

# QUARTERLY BANK LENDING CONDITIONS SURVEY REPORT (JUNE 2021)

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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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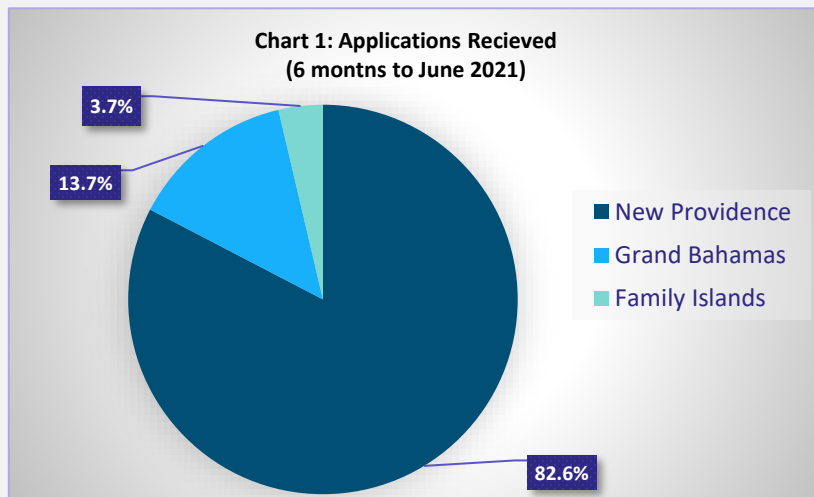
Prepared by: The Research Department



# I. Overall Assessment

Lending conditions and the demand for credit improved during the first six months of 2021, recovering from a sharp decline in the same period in 2020, which was due to the Novel Coronavirus (COVID-19) pandemic. According to the quarterly survey, total applications received increased relative to both the June 2020 and December 2020 periods, reflective of a rise in applications for mortgages and consumer loans vis-à-vis the same period last year. Further, the rate of approval on loan applications recovered from end-2020 softening. Meanwhile, for personal credit applications lenders continue to cite insufficient time on the job, high debt service ratio (or DSR), and delinquency in prior loans, as top reasons for rejections in the review period.

*....lending conditions improved during the first half of 2021, evidenced by a rise in the number of credit applications received and approved, as the economy began a slow pace of recovery, despite the ongoing spread of COVID-19.*



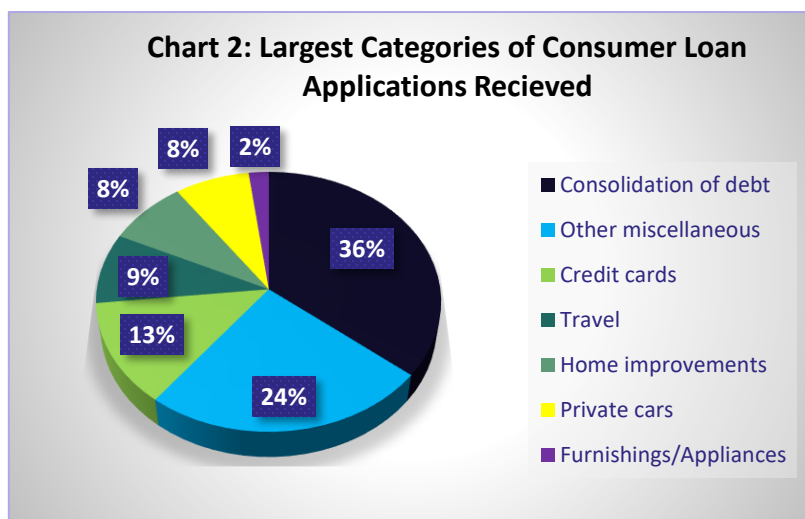
Applications Recieved
<ul style="list-style-type: none"> <li>• 13,744</li> <li>• Up 25.2% from the six months to June 2020.</li> <li>• Up 20.6% from six months to December 2020.</li> </ul>

Applications Approved
<ul style="list-style-type: none"> <li>• 10,292</li> <li>• Down 10.3% from June 2020, but up 7.5% from December 2020.</li> <li>• Approval Rate: 74.9%</li> </ul>

Loan Denials
<ul style="list-style-type: none"> <li>• 2,024</li> <li>• Up from 788 denials in June 2020</li> <li>• Top reasons: Insufficient time on job, high DSR and prior delinquency.</li> </ul>

