

The January 2003 Senior Loan Officer Opinion Survey on Bank Lending Practices

The January 2003 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 set of supplementary questions that focused on banks' participation in the credit default swap market. Fifty-nine domestic and twenty foreign banking institutions responded to the survey.

Domestic and foreign institutions continued to tighten lending standards and terms for commercial and industrial (C&I) loans over the past three months in fractions similar to those reported in the October survey. Business loan demand again was reportedly weaker on balance, but the net fraction of banks that reported weaker demand was significantly lower than in the previous survey, and several banks reported stronger demand. Both domestic and foreign institutions continued to relate concern about the economic outlook as well as industry-specific problems.

A significant portion of domestic bank respondents with assets greater than \$20 billion and half of foreign institutions use credit default swaps either to hedge loan risk or to increase credit exposure. However, most other domestic banks reported that they made little or no use of credit default swaps, which they reportedly view as a relatively expensive way to hedge loan risk and a complicated way to acquire credit exposure.

On the household side, the fractions of banks that tightened standards and terms on credit cards and other consumer loans remained at the modest levels of recent surveys. However, evidence that some banks are beginning to tighten standards on home mortgages appeared for the second consecutive survey. Demand for consumer loans was about unchanged on net, but the net fraction of banks that reported stronger demand for home mortgages declined sharply.

Lending to Businesses

(Table 1, questions 1-18; Table 2, questions 1-18)

In January, the percentage of domestic banks that reported having tightened standards on

C&I loans to large and middle-market firms over the past three months remained at about 20 percent for the third consecutive survey. In contrast to the previous two surveys, however, three of the banks that tightened lending standards to larger firms in the most recent survey classified the tightening as considerable. The percentage of domestic banks that reported tightening standards for small firms edged down from 18 percent in October to 14 percent in January.

The number of domestic banks that reported tightening terms on large and middle-market borrowers declined a bit between the October and the January surveys: the net share of banks that reported raising fees on credit lines fell to 22 percent from 30 percent, while the net share of banks that reported increasing collateralization requirements slipped to 17 percent from 23 percent. Two banks reported reducing spreads for some loans, in part because of more aggressive competition from other lenders. Nonetheless, the percentage of banks that reported increasing premiums on riskier loans remained high, at around 40 percent. The percentage of banks tightening terms on loans to small firms also moved down slightly.

Although a less favorable economic outlook was still cited by most domestic banks as at least a somewhat important reason for tightening lending conditions, the fraction of banks that listed this as a very important reason declined from 23 percent in October to 12 percent in January. In addition, the fraction of banks citing reduced tolerance for risk fell from 71 percent in October to 63 percent in the current survey. By contrast, the percentage of domestic banks that reported that worsening industry-specific problems were a reason for tightening rose substantially, from 39 percent in October to 66 percent in January.

The fraction of U.S. branches and agencies of foreign banks that tightened standards and terms on C&I loans over the past three months moved lower for the second consecutive survey. The percentage of foreign institutions that had tightened standards for customers seeking C&I loans or credit lines declined from 60 percent in August and 50 percent in October to 30 percent in the current survey. Similarly, the fraction of foreign institutions that raised premiums on loans to riskier customers declined from 55 percent to about 40 percent between the October and January surveys, and the fraction of foreign institutions that increased spreads on all loans over their cost of funds fell from 65 percent in the previous survey to 45 percent in January. Foreign institutions that tightened standards or terms generally cited a less favorable economic outlook and reduced tolerance for risk as the most important reasons for tightening.

The number of domestic banks reporting weaker demand from both large and small firms

declined in January. For large and medium-size firms, the net percentage of banks that reported weaker demand declined from 53 percent in October to 32 percent in the current survey. For small firms, the net percentage tumbled from 48 percent to 21 percent. The net share of branches and agencies of foreign banks reporting weaker demand also fell, to 20 percent in January from 40 percent in October.

As in previous surveys, almost all domestic banks that experienced weaker loan demand reported that a decline in customers' need for bank loans to finance capital expenditures was at least a somewhat important reason. Reduced needs to finance mergers and acquisitions, inventories, and accounts receivable also continue to be cited by most banks as reasons for weaker demand. The eleven domestic banks that reported an increase in demand for C&I loans over the past three months listed a variety of reasons for this increase, including a shift to bank financing from non-bank credit sources and an increased need for inventory financing. The most frequently cited reasons for weaker loan demand at branches and agencies of foreign banks continued to be a decline in merger and acquisition activity and reduced customer investment in plant and equipment.

Credit default swaps. Credit default swaps (CDS) have become an increasingly important tool for managing credit risk at a number of financial institutions. Of the thirty-six largest domestic banks that participated in the survey, about 35 percent use CDS to hedge risk in their C&I loan portfolio. Even among those banks that use CDS, however, the majority do so for less than 4 percent of their total C&I loan commitments (outstanding loans plus unused lines of credit). By contrast, about half of the foreign banks surveyed reported purchasing credit protection using CDS, and 25 percent indicated that more than 8 percent of their total C&I loan commitments are hedged in this fashion. The most commonly cited reason, by both foreign and domestic institutions, for buying credit protection is that purchasing the CDS is superior to selling a loan because it preserves the bank's relationship with the borrower.

Smaller fractions of domestic and foreign banks use CDS to acquire credit exposure, and most banks that do invest in CDS report that such exposure is equivalent to less than 2 percent of their total C&I loan commitments. For domestic banks, the two most important reasons for selling credit protection were its risk diversification benefits and its relative profitability. Foreign banks also cited the ability to diversify credit risk as the most important reason for selling credit protection. Almost all banks reported that their participation in the CDS market did not affect their direct C&I lending. However, a few banks indicated that their participation in the CDS market allowed them to moderately increase their C&I direct lending.

