

BANK LENDING SURVEY

April 2007

Results for Portugal**I. Overall assessment**

In the first quarter of 2007, credit standards applied by banks on the approval of loans to firms and households remained broadly unchanged when compared to the previous quarter, according to the results of the survey conducted in April 2007 to the five Portuguese banking groups included in the sample.

Even though credit standards remained broadly unchanged, the inquired banks identified several factors which have exerted some pressure in opposite directions. In fact, some banking groups continued to consider that competitive pressures in the banking system should have contributed to an easing in lending standards. In contrast, other banks identified several risk factors that could justify a tightening in lending standards, such as the deterioration of expectations for specific economic sectors and for the housing market, as well as possible difficulties in servicing debt by some households.

Regardless that loan standards did not undergo sizeable changes, banks reported some changes in their lending conditions. Regarding loans to enterprises, some banks reported increased spreads in riskier loans while, simultaneously, reduced the fees and commissions charged and allowed some lengthening in maturities, thus contributing to make loan standards less tight in some corporate market segments. In what concerns loans granted to households for house purchase and for consumption and other purposes, there was a significant dispersion in the conditions set by banks when approving loans. On one hand, some banks increased spreads and commissions in some loans and demanded tighter collateral requirements. On the other hand, other banks decreased spreads and accepted higher loan-to-value ratios as well as longer maturities in some loans.

Loan demand by enterprises should not have changed substantially during the first quarter of 2007, even though there was some increase in loan demand by small and medium enterprises and, in contrast, a slight decrease in loan demand by large firms. The demand for loans continued to be justified mainly by firms' debt restructuring. In fact, debt restructuring has been one of the main driving factors of increased loan demand by firms in the last few years, whereas the demand for loans to finance investment projects has gradually decreased. The persistence of these answers justified the introduction of an extraordinary question in the survey conducted in April 2007, aiming at better understanding the specific situations encompassed by the concept of debt restructuring. According to the answers of the five banks included in the sample, there is some dispersion in the type of situations that lead to debt restructuring. On one hand, debt restructuring includes situations in which firms show some inability or difficulty in servicing their debt, reflected in an observed or highly probable default episode. The answers suggest that this situation affects mainly small and medium-sized firms. On the other hand, the change in loan maturities or the consolidation of liabilities aiming at reducing the overall cost of funding were also mentioned as relevant factors, but mostly for loans to large enterprises. Furthermore, to a lesser extent, banks also mentioned that debt restructuring could imply the renegotiation of funding conditions with additional collateral requirements.

Loan demand by households increased slightly during the first quarter of 2007. This increase in demand should have been driven mostly by the funding of consumption and other non-housing related expenditure.

In the second quarter of 2007, reporting banking groups do not intend to change considerably credit standards applied in loan approval, except for credit standards applied in loans for consumption and other purposes, which should become slightly looser. Banks foresee some increase in loan demand by enterprises, most notably in the longer maturities and for small and medium enterprises, as well as some decrease in loan demand by households for consumption and other purposes.

II. Presentation of the results**Loans or credit lines to enterprises**

In the first quarter of 2007, none of the banks included in the sample reported changes in credit standards applied in the approval of loans to firms, upholding the stability trend seen since mid-2005. Despite this overall stability, banks identified some factors that may have contributed to adjust loan approval standards in some segments. On one hand, two banks considered that the competitive pressures may have contributed to a slight easing of these standards. On the other hand, whereas one bank considered that the improvement in expectations regarding the performance of the Portuguese economy may have lead to a slight easing in credit standards, other banking group considered that the deterioration of expectations regarding specific firms or economic sectors may have contributed to some tightening in lending standards on loans to enterprises.

In broad terms, Portuguese banks increased slightly the spreads applied on loans to firms. In fact, three of the five reporting banking groups increased spreads in riskier loans. In the opposite direction, some banks eased several lending conditions, namely extending loan maturity and charging lower commissions and other non-interest rate charges.

According to the banks included in the sample of this survey, in the first quarter of 2007 loan demand by small and medium enterprises increased slightly, whereas loan demand by larger firms recorded some decrease when compared to the previous quarter. Debt restructuring continued to be main driver of loan demand by firms according to the results of the survey. In turn, loan demand to finance investment continued to decrease. In addition to this, one banking group considered that some of the increase in the demand for bank loans was associated with a substitution between bank and market finance.

