

# QUARTERLY BANK LENDING CONDITIONS SURVEY REPORT (DECEMBER, 2020)

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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. In addition, banks are asked about their views on changes in lending conditions from one quarter to the next.

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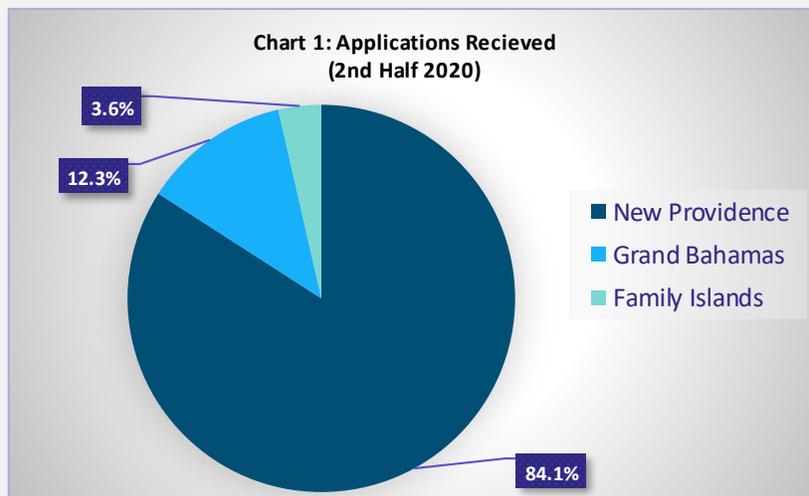
Prepared by: The Research Department



# I. Overall Assessment

The Central Bank's most recent survey of Bank Lending Conditions revealed that over the latter half of 2020, the demand for credit reduced sharply, relative to the same period in 2019. The number of credit applications fell markedly, under the weight of the economic downturn brought on by the Novel Coronavirus (COVID-19) pandemic. Further, the overall average rate of approval on loan applications decreased to its lowest level since the survey's inception in 2015.

*“...over the latter half of 2020, the number of loan applications declined sharply, reflective of the adverse impact of the ongoing COVID-19 pandemic.”*



## Applications Received

- 11,398
- Up 3.8% from six months to June 2020
- Down 58.3% from six months to December 2019

