DECEMBER 2023

QUARTERLY BANK LENDING CONDITIONS SURVEY REPORT

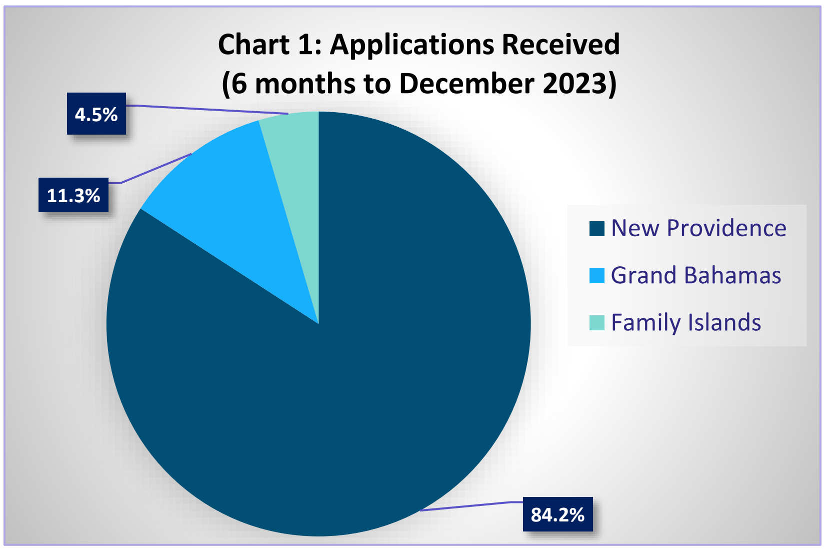
The Bank Lending Conditions Survey (BLCS) contains 12 questions on lending to the private sector, seeking information on the number of loan applications received, approved and denied, and therefore, provides a perspective on the demand for credit. In addition, banks are asked about their views on changes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

Prepared by: The Research Department

CENTRAL BANK OF THE BAHAMAS
1974-2024

I. Overall Assessment

The Central Bank's most recent survey of commercial banks showed that bank lending conditions continued to improve and the demand for credit increased during the latter half of 2023, relative to the same period in 2022. Mirroring these trends, total applications received grew, supported by consumer loan requests. Further, the rate of approval on loan applications trended upward. Meanwhile, the main reasons cited for personal credit denials at lending institutions were high debt service ratio (DSR), insufficient time on job and underemployment.



"Bank lending conditions improved during the latter half of 2023, vis-à-vis the same period in 2022, reflecting a rise in total credit applications received and approved."

Applications Recieved

- 16,418
- Up 2.4% from the six months to December 2022.

