



QUARTERLY BANK LENDING CONDITIONS SURVEY REPORT (JUNE 2015)

Understanding trends and developments in domestic credit conditions is integral to the Central Bank of The Bahamas' (the Central Bank) mandate to promote financial sector soundness and stability. The Central Bank launched its quarterly survey of Bank Lending Conditions Survey (BLCS) during the second quarter of 2015, with the aim of improving the analysis of developments in the loan market, by augmenting the existing quantitative data collected on credit extended by the commercial banks.

The BLCS contains twelve (12) questions on lending to households and businesses (see **Annex A**), seeking information on the number of loan applications received, approved and denied, and therefore provides a perspective on the demand for credit in New Providence, Grand Bahama and the Family Islands. There is also a forward looking, quantitative component to the BLCS, where respondents are invited to express their views on whether several indicators of lending conditions have improved, worsened or remained the same, and their expectations for the coming quarter. The Central Bank intends to conduct the BLCS at the start of each quarter and examine these developments for the preceding three months.

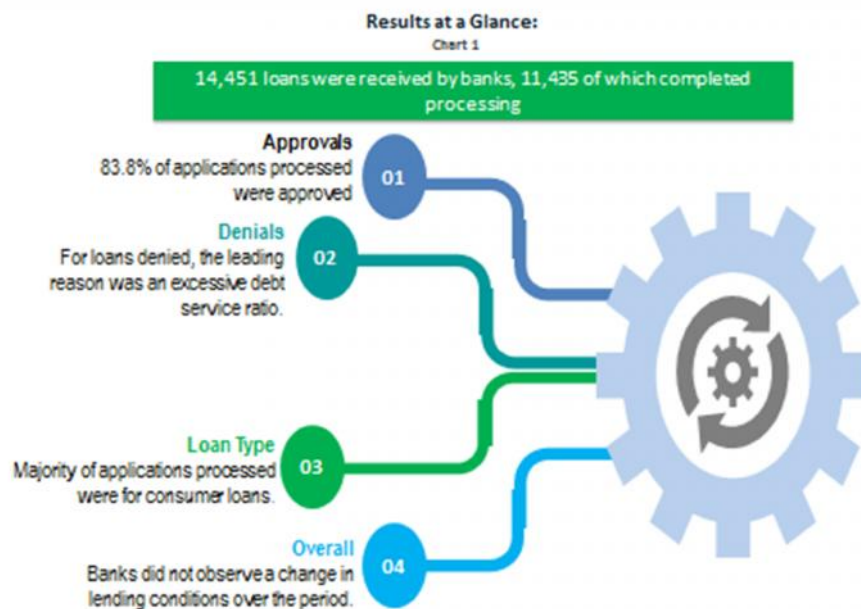
The seven (7) clearing commercial banks participated in this inaugural BLCS, which provides an analysis of private sector loan applications received and fully processed¹ during the second quarter, 2015.

¹ The analysis excludes credit applications which were either received and subsequently cancelled by the applicant or were still being processing by the end of the review period.

I. Executive Summary

Bank lending remains the dominant source of funding for both households and enterprises in The Bahamas, and is influenced by the balance sheet position of banks, non-price factors such as collateral requirements, minimum loan-to-value ratios, and general economic conditions.

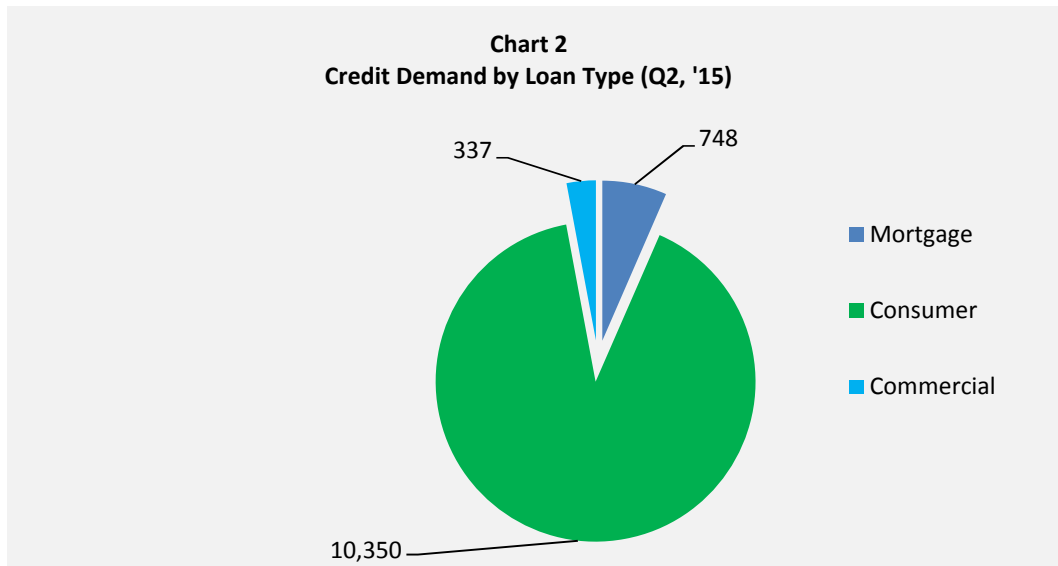
During the second quarter of 2015, private sector lending conditions remained subdued, constrained by the prevailing weakness in domestic economic activity and the coincident high unemployment rate, which offer little opportunity for unwinding the elevated levels of consumer indebtedness and loan arrears. The outcome showed credit to the sector falling marginally by 0.3% (\$20.8 million) to \$6,308.0 million.



