Credit Conditions Review

2015 Q3

BANK OF ENGLAND

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This quarterly publication presents the Bank of England's assessment of the latest developments in bank funding and household and corporate credit conditions. It draws mainly on long-established official data sources, such as the existing monetary and other financial statistics collected by the Bank, and other data sources such as surveys of businesses and data from other organisations. The analysis also draws on the results of the Bank of England's *Bank Liabilities Survey* and *Credit Conditions Survey*.[1]

These data are supplemented by discussions between Bank staff and the major UK lenders; this intelligence is reflected in the report. The major UK lenders[2] are Banco Santander, Barclays, HSBC, Lloyds Banking Group, Nationwide and Royal Bank of Scotland; together they accounted for around 75% of the stock of mortgage lending, 50% of the stock of consumer credit (excluding student loans), and 70% of the stock of lending to businesses at end-June 2015. The *Review* also draws on intelligence gathered by the Bank's network of Agents and from market contacts.

The *Review* covers data and intelligence gathered up to end-September 2015. Unless stated otherwise, the data reported cover lending in both sterling and foreign currency, expressed in sterling.

The *Credit Conditions Review* replaced the Bank of England's *Trends in Lending* publication in 2015 Q2.[3] For more details, see the box on page 1 in *Trends in Lending* April 2015, available at www.bankofengland.co.uk/publications/Documents/other/monetary/trendsapril15.pdf.

The publication date for the 2015 Q4 *Credit Conditions Review* is 15 January 2016.

(1) The *Bank Liabilities Survey* and the *Credit Conditions Survey* for 2015 Q3 were conducted between 24 August and 11 September 2015. These surveys can be found at www.bankofengland.co.uk/publications/Pages/other/monetary/bls/default.aspx and www.bankofengland.co.uk/publications/Pages/other/monetary/creditconditions.aspx.
(2) 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.
(3) Previous editions of *Trends in Lending* are available on the Bank's website at www.bankofengland.co.uk/publications/Pages/other/monetary/trendsinlending.aspx.

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Executive summary

Longer-term wholesale funding costs for UK banks increased, on average, in 2015 Q3 but remained significantly below levels seen a few years ago. Over the quarter, wholesale funding spreads rose. Swap rates initially rose but subsequently ticked down in August and September. Retail funding spreads also increased slightly in Q3. Higher wholesale funding spreads had driven a significant increase in transfer prices in Q3, according to respondents to the *Bank Liabilities Survey*. Transfer prices were expected to fall back a little in Q4. Wholesale term funding issuance by UK lenders was similar in 2015 Q3 to the previous quarter, while retail deposit growth picked up a little.

Secured lending increased in the three months to August, with the net flow rising to its highest level since 2008. This was consistent with both the increase in demand for secured lending reported in the 2015 Q3 *Credit Conditions Survey*, particularly from the buy-to-let sector, and the reported increase in secured credit availability. Consumer credit continued to grow robustly. Secured lending and consumer credit are likely to have been supported by the low cost of credit, with most quoted and effective rates continuing to fall in 2015 Q3, against a backdrop of high levels of competition between lenders.

Net lending to UK businesses fell back, on average, in the three months to August. But total net finance raised, which also includes funds raised in capital markets, remained positive. Most evidence suggests that the availability of credit to SMEs continued to increase over recent months, and that the supply of credit to large companies remained plentiful. Demand for lending was reported to have increased across all business sizes in Q3 according to respondents to the *Credit Conditions Survey*, though survey evidence suggests that the overall level of demand remained subdued.

1 Bank funding

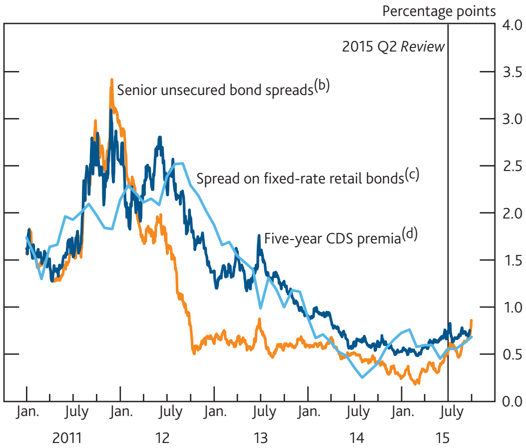
Longer-term wholesale funding costs for UK banks increased, on average, in 2015 Q3 but remained significantly below levels seen a few years ago. Over the quarter, wholesale funding spreads rose. Swap rates initially rose but subsequently ticked down in August and September. Retail funding spreads also increased slightly in Q3. Higher wholesale funding spreads had driven a significant increase in transfer prices in Q3, according to respondents to the *Bank Liabilities Survey*. Transfer prices were expected to fall back a little in Q4. Wholesale term funding issuance by UK lenders was similar in 2015 Q3 to the previous quarter, while retail deposit growth picked up a little.

Chart 1.1 Swap rates at different maturities(a)

Sources: Bloomberg and Bank calculations.

(a) Data are to end-September 2015 and are monthly averages of daily data. Sterling Libor swap rates.

Chart 1.2 Indicative long-term funding spreads(a)



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

(a) Data are to end-September 2015.
(b) Constant-maturity unweighted average of secondary market spreads to mid-swaps for the major UK lenders' five-year euro senior unsecured bonds or a suitable proxy when unavailable.
(c) Unweighted average of spreads for two-year and three-year sterling fixed-rate retail bonds over equivalent-maturity swaps. Bond rates are end-month rates and swap rates are monthly averages of daily rates.
(d) Unweighted average of the five-year euro senior CDS premia for the major UK lenders.

Funding costs and transfer prices

The cost of bank funding influences the interest rates charged to households and corporates. It can generally be decomposed into the spread over a given reference rate (such as a swap rate), and the prevailing level of that reference rate in financial markets.

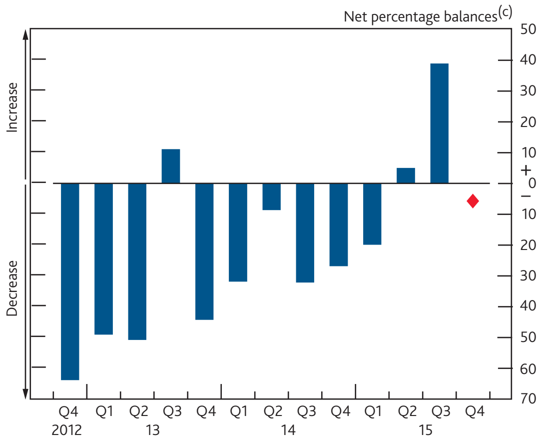
In 2015 Q3, swap rates initially rose but subsequently ticked down in August and September (**Chart 1.1**), likely reflecting changes in financial market participants' expectations for the path of Bank Rate. Despite that, swap rates were on average a little higher in Q3 than in Q2.

