South African bank lending practices survey

Working paper series

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The Centre of Excellence in Financial Services is a non-profit organization focusing on collaborative research, bringing together local and international thought leaders, industry experts and academics to interrogate the role financial services can play in achieving national and international objectives. This working paper is available in electronic format on www.coefs.org.za.

Table of contents

Preface iii

Members of the work group iv

Executive summary v

Bank Lending Practices Survey 1

Loans to households 2

Loans to enterprises 11

Strategic direction 14

Comparison 20

Glossary 25

Preface

The Bank Lending Practices Survey provides a useful insight into sentiment amongst bankers in South Africa. The survey takes cognisance of the approach used in the senior loan officer survey conducted quarterly in America and similar surveys in Canada, Europe, Britain and other economies, but has been adapted to the particular circumstances of the South African credit markets. The survey provides an ongoing quantitative basis for assessing bank behaviour, likely changes and impending challenges relating to credit, lending and risk.

The survey is targeted at senior bank credit executives to gauge their reactions, intentions and likely future responses to credit policy and new lending, resulting from the introduction of legislative and other changes in economic circumstances. The biannual survey, conducted through interaction with senior executives in respondent banks and analysed by Econometrix (Pty) Ltd, provides an ongoing quantitative basis for assessing bank behaviour relating to lending.

The survey contains 18 regular questions and is supplemented with additional questions that give some insight into potential trends emerging at the time of the survey. In this survey we continue our focus on the effects of political and government changes on sentiment towards bank lending, adding the potential impact of the debt intervention bill on credit extension. Banking sector data series compiled by the South African Reserve Bank is used in conjunction with survey results, to show the provision of credit under various classes and categories, with estimations of econometric relationships. Data is compiled and analysed at a combined level for banks, so that individual bank information is not revealed in the modelling survey results and analysis. The results are compiled using a diffusion index approach, with responses weighted by asset values in order to collate responses across banks. A new credit stance index, compiled by concatenation across the six-monthly surveys, is introduced.

This is the fourth bank lending practices survey and we believe that over time, it should provide a useful measure in the understanding of the importance of sentiment in the credit landscape, particularly to the credit industry.

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Executive Summary

The South African Bank Lending Practices Survey is based on the first quarter of 2019, the period from January to March. It is a combination of a survey and interviews with certain senior bank lending executives from the contributing banks and forms the basis of this working paper. The aggregated results of the survey are provided together with additional information in the following section.

This working paper continues with the three long-term themes: the impact on household lending, enterprise lending and the strategic direction being taken by banks.

Two additional questions were introduced to the survey. The first continued with a theme of the effects of political and governance changes on the credit stance of banks, whilst the second question considered the adoption by Parliament of the debt intervention bill and the likely effect this may have on the credit stance of banks.

Growth in lending

The South African Bank Lending Practices Survey published for quarter 3 of 2018 (working paper 5 of 2018) provided some insight into the strategic direction indicated by banks in their future credit lending decisions. Comparing the actual lending data reported to the South African Reserve Bank, it is possible to determine the impact of these forecasts on credit decisions taken.

The total growth in net new bank lending[1] was approximately R205 billion since the last survey. This means that there was around 40% more new lending generated by the banks in this period than the previous period[2] (R144 billion), and as indicated

[1] The average of the first quarter 2019 BA 900 compared to the average of the third quarter 2018
[2] The average of the third quarter 2018 BA 900 compared to the average of the first quarter 2018

by their strategic direction, banks exercised their preference towards credit to households, constricting their appetite to provide credit to business enterprises.

Of the R 205 billion, households were allocated approximately 26% of this new lending, the same percentage allocation as the previous period, albeit 26% of a bigger amount. Despite a positive credit sentiment, new residential home loans remained static by value at R18 billion with significant growth in household credit cards at R3 billion, a further R4 billion for instalment sales and an additional R6 billion in general loans having been recorded, when compared to the previous period. This would be in line with their strategic direction, indicated through the previous South African Bank Lending Practices Survey.

Sentiment towards lending to consumers in the lowest income category, through stricter terms for the mass market, was forecast to decline, with credit sentiment turning negative over the Christmas shopping period, reflecting the impact of the debt intervention bill, flagged as the single largest contributor to the more stringent approach taken by them.

Extension of credit to business enterprises reduced by nearly R8.5 billion when compared to the previous period. However, commercial mortgages performed well with an increase of R6.5 billion to ameliorate the impact of the decline in instalment sales by R3.5 billion, overdrafts by R4 billion and general loans by R7.5 billion.

SME lending remained a priority for banks with an increase in new credit of R2 billion over the previous period.

Political and governance changes

In the build-up to the sixth general election in May 2019, the respondents indicated that despite the appointment of new boards, the dire financial situation of state owned enterprises combined with load shedding, further evidence of state capture and malfeasance had contributed materially to a tightening of the credit stance of banks, when compared to the previous survey.

Confidence in state institutions such as the judiciary, National Prosecuting Authority etc. and uncertainty relating to land expropriation were all negative contributors to the credit stance of banks during the first quarter of 2019.

The positive impact of the transition to the Ramaphosa presidency was no longer a factor in credit sentiment, nor was the previous concern about factions within the ANC.

