The November 1997 Senior Loan Officer Opinion Survey on Bank Lending Practices

The November 1997 Senior Loan Officer Opinion Survey on Bank Lending Practices (covering, for the most part, changes over the past three months) posed questions about bank lending standards and terms, loan demand by businesses and households, collateralized loan obligations, the causes of the recent rise in measured spreads on commercial and industrial loans, and the renegotiation of consumer loans on concessionary terms.[1]

Increased competition for business credit apparently led large percentages of the domestic respondents to ease terms on commercial and industrial loans over the past three months, and a small percentage of them to ease lending standards. By contrast, a few of the branches and agencies of foreign banks indicated that they had tightened lending standards and some loan terms. Demand for business loans and commercial real estate loans strengthened at many of the respondents.

Banks again reported tighter standards on consumer loans, but the percentage that tightened was lower than it was earlier in the year. Moreover, several banks expressed increased willingness to make these loans. The respondents indicated that demand for consumer loans had softened slightly on net.

Lending to Businesses
(Table 1, questions 1-9; table 2, questions 1-7)

A small net percentage of the domestic respondents -- about 5 percent --reported easing standards for commercial and industrial loans to large and middle market firms and to small businesses over the past three months (chart). About 40 percent, on net, narrowed spreads of C&I loan rates over their bank's cost of funds on loans to borrowers in both size categories. Smaller percentages eased other terms, including the costs of credit lines, the maximum size of credit lines, and loan covenants. Only a couple of banks eased collateralization requirements. The easing of loan terms was somewhat more widespread in November

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1. About 40 percent of the survey responses were reported to the Reserve Banks on or before October 27, when the stock market fell sharply and risk spreads on private securities widened. An even larger share of the responses likely reflect loan market conditions before the stock market's decline, however, because some respondents may have decided on their responses well in advance of the time they were reported to the Reserve Banks.

than earlier this year, especially for loans to small businesses. As in the earlier surveys, those banks that eased pointed to increased competition from other banks and from nonbank lenders as the main reasons for the changes.

In contrast, the branches and agencies of foreign banks reported a small net tightening of standards and a tightening of some loan terms for commercial and industrial loans. Those respondents tightening standards or terms most frequently indicated that they were doing so because of a reduced tolerance for risk by their institution. While this reduced tolerance for risk might reflect the recent turbulence in world financial markets, the less accommodative stance of the foreign respondents is also consistent with the last two surveys. In August and May, the foreign respondents were less likely than the domestic respondents to report easier terms or standards and more likely to report tighter ones. The November responses are also consistent with the slower growth in business loans at foreign branches and agencies than at large domestic banks since the second quarter.

The survey results suggest a broad rise in the demand for commercial and industrial loans. Nearly 20 percent of the domestic banks, on net, reported stronger demand from large and middle-market borrowers, roughly the same as the fraction reporting a pickup in demand by small businesses (chart). A similar net percentage of the foreign branches and agencies reported a rise in business loan demand. Respondents attributed the increased demand to greater customer financing needs for plant and equipment and also for mergers and acquisitions. In addition, some of the foreign respondents pointed to a shift in demand from other sources of finance.

The survey results show mixed changes in commercial real estate loan standards, while demand for such loans picked up sharply. Less than 10 percent of the domestic banks reported easier commercial real estate lending standards, and the foreign respondents posted a small net tightening. About a third of both the domestic and foreign respondents indicated that demand for commercial real estate loans had strengthened.

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

The November survey was the eighth in a row to show a net tightening of standards for consumer loans. However, the net percentage of banks tightening was lower in the August and November surveys than earlier in the year, suggesting that many banks have completed adjustments to take account of the deterioration in the performance of these loans that occurred over the past three years. In the latest survey, 25 percent of the respondents reported tighter standards for credit card applications and 10 percent reported tighter standards for other consumer loans. Both percentages were little changed from the August survey. By contrast, these percentages peaked at nearly 50 and 25 percent, respectively, late last year.

Changes in consumer loan terms were mixed. Banks tightened credit limits and increased spreads on credit card accounts. On other types of consumer loans, however, some banks increased maximum maturities and cut spreads. Ten percent of the banks, on net, said that their willingness to make consumer installment loans had increased over the past three months, about the same as in August (chart). Consumer loan demand was reportedly a bit weaker on net.

Banks reported a very small net tightening of standards for approving applications for mortgage loans to purchase homes. More than a quarter of the respondents reported increased demand for these loans.

Collateralized Loan Obligations

(Table 1, questions 18-20; table 2, questions 8-10)

Recently, several large banks have established programs under which they package and sell securities backed by commercial and industrial loans. These securities are commonly called "collateralized loan obligations" or CLOs.[2] The November survey asked the respondents about such programs. Four of the domestic banks and six of the foreign branches and agencies reported having programs to sell collateralized loan obligations, and three domestic respondents and four foreign respondents indicated that they would have such programs within a year. Thus, more than a tenth of the domestic respondents and nearly half of the foreign respondents will likely have issued CLOs by the end of next year. Moreover, nearly a third of the domestic respondents and a fifth of the foreign respondents indicated that they were considering establishing a CLO program. The respondents attributed the recent interest in CLOs to a desire by banks to deploy their capital efficiently by moving relatively low risk loans off their balance sheets. They also noted that the continued development of the asset-backed security market

2. Banks have issued securities backed by loans guaranteed by the Small Business Administration for some time. These securities are distinct from CLOs.

has reduced the cost of such programs, and that, given current market interest rates, CLOs can reduce funding costs.

The seven domestic respondents that have or plan to have a program each intend to securitize an average of about $2.2 billion of commercial and industrial loans over the coming year, while the ten foreign respondents each intend to securitize an average of $2.0 billion. Thus, in sum, these respondents plan to securitize $35 billion of commercial and industrial loans. While this sum is only about 4 percent of the more than $800 billion of bank commercial and industrial loans, these securitizations could cut the growth rate of business loans on banks' books, which has run at about an 8 percent annual rate in recent quarters, by about a half.

