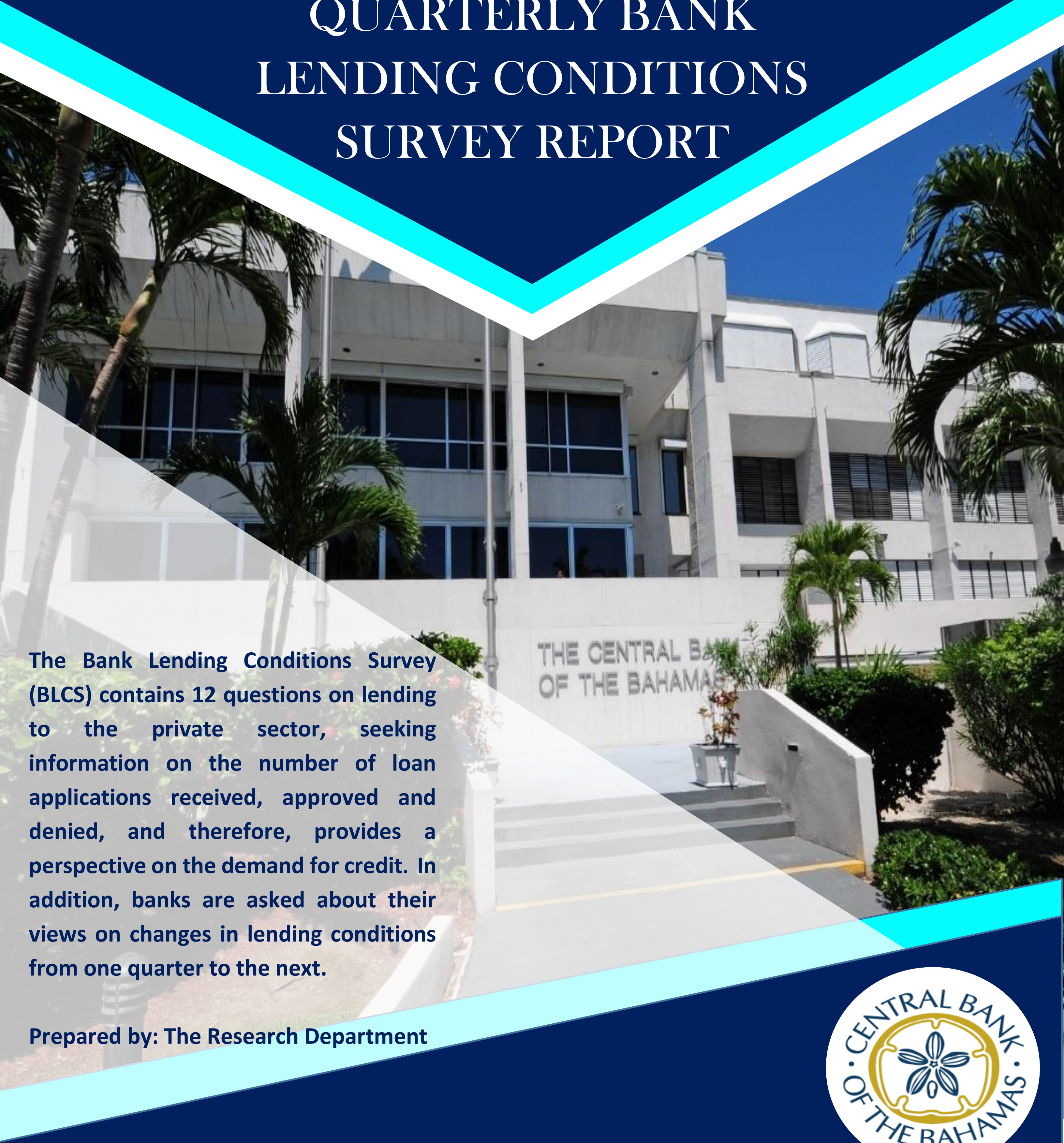
DECEMBER 2022

QUARTERLY BANK LENDING CONDITIONS SURVEY REPORT



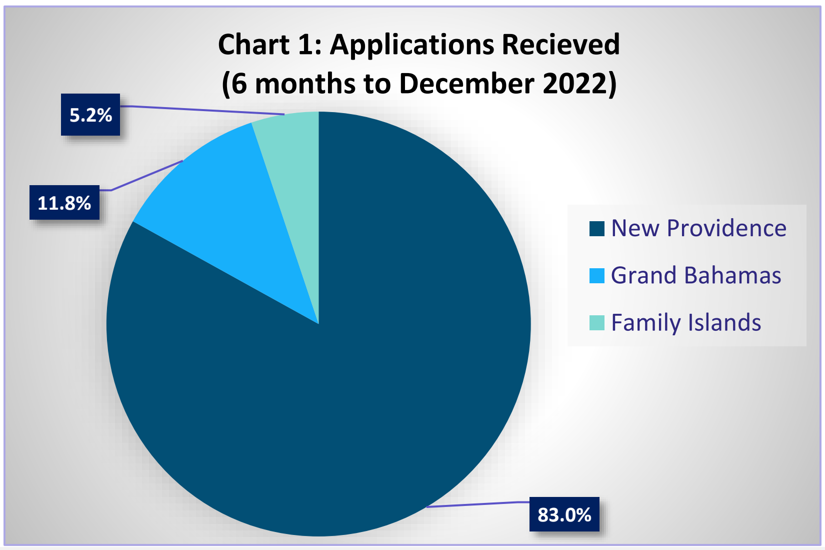
The Bank Lending Conditions Survey (BLCS) contains 12 questions on lending to the private sector, seeking information on the number of loan applications received, approved and denied, and therefore, provides a perspective on the demand for credit. In addition, banks are asked about their views on changes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

Prepared by: The Research Department

CENTRAL BANK OF THE BAHAMAS

I. Overall Assessment

The Central Bank's most recent survey of commercial banks revealed that Bank Lending Conditions and the demand for credit improved during the latter half of 2022, as the domestic economy sustained its recovery momentum from the negative effects of the Novel Coronavirus (COVID-19) pandemic. Total applications received increased, posting gains vis-à-vis June 2022 and December 2021, bolstered by applications for consumer loans. Moreover, the rate of approval on loan applications continued to trend upward. Meanwhile, for personal credit applications, lenders continue to cite high debt service ratio (DSR), delinquency in prior loans, underemployment and no collateral, as the top identified reasons for rejections in the review period.



…. Bank lending conditions improved during the latter half of 2022, evidenced by an increase in both the number of credit applications received and approved, as the economy maintained its recovery trajectory from the adverse effects of the COVID-19 pandemic.

Applications Recieved

- 16,037
- Up 10.4% from the six months to June 2022.
- Up 12.0% from the six months to December 2021.