Applications Approved

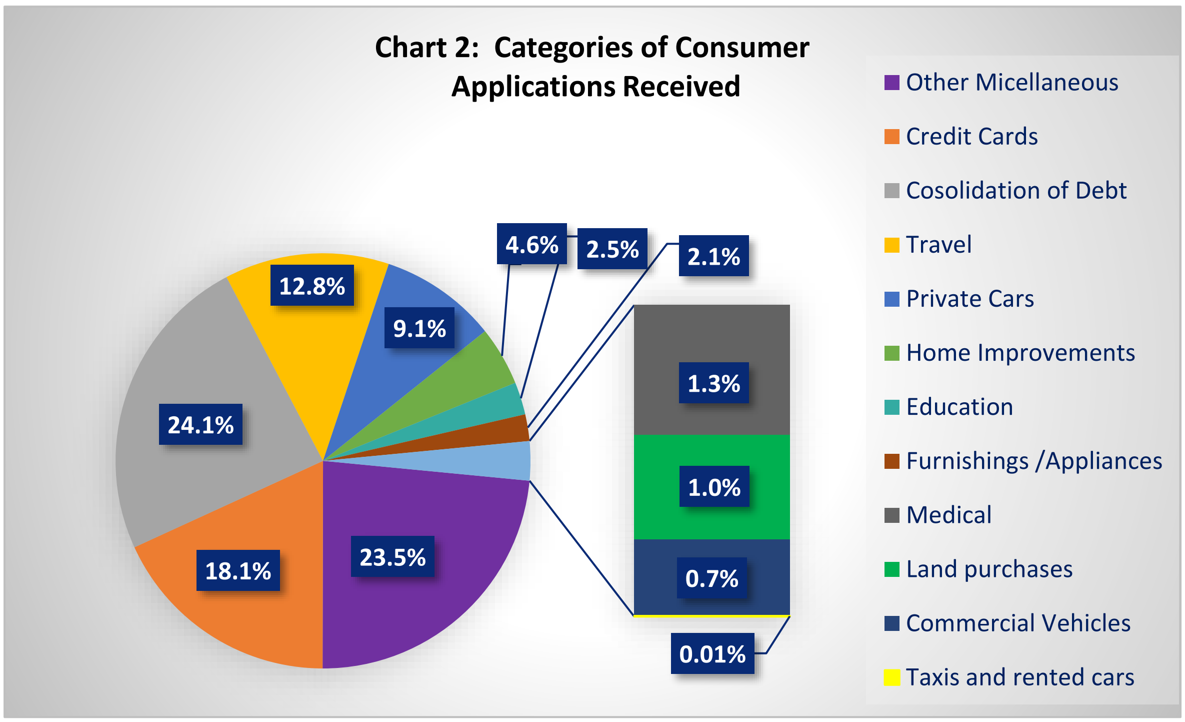
- 13,562
- Up 4.6% from December 2022.
- Approval Rate: 82.6%

Loan Denials

- 1,589
- Down 10.7% since December 2022.
- Top reasons: High DSR, insufficient time on job and underemployment.

II. Consumer Loans

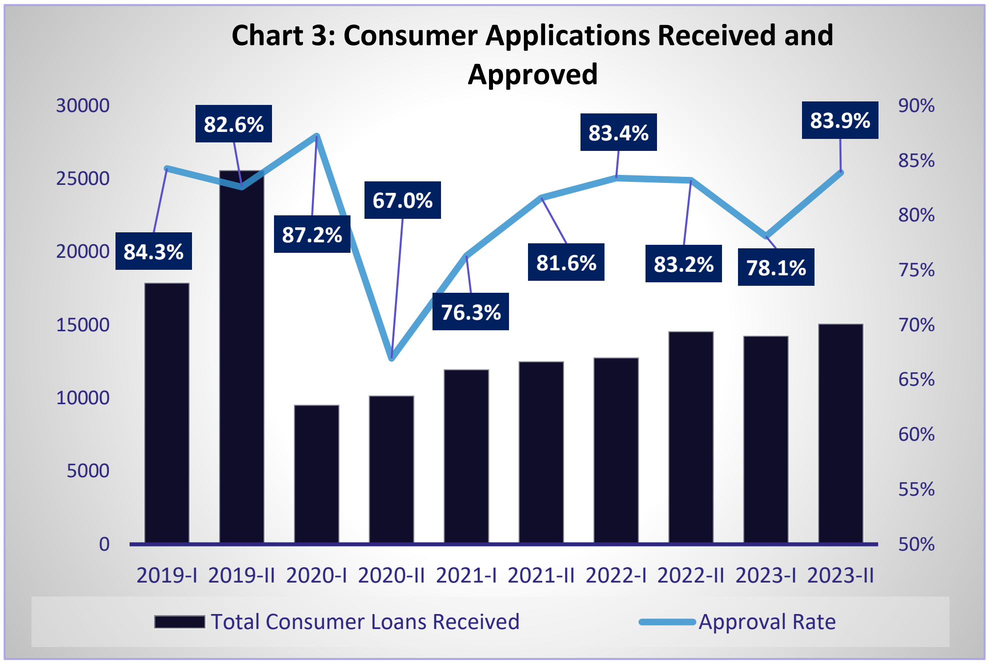
Consumer borrowing remained the primary credit component, accounting for 92.0% of loan applications. Demand increased by 3.6% year-on-year (six-months to December 2023 over the same period in 2022). Underpinning this growth, applications received from New Providence rose by 5.5%. In contrast, requests from Grand Bahama and the Family of Islands contracted by 3.8% and by 8.5%, respectively. Of the 15,101 consumer loan applications received, uses were largely for consolidation of debt (24.1%), "other" miscellaneous purposes (23.5%), credit cards (18.1%) and travel (12.8%) (see Chart 2).

