Board of Governors of the Federal Reserve System

The October 2002 Senior Loan Officer Opinion Survey on Bank Lending Practices

The October 2002 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 three sets of supplementary questions. The first set was designed to clarify the relative effects of supply and demand forces on the rapid runoff in C&I loans over the first nine months of 2002. The second set focused on the extent of cash-out refinancing during the recent boom in mortgage refinancing activity and the behavior of average home prices over the past twelve months. In light of recent declines in bank stock prices and increases in yields on outstanding subordinated debt at some large banks, the final set of special questions addressed changes in banks' cost of funds over the past six months. Responses were received from fifty-five domestic and twenty foreign banking institutions.

The results indicate some further tightening of standards and terms for commercial and industrial (C&I) loans over the past three months. A significant fraction of U.S. branches and agencies of foreign banks continued to tighten both standards and terms. Domestic and foreign institutions reported that the demand for C&I and commercial real estate loans weakened further between the August and October surveys. Domestic banks attribute much of this year's decline in C&I loans to reduced demand from creditworthy borrowers. By contrast, foreign institutions allowed that their own tighter lending standards played an important role.

On the household side, domestic banks reported largely unchanged standards on home mortgages and consumer loans over the past three months. A significant fraction of these banks reported an increase in the demand for home mortgages to purchase homes as well as continued demand for cash-out refinancing. A majority of banks surveyed expect the growth of housing prices in their market area to moderate over the next twelve months relative to the previous twelve month period. Demand for consumer loans was reported to be about unchanged.

Lending to Businesses

(Table 1, questions 1-9; Table 2, questions 1-9)

Commercial and industrial loans. The net percentage of domestic banks that reported having tightened standards on C&I loans to large and middle-market firms over the past three months edged down to 20 percent from 22 percent in the August survey. By contrast, the net percentage tightening standards on business loans to small firms rose from 6 percent in August to almost 20 percent in the current survey, and one bank reported that it tightened standards considerably on these loans.

A similar pattern in lending policies for small and large firms is evident in the number of domestic banks that tightened the various terms listed in the survey. The percentage of banks that raised premiums charged on riskier loans to large and middle-market firms declined from about 50 percent in the August survey to 40 percent in October, while the fraction of banks that reported doing so on loans to small firms increased from one-fifth to more than one-third between the two surveys. In addition, almost 30 percent of respondents indicated that they imposed more stringent collateralization requirements on small firms over the past three months, up from 16 percent, on net, in the August survey. By contrast, the percentage of domestic banks that tightened collateralization requirements on C&I loans to large firms declined from about 30 percent in August to 24 percent in the current survey.

The fraction of U.S. branches and agencies of foreign banks that tightened standards and terms on C&I loans over the past three months retreated somewhat from the elevated range of the previous several surveys. The percentage of foreign institutions that had tightened standards for customers seeking C&I loans or credit lines declined from 60 percent in August to 50 percent in the current survey. In a similar vein, the fractions of foreign institutions that tightened the surveyed terms on business loans over the past three months generally edged down. Between the August and October surveys, the fraction of foreign institutions that raised premiums on loans to riskier customers declined from 80 percent to about 55 percent, and the percentage that reported increasing the cost of credit lines decreased from 65 percent to about 40 percent. By contrast, the fraction of foreign institutions that increased spreads of loan rates over their cost of funds remained at about 70 percent in the current survey.

More than 80 percent of the domestic and foreign banking institutions that tightened standards or terms on C&I loans over the past three months voiced concerns about the economic outlook. Domestic banks continued to cite reduced tolerance for risk and increases in corporate bond defaults as other important reasons for tightening their lending policies. About 70 percent of domestic respondents indicated that reduced tolerance for risk was at least a somewhat important reason for tightening their credit standards and terms, down only slightly from the August survey, and more than one-half of respondents—about the same fraction as in the August survey—identified an increase in corporate bond defaults as a somewhat important reason.

At the same time, industry-specific concerns at domestic banks appear to have eased somewhat, as the percentage of respondents citing a worsening of industry-specific problems as a reason for changing their lending policies declined from 56 percent in August to about 39 percent in October. By contrast, 87 percent of foreign banking institutions cited a worsening of industry-specific conditions as a reason for tightening their lending policies over the past three months. This difference likely reflects foreign institutions' considerably greater concentration of C&I loans to troubled sectors such as telecommunications and high-tech, as evidenced by responses to the August 2001 survey.

On net, 53 percent of domestic banks reported weaker demand for C&I loans from large and middle-market firms in October, up slightly from about 45 percent in August. The net fraction of banks that reported weaker demand from small firms also moved up in the current survey, to about 48 percent. The net percentage of foreign branches and agencies reporting weaker demand for C&I loans over the past three months increased to 40 percent in October from 35 percent in the previous survey.

All but one domestic bank that experienced weaker demand reported that a decline in customers' need for bank loans to finance capital expenditures was at least a somewhat important reason for the weakness in demand, and almost one-half of these respondents chose this reason as "very important." As in the past several surveys, substantial fractions of banks also reported weaker demand for loans to finance mergers and acquisitions, inventories, and accounts receivable. Of the four domestic banks that reported an increase in demand for C&I loans over the past three months, three indicated that the increase was due to a reduction in their customers' internal funds. The most frequently cited reasons for weaker demand at branches and agencies of foreign banks continued to be a decline in merger and acquisition financing and reduced customer investment in plant and equipment.

