Board of Governors of the Federal Reserve System

The October 2001 Senior Loan Officer Opinion Survey on Bank Lending Practices

The October 2001 Senior Loan Officer Opinion Survey on Bank Lending Practices focused on changes in the supply of, and demand for, bank loans to businesses and households over the past three months. The survey included supplementary questions on banks' internal credit risk ratings for business loan customers, loans for the purpose of share buybacks, and liquidity in the secondary market for business loans. Loan officers from fifty-seven large domestic banks and twenty-two U.S. branches and agencies of foreign banks participated in the survey.

The number of foreign and domestic banking institutions that reported tightening standards and terms on commercial and industrial (C&I) loans over the past three months increased notably after having edged down in the previous two surveys. The fraction of domestic institutions that tightened standards for commercial real estate loans in the October survey remained in the elevated range of the past year. For C&I loans, almost twice as many domestic respondents as in the August survey indicated that a less favorable or more uncertain economic outlook was a very important reason for tightening standards and terms, a rise consistent with the weak tenor of recent economic data. Compared with the proportions in the August survey, considerably larger net fractions of domestic banks experienced weaker demand for both C&I and commercial real estate loans over the past three months.

In answer to the special questions in the current survey, most domestic banks and a substantial number of foreign institutions said they had downgraded between 1 percent and 10 percent of the dollar volume of C&I loans on their books over the past three months, in particular singling out loans to firms in the airline and hospitality industries. Much smaller numbers of banks indicated that they had upgraded a portion of their loans. Both domestic and foreign respondents also noted that liquidity in the secondary loan market had deteriorated somewhat in the aftermath of the terrorist attacks.

The net fractions of domestic banks that tightened standards and increased spreads over their cost of funds for all types of consumer loans over the past three months moved up from the levels in the August survey, but they remained within the range of the past several quarters. According to the domestic respondents in the October survey, demand for consumer loans weakened over the period covered by the report, after little net change was reported in the previous two surveys. Standards for residential mortgage loans were largely unchanged over the past three months, and demand for mortgages to purchase homes was reported to be little changed.

Lending to Businesses
(Table 1, questions 1-14; Table 2, questions 1-14)

The October survey showed a rise in the fraction of domestic banks reporting that they had tightened standards on C&I loans over the past three months, a fraction that had moved down in the previous two surveys. The percentage of domestic banks that reported tightening their standards on C&I loans to large and middle-market firms rose to 51 percent in October from 40 percent in August. Results were similar for lending standards on loans to small firms–40 percent of domestic banks reported tighter standards over the past three months, up from 32 percent in August. The net fraction of U.S. branches and agencies of foreign banks that reported tightening standards for C&I customers rose to 64 percent in October from 50 percent in August.

As in the August survey, more than half of domestic banks reported increasing spreads of loan rates over their cost of funds and charging higher premiums on riskier loans to large and middle-market firms. Larger fractions than in August imposed more stringent loan covenants and collateral requirements on these firms. In general, smaller net fractions of domestic respondents tightened terms on loans to small firms. However, the number of banks that tightened non-price-related loan terms for small firms rose considerably when compared with the August survey. Despite the overall tightening of standards and terms over the past three months, a few banks indicated a willingness to address the needs of business customers in areas affected by the atrocities of September 11.

The tightening of terms at U.S. branches and agencies of foreign banks was somewhat more pronounced than at their domestic counterparts. Compared with the previous survey, when 50 percent of foreign respondents increased spreads of loan rates over their cost of funds, 64 percent reported doing so in October. Similarly, the fraction of foreign institutions that raised premiums on riskier loans rose from 60 percent in August to 64 percent in the current survey. The fraction of foreign banks that increased the cost of credit lines and tightened collateral requirements over the past three months also rose relative to the previous survey.

All survey respondents pointed to a less favorable or more uncertain economic outlook as at least a somewhat important reason for changing their commercial lending policies; moreover, that reason was said to be "very important" for 63 percent of domestic banks, up significantly from 37 percent in the August survey. Nearly all of the domestic and foreign respondents that had tightened standards or terms on C&I loans over the previous three months cited a worsening of industry-specific problems, and more than 60 percent mentioned a reduced tolerance for risk as important reasons for changing their lending policies. Concern about credit quality in the corporate bond market was also cited as a reason for tightening credit by 44 percent of domestic banks and 75 percent of foreign branches and agencies.

More than 70 percent of domestic banks, on net, reported weaker demand for C&I loans from large and middle-market firms over the past three months, up considerably from about one-half in the August survey. Loan demand from small firms also weakened, with about one-half of domestic respondents, on net, noting weakness in October, compared with 42 percent in August. On net, almost one-third of foreign branches and agencies saw weaker demand over the past three months, compared with one-fourth in the previous survey. Many banks commented that the terrorist attacks exacerbated an ongoing slowdown in demand for business loans.

All but one domestic bank that reported weaker business loan demand cited a decline in customers' need for credit to finance capital expenditures as at least a somewhat important reason, and almost 40 percent chose the same reason as "very important." Most domestic respondents also noted a decline in demand to finance mergers and acquisitions, inventory accumulation, and accounts receivable. Forty-four percent of the foreign institutions that reported weaker loan demand pointed to the decline in demand for merger-related financing and lower investment spending as very important reasons, with the same fraction noting that these reasons were somewhat important.

