# 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 that give some insight into potential trends emerging at the time of the survey. Given the impact of the Covid-19 pandemic and the subsequent lockdown, we were very grateful to the bankers who took the time to complete the survey and intentionally did not include additional questions.

Banking sector data series compiled by the South African Reserve Bank are 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 sixth bank lending practices survey and we believe that, over time, it will provide a useful measure in the understanding of bank sentiment in the credit landscape, particularly to the credit industry.

**Mark Brits**
Executive Director

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Bank of Taiwan (SA)

Capitec Bank Ltd

Finbond Bank

First Rand Bank Ltd

GBS Mutual Bank

Investec Bank Ltd

Nedbank

The Standard Bank of South Africa

As at March 2020, 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 first quarter of 2020, 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.

With the pressures of Covid-19 beginning to manifest at the time this survey was conducted, no additional questions were included.

## Growth in lending

As at the end of March 2020, and before any impact from the Covid-19 lockdown could be recorded, the total domestic assets [1] of the banking industry was approximately R5,5 trillion. When compared to the month end of September 2019, from which the previous survey was calculated, new domestic lending of approximately R330 billion had been created over this period. From the third quarter 2019 survey, the equivalent growth in assets was approximately R229 billion.

The South African Bank Lending Practices Survey focuses on household lending and enterprise lending (corporate businesses, SOEs and SMEs). From the approximately R330 billion, almost 36% of this lending (approx. R118 billion) was allocated to households and businesses combined, marginally down from the previous survey at 37%.

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

The South African Bank Lending Practices Survey provides some insight into the drivers of credit lending and may also identify changes in sentiment by the broader banking industry. In the previous South African Bank Lending Practices Survey, the banks indicated their intention to shift away from household lending in favour of enterprise lending. The current data confirms the shift in strategic direction, with banks' lending 15% (R49 billion) to households and 21% (R69 billion) to enterprises with a further 0.1% (R289 million) to SMEs.

Banks previously indicated a preference to extend credit to enterprises through property finance, to which they allocated R20 billion of the enterprise total, an emerging trend. Sentiment toward household mortgages was reduced when compared to the third quarter of 2019. It still accounted for the largest allocation of nearly R25 billion from the household total of R49 billion.

## 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

The credit stance towards mortgages was more restrictive in the first quarter of 2020 with concerns around land expropriation still driving negative sentiment. Overall economic activity and prospects for the housing market, as key risk drivers, added to negative sentiment. Pressure from competition resulted in fewer mortgages being offered as banks search for higher margins. Stricter thresholds applied to credit scores for households also impacted negatively on mortgage lending.

Despite these indicators, mortgage lending should remain an important source of credit for households going forward, with many other categories negatively impacted by the prospects of the Covid-19 lockdown.

## Secured lending

Secured credit is reported as more restrictive than in the previous survey, with negative sentiment towards economic activity contributing significantly. The credit worthiness of consumers is also a concern. Changing terms and conditions and the required return on these higher risks reflects the negative sentiment.

## Unsecured lending

Banks have indicated that they have adopted a stricter credit stance towards unsecured credit to households and this is likely to continue.

## Theme: Loans to enterprises

The overall credit stance towards enterprises has shifted negative during the first quarter of 2020, with the perception of risk driving this sentiment. Terms and conditions for loan approvals are trending negative with non-interest rate charges the most notable negative influence.

The construction sector has the most stringent credit criteria and is likely to remain in this position going forward. Mining and quarrying, and agriculture and forestry although negative, will experience the least stringent credit stance going forward. With the category utilities, social and state services joining the construction sector with a more stringent credit stance as banks shift their new lending away from high risk sectors.

## Theme: Strategic direction

As the impact of the Covid-19 lockdown is still unknown, overall sentiment towards both households and enterprises has declined materially. Of the categories monitored, enterprises should find overdraft and unsecured finance the most difficult to obtain.

Households should be better positioned to raise finance with most categories trending lower but remaining positive, with the exception of mortgage lending where growth could trend marginally lower.

SMEs obtaining property finance may be best positioned to take advantage of credit being offered by banks.

# 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 first quarter of 2020 from January to March and is compared to the previous survey where applicable.

