Board of Governors of the Federal Reserve System

The August 2003 Senior Loan Officer Opinion Survey on Bank Lending Practices

The August 2003 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. In addition, the survey contained a supplementary question on potential demand for commercial and industrial (C&I) loans, as well as special questions on measures taken by banks to support the returns on their business loans in response to declining net interest margins. Fifty-eight domestic and seventeen foreign banking institutions responded to the survey.

The net fraction of banking institutions reporting that they tightened lending standards on C&I loans over the past three months declined to very low levels in August. In addition, domestic banks reported having eased spreads on those loans, on net, for the first time since 1998. Banks that eased terms cited increased competition from nonbank lenders as the reason. Demand for C&I loans was reported to have weakened further over the past three months, in large part because of decreased investment in plant and equipment. However, banks reported a small increase, on net, in inquiries regarding new financing. More than half the respondents reported having used higher upfront fees to support returns on C&I loans, and some banks indicated that they had made limited use of interest rate floors for the same purpose.

The net fractions of banks responding that they tightened standards on loans to households fell from their moderate levels of the past few surveys. Moreover, small net fractions of financial institutions reported having eased spreads on consumer loans. Compared with the two previous surveys, significantly larger net fractions of banks in the August survey reported increased demand both for home mortgages and for consumer loans.

Lending to Businesses
(Table 1, questions 1-11; Table 2, questions 1-11)

In the August survey, the net percentage of domestic banks that reported having tightened standards on C&I loans to large and middle-market firms over the past three months declined further, to 3 percent, from 9 percent in the April survey. Similarly, a significantly smaller net fraction of domestic banks reported having tightened standards to small firms.

On net, lending standards at branches and agencies of foreign banks were unchanged in August, whereas in April, 33 percent of those institutions, on net, had reported having tightened.

In addition, markedly fewer domestic banks indicated that they had tightened terms on C&I loans, and some terms were eased, on net. Indeed, for the first time since the market turmoil of 1998, small net fractions of domestic banks reported having reduced spreads of loan rates over cost of funds for borrowers of all sizes. On net, banks reported that the costs of credit lines to large and middle-market borrowers were about unchanged, compared with 18 percent that indicated tightening in the previous survey. However, a notable net fraction of respondents have continued to reduce the size of those lines. A significant net fraction of domestic banks continued to report having increased premiums charged on riskier loans to borrowers of all sizes. Similarly, the net fraction of foreign banks reporting that they tightened lending terms was smaller in the August survey than in the April survey, although the fraction that reduced the size of credit lines and charged higher premiums on riskier loans remained elevated.

Sixty-five percent of the domestic banks that tightened lending standards and terms indicated concern about the economic outlook as an important reason for doing so, down from more than 90 percent in April. In addition, somewhat fewer banks than in April indicated that industry-specific problems were a reason for tightening. Despite reduced fractions of banks expressing concern about the economic outlook and industry-specific problems, banks continued to reduce their tolerance for risk. Indeed, about 75 percent of domestic banks that tightened standards and terms on C&I loans cited a lower tolerance for risk, making it the most commonly reported reason. By contrast, almost all of the foreign institutions that tightened standards and terms remained concerned about the economic outlook and industry-specific problems as well as reporting a reduced tolerance for risk.

Domestic banks, on net, continued to report that demand from large and middle-market firms had weakened over the past three months, but that fraction declined noticeably from almost 40 percent in April to about 20 percent in the current survey. Similarly, a somewhat smaller net fraction of banks reported weaker demand from small firms. For banks that reported weaker demand, the most important reason continued to be decreased investment in plant and equipment by their customers. Banks that experienced increased demand cited numerous reasons for the rise. In contrast to the experience of domestic banks, the same number of foreign institutions reported that demand had weakened as reported that it had increased. In response to a special question about the prospective demand for C&I loans, both domestic respondents and branches and agencies of foreign banks indicated that, on net, the number of inquiries from potential borrowers had risen somewhat over the past three months.

