Trends in Lending

January 2014

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 other 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 November 2013 and intelligence gathered up to end-December 2013. Unless stated otherwise, the data reported cover lending in both sterling and foreign currency, expressed in sterling.

(1) See www.bankofengland.co.uk/statistics/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 2013 Q4 were conducted between 11 November and 2 December 2013.

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Executive summary

The rate of decline in the stock of lending to UK businesses eased slightly in the year to November compared to 2012. The annual rate of growth in the stock of secured lending to individuals rose slightly to 0.8% in the three months to November. Mortgage approvals by all UK-resident mortgage lenders for house purchase continued to rise. Total net consumer credit flows were positive and broadly unchanged compared to the previous period.

Some indicative measures of the spread over relevant swap rates on longer-term bank wholesale debt were broadly unchanged in 2013 Q4. Spreads over reference rates on new lending fell slightly for small businesses and fell significantly for medium-sized and large businesses in 2013 Q4, according to respondents to the Bank of England's *Credit Conditions Survey*. Contacts of the Bank's network of Agents reported that increasing competition was leading to some reduction in the cost of corporate credit. Most of the Bank's measures of quoted rates on mortgages fell slightly over Q4.

The overall availability of credit to the corporate sector increased significantly in 2013 Q4, according to respondents to the Bank of England's *Credit Conditions Survey*. Contacts of the Bank's network of Agents reported that there were signs of gradually increasing demand for credit as companies' confidence and investment intentions edged higher. Lenders in the *Credit Conditions Survey* also reported that the availability of secured credit to households increased in Q4, and demand for secured lending for house purchase increased significantly.

1 Lending to UK businesses and individuals

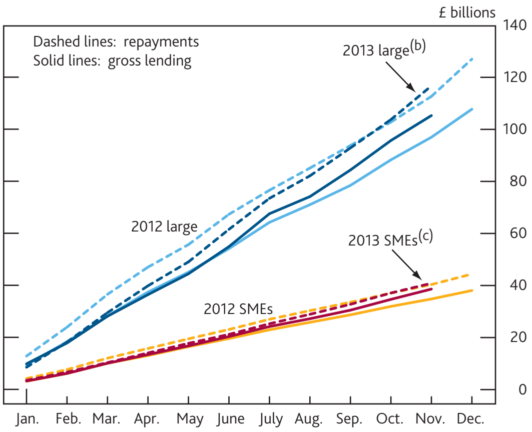
The rate of decline in the stock of lending to UK businesses eased slightly in the year to November compared to 2012. The annual rate of growth in the stock of secured lending to individuals rose slightly to 0.8% in the three months to November. Mortgage approvals by all UK-resident mortgage lenders for house purchase continued to rise. Total net consumer credit flows were positive and broadly unchanged compared to the previous period.

Table 1.A Lending to UK businesses[a]

	Averages							2013		
	2007	2008	2009	2010	2011	2012	2013 to Nov.	Sep.	Oct.	Nov.
Net monthly flow (£ billions)	7.4	3.8	-3.8	-2.1	-0.8	-1.5	-1.1	0.4	-1.1	-3.7
Three-month annualised growth rate (per cent)	20.8	10.7	-7.6	-5.2	-2.1	-3.7	-3.0	-0.2	-2.7	-4.2
Twelve-month growth rate (per cent)	16.8	17.9	-1.8	-7.1	-3.3	-3.1	-3.1	-2.7	-2.9	-3.4

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

Chart 1.1 Cumulative gross lending to and repayments by UK non-financial businesses[a]



(a) Loans by UK monetary financial institutions to non-financial businesses and repayments by them. Data exclude overdrafts. Data cover lending in both sterling and foreign currency, expressed in sterling. 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.

This section presents a summary of the recent data on lending to UK businesses and individuals. The rate of decline in the stock of lending to UK businesses eased slightly in the year to November compared to 2012. The annual rate of growth in the stock of secured lending to individuals in the year to November remained weak.

Data from participants in the Funding for Lending Scheme (FLS) indicated that their net lending to UK households and private non-financial corporations (PNFCs) was £5.8 billion in 2013 Q3.[1] This compares to net lending of £1.6 billion in Q2 and was the biggest quarterly net lending flow since the FLS was launched. Net lending by participants since the start of the Scheme was positive to 2013 Q3.

Lending to UK businesses

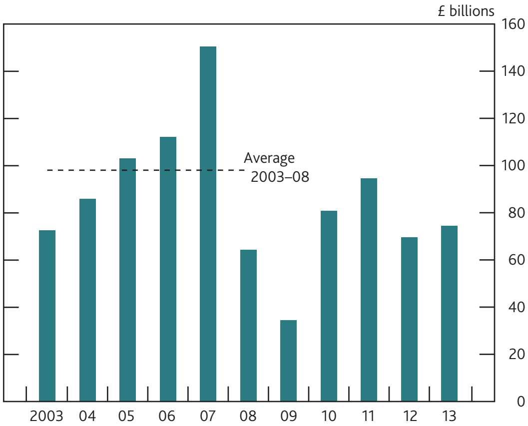
Data covering lending by all UK-resident banks and building societies indicated that the stock of lending to UK businesses contracted by £4.3 billion in the three months to November (**Table 1.A**). Overall, the average net monthly flow of lending was slightly less negative in 2013 to November compared to the previous year.

Gross lending to both small and medium-sized enterprises (SMEs) and large companies increased by around 10% in 2013 to November compared to the same period in 2012 (**Chart 1.1**). Repayments were higher than gross lending such that net lending, defined as gross lending less repayments, was negative across all firm sizes.

Larger companies have access to more 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 2013 Q4 was similar to the previous quarter. Overall, the total value of new facilities

(1) Net lending data from 2013 Q2 onwards include 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.

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



Sources: Dealogic and Bank calculations.

