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DIVISION OF MONETARY AFFAIRS

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TO: HEADS OF RESEARCH AT ALL FEDERAL RESERVE BANKS

Enclosed for distribution to respondents is a national summary of the July 2006 Senior Loan Officer Opinion Survey on Bank Lending Practices.

Enclosures

This document is available on the Federal Reserve Board's web site (http://www.federalreserve.gov/boarddocs/surveys).

Board of Governors of the Federal Reserve System

The July 2006 Senior Loan Officer Opinion Survey on Bank Lending Practices

The July 2006 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. Special questions in the survey addressed domestic banks' holdings of subprime residential mortgages and non-traditional residential mortgage products. In addition, the survey queried domestic banks about the change in the demand for residential real estate loans to finance homes for investment purposes. This article is based on responses from fifty-six domestic banks and seventeen foreign banking institutions.

In the July survey, domestic and foreign institutions indicated that they had eased lending standards and terms on commercial and industrial (C&I) loans somewhat further. Domestic banks, however, reported that they had tightened lending standards on commercial real estate loans over the previous three months, while foreign banks noted that standards on such loans were unchanged. Demand for both C&I and commercial real estate loans was reportedly about unchanged in the July survey. In the household sector, a small net fraction of domestic respondents indicated that they had eased credit standards on residential mortgages over the previous three months, while standards and terms on consumer loans were reportedly little changed. Significant net fractions of domestic institutions noted that demand for both mortgages to purchase homes and consumer loans had weakened further.

C&I Lending

(Table 1, questions 1-6; Table 2, questions 1-6)

In the July survey, domestic institutions reported a further easing of standards and terms on C&I loans. On net, about 10 percent of domestic respondents indicated that they had eased credit standards on such loans to large and middle-market firms over the previous three months, roughly the same percentage as in the April survey. About 40 percent of domestic institutions—a significantly smaller net fraction than in April—noted that they had trimmed spreads of loan rates over their cost of funds for such firms. About one-fifth of domestic banks—a notably smaller net percentage than in the previous survey—reported that they had reduced the costs of credit lines, and smaller net fractions of domestic respondents indicated that they had eased loan covenants and increased the maximum size of credit lines that they are willing to extend to their business borrowers.

Credit standards on C&I loans to small firms were reportedly little changed, on balance, in the July survey. However, about one-fifth of domestic institutions, on net, indicated that they had trimmed spreads of loan rates over their cost of funds for such firms over the same period. Other loan terms were generally little changed.

Almost one-fifth of U.S. branches and agencies of foreign banks, on net, reported that they had eased their standards on C&I loans during the survey period. Considerable net fractions of these institutions also indicated that they had eased loan covenants, trimmed spreads of loan rates over their cost of funds, and reduced the cost of credit lines.

Nearly all domestic and all foreign institutions that reported having eased their lending standards and terms in the July survey pointed to more-aggressive competition from other banks or nonbank lenders as the most important reason for having done so. Notable net percentages of domestic respondents also cited increased liquidity in the secondary market for these loans, a more favorable or less uncertain economic outlook, and increased tolerance for risk as reasons for having eased credit standards or terms on C&I loans.

Demand for C&I loans was reportedly unchanged, on net, in the July survey at both domestic and foreign institutions. Among domestic banks that saw stronger demand for C&I loans, almost 90 percent explained the strengthening by pointing to increased needs to finance mergers and acquisitions, while 80 percent cited borrowers' increased needs to finance investment in plant or equipment. Among domestic institutions that experienced weaker demand for C&I loans, about 85 percent attributed the softening to borrowers' decreased needs to finance investment in plant or equipment, while significant net fractions pointed to increases in customers' internally generated funds, decreased need for inventory financing, and a shift in customer borrowing to another bank or to nonbank sources of credit. Regarding future business, both domestic and foreign institutions reported that the number of inquiries from potential business borrowers was little changed over the previous three months.

Commercial Real Estate Lending
(Table 1, questions 7-8; Table 2, questions 7-8)

On balance, 10 percent of domestic banks indicated that they had tightened lending standards on commercial real estate loans over the previous three months. By contrast, foreign respondents noted that they had not changed standards on such loans over the same period. Both domestic and foreign institutions reported that demand for commercial real estate loans was little changed in the July survey.

Lending to Households
(Table 1, questions 9-25)

On net, about 10 percent of domestic institutions indicated that they had eased credit standards on residential mortgage loans over the past three months, the same fraction as in the April survey. In line with other evidence of a slowdown in housing activity this year, domestic institutions reported that demand for mortgages to purchase homes had continued to weaken over the previous three months. About 60 percent of respondents saw weaker demand for such loans, a significantly larger net fraction than in the April survey.

Only a few domestic respondents indicated that their willingness to make consumer installment loans had increased over the past three months. Standards and most terms on credit card and non-credit-card consumer loans were reportedly little changed in the July survey, on balance. Demand for consumer loans weakened further over the past three months: About 40 percent of domestic banks saw weaker demand for such loans, a somewhat larger net fraction than in the April survey.

