Trends in Lending

April 2013

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, 75% of the stock of mortgage lending and 55% of the stock of consumer credit (excluding student loans) at end-December 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 *Bank Liabilities Survey* and *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 February 2013 and intelligence gathered up to end-March 2013. Unless stated otherwise, the data reported cover lending in both sterling and foreign currency, expressed in sterling.

(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 February. The stock of lending to both 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 February. Total net consumer credit flows were positive over this period.

Some indicative measures of the spread over relevant swap rates on longer-term bank wholesale debt were broadly unchanged over 2013 Q1. Respondents to the Bank of England's *Bank Liabilities Survey* reported that spreads on funding (including wholesale debt funding) had narrowed significantly in 2013 Q1. According to the Bank of England's 2013 Q1 *Credit Conditions Survey*, spreads on new lending fell for small businesses and fell significantly for large and medium-sized businesses. Spreads on quoted fixed-rate mortgages narrowed across the loan to value range in 2013 Q1. Looking ahead, respondents to the *Credit Conditions Survey* expected a significant fall in spreads on overall secured lending in 2013 Q2.

Availability of credit was little changed for small and medium-sized firms and increased for large companies in 2013 Q1, according to respondents to the *Credit Conditions Survey*. In recent discussions, most major UK lenders reported that demand for credit from businesses was mixed across corporate sectors. Lenders in the *Credit Conditions Survey* reported that the amount of new secured credit made available to households increased in 2013 Q1. Contacts of the Bank's network of Agents noted that housing market activity had improved over the recent past.

1 Lending to UK businesses and individuals

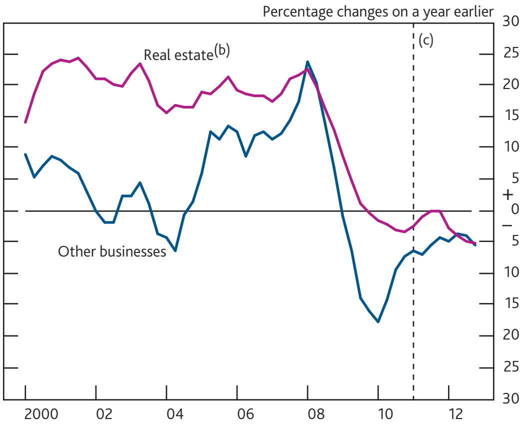
The annual rate of growth in the stock of lending to UK businesses was negative in the three months to February. The stock of lending to both small and medium-sized enterprises and large businesses also contracted over this period. The annual rate of growth in the stock of secured lending to individuals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

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

	Averages							2012	2013	
	2007	2008	2009	2010	2011	2012	2012 Q4	Dec.	Jan.	Feb.
Net monthly flow (£ billions)	7.4	3.8	-3.9	-2.1	-0.8	-1.5	-1.3	-1.7	-0.3	-2.8
Three-month annualised growth rate (per cent)	20.9	10.7	-7.7	-5.2	-2.0	-3.7	-3.4	-3.6	-4.0	-4.4
Twelve-month growth rate (per cent)	16.8	17.9	-1.8	-7.1	-3.3	-3.1	-3.7	-4.0	-3.3	-3.1

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

Chart 1.1 Growth in the stock of lending to the UK real estate sector and other businesses[(a)]



(a) Lending by UK monetary financial institutions to PNFCs. The sum of lending to the real estate sector and to other businesses comprises lending to PNFCs where data for PNFCs has been estimated by subtracting elements of the industrial breakdown for non-financial corporations thought to contain mainly public sector industries (public administration and defence, education, health and social work and recreational, personal and community services). Data cover lending in both sterling and foreign currency, expressed in sterling. Non seasonally adjusted.
(b) The real estate sector is defined as buying, selling and renting of own or leased real estate and includes real estate and related activities on a fee or contract basis.
(c) From January 2011, data are on the SIC 2007 basis. Changes in the SIC codes have led to some components moving between industries. As a result, growth rates in 2011 may be affected.

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

Data from participants in the Funding for Lending Scheme indicated that their overall net lending to UK households and private non-financial corporations (PNFCs) was negative in 2012 H2, albeit not seasonally adjusted. Within this, there were diverse lending outcomes across different lenders.[(1)]

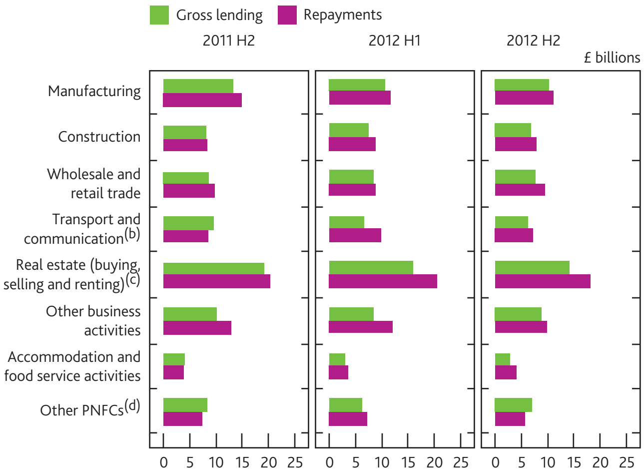
Lending to UK businesses

Data covering lending by all UK-resident banks and building societies indicated that the stock of lending to businesses contracted by around £5 billion in the three months to February (**Table 1.A**). The three-month annualised rate of growth in the stock of lending to businesses was negative over the past three months. The annual rate of growth in the stock of lending to both small and medium-sized enterprises and large businesses also contracted over this period.

The industrial breakdown of corporate lending indicated that the decline in the stock of lending in 2012 was broad based across sectors. The stock of lending to the real estate sector — which accounts for around 40% of the total stock of business loans — contracted and the rate of decline since 2012 Q2 was similar to the rest of the corporate sector (**Chart 1.1**). In recent discussions, some major UK lenders noted the emerging presence of non-bank lenders such as insurance companies and pension funds in the commercial property sector. Looking forward, some lenders expected lending to the real estate sector to be flat or contract slightly in 2013.