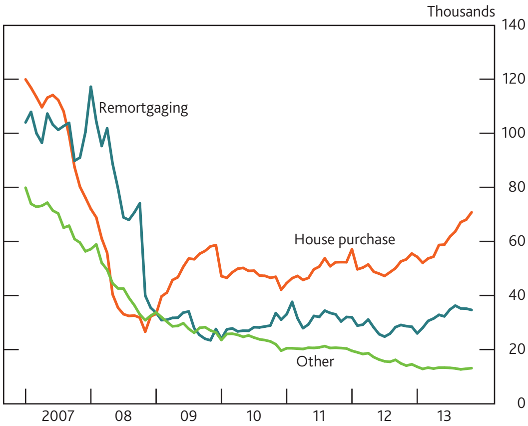
(a) Defined broadly as PNFCs. New syndicated lending facilities excluding cancelled or withdrawn facilities. Data cover lending facilities in both sterling and foreign currency, expressed in sterling.

Table 1.B Secured lending to individuals(a)

	Averages							2013		
	2007	2008	2009	2010	2011	2012	2013 to Nov.	Sep.	Oct.	Nov.
Net monthly flow (£ billions)	9.0	3.4	1.0	0.6	0.8	0.7	0.8	1.1	1.2	0.9
Three-month annualised growth rate (per cent)	10.4	4.1	1.0	0.7	0.7	0.7	0.8	1.0	1.1	1.0
Twelve-month growth rate (per cent)	11.1	6.9	1.4	0.9	0.7	0.8	0.6	0.7	0.8	0.8

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

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.

granted in 2013 increased slightly compared to 2012, though remained lower than the pre-crisis average (**Chart 1.2**). The majority of new facilities granted in 2013 were for refinancing purposes, according to Dealogic data. In recent discussions, most major UK lenders expected mergers and acquisitions, a key driver of syndicated lending activity, to pick up in 2014.

Capital markets provide an alternative source of external finance to bank lending for larger companies. Net bond issuance by UK businesses was positive over the three months to November. This was partly offset by negative net equity issuance, such that net capital market issuance was positive over this period. With a net repayment of bank lending by businesses (**Table 1.A**), net finance raised by UK businesses from UK monetary financial institutions and capital markets was negative over the three months to November. The box on pages 7–8 provides an update on capital market issuance by UK businesses in 2013.

Recent indicators of corporate distress were broadly stable. The rate of corporate liquidations was unchanged in the year to 2013 Q3. The corporate write-off rate — the ratio of banks' write-offs on corporate lending to the stock of that lending — was little changed in 2013 Q3, though remained elevated compared to the pre-crisis period. In recent discussions, the major UK lenders reported that over the past twelve months measures of corporate distress, such as insolvencies, had performed better than or in line with their expectations at the start of 2013. Looking ahead, some major UK lenders expected these measures to either improve or remain flat in 2014.

Secured lending to individuals

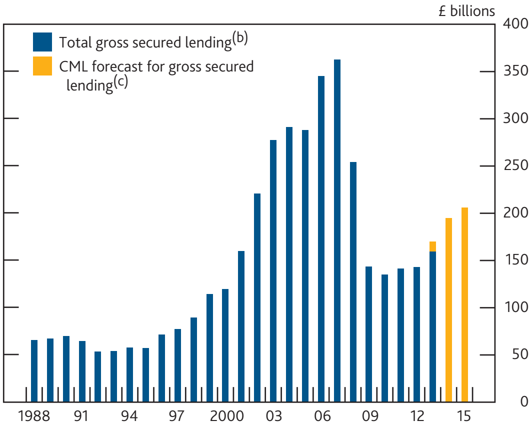
The total flow of net lending in sterling by UK-resident mortgage lenders was positive in the three months to November (**Table 1.B**) and similar to that in the previous period. The annual rate of growth in the stock of secured lending to individuals rose slightly to 0.8%.

The average net monthly flow of secured lending to individuals in 2013 to November was broadly similar to that in the previous two years (**Table 1.B**). The annual rate of growth in the stock of secured lending was slightly lower in 2013 compared to recent years.

Mortgage approvals by all UK-resident mortgage lenders for house purchase continued to rise over the three months to November (**Chart 1.3**). The monthly average in 2013 to November was 19% higher compared to the same period in 2012. The number of approvals for remortgaging increased, on average, by 15%.

Reflecting the lag between approvals and lending, total gross secured lending rose in the three months to November compared to the previous period. Overall, gross lending was

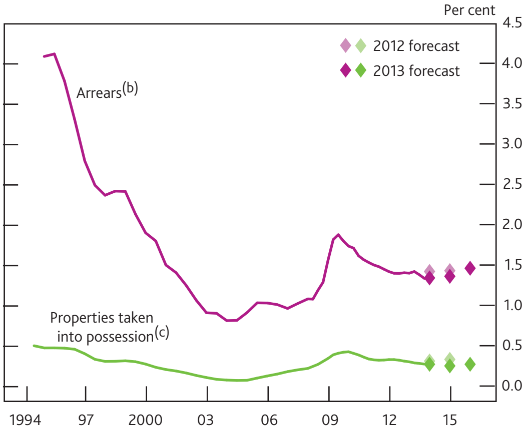
Chart 1.4 Gross lending secured on dwellings[(a)]



Sources: CML, Bank of England and Bank calculations.

(a) Total gross lending secured on dwellings. Data cover sterling lending by UK monetary financial institutions and other lenders to UK individuals. Non seasonally adjusted.
(b) The bar for 2013 comprises the CML forecast for the year with gross secured lending data up to November.
(c) CML forecasts for 2013, 2014 and 2015 made in December 2013.

Chart 1.5 Mortgage arrears and possession rates[(a)]



Sources: CML and Bank calculations.

(a) Series 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 diamonds show the CML forecast for end-2013 and end-2014 made in December 2012 and the dark magenta diamonds show the CML forecast for end-2013, end-2014 and end-2015 made in December 2013.
(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 diamonds show the CML forecast for end-2013 and end-2014 made in December 2012 and the dark green diamonds show the CML forecast for end-2013, end-2014 and end-2015 made in December 2013.

