# Credit Conditions Review

2016 Q4

BANK OF ENGLAND

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## 2016 Q4

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 70% of the stock of mortgage lending, 50% of the stock of consumer credit (excluding student loans), and 65% of the stock of lending to businesses at end-September 2016. 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-December 2016. Unless stated otherwise, the data reported cover lending in both sterling and foreign currency, expressed in sterling and are seasonally adjusted.

The 2017 Q1 *Credit Conditions Review* will be published on 13 April 2017.

(1) The *Bank Liabilities Survey* and the *Credit Conditions Survey* for 2016 Q4 were conducted between 21 November and 9 December 2016. These surveys can be found at www.bankofengland.co.uk/publications/Pages/creditconditionsbankliabilities/default.aspx.
(2) This definition of the group of major UK lenders is based on the provision of credit to UK-resident companies and individuals, regardless of the country of ownership.

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# Executive summary

There was mixed news on bank funding conditions in 2016 Q4. Sterling swap rates rose in Q4, although they remained below the levels observed at the start of 2016. Set against this, the spreads over relevant reference rates on retail deposits and wholesale funding have been, on average, lower in Q4 than Q3. In recent discussions, most major UK lenders thought the Bank of England's Term Funding Scheme had contributed towards the fall in wholesale funding spreads. On balance, lenders reported a fall in their transfer prices in Q4 in the Bank of England's *Bank Liabilities Survey*. Retail deposit growth slowed, but remained strong relative to recent years. Respondents to the *Bank Liabilities Survey* reported an increase in their other funding volumes.

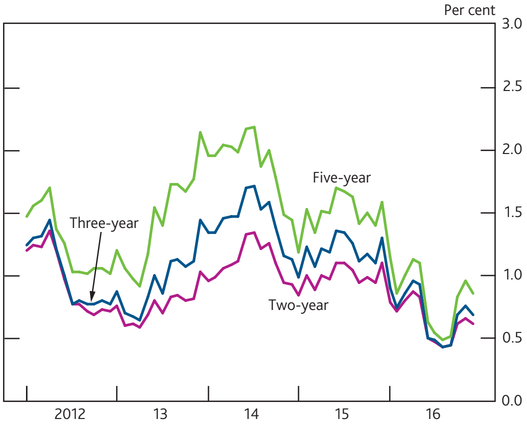
Secured credit availability was little changed in the three months to mid-December, according to lenders responding to the Bank of England's *Credit Conditions Survey*. Quoted rates on many fixed-rate mortgages fell on average in 2016 Q4. Demand for secured lending increased slightly in Q4, according to respondents to the *Credit Conditions Survey*, having fallen significantly in Q3. Consistent with this, gross secured lending was little changed in the three months to November. The annual growth rate in the stock of consumer credit increased to 10.8% in November.

The cost of both outstanding and new bank credit to businesses fell over the three months to November 2016, following the previous fall in reference rates. The availability of credit across business sizes was little changed in Q4 and remained above normal levels according to the Bank's network of Agents, though some major UK lenders noted a marginal tightening in supply to a small number of specific sectors. On balance, survey evidence suggested that corporate credit demand continued to soften in Q4. Nevertheless, growth in bank lending to UK businesses continued at rates similar to those in 2016 H1.

# 1 Bank funding

There was mixed news on bank funding conditions in 2016 Q4. Sterling swap rates rose in Q4, although they remained below the levels observed at the start of 2016. Set against this, the spreads over relevant reference rates on retail deposits and wholesale funding have been, on average, lower in Q4 than Q3. In recent discussions, most major UK lenders thought the Bank of England's Term Funding Scheme had contributed towards the fall in wholesale funding spreads. On balance, lenders reported a fall in their transfer prices in Q4 in the Bank of England's *Bank Liabilities Survey*. Retail deposit growth slowed, but remained strong relative to recent years. Respondents to the *Bank Liabilities Survey* reported an increase in their other funding volumes.

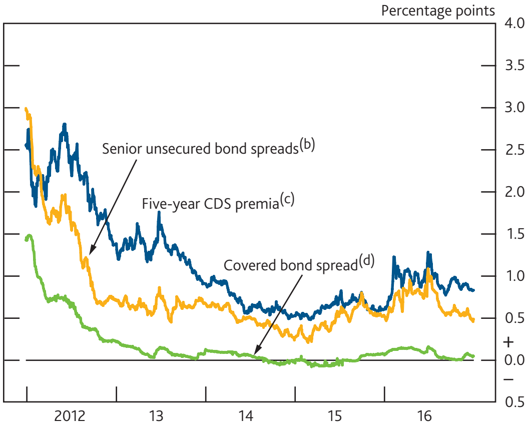
**Chart 1.1** Swap rates at different maturities(a)




Source: Bloomberg.

(a) Data are to end-December 2016 and are month-end observations. Sterling swap rates.

**Chart 1.2** Indicative long-term funding spreads(a)




Sources: Bloomberg, IHS Markit and Bank calculations.

(a) Data are to end-December 2016.
(b) Constant-maturity unweighted average of secondary market spreads to mid-swaps for the major UK lenders' five-year euro-denominated senior unsecured bonds or a suitable proxy when unavailable.
(c) Unweighted average of five-year euro-denominated senior CDS premia for the major UK lenders.
(d) Constant-maturity unweighted average of secondary market spreads to swaps for the major UK lenders' five-year euro-denominated covered bonds or a suitable proxy when unavailable.

