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 South African 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 and Britain, 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. This survey includes questions relating to the impact of COVID-19 and resulting lockdown regulations as well questions related to renewable energy.

Banking sector data, compiled by the South African Reserve Bank (**SARB**) is used in conjunction with survey results, to show the provision of credit under various classes and categories, with estimations of econometric relationships. Survey data is compiled and analysed at a combined level for banks, so that individual bank information is not revealed in the survey results and analysis. The results are compiled using a diffusion index approach, with responses weighted by asset values to collate responses across banks. A credit stance index, compiled by concatenation across the six-monthly surveys, completes the survey.

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

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As at September 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 third quarter of 2020, 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.

The sentiment of banks is measured as the deviation from their expected view. Rather than quantifying each element that makes up the credit decision making universe, the credit risk professional assumes that what is known to him or her, is normalised to a score of 50. The survey either scores the projected credit behaviour of 50 in hindsight, by indicating if the actual experience of the previous survey was more stringent or more lenient or uses the predictive ability of the credit professional to signal if there is a change in sentiment going forward represented by a variation of the current credit norm indicated as 50. Specific questions are used in the survey to guide the approach.

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.

This survey includes the impact of COVID-19 and the subsequent lockdown regulations on credit sentiment. It also includes topical questions on the impact of renewable energy on credit making decisions.

Growth in lending

As at the end of September 2020, the total domestic assets[1] of the South African banking industry was approximately R5 546 billion. This was about R11 billion lower than the total balance sheet of the banks in March 2020 at R5 558 billion.

Month-on-month growth in total industry balance sheets can on occasion be negative, however for the month of March 2020 the total assets of the banking industry grew by R258 billion, an unprecedented amount if compared with the average R22 billion month-on-month growth of the past three-years to September 2017. The March 2020 month end balance introduces an anomaly. The most significant contribution was in derivative instruments where collectively R154 billion was added to the assets of the banking industry balance sheet.

The South African Bank Lending Practices Survey focuses on direct lending to the economy in the form of household lending and enterprise lending (corporate businesses and SMEs) with some reflection on state owned entities. When comparing the asset portfolio change in the industry balance sheet over the past six months, a reduction of approximately R97 billion was recorded against a broad category of lending, contrasting against a substantial growth of approximately R113 billion in the acquisition of marketable government stock and treasury bills by banks, providing the main contributions to the overall drop of R11 billion for the period.

The South African Bank Lending Practices Survey covers around one-third of the recorded change of R97 billion by value, or approximately R33 billion. The previous survey indicated that enterprises should find overdraft and unsecured finance the most difficult categories going forward, and this was evidenced by the most significant decline recorded in overdrafts and unsecured loans, declining by approximately R97 billion. A counterweight for enterprises was commercial mortgages that grew by around R13 billion. Households experienced positive growth in instalment sales of R4 billion and residential mortgages of R7 billion. Uncategorised loans on the SARB BA 900 and

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

therefore not part of the survey grew by R55 billion which together with several other line items reconciles back to the R33 billion.

Topic: The effect of the Covid-19 lockdown on lending

Translating the impact of the Covid-19 lockdown into credit decisions, needs to cover a broad range of factors from essential services to the banking industry, such as a functional postal service to serve notices, availability of sheriffs' and accessibility to the courts, to the impact of emerging health restrictions on operations. In this survey we limited the scope and the single most important factor identified as driving stringency in bank lending was understandably a generalised lack of economic confidence. Combining this with a lack of, or deficiencies in, a clear economic recovery plan a predictable stringency was observed.

Policy measures such as the reduction in the policy interest rate by 300 basis points, had no measurable impact on bank credit decisions, whilst quantitative measures such as the purchase of bonds by the SARB to inject liquidity, had a more meaningful and positive impact. The government loan guarantee scheme was identified as having a positive effect on bank credit stance, but only to a small degree.

The banking industry was designated an essential service and lockdown restrictions had little to no overall impact, with some positive effects being recorded in the shift to virtual environments.

The impact of the Covid-19 lockdown was most pronounced for the credit stance towards the construction sector and the wholesale, retail and accommodation sector.

Topic: Lending for renewable projects

South Africa is a coal-based economy and within the concept of a just transition away from coal to meet the international drive towards renewable energy, we asked our banks to consider how their credit stance had been affected by this trend over the past year.

Predictably, there is a dramatic shift away from lending to coal related projects with a more muted but negative view of nuclear. The focus in the provision of credit in the energy sector is mainly in solar and wind where significant positive interest has been expressed. Credit provision to the manufacture of biofuels such as ethanol would be less stringent when compared to natural gas which remains unchanged over the past year.

