Board of Governors of the Federal Reserve System

The January 2004 Senior Loan Officer Opinion Survey on Bank Lending Practices

The January 2004 Senior Loan Officer Opinion Survey on Bank Lending Practices addressed changes in the supply of, and demand for, bank loans to businesses and households over the past three months. In addition, the survey contained a series of questions on commercial real estate lending; banks were asked about longer-term changes in terms on commercial real estate loans, the types of properties used to secure these loans, and commercial real estate loan securitizations. Responses were received from fifty-six domestic and twenty-one foreign banking institutions.

Moderate net fractions of both domestic banks and U.S. branches and agencies of foreign banks indicated that they had eased lending standards and several lending terms on C&I loans over the past three months. A few domestic banks also eased lending standards on commercial real estate loans over the same period. After reporting declining demand for C&I loans for the past three years, domestic banks, on net, indicated in the January survey that loan demand from firms of all sizes had strengthened. By contrast, foreign institutions continued to report weaker C&I loan demand on net. Both domestic and foreign institutions reported stronger demand for commercial real estate loans, on net, over the past three months.

Small net fractions of domestic banks indicated that they had tightened some terms on credit card loans, but standards and terms on other household loans were reportedly unchanged. A sizable net percentage of banks experienced weaker demand for loans to purchase homes over the past three months, and a number of institutions indicated that demand for all types of consumer loans had declined over the same period.

Lending to Businesses
(Table 1, questions 1-15; Table 2, questions 1-15)

In the January survey, 18 percent of domestic banks, on net, reported that they had eased their lending standards on C&I loans for large and middle-market firms over the past three months, the largest reported net easing since the latter half of 1993. In addition, 11 percent of domestic banks, on net, indicated that they had eased standards on loans for small firms. Similarly, a moderate fraction of U.S. branches and agencies of foreign banks reported an easing of lending standards on C&I loans over the past three months.

In addition to easing their credit standards on C&I loans, commercial banks reported easing a number of terms on such loans over the past three months. On net, about

25 percent of domestic banks indicated that they had narrowed the spreads of loan rates over their cost of funds for large and middle-market borrowers, up from 14 percent in the October survey. Domestic banks also continued to trim spreads on business loans for small borrowers. About 15 percent of foreign institutions, on net, noted that they had narrowed spreads on C&I loans, compared with no change in the previous survey. For the first time since the fourth quarter of 1998, when the survey began collecting information on risk premiums, domestic banks, on net, reported no net tightening of premiums charged on riskier loans to large and middle-market firms. Domestic and foreign institutions, on net, continued to report an easing of terms on credit lines, including increasing their maximum sizes and lowering their costs.

According to survey respondents, more-aggressive competition from other banks and nonbanks, as well as an improvement in the economic outlook, were the most important reasons behind their decisions to ease credit standards and terms on C&I loans over the past three months. About 80 percent of the domestic banks, and more than 70 percent of the foreign institutions that reported an easing of standards or terms cited more-aggressive competition as a reason for doing so, and 36 percent of domestic respondents indicated that this was a very important reason. About 75 percent of the domestic institutions that eased their lending policies pointed to a more favorable economic outlook. Among these domestic institutions that reported a tightening of standards and terms on C&I loans, a reduced tolerance for risk was the most frequently cited reason for having done so.

C&I loan demand. For the first time since early 2000, domestic survey respondents noted that the demand for C&I loans had strengthened. Over 20 percent of domestic banks, on net, reported increased demand for C&I loans from small firms, and 11 percent, on net, reported stronger demand from large and middle-market firms. In the October survey, 4 percent of domestic banks, on net, indicated weaker loan demand from small firms, and 12 percent, on net, reported weaker demand from large and middle-market borrowers. The apparent turnaround in reported loan demand over the past three months was also reflected in a rising proportion of domestic respondents that experienced an increase in the number of inquiries from potential business borrowers: 36 percent of domestic institutions, on net, reported an increase in the number of inquiries in the January survey, up from 18 percent in October and 10 percent in the August survey. However, foreign institutions continued to report a deterioration in C&I loan demand.

According to domestic respondents, the most important reasons for the strengthening of loan demand over the past three months were increased customer investment in plant and equipment and increased customer needs to finance accounts receivable and inventories. Of the domestic banks that experienced a decline in demand, about two-thirds indicated that it was due in part to an increase in their customers' internally generated funds, and two-thirds also attributed the decline in part to a shift in their customers' borrowing to another bank or a nonbank credit source. Branches and agencies of foreign banks cited the same reasons as domestic banks for decreased C&I loan demand.

Commercial real estate lending. A few domestic banks, on net, reported easing their lending standards on commercial real estate loans in the January survey, whereas in October, lending standards on these loans were about unchanged on net. Demand for commercial real estate loans was reported to have strengthened for the first time since 2000. More than 15 percent of domestic banks, on net, reported that the demand had increased over the past three months, a turnaround from the October survey, when about 10 percent of domestic respondents, on net, reported weaker demand. More than 20 percent of foreign institutions, on net, also experienced stronger demand for commercial real estate loans over the past three months, compared with no net change in demand reported in October.

This survey included special questions about changes in terms on commercial real estate loans over the past year. About 20 percent of domestic banks, on net, reported that they had increased the maximum size of the commercial real estate loans that they are willing to extend, and 13 percent, on net, indicated that they are willing to provide longer maturities on these loans. Most other lending terms on commercial real estate loans were little changed, on net, in 2003. Among domestic institutions, the most frequently cited reasons for easing were more-aggressive competition from other commercial banks or nonbank lenders and an improvement in the condition of, or outlook for, the commercial real estate market.