With interest rates having recently reached historically low levels, banks have been reporting downward pressure on their net interest margins. More than 60 percent of foreign and domestic banks said that increased fees charged on credit lines have been important in supporting the return on business lending. About 45 percent of domestic banks and a few foreign banks reported that they had increased their use of interest rate floors; however, most banks reported that fewer than 5 percent of their C&I loans had interest rate floors. Moreover, of the seventeen domestic banks that stated that a material fraction of their C&I loans were subject to an interest rate floor, half of those banks indicated that the floors were binding on less than 40 percent of those loans. The vast majority of respondents reported that they had not increased the average maturity or the risk profile of their C&I loan portfolio to support their net interest margins.

Commercial real estate lending. The net fraction of domestic banks that reported tightening standards on commercial real estate loans fell to 14 percent, a level near the bottom of its recent range. Only one foreign institution reported having tightened standards in August. Demand for commercial real estate loans continued to erode; in the August survey, 12 percent of domestic banks, on net, reported a decline in demand, down from 29 percent in April. At foreign banks, demand was also described as weaker.

Lending to Households
(Table 1, questions 12-19)

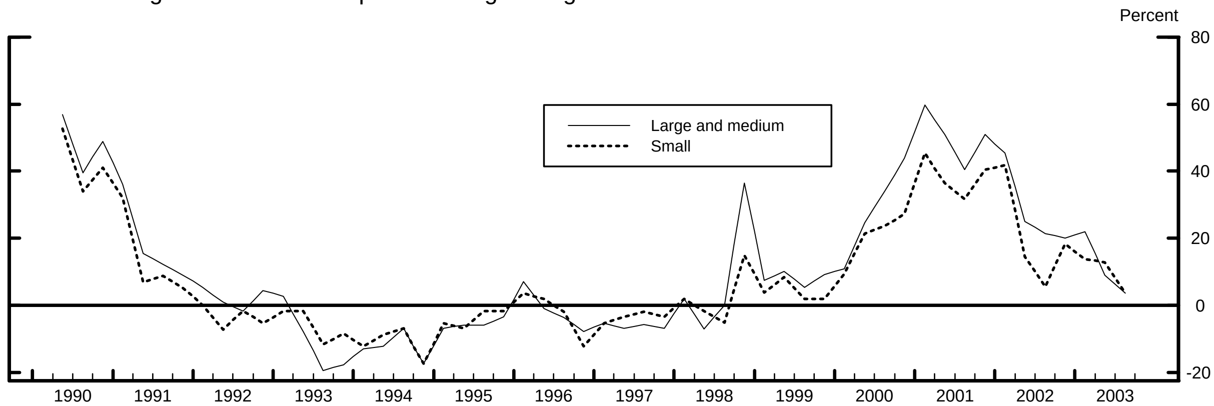
The net share of banks that reported stronger demand for residential mortgage loans increased for the second consecutive survey, to about 45 percent, compared with 17 percent in April and 8 percent in January. Three banks said that demand was substantially stronger during the past three months. Concurrently, the net fraction of banks that reported having tightened standards on residential mortgages fell from 12 percent in January to 6 percent in April to 2 percent in the current survey.

A significantly larger net fraction of banks indicated that they were more willing to make consumer loans in the current survey than had been the case since 1999. Consistent with this report, no banks tightened standards on credit card loans, while small fractions of banks again reported having eased spreads on these loans. About 5 percent of banks, on net, tightened standards for consumer loans other than credit cards, down from 12 percent in April. In addition, a few banks, on net, reported that they had narrowed spreads and had extended maturities on these loans. Reported demand for consumer loans jumped in the current survey; about one-third of respondents, on net, indicated an increase in demand, compared with a small reported net decrease in demand during the previous survey period.

