loans) on a three-month annualised basis has been negative for the majority of 2012 to date. A broad description of the measures of lending shown in **Charts A** and **B** is provided in **Table 1**.

More generally, since the turn of the year the growth rate in the stock of lending (M4 lending measure) to the household sector and PNFCs has been negative (**Chart C**).⁽³⁾

The Funding for Lending Scheme (FLS) was launched by the Bank and the Government on 13 July 2012.⁽⁴⁾ The aim of the FLS is to provide strong incentives for banks, building societies

Chart B Lending to individuals: secured lending and consumer credit^(a)



- (a) Three month-annualised growth in the stock of lending. Data cover sterling lending. Seasonally adjusted.
- (b) Lending by UK monetary financial institutions and other lenders to UK individuals.
- (c) Lending by UK monetary financial institutions and other lenders to UK individuals. Consumer credit consists of credit card lending and other loans and advances. Consumer credit data exclude student loans. Further information can be found in *Bankstats*, July 2012, 'A new measure of consumer credit', available at www.bankofengland.co.uk/statistics/Documents/ms/articles/art1jul12.pdf.

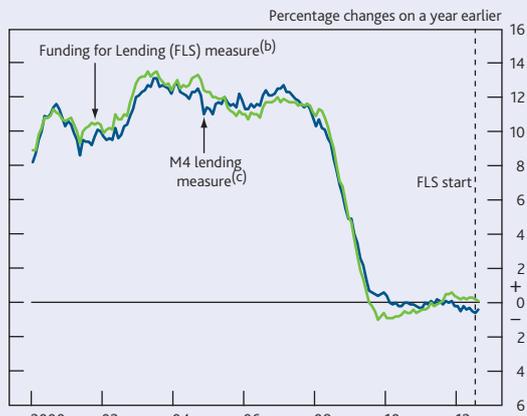
and related specialist mortgage lenders to expand lending to UK households and businesses, by providing term funding at rates below those prevailing in the market at the time. A box in the August 2012 *Inflation Report* explains why the FLS has been launched and how it will encourage banks to lend more.⁽⁵⁾ A box in the 2012 Q3 *Quarterly Bulletin* outlines how the FLS will operate in practice.⁽⁶⁾

Similarly to the M4 lending measure, the growth rate in the stock of lending in the FLS-consistent measure of lending has been subdued in 2012 to date (**Chart C**).⁽⁷⁾ In recent discussions, most major UK lenders noted that it was too early since the start of the Scheme to assess its impact on lending volumes.

This is consistent with the view that there must be a lag between the announcement of the Scheme and its potential impact on bank funding costs and lending rates and volumes. Bank funding costs are likely to be affected before lending rates and volumes. Participating institutions can access cheaper funding directly following the opening of the Scheme. And indicative measures of spreads in longer-term wholesale funding markets fell in 2012 Q3. As noted in Section 2, the major UK lenders reported that this reflected the impact of central bank actions, including those of the European Central Bank and the Bank of England, of which the FLS is one. For secured lending, for example, the reduction in bank funding costs could then be passed on to quoted rates on mortgage products which could, in turn, lead to an effect on mortgage approvals. With the typical lag between mortgage approvals and transactions being around two to four months, the FLS might first begin to impact on secured lending volumes and data towards the end of 2012.

A broad description of the measures of lending to UK households and businesses shown in **Chart C** — M4 lending and the FLS definition — and a comparison between them is provided in **Table 2**.

Chart C Lending to UK-resident households and businesses^(a)



- (a) Twelve-month growth rate in the stock of lending. Lending to the UK-resident household sector and PNFCs. Non seasonally adjusted.
- (b) Sterling loans by UK-resident monetary financial institutions and related specialist mortgage lenders. Holdings of securities are excluded from this measure. For more details, see **Table 2**.
- (c) Sterling M4 lending by UK-resident monetary financial institutions, excluding the effects of securitisations and loan transfers. Holdings of securities are included in M4 lending. For more details, see **Table 2**.

