Comptroller of the Currency
Administrator of National Banks

Survey of Credit Underwriting Practices

1999

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

September 22, 1999

To: Board Members and Chief Executive Officers of National Banks

I am pleased to send you this copy of the Office of the Comptroller of the Currency's (OCC) *1999 Survey of Credit Underwriting Practices*. This year's survey covered the 67 largest national banks. These banks hold, in the aggregate, 90 percent of the loans in the national banking system.

For the first time in five years, survey results show that underwriting standards for commercial loans have begun to tighten. More banks tightened than eased standards on commercial loans in 1999 than in 1998. Additionally, results show that banks continued to tighten standards for most retail loan products. Home equity loans, where eased standards prevailed, remain the exception. The change in standards appears to be caused by several factors, including a renewed sensitivity to credit risk among lenders following the credit market turbulence of the fall of 1998, the continued high delinquency and loss ratios for many retail lending products, and the efforts of bank regulators to address trends in bank underwriting practices. The overall results of the survey appear to reflect a modest change in the risk tolerance of the surveyed banks, as well as a renewed emphasis on risk-based returns.

While I am encouraged by the findings of this year's survey, I remain concerned about the quantity and quality of credit risk among our banks. Despite the reported tightening of standards, examiners report that the level of inherent portfolio credit risk continued to increase for all of the surveyed commercial and retail products. For commercial loans, the cumulative effect of the past four years of easing standards is to expose banks to the risk of increased loss in the event of default. This, combined with continued intense competition among credit providers, high earnings expectations by bank investors and analysts, and fresh evidence that default rates are rising, warrants measured actions by both bankers and regulators.

Last year, Acting Comptroller of the Currency Julie L. Williams appropriately stepped up OCC's examination efforts in this area. OCC examiners were instructed to identify loans with structural underwriting weaknesses, to assess the extent to which bank management and boards are aware of loan policy exceptions and are prudently managing the increased risks involved, and to provide "hard" conclusions and examples to bank management and boards about underwriting practices that do not conform to sound credit standards. Examiners were specifically instructed:

- to be alert for loans evidencing weak and waived covenants, inadequate financial analysis, liberal repayment terms, insufficient collateral, and high leverage;

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- to describe such structural weaknesses in their credit classifications, their conclusions about portfolio credit risk, and in their assessments of the quality of credit risk management; and

- to comment on the volume and trends of loans whose repayment was heavily dependent on presumed future cash flows, asset values, equity values and so-called "enterprise" values, and/or on recapitalization or refinancing. Such loans can exhibit "equity like" risk characteristics, and may be inappropriate for insured depository institutions.

These examination efforts, along with new policy guidance on higher risk lending activities (leveraged lending, hedge fund lending and subprime lending), and training initiatives designed to advance the risk evaluation and classification skills of examiners, have strengthened our understanding of and response to trends in bank underwriting and risk selection practices. These efforts will continue. However, I must also advise you that I feel that further efforts are warranted by both bankers and regulators.

For our part, the OCC will issue revised risk-based policies and procedures designed to focus examiners' and bankers' attention on leading indicators of inherent levels of credit risk. Indicators of risk include, among other things, loan growth rates and changes in product and/or portfolio mix, the level of loans and other credit exposures in relation to bank assets, capital and earnings, embedded concentrations of credit, as well as qualitative trends in bank risk selection and underwriting standards. This policy guidance will be accompanied by training to ensure that examiners fully understand how to incorporate these factors into their risk assessment and CAMELS ratings decisions. We are continuing to use credit risk models and other "early warning" filters to improve risk identification and the allocation of examiner resources. Finally, we will continue our training efforts, commenced last year, to enhance the accuracy and consistency of our examiner's credit classifications and their evaluation of loan portfolio management.

For your part, you should act now, rather than later, to candidly assess existing and potential portfolio vulnerabilities and to implement appropriate risk management and mitigation strategies. Specifically, you should focus attention and resources on:

- identifying the nature and volume of exceptions to underwriting and risk selection policies, and evaluating the extent to which such exceptions portend higher risk of default or loss in credit portfolios;

Comptroller of the Currency
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- increasing the supervision of lower rated "pass" credits, leveraged loans, and other higher risk credits, and stress testing performance and collateral valuation assumptions, particularly where expected performance is dependent on achieving cash flows, asset, equity or "enterprise" values or other intangibles that may be vulnerable to investor sentiment or cyclical influences;

- identifying concentrations and correlations among exposures that may be directly or indirectly vulnerable to economic, industry, and/or product cyclicality;

- ensuring that the capability and capacity of risk management, loan administration, and loan workout functions are sufficient to properly identify and manage current and potential portfolio risks; and

- ensuring that loan loss reserves are adequate to absorb expected losses inherent in the loan portfolio.

I strongly encourage you to discuss this letter and the survey's results with your bank colleagues, and with the OCC examiner-in-charge assigned to your bank. In addition, please feel free to contact me or any other OCC staff member with any questions or comments you may have.

Sincerely,

John D. Hawke, Jr.

John D. Hawke, Jr.
Comptroller of the Currency

Table of Contents

Part I: Overall Results

Part II: Results by Loan Type

Introduction

The Office of the Comptroller of the Currency (OCC) conducted its fifth annual Survey of Credit Underwriting Practices during the second quarter of 1999. The purpose of the survey is to identify trends in credit risk within the national banking system. The questionnaire-based survey addressed changes in lending standards since the previous survey for the most common types of commercial and retail credit offered by national banks. The OCC examiners-in-charge of the 67 largest national banks were asked to respond to the survey based on their first-hand knowledge of the banks they supervise. The survey covered the period March 31, 1998 to March 31, 1999.

The term "underwriting standards," as used in this report, refers to various factors, such as collateral requirements, loan maturities, covenants specifying maximum leverage or minimum debt service capacity, that banks employ to originate and structure loans. Conclusions about the "easing" or "tightening" of underwriting standards are based on the observations of OCC examiners concerning changes banks have made to their underwriting standards since the 1998 survey. A conclusion that the underwriting standards for a particular loan category have eased or tightened does not indicate that all the standards for that particular category have been adjusted, but rather that the adjustments made by the bank have the net effect of easing or tightening such underwriting criteria.

Part I of this report discusses the overall results of the survey for commercial and retail credit. Part II contains the results of the survey by type of loan product.

Primary Findings

- *For the first time in five years, underwriting standards for commercial loans have begun to tighten. In 1999, more banks tightened than eased standards than in 1998 — 25 percent of surveyed banks tightened standards while only 13 percent eased standards. Of the remaining banks, examiners reported tightening of standards for some products while others were eased, or they indicated that overall standards were unchanged.*
- *Banks continue to tighten their standards for most retail loan products. Home equity loans, where eased standards prevailed, remain the exception.*
- *For the fourth consecutive year, examiners reported that the level of inherent portfolio credit risk continues to increase for every commercial and retail credit product surveyed. Further, examiners expect credit risk to continue to increase over the next year.*

The percentage of banks tightening commercial underwriting standards has increased since last year's survey. Examiners at 25 percent of the surveyed banks — compared with 4 percent in 1998 — reported tightened standards for commercial loans. In contrast, examiners reported eased commercial loan standards in 13 percent of the banks surveyed in 1999 compared with 44 percent in 1998. Overall tightening was reported for syndicated/national, international, and agricultural lending. The trend towards tightening standards appears to represent a reaction by banks to certain "credit market events" that occurred in 1998.[1]

Examiners reported that the surveyed banks most often increased pricing to tighten standards. They also cited strengthened loan covenants, tighter collateral requirements, and reduced credit limits as methods used to tighten standards. In addition, examiners reported that many banks raised scorecard cut-offs when approving small business loans, and shortened maturities for international loans.

