Board of Governors of the Federal Reserve System

The August 2002 Senior Loan Officer Opinion Survey on Bank Lending Practices

The August 2002 Senior Loan Officer Opinion Survey on Bank Lending Practices focused on changes in the supply of and demand for bank loans to businesses and households over the past three months. In addition, the survey contained three sets of supplementary questions. The first set addressed banks' exposure to companies that had released inaccurate or misleading financial information and the banks' responses. The second set focused on loans to commercial and industrial firms that are secured by real estate but used for purposes other than the purchase or improvement of that property. Lastly, the survey asked whether automakers' incentives were having an effect on demand for automobile loans at banks. Loan officers representing fifty-six large domestic banks and twenty U.S. branches and agencies of foreign banks participated in the August survey.

The results indicate some further tightening of standards and terms for loans both to businesses and to households. The fraction of domestic banks that reported tightening standards on commercial and industrial (C&I) loans over the past three months slid a bit more in August, after having declined substantially in April, but the net fractions of domestic banks that tightened loan terms jumped again in the latest survey. Significant fractions of branches and agencies of foreign banks also continued to tighten both standards and terms in August. In addition, somewhat larger net fractions of domestic and foreign institutions reported weaker demand for C&I loans in August than had done so in April. Both domestic banks and foreign institutions tightened standards on commercial real estate loans over the past three months, and they also reported weaker demand, on net, for these loans.

In the August survey, most banks reported that they had very little exposure to firms that have been the target of investigations into their accounting practices. Apart from the already highly publicized cases, a moderate net fraction of banks indicated that they had seen an increase in the frequency with which firms had submitted questionable financial statements during the loan approval process over the past year. In response to the scandals, most banks reported that they had begun requesting additional financial detail during the approval process, had increased the frequency or intensity of monitoring, and were enforcing loan covenants more strictly.

According to the domestic respondents, standards for residential mortgage loans were largely unchanged over the past three months, and the demand for these loans was stronger on net. As in April, only a modest portion of domestic banks, on net, reported tightening standards for consumer loans. Demand for consumer loans was slightly weaker, on net, over the past three months as banks reported that they lost some business to automobile finance companies.

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

The percentage of domestic banks that reported having tightened standards on C&I loans to large and middle-market firms over the past three months edged down to 23 percent from 25 percent in the previous survey, and one bank eased its standards—the first reported easing since 1999. The percentage tightening standards on business loans to small firms fell to 9 percent from about 15 percent in April, and two banks eased standards on these loans.

Conversely, for several of the surveyed terms on loans to large and middle-market firms, larger fractions of domestic banks reported tightening in August than had done so in April. The net fraction of domestic banks that had increased costs of credit lines and raised spreads of loan rates over their cost of funds rose to about 40 percent in August from about 20 percent in the April survey. Somewhat larger net percentages of domestic banks also reported that they had tightened loan covenants for these customers over the past three months than had done so in April. Moreover, almost 50 percent of domestic banks increased premiums charged on riskier loans to large and middle-market firms, about the same as in the previous two surveys. The net fraction of domestic banks that increased the costs of credit lines for small firms rose to 22 percent in August from only 8 percent in April. The net fractions of banks that tightened covenants and increased spreads for small firms also rose somewhat in August relative to the last survey.

The fraction of U.S. branches and agencies of foreign banks that tightened standards and terms on C&I loans remained in an elevated range. The fraction of foreign institutions that had tightened standards for customers seeking C&I loans or credit lines rose to 60 percent in August from about 40 percent in the April survey. From April to August, the percentage of foreign institutions that increased spreads of loan rates over their cost of funds rose from about 60 percent to almost 80 percent, and the percentage that raised premiums on riskier loans also rose from about 50 percent to 75 percent. The fraction of foreign banks that strengthened loan covenants and increased the cost of credit lines also increased in August.

More than 80 percent of the banking institutions that tightened standards or terms on C&I loans over the past three months voiced concerns about the economic outlook, up from 70 percent in the previous survey. Many banks also cited industry-specific problems and an increase in corporate bond defaults as very important reasons for tightening lending policies. The fraction of domestic and foreign respondents that cited reduced tolerance for risk as a reason for tightening their lending policies also remained high. About 60 percent of domestic banks and nearly all of the foreign branches and agencies pointed to concern about further revelations of accounting inaccuracies as at least a somewhat important reason for tightening.

About 45 percent of domestic banks, on net, reported weaker demand for C&I loans from large and middle-market firms in August, up from about one-third in April. The net fraction of banks that reported weaker demand from small firms also rose slightly in August, to 36 percent. The net percentage of foreign branches and agencies reporting weaker demand for C&I loans over the past three months increased to more than one-third in the current survey from about 15 percent in April.

All but one domestic bank that experienced weaker demand reported that a decline in customers' need for bank loans to finance capital expenditures was at least a somewhat important reason for the weakness in demand, and more than one-third of respondents chose this reason as "very important." As in the past several surveys, substantial fractions of banks also reported weaker demand for loans to finance mergers and acquisitions, inventories, and accounts receivable. Out of five domestic banks that reported an increase in demand for C&I loans over the past three months, four of them indicated that the increase was due to a shift in borrowing from other credit sources that became less attractive. The most frequently cited reasons for weaker demand at foreign institutions were a decline in requests for merger and acquisition financing and reduced customer investment in plant and equipment.