Indicative measures of banks' wholesale funding spreads, such as those on senior unsecured bonds trading in the secondary market, increased in Q3 having also increased a little in Q2 (**Chart 1.2**). And most major UK lenders noted that new issue premia remained at somewhat elevated levels in Q3 relative to the early part of the year.

In recent discussions, most lenders attributed part of the increases in wholesale funding spreads and new issue premia over the past six months to developments in Greece and China and associated volatility in financial markets. In addition, most lenders noted a shift in the balance of the demand for, and the supply of, long-term bank debt which was pushing up wholesale funding costs. Consistent with an increase in supply, respondents to the *Bank Liabilities Survey* (*BLS*) reported that the proportion of wholesale funding accounted for by long-term instruments increased significantly in Q3, having increased a little in Q2. Some major UK lenders also emphasised that the increase in spreads was from very low levels seen in 2015 Q1.

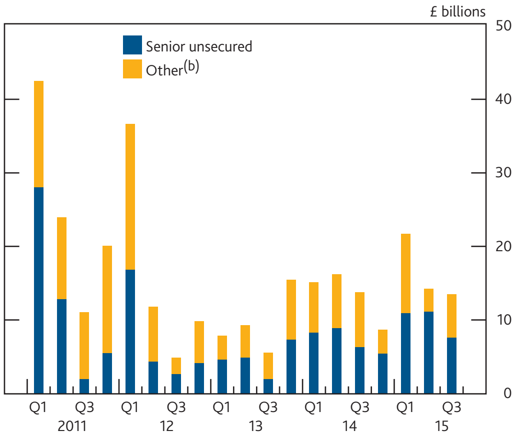
The combination of changes in wholesale funding spreads and swap rates meant that longer-term wholesale funding costs for UK banks increased overall, on average, in Q3. But they remained significantly below levels seen a few years ago.

Chart 1.3 *Bank Liabilities Survey*: changes in banks' transfer prices[(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 diamond shows the expectation over the next three months. The expectation balance has been moved forward one quarter. Where the *BLS* is discussed, descriptions of a 'significant' change refers 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 marginal absolute cost of providing funds to business units changed (sometimes referred to as the 'transfer price')?'.
(c) A positive balance indicates an increase in transfer prices.

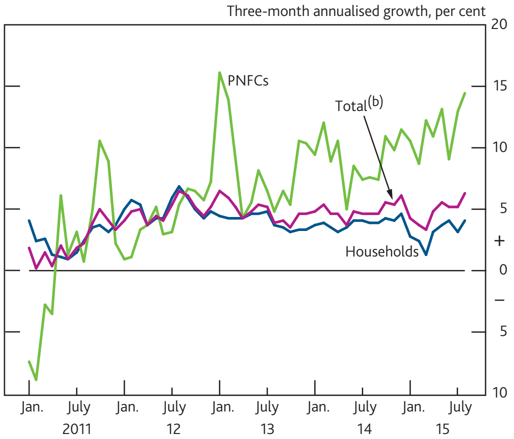
Chart 1.4 Gross wholesale term issuance by UK lenders in public markets[(a)]



Sources: Dealogic and Bank calculations.

(a) Term issuance is defined here as issuance exceeding 18 months' maturity. UK lenders are defined by the nationality of the operations of the issuer's parent company. Data include issuance in all currencies, expressed in sterling. Non seasonally adjusted.
(b) Other is composed of: asset-backed securities; commercial and residential mortgage-backed securities; covered bonds; subordinated unsecured debt and secured or subordinated medium-term notes.

Chart 1.5 Household and PNFC deposits[(a)]



(a) Rate of growth in monetary financial institutions' (MFIs') M4 liabilities. Seasonally adjusted.
(b) Total is the rate of growth of PNFCs and households.

Spreads on fixed-rate retail bonds also increased a little in Q3 (**Chart 1.2**). In recent discussions, most major UK lenders noted a slight increase in competition for retail deposits. Retail deposit spreads were expected to be little changed in Q4, according to *BLS* respondents.

Banks' transfer prices — the internal prices charged to banks' business units to fund the flow of new loans — increased significantly in Q3, according to lenders in the *BLS* (**Chart 1.3**), driven by higher wholesale funding spreads. This is the first significant increase in transfer prices since the survey began in 2012 Q4, transfer prices having mostly fallen over this period. Transfer prices were expected to fall back a little in Q4.

Funding volumes

Total funding volumes increased slightly in 2015 Q3, according to respondents to the *BLS*. Within the total, lenders reported that retail deposit funding had increased, while 'other' funding, which includes wholesale debt funding and wholesale deposits, had increased slightly.

UK lenders' issuance of wholesale term funding in public markets was £13.5 billion in 2015 Q3, similar to the previous quarter, according to data from Dealogic (**Chart 1.4**). Senior unsecured debt accounted for around half of total issuance in Q3. In recent discussions, most major UK lenders commented that uncertainty and financial market volatility relating to developments in Greece and China had affected the timing of issuance in some instances. But overall, in the year to Q3, UK lenders had issued a little more than in the equivalent period in 2014.

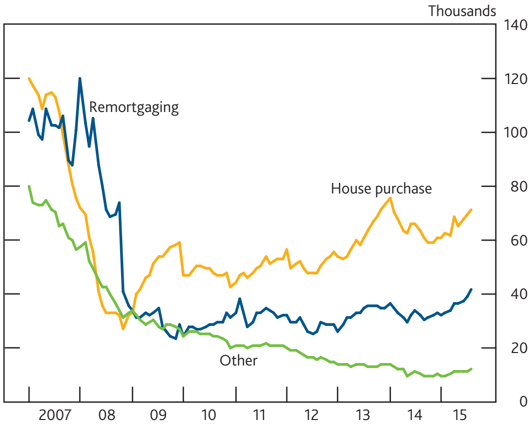
Total retail deposit growth picked up a little in the three months to August, rising to 6.3% on a three-month annualised basis (**Chart 1.5**). Within this, household deposit growth increased slightly, with sight deposits continuing to account for the majority of overall growth. Deposit growth for private non-financial corporations (PNFCs) strengthened a little further, reaching a three-month annualised growth rate of 14.5%. Reports from the Bank's network of Agents suggested that some businesses' policy was to maintain higher cash buffers than prior to the financial crisis, which may account for some of the robust growth in corporate deposits in recent years.

