

The March 2024 Senior Credit Officer Opinion Survey on Dealer Financing Terms

The March 2024 Senior Credit Officer Opinion Survey on Dealer Financing Terms (SCOOS) collected qualitative information on changes in credit terms and conditions in securities financing and over-the-counter (OTC) derivatives markets between November 2023 and February 2024.¹ In addition to the core questions, the survey included a set of special questions about changes in financing terms and market conditions since the beginning of 2023 for selected segments of the market for commercial mortgage-backed securities (CMBS) collateralized by office properties.

Core Questions (Questions 1–79)²

With regard to the credit terms applicable to, and mark and collateral disputes with, different counterparty types across the entire range of securities financing and OTC derivatives transactions, responses to the core questions revealed the following:

- For all types of counterparties, the vast majority of dealers reported that both price and nonprice terms on securities financing transactions and OTC derivatives remained basically unchanged over the past three months (see the exhibit “Management of Concentrated Credit Exposures and Indicators of Supply of Credit”).
- About one-fifth of respondents indicated that they increased the resources and attention devoted to managing concentrated credit exposure to dealers and other financial intermediaries. Nearly all dealers reported that the resources and attention they devote to managing their concentrated credit exposure to central counterparties remained basically unchanged.
- The volume of mark and collateral disputes remained basically unchanged over the past three months for all counterparty types. A small fraction of respondents indicated that the duration and persistence of mark and collateral disputes with dealers decreased over the past three months.

With respect to clients’ **use of financial leverage**, responses to the core questions revealed the following:

- Nearly all dealers reported that the use of financial leverage remained basically unchanged over the past three months for all types of counterparties (see the exhibit “Use of Financial Leverage”).

¹ The 22 institutions participating in the survey account for almost all dealer financing of dollar-denominated securities to nondealers and are the most active intermediaries in OTC derivatives markets. The survey was conducted between February 13, 2024, and February 26, 2024. The core questions asked about changes between November 2023 and February 2024.

² Question 80, not discussed here, was optional and allowed respondents to provide additional comments.

With regard to **OTC derivatives markets**, responses to the core questions revealed the following:

- All dealers reported no changes in nonprice terms in master agreements.
- A small fraction of dealers reported an increase in initial margin requirements for average clients with respect to OTC interest rate derivatives. Almost all dealers reported no changes in initial margin requirements for other types of OTC derivatives.
- About one-fifth of respondents indicated a decrease in the volume of mark and collateral disputes relating to OTC equity derivatives. A similar fraction of respondents indicated a decrease in the duration and persistence of mark and collateral disputes relating to OTC foreign exchange derivatives. The volume, duration, and persistence of mark and collateral disputes remained basically unchanged over the past three months for other types of OTC derivatives.

With respect to **securities financing transactions**, respondents indicated the following:

- About one-fifth of dealers, on net, indicated an easing over the past three months of terms for collateral spreads for high-grade corporate bonds, high-yield corporate bonds, and non-agency residential mortgage-backed securities.
- One-third of dealers indicated increased demand for funding of equities (including through stock loans) over the past three months (see the exhibit “Measures of Demand for Funding and Market Functioning”).
- One-fourth of dealers reported that liquidity and market functioning for high-grade corporate bonds improved over the past three months. A small fraction of dealers reported improved liquidity and market functioning for high-yield corporate bonds. The vast majority of dealers indicated that liquidity and market functioning for other types of securities remained basically unchanged.
- The volume, duration, and persistence of mark and collateral disputes remained basically unchanged over the past three months across all collateral classes.

