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.

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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.

This survey contains 17 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 introduce three new questions which assess the potential impact of environmental and social changes, digital banking, and the National Treasury strategic growth plan have 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 fifth 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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As at September 2019, participating banks account for 93% of total bank assets in South Africa.

Executive summary

The South African Bank Lending Practices Survey is based on the third quarter of 2019, from July to September. 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.

Three new topical questions were introduced to the survey. The first question considered the effects of environment, social and governance changes on the credit stance of banks, whilst the second question considered the impact digital banking has had on the provision of credit. The third question considers the impact the National Treasury strategic growth plan has had on the provision of credit in South Africa.

Growth in lending

At the end of the third quarter of 2019, the total domestic assets[1] of the banking industry reached R5,2 trillion, a growth of approximately R229 billion in new lending from the previous survey, comparing the month end of March 2019 with September 2019 data.

Of this new lending, approximately R53 billion or 23% was allocated to households with R31 billion or 13% to enterprises, confirming the strategic direction of the previous survey where a preference for lending to households was indicated.

[1] Source: South African Reserve Bank BA 900 return

Residential mortgages grew by R28,6 billion, and together with loans and advances at R11,1 billion, credit cards at R6,8 billion and instalment sales at R5,9 billion, accounted for most of the R53 billion allocated to households.

Commercial mortgages increased by R14,3 billion since March 2019 with R12,7 billion in instalment sales and R3,5 billion in new overdrafts and loans under cash management schemes, contributing to the majority of the R31 billion allocated to enterprises.

Topic: Environment

The importance of environmental considerations in the provision of credit has manifested in a significant decline in sentiment towards coal projects. Conversely, renewable energy has recorded one of the most positive scores, indicating a conscious decision to embrace opportunities in renewable energy.

Topic: Digitalisation

Credit sentiment towards households has remained largely unchanged by the use of digital channels. However, the experience for enterprises is generally positive, with short-term loans to enterprises having benefited the most, although it is not possible to determine from this survey how the benefit arose.

Topic: Strategic growth plan

An assessment of the effects of the National Treasury strategic growth plan on the provision of credit to households was neutral, but a beneficial effect in the provision of financing to enterprises was indicated. The benefit applies equally to both short and longer-term lending.

More generally, a lack of confidence in state fiscal management continues to weigh negatively on sentiment, implying a more stringent credit approach is being applied. Although the provision of finance to state-owned-enterprises has improved, sentiment remains negative.

Theme: Loans to households

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

Mortgage lending

Sentiment towards mortgage lending has moved into neutral territory, implying that banks are not actively seeking growth in their home loan portfolios. A contributing factor may be competition amongst banks and from non-bank lenders, making it cheaper for consumers, but putting pressure on bank margins. This may have resulted in stricter terms and conditions for approving mortgage loans including, loan-to-value ratios and higher expected pricing.

The overall perception of risk in the housing market has improved, but this improvement still places housing as slightly negative, impacting the credit stance towards mortgage lending. Over the short-term, the credit stance is expected to remain neutral. Banks still prefer mortgage lending as a household asset class and will continue to lend, despite the overall shift away from households in favour of enterprise lending.

Secured lending

Secured lending, which includes motor vehicle finance, has trended neutral with no clear change in credit stance.

Unsecured lending

Credit facilities e.g. credit cards and overdraft facilities, and unsecured lending, have experienced the most significant decline in sentiment towards households since the last survey. Risks related to creditworthiness of consumers, continue to constrict lending with a more stringent approach to credit scoring. In the short-term, the appetite to lend through credit facilities and unsecured lending will be more stringent.

Theme: Loans to enterprises

The sentiment of banks towards enterprises improved marginally from the previous survey, albeit to a more neutral credit stance. The mining and quarrying sector was the only sector to lose ground from the previous survey and move into negative territory. The construction sector recovered, but still has the most stringent credit stance from banks towards loans and credit lines of all the sectors in the survey.

Theme: Strategic direction

Overall, banks have indicated their intention to shift portfolio allocations away from household lending to enterprise lending. Enterprises seeking property finance and debtor financing could be expected to benefit from this shift, whilst for households, mortgage lending and other forms of secured lending could provide opportunities.

