

# Trends in Lending

April 2015



BANK OF ENGLAND



BANK OF ENGLAND

# Trends in Lending

April 2015

This quarterly publication presents the Bank of England's assessment of the latest trends in lending to the UK economy. It draws mainly on long-established official data sources, such as the existing monetary and other financial statistics collected by the Bank that cover all monetary financial institutions, and data collections established following the onset of the financial crisis.

These data are supplemented by discussions between the major UK lenders and Bank staff, giving staff a better understanding of the business developments driving the figures, and this intelligence is reflected in the report.<sup>(1)</sup> The major UK lenders<sup>(2)</sup> are Banco Santander, Barclays, HSBC, Lloyds Banking Group, Nationwide and Royal Bank of Scotland and together they accounted for around 70% of the stock of lending to businesses, 75% of the stock of mortgage lending, and 50% of the stock of consumer credit (excluding student loans) at end-December 2014. The report also draws on intelligence gathered by the Bank's network of Agents and from market contacts, as well as the results of other surveys including the Bank of England's *Bank Liabilities Survey* and *Credit Conditions Survey*.<sup>(3)</sup> The focus of the report is on lending, but broader credit market developments, such as those relating to capital market issuance, are discussed where relevant.

The report covers data and intelligence gathered up to end-March 2015. Unless stated otherwise, the data reported cover lending in both sterling and foreign currency, expressed in sterling.

## Integration of the *Credit Conditions Survey*, *Bank Liabilities Survey* and *Trends in Lending*

The *Credit Conditions Survey* (CCS) and the *Bank Liabilities Survey* (BLS) improve the Bank's understanding of developments in banks' liabilities and credit conditions. The *Trends in Lending* publication presents the Bank's assessment of lending to the UK economy and draws on, among other things, the results of surveys including the CCS and BLS.

Since these three quarterly publications complement each other, the Bank intends to integrate the insights from them into one analytical document called the *Credit Conditions Review*. The CCS and BLS will continue as surveys, with the

results and a short summary of each survey published on the same day.

The *Credit Conditions Review* will set out the trends in official and survey data on bank funding conditions and household and corporate credit conditions. The analysis will continue to be supplemented by intelligence from the Bank's network of Agents, market contacts and discussions between the major UK lenders and Bank staff.

The new *Credit Conditions Review* for 2015 Q2 will be published alongside the results of the CCS and BLS for the same period on 13 July 2015.

(1) For a fuller background, please refer to the first edition of *Trends in Lending* available at [www.bankofengland.co.uk/publications/other/monetary/trendsapril09.pdf](http://www.bankofengland.co.uk/publications/other/monetary/trendsapril09.pdf).

(2) Membership of the group of major UK lenders is based on the provision of credit to UK-resident companies and individuals, regardless of the country of ownership.

(3) The *Bank Liabilities Survey* and the *Credit Conditions Survey* for 2015 Q1 were conducted between 13 February and 6 March.

## Contents

Executive summary	3
<hr/>	
<b>1 Lending to UK businesses and individuals</b>	<b>4</b>
Box Trends in buy-to-let lending	7
<hr/>	
<b>2 Loan pricing</b>	<b>10</b>
<hr/>	
<b>3 Credit supply and demand</b>	<b>13</b>
<hr/>	
Glossary and other information	15

# Executive summary

---

The rate of growth in some measures of the stock of lending to UK businesses picked up in the three months to February. Net capital market issuance was positive in this period. Mortgage approvals by all UK-resident mortgage lenders for house purchase rose slightly in the three months to February compared to the previous period. The stock of secured lending to households increased, but the pace of growth has slowed since 2014 H1. The annual growth rate in the stock of consumer credit was little changed in recent months.

Pricing on lending to small and medium-sized enterprises was little changed in the three months to February. Respondents to the Bank of England's 2015 Q1 *Credit Conditions Survey* reported that spreads on new lending to large businesses fell significantly. The Bank's series of quoted interest rates on fixed-rate mortgages decreased in 2015 Q1 compared to the previous quarter. Quoted rates on some personal loans continued to fall.

Contacts of the Bank's network of Agents noted that credit availability had eased further, including for most small and medium-sized companies. Respondents to the Bank of England's *Credit Conditions Survey* expected demand for bank lending to increase significantly from small businesses, increase from medium-sized businesses and be unchanged from large businesses in 2015 Q2. Lenders in the survey reported that the availability of secured credit to households was broadly unchanged and that demand for secured lending fell significantly in the three months to early March 2015.

# 1 Lending to UK businesses and individuals

The rate of growth in some measures of the stock of lending to UK businesses picked up in the three months to February. Net capital market issuance was positive in this period. Mortgage approvals by all UK-resident mortgage lenders for house purchase rose slightly in the three months to February compared to the previous period. The stock of secured lending to households increased, but the pace of growth has slowed since 2014 H1. The annual growth rate in the stock of consumer credit was little changed in recent months.

**Table 1.A** Lending to UK businesses<sup>(a)</sup>

	Averages								
	2012	2013	2014				2014	2015	
			Q1	Q2	Q3	Q4	Dec.	Jan.	Feb.
<b>Sterling loans<sup>(b)</sup> (component of both all currency loans and M4Lx)</b>									
Net monthly flow (£ billions)	-1.2	-0.5	-1.8	-0.2	-0.2	-0.7	1.0	-0.3	1.0
Three-month annualised growth rate (per cent)	-3.5	-2.1	-2.9	-1.8	-1.1	-2.9	-2.2	-0.1	2.0
Twelve-month growth rate (per cent)	-2.5	-3.0	-2.1	-1.4	-1.3	-2.2	-2.3	-1.7	-1.3
<b>All currency loans<sup>(c)</sup></b>									
Net monthly flow (£ billions)	-1.5	-0.7	-1.5	-0.2	0.7	-0.1	1.5	-0.5	1.6
Three-month annualised growth rate (per cent)	-3.7	-2.7	-3.1	-0.7	0.6	-1.0	-0.4	1.6	2.7
Twelve-month growth rate (per cent)	-3.1	-3.0	-2.5	-1.8	-1.3	-1.1	-0.9	-0.3	0.2
<b>M4Lx<sup>(d)</sup></b>									
Net monthly flow (£ billions)	-0.9	-0.2	-2.7	0.5	-0.3	-1.1	-1.6	-4.4	3.1
Three-month annualised growth rate (per cent)	-2.9	-1.0	-4.3	0.6	-0.9	-4.6	-3.4	-3.8	-3.0
Twelve-month growth rate (per cent)	-3.2	-2.1	-2.0	-0.5	-0.8	-2.3	-2.7	-3.5	-1.2

(a) Seasonally adjusted. Data are for private non-financial corporations (PNFCs).

(b) This measure includes loans and UK monetary financial institutions' (MFIs') holdings of bills and acceptances and excludes commercial paper.

(c) Loans by MFIs to PNFCs excluding the effects of securitisations and loan transfers. Data cover loans in both sterling and foreign currency, expressed in sterling.

(d) Sterling M4 lending by UK MFIs to PNFCs excluding the effects of securitisations and loan transfers. Data cover loans and MFIs' holdings of securities issued by PNFCs.

This section presents a summary of the recent data on lending to UK businesses and individuals.

## Lending to UK businesses

Data covering lending by all UK-resident banks and building societies indicated improvement in some measures of lending to UK businesses in recent months. Net lending on the all currency measure was £2.6 billion in the three months to February (Table 1.A). The majority of this was in sterling loans.

Sterling loans are also a component of an alternative measure of lending to PNFCs — M4Lx — along with MFIs' holdings of PNFC securities. The positive flows of sterling loans in the three months to February were offset by a large fall in MFIs' holdings of securities issued by PNFCs, such that net lending on this measure was -£2.9 billion (Table 1.A).

