

Trends in Lending

July 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 other financial statistics collected by the Bank that cover all monetary financial institutions, and data collections established since the start of the financial crisis.

These data are supplemented by discussions between the major UK lenders and Bank staff, giving staff a better understanding of the business developments driving the figures, and this intelligence is reflected in the report.⁽²⁾ The major UK lenders⁽³⁾ are Banco Santander, Barclays, HSBC, Lloyds Banking Group, Nationwide and Royal Bank of Scotland and together they accounted for around 70% of the stock of lending to businesses, 75% of the stock of mortgage lending, and 50% of the stock of consumer credit (excluding student loans) at end-March 2014. 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, are discussed where relevant.

The report covers data up to May 2014 and intelligence gathered up to end-June 2014. Unless stated otherwise, the data reported cover lending in both sterling and foreign currency, expressed in sterling.

(1) See www.bankofengland.co.uk/statistics/Documents/releasecalendar.pdf for future publication dates.

(2) For a fuller background, please refer to the first edition of *Trends in Lending* available at www.bankofengland.co.uk/publications/other/monetary/TrendsApril09.pdf.

(3) Membership of the group of major UK lenders is based on the provision of credit to UK-resident companies and individuals, regardless of the country of ownership.

(4) The *Bank Liabilities Survey* and the *Credit Conditions Survey* for 2014 Q2 were conducted between 8 and 30 May 2014.

Contents

Executive summary	3
<hr/>	
1 Lending to UK businesses and individuals	4
Box Trends in lending and capital market issuance, by major industrial sector	7
<hr/>	
2 Loan pricing	10
<hr/>	
3 Credit supply and demand	14
<hr/>	
Glossary and other information	16

Executive summary

Net lending to UK businesses was positive in the three months to May, in contrast to a negative flow in the previous period. The annual rate of growth in the stock of lending to both small and medium-sized enterprises and large businesses remained negative. Mortgage approvals by all UK-resident mortgage lenders for house purchase fell. Contacts of the Bank's network of Agents reported that activity in the housing market had eased. The average monthly net lending flow by UK-resident mortgage lenders in the three months to May was £1.8 billion, slightly higher than the previous three months.

Spreads over reference rates on new lending were unchanged for small businesses, and fell significantly for medium-sized and large businesses in 2014 Q2, according to respondents to the Bank of England's *Credit Conditions Survey*. Quoted interest rates on two-year fixed-rate mortgages rose in Q2, with spreads broadly unchanged. Quoted rates on new personal loans were little changed compared to the previous quarter.

Contacts of the Bank's network of Agents noted that credit conditions had improved for firms of most sizes over the past quarter, though conditions remained tight for the smallest businesses. Respondents to the *Credit Conditions Survey* reported that demand for credit across all business sizes had increased significantly in 2014 Q2. Lenders in the survey reported that the availability of secured credit to households increased slightly and demand for secured lending for house purchase and remortgaging increased significantly in Q2.

1 Lending to UK businesses and individuals

Net lending to UK businesses was positive in the three months to May, in contrast to a negative flow in the previous period. The annual rate of growth in the stock of lending to both small and medium-sized enterprises and large businesses remained negative. Mortgage approvals by all UK-resident mortgage lenders for house purchase fell. Contacts of the Bank's network of Agents reported that activity in the housing market had eased. The average monthly net lending flow by UK-resident mortgage lenders in the three months to May was £1.8 billion, slightly higher than the previous three months.

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

	Averages							2014		
	2010	2011	2012	2013	2013 Q3	2013 Q4	2014 Q1	Mar.	Apr.	May
PNFC all currency net monthly flow (£ billions)	-2.1	-0.8	-1.5	-0.7	0.0	-0.4	-1.4	-1.4	-0.4	3.5
Three-month annualised growth rate (per cent)	-5.2	-2.0	-3.7	-2.7	-1.3	-2.2	-2.5	-4.1	-1.6	1.8
Twelve-month growth rate (per cent)	-7.1	-3.3	-3.1	-3.0	-3.0	-2.7	-2.4	-2.6	-2.5	-0.7

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

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

	Averages							2014		
	2010	2011	2012	2013	2013 Q3	2013 Q4	2014 Q1	Mar.	Apr.	May
PNFC M4Lx net monthly flow (£ billions)	-1.4	-1.1	-0.9	-0.2	1.2	1.2	-2.7	-1.4	2.1	6.6
<i>of which:</i>										
sterling loans ^(b)	-1.6	-0.5	-1.2	-0.5	0.1	0.4	-1.7	-2.6	-0.1	2.7
Three-month annualised growth rate (per cent)	-3.5	-2.3	-2.9	-1.0	0.1	2.1	-4.1	-8.1	-4.5	7.7
Twelve-month growth rate (per cent)	-3.7	-2.1	-3.2	-2.1	-2.0	-1.0	-1.9	-2.2	-1.5	1.0

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

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

This section presents a summary of the recent data on lending to UK businesses and individuals. The twelve-month growth rate in the stock of lending to UK-resident households and businesses picked up in the three months to May.

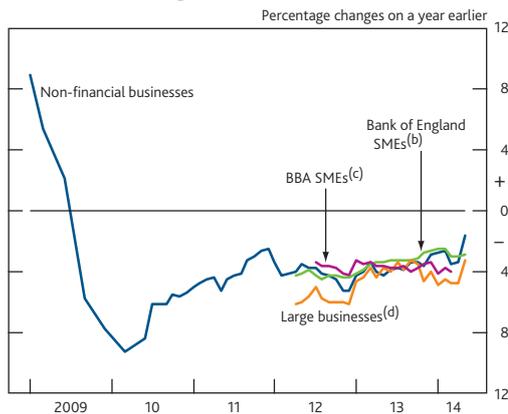
Lending to UK businesses

Data covering lending by all UK-resident banks and building societies indicated that, across a range of lending measures, net lending to UK businesses was positive in the three months to May (Tables 1.A and 1.B), in contrast to a negative flow in the previous period. Net lending to private non-financial corporations (PNFCs), on an all currency basis, was relatively strong in May (Table 1.A). An alternative measure of lending to PNFCs, M4Lx, consisting of sterling loans — included in the all currency lending measure — and banks' holdings of securities, rose (Table 1.B).⁽¹⁾ The majority of this reflected an increase in banks' holdings of securities issued by PNFCs.

Reflecting the recent pickup in net lending, the three-month annualised rate of growth in these measures of the stock of lending to PNFCs increased over the three months to May (Tables 1.A and 1.B). The annual rate of growth in the M4Lx measure of the stock of lending turned positive in May, though remained negative according to some other measures (Table 1.A and Chart 1.1).

