

QUARTERLY BANK LENDING CONDITIONS SURVEY REPORT (DECEMBER 2021)



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. The seven banks surveyed are asked about their views on changes in lending conditions from one quarter to the next.

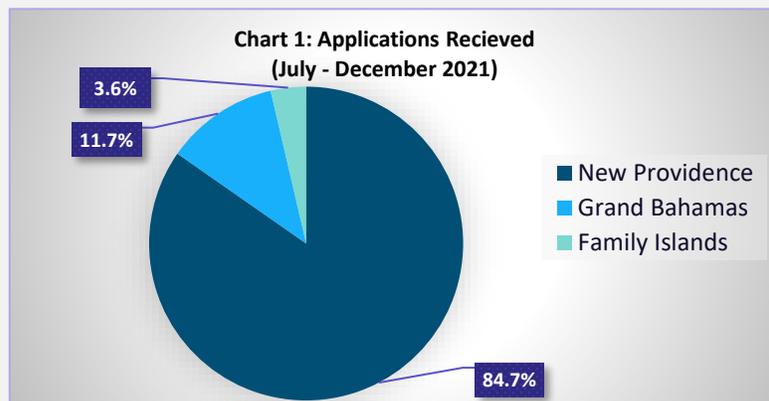
Prepared by: The Research Department



I. Overall Assessment

As COVID-19 restrictions waned, improvement in lending conditions and the demand for credit gained traction over the latter half of 2021, in-line with the gradual resumption in economic activity. The quarterly survey revealed that total applications for credit increased by 4.2% relative to June 2021. In particular, consumer credit applications firmed by 4.6%, while interest in commercial credit and mortgages both rose by 1.6%. On an annual basis, a similar firming trend was revealed broadly across mortgages (66.9%), commercial purposes (23.5%) and consumer loans (22.9%). Further, the overall approval or success rate for applications improved to 78.2%—respectively increased by 3.3 and by 10.8 percentage points over the half-year and on an annual basis. The outcome was due largely to higher success rates for consumer credit applications segment. Although lenders were more accommodative during the review period, they still cited high debt service ratio (or DSR), insufficient time on the job, and underemployed as the most common reasons for rejections.

***Both credit demand and improved, across major loan categories.
Meanwhile the average approval rate rose, due to increased accommodation for consumer loans.***



Applications Received

- 14,325
- Up 4.2% from six months to June 2021.
- Up 25.7% from six months to December 2020.

Applications Approved

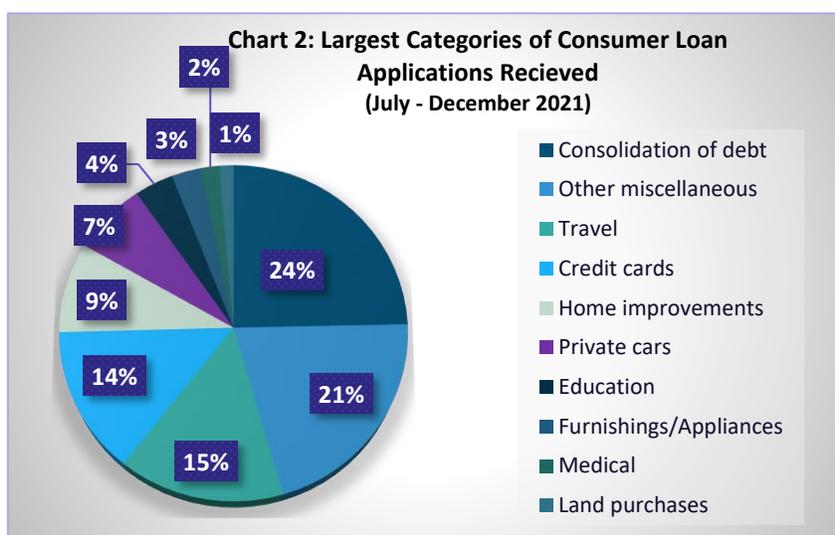
- 11,197
- Up 8.8% from June 2021, up 45.9% from December 2020.
- Approval Rate: 78.2%

