Credit Conditions Survey

Compilation guide

BANK OF ENGLAND

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In order to meet its core purposes of monetary and financial stability, the Bank needs to understand developments in the growth of credit and the terms on which it is provided. These developments are important influences on household and business behaviour, and hence on the overall economic outlook. They also contribute to the assessment of systemic risks.

The Bank therefore monitors a wide range of data on lending and borrowing. It supports this surveillance with a regular qualitative Credit Conditions Survey. This exercise is conducted on a quarterly basis, and covers secured lending, unsecured lending and lending to corporates.

This guide is intended to help participants in the survey to complete the questionnaires.

This is a voluntary exercise, and as such responses will not be verified against other returns. Nonetheless, the Bank greatly appreciates respondents completing the survey as accurately as possible, and is very grateful to all who participate.

For additional information, please contact the Head of Monetary Assessment and Strategy Division, at the Bank of England, Threadneedle Street, London EC2R 8AH.

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1 Notes on receipt and return of the survey

1.1 The survey is run on a quarterly basis during March, June, September and December. The surveys will usually be distributed on the penultimate Monday of the previous month. Participants will be asked to complete and return the survey within about a month. The aggregate results will be published in conjunction with the *Credit Conditions Review*.

1.2 For each question, respondents are asked to check one of the boxes provided. Unanswered questions will remain highlighted. If the question is not appropriate, please check the 'N/A' box.

1.3 Additional written comments explaining the answers are very welcome. These may be included in the comments boxes at the end of each question. There is no word limit to the content of the comment boxes, although only around 750 characters will be visible in the comments box on screen. If lenders wish to provide more detailed comments, we are happy to receive these via email, mail or fax.

1.4 The Bank may on occasion add *ad hoc* questions to the survey.

1.5 The results of the survey will be collected via the online Key Survey, in line with the Bank Liabilities Survey.

2 Background

2.1 The Credit Conditions Survey comprises four individual questionnaires: one for secured lending, one for credit card lending, one for other unsecured lending and one for corporate lending.

2.2 Each of these four surveys has its own sample, based on lenders' market shares in each of those markets. As a result, some participants will only be asked to complete one questionnaire, while others may be asked to complete up to four.

2.3 The survey is intended to cover **all lending activity to UK resident households and corporates (both sterling and foreign currency) conducted by lenders resident in the United Kingdom**.

2.4 The questions relate to changes over the **past three months relative to the previous three months** and over the **next three months relative to the latest three months**. For instance, for the March survey, the backward-looking question relates to changes in the period between December and February relative to the period between September and November. The forward-looking question would relate to the period between March and May relative to the period between December and February.

2.5 We are primarily interested in changes over a three-month horizon as this dovetails well with the Bank's forecast, *Credit Conditions Review*, *Inflation Report*, *Quarterly Bulletin* and *Financial Stability Report*. Similar international surveys by the Federal Reserve, the European Central Bank and the Bank of Japan also ask about changes in the latest three-month period relative to the previous three months.

2.6 When answering the questions, we ask respondents to choose from a series of options ranging from 'up a lot' to 'down a lot'. Because the exercise is qualitative in nature, we do not want to impose quantitative guidelines as to what constitutes 'a lot' and 'a little'. We encourage lenders to use the available granularity in the response options accordingly. We would also encourage lenders to refer to their responses to previous surveys when judging whether demand, supply and conditions have changed 'a little' or 'a lot'. Participants may request to see their previous survey responses. Requests for this information should be sent to the Head of Monetary Assessment and Strategy Division.

2.7 Responses will be securely stored and retained for as long as the Bank acting reasonably deems necessary for its work.

2.8 Although the Bank welcomes the timeliest data available, we appreciate that it may be difficult for participants to provide information precisely on their activity over the past three months. As such, participants may answer these questions flexibly. For example it may be easier for participants to report changes in lending over the period to the end of the previous quarter, or over an internal accounting period. In such cases, participants should inform Bank staff, and report on the same basis each quarter.

