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RECENT DEVELOPMENTS IN FINANCING AND BANK LENDING TO THE NON-FINANCIAL PRIVATE SECTOR

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ABSTRACT

This is the first of a series of analytical articles that will examine, on a half-yearly basis, recent developments in funds raised by the Spanish non-financial private sector and resident deposit institutions' credit exposure to the sector. In the early months of 2019, the conditions of access to bank finance for Spanish firms and households remained highly accommodative; however, after several years in which these conditions had gradually eased, signs are now emerging that suggest that this tendency may be coming to an end. Nevertheless, deposit institutions' total outstanding credit exposure to the non-financial private sector continued to decline in 2019 Q1 (2.1% year-on-year). The NPL ratio also continued to fall.

Keywords: finance, credit, households, non-financial corporations, deposit institutions, NPLs.

JEL codes: E44, E51, G21, G23.

RECENT DEVELOPMENTS IN FINANCING AND BANK LENDING TO THE NON-FINANCIAL PRIVATE SECTOR

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Introduction

One of the essential tasks of financial intermediaries is to channel flows of funds to households and firms. Oversight of this intermediation process to ensure that it is functioning correctly is vital, from both a macroeconomic and a financial stability standpoint. In particular, any disruption of this process could have grave consequences for the real economy: for instance, placing constraints on the ability of households to adjust their spending decisions over time, or on the capacity of firms to undertake investment projects. Moreover, this intermediation process could give rise to a high volume of debt for borrowers, or to excessive credit exposure for lenders, making agents' credit quality and intermediaries' financial stability vulnerable in the event of a deterioration in the macro-financial environment.

From that standpoint, this is the first of a series of analytical articles that will examine, on a half-yearly basis, recent developments in funds raised by the Spanish non-financial private sector and resident deposit institutions' credit exposure to the sector. The articles will also include, in accompanying boxes, in-depth analysis of one or several key aspects of these dynamics.

The article is organised as follows. The next section examines developments in funds raised by households and non-financial corporations from an aggregate standpoint. This is followed by an analysis focused on the credit extended to these sectors by resident deposit institutions. As explained in detail in Box 1, these credit dynamics will not necessarily coincide with those described in the previous section, since Spanish firms and households do not only receive funding from deposit institutions. Households, in particular, may also receive consumer credit from specialised lending institutions, while some firms may issue debt in the capital markets. Moreover, deposit institutions may sell or transfer portfolios to other sectors and may write off and remove loans from their balance sheets. This would also give rise to discrepancies between their credit exposure (which would be reduced by the operations mentioned) and the volume of funds raised by households and firms (which would remain unchanged). The last section focuses on the quality of the credit extended by deposit institutions, especially non-performing loans and foreclosed assets.

Funds raised by the non-financial private sector

In the early months of 2019, the conditions of access to bank finance for Spanish firms and households remained highly accommodative. However, after several years in which these conditions had gradually eased, signs are now emerging that suggest that this tendency may be coming to an end. In particular, according to the Bank Lending Survey (BLS), credit standards for lending to households tightened somewhat in the first half of the year, both in lending for house purchase and in consumer credit and other lending to households (see Chart 1.1). This was something that had not occurred simultaneously since early 2013.

In the same vein, even though wholesale market interest rates have fallen since the beginning of the year, linked to the delay in raising policy rates, the cost of new lending appears to have steadied at historically low levels, bringing to an end the downward pattern of recent years (see Chart 1.3). In the case of new lending for house purchase, interest rates rose by 30 bp between September 2018 and May 2019 (the latest figure available). No such increase was observed in the other segments (discounting the typical volatility in each series) or in interest rates on housing loans in the rest of Europe (see Chart 1.4). In turn, the latest granular data available on consumer credit – on car loans – also suggest that the credit conditions applied are steadying somewhat (see Box 2), after a period of easing.

All the above, together with weaker credit demand from households and firms, as reflected in the BLS (see Chart 1.2), has translated in recent months into a slowdown in lending. Thus, between March and May, new housing loans and new consumer loans increased by 8% and 2.2%, respectively, in average year-on-year terms, significantly below the average rates of growth recorded in 2018 (15.1% and 18.3%, respectively) (see Chart 2.1). In the case of firms, new flows of bank finance even declined in year-on-year terms in the opening months of 2019. This contraction in new lending to firms, which had been observed since mid-2018 in the case of loans of up to €1 million (essentially loans to SMEs) has spread to loans over €1 million, coinciding with the greater dynamism of funding obtained from other sources, such as the issuance of debt securities (see Chart 2.2).

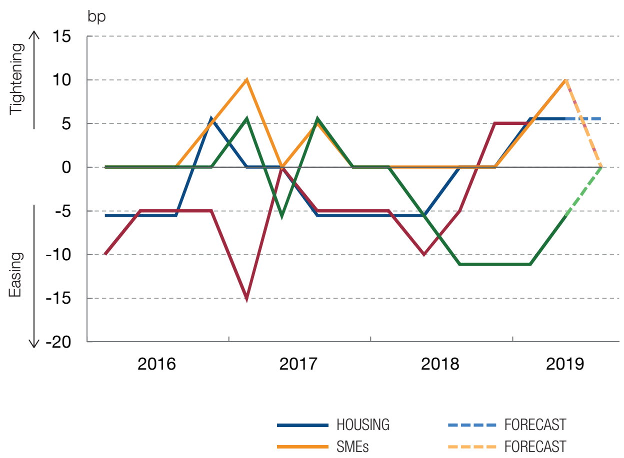
Accordingly, total outstanding funds raised by households continued to grow at a moderate pace in year-on-year terms (0.4% in May, the same rate as at end-2018), as the slowdown in consumer credit (year-on-year rate of growth of 11.7% in May, 1.3 pp less than in December) is being countered by the slower decline in lending for house purchase (0.1% in May, compared with the drop of 1.3% at end-2018) (see Chart 2.3). In turn, the rate of growth of non-financial corporations' net flows of borrowed funds increased (2.4% in May), underpinned by the momentum of the outstanding amount of debt securities issuance and, to a lesser extent, of loans from non-residents (see Chart 2.4). This countered the effect of the decline in the total outstanding credit granted by resident institutions. That said, and against a backdrop