Table 1.C Consumer credit[(a)]

	Averages							2013		
	2007	2008	2009	2010	2011	2012	2013 to Nov.	Sep.	Oct.	Nov.
Net monthly flow (£ billions)	0.8	0.6	-0.2	-0.2	-0.1	0.2	0.6	1.1	0.5	0.6
of which:										
Credit cards	*0.2*	*0.4*	*0.2*	*0.2*	*0.1*	*0.1*	*0.2*	*0.2*	*0.3*	*0.4*
Other unsecured	*0.6*	*0.3*	*-0.4*	*-0.4*	*-0.2*	*0.1*	*0.4*	*0.9*	*0.2*	*0.2*
Three-month annualised growth rate (per cent)	5.3	3.9	-1.3	-1.4	-0.5	0.5	4.8	7.0	6.0	5.6
Twelve-month growth rate (per cent)	4.9	5.1	0.8	-1.8	-0.8	-0.3	3.3	4.2	4.7	5.0

(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.

higher in 2013 to November compared to the years following the financial crisis (**Chart 1.4**). In forecasts compiled in December 2013, the Council of Mortgage Lenders (CML) expected gross secured lending by all UK-resident mortgage lenders in 2014 to be around 15% higher than that anticipated for 2013.

Recent indicators of mortgage distress were little changed or have eased slightly. Data from the CML indicated that the mortgage arrears rate fell slightly in 2013 Q3 (**Chart 1.5**). The arrears rate on buy-to-let mortgages was broadly unchanged. The write-off rate on mortgages — the ratio of write-offs on secured loans to the stock of lending — was little changed. Claims for possessions issued in the courts fell a little in the year to 2013 Q3. The possessions rate — the ratio of the number of properties taken into possession to the number of outstanding mortgages — was broadly unchanged.

The current forecast for the mortgage arrears rate by the CML for end-2013 is a little lower than that anticipated at the end of 2012 (**Chart 1.5**). In recent discussions, most major UK lenders reported that over the past year, indicators of mortgage distress such as arrears were slightly better or in line with their expectations at the start of 2013.

The forecasts for the arrears and possessions rates in 2014 have also been slightly revised down by the CML (**Chart 1.5**). The arrears rate was expected to be broadly flat in 2014 and then to rise the year after. The possessions rate is expected to fall slightly in 2014 and then return to 2013 levels. The CML noted the prospect of rising interest rates as a factor behind the rise in these measures in 2015.

Consumer credit

Total net consumer credit flows (excluding student loans) were positive in the three months to November (**Table 1.C**) and broadly unchanged compared to the previous period. Within the total, net flows to credit card lending were lower than those for other unsecured lending.

The average net monthly flow of unsecured lending to individuals in 2013 to November was at its highest since 2008. The annual rate of growth in the stock of lending rose strongly in 2013.

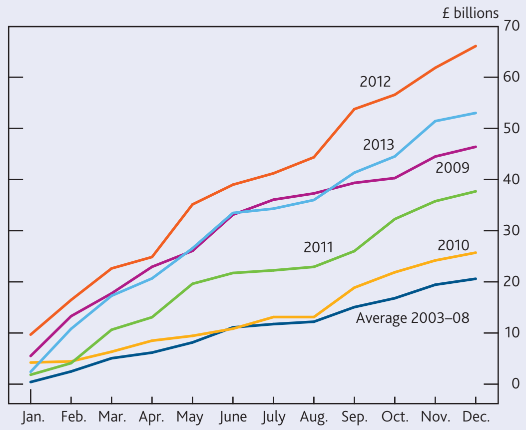
The annual write-off rate on consumer credit — the ratio of write-offs on unsecured loans to the stock of unsecured lending — was unchanged in 2013 Q3, as was the rate of personal insolvencies in England and Wales. In recent discussions, some major UK lenders reported that indicators of distress related to unsecured lending, such as write-offs and arrears, had performed in line with or better than expectations in 2013.

An update on capital market issuance

For some larger corporates, capital markets provide a useful alternative source of finance to lending from the banking sector. Following on from previous editions of *Trends in Lending*, this box provides an update on how bond, equity and commercial paper issuance by UK businesses evolved in 2013. Net capital market issuance by these businesses was positive in the year to November.

Gross bond issuance by UK private non-financial corporations (PNFCs) was strong in 2013 (**Chart A**). There was a robust start to the year as issuers made the most of investor demand for higher-yielding assets. Market contacts reported some concerns regarding the tapering of asset purchases by the Federal Reserve leading to an increase in volatility in corporate bond spreads in the middle of the year. Issuance picked up again in the latter part of 2013 and contacts suggested that this partly reflected corporates taking advantage of low bond spreads and calmer market conditions. In recent discussions, some major UK lenders noted that some refinancing due to take place in 2014 H1 had been brought forward to 2013.

Chart A Cumulative gross bond issuance by UK businesses[a]



Sources: Dealogic and Bank calculations.

(a) Issuance by PNFCs where the issuer's country of incorporation and that of any parent or guarantor are the United Kingdom. Data cover issuance in both sterling and foreign currency, expressed in sterling. Includes investment-grade and non-investment grade bonds. Data are subject to periodic revisions. Non seasonally adjusted.

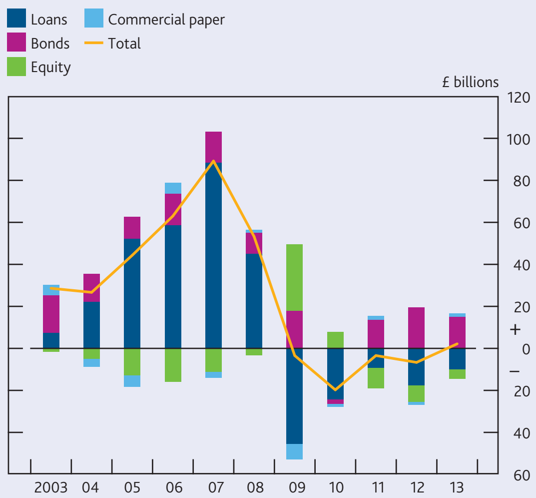
Conditions in bond markets in 2013 were similar to those in the previous year. The major UK lenders reported that bond issuance during 2012 partly reflected strong investor demand.[1] Some lenders noted that bond issuance was also supported by the low cost of issuance and a high level of available liquidity. Secondary market bond spreads continued their gradual decline over 2013.

A desire from businesses to diversify funding sources contributed to an increase in high-yield bond issuance in 2013, according to some major UK lenders. They also noted that the increase in this issuance was supported by greater demand for high-yield bonds from investors.

