

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 2001¹)

Questions 1-5 ask about **commercial and industrial (C&I) loans** at your bank. Questions 1-3 deal with changes in your bank's lending policies over the past three months. Questions 4-5 deal with changes in demand for C&I loans over the past three months. 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	2	9.5
Tightened somewhat	12	57.1
Remained basically unchanged	7	33.3
Eased somewhat	0	0.0
Eased considerably	0	0.0
Total	21	100.0

2. For applications for C&I loans or credit lines--other than those to be used to finance mergers and acquisitions--from 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
	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)	2.48
Premiums charged on riskier loans	2.24
Loan covenants	2.52
Collateralization requirements	2.57
Other	2.81
Total	21

1. As of June 30, 2000, the 21 respondents had combined assets of \$264 billion, compared to \$880 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 and 2), how important have been the following possible reasons for the change? (Please respond to either A, B, or both as appropriate and rate each possible reason using the following scale: 1=not important, 2=somewhat important, 3=very important.)

A. Possible reasons for tightening credit standards or loan terms

	All Respondents
	Mean
Deterioration in your bank's current or expected capital position	1.19
Less favorable or more uncertain economic outlook	2.38
Worsening of industry-specific problems	2.38
Less aggressive competition from other commercial banks	1.19
Less aggressive competition from nonbank lenders (other financial intermediaries or the capital markets)	1.14
Reduced tolerance for risk	2.14
Decreased liquidity in the secondary market for these loans	1.76
Increase in defaults by below-investment-grade borrowers in public debt markets.	2.10
Other	1.00
Number of banks responding	21

B. Possible reasons for easing credit standards or loan terms

	All Respondents
	Mean
Improvement in your bank's current or expected capital position	0.00
More favorable or less uncertain economic outlook	0.00
Improvement in industry-specific problems	0.00
More aggressive competition from other commercial banks	0.00
More aggressive competition from nonbank lenders (other financial intermediaries or the capital markets)	0.00
Increased tolerance for risk	0.00
Increased liquidity in the secondary market for these loans	0.00
Reduction in defaults by borrowers in public debt markets	0.00
Other	0.00
Number of banks responding	0

4. Apart from normal seasonal variation, how has demand for C&I loans changed over the past three months? (Please consider only funds actually disbursed as opposed to requests for new or increased lines of credit.)

	All Respondents	
	Banks	Pct
Substantially stronger	0	0.0
Moderately stronger	2	9.5
About the same	15	71.4
Moderately weaker	4	19.0
Substantially weaker	0	0.0
Total	21	100.0

5. If demand for C&I loans has strengthened or weakened over the past three months (as described in question 4), how important have been the following possible reasons for the change? (Please respond to either A, B, or both as appropriate and rate each possible reason using the following scale: 1=not important, 2=somewhat important, 3=very important.)

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

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

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

	All Respondents
	Mean
Customer inventory financing needs decreased	1.75
Customer accounts receivable financing needs decreased	1.75
Customer investment in plant or equipment decreased	2.25
Customer internally generated funds increased	1.75
Customer merger or acquisition financing needs decreased	2.25
Customer borrowing shifted from your bank to other credit sources because these other sources became more attractive	1.50
Other	1.50
Number of banks responding	4

*In recent months, the market for commercial paper has been hit by numerous credit downgrades and even a few defaults. As a result, there have been several reports of firms tapping into bank sponsored back-up lines of credit. **Question 6-10** ask about **commercial paper back-up lines of credit**. Questions 6-8 ask about changes over the past year in your bank's lending policies for these credit lines. Questions 9-10 ask about your bank's assessment of current pricing policies and the longer-term outlook for commercial paper back-up lines of credit.*

6. Over the past year, how has your bank changed its standards for approving applications for commercial paper back-up lines of credit from nonfinancial firms?

A. For nonfinancial firms with an A1/P1 commercial paper rating such standards have:

	All Respondents	
	Banks	Pct
Tightened considerably	3	14.3
Tightened somewhat	4	19.0
Remained basically unchanged	14	66.7
Eased somewhat	0	0.0
Eased considerably	0	0.0
Total	21	100.0

B. For nonfinancial firms with an A2/P2 commercial paper rating such standards have:

	All Respondents	
	Banks	Pct
Tightened considerably	6	30.0
Tightened somewhat	8	40.0
Remained basically unchanged	6	30.0
Eased somewhat	0	0.0
Eased considerably	0	0.0
Total	20	100.0