Chart 1

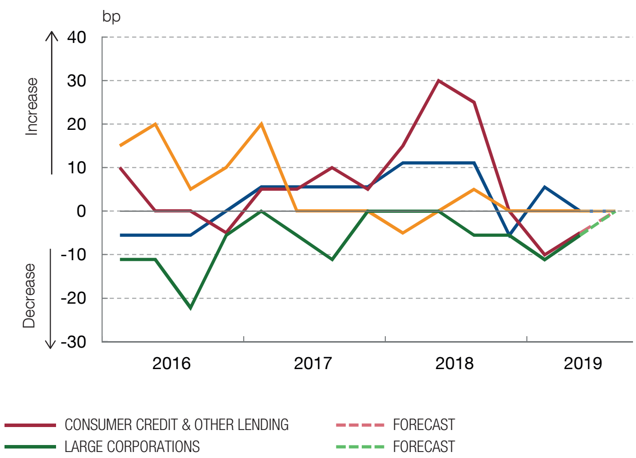
FINANCIAL CONDITIONS REMAIN ACCOMMODATIVE; HOWEVER, AFTER SEVERAL YEARS IN WHICH CONDITIONS HAD GRADUALLY EASED, SIGNS ARE NOW EMERGING THAT SUGGEST THAT THIS TENDENCY MAY BE COMING TO AN END

Conditions of access to financing remain accommodative, but as the BLS shows in some segments a degree of tightening is starting to be observed. Although costs are still low, they seem to have steadied, despite the more accommodative monetary policy stance. Interest rates on new lending for house purchase rose by 30 bp between September 2018 and May 2019.

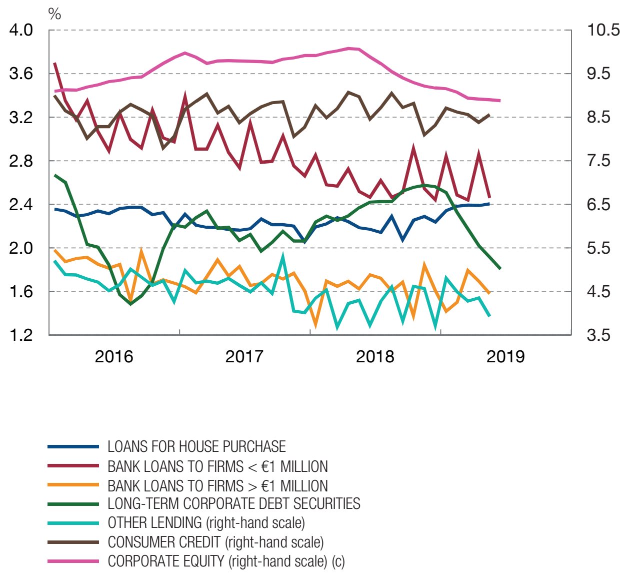
1 BLS: CHANGE IN CREDIT STANDARDS (a)



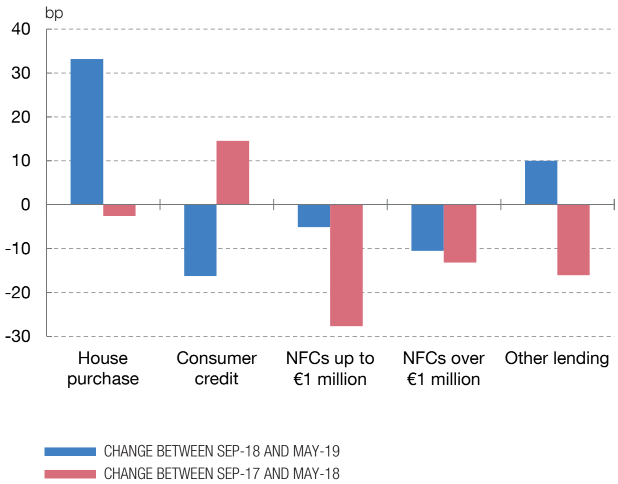
2 BLS: CHANGE IN LOAN DEMAND (b)



3 COST OF FINANCING



4 CHANGE IN APR OF NEW LENDING (d)



SOURCES: Morgan Stanley, Thomson Reuters and Banco de España.

a Bank Lending Survey. Indicator = percentage of banks that have tightened their credit standards considerably × 1 + percentage of banks that have tightened their credit standards somewhat × 1/2 – percentage of banks that have eased their credit standards somewhat × 1/2 – percentage of banks that have eased their credit standards considerably × 1.
b Bank Lending Survey. Indicator = percentage of banks reporting a considerable increase × 1 + percentage of banks reporting some increase × 1/2 – percentage of banks reporting some decrease × 1/2 – percentage of banks reporting a considerable decrease × 1.
c Cost of equity based on a three-stage dividend discount model.
d The APR (annual percentage rate) is the rate that reflects the effective cost of the loan for the borrower.

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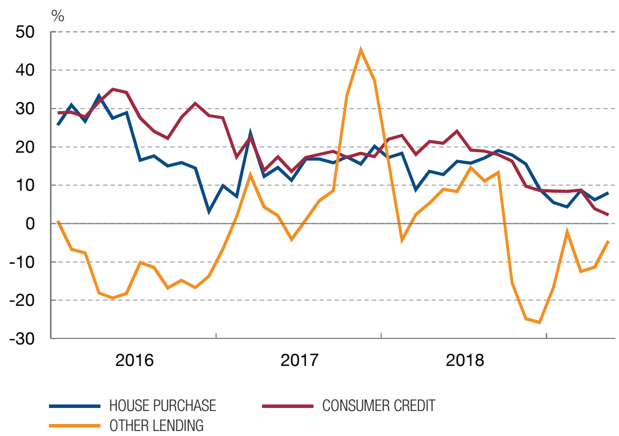
Chart 2

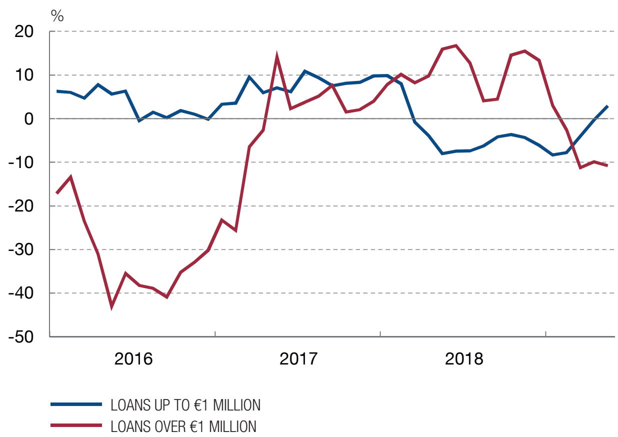
SLOWDOWN IN LENDING TO HOUSEHOLDS AND CONTRACTION IN LENDING TO NON-FINANCIAL CORPORATIONS

Credit standards tightened slightly in some segments and this, together with the weakness of demand, translated into a slowdown in the growth of new lending to households and a contraction in credit flows to non-financial corporations. In terms of outstanding balances, lending to households increased moderately, while lending to non-financial corporations continued to grow, underpinned by the momentum of funding via debt securities issuance and, to a lesser extent, of loans from non-residents.

