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TO: HEADS OF RESEARCH AT ALL FEDERAL RESERVE BANKS

Enclosed for distribution to respondents is a national summary of the July 2004 Senior Loan Officer Opinion Survey on Bank Lending Practices.

Enclosures

This document is available on the Federal Reserve Board's web site
(http://www.federalreserve.gov/boarddocs/surveys).

Board of Governors of the Federal Reserve System

The July 2004 Senior Loan Officer Opinion Survey on Bank Lending Practices

The July 2004 Senior Loan Officer Opinion Survey on Bank Lending Practices addressed changes in the supply of, and demand for, bank loans to businesses and households over the past three months. The survey also queried banks about the extent to which recent bond market developments have affected business lending. A set of special questions focused on respondents' holdings and recent extensions of adjustable-rate mortgages. Responses were received from fifty-six domestic and nineteen foreign banking institutions.

Both domestic banks and U.S. branches and agencies of foreign banks further eased lending standards and terms for commercial and industrial (C&I) loans, on net, over the past three months. A small net fraction of domestic institutions also eased lending standards for commercial real estate loans, while standards for this type of loan at foreign institutions were essentially unchanged. A substantial net proportion of domestic banks reported stronger demand for both C&I and commercial real estate loans. Foreign respondents indicated a sharp turnaround in C&I loan demand over the past three months; in contrast, demand for commercial real estate loans at these institutions was reportedly unchanged over the same period. In the household sector, a small net fraction of domestic banks eased credit standards on residential mortgage loans, and the demand for this type of loan was said to be slightly weaker, on net. The demand for consumer loans of all types reportedly deteriorated as well over the past three months, while lending standards and terms for these loans were about unchanged.

Lending to Businesses

(Table 1, questions 1-9; Table 2, questions 1-9)

In the July survey, both domestic and foreign institutions reported a further net easing of credit standards on C&I loans. On net, one-fifth of domestic banks indicated that they had eased standards for large and middle-market business borrowers over the past three months, a slightly lower net fraction than in the April survey. In contrast, only 4 percent of domestic institutions, on net, eased their lending standards for small firms, a notable decline from the 20 percent figure in April. The net percentage of U.S. branches and agencies of foreign banks that stated they had eased their lending standards for C&I loans rose from 30 percent in April to 42 percent in the current survey.

Domestic and foreign respondents also indicated that they had eased a number of lending terms on business loans over the past three months. On net, about 30 percent of domestic commercial banks reported that they had lowered spreads of loan rates over their cost of funds for large and middle-market firms as well as for small firms. Among foreign institutions, more than one-half of respondents, on net, reported having trimmed spreads on C&I loans over the past three months. In addition, sizable net fractions of both domestic and foreign institutions noted that they had eased covenants on C&I loans, especially for loans to large and middle-market firms. As in the April survey, both domestic and foreign respondents indicated that they had eased terms on business credit lines, both by increasing the size of credit lines and by reducing their cost.

More than 90 percent of domestic and almost 70 percent of foreign respondents that eased their lending standards and terms over the previous three months cited more aggressive competition from other banks or nonbank lenders as the most important reason for the change. In addition, 72 percent of domestic and 77 percent of foreign institutions pointed to a more favorable economic outlook as a reason for easing their business lending policies. Domestic institutions also frequently pointed to improvements in industry-specific problems and an increased tolerance for risk as reasons for their move toward a less stringent lending posture. The small number of domestic banks that had tightened their business lending standards or terms over the past three months generally cited a reduced tolerance for risk or a worsening of industry-specific problems as the reason for the change.

C&I loan demand. Consistent with the recent turnaround in banks' C&I lending, more than one-third of domestic banks, on net, reported an increase in demand for business loans from large and middle-market borrowers over the past three months, a moderately higher net percentage than in the April survey; about 40 percent of banks, on net, also reported stronger loan demand from small firms. In addition, 45 percent of domestic respondents reported an increase in inquiries from potential business borrowers over the same period, about the same fraction as in the April survey. Domestic respondents that experienced stronger loan demand over the past three months pointed to their borrowers' increased financing needs for accounts receivable and inventories as well as for investment in plant and equipment. Demand for business loans was also reported to have picked up at branches and agencies of foreign banks, which had reported a weakening in demand in the April survey. More than one-fourth of these institutions experienced stronger demand in July; most of them attributed the pickup to an increase in customer needs for M&A financing.

In light of the sharp decline in net bond issuance by nonfinancial corporations in recent months, a special question on business financing asked banks about the extent to which developments in the bond market had affected their C&I lending. Although only 11 percent of domestic banks reported a moderate decline in loan paydowns as a result of the reduced pace of bond issuance, more than one-fifth of foreign respondents noted that lower bond issuance had caused a moderate or a substantial reduction in C&I loan paydowns.

Commercial real estate lending. On net, 9 percent of domestic banks reported that they had eased lending standards on commercial real estate loans over the past three months, a slightly lower net fraction than in the April survey. Lending standards for this type of loan at U.S. branches and agencies of foreign banks were essentially unchanged. The net percentage of domestic banks that experienced an increase in demand for commercial real estate loans moved up from 20 percent in April to 25 percent in the current survey. In contrast, demand for such loans at foreign institutions was reportedly unchanged, on net, over the past three months.

Lending to Households
(Table 1, questions 10-20)

The net proportion of domestic commercial banks indicating an increased willingness to make consumer installment loans declined to 9 percent in the July survey from 17 percent in the April survey. Standards for approving applications for credit card and other consumer loans, as well as most terms on these loans, were said to be unchanged, on net, in the current survey. On net, 12 percent of banks reported weaker consumer loan demand in July, compared with 22 percent of institutions, on net, that reported stronger demand in April. This reported slackening in demand is not surprising given the slowdown in consumer loan growth at banks during the spring.