Applications Approved

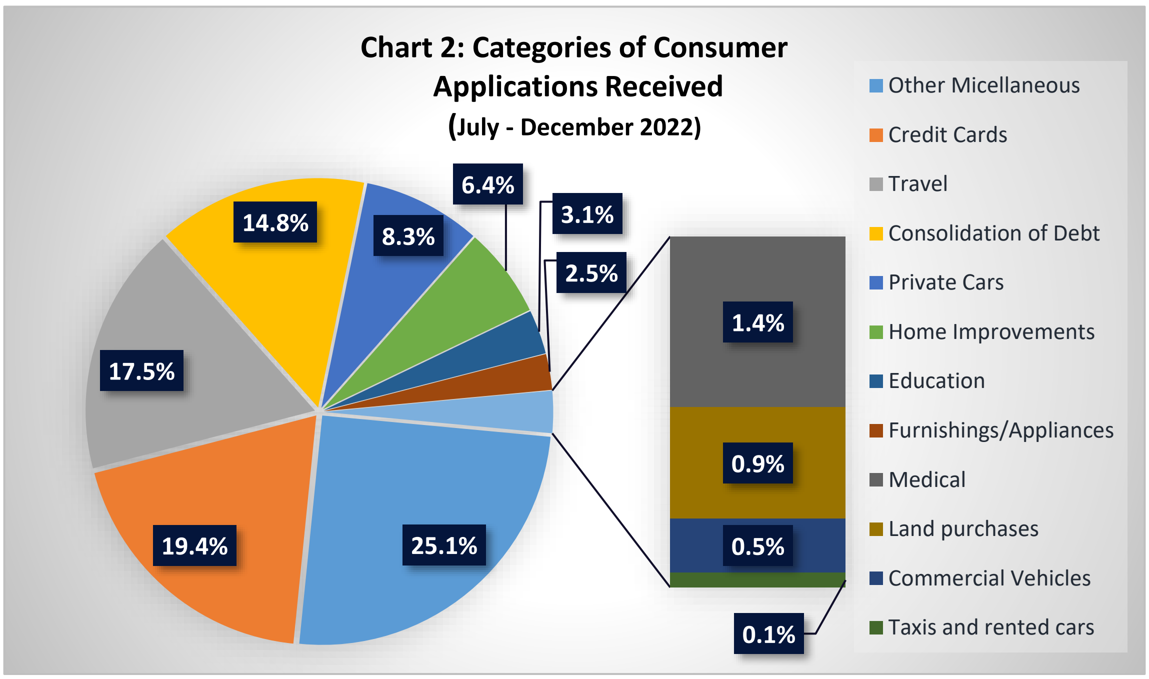
- 12,970
- Up 12.4% from June 2022, and up 15.8% from December 2021.
- Approval Rate: 80.9%

Loan Denials

- 1,780
- Up from 1,403 denials in June 2022.
- Top reasons: High DSR, prior delinquency and "other" (unclassified) reasons.

II. Consumer Loans

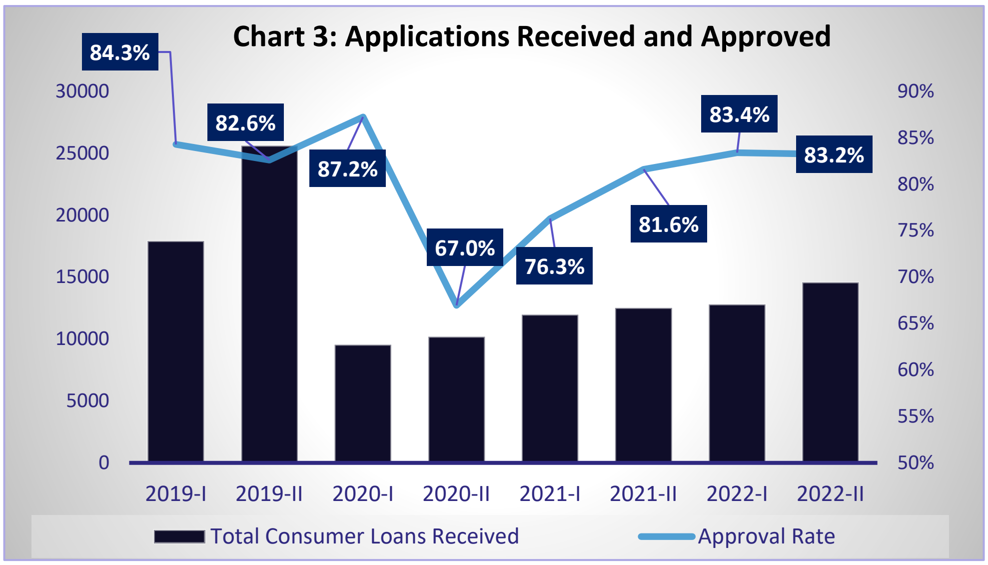
Accounting for 90.9% of total loan applications, consumer loans remained the dominant credit segment. The volume of loans requested rose by 14.0%, vis-à-vis the first half of 2022, and by 16.5%, when compared to December 2021. The pace of growth in the number of applications during the six-months to December 2022, relative to the previous six months, was led by the Family Islands (39.6%), followed by New Providence (14.7%) and Grand Bahama (1.9%). Similarly, in comparison to the corresponding period in 2021 , there was a significant increase in applications from the Family Islands, by 61.4%; Grand Bahama, by 15.9%; and New Providence, by 14.5%. Of the 14,758 consumer applications received, most requests were classified as "other" miscellaneous (25.1%), and then substantially for credit cards (19.4%), and travel (17.5%) (see Chart 2).