- (1) Lending is defined in this context as all currency loans by UK-resident monetary financial institutions (MFIs) to UK-resident PNFCs.
- (2) For more details on this data collection see the box on 'Lending to SMEs and large businesses, pages 7–8, July 2012 *Trends in Lending*, available at www.bankofengland.co.uk/publications/Documents/other/monetary/trendsJuly12.pdf.
- (3) M4 lending includes sterling loans by UK-resident MFIs to UK-resident PNFCs and the household sector and holdings of sterling securities issued by them. For more details, see **Table 2**.
- (4) For more details on the Funding for Lending Scheme, see www.bankofengland.co.uk/markets/Pages/FLS/default.aspx.
- (5) See pages 14–15, August 2012 *Inflation Report*, available at www.bankofengland.co.uk/publications/Pages/inflationreport/ir1203.aspx.
- (6) See page 195, 2012 Q3 *Quarterly Bulletin*, available at www.bankofengland.co.uk/publications/Pages/quarterlybulletin/a12.aspx.
- (7) The FLS definition of lending is sterling loans by UK-resident MFIs and related specialist mortgage lenders to the UK-resident household sector and PNFCs.

Table 1 Definitions of selected Bank of England series on lending to UK businesses and individuals^(a)

| | Lending to UK businesses | | Lending to individuals | |
|--------------------------------------|--|--|--|--|
| | Lending to PNFCS | Lending to SMEs and large businesses ^(b) | Secured on dwellings | Consumer credit (excluding student loans) |
| Currency | Sterling and foreign currency, expressed in sterling terms | Sterling and foreign currency, expressed in sterling terms | Sterling | Sterling |
| Lending by | | | | |
| MFIs | ✓ | ✓ | ✓ | ✓ |
| Specialist mortgage lenders | | | ✓ | |
| Other lenders | | | ✓ | ✓ |
| Main components | | | | |
| Loans | ✓ | ✓ | ✓ | ✓ |
| Securities | | | | |
| Reverse repos ^(c) | ✓ | ✓ | | |
| Overdrafts | ✓ | | | ✓ |
| Other | ✓ ^(d) | | | |
| IADB codes | | | | |
| Amounts outstanding | B8EY | n.a. | VTXK | BI2O |
| Changes | B93K | n.a. | VTVJ | B3PS |
| Three-month growth rate (annualised) | B8EZ | n.a. | VTYG | B3PY |
| Twelve-month growth rate | B2ZQ | n.a. | VTYI | B4TC |
| Reference | Bank of England Statistical Release, 'Sectoral breakdown of aggregate M4 and M4 lending', Table C; ^(e) Table 1.A, Chart A (box), October 2012 <i>Trends in Lending</i> . | <i>Bankstats</i> , March 2012 'Lending to businesses — a new data source'; ^(f) box on pages 7–8, July 2012 <i>Trends in Lending</i> ; ^(g) Chart 1.1, Chart A (box), October 2012 <i>Trends in Lending</i> . | Bank of England Statistical Release 'Lending to individuals', Table A; ^(e) Table 1.B, Chart B (box), October 2012 <i>Trends in Lending</i> . | Bank of England Statistical Release 'Lending to individuals', Table D; ^(e) Table 1.C, Chart B (box), October 2012 <i>Trends in Lending</i> . |

- (a) Lending by UK-resident monetary financial institutions to PNFCS and individuals, unless stated otherwise. PNFCS exclude sole traders and informal partnerships. Codes for selected Bank series for amounts outstanding, changes (flows) and growth rates, which can be accessed via the Bank's Interactive Database, are also provided. These are seasonally adjusted, unless stated otherwise. Movements in amounts outstanding can reflect breaks in data series as well as underlying flows. For changes and growth rates data, users are recommended to refer directly to the appropriate series. Further details can be found at www.bankofengland.co.uk/statistics/Pages/iadb/notesiadb/changes.aspx.
- (b) SMEs are defined as enterprises with annual debit account turnover on the main business account less than £25 million and large businesses are defined as those with annual debit account turnover on the main business account over £25 million.
- (c) For more details see section on claims under sale and repurchase agreements in www.bankofengland.co.uk/statistics/Pages/iadb/notesiadb/mfis_exlcb.aspx.
- (d) Includes acceptances and holdings of short-term paper.
- (e) Available at www.bankofengland.co.uk/statistics/Pages/calendar/default.aspx.
- (f) Available at www.bankofengland.co.uk/statistics/Documents/ms/articles/art2mar12.pdf.
- (g) See footnote (2) on page 8 for more details.

