BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

DIVISION OF MONETARY AFFAIRS

For release at 2:00 p.m. ET November 15, 2004

TO: HEADS OF RESEARCH AT ALL FEDERAL RESERVE BANKS

Enclosed for distribution to respondents is a national summary of the October 2004 Senior Loan Officer Opinion Survey on Bank Lending Practices.

Enclosures

Board of Governors of the Federal Reserve System

The October 2004 Senior Loan Officer Opinion Survey on Bank Lending Practices

The October 2004 Senior Loan Officer Opinion Survey on Bank Lending Practices addressed changes in the supply of, and demand for, bank loans to businesses and households over the past three months. The survey also contained additional questions on recent changes in the degree of competition from alternative sources of funds in the commercial and industrial (C&I) loan market and on banks' outlook for business loan credit quality over the next year. Responses were received from fifty-seven domestic banks and twenty foreign institutions.

Both domestic banks and U.S. branches and agencies of foreign banks further eased lending standards and terms for C&I loans over the past three months. Banks that eased standards or terms reported having done so in response to increased competition from other U.S. banks as well as from a wide range of alternative sources of business credit. A sizable net fraction of domestic and foreign institutions also reported an easing of lending standards for commercial real estate loans. On balance, domestic and foreign banks reported stronger demand for both C&I and commercial real estate loans. Standards and terms on loans to households were little changed. Demand for residential mortgages and consumer loans reportedly declined, on net.

C&I Lending
(Table 1, questions 1-9; Table 2, questions 1-9)

In the October survey, both domestic banks and U.S. branches and agencies of foreign banks reported a further net easing of credit standards on C&I loans. More than one-fifth of domestic banks, on net, reported having eased their lending standards for large and middle-market firms, about the same fraction as in the July survey. A similar percentage of these institutions also indicated that they had eased their lending standards for small firms, a noticeable increase from the 4 percent net easing in the previous survey. The share of U.S. branches and agencies of foreign banks that reported easier lending standards for C&I loans was 35 percent, little changed from the July survey.

Both domestic and foreign institutions indicated that they had continued easing many lending terms on C&I loans over the past three months. On net, about 50 percent of domestic banks reported that they had narrowed spreads of loan rates over their cost of funds for large and middle-market borrowers, and nearly 40 percent had done so for small firms, up from about 30 percent in each case in the July survey. More than half of the foreign institutions reported narrowing spreads on their C&I loans in the latest survey. In addition, roughly one-third of both domestic and foreign respondents indicated that they had eased terms on credit lines by reducing the costs of these lines and increasing their maximum size.

Almost all domestic and all foreign respondents cited more aggressive competition from other banks or nonbank lenders as the most important reason for easing their lending standards and terms over the previous three months. About three-quarters of domestic banks that had eased their lending posture also cited a more favorable or less uncertain economic outlook as a reason. Not as many foreign institutions were optimistic about the economy, but 60 percent, on net, pointed to an increased tolerance for risk as a reason for easing. The few domestic banks that tightened standards or terms over the past three months said they were motivated to do so by a worsening of industry-specific problems or reduced tolerance for risk.

Because respondent banks have consistently reported that they have eased standards or terms in response to increased competition from other sources of business credit, this survey included two special questions on the nature of this competition. Forty-three domestic respondents and fifteen foreign respondents indicating that they had experienced increased competition from other sources of credit this year reported that the greatest increases came from the U.S. commercial banking sector. For domestic institutions, and especially for the largest commercial banks in the sample, the second-most-cited source of increased competition was investment banks. At foreign institutions, the second biggest increase in competitive pressure came from other foreign banks. Both domestic and foreign institutions also indicated greater competitive pressure from a wide range of other sources of business credit. The majority of those respondents expressing an opinion indicated that the increased competitive pressure reflected a permanent, rather than a temporary, change in the structure of the C&I loan market. However, one-half of domestic respondents and about one-third of foreign bank respondents felt that the nature of this shift was not clear at this point.

An additional question asked banks about their outlook for the credit quality of business loans over the next year. A majority of the domestic and foreign respondents indicated that loan quality is likely to stabilize around current levels if economic activity progresses in line with consensus forecasts. On net, the remaining domestic and foreign banks indicated that loan quality would likely continue to improve.