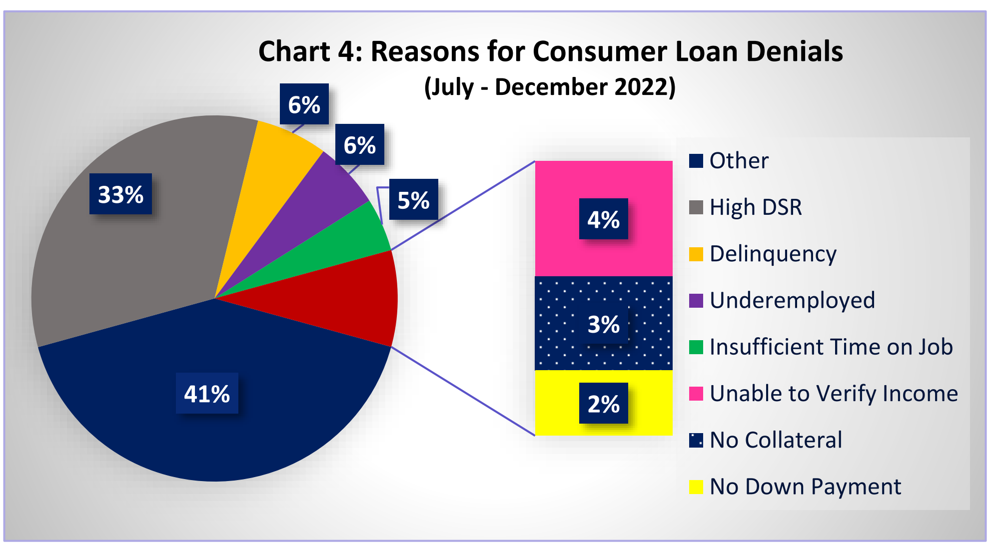


A year-on-year analysis (6-months to December vis-à-vis the same period in 2021) revealed that most consumer loan categories registered gains in the volume of requests for financing. Specifically, significant advancements were noted for taxis and rented cars[1], which rose more than four-fold, reflective of the Government's lifting of the moratorium on taxi plates, while requests for credit cards grew by 61.6%, and for "other" miscellaneous purposes, by 40.7%. Further, applications also rose considerably for private cars (37.9%), travel (36.7%), furnishings & appliances (4.6%) and commercial vehicles (1.5%). Conversely, notable reductions were realized in credit requests for debt consolidation (29.8%), land purchases (20.4%), home improvements (14.5%), education (2.4%) and medical (1.4%).

Concurring with the rise in requests, the number of approved loan applications rose by 18.8%, year-on-year, and by 13.8% relative to June 2022. Similarly, the average approval rate firmed by 1.6 percentage points to 83.2% relative December 2021. However, compared to the prior six-months, the approval rate decreased by 20 basis points.

In terms of loan denials, common identified reasons cited by banks were various "miscellaneous" factors (41.5%), including low credit scores, purposes outside of banks' practices, and non-permanent employment. Other reasons for denial were noted as high debt service ratios (33.1%), delinquency in prior loans (6.3%) and underemployment (5.9%).