Table 2 Definitions of selected Bank of England series on lending to the UK household sector and businesses^(a)

| | M4 lending (M4Lx) | | FLS definition of lending (to household sector and PNFCS) |
|------------------------------|--|------------------|--|
| | Household sector | PNFCS | |
| Currency | | Sterling | Sterling |
| Lending by | | | |
| MFIs | | ✓ | ✓ |
| Specialist mortgage lenders | | | ✓ ^(b) |
| Main components | | | |
| Loans | | ✓ | ✓ |
| Securities | | ✓ | |
| Reverse repos ^(c) | | ✓ | ✓ |
| Overdrafts | | ✓ | ✓ |
| Other | | ✓ ^(d) | |
| IADB codes | | | |
| Amounts outstanding | BC44 | BC57 | B6VG ^(e) |
| Changes | VWNV | VWNQ | B6VH ^(e) |
| Twelve-month growth rate | VWVZ | VWNU | B6VI ^(e) |
| Reference | Bank of England Statistical Release 'Sectoral breakdown of aggregate M4 and M4 lending', Table B; ^(f) Chart C (box), October 2012 <i>Trends in Lending</i> . | | Funding for Lending Scheme Explanatory Note, Chart 2; ^(g) Chart C (box), October 2012 <i>Trends in Lending</i> . |

- (a) Lending by UK-resident monetary financial institutions to the UK-resident household sector and PNFCS. PNFCS exclude sole traders and informal partnerships. Sole traders are included as part of the household sector. Codes for selected Bank series for amounts outstanding, changes (flows) and growth rates, which can be accessed via the Bank's Interactive Database, are also provided. These are seasonally adjusted, unless stated otherwise. Movements in amounts outstanding can reflect breaks in data series as well as underlying flows. For changes and growth rates data, users are recommended to refer directly to the appropriate series. Further details can be found at www.bankofengland.co.uk/statistics/Pages/iadb/notesiadb/changes.aspx.
- (b) Includes all MFI-related specialist mortgage lenders.
- (c) For more details see section on claims under sale and repurchase agreements in www.bankofengland.co.uk/statistics/Pages/iadb/notesiadb/mfis_exlcb.aspx.
- (d) Includes acceptances and holdings of short-term paper and excludes the effects of securitisations and loan transfers.
- (e) This series is not seasonally adjusted.
- (f) Available at www.bankofengland.co.uk/statistics/Pages/calendar/default.aspx.
- (g) Available at www.bankofengland.co.uk/markets/Documents/explanatory_notefls120713.pdf.

2 Loan pricing

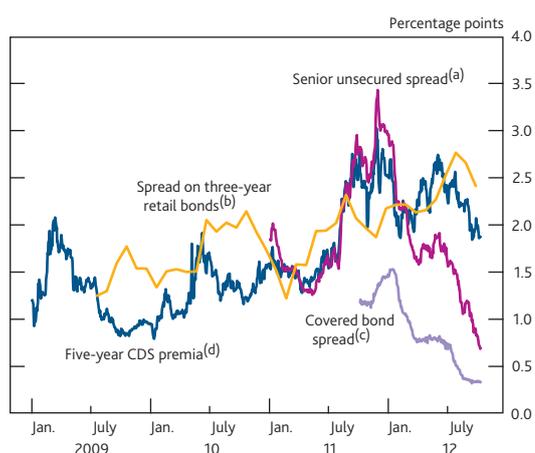
Conditions in longer-term wholesale funding markets improved during 2012 Q3. Spreads over reference rates on new lending were unchanged for small and large businesses, and widened slightly for medium-sized firms, according to the Bank of England's 2012 Q3 *Credit Conditions Survey*. Spreads on quoted floating-rate mortgages were broadly unchanged in 2012 Q3, having risen since the start of the year. Effective rates on credit cards were little changed 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.

