The September 1998 Senior Loan Officer Opinion Survey on Bank Lending Practices

The Federal Reserve conducted a special Senior Loan Officer Opinion Survey in mid-September to assess the impact of recent financial turbulence on the bank loan market.[1] In order to limit reporting burden, the survey focused only on changes in the supply of and demand for commercial and industrial loans and consumer installment loans between mid-August and mid-September.

The survey results indicate that there has been a fairly widespread tightening of standards and terms for commercial and industrial loans to larger firms. For domestic banks, this tightening marks a shift from past surveys, while for the foreign respondents it is a continuation of recent trends. In contrast, the survey revealed little change in standards and terms for commercial and industrial loans to small firms or in banks' willingness to provide consumer installment loans. Demand for both business and consumer loans reportedly has softened recently.

Lending to Businesses

(Table 1, questions 1-7; table 2, questions 1-7)

The domestic responses to the questions on business lending standards and terms differed markedly by size of borrower. Nearly a quarter of the domestic respondents, on net, reported that standards for loans to large and middle-market firms had been tightened over the past month. Somewhat smaller, but still substantial, fractions of the respondents reported having tightened some loan terms--including the sizes of credit lines, fees, and loan spreads. A few banks, on net, reported having tightened collateralization requirements and loan covenants on loans to larger customers. By contrast, there was little net change reported in standards for commercial and industrial loans to small businesses. Most terms on these loans were also little changed, on net, although a number of banks trimmed the maximum sizes of credit lines they were willing to offer. However, even the relative stability of the terms on small loans marks a modest departure from recent surveys, which have generally shown some easing.

The domestic responses also differed substantially by bank size, with larger banks considerably more likely than smaller banks to report having tightened standards and

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1. Ordinarily, the Senior Loan Officer Opinion Survey is conducted on a quarterly basis, but the Federal Reserve has the authority to conduct up to six surveys a year.

terms. Almost thirty percent of the large banks on the panel (those with assets greater than $15 billion) reported having tightened lending standards on loans to large and middle-market firms, while only about ten percent of the smaller banks, on net, had done so. Similarly, a greater share of the large banks generally reported having tightened terms on such loans; the only exception being that a somewhat larger fraction of the smaller respondents tightened maximum credit line sizes.

The banks that reported having tightened lending standards and terms most commonly attributed their decision to a less favorable economic outlook and a worsening of industry-specific problems, as well as a reduced tolerance for risk. The banks indicated that the reduced tolerance for risk did not stem from concerns about their own foreign losses or exposures.

Several of the domestic respondents, on net, noted weaker demand for commercial and industrial loans. They attributed this decline primarily to decreased demand for merger and acquisition financing and, to a lesser extent, to reductions in their customers' investments in plant and equipment. In their comments, a few banks noted that loan demand had been boosted by a shift from the securities markets, especially the junk bond market, toward bank finance. However, it appears that this substitution was generally more than offset by other factors that weakened demand. A couple of respondents noted that a shift from the capital markets might be in the works, but that it had not yet occurred.

Responses from the U.S. branches and agencies of foreign banks showed a continuation of the trend, visible in the last few surveys, toward tighter standards and terms on commercial and industrial loans. About 40 percent of the foreign respondents reported having tightened lending standards over the month before the survey. More than half tightened some loan terms, including credit line sizes, fees, and spreads. Considerably smaller fractions tightened other loan terms. Like their domestic counterparts, the foreign respondents attributed the tightening to a less favorable economic outlook, a worsening of industry-specific problems, and reduced tolerance for risk (although they were more likely than the domestic banks to attribute their reduced tolerance for risk to heightened concerns about their losses or exposures outside the United States). As on other recent surveys, a number of the branches and agencies also pointed to a deterioration in their parent bank's capital position as an important reason for tightening. The foreign respondents reported a modest decline, on net, in the demand for business loans, attributing the weakness primarily to a decline in merger and acquisition financing needs.