## 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.

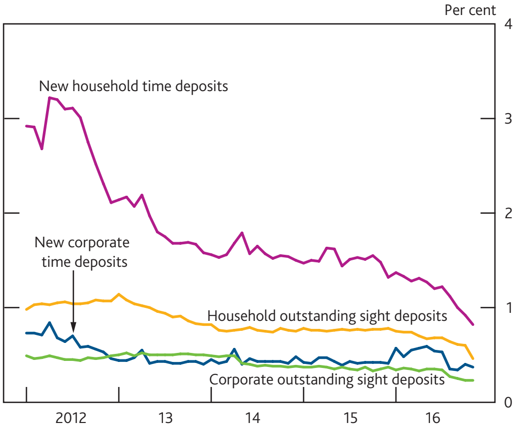
Swap rates rose in 2016 Q4 across the United Kingdom, the United States and the euro area. Some of the key sterling swap rates were about 15–35 basis points higher at the end of December than at the end of September, with the largest increases seen in longer-maturity swap rates (**Chart 1.1**). But these increases followed substantial falls following the UK referendum on membership of the European Union and in advance of, and immediately following, the Monetary Policy Committee's (MPC's) August 2016 policy package.(1) As such, sterling swap rates at end-December 2016 remained below the levels observed at the start of 2016.

Indicative measures of banks' wholesale funding spreads over relevant reference rates — such as senior unsecured bond spreads and CDS premia — have remained broadly stable during Q4, having fallen during Q3 (**Chart 1.2**). In recent discussions, most major UK lenders thought the Bank of England's Term Funding Scheme (TFS) had contributed to the compression in wholesale funding spreads. Secondary market spreads on senior unsecured debt were, on average, lower in Q4 than in any of the other quarters in 2016.

The cost to banks of retail deposit funding fell over the past three months. Effective rates on the stock of households' sight deposits fell by 18 basis points between August and

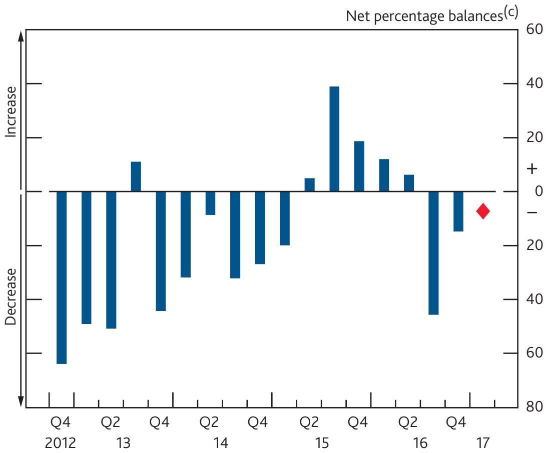
(1) In August 2016, the Bank of England's MPC announced a package of measures to support the economy including: a 25 basis point cut in Bank Rate to 0.25%; a Term Funding Scheme; the purchase of up to £10 billion of UK corporate bonds; and a £60 billion increase in purchases of UK government bonds, taking the stock of these asset purchases to £435 billion. For more details, see the August 2016 *Inflation Report*.

**Chart 1.3** Effective rates on household and PNFC deposits[(a)]



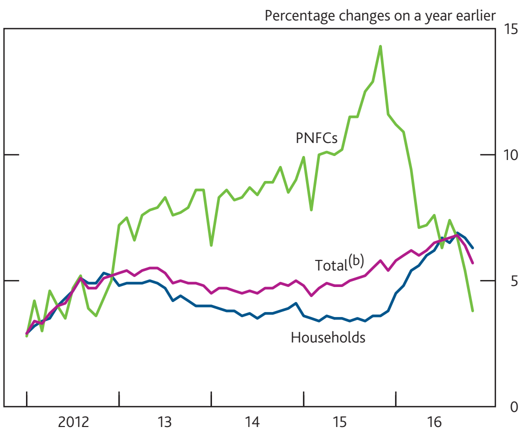

(a) Effective rates on sterling household and PNFCs deposits. The Bank's effective rate series are currently compiled using data from up to 19 UK MFIs. The effective rate is an average monthly rate. Non seasonally adjusted. The rates on sight deposits show rates on interest-bearing deposits only. Data are to November 2016.

**Chart 1.4** *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 1.5** Household and PNFC deposits[(a)]




(a) Rate of growth in MFIs' M4 liabilities. Seasonally adjusted. Data are to November 2016.
(b) Total is the rate of growth of PNFCs and households' deposits together.

November 2016 (**Chart 1.3**). Effective rates on the stock of private non-financial corporations' (PNFCs') sight deposits fell slightly and were lower than at the start of 2016. Interest-bearing sight deposits make up the majority of sterling deposits for both households and PNFCs.[(1)] Spreads on retail deposits over reference rates were reported to have fallen in the three months to mid-December by lenders in the Bank of England's 2016 Q4 *Bank Liabilities Survey* (*BLS*).

On balance, *BLS* respondents reported that transfer prices — internal prices charged to business units to fund the flow of new loans — fell in the three months to mid-December (**Chart 1.4**). This was driven by reported falls in retail deposit spreads and wholesale funding spreads which offset a significant rise in swap rates.

## Funding volumes

Respondents to the *BLS* reported that their total funding volumes increased slightly in 2016 Q4.

Annual growth in total retail deposits slowed in the past three months to 5.7% in November 2016, but remained strong relative to recent years (**Chart 1.5**). Annual growth in households' deposits now exceeds growth in PNFCs' deposits. Respondents to the *BLS* reported an increase in the supply of deposits from households in Q4.

