JUNE 2023

QUARTERLY BANK LENDING CONDITIONS SURVEY REPORT

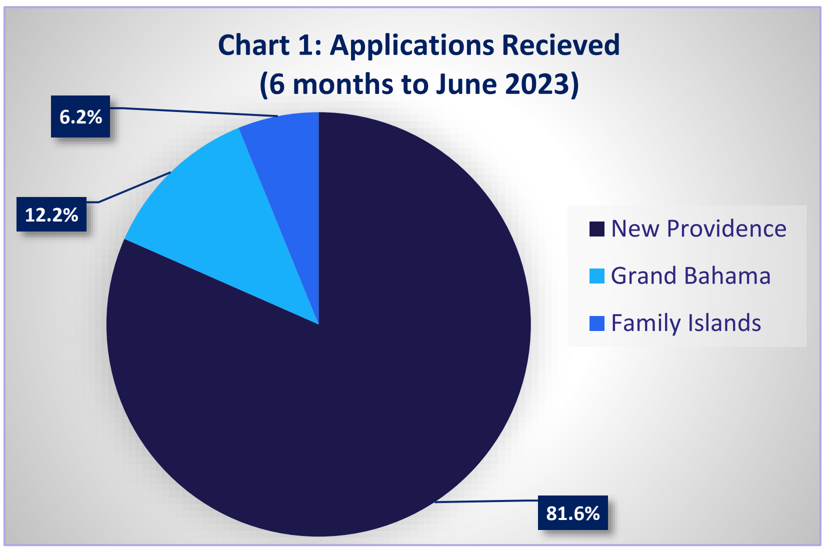
The Bank Lending Conditions Survey (BLCS) contains 12 questions on lending to the private sector, seeking information on the number of loan applications received, approved and denied, and therefore, provides a perspective on the demand for credit. In addition, banks are asked about their views on changes 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 latest survey of commercial banks signaled an improvement in bank lending conditions and credit demand in the first six-months of 2023—when compared to the same period in 2022—evidenced by a rise in total applications received, particularly for consumer loans. However, the rate of approval on loan applications decreased during the first half of the review year vis-à-vis the six-month period ending June 2022. Moreover, during the review period, leading reasons cited for denials at lending institutions for personal applications, were high debt service ratio (DSR), no collateral, insufficient time on the job and underemployment.