The inquired banks do not expect to make substantial changes in credit standards applied to firms during the second quarter of 2007, even though they foresee some increase in demand, most notably by small and medium firms. This increase in demand should be concentrated mostly in long-term loans.

Loans to households

For house purchase

In the first quarter of 2007, banks kept unchanged the credit standards applied in loans to households for house purchase, interrupting the slight easing trend seen in previous quarters. However, three of the five inquired banking groups continued to report that competitive pressures from other banks contributed to make these standards slightly less tight (even though another banking group considered that competitive pressures had an opposite effect, contributing to tighter lending standards). Additionally, two banking groups considered that the deterioration of expectations regarding the housing market may have contributed to the tightening in credit standards in some loans.

Even though banks reported that credit standards applied in housing loans did not change significantly when compared to the previous quarter, they reported several adjustments specific loan conditions, some of them in opposing directions. On one hand, some banks decreased the spreads implicit in these debt contracts, accepted lower loan-to-value ratios and also allowed the lengthening of maturities in some loans. On the other hand, increases in spreads, in non-interest charges and in collateral requirements were also reported.

In the first quarter of 2007, loan demand for house purchase increased again, according to the reporting banks, though there was some dispersion in the answers. In fact, whereas two banking groups faced a slight increase in demand, other bank recorded an evolution in the opposite direction. According to the results of the survey, the increase in the demand for these loans should have been associated mostly with the increase of non-housing related consumption expenditure. In turn, banks identified a large set of factors which should have contributed to limit loan demand for house purchase, such as unfavourable expectations regarding housing markets, the increase in interest rates and the use of alternative funding sources, namely loans granted by other banks and accumulated household savings.

In the second quarter of 2007, banks do not expect to considerably change the standards applied in the approval of loans for house purchase. In what concerns banks prospects regarding the evolution of demand in this segment, one of the banks anticipates a slight increase in demand, whereas another bank considers that probably loan demand will decrease slightly.

For consumption and other purposes

In general terms, none of the reporting banks made sizeable changes in credit standards applied in the approval of loans to households for consumption and other purposes. However, competitive pressures continued to contribute to make banks consider that they needed to ease slightly the criteria applied in the approval of these loans. In fact, in the first quarter of 2007, three of the five banks included in the sample mentioned that competitive pressures from other banks had been relevant when setting credit standards. Additionally, one bank considered that the positive evolution in its funding costs had allowed for a slight easing in lending standards applied to these loans. In turn, another banking group identified some risks associated with the creditworthiness of some consumers, against a background of increasing interest rates. Furthermore, two of the banks included in the sample decreased slightly the spreads applied on these loans (even for riskier loans, in the case of one of these banks), whereas another banking group increased slightly the spreads applied on this type of lending.

According to two of the reporting banks, loan demand for consumption increased slightly in the first months of 2007, even though another bank recorded a slight decrease in demand in this market segment. According to one of the reporting banks, the persistence of relatively low levels of consumer confidence should have contributed to maintain loan demand for consumption and other purposes relatively subdued.

In the second quarter of 2007, one of the banks included in the sample intends to slightly ease credit standards applied on the approval of loans for consumption and other purposes. In turn, another banking group expects some decrease in demand during the same period.

III. National *ad-hoc* question¹

Debt restructuring has been pointed repeatedly as one of the main factors driving loan demand by enterprises in Portugal. The persistence of this answer motivated a more detailed approach of the situations encompassed in the concept of debt restructuring, given the multiplicity of possible situations, with distinct characteristics and implications. Against this background, in the survey conducted in April 2007, Banco de Portugal introduced an extraordinary question at the national level, in order to assess the relative importance of these situations included in debt restructuring during the last year.

