Federal Reserve Bank of San Francisco
101 Market Street, San Francisco, California 94105

August 09, 2012

To State Member Banks, Bank
Holding Companies, Financial Holding
Companies, Savings and Loan Holding Companies,
and Foreign Banking Offices
in the Twelfth Federal Reserve District

Senior Loan Officer Opinion Survey on Bank Lending Practices, July 2012

The July 2012 Senior Loan Officer Opinion Survey on Bank Lending Practices addressed changes in the supply of, and demand for, bank loans to businesses and households over the past three months. This summary is based on responses from 64 domestic banks and 23 U.S. branches and agencies of foreign banks.[1]

In the July survey, modest fractions of domestic banks, on balance, continued to report having eased their lending standards across most loan types over the past three months.[2] Relatively large fractions reported stronger demand for many types of loans over that period. In contrast, lending standards at U.S. branches and agencies of foreign banks continued to tighten for commercial and industrial (C&I) loans and were unchanged for commercial real estate (CRE) loans; demand for both types of loans reportedly weakened, on net, at those institutions.

At domestic banks, lending policies for loans to businesses generally eased over the past three months, and demand increased somewhat. Although a modest fraction of domestic banks reported having eased standards on C&I loans to large and middle-market firms, standards on loans to small firms were little changed on balance.[3] In addition, domestic banks continued to ease many terms on C&I loans to all types of firms. While loan demand from large and middle-market firms strengthened somewhat further over the past three months, loan demand from small firms was unchanged, on balance, over this period. A modest fraction of domestic banks reported that they had eased lending standards on CRE loans over the past three months, while a relatively sizable fraction, on net, continued to indicate that demand for such loans had strengthened.

Regarding loans to households, reported changes in standards were mixed across loan categories, while demand increased somewhat. Lending standards over the past three months were little changed, on net, for prime mortgages and tightened somewhat for nontraditional mortgages. However, a relatively large fraction of respondents reported having experienced stronger demand for prime mortgages over the same time period. Modest fractions of domestic banks, on net, indicated that they had eased standards on auto loans and on credit card loans. Standards on other consumer loans remained little changed. Small net fractions of banks reported increased demand for credit card and other consumer loans, while a relatively large fraction of banks reported an increase in demand for auto loans.

[1] Respondent banks received the survey on or after July 3, 2012, and responses were due by July 17, 2012.
[2] For questions that ask about lending standards or terms, reported net fractions equal the fraction of banks that reported having tightened standards (";tightened considerably" or ";tightened somewhat") minus the fraction of banks that reported having eased standards (";eased considerably" or ";eased somewhat"). For questions that ask about demand, reported net fractions equal the fraction of banks that reported stronger demand (";substantially stronger" or ";moderately stronger") minus the fraction of banks that reported weaker demand (";substantially weaker" or ";moderately weaker").
[3] *Large and middle-market firms* are generally defined as firms with annual sales of $50 million or more and *small firms* as those with annual sales of less than $50 million.

The July survey also contained three sets of special questions: The first set asked banks about lending to, and competition from, European banks; the second set asked about the revised Home Affordable Refinance Program (HARP 2.0); and the third set repeated a number of special questions from one year ago on the current level of standards relative to their range since 2005 for a broad variety of loan categories. In response to the first set, large fractions of both domestic and foreign banks that extend credit to banks headquartered in Europe or their affiliates or subsidiaries indicated that they had tightened standards on such loans over the past three months. A sizable fraction of domestic banks reported that their business had increased due to decreased competition from European banks and that they remain willing to accommodate additional such business. In response to the second set of special questions, about one-third of the respondents that are participating in HARP 2.0 reported that HARP refinance applications accounted for a significant share of total refinance applications over the past three months, and a large majority of respondents indicated that they anticipate that more than 60 percent of received HARP applications will be approved and successfully completed. Significant fractions of banks reported a number of factors limiting their participation in the program. Responses to the third set of questions suggested that lending standards for most categories of loans remained at least somewhat tighter, on balance, than the middle of their respective ranges since 2005.