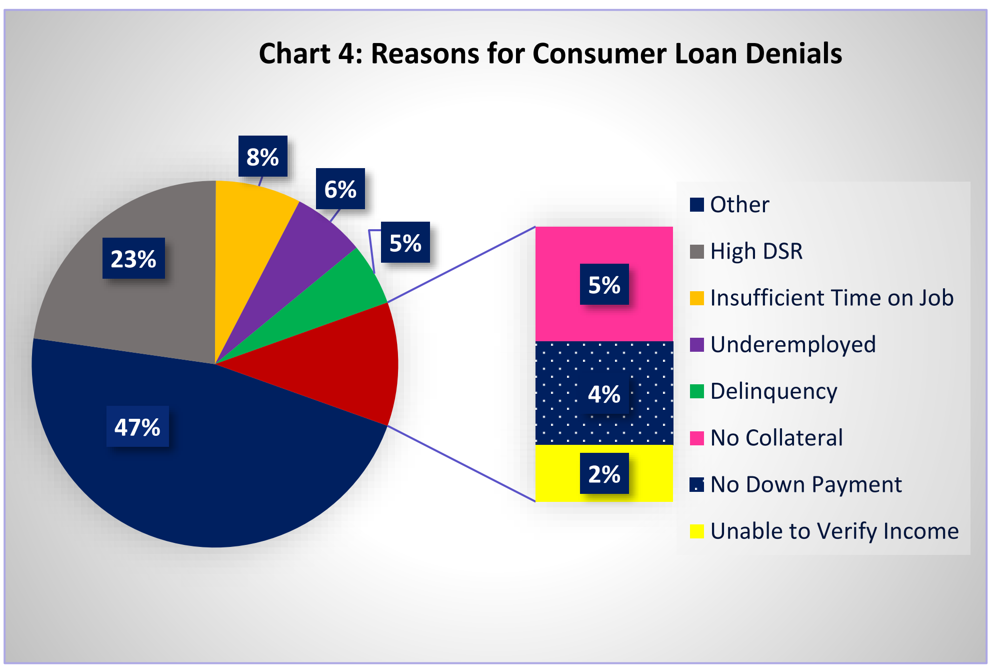


Analysis by component revealed that the number of financing requests advanced for debt consolidation by 69.2%, and commercial vehicles, by 68.7%. Similarly, applications increased for private cars (13.9%) and land purchases (13.1%). Conversely, applications declined for taxis and rented cars (94.4%), home improvements (24.9%), travel (24.0%), education (15.9%), furnishings & appliances (14.7%), medical (9.0%), "other" miscellaneous purposes (3.0%) and credit cards (2.9%).

Coinciding with the rise in requests, the number of approved loan applications increased by 4.5%, relative to the previous year. Likewise, the average approval rate edged up by 0.7 percentage points to 83.9%.

With regard to loan denials, reasons commonly noted by banks were other "miscellaneous" factors (46.8%), inclusive of low credit scores, purposes outside of banks' policy and low risk rating. Other reasons stated were high debt service ratios (22.8%), insufficient time on job (7.5%) and underemployment (6.4%).



