South African bank lending practices survey

Working paper series

WP/2021/10

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.

Table of contents

Preface

The Bank Lending Practices Survey provides a useful insight into sentiment amongst bankers in South Africa. The survey takes cognisance of the approach used in the senior loan officer survey conducted quarterly in America and similar surveys in Canada, Europe, Britain and other economies, but has been adapted to the particular circumstances of the South African credit markets. The survey provides an ongoing quantitative basis for assessing bank behaviour, likely changes and impending challenges relating to credit, lending and risk.

The survey is targeted at senior bank credit executives to gauge their reactions, intentions and likely future responses to credit policy and new lending, resulting from the introduction of legislative and other changes in economic circumstances. The biannual survey, conducted through interaction with senior executives in respondent banks and analysed by Econometrix (Pty) Ltd, provides an ongoing quantitative basis for assessing bank behaviour relating to lending. This survey contains 17 regular questions that give some insight into potential trends emerging at the time of the survey. Given the impact of the Covid-19 pandemic and the subsequent lockdown, we were very grateful to the bankers who took the time to complete the survey. The survey includes additional questions concerning the impact COVID-19 has had on the credit market in South Africa.

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

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

Mark Brits
Executive Director

Members of the working group

in alphabetical order

Mark Brits

Committee chair
Executive Director
Centre of Excellence in Financial Services

Dr Michael Jackson

Head: Money and Banking
Econometrix (Pty) Ltd

Asande Mahlaba

Research Administrator
Centre of Excellence in Financial Services

Participating banks

Absa Bank Ltd

Bank of Taiwan (SA)

Capitec Bank Ltd

First Rand Bank Ltd

GroBank

Investec Bank Ltd

Nedbank

The Standard Bank of South Africa

As at March 2021, participating banks account for 94% of total bank assets in South Africa.

Executive summary

The South African Bank Lending Practices Survey (**the Survey**) is based on the first quarter of 2021, from January to March. It is a combination of a survey and interviews with certain senior bank lending executives from the contributing banks and forms the basis of this working paper. The aggregated results of the survey are provided together with additional information in the following section.

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

This working paper continues with the three long-term themes: the impact on household lending, enterprise lending and the strategic direction being taken by banks.

This survey includes topical questions of the effects COVID-19 has had on credit sentiment. It also includes an additional question on the potential impact of the vaccination roll out on credit lending

Growth in lending

As at the end of March 2021, the total domestic assets[1] of the South African banking industry was approximately[2] R5 521 billion. This was about R25 billion lower than the total balance sheet of the banks in our previous Survey, using September 2021 data at approximately R5 546 billion.

The Survey in March 2020 recorded an extraordinary month-on-month increase of R258 billion. Month-on-month growth in total industry balance sheets since then have been negative for 6 out of the 12 months until March 2021. In March 2021, the month-on-month growth of the total assets of the banking industry decreased by the largest single amount of R65 billion since the inception of the Survey in September 2017. Although significant variations were experienced during the past year, the total balance sheet growth was still positive from pre-Covid levels to date. The total bank balance sheet pre-Covid was approaching R5.3 trillion and has been sustained at levels over R5.5 trillion for the past year.

The South African Bank Lending Practices Survey focuses on direct lending to the economy in the form of household lending and enterprise lending (corporate businesses, SOEs and SMEs). The R25 billion reduction in total assets between surveys covers all categories of lending and is then compared against the change in portfolios within the industry's total balance sheet, with some recording increases whilst others declines, to give the net effect. An increase of approximately R77 billion was recorded against a broad category of lending including deposits, loans, and advances. This growth was offset by a substantial decrease of approximately R99 billion in banks' holdings of financial instruments, not captured by the survey, the main contribution to the overall drop of R25 billion for the period.

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

[2] The reference to approximately, recognises the data submitted by the banks can be revised over time and may not reconcile with the latest published BA 900 for that month.

The positive injection of R77 billion into the category deposits, loans and advances was allocated across several products. With significant reductions in foreign currency and public sector loans, not captured by the survey, direct lending to the economy grew by R89.2 billion over the period. The R25 billion-rand reduction in total bank assets therefore does not reflect the growth in lending to households and enterprises of R89 billion over the period that is the focus of the Survey.

In the previous Survey, banks indicated a general preference towards household lending over lending to enterprises would be likely going forward, and this was evidenced by the data with R53 billion in loans to households with R33 billion to enterprises. Unsecured credit was limited with the focus for household lending being mortgage finance, growing by R40 billion and secured lending at R10 billion.

Topic: Provisioning for credit losses resulting from COVID-19 effects

Provisioning for credit losses, when compared to one-year earlier, shows an increase for households and a reduction towards enterprises. For households, provisioning for secured credit, such as motor vehicle finance, was the most impacted category followed by mortgage lending which was significantly lower.

Provisioning for credit losses in enterprises turned more positive for most sectors with the notable exception of the construction sector that moved further negative.

Topic: Change in credit stance towards SMEs resulting from Covid-19 relief measures

Banks reflect a more stringent credit stance towards SMEs. This stringency applies to all forms of financing and to all economic sectors with construction the most impacted.

Topic: Expected effects of vaccine rollout

The successful vaccine roll-out is directly linked to improved economic performance and should manifest in an improved credit stance towards both households and enterprises.

Theme: Loans to households

Loans to households focus on three sub-categories: mortgage lending for residential homes, secured lending such as motor vehicle finance, and unsecured lending, typically credit cards and other short-term credit arrangements.

Mortgage lending

Banks show favourable credit sentiment for mortgage lending to households with competitive pressure and improved perception of the prospects of housing market listed as contributing factors. This is reflected in the increase in residential mortgages in Q1 2021 at R40 billion contrasting by the R7 billion increase from the previous survey.