In an attempt to obtain greater insight into the reasons behind the more than 7 percent annual rate of decline in C&I loans during the first nine months of this year—as reported on the Federal Reserve's H.8 release, "Assets and Liabilities of Commercial Banks in the United States"—banks were asked to rank several possible demand and supply factors. According to domestic respondents, the most important reason for the runoff in C&I loans is the reduced funding needs of creditworthy borrowers; indeed, almost three-fourths of domestic banks identified this factor as being "most important." At the same time, domestic banks indicated that the deterioration in business credit quality has reduced the number of firms viewed as creditworthy, an effect compounded by the reported tightening of lending standards over the past nine months. At branches and agencies of foreign banks, by contrast, reduced demand from creditworthy borrowers was not deemed nearly as important. Almost all foreign institutions reported that the recent drop in C&I lending resulted from a reduction in the number of creditworthy borrowers, but the respondents were almost evenly split between those that attributed the reduction to a general deterioration in borrowers' credit quality and those that attributed it to the imposition of more stringent lending standards. In a follow-up question, 55 percent of domestic banks, on net, and 65 percent of foreign institutions indicated that the rejection rate on C&I loan applications was higher over the first nine months of 2002 than over the corresponding period in 2001.

Commercial real estate lending. The fractions of domestic and foreign banking institutions that reported tighter standards on commercial real estate loans over the past three months stayed at about 25 percent and 30 percent, respectively, in the October survey. Demand for commercial real estate loans continued to weaken on net. The net fraction of domestic banks reporting weaker demand for commercial real estate loans was about unchanged between August and October at about one-third. At foreign institutions, the net fraction of respondents experiencing weaker demand for commercial real estate loans over the past three months rose from 18 percent in August to 36 percent in the current survey.

Lending to Households
(Table 1, questions 10-23)

Ten percent of domestic banks reported that they had tightened lending standards on residential mortgage loans over the past three months, the highest share in the past decade. On net, 40 percent of respondents reported increased demand for residential mortgages, up from 27 percent in the previous survey, a result consistent with the elevated level of new home sales between the two surveys.

A set of supplementary questions addressed changes in home appraisal policies, the extent of cash-out mortgage refinancing, and trends in home prices. Almost all domestic banks indicated that their policies concerning the appraisal of home values for mortgage loans—for loans they intend to hold on their books—have remained essentially unchanged over the past six months; four of the five remaining respondents indicated that they had become somewhat more conservative when appraising home values.

This year has seen record levels of home mortgage refinancing. Reportedly, many households also increased their loan balances at the time of refinancing, an arrangement sometimes referred to as cash-out refinancing. Almost half of domestic respondents in the October survey indicated that between 20 percent and 40 percent of the customers that refinanced their mortgages over the last six months engaged in cash-out refinancing; about one-fifth of banks reported that more than 40 percent of these customers did so. These percentages are appreciably higher that those reported in the January 2002 survey, which contained a similar question.

For customers who increased the outstanding balance of their mortgage when refinancing, about 70 percent of banks reported that the typical increase was between 5 percent and 15 percent of the original outstanding balance. More than 25 percent indicated that the typical increase, again as a percentage of the original outstanding balance, was greater than 15 percent. These numbers suggest some increase in the amount of cash-out refinancing when compared with the January 2002 survey, in which only 20 percent of banks indicated that the typical increase in the outstanding balance was greater than 15 percent. In the current survey, domestic banks reported that their customers' most common use of funds from cash-out refinancing was to repay other debt and to pay for home improvements, essentially the same as in the January 2002 survey.

Domestic banks were also queried about the behavior of average home prices in their markets over the past twelve months. About three-quarters of these institutions reported that the average home price in their market has increased over the past twelve months; in fact, about 15 percent of respondents indicated that the increase was substantial. However, many banks expect these increases to moderate or partially reverse over the next twelve months. About a fifth of banks anticipate a decrease in average home prices in their respective markets, while only about a third forecast a further increase, and no bank expects that increase to be substantial.

In the October survey, about 15 percent of domestic banks indicated that they had tightened standards on credit card loans and other consumer loans over the past three months, about the same as in the previous survey. Over the same period, almost one-quarter of respondents reported reducing the number of exceptions granted to customers not meeting credit-scoring thresholds on all consumer loans. For the second consecutive survey, a small net fraction of domestic banks reported that demand for consumer loans was somewhat weaker over the past three months.

Changes in Cost of Funds

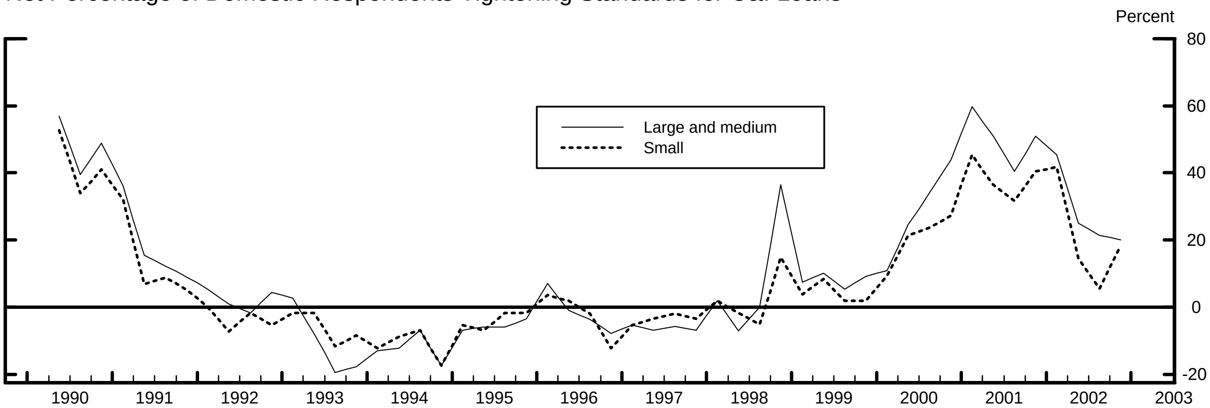
(Table 1, questions 24-25; Table 2, questions 10-11)

