

QUARTERLY BANK LENDING CONDITIONS SURVEY REPORT (JUNE, 2020)



The Bank Lending Conditions Survey (BLCS) contains 12 questions on lending to the private sector, seeking information on the number of loan applications received, approved and denied, and therefore provides a perspective on the demand for credit. They are also asked about their views on changes in lending conditions one quarter to the next.

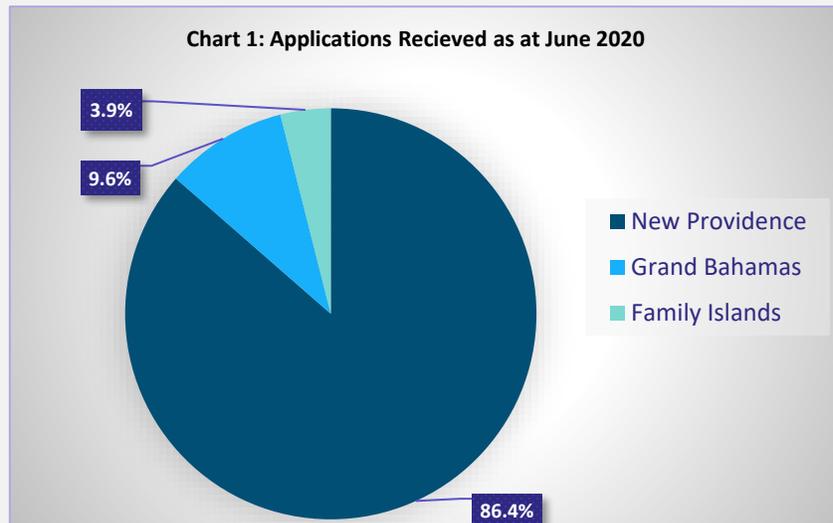
Prepared by: The Research Department



I. Overall Assessment

Results from the Central Bank’s survey of Bank Lending Conditions suggest that during the first half of 2020 the demand for credit reduced sharply across all markets, as application volumes fell to historically low levels. The contracted domestic economic environment, dominated by the Novel Coronavirus (COVID-19) accounted for this outcome. Notwithstanding, the average rate of approval on loan applications remained favourable across all categories. Most requests remained concentrated on consumer credit.

“...during the first half of 2020, the demand for credit was largely impacted by the COVID-19 pandemic, as the number of credit applications decreased to historically low levels.”



Applications Received

- 10,979
- Down 59.8% from December 2019
- Down 44.3% from June 2019

Applications Approved

- 9,349
- 85.2% of the total

Loan Denials

- 788
- Due to high debt service ratios (DSR) and under-employment

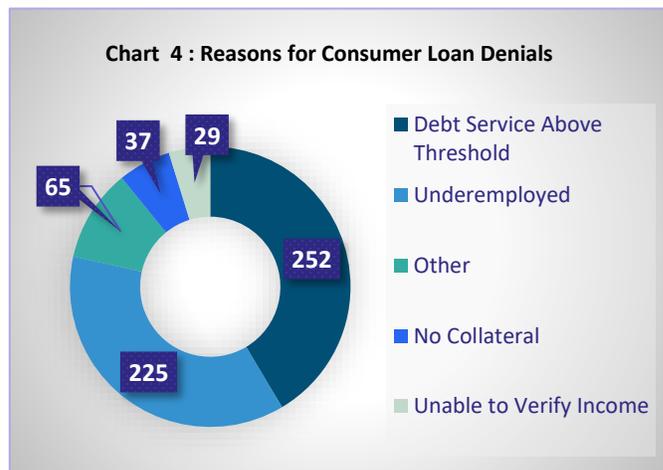
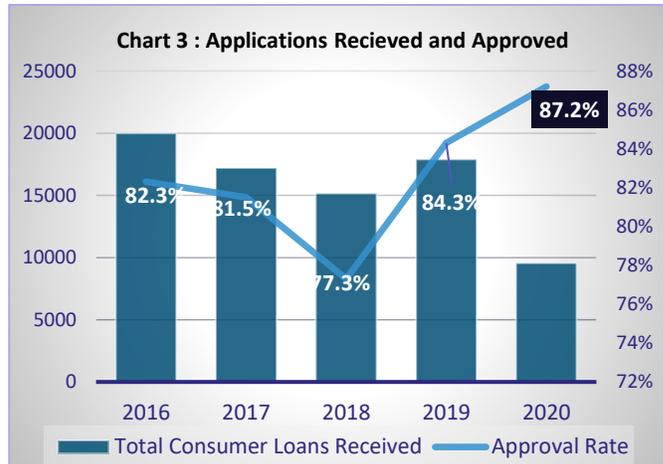
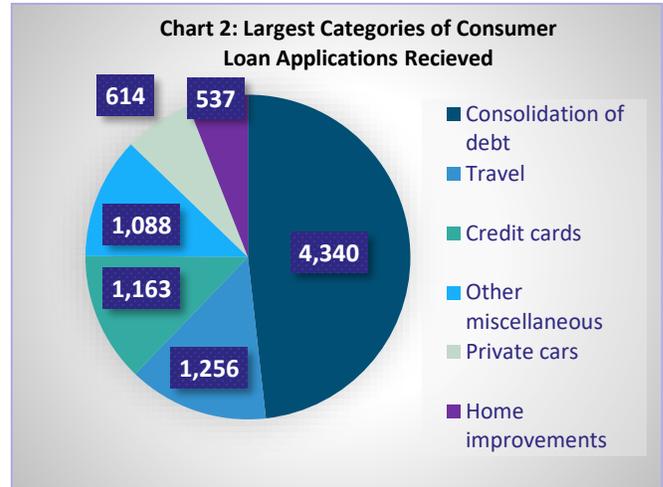
II. Consumer Loans