## Applications Approved

- 7,677
- Approval Rate: 67.4%

## Loan Denials

- 3,001
- High debt service ratio (DSR)
- No collateral
- Underemployment

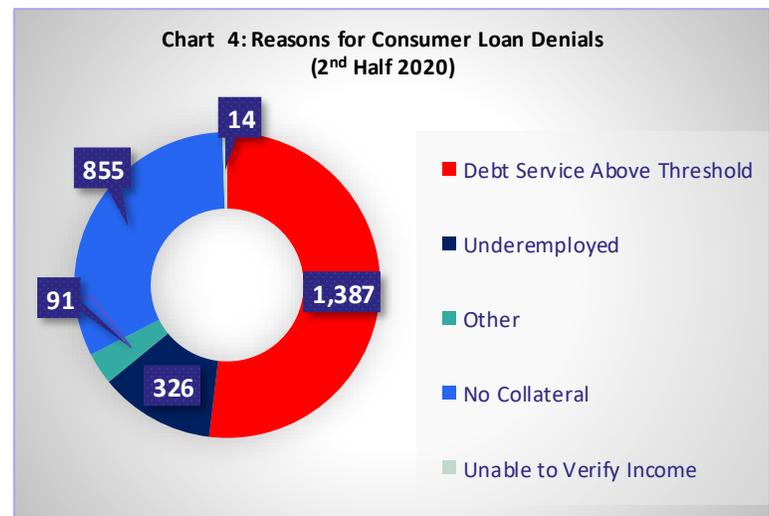
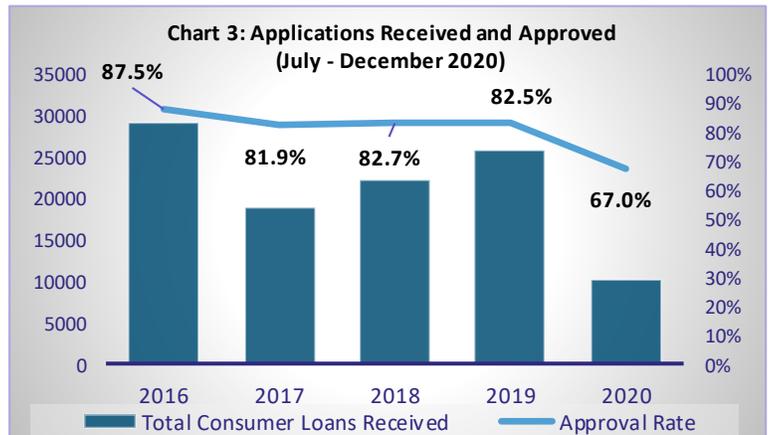
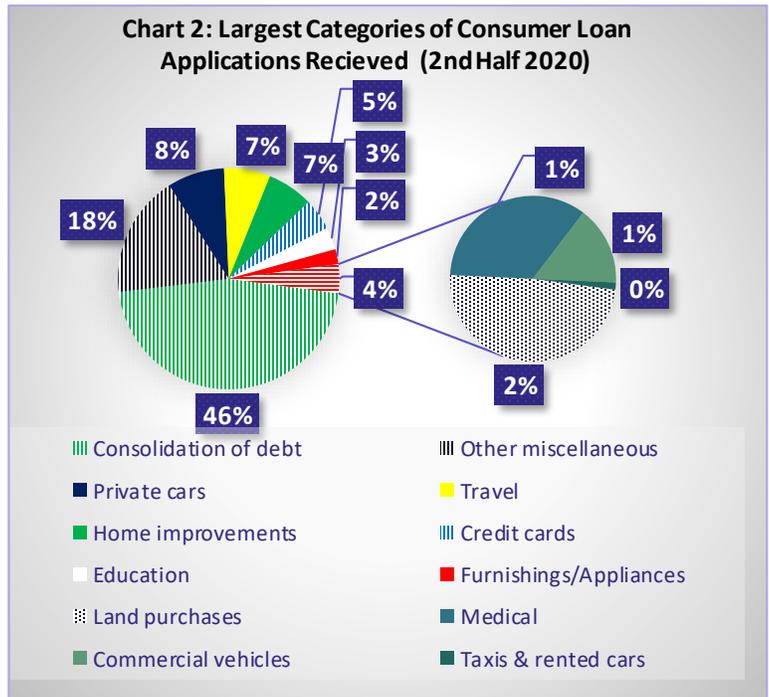
## II. Consumer Loans

During the review period, the number of consumer loan applications processed contracted by 60.5% to 10,181, vis-à-vis the corresponding period of 2019. Applications were still 6.6% higher in comparison with the first half of 2020.

Declines were registered across most credit components, when compared to the same period of the prior year. The significant movements were noted for credit cards (89.1%), travel (84.5%), taxis & rented (76.9%) and furnishings & appliances (72.9%). In contrast, loan requests for commercial vehicle purchases rose sharply.

**Alongside the reduction in the number of applications received, the average approval rate fell by 15.5 percentage points year-on-year, to a low of 67.0% in the second half of 2020.**

With regard to the reduction in approvals, the most common reasons cited by banks were high debt service ratios (47.9%), no collateral (29.5%) and underemployment (11.3%).