In light of the pace of net downgrades of corporate debt by the major credit rating agencies, the October survey included a series of questions about changes in banks' internal credit risk ratings. Almost all domestic and foreign institutions indicated that more than three-fourths of the dollar volume of their C&I loans is internally rated. About one-half of the domestic banks surveyed had downgraded less than 5 percent of their C&I loan portfolio over the past three months. Twenty-eight percent of them had downgraded between 6 percent and 10 percent, and 21 percent had downgraded between 11 percent and 30 percent of their business loans over the same period. Foreign branches and agencies downgraded somewhat larger fractions of the C&I loans on their books. In particular, almost 20 percent of these institutions downgraded more than 20 percent of their business loan portfolios. The reported downgrades in internal risk ratings at both domestic and foreign respondents were offset to some extent by upgrades: More than 55 percent of domestic and foreign banks indicated that they had upgraded at least some loans in their C&I loan portfolios.

Almost 30 percent of domestic respondents and 40 percent of foreign respondents noted that they had downgraded considerably their loans to commercial airlines and other nondefense aerospace firms, with significant additional fractions reporting more moderate downgrades in these sectors. The portion of the banks' portfolios covering loans to travel and other leisure-related service businesses was also hard hit by downgrades, likely reflecting the disruptions caused by the terrorist attacks. Downgrades were pervasive among loans to high-technology firms and to automobile manufacturers and distributors, as well as to firms in consumer cyclical industries. Of the sectors named in the survey, only energy and defense avoided widespread downgrades over the past three months.

In the aftermath of the terrorist attacks, as market liquidity became a concern, the SEC temporarily eased restrictions on share repurchases, and reports from some market participants suggested that buyback activity was elevated in the ensuing weeks. Very few domestic banks, however, reported an increase in demand for loans to finance share buybacks, but a modest fraction of foreign institutions experienced some increase in demand for this type of loan. About 30 percent of both foreign and domestic banks tightened standards for below-investment-grade firms on loans to finance equity repurchases.

A separate question asked banks about changes in the liquidity of the secondary market for C&I loans since September 11. Combined, about one-sixth of domestic and foreign institutions reported that loan-trading volume had decreased considerably, and more than one-half noted that it had decreased somewhat. The diminished volume was accompanied by widening bid-asked spreads, with 21 percent of all institutions reporting that the spreads had widened considerably, and almost one-half of them indicating that the spreads had widened somewhat. Separate comments by several loan officers indicated that the reduction in liquidity was particularly severe for loans rated as below investment grade.

Almost 45 percent of domestic banks tightened standards on commercial real estate loans over the past three months, up a tad from the August survey. About one-fourth of the foreign institutions that engage in commercial real estate lending also tightened standards in the current survey. The demand for commercial real estate loans weakened over the survey period, with more than half of domestic and 23 percent of foreign respondents, on net, reporting lower demand for this type of loan.

Lending to Households
(Table 1, questions 15-22)

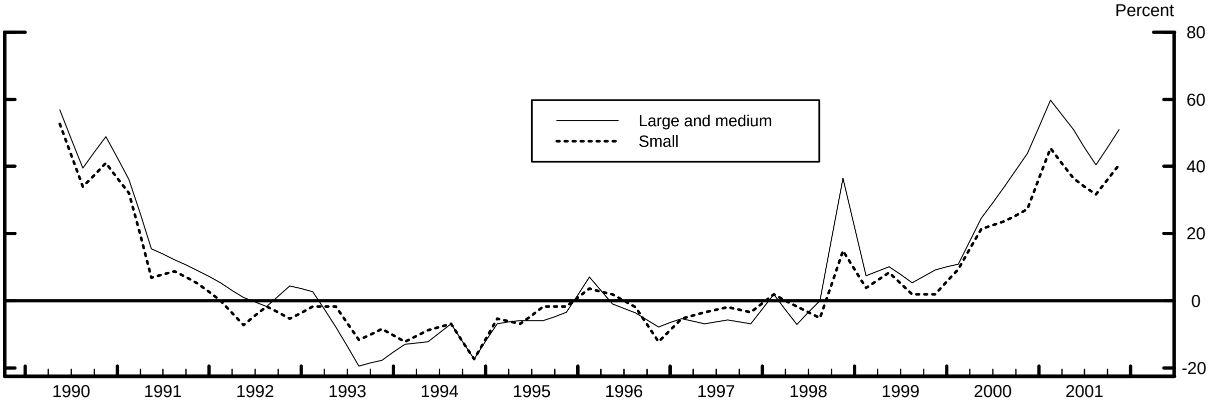
Banks' credit standards for approving residential mortgage loans were largely unchanged over the past three months, with only two banks reporting that they had tightened lending standards somewhat. According to the domestic respondents, demand for residential mortgages remained almost unchanged, on net, over the same period.

One-fifth of banks reported that they had tightened standards on both credit card and other types of consumer loans over the past three months, somewhat higher fractions than reported do so in the August survey. In addition, 14 percent of domestic banks increased the minimum required credit score for credit card applications, and 21 percent of them raised spreads of interest rates charged on outstanding balances relative to their cost of funds. For other types of consumer loans, 14 percent of respondents raised the minimum required credit score, and 24 percent of them increased spreads over their cost of funds. Almost one-fourth of domestic banks, on net, reported moderately weaker demand for consumer loans over the past three months.