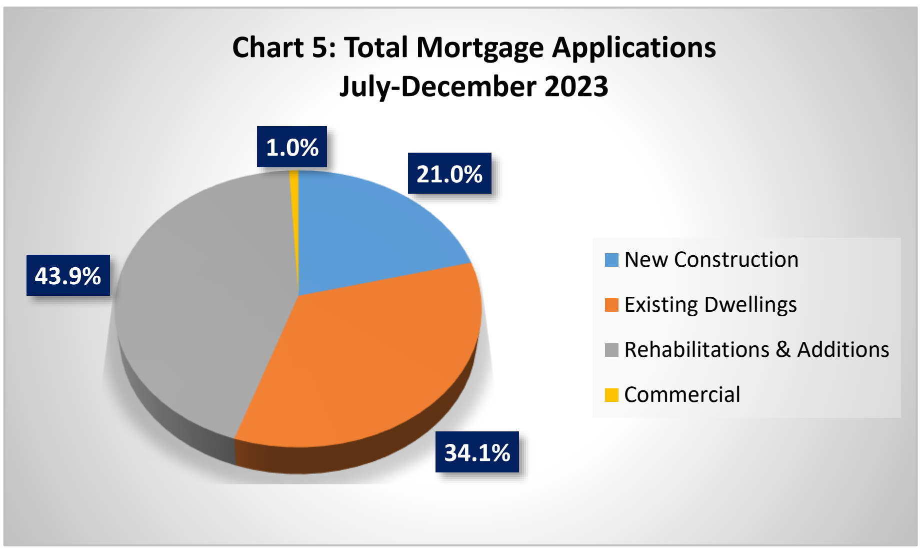


III. Mortgages

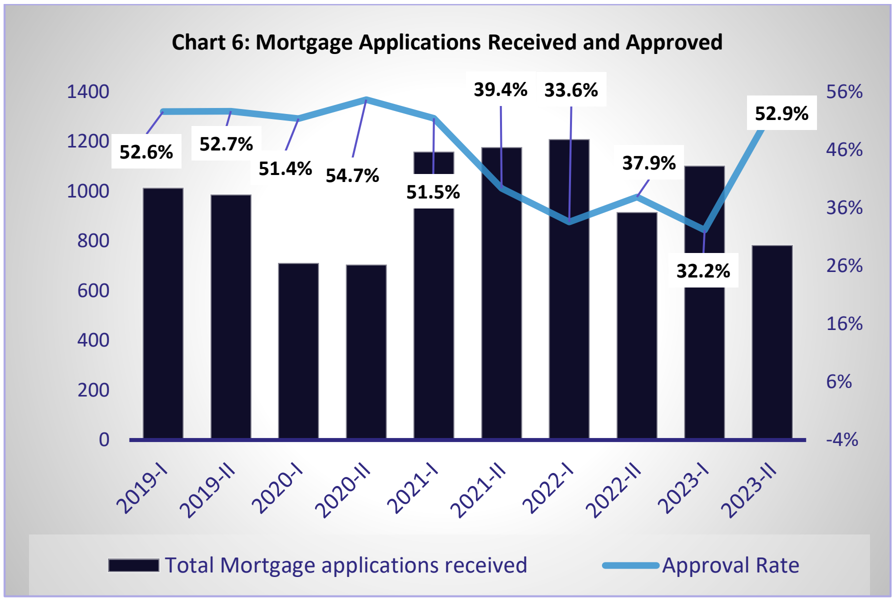
During the six-months to December 2023, lending institutions processed 778 residential mortgage applications; representing 99.1% of the total mortgage applications received.

Residential mortgage applications contracted by 14.6% year-on-year, a slowdown from the 21.6% decline in December 2022. Reductions were recorded for all three major categories: new construction (27.3%), existing dwellings (12.7%) and rehabilitations & additions (8.5%).