At this juncture, six full previous surveys have been conducted, in respect of Q3 2017, Q1 2018, Q3 2018, Q1 2019 and Q3 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** | **20Q1** | **Δ ♦** | **19Q3** | **Δ survey** |
|---|---|---|---|---|
| Overall relative to 6 months ago | 40 | - 10 | 46 | - 6 |
| Mortgage lending[1] | 44 | - 6 | 50 | - 6 |
| Secured credit e.g. motor vehicle finance[2] | 37 | **- 13** | 50 | - 13 |
| Credit facilities e.g. credit cards and overdrafts | 41 | - 9 | 43 | - 2 |
| Unsecured credit | 35 | **- 15** | 42 | - 7 |
| Short term credit up to R8000, within 6 months | 36 | **- 14** | 50 | - 14 |
| Developmental credit e.g. education | **50** | ~ | 50 | ~ |
| Mass market | 41 | - 9 | 46 | - 5 |
| Mid market | 41 | - 9 | 46 | - 5 |
| Upper market | 42 | - 8 | 46 | - 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.

During the first quarter of 2020, the banks' credit stance towards households became more stringent than in the previous survey, with the notable exception of

[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.

developmental credit (50) that remained both neutral and unchanged. Unsecured credit remains the most unattractive class of lending (-15) with short-term credit up to six months and under R8 000, also turning negative (-14) along with secured credit (-13).

## 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** | **20Q1** | **Δ ♦** | **19Q3** | **Δ survey** |
|---|---|---|---|---|
| A) Cost of funds and balance sheet constraints | 50 | ~ | 53 | - 3 |
| B) Pressure from competition | 44 | - 6 | 58 | **- 14** |
| Competition from other banks | 44 | - 6 | 56 | - 12 |
| Competition from non-bank lending | 44 | - 6 | 54 | - 10 |
| Competition from direct / self-financing | 44 | - 6 | 50 | - 6 |
| C) Perception of risk | 48 | - 2 | 56 | - 8 |
| Expectations regarding economic activity | 43 | **- 7** | 49 | - 6 |
| Housing market prospects | 43 | **- 7** | 49 | - 6 |
| Risk on collateral realisation | 34 | **- 16** | 49 | - 15 |
| D) Other factors | 50 | ~ | 33 | ~ |

The negative turn in credit stance in respect of mortgage lending, is largely attributable to higher perceived risk relating to the realisation of collateral (-16), which in the case of mortgage lending, will be strongly connected to concerns over government pursuit of regulation imposing land expropriation without compensation. Risk perceptions relating to economic activity (-7) and housing market prospects (-7) continue to play a role in the tightening of credit for this segment.

Competitive pressures (-14) were also a negative factor when compared to the previous survey from both bank and non-bank lenders.

## 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** | **20Q1** | **Δ ♦** | **19Q3** | **Δ survey** |
|---|---|---|---|---|
| A) Cost of funds and balance sheet constraints | 38 | **- 12** | 50 | - 12 |
| B) Pressure from competition | 50 | ~ | 50 | ~ |
| Competition from other banks | 50 | ~ | 55 | - 5 |
| Competition from non-bank lenders | 50 | ~ | 50 | ~ |
| Competition from direct / self-financing | 50 | ~ | 50 | ~ |
| C) Perception of risk | 33 | - 17 | 47 | - 14 |
| Expectations regarding economic activity | 27 | **- 23** | 48 | - 21 |
| Creditworthiness of consumers | 35 | **- 15** | 48 | - 13 |
| Risk on the collateral required | 37 | **- 13** | 48 | - 11 |
| D) Other factors | 50 | ~ | 50 | ~ |

The perception of risk, already marginally constrained from the previous survey in the third quarter of 2019, was driven dramatically lower by a sharp fall the expectations regarding economic activity (-23) with both the reduced creditworthiness of consumers (-15) and risks on the realisation of collateral (-13) impacting negatively.

This may show that concerns with collateral extended beyond those on immovable property, most directly affected by likely expropriation without compensation measures, to fixed assets more broadly.

The cost of funds and balance sheet constraints (-12) emerged as a new factor influencing the stringent credit stance towards secured credit to households.

