

Changes in Lending Practices of Financial Institutions in the Second Half of 2006*

According to the BOK Surveys on Lending Practices of Financial Institutions, conducted in September and December 2006, banks noted that they had weakened their ease stance on loans to small- and medium-sized enterprises (SMEs) during the latter half of 2006. Meanwhile, they had tightened lending standards on loans to households, in spite of growing concerns over the surging increase in household lending, but the change was not so rapid. In the first quarter of 2007, banks reported that they will weaken continuously their ease stance on SME lending concerning about an increase in credit risk. In addition, they reported that they will tighten their stance on housing loans owing to hike of reserve requirement rate and the government's steps to restrain housing loans. However, survey respondents reported that they would change little in their attitude toward other household lending.

More banks responded that bank credit risk would increase in the case of SMEs and households in the second half of 2006. The increase in the risk of SMEs was mainly attributable to reduced profitability, economic slowdown, and the strong local currency. The number of banks predicting that SME's credit risk would increase in the first quarter of 2007 rose due to concerns over an economic slowdown. A large number of banks answered that household credit risk would increase owing to the increased interest burden following a rise in lending rates.

Loan demand expanded during the second half of 2006, but it was forecasted to decrease, mainly led downward by housing finance loans in the first quarter of 2007. SMEs were expected to increase their demand for capital funds owing to a fall in profitability, while households seem to reduce their demand for housing loans, due to the tightened lending attitudes of banks as well as seasonal factors. Meanwhile, as in the second half of 2006 demand for other household funds was expected to show no significant changes in the first quarter of 2007.

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* Based on the surveys both (Trend of the third quarter of 2006 and prospect for the forth quarter of 2006) conducted on September 11-27, 2006 and (Trends of the forth quarter of 2006 and prospect for the first quarter of 2007) conducted on December 5-18, 2006, on the lending practices of domestic banks(except Korea Development Bank and the Export-Import Bank of Korea)