Board of Governors of the Federal Reserve System

The January 1999 Senior Loan Officer Opinion Survey on Bank Lending Practices

The January 1999 Senior Loan Officer Opinion Survey on Bank Lending Practices focused primarily on changes over the past three months in the supply and demand for bank loans to businesses and households.[1] Additional questions concerned the rapid growth in securities at banks in the fourth quarter of 1998 and developments in the market for syndicated commercial and industrial loans.

The survey results suggest that, in contrast to the September and November surveys, domestic banks were no longer tightening business lending standards; however, citing continued concern over the economic outlook, significant, though reduced, fractions of participants indicated that they had firmed terms on loans to large and middle-market businesses and standards and terms on commercial real estate loans. The share of branches and agencies of foreign banks that reported tightening lending standards and terms on business loans was large and down only a little from November; for commercial real estate loans, the share of branches and agencies reporting tighter standards and terms rose from the November Survey. Some respondents, mainly domestic, indicated that demand for commercial and industrial loans had increased.

The survey found little evidence of substantial changes in lending practices with respect to households. Several banks said that they were more willing to make consumer installment loans, while modest percentages said that they had tightened standards on credit cards. Standards and terms on other consumer loans were reportedly little changed.

In responses to the additional questions, banks that had increased their holdings of securities in the fourth quarter of 1998 said that they had done so mainly because of more attractive yields, a desire to increase the duration of their securities portfolios, and a willingness to boost leverage. Many respondents reported some deterioration in the condition of the market for syndicated loans--for example, its capacity to absorb new credits without significant modification of terms--relative to six months ago, although some judged the market to have improved. Many participants who originate these loans reported that they had increased the use of “flexible pricing” during the syndication period.[2]

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1. This summary is based on a panel of fifty-five domestic respondents and twenty-three U.S. branches and agencies of foreign banks.

2. Flexible pricing is an agreement with the borrower to allow adjustments to the interest rate and other loan terms during the syndication period.

Lending to Businesses

(Table 1, questions 1-12; table 2, questions 1-11)

On net, only 7 percent of domestic respondents reported tightening lending standards for commercial and industrial loans to large and middle-market firms, and a mere 4 percent, on net, reported tightening lending standards for small firms. (In the November survey 37 percent and 15 percent reported tightening standards for larger and small firms respectively.) By contrast, 56 percent, on net, of the branches and agencies of foreign banks reported tightening standards for these loans in the past three months, down only a bit from November.

Domestic respondents continued to report a tightening of business loan terms, but these reports were not so widespread as in November. For example, 31 percent, on net, reported widening loan spreads, down from 47 percent, on net, in November. The most important reasons given for tightening were a less favorable, or more uncertain, economic outlook, a worsening of industry-specific problems, and decreased liquidity in the secondary loan market.[3] Reports of tightening were much more widespread at the branches and agencies of foreign banks than at domestic banks.

In view of the general tightening of lending terms in recent months, banks were asked a special question about the share of their outstanding revolving loan commitments and other formal lending arrangements on which they would tighten terms--including fees and spreads over base rates--if the commitments were maturing and being repriced at the time of the survey. Most domestic respondents (77 percent) reported that they would tighten terms on relatively few commitments (less than 20 percent). By contrast, over half of the branches and agencies of foreign banks--who have been tightening credit standards and terms much more than domestic banks for several months--would tighten on 60 percent or more of their outstanding commitments.

Twenty percent of domestic respondents, on net, reported increased demand for commercial and industrial loans from large and middle-market firms over the previous three months, while 11 percent reported increased demand from small firms. The most important reason given for the increase in demand, by a substantial margin, was shifting customer borrowing from other sources that had become less attractive. About 9 percent of foreign respondents, on net, reported stronger loan demand.

About 15 percent of domestic respondents, on net, reported tightened standards on commercial real estate loans, down from about 46 percent in November; similarly, fewer banks tightened terms on these loans than in the previous survey. By contrast, 57 percent of the foreign respondents tightened standards on these loans, up from 44 percent in November. The percentage of foreign banks tightening terms on commercial real estate loans also increased from the November survey. The primary reasons given by domestic banks for tightening were disruptions in the commercial mortgage-backed securities market, a less favorable, or more uncertain,

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3. Of those domestic banks that reported tightening standards or terms on commercial and industrial loans to large or middle-market firms, only 17 percent tightened standards predominately for middle-market firms, while 37 percent reported having tightened predominately for large firms. The remaining half of the respondents tightened about the same for both types of borrowers.

economic outlook, and increased concern about the reliability of take-out financing. Foreign respondents cited these reasons and a worsening of the condition or outlook for the commercial real estate markets, a reduced tolerance for risk, and a deterioration in their parent bank's current or expected capital position. About 30 percent of the domestic and 23 percent of the foreign respondents reported an increase in demand for commercial real estate loans. The most important reason given by domestic banks for the increased demand was a shift in customer borrowing from lenders having difficulty securitizing commercial mortgages. The branches and agencies of foreign banks reported customer financing needs as the most important reason for the reported increase in demand.

Loan Syndication

(Table 1, questions 25-26; table 2, questions 14-15)

In response to special questions, half of the domestic and two-thirds of the branches and agencies reported that the condition of the syndicated loan market--as measured, for example, by its capacity to absorb new credits without significant modification of terms--is worse now than it was six months ago, suggesting that conditions in this market may not have completely recovered from the turmoil of fall 1998. However, a significant percentage of respondents found this market not to have changed or even to have improved over this period. Among those domestic and foreign respondents that originate syndicated loans and perceive the market to have deteriorated, there has been an increased use of "flexible pricing" during the syndication period to raise the likelihood of full subscription. There was much less evidence that domestic respondents have trimmed originations in response to changes in the market for syndicated loans, or that loans on banks' books have grown faster than they otherwise would have because banks held a larger share of its originations. A few branches and agencies, however, did report having reduced originations of their loans because of problems in the syndications market.