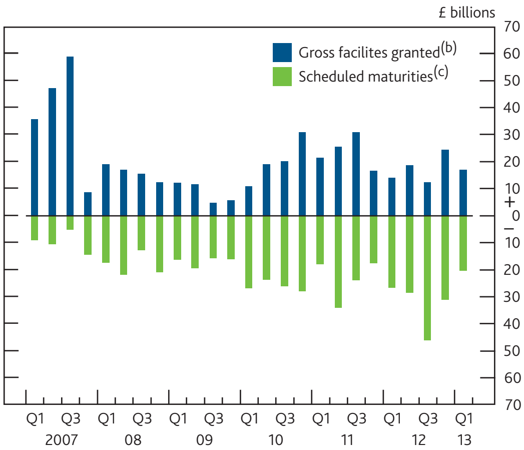
(1) For more details, see 'Funding for Lending Scheme — Usage and lending data'; available at www.bankofengland.co.uk/markets/Pages/FLS/data.aspx. Non seasonally adjusted.

Chart 1.2 Gross lending to and repayments by major industrial sectors, 2011 H2 — 2012 H2(a)



(a) Loans by UK monetary financial institutions to PNFCs and repayments by them. Data exclude overdrafts. Data cover lending in both sterling and foreign currency, expressed in sterling. Non seasonally adjusted.
(b) This includes the storage sector.
(c) This sector excludes real estate and related activities on a fee or contract basis, which is included within the other business activities sector.
(d) This sector includes agriculture, hunting and forestry, fishing, mining and quarrying and electricity, gas and water supply.

Chart 1.3 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. Data are quarterly. 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.

Table 1.B Secured lending to individuals(a)

	Averages							2012	2013	
	2007	2008	2009	2010	2011	2012	2012 Q4	Dec.	Jan.	Feb.
Net monthly flow (£ billions)	9.0	3.4	1.0	0.6	0.8	0.7	0.6	1.0	0.3	0.9
Three-month annualised growth rate (per cent)	10.4	4.1	0.9	0.7	0.7	0.7	0.5	0.6	0.5	0.7
Twelve-month growth rate (per cent)	11.0	6.9	1.4	0.9	0.7	0.8	0.7	0.7	0.6	0.6

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

Gross lending by all UK-resident banks and building societies to all major industrial sectors was lower in 2012 H2 compared to the same period a year earlier (**Chart 1.2**). Repayments by businesses in many sectors also declined though were higher than gross lending. Net lending — defined as gross lending minus repayments — was negative for most sectors in 2012.

Larger companies have access to more funding sources than smaller companies, such as the syndicated lending market. The total value of new syndicated lending facilities granted in the UK market fell in 2013 Q1, but was broadly in line with the average of the previous four quarters (**Chart 1.3**). In recent discussions, some major UK lenders noted a lack of demand for syndicated loans.

Capital markets provide an alternative source of funding for larger companies. Net bond issuance by UK businesses was positive in the three months to February, with net issuance in February 2013 the largest since June 2009. In discussions at the start of the year, the major UK lenders noted that conditions in corporate bond markets were favourable with the cost of issuing bonds relatively low. Positive net bond issuance was partially offset by negative net lending by UK-resident banks (**Table 1.A**) and negative net commercial paper issuance, such that net funds raised by PNFCs was positive in the three months to February.

Bond issuance remained the most favoured source of funding according to the majority of respondents to the *Deloitte CFO Survey* 2013 Q1, which covers large companies. Notwithstanding the recent weakness of bank lending, respondents indicated that they still viewed bank borrowing as an 'attractive' source of finance.

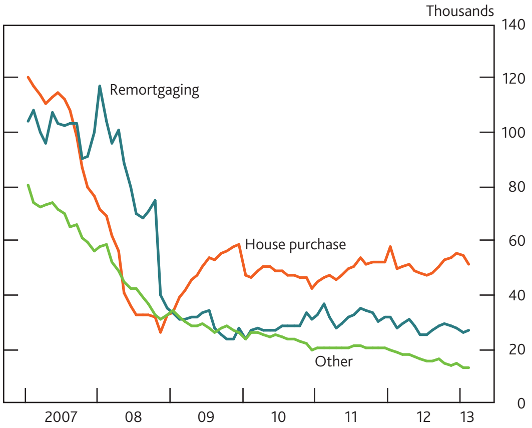
Secured lending to individuals

The total flow of net lending in sterling by UK-resident mortgage lenders was positive in the three months to February (**Table 1.B**). The annual rate of growth in the stock of secured lending was broadly unchanged over this period.

Over 2012, mortgage approvals by all UK-resident mortgage lenders for house purchase were broadly flat, though had picked up in the second half of the year. Approvals for house purchase fell slightly in the three months to February (**Chart 1.4**), as did approvals for remortgaging and other purposes.

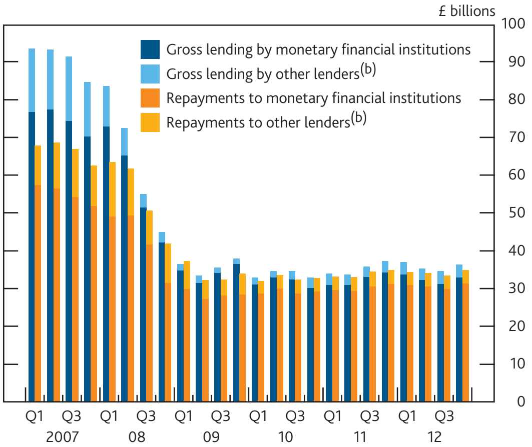
Reflecting the lags between mortgage approvals and drawdowns, gross secured lending rose slightly over the three months to February. Over 2012, total gross secured lending was broadly flat, with gross lending by both monetary financial institutions and other lenders little changed (**Chart 1.5**). Gross lending increased in certain segments of the market, such as the first-time buyer and buy-to-let segments.

