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CONFIDENTIAL (FR)

SUPPLEMENT

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the
Federal Open Market Committee

By the Staff
Board of Governors
of the Federal Reserve System

July 9, 1965

SUPPLEMENTAL APPENDIX A: SURVEY OF BANK LENDING PRACTICES, JUNE 1965

The results of the fourth quarterly survey of changes in bank lending practices are summarized in the following paragraphs and accompanying tables. Reports were received from the 81 banks included in the quarterly interest rate survey.

Three-fifths of the respondents (49 out of 81 banks) reported that demand for commercial and industrial loans had strengthened in the second quarter. Over half of these had indicated greater loan demand in the first quarter of 1965 as well. The widespread and sustained nature of the loan demand is indicated by the fact that only a sixth of the banks in the survey failed to show stronger loan demand in at least one of the past four quarters and about the same proportion reported stronger demand in all four quarters.

Accompanying the heavy demand for loans, many banks firmed their lending policies in various ways. In the second quarter, half of the banks raised interest rates to business borrowers (presumably by reducing the number of firms eligible for the prime rate as well by raising rates to borrowers in the non-prime category), but this was a somewhat smaller proportion than in the first quarter. More than half of the banks raising rates also firmed their compensating balance requirements. Another 6 per cent firmed compensating balance requirements but made no change in interest rates.

Fewer banks reported firmer policies with respect to other terms and conditions of the loan than for interest rates and compensating balances. Higher standards of credit-worthiness were imposed on business borrowers by one-fourth of the banks while about one-sixth of the total instituted firmer policies on collateral and maturity of loans. In each of these categories the

the proportions were appreciably higher than in the first quarter.

Compared to a year ago, interest rates were firmed by nearly four-fifths of the survey banks, with 12 per cent of the total firming rates in all four quarters and another 10 per cent in three of the quarters. In addition, two-thirds of the banks that firmed interest rates also tightened compensating balance requirements over the past year. The magnitudes of the increases in rates and in balance requirements and the proportions of borrowers affected, however, are not revealed by the Survey.

Some classes of borrowers were affected more than others by the tightening of lending standards in the second quarter of this year. In reviewing lines of credit or loan applications nearly half of the survey banks (two-thirds more than in the first quarter) had established firmer policies for new business borrowers and most of these had also firmed their policies with respect to loans to non-local service area customers. As in previous surveys, few banks indicated that they had firmed policies for established customers.

As a result of the increased demand for loans, one bank commented that it had found it necessary to reserve loanable funds for seasonal borrowers and regular customers, while another had needed to turn down some good quality applications. Several banks commented on the influence on lending policies of the high level of their loan-deposit ratios, and one of the largest banks in the country indicated that it had tightened its lending standards because it did not wish to go beyond its present ratio.

Two-fifths of the banks--half again as many as in the March Survey--reported that the applicant's value to the bank as a depositor or source of collateral business was a more important consideration than earlier. By contrast, only one-fifth of the banks--somewhat fewer than in March--stated that the applicant's intended use of the loan proceeds was more important than formerly.

A fifth of the banks reported that they were less aggressive than formerly in seeking new loans (a higher percentage than in any previous survey) and nearly all of these were banks that had experienced strengthened loan demand in two or more quarters of the past year. Likewise, a sixth reported less willingness to make term loans and nearly all of these indicated strengthened loan demand in the second quarter and many in earlier quarters as well.

As reported in previous surveys, finance companies were less affected by firming of lending standards than non-financial businesses. Only 12 per cent of the banks had firmed their policies on interest rates and on size of compensating balance requirements for finance companies in the second quarter and only one-fourth had done so over the past year. These changes are believed to have affected principally the smaller finance companies. Interest rates and size of compensating balance requirements applicable to large finance companies operating on a nation-wide basis presumably are determined for the most part by the big money market banks, which have reported few changes in these terms. However, in enforcing balance requirements and granting new or larger credit lines to finance companies, where smaller banks appear to have somewhat more leeway, the number of banks with firmer policies in the second quarter was greater--about one-fourth and one-third of the total respectively.

for quotation or publication

July 2, 1965.

U. S. Total 81 Large Banks
Survey of Changes in Bank Lending Practices
March-June 1965 and June 1964-June 1965
(Numbers of banks)

Lending to Nonfinancial Businesses

	COMPARED TO 3 MOS. AGO			COMPARED TO 1 YR. AGO		
	Stronger	Weaker	Unchanged	Stronger	Weaker	Unchanged
1. Strength of loan demand	49	4	28	64	3	14
	Greater	Less	Unchanged	Greater	Less	Unchanged
2. Aggressiveness of bank in seeking new loans	5	16	60	16	24	41
3. Factors considered in deciding whether to approve credit requests:	More important	Less important	Unchanged	More important	Less important	Un-changed
Applicant's value to the bank as a depositor or source of collateral business	33	-	48	51	2	28
Applicant's intended use of loan proceeds	16	-	65	31	-	50
4. Practices with respect to reviewing lines of credit or loan applications of:	Firmer	Easier	Unchanged	Firmer	Easier	Un-changed
Established customers	4	-	77	15	1	65
New customers	36	1	44	50	3	28
Local service area customers	8	-	72	18	-	62
Nonlocal service area customers	27	-	50	36	1	41
5. Terms and conditions of loans:	Firmer	Easier	Unchanged	Firmer	Easier	Un-changed
Interest rates	40	-	41	63	-	18
Compensating or supporting balances	28	-	53	48	-	33
Standards of credit-worthiness	22	-	58	33	1	47
Type and amount of collateral	12	-	67	22	-	58
Maturity	1[illegible]	-	65	21	3	56

	COMPARED TO 3 MOS. AGO			COMPARED TO 1 YR. AGO		
6. Term loans	More willing	Less willing	Unchanged	More willing	Less willing	Unchanged
Willingness to make	-	13	67	6	24	50
	Longer	Shorter	Unchanged	Longer	Shorter	Unchanged
Maximum maturity bank will approve	1	4	73	5	5	69

Years	Number of banks
3	5
5	41
6	1
7	11
8	5
10	5
n.a.	13

	Lending to Finance Companies					
	Firmer	Easier	Unchanged	Firmer	Easier	Unchanged
Interest rates	10	-	71	21	1	59
Size of compensating or supporting balances required	11	-	69	21	5	54
Enforcement of balance requirements	19	-	62	29	4	48
Establishing new or larger credit lines	25	2	54	35	6	40

Source: Survey of Lending Practices at Large Banks in the Federal Reserve Quarterly Interest Rate Survey conducted as of June 15, 1965.