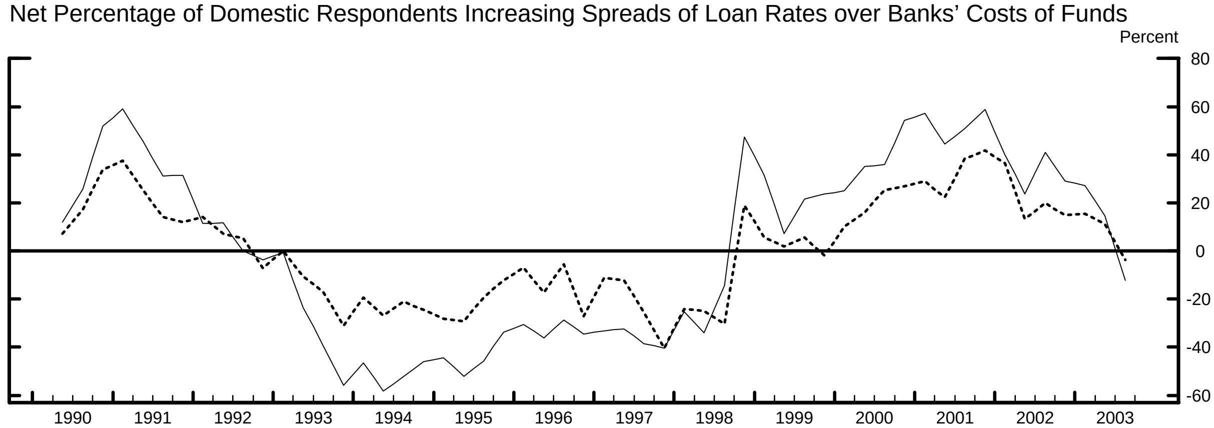
This document was prepared by William Bassett and Mark Carlson with the research assistance of Steve Piraino, Division of Monetary Affairs, Board of Governors of the Federal Reserve System.

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

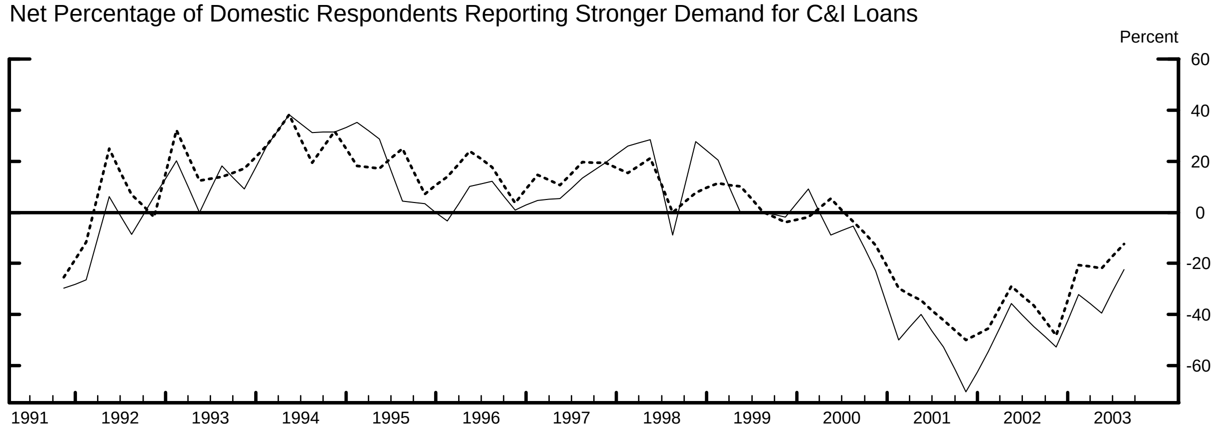
Net Percentage of Domestic Respondents Tightening Standards for C&I Loans