The credit stance towards electric vehicles is marginally positive demonstrating support for importing, local manufacturing and electric vehicle charging infrastructure. Hydrogen technology including fuel cells, would also attract less stringent credit stance when compared to one-year prior.

Long-term supply arrangements and technology partnerships are factors that have driven a more accommodative credit stance.

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

Mortgage lending, as the longest-term lending arrangement with customers, was impacted by increasingly negative risk perceptions resulting in more stringent credit assessments. Concerns around the realisation of collateral, was more relevant than concerns around economic activity.

Terms and conditions for mortgage lending were made more stringent with stricter credit scoring and loan-to-value ratios, and higher interest rate margins, especially on riskier loans.

Secured lending

The credit stance towards secured lending was significantly more stringent on the perception of increased risk. The creditworthiness of consumers was the main driver combined with negative perceptions relating to economic activity and growth. Terms and conditions were adjusted with higher interest rates charged for higher risk loans with stricter credit scoring across all loans types in this category.

Unsecured lending

The substantially more negative stance observed towards unsecured lending was driven by increased negative perceptions of risk. Terms and conditions for credit facilities were more stringent requiring higher credit margins for higher risk loans and overall, more stringent credit scoring was applied.

Theme: Loans to enterprises

Over the past six-months, banks have significantly tightened their credit stance towards enterprises across all sectors of the economy. The construction sector remains one of the least attractive sectors with a dramatically stringent credit stance applied by banks.

Overall, factors that impacted negatively on credit stance was dominated by an industry or firm specific outlook, with economic recovery and collateral risk rated lower but more generally applied. Terms and conditions became more stringent, particularly loan-to-value ratios and loan repayment periods.

Theme: Strategic direction

As the impact of Covid-19 and the lockdown begins to inform the direction the economy is likely to take, there is a general preference towards household lending over lending to enterprises going forward. Households can expect a more stringent approach from the banks in the provision of credit for unsecured credit while mortgage lending and secured and motor vehicle finance being identified as the most favourable areas. Enterprise lending should see a substantial contraction in property finance going forward, with debtor finance another area of stringency.

Sentiment towards small enterprises remains nominally negative showing a small improvement from six months earlier. Overdraft and unsecured lending may become more lenient given the improvement in sentiment for six-months prior.

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 2020 from July to September 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, Q3 2019 and Q1 2020, 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	**20Q3**	**Δ ♦**	**20Q1**	**Δ survey**
Overall relative to 6 months ago	34	**-16**	40	-6
Mortgage lending [1]	39	**-11**	44	-5
Secured credit e.g. motor vehicle finance [2]	39	**-11**	37	+2
Credit facilities e.g. credit cards and overdrafts	41	-9	41	~
Unsecured credit	29	**-21**	35	-13
Short term credit up to R8000, within 6 months	46	-4	36	+10
Developmental credit e.g. education	68	**18**	50	+18
Mass market	36	**-14**	41	-5
Mid market	36	**-14**	41	-5
Upper market	41	-9	42	-1

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

The credit stance of banks towards households from the survey is shown to be far more stringent in the most recent quarter compared to 6 months earlier. This is a comparison of a quarter under COVID-19 lockdowns and economic curtailment

[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.

compared to the quarter just prior to the lockdowns. It reflects that banks became materially more cautious under lockdown in their lending decisions, in reaction to the dire situation facing applicants for credit as economic conditions changed. The countercyclical behaviour of banks exacerbates the severity of an economic recession. It is however understandable from a bank perspective, since banks were faced with increased default risk resulting from retrenchments, salary reductions and uncertainty concerning the continuation of household incomes.

Overall, the banks reflected their credit stance as substantially more stringent than Q1 2020 (-16). The worst affected credit class was unsecured credit (-21) with mortgage lending and motor vehicle financing also badly affected (-11). The was directed more towards the mass and mid markets (-14) than the upper market (-9).

The exception to the more stringent stance was developmental credit (+18). This is a small class of credit by value but would include loans such as those for student education which are geared towards personal development. This may reflect moves by banks to be supportive towards personal circumstances under the difficult economic environment.

