South African bank lending practices survey

Working paper series

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The Centre of Excellence in Financial Services is a non-profit organization focusing on collaborative research, bringing together local and international thought leaders, industry experts and academics to interrogate the role financial services can play in achieving national and international objectives. This working paper is available in electronic format on www.coefs.org.za.

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Preface

The Bank Lending Practices Survey 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 and two topical questions. The additional questions examine the impact rioting and looting have had on the credit stance and the impact of governance issues.

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 ninth 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.

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First Rand Bank Ltd

GBS Mutual

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The Standard Bank of South Africa

As at September 2021, participating banks account for 86.5% of total bank assets in South Africa

Executive summary

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

The sentiment of banks is measured as the deviation from their expected view. Rather than quantifying each element that makes up the credit decision making universe, the credit risk professional assumes that what is known to him or her, is normalised to a score of 50. The survey either scores the projected credit behaviour of 50 in hindsight, by indicating if the actual experience of the previous survey was more stringent or more lenient 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 the July unrest has had on credit sentiment. It also includes an additional question on the impact of wider governance issues on credit lending.

Growth in lending

As at the end of September 2021, the total domestic assets held by the South African banking industry was approximately R5 643 billion. This was about R121 billion higher than the total balance sheet of the banks in our previous Survey, using March 2021 data, at approximately R5 521 billion.

The South African Bank Lending Practices Survey focuses on direct lending to the economy in the form of household lending and enterprise lending including corporate businesses, SOEs and SMEs. The R121 billion increase in total assets between surveys covers all categories of lending, with some categories recording increases and others decreases, to give the net effect. Of the R121 billion, the Survey captured R71 billion.

In the previous Survey, banks indicated a general preference towards household lending over lending to enterprises, indicating a significant increase in mortgages to households during the next period. Household mortgage finance at R38 billion was the largest contributor to the R44 billion in loans extended to households, with enterprises receiving R29 billion in total.

Since our March 2021 Survey, we experienced rioting and looting in KwaZulu Natal and other provinces during July. The subsequent month-on-month data does not show a noticeable change in bank lending as a result thereof.

Topic: Effects of July unrest on bank credit stance

The impact of the July unrest on households was significantly less than the impact on enterprises. Households would have experienced some stringency when applying for new credit cards and overdrafts in the mass market, but for the remaining categories there was little to no impact.

Enterprises were most severely impacted in short-term lending with longer-term loans also recording a more stringent credit stance. The category wholesale, retail and accommodation were the most affected industries with all categories experiencing a uniform stringency.

Topic: Effects of wider governance issues on credit stance

Banks indicated that although their overall approach to credit had not changed, the loss of small businesses thereby increasing concentration, and the exposure to township economies on large enterprises, had had an impact on their approach to credit.

The survey covered the period from July to September 2021 and the effect of the rioting and looting may still manifest as banks consider the impact of regions on centrally managed credit portfolios, while the health of the municipality in supporting local business could be an important future credit consideration.

With the relaxation of bank regulations to support emergency lending under Covid 19 already in place, the response to the rioting and looting by the banks was made easier. Bank customers were less reliant on debt counselling to restructure their loans, approaching the bank directly.

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

The increased leniency towards mortgage lending was driven by competitive pressures from other banks. Credit scoring was another factor demonstrating leniency with loan-to-value ratios more favourable to the consumer.

The perception of risk however for both the expectations of future economic activity and housing market prospects turned negative. Mortgage lending will continue to enjoy a more favourable credit stance over the coming months.

Secured lending

Pressure from competition favoured the consumer, but overall secured lending such as motor vehicle finance, became more stringent over the period.

Unsecured lending

Short-term credit up to R8 000 became more lenient over the period with the mass market moving away from negative territory. Competition from other banks and to a lesser extent non-bank lenders were contributing factors but a more positive economic outlook for this segment was offset by negative perceptions of the creditworthiness of consumers.

Theme: Loans to enterprises

Overall, a more lenient credit stance towards enterprises was recorded when compared to six-months earlier. Mining, possibly buoyed by high commodity prices, benefited the most with construction remaining weak. The improved liquidity of banks contributed significantly to overall positive credit conditions, however bank capital holding costs contributed to a marginal tightening of credit. Expectations of economic growth is the largest negative factor on credit for enterprises.

Small enterprises across all classes were viewed as positive with asset-based finance the most lenient category of credit. Property finance was the only category that remained unchanged.

