

Trends in Lending

April 2014



BANK OF ENGLAND





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Trends in Lending

April 2014

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 other financial statistics collected by the Bank that cover all monetary financial institutions, and 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-June 2013. 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*.⁽⁴⁾ 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 2014 and intelligence gathered up to end-March 2014. Unless stated otherwise, the data reported cover lending in both sterling and foreign currency, expressed in sterling.

(1) See www.bankofengland.co.uk/statistics/Documents/releasecalendar.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/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.

(4) The *Bank Liabilities Survey* and the *Credit Conditions Survey* for 2014 Q1 were conducted between 7 February and 3 March 2014.

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Executive summary

The annual rate of growth in the stock of lending to UK businesses remained negative in the three months to February. The stock of lending both to small and medium-sized enterprises and to large businesses contracted over this period. Mortgage approvals by all UK-resident mortgage lenders for house purchase continued to rise, on average, in the three months to February. The annual rate of growth in the stock of secured lending to individuals rose to 1.1%. The annual rate of growth in the stock of consumer credit continued to be strong.

Indicative measures of the spread over relevant swap rates on longer-term bank wholesale debt were broadly unchanged over 2014 Q1. Spreads over reference rates on new lending were unchanged for small businesses, fell for medium-sized businesses and fell significantly for large businesses in 2014 Q1, according to respondents to the Bank of England's *Credit Conditions Survey*. Since the start of the year, the Bank's measures of quoted rates on two-year fixed-rate mortgages have been little changed, though rates on five-year fixed-rate mortgages picked up slightly. Quoted rates on new personal loans fell by around 50 basis points in 2014 Q1 compared to the previous quarter.

Over the past year, credit availability had eased for firms of all sizes and all sectors, according to a survey by the Bank's network of Agents. Demand for credit across all business sizes increased in 2014 Q1, according to respondents to the Bank of England's *Credit Conditions Survey*. Lenders in the *Credit Conditions Survey* reported that the availability of secured credit to households increased for the seventh consecutive quarter and demand for house purchase increased in 2014 Q1.

1 Lending to UK businesses and individuals

The annual rate of growth in the stock of lending to UK businesses remained negative in the three months to February. The stock of lending both to small and medium-sized enterprises and to large businesses contracted over this period. Mortgage approvals by all UK-resident mortgage lenders for house purchase continued to rise, on average, in the three months to February. The annual rate of growth in the stock of secured lending to individuals rose to 1.1%. The annual rate of growth in the stock of consumer credit continued to be strong.

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

	Averages							2013	2014	
	2007	2008	2009	2010	2011	2012	2013	Dec.	Jan.	Feb.
PNFC all currency net monthly flow (£ billions)	7.4	3.8	-3.9	-2.1	-0.8	-1.5	-0.7	2.7	-3.3	0.1
Three-month annualised growth rate (per cent)	20.9	10.7	-7.6	-5.2	-2.0	-3.7	-2.7	-1.0	-3.5	-0.5
Twelve-month growth rate (per cent)	16.8	17.9	-1.8	-7.1	-3.4	-3.1	-3.0	-2.0	-2.8	-2.1

(a) Loans by UK monetary financial institutions (MFIs) to private non-financial corporations (PNFCs) excluding the effects of securitisations and loan transfers. Data cover loans in both sterling and foreign currency, expressed in sterling. Seasonally adjusted.

Table 1.B Lending to UK businesses (M4Lx measure)^(a)

	Averages							2013	2014	
	2007	2008	2009	2010	2011	2012	2013	Dec.	Jan.	Feb.
PNFC M4Lx net monthly flow (£ billions)	6.0	1.6	-1.0	-1.4	-1.1	-0.9	-0.2	2.2	-2.6	-5.2
<i>of which:</i>										
sterling loans ^(b)	5.4	3.4	-1.5	-1.6	-0.5	-1.2	-0.4	2.2	-2.9	0.3
Three-month annualised growth rate (per cent)	17.5	5.2	-2.6	-3.5	-2.3	-2.9	-1.0	3.0	-1.3	-5.6
Twelve-month growth rate (per cent)	17.9	11.0	-0.6	-3.6	-2.2	-3.2	-2.1	-0.5	-1.5	-2.2

(a) Sterling M4 lending to PNFCs excluding the effects of securitisations and loan transfers. Data cover loans and MFIs' holdings of securities. Seasonally adjusted.

(b) This measure includes loans and MFIs' holdings of bills and acceptances and excludes commercial paper. Seasonally adjusted.

This section presents a summary of the recent data on lending to UK businesses and individuals. The annual rate of corporate lending growth remained negative in the three months to February. Growth in the stock of lending to individuals was positive over the last quarter. The box on pages 8–10 describes trends in lending to businesses and individuals over the past ten years.

Data from participants in the Funding for Lending Scheme (FLS) showed that their cumulative net lending to UK households and private non-financial corporations (PNFCs) was £10.3 billion over the 18 months from 2012 Q3 to 2013 Q4.⁽¹⁾ The FLS contributed to a substantial fall in bank funding costs after it was launched in July 2012. This has fed through to significant improvements in household and corporate credit conditions.

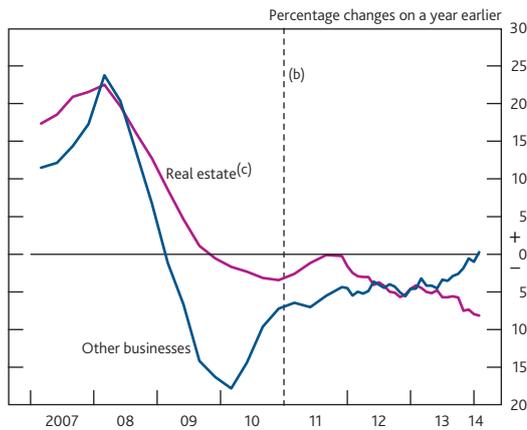
Lending to UK businesses

Data covering lending by all UK-resident monetary financial institutions (MFIs) indicated that the annual rate of corporate lending growth remained negative in the three months to February. This was evident across a range of lending measures. The stock of all currency lending to UK businesses contracted by £0.5 billion in the three months to February (**Table 1.A**). This was less than the fall of £3.3 billion in the preceding three months. An alternative measure of lending to PNFCs, M4Lx, consisting of sterling loans — common to the all currency lending measure — and MFIs' holdings of securities fell by £5.6 billion over this period (**Table 1.B**).⁽²⁾

(1) Net lending from 2013 Q2 includes lending related to non-bank credit providers for some FLS Groups. 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.

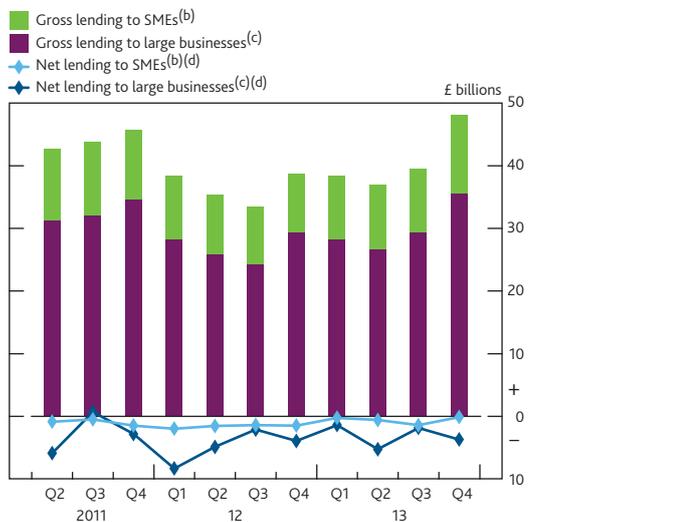
(2) For further details on the definitions of these measures of lending to UK businesses, see Table 1 in the box on 'Trends in lending — three years on' in April 2012 *Trends in Lending*, available at www.bankofengland.co.uk/publications/Documents/other/monetary/trendsapril12.pdf.