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	**20Q3**	**Δ ♦**	**20Q1**	**Δ survey**
A) Cost of funds and balance sheet constraints	54	+4	50	+4
B) Pressure from competition	54	+4	44	+10
Competition from other banks	58	+8	44	+14
Competition from non-bank lending	54	+4	44	+10
Competition from direct / self-financing	50	~	44	+6
C) Perception of risk	35	**-15**	48	-13

Expectations regarding economic activity	36	**-14**	43	-7
Housing market prospects	37	-13	43	-6
Risk on collateral realisation	32	**-18**	34	-2
D) Other factors	50	~	50	~

Bank responses to the Q3 survey indicate that more negative risk perceptions (-15) were the key reasons for the greater stringency in credit assessments relating to mortgage lending. The risk of not being able to realise the collateral provided (-18) followed by negative expectations regarding economic activity (-14) more generally as well as the housing market more specifically.

Cost of funds and balance sheet constraints were not a hindrance and were slightly more conducive to lending than six months prior.

Competition from other banks and non-bank lenders was also a lesser concern than six months prior and resulted in some easing of credit stance compared to 6 or 12 months earlier.

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	**20Q3**	**Δ ♦**	**20Q1**	**Δ survey**
A) Cost of funds and balance sheet constraints	46	-4	38	+8
B) Pressure from competition	49	-1	50	-1
Competition from other banks	46	-4	50	-4
Competition from non-bank lenders	50	~	50	~
Competition from direct / self-financing	50	~	50	~
C) Perception of risk	33	**-17**	33	~
Expectations regarding economic activity	32	**-18**	27	+5

Creditworthiness of consumers	29	**-21**	35	-6
Risk on the collateral required	37	-13	37	~
D) Other factors	50	~	50	~

In respect of secured credit, risk perceptions (-17) were an even greater factor in banks' more stringent credit stance than for mortgage lending. The greatest negative factor was concerns over creditworthiness of consumers (-21), followed by negative perceptions relating to economic activity and growth (-18).

Cost of funds was only a small contributor to the greater stringency of credit, and competition from other lenders likewise was not a significant factor for the stricter stance on secured credit provision.

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	**20Q3**	**Δ ♦**	**20Q1**	**Δ survey**
A) Cost of funds and balance sheet constraints	49	-1	46	+3
B) Pressure from competition	50	~	50	~
Competition from other banks	50	~	50	~
Competition from non-bank lenders	50	~	50	~
Competition from direct / self-financing	50	~	50	~
C) Perception of risk	46	**-4**	51	-5
Expectations regarding economic activity	46	-4	47	-1
Creditworthiness of consumers	47	-3	48	-1
Risk on the collateral required	44	-6	50	-6
D) Other factors	50	~	50	~

Negative risk perceptions (-4), although moderate, led to a more negative credit stance on credit facilities and unsecured lending. Cost of funds and competition played no significant role.

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	**20Q3**	**Δ ♦**	**20Q1**	**Δ survey**
A) Price	43	**-7**	48	-5
Your bank's margin on average loans [1]	45	-5	41	+4
Margin on riskier loans [1]	40	**-10**	43	-3
B) Credit scoring	37	**-13**	44	-7
C) Other conditions	47	-3	50	-3
Collateral requirements	46	-4	46	~
Loan-to-value ratio	41	**-9**	42	-1
Maturity	50	~	50	~
Non-interest rate charges (fees)	50	~	50	~
D) Other factors	5	~	50	~

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

Banks indicate in the Q3 survey that terms and conditions for mortgage lending were made more stringent (-7) by the banks than 6 months earlier. This applied most to stricter credit scoring (-13), but also to loan-to-value ratios (-9) and to higher interest rate margins, especially on riskier loans (-10).

[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.

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	**20Q3**	**Δ ♦**	**20Q1**	**Δ survey**
A) Price	44	-6	43	+1
Your bank's margin on average loans	45	-5	45	~
Your bank's margin on riskier loans	40	**-10**	43	-3
B) Credit scoring	41	**-9**	46	-5
C) Other terms and conditions	50	~	50	~
Collateral requirements	50	~	41	+9
Maturity	50	~	54	-4
Non-interest rate charges (fees)	50	~	50	~
D) Other factors	50	~	50	~

The impact of terms and conditions on secured lending, was mainly through stricter credit scoring (-9) but also on higher interest rate margins (-10), especially on riskier loans. Conditions relating to collateral, maturity periods and fees were hardly changed.

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	**20Q3**	**Δ ♦**	**20Q1**	**Δ survey**
A) Price	44	-6	53	-9
Your bank's margin on average loans	46	-4	45	+1
Your bank's margin on riskier loans	41	**-9**	44	-3
B) Credit scoring	40	**-10**	38	+2
C) Other terms and conditions	50	~	44	+6

Collateral requirements	54	+4	50	+4
Maturity	50	~	50	~
Non-interest rate charges (fees)	46	-4	51	-5
D) Other factors	50	~	50	~

Terms and conditions for credit facilities and unsecured lending, were more stringent through credit scoring (-10), with higher interest rate margins (-9), especially on riskier loans. Other terms and conditions were little changed.