Secured lending

Competition from other banks was identified as a positive contributing factor to a more lenient credit stance, with the expectations of improved economic activity providing additional support. The credit worthiness of consumers remains a concern.

Unsecured lending

The credit stance on unsecured credit remains stringent despite competition from other banks and a more positive economy, interest rate spreads continue to widen.

Theme: Loans to enterprises

The current survey reflects a tightening in credit stance towards enterprises but not as significant as what was recorded in the previous survey. The overall perception of risk is more significant than competition factors.

Theme: Strategic direction

Bank have indicated that they see more opportunity to lend to households than enterprises going forward with both categories in positive territory with credit less stringent than before.

Households can expect greater leniency in mortgage loans, secured lending, and credit card finance. For enterprises, plant and equipment finance are most preferred, with all counters remaining positive and a preference for short-term loans.

SME's should find overdraft and unsecured lending more favourable with import/export finance and property finance more stringent.

Bank lending practices survey

This survey is based on the assessment of bank lending executives at each bank of the lending undertaken by their bank in the most recent three-month period, compared to that which prevailed six months prior. It also looks at the expectation or intention of bank executives for lending by their bank over the next three-month period. In combination, through a compilation of results, it provides a gauge of how bank lending behaviour is changing over time. Survey results are published only for banks at combined level, so that no individual bank results are released. The results can be used for monitoring trends in lending from a bank behaviour perspective, especially in providing a gauge of how lending behaviour is changing currently and how it is likely to change in the near future. Results are also able to feed into further analysis and research relating to how bank behaviour is able to influence the progress of the economy, both at macro level and in relative effects between economic participants.

The survey is divided into questions related to household lending, enterprise (business/corporate) lending, and strategic direction relating to small enterprises and shifts in lending emphasis. It relates to the first quarter of 2021 from January to March and is compared to the previous survey, where applicable.

At this juncture, eight full previous surveys have been conducted, in respect of Q3 2017, Q1 2018, Q3 2018, Q1 2019, Q3 2019, Q1 2020 and Q3 2020 plus an initial pilot survey conducted in mid-2017 relating to lending in Q2 2017. Useful comparisons can be made to the results from the previous surveys, though the length of history for identifying time trends is still limited. Survey responses have been combined across respondent banks and weighted by the asset holdings of each bank.

All responses are normed to a score of 50. Thus, a score greater than 50 indicates an increase or easing of credit stance or a positive influence, less than 50 conversely indicates a decrease, tightening or negative influence. A score of 50 reflects unchanged or a neutral effect. The symbol ~ indicates no change from the previous period or previous survey. The symbol ♦ is used to indicate the change in sentiment from the neutral score of 50. The symbol □ is used where there was no comparable question in the previous survey. Δ survey indicates the change compared to the response in the previous survey.

1. Loans to Households[3]

Q1: Banks' credit stance[4] 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	**21Q1**	**Δ ♦**	**20Q3**	**Δ survey**
Overall relative to 6 months ago	46	- 4	34	+ 12
Mortgage lending¹	50	~	39	+ 11
Secured credit e.g. motor vehicle finance²	50	~	39	+ 11
Credit facilities e.g. credit cards and overdrafts	50	~	41	+ 9
Unsecured credit	45	**- 5**	29	+ 16
Short term credit up to R8000, within 6 months	60	**+ 10**	46	+ 14
Developmental credit e.g. education	63	**+ 13**	68	- 5
Mass market	45	**- 5**	36	+ 9
Mid market	50	~	36	+ 14
Upper market	54	+ 4	41	+ 13

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

The credit stance of banks towards households during Q1 2021 was differentiated across lending classes and income levels. The credit stance towards mortgage

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

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

lending, vehicle finance and credit facilities are unchanged from 6 months prior. However, the credit stance towards unsecured credit is shown as more stringent (-5). At the same time, lending towards the mass market is shown as more stringent (-5) but towards the mid-market little changed, and towards the upper market less stringent (+4). This reflects bank concern for the repayment capacity of lower income households, which have been most adversely affected by the Covid-19 lockdowns and employment reductions, while a relatively stronger financial situation for higher income households.

A significantly more lenient stance towards short term credit and developmental credit (+10, +13) could be a reflection of bank accommodation of immediate alleviation funding to households in need of relatively small amounts of credit.

This compares to the situation in Q3 2020 when the country was emerging from very restrictive Covid-19 lockdowns and economic curtailment compared to the quarter just prior to the lockdowns. Banks became materially more cautious under the lockdown circumstances in their lending decisions, in reaction to the dire situation facing applicants for credit through the wider economic circumstances. This was unfortunate from an economic perspective, since credit was constrained when it was needed to bolster expenditure to reduce the severity of the economic recession. It was nevertheless understandable from a bank perspective, since banks were faced with increased default risk resulting from retrenchments, salary reductions and uncertainty of household incomes.

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	21Q1	Δ ♦	20Q3	Δ survey

A) Cost of funds and balance sheet constraints	50	~	54	- 4
B) Pressure from competition	56	+ 6	54	+ 2
Competition from other banks	63	**+ 13**	58	+ 5
Competition from non-bank lending	50	~	54	- 4
Competition from direct / self-financing	54	+ 4	50	+ 4
C) Perception of risk	54	+ 4	35	+ 19
Expectations regarding economic activity	50	~	36	+ 14
Housing market prospects	61	**+ 11**	37	+ 24
Risk on collateral realisation	52	+ 2	32	+ 20
D) Other factors	50	~	50	~

Banks indicate a number of factors which have had a positive effect towards new mortgage lending over the six months to Q1 2021. The competitive pressure from other banks is a particularly strong factor in providing pressure to increased mortgage financing (+13). This is combined with an improved perception in the prospects of the housing market (+11), with corresponding lowered perception by banks of the risks in lending for residential housing. Expectations concerning economic activity were not regarded as a significant factor for Q1, though they had improved markedly relative to the survey of Q3 2020.