On net, about one-fourth of domestic institutions reported an increase in demand for C&I loans from large, middle-market, and small firms, a smaller fraction than in the July survey. In addition, 38 percent, on net, reported an increase in the number of inquiries from potential business borrowers. In contrast, only 5 percent of foreign respondents, on net, indicated that demand for C&I loans was stronger, while the number of inquiries from potential borrowers at these institutions decreased.
As was the case in previous surveys, most of the domestic respondents that had experienced stronger loan demand cited as important reasons borrowers' increased financing needs for accounts receivable and inventories as well as for investment in plant

and equipment. Almost two-thirds of domestic respondents indicated that customer borrowing had shifted to their banks from other banks or nonbank sources of credit because these other sources had become less attractive. On the other hand, a large majority of the domestic banks that reported weaker demand pointed to borrowers leaving their banks for more attractive sources of credit as an important reason. In addition, these banks indicated that their customers' investment activity had declined and that internally generated funds had increased.

Commercial Real Estate Lending
(Table 1, questions 10-11; Table 2, questions 10-11)

Almost one-fifth of domestic banks, on net, reported an easing of lending standards on commercial real estate loans over the past three months, double the fraction in the previous two surveys. The net percentage of domestic banks that had experienced an increase in demand for this type of loans was about unchanged from July at 23 percent in October. In addition, 15 percent of foreign institutions, on net, reported stronger demand for commercial real estate loans over the past three months.

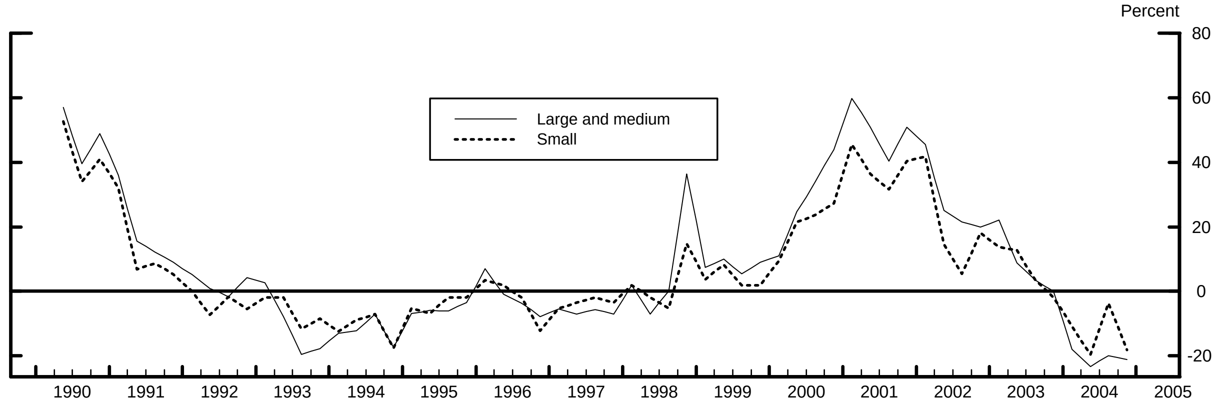
Lending to Households
(Table 1, questions 14-19)

In the October survey, credit standards on residential mortgage loans and other loans to consumers were little changed, on net, at domestic banks. Terms on credit card and other consumer loans were also little changed, on net, but a modest fraction of banks reported an increased willingness to make consumer installment loans. Demand for residential mortgages and consumer loans continued to weaken. About 25 percent of banks, on net, reported weaker demand for mortgages to purchase homes, compared with 8 percent in July. Nearly a third of domestic respondents reported weaker demand for consumer loans, up from 12 percent in the previous survey.

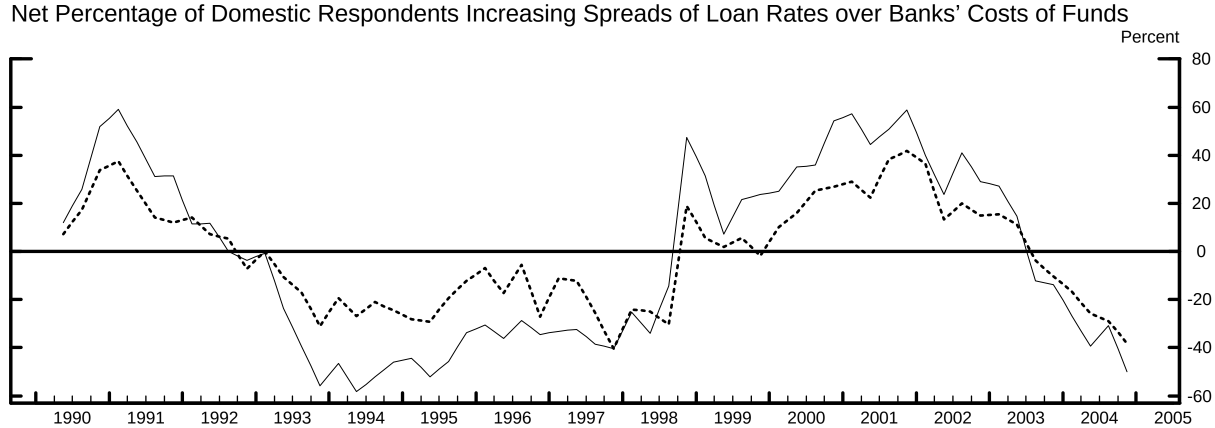
This document was prepared by William Bassett and Fabio Natalucci with the research assistance of Arshia Burney, Division of Monetary Affairs, Board of Governors of the Federal Reserve System.

