

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 May 1998)

(Number of banks and percentage of banks answering question<sup>1</sup>)

**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	6	27.3
Remained basically unchanged	15	68.2
Eased somewhat	1	4.5
Eased considerably	0	0.0
<b>Total</b>	<b>22</b>	<b>100.0</b>

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	2.70
Costs of credit lines	2.52
Spreads of loan rates over your bank's cost of funds (wider spreads=tightened, narrower spreads=eased)	2.52
Loan covenants	2.87
Collateralization requirements	2.91
Other	3.00
<b>Total</b>	<b>23</b>

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1. As of December 31, 1997, the twenty-three respondents had combined assets of \$221 billion, compared to \$761 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	2.18
A less favorable economic outlook	1.27
A worsening of industry-specific problems	1.18
Less aggressive competition from other commercial banks	1.45
Less aggressive competition from nonbank lenders (other financial intermediaries or the capital markets)	1.09
Reduced tolerance for risk	1.64
Other	1.09
Number of banks responding	11

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 economic outlook	1.00
An improvement in industry-specific problems	1.00
More aggressive competition from other commercial banks	1.00
More aggressive competition from nonbank lenders (other financial intermediaries or the capital markets)	1.00
Increased tolerance for risk	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	5	21.7
About the same	14	60.9
Moderately weaker	2	8.7
Substantially weaker	0	0.0
<b>Total</b>	<b>23</b>	<b>100.0</b>

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	1.29
Customer investment in plant or equipment increased	1.57
Customer internally generated funds decreased	1.00
Customer borrowing shifted from other sources to your bank because these other sources became less attractive	1.71
Customer merger or acquisition financing increased	2.14
Other	1.29
<b>Number of banks responding</b>	<b>7</b>

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	2.00
Other	1.00
<b>Number of banks responding</b>	<b>2</b>

**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	1	5.6
Remained basically unchanged	17	94.4
Eased somewhat	0	0.0
Eased considerably	0	0.0
<b>Total</b>	<b>18</b>	<b>100.0</b>

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	2	11.1
Moderately stronger	3	16.7
About the same	13	72.2
Moderately weaker	0	0.0
Substantially weaker	0	0.0
<b>Total</b>	<b>18</b>	<b>100.0</b>

On May 5, 1997 and again on March 17 of this year, the FFIEC issued statements regarding the possible exposure of banks to risks resulting from any year-2000 problems of their customers. **Questions 8-12** ask about how your institution (not including other offices of your parent bank) is managing such risks.

8. Is your customers' year-2000 preparedness included as part of your institution's underwriting or loan review standards?

	All Respondents	
	Banks	Pct
Underwriting standards	1	4.3
Loan review standards	3	13.0
Both	16	69.6
Neither	3	13.0
<b>Total</b>	<b>23</b>	<b>100.0</b>

9. At this time, what percentage of your institution's material business customers has been evaluated for year-2000 preparedness?

	All Respondents	
	Banks	Pct
Less than 5 percent	13	56.5
At least 5 percent but less than 25 percent	5	21.7
At least 25 percent but less than 75 percent	4	17.4
At least 75 percent	1	4.3
<b>Total</b>	<b>23</b>	<b>100.0</b>

10. Has your institution downgraded any existing loans because of the borrower's inadequate year-2000 preparedness?

	All Respondents	
	Banks	Pct
Yes, many times	0	0.0
Yes, a few times	0	0.0
Rarely or never	23	100.0
<b>Total</b>	<b>23</b>	<b>100.0</b>

11. Has your institution rejected any loan applications because of the applicant's inadequate year-2000 preparedness?

	All Respondents	
	Banks	Pct
Yes, many times	0	0.0
Yes, a few times	2	8.7
Rarely or never	21	91.3
<b>Total</b>	<b>23</b>	<b>100.0</b>

12. Has your institution included covenants specifically related to year-2000 preparedness in any of its loan agreements with business customers that are not already year-2000 compliant?