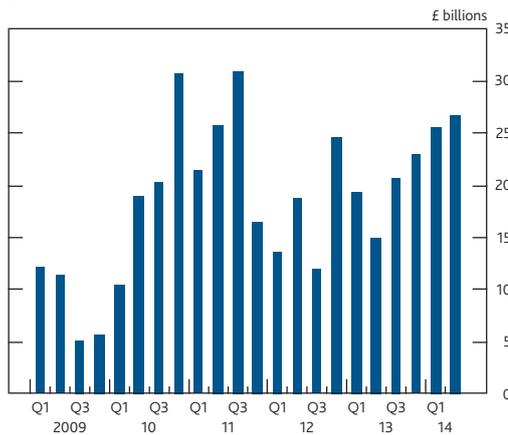
The three-month annualised rate of growth in the stock of lending to large businesses also picked up in the three months to May. The annual rate of growth in the stock of lending to both small and medium-sized enterprises (SMEs) and large businesses remained negative (Chart 1.1).

(1) For further details on the definitions of these measures of lending to UK businesses, see the worksheet titled 'Chart B' in the spreadsheet accompanying the box on 'Trends in lending — five years on' in April 2014 *Trends in Lending*, available at www.bankofengland.co.uk/publications/Documents/other/monetary/additionalboxes/april2014.xls.

Chart 1.1 Lending to UK businesses^(a)

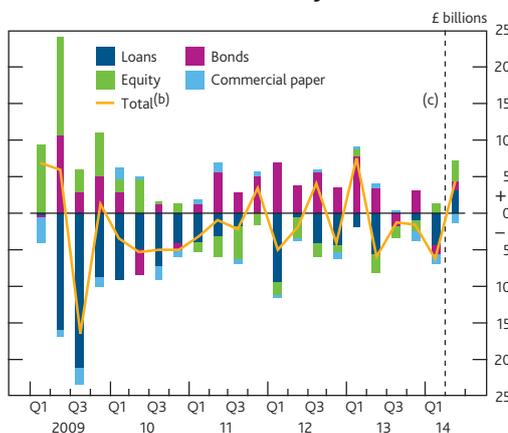
Sources: BBA, Bank of England and Bank calculations.

- (a) Rate of growth in the stock of lending. Lending by UK MFIs, unless otherwise stated. Data cover lending in both sterling and foreign currency, expressed in sterling. Non seasonally adjusted. Further details are provided in the spreadsheet, available at www.bankofengland.co.uk/publications/Documents/other/monetary/lendingtoukbusinessesandindividualsjuly2014.xls.
- (b) Lending to UK SMEs with annual debit account turnover less than £25 million.
- (c) Lending by a BBA panel of lenders to SMEs in Great Britain. SMEs are defined as businesses with turnover up to £25 million. Data are to March 2014.
- (d) Lending to UK large businesses with annual debit account turnover over £25 million.

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 by UK-resident and non-resident lenders. Data are quarterly and cover lending facilities in both sterling and foreign currency, expressed in sterling. Non seasonally adjusted.

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

- (a) Finance raised by PNFCs from UK MFIs and capital markets. Bonds data cover debt issued by UK companies via UK-based Issuing and Paying Agents. Data are quarterly and cover funds raised in both sterling and foreign currency, expressed in sterling. Seasonally adjusted. Bonds, equity and commercial paper are non seasonal.
- (b) Owing to the seasonal adjustment methodology, this series may not equal the sum of its components.
- (c) Data for 2014 Q2 are up to and including May.

Data from participants in the Funding for Lending Scheme (FLS) Extension showed that their net lending to businesses was -£2.7 billion in 2014 Q1.⁽¹⁾ The fall was concentrated in lending to large companies; net lending to SMEs was -£0.7 billion.

The weakness in the annual growth rate in the stock of lending to businesses over the past year was partly accounted for by the contribution of the real estate sector. The box on pages 7–9 provides an update on bank lending and capital market issuance, by major industrial sector.

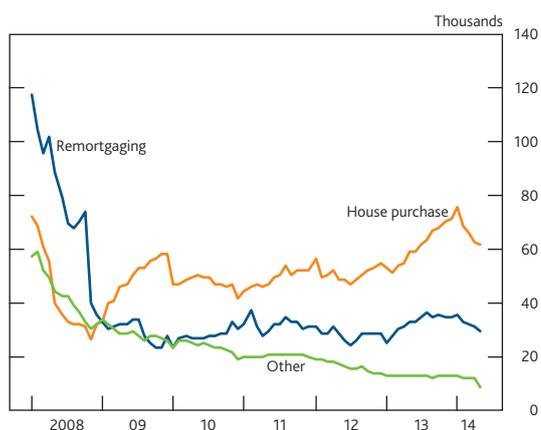
Larger companies have access to more bank funding sources than smaller businesses, such as the syndicated lending market. The total value of new syndicated lending facilities granted in the UK market by UK-resident and non-resident lenders has increased each quarter since 2013 Q2 (**Chart 1.2**). Overall, the cumulative value of new facilities granted in 2014 H1 was similar to the average over the same period in 2003–08 and higher than in 2012 H1 and 2013 H1. The majority of new facilities granted in 2014 so far continued to be for refinancing purposes, according to Dealogic data. In recent discussions most major UK lenders noted a rise in mergers and acquisitions activity, a key driver of syndicated lending.

Capital markets, such as bond and equity markets, provide an alternative source of external finance for larger companies. Net equity issuance was positive in 2014 Q1 and increased to £2.9 billion in the first two months of Q2 (**Chart 1.3**). Net bond issuance by UK businesses was also positive over April and May, offset by negative net commercial paper issuance.

Net finance raised by UK businesses from UK monetary financial institutions (MFIs) and capital markets was positive in the first two months of 2014 Q2, reflecting positive net capital market issuance and positive net bank lending (**Chart 1.3**). Consistent with this, the majority of respondents to the 2014 Q2 *Deloitte CFO Survey* continued to view bank lending, bond and equity issuance as 'attractive' sources of funding. For both bank borrowing and bond issuance, the balance of respondents to the survey who viewed each source of funding as 'attractive' increased over the past year, reaching around 80% in Q2.

Recent indicators of corporate distress were broadly stable in the year to 2014 Q1. The rate of corporate liquidations was unchanged in this period. The corporate write-off rate — the ratio of banks' write-offs on corporate lending to the stock of

(1) Net lending in the FLS Extension includes lending related to non-bank credit providers. For more details, see 'Funding for Lending Scheme Extension — Usage and lending data', available at www.bankofengland.co.uk/markets/Pages/FLS/extensiondata.aspx. Non seasonally adjusted. For more details on developments in credit conditions since the launch of the Funding for Lending Scheme, see the box on pages 14–15 in the May 2014 *Inflation Report*, available at www.bankofengland.co.uk/publications/Documents/inflationreport/2014/ir14may1.pdf.

Chart 1.4 Approvals of loans secured on dwellings^(a)

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

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

	Averages						2014			
	2010	2011	2012	2013	2013 Q3	2013 Q4	2014 Q1	Mar.	Apr.	May
Net monthly flow (£ billions)	0.6	0.8	0.9	0.9	1.0	1.2	1.5	1.7	1.7	2.0
Three-month annualised growth rate (per cent)	0.7	0.8	0.8	0.8	0.9	1.1	1.4	1.5	1.6	1.7
Twelve-month growth rate (per cent)	0.9	0.7	0.9	0.7	0.7	0.8	1.0	1.1	1.2	1.3

(a) Sterling lending by UK MFIs and other lenders to UK individuals. Seasonally adjusted.