According to the answers of the reporting banks², debt restructuring should encompass mainly three different situations. Firstly, three of the reporting banks consider that debt restructuring refers mostly to situations of inability or difficulty to service debt, as a consequence of a default episode or, at least, of a high probability that such episode may occur. According to the answers of the banks, these difficulties in servicing debt affect mostly small and medium enterprises. Secondly, debt restructuring should also reflect product substitution, motivated by risk management by the lender (for two banks, this is the main motivation for debt restructuring³). This product substitution includes, for instance, changes in loan maturity, in collateral requirements and in interest rates, in order to mitigate interest rate risk. Finally, some banks considered that the consolidation of firms' liabilities aiming at reducing the overall

(1) This *ad-hoc* question was introduced only at the national level, being directed by Banco de Portugal to the five Portuguese banks included in the sample (this question was not applied to other euro area countries).

(2) All banks included in the sample answered this *ad-hoc* question, even though not all banks replied completely to this question, which required separate answers for loans to SMEs and to large firms. Hence, in the table presented at the end of the survey, the column relative to the total includes the answers of only three banking groups, the column relative to SMEs considers the answers of four banking groups and finally the column for large firms includes the answers of three banks.

(3) The banks that mentioned that debt restructuring is mostly related with product substitution are those that have more persistently identified debt restructuring as one of the main factors driving loan demand in the last surveys.

funding cost is also important, most notably for large enterprises. Additionally, there are some situations in which loan demand associated with debt restructuring is oriented mostly to the redemption of other loans, even though this situation assumes a relatively low magnitude.

METHODOLOGICAL NOTE

The following tables include the results for Portugal of the Bank Lending Surveys (BLS) conducted in April 2007. Two sets of tables are included in the survey: the first set is about loans and credit lines to non financial corporations while the second one is on loans to households.

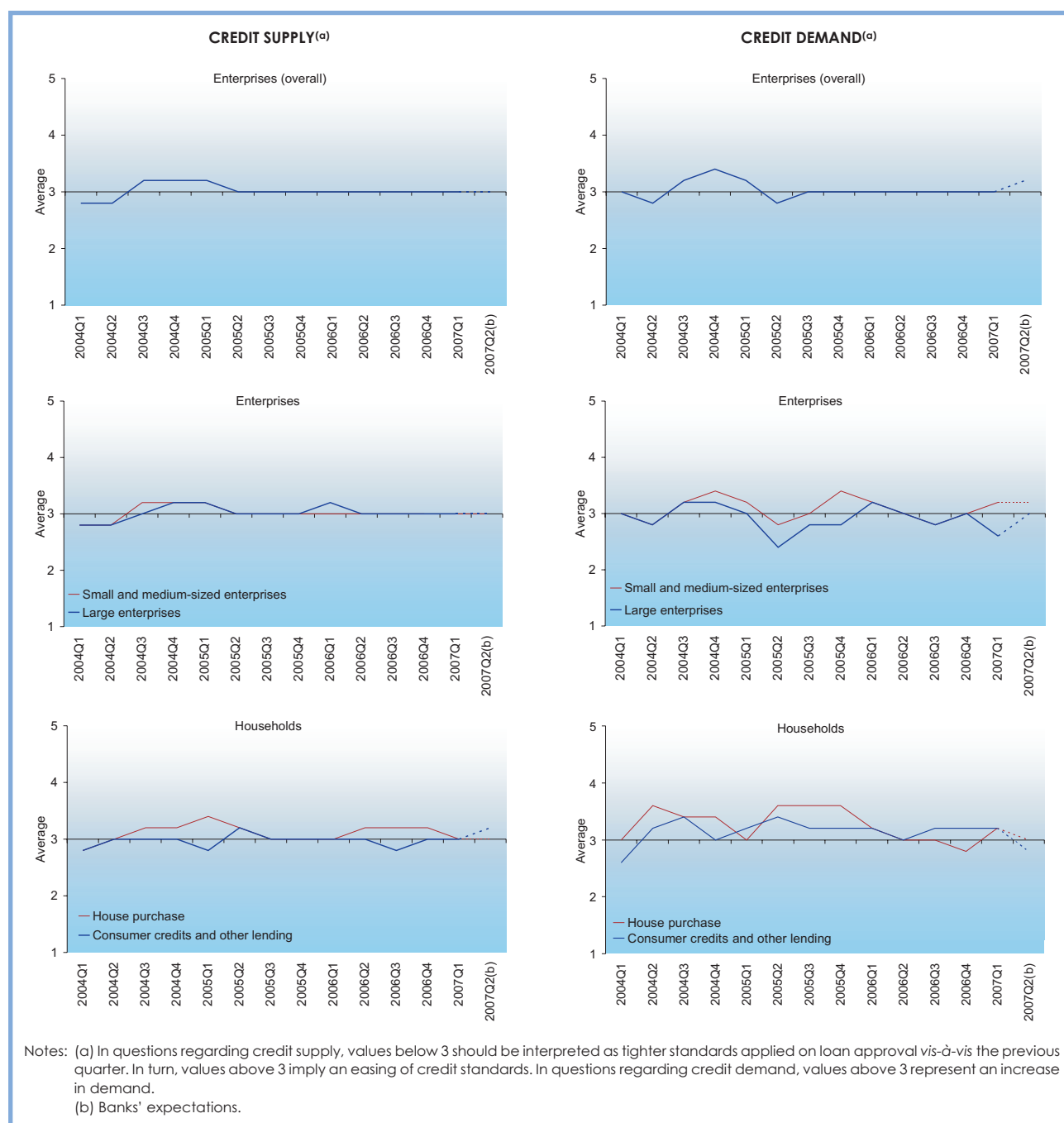
In the case of corporations two sort of segmentations have been undertaken: small and medium sized (SME) versus large enterprises, and short term versus long term loans. For households, a distinction between loans for house purchase and consumer credit and other lending has been made.

