Comptroller of the Currency
Administrator of National Banks

Survey of Credit Underwriting Practices 2000

Comptroller of the Currency
Administrator of National Banks

Washington, DC

September 2000

To: Board Members and Chief Executive Officers of National Banks

I am pleased to enclose the results of the *2000 Survey of Credit Underwriting Practices* recently conducted by senior OCC credit analysts at sixty-nine of the largest national banks. These banks collectively hold 89 percent of the total loans in the national banking system.

This survey shows fewer overall changes in underwriting standards than in prior years, including, most notably, less slippage in new underwriting. While this is an encouraging sign, we nevertheless remain quite concerned about the high levels of "embedded" credit risk on the books of some banks as a result of relaxed underwriting and risk selection in prior years. We are also apprehensive about the continued growth of various types of highly leveraged and subprime lending in the system, and the frequency with which these activities are being undertaken without adequate analysis and risk management systems at some banks.

Because these embedded and new risks will not fully manifest themselves in terms of delinquencies and collection problems until economic conditions deteriorate, bankers should be preparing now for this eventuality by shoring up collateral values and guarantor support, and, where possible, correcting overly generous repayment terms.

Our examiners will continue to assess credit quality and underwriting on a bank-by-bank basis and will highlight conditions requiring board and management attention to avoid or mitigate credit problems as the credit cycle matures. I encourage you to discuss this survey and other credit issues with your OCC examiner-in-charge. Please also feel free to contact your local OCC supervisory office or Barbara Grunkemeyer of the Credit Risk Policy division in Washington (202-874-5170) with questions or comments.

Sincerely,

John D. Hawke, Jr.
Comptroller of the Currency

Survey of Credit Underwriting Practices 2000

Office of the Comptroller of the Currency
Credit Risk Division
September, 2000

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INTRODUCTION

The Office of the Comptroller of the Currency (OCC) conducted its sixth annual Survey of Credit Underwriting Practices during the second quarter of 2000. The purpose of the survey was to identify trends in credit risk within the national banking system. The questionnaire-based survey addressed changes in lending standards and credit practices since the previous survey for the most common types of commercial and retail credit offered by national banks. The OCC examiners-in-charge of the 69 largest national banks were asked to respond to the survey based on their first-hand knowledge of the banks they supervise. The survey covered the 12-month period ending March 31, 2000.

The term "underwriting standards," as used in this report, refers to various requirements, such as collateral requirements, loan maturities, pricing, or covenants, that banks establish to originate and structure loans. Conclusions about the "easing" or "tightening" of underwriting standards are based on the observations of OCC examiners concerning changes banks have made to their underwriting standards since the 1999 survey. A conclusion that the underwriting standards for a particular loan category have eased or tightened does not indicate that all the standards for that particular category have been adjusted, but rather that the adjustments made by banks have the net effect of easing or tightening such underwriting criteria.

Part I of this report discusses the overall results of the survey for commercial and retail credit. Part II contains the results of the survey by type of loan product.

PRIMARY FINDINGS

- ***Underwriting standards for both commercial and retail products exhibited less change than in prior surveys. Standards for commercial loans tightened modestly for the second consecutive year, while overall standards for retail products were essentially unchanged.***

- ***Several types of loans that comprise a significant portion of total credit exposure have experienced little or no tightening during the past six years. These include middle market, commercial real estate, syndicated/national loans, residential real estate loans, and conventional home equity products.***

- ***For the fifth consecutive year, examiners reported that the level of inherent portfolio credit risk continued to increase. This was true for almost every lending product. Further, examiners expect credit risk to continue to increase over the next year.***

- ***As loan portfolios continue to exhibit increasing risk, examiners have expressed growing concerns about the adequacy of credit risk management practices and infrastructures.***

Underwriting standards evidenced more stability during the twelve months covered by the survey than in prior periods. The percentage of banks tightening commercial underwriting standards was unchanged at 25 percent, while the percentage easing standards moved up slightly from 13 percent to 16 percent. Tightening was most evident in agricultural, asset-based, and small business lending. Two products for which standards tightened in 1999, syndicated/national credit and structured finance (leveraged lending), were reported to have eased standards in 2000. And for the fifth consecutive year, underwriting standards for middle market loans were eased.

Once again, examiners reported that the surveyed banks used pricing as their primary method to modify — either tighten or ease — commercial underwriting standards. However, for the first time, strengthened loan covenants were a close second among methods used to tighten standards. Covenants, as well as other structural underwriting criteria, afford banks a greater measure of control in managing credit risk. In a number of product categories, including structured finance, asset-based, and agricultural lending, strengthening covenants was used more often than pricing to tighten standards. Competition remained the main reason for easing and a change in risk appetite was the primary motivator for tightening standards.

The move toward greater stability in underwriting standards was more pronounced among retail products, where 41 percent of the banks — up from 27 percent in 1999 — made no change to their standards. Where changes were made, the net effect was to tighten retail underwriting. Examiners reported continued tightening of retail lending standards for consumer leasing, indirect consumer, and credit card portfolios. High loan-to-value (LTV)[1] home equity loans, first included in the survey in 1999, also experienced tightening in 2000. Only conventional home equity and affordable housing loans were reported to have eased standards. The conventional home equity loan product is the only retail product with eased underwriting standards throughout the survey's six-year history.

Pricing was the principal method used to tighten underwriting standards for retail products, followed by score cards[2] and collateral. These same three methods were also the primary means to ease retail standards; however, score cards and collateral were used more often than pricing. As was the case in prior years, examiners cited competition as the primary reason for easing and changes in bank risk appetites as the reason for tightening standards.

Similar to changing underwriting standards, the decision to introduce or discontinue a product or line of business is an indication of a bank's risk appetite. During the past survey year, most new or discontinued product activity occurred in retail portfolios. Thirteen banks (19 percent) have either discontinued or plan to discontinue indirect automobile lending and leasing, and five banks (7 percent) have or will exit credit cards. All of these products have encountered performance problems in recent years. Although there is a more diverse range of planned products, the majority are also focused on retail markets and many target "subprime"[3] borrowers.

For the first time, examiners were asked to report about their bank's subprime lending activities. The level of subprime lending varies, but at least one bank is engaged in subprime lending for each of the retail products included in the survey. The greatest activity was

[1] For the purposes of this survey, the questionnaire defined a high LTV home equity product as a home equity loan or line of credit secured by a lien on owner-occupied, 1- to 4-family residential property that exceeds 90 percent of the real estate's appraised market value.

[2] Score cards provide an objective, numerical measure of a borrower's credit risk based on statistical models that evaluate performance, demographic, and other factors. Score cards are widely used to underwrite retail credit.

[3] "Subprime" lending describes credit that is extended to borrowers exhibiting higher default risk characteristics than those of traditional borrowers.

reported in high LTV home equity products, where 32 percent of banks that engaged in high LTV home equity lending offered a subprime product. This was followed by indirect consumer loans (29 percent). Four of the banks engaged in "subprime" for home equity lending plan to exit the business.

For the fifth year, examiners reported that the overall level of credit risk increased in both retail and commercial portfolios. Further, they expected it to continue increasing over the following twelve months. Examiners' characterization of increasing portfolio risk was more pronounced for commercial products than for retail products. This is consistent with underwriting trends for commercial portfolios, where eased standards prevailed in prior years. Examiners indicated that they expect risk to increase the most in the structured finance, middle market, commercial real estate, and syndicated/national loan products. Among retail products, examiners expect that risk will increase the most in the high LTV home equity products.

In addition to reporting underwriting trends, examiners were asked to identify the lending products that most concerned them and the most important credit-related issues at their banks. In the largest institutions (those over $50 billion) the majority of examiners (60 percent) expressed the most concern with structured finance, while examiners in institutions below $50 billion cited commercial real estate lending as the loan product posing the most risk. Among retail products, high LTV home equity products were cited most often.

Approximately 50 percent of the surveyed examiners indicated one or more specific concerns about internal controls and credit risk management infrastructure. These concerns included adequacy of the risk management process, including credit risk identification; level and quality of credit staffing; adherence to loan policy; adequacy of management information systems (MIS), including exception tracking systems; ability of back room functions to handle projected growth; and the establishment of a common credit culture.