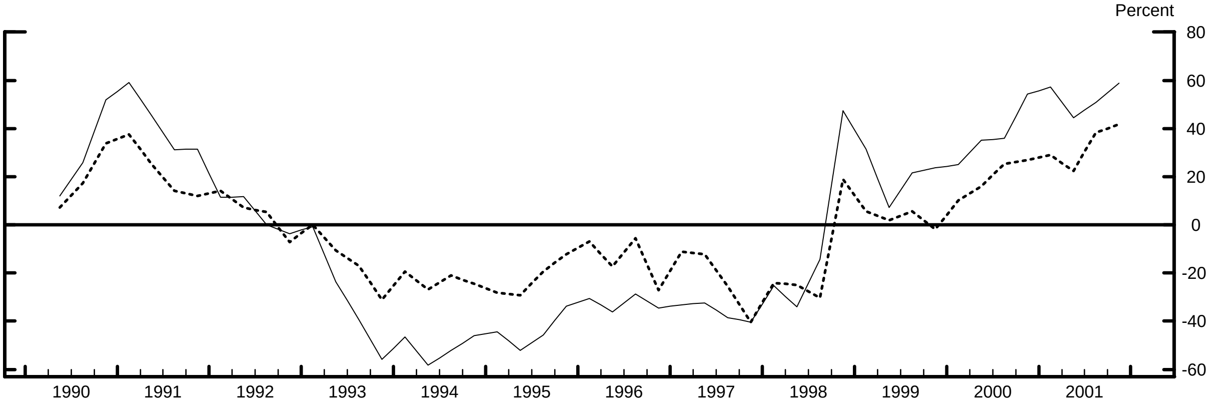
This document was prepared by Bill Bassett and Egon Zakrajšek with the research assistance of Mark Gibson, Division of Monetary Affairs, Board of Governors of the Federal Reserve System.

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

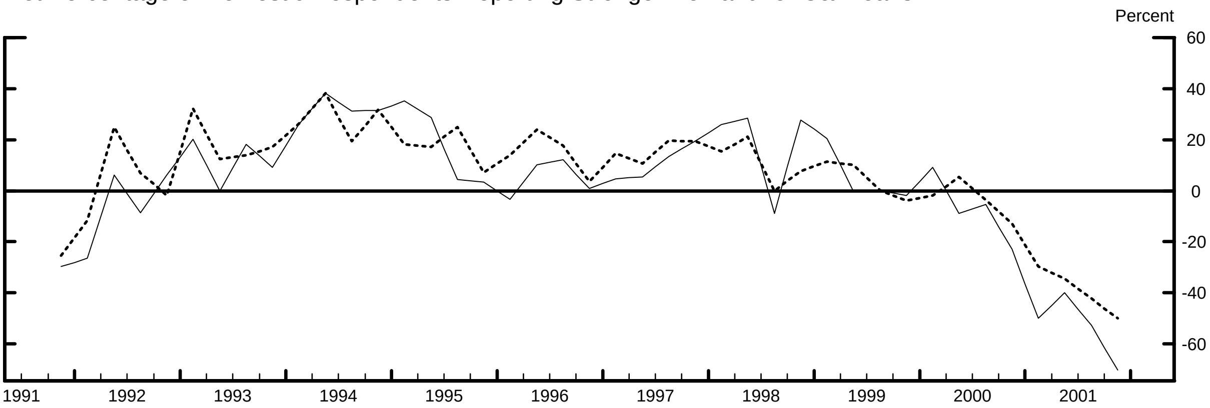
Net Percentage of Domestic Respondents Tightening Standards for C&I Loans



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



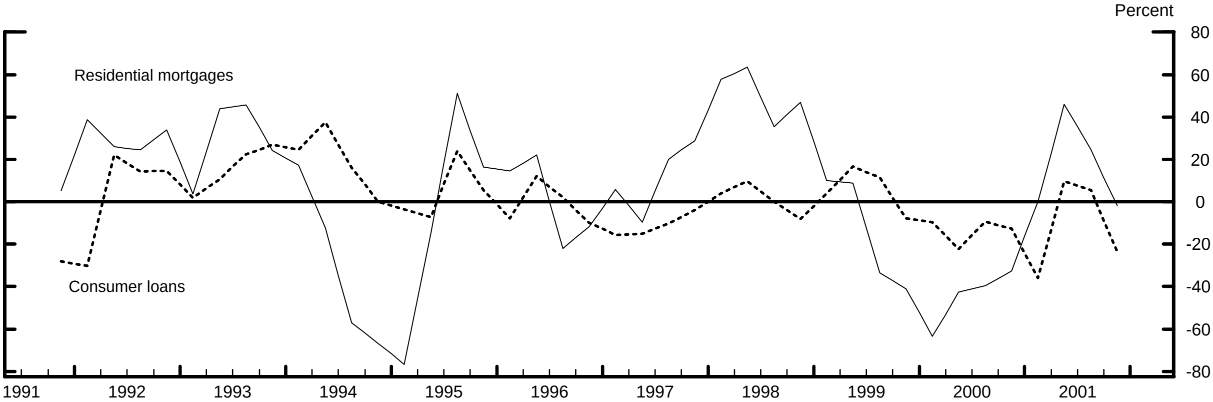
Net Percentage of Domestic Respondents Reporting Stronger Demand for C&I Loans



Measures of Supply and Demand for Loans to Households

Net Percentage of Domestic Respondents Tightening Standards on Consumer Loans

Net Percentage of Domestic Respondents Reporting Stronger Demand for Loans to Households



Net Percentage of Domestic Respondents Tightening Standards for Mortgages to Individuals