Reasons for the Rise in Measured Spreads on Large Business Loans
(Table 1, questions 21-22; table 2, questions 11-12)

According to the Federal Reserve's quarterly Survey of Terms of Business Lending, spreads of rates on larger business loans (those of $1 million or more) over market rates have widened over the past year. This result appears to be at odds with press reports and the results of past Senior Loan Officer Surveys, which suggest that spreads have narrowed. The November survey asked the respondents what factors likely contributed to this divergence. They indicated that the rise in measured spreads on commercial and industrial loans found by the Survey of Terms of Business Lending most likely occurred despite a narrowing of spreads on loans of a given risk, and reflected a more-than-offsetting rise in the average risk of new loans. They attributed the rise in risk to an increased demand for riskier credits, especially those for mergers and acquisitions. In addition, some respondents reported that their bank had decided to accept increased risk in order to earn higher returns.

Concessionary Terms on Household Debt Repayment Plans
(Table 1, questions 23-27)

In recent years the number of households contacting credit counseling services has increased substantially, as has the number of households establishing debt repayment plans with their creditors with the assistance of such services. The November survey asked banks about their willingness to agree to concessionary terms on consumer loans as a part of a debt repayment plan. The responses showed a widespread willingness to provide concessionary terms and an increase in the use of concessions in recent years. More than two-thirds of the respondents indicated that they were willing to agree to "some" concessions (perhaps including reduced late fees, lower interest rates, or longer repayment periods) as a part of a debt repayment plan, and a couple of banks said they were willing to make "substantial" concessions. Less than 10 percent of the respondents were completely unwilling to make concessions. Generally, the respondents indicated that the fraction of their banks' consumer loan outstandings restructured on concessionary terms as a part of a debt repayment plan was fairly small: either less than 1 percent or between 1 and 3 percent of outstandings. Half the respondents indicated that this percentage had increased over the past three years. In part, the rise may reflect a greater willingness on the part of banks to make concessions. Nearly half of the banks were more willing to make such concessions today than they were three years ago.

Somewhat surprisingly, many of the banks apparently restructure consumer loans on concessionary terms directly, rather than through a credit counseling service. Only 20 percent of the respondents indicated that debt repayment plans were arranged through a service "in most cases," and about 15 percent reported that counseling services were "rarely or never used." A majority of the respondents indicated only that arrangements were "sometimes" made through a counseling service.

Table 1

SENIOR LOAN OFFICER OPINION SURVEY ON BANK LENDING PRACTICES
AT SELECTED LARGE BANKS IN THE UNITED STATES
(Status of policy as of November 1997)

(Number of banks and percentage of banks answering question)
(By volume of total domestic assets, in $billions, as of June 30, 1997[1])

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

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

a. Standards for large and middle-market firms (annual sales of more than $50 million)

	All Respondents		$15.0 and over		Under $15.0	
	Banks	Pct	Banks	Pct	Banks	Pct
Tightened considerably	0	0.0	0	0.0	0	0.0
Tightened somewhat	1	1.8	1	2.9	0	0.0
Remained basically unchanged	51	89.5	30	88.2	21	91.3
Eased somewhat	5	8.8	3	8.8	2	8.7
Eased considerably	0	0.0	0	0.0	0	0.0
Total	57	100.0	34	100.0	23	100.0

b. Standards for small firms (annual sales of less than $50 million)

	All Respondents		$15.0 and over		Under $15.0	
	Banks	Pct	Banks	Pct	Banks	Pct
Tightened considerably	0	0.0	0	0.0	0	0.0
Tightened somewhat	2	3.5	2	6.1	0	0.0
Remained basically unchanged	51	89.5	28	84.8	23	95.8
Eased somewhat	4	7.0	3	9.1	1	4.2
Eased considerably	0	0.0	0	0.0	0	0.0
Total	57	100.0	33	100.0	24	100.0

1. As of June 30, 1997, 34 respondents had domestic assets of $15 billion or more; combined assets of these banks totaled $1.62 trillion, compared to $1.79 trillion for the entire panel of 58 banks, and $4.0 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 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	$15.0 and over	Under $15.0
	Mean	Mean	Mean
Maximum size of credit lines	3.11	3.15	3.04
Costs of credit lines	3.25	3.24	3.26
Spreads of loan rates over your bank's cost of funds	3.42	3.41	3.43
Loan covenants	3.16	3.15	3.17
Collateralization requirements	3.05	3.03	3.09
Other	3.00	3.00	3.00
Number of banks responding	57	34	23

3. For applications for C&I loans or credit lines--other than those to be used to finance mergers and acquisitions--from small firms that your bank currently is willing to approve, how have the terms of those loans changed over the past three months? (Please assign each term a number between 1 (tightened considerably) and 5 (eased considerably) as in question 2.)

	All Respondents	$15.0 and over	Under $15.0
	Mean	Mean	Mean
Maximum size of credit lines	3.04	3.06	3.00
Costs of credit lines	3.26	3.30	3.21
Spreads of loan rates over your bank's cost of funds	3.42	3.36	3.50
Loan covenants	3.12	3.09	3.17
Collateralization requirements	3.04	3.03	3.04
Other	3.00	3.00	3.00
Number of banks responding	57	33	24

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

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

	All Respondents	$15.0 and over	Under $15.0
	Mean	Mean	Mean
A deterioration in your bank's current or expected capital position	1.00	1.00	1.00
A less favorable economic outlook	1.75	1.80	1.67
A worsening of industry-specific problems	1.38	1.60	1.00
Less aggressive competition from other commercial banks	1.25	1.40	1.00
Less aggressive competition from nonbank lenders (other financial intermediaries or the capital markets)	1.25	1.40	1.00
Reduced tolerance for risk	2.00	2.20	1.67
Other	1.50	1.80	1.00
Number of banks responding	8	5	3

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

	All Respondents	$15.0 and over	Under $15.0
	Mean	Mean	Mean
An improvement in your bank's current or expected capital position	1.07	1.11	1.00
A more favorable economic outlook	1.17	1.17	1.18
An improvement in industry-specific problems	1.10	1.11	1.09
More aggressive competition from other commercial banks	2.66	2.72	2.55
More aggressive competition from nonbank lenders (other financial intermediaries or the capital markets)	2.38	2.39	2.36
Increased tolerance for risk	1.21	1.17	1.27
Other	1.07	1.11	1.00
Number of banks responding	29	18	11