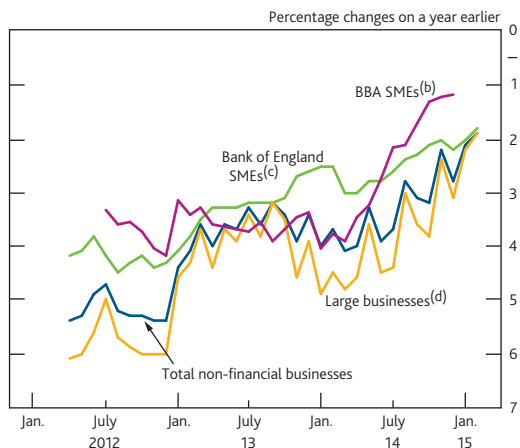
Data from participants in the Funding for Lending Scheme (FLS) Extension showed that their net lending to all businesses was -£6.9 billion in the fourth quarter of 2014.<sup>(1)</sup> The fall was driven primarily by net lending to large companies, which was -£6.3 billion. Net lending to small and medium-sized enterprises (SMEs) was also negative at -£0.8 billion.

Gross lending by all UK MFIs to SMEs was higher in 2014 than in recent years.<sup>(2)</sup> Gross flows from other types of external finance to SMEs such as asset finance and peer-to-peer business lending also increased over the past couple of years, according to a report by the British Business Bank.<sup>(3)</sup> Recent

(1) Net lending in the FLS Extension includes lending related to non-bank credit providers. For more details, see 'Funding for Lending Scheme Extension — Usage and lending data', available at [www.bankofengland.co.uk/markets/Pages/FLS/extensiondata.aspx](http://www.bankofengland.co.uk/markets/Pages/FLS/extensiondata.aspx). Non seasonally adjusted.

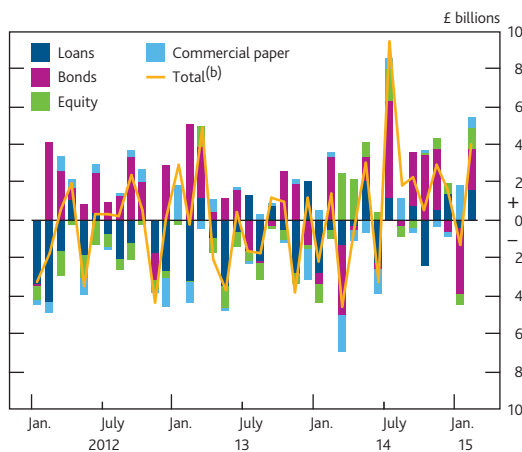
(2) For more details, see the 'Flows' tab in *Bankstats* Table A8.1 'Monetary financial institutions' loans to non-financial businesses, by size of business', available at [www.bankofengland.co.uk/statistics/Documents/bankstats/2015/feb/tab8.1.xls](http://www.bankofengland.co.uk/statistics/Documents/bankstats/2015/feb/tab8.1.xls). Non seasonally adjusted.

(3) For these estimates, see page 9, *Small Business Finance Markets 2014*, British Business Bank, November 2014, available at [http://british-business-bank.co.uk/wp-content/uploads/2014/12/BBB\\_Small-Business-Finance-Markets-2014\\_Online\\_Interactive.pdf](http://british-business-bank.co.uk/wp-content/uploads/2014/12/BBB_Small-Business-Finance-Markets-2014_Online_Interactive.pdf).

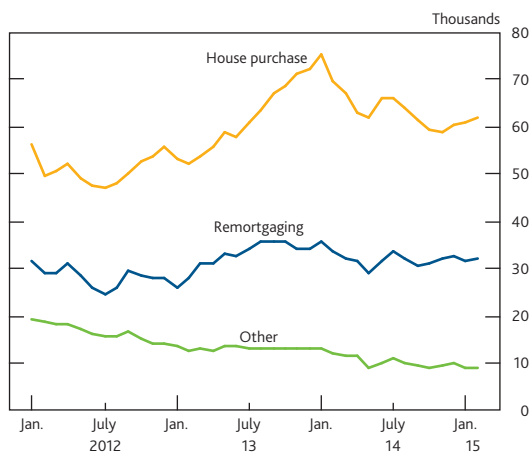
**Chart 1.1 Lending to UK businesses<sup>(a)</sup>**

Sources: BBA, Bank of England and Bank calculations.

- (a) Rate of growth in the stock of lending. Lending by UK MFIs, unless otherwise stated. Data cover lending in both sterling and foreign currency, expressed in sterling. Non seasonally adjusted.
- (b) Lending by a BBA panel of lenders to SMEs in Great Britain. SMEs are defined as businesses with turnover up to £25 million. Data are to December 2014.
- (c) Lending to UK SMEs with annual debit account turnover less than £25 million.
- (d) Lending to UK large businesses with annual debit account turnover over £25 million.

**Chart 1.2 Net finance raised by UK businesses<sup>(a)</sup>**

- (a) Finance raised by PNFCs from UK MFIs and from capital markets. Bonds data cover debt issued by UK companies via UK-based Issuing and Paying Agents. Data cover funds raised in both sterling and foreign currency, expressed in sterling. Seasonally adjusted. Bonds, equity and commercial paper are non seasonal.
- (b) Owing to the seasonal adjustment methodology, this series may not equal the sum of its components.

**Chart 1.3 Approvals of loans secured on dwellings<sup>(a)</sup>**

- (a) Data are for monthly number of approvals covering sterling lending by UK MFIs and other lenders to UK individuals. Approvals secured on dwellings are measured net of cancellations. Seasonally adjusted.

estimates show an overall increase in equity investment in small firms in each of the past four years.<sup>(1)</sup> However, overall flows of gross lending from these types of external finance remain small compared to those from bank lending.

Notwithstanding the increase in gross lending by UK MFIs to SMEs, the annual rate of growth in the stock of lending to these businesses remained negative in the three months to February, though less so than in recent months (**Chart 1.1**). Similarly, the average annual rate of growth in the stock of lending to large businesses was less negative. Overall, the rate of growth in some measures of the stock of lending to UK businesses picked up in the three months to February (**Table 1.A**).

Larger companies have access to more bank lending sources than smaller businesses, such as the syndicated lending market. The total value of new syndicated lending facilities granted in the UK market by both UK-resident and non-resident lenders in 2015 Q1 was £27.6 billion according to data from Dealogic, similar to 2014 Q1. In recent discussions, some major UK lenders noted that refinancing activity had remained the main feature of the large corporate lending market, although some said that event-driven financing (such as mergers and acquisitions and dividend recapitalisations) had increased.

Capital markets, such as bond and equity markets, also provide an alternative source of external finance for larger companies. Net issuance of equity and commercial paper was £3.3 billion in the three months to February (**Chart 1.2**). Taken together with net bond issuance of -£2.1 billion, net capital market issuance was positive in this period.

With the all currency measure of bank lending positive in the three months to February (**Table 1.A**), net finance raised by UK businesses from UK MFIs and capital markets was also positive (**Chart 1.2**). The balance of respondents to the *Deloitte CFO Survey* for 2015 Q1 — which covers large companies — continued to view bank lending, bond, and equity issuance as 'attractive' sources of funding.

### Secured lending to individuals

The number of mortgage approvals by all UK-resident mortgage lenders for house purchase increased slightly in the three months to February compared to the previous period (**Chart 1.3**). Approvals for remortgaging also rose slightly. The stock of secured lending to individuals increased, but the pace of growth has slowed since 2014 H1. The monthly net mortgage flow was little changed in recent months (**Table 1.B**).

(1) For more details, see *Equity Research Report*, British Business Bank, March 2015, available at <http://british-business-bank.co.uk/wp-content/uploads/2015/03/050315-Equity-report-FINAL.pdf>.