The July survey included a set of special questions on domestic banks´ holdings of *subprime* residential mortgages and *non-traditional* residential mortgage products, as well as on changes in the credit quality of such loans.[1] The subprime category of residential mortgages includes loans made to borrowers that displayed one or more of the following characteristics at the time of loan origination: weakened credit histories stemming from payment delinquencies, charge-offs, judgments, or bankruptcies; reduced repayment capacity as measured by credit scores or debt-to-income ratios; and incomplete credit histories.[2] Non-traditional residential mortgage products include—but are not limited to—adjustable-rate mortgages with multiple payment options, interest-only mortgages, and "Alt-A" products such as mortgages with limited income verification and mortgages secured by non-owner-occupied properties.

Holdings of subprime residential mortgages were generally small for the respondent banks. Of the thirty domestic banks with subprime residential mortgages on their books, nearly three-fourths indicated that such mortgages accounted for less than 5 percent of their residential mortgages, and one-fifth of these institutions noted that the share of such products was between 5 percent and 15 percent. The remainder of banks reported a share that was more than 20 percent. When the responses were weighted by dollar volume, banks that reported a share of less than 5 percent accounted for nearly 60 percent of all residential mortgages on the books of those banks that responded to this special question on subprime residential mortgages at the end of the first quarter. Those institutions that reported a share between 5 percent and 15 percent accounted for 22 percent of all such mortgages.

A modest net fraction of respondents indicated that the quality of their subprime residential real estate portfolios—as measured by delinquencies and charge-offs—had

[1] The number of banks that responded to the set of special questions varied from twenty-nine to forty-eight depending on the question. According to first-quarter Call Reports, the respondent banks accounted for between 53 percent and 63 percent of all residential real estate loans on the books of domestic commercial banks as of March 31, 2006.

[2] In considering subprime residential mortgages, banks were instructed to include first-lien loans only.

deteriorated somewhat over the past twelve months, a response consistent with aggregate measures suggesting some deterioration in subprime loan performance in recent quarters. Nonetheless, three institutions reported that the quality of their portfolios of such products had performed somewhat better than they had expected over that period, while only one bank noted that the quality of its portfolio had performed somewhat worse than anticipated. About 10 percent of institutions, on net, indicated that they had tightened price-related terms on such mortgages over the same period. Looking forward, about one-third of respondents reported that they anticipate that the quality of the subprime residential mortgages currently on their books will deteriorate somewhat over the next twelve months, and the rest expect loan quality to likely stabilize around current levels.

The panel banks had more-substantial holdings of residential mortgages that could be categorized as non-traditional. Among the forty-eight domestic banks that responded to this special question, about 45 percent reported that the share of such mortgages currently on their books was less than 5 percent, and about 20 percent of respondents noted that the share of such products was between 5 percent and 15 percent. Seven institutions, however, indicated that non-traditional mortgage products accounted for more than 30 percent of the residential mortgages currently on their books. When the responses were weighted by dollar volume, banks that reported a share of less than 5 percent accounted for 10 percent of all residential mortgages on the books of those banks that responded to this special question on non-traditional residential mortgage products at the end of the first quarter. Those institutions that reported a share between 5 percent and 15 percent accounted for more than 50 percent of all such mortgages. The seven institutions that indicated a share greater than 30 percent accounted for less than 10 percent of all residential mortgages on the books of the respondents.[3]

A modest net percentage of respondents indicated that the quality of their portfolio of non-traditional residential mortgage products—as measured by delinquencies and charge-offs—had improved over the past twelve months. Eight banks reported that the quality of their portfolios of such products had performed better than had been expected, and only one institution indicated that the quality of its portfolio had performed somewhat worse than had been anticipated. Nonetheless, about 10 percent of institutions, on balance, noted that they had tightened price-related terms on such mortgage products over the same period. Looking forward, nearly 30 percent of banks, on net, indicated that they expect the quality of the non-traditional residential mortgage products currently on their books will deteriorate somewhat over the next twelve months. These banks accounted

[3] A similar question was included in the July 2005 Senior Loan Officer Opinion Survey. In that survey, about one-third of domestic respondents indicated that the share of non-traditional mortgage products on their books was less than 5 percent, and another one-third reported that the share of such products was between 5 percent and 15 percent. These shares were roughly similar if the responses are weighted by the respondent banks' dollar volume of residential mortgages outstanding in the first quarter of 2005.

for more than 50 percent of all residential mortgages on the books of respondents at the end of the first quarter.

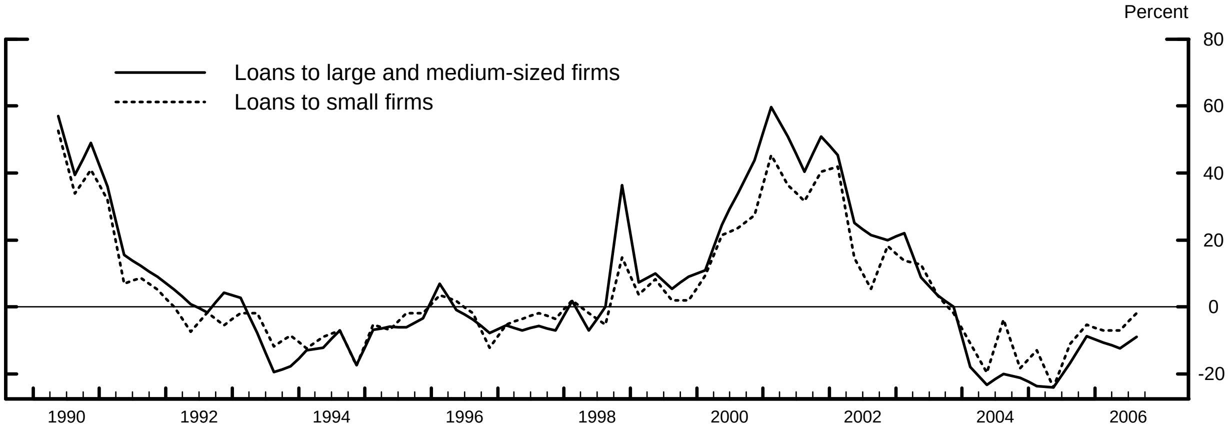
The July survey also included a special question on changes in demand for residential real estate loans used to finance homes for investment purposes.[4] Almost 20 percent of domestic institutions reported stronger demand for such loans over the past twelve months, while 30 percent noted that demand had weakened over the same period.

