Board of Governors of the Federal Reserve System

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

The August 1998 Senior Loan Officer Opinion Survey on Bank Lending Practices posed the usual questions bearing on changes in the supply of and demand for bank loans to businesses and households over the past three months. Additional questions targeted changes in standards and terms on home equity, consumer, and commercial real estate loans, and the causes and effects of reduced participation of U.S. branches and agencies of foreign banks in the U.S. loan market.

Although the survey provided some additional evidence of narrowing of interest rate spreads for most types of loans, changes in other terms and in lending standards were generally small. The respondents attributed the narrowing of spreads primarily to increased competition from other banks; lesser numbers of respondents indicated that nonbank lenders were a source of greater competition.

In contrast to domestic banks, substantial fractions of the U.S. branches and agencies of foreign banks reported tighter credit standards and terms. In special questions addressed to them, those foreign institutions reporting decreased participation in U.S. loan markets indicated that concerns about their parents' financial condition or increased funding costs due to their parents' financial condition were major reasons for the reduced lending activity. Most domestic banks perceived the effects of foreign banks' decreased lending activity on rates and terms prevailing in U.S. loan markets to be minor, although a substantial minority, and most foreign branches and agencies, believed the effect to be more important.

Lending to Businesses

(Table 1, questions 1-9 and 25-28; table 2, questions 1-15)

Domestic respondents reported no changes, on net, in standards for commercial and industrial loans to middle market and large corporate customers, and only 5 percent of respondents, on net, eased standards for commercial and industrial loans to smaller firms over the past three months. About 15 percent of domestic respondents, on net, reported narrowing spreads on loans to medium and large firms, down from about 35 percent in May, but about 30 percent reported trimming spreads on loans to small firms. As has been the case in recent surveys, those reporting an easing of credit standards or terms noted more aggressive competition from banks and, to a lesser extent, nonbank lenders as the primary reasons for the change.

About 17 percent of the U.S. branches and agencies of foreign banks, on net, reported tighter credit standards for commercial and industrial loans; this is down substantially from the past two surveys. However, the fractions of the branches and agencies reporting they had tightened business lending terms, including fees and spreads, remained at the higher levels of recent surveys. Foreign respondents attributed their further tightening of standards and terms primarily to a deterioration in their parent banks' capital positions.

August's survey also included special questions for the U.S. branches and agencies of foreign banks regarding their commercial and industrial lending over the past year. More than half, 61 percent, of the foreign respondents indicated that growth in this type of lending had slowed at their institution over the past year. The most common reason given for the slowdown was tighter lending standards and terms imposed in order to limit loan growth, in recognition of the financial condition of parent banks. Respondents also noted that deterioration in the financial condition of their parent banks had driven up funding costs, making lending less profitable. Some other respondents volunteered as an "other" reason for slower loan growth the unattractive levels to which spreads between loan rates and market rates had fallen. Increased concern about the credit quality of their customers was given as a relatively minor reason for slower loan growth, and weaker demand was cited by only a single respondent.

When queried about the effects that the pullback in lending by some U.S. branches and agencies of foreign banks has had on loan terms for large U.S. firms, respondents provided contrasting answers depending on their perspective. About three quarters of the foreign respondents indicated that the effect was either "moderate" or "substantial," compared to 40 percent of large domestic banks. Only 10 percent of the smaller domestic banks perceived a large effect.

A modest portion of the domestic respondents, 9 percent on net, indicated demand for business loans from larger customers had weakened over the last three months. This is the first reported decrease since the first quarter of 1996 and partly reverses the increase in loan demand reported in recent surveys. Those respondents reporting weaker loan demand pointed to decreased merger and acquisition activity, decreased customer investment in plant and equipment, and increased funding from nonbank loan sources as significant reasons for the decreased demand. Increased use of internally generated funds and decreased inventory financing needs ranked somewhat lower. Loan demand from smaller firms at domestic banks and loan demand at branches and agencies of foreign banks were both reported to be unchanged, on net.

Domestic respondents also indicated little change, on net, in credit standards for commercial real estate loans over the last three months, but more than half reported, in special questions, having narrowed interest rate spreads on these loans over the past year. Again, the most common reason cited for the narrower spreads was heightened bank competition, with more aggressive nonbank competition a distant second. A small share of foreign respondents, on net, had tightened credit standards on commercial real estate loans. A large majority, 82 percent of domestic and 67 percent of foreign respondents, on net, reported that competing institutions had eased standards or terms on such loans over the past year.