Theme: Strategic direction

The banks indicated a preference for household lending over enterprise lending going forward. Households should benefit most from credit card finance and new credit facilities with banks indicating a preference for asset-based finance, such as plant and equipment for enterprises. Household lending could be preferred over enterprise lending due to continued volatile conditions.

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, Q3 2020 and Q1 2021 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[1]

Q1: Banks' credit stance[2] to households

Compared to 6 months ago, how has your bank's **credit stance** as applied to the approval of loans to **households** changed?

Loans to households: credit stance change	**21Q3**	**Δ ♦**	**21Q1**	**Δ survey**
Overall relative to 6 months ago	51	+ 1	46	+ 5
Mortgage lending[1]	45	- 5	50	- 5
Secured credit e.g. motor vehicle finance[2]	45	- 5	50	- 5
Credit facilities e.g. credit cards and overdrafts	47	- 3	50	- 3
Unsecured credit	46	- 4	45	+ 1
Short term credit up to R8000, within 6 months	62	**+ 12**	60	+ 2
Developmental credit e.g. education	63	**+ 13**	63	~
Mass market	55	+ 5	45	**+ 10**
Mid market	59	+ 9	50	+ 9
Upper market	59	+ 9	54	+ 5

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

A marked swing is apparent in banks' credit stance to households, with lending for mortgages, motor vehicles, credit cards and facilities as well as unsecured credit being more stringent. However, lending for short term credit (within 6 months) (+12) and for developmental purposes (+13) are substantially more lenient. This could reflect the

[1] 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.

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

need for credit financing under the difficult circumstances faced by many households in the period during and after the third wave of the Covid pandemic, which occurred in the first part of the quarter being surveyed, plus the hardships arising from the rioting which occurred in July 2021, the first month of the survey quarter. The increased leniency applied across all market segments. It is noteworthy that the banks indicate the leniency as greater for the mid and upper market segments than the mass market segment.

The survey figures show some amelioration towards the mass market compared to the previous survey period, with a change score of +10. An improvement from a previous situation where the mass market was regarded by banks as particularly risky.

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	**21Q3**	**Δ ♦**	**21Q1**	**Δ survey**
A) Cost of funds and balance sheet constraints	50	~	50	~
B) Pressure from competition	54	+ 4	56	- 2
Competition from other banks	63	**+ 13**	63	~
Competition from non-bank lending	50	~	50	~
Competition from direct / self-financing	50	~	54	- 4
C) Perception of risk	47	- 3	54	- 7
Expectations regarding economic activity	45	**- 5**	50	- 5
Housing market prospects	45	**- 5**	61	**- 16**
Risk on collateral realisation	50	~	52	- 2
D) Other factors	50	~	50	~

The main factor identified by banks as driving bank stance towards mortgage lending was competitive pressure from other banks (+13). Competition from non-bank lenders was conveyed as neutral as was competition from direct or self-financing. Risk perceptions were identified as a negative factor, i.e., a restraining influence, both in respect of expectations of economic activity (-5) and expectations of the strength of the housing market (-5).

Weakness of the housing market was however much less marked compared to the previous survey of Q1 2021 with a score change then of (-16) compared to (-5) in the latest survey. Risk on realisation of collateral was regarded as much the same as 6 months prior, which in turn was only slightly weaker than the previous survey.

Cost of funds and balance sheet constraints were again not regarded as a hindrance in Q3 2021 relative to six months prior, as was the case in the previous survey.

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	**21Q3**	**Δ ♦**	**21Q1**	**Δ survey**
A) Cost of funds and balance sheet constraints	50	~	46	+ 4
B) Pressure from competition	56	+ 6	54	+ 2
Competition from other banks	59	**+ 9**	62	- 3
Competition from non-bank lenders	56	**+ 6**	50	+ 6
Competition from direct / self-financing	52	+ 2	50	+ 2
C) Perception of risk	48	- 2	48	~
Expectations regarding economic activity	50	~	53	- 3
Creditworthiness of consumers	48	- 2	46	+ 2
Risk on the collateral required	48	- 2	46	+ 2
D) Other factors	50	~	50	~

Again, in respect of secured credit such as vehicle financing, it was pressure from other lending institutions that was identified as a major driving factor. For this class of lending, it was competition from non-bank lenders (+6) as well as other banks (+9) that was identified, and to a small degree pressure from direct or self-financing. Risk perceptions played a small role only, though a slightly negative one in respect of creditworthiness of consumers and collateral risks. They were however slightly improved compared to the previous survey except for expectations of economic activity which were perceived more negatively.