Banks can issue capital instruments of various types as a source of funding. Respondents to the *BLS* reported an increase in their total level of capital in 2015 Q3. Some UK banks issued additional Tier 1 (AT1) and Tier 2 (T2) capital instruments in Q3. Respondents to the *BLS* reported that regulation, investor demand and, to a lesser extent, market conditions had all increased lenders' demand for AT1 and T2 capital instruments, relative to common equity, in Q3. Issuance of these instruments is likely to relate to the need to meet prospective regulatory requirements, including those for total loss-absorbing capacity.

2 Household credit conditions

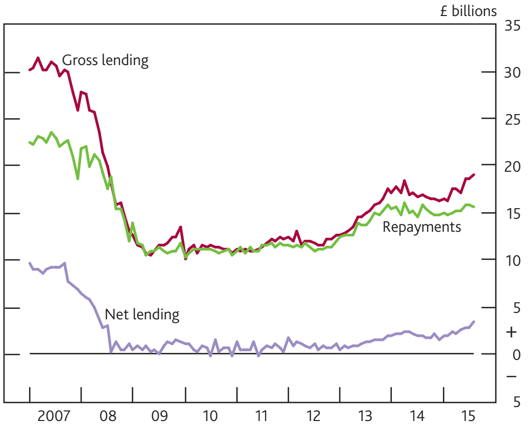
Secured lending increased in the three months to August, with the net flow rising to its highest level since 2008. This was consistent with both the increase in demand for secured lending reported in the 2015 Q3 *Credit Conditions Survey*, particularly from the buy-to-let sector, and the reported increase in secured credit availability. Consumer credit continued to grow robustly. Secured lending and consumer credit are likely to have been supported by the low cost of credit, with most quoted and effective rates continuing to fall in 2015 Q3, against a backdrop of high levels of competition between lenders.

Chart 2.1 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.

Chart 2.2 Secured lending to individuals[(a)]



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

Lending to UK households

Mortgage approvals for house purchase continued to rise, reaching 71,030 in August 2015 (**Chart 2.1**). Approvals for remortgaging also increased in recent months. In recent discussions, some major UK lenders attributed the pickup in remortgaging activity to media coverage of the prospective path of Bank Rate. The number of approvals for both house purchase and remortgaging remained lower than in the years prior to the financial crisis.

The increase in approvals in recent months has fed through into higher gross lending (**Chart 2.2**). In recent discussions, most major UK lenders linked much of the recent increase to lending for buy-to-let (BTL) properties. Consistent with this, the share of BTL lending in total gross mortgage lending increased in 2015 H1 (**Chart 2.3**) to its highest level since the series began in 1999, according to data from the Council of Mortgage Lenders (CML). The stock of secured lending to individuals also increased, with the three-month annualised growth rate rising in August to its highest level since 2008.[(1)]

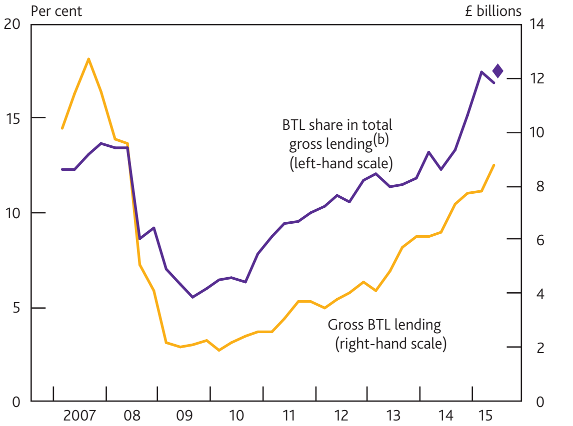
The annual rate of growth in the stock of consumer credit (excluding student loans) remained robust at 7.4% in August. As in recent months, net other loans and advances such as personal loans and overdrafts accounted for the majority of the overall flow. In recent discussions, most major UK lenders continued to attribute this growth to low personal loan rates, driven by strong competition, and some also noted improving consumer confidence. For more details on consumer credit to UK individuals, see the box on pages 9–11.

Loan pricing

Secured lending rates continued to fall on average. The effective rate on new mortgages was 11 basis points lower in

(1) For the three-month annualised growth rate, see Table H on lending secured on dwellings in the August 2015 *Money and Credit* Statistical Release; www.bankofengland.co.uk/statistics/Documents/mc/2015/aug/moneyandcredit.pdf.

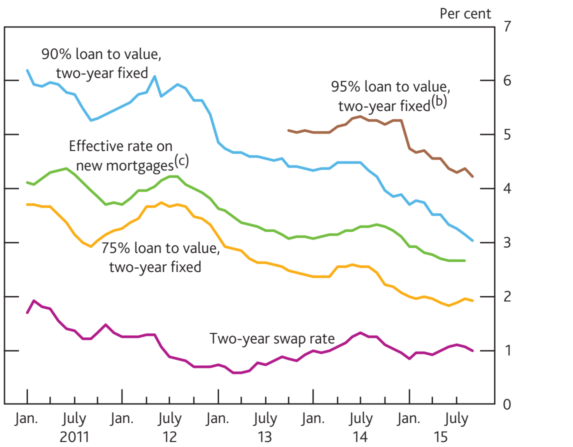
Chart 2.3 Gross buy-to-let lending flows(a)



Sources: CML, Bank of England and Bank calculations.

(a) Data are for quarterly gross sterling lending to 2015 Q2 and cover lending for house purchase, remortgaging and other advances. Non seasonally adjusted.
(b) Diamond indicates July 2015 data, the latest available month, for BTL flows, as a proportion of the gross advances in that month.

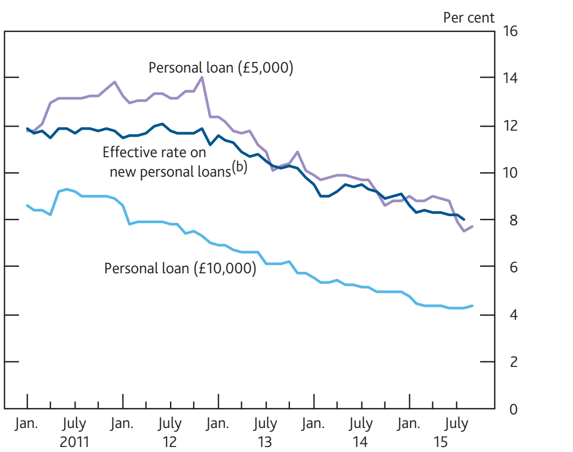
Chart 2.4 Quoted and effective interest rates on fixed-rate mortgages(a)



Sources: Bloomberg, Bank of England and Bank calculations.

