

Table 2

SENIOR LOAN OFFICER OPINION SURVEY ON BANK LENDING PRACTICES  
AT SELECTED BRANCHES AND AGENCIES OF FOREIGN BANKS IN THE UNITED STATES<sup>1</sup>  
(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
<b>Total</b>	<b>17</b>	<b>100.0</b>

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
<b>Total</b>	<b>17</b>

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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
<b>Total</b>	<b>17</b>	<b>100.0</b>

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
<b>Number of banks responding</b>	<b>3</b>

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
<b>Number of banks responding</b>	<b>3</b>

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 inquiries 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
<b>Total</b>	<b>17</b>	<b>100.0</b>

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 accommodative 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 accommodative 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
<b>Total</b>	<b>11</b>	<b>100.0</b>

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
<b>Total</b>	<b>10</b>	<b>100.0</b>