In responses to a special question about the various types of real estate used to secure nonfarm, nonresidential commercial real estate loans, domestic banks indicated that office buildings were used as collateral for about 30 percent of these loans, retail developments for 24 percent, and industrial properties for 15 percent. More than 40 percent of nonfarm, nonresidential commercial real estate loans held by foreign institutions were secured by office properties and 20 percent by retail properties. Hotel and resort properties also figured prominently in the commercial real estate portfolios of U.S. branches and agencies of foreign banks.

The survey also asked several questions about the securitization of commercial real estate loans. More than three-fourths of domestic and about half of foreign respondents indicated that less than 5 percent of all commercial real estate loans that their bank originated over the past year had been securitized. However, two domestic banks and four foreign institutions reported that they had securitized more than one-half of the year's originations. Both foreign and domestic institutions noted that the credit quality of commercial real estate loans that they had securitized was comparable to the credit quality of loans that they had originated and held on their books. The vast majority of banks also indicated that they generally do not retain servicing rights or provide credit enhancements such as recourse on the commercial real estate loans they securitize.

Since mid-2002, delinquency rates on commercial real estate loans held by banks and life insurance companies have been stable or falling, while those on loans backing commercial-mortgage-backed securities (CMBS) have been rising. About 90 percent of domestic and about 70 percent of foreign respondents attributed the divergence in the delinquency rates to the tranching structures of CMBS facilities, which facilitate the inclusion of higher-risk mortgages in the CMBS pools. The second most frequently cited reason was that securitized mortgages are less likely to be refinanced than those held on banks' balance sheets. In the May 2003 survey, respondents had indicated that the most important reason for the low delinquency rates on the commercial real estate loans they held was the ability of borrowers to refinance as interest rates declined.

Lending to Households
(Table 1, questions 16-23)

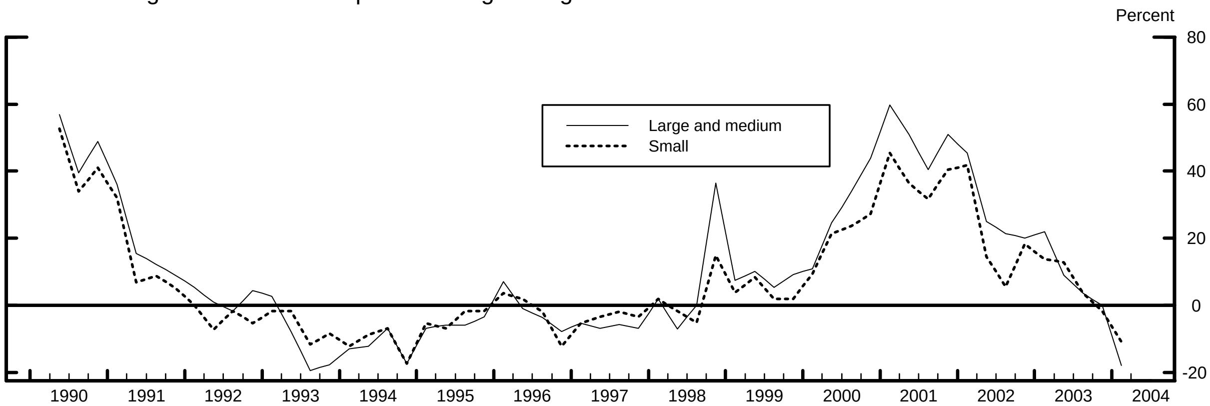
Credit demand from households reportedly weakened over the past three months. On net, almost 40 percent of domestic banks indicated that the demand for residential mortgage loans to purchase homes had deteriorated, a significantly greater proportion than in the October survey. However, respondents may find it difficult to separate mortgage originations used to buy homes from those used to refinance existing mortgages, and the pace of refinancing has slowed considerably since the middle of last year. About 15 percent of banks, on net, reported weaker demand for consumer loans of all types over the past three months, the largest net percentage reporting such weakening since the fourth quarter of 2001.

As for supply, respondents indicated no net change in lending standards on residential mortgages. Lending policies for credit card and other consumer loans were also largely unchanged, although a moderate fraction of banks reported that they had decreased the extent to which credit card accounts are granted to customers who do not meet credit-scoring thresholds.

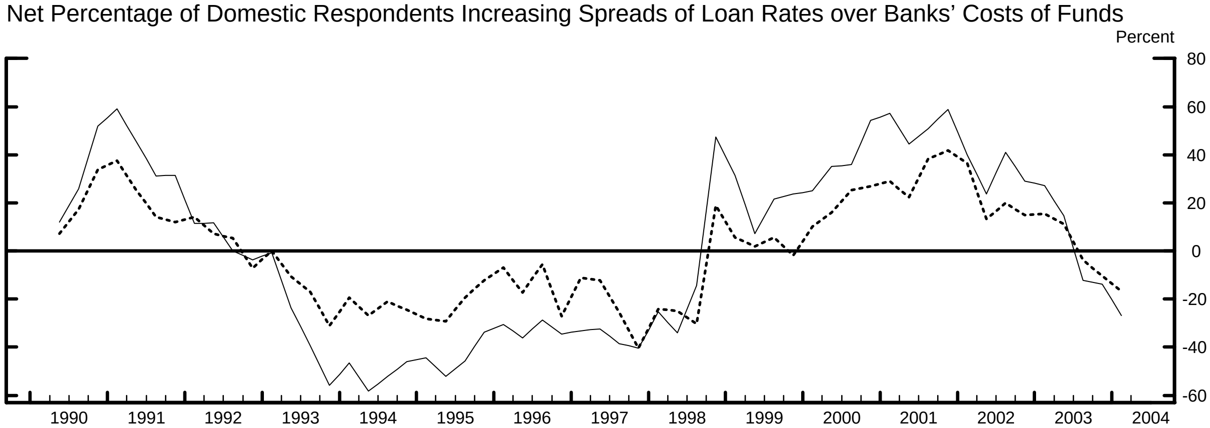
This document was prepared by Mark Carlson and Egon Zakrajšek with the research assistance of Jason Grimm, Division of Monetary Affairs, Board of Governors of the Federal Reserve System.