COMMENTARY

The OCC is encouraged that standards for many types of loans have either stabilized or tightened modestly without any apparent reduction of the availability of credit in the banking system. In 1998, in response to several years of easing underwriting standards, OCC implemented a series of incremental supervisory responses to counteract the increasing credit risk levels. Specifically, OCC implemented procedures requiring examiners to identify loans exhibiting underwriting deficiencies at each examination; classify such loans where appropriate; and clearly communicate the level of deficiencies and their cumulative effect on overall portfolio credit risk to bank management and boards of directors in each report of examination. Focused training was conducted in 1999 and 2000 to ensure that examiners were identifying and classifying bank credit risk in accordance with the agency's expectations. The OCC also issued supervisory guidance about the risks associated with higher risk lending activities, such as subprime lending, leveraged lending, high LTV real estate lending, and accounts receivable and inventory financing.

These efforts, in combination with the growing rate of corporate bond defaults, rising levels of non-performing commercial and industrial loans, and the increase in adversely rated Shared National Credits, appear to have heightened bankers' sensitivity to increasing credit risk and contributed to the modest tightening of underwriting standards. However, the actions taken to tighten standards in the last two years have done little to offset the cumulative effect of easing that occurred in previous years. In addition, the migration of banks' risk selection practices toward high-yielding and higher risk products also increases credit risk. These factors, as well as uncertainty about the economy, contributed to examiners' assessments about the level of current and prospective risk in retail and commercial portfolios.

In recent years, banks have made progress strengthening their credit risk management processes. However, risk levels and pressure for earnings remain high, influencing underwriting and risk selection practices, and stretching internal resources. Banks need to re-invest in their credit infrastructures and commit to a credit culture that rewards credit quality and strong internal controls. Anything less will have a considerable impact on loan portfolio conditions in an economic downturn. Banks are strongly encouraged to address any credit administration weaknesses now.

The OCC will continue to focus supervisory attention and resources on credit risk to ensure that credit risk in national banks is accurately classified and that credit risk management practices are commensurate with risk levels.

Survey Population and Scope

The 2000 survey covered the 69 largest national banks. Although mergers and acquisitions have altered the survey population somewhat, the surveys for the last five years have covered substantially the same bank group. All companies in the 2000 survey have assets of $2 billion or greater. The aggregate loan portfolio of banks included in the 2000 survey was approximately $1.9 trillion as of December 31, 1999. This represents 89 percent of all outstanding loans in national banks.

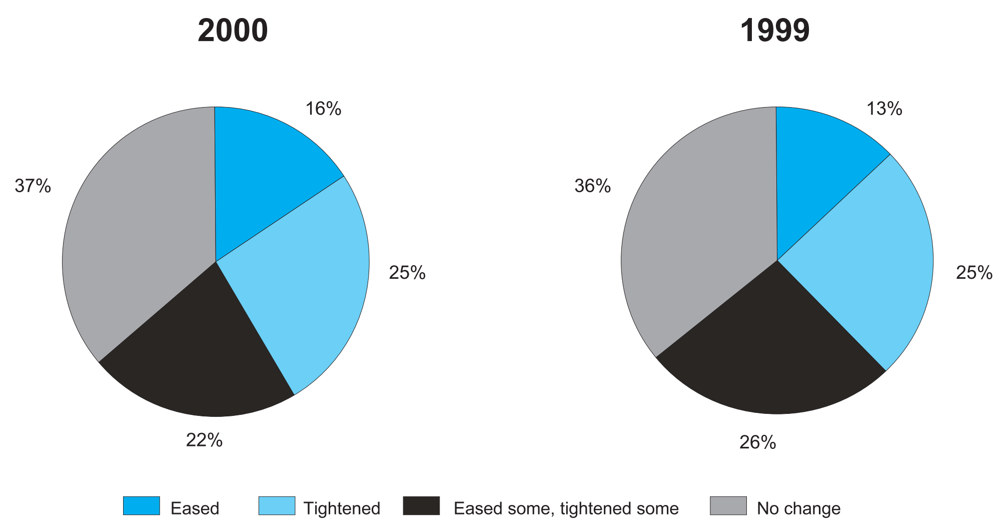
Examiners participating in the survey were asked a series of questions concerning 16 types of commercial and retail credit. Their responses were based upon their knowledge of the banks' lending activities. For the purposes of this survey, commercial credit consisted of eight categories of loans: syndicated/national loans, structured finance, asset-based loans, middle market loans, small business loans, international credits, commercial real estate loans, and agricultural loans. (Structured finance and asset-based loans were added to the survey in 1999.) Retail credit also consisted of eight categories of loans: residential real estate, affordable housing, credit cards, other direct consumer loans, indirect consumer paper (loans originated by others, e.g., car dealers), consumer leasing, conventional home equity, and high LTV home equity loans. (Prior to the 1999 survey, questionnaires designated all types of home equity loans as one product category.)

PART I - OVERALL RESULTS

Commercial Underwriting Standards

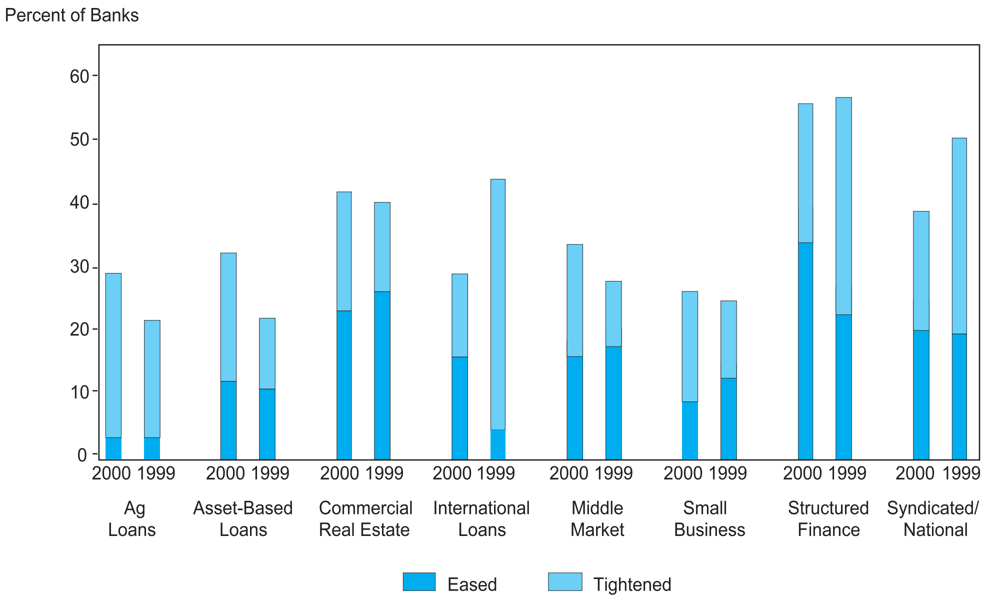
The results of the 2000 survey indicate that more banks tightened their standards for commercial loans than eased them for the second straight year. Prior to 1999, examiners reported four successive years of eased standards for commercial loans. The 2000 survey results indicate that 25 percent of surveyed banks tightened standards for commercial loans, and 16 percent eased standards. This is very similar to the 1999 results, where 25 percent tightened and 13 percent weakened standards. For the remaining banks, examiners reported tightening of standards for some products and easing for others, or they indicated that overall standards were unchanged.

Underwriting Standards for Commercial Loans



In 2000, examiners reported that 63 percent of the surveyed banks made some type of change to their underwriting standards for commercial loans. As depicted in the following chart, the results are mixed. The most extensive tightening of standards occurred in agricultural loans, with 26 percent reportedly tightening their underwriting standards. This was followed by asset-based loans (22 percent), and small business loans (19 percent). Conversely, examiners reported that more banks eased standards than tightened for the structured finance (35 percent), syndicated/national (22 percent) and middle market (18 percent) loan products. Survey results for commercial real estate and international loans indicate that an equal number of banks eased and tightened underwriting standards for those products.