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

[4] The forty-four banks that responded to this special question accounted for 63 percent of all residential real estate loans on the books of domestic commercial banks as of March 31, 2006.

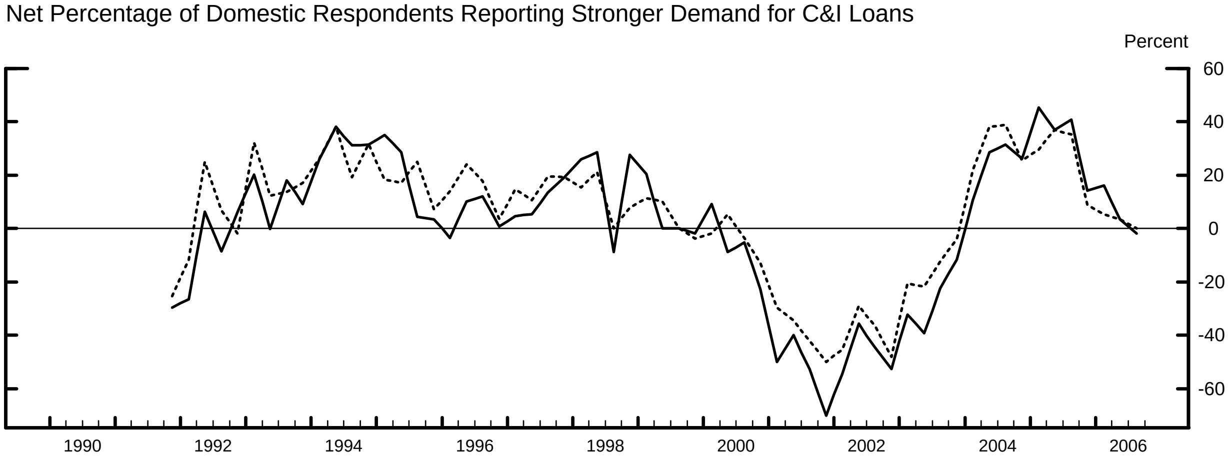
Measures of Supply and Demand for C&I Loans, by Size of Firm Seeking Loan

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



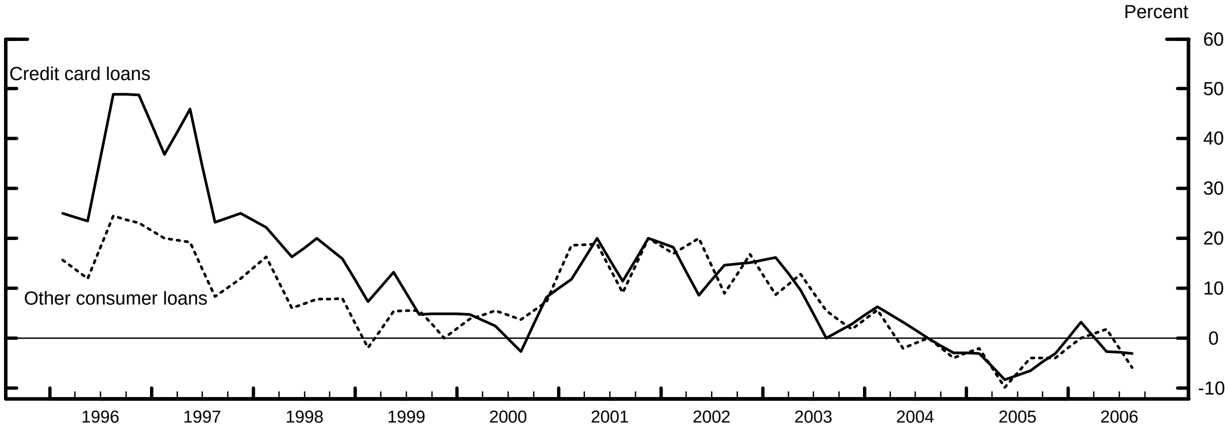
Net Percentage of Domestic Respondents Increasing Spreads of Loan Rates over Banks' Costs of Funds