**Table 1.B Secured lending to individuals<sup>(a)</sup>**

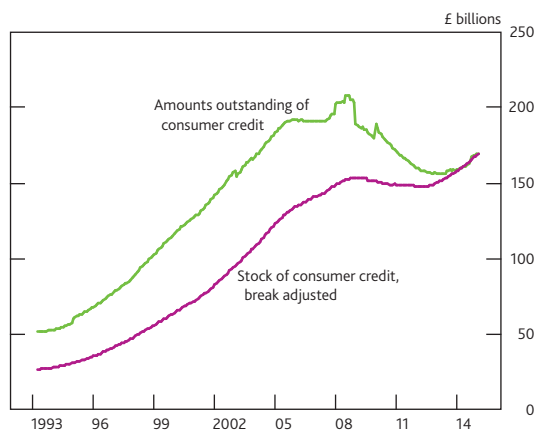
	2012	2013	Averages				2014	2015		
			2014					Dec.	Jan.	Feb.
			Q1	Q2	Q3	Q4				
Net monthly flow (£ billions)	0.9	1.2	1.8	2.2	1.9	1.6	1.6	1.6	1.7	
Three-month annualised growth rate (per cent)	0.8	1.1	1.7	1.9	2.0	1.5	1.5	1.6	1.5	
Twelve-month growth rate (per cent)	0.9	0.9	1.3	1.5	1.8	1.8	1.8	1.8	1.8	

(a) Sterling lending by UK MFIs and other lenders to UK individuals. Seasonally adjusted.

**Table 1.C Consumer credit<sup>(a)</sup>**

	2012	2013	Averages				2014	2015		
			2014					Dec.	Jan.	Feb.
			Q1	Q2	Q3	Q4				
<b>Credit card</b>										
Net monthly flow (£ billions)	0.1	0.2	0.2	0.3	0.2	0.3	0.3	0.2	0.2	
Three-month annualised growth rate (per cent)	1.4	4.8	4.7	4.9	5.0	5.4	6.5	5.1	4.9	
Twelve-month growth rate (per cent)	1.3	3.8	4.7	4.8	4.8	5.0	5.2	4.9	4.9	
<b>Other unsecured</b>										
Net monthly flow (£ billions)	0.1	0.4	0.6	0.5	0.8	0.6	0.2	0.6	0.5	
Three-month annualised growth rate (per cent)	-0.1	5.1	6.2	7.3	8.3	8.3	6.7	6.6	4.9	
Twelve-month growth rate (per cent)	-1.1	3.6	5.4	6.1	6.8	7.5	7.5	7.6	7.6	
<b>Total</b>										
Net monthly flow (£ billions)	0.2	0.6	0.8	0.8	1.0	0.9	0.5	0.8	0.7	
Three-month annualised growth rate (per cent)	0.5	5.0	5.7	6.5	7.1	7.3	6.6	6.0	4.9	
Twelve-month growth rate (per cent)	-0.3	3.7	5.1	5.6	6.1	6.6	6.6	6.7	6.6	

(a) Sterling lending by UK MFIs and other lenders to UK individuals. Consumer credit consists of credit card lending and other unsecured lending (other loans and advances), excluding student loans. Seasonally adjusted.

**Chart 1.4 Stock of consumer credit<sup>(a)</sup>**

(a) See footnote (a) to Table 1.C. Amounts outstanding of consumer credit, before and after adjustments for breaks. Break-adjusted series are calibrated by convention to the latest data point, February 2015.

Overall, gross secured lending was higher in 2014 than in recent years. Within this, the share of gross lending for buy-to-let purposes increased. For more details on trends in buy-to-let lending, see the box on pages 7–9.

### Consumer credit

The average monthly net consumer credit flow (excluding student loans) was £0.7 billion in the three months to February (Table 1.C), lower than in the previous three months. The positive flows of other unsecured lending — which includes personal loans — slowed, with credit card flows little changed.

The annual growth rate in the stock of consumer credit was broadly unchanged at 6.6% in February, although remained higher than in recent years (Table 1.C). Data published by the Bank of England on the stock of consumer credit include lending by UK MFIs (collected by the Bank) and other lenders (collected by the Office for National Statistics). Changes in the amounts outstanding (green line, Chart 1.4) will reflect changes that are due to transactions — net lending — as well as other effects, such as changes in the reporting population and write-offs.

Previous editions of *Trends in Lending* showed the sharp increase in write-offs and the write-off rate on consumer credit between 2004 and 2010 and their subsequent fall thereafter. Though the outstanding stock of consumer credit has been rising more recently it remains lower than before the crisis, mainly due to the cumulative effect of write-offs.

The break-adjusted stock of consumer credit, that is the stock adjusted both for write-offs and for other effects including changes in the reporting population, is higher than at its pre-crisis level (magenta line, Chart 1.4). This reflects positive cumulative net flows of new lending since then.<sup>(1)</sup>

(1) Net monthly flows of consumer credit from 2012 are available in Table 1.C. For more details on 'Changes, flows and growth rates' see the Bank of England Explanatory Notes at [www.bankofengland.co.uk/statistics/Pages/iadb/notesiadb/Changes\\_flows\\_growth\\_rates.aspx](http://www.bankofengland.co.uk/statistics/Pages/iadb/notesiadb/Changes_flows_growth_rates.aspx) and on 'Break-adjusted levels data' at [www.bankofengland.co.uk/statistics/Pages/iadb/notesiadb/Break\\_adjusted\\_levels\\_data.aspx](http://www.bankofengland.co.uk/statistics/Pages/iadb/notesiadb/Break_adjusted_levels_data.aspx).

## Trends in buy-to-let lending

Lending for buy-to-let (BTL) purposes is an important component of the housing market. BTL lending represented 13% of total gross mortgage lending in 2014, with gross advances having recovered from its post-crisis trough though still below its 2007 peak. BTL mortgages accounted for 15% of the total outstanding value of UK-resident mortgages as at end-2014 Q4. This box examines trends in BTL mortgage lending and pricing using available data.

### Lending

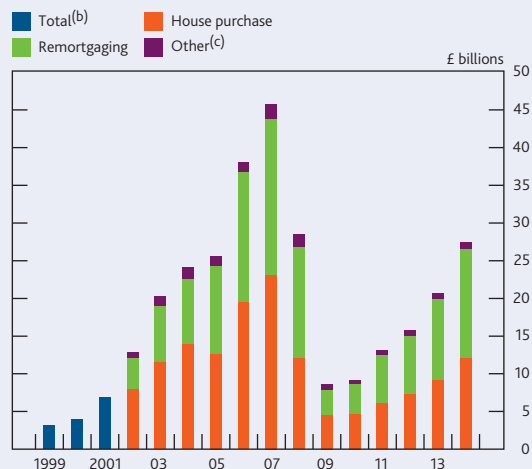
A buy-to-let mortgage is a mortgage secured against a residential property that will not be occupied by the owner of that property or a relative, but will instead be occupied on the basis of a rental agreement. In 1996 the Association of Residential Letting Agents, the trade body of estate agents dealing with rental properties, along with four lenders set up its first BTL initiative to encourage private individuals to invest in rental property.<sup>(1)</sup> This market grew steadily (**Chart A**) and the share of BTL lending in total gross mortgage lending increased until mid-2008, according to data from the Council of Mortgage Lenders (CML) (**Chart B**).

After the onset of the financial crisis, gross buy-to-let lending fell more sharply than total mortgage lending (**Chart B**). Reflecting discussions with the major UK lenders, the July 2011 *Trends in Lending* publication noted one reason for this decline in 2008–09 was that the availability of this lending was said to have tightened as some specialist lenders exited this market. Another reason was that wholesale funding markets — often used to fund BTL lending — became impaired.