Debt intervention bill

The debt intervention bill, adopted in its current form by Parliament, has impacted negatively across all classes of household lending including unsecured credit, credit cards and overdrafts, albeit only to consumers in the lowest income category. Longer-term lending, over one-year, is likely to be more restricted than short-term lending under six months. Developmental credit, often used to finance education and specifically excluded from the ambit of the bill, has experienced the most significant decline in credit appetite to consumers in the lowest income category, despite a moderately more positive credit stance towards the middle and upper-income groups going forward.

Loans to households

Loans to households focuses on three sub-categories: mortgage lending for residential homes, secured lending such as motor vehicle finance and unsecured lending, typically credit cards and other term credit arrangements.

Banks still view households favourably and continue to approve loans across the sub-categories. Credit facilities through credit cards and overdrafts have benefited the most in this period with some positive sentiment remaining in unsecured credit, whilst secured credit in the form of motor vehicle finance has moved away from the positive sentiment expressed previously.

Mortgage lending

The credit stance towards mortgage lending remains positive, despite factors such as the perception of risk, in particular the declining economy, that have moved into negative territory.

Competition from other banks is seen as a growing positive factor for consumers when compared to 6 months ago with interest rates on mortgages, in particular riskier classes of home ownership, becoming more affordable. This trend favoursing homeowners in the middle to upper income groups.

Secured lending

The credit stance towards secured credit, such as motor vehicle finance, has softened significantly over the period.

Although credit sentiment is neutral, factors such as the perception of risk from declining economic activity and creditworthiness of consumers are all negative influences of this credit sentiment. The cost of bank funding and/or balance sheet constraints are additional factors that have contributed to the decline from the previous survey.

Unsecured lending

The credit stance towards unsecured credit to households remains positive having declined marginally from the previous survey. The perception of risk has moved into negative territory with concerns around both the creditworthiness of consumers and economic activity standing out as contributing factors.

Competition, predominantly from other banks, has improved credit conditions for households when compared to the previous survey. Terms and conditions remain positive for households with more lenient credit scoring and non-interest charges.

Loans to enterprises

Banks overall credit sentiment towards business enterprises changed between surveys, turning negative across almost all categories, with the exception of mining and quarrying. The credit sentiment towards the agriculture and forestry sector was the only improvement, despite still being marginally negative.

State owned entities experienced the most significant decline, followed by manufacturing. The construction industry, already restricted to access to credit, fell further into negative territory.

While banks have improved their pricing to business enterprises, particularly for riskier loans and the cost of bank capital has been flagged as a negative influence on the provision of credit to the sector, there is no clear indicator through the survey of why this trend continues.

Strategic direction

Credit sentiment towards households remains positive as banks indicate a preference towards lending to households over business enterprises going forward.

While all categories of household lending remain positive, secured lending, including vehicle asset finance, could become a renewed focus area.

Business enterprises may find overdraft and unsecured credit harder to access in future, as well as import and export finance. The improvement in credit stance towards agriculture and forestry could take this sector into positive territory.

Sentiment towards SMEs going forward, is turning negative, however, as banks shift away from asset-based finance, like plant and equipment, relatively lenient funding options still exist in debtor finance, overdrafts and unsecured lending.

Through a process of indexing sentiment to the first survey done in Q1 2017, almost all household categories trend positive over the past two and a half years, whilst the converse is true of business enterprises where almost all categories trend negative.

Bank lending practices survey

This survey is based on the assessment of bank lending executives at each bank of the lending undertaken by their bank in the most recent three-month period, compared to that which prevailed six months prior. It also looks at the expectation or intention of bank executives for lending by their bank over the next three-month period. In combination through a compilation of results, it provides a gauge of how bank lending behaviour is changing over time. Survey results are published only for banks at combined level, so that no individual bank results are released. The results can be used for monitoring trends in lending from a bank behaviour perspective, especially in providing a gauge of how lending behaviour is changing currently and how it is likely to change in the near future. Results are also able to feed into further analysis and research relating to how bank behaviour is able to influence the progress of the economy, both at macro level and in relative effects between economic participants.

The survey is divided into questions related to household lending, enterprise (business/corporate) lending, and strategic direction relating to small enterprises and shifts in lending emphasis. It relates to Q1 2019 (January to March), usually compared to a prior period.

At this juncture, three full previous surveys have been conducted, in respect of Q3 2017, Q1 2018 and Q3 2018, plus an initial pilot survey conducted in mid-2017 relating to lending in Q2 2017. Useful comparisons can be made to the results from the previous surveys, though the length of history for identifying time trends is still limited. Survey responses have been combined across respondent banks and weighted by the asset holdings of each bank.

All responses are normed to a score of 50. Thus, a score greater than 50 indicates an increase or easing of credit stance or a positive influence, less than 50 conversely indicates a decrease, tightening or negative influence. A score of 50 reflects unchanged or a neutral effect. The symbol ~ indicates no change from the previous period or previous survey. The symbol ♦ is used to indicate the change in sentiment from the neutral score of 50. The symbol □ is used where there was no comparable question in the previous survey. Δ survey indicates the change compared to the response in the previous survey.

Loans to Households[3]

Q1: Banks' credit stance[4] to households

Compared to 6 months ago, how has your bank's **credit stance** as applied to the approval of loans to **households** changed?