For each sector — enterprises and households — the questions are focused on: i) the current and the prospective assessments on standards, conditions and terms for lending approval, on one hand, and on demand trends, on the other (tables 1, 4, 6, 7, 8, 13, 16 and 17); and ii) the appraisal of factors affecting standards, conditions and terms (tables 2, 3, 9, 10, 11 e 12), and those behind demand developments (tables 5, 14 e 15).

Tables on the first set of questions have five possible options, for each segment, according to the trend and rate of the changes reported (either occurred or foreseen); replies are shown along columns. Answers to tables on factors' appraisal are along the rows; six options are available - including NA (not applicable) — according to their contribution to either supply or demand conditions.

The results of the survey are as follows:

- The number of banks answering for each option;
- The weighted average of the options chosen by the banks, calculated using a scale (from 1 to 5) to aggregate individual replies, whereas 3 corresponds to "remained basically unchanged". An average figure below 3 means tightening standards, conditions and terms for approving loans (or factors contributing to developments in this way), or, as concerns demand, a decline: 2 corresponds to "somewhat" and 1 to a "considerable" change (thus, as average is closer to 3, closer to "no change" will be the overall banks' appraisal). On the contrary, if average is above 3, standards, conditions and terms applied for loans approval will be easing (or factors contributing to this way) or, concerning demand, growing: "somewhat", in the case of 4, and "considerably", in case of 5.



Notes: (a) In questions regarding credit supply, values below 3 should be interpreted as tighter standards applied on loan approval vis-à-vis the previous quarter. In turn, values above 3 imply an easing of credit standards. In questions regarding credit demand, values above 3 represent an increase in demand.
 (b) Banks' expectations.

I. Loans or credit lines to enterprises

1. Over the past three months, how have your bank's credit **standards** as applied to the approval of **loans or credit lines to enterprises** changed?

	Overall	Loans to small and medium-sized enterprises	Loans to large enterprises	Short-term loans	Long-term loans
Tightened considerably					
Tightened somewhat					
Remained basically unchanged	5	5	5	5	5
Eased somewhat					
Eased considerably					
Average Apr. 07	3.0	3.0	3.0	3.0	3.0
Jan. 07	3.0	3.0	3.0	3.0	3.0

2. Over the past three months, how have the following factors affected your bank's credit standards as applied to the **approval of loans or credit lines to enterprises** (as described in question 1 in the column headed "Overall")? Please rate the contribution of the following factors to the tightening or easing of credit standards using the following scale:

- = contributed considerably to tightening of credit standards
- = contributed somewhat to tightening of credit standards
- o = contributed to basically unchanged credit standards
- + = contributed somewhat to easing of credit standards
- ++ = contributed considerably to easing of credit standards
- NA = Not Applicable