	All Respondents	
	Banks	Pct
Yes, for almost all new loans to such customers	2	8.7
Yes, for some new loans to such customers	6	26.1
Rarely or never	15	65.2
Total	23	100.0

**Question 13** asks about the recent growth in securities holdings at U.S. branches and agencies of foreign banks, which has been very strong since late last summer.

13. To what factors do you attribute the recent rapid growth in bank securities holdings? (Please rate each possible reason using the following scale: 1=not important, 2=somewhat important, 3=very important.)

	All Respondents
	Mean
Holdings of longer-maturity securities have been increased to compensate for the shorter expected duration of mortgage-backed securities resulting from the decline in longer-term rates in recent months and the consequent increase in prepayment risk.	1.21
Some branches and agencies have bought securities in the belief that interest rates are likely to decline, making securities attractive investment.	1.21
The parent banks of some branches and agencies decided to boost leverage in an effort to raise their return on equity.	1.50
Some branches and agencies shifted assets from loans to low-risk-weight securities in order to improve their parent banks' risk-based capital ratios.	1.36
The growing trend toward securitization has presented banks with attractive new securities to purchase.	1.71
Other	1.50
Number of banks responding	14

**Questions 14-16** ask about loans to real estate investment trusts (REITs). Anecdotal information suggests that bank loans to REITs have grown very rapidly in recent quarters.

14. Please report the approximate dollar volume (in \$millions) of outstanding loans to REITs on your bank's books:

	All Respondents
	Mean \$millions
On March 31, 1998	324
On March 31, 1997	95
Number of banks responding	11

15. If your institution's loans to REITs grew by more than 15 percent between March 1997 and March 1998, to what do you attribute this growth? (Please rate each possible reason using the following scale: 1=not important, 2=somewhat important, 3=very important.)

	All Respondents
	Mean
Increased loan demand by REITs owing to a rise in their direct holdings of commercial real estate properties	2.33
Increased loan demand by REITs to finance growth in their holdings of commercial mortgages or commercial mortgage-backed securities	1.33
Increased demand for loans to finance a pickup in merger and acquisition activity involving REITs.	2.44
Increased willingness on the part of your institution to make loans in the commercial real estate sector generally	1.44
Increased willingness on the part of your institution to make loans in the commercial real estate sector through REITs	1.56
Other	1.22
Number of banks responding	9

16. How fast do you expect your institution's loans to REITs to grow over the coming year?

	All Respondents	
	Banks	Pct
Rapidly	0	0.0
Moderately	4	26.7
Slowly	11	73.3
Total	15	100.0

**Questions 17-19** ask about requests for loans to finance imports or exports (or other forms of trade finance) from firms located in emerging economies affected by the economic problems in Asia. Anecdotal information suggests that some of these countries' international trade is being hampered by a lack of financing.

17. Has your institution (not including other offices of your parent bank) received increased requests for loans to finance imports or exports (or other forms of trade finance) from firms located in those East Asian emerging economies affected by the economic problems in the region?

	All Respondents	
	Banks	Pct
No significant increase.	12	52.2
A modest increase.	2	8.7
A substantial increase.	2	8.7
We have not received an increase in such request, but our institution does not participate in this line of business.	7	30.4
Total	23	100.0

18. Before the outbreak of Asian economic problems last year, had your institution provided loans to finance imports and exports (or other forms of trade finance) to companies located in the affected economies?

	All Respondents	
	Banks	Pct
Yes, routinely.	5	21.7
Yes, occasionally.	7	30.4
Our institution does not participate in this line of business.	11	47.8
<b>Total</b>	<b>23</b>	<b>100.0</b>

19. If your institution has provided loans to finance imports and exports (or other forms of trade finance) to companies located in the affected economies in the past (answer 1 or 2 to question 18), how has its willingness to extend such loans changed since the outbreak of economic difficulties in Asia last year?

	All Respondents	
	Banks	Pct
It is now unwilling to provide such loans.	1	8.3
It is now considerably less willing to provide such loans.	8	66.7
It is now somewhat less willing to provide such loans.	3	25.0
It is now about as willing to provide such loans as it was before the outbreak of Asian economic problems.	0	0.0
<b>Total</b>	<b>12</b>	<b>100.0</b>