Chart 1.4 Approvals of loans secured on dwellings[(a)]



(a) Data are for monthly number of approvals covering sterling lending by UK monetary financial institutions and other lenders to UK individuals. Approvals secured on dwellings are measured net of cancellations. Seasonally adjusted.

Chart 1.5 Gross secured lending to and repayments by UK individuals[(a)]



(a) Loans by monetary financial institutions and other lenders to UK individuals and repayments by them. Data cover lending in sterling only. Seasonally adjusted.
(b) This includes specialist lenders.

Table 1.C Consumer credit[(a)]

	Averages							2012	2013	
	2007	2008	2009	2010	2011	2012	2012 Q4	Dec.	Jan.	Feb.
Net monthly flow (£ billions)	0.8	0.6	-0.2	-0.2	-0.1	0.1	0.2	1.0	0.5	0.6
Three-month annualised growth rate (per cent)	5.3	3.9	-1.2	-1.4	-0.5	0.3	1.9	1.7	3.9	5.5
Twelve-month growth rate (per cent)	4.9	5.1	0.8	-1.8	-0.8	-0.3	0.3	1.0	1.5	2.2

(a) Sterling 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. Seasonally adjusted.

The box on pages 7–8 provides an update on lending to these sectors from 2012 Q1 to date.

Consumer credit

Total net consumer credit flows (excluding student loans) were positive in the three months to February (**Table 1.C**). Within this, net flows of other unsecured lending increased by more than for credit card lending in this period.

The annual rate of growth of consumer credit (excluding student loans) was positive in the three months to February, with the rate of growth for February the highest for almost four years. The annual rate of growth in both credit card lending and other unsecured lending was positive and increased over this period.

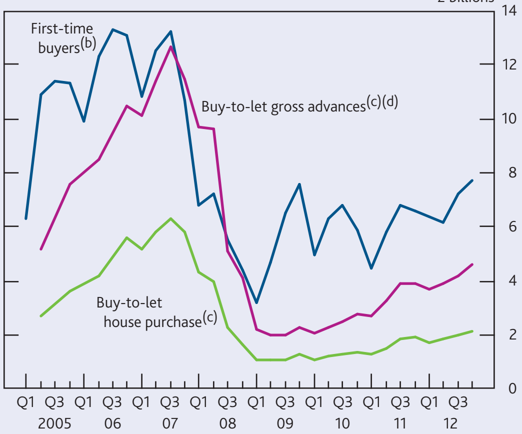
Recent trends in lending to first-time buyers and the buy-to-let sector

First-time buyers and the buy-to-let sector represent important components of the housing market. Previous editions of *Trends in Lending* have focussed on developments in lending to these sectors since the start of the financial crisis.[1] This box provides an update on lending to these sectors from 2012 Q1 to date, drawing on various data sources and intelligence from the major UK lenders.

First-time buyers

Gross lending to first-time buyers (FTBs) in 2012 was at its highest in five years (**Chart A**). With gross mortgage lending by monetary financial institutions and specialist mortgage lenders broadly unchanged in 2012 compared to 2011, the share of lending to FTBs in overall mortgage lending increased slightly to 19%. The share of new house purchase loans accounted for by FTBs was little changed in 2012 at around 40%.

Chart A Gross secured lending flows to first-time buyers and for buy-to-let purposes[(a)]



Sources: CML and Bank calculations.

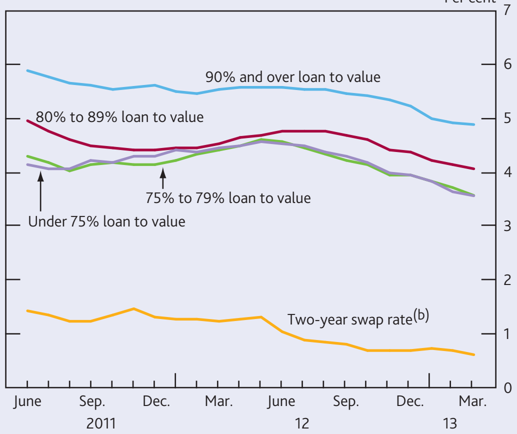
(a) Sterling lending. Non seasonally adjusted.
(b) First-time buyers will include some buyers who have previously owned a property, but are not in owner-occupation at the time of the purchase. Estimates from the CML suggest that around 20% of first-time buyers fall into this category.
(c) Quarterly gross lending data from 2007 onwards. Prior to 2007, half-yearly data are used: these are shown divided by two for comparison with the quarterly data.
(d) Data cover lending for house purchase, remortgaging, other lending and further advances.

Loan to value (LTV) ratios for FTBs tend to be high — currently around 80% — and higher than for home movers. Respondents to the Bank of England's quarterly *Credit Conditions Survey* reported that the availability of household secured credit at high LTV (more than 75%) ratios had increased significantly in the second half of 2012, with a further increase in 2013 Q1.

Although there is little direct evidence available, FTB demand in the second half of 2012 is likely to have increased given the wider increase in the overall demand for house purchase indicated by the Royal Institution of Chartered Surveyors' new buyer enquiries balance. Notwithstanding this, contacts of the Bank's network of Agents noted in 2012 that would-be homeowners and those near the bottom of the housing ladder were constrained by the lack of a sufficient deposit, confidence and credit. The estimated median deposit required by FTBs in 2012 was around £27,000, according to data from the Council of Mortgage Lenders (CML). More recently, contacts of the Bank's Agents noted an easing in credit conditions, in part due to the effects of the Funding for Lending Scheme. This was seen by many contacts as encouraging some potential buyers, including FTBs, to return to the housing market.

Quoted rates on higher LTV (more than 80%) fixed-rate mortgages fell in 2012 H2, according to data from Moneyfacts Group (**Chart B**). This followed an increase for some products — such as those at 80% to 89% LTV ratios — in the first half of the year. Rates on lower LTV fixed-rate mortgages also fell in 2012 H2, and to a greater extent than those for higher LTV products. With swap rates falling in the second half of 2012, spreads over relevant swap rates on higher LTV products were broadly unchanged, and narrowed on lower LTV mortgages.