Chart 2.1 Indicative long-term funding spreads



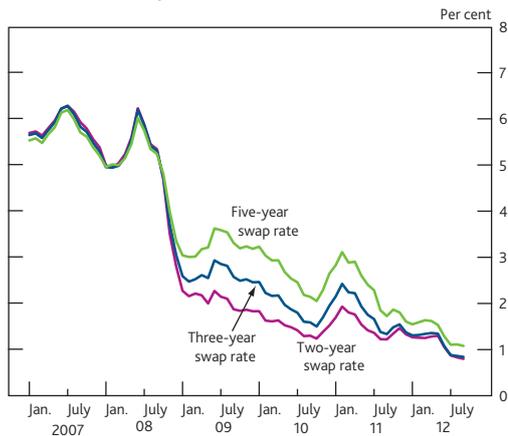
Sources: Bloomberg, Markit Group Limited, Bank of England and Bank calculations.

- (a) The data show an unweighted average of the spread between euro-denominated senior unsecured bonds and equivalent maturity swap rates for a selected bond issued by each of the major UK lenders. The selected bonds have residual maturities of between two and six years.
- (b) Sterling only. Spread over the relevant swap rate. The three-year retail bond rate is a weighted average 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).
- (c) The data show an unweighted average of the spread between euro-denominated covered bonds and equivalent maturity swap rates for a selected bond issued by each of the major UK lenders. The selected bonds have residual maturities of between three and seven years.
- (d) The data show an unweighted average of the five-year CDS premia for the major UK lenders, which provides an indicator of the spread on long-term wholesale bonds.

Conditions in longer-term wholesale funding markets improved during 2012 Q3. In recent discussions, the major UK lenders reported that this reflected the impact of central bank actions, including those of the European Central Bank and Bank of England, of which the Funding for Lending Scheme is one. Some major UK lenders noted that the recent reduction in longer-term wholesale funding spreads also reflected the buyback of debt by some UK banks.

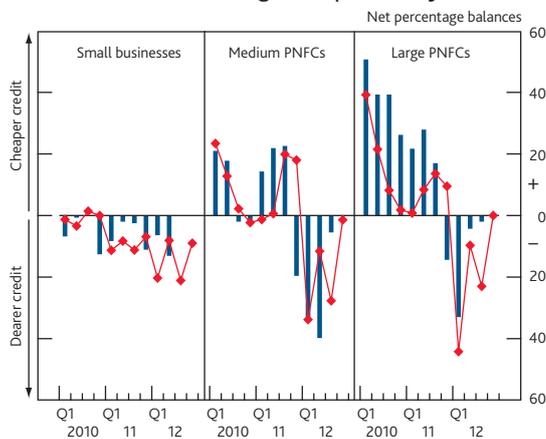
Indicative measures of the spread over relevant swap rates on longer-term bank wholesale debt fell in 2012 Q3, though the size of the fall varied across different measures (**Chart 2.1**). Looking ahead, the major UK lenders expected spreads in longer-term wholesale funding markets to be broadly unchanged or fall slightly over the next three 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 in July before falling in August and September, remaining elevated compared

Chart 2.2 Swap rates at different maturities^(a)

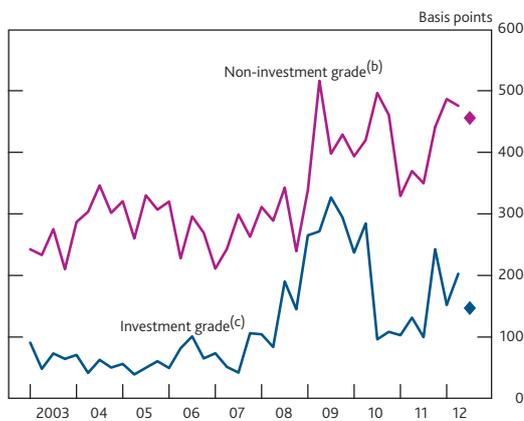
Sources: Bloomberg and Bank calculations.