## II. Consumer Loans

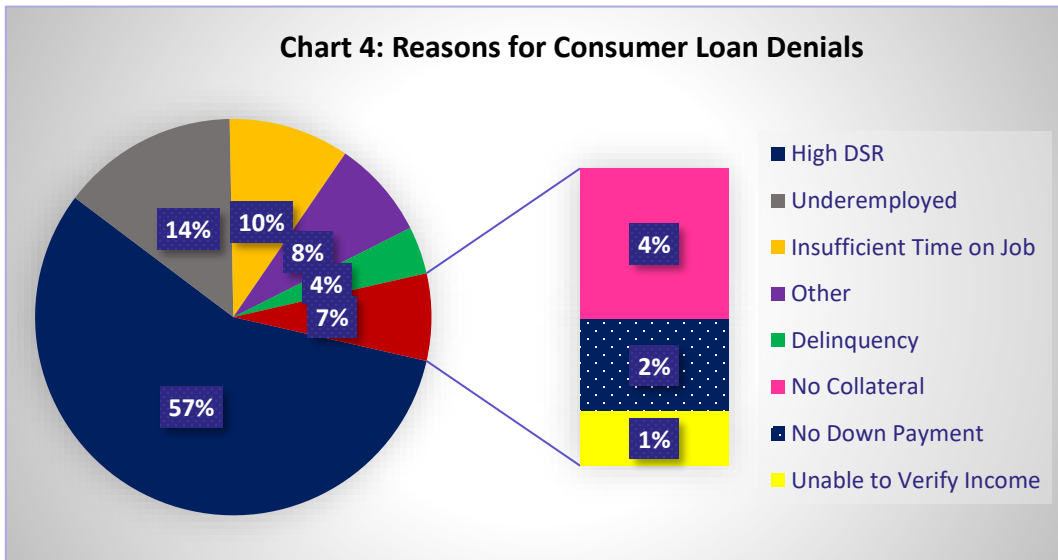
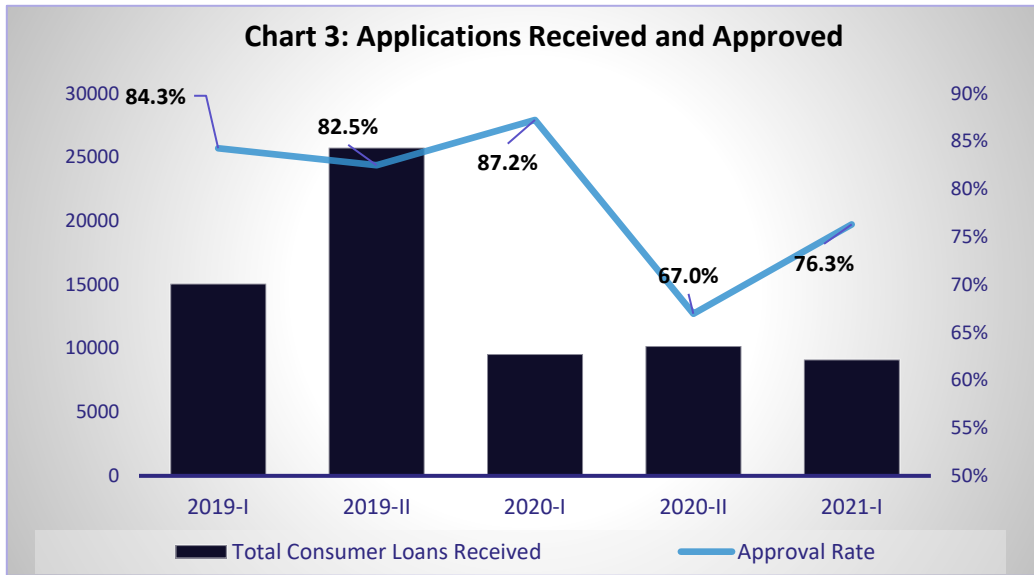
Applications in the dominant consumer credit segment, which constituted 87.0% of all requests, grew by 25.2% in the first six of 2021, and by 20.6% relative to December 2020. The outturn was attributed to an increase in applications from Grand Bahama (78.9%), New Providence (19.2%) and the other Family of Islands (19.0%) in June 2021. Similarly, relative to December 2020, respective improvements of 31.9%, 15.0%, and 23.5% were recorded.