Examiners continue to report tightened retail lending standards for credit card, indirect consumer, and consumer leasing portfolios. This continued the trend begun in 1997, when examiners began observing more conservative overall standards for retail loans.

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[1] Examples of credit market events include increased credit defaults by Asian and Latin American counterparties; the Russian bond default of August 1998; market turbulence surrounding the near collapse of the Long Term Capital Management hedge fund; and weakness in some export dependent, commodity-price sensitive, or interest-rate sensitive domestic business sectors, such as agriculture, oil and gas, and mortgage/consumer finance.

In response to recent growth of high loan-to-value (LTV) [2] home equity products, examiners were asked, for the first time, to comment on both conventional and high LTV home equity products. Of the 67 surveyed banks, 61 offer conventional home equity products and 35 of those banks (57 percent) also offer high LTV home equity products. Examiners reported that banks continued to ease standards for conventional home equity products, but they found no significant propensity to either ease or tighten standards in high LTV home equity products. However, the large proportion of banks now engaged in high LTV home equity lending is itself indicative of a significant liberalization of collateral requirements for home equity lending in general.

For retail products with tightened underwriting standards, examiners reported that the majority of lenders raised their scorecard cut-offs. They also noted tighter pricing and collateral requirements. Consistent with the 1998 survey, examiners most frequently cited changes in bank risk appetites or revised market strategies as reasons for tightening standards. They also identified economic outlook and competition as reasons for tightening standards.

In addition to tightening underwriting standards for certain retail loan products, examiners reported that a significant number of banks had stopped offering certain products. The retail products that banks most often stopped offering included subprime loans, indirect auto loans, consumer leasing, credit cards, and high LTV home equity loans. Inadequate profits, credit losses, and internal control problems were cited most frequently as reasons for discontinuing these products.

For all portfolios surveyed, examiners report that the level of inherent credit risk has again increased. In commercial loan portfolios, examiners most frequently cited higher inherent risk in syndicated/national, structured finance, and agricultural portfolios. Examiners expect that credit risk will increase over the next 12 months in all commercial portfolios, with the most significant increases found in the three portfolios previously mentioned.

Examiners continue to report increasing credit risk for retail credit products, despite three successive years of tightening standards for retail loans. Examiners most frequently report increasing risk in high LTV home equity lending, consumer leasing, and credit card products, and they expect this trend to persist over the next 12 months in every product category. Their view of increasing retail credit risk may be influenced by continued high levels of past due loans and charge-offs, high personal bankruptcy levels, and a high consumer debt burden relative to disposable personal income.

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[2] For the purposes of this survey, the questionnaire defined a high LTV home equity product as a home equity loan or line of credit secured by a lien on owner-occupied, 1- to 4- family residential property that exceeds 90 percent of the real estate's appraised market value.

Commentary

The OCC is encouraged that standards for many types of loans tightened in response to increased risk without any apparent reduction of the availability of credit in the banking system. The survey results appear to reflect a modest change in risk tolerance among credit providers as well as a renewed emphasis on risk-based returns. It is important, however, to remember that actions taken in the last year only partially offset the cumulative effect that four years of easing underwriting standards for commercial loans has had on credit risk in bank portfolios. The OCC is also concerned that continued and increasing competition and earnings pressures in lending markets could cause banks to ease standards again. Additionally, the OCC is concerned that retail credit products continue to experience high delinquency and charge-off rates, despite favorable domestic economic conditions. Finally, much of the tightening of standards for retail and commercial products has relied on pricing, which helps to improve returns, but does little to ameliorate structural weaknesses that affect the risk of loss in the event of default.[3]

As a result, the OCC will continue to focus significant supervisory attention and resources on credit risk. Both the risk of default and the risk of loss in the event of default will be carefully assessed in each bank's credit portfolio. National bank examiners will continue to identify, report, and, where appropriate, criticize loans with structural weaknesses to bank management and boards.

[3] Risk of default is defined as the likelihood that a borrower will default on a loan and it will be classified as non-performing. Risk of loss in the event of default, sometimes referred to as loss given default, is the bank's exposure to a shortfall yielding less funds than the loan's recorded book value as a result of the liquidation of collateral or legal action, such as bankruptcy proceedings.

Survey Population and Scope

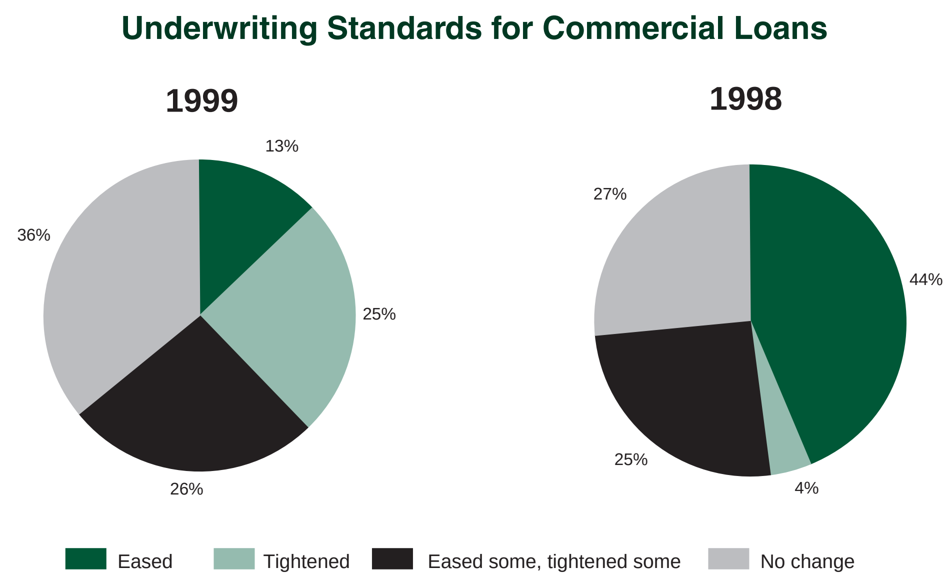
The 1999 survey covered the 67 largest national banks. Although mergers and acquisitions have altered the survey population somewhat, the surveys for the last four years have covered substantially the same group of banks. All companies in the 1999 survey have assets of $2 billion or greater. The aggregate loan portfolios of banks included in the 1999 survey was approximately $1.8 trillion as of December 31, 1998. This represents 90 percent of all outstanding loans in national banks.

Examiners participating in the survey were asked a series of questions concerning 16 types of commercial and retail credit. Their responses are based upon their knowledge of the banks' lending activities. For the purposes of this survey, commercial credit consisted of eight categories of loans: syndicated/national loans, structured finance, asset based, middle market loans, small business loans, international credits, commercial real estate loans, and agricultural loans. (Structured finance and asset-based loans were added to the survey this year.) Retail credit also consisted of eight categories of loans: residential real estate, affordable housing, credit cards, other direct consumer loans, indirect consumer paper (loans originated by others, e.g., car dealers), consumer leasing, conventional home equity, and high LTV home equity loans. (Previous survey questionnaires designated all types of home equity loans as one product category.)