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

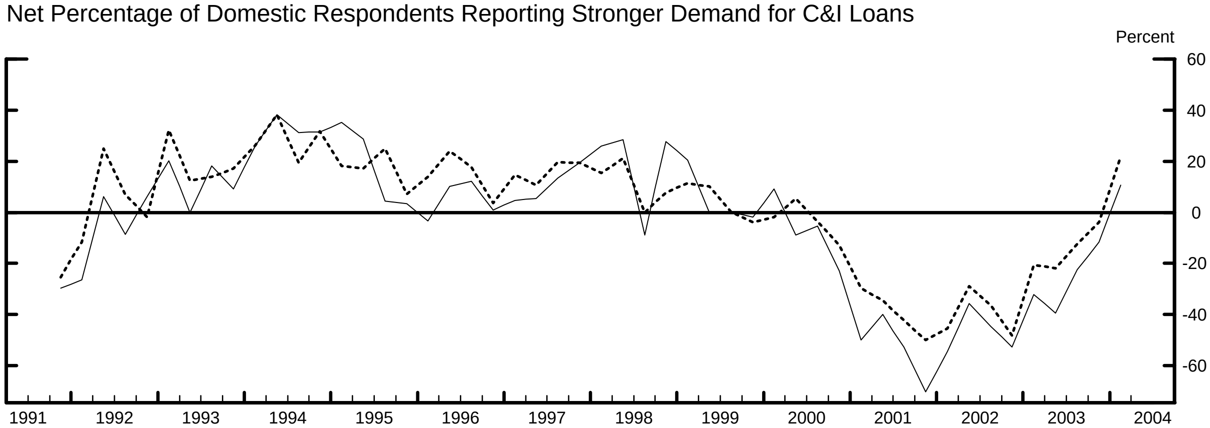
Net Percentage of Domestic Respondents Tightening Standards for C&I Loans