Issues related to corporate accounting practices. A series of special questions were aimed at banks' experience with, and response to, the most recent revelations of improper corporate accounting practices. Most domestic banks, and about half of foreign branches and agencies, reported that less than 1 percent of their outstanding C&I loans had been made to companies that had materially changed their prior-period financial statements during the past year or are the subject of investigations relating to their accounting practices. However, three large domestic banks and one foreign bank reported that more than 5 percent of their outstanding C&I loans were to such companies.

A moderate net fraction of domestic and foreign institutions indicated that they have seen some increase in the number of companies that submitted misleading financial information during the past year, and a few domestic banks characterized the increase as notable. In response, the majority of the banking institutions in the survey have begun requesting additional financial detail and increasing the frequency or intensity with which they monitor loans. Many banks also reported that loan covenants have been enforced more strictly and that loan terms had been tightened. Very few domestic banks resorted to calling loans or refusing credits that would have previously been approved, but significant fractions of foreign institutions reported taking such actions.

Banks that had a higher exposure to firms that have been identified as having released false or misleading financial statements were not significantly more likely to have instituted remedies (such as requesting additional financial detail) than banks that had less exposure to those firms. However, banks that indicated that they had seen an increase in the frequency with which firms submitted questionable financial statements (apart from the highly publicized incidents) were more likely to have stepped up their monitoring of loan customers and enforced loan covenants more stringently.

Domestic and foreign institutions reported that regular financial statements received the highest relative weight when they assessed credit risk. By a wide margin, domestic banks reported that credit ratings by independent ratings agencies were the second most important piece of information, on average. In general, domestic banks attached significantly less weight to market measures such as interest rate spreads on company debt and equity prices than did foreign banks. About two-thirds of the domestic and foreign banks surveyed reported that they typically verified that their material business customers were in compliance with the terms and conditions specified in their loan contracts on a quarterly basis, and about one-fourth did so monthly.

Commercial real estate lending. The net fraction of domestic banks that reported tighter standards on commercial real estate loans over the past three months declined further in August, to 25 percent. At branches and agencies of foreign banks, the net percentage reporting tighter standards on such loans increased slightly, to about 30 percent. In the current survey, more than 30 percent of domestic respondents and 20 percent of foreign institutions, on net, noted that demand for commercial real estate loans had weakened, about the same fractions as in April.

A set of special questions addressed banks' exposure to loans that were secured by real estate, and thus reported as commercial real estate lending but in fact were used for commercial and industrial purposes. Most foreign institutions and almost 50 percent of domestic banks reported that less than 10 percent of their commercial real estate loans fit this description. About one-fourth of domestic banks reported that 20 percent or more of their commercial real estate loans were used for purposes other than the acquisition or improvement of real estate. However, only a small net fraction of domestic respondents reported that such lending had increased over the past year.

Lending to Households
(Table 1, questions 15-23)

Only three domestic banks reported that they had tightened lending standards on residential mortgage loans, while one bank reported that it had eased them. On net, about 27 percent of domestic respondents reported increased demand for residential mortgages, up from 6 percent in the previous survey. However, the level of mortgage refinancing has recently been elevated, and the responses to this question are highly correlated with such activity despite our instructions to include only demand for the purchase of new or existing homes.

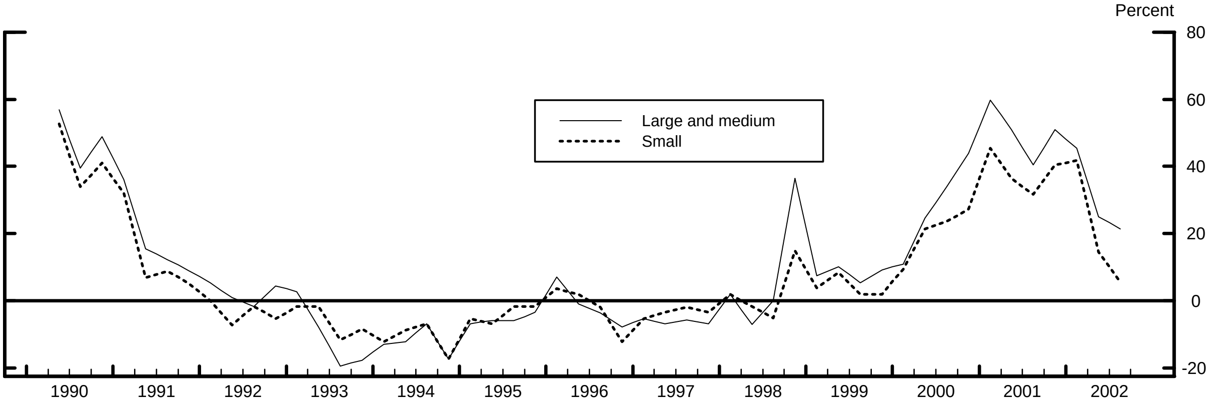
In the current survey, about 15 percent of domestic banks indicated that they had tightened standards on credit card loans over the past three months, a somewhat larger percentage than in April. Terms and conditions on credit card accounts were largely unchanged for the second consecutive survey. For other types of consumer loans, less than 10 percent of banks, on net, reported that they had tightened standards over the past three months, down from one-fifth of banks in the April survey. In addition, about 15 percent of domestic banks raised the minimum required credit score and reduced the number of exceptions granted to customers not meeting credit-scoring thresholds on these loans.