	--	-	o	+	++	NA	Average	
							Apr. 07	Jan. 07
A) Cost of funds and balance sheet constraints								
• Costs related to your bank's capital position			5				3.0	2.8
• Your bank's ability to access market financing (e.g. money or bond market financing)			5				3.0	3.0
• Your bank's liquidity position			5				3.0	3.0
B) Pressure from competition								
• Competition from other banks			3	2			3.4	3.4
• Competition from non-banks			5				3.0	3.0
• Competition from market financing			5				3.0	3.0
C) Perception of risk								
• Expectations regarding general economic activity			4	1			3.2	3.2
• Industry or firm-specific outlook		1	4				2.8	3.0
• Risk on the collateral demanded			5				3.0	3.0

3. Over the past three months, how have your bank's **conditions** and terms for approving **loans or credit lines to enterprises** changed? Please rate each factor using the following scale:

- = tightened considerably
- = tightened somewhat
- ° = remained basically unchanged
- + = eased somewhat
- ++ = eased considerably
- NA = Not Applicable

	--	-	°	+	++	NA	Average	
							Apr. 07	Jan. 07
A) Price								
• Your bank's margin on average loans (wider margin = tightened, narrower margin = eased)		1	3	1			3.0	4.0
• Your bank's margin on riskier loans		3	2				2.4	2.6
B) Other conditions and terms								
• Non-interest rate charges			4	1			3.2	3.2
• Size of the loan or credit line			5				3.0	3.0
• Collateral requirements			5				3.0	3.0
• Loan covenants			5				3.0	3.0
• Maturity			4	1			3.2	3.0

4. Over the past three months, how has the **demand for loans or credit lines to enterprises** changed at your bank, apart from normal seasonal fluctuations?

	Overall	Loans to small and medium-sized enterprises	Loans to large enterprises	Short-term loans	Long-term loans
Decreased considerably					
Decreased somewhat			2		1
Remained basically unchanged	5	4	3	5	3
Increased somewhat		1			1
Increased considerably					
Average Apr. 07	3.0	3.2	2.6	3.0	3.0
Jan. 07	3.0	3.0	3.0	3.0	2.8

5. Over the past three months, how have the following **factors** affected the **demand for loans or credit lines to enterprises** (as described in question 4 in the column headed "Overall")? Please rate each possible factor using the following scale:

- = contributed considerably to lower demand
- = contributed somewhat to lower demand
- ° = contributed to basically unchanged demand
- + = contributed somewhat to higher demand
- ++ = contributed considerably to higher demand
- NA = Not Applicable

	--	-	°	+	++	NA	Average	
							Apr. 07	Jan. 07
A) Financing needs								
• Fixed investment		2	3				2.6	2.6
• Inventories and working capital		1	3	1			3.0	3.2
• Mergers/acquisitions and corporate restructuring			5				3.0	3.4
• Debt restructuring			3	2			3.4	3.4
B) Use of alternative finance								
• Internal financing			5				3.0	3.0
• Loans from other banks			5				3.0	2.8
• Loans from non-banks			4	1			3.2	3.0
• Issuance of debt securities			4	1			3.2	3.0
• Issuance of equity			4	1			3.2	3.0

6. Please indicate how you expect your bank's credit standards as applied to the approval of loans or credit lines to enterprises to change over the next three months.

	Overall	Loans to small and medium-sized enterprises	Loans to large enterprises	Short-term loans	Long-term loans
Tighten considerably					
Tighten somewhat					
Remain basically unchanged	5	5	5	5	5
Ease somewhat					
Ease considerably					
Average Apr. 07	3.0	3.0	3.0	3.0	3.0
Jan. 07	3.0	3.0	3.0	3.0	3.0

7. Please indicate how you expect demand for loans or credit lines to enterprises to change at your bank over the next three months (apart from normal seasonal fluctuations)?