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

	All Respondents		$15.0 and over		Under $15.0	
	Banks	Pct	Banks	Pct	Banks	Pct
Substantially stronger	2	3.5	1	2.9	1	4.3
Moderately stronger	17	29.8	7	20.6	10	43.5
About the same	30	52.6	23	67.6	7	30.4
Moderately weaker	8	14.0	3	8.8	5	21.7
Substantially weaker	0	0.0	0	0.0	0	0.0
Total	57	100.0	34	100.0	23	100.0

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

	All Respondents		$15.0 and over		Under $15.0	
	Banks	Pct	Banks	Pct	Banks	Pct
Substantially stronger	1	1.8	0	0.0	1	4.2
Moderately stronger	17	29.8	6	18.2	11	45.8
About the same	32	56.1	25	75.8	7	29.2
Moderately weaker	7	12.3	2	6.1	5	20.8
Substantially weaker	0	0.0	0	0.0	0	0.0
Total	57	100.0	33	100.0	24	100.0

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

A. If stronger loan demand (answer 1 or 2 to question 5 or 6), possible reasons:

	All Respondents	$15.0 and over	Under $15.0
	Mean	Mean	Mean
Customer inventory financing needs increased	1.71	1.82	1.62
Customer investment in plant or equipment increased	2.08	2.00	2.15
Customer internally generated funds decreased	1.21	1.09	1.31
Customer borrowing shifted from other sources to your bank because these other sources became less attractive	1.33	1.27	1.38
Customer merger or acquisition financing increased	2.00	2.18	1.85
Other	1.08	1.09	1.08
Number of banks responding	24	11	13

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

	All Respondents	$15.0 and over	Under $15.0
	Mean	Mean	Mean
Customer inventory financing needs decreased	1.30	1.00	1.50
Customer investment in plant or equipment decreased	1.60	2.00	1.33
Customer internally generated funds increased	1.70	1.75	1.67
Customer borrowing shifted from your bank to other sources because these other sources became more attractive	1.30	1.25	1.33
Customer merger or acquisition financing decreased	1.20	1.50	1.00
Other	1.30	1.00	1.50
Number of banks responding	10	4	6

***Questions 8 and 9** ask about **commercial real estate loans** at your bank, including construction and land development loans and loans secured by nonfarm nonresidential real estate: Question 8 deals with changes in your bank's credit standards over the past three months, and question 9 deals with changes in demand over the same period. If your bank's credit standards have not changed over the past three months, please report them as unchanged even if the standards are either restrictive or accommodative relative to longer-term norms. If your bank's credit standards have tightened or eased over the past three months, please so report them regardless of how they stand relative to longer-term norms. Also, please report changes in enforcement of existing standards as changes in standards.*

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

	All Respondents		$15.0 and over		Under $15.0	
	Banks	Pct	Banks	Pct	Banks	Pct
Tightened considerably	0	0.0	0	0.0	0	0.0
Tightened somewhat	4	7.0	1	2.9	3	13.0
Remained basically unchanged	44	77.2	26	76.5	18	78.3
Eased somewhat	9	15.8	7	20.6	2	8.7
Eased considerably	0	0.0	0	0.0	0	0.0
Total	57	100.0	34	100.0	23	100.0

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

	All Respondents		$15.0 and over		Under $15.0	
	Banks	Pct	Banks	Pct	Banks	Pct
Substantially stronger	1	1.8	1	2.9	0	0.0
Moderately stronger	27	47.4	19	55.9	8	34.8
About the same	22	38.6	11	32.4	11	47.8
Moderately weaker	7	12.3	3	8.8	4	17.4
Substantially weaker	0	0.0	0	0.0	0	0.0
Total	57	100.0	34	100.0	23	100.0

Questions 10 and 11 *ask about* ***home mortgage loans*** *at your bank: Question 10 deals with changes in your bank's credit standards over the past three months, and question 11 deals with changes in demand over the same period. If your bank's credit standards have not changed over the past three months, please report them as unchanged even if the standards are either restrictive or accommodative relative to longer-term norms. If your bank's credit standards have tightened or eased over the past three months, please so report them regardless of how they stand relative to longer-term norms. Also, please report changes in enforcement of existing standards as changes in standards.*

10. Over the past three months, how have your bank's credit standards for approving applications from individuals for mortgage loans to purchase homes changed?

	All Respondents		$15.0 and over		Under $15.0	
	Banks	Pct	Banks	Pct	Banks	Pct
Tightened considerably	0	0.0	0	0.0	0	0.0
Tightened somewhat	2	3.8	2	6.7	0	0.0
Remained basically unchanged	49	94.2	28	93.3	21	95.5
Eased somewhat	1	1.9	0	0.0	1	4.5
Eased considerably	0	0.0	0	0.0	0	0.0
Total	52	100.0	30	100.0	22	100.0

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

	All Respondents		$15.0 and over		Under $15.0	
	Banks	Pct	Banks	Pct	Banks	Pct
Substantially stronger	2	3.8	2	6.7	0	0.0
Moderately stronger	17	32.7	9	30.0	8	36.4
About the same	29	55.8	16	53.3	13	59.1
Moderately weaker	4	7.7	3	10.0	1	4.5
Substantially weaker	0	0.0	0	0.0	0	0.0
Total	52	100.0	30	100.0	22	100.0

***Questions 12-17** ask about **consumer lending** at your bank: Questions 12-14 deal with changes in your bank's willingness to make, and in its credit standards for, consumer loans over the past three months; questions 15 and 16 deal with changes in loan terms over the same period; and question 17 deals with changes in demand over the same period. If your bank's lending policies have not changed over the past three months, please report them as unchanged even if the policies are either restrictive or accommodative relative to longer-term norms. If your bank's policies have tightened or eased over the past three months, please so report them regardless of how they stand relative to longer-term norms. Also, please report changes in enforcement of existing policies as changes in policies.*

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

	All Respondents		$15.0 and over		Under $15.0	
	Banks	Pct	Banks	Pct	Banks	Pct
Much more	0	0.0	0	0.0	0	0.0
Somewhat more	8	16.0	3	10.7	5	22.7
About unchanged	39	78.0	24	85.7	15	68.2
Somewhat less	3	6.0	1	3.6	2	9.1
Much less	0	0.0	0	0.0	0	0.0
Total	50	100.0	28	100.0	22	100.0

13. Over the past three months, how have your bank's credit standards for approving applications for credit cards from individuals or households changed?

