Trends in Lending

January 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 40% of the stock of consumer credit at end-June 2012. The report also draws on intelligence gathered by the Bank's network of Agents and from market contacts, as well as the results of other surveys including the Bank of England's *Credit Conditions Survey*. The focus of the report is on lending, but broader credit market developments, such as those relating to capital market issuance or trade credit, are discussed where relevant.

The report covers data up to November 2012 and intelligence gathered up to end-December 2012. The discussions with the major UK lenders were conducted in the first week of January. Unless stated otherwise, the data reported cover lending in both sterling and foreign currency, expressed in sterling terms.

(1) See www.bankofengland.co.uk/statistics/2013.pdf for future publication dates.
(2) For a fuller background, please refer to the first edition of *Trends in Lending* available at www.bankofengland.co.uk/publications/Documents/other/monetary/trendsapril09.pdf.
(3) Membership of the group of major UK lenders is based on the provision of credit to UK-resident companies and individuals, regardless of the country of ownership.

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Executive summary

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

Indicative measures of the spread over relevant swap rates on longer-term bank wholesale debt fell over 2012 Q4. According to the Bank of England's 2012 Q4 *Credit Conditions Survey*, spreads over reference rates on new lending fell significantly for medium-sized and large businesses and were broadly unchanged for small businesses. Spreads on the Bank's measures of quoted fixed-rate mortgages fell in 2012 Q4. Looking ahead, respondents to the *Credit Conditions Survey* expected a significant fall in spreads on new secured lending in 2013 Q1. Effective interest rates on overdrafts increased in the three months to November.

The overall availability of credit to the corporate sector increased significantly in 2012 Q4, according to respondents to the Bank of England's *Credit Conditions Survey*. Contacts of the Bank's network of Agents reported that, overall, demand for credit remained muted. In recent discussions, some major UK lenders reported that a lack of confidence among firms was still weighing down on demand for credit. The amount of new secured credit made available to households increased significantly in 2012 Q4, according to respondents to the *Credit Conditions Survey*.

1 Lending to UK businesses and individuals

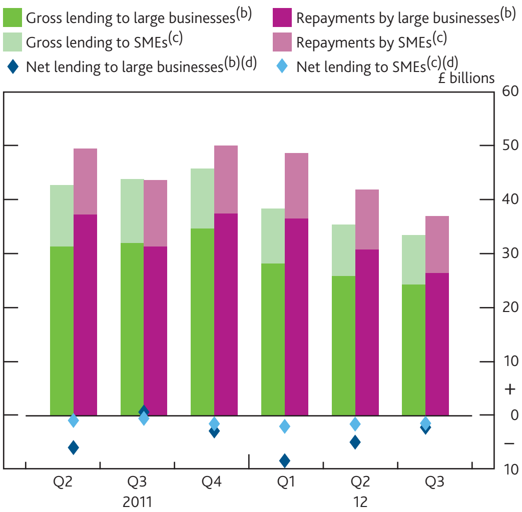
The annual rate of growth in the stock of lending to UK businesses was negative in the three months to November. The stock of lending to small and medium-sized enterprises and large businesses also contracted over this period. The annual rate of growth in the stock of secured lending to individuals fell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

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

	Averages							2012		
	2007	2008	2009	2010	2011	2012 Q2	2012 Q3	Sep.	Oct.	Nov.
Net monthly flow (£ billions)	7.4	3.8	-3.9	-2.1	-0.8	-0.4	-1.2	-1.1	0.1	-2.8
Three-month annualised growth rate (per cent)	20.8	10.7	-7.7	-5.2	-2.0	-3.0	-2.2	-3.1	-3.0	-3.5
Twelve-month growth rate (per cent)	16.8	17.9	-1.8	-7.1	-3.3	-3.1	-2.8	-3.1	-3.0	-4.1

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

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



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

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

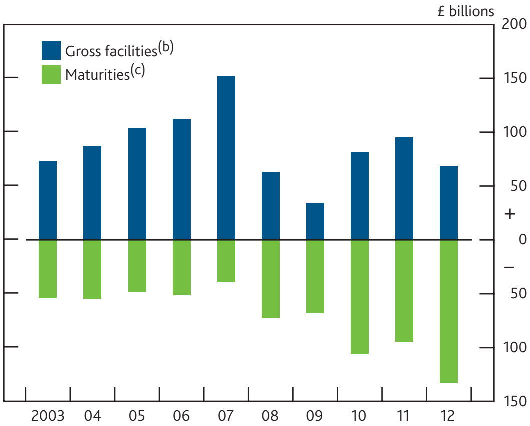
Lending to UK businesses

Official data covering lending by all UK-resident banks and building societies indicated that the stock of lending to businesses fell by around £4 billion in the three months to November (**Table 1.A**). The annual rate of growth in the stock of lending to businesses by UK-resident lenders was negative in the three months to November.

The contraction in lending to businesses overall was reflected across all firm sizes, with the annual rate of growth in the stock of lending to both small and medium-sized enterprises (SMEs) and large businesses negative over this period. Gross lending and repayments, across firm size, have both fallen in each of the past three quarters (**Chart 1.1**). Nonetheless, some contacts of the Bank's network of Agents continued to report that they were paying down debt as quickly as possible. Net lending — defined as gross lending less repayments — to SMEs by all UK-resident banks and building societies remained negative in 2012 Q3. In recent discussions, some major UK lenders expected their net lending to SMEs to increase slightly in 2013.

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 rose in 2012 Q4, though total syndicated lending volumes for 2012 were lower than for the previous two years (**Chart 1.2**). In recent discussions, most major UK lenders noted that the relatively low level of syndicated lending volumes partly reflected a lack of mergers and acquisitions activity. Looking forward, the lenders expected syndicated lending volumes to be subdued in 2013 Q1.