On net, domestic banks reported that demand for consumer loans was somewhat weaker over the past three months, perhaps in part because the incentives offered by major automobile manufacturers and their captive finance companies siphoned business away from these banks. Indeed, a substantial net fraction of banks reported that demand for auto loans had decreased somewhat since the automakers began their latest round of incentives.

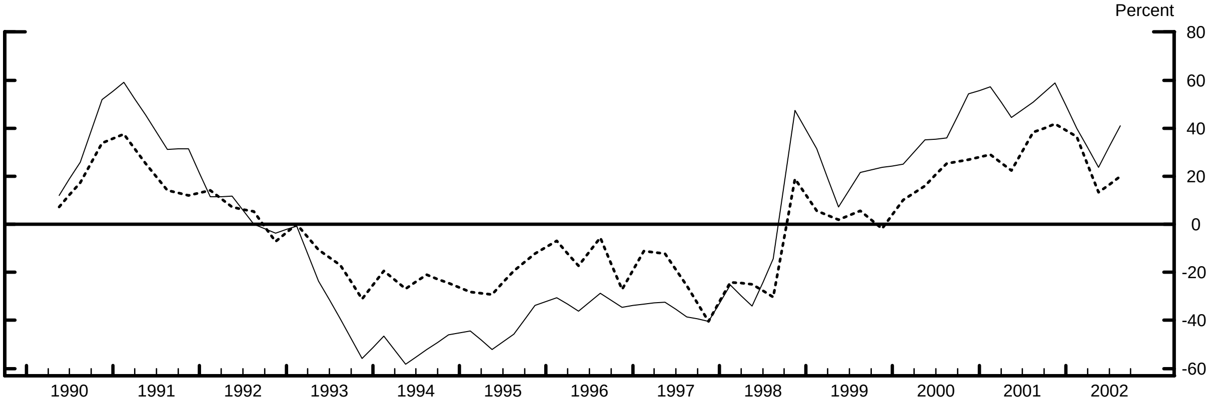
This document was prepared by William Bassett with the research assistance of Amanda Cox, Division of Monetary Affairs, Board of Governors of the Federal Reserve System.

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

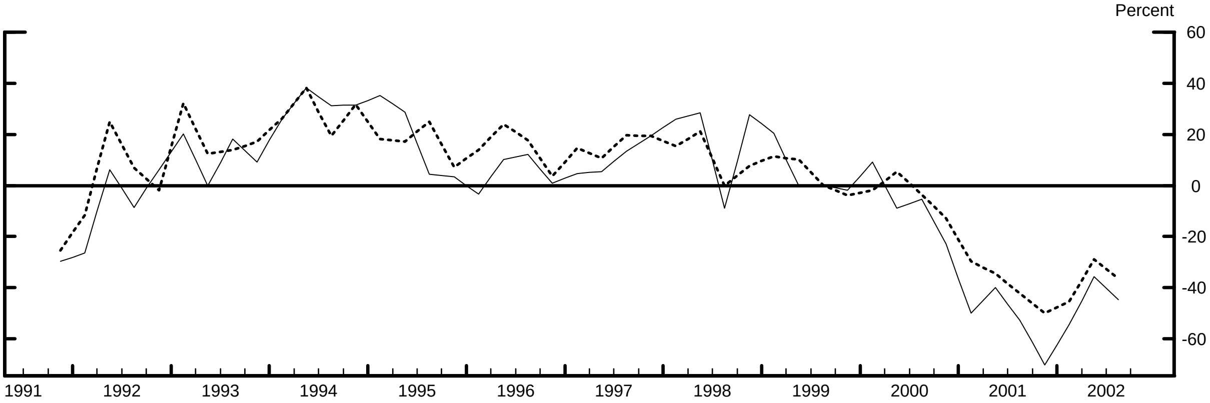
Net Percentage of Domestic Respondents Tightening Standards for C&I Loans