(a) Rates on sterling lending. The Bank's quoted and effective interest rates series are currently compiled using data from up to 22 UK MFIs. Quoted rates are end-month rates. The effective rate and the swap rate are average monthly rates. Non seasonally adjusted.
(b) This series was not available between May 2008 and September 2013 as fewer than three products were offered from the sample of lenders in that period.
(c) Effective interest rate on new fixed-rate mortgages with maturities of one to five years.

Chart 2.5 Quoted and effective interest rates on personal loans(a)



(a) Rates on sterling lending. The Bank's quoted and effective interest rates series are currently compiled using data from up to 22 UK MFIs. Quoted rates are end-month rates. The effective rate is an average monthly rate. Non seasonally adjusted.
(b) Effective interest rate on new fixed-rate unsecured loans to households with maturities of one to five years.

the three months to August, compared to the previous three months (**Chart 2.4**). Rates remained at historically low levels. In recent discussions, the major UK lenders attributed the recent decline in rates to continued intense competition in the mortgage market. Some lenders also suggested that the increased share of broker-intermediated mortgages had added to competitive pressures.

Rates on higher loan to value (LTV) fixed-rate mortgages fell markedly, relative to those on lower LTV mortgages, over Q3. Quoted rates (indicating the rates offered to borrowers) for lower LTV fixed-rate mortgages stabilised, with rates unchanged over the quarter on average. But quoted rates for two-year higher LTV mortgages fell over the same period (**Chart 2.4**). This was despite higher funding costs in Q3 (Section 1). In recent discussions, most major UK lenders expected rates on higher LTV mortgage products to fall slightly, though some saw little scope for falls in lower LTV mortgage rates. Respondents to the *Credit Conditions Survey* (*CCS*) also reported that spreads on BTL mortgages had fallen significantly in the three months to mid-September, and were expected to fall further in the next three months.

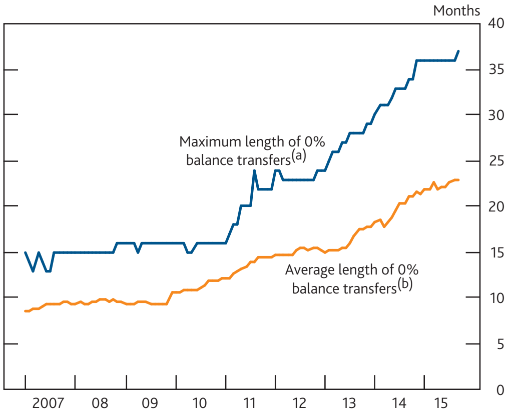
Quoted and effective rates on personal loans also continued to fall in recent months (**Chart 2.5**), and are at historically low levels. Looking forward, most major UK lenders expected rates to stabilise. Rates on credit card lending were largely unchanged in Q3, but competition in this market remains centred on other terms. Both the maximum and average length of interest-free periods available on balance transfers increased in Q3, for example, continuing a long-running trend (**Chart 2.6**).

Supply and demand

Consistent with the fall in mortgage spreads in 2015 Q3, the availability of secured credit increased according to respondents to the *CCS*. The proportion of household loan applications being approved also increased slightly. Some indicators also suggested greater credit supply at higher LTVs. Respondents to the *CCS* reported that secured credit availability increased for borrowers with LTV ratios above 75% (**Chart 2.7**). And the number of advertised products offering LTV ratios of 90% or greater continued to rise (**Chart 2.8**). Nonetheless, lenders in the *CCS* continued to report that their willingness to lend at LTV ratios above 90% was unchanged.

There was also evidence of higher demand for secured credit in Q3. In the 2015 Q3 *CCS*, lenders reported a significant increase in demand for secured lending for house purchase and, to a lesser degree, remortgaging. This is consistent with other surveys — for example, the Royal Institution of Chartered Surveyors' new buyer enquiries balance in 2015 Q3 was at its highest level since 2014 Q1. The change in demand in Q3 was particularly apparent in BTL lending, with

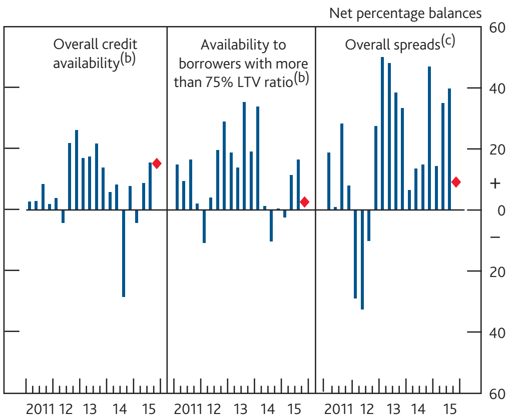
Chart 2.6 Maximum and average duration of zero per cent balance transfers



Sources: Moneyfacts Group and Bank calculations.

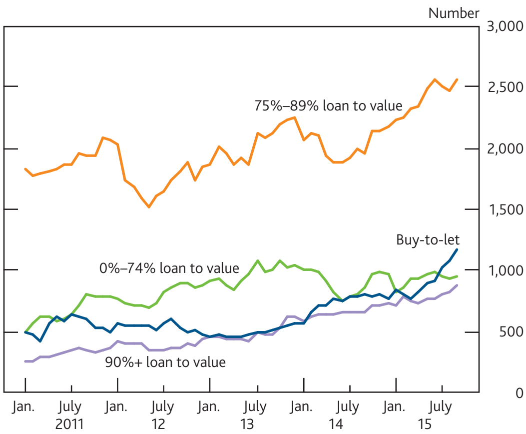
(a) Indicates maximum 0% balance transfer term available in the overall market. End-month data.
(b) Indicates average of each lender's maximum 0% balance transfer term available. Whole market data, excluding values of zero. End-month data.

Chart 2.7 *Credit Conditions Survey*: measures of secured availability[(a)]



(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 *Credit Conditions Survey* is 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) A positive balance indicates that more credit is available.
(c) Spreads are over Bank Rate or relevant swap rate. A positive balance indicates that spreads over reference rates have become narrower, such that, all else being equal, it is cheaper for households to borrow.

Chart 2.8 Number of mortgage products available by loan to value ratio[(a)]



Sources: Moneyfacts Group and Bank calculations.

(a) Sterling only. Excludes self-certified mortgages. Non seasonally adjusted.

respondents to the *CCS* reporting a significant increase over the quarter. Lenders in the survey expected demand for secured lending for house purchase to be unchanged in the next three months.