In Q4, respondents to the *BLS* reported an increase in their 'other' funding volumes, which includes wholesale debt funding, wholesale deposits and funding via central bank operations. The extent of wholesale term debt issuance in public markets by UK lenders fell back in Q4 to £7 billion, following strong issuance in the first three quarters of the year.[(2)] But over 2016 as a whole, around £80 billion of wholesale term debt was issued in public markets by UK lenders, the strongest year since 2011. Up to 28 December, lenders had made drawdowns of £21 billion from the TFS since the scheme opened in mid-September.

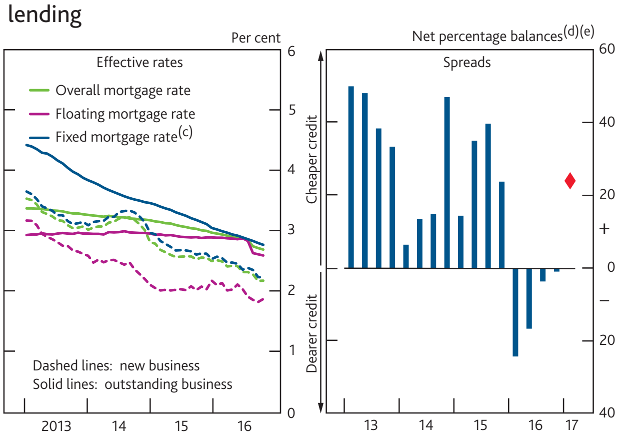
Capital instruments are also a source of bank funding, and banks' capital positions will influence their funding costs. As has been the case for most quarters since the *BLS* began in 2012 Q4, respondents to the *BLS* reported that their total level of capital had increased in 2016 Q4. Changes in the economic outlook were reported to have significantly increased lenders' demand for capital in 2016 Q4, with changes in balance sheet size and regulatory drivers also pushing up lenders' demand.

(1) For more details on recent changes in various deposit rates see tab 'Table 1.A' in the accompanying spreadsheet at: www.bankofengland.co.uk/publications/Documents/creditconditionsreview/2016/additionalratestableq416.xlsx.
(2) Term issuance is defined here as issuance with maturity exceeding 18 months. 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. Source: Dealogic.

# 2 Household credit conditions

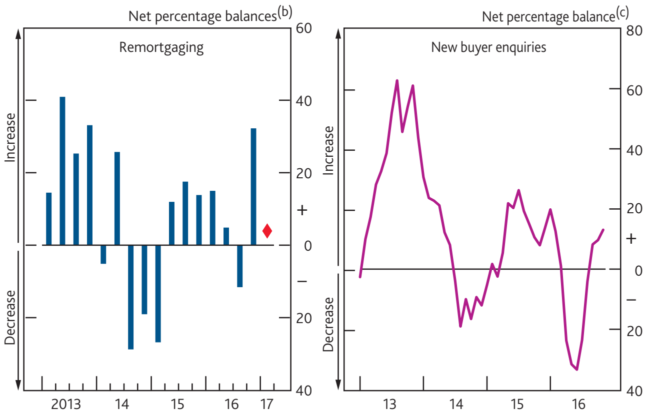
Secured credit availability was little changed in the three months to mid-December, according to lenders responding to the Bank of England's *Credit Conditions Survey*. Quoted rates on many fixed-rate mortgages fell on average in 2016 Q4. Demand for secured lending increased slightly in Q4, according to respondents to the *Credit Conditions Survey*, having fallen significantly in Q3. Consistent with this, gross secured lending was little changed in the three months to November. The annual growth rate in the stock of consumer credit increased to 10.8% in November.

**Chart 2.1** Effective interest rates[(a)] and spreads[(b)] on secured lending




(a) Rates on sterling lending. The Bank's effective interest rates series are currently compiled using data from up to 19 UK MFIs. Effective rates are average monthly rates. Non seasonally adjusted. Data are to November 2016.
(b) Data are from the *Credit Conditions Survey*.
(c) Prior to January 2016, these series consisted of rates on lending to unincorporated businesses and individuals and was for the 1–5 year fixation period. From January 2016 onwards, these series only include rates on lending to individuals.
(d) 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 for the next three months. Where the *CCS* 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.
(e) A positive balance indicates that spreads have fallen such that, all else being equal, it is cheaper for households to borrow.

**Chart 2.2** Demand for secured lending for remortgaging[(a)] and new buyer enquiries




Sources: *Credit Conditions Survey* and *RICS Residential Market Survey*.

(a) See footnote (d) in **Chart 2.1**.
(b) A positive balance indicates an increase in demand.
(c) 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. Data are to November 2016.

## Secured lending to UK households

Secured credit availability was little changed in the three months to mid-December, according to lenders responding to the Bank of England's *Credit Conditions Survey* (*CCS*). Lenders expected a slight increase in availability in 2017 Q1.

Quoted rates on many new fixed-rate mortgages were lower on average in Q4 compared to Q3, with fixed rates on two-year mortgages at 75% and 95% loan to value (LTV) ratios having fallen by around 20 basis points. Quoted rates continued to drift lower in 2016. Many have decreased by 30–50 basis points since May, before swap rates started to fall as discussed in Section 1. For further details on mortgage rates by LTV ratio, see the box on pages 8–9.