Chart B Indicative rates on fixed-rate mortgage products across loan to value ratios[(a)]



Sources: Bloomberg, Moneyfacts Group and Bank calculations.

(a) End-month advertised rates, compiled as an average across products within the specified loan to value ratios. Data are to end-March 2013.
(b) The two-year swap rate is a monthly average of daily data.

Mortgage rates on fixed-rate products across all LTV ratios declined further in 2013 Q1 to their lowest in the past two years. Swap rates also fell, but by less, such that spreads over relevant swap rates on fixed-rate products narrowed.

For those FTBs who have been able to raise the required deposits, servicing mortgage repayments may have become easier overall. Notwithstanding relatively elevated spreads on lending at high LTV ratios, the Nationwide FTB affordability index indicated that initial mortgage repayments as a proportion of take-home pay reached their most affordable level since 2003.

Buy-to-let

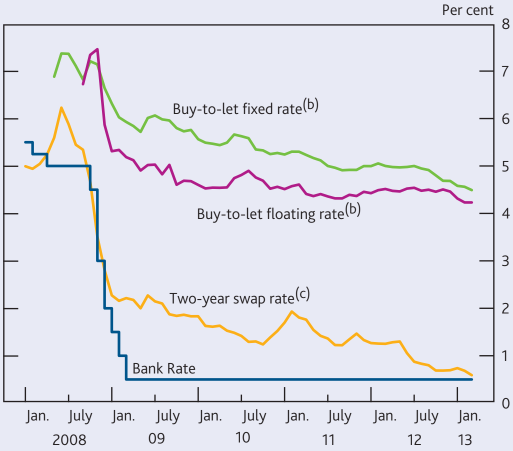
Gross lending to buy-to-let (BTL) borrowers in 2012 was at its highest in four years (**Chart A**). The share of BTL lending in overall mortgage lending was 11%. Total BTL lending volumes were, in broad terms, evenly split by purpose between house purchase and remortgaging. The share of new house purchase loans accounted for by BTL loans was broadly unchanged at 14%.

Demand for BTL lending increased in 2012 Q4 and 2013 Q1, having fallen for most of 2012, according to respondents to the *Credit Conditions Survey*. Contacts of the Bank's Agents recently reported that steady growth in BTL demand was driven by strength in the rental market. In recent discussions, some major UK lenders noted that the rise in tenant demand partly reflected some prospective FTBs turning to the private rental market due to difficulties in raising a sufficient deposit.

There are indications that the availability of BTL mortgages has increased over the past year. During the crisis, some lenders withdrew from the BTL market and lending criteria also tightened. In recent discussions, some major UK lenders reported that new entrants and returning lenders to the BTL mortgage market had increased availability. The proportion of BTL mortgages more than three months in arrears has been falling since 2009 Q1 according to data from the CML, which may have increased the attractiveness of BTL lending.

Quoted rates for fixed-rate BTL mortgages fell in the second half of 2012, according to data from Moneyfacts Group (**Chart C**). Swap rates fell by a similar amount, such that spreads over relevant swap rates were broadly unchanged. Floating-rate BTL spreads were also little changed over the same period.

Chart C Indicative rates on buy-to-let products[(a)]



Sources: Bloomberg, Moneyfacts Group and Bank calculations.

(a) End-month advertised rates, compiled as an average across all products. Data are to end-March 2013.
(b) Fixed-rate data are available from May 2008 and floating-rate data are available from September 2008.
(c) The two-year swap rate is a monthly average of daily data.

Spreads over relevant swap rates were unchanged in 2013 Q1 for fixed-rate BTL mortgages while spreads over Bank Rate for floating-rate mortgages narrowed. Respondents to the Bank's 2013 Q1 *Credit Conditions Survey* reported a significant reduction in BTL secured lending spreads.

Outlook

Respondents to the *Credit Conditions Survey* expected the availability of secured credit at high LTV (above 75%) ratios to increase slightly in the coming quarter. For BTL lending, lenders in the survey expected a significant increase in demand and lower spreads in 2013 Q2. In recent discussions, most major UK lenders expected a fall in pricing at higher LTV ratios during 2013. Lenders also expected growth in lending to both FTBs and the BTL sector to contribute to an increase in gross mortgage lending in 2013.

(1) See the box on pages 9–10 'Recent trends in lending to first-time buyers', in *Trends in Lending* June 2010, available at www.bankofengland.co.uk/publications/Documents/other/monetary/trendsjune10.pdf and the box on pages 7–8 'Recent trends in buy-to-let lending', in *Trends in Lending* July 2011, available at www.bankofengland.co.uk/publications/Documents/other/monetary/trendsjuly11.pdf.

2 Loan pricing

Some indicative measures of the spread over relevant swap rates on longer-term bank wholesale debt were broadly unchanged over 2013 Q1. Respondents to the Bank of England's *Bank Liabilities Survey* reported that spreads on funding (including wholesale debt funding) had narrowed significantly in 2013 Q1. According to the Bank of England's 2013 Q1 *Credit Conditions Survey*, spreads on new lending fell for small businesses and fell significantly for large and medium-sized businesses. Spreads on quoted fixed-rate mortgages narrowed across the loan to value range in 2013 Q1. Looking ahead, respondents to the *Credit Conditions Survey* expected a significant fall in spreads on overall secured lending in 2013 Q2.

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.