Loans to households: credit stance change	**19Q1**	**Δ survey**	**18Q3**	**Δ ♦**
Overall relative to 6 months ago	50	- 3	53	~
Mortgage lending[1]	54	- 3	57	+ 4
Secured credit e.g. motor vehicle finance[2]	50	- 9	59	~
Credit facilities e.g. credit cards and overdrafts	54	+ 4	50	+ 4
Unsecured credit	52	- 2	54	+ 2
Short term credit up to R8000, within 6 months	50	~	50	~
Developmental credit e.g. education	50	~	50	~
Mass market	50	~	50	~
Mid market	54	- 4	58	+ 4
Upper market	54	~	54	+ 4

Note 1: Typically lending secured through a residential mortgage bond.
Note 2: Typically secured through a notarial bond or similar over the vehicle/asset.

[3] In the survey, a household refers to a consumption entity in the economy which typically compromises of a group of related persons situated at a single residential location.

[4] Credit stance refers to the stringency (< 50) or leniency (> 50) which the bank applies in considering new applications for loans or credit.

For Q1 2019, banks' credit stance was more positive towards households over most classes of lending, but only toward mid and upper market segments. There was no improvement in credit stance towards the mass market. The more favourable credit stance applied to mortgage lending, credit facilities and unsecured lending, but not to vehicle finance, short-term credit (up to 6 months) or developmental credit. The latter two would have suffered the effect of being concentrated in the mass market.

Q2: Factors affecting banks' credit stance on mortgage lending to households

Compared to 6 months ago, how have the following **factors** affected your bank's **credit stance** as applied to the approval of **mortgage lending** to households (as referred to in question 1)? Contribution of the following factors to the tightening or easing of credit stance:

Loans to households: credit stance factors	**19Q1**	**Δ survey**	**18Q3**	**Δ ♦**
A) Cost of funds and balance sheet constraints	50	~	50	~
B) Pressure from competition	55	+ 5	50	+ 5
Competition from other banks	61	+ 4	57	+ 11
Competition from non-bank lending	50	~	50	~
Competition from direct / self-financing	50	- 5	55	~
C) Perception of risk	38	- 3	41	- 12
Expectations regarding economic activity	37	- 1	38	- 13
Housing market prospects	41	- 3	44	- 9
Risk on collateral realisation	48	- 3	51	- 2
D) Other factors	33	~	33	- 17

Bank responses show competition from other banks as a notable factor in their more lenient credit stance towards mortgage lending. This also reflects as a stronger factor towards leniency than in Q3 2018.

On the other hand, risk perceptions, especially concerning economic activity/growth levels and the housing market, weighed on credit stance towards mortgage lending. The positive factors were assessed as more positive than was reflected for Q3 2018, the negative factors more negative than in the previous survey.

Q3: Factors affecting banks' credit stance on secured credit to households

Compared to 6 months ago, how have the following **factors** affected your bank's **credit stance** as applied to the approval of **secured credit** to households (as referred to in question 1) i.e. secured excluding mortgage-secured lending? Contribution of the following factors to the tightening or easing of credit stance:

Loans to households: credit stance	**19Q1**	**Δ survey**	**18Q3**	**Δ ♦**
A) Cost of funds and balance sheet constraints	45	- 10	55	- 5
B) Pressure from competition	57	~	57	+ 7
Competition from other banks	55	~	55	+ 5
Competition from non-bank lenders	50	- 5	55	~
Competition from direct / self-financing	50	- 5	55	~
C) Perception of risk	45	- 13	58	- 5
Expectations regarding economic activity	38	+ 1	37	- 12
Creditworthiness of consumers	43	+ 1	42	- 7
Risk on the collateral required	48	+ 3	45	- 2
D) Other factors	50	~	50	~

For secured lending, competition from other banks again reflects as a positive factor towards greater leniency in credit stance. This is little changed from the Q3 2018 survey.

Concerns over economic activity/growth reflect as a distinctly negative factor towards credit stringency, as does concern over creditworthiness of consumers. These though were rated as slightly less severe than in Q3 2018.

Q.4: Factors affecting stance: credit facilities and unsecured lending to households

Compared to 6 months ago, how have the following **factors** affected your bank's **credit stance** as applied to the approval of **credit facilities and unsecured lending** to households (as referred to in question 1) i.e. excluding mortgage and secured lending? Contribution of the following factors to the tightening or easing of credit stance:

Loans to households: credit stance	**19Q1**	**Δ survey**	**18Q3**	**Δ ♦**
A) Cost of funds and balance sheet constraints	50	~	50	~
B) Pressure from competition	55	+ 5	50	+ 5
Competition from other banks	54	+ 4	50	+ 4
Competition from non-bank lenders	51	+ 1	50	+ 1
Competition from direct / self-financing	50	~	50	~
C) Perception of risk	38	- 6	44	- 12
Expectations regarding economic activity	37	- 6	43	- 13
Creditworthiness of consumers	45	- 6	51	- 5
Risk on the collateral required	49	- 2	51	- 1
D) Other factors	50	~	50	~

For unsecured lending and credit facilities, competition from other banks was again reflected as a significant factor towards greater leniency. This was shown as a stronger factor than in Q3 2018.

Risk perceptions relating to economic activity/growth and creditworthiness of consumers were strong negative factors on credit stance and were more negative than reflected in Q3 2018.

Q.5: Terms and conditions[5] for mortgage lending to households

Compared to 6 months ago, how have your bank's **terms and conditions** for approving **mortgage lending** to households changed?

