Board of Governors of the Federal Reserve System

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

The October 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, a series of questions on banks' participation in the secondary market for C&I loans, and a question on loans secured by real estate but used for purposes other than the acquisition or improvement of real estate. Responses were received from fifty-eight domestic and twenty-one foreign banking institutions.

Almost all domestic banks and U.S. branches and agencies of foreign banks indicated that lending standards were basically unchanged over the past three months for all types of loans. In addition, for the second consecutive survey, small net fractions of domestic banks reported easing spreads on C&I loans and on credit card loans. Banks that eased lending conditions on C&I loans frequently reported doing so in response to increased competition from nonbank lenders.

On the demand side, also for the second consecutive survey, the net fraction of banks that reported weaker demand for C&I loans declined, to less than 15 percent for borrowers of all sizes. Demand for commercial real estate loans at domestic banks weakened at about the same pace as in the previous survey (August 2003). Meanwhile, respondents indicated that demand for mortgage loans to purchase homes declined over the past three months, the first reported weakness in two years.[1] Demand for consumer loans, however, reportedly continued to strengthen, though at a less rapid pace than in August.

The large majority of domestic banks with assets of more than $20 billion and U.S. branches and agencies of foreign banks reported selling adversely rated loans in the secondary loan market over the past two years. Domestic banks indicated that the most important reason for doing so was to reduce the level of risk in their C&I loan portfolios as a whole, while foreign institutions ranked reducing their exposure to individual borrowers

1. . Although banks are asked to consider only new originations when answering this question, historically there has been fairly high correlation between responses to this question and the volume of mortgage refinancing.

highest. Investment banks and other nonbank financial institutions were reportedly the primary purchasers of adversely rated loans.

Lending to Businesses
(Table 1, questions 1-14; Table 2, questions 1-14)

In the October survey, domestic banks, on net, reported that lending standards on C&I loans for firms of all sizes were about unchanged. In contrast, a small percentage had tightened standards on those loans in the August survey. However, the largest domestic banks in the sample—those with assets of more than $20 billion—eased their lending standards, on net, over the past three months. A small net fraction of U.S. branches and agencies of foreign banks also eased lending standards, including one foreign bank that reported it had eased standards “considerably.”

For the second consecutive survey, modest net fractions of domestic banks reported reducing the spreads of loan rates over the cost of funds for borrowers of all sizes. Domestic banks also reported easing terms on credit lines for larger borrowers, with 10 percent of respondents, on net, increasing the maximum size of credit lines and 5 percent, on net, reducing the cost of these lines. As with standards, the easing of terms generally occurred at the largest banks in the sample, while smaller banks continued to tighten most terms, on net. This movement reverses the pattern on surveys between the middle of 2000 and the end of 2002, in which the largest banks had been more likely than other banks to report tightening standards and terms. Foreign institutions, on net, reported no change in spreads on loans or in the cost or size of credit lines. As in August, however, moderate net fractions of domestic and foreign institutions increased the risk premiums charged on loans to their riskiest borrowers, and small fractions tightened collateral requirements.

Nearly 70 percent of the domestic banks that reported tightening standards and terms on C&I loans continued to report a reduced tolerance for risk as an important reason for doing so. About 80 percent of the domestic and foreign banks that tightened lending standards or terms indicated that concern about the economic outlook was at least a somewhat important reason for tightening; but a similar percentage of the institutions that eased standards or terms cited an improved economic outlook as a reason for doing so. Moreover, although the percentages of banking institutions tightening standards and terms that cited concern about the economic outlook and industry-specific problems were higher than in August, they represented a much smaller number of banks because fewer institutions reported tightening standards and terms. Increased competition from other banks or nonbanks was cited by all of the foreign banks that eased lending conditions and about 80 percent of the domestic banks that did so.

The October survey indicates that the deterioration in demand from commercial borrowers has slowed and shows signs of stabilizing. Although 12 percent of domestic banks, on net, reported that demand for C&I loans from large and middle-market borrowers had weakened over the previous three months, that percentage is down significantly from the 22 percent that reported weaker loan demand in August and from the 40 percent that had reported weaker demand in April. In the current survey, only 4 percent of domestic banks, on net, reported weaker demand from small firms, whereas 12 percent, on net, had reported weaker demand in August. About 20 percent of domestic respondents and 35 percent of the largest banks, on net, indicated that inquiries from potential business borrowers had increased, up from only 10 percent and 20 percent, respectively, in August. U.S. branches and agencies of foreign banks reported no change in demand, on net, over the past three months, but 24 percent of these institutions, on net, indicated that the flow of inquiries from potential customers had picked up.

On net, banks continued to cite reduced investment in plant and equipment as the most important reason for weaker demand for C&I loans. A small net percentage of banks reported that demand for credit to finance inventories and accounts receivable had decreased. Several respondents said that demand for C&I loans had risen in part because borrowing had shifted to their bank from other credit sources; however, other domestic and foreign banks indicated that increased competition had reduced demand at their institutions. Demand for loans to finance mergers and acquisitions, which had previously been a frequently cited reason for weaker demand, was reported to have nearly stabilized, on net, in October.