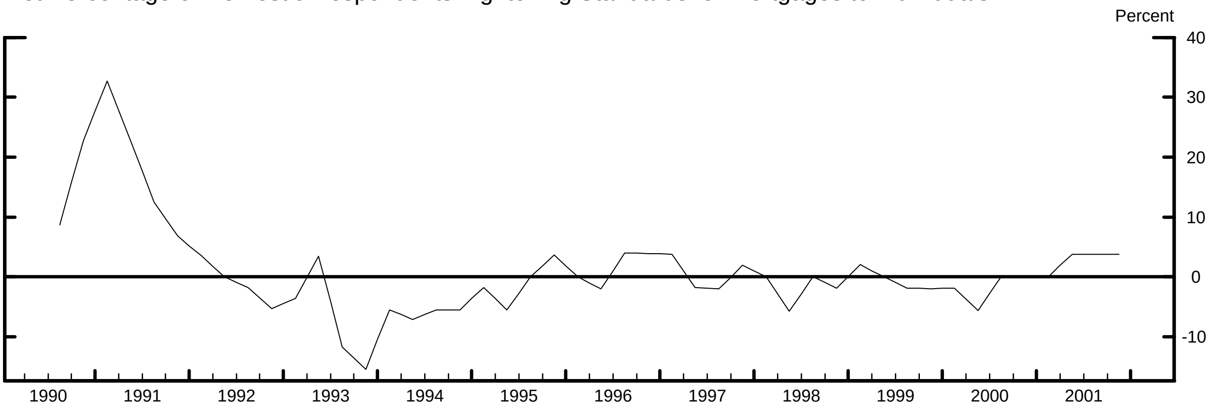


Table 1

SENIOR LOAN OFFICER OPINION SURVEY ON BANK LENDING PRACTICES
AT SELECTED LARGE BANKS IN THE UNITED STATES[1]
(Status of policy as of October 2001)

Questions 1-5 *ask about* ***commercial and industrial (C&I) loans*** *at your bank. Questions 1-3 deal with changes in your bank's lending policies over the past three months. Questions 4-5 deal with changes in demand for C&I loans over the past three months. If your bank's lending policies have not changed over the past three months, please report them as unchanged even if the policies are either restrictive or accommodative relative to longer-term norms. If your bank's policies have tightened or eased over the past three months, please so report them regardless of how they stand relative to longer-term norms. Also, please report changes in enforcement of existing policies as changes in policies.*

1. Over the past three months, how have your bank's credit standards for approving applications for C&I loans or credit lines--other than those to be used to finance mergers and acquisitions--to large and middle-market firms and to small firms changed?

A. Standards for large and middle-market firms (annual sales of $50 million or more):

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Tightened considerably	1	1.8	0	0.0	1	4.0
Tightened somewhat	28	49.1	18	56.3	10	40.0
Remained basically unchanged	28	49.1	14	43.8	14	56.0
Eased somewhat	0	0.0	0	0.0	0	0.0
Eased considerably	0	0.0	0	0.0	0	0.0
Total	57	100.0	32	100.0	25	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	23	40.4	14	43.8	9	36.0
Remained basically unchanged	34	59.6	18	56.3	16	64.0
Eased somewhat	0	0.0	0	0.0	0	0.0
Eased considerably	0	0.0	0	0.0	0	0.0
Total	57	100.0	32	100.0	25	100.0

1. The sample is selected from among the largest banks in each Federal Reserve District. In the table, large banks are defined as those with total domestic assets of $20 billion or more as of June 30, 2001. The combined assets of the 32 large banks totaled $2.68 trillion, compared to $2.94 trillion for the entire panel of 57 banks, and $5.52 trillion for all domestically chartered, federally insured commercial banks.

2. For applications for C&I loans or credit lines--other than those to be used to finance mergers and acquisitions--from large and middle-market firms and from small firms that your bank currently is willing to approve, how have the terms of those loans changed over the past 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.)

A. Terms for large and middle-market firms (annual sales of $50 million or more):

	All Respondents	Large Banks	Other Banks
	Mean	Mean	Mean
Maximum size of credit lines	2.55	2.53	2.58
Costs of credit lines	2.48	2.47	2.50
Spreads of loan rates over your bank's cost of funds (wider spreads=tightened, narrower spreads=eased)	2.39	2.41	2.38
Premiums charged on riskier loans	2.21	2.09	2.38
Loan covenants	2.55	2.50	2.63
Collateralization requirements	2.59	2.59	2.58
Other	2.98	2.97	3.00
Number of banks responding	56	32	24

B. Terms for small firms (annual sales of less than $50 million):

	All Respondents	Large Banks	Other Banks
	Mean	Mean	Mean
Maximum size of credit lines	2.87	2.87	2.88
Costs of credit lines	2.76	2.77	2.75
Spreads of loan rates over your bank's cost of funds (wider spreads=tightened, narrower spreads=eased)	2.58	2.61	2.54
Premiums charged on riskier loans	2.38	2.29	2.50
Loan covenants	2.65	2.58	2.75
Collateralization requirements	2.60	2.58	2.63
Other	2.96	2.94	3.00
Number of banks responding	55	31	24

3. If your bank has tightened or eased its credit standards or its terms for C&I loans or credit lines over the past three months (as described in questions 1 and 2), how important have been the following possible reasons for the change? (Please respond to either A, B, or both as appropriate and rate each possible reason using the following scale: 1=not important, 2=somewhat important, 3=very important.)