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

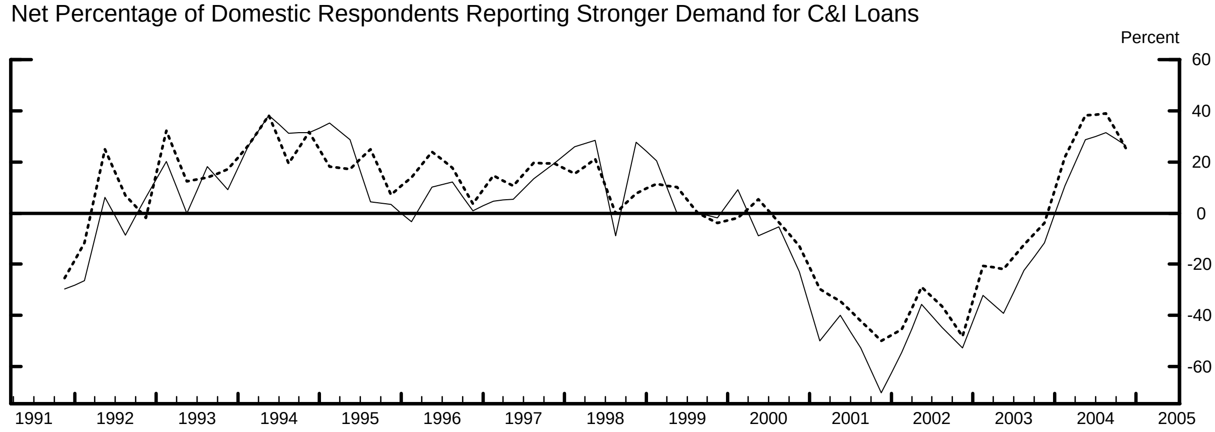
Net Percentage of Domestic Respondents Tightening Standards for C&I Loans