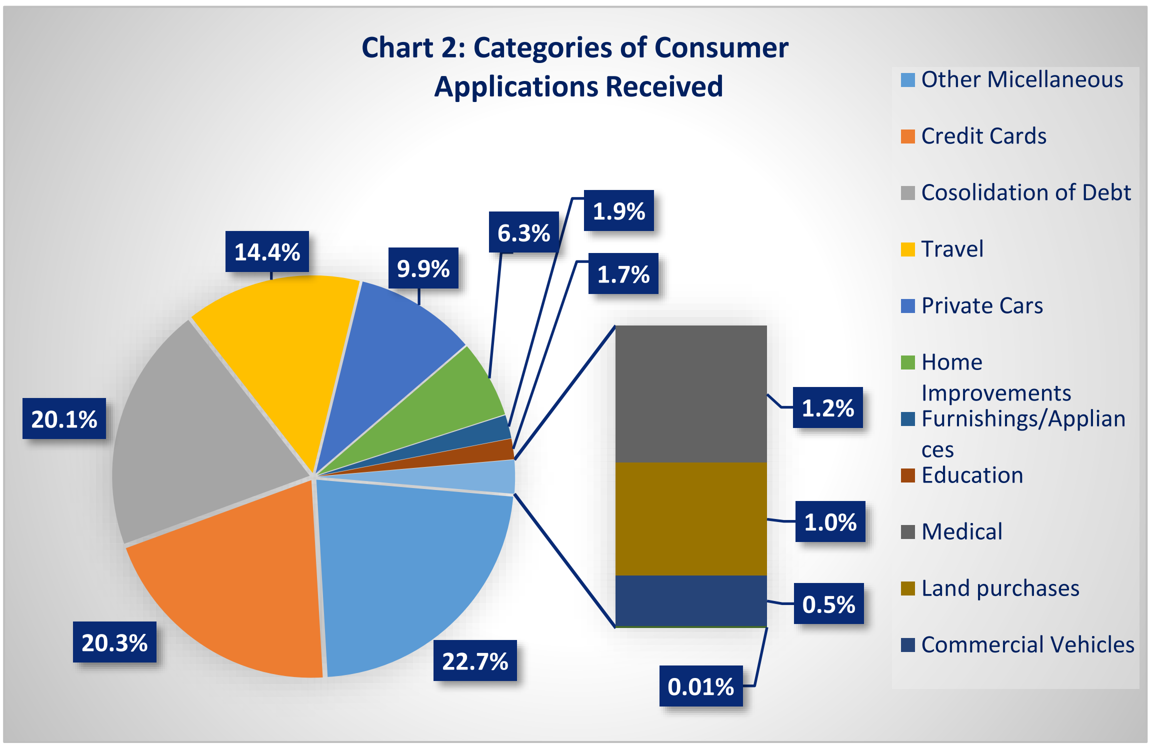


"In comparison to the first half of 2023, bank lending conditions improved, as the number of credit applications rose. However, the approval rates slowed, relative to June 2022."

Applications Recieved	Applications Approved	Loan Denials
• 15,899 • Up 9.4% from the six months to June 2022.	• 11,954 • Up 3.6% from June 2022. • Approval Rate: 75.2%	• 2,450 • Up from 1,403 denials in June 2022. • Top reasons: High DSR, no collateral and underemployment.

II. Consumer Loans

Comprising 89.8% of total loan applications, consumer loans remained the dominant credit component, as demand rose by 11.6% year-on-year (6-months to June vis-à-vis the same period in 2022), supported by an increase in applications from the Family Islands (67.0%), followed by New Providence (10.1%) and Grand Bahama (2.7%). Of the 14,271 consumer loan applications received, requests were primarily for “other” miscellaneous purposes (22.7%), credit cards (20.3%) and consolidation of debt (20.1%) (see Chart 2).

