



Danmarks Nationalbank's lending survey

The lending survey conducted by Danmarks Nationalbank is a qualitative statistical survey. In the survey, the credit managers of the largest banks and mortgage banks assess changes in the supply of and demand for loans over the last quarter and expected changes in the coming quarter. The results of the lending survey contribute to an increased understanding of the Danish credit market, by illustrating changes in the credit institutions' credit policy, loan conditions and terms. The lending survey is inspired by similar foreign surveys conducted by e.g. the European Central Bank.

Reporting frequency

The survey is conducted on a quarterly basis, and the first results are available for the 4th quarter of 2008. The results are published at 9.30 a.m. on the 6th banking day in January, April, July and October.

Population

The population consists of the banks in the Danish Financial Supervisory Authority's groups 1 and 2 and the five largest mortgage banks, and covers about 80 per cent of lending to households and the corporate sector. This population is representative of the Danish credit market, and the survey thus provides an adequate macroeconomic picture of the credit situation. The results are published for the population as a whole, for the banks in groups 1 and 2, and for the mortgage banks. The population is adjusted once a year prior to the 2nd quarter survey.

Sector

The survey covers lending to corporations, i.e. sole proprietors and non-financial corporations, as well as households, i.e. wage earners and pensioners, etc.

Questionnaires

The survey is conducted using multiple-choice questionnaires which are completed by the credit managers of the participating credit institutions. The questionnaires are available at Danmarks Nationalbank's website. The survey consists of two questionnaires: one covering lending to corporations, and one covering lending to households. In addition, the survey may from time to time be supplemented by ad hoc questions. The two standard questionnaires consist of five questions each: 1) changes in the institutions' credit policy; 2) factors contributing to changes in the credit policy; 3) changes in the institutions' credit conditions and terms; 4) changes in loan demand from new and existing customers, respectively; and 5) changes in default rates and losses given default. The questions relate to changes in the current quarter compared to the previous quarter and expectations for the coming quarter. For each question there are five different options for answering with regard to developments in the current and the coming quarter, respectively: *tightened considerably*, *tightened somewhat*, *unchanged*, *eased somewhat* and *eased considerably*. The institutions'

answers thus relate to changes from quarter to quarter rather than to absolute levels.

Weighting

On publication, the answers are weighted according to the institutions' shares of total lending. The credit institutions' lending reported to Danmarks Nationalbank's MFI statistics is used as weights. The weights are adjusted once a year when establishing the population, and calculated on the basis of the credit institutions' stocks in April.

Net balance

For the data presentation, a net balance is calculated for each question by assigning a value to each of the five options. The following values are assigned: *tightened considerably* = -100, *tightened somewhat* = -50, *unchanged* = 0, *eased somewhat* = +50, and *eased considerably* = +100. The net balance for the question is calculated by adding the products of the institutions' weights and the value of their answers as shown below.

$$\text{Net balance} = \sum s_i \times v_i$$

where s_i is the value of respondent i 's answers, and v_i is the weight of respondent i . The scale runs from -100 to +100. A negative net balance indicates that, overall, the institutions have tightened their credit policy, thus making it more difficult to obtain loans, while a positive net balance indicates an overall easing of credit policy. For example, the net balance will be +(-)100 if all institutions answer that their credit policy have been eased (tightened) considerably..

Question 1

Changes in the credit institutions' credit standards (policy)

The purpose of this question is to determine whether it has become easier or more difficult for borrowers to obtain loans. For question 1, it is to be stated how *credit policy* have changed and are expected to change. In other words, how the internal guidelines or criteria determining the credit institutions' lending policies have changed. This includes both changes in *written* lending policies and changes in policies actually *implemented*.

For loans to corporations, changes in the credit policy are to be stated for all loans to corporations taken as one, and for loans to *small and medium-sized* corporations. Small and medium-sized corporations are defined as corporations with annual net turnover of less than DKK 150 million and fewer than 250 full-time employees in accordance with the definition of reporting classes in the Danish Financial Statements Act of 2001. For loans to households, only changes in the credit policy for loans to households taken as one are to be stated.