The banks' stance towards lending to small enterprises continues to remain neutral. Debtor finance is the only category enjoying a positive score with overdraft and unsecured lending declining from the previous survey and moving into negative territory.

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 the third quarter of 2019 from July to September and is compared to the previous survey where applicable.

At this juncture, four full previous surveys have been conducted, in respect of Q3 2017, Q1 2018, Q3 2018 and Q1 2019, 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.

1. Loans to Households[2]

Q1: Banks' credit stance[3] 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	**19Q3**	**Δ ♦**	**19Q1**	**Δ survey**
Overall relative to 6 months ago	46	- 4	50	- 4
Mortgage lending[1]	50	~	54	- 4
Secured credit e.g. motor vehicle finance[2]	50	~	50	~
Credit facilities e.g. credit cards and overdrafts	43	- 7	54	- 11
Unsecured credit	42	- 8	52	- 10
Short term credit up to R8000, within 6 months	50	~	50	~
Developmental credit e.g. education	50	~	50	~
Mass market	46	- 4	50	- 4
Mid market	46	- 4	54	- 8
Upper market	46	- 4	54	- 8

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

During the third quarter 2019, the banks' credit stance was more negative towards households over most classes of lending (46) and uniformly negative across all market segments. Credit facilities (-11) and unsecured credit (-10) showed the greatest decline from the previous survey into negative territory.

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

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

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	**19Q3**	**Δ ♦**	**19Q1**	**Δ survey**
A) Cost of funds and balance sheet constraints	53	+ 3	50	+ 3
B) Pressure from competition	58	+ 8	55	+ 3
Competition from other banks	56	+ 6	61	- 5
Competition from non-bank lending	54	+ 4	50	+ 4
Competition from direct / self-financing	50	~	50	~
C) Perception of risk	56	+ 6	38	+ 18
Expectations regarding economic activity	49	- 1	37	+ 12
Housing market prospects	49	- 1	41	+ 8
Risk on collateral realisation	49	- 1	48	+ 1
D) Other factors	33	- 17	33	~

The overall perception of risk in mortgage lending has shifted from negative to positive (+18) during the third quarter of 2019, despite the specified categories remaining slightly negative. Pressure from competition remained a positive factor (+8) in the more lenient lending stance towards mortgages, with a shift towards competition from non-bank lending offsetting the decline in competition from banks.

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	**19Q3**	**Δ ♦**	**19Q1**	**Δ survey**
A) Cost of funds and balance sheet constraints	50	~	45	+ 5
B) Pressure from competition	50	~	57	**- 7**
Competition from other banks	55	+ 5	55	~
Competition from non-bank lenders	50	~	50	~
Competition from direct / self-financing	50	~	50	~
C) Perception of risk	47	- 3	45	+ 2
Expectations regarding economic activity	48	- 2	38	+ 10
Creditworthiness of consumers	48	- 2	43	+ 5
Risk on the collateral required	48	- 2	48	~
D) Other factors	50	~	50	~

Secured credit to households trended towards neutral or negative when compared to the previous survey. Although the categories of competition in the survey remained unchanged, overall, competition had a negative influence (-7) on the approval of secured credit. Conversely, the cost of funds and balance sheet constraints of banks, as a factor influencing credit stance, improved towards a neutral impact.

The perception of risk within this category of lending improved significantly, particularly expectations regarding economic activity (+10), although still a negative influence on credit lending.

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	**19Q3**	**Δ ♦**	**19Q1**	**Δ survey**
A) Cost of funds and balance sheet constraints	50	~	50	~

B) Pressure from competition	50	~	55	- 5
Competition from other banks	54	+ 4	54	~
Competition from non-bank lenders	50	~	51	- 1
Competition from direct / self-financing	50	~	50	~
C) Perception of risk	55	+ 5	38	+ 17
Expectations regarding economic activity	41	- 9	37	+ 4
Creditworthiness of consumers	41	- 9	45	- 4
Risk on the collateral required	46	- 4	49	- 3
D) Other factors	50	~	50	~

The banks have indicated that overall, their credit stance remains neutral. However, indications are that their overall perception of risk has improved significantly since the previous survey (+17) and may be a positive factor, despite the risk categories measured in the survey having a negative impact. Creditworthiness of consumers and the risk on collateral continue to move negative from the previous survey.