Lending to Households

(Table 1, questions 13-22)

About 14 percent of banks reported increased willingness to extend consumer installment loans, up slightly from the previous survey. No banks reported a decreased willingness to extend these credits. Seven percent, on net, reported having tightened standards on credit-card loans, while standards for other consumer loans were eased by one bank, on net. A few banks reported raising spreads a bit on credit cards and other consumer loans. Three quarters of respondents indicated unchanged consumer loan demand; of the remaining respondents slightly more reported strength than weakness. Credit standards for mortgage loans were little changed, and 10 percent of respondents, on net, reported increased demand for home mortgages, down substantially from more than 50 percent in the November survey and the smallest increase reported since mid-1997.[4]

Two special questions asked about the minimum required payment on outstanding balances for credit cards now and in the late 1980s. The responses indicate that the minimum payment has declined a bit over the decade, and it is now in the range of 2 to 3 percent of the balance outstanding.

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4. The wording of this question has been revised to make it clearer that demand owing to refinancing of existing mortgages is not to be considered when answering. The decline in the net percentage reporting increased demand for home mortgages may reflect, in part, this change.

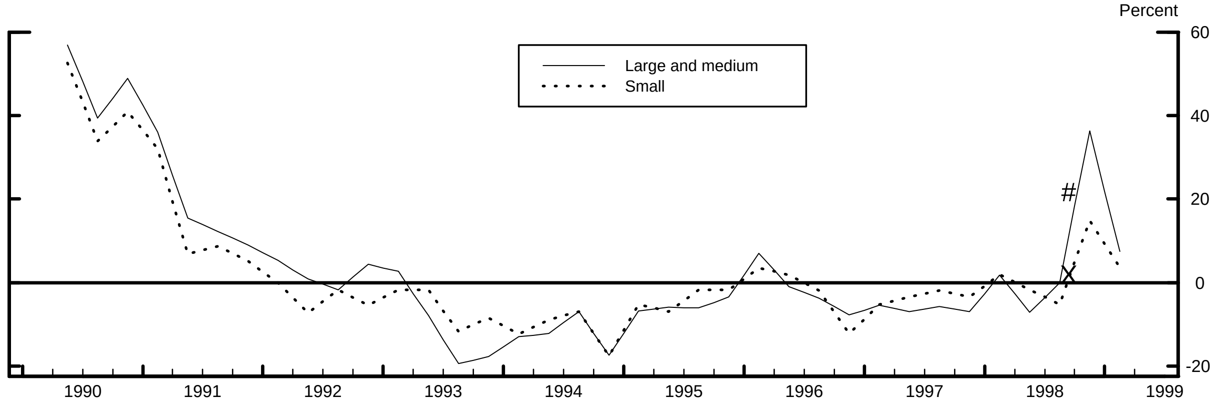
Growth in Bank Securities

(Table 1, questions 23-24; table 2, questions 12-13)

Thirty-six percent of domestic respondents reported increasing their securities holdings in the fourth quarter of 1998, while 21 percent reduced their holdings. For those large banks that reported increased securities holdings, the most important reason given was that yields on some securities had increased relative to costs of funds, thus making the securities more attractive investments. Banks also increased holdings of long-term securities to compensate for the shorter expected duration of mortgage-backed securities resulting from the decline in longer-term interest rates in recent months and the consequent increase in prepayment risk. Small banks primarily reported the increase in prepayment risk as the reason for the increase in securities holdings. Foreign respondents, on net, reported a decline in securities holdings in the fourth quarter.

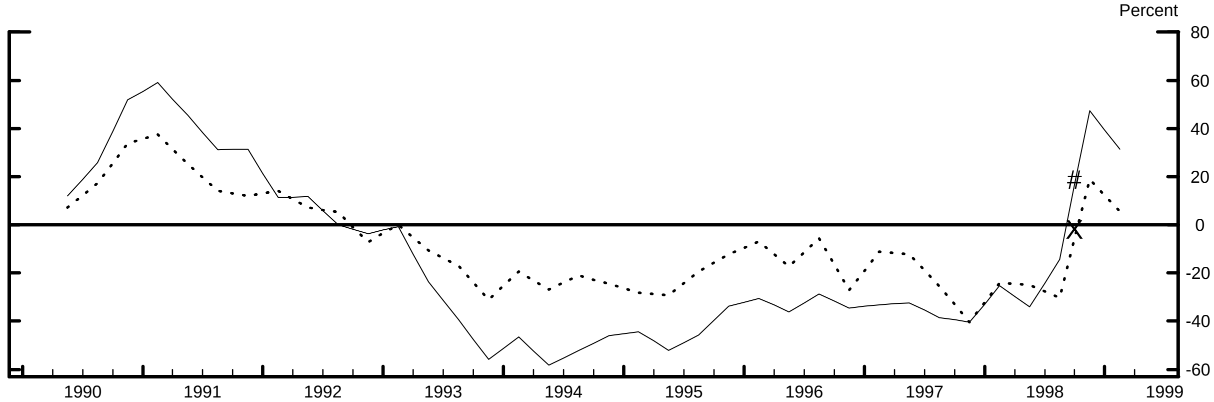
Measures of Supply and Demand for C&I Loans, by Size of Firm Seeking Loan

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



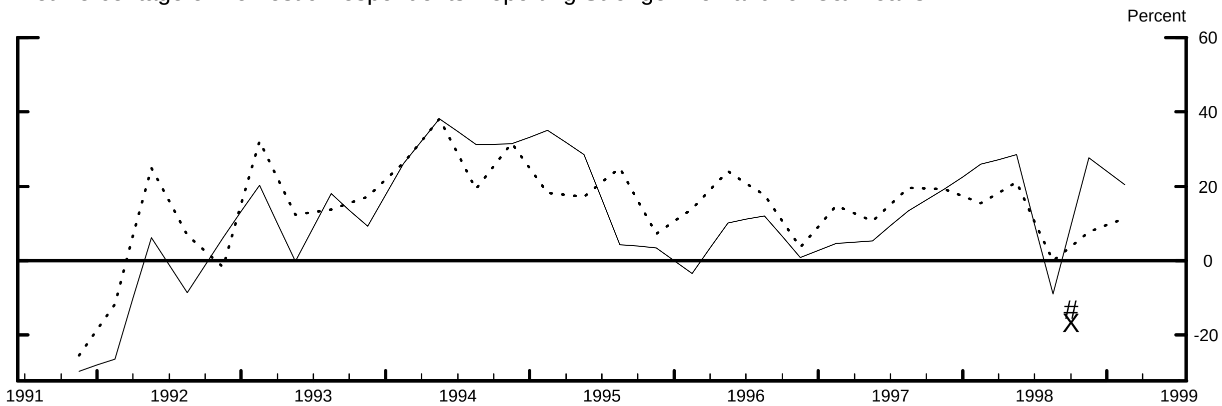
Result for September survey (large and medium).
X Result for September survey (small).