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

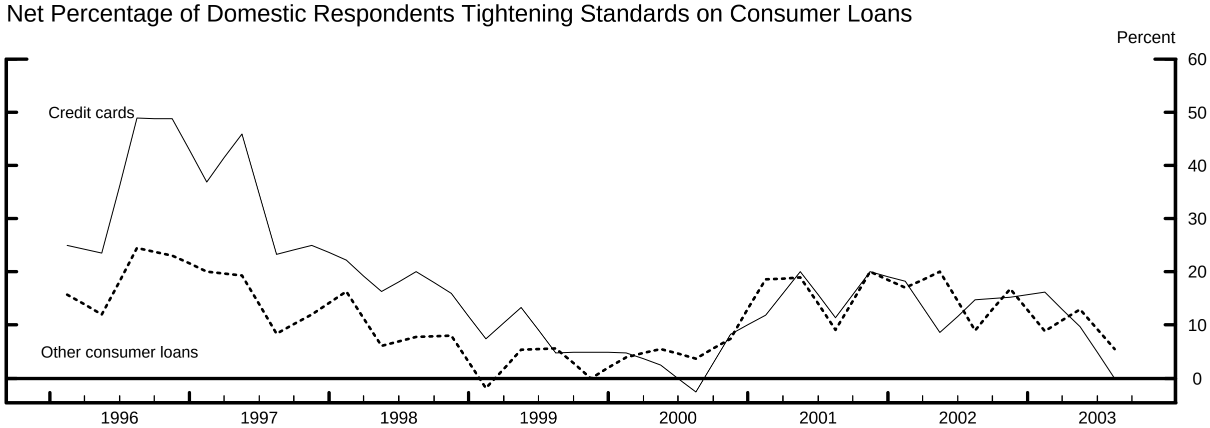


Net Percentage of Domestic Respondents Reporting Stronger Demand for C&I Loans

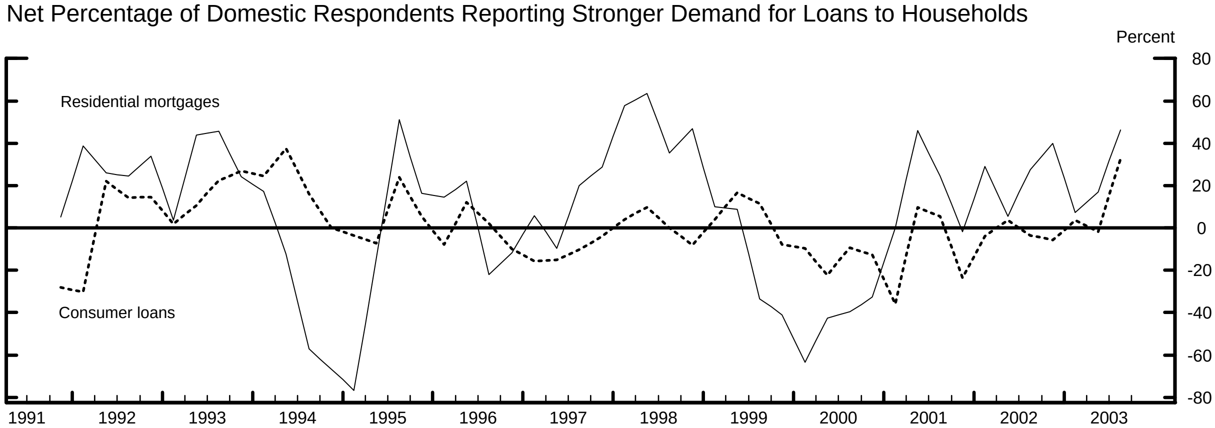


Measures of Supply and Demand for Loans to Households

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

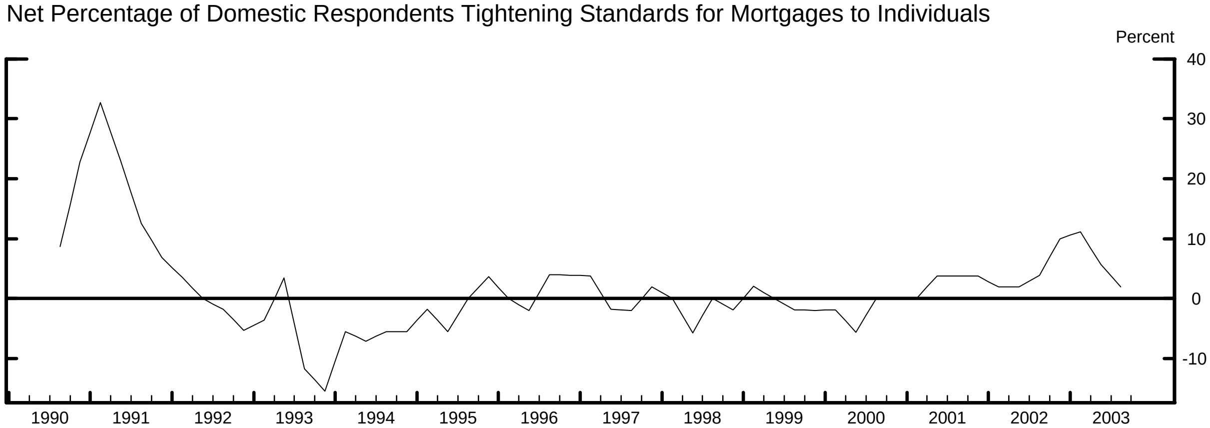


Table 1

SENIOR LOAN OFFICER OPINION SURVEY ON BANK LENDING PRACTICES
AT SELECTED LARGE BANKS IN THE UNITED STATES[1]
(Status of policy as of August 2003)