Most of the banks' activity in the CDS market is done through dealers. On average, domestic banks purchased nearly 80 percent of their credit protection from dealers, and more than 85 percent of that volume runs through dealers headquartered in the United States. Dealers are the counterparty for an even greater share of credit protection sold by domestic banks, and almost all sales are to U.S.-based dealers. Between 50 percent and 60 percent of the CDS transactions by branches and agencies of foreign banks are also conducted with U.S.-based dealers, but about a third of their purchases and sales of CDS are with dealers headquartered outside the United States.

Domestic banks had a more positive view about liquidity in the market for CDS than foreign institutions, even though the latter were reported to be somewhat more active in the market than the former. Nearly three-fourths of domestic banks that participated in the market reported that it was somewhat easy or inexpensive to unwind a position in a CDS under normal market conditions. Moreover, most domestic banks indicated that current liquidity conditions were about normal or somewhat better than normal. By contrast, 75 percent of foreign banks indicated that it was at least somewhat difficult or expensive to unwind positions under normal market conditions, and about 50 percent characterized the current market as less liquid than normal. Nearly all banks that participate in the CDS market indicated that market quotes on CDS spreads are useful in imputing a value for loan assets or pricing new loans under normal market conditions. Of domestic banks that do not actively participate in the CDS market, about half still find market quotes at least somewhat useful for pricing loans.

Of domestic banks that do not use CDS to hedge loans or as stand-alone investments, 82 percent indicated that they found CDS to be expensive relative to the benefits derived from them. Sixty-seven percent of these banks indicated that they do not use CDS because they are generally riskier and more complicated than loans, and 49 percent indicated that it was difficult to find CDS offered in the amounts or maturities they desired.

Commercial real estate lending. The net fraction of domestic banks that reported tightening standards on commercial real estate loans over the past three months slipped from 22 percent in October to 14 percent in January. No foreign institutions reported changing standards for these loans in the current survey, down from three in the October survey. Demand continued to weaken at domestic banks, but the net share of banks reporting weaker demand declined from 48 percent to 21 percent. Most foreign institutions reported unchanged demand.

Lending to Households

(Table 1, questions 19-26)

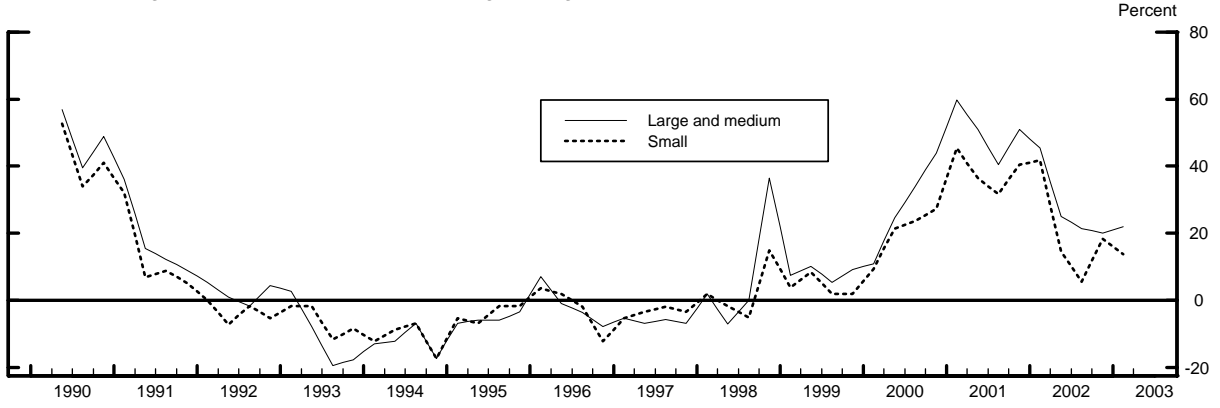
The share of banks tightening standards on residential mortgage loans edged up to 11 percent in January from 10 percent in the October survey. Notably, these were the first two indications of any noticeable tightening in over a decade. The net fraction of respondents that reported stronger demand for mortgages to purchase homes over the past three months dropped to 7 percent in January from 40 percent in the previous survey. Moreover, the share of banks reporting substantially stronger demand fell from 14 percent in October to 2 percent in the current survey.

As in the October survey, about 15 percent of domestic banks indicated that they had tightened standards on credit card loans over the past three months. However, in the current survey the share of banks that reported tightening standards for other consumer loans edged down to 9 percent from 15 percent in October. Few banks reported that they had tightened any terms on either their credit card loans or other consumer loans over the past three months. On net, demand for consumer loans was reportedly about unchanged over the past three months.

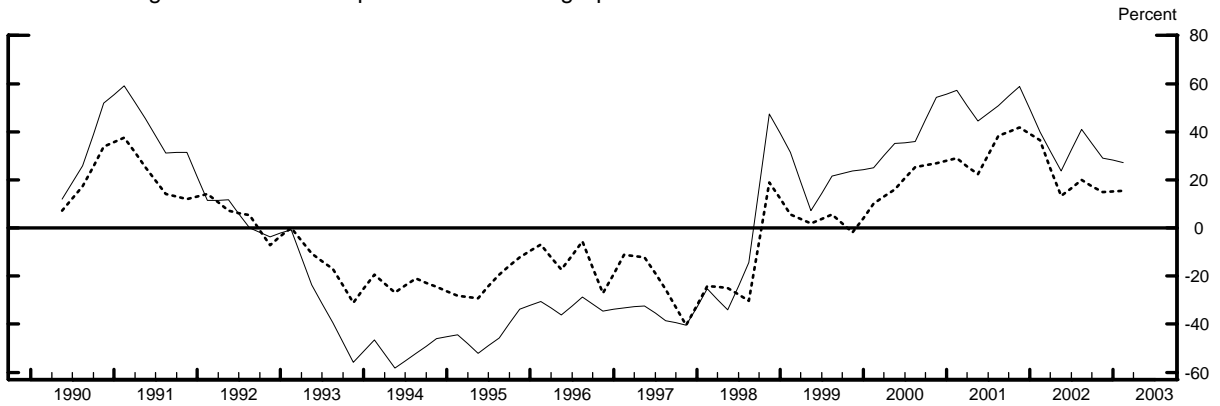
This document was prepared by William Bassett and Mark Carlson with the research assistance of Steve Piraino, Division of Monetary Affairs, Board of Governors of the Federal Reserve System.