In terms of demand, the BLCS results revealed that in excess of 14,000 loan applications were received by the various branches of the seven (7) commercial banks during the second quarter, 2015². Credit demand was strongest for consumer loans, at 90.5% (10,350), with mortgages and commercial loans at a significantly lower 6.5% (748) and 2.9% (337), respectively. As expected, the majority of loan applications were processed in New Providence, followed by Grand Bahama and the Family Islands. On

² This includes 1,028 mortgage applications and 1,913 consumer loan applications that were either cancelled by the customer or awaiting further information and deliberations at one bank.

average, down payment requirements ranged from a high of 22% for commercial loans to almost identical amounts for consumer loans (15%) and mortgages (14%).



Overall approval rates point to a general willingness by banks to extend credit to qualified clients. Of the 11,435 applications received and processed during the period, approximately 83.8% were approved. In New Providence and Grand Bahama, slightly less than 85.0% of the applications submitted had favorable outcomes, compared with a 70.8% rate for the Family Islands. By loan type, the highest approval rates were recorded for commercial applications, being in excess of 90% for both New Providence and Grand Bahama—although, as expected, this segment accounted for the lowest number of applicants, at less than 3.0% of the total. Consumer loans had the second highest approval rate, set at 84.0% for New Providence, 85.6% for Grand Bahama and 72.7% for the Family Islands. For mortgages, which generally have the longest maturity periods, and therefore the greatest risk exposure, banks' approval rates were lowest at 82.5%, 69.4% and 52.6% for New Providence, Grand Bahama, and the Family Islands, respectively.

Table 1: No. of Loan Applications Received and Approved (2nd Qtr. '15)									
	New Providence			Grand Bahamas			Family Islands		
	Received	Approved		Received	Approved		Received	Approved	
		No.	Rate		No.	Rate		No.	Rate
Mortgage	674	556	82.5%	36	25	69.4%	38	20	52.6%
Residential	666	-	-	36	-	-	38	-	-
Commercial	8	-	-	-	-	-	-	-	-
Consumer	9,382	7,878	84.0%	616	527	85.6%	352	256	72.7%
Commercial	321	307	95.6%	15	14	93.3%	1	1	100.0%
TOTAL	10,377	8,741	84.2%	667	566	84.9%	391	277	70.8%

Source: The Central Bank of The Bahamas

II. Mortgage Applications

For mortgages, some 90% of the applications were processed at New Providence branches, with a much lower rate of 5.1% reported for the Family Islands and 4.8% for Grand Bahama (see Table 1). Other related survey results are as follows:

- Over 90% of mortgage applications were for private housing purposes.
- Given the current high level of inventory in the domestic real estate sector, the majority of applications were to acquire existing dwellings (75.7%), with approximately 12.0% of potential owners seeking new construction homes.
- The majority of applicants sought financing to purchase single-family homes.
- The bulk of new construction applicants were seeking new single-family properties, and less than 10.0% of applicants were in the market for income generating properties.
- Only 8 applications were received for commercial mortgages, all of which were to purchase existing structures (see Table 2)

Table 2			
Mortgages Loan Applications (2nd Qtr. '15)			
Residential			
	Received	Approved	
		No.	Rates
New Construction	89	72	80.9%
Existing Dwellings	560	497	88.8%
Rehabilitation & Additions	91	31	34.1%
Commercial			
New Construction	8	5	62.5%