	All Respondents		$15.0 and over		Under $15.0	
	Banks	Pct	Banks	Pct	Banks	Pct
Tightened considerably	0	0.0	0	0.0	0	0.0
Tightened somewhat	11	25.0	8	29.6	3	17.6
Remained basically unchanged	33	75.0	19	70.4	14	82.4
Eased somewhat	0	0.0	0	0.0	0	0.0
Eased considerably	0	0.0	0	0.0	0	0.0
Total	44	100.0	27	100.0	17	100.0

14. Over the past three months, how have your bank's credit standards for approving applications for consumer loans other than credit card loans changed?

	All Respondents		$15.0 and over		Under $15.0	
	Banks	Pct	Banks	Pct	Banks	Pct
Tightened considerably	0	0.0	0	0.0	0	0.0
Tightened somewhat	9	18.0	4	14.3	5	22.7
Remained basically unchanged	38	76.0	22	78.6	16	72.7
Eased somewhat	3	6.0	2	7.1	1	4.5
Eased considerably	0	0.0	0	0.0	0	0.0
Total	50	100.0	28	100.0	22	100.0

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

	All Respondents	$15.0 and over	Under $15.0
	Mean	Mean	Mean
Credit limits	2.73	2.63	2.88
Spreads of interest rates charged on outstanding balances over your bank's cost of funds	2.89	2.89	2.88
Minimum percentage of outstanding balances required to be repaid each month	3.02	3.04	3.00
Other	2.93	2.96	2.88
Number of banks responding	44	27	17

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

	All Respondents	$15.0 and over	Under $15.0
	Mean	Mean	Mean
Maximum maturity	3.08	3.07	3.10
Spreads of loan rates over your bank's cost of funds	3.08	3.04	3.14
Minimum required down payment	3.02	3.04	3.00
Other	2.98	3.00	2.95
Number of banks responding	49	28	21

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

	All Respondents		$15.0 and over		Under $15.0	
	Banks	Pct	Banks	Pct	Banks	Pct
Substantially stronger	0	0.0	0	0.0	0	0.0
Moderately stronger	8	16.0	3	10.7	5	22.7
About the same	32	64.0	17	60.7	15	68.2
Moderately weaker	10	20.0	8	28.6	2	9.1
Substantially weaker	0	0.0	0	0.0	0	0.0
Total	50	100.0	28	100.0	22	100.0

Questions 18-20 *ask about* ***Collateralized Loan Obligations*** *(CLOs) backed by bank commercial and industrial loans other than those guaranteed by the Small Business Administration.*

18. Has your bank established, or is it planning to establish, a program to issue CLOs backed by commercial and industrial loans other than those guaranteed by the Small Business Administration?

	All Respondents		$15.0 and over		Under $15.0	
	Banks	Pct	Banks	Pct	Banks	Pct
Our bank has such a program	4	6.9	3	8.8	1	4.2
Our bank does not have such a program yet, but is planning to establish one within the next year	3	5.2	3	8.8	0	0.0
Our bank does not have such a program, but is considering establishing one	18	31.0	14	41.2	4	16.7
Our bank does not have such a program and does not intend to establish one in the foreseeable future	33	56.9	14	41.2	19	79.2
Total	58	100.0	34	100.0	24	100.0

19. If you bank either has a CLO program or is planning to establish one within the next year (answer 1 or 2 to question 18), approximately what is the dollar volume of loans you expect will be securitized over the coming year?

	All Respondents	$15.0 and over	Under $15.0
	Mean $billions	Mean $billions	Mean $billions
Dollar volume of loans expected to be securitized over the coming year	2.24	2.60	0.08
Number of banks responding	7	6	1

20. To what do you attribute the recent surge in interest in CLOs backed by business loans? (Please rate each possible reason using the following scale: 1=not important, 2=somewhat important, 3=very important.)

	All Respondents	$15.0 and over	Under $15.0
	Mean	Mean	Mean
An increased desire by banks to deploy capital efficiently by moving relatively high quality business loans off their balance sheets	2.20	2.27	2.07
Aside from capital costs, funding loans using CLOs is less costly, given current market interest rates, than is funding them on balance sheet	1.89	1.73	2.21
The continued development of the asset-backed security market has reduced the cost of packaging and selling loans, making CLOs more attractive	1.95	1.93	2.00
Other	1.25	1.33	1.07
Number of banks responding	44	30	14

Questions 21 and 22 *ask about the* ***pricing*** *of larger commercial and industrial loans.*

21. According to the Federal Reserve's quarterly Survey of Terms of Business Lending, spreads of rates on larger business loans (those over $1 million) over market rates have widened over the past year. This result appears to be at odds with press reports and the results of past Senior Loan Officer Surveys, which suggest a narrowing of spreads on larger loans over the period. In your opinion, what factors have likely contributed to the rise in measured rate spreads? (Please rate each possible reason using the following scale: 1=not important, 2=somewhat important, 3=very important.)

	All Respondents	$15.0 and over	Under $15.0
	Mean	Mean	Mean
Spreads on loans of given risk have narrowed, but the average risk of new loans has increased	1.80	1.85	1.73
Loan rate spreads have increased, but all-in spreads have narrowed owing to reductions in fees or other loan costs	1.30	1.18	1.50
Other	1.39	1.50	1.23
Number of banks responding	56	34	22

22. If the average risk of new loans has increased (a response of 2 or 3 to question 21.a), to what do you attribute the increase in risk? (Please rate each possible reason using the following scale: 1=not important, 2=somewhat important, 3=very important.)