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

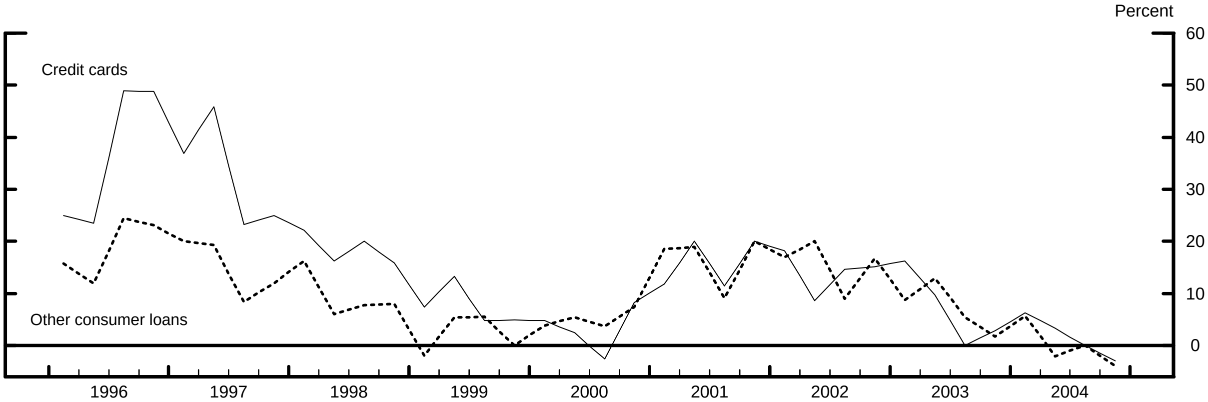


Net Percentage of Domestic Respondents Reporting Stronger Demand for C&I Loans

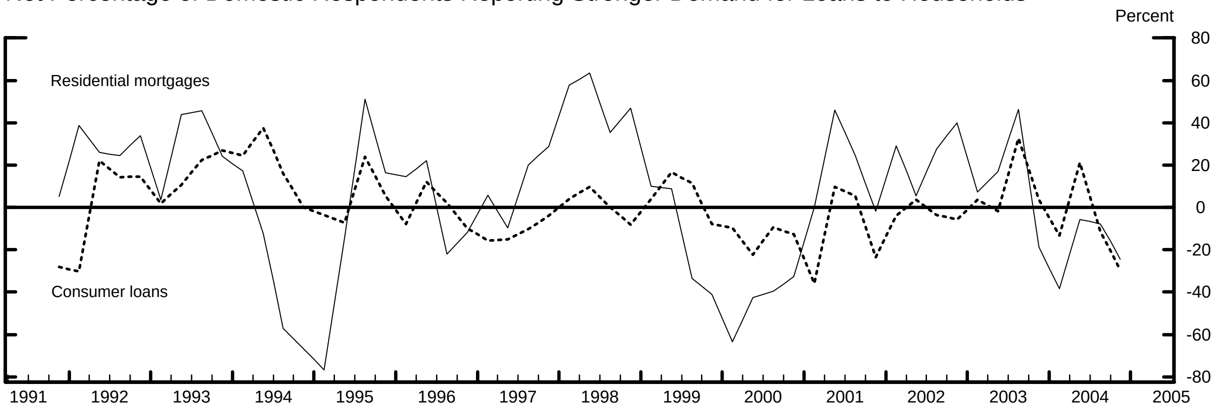


Measures of Supply and Demand for Loans to Households

Net Percentage of Domestic Respondents Tightening Standards on Consumer Loans



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



Net Percentage of Domestic Respondents Tightening Standards for Mortgages to Individuals

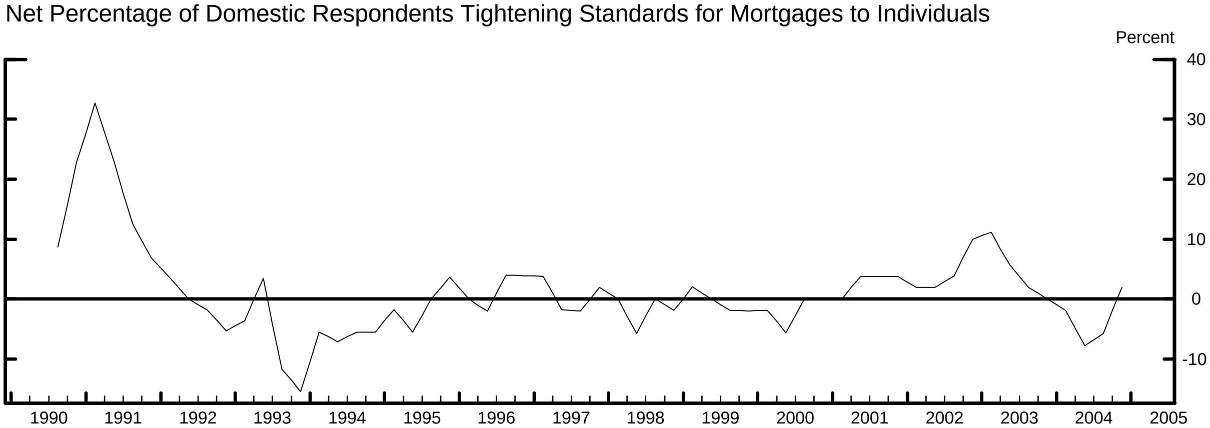


Table 1

SENIOR LOAN OFFICER OPINION SURVEY ON BANK LENDING PRACTICES
AT SELECTED LARGE BANKS IN THE UNITED STATES[1]
(Status of policy as of October 2004)

***Questions 1-3** ask about changes in your bank's **commercial and industrial** (C&I) lending policies over the past three months. If your bank's lending policies have not changed over the past three months, please report them as unchanged even if the policies are either restrictive or accommadtive 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? (If your bank defines firm size differently from the categories suggested below, please use your definitions and indicate what they are.)

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	0	0.0	0	0.0	0	0.0
Remained basically unchanged	45	78.9	27	77.1	18	81.8
Eased somewhat	12	21.1	8	22.9	4	18.2
Eased considerably	0	0.0	0	0.0	0	0.0
Total	57	100.0	35	100.0	22	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	1	1.8	1	2.9	0	0.0
Remained basically unchanged	43	78.2	26	76.5	17	81.0
Eased somewhat	11	20.0	7	20.6	4	19.0
Eased considerably	0	0.0	0	0.0	0	0.0
Total	55	100.0	34	100.0	21	100.0

1. The sample is selected from among the largest banks in each Federal Reserve District. In the table, large banks are defined as those with total domestic assets of $20 billion or more as of June 30, 2004. The combined assets of the 35 large banks totaled $3.62 trillion, compared to $3.84 trillion for the entire panel of 57 banks, and $7.04 trillion for all domestically chartered, federally insured commercial banks.