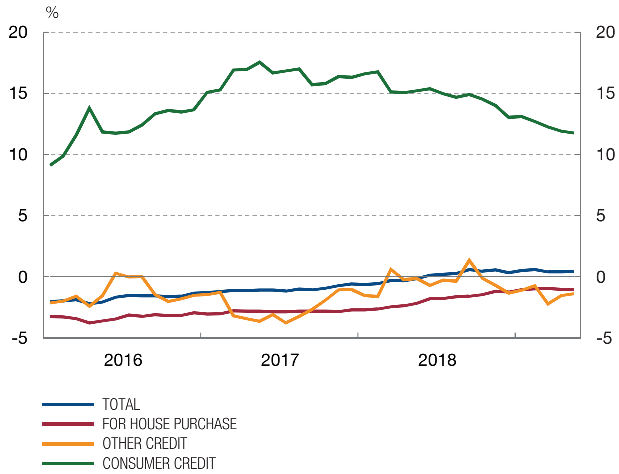
1 NEW LENDING TO HOUSEHOLDS
Year-on-year rates of 3-month cumulative flows



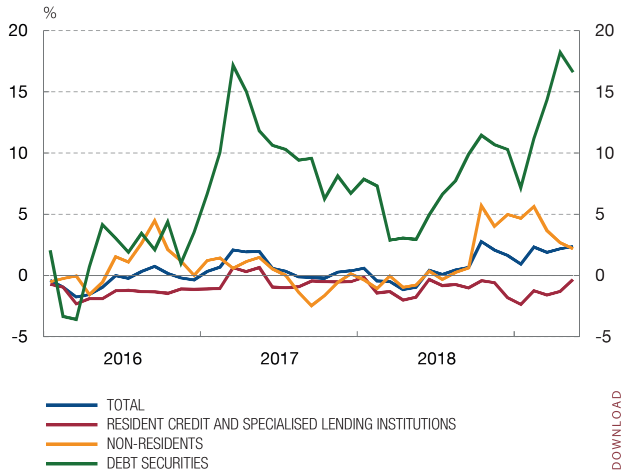
2 NEW LENDING TO NON-FINANCIAL CORPORATIONS
Year-on-year rates of 3-month cumulative flows



3 LENDING TO HOUSEHOLDS
Year-on-year rate



4 FINANCING OF NON-FINANCIAL CORPORATIONS
Year-on-year rate



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SOURCE: Banco de España.

of growth in income and activity, households' and firms' debt-to-income ratios continued to decline in 2019 Q1, albeit more moderately than in recent years.

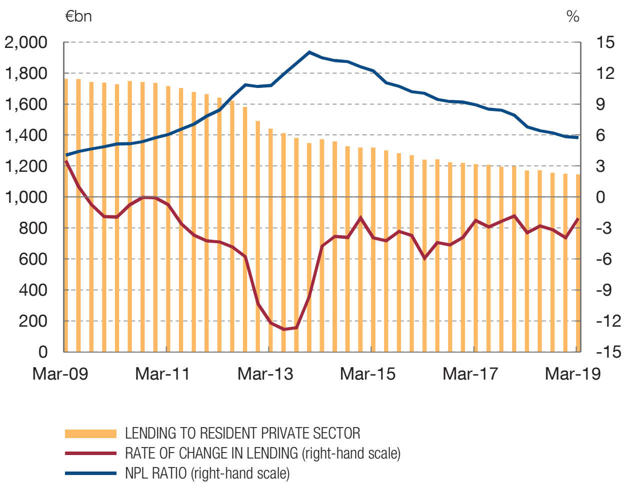
Lending by the resident banking sector

Conversely to the funds raised by the non-financial private sector, total outstanding credit exposure to this sector on deposit institutions' balance sheets continued

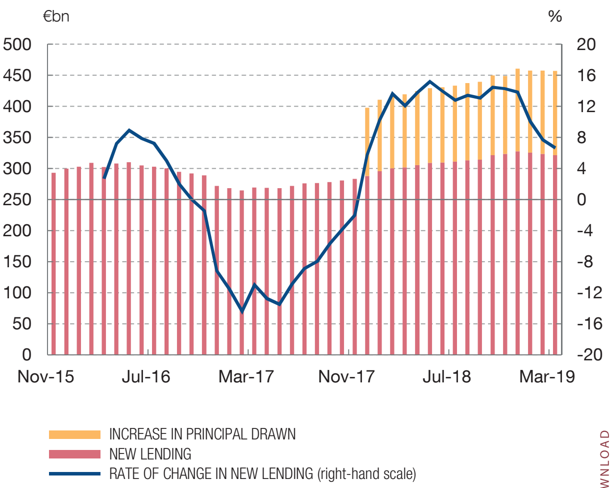
Chart 3
LENDING TO RESIDENT PRIVATE SECTOR
Business in Spain

Total lending continued to decrease, down to €1,145 billion at March 2019 (–2.1% compared with March 2018). In turn, new lending in the last 12 months rose by 6.6% compared with a year earlier, amounting to total new lending (new loans plus increase in amount of principal drawn) of €457 billion granted to non-financial corporations and households. This is an increase of 8.9% in the last year, but a deceleration compared with the rates of growth observed in 2018 H1.

1 VOLUME OF LENDING, YEAR-ON-YEAR RATE OF GROWTH AND NPL RATIO



2 VOLUME OF NEW LENDING IN LAST 12 MONTHS AND YEAR-ON-YEAR RATE OF GROWTH



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SOURCE: Banco de España.

to decline in 2019 Q1, down 2.1% year-on-year (see Chart 3.1). This decrease contrasts with the increase of 1.2% in funds raised by households and firms in the same period and is essentially a result of two factors: deposit institutions' loss of share in credit intermediation in Spain and the impact on banks' balance sheets of loan write-offs and loan portfolio sales.

