Board of Governors of the Federal Reserve System

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

The April 2003 Senior Loan Officer Opinion Survey on Bank Lending Practices focused on changes in the supply of and demand for bank loans to businesses and households over the past three months. In addition, the survey contained two sets of supplementary questions that focused on the reasons for recent changes in the credit quality of business and commercial real estate loans, as well as changes in lending terms for commercial real estate loans. Responses were received from fifty-six domestic and eighteen foreign banking institutions.

On net, both foreign and domestic banks continued to report that they had tightened business lending conditions in the April survey. However, the fractions of domestic banks that tightened lending standards and terms on C&I loans declined noticeably. On the household side, the fractions of banks that tightened standards on credit cards and other consumer loans remained modest and within the narrow range of recent surveys. Banks reported that demand for C&I and commercial real estate loans weakened, on net, over the past three months, while demand for residential mortgages continued to increase.

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

Only six domestic banks tightened lending standards to large and middle-market firms in April, and one bank reported that it had eased lending standards to those firms the most recent survey. This represents a significant difference from the January survey, when about 20 percent of domestic banks reported having tightened standards on C&I loans to larger firms, and three of the banks that had tightened lending standards classified the tightening as considerable. Indeed, the net percentage of banks reporting tighter lending standards for large and middle market firms in April, 9 percent, was the lowest percentage since the November 1999 survey.

Furthermore, the net fraction of domestic banks that reported increasing spreads on loans to larger borrowers fell from 27 percent in January to 15 percent in April. Moreover, the number of banks that reported reducing those spreads rose to seven in April from only two in the previous survey. The net fraction of domestic banks that strengthened loan covenants also fell, to 18 percent in April from 27 percent in January. The net shares of banks that reported tightening other loan terms was about unchanged from the previous survey, including the fraction of banks that reported increasing premiums on riskier loans, which stayed at just over one-third.

The percentage of domestic banks that reported tightening standards for small firms remained within its recent range in April, at 13 percent. The percentages of banks tightening terms on loans to small firms, which already had been notably lower than those for large and middle-market firms, moved down somewhat further. Indeed, almost equal fractions of banks lowered the cost of credit lines for small firms as raised them, and the net fraction of banks that increased spreads on loans to these firms fell from 16 percent in January to 11 percent in April. In addition, the net fraction of banks that increased premiums charged on riskier loans to small firms fell from 35 percent in January to 19 percent in April.

All but one of the domestic banks that had tightened standards or terms cited a less favorable economic outlook as at least a somewhat important reason for doing so. Large majorities of those banks also continued to cite a reduced tolerance for risk and worsening industry-specific problems as important reasons for the change. All ten of the banks that reported having eased standards or at least one loan term said they had done so in response to increased competition from other banks or nonbank lenders, which is consistent with a substantial amount of institutional participation in the syndicated loan market during the first quarter of 2003. One bank that eased lending conditions indicated that a more favorable economic outlook had played a role in its decision.

The fraction of U.S. branches and agencies of foreign banks that tightened standards on C&I loans, which had been trending down since last August, was one-third in the current survey, about unchanged from January. The fraction of foreign institutions that increased spreads on all loans over their cost of funds was also steady, at just below 50 percent for the second consecutive survey. The fraction of branches and agencies that tightened most other terms inched down, except the fraction that boosted premiums on loans to riskier customers, which rose to more than 50 percent in April from about 40 percent in January. Foreign institutions that tightened standards or terms generally pointed to a less favorable economic outlook as the most important reason for tightening.

The net fractions of domestic banks reporting weaker demand rose in April. About 40 percent of domestic banks reported weaker demand for loans from large and medium-size firms over the past three months, and no bank reported increased demand from those customers. For small firms, the net percentage of banks reporting weaker demand remained at about 20 percent, with only three banks reporting increased demand. The net share of branches and agencies of foreign banks reporting weaker demand more than doubled to 44 percent in April from 20 percent in January.

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, and reduced needs to finance inventories was the second most cited reason. Large fractions of domestic banks also blamed reduced merger and acquisition business and reduced need to finance accounts receivable for weaker demand. 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 Quality of Business Loans. Over the past several quarters, delinquency rates on C&I loans at commercial banks have leveled off, while charge-off rates have remained very high. Almost all of the domestic banks indicated that delinquency rates had stabilized because reduced interest rates have allowed borrowers to lower their debt-servicing costs by refinancing loans and restructuring their balance sheets. Foreign banking institutions also pointed to refinancing at lower interest rates, but reported that a reduction in industry-specific problems had played a somewhat greater role, on net, in stabilizing their delinquency rates. Both domestic and foreign banks also credited the aggressive tightening of lending standards over the past several years for reducing the incidence of new problem loans. Large fractions of banks reported a variety of reasons for elevated charge-off rates, including unusually low recovery rates on delinquent loans and their own aggressiveness in dealing with problem credits.