During the review period, the number of consumer loans applications processed declined by 46.6% to 9,553, relative to the same period last year.

Reductions were noted in all consumer credit categories, most notably for purposes related to education (71.1%) and credit cards (68.5%). In contrast, loan requests for commercial vehicle purchases expanded by 33.3%.

Despite fewer applications, the average approval rates firmed by 4.7 percentage points to 87.2% in the second half of 2020, the highest since the second half of 2016.

As to declined applications, the most common reasons cited by banks were high debt service ratios (38.2%), underemployment (34.1%) and other “miscellaneous” factors (9.9%). Miscellaneous factors included low credit scores, purposes outside of banks’ practices, missing information and non-permanent employment.



III. Mortgages

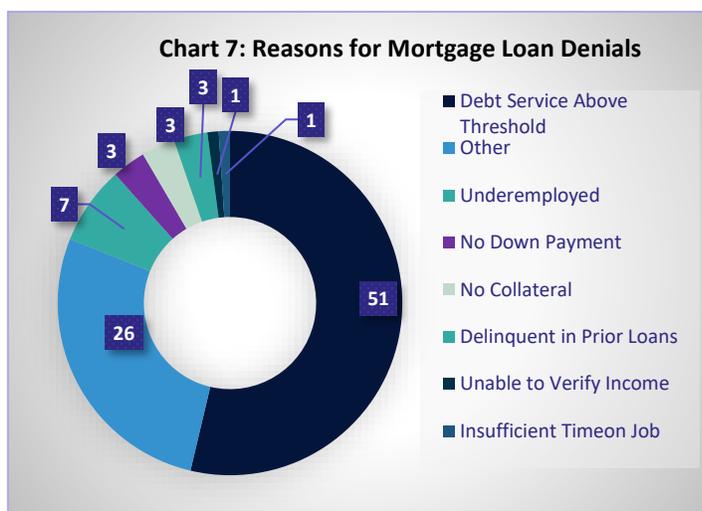
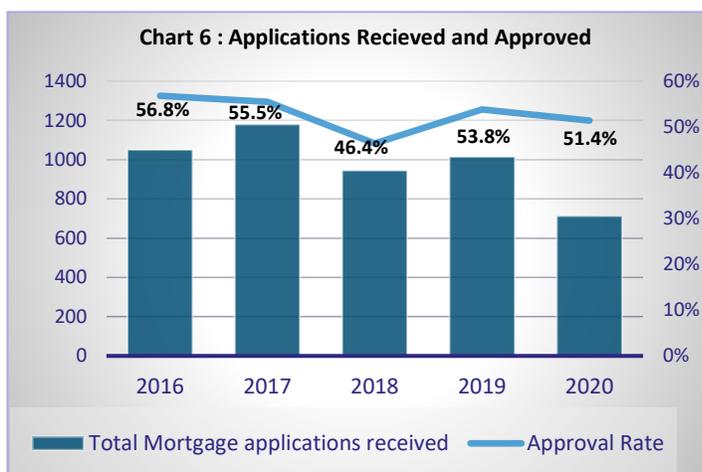
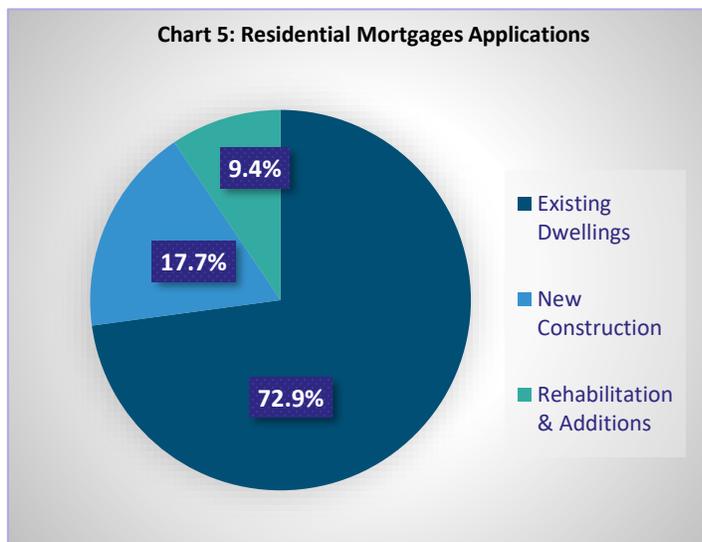
Banks processed 700 residential mortgage applications, which accounted for 98.3% of total mortgage applications (712).