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. The sum of lending to the real estate sector and to other businesses comprises lending to PNFCs where data for PNFCs have been estimated by subtracting elements of the industrial breakdown for non-financial businesses 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) 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.
- (c) 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. The development of buildings is included in the data prior to 2011.

Chart 1.2 Gross and net lending to UK non-financial businesses^(a)



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

The majority of this reflected a fall in MFIs' holdings of securities issued by PNFCs.

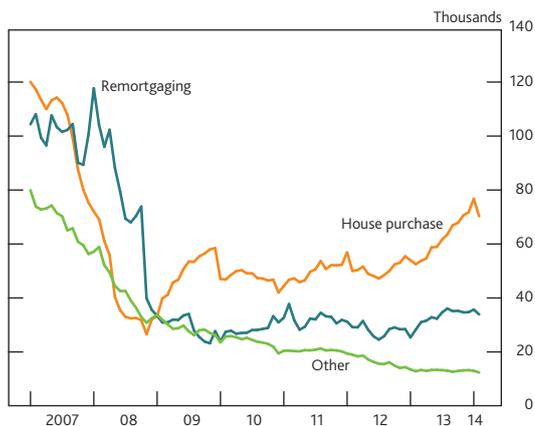
The weakness in the annual growth rate in the stock of lending to businesses over the past year was partly accounted for by the contribution of the real estate sector. The stock of lending to this sector — which has the largest share in the total stock of business loans — contracted by 8.1% in the year to February (**Chart 1.1**). This contraction in the stock of lending to the real estate sector has sharpened in recent months as borrower repayments have started to increase, aided by improvements in the performance of the market. In recent discussions some major UK lenders noted the presence of alternatives to bank lending, such as non-bank lenders, in the commercial real estate sector. Excluding the real estate sector, net lending to businesses was close to zero over the past year.

The stock of lending to small and medium-sized enterprises (SMEs) — of which the ten largest lenders accounted for over 80% — contracted in the three months to February. Net lending to SMEs, defined as gross lending less repayments, was close to zero in 2013 Q4 having been negative in the same quarter a year ago (**Chart 1.2**). The average net monthly flow was slightly negative in the first two months of 2014.

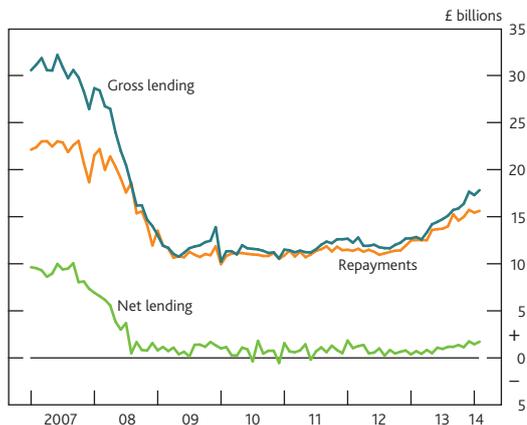
The stock of lending to large businesses also contracted over this period. Net lending to large companies has been negative since 2011 Q4 (**Chart 1.2**).

Larger companies have access to more bank funding sources than smaller businesses, such as the syndicated lending market. The total value of new gross syndicated lending facilities granted in the UK market in 2014 Q1 was £15.3 billion, 20% lower than the same period last year. In recent discussions, some major UK lenders noted that this partly reflected some refinancing activity being brought forward to 2013. Looking ahead some lenders expected mergers and acquisitions, a key driver of syndicated lending activity, to increase 2014. More generally, in the *Deloitte CFO Survey* for 2014 Q1 — which covers large companies — a record 95% of respondents expected merger and acquisition activity to rise over the next year.

Capital markets, such as bond and equity markets, provide an alternative source of external finance for larger companies. Net bond issuance by UK businesses was £1 billion in the three months to February, lower than the previous three months. This positive issuance primarily reflected significant net foreign currency issuance by a small number of regular issuers in February. This was offset by negative net commercial paper issuance and net equity redemptions, such that net capital market issuance was negative in the three months to February.

Chart 1.3 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 1.4 Gross secured lending and repayments^(a)

(a) Sterling lending secured on dwellings by UK monetary financial institutions and other lenders to UK individuals and housing associations and repayments by them. Net lending may not necessarily equal gross lending minus repayments, due to the seasonal adjustment methodology used and small differences in coverage between the series. Seasonally adjusted.

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

	Averages							2013	2014	
	2007	2008	2009	2010	2011	2012	2013	Dec.	Jan.	Feb.
Net monthly flow (£ billions)	9.0	3.4	1.0	0.6	0.8	0.9	1.0	1.7	1.5	1.7
Three-month annualised growth rate (per cent)	10.4	4.1	1.0	0.7	0.8	0.8	0.9	1.3	1.4	1.6
Twelve-month growth rate (per cent)	11.1	6.9	1.4	0.9	0.7	0.9	0.7	0.9	1.0	1.1

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

Net finance raised by UK businesses from UK monetary financial institutions and capital markets was negative in the three months to February, reflecting net capital market redemptions and net repayments of bank lending (**Table 1.A**).⁽¹⁾ Notwithstanding net capital market redemptions and the ongoing contraction in bank lending, the majority of respondents to the *Deloitte CFO Survey 2014 Q1* continued to view bank lending, bond, and equity issuance as 'attractive' sources of funding.

Secured lending to individuals

The number of mortgage approvals by all UK-resident mortgage lenders for house purchase continued to rise, on average, in the three months to February (**Chart 1.3**). These approvals fell in February, having increased in December and January, though remained considerably higher than the same period last year. The number of approvals for remortgaging was broadly flat in the three months to February but was stronger than the same period a year ago.

Total gross secured lending rose in the three months to February compared to the previous three months (**Chart 1.4**). Repayments on secured lending also rose in the three months to February, though by less than the increase in gross lending.

More generally, gross mortgage lending has increased since the start of 2013 (**Chart 1.4**). The monthly net mortgage lending flow in 2013 was around £1 billion, and has picked up in recent months such that the average net monthly flow of secured lending in sterling by UK-resident mortgage lenders in the three months to February was £1.6 billion (**Table 1.C**). The annual rate of growth in the stock of secured lending to individuals rose to 1.1%.

(1) For more details, see Table L and Chart 10 'Net finance raised by PNFs', in the *Money and Credit* statistical release, available at www.bankofengland.co.uk/statistics/Pages/mc/2014/feb.aspx.