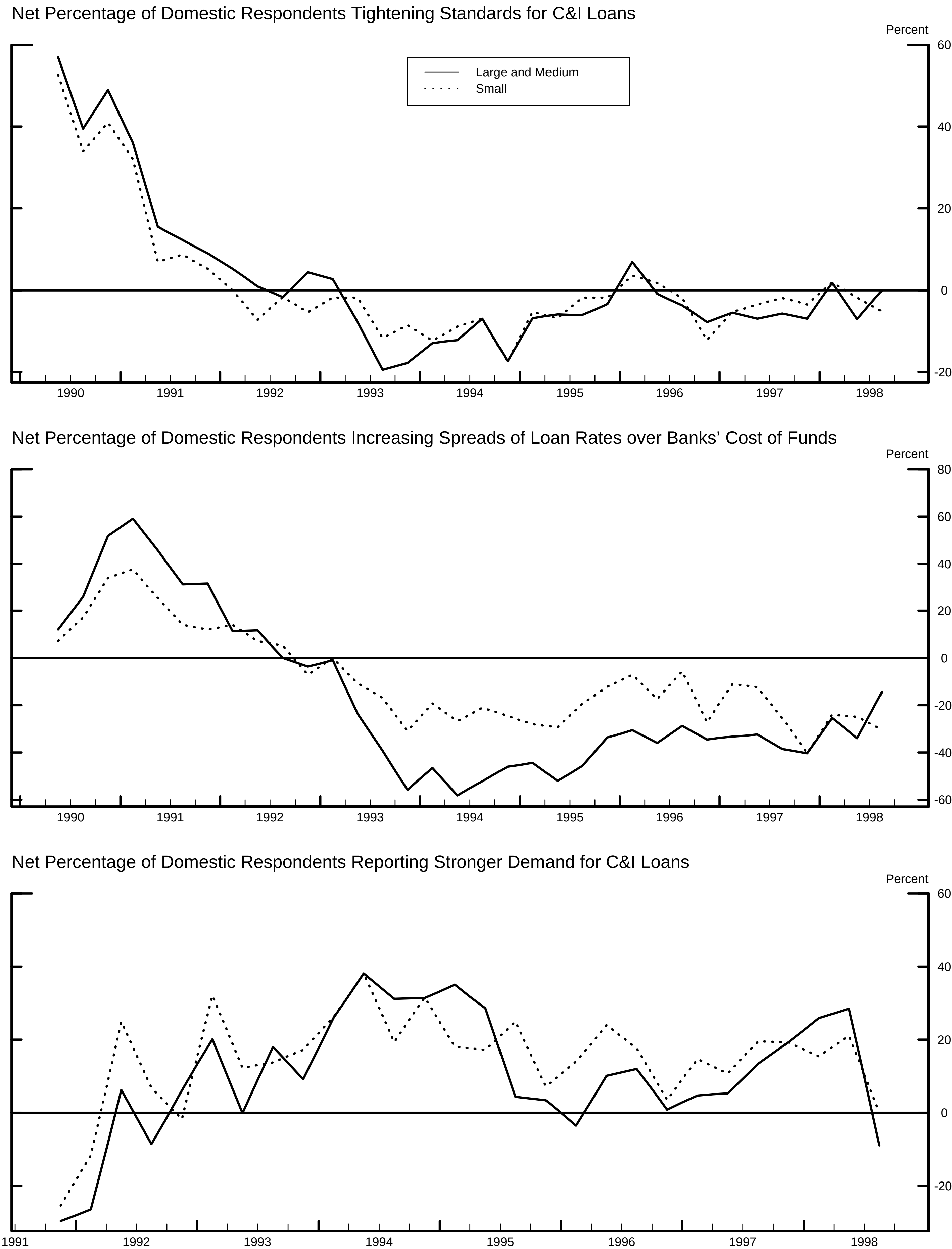
Lending to Households
(Table 1, questions 10-24)

A few respondents reported tighter consumer loan standards, but changes in terms were mixed. On net, 20 percent tightened standards on credit card loans, and 8 percent tightened standards on other consumer loans. Both responses represent a slight increase over the previous survey. Despite the tightening of standards, 10 percent of respondents, on net, expressed greater willingness to make consumer loans. Most banks reported no changes in credit card terms, although about 10 percent cut the size of credit lines and increased interest rate spreads on new or existing accounts. Terms on other consumer loans, which were unchanged on the previous survey, were eased, on net, in August: About a fifth of respondents reported narrower spreads on these loans. The demand for consumer loans was reported to be essentially unchanged over the past three months.

Domestic respondents reported no change in standards for home mortgage loans since May, but 35 percent, on net, reported increased demand for these loans, likely reflecting the robust housing market and the heavy pace of refinancing activity. In special questions on home equity loans, about 10 percent of respondents, on net, reported having eased lending standards and terms over the past six months. More than half of the respondents reported little change in demand for home equity loans over that period. Those respondents reporting increased demand gave consolidation of other loans as the primary reason, while those reporting decreased demand gave refinancing of mortgages as the primary reason.

