

**BANK LENDING SURVEY**

July 2006

**Results for Portugal****I. Overall assessment**

According to the results of the survey conducted in July 2006 to the five Portuguese banking groups included in the sample, credit standards applied to the approval of loans to non-financial private sector should have remained broadly unchanged in the second quarter of 2006 (in comparison with the previous one). Only one banking institution reported a slight easing of its criteria, in the segment of loans to households for house purchase. These developments took place in a context of rising money market interest rate (Euribor, used as benchmark in banking credit), which was mentioned in the answers to the survey.

Among the factors that influenced the criteria adopted by banks in the approval of loans, pressure from competition within banking institutions should have been the driven factor to an easing of credit policy. In turn, the cost of capital and the perception of higher risks related to specific industries or firms, in the segment of enterprises, combined with a less favourable evaluation of consumers' creditworthiness, in the segment of loans for consumption and other purposes, should have contributed to tightening of criteria.

Regarding credit conditions applied to loans, in aggregate terms, a decrease in spreads applied to average risk loans should have been verified, mainly in the segment of loans for house purchase, while spreads applied to riskier loans should have slightly increased in the segments of loans for house purchase and of loans to enterprises. In the later segment, a slight decrease in non-interest rate charges should have also been recorded.

Demand for loans by enterprises and by households should have globally remained unchanged. However, in the segments of large enterprises, of long-term loans to enterprises and of loans to households for house purchase there is some dispersion in reported answers.

For the third quarter of 2006, none of the inquired banks anticipates to implement sizable changes on credit approval criteria applied to loans to enterprises or to households. For the same period, in aggregate terms, it is expected a slight increase in demand by enterprises for loans or credit lines and by households for loans for consumption and other purposes, while it is anticipated a slight decrease in demand by households for loans for house purchase.

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

In the second quarter of 2006, according to the five inquired banking institutions, credit standards applied to loans or credit lines to enterprises should have remained unchanged, comparing with the previous quarter. Nonetheless, the pressure from competition among banking institutions should have been an inductor factor to an easing of criteria, while the deterioration in industry or firm-specific outlook, alongside the cost of capital were pointed out as contributing to a tightening of credit standards.

Likewise, and despite the reported global stability of criteria, changes in the conditions applied to loans or credit lines granted to enterprises were identified. Two banks reported a reduction in spreads applied to average risk loans, which contrasts with the increase in spreads applied to riskier loans reported by a bank. A decrease in non-interest rate charges was also pointed out by an institution.

During the second quarter of 2006, demand for loans or credit lines by enterprises should have remained stable, in global terms. However, in the segments of large enterprises and of long-term loans, demand's evolution should have been distinct within the participating banks. While one institution pointed out a slight decrease in both segments, two other banks reported slight increases: one in the segment of large enterprises and the other in the segment of long-term loans. Within the conditioning factors of demand's evolution, and contributing to a slight increase, the increase in the financing needs for debt restructuring and, to a smaller extent, the increase of financial needs for the realization of mergers/acquisitions and corporate restructuring as well as reduced internal financing were mentioned by the participating banks. Contributing to the opposite evolution, i.e. to a slight decrease of the demand, smaller financing needs for fixed investment was pointed out by one institution.

For the third quarter of 2006, the five banking groups do not intend to change the credit standards underlying the approval of loans or credit lines to enterprises. As far as demand is concerned, only one institution anticipates a slight variation, towards an increase, namely in the segment of small and medium-sized enterprises and across different loan maturities.

**Loans to households****For house purchase**

Four of the five participating banking institutions did not report sizable changes in credit standards applied to the approval of loans to households for house purchase in the second quarter of 2006, while the other institution pointed out an easing of its criteria. Competition from banking institutions was the only factor identified as influencing credit policy in this segment, contributing to an easing of credit standards.

Regarding the credit conditions offered, all inquired institutions pointed out changes in spreads. Four banks reported a reduction in spreads applied to average risk loans, while the other institution reported a slight increase in spreads applied to both average risk loans and riskier loans.

In the second quarter of 2006, in net aggregate terms, the demand for loans for house purchase should have not recorded sizable changes with regard to the previous quarter. Indeed, whereas two institutions reported a slight increase, two other institutions re-

ported the opposite evolution, and the other bank signalled some stability in the demand towards it. The factors underlying demand's evolution should not have been entirely perceptible for the banking institutions since only a bank pointed out a conditioning factor, namely the deterioration in housing market prospects.