Residential Mortgages applications processed declined both year-on-year and for the previous 6-month period, by 29.9% and 19.2%, respectively. However, applications for new construction projects firmed on an annual basis by 4.2% and by 12.7% over the January-June period.

An analysis by island revealed that, year-on-year, lending institutions processed broadly fewer applications for New Providence (30.8%), Grand Bahama (25.3%) and the Family Islands (23.8%). However, relative to the second half of 2019, interests in mortgages from applicants in Grand Bahama and the Family Islands expanded by 57.8% and by 2.1%, respectively, largely reflecting heightened needs following the passage of Hurricane Dorian.

Approximately 52.0% of mortgage applications were approved over the first six months of 2020, a rate that was 1.8 percentage points lower than the first half of 2019. In this regard, 75.0% of new construction projects were approved, versus 90.9% renovations financing request and 41.4% for requested borrowing against existing dwellings.

As to unsuccessful applications, total debt service ratios exceeding the threshold of 40%-45% income was singularly the most important reason for mortgages denials (53.7% of



denials), followed by other “miscellaneous”¹ reasons (27.4% of responses). Other denial reasons included underemployment (7.4%), no down payment (3.2%) and no collateral (3.2%).

¹ Other “miscellaneous” category may include low credit scores, lending outside of bank policy and missing information, etc.

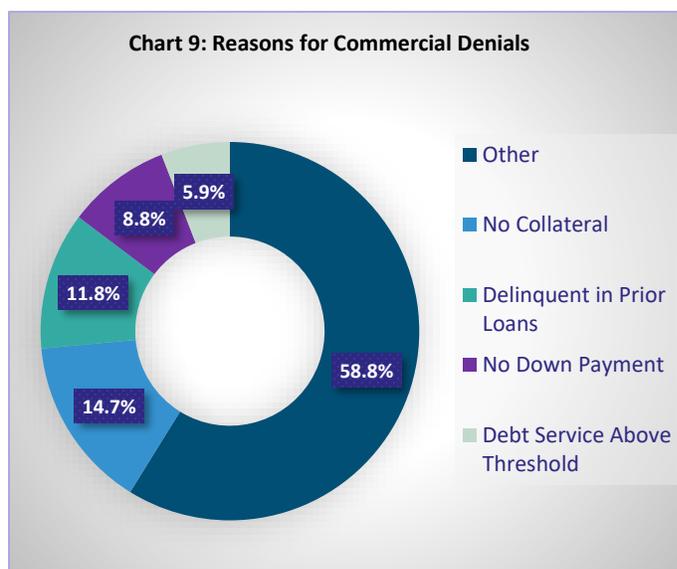
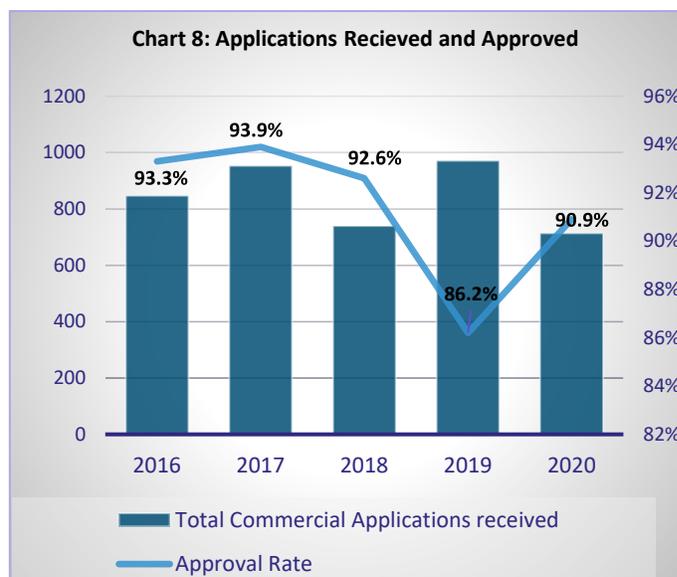
IV. Commercial Loans

Banks received 714 commercial credit applications, representing a 9.7% decrease year-on-year. However, the requests were 5.5% higher than in the six months to December 2019, reflective of increased credit demand in New Providence.