## 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** | **20Q1** | **Δ ♦** | **19Q3** | **Δ survey** |
|---|---|---|---|---|
| A) Cost of funds and balance sheet constraints | 46 | **- 4** | 50 | - 4 |
| B) Pressure from competition | 50 | ~ | 50 | ~ |
| Competition from other banks | 50 | ~ | 54 | - 4 |
| Competition from non-bank lenders | 50 | ~ | 50 | ~ |
| Competition from direct / self-financing | 50 | ~ | 50 | ~ |
| C) Perception of risk | 51 | + 1 | 55 | - 4 |
| Expectations regarding economic activity | 47 | **- 3** | 41 | + 6 |
| Creditworthiness of consumers | 48 | **- 2** | 41 | + 7 |
| Risk on the collateral required | 50 | ~ | 46 | + 4 |
| D) Other factors | 50 | ~ | 50 | ~ |

In the case of unsecured lending and credit facilities, the worsening perception of risk relating to economic activity (-3) and creditworthiness (-2) were regarded as only slightly worse than 6 months earlier, compared to far more negative changes for mortgage and secured lending. Cost of funds and balance sheet constraints (-4) were becoming a more stringent factor.

## 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** | **20Q1** | **Δ ♦** | **19Q3** | **Δ survey** |
|---|---|---|---|---|
| A) Price | 48 | - 2 | 44 | + 4 |
| Your bank's margin on average loans [1] | 41 | **- 9** | 46 | - 5 |
| Margin on riskier loans [1] | 43 | **- 7** | 49 | - 6 |
| B) Credit scoring | 44 | **- 6** | 50 | - 6 |
| C) Other conditions | 50 | ~ | 50 | ~ |
| Collateral requirements | 46 | - 4 | 50 | - 4 |
| Loan-to-value ratio | 42 | **- 8** | 43 | - 1 |
| Maturity | 50 | ~ | 50 | ~ |
| Non-interest rate charges (fees) | 50 | ~ | 50 | ~ |
| D) Other factors | 50 | ~ | 50 | ~ |

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

More stringent conditions were applied in the form of higher margins required on loans of all risk levels, with slightly less on riskier loans (-7) than the general average (-9). Loan to value ratios (-8) and stricter credit scoring (-6) continued to impact more negatively on mortgage lending.

## 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?

[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.

| Loans to households: credit terms change | 20Q1 | Δ ♦ | 19Q3 | Δ survey |
|---|---|---|---|---|
| A) Price | 43 | - 7 | 43 | ~ |
| Your bank's margin on average loans | 45 | - 5 | 50 | - 5 |
| Your bank's margin on riskier loans | 43 | **- 7** | 45 | - 2 |
| B) Credit scoring | 46 | - 4 | 50 | - 4 |
| C) Other terms and conditions | 50 | ~ | 50 | ~ |
| Collateral requirements | 41 | **- 9** | 50 | - 9 |
| Maturity | 54 | **+ 4** | 50 | + 4 |
| Non-interest rate charges (fees) | 50 | ~ | 50 | ~ |
| D) Other factors | 50 | ~ | 50 | ~ |

The tightening of collateral requirements (-9) was the most notable change to the banks' terms and conditions, with higher bank margins for riskier loans (-7) than average loans (-5).

Longer maturity periods (+4) were granted on average, introducing a positive influence.

## 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** | **20Q1** | **Δ ♦** | **19Q3** | **Δ survey** |
|---|---|---|---|---|
| A) Price | 53 | + 3 | 50 | + 3 |
| Your bank's margin on average loans | 45 | - 5 | 50 | - 5 |
| Your bank's margin on riskier loans | 44 | - 6 | 45 | - 1 |
| B) Credit scoring | 38 | **- 12** | 42 | - 14 |
| C) Other terms and conditions | 44 | - 6 | 46 | - 2 |
| Collateral requirements | 50 | ~ | 50 | ~ |
| Maturity | 50 | ~ | 50 | ~ |
| Non-interest rate charges (fees) | 51 | + 1 | 47 | + 4 |
| D) Other factors | 50 | ~ | 50 | ~ |

Credit scoring (-12) continues to impact negatively, falling from a positive score of 54 in the first quarter of 2019.