For the third quarter of 2006, the five banking groups do not intend to change the criteria applied to the approval of loans to households for house purchase. Regarding demand, there are differentiated expectations among the participating institutions: two banks predict a slight decrease, while one institution foresees a slight increase.

#### **For consumption and other purposes**

In the second quarter of 2006, according to the participating banks, credit standards applied to loans to households for consumption and other purposes should have remained unchanged comparing with the previous quarter. Still, some factors with impact over credit policy were reported. Two banks pointed out pressure from competition from banking institutions as contributing to an easing of criteria, whereas a less favourable evaluation of consumers' creditworthiness was also reported by two banks as contributing to a tightening of credit standards.

Regarding credit conditions offered in this segment, only prices should have changed somewhat. However, as institutions adopted different stances, only spreads applied to average risk loans should have changed, in aggregate terms, decreasing slightly.

The five participating banking groups did not indicate sizable changes in demand for loans for consumption and other purposes, during the second quarter of 2006. Nevertheless this report, an increase in spending on durable consumer goods and some difficulties in obtaining alternative financing were identified as factors that contributed positively to evolution of demand.

For the third quarter of 2006, in line with the other segments, banks do not expect changes in the credit standards. Finally, and for the same period, only an institution foresees a slight increase in demand, while the remaining institutions do not anticipate relevant variations.

### **III. Ad hoc questions**

In recent years, loans granted to households for house purchase have presented strong growth rates. In this context, it is relevant to understand the reasons that can justify this evolution, in particular, which proportion of loans to households secured by real estate is used for purposes other than acquisition of a principal residence.

According to the participating banks, in the last twelve month, the percentage of loans to households secured by real estate for the purchase of second residences or of residences having investment purposes ("buy to let") should have remained identical to the percentage recorded in the twelve previous months, while the percentage of loans granted for other purposes should have increased. Nonetheless, in terms of the total outstanding amount of loans to households secured by real estate, the share of loans granted to finance each one of the above mentioned purposes shall be, in general, low.

### METHODOLOGICAL NOTE

The following tables include the results for Portugal of the Bank Lending Surveys (BLS) conducted in July 2006. 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.

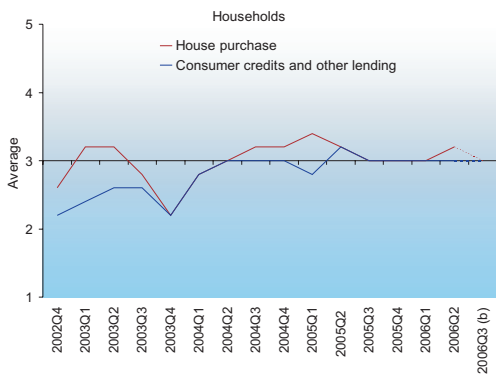
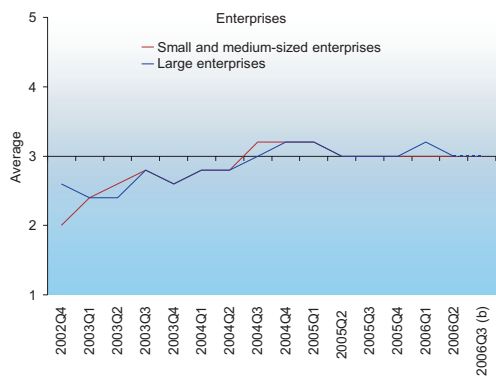
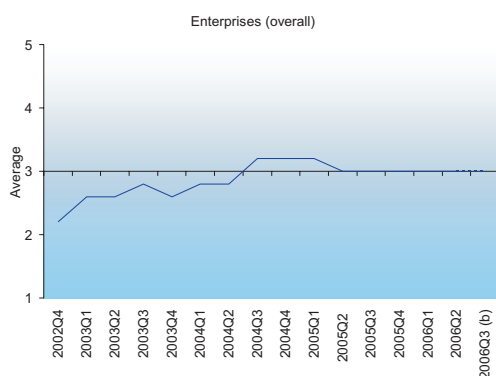
For each sector — enterprises and households — the questions are focused on: i) the current and the prospective assessments on standards, conditions and terms for lending approval, on one hand, and on demand trends, on the other (tables 1, 4, 6, 7, 8, 13, 16 and 17); and ii) the appraisal of factors 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.

