Board of Governors of the Federal Reserve System

The May 1998 Senior Loan Officer Opinion Survey on Bank Lending Practices

The May 1998 Senior Loan Officer Opinion Survey on Bank Lending Practices, primarily covering changes over the past three months, posed the usual questions bearing on the supply of and demand for bank loans to businesses and households. Additional questions targeted: the recent growth in bank securities holdings, residential mortgage loans, and loans to real estate investment trusts (REITs); banks' handling of possible risks owing to the year-2000 preparedness of their customers; and the effects of economic problems in Asia on the provision of trade finance to firms in the affected economies.

The results of the survey indicate that the domestic respondents generally remained eager to make loans to businesses, while the foreign respondents had become less eager. A few of the domestic respondents reported easing standards on loans to businesses, and a large percentage cut their spreads on such loans. These results are similar to those reported last year; in January, lending standards were about unchanged, on net, and fewer banks reported easing loan terms. Foreign branches and agencies continued to pull back from business lending, with many of them reporting tighter standards and terms on the May survey. Lending to REITs was reported to have expanded rapidly over the past year, reflecting heavy demand for funding. A number of domestic and foreign respondents reported increased requests for trade finance from firms in emerging economies in Asia affected by the financial problems in the region, but most of the banks that had provided such finance in the past indicated that they were less willing to do so now.

The survey showed small mixed changes in standards and terms on loans to households. While some banks tightened standards and terms on credit card loans, the number doing so was smaller than in past surveys. The fraction of banks tightening standards on other consumer loans also declined, and terms on such loans were about unchanged, on net. A few banks reported having eased standards for residential mortgage loans in May, following no net change in the January survey.

Responses to a special question suggested that the recent rapid growth in securities holdings reflected banks' efforts to increase leverage in order to boost returns on equity. Other special questions indicated that banks have not generally cut back on lending to customers because of possible year-2000 problems, although many are now including year-2000 related covenants in some loan contracts.

Lending to Businesses
(Table 1, questions 1-9 and 26-31; table 2, questions 1-7 and 14-19)

The number of U.S. banks reporting easier standards and terms for business borrowers on the latest survey remained in the range seen over the past several quarters. A few banks, on net, reported having eased standards for large and middle market firms, while only one bank reported having done so for small businesses. About a third of the respondents, on net, narrowed yield spreads for larger firms, a considerably higher share than in the January survey. As in January, about a quarter reported narrower spreads for small businesses. Smaller fractions eased other terms such as the size and cost of credit lines, loan covenants, and collateralization requirements. The banks attributed the easing of standards and terms primarily to heightened competition from other bank and nonbank lenders.

Many branches and agencies reported curtailing their business lending. About a quarter of the foreign respondents reported having tightened standards on business loans. Large fractions had tightened loan terms, with a few of the foreign respondents indicating that terms had been tightened considerably. About a third of the branches and agencies boosted the costs of credit lines, about a quarter widened spreads over base rates, and 20 percent cut the maximum sizes of credit lines. Smaller fractions tightened other loan terms. Those tightening standards and terms indicated that their primary reason for doing so was a weakening of their parent banks' current or expected capital position.

The fraction of respondents reporting strengthening demand for business loans has trended higher since mid-1996. In the latest survey, about 30 percent of the domestic banks noted increased demand for business loans from larger firms, and 20 percent from small businesses. About 20 percent of the branches and agencies reported a pickup in demand as well. Consistent with the last couple of surveys, the increased demand was attributed to higher borrowing for mergers and acquisitions, plant and equipment investment, and inventory financing, in that order.

A few of the domestic respondents reported having eased standards for commercial real estate loans; there was little change in standards at the branches and agencies. As in January, substantial fractions of both the domestic and foreign respondents reported increased demand for these loans.

The May Senior Loan Officer Survey included special questions that revealed loans to REITs had grown very rapidly at many of the respondent banks. Indeed, the volume of such loans, which can be either secured or unsecured, nearly doubled at the respondent banks over the past year. The most rapid growth was at large domestic banks and branches and agencies of foreign banks. The respondents indicated that this growth reflected primarily the need to finance increased direct holdings of properties by REITs and, to a somewhat lesser extent, a pickup in merger and acquisition activity involving REITs. Despite the rapid growth over the past year, the bulk of the respondents anticipated that their bank's loans to REITs would grow either slowly or moderately over the coming year.

Another set of special questions found that about a quarter of the domestic respondents and a somewhat smaller share of the branches and agencies were receiving more requests for loans to finance imports or exports (or for other forms of trade finance) from firms located in East Asian emerging economies affected by the economic problems in the region. However, with the exception of a few of the smaller domestic banks, the respondents that had provided such trade financing before the outbreak of the Asian economic problems last year indicated that they were now less willing to do so. Indeed, a few of the respondents reported that they were now unwilling to make such loans.

Lending to Households
(Table 1, questions 10-17 and 24-25)

Fewer banks reported changes in consumer loan standards and terms than on recent surveys, suggesting that more banks have completed desired adjustments to take account of the deterioration in consumer loan quality that became evident a couple of years ago. On net, two banks expressed greater willingness to make consumer installment loans, seven banks tightened standards on credit card loans, and three banks tightened standards on other consumer loans. Most banks reported no changes in credit card terms, although about 10 percent cut the size of credit lines on new or existing accounts. Terms on other consumer loans, which had been eased at a few banks on the last few surveys, were about unchanged in May. The demand for consumer loans of all types increased at about 10 percent of the respondents, on net.