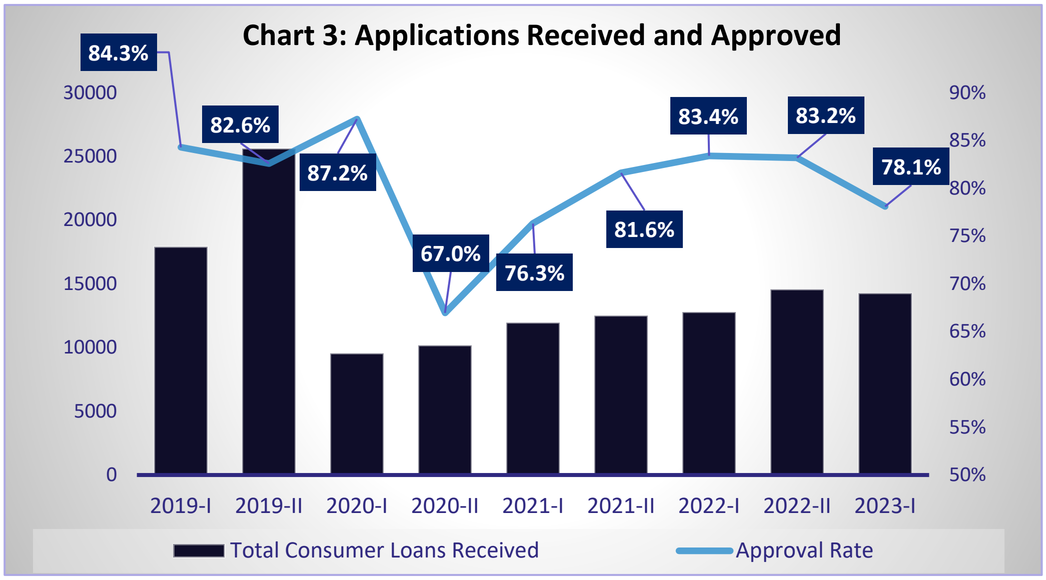


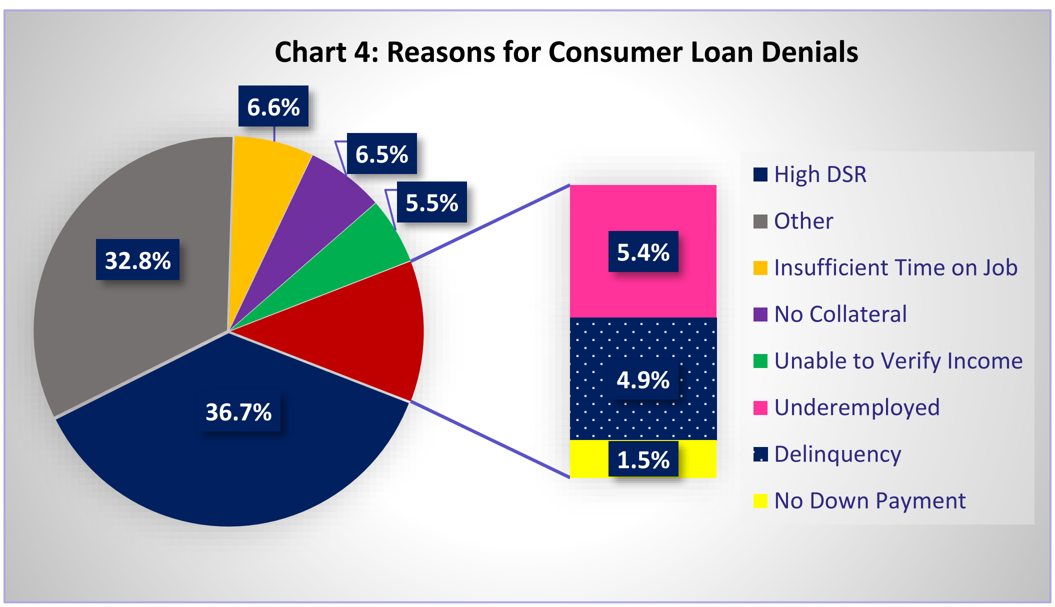
A disaggregation of the consumer segment showed that the number of credit requests expanded for credit cards, by 78.5% and private cars, by 57.8%. Further, a rise in loan applications were also recorded for consolidation of debt (26.6%) and land purchases (2.8%). Conversely, requests reduced for taxis & rented cars (85.7%), education (30.8%), furnishings/appliances (24.2%), “other” miscellaneous purposes (14.8%), medical (9.6%), home improvements (7.0%), commercial vehicles (2.9%) and travel (2.7%).

Corresponding with the trend in requests, the number of successful or approved credit applications rose by 4.5%, relative to the prior year. However, the average approval rate narrowed by 5.3 percentage points to 78.1% in contrast to June 2022.

Concerning loan denials, reasons frequently cited by banks were elevated debt service ratios (36.7%), other “miscellaneous” factors (32.8%), insufficient time on the job (6.6%) and no collateral (6.5%).

Miscellaneous factors included low credit scores, poor risk, and purposes outside of banks' business models.



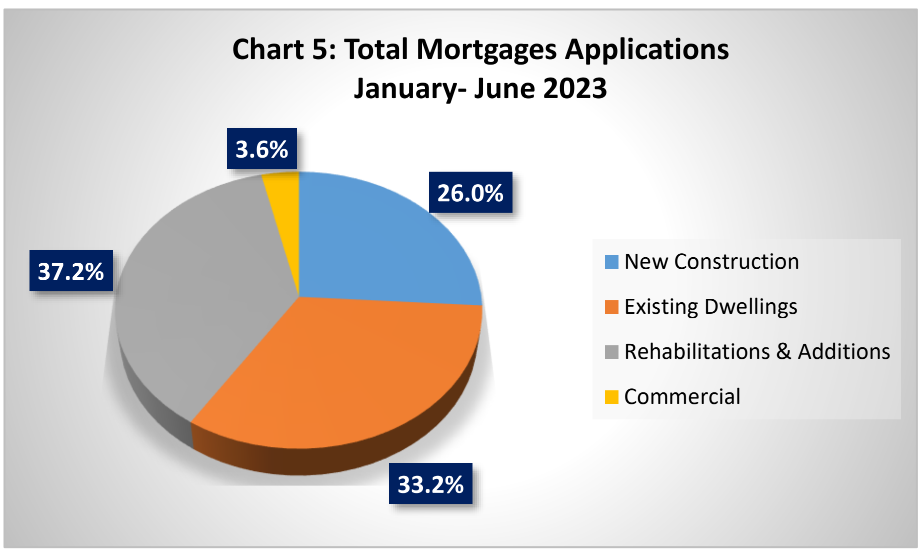


III. Mortgages

During the six-months to June 2023, banks processed 1,104 mortgage applications, of which residential mortgage requests represented 96.4% of the total.