Overall unsecured credit availability was unchanged in Q3, according to respondents to the *CCS*. But there appeared to be an increase in the availability of other unsecured credit, such as personal loans: the proportion of applications approved was reported to have risen in Q3, while credit scoring criteria had loosened slightly. Respondents to the survey also indicated a significant increase in demand for other unsecured lending in Q3, while demand for credit card lending also increased.

Loan performance

Indicators of loan performance on secured lending improved, according to the latest quantitative and survey data. Data from the CML indicated that the mortgage arrears rate drifted lower in 2015 Q2, relative to Q1. And the write-off rate on mortgages — the ratio of write-offs on secured loans to the stock of mortgage lending — also fell slightly. Lenders in the *CCS* corroborated this picture, reporting a fall in default rates and a significant fall in losses given default on secured lending in Q3. Respondents to the survey have reported a fall in both measures for nine consecutive quarters.

The write-off rate on unsecured credit was little changed in the year to 2015 Q2 at 2.3%. The rate of personal insolvencies in England and Wales fell, and remained significantly lower than in the period following the financial crisis.

Consumer credit to UK individuals

There are many sources of borrowing for individuals to finance expenditure on goods and/or services. This box provides estimates of such borrowing by UK-resident individuals and considers recent trends in consumer credit, drawing on statistics collected by the Bank of England, the Office for National Statistics (ONS) and wider information.

Some consumer credit series published by the Bank of England include loans made through Government student finance schemes ('student loans') and these are updated annually to reflect latest data from the Student Loans Company.[1] The stock of student loans increased in the twelve months to March 2015 and at £74 billion represented 30% of the total stock of consumer credit (including student loans) (**Table 1**). In what follows student loans are excluded because repayment is contingent on future income.

Brief descriptions of some of the terms used in this box are listed in **Table 3**.

Consumer credit data (excluding student loans)

Monthly consumer credit data are separately published by the Bank of England for credit card lending and other loans and advances. Credit card lending accounted for around a third of the total stock as at end-2014 (**Table 1**).

Other loans and advances include personal loans, hire-purchase agreements, overdrafts, store cards, lending by credit unions and payday lenders. Net lending on other loans and advances accounted for around 70% of the total net flows, and around 30% of gross flows, of consumer credit in 2014 (**Table 1**).

These data collected by the Bank of England are partly based on lending by UK-resident banks and building societies and specialist mortgage lenders extending consumer credit (which includes second charge mortgage lending). Data on lending by other consumer credit providers such as non-bank credit grantors are also included and are collected by the ONS mainly via their *Monthly Survey of Consumer Credit Grantors*.[2]

Table 1 Consumer credit

£ billions

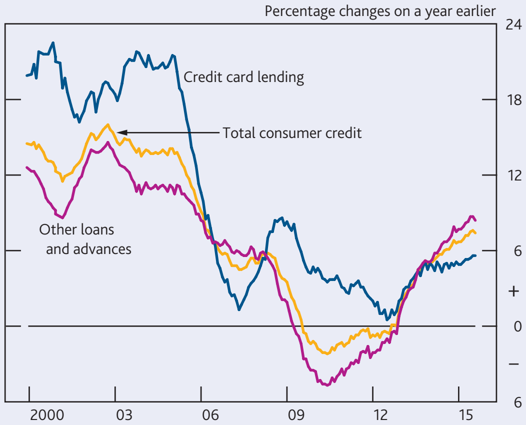
	Source	Amounts outstanding (end-Dec. 2014)	Gross lending (2014)	Net lending (2014)
Total consumer credit (excl. student loans)[a]	Bank of England	170	224	10
Other loans and advances		108	63[b]	7
of which, overdrafts from MFIs		9		*-1*
Credit card		62	161	3
Student loans[c]	Student Loans Company	74 (Mar. 2015)	12 (Year to Mar. 2015)	10 (Year to Mar. 2015)

(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 excludes student loans. Non seasonally adjusted.
(b) Overdrafts are not included in these data.
(c) Sterling loans to UK individuals issued by the Student Loans Company. Data are on a financial-year basis and available at www.slc.co.uk/official-statistics/student-loans-debt-and-repayment.aspx.

Recent trends

The annual growth rate in the stock of consumer credit was robust in the early 2000s. It turned negative in 2009 before recovering strongly since the start of 2013 (**Chart A**). The stock of consumer credit remains lower than before the financial crisis, mainly due to the cumulative effect of write-offs.[3]

Chart A Consumer credit[a]



(a) See footnote (a) of **Table 1**. Seasonally adjusted.

Within the total, the growth rate of credit card lending was high in the early 2000s (**Chart A**). It has been lower since but remained positive and has picked up in recent years. The growth rate in the stock of other loans and advances has also been stronger than for credit cards recently but is also below levels experienced in the early 2000s.

Components of other loans and advances

The Bank's data collection does not separate out other loans and advances by product, except for overdrafts, or by purpose of loan.[4] Car finance, for example, is not explicitly separated out, but is included in data provided by banks and building

(1) For more details see 'Lending to individuals — annual update of data including student loans', *Bankstats*, June 2015; www.bankofengland.co.uk/statistics/Documents/articles/2015/3jun.pdf.
(2) For more details on the survey, see www.ons.gov.uk/ons/about-ons/get-involved/taking-part-in-a-survey/information-for-businesses/a-to-z-of-business-surveys/monthly-survey-of-consumer-credit-grantors/index.html. The survey covers businesses with a licence to grant credit (excluding banks and building societies) in the relevant credit granting Standard Industrial Classification (SIC) codes: 64921 (credit granting, non deposit-taking finance houses) and 64929 (other credit granting), and some other retail firms with a credit element to their business. Examples of credit granting, non deposit-taking finance houses and other such specialist consumer credit grantors are pawnbrokers, hire-purchase companies, payday lenders and credit unions.
(3) For more details, see Chart 1.4, *Trends in Lending*, April 2015, Bank of England; www.bankofengland.co.uk/publications/Documents/other/monetary/trendsapril15.pdf.
(4) For more details, see *Bankstats* Table A4.3 which includes bank and building society lending on overdrafts; www.bankofengland.co.uk/statistics/Pages/bankstats/current/default.aspx.