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

	All Respondents	Large Banks	Other Banks
	Mean	Mean	Mean
Deterioration in your bank's current or expected capital position	1.09	1.04	1.17
Less favorable or more uncertain economic outlook	2.63	2.64	2.61
Worsening of industry-specific problems	2.28	2.24	2.33
Less aggressive competition from other banks or nonbank lenders (other financial intermediaries or the capital markets)	1.26	1.24	1.28
Reduced tolerance for risk	1.74	1.68	1.83
Decreased liquidity in the secondary market for these loans	1.40	1.64	1.06
Increase in defaults by borrowers in public debt markets	1.49	1.72	1.17
Other	1.05	1.08	1.00
Number of banks responding	43	25	18

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

	All Respondents	Large Banks	Other Banks
	Mean	Mean	Mean
Improvement in your bank's current or expected capital position	2.00	2.00	0.00
More favorable or less uncertain economic outlook	2.00	2.00	0.00
Improvement in industry-specific problems	2.00	2.00	0.00
More aggressive competition from other banks or nonbank lenders (other financial intermediaries or the capital markets)	3.00	3.00	0.00
Increased tolerance for risk	1.00	1.00	0.00
Increased liquidity in the secondary market for these loans	1.00	1.00	0.00
Reduction in defaults by borrowers in public debt markets	1.00	1.00	0.00
Other	1.00	1.00	0.00
Number of banks responding	1	1	0

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

A. Demand for C&I loans from large and middle-market firms (annual sales of $50 million or more):

	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	1	1.8	1	3.1	0	0.0
About the same	15	26.3	7	21.9	8	32.0
Moderately weaker	38	66.7	22	68.8	16	64.0
Substantially weaker	3	5.3	2	6.3	1	4.0
Total	57	100.0	32	100.0	25	100.0

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

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Substantially stronger	0	0.0	0	0.0	0	0.0
Moderately stronger	3	5.4	1	3.1	2	8.3
About the same	22	39.3	16	50.0	6	25.0
Moderately weaker	30	53.6	14	43.8	16	66.7
Substantially weaker	1	1.8	1	3.1	0	0.0
Total	56	100.0	32	100.0	24	100.0

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

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

	All Respondents	Large Banks	Other Banks
	Mean	Mean	Mean
Customer inventory financing needs increased	1.33	1.00	1.50
Customer accounts receivable financing needs increased	1.33	1.00	1.50
Customer investment in plant or equipment increased	1.00	1.00	1.00
Customer internally generated funds decreased	1.33	1.00	1.50
Customer merger or acquisition financing needs increased	1.33	2.00	1.00
Customer borrowing shifted to your bank from other bank or nonbank sources because these other sources became less attractive	1.33	1.00	1.50
Other	1.67	3.00	1.00
Number of banks responding	3	1	2

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

	All Respondents	Large Banks	Other Banks
	Mean	Mean	Mean
Customer inventory financing needs decreased	1.90	1.96	1.83
Customer accounts receivable financing needs decreased	1.79	1.92	1.61
Customer investment in plant or equipment decreased	2.36	2.38	2.33
Customer internally generated funds increased	1.33	1.33	1.33
Customer merger or acquisition financing needs decreased	1.93	2.17	1.61
Customer borrowing shifted from your bank to other bank or nonbank credit sources because these other sources became more attractive	1.12	1.17	1.06
Other	1.19	1.21	1.17
Number of banks responding	42	24	18

In recent months, several credit ratings agencies have revised their ratings for a substantial number of firms. ***Questions 6-9*** *ask about your bank's internal risk ratings for C&I loans and changes in these ratings over the past three months.*

6. Approximately what percentage of the dollar volume of your bank's C&I loans has an internal credit rating?

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Less than 5 percent	0	0.0	0	0.0	0	0.0
Between 5 and 10 percent	2	3.5	0	0.0	2	8.0
Between 11 and 25 percent	0	0.0	0	0.0	0	0.0
Between 26 and 50 percent	0	0.0	0	0.0	0	0.0
Between 51 and 75 percent	1	1.8	0	0.0	1	4.0
More than 75 percent	54	94.7	32	100.0	22	88.0
Total	57	100.0	32	100.0	25	100.0

7. According to your bank's internal credit ratings system, approximately what percentage of the dollar volume of your bank's C&I loans that are assigned an internal rating has been *downgraded* over the past three months?

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Less than 1 percent	6	10.5	2	6.3	4	16.0
Between 1 and 5 percent	23	40.4	14	43.8	9	36.0
Between 6 and 10 percent	16	28.1	8	25.0	8	32.0
Between 11 and 20 percent	8	14.0	5	15.6	3	12.0
Between 21 and 30 percent	4	7.0	3	9.4	1	4.0
More than 30 percent	0	0.0	0	0.0	0	0.0
Total	57	100.0	32	100.0	25	100.0

8. According to your bank's internal credit ratings system, approximately what percentage of the dollar volume of your bank's C&I loans that are assigned an internal rating has been *upgraded* over the past three months?

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Less than 1 percent	25	43.9	13	40.6	12	48.0
Between 1 and 5 percent	29	50.9	18	56.3	11	44.0
Between 6 and 10 percent	3	5.3	1	3.1	2	8.0
Between 11 and 20 percent	0	0.0	0	0.0	0	0.0
Between 21 and 30 percent	0	0.0	0	0.0	0	0.0
More than 30 percent	0	0.0	0	0.0	0	0.0
Total	57	100.0	32	100.0	25	100.0

9. How have your bank's internal ratings for C&I loans to firms in the following industrial categories changed, on average, over the past three months? (Please assign each industrial category a number between 1 and 5 using the following scale: 1=downgraded considerably, 2=downgraded somewhat, 3=remained basically unchanged, 4=upgraded somewhat, 5=upgraded considerably.)

	All Respondents	Large Banks	Other Banks
	Mean	Mean	Mean
Commercial airlines and nondefense aerospace	2.12	1.91	2.40
Automobile manufacturers and distributors	2.44	2.25	2.68
Travel and other leisure-related services (car rental agencies, hotels, restaurants, etc.)	2.21	2.09	2.36
Consumer cyclicals	2.67	2.59	2.76
Defense-related industries	3.02	3.03	3.00
Energy	2.95	3.03	2.84
High-tech	2.56	2.47	2.68
Other	2.93	2.94	2.92
Number of banks responding	57	32	25

In the aftermath of the terrorist attacks on September 11, the Securities and Exchange Commission temporarily eased restrictions on firms' ability to repurchase their stock. ***Question 10*** *asks about your bank's experience with respect to requests for loans to finance equity repurchases since the resumption of trading activity on September 17.* ***Question 11*** *asks how your bank's credit standards for this type of loan have changed since the terrorist attacks.* ***Question 12*** *asks how the liquidity in the secondary market for C&I loans has changed as a result of the terrorist attacks, abstracting from the dislocations that immediately followed.*

10. How has the demand for loans to finance equity repurchases--including draws on existing lines and applications for new credit arrangements--at your bank changed since the resumption of trading activity on September 17?