	All Respondents	$15.0 and over	Under $15.0
	Mean	Mean	Mean
A decision by your bank to accept increased risk in order to earn higher returns	1.61	1.64	1.57
Increased demand for loans for mergers or acquisitions	2.03	2.23	1.71
Increased demand for higher-risk loans other than those for mergers or acquisitions	1.61	1.68	1.50
Other	1.11	1.09	1.14
Number of banks responding	36	22	14

Questions 23-27 *deal with you bank's willingness to* ***agree to concessionary terms on consumer loans*** *as a part of a debt repayment plan reached with a borrower, often with the assistance of a credit counseling service. In recent years the number of debtors undertaking such plans with the assistance of a credit counseling service has risen substantially.*

23. Is your bank willing to agree to concessionary terms (perhaps including reduced late fees, lower interest rates, or longer repayment periods) as a part of a debt repayment plan?

	All Respondents		$15.0 and over		Under $15.0	
	Banks	Pct	Banks	Pct	Banks	Pct
Willing to make substantial concessions	2	4.0	1	3.6	1	4.5
Willing to make some concessions	35	70.0	25	89.3	10	45.5
Willing to make only minimal concessions	9	18.0	1	3.6	8	36.4
Unwilling to make concessions	4	8.0	1	3.6	3	13.6
Total	50	100.0	28	100.0	22	100.0

24. Over the past three years, how has your bank's willingness to agree to concessionary terms as a part of a debt repayment plan changed?

	All Respondents		$15.0 and over		Under $15.0	
	Banks	Pct	Banks	Pct	Banks	Pct
Considerably more willing	2	4.0	2	7.1	0	0.0
Somewhat more willing	20	40.0	14	50.0	6	27.3
Basically unchanged	27	54.0	11	39.3	16	72.7
Somewhat less willing	1	2.0	1	3.6	0	0.0
Considerably less willing	0	0.0	0	0.0	0	0.0
Total	50	100.0	28	100.0	22	100.0

25. Over the past year, what fraction of the dollar volume of your bank's consumer loan outstandings would you estimate was restructured on concessionary terms as a part of a debt repayment plan?

	All Respondents		$15.0 and over		Under $15.0	
	Banks	Pct	Banks	Pct	Banks	Pct
Zero	4	8.0	1	3.6	3	13.6
Less than 1 percent	28	56.0	17	60.7	11	50.0
1-3 percent	17	34.0	9	32.1	8	36.4
3-5 percent	1	2.0	1	3.6	0	0.0
5 percent or more	0	0.0	0	0.0	0	0.0
Total	50	100.0	28	100.0	22	100.0

26. Over the past three years, how has this fraction changed?

	All Respondents		$15.0 and over		Under $15.0	
	Banks	Pct	Banks	Pct	Banks	Pct
Increased considerably	0	0.0	0	0.0	0	0.0
Increased somewhat	25	50.0	16	57.1	9	40.9
Basically unchanged	23	46.0	10	35.7	13	59.1
Decreased somewhat	2	4.0	2	7.1	0	0.0
Decreased considerably	0	0.0	0	0.0	0	0.0
Total	50	100.0	28	100.0	22	100.0

27. When your bank has agreed to concessionary terms as a part of a debt repayment plan, how commonly have the arrangements been made through a credit counseling service?

	All Respondents		$15.0 and over		Under $15.0	
	Banks	Pct	Banks	Pct	Banks	Pct
Virtually always	0	0.0	0	0.0	0	0.0
In most cases	10	20.0	5	17.9	5	22.7
Sometimes	28	56.0	20	71.4	8	36.4
Rarely or never	8	16.0	2	7.1	6	27.3
Our bank does not make concessions	4	8.0	1	3.6	3	13.6
Total	50	100.0	28	100.0	22	100.0

Table 2

SENIOR LOAN OFFICER OPINION SURVEY ON BANK LENDING PRACTICES
AT SELECTED BRANCHES AND AGENCIES OF FOREIGN BANKS IN THE UNITED STATES
(Status of policy as of November 1997)

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

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

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

	All Respondents	
	Banks	Pct
Tightened considerably	0	0.0
Tightened somewhat	4	17.4
Remained basically unchanged	17	73.9
Eased somewhat	2	8.7
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	2.83
Costs of credit lines	2.91
Spreads of loan rates over your bank's cost of funds	3.00
Loan covenants	3.13
Collateralization requirements	2.96
Other	3.00
Total	23

1. As of June 30, 1997, the 23 respondents had combined assets of $223.2 billion, compared to $733.3 billion for all foreign-related banking institutions in the United States.

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	1.50
A less favorable economic outlook	1.50
A worsening of industry-specific problems	1.50
Less aggressive competition from other commercial banks	1.13
Less aggressive competition from nonbank lenders (other financial intermediaries or the capital markets)	1.00
Reduced tolerance for risk	2.00
Other	1.25
Number of banks responding	8

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	1.80
A more favorable economic outlook	1.80
An improvement in industry-specific problems	1.80
More aggressive competition from other commercial banks	2.40
More aggressive competition from nonbank lenders (other financial intermediaries or the capital markets)	2.00
Increased tolerance for risk	1.40
Other	1.00
Number of banks responding	5

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	0	0.0
Moderately stronger	7	30.4
About the same	14	60.9
Moderately weaker	2	8.7
Substantially weaker	0	0.0
Total	23	100.0

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

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

	All Respondents
	Mean
Customer inventory financing needs increased	1.14
Customer investment in plant or equipment increased	1.71
Customer internally generated funds decreased	1.43
Customer borrowing shifted from other sources to your bank because these other sources became less attractive	1.71
Customer merger or acquisition financing increased	2.43
Other	1.00
Number of banks responding	7

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

	All Respondents
	Mean
Customer inventory financing needs decreased	1.00
Customer investment in plant or equipment decreased	1.00
Customer internally generated funds increased	1.00
Customer borrowing shifted from your bank to other sources because these other sources became more attractive	2.00
Customer merger or acquisition financing decreased	1.00
Other	1.50
Number of banks responding	2