In the current survey, 6 percent of domestic banks, on net, indicated that they had eased credit standards on residential mortgage loans, about the same as in April. On net, 8 percent of respondents experienced weaker demand for residential real estate loans over the past three months, a slightly higher net fraction than in the April survey.

The July survey included a set of special questions focusing on the share of adjustable-rate mortgages (ARMs) on banks' books, as well as on the composition of ARMs originated during the past three months.[1]

About 45 percent of the domestic respondents indicated that "conventional" ARMs – adjustable-rate mortgages that reprice at regular intervals – accounted for less than 10 percent of all home mortgage loans on their books; indeed, most of these institutions reported that such loans accounted for less than 5 percent of their residential mortgage loans. Only 12 percent of respondents noted that the share of conventional ARMs was greater than 50 percent. In contrast, 30 percent of domestic banks estimated that "hybrid" ARMs – adjustable-rate mortgages for which the interest rate is initially fixed for a multi-year period but subsequently adjusts more frequently – accounted for more than one-half of all residential mortgage loans on their books.

In the case of conventional ARMs, the respondents indicated that on average almost 90 percent of these loans will be repriced within the next twelve months. In contrast, banks estimated that on average only 12 percent of hybrid ARMs will be repriced within one year; almost 60 percent of hybrid ARMs on average, will not be repriced for at least three years.

More than one-half of the banks reported that hybrid ARMs accounted for at least 75 percent of all ARMs originated during the past three months, and another 17 percent of respondents indicated that such loans accounted for between 30 percent and 75 percent of all originations over that period.

This document was prepared by Fabio M. Natalucci and Egon Zakrajšek with the research assistance of Jason T. Grimm, Division of Monetary Affairs, Board of Governors of the Federal Reserve System.

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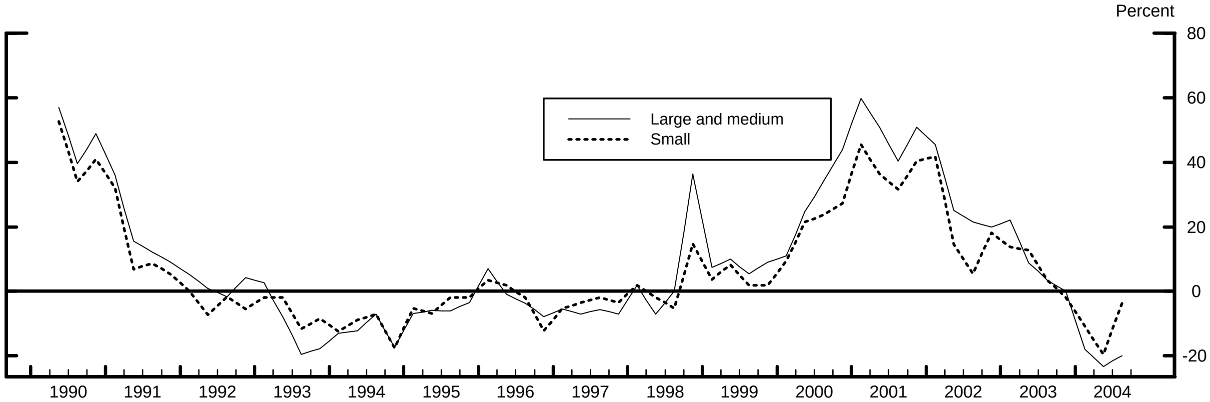
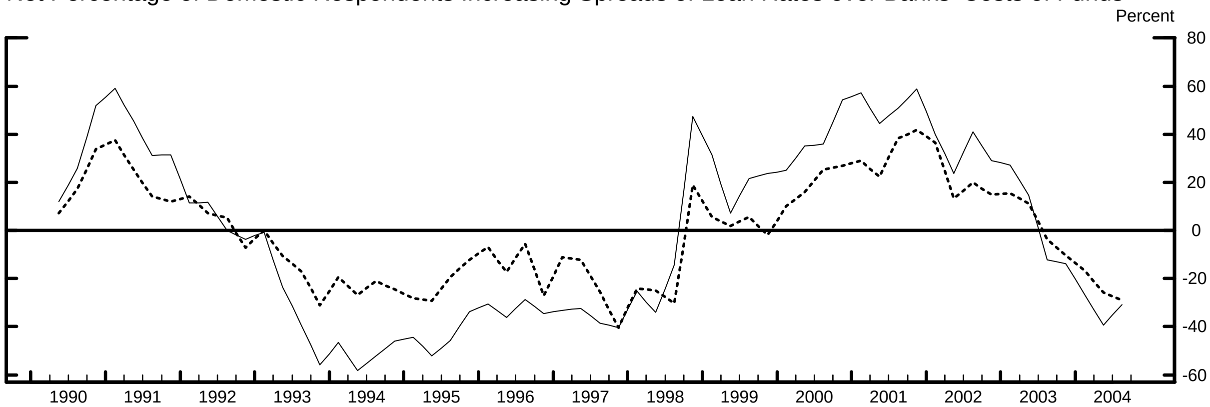
1. The number of banks that responded to these special questions varied from thirty-six to fifty depending on the question. According to the first-quarter Call reports, the respondent banks accounted for as little as 35 percent and for as much as 57 percent of all residential real estate loans on the books of domestic commercial banks as of January 31, 2004.