(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 outcomes 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. Data for 2012 Q3, 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.

to recent years (**Chart 2.1**). The movement in spreads on three-year fixed-rate retail bonds in 2012 Q3 reflected deposit rates falling by more than relevant swap rates (**Chart 2.2**). In recent discussions, most major lenders indicated that there had been a fall in pricing on some retail products over the quarter. Some lenders noted that their requirements for retail funding had lessened for the remainder of the year. Looking forward, most lenders expect pricing on some retail deposits to decrease in the coming months.

Corporate loan pricing

Spreads over reference rates on new lending for large businesses were unchanged in 2012 Q3, according to respondents to the Bank of England's *Credit Conditions Survey* (**Chart 2.3**). Lenders in the survey also reported fees and commissions were broadly unchanged in Q3. Contacts of the Bank's network of Agents reported that larger firms, especially those with strong balance sheets, had access to credit on good terms. The balance of respondents to the *Deloitte CFO Survey* 2012 Q3 — which covers large companies — reported the cost of credit to be 'cheap' for the second successive quarter.

Spreads on syndicated lending, which typically apply to lending for large businesses, narrowed in both the investment and non-investment grade segments of the market in 2012 Q3, according to Dealogic data (**Chart 2.4**). Some major UK lenders noted that pricing for syndicated loans for higher quality names was competitive.

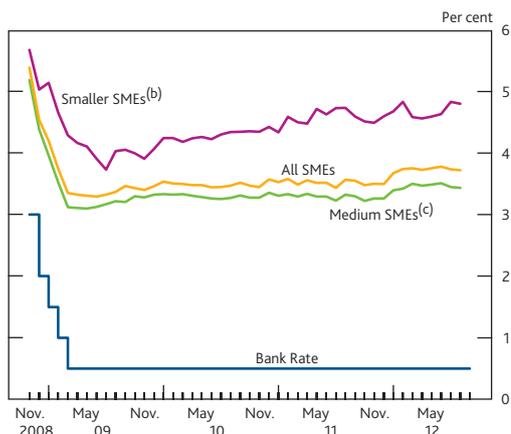
Spreads over reference rates on new lending to small businesses were unchanged in 2012 Q3, though widened slightly for medium-sized firms according to respondents to the *Credit Conditions Survey* (**Chart 2.3**). Fees and commissions had increased for small businesses but were unchanged for medium-sized firms, according to respondents in 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.

The Bank's measure of the effective interest rate on new lending to businesses borrowing overall was little changed in the three months to August. Contacts of the Bank's Agents reported that the cost of borrowing to businesses from banks appeared to be stabilising, albeit at levels well above a year ago. Looking forward, respondents to the 2012 Q3 *Credit Conditions Survey* expected spreads on lending to large and medium-sized firms to remain unchanged in Q4, and spreads on lending to small businesses to widen slightly.

Mortgage pricing

The Bank's measures of quoted floating-rate mortgages were broadly unchanged in 2012 Q3 (**Chart 2.6**) so that spreads over Bank Rate, which had risen since the start of the year,

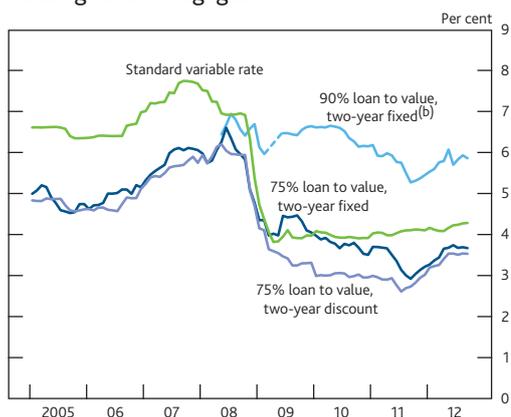
Chart 2.5 Indicative median interest rates on new SME variable-rate facilities^(a)



Sources: BIS, Bank of England and Bank calculations.

