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

November 8, 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

The October 2012 Senior Loan Officer Opinion Survey on Bank Lending Practices

The October 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 68 domestic banks and 23 U.S. branches and agencies of foreign banks.[1]

In the October survey, small fractions of domestic banks, on net, reported easing standards for business lending and some categories of consumer lending over the past three months. Respondents reported little change in residential real estate lending standards on balance.[2] Significant fractions of banks reported a strengthening of demand for commercial real estate loans, residential mortgages, and auto loans, on balance, while demand for most other types of loans was about unchanged. The October survey included special questions on factors affecting C&I loan growth over the past year and on lending to European banks. In another set of special questions, the survey queried banks about their participation in the revised Home Affordable Refinance Program (HARP 2.0) and about changes in their standards for approving applications for mortgages insured by the Federal Housing Administration (FHA).

On net, small percentages of respondents reported that C&I lending standards at their banks had eased over the past three months and that many terms on such loans had also eased. On balance, respondents reported that demand for C&I loans from firms of all sizes was about unchanged over the past three months.[3] Responses to special questions addressing the rapid C&I loan growth at commercial banks over the past year generally indicated that customers using bank loans to replace debt from nonbank sources was not an important reason for that growth. The responses to a second set of special questions on business lending indicated that standards to European banks and affiliates continued to tighten over the previous three months. A small fraction of banks reported that commercial real estate (CRE) lending standards had eased over the past three months, while the percentage of banks that reported that demand for CRE loans had increased moved up appreciably on net.

Regarding residential real estate lending, banks reported that standards for both prime and nontraditional mortgages had remained unchanged over the past three months on balance. Respondents reported in both the July and October surveys that demand for prime and nontraditional residential mortgage loans had increased on balance. Responding to a special question on FHA lending, a majority of domestic

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[1] Respondent banks received the survey on or after September 25, 2012, and responses were due by October 9, 2012. In the October survey, 6 new banks were added to the panel of domestic respondents.

[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] The survey asks respondents separately about their standards for and demand from large and middle-market firms, which are generally defined as firms with annual sales of $50 million or more, and small firms, those with annual sales of less than $50 million.

banks indicated that their lending standards for approving an application for an FHA-insured purchase mortgage were about the same as in 2006 for a borrower with a credit score of 660, but that standards had tightened for borrowers with lower FICO scores. In addition, banks continued to indicate that a material portion of refinance applications at their bank was attributable to HARP 2.0, and that they expected a significant portion of HARP 2.0 applications to be completed.

Within consumer lending, modest fractions of respondents continued to report an easing of standards on credit card and auto loans; respondents indicated that their standards on other types of consumer loans were about unchanged. On balance, almost all terms on all types of consumer loans reportedly changed little over the past three months. While modest percentages of banks again reported an increase in demand for credit card and auto loans, demand for other consumer loans remained about the same over the survey period.

Business Lending
(Table 1, questions 1–14; Table 2, questions 1–13)

Questions on commercial and industrial lending. Slightly less than 10 percent of domestic survey respondents indicated that their C&I lending standards to large and middle-market firms and to small firms eased over the past three months on balance. However, larger fractions of domestic banks reported having eased many C&I loan terms to borrowers of all sizes. For most of those terms, the easing was somewhat more widespread than it was reported to have been in the July survey. Of the respondents that reported having eased either standards or terms over the past three months, almost all cited more-aggressive competition from other banks or nonbank lenders as an important reason for doing so. As in the previous survey, no other reasons were broadly cited as important.

On balance, C&I loan demand changed little over the past three months. In contrast to the July survey, in which a small margin of banks indicated that demand from large and middle-market firms had strengthened on balance, in response to the current survey a very small net fraction of respondents indicated that demand from such firms had weakened. On net, demand from small firms was reportedly about unchanged, as it had been in the previous survey.

On balance, branches and agencies of foreign banks reported that their C&I lending standards had remained about the same over the past three months, while positive fractions of banks reported easing on some loan terms. As was true for domestic respondents, the most widely cited reason for easing standards or terms among branches or agencies was more-aggressive competition from other lenders. Although a notable fraction of such institutions reported a weakening of C&I loan demand in the July survey, the balance of foreign respondents reported little change in demand for such loans over the past three months.