Changes in Underwriting Standards for Commercial Loans

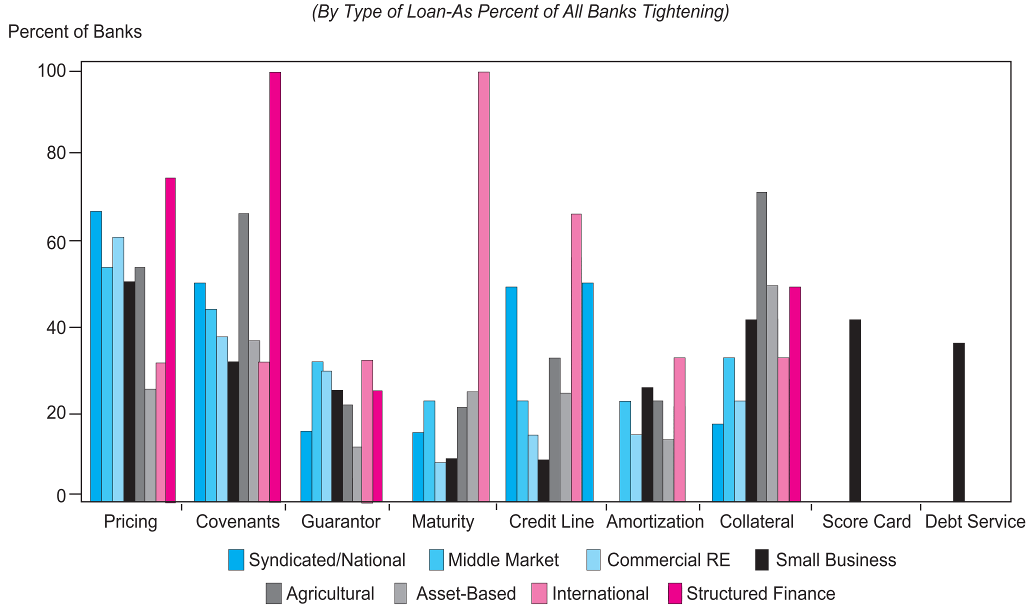


Types of Changes Made in Commercial Underwriting Standards

The following chart summarizes the methods used to tighten commercial lending standards in 2000. Examiners reported that increased pricing (53 percent) was the most prevalent method used to tighten standards. However, for the first time almost as many banks were reported to have used stronger covenants to tighten standards (47 percent). Examiners noted that banks employed other means to tighten underwriting, including increasing collateral support (39 percent), adjusting maximum credit availability (27 percent), increasing requirements for guarantor support (25 percent), and shortening maturities (19 percent).

Methods Used to Tighten Commercial Underwriting Standards

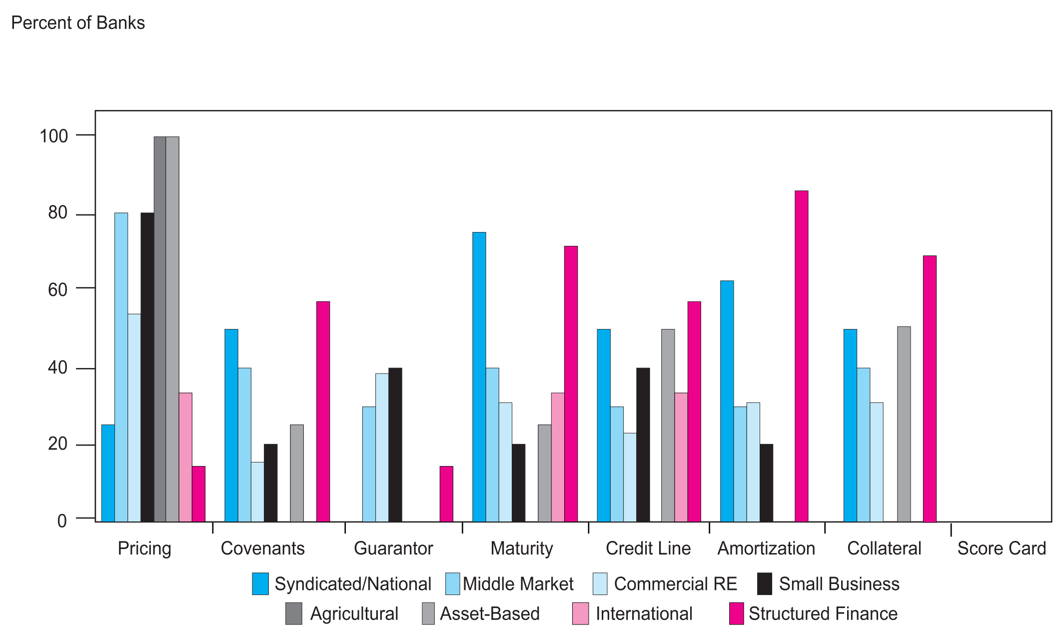
(By Type of Loan-As Percent of All Banks Tightening)



The following chart summarizes methods used by surveyed banks to ease commercial underwriting standards. As was the case when standards were tightened, examiners identified pricing as the most common method used to ease standards. For example, 100 percent of the banks reportedly easing standards for agricultural and asset-based loans did so through reduced pricing, while 80 percent used this method to ease underwriting standards for middle market and small business loans. More so than in prior surveys, examiners reported banks used a greater variety of methods to ease underwriting standards. In addition to pricing, examiners cited adjusting maximum credit availability, extending maturities, and liberalizing amortization and covenant requirements as methods to ease underwriting.

Methods Used to Ease Commercial Underwriting Standards

(By Type of Loan-As Percent of All Banks Easing)

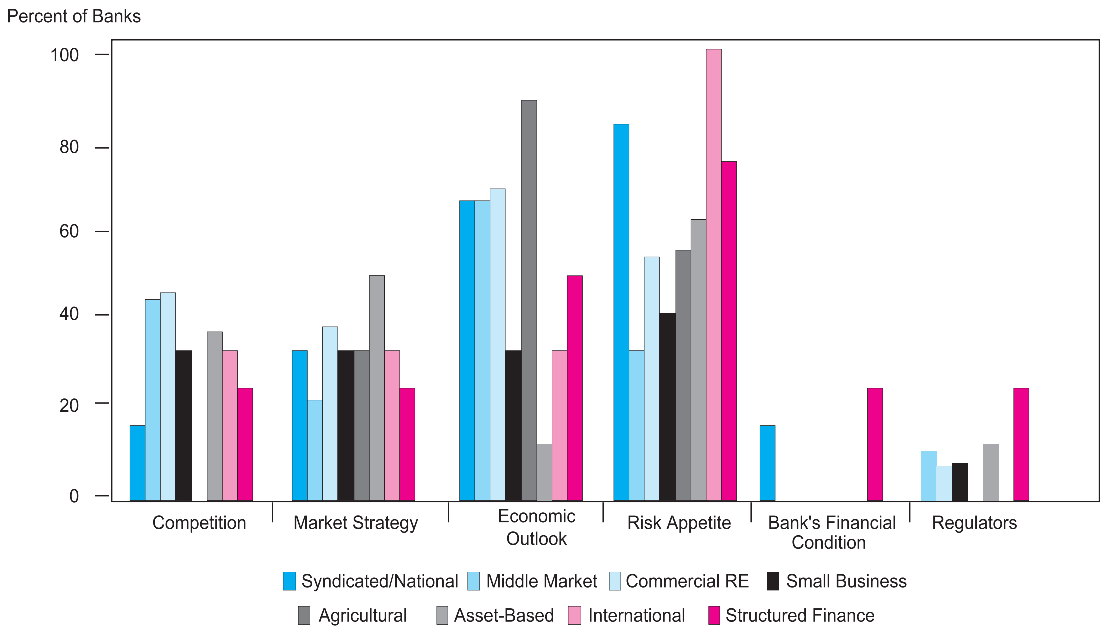


Reasons for Changes in Commercial Underwriting Standards

Examiners were also asked to report why banks changed their commercial underwriting standards since the previous survey. For those banks tightening standards, examiners most often cited change in risk appetite, followed closely by economic outlook. The next most frequently cited reason for tightening standards was reported as a change in market strategy. Many examiners also again reported an easing of competitive pressures in some markets. This lessening of competition allowed bankers to increase pricing, or otherwise tighten standards, for asset-based and small business loans. The following chart depicts the primary reasons for tightening standards.