2. For applications for C&I loans or credit lines--other than those to be used to finance mergers and acquisitions--from large and middle-market firms and from small firms that your bank currently is willing to approve, how have the terms of those loans changed over the past three months? (Please assign each term a number between 1 and 5 using the following scale: 1=tightened considerably, 2=tightened somewhat, 3=remained basically unchanged, 4=eased somewhat, 5=eased considerably.)

A. Terms for large and middle-market firms (annual sales of $50 million or more):

	All Respondents	Large Banks	Other Banks
	Mean	Mean	Mean
Maximum size of credit lines	3.31	3.27	3.36
Costs of credit lines	3.35	3.39	3.27
Spreads of loan rates over your bank's cost of funds (wider spreads=tightened, narrower spreads=eased)	3.52	3.56	3.45
Premiums charged on riskier loans	3.21	3.24	3.18
Loan covenants	3.16	3.18	3.14
Collateralization requirements	3.00	2.94	3.09
Other	4.00	4.00	0.00
Number of banks responding	56	34	22

B. Terms for small firms (annual sales of less than $50 million):

	All Respondents	Large Banks	Other Banks
	Mean	Mean	Mean
Maximum size of credit lines	3.13	3.09	3.19
Costs of credit lines	3.24	3.24	3.24
Spreads of loan rates over your bank's cost of funds (wider spreads=tightened, narrower spreads=eased)	3.40	3.38	3.43
Premiums charged on riskier loans	3.11	3.12	3.10
Loan covenants	3.18	3.21	3.14
Collateralization requirements	2.98	2.97	3.00
Other	3.50	3.50	3.50
Number of banks responding	55	34	21

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	1.13	1.00	1.33
Less favorable or more uncertain economic outlook	1.38	1.00	2.00
Worsening of industry-specific problems	1.86	1.80	2.00
Less aggressive competition from other banks or nonbank lenders (other financial intermediaries or the capital markets)	1.00	1.00	1.00
Reduced tolerance for risk	1.75	1.40	2.33
Decreased liquidity in the secondary market for these loans	1.00	1.00	1.00
Increase in defaults by borrowers in public debt markets	1.00	1.00	1.00
Other	1.00	1.00	0.00
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
Improvement in your bank's current or expected capital position	1.23	1.35	1.00
More favorable or less uncertain economic outlook	1.87	1.90	1.80
Improvement in industry-specific problems	1.36	1.42	1.22
More aggressive competition from other banks or nonbank lenders (other financial intermediaries or the capital markets)	2.47	2.43	2.55
Increased tolerance for risk	1.43	1.45	1.40
Increased liquidity in the secondary market for these loans	1.33	1.45	1.10
Reduction in defaults by borrowers in public debt markets	1.31	1.37	1.20
Other	2.00	2.00	0.00
Number of banks responding	32	21	11

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

4. If your bank has eased standards or terms since the beginning of the year as a result of greater competitive pressures in the C&I loan market, how has the degree of competition from the following alternative sources of funds changed during that period? (Please assign, for those entities listed that your bank views as a potential source of credit for your C&I customers, a number between 1 and 5 using the following scale: 1=increased considerably, 2=increased somewhat, 3=has been little changed, 4=decreased somewhat, 5=decreased considerably.)

	All Respondents	Large Banks	Other Banks
	Mean	Mean	Mean
Capital markets (commercial paper, bonds, equity)	2.54	2.48	2.67
Special purpose investment vehicles (for example, collaterized loan obligations)	2.57	2.43	2.83
Insurance companies	2.76	2.71	2.86
Investment banks	2.46	2.29	2.77
U.S. commercial banks	1.74	1.74	1.75
Foreign banks	2.52	2.54	2.44
Hedge funds	2.72	2.62	3.00
Other	2.00	0.00	2.00
Number of banks responding	43	27	16

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

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Primarily temporary, reflecting current economic conditions	11	21.6	6	18.2	5	27.8
Primarily permanent, reflecting a change in the structure of the C&I loan market	15	29.4	10	30.3	5	27.8
Not clear at this point	25	49.0	17	51.5	8	44.4
Total	51	100.0	33	100.0	18	100.0

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

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Loan quality is likely to continue to improve	16	28.1	10	28.6	6	27.3
Loan quality is likely to stabilize around current levels	37	64.9	24	68.6	13	59.1
Loan quality is likely to begin to decline	4	7.0	1	2.9	3	13.6
Total	57	100.0	35	100.0	22	100.0

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

7. Apart from normal seasonal variation, how has demand for C&I loans changed over the past three months? (Please consider only funds actually disbursed as opposed to requests for new or increased lines of credit.)