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



Result for September survey (large and medium).
X Result for September survey (small).

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



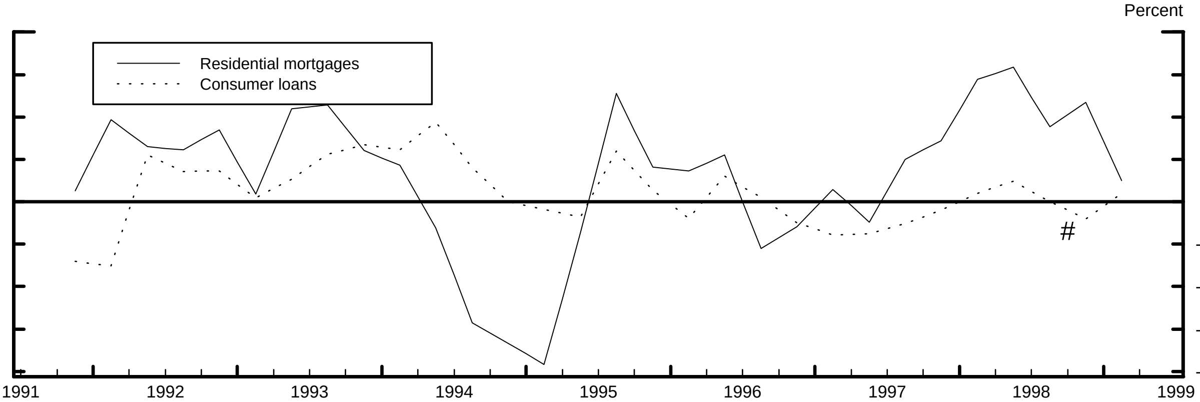
Result for September survey (large and medium).
X Result for September survey (small).

Measures of Supply and Demand for Loans to Households

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

Result for September survey.

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



Result for September survey (consumer loans).

Net Percentage of Domestic Respondents Tightening Standards for Mortgages to Individuals

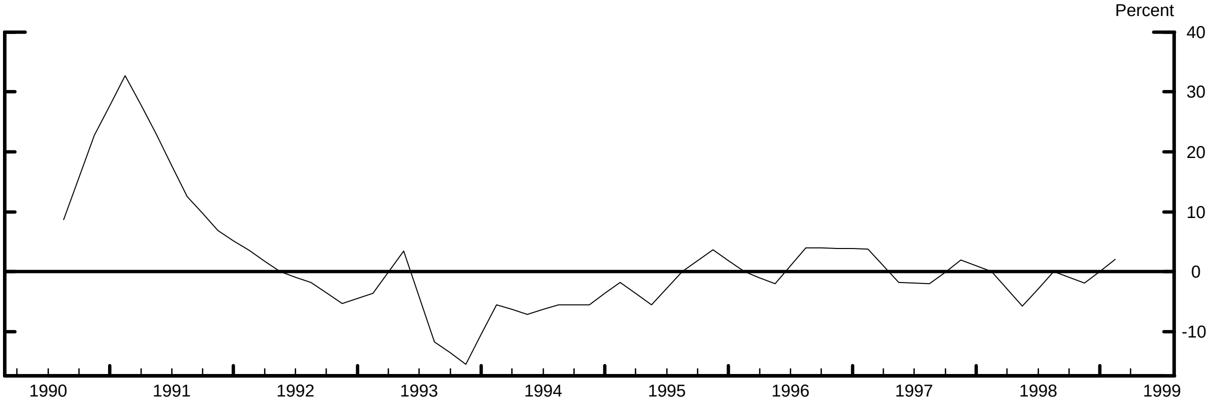


Table 1

SENIOR LOAN OFFICER OPINION SURVEY ON BANK LENDING PRACTICES
AT SELECTED LARGE BANKS IN THE UNITED STATES
(Status of policy as of January 1999)

(Number of banks and percentage of banks answering question)
(By volume of total domestic assets as of September 30, 1998[1])

Questions 1-7 *ask about* ***commercial and industrial loans*** *at your bank: Questions 1-4 and 7 deal with changes in your bank's lending policies over the past three months, and questions 5 and 6 deal with changes in demand over the same period. If your bank's lending policies have not changed over the past three months, please report them as unchanged even if the policies are either restrictive or accommodative relative to longer-term norms. If your bank's policies have tightened or eased over the past three months, please so report them regardless of how they stand relative to longer-term norms. Also, please report changes in enforcement of existing standards as changes in standards.*

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 more than $50 million)

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Tightened considerably	0	0.0	0	0.0	0	0.0
Tightened somewhat	6	11.1	4	14.3	2	7.7
Remained basically unchanged	46	85.2	23	82.1	23	88.5
Eased somewhat	2	3.7	1	3.6	1	3.8
Eased considerably	0	0.0	0	0.0	0	0.0
Total	54	100.0	28	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	4	7.4	1	3.7	3	11.1
Remained basically unchanged	48	88.9	25	92.6	23	85.2
Eased somewhat	2	3.7	1	3.7	1	3.7
Eased considerably	0	0.0	0	0.0	0	0.0
Total	54	100.0	27	100.0	27	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 September 30, 1998. The combined assets of the 28 large banks totaled $1.76 trillion, compared to $2.04 trillion for the entire panel of fifty-five banks, and 4.49 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 more than $50 million)

	All Respondents	Large Banks	Other Banks
	Mean	Mean	Mean
Maximum size of credit lines	3.02	3.07	2.96
Costs of credit lines	2.80	2.68	2.92
Spreads of loan rates over your bank's cost of funds (wider spreads=tightened,narrower spreads=eased)	2.70	2.43	3.00
The premium charged on riskier loans	2.46	2.39	2.54
Loan covenants	2.81	2.75	2.88
Collateralization requirements	2.93	2.93	2.92
Other (please specify)	2.98	2.96	3.00
Number of banks responding	54	28	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	3.06	3.07	3.04
Costs of credit lines	2.94	2.93	2.96
Spreads of loan rates over your bank's cost of funds(wider spreads=tightened,narrower spreads=eased)	2.96	2.78	3.15
The premium charged on riskier loans	2.74	2.81	2.65
Loan covenants	2.94	2.96	2.92
Collateralization requirements	2.96	2.96	2.96
Other	3.00	3.00	3.00
Number of banks responding	53	27	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 or B or both as appropriate.) (Please rate each possible reason using the following scale: 1=not important, 2=somewhat important, 3=very important.)