Loans to households: terms change	**19Q1**	**Δ survey**	**18Q3**	**Δ ♦**
A) Price	55	+ 10	45	+ 5
Your bank's margin on average loans [1]	54	+ 9	45	+ 4
Margin on riskier loans [1]	56	+ 12	44	+ 6
B) Credit scoring	50	+ 4	46	~
C) Other conditions	50	~	50	~
Collateral requirements	49	- 1	50	- 1
Loan-to-value ratio	52	- 1	53	+ 2
Maturity	50	~	50	~
Non-interest rate charges (fees)	50	~	50	~
D) Other factors	50	~	50	~

Note 1: Wider margin = tightened, narrower margin = eased.

Banks reflect terms and conditions on mortgage lending as more lenient in Q1 2019 than 6 months earlier, especially on riskier loans. The change relative to the previous survey suggests that these terms and conditions have become progressively more lenient over at least the last 12 months. Loan-to-value ratios in particular reflect as more lenient over the last 6 months.

Collateral requirements reflect as slightly more stringent, while maturity periods and fees charges are reflected as unchanged overall.

[5] In this paper, "terms and conditions" refer to the stipulated requirements applied to borrowers, as expressed in documents relating to new lending or credit provided.

Q.6: Banks' terms and conditions for secured lending to households

Compared to 6 months ago, how have your bank's **terms and conditions** for approving **secured lending to households** changed i.e. secured lending other than mortgage-based lending?

Loans to households: credit terms change	19Q1	Δ survey	18Q3	Δ ♦
A) Price	50	- 8	58	~
Your bank's margin on average loans	50	- 7	57	~
Your bank's margin on riskier loans	43	- 8	51	- 7
B) Credit scoring	50	~	50	~
C) Other terms and conditions	50	- 16	66	~
Collateral requirements	50	- 5	55	~
Maturity	50	- 5	55	~
Non-interest rate charges (fees)	50	~	50	~
D) Other factors	50	~	50	~

Terms and conditions for secured lending were reflected as little changed compared to 6 months prior, though stricter on riskier loans.

The change relative to the previous survey suggests that greater leniency was adopted in the Q3 2018 quarter compared to 6 months earlier but was re-tightened in Q1 2019.

Q.7: Terms and conditions for credit facilities and unsecured lending to households

Compared to 6 months ago, how have your bank's **terms and conditions** for approving **credit facilities and unsecured lending to households** changed i.e. other than mortgage-based and other secured lending?

Loans to households: credit terms change	19Q1	Δ survey	18Q3	Δ ♦
A) Price	56	+ 1	55	+ 6
Your bank's margin on average loans	50	- 3	53	~
Your bank's margin on riskier loans	53	+ 3	50	+ 3
B) Credit scoring	54	+ 4	50	+ 4
C) Other terms and conditions	50	~	50	~
Collateral requirements	50	~	50	~
Maturity	53	~	53	+ 3
Non-interest rate charges (fees)	53	+ 3	50	+ 3
D) Other factors	50	~	50	~

For unsecured lending and credit facilities, banks indicated greater leniency compared to 6 months earlier in respect of margins, credit scoring, maturity periods and fee charges.

The leniency in these respects was also greater compared to the bank responses provided for Q3 2018.

Q.8: Interest rate spread relative to cost of funds: households

Compared to 6 months ago, how has your bank's **interest rate spread** relative to cost of funds changed, as applied to the approval of loans to **households**?

Loans to households: interest rate spread	19Q1	Δ survey	18Q3	Δ ♦
Overall relative to 6 months ago	50	~	50	~
Mortgage lending	54	+ 7	47	+ 4
Secured credit eg motor vehicle finance	50	~	50	- 1
Credit facilities eg credit cards and overdrafts	50	~	50	~
Unsecured credit	53	~	53	+ 3
Short term credit up to R8000, within 6 months	50	~	50	~
Developmental credit eg education	50	~	50	~

Mass market	50	~	50	~
Mid market	53	+ 3	50	+ 3
Upper market	53	+ 3	50	+ 3

Note: Wider margin = tightened i.e. lower score, narrower margin = eased i.e. higher score.

Banks indicate their interest spreads as having been lower (more lenient) in Q1 2019 compared to 6 months earlier on mortgage lending and unsecured credit, slightly higher on vehicle financing, and little changed on other classes of lending. The change towards greater leniency in mortgage lending also reflects by comparison to the survey responses for Q3 2018. The more lenient spreads apply to mid and upper markets, but not to the mass market.

Q.9: Thresholds on credit scores to households

Compared to 6 months ago, how have your bank's **thresholds on credit scores** to qualify for credit changed, as applied to the approval of lending to **households**?

Loans to households: credit score thresholds	**19Q1**	**Δ survey**	**18Q3**	**Δ ♦**
Overall relative to 6 months ago	50	~	50	~
Mortgage lending	50	~	50	~
Secured credit e.g. motor vehicle finance	50	+ 5	45	~
Credit facilities e.g. credit cards and overdrafts	50	~	50	~
Unsecured credit	50	~	50	~
Short term credit up to R8000, within 6 months	50	~	50	~
Developmental credit e.g. education	50	~	50	~
Mass market	50	~	50	~
Mid market	50	- 4	54	~
Upper market	50	~	50	~

These are shown to be unchanged in Q1 compared to 6 months prior.

Q.10: Expected banks' credit stance to households over the next three months

Please indicate how you **expect** your bank's **credit stance** as applied to the approval of loans to households to change over the **next three months**.