Despite the falloff in applications vis-à-vis the same period last year, commercial applications maintained a high approval rate of 90.9%, an 80 basis points increase compared to the second half of 2019, and a 4.7 percentage points improvement year-on-year.

Specifically, the commercial credit approval rate in New Providence rose to 91.6% from 87.7% in the previous year. In contrast, Grand Bahama approval rate contracted to 60.0% from 69.5% in the prior year, while the Family Islands recorded nil approvals, after 71.4% of applications were favourably processed in the comparative period in 2019.

The majority of rejected commercial loans (58.8%) were due to “other” unclassified reasons—such as missing information, excessive risk and insufficient liquidity—followed by no collateral and prior loan delinquency.



V. Banks' Assessment of Credit Conditions

Lending Conditions

- Overall, the credit environment deteriorated, largely attributed to the negative impact from the COVID-19 pandemic.
- Borrowers' loan eligibility and debt servicing abilities worsened in the review period.
- Only one bank noted that the quality of collateral had improved, the majority stated otherwise.
- Most banks expect conditions to deteriorate or remain unchanged in the coming year.

Marketing & Customer Relations

- Most banks offered reduced lending rates to attract credit worthy borrowers.
- For mortgages, four banks reduced lending rates, while two lenders extended payment terms and three deferred monthly payments.
- More favourable terms were offered for consumer loans: five banks reduced lending rates; three banks extended payment terms and deferred monthly payments.
- Only one bank reduced the required down payment on consumer loans.

Conclusion

- ✓ Local credit demand, expressed through the volume of loan applications was significantly constrained during January to June 2020, as the effects of COVID-19 and subsequent restrictions, severely reduced business and employment activities in The Bahamas.
- ✓ Appetite for consumer credit maintained its dominance. However, the volume of such request still declined broadly, except for interest in purchases of commercial vehicles. Despite the downturn, the average approval rates remained elevated at 87.2%, the highest since the second-half of 2016.
- ✓ In the mortgage sector, financing demand for already built homes remained dominant, but interest in new construction was the only category with overall increased applications.
- ✓ The commercial credit requests reduced by 9.7% year-on-year, although increased applications were measured compared to the six months to December 2019. A lesser fraction of the applications were approved vis-à-vis the first half of 2019, but the acceptance rate held steady in comparisons to the second half of 2019.

ANNEX

Table 1: No. of Loans Applications Received and Approved

	2019						2020		
	Jan-Jun			Jul - Dec			Jan-Jun		
	TOTAL			TOTAL			TOTAL		
	Received	Approved		Received	Approved		Received	Approved	
No.		Rate	No.		Rate	No.		Rate	
Mortgage	1015	534	52.61%	881	461	52.33%	712	366	51.4%
Consumer	17906	15,091	84.28%	25756	21,248	82.50%	9553	8334	87.2%
Commercial	791	682	86.22%	677	610	90.10%	714	649	90.9%
TOTAL	19712	16307	82.73%	27314	22319	81.71%	10979	9349	85.2%

Table 2: No. of Loan Applications Received and Approved by Island (Jan - Jun 2020)

	New Providence			Grand Bahamas			Family Islands			TOTAL		
	Received	Approved		Received	Approved		Received	Approved		Received	Approved	
		No.	Rate		No.	Rate		No.	Rate		No.	Rate
Mortgage	593	303	51.1%	71	35	49.3%	48	28	58.3%	712	366	51.4%
Consumer	8,197	7,291	88.9%	971	715	73.6%	385	328	85.2%	9,553	8,334	87.2%
Commercial	699	640	91.6%	15	9	60.0%	0	0	0	714	649	90.9%
TOTAL	9,489	8,234	86.8%	1,057	759	71.8%	433	356	82.2%	10,979	9,349	85.2%

Table 3: Consumer Loans by type (Jan – June 2020)

	Received	Approvals	
		No.	Rate
Private cars	614	457	74.4%
Taxis & rented cars	6	6	100.0%
Furnishings/Appliances	181	161	89.0%
Commercial vehicles	16	14	87.5%
Travel	1256	1126	89.6%
Education	133	108	81.2%
Medical	101	70	69.3%
Home improvements	537	470	87.5%
Land purchases	118	74	62.7%
Consolidation of debt	4340	4095	94.4%
Credit cards	1163	897	77.1%
Other miscellaneous	1088	856	78.7%
TOTAL	9553	8334	82.6%