The number of UK companies issuing bonds in 2013 was similar to the previous year, according to estimates based on data from Dealogic.[2] Within this, the number of companies issuing bonds for the first time increased further in 2013. The average transaction value of issuance was estimated to have declined in 2013 to November compared to the same period in the previous year.[3]

Net bond issuance by PNFCs in 2013 to November was positive (magenta bars in **Chart B**) and broadly similar to the same period in 2012.[4] Positive net issuance was recorded in many major industrial sectors, notably in the transport, storage and communication, wholesale and retail trade, and utilities sectors.

Chart B Net external finance raised by UK businesses[a]

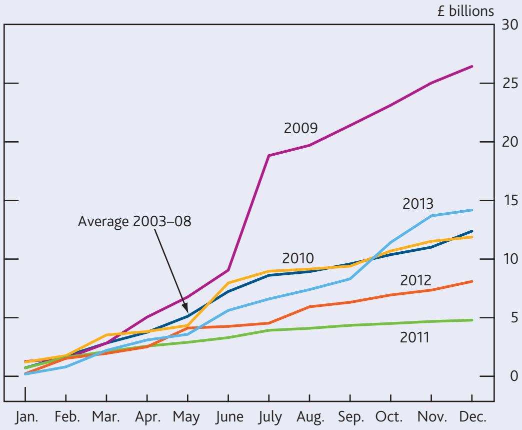


(a) Finance raised by PNFCs from UK monetary financial institutions and capital markets. Bonds data cover debt issued by UK companies via UK-based Issuing and Paying Agents. Data are annual and cover funds raised in both sterling and foreign currency, expressed in sterling. Data for 2013 are up to and including November. Non seasonally adjusted.

Gross equity issuance by UK PNFCs in 2013 was higher than in 2012 (**Chart C**). There was a modest pickup in equity issuance in Spring 2013, which continued throughout the year.[5] Appetite for equity issuance by privately owned companies had also increased, with a pickup in the overall value of initial public offerings (IPOs) over the course of the year. Market contacts reported, however, that investment banks' IPO pipelines remained small compared with the pre-crisis period.

While gross equity issuance increased in 2013 compared to 2012, net issuance remained negative (green bars in **Chart B**) as share buy-backs by some companies offset the increase in gross issuance, according to Bank of England data. There was significant negative net equity issuance in the manufacturing, and mining and quarrying sectors.

Chart C Cumulative gross equity issuance by UK businesses[(a)]



Sources: Dealogic and Bank calculations.

(a) Issuance by PNFCs where the issuer's country of incorporation and that of any parent or guarantor is the United Kingdom. Data cover issuance in both sterling and foreign currency, expressed in sterling. Data include initial public offerings and follow-on equity issuance, but not the issuance of convertible bonds. Data include public equity issuance by non-financial corporations as well as by government and supranational entities, but not by financial institutions. Data are subject to periodic revisions. Non seasonally adjusted.

Net issuance of commercial paper was slightly positive in 2013 to November (light blue bars in **Chart B**). In aggregate, positive net bond and commercial paper issuance was partially offset by negative net equity issuance such that net capital market issuance was positive in the year to November.

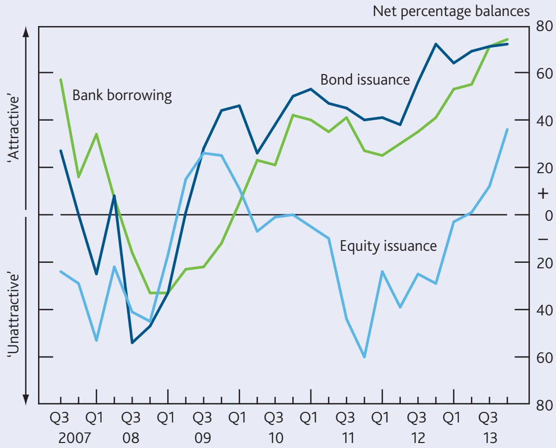
Bank lending to companies continued to contract in 2013, though by less than in 2012 (**Chart B**, **Table 1.A**). There was sizable negative net lending to the real estate sector.

Overall, positive net capital market issuance was partly offset by negative bank lending to companies, such that net finance raised by UK businesses from UK monetary financial institutions and capital markets was slightly positive in 2013 to November (**Chart B**). With net bank lending less negative and net capital issuance broadly similar to the previous year, net finance raised in 2013 was higher than the same period in 2012.

Over the past two decades, the corporate bond market has grown in importance as a source of external finance for UK businesses, accounting for 9% of their financial liabilities in 2013 Q3. Some of the strength in corporate bond issuance in recent years can be attributed to companies restructuring their balance sheets, using bond issuance to repay other forms of debt.[(6)] This has been particularly pronounced since 2009, when there was a sharp contraction in bank credit following the financial crisis. Some of the weakness in bank lending in recent years is likely to reflect large companies switching from bank to capital market finance.

Notwithstanding this contraction in bank lending, the majority of respondents to the *Deloitte CFO Survey* for 2013 Q4 — which covers large companies — indicated that bank borrowing was as 'attractive' a source of funding as bond issuance for the second successive quarter (**Chart D**). This is in contrast to recent years where bond issuance was viewed as more 'attractive'. Equity issuance was reported by respondents as an 'attractive' source of funding in the second half of 2013 for the first time since 2010, with the balance of respondents in Q4 at its highest since the survey began in 2007 Q3.

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



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

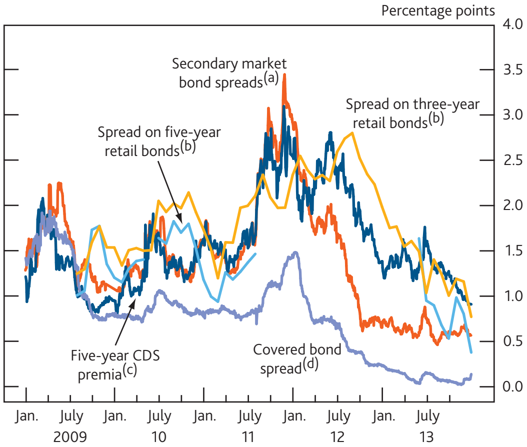
Looking forward, a balance of respondents to the *Deloitte CFO Survey* expected bond issuance to increase in 2014. The balance of respondents expecting equity issuance to increase over the next year was at its highest since the question was first asked in 2010 Q3.