According to the survey, the largest categories of consumer loan requests were consolidation of debt (30.4%), other miscellaneous purposes (24.0%) and credit cards (12.6%) (see Chart 2 above). Further analysis revealed a notable increase in the number of requested financing for private and commercial vehicles<sup>1</sup>, education, medical and other “miscellaneous”, which more than doubled during the year-on-year period. In addition, applications strengthened for credit cards (23.0%), land purchases (86.4%) and home improvements (69.8%). In contrast, significant declines were noted in loan requests for travel (22.4%) and debt consolidation (8.3%).

**In line with the rise in request, the number of successful or approved credit applications rose by 9.5%, year-on-year, and by 33.9% relative to December 2020. Likewise, the average approval rate firmed by 9.4 percentage points to 76.3% vis-à-vis December 2020. However, compared to June 2020, the approval rate narrowed by 10.9 percentage points.**

With regard to loan denials, the common reasons cited by banks were high debt service ratios (56.7%), underemployment (14.4%), insufficient time on the job (9.8%) and other “miscellaneous” factors (8.0%). Miscellaneous factors included low credit scores, purposes outside of banks’ practices, missing information and non-permanent employment.



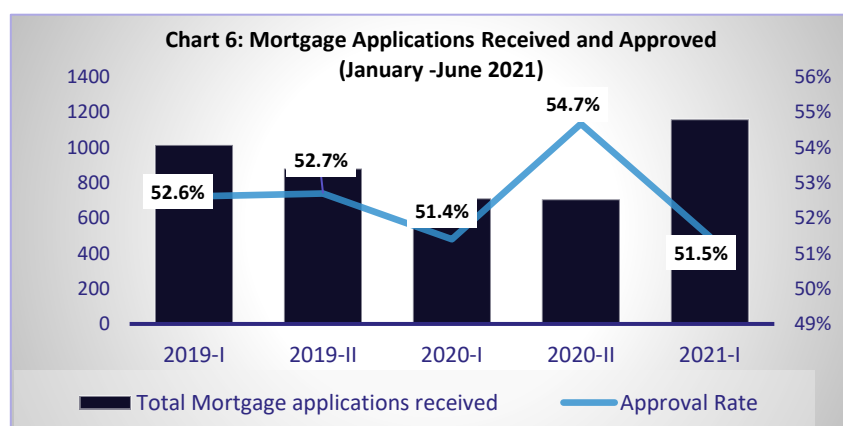
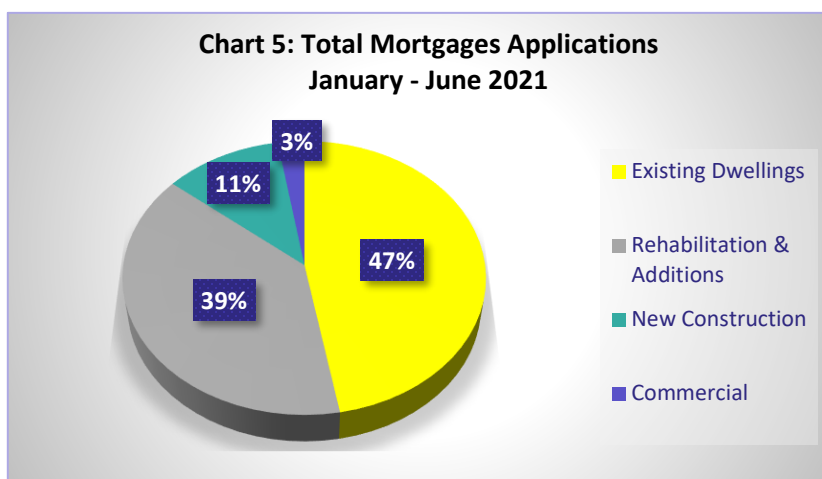
<sup>1</sup> Private cars (38.9%), taxis and rented cars (333.3%) and commercial vehicles (81.3%) categories all spiked.

# III. Mortgages

Over the six-month period, banks processed 1,160 total mortgage applications, with residential mortgage requests representing 97.4% of the total.

Specifically, residential mortgage applications increased by 61.4% year-on-year and by 61.0% vis-à-vis the December 2020 half-year. The chart below (chart 5) depicts total mortgage application categories.