Special Questions on Commercial Mortgage-Backed Securities Backed by Office Collateral (Questions 81–87)

Past SCOOS responses have indicated that many dealers have tightened funding terms for CMBS since the beginning of 2023. In these special questions, dealers were asked about changes in financing terms and market conditions since the beginning of 2023 for selected segments of the market for CMBS collateralized by office properties.³ The questions were asked separately for triple-A-rated CMBS and lower-rated CMBS and for conduit and single-asset single-borrower (SASB) CMBS, thereby resulting in four segments to consider: triple-A-rated

³ As in the core questions on securities financing, such financing activities may be conducted on a “repo” desk, on a trading desk engaged in facilitation for institutional clients and/or proprietary transactions, on a funding desk, or on a prime brokerage platform.

office conduit CMBS, triple-A-rated office SASB CMBS, non-triple-A-rated office conduit CMBS, and non-triple-A-rated office SASB CMBS.⁴

With respect to financing terms and market conditions for **triple-A-rated office conduit CMBS and triple-A-rated office SASB CMBS**, dealers reported the following:

- About two-fifths of respondents indicated that they are currently active in financing client positions in triple-A-rated office conduit CMBS. One-half of dealers reported the same for triple-A-rated office SASB CMBS.
- Three-fourths and four-fifths of the active dealers reported tightening, on net, of nonprice terms under which triple-A-rated office conduit CMBS and triple-A-rated office SASB CMBS securities, respectively, are funded.⁵ About two-thirds of the active dealers reported tightening, on net, of price terms for each of the triple-A-rated office CMBS segments.
- For each of the CMBS market segments, dealers who reported tightening of nonprice or price terms of funding were asked to provide their three most important reasons for the change. Of the dealers reporting tightening of terms of funding for triple-A-rated office conduit CMBS, two-thirds cited worsening in market liquidity and functioning for office CMBS, and one-half cited an increase in their assessment of default risk in the underlying collateral. Of the dealers reporting tightening of terms of funding for triple-A-rated office SASB CMBS, almost all cited worsening in market liquidity and functioning for office CMBS and an increase in respondents' assessment of default risk in the underlying collateral. In addition, one-half cited their reduced willingness to take on exposure to the underlying collateral in the CMBS for this market segment.
- About two-fifths of the active dealers, on net, indicated increased demand for funding for each of the triple-A-rated office CMBS segments.
- Liquidity and functioning in the triple-A-rated office conduit CMBS market remained basically unchanged, on net. About one-fifth of the active dealers, on net, reported deteriorated liquidity and functioning in the triple-A-rated office SASB CMBS market.

With respect to financing terms and market conditions for **non-triple-A-rated office conduit CMBS and non-triple-A-rated office SASB CMBS**, dealers reported the following:

- About two-fifths of respondents indicated that they are currently active in financing client positions in non-triple-A-rated office conduit CMBS. About one-half of dealers reported the same for non-triple-A-rated office SASB CMBS.

⁴ The conduit CMBS considered in the special questions refers to CMBS with exposure to office properties of at least one-third of the underlying loan balance of the pool.