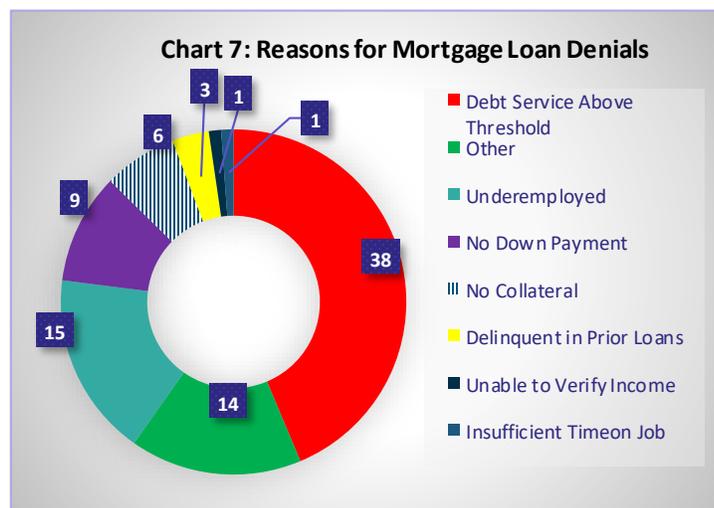
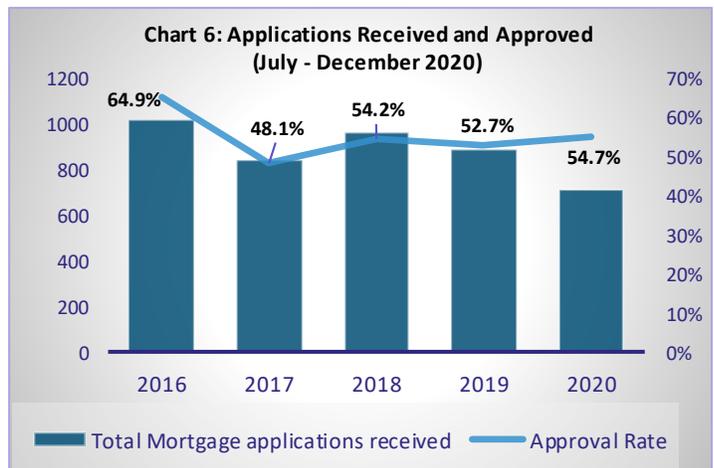
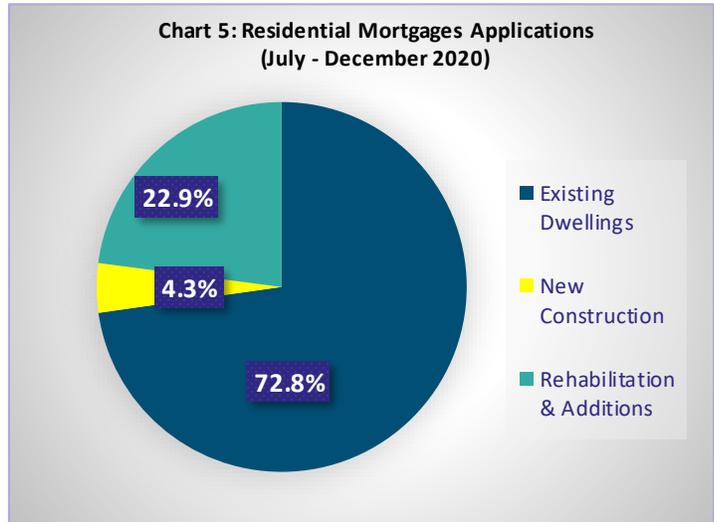
# III. Mortgages

Over the six-month period, banks processed 702 residential mortgage applications; which accounted for 99.4% of the total mortgage applications (706).

Residential mortgage applications processed were reduced by 19.6% year-on-year, although some 0.3% higher than in the previous 6-month period. Meanwhile, applications for new construction projects firmed, both on an annual basis and over the January-June period, by 14.5% and by 1.6%, respectively.

A year-on-year breakdown by island (6-months to December vis-à-vis the same period in 2019), showed notable declines in the volume of applications processed by lending institutions for both New Providence (24.6%) and the Family Islands (23.4%). In contrast, mortgage requests in Grand Bahama strengthened by 66.7%, underpinned by the rebuilding efforts following the passage of Hurricane Dorian. In comparison to the first half of 2020, interest in mortgages in Grand Bahama and New Providence, rose by 5.6% and by 0.3%, respectively.

An estimated 54.7% of mortgage applications were approved over the latter half of 2020; an increased approval rate of 2.0 percentage points relative the same period in 2019. Specifically, 83.3% of new construction projects were approved, while approval rates of 55.9% and 25.4% were recorded for



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requested borrowing against existing dwellings and renovations financing requests, respectively.

