Board of Governors of the Federal Reserve System

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

The January 1998 Senior Loan Officer Opinion Survey on Bank Lending Practices (covering, for the most part, changes over the past three months) posed the usual questions bearing on the supply of and demand for bank loans to businesses and households. Additional questions targeted changes in the sensitivity of respondents' loan quality to an economic slowdown, changes in standards and terms on home equity loans, and lending to affiliates or subsidiaries of East Asian firms.

Domestic respondents indicated little change in standards on loans to businesses, although once again a fairly large percentage narrowed yield spreads. By contrast, foreign respondents appear to be pulling back from business lending, with many reporting tighter standards and terms. Both domestic and foreign respondents took steps to restrict lending to U.S. affiliates of non-Japanese East Asian firms. At the same time, loan demand from U.S. affiliates of Japanese firms increased.

Many banks are still tightening standards on consumer loans, but few said that their willingness to make these loans had changed. Several banks eased terms and standards on home equity loans, while standards for residential mortgage loans were about unchanged. Demand for residential mortgages increased at a large percentage of respondents.

Special questions asked respondents about the change over the last two years in their customers' ability to meet their debt obligations during a period of economic weakness. The responses differed widely; on balance a few more banks said that, overall, their loan portfolio had become more vulnerable to a downturn than said it had become less vulnerable.

Lending to Businesses

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

The survey results suggest somewhat less easing of business loan standards and terms than did last year's surveys. Among the domestic respondents, few banks indicated any change in standards on loans to small or to larger businesses, and the numbers that did indicate a change are about offsetting. Recent surveys had found small fractions of banks easing business lending standards. For customers in both size categories, about 25 percent of the domestic respondents reported some narrowing of yield spreads; for loans to large borrowers, this was a somewhat smaller percentage than in recent surveys. Less than 10 percent eased other terms, such as the size and cost of credit lines and loan covenants, while collateralization requirements were tightened slightly, on net. In general, more banks reported having eased these terms on recent surveys than did so in January.

Many branches and agencies reported curtailing their lending. More than one-third of the branches and agencies reported tighter standards on C&I loans, and more than half widened spreads. Significant fractions also decreased the size and increased the cost of credit lines. The respondents attributed the tightening to a weakening of their parents' current or expected capital position.

On net, about 25 percent of the domestic banks experienced increased demand for business loans from larger firms, and 15 percent reported stronger demand from small firms. Most frequently, the increased demand was attributed to merger and acquisition funding needs, but the need for plant and equipment and inventory financing was also cited. The importance accorded to inventory financing needs was about the same as that reported in the November survey and a little less than that in the August survey. A few branches and agencies, on net, reported a pick-up in business loan demand, attributing the rise to the same factors as the domestic respondents.

Less than 10 percent of the domestic respondents, on net, eased standards on commercial real estate loans, about the same as in November. By contrast, a net 12 percent of the foreign respondents tightened standards on these loans. Large net fractions of the participants--two-fifths of the domestic and one-third of the foreign respondents--experienced increased demand for these loans, about the same as in the November survey.

Lending to Households
(Table 1, questions 10-19)

The responses concerning consumer loans resembled those on recent surveys. Equal numbers of banks expressed more as expressed less willingness to make consumer installment loans, about 20 percent tightened standards on credit card loans, and 15 percent tightened standards on other consumer loans. While the current survey is the ninth in a row to find significant net percentages of banks tightening standards on consumer loans, the percentages have tailed off over the past two years. The survey reveals little evidence of any change in consumer loan terms, aside from a tightening of credit limits on credit card accounts.

Standards applied to mortgage applications were about unchanged. Many banks--three-fifths--reported increased demand for these loans. Even though this question specifically refers to mortgages to purchase homes, the large number of respondents indicating increased demand may reflect, in part, the spike in refinancing in January.

Special questions found some evidence of eased standards and terms for home equity loans. Between 15 percent and 20 percent of the respondents, on net, eased standards on these loans over the past year. Similar percentages reduced fees and raised maximum loan-to-value ratios; somewhat smaller percentages narrowed spreads and lengthened maturities. The responses suggest a degree of easing somewhat greater than found by the January 1997 survey.

Lending to Affiliates and Subsidiaries of East Asian Firms
(Table 1, questions 22-26; table 2, questions 8-12)

The recent financial difficulties of many East Asian firms have raised the possibility that lenders may be exercising greater caution in dealing with the U.S. affiliates of such firms. In fact, the survey found a widespread tightening of standards and terms on loans to nonbank U.S. affiliates of Asian firms; the survey did not ask about affiliates of Japanese firms. Three-quarters of the domestic respondents and all of the branches and agencies had tightened their standards on loans to nonbank affiliates or subsidiaries of Korean firms. Only slightly fewer tightened standards on loans to non-Korean (and non-Japanese) firms. All or nearly all of the survey participants had tightened terms on loans to affiliates of Asian (non-Japanese) firms, including the size and cost of credit lines, yield spreads, loan covenants, and collateralization requirements.