Gross lending for BTL purposes has grown since 2010, reflecting both supply and demand factors, and was £27.4 billion in 2014 (**Chart A**). Over the past five years the share of total BTL lending in overall mortgage lending has picked up to 15% in 2014 Q4, higher than in the pre-crisis period, according to data from the CML (**Chart B**). Data based on the Bank of England and Financial Conduct Authority's Mortgage Lenders and Administrators Return (MLAR), derived from a different reporting population and definitions of residency, also show that gross BTL lending grew faster than overall gross mortgage lending in recent years.<sup>(2)</sup> Contacts of the Bank's network of Agents noted that the rental market had continued to grow strongly in recent months, supporting continued steady growth in buy-to-let activity.

Gross buy-to-let advances for remortgaging have also increased in recent years (**Chart A**). Its share of the total grew from 32% in 2002 to 52% in 2014, with the share of gross advances for house purchase at 45%.

**Chart A** Gross advances of buy-to-let lending, split by purpose<sup>(a)</sup>

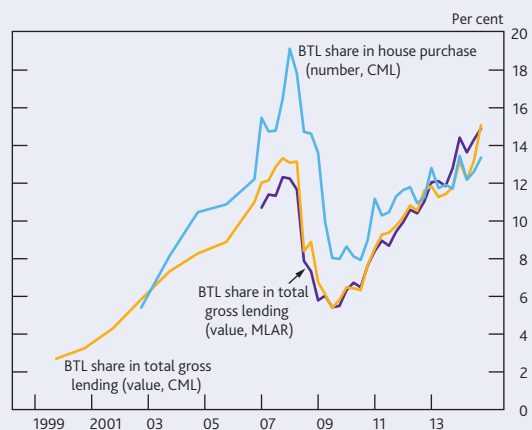


Sources: CML and Bank calculations.

- (a) Sterling. Non seasonally adjusted. Annual data. There is a step change in 2005 H1 as a large lender submitted buy-to-let data to the CML for the first time.  
 (b) Data split by purpose are not available for 1999–2001.  
 (c) This category includes other lending and further advances.

The share of the number of BTL mortgages for house purchase in the total number of house purchases has increased from its trough in 2010 to 13% in 2014 though remains below its 2008 peak, according to data from the CML (**Chart B**).

**Chart B** Buy-to-let lending as a share of overall lending: total values and number of house purchases<sup>(a)</sup>



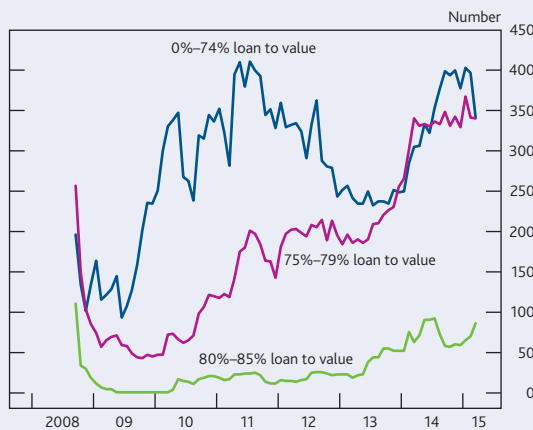
Sources: CML, Bank of England and Bank calculations.

- (a) Sterling. Non seasonally adjusted. Data prior to 2007 are annual and quarterly thereafter. There is a step change in 2005 H1 as a large lender submitted buy-to-let data to the CML for the first time.

- (1) See 'The profile and intentions of buy-to-let investors', CML, 2005, available at [www.cml.org.uk/cml/filegrab/pdf/pub\\_resreps\\_55report.pdf.pdf?ref=3874](http://www.cml.org.uk/cml/filegrab/pdf/pub_resreps_55report.pdf.pdf?ref=3874).  
 (2) CML data on the buy-to-let sector are available at [www.cml.org.uk/cml/media/press/4183](http://www.cml.org.uk/cml/media/press/4183) and MLAR data are available at [www.bankofengland.co.uk/pr/Pages/regulatorydata/mlar/2014/dec.aspx](http://www.bankofengland.co.uk/pr/Pages/regulatorydata/mlar/2014/dec.aspx). For a comparison of different data on residential mortgages published by the Bank of England, see *Bankstats (Monetary and Financial Statistics)*, November 2014, 'Residential mortgages: a comparison of the Bank of England's published statistical and regulatory data collections', available at [www.bankofengland.co.uk/statistics/Documents/ms/articles/art1nov14.pdf](http://www.bankofengland.co.uk/statistics/Documents/ms/articles/art1nov14.pdf).



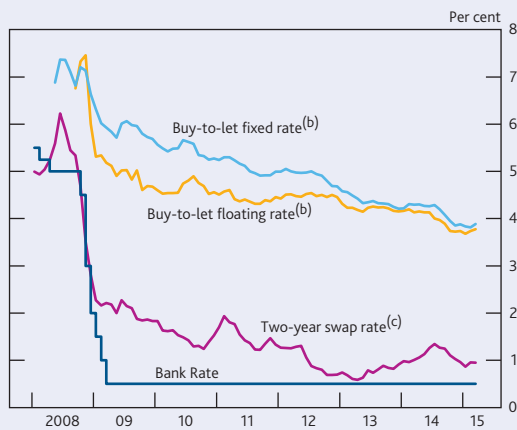
**Chart C** Number of buy-to-let products, available by loan to value ratio<sup>(a)</sup>



Sources: Moneyfacts Group and Bank calculations.

(a) Non seasonally adjusted. Excludes self-certified mortgages. There are no advertised products above 85% LTV ratio. Data are available from September 2008.

**Chart D** Indicative fixed and floating rates on buy-to-let lending<sup>(a)</sup>



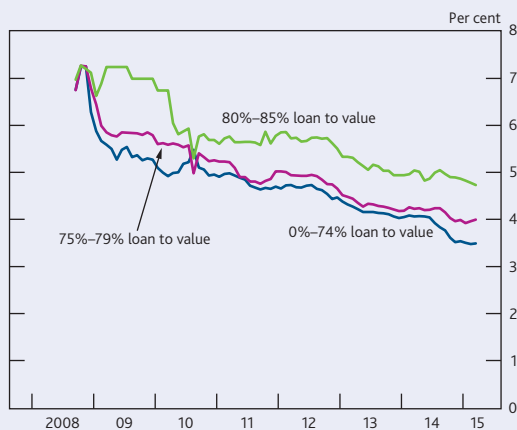
Sources: Bloomberg, Moneyfacts Group, Bank of England and Bank calculations.

(a) End-month advertised rates, compiled as an average across all products. Excludes self-certified mortgages.

(b) Fixed-rate data are available from May 2008 and floating-rate data are available from September 2008.

(c) The two-year swap rate is a monthly average of daily data.

**Chart E** Indicative rates on buy-to-let lending, by loan to value ratio<sup>(a)</sup>



Sources: Moneyfacts Group and Bank calculations.

(a) End-month advertised rates, compiled as an average across all products. Excludes self-certified mortgages. Data are available from September 2008. There are no advertised products above 85% LTV ratio.

A significant proportion of advertised BTL mortgage products in the four years after the financial crisis were at loan to value (LTV) ratios below 75% (**Chart C**). The number of advertised BTL mortgage products at LTV ratios of 75% and above has increased since mid-2013, but most are below 80% LTV ratio.