Table 2 Indicative estimates of some types of external finance for individuals[a]

£ billions

	Source	Amounts outstanding (end-Dec. 2014)	Gross lending (2014)
Car finance (through dealerships)	Finance & Leasing Association (FLA)[b]	40.3	24.7
Credit unions[c]	Bank of England	1.2 (financial year end)	0.8
Home credit	Financial Conduct Authority (FCA)[d]		0.8 (June 2012-June 2013)
Retail store and online credit	FLA[e]	6.6	6.4
Second charge mortgage lending	FLA[e]	5.4	0.6
Payday loans	FCA[d]		2.2 (June 2012-June 2013)
Equity release	Equity Release Council[f]		1.4
Pawnbrokers	National Pawnbrokers Association[g]		0.7
Peer-to-peer consumer lending	Peer-to-Peer Finance Association[h]	0.6	0.6
Logbook loans	FCA[d]		0.1 (June 2012-June 2013)

(a) The information contained in this table should be viewed as indicative, as data and definitions are not directly comparable across different sources. Stock data are as at end-December 2014, unless stated otherwise. Gross lending data are for 2014, unless stated otherwise. Non seasonally adjusted. For a description of the terms used see **Table 3**. For more details on the data in this table and longer backruns, where available, see the accompanying spreadsheet; www.bankofengland.co.uk/publications/Documents/creditconditionsreview/2015/externalfinanceforindividuals.xlsx.
(b) New and used cars bought on finance by consumers through dealerships. Data on gross lending are from monthly press releases, available at www.fla.org.uk/index.php/category/press-release.
(c) Although most credit unions have a financial year end of 30 September, some do not. See the explanatory notes available at www.bankofengland.co.uk/pra/Documents/regulatorydata/explanatorynotesforcreditunionstatistics3.pdf for more information.
(d) Financial Conduct Authority, *Consumer credit and consumers in vulnerable circumstances*, April 2014. Available at www.fca.org.uk/news/consumer-credit-consumers-vulnerable-circumstances.
(e) Data on gross lending are from monthly press releases, available at www.fla.org.uk/index.php/category/press-release.
(f) From news releases, available at www.equityreleasecouncil.com/news/archive/.
(g) Provided by the National Pawnbrokers Association of the UK.
(h) Provided by the Peer-to-Peer Finance Association. Data on amounts outstanding are from a cumulative loan book of £1.2 billion between 2010 and 2014.

societies and other consumer credit lenders. Indicative estimates suggest that the majority of net lending, and over a third of gross lending on other loans and advances, in 2014 was for car finance. These estimates include finance through a dealership or via a personal loan for the purpose of buying a car.[1]

Gross lending on car finance through dealerships has been growing in recent years, according to data from the Finance & Leasing Association (FLA). These data represent car finance provided to consumers by FLA members and include credit provided by the finance arms of car manufacturers, bank-owned and other finance providers. The stock of car finance was around £40 billion at the end of 2014 (**Table 2**).

Other types of lending included within other loans and advances, such as lending on retail store cards and online credit, payday loans and pawnbroking, are relatively small, according to estimates of gross lending published by other organisations (**Table 2**).

The value of loans to members by authorised credit unions increased slightly in 2014, according to data published by the Bank of England.[2]

(1) These estimates include data from some monetary financial institutions, and other firms for which car finance is their sole activity, where these have been identifiable.
(2) Available at www.bankofengland.co.uk/pra/Pages/regulatorydata/creditunionsstatistics.aspx.

Table 3 Brief descriptions of some terms used in this box

Term	Description
Car finance	The purchase of a car with some aspect of borrowing such as via a personal loan or finance arranged through a motor dealer. Motor dealer finance is usually in the form of personal contract purchase (PCP), hire-purchase, or leasing.
Credit card	A payment card issued by a financial institution or other credit provider enabling the cardholder to make purchases on credit.
Credit unions	Mutual societies that are run as financial co-operatives. They are set up for the benefit of a particular group or community that share a common bond.
Equity release (from the Equity Release Council)	Defined by them as products allowing individuals aged 55 and over to release money from the property they live in without having to make any monthly repayments.
Home credit	A small-sum loan where a local agent visits homes to collect repayments.
Logbook loan	A loan secured on a vehicle where the consumer can continue using the vehicle, but ownership of the vehicle transfers to the lender.
Other loans and advances	Non-credit card unsecured lending mainly consisting of overdrafts and personal loans.
Pawnbrokers	An individual or firm offering secured loans where the consumer provides a personal item as collateral.
Payday loans	The provision of small-sum cash loans marketed on a short-term basis, not secured against collateral, including (but not limited to) loans repayable on the customer's next payday or at the end of the month.
Peer-to-peer consumer lending	Online platforms that allow individuals to make available surplus capital in the form of loans to others.
Retail store and online credit	Forms of credit provided for purchases made in store or online, either via a fixed-term credit agreement or a revolving credit facility.
Second charge mortgage lending	A type of lending that is secured on a customer's property at the same time as a first mortgage.
Student loans	Money borrowed by UK and other EU residents from the Student Loans Company to finance higher and further education and only repayable contingent on level of future income.

3 Corporate credit conditions

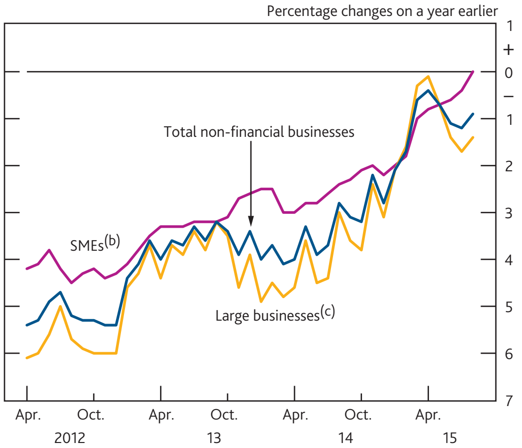
Net lending to UK businesses fell back, on average, in the three months to August. But total net finance raised, which also includes funds raised in capital markets, remained positive. Most evidence suggests that the availability of credit to SMEs continued to increase over recent months, and that the supply of credit to large companies remained plentiful. Demand for lending was reported to have increased across all business sizes in Q3 according to respondents to the *Credit Conditions Survey*, though survey evidence suggests that the overall level of demand remained subdued.

Table 3.A Lending to UK businesses[a]

	Averages					2015		
	2012	2013	2014	2015 Q1	2015 Q2	June	July	Aug.
All currency loans to PNFCs								
Net monthly flow (£ billions)	-1.5	-0.7	-0.3	1.2	-0.1	-0.7	-1.0	0.8
of which, sterling loans[b]	*-1.2*	*-0.5*	*-0.7*	*0.8*	*-0.8*	*-2.5*	*0.9*	*-0.2*
Three-month annualised growth rate (per cent)	-3.7	-2.6	-1.1	2.7	2.7	-0.2	-1.8	-0.8
Twelve-month growth rate (per cent)	-3.1	-3.0	-1.7	0.4	1.3	1.3	0.8	1.0

(a) Seasonally adjusted. Data cover loans in both sterling and foreign currency, expressed in sterling.
(b) This measure includes loans and UK MFIs' holdings of bills and acceptances and excludes commercial paper.