Reasons for Tightening Commercial Underwriting Standards

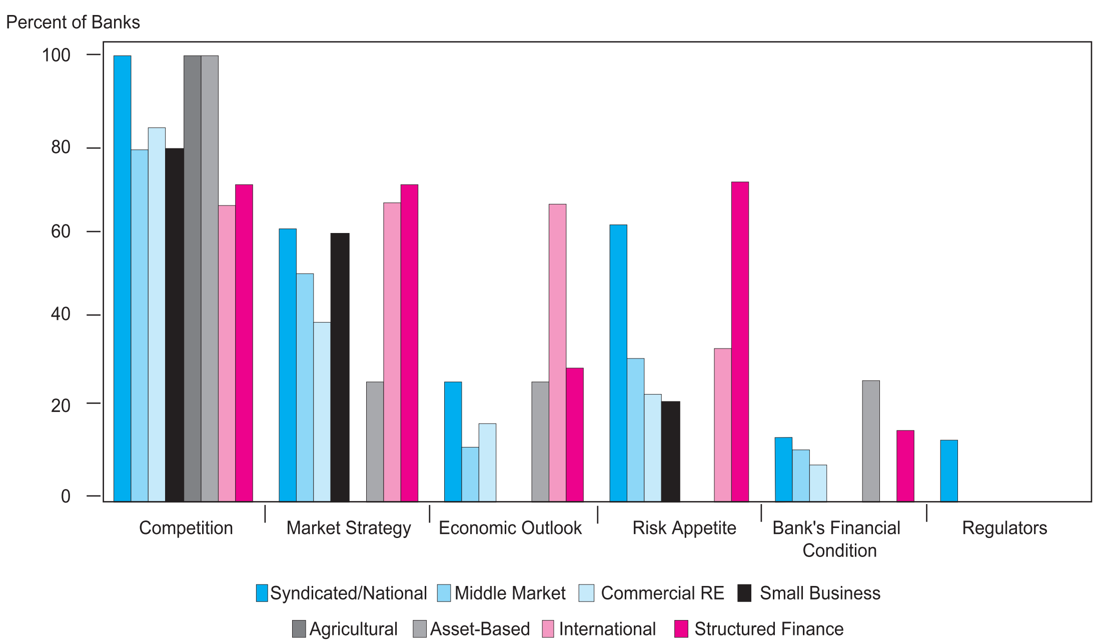
(By Type of Loan-As Percent of All Banks Tightening)



In those banks where underwriting standards were eased for one or more commercial lending products, examiners most often cited heightened competition for market share as the reason. Change in market strategy and risk appetite were also predominant reasons given for easing standards.

Reasons for Easing Commercial Underwriting Standards

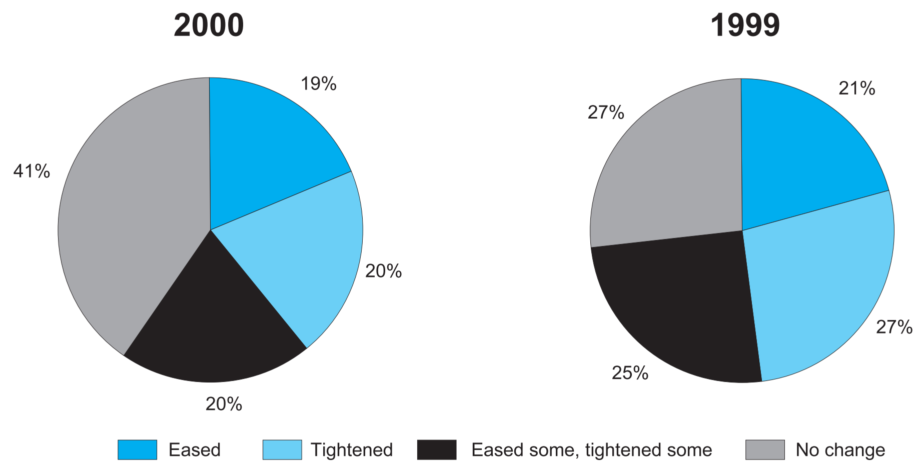
(By Type of Loan-As Percent of All Banks Easing)



Retail Underwriting Standards

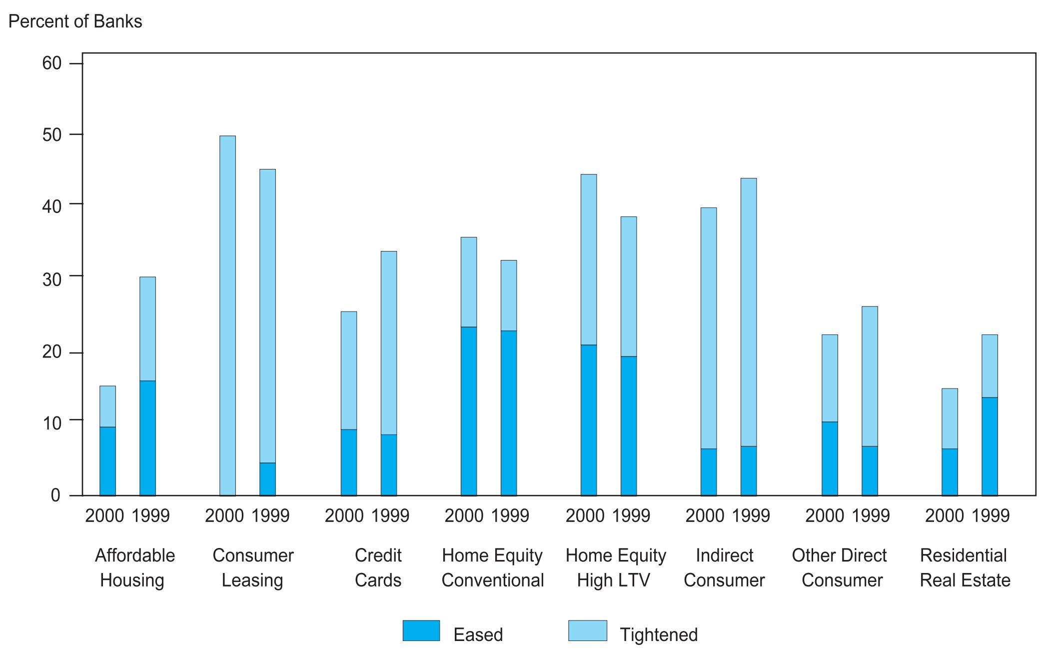
The 2000 survey indicated that only 59 percent of surveyed banks made changes to their underwriting standards for at least one of the retail lending categories since the last survey. This represents a significant decline from the 73 percent and 80 percent of banks reportedly

Underwriting Standards for Retail Loans



changing standards in 1999 and 1998. After four years of tightening, aggregate changes to retail underwriting standards during the last year evidenced no discernible trend, with 19 percent of the banks easing and 20 percent tightening.

Changes in Underwriting Standards for Retail Loans

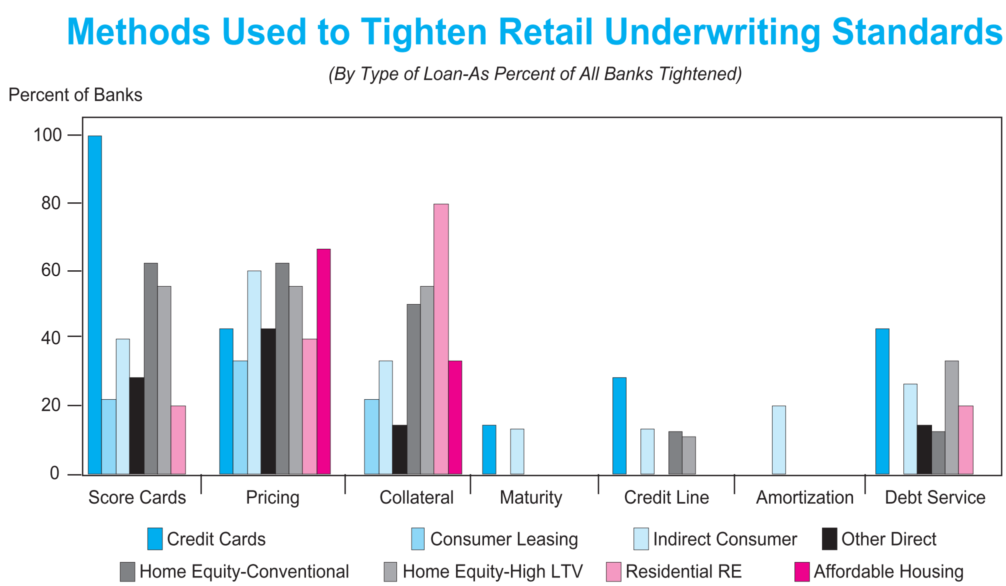


Examiners reported overall tightening of standards for consumer leasing, indirect consumer, high LTV home equity, credit cards, and other direct consumer loans. Most of these products have been particularly vulnerable to rising consumer delinquency and charge-off rates in recent years. Consumer leasing, for the second consecutive year, was most often cited as having tightened standards.