Part I - Overall Results

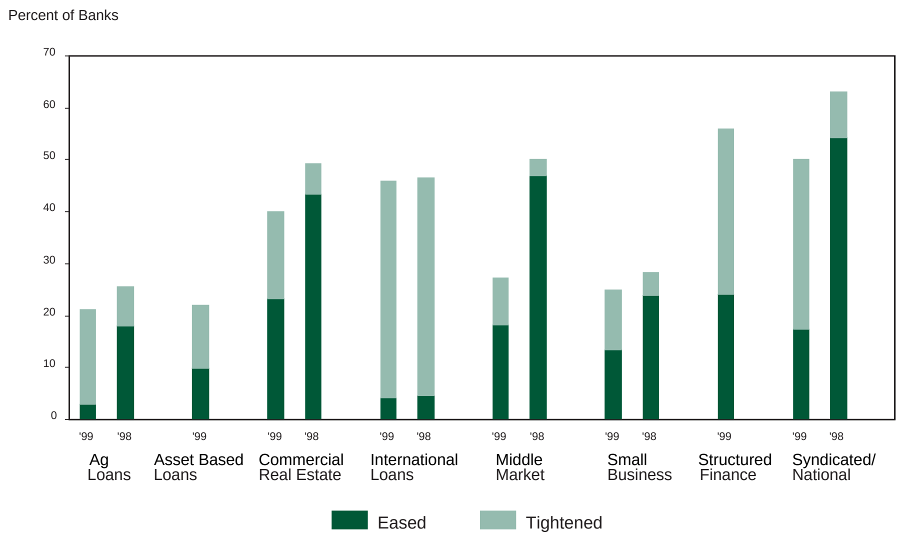
Commercial Underwriting Standards

The results of the 1999 survey indicate that more banks tightened their standards for commercial loans than eased them, reversing a four-year trend of easing standards for commercial loans. For all commercial loan products included in the 1999 and 1998 surveys, examiners reported an increase in tightened standards and a decline in eased standards. The 1999 survey results indicate that 25 percent of surveyed banks tightened standards for commercial loans, and 13 percent eased standards. (Results in 1998 indicated that only 4 percent of banks tightened while 44 percent eased commercial lending standards.) Of the remaining banks, examiners reported tightening of standards for some products while others were eased, or they indicated that overall standards were unchanged.



In 1999, examiners reported that 64 percent of the surveyed banks made some type of change to their underwriting standards for commercial loans. As depicted in the following chart, survey results are mixed. The most pervasive tightening of standards occurred in international lending, with 42 percent of the banks reportedly tightening their underwriting standards, followed by syndicated/national (33 percent), and agricultural lending (18 percent). Conversely, examiners continued to report that more banks eased standards than tightened for the commercial real estate (23 percent) and middle market (18 percent) loan products. Survey results for structured finance, small business, and asset-based loans indicate that banks had no significant propensity to ease or tighten underwriting standards.

Changes in Underwriting Standards for Commercial Loans

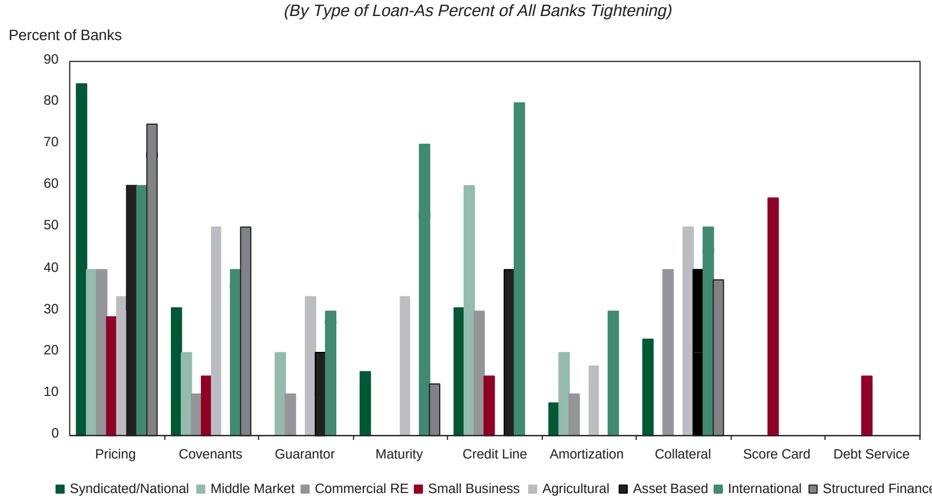


Types of Changes Made in Commercial Underwriting Standards

The following chart summarizes the methods used to tighten commercial lending standards in 1999. Examiners reported that increased pricing (56 percent) was the most prevalent method used to tighten standards. Examiners also noted that banks employed other mechanisms to tighten underwriting, including increasing collateral requirements (31 percent), adjusting maximum credit availability (33 percent), and strengthening loan covenants (28 percent).

Methods Used to Tighten Commercial Underwriting Standards

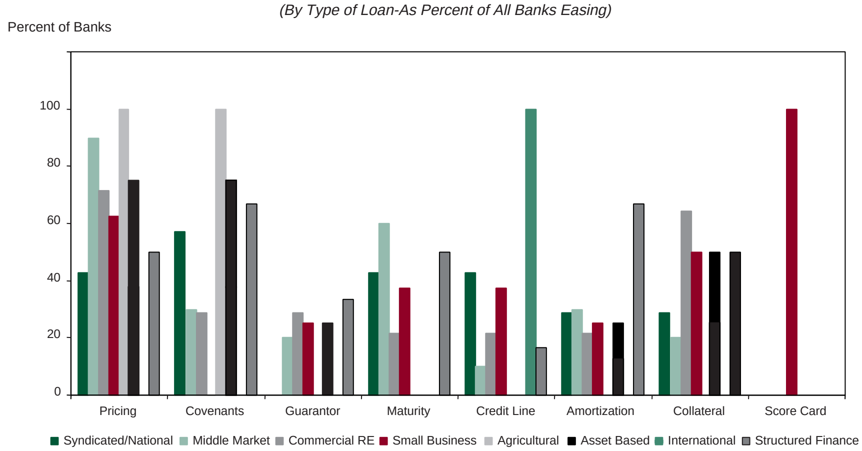
(By Type of Loan-As Percent of All Banks Tightening)



The following chart summarizes the methods used by surveyed banks to ease commercial underwriting standards. As was the case when standards were tightened, examiners identified pricing as the most common method used to ease standards. For example, 90 percent of the banks reportedly easing standards for middle-market loans reduced pricing, while 100 percent used this method to ease underwriting standards for agricultural loans. Examiners also reported that banks easing standards modified collateral requirements, loan covenants, and loan maturity requirements.