The secondary market for C&I loans. Most of the domestic survey respondents with assets of more than $20 billion and nearly all of the U.S. branches and agencies of foreign banks indicated that they had sold adversely rated loans (those rated as special mention or classified as substandard, doubtful, or loss) in the secondary market at some time during the past two years. Almost 20 percent of the largest banks indicated that they sold more than 10 percent of those loans, while about 60 percent of all domestic banks that participated in the secondary market sold less than 5 percent of their adversely rated loans. Foreign institutions used the secondary market to reduce their exposure to these credits somewhat more aggressively: About one-third had sold more than 10 percent of their problem credits.

The most important reasons domestic banks gave for selling adversely rated loans were to trim the overall credit risk of their portfolio and to reduce exposure to particular firms. On average, domestic banks ranked the price that they obtained in the secondary market relative to their perception of the loan's value as a less important motive for selling than reducing credit risk. By contrast, foreign institutions on average ranked the attractiveness of the price as a close second to reducing exposure to particular firms.

Investment banks purchased about 50 percent of the adversely rated loans sold by domestic banks and more than 40 percent of those sold by U.S. branches and agencies of foreign banks. Nearly 25 percent of the adversely rated credits sold by domestic banks, and 30 percent of such loans at foreign banks, were bought by nonbank financial institutions, such as hedge funds and distressed debt funds, or other private investors. About 15 percent of the adversely rated loans sold by domestic banks reportedly went to other U.S. commercial banks, and about the same percentage of those loans sold by foreign banks were said to have been purchased by U.S. commercial banks. Among domestic banks that sold a significant share—more than 10 percent—of their adversely rated loans on the secondary market, purchasers were mainly investment banks, distressed-loan funds, or private venture groups.

Banks were also asked to indicate the shares of any loans (adversely rated or other) that they sold at specified ratios of the secondary market price to face value. As industry reports also indicate, the distressed market was very important for banking institutions that wanted to unload deteriorating credits. Domestic banks reported that, on average, almost 35 percent of loan sales were at 75 percent or less of face value and about 50 percent of the loans were sold for 85 percent or less. At foreign banks, the shares were similar, 31 percent and 47 percent respectively. About 25 percent of the loans sold by domestic banks and 28 percent of the loans sold by foreign banks, on average, were sold at between 95 percent and 100 percent of par, and a small percentage of loans were sold above par.

A much smaller fraction of domestic banks—about 25 percent—reported that they had purchased loans in the secondary market, and those that did tended to purchase only loans that were trading above 90 percent of their face value. Foreign institutions were much more active purchasers of loans, though they too tended to buy only loans trading above 90 percent of face value.

Commercial real estate lending. Domestic banks reported that standards on commercial real estate loans were about unchanged, on net, over the past three months; the response ended a long period in which they had continuously tightened standards. One foreign bank reported easing standards on these loans. Demand for commercial real estate loans continued to erode at domestic banks, with 10 percent, on net, reporting a decline in demand in the October survey, about the same as in August, while at foreign institutions demand was unchanged. On net, 5 percent of domestic banks reported that there had been a slight increase over the past year in the volume of loans to commercial and industrial firms secured by real estate but used for purposes other than the acquisition or improvement of real estate. Thus, increases in such loans have apparently not contributed significantly to the decline in C&I loans over the same period, at least at respondent banks.

Lending to Households
(Table 1, questions 15-22)

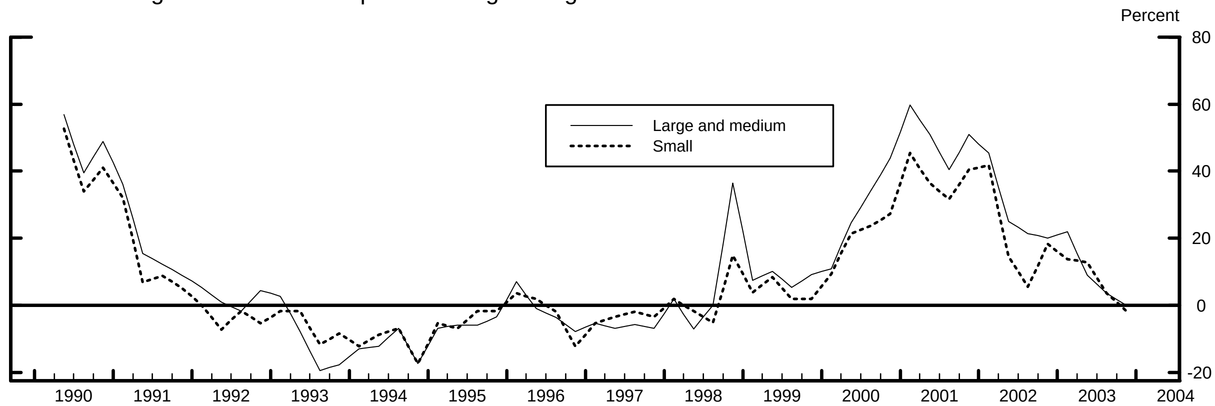
Demand for mortgages to purchase homes reportedly weakened over the past three months. On net, 19 percent of domestic banks reported weaker demand for residential mortgage loans, whereas in August, 46 percent of banks had reported increased demand for mortgages. However, banks may find it hard to separate mortgage originations used to buy homes from those used to refinance existing mortgages. Concurrently, banks reported no change, on net, in lending standards on residential mortgages, about what they reported in the August survey.