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	**20Q3**	**Δ ♦**	**20Q1**	**Δ survey**
Overall relative to 6 months ago	46	-4	42	+4
Mortgage lending	47	-3	46	+1
Secured credit e.g. motor vehicle finance	46	-4	43	+3
Credit facilities e.g. credit cards and overdrafts	43	**-7**	50	-7
Unsecured credit	46	-4	44	+2
Short term credit up to R8000, within 6 months	51	**+1**	49	+2
Developmental credit e.g. education	42	-8	50	-8
Mass market	42	**-8**	45	-3
Mid market	46	-4	46	~
Upper market	46	-4	46	~

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

Banks indicate in the Q3 survey that interest rate spreads relative to cost of funds were higher across nearly all classes of consumer lending. This applied most to credit facilities such as credit cards (-7). Short term credit up to R8000 (+1) was the exception. The mass market was most affected (-8), the mid and upper markets less so.

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	**20Q3**	**Δ ♦**	**20Q1**	**Δ survey**
Overall relative to 6 months ago	34	-16	38	-4
Mortgage lending	31	**-19**	38	-7
Secured credit e.g. motor vehicle finance	31	**-19**	46	-15
Credit facilities e.g. credit cards and overdrafts	38	-12	43	-5
Unsecured credit	34	**-16**	37	-3
Short term credit up to R8000, within 6 months	32	**-18**	38	-6
Developmental credit e.g. education	41	-9	50	-9
Mass market	33	-17	37	-4
Mid market	37	-13	38	-1
Upper market	39	-11	38	+1

Bank responses for Q3 show that the greater stringency in application of credit scoring applied across all forms of lending and markets. The greatest increased stringency in credit score thresholds over the past 6 months applied to mortgage lending (-19), secured credit (-19), short-term credit (-18), and unsecured credit (-16). Developmental credit was less affected.

The tightening of credit scoring thresholds applied most strongly to the mass market and least strongly to the upper market. It is apparent from previous survey results that there was already a tightening trend in place prior to the COVID-19 lockdowns, but that the tightening was ramped up very significantly subsequent to commencement of the lockdowns.

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	**20Q3**	**Δ ♦**	**20Q1**	**Δ survey**
Overall	47	-3	33	+14
Mortgage lending	46	**-4**	44	+2
Secured credit e.g. motor vehicle finance	50	~	33	+17
Credit facilities e.g. credit cards and overdrafts	50	~	33	+17
Unsecured credit	41	**-9**	29	+12
Short term credit up to R8000, within 6 months	50	~	33	+17
Developmental credit e.g. education	50	~	50	~
Mass market	41	-9	28	**+13**
Mid market	45	-5	33	**+12**
Upper market	46	-4	33	**+13**

The expectations of banks over the next 3 months show somewhat greater stringency, mainly applied to unsecured credit (-9) and to a lesser extent mortgage lending (-4). The greater stringency would apply to the mass market to a greater degree than mid- and upper markets. The outlook is very significantly more positive (+12 to +13) than the outlook at the time of the survey following Q1 2020.

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	**20Q3**	**Δ ♦**	**20Q1**	**Δ survey**
Overall relative to 6 months ago	38	**-12**	45	-7
Short-term loans (up to 1 year)	38	-12	49	-11
Longer-term loans (over 1 year)	34	-16	45	-11
Agriculture, forestry	41	-9	49	-8
Mining, quarrying	42	-8	44	-2
Manufacturing	30	-20	45	-15
Construction	26	**-24**	40	-14
Wholesale, retail, accommodation	30	**-20**	49	-19
Transport, communication, ICT	42	-8	44	-2
Financial, real estate, services	37	-13	49	-12
Utilities, social and state services	30	**-20**	45	-15

In respect of lending to enterprises, banks reflect a major tightening of credit stance (-12) in Q3 compared to 6 months earlier. This applies across short- and longer-term lending and across all sectors of the economy. The greatest increase in stringency applies to the construction industry (-24) followed by manufacturing, wholesale; retail and accommodation (-20), and the category utilities; social and state services (-20).