***Questions 1-5** 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. 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	3	5.2	1	2.8	2	9.1
Remained basically unchanged	54	93.1	34	94.4	20	90.9
Eased somewhat	1	1.7	1	2.8	0	0.0
Eased considerably	0	0.0	0	0.0	0	0.0
Total	58	100.0	36	100.0	22	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	3	5.3	1	2.9	2	9.1
Remained basically unchanged	53	93.0	33	94.3	20	90.9
Eased somewhat	1	1.8	1	2.9	0	0.0
Eased considerably	0	0.0	0	0.0	0	0.0
Total	57	100.0	35	100.0	22	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, 2003. The combined assets of the 36 large banks totaled $3.41 trillion, compared to $3.63 trillion for the entire panel of 58 banks, and $6.34 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	2.81	2.81	2.81
Costs of credit lines	3.02	3.00	3.05
Spreads of loan rates over your bank's cost of funds (wider spreads=tightened, narrower spreads=eased)	3.12	3.14	3.10
Premiums charged on riskier loans	2.75	2.78	2.71
Loan covenants	2.88	2.89	2.86
Collateralization requirements	2.93	2.97	2.86
Other	3.00	3.00	3.00
Number of banks responding	57	36	21

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	2.98	2.97	3.00
Costs of credit lines	2.98	2.94	3.05
Spreads of loan rates over your bank's cost of funds (wider spreads=tightened, narrower spreads=eased)	3.04	3.03	3.05
Premiums charged on riskier loans	2.79	2.83	2.71
Loan covenants	2.95	2.97	2.90
Collateralization requirements	2.95	3.00	2.86
Other	3.00	3.00	3.00
Number of banks responding	56	35	21

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	1.04	1.00	1.09
Less favorable or more uncertain economic outlook	1.73	1.80	1.64
Worsening of industry-specific problems	1.73	2.07	1.27
Less aggressive competition from other banks or nonbank lenders (other financial intermediaries or the capital markets)	1.15	1.13	1.18
Reduced tolerance for risk	1.88	1.93	1.82
Decreased liquidity in the secondary market for these loans	1.15	1.13	1.18
Increase in defaults by borrowers in public debt markets	1.35	1.47	1.18
Other	1.12	1.00	1.27
Number of banks responding	26	15	11

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	1.29	1.40	1.00
More favorable or less uncertain economic outlook	1.50	1.60	1.25
Improvement in industry-specific problems	1.36	1.50	1.00
More aggressive competition from other banks or nonbank lenders (other financial intermediaries or the capital markets)	2.43	2.30	2.75
Increased tolerance for risk	1.29	1.40	1.00
Increased liquidity in the secondary market for these loans	1.36	1.40	1.25
Reduction in defaults by borrowers in public debt markets	1.36	1.50	1.00
Other	1.00	1.00	1.00
Number of banks responding	14	10	4

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	6	10.3	6	16.7	0	0.0
About the same	33	56.9	18	50.0	15	68.2
Moderately weaker	19	32.8	12	33.3	7	31.8
Substantially weaker	0	0.0	0	0.0	0	0.0
Total	58	100.0	36	100.0	22	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	9	15.8	8	22.9	1	4.5
About the same	32	56.1	19	54.3	13	59.1
Moderately weaker	16	28.1	8	22.9	8	36.4
Substantially weaker	0	0.0	0	0.0	0	0.0
Total	57	100.0	35	100.0	22	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	1.60	1.67	1.00
Customer accounts receivable financing needs increased	1.40	1.44	1.00
Customer investment in plant or equipment increased	1.50	1.44	2.00
Customer internally generated funds decreased	1.20	1.22	1.00
Customer merger or acquisition financing needs increased	1.30	1.33	1.00
Customer borrowing shifted to your bank from other bank or nonbank credit sources because these other sources became less attractive	1.70	1.78	1.00
Other	1.00	1.00	1.00
Number of banks responding	10	9	1