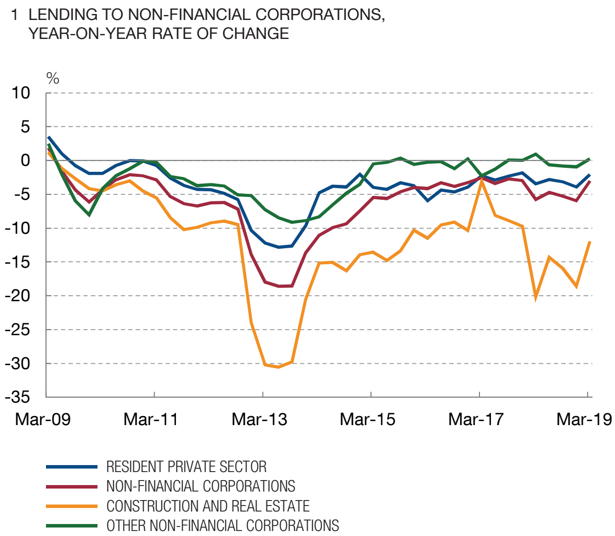
In keeping with the points made in the previous section, the breakdown of the loan stock on deposit institutions' balance sheets continued to reflect differences by institutional sector. Specifically, lending to non-financial corporations continued to decline (by 3% year-on-year), although more moderately than in the previous quarter (see Chart 4.1). By contrast, as shown in Chart 4.2, credit exposure to households was practically unchanged (–0.4%). The decrease in lending to non-financial corporations is explained by the decline (–12%) in lending to the construction and real estate sector, which was chiefly owing to the sale by some banks of non-performing real estate loan portfolios. Lending to other non-financial corporations rose by a timid 0.3% in Q1, the first upturn after almost a year of small declines. By sector, the rate of change in lending to industry remained slightly positive, while among services, wholesale and retail trade stood out, with an increase of 3.7%. By firm size, the dichotomy remained between SMEs, where

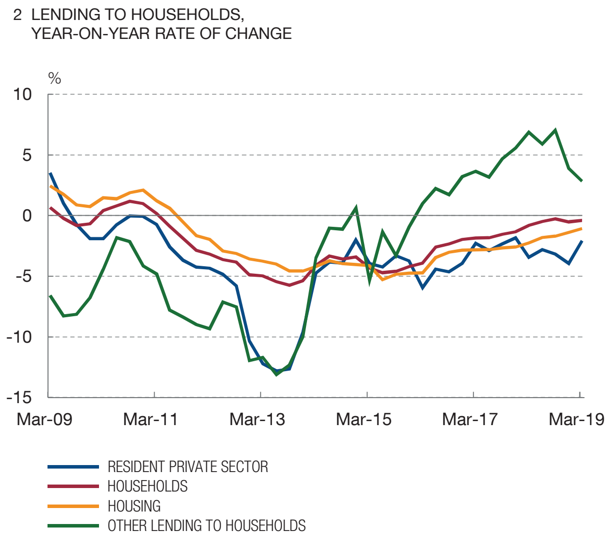
Chart 4

LENDING TO RESIDENT PRIVATE SECTOR: RATES OF CHANGE

Business in Spain

Lending to the resident private sector continued to decline in 2019 Q1, mainly owing to the decrease in lending to non-financial corporations and, especially, in lending to construction and real estate. By contrast, lending to households other than for house purchase increased, driven by credit for purchase of consumer durables, which nevertheless decelerated somewhat.





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SOURCE: Banco de España.

lending continued to contract (–2.7%), and large corporations where it continued to increase (+3.6%).

Lending to households for purposes other than house purchase rose by 2.8% year-on-year in March 2019, driven mainly by consumer credit (10.1%) and, especially, by credit for purchase of consumer durables (14.1%). The main reason why consumer credit increased more moderately than is reflected on households' balance sheets is the greater dynamism of consumer credit extended by specialised lending institutions, which rose by 14.3% year-on-year in the first three months of 2019.

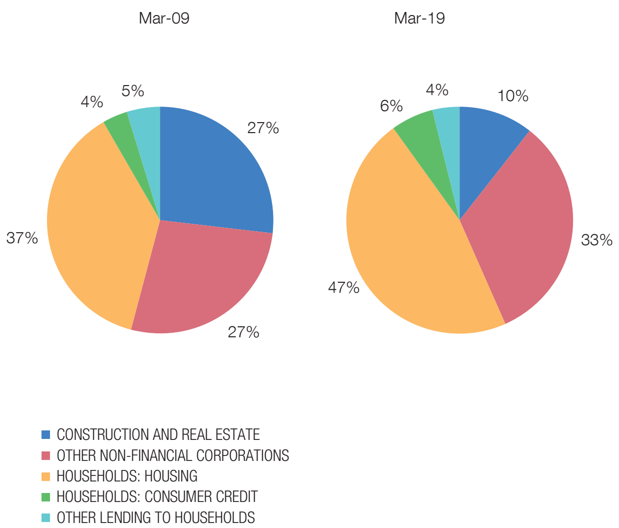
In turn, lending for house purchase contracted by 1.1% year-on-year in 2019 Q1 (see Chart 4.2). This is similar to the figure recorded in the previous quarter (–1.4%) and slightly higher than that reflected on households' balance sheets owing to the effect of loan write-offs.

Over the last ten years, there has been a cumulative decline of 34% in deposit institutions' credit exposure, which has thus decreased as a proportion of GDP by almost 70 pp. This process has been accompanied by a significant change in the sector composition. Specifically, the share of lending to the construction and real estate sector has decreased by 17 pp, down to 10% at March 2019. By contrast,

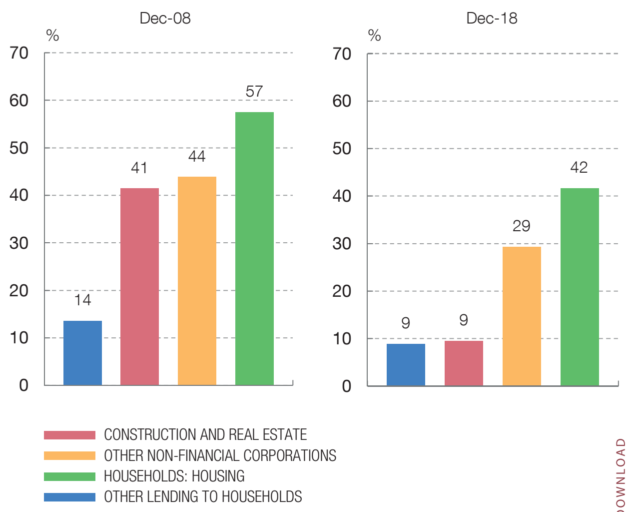
Chart 5
COMPOSITION OF LENDING TO RESIDENT PRIVATE SECTOR
Business in Spain

The share of lending to construction and real estate has decreased significantly in recent years, from 27% in March 2009 to 10% in March 2019. The real estate sector has also shrunk as a proportion of GDP, from 41% at December 2008 to just 9% at December 2018. In a broad sense, including lending to households for house purchase, the real estate sector has shrunk from 98% of GDP at December 2008 to 51% at December 2018.

1 COMPOSITION OF LENDING BY SECTOR AND PURPOSE (%)



2 COMPOSITION OF LENDING AS % OF GDP



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SOURCE: Banco de España.

lending to households for house purchase records the highest increase in share in the period, up from 37% in 2009 Q1 to 47% at March 2019, the main reason being that this is generally longer term lending than in other sectors and, therefore, repayment periods are longer (see Chart 5).