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	21	36.8	16	45.7	5	22.7
About the same	30	52.6	16	45.7	14	63.6
Moderately weaker	6	10.5	3	8.6	3	13.6
Substantially weaker	0	0.0	0	0.0	0	0.0
Total	57	100.0	35	100.0	22	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	20	36.4	14	41.2	6	28.6
About the same	29	52.7	17	50.0	12	57.1
Moderately weaker	6	10.9	3	8.8	3	14.3
Substantially weaker	0	0.0	0	0.0	0	0.0
Total	55	100.0	34	100.0	21	100.0

8. If demand for C&I loans has strengthened has strengthened or weakened over the past three months (as described in question 7), how important have been the following possible reasons for the change? (Please respond to either A, B, or both as appropriate and rate each possible reason using the following scale: 1=not important, 2=somewhat important, 3=very important.)

A. If stronger loan demand (answer 1 or 2 to question 7A or 7B), possible reasons:

	All Respondents	Large Banks	Other Banks
	Mean	Mean	Mean
Customer inventory financing needs increased	1.93	1.85	2.14
Customer accounts receivable financing needs increased	1.96	1.90	2.14
Customer investment in plant or equipment increased	1.85	1.80	2.00
Customer internally generated funds decreased	1.08	1.05	1.14
Customer merger or acquisition financing needs increased	1.62	1.58	1.71
Customer borrowing shifted to your bank from other bank or nonbank sources because these other sources became less attractive	1.81	1.90	1.57
Other	1.00	1.00	0.00
Number of banks responding	27	20	7

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

	All Respondents	Large Banks	Other Banks
	Mean	Mean	Mean
Customer inventory financing needs decreased	1.50	1.67	1.40
Customer accounts receivable financing needs decreased	1.63	1.67	1.60
Customer investment in plant or equipment decreased	2.13	2.33	2.00
Customer internally generated funds increased	2.13	2.33	2.00
Customer merger or acquisition financing needs decreased	2.00	2.33	1.80
Customer borrowing shifted from your bank to other bank or nonbank credit sources because these other sources became more attractive	2.13	2.33	2.00
Other	3.00	3.00	0.00
Number of banks responding	9	4	5

9. At your bank, how has the number of inquiries from potential business borrowers regarding the availability and terms of new credit lines or increases in existing lines changed over the past three months? (Please consider only inquiries for additional C&I lines as opposed to the refinancing of existing loans.)

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
The number of inquiries has increased substantially	1	1.8	1	2.9	0	0.0
The number of inquiries has increased moderately	21	38.2	13	38.2	8	38.1
The number of inquiries has stayed about the same	32	58.2	20	58.8	12	57.1
The number of inquiries has decreased moderately	1	1.8	0	0.0	1	4.8
The number of inquiries has decreased substantially	0	0.0	0	0.0	0	0.0
Total	55	100.0	34	100.0	21	100.0

Questions 10-11 *ask about* ***commercial real estate loans*** *at your bank, including construction and land development loans and loans secured by nonfarm nonresidential real estate. Question 10 deals with changes in your bank's standards over the last three months. Question 11 deals with changes in demand. If your bank's lending standards or terms have not changed over the relevant period, please report them as unchanged even if they are either restrictive or accommodative relative to longer-term norms. If your bank's standards 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.*

10. 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	1	1.8	1	2.9	0	0.0
Remained basically unchanged	45	78.9	26	74.3	19	86.4
Eased somewhat	11	19.3	8	22.9	3	13.6
Eased considerably	0	0.0	0	0.0	0	0.0
Total	57	100.0	35	100.0	22	100.0

11. 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	3	5.3	1	2.9	2	9.1
Moderately stronger	15	26.3	10	28.6	5	22.7
About the same	34	59.6	23	65.7	11	50.0
Moderately weaker	4	7.0	1	2.9	3	13.6
Substantially weaker	1	1.8	0	0.0	1	4.5
Total	57	100.0	35	100.0	22	100.0

***Questions 12-13** ask about **residential mortgage loans** at your bank. Question 12 deals with changes in your bank's credit standards over the past three months and Question 13 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 accomodative 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.*

12. 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	2	3.8	2	6.1	0	0.0
Remained basically unchanged	50	94.3	30	90.9	20	100.0
Eased somewhat	1	1.9	1	3.0	0	0.0
Eased considerably	0	0.0	0	0.0	0	0.0
Total	53	100.0	33	100.0	20	100.0

13. Apart from normal season variation, how has demand for mortgages to purchase homes changed over the past three months? (Please consider only new originations as opposed to the refinancing of existing mortgages.)