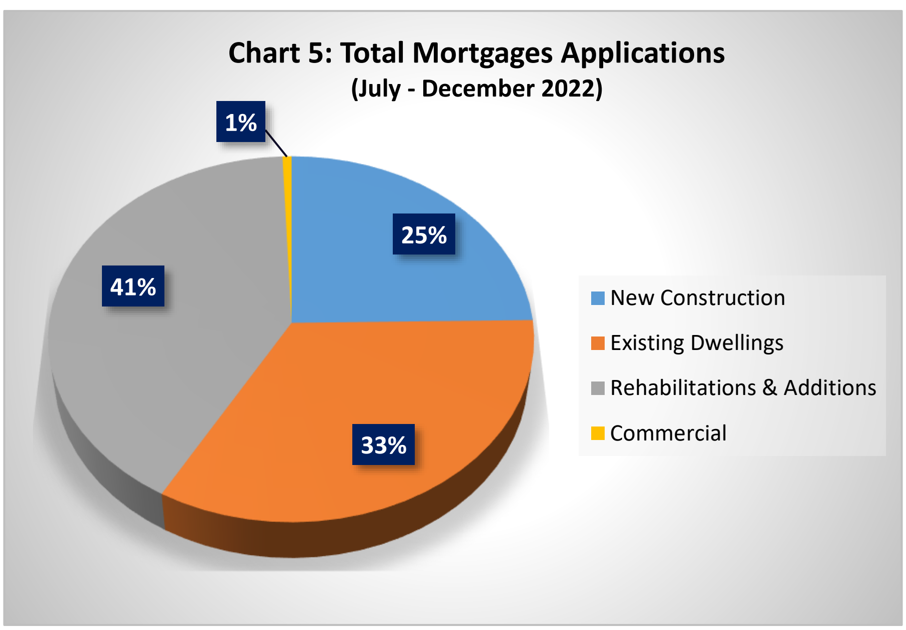
[1]Applications for taxis and rental cars expanded by 500.0%.

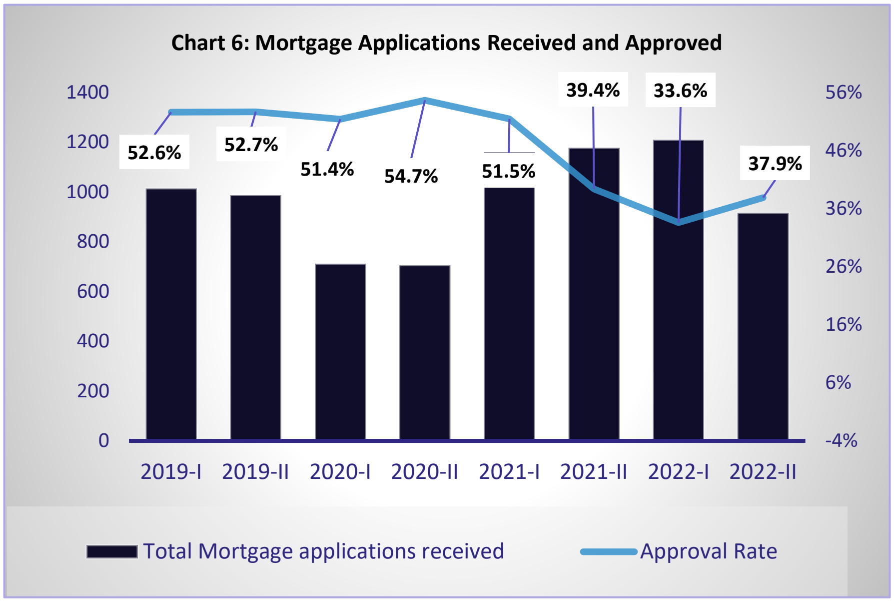
III. Mortgages

Over the latter half of 2022, lending institutions processed 911 residential mortgage applications; which represented 99.3% of the total mortgage applications received (917).

Residential mortgage applications contracted by 21.6% year-on-year, extending the 20.9% reduction in June 2022. By classification, credit requests for existing dwellings declined both year-on-year (47.3%) and in the six–months to June (26.2%). However, in the second half of the year, applications increased for new construction (10.2%) and rehabilitations & additions (1.1%), reversals from respective decreases in the first half of the year. Chart 5 below depicts total mortgage application categories.