	Overall	Loans to small and medium-sized enterprises	Loans to large enterprises	Short-term loans	Long-term loans
Decrease considerably					
Decrease somewhat					
Remain basically unchanged	4	4	5	5	4
Increase somewhat	1	1			1
Increase considerably					
Average Apr. 07	3.2	3.2	3.0	3.0	3.2
Jan. 07	3.0	3.0	3.0	3.0	3.0

II. Loans to households

8. Over the past three months, how have your bank's credit standards as applied to the approval of loans to households changed?

	Loans for house purchase	Consumer credit and other lending
Tightened considerably		
Tightened somewhat		
Remained basically unchanged	5	5
Eased somewhat		
Eased considerably		
Average Apr. 07	3.0	3.0
Jan. 07	3.2	3.0

9. Over the past three months, how have the following factors affected your bank's credit standards as applied to the approval of loans to households for house purchase (as described in question 8)? Please rate the contribution of the following factors to the tightening or easing of credit standards using the following scale:

- = contributed considerably to tightening of credit standards
- = contributed somewhat to tightening of credit standards
- ° = contributed to basically unchanged credit standards
- + = contributed somewhat to easing of credit standards
- ++ = contributed considerably to easing of credit standards
- NA = Not Applicable

	--	-	°	+	++	NA	Average	
							Apr. 07	Jan. 07
A) Cost of funds and balance sheet constraints			5				3.0	3.0
B) Pressure from competition								
• Competition from other banks		1	1	3			3.4	4.0
• Competition from non-banks			5				3.0	3.0
C) Perception of risk								
• Expectations regarding general economic activity			5				3.0	2.8
• Housing market prospects		2	3				2.6	2.8

10. Over the past three months, how have your bank's **conditions** and terms for approving **loans to households for house purchase** changed? Please rate each factor using the following scale:

- = tightened considerably
- = tightened somewhat
- ° = remained basically unchanged
- + = eased somewhat
- ++ = eased considerably
- NA = Not Applicable

	--	-	°	+	++	NA	Average	
							Apr. 07	Jan. 07
A) Price								
• Your bank's margin on average loans (wider margin = tightened, narrower margin = eased)		1	2	2			3.2	3.4
• Your bank's margin on riskier loans		1	3	1			3.0	3.0
B) Other conditions and terms								
• Collateral requirements		1	4				2.8	3.0
• "Loan-to-value" ratio			4	1			3.2	3.2
• Maturity			4	1			3.2	3.2
• Non-interest rate charges		1	4				2.8	3.2

11. Over the past three months, how have the following **factors** affected your bank's credit standards as applied to the approval of **consumer credit and other lending to households** (as described in question 8)? Please rate the contribution of the following factors to the tightening or easing of credit standards using the following scale:

- = contributed considerably to tightening of credit standards
- = contributed somewhat to tightening of credit standards
- ° = contributed to basically unchanged credit standards
- + = contributed somewhat to easing of credit standards
- ++ = contributed considerably to easing of credit standards
- NA = Not Applicable

	--	-	°	+	++	NA	Average	
							Apr. 07	Jan. 07
A) Cost of funds and balance sheet constraints			4	1			3.2	3.0
B) Pressure from competition								
• Competition from other banks			2	3			3.6	3.4
• Competition from non-banks			4	1			3.2	3.0
C) Perception of risk								
• Expectations regarding general economic activity			5				3.0	3.2
• Creditworthiness of consumers		1	4				2.8	2.6
• Risk on the collateral demanded			5				3.0	3.0

12. Over the past three months, how have your bank's **conditions** and terms for approving **consumer credit and other lending to households** changed? Please rate each factor using the following scale:

- = tightened considerably
- = tightened somewhat
- ° = remained basically unchanged
- + = eased somewhat
- ++ = eased considerably
- NA = Not Applicable

	--	-	°	+	++	NA	Average	
							Apr. 07	Jan. 07
A) Price								
• Your bank's margin on average loans (wider margin = tightened, narrower margin = eased)		1	2	2			3.2	3.6
• Your bank's margin on riskier loans			4	1			3.2	2.8
B) Other conditions and terms								
• Collateral requirements			5				3.0	3.0
• Maturity			5				3.0	3.0
• Non-interest rate charges			5				3.0	3.0

13. Over the past three months, how has the **demand for loans to households** changed at your bank, apart from normal seasonal fluctuations?