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

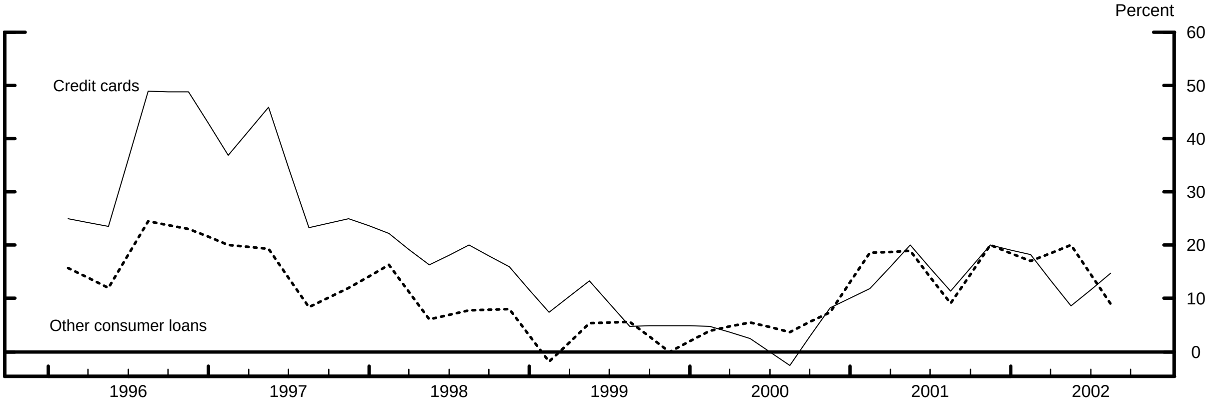


Net Percentage of Domestic Respondents Reporting Stronger Demand for C&I Loans

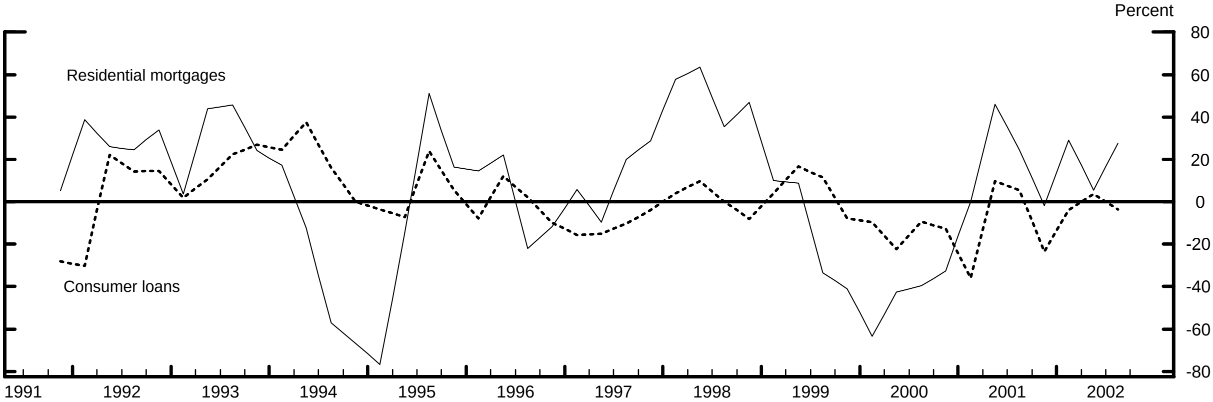


Measures of Supply and Demand for Loans to Households

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

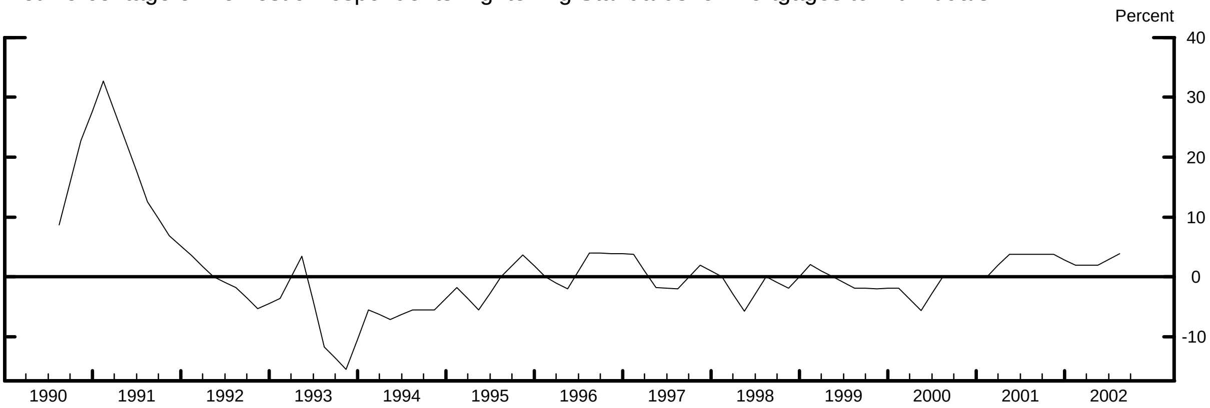


Table 1

SENIOR LOAN OFFICER OPINION SURVEY ON BANK LENDING PRACTICES
AT SELECTED LARGE BANKS IN THE UNITED STATES[1]
(Status of policy as of August 2002)

***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	13	23.2	9	30.0	4	15.4
Remained basically unchanged	42	75.0	21	70.0	21	80.8
Eased somewhat	1	1.8	0	0.0	1	3.8
Eased considerably	0	0.0	0	0.0	0	0.0
Total	56	100.0	30	100.0	26	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	5	9.1	2	6.9	3	11.5
Remained basically unchanged	48	87.3	27	93.1	21	80.8
Eased somewhat	2	3.6	0	0.0	2	7.7
Eased considerably	0	0.0	0	0.0	0	0.0
Total	55	100.0	29	100.0	26	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 March 29, 2002. The combined assets of the 30 large banks totaled $2.64 trillion, compared to $2.91 trillion for the entire panel of 56 banks, and $5.72 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	2.70	2.67	2.73
Costs of credit lines	2.55	2.40	2.73
Spreads of loan rates over your bank's cost of funds (wider spreads=tightened, narrower spreads=eased)	2.57	2.50	2.65
Premiums charged on riskier loans	2.36	2.17	2.58
Loan covenants	2.64	2.63	2.65
Collateralization requirements	2.70	2.67	2.73
Other	2.96	2.93	3.00
Number of banks responding	56	30	26