Standards for approving mortgage applications were also about unchanged, with just three banks easing them over the past three months. Nearly two-thirds of the banks, on net, reported increased demand for these loans. Even though the survey question specifically refers to mortgages to purchase homes, the large number of respondents indicating increased demand may reflect, in part, the brisk pace of refinancing activity. Indeed, the banks attributed the recent rise in residential mortgage loans on banks' books to both increased home sales and higher refinancing activity. They noted that refinancing has boosted mortgage loans held by banks both because some households take "cash outs" to pay down other debts or make new purchases and because the refinancing of securitized mortgage loans moves the loans back onto banks' books, at least temporarily.

Securities Growth
(Table 1, question 23; table 2, question 13)

Responses to a special question about the reasons for the rapid growth in securities holdings late in 1997 and early this year indicated that banks were purchasing securities in order to leverage up their capital and boost returns on equity. Until recently, many bank holding companies repurchased shares to pay out excess capital. However, with stock prices high, this alternative may not be attractive now. In addition, the respondents pointed to the fact that U.S. bank holding companies that engage in pooling of interest mergers are not allowed to repurchase shares for a time. For banks in these holding companies, strong earnings may generate more capital than the firm needs for its operations, and securities purchases may be viewed as a way to put the excess capital to work. In addition to higher desired leverage, a number of the foreign branches and agencies reported that the trend in financial markets toward the securitization of new classes of assets was presenting banks with attractive securities to purchase.

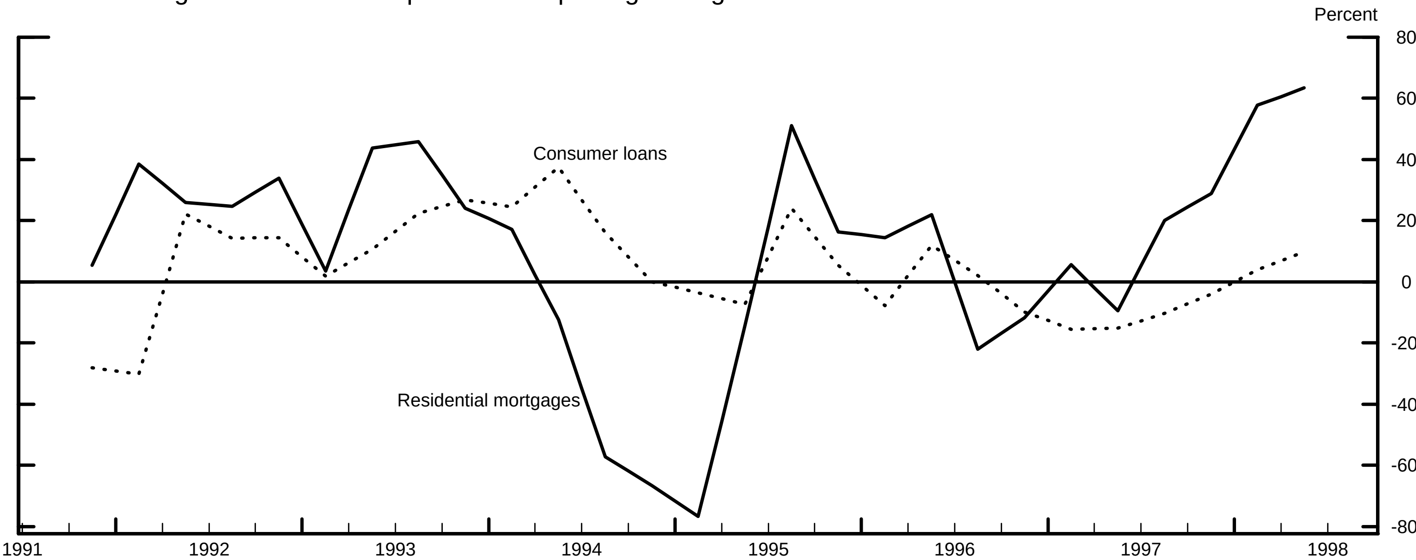
Year 2000 Risks
(Table 1, questions 18-22; table 2, questions 8-12)

Additional special questions asked respondents about the management of risks resulting from possible year-2000 problems of their customers. Both the domestic and foreign respondents had generally included year-2000 preparedness in their underwriting and loan review standards. However, the responses suggest that U.S. banks are somewhat further along in the process of assessing such risks: Most U.S. banks had evaluated for year-2000 compliance more than 5 percent of their business customers that account for a material proportion of their loans, while only about half of the branches and agencies had done so. Nonetheless, even among the domestic respondents, only a fairly small number had evaluated a large fraction of their customers. Several of the respondents noted that they anticipated completing a large number of such evaluations in the near future. While few of the respondents reported rejecting loan applicants or downgrading existing loans because of year-2000 compliance problems, more than a third currently include year-2000-related covenants in loan agreements with customers that are not year-2000 compliant either some of the time or almost all of the time.