Cost of funds and balance sheet constraints were not a hindrance in Q1 relative to six months prior.

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	**21Q1**	**Δ ♦**	**20Q3**	**Δ survey**

A) Cost of funds and balance sheet constraints	46	- 4	46	~
B) Pressure from competition	54	+ 4	49	+ 5
Competition from other banks	62	**+ 12**	46	+ 16
Competition from non-bank lenders	50	~	50	~
Competition from direct / self-financing	50	~	50	~
C) Perception of risk	48	- 2	33	+ 15
Expectations regarding economic activity	53	**+ 3**	32	+ 21
Creditworthiness of consumers	46	**- 4**	29	+ 17
Risk on the collateral required	46	**- 4**	37	+ 9
D) Other factors	50	~	50	~

In respect of secured credit, competition from other banks (+12) was again the predominant factor in driving banks to provide new lending in Q1 2021. Lending was also positively affected by improved expectations concerning the outlook of economic activity (+3). However, countering this were negative perceptions concerning creditworthiness of consumers and risks faced in realising collateral (-4, -4). Overall, risk perceptions were slightly more negative than 6 months earlier.

Comparison to the Q3 2020 survey shows that risk perceptions were much improved in Q1 2021 relative to the survey six months earlier. Cost of funds and balance sheet limitations were a small negative factor compared to 6 months earlier.

Q.4: Factors affecting stance: credit facilities and unsecured lending to households

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

Loans to households: credit stance	**21Q1**	**Δ ♦**	**20Q3**	**Δ survey**
A) Cost of funds and balance sheet constraints	46	- 4	49	- 3

B) Pressure from competition	54	+ 4	50	+ 4
Competition from other banks	54	+ 4	50	+ 4
Competition from non-bank lenders	50	~	50	~
Competition from direct / self-financing	50	~	50	~
C) Perception of risk	51	+ 1	46	+ 5
Expectations regarding economic activity	53	**+ 3**	46	+ 7
Creditworthiness of consumers	50	~	47	+ 3
Risk on the collateral required	50	~	44	+ 6
D) Other factors	50	~	50	~

Risk perceptions were also a somewhat positive factor in credit facilities provision and unsecured lending for Q1 2021 relative to six months prior. This was primarily a consequence of improved expectations concerning economic activity (+3), rather than relating to creditworthiness and collateral risks.

Q.5: Terms and conditions[5] 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	**21Q1**	**Δ ♦**	**20Q3**	**Δ survey**
A) Price	47	- 3	43	+ 4
Your bank's margin on average loans [1]	48	**- 2**	45	+ 3
Margin on riskier loans [1]	46	**- 4**	40	+ 6
B) Credit scoring	46	- 4	37	+ 9
C) Other conditions	50	~	47	+ 3
Collateral requirements	49	- 1	46	+ 3
Loan-to-value ratio	47	- 3	41	+ 6

[5] 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.

Maturity	54	**+ 4**	50	+ 4
Non-interest rate charges (fees)	50	~	50	~
D) Other factors	50	~	50	~

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

Banks indicate in the Q1 survey that terms and conditions for mortgage lending were made slightly more stringent through higher margins on both average loans (-2) and riskier loans (-4) as well as though tighter loan-to-value ratios. Maturity terms were however relaxed to a degree (+4).

Q.6: Banks' terms and conditions for secured lending to households

Compared to 6 months ago, how have your bank's **terms and conditions** for approving **secured lending to households** changed i.e. secured lending other than mortgage-based lending?

Loans to households: credit terms change	**21Q1**	**Δ ♦**	**20Q3**	**Δ survey**
A) Price	46	- 4	44	+ 2
Your bank's margin on average loans	42	**- 8**	45	- 3
Your bank's margin on riskier loans	42	**- 8**	40	+ 2
B) Credit scoring	46	**- 4**	41	+ 5
C) Other terms and conditions	50	~	50	~
Collateral requirements	54	**+ 4**	50	+ 4
Maturity	50	~	50	~
Non-interest rate charges (fees)	50	~	50	~
D) Other factors	50	~	50	~

For secured lending, banks indicated again that greater stringency was exercised though higher margins on both average (-8) and riskier loans (-8). Credit scoring was also stricter (-4). However, collateral requirements were somewhat more lenient (+4). There were no significant changes in maturity terms or fee charges.

Q.7: Terms and conditions for credit facilities and unsecured lending to households

Compared to 6 months ago, how have your bank's **terms and conditions** for approving **credit facilities and unsecured lending to households** changed i.e. other than mortgage-based and other secured lending?

Loans to households: credit terms change	**21Q3**	**Δ ♦**	**20Q3**	**Δ survey**
A) Price	52	+ 2	44	+ 8
Your bank's margin on average loans	54	**+ 4**	46	+ 8
Your bank's margin on riskier loans	50	~	41	+ 9
B) Credit scoring	50	~	40	+ 10
C) Other terms and conditions	49	- 1	50	- 1
Collateral requirements	50	~	54	- 4
Maturity	50	~	50	~
Non-interest rate charges (fees)	46	**- 4**	46	~
D) Other factors	50	~	50	~

In respect of credit facilities and unsecured lending, banks show slightly more lenient margins on average loans (+4), but unchanged for riskier loans relative to six months prior. Credit scoring was relatively unchanged, as were collateral requirements and maturity of lending, but non-interest (fee) charges were increased (-4).

