SUMMARY OF THE RESULTS OF THE COMMERCIAL BANK SENIOR LOAN OFFICERS' OPINION SURVEY ON CREDIT MARKET CONDITIONS IN THE ECCU (JANUARY TO JUNE 2016)

EASTERN CARIBBEAN CENTRAL BANK
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1. INTRODUCTION

In accordance with its function to regulate the availability of money and credit in the Eastern Caribbean Currency Union (ECCU), the Eastern Caribbean Central Bank (ECCB) conducts a bi-annual survey to capture information on the qualitative (non-price) factors affecting the demand for and supply of credit. The self-administered questionnaire targets the senior loan officers at the commercial banks in the ECCU and contains questions covering the business and household sectors. The information gathered helps to enhance the knowledge of the trends and developments in credit conditions in the Currency Union which serves as an input into monetary policy decisions at the Central Bank.

The results of the survey are reported using the net percentage indicator.[1] Declines in the net percentage indicator denote worsening conditions in the environment, while increases denote an improvement.

For the survey period January to June 2016, responses were received from all of the 35 banks[2] surveyed. The table below shows the response rate.

Table 1-Response Rate

Country	Number of Banks in Country	Number of Banks Responded	% of Total Banks Responded	% of Total Asset Contribution
Anguilla	3	3	100.0%	100.0%
Antigua and Barbuda	6	6	100.0%	100.0%
Dominica	4	4	100.0%	100.0%
Grenada	5	5	100.0%	100.0%
Montserrat	2	2	100.0%	100.0%
St Kitts and Nevis	6	6	100.0%	100.0%
Saint Lucia	5	5	100.0%	100.0%
St Vincent and the Grenadines	4	4	100.0%	100.0%
ECCU	35	35	**100.0%**	**100.0%**

[1] See Appendix I for further explanation.

[2] In 2016, the number of licensed commercial banks in the Eastern Caribbean Currency Union (ECCU) declined from 36 banks to 35 banks. The banking operations of the Royal Bank of Trinidad and Tobago (RBTT) Limited in Antigua and Barbuda, St Kitts and Saint Lucia were merged with the Royal Bank of Canada in the respective territories and the Antigua and Barbuda Investment Bank (ABI) was acquired by the Eastern Caribbean Amalgamated Bank (ECAB). In April 2016, National Bank of Anguilla (NBA) and Caribbean Commercial Bank (CCB) merged to form National Commercial Bank of Anguilla (NCBA).

SUMMARY OF THE RESULTS[3]

A. *Credit to Businesses and Households*

At the ECCU level over the period January to June 2016, banks tightened the overall lending terms and conditions for all types of loans to businesses[4], except for commercial real estate loans which eased. This is in contrast with banks' expectation for the tightening in the overall lending conditions for all types of loans to businesses. The tightening in overall lending terms and conditions for large businesses and small and medium sized businesses was less pronounced for the survey period than for the last half of 2015. The main factors which influenced the tightening in overall lending terms and conditions were risks related to the general economic conditions, increases in the percentage of non-performing loans to total loans and the credit worthiness of customers.

In terms of household[5] loans, at the ECCU level, overall lending terms and conditions tightened for mortgages (although less pronounced than the last period) and eased for other consumer loans. This is in contrast to the expectation for easing in both types of loans to households. The tightening in lending terms and conditions for mortgages was largely attributable to creditworthiness of consumers, risk related to the expected general economic situation and real estate prospects. The easing in lending terms and conditions for other consumer loans was driven mainly by the banks' current and expected liquidity position and changes in competition from other banks in the ECCU.

For the second half of 2016, overall lending terms and conditions are expected to tighten for commercial real estate loans and long term loans to large businesses and small and medium sized businesses. However, expectations are for easing in the overall lending terms and conditions for short term loans to large businesses and small and medium sized businesses and both types of loans to households. The expectation for tightening in the overall conditions for long term loans to

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[3] The results represent the opinions of the senior loan officers at the commercial banks and may not be reflective of the general credit supply and demand conditions in the ECCU. The ECCB does not undertake any assessment of the results of the survey but only reports the views of respondents as expressed.

[4] Loans to businesses are categorised into commercial real estate loans, loans to large businesses and loans to small and medium sized businesses.