Measures of Supply and Demand for C&I Loans, by Size of Firm Seeking Loan

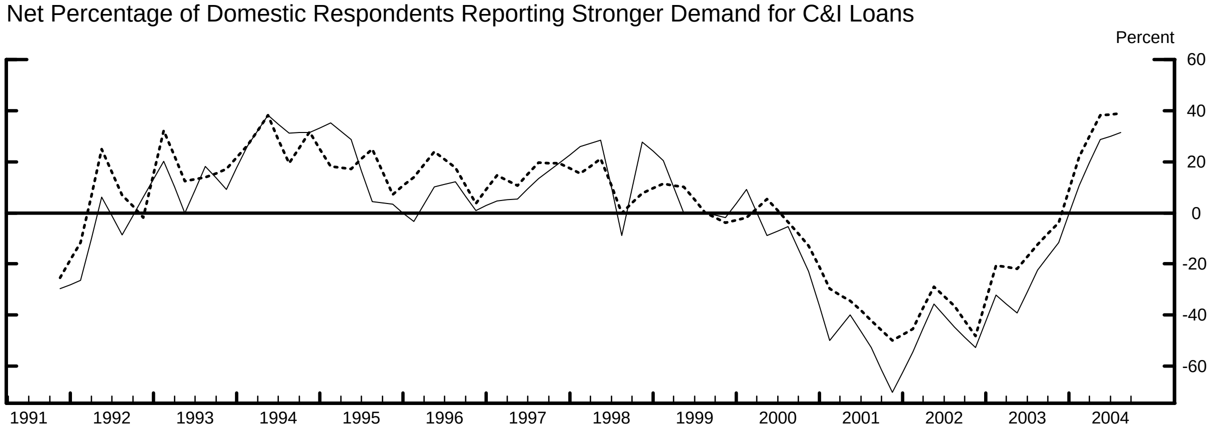
Net Percentage of Domestic Respondents Tightening Standards for C&I Loans



Net Percentage of Domestic Respondents Increasing Spreads of Loan Rates over Banks' Costs of Funds

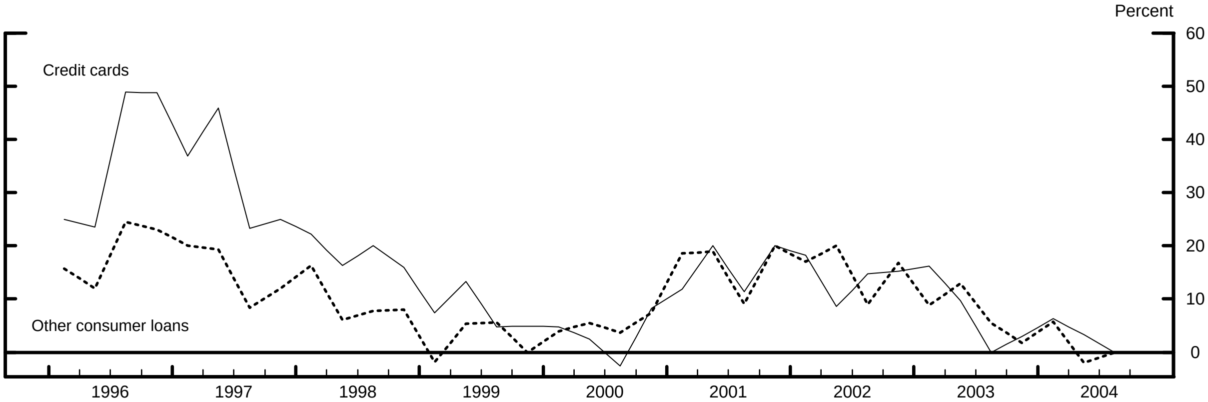


Net Percentage of Domestic Respondents Reporting Stronger Demand for C&I Loans

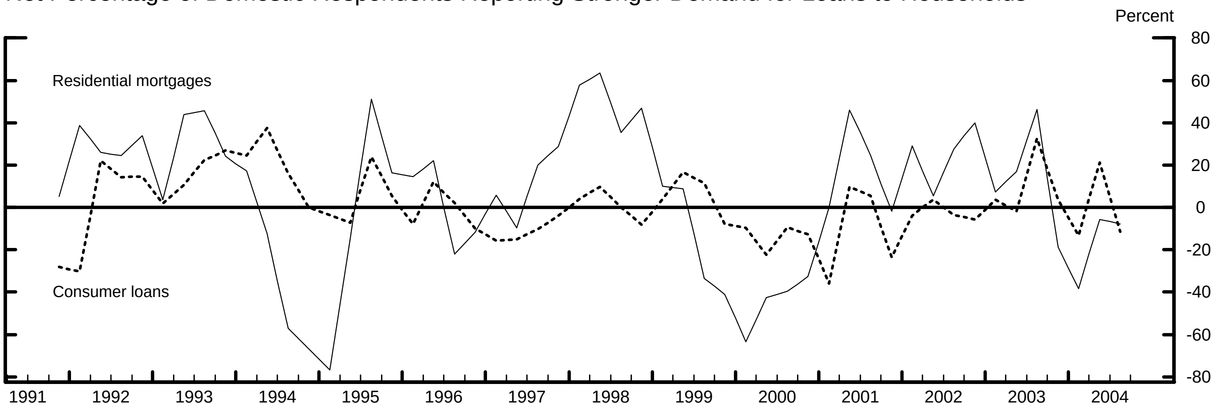


Measures of Supply and Demand for Loans to Households

Net Percentage of Domestic Respondents Tightening Standards on Consumer Loans



Net Percentage of Domestic Respondents Reporting Stronger Demand for Loans to Households



Net Percentage of Domestic Respondents Tightening Standards for Mortgages to Individuals