Table 1.D Consumer credit^(a)

	Averages							2013	2014	
	2007	2008	2009	2010	2011	2012	2013	Dec.	Jan.	Feb.
Net monthly flow (£ billions)	0.8	0.6	-0.2	-0.2	-0.1	0.2	0.6	0.6	0.6	0.6
<i>of which:</i>										
<i>Credit cards</i>	0.2	0.4	0.2	0.2	0.1	0.1	0.2	0.2	0.3	0.2
<i>Other unsecured</i>	0.6	0.3	-0.4	-0.4	-0.2	0.1	0.4	0.4	0.3	0.3
Three-month annualised growth rate (per cent)	5.3	3.9	-1.3	-1.4	-0.5	0.4	4.9	4.0	4.5	4.5
Twelve-month growth rate (per cent)	4.9	5.1	0.8	-1.8	-0.8	-0.3	3.8	4.6	4.8	4.8

(a) Sterling lending by UK monetary financial institutions and other lenders to UK individuals. Consumer credit consists of credit card lending and other unsecured lending (other loans and advances). Consumer credit data exclude student loans. Seasonally adjusted.

Consumer credit

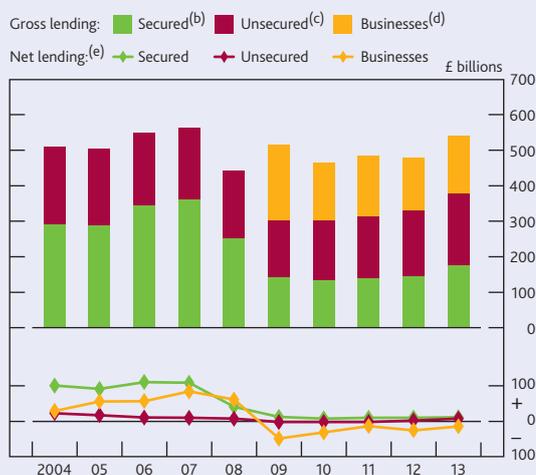
Total net consumer credit flows (excluding student loans) were positive in the three months to February (Table 1.D) and broadly similar to the previous three months. Within this, net monthly flows of both credit cards and other unsecured lending remained positive. The annual rate of growth in the stock of consumer credit continued to be strong and similar to the growth rates in the stock of credit cards and other unsecured lending.

Trends in lending — five years on

The Bank of England launched *Trends in Lending* in April 2009 to present the Bank's assessment of the latest developments in lending to the UK economy. It was launched at a time when the world economy had entered a deep and synchronised downturn, with the global banking and financial system in a fragile state. This box steps back from the regular quarterly assessment to provide a description of trends in lending over the past ten years, using Bank of England statistics and data from other sources on lending to businesses and individuals.

Lending to the UK real economy was weak in the years following the financial crisis, though has picked up somewhat in the last year. Annual gross lending by UK-resident lenders to businesses and individuals was broadly flat between 2010 and 2012 (**Chart A**). Net lending became negative in 2009 and remained so for the next three years as businesses and households paid down debt and reduced leverage. More recently, gross lending increased by over 10% in 2013. Net lending to the real economy turned positive in 2013, but the aggregate net flow was very small compared to the flows experienced before 2009.

Chart A Gross and net lending to the UK real economy^(a)



- (a) Gross lending flows are indicative of the true flows underpinning the net lending data. The real economy is defined as businesses and individuals. Lending for the secured and unsecured series is to individuals. Non seasonally adjusted. Further details on the series used in the chart are provided in the spreadsheet accompanying this box, available at www.bankofengland.co.uk/publications/Pages/other/monetary/trendsinlending2014.aspx.
- (b) Total gross lending secured on dwellings. Data cover sterling lending by UK monetary financial institutions and other lenders to individuals.
- (c) Total gross flows of consumer credit. Data cover sterling lending by UK monetary financial institutions and other lenders to individuals.
- (d) Gross lending by UK monetary financial institutions to non-financial businesses. Data exclude overdrafts and cover lending in both sterling and foreign currency, expressed in sterling. Data for 2009–2011 Q1 are indicative and estimated based on the Lending Panel data set. For more details, see Chart 1.2, January 2011 *Trends in Lending*.
- (e) All series exclude the effects of write-offs, loan transfers and other adjustments.

Businesses

The annual rate of growth in the stock of lending to businesses by all UK-resident monetary financial institutions (MFIs) has been negative since mid-2009 across a range of measures

(**Chart B**). Growth rates dropped in 2008 and subsequently weakened further. The decline in the stock of lending in the second half of 2009 and most of 2010 partly reflected a slowdown in corporate lending by UK-resident foreign lenders, though their contribution to the contraction has reduced since then. The pace of decline in the stock of lending to UK businesses has eased slightly since the start of 2013 (**Tables 1.A and 1.B**). Within this, lending to the real estate sector contracted further (**Chart 1.1**). Gross lending to non-financial businesses increased by around 10% in 2013 compared to the previous year, while net lending remained negative (**Chart 1.2**).

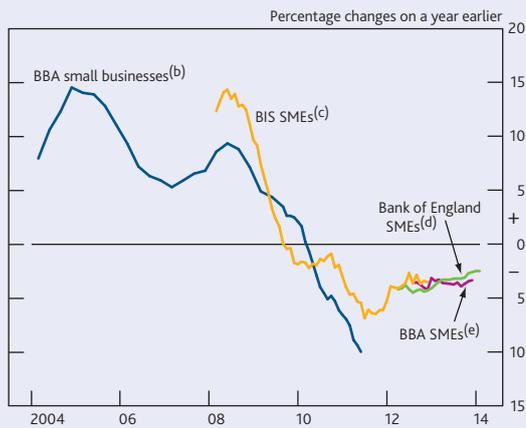
Chart B Lending to UK businesses^(a)



- (a) Lending by UK monetary financial institutions to PNFCs or non-financial businesses. Rate of growth in the stock of lending. Series included in the swathe are PNFC M4Lx (seasonally adjusted), sterling loans to PNFCs (seasonally adjusted), all currency loans to PNFCs (seasonally adjusted), all currency loans to non-financial businesses (non seasonally adjusted). Data are to February 2014. Further details on the series used in the chart are provided in the spreadsheet accompanying this box, available at www.bankofengland.co.uk/publications/Pages/other/monetary/trendsinlending2014.aspx.

The overall weakness in the growth of lending to UK businesses in the quarters immediately following the financial crisis masked differences in lending growth by size of business. Lending growth rates for small and medium-sized enterprises (SMEs) were stronger than for businesses overall during 2009, perhaps reflecting large companies' better access to alternative sources of finance such as capital markets. The growth rate in the stock of lending to SMEs has been negative for the past four years across a range of measures, though has contracted by less since the start of 2013 according to data from the Bank of England (**Chart C**). The annual rate of growth in the stock of lending to large businesses has also been negative since the series began in April 2012.