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Increased considerably	0	0.0	0	0.0	0	0.0
Increased somewhat	3	5.7	3	9.7	0	0.0
Remained basically unchanged	49	92.5	27	87.1	22	100.0
Decreased somewhat	0	0.0	0	0.0	0	0.0
Decreased considerably	1	1.9	1	3.2	0	0.0
Total	53	100.0	31	100.0	22	100.0

11. Since the terrorist attacks on September 11, how has your bank changed its credit standards for approving applications for loans to finance equity repurchases?

A. For *investment-grade* firms such standards have:

	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	6.0	3	10.0	0	0.0
Remained basically unchanged	47	94.0	27	90.0	20	100.0
Eased somewhat	0	0.0	0	0.0	0	0.0
Eased considerably	0	0.0	0	0.0	0	0.0
Total	50	100.0	30	100.0	20	100.0

B. For *below-investment-grade* firms such standards have:

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Tightened considerably	3	6.0	3	10.0	0	0.0
Tightened somewhat	11	22.0	9	30.0	2	10.0
Remained basically unchanged	36	72.0	18	60.0	18	90.0
Eased somewhat	0	0.0	0	0.0	0	0.0
Eased considerably	0	0.0	0	0.0	0	0.0
Total	50	100.0	30	100.0	20	100.0

12. Abstracting from the dislocations that immediately followed the terrorist attacks, how has liquidity in the secondary market for C&I loans changed since September 11?

A. Loan trading volume has:

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Decreased considerably	4	8.9	4	13.8	0	0.0
Decreased somewhat	26	57.8	18	62.1	8	50.0
Remained basically unchanged	14	31.1	7	24.1	7	43.8
Increased somewhat	1	2.2	0	0.0	1	6.3
Increased considerably	0	0.0	0	0.0	0	0.0
Total	45	100.0	29	100.0	16	100.0

B. Bid-asked spreads have:

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Widened considerably	5	11.1	5	17.2	0	0.0
Widened somewhat	24	53.3	18	62.1	6	37.5
Remained basically unchanged	15	33.3	5	17.2	10	62.5
Narrowed somewhat	1	2.2	1	3.4	0	0.0
Narrowed considerably	0	0.0	0	0.0	0	0.0
Total	45	100.0	29	100.0	16	100.0

***Questions 13-14** ask about **commercial real estate loans** at your bank, including construction and land development loans and loans secured by nonfarm nonresidential real estate. Question 13 deals with changes in your bank's standards over the last three months and question 14 deals with changes in demand over the same period. If your bank's lending standards have not changed over the last three months, please report them as unchanged even if they are either restrictive or accommodative relative to longer-term norms. If your bank's standards have tightened or eased over the last 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.*

13. 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	2	3.6	2	6.5	0	0.0
Tightened somewhat	23	41.1	15	48.4	8	32.0
Remained basically unchanged	31	55.4	14	45.2	17	68.0
Eased somewhat	0	0.0	0	0.0	0	0.0
Eased considerably	0	0.0	0	0.0	0	0.0
Total	56	100.0	31	100.0	25	100.0

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

	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	1	1.8	1	3.2	0	0.0
About the same	25	44.6	12	38.7	13	52.0
Moderately weaker	30	53.6	18	58.1	12	48.0
Substantially weaker	0	0.0	0	0.0	0	0.0
Total	56	100.0	31	100.0	25	100.0

Questions 15-16 *ask about* ***residential mortgage loans*** *at your bank. Question 15 deals with changes in your bank's credit standards over the past three months, and question 16 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.*

15. 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	1	3.3	1	4.3
Remained basically unchanged	51	96.2	29	96.7	22	95.7
Eased somewhat	0	0.0	0	0.0	0	0.0
Eased considerably	0	0.0	0	0.0	0	0.0
Total	53	100.0	30	100.0	23	100.0

16. Apart from normal seasonal variation, how has demand for mortgages to purchase homes changed over the past three months? (Please consider only new originations as opposed to the refinancing of existing mortgages.)

	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	11	20.8	6	20.0	5	21.7
About the same	30	56.6	17	56.7	13	56.5
Moderately weaker	11	20.8	7	23.3	4	17.4
Substantially weaker	1	1.9	0	0.0	1	4.3
Total	53	100.0	30	100.0	23	100.0

Questions 17-22 *ask about* ***consumer lending*** *at your bank. Question 17 deals with changes in your bank's willingness to make consumer loans over the past three months. Questions 18-21 deal with changes in credit standards and loan terms over the same period. Question 22 deals with changes in demand for consumer loans over the past three months. If your bank's lending policies have not changed over the past three months, please report them as unchanged even if the policies are either restrictive or accommodative relative to longer-term norms. If your bank's policies have tightened or eased over the past three months, please so report them regardless of how they stand relative to longer-term norms. Also, please report changes in enforcement of existing policies as changes in policies.*