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

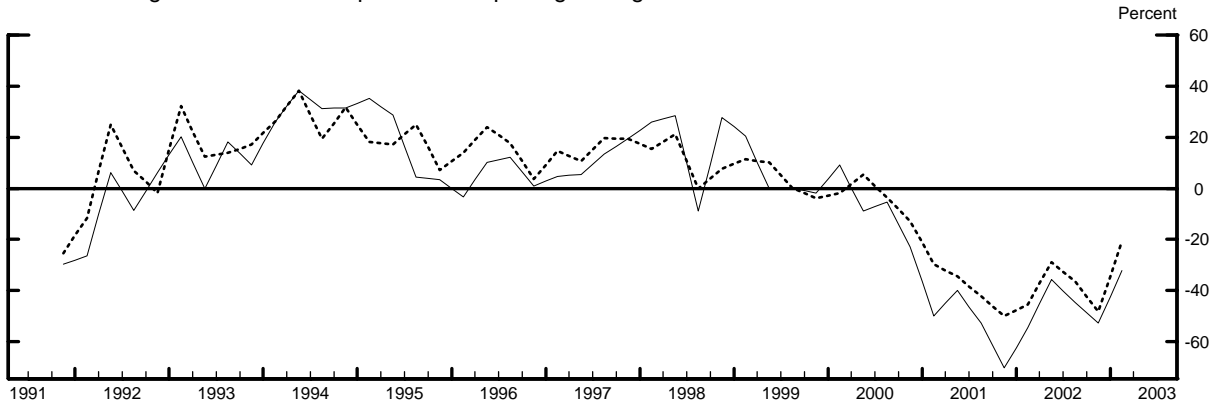
Net Percentage of Domestic Respondents Tightening Standards for C&I Loans