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	**20Q3**	**Δ ♦**	**20Q1**	**Δ survey**
A) Cost of funds and balance sheet constraints	53	+3	50	+3
Costs related to your bank's capital position[1]	41	-9	46	-5
Your bank's ability to access market financing [2]	58	+8	50	+8
Your bank's liquidity position	58	+8	50	+8
B) Pressure from competition	43	-7	50	-7
Competition from other banks	50	~	46	+4

Competition from non-bank lenders	39	**-11**	50	-11
Competition from direct market financing	39	**-11**	50	-11
C) Perception of risk	32	**-18**	40	-8
Expectations on general economic activity	33	**-17**	40	-7
Industry or firm-specific outlook	29	**-21**	40	-11
Risk on the collateral required	33	**-17**	44	-11
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

Factors that affected the banks credit stance were mainly negative perceptions of risk (-18) that drove the credit stance of banks to greater stringency. The strongest factor was industry or firm-specific outlook (-21), but with expectations of economic activity (-17) and risks on collateral recoveries (-17) major factors.

Competition from non-bank lenders and direct marketing finance drove banks' credit stances to be more stringent (-11), but costs of funds, access to finance and liquidity were factors moving credit stances to be eased rather than tightened.

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	57	+7	42	+15
Your bank's margin on average loans [1]	58	**+8**	46	+12
Your bank's margin on riskier loans [1]	56	**+6**	44	+12
B) Other terms and conditions	43	-7	50	-7
Non-interest rate charges	43	-7	41	+2
Maximum size of the loan or credit line	42	-8	46	-4
Loan to value ratio	35	**-15**	49	-14
Collateral requirements	50	~	49	+1

Loan covenants	44	-6	50	-6
Maturity	34	**-16**	46	-12
C) Other factors	50	~	50	~

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

Banks indicated that within their terms and conditions, loan-to-value ratios (-15) and loan repayment periods (-16) have been made significantly more stringent over the past 6 months. Maximum loan sizes have also been reduced and loan covenants more stringently specified.

However, bank interest rate margins are shown as being lower (less stringent) than 6 months earlier, both on average (+8) and higher risk loans (+6).

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 ♦**	**20Q1**	**Δ survey**
Overall	39	**-11**	37	+2
Short-term loans (up to 1 year)	43	-7	37	+6
Longer-term loans (over 1 year)	39	-11	37	+2
Agriculture, forestry	37	-13	41	-4
Mining, quarrying	45	-5	41	+4
Manufacturing	37	-13	37	~
Construction	34	**-16**	33	+1
Wholesale, retail, accommodation	41	-9	37	+4
Transport, communication, ICT	41	-9	37	+4
Financial, real estate, services	37	-13	37	~
Utilities, social and state services	34	**-16**	33	+1

Over the next three months banks expect a significantly more stringent credit stance to enterprises (-11) overall with the construction sector (-16) and utilities, social and state services (-16) the most restrictive.

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	**20Q3**	**Δ ♦**	**20Q1**	**Δ survey**
A) Enterprise lending	49	**-1**	47	**+2**
Property finance [1]	50	~	53	-3
Plant and equipment finance (asset based) [2]	45	-5	45	~
Debtor finance	45	-5	49	-4
Overdraft and unsecured	53	**+3**	45	**+8**
Import/export finance	49	-1	49	~
Short-term bridging loans	49	-1	49	~
B) Other lending	55	+5	50	+5

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.

Sentiment towards small enterprises remains nominally negative (-1) showing a small improvement from six months earlier (+2). Overdraft and unsecured lending became more lenient (+3) and reasonably more positive (+8) than six months ago.

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	**20Q3**	**Δ ♦**	**20Q1**	**Δ survey**
A) Enterprise lending	46	-4	50	-4
Property finance [1]	40	**-10**	43	-3
Plant and equipment finance (asset based) [2]	47	-3	43	+4
Debtor finance	43	-7	43	~
Overdraft and unsecured	50	~	38	+12
Import/Export finance	49	-1	43	+6
B) Household lending	58	+8	50	+8
Mortgage lending [1]	62	**+12**	48	+14
Secured / Vehicle finance [2]	63	**+13**	51	+12
Credit card finance /credit facility	58	+8	54	+4
Unsecured lending	55	+5	53	+2
Short-term loans	49	-1	46	+3
C) Other lending	50	~	47	+3

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

Of the two broad categories of lending, there is a general preference towards household lending (+8) over lending to enterprises (-4) going forward. This represents a nominal shift from the neutral stance (50) taken in March 2020.

For households, mortgage lending (+12) and secured and motor vehicle finance lending (+13) are the most favourable areas. Enterprise lending should see a substantial contraction in property finance going forward, with debtor finance another area of stringency.