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

	All Respondents	Large Banks	Other Banks
	Mean	Mean	Mean
A deterioration in your bank's current or expected capital position	1.17	1.25	1.07
A less favorable or more uncertain economic outlook	1.89	1.75	2.07
A worsening of industry-specific problems	1.69	1.55	1.87
Less aggressive competition from other banks	1.23	1.40	1.00
Less aggressive competition from nonbank lenders (other financial intermediaries or the capital markets)	1.40	1.60	1.13
A reduced tolerance for risk	1.43	1.40	1.47
Decreased liquidity in the secondary market for these loans	1.63	1.85	1.33
Other	1.06	1.10	1.00
Number of banks responding	35	20	15

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

	All Respondents	Large Banks	Other Banks
	Mean	Mean	Mean
An improvement in your bank's current or expected capital position	1.33	1.50	1.29
A more favorable or less uncertain economic outlook	1.00	1.00	1.00
An improvement in industry-specific problems	1.00	1.00	1.00
More aggressive competition from other banks	2.33	1.50	2.57
More aggressive competition from nonbank lenders (other financial intermediaries or the capital markets)	2.33	1.50	2.57
An increased tolerance for risk	1.44	1.00	1.57
Increased liquidity in the secondary market for these loans	1.11	1.50	1.00
Other	1.56	1.56	1.57
Number of banks responding	9	2	7

4. If your bank tightened standards or terms on C&I loans to large and middle-market firms (as described in questions 1A and 2A), for which group were standards or terms predominantly tightened? (Please define large firms as those with annual sales of more than $250 million, or use your bank's definition and indicate what it is.)

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Large firms	11	36.7	8	44.4	3	25.0
Middle-market firms	5	16.7	1	5.6	4	33.3
Tightening approximately equivalent for both groups	14	46.7	9	50.0	5	41.7
Total	30	100.0	18	100.0	12	100.0

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

A. Demand for C&I loans from large and middle-market firms (annual sales of more than $50 million)

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Substantially stronger	1	1.9	0	0.0	1	3.7
Moderately stronger	15	27.8	8	29.6	7	25.9
About the same	33	61.1	15	55.6	18	66.7
Moderately weaker	5	9.3	4	14.8	1	3.7
Substantially weaker	0	0.0	0	0.0	0	0.0
Total	54	100.0	27	100.0	27	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	1	1.9	0	0.0	1	3.7
Moderately stronger	9	17.0	4	15.4	5	18.5
About the same	39	73.6	19	73.1	20	74.1
Moderately weaker	4	7.5	3	11.5	1	3.7
Substantially weaker	0	0.0	0	0.0	0	0.0
Total	53	100.0	26	100.0	27	100.0

6. If demand for C&I loans has strengthened or weakened over the past three months (as described in questions 5), how important have been the following possible reasons for the change? (Please respond to either A or B or both as appropriate.) (Please rate each possible reason using the following scale: 1=not important, 2=somewhat important, 3=very important.)

A. If stronger loan demand (answer 1 or 2 to question 5 A or B), possible reasons:

	All Respondents	Large Banks	Other Banks
	Mean	Mean	Mean
Customer inventory financing needs increased	1.50	1.55	1.44
Customer investment in plant or equipment increased	1.55	1.55	1.56
Customer internally generated funds decreased	1.40	1.27	1.56
Customer borrowing shifted from other sources to your bank because these other sources became less attractive	2.05	2.27	1.78
Customer merger or acquisition financing increased	1.70	2.00	1.33
Other	1.20	1.18	1.22
Number of banks responding	20	11	9

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

	All Respondents	Large Banks	Other Banks
	Mean	Mean	Mean
Customer inventory financing needs decreased	1.33	1.40	1.00
Customer investment in plant or equipment decreased	1.50	1.60	1.00
Customer internally generated funds increased	1.17	1.20	1.00
Customer borrowing shifted from your bank to other sources because these other sources became more attractive	1.33	1.40	1.00
Customer merger or acquisition financing decreased	1.33	1.40	1.00
Other	1.17	1.20	1.00
Number of banks responding	6	5	1

7. Regarding existing revolving lines of credit and other formal commitments to lend currently in place at your bank, on about what percent would your bank tighten terms -- including fees and spreads over base rates -- if they were maturing and being repriced today?

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
0-20 percent	40	76.9	16	64.0	24	88.9
21-40 percent	7	13.5	5	20.0	2	7.4
41-60 percent	4	7.7	3	12.0	1	3.7
61-80 percent	1	1.9	1	4.0	0	0.0
81-100 percent	0	0.0	0	0.0	0	0.0
Total	52	100.0	25	100.0	27	100.0

Questions 8-12 *ask about* ***commercial real estate loans*** *at your bank, including construction and land development loans and loans secured by nonfarm nonresidential real estate: Questions 8-10 deal with changes in your bank's lending policies over the past three months, and questions 11 and 12 deals with changes in demand over the same period. If your bank's lending policies have not changed over the past three months, please report them as unchanged even if the policies are either restrictive or accommodative relative to longer-term norms. If your bank's policies have tightened or eased over the past three months, please so report them regardless of how they stand relative to longer-term norms. Also, please report changes in enforcement of existing standards as changes in standards.*