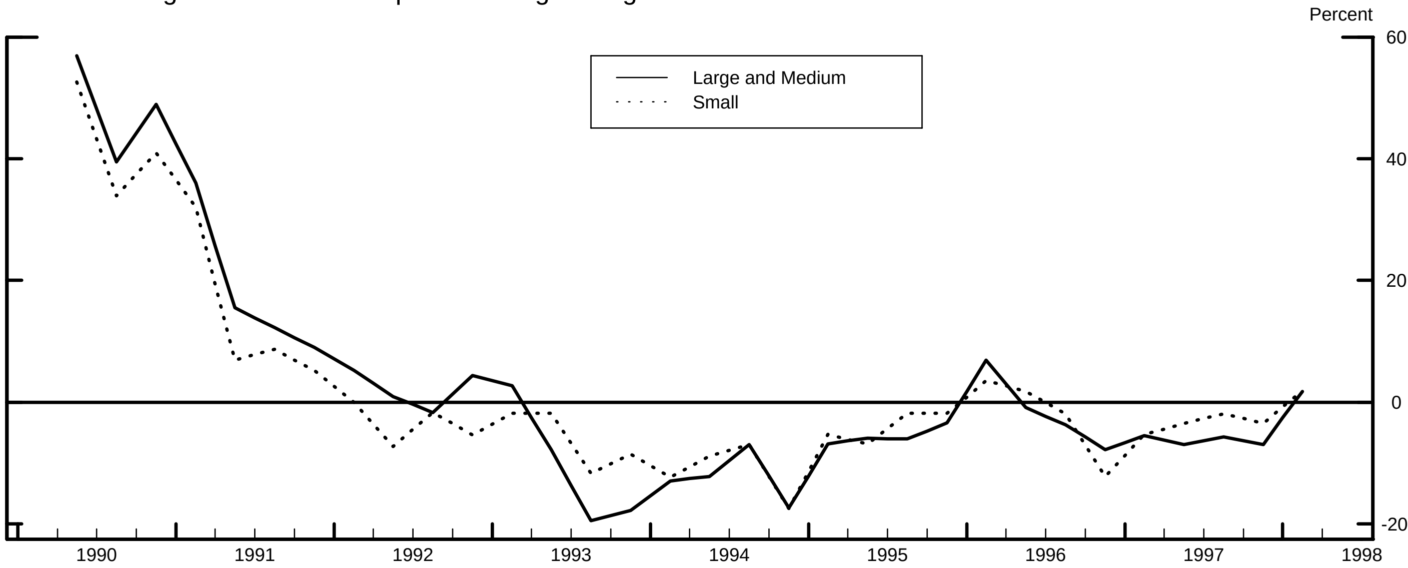
In the last few months, Japanese banks have been under pressure to simultaneously recognize loan losses and improve their financial condition. These pressures may have reduced the supply of credit in Japan, possibly leading to a reduction in funding by Japanese parents to their nonbank U.S. affiliates or subsidiaries. The survey did find that about 30 percent of the domestic respondents, on net, and one-half of the branches and agencies had experienced increased loan demand from these firms. However, most of those institutions experiencing increased demand attributed it to reduced attractiveness of other sources of funds. Reduced funding from parent firms was cited much less often, although still widely, as a reason for the increased demand. Nevertheless, when increased loan demand is the result of substitution away from alternative sources of funds, it may be difficult for respondents to know the alternative source.

Sensitivity of Loan Performance to a Period of Economic Weakness
(Table 1, questions 20-21)