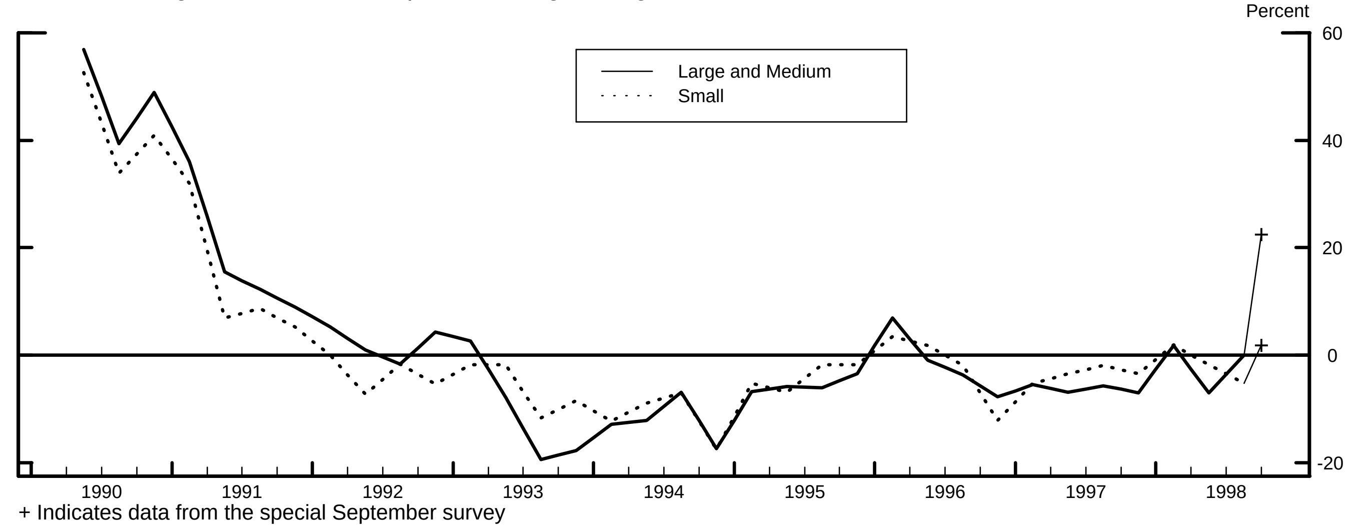
Because larger banks and foreign branches and agencies are more likely to be involved in the market for large syndicated credits, the pattern of tightening reported on the survey is consistent with anecdotal reports suggesting that conditions in that market have deteriorated in recent weeks. Indeed, a couple of respondents suggested in their comments that they were tightening terms in response to the reduced receptivity of the syndicated loan market.

Lending to Households
(Table 1, questions 8 and 9)

Only three of the domestic banks indicated that their willingness to make consumer installment loans had risen over the past month. The other respondents reported no change. In August, a somewhat larger fraction of the respondents reported increased willingness to make such loans. Demand for consumer loans reportedly eased a bit, on net, since mid-August. By comparison, demand was unchanged, on balance, in the August survey.

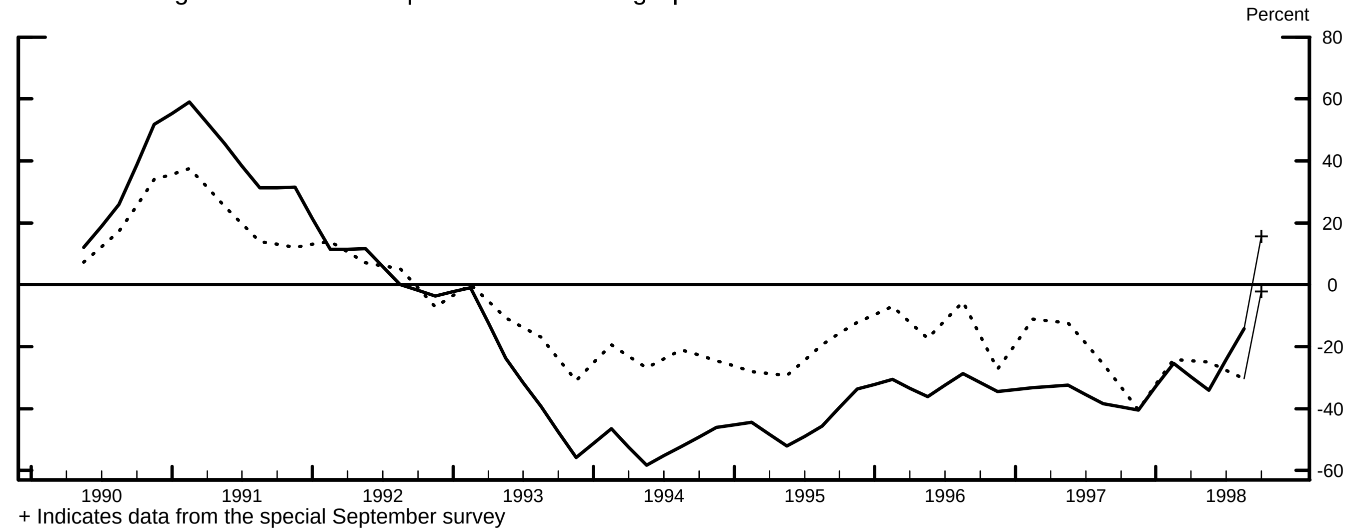
Measures of Supply and Demand for C&I Loans, by Size of Firm Seeking Loan