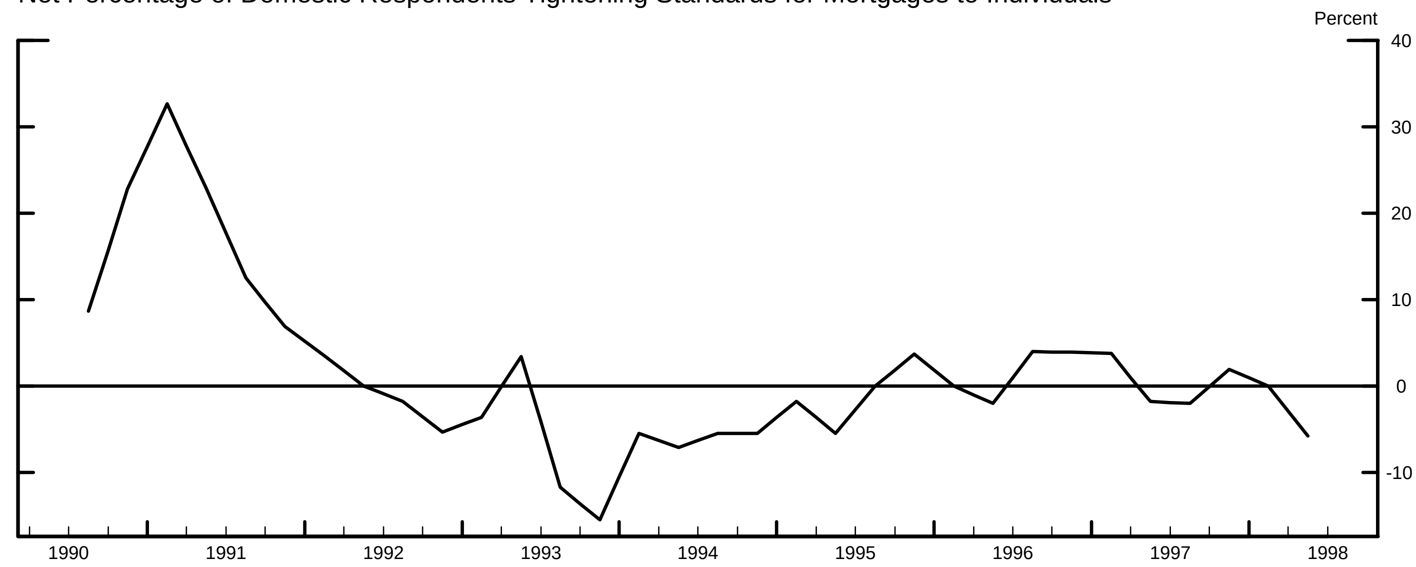
Measures of Supply and Demand for Loans to Households

Net Percentage of Domestic Respondents Indicating More Willingness to Make Consumer Installment Loans

Net Percentage of Domestic Respondents Reporting Stronger Demand for Loans to Households

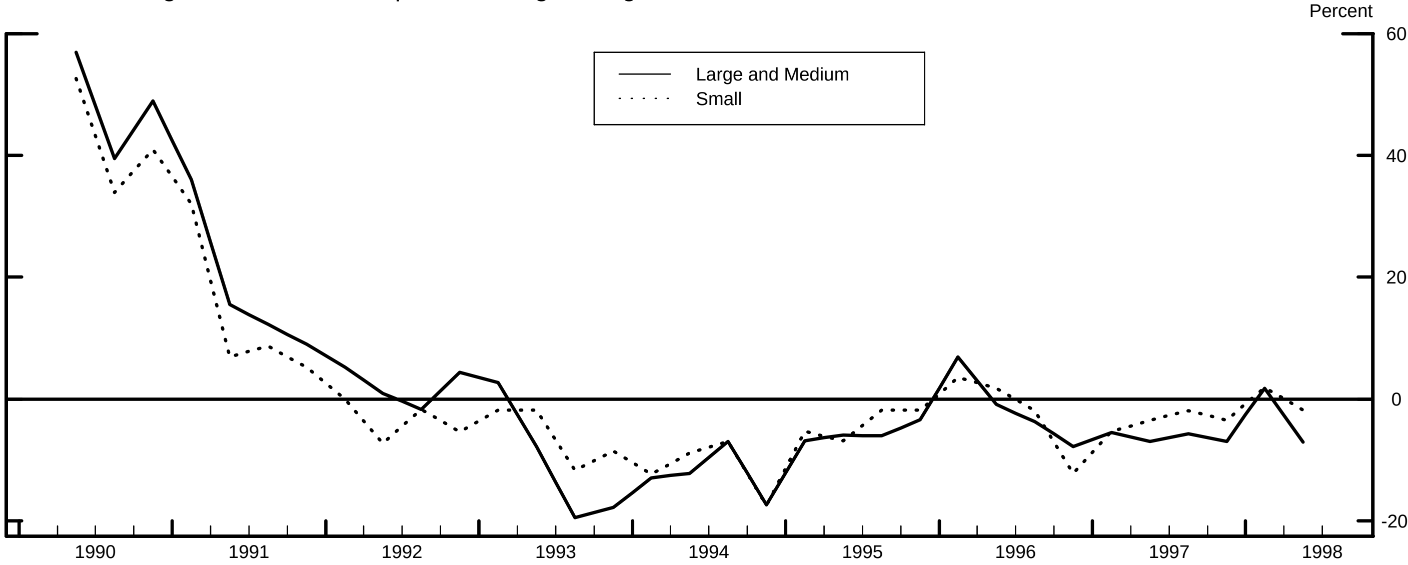


Net Percentage of Domestic Respondents Tightening Standards for Mortgages to Individuals



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

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



Net Percentage of Domestic Respondents Increasing Spreads of Loan Rates over Banks’ Cost of Funds

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

Table 1

SENIOR LOAN OFFICER OPINION SURVEY ON BANK LENDING PRACTICES
AT SELECTED LARGE BANKS IN THE UNITED STATES
(Status of policy as of May 1998)

(Number of banks and percentage of banks answering question)
(By volume of total domestic assets as of December 31, 1997[1])

Questions 1-7 *ask about* ***commercial and industrial loans*** *at your bank: Questions 1-4 deal with changes in your bank's lending policies over the past three months, and questions 5-7 deal with changes in demand over the same period. 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 more 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	2	3.6	1	2.9	1	4.8
Remained basically unchanged	48	85.7	29	82.9	19	90.5
Eased somewhat	6	10.7	5	14.3	1	4.8
Eased considerably	0	0.0	0	0.0	0	0.0
Total	56	100.0	35	100.0	21	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	2	3.5	1	2.8	1	4.8
Remained basically unchanged	52	91.2	33	91.7	19	90.5
Eased somewhat	3	5.3	2	5.6	1	4.8
Eased considerably	0	0.0	0	0.0	0	0.0
Total	57	100.0	36	100.0	21	100.0

1. As of December 31, 1997, thirty-six respondents had domestic assets of $15 billion or more; combined assets of these banks totaled $1.85 trillion, compared to $2.01 trillion for the entire panel of fifty-seven banks, and $4.28 trillion for all domestically chartered, federally insured commercial banks. The sample is selected from among the largest banks in each Federal Reserve District. Large banks are those with total domestic assets over $15 billion.