7. For applications for commercial paper back-up lines of credit from nonfinancial firms that your bank currently is willing to approve, how have each of the following terms changed over the *past year*. (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. For nonfinancial firms with an A1/P1 commercial paper rating:

	All Respondents
	Mean
Maximum size of credit lines	2.58
Length of commitment	2.58
Fees associated with credit lines (tightened=higher fees, eased=lower fees)	2.32
Spread of loan rates over your cost of funds (tightened=higher spread, eased=lower spread)	2.32
Material adverse change clauses	2.84
Other	2.89
Number of banks responding	19

B. For nonfinancial firms with an A2/P2 commercial paper rating:

	All Respondents
	Mean
Maximum size of credit lines	2.15
Length of commitment	2.20
Fees associated with credit lines (tightened=higher fees, eased=lower fees)	2.10
Spread of loan rates over your cost of funds (tightened=higher spread, eased=lower spread)	2.10
Material adverse change clauses	2.70
Other	2.80
Number of banks responding	20

8. If your bank has changed standards or terms on commercial paper back-up lines of credit over the *past year* (as described in questions 6 and 7), how important have been the following possible reasons for the change? (Please respond to either A, B, or both as appropriate and rate each possible reason using the following scale: 1=not important, 2=somewhat important, 3=very important.)

A. Possible reasons for tightening standards or terms on back-up facilities:

	All Respondents
	Mean
Heightened concern about possible deterioration in the credit quality of issuers	2.56
Less aggressive competition from other banks	1.17
Opportunities for additional business associated with back-up lines have diminished	1.67
Higher probability of lines being drawn due to less certain conditions in commercial paper markets	2.28
Other	1.11
Number of banks responding	18

B. Possible reasons for easing standards or terms on back-up facilities:

	All Respondents
	Mean
Reduced concern about possible deterioration in the credit quality of issuers	0.00
More aggressive competition from other banks	0.00
Opportunities for additional business associated with back-up lines have increased	0.00
Lower probability of lines being drawn due to more certain conditions in commercial paper markets	0.00
Other	0.00
Number of banks responding	0

9. At your bank, are commercial paper back-up lines of credit generally profitable when evaluated on a stand-alone basis?

	All Respondents	
	Banks	Pct
Yes	1	5.0
No, but this business is attractive because associated business opportunities make commercial paper back-up lines profitable overall.	11	55.0
No, and even taking associated business opportunities into account, commercial paper back-up lines are generally no longer profitable. Over the longer-term, their pricing will have to increase to make them so.	8	40.0
Total	20	100.0

10. If your bank expects to increase pricing on commercial paper back-up lines because they are not generally profitable even when taking associated business opportunities into account (answer 3 to Question 9), how do you expect the volume of such business to be affected over the longer-term?

	All Respondents	
	Banks	Pct
The resulting decline in the volume of business is likely to be fairly minor	0	0.0
The resulting decline in the volume of business is likely to be moderate	7	87.5
The resulting decline in the volume of business is likely to be fairly considerable.	1	12.5
Total	8	100.0

Questions 11-13 ask about commercial real estate loans at your bank, including construction and land development loans and loans secured by nonfarm nonresidential real estate. Question 11 deals with changes in your bank's standards over the last three months. Questions 12-13 deal with changes in demand over the past three months. If your bank's lending standards or terms have not changed over the relevant period, please report them as unchanged even if they are either restrictive or accommodative relative to longer-term norms. If your bank's standards or terms have tightened or eased over the relevant period, please so report them regardless of how they stand relative to longer-term norms. Also, please report changes in enforcement of existing standards as changes in standards.

11. 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	8.3
Remained basically unchanged	11	91.7
Eased somewhat	0	0.0
Eased considerably	0	0.0
Total	12	100.0

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

	All Respondents	
	Banks	Pct
Substantially stronger	0	0.0
Moderately stronger	1	8.3
About the same	8	66.7
Moderately weaker	3	25.0
Substantially weaker	0	0.0
Total	12	100.0

13. Please indicate how demand for commercial real estate loans in each of the following sectors has changed over the past three months. (Please rate each sector according to the following scale: 1=substantially stronger, 2=moderately stronger, 3=about the same, 4=moderately weaker, 5=substantially weaker.)

	All Respondents
	Mean
Office buildings	3.40
Industrial structures	2.90
Warehouses	3.00
Retail establishments	3.00
Hotels	3.30
Multifamily or apartment homes	2.90
Other	3.00
Number of banks responding	10