Chart 3.1 Lending to UK non-financial businesses[a]



(a) Rate of growth in the stock of lending. Lending by UK MFIs. Data cover lending in both sterling and foreign currency, expressed in sterling. Non seasonally adjusted.
(b) SMEs are those businesses with annual debit account turnover on the main business account less than £25 million.
(c) Large businesses are those with annual debit account turnover on the main business account over £25 million.

Lending to UK businesses

Net lending to UK businesses fell back, on average, in the three months to August (**Table 3.A**). The twelve-month growth rate in the stock of loans also eased, but remained positive at 1% in August. This growth was broadly based across industrial sectors, with significant negative contributions only from the real estate and construction sectors.

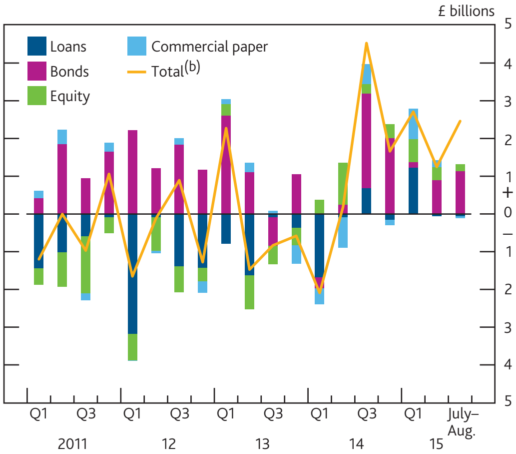
The slowdown in lending over the past few months to non-financial businesses was concentrated in lending to large companies (**Chart 3.1**). The annual growth rate in the stock of loans to small and medium-sized enterprises (SMEs) continued to rise.[1] Net lending to SMEs by participants in the Funding for Lending Scheme in 2015 Q2 was £0.5 billion, having also been positive in Q1.[2]

While net bank lending to large companies fell back in recent months, these companies continued to raise funds from capital markets, such as bond and equity markets (**Chart 3.2**). Total net finance raised from UK MFIs and capital markets by UK businesses was £16.8 billion in 2015 to August, higher than in any calendar year since the financial crisis. The 2015 Q3 *Deloitte CFO Survey* — which covers large companies — continued to indicate that bank borrowing and bond issuance were 'attractive' sources of funding for the majority of companies in the survey.

In addition to bank and capital markets, alternative types of funding for businesses include asset-based finance, lending by insurance companies and pension funds and peer-to-peer business lending. Gross lending flows of such finance are smaller in comparison to bank lending and capital markets (**Table 3.B**). While gross flows of peer-to-peer business

(1) For details on gross lending to and repayments by large businesses and SMEs, see Tables M and N in the August 2015 *Money and Credit* Statistical Release; www.bankofengland.co.uk/statistics/Documents/mc/2015/aug/moneyandcredit.pdf.
(2) 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'; www.bankofengland.co.uk/markets/Pages/FLS/extensiondata.aspx. Non seasonally adjusted.

Chart 3.2 Net finance raised by UK businesses[(a)]



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

Table 3.B Lending flows of some types of external finance for UK businesses[(a)]

£ billions

	Quarterly averages		2015	
	2013	2014	Q1	Q2
Net flows				
Bank lending				
PNFCs	-2	-0.9	5	-2
Total non-financial businesses	-4	-3	6	-6
SMEs	-1	-0.9	0.9	0.2
Large	-3	-2	5	-6
Bond markets (public)	3	3	0.4	3
Equity markets (public)	-1	2	2	1
Insurance companies, pension funds	0.3	0.4	-0.4	0.9
Peer-to-peer SME lending			0.1	0.1
Gross flows				
Bank lending				
Total non-financial businesses	41	47	52	52
SMEs	11	13	14	14
Large	30	34	38	37
Bond markets (public)	14	14	19	10
Equity markets (public)	4	6	6	6
Private equity	1	1		
of which, venture capital	*0.07*	*0.07*		
Asset finance (leasing and hire purchase)	6	6	7	7
Peer-to-peer business lending	0.05	0.20		

(a) For more details on the data in this table and longer backruns as well as a further breakdown of lending flows and stocks, where available, see the accompanying spreadsheet; www.bankofengland.co.uk/publications/Documents/creditconditionsreview/2015/externalfinanceforbusinesses.xlsx.

lending are very small, they grew markedly between 2013 and 2014, according to estimates from Nesta. Contacts of the Bank's network of Agents noted that peer-to-peer lending and crowdfunding were providing some SMEs with funding where banks are less keen to lend, and in some cases, where speed of decision-making on financing is particularly important.

Loan pricing

Survey evidence suggested that pricing on lending to SMEs has improved in recent months. Lenders in the *CCS* reported that spreads on lending to small businesses fell in 2015 Q3, and fell significantly for medium-sized firms. The Federation of Small Businesses' (FSB) *Voice of Small Business Index* also suggested some improvement in credit affordability among small businesses; while a net balance of 11% of firms still reported that they find credit unaffordable, this was the smallest share since the index began at the start of 2012. In recent discussions, most major UK lenders noted that competition for SME lending had put downward pressure on pricing. Nonetheless, indicators of interest rates on lending to SMEs were little changed in the three months to August (**Chart 3.3**).

Pricing on lending to large companies remained favourable, with a further improvement reported across various sources. Lenders in the *CCS* reported that spreads on lending to these firms continued to fall significantly in 2015 Q3. Non-price terms, such as fees and commissions and loan covenants, were also reported to have improved. A net percentage balance of 84% of corporates reported that new credit was 'cheap', broadly the same as the previous quarter, according to the *Deloitte CFO Survey* for 2015 Q3. In recent discussions, some major UK lenders noted that margins on loans to large businesses were often very tight, and that therefore ancillary business from these companies was sought.

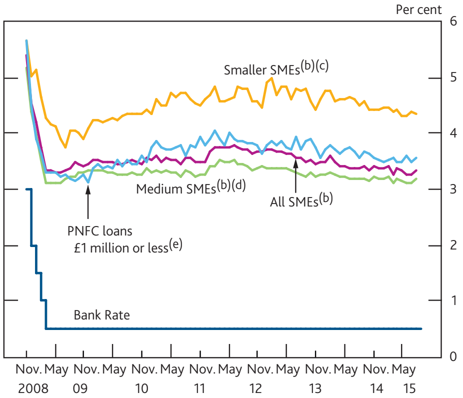
Looking ahead, respondents to the *CCS* expected spreads on new lending to fall slightly for medium and large-sized companies and to be unchanged for small businesses in 2015 Q4.