## 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** | **20Q1** | **Δ ♦** | **19Q3** | **Δ survey** |
|---|---|---|---|---|
| Overall relative to 6 months ago | 42 | **- 8** | 46 | - 4 |
| Mortgage lending | 46 | - 4 | 42 | + 4 |
| Secured credit e.g. motor vehicle finance | 43 | **- 7** | 45 | - 2 |
| Credit facilities e.g. credit cards and overdrafts | 50 | ~ | 45 | **+ 5** |
| Unsecured credit | 44 | - 6 | 42 | + 2 |
| Short term credit up to R8000, within 6 months | 49 | - 1 | 50 | - 1 |
| Developmental credit e.g. education | 50 | ~ | 50 | ~ |
| Mass market | 45 | - 5 | 46 | - 1 |
| Mid market | 46 | - 4 | 42 | + 4 |
| Upper market | 46 | - 4 | 42 | + 4 |

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

Interest rate spreads (-8) continued to widen overall, along with secured asset-backed financing (-7), although only marginally compared to the previous survey. In contrast, credit facilities returned to neutral (+5) with mortgage lending and the mid and upper market segments improving, but still stringent.

## 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** | **20Q1** | **Δ ♦** | **19Q3** | **Δ survey** |
|---|---|---|---|---|
| Overall relative to 6 months ago | 38 | - 12 | 46 | - 8 |
| Mortgage lending | 38 | - 12 | 46 | **- 8** |
| Secured credit e.g. motor vehicle finance | 46 | - 4 | 50 | - 4 |
| Credit facilities e.g. credit cards and overdrafts | 43 | - 7 | 46 | - 3 |
| Unsecured credit | 37 | **- 13** | 42 | - 5 |
| Short term credit up to R8000, within 6 months | 38 | - 12 | 50 | **- 12** |
| Developmental credit e.g. education | 50 | ~ | 50 | ~ |
| Mass market | 37 | - 13 | 46 | - 9 |
| Mid market | 38 | - 12 | 46 | - 8 |
| Upper market | 38 | - 12 | 46 | - 8 |

The trend towards greater stringency that began in the first quarter of 2019 continues, with mortgage lending (-8) and short-term credit (-12) recording a substantial decline when compared to the third quarter survey to catch up with unsecured credit (-13) that led the decline in the previous survey. Overall, the decline applied equally to all market segments.

## 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** | **20Q1** | **Δ ♦** | **19Q3** | **Δ survey** |
|---|---|---|---|---|
| Overall | 33 | - 17 | 50 | - 17 |
| Mortgage lending | 44 | - 6 | 50 | - 6 |
| Secured credit e.g. motor vehicle finance | 33 | - 17 | 50 | - 17 |
| Credit facilities e.g. credit cards and overdrafts | 33 | - 17 | 47 | - 14 |
| Unsecured credit | 29 | **- 21** | 46 | - 17 |
| Short term credit up to R8000, within 6 months | 33 | - 17 | 46 | - 13 |
| Developmental credit e.g. education | 50 | ~ | 50 | ~ |
| Mass market | 28 | **- 22** | 49 | - 21 |
| Mid market | 33 | - 17 | 49 | - 16 |
| Upper market | 33 | - 17 | 46 | - 13 |

The survey shows that banks are expecting their credit stance to be sharply more stringent over the next 3 months, across all forms of lending and market segments. Most drastically affected should be unsecured credit (-21) and the mass market segment (-22).

# 2. Loans or credit lines to enterprises[5]

## 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?

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

| **Loans to enterprises: credit stance change** | **20Q1** | **Δ ♦** | **19Q3** | **Δ survey** |
|---|---|---|---|---|
| Overall relative to 6 months ago | 45 | **- 5** | 50 | - 5 |
| Short-term loans (up to 1 year) | 49 | - 1 | 50 | - 1 |
| Longer-term loans (over 1 year) | 45 | **- 5** | 50 | - 5 |
| Agriculture, forestry | 49 | - 1 | 50 | - 1 |
| Mining, quarrying | 44 | - 6 | 49 | **- 5** |
| Manufacturing | 45 | - 5 | 49 | - 4 |
| Construction | 40 | **- 10** | 45 | - 5 |
| Wholesale, retail, accommodation | 49 | - 1 | 50 | - 1 |
| Transport, communication, ICT | 44 | - 6 | 50 | **- 6** |
| Financial, real estate, services | 49 | - 1 | 50 | - 1 |
| Utilities, social and state services | 45 | - 5 | 47 | - 2 |

In the previous survey, sentiment towards enterprises was neutral, when compared to households where the sentiment had already turned negative. Enterprises overall (-5), and across all categories, sentiment was more negative in this survey, with the worst affected sector remaining construction (-10). A more stringent credit stance was also evident in transport, communication, and ICT (-6) and mining and quarrying (-5).