The main reason stated for application denials (43.7% of instances) was preexisting debt service ratios in excess of the threshold of 40%-45% of income. Justifications also included underemployment (17.2%), “miscellaneous” reasons (16.1%)—such as low credit scores, lending outside of bank policy and missing information—no down payment (10.3%) and no collateral (6.9%).

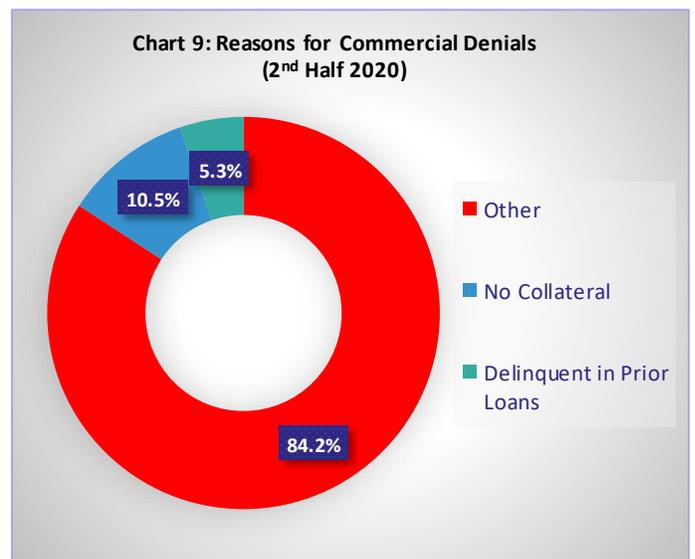
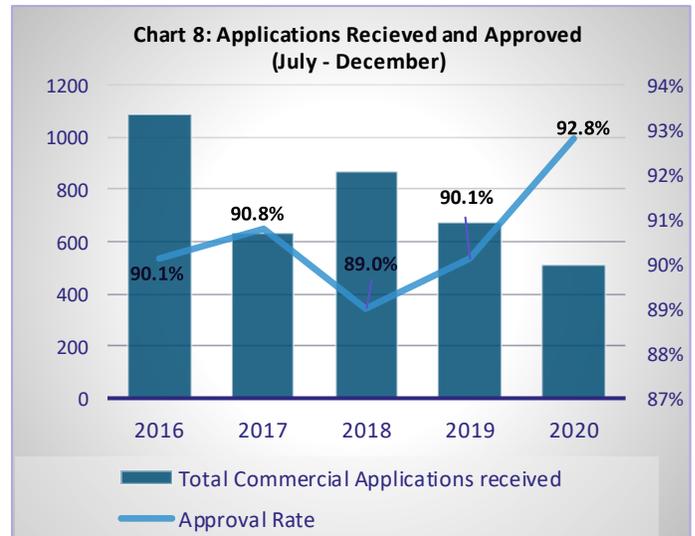
## IV. Commercial Loans

Banks reviewed 511 commercial credit applications, a 24.5% decrease year-on-year (July to December relative to same period in 2019). Similarly, loan requests were 28.4% lower when compared with the first half of the year.

Despite the reduction in applications, lending conditions for the commercial component exhibited some improvement during the period, as the approval rate rose by 1.9 percentage points over the previous six-month period, and by 2.7 percentage points over the same period last year, to 92.8%.

Leading this development, commercial credit approvals in New Providence moved higher by 2.6 percentage points, to 93.6%, vis-à-vis the preceding year. In contrast, the approval rate in Grand Bahama fell by 15.7 percentage points, to 61.5%. Meanwhile, due to a lack of requests, the Family Islands posted nil approvals, following a 66.7% approval rate in the comparable period of 2019.

The majority of the rejected commercial loan requests (84.2%) were due to “other” unclassified reasons—such as, excessive risk, unacceptable overall financial position and inconsistent income. Some denials also factored lack of collateral and prior loan delinquencies.



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## V. Banks' Assessment of Credit Conditions

### Lending Conditions

- The credit environment remained subdued, largely due to the ongoing negative impact from the COVID-19 pandemic.
- Borrowers' loan eligibility and their debt servicing ability deteriorated in the review period.
- Most banks noted that the quality of collateral and debt servicing abilities remained unchanged from the previous period.
- Four banks expected conditions to remain unchanged in the coming year, while three banks anticipated worsening conditions.