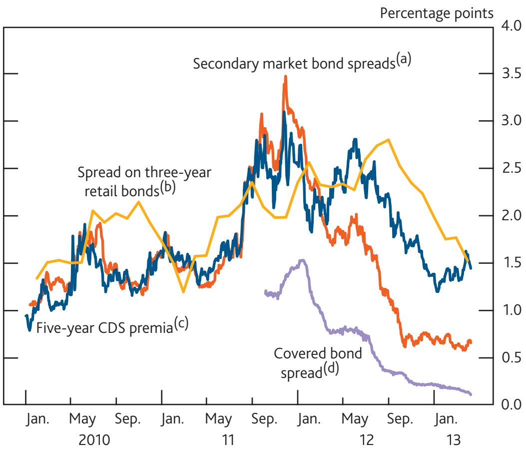
The total cost of bank finance to a company or individual can generally be decomposed into the fees charged by the lender to provide loan facilities, the spread over a given reference rate (such as three-month Libor or Bank Rate) at which loans are offered, and the prevailing level of that reference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

Conditions in longer-term wholesale funding markets were stable during 2013 Q1, according to the major UK lenders. Most lenders noted that recent events in some euro-area countries had not had a significant impact on UK bank funding conditions.

Some indicative measures of the spread over relevant swap rates on longer-term bank wholesale debt, such as secondary market bond spreads, were broadly unchanged over 2013 Q1, and were at lower levels compared to most of 2012 (**Chart 2.1**). The five-year credit default swap premia — a proxy for the credit risk component of bank funding costs — was broadly stable for most of 2013 Q1. Respondents to the Bank of England's *Bank Liabilities Survey* reported that spreads on funding (including wholesale debt funding) had narrowed significantly in 2013 Q1 and commented that the Funding for Lending Scheme (FLS) was one factor which had helped to push down on funding costs.

Lenders in the *Bank Liabilities Survey* reported a significant reduction in wholesale funding volumes in 2013 Q1. In recent discussions, some major UK lenders noted that the lack of longer-term bank wholesale debt issuance over the past few months was probably contributing to the relative tightness in bank funding spreads. Looking ahead, most lenders expected

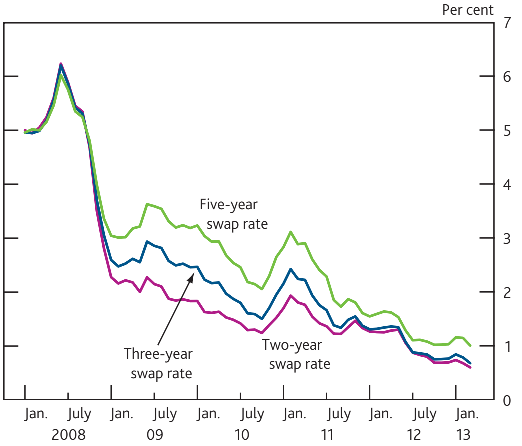
Chart 2.1 Indicative long-term funding spreads



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

(a) Constant-maturity unweighted average of secondary market spreads to mid-swaps for the major UK lenders' five-year euro senior unsecured bonds, where available. Where a five-year bond is unavailable, a proxy has been constructed based on the nearest maturity of bond available for a given institution and the historical relationship of that bond with the corresponding five-year bond. Data are up to 9 April 2013.
(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 quoted rates 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 five-year senior CDS premia for the major UK lenders, which provides an indicator of the spread on euro-denominated long-term wholesale bonds. Data are up to 9 April 2013.
(d) 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. Data are up to 9 April 2013.

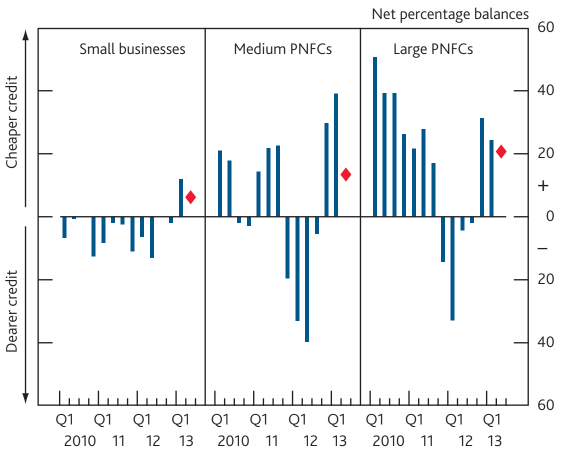
Chart 2.2 Swap rates at different maturities(a)



Sources: Bloomberg and Bank calculations.

(a) Swap rates are monthly averages of daily data. Data are to end-March 2013.

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



(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.
(b) Small businesses are defined as those with annual turnover of less than £1 million; medium-sized businesses are defined as those with annual turnover of between £1 million and £25 million; and large businesses are defined as those with annual turnover of over £25 million.
(c) A positive balance indicates that spreads over reference rates have fallen, such that all else being equal it is cheaper for corporates to borrow.

longer-term bank wholesale funding spreads to be broadly unchanged in 2013 Q2.

Spreads over reference rates on some longer-term retail deposits — such as those over equivalent-maturity swap rates for three-year fixed-rate bonds — fell in 2013 Q1 (**Chart 2.1**). The fall in spreads on three-year fixed-rate retail bonds reflected a reduction in deposit rates, and a smaller decline in relevant swap rates over this period (**Chart 2.2**). Broadly consistent with this, respondents to the *Bank Liabilities Survey* reported that spreads on retail funding had fallen significantly in 2013 Q1. In recent discussions, the major UK lenders reported that pricing on some retail products had fallen over the quarter. Some lenders noted that pricing on certain ISA products had increased slightly, but by less than last year. Looking forward, some lenders expected retail deposit rates to fall a little further in 2013 Q2.

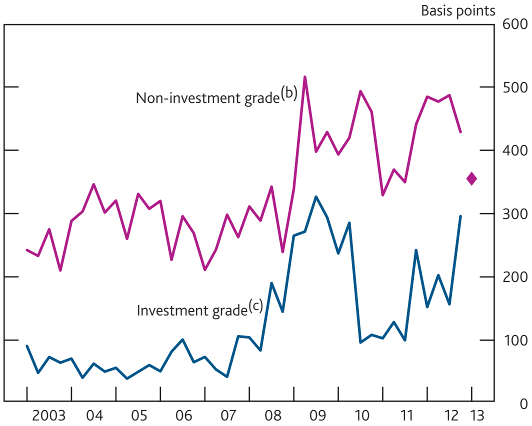
Corporate loan pricing

Spreads over reference rates on new lending to medium-sized and large businesses fell significantly for the second consecutive quarter in 2013 Q1, according to the Bank of England's *Credit Conditions Survey* (**Chart 2.3**). Some lenders in the survey commented that the reduction in spreads reflected an increase in competition and the impact of the FLS. Lenders in the survey reported that fees and commissions fell slightly for medium-sized firms and were unchanged for large businesses in 2013 Q1. The balance of respondents in the *Deloitte CFO Survey* 2013 Q1 — which covers large companies — reported the cost of credit to be 'cheap'.