For some larger businesses, capital markets have provided an alternative source of finance to lending from the banking sector. This was the case, for example, in 2009 when capital market issuance grew significantly while borrowing from banks contracted.⁽¹⁾ Gross bond issuance from 2009 onwards was higher than the annual average issuance between 2003 and 2008, according to data from Dealogic. Net bond issuance

Chart C Lending to SMEs^(a)

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

- (a) Rate of growth in the stock of lending. Non seasonally adjusted. Further details on the series used in the chart are provided in the spreadsheet accompanying this box, available at www.bankofengland.co.uk/publications/Pages/other/monetary/trendsindelending2014.aspx.
- (b) Lending by seven UK lenders to commercial businesses with an annual bank account debit turnover of up to £1 million. The growth rate prior to September 2009 is presented on a quarterly frequency and is monthly thereafter. Sterling. The survey terminated in June 2011.
- (c) Source: monthly BIS survey and Bank calculations. Lending by four UK lenders to enterprises with annual bank account debit turnover less than £25 million. Data cover lending in both sterling and foreign currency, expressed in sterling. The survey terminated in December 2012.
- (d) Lending by UK monetary financial institutions to UK SMEs with annual debit account turnover on the main business account less than £25 million. Data cover lending in both sterling and foreign currency, expressed in sterling and are to February 2014.
- (e) Lending by a BBA panel of lenders to SMEs in Great Britain. SMEs are defined as businesses with turnover up to £25 million. Data cover lending in both sterling and foreign currency, expressed in sterling and are to December 2013.

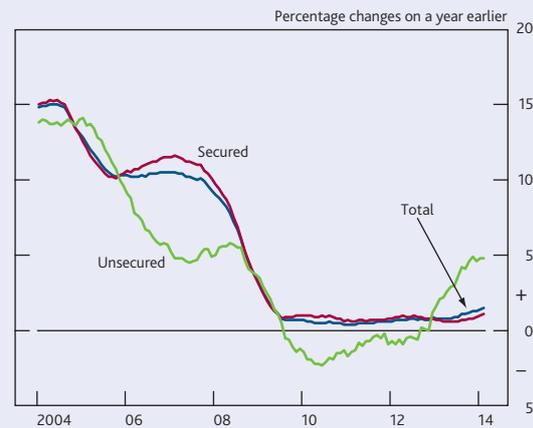
has been positive since 2011, and in 2012 reached its highest value since the Bank of England series began in 2003.

More generally, debt financing from banks and capital markets is a significant proportion of external finance raised by all businesses. While capital markets continue to provide funding options for larger companies, other sources of external funding for businesses of all sizes are now material and growing eg lending by insurance companies and pension funds, and asset-based finance.⁽²⁾ SMEs' use of alternative sources of finance to borrowing from banks is increasing. In 2013, contacts of the Bank's network of Agents reported a growing use of non-bank finance by SMEs, albeit from low levels, including peer to peer lending, crowdfunding and venture capital funds.

Individuals

The annual rate of growth in the stock of lending to individuals by all UK-resident MFIs and other mortgage lenders has remained positive, albeit subdued in the years following the financial crisis (Chart D). The average annual growth rate in the stock of secured lending has been below 1% since 2010 (Table 1.C), though has picked up since the second half of 2013.

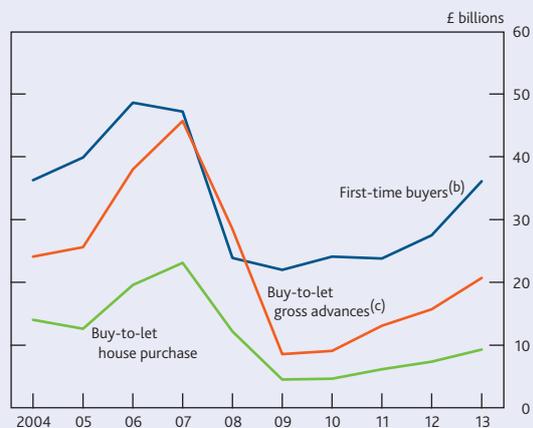
Gross lending secured on dwellings more than halved between 2007 and 2009 (Chart A). This partly reflected a greater contraction in lending by specialist mortgage lenders compared to the fall in lending by MFIs in this period. Gross

Chart D Lending to UK individuals^(a)

(a) Sterling lending by monetary financial institutions and other lenders to UK individuals. Rate of growth in the stock of lending. Data are to February 2014. Seasonally adjusted. Further details on the series used in the chart are provided in the spreadsheet accompanying this box, available at www.bankofengland.co.uk/publications/Pages/other/monetary/trendsindelending2014.aspx.

lending remained broadly at this level until the middle of 2012 before picking up by 20% in 2013 compared to the previous year. Net lending has recovered somewhat from its lows in 2010 but is still considerably below the pre-crisis average.

First-time buyers (FTBs) and the buy-to-let (BTL) sector are important components of the housing market, representing around 20% and 10% of overall annual gross mortgage lending respectively. Gross lending to FTBs fell sharply in 2008 (Chart E). The share of FTBs in total secured lending has increased a little in the past couple of years, as gross lending to FTBs picked up earlier than the total. Gross lending to FTBs continued to increase in 2013 and was at its highest in six years. The total number of loans to FTBs in 2013 was one third higher than the average of the previous four years.

Chart E Gross secured lending flows to first-time buyers and for buy-to-let purposes^(a)

Source: CML.

- (a) Non seasonally adjusted. Annual data. Data prior to 2005 are not on a comparable basis. Sterling.
- (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 CML suggest that around 20% of FTBs fall into this category.
- (c) Data cover lending for house purchase, remortgaging and other advances.

Gross lending to BTL borrowers also fell in 2008 (**Chart E**). Similarly to gross lending to FTBs, gross lending for BTL purposes picked up from mid-2010 ahead of the increase in overall mortgage lending. Since then, gross BTL lending has continued to rise and in 2013 was at its highest in five years. The number of BTL loans for house purchase increased by nearly 20% in 2013 compared to 2012.

Annual gross consumer credit flows fell by 20% between 2007 and 2009 (**Chart A**). They recovered fairly quickly, and by 2013 were back to 2007 levels (**Table 1.D**), though remain below the 2004 peak. Annual net consumer credit flows turned negative in 2009, and remained so for a further two years. While net flows have been positive since then, flows in 2013 are still only one third of those in 2004.

The growth rate in the stock of unsecured lending was negative in the years following the financial crisis but has recovered strongly since the start of 2013 (**Chart D**). Within this, the growth rate in the stock of credit card lending slowed down between 2009 and mid-2012, though remained positive. The growth rate in the stock of other unsecured lending (including personal loans) also dropped and was negative

between mid-2009 and late 2012. Both credit card and other unsecured lending have picked up in recent quarters.

The observed weakness in bank lending likely reflects both a reduction in credit supply and weaker demand for borrowing from businesses and households.⁽³⁾ In recent quarters, the Bank of England's *Credit Conditions Survey* has suggested that the demand for credit from businesses and demand for secured lending from households has risen. Credit availability has also increased and spreads on new lending to households and many businesses have tightened, with schemes such as the Funding for Lending Scheme and Help to Buy having contributed to the improvement in credit conditions since their introduction.

(1) See the boxes on capital market issuance in December 2009, August 2010, January 2012, January 2013 and January 2014 *Trends in Lending* for more details.

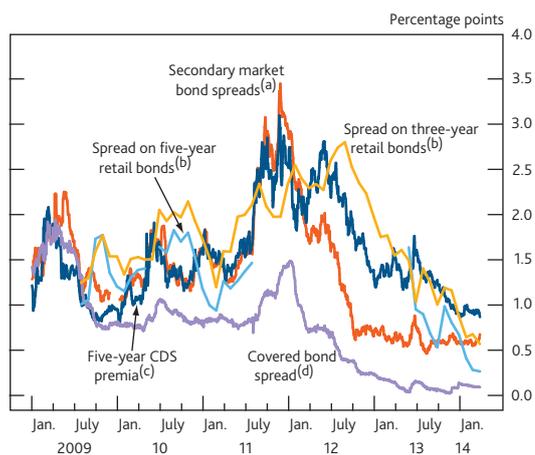
(2) For more details, see the box 'Estimates of sources of external finance for UK businesses' on pages 12–15 in *Trends in Lending* October 2013, available at www.bankofengland.co.uk/publications/Documents/other/monetary/trendsoctober13.pdf.