Fourteen percent of banks, on net, indicated that they were more willing to make consumer loans in the current survey, about the same share as in August. Consistent with this report, only one bank tightened standards on credit card loans and, as had been the case in the past two surveys, a small net fraction of banks reported easing spreads on credit card loans. Only one bank tightened standards on other types of consumer loans, but 8 percent, on net, reported increasing spreads on those loans. In addition, 10 percent of banks increased the minimum credit score required to obtain a credit card loan, and 6 percent, on net, did so for other types of consumer loans. About 20 percent of respondents indicated that they had reduced the extent to which they were willing to grant credit card loans to individuals who did not meet credit scoring thresholds, while 11 percent of domestic banks, on net, had done so for other types of consumer loans. About 4 percent of respondents, on net, indicated an increase in demand, compared with an unusually large 30 percent that had reported stronger demand in the August survey.

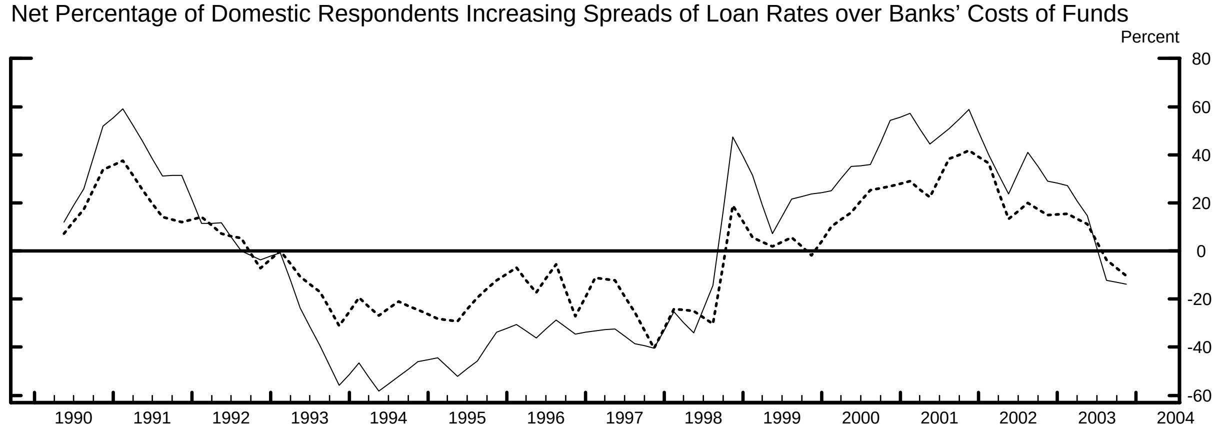
This document was prepared by William Bassett and Mark Carlson with the research assistance of Jason Grimm and Steve Piraino, Division of Monetary Affairs, Board of Governors of the Federal Reserve System.

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

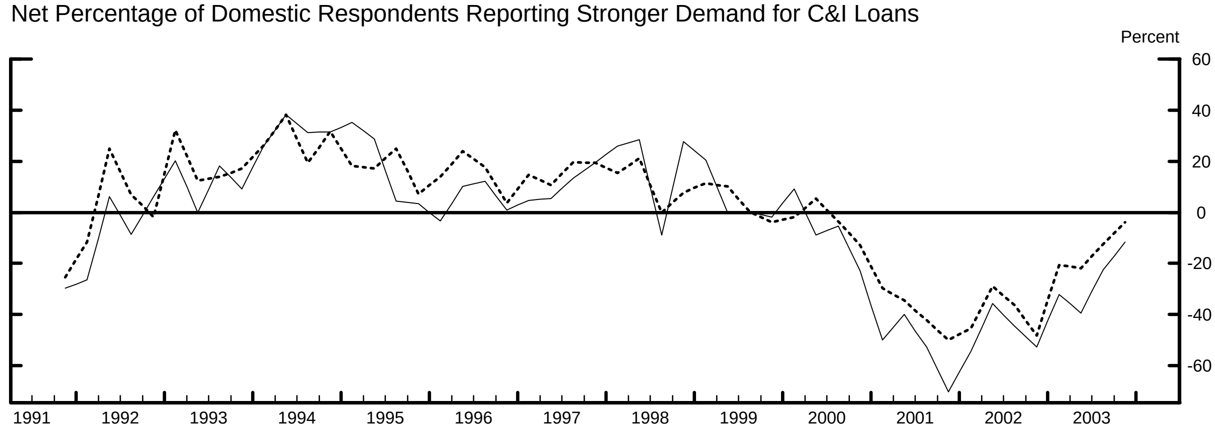
Net Percentage of Domestic Respondents Tightening Standards for C&I Loans