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	42	-8	54	-12
Short term lending (up to 1 year)	41	-9	51	-10
Longer-term lending (over 1 year)	38	**-12**	53	-15
Mass market	37	-13	50	-13
Mid market	37	-13	50	-13
Upper market	42	**-8**	51	-9
Loans to enterprises: credit stance change				
Overall relative to 5 years ago	40	-10	54	-14
Short term lending (up to 1 year)	38	-12	54	-16
Longer-term lending (over 1 year)	34	**-16**	54	-20

Banks indicate a significant tightening of their credit stance compared to 5 years earlier, i.e. 2015, across all durations of lending, both to households and to enterprises. The greater stringency in credit stance applies somewhat less to the upper market (-8) in the case of households, compared to mid and mass markets. For both households (-12) and enterprises (-16), the greater stringency is slanted somewhat more towards longer term lending than towards short term lending.

Q.18: Effects of Covid-19 and lockdowns (Topical question)

How have the following Covid-19 lockdown and other related factors affected your bank's **lending stance** currently compared to **12 months ago**?

(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 Covid-19 related factors	**20Q3**	**Δ 12m**	**20Q1**	**Δ survey**
Liquidity/capital requirement changes[1]	46	- 4	□	□
R200bn government guaranteed package[2]	52	+ 2	□	□
Lack of physical meetings/virtual comms[3]	53	+ 3	□	□
Restrictions of transport and travel[4]	46	- 4	□	□
Difficulties in rent payments[5]	49	- 1	□	□
Disruption in internal interaction in bank[6]	50	~	□	□

Generalised lack of economic confidence[7]	33	**- 17**	□	□
Clear economic recovery plan[8]	38	**- 12**	□	□
Lowered SARB policy interest rate[9]	50	~	□	□
SARB quantitative measures[10]	58	**+ 8**	□	□

The symbol □ is used where there was no comparable question in the previous survey.
Note 1: The easing of requirements by the Reserve Bank.
Note 2: The R200bn support package for bank lending to enterprises.
Note 3: Having to operate by virtual communication during lockdown restrictions.
Note 4: Transport/travel restrictions preventing physical visits to clients/potential clients.
Note 5: Enterprises unable to pay rents, effects on landlords.
Note 6: Credit processes and committees affected by lockdown restrictions.
Note 7: Business and consumer confidence affecting new initiatives.
Note 8: Presence or absence of a clear, co-ordinated recovery plan.
Note 9: Effects of the 300 bpt interest rate reduction from early 2020.
Note 10: SARB purchases of bonds in the market to inject liquidity.

The single most important factor identified as driving stringency in bank lending is a generalised lack of economic confidence (-17). This is followed by lack of, or deficiencies in, a clear economic recovery plan (-12). Restrictions of transport and travel and liquidity/capital requirement changes are assessed to have had a much lower though negative effect. Difficulties in rental payments is assessed as only a minor negative factor.

In contrast, the reduction in the SARB policy interest rate is assessed as having had almost no effect on banks' credit stance. Likewise, banks do not identify any effect from disruptions to the internal interactions of the bank on the lending stance of the bank.

The quantitative measures adopted by the SARB are identified as a significant factor towards greater leniency in credit stance (+8). The R200bn government guaranteed lending package is identified as having a positive effect on bank credit stance, but only to a small degree. Higher virtual communications under lockdown circumstances are identified as a slightly positive factor towards increased credit stance leniency.

Q.19: Effects of Covid-19 and lockdowns by sectors (Topical question)

How has the **credit stance** of your bank towards specific sectors been affected by Covid-19 and lockdown measures compared to **12 months ago**?

(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: credit stance	**20Q3**	**Δ 12m**	**20Q1**	**Δ survey**
Agriculture, forestry	45	- 5		
Mining, quarrying	38	- 12		
Manufacturing	37	- 13		
Construction	30	**- 20**		
Wholesale, retail, accommodation	30	**- 20**		
Transport, communication, ICT	45	- 5		
Financial, real estate, services	33	**- 17**		
Utilities, social and state services	37	- 13		

This question obtains the assessment of banks of how their lending stance has been affected across economic sectors. It is assessed by comparison to 12 months earlier i.e. second half of 2019.