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

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Tightened considerably	1	1.9	1	3.7	0	0.0
Tightened somewhat	10	18.5	4	14.8	6	22.2
Remained basically unchanged	40	74.1	21	77.8	19	70.4
Eased somewhat	3	5.6	1	3.7	2	7.4
Eased considerably	0	0.0	0	0.0	0	0.0
Total	54	100.0	27	100.0	27	100.0

9. Over the past three months, how has your bank changed the following terms on commercial real estate 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 loan size	3.00	2.96	3.04
Maximum loan maturity	2.98	2.96	3.00
Spreads of loan rates over your bank's cost of funds	2.81	2.74	2.89
Loan-to-cost ratios	2.87	2.89	2.85
Requirements for take-out financing	2.96	3.00	2.93
Debt-service coverage ratios	2.78	2.81	2.74
Other	3.02	3.04	3.00
Number of banks responding	54	27	27

10. If your bank tightened or eased its credit standards or its terms for commercial real estate loans over the past three months (as described in questions 8 and 9), how important were the following possible reasons for the change? (Please respond to either A or B or both as appropriate.) (Please rate each possible reason using the following scale: 1=not important, 2=somewhat important, 3=very important.)

A. Possible reasons for tightening lending standards or terms:

	All Respondents	Large Banks	Other Banks
	Mean	Mean	Mean
A deterioration in your bank's current or expected capital position	1.11	1.13	1.08
A less favorable or more uncertain economic outlook	1.75	1.81	1.67
A worsening of the condition of or the outlook for the commercial real estate markets in which your bank operates	1.50	1.44	1.58
Less aggressive competition from other commercial banks	1.32	1.50	1.08
Less aggressive competition from nonbank sources of finance	1.56	1.80	1.25
A reduced tolerance for risk	1.48	1.47	1.50
Disruption in the the commercial mortgage-backed securities market	1.93	2.07	1.75
Increased concern about the reliability of take-out financing	1.59	1.67	1.50
Other	1.08	1.07	1.09
Number of banks responding	28	16	12

B. Possible reasons for easing lending standards or terms:

	All Respondents	Large Banks	Other Banks
	Mean	Mean	Mean
A improvement in your bank's current or expected capital position	1.27	1.00	1.60
A more favorable or less uncertain economic outlook	1.27	1.50	1.00
An improvement of the condition of or the outlook for the commercial real estate markets in which your bank operates	1.27	1.50	1.00
More aggressive competition from other commercial banks	1.55	1.17	2.00
More aggressive competition from nonbank sources of finance	1.55	1.33	1.80
An increased tolerance for risk	1.36	1.17	1.60
Increased liquidity in the the commercial mortgage-backed securities market	1.09	1.17	1.00
Decreased concern about the reliability of take-out financing	1.09	1.17	1.00
Other	1.27	1.00	1.60
Number of banks responding	11	6	5

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

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Substantially stronger	1	1.9	1	3.7	0	0.0
Moderately stronger	18	33.3	10	37.0	8	29.6
About the same	32	59.3	13	48.1	19	70.4
Moderately weaker	3	5.6	3	11.1	0	0.0
Substantially weaker	0	0.0	0	0.0	0	0.0
Total	54	100.0	27	100.0	27	100.0

12. If demand for commercial real estate loans has strengthened or weakened over the past three months (as described in question 11), 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 11), possible reasons:

	All Respondents	Large Banks	Other Banks
	Mean	Mean	Mean
Customer borrowing shifted to your bank from competitors that have faced increased difficulty securitizing their commercial mortgages.	2.00	2.27	1.63
Customer borrowing shifted to your bank from other sources, besides lenders dependent on commercial mortgage-backed securities for funding, because these other sources became less attractive.	1.84	1.91	1.75
Customer financing needs for commercial real estate holdings, construction, or land development increased.	1.68	1.64	1.75
Other	1.11	1.00	1.25
Number of banks responding	19	11	8

B. If weaker loan demand (answer 4 or 5 to question 11), possible reasons:

	All Respondents	Large Banks	Other Banks
	Mean	Mean	Mean
Customer borrowing shifted away from your bank to competitors that have been finding it easier than it was three months ago to securitize their commercial mortgages.	1.00	1.00	NA
Customer borrowing shifted from your bank to other sources, besides lenders dependent on commercial mortgage-backed securities for funding, because these other sources became more attractive.	1.33	1.33	NA
Customer financing needs for commercial real estate holdings, construction, or land development decreased.	1.67	1.67	NA
Other	1.00	1.00	NA
Number of banks responding	3	3	0

Questions 13 and 14 *ask about* ***home mortgage loans*** *at your bank: Question 13 deals with changes in your bank's credit standards over the past three months, and question 14 deals with changes in demand over the same period. If your bank's credit standards have not changed over the past three months, please report them as unchanged even if the standards are either restrictive or accommodative relative to longer-term norms. If your bank's credit standards have tightened or eased over the past three months, please so report them regardless of how they stand relative to longer-term norms. Also, please report changes in enforcement of existing standards as changes in standards.*

13. 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	1	2.0	1	4.3	0	0.0
Remained basically unchanged	49	98.0	22	95.7	27	100.0
Eased somewhat	0	0.0	0	0.0	0	0.0
Eased considerably	0	0.0	0	0.0	0	0.0
Total	50	100.0	23	100.0	27	100.0

14. Over the past three months, how has demand for mortgage loans to purchase homes (as opposed to refinancing existing mortgages) changed (apart from normal seasonal variation)?