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

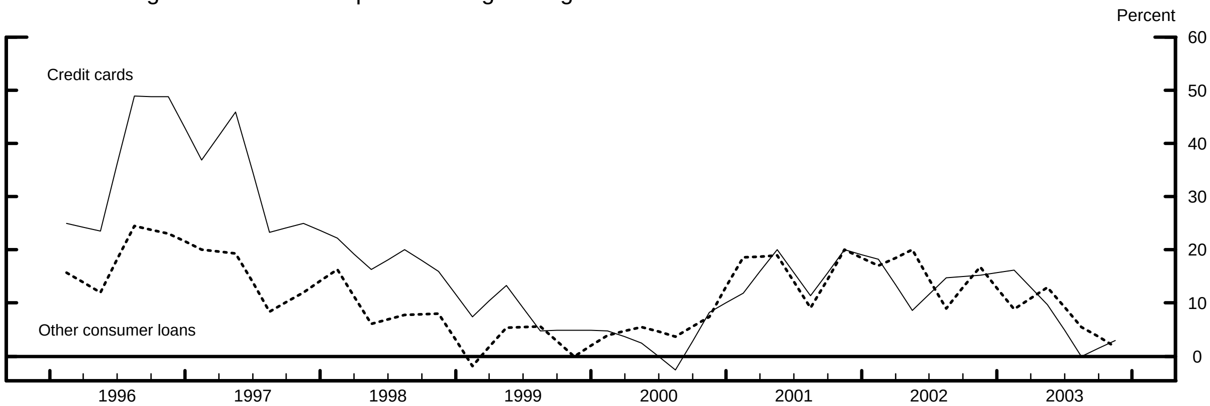


Net Percentage of Domestic Respondents Reporting Stronger Demand for C&I Loans

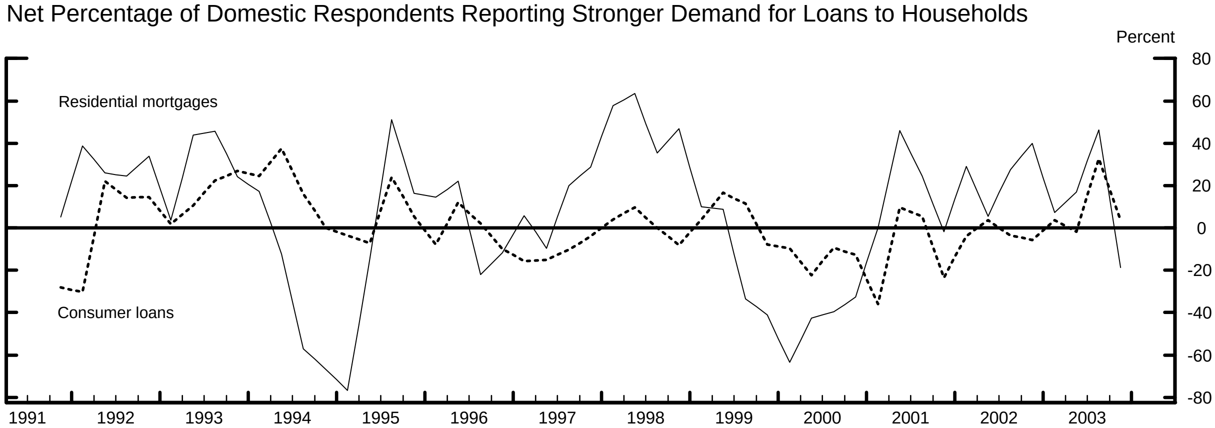


Measures of Supply and Demand for Loans to Households

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

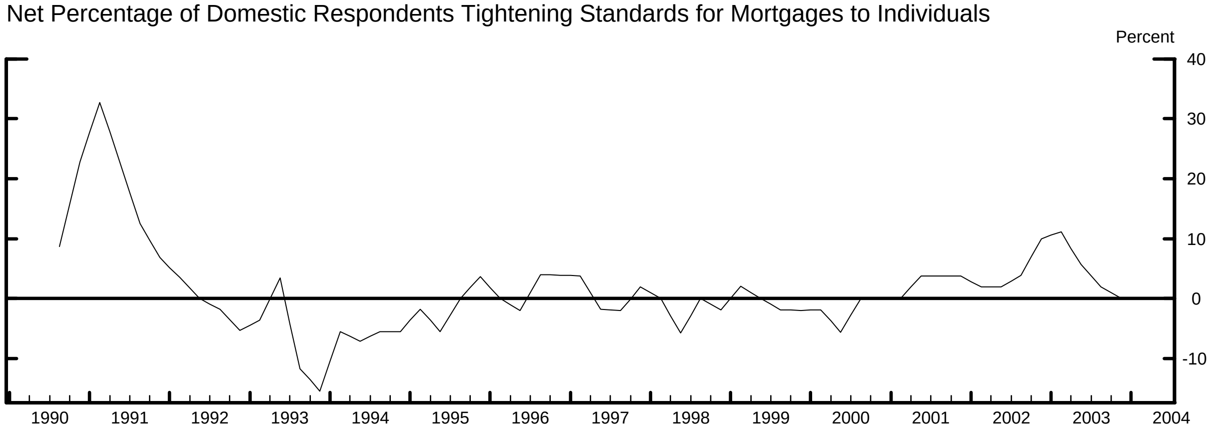


Table 1

SENIOR LOAN OFFICER OPINION SURVEY ON BANK LENDING PRACTICES
AT SELECTED LARGE BANKS IN THE UNITED STATES[1]
(Status of policy as of October 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	2.9	2	8.7
Remained basically unchanged	52	89.7	31	88.6	21	91.3
Eased somewhat	3	5.2	3	8.6	0	0.0
Eased considerably	0	0.0	0	0.0	0	0.0
Total	58	100.0	35	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	4	7.0	2	5.9	2	8.7
Remained basically unchanged	48	84.2	28	82.4	20	87.0
Eased somewhat	5	8.8	4	11.8	1	4.3
Eased considerably	0	0.0	0	0.0	0	0.0
Total	57	100.0	34	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 June 30, 2003. The combined assets of the 35 large banks totaled $3.57 trillion, compared to $3.81 trillion for the entire panel of 58 banks, and $6.57 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	3.09	3.23	2.87
Costs of credit lines	3.05	3.17	2.87
Spreads of loan rates over your bank's cost of funds (wider spreads=tightened, narrower spreads=eased)	3.14	3.17	3.09
Premiums charged on riskier loans	2.79	2.86	2.70
Loan covenants	2.95	3.00	2.87
Collateralization requirements	2.91	2.97	2.83
Other	3.00	3.00	3.00
Number of banks responding	58	35	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	3.00	3.09	2.87
Costs of credit lines	3.00	3.12	2.83
Spreads of loan rates over your bank's cost of funds (wider spreads=tightened, narrower spreads=eased)	3.11	3.18	3.00
Premiums charged on riskier loans	2.79	2.85	2.70
Loan covenants	3.00	3.09	2.87
Collateralization requirements	2.98	3.06	2.87
Other	3.02	3.03	3.00
Number of banks responding	57	34	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	1.00	1.00	1.00
Less favorable or more uncertain economic outlook	1.81	1.75	1.88
Worsening of industry-specific problems	1.56	1.38	1.75
Less aggressive competition from other banks or nonbank lenders (other financial intermediaries or the capital markets)	1.25	1.13	1.38
Reduced tolerance for risk	1.94	2.13	1.75
Decreased liquidity in the secondary market for these loans	1.31	1.38	1.25