Of the applications received by creditors, financing sought against existing residential dwellings accounted for 48.4% of the total, while rehabilitations & additions and mortgages for new construction comprised 39.8% and 11.8%, respectively. Only 2.6% of requests were for commercial financing.

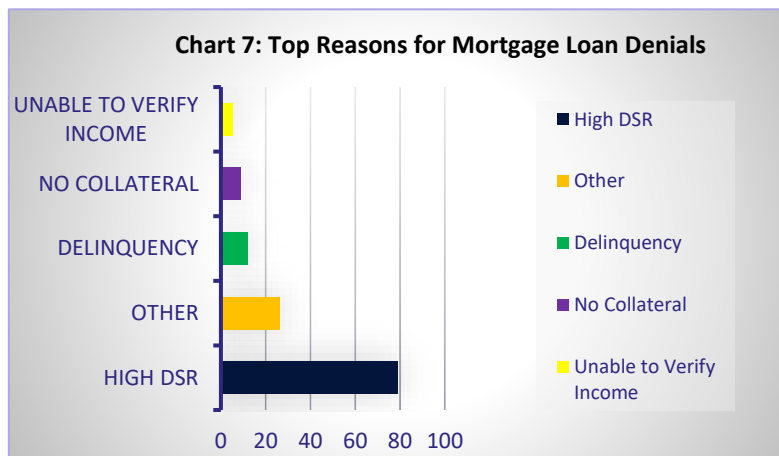


A year-on-year analysis by island (6-months to June vis-à-vis the same period in 2020), showed improvements in the volume of mortgage applications processed by lending institutions for Grand Bahama (74.6%) and New Providence (66.8%). In contrast, the volumes of requests for the Family

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Islands was reduced (2.1%). In comparison to December 2020, mortgage applications advanced broadly for New Providence (66.2%), Grand Bahama (65.3%) and the Family Islands (30.6%).

Mortgages maintained the lowest approval rate among loan categories over the first half of 2021, at 51.5%—approximately the same success rate as a year-ago—but retreating from the 63.1% rate in the final half of 2020. In terms of approvals rates categories, 61.7% of new construction projects were approved, while approval rates of 55.9% and 46.0% were posted for requested borrowings against existing dwellings and renovations, respectively.



As to rejected applications, total debt service ratio surpassing the threshold of 40%-45% of income was the premier reason for mortgage denials (56.0%). Other reasons cited included other “miscellaneous” factors (18.4%),<sup>2</sup> prior loan delinquency (8.5%), insufficient collateral (6.4%) and unverifiable income (3.5%).

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<sup>2</sup> These may include, but are not limited to low credit scores, lending outside of bank policy and missing information.

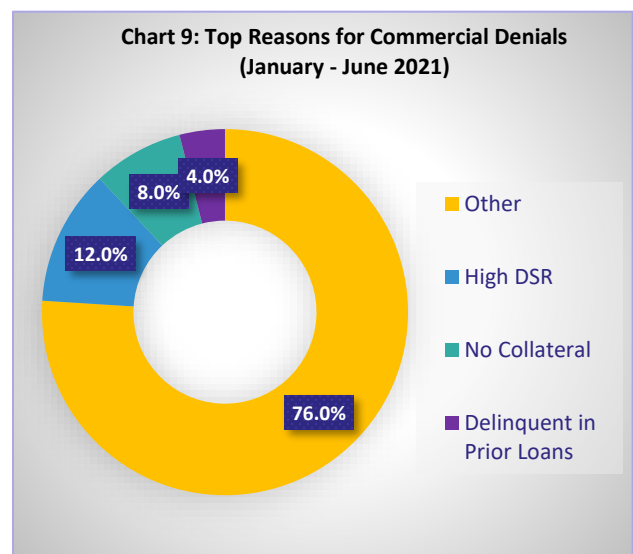
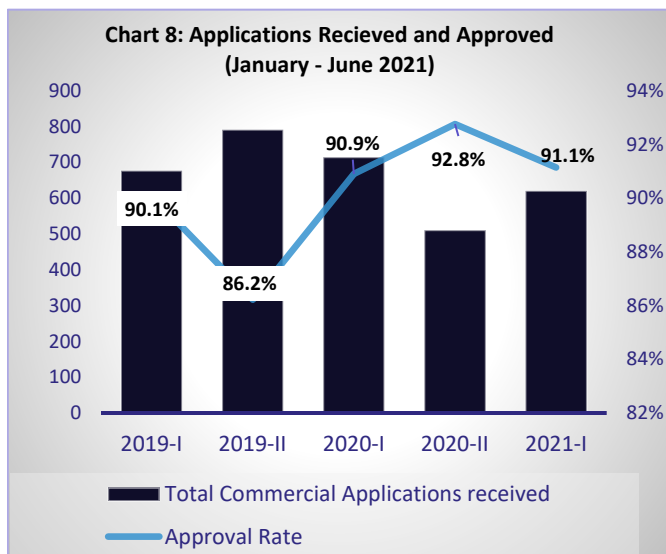
## IV. Commercial Loans