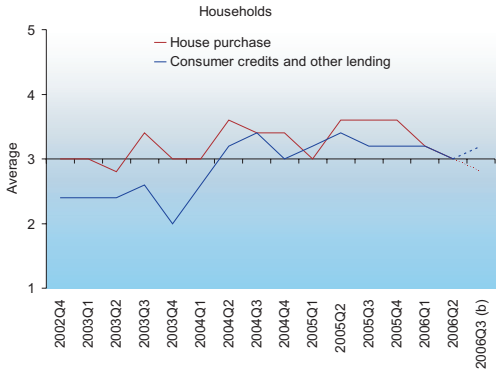
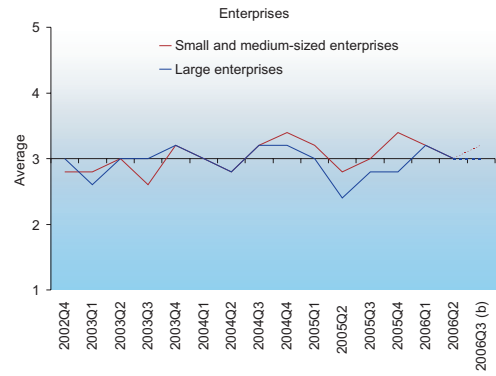
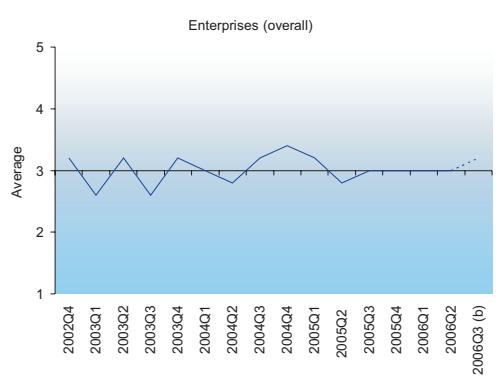
The results of the survey are as follows:

- 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.

#### CREDIT SUPPLY<sup>(a)</sup>



#### CREDIT DEMAND<sup>(a)</sup>



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's 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 July 06	3.0	3.0	3.0	3.0	3.0
Apr. 06	3.0	3.0	3.2	3.0	2.8

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
- ° = 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 July 06    Apr. 06	
<b>A) Cost of funds and balance sheet constraints</b>								
* Costs related to your bank's capital position		1	4				2.8	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>B) Pressure from competition</b>								
* Competition from other banks			4	1			3.2	3.6
* Competition from non-banks			5				3.0	3.0
* Competition from market financing			5				3.0	3.0
<b>C) Perception of risk</b>								
* Expectations regarding general economic activity			5				3.0	2.8
* 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 July 06 Apr. 06	
<b>A) Price</b>								
* Your bank's margin on average loans (wider margin = tightened, narrower margin = eased)			3	1	1		3.6	3.2
* Your bank's margin on riskier loans		1	4				2.8	2.4
<b>B) Other conditions and terms</b>								
* Non-interest rate charges			4	1			3.2	3.2
* Size of the loan or credit line			5				3.0	3.2
* Collateral requirements			5				3.0	3.0
* Loan covenants			5				3.0	3.0
* Maturity			5				3.0	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			1		1
Remained basically unchanged	5	5	3	5	3
Increased somewhat			1		1
Increased considerably					
	Average July 06 Apr. 06	3.0 3.0	3.0 3.2	3.0 3.2	3.0 3.0

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 July 06 Apr. 06	
<b>A) Financing needs</b>								
* Fixed investment		1	4				2.8	2.6
* Inventories and working capital			5				3.0	3.4
* Mergers/acquisitions and corporate restructuring			4	1			3.2	3.6
* Debt restructuring			2	3			3.6	3.6
<b>B) Use of alternative finance</b>								
* Internal financing			4	1			3.2	3.0
* Loans from other banks			5				3.0	3.0
* Loans from non-banks			5				3.0	3.0
* Issuance of debt securities			5				3.0	3.0
* Issuance of equity			5				3.0	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 July 06	3.0	3.0	3.0	3.0	3.0
Apr. 06	3.0	3.0	3.2	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	4	4
Increase somewhat	1	1		1	1
Increase considerably					
Average July 06	3.2	3.2	3.0	3.2	3.2
Apr. 06	3.2	3.2	3.0	3.2	3.4