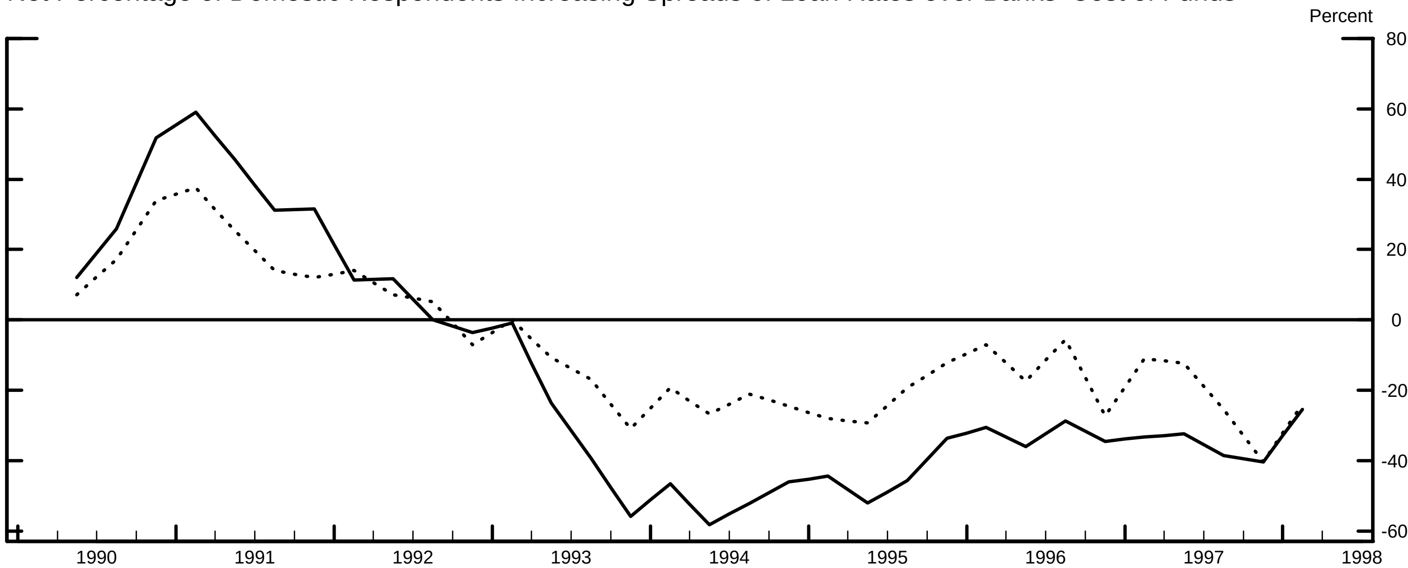
For the past couple of years, this survey and other sources have reported an easing by banks of standards and terms for business credit and a tightening for consumer credit. Special questions in the current survey asked respondents to evaluate the effect that these changes have had on the ability of their various customer groups to meet debt obligations during a period of economic weakness. Banks' responses differed fairly widely. More than 20 percent of the respondents, on net, felt that their commercial real estate borrowers' ability to weather a downturn had improved over the past two years. By contrast, on net about 15 percent felt that their credit card customers, and more than 10 percent that their other consumer loan borrowers, were in worse shape. It may be that the tightening of standards on consumer loans has not offset the deteriorating condition of some existing customers at these institutions. Regarding commercial and industrial and residential real estate borrowers, responses were quite dispersed, with fairly large percentages of banks assessing their borrowers to be in better condition and roughly equal percentages seeing deterioration. Looking at their loan portfolios overall, about 25 percent of the loan officers judged their banks' aggregate charge-off and delinquency rates to be more sensitive to a downturn than they were two years ago, and about 15 percent felt this sensitivity had declined.

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



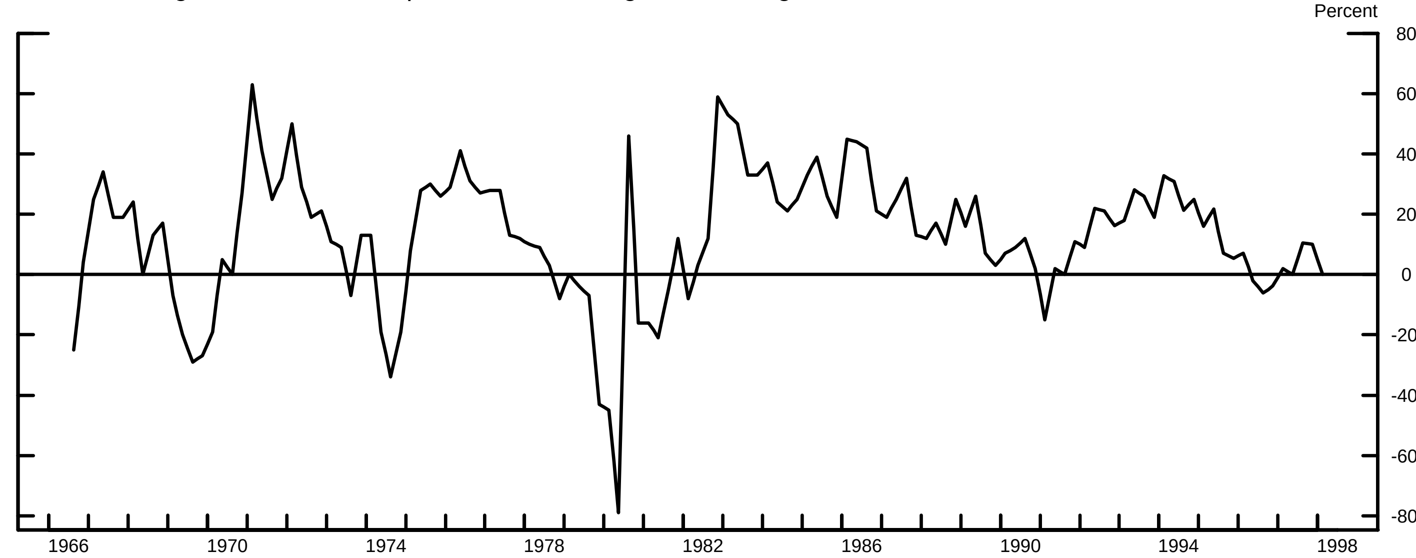
Net Percentage of Domestic Respondents Increasing Spreads of Loan Rates over Banks’ Cost of Funds