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



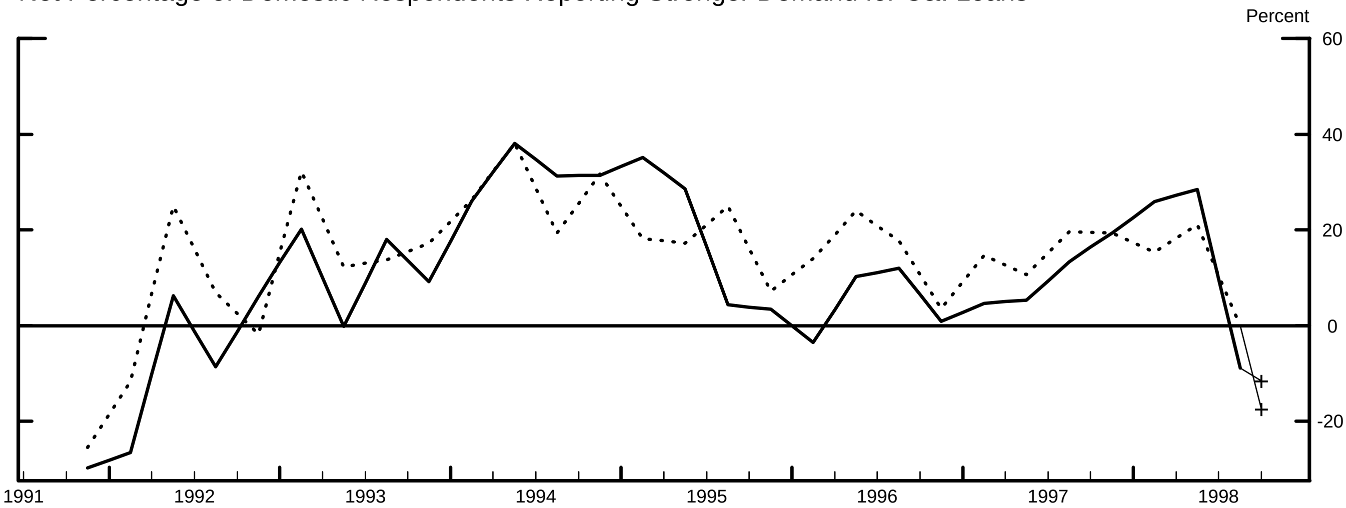
+ Indicates data from the special September survey