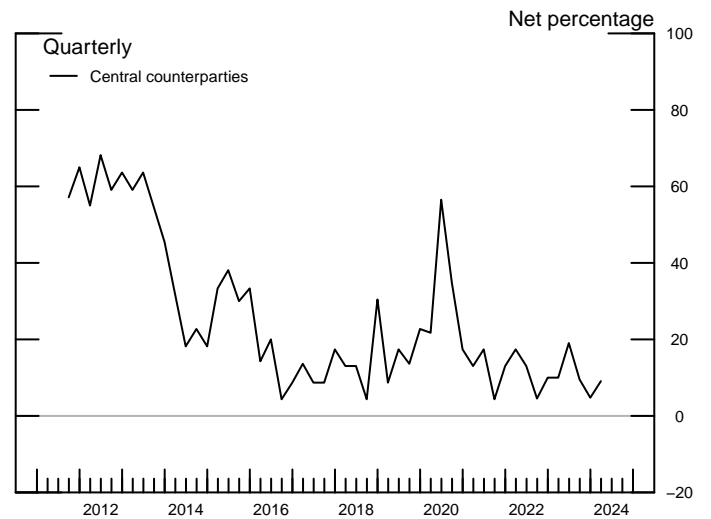
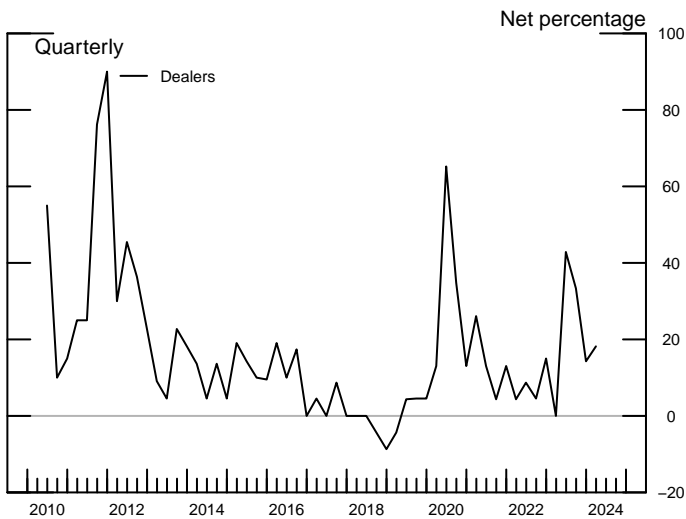
⁵ As in the core questions on counterparty types, examples of nonprice terms include haircuts, maximum maturity, covenants, cure periods, cross-default provisions, or other documentation features. Financing rates are an example of price terms.

- Nearly all active dealers in each of these CMBS segments reported tightening, on net, of nonprice terms and the price terms under which these securities are funded.
- Of the dealers reporting tightening of the nonprice or price terms in each of these CMBS segments, almost all cited an increase in their assessment of default risk in the underlying collateral in the CMBS or worsening in market liquidity and functioning for office CMBS as one of the three most important reasons for the change. In each of these CMBS segments, about one-half cited less-aggressive competition from other institutions as one of the three most important reasons for the change.
- In each of the non-triple-A-rated office CMBS segments, about three-fifths of the active dealers, on net, indicated increased demand for funding.
- In each of the non-triple-A-rated office CMBS segments, about two-fifths of the active dealers, on net, reported deteriorated liquidity and functioning.

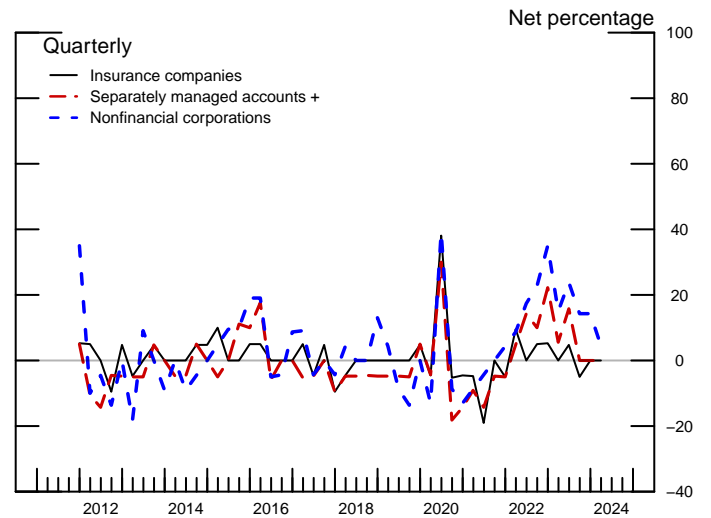
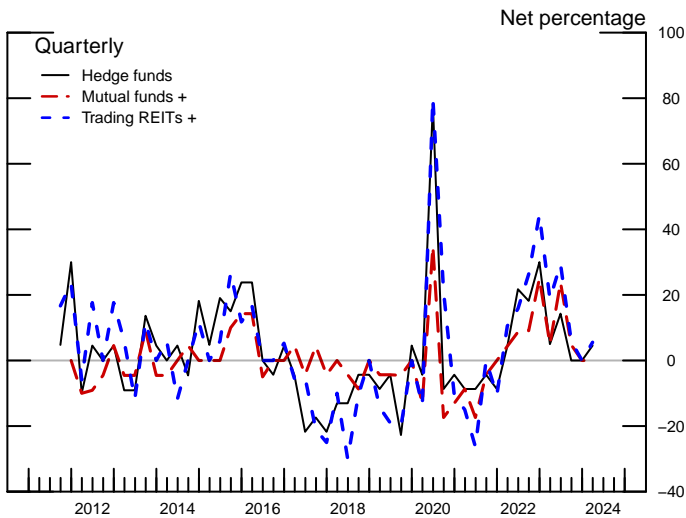
This document was prepared by Pawel Szerszen, Division of Research and Statistics, Board of Governors of the Federal Reserve System. Assistance in developing and administering the survey was provided by staff members in the Capital Markets Function, the Statistics Function, and the Markets Group at the Federal Reserve Bank of New York.