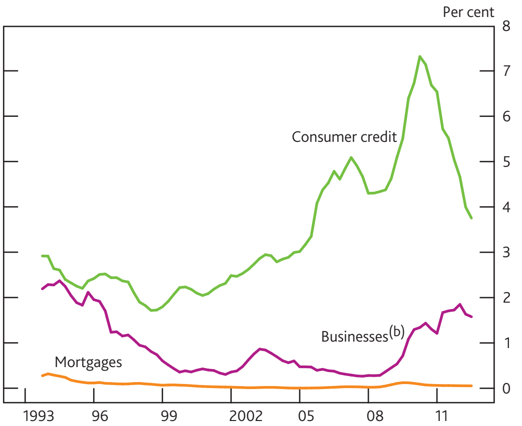
Chart 1.2 Estimates of syndicated lending facilities granted to UK businesses[a]



Sources: Dealogic and Bank calculations.

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

Chart 1.3 Write-off rates on lending to UK businesses and individuals[a]



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

Table 1.B Secured lending to individuals[a]

	Averages							2012		
	2007	2008	2009	2010	2011	2012 Q2	2012 Q3	Sep.	Oct.	Nov.
Net monthly flow (£ billions)	9.0	3.4	1.0	0.6	0.8	0.5	0.4	0.5	0.1	-0.2
Three-month annualised growth rate (per cent)	10.4	4.1	0.9	0.7	0.7	0.8	0.3	0.4	0.1	0.1
Twelve-month growth rate (per cent)	11.0	6.9	1.4	0.9	0.7	0.9	0.8	0.8	0.7	0.6

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

Capital markets provide an alternative source of funding for larger companies. Net bond issuance by UK businesses was positive in the three months to November. This was offset by negative net lending by UK-resident banks and building societies and net equity redemptions by corporates, such that net funds raised by PNFCs was negative in this period. The box on pages 7–8 provides an update on capital market issuance in 2012.

Recent indicators of corporate distress appear to be broadly stable. The rate of corporate liquidations was unchanged in the year to 2012 Q3. The corporate write-off rate — the ratio of banks' write-offs on corporate lending to the stock of that lending — was broadly unchanged in 2012 Q3, though remains elevated compared to the pre-crisis period (**Chart 1.3**). In recent discussions, some major UK lenders reported that measures of corporate distress, such as insolvencies, over the past six months had performed better than or in line with expectations in mid-2012, which had been for a modest increase. Some contacts of the Bank's Agents noted that forbearance by corporate lenders had continued. Looking ahead, most major UK lenders expected measures of corporate distress to remain broadly flat in the first half of 2013.

Secured lending to individuals

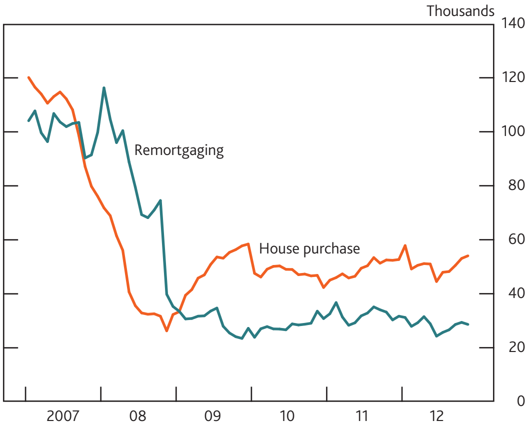
The total flow of net lending in sterling by UK-resident mortgage lenders was positive in the three months to November (**Table 1.B**). The annual rate of growth in the stock of secured lending fell slightly in the three months to November, though remained positive. Mortgage approvals by all UK-resident mortgage lenders for both house purchase and remortgaging were higher in the three months to November compared to the previous three months (**Chart 1.4**).[1]

According to data provided by the major UK lenders, the total gross flow of secured lending in the three months to November was slightly higher than the previous three months.[2] These data include a split of gross lending between house purchase and remortgaging. Both increased slightly in this period.

In forecasts compiled in December 2012, the Council of Mortgage Lenders (CML) expected gross secured lending by all UK-resident mortgage lenders in 2013 to be 8% higher than that anticipated for 2012. In recent discussions, most major UK lenders expected total gross secured lending in 2013 to be broadly in line with the CML's forecast.

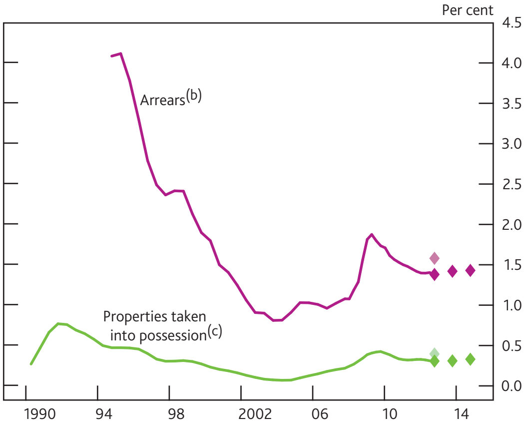
(1) The 2012 Q4 *Quarterly Bulletin* article on 'The Funding for Lending Scheme' discusses the lags in the transmission mechanism of the Scheme, and a range of indicators that are likely to shed light on the Scheme's effectiveness, including mortgage approvals. Available at www.bankofengland.co.uk/publications/Documents/quarterlybulletin/qb120401.pdf.
(2) See the 'Mortgage lending' worksheet in the December 2012 *Trends in Lending* selected data sets. Available at www.bankofengland.co.uk/publications/Documents/other/monetary/lendingtoukbusinessesandindividualsDecember2012.xls.

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 Mortgage arrears and possession rates[a]



Sources: CML and Bank calculations.