	Loans for house purchase	Consumer credit and other lending
Decreased considerably		
Decreased somewhat	1	1
Remained basically unchanged	2	2
Increased somewhat	2	2
Increased considerably		
	Average Apr. 07	3.2
	Jan. 07	2.8
		3.2

14. Over the past three months, how have the following **factors** affected the **demand for loans to households for house purchase** (as described in question 13)? Please rate each factor using the following scale:

- = contributed considerably to lower demand
- = contributed somewhat to lower demand
- ° = contributed to basically unchanged demand
- + = contributed somewhat to higher demand
- ++ = contributed considerably to higher demand
- NA = Not Applicable

	--	-	°	+	++	NA	Average	
							Apr. 07	Jan. 07
A) Financing needs								
• Housing market prospects		3	2				2.4	2.4
• Consumer confidence		1	4				2.8	2.6
• Non-housing related consumption expenditure			4	1			3.2	2.6
B) Use of alternative finance								
• Household savings		1	4				2.8	3.0
• Loans from other banks		2	3				2.6	2.6
• Other sources of finance			5				3.0	3.0

15. Over the past three months, how have the following **factors** affected the **demand for consumer credit and other lending to households** (as described in question 12)? Please rate each factor using the following scale:

- = responsible for considerable decrease
- = responsible for decrease
- ° = responsible for neither decrease nor increase
- + = responsible for increase
- ++ = responsible for considerable increase
- NA = Not Applicable

	--	-	°	+	++	NA	Average	
							Apr. 07	Jan. 07
A) Financing needs								
• Spending on durable consumer goods, such as cars, furniture, etc.)		1	3	1			3.0	3.0
• Consumer confidence		1	4				2.8	3.0
• Securities purchases			5				3.0	3.0
B) Use of alternative finance								
• Household saving			5				3.0	3.2
• Loans from other banks		1	4				2.8	2.8
• Other sources of finance			5				3.0	3.0

16. Please indicate how you **expect** your **bank's credit standards as applied to the approval of loans to households** to change over the next three months.

	Loans for house purchase	Consumer credit and other lending
Tighten considerably		
Tighten somewhat		
Remain basically unchanged	5	4
Ease somewhat		1
Ease considerably		
Average Apr. 07	3.0	3.2
Jan. 07	3.0	3.0

17. Please indicate how you **expect demand for loans to households** to change over the next three months at your bank (apart from normal seasonal fluctuations).

	Loans for house purchase	Consumer credit and other lending
Decrease considerably		
Decrease somewhat	1	1
Remain basically unchanged	3	4
Increase somewhat	1	
Increase considerably		
Average Apr. 07	3.0	2.8
Jan. 07	2.8	3.2

III. Ad-hoc question

For some time, debt restructuring has been considered an important factor underlying loan demand by enterprises. However, the broadness of the concept encompasses a wide range of situations, possibly with distinctive features and implications. The following question aims at obtaining further information at this level.

1. As for the last 12 months, debt restructuring, as considered in Question 5 (line 4), mainly refers to what kind of situation (values in column should add up to 100 per cent, in order to assess the relative importance of each situation)?

	Overall	Small and medium sized enterprises	Large enterprises
Inability or difficulty to service debt (observed or highly probable delinquency)	55%	46%	18%
Product substitution (risk management by the lender)	32%	30%	33%
Of which:			
• Maturities	20%	15%	14%
• Collateral requirements	10%	9%	9%
• Risk mitigation (interest rate risk)	1%	6%	11%
Consolidation of liabilities vis-à-vis your institution aiming at reducing, for example, the overall cost of funding (enterprise's initiative)	8%	18%	43%
Loan redemption in other financial institutions	5%	6%	5%
Other loan redemptions (non-financial counterparts)	0%	0%	0%
Other (please specify, when relevant)	0%	0%	0%
Number of answers	3	4	3

Note: All banks included in the sample answered this ad-hoc question, even though not all banks replied to all columns. Hence, the 'overall' column refers to the answers of only three banking groups, the column relative to SMEs considers the answers of four banking groups and the column for large enterprises includes the answers of three banks.