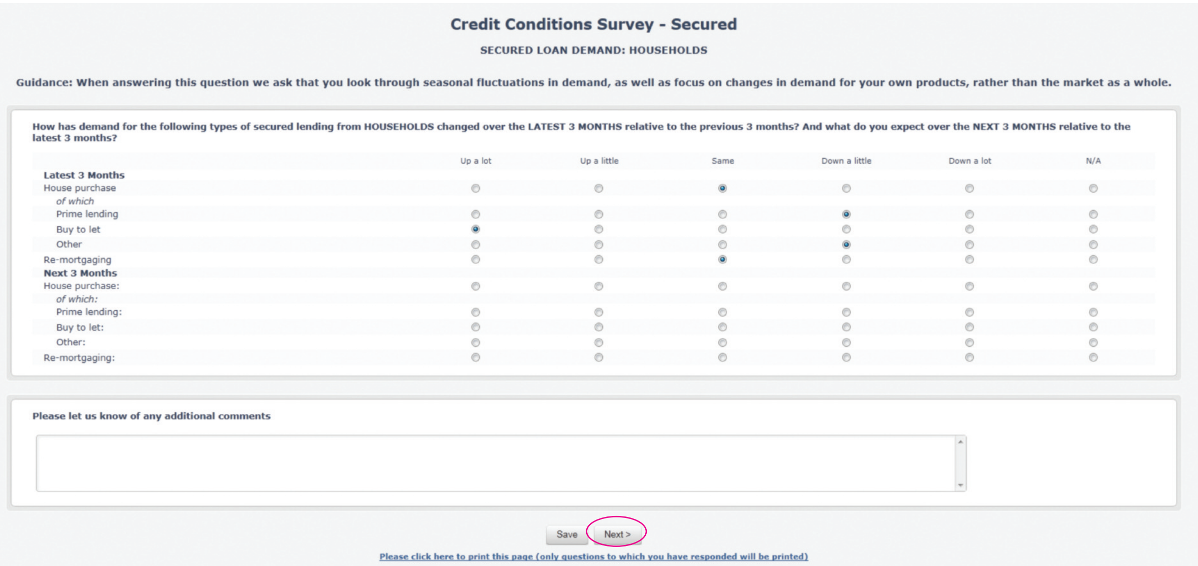
2.9 Participants are asked to report **changes** in lending and conditions. The questionnaire asks about **changes in the value of new approved lending originated**, after **taking into account normal seasonal variations**. So if conditions have been, or are expected to remain, broadly unchanged on the past three months relative to the previous three months, lenders are asked to check the 'unchanged' box, even if conditions are tight/loose relative to longer-term trends.

2.10 Participants are asked to take account of seasonality when answering the questions. For example, demand for unsecured lending may always be strong in the three months to December due to the impact of Christmas on consumer spending patterns. Participants are asked to try to abstract from these effects.

2.11 Changes in lending driven by one-off factors such as the acquisition/disposal of a portfolio or business should be reported in the survey responses, although in such cases the comment boxes should be used to alert the Bank to these factors.

3 How to complete the questionnaire

3.1 The questionnaires are distributed, and completed, using an online survey. Links to the survey that are unique to your institution will be sent to you when the survey starts. Separate links will be sent for each individual questionnaire, so you may receive up to four links in a quarter. Different links will be sent each quarter, when the survey is launched. When you click on the link, the Credit Conditions Survey will be loaded in your browser, as in the screenshot below:



3.2 For some reporters, several staff may be involved in completing the survey. We have designed the survey to allow this. The unique survey link sent at the start of the survey will allow multiple people within your institution to access and complete the survey: responses will be saved as you advance through the survey (see below for further details) facilitating completion by several people.

3.3 When completing the survey, participants should respond to each question by selecting the appropriate answer, using the mouse. Where a question is not applicable, participants should respond 'N/A'. The surveys are set out across a number of pages. Once a page has been completed, participants should advance by pressing the 'next' button. By clicking the 'next' button, the completed questions will be saved. On the final page of the survey the 'next' button is replaced by a 'submit' button. Clicking the submit button will complete the survey. Should you need to amend your responses you can still return to the survey, using the aforementioned unique link, and change your answers and resubmit them.

3.4 You will be informed of the survey deadline when the survey is distributed. Unless otherwise indicated by the Bank, you will not be able to access the survey following the deadline, and survey responses received at that point will be treated as final.

4 Troubleshooting

4.1 Participants should not feel obliged to complete the entire survey at once. By saving the survey, participants are able to come back to a partially completed survey at a later date, or share the partially completed survey with colleagues. However participants are asked to ensure that they submit only completed versions of the survey to the Bank.