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	2.96	2.97	2.96
Costs of credit lines	2.76	2.69	2.85
Spreads of loan rates over your bank's cost of funds (wider spreads=tightened, narrower spreads=eased)	2.80	2.79	2.81
Premiums charged on riskier loans	2.64	2.55	2.73
Loan covenants	2.82	2.83	2.81
Collateralization requirements	2.84	2.83	2.85
Other	2.96	2.93	3.00
Number of banks responding	55	29	26

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	1.12	1.05	1.21
Less favorable or more uncertain economic outlook	2.06	2.15	1.93
Worsening of industry-specific problems	1.82	2.00	1.57
Less aggressive competition from other banks or nonbank lenders (other financial intermediaries or the capital markets)	1.26	1.30	1.21
Reduced tolerance for risk	1.76	1.75	1.79
Decreased liquidity in the secondary market for these loans	1.44	1.45	1.43
Increase in defaults by borrowers in public debt markets	1.71	1.90	1.43
Increased concern about further revelations of accounting irregularities	1.59	1.65	1.50
Other	1.15	1.15	1.14
Number of banks responding	34	20	14

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	1.00	1.00	1.00
More favorable or less uncertain economic outlook	1.40	1.00	1.67
Improvement in industry-specific problems	1.20	1.00	1.33
More aggressive competition from other banks or nonbank lenders (other financial intermediaries or the capital markets)	2.00	2.50	1.67
Increased tolerance for risk	1.40	1.50	1.33
Increased liquidity in the secondary market for these loans	1.00	1.00	1.00
Reduction in defaults by borrowers in public debt markets	1.00	1.00	1.00
Decreased concern about further revelations of accounting irregularities	1.00	1.00	1.00
Other	1.00	1.00	1.00
Number of banks responding	5	2	3

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	3	5.4	1	3.3	2	7.7
About the same	25	44.6	16	53.3	9	34.6
Moderately weaker	24	42.9	10	33.3	14	53.8
Substantially weaker	4	7.1	3	10.0	1	3.8
Total	56	100.0	30	100.0	26	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	2	3.6	0	0.0	2	7.7
About the same	31	56.4	21	72.4	10	38.5
Moderately weaker	22	40.0	8	27.6	14	53.8
Substantially weaker	0	0.0	0	0.0	0	0.0
Total	55	100.0	29	100.0	26	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	1.40	1.00	1.50
Customer accounts receivable financing needs increased	1.40	1.00	1.50
Customer investment in plant or equipment increased	1.40	1.00	1.50
Customer internally generated funds decreased	1.40	2.00	1.25
Customer merger or acquisition financing needs increased	1.40	1.00	1.50
Customer borrowing shifted to your bank from other bank or nonbank credit sources because these other sources became less attractive	2.40	3.00	2.25
Other	1.00	1.00	1.00
Number of banks responding	5	1	4

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	1.87	1.87	1.87
Customer accounts receivable financing needs decreased	1.87	1.87	1.87
Customer investment in plant or equipment decreased	2.33	2.40	2.27
Customer internally generated funds increased	1.60	1.67	1.53
Customer merger or acquisition financing needs decreased	2.00	2.33	1.67
Customer borrowing shifted from your bank to other bank or nonbank credit sources because these other sources became more attractive	1.23	1.33	1.13
Other	1.00	1.00	1.00
Number of banks responding	30	15	15

Over the past year, a number of large companies have admitted to providing inadequate or misleading financial statements to the public and regulatory authorities. ***Questions 6-7*** *ask about your bank's exposure to companies that have provided misleading information in their dealings with your bank.* ***Question 8*** *asks about your bank's response to the revelations of improper accounting practices.*

6. Approximately what percentage of your bank's outstanding C&I loans (as opposed to undrawn loan facilities) are to firms that have materially changed their prior period financial statements during the past year or are the subject of either civil or criminal investigations by regulatory or other authorities relating to their accounting practices?

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
None	12	21.8	2	6.9	10	38.5
Less than 1 percent	32	58.2	18	62.1	14	53.8
At least 1 percent but less than 2 percent	3	5.5	2	6.9	1	3.8
At least 2 percent but less than 5 percent	5	9.1	4	13.8	1	3.8
At least 5 percent	3	5.5	3	10.3	0	0.0
Total	55	100.0	29	100.0	26	100.0

7. Apart from highly publicized incidents, has your bank detected any change in the frequency with which firms have submitted erroneous or misleading financial statements to you in the loan approval process over the past year?