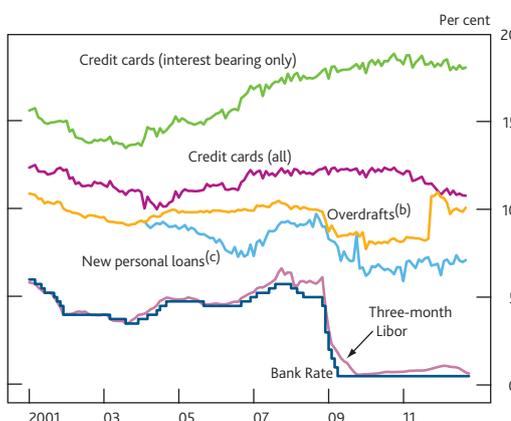
- (a) Median by value of new SME facilities priced at margins over base rates, by four major UK lenders (Barclays, HSBC, Lloyds Banking Group and Royal Bank of Scotland). Data cover lending in both sterling and foreign currency, expressed in sterling terms.
 (b) SMEs with annual bank account debit turnover under £1 million.
 (c) SMEs with annual bank account debit turnover between £1 million and £25 million.

Chart 2.6 Quoted interest rates on fixed-rate and floating-rate mortgages^(a)



- (a) Sterling only. The Bank's quoted interest rates series are currently compiled using data from up to 24 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 2.7 Effective interest rates on consumer credit^(a)



Sources: BBA, Bank of England and Bank calculations.

- (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-September and for effective rates to end-August. 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.

were little changed. Some of the Bank's measures of quoted rates on fixed-rate mortgages, such as the two-year fixed rate at 75% loan to value ratio, were broadly unchanged in 2012 Q3 relative to the previous quarter (**Chart 2.6**). With some swap rates having fallen in Q3 compared to Q2 (**Chart 2.2**), spreads over swap rates on these fixed-rate mortgages have increased. In recent discussions, most major UK lenders indicated that there had been some reductions in pricing on some mortgage products over the past quarter. Looking ahead, some lenders expected there to be a further decline in pricing on some mortgage products.

Respondents to the 2012 Q3 *Credit Conditions Survey* reported that spreads on overall secured lending to households had widened over the previous three months, with the increase in spreads concentrated on prime lending. Fees on secured lending were reported to be unchanged in 2012 Q3, and were expected to remain unchanged in the coming quarter. Looking ahead, respondents to the survey expected spreads to fall for both prime and buy-to-let lending in Q4.

Consumer credit pricing

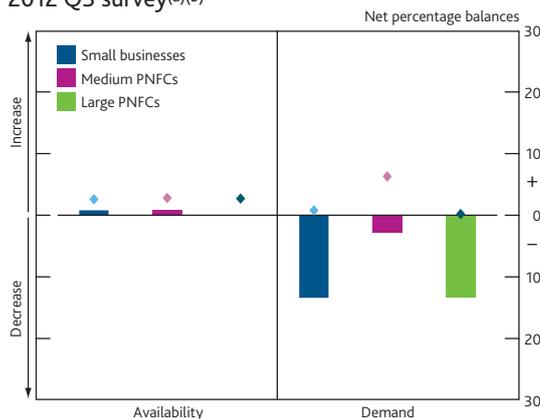
Effective interest rates on all credit cards and personal loans were little changed in the three months to August (**Chart 2.7**). Respondents to the 2012 Q3 *Credit Conditions Survey* reported that spreads on overall unsecured lending had remained unchanged, though had increased for other unsecured lending.

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 2012 Q3 *Credit Conditions Survey* expected spreads on credit cards to decrease slightly in 2012 Q4, with spreads on other unsecured products also expected to fall. In recent discussions, most major UK lenders noted little recent change in loan pricing for consumer credit products. Looking ahead, pricing on consumer credit products was not expected to significantly change in the coming months, according to some major UK lenders.