[5] Loans to households are categorised into mortgages and other consumer loans.

businesses is based mainly on current economic conditions and the need to manage the associated risks.

At the ECCU level, demand declined for loans to businesses. These results are in contrast to expectations for overall increases in the demand for all types of business loans for the review period (Table 3). However, demand by households for both mortgage loans and consumer loans increased for the same period. This outturn was consistent with the expectation of overall increases in demand. The main reason cited for the decline in demand for loans to businesses was the use of loans from non-bank financial institutions in the ECCU. The increase in demand for household loans was mainly as a result of changes in interest rates.

For the period July to December 2016, expectations are for overall increases in the demand for all types of business and household loans. The expectation for an increase in the demand for business loans is based on prospects for increased activities in the area of hotels and offshore medical schools' construction and infrastructure development. The increase in demand for household loans is expected to be influenced by housing projects promotions and back to school and university students' spending.

B. Other Credit and Banking Issues

In the survey, there were open-ended questions that were posed to the commercial banks to capture information on challenges faced by these banks for the reporting period (See Appendix IV). These questions were categorised as follows: Correspondent Bank Matters, Lending Environment, Non-Performing Loans and Other General Issues. The banks' responses are incorporated below.

Correspondent Bank Matters

With respect to the questions *'Have you lost correspondent banking relations over the period January to June 2016?' and 'Do you anticipate the withdrawal of your correspondent banking relationship(s) during the period July to December 2016?',* most banks (91.4 per cent) indicated that they have not lost their correspondent banking relationship. However, the banks that indicated that they anticipate a withdrawal of their correspondent banking relationship(s) during the period

July to December 2016, indicated that they are currently negotiating or have already established relationships with other banks which can provide similar services.

Lending Environment

All the banks responded to the question, '*Is your bank considering a reduction in any of the lending rates for July to December 2016*?'. The majority (60 per cent) of the banks indicated that they are not planning to reduce lending rates for the stated period. However, the other banks which indicated that they would reduce lending rates informed that loans on home mortgages, real estate and consumer (vehicle, vacation and consumer durables) would be the categories of loans in which rates would be reduced.

Of the 35 banks, 29 (83 per cent) responded to the question, *'What do you think the ECCB can do to assist in increasing bank lending?'*. Some of the banks indicated that they would like ECCB to continue to assist in the establishment of a Credit Bureau in the region and a more effective appraisal system. Banks also indicated that they would want the ECCB to continue to offer training workshops to assist small business customers who have feasible ideas for new or expanding businesses. Other banks advocated that the ECCB should remove the minimum savings rate as it will create an environment for reduced lending rates, hence stimulating the demand for credit. They further suggested that ECCB revise some of their policies such as renegotiated loans as their competitors such as credit unions do not have any restrictions on restructured loans, and also to rectify the 50 per cent restriction on unsecured lending to bank staff. They noted that the ECCB could also advocate for improvement in the foreclosure legislation to assist the banks in recovering debts. Some of the indigenous banks requested support to allow for a level playing field with the international banks and also suggested an in-depth review of the investment climate be done by the ECCB.

There were 32 banks (91 per cent) that responded to the question *'What do you think the Government can do to assist in increasing* bank lending?'. Some banks advocated that the Government needs to create programs to stimulate the economy. They can also be proactive at enacting or enforcing of foreclosure legislation, reducing taxes (VAT and corporation taxes) and introducing more attractive concessions for small and medium sized businesses. Banks indicated that government should also assist the banks by supporting the abolishment of the minimum savings rate on deposits and working in conjunction with the Eastern Caribbean Central Bank.

There were 31 banks (89 per cent) that responded to the question '*What lending initiatives does your bank plan to undertake to target small and medium-sized enterprises*?'. Some of the banks indicated that there were no specific initiatives undertaken during the said period. However, the banks that indicated that they implemented lending initiatives indicated that they reduced the lending rates to the SMEs and loaned funds to other lenders to fund on-lending to small businesses. Some banks provided training opportunities including proper record-keeping and financial statements) to small businesses, convened open day campaigns which targeted small business owners and other sectors and invited potential borrowers to business luncheons.