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Notable decrease	0	0.0	0	0.0	0	0.0
Some decrease	1	1.8	1	3.3	0	0.0
No change	45	80.4	23	76.7	22	84.6
Some increase	7	12.5	4	13.3	3	11.5
Notable increase	3	5.4	2	6.7	1	3.8
Total	56	100.0	30	100.0	26	100.0

8. Please rate, in terms of the frequency or stringency with which they have been pursued, the following possible actions taken by your bank in response to the spate of revelations of accounting improprieties over the past year. (Please assign *each* possible action a number between 1 and 3 using the following scale: 1=with the same frequency/stringency, 2=with somewhat greater frequency/ stringency, 3=with substantially greater frequency/stringency.)

A. Possible courses of action for existing loans:

	All Respondents	Large Banks	Other Banks
	Mean	Mean	Mean
Examining and evaluating financial statements	1.55	1.53	1.58
Requesting additional financial detail from loan customers	1.75	1.73	1.77
Monitoring loans	1.57	1.63	1.50
Enforcing loan covenants	1.41	1.30	1.54
Calling loans	1.04	1.00	1.08
Other	1.07	1.13	1.00
Number of banks responding	56	30	26

B. Possible courses of action for new loans and renewal of existing loans: (Revised)

	All Respondents	Large Banks	Other Banks
	Mean	Mean	Mean
Requiring more financial detail from loan customers	1.77	1.60	1.96
Monitoring loans	1.64	1.70	1.58
Scrutinizing material adverse change clauses	1.57	1.53	1.62
Tightening loan terms (e.g. increased collateral, stricter covenants)	1.57	1.57	1.58
Denying new loans that previously would have been approved	1.32	1.27	1.38
Other	1.11	1.20	1.00
Number of banks responding	56	30	26

Questions 9-10** ask about your bank's policies for assessing and managing **counterparty credit risk.

9. When assessing counterparty credit risk for material business customers,[2] please indicate the relative weight given to each of the following pieces of information. (Please assign each source a number between 1 and 5 where 1=low weight and 5=high weight.)

	All Respondents	Large Banks	Other Banks
	Mean	Mean	Mean
Informal contacts with management	2.85	2.83	2.88
Financial statements	4.45	4.43	4.48
Credit ratings by independent agencies	3.95	4.10	3.76
Senior debt spreads	2.87	3.00	2.72
Subordinated debt spreads	2.47	2.50	2.44
Equity prices	2.45	2.60	2.28
Independent model-based estimated default probabilities (e.g. KMV)	2.36	2.73	1.92
Information from trade publications and other news sources	2.85	2.97	2.72
Other	1.15	1.20	1.08
Number of banks responding	55	30	25

10. Typically, how often do you verify that your material business customers are in compliance with the terms and conditions specified in their loan contracts or other credit agreements?

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
At least once a week	0	0.0	0	0.0	0	0.0
Bi-weekly	0	0.0	0	0.0	0	0.0
Monthly	14	25.9	9	31.0	5	20.0
Quarterly	35	64.8	17	58.6	18	72.0
Other	5	9.3	3	10.3	2	8.0
Total	54	100.0	29	100.0	25	100.0

2. A material business customer is one that represents a material risk exposure, as indicated, for example, by the size of the overall relationship with the customer, the customer's risk rating, and the complexity of the customer's business model.

Questions 11-14 *ask about* ***commercial real estate loans*** *at your bank, including construction and land development loans and loans secured by nonfarm nonresidential real estate. Question 11 deals with changes in your bank's standards over the last three months. Question 12 deals with changes in demand. Questions 13-14 ask about commercial real estate loans to commercial and industrial firms that are used for purposes other than the aquisition 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 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.*

11. 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	14	25.5	7	24.1	7	26.9
Remained basically unchanged	41	74.5	22	75.9	19	73.1
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	29	100.0	26	100.0

12. 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	8	14.5	4	13.8	4	15.4
About the same	21	38.2	9	31.0	12	46.2
Moderately weaker	24	43.6	16	55.2	8	30.8
Substantially weaker	2	3.6	0	0.0	2	7.7
Total	55	100.0	29	100.0	26	100.0

13. 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. Of the outstanding commercial real estate loans at your bank, about what percent was to commercial and industrial firms for purposes other than the acquisition or improvement of real estate?

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Less than 2 percent	8	15.1	6	21.4	2	8.0
Between 2 percent and 5 percent	8	15.1	7	25.0	1	4.0
Between 5 percent and 10 percent	9	17.0	5	17.9	4	16.0
Between 10 percent and 20 percent	15	28.3	6	21.4	9	36.0
Between 20 percent and 30 percent	6	11.3	2	7.1	4	16.0
More than 30 percent	7	13.2	2	7.1	5	20.0
Total	53	100.0	28	100.0	25	100.0

14. Relative to one year ago, how has the volume of these commercial real estate loans used for commercial and industrial purposes 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	5	9.3	4	14.3	1	3.8
Remained basically unchanged	41	75.9	23	82.1	18	69.2
Increased somewhat	8	14.8	1	3.6	7	26.9
Increased considerably	0	0.0	0	0.0	0	0.0
Total	54	100.0	28	100.0	26	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	3	5.9	1	3.6	2	8.7
Remained basically unchanged	47	92.2	27	96.4	20	87.0
Eased somewhat	1	2.0	0	0.0	1	4.3
Eased considerably	0	0.0	0	0.0	0	0.0
Total	51	100.0	28	100.0	23	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	1	2.0	1	3.6	0	0.0
Moderately stronger	18	35.3	9	32.1	9	39.1
About the same	27	52.9	17	60.7	10	43.5
Moderately weaker	4	7.8	1	3.6	3	13.0
Substantially weaker	1	2.0	0	0.0	1	4.3
Total	51	100.0	28	100.0	23	100.0