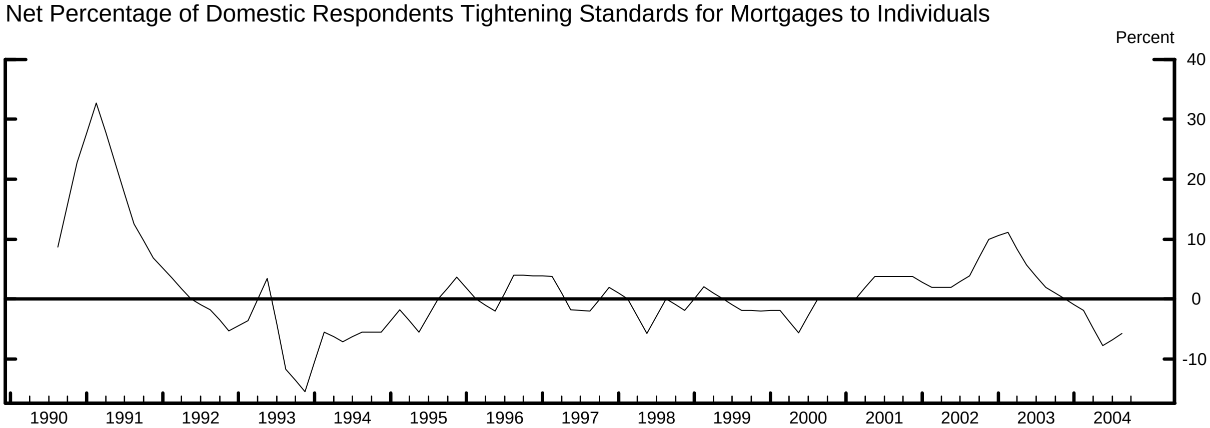


Table 1

SENIOR LOAN OFFICER OPINION SURVEY ON BANK LENDING PRACTICES
AT SELECTED LARGE BANKS IN THE UNITED STATES[1]
(Status of policy as of July 2004)

Questions 1-6 *ask about* ***commercial and industrial*** *(C&I) loans at your bank. Questions 1-3 deal with changes in your bank's lending policies over the past three months. Questions 4-5 deal with changes in demand for C&I loans over the past three months. Question 6 asks about changes in prospective demand for C&I loans at your bank, as indicated by the volume of recent inquiries about the availability of new credit lines or existing credit lines. If your bank's lending policies have not changed over the past three months, please report them as unchanged even if the policies are either restrictive or accommodative relative to longer-term norms. If your bank's policies have tightened or eased over the past three months, please so report them regardless of how they stand relative to longer-term norms. Also, please report changes in enforcement of existing policies as changes in policies.*

1. Over the past three months, how have your bank's credit standards for approving applications for C&I loans or credit lines--other than those to be used to finance mergers and acquisitions--to large and middle-market firms and to small firms changed?

A. Standards for large and middle-market firms (annual sales of $50 million or more):

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Tightened considerably	0	0.0	0	0.0	0	0.0
Tightened somewhat	2	3.6	0	0.0	2	8.7
Remained basically unchanged	40	72.7	24	75.0	16	69.6
Eased somewhat	12	21.8	8	25.0	4	17.4
Eased considerably	1	1.8	0	0.0	1	4.3
Total	55	100.0	32	100.0	23	100.0

B. Standards for small firms (annual sales of less than $50 million):

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Tightened considerably	0	0.0	0	0.0	0	0.0
Tightened somewhat	2	3.6	0	0.0	2	8.7
Remained basically unchanged	49	89.1	29	90.6	20	87.0
Eased somewhat	4	7.3	3	9.4	1	4.3
Eased considerably	0	0.0	0	0.0	0	0.0
Total	55	100.0	32	100.0	23	100.0

1. The sample is selected from among the largest banks in each Federal Reserve District. In the table, large banks are defined as those with total domestic assets of $20 billion or more as of March 31, 2004. The combined assets of the 32 large banks totaled $3.47 trillion, compared to $3.71 trillion for the entire panel of 56 banks, and $6.86 trillion for all domestically chartered, federally insured commercial banks.

2. For applications for C&I loans or credit lines--other than those to be used to finance mergers and acquisitions--from large and middle-market firms and from small firms that your bank currently is willing to approve, how have the terms of those loans changed over the past three months? (Please assign each term a number between 1 and 5 using the following scale: 1=tightened considerably, 2=tightened somewhat, 3=remained basically unchanged, 4=eased somewhat, 5=eased considerably.)

A. Terms for large and middle-market firms (annual sales of $50 million or more):

	All Respondents	Large Banks	Other Banks
	Mean	Mean	Mean
Maximum size of credit lines	3.27	3.38	3.13
Costs of credit lines	3.25	3.34	3.13
Spreads of loan rates over your bank's cost of funds (wider spreads=tightened, narrower spreads=eased)	3.33	3.50	3.09
Premiums charged on riskier loans	3.18	3.28	3.04
Loan covenants	3.24	3.34	3.09
Collateralization requirements	3.04	3.09	2.96
Other	3.09	3.09	3.09
Number of banks responding	55	32	23

B. Terms for small firms (annual sales of less than $50 million):

	All Respondents	Large Banks	Other Banks
	Mean	Mean	Mean
Maximum size of credit lines	3.09	3.19	2.96
Costs of credit lines	3.15	3.19	3.09
Spreads of loan rates over your bank's cost of funds (wider spreads=tightened, narrower spreads=eased)	3.31	3.47	3.09
Premiums charged on riskier loans	3.09	3.19	2.96
Loan covenants	3.09	3.16	3.00
Collateralization requirements	2.98	3.06	2.87
Other	2.96	3.00	2.91
Number of banks responding	55	32	23

3. If your bank has tightened or eased its credit standards or its terms for C&I loans or credit lines over the past three months (as described in questions 1 and 2), how important have been the following possible reasons for the change? (Please respond to either A, B, or both as appropriate and rate each possible reason using the following scale: 1=not important, 2=somewhat important, 3=very important.)