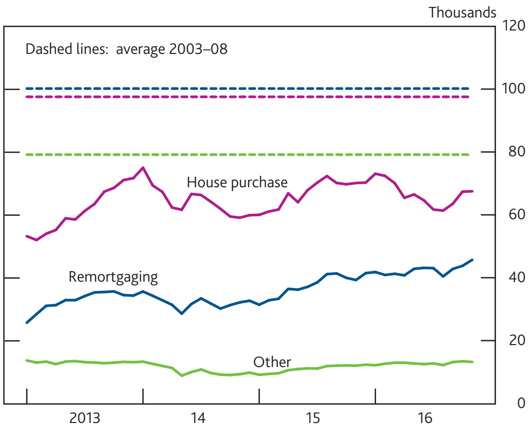
The effective rate on the stock of outstanding floating-rate mortgages, which accounted for around half of outstanding mortgages, fell in the three months to November (**Chart 2.1**). As discussed in the 2016 Q3 *Credit Conditions Review*, this likely reflects announced changes by lenders following the reduction in Bank Rate in August.[(1)] Contacts of the Bank's network of Agents noted strong competition between mortgage lenders.

Looking ahead, in recent discussions some major UK lenders noted that the increases in swap rates observed in Q4 (**Chart 1.1**) might put upward pressure on mortgage rates in the coming months. Respondents to the *CCS* also expected a significant fall in spreads on secured lending in 2017 Q1 (**Chart 2.1**).

Demand for secured lending appears to have increased slightly in Q4. Demand for secured credit for house purchase increased slightly in the three months to mid-December, according to lenders responding to the *CCS*, following a significant fall reported in Q3. Respondents also reported a significant increase in demand for buy-to-let lending and

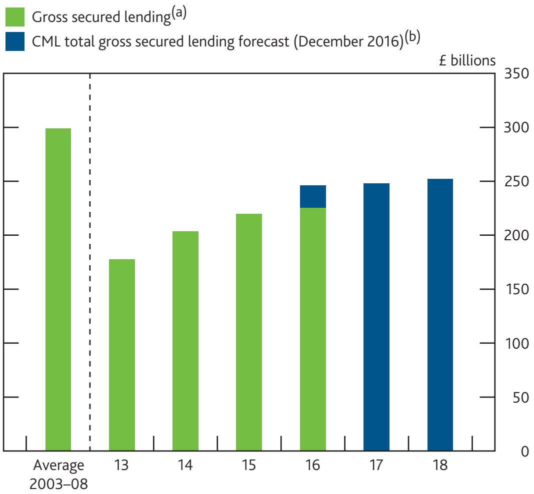
(1) For more details on recent changes in various quoted and effective mortgage rates see tab 'Table 2.A' in the accompanying spreadsheet at: www.bankofengland.co.uk/publications/Documents/creditconditionsreview/2016/additionalratestableq416.xlsx.

## Chart 2.3 Approvals of loans secured on dwellings(a)




(a) Data 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. Data are to November 2016.

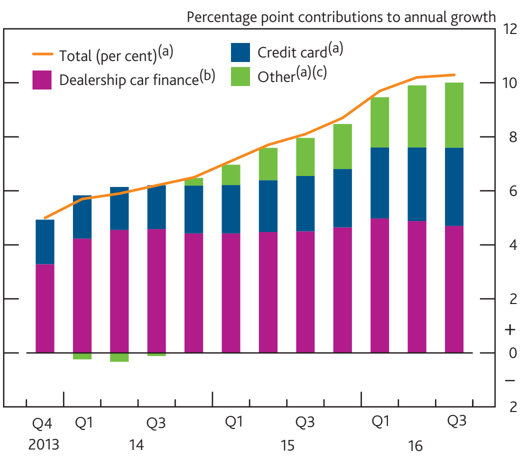
## Chart 2.4 Gross lending secured on dwellings




Sources: Bank of England, CML and Bank calculations.

(a) Total gross lending secured on dwellings. Data for 2016 are to November. Data cover sterling lending by UK MFIs and other lenders to UK individuals. Non seasonally adjusted.
(b) CML forecasts for total gross lending secured on dwellings published in December 2016.

## Chart 2.5 Consumer credit growth




Sources: Bank of England, Finance & Leasing Association and Bank calculations.

(a) Sterling net lending by UK MFIs and other lenders to UK individuals excluding student loans. Non seasonally adjusted.
(b) Dealership car finance lending is estimated using change in outstanding stock. It may therefore reflect breaks in the series as well as underlying flows.
(c) Other is estimated as total consumer credit lending minus dealership car finance (as provided by the Finance & Leasing Association) and credit card lending.

remortgaging (**Chart 2.2**). Demand for buy-to-let lending had decreased over the previous two quarters, although had increased significantly for the majority of 2015. The Royal Institution of Chartered Surveyors' (RICS) new buyer enquiries balance also suggested an increase in demand in the three months to November, having picked up substantially from a recent low in June.

Lending activity picked up in the three months to November, with approvals for house purchase increasing to around 67,000 (**Chart 2.3**). Approvals for remortgaging also increased, but remained significantly lower than their pre-crisis average. The annual growth rate in the stock of secured lending remained little changed in November at 3.1%, with gross secured lending for 2016 set to be higher than 2015 (**Chart 2.4**). Looking forward, gross secured lending in 2017 is expected to be similar to 2016, according to the latest forecast by the Council of Mortgage Lenders (CML).

Indicators of loan performance on secured lending were stable. For example, data from the CML indicated that the mortgage arrears rate was little changed in 2016 Q3, relative to Q2.

