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