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

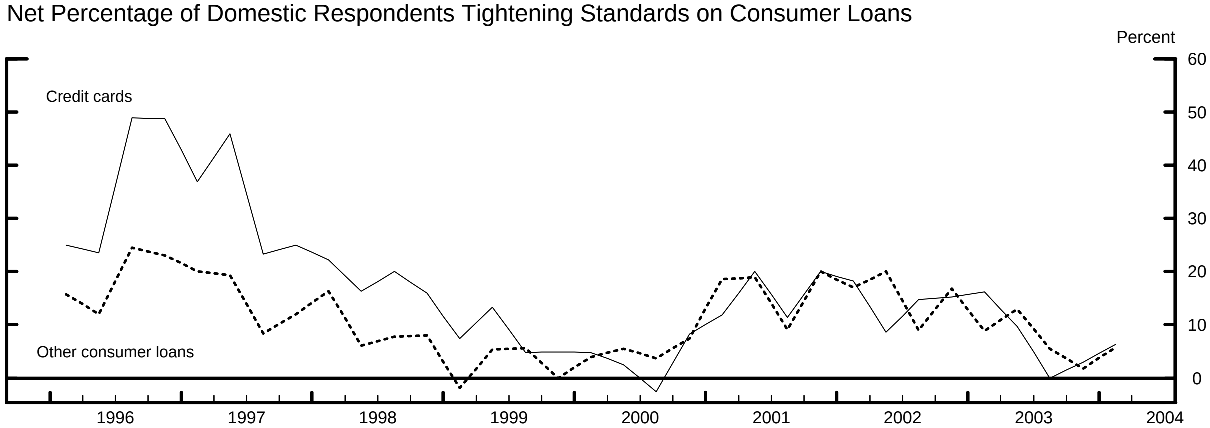


Net Percentage of Domestic Respondents Reporting Stronger Demand for C&I Loans

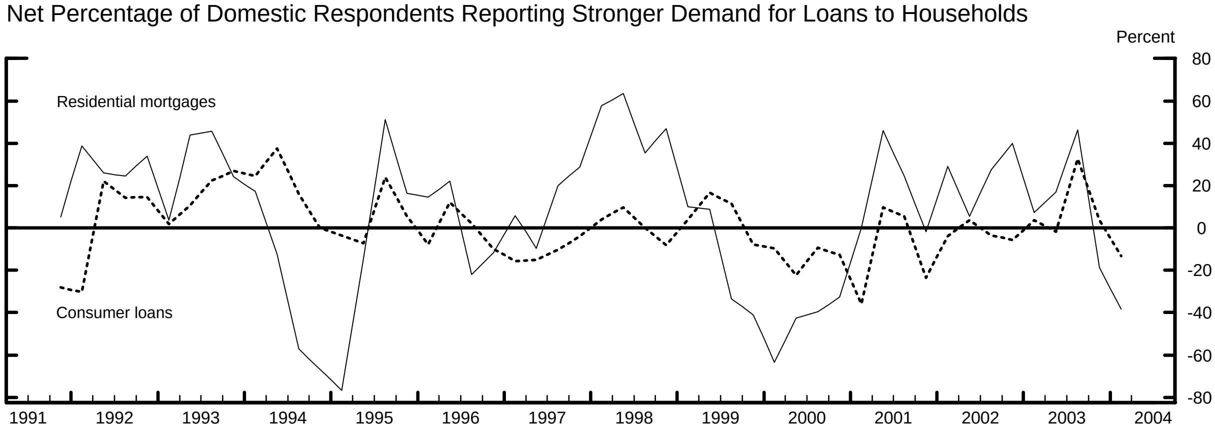


Measures of Supply and Demand for Loans to Households

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

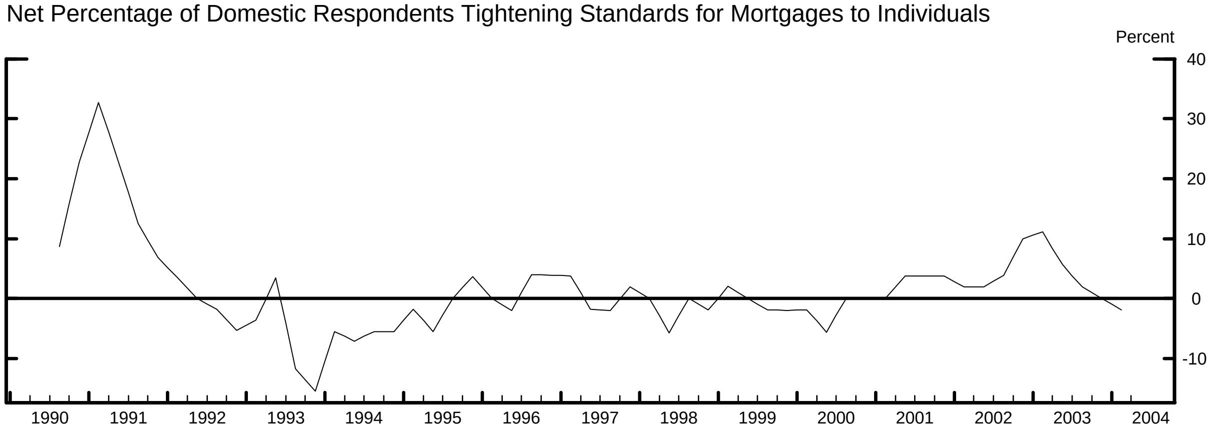


Table 1

SENIOR LOAN OFFICER OPINION SURVEY ON BANK LENDING PRACTICES
AT SELECTED LARGE BANKS IN THE UNITED STATES[1]
(Status of policy as of January 2004)

***Questions 1-6** 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	0	0.0	0	0.0	0	0.0
Tightened somewhat	0	0.0	0	0.0	0	0.0
Remained basically unchanged	46	82.1	24	75.0	22	91.7
Eased somewhat	10	17.9	8	25.0	2	8.3
Eased considerably	0	0.0	0	0.0	0	0.0
Total	56	100.0	32	100.0	24	100.0

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

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Tightened considerably	0	0.0	0	0.0	0	0.0
Tightened somewhat	1	1.8	1	3.1	0	0.0
Remained basically unchanged	47	85.5	26	81.3	21	91.3
Eased somewhat	7	12.7	5	15.6	2	8.7
Eased considerably	0	0.0	0	0.0	0	0.0
Total	55	100.0	32	100.0	23	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 September 30, 2003. The combined assets of the 32 large banks totaled $3.16 trillion, compared to $3.42 trillion for the entire panel of 56 banks, and $6.58 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	3.13	3.16	3.08
Costs of credit lines	3.18	3.28	3.04
Spreads of loan rates over your bank's cost of funds (wider spreads=tightened, narrower spreads=eased)	3.29	3.38	3.17
Premiums charged on riskier loans	3.00	3.13	2.83
Loan covenants	3.13	3.22	3.00
Collateralization requirements	2.96	2.97	2.96
Other	3.05	3.06	3.04
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	3.07	3.06	3.09
Costs of credit lines	3.07	3.10	3.04
Spreads of loan rates over your bank's cost of funds (wider spreads=tightened, narrower spreads=eased)	3.19	3.23	3.13
Premiums charged on riskier loans	2.96	3.06	2.83
Loan covenants	2.98	3.03	2.91
Collateralization requirements	2.98	3.00	2.96
Other	3.02	3.03	3.00
Number of banks responding	54	31	23

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	1.00	1.00	1.00
Less favorable or more uncertain economic outlook	1.46	1.17	1.71
Worsening of industry-specific problems	1.46	1.17	1.71
Less aggressive competition from other banks or nonbank lenders (other financial intermediaries or the capital markets)	1.08	1.00	1.14
Reduced tolerance for risk	1.77	1.50	2.00
Decreased liquidity in the secondary market for these loans	1.00	1.00	1.00
Increase in defaults by borrowers in public debt markets	1.08	1.17	1.00
Other	1.23	1.50	1.00
Number of banks responding	13	6	7