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

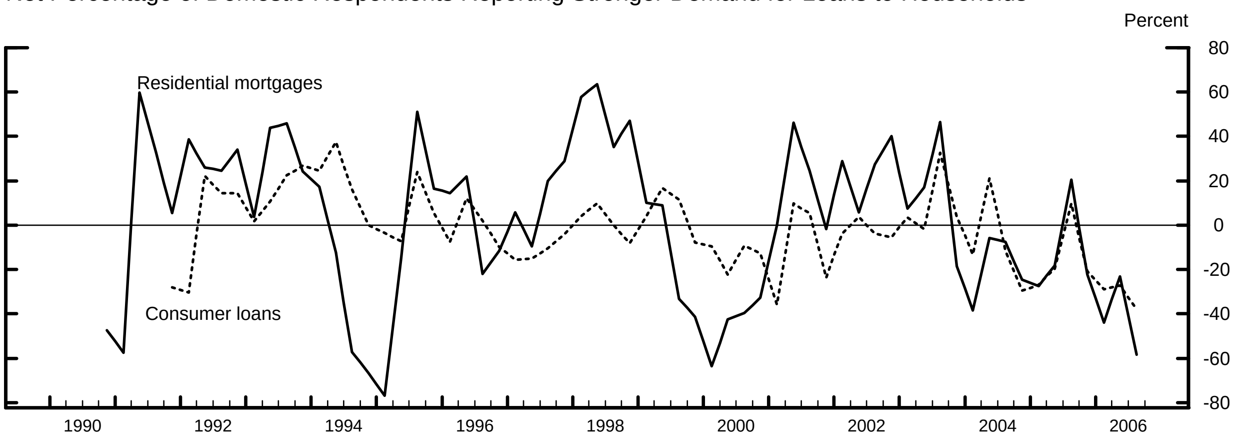


Measures of Supply and Demand for Loans to Households

Net Percentage of Domestic Respondents Tightening Standards for 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

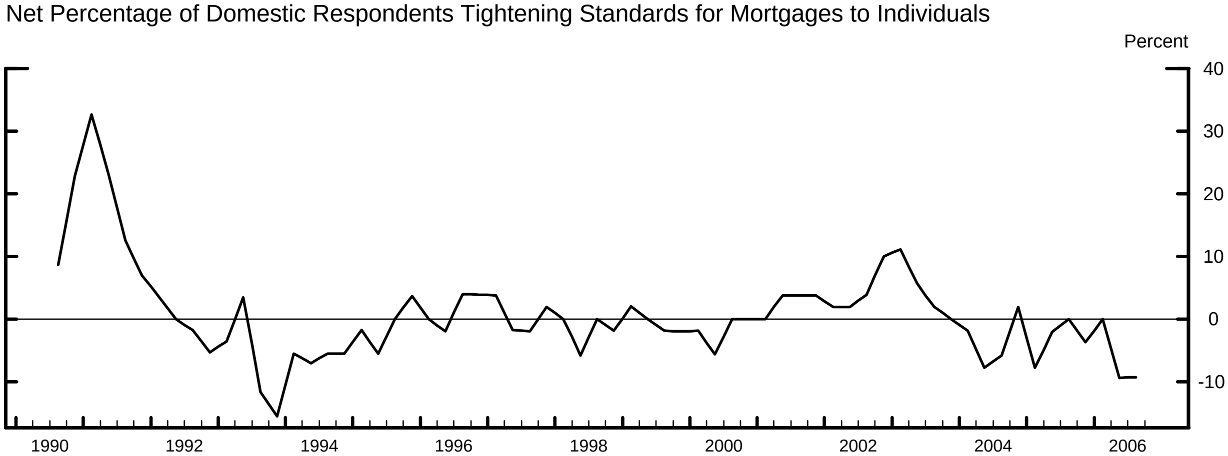


Table 1

Senior Loan Officer Opinion Survey on Bank Lending Practices at Selected Large Banks in the United States [1]

(Status of policy as of July 2006)

Questions 1-6 *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. Question 6 asks about changes in prospective demand for C&I loans at your bank, as indicated by the volume of recent inquiries about the availability of new credit lines or increases in existing lines. 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? (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	**Percent**	**Banks**	**Percent**	**Banks**	**Percent**
Tightened considerably	0	0.0	0	0.0	0	0.0
Tightened somewhat	3	5.4	2	5.7	1	4.8
Remained basically unchanged	45	80.4	28	80.0	17	81.0
Eased somewhat	8	14.3	5	14.3	3	14.3
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	**Percent**	**Banks**	**Percent**	**Banks**	**Percent**
Tightened considerably	0	0.0	0	0.0	0	0.0
Tightened somewhat	4	7.1	2	5.7	2	9.5
Remained basically unchanged	47	83.9	31	88.6	16	76.2
Eased somewhat	5	8.9	2	5.7	3	14.3
Eased considerably	0	0.0	0	0.0	0	0.0
Total	56	100.0	35	100.0	21	100.0

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	3.16	3.23	3.05
Maximum maturity of loans or credit lines	3.11	3.11	3.10
Costs of credit lines	3.20	3.21	3.20
Spreads of loan rates over your bank’s cost of funds (wider spreads=tightened; narrower spreads=eased)	3.45	3.40	3.55
Premiums charged on riskier loans	3.11	3.17	3.00
Loan covenants	3.18	3.31	2.95
Collateralization requirements	3.09	3.14	3.00
Other (please specify)	3.00	3.00	0.00
Number of banks responding	55	35	20