Longer term lending was more affected than shorter term loans.

## 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** | **20Q1** | **Δ ♦** | **19Q3** | **Δ survey** |
|---|---|---|---|---|
| A) Cost of funds and balance sheet constraints | 50 | ~ | 50 | ~ |
| Costs related to your bank's capital position[1] | 46 | - 4 | 50 | - 4 |
| 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 | 46 | - 4 | 54 | **- 8** |
| Competition from non-bank lenders | 50 | ~ | 50 | ~ |
| Competition from direct market financing | 50 | ~ | 50 | ~ |
| C) Perception of risk | 40 | **- 10** | 44 | - 4 |
| Expectations on general economic activity | 40 | - 10 | 44 | - 4 |
| Industry or firm-specific outlook | 40 | - 10 | 46 | **- 6** |
| Risk on the collateral required | 44 | - 6 | 48 | - 4 |
| 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

Overall perceptions of risk (-10) negatively impacted the credit stance of banks towards enterprises, with the category industry or firm-specific outlook (-6) being the most significant risk influence since the previous survey.

Competition from other banks also contributed towards shifting sentiment negative.

## 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 | 20Q1 | Δ ♦ | 19Q3 | Δ survey |
|---|---|---|---|---|
| A) Price | 42 | - 8 | 50 | - 8 |
| Your bank's margin on average loans [1] | 46 | - 4 | 54 | **- 8** |
| Your bank's margin on riskier loans [1] | 44 | - 6 | 44 | ~ |
| B) Other terms and conditions | 50 | ~ | 50 | ~ |
| Non-interest rate charges | 41 | - 9 | 50 | **- 9** |
| Maximum size of the loan or credit line | 46 | - 4 | 50 | **- 4** |
| Loan to value ratio | 49 | - 1 | 50 | - 1 |
| Collateral requirements | 49 | - 1 | 50 | - 1 |
| Loan covenants | 50 | ~ | 50 | ~ |
| Maturity | 46 | - 4 | 50 | **- 4** |
| C) Other factors | 50 | ~ | 50 | ~ |

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

A more stringent credit stance was taken through the banks terms and conditions when compared to six months earlier. Higher interest rate margins (-8) and non-interest charges (-9) reflected the higher risk conditions, with the size of loans (-4) and maturity (-4) becoming constrained.

## 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** | **20Q1** | **Δ ♦** | **19Q3** | **Δ survey** |
|---|---|---|---|---|
| Overall | 37 | - 13 | 53 | - 16 |
| Short-term loans (up to 1 year) | 37 | - 13 | 53 | - 16 |
| Longer-term loans (over 1 year) | 37 | - 13 | 53 | - 16 |
| Agriculture, forestry | 41 | - 9 | 52 | - 11 |
| Mining, quarrying | 41 | - 9 | 52 | - 11 |
| Manufacturing | 37 | - 13 | 52 | - 15 |
| Construction | 33 | **- 17** | 52 | - 19 |
| Wholesale, retail, accommodation | 37 | - 13 | 53 | - 16 |
| Transport, communication, ICT | 37 | - 13 | 53 | - 16 |
| Financial, real estate, services | 37 | - 13 | 54 | - 17 |
| Utilities, social and state services | 33 | **- 17** | 54 | - 21 |

Across all counters measured, the expected credit stance towards enterprises has declined sharply from generally positive in quarter three of 2019. The riskiest sectors to provide funding to are expected to be in construction (-17) and utilities, social and state services (-17).

## 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** | **20Q1** | **Δ ♦** | **19Q3** | **Δ survey** |
|---|---|---|---|---|
| A) Enterprise lending | 47 | - 3 | 50 | - 3 |
| Property finance [1] | 53 | **+ 3** | 50 | + 3 |
| Plant and equipment finance (asset based) [2] | 45 | **- 5** | 50 | - 5 |
| Debtor finance | 49 | - 1 | 58 | **- 9** |
| Overdraft and unsecured | 45 | **- 5** | 46 | - 1 |
| Import/export finance | 49 | - 1 | 50 | - 1 |
| Short-term bridging loans | 49 | - 1 | 50 | - 1 |
| 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.

Over the past six months lending towards SMEs has drifted negative with asset-based finance (-5) and overdraft and unsecured finance (-5) the worst affected. Debtor finance (-9) which was the only category in positive territory in Q3 2019 also moved sharply lower.

