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 **(BLPS)** provides a useful insight into sentiment amongst bankers in South Africa. The survey takes cognisance of the approach used in the senior loan officer surveys conducted quarterly in America, 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 behavior, 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 to the economy. The biannual survey conducted through interaction with senior executives in respondent banks and analysed by Econometrix (Pty) Ltd, will provide an ongoing quantitative basis for assessing bank behaviour relating to lending.

Banking sector data series compiled by the South African Reserve Bank can be used in conjunction with survey results, to show 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 analysis. The results are compiled using a diffusion index approach, with responses weighted by asset values in order to combine across banks.

The BLPS should, over time, provide a useful measure to the credit industry and assist with understanding the importance of sentiment in the credit landscape.

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Executive Summary

The Bank Lending Practices Survey was conducted during the last quarter of 2017. The first survey of its kind in South Africa, the BLPS examines credit lending sentiment through a questionnaire, combined with follow up interviews.

There are three main themes drawn from the BLPS. The impact on household lending, enterprise lending and the strategic direction being taken by banks.

Loans to households

The overall credit stance of banks towards households shows very little change compared to the previous 6 months. However, the BLPS did show elements of greater leniency towards mortgage lending and greater stringency towards motor vehicle finance.

The main factors identified for the greater leniency towards mortgage lending to households, were expectations of the improvement in economic activity and bank balance sheet constraints, presumably leading to a preference for the lower risk rating of mortgage-secured credit. Competition from other banks was also a significant factor.

In comparison, the factors affecting a banks' credit stance on secured credit to households, showed that the greater stringency towards secured lending, mainly the financing of motor vehicles, is largely ascribed to the perception of greater risk in this form of credit, together with competition from other lenders for creditworthy clients. The responses indicated that the economic conditions and creditworthiness were not significant factors in the increased stringency.

In addition, credit facilities and unsecured lending to households, indicated that with little change in the credit stance towards credit facilities and unsecured lending, competitive pressures and risk perceptions are significant considerations, rather than the expected economic conditions or creditworthiness of consumers.

The terms and conditions for *mortgage lending* to households had little to no change, though in some instances greater leniency in credit scoring and loan-to-value ratios were evident. In contrast, the banks indicate almost no change in terms and conditions for *secured lending* to households over the last six months. Furthermore, the banks indicated no change in terms and conditions for *credit facilities and unsecured lending* to households over the same period.

The interest rate spread relative to the cost of funds for households, indicated some reduction overall in interest rate spreads over the past 6 months. This differs according to the class of lending, with an increase in the spread in instances of secured credit, such as motor vehicle finance and a reduced spread for credit facilities and unsecured credit. A reduction in spreads to the mass market in particular is indicated.

Banks indicated very little change to their thresholds when credit scoring households qualifying for new credit. They do however indicate greater leniency in thresholds for mortgage lending and greater stringency for motor vehicle financing. This is probably a response to greater difficulty in recoveries in vehicle financing under the difficult circumstances faced by many consumers, whereas mortgage recoveries are more robust.

Lastly, the expectation banks hold around their credit stance to households over the next three months were analysed. The responses indicate that banks are expecting little change in credit stance towards households over this period. Slightly more leniency toward unsecured lending is expected, with a slight increase in stringency towards the mass market. This suggests a willingness by banks to increase unsecured lending, but a preference to do so in the mid and upper market levels.

Loans or credit lines to enterprises

Banks rate their stringency of lending towards business enterprises to be significantly greater than six months prior. This applies especially to longer term loans. The greater stringency is more pronounced in the latest BLPS compared with the pilot six months earlier. The greater stringency was applied across all sectors but was most pronounced in the construction and utilities (typically parastatals) sectors.

The most prominent factors in the greater stringency towards business lending are identified as competition experienced from other banks as well as non-bank lenders, together with some effect of costs related to the capital funding of banks.

Banks indicate a reduction of margins on loans to business enterprises over the past six months, across the board rather than only on higher or lower risk loans. There is also an indication of reduced loan to value ratios, and stricter collateral requirements and stipulations in loan agreements. These are accompanied by some reduction in duration of loan terms.

Banks expect that their credit stance over the next three months will change little, with continued stringency, especially towards longer term lending and the construction and utilities sectors.

Strategic direction

From the BLPS we were able to interpret a strategic change in direction by the banks that showed an increase in focus towards small enterprise financing compared to six months earlier. The increase in focus is especially prominent in property finance and import/export funding.

Overall, banks indicate a preference to shift more towards household lending than business lending. The dominant shift is towards mortgage lending and unsecured lending to households. In the case of business enterprises, the preferred shift is towards fixed asset based finance, e.g. secured by plant and equipment.