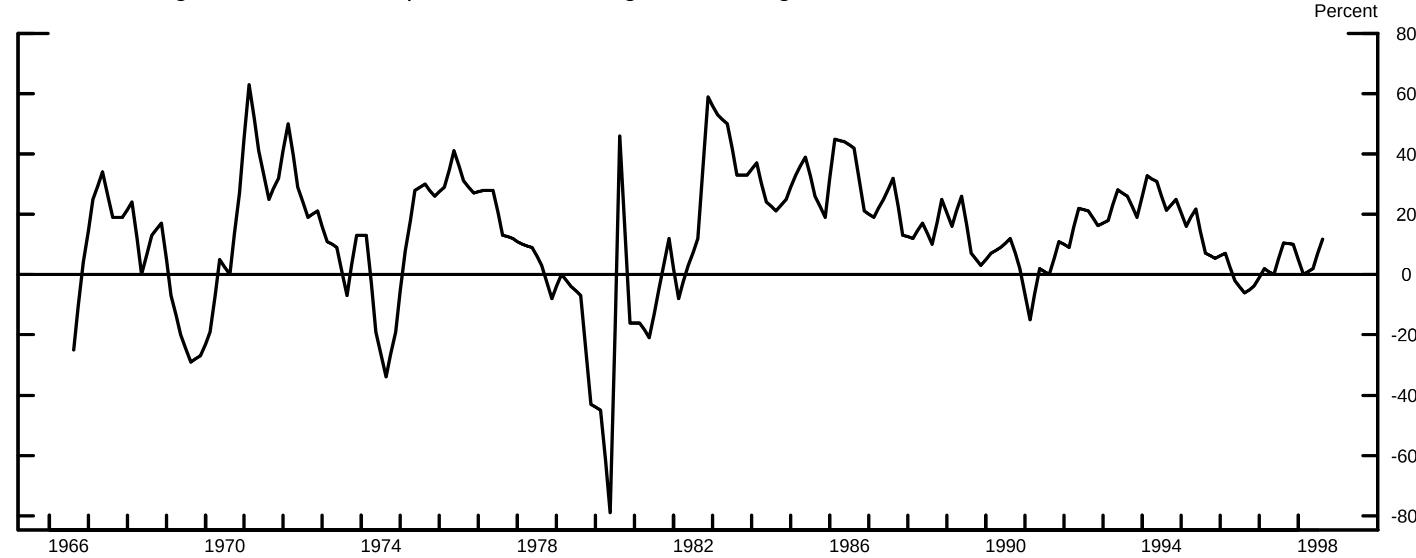
Special questions were asked about the impact of changes in consumer lending standards and terms over the past two years. The responses suggest that tightening of standards has curtailed the volume of both credit card and other consumer lending at a number of banks. With respect to credit cards, almost 40 percent of the 38 banks that responded indicated that tighter standards had “virtually no” or a “minimal” impact on the volume of their lending, while about a third reported a “moderate” or “substantial” effect. More than a quarter of the banks reported that there had been no change in standards for such loans. As for other consumer lending, almost half of the 45 banks reporting indicated that there had been no net tightening of credit standards over the past two years. Of the banks that did tighten, about 60 percent reported “virtually no” or “minimal” impact on lending volume and 40 percent reported a “moderate” or “substantial” effect. With respect to credit cards, banks were also asked what fraction of their customer base was affected by any tightening of terms over the past two years. Virtually all of the 36 banks responding to this question had tightened terms on new or existing credit card accounts over this period. About a third of these banks indicated that this tightening had affected more than half of their accounts. However, about 60 percent reported that no more than a quarter of their accounts were affected and 40 percent of respondents put the share of affected accounts at 10 percent or less.