Commercial real estate lending. The net fraction of domestic banks that reported tightening standards on commercial real estate loans over the past three months was 18 percent in April–well within its recent range. Two of ten foreign institutions reported tightening standards for these loans in the current survey, up from zero in the January survey. Demand for these loans continued to weaken at domestic banks, where the net share of banks reporting weaker demand edged up from 21 percent in January to 29 percent in April. On net, demand at foreign institutions was unchanged.

Moderate fractions of domestic and foreign banks indicated that over the past year they had tightened various lending terms associated with commercial real estate loans; however, the fractions were generally lower than they were when the same questions were asked in January 2002. For instance, about 25 percent of domestic banks reported that they had raised loan-to-value ratios over the past twelve months, down from almost 50 percent in the year-earlier survey. As was the case for C&I loans, banks most commonly cited concern about the economy as a reason for tightening terms, and also specifically pointed to conditions in the commercial real estate sector. Among the eleven domestic banks that had eased commercial real estate lending terms during the past year, almost all cited more aggressive competition from other commercial banks as the reason for doing so, and a majority also reported increased competition from nonbank lenders.

Despite rising vacancy rates and falling rents for commercial office space over the past several years, the delinquency rate on commercial real estate loans at banks declined steadily during 2002. Most banks reported that less than half of their commercial real estate loans contain prepayment penalties, and therefore borrowers had been able to avoid delinquencies by refinancing their loans at lower interest rates to reduce their debt-servicing costs. Banks also indicated that many borrowers still have considerable equity in their properties, which maintains the incentive for them to continue payments. Some foreign and domestic institutions also reported that long-term leases that had insulated property owners from declining rents were a very important reason for the good performance of commercial real estate loans.

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

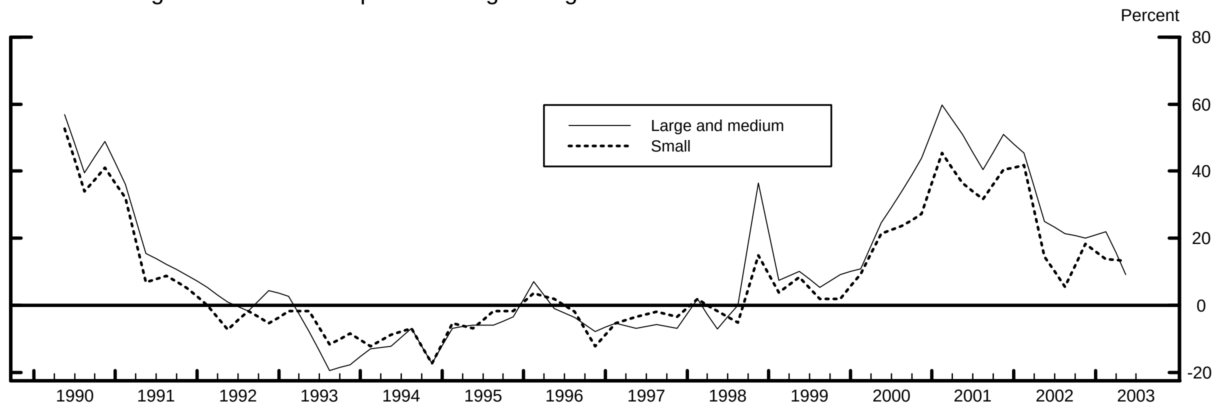
Only 6 percent of domestic banks reported that they had tightened standards on residential mortgage loans in the April survey, down from about 10 percent in both the January and the October surveys. The net fraction of respondents that reported stronger demand for mortgages to purchase homes over the past three months edged up to 17 percent in April from 8 percent in January, but remains well below the levels that prevailed in 2002.

The shares of banks that reported tightening standards for credit cards and other consumer loans remained within their narrow ranges of the past two years at 10 and 13 percent, respectively. About 10 percent of banks, on net, indicated that they had increased the minimum credit score required for both credit card and other consumer loans. Banks also reported that they had reduced the extent to which loans were granted to customers that did not meet those thresholds, especially for non-credit-card consumer loans. By contrast, banks reduced, on net, the spread of loan rates over their cost of funds for both credit card and other types of consumer loans, and a few also extended the maximum maturity for installment loans. On net, banks reported that demand for consumer loans was about unchanged.