Cost of funds and balance sheet limitations were again a neutral factor, and perceived as somewhat better than in the previous survey.

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	21Q3	Δ ♦	21Q1	Δ survey
A) Cost of funds and balance sheet constraints	50	~	46	+ 4
B) Pressure from competition	50	~	54	- 4
Competition from other banks	54	+ 4	54	~
Competition from non-bank lenders	51	+ 1	50	+ 1
Competition from direct / self-financing	50	~	50	~
C) Perception of risk	50	~	51	- 1
Expectations regarding economic activity	52	+ 2	53	- 1
Creditworthiness of consumers	47	- 3	50	- 3
Risk on the collateral required	50	~	50	+ 6
D) Other factors	50	~	50	~

Competition from other banks, and to some degree from non-bank lenders, were again the most prominent factor leading to greater leniency towards credit facilities and unsecured lending by banks. The factor score was +4 relative to 6 months prior for competition from other banks, with a +1 for competition from non-bank lenders. Expectations of economic activity were a positive factor, but creditworthiness a negative factor.

Cost of funding and balance sheet constraints were a neutral factor as with the other classes of lending, though showing a more benign situation than the previous survey.

Q.5: Terms and conditions[3] for mortgage lending to households

Compared to 6 months ago, how have your bank's **terms and conditions** for approving **mortgage lending** to households changed?

Loans to households: terms change	**21Q1**	**Δ ♦**	**20Q3**	**Δ survey**
A) Price	50	~	47	+ 3
Your bank's margin on average loans [1]	50	~	48	+ 2
Margin on riskier loans [1]	50	~	46	+ 4
B) Credit scoring	59	**+ 9**	46	+ 13
C) Other conditions	53	+ 3	50	+ 3
Collateral requirements	50	~	49	+ 1
Loan-to-value ratio	59	**+ 9**	47	+ 12
Maturity	54	+ 4	54	~
Non-interest rate charges (fees)	50	~	50	~
D) Other factors	50	~	50	~

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

[3] In this paper, "terms and conditions" refer to the stipulated requirements applied to borrowers, as expressed in documents relating to new lending or credit provided.

Banks reflect their terms and conditions in respect of mortgage lending to have become more lenient over the 6 months to the current survey. This apples in particular to credit scoring (+9) and to loan-to-value ratios (+9), but also to maturity of lending and the category other conditions. Pricing and margins are reflected as unchanged, as are non-interest rate charges.

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	**21Q3**	**Δ ♦**	**21Q1**	**Δ survey**
A) Price	50	~	46	- 2
Your bank's margin on average loans	50	~	42	+ 8
Your bank's margin on riskier loans	50	~	42	+ 8
B) Credit scoring	50	~	46	+ 4
C) Other terms and conditions	51	+ 1	50	+ 1
Collateral requirements	54	**+ 4**	54	~
Maturity	50	~	50	~
Non-interest rate charges (fees)	50	~	50	~
D) Other factors	50	~	50	~

With secured lending such as vehicle finance, banks indicate little change in margins, maturities or credit scoring, but greater leniency in collateral requirements (+4).

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 ♦**	**21Q1**	**Δ survey**
A) Price	53	+ 3	52	+ 1
Your bank's margin on average loans	55	**+ 5**	54	+ 1
Your bank's margin on riskier loans	51	+ 1	50	+ 1
B) Credit scoring	58	**+ 8**	50	+ 8
C) Other terms and conditions	48	- 2	49	- 1
Collateral requirements	43	**- 7**	50	- 7
Maturity	50	~	50	~
Non-interest rate charges (fees)	51	+ 1	46	+ 5
D) Other factors	50	~	50	~

In respect of credit facilities and unsecured lending, banks show slightly more lenient margins on average loans (+5), but only slightly changed for riskier loans relative to six months prior. Credit scoring is shown as significantly more lenient with a score of +8, but collateral requirements are shown more stringent with a score change of -7. Maturity of lending is shown unchanged over the 6-month period, but also relative to the previous survey.