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	1.77	2.08	1.33
Customer accounts receivable financing needs decreased	1.73	2.08	1.22
Customer investment in plant or equipment decreased	2.23	2.38	2.00
Customer internally generated funds increased	1.27	1.46	1.00
Customer merger or acquisition financing needs decreased	1.73	2.00	1.33
Customer borrowing shifted from your bank to other bank or nonbank credit sources because these other sources became more attractive	1.55	1.77	1.22
Other	1.14	1.15	1.11
Number of banks responding	22	13	9

Banks responding to this survey since mid-2000 have consistently indicated a weakening in demand for C&I loans, and this weakening has been also reflected in substantial declines in C&I loans on bank balance sheets over this period. ***Question 6*** *asks about 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 lines.*

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 inquirires 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	17	29.3	15	41.7	2	9.1
Stayed about the same	30	51.7	14	38.9	16	72.7
Decreased moderately	11	19.0	7	19.4	4	18.2
Decreased substantially	0	0.0	0	0.0	0	0.0
Total	58	100.0	36	100.0	22	100.0

*As interest rates have reached historically low levels, banks have been reporting downward pressure on their net interest margins. **Question 7** asks about measures your bank may have taken to support its net interest margin by adjusting its policies with respect to C&I loans. These measures might include efforts to increase the maturity or risk profile of credit lines, to raise loan fees, or to increase the use of interest rate floors. **Questions 8-9** ask about the use of interest rate floors on C&I loans at your bank.*

7. Over the past six months, how important have the following measures been in supporting the returns on business loans at your bank? (Please rate *each* possible measure using the following scale: 1=not important, 2=somewhat important, 3=very important)

	All Respondents	Large Banks	Other Banks
	Mean	Mean	Mean
Efforts to boost yields by increasing the average maturity of C&I loans or credit lines extended	1.12	1.08	1.18
Efforts to boost yields by increasing the risk profile of your bank's C&I loan portfolio	1.12	1.11	1.14
Increases in fees charged on C&I loans or credit lines	1.69	1.67	1.73
Increases in the use of interest rate floors on C&I loans	1.57	1.42	1.82
Other	1.14	1.17	1.09
Number of banks responding	58	36	22

8. What percentage of the dollar volume of outstanding C&I loans at your bank has interest rate floors?

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Less than 5 percent	41	70.7	29	80.6	12	54.5
Between 5 and 15 percent	12	20.7	5	13.9	7	31.8
Between 15 and 30 percent	3	5.2	1	2.8	2	9.1
Between 30 and 50 percent	2	3.4	1	2.8	1	4.5
50 percent or more	0	0.0	0	0.0	0	0.0
Total	58	100.0	36	100.0	22	100.0

9. For what percentage of the dollar volume of outstanding C&I loans subject to interest rate floors is the floor currently binding?

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Less than 20 percent	36	67.9	24	72.7	12	60.0
Between 20 and 40 percent	5	9.4	2	6.1	3	15.0
Between 40 and 60 percent	6	11.3	2	6.1	4	20.0
Between 60 and 80 percent	2	3.8	1	3.0	1	5.0
80 percent or more	4	7.5	4	12.1	0	0.0
Total	53	100.0	33	100.0	20	100.0

Questions 10-11 *ask about* ***commercial real estate loans*** *at your bank, including construction and land development loans and loans secured by nonfarm nonresidential real estate. Question 10 deals with changes in your bank's standards over the last three months. Question 11 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 accomodative relative to longer-term norms. 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 accomodative 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 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	9	15.5	6	16.7	3	13.6
Remained basically unchanged	48	82.8	30	83.3	18	81.8
Eased somewhat	1	1.7	0	0.0	1	4.5
Eased considerably	0	0.0	0	0.0	0	0.0
Total	58	100.0	36	100.0	22	100.0

11. 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	1	1.7	0	0.0	1	4.5
Moderately stronger	7	12.1	3	8.3	4	18.2
About the same	35	60.3	25	69.4	10	45.5
Moderately weaker	14	24.1	8	22.2	6	27.3
Substantially weaker	1	1.7	0	0.0	1	4.5
Total	58	100.0	36	100.0	22	100.0

Questions 12-13 *ask about* ***residential mortgage loans*** *at your bank. Question 12 deals with changes in your bank's credit standards over the past three months, and question 13 deals with changes in demand over the same period. 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 accomodative 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.*