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 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	Large Banks	Other Banks
	Mean	Mean	Mean
Maximum size of credit lines	3.13	3.11	3.14
Costs of credit lines	3.13	3.00	3.33
Spreads of loan rates over your bank's cost of funds (wider spreads=tightened, narrower spreads=eased)	3.36	3.26	3.52
Loan covenants	3.13	3.14	3.10
Collateralization requirements	3.05	3.03	3.10
Other	3.05	3.09	3.00
Number of banks responding	56	35	21

3. For applications for C&I loans or credit lines--other than those to be used to finance mergers and acquisitions--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 (tightened considerably) and 5 (eased considerably) as in question 2.)

	All Respondents	Large Banks	Other Banks
	Mean	Mean	Mean
Maximum size of credit lines	3.04	3.06	3.00
Costs of credit lines	3.04	2.97	3.14
Spreads of loan rates over your bank's cost of funds (wider spreads=tightened, narrower spreads=eased)	3.25	3.17	3.38
Loan covenants	3.04	3.06	3.00
Collateralization requirements	3.04	3.09	2.95
Other	3.04	3.06	3.00
Number of banks responding	56	35	21

4. 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 1-3), how important have been the following possible reasons for the change? (Please respond to either A or B or both as appropriate.) (Please 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
A deterioration in your bank's current or expected capital position	1.38	1.40	1.33
A less favorable economic outlook	2.00	1.80	2.33
A worsening of industry-specific problems	1.50	1.20	2.00
Less aggressive competition from other commercial banks	1.25	1.40	1.00
Less aggressive competition from nonbank lenders (other financial intermediaries or the capital markets)	1.00	1.00	1.00
Reduced tolerance for risk	1.88	1.80	2.00
Other	1.25	1.00	1.67
Number of banks responding	8	5	3

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

	All Respondents	Large Banks	Other Banks
	Mean	Mean	Mean
An improvement in your bank's current or expected capital position	1.10	1.11	1.08
A more favorable economic outlook	1.21	1.25	1.15
An improvement in industry-specific problems	1.06	1.10	1.00
More aggressive competition from other commercial banks	2.44	2.33	2.62
More aggressive competition from nonbank lenders (other financial intermediaries or the capital markets)	2.38	2.38	2.38
Increased tolerance for risk	1.32	1.38	1.23
Other	1.03	1.05	1.00
Number of banks responding	34	21	13

5. For large and middle-market firms, how has demand for C&I loans (actual extensions of credit as opposed to undrawn lines) changed over the past three months (apart from normal seasonal variation)?

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Substantially stronger	1	1.8	0	0.0	1	4.8
Moderately stronger	18	32.1	10	28.6	8	38.1
About the same	34	60.7	23	65.7	11	52.4
Moderately weaker	3	5.4	2	5.7	1	4.8
Substantially weaker	0	0.0	0	0.0	0	0.0
Total	56	100.0	35	100.0	21	100.0

6. For small firms, how has demand for C&I loans (actual extensions of credit as opposed to undrawn lines) changed over the past three months (apart from normal seasonal variation)?

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Substantially stronger	1	1.8	0	0.0	1	4.8
Moderately stronger	12	21.1	9	25.0	3	14.3
About the same	41	71.9	25	69.4	16	76.2
Moderately weaker	1	1.8	1	2.8	0	0.0
Substantially weaker	0	0.0	0	0.0	0	0.0
Total	57	100.0	36	100.0	21	100.0

7. If demand for C&I loans has strengthened or weakened over the past three months (as described in questions 5 and 6), how important have been the following possible reasons for the change? (Please respond to either A or B or both as appropriate.) (Please 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 5 or 6), possible reasons:

	All Respondents	Large Banks	Other Banks
	Mean	Mean	Mean
Customer inventory financing needs increased	1.48	1.50	1.44
Customer investment in plant or equipment increased	1.61	1.50	1.78
Customer internally generated funds decreased	1.04	1.00	1.11
Customer borrowing shifted from other sources to your bank because these other sources became less attractive	1.30	1.21	1.44
Customer merger or acquisition financing increased	1.83	1.86	1.78
Other	1.17	1.14	1.22
Number of banks responding	23	14	9

B. If weaker loan demand (answer 4 or 5 to question 5 or 6), possible reasons:

	All Respondents	Large Banks	Other Banks
	Mean	Mean	Mean
Customer inventory financing needs decreased	1.00	1.00	0.0
Customer investment in plant or equipment decreased	2.00	2.00	0.0
Customer internally generated funds increased	1.67	1.67	0.0
Customer borrowing shifted from your bank to other sources because these other sources became more attractive	1.67	1.67	0.0
Customer merger or acquisition financing decreased	1.67	1.67	0.0
Other	2.00	2.00	0.0
Number of banks responding	3	3	0

Questions 8 and 9 *ask about* ***commercial real estate loans*** *at your bank, including construction and land development loans and loans secured by nonfarm nonresidential real estate: Question 8 deals with changes in your bank's credit standards over the past three months, and question 9 deals with changes in demand over the same period. If your bank's credit standards have not changed over the past three months, 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 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 standards as changes in standards.*

8. 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	5	8.9	1	2.9	4	19.0
Remained basically unchanged	42	75.0	28	80.0	14	66.7
Eased somewhat	9	16.1	6	17.1	3	14.3
Eased considerably	0	0.0	0	0.0	0	0.0
Total	56	100.0	35	100.0	21	100.0

9. Over the past three months, how has demand for commercial real estate loans changed (apart from normal seasonal variation)?