(a) Series are expressed as the proportion of the number of outstanding mortgages. Non seasonally adjusted.
(b) Mortgages in arrears of 2.5% or more of the outstanding mortgage balance. Data are available from end-1994, are semi-annual up to end-2007 and quarterly since then. The light magenta diamond shows the CML forecast for end-2012 made in December 2011 and the dark magenta diamonds show the latest CML forecast for end-2012, end-2013 and end-2014 made in December 2012.
(c) Properties taken into possession over the preceding twelve-month period. Data are semi-annual up to end-2007 and quarterly since then. The light green diamond shows the CML forecast for end-2012 made in December 2011 and the dark green diamonds show the latest CML forecast for end-2012, end-2013 and end-2014 made in December 2012.

Table 1.C Consumer credit[a][b]

	Averages							2012		
	2007	2008	2009	2010	2011	2012 Q2	2012 Q3	Sep.	Oct.	Nov.
Net monthly flow (£ billions)	0.8	0.6	-0.2	-0.2	-0.1	0.1	0.3	1.1	-0.3	0.1
Three-month annualised growth rate (per cent)	5.3	3.9	-1.3	-1.4	-0.5	0.5	0.8	2.1	1.6	2.1
Twelve-month growth rate (per cent)	4.9	5.1	0.8	-1.8	-0.8	-0.6	-0.3	0.2	0.1	0.0

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

Recent indicators of mortgage distress have been little changed or have eased slightly. Data from the CML indicated that the mortgage arrears rate was broadly unchanged in 2012 Q3 (**Chart 1.5**). The arrears rate on buy-to-let mortgages was also broadly similar over this period, and the arrears rate on credit-impaired mortgages was broadly unchanged in the three months to August. The write-off rate on mortgages — the ratio of write-offs on secured loans to the stock of lending — was little changed in 2012 Q3 (**Chart 1.3**). Claims for possessions issued in the courts fell slightly in the year to 2012 Q3. There was also a small decline in the number of properties taken into possession in 2012 Q3.

The CML's current forecast for the arrears rate for 2012 is lower than that anticipated at the end of 2011 (**Chart 1.5**). In recent discussions, some major UK lenders reported that indicators of mortgage distress, such as arrears, over the past six months had been in line with or slightly better than their expectations in mid-2012. Mortgage arrears were expected to remain broadly stable for the first half of 2013, according to some major UK lenders. In forecasts compiled in December 2012, the CML expected the arrears and possession rates to pick up slightly over the next two years.

Consumer credit

Total net consumer credit flows (excluding student loans) were positive in the three months to November (**Table 1.C**). Within this, total net flows for both credit card and other unsecured lending increased by broadly the same amount.

The annual rate of growth of consumer credit (excluding student loans) was slightly positive, on average, in the three months to November. Within this, the annual rate of growth in credit card lending was positive and increased slightly, whereas the rate of growth for other unsecured lending remained negative.

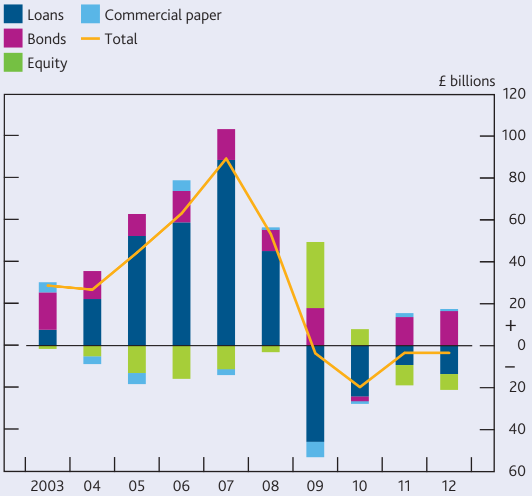
The write-off rate on consumer credit — the ratio of write-offs on unsecured loans to the stock of unsecured lending — fell in 2012 Q3 (**Chart 1.3**). The rate of personal insolvencies in England and Wales was broadly unchanged in 2012 Q3. In recent discussions, some major UK lenders reported that indicators of distress related to unsecured lending, such as write-offs and arrears, had performed in line with expectations for the second half of 2012.

An update on capital market issuance

For some larger companies, capital markets provide an alternative source of finance to lending by the banking sector. An assessment of developments in UK capital market issuance in 2011 was provided in January 2012 *Trends in Lending*.(1) This box provides an update on how net bond, equity and commercial paper issuance by UK businesses evolved in 2012.

Net bond issuance was positive in 2012 (**Chart A**). In recent discussions, the major UK lenders reported that this partly reflected strong investor demand for corporate paper. Bond issuance was also supported by favourable conditions in corporate bond markets, with the cost of issuing bonds being low and a high level of available liquidity, according to some major UK lenders. In January 2012 *Trends in Lending*, lenders noted that tenors on corporate bonds were typically longer than tenors on bank loans, which suited those companies requiring longer-term funding.

Chart A Net funds raised by UK businesses(a)



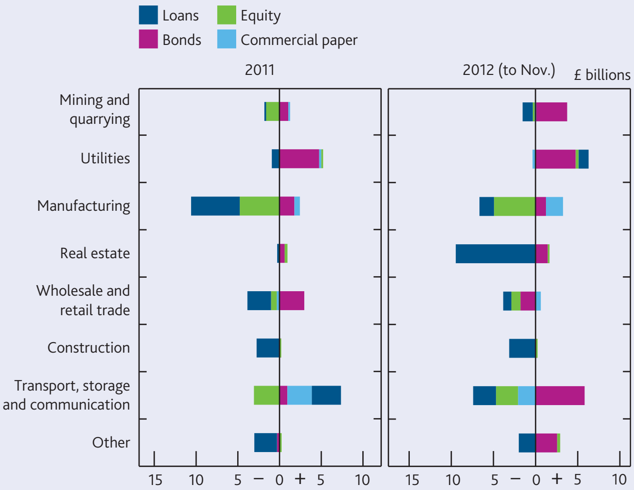
(a) Funds raised by PNFCs from UK monetary financial institutions and capital markets. Data cover funds raised in both sterling and foreign currency, expressed in sterling terms. Data are annual. Data for 2012 are up to and including November. Non seasonally adjusted.