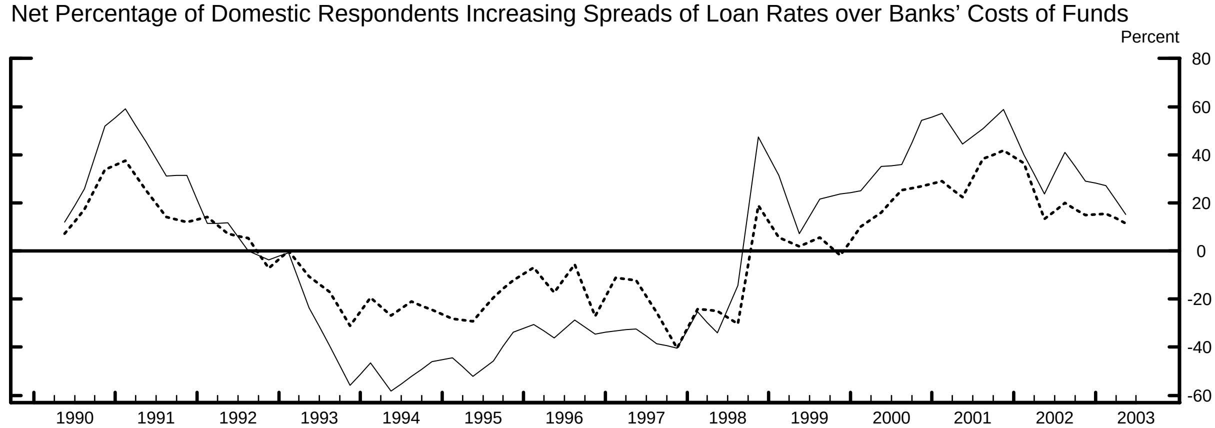
This document was prepared by William Bassett with the research assistance of Steve Piraino, Division of Monetary Affairs, Board of Governors of the Federal Reserve System.

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

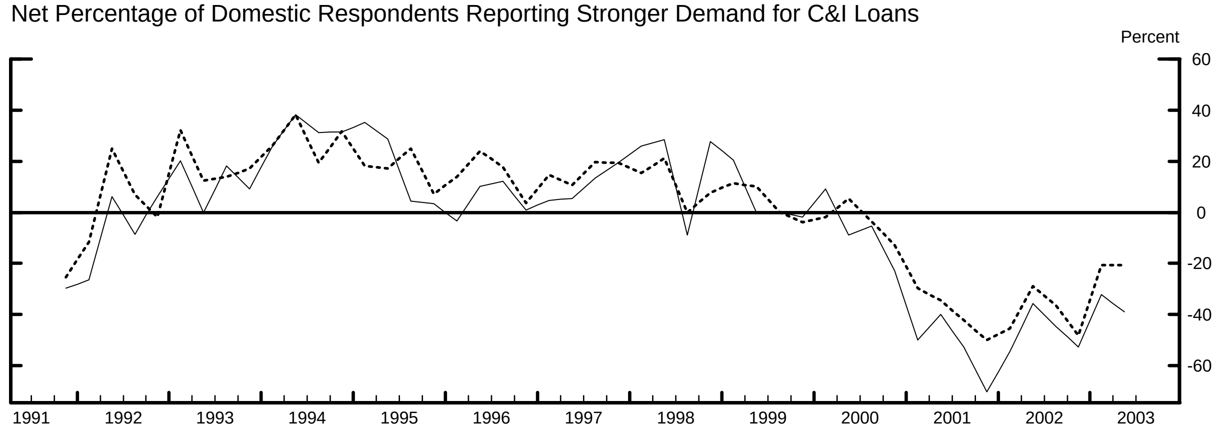
Net Percentage of Domestic Respondents Tightening Standards for C&I Loans