4.2 The Bank also has the questions on a set of excel spreadsheets available, should participants prefer to circulate these internally before adding the answers to the online Key Survey. These can be accessed at the Bank of England website:

www.bankofengland.co.uk/publications/Pages/other/ monetary/creditconditions.aspx

4.3 If you experience any problems, please email MA-CCSurvey@bankofengland.co.uk.

5 Frequently asked questions

5.1 **Question**: Will my institution's inclusion in the sample be publicised? Will the market shares be made known?

Answer: No. The Bank will not publish details of the sample sizes, the sample members or the weights applied to each respondent's results.

5.2 **Question**: What happens if my institution misses a round due to internal workloads? Does this preclude us from future surveys?

Answer: No. This is a voluntary survey. The sample is selected based on market shares, not on response rates. Responses that are not submitted by the publicised deadline will simply not be included in that round's published aggregate results.

5.3 **Question**: My institution is undergoing a merger — will I be expected to complete two sets of questionnaires?

Answer: No. Any mergers and acquisitions will be accounted for in the market shares and weights applied to the results.

5.4 **Question**: How do participants benefit?

Answer: This survey will increase the Monetary Policy Committee's understanding of changes in trends in lending quantities and conditions, and hence help promote macroeconomic stability. Participants may also find the aggregate results useful in their own analyses. The fullest participation is encouraged so as to improve the accuracy of the results.

The secured lending questionnaire

This section provides question-by-question guidance on the content of the secured lending questionnaire.

Secured lending to households is likely to be made under different terms and conditions from lending to small businesses. In addition risk appetite between the two businesses can be very different. **As a result, the secured questionnaire refers almost exclusively to lending to households — there is only one question on small business lending (question 2 on demand).**

Some questions ask about individual factors that have driven, or are expected to drive changes in lending, terms and conditions. Participants should complete all of these boxes, even if there has been no change in their outlook. Participants are asked to check the 'N/A' boxes where appropriate. Comment boxes are available for additional detail, if required.

Where the survey asks about changes in demand or supply of lending, it refers to **changes in the value of sterling and foreign currency lending**.

1. Demand for secured lending from households

Lending to households should also cover lending to sole traders and unincorporated businesses.

Lending for house purchase — new lending specifically for the purposes of house purchase.

of which

> **Prime lending** — lending to mainstream customers, eg those without adverse credit ratings, with a verifiable income, etc.
>
> **Buy-to-let lending** — lending to customers who intend to subsequently let the property and so receive an additional source of income.
>
> **Other lending** — this includes sub-prime and self-certified lending, as well as any other secured lending.

Remortgaging — lending which occurs when a borrower refinances all or part of their existing mortgage with a new loan secured on the same property. Borrowing exceeding customers' previous mortgages should be recorded as *other lending secured on dwellings*.

2. Demand for secured lending from small businesses

This question asks about demand for secured lending from small businesses. Small businesses are defined as those with an annual turnover of less than £1 million.

3. Credit scoring criteria for granting loan application

This question asks whether or not criteria have become/are expected to become tighter or looser. This could be due to changes in cut-off scores, changes in the weights placed on existing indicators, or a change in the indicators used.

4. Proportion of loan applications being approved/approval rate

This question is designed to gauge the overall effects of demand and supply on the approval rate. Changes in criteria may alter the approval rate for a given level of demand. Alternatively changes in the quality of demand, holding criteria fixed, may also alter the approval rate. This question is aimed at gauging the net effect of these two factors.

5. Price and non-price terms on new loan applications

Spreads over the official Bank Rate/swap curve — the difference between the rate charged by the lender and the official Bank Rate/the swap rate.

of which

> **Prime lending** — the difference between the rate charged by the lender on prime lending and the official Bank Rate/the relevant swap rate.
>
> **Buy-to-let lending** — the difference between the rate charged by the lender on buy-to-let lending and the official Bank Rate/the relevant swap rate.
>
> **Other lending** — the difference between the rate charged by the lender on other secured lending and the official Bank Rate/the relevant swap rate.

Fees — Fixed charges incurred when taking out new loan products.

Loan to value ratio — the ratio of the amount borrowed to the appraisal or market value of the underlying *collateral*, usually taken into consideration in relation to loans secured on dwellings.