Loans to households: future 3 months	19Q1	Δ survey	18Q3	Δ ♦
Overall	54	+ 4	50	+ 4
Mortgage lending	54	+ 2	52	+ 4
Secured credit e.g. motor vehicle finance	53	+ 3	50	+ 3
Credit facilities e.g. credit cards and overdrafts	48	+ 4	44	- 2
Unsecured credit	50	+ 3	47	~
Short term credit up to R8000, within 6 months	53	+ 2	51	+ 3
Developmental credit e.g. education	54	+ 4	50	+ 4
Mass market	49	+ 3	46	- 1
Mid market	54	~	54	+ 4
Upper market	54	~	54	+ 4

Looking forwards, the banks expect their credit stance to be more lenient across nearly all lending classes to households, with only credit facilities expected to be slightly stricter and unsecured credit remaining much as in the completed quarter.

This assessment applies to the mid and upper markets, but not to the mass market, which is expected to incur slightly greater stringency over the coming quarter.

The current expectation overall shows an increase in expected leniency compared to the previous survey of Q3 2018, across all classes of lending.

2. Loans or credit lines to enterprises[6]

Q.11: Banks' credit stance to enterprises

Compared to 6 months ago, how has your bank's **credit stance** (lenient vs stringent) as applied to the approval of loans or credit lines to enterprises changed?

Loans to enterprises: credit stance change	**19Q1**	**Δ survey**	**18Q3**	**Δ ♦**
Overall relative to 6 months ago	48	- 6	54	- 2
Short-term loans (up to 1 year)	50	- 4	54	~
Longer-term loans (over 1 year)	48	- 1	49	- 2
Agriculture, forestry	49	+ 7	42	- 1
Mining, quarrying	54	~	54	+ 4
Manufacturing	42	- 7	49	- 8
Construction	39	- 2	41	- 11
Wholesale, retail, accommodation	48	- 6	54	- 2
Transport, communication, ICT	48	- 1	49	- 2
Financial, real estate, services	48	- 2	50	- 2
Utilities, social and state services	43	- 15	58	- 7

In the case of lending to enterprises, banks reflect their credit stance in Q1 2019 as generally more stringent than 6 months prior. By sector, the one exception was mining, which indicates greater leniency, likely to be off a recent history of stringency.

The responses reflect greater stringency compared to the survey responses for

[6] In this paper, an enterprise refers to a business entity which is not a bank or other financial intermediary.

Q3 2018, with the exception of Agriculture.

Q12: Factors affecting banks' credit stance

Compared to 6 months ago, how have the following **factors** affected your bank's **credit stance** as applied to the approval of loans or credit lines to enterprises? Contribution of the following factors to the tightening or easing of credit stance:

Loans to enterprises: reasons for change	**19Q1**	**Δ survey**	**18Q3**	**Δ ♦**
A) Cost of funds and balance sheet constraints	50	~	50	~
Costs related to your bank's capital position[1]	49	- 5	54	- 1
Your bank's ability to access market financing[2]	50	~	50	~
Your bank's liquidity position	50	- 1	49	~
B) Pressure from competition	50	~	50	~
Competition from other banks	46	+ 2	44	- 4
Competition from non-bank lenders	50	+ 4	46	~
Competition from direct market financing	50	~	50	~
C) Perception of risk	50	~	50	~
Expectations on general economic activity	45	+ 3	42	- 5
Industry or firm-specific outlook	45	+ 3	42	- 5
Risk on the collateral required	48	~	48	- 2
D) Other factors	50	~	50	~

Note 1: can include the use of credit derivatives, with the loans remaining on the bank's balance sheet
Note 2: e.g. money or bond market financing, including securitisation

Banks reflect most factors as having little contribution to the more stringent credit stance, other than competitive pressures from other banks and risks relating to economic activity/growth, generally and specific industry related.

The constraint of bank capital costs is reflected as more negative on credit stance than in the previous survey for Q3 2018.

Q.13: Terms and conditions for approving credit to enterprises

Compared to 6 months ago, how have your bank's **terms and conditions** for approving loans or credit lines to enterprises changed?

Loans to enterprises: terms change	**19Q1**	**Δ survey**	**18Q3**	**Δ ♦**
A) Price	57	+ 7	50	+ 7
Your bank's margin on average loans [1]	52	- 4	56	+ 2
Your bank's margin on riskier loans [1]	52	+ 4	48	+ 2
B) Other terms and conditions	50	~	50	~
Non-interest rate charges	50	~	50	~
Maximum size of the loan or credit line	50	- 4	54	~
Loan to value ratio	50	~	50	~
Collateral requirements	48	- 2	50	- 2
Loan covenants	53	+ 3	50	+ 3
Maturity	50	+ 5	45	~
C) Other factors	50	~	50	~

Note 1: wider margin = tightened, narrower margin = eased

Banks indicate terms and conditions as being more favourable to enterprises in Q1 2019 compared to 6 months prior in respect of bank margins and loan covenants, but little changed in other respects. Collateral requirements are reflected as somewhat stricter.

Q.14: Expect credit stance to enterprises over the next three months

Please indicate how you **expect** your bank's **credit stance** as applied to the approval of loans or credit lines to enterprises to change over the **next three months**.