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



+ Indicates data from the special September survey

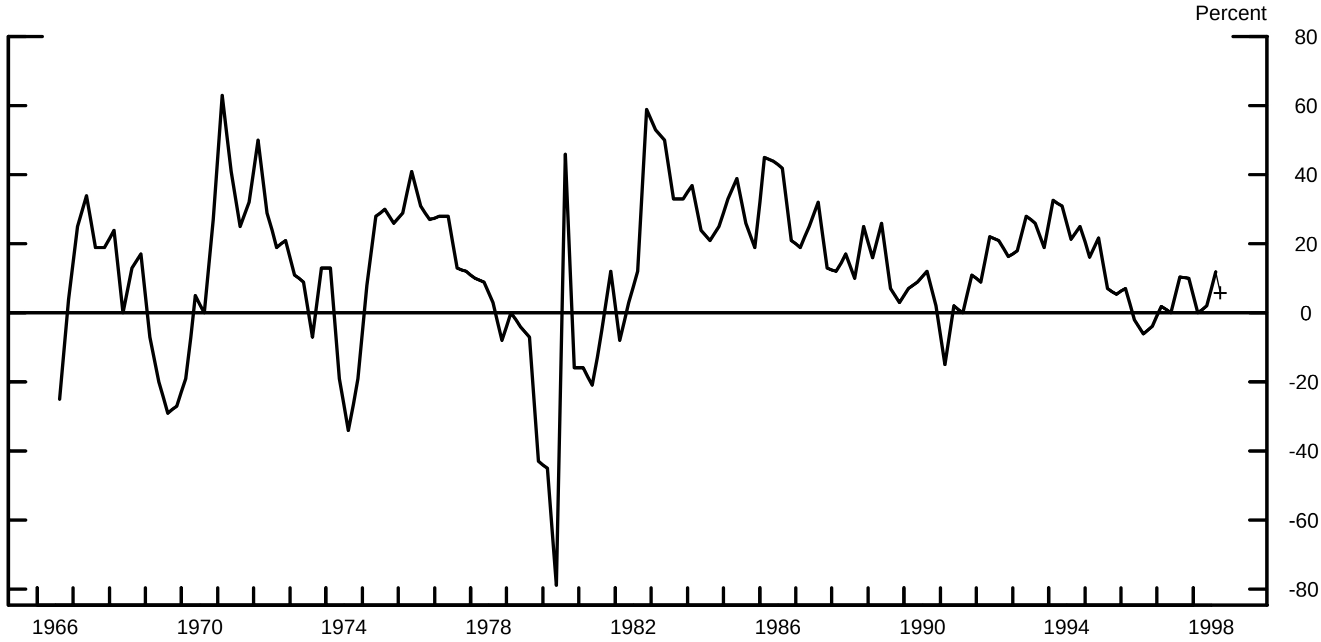
Net Percentage of Domestic Respondents Reporting Stronger Demand for C&I Loans



+ Indicates data from the special September survey

Measures of Supply and Demand for Loans to Households

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



+ Indicates data from the special September survey

Net Percentage of Domestic Respondents Reporting Stronger Demand for Consumer Loans

+ Indicates data from the special September survey

Table 1

SENIOR LOAN OFFICER OPINION SURVEY ON BANK LENDING PRACTICES
AT SELECTED LARGE BANKS IN THE UNITED STATES
(Status of policy as of September, 1998)

(Number of banks and percentage of banks answering question)
(By volume of total domestic assets as of March 31, 1998[1])

Questions 1-7 ask about **commercial and industrial loans** at your bank: Questions 1-3 deal with changes in your bank's lending policies over the past month, and questions 4-7 deal with changes in demand over the same period. If your bank's lending policies have not changed over the past month, 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 month, 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 month, 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	13	24.5	10	28.6	3	16.7
Remained basically unchanged	39	73.6	25	71.4	14	77.8
Eased somewhat	1	1.9	0	0.0	1	5.6
Eased considerably	0	0.0	0	0.0	0	0.0
Total	53	100.0	35	100.0	18	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	3	5.7	1	2.9	2	10.5
Remained basically unchanged	48	90.6	32	94.1	16	84.2
Eased somewhat	2	3.8	1	2.9	1	5.3
Eased considerably	0	0.0	0	0.0	0	0.0
Total	53	100.0	34	100.0	19	100.0

1. As of March 31, 1998, thirty-five respondents had domestic assets of $15 billion or more; combined assets of these banks totaled $1.89 trillion, compared to $2.04 trillion for the entire panel of fifty-four banks, and $4.35 trillion for all domestically chartered, federally insured commercial banks. The sample is selected from among the largest banks in each Federal Reserve District. Large banks are those with total domestic assets over $15 billion.