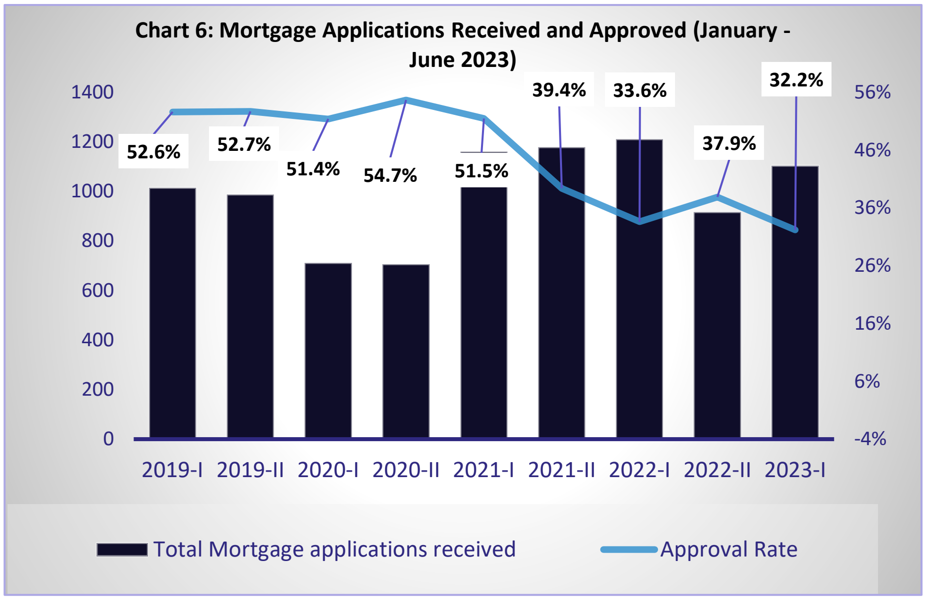
Total mortgage applications contracted by 8.8%, year-on-year, attributed to a decline in credit requests for existing dwellings by 12.0% and new construction by 13.8%. Meanwhile, gains of 2.2% were registered for rehabilitations & additions.

Financing sought against rehabilitations & additions constituted 37.2% of requests, while existing residential dwellings represented 33.2% and new construction, 26.0%. Further, commercial financing applications accounted for 3.6% of mortgage demand. The chart below (chart 5) depicts total mortgage application categories.

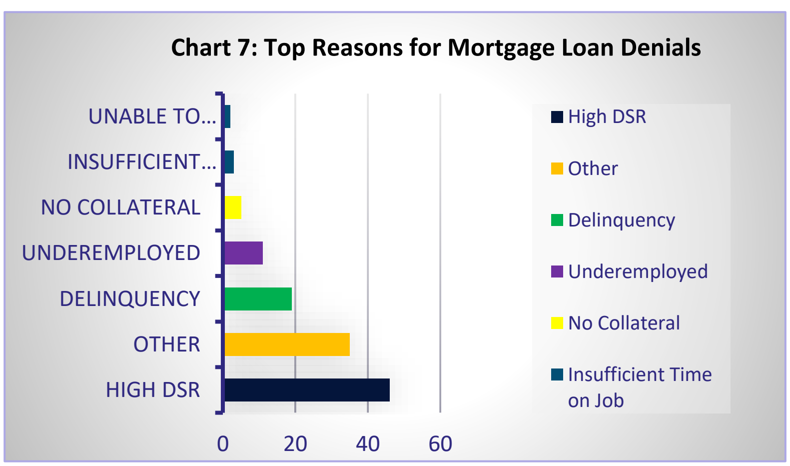


Classified by island, analysis indicated mixed outturns in the number of mortgage applications received by institutions. Specifically, requests for the Family Islands expanded by 35.7%. In contrast, mortgage applications contracted by 10.3% in New Providence and 4.2% in Grand Bahama.

Approximately 32.2% of mortgages were approved in the six-months to June 2023, indicative of a 1.4 percentage points decrease relative to the same period in the prior year. A breakdown by structure revealed 56.8% of applications against existing dwellings projects were successful, while 36.6% and 8.3% of the requested financing against new construction and renovations, respectively, were approved.



With regard to rejected applications, other "miscellaneous" factors—inclusive of, but not limited to, low credit scores, lending outside of bank policy and missing information—were the foremost reason quoted for loan denials (41.4%). Other factors included breaching the total debt service ratio threshold of 50.0% of income (33.6%), previous loan delinquency (10.3%), underemployment (10.3%), insufficient collateral (2.6%), insufficient time on job (0.9%) and unverifiable income (0.9%).