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

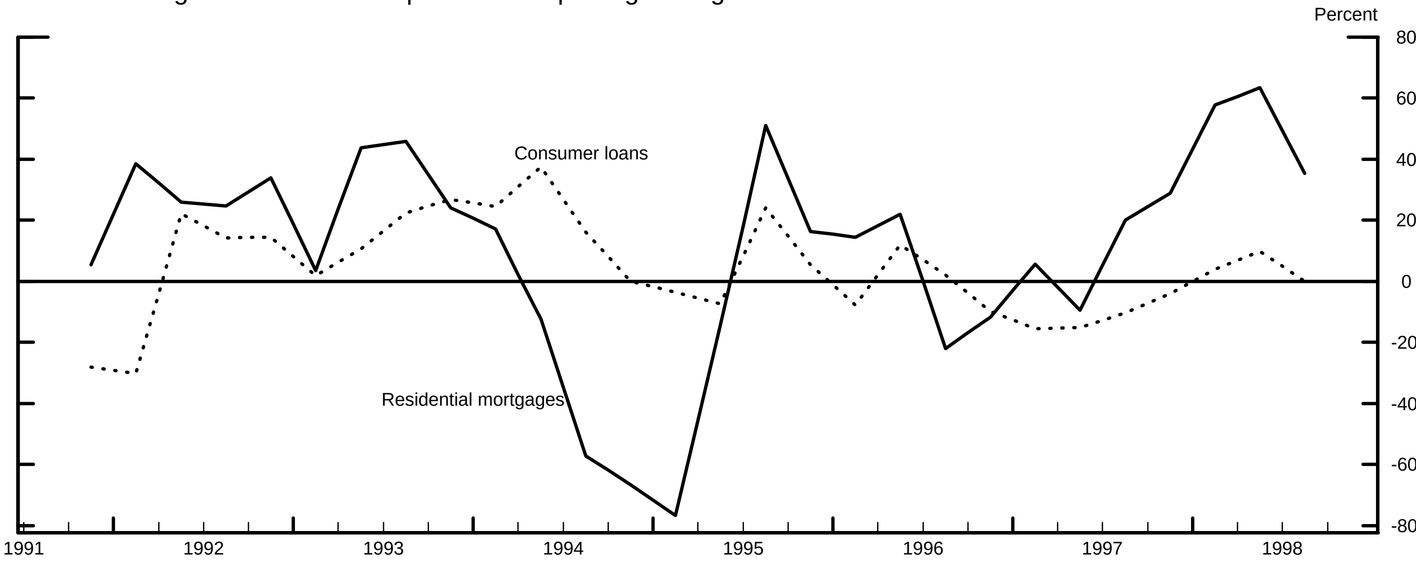


Measures of Supply and Demand for Loans to Households

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

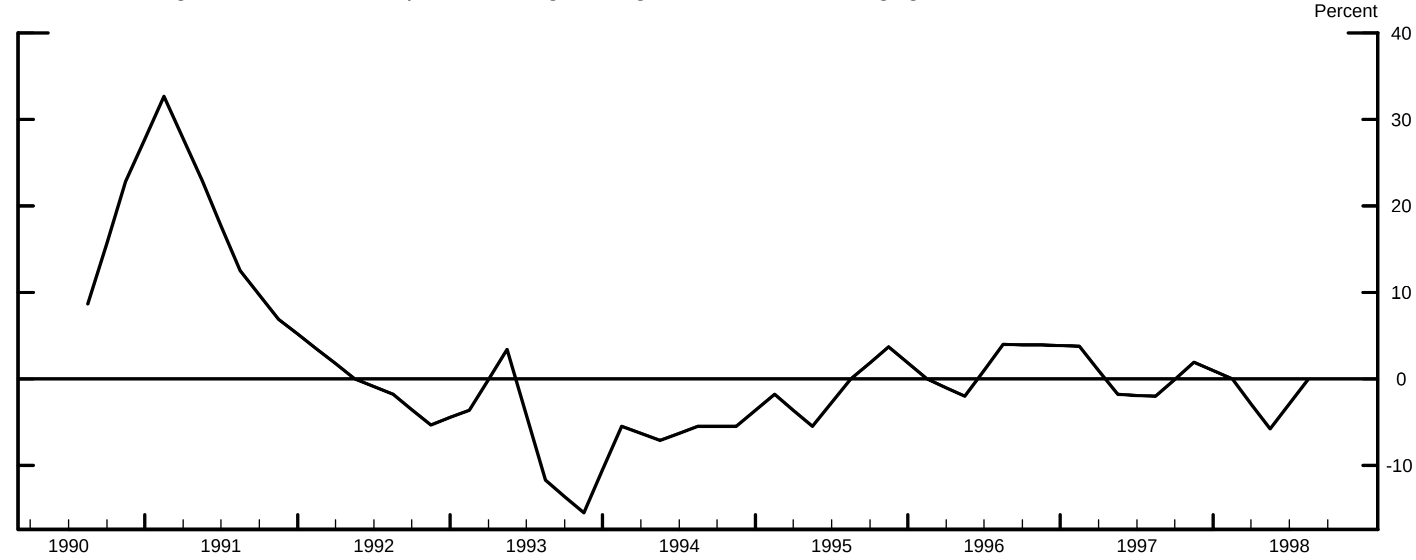


Table 1

SENIOR LOAN OFFICER OPINION SURVEY ON BANK LENDING PRACTICES
AT SELECTED LARGE BANKS IN THE UNITED STATES
(Status of policy as of August 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 1-4 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	5	8.9	4	11.4	1	4.8
Remained basically unchanged	46	82.1	28	80.0	18	85.7
Eased somewhat	5	8.9	3	8.6	2	9.5
Eased considerably	0	0.0	0	0.0	0	0.0
Total	56	100.0	35	100.0	21	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	1	1.8	0	0.0	1	4.5
Remained basically unchanged	52	91.2	33	94.3	19	86.4
Eased somewhat	4	7.0	2	5.7	2	9.1
Eased considerably	0	0.0	0	0.0	0	0.0
Total	57	100.0	35	100.0	22	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 $2.07 trillion for the entire panel of fifty-seven 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 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	2.98	2.97	3.00
Costs of credit lines	3.02	2.91	3.19
Spreads of loan rates over your bank's cost of funds (wider spreads=tightened, narrower spreads=eased)	3.13	2.94	3.43
Loan covenants	3.05	3.09	3.00
Collateralization requirements	3.00	3.00	3.00
Other	3.02	3.00	3.05
Number of banks responding	56	35	21

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	3.06	3.09
Costs of credit lines	3.18	3.21	3.14
Spreads of loan rates over your bank's cost of funds (wider spreads=tightened, narrower spreads=eased)	3.32	3.24	3.45
Loan covenants	3.00	3.00	3.00
Collateralization requirements	2.98	3.00	2.95
Other	2.96	2.97	2.95
Number of banks responding	56	34	22