Methods Used to Ease Commercial Underwriting Standards

(By Type of Loan-As Percent of All Banks Easing)

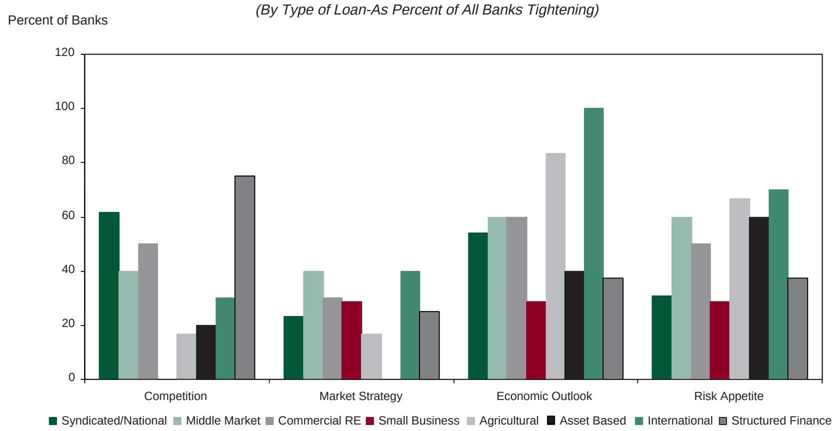


Reasons for Changes in Commercial Underwriting Standards

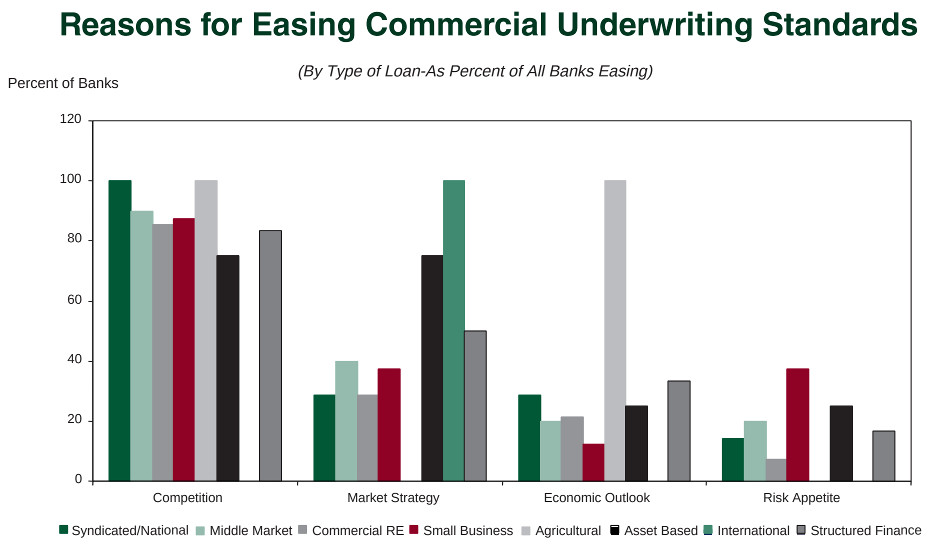
Examiners were also asked to ascertain why some banks had changed their commercial underwriting standards since the previous survey. For those banks tightening standards, examiners most often cited economic outlook, followed closely by risk appetite. Many examiners also reported an easing of competitive pressures in some markets, most likely as a result of the worldwide credit events of the fall of 1998. This lessening of competition allowed bankers to increase pricing, or otherwise tighten standards for structured finance, syndicated/ national, commercial real estate, and middle market loans. The following chart depicts the primary reasons for tightening standards.

Reasons for Tightening Commercial Underwriting Standards

(By Type of Loan-As Percent of All Banks Tightening)

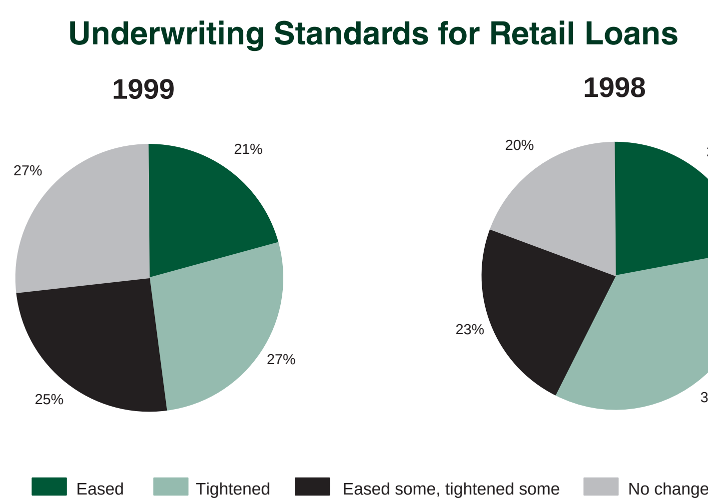


In those banks where underwriting standards were eased for one or more commercial lending products, examiners identified heightened competition for market share as the predominant reason. Market strategy and economic outlook generally lagged far behind as the second and third most prevalent motivations for easing standards.



Retail Underwriting Standards

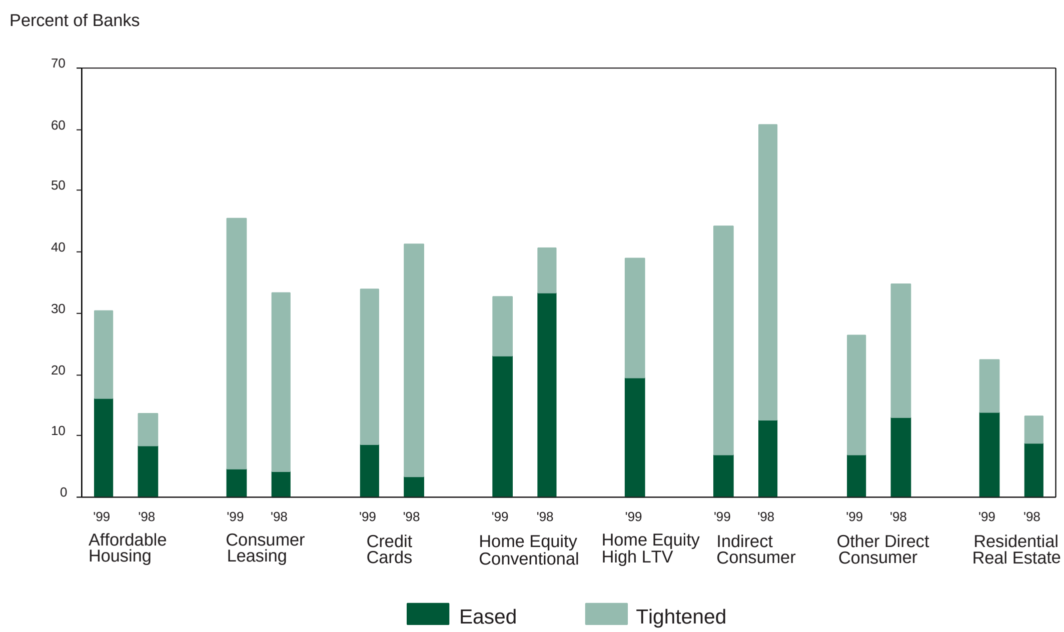
The 1999 survey indicated that 73 percent of surveyed banks made changes to their underwriting standards for at least one of the retail lending categories since the last survey. This represents a slight decline from the 80 percent of banks reportedly changing standards in 1998. According to examiners, banks that did make changes were more likely to tighten rather than ease underwriting standards, as was the case in 1998.



Implementing tighter underwriting standards for retail credit products continued the trend previously reported in the 1997 and 1998 surveys. Examiners recorded overall tightening of standards for consumer leasing, indirect consumer loans, credit cards, and other direct consumer loans. These products have been particularly vulnerable to rising consumer delinquency and charge-off rates in recent years. Consumer leasing replaced indirect consumer lending as the retail product examiners most often cited as having tightened standards in 1999. (Consumer leasing was not considered a separate category of retail lending until 1998, so survey results for this product cover only two years.)