Applications Denied

- 1,494
- Down 26.2% from 1st half 2021 and 50.2% from 2nd half 2020.
- Top reasons: High DSR, insufficient time on job, underemployed

II. Consumer Loans

Consumer loans represent 87.4% of total loan requests, with the number of applications increased by 4.6% over the prior six months, and by 22.9% relative to December 2020. Relative to the first half of 2021 application volumes grew in the Family Islands (6.3%) and New Providence (7.0%), but were reduced for Grand Bahama (9.3%). Meanwhile, when compared to the corresponding period of 2020, all segments recorded gains: the Family Islands (31.3%) New Providence (23.1%) and Grand Bahama (19.7%).

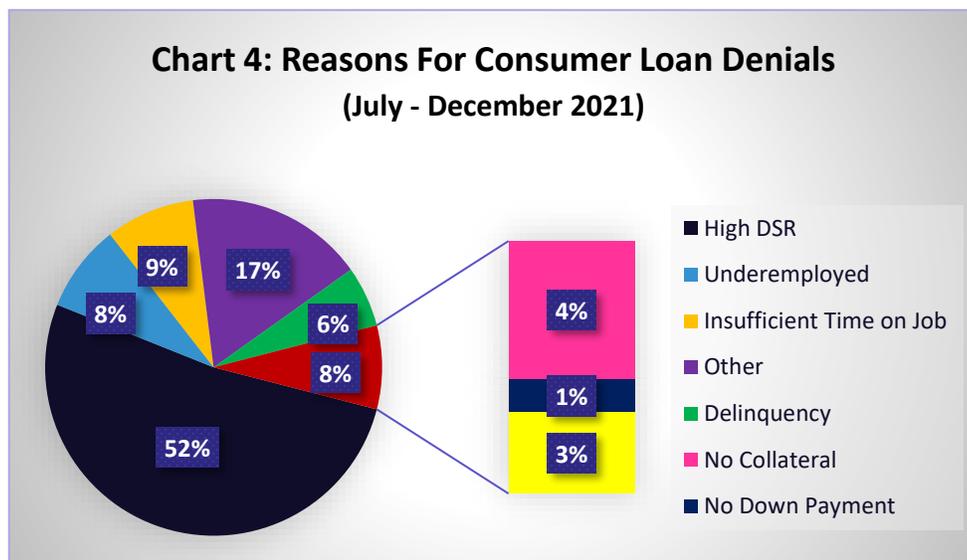
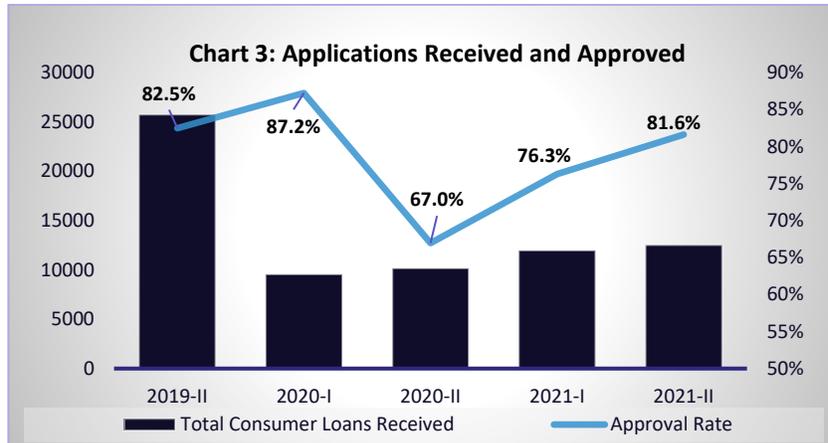


A disaggregation of the consumer component revealed that requests concentrated most for debt consolidation (24.5%), “other” miscellaneous reasons (20.8%), travel (14.9%) and credit cards (14.0%) (see Chart 2). A majority of the categories registered gains, although debt consolidation contracted by 22.8% on a half-year basis, and by 34.4% relative to December 2020. Of significance, travel loan applications almost doubled over the latter half of 2021¹. In addition, increases occurred for furnishings & appliances (53.7%), education (28.8%), credit cards (22.1%) and home improvement (18.8%). On an annual basis, applications strengthened considerably for credit cards and travel²; while notable gains also occurred for household and miscellaneous purposes and services³.