In light of recent declines in bank stock prices and increases in yields on subordinated debt at some banks, the last set of special questions focused on changes in banks' cost of funds over the past six months. About 30 percent of domestic banks reported that their weighted-average marginal cost of funds—relative to the marginal return on their assets—decreased slightly over the past six months, while 13 percent of respondents acknowledged a slight increase in their relative marginal cost of funds. Only two domestic banks reported that their relative marginal cost of funds has increased moderately or significantly over the past six months. Domestic institutions that experienced an increase in their marginal cost of funds reported that, in response, they raised their loan pricing terms such as fees and spreads. Domestic institutions that reported a decrease in their marginal cost of funds, by contrast, were able to reduce fees and spreads. On net, about 20 percent of foreign banks indicated that their weighted average marginal cost of funds had increased slightly relative to the marginal return on their assets.

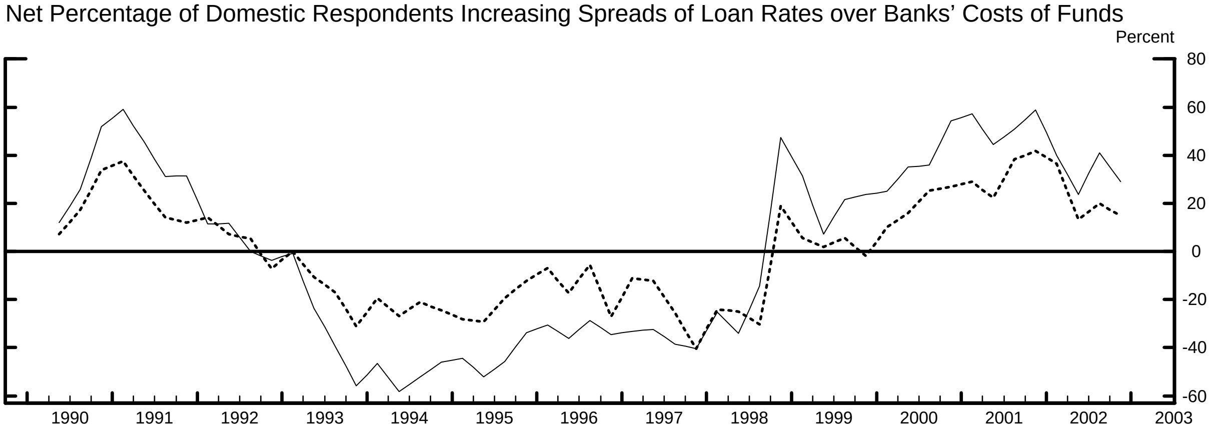
This document was prepared by William Bassett, Mark Carlson and Egon Zakrajšek with the research assistance of Steven Piraino, Division of Monetary Affairs, Board of Governors of the Federal Reserve System.

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

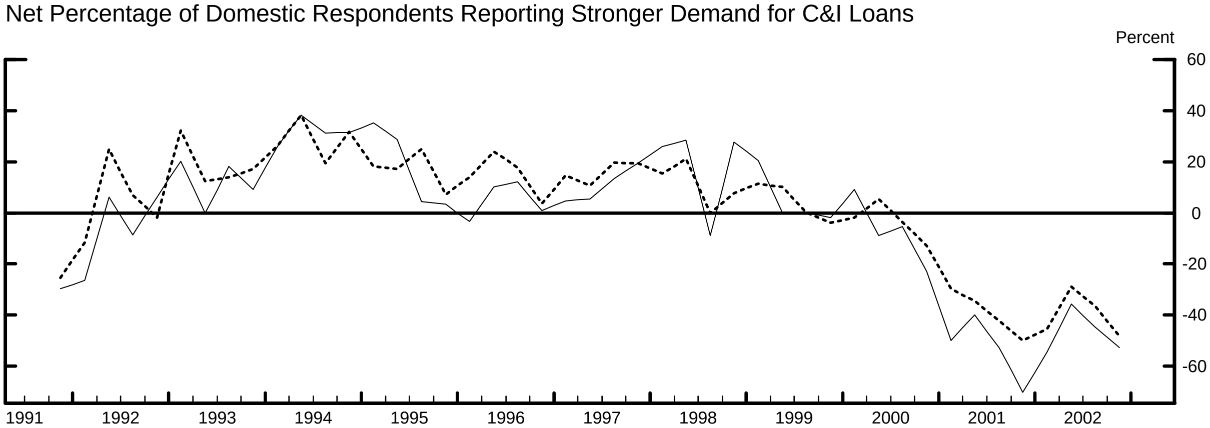
Net Percentage of Domestic Respondents Tightening Standards for C&I Loans