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

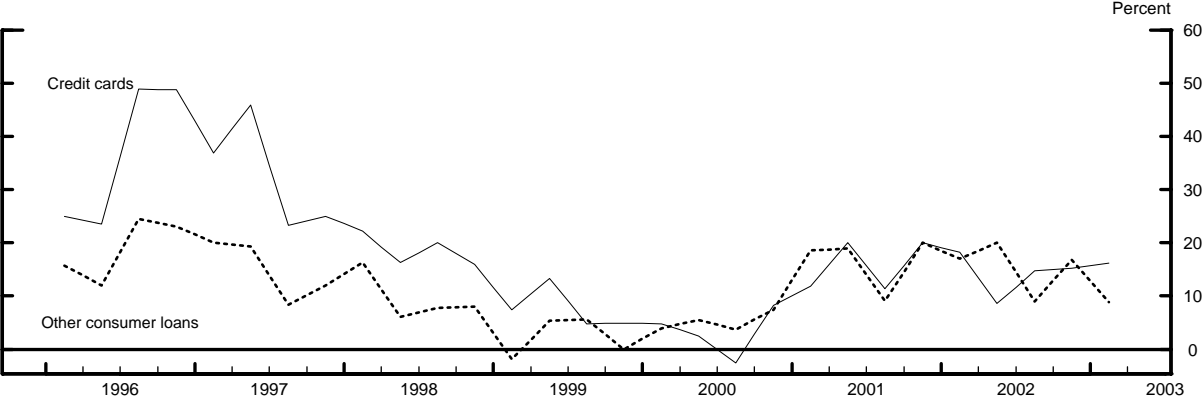


Net Percentage of Domestic Respondents Reporting Stronger Demand for C&I Loans

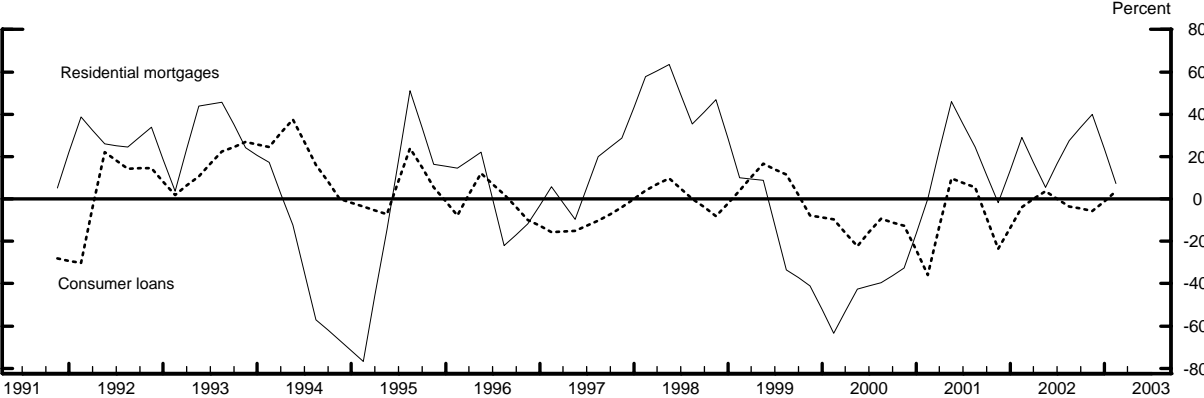


Measures of Supply and Demand for Loans to Households

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

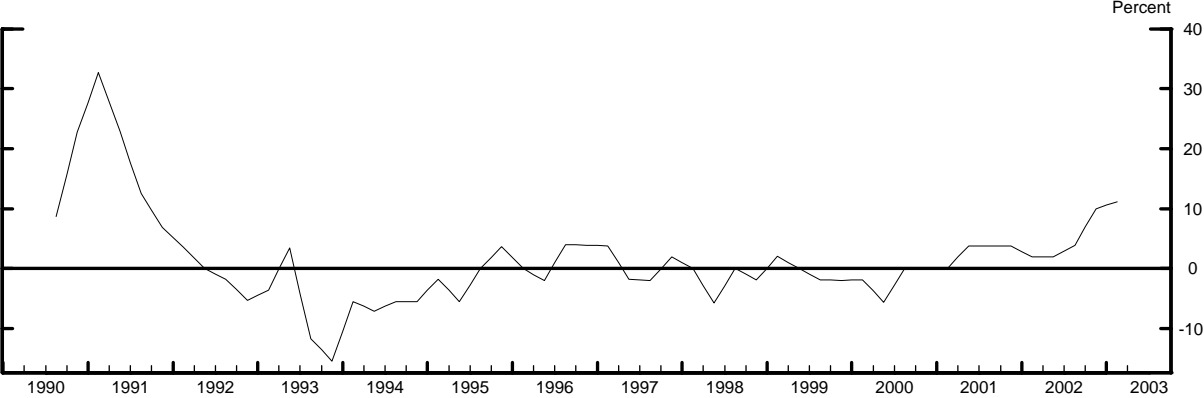


Table 1

SENIOR LOAN OFFICER OPINION SURVEY ON BANK LENDING PRACTICES
AT SELECTED LARGE BANKS IN THE UNITED STATES¹
(Status of policy as of January 2003)

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	3	5.1	3	8.3	0	0.0
Tightened somewhat	10	16.9	5	13.9	5	21.7
Remained basically unchanged	46	78.0	28	77.8	18	78.3
Eased somewhat	0	0.0	0	0.0	0	0.0
Eased considerably	0	0.0	0	0.0	0	0.0
Total	59	100.0	36	100.0	23	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	8	13.8	4	11.4	4	17.4
Remained basically unchanged	50	86.2	31	88.6	19	82.6
Eased somewhat	0	0.0	0	0.0	0	0.0
Eased considerably	0	0.0	0	0.0	0	0.0
Total	58	100.0	35	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, 2002. The combined assets of the 30 large banks totaled \$3.24 trillion, compared to \$3.47 trillion for the entire panel of 59 banks, and \$6.11 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	2.68	2.53	2.91
Costs of credit lines	2.78	2.67	2.96
Spreads of loan rates over your bank's cost of funds (wider spreads=tightened, narrower spreads=eased)	2.73	2.67	2.83
Premiums charged on riskier loans	2.53	2.39	2.74
Loan covenants	2.73	2.67	2.83
Collateralization requirements	2.83	2.81	2.87
Other	2.98	2.97	3.00
Number of banks responding	59	36	23

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	2.90	2.86	2.96
Costs of credit lines	2.88	2.80	3.00
Spreads of loan rates over your bank's cost of funds (wider spreads=tightened, narrower spreads=eased)	2.84	2.83	2.87
Premiums charged on riskier loans	2.64	2.57	2.74
Loan covenants	2.79	2.77	2.83
Collateralization requirements	2.84	2.83	2.87
Other	2.95	2.91	3.00
Number of banks responding	58	35	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	1.09	1.14	1.00
Less favorable or more uncertain economic outlook	2.00	2.00	2.00
Worsening of industry-specific problems	1.88	2.05	1.55
Less aggressive competition from other banks or nonbank lenders (other financial intermediaries or the capital markets)	1.19	1.14	1.27
Reduced tolerance for risk	1.81	1.95	1.55
Decreased liquidity in the secondary market for these loans	1.50	1.71	1.09
Increase in defaults by borrowers in public debt markets	1.69	1.86	1.36
Other	1.22	1.10	1.45
Number of banks responding	32	21	11

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	1.00	1.00	1.00
More favorable or less uncertain economic outlook	1.50	2.00	1.00
Improvement in industry-specific problems	1.50	2.00	1.00
More aggressive competition from other banks or nonbank lenders (other financial intermediaries or the capital markets)	2.25	2.50	2.00
Increased tolerance for risk	1.25	1.00	1.50
Increased liquidity in the secondary market for these loans	1.00	1.00	1.00
Reduction in defaults by borrowers in public debt markets	1.25	1.50	1.00
Other	1.00	1.00	1.00
Number of banks responding	4	2	2

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	8	13.6	5	13.9	3	13.0
About the same	24	40.7	13	36.1	11	47.8
Moderately weaker	26	44.1	17	47.2	9	39.1
Substantially weaker	1	1.7	1	2.8	0	0.0
Total	59	100.0	36	100.0	23	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	8	13.8	4	11.4	4	17.4
About the same	30	51.7	19	54.3	11	47.8
Moderately weaker	18	31.0	11	31.4	7	30.4
Substantially weaker	2	3.4	1	2.9	1	4.3
Total	58	100.0	35	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	1.73	1.67	1.80
Customer accounts receivable financing needs increased	1.55	1.50	1.60
Customer investment in plant or equipment increased	1.18	1.17	1.20
Customer internally generated funds decreased	1.55	1.67	1.40
Customer merger or acquisition financing needs increased	1.27	1.33	1.20
Customer borrowing shifted to your bank from other bank or nonbank credit sources because these other sources became less attractive	1.73	2.00	1.40
Other	1.27	1.17	1.40
Number of banks responding	11	6	5