(3) See also Bell, V and Young, G (2010), 'Understanding the weakness of bank lending', *Bank of England Quarterly Bulletin*, Vol. 50, No. 4, pages 311–20, which reviewed the available evidence on the relative importance of the supply and demand for credit in explaining the weakness of bank lending since mid-2007. Available at www.bankofengland.co.uk/publications/Documents/quarterlybulletin/qb100406.pdf.

2 Loan pricing

Indicative measures of the spread over relevant swap rates on longer-term bank wholesale debt were broadly unchanged over 2014 Q1. Spreads over reference rates on new lending were unchanged for small businesses, fell for medium-sized businesses and fell significantly for large businesses in 2014 Q1, according to respondents to the Bank of England's *Credit Conditions Survey*. Since the start of the year, the Bank's measures of quoted rates on two-year fixed-rate mortgages have been little changed, though rates on five-year fixed-rate mortgages picked up slightly. Quoted rates on new personal loans fell by around 50 basis points in 2014 Q1 compared to the previous quarter.

Chart 2.1 Indicative long-term funding spreads



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

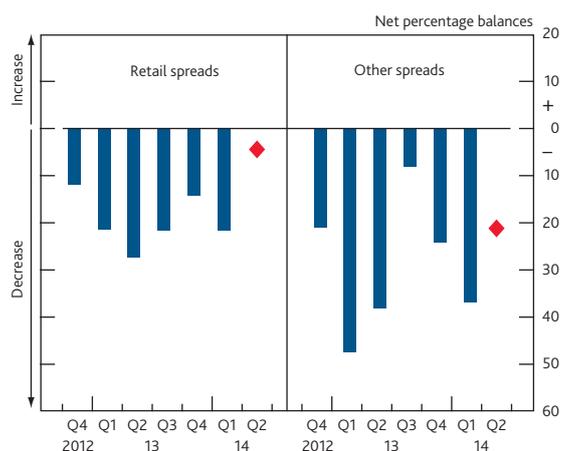
- (a) Constant-maturity unweighted average of secondary market spreads to mid-swaps for the major UK lenders' five-year euro senior unsecured bonds, where available. Where a five-year bond is unavailable, a proxy has been constructed based on the nearest maturity of bond available for a given institution. The gap in the time series between 1 December 2009 and 11 January 2010 is because no suitable bonds were in issuance in that period. Data are to 31 March 2014.
- (b) Spreads for sterling fixed-rate retail bonds over equivalent-maturity swaps. Bond rates are end-month rates and swap rates are monthly averages of daily rates. The bond rates are weighted averages of rates advertised by the banks and building societies in the Bank of England's quoted rates sample, for products meeting the selection criteria (see www.bankofengland.co.uk/statistics/Pages/iadb/notesiadb/household_int.aspx). The series for the five-year bond is not included for May 2010 and August 2011–April 2013 as fewer than three institutions in the sample offered products in these periods. Data are to end-March 2014.
- (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 to 31 March 2014.
- (d) Constant-maturity unweighted average of secondary market spreads to mid-swaps for the major UK lenders' five-year euro-denominated covered bonds, where available. Where a five-year covered bond is unavailable, a proxy has been constructed based on the nearest maturity of bond available for a given institution. Data are to 31 March 2014.

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.

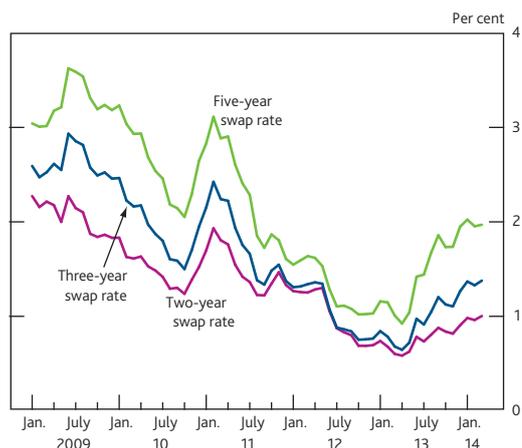
Indicative measures of the spread over relevant swap rates on longer-term bank wholesale debt, such as secondary market bond spreads, were broadly unchanged over 2014 Q1 and were, on average, in line with the previous quarter (**Chart 2.1**). Similarly, the average of the major UK lenders' five-year credit default swap premia — a proxy for the credit risk component of bank funding costs — was little changed over Q1. Respondents to the Bank of England's 2014 Q1 *Bank Liabilities Survey*, which was conducted between 7 February and 3 March, reported a significant fall in spreads on 'other' funding (which includes short and long-term wholesale debt funding) compared to the previous quarter (**Chart 2.2**). Looking ahead, most major UK lenders did not expect a significant change in spreads on longer-term bank wholesale funding in the coming quarter.

The swap rate, the fixed rate of interest in a swap contract in which floating-rate interest payments are exchanged for fixed-rate interest payments, is a key factor in the setting of retail and fixed mortgage rates. Two, three and five-year swap rates have risen since mid-2013 (**Chart 2.3**). The two-year and five-year swap rates were 13 and 18 basis points higher on average respectively in 2014 Q1 compared to the previous quarter.

Chart 2.2 Bank Liabilities Survey: funding spreads^{(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. Where the *Bank Liabilities Survey* and *Credit Conditions Survey* are discussed, descriptions of a 'significant' change refer to a net percentage balance greater than 20 in absolute terms, and a 'slight' change refers to a net percentage balance between 5 and 10 in absolute terms.

(b) Question: 'How has the average cost of funding changed?'. A positive balance indicates an increase in funding spreads.

Chart 2.3 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 2014.

Rates on some longer-term retail deposits — such as three and five-year fixed-rate bonds — were lower in 2014 Q1 compared to 2013 Q4. Spreads over equivalent-maturity swap rates were lower in Q1 compared to the previous quarter (**Chart 2.1**), reflecting both the fall in deposit rates and the increase in relevant swap rates (**Chart 2.3**). Respondents to the *Bank Liabilities Survey* reported that retail funding spreads had tightened significantly in 2014 Q1 (**Chart 2.2**).

In recent discussions most major UK lenders noted that, so far, pricing on some individual savings account (ISA) products had been lower than in the same period last year. Looking forward, some lenders did not expect ISA rates to increase significantly when annual ISA limits are increased in July, as announced in the recent Budget.