A. Possible reasons for tightening credit standards or loan terms:

	All Respondents	Large Banks	Other Banks
	Mean	Mean	Mean
Deterioration in your bank's current or expected capital position	1.11	1.00	1.17
Less favorable or more uncertain economic outlook	1.44	1.33	1.50
Worsening of industry-specific problems	1.78	2.33	1.50
Less aggressive competition from other banks or nonbank lenders (other financial intermediaries or the capital markets)	1.00	1.00	1.00
Reduced tolerance for risk	1.89	1.33	2.17
Decreased liquidity in the secondary market for these loans	1.00	1.00	1.00
Increase in defaults by borrowers in public debt markets	1.11	1.00	1.17
Other	1.00	1.00	1.00
Number of banks responding	9	3	6

B. Possible reasons for easing credit standards or loan terms:

	All Respondents	Large Banks	Other Banks
	Mean	Mean	Mean
Improvement in your bank's current or expected capital position	1.20	1.18	1.25
More favorable or less uncertain economic outlook	1.80	1.82	1.75
Improvement in industry-specific problems	1.44	1.47	1.38
More aggressive competition from other banks or nonbank lenders (other financial intermediaries or the capital markets)	2.52	2.59	2.38
Increased tolerance for risk	1.40	1.35	1.50
Increased liquidity in the secondary market for these loans	1.32	1.47	1.00
Reduction in defaults by borrowers in public debt markets	1.28	1.35	1.13
Other	1.12	1.12	1.13
Number of banks responding	25	17	8

4. Apart from normal seasonal variation, how has demand for C&I loans changed over the past three months? (Please consider only funds actually disbursed as opposed to requests for new or increased lines of credit.)

A. Demand for C&I loans from large and middle-market firms (annual sales of $50 million or more):

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Substantially stronger	0	0.0	0	0.0	0	0.0
Moderately stronger	24	44.4	18	58.1	6	26.1
About the same	23	42.6	11	35.5	12	52.2
Moderately weaker	7	13.0	2	6.5	5	21.7
Substantially weaker	0	0.0	0	0.0	0	0.0
Total	54	100.0	31	100.0	23	100.0

B. Demand for C&I loans from small firms (annual sales of less than $50 million):

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Substantially stronger	0	0.0	0	0.0	0	0.0
Moderately stronger	23	42.6	16	51.6	7	30.4
About the same	29	53.7	15	48.4	14	60.9
Moderately weaker	2	3.7	0	0.0	2	8.7
Substantially weaker	0	0.0	0	0.0	0	0.0
Total	54	100.0	31	100.0	23	100.0

5. If demand for C&I loans has strengthened or weakened over the past three months (as described in question 4), how important have been the following possible reasons for the change? (Please respond to either A, B, or both as appropriate and rate each possible reason using the following scale: 1=not important, 2=somewhat important, 3=very important.)

A. If stronger loan demand (answer 1 or 2 to question 4A or 4B), possible reasons:

	All Respondents	Large Banks	Other Banks
	Mean	Mean	Mean
Customer inventory financing needs increased	1.77	1.83	1.63
Customer accounts receivable financing needs increased	1.81	1.83	1.75
Customer investment in plant or equipment increased	1.73	1.67	1.88
Customer internally generated funds decreased	1.04	1.06	1.00
Customer merger or acquisition financing needs increased	1.62	1.61	1.63
Customer borrowing shifted to your bank from other bank or nonbank credit sources because these other sources became less attractive	1.58	1.61	1.50
Other	1.00	1.00	1.00
Number of banks responding	26	18	8

B. If weaker loan demand (answer 4 or 5 to question 4A or 4B), possible reasons:

	All Respondents	Large Banks	Other Banks
	Mean	Mean	Mean
Customer inventory financing needs decreased	1.13	1.00	1.20
Customer accounts receivable financing needs decreased	1.00	1.00	1.00
Customer investment in plant or equipment decreased	1.63	1.00	2.00
Customer internally generated funds increased	1.88	2.00	1.80
Customer merger or acquisition financing needs decreased	1.25	1.00	1.40
Customer borrowing shifted from your bank to other bank or nonbank credit sources because these other sources became more attractive	1.88	1.67	2.00
Other	1.13	1.33	1.00
Number of banks responding	8	3	5

6. At your bank, how has the number of inquiries from potential business borrowers regarding the availability and terms of new credit lines or increases in existing lines changed over the past three months? (Please consider only inquiries for additional C&I lines as opposed to the refinancing of existing loans.)

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Increased substantially	0	0.0	0	0.0	0	0.0
Increased moderately	28	50.9	17	53.1	11	47.8
Stayed about the same	24	43.6	14	43.8	10	43.5
Decreased moderately	3	5.5	1	3.1	2	8.7
Decreased substantially	0	0.0	0	0.0	0	0.0
Total	55	100.0	32	100.0	23	100.0

According to bond prospectuses, a significant portion of bond proceeds during the past few years has been used to pay down C&I loans and other short-term debt. In recent months, however, bond issuance by nonfinancial corporations has fallen off notably. ***Question 7*** *asks to what extent C&I loans at your bank have been affected by developments in the bond market during the past three months.*

7. Over the past *three months,* how have C&I loans at your bank been affected by the decline in bond issuance?

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Substantial reduction in loan paydowns	0	0.0	0	0.0	0	0.0
Moderate reduction in loan paydowns	6	10.9	5	16.1	1	4.2
Little or no effect	49	89.1	26	83.9	23	95.8
Total	55	100.0	31	100.0	24	100.0

Questions 8-9 *ask about* **commercial real estate loans** *at your bank, including construction and land development loans and loans secured by nonfarm nonresidential real estate. Question 8 deals with changes in your bank's standards over the last three months. Questions 9 deals with changes in demand. If your bank's lending standards or terms have not changed over the relevant period, please report them as unchanged even if they are either restrictive or accommodative relative to longer-term norms. If your bank's standards or terms have tightened or eased over the relevant period, please so report them regardless of how they stand relative to longer-term norms. Also, please report changes in enforcement of existing standards as changes in standards.*

8. Over the past three months, how have your bank's credit standards for approving applications for commercial real estate loans changed?

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Tightened considerably	0	0.0	0	0.0	0	0.0
Tightened somewhat	3	5.4	1	3.1	2	8.3
Remained basically unchanged	45	80.4	25	78.1	20	83.3
Eased somewhat	7	12.5	6	18.8	1	4.2
Eased considerably	1	1.8	0	0.0	1	4.2
Total	56	100.0	32	100.0	24	100.0

9. Apart from normal seasonal variation, how has demand for commercial real estate loans changed over the past three months?