There were 28 banks (80 per cent) responded to the question, '*What lending initiatives does your bank plan to undertake to target small and medium-sized enterprises?'*. Most banks indicated that they plan to continue to educate potential borrowers (for a small to medium sized business) through seminars and workshops on financial management and to involve strategic partners in the process (credit unions and development banks). Some banks organise town hall meetings to inform potential customers on the process of obtaining loans and send letters of invitations to customers to apply for credit.

There were 30 banks (86 per cent) that responded to the question '*What are the perceived risks associated with lending to small and medium-sized enterprises?'*. Some of the banks indicated that there is generally a lack of proper book-keeping and financial records which impedes the commercial bank from ascertaining the enterprises' cash flow capabilities. Additionally, lack of continuity and succession planning, informal structures, vulnerability to economic downturns, lack of proper management practices, inefficient financial control, lack of the separation of personal and business assets and inadequate collateral/security were also cited as perceived risks with lending to small and medium-sized enterprises.

Thirty-three (33) banks (94 per cent) responded to the question, '*In what sectors has demand for credit increased most over the period January to June 2016?'*. Most banks indicated that the demand for credit increased most for private residential mortgages and consumer loans. Other banks indicated there was an increase in demand for business loans, specifically for construction, tourism, financial intermediation, capital injection and inventory purchases (SMEs) and transportation.

There were 14 banks (40 per cent) that responded to the question '*Of the total loan portfolio for the period January to June 2016, what percentage of loans (by sector) was rejected and why?'*. Based on the responses from the banks, loans from 'Other Sector' (mainly households/consumer) category had most rejected loans. There were various reasons for the rejections which included the inability to repay the facility, inadequate input (down payment) and security/collateral, unsatisfactory credit history, insufficient disposable income, inadequate loans to value (LTV) ratio and high debt service ratio (DSR). Loans for Tourism and Entertainment and Catering were also categories of loans where banks indicated that there were rejections owing to inadequate business planning, uncertainty about cash flow and high mortality rate. For Professional and Other Services category, high debt service ratio and infeasibility of project were provided as explanations for the rejection of these loans. For all of the other categories, banks indicated that lack of collateral was the main reason for rejection of loans.

Non-Performing Loans

Of the 35 banks, 32 (91 per cent) responded to the question '*What steps are being taken by your bank to reduce non-performing loans?'*. Some of the banks indicated that they have increased due diligence when lending to customers. For instance, banks have indicated that they ensure that securities offered on the loans are adequate. Additionally, banks indicated that they perform initial assessments of the non-performing loan portfolios, conduct credit checks and charge off loans that they consider unrecoverable. Banks also indicated that through the sale of foreclosed properties, liquidation of debts and restructuring of loans, they have been able to reduce the impact of Non-Performing Loans (NPL). Further, banks indicated that attorneys are contacted if all possible avenues, including engaging in vigorous follow-ups to recover the loan, have been exhausted.

There were 27 banks (77 per cent) that responded to the question, '*What is your bank's position on IFRS 9 Accounting Standards in relation to loan loss provisions and its implications for lending?*'. The banks indicated that they were already in compliance to IFRS9 or were in the process of transitioning to IFRS 9. Some banks believe that the transition to IFRS 9 could result in greater volatility and increases in provisions, which would ultimately affect their profits and their lending practices (would become more conservative). Banks also thought that the implementation of IFRS 9 would be helpful to ascertain the banks' level of risk and to monitor accounts which could ultimately protect the bank from potential loss.

Other General Issues

There were 31 banks (89 per cent) that responded to the question, *'What effects do you anticipate Britain's exit from the European Union would have on your: Banking Business?'*. Although several banks indicated that it was too early for them to assess the impact of Britain's exit from the European Union, most banks indicated that there will be a general reduction in tourism related earnings, decline in remittances, decline in investment portfolio and currency conversion. Other banks anticipated that there will be an increased demand for the pound sterling.

Of the 35 banks, 30 (85 per cent) responded to the question, '*What effects do you anticipate Britain's exit from the European Union would have on your: Clients?*'. Banks indicated that the volatility of sterling rates will impact the cost of remittances to and from the UK. Reduced remittances might negatively impact the spending power of residents. However, importers of goods would benefit from the reduction in the conversion value while conversely, this would negatively impact revenues from exports to the UK. Other banks believe that possible reduction in the level of assistance from the EU could negatively impact social and economic development for dependent countries.