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Substantially stronger	0	0.0	0	0.0	0	0.0
Moderately stronger	7	13.2	5	15.2	2	10.0
About the same	26	49.1	17	51.5	9	45.0
Moderately weaker	16	30.2	10	30.3	6	30.0
Substantially weaker	4	7.5	1	3.0	3	15.0
Total	53	100.0	33	100.0	20	100.0

Questions 14-19 *ask about* ***consumer lending*** *at your bank. Question 14 deals with changes in your bank's willingness to make consumer loans over the past three months. Question 15-18 deal with changes in credit standards and loan terms over the past three months, please report them as unchanged even if the policies are either restrictive or accomodative 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.*

14. Please indicate your bank's willingness to make consumer installment loans now as opposed to three months ago.

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Much more willing	1	1.9	1	2.9	0	0.0
Somewhat more willing	6	11.1	4	11.8	2	10.0
About unchanged	47	87.0	29	85.3	18	90.0
Somewhat less willing	0	0.0	0	0.0	0	0.0
Much less willing	0	0.0	0	0.0	0	0.0
Total	54	100.0	34	100.0	20	100.0

15. 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	0	0.0	0	0.0	0	0.0
Remained basically unchanged	33	97.1	17	94.4	16	100.0
Eased somewhat	1	2.9	1	5.6	0	0.0
Eased considerably	0	0.0	0	0.0	0	0.0
Total	34	100.0	18	100.0	16	100.0

16. 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	2	3.8	1	3.0	1	5.3
Remained basically unchanged	46	88.5	28	84.8	18	94.7
Eased somewhat	4	7.7	4	12.1	0	0.0
Eased considerably	0	0.0	0	0.0	0	0.0
Total	52	100.0	33	100.0	19	100.0

17. 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	2.96	2.93	3.00
Spreads of interest rates charged on outstanding balances over your bank's cost of funds (wider spreads=tightened, narrower spreads=eased)	2.96	2.93	3.00
Minimum percent of outstanding balances required to be repaid each month	2.96	3.00	2.92
Minimum required credit score (increased score=tightened, reduced score=eased)	2.93	3.00	2.85
The extent to which loans are granted to some customers that do not meet credit scoring thresholds (increased=eased, decreased=tightened)	2.89	3.00	2.77
Other	0.00	0.00	0.00
Number of banks responding	28	15	13

18. 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	3.08	3.12	3.00
Spreads of loan rates over your bank's cost of funds (wider spreads=tightened, narrower spreads=eased)	3.06	3.06	3.05
Minimum required downpayment	3.02	3.03	3.00
Minimum required credit score (increased score=tightened, reduced score=eased)	3.04	3.09	2.95
The extent to which loans are granted to some customers that do not meet credit scoring thresholds (increased=eased, decreased=tightened)	3.00	3.00	3.00
Other	2.00	0.00	2.00
Number of banks responding	53	33	20

19. Apart from normal seasonal variation, how has demand for consumer loans of all types changed over the past three months?

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Substantially stronger	0	0.0	0	0.0	0	0.0
Moderately stronger	3	5.6	1	2.9	2	10.0
About the same	32	59.3	19	55.9	13	65.0
Moderately weaker	19	35.2	14	41.2	5	25.0
Substantially weaker	0	0.0	0	0.0	0	0.0
Total	54	100.0	34	100.0	20	100.0

Table 2

SENIOR LOAN OFFICER OPINION SURVEY ON BANK LENDING PRACTICES
AT SELECTED BRANCHES AND AGENCIES OF FOREIGN BANKS IN THE UNITED STATES[1]
(Status of policy as of October 2004)

Questions 1-3 *ask about changes in your bank's* ***commercial and industrial*** *(C&I) policies over the past three months. If your bank's lending policies have not changed over the past three months, please report them as unchanged even if the policies are either restrictive or accommodative relative to longer-term norms. If your bank's policies have tightened or eased over the past three months, please so report them regardless of how they stand relative to longer-term norms. Also, please report changes in enforcement of existing policies as changes in policies.*

1. Over the past three months, how have your bank's credit standards for approving applications for C&I loans or credit lines--other than those to be used to finance mergers and acquisitions--changed?

	All Respondents	
	Banks	Pct
Tightened considerably	0	0.0
Tightened somewhat	0	0.0
Remained basically unchanged	13	65.0
Eased somewhat	7	35.0
Eased considerably	0	0.0
Total	20	100.0

2. For applications for C&I loans or credit lines--other than those to be used to finance mergers and acquisitions--that your bank currently is willing to approve, how have the terms of those loans changed over the past three months? (Please assign each term a number between 1 and 5 using the following scale: 1=tightened considerably, 2=tightened somewhat, 3=remained basically unchanged, 4=eased somewhat, 5=eased considerably.)