Q.8: Interest rate spread relative to cost of funds: households

Compared to 6 months ago, how has your bank's **interest rate spread** relative to cost of funds changed, as applied to the approval of loans to **households**?

Loans to households: interest rate spread	**21Q1**	**Δ ♦**	**20Q3**	**Δ survey**
Overall relative to 6 months ago	42	- 8	46	- 4

Mortgage lending	43	**- 7**	47	- 4
Secured credit e.g. motor vehicle finance	46	- 4	46	~
Credit facilities e.g. credit cards and overdrafts	47	- 3	43	+ 4
Unsecured credit	42	**- 8**	46	- 4
Short term credit up to R8000, within 6 months	45	- 5	51	- 6
Developmental credit e.g. education	42	- 8	42	~
Mass market	42	**- 8**	42	~
Mid market	42	**- 8**	46	- 4
Upper market	42	**- 8**	46	- 4

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

On interest rate spreads, the banks indicated in the Q1 2021 survey that their interest rate spreads have become more stringent (ie have increased) across the board. This has occurred across mass, mid and upper markets about equally (-8). It is unsecured lending that has been most affected (-8) together with mortgage lending (-7) and the small category of developmental credit. Secured credit, and facilities such as credit cards and overdrafts have been less affected. The increased spread also applies to most categories of lending compared to the survey of Q3 2020, indicating a move towards higher interest rate spreads over the past year, probably in recognition of the higher risk situations in credit provision consequent on the period of lockdowns and adversity caused by the Covid-19 pandemic.

Q.9: Thresholds on credit scores to households

Compared to 6 months ago, how have your bank's **thresholds on credit scores** to qualify for credit changed, as applied to the approval of lending to **households**?

Loans to households: credit score thresholds	**21Q1**	**Δ ♦**	**20Q3**	**Δ survey**
Overall relative to 6 months ago	46	- 4	34	+ 12
Mortgage lending	46	**- 4**	31	+ 15
Secured credit e.g. motor vehicle finance	46	- 4	31	+ 15

Credit facilities e.g. credit cards and overdrafts	54	+ 4	38	+ 16
Unsecured credit	50	~	34	+ 16
Short term credit up to R8000, within 6 months	51	+ 1	32	+ 19
Developmental credit e.g. education	51	+ 1	41	+ 10
Mass market	46	**- 4**	33	+ 13
Mid market	54	+ 4	37	+ 17
Upper market	54	+ 4	39	+ 15

Banks reflect credit scoring to have been applied more stringently in Q1 2021 compared to six months prior in respect of the mass market (-4), but more leniently in respect of the mid and upper markets. They also reflect the greater stringency as applied to mortgage lending and secured credit, but greater leniency to credit facilities, and to be little changed for unsecured credit. Across the board of lending classes and markets the application of credit scoring nevertheless reflects as significantly more lenient compared to the survey of Q3 2020. This would reflect a very cautious stance using credit scoring adopted by the banks in the period directly after the worst of the lockdowns in 2020.

Q.10: Expected banks' credit stance to households over the next three months

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

Loans to households: future 3 months	**21Q1**	**Δ ♦**	**20Q3**	**Δ survey**
Overall	54	+ 4	47	+ 7
Mortgage lending	54	+ 4	46	+ 10
Secured credit e.g. motor vehicle finance	54	+ 4	50	+ 4
Credit facilities e.g. credit cards and overdrafts	54	+ 4	50	+ 4
Unsecured credit	50	~	41	+ 9
Short term credit up to R8000, within 6 months	50	~	50	~

Developmental credit e.g. education	50	~	50	~
Mass market	45	**- 5**	41	+ 4
Mid market	54	+ 4	45	+ 9
Upper market	54	+ 4	46	+ 8

Banks' expectations regarding their credit stance over the next three months is by and large towards greater leniency over most lending categories. However, the positive view applies to mid and upper markets, but not to the mass market, which reflects a more stringent outlook (-5). The outlook is nevertheless more positive than reflected in the survey of Q3 2020.

2. Loans or credit lines to enterprises[6]

Q.11: Banks' credit stance to enterprises

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

Loans to enterprises: credit stance change	**21Q1**	**Δ ♦**	**20Q3**	**Δ survey**
Overall relative to 6 months ago	50	~	38	+ 12
Short-term loans (up to 1 year)	50	~	38	+ 12
Longer-term loans (over 1 year)	45	**- 5**	34	+ 11
Agriculture, forestry	46	- 4	41	+ 5
Mining, quarrying	50	~	42	+ 8
Manufacturing	47	- 3	30	+ 17
Construction	42	**- 8**	26	+ 16
Wholesale, retail, accommodation	46	- 4	30	+ 16
Transport, communication, ICT	47	- 3	42	+ 5
Financial, real estate, services	46	- 4	37	+ 9

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

Utilities, social and state services	46	- 4	30	+ 16

In respect of lending to enterprises, banks reflect a tightened stance relative to six months earlier across most sectors. This applies in particular to construction (-8), and less so to the other categories with mining remaining unchanged. The tightened stringency applied in particular to longer term lending (-5). Comparison to the previous survey of Q3 2020 shows that the credit stance towards enterprise lending has nevertheless improved relative to the decline which occurred over the first three quarters of 2020.