1 Applications for travel revealed gradual improvement toward pre-pandemic levels over the past two survey periods, associated with increased demand due to the relaxation of COVID-19 travel restrictions.

2 Credit cards (273.1%) and travel (171.1%) surged year-on-year (YOY).

3 Home improvement (57.9%), furnishings & appliances (57.1%), medical (43.6%), “other” miscellaneous (42.7%), and education (39.6%) also rose YOY.

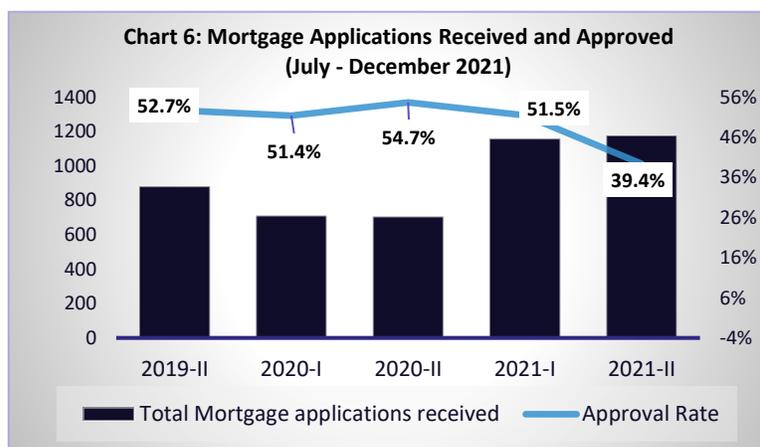
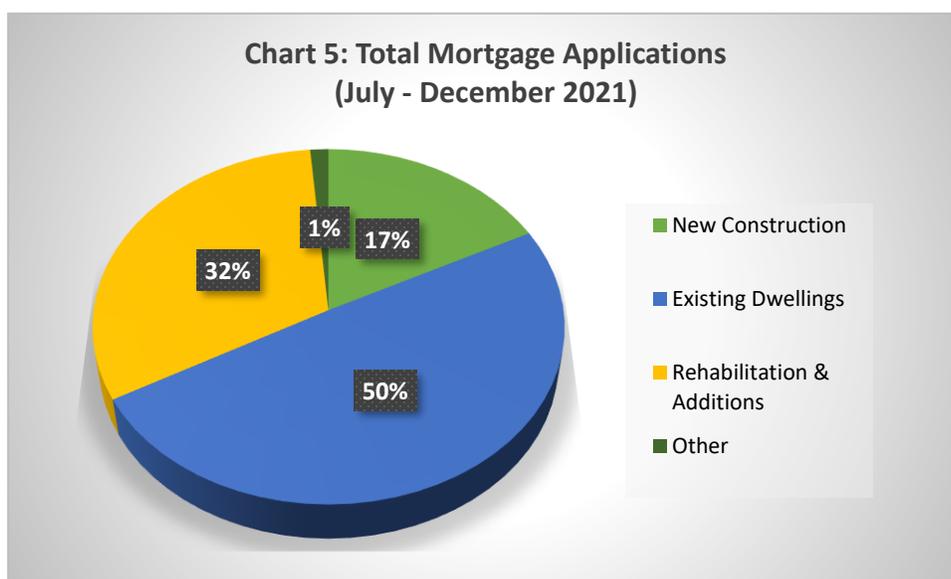


At 81.6%, the approval rate for consumer credit also improved, by 5.3 percentage points over the half-year, and by 14.6 percentage points, relative to December 2020. The outturn reflected gains in all geographic segments. Meanwhile, banks disclosed that a majority of loan denials were due to high debt-service ratios (52.0%). Other notable reasons included insufficient time on the job and underemployment.