Special questions on factors affecting recent C&I loan growth. The October survey included a set of special questions that asked banks about possible factors related to the brisk expansion in C&I lending at commercial banks over the past 12 months. Survey respondents were asked to quantify the share of the dollar volume of the increase in outstanding C&I loans at their banks that was attributable to customers who used the lending to replace debt that was previously provided by nonbank sources of funding. Respondents did not generally report that this factor was a significant explanation for recent C&I loan growth at their banks. About one third of the domestic banks that responded to this question indicated that the replacement of nonbank debt accounted for less than 25 percent of the increase in C&I loans at their bank. Most of the remaining respondents reported that replacement of such debt was not a factor in C&I loan growth at their banks.

A subsequent question invited respondents to comment on factors related to C&I loan growth that were not addressed in the preceding special questions.[4] The answers to this question varied and did not generally reflect a consensus among respondents. Some banks suggested that weaker foreign and domestic competition had contributed to loan growth at their bank, while other institutions pointed to decisions to diversify the bank's portfolio or to expand into new business lines.

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[4] Questions with text responses are not summarized in Tables 1 and 2.

Special questions on lending to and competition from European banks. The October survey also included questions about European banking institutions and their affiliates that have been asked on several recent surveys. Respondents to the domestic and foreign survey again reported that their lending standards to European banks and their affiliates had tightened over the past three months, but the fractions of respondents indicating that they had tightened standards declined significantly between the July and October surveys, on net. As in the July survey, domestic banks reported that they had experienced little change in demand for loans from European banks and their affiliates and subsidiaries.

Of the respondents that indicated that their banks compete with European banks for their business, a slight majority reported that they had experienced a decrease in competition from European banks over the past three months, but the decrease did not appreciably boost business at their banks. A smaller but significant fraction of respondents indicated that a decrease in competition from European banks had increased business at their banks to some extent.

Questions on commercial real estate lending. On balance, a small fraction of domestic respondents to the October survey reported that standards on CRE loans had eased over the previous three months. The fraction of banks that reported a strengthening of demand for CRE loans increased notably, moving to about 45 percent on net. Branches and agencies of foreign banks reported similar trends in CRE lending conditions—the percentage of respondents that reported easing standards was just under 10 percent, while a moderate fraction reported that demand for CRE loans had strengthened, on balance.

Lending to Households
(Table 1, questions 15–32)

Questions on residential real estate lending. Banks' residential real estate lending standards reportedly remained about unchanged over the past three months. As in each of the previous three surveys this year, respondents reported little change in their standards for prime mortgages. In the October survey, standards on nontraditional mortgages were reportedly unchanged, in contrast to the tightening reported earlier in the year. Respondents continued to report that demand for residential mortgage loans had increased over the past three months on net, although the fractions of banks that reported an increase in demand for both prime and nontraditional residential mortgage loans declined from their levels in the July survey. Standards and demand for home equity lines of credit were reportedly about unchanged.

Special questions on FHA-insured mortgages. A pair of special questions asked banks to compare their bank's standards for approving an application for an FHA-insured purchase mortgage for a borrower with a given FICO score with the standards that prevailed at their bank in 2006. Two-thirds of banks reported that their bank was about as likely to approve an application for an FHA mortgage from a borrower with a FICO score of 660 as they were in 2006. For a borrower with a FICO score of 620, a small majority of banks reported that they would be less likely to approve the loan under their current lending policies, and for a FICO score of 580, nearly three-fourths of respondents indicated that they would be less likely to approve such a loan using their current standards. A follow-up question asked banks that reported that they were currently less likely to approve an application for an FHA-insured mortgage about the reasons for the shift in their lending position. Banks broadly cited a higher risk of putback of delinquent mortgages by the FHA as an important reason for the change. A smaller but sizeable percentage of banks pointed to concerns that their bank's "compare ratio" could hinder its ability to participate in FHA programs.[5]

Special questions on the revised Home Affordable Refinance Program. The October survey also repeated a pair of special questions from the July survey about HARP 2.0. In the October survey, about 25 percent of banks surveyed estimated that HARP 2.0 accounted for more than 30 percent of refinance applications, a bit below the percentage found in the July survey. About twenty percent of banks anticipated that at least 80 percent of their bank's HARP 2.0 applications would be completed. Another 45 percent of respondents indicated that somewhere between 60 and 80 percent of applications would likely

[5] A bank's compare ratio is the ratio of its delinquency rate on FHA loans to the delinquency rate on FHA loans in the geographic area.

be completed, and most of the remaining respondents estimated that more than 40 percent would likely be completed.

Questions on consumer lending. As in the July survey, domestic banks reported that they had eased standards on credit card and auto loans over the past three months, while standards on other consumer loans had remained about unchanged. On balance, banks reported that most terms on all types of consumer loans were about unchanged over the past three months. Demand for credit card and auto loans reportedly increased, on balance, while it was about unchanged on other types of 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:

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