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Substantially stronger	1	2.0	1	4.3	0	0.0
Moderately stronger	9	18.0	4	17.4	5	18.5
About the same	35	70.0	13	56.5	22	81.5
Moderately weaker	4	8.0	4	17.4	0	0.0
Substantially weaker	1	2.0	1	4.3	0	0.0
Total	50	100.0	23	100.0	27	100.0

***Questions 15-20** ask about **consumer lending** at your bank: Questions 15-17 deal with changes in your bank's willingness to make, and in its credit standards for, consumer loans over the past three months; questions 18 and 19 deal with changes in loan terms over the same period; and question 20 deals with changes in demand over the same period. If your bank's lending policies have not changed over the past three months, please report them as unchanged even if the policies are either restrictive or accommodative relative to longer-term norms. If your bank's policies have tightened or eased over the past three months, please so report them regardless of how they stand relative to longer-term norms. Also, please report changes in enforcement of existing policies as changes in policies.*

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

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Much more	0	0.0	0	0.0	0	0.0
Somewhat more	7	13.5	4	16.0	3	11.1
About unchanged	45	86.5	21	84.0	24	88.9
Somewhat less	0	0.0	0	0.0	0	0.0
Much less	0	0.0	0	0.0	0	0.0
Total	52	100.0	25	100.0	27	100.0

16. 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	4	9.8	4	19.0	0	0.0
Remained basically unchanged	36	87.8	16	76.2	20	100.0
Eased somewhat	1	2.4	1	4.8	0	0.0
Eased considerably	0	0.0	0	0.0	0	0.0
Total	41	100.0	21	100.0	20	100.0

17. 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	3	5.8	3	12.0	0	0.0
Remained basically unchanged	45	86.5	20	80.0	25	92.6
Eased somewhat	4	7.7	2	8.0	2	7.4
Eased considerably	0	0.0	0	0.0	0	0.0
Total	52	100.0	25	100.0	27	100.0

18. Over the past three months, how has your bank changed the following terms on new or existing credit card accounts for individuals or households? (Please assign each term a number between 1 and 5 using the following scale: 1=tightened considerably, 2=tightened somewhat, 3=remained basically unchanged, 4=eased somewhat, 5=eased considerably.)

	All Respondents	Large Banks	Other Banks
	Mean	Mean	Mean
Credit limits	2.93	2.86	3.00
Spreads of interest rates charged on outstanding balances over your bank's cost of funds (wider spreads=tightened, narrower spreads=eased)	2.90	2.81	3.00
Minimum percent of outstanding balances required to be repaid each month	3.02	3.00	3.05
Other	2.98	2.95	3.00
Number of banks responding	42	21	21

19. Over the past three months, how has your bank changed the following terms on consumer loans excluding credit card loans? (Please assign each term a number between 1 (tightened considerably) and 5 (eased considerably) as in question 18.)

	All Respondents	Large Banks	Other Banks
	Mean	Mean	Mean
Maximum maturity	3.04	3.00	3.08
Spreads of loan rates over your bank's cost of funds (wider spreads=tightened, narrower spreads=eased)	2.92	2.84	3.00
Minimum required down payment	3.00	3.00	3.00
Other	3.00	3.00	3.00
Number of banks responding	51	25	26

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

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Substantially stronger	0	0.0	0	0.0	0	0.0
Moderately stronger	7	13.5	1	4.0	6	22.2
About the same	40	76.9	21	84.0	19	70.4
Moderately weaker	4	7.7	3	12.0	1	3.7
Substantially weaker	1	1.9	0	0.0	1	3.7
Total	52	100.0	25	100.0	27	100.0

*Responses to **questions 21 and 22** will help the Federal Reserve improve its estimate of household debt service burden.*

21. On average, what is the minimum percent of outstanding credit card balances that your bank requires individuals or households to repay each month?

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
0-1 percent	3	7.5	2	9.5	1	5.3
2-3 percent	32	80.0	17	81.0	15	78.9
4-5 percent	5	12.5	2	9.5	3	15.8
More than 5 percent	0	0.0	0	0.0	0	0.0
Total	40	100.0	21	100.0	19	100.0

22. In the late 1980s, on average, what was the minimum percent of outstanding credit card balances that your bank required individuals or households to repay each month?

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
0-1 percent	2	5.0	1	4.8	1	5.3
2-3 percent	24	60.0	13	61.9	11	57.9
4-5 percent	14	35.0	7	33.3	7	36.8
More than 5 percent	0	0.0	0	0.0	0	0.0
Total	40	100.0	21	100.0	19	100.0

*Commercial banks' holdings of securities grew rapidly in the last quarter of 1998. **Questions 23 and 24** ask about the growth in securities at your bank.*

23. How did your bank's holdings of securities change in the fourth quarter of 1998?

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Increased substantially	4	7.7	2	7.7	2	7.7
Increased somewhat	15	28.8	6	23.1	9	34.6
About the same	22	42.3	12	46.2	10	38.5
Decreased somewhat	8	15.4	4	15.4	4	15.4
Increased substantially	3	5.8	2	7.7	1	3.8
Total	52	100.0	26	100.0	26	100.0

24. If securities have grown at your bank (answer 1 or 2 to question 23), to what factors do you attribute the growth? (Please rate each possible reason using the following scale: 1=not important, 2=somewhat important, 3=very important.)

	All Respondents	Large Banks	Other Banks
	Mean	Mean	Mean
The yields on some securities have increased relative to your bank's cost of funds, making these securities more attractive investments.	1.70	2.11	1.36
An increased willingness on the part of your bank to boost leverage in an effort to raise return on equity.	1.35	1.56	1.18
Your bank experienced strong loan demand and raised capital to satisfy risk-based-capital requirements; given the increased capital, leverage-ratio constraints become less binding so your bank acquired zero or low risk-weight securities.	1.15	1.22	1.09
Your bank's holding company was constrained from buying back stock because it had recently participated in a pooling-of-interest merger, and, with profits strong, it accumulated a substantial amount of equity. Your bank bought securities in order to expand its balance sheets in line with the added capital.	1.25	1.22	1.27
The growing trend toward securitization presented your bank with attractive new securities to purchase.	1.20	1.11	1.27
Low interest rates and high stock prices have made raising capital by issuing subordinated debt or equity relatively inexpensive. As a result, your bank increased its capital and then purchased securities to maintain desired capital ratios.	1.10	1.00	1.18
Holdings of longer-maturity securities were increased to compensate for the shorter expected duration of mortgage-backed securities resulting from the decline in longer-term interest rates in recent months and the consequent increase in prepayment risk.	1.80	1.89	1.73
Other	1.65	1.78	1.55
Number of banks responding	20	9	11

Questions 25-26 *concern* ***loan syndication****.*

25. How would you describe current conditions in the syndicated loan market, for example its capacity to absorb new credits without significant modification of terms, relative to six months ago, prior to the recent period of intense disruptions?