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 month? (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	2.80	2.85	2.72
Costs of credit lines	2.80	2.70	3.00
Spreads of loan rates over your bank's cost of funds (wider spreads=tightened, narrower spreads=eased)	2.80	2.67	3.06
Loan covenants	2.90	2.88	2.94
Collateralization requirements	2.92	2.91	2.94
Other	2.96	2.94	3.00
Number of banks responding	51	33	18

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	2.90	2.94	2.83
Costs of credit lines	3.00	3.00	3.00
Spreads of loan rates over your bank's cost of funds (wider spreads=tightened, narrower spreads=eased)	3.00	3.00	3.00
Loan covenants	3.00	3.03	2.94
Collateralization requirements	3.00	3.03	2.94
Other	3.00	3.00	3.00
Number of banks responding	49	31	18

3. If your bank has tightened or eased its credit standards or its terms for C&I loans or credit lines over the past month (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	1.05	1.07	1.00
A less favorable economic outlook	2.14	2.07	2.29
A worsening of industry–specific problems	1.86	1.87	1.86
Less aggressive competition from other commercial banks	1.23	1.27	1.14
Less aggressive competition from nonbank lenders (other financial intermediaries or the capital markets)	1.14	1.20	1.00
Reduced tolerance for risk owing to heightened concern about your-bank's foreign losses or exposures	1.09	1.13	1.00
Reduced tolerance for risk owing to other reasons	1.59	1.73	1.29
Other	1.14	1.20	1.00
Number of banks responding	22	15	7

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	1.10	1.00	1.25
A more favorable economic outlook	1.20	1.00	1.50
An improvement in industry–specific problems	1.20	1.00	1.50
More aggressive competition from other commercial banks	2.30	2.33	2.25
More aggressive competition from nonbank lenders (other financial intermediaries or the capital markets)	1.90	1.83	2.00
Increased tolerance for risk	1.10	1.17	1.00
Other	1.00	1.00	1.00
Number of banks responding	10	6	4

4. How has demand for C&I loans (actual extensions of credit as opposed to undrawn lines) changed over the past month (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	0	0.0	0	0.0	0	0.0
Moderately stronger	4	7.7	3	8.8	1	5.6
About the same	38	73.1	25	73.5	13	72.2
Moderately weaker	10	19.2	6	17.6	4	22.2
Substantially weaker	0	0.0	0	0.0	0	0.0
Total	52	100.0	34	100.0	18	100.0

B. Demand for C&I loans from small firms (annual sales of less than $50 million)

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Substantially stronger	0	0.0	0	0.0	0	0.0
Moderately stronger	2	3.8	1	3.0	1	5.3
About the same	39	75.0	27	81.8	12	63.2
Moderately weaker	11	21.2	5	15.2	6	31.6
Substantially weaker	0	0.0	0	0.0	0	0.0
Total	52	100.0	33	100.0	19	100.0

5. If demand for C&I loans has strengthened or weakened over the past month (as described in question 4), 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 4A or 4B), possible reasons:

	All Respondents	Large Banks	Other Banks
	Mean	Mean	Mean
Customer inventory financing needs increased	1.80	1.67	2.00
Customer investment in plant or equipment increased	1.80	1.33	2.50
Customer internally generated funds decreased	1.00	1.00	1.00
Customer borrowing shifted from other sources to your bank because these other sources became less attractive	1.20	1.33	1.00
Customer merger or acquisition financing increased	1.40	1.67	1.00
Other	1.60	2.00	1.00
Number of banks responding	5	3	2

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

	All Respondents	Large Banks	Other Banks
	Mean	Mean	Mean
Customer inventory financing needs decreased	1.50	1.50	1.50
Customer investment in plant or equipment decreased	1.75	1.70	1.83
Customer internally generated funds increased	1.31	1.40	1.17
Customer borrowing shifted from your bank to other sources because these other sources became more attractive	1.56	1.30	2.00
Customer merger or acquisition financing decreased	2.06	2.30	1.67
Other	1.25	1.30	1.17
Number of banks responding	16	10	6

6. If your bank has experienced stronger loan demand as a result of a shift to your bank from other sources of credit (answers 2 or 3 to question 5Ad), how important has been demand from firms temporarily discouraged from issuing bonds in the capital markets?

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
A very important source of increased loan demand	0	0.0	0	0.0	0	0.0
A somewhat important source of increased loan demand	1	100.0	1	100.0	0	0.0
Not an important source of increased loan demand	0	0.0	0	0.0	0	0.0
Total	1	100.0	1	100.0	0	0.0

7. If your bank has experienced stronger loan demand as a result of credit demands diverted from the capital markets (answer 1 or 2 to question 6), what ratings do these borrowing firms' senior bonds typically carry?