Questions 6-7 *ask about* ***commercial real estate loans*** *at your bank, including construction and land development loans and loans secured by nonfarm nonresidential real estate: Question 6 deals with changes in your bank's credit standards over the past three months, and question 7 deals with changes in demand over the same period. If your bank's credit standards have not changed over the past three months, please report them as unchanged even if the standards are either restrictive or accommodative relative to longer-term norms. If your bank's credit standards have tightened or eased over the past three months, please so report them regardless of how they stand relative to longer-term norms. Also, please report changes in enforcement of existing standards as changes in standards.*

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

	All Respondents	
	Banks	Pct
Tightened considerably	0	0.0
Tightened somewhat	2	11.8
Remained basically unchanged	15	88.2
Eased somewhat	0	0.0
Eased considerably	0	0.0
Total	17	100.0

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

	All Respondents	
	Banks	Pct
Substantially stronger	0	0.0
Moderately stronger	6	35.3
About the same	11	64.7
Moderately weaker	0	0.0
Substantially weaker	0	0.0
Total	17	100.0

Questions 8-10 *ask about* ***Collateralized Loan Obligations*** *(CLOs) backed by bank commercial and industrial loans other than those guaranteed by the Small Business Administration.*

8. Has your bank established, or is it planning to establish, a program to issue CLOs backed by commercial and industrial loans other than those guaranteed by the Small Business Administration?

	All Respondents	
	Banks	Pct
Our bank has such a program	6	26.1
Our bank does not have such a program yet, but is planning to establish one within the next year	4	17.4
Our bank does not have such a program, but is considering establishing one	5	21.7
Our bank does not have such a program and does not intend to establish one in the foreseeable future	8	34.8
Total	23	100.0

9. If your bank has a CLO program or is planning to establish one within the next year (answer 1 or 2 to question 8), approximately what is the dollar volume of loans you expect will be securitized over the coming year?

	All Respondents
	Mean $billions
Dollar volume of loans expected to be securitized over the coming year	1.95
Number of banks responding	10

10. To what do you attribute the recent surge in interest in CLOs backed by business loans? (Please rate each possible reason using the following scale: 1=not important, 2=somewhat important, 3=very important.)

	All Respondents
	Mean
An increased desire by banks to deploy capital efficiently by moving relatively high quality business loans off their balance sheets	2.58
Aside from capital costs, funding loans using CLOs is less costly, given current market interest rates, than is funding them on balance sheet	1.75
The continued development of the asset-backed security market has reduced the cost of packaging and selling loans, making CLOs more attractive	2.05
Other	1.10
Number of banks responding	20

Questions 11 and 12 *ask about the* ***pricing*** *of larger commercial and industrial loans.*

11. According to the Federal Reserve's quarterly Survey of Terms of Business Lending, spreads of rates on larger business loans (those over $1 million) over market rates have widened over the past year. This result appears to be at odds with press reports and the results of past Senior Loan Officer Surveys, which suggest a narrowing of spreads on larger loans over the period. In your opinion, what factors have likely contributed to the rise in measured rate spreads? (Please rate each possible reason using the following scale: 1=not important, 2=somewhat important, 3=very important.)

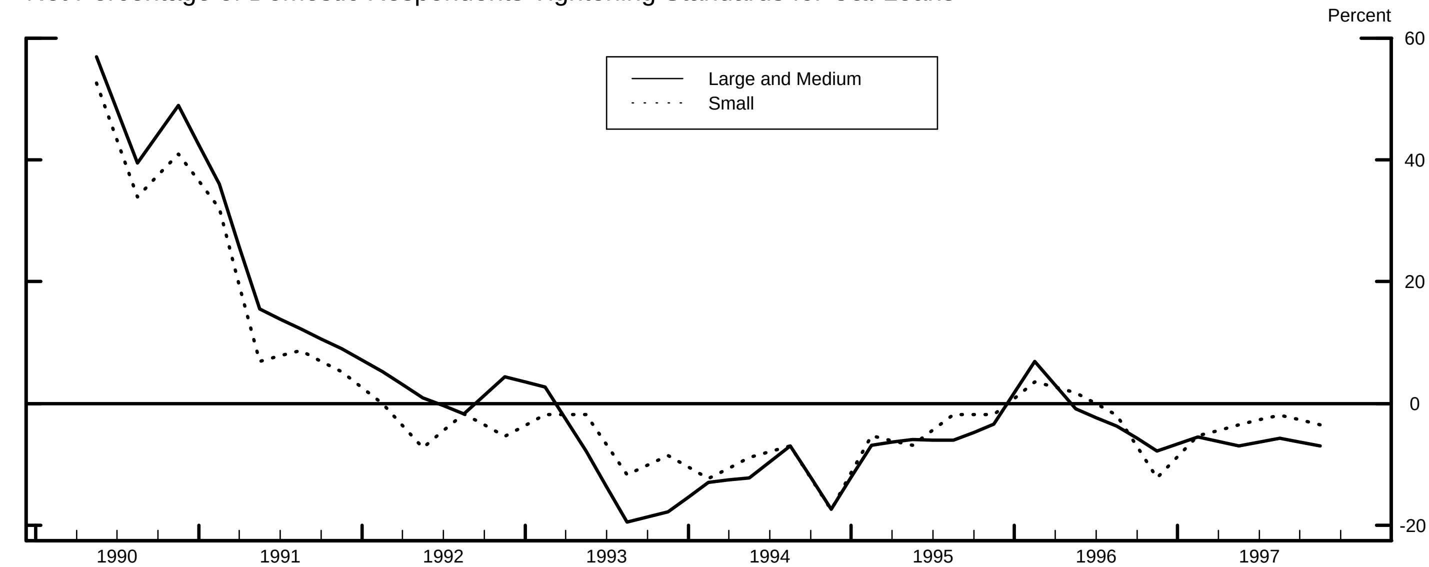
	All Respondents
	Mean
Spreads on loans of given risk have narrowed, but the average risk of new loans has increased	2.25
Loan rate spreads have increased, but all-in spreads have narrowed owing to reductions in fees or other loan costs	1.60
Other	1.25
Number of banks responding	20

12. If the average risk of new loans has increased (a response of 2 or 3 to question 11.a), to what do you attribute the increase in risk? (Please rate each possible reason using the following scale: 1=not important, 2=somewhat important, 3=very important.)