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

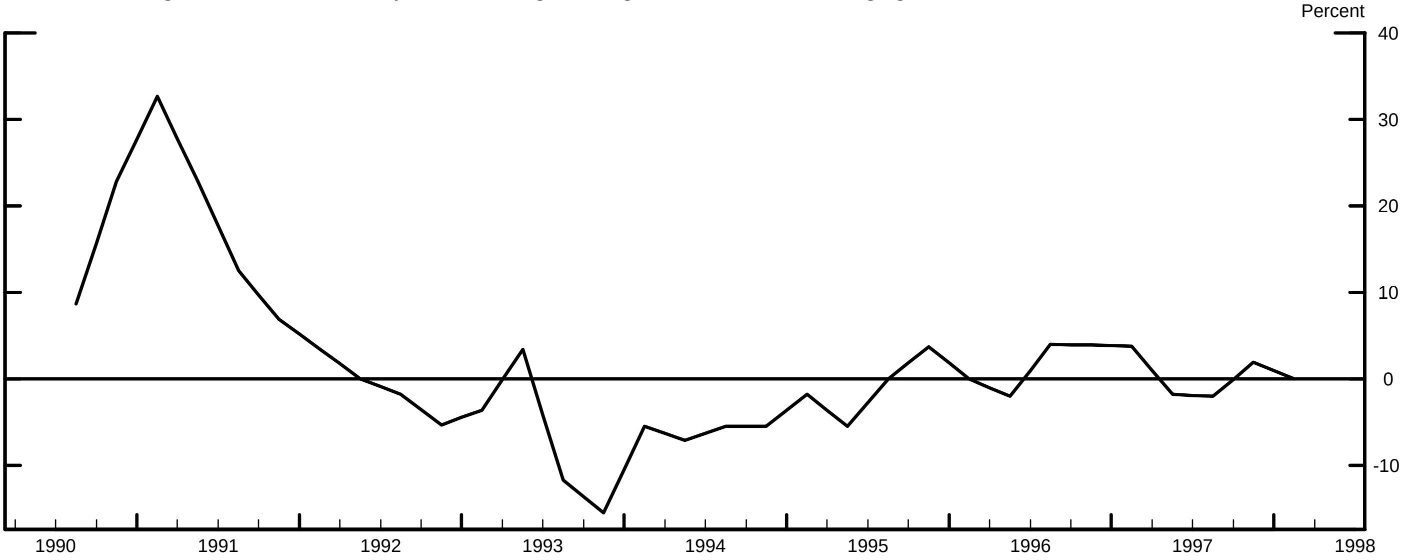


Table 1

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

(Number of banks and percentage of banks answering question)
(By volume of total domestic assets as of September 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		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Tightened considerably	0	0.0	0	0.0	0	0.0
Tightened somewhat	2	3.6	0	0.0	2	8.3
Remained basically unchanged	52	94.5	30	96.8	22	91.7
Eased somewhat	1	1.8	1	3.2	0	0.0
Eased considerably	0	0.0	0	0.0	0	0.0
Total	55	100.0	31	100.0	24	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	5.6	1	3.4	2	8.0
Remained basically unchanged	49	90.7	27	93.1	22	88.0
Eased somewhat	2	3.7	1	3.4	1	4.0
Eased considerably	0	0.0	0	0.0	0	0.0
Total	54	100.0	29	100.0	25	100.0

1. As of September 30, 1997, 32 respondents had domestic assets of $15 billion or more; combined assets of these banks totaled $1.68 trillion, compared to $1.85 trillion for the entire panel of 57 banks, and $4.12 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 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	Large Banks	Other Banks
	Mean	Mean	Mean
Maximum size of credit lines	3.04	3.10	2.96
Costs of credit lines	3.07	3.03	3.13
Spreads of loan rates over your bank's cost of funds (wider spreads=tightened, narrower spreads=eased)	3.25	3.26	3.25
Loan covenants	3.11	3.13	3.08
Collateralization requirements	2.98	3.00	2.96
Other	3.02	3.03	3.00
Number of banks responding	55	31	24

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	Large Banks	Other Banks
	Mean	Mean	Mean
Maximum size of credit lines	3.07	3.14	3.00
Costs of credit lines	3.07	3.03	3.12
Spreads of loan rates over your bank's cost of funds (wider spreads=tightened, narrower spreads=eased)	3.26	3.14	3.40
Loan covenants	2.98	3.00	2.96
Collateralization requirements	2.96	3.00	2.92
Other	3.02	3.04	3.00
Number of banks responding	54	29	25

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	Large Banks	Other Banks
	Mean	Mean	Mean
A deterioration in your bank's current or expected capital position	1.07	1.00	1.13
A less favorable economic outlook	1.80	1.71	1.88
A worsening of industry-specific problems	1.53	1.14	1.88
Less aggressive competition from other commercial banks	1.27	1.43	1.13
Less aggressive competition from nonbank lenders (other financial intermediaries or the capital markets)	1.07	1.00	1.13
Reduced tolerance for risk	1.67	1.57	1.75
Other	1.33	1.71	1.00
Number of banks responding	15	7	8