Q.5: Terms and conditions[4] 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	**19Q3**	**Δ ♦**	**19Q1**	**Δ survey**
A) Price	44	- 6	55	**- 11**
Your bank's margin on average loans [1]	46	- 4	54	- 8
Margin on riskier loans [1]	49	- 1	56	- 7
B) Credit scoring	50	~	50	~
C) Other conditions	50	~	50	~
Collateral requirements	50	~	49	+ 1
Loan-to-value ratio	43	- 7	52	**- 9**

[4] 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.

Maturity	50	~	50	~
Non-interest rate charges (fees)	50	~	50	~
D) Other factors	50	~	50	~

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

For consumers, the overall reduction in pricing (-11) is a negative influence for banks when approving mortgages signalling a return to the levels of the third quarter 2018 (see previous survey). Loan-to-value ratios have also changed from the last survey (-9) indicating a tightening in terms and conditions.

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	**19Q3**	**Δ ♦**	**19Q1**	**Δ survey**
A) Price	43	- 7	50	- 7
Your bank's margin on average loans	50	~	50	~
Your bank's margin on riskier loans	45	- 5	43	+ 2
B) Credit scoring	50	~	50	~
C) Other terms and conditions	50	~	50	~
Collateral requirements	50	~	50	~
Maturity	50	~	50	~
Non-interest rate charges (fees)	50	~	50	~
D) Other factors	50	~	50	~

The terms and conditions for secured lending remained unchanged from the previous survey, with pricing to households turning negative (-7) between surveys.

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	**19Q3**	**Δ ♦**	**19Q1**	**Δ survey**
A) Price	50	~	56	- 6
Your bank's margin on average loans	50	~	50	~
Your bank's margin on riskier loans	45	- 5	53	- 8
B) Credit scoring	42	- 8	54	- 12
C) Other terms and conditions	46	- 4	50	- 4
Collateral requirements	50	~	50	~
Maturity	50	~	53	- 3
Non-interest rate charges (fees)	47	- 3	53	- 6
D) Other factors	50	~	50	~

A tightening of the terms and conditions for credit facilities and unsecured lending to households was evident between surveys. Credit scoring by banks was the most affected category (-12) contributing to a more stringent approval process.

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	**19Q3**	**Δ ♦**	**19Q1**	**Δ survey**
Overall relative to 6 months ago	46	- 4	50	- 4
Mortgage lending	42	- 8	47	- 5
Secured credit e.g. motor vehicle finance	45	- 5	50	- 5
Credit facilities e.g. credit cards and overdrafts	45	- 5	50	- 5
Unsecured credit	42	- 8	53	- 11
Short term credit up to R8000, within 6 months	50	~	50	~
Developmental credit e.g. education	50	~	50	~

Mass market	46	- 4	50	- 4
Mid market	42	- 8	50	- 8
Upper market	42	- 8	50	- 8

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

The survey reflects greater stringency in interest rate spreads, i.e. higher interest rate spreads, across virtually all classes of consumer lending. This applied most strongly to mortgage (-8) and unsecured lending (-8), but also to secured credit and credit facilities. The increase in interest rate spread applied to all markets but more pronounced to mid and upper markets (-8) than mass market borrowers.

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	**19Q3**	**Δ ♦**	**19Q1**	**Δ survey**
Overall relative to 6 months ago	46	- 4	50	- 4
Mortgage lending	46	- 4	50	- 4
Secured credit e.g. motor vehicle finance	50	~	50	~
Credit facilities e.g. credit cards and overdrafts	46	- 4	50	- 4
Unsecured credit	42	- 8	50	- 8
Short term credit up to R8000, within 6 months	50	~	50	~
Developmental credit e.g. education	50	~	50	~
Mass market	46	- 4	50	- 4
Mid market	46	- 4	50	- 4
Upper market	46	- 4	50	- 4

Credit score thresholds are reflected in the current survey to have been applied at more stringent levels compared to six months prior (-4). This is reflected in general, but most significantly for unsecured credit (-8).