Questions 17-23 *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. Questions 22-23 deal 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	2	3.7	1	3.6	1	3.8
Somewhat more willing	3	5.6	1	3.6	2	7.7
About unchanged	47	87.0	25	89.3	22	84.6
Somewhat less willing	2	3.7	1	3.6	1	3.8
Much less willing	0	0.0	0	0.0	0	0.0
Total	54	100.0	28	100.0	26	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	5	14.7	2	11.1	3	18.8
Remained basically unchanged	29	85.3	16	88.9	13	81.3
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	18	100.0	16	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	8	14.5	5	17.2	3	11.5
Remained basically unchanged	44	80.0	23	79.3	21	80.8
Eased somewhat	3	5.5	1	3.4	2	7.7
Eased considerably	0	0.0	0	0.0	0	0.0
Total	55	100.0	29	100.0	26	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	3.06	3.00
Spreads of interest rates charged on outstanding balances over your bank's cost of funds (wider spreads=tightened, narrower spreads=eased)	2.94	2.94	2.94
Minimum percent of outstanding balances required to be repaid each month	3.00	3.00	3.00
Minimum required credit score (increased score=tightened, reduced score=eased)	2.94	3.00	2.88
The extent to which loans are granted to some customers that do not meet credit scoring thresholds (increased=eased, decreased=tightened)	2.91	2.88	2.94
Other	3.00	3.00	3.00
Number of banks responding	33	17	16

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	3.02	3.00	3.04
Spreads of loan rates over your bank's cost of funds (wider spreads=tightened, narrower spreads=eased)	3.00	3.00	3.00
Minimum required down payment	2.98	3.03	2.92
Minimum required credit score (increased score=tightened, reduced score=eased)	2.85	2.86	2.85
The extent to which loans are granted to some customers that do not meet credit scoring thresholds (increased=eased, decreased=tightened)	2.80	2.76	2.85
Other	3.00	3.00	3.00
Number of banks responding	55	29	26

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	1	1.8	1	3.4	0	0.0
Moderately stronger	8	14.5	5	17.2	3	11.5
About the same	35	63.6	16	55.2	19	73.1
Moderately weaker	11	20.0	7	24.1	4	15.4
Substantially weaker	0	0.0	0	0.0	0	0.0
Total	55	100.0	29	100.0	26	100.0

23. Over the past three months, how has demand for automobile loans at your bank been affected by zero-interest financing and other incentives offered by the major automobile manufacturers and their captive finance companies?

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Substantially increased	0	0.0	0	0.0	0	0.0
Moderately increased	6	11.8	4	15.4	2	8.0
About the same	26	51.0	15	57.7	11	44.0
Moderately decreased	19	37.3	7	26.9	12	48.0
Substantially decreased	0	0.0	0	0.0	0	0.0
Total	51	100.0	26	100.0	25	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 August 2002)

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	2	10.0
Tightened somewhat	10	50.0
Remained basically unchanged	8	40.0
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	2.20
Costs of credit lines	2.25
Spreads of loan rates over your bank's cost of funds (wider spreads=tightened, narrower spreads=eased)	2.15
Premiums charged on riskier loans	2.10
Loan covenants	2.45
Collateralization requirements	2.45
Other	2.95
Total	20

1. As of March 29, 2002, the 20 respondents had combined assets of $293 billion, compared to $934 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	1.35
Less favorable or more uncertain economic outlook	2.35
Worsening of industry-specific problems	2.65
Less aggressive competition from other banks or nonbank lenders (other financial intermediaries or the capital markets)	1.18
Reduced tolerance for risk	2.06
Decreased liquidity in the secondary market for these loans	1.82
Increase in defaults by borrowers in public debt markets	2.00
Increased concern about further revelations of accounting irregularities	2.12
Other	1.00
Number of banks responding	17

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

	All Respondents
	Mean
Improvement in your bank's current or expected capital position	0.00
More favorable or less uncertain economic outlook	0.00
Improvement in industry-specific problems	0.00
More aggressive competition from other banks or nonbank lenders (other financial intermediaries or the capital markets)	0.00
Increased tolerance for risk	0.00
Increased liquidity in the secondary market for these loans	0.00
Reduction in defaults by borrowers in public debt markets	0.00
Decreased concern about further revelations of accounting irregularities	0.00
Other	0.00
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	0	0.0
About the same	13	65.0
Moderately weaker	7	35.0
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	0.00
Customer accounts receivable financing needs increased	0.00
Customer investment in plant or equipment increased	0.00
Customer internally generated funds decreased	0.00
Customer merger or acquisition financing needs increased	0.00
Customer borrowing shifted to your bank from other bank or nonbank sources because these other sources became less attractive	0.00
Other	0.00
Number of banks responding	0

