

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 October 2004)

Questions 1-3 ask about changes in your bank's **commercial and industrial (C&I)** policies 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	0	0.0
Remained basically unchanged	13	65.0
Eased somewhat	7	35.0
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	3.35
Costs of credit lines	3.30
Spreads of loan rates over your bank's cost of funds (wider spreads=tightened, narrower spreads=eased)	3.55
Premiums charged on riskier loans	3.16
Loan covenants	3.30
Collateralization requirements	3.10
Other	4.00
Total	20

1. As of June 30, 2004, the 20 respondents had combined assets of \$427 billion, compared to \$979 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	3.00
Less favorable or more uncertain economic outlook	0.00
Worsening of industry-specific problems	0.00
Less aggressive competition from other banks or nonbank lenders (other financial intermediaries or the capital markets)	0.00
Reduced tolerance for risk	0.00
Decreased liquidity in the secondary market for these loans	0.00
Increase in defaults by borrowers in public debt markets	0.00
Other	0.00
Number of banks responding	1

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

	All Respondents
	Mean
Improvement in your bank's current or expected capital position	1.50
More favorable or less uncertain economic outlook	1.40
Improvement in industry-specific problems	1.40
More aggressive competition from other banks or nonbank lenders (other financial intermediaries or the capital markets)	2.60
Increased tolerance for risk	1.70
Increased liquidity in the secondary market for these loans	1.70
Reduction in defaults by borrowers in public debt markets	1.40
Other	1.00
Number of banks responding	10

In the most recent three surveys, respondent banks overall have reported an easing of business lending standards and terms despite a pickup in loan demand. Banks that have eased standards or terms have indicated that they have done so primarily in response to increased competition from other sources of business credit. **Questions 4 and 5** ask about the identity and nature of this competition. **Question 6** asks about your bank's outlook for business loan credit quality over the next year.

4. If your bank has eased standards or terms since the beginning of the year as a result of greater competitive pressures in the C&I loan market, how has the degree of competition from the following alternative sources of funds changed during that period? (Please assign, for those entities listed that your bank views as a potential source of credit for your C&I customers, a number between 1 and 5 using the following scale: 1=increased considerably, 2=increased somewhat, 3=has been little changed, 4=decreased somewhat, 5=decreased considerably. Please leave blank those entities that your bank does not view as potential alternative sources of credit for your customers.)

	All Respondents
	Mean
Capital markets (commercial paper, bonds, equity)	2.29
Special purpose investment vehicles (for example, collateralized loan obligations)	2.21
Insurance companies	2.92
Investment banks	2.33
U.S. commercial banks	1.80
Foreign banks	2.00
Hedge funds	2.31
Other	3.00
Number of banks responding	15

5. Does your bank view this increasing competition from other sources of business credit as primarily temporary, reflecting current economic market conditions, or as a more permanent change in the structure of the C&I loan market?

	All Respondents	
	Banks	Pct
Primarily temporary, reflecting current economic conditions	4	23.5
Primarily permanent, reflecting a change in the structure of the C&I loan market	7	41.2
Not clear at this point	6	35.3
Total	17	100.0

6. Over the past two years, C&I loan delinquencies and chargeoffs have improved substantially. Looking ahead over the next year, and assuming that economic activity progresses in line with consensus forecasts, what is your bank's outlook for these measures of C&I loan quality?

	All Respondents	
	Banks	Pct
Loan quality is likely to continue to improve	2	10.0
Loan quality is likely to stabilize around current levels	17	85.0
Loan quality is likely to begin to deteriorate	1	5.0
Total	20	100.0

Questions 7-9 deal with changes in demand for C&I loans over the past three months.

7. 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	25.0
About the same	11	55.0
Moderately weaker	4	20.0
Substantially weaker	0	0.0
Total	20	100.0

8. If demand for C&I loans has strengthened or weakened over the past three months (as described in question 7), 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 7), possible reasons:

	All Respondents
	Mean
Customer inventory financing needs increased	1.25
Customer accounts receivable financing needs increased	1.25
Customer investment in plant or equipment increased	1.25
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	1.25
Other	2.67
Number of banks responding	5

B. If weaker loan demand (answer 4 or 5 to question 7), possible reasons:

	All Respondents
	Mean
Customer inventory financing needs decreased	1.33
Customer accounts receivable financing needs decreased	1.33
Customer investment in plant or equipment decreased	1.67
Customer internally generated funds increased	2.67
Customer merger or acquisition financing needs decreased	1.67
Customer borrowing shifted to your bank from other bank or nonbank sources because these other sources became more attractive	1.67
Other	3.00
Number of banks responding	4

9. 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
The number of inquiries has increased substantially	1	5.0
The number of inquiries has increased moderately	3	15.0
The number of inquiries has stayed about the same	11	55.0
The number of inquiries has decreased moderately	5	25.0
The number of inquiries has decreased substantially	0	0.0
Total	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 accommodative relative to longer-term norms. If your bank's 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.

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	0	0.0
Remained basically unchanged	11	84.6
Eased somewhat	2	15.4
Eased considerably	0	0.0
Total	13	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	2	15.4
About the same	11	84.6
Moderately weaker	0	0.0
Substantially weaker	0	0.0
Total	13	100.0