Table 1.D Consumer credit^(a)

	Averages						2014			
	2010	2011	2012	2013	2013 Q3	2013 Q4	2014 Q1	Mar.	Apr.	May
Net monthly flow (£ billions)	-0.2	-0.1	0.2	0.6	0.9	0.6	0.8	1.1	0.7	0.7
of which:										
Credit cards	0.2	0.1	0.1	0.2	0.2	0.2	0.2	0.0	0.4	0.2
Other unsecured	-0.4	-0.2	0.1	0.4	0.7	0.3	0.6	1.1	0.2	0.6
Three-month annualised growth rate (per cent)	-1.4	-0.5	0.4	4.7	5.6	5.2	5.1	5.9	5.9	6.3
Twelve-month growth rate (per cent)	-1.8	-0.8	-0.3	3.4	4.0	4.7	5.0	5.3	5.4	5.4

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

that lending — was little changed, though remained elevated compared to the pre-crisis period. Contacts of the Bank's network of Agents reported that insolvencies had remained at low levels.

Secured lending to individuals

Mortgage approvals by all UK-resident mortgage lenders for house purchase fell in the three months to May (**Chart 1.4**). Part of the recent slowdown in approvals might reflect delays associated with operational requirements arising from the introduction of the Mortgage Market Review (MMR) as banks introduced new processes and trained staff. Contacts of the Bank's network of Agents noted that activity in the housing market had eased over the same period. This was thought to be due to a continued shortage of properties for sale and the implementation of the MMR, which had slowed the processing of mortgage applications.

Gross secured lending in the three months to May was broadly similar to the previous period. The average monthly net lending flow by UK-resident mortgage lenders was £1.8 billion (**Table 1.C**), slightly higher than the previous three months. The annual rate of growth in the stock of secured lending to individuals rose slightly to 1.3% in May.

Recent indicators of mortgage distress were little changed or eased slightly. Data from the Council of Mortgage Lenders indicated that the mortgage arrears rate fell slightly in 2014 Q1. The write-off rate on mortgages — the ratio of write-offs on secured loans to the stock of lending — was little changed in the year to Q1. Claims for possessions issued in the courts fell a little. There was little change in the possessions rate — the ratio of the number of properties taken into possession to the number of outstanding mortgages — in this period.

Consumer credit

Total net consumer credit flows (excluding student loans) were £2.4 billion in the three months to May (**Table 1.D**), slightly higher than the previous period. Within this, total flows of other unsecured lending were higher than those for credit cards. The annual growth rate in the stock of consumer credit remained at 5.4% in May. For credit cards and other unsecured lending, the annual growth rates in the stock of lending were 4.7% and 5.8% respectively.

The write-off rate on consumer credit — the ratio of write-offs on unsecured loans to the stock of unsecured lending — fell slightly in 2014 Q1. The rate of personal insolvencies in England and Wales was little changed.

Trends in lending and capital market issuance, by major industrial sector

This box provides a description of lending, by major industrial sector, both for all non-financial businesses and those that are small and medium-sized enterprises (SMEs) using Bank of England statistics and data from other sources. It also provides an update on how net bond and equity issuance by major industrial sector has evolved since 2012.⁽¹⁾

Table 1 presents the shares of the major industrial sectors in the stock of loans, employment and turnover for all non-financial businesses and SMEs. The real estate sector accounted for around one third of the total stock of loans to UK non-financial businesses as at March 2014, the largest share of the major industrial sectors, though its share in employment and turnover was small at the start of 2013. It also had the largest share in the stock of loans to SMEs, 27%, based on data from a British Bankers' Association (BBA) panel of lenders as at March 2014.

Lending, by major industrial sector

The weakness in the annual rate of growth in the stock of lending to businesses by UK-resident banks and building societies over the past year (**Tables 1.A, 1.B** and **Chart 1.1**) was partly accounted for by the contribution of the real estate sector. Excluding the real estate sector, net lending to non-financial businesses was slightly positive over the first five months of 2014.

The annual rate of growth in the stock of lending to non-financial businesses in the real estate sector has been negative for over four years, with the rate of decline increasing since end-2011 (**Chart A**). The contraction in the stock of lending to this sector sharpened in the second half of 2013, partly as borrower repayments increased (**Chart B**).⁽²⁾ In addition, some banks have actively reduced their exposures to commercial real estate companies including through loan sales.

The stock of lending to the construction sector, the second largest in the share of loans to non-financial businesses, has

Table 1 The share of loans, employment and turnover, by size of business and major industrial sector^(a)

Shares, per cent

	All non-financial businesses			Small and medium-sized enterprises		
	Loans ^(b)	Employment ^(c)	Turnover ^(c)	Loans ^(d)	Employment ^(c)	Turnover ^(c)
	March 2014	Start of 2013	Start of 2013	March 2014	Start of 2013	Start of 2013
Accommodation and food services	6	8	2	8	8	3
Agriculture, forestry and fishing	3	2	1	15	3	2
Construction	12	8	7	7	12	10
Distribution	10	21	34	10	15	35
Manufacturing	7	11	17	4	11	11
Mining and quarrying, and utilities	4	2	7	1	1	1
Professional and other services	9	20	13	9	20	17
Public services	12	15	6	16	18	5
Real estate	32	2	1	27	2	2
Transport, storage and communication	6	11	11	3	10	9
Sample total				£100 billion		
Population total	£444 billion	24 million	£3,280 billion	£170 billion	14 million	£1,578 billion
Coverage	UK non-financial businesses	UK private sector		Businesses with turnover up to £25 million	Businesses with 0–249 employees	
Sample				BBA panel of lenders		
Population	UK monetary financial institutions	BIS Business Population Estimates for the UK and Regions		UK monetary financial institutions	BIS Business Population Estimates for the UK and Regions	
Shares calculated using:	Population	Population	Population	Sample	Population	Population

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

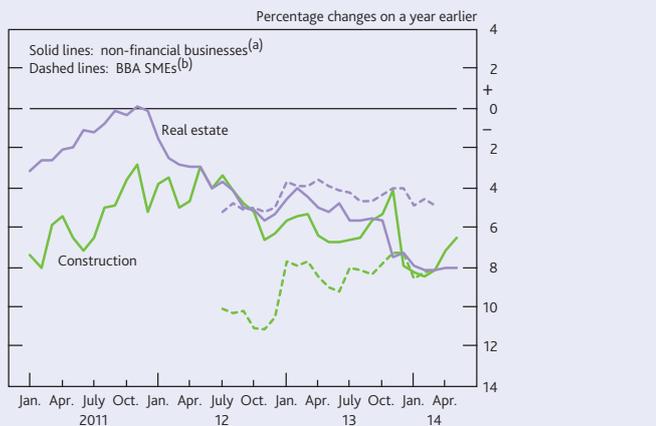
(a) Data are calculated as the share of each major industrial sector in the total. Shares may not sum to the total due to rounding or due to some industrial categories deemed to be disclosive. Non seasonally adjusted. Further details on the series used in the table are provided in the spreadsheet accompanying this box, available at www.bankofengland.co.uk/publications/Documents/other/monetary/additionalboxesjuly2014.xls.