C. Conclusion

The report captured a wide spectrum of banking issues in addition to credit market conditions in the ECCU. The feedback from banks, particularly on Part II of the report may be used to inform policy decisions in many aspects of banking in the region. Banks should closely monitor the impact of emerging issues such as correspondent banking relationships, implementation of IFRS 9 accounting standards and Britain's exit from the European Union, as these issues can have implications for financial sector stability.

APPENDIX I: Net Percentage Indicator

The indicator is calculated as the difference between the percentage of banks reporting responses of "eased considerably" or "eased somewhat" and the percentage of banks reporting responses of "tightened considerably" or "tightened somewhat". This result is then weighted, with the weights being determined for each of the three major categories of loan according to the banks' contribution to the total value of loans made in that category. For example, if bank X contributes 70 per cent of the total mortgage loans in the ECCU, then that bank's response is weighted by 70 per cent of the overall results for each question relating to mortgage loans. All responses pertaining to small-medium sized businesses, large businesses or commercial real estate are weighted by the corresponding bank's contribution to total business loans in the ECCU.

APPENDIX II: Survey Results

Table 2 - Overall Conditions of Lending to Businesses (Net Percentage Indicator)

	Commercial Real Estate		Large Businesses		Small/Medium Sized Businesses	
	Jan-Jun 2016	Jul-Dec 2015	Jan-Jun 2016	Jul-Dec 2015	Jan-Jun 2016	Jul-Dec 2015
Anguilla	0.0	-50.8	0.0	-50.8	0.0	-50.8
Antigua and Barbuda	0.0	-6.9	0.0	-5.1	0.0	-5.1
Dominica	-14.9	-1.9	-14.9	-1.9	-14.9	0.0
Grenada	0.0	0.0	7.0	-31.1	0.0	0.0
Montserrat	0.0	0.0	0.0	0.0	0.0	0.0
St Kitts and Nevis	8.9	8.4	8.9	8.4	8.9	8.4
Saint Lucia	16.8	0.0	-5.9	-31.3	-5.9	-31.3
St Vincent and the Grenadines	0.0	0.0	0.0	0.0	0.0	0.0
ECCU	**5.3**	**-8.4**	**-1.4**	**-21.9**	**-2.3**	**-18.7**
Indigenous Banks	-9.2	-18.1	-21.7	-41.8	-21.7	-35.8
Foreign Owned Banks	15.2	-0.2	16.7	-0.2	15.2	0.0

Table 3 - Demand for Business Loans (Net Percentage Indicator)

	Commercial Real Estate		Loans to Large Businesses				Loans to Small/Medium Sized Businesses			
			Short-term		Long-term		Short-term		Long-term	
	Jan-Jun 2016	Jul-Dec 2015	Jan-Jun 2016	Jul-Dec 2015	Jan-Jun 2016	Jul-Dec 2015	Jan-Jun 2016	Jul-Dec 2015	Jan-Jun 2016	Jul-Dec 2015
Anguilla	-82.6	15.1	-82.6	15.1	-82.6	15.1	-82.6	15.1	-82.6	15.1
Antigua and Barbuda	-11.2	-20.5	14.2	-20.5	14.2	-34.4	-23.2	-34.4	-29.6	-34.4
Dominica	-77.3	-60.8	-54.6	-60.8	-69.5	-60.8	-42.5	-52.5	-65.2	-36.1
Grenada	-7.7	7.4	7.0	7.4	54.4	38.5	47.4	0.0	47.4	0.0
Montserrat	95.5	0.0	0.0	0.0	95.5	0.0	-95.5	95.1	-95.5	0.0
St Kitts and Nevis	11.9	13.5	0.0	0.0	0.0	13.5	-11.9	13.5	-11.9	0.0
Saint Lucia	-48.7	-57.9	-52.4	12.6	-52.4	-10.4	-52.4	-41.7	-52.4	-41.7
St Vincent and the Grenadines	-21.2	17.4	-21.2	40.3	21.2	21.1	21.2	21.1	21.2	21.1
ECCU	**-30.0**	**-26.1**	**-27.4**	**1.6**	**-20.5**	**-5.9**	**-27.7**	**-21.9**	**-30.4**	**-22.6**
Indigenous Banks	-46.6	-41.2	-28.3	-15.3	-28.0	-13.2	-42.4	-45.7	-44.7	-46.0
Foreign Owned Banks	-18.7	-12.0	-26.6	17.5	-13.7	0.8	-14.5	0.4	-17.6	-0.7