Quality of bank lending

The resident private sector's non-performing loans fell by 17.2% year-on-year in 2019 Q1, a more moderate rate of decline than in the previous year. Accordingly, the NPL ratio stood at 5.7% at March 2019, 1 pp less than a year earlier. One of the most striking aspects of this continuing decrease in the NPL ratio is that it is taking place as the loan stock contracts, which should in itself push up the ratio. Compared with the peak values recorded at end-2013, the cumulative decline in NPLs is a drop of more than 65% in terms of volume, a decrease as a proportion of GDP of almost 12 pp and a fall in the NPL ratio of 8 pp.

The bulk of this decline is to be found in the stock of non-performing lending to non-financial corporations, down 22.9% year-on-year. The decrease, albeit widespread,

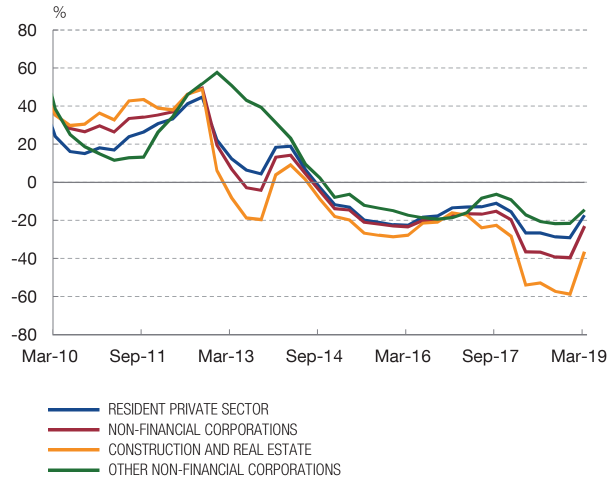
Chart 6

RESIDENT PRIVATE SECTOR NON-PERFORMING LOANS

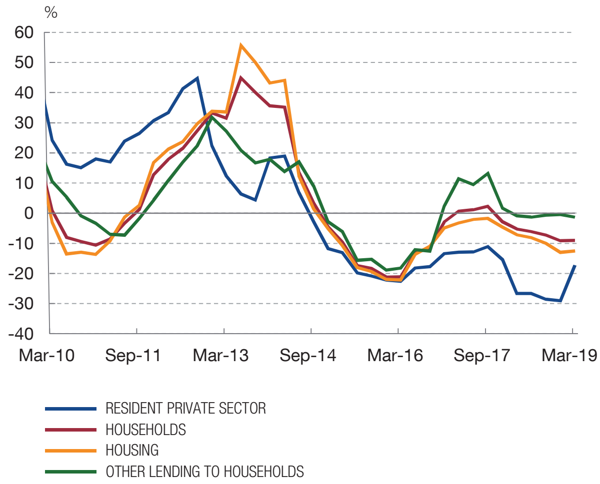
Business in Spain

The resident private sector's non-performing loans decreased in 2019 Q1, albeit more moderately than in the previous year. In the construction and real estate sector non-performing lending contracted sharply, and less markedly in other business sectors. In the case of households, non-performing housing loans continued to decline, while there was no more than a negligible fall in non-performing other lending to households.

1 NON-FINANCIAL CORPORATIONS, NON-PERFORMING LOANS
YEAR-ON-YEAR RATE



2 HOUSEHOLDS, NON-PERFORMING LOANS
YEAR-ON-YEAR RATE



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SOURCE: Banco de España.

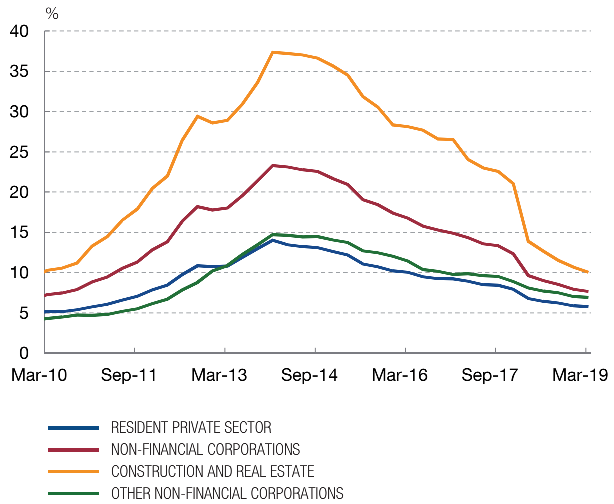
Chart 7

RESIDENT PRIVATE SECTOR NON-PERFORMING LOAN RATIO

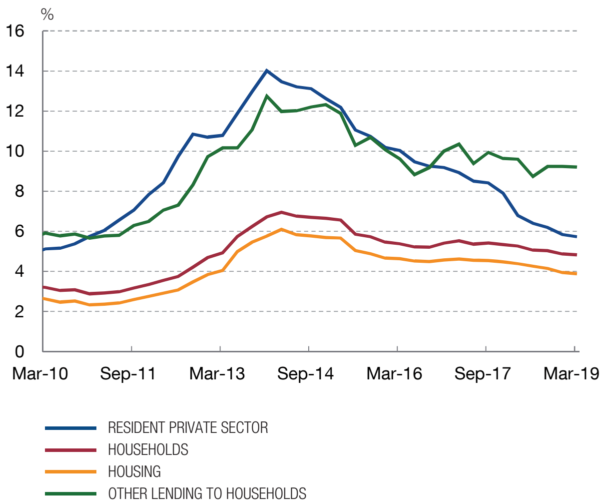
Business in Spain

The NPL ratio in the resident private sector has continued in the downward pattern that began in December 2014, stabilising in 2019 Q1 at 5.7%. This decrease is mainly owing to the fall in the NPL ratio of lending to non-financial corporations, and particularly in that of lending to the construction and real estate sector.

1 NON-FINANCIAL CORPORATIONS, NPL RATIO



2 HOUSEHOLDS, NPL RATIO



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SOURCE: Banco de España.

