Domestic Banking Conditions

In the last few months, large banks in the U.S. have eased their standards on commercial and industrial (C&I) loans to firms of all sizes. Participants in the Federal Reserve Board’s most recent Senior Loan Officer Opinion Survey attribute the change to increased competition from both bank and nonbank lenders. In fact, standards have been relaxing since 1996:IIIQ (the only exception was 1998:IQ). This trend remains a subject of concern to banking regulators, who are aware of the historical tendency of bank lending practices to become “too loose” just before financial calamities like that recently witnessed in Southeast Asia.

The percentage of respondents reporting stronger demand for C&I loans has been increasing since mid-1996. In the last two surveys, the increase has been ascribed to more borrowing for mergers and acquisitions, business fixed investment, and inventory investment.

In contrast to U.S.-owned banks, branches and agencies of foreign banks located in the U.S. reported continued tightening of C&I loan standards, but by less than in the previous quarter. This tightening began in 1997:IIQ. A special survey question asked whether banks had changed their willingness to provide financing for firms engaged in trade with Asian countries affected by last summer’s economic disaster. Respondents said that requests for such assistance have increased, but they have become less willing to provide it.

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a. $50 million or more in annual sales.
b. Less than $50 million in annual sales.
c. Of the 34 large banks contacted, 28 had been involved in financing Asian trade. Of the 19 small or medium banks, nine had been involved in financing Asian trade. The chart shows the responses of the 37 banks of all sizes to a question regarding their continued willingness to finance exports or imports to firms in Asian countries affected by the economic problems of 1997.
d. Domestic assets of less than $15 billion.
e. Domestic assets of $15 billion or more.