(b) Lending by UK monetary financial institutions (MFIs) to UK non-financial businesses. Data cover lending in both sterling and foreign currency, expressed in sterling and include overdrafts.

(c) For more details see 'Business Population Estimates for the UK and Regions', BIS, 2013.

(d) Lending to small and medium-sized enterprises in Great Britain by a BBA panel of lenders. For more details see 'Bank support for SMEs — 1st Quarter 2014', BBA. Data cover lending in both sterling and foreign currency, expressed in sterling and include overdrafts.

Chart A Growth in the stock of lending to the real estate and construction sectors



Sources: BBA, Bank of England and Bank calculations.

(a) Loans by UK MFIs to UK non-financial businesses in the relevant sector. Data cover lending in both sterling and foreign currency, expressed in sterling and include overdrafts. From January 2011, data are on the SIC 2007 basis. Changes in the SIC codes have led to some components moving between industries. As a result, growth rates in 2011 may be affected. For more details on the series used in this chart, see the spreadsheet listed in footnote (a) in Table 1. Non seasonally adjusted.
 (b) For more details see footnote (d) in Table 1.

Chart B Gross lending to and repayments by major industrial sectors, 2013 H1–May 2014(a)



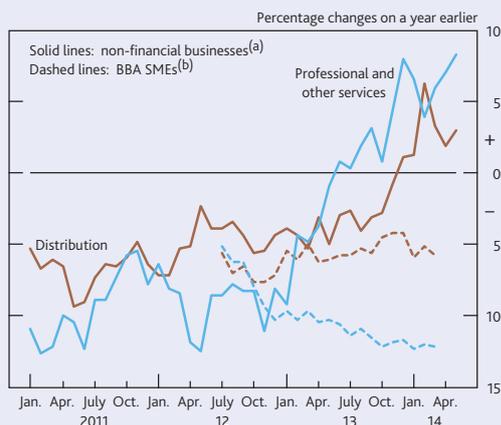
(a) Loans by UK MFIs to UK non-financial businesses and repayments by them. Data exclude overdrafts. Data cover lending in both sterling and foreign currency, expressed in sterling. Non seasonally adjusted. Further details on the series used in the chart are provided in the spreadsheet accompanying this box, available at www.bankofengland.co.uk/publications/Documents/other/monetary/additionalboxesjuly2014.xls.

also contracted in recent years (Chart A). Net lending (excluding overdrafts) to businesses in this sector — defined as gross lending minus repayments — was slightly positive over the first five months of 2014 (Chart B).

The annual rate of growth in the stock of lending to the professional and other services sector has been positive since mid-2013 (Chart C). The distribution sector had the largest share in employment and turnover for all non-financial businesses. The contraction in the stock of lending to the distribution sector eased in 2013 H2 and the stock expanded in the first five months of 2014. The rate of decline in the stock of lending to the manufacturing sector also eased (Chart D).

Over a longer period, the contribution of the utilities sector to the growth rate in the stock of lending to all non-financial businesses has been positive since mid-2012 and has increased recently. The agriculture, forestry and fishing sector has a relatively small share in the stock of lending to all non-financial businesses and its stock has expanded in recent years (Chart D).

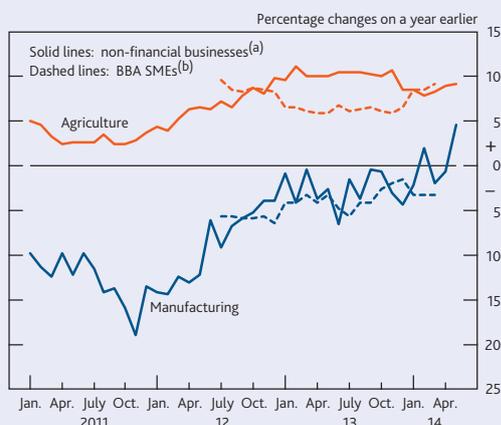
Chart C Growth in the stock of lending to the distribution and professional and other services sectors



Sources: BBA, Bank of England and Bank calculations.

(a) See footnote (a) to Chart A.
 (b) For more details see footnote (d) in Table 1.

Chart D Growth in the stock of lending to the manufacturing and agriculture sectors



Sources: BBA, Bank of England and Bank calculations.

(a) See footnote (a) to Chart A.
 (b) For more details see footnote (d) in Table 1.

Lending to SMEs, by major industrial sector

SMEs account for a significant part of the UK economy, in terms of their share in the stock of loans, employment and turnover (Table 1). There is no single definition of what constitutes a small, medium or large enterprise, but one common approach is to categorise businesses according to the number of employees. Using this metric, data from the Department for Business, Innovation and Skills (BIS) indicated that SMEs accounted for almost all private sector businesses in the United Kingdom, around 60% of employment and around

50% of turnover at the start of 2013. Reflecting the data readily available to reporters, SMEs are defined in Bank of England lending data as those businesses with annual debit account turnover on the main business account less than £25 million and on this definition, their stock of lending was around 40% of all non-financial businesses in March 2014.

Data on lending to SMEs within each major industrial sector are obtained from a BBA panel of lenders. Differences in coverage between lending to all non-financial businesses using Bank of England data and the BBA SME lending data mean that comparisons between the series should be viewed as indicative.

The annual growth rate in the stock of lending to SMEs has been negative since mid-2012, according to data from a BBA panel of lenders (**Chart 1.1**).⁽³⁾ Similar to the pattern in the stock of lending to all businesses in the real estate sector, the annual growth rate in the stock of lending to SMEs in this sector has remained negative since the series began in mid-2012 (**Chart A**). The stock of lending to SMEs in the construction sector has also contracted in recent years.

The distribution and professional and other services sectors had significant shares in employment and turnover for SMEs at the start of 2013 (**Table 1**). Together these sectors accounted for around 20% of the stock of lending to SMEs, which has contracted since these series began in mid-2012 (**Chart C**).

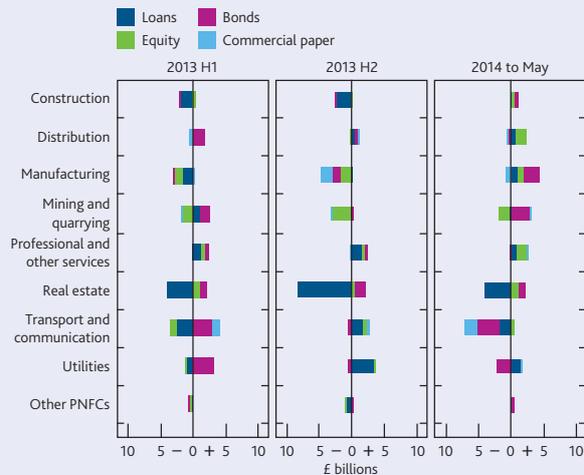
Like the real estate sector, the agriculture, forestry and fishing sector has a very small share in employment and turnover for both SMEs and all non-financial businesses but a larger share in the stock of lending to SMEs than many other industrial sectors (**Table 1**). But unlike in the real estate sector, the annual growth rate in the stock of lending to SMEs in this sector by a BBA panel of lenders has been positive in recent years (**Chart D**).