Examiners reported that surveyed banks eased their underwriting standards for home equity loans, affordable housing, and residential real estate loans. Survey results indicate, however, that home equity loans were the only retail products for which examiners discerned a significant easing of standards. These results mark the third successive year in which eased underwriting standards have been reported for home equity products.

Changes in Underwriting Standards for Retail Loans

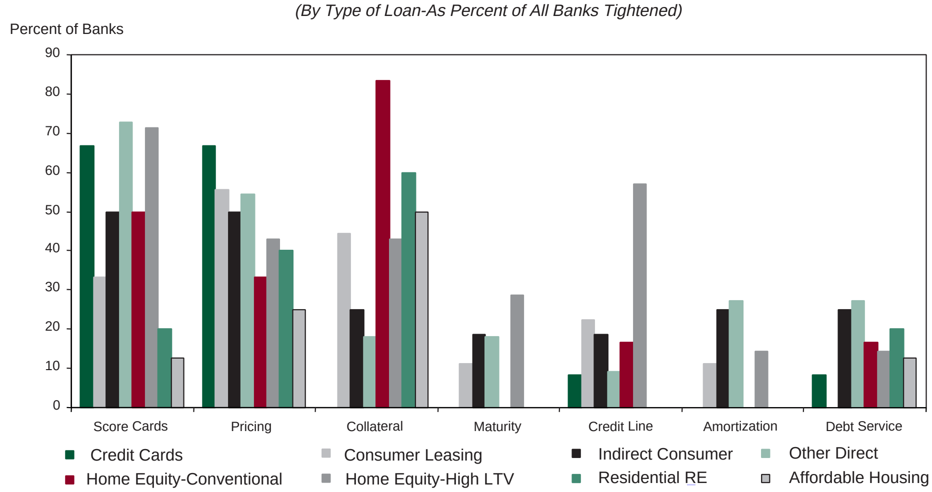


Types of Changes Made to Retail Underwriting Standards

The survey questionnaire also asked examiners to report on the methods the surveyed banks used to change retail credit underwriting standards. Examiners indicated that surveyed banks choosing to tighten standards most often relied on pricing and loan fees (49 percent) and scorecards, i.e. raising the minimum cut-off score (50 percent). Examiners in 34 percent of the banks that tightened standards also cited collateral standards, although use of this method was largely confined to real estate products.

Methods Used to Tighten Retail Underwriting Standards

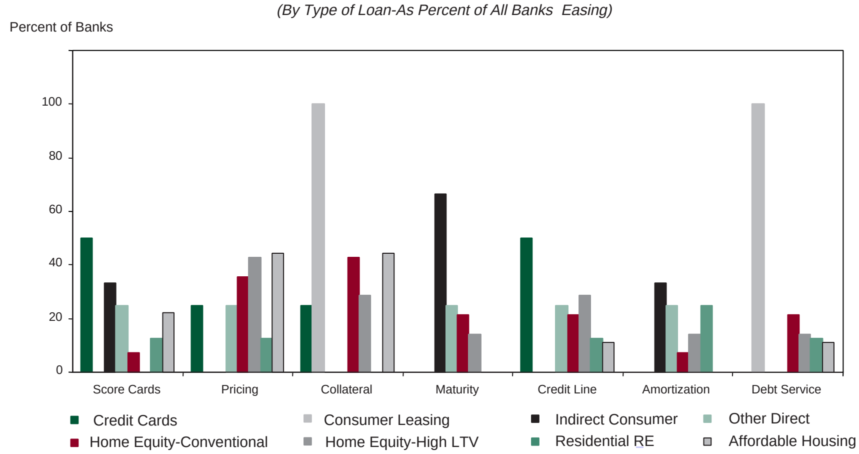
(By Type of Loan-As Percent of All Banks Tightened)



Examiners reported fewer instances of easing underwriting standards for retail loan products than in previous surveys. They indicated that pricing was the most common method used to ease underwriting, with 30 percent of the banks reportedly easing standards choosing this method. The next most frequently cited methods used to ease retail lending standards included collateral requirements (28 percent) and maximum size of credit line (20 percent).

Methods Used to Ease Retail Underwriting Standards

(By Type of Loan-As Percent of All Banks Easing)

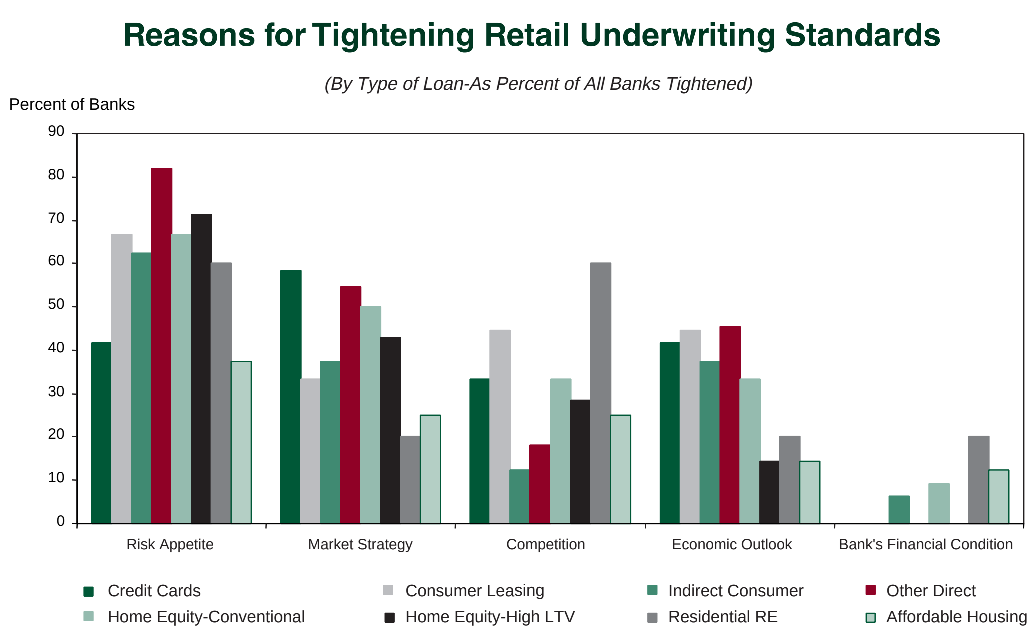


Home equity products stand out as the only retail product for which examiners have reported easing standards for the last successive five years. This easing is especially significant in light of the recent growth of high LTV home equity products, which constituted a minimal portion of banks' retail portfolios five years ago. High LTV home equity products, which by definition have liberal collateral requirements, represent an easing of underwriting standards. Examiners reported that surveyed banks most often relaxed collateral standards and decreased pricing to ease standards for home equity loan products.

For other product categories, the methods used to ease standards were more varied than in previous surveys. Relaxing debt service and collateral requirements for consumer leasing (100 percent of banks that eased underwriting) and lengthening the maturity for indirect consumer products (67 percent of banks that eased underwriting) were the only methods examiners cited to ease standards at more than 50 percent of the surveyed banks.