On the other hand, examiners reported that surveyed banks eased their underwriting standards for conventional home equity and affordable housing loans during the previous year.

Types of Changes Made to Retail Underwriting Standards

The survey questionnaire also asked examiners to report about the methods banks used to change retail credit underwriting standards. Examiners indicated that surveyed banks choosing to tighten standards most often relied on pricing and loan fees (51 percent) followed by score cards, i.e., raising the minimum cut-off score (44 percent). Examiners in 35 percent of the banks that tightened standards also cited collateral standards, although use of this method was largely confined to real estate products. The methods used to tighten standards are in the same rank order as in the 1999 survey, with only minor changes in percentages.

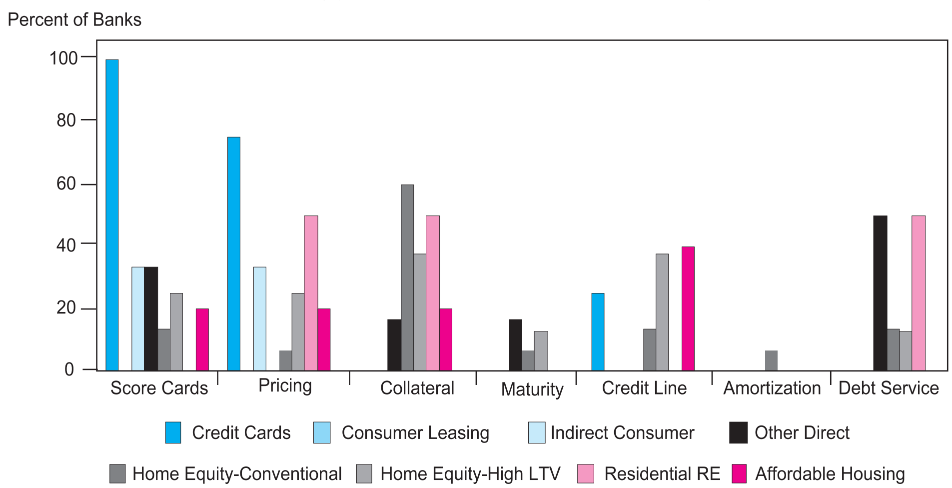


For all retail products, easing of collateral requirements, primarily loan-to-value requirements, was the most common method used to ease underwriting, with 36 percent of the banks reported to have eased standards choosing that method. The next most frequently cited methods used to ease retail lending standards were score cards, i.e. lowering the minimum cut-off score, (27 percent) and pricing (22 percent).

Home equity products stand out as the only retail product for which examiners have reported eased standards for six successive years. In the 1999 survey, when conventional and high LTV home equity loans were first divided into two components, examiners reported that banks eased their standards for both types of home equity loans. However, in the 2000 survey, changes in underwriting standards for the two types of home equity products moved in different directions. For the conventional home equity product, more banks eased than tightened standards by a margin of 23 percent to 13 percent. For the high LTV home equity product, more banks tightened than eased standards, by a margin of 24 percent to 21 percent. Examiners reported that surveyed banks most often relaxed score card, collateral standards, and pricing to ease standards for home equity loan products.

Methods Used to Ease Retail Underwriting Standards

(By Type of Loan-As Percent of All Banks Easing)



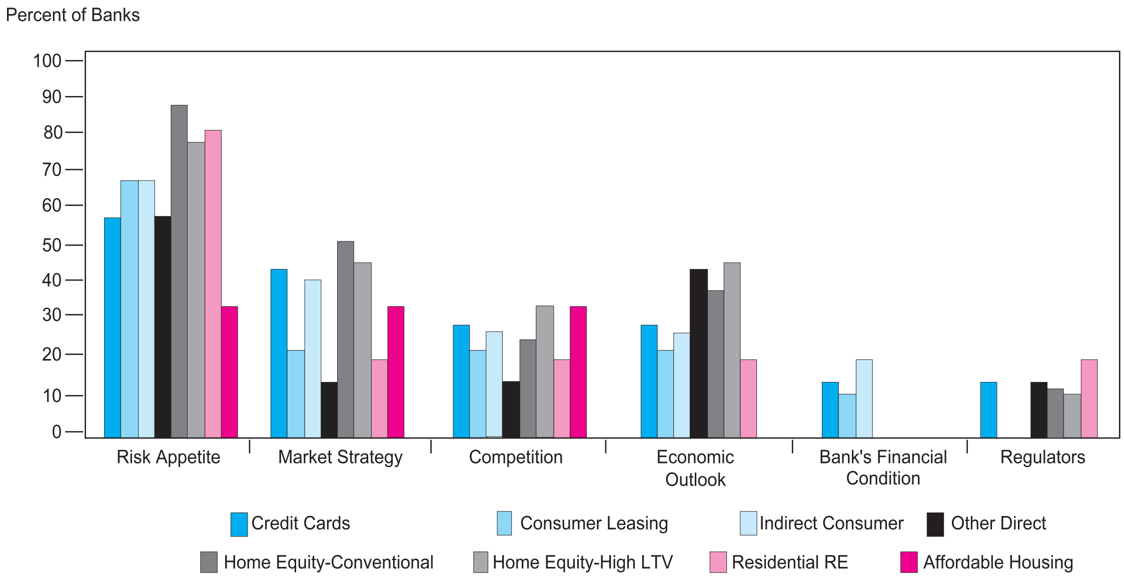
For other retail product categories, the same three methods — relaxing score card and collateral standards and decreasing pricing — were the primary methods used to ease standards. For the credit card product, all the banks that eased standards used changes in minimum score card requirements, sometimes in combination with other methods, as a method to ease standards.

Reasons for Changes in Retail Underwriting Standards

The survey questionnaire also asked examiners to report why surveyed banks changed retail credit underwriting standards. Examiners responded that most banks tightening standards did so primarily because of a change in risk appetite (68 percent). Other reasons frequently cited were changes in market strategy, changes in economic outlook, and changes in competition. The following chart depicts what examiners reported as the primary reasons for tightening retail credit underwriting standards.