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	1.21	1.27	1.13
A less favorable economic outlook	1.74	1.82	1.63
A worsening of industry-specific problems	1.68	1.36	2.13
Less aggressive competition from other commercial banks	1.26	1.45	1.00
Less aggressive competition from nonbank lenders (other financial intermediaries or the capital markets)	1.05	1.09	1.00
Reduced tolerance for risk	1.74	1.82	1.63
Other	1.11	1.00	1.25
Number of banks responding	19	11	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	1.08
A more favorable economic outlook	1.08	1.18	1.00
An improvement in industry-specific problems	1.21	1.27	1.15
More aggressive competition from other commercial banks	2.33	2.45	2.23
More aggressive competition from nonbank lenders (other financial intermediaries or the capital markets)	1.88	1.82	1.92
Increased tolerance for risk	1.21	1.18	1.23
Other	1.08	1.18	1.00
Number of banks responding	24	11	13

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	1	1.8	1	2.9	0	0.0
Moderately stronger	6	10.7	3	8.6	3	14.3
About the same	37	66.1	25	71.4	12	57.1
Moderately weaker	12	21.4	6	17.1	6	28.6
Substantially weaker	0	0.0	0	0.0	0	0.0
Total	56	100.0	35	100.0	21	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	6	10.7	3	8.8	3	13.6
About the same	44	78.6	27	79.4	17	77.3
Moderately weaker	6	10.7	4	11.8	2	9.1
Substantially weaker	0	0.0	0	0.0	0	0.0
Total	56	100.0	34	100.0	22	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	1.50	1.50	1.50
Customer investment in plant or equipment increased	1.80	1.67	2.00
Customer internally generated funds decreased	1.30	1.33	1.25
Customer borrowing shifted from other sources to your bank because these other sources became less attractive	1.30	1.17	1.50
Customer merger or acquisition financing increased	1.70	1.67	1.75
Other	1.80	1.67	2.00
Number of banks responding	10	6	4

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	1.53	1.56	1.50
Customer investment in plant or equipment decreased	1.67	1.89	1.33
Customer internally generated funds increased	1.53	1.67	1.33
Customer borrowing shifted from your bank to other sources because these other sources became more attractive	1.67	1.56	1.83
Customer merger or acquisition financing decreased	1.80	1.89	1.67
Other	1.27	1.11	1.50
Number of banks responding	15	9	6

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

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

	All Respondents		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	8.8	3	13.6
Remained basically unchanged	44	78.6	27	79.4	17	77.3
Eased somewhat	6	10.7	4	11.8	2	9.1
Eased considerably	0	0.0	0	0.0	0	0.0
Total	56	100.0	34	100.0	22	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	0	0.0	0	0.0	0	0.0
Moderately stronger	19	33.9	14	41.2	5	22.7
About the same	32	57.1	19	55.9	13	59.1
Moderately weaker	5	8.9	1	2.9	4	18.2
Substantially weaker	0	0.0	0	0.0	0	0.0
Total	56	100.0	34	100.0	22	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	1	2.0	1	3.4	0	0.0
Remained basically unchanged	49	96.1	28	96.6	21	95.5
Eased somewhat	1	2.0	0	0.0	1	4.5
Eased considerably	0	0.0	0	0.0	0	0.0
Total	51	100.0	29	100.0	22	100.0

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

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Substantially stronger	4	7.8	4	13.8	0	0.0
Moderately stronger	18	35.3	10	34.5	8	36.4
About the same	25	49.0	12	41.4	13	59.1
Moderately weaker	4	7.8	3	10.3	1	4.5
Substantially weaker	0	0.0	0	0.0	0	0.0
Total	51	100.0	29	100.0	22	100.0

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

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

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Much more	1	2.0	1	3.4	0	0.0
Somewhat more	5	9.8	2	6.9	3	13.6
About unchanged	44	86.3	26	89.7	18	81.8
Somewhat less	1	2.0	0	0.0	1	4.5
Much less	0	0.0	0	0.0	0	0.0
Total	51	100.0	29	100.0	22	100.0

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

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Tightened considerably	0	0.0	0	0.0	0	0.0
Tightened somewhat	8	20.0	5	20.8	3	18.8
Remained basically unchanged	32	80.0	19	79.2	13	81.3
Eased somewhat	0	0.0	0	0.0	0	0.0
Eased considerably	0	0.0	0	0.0	0	0.0
Total	40	100.0	24	100.0	16	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	0	0.0	0	0.0	0	0.0
Tightened somewhat	5	9.8	3	10.3	2	9.1
Remained basically unchanged	45	88.2	26	89.7	19	86.4
Eased somewhat	1	2.0	0	0.0	1	4.5
Eased considerably	0	0.0	0	0.0	0	0.0
Total	51	100.0	29	100.0	22	100.0

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

	All Respondents	Large Banks	Other Banks
	Mean	Mean	Mean
Credit limits	2.90	2.83	3.00
Spreads of interest rates charged on outstanding balances over your bank's cost of funds (wider spreads=tightened, narrower spreads=eased)	2.90	2.96	2.81
Minimum percentage of outstanding balances required to be repaid each month	2.98	3.00	2.94
Other	3.00	3.00	3.00
Number of banks responding	40	24	16

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	3.04	3.00	3.09
Spreads of loan rates over your bank's cost of funds (wider spreads=tightened, narrower spreads=eased)	3.22	3.21	3.23
Minimum required down payment	3.00	2.97	3.05
Other	2.98	3.00	2.95
Number of banks responding	51	29	22