Banks reviewed 621 applications for commercial credit during the review period. This was a decline of 13.0% year-on-year, but firming of 21.5% over the six months to December 2020, owing to increased demand from Grand Bahama.

**Commercial applications averaged an approval rate of 91.1%, incrementally better than a year ago, and only by 1.7 percentage points less than in the second half of 2020.**

Most applications were for ventures in New Providence, experiencing a slightly improved success rate of 92.7%. Conversely, a reduced 47.6% of applications were approved. There were no applications recorded for Family Island ventures.

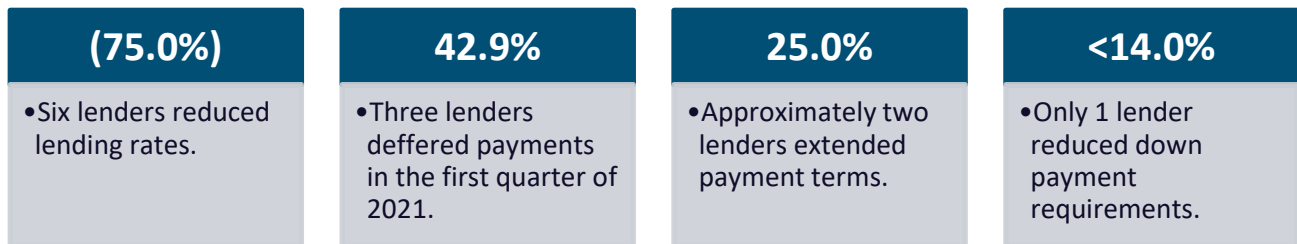
The majority of unsuccessful commercial loan requests were due primarily to unclassified reasons—such as, excessive risk, unacceptable overall financial position, and inconsistent income. Other reasons for denial were high DSR (12.0%), no collateral (8.0%) and prior loan delinquencies (4.0%).



## V. Banks' Assessment of Credit Conditions

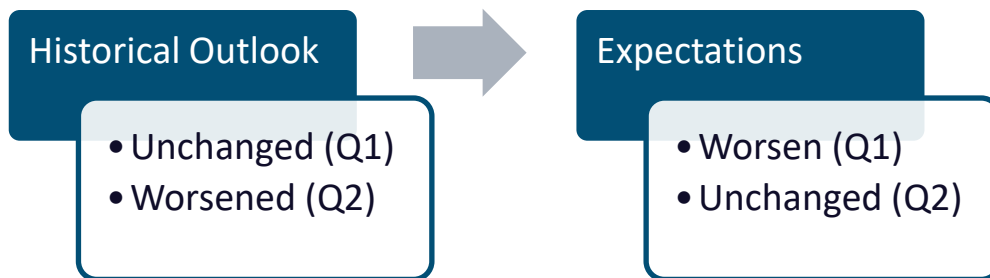
### Supporting Lending Conditions

On average, three-quarters of lenders reduced lending rates during the first half of 2021 in order to support lending conditions. A majority lowered mortgage rates in the first and an even larger number of banks did so again in the second quarter. Most lenders also decreased consumer loan rates in both first and second quarters. In addition some lenders still reported deferred loan payments arrangements in the first quarter of 2021, but with such incidences further retracted in the second quarter. However, only one creditor offered reduced down payment requirements, while two lenders extended payment terms.



### Historical Outlook

When asked to characterise the overall lending environment, creditors expressed that compared to the prior period, conditions were largely unchanged in the first quarter of 2021. Likewise, borrowers loan eligibility, quality of collateral and borrowers debt servicing capacity were seen as staying the same. However, lenders indicated that during the second quarter, conditions deteriorated overall, notably around borrower eligibility and worsening in debt service capacity.