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 ♦**	**21Q3**	**Δ survey**
Overall relative to 6 months ago	50	~	42	+ 8
Mortgage lending	46	**- 4**	43	+ 3
Secured credit e.g. motor vehicle finance	50	~	46	+ 4
Credit facilities e.g. credit cards and overdrafts	50	~	47	+ 3
Unsecured credit	50	~	42	+ 8
Short term credit up to R8000, within 6 months	50	~	45	+ 5
Developmental credit e.g. education	50	~	42	+ 8
Mass market	46	**- 4**	42	+ 4
Mid market	50	~	42	+ 8
Upper market	50	~	42	+ 8

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

On interest rate spreads, the banks indicate in the Q3 2021 survey that their interest rate spreads have become more stringent (ie have increased) in respect of mortgage lending (-4), but have remained unchanged from 6 months prior on other classes of lending. The greater stringency applies to the mass market in particular (-4), whereas interest rate spreads to mid and upper segments are indicated as unchanged.

Comparison to the previous survey of Q1 2021 shows that interest spreads have ameliorated from a more stringent level over the past 6 months and more prior to the survey period. It was noted in the previous survey that there was a move towards higher interest rate spreads over the year from commencement of the Covid lockdowns, probably in recognition of the higher risk situations in credit provision consequent on the 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	**21Q3**	**Δ ♦**	**21Q1**	**Δ survey**
Overall relative to 6 months ago	55	+ 5	46	+ 9
Mortgage lending	59	**+ 9**	46	+ 13
Secured credit e.g. motor vehicle finance	54	+ 4	46	+ 8
Credit facilities e.g. credit cards and overdrafts	50	~	54	- 4
Unsecured credit	54	+ 4	50	+ 4
Short term credit up to R8000, within 6 months	60	**+ 10**	51	+ 9
Developmental credit e.g. education	56	+ 6	51	+ 5
Mass market	46	- 4	46	~
Mid market	59	**+ 9**	54	+ 5
Upper market	59	**+ 9**	54	+ 5

The survey shows that credit scoring of banks has become substantially more lenient over the period from Q1 to Q3 2021. This applied to all classes of credit except credit facilities such as overdrafts. Mortgage lending (+9) and short-term credit (+10) were most changed to leniency, with vehicle financing and developmental credit also more lenient. In most cases, the thresholds were also shown as more lenient compared to the previous survey, showing a recovery form the particularly stringent period.

In terms of market segment, banks reflect credit scoring to have been applied more stringently in Q3 2021 compared to six months prior in respect of the mass market, but more leniently in respect of the mid and upper markets (+9). This reflects a very cautious stance using credit scoring adopted by the banks in the period directly after the worst of the lockdowns in 2020, and a move towards leniency or mid and upper markets, but not towards the mass market, probably due to continued perceptions of high risk in this segment.

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	**21Q3**	**Δ ♦**	**21Q1**	**Δ survey**
Overall	54	+ 4	54	~
Mortgage lending	59	**+ 9**	54	+ 5
Secured credit e.g. motor vehicle finance	59	**+ 9**	54	+ 5
Credit facilities e.g. credit cards and overdrafts	63	**+ 13**	54	+ 9
Unsecured credit	50	~	50	~
Short term credit up to R8000, within 6 months	56	+ 6	50	+ 6
Developmental credit e.g. education	50	~	50	~
Mass market	50	~	45	+ 5
Mid market	58	+ 8	54	+ 4
Upper market	58	+ 8	54	+ 4

Banks' expectations regarding their credit stance over the next three months is strongly towards greater leniency. Credit facilities reflect especially strongly at (+13), but also mortgage lending and motor vehicle finance, both at +9. Short term credit is also expected to have a more lenient credit stance, with the credit stance for unsecured credit and developmental credit to remain unchanged.

The credit stance towards the mass market remains neutral and unchanged, however the mid-market and upper market should see a significantly more positive outlook.

2. Loans or credit lines to enterprises[4]

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	**21Q3**	**Δ ♦**	**21Q1**	**Δ survey**
Overall relative to 6 months ago	55	**+ 5**	50	+ 5
Short-term loans (up to 1 year)	54	+ 4	50	+ 4
Longer-term loans (over 1 year)	51	+ 1	45	+ 6
Agriculture, forestry	50	~	46	+ 4
Mining, quarrying	54	**+ 4**	50	+ 4
Manufacturing	50	~	47	+ 3
Construction	46	**- 4**	42	+ 4
Wholesale, retail, accommodation	50	~	46	+ 4
Transport, communication, ICT	50	~	47	+ 3
Financial, real estate, services	50	~	46	+ 4
Utilities, social and state services	50	~	46	+ 4

In respect of lending to enterprises, banks reflect a more lenient stance overall compared to 6 months prior (+5), including both short-term and longer-term loans, though more for short-term loans than longer duration.