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	1	2.0	1	3.4	0	0.0
Moderately stronger	9	17.6	5	17.2	4	18.2
About the same	31	60.8	14	48.3	17	77.3
Moderately weaker	10	19.6	9	31.0	1	4.5
Substantially weaker	0	0.0	0	0.0	0	0.0
Total	51	100.0	29	100.0	22	100.0

Questions 18-21 *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 six months, 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	1	1.9	1	3.2	0	0.0
Remained basically unchanged	45	84.9	26	83.9	19	86.4
Eased somewhat	7	13.2	4	12.9	3	13.6
Eased considerably	0	0.0	0	0.0	0	0.0
Total	53	100.0	31	100.0	22	100.0

19. Over the past six months, 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)	3.17	3.20	3.14
Maximum loan-to-value ratio	3.10	3.07	3.14
Maximum maturity	3.04	3.00	3.09
Fees	2.94	2.93	2.95
Other	3.00	3.00	3.00
Number of banks responding	52	30	22

20. How has demand for home equity loans changed over the past six 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	13	24.5	10	32.3	3	13.6
About the same	29	54.7	14	45.2	15	68.2
Moderately weaker	8	15.1	5	16.1	3	13.6
Substantially weaker	3	5.7	2	6.5	1	4.5
Total	53	100.0	31	100.0	22	100.0

21. If demand for home equity loans has strengthened or weakened over the past six months, how important have been the following possible reasons for the change? (Please respond to either A or B 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 20), possible reasons:

	All Respondents	Large Banks	Other Banks
	Mean	Mean	Mean
Households are shifting to your bank from other lenders because those other lenders have become less attractive.	1.38	1.30	1.67
Increased household spending by your bank s customers has boosted credit demand.	1.38	1.40	1.33
Households are consolidating existing non-mortgage loan balances.	2.00	1.90	2.33
Other	1.33	1.44	1.00
Number of banks responding	13	10	3

B. If weaker loan demand (answer 4 or 5 to question 20), possible reasons:

	All Respondents	Large Banks	Other Banks
	Mean	Mean	Mean
Households are shifting from your bank to other lenders because those other lenders have become more attractive.	1.18	1.14	1.25
Decreased household spending by your bank's customers has cut credit demand.	1.09	1.00	1.25
Households are refinancing home mortgages and taking the opportunity to role existing home equity loans into their new mortgages.	2.55	2.86	2.00
Other	1.36	1.00	2.00
Number of banks responding	11	7	4

*Over the past two years, this survey has shown a tightening of credit standards and terms for **consumer loans**. **Questions 22-24** ask about the cumulative impact of these changes.*

22. If your bank has tightened credit standards for approving applications for credit cards from individuals or households, on net, over the past two years, how much of an effect has the tightening had on the volume of credit card loans originated by your bank?

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Virtually none	4	10.5	3	12.5	1	7.1
Minimal decrease	11	28.9	6	25.0	5	35.7
Moderate decrease	8	21.1	5	20.8	3	21.4
Substantial decrease	4	10.5	3	12.5	1	7.1
Your bank's standards have not changed for such loans, on net	11	28.9	7	29.2	4	28.6
Total	38	100.0	24	100.0	14	100.0

23. If your bank has tightened credit standards for approving applications for consumer loans other than credit cards from individuals or households, on net, over the past two years, how much of an effect has the tightening had on the volume of such loans originated by your bank?

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Virtually none	4	8.9	2	8.0	2	10.0
Minimal decrease	10	22.2	5	20.0	5	25.0
Moderate decrease	7	15.6	4	16.0	3	15.0
Substantial decrease	2	4.4	1	4.0	1	5.0
Your bank's standards have not changed for such loans, on net	22	48.9	13	52.0	9	45.0
Total	45	100.0	25	100.0	20	100.0

24. If your bank has tightened terms on new or existing credit card accounts for individuals or households, on net, over the past two years, approximately what fraction of your current credit card accounts have been affected by the tighter terms?

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Less than 5 percent	5	13.9	3	13.0	2	15.4
5 - 10 percent	10	27.8	7	30.4	3	23.1
11 - 25 percent	7	19.4	4	17.4	3	23.1
26 - 50 percent	0	0.0	0	0.0	0	0.0
Greater than 50 percent	12	33.3	8	34.8	4	30.8
Your bank's terms have not changed for such loans, on net	2	5.6	1	4.3	1	7.7
Total	36	100.0	23	100.0	13	100.0

Recently, the financial press has indicated that some U.S. branches or agencies of foreign banks have pulled back from lending in U.S. markets. These stories are consistent with the observed weak loan growth at these institutions over the past few quarters. ***Question 25*** *asks about the impact of the decreased participation of U.S. branches and agencies of foreign banks in U.S. loan markets.*

25. How has the decreased appetite of foreign branches and agencies for loans affected the rates and terms prevailing in the market for loans to large U.S. firms?