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	3.05	3.06	3.05
Maximum maturity of loans or credit lines	3.07	3.00	3.19
Costs of credit lines	3.07	3.06	3.10
Spreads of loan rates over your bank's cost of funds (wider spreads=tightened; narrower spreads=eased)	3.25	3.17	3.38
Premiums charged on riskier loans	2.95	2.94	2.95
Loan covenants	3.00	3.00	3.00
Collateralization requirements	2.98	3.00	2.95
Other (please specify)	0.00	0.00	0.00
Number of banks responding	56	35	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	1.00	1.00	1.00
Less favorable or more uncertain economic outlook	1.73	1.71	1.75
Worsening of industry-specific problems (please specify industries)	1.55	1.71	1.25
Less aggressive competition from other banks or nonbank lenders (other financial intermediaries or the capital markets)	1.18	1.14	1.25
Reduced tolerance for risk	1.64	1.71	1.50
Decreased liquidity in the secondary market for these loans	1.18	1.14	1.25
Increase in defaults by borrowers in public debt markets	1.09	1.00	1.25
Other (please specify)	2.00	2.00	0.00
Number of banks responding	11	7	4

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	1.12	1.12	1.11
More favorable or less uncertain economic outlook	1.31	1.29	1.33
Improvement in industry-specific problems (please specify industries)	1.15	1.18	1.11
More aggressive competition from other banks or nonbank lenders (other financial intermediaries or the capital markets)	2.63	2.60	2.70
Increased tolerance for risk	1.31	1.29	1.33
Increased liquidity in the secondary market for these loans	1.37	1.50	1.11
Reduction in defaults by borrowers in public debt markets	1.12	1.12	1.13
Other (please specify)	2.00	2.00	2.00
Number of banks responding	30	20	10

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	Percent	Banks	Percent	Banks	Percent
Substantially stronger	0	0.0	0	0.0	0	0.0
Moderately stronger	9	16.7	6	17.1	3	15.8
About the same	35	64.8	20	57.1	15	78.9
Moderately weaker	10	18.5	9	25.7	1	5.3
Substantially weaker	0	0.0	0	0.0	0	0.0
Total	54	100.0	35	100.0	19	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	Percent	Banks	Percent	Banks	Percent
Substantially stronger	0	0.0	0	0.0	0	0.0
Moderately stronger	9	16.7	7	20.6	2	10.0
About the same	36	66.7	19	55.9	17	85.0
Moderately weaker	9	16.7	8	23.5	1	5.0
Substantially weaker	0	0.0	0	0.0	0	0.0
Total	54	100.0	34	100.0	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 4A or 4B), possible reasons:

	All Respondents	**Large Banks**	**Other Banks**
	Mean	**Mean**	**Mean**
Customer inventory financing needs increased	1.67	1.55	2.00
Customer accounts receivable financing needs increased	1.71	1.60	2.00
Customer investment in plant or equipment increased	1.80	1.73	2.00
Customer internally generated funds decreased	1.14	1.10	1.25
Customer merger or acquisition financing needs increased	2.20	2.36	1.75
Customer borrowing shifted to your bank from other bank or nonbank sources because these other sources became less attractive	1.38	1.44	1.25
Other (please specify)	0.00	0.00	0.00
Number of banks responding	15	11	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	1.67	1.64	2.00
Customer accounts receivable financing needs decreased	1.58	1.55	2.00
Customer investment in plant or equipment decreased	2.00	2.09	1.00
Customer internally generated funds increased	1.67	1.64	2.00
Customer merger or acquisition financing needs decreased	1.42	1.36	2.00
Customer borrowing shifted from your bank to other bank or nonbank credit sources because these other sources became more attractive	1.67	1.64	2.00
Other (please specify)	2.33	2.33	0.00
Number of banks responding	12	11	1

6. 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	**Percent**	**Banks**	**Percent**	**Banks**	**Percent**
The number of inquiries has increased substantially	0	0.0	0	0.0	0	0.0
The number of inquiries has increased moderately	9	16.1	7	20.0	2	9.5
The number of inquiries has stayed about the same	40	71.4	22	62.9	18	85.7
The number of inquiries has decreased moderately	7	12.5	6	17.1	1	4.8
The number of inquiries has decreased substantially	0	0.0	0	0.0	0	0.0
Total	56	100.0	35	100.0	21	100.0

Questions 7-8 *ask about* **commercial real estate loans** *at your bank, including construction and land development loans and loans secured by nonfarm nonresidential real estate. Question 7 deals with changes in your bank's standards over the last three months. Question 8 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.*

7. 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	**Percent**	**Banks**	**Percent**	**Banks**	**Percent**
Tightened considerably	0	0.0	0	0.0	0	0.0
Tightened somewhat	13	23.2	10	28.6	3	14.3
Remained basically unchanged	36	64.3	21	60.0	15	71.4
Eased somewhat	7	12.5	4	11.4	3	14.3
Eased considerably	0	0.0	0	0.0	0	0.0
Total	56	100.0	35	100.0	21	100.0

8. 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	**Percent**	**Banks**	**Percent**	**Banks**	**Percent**
Substantially stronger	0	0.0	0	0.0	0	0.0
Moderately stronger	7	12.5	5	14.3	2	9.5
About the same	40	71.4	24	68.6	16	76.2
Moderately weaker	9	16.1	6	17.1	3	14.3
Substantially weaker	0	0.0	0	0.0	0	0.0
Total	56	100.0	35	100.0	21	100.0

Questions 9-10 *ask about* ***residential mortgage loans*** *at your bank. Question 9 deals with changes in your bank's credit standards over the past three months, and question 10 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.*

9. 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	**Percent**	**Banks**	**Percent**	**Banks**	**Percent**
Tightened considerably	0	0.0	0	0.0	0	0.0
Tightened somewhat	2	3.7	1	2.9	1	5.3
Remained basically unchanged	45	83.3	28	80.0	17	89.5
Eased somewhat	7	13.0	6	17.1	1	5.3
Eased considerably	0	0.0	0	0.0	0	0.0
Total	54	100.0	35	100.0	19	100.0

