

Table 2

## Senior Loan Officer Opinion Survey on Bank Lending Practices at Selected Branches and Agencies of Foreign Banks in the United States <sup>1</sup>

(Status of policy as of January 2006)

*Questions 1-6 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. Question 6 asks about changes in prospective demand for C&I loans at your bank, as indicated by the volume of recent inquiries about the availability of new credit lines or increases in existing lines. 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           | Percent |
| Tightened considerably       | 0               | 0.0     |
| Tightened somewhat           | 0               | 0.0     |
| Remained basically unchanged | 18              | 94.7    |
| Eased somewhat               | 1               | 5.3     |
| Eased considerably           | 0               | 0.0     |
| <b>Total</b>                 | 19              | 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.)

|  | <b>All Respondents</b> |
|--|------------------------|
|  | <b>Mean</b>            |
| Maximum size of credit lines   | 3.16                   |
| Maximum maturity of loans or credit lines  | 3.00                   |
| Costs of credit lines  | 3.37                   |
| Spreads of loan rates over your bank's cost of funds (wider spreads=tightened, narrower spreads=eased) | 3.26                   |
| Premiums charged on riskier loans  | 3.00                   |
| Loan covenants   | 3.05                   |
| Collateralization requirements   | 3.00                   |
| Other (please specify)   | 3.00                   |
| <b>Number of banks responding</b>  | 19                     |

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:

|   | <b>All Respondents</b> |
|---|------------------------|
|   | <b>Mean</b>            |
| Deterioration in your bank's current or expected capital position   | 1.00                   |
| Less favorable or more uncertain economic outlook   | 1.50                   |
| Worsening of industry-specific problems (please specify industries)   | 2.50                   |
| Less aggressive competition from other banks or nonbank lenders (other financial intermediaries or the capital markets) | 1.00                   |
| Reduced tolerance for risk  | 1.00                   |
| Decreased liquidity in the secondary market for these loans   | 1.50                   |
| Increase in defaults by borrowers in public debt markets  | 1.00                   |
| Other (please specify)  | 0.00                   |
| <b>Number of banks responding</b>   | <b>2</b>               |

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

|   | <b>All Respondents</b> |
|---|------------------------|
|   | <b>Mean</b>            |
| Improvement in your bank's current or expected capital position   | 1.29                   |
| More favorable or less uncertain economic outlook   | 1.29                   |
| Improvement in industry-specific problems (please specify industries)   | 1.00                   |
| More aggressive competition from other banks or nonbank lenders (other financial intermediaries or the capital markets) | 2.43                   |
| Increased tolerance for risk  | 1.43                   |
| Increased liquidity in the secondary market for these loans   | 1.71                   |
| Reduction in defaults by borrowers in public debt markets   | 1.14                   |
| Other (please specify)  | 1.00                   |
| <b>Number of banks responding</b>   | <b>7</b>               |

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.)

|                        | <b>All Respondents</b> |                |
|------------------------|------------------------|----------------|
|                        | <b>Banks</b>           | <b>Percent</b> |
| Substantially stronger | 0                      | 0.0            |
| Moderately stronger    | 5                      | 26.3           |
| About the same         | 13                     | 68.4           |
| Moderately weaker      | 1                      | 5.3            |
| Substantially weaker   | 0                      | 0.0            |
| <b>Total</b>           | <b>19</b>              | <b>100.0</b>   |

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 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:

|   | <b>All Respondents</b> |
|---|------------------------|
|   | <b>Mean</b>            |
| Customer inventory financing needs increased  | 1.75                   |
| Customer accounts receivable financing needs increased  | 1.50                   |
| Customer investment in plant or equipment increased   | 1.75                   |
| Customer internally generated funds decreased   | 1.00                   |
| Customer merger or acquisition financing needs increased  | 2.60                   |
| Customer borrowing shifted to your bank from other bank or nonbank sources because these other sources became less attractive | 1.75                   |
| Other (please specify)  | 3.00                   |
| <b>Number of banks responding</b>   | <b>5</b>               |

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

|  | <b>All Respondents</b> |
|--|------------------------|
|  | <b>Mean</b>            |
| Customer inventory financing needs decreased   | 1.00                   |
| Customer accounts receivable financing needs decreased   | 1.00                   |
| Customer investment in plant or equipment decreased  | 1.00                   |
| Customer internally generated funds increased  | 1.00                   |
| Customer merger or acquisition financing needs decreased   | 1.00                   |
| Customer borrowing shifted from your bank to other bank or nonbank credit sources because these other sources became more attractive | 2.00                   |
| Other (please specify)   | 0.00                   |
| <b>Number of banks responding</b>  | <b>1</b>               |

6. At your bank, how has the number of inquiries from potential business borrowers regarding the availability and terms of new credit lines or increases in existing lines changed over the past three months? (Please consider only inquiries for additional C&I lines as opposed to the refinancing of existing loans.)

|   | All Respondents |         |
|---|-----------------|---------|
|   | Banks           | Percent |
| The number of inquiries has increased substantially | 0               | 0.0     |
| The number of inquiries has increased moderately    | 3               | 15.8    |
| The number of inquiries has stayed about the same   | 14              | 73.7    |
| The number of inquiries has decreased moderately    | 2               | 10.5    |
| The number of inquiries has decreased substantially | 0               | 0.0     |
| <b>Total</b>  | 19              | 100.0   |