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	**19Q3**	**Δ ♦**	**19Q1**	**Δ survey**
Overall	50	~	54	**- 4**
Mortgage lending	50	~	54	- 4
Secured credit e.g. motor vehicle finance	50	~	53	- 3
Credit facilities e.g. credit cards and overdrafts	47	- 3	48	- 1
Unsecured credit	46	- 4	50	- 4
Short term credit up to R8000, within 6 months	46	- 4	53	**- 7**
Developmental credit e.g. education	50	~	54	- 4
Mass market	49	- 1	49	~
Mid market	49	- 1	54	- 5
Upper market	46	- 4	54	**- 8**

When considering lending over the next quarter from November to December 2019, the banks indicated an overall tightening of credit to households (-4). The upper market segment is forecast to experience the most significant contraction (-8). Although overall sentiment towards the mass market remained unaffected, short-term credit over six months and up to R8000, an important credit product to this market, demonstrated the most notable decline from the previous survey (-7).

2. Loans or credit lines to enterprises[5]

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

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	**19Q3**	**Δ ♦**	**19Q1**	**Δ survey**
Overall relative to 6 months ago	50	~	48	+ 2
Short-term loans (up to 1 year)	50	~	50	~
Longer-term loans (over 1 year)	50	~	48	+ 2
Agriculture, forestry	50	~	49	+ 1
Mining, quarrying	49	- 1	54	- 5
Manufacturing	49	- 1	42	+ 7
Construction	45	- 5	39	+ 6
Wholesale, retail, accommodation	50	~	48	+ 2
Transport, communication, ICT	50	~	48	+ 2
Financial, real estate, services	50	~	48	+ 2
Utilities, social and state services	47	- 3	43	+ 4

The overall credit stance towards enterprises has improved slightly since the last survey (+2) with most sectors either landing a neutral or slightly negative score, mining and quarrying (-5) being the exception, moving into negative territory. The construction industry, despite a positive move from the last survey (+6), remains a poor performer with banks applying a more stringent approach to the approval of loans and credit lines to this sector.

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	**19Q3**	**Δ ♦**	**19Q1**	**Δ survey**

A) Cost of funds and balance sheet constraints	50	~	50	~
Costs related to your bank's capital position[1]	50	~	49	+ 1
Your bank's ability to access market financing[2]	50	~	50	~
Your bank's liquidity position	50	~	50	~
B) Pressure from competition	50	~	50	~
Competition from other banks	54	+ 4	46	+ 8
Competition from non-bank lenders	50	~	50	~
Competition from direct market financing	50	~	50	~
C) Perception of risk	44	- 6	50	- 6
Expectations on general economic activity	44	- 6	45	- 1
Industry or firm-specific outlook	46	- 4	45	+ 1
Risk on the collateral required	48	- 2	48	~
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

The credit stance of banks has been largely unaffected by the factors included in the survey as their scores remain fairly neutral. Although not a clear influencer, competition from other banks (+8) is seen as having introduced a greater leniency towards the approval of loans and credit lines to enterprises.

The perception of risk for enterprises remains a negative factor, particularly the outlook for general economic activity.

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	**19Q3**	**Δ ♦**	**19Q1**	**Δ survey**

A) Price	50	~	57	**- 7**
Your bank's margin on average loans [1]	54	+ 4	52	**+ 2**
Your bank's margin on riskier loans [1]	44	- 6	52	**- 8**
B) Other terms and conditions	50	~	50	~
Non-interest rate charges	50	~	50	~
Maximum size of the loan or credit line	50	~	50	~
Loan to value ratio	50	~	50	~
Collateral requirements	50	~	48	+ 2
Loan covenants	50	~	53	- 3
Maturity	50	~	50	~
C) Other factors	50	~	50	~

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

The influence of pricing on approvals of loans and credit lines to enterprises has moved (-7) to neutral from positive in the last survey indicating a tightening of terms and conditions. Since the previous survey, banks pricing has become more stringent on riskier loans (-8) and marginally more lenient on average loans (+2).

Q.14: Expected 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	**19Q3**	**Δ ♦**	**19Q1**	**Δ survey**
Overall	53	+ 3	55	- 2
Short-term loans (up to 1 year)	53	+ 3	58	**- 5**
Longer-term loans (over 1 year)	53	+ 3	55	**- 2**
Agriculture, forestry	52	+ 2	54	- 2
Mining, quarrying	52	+ 2	54	- 2
Manufacturing	52	+ 2	52	~

Construction	52	+ 2	46	+ 6
Wholesale, retail, accommodation	53	+ 3	52	+ 1
Transport, communication, ICT	53	+ 3	52	+ 1
Financial, real estate, services	54	+ 4	52	+ 2
Utilities, social and state services	54	+ 4	54	~

The bank responses on expected credit stance towards enterprises going forward indicates a more favourable expected credit stance over the next three months. This applies more or less uniformly across all sectors and for short as well as longer term lending.