III. Mortgages

Over the latter half of 2021, the number of mortgage applications grew by 1.6% to 1,178. Requests for residential mortgages continued to dominate, at 98.6% of the total. The total volume of residential mortgage applications also rose by 2.8%, relative to the previous six-month period, and by 65.5% year-on-year.

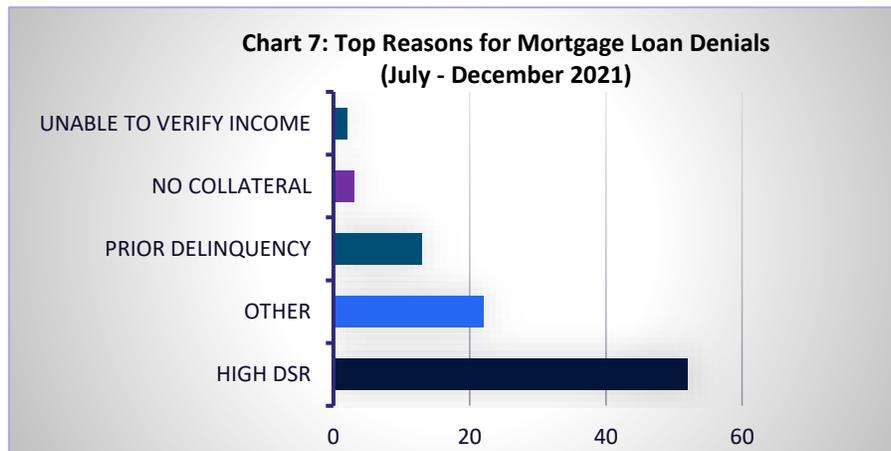
Chart 5 depicts total mortgage application categories. Of the applications received by banks, financing for existing residential dwellings accounted for 50.2% of the total while, rehabilitations & additions and mortgages for new construction represented 32.1% and 17.7%, respectively. Only 1.4% of requests were for commercial financing.



Although the total volume of mortgage applications was relatively stable vis-à-vis the first half of 2021, requests increased by 7.4% from New Providence, while the Family Islands and Grand Bahama

registered respective declines of 29.8% and 33.1%. Meanwhile, the growth in applications relative to December 2020, was largely attributed to higher demand from New Providence (78.5%) and Grand Bahama (10.7%), which overshadowed decreased requests from the Family Islands (8.3%).

Mortgage applications retained the lowest approval rate of all loan categories, at 39.4%, softening both from the first half of 2021 (51.5%) and December, 2020 (54.7%). A breakdown by structure revealed decreases in approval rates for existing dwellings (51.6%), new construction projects (36.4%) and rehabilitations & other additions (22.8%). Meanwhile, although the 18.8% approval rate for commercial mortgages nearly tripled relative to June 2021, it was reduced by 6.3 percentage points year-on-year.