Reasons for Tightening Retail Underwriting Standards

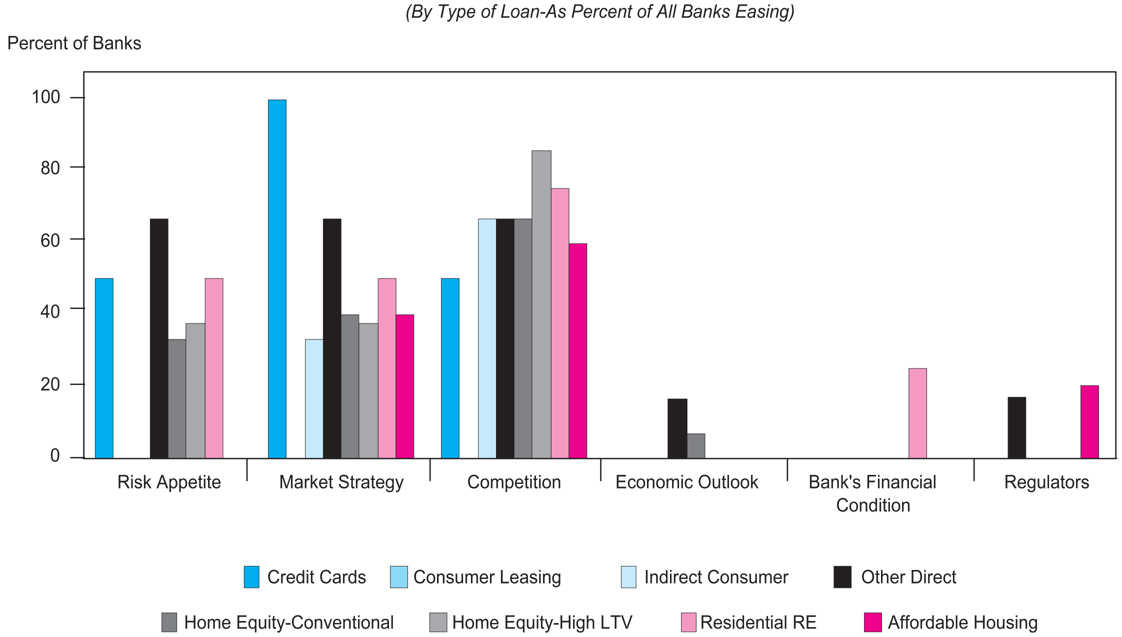
(By Type of Loan-As Percent of All Banks Tightened)



Examiners indicated banks eased standards for retail products primarily because of competitive factors. However, market strategy and risk appetite were also often listed as reasons for easing retail standards, particularly for credit card and other direct consumer products.

Reasons for Easing Retail Underwriting Standards

(By Type of Loan-As Percent of All Banks Easing)



Portfolio Credit Risk

In addition to reporting about changes in underwriting, examiners were asked to characterize what had happened to the level of inherent credit risk in their bank's loan portfolio since the prior survey. For almost all products, retail and commercial, examiners reported that since the last survey, portfolio credit risk has increased in far more banks than it has decreased. Increased credit risk is a function of several factors, including the migration of bank risk selection standards to higher risk products and customers (leveraged finance, subinvestment grade and subprime borrowers, and high loan-to-value lending); the residual effects of the last several years, when risky underwriting practices prevailed; steadily increasing levels of business and household debt; and recent performance problems in a number of portfolios. The exceptions were international loans, where more examiners reported a decline in the level of inherent risk, and indirect consumer loans, where equal numbers of banks were reported to have increased and decreased risk.

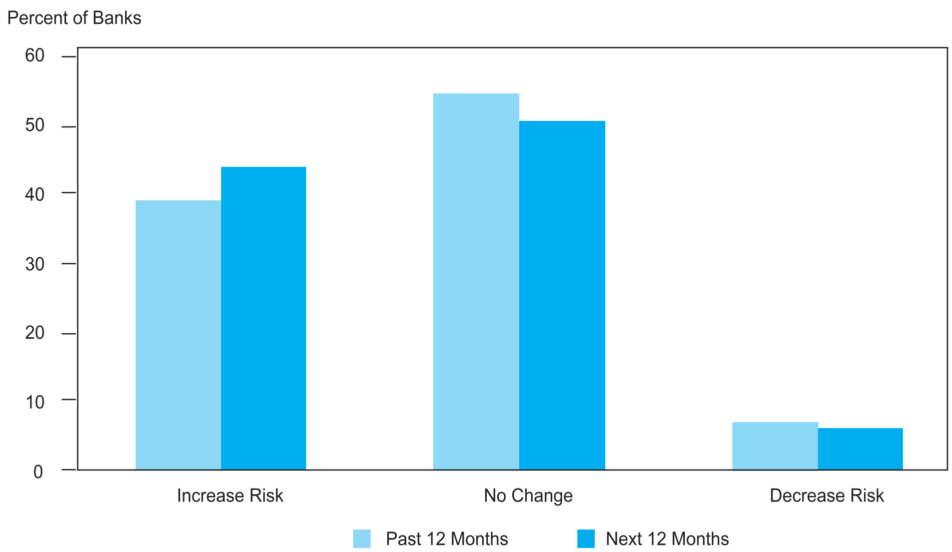
Examiners were also asked what they expected would happen to credit risk over the following 12 months. By a wide margin, examiners expected more banks to experience increased credit risk over the next 12 months in all product categories except indirect consumer lending, where again, changes in risk are expected to offset one another. Again, concerns about the lingering effects of the prior years of liberalized underwriting and uncertainty about the sustainability of the current economy influenced their assessment.

Credit Risk in Commercial Portfolios

The 2000 survey marks the fifth consecutive year that examiners have reported more banks with increased than decreased credit risk for commercial loan products. Examiners also expect that credit risk will continue to increase over the next year. The following chart depicts the change since the 1999 survey and the forecast for the next 12 months.

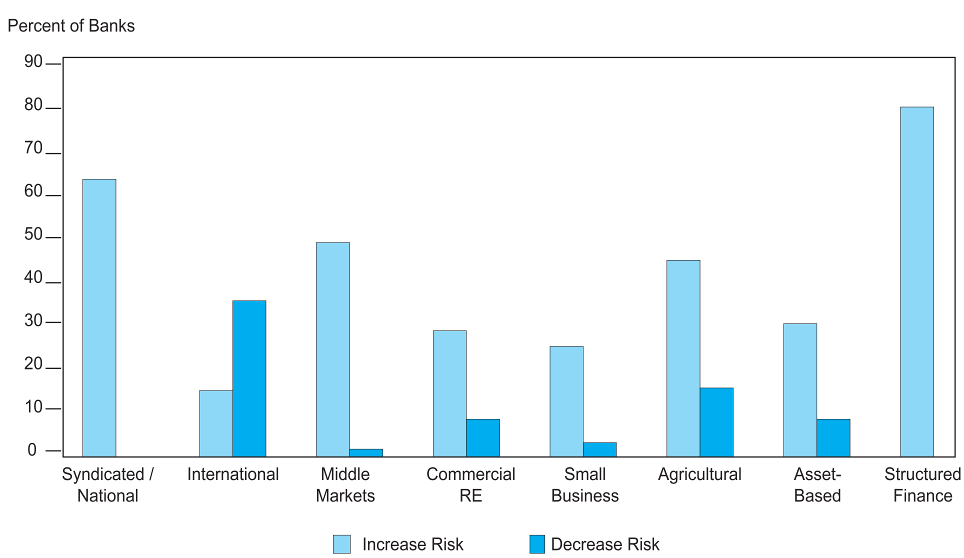
Inherent credit risk is also reported to have increased on a product-by-product basis. For the fourth successive year, survey results for syndicated/national lending portfolios reflect significant increased risk — 64 percent of examiners reported increased risk in 2000. This compares with 55 percent of the examiners who reported increased risk in 1999, 50 percent in 1998, and 40 percent in 1997. The products where the highest incidence of increased risk was reported were structured finance (80 percent), syndicated/national credits (64 percent), and middle market loans (48 percent).

Credit Risk in Commercial Loan Portfolios



The commercial products for which examiners most frequently reported an expectation of increased credit risk over the next 12 months were structured finance (70 percent), middle market loans (52 percent), commercial real estate (48 percent), syndicated/national credits (47 percent), small business loans (40 percent) and agricultural loans (38 percent).