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

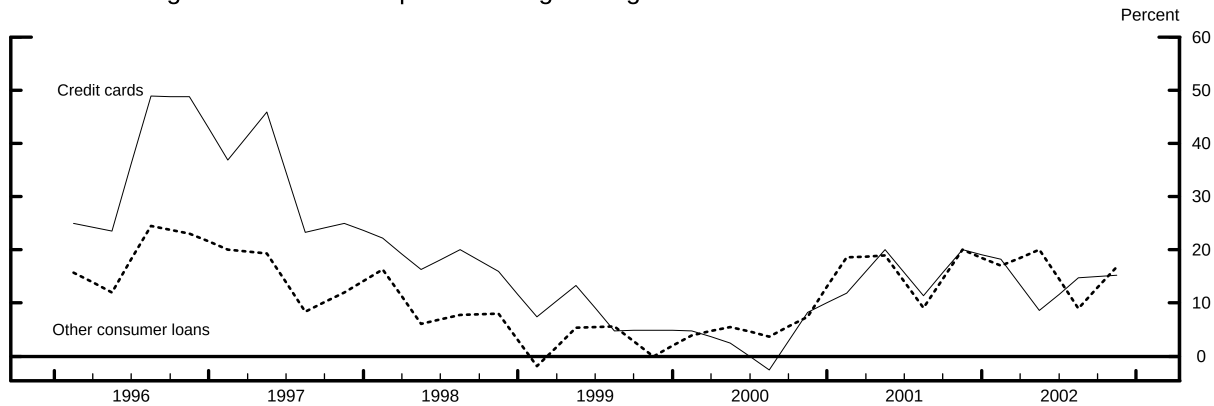


Net Percentage of Domestic Respondents Reporting Stronger Demand for C&I Loans

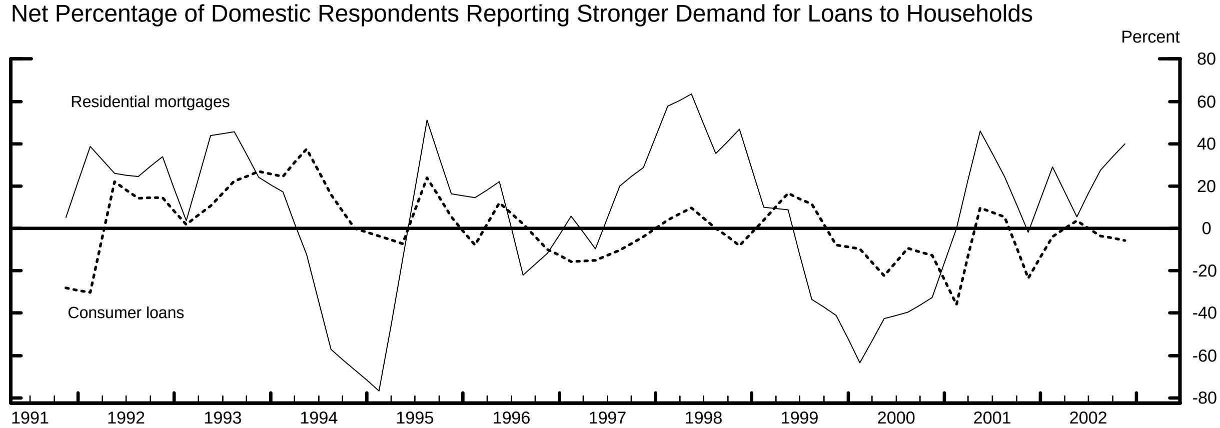


Measures of Supply and Demand for Loans to Households

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

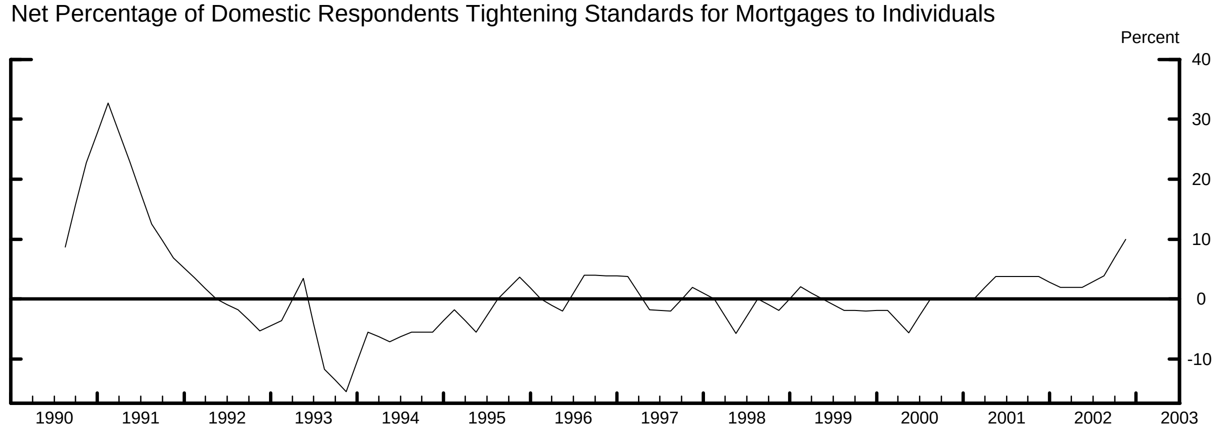


Table 1

SENIOR LOAN OFFICER OPINION SURVEY ON BANK LENDING PRACTICES
AT SELECTED LARGE BANKS IN THE UNITED STATES[1]
(Status of policy as of October 2002)