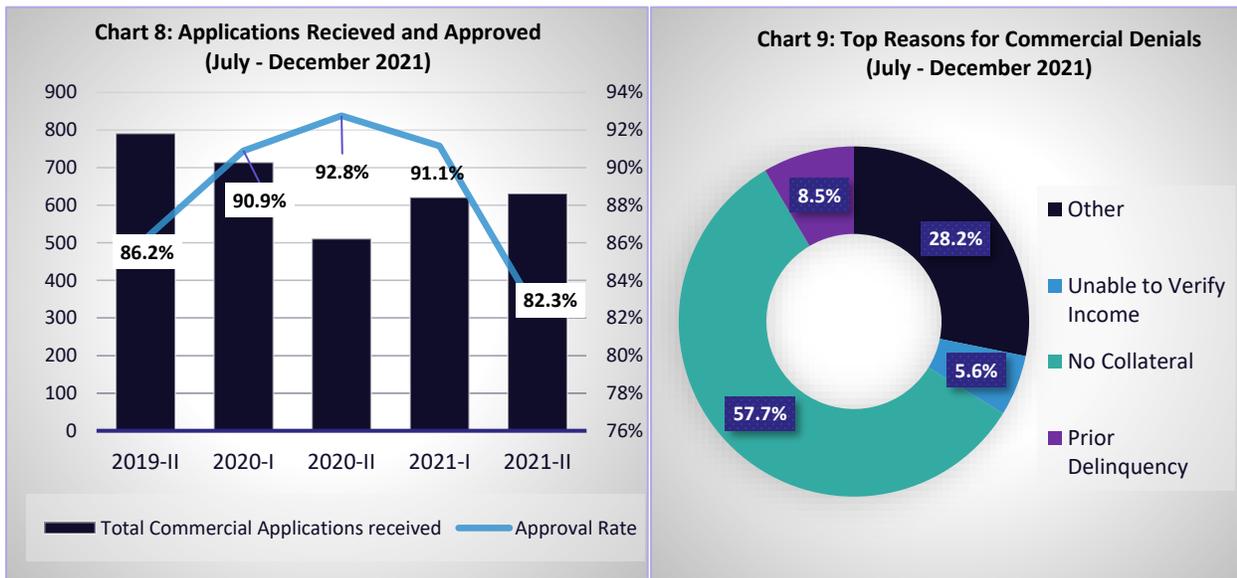
The primary specified reasons for the rejection of mortgage requests was applicants’ breach of the debt service ratio threshold of 40.0%-45.0% (50.5%) and prior loan delinquency (12.6%). Also, other “miscellaneous” reasons cited influenced one-fifth of rejections.⁴

⁴ These may include, but are not limited to low credit scores, lending outside of bank policy and missing information.

IV. Commercial Loans

Commercial requests comprised the smallest share of total credit applications (4.4%). During the six-months to December, banks reviewed 631 applications for commercial credit, representing a 1.6% increase over the first half of the year, and an improvement of 23.5% year-on-year. Nearly all of these applications were received from New Providence (98.1%).

However, the commercial loan approval rate of 82.3% was decreased by 8.9 percentage points vis-à-vis the preceding six month period, and by 10.5 percentage points, compared to December 2020. More than half of the unsuccessful commercial loan requests were as a result of no collateral (57.7%). Other reasons for denial included unclassified faults (28.2%)—such as, excessive risk, unacceptable overall financial position and inconsistent income—prior loan delinquencies (8.5%), and unverifiable income (5.6%).



V. Banks' Assessment of Credit Conditions

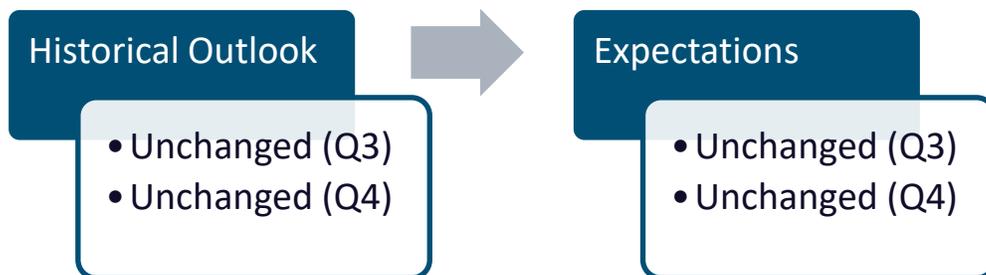
Supporting Lending Conditions

Approximately six of the seven lending institutions reduced loan rates during the last six months of 2021, in an effort to bolster lending conditions. Rates for mortgages and consumer loans were lowered by the majority of lenders in both the third and fourth quarters. Further, only one creditor reduced down payments, while two lenders extended payment terms. With regard to loan payment deferral, no lender permitted this option.