Loans to enterprises: stance next 3 months	**19Q1**	**Δ survey**	**18Q3**	**Δ ♦**
Overall	55	- 1	56	+ 5
Short-term loans (up to 1 year)	58	+ 3	55	+ 8
Longer-term loans (over 1 year)	55	~	55	+ 5
Agriculture, forestry	54	+ 8	46	+ 4
Mining, quarrying	54	~	54	+ 4
Manufacturing	52	+ 2	50	+ 2
Construction	46	+ 1	45	- 4
Wholesale, retail, accommodation	52	+ 2	50	+ 2
Transport, communication, ICT	52	+ 2	50	+ 2
Financial, real estate, services	52	- 2	54	+ 2
Utilities, social and state services	54	~	54	+ 4

Bank responses express a more favourable expected credit stance over the next 3 months towards enterprises. This covers all sectors other than Construction.

The expectation is more favourable toward short-term than long-term lending and is more positive than the assessment of Q3 2018.

3. Strategic direction

Q.15: Focus towards small enterprises

Has the focus of your bank shifted more or less towards provision of lending to small enterprises over the past 3 months compared to six months prior, under the following lending categories?

Small enterprise focus	**19Q1**	**Δ survey**	**18Q3**	**Δ ♦**
A) Enterprise lending	50	~	50	~
Property finance [1]	48	- 2	50	- 2

Plant and equipment finance (asset based) [2]	49	- 5	54	- 1
Debtor finance	54	- 2	56	+ 4
Overdraft and unsecured	53	~	53	+ 3
Import/export finance	50	- 3	53	~
Short-term bridging loans	48	- 2	50	- 2
B) Other lending	50	~	50	~

Note 1: Small enterprises can be considered approximately as those with total employment of 50 or fewer. Asset and revenue guidelines as adopted by the DTI may be used.

The bank responses indicate a stronger focus towards debtor finance and overdraft/unsecured lending to small enterprises compared to 6 months prior, and less towards property and bridging finance to small enterprises.

Q.16: Preference for shifts going forward

Which **forms of lending** would your bank prefer to be more engaged in or less engaged in going forward?

Strategic direction: preferred shifts	**19Q1**	**Δ survey**	**18Q3**	**Δ ♦**
A) Enterprise lending	50	- 17	67	~
Property finance [1]	58	~	58	+ 8
Plant and equipment finance (asset based) [2]	52	- 5	57	+ 2
Debtor finance	53	- 5	58	+ 3
Overdraft and unsecured	45	- 15	60	- 5
Import/Export finance	53	- 8	61	+ 3
B) Household lending	67	- 16	83	+ 17
Mortgage lending [1]	60	~	60	+ 10
Secured / Vehicle finance [2]	64	+ 5	59	+ 14
Credit card finance /credit facility	64	~	64	+ 14

Unsecured lending	63	~	63	+ 13
Short-term loans	59	- 1	60	+ 9
C) Other lending	50	~	50	~

Note 1: Typically lending secured through a residential mortgage bond
Note 2: Typically secured through a notarial bond or similar over the vehicle or asset

The banks reveal a strong preference for increased household lending in all categories, as well as for property, equipment and debtor finance in the case of enterprises.

A preferred reduction of overdraft/unsecured lending to enterprises going forward is shown.

Q.17: Change from 5 years ago: Households

How does your bank's current **credit stance** compare to the bank's credit stance **5 years ago** i.e. in 2012/13, as applied to the approval of loans or credit lines to **households**?

Loans to households: credit stance change	**19Q1**	**Δ survey**	**18Q3**	**Δ ♦**
Overall relative to 5 years ago	39	+ 4	35	- 11
Short term lending (up to 1 year)	39	+ 4	35	- 11
Longer-term lending (over 1 year)	49	+ 10	39	- 1
Mortgage lending	53	+ 10	43	+ 3
Secured credit e.g. motor vehicle finance	45	~	45	- 5
Credit facilities e.g. credit cards and overdrafts	45	- 1	46	- 5
Unsecured credit	47	+ 2	45	- 3
Short term credit up to R8000, within 6 months	45	+ 5	40	- 5
Developmental credit e.g. education	45	+ 12	33	- 5
Mass market	47	+ 3	44	- 3
Mid market	52	+ 3	49	+ 2
Upper market	52	+ 7	45	+ 2

Comparison of banks' credit stance in Q1 2019 towards households relative to 5 years previously (2014) shows greater stringency across all lending classes except mortgage lending.

The greatest tightening shows in the survey as being in the short-term range of credit, rather than longer term. It is also shown as confined to the mass market, not the mid or upper market.

Q.18: Change from 5 years ago: Enterprises

How does your bank's current **credit stance** compare to the bank's credit stance **5 years ago** i.e. in 2012/13, as applied to the approval of loans or credit lines to **enterprises**?

Loans to enterprises: credit stance change	**19Q1**	**Δ survey**	**18Q3**	**Δ ♦**
Overall relative to 5 years ago	61	+ 5	56	+ 11
Short term lending (up to 1 year)	61	+ 5	56	+ 11
Longer-term lending (over 1 year)	61	+ 12	49	+ 11
Agriculture, forestry	57	+ 19	38	+ 7
Mining, quarrying	55	+ 13	42	+ 5
Manufacturing	55	+ 9	46	+ 5
Construction	42	+ 5	37	- 8
Wholesale, retail, accommodation	55	+ 5	50	+ 5
Transport, communication, ICT	55	+ 9	46	+ 5
Financial, real estate, services	55	+ 5	50	+ 5
Utilities, social and state services	51	+ 9	42	+ 1

For enterprises, banks indicate in the Q1 2019 survey markedly greater leniency in credit stance compared to 5 years prior (2014), across all durations, and all sectors, with the exception of Construction.