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	1.04	1.00	1.09
A more favorable economic outlook	1.07	1.06	1.09
An improvement in industry-specific problems	1.11	1.06	1.18
More aggressive competition from other commercial banks	2.46	2.53	2.36
More aggressive competition from nonbank lenders (other financial intermediaries or the capital markets)	1.93	2.00	1.82
Increased tolerance for risk	1.14	1.12	1.18
Other	1.27	1.42	1.00
Number of banks responding	30	19	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		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Substantially stronger	0	0.0	0	0.0	0	0.0
Moderately stronger	18	33.3	10	33.3	8	33.3
About the same	32	59.3	18	60.0	14	58.3
Moderately weaker	4	7.4	2	6.7	2	8.3
Substantially weaker	0	0.0	0	0.0	0	0.0
Total	54	100.0	30	100.0	24	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		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Substantially stronger	0	0.0	0	0.0	0	0.0
Moderately stronger	10	19.2	4	14.8	6	24.0
About the same	40	76.9	22	81.5	18	72.0
Moderately weaker	2	3.8	1	3.7	1	4.0
Substantially weaker	0	0.0	0	0.0	0	0.0
Total	52	100.0	27	100.0	25	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	Large Banks	Other Banks
	Mean	Mean	Mean
Customer inventory financing needs increased	1.65	1.67	1.64
Customer investment in plant or equipment increased	1.74	1.75	1.73
Customer internally generated funds decreased	1.22	1.17	1.27
Customer borrowing shifted from other sources to your bank because these other sources became less attractive	1.30	1.33	1.27
Customer merger or acquisition financing increased	1.87	2.08	1.64
Other	1.09	1.17	1.00
Number of banks responding	23	12	11

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

	All Respondents	Large Banks	Other Banks
	Mean	Mean	Mean
Customer inventory financing needs decreased	1.50	1.00	2.00
Customer investment in plant or equipment decreased	1.50	1.00	2.00
Customer internally generated funds increased	1.83	2.33	1.33
Customer borrowing shifted from your bank to other sources because these other sources became more attractive	2.17	2.67	1.67
Customer merger or acquisition financing decreased	1.33	1.33	1.33
Other	1.50	1.80	1.00
Number of banks responding	8	5	3

***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		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Tightened considerably	0	0.0	0	0.0	0	0.0
Tightened somewhat	6	10.7	3	9.7	3	12.0
Remained basically unchanged	40	71.4	21	67.7	19	76.0
Eased somewhat	10	17.9	7	22.6	3	12.0
Eased considerably	0	0.0	0	0.0	0	0.0
Total	56	100.0	31	100.0	25	100.0

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

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Substantially stronger	2	3.6	1	3.3	1	4.0
Moderately stronger	23	41.8	17	56.7	6	24.0
About the same	27	49.1	11	36.7	16	64.0
Moderately weaker	3	5.5	1	3.3	2	8.0
Substantially weaker	0	0.0	0	0.0	0	0.0
Total	55	100.0	30	100.0	25	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		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Tightened considerably	0	0.0	0	0.0	0	0.0
Tightened somewhat	2	3.8	2	7.4	0	0.0
Remained basically unchanged	48	92.3	24	88.9	24	96.0
Eased somewhat	2	3.8	1	3.7	1	4.0
Eased considerably	0	0.0	0	0.0	0	0.0
Total	52	100.0	27	100.0	25	100.0

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

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Substantially stronger	7	13.5	5	18.5	2	8.0
Moderately stronger	26	50.0	11	40.7	15	60.0
About the same	16	30.8	9	33.3	7	28.0
Moderately weaker	3	5.8	2	7.4	1	4.0
Substantially weaker	0	0.0	0	0.0	0	0.0
Total	52	100.0	27	100.0	25	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		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Much more	0	0.0	0	0.0	0	0.0
Somewhat more	4	8.0	2	8.0	2	8.0
About unchanged	42	84.0	21	84.0	21	84.0
Somewhat less	4	8.0	2	8.0	2	8.0
Much less	0	0.0	0	0.0	0	0.0
Total	50	100.0	25	100.0	25	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		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Tightened considerably	0	0.0	0	0.0	0	0.0
Tightened somewhat	10	22.2	6	26.1	4	18.2
Remained basically unchanged	35	77.8	17	73.9	18	81.8
Eased somewhat	0	0.0	0	0.0	0	0.0
Eased considerably	0	0.0	0	0.0	0	0.0
Total	45	100.0	23	100.0	22	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		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Tightened considerably	1	2.0	0	0.0	1	4.0
Tightened somewhat	8	16.3	4	16.7	4	16.0
Remained basically unchanged	39	79.6	20	83.3	19	76.0
Eased somewhat	1	2.0	0	0.0	1	4.0
Eased considerably	0	0.0	0	0.0	0	0.0
Total	49	100.0	24	100.0	25	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	Large Banks	Other Banks
	Mean	Mean	Mean
Credit limits	2.86	2.78	2.95
Spreads of interest rates charged on outstanding balances over your bank's cost of funds (wider spreads=tightened, narrower spreads=eased)	2.98	3.00	2.95
Minimum percentage of outstanding balances required to be repaid each month	3.05	3.04	3.05
Other	2.93	2.95	2.89
Number of banks responding	42	23	19

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	Large Banks	Other Banks
	Mean	Mean	Mean
Maximum maturity	3.06	3.04	3.08
Spreads of loan rates over your bank's cost of funds (wider spreads=tightened, narrower spreads=eased)	3.04	3.08	3.00
Minimum required down payment	3.02	3.04	3.00
Other	2.92	3.04	2.80
Number of banks responding	49	24	25

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

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Substantially stronger	0	0.0	0	0.0	0	0.0
Moderately stronger	8	16.0	2	8.0	6	24.0
About the same	36	72.0	18	72.0	18	72.0
Moderately weaker	6	12.0	5	20.0	1	4.0
Substantially weaker	0	0.0	0	0.0	0	0.0
Total	50	100.0	25	100.0	25	100.0

Questions 18 and 19 *ask about* ***home equity loans*** *(defined to include takedowns under home equity lines of credit or junior liens secured by 1-4 family residential properties) at your bank.*

18. Over the past year, how have your bank's standards for approving applications from individuals for home equity loans changed?