The majority of net bond issuance in 2012 was denominated in foreign currency. In contrast, a larger proportion of bond issuance by UK companies was denominated in sterling in 2011.

Significant positive net bond issuance in 2012 was recorded in many major industrial sectors (**Chart B**). In recent discussions, the major UK lenders reported notable issuance in 2012 by firms in sectors such as mining and quarrying and transport, storage and communication.

In contrast to net bond issuance, net equity issuance remained negative in 2012 (**Chart A**). This continued to reflect

Chart B Net funds raised by UK businesses in 2011 and 2012 by major industrial sectors(a)(b)



(a) See footnote (a) to **Chart A**.
(b) Data for PNFCs have 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). For these reasons, the total yearly flows will not exactly equal the data for PNFCs in **Chart A**.

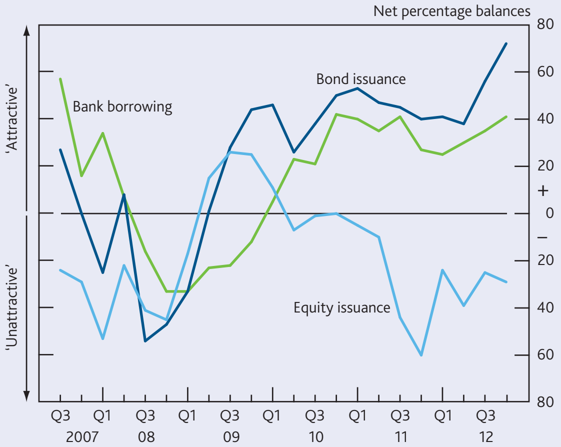
significant share buy-backs by some large companies. Net issuance of commercial paper was weaker in 2012, compared to 2011. In aggregate, net capital market issuance was positive in 2012.

Bank lending to companies continued to contract in 2012 (**Chart A**). There was significant negative net lending in the real estate, construction, and transport, storage and communication sectors (**Chart B**). Overall, negative bank lending to companies was only partly offset by positive net capital market issuance, such that total net funds raised by UK businesses from UK monetary financial institutions and capital markets remained negative in 2012.

Notwithstanding the recent weakness of bank lending, the majority of respondents to the *Deloitte CFO Survey* for 2012 Q4 — which covers large companies — indicated that they still viewed bank borrowing as an 'attractive' source of finance (**Chart C**). Bond issuance remained the most favoured source of funding, with the balance of respondents at its highest since the survey began in 2007 Q3. In contrast, the 'unattractiveness' of equity issuance as a source of funding increased slightly, according to respondents to the survey.

In addition to bank lending and public capital markets, some companies may raise funds via other channels including the private placement market, non-bank lenders and supply chain finance. According to the Bank's market contacts, these alternative sources of funding, though picking up in activity, are likely to remain modest relative to the stock of financing provided by banks.

Chart C *Deloitte CFO Survey* 2012 Q4: attractiveness of different sources of corporate funding[(a)]



(a) Net percentage balances are calculated as the percentage of respondents who reported that each source of funding was 'attractive' less the percentage who reported that it was 'unattractive'. A positive balance indicates that a balance of respondents find that particular source of funding 'attractive'.

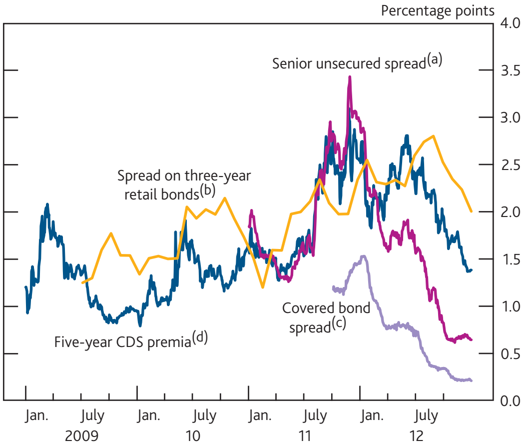
Looking forward, most major UK lenders expected net bond issuance to be strong in 2013 Q1, partly reflecting continued instances of opportunistic issuance by some companies. Similarly, a balance of respondents to the latest *Deloitte CFO Survey* expected bond issuance to increase over the next twelve months, with equity issuance expected to decrease.

(1) See the box on pages 8–9 'Recent trends in capital market issuance' in *Trends in Lending* January 2012, available at www.bankofengland.co.uk/publications/Documents/other/monetary/trendsjanuary12.pdf.

2 Loan pricing

Indicative measures of the spread over relevant swap rates on longer-term bank wholesale debt fell over 2012 Q4. According to the Bank of England's 2012 Q4 *Credit Conditions Survey*, spreads over reference rates on new lending fell significantly for medium-sized and large businesses and were broadly unchanged for small businesses. Spreads on the Bank's measures of quoted fixed-rate mortgages fell in 2012 Q4. Looking ahead, respondents to the *Credit Conditions Survey* expected a significant fall in spreads on new secured lending in 2013 Q1. Effective interest rates on overdrafts increased in the three months to November.

Chart 2.1 Indicative long-term funding spreads



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

(a) The data show an unweighted average of the spread between euro-denominated senior unsecured bonds and equivalent maturity swap rates for a selected bond issued by each of the major UK lenders. The selected bonds have a residual maturities of between two and six years.
(b) Sterling only. Spread over the relevant swap rate. The three-year retail bond rate is a weighted average of rates from banks and building societies within the Bank of England's quoted rate sample with products meeting specific criteria (see www.bankofengland.co.uk/statistics/Pages/iadb/notesiadb/household_int.aspx).
(c) The data show an unweighted average of the spread between euro-denominated covered bonds and equivalent maturity swap rates for a selected bond issued by each of the major UK lenders. The selected bonds have residual maturities of between three and seven years.
(d) The data show an unweighted average of the five-year CDS premia for the major UK lenders, which provides an indicator of the spread on long-term wholesale bonds.