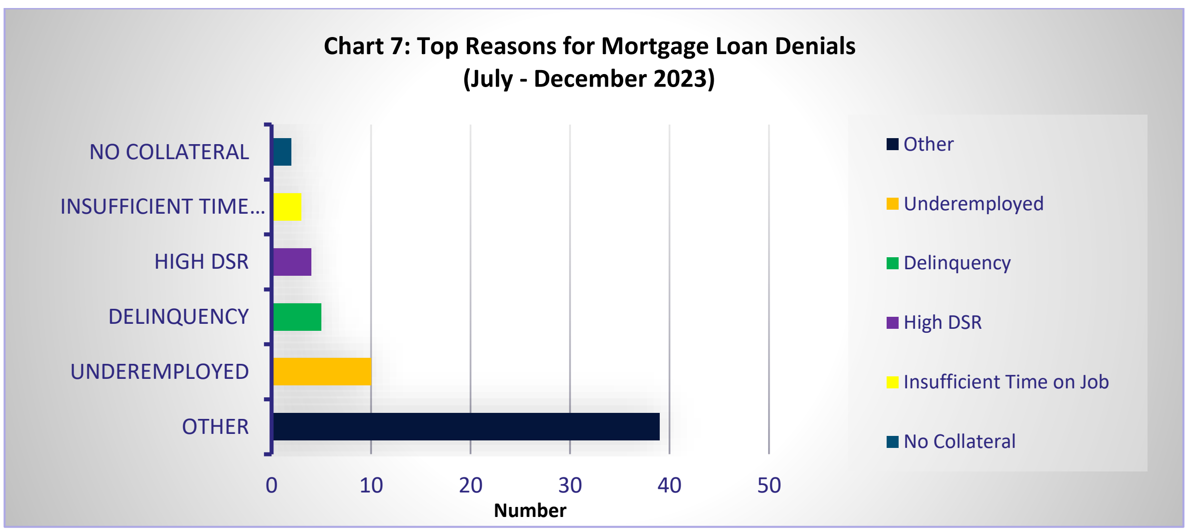
Of the applications received, financing sought against rehabilitations & additions constituted 43.9% of requests, while existing residential dwellings and mortgages for new construction represented 34.1% and 21.0%, respectively. Moreover, commercial financing applications accounted for just 1.0% of mortgage demand.



Disaggregated by island, the analysis showed a retrenchment in mortgage applications processed over the review period. In particular, requests in New Providence fell by 15.1% and in the Family of Islands, by 13.9%. Likewise, demand reduced in Grand Bahama, by 5.9%.



Mortgage applications retained the lowest approval rate of all credit categories, at 52.9% over the last half of 2023. The approval rate for renovation projects was 14.5%, while new construction approvals were 69.1%. Meanwhile, 92.5% of requested borrowings against existing dwellings were approved.



The primary reason cited for mortgage application denials—61.9% of instances—was various "miscellaneous" factors[1]. Other reasons mentioned included underemployment (15.9%), delinquency in prior loans (7.9%), higher debt service ratios—which exceeded the revised threshold of 50.0%[2] (6.4%)—insufficient time on job (4.8%), and inadequate collateral (3.2%).