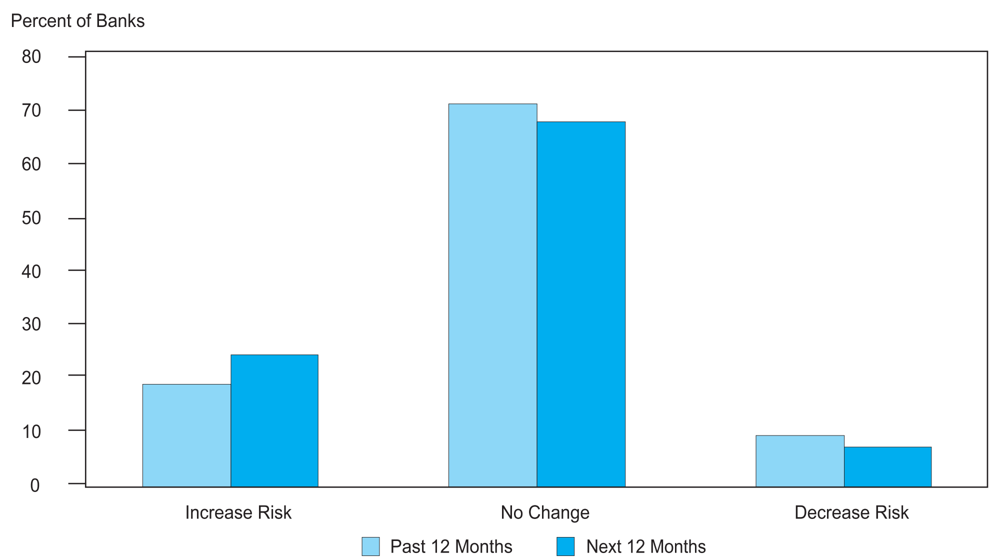
Changes in Credit Risk in Commercial Loan Portfolios Since 1999



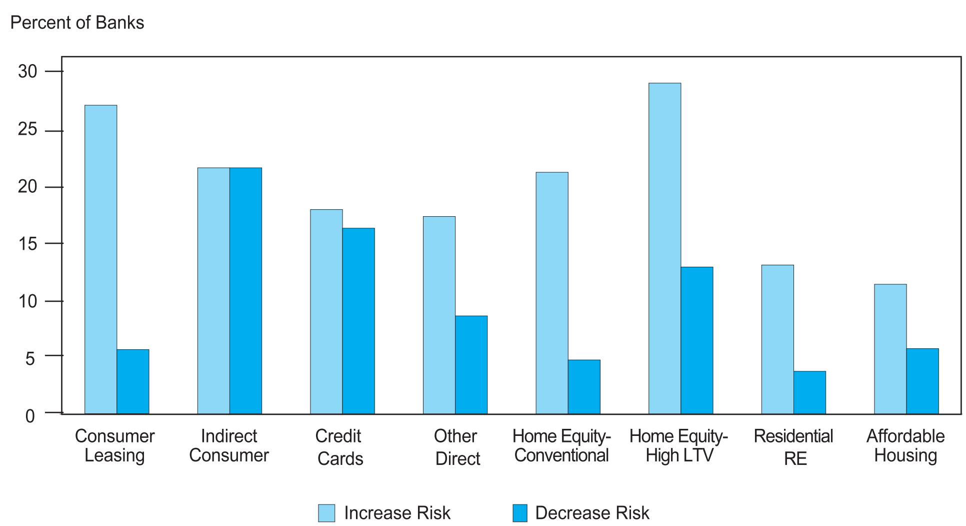
Credit Risk in Retail Portfolios

In each of the six years the survey has been conducted, examiners have indicated that inherent credit risk has increased in the majority of retail loan portfolios. In the 2000 survey all products except indirect consumer leasing are expected to have increased risk. Although examiners have noted that banks have tightened standards for several categories of retail products during the past four years, they continue to report net increases in the level of risk. As was the case with commercial lending portfolios, examiners also expect that credit risk will continue to increase over the next 12 months. The following chart depicts the change since the 1999 survey and whether retail credit risk is expected to increase, decrease, or remain the same during the next 12 months.

Credit Risk in Retail Loan Portfolios



Changes in Credit Risk in Retail Loan Portfolios Since 1999



For the survey period, examiners reported that increased risk is most evident in high LTV home equity loans (29 percent), consumer leasing (28 percent), and indirect consumer and conventional home equity loans (22 percent each). Over the next twelve months examiners expect the following products to have the greatest potential for increased risk: high LTV home equity products (37 percent project increased risk), conventional home equity loans (28 percent), and consumer leasing (22 percent each).

Part II - Results by Loan Type

Part II summarizes, in table format, the survey results for each type of loan. The first table depicts how underwriting standards have changed in each of the last four years. The second table delineates the changes in the level of credit risk for the previous three years and the expected change for the next 12 months.

Commercial Lending Portfolios

Agricultural Lending

Thirty-four of the 69 banks in the survey were engaged in some form of agricultural lending.

Changes in Underwriting Standards in Agricultural Loan Portfolios

(Percent of Banks)

	Eased	Unchanged	Tightened
1996	2	95	3
1997	8	79	13
1998	18	74	8
1999	3	79	18
2000	3	71	26

Changes in the Level of Credit Risk in Agricultural Loan Portfolios

(Percent of Banks)

	Declined Significantly	Declined Somewhat	Unchanged	Increased Somewhat	Increased Significantly
1997	0	17	66	17	0
1998	0	13	64	23	0
1999	0	6	42	49	3
2000	0	15	41	44	0
Future 12 Months	0	12	50	38	0

Asset-Based Loans

Thirty-seven of the surveyed banks were engaged in this type of lending.

Changes in Underwriting Standards in Asset-Based Loan Portfolios

(Percent of Banks)

	Eased	Unchanged	Tightened
1999	10	78	12
2000	11	67	22

Changes in the Level of Credit Risk in Asset-Based Loan Portfolios

(Percent of Banks)

	Declined Significantly	Declined Somewhat	Unchanged	Increased Somewhat	Increased Significantly
1999	0	10	66	24	0
2000	0	8	62	30	0
Future 12 Months	0	11	57	32	0

Commercial Real Estate Lending

Sixty-three of the 69 banks in the survey were engaged in commercial real estate lending.

Changes in Underwriting Standards in Commercial Real Estate Loan Portfolios

(Percent of Banks)

	Eased	Unchanged	Tightened
1996	16	73	11
1997	38	52	10
1998	43	51	6
1999	23	60	17
2000	21	58	21

Changes in the Level of Credit Risk in Commercial Real Estate Loan Portfolios

(Percent of Banks)

	Declined Significantly	Declined Somewhat	Unchanged	Increased Somewhat	Increased Significantly
1997	0	12	57	28	3
1998	0	9	59	32	0
1999	0	7	51	40	2
2000	0	8	65	27	0
Future 12 Months	0	4	48	48	0

International Lending

Only 21 of the 69 banks in the survey were active in international lending.

Changes in Underwriting Standards in International Loan Portfolios

(Percent of Banks)

	Eased	Unchanged	Tightened
1996	**11**	**89**	**0**
1997	**34**	**63**	**3**
1998	**5**	**53**	**42**
1999	**4**	**54**	**42**
2000	**14**	**72**	**14**

Changes in the Level of Credit Risk in International Loan Portfolios

(Percent of Banks)

	Declined Significantly	Declined Somewhat	Unchanged	Increased Somewhat	Increased Significantly
1997	**0**	**7**	**70**	**23**	**0**
1998	**5**	**9**	**42**	**42**	**2**
1999	**8**	**8**	**42**	**38**	**4**
2000	**0**	**33**	**53**	**14**	**0**
Future 12 Months	**0**	**10**	**71**	**19**	**0**

Middle Market Lending

Fifty-six of the 69 banks in the survey were engaged in middle market lending.

Changes in Underwriting Standards in Middle Market Loan Portfolios

(Percent of Banks)

	Eased	Unchanged	Tightened
1996	**19**	**75**	**6**
1997	**42**	**55**	**3**
1998	**47**	**50**	**3**
1999	**18**	**73**	**9**
2000	**18**	**66**	**16**

Changes in the Level of Credit Risk in Middle Market Loan Portfolios

(Percent of Banks)

	Declined Significantly	Declined Somewhat	Unchanged	Increased Somewhat	Increased Significantly
1997	**0**	**8**	**64**	**28**	**0**
1998	**0**	**4**	**61**	**35**	**0**
1999	**0**	**8**	**56**	**36**	**0**
2000	**0**	**2**	**50**	**46**	**2**
Future 12 Months	**0**	**5**	**43**	**52**	**0**

Small Business Lending

Sixty-three of the 69 banks in the survey are lending in the small business market.