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Considerably better	0	0.0	0	0.0	0	0.0
Somewhat better	7	14.6	5	18.5	2	9.5
Basically unchanged on balance	17	35.4	6	22.2	11	52.4
Somewhat worse	22	45.8	14	51.9	8	38.1
Considerably worse	2	4.2	2	7.4	0	0.0
Total	48	100.0	27	100.0	21	100.0

26. If your bank originates syndicated loans and perceives the conditions in the syndicated loan market as worse than six months ago (answer 4 or 5 to question 25), how has this development affected your bank's business lending? (Please rate each possible effect using the following scale: 1=not significant, 2=moderately significant, 3=very significant.)

	All Respondents	Large Banks	Other Banks
	Mean	Mean	Mean
Loans at your bank have grown faster than they would have, as a larger share of the loans originated by your bank are remaining on its books.	1.38	1.29	1.75
In order to avoid an increase in loans on your bank's books, your bank has trimmed its originations of these loans.	1.33	1.29	1.50
Your bank has increasingly obtained the consent of borrowers, in advance, to allow adjustments to the interest rate and other loan terms during the syndication period ("flexible pricing") in order to increase the likelihood of full subscription of loans it originates for syndication.	2.19	2.24	2.00
Other	1.33	1.35	1.25
Number of banks responding	21	17	4

Optional: **Question 27** requests feedback on any issues you judge to be important but that are not addressed on this survey.

27. Are there any recent developments in lending practices not addressed in this survey that you find particularly significant? Your response will help us stay abreast of breaking issues and in choosing questions for future surveys. There is no need to reply if you have nothing you would like to add.

Table 2

SENIOR LOAN OFFICER OPINION SURVEY ON BANK LENDING PRACTICES
AT SELECTED BRANCHES AND AGENCIES OF FOREIGN BANKS IN THE UNITED STATES
(Status of policy as of January 1999)

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

Questions 1-6 *ask about* ***commercial and industrial loans*** *at your bank: Questions 1-3 and 6 deal with changes in your bank's lending policies over the past three months, and questions 4 and 5 deal with changes in demand over the same period. If your bank's lending policies have not changed over the past three months, please report them as unchanged even if the policies are either restrictive or accommodative relative to longer-term norms. If your bank's policies have tightened or eased over the past three months, please so report them regardless of how they stand relative to longer-term norms. Also, please report changes in enforcement of existing standards as changes in standards.*

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	4	17.4
Tightened somewhat	10	43.5
Remained basically unchanged	8	34.8
Eased somewhat	1	4.3
Eased considerably	0	0.0
Total	23	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	2.26
Costs of credit lines	2.09
Spreads of loan rates over your bank's cost of funds (wider spreads=tightened, narrower spreads=eased)	1.96
The premium charged on riskier loans	1.96
Loan covenants	2.70
Collateralization requirements	2.65
Other	2.91
Total	23

1. As of September 30, 1998, the twenty-three respondents had combined assets of $228 billion, compared to $820 billion for all foreign-related banking institutions in the United States. The sample is selected from among the largest foreign-related banking institutions in those Federal Reserve Districts where such institutions are common.

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

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

	All Respondents
	Mean
A deterioration in your parent bank's current or expected capital position	1.59
A less favorable or more uncertain economic outlook	1.86
A worsening of industry-specific problems	1.64
Less aggressive competition from other commercial banks	1.59
Less aggressive competition from nonbank lenders (other financial intermediaries or the capital markets)	1.45
A reduced tolerance for risk	1.73
Decreased liquidity in the secondary market for these loans	2.05
Other	1.14
Number of banks responding	22

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

	All Respondents
	Mean
An improvement in your parent bank's current or expected capital position	2.00
A more favorable or less uncertain economic outlook	1.00
An improvement in industry-specific problems	1.00
More aggressive competition from other commercial banks	1.50
More aggressive competition from nonbank lenders (other financial intermediaries or the capital markets)	1.50
An increased tolerance for risk	1.00
Increased liquidity in the secondary market for these loans	1.50
Other	1.00
Number of banks responding	2

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

	All Respondents	
	Banks	Pct
Substantially stronger	2	8.7
Moderately stronger	6	26.1
About the same	9	39.1
Moderately weaker	6	26.1
Substantially weaker	0	0.0
Total	23	100.0

5. If demand for C&I loans has strengthened or weakened over the past three months, how important have been the following possible reasons for the change? (Please rate each possible reason using the following scale:1=not important, 2=somewhat important, 3=very important.)

A. If stronger loan demand (answer 1 or 2 to question 4), possible reasons:

	All Respondents
	Mean
Customer inventory financing needs increased	1.18
Customer investment in plant or equipment increased	1.18
Customer internally generated funds decreased	1.27
Customer borrowing shifted from other sources to your bank because these other sources became less attractive	2.27
Customer merger or acquisition financing increased	1.73
Other	1.09
Number of banks responding	11

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

	All Respondents
	Mean
Customer inventory financing needs decreased	1.00
Customer investment in plant or equipment decreased	1.40
Customer internally generated funds increased	1.20
Customer borrowing shifted from your bank to other sources because these other sources became more attractive	1.60
Customer merger or acquisition financing decreased	1.80
Other	1.40
Number of banks responding	5

6. Regarding existing revolving lines of credit and other formal commitments to lend currently in place at your bank, on about what percent would your bank tighten terms, including fees and spreads over base rates, if they were maturing and being repriced today?