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	2.07	2.21	1.82
Customer accounts receivable financing needs decreased	2.03	2.21	1.73
Customer investment in plant or equipment decreased	2.33	2.53	2.00
Customer internally generated funds increased	1.43	1.42	1.45
Customer merger or acquisition financing needs decreased	2.07	2.32	1.64
Customer borrowing shifted from your bank to other bank or nonbank credit sources because these other sources became more attractive	1.17	1.21	1.09
Other	1.03	1.00	1.09
Number of banks responding	30	19	11

Questions 6-16 ask about **credit default swaps**, which have become an important tool for the management of credit risk for many financial institutions. Please note that the term **credit default swaps (CDS)** in these questions refers to both single name credit default swaps and portfolio credit default swaps. Questions 6-12 focus on your bank's experience with CDS both as a buyer of credit protection (beneficiary) and as a seller (guarantor). Questions 13-15 deal with liquidity conditions in the market. Question 16 explores the reasons why some banks do not participate in the CDS market. If your bank neither purchases nor sells credit protection in the CDS market, please omit questions 6-14.

6. For what percentage of the current dollar volume of your bank's total C&I loan commitments (outstanding loans plus unused lines of credit) have you purchased credit protection with credit default swaps (CDS)?

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
0 Percent	8	38.1	7	35.0	1	100.0
More than 0 percent but less than 2 percent	8	38.1	8	40.0	0	0.0
Between 2 percent and 4 percent	1	4.8	1	5.0	0	0.0
Between 4 percent and 8 percent	1	4.8	1	5.0	0	0.0
Between 8 percent and 15 percent	3	14.3	3	15.0	0	0.0
More than 15 percent	0	0.0	0	0.0	0	0.0
Total	21	100.0	20	100.0	1	100.0

7. If your bank has been purchasing credit protection for C&I loan exposure using CDS (answers 2-6 in question 6), how important have been each of the following possible reasons for doing so? (Please respond to each reason according to the following scale: 1=not important, 2=somewhat important, 3=very important.)

	All Respondents	Large Banks	Other Banks
	Mean	Mean	Mean
Buying protection with a CDS is superior to selling a loan because relationships with firms are not compromised as they can be with loan sales.	2.46	2.46	0
Buying protection with a CDS is superior to selling or securitizing a loan because it is less expensive or less burdensome.	1.77	1.77	0
Buying protection with a CDS is a way to reduce risk for loans for which no resale or securitization market exists	1.92	1.92	0
Other (please specify)	1.31	1.31	0
Number of banks responding	13	13	0

8. As a percentage of your banks' total C&I loan commitments (outstanding loans plus unused credit lines), how much credit exposure has your bank acquired by selling credit protection in CDS. (Please include only your activity as a position taker in the CDS market; exclude credit protection sold to offset credit protection purchased as part of market making conducted by your bank's CDS dealer operations, if applicable.)

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
0 Percent	11	55.0	11	57.9	0	0
More than 0 percent but less than 2 percent	8	40.0	7	36.8	1	100.0
Between 2 percent and 4 percent	1	5.0	1	5.3	0	0
Between 4 percent and 8 percent	0	0.0	0	0.0	0	0
Between 8 percent and 15 percent	0	0.0	0	0.0	0	0
More than 15 percent	0	0.0	0	0.0	0	0
Total	20	100.0	19	100.0	0	0

9. If your bank has been taking positions as a seller of credit protection through the CDS market (answers 2-6 in question 8), how important have been each of the following possible reasons for doing so? (Please respond to each reason according to the following scale: 1=not important, 2=somewhat important, 3=very important.)

	All Respondents	Large Banks	Other Banks
	Mean	Mean	Mean
Selling protection in a CDS is a way to diversify the credit risks held by your bank.	2.00	2.13	1.00
Selling protection in a CDS is a way to increase credit exposure at your bank to a desired level	1.33	1.38	1.00
Selling protection in a CDS can be less expensive or less burdensome than loan purchases	1.44	1.50	1.00
Selling protection in a CDS can be more profitable than direct lending	2.00	2.13	1.00
Other (please specify)	1.33	1.25	2.00
Number of banks responding	9	8	1

10. On net, how has your bank's participation in the CDS market affected the amount of total C&I loan commitments (outstanding loans plus unused credit lines) at your bank?

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Substantially increased	0	0.0	0	0.0	0	0
Moderately increased	4	22.2	4	23.5	0	0
No noticable net effect	13	72.2	12	70.6	1	100.0
Moderately decreased	1	5.6	1	5.9	0	0
Substantially decreased	0	0.0	0	0.0	0	0
Total	18	100.0	17	100.0	1	100.0

11. What share of the CDS entered into by your bank (either to purchase or sell credit protection) and currently outstanding includes the following forms of restructuring as credit events?

A. Modified restructuring (in line with ISDA May 2001 terminology):

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Less than 10 percent	4	30.8	3	25.0	1	100.0
Between 10 percent and 25 percent	0	0.0	0	0.0	0	0
Between 25 and 50 percent	1	7.7	1	8.3	0	0
Between 50 and 75 percent	2	15.4	2	16.7	0	0
More than 75 percent	6	46.2	6	50.0	0	0
Total	13	100.0	12	100.0	1	100.0

B. Full restructuring (in line with the ISDA 1999 terminology):

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Less than 10 percent	7	70.0	6	66.7	1	100.0
Between 10 percent and 25 percent	2	20.0	2	22.2	0	0
Between 25 and 50 percent	1	10.0	1	11.1	0	0
Between 50 and 75 percent	0	0.0	0	0.0	0	0
More than 75 percent	0	0.0	0	0.0	0	0
Total	10	100.0	9	100.0	1	100.0

12. Please indicate the approximate percentage of the dollar volume of CDS held by your bank that are entered into with the following groups of counterparties. (Please include purchases or sales resulting from your bank's CDS dealer operations, if applicable. Percentages should be reported in whole numbers and should sum separately to 100 for both purchasing counterparties and selling counterparties.