Q12: Factors affecting banks' credit stance

Compared to 6 months ago, how have the following **factors** affected your bank's **credit stance** as applied to the approval of loans or credit lines to enterprises? Contribution of the following factors to the tightening or easing of credit stance:

Loans to enterprises: reasons for change	**21Q3**	**Δ ♦**	**20Q3**	**Δ survey**
A) Cost of funds and balance sheet constraints	52	+ 2	53	- 1
Costs related to your bank's capital position[1]	40	**- 10**	41	- 1
Your bank's ability to access market financing[2]	55	+ 5	58	- 3
Your bank's liquidity position	60	+ 10	58	+ 2
B) Pressure from competition	53	+ 3	43	+ 10
Competition from other banks	60	+ 10	50	+ 10
Competition from non-bank lenders	50	~	39	+ 11
Competition from direct market financing	50	~	39	+ 11
C) Perception of risk	41	- 9	32	+ 9
Expectations on general economic activity	38	**- 12**	33	+ 5
Industry or firm-specific outlook	45	- 5	29	+ 16
Risk on the collateral required	42	- 8	33	+ 9
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

The main factors affecting banks' more negative stance towards enterprise lending was bank costs of capital (-10) and negative expectations on general economic activity (-12), as well as on collateral risks and specific industry or firm situations. Bank liquidity and access to market funds was not a constraining issue, and actually mitigated the negative credit stance, as did competitive pressures from other banks. Again, the more negative stance compared to six months earlier needs to be seen in the context of the lockdowns of 2020, where there was some reversal of the negative factors over that time.

Q.13: Terms and conditions for approving credit to enterprises

Compared to 6 months ago, how have your bank's **terms and conditions** for approving loans or credit lines to enterprises changed?

Loans to enterprises: terms change	**21Q1**	**Δ ♦**	**20Q3**	**Δ survey**
A) Price				
Your bank's margin on average loans [1]	50	~	58	- 8
Your bank's margin on riskier loans [1]	46	- 4	56	- 10
B) Other terms and conditions	45	- 5	43	+ 2
Non-interest rate charges	46	- 4	43	+ 3
Maximum size of the loan or credit line	46	- 4	42	+ 4
Loan to value ratio	46	- 4	35	+ 11
Collateral requirements	46	- 4	50	- 4
Loan covenants	46	- 4	44	+ 2
Maturity	41	**- 9**	34	+ 7
C) Other factors	46	- 4	50	- 4

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

The terms and conditions most affected in greater stringency by banks towards enterprise lending were mainly in maturity terms (-9), but also across the board in other requirements such as loan to value ratios and collateral requirements. Terms and conditions were made more stringent mainly towards riskier loans rather than average loans.

Q.14: Expected credit stance to enterprises over the next three months

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

Loans to enterprises: stance next 3 months	**21Q1**	**Δ ♦**	**20Q3**	**Δ survey**
Overall	54	**+ 4**	39	+ 15
Short-term loans (up to 1 year)	54	+ 4	43	+ 11
Longer-term loans (over 1 year)	50	~	39	+ 11
Agriculture, forestry	50	~	37	+ 13
Mining, quarrying	50	~	45	+ 5
Manufacturing	54	+ 4	37	+ 17
Construction	46	**- 4**	34	+ 12
Wholesale, retail, accommodation	54	+ 4	41	+ 13
Transport, communication, ICT	54	+ 4	41	+ 13
Financial, real estate, services	50	~	37	+ 13
Utilities, social and state services	50	~	34	+ 16

Banks indicate generally an expectation of greater credit leniency over the next three months. Longer term lending is not expected to change over the next three months, and other sectors are likewise not expected to change, other than construction to which banks' credit stance is expected to be more stringent (-4). Again, the higher scores across the board compared to the previous survey in Q3 2020 show that the present expectations are still significantly more lenient than was shown in the outlook in Q3 2020.

3. Strategic direction

Q.15: Focus towards small enterprises

Has the focus of your bank shifted more or less towards provision of lending to small enterprises over the past 3 months compared to six months prior, under the following lending categories?

Small enterprise focus	**21Q1**	**Δ ♦**	**20Q3**	**Δ survey**
A) Enterprise lending	50	~	49	+ 1
Property finance [1]	46	- 4	50	- 4
Plant and equipment finance (asset based) [2]	51	+ 1	45	+ 6
Debtor finance	50	~	45	+ 5
Overdraft and unsecured	55	**+ 5**	53	+ 2
Import/export finance	46	- 4	49	- 3
Short-term bridging loans	51	+ 1	49	+ 2
B) Other lending	46	- 4	55	- 9

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

The focus towards small enterprises has been a mixed bag over the three months surveyed. Banks reflect greater credit focus in respect of overdraft and unsecured lending to small enterprises (+5). There has been slightly more focus towards plant and equipment as well as bridging loan financing.

Q.16: Preference for shifts going forward

Which **forms of lending** would your bank prefer to be more engaged in or less engaged in going forward?

Strategic direction: preferred shifts	**21Q1**	**Δ ♦**	**20Q3**	**Δ survey**
A) Enterprise lending	53	+ 3	46	+ 7

Property finance [1]	52	+ 2	40	+ 12
Plant and equipment finance (asset based) [2]	55	+ 5	47	+ 8
Debtor finance	52	+ 2	43	+ 9
Overdraft and unsecured	54	+ 4	50	+ 4
Import/Export finance	54	+ 4	49	+ 5
B) Household lending	58	**+ 8**	58	~
Mortgage lending [1]	62	**+ 12**	62	~
Secured / Vehicle finance [2]	60	+ 10	63	- 3
Credit card finance /credit facility	60	+ 10	58	+ 2
Unsecured lending	57	+ 7	55	+ 2
Short-term loans	52	+ 2	49	+ 3
C) Other lending	55	+ 5	50	+ 5

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

The preferred shifts in forms of lending shown by banks in this survey are more towards household lending (+8) than enterprise lending although both categories remain positive. A clear preference for mortgage lending (+12), followed by secured/vehicle financing; credit card finance and credit facilities; and unsecured lending all demonstrating positive credit sentiment. In respect of enterprise lending, the preference is towards plant and equipment financing (+5), with import/export finance and overdraft provision also finding favour.