(1) For more details, see the box 'An update on capital market issuance' on pages 7–8 in *Trends in Lending* January 2013, available at www.bankofengland.co.uk/publications/Documents/other/monetary/trendsjanuary13.pdf.
(2) For further details on the number of UK companies issuing bonds from 1992 to October 2013, see Chart 4 in Farrant, K, Inkinen, M, Rutkowska, M and Theodoridis, K (2013) 'What can company data tell us about financing and investment decisions?', *Bank of England Quarterly Bulletin*, Vol. 53, No. 4, pages 361–70, available at www.bankofengland.co.uk/publications/Documents/quarterlybulletin/2013/qb130407.pdf.
(3) These estimates are based on Bank of England data covering the debt issued by UK companies via UK-based Issuing and Paying Agents.
(4) For more details, see *Bankstats* Table E3.1, 'Capital issuance by UK residents' available at www.bankofengland.co.uk/statistics/Pages/bankstats/default.aspx.
(5) See 'Markets and operations', *Bank of England Quarterly Bulletin*, Vol. 53, No. 4, pages 380–91 available at www.bankofengland.co.uk/publications/Documents/quarterlybulletin/2013/qb130409.pdf.
(6) See reference in footnote (2).

2 Loan pricing

Some indicative measures of the spread over relevant swap rates on longer-term bank wholesale debt were broadly unchanged in 2013 Q4. Spreads over reference rates on new lending fell slightly for small businesses and fell significantly for medium-sized and large businesses in 2013 Q4, according to respondents to the Bank of England's *Credit Conditions Survey*. Contacts of the Bank's network of Agents reported that increasing competition was leading to some reduction in the cost of corporate credit. Most of the Bank's measures of quoted rates on mortgages fell slightly over Q4.

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 December 2013.
(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 data. 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-December 2013.
(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 December 2013.
(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 December 2013.

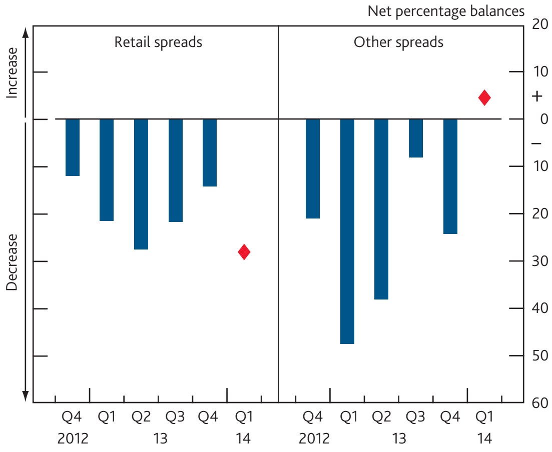
This section discusses recent developments in loan pricing for businesses and individuals, based on statistical data, survey evidence and discussions with the major UK lenders.

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.

Some indicative measures of the spread over relevant swap rates on longer-term bank wholesale debt, such as secondary market bond spreads, were broadly unchanged in 2013 Q4 having fallen slightly in the previous quarter (**Chart 2.1**). The five-year credit default swap premia — a proxy for the credit risk component of bank funding costs — fell. Respondents to the Bank of England's 2013 Q4 *Bank Liabilities Survey* reported a significant fall in spreads on non-deposit funding (including wholesale debt funding) over the previous quarter (**Chart 2.2**). In recent discussions, some major UK lenders expected spreads on longer-term wholesale bank debt to remain broadly similar in the coming months.

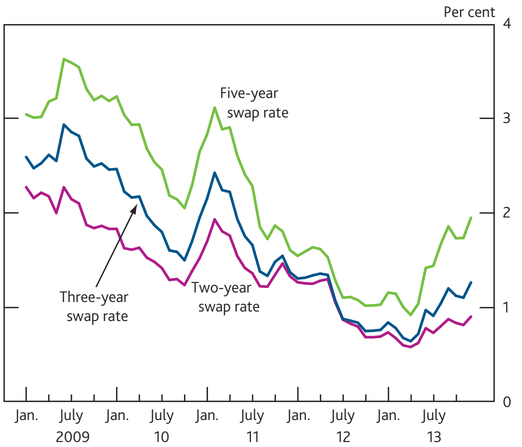
The swap rate, the fixed rate of interest in a swap contract in which floating-rate interest payments are exchanged for fixed-rate interest payments, is a key factor in the setting of retail and fixed mortgage rates. Overall, three and five-year sterling swap rates rose slightly in 2013 Q4 compared to the previous quarter, while the two-year rate was broadly unchanged (**Chart 2.3**). Swap rates increased by over 20 basis points in the second half of December, primarily reflecting the publication of lower than expected UK unemployment data and the Federal Open Market Committee announcement regarding the reduction in the pace of asset purchases.

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, 'significant' changes are indicative of net percentage balances greater than 20 in absolute terms, and 'slight' changes are indicative of net percentage balances of 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-December 2013.

The average rate on three-year fixed-rate bonds was broadly unchanged in 2013 Q4 compared to the previous quarter. The spread was lower (**Chart 2.1**), reflecting the slight increase in the relevant swap rate (**Chart 2.3**). Spreads over equivalent-maturity swap rates on two and five-year fixed-rate bonds were little changed.

Respondents to the *Bank Liabilities Survey* reported that though retail funding spreads had tightened in 2013 Q4, this was at a slower pace than in the previous three quarters (**Chart 2.2**). In recent discussions, some major UK lenders expected rates offered on individual savings accounts (ISAs) in the forthcoming ISA season to be lower than in 2013.

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.