A. When your institution is the buyer of credit protection:

	All Respondents	Large Banks	Other Banks
	Mean	Mean	Mean
Dealers headquartered in the U.S.	69.3	69.3	0
Dealers headquartered outside the U.S.	12.3	12.3	0
Non-dealers headquartered in the U.S.	13.9	13.9	0
Non-dealers headquartered outside the U.S.	4.6	4.6	0
Number of banks responding	12	12	0

B. When your institution is the seller of credit protection:

	All Respondents	Large Banks	Other Banks
	Mean	Mean	Mean
Dealers headquartered in the U.S.	81.3	79.4	100
Dealers headquartered outside the U.S.	11.2	12.3	0
Non-dealers headquartered in the U.S.	3.4	3.7	0
Non-dealers headquartered outside the U.S.	4.2	4.6	0
Number of banks responding	11	10	1

13. Under normal market conditions, how does your bank view its ability to unwind a position in CDS (by terminating the contract with consent of your counterparty or assigning the original CDS to another institution)?

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Very difficult or expensive	0	0.0	0	0.0	0	0
Somewhat difficult or expensive	5	29.4	5	29.4	0	0
Somewhat easy or inexpensive	11	64.7	11	64.7	0	0
Very easy or inexpensive	1	5.9	1	5.9	0	0
Total	17	100.0	17	100.0	0	0

14. How would you characterize the current state of liquidity in the CDS market?

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Much more liquid than normal	0	0.0	0	0.0	0	0
Somewhat more liquid than normal	5	29.4	5	29.4	0	0
About normal	10	58.8	10	58.8	0	0
Somewhat less liquid than normal	2	11.8	2	11.8	0	0
Much less liquid than normal	0	0.0	0	0.0	0	0
Total	17	100.0	17	100.0	0	0

15. Whether or not your bank takes position in the CDS market, how useful does your bank feel market quotes on CDS spreads are (under normal market conditions) in imputing a value for certain loan assets or pricing new loans?

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Very useful	11	20.8	8	24.2	3	15.0
Somewhat useful	22	41.5	17	51.5	5	25.0
Not very useful	20	37.7	8	24.2	12	60.0
Total	53	100.0	33	100.0	20	100.0

16. If your bank does not use CDS either to hedge loan risk or as stand-alone investments, to what extent do the following reasons explain why? (Please respond to each reason according to the following scale: 1=not important, 2=somewhat important, 3=very important.)

	All Respondents	Large Banks	Other Banks
	Mean	Mean	Mean
CDS are expensive relative to the benefits derived from them for hedging loan risk	2.18	2.17	2.19
CDS are generally riskier and more complicated instruments than loans	1.90	1.89	1.90
Regulatory capital guidelines make CDS less attractive than holding loans or funding loan facilities	1.28	1.33	1.24
Internal capital charges make CDS less attractive than holding loans or funding loan facilities	1.18	1.17	1.19
It is difficult to find CDS offered in the amounts or at the maturities desired by your bank	1.69	1.72	1.67
Other	1.69	1.72	1.67
Number of banks responding	39	18	21

Questions 17-18 ask about **commercial real estate loans** at your bank, including construction and land development loans and loans secured by nonfarm nonresidential real estate. Question 17 deals with changes in your bank's standards over the last three months. Question 18 deals with changes in demand. 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.

17. 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	9	15.3	5	13.9	4	17.4
Remained basically unchanged	49	83.1	30	83.3	19	82.6
Eased somewhat	1	1.7	1	2.8	0	0.0
eased considerably	0	0.0	0	0.0	0	0.0
Total	59	100.0	36	100.0	23	100.0

18. 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	6	10.2	3	8.3	3	13.0
About the same	35	59.3	21	58.3	14	60.9
Moderately weaker	18	30.5	12	33.3	6	26.1
Substantially weaker	0	0.0	0	0.0	0	0.0
Total	59	100.0	36	100.0	23	100.0

Questions 19-20 ask about **residential mortgage loans** at your bank. Question 19 deals with changes in your bank's credit standards over the past three months, and question 20 deals with changes in demand over the same period. Question 12 asks whether your bank has changed its appraisal policies in the past six months. 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.

19. 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	6	11.1	3	8.8	3	15.0
Remained basically unchanged	48	88.9	31	91.2	17	85.0
Eased somewhat	0	0.0	0	0.0	0	0.0
Eased considerably	0	0.0	0	0.0	0	0.0
Total	54	100.0	34	100.0	20	100.0

20. 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	1	1.9	1	2.9	0	0.0
Moderately stronger	10	18.5	6	17.6	4	20.0
About the same	36	66.7	23	67.6	13	65.0
Moderately weaker	7	13.0	4	11.8	3	15.0
Substantially weaker	0	0.0	0	0.0	0	0.0
Total	54	100.0	34	100.0	20	100.0

Questions 21-26 ask about **consumer lending** at your bank. Question 21 deals with changes in your bank's willingness to make consumer loans over the past three months. Questions 22-25 deal with changes in credit standards and loan terms over the same period. Question 26 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.