***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	11	20.0	8	26.7	3	12.0
Remained basically unchanged	44	80.0	22	73.3	22	88.0
Eased somewhat	0	0.0	0	0.0	0	0.0
Eased considerably	0	0.0	0	0.0	0	0.0
Total	55	100.0	30	100.0	25	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	1	1.8	1	3.3	0	0.0
Tightened somewhat	9	16.4	8	26.7	1	4.0
Remained basically unchanged	45	81.8	21	70.0	24	96.0
Eased somewhat	0	0.0	0	0.0	0	0.0
Eased considerably	0	0.0	0	0.0	0	0.0
Total	55	100.0	30	100.0	25	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 June 30, 2002. The combined assets of the 30 large banks totaled $2.95 trillion, compared to $3.22 trillion for the entire panel of 55 banks, and $5.89 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	2.71	2.57	2.88
Costs of credit lines	2.67	2.57	2.80
Spreads of loan rates over your bank's cost of funds (wider spreads=tightened, narrower spreads=eased)	2.69	2.57	2.84
Premiums charged on riskier loans	2.51	2.30	2.76
Loan covenants	2.73	2.70	2.76
Collateralization requirements	2.75	2.67	2.84
Other	2.98	3.00	2.96
Number of banks responding	55	30	25

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	2.89	2.80	3.00
Costs of credit lines	2.78	2.70	2.88
Spreads of loan rates over your bank's cost of funds (wider spreads=tightened, narrower spreads=eased)	2.83	2.73	2.96
Premiums charged on riskier loans	2.56	2.43	2.71
Loan covenants	2.70	2.60	2.83
Collateralization requirements	2.69	2.60	2.79
Other	2.98	2.97	3.00
Number of banks responding	54	30	24

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	1.06	1.05	1.09
Less favorable or more uncertain economic outlook	2.03	2.00	2.09
Worsening of industry-specific problems	1.64	1.68	1.55
Less aggressive competition from other banks or nonbank lenders (other financial intermediaries or the capital markets)	1.21	1.23	1.18
Reduced tolerance for risk	1.79	1.86	1.64
Decreased liquidity in the secondary market for these loans	1.45	1.55	1.27
Increase in defaults by borrowers in public debt markets	1.67	1.68	1.64
Other	1.15	1.09	1.27
Number of banks responding	33	22	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	0
More favorable or less uncertain economic outlook	1.00	1.00	0
Improvement in industry-specific problems	1.00	1.00	0
More aggressive competition from other banks or nonbank lenders (other financial intermediaries or the capital markets)	1.50	1.50	0
Increased tolerance for risk	1.00	1.00	0
Increased liquidity in the secondary market for these loans	1.00	1.00	0
Reduction in defaults by borrowers in public debt markets	1.00	1.00	0
Other	1.50	1.50	0
Number of banks responding	4	4	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.)

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	2	3.6	1	3.3	1	4.0
About the same	22	40.0	15	50.0	7	28.0
Moderately weaker	29	52.7	14	46.7	15	60.0
Substantially weaker	2	3.6	0	0.0	2	8.0
Total	55	100.0	30	100.0	25	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	2	3.7	2	6.9	0	0.0
About the same	24	44.4	16	55.2	8	32.0
Moderately weaker	27	50.0	11	37.9	16	64.0
Substantially weaker	1	1.9	0	0.0	1	4.0
Total	54	100.0	29	100.0	25	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	1.40	1.25	2.00
Customer accounts receivable financing needs increased	1.40	1.25	2.00
Customer investment in plant or equipment increased	1.00	1.00	1.00
Customer internally generated funds decreased	2.00	1.75	3.00
Customer merger or acquisition financing needs increased	1.20	1.25	1.00
Customer borrowing shifted to your bank from other bank or nonbank credit sources because these other sources became less attractive	1.80	2.00	1.00
Other	1.00	1.00	1.00
Number of banks responding	5	4	1

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	1.94	1.94	1.94
Customer accounts receivable financing needs decreased	1.94	1.94	1.94
Customer investment in plant or equipment decreased	2.38	2.31	2.44
Customer internally generated funds increased	1.24	1.25	1.22
Customer merger or acquisition financing needs decreased	1.94	2.38	1.56
Customer borrowing shifted from your bank to other bank or nonbank credit sources because these other sources became more attractive	1.18	1.13	1.22
Other	1.06	1.00	1.11
Number of banks responding	34	16	18

Over the past two years, a large fraction of banks responding to this survey indicated that they had tightened lending standards and terms on C&I loans and also observed declines in demand for loans from C&I borrowers. According to the Federal Reserve's H.8 statistical release, "Assets and Liabilities of Commercial Banks in the United States," commercial and industrial loans have contracted at about a 7 percent annual rate through the first nine months of 2002, a rate of decline that is unprecedented over the last 25 years. ***Questions 6-7*** *ask about the possible reasons for this decrease.*

6. Please rank, in order of their importance, the following possible reasons for the decline in C&I lending at your bank this year. Please assign the most important reason a rank of 1, and the next most important reason a rank of 2, etc. (Please disregard any increases in C&I loans that may owe to the merger of your bank with another institution.)

	All Respondents	Large Banks	Other Banks
	Mean	Mean	Mean
Loan demand from creditworthy borrowers (customers that have met your bank's lending standards) has fallen because their funding needs have declined.	1.56	1.87	1.17
Loan demand from creditworthy borrowers has fallen because they have found other sources of funding (e.g., bond market, nonbank lenders, running down liquid assets) more attractive.	3.48	3.54	3.41
Higher spreads and fees that your bank has charged on loans have cut down on creditworthy firms' appetite for credit.	4.22	4.11	4.36
Deteriorating credit quality has reduced the number of firms that your bank views as creditworthy.	2.51	2.45	2.59
Tighter lending standards at your bank have reduced the number of firms that your bank views as creditworthy.	3.26	3.11	3.45
Other	5.83	5.70	6.00
Number of banks responding	54	30	24

7. Thus far in 2002, how does the fraction of total C&I loan applications that has been rejected by your bank compare with the corresponding period in 2001?