The sector to which the greater leniency applies most is mining (+4), probably reflecting the much stronger position of the mining sector resulting from higher commodity prices over the last year. The construction sector still reflected greater stringency (-4), though with some amelioration from the previous survey conducted for Q1 2021. Other sectors reflect a normalisation from previous stringency rather than increased leniency.

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

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 ♦**	**21Q1**	**Δ survey**
A) Cost of funds and balance sheet constraints	54	+ 4	52	+ 2
Costs related to your bank's capital position[1]	45	- 5	40	+ 5
Your bank's ability to access market financing[2]	55	+ 5	55	~
Your bank's liquidity position	61	**+ 11**	60	+ 1
B) Pressure from competition	52	+ 2	53	- 1
Competition from other banks	56	**+ 6**	60	- 4
Competition from non-bank lenders	51	+ 1	50	+ 1
Competition from direct market financing	50	~	50	~
C) Perception of risk	46	- 4	41	+ 5
Expectations on general economic activity	42	**- 8**	38	+ 4
Industry or firm-specific outlook	51	+ 1	45	+ 6
Risk on the collateral required	46	- 4	42	+ 4
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

Most prominent factors affecting banks' more lenient stance towards enterprise lending are shown as the improved liquidity position of banks (+11) and access to financing, but with capital costs being a constraining factor. Competition from other banks (+6) is again reflected as a key factor in driving banks towards greater leniency in credit provision. Expectations of economic activity and growth are a decidedly negative factor (-8), as is risks on collateral but less so. These factors were nevertheless not as harshly viewed as in the previous survey.

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	**21Q3**	**Δ ♦**	**21Q1**	**Δ survey**
A) Price				
Your bank's margin on average loans [1]	50	~	50	~
Your bank's margin on riskier loans [1]	50	~	46	+ 4
B) Other terms and conditions	50	~	45	+ 5
Non-interest rate charges	48	- 2	46	+ 2
Maximum size of the loan or credit line	46	- 4	46	~
Loan to value ratio	50	~	46	+ 4
Collateral requirements	50	~	46	+4
Loan covenants	50	~	46	+ 4
Maturity	50	~	41	+ 9
C) Other factors	45	- 5	46	- 1

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

Changes in terms and conditions to enterprises are reflected by the banks as little changed, with maximum sizes of loan slightly reduced (-4) followed by non-interest charges (-2) the rest remaining constant. The position expressed though was more lenient than that expressed in the survey of Q1 2021.

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	**21Q3**	**Δ ♦**	**21Q1**	**Δ survey**
Overall	51	+ 1	54	- 3
Short-term loans (up to 1 year)	50	~	54	- 4
Longer-term loans (over 1 year)	51	+ 1	50	+ 1
Agriculture, forestry	51	**+ 1**	50	+ 1
Mining, quarrying	50	~	50	~
Manufacturing	50	~	54	- 4
Construction	50	~	46	+ 4
Wholesale, retail, accommodation	50	~	54	- 4
Transport, communication, ICT	50	~	54	- 4
Financial, real estate, services	50	~	50	~
Utilities, social and state services	50	~	50	~

Also, in terms of forward expectations of credit stance towards enterprises over the next 3 months, the banks indicate little change. A marginal improvement in leniency is indicated only in lending to the agricultural sector (+1) and applies equally to longer-term lending. The construction sector is notable in having an improved outlook by the banks compared to the Q1 2021 survey as it returns to neutral.

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	**21Q3**	**Δ ♦**	**21Q1**	**Δ survey**
A) Enterprise lending	54	+ 4	50	+ 4
Property finance [1]	50	~	46	+ 4
Plant and equipment finance (asset based) [2]	58	**+ 8**	51	+ 7
Debtor finance	54	+ 4	50	+ 4
Overdraft and unsecured	56	**+ 6**	55	+ 1
Import/export finance	54	+ 4	46	+ 8
Short-term bridging loans	54	+ 4	51	+ 3
B) Other lending	50	~	46	+ 4

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 banks reflect a positive shift towards small enterprise lending across all classes of lending, especially towards asset-based lending for plant and equipment (+8). Overdraft and unsecured lending is reflected as a positive (+6) shift towards small enterprises, as are bridging loans, debtor finance and export/import finance. Property is shown unchanged as a lending class, probably reflecting apprehensions about the future use and viability of office buildings going into the future.