This section discusses recent developments in loan pricing for businesses and individuals, based on statistical data, survey evidence and discussions with the major UK lenders.

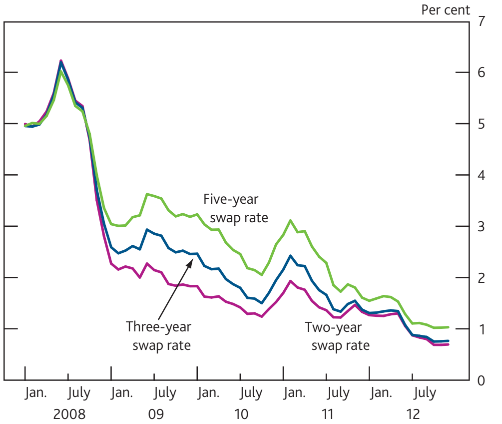
The total cost of bank finance to a company or individual can generally be decomposed into the fees charged by the lender to provide loan facilities, the spread over a given reference rate (such as three-month Libor or Bank Rate) at which loans are offered, and the prevailing level of that reference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

Previous editions of *Trends in Lending* have discussed the increase in spreads over reference rates on new lending since the start of the financial crisis. To some extent, elevated spreads reflect heightened credit risk on lending and a repricing of risk. But they are also likely to reflect the relatively high cost to lenders of raising longer-term funding.

Conditions in longer-term wholesale funding markets were stable during 2012 Q4, according to the major UK lenders. This followed an improvement in 2012 Q3 as reported by the lenders in October 2012 *Trends in Lending*. Most major UK lenders noted that the stability in current conditions primarily reflected liquidity supplied as a result of central bank actions, including those of the European Central Bank and the Bank of England, of which the Funding for Lending Scheme is one.

Indicative measures of the spread over relevant swap rates on longer-term bank wholesale debt fell over 2012 Q4 (**Chart 2.1**). For some measures, this tightening mainly occurred at the start of the quarter. In recent discussions, some major UK lenders indicated that the reduction in longer-term wholesale funding spreads partly reflected a lack of issuance by banks in recent months. Looking ahead, some major UK lenders expected a further modest fall in longer-term wholesale funding spreads in 2013 Q1. Most major UK lenders

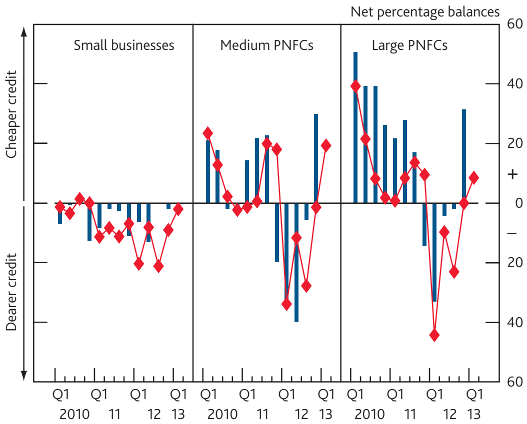
Chart 2.2 Swap rates at different maturities(a)



Sources: Bloomberg and Bank calculations.

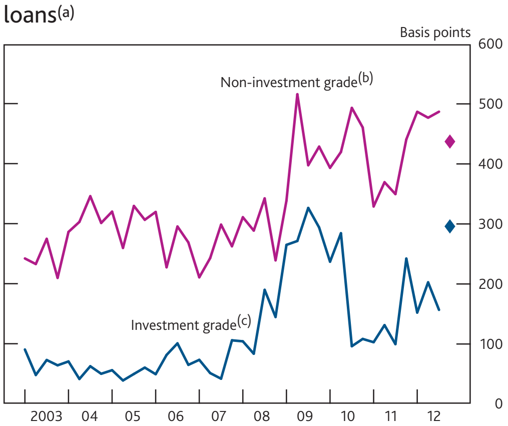
(a) Swap rates are monthly averages of daily data.

Chart 2.3 *Credit Conditions Survey*: spreads over reference rates on lending to corporates by firm size(a)(b)(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 so that they can be compared with the actual outturns in the following 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 become narrower, such that all else being equal, it is cheaper for corporates to borrow.

Chart 2.4 Average estimated spreads on syndicated loans(a)



Sources: Dealogic and Bank calculations.

(a) Average disclosed spreads over reference rates in the currency in which loan tranches are denominated, weighted by tranche size. Classification may be adjusted if ratings change over the life of the loan providing this is confirmed by the banks involved in the loan. The share of loans for which spread details are disclosed varies over time. Data for 2012 Q4, denoted by diamonds, are based on deal information available at the time of publication. Non seasonally adjusted.
(b) Non-investment grade is Dealogic leveraged and highly leveraged categories.
(c) Investment grade is classified by Dealogic as a rating of BBB- or higher, on announcement of the loan. If there is no rating then the loan spread on origination is used as the basis for classification, with any spread up to 250 basis points classified as investment grade.

noted that the main risk to funding costs would be negative news from euro-area countries.

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 2012 Q4 to their lowest level since November 2011 (**Chart 2.1**). The fall in spreads on three-year fixed-rate retail bonds reflected a reduction in deposit rates with relevant swap rates broadly unchanged (**Chart 2.2**). In recent discussions, the major UK lenders reported that pricing on some retail products had fallen over the quarter. Looking forward, most major UK lenders expected retail deposit rates to fall a little further in 2013 Q1. Pricing for individual savings accounts (ISAs) was expected to be competitive in the forthcoming ISA season, though could be to a lesser extent than last year, according to some major UK lenders.