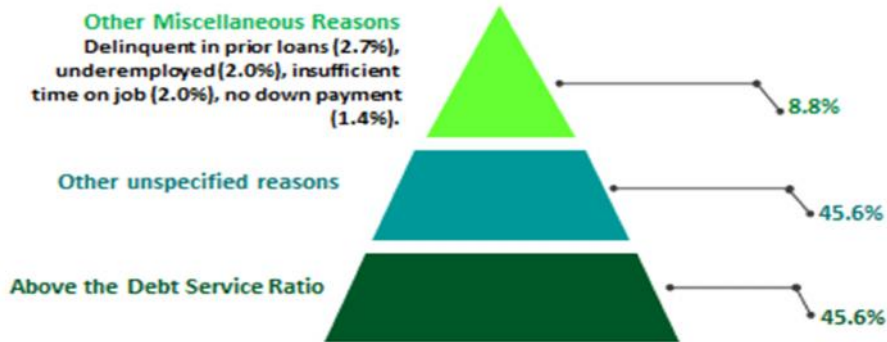
Source: The Central Bank of The Bahamas

In terms of approval rates:

- Just over 80.0% of the mortgage applications received were approved.
- For applications denied, the most frequent reason was that the applicants' debt service ratios exceeded the 45% benchmark set by the Central Bank, in August, 2004 (see Chart 3).
- New Providence branches had the highest approval rate, at 82.5%, while Grand Bahama and the Family Islands had rates of 69.4% and 52.6%, respectively.
- The highest approval rate was among applications for new construction of single dwelling homes (96.4%)

Chart 3

Reasons for Mortgage Loan Denials

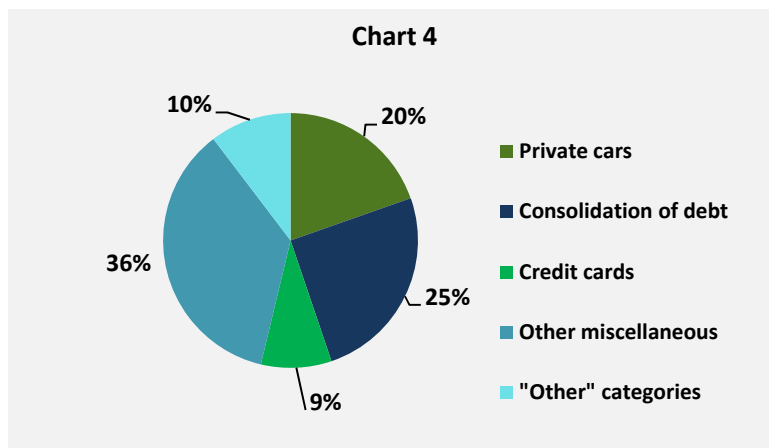


III. Consumer Loan Applications

Consumer loans accounted for the majority of loan applications at 90.5%, with a total of 10,350 loans processed. New Providence applications represented some 90.6% of the latter, with Grand Bahama at 6.0% and the Family Islands, at 3.4%. In terms of the categories:

- The majority of loan applications were for miscellaneous purposes (35.9%), covering areas such as utility bills, funeral arrangements and repayment of existing credit lines.
- Credit for debt consolidation represented 25.2% of loans processed, with private car purchases and credit cards accounted for 19.6% and 8.9%, respectively.
- The balance (10.4%) captured borrowings for travel, education, medical, home improvements, furnishings, land and rented cars.