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	**21Q3**	**Δ ♦**	**21Q1**	**Δ survey**
A) Enterprise lending	54	**+ 4**	53	+ 1
Property finance [1]	50	~	52	- 2
Plant and equipment finance (asset based) [2]	59	**+ 9**	55	+ 4
Debtor finance	54	+ 4	52	+ 2
Overdraft and unsecured	51	+ 1	54	- 3
Import/Export finance	55	+ 5	54	+ 1
B) Household lending	57	**+ 7**	58	- 1
Mortgage lending [1]	57	+ 7	62	- 5
Secured / Vehicle finance [2]	55	+ 5	60	- 5
Credit card finance /credit facility	62	**+ 12**	60	+ 2
Unsecured lending	57	+ 7	57	~
Short-term loans	54	+ 4	52	+ 2
C) Other lending	50	~	55	- 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

Banks reflect a positive preference for most forms of lending going forward, with plant and equipment finance (+9) the most lenient within enterprises followed by import/export finance. In the case of households, the highest preference is towards credit card and credit facility finance (+12) followed by mortgage lending and unsecured lending.

The preferred shifts in lending shown by banks in this survey are again more towards household lending (+7) than enterprise lending (+4).

A comparison to the previous survey indicates that there has been a continued shift towards a household lending preference rather than enterprise lending, possibly reflecting the greater stability of households compared to business enterprises under the volatile conditions which are continuing.

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	**21Q3**	**Δ 5yrs**	**21Q1**	**Δ survey**
Overall relative to 5 years ago	54	+ 4	46	+ 8
Short term lending (up to 1 year)	53	+ 3	45	+ 8
Longer-term lending (over 1 year)	42	**- 8**	46	- 4
Mass market	42	**- 8**	42	~
Mid market	47	- 3	50	- 3
Upper market	51	+ 1	51	~
Loans to enterprises: credit stance change				
Overall relative to 5 years ago	50	~	54	- 4
Short term lending (up to 1 year)	50	~	55	- 5
Longer-term lending (over 1 year)	46	- 4	49	- 3

Banks reflect their credit stance compared to 5 years ago (2016) in this survey as mixed, though definitely more stringent for longer term lending (-8) to both households and enterprises. In terms of market segment, it is lending to the mass market that has become far more stringent (-8), the mid-market less so and the upper market more lenient. The credit stance towards enterprises is shown as little changed compared to 5 years earlier.

Q.18: Effects of July unrest on bank credit stance (Topical question)

How was your bank's **credit stance** affected by the unrest which occurred in **July 2021**? The comparison is to the three-month period prior to July 2021 i.e. **April to June 2021.**

(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	**21Q3**	**Δ 3m**	**20Q3**	**Δ survey**
Overall relative to pre-unrest	49	- 1	☐	☐
Mortgage lending	50	~	☐	☐
Secured credit e.g. motor vehicle finance	50	~	☐	☐
Credit facilities e.g. credit cards and overdrafts	45	**- 5**	☐	☐
Unsecured credit	49	- 1	☐	☐
Short term credit up to R8000, within 6 months	49	- 1	☐	☐
Developmental credit e.g. education	50	~	☐	☐
Mass market	46	**- 4**	☐	☐
Mid market	50	~	☐	☐
Upper market	50	~	☐	☐

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

The effects of the July unrest on banks' credit stance towards households is revealed in the survey as somewhat muted. The effect was towards greater stringency in credit provision, but mainly towards credit facilities such as credit cards and overdrafts (-5), and towards the mass market (-4), not the mid and upper market segments (~). It reflects that banks were able to address the effects of the unrest in a pragmatic manner without it being a major setback in their lending services.