Corporate loan pricing

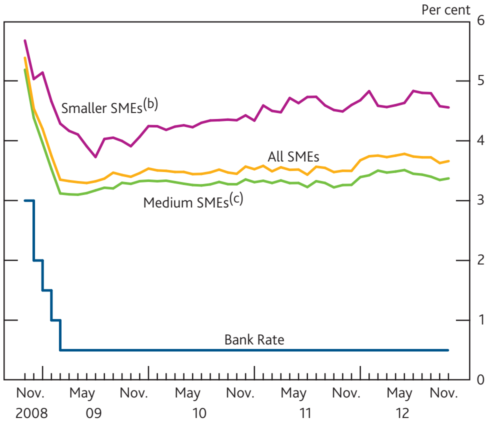
Spreads over reference rates on new lending for medium-sized and large businesses fell significantly in 2012 Q4, according to respondents to the Bank of England's *Credit Conditions Survey* (**Chart 2.3**). These reductions in spreads were reported by respondents to have been driven in part by the Funding for Lending Scheme and increased competition between banks. Lenders in the survey reported that fees and commissions fell for medium-sized firms in Q4. Fees and commissions for large businesses fell slightly in the same period. The balance of respondents to the *Deloitte CFO Survey* 2012 Q4 — which covers large companies — reported the cost of credit to be 'cheap' for the third successive quarter.

Spreads on syndicated lending, which typically apply to lending for large businesses, narrowed slightly for the non-investment grade segment and rose for the investment grade segment of the market in 2012 Q4, according to Dealogic data (**Chart 2.4**). In recent discussions, some major UK lenders noted that there was downward pressure on pricing for some syndicated loans. Looking ahead, some lenders expected a slight fall in pricing for syndicated loans in 2013 Q1.

Spreads over reference rates on new lending to small businesses were broadly unchanged in 2012 Q4, according to respondents to the *Credit Conditions Survey* (**Chart 2.3**). Similarly, fees and commissions were reported to be little changed. Indicative median interest rates and spreads on new variable-rate facilities to small and medium-sized enterprises overall have been broadly stable in recent months, according to survey data from the Department for Business, Innovation and Skills (**Chart 2.5**).

The Bank's measure of the effective interest rate on new borrowing for businesses overall was little changed in the three months to November. Some contacts of the Bank's network of Agents reported that corporate lending had become more price competitive in recent weeks, though non-price conditions were proving slower to improve. Looking forward,

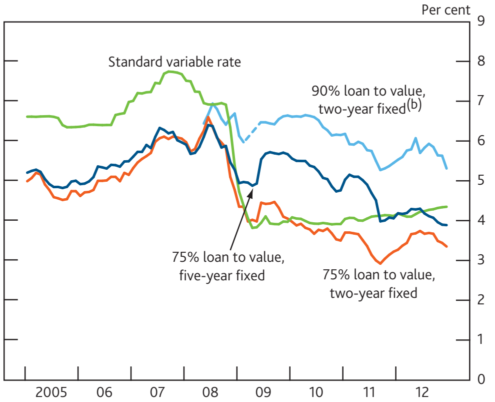
Chart 2.5 Indicative median interest rates on new SME variable-rate facilities(a)



Sources: BIS, Bank of England and Bank calculations.

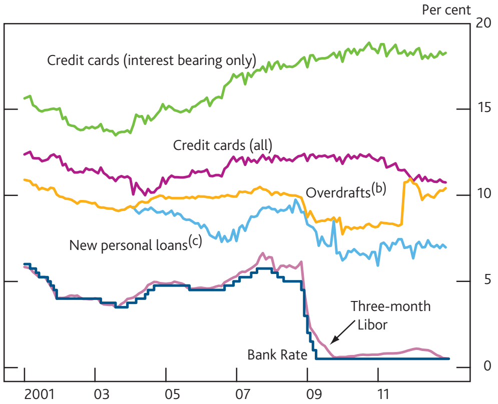
(a) Median by value of new SME facilities priced at margins over base rates, by four major UK lenders (Barclays, HSBC, Lloyds Banking Group and Royal Bank of Scotland). Data cover lending in both sterling and foreign currency, expressed in sterling terms.
(b) Smaller SMEs are those with annual debit 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.

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



(a) Sterling only. The Bank's quoted interest rates series are currently compiled using data from up to 24 UK monetary financial institutions. End-month rates. Non seasonally adjusted.
(b) Series is only available on a consistent basis back to May 2008, as earlier periods require a greater degree of estimation, and is not published for March-May 2009 as fewer than three products were offered in that period.

Chart 2.7 Effective interest rates on consumer credit(a)



Sources: BBA, Bank of England and Bank calculations.

(a) Sterling only. The Bank's effective interest rates series are currently compiled using data from 24 UK monetary financial institutions. The rate for personal loans is for new business. For the other series the rates shown are for the stock of lending, as comparable data for new lending are not available. Data for Bank Rate and three-month Libor are to end-December and for effective rates to end-November. 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) Only available from January 2004.

respondents to the *Credit Conditions Survey* expected spreads on lending to small businesses to remain unchanged, on lending to medium-sized firms to fall and on lending to large businesses to fall slightly in 2013 Q1 (**Chart 2.3**).

Mortgage pricing

The Bank's measures of quoted rates on fixed-rate mortgages, such as those on two-year fixed-rate products at 75% and 90% loan to value (LTV) ratio, fell in 2012 Q4 (**Chart 2.6**). Spreads over swap rates on these fixed-rate products narrowed over the quarter as relevant swap rates were broadly unchanged (**Chart 2.2**). The Bank's measure of the effective fixed mortgage rate on new lending fell by 30 basis points in the three months to November.

In contrast, there was little change in some of the Bank's measures of quoted floating-rate mortgages in 2012 Q4, such that spreads over Bank Rate were broadly unchanged over the quarter. The effective floating rate on new mortgage lending was also little changed in the three months to November.