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Substantially stronger	1	1.8	1	2.8	0	0.0
Moderately stronger	27	47.4	17	47.2	10	47.6
About the same	27	47.4	18	50.0	9	42.9
Moderately weaker	1	1.8	0	0.0	1	4.8
Substantially weaker	0	0.0	0	0.0	0	0.0
Total	57	100.0	36	100.0	21	100.0

Questions 10 and 11 *ask about* ***home mortgage loans*** *at your bank: Question 10 deals with changes in your bank's credit standards over the past three months, and question 11 deals with changes in demand over the same period. If your bank's credit standards have not changed over the past three months, 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 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 standards as changes in standards.*

10. 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	0	0.0	0	0.0	0	0.0
Remained basically unchanged	49	94.2	30	96.8	19	90.5
Eased somewhat	3	5.8	1	3.2	2	9.5
Eased considerably	0	0.0	0	0.0	0	0.0
Total	52	100.0	31	100.0	21	100.0

11. Over the past three months, how has demand for mortgages to purchase homes changed (apart from normal seasonal variation)?

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Substantially stronger	14	26.9	10	32.3	4	19.0
Moderately stronger	21	40.4	13	41.9	8	38.1
About the same	15	28.8	7	22.6	8	38.1
Moderately weaker	2	3.8	1	3.2	1	4.8
Substantially weaker	0	0.0	0	0.0	0	0.0
Total	52	100.0	31	100.0	21	100.0

Questions 12-17 *ask about* ***consumer lending*** *at your bank: Questions 12-14 deal with changes in your bank's willingness to make, and in its credit standards for, consumer loans over the past three months; questions 15 and 16 deal with changes in loan terms over the same period; and question 17 deals with changes in demand over the same period. 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.*

12. 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	0	0.0	0	0.0	0	0.0
Somewhat more	4	8.0	3	10.3	1	4.8
About unchanged	44	88.0	25	86.2	19	90.5
Somewhat less	1	2.0	0	0.0	1	4.8
Much less	1	2.0	1	3.4	0	0.0
Total	50	100.0	29	100.0	21	100.0

13. 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	1	2.3	1	3.7	0	0.0
Tightened somewhat	6	14.0	2	7.4	4	25.0
Remained basically unchanged	36	83.7	24	88.9	12	75.0
Eased somewhat	0	0.0	0	0.0	0	0.0
Eased considerably	0	0.0	0	0.0	0	0.0
Total	43	100.0	27	100.0	16	100.0

14. 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	6	12.2	4	13.8	2	10.0
Remained basically unchanged	40	81.6	24	82.8	16	80.0
Eased somewhat	3	6.1	1	3.4	2	10.0
Eased considerably	0	0.0	0	0.0	0	0.0
Total	49	100.0	29	100.0	20	100.0

15. Over the past three months, how has your bank changed the following terms 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	2.88	2.88	2.86
Spreads of interest rates charged on outstanding balances over your bank's cost of funds (wider spreads=tightened, narrower spreads=eased)	2.95	2.96	2.93
Minimum percentage of outstanding balances required to be repaid each month	2.98	3.04	2.86
Other	3.00	3.00	3.00
Number of banks responding	40	26	14

16. Over the past three months, how has your bank changed the following terms on consumer loans excluding credit card loans? (Please assign each term a number between 1 (tightened considerably) and 5 (eased considerably) as in question 15.)

	All Respondents	Large Banks	Other Banks
	Mean	Mean	Mean
Maximum maturity	3.02	3.03	3.00
Spreads of loan rates over your bank's cost of funds (wider spreads=tightened, narrower spreads=eased)	2.98	2.93	3.05
Minimum required down payment	3.00	3.00	3.00
Other	3.00	3.00	3.00
Number of banks responding	50	29	21

17. Over the past three months, how has demand for consumer loans of all types changed (apart from normal seasonal variation)?

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Substantially stronger	1	2.0	1	3.3	0	0.0
Moderately stronger	11	21.6	6	20.0	5	23.8
About the same	32	62.7	17	56.7	15	71.4
Moderately weaker	6	11.8	6	20.0	0	0.0
Substantially weaker	1	2.0	0	0.0	1	4.8
Total	51	100.0	30	100.0	21	100.0

On May 5, 1997 and again on March 17 of this year, the FFIEC issued statements regarding the possible exposure of banks to risks resulting from any year-2000 problems of their customers. ***Questions 18-22*** *ask about how your bank is managing such risks.*

18. Is your customers' year-2000 preparedness included as part of your bank's underwriting or loan review standards?

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Underwriting standards	11	19.3	5	13.9	6	28.6
Loan review standards	0	0.0	0	0.0	0	0.0
Both	45	78.9	31	86.1	14	66.7
Neither	1	1.8	0	0.0	1	4.8
Total	57	100.0	36	100.0	21	100.0

19. At this time, what percentage of your bank's material business customers has been evaluated for year-2000 preparedness?

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Less than 5 percent	9	17.0	5	15.2	4	20.0
At least 5 percent but less than 25 percent	23	43.4	12	36.4	11	55.0
At least 25 percent but less than 75 percent	15	28.3	10	30.3	5	25.0
At least 75 percent	6	11.3	6	18.2	0	0.0
Total	53	100.0	33	100.0	20	100.0

20. Has your bank downgraded any existing loans because of the borrower's inadequate year-2000 preparedness?

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Yes, many times	0	0.0	0	0.0	0	0.0
Yes, a few times	4	7.3	3	8.6	1	5.0
Rarely or never	51	92.7	32	91.4	19	95.0
Total	55	100.0	35	100.0	20	100.0

21. Has your bank rejected any loan applications because of the applicant's inadequate year-2000 preparedness?

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Yes, many times	0	0.0	0	0.0	0	0.0
Yes, a few times	5	9.3	4	11.8	1	5.0
Rarely or never	49	90.7	30	88.2	19	95.0
Total	54	100.0	34	100.0	20	100.0

22. Has your bank included covenants specifically related to year-2000 preparedness in any of its loan agreements with business customers that are not already year-2000 compliant?