Supply and demand

Most evidence suggested that the availability of credit to SMEs continued to improve in Q3. Respondents to the *CCS* reported that credit availability increased slightly for small businesses, although was little changed for medium-sized companies (**Chart 3.4**). The latest data from the FSB *Voice of Small Business Index* pointed to a continued increase in the availability of credit for small businesses. Both surveys are consistent with reports from the Bank's Agents that credit availability for smaller firms had improved and was approaching normal, although it remained tighter than for other firms.

The availability of credit to large businesses remained plentiful. The Bank's Agents noted that contacts at larger

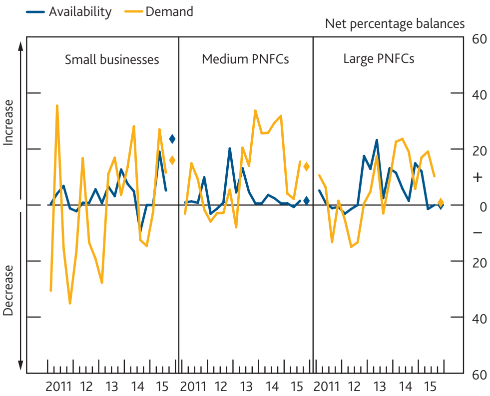
Chart 3.3 Indicative interest rates on lending to SMEs(a)



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-September and for all other series to end-August. 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 rate on 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 22 UK MFIs.

Chart 3.4 *Credit Conditions Survey*: availability and demand for credit across firm sizes(a)



(a) See footnote (a) (for this chart lines rather than bars are used to show the responses over the previous three months) to **Chart 2.7**. A positive balance indicates that more credit is available or an increase in demand.

Chart 3.5 *SME Finance Monitor*: borrowing profiles of SMEs in the past twelve months(a)

Source: BDRC *SME Finance Monitor*.

(a) Survey question asks if SMEs had undertaken a borrowing 'event' (any new application/renewal, or if bank or SME sought cancellation/renegotiation encompassing both overdrafts and loans) in the previous twelve months and if they had not whether there had been any barriers to applying. SMEs are defined as businesses with up to 249 employees. For full descriptions of these series, see *SME Finance Monitor Q2 2015*, page 215, available at http://bdrc-continental.com/wp-content/uploads/2015/09/BDRCContinental_SME_FM_Q2_2015-FINAL.pdf.

companies reported that availability was above normal and that for these firms, current borrowing conditions were often said to be comparable to those before the crisis. And according to the *Deloitte CFO Survey* for 2015 Q3, the net percentage balance of respondents who reported that credit was 'available' was 79%.

Demand for credit was reported to have increased across all business sizes in Q3, according to respondents to the *CCS* (**Chart 3.4**). Lenders cited mergers and acquisitions and inventory finance as factors pushing up credit demand.

While some recent improvement in demand was reported, other survey evidence continued to suggest that the overall level of demand for lending from businesses remains subdued. Contacts of the Bank's Agents noted that corporate treasurers generally have little appetite for new borrowing unless they are undertaking earlier-than-planned refinancing to lock in lower rates. The BDRC's *SME Finance Monitor* reported that the proportion of SMEs described as 'happy non-seekers' of credit rose slightly in Q2 (**Chart 3.5**).(1)

Looking ahead, respondents to the *CCS* expected demand for credit from small and medium-sized companies to increase further in 2015 Q4, and to remain unchanged for large companies (**Chart 3.4**).

Loan performance

Lenders in the *CCS* reported that while default rates on lending to medium and large companies were unchanged, they fell on lending to small companies and losses given default fell in Q3 for businesses of all sizes. The level of corporate write-offs remained low with the write-off rate — the ratio of banks' write-offs on corporate lending to the stock of that lending — little changed in the year to 2015 Q2 at 1.3%. In recent discussions, the major UK lenders reported very low levels of arrears and defaults on their corporate loan books.

(1) 'Happy non-seekers' are those SMEs that had not had a loan/overdraft borrowing event/automatic renewal, and also said that nothing had stopped them applying for either loan or overdraft funding in the previous twelve months.

Abbreviations

BIS — Department for Business, Innovation and Skills.
BLS — *Bank Liabilities Survey*.
CCS — *Credit Conditions Survey*.
CDS — credit default swap.
CFO — chief financial officer.
CML — Council of Mortgage Lenders.
FCA — Financial Conduct Authority.
FLA — Finance & Leasing Association.
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).
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 loans and advances.

Effective interest rates The weighted average of calculated interest rates on various types of sterling deposit and loan accounts. The calculated annual rate is derived from the deposit or loan interest flow during the period, divided by the average stock of deposit or loan during the period.

Facility An agreement in which a lender sets out the conditions on which it is prepared to advance a specified amount to a borrower within a defined period.

Gross lending The total value of new loans advanced by an institution in a given period.

Loan approvals Lenders' firm offers to advance credit.

Loan to value (LTV) ratio Ratio of outstanding loan amount to the market value of the asset against which the loan is secured (normally residential or commercial property).

London interbank offered rate (Libor) The rate of interest at which banks borrow funds from each other, in marketable size, in the London interbank market.

Major UK lenders Banco Santander, Barclays, HSBC, Lloyds Banking Group, Nationwide and Royal Bank of Scotland.

Monetary financial institutions (MFIs) A statistical grouping comprising banks and building societies.

Mortgage lending Lending to households, secured against the value of their dwellings.

Net lending The difference between gross lending and repayments of debt in a given period.

New issue premia The cost an issuer typically pays in addition to those implied by secondary market prices in order to attract investors when issuing new debt.

Other funding Funding in wholesale public debt capital markets, private placement markets and directly from central bank operations.

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.

Retail funding Funding raised by banks in the form of deposits from households and PNFCs.

Senior unsecured debt Debt securities issued by lenders that pay a coupon, along with a final redemption payment, which are repaid before junior liabilities if a bank becomes insolvent.

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.

Total funding	Retail and other funding, which includes wholesale funding.
Transfer price	The marginal absolute cost charged internally to business units for obtaining funding from the treasury unit, ie the cost of funding the flow of new loans.
Write-off rate	The value of write-offs divided by the stock of loans outstanding.

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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