A comparison to the previous survey indicates that there has been a shift towards a household lending preference compared to enterprise lending, possibly reflecting the greater expected predictability of households under current economic circumstances.

Q.17: Change from 5 years ago

How does your bank's current **credit stance** compare to the bank's credit stance **5 years ago** i.e. in 2016, as applied to the approval of loans or credit lines to **households** and **enterprises**?

Loans to households: credit stance change	**21Q1**	**Δ ♦**	**20Q3**	**Δ survey**
Overall relative to 5 years ago	46	- 4	42	+ 4
Short term lending (up to 1 year)	45	- 5	41	+ 4
Longer-term lending (over 1 year)	46	- 4	38	+ 8
Mass market	42	**- 8**	37	+ 5
Mid market	50	~	37	+ 13
Upper market	51	+ 1	42	+ 9
Loans to enterprises: credit stance change				
Overall relative to 5 years ago	54	+ 4	40	+ 14
Short term lending (up to 1 year)	55	**+ 5**	38	+ 17
Longer-term lending (over 1 year)	49	- 1	34	+ 15

Banks reflect their credit stance compared to 5 years ago (2016) as generally more stringent for household lending, but more lenient towards enterprise lending. The greater stringency in household lending apples mainly to the mass market (-8), with no change shown for the mid-market, and slightly greater leniency towards the upper market. With enterprises, the leniency is shown towards short term lending (+5), but not towards longer term.

Q.18: Provisioning for credit losses resulting from Covid-19 effects (Topical question)

How have **provisions for credit losses** been affected by Covid-19 and lockdown effects in **Q1 2021** compared to **Q1 2020** (i.e. 12 months previous and prior to lockdowns)?

(Note: < 50 indicates that banks have made lending stance more stringent, somewhat or significantly. > 50 indicates that they have made their lending stance more lenient.)

Loans to households: credit loss change	**21Q1**	**Δ 12m**	**20Q3**	**Δ survey**
Overall relative to 6 months ago	64	+ 14	☐	☐
Mortgage lending	64	**+ 14**	☐	☐

Secured credit e.g. motor vehicle finance	74	**+ 24**	□	□
Credit facilities e.g. credit cards and overdrafts	61	+ 11	□	□
Unsecured credit	61	+ 11	□	□
Short term credit up to R8000, within 6 months	62	+ 12	□	□
Developmental credit e.g. education	54	+ 4	□	□
Mass market	62	+ 12	□	□
Mid market	61	+ 11	□	□
Upper market	61	+ 11	□	□

The symbol □ is used where there was no comparable question in the previous survey.

Banks reflect credit loss provisions in Q1 2021 compared to one year earlier as significantly greater across all classes of lending in the case of households. Most marked is secured credit such as vehicle financing (+24), but also mortgage lending (+14). The higher credit provisioning applied across mass, mid and upper markets, though slightly more in the case of the mass market.

Loans to enterprises: credit loss change	**21Q1**	**Δ 12m**	**20Q3**	**Δ survey**
Overall relative to 6 months ago	51	+ 1	□	□
Short-term loans (up to 1 year)	47	- 3	□	□
Longer-term loans (over 1 year)	47	- 3	□	□
Agriculture, forestry	42	- 8	□	□
Mining, quarrying	47	- 3	□	□
Manufacturing	47	- 3	□	□
Construction	55	**+ 5**	□	□
Wholesale, retail, accommodation	47	- 3	□	□
Transport, communication, ICT	43	- 7	□	□
Financial, real estate, services	43	- 7	□	□
Utilities, social and state services	43	- 7	□	□

The symbol □ is used where there was no comparable question in the previous survey.

Credit loss provisions in the case of enterprise lending reflect a decline in provisioning in most sectors. However, it reflects higher provisioning in the case of the construction sector (+5).

Q.19: Change in credit stance towards SMEs resulting from Covid-19 relief measures (Topical question)

How has your bank's **credit stance towards SMEs** changed over the 12-month period from Q1 2020 to Q1 2021 as a result of the **government loan scheme** (R200bn support package) **and other measures**, indicated as credit stance in **Q1 2021** compared to **Q1 2020** (ie prior to the Covid-19 and lockdown period), under the following lending categories?

(Note: < 50 indicates that banks have made lending stance more stringent, somewhat or significantly. > 50 indicates that they have made their lending stance more lenient.)

Small enterprise credit stance	**21Q1**	**Δ 12m**	**20Q3**	**Δ survey**
A) Enterprise lending	42	- 8	☐	☐
Property finance	44	- 6	☐	☐
Plant and equipment finance (asset based)	43	**- 7**	☐	☐
Debtor finance	48	- 2	☐	☐
Overdraft and unsecured	47	- 3	☐	☐
Import/export finance	43	**- 7**	☐	☐
Short-term bridging loans	44	- 6	☐	☐
B) Other lending ______________________	42	- 8	☐	☐

The symbol ☐ is used where there was no comparable question in the previous survey.

Sectors: SME credit stance	**21Q1**	**Δ 12m**	**20Q3**	**Δ survey**
Agriculture, forestry	42	**- 8**	☐	☐
Mining, quarrying	43	- 7	☐	☐
Manufacturing	47	- 3	☐	☐
Construction	38	**- 12**	☐	☐
Wholesale, retail, accommodation	47	- 3	☐	☐
Transport, communication, ICT	47	- 3	☐	☐
Financial, real estate, services	46	- 4	☐	☐
Utilities, social and state services	43	- 7	☐	☐

The symbol ☐ is used where there was no comparable question in the previous survey.