Increase in defaults by borrowers in public debt markets	1.13	1.25	1.00
Other	1.00	1.00	1.00
Number of banks responding	16	8	8

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	1.11	1.15	1.00
More favorable or less uncertain economic outlook	1.79	2.00	1.33
Improvement in industry-specific problems	1.37	1.46	1.17
More aggressive competition from other banks or nonbank lenders (other financial intermediaries or the capital markets)	2.21	2.46	1.67
Increased tolerance for risk	1.37	1.46	1.17
Increased liquidity in the secondary market for these loans	1.26	1.38	1.00
Reduction in defaults by borrowers in public debt markets	1.32	1.46	1.00
Other	1.11	1.00	1.33
Number of banks responding	19	13	6

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	11.5	5	15.6	1	5.0
About the same	34	65.4	21	65.6	13	65.0
Moderately weaker	12	23.1	6	18.8	6	30.0
Substantially weaker	0	0.0	0	0.0	0	0.0
Total	52	100.0	32	100.0	20	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	8	15.7	6	19.4	2	10.0
About the same	33	64.7	19	61.3	14	70.0
Moderately weaker	10	19.6	6	19.4	4	20.0
Substantially weaker	0	0.0	0	0.0	0	0.0
Total	51	100.0	31	100.0	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 4A or 4B), possible reasons:

	All Respondents	Large Banks	Other Banks
	Mean	Mean	Mean
Customer inventory financing needs increased	1.54	1.50	1.67
Customer accounts receivable financing needs increased	1.46	1.50	1.33
Customer investment in plant or equipment increased	1.54	1.40	2.00
Customer internally generated funds decreased	1.15	1.20	1.00
Customer merger or acquisition financing needs increased	1.54	1.70	1.00
Customer borrowing shifted to your bank from other bank or nonbank credit sources because these other sources became less attractive	1.62	1.70	1.33
Other	1.00	1.00	1.00
Number of banks responding	13	10	3

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	1.88	2.20	1.43
Customer accounts receivable financing needs decreased	1.82	2.20	1.29
Customer investment in plant or equipment decreased	2.29	2.40	2.14
Customer internally generated funds increased	1.59	1.80	1.29
Customer merger or acquisition financing needs decreased	1.59	1.60	1.57
Customer borrowing shifted from your bank to other bank or nonbank credit sources because these other sources became more attractive	1.59	1.60	1.57
Other	1.00	1.00	1.00
Number of banks responding	17	10	7