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Substantially stronger	0	0.0	0	0.0	0	0.0
Moderately stronger	19	33.9	11	34.4	8	33.3
About the same	32	57.1	20	62.5	12	50.0
Moderately weaker	5	8.9	1	3.1	4	16.7
Substantially weaker	0	0.0	0	0.0	0	0.0
Total	56	100.0	32	100.0	24	100.0

***Questions 10-11** ask about **residential mortgage loans** at your bank. Question 10 deals with changes in your bank's credit standards over the past three months, and question 11 deals with changes in demand over the same period. If your bank's credit standards have not changed over the relevant period, please report them as unchanged even if the standards are either restrictive or accommodative relative to longer-term norms. If your bank's credit standards have tightened or eased over the relevant period, please so report them regardless of how they stand relative to longer-term norms. Also, please report changes in enforcement of existing standards as changes in standards.*

10. Over the past three months, how have your bank's credit standards for approving applications from individuals for mortgage loans to purchase homes changed?

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Tightened considerably	0	0.0	0	0.0	0	0.0
Tightened somewhat	2	3.8	1	3.2	1	4.8
Remained basically unchanged	45	86.5	26	83.9	19	90.5
Eased somewhat	5	9.6	4	12.9	1	4.8
Eased considerably	0	0.0	0	0.0	0	0.0
Total	52	100.0	31	100.0	21	100.0

11. Apart from normal seasonal variation, how has demand for mortgages to purchase homes changed over the past three months? (Please consider only new originations as opposed to the refinancing of existing mortgages.)

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Substantially stronger	1	1.9	1	3.2	0	0.0
Moderately stronger	6	11.5	4	12.9	2	9.5
About the same	34	65.4	22	71.0	12	57.1
Moderately weaker	9	17.3	4	12.9	5	23.8
Substantially weaker	2	3.8	0	0.0	2	9.5
Total	52	100.0	31	100.0	21	100.0

Questions 12-14 *ask about* ***adjustable-rate home mortgage loans*** *at your bank. Questions 12-13 ask about the share and composition of adjustable-rate mortgages held on your bank's books. Question 14 asks about the composition of adjustable-rate mortgages originated by your bank during the past three months.*

12. Please report the approximate shares of the dollar volume of each of the following types of adjustable-rate home mortgage loans held at your bank: (Please exclude home equity loans and mortgage-backed securities.)

A. Adjustable-rate mortgages that reprice at regular intervals (Please exclude hybrid mortgages, as described in question 12B.)

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
More than 50 percent of all mortgage loans	6	12.0	6	20.0	0	0.0
30 to 50 percent of all mortgage loans	5	10.0	2	6.7	3	15.0
20 to 30 percent of all mortgage loans	5	10.0	4	13.3	1	5.0
10 to 20 percent of all mortgage loans	11	22.0	5	16.7	6	30.0
5 to 10 percent of all mortgage loans	4	8.0	2	6.7	2	10.0
Less than 5 percent of all mortgage loans	19	38.0	11	36.7	8	40.0
Total	50	100.0	30	100.0	20	100.0

B. Hybrid adjustable-rate mortgages-- those for which the interest rate is initially fixed for a multi-year period and subsequently adjusts more frequently. (Please include those loans for which the initial rate lock has elapsed.)

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
More than 50 percent of all mortgage loans	15	30.0	12	40.0	3	15.0
30 to 50 percent of all mortgage loans	4	8.0	2	6.7	2	10.0
20 to 30 percent of all mortgage loans	6	12.0	3	10.0	3	15.0
10 to 20 percent of all mortgage loans	10	20.0	7	23.3	3	15.0
5 to 10 percent of all mortgage loans	7	14.0	1	3.3	6	30.0
Less than 5 percent of all mortgage loans	8	16.0	5	16.7	3	15.0
Total	50	100.0	30	100.0	20	100.0

13. Approximately what share of dollar volume of each of the following types of adjustable-rate mortgages held by your bank will be repriced in the stated intervals? (Please exclude home equity loans and mortgage-backed securities.)

A. Adjustable-rate mortgages (as defined in question 12A; the shares should sum to 100 percent)

	All Respondents	Large Banks	Other Banks
	Mean	Mean	Mean
One month or less from now	10.7	13.1	6.8
Two to six months ahead from now	33.2	35.5	29.6
Seven to twelve months from now	43.1	41.3	45.9
More than twelve months from now	13.0	10.1	17.6
Number of banks responding	36	22	14

B. Hybrid adjustable-rate mortgages (as defined in question 12B; the shares should sum to 100 percent)

	All Respondents	Large Banks	Other Banks
	Mean	Mean	Mean
One year or less from now (including those mortgages for which the initial rate lock has elapsed)	12.2	11.6	13.1
More than one year but not more than three years from now	30.5	27.9	34.1
More than three years but not more than five years from now	39.6	40.4	38.4
More than five years from now	17.7	20.1	14.4
Number of banks responding	41	24	17

14. The share of adjustable-rate mortgages in total home mortgage originations has risen significantly this year. Approximately what share of the dollar volume of adjustable-rate home mortgage loans that your bank has **originated** during the past **three months** has been hybrid adjustable-rate mortgages (as defined in question 12B)? (Please exclude home equity loans and mortgage-backed securities.)