When compared to the previous three-month forecast, short-term loans (-5) experienced a larger decline than long-term loans (-2), and with construction moving to a positive score (52) it takes all the recorded sectors into positive territory.

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	**19Q3**	**Δ ♦**	**19Q1**	**Δ survey**
A) Enterprise lending	50	~	50	~
Property finance [1]	50	~	48	+ 2
Plant and equipment finance (asset based) [2]	50	~	49	+ 1
Debtor finance	58	+ 8	54	+ 4
Overdraft and unsecured	46	- 4	53	- 7
Import/export finance	50	~	50	~
Short-term bridging loans	50	~	48	+ 2
B) Other lending	50	~	50	~

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

The banks' stance towards lending to small enterprises continues to remain neutral. Debtor finance is the only category enjoying a positive score (+8) with overdraft and unsecured lending declining from the previous survey (-7) and moving into negative territory.

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	**19Q3**	**Δ ♦**	**19Q1**	**Δ survey**
A) Enterprise lending	59	+ 9	50	+ 9
Property finance [1]	65	+ 15	58	+ 7
Plant and equipment finance (asset based) [2]	57	+ 7	52	+ 5
Debtor finance	61	+ 11	53	+ 8
Overdraft and unsecured	50	~	45	+ 5
Import/Export finance	53	+ 3	53	~
B) Household lending	56	+ 6	67	- 11
Mortgage lending [1]	61	+ 11	60	+ 1
Secured / Vehicle finance [2]	56	+ 6	64	- 8
Credit card finance /credit facility	55	+ 5	64	- 9
Unsecured lending	54	+ 4	63	- 9
Short-term loans	54	+ 4	59	- 5
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

Overall, banks have indicated their intention to shift portfolio allocations away from household lending (-11) to enterprise lending (+9). Enterprises seeking property finance (65) and debtor financing (61) could be expected to benefit from this shift, whilst for households, mortgage lending (61) and other forms of secured lending (56) could see improved opportunities.

Q.17: Change from 5 years ago

How does your bank's current **credit stance** compare to the bank's credit stance **5 years ago** i.e. in 2013/14, as applied to the approval of loans or credit lines to **households** and **enterprises**?

Loans to households: credit stance change	**19Q3**	**Δ ♦**	**19Q1**	**Δ survey**
Overall relative to 5 years ago	43	- 7	39	+ 4
Short term lending (up to 1 year)	48	- 2	39	+ 9
Longer-term lending (over 1 year)	57	+ 7	49	+ 8
Mass market	52	+ 2	47	+ 5
Mid market	53	+ 3	52	+ 1
Upper market	53	+ 3	52	+ 1
Loans to enterprises: credit stance change				
Overall relative to 5 years ago	43	- 7	61	- 18
Short term lending (up to 1 year)	43	- 7	61	- 18
Longer-term lending (over 1 year)	43	- 7	61	- 18

When considering the credit stance of banks in quarter 1 of 2019, our previous survey, against that of five years ago (2014), banks favoured enterprise lending (61) over households (39) in their loan approval process.

The current survey indicates that both categories have converged (43) with enterprises experiencing the most significant decline (-18) relative to quarter 1 of 2019. Household lending over one-year now provides the most lenient credit (57) when compared to 2014.

Q.18: Effects of environmental, social and governance factors (Topical question)

How have the following **environmental, social and governance** factors affected your bank's lending stance currently, compared to **6 months ago** i.e. early March 2019?