Loan to income ratio — the ratio of the amount borrowed to the estimated or reported income of the customer, usually taken into consideration in relation to loans secured on dwellings. Some participants consider a more general concept of 'affordability'. These participants should interpret this question as asking whether their affordability criteria have/are expected to change.

6. Availability of credit

Overall credit availability — this question asks about lenders' willingness and ability to supply credit, holding demand constant.

Changing economic outlook — this refers to changes in the outlook for output, income, employment and inflation. Any economic factors not encompassed by this list, but which are thought to be affecting credit availability, can be explained in the comments box provided.

Market share objectives — this question asks about changes in activity/loan supply that are driven by changes in competitive objectives and behaviour, as opposed to underlying fundamentals. For example, lenders may adjust their spreads, or change the level of promotional activity, relative to the other lenders in the market.

Changing appetite for risk — this question asks about changes in lending behaviour that are attributable to changes in lenders' risk preferences.

Expectations for house prices — this question asks about changes in lenders' willingness and ability to supply credit that are attributable to changes in lenders' expectations for house prices.

Tighter wholesale funding conditions — this question asks about changes in lenders' willingness and ability to supply credit that are attributable to tighter wholesale funding conditions.

7. Changes in default rates

Default rate — this question asks about the proportion of loans that have fallen/are expected to fall into default. In line with the Basel accord, a default is deemed to have occurred when either or both of the two following events have taken place:

- The lender considers that the borrower is unlikely to pay their credit obligations in full, without recourse by the lender to actions such as realising security.
- The borrower is past due more than 90 days on any material credit obligation.

8. Changes in loss given default

Loss given default (LGD) — a loan's LGD is the economic loss on a defaulted exposure as a percentage of exposure at default, *given economic conditions over the past three months/expected conditions over the next three months* (as opposed to downturn economic conditions as discussed in the Basel Accord). This measure should take into account the value of any collateral taken against a loan as well as lenders' views on the state of borrowers' balance sheets.

The credit card and other unsecured lending questionnaires

This section provides question-by-question guidance on the content of the credit card and other unsecured lending questionnaires. The credit card and other unsecured questionnaires follow a similar format. However, the questions look separately at conditions in the credit card market and in the non credit card market, (covering personal loans, overdrafts, hire-purchase deals etc.). We ask respondents to keep this in mind when answering these surveys.

Unsecured lending to households is likely to be made under different terms and conditions from lending to small businesses. In addition risk appetite between the two businesses can be very different. **As a result, the unsecured questionnaires refer almost exclusively to lending to households — there is only one question on small business lending (question 2 on demand).**

Some questions ask about individual factors that have driven, or are expected to drive, changes in lending, terms and conditions. Participants should complete all of these boxes, even if there has been no change in their outlook. Participants are asked to check the 'N/A' boxes where appropriate. Comment boxes are available for additional detail, if required.

The questions in the other unsecured survey ask participants to report conditions in the non-credit card market (covering personal loans, overdrafts, hire-purchase deals etc). We acknowledge that trends in the non-credit card market can be very different, so we ask lenders to make a judgement as to the overall trend in this market.

Where the survey asks about changes in demand or supply of lending, it refers to **changes in the value of sterling and foreign currency lending**.

1. Demand for unsecured lending from households

Lending to households should also cover lending to sole traders and unincorporated businesses.

This question relates to changes in demand for unsecured lending products by lenders' existing and new customers.

2. Demand for unsecured lending from small businesses

This question asks about demand for unsecured lending from small businesses. Small businesses are defined as those with an annual turnover of less than £1 million.

3. Credit scoring criteria for granting loan applications, accepting credit card applications and authorising overdraft facilities

This question asks whether or not criteria have become/are expected to become tighter or looser. This could be due to changes in cut-off scores, changes in the weights placed on existing indicators, or a change in the indicators used.

4. Proportion of loan/credit card/overdraft applications being approved

This question is designed to gauge the overall effects of demand and supply on the approval rate. Changes in criteria may alter the approval rate for a given level of demand. Alternatively changes in demand, holding criteria fixed, may also alter the approval rate. This question asks about the net effect of both these factors.

5. Price and non-price terms on new loan applications

Spreads over the official Bank Rate — the difference between the rate charged by the lender and the official Bank Rate.

Credit card limits — the maximum amount a customer can borrow on their credit card.

Minimum proportion of balance paid — this question refers to changes in the required minimum payment (either in percentage terms or in absolute terms).