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	1.08	1.13	1.00
More favorable or less uncertain economic outlook	1.92	2.00	1.78
Improvement in industry-specific problems	1.32	1.38	1.22
More aggressive competition from other banks or nonbank lenders (other financial intermediaries or the capital markets)	2.16	2.25	2.00
Increased tolerance for risk	1.44	1.56	1.22
Increased liquidity in the secondary market for these loans	1.32	1.50	1.00
Reduction in defaults by borrowers in public debt markets	1.32	1.44	1.11
Other	1.08	1.00	1.22
Number of banks responding	25	16	9

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	13	23.2	6	18.8	7	29.2
About the same	36	64.3	23	71.9	13	54.2
Moderately weaker	7	12.5	3	9.4	4	16.7
Substantially weaker	0	0.0	0	0.0	0	0.0
Total	56	100.0	32	100.0	24	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	15	27.3	8	25.0	7	30.4
About the same	37	67.3	23	71.9	14	60.9
Moderately weaker	3	5.5	1	3.1	2	8.7
Substantially weaker	0	0.0	0	0.0	0	0.0
Total	55	100.0	32	100.0	23	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	1.65	1.60	1.71
Customer accounts receivable financing needs increased	1.82	1.80	1.86
Customer investment in plant or equipment increased	2.00	2.00	2.00
Customer internally generated funds decreased	1.29	1.20	1.43
Customer merger or acquisition financing needs increased	1.47	1.70	1.14
Customer borrowing shifted to your bank from other bank or nonbank credit sources because these other sources became less attractive	1.47	1.50	1.43
Other	1.00	1.00	1.00
Number of banks responding	17	10	7

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	1.33	1.40	1.25
Customer accounts receivable financing needs decreased	1.33	1.40	1.25
Customer investment in plant or equipment decreased	1.44	1.60	1.25
Customer internally generated funds increased	1.78	2.00	1.50
Customer merger or acquisition financing needs decreased	1.67	1.60	1.75
Customer borrowing shifted from your bank to other bank or nonbank credit sources because these other sources became more attractive	1.78	2.00	1.50
Other	1.00	1.00	1.00
Number of banks responding	9	5	4

6. At your bank, how has the number of inquiries from potential business borrowers regarding the availability and terms of new credit lines or increases in existing lines changed over the past three months? (Please consider only inquiries for additional C&I lines as opposed to the refinancing of existing loans.)

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Increased substantially	0	0.0	0	0.0	0	0.0
Increased moderately	22	40.0	12	38.7	10	41.7
Stayed about the same	31	56.4	19	61.3	12	50.0
Decreased moderately	2	3.6	0	0.0	2	8.3
Decreased substantially	0	0.0	0	0.0	0	0.0
Total	55	100.0	31	100.0	24	100.0

Questions 7-15 *ask about* ***commercial real estate loans*** *at your bank, including construction and land development loans and loans secured by nonfarm nonresidential real estate. Question 7 deals with changes in your bank's standards over the last three months. Questions 8-9 focus on changes in terms over the past year. Question 10 asks about changes in demand. Question 11 asks about the types of property used to secure the nonfarm nonresidential commercial real estate loans on your bank's books. Questions 12-14 deal with the securitization of commercial real estate loans. Question 15 asks about delinquency rates on commercial real estate loans. If your bank's lending standards or terms have not changed over the relevant period, please report them as unchanged even if they are either restrictive or accommodative relative to longer-term norms. Also, please report changes in enforcement of existing standards as changes in standards.*

7. 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	1	1.8	0	0.0	1	4.2
Remained basically unchanged	50	90.9	28	90.3	22	91.7
Eased somewhat	4	7.3	3	9.7	1	4.2
Eased considerably	0	0.0	0	0.0	0	0.0
Total	55	100.0	31	100.0	24	100.0

8. Over the **past year**, how have the following terms on commercial real estate loans changed? (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	3.19	3.20	3.17
Maximum loan maturity	3.11	3.07	3.17
Spreads of loan rates over your bank's cost of funds	2.96	2.97	2.96
Loan-to-value ratios	2.94	3.07	2.79
Requirements for take-out financing	2.94	2.97	2.92
Debt-service coverage ratios	2.94	2.97	2.92
Other	3.02	3.10	2.92
Number of banks responding	54	30	24

9. If your bank has tightened or eased its terms for commercial real estate loans over the **past year** (as described in question 8), how important have been the following 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
Less favorable economic outlook	1.46	1.50	1.43
Worsening of the condition of, or the outlook for, commercial real estate in the markets where your bank operates	2.00	2.00	2.00
Less aggressive competition from other commercial banks	1.15	1.17	1.14
Less aggressive competition from nonbank lenders	1.08	1.17	1.00
Reduced tolerance for risk	1.85	1.83	1.86
Increased concern about take-out financing	1.38	1.17	1.57
Less liquid market for securities collateralized by these loans	1.23	1.17	1.29
Other	1.54	1.33	1.71
Number of banks responding	13	6	7

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

	All Respondents	Large Banks	Other Banks
	Mean	Mean	Mean
More favorable economic outlook	1.57	1.62	1.50
Improvement in the condition of, or the outlook for, commercial real estate in the markets where your bank operates	1.61	1.62	1.60
More aggressive competition from other commercial banks	2.00	2.08	1.90
More aggressive competition from nonbank lenders	1.57	1.54	1.60
Increased tolerance for risk	1.39	1.31	1.50
Reduced concern about take-out financing	1.17	1.23	1.10
More liquid market for securities collateralized by these loans	1.13	1.23	1.00
Other	1.09	1.15	1.00
Number of banks responding	23	13	10

10. 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	16	29.1	8	25.8	8	33.3
About the same	32	58.2	19	61.3	13	54.2
Moderately weaker	7	12.7	4	12.9	3	12.5
Substantially weaker	0	0.0	0	0.0	0	0.0
Total	55	100.0	31	100.0	24	100.0

11. For the *nonfarm, nonresidential* commercial real estate loans held by your bank, please indicate the approximate percentage of loans secured by the following types of real estate (percentages should total 100 percent).