### Expectations in the Near-Term

In the first quarter 2021, two-thirds of creditors expected credit conditions to deteriorate in the near term. However, by the second quarter, three quarters anticipated that conditions would remain largely the same.



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## Conclusion

- ✓ Local credit demand, expressed through the volume of loan applications recovered during January to June 2021 period, following a sharp decline in 2020, related to the COVID-19 pandemic.
- ✓ The largest concentration of applications (87.0%) continued to be for consumer credit, increasing over most categories, except for debt consolidation. The average approval rates for such applications narrowed to 76.3% compared with the first-half of 2020; but was recovered by 9.4 percentage points relative to the second half of 2020.
- ✓ The number of mortgage applications increased by 61.0% both year-on-year and in comparison to the six months to December, 2020. The approval rate stabilized at 51.7% over the same period last year, but decreased by 3.2 percentage points vis-à-vis December, 2020.
- ✓ Commercial credit requests reduced by 13.0% year-on-year, but were increased compared to the six months to December, 2020. The loan applications success rate remained near 90.0%.
- ✓ The majority of unsuccessful credit applications continued to be explained for factors such as, debt service above the threshold, underemployment, “other” unclassified reasons—such as, excessive risk, unacceptable overall financial position, and inconsistent income—and insufficient time on the job.

## ANNEX

Table 1: No. of Loans Applications Received and Approved																
	2020						2021			Changes						
	Jan-Jun			Jul - Dec			Jan-Jun			Jan-Jun 21/Jul-Dec 20			Jan-Jun 2021/Jan-Jun 2020			
	TOTAL			TOTAL			TOTAL			TOTAL			TOTAL			
	Received	Approved		Received	Approved		Received	Approved		Received (%)	Approved		Received (%)	Approved		
No.		Rate	No.		Rate	No.		Rate	No. (%)		Rate	No. (%)		Rate		
Mortgage	712	366	51.40%	706	386	54.67%	1,160	597	51.47%	64.3%	54.7%	-3.2%	62.9%	63.1%	0.1%	
Consumer	9,553	8,334	87.24%	10,181	6,817	66.96%	11,963	9,129	76.31%	17.5%	33.9%	9.4%	25.2%	9.5%	-10.9%	
Commercial	714	649	90.90%	511	474	92.76%	621	566	91.14%	21.5%	19.4%	-1.6%	-13.0%	-12.8%	0.2%	
<b>TOTAL</b>	<b>10,979</b>	<b>9,349</b>	<b>85.15%</b>	<b>11,398</b>	<b>7677</b>	<b>67.35%</b>	<b>13,744</b>	<b>10292</b>	<b>74.88%</b>	<b>20.6%</b>	<b>34.1%</b>	<b>7.5%</b>	<b>25.2%</b>	<b>10.1%</b>	<b>-10.3%</b>	

Table 2: No. of Loan Applications Received and Approved (Jan - Jun '21)												
	New Providence			Grand Bahama			Family Islands			TOTAL		
	Received	Approved		Received	Approved		Received	Approved		Received	Approved	
		No.	Rate		No.	Rate		No.	Rate		No.	Rate
Mortgage	989	499	50.5%	124	57	46.0%	47	41	87.2%	1,160	597	51.5%
Consumer	9,768	7,504	76.8%	1,737	1,263	72.7%	458	362	79.0%	11,963	9,129	76.3%
Commercial	600	556	92.7%	21	10	47.6%	0	0	0.0%	621	566	91.1%
<b>TOTAL</b>	<b>11,357</b>	<b>8,559</b>	<b>75.4%</b>	<b>1,882</b>	<b>1,330</b>	<b>70.7%</b>	<b>505</b>	<b>403</b>	<b>79.8%</b>	<b>13,744</b>	<b>10,292</b>	<b>74.9%</b>

Table 3 Consumer Loans by Type (Jan - June '21)			
	Received	Approvals	
		No.	Rate
Private cars	853	660	77.4%
Taxis & rented cars	26	12	46.2%
Furnishings/Appliances	229	195	85.2%
Commercial vehicles	29	21	72.4%
Travel	975	792	81.2%
Education	361	304	84.2%
Medical	207	155	74.9%
Home improvements	912	737	80.8%
Land purchases	220	177	80.5%
Consolidation of debt	3978	2856	71.8%
Credit cards	1430	1010	70.6%
Other miscellaneous	2743	2210	80.6%