Chart 8

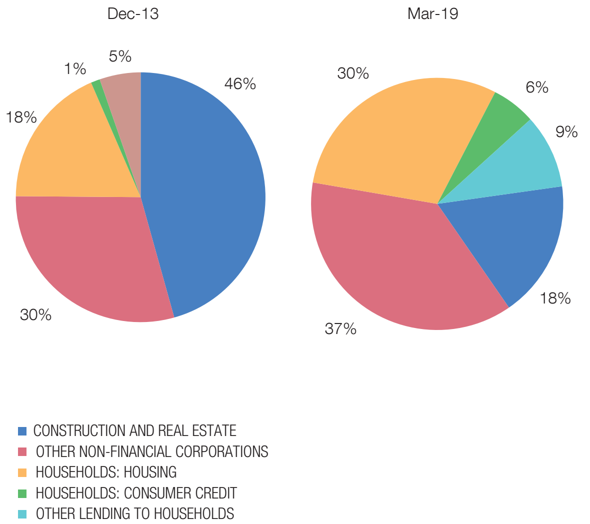
COMPOSITION OF NON-PERFORMING LOANS OF RESIDENT PRIVATE SECTOR AND FORECLOSED ASSETS

Business in Spain

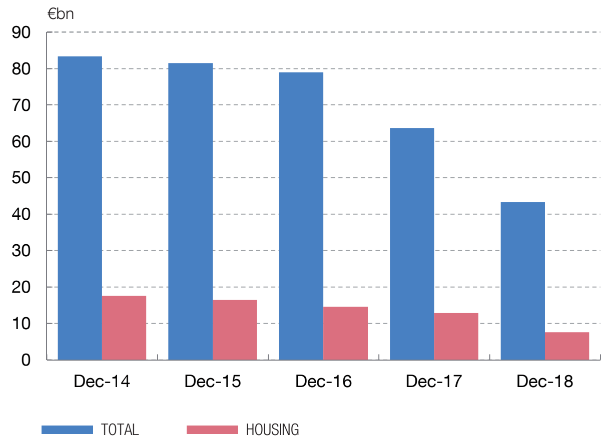
The share of non-performing loans of the construction and real estate sector has decreased significantly, from 46% at December 2013 (peak NPLs in the Spanish banking system) to 18% at March 2019. By contrast, the share of other business sectors and households has grown: specifically, non-performing consumer credit to households has risen from 4.7% at December 2013 to 12.6% of total non-performing credit to households at March 2019.

At a consolidated level, foreclosed assets fell by more than €20 billion in the last year, which is a year-on-year decrease of 32%, largely owing to the sale of portfolios of foreclosed assets.

1 COMPOSITION OF NPLs BY SECTOR AND PURPOSE (%)



2 FORECLOSED ASSETS



SOURCE: Banco de España.

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was particularly significant in the construction and real estate sector (–36.3%), driven, as indicated earlier, by wholesale sales of non-performing loan portfolios by some deposit institutions (see Chart 6.1). In consequence, the cumulative decline in non-performing lending to the construction and real estate sector from the peak recorded in December 2013 is more than €73 billion; this is a drop of more than 86% and accounts for more than 50% of the decrease in total NPLs. This is one of the key elements of the restructuring process of the Spanish banking sector in the wake of the financial crisis. Overall, the reduction in the volume of NPLs more than offset the decline in lending to non-financial corporations, which saw their NPL ratio fall by almost 2 pp over the last 12 months, down to 7.7% at March 2019 (see Chart 7.1). By sector, despite the substantial reduction in NPLs in the construction and real estate sector, its NPL ratio is still above average, at around 10%, so there is still considerable room for improvement.

Non-performing lending to households for house purchase fell by 12.6%, compared with a drop of just 1.3% in non-performing consumer credit and other lending to households. Within the latter segment, non-performing credit for purchase of consumer goods stood out, growing by 14.9%, and especially non-performing credit

Chart 9

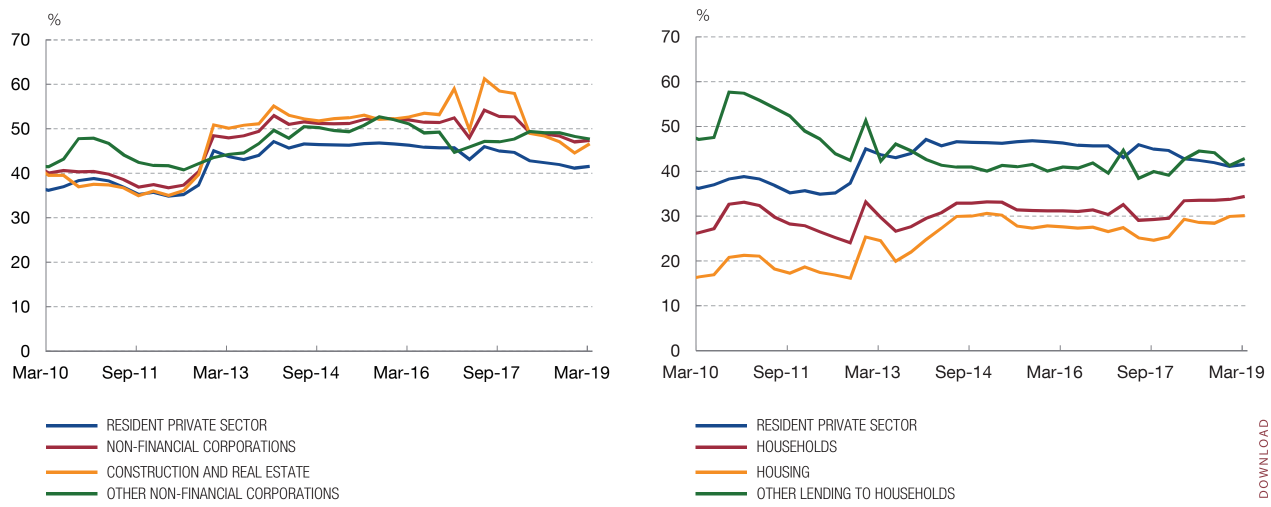
RESIDENT PRIVATE SECTOR NON-PERFORMING LOANS, COVERAGE RATIO

Business in Spain

The coverage ratio of the resident private sector's non-performing loans fell slightly in 2019 Q1, to 41.5%. This ratio is considerably higher for non-financial corporations (47.4%) than for households (34.4%). In addition, in the case of households, the coverage ratio of lending for house purchase (30.1%) is more than 12 pp lower than that for consumer credit and other lending (42.9%).

1 COVERAGE RATIO OF NON-FINANCIAL CORPORATIONS' NPLs

2 COVERAGE RATIO OF HOUSEHOLDS' NPLs



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SOURCE: Banco de España.

for purchase of consumer durables which increased by 19.2%, up on the previous quarter. Owing to the higher proportion of housing loans in households' loan stock, overall non-performing credit to households fell by 9.1% year-on-year in March 2019 (see Chart 6.2). In consequence, households' NPL ratio fell by 0.5 pp in the last 12 months, down to 4.8% in March 2019 (see Chart 7.2). But the NPL ratio of consumer credit and other lending to households steadied in the last quarter at 9.2%.