	All Respondents	Large Banks	Other Banks
	Mean	Mean	Mean
Office buildings	30.7	32.2	29.1
Warehouses or other industrial structures	15.4	14.3	16.7
Retail properties	23.8	24.6	22.9
Hotels or resort properties	8.1	7.7	8.6
Nursing home or retirement properties	4.0	2.9	5.3
Mobile home parks	1.1	0.6	1.7
Other	16.6	17.4	15.6
Number of banks responding	49	26	23

12. Of the *nonfarm, nonresidential and multifamily* commercial real estate loans that your bank has originated over the **past year**, about what percentage has been securitized?

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Less than 5 percent	37	80.4	19	70.4	18	94.7
Between 5 percent and 15 percent	5	10.9	5	18.5	0	0.0
Between 15 percent and 30 percent	2	4.3	2	7.4	0	0.0
Between 30 percent and 50 percent	0	0.0	0	0.0	0	0.0
More than 50 percent	2	4.3	1	3.7	1	5.3
Total	46	100.0	27	100.0	19	100.0

13. How did the average credit quality of the nonfarm nonresidential and multifamily commercial real estate loans that your bank securitized over the past year compare with that of the loans that your bank originated and held on its books during that period?

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
The credit quality of the securitized loans was substantially higher	0	0.0	0	0.0	0	0.0
The credit quality of the securitized loans was moderately higher	3	12.5	3	21.4	0	0.0
The credit quality of the securitized loans was about the same	21	87.5	11	78.6	10	100.0
The credit quality of the securitized loans was moderately lower	0	0.0	0	0.0	0	0.0
The credit quality of the securitized loans was substantially lower	0	0.0	0	0.0	0	0.0
Total	24	100.0	14	100.0	10	100.0

14. The quarterly Report of Condition (Call Report) asks banks to report outstanding securitized loans only when servicing is retained or when recourse or other credit enhancements are provided by the selling bank. Please indicate the approximate percentage of your bank's commercial real estate loan securitizations over the **past year** for which your bank either retained servicing rights or which it securitized with recourse or other credit enhancements.

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Less than 20 percent	32	91.4	18	90.0	14	93.3
Between 20 percent and 40 percent	0	0.0	0	0.0	0	0.0
Between 40 percent and 60 percent	2	5.7	1	5.0	1	6.7
Between 60 percent and 80 percent	1	2.9	1	5.0	0	0.0
More than 80 percent	0	0.0	0	0.0	0	0.0
Total	35	100.0	20	100.0	15	100.0

15. Since mid-2002, delinquency rates on commercial real estate loans held by banks and life insurance companies have been stable or falling, while those on loans backing commercial-mortgage-backed-securities (CMBS) have been rising. To what do you ascribe this difference? (Please rate each possible reason using the following scale: 1=not important, 2=somewhat important, 3=very important.)

	All Respondents	Large Banks	Other Banks
	Mean	Mean	Mean
A larger share of the loans backing CMBS are seasoned mortgages compared with loans held by banks and life insurance companies	1.40	1.43	1.38
Loans backing CMBS tend to be secured by different types of properties than mortgages held by banks and life insurance companies	1.71	1.71	1.71
CMBS tend to be secured by mortgages in different geographic regions than the mortgages held by banks and life insurance companies	1.33	1.33	1.33
The tranching structures of CMBS facilitate the inclusion of higher-risk mortgages in the pools	2.26	2.24	2.29
Securitized mortgages are less likely to be refinanced than those held on balance sheets (for example, because of different prepayment penalties)	1.95	1.95	1.95
Other	1.24	1.33	1.14
Number of banks responding	42	21	21

Questions 16-17 *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 relevant period, 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 relevant period, please so report them regardless of how they stand relative to longer-term norms. Also, please report changes in enforcement of existing standards as changes in standards.*

16. 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	1.9	1	3.2	0	0.0
Remained basically unchanged	49	94.2	29	93.5	20	95.2
Eased somewhat	2	3.8	1	3.2	1	4.8
Eased considerably	0	0.0	0	0.0	0	0.0
Total	52	100.0	31	100.0	21	100.0

17. 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	1	1.9	1	3.2	0	0.0
About the same	30	57.7	19	61.3	11	52.4
Moderately weaker	12	23.1	7	22.6	5	23.8
Substantially weaker	9	17.3	4	12.9	5	23.8
Total	52	100.0	31	100.0	21	100.0

Questions 18-23 *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.*

18. 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	6	11.3	6	19.4	0	0.0
About unchanged	47	88.7	25	80.6	22	100.0
Somewhat less willing	0	0.0	0	0.0	0	0.0
Much less willing	0	0.0	0	0.0	0	0.0
Total	53	100.0	31	100.0	22	100.0