Banks responding to this survey since mid-2000 have consistently indicated a weakening in demand for C&I loans, and this weakening has also been reflected in substantial declines in C&I loans on bank balance sheets over this period. ***Question 6*** *asks about* *<u>prospective</u>* *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		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Increased substantially	0	0.0	0	0.0	0	0.0
Increased moderately	18	32.1	14	42.4	4	17.4
Stayed about the same	30	53.6	16	48.5	14	60.9
Decreased moderately	8	14.3	3	9.1	5	21.7
Decreased substantially	0	0.0	0	0.0	0	0.0
Total	56	100.0	33	100.0	23	100.0

Trading volume in the secondary market for C&I loans has increased substantially over the past decade. ***Questions 7-11*** *ask about your bank's participation in this market over the past* *<u>two years</u>*. *Questions 7-9 focus on trading in adversely rated loans. Questions 10-11 ask about the prices at which your bank has sold or purchased loans-- whether adversely rated or not-- in this market.*

7. Over the past *two years*, about what share of the adversely rated loans (those rated as special mention or classified as substandard, doubtful, and loss) that were on your bank's books did your bank sell in the secondary market?

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
None	15	26.8	3	8.8	12	54.5
Less than 5 percent	24	42.9	19	55.9	5	22.7
Between 5 and 10 percent	11	19.6	6	17.6	5	22.7
Between 10 and 15 percent	2	3.6	2	5.9	0	0.0
Between 15 and 20 percent	3	5.4	3	8.8	0	0.0
More than 20 percent	1	1.8	1	2.9	0	0.0
Total	56	100.0	34	100.0	22	100.0

8. If your bank sold adversely rated loans in the secondary market over the past *two years* (answers 2-6 to question 7), please rank, in order of their importance, the following possible reasons for selling these loans. (Please assign the most important reason a rank of 1, and the next most important reason a rank or 2, etc.)

	All Respondents	Large Banks	Other Banks
	Mean	Mean	Mean
To reduce the overall credit risk of you bank's portfolio	1.86	1.94	1.64
To reduce your bank's exposure to particular industries	3.21	3.23	3.18
To reduce your bank's exposure to particular firms	2.24	2.23	2.27
The price was attractive given your bank's perception of the loans' value	2.65	2.69	2.55
Other	4.76	4.70	4.91
Number of banks responding	43	32	11

9. If your bank sold adversely rated loans in the secondary market over the past two years (answers 2-6 to question 7), please indicate the approximate percentage of those loans purchased by the following entities (percentages should total 100 percent):

	All Respondents	Large Banks	Other Banks
	Mean	Mean	Mean
Other U.S. commercial banks	17.19	11.52	32.50
Foreign banking organizations	7.00	5.63	10.70
Investment banks	50.14	54.63	38.00
Insurance companies	1.08	1.11	1.00
Collateralized loan obligations (CLOs) or collateralized debt obligations (CDOs)	2.00	2.37	1.00
Other nonbank financial institutions	13.27	17.52	1.80
Other	9.32	7.22	15.00
Number of banks responding	37	27	10

10. If your bank sold *any* loans in the secondary market (adversely rated or other) over the past *two years*, please indicate the approximate percentage of those loans sold at the following ratios to face value (percentages should total 100 percent):

	All Respondents	Large Banks	Other Banks
	Mean	Mean	Mean
Share sold at more than 100 percent of face value	7.12	9.73	0.00
Share sold at 95 percent to 100 percent of face value	24.19	26.66	17.45
Share sold at 90 percent to 95 percent of face value	10.46	7.53	18.45
Share sold at 85 percent to 90 percent of face value	9.04	7.76	12.55
Share sold at 75 percent to 85 percent of face value	14.42	13.94	15.73
Share sold at less than 75 percent of face value	34.76	34.38	35.82
Number of banks responding	41	30	11

11. If your bank purchased *any* loans in the secondary market (adversely rated or other) over the past *two years*, please indicate the approximate percentage of those loans purchased at the following ratios to face value (percentages should total 100 percent):

	All Respondents	Large Banks	Other Banks
	Mean	Mean	Mean
Share purchased at more than 100 percent of face value	17.07	9.90	35.00
Share purchased at 95 percent to 100 percent of face value	65.29	65.40	65.00
Share purchased at 90 percent to 95 percent of face value	6.21	8.70	0.00
Share purchased at 85 percent to 90 percent of face value	6.79	9.50	0.00
Share purchased at 75 percent to 85 percent of face value	2.50	3.50	0.00
Share purchased at less than 75 percent of face value	2.14	3.00	0.00
Number of banks responding	14	10	4

Questions 12-14 *ask about* ***commercial real estate loans*** *at your bank, including construction and land development loans and loans secured by nonfarm nonresidential real estate. Question 12 deals with changes in your bank's standards over the last three months. Question 13 deals with changes in demand. Question 14 asks about commercial real estate loans to commercial and industrial firms that are used for purposes other than the acquisition or improvement of real estate. 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 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 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	4	7.0	4	11.4	0	0.0
Remained basically unchanged	49	86.0	28	80.0	21	95.5
Eased somewhat	4	7.0	3	8.6	1	4.5
Eased considerably	0	0.0	0	0.0	0	0.0
Total	57	100.0	35	100.0	22	100.0

13. 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	5	8.8	1	2.9	4	18.2
About the same	41	71.9	27	77.1	14	63.6
Moderately weaker	11	19.3	7	20.0	4	18.2
Substantially weaker	0	0.0	0	0.0	0	0.0
Total	57	100.0	35	100.0	22	100.0

14. The weekly and quarterly Reports of Condition specify that any extension of credit that is secured by real estate is to be reported as a real estate loan. Relative to one year ago, how has the volume of loans to commercial and industrial firms secured by real estate but used for purposes other than the acquisition or improvement of real estate changed at your bank?