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Yes, for almost all new loans to such customers	8	14.5	6	17.6	2	9.5
Yes, for some new loans to such customers	14	25.5	10	29.4	4	19.0
Rarely or never	33	60.0	18	52.9	15	71.4
Total	55	100.0	34	100.0	21	100.0

Question 23 *asks about the recent growth in securities holdings at banks, which has been very strong since late last summer. This growth is somewhat surprising because loan growth has also been robust over this period, and so bank asset growth has been more rapid in recent quarters than at any time since the mid-1980s.*

23. To what factors do you attribute the recent rapid growth in bank securities holdings? (Please rate each possible reason using the following scale: 1=not important, 2=somewhat important, 3=very important.)

	All Respondents	Large Banks	Other Banks
	Mean	Mean	Mean
Holdings of longer-maturity securities have been increased to compensate for the shorter expected duration of mortgage-backed securities resulting from the decline in longer-term rates in recent months and the consequent increase in prepayment risk.	1.61	1.72	1.41
Some banks have bought securities in the belief that interest rates are likely to decline, making securities an attractive investment.	1.57	1.69	1.35
An increased willingness on the part of some banks to boost leverage in an effort to raise return on equity.	1.90	1.81	2.06
Banks must raise capital to satisfy risk-based-capital requirements while meeting strong loan demand; given the increased capital, leverage-ratio constraints become less binding, so banks can acquire zero or low risk-weight securities.	1.43	1.44	1.41
Some banks' holding companies have been constrained from buying back stock because they have recently participated in pooling-of-interest mergers, and, with profits strong, they have accumulated a substantial amount of equity. The banks in these holding companies have bought securities in order to expand their balance sheets in line with the added capital.	1.78	1.91	1.53
The growing trend toward securitization has presented banks with attractive new securities to purchase.	1.61	1.56	1.71
Low interest rates and high stock prices have made raising capital by issuing subordinated debt or equity inexpensive. As a result, some banks are increasing their capital and then purchasing securities to maintain desired leverage ratios.	1.45	1.44	1.47
Other	1.39	1.41	1.35
Number of banks responding	49	32	17

Questions 24 and 25 *ask about residential real estate loans at your bank. Nationwide, the outstanding volume of residential real estate loans on banks' books has grown substantially in recent months.*

24. To what factors do you attribute the recent rapid growth in residential real estate loans on banks' books? (Please rate each possible reason using the following scale: 1=not important, 2=somewhat important, 3=very important.)

	All Respondents	Large Banks	Other Banks
	Mean	Mean	Mean
An increase in refinancing activity.	2.66	2.66	2.67
An increase in home sales.	2.22	2.21	2.24
Rapid growth in home prices.	1.42	1.31	1.57
An increase in the volume of noncomforming mortgage loans made by banks.	1.50	1.55	1.43
An increased willingness of banks to hold whole mortgage loans on their books.	1.66	1.59	1.76
An increase in banks' share of new mortgage originations relative to their competitors.	1.56	1.52	1.62
Other	1.10	1.14	1.05
Number of banks responding	50	29	21

25. If you attributed the growth in residential real estate loans to increased refinancing activity (an answer of 2 or 3 to question 24.a), why has refinancing boosted the residential mortgage loans on banks' books? (Please rate each possible reason using the following scale: 1=not important, 2=somewhat important, 3=very important.)

	All Respondents	Large Banks	Other Banks
	Mean	Mean	Mean
Many households have taken advantage of the opportunity offered by refinancing to extract some of the equity from their homes in order to fund other purchases or pay down consumer debts.	2.08	2.18	1.95
The refinancing of mortgages that have been securitized temporarily increases the share of outstanding mortgages that are on the books of financial institutions until the new mortgages have been securitized.	2.04	1.96	2.15
Borrowers have been refinancing non-bank mortgages with bank mortgages.	1.31	1.29	1.35
Other	1.17	1.26	1.05
Number of banks responding	48	28	20

Questions 26-28 *ask about loans to real estate investment trusts (REITs). Anecdotal information suggests that bank loans to REITs have grown very rapidly in recent quarters.*

26. Please report the approximate dollar volume (in $millions) of outstanding loans to REITs on your bank's books:

	All Respondents	Large Banks	Other Banks
	Mean $millions	Mean $millions	Mean $millions
On March 31, 1998.	343	443	43
On March 31, 1997.	195	249	34
Number of banks responding	40	30	10

27. If your bank's loans to REITs grew by more than 15 percent between March 1997 and March 1998, to what do you attribute this growth? (Please rate each possible reason using the following scale: 1=not important, 2=somewhat important, 3=very important.)