Banks reflect their credit stance towards SMEs as a result of the government loan scheme (R200bn support package) and other measures as having become more stringent over the past 12 months. This has applied across the board, to all forms of financing, and to all economic sectors. Most affected have been plant and equipment financing (-7) and import/export finance (-7). The sector most negatively affected is construction (-12), followed by agriculture (-8), mining and utilities, social and state services (SOEs).

Q.20: Expected effects of vaccine rollout (Topical question)

Please indicate how you **expect** your bank's **credit stance** as applied to the approval of loans or credit lines to households and enterprises to change over the **next three months** as a consequence of the **vaccine roll-out** and accompanying economic activity improvements?
(Note: < 50 indicates that banks have made lending stance more stringent, somewhat or significantly. > 50 indicates that they have made their lending stance more lenient.)

Loans to households: next 3 months	**21Q1**	**Δ 12m**	**20Q3**	**Δ survey**
Overall	57	+ 7	☐	☐
Mortgage lending	54	+ 4	☐	☐
Secured credit e.g. motor vehicle finance	54	+ 4	☐	☐
Credit facilities e.g. credit cards and overdrafts	57	**+ 7**	☐	☐
Unsecured credit	54	+ 4	☐	☐
Short term credit up to R8000, within 6 months	50	~	☐	☐
Developmental credit e.g. education	50	~	☐	☐
Mass market	50	~	☐	☐
Mid market	54	+ 4	☐	☐
Upper market	54	+ 4	☐	☐

The symbol ☐ is used where there was no comparable question in the previous survey.

Loans to enterprises: next 3 months	**21Q1**	**Δ 12m**	**20Q3**	**Δ survey**
Overall	50	~	☐	☐
Short-term loans (up to 1 year)	54	+ 4	☐	☐
Longer-term loans (over 1 year)	50	~	☐	☐
Agriculture, forestry	54	+ 4	☐	☐
Mining, quarrying	54	+ 4	☐	☐
Manufacturing	53	+ 3	☐	☐
Construction	53	+ 3	☐	☐
Wholesale, retail, accommodation	55	**+ 5**	☐	☐
Transport, communication, ICT	53	+ 3	☐	☐
Financial, real estate, services	51	+ 1	☐	☐
Utilities, social and state services	50	~	☐	☐

The symbol ☐ is used where there was no comparable question in the previous survey.

Banks reflect their expectation of effects from the vaccine rollout to be positive towards their credit stance over the next three months across all classes of household lending and across all sectors in the case of enterprise lending. In the case of household lending, it reflects as most marked in provision of credit facilities, such as credit cards and overdrafts (+7). In the case of enterprise lending, the wholesale/retail sector is expected to benefit most (+5), though with strong improvements also expected in lending to agriculture and mining sectors. The improved effects are expected more towards mid and upper markets in the case of households, and more towards short term than longer term lending in the case of enterprises.

4. Comparison

Actual vs expected credit stance: Household lending

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

Loans to households: actual vs expected	**21Q1**	**Δ survey**	**20Q3F**	**20Q1F**
Overall	46	- 1	47	33
Mortgage lending	50	+ 4	46	44
Secured credit e.g. motor vehicle finance	50	~	50	33
Credit facilities e.g. credit cards and overdrafts	50	~	50	33
Unsecured credit	45	+ 4	41	29
Short term credit up to R8000, within 6 months	60	+ 10	50	33
Developmental credit e.g. education	63	+ 13	50	50
Mass market	45	+ 4	41	28
Mid market	50	+ 5	45	33
Upper market	54	+ 8	46	33

The credit stance of banks in Q1 2021 was significantly more lenient towards households than was reflected in the expectations of banks in the Q3 2020 survey. This is a reflection of the trajectory of the economy showing greater improvement following the lockdowns of 2020, compared to what was widely expected earlier on after the severe effects of the lockdowns. The more positive stance than expected applied across all classes of lending to households, especially short term and developmental credit. It applied in particular to the upper market, though also to mid and mass markets.

Actual vs expected credit stance: Enterprise lending

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

Loans to enterprises: actual vs. expected	**21Q1**	**Δ survey**	**20Q3F**	**20Q1F**
Overall	50	**+ 11**	39	37
Short-term loans (up to 1 year)	50	+ 7	43	37
Longer-term loans (over 1 year)	45	+ 6	39	37
Agriculture, forestry	46	+ 9	37	41
Mining, quarrying	50	+ 5	45	41
Manufacturing	47	+ 10	37	37
Construction	42	+ 8	34	33
Wholesale, retail, accommodation	46	+ 5	41	37
Transport, communication, ICT	47	+ 6	41	37
Financial, real estate, services	46	+ 9	37	37
Utilities, social and state services	46	**+ 12**	34	33

For enterprise lending, the credit stance of banks was significantly more lenient (+11) than the forward expectations reflected in the Q3 2020 survey. This was the case across all sectors, but most noticeable in SOE's (+12), manufacturing, agriculture and the financial sector. It applied to both short-term and longer-term lending.

Cross-comparison: Household lending

A cross-comparison of banks responses to survey questions shows some greater leniency towards household lending in Q1 2021, with competition from other banks as well as improving perceptions of economic conditions being major drivers. Terms and conditions offered by banks were not greatly changed, but interest rate margins were increased and credit scoring was made somewhat stricter.

Cross-comparison: Enterprise lending

Cross-comparison of Q1 2021 survey responses in respect of enterprise credit indicates greater stringency in lending to enterprises across all sectors, driven by economic expectations and risks relating in particular to realisation of collateral. Competition from other banks was again a factor in the reverse direction, pressing banks towards approval of credit to enterprises, but not so strongly as to overshadow the general stringency in credit provision resulting from wider economic factors.

