

Table 2

SENIOR LOAN OFFICER OPINION SURVEY ON BANK LENDING PRACTICES
AT SELECTED BRANCHES AND AGENCIES OF FOREIGN BANKS IN THE UNITED STATES¹
(Status of policy as of April 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	14	70.0
Eased somewhat	6	30.0
Eased considerably	0	0.0
Total	20	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	3.45
Costs of credit lines	3.30
Spreads of loan rates over your bank's cost of funds (wider spreads=tightened, narrower spreads=eased)	3.40
Premiums charged on riskier loans	3.25
Loan covenants	3.25
Collateralization requirements	3.10
Other	3.00
Total	20

1. As of December 31, 2003, the 20 respondents had combined assets of \$360 billion, compared to \$944 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	1.82
More favorable or less uncertain economic outlook	1.82
Improvement in industry-specific problems	1.18
More aggressive competition from other banks or nonbank lenders (other financial intermediaries or the capital markets)	2.09
Increased tolerance for risk	1.36
Increased liquidity in the secondary market for these loans	1.45
Reduction in defaults by borrowers in public debt markets	1.45
Other	1.18
Number of banks responding	11

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	4	20.0
About the same	11	55.0
Moderately weaker	5	25.0
Substantially weaker	0	0.0
Total	20	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	1.40
Customer accounts receivable financing needs increased	1.00
Customer investment in plant or equipment increased	1.40
Customer internally generated funds decreased	1.00
Customer merger or acquisition financing needs increased	1.60
Customer borrowing shifted to your bank from other bank or nonbank sources because these other sources became less attractive	1.20
Other	1.20
Number of banks responding	5

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

	All Respondents
	Mean
Customer inventory financing needs decreased	1.50
Customer accounts receivable financing needs decreased	1.50
Customer investment in plant or equipment decreased	1.33
Customer internally generated funds increased	2.00
Customer merger or acquisition financing needs decreased	1.33
Customer borrowing shifted from your bank to other bank or nonbank credit sources because these other sources became more attractive	2.17
Other	1.17
Number of banks responding	6

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	35.0
Stayed about the same	13	65.0
Decreased moderately	0	0.0
Decreased substantially	0	0.0
Total	20	100.0

Questions 7-8 ask about **commercial real estate loans** at your bank, including construction and land development loans and loans secured by nonfarm nonresidential real estate. Question 7 deals with changes in your bank's standards over the last three months. Question 8 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.

7. 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	11	84.6
Eased somewhat	1	7.7
Eased considerably	0	0.0
Total	13	100.0

8. 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	2	16.7
About the same	8	66.7
Moderately weaker	2	16.7
Substantially weaker	0	0.0
Total	12	100.0

*With short-term interest rates at historically low levels, the yields on many bank assets are correspondingly low and the funding cost advantage of noninterest-bearing funding sources is reduced, putting pressure on bank net interest margins. At the same time, the yield curve is quite steep and risk spreads on credit instruments have narrowed considerably. Against this backdrop, **Question 9** asks how your bank has adjusted its investment and pricing behavior.*

9. Over the past **twelve** months, how has your bank adjusted the following aspects of its investment and pricing behavior? (Please assign each aspect a number between 1 and 5 using the following scale: 1=increased considerably, 2=increased somewhat, 3=remained basically unchanged, 4=decreased somewhat, 5=decreased considerably.)

	All Respondents
	Mean
The desired credit risk of your bank's new loans or investments	2.75
The desired interest-rate risk of your bank, as reflected in the average duration of your bank's assets relative to that of its liabilities	3.00
The fees that your bank charges borrowers and depositors	3.10
Other	3.00
Number of banks responding	20