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
More than 75 percent of all adjustable-rate home mortgage loans	26	55.3	18	62.1	8	44.4
50 to 75 percent of all adjustable-rate home mortgage loans	3	6.4	1	3.4	2	11.1
30 to 50 percent of all adjustable-rate home mortgage loans	5	10.6	3	10.3	2	11.1
20 to 30 percent of all adjustable-rate home mortgage loans	3	6.4	1	3.4	2	11.1
10 to 20 percent of all adjustable-rate home mortgage loans	4	8.5	2	6.9	2	11.1
Less than 10 percent of all adjustable-rate home mortgage loans	6	12.8	4	13.8	2	11.1
Total	47	100.0	29	100.0	18	100.0

Questions 15-20 *ask about* ***consumer lending*** *at your bank. Question 15 deals with changes in your bank's willingness to make consumer loans over the past three months. Questions 16-19 deal with changes in credit standards and loan terms over the same period. Question 20 deals with changes in demand for consumer loans over the past three months. If your bank's lending policies have not changed over the past three months, please report them as unchanged even if the policies are either restrictive or accommodative relative to longer-term norms. If your bank's policies have tightened or eased over the past three months, please so report them regardless of how they stand relative to longer-term norms. Also, please report changes in enforcement of existing policies as changes in policies.*

15. Please indicate your bank's willingness to make consumer installment loans now as opposed to three months ago.

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Much more willing	1	1.8	0	0.0	1	4.3
Somewhat more willing	6	10.9	3	9.4	3	13.0
About unchanged	46	83.6	28	87.5	18	78.3
Somewhat less willing	2	3.6	1	3.1	1	4.3
Much less willing	0	0.0	0	0.0	0	0.0
Total	55	100.0	32	100.0	23	100.0

16. Over the past three months, how have your bank's credit standards for approving applications for credit cards from individuals or households changed?

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Tightened considerably	0	0.0	0	0.0	0	0.0
Tightened somewhat	0	0.0	0	0.0	0	0.0
Remained basically unchanged	33	100.0	18	100.0	15	100.0
Eased somewhat	0	0.0	0	0.0	0	0.0
Eased considerably	0	0.0	0	0.0	0	0.0
Total	33	100.0	18	100.0	15	100.0

17. Over the past three months, how have your bank's credit standards for approving applications for consumer loans other than credit card loans changed?

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Tightened considerably	0	0.0	0	0.0	0	0.0
Tightened somewhat	2	3.7	0	0.0	2	9.1
Remained basically unchanged	50	92.6	30	93.8	20	90.9
Eased somewhat	2	3.7	2	6.3	0	0.0
Eased considerably	0	0.0	0	0.0	0	0.0
Total	54	100.0	32	100.0	22	100.0

18. Over the past three months, how has your bank changed the following terms and conditions on new or existing credit card accounts for individuals or households? (Please assign each term a number between 1 and 5 using the following scale: 1=tightened considerably, 2=tightened somewhat, 3=remained basically unchanged, 4=eased somewhat, 5=eased considerably.)

	All Respondents	Large Banks	Other Banks
	Mean	Mean	Mean
Credit limits	3.06	3.07	3.06
Spreads of interest rates charged on outstanding balances over your bank's cost of funds (wider spreads=tightened, narrower spreads=eased)	2.90	2.93	2.88
Minimum percent of outstanding balances required to be repaid each month	3.03	3.07	3.00
Minimum required credit score (increased score=tightened, reduced score=eased)	2.97	3.07	2.88
The extent to which loans are granted to some customers that do not meet credit scoring thresholds (increased=eased, decreased=tightened)	3.00	3.07	2.94
Other	3.00	3.00	3.00
Number of banks responding	31	15	16

19. Over the past three months, how has your bank changed the following terms and conditions on consumer loans other than credit card loans? (Please assign each term a number between 1 and 5 using the following scale: 1=tightened considerably, 2=tightened somewhat, 3=remained basically unchanged, 4=eased somewhat, 5=eased considerably.)

	All Respondents	Large Banks	Other Banks
	Mean	Mean	Mean
Maximum maturity	3.02	3.03	3.00
Spreads of loan rates over your bank's cost of funds (wider spreads=tightened, narrower spreads=eased)	3.07	3.19	2.91
Minimum required downpayment	3.00	3.00	3.00
Minimum required credit score (increased score=tightened, reduced score=eased)	3.02	3.06	2.95
The extent to which loans are granted to some customers that do not meet credit scoring thresholds (increased=eased, decreased=tightened)	3.02	3.06	2.95
Other	2.96	3.00	2.91
Number of banks responding	54	32	22

20. Apart from normal seasonal variation, how has demand for consumer loans of all types changed over the past three months?

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Substantially stronger	0	0.0	0	0.0	0	0.0
Moderately stronger	8	15.4	5	16.7	3	13.6
About the same	30	57.7	17	56.7	13	59.1
Moderately weaker	14	26.9	8	26.7	6	27.3
Substantially weaker	0	0.0	0	0.0	0	0.0
Total	52	100.0	30	100.0	22	100.0

Table 2

SENIOR LOAN OFFICER OPINION SURVEY ON BANK LENDING PRACTICES
AT SELECTED BRANCHES AND AGENCIES OF FOREIGN BANKS IN THE UNITED STATES[1]
(Status of policy as of July 2004)

Questions 1-6 *ask about* ***commercial and industrial*** *(C&I) loans at your bank. Questions 1-3 deal with changes in your bank's lending policies over the past three months. Questions 4-5 deal with changes in demand for C&I loans over the past three months. Question 6 asks about changes in prospective demand for C&I loans at your bank, as indicated by the volume of recent inquiries about the availability of new credit lines or increases in existing credit lines. If your bank's lending policies have not changed over the past three months, please report them as unchanged even if the policies are either restrictive or accommodative relative to longer-term norms. If your bank's policies have tightened or eased over the past three months, please so report them regardless of how they stand relative to longer-term norms. Also, please report changes in enforcement of existing policies as changes in policies.*

1. Over the past three months, how have your bank's credit standards for approving applications for C&I loans or credit lines--other than those to be used to finance mergers and acquisitions--changed?

	All Respondents	
	Banks	Pct
Tightened considerably	0	0.0
Tightened somewhat	0	0.0
Remained basically unchanged	11	57.9
Eased somewhat	8	42.1
Eased considerably	0	0.0
Total	19	100.0

2. For applications for C&I loans or credit lines--other than those to be used to finance mergers and acquisitions--that your bank currently is willing to approve, how have the terms of those loans changed over the past three months? (Please assign each term a number between 1 and 5 using the following scale: 1=tightened considerably, 2=tightened somewhat, 3=remained basically unchanged, 4=eased somewhat, 5=eased considerably.)