Business Lending

(Table 1, questions 1-13; Table 2, questions 1-10)

Questions on commercial and industrial lending. A modest fraction of domestic banks continued to report having eased standards on C&I loans to large and middle-market firms; standards on loans to small firms were little changed, on balance, for the fourth consecutive survey. In contrast, a small number of U.S. branches and agencies of foreign banks reported having tightened their standards on C&I loans for the fourth consecutive quarter.

Domestic banks continued to ease many terms on C&I loans, on balance, regardless of firm size. In particular, relatively large fractions of respondents continued to indicate that they had narrowed the spreads on C&I loan rates over their cost of funds and had reduced their use of interest rate floors. In contrast, small fractions of foreign banks reported increasing the cost and reducing the maximum size of credit lines as well as raising premiums charged on riskier loans, while other C&I lending terms at those institutions changed little over the past three months.

Almost all domestic banks that reported having eased standards or terms on C&I loans continued to cite more-aggressive competition from other banks and nonbank lenders as a reason. Only about one-fourth of the banks that had eased lending policies had done so because of a more favorable or less uncertain economic outlook. Meanwhile, large majorities of the few banks, both domestic and foreign, that reported having tightened C&I credit standards or terms cited a less favorable or more uncertain economic outlook as the reason.

A significantly smaller net fraction of banks than in the previous survey reported stronger demand for C&I loans over the past three months. Only a modest fraction of domestic banks indicated that the demand for C&I loans by large and middle-market firms had been stronger, on balance, while demand for loans by small firms was unchanged on net. Domestic banks, on balance, also continued to report a rise in the number of inquiries from potential business borrowers regarding new or increased credit lines. In contrast, demand for C&I loans at foreign banks reportedly had weakened somewhat further for the second consecutive survey.

A large majority of the domestic banks that reported stronger demand for C&I loans cited increases in customers' funding needs related to inventories, accounts receivable, investment in plant or equipment, and mergers and acquisitions as important factors underlying the increase. At the same time, about one-fifth of domestic and foreign banks indicated weaker demand for C&I loans in the July survey, and most of those institutions reported that a decrease in investment in plant or equipment was an important factor.

Special questions on lending to and competition from European banks. A set of special questions in the July survey asked respondents about lending to, and competition from, banks headquartered in Europe and their affiliates and subsidiaries (regardless of the location of the affiliates or subsidiaries). Many of these questions were also asked in the previous three surveys.

A large fraction of both domestic and foreign banks that extend credit to European banks had tightened standards on such loans over the past three months--;a fraction that was significantly higher than that in the April survey. Loan demand from European banks, however, was little changed on net. About one-half of domestic banks that compete with European banks reported that business had increased due to decreased competition from such banks. Furthermore, a very large majority of domestic respondents reported that they were willing to accommodate additional business in the second half of 2012 arising from decreased European competition. Slightly less than one-fourth of the domestic banks that experienced increases in C&I loans over the first half of this year indicated that either a moderate or a small portion of that increase had been attributable to purchases of loans from European banks.

Questions on commercial real estate lending. A modest fraction of domestic banks, on balance, reported having eased standards on CRE loans over the past three months, while a relatively sizable fraction, on net, continued to indicate having experienced stronger demand for such loans. In contrast, foreign survey respondents indicated that standards on such loans were unchanged for the second straight survey and that demand had been noticeably weaker, on net, over the past three months.

Lending to Households

(Table 1, questions 14-30)

Questions on residential real estate lending. On balance, domestic banks continued to report little change in lending standards for prime mortgages and having tightened standards somewhat for nontraditional mortgages over the past three months. Meanwhile, a relatively large net fraction of respondents reported having experienced stronger demand for prime and nontraditional mortgages over the same time period. In contrast, changes in both lending standards and demand for home equity lines of credit (HELOCs) were relatively muted on net over the past three months.