The composition of the resident private sector's non-performing loans has also changed significantly since 2013 Q4 when the highest accumulation of these troubled assets was recorded. Specifically, non-performing lending to the construction and real estate sector has fallen from 46% of the total to 18% at March 2019 (see Chart 8.1). By contrast, the proportion of non-performing credit to other non-financial corporations has risen, and especially the proportion of non-performing credit to households, which rose by 21 pp between December 2013 and March 2019. In this respect, it is noteworthy that non-performing consumer credit has more than doubled as a proportion of the total, up from 5% to 13% in that period.

At December 2018 (the latest figures available) foreclosed assets totalled €43 billion, which is a decrease of more than €20 billion (32.1%) compared with a year earlier (see Chart 8.2). As a result of this decline in foreclosed assets, together with the above-mentioned fall in non-performing loans, overall troubled loans on the balance sheet decreased significantly in the last 12 months.

The coverage ratio of the resident private sector's non-performing loans – defined as loan loss provisions to NPLs – was 41.5% at March 2019, over 47% for non-financial corporations and remaining below 35% for households. Within lending to non-financial corporations, the coverage level in the construction and real estate sector (46.6%) was very similar to that of the other sectors (47.7%) and it has risen by a similar amount (14-15 pp) in the two segments since September 2008 (see Chart 9.1). In the case of lending to households, housing loans, owing to their lower risk profile, recorded a lower coverage level than consumer credit and other lending, specifically 30.1% compared with 42.9% at March 2019 (see Chart 9.2).

24.7.2019.

Box 1

STATISTICAL INFORMATION FOR THE ANALYSIS OF OUTSTANDING BALANCES OF FINANCING AND CREDIT

Analysis of the outstanding balances of financing can be conducted both from the standpoint of the institutions that grant financing and from that of the agents receiving it. The first approach is more suitable, for example, when it is sought to assess the direct risks to financial stability of banks' credit exposures. Conversely, when the aim is to assess the soundness of households' and firms' financial position, the second approach is more appropriate. Generally, these two approaches are complementary and, given the significance of deposit institutions in credit intermediation, they normally offer similar pictures. Yet occasionally they may differ. The aim of this box is to explain the main reasons why deposit institutions' credit dynamics and those relating to the financing of the non-financial private sector may diverge.

One initial reason for visible discrepancies between these two groups of indicators is that the non-financial private sector does not obtain financing only from the resident banking sector. In particular, households can also receive financing from specialised lending institutions (SLIs), especially in the consumer credit segment. Also, non-financial corporations can tap the capital markets for funds (mainly through the issuance of securities), raise financing abroad[1] or finance themselves through SLIs. As Chart 1 shows, 26.9% of Spanish households' total consumer credit in 2019 Q1 was from SLIs, whereas 47.4% of firms' financial debt was from sources other than the credit granted by resident deposit institutions. Naturally, when assessing the solvency of households and firms, the financing they obtain from these alternative sources must also be considered, since they generate payment obligations similar to those arising on bank credit. Conversely, from the standpoint of the analysis of the financial situation of resident deposit institutions, this additional financing plays a secondary but in any event significant role. This is because total credit from the private sector is one of the key indicators for analysing an economy's financial cycle and for calibrating the systemic risks it faces from a time perspective.

The credit dynamics of deposit institutions and the financing dynamics of the non-financial private sector can also exhibit different behaviour as a result of the treatment of loans transferred and removed from the balance sheet (e.g. securitised credit, portfolio disposals and loans transferred to Sareb) and of write-downs (non-performing and impaired loans). These operations entail a reduction in banks' credit exposure and, therefore, they are reflected as a reduction in their outstanding credit

Chart 1
WEIGHT OF FINANCING NOT FROM RESIDENT DEPOSIT INSTITUTIONS

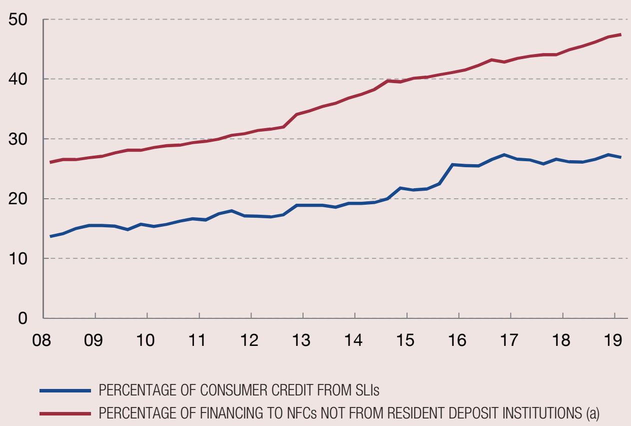
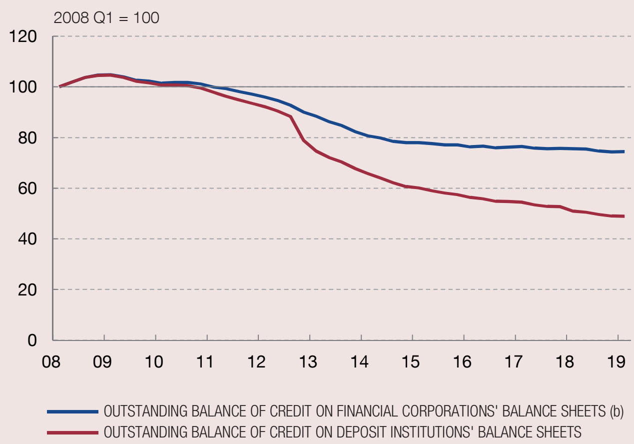


Chart 2
BANK CREDIT TO NON-FINANCIAL CORPORATIONS



SOURCE: Banco de España.

a Includes debt securities issues, credit granted by SLIs and financing from the rest of the world.
b Notional balances calculated by accumulating net financing flows. These are the balances used to calculate the rates of change in credit raised by the non-financial private sector.

1 Includes corporate intra-group financing granted.

Box 1

STATISTICAL INFORMATION FOR THE ANALYSIS OF OUTSTANDING BALANCES OF FINANCING AND CREDIT (cont'd)

balances. However, from the standpoint of the households and firms that have received these credits, these operations do not change their debtor position. As Chart 2 shows, in the case of credit granted to firms these operations may occasionally become significant. A case in point, in late 2012, was in the wake of the transfer of loans to Sareb. The same chart also shows that, since 2012, the growth of credit on deposit institutions' balance sheets has been persistently lower than that of credit on households' and non-financial corporations' balance sheets. This is owing to the weight being gained by financing through SLIs and non-resident credit institutions, and to resident deposit institutions' credit portfolio disposals.

Besides the two foregoing reasons, banks' credit dynamics and households' and firms' financing dynamics may also differ as a result of other, more technical factors:[2] for example, owing to the sectorisation assigned by each statistical source. Hence, loans granted to individual entrepreneurs are classified under the heading of credit to productive activities in bank credit statistics, whereas from the standpoint of the indicators of financing received by households and firms they are assigned to households.