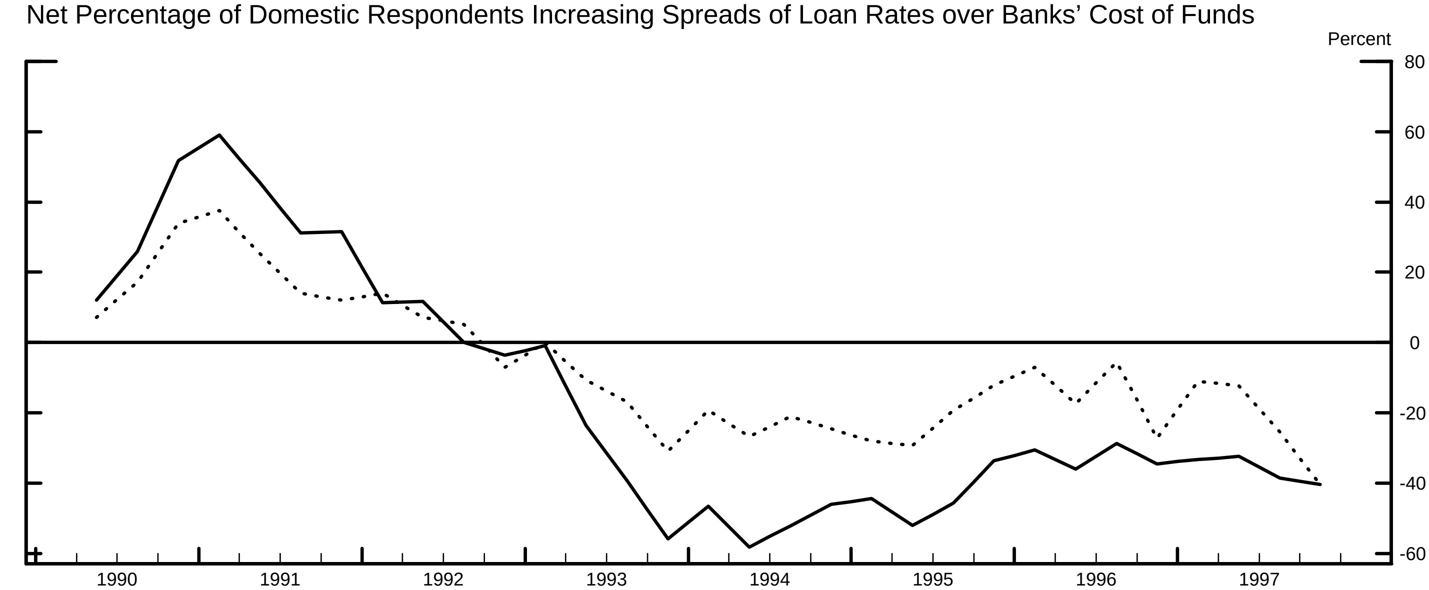
	All Respondents
	Mean
A decision by your bank to accept increased risk in order to earn higher returns	1.72
Increased demand for loans for mergers or acquisitions	1.94
Increased demand for higher-risk loans other than those for mergers or acquisitions	1.83
Other	1.00
Number of banks responding	18

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

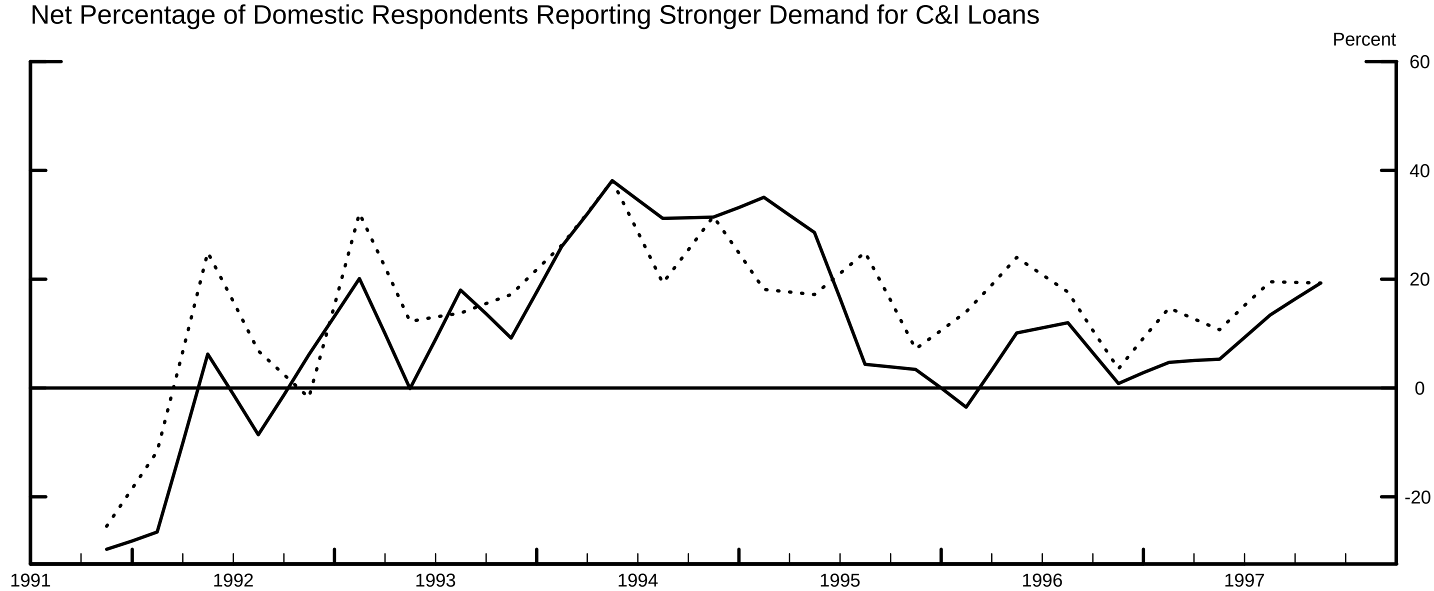
Net Percentage of Domestic Respondents Tightening Standards for C&I Loans