Corporate loan pricing

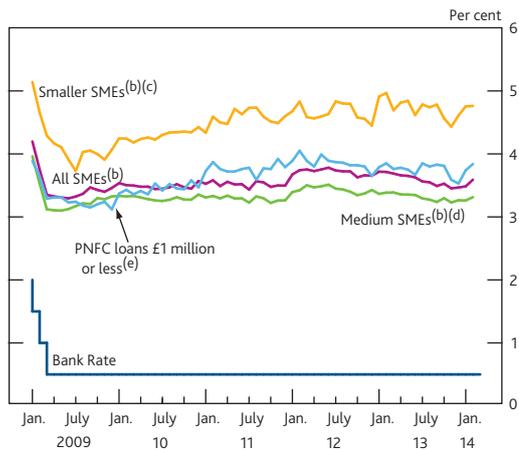
The spread over relevant reference rates that SMEs face on new borrowing can vary widely, taking into account various business-specific risk and credit quality factors. As a result, there is no single definitive measure of loan pricing, though statistical and survey data can provide broad estimates. The available measures may not entirely reflect the true cost of credit facing SMEs.⁽¹⁾

Pricing on lending to SMEs was broadly unchanged in recent months, according to a variety of measures. Indicative median interest rates (**Chart 2.4**) and spreads on new variable-rate facilities to all small and medium-sized enterprises were little changed in the three months to February compared to the previous period, according to survey data from the Department for Business, Innovation and Skills (BIS). Similarly, the Bank's measure of effective rates on new corporate lending for advances of £1 million or less — an indicator of pricing on loans to smaller businesses — was broadly unchanged.

Spreads over reference rates on new lending to small businesses were unchanged in 2014 Q1, according to lenders in the *Credit Conditions Survey* (**Chart 2.5**). For medium-sized firms, lenders in the survey reported that spreads on new lending fell. Lending terms other than spreads were mostly unchanged for small businesses and medium-sized companies in 2014 Q1 although fees and commissions for medium-sized companies fell.

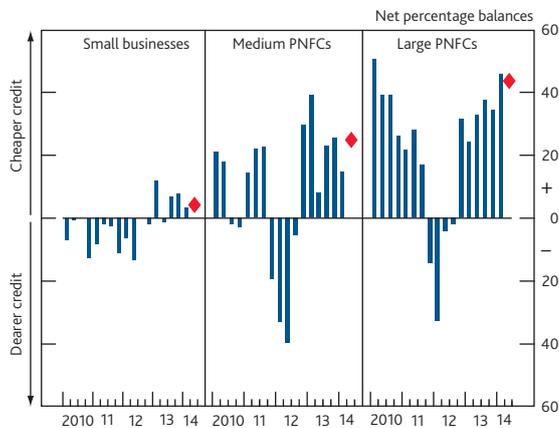
Pricing on lending to large companies remained favourable, according to survey evidence. The balance of respondents to the *Deloitte CFO Survey* — which covers large companies — reporting the cost of credit to be 'cheap' in 2014 Q1 was at its highest in over six years. Respondents to the 2014 Q1 *Credit*

(1) For more details see the box on 'Recent trends in lending to small and medium-sized enterprises' in July 2013 *Trends in Lending*, available at www.bankofengland.co.uk/publications/Documents/other/monetary/trendJuly13.pdf.

Chart 2.4 Indicative interest rates on lending to SMEs^(a)

Sources: BIS, Bank of England and Bank calculations.

- (a) These indicative rates do not reflect the impact of cashback deals or fees. Data for Bank Rate are to end-March, and for all other series to end-February. Non seasonally adjusted.
- (b) Median by value of SME facilities (new loans, new and renewed overdrafts) 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.
- (c) Smaller SMEs are businesses with annual debit account turnover on the main business account less than £1 million.
- (d) Medium SMEs are businesses with annual debit account turnover on the main business account between £1 million and £25 million.
- (e) Weighted average of new lending to PNFCs of all sizes by UK monetary financial institutions (MFIs) for advances less than or equal to £1 million, an indicator of pricing for small business loans. Data cover lending in sterling. The Bank's effective interest rates series are currently compiled using data from 23 UK MFIs.

Chart 2.5 *Credit Conditions Survey*: spreads over reference rates on lending to corporates by firm size^{(a)(b)}

- (a) See footnote (a) to Chart 2.2. A positive balance indicates that spreads over reference rates have fallen such that, all else being equal, it is cheaper for corporates to borrow.
- (b) Small businesses are defined as those with annual turnover of less than £1 million; medium-sized corporates are defined as those with annual turnover of between £1 million and £25 million; and large corporates are defined as those with annual turnover of over £25 million.

Conditions Survey reported that spreads on new lending for large businesses fell significantly (Chart 2.5). More generally, amongst contacts of the Bank's network of Agents, most large and medium-sized borrowers reported little difficulty in raising finance at reasonable cost through bank or non-bank sources.

Spreads on syndicated lending, typically applying to lending to large businesses, fell for both the investment grade and non-investment grade segments in 2014 Q1 compared to the previous quarter, according to Dealogic data. In recent discussions, some major UK lenders noted some downward pressure on pricing for syndicated lending.

Looking forward, respondents to the *Credit Conditions Survey* expected spreads on new business lending to be unchanged for small businesses, and to fall significantly further for both medium-sized and large companies in 2014 Q2 (Chart 2.5).

Mortgage pricing

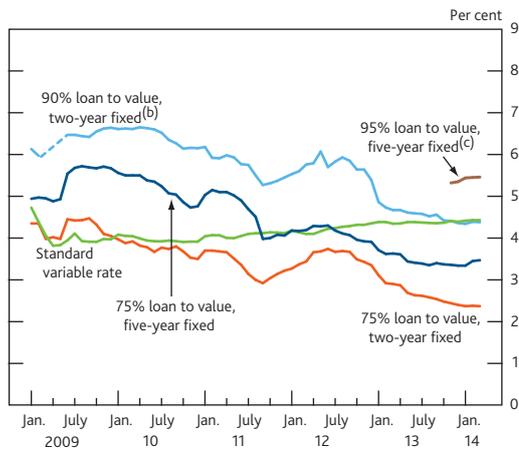
The Bank's measure of the effective rate on overall new mortgage lending was unchanged over the three months to February. Within this, the effective floating rate fell by around 20 basis points while the effective fixed rate was broadly unchanged.

Rates on most fixed-rate mortgages fell by more than 1 percentage point between June 2012 and December 2013. Since the start of the year, the Bank's measures of quoted rates on two-year fixed-rate mortgages have been little changed, though rates on five-year fixed-rate mortgages picked up slightly (Chart 2.6). This included the five-year rate at 95% loan to value (LTV) ratio, which became publishable again from November 2013 as more than two products were offered by lenders in the Bank's sample. More generally, the number of products at LTV ratios greater than 90% doubled in 2013, according to data from Moneyfacts Group. Many lenders in the 2013 Q4 *Credit Conditions Survey* attributed the increased availability of secured credit at the highest LTV ratios to participation in the Government's Help to Buy scheme.

Rates on most quoted fixed-rate products were broadly unchanged in 2014 Q1, compared to the previous quarter (Chart 2.6). With swap rates having increased in Q1 (Chart 2.3), spreads over swap rates on most quoted fixed-rate mortgages narrowed slightly. Spreads over Bank Rate on some floating-rate products also fell slightly in Q1.

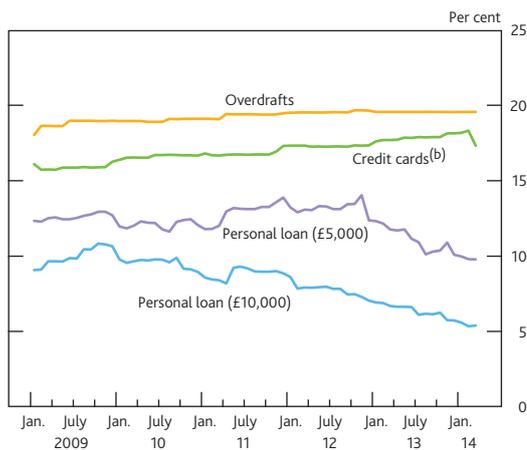
Looking ahead, respondents to the *Credit Conditions Survey* expected a slight further narrowing in spreads in 2014 Q2. However, some lenders did indicate that margins were compressed, which might limit the scope for further falls in spreads.