3 Credit supply and demand

Credit availability across all business sizes was unchanged in 2012 Q3, according to respondents to the Bank of England's *Credit Conditions Survey*. Contacts of the Bank's network of Agents noted that credit was available for larger firms, especially those with strong balance sheets, while some smaller firms continued to report that they were unable to obtain credit. In recent discussions, most major UK lenders noted that demand from small and medium-sized enterprises remained muted over the quarter. The availability of secured lending to households increased significantly in the three months to beginning-September, according to respondents to the *Credit Conditions Survey*.

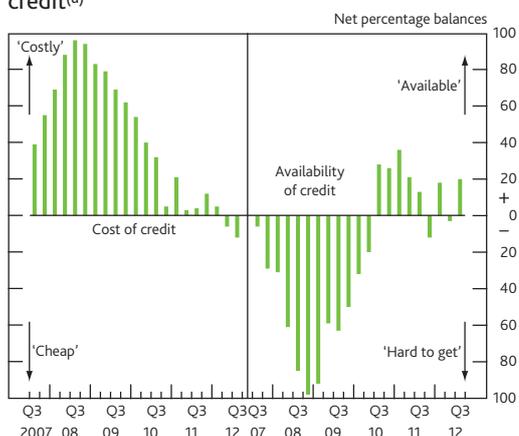
Chart 3.1 *Credit Conditions Survey*: availability and demand for credit across firm sizes reported in the 2012 Q3 survey^{(a)(b)}



(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 beginning-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.

Chart 3.2 *Deloitte CFO Survey*: cost and availability of credit^(a)



(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.

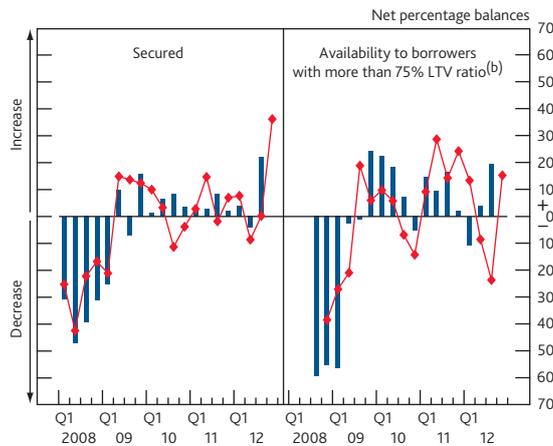
The amount of lending and its price depend on the interaction of demand and supply factors. Disentangling the separate influences of changes in the supply of and demand for credit is difficult, though survey data can help. This section looks at recent trends in credit supply and demand, drawing on surveys, 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 unchanged in 2012 Q3, according to respondents to the *Credit Conditions Survey* (Chart 3.1). The balance of respondents to the *Deloitte CFO Survey* 2012 Q3 — which covers large companies — reported credit as 'available', having reported a deterioration in credit availability in 2012 Q2 (Chart 3.2). Contacts of the Bank's network of Agents noted that credit was available for larger firms, especially those with strong balance sheets, while some smaller firms continued to report that they were unable to obtain credit. Looking forward, lenders in the *Credit Conditions Survey* expected credit availability to remain unchanged for firms of all sizes in the coming quarter.

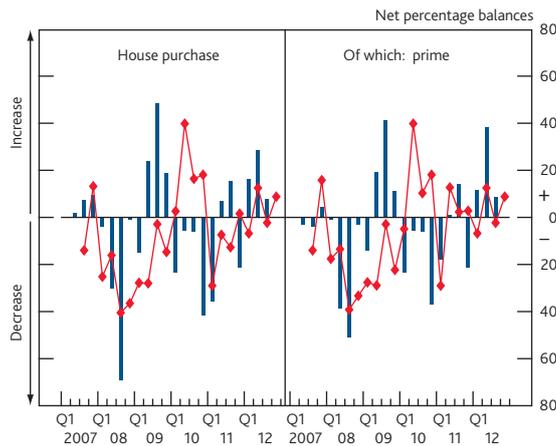
Demand for credit from small and large businesses fell in 2012 Q3, according to lenders in the *Credit Conditions Survey* (Chart 3.1). In recent discussions, most major UK lenders noted that demand from SMEs remained muted over the quarter. Contacts of the Bank's Agents reported that demand for credit remained subdued, with many firms funding a greater proportion of their working capital and investment requirements internally than before the financial crisis. Respondents to the *Credit Conditions Survey* reported that demand for credit from medium-sized firms was unchanged over the past quarter. Most major UK lenders reported that a lack of confidence among some firms and the wider economic environment were weighing down on demand for credit.