Spreads on syndicated lending, which typically apply to lending to large businesses, narrowed for the non-investment grade segment in 2013 Q1, according to Dealogic data (**Chart 2.4**). There are no disclosed spreads for investment grade deals in 2013 Q1 in the current data. In recent discussions, most major UK lenders noted that competition had led to downward pressure on pricing for high-quality corporates.

Spreads over reference rates on new lending to small businesses fell in 2013 Q1, according to respondents to the *Credit Conditions Survey* (**Chart 2.3**). This was the first time that respondents reported tighter spreads for small businesses since the introduction of this question in 2009 Q4. Fees and commissions were reported by respondents to have risen slightly in 2013 Q1. Indicative median interest rates (**Chart 2.5**) and spreads on new variable-rate facilities to all small and medium-sized enterprises (SMEs) have been broadly stable in recent months, according to survey data from the Department for Business, Innovation and Skills. These indicative rates do not reflect the impact of cashback deals or reductions in fees. In recent discussions, some major UK lenders reported that the FLS had led to some downward pressure on pricing for smaller businesses.

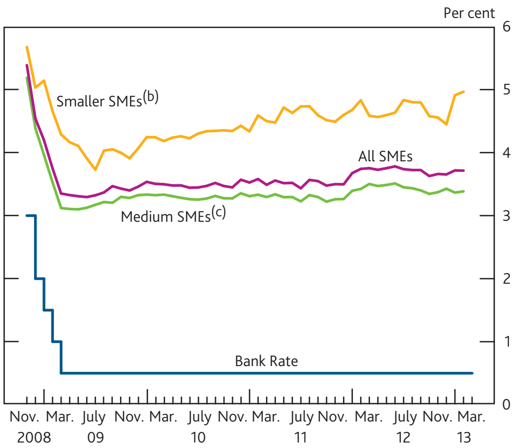
Chart 2.4 Average estimated spreads on syndicated loans[(a)]



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 are quarterly. Non seasonally adjusted.
(b) Non-investment grade is Dealogic leveraged and highly leveraged categories. The data point for 2013 Q1, denoted by a magenta diamond, is based on deal information available at the time of publication.
(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.

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.
(b) Smaller SMEs are those with annual debit account turnover on the main business account less than £1 million.
(c) Medium SMEs are those with annual debit account turnover on the main business account between £1 million and £25 million.

The Bank's measure of the effective interest rate on new borrowing for businesses was broadly unchanged in the three months to February. Contacts of the Bank's network of Agents reported that while the cost of new corporate lending had fallen for many businesses over recent months, the main effect of lower rates had been to reduce borrowing costs for 'low risk' borrowers, with an increase in competition reported for lending to these firms. In a recent survey by the Bank's Agents on credit conditions,[(1)] contacts reported a small reduction in total borrowing costs for large firms in the past twelve months due to lower interest rates. In the survey, net balances of small and medium-sized firms reported some increase in costs over the same period, though many firms have infrequent interaction with lenders on borrowing requirements and so it can take time for changes in credit conditions to filter through.

Looking forward, respondents to the *Credit Conditions Survey* expected a further tightening in spreads for businesses of all sizes in Q2, with a slight tightening for small companies, and a significant tightening for large companies (**Chart 2.3**).

Mortgage pricing

The Bank's measure of the effective mortgage rate on overall new lending fell by around 20 basis points in the three months to February. Within this, the effective rate on new fixed-rate mortgage lending fell by more than the effective rate on new floating-rate mortgage lending.

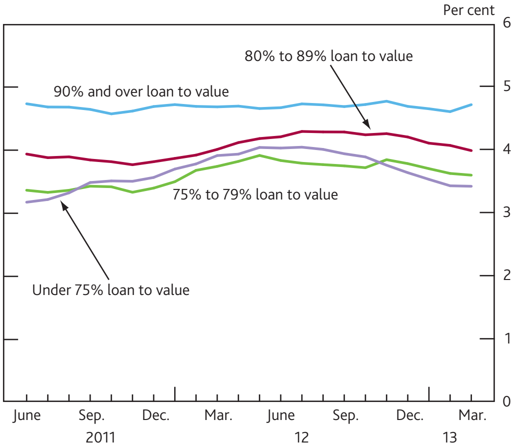
Quoted interest rates on floating-rate mortgages decreased slightly or were unchanged in 2013 Q1, according to data from Moneyfacts Group (**Chart 2.6**). Spreads over Bank Rate on most floating-rate mortgages fell slightly. For fixed-rate mortgages, spreads over relevant reference rates narrowed over the quarter across the LTV range (see box on pages 7–8 for more details) and by more than for most floating-rate mortgage products.

More generally, reductions in fixed-rate mortgage pricing started in the second half of 2012. In recent discussions, some major UK lenders noted that the introduction of the FLS had led to increased competition in the mortgage market, which had focussed primarily on fixed-rate products. Some lenders reported that demand for fixed-rate products was higher than for floating-rate products. The share of fixed-rate mortgages as a proportion of total new mortgage lending increased from around 60% in 2011 Q4 to 70% in 2012 Q4.

Respondents to the *Credit Conditions Survey* reported that spreads on overall secured lending to households had tightened significantly in 2013 Q1. Lenders in the survey

(1) See the box on pages 6–7 of the April 2013 *Agents' summary of business conditions*, available at www.bankofengland.co.uk/publications/Documents/agentssummary/agsum13apr.pdf.