17. 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 willing	0	0.0	0	0.0	0	0.0
Somewhat more willing	1	1.8	0	0.0	1	4.0
About unchanged	50	89.3	27	87.1	23	92.0
Somewhat less willing	5	8.9	4	12.9	1	4.0
Much less willing	0	0.0	0	0.0	0	0.0
Total	56	100.0	31	100.0	25	100.0

18. 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	7	20.0	6	30.0	1	6.7
Remained basically unchanged	28	80.0	14	70.0	14	93.3
Eased somewhat	0	0.0	0	0.0	0	0.0
Eased considerably	0	0.0	0	0.0	0	0.0
Total	35	100.0	20	100.0	15	100.0

19. 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	11	20.0	8	26.7	3	12.0
Remained basically unchanged	44	80.0	22	73.3	22	88.0
Eased somewhat	0	0.0	0	0.0	0	0.0
Eased considerably	0	0.0	0	0.0	0	0.0
Total	55	100.0	30	100.0	25	100.0

20. 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	2.88	2.92
Spreads of interest rates charged on outstanding balances over your bank's cost of funds (wider spreads=tightened, narrower spreads=eased)	2.83	2.71	3.00
Minimum percent of outstanding balances required to be repaid each month	2.97	2.94	3.00
Minimum required credit score (increased score=tightened, reduced score=eased)	2.86	2.82	2.92
Other	3.00	3.00	3.00
Number of banks responding	29	17	12

21. Over the past three months, how has your bank changed the following terms on consumer loans other than credit card loans? (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 maturity	3.00	3.00	3.00
Spreads of loan rates over your bank's cost of funds (wider spreads=tightened, narrower spreads=eased)	2.81	2.77	2.87
Minimum required down payment	2.98	2.97	3.00
Minimum required credit score (increased score=tightened, reduced score=eased)	2.85	2.83	2.87
Other	3.00	3.00	3.00
Number of banks responding	53	30	23

22. Apart from normal seasonal variation, how has demand for consumer loans of all types changed over the past three months?

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Substantially stronger	1	1.8	0	0.0	1	4.2
Moderately stronger	7	12.7	3	9.7	4	16.7
About the same	26	47.3	20	64.5	6	25.0
Moderately weaker	19	34.5	7	22.6	12	50.0
Substantially weaker	2	3.6	1	3.2	1	4.2
Total	55	100.0	31	100.0	24	100.0

Table 2

SENIOR LOAN OFFICER OPINION SURVEY ON BANK LENDING PRACTICES
AT SELECTED BRANCHES AND AGENCIES OF FOREIGN BANKS IN THE UNITED STATES[1]
(Status of policy as of October 2001)

Questions 1-5 *ask about* ***commercial and industrial (C&I) loans*** *at your bank. Questions 1-3 deal with changes in your bank's lending policies over the past three months. Questions 4-5 deal with changes in demand for C&I loans over the past three months. If your bank's lending policies have not changed over the past three months, please report them as unchanged even if the policies are either restrictive or accommodative relative to longer-term norms. If your bank's policies have tightened or eased over the past three months, please so report them regardless of how they stand relative to longer-term norms. Also, please report changes in enforcement of existing policies as changes in policies.*

1. Over the past three months, how have your bank's credit standards for approving applications for C&I loans or credit lines--other than those to be used to finance mergers and acquisitions--changed?

	All Respondents	
	Banks	Pct
Tightened considerably	1	4.5
Tightened somewhat	14	63.6
Remained basically unchanged	6	27.3
Eased somewhat	1	4.5
Eased considerably	0	0.0
Total	22	100.0

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

	All Respondents
	Mean
Maximum size of credit lines	2.50
Costs of credit lines	2.41
Spreads of loan rates over your bank's cost of funds (wider spreads=tightened, narrower spreads=eased)	2.36
Premiums charged on riskier loans	2.23
Loan covenants	2.55
Collateralization requirements	2.55
Other	3.00
Total	22

1. As of June 30, 2001, the 22 respondents had combined assets of $282 billion, compared to $870 billion for all foreign-related banking institutions in the United States. The sample is selected from among the largest foreign-related banking institutions in those Federal Reserve Districts where such institutions are common.

3. If your bank has tightened or eased its credit standards or its terms for C&I loans or credit lines over the past three months (as described in questions 1 and 2), how important have been the following possible reasons for the change? (Please respond to either A, B, or both as appropriate and rate each possible reason using the following scale: 1=not important, 2=somewhat important, 3=very important.)

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

	All Respondents
	Mean
Deterioration in your bank's current or expected capital position	1.20
Less favorable or more uncertain economic outlook	2.65
Worsening of industry-specific problems	2.45
Less aggressive competition from other banks or nonbank lenders (other financial intermediaries or the capital markets)	1.10
Reduced tolerance for risk	1.80
Decreased liquidity in the secondary market for these loans	1.55
Increase in defaults by borrowers in public debt markets	2.05
Other	1.00
Number of banks responding	20

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

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

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

	All Respondents	
	Banks	Pct
Substantially stronger	0	0.0
Moderately stronger	2	9.1
About the same	11	50.0
Moderately weaker	8	36.4
Substantially weaker	1	4.5
Total	22	100.0

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

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

	All Respondents
	Mean
Customer inventory financing needs increased	2.00
Customer accounts receivable financing needs increased	2.00
Customer investment in plant or equipment increased	1.00
Customer internally generated funds decreased	3.00
Customer merger or acquisition financing needs increased	1.00
Customer borrowing shifted to your bank from other bank or nonbank sources because these other sources became less attractive	1.00
Other	3.00
Number of banks responding	1