	All Respondents	
	Banks	Pct
0-20 percent	2	9.1
21-40 percent	4	18.2
41-60 percent	4	18.2
61-80 percent	10	45.5
81-100 percent	2	9.1
Total	22	100.0

Questions 7-11 *ask about* ***commercial real estate loans*** *at your bank, including construction and land development loans and loans secured by nonfarm nonresidential real estate: Questions 7-9 deal with changes in your bank's lending policies over the past three months, and questions 10 and 11 deal with changes in demand over the same period. If your bank's lending policies have not changed over the past three months, please report them as unchanged even if the policies are either restrictive or accommodative relative to longer-term norms. If your bank's policies have tightened or eased over the past three months, please so report them regardless of how they stand relative to longer-term norms. Also, please report changes in enforcement of existing 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	Pct
Tightened considerably	3	21.4
Tightened somewhat	5	35.7
Remained basically unchanged	6	42.9
Eased somewhat	0	0.0
Eased considerably	0	0.0
Total	14	100.0

8. Over the past three months, how has your bank changed the following terms on commercial real estate 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
	Mean
Maximum loan size	2.17
Maximum loan maturity	2.42
Spreads of loan rates over your bank's cost of funds	2.33
Loan-to-cost ratios	2.08
Requirements for take-out financing	2.42
Debt-service coverage ratios	2.00
Other	2.83
Number of banks responding	12

9. If your bank tightened or eased its credit standards or its terms for commercial real estate loans over the past three months (as described in questions 7 and 8), how important were the following possible reasons for the change? (Please respond to either A or B or both as appropriate.) (Please rate each possible reason using the following scale: 1=not important, 2=somewhat important, 3=very important.)

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

	All Respondents
	Mean
A deterioration in your parent bank's current or expected capital position	1.89
A less favorable or more uncertain economic outlook	1.89
A worsening of the condition of or the outlook for the commercial real estate markets in which your bank operates	2.00
Less aggressive competition from other banks	1.33
Less aggressive competition from nonbank sources of finance	1.11
A reduced tolerance for risk	2.00
Disruption in the the commercial mortgage-backed securities market	2.11
Increased concern about the reliability of take-out financing	2.11
Other	1.00
Number of banks responding	9

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

	All Respondents
	Mean
An improvement in your parent bank's current or expected capital position	1.00
A more favorable or less uncertain economic outlook	3.00
An improvement in the condition of or the outlook for commercial real estate in the markets in which your bank operates	1.00
More aggressive competition from other banks	1.00
More aggressive competition from nonbank sources of finance	1.00
An increased tolerance for risk	1.00
Increased liquidity in the commercial mortgage-backed securities market	3.00
Decreased concern about the reliability of take-out fianancing	1.00
Other	1.00
Number of banks responding	1

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

	All Respondents	
	Banks	Pct
Substantially stronger	1	7.7
Moderately stronger	3	23.1
About the same	8	61.5
Moderately weaker	1	7.7
Substantially weaker	0	0.0
Total	13	100.0

11. If demand for commercial real estate loans has strengthened or weakened over the past three months (as described in question 10), 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 10), possible reasons:

	All Respondents
	Mean
Customer borrowing shifted to your bank from competitors that have faced increased difficulty securitizing their commercial mortgages.	1.75
Customer borrowing shifted to your bank from other sources, besides lenders dependent on commercial mortgage-backed securities for funding, because these other sources became less attractive.	1.75
Customer financing needs for commercial real estate holdings, construction, or land development increased.	2.00
Other (please specify)	1.00
Number of banks responding	4

B. If weaker loan demand (answer 4 or 5 to question 10), possible reasons:

	All Respondents
	Mean
Customer borrowing shifted away from your bank to competitors that have been finding it easier than it was three months ago to securitize their commercial mortgages.	1.00
Customer borrowing shifted from your bank to other sources, besides lenders dependent on commercial mortgage-backed securities for funding, because these other sources became more attractive.	2.00
Customer financing needs for commercial real estate holdings, construction, or land development decreased.	1.00
Other (please specify)	2.00
Number of banks responding	2

Commercial banks' holdings of securities grew rapidly in the last quarter of 1998. ***Questions 12 and 13*** *ask about the* ***growth in securities*** *at your bank.*

12. How did your bank's holdings of securities change in the fourth quarter of 1998?

	All Respondents	
	Banks	Pct
Increased substantially	0	0.0
Increased somewhat	2	10.5
About unchanged	11	57.9
Decreased somewhat	5	26.3
Decreased substantially	1	5.3
Total	19	100.0

13. If securities have grown at your bank (answer 1 or 2 to question 12), to what factors do you attribute the growth? (Please rate each possible reason using the following scale: 1=not important, 2=somewhat important, 3=very important.):

	All Respondents
	Mean
The yields on some securities have increased relative to your bank's cost of funds, making these securities more attractive investments.	2.50
An increased willingness on the part of your parent bank to boost leverage in an effort to raise return on equity.	1.50
The growing trend toward securitization presented your bank with attractive new securities to purchase.	2.00
Holdings of longer-maturity securities were increased to compensate for the shorter expected duration of mortgage-backed securities resulting from the decline in longer-term interest rates in recent months and the consequent increase in prepayment risk.	2.00
Other	1.00
Number of banks responding	2

Questions 14 and 15 *concern* ***loan syndication****.*

14. How would you describe current conditions in the syndicated loan market, for example its capacity to absorb new credits without significant modification of terms, relative to six months ago, prior to the recent period of intense disruptions?

	All Respondents	
	Banks	Pct
Considerably better	0	0.0
Somewhat better	2	8.7
Basically unchanged on balance	4	17.4
Somewhat worse	12	52.2
Considerably worse	5	21.7
Total	23	100.0

15. If your bank originates syndicated loans and perceives the conditions in the syndicated loan market as worse than six months ago (answer 4 or 5 to question 14), how has this development affected your bank's business lending? (Please rate each possible effect using the following scale: 1=not significant, 2=moderately significant, 3=very significant.)

	All Respondents
	Mean
Loans at your bank have grown faster than they would have, as a larger share of the loans originated by your bank are remaining on its books.	1.36
In order to avoid an increase in loans on your bank's books, your bank has trimmed its originations of these loans.	1.64
Your bank has increasingly obtained the consent of borrowers, in advance, to allow adjustments to the interest rate and other loan terms during the syndication period (flexible pricing) in order to increase the likelihood of full subscription of loans it originates for syndication.	2.29
Other	1.29
Number of banks responding	14

Optional: Question 16 *requests feedback on any issues you judge to be important but that are not addressed on this survey.*

16. Are there any recent developments in lending practices not addressed in this survey that you find particularly significant? Your response will help us stay abreast of breaking issues and in choosing questions for future surveys. There is no need to reply if you have nothing you would like to add.