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Decreased considerably	0	0.0	0	0.0	0	0.0
Decreased somewhat	6	10.3	3	8.6	3	13.0
Remained basically unchanged	43	74.1	28	80.0	15	65.2
Increased somewhat	9	15.5	4	11.4	5	21.7
Increased considerably	0	0.0	0	0.0	0	0.0
Total	58	100.0	35	100.0	23	100.0

Questions 15-16 *ask about* ***residential mortgage loans*** *at your bank. Question 15 deals with changes in your bank's credit standards over the past three months, and question 16 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.*

15. 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	4.8
Remained basically unchanged	52	96.3	32	97.0	20	95.2
Eased somewhat	1	1.9	1	3.0	0	0.0
Eased considerably	0	0.0	0	0.0	0	0.0
Total	54	100.0	33	100.0	21	100.0

16. 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	0	0.0	0	0.0	0	0.0
Moderately stronger	4	7.4	3	9.1	1	4.8
About the same	36	66.7	21	63.6	15	71.4
Moderately weaker	13	24.1	9	27.3	4	19.0
Substantially weaker	1	1.9	0	0.0	1	4.8
Total	54	100.0	33	100.0	21	100.0

Questions 17-22 *ask about* ***consumer lending*** *at your bank. Question 17 deals with changes in your bank's willingness to make consumer loans over the past three months. Questions 18-21 deal with changes in credit standards and loan terms over the same period. Question 22 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.*

17. 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	14.3	5	14.7	3	13.6
About unchanged	46	82.1	27	79.4	19	86.4
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	56	100.0	34	100.0	22	100.0

18. 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	1	2.9	1	5.3	0	0.0
Remained basically unchanged	33	97.1	18	94.7	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	34	100.0	19	100.0	15	100.0

19. 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	1	1.8	1	3.0	0	0.0
Remained basically unchanged	54	98.2	32	97.0	22	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	55	100.0	33	100.0	22	100.0

20. 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	3.00	3.07
Spreads of interest rates charged on outstanding balances over your bank's cost of funds (wider spreads=tightened, narrower spreads=eased)	3.10	3.06	3.14
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)	2.90	2.88	2.93
The extent to which loans are granted to some customers that do not meet credit scoring thresholds (increased=eased, decreased=tightened)	2.80	2.75	2.86
Other	3.00	3.00	3.00
Number of banks responding	30	16	14

21. 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	3.04	3.00	3.10
Spreads of loan rates over your bank's cost of funds (wider spreads=tightened, narrower spreads=eased)	2.92	2.94	2.90
Minimum required downpayment	3.00	2.97	3.05
Minimum required credit score (increased score=tightened, reduced score=eased)	2.94	2.94	2.95
The extent to which loans are granted to some customers that do not meet credit scoring thresholds (increased=eased, decreased=tightened)	2.89	2.88	2.90
Other	2.98	2.97	3.00
Number of banks responding	53	32	21

22. 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	7	12.7	5	15.2	2	9.1
About the same	43	78.2	25	75.8	18	81.8
Moderately weaker	5	9.1	3	9.1	2	9.1
Substantially weaker	0	0.0	0	0.0	0	0.0
Total	55	100.0	33	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 October 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	1	4.8
Remained basically unchanged	18	85.7
Eased somewhat	1	4.8
Eased considerably	1	4.8
Total	21	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	3.00
Costs of credit lines	2.95
Spreads of loan rates over your bank's cost of funds (wider spreads=tightened, narrower spreads=eased)	3.00
Premiums charged on riskier loans	2.86
Loan covenants	3.00
Collateralization requirements	2.95
Other	3.00
Total	21

1. As of June 30, 2003, the 21 respondents had combined assets of $380 billion, compared to $977 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	1.00
Less favorable or more uncertain economic outlook	1.80
Worsening of industry-specific problems	1.60
Less aggressive competition from other banks or nonbank lenders (other financial intermediaries or the capital markets)	1.20
Reduced tolerance for risk	1.80
Decreased liquidity in the secondary market for these loans	1.20
Increase in defaults by borrowers in public debt markets	1.40
Other	1.00
Number of banks responding	5