## 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	4	5
Eased somewhat	1	
Eased considerably		
Average July 06	3.2	3.0
Apr. 06	3.0	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
- 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 July 06 Apr. 06	
<b>A) Cost of funds and balance sheet constraints</b>			5				3.0	2.8
<b>B) Pressure from competition</b>								
* Competition from other banks			3	1	1		3.6	3.2
* Competition from non-banks			5				3.0	3.0
<b>C) Perception of risk</b>								
* Expectations regarding general economic activity			5				3.0	3.0
* Housing market prospects			5				3.0	3.0

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	
							July 06	Apr. 06
<b>A) Price</b>								
* Your bank's margin on average loans (wider margin = tightened, narrower margin = eased)		1		3	1		3.8	3.2
* Your bank's margin on riskier loans		1	4				2.8	2.8
<b>B) Other conditions and terms</b>								
* Collateral requirements			5				3.0	3.0
* "Loan-to-value" ratio			5				3.0	3.2
* Maturity			5				3.0	3.4
* Non-interest rate charges			5				3.0	3.0

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	
							July 06	Apr. 06
<b>A) Cost of funds and balance sheet constraints</b>			5				3.0	2.8
<b>B) Pressure from competition</b>								
* Competition from other banks			3	2			3.4	2.8
* Competition from non-banks			5				3.0	3.0
<b>C) Perception of risk</b>								
* Expectations regarding general economic activity			5				3.0	3.0
* Creditworthiness of consumers		2	3				2.6	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 July 06 Apr. 06	
<b>A) Price</b>								
* 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	2.8
<b>B) Other conditions and terms</b>								
* 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	2	
Remained basically unchanged	1	5
Increased somewhat	2	
Increased considerably		
	Average July 06 Apr. 06	
	3.0 3.2	3.0 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 July 06 Apr. 06	
<b>A) Financing needs</b>								
* Housing market prospects		1	4				2.8	3.0
* Consumer confidence			5				3.0	2.6
* Non-housing related consumption expenditure			5				3.0	3.0
<b>B) Use of alternative finance</b>								
* Household savings			5				3.0	3.0
* Loans from other banks			5				3.0	3.0
* 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 July 06 Apr. 06	
<b>A) Financing needs</b>								
* Spending on durable consumer goods, such as cars, furniture, etc.)			3	2			3.4	3.2
* Consumer confidence			5				3.0	2.8
* Securities purchases			5				3.0	3.0
<b>B) Use of alternative finance</b>								
* Household saving			5				3.0	3.2
* Loans from other banks			4	1			3.2	3.0
* Other sources of finance			4	1			3.2	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	5
Ease somewhat		
Ease considerably		
Average July 06 Apr. 06	3.0 3.0	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	2	
Remain basically unchanged	2	4
Increase somewhat	1	1
Increase considerably		
Average July 06 Apr. 06	2.8 3.2	3.2 3.0

IV. Ad hoc questions

In a large number of countries in the euro area, **loans for house purchase** have shown strong growth rates in recent years. This question addresses some of the reasons behind this development, focusing on loans to households secured by real estate and used for purposes other than the acquisition of a principal residence.

100. How does the share of loans to households secured by real estate contracted over the last 12 months **for purposes other than the acquisition of a principal residence** compare with the share of such loans in the previous 12-month period?

	Purchase of second homes or homes for investment purposes ("buy to let")	Other purposes <sup>1</sup>
Considerably lower		
Somewhat lower		
Basically unchanged	5	2
Somewhat higher		2
Considerably higher		1
Not applicable		
Average July 06	3.0	3.8

101. On the basis of the information available to you, what share of the volume of the outstanding amount of loans to households secured by real estate currently on the books of your bank do you estimate was used **for purposes other than the acquisition of a principal residence**?

As a percentage of all mortgage loans	Purchase of second homes or homes for investment purposes ("buy to let")	Other purposes <sup>1</sup>
Minor (0 to 10 percent)	5	4
Significant (10 to 20 percent)		1
Considerable (more than 20 percent)		
Not applicable		

1) This category covers, for example, consumption, financial investment and redemption of debt, as well as the situation in which a parent borrows a mortgage for the purpose of transferring the funds to a son or daughter for the purchase of a house.