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

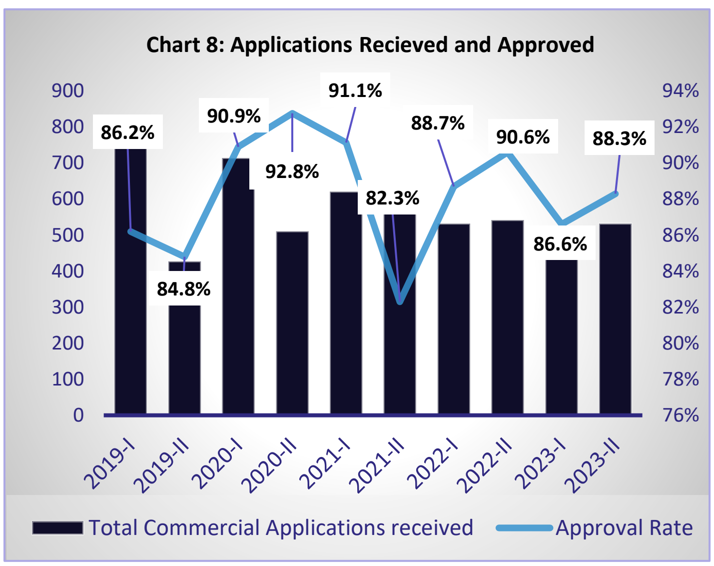
IV. Commercial Loans

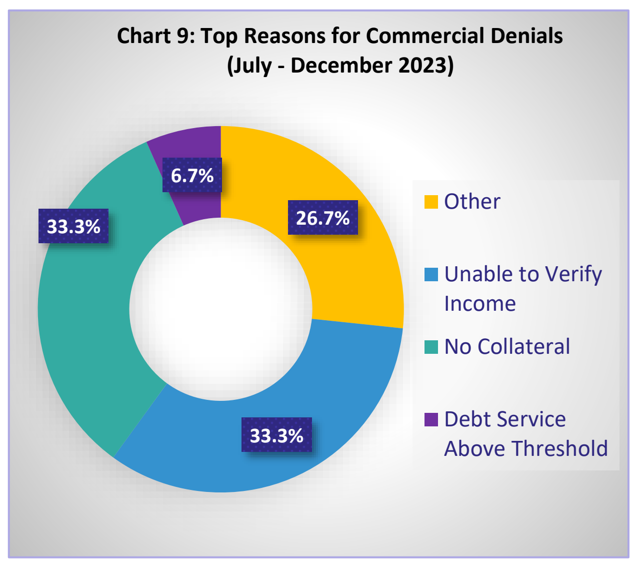
Respondent banks processed 532 applications for commercial financing in the six months to December 2023, a 1.9% decline year-on-year, reflective of lower demand in New Providence.

In the same period, the average approval rate for commercial applications fell by 2.2 percentage points to 88.3%, relative to December 2022.

Applications for commercial financing were primarily for enterprises in New Providence, with a success rate of 89.4%. Further, 71.9% of commercial loan applications in Grand Bahama were approved. In the Family of Islands, however, there were no commercial credit requests submitted nor approved.

Unsuccessful commercial requests, as indicated by institutions, were largely as a result of a lack of collateral (33.3%) and the inability to verify income (33.3%). Further, unclassified reasons (26.7%)—such as, excessive risk, did not meet requirements for commercial lending, and insufficient income—and DSR above threshold (6.7%) were listed as main reasons for denial.





V. Banks' Assessment of Credit Conditions

Supporting Lending Conditions

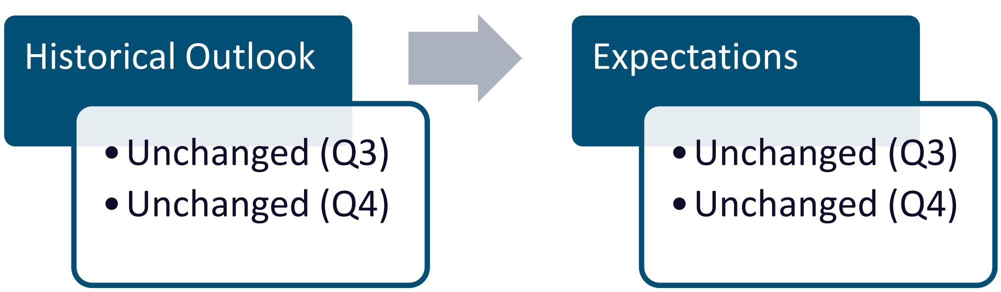
More than half of all lending institutions reduced lending rates during the second half of 2023, in an effort to strengthen lending conditions. Institutions also reduced mortgage and consumer rates in the third and fourth quarters. In addition, around 25.0% of the lenders lowered down payment requirements and extended payment terms, while no new deferral arrangements were disclosed for monthly payments.