### Consumer credit

Respondents to the 2016 Q4 *CCS* reported a slight increase in the availability of unsecured credit. Also, credit scoring criteria loosened for other unsecured lending, but tightened for credit card lending.

Quoted rates on new personal loans fell in Q4 compared to Q3 and remained at historical lows. Credit card rates have remained broadly stable over 2016 and competition continued to centre on non-price terms and conditions, with interest-free balance transfers currently being offered up to 43 months.

Lenders responding to the *CCS* reported an increase in demand from borrowers for credit card and other unsecured lending, such as personal loans, in the three months to mid-December.

Net flows of consumer credit continued to strengthen in 2016, with the annual growth rate in the stock of consumer credit increasing to 10.8% in November. The pick-up in the growth rate over recent quarters reflected an increased contribution from credit card lending and other loans and advances (excluding dealership car finance) (**Chart 2.5**). Dealership car finance has contributed to the growth in consumer credit since 2012, though the size of this contribution has remained broadly unchanged in the past few years.

Indicators of changes in loan performance on consumer credit were mixed in recent months. Lenders responding to the *CCS* reported a second consecutive significant increase in the default rate on other unsecured loans in Q4. These were expected to fall in Q1, however, and the write-off rate on consumer credit remained at historically low levels in the year to 2016 Q3.

## Mortgage lending by loan to value ratio

There was a fall in mortgage lending in the years following the financial crisis, especially at higher loan to value (LTV) ratios. This box reviews developments since then, bringing together various lending data sources that contain information available at different LTV ratios.

The **availability of secured credit** started to increase in 2009, and particularly since 2012, according to respondents to the *Credit Conditions Survey* (**Chart A**). This was also reflected in greater credit availability for borrowers with LTV ratios above 75%. Lenders in the survey also indicated an increased willingness to lend to borrowers with LTV ratios greater than 90% in recent years.

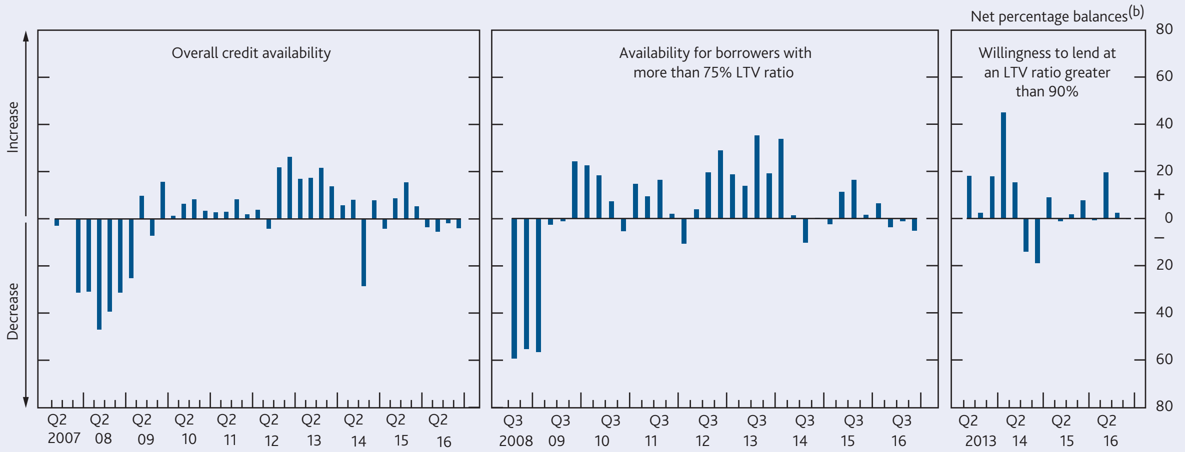
**Mortgage rates** have fallen following the financial crisis (**Chart B**). This partly reflects falls in relevant reference rates. Initially, quoted mortgage rates on lower LTV products fell more quickly, but in recent years the difference in rates between lower and higher LTV products has narrowed. For example, the gap between the quoted two-year fixed-rate 90% and the 60% LTV rates has narrowed from 279 basis points in 2012 to 107 basis points in 2016. The difference in rates between higher and lower LTV products remains wider than in 2007.

Alongside the fall in rates, the **number of mortgage products** available across all LTV ratios has increased since 2009, according to data from Moneyfacts Group (**Chart C**). The largest increase was at LTV ratios between 75% and 89%.

The **value of gross mortgage advances** has recovered in recent years, following falls after the financial crisis, but has remained below 2007 levels (**Chart D**). High LTV lending has increased from its post-crisis lows, but the proportion of both the value and **number of mortgages**[1] (**Chart E**) at very high LTV ratios remains lower than pre-crisis. The proportion of mortgage sales at higher LTV ratios is larger for first-time buyers than for the market as a whole.

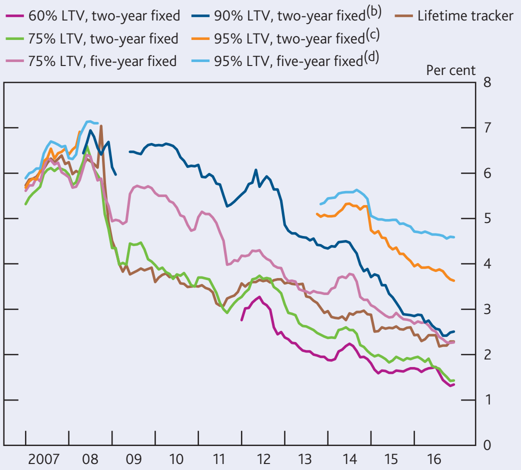
(1) For further details on the product sales data, see the *Mortgages Product Sales Data Trend Report 2005–2012*, August 2012; available at www.fca.org.uk/publication/data/fsa-psd-mortgages-2012.pdf.