Table 4 - Outlook for Lending Policies for Business Loans July to December 2016 (Net Percentage Indicator)

	Commercial Real Estate	Loans to Large Business		Loans to Small/Medium Sized Businesses	
		Short-term	Long-term	Short-term	Long-term
Anguilla	0.0	0.0	0.0	0.0	0.0
Antigua and Barbuda	0.0	0.0	0.0	0.0	0.0
Dominica	0.0	7.8	-7.0	7.8	-7.0
Grenada	7.0	7.0	44.9	0.0	37.9
Montserrat	-100.0	-100.0	-100.0	-100.0	-100.0
St Kitts and Nevis	0.0	0.0	-11.9	0.0	0.0
Saint Lucia	0.0	0.0	-29.2	0.0	-29.2
St Vincent and the Grenadines	-45.3	0.0	-45.3	0.0	-45.3
ECCU	**-2.0**	**1.2**	**-10.7**	**0.4**	**-10.0**
Indigenous Banks	-7.2	-0.3	-29.6	-0.3	-29.6
Foreign Owned Banks	1.6	2.6	6.2	1.1	7.5

Table 5 - Outlook for Demand for Business Loans
July to December 2016 (Net Percentage Indicator)

	Commercial Real Estate	Loans to Large Business		Loans to Small/Medium Sized Businesses	
		Short-term	Long-term	Short-term	Long-term
Anguilla	8.8	0.0	0.0	0.0	0.0
Antigua and Barbuda	-27.9	0.0	0.0	1.6	0.0
Dominica	50.3	7.8	7.8	87.9	73.0
Grenada	-37.9	7.0	7.0	47.4	47.4
Montserrat	0.0	0.0	0.0	0.0	0.0
St Kitts and Nevis	0.0	0.0	11.9	0.0	0.0
Saint Lucia	32.8	0.0	0.0	52.4	5.9
St Vincent and the Grenadines	33.5	18.8	0.0	40.0	40.0
ECCU	**6.5**	**2.4**	**2.9**	**34.9**	**15.3**
Indigenous Banks	13.2	0.0	0.0	10.6	10.0
Foreign Owned Banks	1.9	4.7	5.5	56.6	20.1

Table 6 - Overall Conditions of Lending to Households (Net Percentage Indicator)

	Mortgages		Other Consumer Loans	
	Jan-Jun 2016	Jul-Dec 2015	Jan-Jun 2016	Jul-Dec 2015
Anguilla	79.1	73.7	-31.6	-40.4
Antigua and Barbuda	0.0	-15.0	25.4	-22.9
Dominica	-6.4	0.0	5.2	57.2
Grenada	43.3	0.0	5.5	0.0
Montserrat	-94.6	93.5	-81.6	77.2
St Kitts and Nevis	13.4	-4.7	5.1	-4.5
Saint Lucia	-48.3	-30.7	34.3	39.0
St Vincent and the Grenadines	0.0	-8.9	0.0	-9.5
ECCU	**-1.5**	**-7.6**	**11.8**	**5.5**
Indigenous Banks	-17.3	-3.1	-25.9	-20.6
Foreign Owned Banks	10.8	-10.9	-25.9	-20.6

Table 7 - Demand for Household Loans (Net Percentage Indicator)

	Mortgages		Other Consumer Loans	
	Jan-Jun 2016	Jul-Dec 2015	Jan-Jun 2016	Jul-Dec 2015
Anguilla	-63.6	15.5	65.0	59.6
Antigua and Barbuda	32.1	-30.0	35.6	62.8
Dominica	20.1	-52.6	9.3	12.1
Grenada	59.4	0.0	16.1	0.0
Montserrat	100.0	93.5	100.0	-77.2
St Kitts and Nevis	31.9	6.9	0.0	4.8
Saint Lucia	-57.7	54.5	-39.1	30.1
St Vincent and the Grenadines	0.0	27.3	-9.3	49.2
ECCU	**9.5**	**11.2**	**9.1**	**28.3**
Indigenous Banks	-4.8	41.9	14.9	39.6
Foreign Owned Banks	26.9	-11.2	6.4	24.6