Maximum loan maturities — this question refers to the maximum duration of credit that is extended to the customer.

6. Availability of credit

Overall credit availability — this question asks about lenders' willingness and ability to supply credit, holding demand constant.

Changing economic outlook — changes in the outlook for output, income, employment and inflation. Any economic factors not encompassed by this list, but which are thought to be affecting credit availability, can be explained in the comments box provided.

Market share objectives — changes in activity/loan supply that are driven by changes in competitive objectives and behaviour, as opposed to underlying fundamentals. For example, lenders may adjust their spreads, or change the level of promotional activity, relative to the other lenders in the market.

Changing appetite for risk — changes in lending behaviour that are attributable to changes in lenders' risk preferences.

Changing cost/availability of funds — how changes in the swap/wholesale markets impact on lenders' credit supply.

7. Changes in default rates

Default rate — the proportion of loans that have fallen/are expected to fall into default. In line with the Basel framework, a default is deemed to have occurred when either or both of the two following events have taken place:

- The lender considers that the borrower is unlikely to pay their credit obligations in full.
- The borrower is past due more than 90 days on any material credit obligation. Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than current outstandings.

8. Changes in loss given default

Loss given default (LGD) — a loan's LGD is the economic loss on a defaulted exposure as a percentage of exposure at default, *given economic conditions over the past three months/expected conditions over the next three months* (as opposed to downturn economic conditions as discussed in the Basel Accord). This measure should take into account the value of any collateral taken against a loan as well as lenders' views on the state of borrowers' balance sheets.

The corporate lending questionnaire

This section provides question-by-question guidance on the content of the corporate lending questionnaire.

Responses should cover all lending activity to UK resident corporates in both sterling and foreign currency.

The survey mainly covers lending to *private non-financial corporations* (PNFCs), but there are also two questions about *other financial corporations* (OFCs).

Some questions ask about individual factors that have driven, or are expected to drive changes in lending, terms and conditions. Participants should complete all of these boxes, even if there has been no change in their outlook. Participants are asked to check the 'N/A' boxes where appropriate. Comment boxes are available for additional detail, if required.

Some questions in the corporate questionnaire differentiate between medium-sized corporates and large corporates. Small businesses are defined as those with an annual turnover of under £1 million. Medium-sized corporates are defined as those with an annual turnover of between £1 million and £25 million. Large corporates are defined as those with an annual turnover of more than £25 million.

Some questions also ask about lending trends/conditions in the *commercial real estate* (CRE) sector. Loans to medium-sized commercial real estate firms are defined as those where the value of the loan is less than £25 million. Loans to large commercial real estate firms are defined as those where the value of the loan is more than £25 million.

At times participants may not have adequate information to distinguish between medium and large corporates based on the above criteria. In such cases, we leave the classification of the customer to respondents' discretion, but we ask participants to tell us about these cases, and report on the same basis each quarter.

We appreciate that some lenders operate in several different business units. As a result, the responses in the questionnaire represent a weighted average of activity in these different business units. Question 10 allows respondents to provide more detail in the case that the aggregate survey results mask different trends in different markets.

1. Demand for lending by private non-financial corporations (PNFCs)

A **private non-financial corporation (PNFC)** is defined as a corporation which exists to produce goods and/or provide non-financial services. They are mainly public limited companies, private companies and partnerships where these are distinct from their owners and not owned by government.

Any significant developments in lending to public non-financial corporations can be reported in the comments boxes provided, but should not be taken into account when answering the questions.

2. Drivers of demand for borrowing

Mergers and Acquisitions — this question asks about the extent to which corporate borrowing is being used to finance Mergers and Acquisitions, of both domestic and foreign companies.

Capital investment — this question asks about the extent to which corporate borrowing is being used to finance investment in plant, machinery, equipment etc.

Inventory finance — this question asks about the extent to which corporate borrowing is being used to finance inventories. Alternatively it asks whether there has been any change in the proportion of stocks purchased using externally raised funds (eg loans and overdrafts) as opposed to internally raised funds (eg retained profit).

Balance sheet restructuring — this question asks about the extent to which corporate borrowing is being used to restructure their portfolio of liabilities (for example are companies using bank loans to finance share redemptions).

Commercial real estate (CRE) — the commercial real estate sector encompasses non-residential property, including retail, office and industrial property.

