

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 January 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	1	5.0
Tightened somewhat	5	25.0
Remained basically unchanged	14	70.0
Eased somewhat	0	0.0
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	2.40
Costs of credit lines	2.55
Spreads of loan rates over your bank's cost of funds (wider spreads=tightened, narrower spreads=eased)	2.55
Premiums charged on riskier loans	2.50
Loan covenants	2.75
Collateralization requirements	2.85
Other	2.95
Total	20

1. As of September 30, 2002, the 20 respondents had combined assets of \$308 billion, compared to \$950 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	1.64
Less favorable or more uncertain economic outlook	2.09
Worsening of industry-specific problems	1.73
Less aggressive competition from other banks or nonbank lenders (other financial intermediaries or the capital markets)	1.27
Reduced tolerance for risk	1.82
Decreased liquidity in the secondary market for these loans	1.45
Increase in defaults by borrowers in public debt markets	1.64
Other	1.00
Number of banks responding	11

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

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

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	1	5.0
About the same	14	70.0
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	2.00
Customer accounts receivable financing needs increased	2.00
Customer investment in plant or equipment increased	1.00
Customer internally generated funds decreased	1.00
Customer merger or acquisition financing needs increased	1.00
Customer borrowing shifted to your bank from other bank or nonbank sources because these other sources became less attractive	2.00
Other	1.00
Number of banks responding	1

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

	All Respondents
	Mean
Customer inventory financing needs decreased	1.60
Customer accounts receivable financing needs decreased	1.60
Customer investment in plant or equipment decreased	2.20
Customer internally generated funds increased	1.20
Customer merger or acquisition financing needs decreased	2.20
Customer borrowing shifted from your bank to other bank or nonbank credit sources because these other sources became more attractive	1.20
Other	1.20
Number of banks responding	5

Questions 6-16 ask about **credit default swaps**, which have become an important tool for the management of credit risk for many financial institutions. Please note that the term **credit default swaps (CDS)** in these questions refers to both single name credit default swaps and portfolio credit default swaps. Questions 6-12 focus on your bank's experience with CDS both as a buyer of credit protection (beneficiary) and as a seller (guarantor). Questions 13-15 deal with liquidity conditions in the market. Question 16 explores the reasons why some banks do not participate in the CDS market. If your bank neither purchases nor sells credit protection in the CDS market, please omit questions 6-14.

6. For what percentage of the current dollar volume of your bank's total C&I loan commitments (outstanding loans plus unused lines of credit) have you purchased credit protection with credit default swaps (CDS)?

	All Respondents	
	Banks	Pct
0 percent	9	50.0
More than 0 but less than 2 percent	1	5.6
Between 2 and 4 percent	3	16.7
Between 4 and 8 percent	0	0.0
Between 8 and 15 percent	3	16.7
More than 15 percent	2	11.1
Total	18	100.0

7. If your bank has been purchasing credit protection for C&I loan exposures using CDS (answers 2-6 in question 6), how important have been each of the following possible reasons for doing so? (Please respond to each reason according to the following scale: 1=not important, 2=somewhat important, 3=very important.)

	All Respondents
	Mean
Buying protection with a CDS is superior to selling a loan because relationships with firms are not compromised as they can be with loan sales.	2.56
Buying protection with a CDS is superior to selling or securitizing a loan because it is less expensive or less burdensome.	1.67
Buying protection with a CDS is a way to reduce risk for loans for which no resale or securitization market exists	2.00
Other (please specify)	1.11
Number of banks responding	9

8. As a percentage of your banks' total C&I loan commitments (outstanding loans plus unused credit lines), how much credit exposure has your bank acquired by selling credit protection in CDS. (Please include only your activity as a position taker in the CDS market; exclude credit protection sold to offset credit protection purchased as part of market making conducted by your bank's CDS dealer operations, if applicable.)

	All Respondents	
	Banks	Pct
0 percent	12	66.7
More than 0 but less than 2 percent	5	27.8
Between 2 and 4 percent	1	5.6
Between 4 and 8 percent	0	0.0
Between 8 and 15 percent	0	0.0
More than 15 percent	0	0.0
Total	18	100.0

9. If your bank has been taking positions as a seller of credit protection through the CDS market (answers 2-6 in question 8), how important have been each of the following possible reasons for doing so? (Please respond to each reason according to the following scale: 1=not important, 2=somewhat important, 3=very important.)

	All Respondents
	Mean
Selling protection in a CDS is a way to diversify the credit risks held by your bank.	2.33
Selling protection in a CDS is a way to increase credit exposure at your bank to a desired level	1.33
Selling protection in a CDS can be less expensive or less burdensome than loan purchases	1.17
Selling protection in a CDS can be more profitable than direct lending	0
Other (please specify)	0
Number of banks responding	6

10. On net, how has your bank's participation in the CDS market affected the amount of total C&I loan commitments (outstanding loans plus unused credit lines) at your bank?