Changes in Underwriting Standards in Small Business Loan Portfolios

(Percent of Banks)

	Eased	Unchanged	Tightened
1996	13	84	3
1997	15	69	16
1998	24	72	4
1999	13	75	12
2000	8	73	19

Changes in the Level of Credit Risk in Small Business Loan Portfolios

(Percent of Banks)

	Declined Significantly	Declined Somewhat	Unchanged	Increased Somewhat	Increased Significantly
1997	0	9	70	20	1
1998	0	6	68	25	1
1999	0	8	67	23	2
2000	0	3	72	22	3
Future 12 Months	0	0	60	40	0

Structured Finance

Twenty of the 69 banks in the survey provided structured finance loans.

Changes in Underwriting Standards in Structured Finance Loan Portfolios

(Percent of Banks)

	Eased	Unchanged	Tightened
1999	24	44	32
2000	35	45	20

Changes in the Level of Credit Risk in Structured Finance Loan Portfolios

(Percent of Banks)

	Declined Significantly	Declined Somewhat	Unchanged	Increased Somewhat	Increased Significantly
1999	0	4	36	56	4
2000	0	0	20	80	0
Future 12 Months	0	10	20	70	0

Syndicated/National Credits

Thirty-six of the 69 banks in the survey were active in the syndicated/national credit market.

Changes in Underwriting Standards in Syndicated/National Credit Portfolios

(Percent of Banks)

	Eased	Unchanged	Tightened
1996	**18**	**73**	**9**
1997	**50**	**44**	**6**
1998	**54**	**37**	**9**
1999	**18**	**50**	**32**
2000	**22**	**61**	**17**

Changes in the Level of Credit Risk in Syndicated/National Credit Portfolios

(Percent of Banks)

	Declined Significantly	Declined Somewhat	Unchanged	Increased Somewhat	Increased Significantly
1997	**0**	**8**	**52**	**40**	**0**
1998	**0**	**2**	**48**	**50**	**0**
1999	**0**	**0**	**45**	**45**	**10**
2000	**0**	**0**	**36**	**61**	**3**
Future 12 Months	**0**	**6**	**47**	**47**	**0**

Retail Lending Portfolios

Affordable Housing Lending

For the purposes of this survey, affordable housing loans included all types of loans on affordable housing for low- and moderate-income individuals and families, including 1- to 4-family and multifamily dwellings. Fifty-two of the 69 banks in the survey were reported to be making affordable housing loans.

Changes in Underwriting Standards in Affordable Housing Loan Portfolios

(Percent of Banks)

	Eased	Unchanged	Tightened
1996	10	82	8
1997	11	74	15
1998	9	86	5
1999	16	70	14
2000	10	84	6

Changes in the Level of Credit Risk in Affordable Housing Loan Portfolios

(Percent of Banks)

	Declined Significantly	Declined Somewhat	Unchanged	Increased Somewhat	Increased Significantly
1997*	1	4	76	15	3
1998	0	5	78	15	2
1999	2	2	78	18	0
2000	0	6	83	11	0
Future 12 Months	0	2	73	25	0

**NA (not available) responses excluded.*

Consumer Leasing

Consumer leasing was offered by 18 of the 69 banks in the survey.

Changes in Underwriting Standards in Consumer Leasing Portfolios

(Percent of Banks)

	Eased	Unchanged	Tightened
1998	4	67	29
1999	5	54	41
2000	0	50	50

Changes in the Level of Credit Risk in Consumer Leasing Portfolios

(Percent of Banks)

	Declined Significantly	Declined Somewhat	Unchanged	Increased Somewhat	Increased Significantly
1998	0	4	38	58	0
1999	0	5	50	45	0
2000	0	5	67	28	0
Future 12 Months	0	11	67	22	0

Credit Card Lending

Forty-three of the surveyed banks were engaged in credit card lending.

Changes in Underwriting Standards in Credit Card Loan Portfolios

(Percent of Banks)

	Eased	Unchanged	Tightened
1996	**8**	**62**	**30**
1997	**3**	**38**	**59**
1998	**3**	**59**	**38**
1999	**8**	**66**	**26**
2000	**9**	**75**	**16**

Changes in the Level of Credit Risk in Credit Card Loan Portfolios

(Percent of Banks)

	Declined Significantly	Declined Somewhat	Unchanged	Increased Somewhat	Increased Significantly
1997*	**1**	**8**	**27**	**47**	**15**
1998	**9**	**15**	**33**	**41**	**2**
1999	**0**	**13**	**47**	**36**	**4**
2000	**0**	**16**	**66**	**16**	**2**
Future 12 Months	**0**	**5**	**79**	**16**	**0**

**NA (not available) responses excluded.*

Direct Consumer Lending

Fifty-eight of the 69 banks in the survey were engaged in direct consumer lending.

Changes in Underwriting Standards in Other Direct Consumer Loan Portfolios

(Percent of Banks)

	Eased	Unchanged	Tightened
1996	16	69	15
1997	15	59	26
1998	13	65	22
1999	7	74	19
2000	10	78	12

Changes in the Level of Credit Risk in Other Direct Consumer Loan Portfolios

(Percent of Banks)

	Declined Significantly	Declined Somewhat	Unchanged	Increased Somewhat	Increased Significantly
1997	0	4	60	34	2
1998	1	9	55	35	0
1999	0	7	65	28	0
2000	0	9	74	15	2
Future 12 Months	0	7	65	28	0

Home Equity-Conventional Lending

Sixty-four of the 69 banks in the survey offered the conventional home equity lending product.

Changes in Underwriting Standards in Home Equity - Conventional Loan Portfolios

(Percent of Banks)

	Eased	Unchanged	Tightened
1996	16	81	3
1997	38	58	4
1998	33	60	7
1999	23	67	10
2000	23	64	13

Changes in the Level of Credit Risk in Home Equity - Conventional Loan Portfolios

(Percent of Banks)

	Declined Significantly	Declined Somewhat	Unchanged	Increased Somewhat	Increased Significantly
1997	0	3	55	42	0
1998	0	6	61	30	3
1999	0	0	69	29	2
2000	0	5	73	20	2
Future 12 Months	0	5	67	26	2

Home Equity–High LTV Lending

Thirty-eight of the 69 banks in the survey offered the high LTV home equity product.

Changes in Underwriting Standards in Home Equity - High LTV Loan Portfolios

(Percent of Banks)

	Eased	Unchanged	Tightened
1999	**20**	**61**	**19**
2000	**21**	**55**	**24**

Changes in the Level of Credit Risk in Home Equity - High LTV Loan Portfolios

(Percent of Banks)

	Declined Significantly	Declined Somewhat	Unchanged	Increased Somewhat	Increased Significantly
1999	**0**	**6**	**47**	**44**	**3**
2000	**0**	**13**	**58**	**24**	**5**
Future 12 Months	**0**	**13**	**50**	**34**	**3**

Indirect Consumer Lending

Forty-five of the 69 banks in the survey were engaged in indirect consumer lending.

Changes in Underwriting Standards in Indirect Consumer Loan Portfolios

(Percent of Banks)

	Eased	Unchanged	Tightened
1996	21	60	19
1997	16	51	33
1998	13	39	48
1999	7	56	37
2000	7	60	33

Changes in the Level of Credit Risk in Indirect Consumer Loan Portfolios

(Percent of Banks)

	Declined Significantly	Declined Somewhat	Unchanged	Increased Somewhat	Increased Significantly
1997*	2	3	45	42	5
1998	0	21	32	43	4
1999	2	23	42	33	0
2000	7	16	55	22	0
Future 12 Months	9	13	56	22	0

**NA (not available) responses excluded.*

Residential Real Estate Lending

Sixty of the 69 surveyed banks were engaged in residential real estate lending.

Changes in Underwriting Standards in Residential Real Estate Loan Portfolios

(Percent of Banks)

	Eased	Unchanged	Tightened
1996	5	91	4
1997	14	83	3
1998	9	87	4
1999	14	77	9
2000	7	85	8

Changes in the Level of Credit Risk in Residential Real Estate Loan Portfolios

(Percent of Banks)

	Declined Significantly	Declined Somewhat	Unchanged	Increased Somewhat	Increased Significantly
1997*	0	5	73	20	0
1998	1	4	74	18	3
1999	3	5	71	21	0
2000	0	3	83	12	2
Future 12 Months	0	2	80	16	2

**NA (not available) responses excluded.*