Chart 3.3 Credit Conditions Survey: availability of secured credit to households^(a)



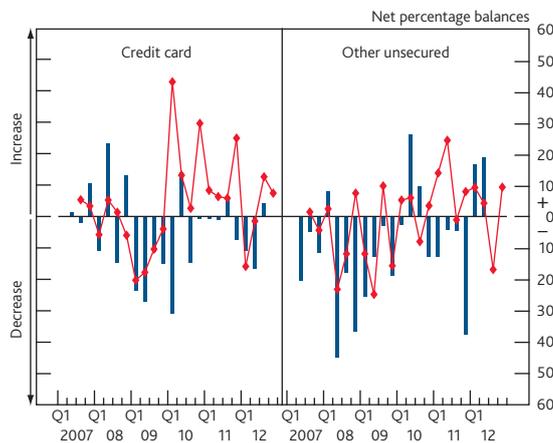
(a) See footnote (a) to Chart 2.3. A positive balance indicates that more credit is available.
(b) This question was introduced in 2008 Q3.

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.

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.

Demand for credit was expected to be unchanged for small and large firms and increase slightly for medium-sized firms in 2012 Q4, according to respondents to the *Credit Conditions Survey*.

Credit conditions for households

The amount of new secured credit made available to households increased significantly in the three months to beginning-September, according to respondents to the *Credit Conditions Survey* (Chart 3.3). This was the largest reported increase in secured availability since the survey began in 2007. Lenders in the survey reported that the increase in availability was concentrated on borrowers at higher loan to value (LTV) ratios (more than 75%), in part reflecting increased availability for first-time buyers. Looking ahead, the availability of secured credit was expected to increase significantly further over the next three months to borrowers spread across LTV ratios, according to respondents to the *Credit Conditions Survey*. The Funding for Lending Scheme was widely cited by lenders in the survey as contributing towards the expected improvement in secured credit availability. In recent discussions, most major UK lenders expected availability at higher LTV ratios to be unchanged or increase slightly in the coming months.

Overall demand for secured lending for house purchase increased slightly over the past quarter, according to a balance of respondents to the 2012 Q3 *Credit Conditions Survey* (Chart 3.4). Within that, demand for prime lending increased a little, while demand for buy-to-let lending fell slightly. The Royal Institution of Chartered Surveyors' new buyer enquiries balance turned positive in September, indicating an increase in demand for house purchase. Lenders in the *Credit Conditions Survey* expected overall demand for secured credit for house purchase to increase slightly in 2012 Q4.

Contacts of the Bank's Agents reported that the housing market had picked up slightly, following the usual summer lull. However, contacts expressed concerns that this pickup would not be sustained, as continuing worries about the economic outlook restrained activity. Looking ahead, the major UK lenders expected house prices in the coming months 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 was broadly unchanged over the past three months. The availability of unsecured credit was expected to increase a little in 2012 Q4, according to lenders in the *Credit Conditions Survey*.

Total demand for consumer credit remained broadly unchanged in 2012 Q3, according to respondents to the *Credit Conditions Survey*. Lenders in the survey reported that demand for credit card lending was broadly unchanged in Q3 (Chart 3.5). Demand for unsecured credit was expected to increase slightly in Q4, according to lenders in the survey.

Abbreviations

BBA — British Bankers' Association.
BIS — Department for Business, Innovation and Skills.
CDS — credit default swap.
CFO — chief financial officer.
FLS — Funding for Lending Scheme.
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.

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.

Specialist lenders Providers of mortgage loans for niche markets that generally fall outside the scope of mainstream mortgage lending.

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 investment.

Symbols and conventions

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

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