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

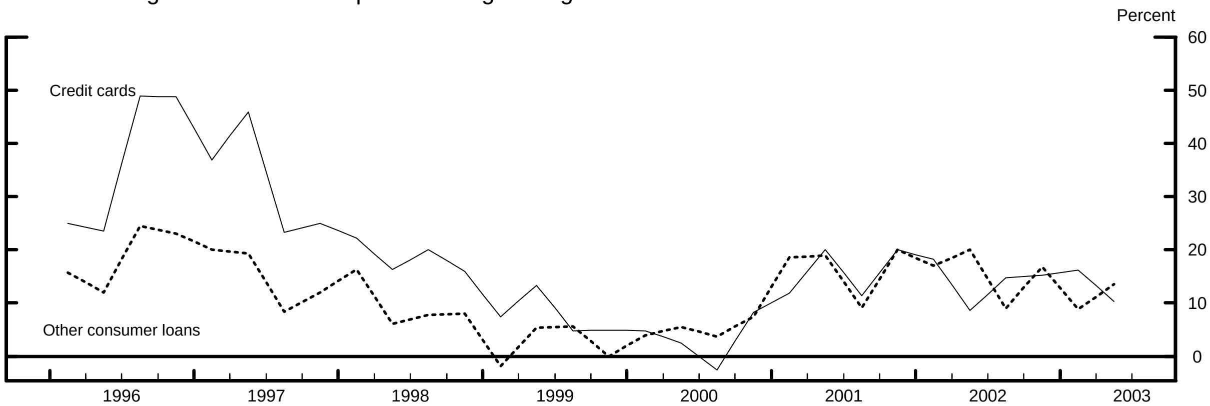


Net Percentage of Domestic Respondents Reporting Stronger Demand for C&I Loans

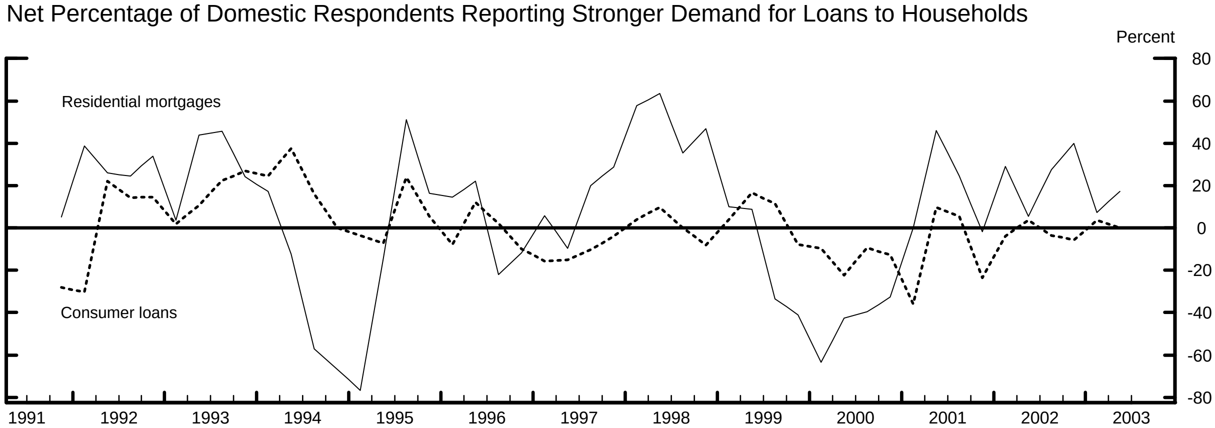


Measures of Supply and Demand for Loans to Households

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

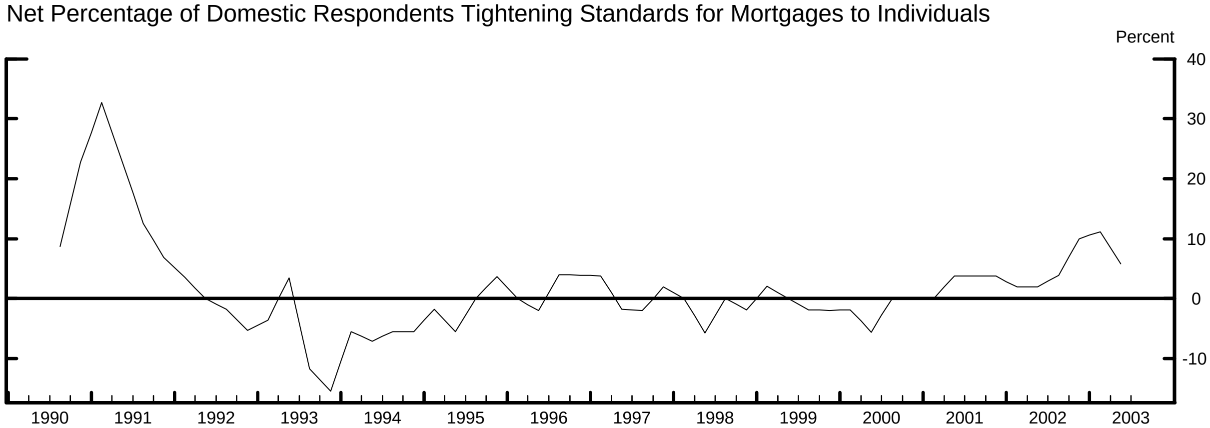


Table 1

SENIOR LOAN OFFICER OPINION SURVEY ON BANK LENDING PRACTICES
AT SELECTED LARGE BANKS IN THE UNITED STATES[1]
(Status of policy as of April 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	0	0.0	0	0.0	0	0.0
Tightened somewhat	6	10.7	2	6.1	4	17.4
Remained basically unchanged	49	87.5	30	90.9	19	82.6
Eased somewhat	1	1.8	1	3.0	0	0.0
Eased considerably	0	0.0	0	0.0	0	0.0
Total	56	100.0	33	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	14.5	5	15.6	3	13.0
Remained basically unchanged	46	83.6	26	81.3	20	87.0
Eased somewhat	1	1.8	1	3.1	0	0.0
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 December 31, 2002. The combined assets of the 32 large banks totaled $3.04 trillion, compared to $3.26 trillion for the entire panel of 54 banks, and $6.25 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	2.76	2.76	2.77
Costs of credit lines	2.82	2.76	2.91
Spreads of loan rates over your bank’s cost of funds (wider spreads=tightened, narrower spreads=eased)	2.85	2.79	2.95
Premiums charged on riskier loans	2.64	2.52	2.82
Loan covenants	2.82	2.79	2.86
Collateralization requirements	2.85	2.85	2.86
Other	2.98	3.00	2.95
Number of banks responding	55	33	22