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Substantially higher	3	5.5	1	3.3	2	8.0
Moderately higher	29	52.7	16	53.3	13	52.0
About the same	21	38.2	12	40.0	9	36.0
Moderately lower	2	3.6	1	3.3	1	4.0
Substantially lower	0	0.0	0	0.0	0	0.0
Total	55	100.0	30	100.0	25	100.0

Questions 8-9 *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. Question 9 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.*

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	12	22.2	7	24.1	5	20.0
Remained basically unchanged	42	77.8	22	75.9	20	80.0
Eased somewhat	0	0.0	0	0.0	0	0.0
Eased considerably	0	0.0	0	0.0	0	0.0
Total	54	100.0	29	100.0	25	100.0

9. 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	7	13.0	2	6.9	5	20.0
About the same	21	38.9	16	55.2	5	20.0
Moderately weaker	23	42.6	10	34.5	13	52.0
Substantially weaker	3	5.6	1	3.4	2	8.0
Total	54	100.0	29	100.0	25	100.0

Questions 10-17 *ask about* ***residential mortgage loans*** *at your bank. Question 10 deals with changes in your bank's credit standards over the past three months, and question 11 deals with changes in demand over the same period. Question 12 asks whether your bank has changed its appraisal policies in the past six months. Questions 13-15 deal with customers that have refinanced existing mortgages at your bank in the past six months. Questions 16-17 ask about the recent behavior of home prices in your bank's market. If your bank's credit standards have not changed over the relevant period, please report them as unchanged even if the standards are either restrictive or accommodative relative to longer-term norms. 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.*

10. 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	5	10.0	3	10.7	2	9.1
Remained basically unchanged	45	90.0	25	89.3	20	90.9
Eased somewhat	0	0.0	0	0.0	0	0.0
Eased considerably	0	0.0	0	0.0	0	0.0
Total	50	100.0	28	100.0	22	100.0

11. 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	7	14.0	4	14.3	3	13.6
Moderately stronger	18	36.0	11	39.3	7	31.8
About the same	20	40.0	11	39.3	9	40.9
Moderately weaker	4	8.0	1	3.6	3	13.6
Substantially weaker	1	2.0	1	3.6	0	0.0
Total	50	100.0	28	100.0	22	100.0

12. Over the past six months, how have your bank's policies changed with regard to the appraisal of home values for mortgage loans that it intends to hold on its books rather than securitize or sell? Appraisal policies have:

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Become considerably more conservative	0	0.0	0	0.0	0	0.0
Become somewhat more conservative	4	8.0	1	3.6	3	13.6
Remained basically unchanged	45	90.0	26	92.9	19	86.4
Become somewhat less conservative	1	2.0	1	3.6	0	0.0
Become considerably less conservative	0	0.0	0	0.0	0	0.0
Total	50	100.0	28	100.0	22	100.0

13. The demand for loans to refinance existing mortgages has been strong for some time now. Some customers that refinance their mortgages increase the loan principal at the time of the refinancing (sometimes referred to as cash-out refinancing). Over the past six months, about what percentage of your bank's customers that refinanced their mortgage also increased the loan principal?

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Less than 10 percent	5	10.4	3	11.1	2	9.5
Between 10 and 20 percent	9	18.8	5	18.5	4	19.0
Between 20 and 30 percent	12	25.0	6	22.2	6	28.6
Between 30 and 40 percent	12	25.0	7	25.9	5	23.8
Between 40 and 50 percent	6	12.5	4	14.8	2	9.5
More than 50 percent	4	8.3	2	7.4	2	9.5
Total	48	100.0	27	100.0	21	100.0

14. For customers that increased the outstanding balance of their mortgage when refinancing in the past six months, what was the typical increase as a percentage of the original outstanding balance?

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Less than 5 percent	2	4.3	1	3.8	1	5.0
Between 5 and 10 percent	12	26.1	8	30.8	4	20.0
Between 10 and 15 percent	20	43.5	11	42.3	9	45.0
Between 15 and 20 percent	6	13.0	3	11.5	3	15.0
Between 20 and 25 percent	5	10.9	2	7.7	3	15.0
More than 25 percent	1	2.2	1	3.8	0	0.0
Total	46	100.0	26	100.0	20	100.0

15. To the best of your knowledge, what percentage of your customers that refinanced and increased the outstanding balance on their mortgage in the past six months used the additional funds for the following purposes? (Please assign a number to each possible purpose using the following scale: 1=a negligible percentage, 2=less than 15 percent, 3=between 15 and 30 percent, 4=between 30 and 50 percent, 5=more than 50 percent.)

	All Respondents	Large Banks	Other Banks
	Mean	Mean	Mean
Repayment of other debt	3.74	3.64	3.86
Home improvements	2.88	2.82	2.95
Consumer expenditures	2.42	2.41	2.43
Business or real estate investments	1.56	1.36	1.76
Financial investments	1.44	1.36	1.52
Other	1.05	1.09	1.00
Number of banks responding	43	22	21

16. In the markets served by your bank, what has been the behavior of average home prices during the past twelve months?

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Increased substantially	7	13.7	2	7.1	5	21.7
Increased somewhat	35	68.6	22	78.6	13	56.5
Remained about the same	6	11.8	2	7.1	4	17.4
Decreased somewhat	3	5.9	2	7.1	1	4.3
Decreased substantially	0	0.0	0	0.0	0	0.0
Total	51	100.0	28	100.0	23	100.0

17. In the markets served by your bank, what is your bank's view of the likely behavior of average home prices during the next twelve months?