The only category bucking the trend was property finance which moved marginally positive (+3).

## 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 | 20Q1 | Δ ♦ | 19Q3 | Δ survey |
|---|---|---|---|---|
| A) Enterprise lending | 50 | ~ | 59 | - 9 |
| Property finance [1] | 43 | - 7 | 65 | **- 22** |
| Plant and equipment finance (asset based) [2] | 43 | - 7 | 57 | - 14 |
| Debtor finance | 43 | - 7 | 61 | **- 18** |
| Overdraft and unsecured | 38 | **- 12** | 50 | - 12 |
| Import/Export finance | 43 | - 7 | 53 | - 10 |
| B) Household lending | 50 | ~ | 56 | - 6 |
| Mortgage lending [1] | 48 | - 2 | 61 | **- 13** |
| Secured / Vehicle finance [2] | 51 | + 1 | 56 | - 5 |
| Credit card finance /credit facility | 54 | + 4 | 55 | - 1 |
| Unsecured lending | 53 | + 3 | 54 | - 1 |
| Short-term loans | 46 | - 4 | 54 | **- 8** |
| C) Other lending | 47 | - 1 | 50 | - 1 |

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 preference for enterprise lending over household lending in the previous survey has reversed with all categories of enterprise lending moving negative. Commercial property finance (-22) and debtor finance (-18) were the most notable changes from the previous survey with overdraft and unsecured lending (-12) the least attractive category in the current survey.

In contrast, the impact on households was moderate with some categories remaining in positive territory. Mortgage lending (-13) and short-term loans (-8) were the most reduced when compared to the previous survey.

## 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 2015, as applied to the approval of loans or credit lines to **households** and **enterprises**?

| Loans to households: credit stance change | 20Q1 | Δ ♦ | 19Q3 | Δ survey |
|---|---|---|---|---|
| Overall relative to 5 years ago | 54 | + 4 | **43** | **+ 11** |
| Short term lending (up to 1 year) | 51 | + 1 | 48 | + 3 |
| Longer-term lending (over 1 year) | 53 | + 3 | 57 | - 4 |
| Mass market | 50 | ~ | 52 | - 2 |
| Mid market | 50 | ~ | 53 | - 3 |
| Upper market | 51 | + 1 | 53 | - 2 |
| **Loans to enterprises: credit stance change** | | | | |
| Overall relative to 5 years ago | 54 | + 4 | **43** | **+ 11** |
| Short term lending (up to 1 year) | 54 | + 4 | 43 | **+ 11** |
| Longer-term lending (over 1 year) | 54 | + 4 | 43 | **+ 11** |

The third quarter 2019 survey measured sentiment to five years earlier (2014), where both households and enterprises (43) were negative overall. Six months on (comparison to 2015), this survey shows a substantial increase (+11) to a more lenient credit sentiment (54) for both households and enterprises. This leniency applied equally to both short and long-term lending.

## 4. Comparison

## Actual vs expected credit stance: Household lending

Comparison of banks' Q1 assessment of credit stance with banks expected forward credit stance from the Q3 2019 survey: approval of loans to households.

| **Loans to households: future 3 months** | **20Q1** | **Δ survey** | **19Q3** |
|---|---|---|---|
| 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 cross comparison of bank forward expectations shown in the Q3 2019 survey with the reality of Q1 2020 shows that the reality of Q1 2020 was significantly more stringent than expected in their previous forward view (-8). This applied across all forms of household lending, but most to unsecured credit (-8). It applied more to the mid and upper market segments (-8) than to the mass market.

It needs to be noted that the two periods compared are not perfectly comparable, since the Q3 2019 expectation refers to Q4 2019, while the current survey refers to Q1 2020. The comparison does though give a rough indication of forward-looking expectations at the end of Q3 2019 compared to backward looking actual credit stance as at the end of Q1 2020

## Actual vs expected credit stance: Enterprise lending

Comparison of banks' Q1 assessment of credit stance with banks expected forward credit stance from the Q3 2019 survey: approval of loans or credit lines to enterprises.

| Loans to enterprises: stance next 3 months | 20Q1 | Δ survey | 19Q3 |
|---|---|---|---|
| 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 |

In the case of lending to enterprises, the stance reflected for Q1 2020 was compared to the expected view presented in the Q3 2019 survey. Most categories fell below expectations with notably greater stringency in the category utilities, social and state services (-7), while short-term loans (-8) trended to neutral from a positive stance.