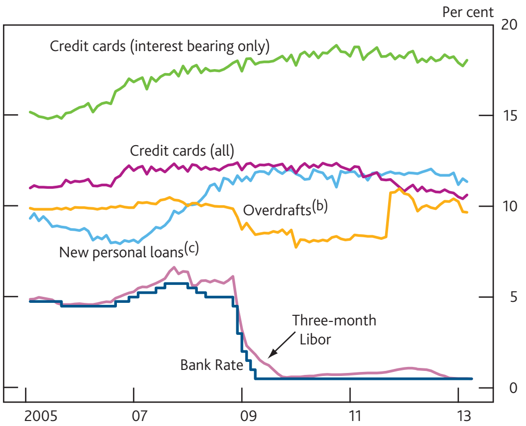
Chart 2.6 Indicative rates on floating-rate mortgage products across loan to value ratios[(a)]



Sources: Moneyfacts Group and Bank calculations.

(a) End-month advertised rates, compiled as an average across products within the specified loan to value ratios. Data are to end-March 2013.

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-March 2013, and for effective rates to end-February 2013. Three-month Libor data are monthly averages of daily data. Non seasonally adjusted.
(b) The rate rise in September 2011 reflects system improvements and changes to reporting practices by one institution.
(c) Data cover loans with initial fixation of greater than one year but less than or equal to five years.

commented that this tightening, in part, reflected the pass-through of cheaper funding costs, as well as increased competition among lenders. Fees on secured lending were reported to be broadly unchanged in 2013 Q1. Looking ahead, respondents to the survey expected a significant fall in spreads on overall secured lending in 2013 Q2.

Consumer credit pricing

Effective interest rates on credit cards were broadly unchanged in the three months to February (**Chart 2.7**). Respondents to the 2013 Q1 *Credit Conditions Survey* reported that spreads on credit card lending had remained unchanged, though had tightened 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 *Credit Conditions Survey* expected spreads on credit cards to remain unchanged in 2013 Q2, with spreads on other unsecured lending products expected to tighten significantly.

3 Credit supply and demand

Availability of credit was little changed for small and medium-sized firms and increased for large companies in 2013 Q1, according to respondents to the *Credit Conditions Survey*. In recent discussions, most major UK lenders reported that demand for credit from businesses was mixed across corporate sectors. Lenders in the *Credit Conditions Survey* reported that the amount of new secured credit made available to households increased in 2013 Q1. Contacts of the Bank's network of Agents noted that housing market activity had improved over the recent past.

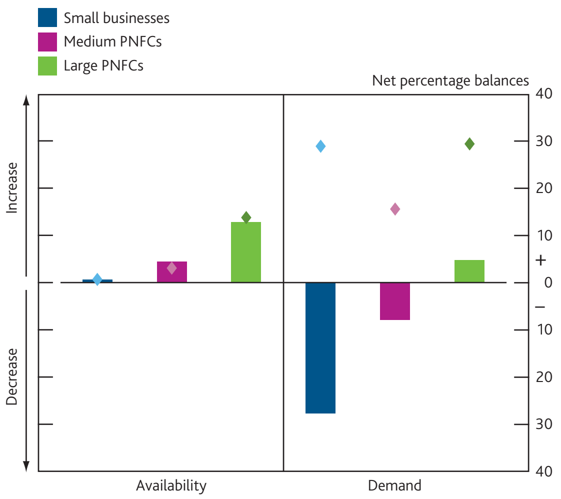
The amount of lending and its price depend on the interaction of demand and supply factors. Disentangling the separate influences of changes in the supply of and demand for credit is difficult, though survey data can help. This section looks at recent trends in credit supply and demand, drawing on surveys,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

Credit conditions for businesses

The overall availability of credit to the corporate sector increased in 2013 Q1, according to respondents to the *Credit Conditions Survey*. Within this, availability increased for large companies (**Chart 3.1**). The balance of respondents to the *Deloitte CFO Survey* 2013 Q1 — which covers large companies — reported that credit is cheaper and more easily available now than at any time in the past five years (**Chart 3.2**). Contacts of the Bank's Agents noted that the availability of credit had improved for larger and some medium-sized companies in recent months.

Lenders in the *Credit Conditions Survey* reported that credit availability was little changed for small and medium-sized firms in 2013 Q1. Contacts of the Bank's Agents reported that availability of credit had not improved for the smallest firms. A recent study by the National Institute of Economic and Social Research indicated that, over a longer term, there was evidence of ongoing tight credit conditions for small and medium-sized enterprises in 2010–12.[1] Looking forward, lenders in the *Credit Conditions Survey* expected credit availability for small and medium-sized firms to be little changed in the coming quarter, although availability for large companies was expected to increase further.

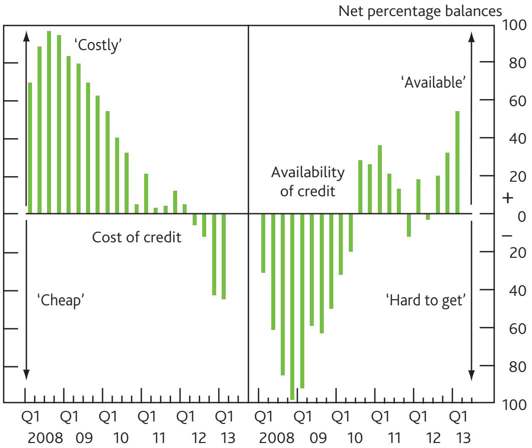
Chart 3.1 *Credit Conditions Survey*: availability and demand for credit across firm sizes reported in the 2013 Q1 survey[(a)]



(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 early March. The diamonds show the associated expectations for the next three months. 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. See also footnote (b) to **Chart 2.3**.