19. 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	3	9.4	1	6.3	2	12.5
Remained basically unchanged	28	87.5	15	93.8	13	81.3
Eased somewhat	1	3.1	0	0.0	1	6.3
Eased considerably	0	0.0	0	0.0	0	0.0
Total	32	100.0	16	100.0	16	100.0

20. 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	3	5.7	1	3.2	2	9.1
Remained basically unchanged	50	94.3	30	96.8	20	90.9
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	31	100.0	22	100.0

21. Over the past three months, how has your bank changed the following terms and conditions 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	3.00	3.00	3.00
Spreads of interest rates charged on outstanding balances over your bank's cost of funds (wider spreads=tightened, narrower spreads=eased)	2.96	3.00	2.93
Minimum percent of outstanding balances required to be repaid each month	3.00	3.00	3.00
Minimum required credit score (increased score=tightened, reduced score=eased)	2.93	2.92	2.93
The extent to which loans are granted to some customers that do not meet credit scoring thresholds (increased=eased, decreased=tightened)	2.86	2.77	2.93
Other	3.00	3.00	3.00
Number of banks responding	28	13	15

22. Over the past three months, how has your bank changed the following terms and conditions 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	3.04	3.00	3.09
Spreads of loan rates over your bank's cost of funds (wider spreads=tightened, narrower spreads=eased)	2.92	2.97	2.86
Minimum required downpayment	3.02	3.03	3.00
Minimum required credit score (increased score=tightened, reduced score=eased)	3.04	3.03	3.05
The extent to which loans are granted to some customers that do not meet credit scoring thresholds (increased=eased, decreased=tightened)	2.98	2.97	3.00
Other	3.02	3.00	3.05
Number of banks responding	52	30	22

23. 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	0	0.0	0	0.0	0	0.0
Moderately stronger	7	13.2	4	12.9	3	13.6
About the same	32	60.4	20	64.5	12	54.5
Moderately weaker	14	26.4	7	22.6	7	31.8
Substantially weaker	0	0.0	0	0.0	0	0.0
Total	53	100.0	31	100.0	22	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 January 2004)

Questions 1-6 *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. Question 6 asks about changes in prospective demand for C&I loans at your bank, as indicated by the volume of recent inquiries about the availability of new credit lines or increases in existing credit lines. 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	0	0.0
Remained basically unchanged	19	90.5
Eased somewhat	2	9.5
Eased considerably	0	0.0
Total	21	100.0

2. For applications for C&I loans or credit lines--other than those to be used to finance mergers and acquisitions--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	3.14
Costs of credit lines	3.19
Spreads of loan rates over your bank's cost of funds (wider spreads=tightened, narrower spreads=eased)	3.19
Premiums charged on riskier loans	3.19
Loan covenants	3.19
Collateralization requirements	3.00
Other	3.00
Total	21

1. As of September 30, 2003, the 21 respondents had combined assets of $381 billion, compared to $956 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	0
Less favorable or more uncertain economic outlook	0
Worsening of industry-specific problems	0
Less aggressive competition from other banks or nonbank lenders (other financial intermediaries or the capital markets)	0
Reduced tolerance for risk	0
Decreased liquidity in the secondary market for these loans	0
Increase in defaults by borrowers in public debt markets	0
Other	0
Number of banks responding	0

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

	All Respondents
	Mean
Improvement in your bank's current or expected capital position	1.43
More favorable or less uncertain economic outlook	1.43
Improvement in industry-specific problems	1.00
More aggressive competition from other banks or nonbank lenders (other financial intermediaries or the capital markets)	1.86
Increased tolerance for risk	1.43
Increased liquidity in the secondary market for these loans	1.43
Reduction in defaults by borrowers in public debt markets	1.14
Other	1.00
Number of banks responding	7

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

	All Respondents	
	Banks	Pct
Substantially stronger	0	0.0
Moderately stronger	2	9.5
About the same	13	61.9
Moderately weaker	6	28.6
Substantially weaker	0	0.0
Total	21	100.0

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

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

	All Respondents
	Mean
Customer inventory financing needs increased	1.00
Customer accounts receivable financing needs increased	1.00
Customer investment in plant or equipment increased	1.00
Customer internally generated funds decreased	1.00
Customer merger or acquisition financing needs increased	2.50
Customer borrowing shifted to your bank from other bank or nonbank sources because these other sources became less attractive	1.00
Other	1.00
Number of banks responding	2

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

	All Respondents
	Mean
Customer inventory financing needs decreased	1.17
Customer accounts receivable financing needs decreased	1.17
Customer investment in plant or equipment decreased	1.33
Customer internally generated funds increased	1.67
Customer merger or acquisition financing needs decreased	1.33
Customer borrowing shifted from your bank to other bank or nonbank credit sources because these other sources became more attractive	2.00
Other	1.00
Number of banks responding	6

6. At your bank, how has the number of inquiries from potential business borrowers regarding the availability and terms of new credit lines or increases in existing lines changed over the past three months? (Please consider only inquiries for additional C&I lines as opposed to the refinancing of existing loans.)