Banks gauge their current credit stance towards households to be substantially stricter than was the case five years ago. This applies to all forms of financing, but most markedly to mortgage lending.

Banks also gauge their credit stance towards business enterprises to be substantially stricter than five years ago. This applies to both short and longer term lending. The sectors which have been subjected to the greatest severity, relative to five years prior, are mining, construction and utilities including parastatals.

The survey shows unequivocally that banks consider regulation and legislation to have affected their lending stance negatively compared to five years ago. Legislation that was identified as having the most negative effects are interest rate caps, fee caps, affordability assessment requirements, and difficulty with recoveries despite having collateral arrangements in place. These are more pronounced than the effects arising from Basel III related measures, though the latter are also a source of constraint.

Bank lending practices survey

The results of the BLPS are interpreted and provided separately in the executive summary. In this section, more detail is provided on selected questions that support the executive summary.

Introduction

This survey is based on an assessment by bank lending executives of lending undertaken by their bank in the most recent three-month period, compared to that of a prior three-month period. It also considers the expectations and intentions of bank executives towards lending by their bank over the next three-month period. Through a compilation of results, it provides a gauge of how bank lending behaviour is changing over time. The survey results are only published at combined bank level, so that no individual bank results are released. The results can be used for monitoring trends in lending, derived from bank behaviour, providing a gauge of how lending behaviour may have changed and/or how it may change in the near future. The results are also able to feed into further analysis and research relating to how bank behaviour influences economy activity, both at macro level and in relative effects between economic participants.

The survey is divided into questions related to household lending, enterprise (business or corporate) lending, strategic direction relating to small enterprises and shifts in lending emphasis. It was undertaken in Q4 2017, with comparison to a prior period two quarters earlier in most questions. At this juncture, only one survey had been conducted previously, which was a pilot survey conducted in mid-2017, relating to lending in the second calendar quarter of 2017 (Q2). Questions were changed in a number of cases from the pilot survey in Q2 to the full survey in Q4 2017, so that comparisons to the previous survey can only be made in certain questions. Survey responses have been combined across respondent banks and weighted by the asset holdings of each bank.

The results obtained will be presented in this paper, it should be noted that all responses are normed to a score of 50. Thus, a score greater than 50 indicates an increase or easing of credit stance, a positive influence. Less than 50 conversely indicates a decrease or tightening, a negative influence. A score of 50 reflects unchanged or a neutral effect. The symbol ~ indicates no change from the previous survey. The symbol □ is used where there was no comparable question in the previous survey.

Loans to Households[1]

Q1: Banks' credit stance[2] 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	**Q4**		**Q2**	**Change**
Overall relative to 6 months ago	50		50	~
Mortgage lending[1]	54		50	+ 4
Secured credit e.g. motor vehicle finance[2]	44		50	– 6
Credit facilities e.g. credit cards and overdrafts	50		50	~
Unsecured credit	50		50	~
Short term credit up to R8000, within 6 months	49		□	□
Developmental credit e.g. education	50		□	□
Mass market	49		□	□
Mid-market	54		□	□
Upper market	58		□	□

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

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

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

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

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

Loans to households: credit stance factors	**Q4**		**Q2**	**Change**
A) Cost of funds and balance sheet constraints	50		45	+ 5
B) Pressure from competition	57		57	~
Competition from other banks	58		55	+ 3
Competition from non-bank lending	54		55	– 1
Competition from direct / self-financing	54		55	– 1
C) Perception of risk	55		52	+ 3
Expectations regarding economic activity	43		34	+ 9
Housing market prospects	50		47	+ 3
Risk on collateral realisation	50		47	+ 3
D) Other factors	50		17	+ 33

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	**Q4**		**Q2**	**Change**
A) Cost of funds and balance sheet constraints	50		50	~
B) Pressure from competition	58		50	+ 8
Competition from other banks	55		55	~
Competition from non-bank lenders	55		50	+ 5

Competition from direct / self-financing	55		50	+ 5
C) Perception of risk	58		50	+ 8
Expectations regarding economic activity	39		52	– 13
Creditworthiness of consumers	44		52	– 8
Risk on the collateral required	50		52	– 2
D) Other factors	72		60	+ 12

Q4: 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) ie excluding mortgage and secured lending? Contribution of the following factors to the tightening or easing of credit stance:

Loans to households: credit stance	**Q4**		**Q2**	**Change**
A) Cost of funds and balance sheet constraints	50		□	□
B) Pressure from competition	57		□	□
Competition from other banks	54		□	□
Competition from non-bank lenders	54		□	□
Competition from direct / self-financing	54		□	□
C) Perception of risk	57		□	□
Expectations regarding economic activity	43		□	□
Creditworthiness of consumers	46		□	□
Risk on the collateral required	50		□	□
D) Other factors	50		□	□

Q5: Terms and conditions[3] 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	Q4		Q2	Change
A) Price	52		50	+ 2
Your bank's margin on average loans [1]	55		55	~
Margin on riskier loans [1]	45		44	+ 1
B) Credit scoring	54		50	+ 4
C) Other conditions	50		50	~
Collateral requirements	50		50	~
Loan-to-value ratio	58		54	+ 4
Maturity	50		50	~
Non-interest rate charges (fees)	50		50	~
D) Other factors	50		34	+ 16

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

Q6: 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	Q4		Q2	Change
A) Price	50		50	~
Your bank's margin on average loans	50		50	~
Your bank's margin on riskier loans	55		53	+ 2
B) Credit scoring	44		45	– 1
C) Other terms and conditions	50		50	~
Collateral requirements	50		50	~
Maturity	50		50	~
Non-interest rate charges (fees)	50		50	~

[3] 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.

D) Other factors	50		n/a	□

Q7: 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	**Q4**		**Q2**	**Change**	
A) Price	50		□	□	
Your bank's margin on average loans	50		□	□	
Your bank's margin on riskier loans	50		□	□	
B) Credit scoring	50		□	□	
C) Other terms and conditions	50		□	□	
Collateral requirements	50		□	□	
Maturity	50		□	□	
Non-interest rate charges (fees)	50		□	□	
D) Other factors	50		□	□	

Q8: 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	**Q4**		**Q2**	**Change**
Overall relative to 6 months ago	45		□	□
Mortgage lending	49		□	□
Secured credit e.g. motor vehicle finance	55		□	□
Credit facilities e.g. credit cards and overdrafts	45		□	□
Unsecured credit	45		□	□
Short term credit up to R8000, within 6 months	51		□	□
Developmental credit e.g. education	43		□	□
Mass market	45		□	□

Mid market	49		□	□
Upper market	49		□	□

Q9: 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	**Q4**		**Q2**	**Change**
Overall relative to 6 months ago	50		□	□
Mortgage lending	54		□	□
Secured credit eg motor vehicle finance	46		□	□
Credit facilities eg credit cards and overdrafts	50		□	□
Unsecured credit	50		□	□
Short term credit up to R8000, within 6 months	50		□	□
Developmental credit eg education	50		□	□
Mass market	49		□	□
Mid market	50		□	□
Upper market	50		□	□

Q10: 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	**Q4**		**Q2**	**Change**
Overall	50		50	~
Mortgage lending	50		54	– 4
Secured credit e.g. motor vehicle finance	50		50	~
Credit facilities e.g. credit cards and overdrafts	50		50	~
Unsecured credit	54		54	~
Short term credit up to R8000, within 6 months	50		□	□
Developmental credit e.g. education	50		□	□

Mass market	46		□	□
Mid market	50		□	□
Upper market	50		□	□

Loans or credit lines to enterprises[4]

Q11: Banks' credit stance to enterprises

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

Loans to enterprises: credit stance change	**Q4**		**Q2**	**Change**
Overall relative to 6 months ago	42		50	– 8
Short-term loans (up to 1 year)	46		50	– 4
Longer-term loans (over 1 year)	39		49	– 10
Agriculture, forestry	46		□	□
Mining, quarrying	39		□	□
Manufacturing	43		□	□
Construction	31		□	□
Wholesale, retail, accommodation	42		□	□
Transport, communication, ICT	46		□	□
Financial, real estate, services	42		□	□
Utilities, social and state services	38		□	□

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:

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

Loans to enterprises: reasons for change	Q4		Q2	Change
A) Cost of funds and balance sheet constraints	45		47	– 2
Costs related to your bank's capital position[1]	54		50	+ 4
Your bank's ability to access market financing[2]	50		50	~
Your bank's liquidity position	50		48	+ 2
B) Pressure from competition	67		53	+ 14
Competition from other banks	67		64	+ 3
Competition from non-bank lenders	57		45	+ 12
Competition from direct market financing	48		44	+ 4
C) Perception of risk	40		38	+ 2
Expectations on general economic activity	30		38	– 8
Industry or firm-specific outlook	39		45	– 6
Risk on the collateral required	40		47	– 7
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