Reasons for Changes in Retail Underwriting Standards

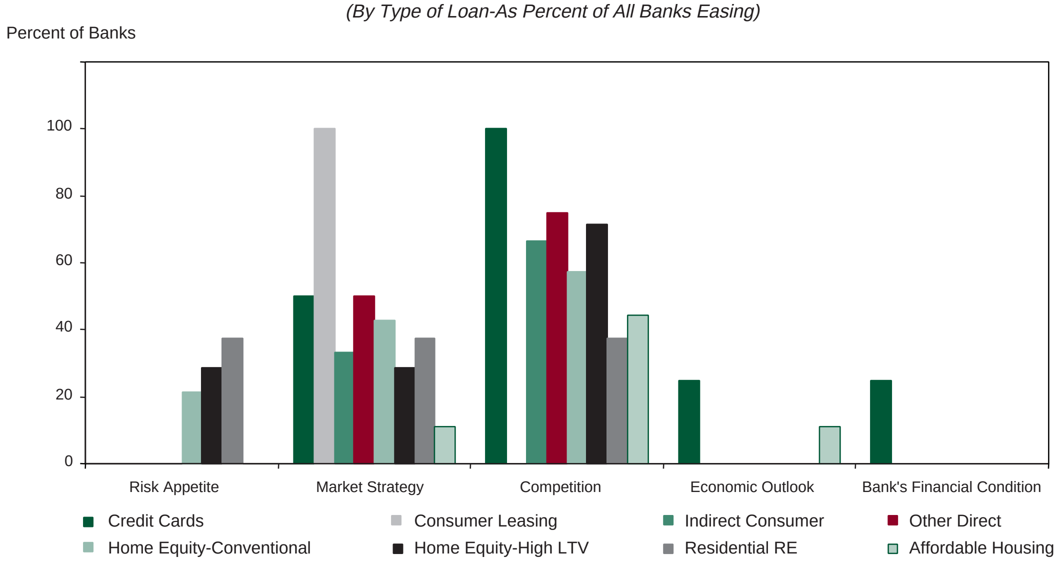
The survey questionnaire also asked examiners to report why surveyed banks changed retail credit underwriting standards. Examiners responded that most banks tightening standards did so primarily because of a change in risk appetite, a change in market strategy, or both. Examiners also reported, although to a lesser extent, that competition and economic outlook caused banks to change their standards. Examiners viewed competition as a significant reason for tightening standards for residential real estate and consumer leasing products. The following chart summarizes what examiners reported as the primary reasons for tightening retail credit underwriting standards.



As was the case for tightening standards, examiners' responses as to why banks eased standards for retail products also focused on competition. For home equity products, examiners cited competition most frequently — 57 percent of banks reportedly eased conventional home equity product standards and 71 percent of the surveyed banks eased standards for the high LTV home equity product because of competition. For the conventional home equity product, market strategy was the second most frequently cited reason for easing standards (43 percent). For other retail products, where the incidence of easing standards was limited, competition and a change in market strategy were the most frequently cited reasons for easing standards.

Reasons for Easing Retail Underwriting Standards

(By Type of Loan-As Percent of All Banks Easing)

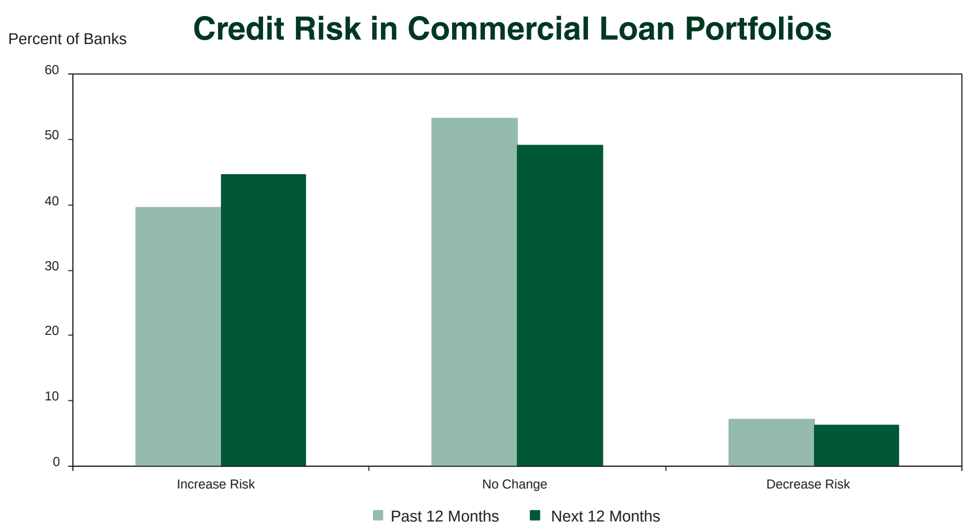


Portfolio Credit Risk

In addition to reporting on changes in underwriting, examiners were asked to characterize what had happened to the level of inherent credit risk in their bank's loan portfolio since the prior survey. They were also asked what they expect will happen to credit risk over the next 12 months. For **all** products, retail and commercial, examiners reported that portfolio credit risk has increased in far more banks than it has decreased. Examiners also expect more banks to see an increase in credit risk over the next 12 months.

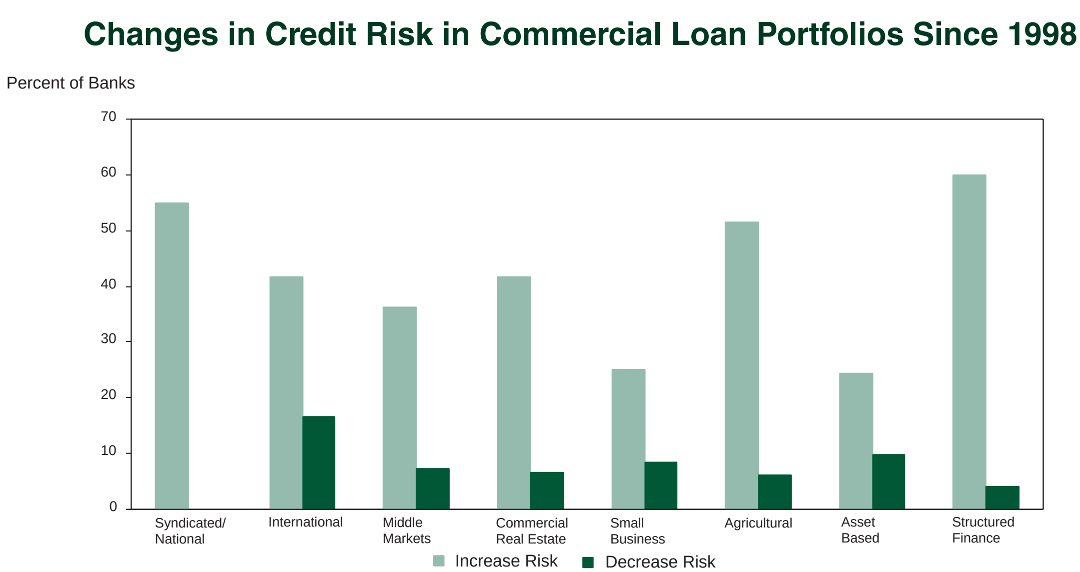
Credit Risk in Commercial Portfolios

The 1999 survey marks the fourth consecutive year that examiners have reported more banks with increased than decreased credit risk for commercial loan products. Examiners also expect that credit risk will continue to increase over the next year. The following chart depicts the change since the 1998 survey and whether examiners expect commercial credit risk to increase, decrease, or remain the same during the next 12 months.