### Pricing

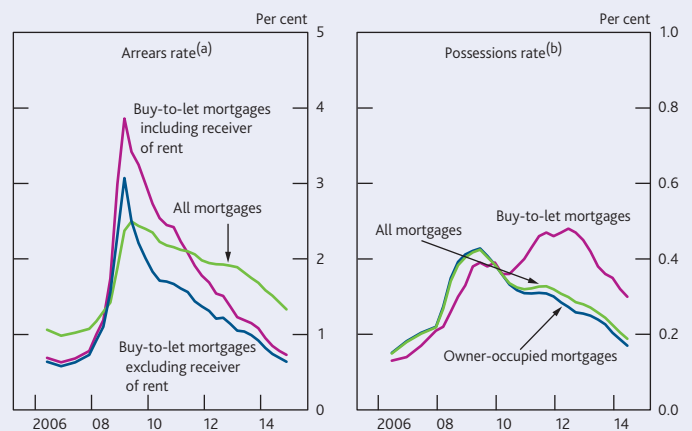
Data on quoted rates for fixed-rate BTL mortgages from Moneyfacts Group indicate that they have fallen since the onset of the financial crisis (**Chart D**). This follows the same broad pattern as the aggregate measures of quoted rates on fixed-rate mortgages published by the Bank of England. Spreads over reference rates initially widened on fixed-rate BTL products, as mortgage rates fell by less than swap rates. Since 2013, spreads on these products narrowed as relevant reference rates increased. In recent months, spreads ticked up as fixed BTL rates fell by less than these swap rates. Floating BTL mortgage rates have also decreased since the onset of the financial crisis (**Chart D**). The decrease was similar to that for rates on fixed BTL products since 2013. With Bank Rate unchanged, spreads over Bank Rate for floating-rate BTL mortgages have narrowed in recent years. Looking ahead, lenders in the Bank of England's *Credit Conditions Survey* expected a reduction in spreads on BTL lending in 2015 Q2.

Indicative BTL rates by LTV ratio ranges have also decreased over the years (**Chart E**). Rates for LTV ratios below 75% have fallen sharply over the past twelve months.

### Arrears and possessions rates

BTL mortgages as a proportion of the total number of outstanding mortgages more than three months in arrears

**Chart F** Arrears and possessions rates on secured lending



Sources: CML and Bank calculations.

(a) The arrears rate for all (BTL) mortgages shows the total (BTL) number of mortgages over three months in arrears as a proportion of the total (BTL) number of outstanding mortgages. Data are semi-annual up to end-2007 and quarterly since then. Non seasonally adjusted.

(b) The possessions rate for all (BTL, owner-occupied) mortgages shows the total (BTL, owner-occupied) number of properties taken into possession over the preceding twelve-month period as a proportion of the total (BTL, owner-occupied) number of outstanding mortgages. Data are semi-annual up to end-2008 and quarterly since then. Non seasonally adjusted.

rose sharply at the start of 2009, around the same time as the overall mortgage arrears rate (**Chart F**). The BTL arrears rate fell back and has been lower than that for all mortgages in recent years. In some contrast, the possessions rate on BTL mortgages peaked much later than that for owner-occupied mortgages and while it has fallen recently, still remains higher than that for owner-occupiers. But the CML noted that some of the differences in the path of arrears and possession rates seen when comparing the BTL sector with the wider market reflects the use of receivers of rent in the BTL sector. Other things being equal, the use of receivership may have mitigated some increase in reported BTL arrears and possession rates and delayed the increase in reported BTL possessions.

The rate of possession of buy-to-let properties was almost twice as high as for owner-occupied ones, even though the rate of underlying arrears on buy-to-let lending remained lower in 2014, according to data from the CML. They commented that this was because lenders offer extended forbearance to owner-occupiers to help them get through periods of financial difficulty without losing their home.<sup>(1)</sup>

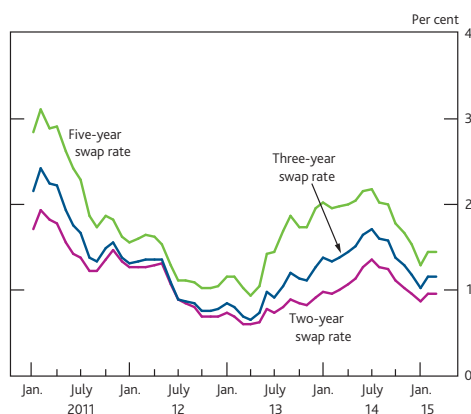
---

(1) For more details see CML News and Views, 19 February 2015, available at [www.cml.org.uk/cml/publications/newsandviews/180/706](http://www.cml.org.uk/cml/publications/newsandviews/180/706).

## 2 Loan pricing

Pricing on lending to small and medium-sized enterprises was little changed in the three months to February. Respondents to the Bank of England's 2015 Q1 *Credit Conditions Survey* reported that spreads on new lending to large businesses fell significantly. The Bank's series of quoted interest rates on fixed-rate mortgages decreased in 2015 Q1 compared to the previous quarter. Quoted rates on some personal loans continued to fall.

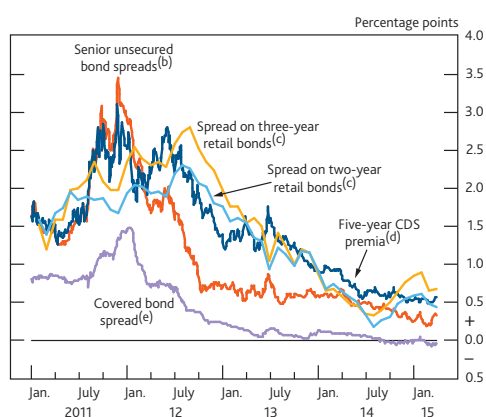
**Chart 2.1** Swap rates at different maturities<sup>(a)</sup>



Sources: Bloomberg and Bank calculations.

(a) Sterling swap rates. Swap rates are monthly averages of daily data. Data are to end-March 2015.

**Chart 2.2** Indicative long-term funding spreads<sup>(a)</sup>



Sources: Bloomberg, Markit Group Limited, Bank of England and Bank calculations.

- (a) All data are to 31 March 2015.  
 (b) Constant-maturity unweighted average of secondary market spreads to mid-swaps for the major UK lenders' five-year euro senior unsecured bonds, where available. Where a five-year bond is unavailable, a proxy has been constructed based on the nearest maturity of bond available for a given institution.  
 (c) Spreads for sterling fixed-rate retail bonds over equivalent-maturity swaps. Bond rates are end-month rates and swap rates are monthly averages of daily rates. The bond rates are weighted averages of rates advertised by the banks and building societies in the Bank of England's quoted rate sample, for products meeting the selection criteria (see [www.bankofengland.co.uk/statistics/Pages/iadb/notesiadb/household\\_int.aspx](http://www.bankofengland.co.uk/statistics/Pages/iadb/notesiadb/household_int.aspx)).  
 (d) The data show an unweighted average of the five-year senior CDS premia for the major UK lenders, which provides an indicator of the spread on euro-denominated long-term wholesale bonds.  
 (e) Constant-maturity unweighted average of secondary market spreads to mid-swaps for the major UK lenders' five-year euro-denominated covered bonds, where available. Where a five-year covered bond is unavailable, a proxy has been constructed based on the nearest maturity of bond available for a given institution.

This section discusses recent developments in loan pricing for businesses and individuals, based on statistical data, survey evidence and discussions with the major UK lenders.

The total cost of bank finance to a company or individual can generally be decomposed into the fees charged by the lender to provide loan facilities, the spread over a given reference rate at which loans are offered, and the prevailing level of that reference rate in the financial markets.

Some reference rates in 2015 Q1 were, on average, lower than in 2014 Q4. Within Q1, two, three and five-year swap rates — a key factor in the setting of retail and fixed mortgage rates — fell in January before increasing in February and remaining at broadly similar levels in March (**Chart 2.1**).

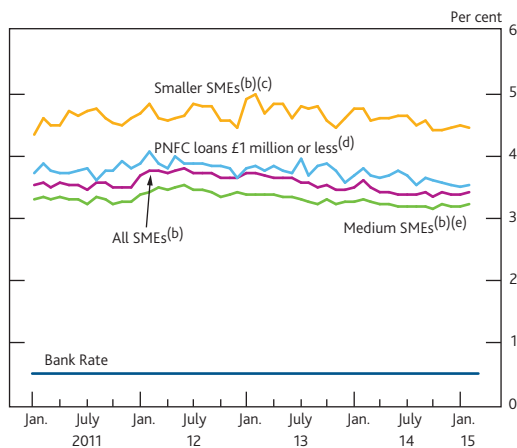
The cost of bank funding influences the rates charged to households and companies. In terms of wholesale funding, spreads over relevant swap rates on some longer-term bank debt were, on average, broadly unchanged in 2015 Q1 compared to the previous quarter (**Chart 2.2**). Combined with the fall in reference rates, wholesale funding costs fell slightly.