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Tightened considerably	0	0.0	0	0.0	0	0.0
Tightened somewhat	3	6.4	1	4.0	2	9.1
Remained basically unchanged	33	70.2	16	64.0	17	77.3
Eased somewhat	11	23.4	8	32.0	3	13.6
Eased considerably	0	0.0	0	0.0	0	0.0
Total	47	100.0	25	100.0	22	100.0

19. Over the past year, how has your bank changed the following terms on home equity loans? (Please assign each term a number between 1 (tightened considerably) and 5 (eased considerably) as in question 15).

	All Respondents	Large Banks	Other Banks
	Mean	Mean	Mean
Spreads of loan rates over market rates (wider spreads=tightened, narrower spreads=eased	3.15	3.16	3.14
Maximum loan-to-value ratio	3.17	3.28	3.05
Maximum maturity	3.11	3.20	3.00
Fees	3.19	3.16	3.23
Other	2.96	3.00	2.91
Number of banks responding	48	26	22

For the last couple of years, various sources (including this survey) have reported an easing of standards and terms owing to heightened competition by banks for business credits. Over the same period standards and terms on consumer loans reportedly have been tightened. ***Questions 20 and 21*** *ask about what effects, if any, these changes in standards and terms have had on the risk profile of your customer base and thus the ability of your borrowers to weather a period of economic weakness.*

20. As a result of shifts in the risk profile of your customer base (owing to changes in your bank's standards and terms), for the following loan categories at your bank, how has the ability of your borrowers to weather a period of economic weakness, in terms of meeting all of their cash flow obligations, changed over the past two years?

a. Commercial and industrial loans

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Improved substantially	0	0.0	0	0.0	0	0.0
Imroved somewhat	14	25.5	9	30.0	5	20.0
Remained about the same	29	52.7	14	46.7	15	60.0
Worsened somewhat	12	21.8	7	23.3	5	20.0
Worsened substantially	0	0.0	0	0.0	0	0.0
Total	55	100.0	30	100.0	25	100.0

b. Commercial real estate loans

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Improved substantially	1	1.9	1	3.4	0	0.0
Imroved somewhat	17	31.5	11	37.9	6	24.0
Remained about the same	30	55.6	12	41.4	18	72.0
Worsened somewhat	6	11.1	5	17.2	1	4.0
Worsened substantially	0	0.0	0	0.0	0	0.0
Total	54	100.0	29	100.0	25	100.0

c. Residential real estate loans (including home equity loans)

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Improved substantially	0	0.0	0	0.0	0	0.0
Imroved somewhat	9	17.3	6	22.2	3	12.0
Remained about the same	35	67.3	17	63.0	18	72.0
Worsened somewhat	8	15.4	4	14.8	4	16.0
Worsened substantially	0	0.0	0	0.0	0	0.0
Total	52	100.0	27	100.0	25	100.0

d. Consumer loans excluding credit cards

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Improved substantially	0	0.0	0	0.0	0	0.0
Imroved somewhat	6	12.2	3	12.5	3	12.0
Remained about the same	31	63.3	13	54.2	18	72.0
Worsened somewhat	12	24.5	8	33.3	4	16.0
Worsened substantially	0	0.0	0	0.0	0	0.0
Total	49	100.0	24	100.0	25	100.0

e. Credit cards

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Improved substantially	0	0.0	0	0.0	0	0.0
Imroved somewhat	6	14.0	3	13.0	3	15.0
Remained about the same	24	55.8	10	43.5	14	70.0
Worsened somewhat	12	27.9	9	39.1	3	15.0
Worsened substantially	1	2.3	1	4.3	0	0.0
Total	43	100.0	23	100.0	20	100.0

21. In light of your responses to question 20, to any change in the mix of your bank's loan portfolio, and to any steps your bank has taken to diversify or monitor risk, how has the sensitivity of your bank's aggregate charge-off and delinquency rates to a period of economic weakness changed over the past two years?