	All Respondents
	Mean
Maximum size of credit lines	3.35
Costs of credit lines	3.30
Spreads of loan rates over your bank's cost of funds (wider spreads=tightened, narrower spreads=eased)	3.55
Premiums charged on riskier loans	3.16
Loan covenants	3.30
Collateralization requirements	3.10
Other	4.00
Total	20

1. As of June 30, 2004, the 20 respondents had combined assets of $427 billion, compared to $979 billion for all foreign-related banking institutions in the United States. The sample is selected from among the largest foreign-related banking institutions in those Federal Reserve Districts where such institutions are common.

3. If your bank has tightened or eased its credit standards or its terms for C&I loans or credit lines over the past three months (as described in questions 1 and 2), how important have been the following possible reasons for the change? (Please respond to either A, B, or both as appropriate and rate each possible reason using the following scale: 1=not important, 2=somewhat important, 3=very important.)

A. Possible reasons for tightening credit standards or loan terms:

	All Respondents
	Mean
Deterioration in your bank's current or expected capital position	3.00
Less favorable or more uncertain economic outlook	0.00
Worsening of industry-specific problems	0.00
Less aggressive competition from other banks or nonbank lenders (other financial intermediaries or the capital markets)	0.00
Reduced tolerance for risk	0.00
Decreased liquidity in the secondary market for these loans	0.00
Increase in defaults by borrowers in public debt markets	0.00
Other	0.00
Number of banks responding	1

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

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

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

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

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

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

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

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

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

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

7. Apart from normal seasonal variation, how has demand for C&I loans changed over the past three months? (Please consider only funds actually disbursed as opposed to requests for new or increased lines of credit.)

	All Respondents	
	Banks	Pct
Substantially stronger	0	0.0
Moderately stronger	5	25.0
About the same	11	55.0
Moderately weaker	4	20.0
Substantially weaker	0	0.0
Total	20	100.0

8. If demand for C&I loans has sttrengthened or weakened over the past three months (as described in question 7), how important have been the following possible reasons for the change? (Please respond to either A, B, or both as appropriate and rate each possible reason using the following scale: 1=note important, 2=somewhat important, 3=very important.)

A. If stronger loan demand (answer 1 or 2 to question 7), possible reasons:

	All Respondents
	Mean
Customer inventory financing needs increased	1.25
Customer accounts receivable financing needs increased	1.25
Customer investment in plant or equipment increased	1.25
Customer internally generated funds decreased	1.00
Customer merger or acquisition financing needs increased	1.60
Customer borrowing shifted to your bank from other bank or nonbank sources because these other sources became less attractive	1.25
Other	2.67
Number of banks responding	5

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

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

9. At your bank, how has the number of inquiries from potential business borrowers regarding the availability and terms of new credt lines or increases in existing lines changed over the past three months? (Please consider only inquiries for additional C&I lines as opposed to the refinancing of existing loans.)

	All Respondents	
	Banks	Pct
The number of inquiries has increased substantially	1	5.0
The number of inquiries has increased moderately	3	15.0
The number of inquiries has stayed about the same	11	55.0
The number of inquiries has decreased moderately	5	25.0
The number of inquiries has decreased substantially	0	0.0
Total	20	100.0

Questions 10-11 *ask about commercial real estate loans at your bank, including construction and land development loans and loans secured by nonfarm nonresidential real estate. Question 10 deals with changes in your bank's standards over the last three months. Question 11 deals with changes in demand. If your bank's lending standards or terms have not changed over the relevant period, please report them as unchanged even if they are either restrictive or accommodative relative to longer-term norms. If your bank's standards have tightened or eased over the relevant period, please so report them regardless of how they stand relative to longer-term norms. Also, please report changes in enforcement of existing standards as changes in standards.*

10. Over the past three months, how have your bank's credit standards for approving applications for commercial real estate loans changed?

	All Respondents	
	Banks	Pct
Tightened considerably	0	0.0
Tightened somewhat	0	0.0
Remained basically unchanged	11	84.6
Eased somewhat	2	15.4
Eased considerably	0	0.0
Total	13	100.0

11. Apart from normal seasonal variation, how has demand for commercial real estate loans changed over the past three months?

	All Respondents	
	Banks	Pct
Substantially stronger	0	0.0
Moderately stronger	2	15.4
About the same	11	84.6
Moderately weaker	0	0.0
Substantially weaker	0	0.0
Total	13	100.0