Management of Concentrated Credit Exposures and Indicators of Supply of Credit

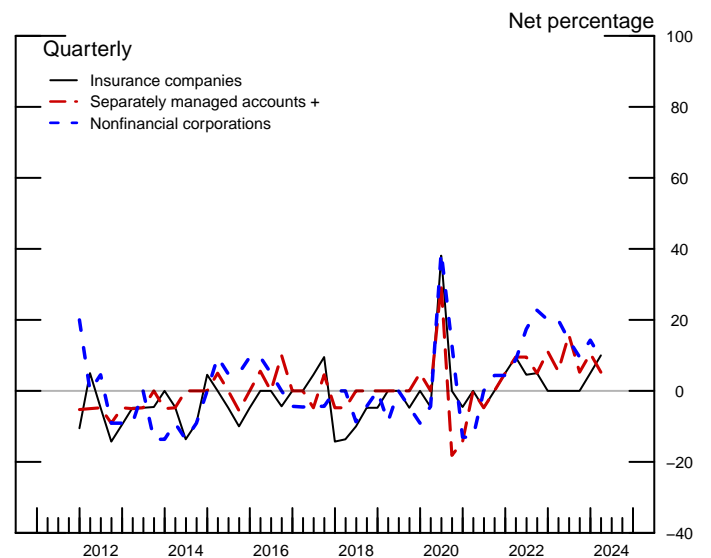
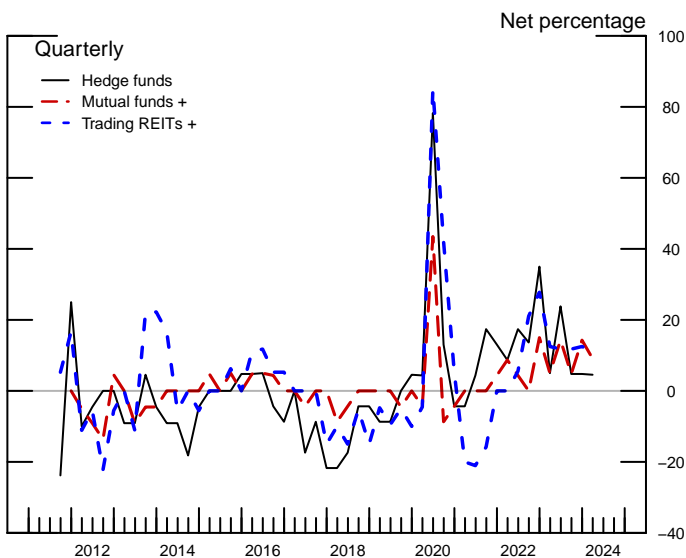
Respondents increasing resources and attention to management of concentrated exposures to the following:



Respondents tightening price terms to the following:



Respondents tightening nonprice terms to the following:



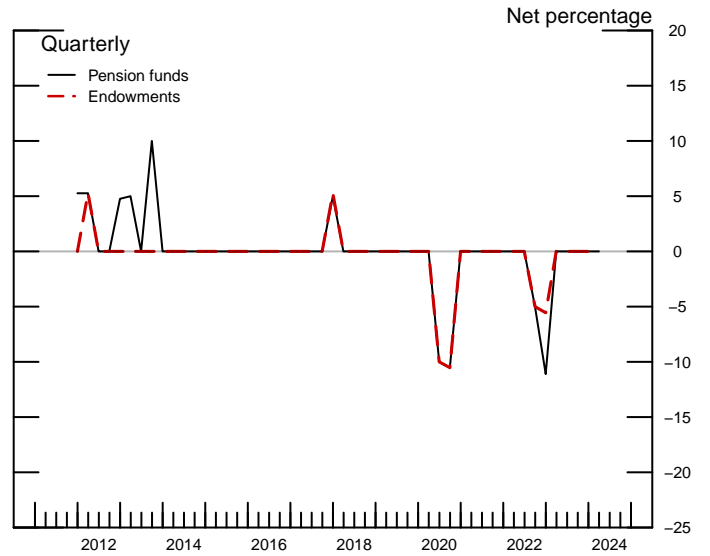
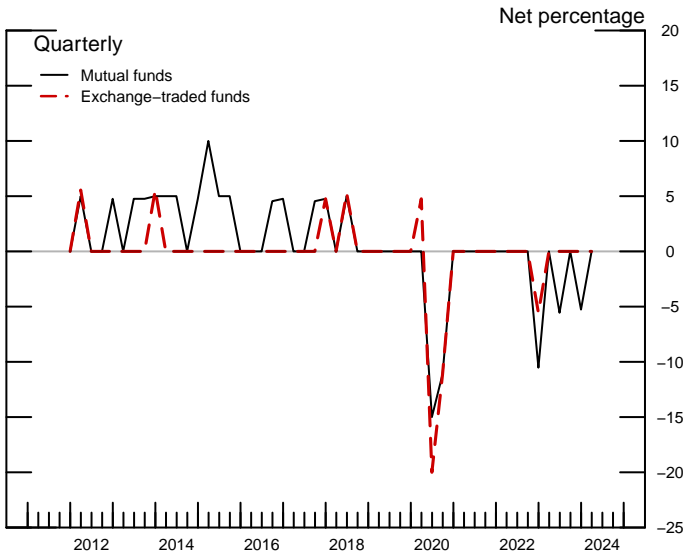
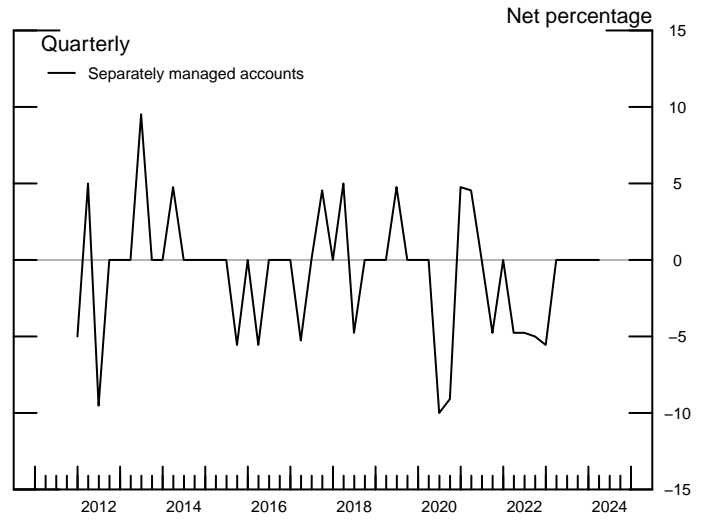
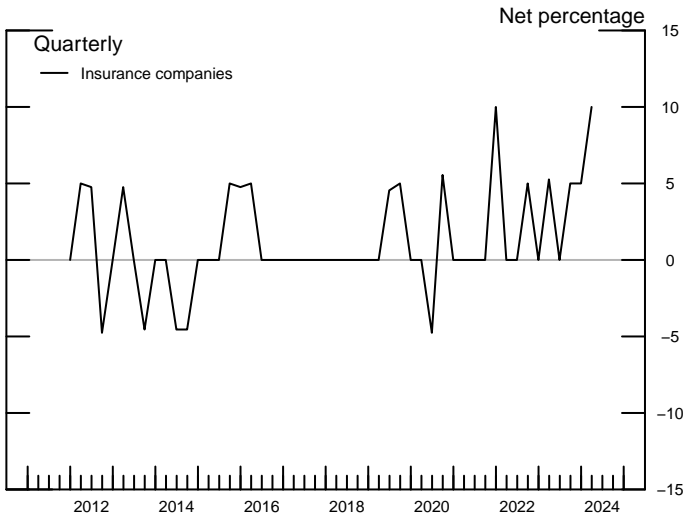