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Investment grade (Baa or higher)	0	0.0	0	0.0	0	0.0
Slightly below investment grade (BB or B)	1	100.0	1	100.0	0	0.0
Lower risk grades (B- or lower)	0	0.0	0	0.0	0	0.0
Total	1	100.0	1	100.0	0	0.0

Questions 8 and 9 ask about **lending to consumers**.

8. Please indicate your bank's willingness to make consumer installment loans now as opposed to one month 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	3	6.0	1	3.2	2	10.5
About unchanged	47	94.0	30	96.8	17	89.5
Somewhat less	0	0.0	0	0.0	0	0.0
Much less	0	0.0	0	0.0	0	0.0
Total	50	100.0	31	100.0	19	100.0

9. Over the past month, how has demand for consumer loans at your bank changed (apart from 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	3	6.1	1	3.3	2	10.5
About unchanged	36	73.5	21	70.0	15	78.9
Moderately weaker	10	20.4	8	26.7	2	10.5
Substantially weaker	0	0.0	0	0.0	0	0.0
Total	49	100.0	30	100.0	19	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 September 1998)

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

Questions 1-7 ask about **commercial and industrial loans** at your bank: Questions 1-3 deal with changes in your bank's lending policies over the past month, and questions 4-7 deal with changes in demand over the same period. If your bank's lending policies have not changed over the past month, 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 month, 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 month, 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	1	4.5
Tightened somewhat	8	36.4
Remained basically unchanged	13	59.1
Eased somewhat	0	0.0
Eased considerably	0	0.0
Total	22	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 month? (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	2.43
Costs of credit lines	2.38
Spreads of loan rates over your bank's cost of funds (wider spreads=tightened, narrower spreads=eased)	2.24
Loan covenants	2.90
Collateralization requirements	2.95
Other	3.00
Total	21

1. As of March 31, 1998, the twenty-two respondents had combined assets of $233 billion, compared to $768 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 month (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	1.47
A less favorable economic outlook	2.12
A worsening of industry-specific problems	1.65
Less aggressive competition from other commercial banks	1.35
Less aggressive competition from nonbank lenders (other financial intermediaries or the capital markets)	1.24
Reduced tolerance for risk owing to heightened concern about your bank's foreign losses or exposures	1.41
Reduced tolerance for risk owing to other reasons	1.18
Other	1.13
Number of banks responding	17

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

(No responses.)

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

	All Respondents	
	Banks	Pct
Substantially stronger	0	0.0
Moderately stronger	3	13.6
About the same	13	59.1
Moderately weaker	5	22.7
Substantially weaker	1	4.5
Total	22	100.0

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

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

	All Respondents
	Mean
Customer inventory financing needs increased	1.00
Customer investment in plant or equipment increased	1.00
Customer internally generated funds decreased	1.00
Customer borrowing shifted from other sources to your bank because these other sources became less attractive	1.67
Customer merger or acquisition financing increased	2.00
Other	1.00
Number of banks responding	3

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

	All Respondents
	Mean
Customer inventory financing needs decreased	1.33
Customer investment in plant or equipment decreased	1.50
Customer internally generated funds increased	1.00
Customer borrowing shifted from your bank to other sources because these other sources became more attractive	1.17
Customer merger or acquisition financing decreased	2.00
Other	1.50
Number of banks responding	6

6. If your bank has experienced stronger loan demand as a result of a shift to your bank from other sources of credit (answers 2 or 3 to question 5Ad), how important has been demand from firms temporarily discouraged from issuing bonds in the capital markets?

	All Respondents	
	Banks	Pct
A very important source of increased loan demand	1	50.0
A somewhat important source of increased loan demand	1	50.0
Not an important source of increased loan demand	0	0.0
Total	2	100.0

7. If your bank has experienced stronger loan demand as a result of credit demands diverted from the capital markets (answer 1 or 2 to question 6), what ratings do these borrowing firms' senior bonds typically carry?

	All Respondents	
	Banks	Pct
Investment grade (Baa or higher)	0	0.0
Slightly below investment grade (BB or B)	3	100.0
Lower risk grades (B- or lower)	0	0.0
Total	3	0.0