**Chart A** *Credit Conditions Survey*: changes in availability of secured credit to households[a]



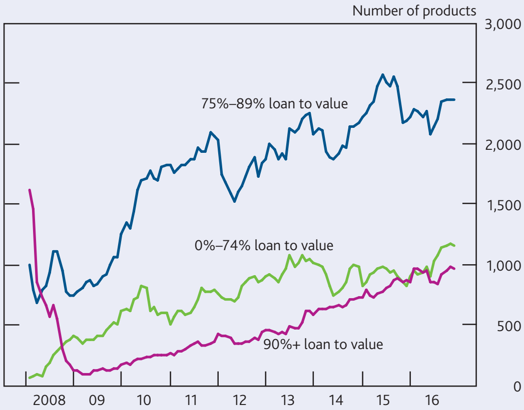

(a) See footnote (d) in **Chart 2.1**.
(b) A positive balance indicates that more credit is available.

## Chart B Quoted rates on secured lending to households(a)




(a) Rates on sterling lending. The Bank's quoted interest rates series are currently compiled using data from up to 19 UK MFIs. Quoted rates are end-month rates. Non seasonally adjusted.
(b) This series was not available between March 2009 and May 2009 as fewer than three products were offered from the sample of lenders in that period.
(c) 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.
(d) This series was not available between October 2008 and October 2013 as fewer than three products were offered from the sample of lenders in that period.

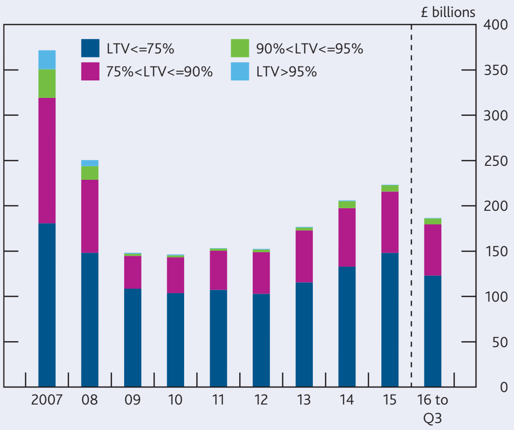
## Chart C Number of mortgage products available by loan to value ratio(a)




Sources: Moneyfacts Group and Bank calculations.

(a) Data start in February 2008. Sterling only. Excludes self-certified mortgages. Non seasonally adjusted. Each series represents the maximum LTV permitted.

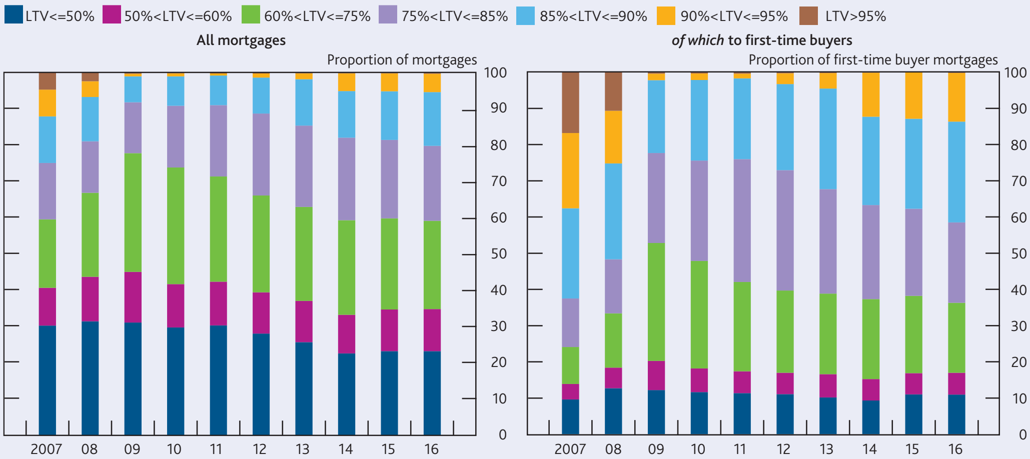
## Chart D Gross secured advances by loan to value ratio(a)




Sources: Financial Conduct Authority, Bank of England and Bank calculations.

(a) Sterling lending secured on UK property by all institutions authorised to undertake regulated mortgage lending. Non seasonally adjusted. Mortgage Lenders and Administrators data available at www.bankofengland.co.uk/pra/Pages/regulatorydata/mlar/2016/sep.aspx.

## Chart E Volume of mortgage sales by loan to value ratio(a)(b)(c)



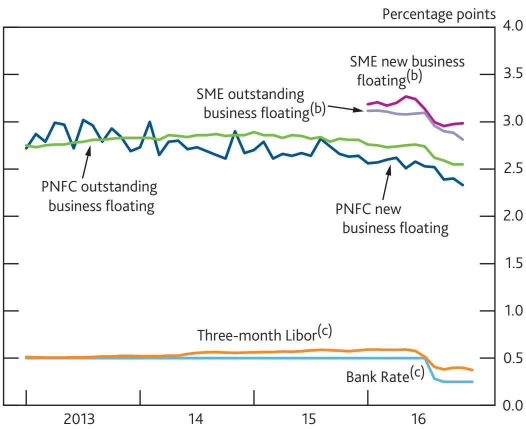

Sources: Financial Conduct Authority Product Sales Database (PSD) and Bank calculations.