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
No appreciable effect	22	40.7	10	29.4	12	60.0
Minimal effect	16	29.6	10	29.4	6	30.0
Moderate effect	13	24.1	12	35.3	1	5.0
Substantial effect	3	5.6	2	5.9	1	5.0
Total	54	100.0	34	100.0	20	100.0

Questions 26-28 *are additional questions on* ***commercial real estate lending****.*

26. Over the past year, how has your bank changed the following terms on commercial real estate loans, including land development loans and loans backed by nonfarm nonresidential real estate? (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 loan size	3.11	3.15	3.05
Maximum loan maturity	3.13	3.12	3.14
Spreads of loan rates over your bank's cost of funds	3.52	3.44	3.64
Loans-to-cost ratio	3.05	3.06	3.05
Requirements for take-out financing	3.02	3.03	3.00
Debt-service coverage ratios	2.95	2.97	2.91
Other	3.05	3.03	3.09
Number of banks responding	56	34	22

27. If your bank tightened or eased its commercial real estate lending terms over the past year (as described in questions 26), how important were 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 loan terms:

	All Respondents	Large Banks	Other Banks
	Mean	Mean	Mean
A less favorable economic outlook	1.71	1.38	2.17
A worsening of the condition of or the outlook for commercial real estate in the markets where your bank operates	1.86	1.88	1.83
Less aggressive competition from other commercial banks	1.29	1.50	1.00
Less aggressive competition from nonbank lenders	1.14	1.25	1.00
Other	1.15	1.25	1.00
Number of banks responding	14	8	6

B. Possible reasons for easing loan terms:

	All Respondents	Large Banks	Other Banks
	Mean	Mean	Mean
A more favorable economic outlook	1.33	1.39	1.23
An improvement in the condition of or the outlook for commercial real estate in the markets where your bank operates	1.54	1.61	1.43
More aggressive competition from other commercial banks	2.51	2.52	2.50
More aggressive competition from nonbank lenders	2.03	1.87	2.29
A more developed market for securities collateralized by these loans has increased the loans' liquidity	1.51	1.57	1.43
Other	1.05	1.00	1.14
Number of banks responding	37	23	14

28. Over the past year, how have your competitors' credit standards for or terms on 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	1	1.8	1	2.9	0	0.0
Remained basically unchanged	8	14.3	5	14.7	3	13.6
Eased somewhat	41	73.2	24	70.6	17	77.3
Eased considerably	6	10.7	4	11.8	2	9.1
Total	56	100.0	34	100.0	22	100.0

Optional: ***Question 29*** *requests feedback on any issues you judge to be important but that are not addressed on this survey.*

29. Are there any recent developments in lending practices not addressed in this survey that you find particularly significant? Your response will help us stay abreast of breaking issues and in choosing questions for future surveys. There is no need to reply if you have nothing you would like to add.

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 August 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	0	0.0
Tightened somewhat	6	26.1
Remained basically unchanged	15	65.2
Eased somewhat	2	8.7
Eased considerably	0	0.0
Total	23	100.0

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

	All Respondents
	Mean
Maximum size of credit lines	2.71
Costs of credit lines	2.54
Spreads of loan rates over your bank's cost of funds (wider spreads=tightened, narrower spreads=eased)	2.54
Loan covenants	3.00
Collateralization requirements	3.00
Other	3.00
Total	24

1. As of March 31, 1998, the twenty-four respondents had combined assets of $237 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 three months (as described in questions 1-2), how important have been the following possible reasons for the change? (Please respond to either A or B or both as appropriate.) (Please rate each possible reason using the following scale: 1=not important, 2=somewhat important, 3=very important.)

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

	All Respondents
	Mean
A deterioration in your parent bank's current or expected capital position	1.67
A less favorable economic outlook	1.58
A worsening of industry-specific problems	1.50
Less aggressive competition from other commercial banks	1.25
Less aggressive competition from nonbank lenders (other financial intermediaries or the capital markets)	1.08
Reduced tolerance for risk	1.42
Other	1.45
Number of banks responding	12

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	1.50
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	2.00
Other	1.50
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	0	0.0
Moderately stronger	4	16.7
About the same	16	66.7
Moderately weaker	4	16.7
Substantially weaker	0	0.0
Total	24	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	1.00
Customer investment in plant or equipment increased	1.25
Customer internally generated funds decreased	1.00
Customer borrowing shifted from other sources to your bank because these other sources became less attractive	1.25
Customer merger or acquisition financing increased	2.50
Other	1.00
Number of banks responding	4

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

	All Respondents
	Mean
Customer inventory financing needs decreased	1.50
Customer investment in plant or equipment decreased	1.75
Customer internally generated funds increased	1.25
Customer borrowing shifted from your bank to other sources because these other sources became more attractive	1.75
Customer merger or acquisition financing decreased	2.50
Other	2.00
Number of banks responding	4

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

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

	All Respondents	
	Banks	Pct
Tightened considerably	0	0.0
Tightened somewhat	2	12.5
Remained basically unchanged	14	87.5
Eased somewhat	0	0.0
Eased considerably	0	0.0
Total	16	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	1	6.7
Moderately stronger	2	13.3
About the same	12	80.0
Moderately weaker	0	0.0
Substantially weaker	0	0.0
Total	15	100.0

Questions 8-10 *are additional questions on* ***commercial real estate lending****.*