Loans to enterprises: credit loss change	**21Q3**	**Δ 3m**	**20Q3**	**Δ survey**
Overall relative to pre-unrest	41	**- 9**	□	□
Short-term loans (up to 1 year)	41	**- 9**	□	□
Longer-term loans (over 1 year)	46	**- 4**	□	□
Agriculture, forestry	46	- 4	□	□
Mining, quarrying	46	- 4	□	□
Manufacturing	46	- 4	□	□
Construction	46	- 4	□	□
Wholesale, retail, accommodation	41	**- 9**	□	□
Transport, communication, ICT	46	- 4	□	□
Financial, real estate, services	46	- 4	□	□
Utilities, social and state services	46	- 4	□	□

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

The effects in respect of lending to enterprises is reflected in the survey as far more material. This is shown as an overall negative score compared to prior to the unrest of (-9) with short-term lending (-9) experiencing the most stringent outcome with longer term lending also negative but slightly less (-4).

Across sectors, it was the wholesale, retail, accommodation sector that was most affected (-9), with other sectors reflecting uniformly negative at -4. It shows the concerns for the ongoing effects of the unrest on business activities and viability generally, but specially of retailers and wholesalers which were most directly affected. Households in the mid and upper segments, on the other hand, are revealed as relatively unscathed in the credit assessment processes of the banks.

Q.19: Effects of wider governance issues on credit stance (Topical question)

How has your bank's **credit stance** changed in the period Q3 2021 (July to September 2021) as a result of the following societal and governance concerns and issues? Comparison is to period 6 months prior i.e. Q1 2021 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.)

Effect on credit stance	**21Q3**	**Δ 6m**	**21Q1**	**Δ survey**
Regional management of credit portfolios [1]	50	~	☐	☐
Efficiency of municipalities/local services [2]	50	~	☐	☐
Township location of borrower [3]	50	~	☐	☐
Township effects on larger enterprises [4]	46	**- 4**	☐	☐
Lending for restitution of infrastructure [5]	50	~	☐	☐
Covid-19 restrictions [6]	51	**+ 1**	☐	☐
Clients seeking relief directly from banks [7]	49	- 1	☐	☐
Concentration risk, loss of smaller firms [8]	46	**- 4**	☐	☐
Other factors [9]	50	~	☐	☐

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

Note 1: Taking into account different regional effects.
Note 2: Municipal service deficiencies affecting clients.
Note 3: Location of client in township being worse affected by unrest.
Note 4: Effects on larger enterprises though their exposure to township damage.
Note 5: Need for infrastructure restitution, requiring bank finance.
Note 6: Covid-19 lockdown related restrictions on clients.
Note 7: Direct approaches to banks rather than debt counselling process.
Note 8: Smaller firms badly affected leads to fewer players, larger in size.
Note 9: Please indicate if there is a major factor you wish to add.

Of the nine potential areas of concern at a societal and governance level put forward, the banks show in aggregate, only township effects on larger businesses (-4) and concentration risk through loss of smaller firms (-4) as having a significant impact on their credit stance in the Q3 2021 period surveyed. Covid restrictions were already perceived as relatively minor, though giving rise to a somewhat more lenient stance towards credit provision (+1). Banks reflect their credit stance as scarcely affected by the need for lending towards restitution of damaged infrastructure.

4. Comparison

Actual vs expected credit stance: Household lending

Comparison of banks' Q3 2021 assessment of credit stance with banks' expected forward credit stance from the Q1 2021 survey: approval of loans to households.

Loans to households: actual vs expected	**21Q3**	**Δ survey**	**21Q1F**	**20Q3F**
Overall	51	- 3	54	47
Mortgage lending	45	- 9	54	46
Secured credit e.g. motor vehicle finance	45	- 9	54	50
Credit facilities e.g. credit cards and overdrafts	47	- 7	54	50
Unsecured credit	46	- 4	50	41
Short term credit up to R8000, within 6 months	62	+ 12	50	50
Developmental credit e.g. education	63	+ 13	50	50
Mass market	55	+ 10	45	41
Mid market	59	+ 5	54	45
Upper market	59	+ 5	54	46

The credit stance of banks in Q3 2021 was significantly more lenient towards households than was reflected in the forward expectations of banks in the Q1 2021 survey. This is a reflection of the economy showing improvement and a lessening of severe lockdown measures as 2021 progressed, compared to what was expected earlier in the year when vaccinations for example were not yet available. 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' Q3 2021 assessment of credit stance with banks' expected forward credit stance from the Q1 2021 survey in respect of loans or credit lines to enterprises.