Question 2

Factors contributing to changes in credit standards (policy)

The purpose of this question is to determine the reasons for changes in the supply of loans. It is particularly useful to know what the institutions consider the key factors when formulating their future lending policies. For question 2 it is to be stated how various factors have affected and are expected to affect credit policies. The factors are divided into four categories, A-D. For each category it is to be assessed to what extent the

factors in question have contributed and are expected to contribute to changes in credit policy.

The factors in category A all relate to the institutions' *financing costs* and any restrictions caused by their *balance-sheet constraints*, including changes in capital adequacy, cf. Basel II, changes in liquidity risk, cf. section 152 of the Danish Financial Business Act, and changes in access to funding in the money market.

The category B factors relate to changes caused by the *conduct of competitors*, including whether competition from other credit institutions has contributed to changes in credit policy. This may be competition from other banks/mortgage banks as well as other types of credit institutions. With regard to lending to corporations, the competition may also be in the form of the corporations' own market funding, e.g. issuance of shares or corporate bonds.

The category C factors relate to changes in the institutions' *risk assessment*, including how expectations of the economic development have affected and will affect their credit policy. For lending to households, expectations of the development in the housing market can also be included. For corporations, expectations of the development in specific industries and changes in risks related to the collateral pledged by borrowers can be included.

The category D factors relate to changes in the institutions' *risk appetite*, including whether changes in the risks the credit institutions are willing to take have contributed or will contribute to changes in their credit policy.

Question 3

Changes in the credit institutions' credit conditions and terms

The purpose of this question is to identify the factors that impact growth in lending. The credit institutions' lending policies can be adjusted via changes in interest rates or via other conditions that are not price-related. These other conditions are of particular interest as they are not covered by existing quantitative statistics. For question 3 it is to be stated how the conditions and terms for approval of loans have changed and are expected to change. For lending to corporations, the assessment also includes changed conditions and terms when establishing *credit lines*, i.e. when determining the maximum amounts corporations can borrow.

Conditions and terms refer to the specific assumptions agreed between the borrower and the lender. The conditions and terms in the questionnaire are divided into three categories, and changes are to be assessed for each category.

Category A comprises *price-related* terms and conditions, including the credit institutions' fees and margins, i.e. the premium added to the lender's own financing costs.

Category B comprises *collateral requirements*. For lending to corporations, changes in guarantees, liability and company charge can be included. For lending to households, changes in the loan-to-value ratio of properties can be included.

Category C comprises *other terms and conditions*, including the amount and maturity of the loans.

Question 4

Changes in the demand for loans

The purpose of this question is to determine the extent to which changes in total lending are determined by demand. It is essential to be able to distinguish between supply and demand when interpreting the development in the credit market. For question 4 it is to be stated how the demand for loans has changed and is expected to change. The *demand for loans* means the total of loans demanded by borrowers. The question is broken down by *existing customers* and *new customers*. For lending to corporations, the assessment also includes changed utilisation of credit lines. Changes in the demand for loans are to be stated for all loans to corporations taken as one, and specifically for loans to small and medium-sized corporations. For lending to households, changes in demand are only to be stated for all loans to households taken as one.

Question 5

Changes in the ratio of default rates and losses given default

The purpose of this question is to get an indication of the development in the ratio of default rates and losses given default on loans. Knowing how lenders expect default rates and losses given default to develop is useful as it affects the development in credit policy and may be used as an indicator of the future real-economic development. For question 5 it is to be stated how default rates and losses given default on loans have changed and are expected to change. *Default rates and losses given default* are defined in accordance with the applicable accounting rules. For loans to corporations, changes in default rates and losses given default are to be stated both for all loans to corporations taken as one, and specifically for loans to small and medium-sized corporations. For lending to households, changes in default rates and losses given default are only to be stated for all loans to households taken as one.

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