Chart 4



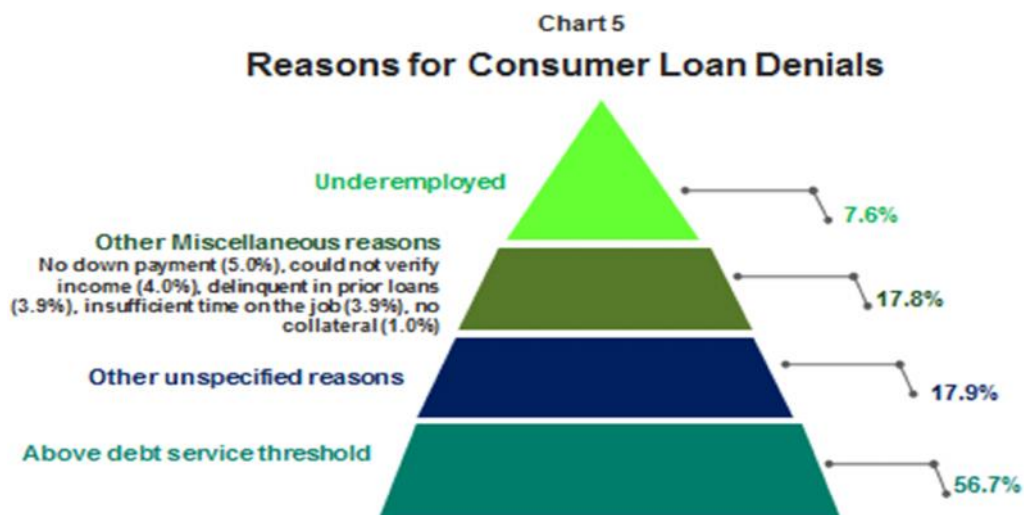
Overall, consumer loans had an average approval rate of 83.7%, with locational distributions of 84.0%, 85.6% and 72.7% for New Providence, Grand Bahama, and the Family Islands, respectively.

- By consumer loan type, the “other miscellaneous” segment—which had the largest number of applications—secured an 88.1% approval rate. The second highest volume category, debt consolidation, had an approval rate of 80.8%.
- However, loan applications for medical care registered the highest approval rate of 89.3%, to contrast with the lowest of 57.9% for land purchases.

Table 3 Consumer Loans (2 nd Qtr. '15)			
	Received	Approvals	
		No.	Rate
Private cars	2,031	1,670	82.2%
Taxis & rented cars	20	17	85.0%
Furnishings/Appliances	127	95	74.8%
Commercial vehicles	-	-	-
Travel	329	229	69.6%
Education	242	191	78.9%
Medical	122	109	89.3%
Home improvements	155	112	72.3%
Land purchases	76	44	57.9%
Consolidation of debt	2,606	2,106	80.8%
Credit cards	924	811	87.8%
Other miscellaneous	3,718	3,277	88.1%

Source: The Central Bank of The Bahamas

Nearly 57.0% of consumer loan denials were because of elevated debt service ratios; 7.6% due to underemployment; 5.0% explained by a lack of down payment; 4.0% because of inability to verify income; 3.9% due prior loan delinquencies and 3.9% owing to insufficient time on the job.



IV. Commercial Loan Applications

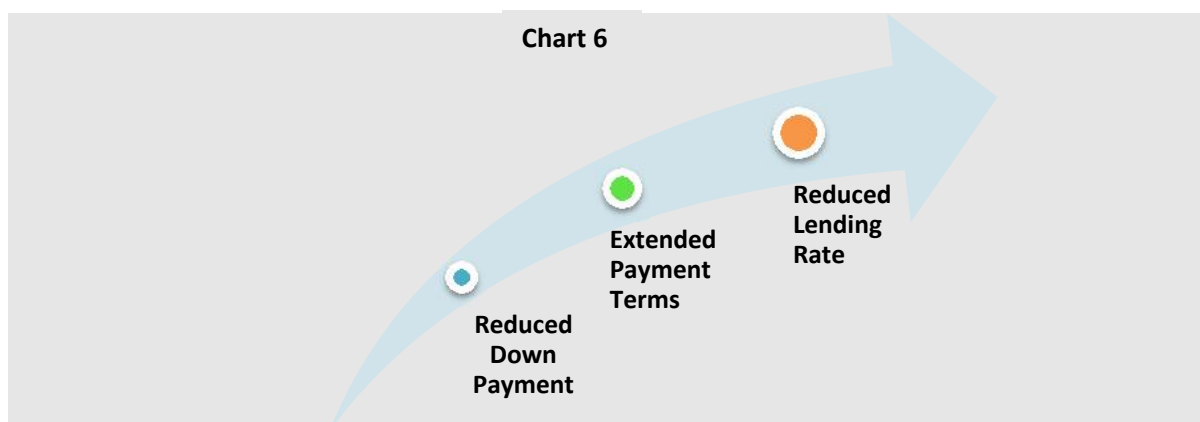
For the survey period, some 337 persons applied for a commercial loan, with nearly 96% approved. This approval rate was similar for the 321 applications processed in New Providence. Of the 15 applications filed in Grand Bahama, 14 or 93.3% received a favorable outcome, while one application was accepted and approved in the Family Islands. The four (4) applications denied were due to high debt service ratios, and the remaining 10 were not approved because of insufficient information.