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	2.94	2.94	2.95
Costs of credit lines	2.96	2.97	2.95
Spreads of loan rates over your bank’s cost of funds (wider spreads=tightened, narrower spreads=eased)	2.89	2.84	2.95
Premiums charged on riskier loans	2.80	2.72	2.91
Loan covenants	2.89	2.91	2.86
Collateralization requirements	2.91	2.91	2.91
Other	2.94	2.97	2.91
Number of banks responding	54	32	22

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	1.13	1.11	1.18
Less favorable or more uncertain economic outlook	2.10	2.11	2.09
Worsening of industry-specific problems	1.90	1.89	1.91
Less aggressive competition from other banks or nonbank lenders (other financial intermediaries or the capital markets)	1.23	1.32	1.09
Reduced tolerance for risk	1.90	2.05	1.64
Decreased liquidity in the secondary market for these loans	1.37	1.47	1.18
Increase in defaults by borrowers in public debt markets	1.47	1.63	1.18
Other	1.03	1.05	1.00
Number of banks responding	30	19	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	1.10	1.25	1.00
Improvement in industry-specific problems	1.00	1.00	1.00
More aggressive competition from other banks or nonbank lenders (other financial intermediaries or the capital markets)	2.50	2.50	2.50
Increased tolerance for risk	1.20	1.25	1.17
Increased liquidity in the secondary market for these loans	1.00	1.00	1.00
Reduction in defaults by borrowers in public debt markets	1.00	1.00	1.00
Other	1.20	1.50	1.00
Number of banks responding	10	4	6

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	0	0.0	0	0.0	0	0.0
About the same	34	60.7	18	54.5	16	69.6
Moderately weaker	21	37.5	15	45.5	6	26.1
Substantially weaker	1	1.8	0	0.0	1	4.3
Total	56	100.0	33	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	3	5.5	3	9.4	0	0.0
About the same	37	67.3	22	68.8	15	65.2
Moderately weaker	15	27.3	7	21.9	8	34.8
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	1.67	1.67	0
Customer accounts receivable financing needs increased	1.67	1.67	0
Customer investment in plant or equipment increased	1.33	1.33	0
Customer internally generated funds decreased	2.00	2.00	0
Customer merger or acquisition financing needs increased	1.33	1.33	0
Customer borrowing shifted to your bank from other bank or nonbank credit sources because these other sources became less attractive	1.33	1.33	0
Other	1.00	1.00	0
Number of banks responding	3	3	0

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	1.96	2.06	1.78
Customer accounts receivable financing needs decreased	1.88	1.94	1.78
Customer investment in plant or equipment decreased	2.16	2.13	2.22
Customer internally generated funds increased	1.44	1.63	1.11
Customer merger or acquisition financing needs decreased	1.88	2.13	1.44
Customer borrowing shifted from your bank to other bank or nonbank credit sources because these other sources became more attractive	1.24	1.25	1.22
Other	1.04	1.00	1.11
Number of banks responding	25	16	9

6. Over the **past two quarters**, Call Report data indicates that the delinquency rate on commercial and industrial loans has stabilized. To what do you attribute the improvement? (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
Aggressive tightening of lending standards over the past several years has reduced the incidence of new problem loans.	1.88	1.91	1.83
Industry-specific problems have abated somewhat.	1.86	1.94	1.74
Reduced interest rates have allowed borrowers to refinance and restructure their balance sheets to lower their debt-servicing costs.	2.20	2.12	2.30
Significant amounts of delinquent loans have been sold to nonbank investors.	1.38	1.55	1.13
Banks have been charging-off loans more aggressively than in the past.	1.54	1.58	1.48
Other	1.04	1.03	1.04
Number of banks responding	56	33	23

7. Net charge-off rates on C&I loans are at very high levels. To what do you attribute the unusually high level of net charge-offs relative to delinquencies? (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
Recovery rates on delinquent loans have been unusually low.	1.88	1.88	1.87
Significant amounts of loans have been sold at prices below book value (sales of assets at a price less than book value are recorded as charge-offs).	1.75	1.88	1.57
Banks have been charging-off loans more aggressively than in the past.	1.82	1.88	1.74
Other	1.13	1.15	1.09
Number of banks responding	56	33	23

Questions 8-14 *ask about* ***commercial real estate loans*** *at your bank, including construction and land development loans and loans secured by nonfarm nonresidential real estate. Question 8 deals with changes in your bank's standards over the last three months. Questions 9-12 ask about changes in terms over the past year. Question 13 asks about the reasons why commercial real estate loan quality has held up in the face of rising vacancy rates and declining rents in the sector. Question 14 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 accomodative relative to longer-term norms. If your bank's standards or terms have tightened or eased over the relevant period, please report changes in enforcement of existing standards as changes in standards.*

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

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Tightened considerably	0	0.0	0	0.0	0	0.0
Tightened somewhat	11	19.6	8	24.2	3	13.0
Remained basically unchanged	44	78.6	25	75.8	19	82.6
Eased somewhat	1	1.8	0	0.0	1	4.3
eased considerably	0	0.0	0	0.0	0	0.0
Total	56	100.0	33	100.0	23	100.0