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



- (a) Sterling. The Bank's quoted interest rates series are currently compiled using data from up to 23 UK monetary financial institutions. End-month rates. Non seasonally adjusted.
 (b) Series is not published for March-May 2009 as fewer than three products were offered in that period.
 (c) This series was not available between November 2008 and October 2013 as fewer than three products were offered in that period.

Chart 2.7 Quoted interest rates on consumer credit^(a)



- (a) Sterling. The Bank's quoted interest rates series are currently compiled using data from up to 23 UK monetary financial institutions. End-month rates. Non seasonally adjusted.
 (b) This series does not include zero per cent balance transfer deals on credit cards.

Consumer credit pricing

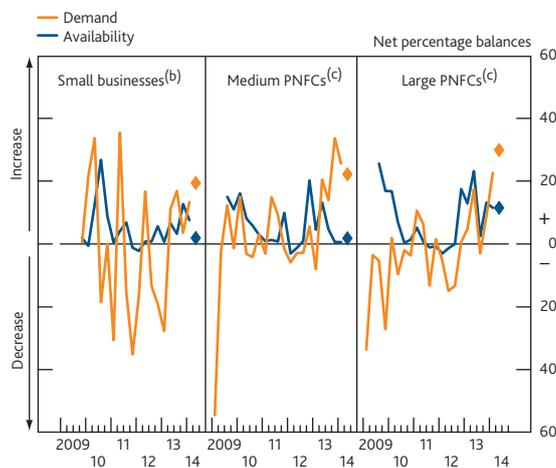
Quoted rates on new personal loans fell by around 50 basis points in 2014 Q1 compared to the previous quarter (**Chart 2.7**). Respondents to the 2014 Q1 *Credit Conditions Survey* reported that spreads on other unsecured lending products, such as personal loans, fell significantly in Q1. Lenders in the survey partly attributed lower rates to intense competition in the personal loans market. Looking ahead, respondents expected a further significant fall in spreads on other unsecured lending in 2014 Q2.

The quoted rate on credit cards has been broadly unchanged in recent months (**Chart 2.7**). This rate fell sharply in March, partly reflecting changes in strategy by two institutions. Spreads on credit card lending were reported to be unchanged in Q1, according to respondents to the *Credit Conditions Survey*. Over the past few years lenders in the survey have reported limited changes in credit card spreads while other terms on credit card lending have improved, such as the duration of 0% balance transfer offers. Lenders in the survey expected these spreads to remain broadly unchanged in the coming quarter.

3 Credit supply and demand

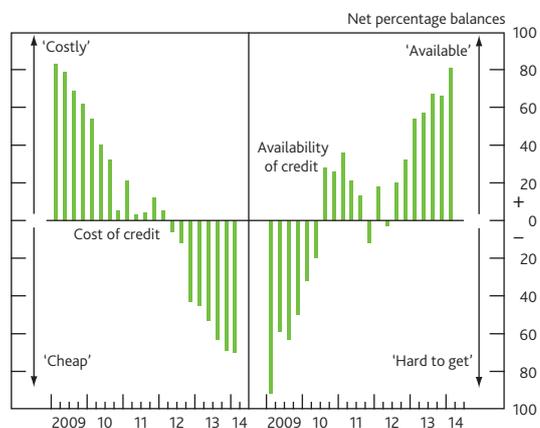
Over the past year, credit availability had eased for firms of all sizes and all sectors, according to a survey by the Bank's network of Agents. Demand for credit across all business sizes increased in 2014 Q1, according to respondents to the Bank of England's *Credit Conditions Survey*. Lenders in the *Credit Conditions Survey* reported that the availability of secured credit to households increased for the seventh consecutive quarter and demand for house purchase increased in 2014 Q1.

Chart 3.1 *Credit Conditions Survey: availability and demand for credit across firm sizes*^(a)



- (a) See footnote (a) to Chart 2.2 and footnote (b) to Chart 2.5. A positive balance indicates that more credit is available or an increase in demand.
 (b) Questions for small businesses were introduced in 2009 Q4.
 (c) Questions for the availability of credit to medium and large PNFCs were introduced in 2009 Q3.

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 credit is 'available'. The survey started in 2007 Q3.

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

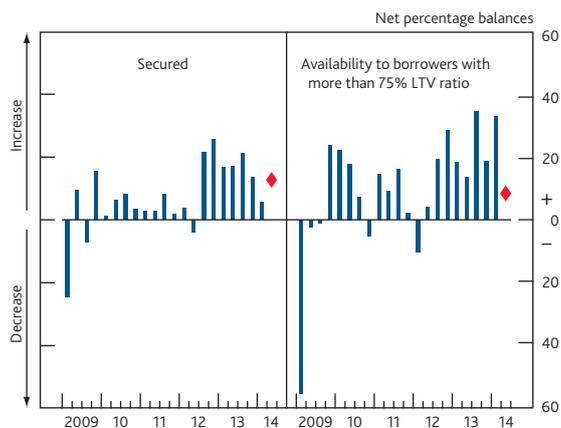
Over the past year, credit availability has eased for firms of all sizes and all sectors, according to a survey by the Bank's Agents conducted during February and March 2014.⁽¹⁾ More recently, the availability of credit to large companies increased in 2014 Q1 according to respondents to the *Credit Conditions Survey* (right-hand panel of Chart 3.1). Respondents to the *Deloitte CFO Survey 2014 Q1* — which covers large companies — reported that credit was more 'available' than at any time in the last six and a half years (Chart 3.2). Lenders in the *Credit Conditions Survey* reported that demand from large companies increased significantly in 2014 Q1.

Credit availability increased slightly for small businesses in 2014 Q1 according to respondents to the *Credit Conditions Survey* (Chart 3.1). Lenders in the survey reported that availability was unchanged for medium-sized companies. The Federation of Small Businesses' *Voice of Small Business Index 2014 Q1* reported that the availability and affordability of new credit had improved compared to a year ago. However, the majority of small firms in the survey continued to find that the availability of credit is poor, and around half believed that credit was unaffordable.

Lenders in the *Credit Conditions Survey* reported that demand for credit from small businesses increased, and from

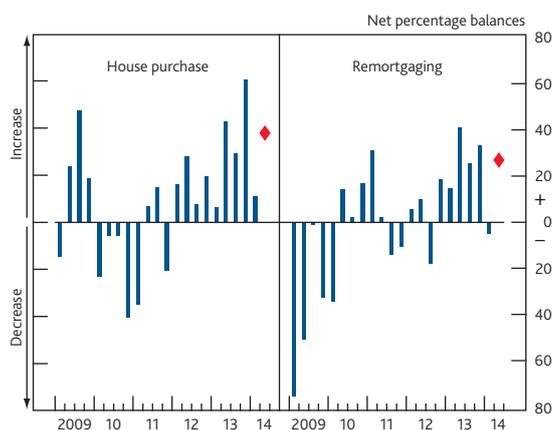
(1) For more details, see the forthcoming box on 'Agents' survey on credit conditions' in the *Agents' Summary of Business Conditions*, April 2014, to be published on 23 April 2014; available via www.bankofengland.co.uk/publications/Pages/agentssummary/default.aspx.