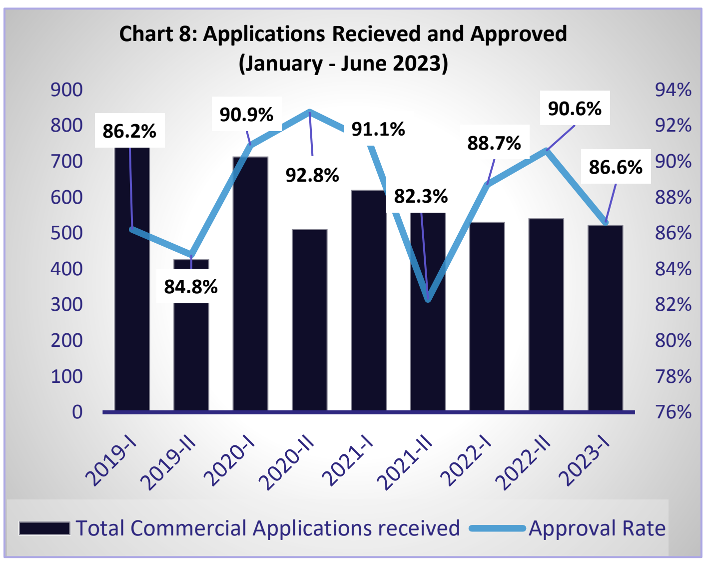
IV. Commercial Loans

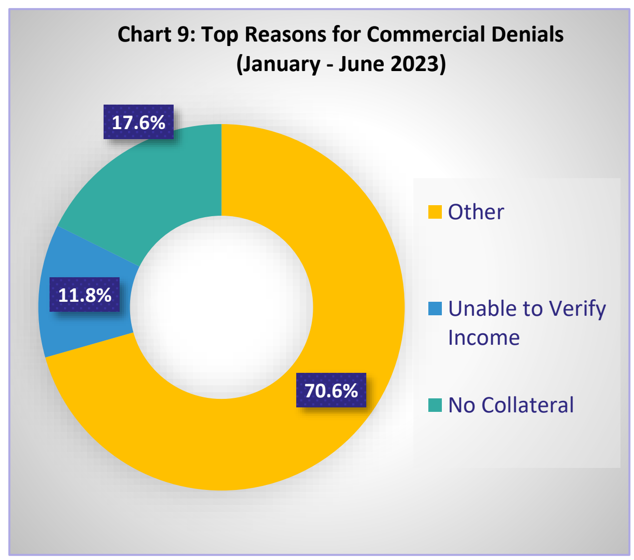
Banks received 524 commercial credit applications over the first half of 2023, reflecting a decrease of 1.5% year-on-year, owing to lower demand from the New Providence market.

The average approval rate for commercial loans declined by 2.1 percentage points, year-on-year, to 86.6%.

The majority of requests were made for enterprises in New Providence, of which 87.0% were approved. Likewise, in Grand Bahama, the success rate moved higher to 81.1%. In the Family Islands, one application was submitted and approved.

The majority of commercial loan applications that were denied were due to miscellaneous reasons (70.6%)—such as, excessive risk, unacceptable overall financial position and inconsistent income. Other reasons for denial were no collateral (17.6%) and inability to verify income (11.8%).





V. Banks' Assessment of Credit Conditions

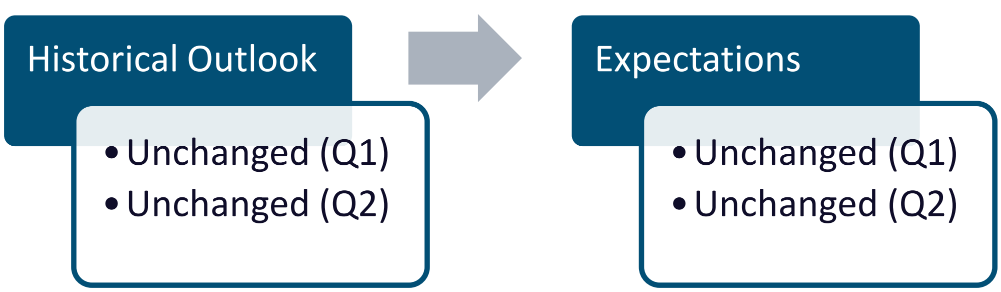
Supporting Lending Conditions

Of the seven banks surveyed, most reduced lending rates during the first half of 2023, in an effort to support lending conditions. In particular, mortgage rates were reduced in the first quarter and extended into the second quarter; and likewise for consumer loan rates. With reference to reducing down payments and extending payment terms, most creditors maintained equity requirements, while no new deferral arrangements were reported for monthly payments.