Banks indicate the greatest negative effect on their credit stance to be towards the construction and wholesale, retail, and accommodation sectors (-20) followed by the financial, real estate and services sector (-17). The least affected sectors were agriculture and forestry, and transport, communication, and ICT. This may reflect the more robust state of agricultural activities through the stages of lockdown than most sectors, and the communications and ICT component under the transport, communication and ICT sector which benefited from the move towards greater electronic commerce and communication under lockdown conditions.

Q.20: Lending for renewable energy projects (Topical question) (Topical question)

How has your bank's **credit stance** been affected by the trend towards renewable energy? To which forms of energy financing has your bank's credit stance become **more (+) or less (-) favourable** over the past year?

(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 energy enterprises: credit stance	**20Q3**	**Δ 12m**	**20Q1**	**Δ survey**
Coal based	27	**- 23**		
Natural gas	50	~		
Nuclear	43	**- 7**		
Hydro-electric including pumped storage	50	~		
Biofuels e.g. ethanol	54	+ 4		
Wind	62	**+ 12**		
Solar	66	**+ 16**		
Hydrogen including fuel cells	52	+ 2		
Electric vehicle importing	52	+ 2		
Electric vehicle local manufacture	52	+ 2		
Electric vehicle charging infrastructure	52	+ 2		

This question examines the response of banks to the trend towards renewable energy in their credit stance relating to various forms of renewable energy. The assessment is made compared to one year previously.

The trend away from coal financing is strongly reflected in a score of -23, i.e. a marked trend towards credit stringency in respect of financing of coal related projects. A more negative stance towards nuclear energy (-7) is also reflected.

By contrast, strong positive effects on credit stance towards solar energy projects (+16) and wind energy projects (+12) are shown. The effects on credit stance towards biofuels (+4) and hydrogen-based projects (+2) as well as towards electric vehicle importing, manufacturing and infrastructure (+2) was positive but much less marked.

Effects on credit stance in the case of natural gas and hydro-electric projects is reflected as unchanged.

Q.21: Financing of renewable energy projects and facilities (Topical question)

What **factors** have led to your bank having a **more (+) or less (-) accommodative** credit stance towards financing of renewable energy projects and facilities over the past year?

(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: credit stance	**20Q3**	**Δ 12m**	**20Q1**	**Δ survey**
Manufacturing requirements/constraints	46	**-4**		
Long term supply arrangements	52	**+2**		
Technology partnerships	53	**+3**		
Displacement by new technologies	49	-1		
Competitive pricing to end user	50	~		
Government policy support	51	+1		
Government incentive schemes	49	-1		
Uncertainty in support ecosystem	49	-1		
Other factors	50	~		

This question examines the factors which have been most prevalent in banks' decision making towards a more or less accommodative credit stance towards renewable energy projects.

Factors reflected as having a positive contribution towards accommodative credit stance are technology partnerships (+3) and long-term supply arrangements (+2), with government policy support a lesser positive factor.

The most negative factor identified was manufacturing requirements and constraints (-4). Displacement of technologies by newer developments (-1) as well as government incentive schemes (or the lack thereof) and uncertainty in the support ecosystem were identified as negative factors, though not major. Competitive pricing of end products to users was not considered to be a significant factor.

4. Comparison

Actual vs expected credit stance: Household lending

Comparison of banks' Q3 assessment of credit stance with banks expected forward credit stance (forecast) from the Q1 2020 survey: approval of loans to households.

Loans to households: future 3 months	**20Q3**	**Δ survey**	**20Q1F**
Overall	34	+1	33
Mortgage lending	39	-5	44
Secured credit e.g. motor vehicle finance	39	+6	33
Credit facilities e.g. credit cards and overdrafts	41	+8	33
Unsecured credit	29	~	29
Short term credit up to R8000, within 6 months	46	+13	33
Developmental credit e.g. education	68	+18	50
Mass market	36	+8	28
Mid market	36	+3	33
Upper market	41	+8	33

Loans to households remained largely unchanged with a nominal increase from the previous survey. Developmental credit was significantly more lenient (+18) with short-term credit also seeing positive gains (+13). Mortgage lending declined (-5) from the Q1 2020 expected forward stance.

Actual vs expected credit stance: Enterprise lending

Comparison of banks' Q3 assessment of credit stance with banks' expected forward credit stance (forecast) from the Q1 2020 survey: approval of loans or credit lines to enterprises.