Table 8 - Outlook for Lending Policies for Household Loans January to June 2016 (Net Percentage Indicator)

	Mortgages	Other Consumer Loans
Anguilla	0.0	0.0
Antigua and Barbuda	2.5	11.1
Dominica	-6.4	21.3
Grenada	34.3	17.3
Montserrat	0.0	0.0
St Kitts and Nevis	13.4	5.1
Saint Lucia	23.8	57.2
St Vincent and the Grenadines	0.0	-1.2
ECCU	**12.9**	**20.5**
Indigenous Banks	5.3	10.3
Foreign Owned Banks	18.6	23.7

Table 9 - Outlook for Demand for Household Loans
January to June 2016 (Net Percentage Indicator)

	Mortgages	**Other Consumer Loans**
Anguilla	-83.6	0.0
Antigua and Barbuda	34.1	42.7
Dominica	29.3	21.3
Grenada	65.8	78.3
Montserrat	94.6	81.6
St Kitts and Nevis	18.4	5.1
Saint Lucia	13.0	10.0
St Vincent and the Grenadines	26.6	58.9
ECCU	**25.8**	**34.4**
Indigenous Banks	10.4	27.5
Foreign Owned Banks	37.9	36.6

APPENDIX III: Survey Questions

Part I. Credit to Businesses and Households

1. **How have the** terms and conditions of lending **changed over the past six months?**

2. **How have the following factors affected your bank's** lending policies **over the past six months?**

3. **How has the** demand **for credit by businesses changed at your bank over the past six months, apart from normal seasonal fluctuations?**

4. How has the **demand** for loans by **households** changed over the past six months, apart from normal seasonal fluctuations?

5. **How have the following factors affected the** demand **for credit over the past six months?**

6. **Please indicate how you** expect **your bank's terms and conditions of lending to** businesses **to change** over the next six months.

7. **Please indicate how you** expect **the demand for credit by** businesses **to change** over the next six months**, apart from normal seasonal fluctuations?**

8. **Please indicate how you** expect **your bank's lending policies for** household **lending to change** over the next six months.

9. **Please indicate how you** expect **the demand for loans to** households **to change** over the next six months**, apart from normal seasonal fluctuations?**

New Products

10. What new product(s) have you introduced during the past six months? Please name the product and rate its performance.

11. What new product(s) do you plan to introduce over the next six months?

Part II. General Questions on Banking and Credit

Correspondent Bank

1. a. Have you lost correspondent banking relations over the period January to June 2016?

Yes No

If Yes, what measures has your institution implemented to mitigate the effects of this withdrawal?

b. Do you anticipate the withdrawal of your correspondent banking relationship(s) during the period July to December 2016?

Yes No

If Yes, what measures will your institution implement to mitigate the loss of its banking relationship(s)?

Lending Environment

1. Is your bank considering a reduction in any of the lending rates for July to December 2016?

Yes No

If Yes, which rates?

2. What do you think the following institutions can do to assist in increasing bank lending:
    a. The Eastern Caribbean Central Bank (ECCB)
    b. Government

3. What lending initiatives did your bank undertake to target small and medium-sized enterprises over the period January to June 2016?

4. What lending initiatives does your bank plan to undertake to target small and medium-sized enterprises?

5. What are the perceived risks associated with lending to small and medium-sized enterprises?

6. In what sectors has demand for credit increased most over the period January to June 2016?

7. Of the total loan portfolio for the period January to June 2016, what percentage of loans (by sector) was rejected and why?

Sector	**Percentage Rejection**	**Reasons for rejection**
Agriculture		
Manufacturing		
Tourism		
Entertainment and Catering		
Distributive Trade		
Professional and Other Services		
Other Sectors		

Non-performing Loans

1. What steps are being taken by your bank to reduce non-performing loans?

2. What is your bank's position on IFRS 9 Accounting Standards in relation to loan loss provisions and its implications for lending?

Other General Issues

1. What effects do you anticipate Britain's exit from the European Union would have on your:
    a. Banking Business
    b. Clients