(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 environmental, social and governance changes	**19Q3**	**Δ ♦**	**19Q1**	**Δ survey**
A) Environmental	45	- 5	□	□
Avoidance of coal projects [1]	31	- 19	□	□
Encouragement of renewable energy [2]	79	+ 29	□	□
B) Social	53	+ 3	□	□
Financing low-cost housing projects [3]	54	+ 4	□	□
Focus on households below R7500 pm [4]	50	~	□	□
C) Governance	50	~	50	~
Finance to state owned enterprises [5]	40	- 10	32	+ 8
Lack of confidence in state fiscal management [6]	41	- 9	45	- 4

Note 1: Reduction in lending to coal-based projects due to environmental concerns.
Note 2: Encouragement of renewable energy project through financing.
Note 3: Willingness to finance low cost housing projects in view of social need for such housing.
Note 4: Credit and lending arrangements focused on households with income below R7500 to bolster lower income earners.
Note 5: Provision of finance to state owned enterprises, in view of the severe financial difficulty of many such entities.
Note 6: Hesitancy or reluctance to provide certain financing in view of the severe and worsening fiscal situation of government.

The symbol □ is used where there was no comparable question in the previous survey.

The impact of environmental considerations on the provision of credit has been significant with a very high and positive score for renewable energy (79) and the converse for coal projects (31).

Social lending favours the funding of low-cost housing rather than unsecured lending arrangements and while the provision of finance to state-owned-enterprises has improved (+8), sentiment remains negative. A lack of confidence in state fiscal management continues to weigh negatively on sentiment, implying a more stringent approach is required.

Q.19: Impact of digital banking on the provision of credit (Topical question)

How has your bank's credit stance been affected by the trend towards greater use of **digital** channels for provision of banking services?

(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 households: credit stance change	**19Q3**	**Δ ♦**	**19Q1**	**Δ survey**
Overall relative to 5 years ago	53	+ 3	□	□
Short term lending (up to 1 year)	50	~	□	□
Longer-term lending (over 1 year)	50	~	□	□
Loans to enterprises: credit stance change				
Overall relative to 5 years ago	54	+ 4	□	□
Short term lending (up to 1 year)	58	+ 8	□	□
Longer-term lending (over 1 year)	54	+ 4	□	□

Credit sentiment towards households has remained largely unchanged by the use of digital channels, however the experience for enterprises is generally positive with short-term loans to enterprises having benefited the most (+8), although it is not possible to determine from the survey how the benefit arose.

Q.20: Impact of the National Treasury strategic growth plan document (Topical question)

How has your bank's credit stance been affected by the release of the **Treasury growth plan[1] document** in August 2019, compared to the bank's credit stance prior to the release of the document?

(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 households: credit stance change	19Q3	Δ ♦	19Q1	Δ survey
Overall relative to 5 years ago	50	~	□	□
Short term lending (up to 1 year)	50	~	□	□
Longer-term lending (over 1 year)	50	~	□	□
Loans to enterprises: credit stance change				
Overall relative to 5 years ago	57	+ 7	□	□
Short term lending (up to 1 year)	57	+ 7	□	□
Longer-term lending (over 1 year)	57	+ 7	□	□

Note 1: Economic transformation, inclusive growth and competitiveness: Towards an economic strategy for South Africa. Released by National Treasury 27 August 2019. http://www.treasury.gov.za/comm_media/press/2019/Towards%20an%20Economic%20Strategy%20for%20SA.pdf

An assessment of the effects of the National Treasury strategic growth plan on the provision of credit to household was neutral, but a beneficial effect in the provision of financing to enterprises (+7) was indicated. The benefit applies equally to both short and longer-term lending.

4. Comparison

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	19Q3	Δ survey	19Q1
Overall	46	- 8	54
Mortgage lending	50	- 4	54
Secured credit e.g. motor vehicle finance	50	- 3	53
Credit facilities e.g. credit cards and overdrafts	43	- 5	48
Unsecured credit	42	- 8	50
Short term credit up to R8000, within 6 months	50	- 3	53
Developmental credit e.g. education	50	- 4	54

Mass market	46	- 3	49
Mid market	46	- 8	54
Upper market	46	- 8	54

A comparison can be made of banks' forward expectations of their likely credit stance at the time of the Q1 2019 survey, with their actual assessment of credit stance which occurred during Q3 2019 as recorded in the current survey. The two are not perfectly comparable, since the Q1 2019 expectation refers to Q2 2019, while the current survey actual refers to Q3 2019. The comparison does though give a rough indication of forward-looking expectations at the end of Q1 2019 compared to backward looking actual credit stance as at the end of Q3 2019.