Loans to enterprises: stance next 3 months	**20Q3**	**Δ survey**	**20Q1F**
Overall	38	+1	37
Short-term loans (up to 1 year)	38	+1	37
Longer-term loans (over 1 year)	34	-3	37
Agriculture, forestry	41	~	41
Mining, quarrying	42	+1	41
Manufacturing	30	-7	37
Construction	26	-7	33
Wholesale, retail, accommodation	30	-7	37
Transport, communication, ICT	42	+5	37
Financial, real estate, services	37	~	37
Utilities, social and state services	30	-3	33

Bank sentiment towards loans to enterprises, when compared to the previous survey in March 2020, improved by a nominal (+1). Longer-term loans became marginally more restrictive (-3) than short-term loans with a nominal improvement (+1).

The most significant negative shift (-7) applied to the sectors of manufacturing, construction, wholesale; retail and accommodation that were already negative at the previous survey. The sector utilities, social and state services also weakened marginally and remaining very stringent.

Cross-comparison: Household lending

Viewing bank responses across multiple questions for household lending indicates that the credit stance of banks was far tighter in Q3 2020 under the COVID-19 lockdowns than in the period prior to the lockdowns, or earlier during the course of 2019. The major factors driving the tighter credit stance related to higher assessed risk as a result of the severe economic circumstances that arose from the lockdown conditions. Other factors were of far lower effect in the greater stringency. The banks used stricter credit scoring and thresholds as the primary means by which their stricter credit stance was put into effect

Cross-comparison: Enterprise lending

Cross-comparison of questions relating to enterprise lending indicate that banks again adopted a far more stringent credit stance than in the quarter directly prior to the lockdowns as well as far more stringent than during 2019. Again, it was primarily greater assessed risk relating to poor economic circumstances and prospects that drove the more negative credit stance, rather than any constraints on funding available or the cost of funds. Access to funds and liquidity were even a positive factor towards easing of credit stance rather than providing any constraint to lending. Credit stance towards sectors was varied mainly according to realities unfolding on how each sector was affected by the stages of lockdown.

Compilation of credit stance index: Household lending

With seven 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**	**Q3 2020**
Overall relative to 6 months ago	100	100	103	105	105	102	95	85
Mortgage lending	**100**	103	111	115	**118**	117	113	106
Secured credit e.g. motor vehicle finance	100	96	92	99	99	99	90	82
Credit facilities e.g. credit cards and overdrafts	100	100	101	101	103	99	93	87

Unsecured credit	100	100	108	110	**113**	108	**98**	**84**
Short-term credit up to R8000, within 6 months	100	100	100	99	99	99	89	87
Developmental credit e.g. education	100	100	100	100	100	100	100	112
Mass market	100	100	103	103	103	100	94	**85**
Mid Market	100	103	109	114	117	115	109	100
Upper Market	100	105	114	117	120	117	112	106

The index for household lending indicates that the credit stance on mortgage lending shifted significantly to greater leniency over the period from the base (100) of first quarter 2017 to Q1 2019 (118) but retraced much of that increased leniency over the remainder of 2019 and up to Q3 2020 (106). The credit stance on unsecured credit shifted significantly to increased leniency over the period to Q1 2019 (113) but retracted sharply from then to below the 2017 starting point in Q1 2020 (98) and tightened further, in Q3 2020 (84). Also apparent is that it is the mass market that has been most hit by the greater stringency into Q3 2020 (85), whereas the mid-market has not retreated below the 2017 base, and the upper market, though retracting since Q1 2019, has remained above the 2017 base.

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**	**Q3 2020**
Overall relative to 6 months ago	100	95	95	98	97	97	94	85
Short-term loans (up to 1 year)	100	97	100	102	102	102	101	93
Longer-term loans (over 1 year)	100	92	90	89	88	88	85	**74**
Agriculture, forestry	100	98	95	89	89	89	88	82
Mining, quarrying	100	93	88	91	93	92	88	83

Manufacturing	100	95	87	86	80	79	75	**62**
Construction	100	87	74	68	62	59	52	**36**
Wholesale, retail, accommodation	100	95	92	95	94	94	93	80
Transport, communication, ICT	100	98	98	97	96	96	92	87
Financial, real estate, services	100	95	95	95	94	94	93	85
Utilities, social and state services	100	92	92	98	95	93	89	76

The index for enterprise lending indicates that banks' credit stance has generally shifted towards greater stringency across all sectors over the period from the base of Q1 2017, but that the greater stringency was very marked in Q3 2020 compared to 6 months earlier in Q1 2020. This applied particularly strongly to longer term lending, with an index value of 74 compared to the base of 100. The severely negative credit stance towards the construction sector is reflected in the drop in the index value to 36 in Q3 2020, with manufacturing also showing a severe drop to an index value of 62. Other sectors were all well below the 2017 base, with index values between 70 and 90.

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.