8. Over the past year, how has your bank changed the following terms on commercial real estate loans, including land development loans and loans backed by nonfarm nonresidential real estate? (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 loan size	3.15
Maximum loan maturity	2.92
Spreads of loan rates over your bank's cost of funds	2.85
Loan-to-cost ratios	2.92
Requirements for take-out financing	2.77
Debt-service coverage ratios	3.00
Number of banks responding	13

9. If your bank tightened or eased its commercial real estate lending terms over the past year (as described in question 8), how important were 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 loan terms:

	All Respondents
	Mean
A less favorable economic outlook	1.67
A worsening of the condition of or the outlook for commercial real estate in the markets where your bank operates	2.00
Less aggressive competition from other commercial banks	2.00
Less aggressive competition from nonbank lenders	1.67
Other	1.67
Number of banks responding	3

B. Possible reasons for easing loan terms:

	All Respondents
	Mean
A more favorable economic outlook	1.67
An improvement in the condition of or the outlook for commercial real estate in the markets where your bank operates	2.33
More aggressive competition from other commercial banks	2.00
More aggressive competition from nonbank lenders	1.67
A more developed market for securities collateralized by these loans has increased the loans' liquidity	3.00
Other	1.00
Number of banks responding	3

10. Over the past year, how have your competitors' credit standards for or terms on commercial real estate loans changed?

	All Respondents	
	Banks	Pct
Tightened considerably	0	0.0
Tightened somewhat	1	8.3
Remained basically unchanged	2	16.7
Eased somewhat	7	58.3
Eased considerably	2	16.7
Total	12	100.0

Recently, the financial press has indicated that some U.S. branches or agencies of foreign banks have pulled back from lending in U.S. markets. These stories are consistent with the observed weak loan growth at these institutions over the past few quarters. ***Question 11*** *asks about the impact of the decreased participation of U.S. branches and agencies of foreign banks in U.S. loan markets.*

11. How has the decreased appetite of foreign branches and agencies for loans affected the rates and terms prevailing in the market for loans to large U.S. firms?

	All Respondents	
	Banks	Pct
No appreciable effect	3	13.0
Minimal effect	3	13.0
Moderate effect	15	65.2
Substantial effect	2	8.7
Total	23	100.0

Questions 12-15 *ask about the reasons for the weakness in business loans at the branches and agencies of foreign banks over recent quarters.*

12. Has the growth of business loans at your institution slowed since September 30, 1997, relative to the growth rate of the previous year.

	All Respondents	
	Banks	Pct
Yes	14	60.9
No	9	39.1
Total	23	100.0

13. If the growth of business loans at your institution has slowed since September 30,1997, relative to the growth rate of the previous year (answer 1 to question 12), how important have been the following possible reasons for the weakness? (Please rate each possible reason using the following scale: 1=not important, 2=somewhat important, 3=very important.)

	All Respondents
	Mean
Tighter lending standards and terms owing to a desire by your institution to reduce the loans on its books owing to the current or anticipated financial condition of your parent bank	2.15
The current or anticipated financial condition of your parent bank has boosted funding costs, making loans to U.S. firms unprofitable	2.00
Tighter lending standards and terms owing to increased concern by your institution about the credit quality of its customers	1.31
Demand for credit by your institution's customers declined	1.08
Other	1.46
Number of banks responding	13

14. If the weaker loan growth at your institution reflected tighter lending standards and terms owing to increased concern by your institution about the credit quality of its customers (answer 2 or 3 to question 13c), how has your concern about the following sets of customers changed? (Please rate the change in your concern using the following scale: 1=no change, 2=somewhat greater concern, 3=much greater concern.) (If your institution has not generally provided credit to a particular set of customers, please leave that response blank.)

	All Respondents
	Mean
U.S. subsidiaries or affiliates of foreign firms with ties to your parent bank	1.50
Other U.S. subsidiaries or affiliates of firms headquartered in the country in which your parent bank is based	1.75
Other foreign firms	1.75
U.S. firms with operations in emerging economies affected by the economic problems in Asia	1.75
Other U.S. firms	1.25
Number of banks responding	4

15. If lending at your institution declined because demand for credit by your institution's customers declined, (answer 2 or 3 to quetion 13d), how has demand by the following sets of customers changed? (Please rate the change in demand using the following scale: 1=no change, 2=somewhat weaker demand, 3=much weaker demand.) (If your institution has not generally provided credit to a particular set of customers, please leave that response blank.)

	All Respondents
	Mean
U.S. subsidiaries or affiliates of foreign firms with ties to your parent bank	1.00
Other U.S. subsidiaries or affiliates of firms headquartered in the country in which your parent bank is based	1.00
Other foreign firms	1.00
U.S. firms with operations in emerging economies effected by the economic problems in Asia	1.00
Other	1.50
Number of banks responding	2

Optional: ***Question 16*** *requests feedback on any issues you judge to be important but that are not addressed on this survey.*

16. Are there any recent developments in lending practices not addressed in this survey that you find particularly significant? Your response will help us stay abreast of breaking issues and in choosing questions for future surveys. There is no need to reply if you have nothing you would like to add.