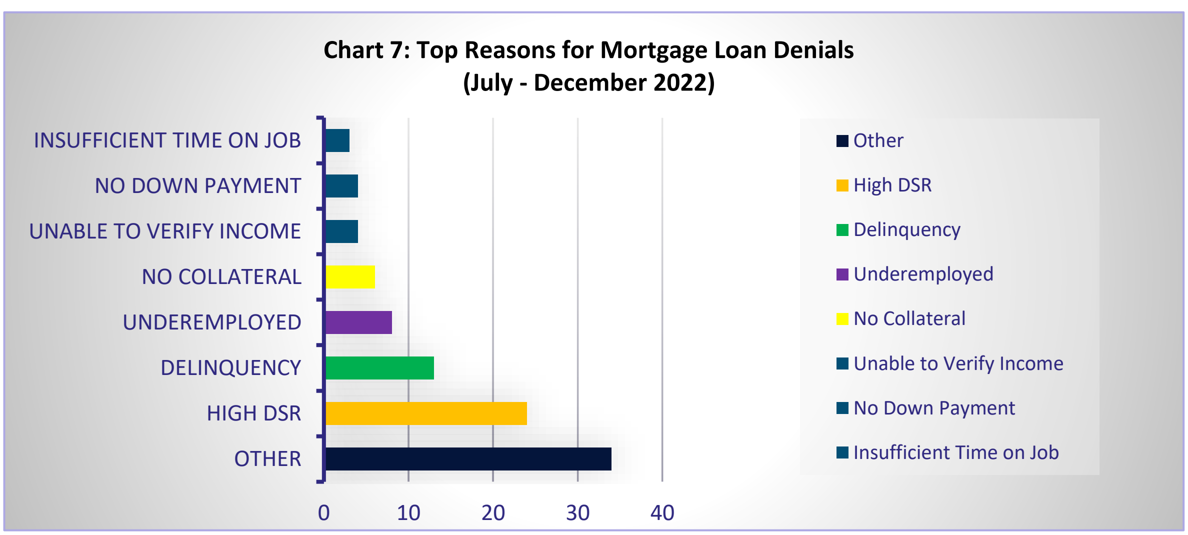
Financing sought against rehabilitations & additions accounted for 41.1% of the total applications, while existing residential dwellings and mortgages for new construction comprised 33.5% and 24.8%, respectively. Meanwhile, commercial financing requests made up just 1.0% of requests.





Categorized by island, a year-on-year analysis indicated mixed outturns. The number of applications originating from the Family Islands grew by 9.1%, while requests decreased from New Providence (23.5%) and Grand Bahama (18.1%). Likewise, comparative to June 2022, mortgage applications rose for the Family Islands (28.6%), while contractions were recorded for New Providence (26.9%) and for Grand Bahama (4.2%).

An estimated 37.9% of mortgages were approved over the last half of 2022—the lowest approval rate of all loan categories. Although this acceptance rate was higher by 4.3 percentage points vis-à-vis June 2022, it fell 1.4 percentage points lower than in the second half of 2021. Specifically, 61.6% of the financing requests for existing dwellings were approved, while approval rates of 32.6% and 22.3% were realized against new construction and renovations, respectively.



The primary reason for mortgage application denials—35.4% of instances—was other "miscellaneous" factors[2]. Other reasons mentioned included pre-existing debt service ratios, which surpassed the revised threshold of 50.0%[3] (25.0%), prior loan delinquency (13.5%), underemployed (8.3%), insufficient collateral (6.3%), unverifiable income (4.2%), no down payment (4.2%) and insufficient time on job (3.1%).

[2] These may include, but are not limited to low credit scores, lending outside of bank policy and missing information.
[3] In August 2022, the threshold increased to 50.0% from a range of 40.0%-45.0%.