21. 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	3	5.3	2	5.7	1	4.5
About unchanged	54	94.7	33	94.3	21	95.5
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	57	100.0	35	100.0	22	100.0

22. 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	6	16.2	4	18.2	2	13.3
Remained basically unchanged	31	83.8	18	81.8	13	86.7
Eased somewhat	0	0.0	0	0.0	0	0.0
Eased considerably	0	0.0	0	0.0	0	0.0
Total	37	100.0	22	100.0	15	100.0

23. Over the past three months, how have your bank's credit standards for approving applications for consumer loans other than credit card loans changed?

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Tightened considerably	0	0.0	0	0.0	0	0.0
Tightened somewhat	5	8.8	4	11.4	1	4.5
Remained basically unchanged	52	91.2	31	88.6	21	95.5
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	35	100.0	22	100.0

24. 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	2.94	2.94	2.93
Spreads of interest rates charged on outstanding balances over your bank's cost of funds (wider spreads=tightened, narrower spreads=eased)	2.91	3.00	2.80
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)	2.88	2.89	2.87
The extent to which loans are granted to some customers that do not meet credit scoring thresholds (increased=eased, decreased=tightened)	2.88	2.89	2.87
Other	3.00	3.00	3.00
Number of banks responding	33	18	15

25. 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	2.98	3.00	2.95
Spreads of loan rates over your bank's cost of funds (wider spreads=tightened, narrower spreads=eased)	2.95	2.97	2.91
Minimum required downpayment	2.93	2.94	2.91
Minimum required credit score (increased score=tightened, reduced score=eased)	2.84	2.83	2.86
The extent to which loans are granted to some customers that do not meet credit scoring thresholds (increased=eased, decreased=tightened)	2.79	2.77	2.82
Number of banks responding	57	35	22

26. 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	8	14.0	5	14.3	3	13.6
About the same	43	75.4	25	71.4	18	81.8
Moderately weaker	6	10.5	5	14.3	1	4.5
Substantially weaker	0	0.0	0	0.0	0	0.0
Total	57	100.0	35	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 STATES¹
(Status of policy as of January 2003)

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	5.0
Tightened somewhat	5	25.0
Remained basically unchanged	14	70.0
Eased somewhat	0	0.0
Eased considerably	0	0.0
Total	20	100.0

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

	All Respondents
	Mean
Maximum size of credit lines	2.40
Costs of credit lines	2.55
Spreads of loan rates over your bank's cost of funds (wider spreads=tightened, narrower spreads=eased)	2.55
Premiums charged on riskier loans	2.50
Loan covenants	2.75
Collateralization requirements	2.85
Other	2.95
Total	20

1. As of September 30, 2002, the 20 respondents had combined assets of \$308 billion, compared to \$950 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	1.64
Less favorable or more uncertain economic outlook	2.09
Worsening of industry-specific problems	1.73
Less aggressive competition from other banks or nonbank lenders (other financial intermediaries or the capital markets)	1.27
Reduced tolerance for risk	1.82
Decreased liquidity in the secondary market for these loans	1.45
Increase in defaults by borrowers in public debt markets	1.64
Other	1.00
Number of banks responding	11

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

	All Respondents
	Mean
Improvement in your bank's current or expected capital position	0
More favorable or less uncertain economic outlook	0
Improvement in industry-specific problems	0
More aggressive competition from other banks or nonbank lenders (other financial intermediaries or the capital markets)	0
Increased tolerance for risk	0
Increased liquidity in the secondary market for these loans	0
Reduction in defaults by borrowers in public debt markets	0
Other	0
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	1	5.0
About the same	14	70.0
Moderately weaker	5	25.0
Substantially weaker	0	0.0
Total	20	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	1.00
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	2.00
Other	1.00
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	1.60
Customer accounts receivable financing needs decreased	1.60
Customer investment in plant or equipment decreased	2.20
Customer internally generated funds increased	1.20
Customer merger or acquisition financing needs decreased	2.20
Customer borrowing shifted from your bank to other bank or nonbank credit sources because these other sources became more attractive	1.20
Other	1.20
Number of banks responding	5

Questions 6-16 ask about **credit default swaps**, which have become an important tool for the management of credit risk for many financial institutions. Please note that the term **credit default swaps (CDS)** in these questions refers to both single name credit default swaps and portfolio credit default swaps. Questions 6-12 focus on your bank's experience with CDS both as a buyer of credit protection (beneficiary) and as a seller (guarantor). Questions 13-15 deal with liquidity conditions in the market. Question 16 explores the reasons why some banks do not participate in the CDS market. If your bank neither purchases nor sells credit protection in the CDS market, please omit questions 6-14.

6. For what percentage of the current dollar volume of your bank's total C&I loan commitments (outstanding loans plus unused lines of credit) have you purchased credit protection with credit default swaps (CDS)?

	All Respondents	
	Banks	Pct
0 percent	9	50.0
More than 0 but less than 2 percent	1	5.6
Between 2 and 4 percent	3	16.7
Between 4 and 8 percent	0	0.0
Between 8 and 15 percent	3	16.7
More than 15 percent	2	11.1
Total	18	100.0

7. If your bank has been purchasing credit protection for C&I loan exposures using CDS (answers 2-6 in question 6), how important have been each of the following possible reasons for doing so? (Please respond to each reason according to the following scale: 1=not important, 2=somewhat important, 3=very important.)

	All Respondents
	Mean
Buying protection with a CDS is superior to selling a loan because relationships with firms are not compromised as they can be with loan sales.	2.56
Buying protection with a CDS is superior to selling or securitizing a loan because it is less expensive or less burdensome.	1.67
Buying protection with a CDS is a way to reduce risk for loans for which no resale or securitization market exists	2.00
Other (please specify)	1.11
Number of banks responding	9

8. As a percentage of your banks' total C&I loan commitments (outstanding loans plus unused credit lines), how much credit exposure has your bank acquired by selling credit protection in CDS. (Please include only your activity as a position taker in the CDS market; exclude credit protection sold to offset credit protection purchased as part of market making conducted by your bank's CDS dealer operations, if applicable.)