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Increased substantially	1	1.8	1	3.3	0	0.0
Increased somewhat	14	25.5	7	23.3	7	28.0
Remained about the same	31	56.4	19	63.3	12	48.0
Decreased somewhat	9	16.4	3	10.0	6	24.0
Decreased substantially	0	0.0	0	0.0	0	0.0
Total	55	100.0	30	100.0	25	100.0

Questions 22-26 *ask about* ***loans to U.S. addressees that are nonbank affiliates or subsidiaries of Asian firms.*** *(If your bank makes no loans to such firms, please skip these questions.) The recent economic turmoil in Asia may have affected the ability of U.S. affiliates of Asian firms to obtain credit in the United States. Questions 22-24 deal with changes in your bank's lending policies toward nonbank affiliates of non-Japanese Asian firms in the past three months. In addition, a possible reduction in the supply of credit in Japan may have increased demand for credit in the United States by U.S. affiliates of Japanese firms. Questions 25 and 26 deal with changes in demand for credit of U.S. addressees that are nonbank affiliates or subsidiaries of Japanese firms over the past three months.*

22. Over the past three months, how have your bank's credit standards for approving applications for loans or credit lines to nonbank affiliates or subsidiaries of Korean firms and to nonbank affiliates of other Asian (except Japanese) firms changed?

a. Standards for nonbank affiliates or subsidiaries of Korean firms

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Tightened considerably	13	54.2	12	54.5	1	50.0
Tightened somewhat	6	25.0	6	27.3	0	0.0
Remained basically unchanged	5	20.8	4	18.2	1	50.0
Eased somewhat	0	0.0	0	0.0	0	0.0
Eased considerably	0	0.0	0	0.0	0	0.0
Total	24	100.0	22	100.0	2	100.0

b. Standards for nonbank affiliates or subsidiaries of other Asian firms (other than affiliates of Korean or Japanese firms)

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Tightened considerably	8	36.4	8	40.0	0	0.0
Tightened somewhat	9	40.9	8	40.0	1	50.0
Remained basically unchanged	5	22.7	4	20.0	1	50.0
Eased somewhat	0	0.0	0	0.0	0	0.0
Eased considerably	0	0.0	0	0.0	0	0.0
Total	22	100.0	20	100.0	2	100.0

23. For applications for loans or credit lines from nonbank affiliates or subsidiaries of Korean firms that your bank is currently 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 folllowing scale: 1=tightened considerably, 2=tightened somewhat, 3=remained basically unchanged, 4=eased somewhat, 5=eased considerably.)

	All Respondents	Large Banks	Other Banks
	Mean	Mean	Mean
Maximum size of credit lines	1.70	1.74	1.00
Costs of credit lines	1.75	1.79	1.00
Spreads of loan rates over you bank's cost of funds (wider spreads=tightened, narrower spreads=eased)	1.80	1.84	1.00
Loan covenants	2.10	2.16	1.00
Collateralization requirements	1.95	1.95	2.00
Other	2.60	2.68	1.00
Number of banks responding	21	20	1

24. For applications for loans or credit lines from nonbank affiliates or subsidiaries of Asian firms, other than Korean or Japanese firms, that your bank is currently 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 23.)

	All Respondents	Large Banks	Other Banks
	Mean	Mean	Mean
Maximum size of credit lines	2.10	2.15	1.00
Costs of credit lines	2.05	2.10	1.00
Spreads of loan rates over you bank's cost of funds (wider spreads=tightened, narrower spread=eased)	2.10	2.15	1.00
Loan covenants	2.19	2.25	1.00
Collateralization requirements	2.14	2.15	2.00
Other	2.70	2.79	1.00
Number of banks responding	21	20	1

25. For borrowers that are nonbank affiliates or subsidiaries of Japanese firms, how has demand for loans (actual extentions of credit as opposed to undrawn lines) changed over the past three months (apart from normal seasonal variation)?

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Substantially stronger	2	8.7	2	9.1	0	0.0
Moderately stronger	7	30.4	6	27.3	1	100.0
About the same	12	52.2	12	54.5	0	0.0
Moderately weaker	2	8.7	2	9.1	0	0.0
Substantially weaker	0	0.0	0	0.0	0	0.0
Total	23	100.0	22	100.0	1	100.0

26. If demand for loans from nonbank affiliates or subsidiaries of Japanese firms has strengthened over the past three months (answer 1 or 2 to question 25), how important have been the following possible reasons for the change? (Please rate each possible reason using the following scale: 1=not important, 2=somwhat important, 3=very important.)

	All Respondents	Large Banks	Other Banks
	Mean	Mean	Mean
Customer financing needs increased (e.g., customers increased trade, inventory, investment, mergers, or acquisitions)	1.33	1.38	1.00
Customer internally generated funds decreased	1.56	1.50	2.00
Customer funding from parents decreased	1.70	1.56	3.00
Customer borrowing shifted from other sources to your bank because these other sources became less attractive or were unavailable	2.60	2.56	3.00
Other	1.20	1.00	3.00
Number of banks responding	10	9	1

Table 2

SENIOR LOAN OFFICER OPINION SURVEY ON BANK LENDING PRACTICES
AT SELECTED BRANCHES AND AGENCIES OF FOREIGN BANKS IN THE UNITED STATES
(Status of policy as of January 1998)

(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	2	8.7
Tightened somewhat	7	30.4
Remained basically unchanged	13	56.5
Eased somewhat	1	4.3
Eased considerably	0	0.0
Total	23	100.0

2. For applications for C&I loans or credit lines--other than those to be used to finance mergers and acquisitions--that your bank currently is willing to approve, how have the terms of those loans changed over the past three months? (Please assign each term a number between 1 and 5 using the following scale: 1=tightened considerably, 2=tightened somewhat, 3=remained basically unchanged, 4=eased somewhat, 5=eased considerably.)