Q.19: Effects of political and governance changes

How have the following **political and governance** changes affected your bank's lending stance currently compared to **1 year ago** i.e. late 2017?

(Note: < 50 indicates that banks have made lending stance more stringent, somewhat or significantly. > 50 indicates that they have made their lending stance more lenient.)

Effects of political and governance changes	**19Q1**	**Δ survey**	**18Q3**	**Δ ♦**
A) Political	50	- 4	54	~
More transparent political leadership and governance [1]	50	- 15	65	~
Uncertainty relating to land expropriation [2]	45	+ 2	43	- 5
Contradictions between factions of ANC [3]	49	+ 9	40	- 1
B) Governance/financial	50	~	50	~
Confidence in state institutions [4]	39	- 2	41	- 11
Fiscal pressures: tight national budget [5]	45	+ 5	40	- 5
Revelation of widespread state capture and malfeasance [6]	33	[- 10]	[43]	- 17
Dire financial state of state-owned enterprises [7]	32	[-22]	[54]	- 18
Load shedding, actual and anticipated	36	□	□	- 14
C) Other ______________________	50	~	50	□

Note 1: More open political leadership and governance under the Ramaphosa presidency.
Note 2: Active pursuit of expropriation without compensation, and proposed change to section 25 of the constitution.
Note 3: Conflicting ANC statements and possible resurgence of factions opposing Ramaphosa.
Note 4: Judiciary, NPA, police, Public Protector, SARB, etc.
Note 5: Severe fiscal constraints as evidenced in 2019/20 national budget.
Note 6: The extensive evidence of 'state capture' and malfeasance as has been further revealed by the current sitting commissions.
Note 7: Continued severe financial situation of key SOE's despite appointment of new boards of directors.
[ ] indicates question not directly comparable between current and previous survey.

Under governance, the survey indicates the dire financial state of state-owned enterprises, state capture and malfeasance and load shedding as material contributors to the tightening of credit stance compared to 6 months prior. Confidence in state institutions, fiscal pressures and uncertainty relating to land expropriation are also indicated as negative contributors to banks' credit stances in Q1 2019 compared to 6 months prior.

The more directly political factors, such as transparency of political leadership and contradictions between ANC factions, are reflected as having no less or more effect on lending stringency than 6 months prior.

Q.20: Adoption by Parliament of the debt intervention bill (Topical question)

How do you expect your bank's **lending / credit stance** to be affected by the Debt Intervention Bill/Act in the form adopted by the National Assembly in September 2018 (still awaiting NCOP approval), when it comes into effect?

(Note: < 50 indicates that banks have made lending stance more stringent, somewhat or significantly. > 50 indicates that they have made their lending stance more lenient.)

Loans to enterprises: stance ensuing 3 months	**19Q1**	**Δ survey**	**18Q3**	**Δ ♦**
Overall	49	☐	☐	- 1
Short term lending (up to 1 year)	49	☐	☐	- 1
Longer-term lending (over 1 year)	42	☐	☐	- 8
Mortgage lending (indirectly)	46	☐	☐	- 4
Secured credit e.g. motor vehicle finance	46	☐	☐	- 4
Credit facilities e.g. credit cards and overdrafts	42	☐	☐	- 8
Unsecured credit	42	☐	☐	- 8
Short term credit up to R8000, within 6 months	50	☐	☐	~
Developmental credit e.g. education	41	☐	☐	- 9
Mass market	42	☐	☐	- 8
Mid market	50	☐	☐	~
Upper market	50	☐	☐	~

The banks reflect in the current survey an expected negative effect of the Debt Intervention Bill in its current form as adopted by Parliament, when implemented, across all classes of household lending, albeit confined only to the mass market. Longer term lending is reflected as likely to be more affected than shorter term lending, and short-term credit (within 6 months) is expected to be little affected.

4. Comparison

Q.21: Actual vs Expected credit stance: Household lending

Comparison of banks' Q3 assessment of credit stance with banks expected forward credit stance from the Q1 survey: approval of loans to households.

Loans to households: future 3 months	**19Q1**	**Δ survey**	**18Q3**
Overall	50	~	50
Mortgage lending	54	+ 2	52
Secured credit e.g. motor vehicle finance	50	~	50
Credit facilities e.g. credit cards and overdrafts	54	+ 10	44
Unsecured credit	52	+ 5	47
Short term credit up to R8000, within 6 months	50	- 1	51
Developmental credit e.g. education	50	~	50
Mass market	50	+ 4	46
Mid market	54	~	54
Upper market	54	~	54

A comparison can be made of banks' forward expectations of their likely credit stance at the time of the Q3 2018 survey, with their actual assessment of credit stance which occurred during Q1 2019 as recorded in the current survey. The two are not perfectly comparable, since the Q3 2018 expectation refers to Q4 2018, while the current survey actual refers to Q1 2019. The comparison does though give a rough indication of forward-looking expectations at the end of Q3 2018 compared to backward looking actual credit stance as at the end of Q1 2019.

For households, the actual credit stance prevailing in Q1 2019 was generally more lenient than the forward-looking expectation at the end of Q3 2018. The more favourable outcome applied in particular to credit facilities and unsecured credit. It was also the mass market that was more favourable than expected rather than the mid and upper market.

Q.22: Actual vs Expected credit stance: Enterprise lending

Comparison of banks' Q3 assessment of credit stance with banks' expected forward credit stance from the Q1 survey: approval of loans or credit lines to enterprises.