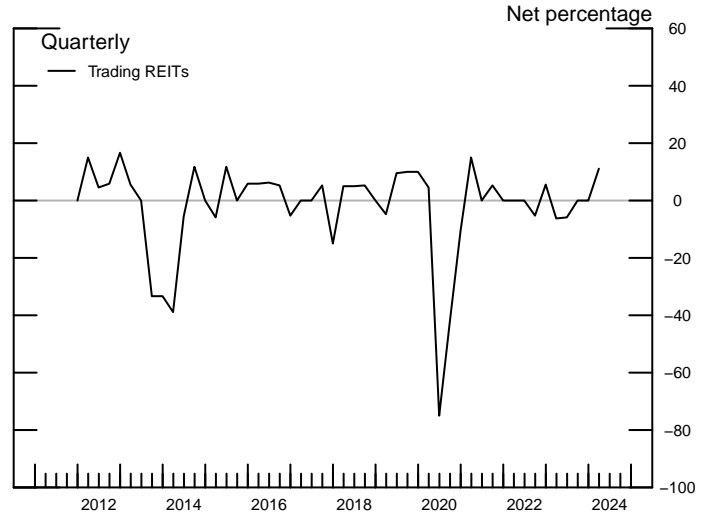
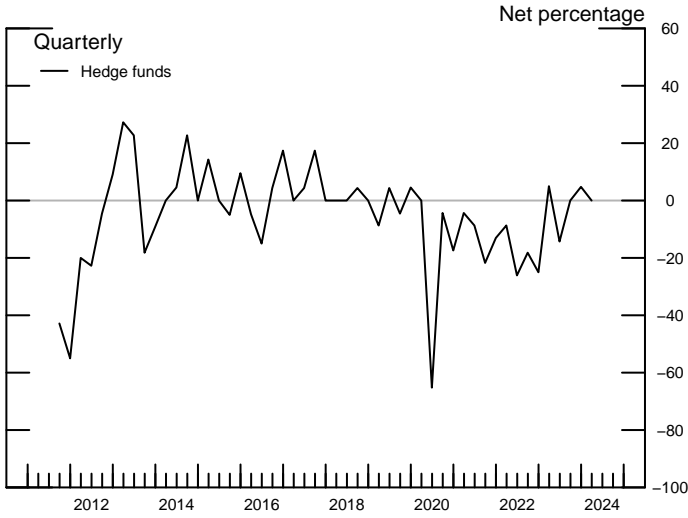
Note: REIT is real estate investment trust.