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

	All Respondents
	Mean
Customer inventory financing needs decreased	1.78
Customer accounts receivable financing needs decreased	1.67
Customer investment in plant or equipment decreased	2.33
Customer internally generated funds increased	1.56
Customer merger or acquisition financing needs decreased	2.33
Customer borrowing shifted from your bank to other bank or nonbank credit sources because these other sources became more attractive	1.11
Other	1.22
Number of banks responding	9

In recent months, several credit ratings agencies have revised their ratings for a substantial number of firms. ***Questions 6-9*** *ask about your bank's internal risk ratings for C&I loans and changes in these ratings over the past three months.*

6. Approximately what percentage of the dollar volume of your bank's C&I loans has an internal credit rating?

	All Respondents	
	Banks	Pct
Less than 5 percent	0	0.0
Between 5 and 10 percent	0	0.0
Between 11 and 25 percent	0	0.0
Between 26 and 50 percent	0	0.0
Between 51 and 75 percent	0	0.0
More than 75 percent	22	100.0
Total	22	100.0

7. According to your bank's internal credit ratings system, approximately what percentage of the dollar volume of your bank's C&I loans that are assigned an internal rating has been *downgraded* over the past three months?

	All Respondents	
	Banks	Pct
Less than 1 percent	0	0.0
Between 1 and 5 percent	8	38.1
Between 6 and 10 percent	5	23.8
Between 11 and 20 percent	4	19.0
Between 21 and 30 percent	1	4.8
More than 30 percent	3	14.3
Total	21	100.0

8. According to your bank's internal credit ratings system, approximately what percentage of the dollar volume of your bank's C&I loans that are assigned an internal rating has been *upgraded* over the past three months?

	All Respondents	
	Banks	Pct
Less than 1 percent	9	40.9
Between 1 and 5 percent	9	40.9
Between 6 and 10 percent	3	13.6
Between 11 and 20 percent	1	4.5
Between 21 and 30 percent	0	0.0
More than 30 percent	0	0.0
Total	22	100.0

9. How have your bank's internal ratings for C&I loans to firms in the following industrial categories changed, on average, over the past three months? (Please assign each industrial category a number between 1 and 5 using the following scale: 1=downgraded considerably, 2=downgraded somewhat, 3=remained basically unchanged, 4=upgraded somewhat, 5=upgraded considerably.)

	All Respondents
	Mean
Commercial airlines and nondefense aerospace	1.86
Automobile manufacturers and distributors	2.19
Travel and other leisure-related services (car rental agencies, hotels, restaurants, etc.)	2.05
Consumer cyclicals	2.48
Defense-related industries	3.14
Energy	2.90
High-tech	2.29
Other	2.81
Number of banks responding	21

In the aftermath of the terrorist attacks on September 11, the Securities and Exchange Commission temporarily eased restrictions on firms' ability to repurchase their stock. ***Question 10*** *asks about your bank's experience with respect to requests for loans to finance equity repurchases since the resumption of trading activity on September 17.* ***Question 11*** *asks how your bank's credit standards for this type of loan have changed since the terrorist attacks.* ***Question 12*** *asks how the liquidity in the secondary market for C&I loans has changed as a result of the terrorist attacks, abstracting from the dislocations that immediately followed.*

10. How has the demand for loans to finance equity repurchases--including draws on existing lines and applications for new credit arrangements--at your bank changed since the resumption of trading activity on September 17?

	All Respondents	
	Banks	Pct
Increased considerably	1	4.5
Increased somewhat	2	9.1
Remained basically unchanged	19	86.4
Decreased somewhat	0	0.0
Decreased considerably	0	0.0
Total	22	100.0

11. Since the terrorist attacks on September 11, how has your bank changed its credit standards for approving applications for loans to finance equity repurchases?

A. For *investment-grade* firms such standards have:

	All Respondents	
	Banks	Pct
Tightened considerably	0	0.0
Tightened somewhat	3	13.6
Remained basically unchanged	19	86.4
Eased somewhat	0	0.0
Eased considerably	0	0.0
Total	22	100.0

B. For *below-investment-grade* firms such standards have:

	All Respondents	
	Banks	Pct
Tightened considerably	2	10.5
Tightened somewhat	4	21.1
Remained basically unchanged	13	68.4
Eased somewhat	0	0.0
Eased considerably	0	0.0
Total	19	100.0

12. Abstracting from the dislocations that immediately followed the terrorist attacks, how has liquidity in the secondary market for C&I loans changed since September 11?

A. Loan trading volume has:

	All Respondents	
	Banks	Pct
Decreased considerably	7	35.0
Decreased somewhat	7	35.0
Remained basically unchanged	6	30.0
Increased somewhat	0	0.0
Increased considerably	0	0.0
Total	20	100.0

B. Bid-asked spreads have:

	All Respondents	
	Banks	Pct
Widened considerably	8	42.1
Widened somewhat	7	36.8
Remained basically unchanged	4	21.1
Narrowed somewhat	0	0.0
Narrowed considerably	0	0.0
Total	19	100.0

Questions 13-14 *ask about* ***commercial real estate loans*** *at your bank, including construction and land development loans and loans secured by nonfarm nonresidential real estate. Question 13 deals with changes in your bank's standards over the last three months and question 14 deals with changes in demand over the same period. If your bank's lending standards have not changed over the last three months, please report them as unchanged even if they are either restrictive or accommodative relative to longer-term norms. If your bank's standards have tightened or eased over the last 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.*

13. 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	3	23.1
Remained basically unchanged	10	76.9
Eased somewhat	0	0.0
Eased considerably	0	0.0
Total	13	100.0

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

	All Respondents	
	Banks	Pct
Substantially stronger	0	0.0
Moderately stronger	0	0.0
About the same	10	76.9
Moderately weaker	3	23.1
Substantially weaker	0	0.0
Total	13	100.0