Compilation of credit stance index: Household lending

With eight surveys completed and an initial base period reference point in 2017, indices have been compiled to show how the credit stance of banks has shifted over time. These form an ongoing time series, which can be used to examine the trajectory of credit stance over time and can be used systematically for quantitative analysis purposes.

The indexes below have been compiled by concatenation, using the fact that in each survey the change from 6 months prior has been captured, which serves as a reference point. An algorithm for calculating the index from the score change over each 6-month period is used. The resultant indices are shown below:

Credit stance households	Q1 2017	Q3 2017	Q1 2018	Q3 2018	Q1 2019	Q3 2019	Q1 2020	Q3 2020	Q1 2021
Overall relative to 6 months ago	100	100	103	105	105	102	95	85	82
Mortgage lending	100	103	111	115	**118**	117	113	**106**	106
Secured credit eg motor vehicle finance	100	96	92	99	99	99	90	82	82
Credit facilities eg credit cards and overdrafts	100	100	101	101	103	99	93	87	86
Unsecured credit	100	100	108	110	**113**	108	**98**	**84**	**81**
Short- term credit up to R8000, within 6 months	100	100	100	99	99	99	89	87	93
Developmental credit eg education	100	100	100	100	100	100	100	112	121
Mass market	100	100	103	103	103	100	94	**85**	**82**
Mid Market	100	103	109	114	117	115	109	100	100
Upper Market	100	105	114	117	120	117	112	106	108

The indices demonstrate that the credit stance on mortgage lending shifted significantly to greater leniency over the period from the base of the first quarter 2017 (100) to Q1 2020 (118) but retraced much of that increased leniency over the remainder of 2019 and 2020, reaching 106 in Q3 2020 and Q1 2021. The credit stance on unsecured credit also shifted significantly to increased leniency over the period to Q1 2019, reaching 113 in that quarter, but retracted sharply from then to below the 2017 starting point in Q1 2020 and tightened further, to 84 in Q3 2020 and 81 in Q1 2021. Also apparent is that it is the mass market that has been most hit by the greater stringency, with the index coming down to 85 in Q3 2020 and further to 82 in Q1 2021, whereas the mid-market has not retreated below the 2017 base, and the upper market, though retracting since Q1 2019, has still remained above the 2017 base, and improved from 106 to 108 in the most recent six-month period.

Compilation of credit stance index: Enterprise lending

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

Credit stance enterprises	**Q1 2017**	**Q3 2017**	**Q1 2018**	**Q3 2018**	**Q1 2019**	**Q3 2019**	**Q1 2020**	**Q3 2020**	**Q1 2021**
Overall relative to 6 months ago	100	95	95	98	97	97	94	85	86
Short-term loans (up to 1 year)	100	97	100	102	102	102	101	93	93
Longer-term loans (over 1 year)	100	92	90	89	88	88	85	74	**71**
Agriculture, forestry	100	98	95	89	89	89	88	82	79
Mining, quarrying	100	93	88	91	93	92	88	83	83
Manufacturing	100	95	87	86	80	79	75	62	**60**
Construction	100	87	74	68	62	59	52	**36**	**31**
Wholesale, retail, accommodation	100	95	92	95	94	94	93	80	78
Transport, communication, ICT	100	98	98	97	96	96	92	87	85
Financial, real estate, services	100	95	95	95	94	94	93	85	83
Utilities, social and state services	100	92	92	98	95	93	89	76	74

The indices show that banks' credit stance towards enterprises has generally shifted towards greater stringency across all sectors over the period from the base of Q1 2017, but that the greater stringency was very marked in Q3 2020 compared to 6 months earlier in Q1 2020. The credit stance in Q1 2021 was little changed compared to Q3 2020, indicating that the greater stringency of that time was maintained rather than being reversed. The greater stringency applied particularly strongly to longer term lending, with an index value of 71 compared to the base of 100. The severely negative credit stance towards the construction sector is reflected in the drop in the index value to 36 in Q3 2020 and 31 in Q1 2021 but manufacturing also shows a severe drop to an index value of 60. Other sectors were all well below the 2017 base, with index values between 70 and 90.

Glossary

Collateral: Security given by the borrower to the lender as a pledge, cession or similar for repayment of the loan.

Credit stance: Refers to the stringency (< 50) or leniency (> 50) which the bank applies in considering new applications for loans or credit.

Demand: Refers to demand for new loans or credit by borrowers, as indicated by the volume and value of applications received.

Enterprise: Business entity which is not a bank or other financial intermediary.

Household: Consumption entity in the economy, typically comprising a group of related persons situated at a single residential location.

Loan-to-Value ratio: Ratio of the amount borrowed to the value of the underlying collateral.

Longer term lending: Lending repayable beyond a one-year period.

Mass market, Mid market, Upper market: Approximate market segments as adopted by banks based on income levels.

NCR definitions of household credit:

- **Mortgage lending:** Lending secured by a mortgage bond over fixed property
- **Secured credit eg motor vehicle finance:** Lending secured by assets other than fixed property
- **Credit facilities eg credit cards and overdrafts:** Ongoing credit arrangement subject to a limit
- **Unsecured credit:** Lending which has no collateral provided by the borrower
- **Short term credit:** Up to R8000, repayable within 6 months, unsecured
- **Developmental credit:** Eg education loans, specifically provided for a developmental purpose including low-cost housing, unsecured

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.

Small enterprises:	Considered approximately as those with total employment of 50 or fewer. Asset and revenue guidelines as adopted by the dti may be used.
Terms and conditions:	Refer to the stipulated requirements applied to borrowers as expressed in documents relating to new lending or credit provided.