Capital market issuance by major industrial sector

Some larger companies are able to raise funds from capital markets — such as the equity and bond markets — as well as borrowing from banks. Positive net bond issuance was recorded in many major industrial sectors in 2013, notably in the real estate, transport, storage and communication, mining and quarrying, and utilities sectors (**Chart E**). The mining and quarrying sector also had net positive bond issuance in 2014 to May along with the manufacturing sector.

More generally, businesses in the mining and quarrying sector have reported positive net bond issuance since 2012 H1. Companies in this and the utilities sector have typically accessed capital markets rather than bank lending for capital expenditure requirements, as noted in January 2012 *Trends in Lending*. In recent years, the shares of these sectors in the

Chart E Net finance raised by UK businesses by major industrial sectors, 2013 H1–May 2014^{(a)(b)}



- (a) Finance raised by PNFCs from UK MFIs and capital markets. Data cover funds raised in both sterling and foreign currency, expressed in sterling. Data for 2014 are up to and including May. Non seasonally adjusted. Further details on the series used in the chart are provided in the spreadsheet accompanying this box, available at www.bankofengland.co.uk/publications/Documents/other/monetary/additionalboxesjuly2014.xls.
- (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 for 2013 will not exactly equal the data for PNFCs in **Table 1.A** and **Chart 1.3**.

stock of lending to UK non-financial businesses has been relatively small (**Table 1**).

There was significant negative net equity issuance in the manufacturing and mining and quarrying sectors in 2013 (**Chart E**). Businesses in the manufacturing sector reported positive net equity issuance in the first five months of 2014. Net equity issuance was also positive in the distribution and professional and other services sectors over this period.

Overall, positive net capital market issuance was mostly offset by negative bank lending, such that net finance raised by UK businesses from UK monetary financial institutions (MFIs) and capital markets was slightly negative in 2013 (**Chart 1.3**). Within this, net bond issuance was positive and net equity issuance remained negative.

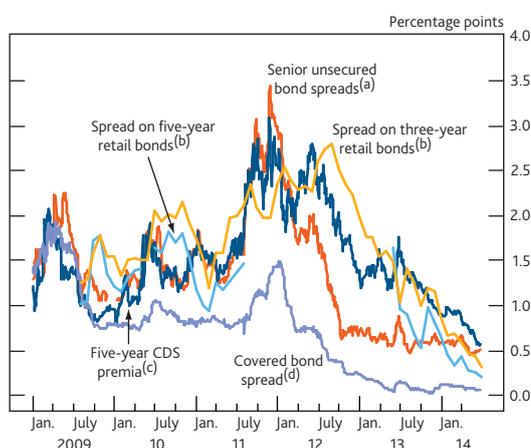
Net equity issuance was positive in 2014 to May, with net bond issuance close to zero (**Chart 1.3**). With net negative bank lending in this period, net finance raised by UK businesses from UK MFIs and capital markets was slightly negative in the first five months of 2014.

- (1) For information on capital market issuance by major industrial sectors in earlier periods, see the boxes in December 2009, August 2010, January 2012, January 2013 and January 2014 *Trends in Lending*, available at www.bankofengland.co.uk/publications/Documents/other/monetary/trendsboxes.pdf.
- (2) Repayments by the real estate sector in 2011 H2–2012 H2 averaged just under £20 billion per half year and were greater than the gross lending to it. For more details see **Chart 1.2**, April 2013 *Trends in Lending*, available at www.bankofengland.co.uk/publications/Documents/other/monetary/trendsapril13.pdf.
- (3) For the annual growth rate in the stock of lending to SMEs based on other sources, see **Chart C** in the box on 'Trends in lending — five years on', April 2014 *Trends in Lending*, available at www.bankofengland.co.uk/publications/Documents/other/monetary/trendsapril14.pdf, and **Chart 1.1** in this document.

2 Loan pricing

Spreads over reference rates on new lending were unchanged for small businesses, and fell significantly for medium-sized and large businesses in 2014 Q2, according to respondents to the Bank of England's *Credit Conditions Survey*. Quoted interest rates on two-year fixed-rate mortgages rose in Q2, with spreads broadly unchanged. Quoted rates on new personal loans were little changed compared to the previous quarter.

Chart 2.1 Indicative long-term funding spreads



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

- (a) Constant-maturity unweighted average of secondary market spreads to mid-swaps for the major UK lenders' five-year euro senior unsecured bonds, where available. Where a five-year bond is unavailable, a proxy has been constructed based on the nearest maturity of bond available for a given institution. The gap in the time series between 1 December 2009 and 11 January 2010 is because no suitable bonds were in issuance in that period. Data are to 30 June 2014.
- (b) Spreads for sterling fixed-rate retail bonds over equivalent-maturity swaps. Bond rates are end-month rates and swap rates are monthly averages of daily rates. The bond rates are weighted averages of rates advertised by the banks and building societies in the Bank of England's quoted rates sample, for products meeting the selection criteria (see www.bankofengland.co.uk/statistics/Pages/iadb/notesiadb/household_int.aspx). The series for the five-year bond is not included for May 2010 and August 2011 to April 2013 as fewer than three institutions in the sample offered products in these periods. Data are to end-June 2014.
- (c) The data show an unweighted average of the five-year senior CDS premia for the major UK lenders, which provides an indicator of the spread on euro-denominated long-term wholesale bonds. Data are to 30 June 2014.
- (d) Constant-maturity unweighted average of secondary market spreads to mid-swaps for the major UK lenders' five-year euro-denominated covered bonds, where available. Where a five-year covered bond is unavailable, a proxy has been constructed based on the nearest maturity of bond available for a given institution. Data are to 30 June 2014.

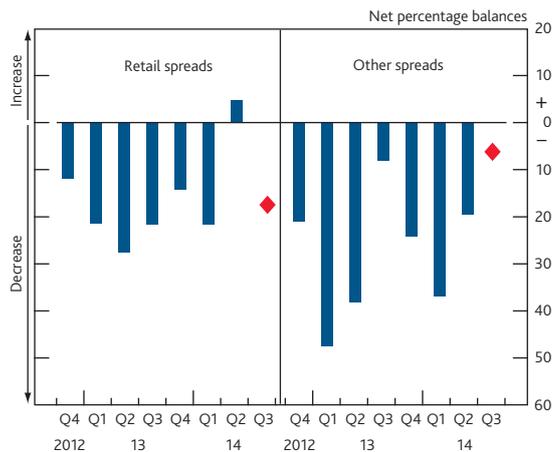
This section discusses recent developments in loan pricing for businesses and individuals, based on statistical data, survey evidence and discussions with the major UK lenders.