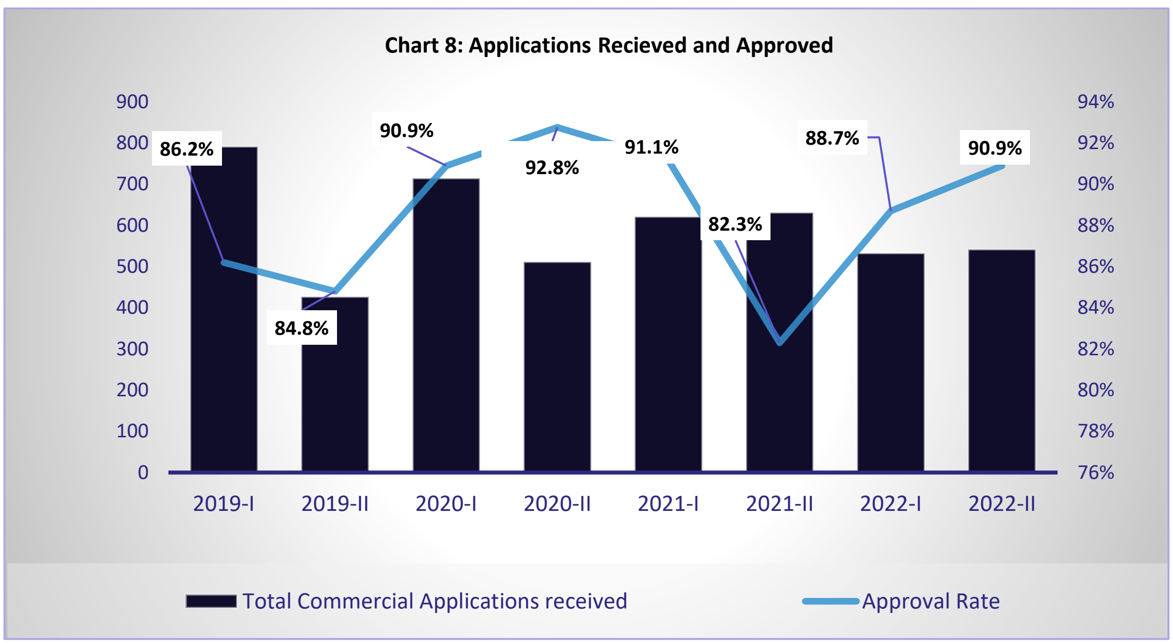
IV. Commercial Loans

During the six-months to December, respondent banks processed 542 applications for commercial credit, which accounted for only 3.4% of total applications. The outcome represented a decline of 14.1% year-on-year, while an increase of 1.9% in comparison to June 2022.

Commercial applications averaged an approval rate of 90.6%, surpassing June 2022 and December 2021 approval rates by 1.9 and by 8.3 percentage points, respectively.

The majority of applications were for enterprises in New Providence, with an approval rate of 90.9%. In addition, in Grand Bahama, 33.3% of applications were successful. With regard to Family Island ventures, one application was submitted and approved.

All unsuccessful commercial loan requests were due primarily to reasons such as, excessive risk, not meeting requirements for commercial lending, and insufficient income.



V. Banks' Assessment of Credit Conditions

Supporting Lending Conditions

Of the seven banks surveyed, most reduced lending rates during the second half of 2022, in an attempt to bolster lending conditions. Institutions, specifically, decreased mortgage and consumer rates in the third and fourth quarters. In addition two of the seven lenders lowered down payment requirements and extended payment terms, while no lender offered new deferral arrangements were disclosed for monthly payments.

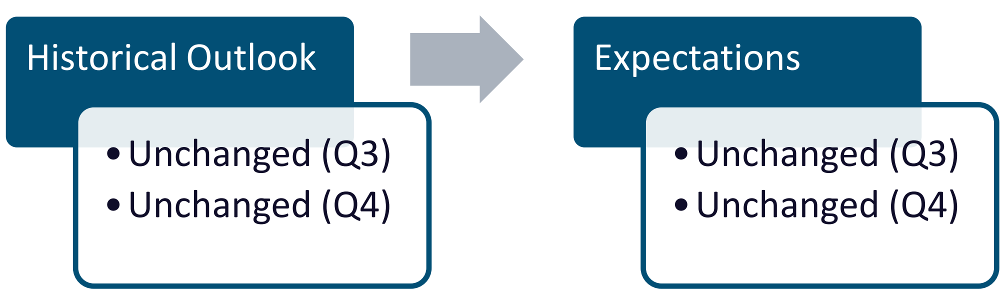
Table 1: Second Half of 2022 Lending Conditions

Of 7 lenders, for:	**Quarter III 2022**		**Quarter IV 2022**	
	Mortgage	*Consumer*	*Mortgage*	*Consumer*
Reduced Lending Rate	5	5	5	5
Reduced Down Payment	2	2	1	1
Extended Payment Terms	1	2	2	2
Deferred Payments	0	0	0	0

Note: A lender can appear one or several categories at once. Categories are not mutually exclusive.