Special questions on the revised Home Affordable Refinance Program. A set of special questions asked domestic survey respondents about HARP 2.0. A majority of the large banks indicated that they had participated in HARP during the past three months, though only one-third of the other banks reported having done so. About one-third of the respondents that had participated in HARP reported that over the past three months between 30 percent and 70 percent of all refinance applications were attributable to HARP, while an additional one-third reported that between 10 percent and 30 percent were HARP applications. In addition, about two-thirds of those participating in HARP anticipate that more than 60 percent of these applications will be approved and successfully completed.

The July survey also asked banks to indicate to what extent various factors were affecting their willingness or ability to offer additional refinance loans through HARP. A large majority of banks reported that they had restricted their participation in HARP to those mortgages that they already serviced or held, while a smaller majority also indicated that the high volume of refinance applications had exceeded processing capacity. Many banks also reported that credit overlays that they had imposed on top of the HARP requirements were at least somewhat important factors in limiting their participation--;a significant fraction of respondents reported having been unwilling to offer HARP refinance loans to some customers with high loan-to-value (LTV) ratios, limited or nonstandard documentation of income or assets, or low FICO scores. Almost all of the respondents that reported "Other" as being the most important factor for having been unwilling to offer HARP refinance loans specified that they did not participate in the program at all.

Questions on consumer lending. Moderate fractions of domestic banks reported that standards on auto loans had eased, on net, while somewhat smaller net fractions indicated that standards on credit card loans had eased. Standards on other consumer loans were about unchanged. Banks again reported having narrowed spreads on auto loans, while other terms across the three categories of consumer loans remained relatively little changed on net.

The fraction of respondents that indicated that they were more willing to make consumer installment loans now as opposed to three months ago remained elevated by historical standards, for the second consecutive survey.

A relatively large fraction of banks reported stronger demand for auto loans, on balance, while only modest net fractions of banks reported stronger demand for credit card loans and for other consumer loans. However, the share of banks that indicated that they had experienced higher demand was slightly smaller, on net, for all three loan categories than in the previous survey.

Special questions on the levels of lending standards relative to longer-term norms.

(Table 1, question 31; Table 2, question 11)

The July survey repeated a set of special questions from July 2011 that asked respondents to describe the current level of lending standards at their bank, rather than changes in standards over the survey period. Specifically, banks were asked to consider the range over which standards have varied between 2005 and the present for each loan category and to report where standards for such loans reside relative to the midpoint of that range.

Regarding loans to businesses, large fractions of both domestic and foreign banks reported that lending standards on four different categories of C&I loans (investment-grade syndicated loans, below-investment-grade syndicated loans, other loans to large firms, and loans to small firms) were about at the middle of the range that those standards have occupied since 2005. A significant net fraction of domestic banks also reported that the current standards on all types of CRE loans (construction and land development loans; loans secured by nonfarm, nonresidential structures; and loans secured by multifamily structures) were tighter than the middle of the range that those standards have occupied since 2005, with very few banks reporting that standards were easier than the midpoint.

With respect to loans to households, a majority of the banks reported that lending standards for all five categories of residential mortgage loans included in the survey (prime conforming mortgages, prime jumbo mortgages, subprime mortgages, nontraditional mortgages, and HELOCs) were at least somewhat tighter than the middle of the range that those standards have occupied since 2005, while smaller but still significant fractions of domestic banks also reported that standards were tighter than the midpoint for prime credit card, subprime credit card, auto, and other consumer loans.

Additional Information

All circulars and documents are available on the Internet through the Federal Reserve Bank of San Francisco's website, at http://www.frbsf.org/banking/letters.

For additional information, please contact:

Federal Reserve Bank of San Francisco
Banking Supervision and Regulation
(415) 974-2136