V. Banks' Assessment of Credit Conditions

Lending Conditions

This section of the survey attempted to gauge the perception of loan officers to general and prospective credit conditions. Respondents were asked to compare credit indicators for the second quarter, with the previous three-month period, and note whether they had improved, worsened or remained the same—based on borrowers' loan eligibility, quality of collateral and debt servicing trends. Collectively, banks conveyed that lending conditions had not changed for most of the indicators. However, there were a few banks, which stated that the indicators had worsened over the year—one entity reported an improvement in borrowers' loan eligibility.

Five (5) of the seven (7) respondents indicated that overall lending conditions had remained unchanged over the review period, with only one (1) reporting that they had worsened and one (1) observing an improvement. In terms of borrowers' loan eligibility, five (5) of the responding banks noted that this indicator was stable, while one (1) reported that it had worsened and one (1) reported that it had improved. The quality of collateral was viewed as unchanged by most banks (6), while one (1) entity suggested that it had worsened. One of the respondents indicated that borrower's debt servicing had deteriorated, while the remaining banks reported no variation.



Expectations for the Third Quarter

The banks' outlook for credit conditions during the third quarter was generally stable, with more than half of the respondents (5) expecting no change. This contrasts with one (1) respondent, which had a more favorable perspective and another which anticipated that conditions would worsen. Given the sluggish domestic growth momentum, most banks anticipate that private sector demand will remain weak for an extended period.

Promotions

In a bid to stimulate private sector credit demand, most banks have created a number of promotional campaigns, with special features that are not available year round and with characteristics that differ by loan type. These extraordinary measures, which are set to continue through the third quarter, include a deferment of monthly payments (for usually the first month), extended payment terms, reduced down payment or a reduction in their lending rates. Five (5) banks noted that their promotions entailed a reduction in the lending rate, particularly for mortgage and consumer loans, while extending the payment terms was indicated as a promotion mechanism by three (3) banks. One (1) institution plans to lower its down payment in its upcoming promotion.

Based on survey inputs, promotional mechanisms for upcoming mortgages will include decreases in the lending rate and down payment requirement, and an extension in the payment terms. Consumer loan promotion strategies are poised to include a lowering of the lending rate and extended payment terms, with the latter also identified for the commercial segment.

VI. Conclusion

Although the survey analysis relates to only a single quarter, the results revealed several interesting developments. Firstly, the approval rating of 83.8% or 4 out of every 5 loan applications appeared to be relatively high, indicating that the majority of the financing requests are from clients who are considered by the banks to be "good quality" and therefore likely to be approved.

Nevertheless, the results also reinforce the challenging economic context, where consumers remain unable to meet the 45% debt service ratio and whose ability is circumscribed by underemployment and the lack of funds to make a down payment. This is evidenced by the significant gap between the number of consumer applications—which are generally for small value loans—and mortgage proposals approved during the period.

Over time, the Bank expects that the data gathered will provide greater insights into key trends in bank lending conditions and, correspondingly, enhance the Central Bank's effectiveness in pursuing its financial stability mandate.

ANNEX A

Quarterly Survey of Bank Lending Conditions **Please provide information for the quarter ending September 2015**

Instructions: Please read carefully.

- ❖ For each question, please provide a precise numeric or alphabetic answer. Where applicable, please check the box that best corresponds to the answer you wish to give
- ❖ When you have answered all of the questions on a page, click next to proceed to the next set of questions.
- ❖ Once you have answered all of the questions, click finish to complete the form.

Guidance Notes: Kindly refer to the following notes when completing the form.

1. The loan applications reflected in this form should include all COMPLETE applications that were considered for processing and possible approval.
2. Loan applications are to exclude all Government and public sector loans
3. Under “Consumer” in A.1, please include credit card applications.
4. Under “Commercial” in A.1, please include ALL commercial loans that are not mortgage related.
5. For A.3 please indicate the number of applications denied, that correspond to each category. In the “Other” category, you can indicate other major reasons for denial not present in the list of options, and the corresponding number of denials for each category.
6. Totals in B.1 and C.1 should be equal to their respective categories in A.: i.e., the total for B.1 should be equal to the total for the Mortgage category in A.1.
7. In the “Other Miscellaneous” field in C.1, please list any other major consumer loan category for your bank and place the number of applicants in parenthesis. For example: Utilities (10), Rent (3) etc.
8. For D1, you may include a range, if applicable for your bank. In the “Other Details” box, please provide other relevant information relating to down payment requirements.
9. The question in section E requires that you indicate any special terms that you plan to offer consumers in the coming quarter, whether stand alone or as a part of an event such as a car or home show. You may use the “Other” box to indicate any other offers your bank plans to provide that is not present in our options.
10. Responses to F1 should be based on your banks’ assessment of the overall lending environment.