Historical Outlook

When asked to characterise the overall lending environment, creditors indicated that compared to the first two quarters, conditions were largely unchanged in the third and fourth quarters of 2022. Likewise, borrowers loan eligiblity, quality of collateral and borrowers debt servicing capcity remained the same.



Expectations in the Near-Term

In the last half of 2022, the majority of creditors expected credit conditions to remain largely unchanged.

VI. Conclusion

- ✓ Indicated by the high volume of loan applications, local credit demand improved during the July to December 2022 period, similar to trends recorded in the previous year.

- ✓ Consumer loan applications continued to dominate, representing 90.1% of total applications. The average approval rate improved to 83.2%, vis-à-vis December 2021. However, in comparison to the prior six-months, the average approval rate fell by 20 basis points.

- ✓ The number of residential mortgage applications declined by 22.2% year-on-year and by 24.3% relative to the six months to June 2022. Similarly, the approval rate reduced by 1.6 percentage points, to 38.1%, over the same period last year. In contrast, compared to June 2022, application success rates advanced by 3.3%.

- ✓ Relative to December 2021, demand for commercial credit declined, as applications received reduced by 14.1% year-on-year. Conversely, vis-à-vis the six-months to June 2022, requests rose by 1.9%. Meanwhile, the average approval rate remained near 90.0%.

- ✓ The highest concentration of unsuccessful credit applications continued to be attributed to factors such as, debt service above the threshold, underemployment, no collateral and delinquency in prior loans; and justification lumped together under “other” unclassified reasons as, excessive risk, unacceptable overall financial position, and inconsistent income.

ANNEX

Table 1: No. of Loans Applications Received and Approved														
	2021			2022						Changes				
	Jul - Dec			Jan-Jun			Jul-Dec			Jul-Dec 22/Jan-Jun 22			Jul-Dec 2022/Jul-Dec 2021		
	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	1,178	464	39.4%	1,211	407	33.6%	917	348	37.9%	-24.3%	-14.5%	4.3%	-22.2%	-25.0%	-1.4%
Consumer	12,516	10,214	81.6%	12,789	10,661	83.4%	14,578	12,131	83.2%	14.0%	13.8%	-0.1%	16.5%	18.8%	1.6%
Commercial	631	519	82.3%	532	472	88.7%	542	491	90.6%	1.9%	4.0%	1.9%	-14.1%	-5.4%	8.3%
TOTAL	**14,325**	**11,197**	78.2%	**14,532**	**11,540**	79.4%	**16,037**	**12,970**	80.9%	10.4%	12.4%	1.5%	12.0%	15.8%	2.7%

Table 2: No. of Loan Applications Received and Approved (Jul - Dec '22)												
	New Providence			Grand Bahama			Family Islands			TOTAL		
	Received	Approved		Received	Approved		Received	Approved		Received	Approved	
		No.	Rate		No.	Rate		No.	Rate		No.	Rate
Mortgage	813	295	36.3%	68	30	44.1%	36	23	63.9%	917	348	37.9%
Consumer	11,966	10,086	84.3%	1,826	1,372	75.1%	786	673	85.6%	14,578	12,131	83.2%
Commercial	538	489	90.9%	3	1	33.3%	1	1	100.0%	542	491	90.6%
TOTAL	**13,317**	**10,870**	**81.6%**	**1,897**	**1,403**	**74.0%**	**823**	**697**	**84.7%**	**16,037**	**12,970**	**80.9%**

Table 3 Consumer Loans by Type (Jul - Dec '22)			
	Received	Approvals	
		No.	Rate
Private cars	1211	940	77.6%
Taxis & rented cars	18	6	33.3%
Furnishings/Appliances	368	291	79.1%
Commercial vehicles	67	52	77.6%
Travel	2550	2165	84.9%
Education	454	396	87.2%
Medical	211	177	83.9%
Home improvements	926	759	82.0%
Land purchases	137	89	65.0%
Consolidation of debt	2154	1828	84.9%
Credit cards	2821	2385	84.5%
Other miscellaneous	3661	3043	83.1%