+ The question was added to the survey in September 2011.

Source: Federal Reserve Board, Senior Credit Officer Opinion Survey on Dealer Financing Terms.

Use of Financial Leverage

Respondents reporting increased use of leverage by the following:

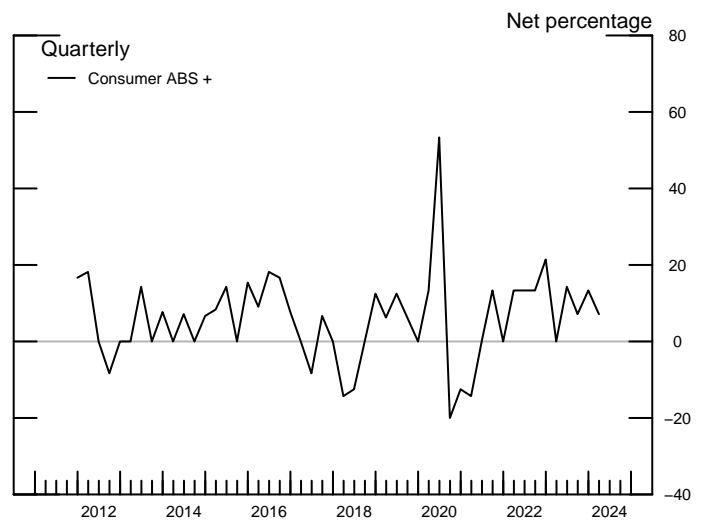
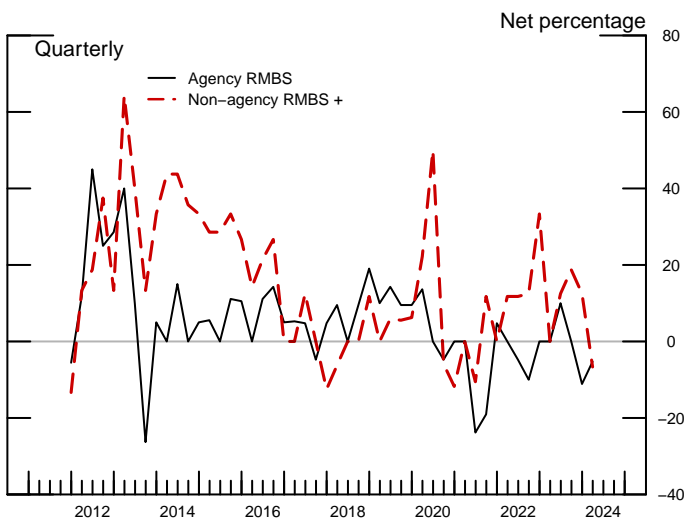
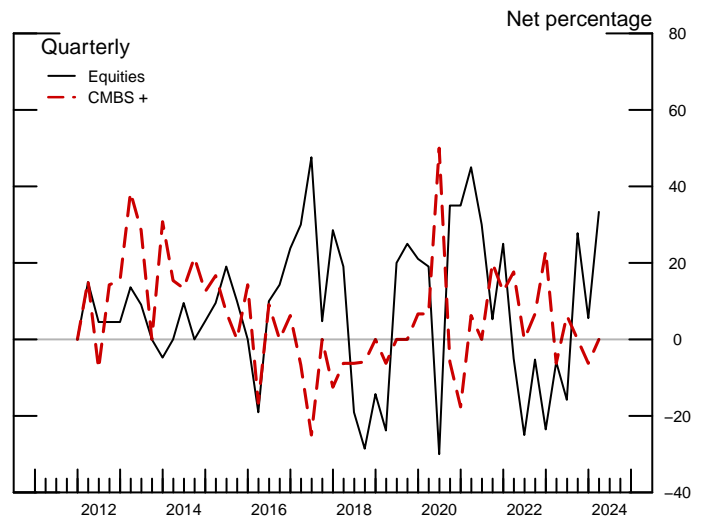
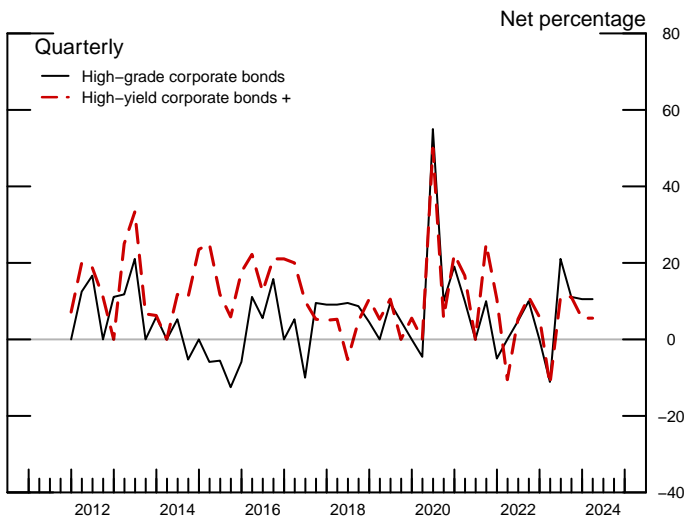