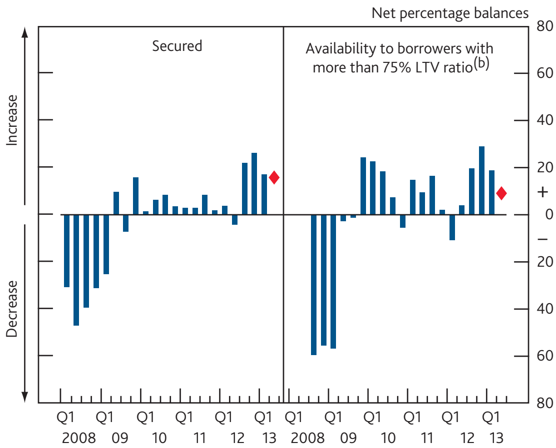
(1) See 'Evaluating changes in bank lending to UK SMEs over 2001–12 — ongoing tight credit?', available at www.gov.uk/government/uploads/system/uploads/attachment_data/file/185700/bis-13-752-evaluating-changes-in-bank-lending-to-uk-smes-2001-12.pdf.

Chart 3.2 *Deloitte CFO Survey*: cost and availability of credit[(a)(b)]



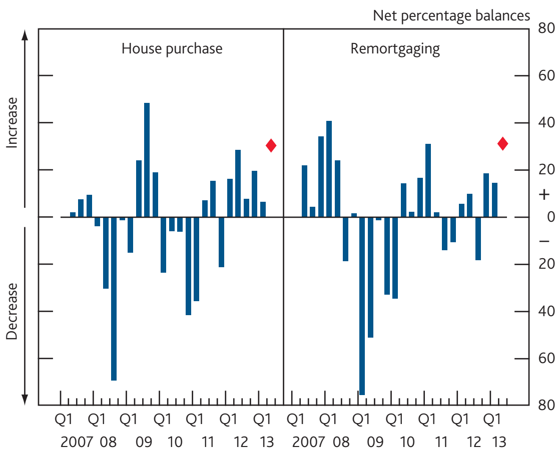
(a) Net percentage balances for the cost of credit are calculated as the percentage of respondents reporting that bank credit is 'costly' less the percentage reporting that it is 'cheap'. Net percentage balances for the availability of credit are calculated as the percentage of respondents reporting 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 credit is 'available'.
(b) The *Deloitte CFO Survey* 2013 Q1 was published on 16 April 2013 and is available at www.deloitte.com/assets/Dcom-UnitedKingdom/Local%20Assets/Documents/Research/CFO%20Survey/uk-insights-cfo-survey-2013-q1-full-report-v2.pdf.

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.

Contacts of the Bank's Agents and respondents to the *Credit Conditions Survey* reported that demand for bank lending remained weak in 2013 Q1, with companies looking to reduce debts or build cash reserves. Within the corporate sector, demand for credit from small businesses decreased significantly, reduced slightly for medium-sized companies, and was broadly unchanged for large companies, according to lenders in the survey (**Chart 3.1**). Survey evidence from the Federation of Small Businesses suggested a slight reduction in the share of businesses applying for credit in 2013 Q1 compared to the same quarter a year before. In recent discussions, most major UK lenders reported that demand for credit from businesses was mixed across corporate sectors. Demand for credit was expected to increase across all firm sizes in 2013 Q2, with significant increases expected for small and large companies, according to respondents to the *Credit Conditions Survey*.

Credit conditions for households

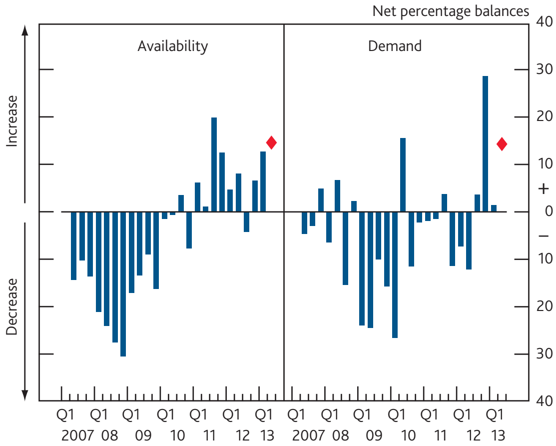
The amount of new secured credit made available to households increased in 2013 Q1, according to respondents to the *Credit Conditions Survey* (**Chart 3.3**). Lenders in the survey reported that the increase in availability was spread across the loan to value (LTV) ratio range, with the rise in credit availability a little more marked for borrowers with LTV ratios above 75%. Looking ahead, the availability of secured credit was expected to increase further over the next three months across LTV ratios, according to respondents to the *Credit Conditions Survey*.

Demand for secured lending for house purchase increased slightly over the past quarter, according to respondents to the *Credit Conditions Survey* (**Chart 3.4**). Lenders in the survey also reported increased demand for remortgaging. The Royal Institution of Chartered Surveyors' new buyer enquiries balance was broadly unchanged in Q1, indicating that demand for house purchase was little changed. Lenders in the *Credit Conditions Survey* expected demand for secured credit for house purchase and remortgaging to increase significantly in 2013 Q2.

Contacts of the Bank's Agents reported housing market activity had improved over the recent past, both for new home sales and secondary market transactions. Contacts noted that this had continued to reflect falls in mortgage rates — including at high loan to value ratios — and an improvement in mortgage availability, as well as the effects of specific government-backed incentive schemes for home ownership.

Respondents to the *Credit Conditions Survey* indicated that the amount of unsecured credit made available to households rose over the past three months, driven by small changes in market share objectives and appetite for risk (**Chart 3.5**). The availability of unsecured credit was expected to increase

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



(a) See footnote (a) to **Chart 2.3**. 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.

further in 2013 Q2, according to lenders in the *Credit Conditions Survey*.

Total demand for consumer credit was little changed in 2013 Q1, according to respondents to the *Credit Conditions Survey* (**Chart 3.5**). Within this, demand for credit card lending was unchanged and demand for other unsecured lending decreased slightly. Demand for total unsecured credit was expected to rise in the coming quarter, reflecting a significant increase in demand for other unsecured lending and an increase in demand for credit card lending, 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.
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).
SIC — Standard Industrial Classification.
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 mortgage 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.

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.

ISSN: 2040-4042 (online)