Retail funding costs, such as the rates paid on two and three-year bonds, fell slightly, on average, in 2015 Q1 compared to 2014 Q4 as swap rates fell and spreads were little changed (**Chart 2.2**). Respondents to the Bank of England's 2015 Q1 *Bank Liabilities Survey* expected retail funding spreads to pick up over the coming quarter.

### Corporate loan pricing

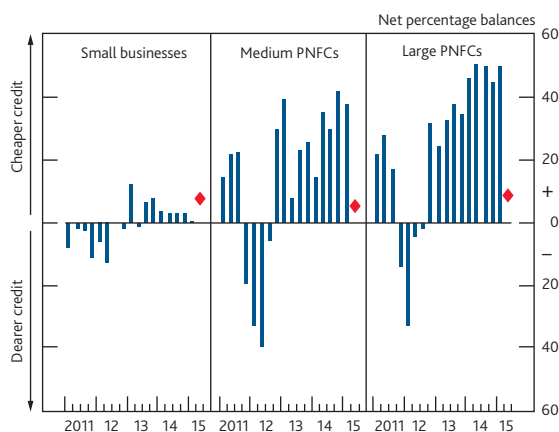
The spread over relevant reference rates that SMEs face on new borrowing can vary widely, taking into account various business-specific risk and credit quality factors. As a result there is no single definitive measure of loan pricing; statistical and survey data can provide broad estimates, but these may not entirely reflect the true cost of credit faced by SMEs.

Indicative median interest rates (**Chart 2.3**) and spreads on new variable-rate facilities to all SMEs were little changed in

**Chart 2.3** Indicative interest rates on lending to SMEs<sup>(a)</sup>

Sources: BIS, Bank of England and Bank calculations.

- (a) These indicative rates do not reflect the impact of cashback deals or fees. Data for Bank Rate are to end-March and for all other series to end-February. Non seasonally adjusted.
- (b) Median by value of SME facilities (new loans, new and renewed overdrafts) priced at margins over base rates, by four major UK lenders (Barclays, HSBC, Lloyds Banking Group and Royal Bank of Scotland). Data cover lending in both sterling and foreign currency, expressed in sterling.
- (c) Smaller SMEs are businesses with annual debit account turnover on the main business account less than £1 million.
- (d) Weighted average of new lending to PNFCs of all sizes by UK MFIs for advances less than or equal to £1 million, an indicator of pricing for small business loans. Data cover lending in sterling. The Bank's effective interest rates series are currently compiled using data from 22 UK MFIs.
- (e) Medium SMEs are businesses with annual debit account turnover on the main business account between £1 million and £25 million.

**Chart 2.4** *Credit Conditions Survey*: spreads over reference rates on lending to corporates by firm size<sup>(a)(b)(c)</sup>

- (a) Net percentage balances are calculated by weighting together the responses of those lenders who answered the question. The bars show the responses over the previous three months. The diamonds show the expectations over the next three months. Expectations balances have been moved forward one quarter. Where the *Credit Conditions Survey* is discussed, descriptions of a 'significant' change refer to a net percentage balance greater than 20 in absolute terms, and a 'slight' change refers to a net percentage balance of between 5 and 10 in absolute terms.
- (b) Small businesses are defined as those with annual turnover of less than £1 million; medium-sized corporates are defined as those with annual turnover of between £1 million and £25 million; and large corporates are defined as those with annual turnover of over £25 million.
- (c) Spreads are over Bank Rate or London interbank offered rate (Libor) for small businesses, and over Libor for medium-sized companies and large corporates. A positive balance indicates that spreads over reference rates have fallen, such that all else being equal it is cheaper for corporates to borrow.

the three months to February compared to the previous three months, according to survey data from the Department for Business, Innovation and Skills (BIS). The Bank's measure of the effective rate on new corporate lending for advances of £1 million or less — an indicator of pricing on loans to smaller businesses — was also broadly unchanged (**Chart 2.3**).

Pricing on lending to SMEs was little changed over the past year, according to some survey measures. The Federation of Small Businesses' *Voice of Small Business Index 2015 Q1* reported that the proportion of successful applicants being offered rates lower than 5% was broadly unchanged compared to a year ago. The *SME Finance Monitor* suggested that the median fixed rate for loans was little changed over the course of 2014.

Spreads over reference rates on new lending to small businesses remained unchanged in 2015 Q1 according to lenders in the Bank of England's *Credit Conditions Survey* (**Chart 2.4**). Respondents reported that for medium-sized firms spreads had fallen significantly. This continued the trend seen for much of the past two years, where lenders in the survey reported that spreads on loans to small businesses were unchanged, while spreads on loans to medium-sized companies fell significantly, similar to those for large corporates.

Pricing on lending to large companies remained favourable, according to survey evidence. Respondents to the *Credit Conditions Survey* reported that while loan covenants loosened and fees and commissions decreased in 2015 Q1 for businesses of all sizes, the most significant move was for large corporates. The balance of respondents to the *Deloitte CFO Survey* — which covers large companies — reporting the cost of credit to be 'cheap' increased in 2015 Q1. Some contacts of the Bank's network of Agents reported that intense competition among banks to lend to larger firms had led to significant reductions in finance costs.

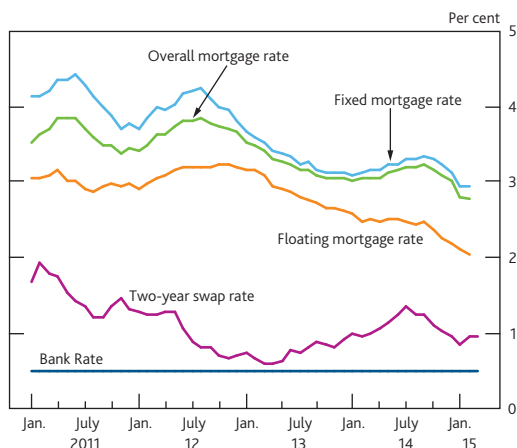
Looking forward, respondents to the *Credit Conditions Survey* expected spreads on new business lending in 2015 Q2 to decrease slightly for businesses of all sizes (**Chart 2.4**).

### Mortgage pricing

The Bank's series of effective interest rates on new mortgages measure the actual rates of interest paid by borrowers to lenders. The overall effective rate on new mortgages fell in the three months to February, continuing the decline since late 2014 (**Chart 2.5**). The overall rate has moved closely with the effective rate on fixed-rate mortgages reflecting the fact that most new mortgage lending is at fixed rather than floating rates at present.

Quoted fixed mortgage rates, which are indicators of the rate offered to borrowers, fell in 2015 Q1 compared to the previous

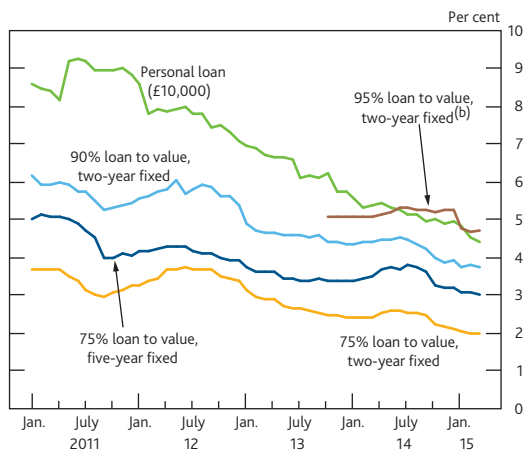
**Chart 2.5** Effective interest rates on new fixed-rate and floating-rate mortgages<sup>(a)</sup>



Sources: Bloomberg, Bank of England and Bank calculations.