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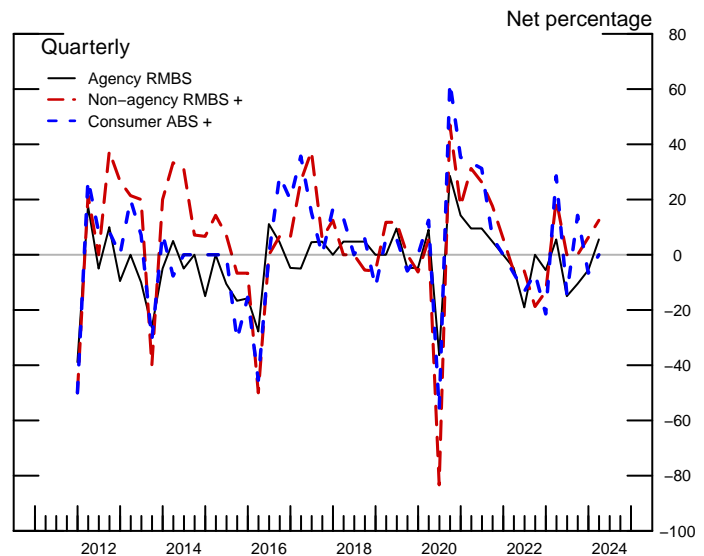
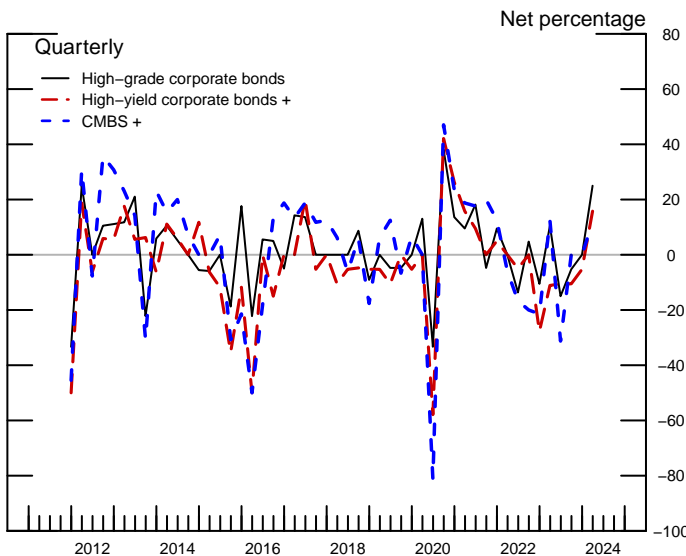
Source: Federal Reserve Board, Senior Credit Officer Opinion Survey on Dealer Financing Terms.

Measures of Demand for Funding and Market Functioning

Respondents reporting increased demand for funding of the following:



Respondents reporting an improvement in liquidity and functioning in the underlying markets for the following:



Note: CMBS is commercial mortgage-backed securities; RMBS is residential mortgage-backed securities; ABS is asset-backed securities.

+ The question was added to the survey in September 2011.

Source: Federal Reserve Board, Senior Credit Officer Opinion Survey on Dealer Financing Terms.