	All Respondents	
	Banks	Pct
Increased substantially	0	0.0
Increased moderately	3	15.0
Stayed about the same	13	65.0
Decreased moderately	4	20.0
Decreased substantially	0	0.0
Total	20	100.0

Questions 7-15 *ask about* ***commercial real estate loans*** *at your bank, including construction and land development loans and loans secured by nonfarm nonresidential real estate. Question 7 deals with changes in your bank's standards over the last three months. Questions 8-9 focus on changes in terms over the past year. Question 10 deals with changes in demand. Question 11 asks about the types of property used to secure the nonfarm nonresidential commercial real estate loans on your bank's books. Questions 12-14 deal with the securitization of commercial real estate loans. Question 15 asks about delinquency rates on commercial real estate loans. If your bank's lending standards or terms have not changed over the relevant period, please report them as unchanged even if they are either restrictive or accommodative relative to longer-term norms. If your bank's standards or terms have tightened or eased over the relevant period, please so report them regardless of how they stand relative to longer-term norms. Also, please report changes in enforcement of existing standards as changes in standards.*

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

	All Respondents	
	Banks	Pct
Tightened considerably	0	0.0
Tightened somewhat	1	10.0
Remained basically unchanged	9	90.0
Eased somewhat	0	0.0
Eased considerably	0	0.0
Total	10	100.0

8. Over the **past year**, how have the following terms on commercial real estate loans changed? (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	2.89
Maximum loan maturity	3.00
Spreads of loan rates over your bank's cost of funds (wider spreads=tightened, narrower spreads=eased)	2.89
Loan-to-value ratios	3.11
Requirements for take-out financing	3.11
Debt-service coverage ratios	2.89
Other	3.00
Total	9

9. If your bank has tightened or eased its terms for commercial real estate loans over the **past year** (as described in question 8), 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 commercial real estate loan terms:

	All Respondents
	Mean
Less favorable economic outlook	1.50
Worsening of the condition of, or the outlook for, commercial real estate in the markets where your bank operates	1.00
Less aggressive competition from other commercial banks	1.00
Less aggressive competition from nonbank lenders	1.00
Reduced tolerance for risk	1.50
Increased concern about take-out financing	1.00
Less liquid market for securities collateralized by these loans	1.00
Other	2.00
Number of banks responding	2

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

	All Respondents
	Mean
More favorable economic outlook	2.00
Improvement in the condition of, or the outlook for, commercial real estate in the markets where your bank operates	2.00
More aggressive competition from other commercial banks	2.00
More aggressive competition from nonbank lenders	2.00
Increased tolerance for risk	1.33
Reduced concern about take-out financing	1.33
More liquid market for securities collateralized by these loans	3.00
Other	1.00
Number of banks responding	3

10. 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	4	44.4
About the same	3	33.3
Moderately weaker	2	22.2
Substantially weaker	0	0.0
Total	9	100.0

11. For the *nonfarm, nonresidential* commercial real estate loans held by your bank, please indicate the approximate percentage of loans secured by the following types of real estate (percentages should total 100 percent).

	All Respondents
	Mean
Office buildings	42.7
Warehouses or other industrial structures	8.4
Retail properties	20.9
Hotel or resort properties	19.6
Nursing home or retirement properties	1.1
Mobile home parks	1.1
Other	6.2
Number of banks responding	9

12. Of the *nonfarm, nonresidential and multifamily* commercial real estate loans that your bank has originated over the **past year**, about what percentage has been securitized?

	All Respondents	
	Banks	Pct
Less than 5 percent	3	42.9
Between 5 percent and 15 percent	0	0.0
Between 15 percent and 30 percent	0	0.0
Between 30 percent and 50 percent	0	0.0
More than 50 percent	4	57.1
Total	7	100.0

13. How did the average credit quality of the nonfarm nonresidential and multifamily commercial real estate loans that your bank securitized over the past year compare with that of the loans that your bank originated and held on its books during that period?

	All Respondents	
	Banks	Pct
The credit quality of the securitized loans was substantially higher	1	20.0
The credit quality of the securitized loans was moderately higher	0	0.0
The credit quality of the securitized loans was about the same	4	80.0
The credit quality of the securitized loans was moderately lower	0	0.0
The credit quality of the securitized loans was substantially lower	0	0.0
Total	5	100.0

14. The quarterly Report of Condition (Call Report) asks banks to report outstanding securitized loans only when servicing is retained or when recourse or other credit enhancements are provided by the selling bank. Please indicate the approximate percentage of your bank's commercial real estate loan securitizations over the **past year** for which your bank either retained servicing rights or which it securitized with recourse or other credit enhancements.

	All Respondents	
	Banks	Pct
Less than 20 percent	6	100.0
Between 20 percent and 40 percent	0	0.0
Between 40 percent and 60 percent	0	0.0
Between 60 percent and 80 percent	0	0.0
More than 80 percent	0	0.0
Total	6	100.0

15. Since mid-2002, delinquency rates on commercial real estate loans held by banks and life insurance companies have been stable or falling, while those on loans backing commercial-mortgage-backed-securities (CMBS) have been rising. To what do you ascribe this difference? (Please rate each possible reason using the following scale: 1=not important, 2=somewhat important, 3=very important.)

	All Respondents
	Mean
A larger share of the loans backing CMBS are seasoned mortgages compared with loans held by banks and life insurance companies	1.57
Loans backing CMBS tend to be secured by different types of properties than mortgages held by banks and life insurance companies	1.29
CMBS tend to be secured by mortgages in different geographic regions than the mortgages held by banks and life insurance companies	1.00
The tranching structures of CMBS facilitate the inclusion of higher-risk mortgages in the pools	2.14
Securitized mortgages are less likely to be refinanced than those held on balance sheets (for example, because of different prepayment penalties)	1.57
Other	1.43
Number of banks responding	7