Historical Outlook

In assessment of the overall lending environment, creditors conveyed that compared to the prior period, conditions were largely unchanged. Likewise, borrowers loan eligibility, quality of collateral and borrowers debt servicing capacity were noted as staying the same.



Expectations in the Near-Term

In the third quarter of 2021, three of the seven creditors projected that credit conditions would remain largely unchanged, in the near-term, while three out of the seven banks expected conditions to improve. However, by the final quarter, all lenders estimated that conditions would largely stabilize.

VI. Conclusion

- ✓ The rebound in domestic demand for credit was sustained during the second half of 2021, reflecting the gradual resumption of activity within the economy, in the face of relaxing COVID-19 constraints.
- ✓ Consumer credit continued to dominate the volume of applications (87.4%). Total requests rose by 4.6% relative to the first half of 2021, and by 22.9% vis-à-vis December, 2020. Similarly, the average approval rates for such applications increased by 5.3 percentage points over the six month period, and by 14.6 percentage points, over the year, to 81.6%, reflecting rebounds across all credit markets.
- ✓ The number of mortgage applications rose by 2.8%, in comparison to the six months to June 2021; and by 65.5%, year-on-year. Notwithstanding, the approval rate declined to 39.4%, relative to 51.5% in June, and 54.7% in December, 2020.
- ✓ Commercial credit requests rose by 1.6% vis-à-vis the first half of 2021, and by 23.5% on an annual basis. The loan applications success rate narrowed to 82.3%.
- ✓ Primary reasons cited by creditors for the denial of loan requests were high debt-service ratios, underemployment and insufficient time on the job.

ANNEX

Table 1: No. of Loans Applications Received and Approved															
	2020			2021						Changes					
	Jul - Dec			Jan-Jun			Jul-Dec			Jul-Dec 21/Jan-Jun 21			Jul-Dec 2021/Jul-Dec 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	706	386	54.7%	1,160	597	51.5%	1,178	464	39.4%	1.6%	-22.3%	-12.1%	66.9%	20.2%	-15.3%
Consumer	10,181	6,817	67.0%	11,963	9,129	76.3%	12,516	10,214	81.6%	4.6%	11.9%	5.3%	22.9%	49.8%	14.6%
Commercial	511	474	92.8%	621	566	91.1%	631	519	82.3%	1.6%	-8.3%	-8.9%	23.5%	9.5%	-10.5%
TOTAL	11,398	7,677	67.4%	13,744	10,292	74.9%	14,325	11,197	78.2%	4.2%	8.8%	3.3%	25.7%	45.9%	10.8%

Table 2: No. of Loan Applications Received and Approved By Market (July - December '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	1,062	396	37.3%	83	43	51.8%	33	25	75.8%	1,178	464	39.4%
Consumer	10,453	8,529	81.6%	1,576	1,282	81.3%	487	403	82.8%	12,516	10,214	81.6%
Commercial	619	516	83.4%	11	3	27.3%	1	0	0.0%	631	519	82.3%
TOTAL	12,134	9,441	77.8%	1,670	1,328	79.5%	521	428	82.1%	14,325	11,197	78.2%

Table 3 Consumer Loans by Type (Jul - Dec '21)			
	Received	Approvals	
		No.	Rate
Private cars	878	693	78.9%
Taxis & rented cars	3	0	0.0%
Furnishings/Appliances	352	273	77.6%
Commercial vehicles	66	58	87.9%
Travel	1865	1582	84.8%
Education	465	395	84.9%
Medical	214	187	87.4%
Home improvements	1083	916	84.6%
Land purchases	172	112	65.1%
Consolidation of debt	3070	2597	84.6%
Credit cards	1746	1374	78.7%
Other miscellaneous	2602	2027	77.9%