	All Respondents	
	Banks	Pct
Substantially increased it by allowing credit exposure to be reduced	0	0.0
Moderately increased it by allowing credit exposure to be reduced	2	15.4
No noticeable net effect	9	69.2
Moderately decreased it by providing an alternative source of credit exposure	1	7.7
Substantially decreased it by providing an alternative source of credit exposure	1	7.7
Total	13	100.0

11. What share of the CDS entered by your bank (either to purchase or sell credit protection) and currently outstanding includes the following forms of restructuring as credit events?

A. Modified restructuring (in line with ISDA May 2001 terminology):

	All Respondents	
	Banks	Pct
Less than 10 percent	4	33.3
Between 10 percent and 25 percent	2	16.7
Between 25 percent and 50 percent	0	0.0
Between 50 percent and 75 percent	1	8.3
More than 75 percent	5	41.7
Total	12	100.0

B. Full restructuring (in line with the ISDA 1999 terminology):

	All Respondents	
	Banks	Pct
Less than 10 percent	5	45.5
Between 10 percent and 25 percent	1	9.1
Between 25 percent and 50 percent	1	9.1
Between 50 percent and 75 percent	1	9.1
More than 75 percent	3	27.3
Total	11	100.0

12. Please indicate the approximate percentage of the dollar volume of CDS held by your bank that are entered into with the following groups of counterparties. (Please include purchases or sales resulting from your bank's CDS dealer operations, if applicable. Percentages should be reported in whole numbers and should sum separately to 100 for both purchasing counterparties and selling counterparties.

A. When your institution is the buyer of credit protection:

	All Respondents
	Mean
Dealers headquartered in U.S.	59.4
Dealers headquartered outside the U.S.	30.6
Non-dealers headquartered in U.S.	4.5
Non-Dealers headquartered outside the U.S.	5.5
Number of banks responding	11

B. When your institution is the seller of credit protection:

	All Respondents
	Mean
Dealers headquartered in U.S.	51.5
Dealers headquartered outside the U.S.	33.5
Non-dealers headquartered in U.S.	2.5
Non-Dealers headquartered outside the U.S.	2.5
Number of banks responding	10

13. Under normal market conditions, how does your bank view its ability to unwind a position in CDS (by terminating the contract with consent of your counterparty or assigning the original CDS to another institution)?

	All Respondents	
	Banks	Pct
Very difficult or expensive	2	16.7
Somewhat difficult or expensive	7	58.3
Somewhat easy or inexpensive	2	16.7
Very easy or inexpensive	1	8.3
Total	12	100.0

14. How would you characterize the current state of liquidity in the CDS market?

	All Respondents	
	Banks	Pct
Much more liquid than normal	0	0.0
Somewhat more liquid than normal	0	0.0
About normal	6	50.0
Somewhat less liquid than normal	5	41.7
Much less liquid than normal	1	8.3
Total	12	100.0

15. Whether or not your bank takes position in the CDS market, how useful does your bank feel market quotes on CDS spreads are (under normal market conditions) in imputing a value for certain loan assets or pricing new loans?

	All Respondents	
	Banks	Pct
Very useful	5	27.8
Somewhat useful	11	61.1
Not very useful	2	11.1
Total	18	100.0

16. If your bank does not use CDS either to hedge loan risk or as stand-alone investments, to what extent do the following reasons explain why? (Please respond to each reason according to the following scale: 1=not important, 2=somewhat important, 3=very important.)

	All Respondents
	Mean
CDS are expensive relative to the benefits derived from them for hedging loan risk	2.00
CDS are generally riskier and more complicated instruments than loans	1.73
Regulatory capital guidelines make CDS less attractive than holding loans or funding loan facilities	1.36
Internal capital charges make CDS less attractive than holding loans or funding loan facilities	1.64
It is difficult to find CDS offered in the amounts or at the maturities desired by your bank	1.64
Other (please specify)	1.18
Number of banks responding	11

Questions 17-18 ask about **commercial real estate loans** at your bank, including construction and land development loans and loans secured by nonfarm nonresidential real estate. Question 17 deals with changes in your bank's standards over the last three months. Question 18 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.

17. 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	12	100.0
Eased somewhat	0	0.0
Eased considerably	0	0.0
Total	12	100.0

18. 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	18.2
About the same	8	72.7
Moderately weaker	1	9.1
Substantially weaker	0	0.0
Total	11	100.0