### Marketing & Customer Relations

- The majority of banks offered reduced lending rates to attract credit worthy borrowers.
- For mortgages, five banks lowered lending rates, while one lender extended the length of the repayment period.
- Terms that were more favourable were offered for consumer loans: five banks reduced lending rates; two banks extended the length of the repayment period.
- One bank deferred monthly payments.
- One bank lowered the required down payment on consumer loans.

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## Conclusion

- ✓ Although demand for domestic credit increased on a seasonal basis relative to the first six months of 2020, a sharp falloff remained evident in comparison to 2019, given dampened economic and financial conditions resulting from the ongoing COVID-19 pandemic.
- ✓ Further, banks tightened their supply of credit, exhibited by a reduction in the average approval rate, to 67.4%, the lowest rate ever recorded in the survey. This, however, overshadowed a higher approval rate for commercial credit requests.
- ✓ Consumer loan applications continued to dominate, representing 89.3% of total loan applications; however, the number of request declined by 60.5% in second half of 2020 over the same period in 2019, with the volume of request broadly contracted, except for commercial vehicles which recorded a notable rise in the demand for such purchases.
- ✓ In the mortgage market, applications received were lower by 19.6%, when compared with the second half of 2019, and was largely attributed to a falloff in the request for already built homes financing.
- ✓ Demand for commercial credit also fell by 24.5% vis-à-vis the latter half of 2019, although the acceptance rate was relatively stable.
- ✓ Credit worthiness against unsuccessful requests remained constrained by common factors, such as unemployment, under-employment, high pre-existing levels of indebtedness, and insufficient collateral.

## ANNEX

**Table 1: No. of Loan Applications Received and Approved**

	2019			2020					
	Jul – Dec			Jan – Jun			Jul – Dec		
	TOTAL			TOTAL			TOTAL		
	Received	Approved		Received	Approved		Received	Approved	
No.		Rate	No.		Rate	No.		Rate	
Mortgage	881	461	52.7%	712	366	51.4%	706	386	54.7%
Consumer	25,756	21,248	82.5%	9,553	8,334	87.2%	10,181	6,817	67.0%
Commercial	677	610	90.1%	714	649	90.9%	511	474	92.8%
<b>TOTAL</b>	<b>27,314</b>	<b>22,319</b>	<b>81.7%</b>	<b>10,979</b>	<b>9,349</b>	<b>85.2%</b>	<b>11,398</b>	<b>7,677</b>	<b>67.4%</b>

**Table 2: No. of Loan Applications Received and Approved by Island  
(July - December 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	595	313	52.6%	75	48	64.0%	36	25	69.4%	706	386	54.7%
Consumer	8,493	5,739	67.6%	1,317	811	61.6%	371	267	72.0%	10,181	6,817	67.0%
Commercial	498	466	93.6%	13	8	61.5%	--	-	--	511	474	92.8%
<b>TOTAL</b>	<b>9,586</b>	<b>6,518</b>	<b>68.0%</b>	<b>1,405</b>	<b>867</b>	<b>61.7%</b>	<b>407</b>	<b>292</b>	<b>71.7%</b>	<b>11,398</b>	<b>7,677</b>	<b>67.4%</b>

**Table 3: Consumer Loans by type  
(July – December 2020)**

	Received	Approvals	
		No.	Rate
Private cars	848	525	61.9%
Taxis & rented cars	6	1	16.7%
Furnishings/Appliances	224	165	73.7%
Commercial vehicles	66	63	95.5%
Travel	688	546	79.4%
Education	333	248	74.5%
Medical	149	91	61.1%
Home improvements	686	475	69.2%
Land purchases	209	122	58.4%
Consolidation of debt	4681	2790	59.6%
Credit cards	468	316	67.5%
Other miscellaneous	1823	1475	80.9%
<b>TOTAL</b>	<b>10181</b>	<b>6817</b>	<b>67.0%</b>