	All Respondents
	Mean
Maximum size of credit lines	2.48
Costs of credit lines	2.43
Spreads of loan rates over your bank's cost of funds (wider spreads=tightened, narrower spreads=eased)	2.26
Loan covenants	2.91
Collateralization requirements	2.91
Other	2.96
Total	23

1. As of September 30, 1997, the 23 respondents had combined assets of $219.2 billion, compared to $724.71 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	2.31
A less favorable economic outlook	1.54
A worsening of industry-specific problems	1.15
Less aggressive competition from other commercial banks	1.15
Less aggressive competition from nonbank lenders (other financial intermediaries or the capital markets)	1.00
Reduced tolerance for risk	1.31
Other	1.15
Number of banks responding	13

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	1.25
More aggressive competition from nonbank lenders (other financial intermediaries or the capital markets)	1.25
Increased tolerance for risk	1.50
Other	1.75
Number of banks responding	4

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	1	4.3
Moderately stronger	4	17.4
About the same	16	69.6
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	1.40
Customer investment in plant or equipment increased	1.80
Customer internally generated funds decreased	1.00
Customer borrowing shifted from other sources to your bank because these other sources became less attractive	1.40
Customer merger or acquisition financing increased	2.00
Other	1.40
Number of banks responding	5

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	1.00
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	2	11.8
Tightened somewhat	2	11.8
Remained basically unchanged	11	64.7
Eased somewhat	2	11.8
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	2	11.8
Moderately stronger	4	23.5
About the same	11	64.7
Moderately weaker	0	0.0
Substantially weaker	0	0.0
Total	17	100.0

Questions 8-12 *ask about* ***loans to U.S. addressees that are nonbank affiliates or subsidiaries of Asian firms.*** *(If your bank makes no loans to such firms, please skip these questions.) The recent economic turmoil in Asia may have affected the ability of U.S. affiliates of Asian firms to obtain credit in the United States. Questions 8-10 deal with changes in your bank's lending policies toward nonbank affiliates of non-Japanese Asian firms in the past three months. In addition, a possible reduction in the supply of credit in Japan may have increased demand for credit in the United States by U.S. affiliates of Japanese firms. Questions 11 and 12 deal with changes in demand for credit of U.S. addressees that are nonbank affiliates or subsidiaries of Japanese firms over the past three months.*

8. Over the past three months, how have your bank's credit standards for approving applications for loans or credit lines to nonbank affiliates or subsidiaries of Korean firms and to nonbank affiliates of other Asian (except Japanese) firms changed?

a. Standards for nonbank affiliates or subsidiaries of Korean firms

	All Respondents	
	Banks	Pct
Tightened considerably	10	58.8
Tightened somewhat	7	41.2
Remained basically unchanged	0	0.0
Eased somewhat	0	0.0
Eased considerably	0	0.0
Total	17	100.0

b. Standards for nonbank affiliates or subsidiaries of Asian firms other than Korean or Japanese firms

	All Respondents	
	Banks	Pct
Tightened considerably	8	50.0
Tightened somewhat	6	37.5
Remained basically unchanged	2	12.5
Eased somewhat	0	0.0
Eased considerably	0	0.0
Total	16	100.0

9. For applications for loans or credit lines from nonbank affiliates or subsidiaries of Korean firms that your bank is currently 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	1.44
Costs of credit lines	2.00
Spreads of loan rates over your bank's cost of funds (wider spreads=tightened, narrower spreads=eased)	1.75
Loan covenants	2.06
Collateralization requirements	2.13
Other	3.00
Number of banks responding	16

10. For applications for loans or credit lines from nonbank affiliates or subsidiaries of Asian firms, other than Korean or Japanese firms, that your bank is currently willing to approve, how have the terms of those loans changed over the past three months? (Pleases assign each term a number between 1 (tightened considerably) and 5 (eased considerably) as in question 9.)

	All Respondents
	Mean
Maximum size of credit lines	1.47
Costs of credit lines	1.80
Spreads of loan rates over your bank's cost of funds (wider spreads=tightened, narrower spreads=eased)	1.67
Loan covenants	1.93
Collateralization requirements	1.93
Other	3.00
Number of banks responding	15

11. For borrowers that are nonbank affiliates or subsidiaries of Japanese firms, how has demand for 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	3	18.8
Moderately stronger	5	31.3
About the same	8	50.0
Moderately weaker	0	0.0
Substantially weaker	0	0.0
Total	16	100.0

12. If demand for loans from nonbank affiliates or subsidiaries of Japanese firms has strengthened over the past three months (answer 1 or 2 to question 11), how important have been the following possible reasons for the change? (Please rate each possible reason using the following scale: 1=not important, 2=somewhat important, 3=very important.)

	All Respondents
	Mean
Customer financing needs increased (e.g., customers increased trade, inventory, investment, mergers, or acquisitions)	1.25
Customer internally generated funds decreased	1.63
Customer funding from parents decreased	1.75
Customer borrowing shifted from other sources to your bank because these other sources became less attractive or were unavailable	2.75
Other	1.00
Number of banks responding	8