Respondents to the 2012 Q4 *Credit Conditions Survey* reported that spreads on overall secured lending to households had tightened significantly over the previous three months. Lenders in the survey commented that this tightening was partly due to the cheaper funding available under the Funding for Lending Scheme. This overall fall in spreads was reflected in both prime and buy-to-let lending. Fees on secured lending were reported to be broadly unchanged in 2012 Q4.

Bank estimates based on Moneyfacts data indicate that rates on fixed-rate mortgage products at lower LTV ratios had fallen by over 50 basis points over the second half of 2012. Contacts of the Bank's Agents commented that interest rates on lower LTV products were falling, with competition increasing between banks and building societies.

Looking ahead, respondents to the *Credit Conditions Survey* expected a significant fall in spreads for both prime and buy-to-let lending in 2013 Q1. In recent discussions, some major UK lenders expected increased competition to lead to a fall in pricing at higher LTV ratios during 2013.

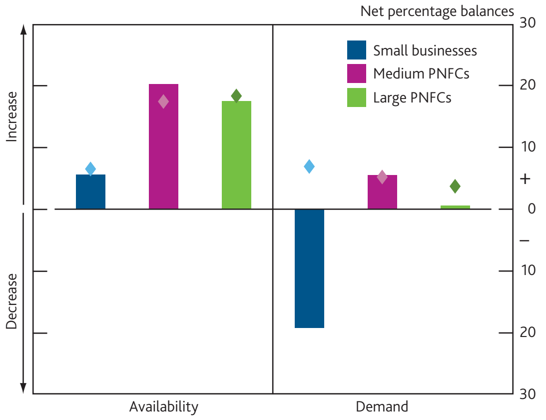
Consumer credit pricing

Effective interest rates on overdrafts increased in the three months to November (**Chart 2.7**). Respondents to the 2012 Q4 *Credit Conditions Survey* reported that spreads on credit card lending had remained unchanged, though had tightened significantly for other unsecured lending. More generally, for consumer credit as a whole, spreads between effective rates and both Bank Rate and Libor 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 Q1, with spreads on other unsecured products expected to fall slightly.

3 Credit supply and demand

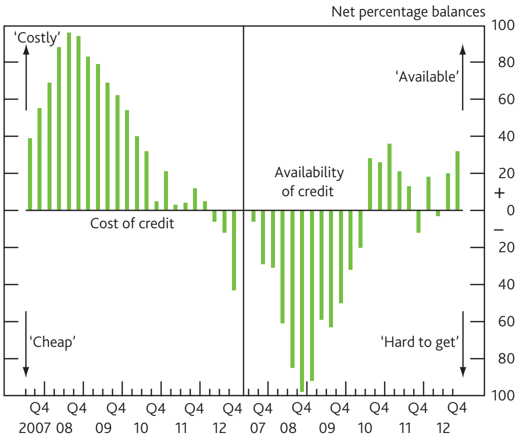
The overall availability of credit to the corporate sector increased significantly in 2012 Q4, according to respondents to the Bank of England's *Credit Conditions Survey*. Contacts of the Bank's network of Agents reported that, overall, demand for credit remained muted. In recent discussions, some major UK lenders reported that a lack of confidence among firms was still weighing down on demand for credit. The amount of new secured credit made available to households increased significantly in 2012 Q4, according to respondents to the *Credit Conditions Survey*.

Chart 3.1 *Credit Conditions Survey*: availability and demand for credit across firm sizes reported in the 2012 Q4 survey(a)(b)



(a) Net percentage balances are calculated by weighting together the responses of those lenders who answered the question. The bars in the chart show the net percentage balance reported over the three months to mid-December. The diamonds show the associated expectations for the next three months. See also footnote (b) to **Chart 2.3**.
(b) In the first panel, a positive balance indicates that more credit is available. In the second panel, a positive balance indicates an increase in demand.

Chart 3.2 *Deloitte CFO Survey* 2012 Q4: 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* 2012 Q4 was published on 7 January and is available at www.deloitte.com/assets/Dcom-UnitedKingdom/Local%20Assets/Documents/Research/CFO%20Survey/uk-research-deloitte-cfo-survey-2013-Q4.pdf.

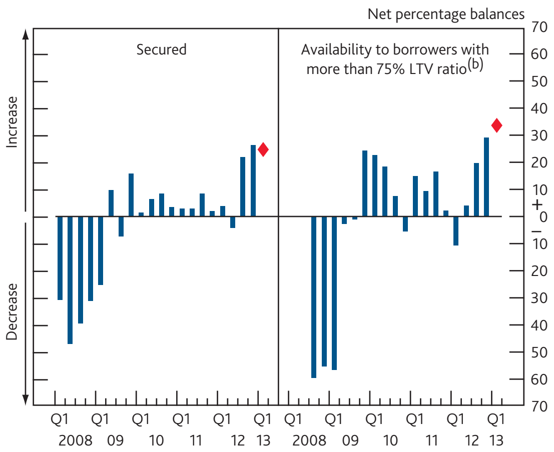
The amount of lending and its price depend on the interaction of demand and supply factors. Disentangling the separate influences of changes in the supply of and demand for credit is difficult, though survey data can help. This section looks at recent trends in credit supply and demand, drawing on surveys, 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 significantly in 2012 Q4, according to respondents to the *Credit Conditions Survey*. This was reflected in a significant increase in availability for medium-sized firms, an increase in availability for large firms, and a slight increase for small firms (**Chart 3.1**). Lenders in the survey commented that the Funding for Lending Scheme had been important in increasing credit availability to the corporate sector. The balance of respondents to the *Deloitte CFO Survey* 2012 Q4 — which covers large companies — reported credit as 'available' for the second consecutive quarter (**Chart 3.2**). Looking forward, lenders in the *Credit Conditions Survey* expected credit availability for firms of all sizes to increase in the coming quarter.