Loans to enterprises: actual vs. expected	**21Q3**		**21Q1F**	**20Q3F**
Overall	55	**+ 1**	54	39
Short-term loans (up to 1 year)	54	~	54	43
Longer-term loans (over 1 year)	51	+ 1	50	39
Agriculture, forestry	50	~	50	37
Mining, quarrying	54	**+ 4**	50	45
Manufacturing	50	- 4	54	37
Construction	46	~	46	34
Wholesale, retail, accommodation	50	- 4	54	41
Transport, communication, ICT	50	- 4	54	41
Financial, real estate, services	50	~	50	37
Utilities, social and state services	50	~	50	34

For enterprise lending, the credit stance of banks was overall moderately more lenient (+1) than the forward expectations reflected in the Q1 2021 survey. The mining sector (+4) was the only sector to reflect and improvement.

Cross-comparison: Household lending

A cross-comparison of banks responses to survey questions shows greater leniency towards short term and developmental credit to households in Q3 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 reduced (made more lenient) and credit scoring thresholds were less strict

Cross-comparison: Enterprise lending

Cross-comparison of Q3 2021 survey responses in respect of enterprise credit indicates greater leniency in credit stance towards enterprises across most sectors, driven by improved liquidity of the banks as well as competition among lenders, especially among banks themselves. The greater leniency was in respect of the credit approval process rather than in the form of lower margins on interest rates, which were reflected by the banks as little changed compared to 6 months earlier

Compilation of credit stance index: Household lending

With nine 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**	**Q3 2021**
Overall relative to 6 months ago	100	100	103	105	105	102	95	85	82	**83**
Mortgage lending	100	103	111	115	**118**	117	113	106	106	**103**
Secured credit eg motor vehicle finance	100	96	92	99	99	99	90	82	82	**79**
Credit facilities eg credit cards and overdrafts	100	100	101	101	103	99	93	87	86	85
Unsecured credit	100	100	108	110	**113**	108	98	84	81	**78**
Short- term credit up to R8000, within 6 months	100	100	100	99	99	99	89	87	93	101
Developmental credit eg education	100	100	100	100	100	100	100	112	121	130
Mass market	100	100	103	103	103	100	94	85	82	**85**
Mid market	100	103	109	114	117	115	109	100	100	**106**
Upper market	100	105	114	117	120	117	112	106	108	**115**

The overall credit stance to households in Q3 of 2021 is more stringent (83) than the base of 100 in Q1 2017. Many lending categories have contributed to this outcome including secured credit eg motor vehicle finance, that has been in constant decline since 2017 and in Q3 of 2021 reached 79. Unsecured credit (78) did register an increase up to Q1 2019 (113), whilst credit facilities achieved a modest 103 over the same period declining to 85.

Developmental credit, the most positive result, is a very small component of the credit market when compared to mortgages that are still in positive territory (103) having reached 118 in Q1 2019.

The mass market category has been the most impacted by the greater stringency, with the index coming down to 82 in Q1 2021, recovering moderately to 85 in Q3 2021. On the other hand, neither the mid-market (106) nor the upper market (115) have retreated below the 2017 base.

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**	**Q3 2021**
Overall relative to 6 months ago	100	95	95	98	97	97	94	85	86	89
Short-term loans (up to 1 year)	100	97	100	102	102	102	101	93	93	96
Longer-term loans (over 1 year)	100	92	90	89	88	88	85	74	71	**71**
Agriculture, forestry	100	98	95	89	89	89	88	82	79	79
Mining, quarrying	100	93	88	91	93	92	88	83	83	86
Manufacturing	100	95	87	86	80	79	75	62	60	**60**
Construction	100	87	74	68	62	59	52	36	31	**28**
Wholesale, retail, accommodation	100	95	92	95	94	94	93	80	78	78
Transport, communication, ICT	100	98	98	97	96	96	92	87	85	85
Financial, real estate, services	100	95	95	95	94	94	93	85	83	83
Utilities, social and state services	100	92	92	98	95	93	89	76	74	74

The credit stance index indicates 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. There was a small degree of improvement in Q1 2021. The credit stance in Q3 2021 then improved somewhat compared to Q1 2021, indicating that the greater stringency of the Covid and lockdown circumstances was gradually easing. The long-term trend of greater stringency has applied particularly strongly to longer term lending, with an index value of (71) in Q3 2021 compared to the base of (100). The severely negative credit stance towards the construction sector as the worst performer overall, is reflected in the drop in the index value to 28 in Q3 2021. Manufacturing also shows a severe drop over time to reach an index value of 60 with all other sectors 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.