9. 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	2.89	2.91	2.86
Maximum loan maturity	2.98	2.94	3.05
Spreads of loan rates over your bank's cost of funds (wider spread=tightened, narrower spreads=eased)	2.84	2.70	3.05
Loan-to-value ratios	2.76	2.82	2.68
Requirement for take-out financing	2.84	2.85	2.82
Debt-service coverage ratios	2.80	2.85	2.73
Other	2.93	2.97	2.86
Number of banks responding	55	33	22

10. If your bank has tightened or eased its terms for commercial real estate loans over the **past year** (as described in question 9), 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	Large Banks	Other Banks
	Mean	Mean	Mean
Less favorable economic outlook	2.14	2.06	2.27
Worsening of the condition of, or the outlook for, commercial real estate in the markets where your bank operates	2.04	2.06	2.00
Less aggressive competition from other commercial banks	1.07	1.12	1.00
Less aggressive competition from nonbank lenders	1.04	1.06	1.00
Reduced tolerance for risk	1.89	1.88	1.91
Increased concern about take-out financing	1.54	1.53	1.55
Less liquid market for secutities collateralized by these loans	1.18	1.24	1.09
Other	1.00	1.00	1.00
Number of banks responding	28	17	11

B. Possible reasons for easing commercial real estate loan terms:

	All Respondents	Large Banks	Other Banks
	Mean	Mean	Mean
More favorable economic outlook	1.08	1.20	1.00
Improvement in the condition of, or the outlook for, commercial real estate in the markets where your bank operates	1.17	1.20	1.14
More aggressive competition from other commercial banks	2.25	2.20	2.29
More aggressive competition from nonbank lenders	1.83	2.00	1.71
Increased tolerance for risk	1.17	1.40	1.00
Reduced concern about take-out financing	1.17	1.20	1.14
More liquid market for secutities collateralized by these loans	1.33	1.80	1.00
Other	1.08	1.20	1.00
Number of banks responding	12	5	7

11. For your bank's nonfarm, nonresidential real estate loans please indicate the average *original* term to maturity.

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Less than 2 years	2	3.6	2	6.3	0	0.0
Between 2 and 5 years	35	63.6	22	68.8	13	56.5
Between 5 and 10 years	13	23.6	8	25.0	5	21.7
Between 10 and 15 years	4	7.3	0	0.0	4	17.4
More than 15 years	1	1.8	0	0.0	1	4.3
Total	55	100.0	32	100.0	23	100.0

12. Approximately what percentage of commercial real estate loans on your bank's books impose a penalty for prepayment or refinancing of the loan?

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Less than 20 percent	26	46.4	16	48.5	10	43.5
Between 20 and 40 percent	11	19.6	7	21.2	4	17.4
Between 40 and 60 percent	3	5.4	0	0.0	3	13.0
Between 60 and 80 percent	7	12.5	4	12.1	3	13.0
More 80 percent	9	16.1	6	18.2	3	13.0
Total	56	100.0	33	100.0	23	100.0

13. Over the **past year**, vacancy rates for commercial office space have risen and commercial rents have fallen. Nonetheless, Call Report data indicates that the delinquency rate on commercial real estate loans declined steadily during 2002. To what do you attribute teh continued good performance of commercial real estate loans? (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
Aggressive tightening of lending standards and terms prior to the market decline allowed banks to avoid currently troubled properties.	1.82	1.82	1.83
The commercial real estate loans held on the banks' books are typically not secured by the types of properties that are currently experiencing difficulties.	1.75	1.64	1.91
Many borrowers have considerable equity in their properties, which maintains the incentive for them to continue payments.	2.34	2.58	2.00
Reduced interest rates have allowed borrowers to refinance and lower their debt financing costs.	2.61	2.64	2.57
Many long-term leases, signed prior to the market decline, have yet to expire or be negotiated and are supporting property revenue.	1.89	1.97	1.78
Other	1.07	1.09	1.04
Number of banks responding	56	33	23

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

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Substantially stronger	0	0.0	0	0.0	0	0.0
Moderately stronger	6	10.7	3	9.1	3	13.0
About the same	28	50.0	16	48.5	12	52.2
Moderately weaker	20	35.7	13	39.4	7	30.4
Substantially weaker	2	3.6	1	3.0	1	4.3
Total	56	100.0	33	100.0	23	100.0

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

15. Over the past three months, how have your bank's credit standards for approving applications from individuals for mortgage loans to purchase homes changed?