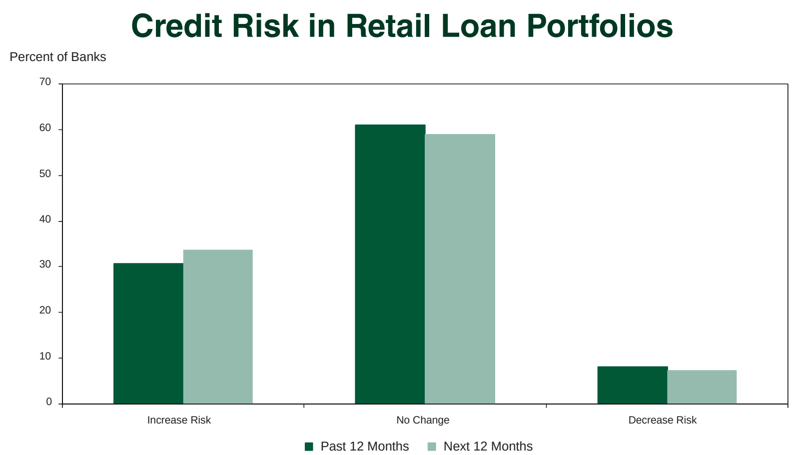
As the following chart depicts, inherent credit risk is also reported to have increased on a product-by-product basis. For the third successive year, survey results for syndicated/national lending portfolios reflect significant increased risk — more than 55 percent of the examiners reported increased risk in 1999 compared with 50 percent in 1998 and 40 percent in 1997. Moreover, examiners viewed credit risk as having increased in over 50 percent of the surveyed banks engaged in agricultural lending or structured finance.

Examiners also expect commercial credit risk will continue to increase over the next 12 months in the following portfolios: agriculture, commercial real estate and structured finance (52 percent of banks for each of these products), and middle market loans (49 percent of banks).

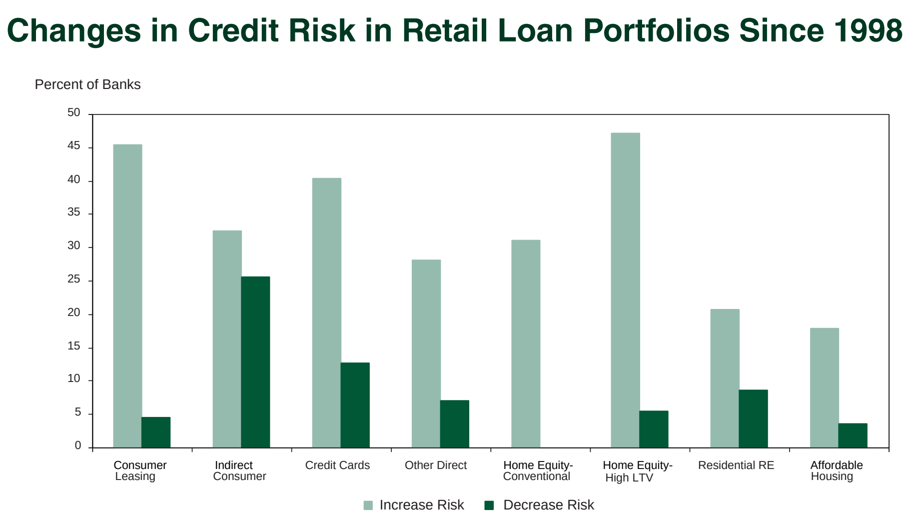


Credit Risk in Retail Portfolios

In each of the five years the survey has been conducted, examiners have indicated that inherent credit risk has increased in retail loan portfolios. Moreover, as in 1998, examiners reported a net increase in risk in every retail product in the 1999 survey. Although examiners have noted that banks have tightened standards for several categories of retail products during the past three years, they nevertheless continue to report net increases in the level of risk. As was the case with commercial lending portfolios, examiners also expect that credit risk will continue to increase over the next 12 months. The following chart depicts the change since the 1998 survey and whether retail credit risk is expected to increase, decrease, or remain the same during the next 12 months.



For the last three years examiners have reported net increases in credit risk for **all** retail categories. Survey results in 1999 indicate that increased risk is most evident in consumer leasing and high LTV home equity loans. Examiners also noted increased risk in credit card portfolios.



Part II - Results by Loan Type

Part II summarizes, in table format, the survey results for each type of loan. For each commercial and retail product in the survey, the first table depicts how underwriting standards have changed in each of the last four years. The second table delineates the changes in the level of credit risk for the previous three years and the expected change for the next 12 months.

Commercial Lending Portfolios

Agricultural Lending

Thirty-three of the 67 banks in the survey were engaged in some form of agricultural lending.

Changes in Underwriting Standards in Agricultural Loan Portfolios

(Percent of Banks)

	Eased	Unchanged	Tightened
1996	2	95	3
1997	8	79	13
1998	18	74	8
1999	3	79	18

Changes in the Level of Credit Risk in Agricultural Loan Portfolios

(Percent of Banks)

	Declined Significantly	Declined Somewhat	Unchanged	Increased Somewhat	Increased Significantly
1997	0	17	66	17	0
1998	0	13	64	23	0
1999	0	6	42	49	3
Future 12 Months	0	3	45	52	0

Asset Based Loans

Asset based lending is one of the new commercial lending categories added to the 1999 survey. Forty-one of the 67 banks in the survey were engaged in this type of lending.

Changes in Underwriting Standards in Asset Based Loan Portfolios

(Percent of Banks)

	Eased	Unchanged	Tightened
1999	10	78	12

Changes in the Level of Credit Risk in Asset Based Loan Portfolios

(Percent of Banks)

	Declined Significantly	Declined Somewhat	Unchanged	Increased Somewhat	Increased Significantly
1999	0	10	66	24	0
Future 12 Months	0	5	58	37	0

Commercial Real Estate Lending

Sixty of the 67 banks in the survey were engaged in commercial real estate lending.

Changes in Underwriting Standards in Commercial Real Estate Loan Portfolios

(Percent of Banks)

	Eased	Unchanged	Tightened
1996	16	73	11
1997	38	52	10
1998	43	51	6
1999	23	60	17

Changes in the Level of Credit Risk in Commercial Real Estate Loan Portfolios

(Percent of Banks)

	Declined Significantly	Declined Somewhat	Unchanged	Increased Somewhat	Increased Significantly
1997	0	12	57	28	3
1998	0	9	59	32	0
1999	0	7	51	40	2
Future 12 Months	0	3	45	50	2

International Lending

Only 24 of the 67 banks in the survey were active in international lending.

Changes in Underwriting Standards in International Loan Portfolios

(Percent of Banks)

	Eased	Unchanged	Tightened
1996	11	89	0
1997	34	63	3
1998	5	53	42
1999	4	54	42

Changes in the Level of Credit Risk in International Loan Portfolios

(Percent of Banks)

	Declined Significantly	Declined Somewhat	Unchanged	Increased Somewhat	Increased Significantly
1997	0	7	70	23	0
1998	5	9	42	42	2
1999	8	8	42	38	4
Future 12 Months	0	17	50	33	0

Middle Market Lending

Fifty-five of the 67 banks in the survey were engaged in middle market lending.

Changes in Underwriting Standards in Middle Market Loan Portfolios

(Percent of Banks)

	Eased	Unchanged	Tightened
1996	19	75	6
1997	42	55	3
1998	47	50	3
1999	18	73	9

Changes in the Level of Credit Risk in Middle Market Loan Portfolios

(Percent of Banks)

	Declined Significantly	Declined Somewhat	Unchanged	Increased Somewhat	Increased Significantly
1997	0	8	64	28	0
1998	0	4	61	35	0
1999	0	8	56	36	0
Future 12 Months	0	2	49	47	2

Small Business Lending

Sixty of the 67 banks in the survey are lending in the small business market.