Across the board for households, the actual credit stance prevailing in Q3 2019 was more stringent, reflected in the overall measure (-8), than the forward-looking expectation at the end of Q1 2019. This applied in particular to unsecured lending (-8), and to mid and upper market segments (-8).

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	**19Q3**	**Δ survey**	**19Q1**
Overall	50	- 5	55
Short-term loans (up to 1 year)	50	- 8	58
Longer-term loans (over 1 year)	50	- 5	55
Agriculture, forestry	50	- 4	54
Mining, quarrying	49	- 5	54
Manufacturing	49	- 3	52
Construction	45	- 1	46
Wholesale, retail, accommodation	50	- 2	52
Transport, communication, ICT	50	- 2	52

Financial, real estate, services	50	- 2	52
Utilities, social and state services	47	- 7	54

Banks' lending to enterprises during the third quarter of 2019 was more stringent across all categories in the survey, when compared to the forecast lending of quarter two in 2019. Most categories moved towards neutral or marginally negative from the forecast which was generally more positive.

Cross-comparison: Household lending

Viewing bank responses across multiple questions for household lending indicated that the provision of credit moved towards greater stringency in the third quarter of 2019 compared to the first quarter, in terms of credit stance as well as in tighter terms and conditions, credit scoring thresholds and higher interest rate margins. The tightening occurred across lending classes and market segments but was most pronounced for unsecured credit and credit facilities.

Cross-comparison: Enterprise lending

Cross-comparison of questions relating to enterprise lending indicated that banks adopted a somewhat more stringent credit stance in the third quarter when compared to the first quarter of 2019. Higher risk loans in the construction, utilities/SOEs, mining and manufacturing sectors were the most affected.

The more stringent credit stance was driven mainly by lowered expectations of economic growth and the translation of this to greater risk applicable to certain sectors.

Compilation of credit stance index: Household lending

With five surveys having been undertaken and an initial base period reference point, it is possible to compile indexes showing how the credit stance of banks has shifted over time. These provide ongoing time series, which can be used to indicate the trajectory of banks credit stance over time and can be used systematically for quantitative analysis purposes.

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

Credit stance households	**Q1 2017**	**Q3 2017**	**Q1 2018**	**Q3 2018**	**Q1 2019**	**Q3 2019**
Overall	100	100	103	105	105	102
Mortgage lending	100	103	111	115	**118**	117
Secured credit e.g. motor vehicle finance	100	96	92	99	99	99
Credit facilities e.g. credit cards and overdrafts	100	100	101	101	103	99
Unsecured credit	100	100	108	110	**113**	108
Short-term credit up to R8000, < 6 months	100	100	100	99	99	99
Developmental credit e.g. education	100	100	100	100	100	100
Mass market	100	100	103	103	103	100
Mid Market	100	103	109	114	117	115
Upper Market	100	105	114	117	120	117

This indicates for instance that the credit stance on mortgage lending has shifted significantly to greater leniency over the period from the base (100) of first quarter 2017 to the most recent period, with the index moving to 118 in the first quarter of 2019, decreasing slightly to 117 in the third quarter.

It indicates that the credit stance on unsecured credit has also shifted significantly to increased leniency over the period, though not as much as for mortgages, and has retracted from 113 in the first quarter of 2019 to 108 in the most recent period. It indicates that the greater leniency has applied most to the upper market, significantly to the mid-market, but scarcely at all to the mass market.

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**	**Q3 2019**
Overall	100	95	95	98	97	97
Short-term loans (up to 1 year)	100	97	100	102	102	102
Longer-term loans (over 1 year)	100	92	90	89	88	88
Agriculture, forestry	100	98	95	89	89	89
Mining, quarrying	100	93	88	91	93	92
Manufacturing	100	95	87	86	80	79
Construction	100	87	74	68	62	59
Wholesale, retail, accommodation	100	95	92	95	94	94
Transport, communication, ICT	100	98	98	97	96	96
Financial, real estate, services	100	95	95	95	94	94
Utilities, social and state services	100	92	92	98	95	93

This table indicates that banks' credit stance towards enterprises has generally shifted towards greater stringency across all sectors over the period from the base of the first quarter of 2017, and that this has been an especially strong negative shift in the case of the construction sector. Also subject to a major shift towards stringency has been the manufacturing sector. The indexes indicate 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.