12. 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	1	1.9	0	0.0	1	5.0
Remained basically unchanged	53	98.1	34	100.0	19	95.0
Eased somewhat	0	0.0	0	0.0	0	0.0
Eased considerably	0	0.0	0	0.0	0	0.0
Total	54	100.0	34	100.0	20	100.0

13. 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	3	5.6	2	5.9	1	5.0
Moderately stronger	22	40.7	11	32.4	11	55.0
About the same	29	53.7	21	61.8	8	40.0
Moderately weaker	0	0.0	0	0.0	0	0.0
Substantially weaker	0	0.0	0	0.0	0	0.0
Total	54	100.0	34	100.0	20	100.0

Questions 14-19 *ask about* ***consumer lending*** *at your bank. Question 14 deals with changes in your bank's willingness to make consumer loans over the past three months. Questions 15-18 deal with changes in credit standards and loan terms over the same period. Question 19 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.*

14. 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	1	2.9	0	0.0
Somewhat more willing	8	14.5	4	11.8	4	19.0
About unchanged	45	81.8	28	82.4	17	81.0
Somewhat less willing	1	1.8	1	2.9	0	0.0
Much less willing	0	0.0	0	0.0	0	0.0
Total	55	100.0	34	100.0	21	100.0

15. 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	32	100.0	19	100.0	13	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	32	100.0	19	100.0	13	100.0

16. 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	5	9.1	4	11.8	1	4.8
Remained basically unchanged	48	87.3	30	88.2	18	85.7
Eased somewhat	2	3.6	0	0.0	2	9.5
Eased considerably	0	0.0	0	0.0	0	0.0
Total	55	100.0	34	100.0	21	100.0

17. 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	3.03	3.06	3.00
Spreads of interest rates charged on outstanding balances over your bank's cost of funds (wider spreads=tightened, narrower spreads=eased)	3.10	3.13	3.08
Minimum percent of outstanding balances required to be repaid each month	3.03	3.06	3.00
Minimum required credit score (increased score=tightened, reduced score=eased)	2.97	3.06	2.85
The extent to which loans are granted to some customers that do not meet credit scoring thresholds (increased=eased, decreased=tightened)	2.93	3.06	2.77
Other	3.00	3.00	3.00
Number of banks responding	29	16	13

18. 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	3.07	3.03	3.14
Spreads of loan rates over your bank's cost of funds (wider spreads=tightened, narrower spreads=eased)	3.09	3.06	3.14
Minimum required downpayment	2.98	2.97	3.00
Minimum required credit score (increased score=tightened, reduced score=eased)	2.96	2.97	2.95
The extent to which loans are granted to some customers that do not meet credit scoring thresholds (increased=eased, decreased=tightened)	2.91	2.94	2.86
Other	2.98	2.97	3.00
Number of banks responding	54	33	21

19. 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	1	1.8	0	0.0	1	4.8
Moderately stronger	20	36.4	14	41.2	6	28.6
About the same	31	56.4	19	55.9	12	57.1
Moderately weaker	3	5.5	1	2.9	2	9.5
Substantially weaker	0	0.0	0	0.0	0	0.0
Total	55	100.0	34	100.0	21	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 August 2003)

***Questions 1-5** 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. 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	2	11.8
Remained basically unchanged	13	76.5
Eased somewhat	2	11.8
Eased considerably	0	0.0
Total	17	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	2.59
Costs of credit lines	2.88
Spreads of loan rates over your bank's cost of funds (wider spreads=tightened, narrower spreads=eased)	2.94
Premiums charged on riskier loans	2.65
Loan covenants	2.88
Collateralization requirements	2.88
Other	3.00
Total	17

1. As of March 31, 2003, the 17 respondents had combined assets of $329 billion, compared to $960 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	1.33
Less favorable or more uncertain economic outlook	2.33
Worsening of industry-specific problems	2.17
Less aggressive competition from other banks or nonbank lenders (other financial intermediaries or the capital markets)	1.00
Reduced tolerance for risk	2.00
Decreased liquidity in the secondary market for these loans	1.17
Increase in defaults by borrowers in public debt markets	2.00
Other	1.00
Number of banks responding	6