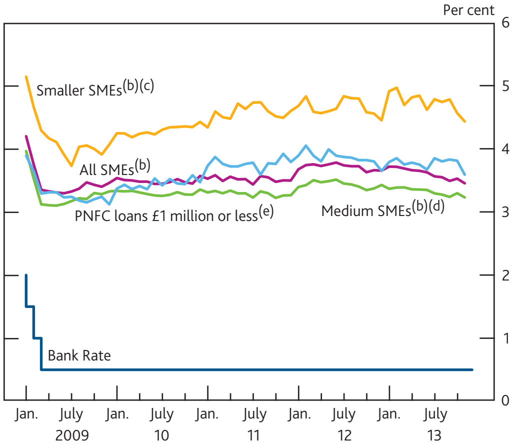
Indicative median interest rates (**Chart 2.4**) and spreads on new variable-rate facilities to all small and medium-sized enterprises fell slightly in recent months, according to survey data from the Department for Business, Innovation and Skills (BIS). Another indicator of pricing on loans to smaller businesses — the Bank's measure of effective rates on new corporate lending for advances of £1 million or less — was broadly unchanged in the three months to November compared to the previous period. These measures may not entirely reflect the true cost of credit facing SMEs, as they do not include the impact of cashback deals or changes in fees. In addition, these rates may be affected by changes in the risk profile of borrowers, which could vary over time. For example, a change in rates could reflect banks' willingness to lend to different types of businesses.

Other survey data also provide indicators of loan pricing to SMEs. The Federation of Small Businesses' *Voice of Small Business Index* 2013 Q4 reported that of those respondents who had successfully applied, credit was offered at higher rates to a larger proportion than in the previous quarter.

The balance of respondents to the *Deloitte CFO Survey* — which covers large companies — reporting the cost of credit to be 'cheap' rose in 2013 Q4 to its highest level since the survey began in 2007 Q3. More generally, contacts of the Bank's network of Agents reported that increasing competition was leading to some reduction in the cost of corporate credit.

Spreads over reference rates on new lending to small businesses fell slightly in 2013 Q4, according to lenders in the Bank of England's *Credit Conditions Survey* (**Chart 2.5**). Fees and commissions for small businesses were reported to be unchanged. For medium-sized firms, lenders in the survey

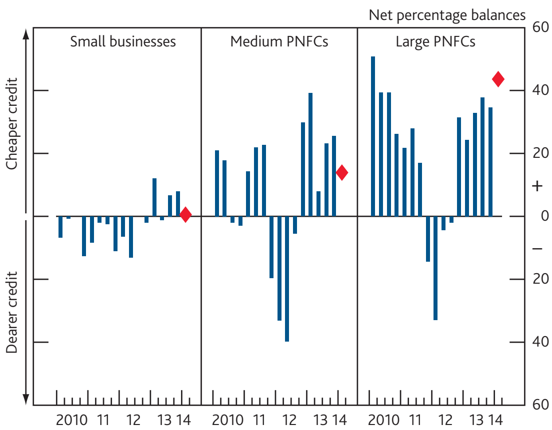
Chart 2.4 Indicative interest rates on lending to SMEs(a)



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-December, and for all other series to end-November. 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 those with annual debit account turnover on the main business account less than £1 million.
(d) Medium SMEs are those 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.

reported that spreads on new lending fell significantly and fees and commissions fell.

Respondents to the 2013 Q4 *Credit Conditions Survey* reported that spreads over reference rates on new lending for large businesses tightened significantly (**Chart 2.5**). This was the fifth consecutive quarter in which a significant fall in these spreads was reported. Fees and commissions also fell significantly for large businesses, according to lenders in the survey.

Spreads on syndicated lending, typically applying to lending to large businesses, were broadly unchanged for the investment-grade segment in 2013 Q4 compared to the previous quarter, according to Dealogic data. In recent discussions, most major UK lenders noted some downward pressure on pricing for higher-rated syndicated loans. Spreads rose for the non-investment grade segment of the market.

Looking forward, respondents to the *Credit Conditions Survey* expected spreads on new business lending to fall significantly further for large companies, to fall for medium-sized companies, and to be unchanged for small businesses in 2014 Q1 (**Chart 2.5**).

Mortgage pricing

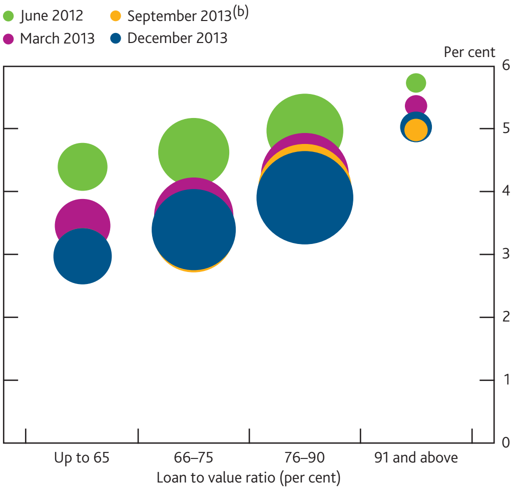
The Bank's measure of the effective rate on overall new mortgage lending fell slightly over the three months to November. Within this, the fixed and floating rates fell by broadly the same amount.

Overall, rates on most fixed-rate mortgages fell by more than 100 basis points between June 2012, when the Funding for Lending Scheme was announced, and December 2013. Rates on products with loan to value (LTV) ratios up to and including 75% fell significantly between June 2012 and early 2013, according to data from Moneyfacts Group (**Chart 2.6**). This partly reflected increased competition, as noted in January 2013 *Trends in Lending*. Rates continued to fall for these lower LTV ratio fixed-rate products for most of 2013.

Mortgage rates on fixed-rate products at LTV ratios above 75% also fell between June 2012 and December 2013 (**Chart 2.6**). Advertised interest rates on products with LTV ratios above 90% fell by less than for products at lower LTV ratios, and were broadly unchanged in 2013 Q4.