	All Respondents	Large Banks	Other Banks
	Mean	Mean	Mean
Increased loan demand by REITs owing to a rise in their direct holdings of commercial real estate properties	2.39	2.46	2.00
Increased loan demand by REITs to finance growth in their holdings of commercial mortgages or commercial mortgage-backed securities	1.39	1.38	1.40
Increased demand for loans to finance a pickup in merger and acquisition activity involving REITs.	2.13	2.04	2.60
Increased willingness on the part of your bank to make loans in the commercial real estate sector generally	1.45	1.46	1.40
Increased willingness on the part of your bank to make loans in the commercial real estate sector through REITs	1.68	1.73	1.40
Other	1.20	1.24	1.00
Number of banks responding	31	26	5

28. How fast do you expect your bank's loans to REITs to grow over the coming year?

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Rapidly	2	4.0	2	6.3	0	0.0
Moderately	19	38.0	16	50.0	3	16.7
Slowly	29	58.0	14	43.8	15	83.3
Total	50	100.0	32	100.0	18	100.0

Questions 29-31 *ask about requests for loans to finance imports or exports (or other forms of trade finance) from firms located in emerging economies affected by the economic problems in Asia. Anecdotal information suggests that some of these countries' international trade is being hampered by a lack of financing.*

29. Has your bank, including its foreign offices, received increased requests for loans to finance imports or exports (or other forms of trade finance) from firms located in those East Asian emerging economies affected by the economic problems in the region?)

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
No significant increase.	23	45.1	14	42.4	9	50.0
A modest increase.	10	19.6	9	27.3	1	5.6
A substantial increase.	3	5.9	2	6.1	1	5.6
We have not received an increase in such requests, but our bank does not participate in this line of business.	15	29.4	8	24.2	7	38.9
Total	51	100.0	33	100.0	18	100.0

30. Before the outbreak of Asian economic problems last year, had your bank provided loans to finance imports and exports (or other forms of trade finance) to companies located in the affected economies?

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Yes, routinely.	15	28.3	14	41.2	1	5.3
Yes, occasionally.	22	41.5	14	41.2	8	42.1
Our bank does not participate in this line of business.	16	30.2	6	17.6	10	52.6
Total	53	100.0	34	100.0	19	100.0

31. If your bank has provided loans to finance imports and exports (or other forms of trade finance) to companies located in the affected economies in the past (answer 1 or 2 to question 30), how has its willingness to extend such loans changed since the outbreak of economic difficulties in Asia last year?

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
It is now unwilling to provide such loans.	2	5.4	2	7.1	0	0.0
It is now considerably less willing to provide such loans.	13	35.1	11	39.3	2	22.2
It is now somewhat less willing to provide such loans.	18	48.6	15	53.6	3	33.3
It is now about as willing to provide such loans as it was before the outbreak of Asian economic problems last year.	4	10.8	0	0.0	4	44.4
Total	37	100.0	28	100.0	9	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
(Status of policy as of May 1998)

(Number of banks and percentage of banks answering question[1])

Questions 1-5 *ask about* ***commercial and industrial loans*** *at your bank: Questions 1-3 deal with changes in your bank's lending policies over the past three months, and questions 4-5 deal with changes in demand over the same period. 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	6	27.3
Remained basically unchanged	15	68.2
Eased somewhat	1	4.5
Eased considerably	0	0.0
Total	22	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	2.70
Costs of credit lines	2.52
Spreads of loan rates over your bank's cost of funds (wider spreads=tightened, narrower spreads=eased)	2.52
Loan covenants	2.87
Collateralization requirements	2.91
Other	3.00
Total	23

1. As of December 31, 1997, the twenty-three respondents had combined assets of $221 billion, compared to $761 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 1-2), how important have been the following possible reasons for the change? (Please respond to either A or B or both as appropriate.) (Please 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
A deterioration in your parent bank's current or expected capital position	2.18
A less favorable economic outlook	1.27
A worsening of industry-specific problems	1.18
Less aggressive competition from other commercial banks	1.45
Less aggressive competition from nonbank lenders (other financial intermediaries or the capital markets)	1.09
Reduced tolerance for risk	1.64
Other	1.09
Number of banks responding	11

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

	All Respondents
	Mean
An improvement in your parent bank's current or expected capital position	1.00
A more favorable economic outlook	1.00
An improvement in industry-specific problems	1.00
More aggressive competition from other commercial banks	1.00
More aggressive competition from nonbank lenders (other financial intermediaries or the capital markets)	1.00
Increased tolerance for risk	1.50
Other	1.00
Number of banks responding	2

4. How has demand for C&I loans (actual extensions of credit as opposed to undrawn lines) changed over the past three months (apart from normal seasonal variation)?

	All Respondents	
	Banks	Pct
Substantially stronger	2	8.7
Moderately stronger	5	21.7
About the same	14	60.9
Moderately weaker	2	8.7
Substantially weaker	0	0.0
Total	23	100.0

5. If demand for C&I loans has strengthened or weakened over the past three months, how important have been the following possible reasons for the change? (Please 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	1.29
Customer investment in plant or equipment increased	1.57
Customer internally generated funds decreased	1.00
Customer borrowing shifted from other sources to your bank because these other sources became less attractive	1.71
Customer merger or acquisition financing increased	2.14
Other	1.29
Number of banks responding	7

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

	All Respondents
	Mean
Customer inventory financing needs decreased	1.00
Customer investment in plant or equipment decreased	1.00
Customer internally generated funds increased	1.00
Customer borrowing shifted from your bank to other sources because these other sources became more attractive	2.00
Customer merger or acquisition financing decreased	2.00
Other	1.00
Number of banks responding	2

Questions 6-7 *ask about* ***commercial real estate loans*** *at your bank, including construction and land development loans and loans secured by nonfarm nonresidential real estate: Question 6 deals with changes in your bank's credit standards over the past three months, and question 7 deals with changes in demand over the same period. If your bank's credit standards have not changed over the past three months, 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 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 standards as changes in standards.*

6. 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	5.6
Remained basically unchanged	17	94.4
Eased somewhat	0	0.0
Eased considerably	0	0.0
Total	18	100.0

7. Over the past three months, how has demand for commercial real estate loans changed (apart from normal seasonal variation)?