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

	All Respondents
	Mean
Improvement in your bank's current or expected capital position	1.75
More favorable or less uncertain economic outlook	1.25
Improvement in industry-specific problems	1.25
More aggressive competition from other banks or nonbank lenders (other financial intermediaries or the capital markets)	2.25
Increased tolerance for risk	1.25
Increased liquidity in the secondary market for these loans	1.75
Reduction in defaults by borrowers in public debt markets	1.50
Other	1.00
Number of banks responding	4

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	3	17.6
About the same	11	64.7
Moderately weaker	2	11.8
Substantially weaker	1	5.9
Total	17	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	2.00
Customer accounts receivable financing needs increased	1.33
Customer investment in plant or equipment increased	1.33
Customer internally generated funds decreased	1.00
Customer merger or acquisition financing needs increased	2.00
Customer borrowing shifted to your bank from other bank or nonbank sources because these other sources became less attractive	1.33
Other	1.00
Number of banks responding	3

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

	All Respondents
	Mean
Customer inventory financing needs decreased	1.67
Customer accounts receivable financing needs decreased	1.67
Customer investment in plant or equipment decreased	2.00
Customer internally generated funds increased	2.00
Customer merger or acquisition financing needs decreased	2.00
Customer borrowing shifted from your bank to other bank or nonbank credit sources because these other sources became more attractive	1.67
Other	2.00
Number of banks responding	3

Banks responding to this survey since mid-2000 have consistently indicated a weakening in demand for C&I loans, and this weakening has been also reflected in substantial declines in C&I loans on bank balance sheets over this period. ***Question 6*** *asks about 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 lines.*

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 inquirires for additional C&I lines as opposed to the refinancing of existing loans.)

	All Respondents	
	Banks	Pct
Increased substantially	1	5.9
Increased moderatly	4	23.5
Stayed about the same	9	52.9
Decreased moderately	3	17.6
Decreased substantially	0	0.0
Total	17	100.0

*As interest rates have reached historically low levels, banks have been reporting downward pressure on their net interest margins. **Question 7** asks about measures your bank may have taken to support its net interest margin by adjusting its policies with respect to C&I loans. These measures might include efforts to increase the maturity or risk profile of credit lines, to raise loan fees, or to increase the use of interest rate floors. **Questions 8-9** ask about the use of interest rate floors on C&I loans at your bank.*

7. Over the past six months, how important have the following measures been in supporting the returns on business loans at your bank? (Please rate *each* possible measure using the following scale: 1=not important, 2=somewhat important, 3=very important)

	All Respondents
	Mean
Efforts to boost yields by increasing the average maturity of C&I loans or credit lines extended	1.13
Efforts to boost yields by increasing the risk profile of your bank's C&I loan portfolio	1.06
Increases in fees charged on C&I loans or credit lines	1.81
Increases in the use of interest rate floors on C&I loans	1.13
Other	1.06
Number of banks responding	16

8. What percentage of the dollar volume of outstanding C&I loans at your bank has interest rate floors?

	All Respondents	
	Banks	Pct
Less than 5 percent	15	100.0
Between 5 percent and 15 percent	0	0.0
Between 15 percent and 30 percent	0	0.0
Between 30 percent and 50 percent	0	0.0
50 percent or more	0	0.0
Total	15	100.0

9. For what percentage of the dollar volume of outstanding C&I loans subject to interest rate floors is the floor currently binding?

	All Respondents	
	Banks	Pct
Less than 20 percent	8	100.0
Between 20 percent and 40 percent	0	0.0
Between 40 percent and 60 percent	0	0.0
Between 60 percent and 80 percent	0	0.0
80 percent or more	0	0.0
Total	8	100.0

Questions 10-11 *ask about* ***commercial real estate loans*** *at your bank, including construction and land development loans and loans secured by nonfarm nonresidential real estate. Question 10 deals with changes in your bank's standards over the last three months. Question 11 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 accomodative relative to longer-term norms. 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 accomodative 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 for commercial real estate loans changed?

	All Respondents	
	Banks	Pct
Tightened considerably	0	0.0
Tightened somewhat	1	9.1
Remained basically unchanged	10	90.9
Eased somewhat	0	0.0
Eased considerably	0	0.0
Total	11	100.0

11. 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	10.0
About the same	7	70.0
Moderately weaker	2	20.0
Substantially weaker	0	0.0
Total	10	100.0