Alongside the fall in rates on fixed-rate mortgage products the number of products available across all LTV ratios also increased since June 2012, according to data from Moneyfacts Group (**Chart 2.6**). The largest increase was at LTV ratios between 76% and 90%. The number of products at LTV ratios greater than 90% doubled in 2013, though remained a small proportion of the total number of products available. In their responses to the *Credit Conditions Survey*, many lenders

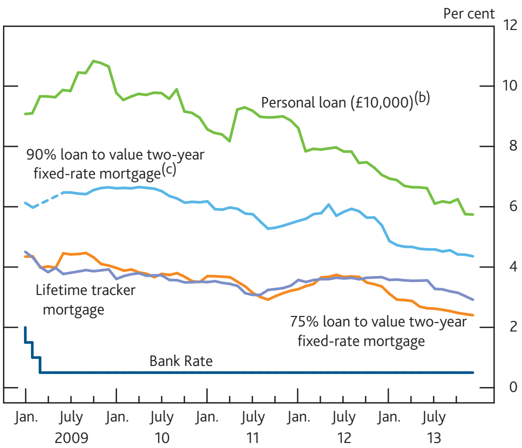
Chart 2.6 Whole market interest rates on fixed-rate mortgages(a)



Sources: Moneyfacts Group and Bank calculations.

(a) End-month advertised rates for products with different LTV ratios. Size of bubble reflects number of products. The first observation on the left is for products up to 65% LTV, the second is for products in the 66%–75% range, the third is for products in the 76%–90% range and the final observation on the right is for products above 90% LTV.
(b) The bubbles for September 2013 for LTV ratios up to 65% and 66%–75% are similar in size to those for December 2013. This is because the numbers of products and rates at these LTV ratios are little changed over these two periods.

Chart 2.7 Quoted interest rates on household lending(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) Quoted interest rate on a £10,000 personal loan.
(c) Series is not published for March–May 2009 as fewer than three products were offered in that period.

attributed the increased availability of secured credit at the highest LTV ratios in 2013 Q4 to participation in the Government's Help to Buy scheme.

Most of the Bank's measures of quoted rates on mortgages — which are based on a sample of the largest lenders — fell slightly over 2013 Q4. The two-year fixed-rate at 75% LTV ratio fell by around 15 basis points (**Chart 2.7**). Rates on some floating-rate products, such as the lifetime tracker, fell by a little more with the standard variable rate broadly unchanged.

Respondents to the *Credit Conditions Survey* reported that spreads on overall secured lending to households had tightened significantly in 2013 Q4 for the fifth consecutive quarter, with significant falls reported across both prime and buy-to-let lending. Looking ahead, respondents to the survey expected a slight further narrowing in spreads on overall secured lending in 2014 Q1.

Consumer credit pricing

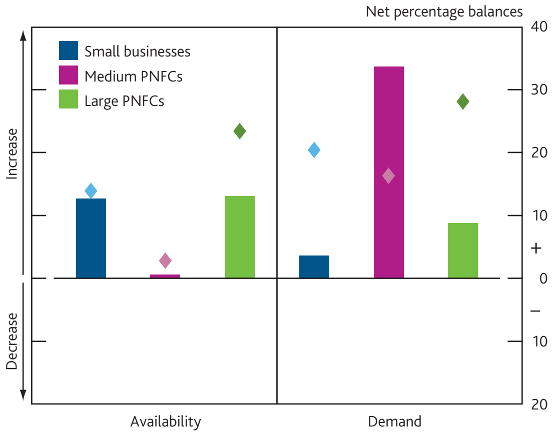
The quoted interest rate on new personal loans of £10,000 fell in 2013 Q4, continuing the general decline in recent years (**Chart 2.7**). Respondents to the 2013 Q4 *Credit Conditions Survey* reported that spreads on other unsecured lending products, such as personal loans, fell significantly in Q4 having fallen in the previous four quarters. Lenders in the survey attributed this to increased competition in the market. Looking ahead, respondents to the survey anticipated a further significant tightening in spreads on other unsecured lending products in 2014 Q1.

Interest rates on credit card lending were similar in 2013 Q4 to those in Q3. Spreads on credit card lending were reported to be unchanged in Q4, according to respondents to the *Credit Conditions Survey*. Lenders in the survey expected these spreads to remain unchanged in the coming quarter.

3 Credit supply and demand

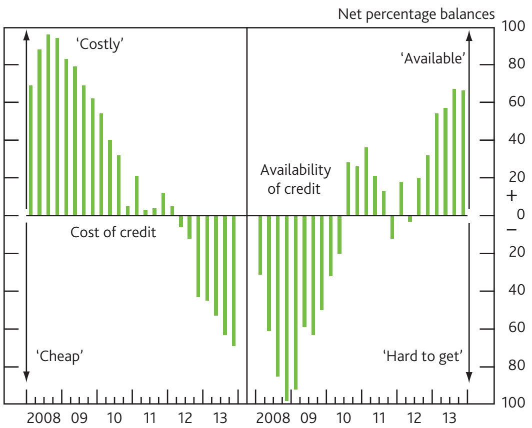
The overall availability of credit to the corporate sector increased significantly in 2013 Q4, according to respondents to the Bank of England's *Credit Conditions Survey*. Contacts of the Bank's network of Agents reported that there were signs of gradually increasing demand for credit as companies' confidence and investment intentions edged higher. Lenders in the *Credit Conditions Survey* also reported that the availability of secured credit to households increased in Q4, and demand for secured lending for house purchase increased significantly.

Chart 3.1 *Credit Conditions Survey*: availability and demand for credit across firm sizes reported in the 2013 Q4 survey(a)



(a) Net percentage balances are calculated by weighting together the responses of those lenders who answered the question. The bars in the chart show the net percentage balance reported over the three months to early December. The diamonds show the associated expectations for the next three months. In the first panel, a positive balance indicates that more credit is available. In the second panel, a positive balance indicates an increase in demand. See also footnote (b) to **Chart 2.5**.

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 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.

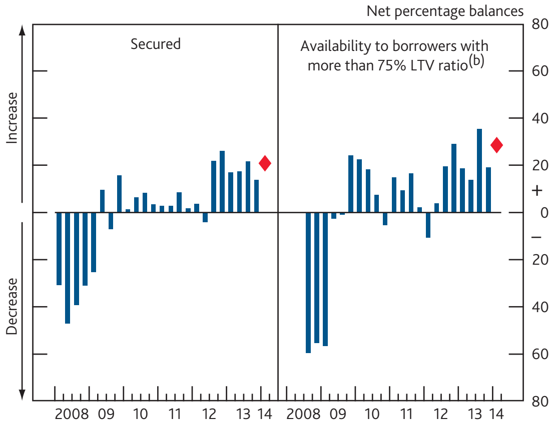
Credit conditions for businesses

The overall availability of credit to the corporate sector increased significantly in 2013 Q4, according to respondents to the *Credit Conditions Survey*. Lenders reported that availability had increased for large companies (**Chart 3.1**). Respondents to the *Deloitte CFO Survey* 2013 Q4 — which covers large companies — reported that credit was 'available' for the sixth consecutive quarter (**Chart 3.2**).