2 For more details on these aspects, see the notes to chapters 4 and 8 of the Banco de España *Statistical Bulletin.*

Box 2

CHANGES IN CREDIT CONDITIONS APPLIED TO CONSUMER CAR LOANS IN SPAIN

A most significant portion of the high degree of buoyancy shown by consumer credit in Spain in recent years has been linked to the increase in financing earmarked for consumer durables purchases, and in particular for that associated with car purchases. This box analyses how the conditions applied to this latter type of loan changed in the period from January 2007 to December 2018. In this connection, we take data from the European DataWarehouse, which contains detailed information on each individual loan forming part of the securitisations of car loans in Europe.[1]

The sample used comprises 1,882,452 new loans denominated in euro, at a fixed interest rate, and granted by SLIs established in Spain to resident individuals for car purchases.[2] To analyse the changes in the conditions of these loans over time, the following variables have been considered: the amount of the loan relative to the annual

Chart 1
LOAN AMOUNT RELATIVE TO BORROWER'S LEVEL OF INCOME (LTI)

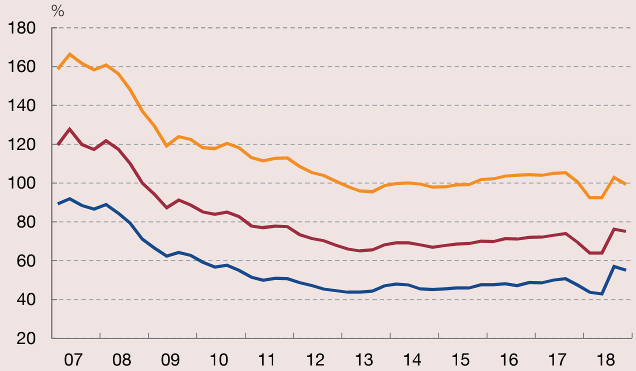


Chart 2
LOAN AMOUNT RELATIVE TO VALUE OF COLLATERAL (LTV)

Chart 3
ORIGINAL MATURITY OF LOAN

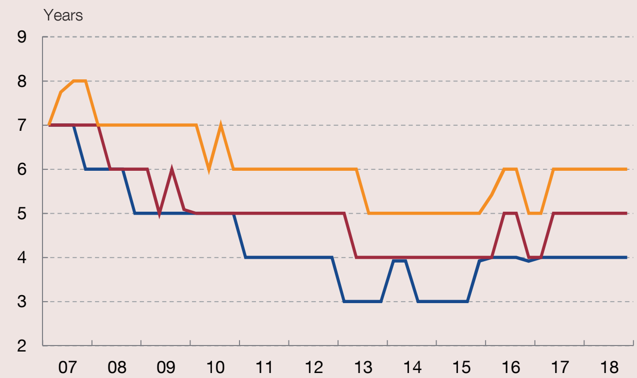
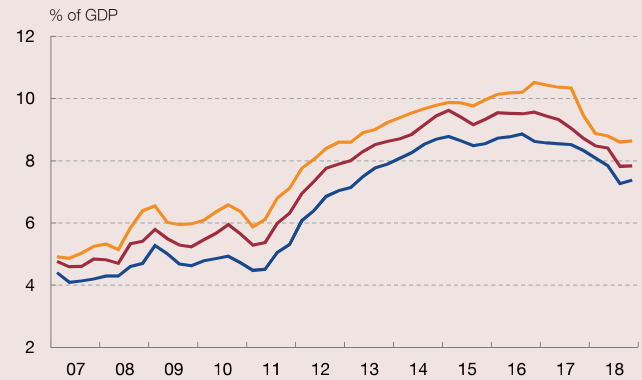


Chart 4
LOAN INTEREST RATE SPREAD RELATIVE TO OIS RATE (a)



FIRST QUARTILE MEDIAN THIRD QUARTILE

SOURCE: European DataWarehouse.

a The OIS rate has been taken at different terms according to the original maturity of the loan.

1 This information is available in the same format and with the same degree of detail that the originators have to send to the European Central Bank to request the eligibility of securitised assets for use as collateral in Eurosystem credit operations.

2 Deposit institutions also grant these types of loans. However, the European DataWarehouse provides richer and fuller information for those granted by SLIs. Accordingly, the analysis in this box centres on these SLI loans. In any event, in recent years SLIs have had a more prominent role than deposit institutions in the expansion of consumer credit in Spain.

gross income level reported by the borrower (LTI) and relative to the value of the collateral (LTV); the term of the loans; and the interest margin (calculated as the difference between the interest rate on the loan and the related swap rate).

As Chart 1 shows, the LTI of the loans analysed fell most markedly from 2007 to 2013, coinciding with the economy's weakest cyclical juncture and the height of the financial tensions domestically and internationally. Since then the LTI has held relatively stable, showing a mild rising trend, if any. Stripping out the volatility observed in the first and last year of the sample, when the volume of information is considerably less, the LTV was fairly stable during the period (see Chart 2). This was the case mainly for the riskiest credit segment (proxied by the third quartile of the distribution, practically constant at 90%), while in the median and in the first quartile of the distribution a slight declining trend was discernible.

Analysing changes in the original maturity of the loans and the attendant interest margin, some tightening (shortening of maturities) is seen during the crisis with mild easing in the more recent period (see Charts 3 and 4, respectively). Two aspects are worth highlighting regarding the dynamics of this margin. First, most of the changes over time were determined by the behaviour of the swap rate, since the interest rates on the loans analysed did not undergo major changes during the period, standing on average at 9%, with a standard deviation of little more than half a point. Second, it appears that the distribution of the margins for loans originated in the most recent period has been considerably compressed. In particular, the difference between the margin applied in respect of the loans in the first and in the third quartile of the distribution narrowed significantly as from mid-2017. This phenomenon might be linked to a lower differentiation of interest rates in terms of the risk of the operation, against the background of the greater appetite for risk of suppliers of funds.

In short, the findings of this box suggest that there has been some easing in recent years in some of the conditions of loans granted for car purchases in Spain, though these conditions appear to be relatively conservative from a historical perspective. Moreover, on the latest available information, this easing appears to have halted. In any event, the conclusions that may be drawn from this exercise should be viewed with caution. They are not necessarily extrapolatable to the conditions of all consumer loans. This is because the sample analysed represents but a small proportion of the total volume of new loans (particularly in the initial and final years of the study)[3] and because the characteristics of securitised loans may differ from non-securitised loans.

3 Specifically, the volume of credit granted through the loans under study here account, on average, for 10% of the total volume of new consumer credit business during the period analysed.