Table 1: First Half of 2023 Lending Conditions				
Of 7 lenders, for:	**Quarter I 2023**		**Quarter II 2023**	
	Mortgage	*Consumer*	*Mortgage*	*Consumer*
Reduced Lending Rate	5	5	5	5
Reduced Down Payment	3	1	1	0
Extended Payment Terms	1	3	2	2
Deferred Payments	0	0	0	0
Note: A lender can appear in one or several categories at once. Categories are not mutually exclusive.				

Historical Outlook

When asked to comment on the overall lending environment, most creditors expressed that compared to the same period last year, conditions were largely unchanged in the first six-months of 2023. Likewise, borrowers' loan eligibility, quality of collateral and borrowers debt servicing capacity remained largely the same.



Expectations in the Near-Term

In the first half of 2023, the majority of creditors expected credit conditions to remain the same in the near term.

VI. Conclusion

- Domestic credit demand, evidenced in the volume of loan applications, strengthened during the January to June 2023 period, extending gains registered same period last year.

- Consumer credit continued to be the dominant segment of total applications at 89.8% of total applications. However, the average approval rate narrowed by 5.3 percentage points vis-à-vis June 2022.

- The volume of total mortgage applications contracted by 8.8% when compared to the previous year, with the approval rate tapering by 1.4 percentage points, to 32.6%.

- Commercial credit demand moderated during the six-months to June 2023; specifically, the number of applications received reduced by 1.5%. However, the commercial loan applications approval rate remained near 90.0%.

- A significant number of unsuccessful credit applications was attributed to factors such as, high debt service ratio (DSR), no collateral, insufficient time on the job and underemployment.

Annex

Table 1: No. of Loans Applications Received and Approved															
	2022						2023			Changes					
	Jan-Jun			Jul-Dec			Jan-Jun			Jan-Jun 23/Jul-Dec 22			Jan-Jun 23/Jan-Jun 22		
	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	1,211	407	33.6%	917	348	37.9%	1,104	356	32.2%	20.39%	2.30%	-5.7%	-8.8%	-12.5%	-1.4%
Consumer	12,789	10,661	83.4%	14,578	12,131	83.2%	14,271	11,144	78.1%	-2.11%	-8.14%	-5.1%	11.6%	4.5%	-5.3%
Commercial	532	472	88.7%	542	491	90.6%	524	454	86.6%	-3.32%	-7.54%	-3.9%	-1.5%	-3.8%	-2.1%
TOTAL	**14,532**	**11,540**	79.4%	**16,037**	**12,970**	80.9%	**15,899**	**11,954**	75.2%	-0.86%	-7.83%	-5.7%	9.4%	3.6%	-4.2%

Table 2: No. of Loan Applications Received and Approved By Island (Jan - Jun '23)												
	New Providence			Grand Bahama			Family Islands			TOTAL		
	Received	Approved		Received	Approved		Received	Approved		Received	Approved	
		No.	Rate		No.	Rate		No.	Rate		No.	Rate
Mortgage	998	285	28.6%	68	48	70.6%	38	23	60.5%	1,104	356	32.2%
Consumer	11,490	9,170	79.8%	1,841	1,207	65.6%	940	767	81.6%	14,271	11,144	78.1%
Commercial	486	423	87.0%	37	30	81.1%	1	1	100.0%	524	454	86.6%
TOTAL	**12,974**	**9,878**	**76.1%**	**1,946**	**1,285**	66.0%	**979**	**791**	80.8%	**15,899**	**11,954**	75.2%

Table 3 Consumer Loans by Type (Jan - June '23)			
	Received	Approvals	
		No.	Rate
Private cars	1411	1096	77.7%
Taxis & rented cars	2	0	0.0%
Furnishings/Appliances	273	235	86.1%
Commercial vehicles	66	56	84.8%
Travel	2049	1701	83.0%
Education	240	207	86.3%
Medical	178	150	84.3%
Home improvements	902	707	78.4%
Land purchases	146	97	66.4%
Consolidation of debt	2863	1989	69.5%
Credit cards	2900	2424	83.6%
Other miscellaneous	3241	2482	76.6%