	All Respondents	
	Banks	Pct
0 percent	12	66.7
More than 0 but less than 2 percent	5	27.8
Between 2 and 4 percent	1	5.6
Between 4 and 8 percent	0	0.0
Between 8 and 15 percent	0	0.0
More than 15 percent	0	0.0
Total	18	100.0

9. If your bank has been taking positions as a seller of credit protection through the CDS market (answers 2-6 in question 8), how important have been each of the following possible reasons for doing so? (Please respond to each reason according to the following scale: 1=not important, 2=somewhat important, 3=very important.)

	All Respondents
	Mean
Selling protection in a CDS is a way to diversify the credit risks held by your bank.	2.33
Selling protection in a CDS is a way to increase credit exposure at your bank to a desired level	1.33
Selling protection in a CDS can be less expensive or less burdensome than loan purchases	1.17
Selling protection in a CDS can be more profitable than direct lending	0
Other (please specify)	0
Number of banks responding	6

10. On net, how has your bank's participation in the CDS market affected the amount of total C&I loan commitments (outstanding loans plus unused credit lines) at your bank?

	All Respondents	
	Banks	Pct
Substantially increased it by allowing credit exposure to be reduced	0	0.0
Moderately increased it by allowing credit exposure to be reduced	2	15.4
No noticeable net effect	9	69.2
Moderately decreased it by providing an alternative source of credit exposure	1	7.7
Substantially decreased it by providing an alternative source of credit exposure	1	7.7
Total	13	100.0

11. What share of the CDS entered by your bank (either to purchase or sell credit protection) and currently outstanding includes the following forms of restructuring as credit events?

A. Modified restructuring (in line with ISDA May 2001 terminology):

	All Respondents	
	Banks	Pct
Less than 10 percent	4	33.3
Between 10 percent and 25 percent	2	16.7
Between 25 percent and 50 percent	0	0.0
Between 50 percent and 75 percent	1	8.3
More than 75 percent	5	41.7
Total	12	100.0

B. Full restructuring (in line with the ISDA 1999 terminology):

	All Respondents	
	Banks	Pct
Less than 10 percent	5	45.5
Between 10 percent and 25 percent	1	9.1
Between 25 percent and 50 percent	1	9.1
Between 50 percent and 75 percent	1	9.1
More than 75 percent	3	27.3
Total	11	100.0

12. Please indicate the approximate percentage of the dollar volume of CDS held by your bank that are entered into with the following groups of counterparties. (Please include purchases or sales resulting from your bank's CDS dealer operations, if applicable. Percentages should be reported in whole numbers and should sum separately to 100 for both purchasing counterparties and selling counterparties.

A. When your institution is the buyer of credit protection:

	All Respondents
	Mean
Dealers headquartered in U.S.	59.4
Dealers headquartered outside the U.S.	30.6
Non-dealers headquartered in U.S.	4.5
Non-Dealers headquartered outside the U.S.	5.5
Number of banks responding	11

B. When your institution is the seller of credit protection:

	All Respondents
	Mean
Dealers headquartered in U.S.	51.5
Dealers headquartered outside the U.S.	33.5
Non-dealers headquartered in U.S.	2.5
Non-Dealers headquartered outside the U.S.	2.5
Number of banks responding	10

13. Under normal market conditions, how does your bank view its ability to unwind a position in CDS (by terminating the contract with consent of your counterparty or assigning the original CDS to another institution)?

	All Respondents	
	Banks	Pct
Very difficult or expensive	2	16.7
Somewhat difficult or expensive	7	58.3
Somewhat easy or inexpensive	2	16.7
Very easy or inexpensive	1	8.3
Total	12	100.0

14. How would you characterize the current state of liquidity in the CDS market?

	All Respondents	
	Banks	Pct
Much more liquid than normal	0	0.0
Somewhat more liquid than normal	0	0.0
About normal	6	50.0
Somewhat less liquid than normal	5	41.7
Much less liquid than normal	1	8.3
Total	12	100.0

15. Whether or not your bank takes position in the CDS market, how useful does your bank feel market quotes on CDS spreads are (under normal market conditions) in imputing a value for certain loan assets or pricing new loans?

	All Respondents	
	Banks	Pct
Very useful	5	27.8
Somewhat useful	11	61.1
Not very useful	2	11.1
Total	18	100.0

16. If your bank does not use CDS either to hedge loan risk or as stand-alone investments, to what extent do the following reasons explain why? (Please respond to each reason according to the following scale: 1=not important, 2=somewhat important, 3=very important.)

	All Respondents
	Mean
CDS are expensive relative to the benefits derived from them for hedging loan risk	2.00
CDS are generally riskier and more complicated instruments than loans	1.73
Regulatory capital guidelines make CDS less attractive than holding loans or funding loan facilities	1.36
Internal capital charges make CDS less attractive than holding loans or funding loan facilities	1.64
It is difficult to find CDS offered in the amounts or at the maturities desired by your bank	1.64
Other (please specify)	1.18
Number of banks responding	11

Questions 17-18 ask about **commercial real estate loans** at your bank, including construction and land development loans and loans secured by nonfarm nonresidential real estate. Question 17 deals with changes in your bank's standards over the last three months. Question 18 deals with changes in demand. 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.

17. 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	0	0.0
Remained basically unchanged	12	100.0
Eased somewhat	0	0.0
Eased considerably	0	0.0
Total	12	100.0

18. 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	2	18.2
About the same	8	72.7
Moderately weaker	1	9.1
Substantially weaker	0	0.0
Total	11	100.0