10. Apart from normal seasonal variation, how has demand from individuals 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	**Percent**	**Banks**	**Percent**	**Banks**	**Percent**
Substantially stronger	0	0.0	0	0.0	0	0.0
Moderately stronger	4	7.5	2	5.7	2	11.1
About the same	14	26.4	7	20.0	7	38.9
Moderately weaker	30	56.6	22	62.9	8	44.4
Substantially weaker	5	9.4	4	11.4	1	5.6
Total	53	100.0	35	100.0	18	100.0

__Questions 11-18__ ask about two types of residential mortgage loans at your bank-- __subprime__ residential mortgages and __non-traditional__ residential mortgage products. For the purposes of this survey, please use the following definitions of these loan types (note that these loan types are not necessarily mutually exclusive):

- *The __subprime__ category of residential mortgages typically includes loans made to borrowers that displayed one or more of the following characteristics at the time of origination: weakened credit histories that include payment delinquencies, chargeoffs, judgments, and/or bankruptcies; reduced repayment capacity as measured by credit scores or debt-to-income ratios; or incomplete credit histories. Please include first-lien loans only.*

- *__Non-traditional__ residential mortgage products include, but are not limited to, adjustable-rate mortgages with multiple payment options, interest-only mortgages, and ''Alt-A'' products such as mortgages with limited income verification and mortgages secured by non-owner-occupied properties. (Please exclude standard adjustable-rate mortgages and common hybrid adjustable-rate mortgages--those for which the interest rate is initially fixed for a multi-year period and subsequently adjusts more frequently.)*

11. About what share of the dollar volume of residential mortgages currently on your bank's books could be categorized as subprime, and what share could be categorized as non-traditional mortgage products?

a. The share of residential mortgages currently on your bank's books that are subprime is:

	All Respondents		**Large Banks**		**Other Banks**	
	Banks	**Percent**	**Banks**	**Percent**	**Banks**	**Percent**
Less than 5 percent	21	70.0	12	60.0	9	90.0
Between 5 percent and 10 percent	5	16.7	4	20.0	1	10.0
Between 11 percent and 15 percent	1	3.3	1	5.0	0	0.0
Between 16 percent and 20 percent	0	0.0	0	0.0	0	0.0
Between 21 percent and 30 percent	2	6.7	2	10.0	0	0.0
More than 30 percent	1	3.3	1	5.0	0	0.0
Total	30	100.0	20	100.0	10	100.0

b. The share of residential mortgage products currently on your bank's books that are non-traditional is:

	All Respondents		Large Banks		Other Banks	
	Banks	**Percent**	**Banks**	**Percent**	**Banks**	**Percent**
Less than 5 percent	22	45.8	9	27.3	13	86.7
Between 5 percent and 10 percent	2	4.2	1	3.0	1	6.7
Between 11 percent and 15 percent	8	16.7	7	21.2	1	6.7
Between 16 percent and 20 percent	7	14.6	7	21.2	0	0.0
Between 21 percent and 30 percent	2	4.2	2	6.1	0	0.0
More than 30 percent	7	14.6	7	21.2	0	0.0
Total	48	100.0	33	100.0	15	100.0

12. How has the quality of your bank's subprime residential real estate portfolio--as measured by delinquencies and chargeoffs--changed over the past twelve months?

	All Respondents		**Large Banks**		**Other Banks**	
	Banks	**Percent**	**Banks**	**Percent**	**Banks**	**Percent**
Improved substantially	0	0.0	0	0.0	0	0.0
Improved somewhat	3	10.0	3	15.0	0	0.0
Remained unchanged	22	73.3	13	65.0	9	90.0
Deteriorated somewhat	5	16.7	4	20.0	1	10.0
Deteriorated substantially	0	0.0	0	0.0	0	0.0
Total	30	100.0	20	100.0	10	100.0

13. How has the quality of your bank's subprime residential real estate portfolio--as measured by delinquencies and chargeoffs--performed over the past twelve months relative to your bank's initial expectations?

	All Respondents		Large Banks		Other Banks	
	Banks	**Percent**	**Banks**	**Percent**	**Banks**	**Percent**
Much better than had been expected	0	0.0	0	0.0	0	0.0
Somewhat better than had been expected	3	10.0	3	15.0	0	0.0
About as had been expected	26	86.7	16	80.0	10	100.0
Somewhat worse than had been expected	1	3.3	1	5.0	0	0.0
Much worse than had been than expected	0	0.0	0	0.0	0	0.0
Total	30	100.0	20	100.0	10	100.0

14. Given the performance of your bank's subprime residential real estate portfolio over the past twelve months (as reported in question 12), how have you adjusted your standards and terms on such loans over that period? (Please assign each item 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 standards	2.93	2.89	3.00
Price-related terms (higher fees and wider spreads=tightened; lower fees and narrower spreads=eased)	2.90	2.84	3.00
Non-price-related terms	2.96	2.94	3.00
Number of banks responding	29	19	10

15. How has the quality of your bank's portfolio of non-traditional residential mortgage products--as measured by delinquencies and chargeoffs--changed over the past twelve months?