(a) Sterling. The Bank's effective interest rates series are currently compiled using data from up to 22 UK MFIs. Average monthly rates. Data for Bank Rate and the two-year swap rate are to end-March and for all other series to end-February. Non seasonally adjusted.

**Chart 2.6** Quoted interest rates on new fixed-rate mortgages and personal loans<sup>(a)</sup>



(a) Sterling. The Bank's quoted interest rates series are currently compiled using data from up to 22 UK MFIs. End-month rates. Non seasonally adjusted.

(b) This series was not available between May 2008 and September 2013 as fewer than three products were offered from the sample of lenders in that period.

quarter (**Chart 2.6**). Lower rates on 75% loan to value (LTV) fixed-rate mortgages reflected falls in swap rates (**Chart 2.1**) — spreads were little changed. But quoted fixed rates on 95% LTV mortgages fell more sharply (**Chart 2.6**) and spreads narrowed. In recent discussions, some major UK lenders noted increased competition for higher LTV mortgage business.

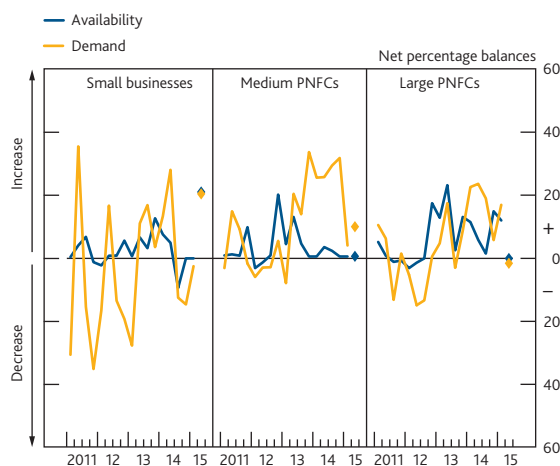
### Consumer credit pricing

Quoted rates on some personal loans continued to fall in 2015 Q1 (**Chart 2.6**). The quoted rate on credit cards was broadly similar in Q1 compared to the previous quarter. Respondents to the 2015 Q1 *Credit Conditions Survey* reported that although spreads on credit card lending were unchanged, the length of interest-free periods available on balance transfers increased.

# 3 Credit supply and demand

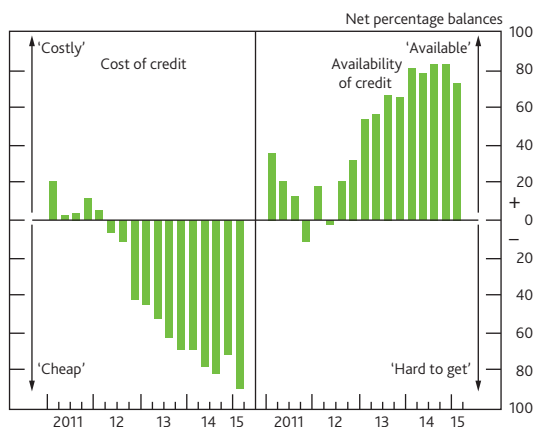
Contacts of the Bank's network of Agents noted that credit availability had eased further, including for most small and medium-sized companies. Respondents to the Bank of England's *Credit Conditions Survey* expected demand for bank lending to increase significantly from small businesses, increase from medium-sized businesses and be unchanged from large businesses in 2015 Q2. Lenders in the survey reported that the availability of secured credit to households was broadly unchanged and that demand for secured lending fell significantly in the three months to early March 2015.

**Chart 3.1** *Credit Conditions Survey*: availability and demand for credit across firm sizes<sup>(a)</sup>



(a) See footnote (a) (for this chart lines rather than bars are used to show the responses over the previous three months) and footnote (b) to Chart 2.4. A positive balance indicates that more credit is available or an increase in demand.

**Chart 3.2** *Deloitte CFO Survey*: cost and availability of credit<sup>(a)</sup>



(a) Net percentage balances for the cost of credit are calculated as the percentage of respondents reporting that bank credit is 'costly' less the percentage reporting that it is 'cheap'. Net percentage balances for the availability of credit are calculated as the percentage of respondents reporting that credit is 'available' less the percentage of respondents reporting that it is 'hard to get'. A positive balance indicates that a net balance of respondents report that credit is 'costly' or credit is 'available'.

The amount of lending and its price depend on the interaction of demand and supply factors. Disentangling the separate influences of changes in the supply of, and demand for, credit is difficult though survey data can help. This section looks at recent trends in credit supply and demand, drawing on surveys, reports from the Bank's network of Agents and discussions with the major UK lenders.

## Credit conditions for businesses

Credit availability was unchanged for small and medium-sized businesses but increased for large corporates in 2015 Q1, according to respondents to the Bank of England's *Credit Conditions Survey* (Chart 3.1). The balance of respondents to the *Deloitte CFO Survey* 2015 Q1 — which covers large companies — who reported that credit was 'available' was slightly lower compared to the previous quarter but remained over 70% (Chart 3.2).

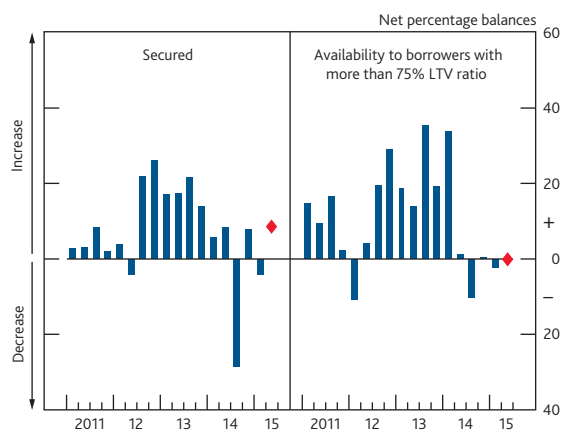
Contacts of the Bank's Agents noted that credit availability had eased further, including for most small and medium-sized companies. Contacts also noted that there remained a disparity between the experiences of large and some smaller firms.<sup>(1)</sup>

Looking forward, lenders in the *Credit Conditions Survey* expected overall credit availability to the corporate sector to remain unchanged in Q2. Within this, they expected credit availability for small businesses to increase significantly.

Mirroring the responses to credit availability, lenders in the *Credit Conditions Survey* reported that demand for lending from small and medium-sized businesses was unchanged in Q1

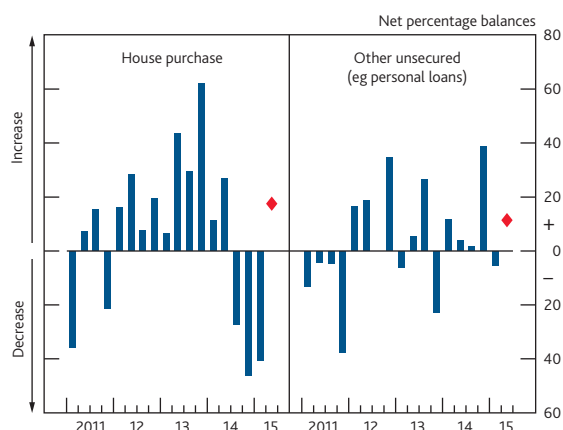
(1) For more details on the Agents' assessment of how corporate credit availability has eased across firm sizes since 2012, see England, D, Hebden, A, Henderson, T and Pattie, T (2015), 'The Agencies and 'One Bank'', *Bank of England Quarterly Bulletin*, Vol. 55, No. 1, page 50, Chart 2; available at [www.bankofengland.co.uk/publications/Documents/quarterlybulletin/2015/q104.pdf](http://www.bankofengland.co.uk/publications/Documents/quarterlybulletin/2015/q104.pdf).