Credit availability increased for small businesses in 2013 Q4, but was little changed for medium-sized companies, according to respondents to the *Credit Conditions Survey* (**Chart 3.1**). Contacts of the Bank's Agents noted that credit supply continued to improve gradually for large companies and most medium-sized firms. Contacts reported, however, that credit availability remained tighter for small firms than on average before the recession, particularly where companies lacked tangible assets to provide as security or had previously breached covenants.

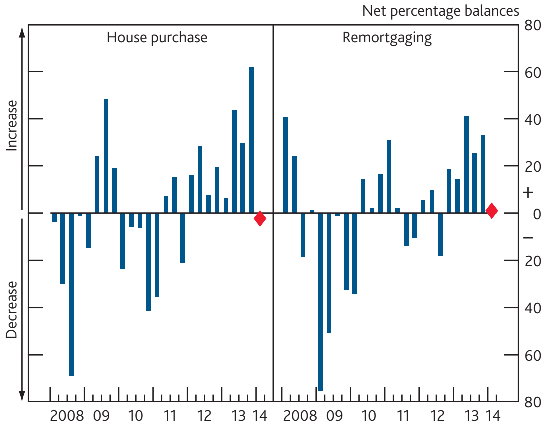
The real estate sector was the largest component of the stock of lending to UK businesses as at end-November 2013. Lenders in the 2013 Q4 *Credit Conditions Survey* reported that commercial property prices had pushed up significantly on credit availability to the commercial real estate sector for the first time since this question was asked in 2008. Contacts of the Bank's network of Agents noted that credit availability from banks for commercial property investment had eased, with private non-bank funding increasingly available for development activity.

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



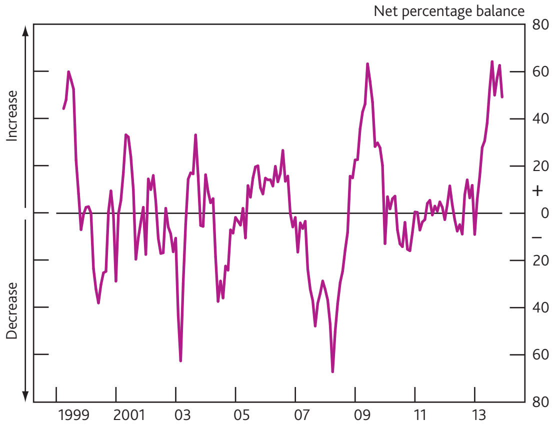
(a) See footnote (a) to **Chart 2.2**. A positive balance indicates that more credit is available.
(b) This question was introduced in 2008 Q3.

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



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

Chart 3.5 *RICS Residential Market Survey*: new buyer enquiries[a]



Source: 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. Data start in April 1999.

Looking forward, lenders in the *Credit Conditions Survey* expected credit availability to increase for small and large businesses and to be unchanged for medium-sized businesses in the coming quarter (**Chart 3.1**).

Demand for credit from small businesses was little changed in 2013 Q4, according to respondents to the *Credit Conditions Survey* (**Chart 3.1**). Demand from medium-sized companies was reported to have increased significantly and from large companies to have increased slightly. Contacts of the Bank's Agents reported that there were signs of gradually increasing demand for credit as companies' confidence and investment intentions edged higher. Lenders in the *Credit Conditions Survey* expected demand for credit to increase across all firm sizes in 2014 Q1.

Credit conditions for households

The availability of secured credit to households increased in the three months to early December, according to respondents to the *Credit Conditions Survey* (**Chart 3.3**). Lenders in the survey also reported an increase in availability for borrowers with LTV ratios above 75% and an increased willingness to lend at LTV ratios above 90%. Looking ahead, the availability of secured credit was expected to increase significantly over the next three months, including for borrowers with LTV ratios above 75% and 90%, according to respondents to the *Credit Conditions Survey*.

Overall demand for secured lending for house purchase increased significantly over the past quarter, according to respondents to the *Credit Conditions Survey* (**Chart 3.4**). The net percentage balance rose to its highest level since the survey began in 2007. Lenders in the survey reported that demand for remortgaging also increased significantly. Some lenders suggested that the increase in demand was supported by first-time buyer and homemover interest in the Governments' Help to Buy scheme. The Royal Institution of Chartered Surveyors' (RICS) new buyer enquiries balance was broadly unchanged in 2013 Q4 (**Chart 3.5**).

Contacts of the Bank's Agents reported that housing market activity continued to strengthen. They also noted that demand for housing was being buoyed by greater mortgage availability, rising confidence among buyers and the Help to Buy scheme. Lenders in the *Credit Conditions Survey* expected overall demand for secured credit to be broadly unchanged in 2014 Q1.

Respondents to the *Credit Conditions Survey* indicated that the amount of unsecured credit made available to households was unchanged in the three months to early December, having increased in the previous four quarters. Lenders expected the availability of unsecured credit to increase in 2014 Q1, driven by market share objectives and, to a lesser extent, an expected improvement in the economic outlook and an increased appetite for risk.

Demand for total unsecured lending decreased in 2013 Q4, according to respondents to the *Credit Conditions Survey*. Within this, demand for credit card lending fell and demand for other unsecured lending products fell significantly. Demand for total unsecured lending was expected to rise in the coming quarter, reflecting a slight increase in demand for credit card lending and an increase in demand for other unsecured lending, according to lenders in the survey.

Abbreviations

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.
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).
RICS — Royal Institution of Chartered Surveyors.
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.

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.

High-yield bond A corporate bond with a credit rating below investment grade.

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.

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

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.

Quoted interest rates The weighted average of interest rates on various types of sterling deposit and loan products. The headline rates advertised by a sample of MFIs are weighted using the monthly balances, or new business volumes.

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.

Syndicated loan A loan granted by a group of lenders 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.

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