

# Monetary Trends



## Banks Tighten Terms on Business Loans

The Federal Reserve conducts the Senior Loan Officer Opinion Survey on Bank Lending Practices four times each year. The survey questions senior loan officers about changes in their banks' terms of lending to businesses and consumers since the date of the prior survey. Survey respondents include approximately 60 domestic banks (generally the largest banks in each Federal Reserve District) and several U.S. branches and agencies of foreign banks. Distribution is timed so that responses are available for the January, May, August, and November Federal Open Market Committee meetings. During the last 11 years, the Board has conducted two additional surveys between the regularly scheduled dates, in September 1998 and March 2001.

Each survey includes questions about changes in banks' standards for approving applications for commercial and industrial (C&I) loans. The figure shows the net percentage of domestic banks reporting tighter lending standards for C&I loans to large- and middle-market firms (defined as those firms with annual sales of \$50 million or more) and to small firms (those with annual sales of less than \$50 million) since the second quarter of 1990. The figure shows a net easing of commercial lending standards between 1993 and 1998, with a brief period of net tightening in 1995-96. Banks began reporting tighter credit standards in mid-1998, and that upward trend has continued over the past few years. The spike in 1998 indicates banks' reservations about credit quality in the aftermath of the Russian government default on debt payments.

The most recent survey, released in May 2001, indicates a slight decline in the number of banks tightening their lending standards. This decline, however, does not mean that banks are beginning to ease their lending standards for C&I loans. In fact, for the May survey, no banks reported easing commercial credit standards. Instead, the decline simply means that more banks found

their lending standards to be relatively unchanged during the last three months.

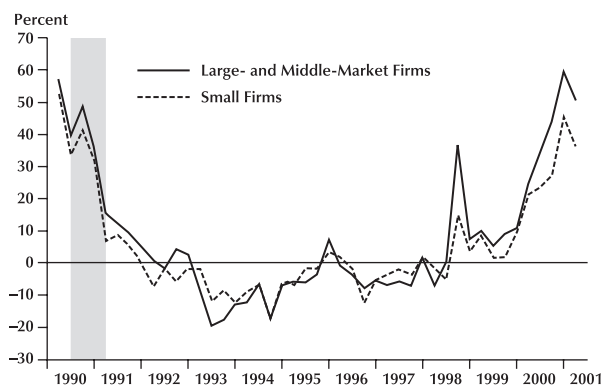
Economists at the Federal Reserve Bank of New York recently reported evidence that changes in the terms of lending to businesses derived from the Senior Loan Officer Opinion Survey help predict bank lending and some measures of economic activity.<sup>1</sup> The results of this study indicate that credit availability is not determined solely by interest rates, but also by the standards that must be met to obtain commercial loans. Changes in credit standards affect bank lending and economic activity, after accounting for the effects of changes in market interest rates.

The current survey and those for the last four years can be found at [www.federalreserve.gov/boarddocs/SnLoanSurvey](http://www.federalreserve.gov/boarddocs/SnLoanSurvey). The release of the August 2001 survey results will be the next piece of evidence to show if the recent decline in tightening of standards will continue.

—R. Alton Gilbert and Judith H. Hazen

<sup>1</sup> Lown, Cara S., Donald P. Morgan, and Sonali Rohatgi. "Listening to Loan Officers: The Impact of Commercial Credit Standards on Lending and Output," Federal Reserve Bank of New York *Economic Policy Review* (July 2000), pp. 1-16, [www.ny.frb.org/rmaghome/econ\\_pol/500lown.html](http://www.ny.frb.org/rmaghome/econ_pol/500lown.html).

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



SOURCE: Federal Reserve's Senior Loan Officer Opinion Survey  
NOTE: Last observation May 2001. Large- and middle-market firms are those with more than \$50 million in annual sales. Small firms are those with less than \$50 million in annual sales. Shading indicates period of recession.