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Tightened considerably	0	0.0	0	0.0	0	0.0
Tightened somewhat	3	5.7	2	6.3	1	4.8
Remained basically unchanged	50	94.3	30	93.8	20	95.2
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	32	100.0	21	100.0

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

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Substantially stronger	1	1.9	1	3.1	0	0.0
Moderately stronger	11	20.8	6	18.8	5	23.8
About the same	38	71.7	24	75.0	14	66.7
Moderately weaker	3	5.7	1	3.1	2	9.5
Substantially weaker	0	0.0	0	0.0	0	0.0
Total	53	100.0	32	100.0	21	100.0

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

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

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Much more willing	0	0.0	0	0.0	0	0.0
Somewhat more willing	4	7.4	0	0.0	4	18.2
About unchanged	48	88.9	31	96.9	17	77.3
Somewhat less willing	2	3.7	1	3.1	1	4.5
Much less willing	0	0.0	0	0.0	0	0.0
Total	54	100.0	32	100.0	22	100.0

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

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Tightened considerably	0	0.0	0	0.0	0	0.0
Tightened somewhat	3	9.7	1	5.9	2	14.3
Remained basically unchanged	28	90.3	16	94.1	12	85.7
Eased somewhat	0	0.0	0	0.0	0	0.0
Eased considerably	0	0.0	0	0.0	0	0.0
Total	31	100.0	17	100.0	14	100.0

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

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Tightened considerably	0	0.0	0	0.0	0	0.0
Tightened somewhat	8	14.8	6	18.8	2	9.1
Remained basically unchanged	45	83.3	26	81.3	19	86.4
Eased somewhat	1	1.9	0	0.0	1	4.5
Eased considerably	0	0.0	0	0.0	0	0.0
Total	54	100.0	32	100.0	22	100.0

20. 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	3.04	3.06	3.00
Spreads of interest rates charged on outstanding balances over your bank's cost of funds (wider spreads=tightened, narrower spreads=eased)	3.07	3.06	3.08
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	3.00	2.83
The extent to which loans are granted to some customers that do not meet credit scoring thresholds (increased=eased, decreased=tight-ened)	2.93	3.00	2.83
Other	3.00	3.00	3.00
Number of banks responding	28	16	12

21. 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	3.08	3.03	3.14
Spreads of loan rates over your bank's cost of funds (wider spreads=tightened, narrower spreads=eased)	3.06	3.06	3.05
Minimum required downpayment	2.96	2.97	2.95
Minimum required credit score (increased score=tightened, reduced score=eased)	2.89	2.87	2.91
The extent to which loans are granted to some customers that do not meet credit scoring thresholds (increased=eased, decreased=tight-ened)	2.75	2.71	2.82
Number of banks responding	53	31	22

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

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Substantially stronger	0	0.0	0	0.0	0	0.0
Moderately stronger	14	25.9	10	31.3	4	18.2
About the same	25	46.3	13	40.6	12	54.5
Moderately weaker	15	27.8	9	28.1	6	27.3
Substantially weaker	0	0.0	0	0.0	0	0.0
Total	54	100.0	32	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 April 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	0	0.0
Tightened somewhat	6	33.3
Remained basically unchanged	12	66.7
Eased somewhat	0	0.0
Eased considerably	0	0.0
Total	18	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	2.44
Costs of credit lines	2.61
Spreads of loan rates over your bank's cost of funds (wider spreads=tightened, narrower spreads=eased)	2.56
Premiums charged on riskier loans	2.35
Loan covenants	2.72
Collateralization requirements	2.89
Other	2.50
Total	18

1. As of December 31, 2002, the 18 respondents had combined assets of $309 billion, compared to $921 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	1.45
Less favorable or more uncertain economic outlook	2.45
Worsening of industry-specific problems	2.00
Less aggressive competition from other banks or nonbank lenders (other financial intermediaries or the capital markets)	1.09
Reduced tolerance for risk	2.00
Decreased liquidity in the secondary market for these loans	1.36
Increase in defaults by borrowers in public debt markets	2.09
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	0	0.0
About the same	10	55.6
Moderately weaker	7	38.9
Substantially weaker	1	5.6
Total	18	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	0
Customer accounts receivable financing needs increased	0
Customer investment in plant or equipment increased	0
Customer internally generated funds decreased	0
Customer merger or acquisition financing needs increased	0
Customer borrowing shifted to your bank from other bank or nonbank sources because these other sources became less attractive	0
Other	0
Number of banks responding	0

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

	All Respondents
	Mean
Customer inventory financing needs decreased	1.63
Customer accounts receivable financing needs decreased	1.63
Customer investment in plant or equipment decreased	2.50
Customer internally generated funds increased	1.38
Customer merger or acquisition financing needs decreased	2.75
Customer borrowing shifted from your bank to other bank or nonbank credit sources because these other sources became more attractive	1.25
Other	1.00
Number of banks responding	8

6. Over the **past two quarters**, Call Report data indicates that the delinquency rate on commercial and industrial loans has stabilized. To what do you attribute the improvement? (Please rate **each** possible reason using the following scale: 1=not important, 2=somewhat important, 3=very important.)