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

An indicative measure of the spread over relevant swap rates on longer-term bank wholesale debt, senior unsecured bond spreads, fell slightly over 2014 Q2 and was on average lower than the previous quarter (**Chart 2.1**). Similarly, the average of the major UK lenders' five-year credit default swap (CDS) premia — a proxy for the credit risk component of bank funding costs — fell. Respondents to the Bank of England's 2014 Q2 *Bank Liabilities Survey* reported a fall in spreads on 'other' funding (which includes short and long-term wholesale debt funding) (**Chart 2.2**).

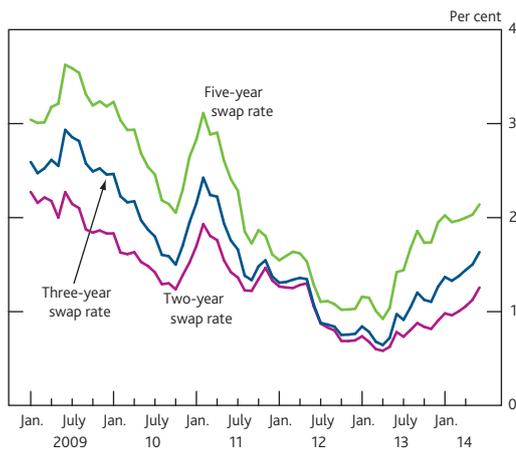
The swap rate, the fixed rate of interest in a swap contract in which floating-rate interest payments are exchanged for fixed-rate interest payments, is a key factor in the setting of retail and fixed mortgage rates. Two, three and five-year swap rates continued to rise in the first half of 2014 (**Chart 2.3**). The two and three-year swap rates were both over 15 basis points higher on average in 2014 Q2 compared to the previous quarter.

Rates on some longer-term retail deposits — such as three and five-year fixed-rate bonds — were broadly unchanged in 2014 Q2 compared to the previous quarter, although spreads over equivalent-maturity swap rates were lower (**Chart 2.1**). Respondents to the *Bank Liabilities Survey*, which was conducted between 8 and 30 May, reported that overall retail funding spreads were unchanged in 2014 Q2 (**Chart 2.2**).

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 bars show the responses over the previous three months. The diamonds show the expectations over the next three months. Expectations balances have been moved forward one quarter. Where the *Bank Liabilities Survey* and *Credit Conditions Survey* are discussed, descriptions of a 'significant' change refer to a net percentage balance greater than 20 in absolute terms, and a 'slight' change refers to a net percentage balance 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) Sterling swap rates. Swap rates are monthly averages of daily data. Data are to end-June 2014.

Rates on some individual savings accounts (ISAs) fell between March and June according to Bank of England data.⁽¹⁾ Looking forward, some major UK lenders did not expect pricing to change materially following the launch of the New ISA on 1 July.⁽²⁾

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: statistical and survey data can provide broad estimates, but these may not entirely reflect the true cost of credit facing SMEs.⁽³⁾

Pricing on lending to SMEs has fallen over the past year, according to some measures. Indicative median interest rates (**Chart 2.4**) and spreads on new variable-rate facilities to all SMEs have fallen by around 25 basis points since May 2013, according to survey data from the Department for Business, Innovation and Skills (BIS). The Federation of Small Businesses' *Voice of Small Business Index* 2014 Q2 reported that the rates being offered to successful applicants have fallen back compared to a year ago. The Bank's measure of effective rates on new corporate lending for advances of £1 million or less — an indicator of pricing on loans to smaller businesses — was little changed in the year to May 2014 (**Chart 2.4**).

Spreads over reference rates on new lending to small businesses remained unchanged in 2014 Q2 according to lenders in the *Credit Conditions Survey*. Respondents reported that they had fallen significantly for medium-sized firms (**Chart 2.5**).

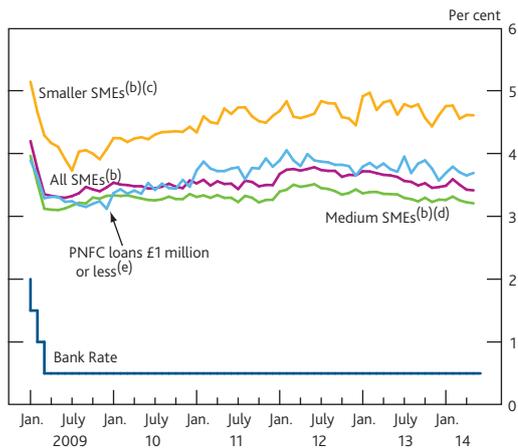
Pricing on lending to large companies remained favourable, according to survey evidence. The cost of credit was reported to be 'fairly cheap' or 'very cheap' by 84% of the respondents to the *Deloitte CFO Survey* — which covers large companies — in 2014 Q2. Respondents to the 2014 Q2 *Credit Conditions Survey* reported that spreads on new lending for large businesses fell significantly (**Chart 2.5**), and that non-price terms (the average of balances for maximum credit lines, fees and commissions, and loan covenants) had loosened significantly.

Spreads on syndicated lending, typically applying to lending to large businesses, fell for investment-grade facilities in 2014 Q2 compared to the previous quarter, according to Dealogic data. Spreads for non-investment grade facilities were little changed. In recent discussions, some major

(1) For more details, see 'Quoted rates — June 2014', available at www.bankofengland.co.uk/statistics/Pages/qr/2014/jun.aspx.

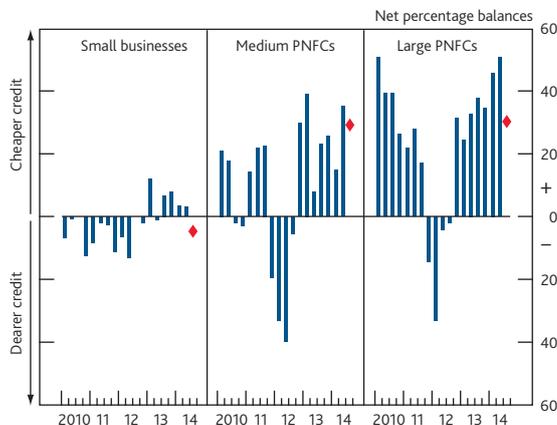
(2) For more information on the New ISA, see www.gov.uk/government/uploads/system/uploads/attachment_data/file/293746/Fact_sheet_ISA_8.pdf.

(3) For more details see the box on 'Recent trends in lending to small and medium-sized enterprises' in July 2013 *Trends in Lending*, available at www.bankofengland.co.uk/publications/Documents/other/monetary/trendsjuly13.pdf.

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

Sources: BIS, Bank of England and Bank calculations.