Changes in Underwriting Standards in Small Business Loan Portfolios

(Percent of Banks)

	Eased	Unchanged	Tightened
1996	13	84	3
1997	15	69	16
1998	24	72	4
1999	13	75	12

Changes in the Level of Credit Risk in Small Business Loan Portfolios

(Percent of Banks)

	Declined Significantly	Declined Somewhat	Unchanged	Increased Somewhat	Increased Significantly
1997	0	9	70	20	1
1998	0	6	68	25	1
1999	0	8	67	23	2
Future 12 Months	0	8	54	38	0

Structured Finance

Structured finance was another new category added to the 1999 underwriting survey. Twenty-five of the 67 banks in the survey provided structured finance loans.

Changes in Underwriting Standards in Structured Finance Loan Portfolios

(Percent of Banks)

	Eased	Unchanged	Tightened
1999	24	44	32

Changes in the Level of Credit Risk in Structured Finance Loan Portfolios

(Percent of Banks)

	Declined Significantly	Declined Somewhat	Unchanged	Increased Somewhat	Increased Significantly
1999	0	4	36	56	4
Future 12 Months	0	8	40	52	0

Syndicated/National Credits

Forty of the 67 banks in the survey were active in the syndicated/national credit market.

Changes in Underwriting Standards in Syndicated/National Credit Portfolios

(Percent of Banks)

	Eased	Unchanged	Tightened
1996	18	73	9
1997	50	44	6
1998	54	37	9
1999	18	50	32

Changes in the Level of Credit Risk in Syndicated/National Credit Portfolios

(Percent of Banks)

	Declined Significantly	Declined Somewhat	Unchanged	Increased Somewhat	Increased Significantly
1997	0	8	52	40	0
1998	0	2	48	50	0
1999	0	0	45	45	10
Future 12 Months	0	10	48	42	0

Retail Lending Portfolios

Affordable Housing Lending

For the purposes of this survey, affordable housing loans included all types of loans on affordable housing for low- and moderate-income individuals and families, including 1- to 4-family and multi-family dwellings.   Fifty-six of the 67 banks in the survey were reported to be making affordable housing loans.

Changes in Underwriting Standards in Affordable Housing Loan Portfolios

(Percent of Banks)

	Eased	Unchanged	Tightened
1996	10	82	8
1997	11	74	15
1998	9	86	5
1999	16	70	14

Changes in the Level of Credit Risk in Affordable Housing Loan Portfolios

(Percent of Banks)

	Declined Significantly	Declined Somewhat	Unchanged	Increased Somewhat	Increased Significantly
1997*	1	4	76	15	3
1998	0	5	78	15	2
1999	2	2	78	18	0
Future 12 Months	0	2	64	34	0

** Not available responses excluded.*

Consumer Leasing

Consumer leasing was offered by 22 of the 67 banks in the survey.

Changes in Underwriting Standards in Consumer Leasing Portfolios

(Percent of Banks)

	Eased	Unchanged	Tightened
1998	4	67	29
1999	5	54	41

Changes in the Level of Credit Risk in Consumer Leasing Portfolios

(Percent of Banks)

	Declined Significantly	Declined Somewhat	Unchanged	Increased Somewhat	Increased Significantly
1998	0	4	38	58	0
1999	0	5	50	45	0
Future 12 Months	0	5	54	41	0

Credit Card Lending

Only 47 (70 percent) of the 67 banks in the survey were engaged in credit card lending, compared with 58 (75 percent) in the 1998 survey.

Changes in Underwriting Standards in Credit Card Loan Portfolios

(Percent of Banks)

	Eased	Unchanged	Tightened
1996	8	62	30
1997	3	38	59
1998	3	59	38
1999	8	66	26

Changes in the Level of Credit Risk in Credit Card Loan Portfolios

(Percent of Banks)

	Declined Significantly	Declined Somewhat	Unchanged	Increased Somewhat	Increased Significantly
1997*	1	8	27	47	15
1998	9	15	33	41	2
1999	0	13	47	36	4
Future 12 Months	0	8	47	45	0

**NA (not available) responses excluded.*

Direct Consumer Lending

Fifty-seven of the 67 banks in the survey were engaged in direct consumer lending.

Changes in Underwriting Standards in Other Direct Consumer Loan Portfolios

(Percent of Banks)

	Eased	Unchanged	Tightened
1996	16	69	15
1997	15	59	26
1998	13	65	22
1999	7	74	19

Changes in the Level of Credit Risk in Other Direct Consumer Loan Portfolios

(Percent of Banks)

	Declined Significantly	Declined Somewhat	Unchanged	Increased Somewhat	Increased Significantly
1997	0	4	60	34	2
1998	1	9	55	35	0
1999	0	7	65	28	0
Future 12 Months	2	7	53	38	0

Home Equity Lending

For the first time, the 1999 survey questionnaire asked examiners to distinguish between conventional home equity lending and high loan to value (LTV) home equity loans. Sixty-one of the 67 banks in the survey offered the conventional home equity lending product and 36 offered the high LTV product.

Changes in Underwriting Standards in Home Equity Loan Portfolios

(Percent of Banks)

	Eased	Unchanged	Tightened
1996	16	81	3
1997	38	58	4
1998	33	60	7
1999 (Conventional)	23	67	10
1999 (High LTV)	20	61	19

Changes in the Level of Credit Risk in Home Equity Loan Portfolios

(Percent of Banks)

	Declined Significantly	Declined Somewhat	Unchanged	Increased Somewhat	Increased Significantly
1997	0	3	55	42	0
1998	0	6	61	30	3
1999 (Conventional)	0	0	69	29	2
1999 (High LTV)	0	6	47	44	3
Future 12 Months (Conventional)	0	3	67	30	0
Future 12 Months (High LTV)	0	11	53	36	0

Indirect Consumer Lending

Forty-three of the 67 banks in the survey were engaged in indirect consumer lending.

Changes in Underwriting Standards in Indirect Consumer Loan Portfolios

(Percent of Banks)

	Eased	Unchanged	Tightened
1996	21	60	19
1997	16	51	33
1998	13	39	48
1999	7	56	37

Changes in the Level of Credit Risk in Indirect Consumer Loan Portfolios

(Percent of Banks)

	Declined Significantly	Declined Somewhat	Unchanged	Increased Somewhat	Increased Significantly
1997*	2	3	45	42	5
1998	0	21	32	43	4
1999	2	23	42	33	0
Future 12 Months	7	12	51	30	0

**NA (not available) responses excluded.*

Residential Real Estate Lending

Fifty-eight of the surveyed banks were engaged in residential real estate lending.

Changes in Underwriting Standards in Residential Real Estate Loan Portfolios

(Percent of Banks)

	Eased	Unchanged	Tightened
1996	5	91	4
1997	14	83	3
1998	9	87	4
1999	14	77	9

Changes in the Level of Credit Risk in Residential Real Estate Loan Portfolios

(Percent of Banks)

	Declined Significantly	Declined Somewhat	Unchanged	Increased Somewhat	Increased Significantly
1997*	0	5	73	20	0
1998	1	4	74	18	3
1999	3	5	71	21	0
Future 12 Months	4	2	72	22	0

**NA (not available) responses excluded.*