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



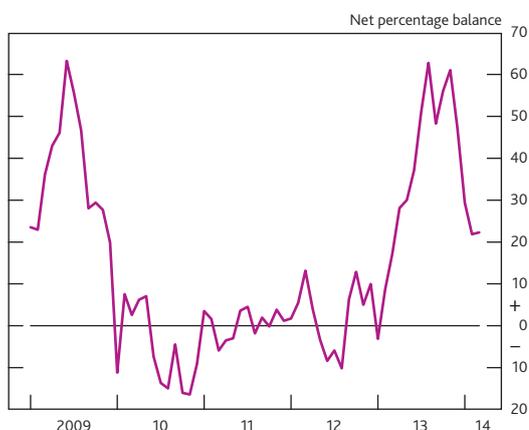
(a) See footnote (a) to Chart 2.2. A positive balance indicates that more credit is available.

Chart 3.4 Credit Conditions Survey: demand for household secured lending^(a)



(a) See footnote (a) to Chart 2.2. A positive balance indicates an increase in demand.

Chart 3.5 RICS Residential Market Survey: new buyer enquiries^(a)



Sources: Royal Institution of Chartered Surveyors.

(a) Net percentage balance for new buyer enquiries is calculated as the proportion of respondents reporting an increase in enquiries over the previous month, less the proportion reporting a decrease. A positive balance indicates an increase in enquiries. Seasonally adjusted.

medium-sized firms increased significantly, in 2014 Q1 (**Chart 3.1**). More generally, around 80% of SMEs did not seek finance in the year to 2013 Q4, according to the *SME Finance Monitor*.

Lenders in the 2014 Q1 *Credit Conditions Survey* reported that the availability of lending to the commercial real estate sector had increased on the quarter, with a further increase expected in Q2. Contacts of the Bank's Agents noted that availability of funding for commercial property companies had improved though sectoral variations in appetite to lend remained evident, with speculative property development, consumer services and retail rarely popular with lenders.

Contacts of the Bank's Agents reported that property-related demand for finance was picking up. They noted, however, that overall demand for loans remained subdued as some companies reported having a strategy that does not rely on borrowing for growth and demand for funding from large companies was often being filled by capital market finance or private placements where the maturities of funds available were longer.

Looking forward, lenders in the *Credit Conditions Survey* expected credit availability to increase for large businesses and to be unchanged for small and medium-sized businesses in the coming quarter. Respondents to the survey expected demand for credit to increase across all firm sizes in 2014 Q2, particularly for medium-sized companies and large corporates.

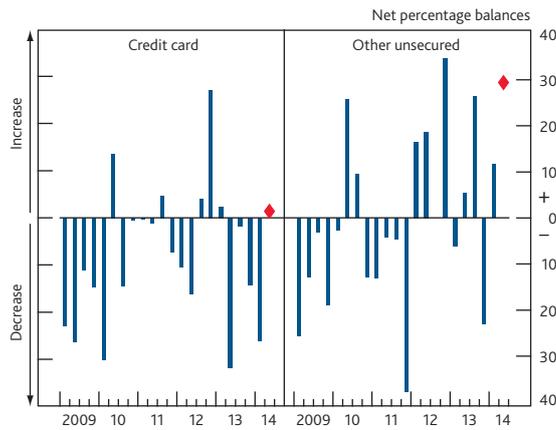
Credit conditions for households

The availability of secured credit to households increased for the seventh consecutive quarter in 2014 Q1, according to respondents to the *Credit Conditions Survey* (**Chart 3.3**). Lenders in the survey also reported a significant increase in availability for borrowers with loan to value (LTV) ratios above 75% and a significant increase in the willingness to lend at LTV ratios above 90%. Many lenders attributed the increased availability at higher LTV ratios to participation in the Government's Help to Buy scheme. Looking ahead, the availability of secured credit was expected to increase over the next three months, including for those borrowers with a LTV ratio above 75% and 90%.

Demand for secured lending for house purchase increased over the past quarter, according to respondents to the *Credit Conditions Survey* (**Chart 3.4**). Lenders in the survey reported that demand for remortgaging decreased slightly in 2014 Q1. The Royal Institution of Chartered Surveyors' (RICS) new buyer enquiries balance fell in 2014 Q1 but remained positive, indicating an increase in demand for house purchase (**Chart 3.5**).

Contacts of the Bank's Agents reported that the recovery in housing market activity had continued at a steady pace, aided

Chart 3.6 *Credit Conditions Survey*: demand for unsecured credit^(a)



(a) See footnote (a) to Chart 2.2. A positive balance indicates an increase in demand.

by improved mortgage availability for first-time buyers and growing household confidence. Contacts noted that transactions were substantially higher than a year ago across most regions, albeit still below pre-recession levels. Lenders in the *Credit Conditions Survey* expected overall demand for secured credit to increase significantly in 2014 Q2.

Respondents to the *Credit Conditions Survey* indicated that the amount of unsecured credit made available to households increased slightly in 2014 Q1. Lenders expected the availability of unsecured credit to rise slightly further in 2014 Q2.

Demand for credit card lending fell significantly in 2014 Q1, according to respondents to the *Credit Conditions Survey* (Chart 3.6). In some contrast, lenders reported that demand for other unsecured lending products, such as personal loans, increased. Some lenders suggested that improved consumer confidence and recent falls in loan rates (Chart 2.7) had positively influenced demand. Demand for credit card lending was expected to be unchanged over the next three months and demand for other unsecured lending was expected to increase significantly further, according to lenders in the survey (Chart 3.6).

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.
FLS — Funding for Lending Scheme.
ISA — individual savings account.
Libor — London interbank offered rate (see below).
LTV ratio — loan to value ratio (see below).
M4Lx — Sterling M4 lending excluding the effects of securitisations etc.
MFIs — monetary financial institutions (see below).
ONS — Office for National Statistics.
PNFCs — private non-financial corporations (see below).
RICS — Royal Institution of Chartered Surveyors.
SMEs — small and medium-sized enterprises.

Glossary

Bank Rate	The official rate paid on commercial bank reserves by the Bank of England.
Businesses	Private non-financial corporations.
Consumer credit	Borrowing by UK individuals to finance expenditure on goods and/or services. Consumer credit is split into two components: credit card lending and 'other' lending (mainly overdrafts and other loans/advances).
Effective interest rates	The weighted average of calculated interest rates on various types of sterling deposit and loan accounts. The calculated annual rate is derived from the deposit or loan interest flow during the period, divided by the average stock of deposit or loan during the period.
Facility	An agreement in which a lender sets out the conditions on which it is prepared to advance a specified amount to a borrower within a defined period.
Gross lending	The total value of new loans advanced by an institution in a given period.
Loan approvals	Lenders' firm offers to advance credit.
Loan to value (LTV) ratio	Ratio of outstanding loan amount to the market value of the asset against which the loan is secured (normally residential or commercial property).
London interbank	The rate of interest at which banks

offered rate (Libor)	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/other 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.
Syndicated loan	A loan granted by a group of banks to a single borrower.

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.