- (a) These indicative rates do not reflect the impact of cashback deals or fees. Data for Bank Rate are to end-June, and for all other series to end-May. Non seasonally adjusted.
- (b) Median by value of SME facilities (new loans, new and renewed overdrafts) priced at margins over base rates, by four major UK lenders (Barclays, HSBC, Lloyds Banking Group and Royal Bank of Scotland). Data cover lending in both sterling and foreign currency, expressed in sterling.
- (c) Smaller SMEs are businesses with annual debit account turnover on the main business account less than £1 million.
- (d) Medium SMEs are businesses with annual debit account turnover on the main business account between £1 million and £25 million.
- (e) Weighted average of new lending to PNFCs of all sizes by UK 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.

UK lenders noted downward pressure on pricing for certain syndicated loans.

Looking forward, respondents to the *Credit Conditions Survey* expected spreads on new business lending in 2014 Q3 to fall significantly for both medium-sized and large companies and to be unchanged for small businesses (**Chart 2.5**).

Mortgage pricing

The Bank's measure of the effective rate on new mortgages overall was little changed in the three months to May. Within this, both the effective fixed-rate and the effective floating-rate were broadly unchanged.

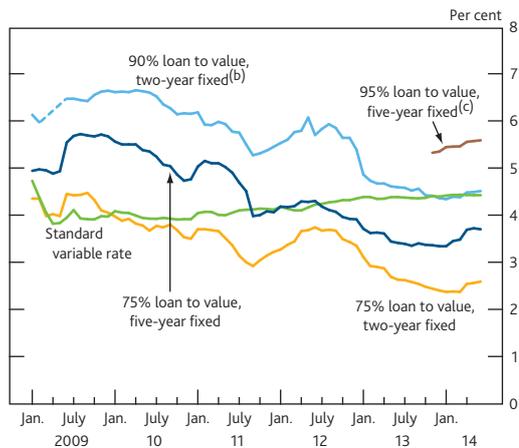
The average quoted interest rate on two-year fixed-rate mortgages at 75% and 90% loan to value (LTV) ratios rose by 19 and 12 basis points respectively in 2014 Q2 compared to the previous quarter (**Chart 2.6**). With two-year swap rates having increased by a similar amount over this period (**Chart 2.3**), spreads were little changed in Q2.

The news on spreads for three and five-year fixed-rate products at 75% LTV ratio was mixed. While the spread on the five-year product increased in Q2, the spread on the three-year product fell.

Quoted interest rates on some floating-rate products, such as the standard variable and lifetime tracker rates, were little changed in 2014 Q2 (**Chart 2.6**). With Bank Rate unchanged, spreads on these mortgages were also unchanged.

In recent discussions, some major UK lenders expected an increase in mortgage pricing during the remainder of the year, partly reflecting increasing swap rates.

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



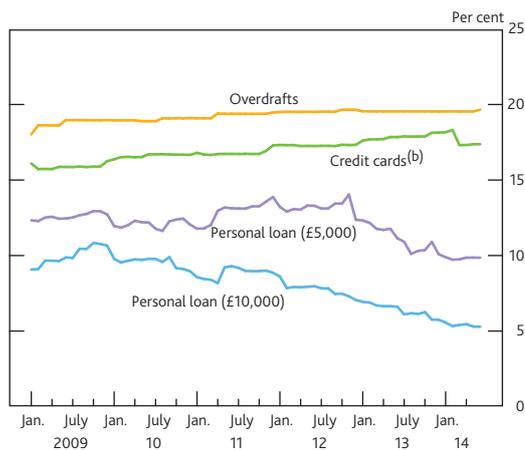
- (a) Sterling. The Bank's quoted interest rates series are currently compiled using data from up to 23 UK MFIs. End-month rates. Non seasonally adjusted.
 (b) This series was not available between March and May 2009 as fewer than three products were offered in that period.
 (c) This series was not available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

Consumer credit pricing

Quoted rates on new personal loans were little changed in 2014 Q2 compared to the previous quarter, but remained much lower than a year ago (**Chart 2.7**). Respondents to the 2014 Q2 *Credit Conditions Survey* expected a significant fall in spreads on other unsecured lending in 2014 Q3.

The quoted rate on credit cards was broadly unchanged in 2014 Q2 (**Chart 2.7**). Over the past few years, lenders in the *Credit Conditions Survey* reported limited changes in credit card spreads. In recent discussions, most major UK lenders noted that for credit cards the main area of competition was on non-price terms, in particular the length of the 0% balance transfer offer.

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

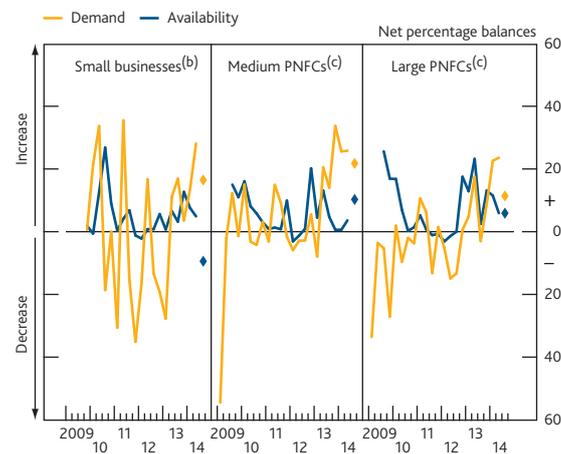


- (a) Sterling. The Bank's quoted interest rates series are currently compiled using data from up to 23 UK MFIs. End-month rates. Non seasonally adjusted.
 (b) This series does not include 0% balance transfer deals on credit cards.

3 Credit supply and demand

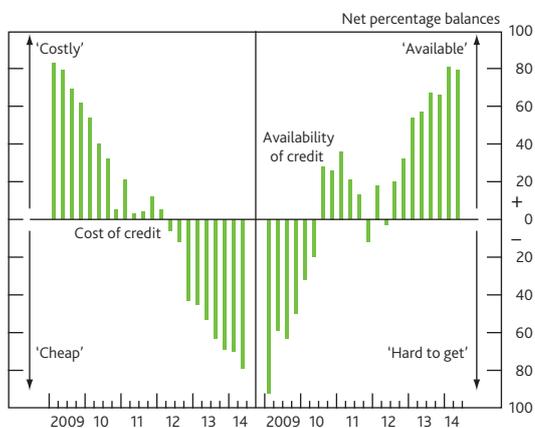
Contacts of the Bank's network of Agents noted that credit conditions had improved for firms of most sizes over the past quarter, though conditions remained tight for the smallest businesses. Respondents to the *Credit Conditions Survey* reported that demand for credit across all business sizes had increased significantly in 2014 Q2. Lenders in the survey reported that the availability of secured credit to households increased slightly and demand for secured lending for house purchase and remortgaging increased significantly in Q2.

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



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

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



- (a) Net percentage balances for the cost of credit are calculated as the percentage of respondents reporting that bank credit is 'costly' less the percentage reporting that it is 'cheap'. Net percentage balances for the availability of credit are calculated as the percentage of respondents reporting that credit is 'available' less the percentage of respondents reporting that it is 'hard to get'. A positive balance indicates that a net balance of respondents report that credit is 'costly' or credit is 'available'.