## Cross-comparison: Household lending

Viewing bank responses across multiple questions for household lending indicates that credit provision moved to markedly greater stringency in Q1 2020 compared to Q3 2019, 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. This was partly a continuation of trends from earlier quarters but was notably more negative.

## Cross-comparison: Enterprise lending

Cross-comparison of questions relating to enterprise lending indicate that banks adopted a markedly more stringent credit stance in Q1 2020 compared to Q3 2019, that it applied especially to higher risk loans, and that it applied primarily to Construction, Utilities/SOEs, Mining, Manufacturing and Transport sectors.

The more stringent credit stance was driven mainly by lowered expectations of economic growth both generally in the economy and in the outlook of particular sectors expected to incur greatest difficulties and consequent financial risk.

## Compilation of credit stance index: Household lending

With six surveys completed and an initial base period reference point, indexes can be compiled to show how the credit stance of banks has shifted over time. These form ongoing time series, which can be used to examine the trajectory of 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** | **Q1 2020** |
|---|---|---|---|---|---|---|---|
| Overall relative to 6 months ago | 100 | 100 | 103 | 105 | 105 | 102 | 95 |
| Mortgage lending | 100 | 103 | 111 | 115 | **118** | 117 | 113 |
| Secured credit eg motor vehicle finance | 100 | 96 | 92 | 99 | 99 | 99 | 90 |
| Credit facilities eg credit cards and overdrafts | 100 | 100 | 101 | 101 | 103 | 99 | 93 |
| Unsecured credit | 100 | 100 | 108 | 110 | **113** | 108 | **98** |
| Short-term credit up to R8000, within 6 months | 100 | 100 | 100 | 99 | 99 | 99 | 89 |
| Developmental credit eg education | 100 | 100 | 100 | 100 | 100 | 100 | 100 |
| Mass market | 100 | 100 | 103 | 103 | 103 | 100 | 94 |
| Mid Market | 100 | 103 | 109 | 114 | 117 | 115 | 109 |
| Upper Market | 100 | 105 | 114 | 117 | 120 | 117 | 112 |

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 Q1 2019, decreasing to 113 in Q1 2020. It indicates that credit stance on unsecured credit shifted significantly to increased leniency over the period to Q1 2019, reaching (113) in that quarter, but retracted sharply from then to reach (98) in Q1 2020. It indicates that the greater leniency has applied most to the upper market, significantly to the mid-market, but that the mass market had only a slight increase in leniency through to Q1 2019 and that this was reversed to below 2017 levels in Q1 2020.

## Compilation of credit stance index: Enterprise lending

These credit stance indexes were compiled using a similar methodology to the above, applied to enterprise lending. The indexes are shown in the table below:

| **Credit stance enterprises** | **Q1 2017** | **Q3 2017** | **Q1 2018** | **Q3 2018** | **Q1 2019** | **Q3 2019** | **Q1 2020** |
|---|---|---|---|---|---|---|---|
| Overall relative to 6 months ago | 100 | 95 | 95 | 98 | 97 | 97 | 94 |
| Short-term loans (up to 1 year) | 100 | 97 | 100 | 102 | 102 | 102 | 101 |
| Longer-term loans (over 1 year) | 100 | 92 | 90 | 89 | 88 | 88 | **85** |
| Agriculture, forestry | 100 | 98 | 95 | 89 | 89 | 89 | 88 |
| Mining, quarrying | 100 | 93 | 88 | 91 | 93 | 92 | 88 |
| Manufacturing | 100 | 95 | 87 | 86 | 80 | 79 | **75** |
| Construction | 100 | 87 | 74 | 68 | 62 | 59 | **52** |
| Wholesale, retail, accommodation | 100 | 95 | 92 | 95 | 94 | 94 | 93 |
| Transport, communication, ICT | 100 | 98 | 98 | 97 | 96 | 96 | 92 |
| Financial, real estate, services | 100 | 95 | 95 | 95 | 94 | 94 | 93 |
| Utilities, social and state services | 100 | 92 | 92 | 98 | 95 | 93 | 89 |

These indicate that banks' 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 (52). Also subject to a major shift towards stringency has been the manufacturing sector (75). The indexes indicate that the shift has applied mainly to longer term loans (85), 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.