	All Respondents		Large Banks		Other Banks	
	Banks	**Percent**	**Banks**	**Percent**	**Banks**	**Percent**
Improved substantially	1	2.2	1	3.3	0	0.0
Improved somewhat	3	6.7	3	10.0	0	0.0
Remained unchanged	39	86.7	25	83.3	14	93.3
Deteriorated somewhat	2	4.4	1	3.3	1	6.7
Deteriorated substantially	0	0.0	0	0.0	0	0.0
Total	45	100.0	30	100.0	15	100.0

16. How has the quality of your bank's portfolio of non-traditional residential mortgage products--as measured by delinquencies and chargeoffs--performed over the past twelve months relative to your bank's initial expectations?

	All Respondents		Large Banks		Other Banks	
	Banks	**Percent**	**Banks**	**Percent**	**Banks**	**Percent**
Much better than had been expected	1	2.2	1	3.3	0	0.0
Somewhat better than had been expected	7	15.6	6	20.0	1	6.7
About as had been expected	36	80.0	22	73.3	14	93.3
Somewhat worse than had been expected	1	2.2	1	3.3	0	0.0
Much worse than had been than expected	0	0.0	0	0.0	0	0.0
Total	45	100.0	30	100.0	15	100.0

17. Given the performance of your bank's portfolio of non-traditional residential mortgage products over the past twelve months (as reported in question 15), how have you adjusted your standards and terms on such loans over that period? (Please assign each item 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 standards	3.02	3.03	3.00
Price-related terms (higher fees and wider spreads=tightened; lower fees and narrower spreads=eased)	2.91	2.83	3.07
Non-price-related terms	2.98	2.97	3.00
Number of banks responding	45	30	15

18. Assuming that economic activity progresses in line with consensus forecasts, what is your bank's outlook over the next twelve months for delinquencies and chargeoffs on subprime residential mortgages and non-traditional residential mortgage products currently on your bank's books?

a. Outlook for loan quality on subprime residential mortgages currently on your bank's books over the next twelve months is:

	All Respondents		Large Banks		Other Banks	
	Banks	**Percent**	**Banks**	**Percent**	**Banks**	**Percent**
Likely to improve substantially	0	0.0	0	0.0	0	0.0
Likely to improve somewhat	0	0.0	0	0.0	0	0.0
Likely to stabilize around current levels	19	65.5	11	57.9	8	80.0
Likely to deteriorate somewhat	10	34.5	8	42.1	2	20.0
Likely to deteriorate substantially	0	0.0	0	0.0	0	0.0
Total	29	100.0	19	100.0	10	100.0

b. Outlook for loan quality on non-traditional residential mortgage products currently on your bank's books over the next twelve months is:

	All Respondents		Large Banks		Other Banks	
	Banks	**Percent**	**Banks**	**Percent**	**Banks**	**Percent**
Likely to improve substantially	0	0.0	0	0.0	0	0.0
Likely to improve somewhat	2	4.4	2	6.7	0	0.0
Likely to stabilize around current levels	28	62.2	16	53.3	12	80.0
Likely to deteriorate somewhat	15	33.3	12	40.0	3	20.0
Likely to deteriorate substantially	0	0.0	0	0.0	0	0.0
Total	45	100.0	30	100.0	15	100.0

Question 19 *asks about the demand at your bank for residential real estate loans used to finance homes for investment purposes.*

19. How has demand at your bank for residential real estate loans used to finance homes for investment purposes changed over the past twelve months?

	All Respondents		Large Banks		Other Banks	
	Banks	**Percent**	**Banks**	**Percent**	**Banks**	**Percent**
Substantially stronger	1	2.0	1	3.0	0	0.0
Moderately stronger	8	16.0	6	18.2	2	11.8
About the same	26	52.0	14	42.4	12	70.6
Moderately weaker	12	24.0	10	30.3	2	11.8
Substantially weaker	3	6.0	2	6.1	1	5.9
Total	50	100.0	33	100.0	17	100.0

Questions 20-25 *ask about* **consumer lending** *at your bank. Question 20 deals with changes in your bank's willingness to make consumer loans over the past three months. Questions 21-24 deal with changes in credit standards and loan terms over the same period. Question 25 deals 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.*

20. 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	**Percent**	**Banks**	**Percent**	**Banks**	**Percent**
Much more willing	0	0.0	0	0.0	0	0.0
Somewhat more willing	4	7.7	3	9.1	1	5.3
About unchanged	48	92.3	30	90.9	18	94.7
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	52	100.0	33	100.0	19	100.0

21. 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	**Percent**	**Banks**	**Percent**	**Banks**	**Percent**
Tightened considerably	0	0.0	0	0.0	0	0.0
Tightened somewhat	2	6.1	2	11.1	0	0.0
Remained basically unchanged	28	84.8	14	77.8	14	93.3
Eased somewhat	3	9.1	2	11.1	1	6.7
Eased considerably	0	0.0	0	0.0	0	0.0
Total	33	100.0	18	100.0	15	100.0

22. 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	**Percent**	**Banks**	**Percent**	**Banks**	**Percent**
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	45	86.5	26	78.8	19	100.0
Eased somewhat	5	9.6	5	15.2	0	0.0
Eased considerably	0	0.0	0	0.0	0	0.0
Total	52	100.0	33	100.0	19	100.0