(a) The PSD include regulated mortgage contracts only.
(b) The LTVs used in these charts are adjusted to estimate the LTV of each loan before any fees or charges are added. This approximates the LTV at which the loan was originated.
(c) 2016 includes data to end-September 2016.

# 3 Corporate credit conditions

The cost of both outstanding and new bank credit to businesses fell over the three months to November 2016, following the previous fall in reference rates. The availability of credit across business sizes was little changed in Q4 and remained above normal levels according to the Bank's network of Agents, though some major UK lenders noted a marginal tightening in supply to a small number of specific sectors. On balance, survey evidence suggested that corporate credit demand continued to soften in Q4. Nevertheless, growth in bank lending to UK businesses continued at rates similar to those in 2016 H1.

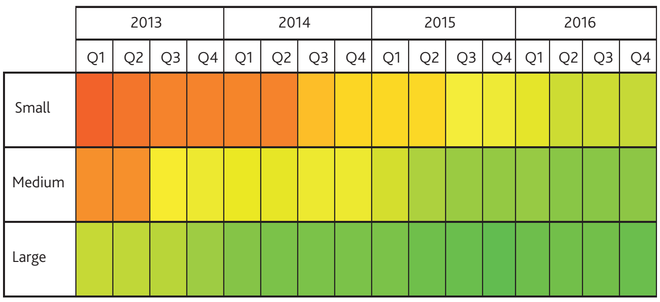
**Chart 3.1** Effective rates on corporate loans and relevant reference rates[(a)]




Sources: Bank of England, Bloomberg and Bank calculations.

(a) Rates on sterling lending on loans and exclude overdrafts. The Bank's effective interest rates series are currently compiled using data from up to 19 UK MFIs. Effective rates are average monthly rates. For further details of the series used please see *Bankstats* Table G1.4. Non seasonally adjusted. Effective interest rate data are to November 2016. Three-month Libor and Bank Rate are to December 2016.
(b) SMEs are defined as those businesses with annual debit account turnover on the main business account of less than £25 million and exclude unincorporated businesses. Series start in January 2016.
(c) Data are monthly averages of daily data.

**Chart 3.2** The Bank's Agents' assessment of corporate credit availability[(a)]




(a) This mapping is based on individual Agencies' national assessments of corporate credit availability, weighted by the gross value added of their regions or countries. The greater the intensity of red, the tighter credit availability; the greater the intensity of green, the looser credit availability. Yellow indicates normal conditions. Includes bank and non-bank credit. Small businesses defined as those with fewer than 50 employees, medium businesses between 50 and 250, and large over 250. For more details, see the 2016 Q4 *Bank of England Agents' summary of business conditions*; www.bankofengland.co.uk/publications/Documents/agentssummary/2016/q4.pdf.

## Cost and availability of credit

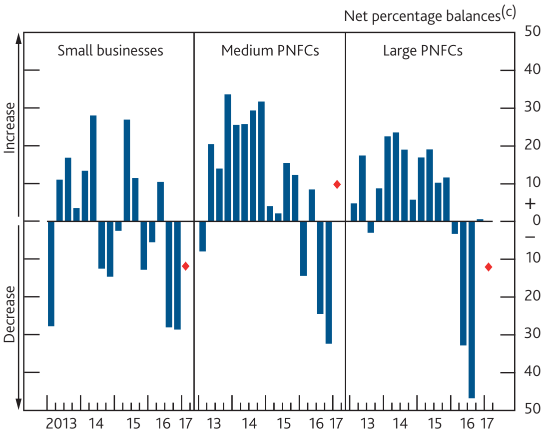
The effective rates on both outstanding and new floating-rate loans to businesses fell over the three months to November and are at levels below recent years (**Chart 3.1**).[(1)] The effective floating rate on outstanding loans to small and medium-sized enterprises (SMEs) fell over this period by slightly more than the equivalent rate to all businesses. These falls follow the reduction in reference rates that occurred between May and September, as described in Section 1. Floating-rate loans account for around four fifths of outstanding business loans and an even larger share of new business loans.

In the corporate bond market — an important source of finance for some large companies — spreads on sterling-denominated investment-grade bonds were broadly unchanged in Q4. These spreads were around their lowest levels for over a year, having fallen in 2016 Q3, including following the MPC's announcement of corporate bond purchases.

Credit availability continues to be well above normal for large and medium-sized businesses, and more modestly so for small businesses, according to intelligence gathered by the Bank's network of Agents (**Chart 3.2**). In line with the Agents' view, lenders responding to the Bank of England's *Credit Conditions Survey* (*CCS*) reported that the availability of credit to all sizes of businesses was broadly unchanged in Q4. However, in recent discussions, some major UK lenders reported instances of a marginal tightening in supply to a small number of specific sectors, including commercial real estate. The net balance of respondents to the *Deloitte CFO Survey* continued to report that new credit was available in 2016 Q4, though

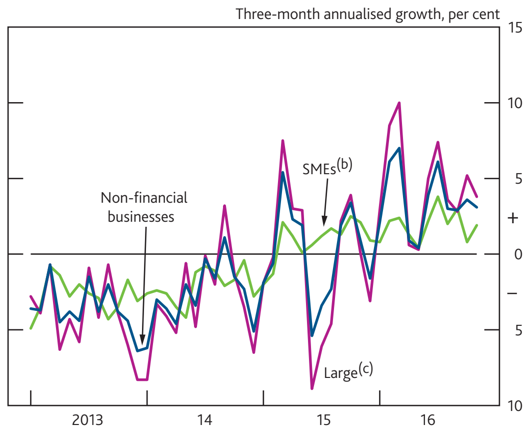
(1) For more details on recent changes in various corporate loan rates see tab 'Table 3.A' in the accompanying spreadsheet at: www.bankofengland.co.uk/publications/Documents/creditconditionsreview/2016/additionalratestableq416.xlsx.