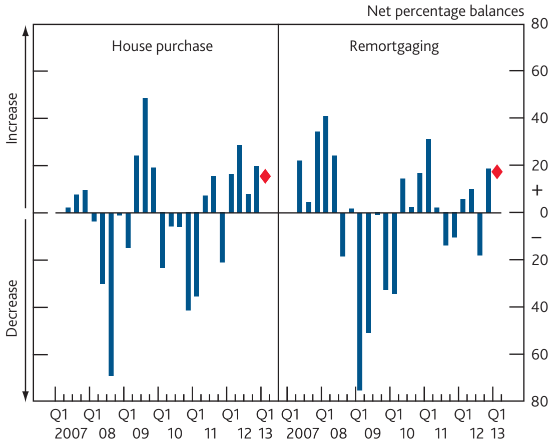
Demand for credit from small businesses fell in 2012 Q4 but rose slightly for medium-sized businesses, according to lenders in the *Credit Conditions Survey* (**Chart 3.1**). In recent discussions, some major UK lenders noted that demand from small and medium-sized enterprises remained subdued. Respondents to the *Credit Conditions Survey* reported that demand for credit from large firms was broadly unchanged over the past quarter. Some major UK lenders reported that a lack of confidence among firms was still weighing down on demand for credit. Contacts of the Bank's network of Agents reported that, overall, demand for credit remained muted. The Bank's Agents also noted that many contacts now preferred to use their own cash, not borrowings, for expansion and larger firms were often able to access long-term credit on favourable

Chart 3.3 *Credit Conditions Survey*: availability of secured credit to households[(a)]



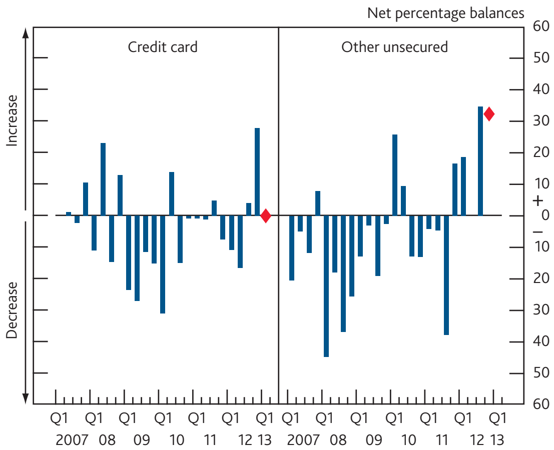
(a) See footnote (a) to **Chart 2.3**. A positive balance indicates that more credit is available.
(b) This question was introduced in 2008 Q3.

Chart 3.4 *Credit Conditions Survey*: demand for household secured lending[(a)]



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

Chart 3.5 *Credit Conditions Survey*: demand for household unsecured lending[(a)]



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

terms via corporate bond markets or private funds. Demand for credit was expected to increase slightly for small and medium-sized firms and remain broadly unchanged for large firms in 2013 Q1, according to respondents to the *Credit Conditions Survey*.

Credit conditions for households

The amount of new secured credit made available to households increased significantly in 2012 Q4, according to respondents to the *Credit Conditions Survey* (**Chart 3.3**). Lenders in the survey noted that the Funding for Lending Scheme had been an important factor behind this increase. They also reported that the increase in availability was spread across the LTV ratio range. For borrowers with more than 75% LTV ratios, this was the largest reported increase in availability since the question was introduced in 2008 Q3. Looking ahead, the availability of secured credit was expected to increase significantly further over the next three months across borrowers at LTV ratios above and below 75%, according to respondents to the *Credit Conditions Survey*.

Overall demand for secured lending for house purchase increased over the past quarter, according to respondents to the *Credit Conditions Survey* (**Chart 3.4**). This rise in demand was spread across prime and buy-to-let lending. Lenders in the survey also reported increased demand for remortgaging. The Royal Institution of Chartered Surveyors' new buyer enquiries balance was positive in Q4, indicating an increase in demand for house purchase. Lenders in the *Credit Conditions Survey* expected overall demand for secured credit for house purchase and remortgaging to increase in 2013 Q1.

Contacts of the Bank's Agents reported that housing market activity was flat to slightly up on a year earlier, and expected the Funding for Lending Scheme to support greater activity in the New Year. Looking ahead, the major UK lenders expected house prices in 2013 to be little changed or to decline slightly.

Respondents to the *Credit Conditions Survey* indicated that the amount of unsecured credit made available to households rose slightly over the past three months. The availability of unsecured credit was expected to increase in 2013 Q1, according to lenders in the *Credit Conditions Survey*.

Total demand for consumer credit increased significantly in 2012 Q4, according to respondents to the *Credit Conditions Survey*. Within this, demand for both credit card and other unsecured lending increased (**Chart 3.5**). Demand for total unsecured credit was expected to be broadly unchanged in the coming quarter, although demand for other unsecured lending was expected to rise significantly, 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).
SMEs — small and medium-sized enterprises.

Glossary

Arrears rate The number of loans in arrears divided by the number of loans outstanding.

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.

Liquidations rate The number of corporate liquidations divided by the number of companies.

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.

Personal insolvency rate The number of individual insolvencies divided by the adult population.

Possessions rate The number of properties taken into possession divided by the number of mortgages outstanding.

Private non-financial corporations (PNFCs) All corporations (and partnerships) whose primary activity is non-financial and that are not controlled by central or local government.

Reference rate The rate on which loans are set, with an agreed margin over the reference rate (typically this will be Bank Rate, Libor or a swap rate).

Remortgaging A process whereby borrowers repay their current mortgage in favour of a new one secured on the same property. A remortgage would represent the financing of an existing property by a different mortgage lender.

Swap rate The fixed rate of interest in a swap contract in which floating-rate interest payments are exchanged for fixed-rate interest payments. Swap rates are a key factor in the setting of fixed mortgage rates.

Tenor The time remaining until repayment of the principal on a loan or other debt instrument.

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.

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