

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 October 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	15	88.2
Eased somewhat	2	11.8
Eased considerably	0	0.0
Total	17	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	3.12
Maximum maturity of loans or credit lines	3.06
Costs of credit lines	3.35
Spreads of loan rates over your bank's cost of funds (wider spreads=tightened; narrower spreads=eased)	3.41
Premiums charged on riskier loans	3.18
Loan covenants	3.12
Collateralization requirements	3.06
Other (please specify)	3.00
Number of banks responding	17

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	1.00
Less favorable or more uncertain economic outlook	1.50
Worsening of industry-specific problems (please specify industries)	1.50
Less aggressive competition from other banks or nonbank lenders (other financial intermediaries or the capital markets)	1.50
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)	3.00
Number of banks responding	2

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

	All Respondents
	Mean
Improvement in your bank's current or expected capital position	1.33
More favorable or less uncertain economic outlook	1.50
Improvement in industry-specific problems (please specify industries)	1.33
More aggressive competition from other banks or nonbank lenders (other financial intermediaries or the capital markets)	2.71
Increased tolerance for risk	1.86
Increased liquidity in the secondary market for these loans	1.71
Reduction in defaults by borrowers in public debt markets	1.33
Other (please specify)	2.00
Number of banks responding	7

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	Percent
Substantially stronger	0	0.0
Moderately stronger	0	0.0
About the same	14	82.4
Moderately weaker	3	17.6
Substantially weaker	0	0.0
Total	17	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 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	!5aa1m.m!
Customer accounts receivable financing needs increased	!5ab1m.m!
Customer investment in plant or equipment increased	!5ac1m.m!
Customer internally generated funds decreased	!5ad1m.m!
Customer merger or acquisition financing needs increased	!5ae1m.m!
Customer borrowing shifted to your bank from other bank or nonbank sources because these other sources became less attractive	!5af1m.m!
Other (please specify)	!5ag1m.m!
Number of banks responding	!5at1b!

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

	All Respondents
	Mean
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	1.50
Customer merger or acquisition financing needs decreased	1.50
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)	2.00
Number of banks responding	3

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	0	0.0
The number of inquiries has stayed about the same	14	82.4
The number of inquiries has decreased moderately	3	17.6
The number of inquiries has decreased substantially	0	0.0
Total	17	100.0

Merger and acquisition (M&A) activity in the nonfinancial sector has boomed since 2005. Over the same period, C&I loans on banks' books have also expanded rapidly. Questions 7-16 ask about the extent to which the recent strength in C&I lending reflects the surge in M&A activity.

7. About what share of the dollar volume of C&I loans currently on your bank's books was originated for M&A-related purposes? (M&A-related C&I loans include those made to finance leveraged buyouts and other M&A activity.)

	All Respondents	
	Banks	Percent
Less than 5 percent	4	23.5
Between 5 percent and 10 percent	5	29.4
Between 11 percent and 20 percent	5	29.4
Between 21 percent and 30 percent	2	11.8
Between 31 percent and 40 percent	1	5.9
More than 40 percent	0	0.0
Total	17	100.0

8. How has the share of M&A-related C&I loans on your bank's books (as reported in question 7) changed over the past twelve months?

	All Respondents	
	Banks	Percent
Increased substantially	0	0.0
Increased moderately	11	64.7
Remained basically unchanged	5	29.4
Decreased moderately	1	5.9
Decreased substantially	0	0.0
Total	17	100.0

9. If your bank has experienced an increase in the share of M&A-related C&I loans over the past twelve months (as reported in question 8), to what extent has the increase reflected a shift of funding for M&A activity to banks as a result of a reduction in the relative attractiveness of bond finance?

	All Respondents	
	Banks	Percent
To a substantial extent	0	0.0
To a moderate extent	2	18.2
To an insignificant extent or not at all	9	81.8
Total	11	100.0

10. If demand for C&I loans at your bank has been strengthened by a shift of M&A financing out of the bond market (as described in question 9), how important have been the following possible reasons? (Please rate *each* possible reason using the following scale: 1=not important, 2=somewhat important, 3=very important.)

	All Respondents
	Mean
Relatively more favorable pricing in the loan market	2.00
Relatively more favorable nonprice terms (including the maximum size and maturity of loans or credit lines, loan covenants, and collateralization requirements) in the loan market	2.00
Other (please specify)	0.00
Number of banks responding	2

11. About what share of the dollar volume of M&A-related C&I loans currently on your bank's books was used to finance leveraged buyouts?

	All Respondents	
	Banks	Percent
Less than or equal to 10 percent	8	47.1
Between 11 percent and 20 percent	1	5.9
Between 21 percent and 30 percent	3	17.6
Between 31 percent and 50 percent	1	5.9
Between 51 percent and 75 percent	2	11.8
More than 75 percent	2	11.8
Total	17	100.0

12. About what share of the dollar volume of M&A-related C&I loans currently on your bank's books is accounted for by "bridge loans" that your bank expects to be paid down with funds raised in capital markets within the next twelve months?

	All Respondents	
	Banks	Percent
Less than or equal to 10 percent	11	64.7
Between 11 percent and 20 percent	3	17.6
Between 21 percent and 30 percent	1	5.9
Between 31 percent and 50 percent	1	5.9
Between 51 percent and 75 percent	0	0.0
More than 75 percent	1	5.9
Total	17	100.0

13. How have your bank's credit standards for approving applications for M&A-related C&I loans or credit lines changed over the past twelve months?

	All Respondents	
	Banks	Percent
Tightened considerably	0	0.0
Tightened somewhat	0	0.0
Remained basically unchanged	13	76.5
Eased somewhat	4	23.5
Eased considerably	0	0.0
Total	17	100.0

14. For applications for M&A-related C&I loans or credit lines that your bank currently is willing to approve, how have the terms of those loans changed over the past twelve 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 loans or credit lines	3.41
Maximum maturity of loans or credit lines	3.18
Costs of credit lines	3.41
Spreads of loan rates over your bank's cost of funds (wider spreads=tightened; narrower spreads=eased)	3.18
Premiums charged on riskier loans	3.12
Loan covenants	3.41
Collateralization requirements	3.06
Other (please specify)	3.00
Number of banks responding	17

15. What is your bank's outlook over the next twelve months for delinquencies and chargeoffs on *M&A-related C&I* loans currently on your bank's books, assuming that economic activity progresses in line with consensus forecasts?

	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	11	64.7
Loan quality is likely to deteriorate somewhat	6	35.3
Loan quality is likely to deteriorate substantially	0	0.0
Total	17	100.0

16. What is your bank's outlook over the next twelve months for delinquencies and chargeoffs on *C&I* loans currently on your bank's books that were *not used to finance M&A activity*, assuming that economic activity progresses in line with consensus forecasts?

	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	12	70.6
Loan quality is likely to deteriorate somewhat	5	29.4
Loan quality is likely to deteriorate substantially	0	0.0
Total	17	100.0

Questions 17-18 ask about commercial real estate loans at your bank, including construction and land development loans and loans secured by nonfarm nonresidential real estate. Question 17 deals with changes in your bank's standards over the last three months. Question 18 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.

17. 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	0	0.0
Remained basically unchanged	11	91.7
Eased somewhat	1	8.3
Eased considerably	0	0.0
Total	12	100.0

18. 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	2	16.7
About the same	9	75.0
Moderately weaker	1	8.3
Substantially weaker	0	0.0
Total	12	100.0

1. As of June 30, 2006, the 17 respondents had combined assets of \$608 billion, compared to \$1.40 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.