Loans to enterprises: stance next 3 months	**19Q1**	**Δ survey**	**18Q3**
Overall	48	- 8	56
Short-term loans (up to 1 year)	50	- 5	55
Longer-term loans (over 1 year)	48	- 7	55
Agriculture, forestry	49	+ 3	46
Mining, quarrying	54	~	54
Manufacturing	42	- 8	50
Construction	39	- 6	45
Wholesale, retail, accommodation	48	- 2	50
Transport, communication, ICT	48	- 2	50
Financial, real estate, services	48	- 6	54
Utilities, social and state services	43	- 11	54

For loan approvals to business enterprises, the outcome recorded for Q1 2019 was generally more stringent than the forward expectation recorded at the end of Q3 2018.

The credit stringency beyond expectation applied mainly to the Manufacturing and utilities/SOE sectors. Mining was in line with expectations and Agriculture less stringent, but still at a low level.

Q.23: Cross-comparison: Household lending

Viewing responses across multiple questions for household lending indicates that both the credit stance adopted by banks and their terms and conditions were more lenient for lending across the board relative to 6 months prior. This applied both in respect of lower interest rate margins and to more lenient loan-to-value ratios.

Competition from other banks was a significant factor towards greater leniency, and clouded expectations of economic activity/growth was a significant constraining factor.

Q.24: Cross-comparison: Enterprise lending

Cross-comparison of questions relating to enterprise lending indicate that the less favourable credit stance overall applied across all sectors, with only Mining being an exception, likely due to the sector having a less severe outlook than in the recent past.

The stricter credit stance overall was however combined with more favourable terms and conditions in some respects, in particular lower interest rate margins.

Perceptions of risk arising from lower expectations of economic activity/growth were clearly a significant factor in the stricter credit stance.

Q.25: Compilation of credit stance index: Household lending

With four surveys having been undertaken and an initial base period reference point, it is now possible to compile indexes showing how the credit stance of banks has shifted over time. This can be extended as new surveys are undertaken to give ongoing time series indexes, which can be used to indicate the trajectory of credit stance over time as well as being able to be used systematically for quantitative analysis purposes.

The indexes have been compiled by concatenation, using the fact that in each survey the change from 6 months prior has been examined, so that 6 months prior serves as a reference point. An algorithm for calculating the index from the score change over each 6-month period was devised. The resultant indexes are shown below:

Credit stance households	**Q1 2017**	**Q3 2017**	**Q1 2018**	**Q3 2018**	**Q1 2019**
Overall	100	100	103	105	105
Mortgage lending	100	103	111	115	118
Secured credit e.g. motor vehicle finance	100	96	92	99	99
Credit facilities e.g. credit cards and overdrafts	100	100	101	101	103
Unsecured credit	100	100	108	110	113
Short-term credit up to R8000, < 6 months	100	100	100	99	99
Developmental credit e.g. education	100	100	100	100	100
Mass market	100	100	103	103	103
Mid Market	100	103	109	114	117
Upper Market	100	105	114	117	120

The table above indicates for instance, that the credit stance on mortgage lending has shifted significantly to increased leniency over the period from the base (100) of first quarter 2017 to the most recent period, with the index moving to 118. It also indicates that credit stance on unsecured credit has shifted significantly to increased leniency over the period, though not as much as for mortgages. It further indicates that the greater leniency has applied most to the upper market, also significantly to the mid market, but only slightly to the mass market.

Q.26: Compilation of credit stance index: Enterprise lending

Credit stance indexes were compiled using a similar methodology for enterprise lending. The indexes compiled are shown in the table below:

Credit stance enterprises	Q1 2017	Q3 2017	Q1 2018	Q3 2018	Q1 2019
Overall	100	95	95	98	97
Short-term loans (up to 1 year)	100	97	100	102	102
Longer-term loans (over 1 year)	100	92	90	89	88
Agriculture, forestry	100	98	95	89	89
Mining, quarrying	100	93	88	91	93
Manufacturing	100	95	87	86	80
Construction	100	87	74	68	62
Wholesale, retail, accommodation	100	95	92	95	94
Transport, communication, ICT	100	98	98	97	96
Financial, real estate, services	100	95	95	95	94
Utilities, social and state services	100	92	92	98	95

These indicate that credit stance towards enterprises has generally shifted towards greater stringency across all sectors over the period from the base of Q1 2017, and that this has been an especially strong negative shift in the case of the Construction sector. It indicates that the shift has applied mainly to longer term loans, with little change in stringency in the case of short-term loans.

Glossary

Collateral:	Security given by the borrower to the lender as a pledge, cession or similar for repayment of the loan.
Credit stance:	Refers to the stringency (< 50) or leniency (> 50) which the bank applies in considering new applications for loans or credit.
Demand:	Refers to demand for new loans or credit by borrowers, as indicated by the volume and value of applications received.
Enterprise:	Business entity which is not a bank or other financial intermediary.
Household:	Consumption entity in the economy, typically comprising a group of related persons situated at a single residential location.
Loan-to-Value ratio:	Ratio of the amount borrowed to the value of the underlying collateral.
Longer term lending:	Lending repayable beyond a one-year period.
Non-bank lender:	Financial institution providing loans as a significant portion of its business, but which is not a registered bank.
Short-term lending:	Lending repayable within a one-year period or on demand.
Terms and conditions:	Refer to the stipulated requirements applied to borrowers as expressed in documents relating to new lending or credit provided.