**Chart 3.3 Credit Conditions Survey: availability of secured credit to households<sup>(a)</sup>**



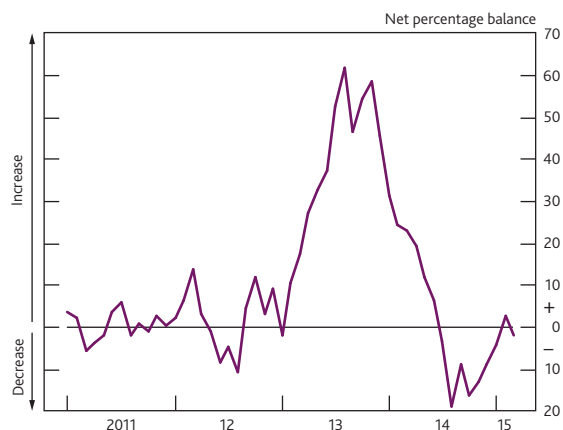
(a) See footnote (a) to Chart 2.4. A positive balance indicates that more credit is available.

**Chart 3.4 Credit Conditions Survey: demand for household secured and unsecured lending<sup>(a)</sup>**



(a) See footnote (a) to Chart 2.4. A positive balance indicates an increase in demand.

**Chart 3.5 RICS Residential Market Survey: new buyer enquiries<sup>(a)</sup>**



(a) Net percentage balance for new buyer enquiries is calculated as the proportion of respondents reporting an increase in enquiries over the previous month, less the proportion reporting a decrease. A positive balance indicates an increase in enquiries. Seasonally adjusted.

but increased from large corporates (Chart 3.1). More generally, the proportion of SMEs not seeking finance (bank loans, overdrafts) was 82% in 2014 Q4, broadly the same as for the previous four quarters, according to the *SME Finance Monitor*.<sup>(1)</sup> Lenders in the *Credit Conditions Survey* expected demand for credit to increase significantly from small businesses, increase from medium-sized companies and be unchanged from large corporates in 2015 Q2.

**Credit conditions for households**

The availability of secured credit to households was broadly unchanged in the three months to early March 2015, according to respondents to the *Credit Conditions Survey* (Chart 3.3). Lenders in the survey also reported that the availability of secured credit to borrowers with LTV ratios above 75% was unchanged in Q1, but their willingness to lend at LTV ratios above 90% increased slightly. Looking ahead, the availability of secured credit was expected to increase slightly in 2015 Q2.

Demand for secured lending for house purchase was reported to have fallen significantly for the third consecutive quarter, according to respondents to the 2015 Q1 *Credit Conditions Survey* (Chart 3.4). Lenders in the survey also reported that demand for secured lending for remortgaging fell significantly. Some respondents attributed the reduction in secured lending demand over recent quarters to a combination of changes in regulatory policy, concerns about housing affordability and uncertainty about the outlook for the housing market. The Royal Institution of Chartered Surveyors' (RICS) new buyer enquiries balance was close to zero in 2015 Q1, indicating broadly unchanged housing demand (Chart 3.5).

Contacts of the Bank's Agents reported that there had been signs of a pickup in housing market activity since the start of the year, though the market was widely expected to remain sluggish until after the general election. Looking ahead, respondents to the *Credit Conditions Survey* expected demand for secured credit for house purchase to increase in 2015 Q2 (Chart 3.4) and for demand for remortgaging to increase slightly.

Respondents to the *Credit Conditions Survey* indicated that the amount of unsecured credit made available to households increased in 2015 Q1. Lenders expected the availability of unsecured credit to be unchanged in Q2. Demand for other unsecured lending products, such as personal loans, (Chart 3.4) and credit card lending fell slightly in 2015 Q1, according to respondents to the *Credit Conditions Survey*. Lenders in the survey expected demand for other unsecured lending products to increase in Q2, with demand for credit card lending to be unchanged.

(1) These SMEs are those that had not had a borrowing event, and also said that nothing had stopped them from applying for any (future) loan/overdraft funding in the previous twelve months.

## Abbreviations

**BBA** — British Bankers' Association.  
**BIS** — Department for Business, Innovation and Skills.  
**BTL** — buy-to-let.  
**CDS** — credit default swap.  
**CFO** — chief financial officer.  
**CML** — Council of Mortgage Lenders.  
**FLS** — Funding for Lending Scheme.  
**Libor** — London interbank offered rate (see below).  
**LTV ratio** — loan to value ratio (see below).  
**M4Lx** — Sterling M4 lending excluding the effects of securitisations etc.  
**MFIs** — monetary financial institutions (see below).  
**MLAR** — Mortgage Lenders and Administrators Return.  
**PNFCs** — private non-financial corporations (see below).  
**RICS** — Royal Institution of Chartered Surveyors.  
**SMEs** — small and medium-sized enterprises.

## Glossary

**Arrears rate** The number of loans in arrears divided by the number of loans outstanding.

**Bank Rate** The official rate paid on commercial bank reserves by the Bank of England.

**Businesses** Private non-financial corporations.

**Buy-to-let mortgage** A mortgage secured against a residential property that will not be occupied by the owner of that property or a relative, but will instead be occupied on the basis of a rental agreement.

**Consumer credit** Borrowing by UK individuals to finance expenditure on goods and/or services. Consumer credit is split into two components: credit card lending and 'other' lending (mainly overdrafts and other loans/advances).

**Effective interest rate** The weighted average of calculated interest rates on various types of sterling deposit and loan accounts. The calculated annual rate is derived from the deposit or loan interest flow during the period, divided by the average stock of deposit or loan during the period. For new business, this is divided by the average gross new business in the month.

**Facility** An agreement in which a lender sets out the conditions on which it is prepared to advance a specified amount to a borrower within a defined period.

**Gross lending** The total value of new loans advanced by an institution in a given period.

**Loan approvals** Lenders' firm offers to advance credit.

**Loan to value (LTV) ratio** Ratio of outstanding loan amount to the market value of the asset against which the loan is secured (normally residential or commercial property).

**London interbank offered rate (Libor)** The rate of interest at which banks borrow funds from each other, in marketable size, in the London interbank market.

**Major UK lenders** Banco Santander, Barclays, HSBC, Lloyds Banking Group, Nationwide and Royal Bank of Scotland.

**Monetary financial institutions (MFIs)** A statistical grouping comprising banks and building societies.

**Mortgage lending** Lending to households, secured against the value of their dwellings.

**Net lending** The difference between gross lending and repayments of debt in a given period.

**Possessions rate** The number of properties taken into possession divided by the number of mortgages outstanding.

**Private non-financial corporations (PNFCs)** All corporations (and partnerships) whose primary activity is non-financial and that are not controlled by central or local government.

**Receiver of rent** An appointed agent who takes receipt of rental income relating to properties where the mortgage is in arrears, and pays it to the lender.

**Reference rate** The rate on which loans are set, with an agreed margin over the reference rate (typically this will be Bank Rate, Libor or a swap rate).

**Remortgaging** A process whereby borrowers repay their current mortgage in favour of a new one secured on the same property. A remortgage would represent the financing of an existing property by a different mortgage lender.

**Specialist/other mortgage lenders** Providers of mortgage loans for niche markets that generally fall outside the scope of mainstream mortgage lending.

**Swap rate** The fixed rate of interest in a swap contract in which floating-rate interest payments are exchanged for fixed-rate interest payments. Swap rates are a key factor in the setting of fixed mortgage rates.

**Syndicated loan** A loan granted by a group of banks to a single borrower.

**Write-off rate** The value of write-offs divided by the stock of loans outstanding.

## Symbols and conventions

Except where otherwise stated the source of data in charts is the Bank of England.

On the horizontal axes of charts, larger ticks denote the first observation within the relevant period, eg data for the first quarter of the year.