	All Respondents
	Mean
Aggressive tightening of lending standards over the past several years has reduced the incidence of new problem loans.	2.00
Industry-specific problems have abated somewhat.	2.22
Reduced interest rates have allowed borrowers to refinance and restructure their balance sheets to lower their debt-servicing costs.	2.06
Significant amounts of delinquent loans have been sold to nonbank investors.	1.33
Banks have been charging-off loans more aggressively than in the past.	1.89
Other	1.06
Number of banks responding	18

7. Net charge-off rates on C&I loans are at very high levels. To what do you attribute the unusually high level of net charge-offs relative to delinquencies? (Please rate **each** possible reason using the following scale: 1=not important, 2=somewhat important, 3=very important.)

	All Respondents
	Mean
Recovery rates on delinquent loans have been unusually low.	2.17
Significant amounts of loans have been sold at prices below book value (sales of assets at a price less than book value are recorded as charge-offs).	2.06
Banks have been charging-off loans more aggressively than in the past.	2.06
Other	1.06
Number of banks responding	18

Questions 8-14 *ask about* ***commercial real estate loans*** *at your bank, including construction and land development loans and loans secured by nonfarm nonresidential real estate. Question 8 deals with changes in your bank's standards over the last three months. Questions 9-12 ask about changes in terms over the past year. Question 13 asks about the reasons why commercial real estate loan quality has held up in the face of rising vacancy rates and declining rents in the sector. Question 14 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 accomodative relative to longer-term norms. If your bank's standards or terms have tightened or eased over the relevant period, please report changes in enforcement of existing standards as changes in standards.*

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

	All Respondents	
	Banks	Pct
Tightened considerably	0	0.0
Tightened somewhat	2	20.0
Remained basically unchanged	8	80.0
Eased somewhat	0	0.0
eased considerably	0	0.0
Total	10	100.0

9. 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	2.90
Maximum loan maturity	2.90
Spreads of loan rates over your bank's cost of funds (wider spread=tightened, narrower spreads=eased)	2.80
Loan-to-value ratios	2.60
Requirement for take-out financing	2.70
Debt-service coverage ratios	2.70
Other	2.90
Number of banks responding	10

10. If your bank has tightened or eased its terms for commercial real estate loans over the **past year** (as described in question 9), 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	2.80
Worsening of the condition of, or the outlook for, commercial real estate in the markets where your bank operates	2.20
Less aggressive competition from other commercial banks	1.00
Less aggressive competition from nonbank lenders	1.00
Reduced tolerance for risk	1.60
Increased concern about take-out financing	1.60
Less liquid market for secutities collateralized by these loans	1.40
Other	1.00
Number of banks responding	5

B. Possible reasons for easing commercial real estate loan terms:

	All Respondents
	Mean
More favorable economic outlook	0
Improvement in the condition of, or the outlook for, commercial real estate in the markets where your bank operates	0
More aggressive competition from other commercial banks	0
More aggressive competition from nonbank lenders	0
Increased tolerance for risk	0
Reduced concern about take-out financing	0
More liquid market for secutities collateralized by these loans	0
Other	0
Number of banks responding	0

11. For your bank's nonfarm, nonresidential real estate loans please indicate the average *original* term to maturity.

	All Respondents	
	Banks	Pct
Less than 2 years	1	11.1
Between 2 and 5 years	6	66.7
Between 5 and 10 years	2	22.2
Between 10 and 15 years	0	0.0
More than 15 years	0	0.0
Total	9	100.0

12. Approximately what percentage of commercial real estate loans on your bank's books impose a penalty for prepayment or refinancing of the loan?

	All Respondents	
	Banks	Pct
Less than 20 percent	5	55.6
Between 20 and 40 percent	2	22.2
Between 40 and 60 percent	0	0.0
Between 60 and 80 percent	1	11.1
More 80 percent	1	11.1
Total	9	100.0

13. Over the **past year**, vacancy rates for commercial office space have risen and commercial rents have fallen. Nonetheless, Call Report data indicates that the delinquency rate on commercial real estate loans declined steadily during 2002. To what do you attribute teh continued good performance of commercial real estate loans? (Please rate **each** possible reason using the following scale: 1=not important, 2=somewhat important, 3=very important.)

	All Respondents
	Mean
Aggressive tightening of lending standards and terms prior to the market decline allowed banks to avoid currently troubled properties.	2.22
The commercial real estate loans held on the banks' books are typically not secured by the types of properties that are currently experiencing difficulties.	1.67
Many borrowers have considerable equity in their properties, which maintains the incentive for them to continue payments.	2.44
Reduced interest rates have allowed borrowers to refinance and lower their debt financing costs.	2.78
Many long-term leases, signed prior to the market decline, have yet to expire or be negotiated and are supporting property revenue.	2.33
Other	1.00
Number of banks responding	9

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

	All Respondents	
	Banks	Pct
Substantially stronger	0	0.0
Moderately stronger	1	10.0
About the same	8	80.0
Moderately weaker	1	10.0
Substantially weaker	0	0.0
Total	10	100.0