	All Respondents
	Mean
Maximum size of credit lines	3.32
Costs of credit lines	3.26
Spreads of loan rates over your bank's cost of funds (wider spreads=tightened, narrower spreads=eased)	3.53
Premiums charged on riskier loans	3.21
Loan covenants	3.32
Collateralization requirements	3.16
Other	3.00
Total	19

1. As of March 31, 2004, the 19 respondents had combined assets of $413 billion, compared to $954 billion for all foreign-related banking institutions in the United States. The sample is selected from among the largest foreign-related banking institutions in those Federal Reserve Districts where such institutions are common.

3. If your bank has tightened or eased its credit standards or its terms for C&I loans or credit lines over the past three months (as described in questions 1 and 2), how important have been the following possible reasons for the change? (Please respond to either A, B, or both as appropriate and rate each possible reason using the following scale: 1=not important, 2=somewhat important, 3=very important.)

A. Possible reasons for tightening credit standards or loan terms:

	All Respondents
	Mean
Deterioration in your bank's current or expected capital position	0
Less favorable or more uncertain economic outlook	0
Worsening of industry-specific problems	0
Less aggressive competition from other banks or nonbank lenders (other financial intermediaries or the capital markets)	0
Reduced tolerance for risk	0
Decreased liquidity in the secondary market for these loans	0
Increase in defaults by borrowers in public debt markets	0
Other	0
Number of banks responding	0

B. Possible reasons for easing credit standards or loan terms:

	All Respondents
	Mean
Improvement in your bank's current or expected capital position	1.77
More favorable or less uncertain economic outlook	1.85
Improvement in industry-specific problems	1.62
More aggressive competition from other banks or nonbank lenders (other financial intermediaries or the capital markets)	2.08
Increased tolerance for risk	1.46
Increased liquidity in the secondary market for these loans	1.62
Reduction in defaults by borrowers in public debt markets	1.62
Other	1.00
Number of banks responding	13

4. Apart from normal seasonal variation, how has demand for C&I loans changed over the past three months? (Please consider only funds actually disbursed as opposed to requests for new or increased lines of credit.)

	All Respondents	
	Banks	Pct
Substantially stronger	0	0.0
Moderately stronger	7	36.8
About the same	10	52.6
Moderately weaker	2	10.5
Substantially weaker	0	0.0
Total	19	100.0

5. If demand for C&I loans has strengthened or weakened over the past three months (as described in question 4), how important have been the following possible reasons for the change? (Please respond to either A, B, or both as appropriate and rate each possible reason using the following scale: 1=not important, 2=somewhat important, 3=very important.)

A. If stronger loan demand (answer 1 or 2 to question 4), possible reasons:

	All Respondents
	Mean
Customer inventory financing needs increased	1.43
Customer accounts receivable financing needs increased	1.29
Customer investment in plant or equipment increased	1.29
Customer internally generated funds decreased	1.14
Customer merger or acquisition financing needs increased	1.71
Customer borrowing shifted to your bank from other bank or nonbank sources because these other sources became less attractive	1.14
Other	1.14
Number of banks responding	7

B. If weaker loan demand (answer 4 or 5 to question 4), possible reasons:

	All Respondents
	Mean
Customer inventory financing needs decreased	1.33
Customer accounts receivable financing needs decreased	1.33
Customer investment in plant or equipment decreased	1.67
Customer internally generated funds increased	2.33
Customer merger or acquisition financing needs decreased	1.67
Customer borrowing shifted from your bank to other bank or nonbank credit sources because these other sources became more attractive	2.33
Other	1.67
Number of banks responding	3

6. At your bank, how has the number of inquiries from potential business borrowers regarding the availability and terms of new credit lines or increases in existing lines changed over the past three months? (Please consider only inquiries for additional C&I lines as opposed to the refinancing of existing loans.)

	All Respondents	
	Banks	Pct
Increased substantially	0	0.0
Increased moderately	7	36.8
Stayed about the same	12	63.2
Decreased moderately	0	0.0
Decreased substantially	0	0.0
Total	19	100.0

According to bond prospectuses, a significant portion of bond proceeds during the past few years has been used to pay down C&I loans and other short-term debt. In recent months, however, bond issuance by nonfinancial corporations has fallen off notably. ***Question 7*** *asks to what extent C&I loans at your bank have been affected by developments in the bond market during the past three months.*

7. Over the past *three months,* how have C&I loans at your bank been affected by the decline in bond issuance?

	All Respondents	
	Banks	Pct
Substantial reduction in loan paydowns	1	5.3
Moderate reduction in loan paydowns	3	15.8
Little or no effect	15	78.9
Total	19	100.0

Questions 8-9 *ask about* **commercial real estate loans** *at your bank, including construction and land development loans and loans secured by nonfarm nonresidential real estate. Question 8 deals with changes in your bank's standards over the last three months. Question 9 deals with changes in demand. If your bank's lending standards or terms have not changed over the relevant period, please report them as unchanged even if they are either restrictive or accommodative relative to longer-term norms. If your bank's standards or terms have tightened or eased over the relevant period, please so report them regardless of how they stand relative to longer-term norms. Also, please report changes in enforcement of existing standards as changes in standards.*

8. Over the past three months, how have your bank's credit standards for approving applications for commercial real estate loans changed?

	All Respondents	
	Banks	Pct
Tightened considerably	0	0.0
Tightened somewhat	1	7.7
Remained basically unchanged	12	92.3
Eased somewhat	0	0.0
Eased considerably	0	0.0
Total	13	100.0

9. Apart from normal seasonal variation, how has demand for commercial real estate loans changed over the past three months?

	All Respondents	
	Banks	Pct
Substantially stronger	0	0.0
Moderately stronger	1	8.3
About the same	10	83.3
Moderately weaker	1	8.3
Substantially weaker	0	0.0
Total	12	100.0