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Increase substantially	0	0.0	0	0.0	0	0.0
Increase somewhat	18	35.3	12	42.9	6	26.1
Remain about the same	23	45.1	12	42.9	11	47.8
Decrease somewhat	10	19.6	4	14.3	6	26.1
Decrease substantially	0	0.0	0	0.0	0	0.0
Total	51	100.0	28	100.0	23	100.0

Questions 18-23 *ask about* ***consumer lending*** *at your bank. Question 18 deals with changes in your bank's willingness to make consumer loans over the past three months. Questions 19-22 deal with changes in credit standards and loan terms over the same period. Question 23 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.*

18. 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	2	6.9	2	8.0
About unchanged	49	90.7	27	93.1	22	88.0
Somewhat less willing	1	1.9	0	0.0	1	4.0
Much less willing	0	0.0	0	0.0	0	0.0
Total	54	100.0	29	100.0	25	100.0

19. 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	5	15.2	2	11.1	3	20.0
Remained basically unchanged	28	84.8	16	88.9	12	80.0
Eased somewhat	0	0.0	0	0.0	0	0.0
Eased considerably	0	0.0	0	0.0	0	0.0
Total	33	100.0	18	100.0	15	100.0

20. 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	1	1.9	0	0.0	1	4.0
Tightened somewhat	7	13.0	5	17.2	2	8.0
Remained basically unchanged	46	85.2	24	82.8	22	88.0
Eased somewhat	0	0.0	0	0.0	0	0.0
Eased considerably	0	0.0	0	0.0	0	0.0
Total	54	100.0	29	100.0	25	100.0

21. 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	2.90	2.94	2.86
Spreads of interest rates charged on outstanding balances over your bank's cost of funds (wider spreads=tightened, narrower spreads=eased)	2.90	2.81	3.00
Minimum percent of outstanding balances required to be repaid each month	3.03	3.06	3.00
Minimum required credit score (increased score=tightened, reduced score=eased)	2.77	2.88	2.64
The extent to which loans are granted to some customers that do not meet credit scoring thresholds (increased=eased, decreased=tightened)	2.77	2.88	2.64
Other	3.00	3.00	3.00
Number of banks responding	30	16	14

22. 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	2.96	2.93	3.00
Spreads of loan rates over your bank's cost of funds (wider spreads=tightened, narrower spreads=eased)	3.00	2.97	3.04
Minimum required downpayment	2.91	2.90	2.92
Minimum required credit score (increased score=tightened, reduced score=eased)	2.85	2.86	2.83
The extent to which loans are granted to some customers that do not meet credit scoring thresholds (increased=eased, decreased=tightened)	2.74	2.69	2.79
Number of banks responding	53	29	24

23. 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	10	18.9	6	20.7	4	16.7
About the same	30	56.6	18	62.1	12	50.0
Moderately weaker	13	24.5	5	17.2	8	33.3
Substantially weaker	0	0.0	0	0.0	0	0.0
Total	53	100.0	29	100.0	24	100.0

There appear to be some concerns in financial markets about many banks' exposure to macroeconomic conditions, problem loans, the revenue implications of the reduction in activity in capital markets, and other factors bearing on banks' profitability. Indexes of bank stock prices have declined recently and the yields on some banks' outstanding subordinated debt have increased. ***Questions 24-25*** *ask about changes in your bank's cost of funds over the past six months and how those changes have affected your bank's lending policies.*

24. Over the past six months, how has your bank's weighted average marginal cost of funds changed relative to the expected marginal return on your bank's assets?

	All Respondents		Large Banks		Other Banks	
	Banks	Pct	Banks	Pct	Banks	Pct
Moderately or substantially increased	2	3.7	2	6.9	0	0.0
Increased slightly	7	13.0	4	13.8	3	12.0
Remained unchanged	29	53.7	17	58.6	12	48.0
Decreased slightly	16	29.6	6	20.7	10	40.0
Moderately or substantially decreased	0	0.0	0	0.0	0	0.0
Total	54	100.0	29	100.0	25	100.0

25. If your bank's relative cost of funds has changed over the past six months (answers 1, 2, 4, or 5 to question 24), to what extent has the change affected the following practices at your bank? (Please rate each item using the following scale: 1=tightened considerably, 2=tightened somewhat, 3=remained basically unchanged, 4=eased somewhat, 5=eased considerably.)