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

	All Respondents
	Mean
Customer inventory financing needs decreased	2.00
Customer accounts receivable financing needs decreased	2.00
Customer investment in plant or equipment decreased	2.50
Customer internally generated funds increased	1.33
Customer merger or acquisition financing needs decreased	2.50
Customer borrowing shifted from your bank to other bank or nonbank credit sources because these other sources became more attractive	1.17
Other	1.00
Number of banks responding	6

Over the past year, a number of large companies have admitted to providing inadequate or misleading financial statements to the public and regulatory authorities. ***Questions 6-7*** *ask about your bank's exposure to companies that have provided misleading information in their dealings with your bank.* ***Question 8*** *asks about your bank's response to the revelations of improper accounting practices.*

6. Approximately what percentage of your bank's outstanding C&I loans (as opposed to undrawn loan facilities) are to firms that have materially changed their prior period financial statements during the past year or are the subject of either civil or criminal investigations by regulatory or other authorities relating to their accounting practices?

	All Respondents	
	Banks	Pct
None	2	10.0
Less than 1 percent	9	45.0
At least 1 percent but less than 2 percent	6	30.0
At least 2 percent but less than 5 percent	2	10.0
At least 5 percent	1	5.0
Total	20	100.0

7. Apart from highly publicized incidents, has your bank detected any change in the frequency with which firms have submitted erroneous or misleading financial statements to you in the loan approval process over the past year?

	All Respondents	
	Banks	Pct
Notable decrease	0	0.0
Some decrease	0	0.0
No change	17	85.0
Some increase	3	15.0
Notable increase	0	0.0
Total	20	100.0

8. Please rate, in terms of the frequency or stringency with which they have been pursued, the following possible actions taken by your bank in response to the spate of revelations of accounting improprieties over the past year. (Please assign *each* possible action a number between 1 and 3 using the following scale: 1=with the same frequency/stringency, 2=with somewhat greater frequency/ stringency, 3=with substantially greater frequency/stringency.)

A. Possible courses of action for existing loans:

	All Respondents
	Mean
Examining and evaluating financial statements	2.05
Requesting additional financial detail from loan customers	2.10
Monitoring loans	2.05
Enforcing loan covenants	1.50
Calling loans	1.25
Other	1.00
Number of banks responding	20

B. Possible courses of action for new loans and renewal of existing loans:

	All Respondents
	Mean
Requiring more financial detail from loan customers	2.30
Monitoring loans	2.05
Scrutinizing material adverse change clauses	1.85
Tightening loan terms (e.g. increased collateral, stricter covenants)	1.95
Denying new loans that previously would have been approved	1.50
Other	1.00
Number of banks responding	20

Questions 9-10 *ask about your bank's policies for assessing and managing* ***counterparty credit risk.***

9. When assessing counterparty credit risk for material business customers,[2] please indicate the relative weight given to each of the following pieces of information. (Please assign each source a number between 1 and 5 where 1=low weight and 5=high weight.)

	All Respondents
	Mean
Informal contacts with management	3.25
Financial statements	4.80
Credit ratings by independent agencies	3.65
Senior debt spreads	3.10
Subordinated debt spreads	2.50
Equity prices	3.40
Independent model-based estimated default probabilities (e.g. KMV)	3.45
Information from trade publications and other news sources	3.50
Other	1.15
Number of banks responding	20

10. Typically, how often do you verify that your material business customers are in compliance with the terms and conditions specified in their loan contracts or other credit agreements?

	All Respondents	
	Banks	Pct
At least once a week	1	5.0
Bi-weekly	0	0.0
Monthly	3	15.0
Quarterly	12	60.0
Other	4	20.0
Total	20	100.0

2. A material business customer is one that represents a material risk exposure, as indicated, for example, by the size of the overall relationship with the customer, the customer's risk rating, and the complexity of the customer's business model.

Questions 11-14 *ask about* ***commercial real estate loans*** *at your bank, including construction and land development loans and loans secured by nonfarm nonresidential real estate. Question 11 deals with changes in your bank's standards over the last three months. Question 12 deals with changes in demand. Questions 13--14 ask about commercial real estate loans to commercial and industrial firms that are used for purposes other than the aquisition 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 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.*

11. 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	3	27.3
Remained basically unchanged	8	72.7
Eased somewhat	0	0.0
Eased considerably	0	0.0
Total	11	100.0

12. 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	0	0.0
About the same	9	81.8
Moderately weaker	2	18.2
Substantially weaker	0	0.0
Total	11	100.0

13. 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. Of the outstanding commercial real estate loans at your bank, about what percent was to commercial and industrial firms for purposes other than the acquisition or improvement of real estate?

	All Respondents	
	Banks	Pct
Less than 2 percent	7	58.3
Between 2 percent and 5 percent	0	0.0
Between 5 percent and 10 percent	1	8.3
Between 10 percent and 20 percent	1	8.3
Between 20 percent and 30 percent	2	16.7
More than 30 percent	1	8.3
Total	12	100.0

14. Relative to one year ago, how has the volume of these commercial real estate loans used for commercial and industrial purposes changed at your bank?

	All Respondents	
	Banks	Pct
Decreased considerably	0	0.0
Decreased somewhat	1	8.3
Remained basically unchanged	11	91.7
Increased somewhat	0	0.0
Increased considerably	0	0.0
Total	12	100.0