Q13: 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	Q4		Q2	Change
A) Price	43		48	– 5
Your bank's margin on average loans [1]	37		47	– 10
Your bank's margin on riskier loans [1]	46		50	– 4
B) Other terms and conditions	50		46	+ 4
Non-interest rate charges	50		49	+ 1
Maximum size of the loan or credit line	55		50	+ 5
Loan to value ratio	45		48	– 3

Collateral requirements	45		48	– 3
Loan covenants	45		49	– 4
Maturity	46		50	– 4
C) Other factors	50		50	~

Note 1 wider margin = tightened, narrower margin = eased

Q14: Expect credit stance to enterprises over the next three months

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

Loans to enterprises : stance next 3 months	**Q4**		**Q2**	**Change**
Overall	50		51	– 1
Short-term loans (up to 1 year)	50		48	+ 2
Longer-term loans (over 1 year)	46		48	– 2
Agriculture, forestry	54		☐	☐
Mining, quarrying	46		☐	☐
Manufacturing	46		☐	☐
Construction	37		☐	☐
Wholesale, retail, accommodation	46		☐	☐
Transport, communication, ICT	41		☐	☐
Financial, real estate, services	51		☐	☐
Utilities, social and state services	46		☐	☐

Strategic direction

Q15: 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	**Q4**		**Q2**	**Change**
A) Enterprise lending	57		50	+ 7
Property finance [1]	56		50	+ 6
Plant and equipment finance (asset based)[2]	54		50	+ 4
Debtor finance	55		52	+ 3
Overdraft and unsecured	54		55	– 1
Import/export finance	61		50	+ 11
Short-term bridging loans	50		48	+ 2
B) Other lending	50		50	~

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

Q16: 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	**Q4**		**Q2**	**Change**
A) Enterprise lending	55		66	– 11
Property finance [1]	59		54	+ 5
Plant and equipment finance (asset based)[2]	66		61	+ 5
Debtor finance	58		63	– 5
Overdraft and unsecured	57		61	– 4
B) Household lending	67		67	~
Mortgage lending [1]	67		65	+ 2
Secured / Vehicle finance [2]	58		64	– 6
Credit card finance /credit facility	58		64	– 6

Unsecured lending	66		67	– 1
Short-term loans	50		64	– 14
C) Other lending	10		50	– 40

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

Q17: Change from 5 years ago: Households

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

Loans to households: credit stance change	**Q4**		**Q2**	**Change**
Overall relative to 5 years ago	37		34	+ 3
Short term lending (up to 1 year)	44		□	□
Longer-term lending (over 1 year)	44		□	□
Mortgage lending	37		34	+ 3
Secured credit eg motor vehicle finance	41		30	+ 11
Credit facilities eg credit cards and overdrafts	41		36	+ 5
Unsecured credit	44		34	+ 10
Short term credit up to R8000, within 6 months	43		□	□
Developmental credit eg education	38		□	□
Mass market	40		□	□
Mid market	45		□	□
Upper market	45		□	□

Q18: Change from 5 years ago: Enterprises

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

Loans to enterprises: credit stance change	Q4		Q2	Change
Overall relative to 5 years ago	37		59	– 22
Short term lending (up to 1 year)	41		59	– 18
Longer-term lending (over 1 year)	41		59	– 18
Agriculture, forestry	45		□	□
Mining, quarrying	28		□	□
Manufacturing	37		□	□
Construction	29		□	□
Wholesale, retail, accommodation	45		□	□
Transport, communication, ICT	45		□	□
Financial, real estate, services	50		□	□
Utilities, social and state services	39		□	□

Q19: Effects of regulation and legislation

How have the following regulation and legislative measures affected your bank's *lending stance* currently, compared to *5 years ago* i.e. 2012?

< 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 legislation on credit stance	Q4		Q2	Change
A) Basel III	49		37	+ 12
Liquidity coverage ratio (LCR) [1]	46		38	+ 8
Net stable funding ratio (NSFR) [2]	46		42	+ 4
Capital requirements to risk-weighted assets	46		40	+ 6
Operational risk measures	46		43	+ 3
B) National Credit Act	50		33	+ 17
Interest rate caps [3]	38		37	+ 1
Fee caps [3]	43		42	+ 1
Affordability assessments	35		34	+ 1
Risk of reckless lending	46		41	+ 5

Constraints on recovery process	37		35	+ 2
Difficulty with collateral realisation	37		35	+ 2
C) Other	17		50	– 33

Note 1 Via liquidity constraints

Note 2 Via requirements to move towards maturity matching

Note 3 As set by the National Credit Regulator.

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:	Refers to the stipulated requirements applied to borrowers as expressed in documents relating to new lending or credit provided.