Table 1: Second Half of 2023 Lending Conditions

Of 7 lenders, for:	Quarter III 2023		Quarter IV 2023	
	Mortgage	*Consumer*	*Mortgage*	*Consumer*
Reduced Lending Rate	4	4	3	6
Reduced Down Payment	2	0	4	0
Extended Payment Terms	1	2	1	3
Deferred Payments	0	0	0	0

Historical Outlook

When asked to characterise the overall lending environment, creditors noted that in comparison to the initial two quarters, conditions were largely unchanged in the third and fourth quarters of 2023. Likewise, borrowers loan eligiblity, quality of collateral and borrowers debt servicing capcity remained the same.



Expectations in the Near-Term

For the majority of creditors, in the near-term, expectations are that credit conditions would remain largely unchanged.

VI. Conclusion

- ✓ Evidenced by the uptick in the number of loan applications, local credit demand firmed during the July to December 2023 period, sustaining trends recorded in the prior year.

- ✓ Consumer loan requests remained the most dominant segment, accounting for 92.0% of total applications, with the average approval rate increasing to 83.9%, vis-à-vis December 2022.

- ✓ Total residential mortgage applications declined by 14.6% year-on-year; however, the approval rate increased notably by 14.9 percentage points, to 52.9%, over the same period in 2022.

- ✓ Demand for commercial credit moderated, as applications received reduced by 1.9%, over the latter half of 2023, with the average approval rate remaining near 90.0%.

- ✓ The highest concentration of unsuccessful credit applications continued to be attributed to an aggregated range of miscellaneous reasons—namely, excessive risk, unacceptable overall financial position, and inconsistent income. Other reasons include debt service above the threshold, underemployment, insufficient time on job and delinquency in prior loans.

ANNEX

Table 1: No. of Loans Applications Received and Approved															
	2022			2023						Changes					
	Jul - Dec			Jan-Jun			Jul-Dec			Jul-Dec 23/Jan-Jun 23			Jul-Dec 2023/Jul-Dec 2022		
	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	917	348	37.9%	1,104	356	32.2%	785	415	52.9%	-28.9%	16.6%	20.6%	-14.4%	19.3%	14.9%
Consumer	14,578	12,131	83.2%	14,271	11,144	78.1%	15,101	12,677	83.9%	5.8%	13.8%	5.9%	3.6%	4.5%	0.7%
Commercial	542	491	90.6%	524	454	86.6%	532	470	88.3%	1.5%	3.5%	1.7%	-1.8%	-4.3%	-2.2%
TOTAL	**16,037**	**12,970**	80.9%	**15,899**	**11,954**	75.2%	**16,418**	**13,562**	82.6%	3.3%	13.5%	7.4%	2.4%	4.6%	1.7%

Table 2: No. of Loan Applications Received and Approved By Island (July - Dec '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	690	354	51.3%	64	44	68.8%	31	17	54.8%	785	415	52.9%
Consumer	12,626	10,530	83.4%	1,756	1,530	87.1%	719	617	85.8%	15,101	12,677	83.9%
Commercial	500	447	89.4%	32	23	71.9%	0	0	0	532	470	88.3%
TOTAL	**13,816**	**11,331**	82.0%	**1,852**	**1,597**	86.2%	**750**	**634**	84.5%	16,418	13,562	82.6%

Table 3 Consumer Loans by Type (July - Dec '23)			
		Approvals	
	Received	**No.**	**Rate**
Private cars	1379	1153	83.6%
Taxis & rented cars	1	1	100.0%
Furnishings/Appliances	314	257	81.8%
Commercial vehicles	113	96	85.0%
Travel	1938	1698	87.6%
Education	382	339	88.7%
Medical	192	161	83.9%
Home improvements	695	593	85.3%
Land purchases	155	100	64.5%
Consolidation of debt	3644	3199	87.8%
Credit cards	2738	2252	82.2%
Other miscellaneous	3550	2828	79.7%