	All Respondents	
	Banks	Pct
Substantially stronger	2	11.1
Moderately stronger	3	16.7
About the same	13	72.2
Moderately weaker	0	0.0
Substantially weaker	0	0.0
Total	18	100.0

*On May 5, 1997 and again on March 17 of this year, the FFIEC issued statements regarding the possible exposure of banks to risks resulting from any year-2000 problems of their customers. **Questions 8-12** ask about how your institution (not including other offices of your parent bank) is managing such risks.*

8. Is your customers' year-2000 preparedness included as part of your institution's underwriting or loan review standards?

	All Respondents	
	Banks	Pct
Underwriting standards	1	4.3
Loan review standards	3	13.0
Both	16	69.6
Neither	3	13.0
Total	23	100.0

9. At this time, what percentage of your institution's material business customers has been evaluated for year-2000 preparedness?

	All Respondents	
	Banks	Pct
Less than 5 percent	13	56.5
At least 5 percent but less than 25 percent	5	21.7
At least 25 percent but less than 75 percent	4	17.4
At least 75 percent	1	4.3
Total	23	100.0

10. Has your institution downgraded any existing loans because of the borrower's inadequate year-2000 preparedness?

	All Respondents	
	Banks	Pct
Yes, many times	0	0.0
Yes, a few times	0	0.0
Rarely or never	23	100.0
Total	23	100.0

11. Has your institution rejected any loan applications because of the applicant's inadequate year-2000 preparedness?

	All Respondents	
	Banks	Pct
Yes, many times	0	0.0
Yes, a few times	2	8.7
Rarely or never	21	91.3
Total	23	100.0

12. Has your institution included covenants specifically related to year-2000 preparedness in any of its loan agreements with business customers that are not already year-2000 compliant?

	All Respondents	
	Banks	Pct
Yes, for almost all new loans to such customers	2	8.7
Yes, for some new loans to such customers	6	26.1
Rarely or never	15	65.2
Total	23	100.0

Question 13 *asks about the recent growth in securities holdings at U.S. branches and agencies of foreign banks, which has been very strong since late last summer.*

13. To what factors do you attribute the recent rapid growth in bank securities holdings? (Please rate each possible reason using the following scale: 1=not important, 2=somewhat important, 3=very important.)

	All Respondents
	Mean
Holdings of longer-maturity securities have been increased to compensate for the shorter expected duration of mortgage-backed securities resulting from the decline in longer-term rates in recent months and the consequent increase in prepayment risk.	1.21
Some branches and agencies have bought securities in the belief that interest rates are likely to decline, making securities attractive investment.	1.21
The parent banks of some branches and agencies decided to boost leverage in an effort to raise their return on equity.	1.50
Some branches and agencies shifted assets from loans to low-risk-weight securities in order to improve their parent banks' risk-based capital ratios.	1.36
The growing trend toward securitization has presented banks with attractive new securities to purchase.	1.71
Other	1.50
Number of banks responding	14

Questions 14-16 *ask about loans to real estate investment trusts (REITs). Anecdotal information suggests that bank loans to REITs have grown very rapidly in recent quarters.*

14. Please report the approximate dollar volume (in $millions) of outstanding loans to REITs on your bank's books:

	All Respondents
	Mean $millions
On March 31, 1998	324
On March 31, 1997	95
Number of banks responding	11

15. If your institution's loans to REITs grew by more than 15 percent between March 1997 and March 1998, to what do you attribute this growth? (Please rate each possible reason using the following scale: 1=not important, 2=somewhat important, 3=very important.)

	All Respondents
	Mean
Increased loan demand by REITs owing to a rise in their direct holdings of commercial real estate properties	2.33
Increased loan demand by REITs to finance growth in their holdings of commercial mortgages or commercial mortgage-backed securities	1.33
Increased demand for loans to finance a pickup in merger and acquisition activity involving REITs.	2.44
Increased willingness on the part of your institution to make loans in the commercial real estate sector generally	1.44
Increased willingness on the part of your institution to make loans in the commercial real estate sector through REITs	1.56
Other	1.22
Number of banks responding	9

16. How fast do you expect your institution's loans to REITs to grow over the coming year?

	All Respondents	
	Banks	Pct
Rapidly	0	0.0
Moderately	4	26.7
Slowly	11	73.3
Total	15	100.0

Questions 17-19 *ask about requests for loans to finance imports or exports (or other forms of trade finance) from firms located in emerging economies affected by the economic problems in Asia. Anecdotal information suggests that some of these countries' international trade is being hampered by a lack of financing.*

17. Has you institution (not including other offices of your parent bank) received increased requests for loans to finance imports or exports (or other forms of trade finance) from firms located in those East Asian emerging economies affected by the economic problems in the region?

	All Respondents	
	Banks	Pct
No significant increase.	12	52.2
A modest increase.	2	8.7
A substantial increase.	2	8.7
We have not received an increase in such request, but our institution does not participate in this line of business.	7	30.4
Total	23	100.0

18. Before the outbreak of Asian economic problems last year, had your institution provided loans to finance imports and exports (or other forms of trade finance) to companies located in the affected economies?

	All Respondents	
	Banks	Pct
Yes, routinely.	5	21.7
Yes, occasionally.	7	30.4
Our institution does not participate in this line of business.	11	47.8
Total	23	100.0

19. If your institution has provided loans to finance imports and exports (or other forms of trade finance) to companies located in the affected economies in the past (answer 1 or 2 to question 18), how has its willingness to extend such loans changed since the outbreak of economic difficulties in Asia last year?

	All Respondents	
	Banks	Pct
It is now unwilling to provide such loans.	1	8.3
It is now considerably less willing to provide such loans.	8	66.7
It is now somewhat less willing to provide such loans.	3	25.0
It is now about as willing to provide such loans as it was before the outbreak of Asian economic problems.	0	0.0
Total	12	100.0