## Chart 3.3 *Credit Conditions Survey*: changes in corporate demand for lending by firm size[(a)(b)]



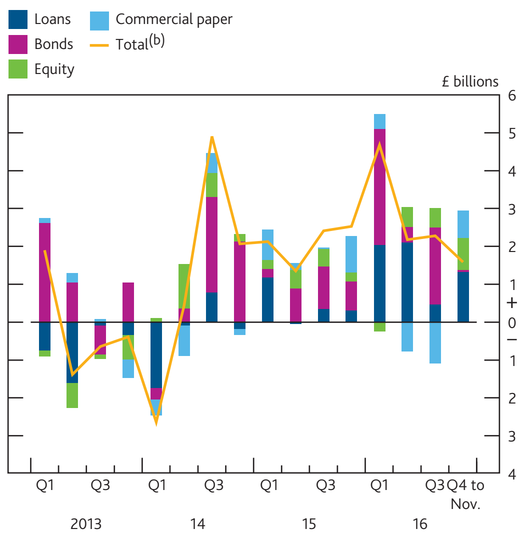

(a) See footnote (d) in **Chart 2.1**.
(b) Small businesses are defined as those with annual turnover of less than £1 million; medium-sized corporates are defined as those with annual turnover of between £1 million and £25 million; and large corporates are defined as those with annual turnover of over £25 million.
(c) A positive balance indicates an increase in demand.

## Chart 3.4 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. Data are to November 2016. 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.

## Chart 3.5 Net finance raised by UK businesses[(a)]




(a) Monthly averages presented at a quarterly frequency. 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 cover funds raised in sterling and foreign currency, expressed in sterling. Seasonally adjusted. Bonds and commercial paper data are non seasonally adjusted.
(b) Owing to the seasonal adjustment methodology, this series may not equal the sum of its components.

this balance fell slightly on the previous quarter. In the Federation of Small Businesses' (FSB's) 2016 Q4 *Voice of Small Business Index* there was a slight decline relative to 2016 Q3 in the net percentage balance of respondents who perceived credit availability to be 'good', but the level was above that between 2012 and early 2016.

### Demand for credit

On balance, survey evidence suggested that demand for lending from corporates continued to soften in Q4. *CCS* respondents reported that significant reductions in capital investment and commercial real estate were the main factors pulling down on corporate credit demand in Q4.

According to *CCS* respondents, demand for credit from small businesses and medium-sized PNFCs had fallen significantly in Q4, as it had in Q3 (**Chart 3.3**). Despite this, the FSB's *Voice of Small Business Index* reported that credit applications remained stable in Q4. Credit demand from large PNFCs was reported to be unchanged in Q4 by *CCS* respondents, having fallen significantly in Q3.

### Lending data

Despite signs of softer demand, bank lending to UK non-financial businesses has so far been broadly stable, perhaps supported by recent reductions in the cost of credit. The three-month annualised growth rate in the stock of lending to UK non-financial businesses was 3.1% in November 2016, similar to its 2016 H1 average (**Chart 3.4**). Within this, the growth rate of lending to large businesses has continued to be a little stronger than that to SMEs.

Net finance raised by UK PNFCs from UK MFIs and capital markets averaged £1.6 billion in October and November 2016, having been stronger earlier in the year (**Chart 3.5**). Cumulative net finance raised in 2016 up to and including November was higher than in the equivalent period of any year since 2008.

### Loan performance

In recent discussions, the major UK lenders reported that their corporate loan performance remained strong. Following falls in recent years, respondents to the *CCS* reported a rise in Q4 in the default rate on loans to medium PNFCs and a slight rise in the default rate on loans to small businesses. The losses given default were reported to be unchanged in 2016 Q4 by respondents to the *CCS*.

## Abbreviations

**BLS** — *Bank Liabilities Survey*.
**CCS** — *Credit Conditions Survey*.
**CDS** — Credit default swap.
**CFO** — Chief financial officer.
**CML** — Council of Mortgage Lenders.
**FLA** — Finance & Leasing Association.
**FSB** — Federation of Small Businesses.
**Libor** — London interbank offered rate (see below).
**LTV ratio** — Loan to value ratio (see below).
**MFIs** — Monetary financial institutions (see below).
**MPC** — Monetary Policy Committee.
**PNFCs** — Private non-financial corporations (see below).
**RICS** — Royal Institution of Chartered Surveyors.
**SMEs** — Small and medium-sized enterprises.
**TFS** — Term Funding Scheme.

## Glossary

**Bank Rate** The official rate paid on commercial bank reserves by the Bank of England.

**Businesses** Private non-financial corporations.

**Consumer credit** Borrowing by UK individuals to finance expenditure on goods and/or services. Consumer credit is split into two components: credit card lending and 'other' lending (mainly overdrafts and other loans/advances).

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

**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.

**Other funding** This refers to wholesale debt funding, wholesale deposits and funding via central bank operations.

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

**Quoted Rates** The weighted average of a sample of advertised deposit and loan rates: weights calculated from Bank of England statistical collections.

**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.

**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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