23. 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	3.00	3.00	3.00
Spreads of interest rates charged on outstanding balances over your bank's cost of funds (wider spreads=tightened; narrower spreads=eased)	2.97	2.81	3.15
Minimum percent of outstanding balances required to be repaid each month	2.93	2.88	3.00
Minimum required credit score (increased score=tightened; reduced score=eased)	3.07	3.06	3.08
The extent to which loans are granted to some customers that do not meet credit scoring thresholds (decreased=tightened; increased=eased)	2.97	2.94	3.00
Other (please specify)	3.00	3.00	0.00
Number of banks responding	29	16	13

24. 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	3.09	3.06
Spreads of loan rates over your bank’s cost of funds (wider spreads=tightened; narrower spreads=eased)	3.08	3.03	3.17
Minimum required downpayment	3.00	3.00	3.00
Minimum required credit score (increased score=tightened; reduced score=eased)	3.02	3.03	3.00
The extent to which loans are granted to some customers that do not meet credit scoring thresholds (decreased=tightened; increased=eased)	2.92	2.88	3.00
Other (please specify)	3.00	3.00	3.00
Number of banks responding	50	32	18

25. 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	**Percent**	**Banks**	**Percent**	**Banks**	**Percent**
Substantially stronger	0	0.0	0	0.0	0	0.0
Moderately stronger	4	7.5	1	2.9	3	15.8
About the same	25	47.2	15	44.1	10	52.6
Moderately weaker	22	41.5	16	47.1	6	31.6
Substantially weaker	2	3.8	2	5.9	0	0.0
Total	53	100.0	34	100.0	19	100.0

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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 31, 2006. The combined assets of the 35 large banks totaled $4.72 trillion, compared to $4.93 trillion for the entire panel of 56 banks, and $8.08 trillion for all domestically chartered, federally insured commercial banks.

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 July 2006)

Questions 1-6 *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. Question 6 asks about changes in prospective demand for C&I loans at your bank, as indicated by the volume of recent inquiries about the availability of new credit lines or increases in existing lines. 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	**Percent**
Tightened considerably	0	0.0
Tightened somewhat	0	0.0
Remained basically unchanged	14	82.4
Eased somewhat	3	17.6
Eased considerably	0	0.0
Total	17	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	3.12
Maximum maturity of loans or credit lines	3.18
Costs of credit lines	3.29
Spreads of loan rates over your bank’s cost of funds (wider spreads=tightened; narrower spreads=eased)	3.41
Premiums charged on riskier loans	3.12
Loan covenants	3.47
Collateralization requirements	3.18
Other (please specify)	3.00
Number of banks responding	17

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	1.00
Less favorable or more uncertain economic outlook	2.00
Worsening of industry-specific problems (please specify industries)	2.00
Less aggressive competition from other banks or nonbank lenders (other financial intermediaries or the capital markets)	2.00
Reduced tolerance for risk	1.00
Decreased liquidity in the secondary market for these loans	2.00
Increase in defaults by borrowers in public debt markets	0.00
Other (please specify)	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	1.20
More favorable or less uncertain economic outlook	1.30
Improvement in industry-specific problems (please specify industries)	1.20
More aggressive competition from other banks or nonbank lenders (other financial intermediaries or the capital markets)	2.60
Increased tolerance for risk	1.60
Increased liquidity in the secondary market for these loans	1.50
Reduction in defaults by borrowers in public debt markets	1.11
Other (please specify)	1.00
Number of banks responding	10

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	**Percent**
Substantially stronger	0	0.0
Moderately stronger	3	17.6
About the same	12	70.6
Moderately weaker	2	11.8
Substantially weaker	0	0.0
Total	17	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 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	1.00
Customer accounts receivable financing needs increased	1.00
Customer investment in plant or equipment increased	1.33
Customer internally generated funds decreased	1.00
Customer merger or acquisition financing needs increased	3.00
Customer borrowing shifted to your bank from other bank or nonbank sources because these other sources became less attractive	1.00
Other (please specify)	1.00
Number of banks responding	3

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 accounts receivable financing needs decreased	1.00
Customer investment in plant or equipment decreased	1.00
Customer internally generated funds increased	2.00
Customer merger or acquisition financing needs decreased	1.00
Customer borrowing shifted from your bank to other bank or nonbank credit sources because these other sources became more attractive	1.00
Other (please specify)	2.00
Number of banks responding	2

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

	All Respondents	
	Banks	**Percent**
The number of inquiries has increased substantially	0	0.0
The number of inquiries has increased moderately	3	17.6
The number of inquiries has stayed about the same	11	64.7
The number of inquiries has decreased moderately	3	17.6
The number of inquiries has decreased substantially	0	0.0
Total	17	100.0

Questions 7-8 *ask about* ***commercial real estate loans*** *at your bank, including construction and land development loans and loans secured by nonfarm nonresidential real estate. Question 7 deals with changes in your bank's standards over the last three months. Question 8 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.*

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

	All Respondents	
	Banks	**Percent**
Tightened considerably	0	0.0
Tightened somewhat	1	9.1
Remained basically unchanged	8	72.7
Eased somewhat	2	18.2
Eased considerably	0	0.0
Total	11	100.0

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

	All Respondents	
	Banks	**Percent**
Substantially stronger	0	0.0
Moderately stronger	1	9.1
About the same	9	81.8
Moderately weaker	1	9.1
Substantially weaker	0	0.0
Total	11	100.0

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1. As of March 31, 2006, the 17 respondents had combined assets of $568 billion, compared to $1.26 trillion 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.