3. Availability of credit

Credit availability — this question asks about lenders' willingness and ability to supply credit, holding demand constant.

Commercial real estate (CRE) — the commercial real estate sector encompasses non-residential property, including retail, office and industrial property.

4. Availability of credit

Changing economic outlook — this usually refers to changes in the outlook for output, income, employment and inflation. Any economic factors not encompassed by this list, but which are thought to be affecting credit availability, can be explained in the comments box provided.

Changing sector-specific risks — this question asks about the impacts of any sector-specific developments (for example developments on the high street, or in the energy sector) on the particular risks/rewards of lending to a particular sector.

Market share objectives — this question asks about changes in activity/loan supply that are driven by changes in competitive objectives and behaviour, as opposed to underlying fundamentals. For example, lenders may adjust their spreads relative to the other lenders in the market.

Market pressures from capital markets — this question asks about changes in the extent to which capital market activity is competing with lenders to supply credit, either through spreads or the flow of business.

Changing appetite for risk — this question asks about changes in lending behaviour that are attributable to changes in lenders' risk preferences.

Tighter wholesale funding conditions — this question asks about changes in lenders' willingness and ability to supply credit that are attributable to tighter wholesale funding conditions.

5. Proportion of loan applications being approved/approval rate

This question is designed to gauge the overall effects of demand and supply on the approval rate. Changes in criteria may alter the approval rate for a given level of demand. Alternatively changes in demand, holding criteria fixed, may also alter the approval rate. This question asks about the net effect of both these factors.

6a–d. Price and non-price terms on new loan applications

Other financial corporations (OFCs) are defined as private financial corporations other than monetary and financial institutions engaged primarily in production of financial services (such as financial intermediation), insurance companies and pension funds and activities auxiliary to financial intermediation (such as fund management).

Libor — London interbank offered rate: the rate at which financial institutions offer to lend sterling to each other in London.

Spreads over Libor — the difference between the rate charged by the lender and the Libor rate for the same term.

Commissions/fees — fixed charges incurred when taking out new loan products.

Collateral — this refers to the security given by a borrower to a lender as a pledge for repayment of a loan. This could include certain financial securities, such as equity or debt securities, real estate or *compensating balances*.

Credit line — this question is intended to assess changes in total credit lines (drawn or not). The term credit line refers to a facility with a stated maximum amount, which a corporate is entitled to borrow from an institution at any given time.

Conceptually, the question could be aimed at gauging one of three things — (a) the total amount of the facility (drawn or not); (b) the amount of the undrawn facility; or (c) the amount of the facility that is drawn. Responses to (a) would be a useful proxy for changes in bank lending supply. Responses to (b) would indicate whether corporates had a greater or smaller cushion of finance to use should they experience a negative shock. And responses to (c) would shed more light on the use of bank lending in corporates' financing decisions. Each of these questions has its own distinct merits. But as this is a survey designed to capture trends in bank lending and credit conditions, the question is intended to assess changes in the total amount of the facility (drawn or not).

Covenant — this refers to an agreement or stipulation expressed in loan contracts by which the borrower pledges to take certain action (an affirmative covenant) or to refrain from taking a certain action (a negative covenant), and is consequently part of the *terms and conditions* of the loan.

7. Changes in default rates

Default rate — the proportion of loans that have fallen/are expected to fall into default. In line with the Basel framework, a default is deemed to have occurred when either or both of the two following events have taken place:

- The lender considers that the borrower is unlikely to pay their credit obligations in full.
- The borrower is past due more than 90 days on any material credit obligation. Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than current outstandings.

8. Changes in loss given default

Loss given default (LGD) — a loan's LGD is the economic loss on a defaulted exposure as a percentage of exposure at default, *given economic conditions over the past three months/expected conditions over the next three months* (as opposed to downturn economic conditions as discussed in the Basel Accord). Given an earlier question on lenders' *collateral requirements* this measure should take into account the value of any collateral taken against a loan as well as lenders' views on the state of borrowers' balance sheets.

9. Use of risk management tools

Target hold levels — target hold levels refers to the share of risk that lenders aim to hold of deals that they arrange/underwrite in the short term (ie within a few weeks of the deal). This is the dual of the target distribution level which would summarise the proportion of the risk that the loan originator wishes to distribute to other lenders/investors.

Loan tenors — refers to the *original* maturity of a loan.