The 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

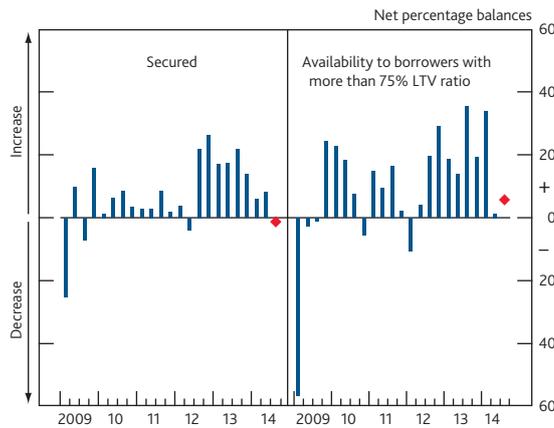
The overall availability of credit to the corporate sector was broadly unchanged in 2014 Q2, according to respondents to the *Credit Conditions Survey*. Lenders reported that credit availability had increased slightly for large corporates (Chart 3.1). The balance of respondents to the 2014 Q2 *Deloitte CFO Survey* — which covers large companies — who reported that credit was 'available' remained close to 80% (Chart 3.2). Contacts of the Bank's network of Agents noted that the availability of funds for corporate deals such as mergers and acquisitions had increased.

Credit availability was unchanged for small businesses and medium-sized companies in 2014 Q2 according to respondents to the *Credit Conditions Survey* (Chart 3.1). The Federation of Small Businesses' *Voice of Small Business Index* 2014 Q2 reported that the majority of small firms in the survey continued to find that the availability of credit was 'poor' or 'very poor', and around half believed that credit was unaffordable.

Contacts of the Bank's Agents noted that credit conditions had improved for firms of most sizes over the past quarter, though conditions remained tight for the smallest businesses. They commented that non-bank alternatives, such as peer to peer lending and crowdfunding, were an increasing source of finance for some firms.

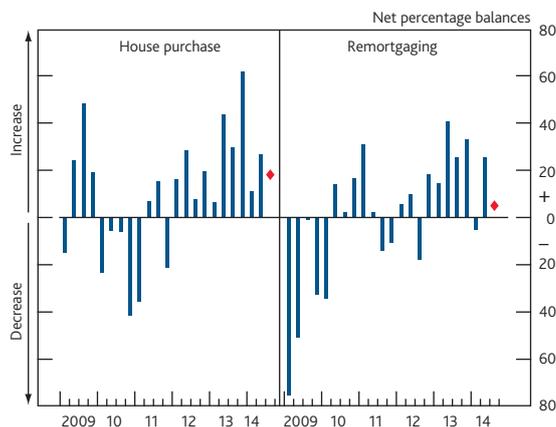
Lenders in the *Credit Conditions Survey* reported that demand for bank lending had increased significantly across all

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



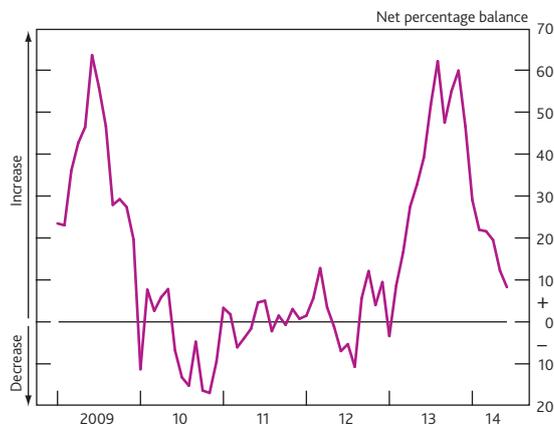
(a) See footnote (a) to Chart 2.2. A positive balance indicates that more credit is available.

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



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

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



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.

company sizes in 2014 Q2 (Chart 3.1). Respondents to the survey cited a number of factors which have positively affected overall credit demand, including a rise in mergers and acquisitions. Contacts of the Bank's Agents noted that although demand for credit had risen, many firms had continued to seek to reduce their debt levels and preferred to fund expenditure out of retained cash, despite a fall in the cost of bank finance. More generally, the proportion of SMEs not seeking finance has increased steadily over time and was 82% in the year to 2014 Q1, according to the *SME Finance Monitor*.

Looking forward, lenders in the *Credit Conditions Survey* expected an expansion in overall credit availability in 2014 Q3. Respondents to the survey expected further increases in the demand for credit across all firm sizes in the coming quarter.

Credit conditions for households

The availability of secured credit to households increased slightly in the three months to end-May, according to respondents to the *Credit Conditions Survey* (Chart 3.3). Lenders in the survey also reported that credit availability for borrowers with LTV ratios above 75% was unchanged, although there was an increase in the willingness to lend at LTV ratios above 90%. Looking ahead, the availability of secured credit was expected to be unchanged over the next three months.

Demand for secured lending for house purchase and remortgaging increased significantly over the past quarter, according to respondents to the *Credit Conditions Survey* (Chart 3.4). The Royal Institution of Chartered Surveyors' (RICS) new buyer enquiries balance continued to point to rising demand for house purchase in 2014 Q2, but suggested that the pace of increase has moderated since the start of the year (Chart 3.5). Lenders in the *Credit Conditions Survey* expected demand for secured credit for house purchase to increase in 2014 Q3 (Chart 3.4).

Respondents to the *Credit Conditions Survey* indicated that the amount of unsecured credit made available to households increased in 2014 Q2. Lenders expected the availability of unsecured credit to rise slightly further in 2014 Q3.

Demand for credit card lending fell slightly in 2014 Q2, according to respondents to the *Credit Conditions Survey*. Lenders reported that demand for other unsecured lending products, such as personal loans, was unchanged. Demand for credit card lending was expected to be unchanged over the next three months and demand for other unsecured lending was expected to increase slightly, according to lenders in the survey.

Abbreviations

BBA — British Bankers' Association.
BIS — Department for Business, Innovation and Skills.
CDS — credit default swap.
CFO — chief financial officer.
FLS — Funding for Lending Scheme.
ISA — individual savings account.
Libor — London interbank offered rate (see below).
LTV ratio — loan to value ratio (see below).
M4Lx — sterling M4 lending excluding the effects of securitisations etc.
MFIs — monetary financial institutions (see below).
MMR — Mortgage Market Review.
PNFCs — private non-financial corporations (see below).
RICS — Royal Institution of Chartered Surveyors.
SIC — Standard Industrial Classification.
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.
Peer to peer lending, crowdfunding	Online platforms that allow individuals or companies to make available surplus capital.
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.
Specialist/other mortgage lenders	Providers of mortgage loans for niche markets that generally fall outside the scope of mainstream mortgage lending.
Swap rate	The fixed rate of interest in a swap contract in which floating-rate interest payments are exchanged for fixed-rate interest payments. Swap rates are a key factor in the setting of fixed mortgage rates.
Syndicated loan	A loan granted by a group of banks to a single borrower.

Symbols and conventions

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

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