Individual responses are confidential and will not be disclosed by the Central Bank of The Bahamas.

Who should complete this form?

This form should be completed by a Senior Officer with sound knowledge of the bank's loan operations, particularly with regard to applications, approvals, denials and other related information.

Questions and comments can be sent to:

E-mail: email@centralbankbahamas.com or Fax: 242-356-4324

Forms are due fifteen (15) days after the end of each Quarter ending in Mar., Jun, Sept & Dec.

BANK PROFILE

*i) Bank Name:

*ii) Bank Branch:

Contact Information

*Name:

*Position/Title:

*E-mail:

*Telephone:

Loan Applications

A.1 Number of loan applications received during the review quarter:

	New Providence	Grand Bahama	Family Island
Mortgage	<input type="text"/>	<input type="text"/>	<input type="text"/>
a. Residential	<input type="text"/>	<input type="text"/>	<input type="text"/>
b. Commercial	<input type="text"/>	<input type="text"/>	<input type="text"/>
Consumer	<input type="text"/>	<input type="text"/>	<input type="text"/>
Commercial	<input type="text"/>	<input type="text"/>	<input type="text"/>

If response to A1 is nil, please proceed to D.1

A.2 Of the applications received, indicate number of which were approved:

	New Providence	Grand Bahama	Family Island
Mortgage	<input type="text"/>	<input type="text"/>	<input type="text"/>
Consumer	<input type="text"/>	<input type="text"/>	<input type="text"/>
Commercial	<input type="text"/>	<input type="text"/>	<input type="text"/>

A.3 Of the applications received, indicate number of which were denied:

	New Providence	Grand Bahama	Family Island
Mortgage	<input type="text"/>	<input type="text"/>	<input type="text"/>
Consumer	<input type="text"/>	<input type="text"/>	<input type="text"/>
Commercial	<input type="text"/>	<input type="text"/>	<input type="text"/>

A.4 Top Reasons for total applications denied (please indicate no. of loans for each reason):

	No Down Payment	No Collateral	Debt Service Above Threshold	Underemployed	Unable to Verify Income	Delinquent in Prior Loans	Insufficient Time On Job
Mortgage	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
Consumer	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
Commercial	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>

If other, please specify:

Mortgage:

Consumer

Commercial

Mortgage Applications

Please indicate the number of applications received/approved for the following purposes:

B.1 Residential

	Received	Approved
i. New Construction	<input type="text"/>	<input type="text"/>
a. Single Dwellings	<input type="text"/>	<input type="text"/>
b. Duplex and Row	<input type="text"/>	<input type="text"/>
ii. Existing Dwellings	<input type="text"/>	<input type="text"/>
a. Single Dwellings	<input type="text"/>	<input type="text"/>
b. Duplex and Row	<input type="text"/>	<input type="text"/>
iii. Rehabilitation & Additions	<input type="text"/>	<input type="text"/>

a. Single Dwellings

b. Duplex and Row

B.2 Commercial

Received **Approved**

New Construction

Existing Structures

Rehabilitation & Additions

Land Development

Consumer Applications

C.1 Please indicate the number of applications received and approved for each category:

Received **Approved**

Private cars

Taxis & rented cars

Furnishings & domestic appliances

Commercial vehicles

Travel

Education

Medical

Home improvements

Land purchases

Consolidation of debt

Credit cards

Other miscellaneous

Down Payment

D.1 What percentage is required for the down payment?

Mortgage

Consumer

Commercial

Other Details

Credit Promotion

E.1 What policies or promotions are your bank pursuing to increase credit in the coming quarter?

	Reduced lending rate	Reduced down payment	Extended payment terms	Deferred monthly payments
Mortgage	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Consumer	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Commercial	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

F.1 When compared to the same quarter last year, please indicate if indicators have improved, worsened, or remained the same:

	Improved	Worsened	No change
Overall lending conditions	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Borrowers' loan eligibility	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Quality of collateral	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Borrowers' debt servicing	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

General comments about present lending conditions:

F.2 In the coming quarter, do you expect that lending conditions will

- Improve
- Worsen
- Remain the same

F.3 Other comments/observations or other data you wish to see on the survey:

Thank you for completing the survey.