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

	All Respondents
	Mean
Improvement in your bank's current or expected capital position	2.25
More favorable or less uncertain economic outlook	2.00
Improvement in industry-specific problems	1.50
More aggressive competition from other banks or nonbank lenders (other financial intermediaries or the capital markets)	2.25
Increased tolerance for risk	1.75
Increased liquidity in the secondary market for these loans	1.75
Reduction in defaults by borrowers in public debt markets	2.25
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	5	23.8
About the same	11	52.4
Moderately weaker	4	19.0
Substantially weaker	1	4.8
Total	21	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	1.60
Customer accounts receivable financing needs increased	1.40
Customer investment in plant or equipment increased	1.40
Customer internally generated funds decreased	1.00
Customer merger or acquisition financing needs increased	1.40
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	1.33
Customer accounts receivable financing needs decreased	1.17
Customer investment in plant or equipment decreased	1.83
Customer internally generated funds increased	1.67
Customer merger or acquisition financing needs decreased	2.33
Customer borrowing shifted from your bank to other bank or nonbank credit sources because these other sources became more attractive	2.67
Other	1.00
Number of banks responding	6

Banks responding to this survey since mid-2000 have consistently indicated a weakening in demand for C&I loans, and this weakening has also been 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	0	0.0
Increased moderately	6	28.6
Stayed about the same	14	66.7
Decreased moderately	1	4.8
Decreased substantially	0	0.0
Total	21	100.0

Trading volume in the secondary market for C&I loans has increased substantially over the past decade. ***Questions 7-11*** *ask about your bank's participation in this market over the past* *<u>two years</u>. Questions 7-9 focus on trading in adversely rated loans. Questions 10-11 ask about the prices at which your bank has sold or purchased loans--whether adversely rated or not--in this market.*

7. Over the past two years, about what share of the adversely rated loans (those rated as special mention or classified as substandard, doubtful, and loss) that were on your bank's books did your bank sell in the secondary market?

	All Respondents	
	Banks	Pct
None	2	10.5
Less than 5 percent	5	26.3
Between 5 percent and 10 percent	6	31.6
Between 10 percent and 15 percent	3	15.8
Between 15 percent and 20 percent	2	10.5
More than 20 percent	1	5.3
Total	19	100.0

8. If your bank sold adversely rated loans in the secondary market over the past two years (answers 2-6 to question 7), please rank, in order of their importance, the following possible reasons for selling these loans. (Please assign the most important reason a rank of 1, and the next most important reason a rank of 2, etc.)

	All Respondents
	Mean
To reduce the overall credit risk of your bank's portfolio	2.83
To reduce your bank's exposure to particular industries	3.39
To reduce your bank's exposure to particular firms	2.00
The price was attractive given your bank's perception of the loans' values	2.28
Other	4.28
Number of banks responding	18

9. If your bank sold adversely rated loans in the secondary market over the past two years (answers 2-6 to question 7), please indicate the approximate percentage of those loans purchased by the following entities (percentages should total 100 percent):

	All Respondents
	Mean
U.S. commercial banks	18.67
Other foreign banking organizations	5.00
Investment banks	40.33
Insurance companies	0.67
Collateralized loan obligations (CLOs) or collateralized debt obligations (CDOs)	6.00
Other nonbank financial institutions	14.67
Other	14.67
Number of banks responding	15

10. If your bank sold *any* loans in the secondary market (adversely rated or other) over the past *two years*, please indicate the approximate percentage of those loans sold at the following ratios to face value (percentages should total 100 percent):

	All Respondents
	Mean
Share sold at more than 100 percent of face value	1.94
Share sold at 95 percent to 100 percent of face value	28.71
Share sold at 90 percent to 95 percent of face value	8.94
Share sold at 85 percent to 90 percent of face value	13.88
Share sold at 75 percent to 85 percent of face value	15.65
Share sold at less than 75 percent of face value	30.88
Number of banks responding	17

11. If your bank purchased *any* loans in the secondary market (adversely rated or other) over the past *two years*, please indicate the approximate percentage of those loans purchased at the following ratios to face value (percentages should total 100 percent):

	All Respondents
	Mean
Share purchased at more than 100 percent of face value	0.00
Share purchased at 95 percent to 100 percent of face value	84.55
Share purchased at 90 percent to 95 percent of face value	3.41
Share purchased at 85 percent to 90 percent of face value	1.59
Share purchased at 75 percent to 85 percent of face value	1.36
Share purchased at less than 75 percent of face value	9.09
Number of banks responding	11

Questions 12-14 *ask about* ***commercial real estate loans*** *at your bank, including construction and land development loans and loans secured by nonfarm nonresidential real estate. Question 12 deals with changes in your bank's standards over the last three months. Question 13 deals with changes in demand. Question 14 asks about commercial real estate loans to commercial and industrial firms. 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.*

12. 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	0	0.0
Remained basically unchanged	11	91.7
Eased somewhat	1	8.3
Eased considerably	0	0.0
Total	12	100.0

13. 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	4	33.3
About the same	4	33.3
Moderately weaker	4	33.3
Substantially weaker	0	0.0
Total	12	100.0

14. The weekly and quarterly Reports of Condition specify that any extension of credit that is secured by real estate is to be reported as a real estate loan. Relative to *one year ago*, how has the volume of loans to commercial and industrial firms secured by real estate but used for purposes other than the acquisition or improvement of real estate changed at your bank?

	All Respondents	
	Banks	Pct
Decreased considerably	1	9.1
Decreased somewhat	1	9.1
Remained basically unchanged	7	63.6
Increased somewhat	2	18.2
Increased considerably	0	0.0
Total	11	100.0