**Questions 7-8** ask about **commercial real estate loans** at your bank, including construction and land development loans and loans secured by nonfarm nonresidential real estate. Question 7 deals with changes in your bank's standards over the last three months. Question 8 deals with changes in demand. If your bank's lending standards or terms have not changed over the relevant period, please report them as unchanged even if they are either restrictive or accommodative relative to longer-term norms. If your bank's standards or terms have tightened or eased over the relevant period, please so report them regardless of how they stand relative to longer-term norms. Also, please report changes in enforcement of existing standards as changes in standards.

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

|                              | All Respondents |         |
|------------------------------|-----------------|---------|
|                              | Banks           | Percent |
| Tightened considerably       | 0               | 0.0     |
| Tightened somewhat           | 2               | 16.7    |
| Remained basically unchanged | 10              | 83.3    |
| Eased somewhat               | 0               | 0.0     |
| Eased considerably           | 0               | 0.0     |
| <b>Total</b>                 | 12              | 100.0   |

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

|                        | All Respondents |         |
|------------------------|-----------------|---------|
|                        | Banks           | Percent |
| Substantially stronger | 0               | 0.0     |
| Moderately stronger    | 1               | 8.3     |
| About the same         | 10              | 83.3    |
| Moderately weaker      | 1               | 8.3     |
| Substantially weaker   | 0               | 0.0     |
| <b>Total</b>           | 12              | 100.0   |

**Questions 9-10** focus on changes in your bank's terms on **commercial real estate loans** over the **past year** . If your bank's lending terms have not changed over the past year, please report them as unchanged even if they are either restrictive or accommodative relative to longer-term norms. If your bank's lending terms have tightened or eased over the past year, please so report them regardless of how they stand relative to longer-term norms.

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  | 3.00            |
| Maximum loan maturity  | 3.10            |
| Spreads of loan rates over your bank's cost of funds (wider spreads=tightened, narrower spreads=eased) | 3.70            |
| Loan-to-value ratios   | 3.30            |
| Requirements for take-out financing  | 3.10            |
| Debt-service coverage ratios   | 3.10            |
| Other (please specify)   | 0.00            |
| <b>Number of banks responding</b>  | 11              |



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   | 0.00            |
| Worsening of the condition of, or the outlook for, commercial real estate in the markets where your bank operates | 0.00            |
| Less aggressive competition from other commercial banks   | 0.00            |
| Less aggressive competition from nonbank lenders  | 0.00            |
| Reduced tolerance for risk  | 0.00            |
| Increased concern about take-out financing  | 0.00            |
| Less liquid market for securities collateralized by these loans   | 2.00            |
| Other (please specify)  | 0.00            |
| <b>Number of banks responding</b>   | 1               |

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

|   | All Respondents |
|---|-----------------|
|   | Mean            |
| More favorable economic outlook   | 1.60            |
| Improvement in the condition of, or the outlook for, commercial real estate in the markets where your bank operates | 1.60            |
| More aggressive competition from other commercial banks   | 2.80            |
| More aggressive competition from nonbank lenders  | 2.60            |
| Increased tolerance for risk  | 1.20            |
| Reduced concern about take-out financing  | 1.20            |
| More liquid market for securities collateralized by these loans   | 2.00            |
| Other (please specify)  | 0.00            |
| <b>Number of banks responding</b>   | 5               |

Over the past several years, delinquencies and chargeoffs on business loans have declined in the aggregate. **Question 11** asks about your bank's expectations for the behavior of these measures of loan quality in 2006.

11. Assuming that economic activity progresses in line with consensus forecasts, what is your bank's outlook for delinquencies and chargeoffs on loans to businesses in 2006?

a. Outlook for loan quality on C&I loans:

|   | All Respondents |         |
|---|-----------------|---------|
|   | Banks           | Percent |
| Loan quality is likely to improve substantially           | 1               | 5.3     |
| Loan quality is likely to improve somewhat                | 2               | 10.5    |
| Loan quality is likely to stabilize around current levels | 13              | 68.4    |
| Loan quality is likely to deteriorate somewhat            | 3               | 15.8    |
| Loan quality is likely to deteriorate substantially       | 0               | 0.0     |
| <b>Total</b>  | 19              | 100.0   |

b. Outlook for loan quality on commercial real estate loans:

|   | All Respondents |         |
|---|-----------------|---------|
|   | Banks           | Percent |
| Loan quality is likely to improve substantially           | 0               | 0.0     |
| Loan quality is likely to improve somewhat                | 0               | 0.0     |
| Loan quality is likely to stabilize around current levels | 10              | 83.3    |
| Loan quality is likely to deteriorate somewhat            | 2               | 16.7    |
| Loan quality is likely to deteriorate substantially       | 0               | 0.0     |
| <b>Total</b>  | 12              | 100.0   |

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1. As of September 30, 2005, the 19 respondents had combined assets of \$555 billion, compared to \$1.24 trillion 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.