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

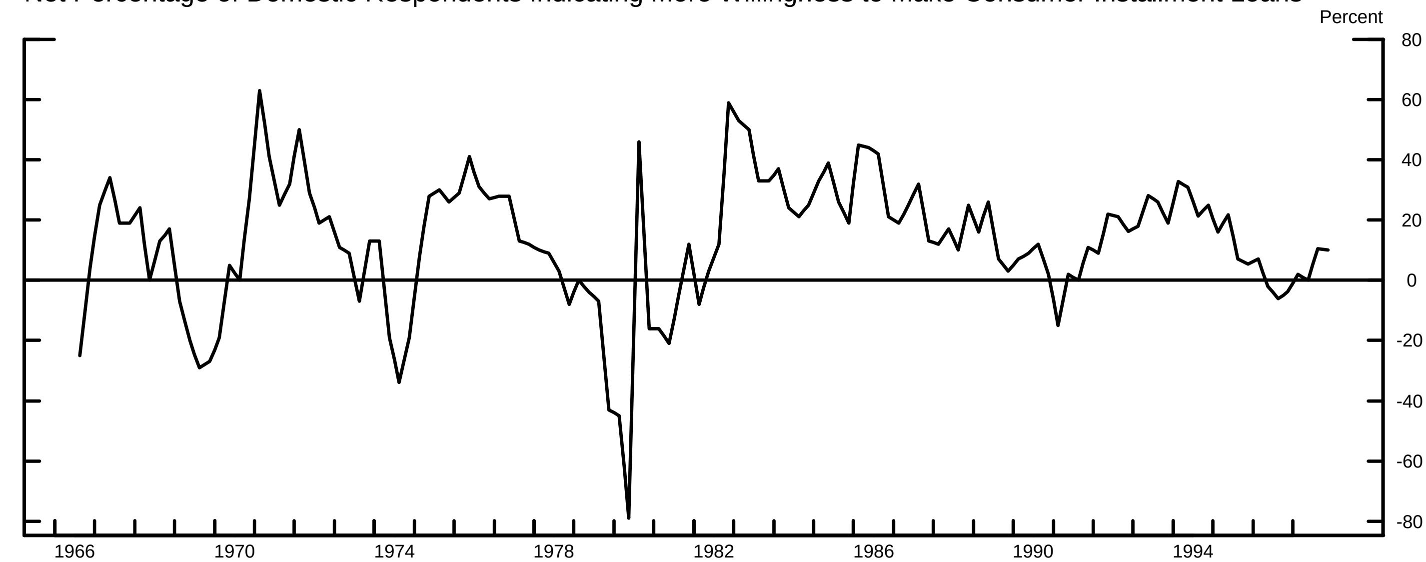


Net Percentage of Domestic Respondents Reporting Stronger Demand for C&I Loans

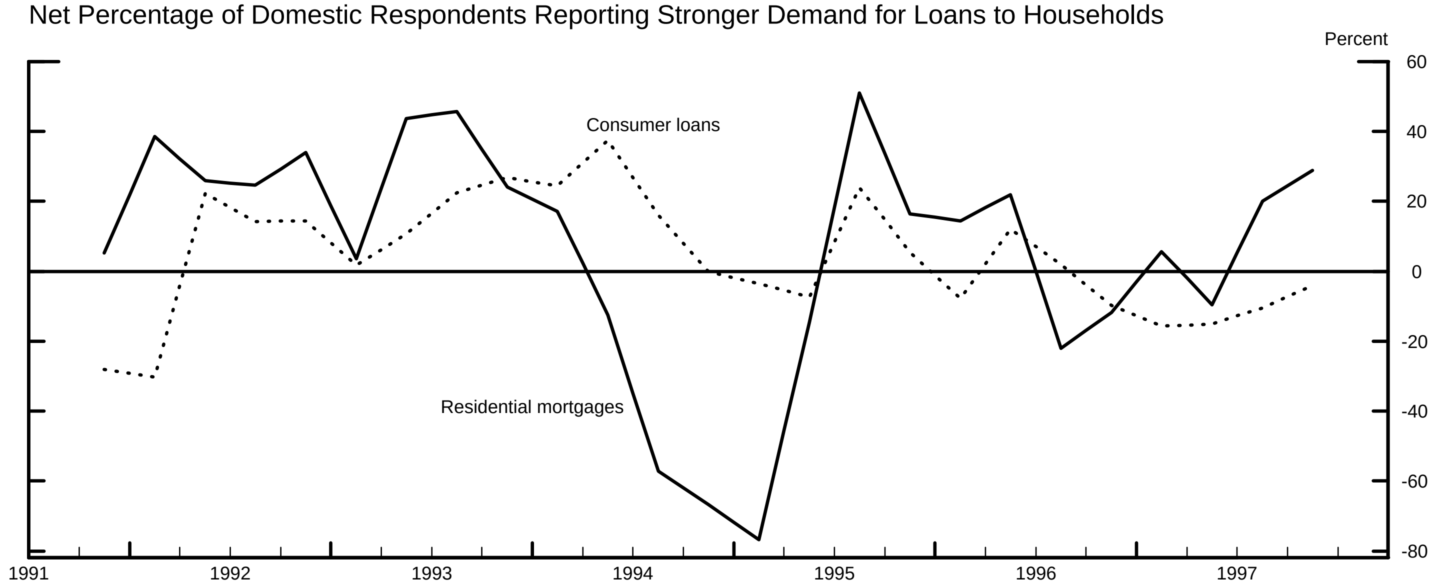


Measures of Supply and Demand for Loans to Households

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



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



Net Percentage of Domestic Respondents Tightening Standards for Mortgages to Individuals