A. If relative marginal cost of funds increased (answers 1 or 2 to question 24):

	All Respondents	Large Banks	Other Banks
	Mean	Mean	Mean
Lending standards	2.88	2.80	3.00
Non-price lending terms (size, collateral, covenants)	2.75	2.80	2.67
Loan pricing terms (fees, spreads)	2.25	2.60	1.67
Other	3.00	3.00	3.00
Number of banks responding	8	5	3

B. If relative marginal cost of funds decreased (answers 4 or 5 to question 24):

	All Respondents	Large Banks	Other Banks
	Mean	Mean	Mean
Lending standards	2.94	3.00	2.90
Non-price lending terms (size, collateral, covenants)	2.94	3.00	2.90
Loan pricing terms (fees, spreads)	3.19	3.00	3.30
Other	3.06	3.00	3.10
Number of banks responding	16	6	10

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 2002)

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	2	10.0
Tightened somewhat	8	40.0
Remained basically unchanged	10	50.0
Eased somewhat	0	0.0
Eased considerably	0	0.0
Total	20	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	2.40
Costs of credit lines	2.60
Spreads of loan rates over your bank's cost of funds (wider spreads=tightened, narrower spreads=eased)	2.35
Premiums charged on riskier loans	2.40
Loan covenants	2.60
Collateralization requirements	2.65
Other	2.95
Total	20

1. As of June 30, 2002, the 20 respondents had combined assets of $298 billion, compared to $944 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	1.53
Less favorable or more uncertain economic outlook	2.13
Worsening of industry-specific problems	2.13
Less aggressive competition from other banks or nonbank lenders (other financial intermediaries or the capital markets)	1.27
Reduced tolerance for risk	1.73
Decreased liquidity in the secondary market for these loans	1.67
Increase in defaults by borrowers in public debt markets	1.80
Other	1.13
Number of banks responding	15

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	1	5.0
About the same	10	50.0
Moderately weaker	8	40.0
Substantially weaker	1	5.0
Total	20	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	2.00
Customer accounts receivable financing needs increased	2.00
Customer investment in plant or equipment increased	1.00
Customer internally generated funds decreased	3.00
Customer merger or acquisition financing needs increased	1.00
Customer borrowing shifted to your bank from other bank or nonbank sources because these other sources became less attractive	1.00
Other	1.00
Number of banks responding	1

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

	All Respondents
	Mean
Customer inventory financing needs decreased	1.89
Customer accounts receivable financing needs decreased	1.67
Customer investment in plant or equipment decreased	2.56
Customer internally generated funds increased	1.44
Customer merger or acquisition financing needs decreased	2.67
Customer borrowing shifted from your bank to other bank or nonbank credit sources because these other sources became more attractive	1.56
Other	1.22
Number of banks responding	9

Over the past two years, a large fraction of banks responding to this survey indicated that they had tightened lending standards and terms on C&I loans and also observed declines in demand for loans from C&I borrowers. According to the Federal Reserve's H.8 statistical release, "Assets and Liabilities of Commercial Banks in the United States," commercial and industrial loans have contracted at about a 7 percent annual rate through the first nine months of 2002, a rate of decline that is unprecedented over the last 25 years. ***Questions 6-7*** *ask about the possible reasons for this decrease.*

6. Please rank, in order of their importance, the following possible reasons for the decline in C&I lending at your bank this year. Please assign the most important reason a rank of 1, and the next most important reason a rank of 2, etc. (Please disregard any increases in C&I loans that may owe to the merger of your bank with another institution.)

	All Respondents
	Mean
Loan demand from creditworthy borrowers (customers that have met your bank's lending standards) has fallen because their funding needs have declined.	3.18
Loan demand from creditworthy borrowers has fallen because they have found other sources of funding (e.g., bond market, nonbank lenders, running down liquid assets) more attractive.	3.19
Higher spreads and fees that your bank has charged on loans have cut down on creditworthy firms' appetite for credit.	3.89
Deteriorating credit quality has reduced the number of firms that your bank views as creditworthy.	1.83
Tighter lending standards at your bank have reduced the number of firms that your bank views as creditworthy.	1.83
Other	5.79
Number of banks responding	19

7. Thus far in 2002, how does the fraction of total C&I loan applications that has been rejected by your bank compare with the corrsponding period in 2001?

	All Respondents	
	Banks	Pct
Substantially higher	2	10.0
Moderately higher	11	55.0
About the same	7	35.0
Moderately lower	0	0.0
Substantially lower	0	0.0
Total	20	100.0

Questions 8-9 *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. Question 9 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.*

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	3	27.3
Remained basically unchanged	8	72.7
Eased somewhat	0	0.0
Eased considerably	0	0.0
Total	11	100.0

9. 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	9.1
About the same	5	45.5
Moderately weaker	5	45.5
Substantially weaker	0	0.0
Total	11	100.0

There appear to be some concerns in financial markets about many banks' exposure to macroeconomic conditions, problem loans, the revenue implications of the reduction in activity in capital markets, and other factors bearing on banks' profitability. Indexes of bank stock prices have declined recently and the yields on some banks' outstanding subordinated debt have increased. ***Questions 10-11*** *ask about changes in your bank's* ***cost of funds*** *over the past six months and how those changes have affected your bank's lending policies.*

10. Over the past six months, how has your bank's weighted average marginal cost of funds changed relative to the expected marginal return on your bank's assets?

	All Respondents	
	Banks	Pct
Moderately or substantially increased	1	5.6
Increased slightly	4	22.2
Remained unchanged	12	66.7
Decreased slightly	1	5.6
Moderately or substantially decreased	0	0.0
Total	18	100.0

11. If your bank's relative cost of funds has changed over the past six months (answers 1, 2, 4, or 5 to question 10), to what extent has the change affected the following practices at your bank? (Please rate each item using the following scale: 1=tightened considerably, 2=tightened somewhat, 3=remained basically unchanged, 4=eased somewhat, 5=eased considerably.)

	All Respondents
	Mean
Lending standards	2.29
Non-price lending terms (size, collateral, covenants)	2.57
Loan pricing terms (fees, spreads)	2.57
Other	3.00
Number of banks responding	7