

Economic Brief

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Bank Lending Practices Survey 4Q2007

- **Weaker credit demand from both firms and households in the last quarter of 2007.**
- **Strong increase in the number of financial institutions tightening standards for commercial real estate loans**
- **Tighter lending standards for households not only for mortgage loans but also for consumer loans and credit cards**

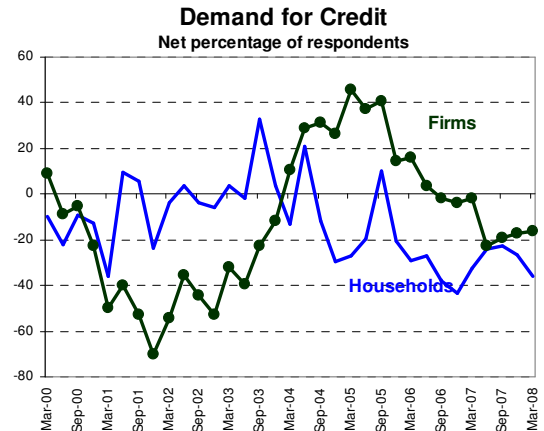
The January 2008 Senior Loan Officer Opinion Survey on Bank Lending Practices reported that financial institutions had tightened their lending standards and terms for a broad range of bank loan types over the third quarter of 2007. The majority of institutions pointed to a less favorable or uncertain economic outlook, a worsening of industry-specific problems, and a reduced tolerance for risk as reasons for their restrictive policies. A smaller but growing fraction of respondents noted that a deterioration of their banks' current or expected capital position had contributed to their decision to tighten credit supply.

All kinds of institutions, national and foreign, had tightened price terms on Commercial and Industrial loans to all types of firms, including rising the cost of credit lines and premiums charged on riskier loans. In relation with commercial real estate loans, the net fraction of banks reporting tighter lending standards on those loans was the highest since this question was introduced in 1990. In addition, not only commercial and industrial credit demand from firms has weakened but also commercial real estate loans.

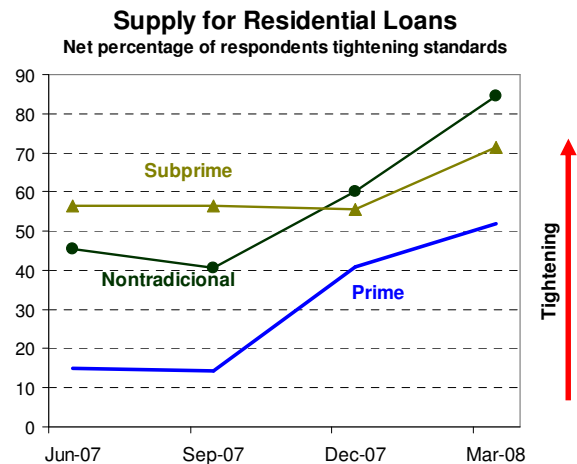
In the mortgage market, significant number of respondents indicated that they had tightened their lending standards on prime, nontraditional, and subprime residential mortgages over the past three months. A growing number of banks had tightened their lending standards for revolving home equity lines of credit. Moreover, the majority of institutions reported weaker demand for mortgage loans of all types as well as for revolving home equity credits.

In relation with consumer lending, an increasing number of financial institutions had tightened their standards for consumer loans in relation to previous surveys: they had increased minimum credit scores and reduced the extent to which such loans were granted to customers who did not meet credit-scoring thresholds. Banks had also widened spreads of loan rates over their cost of funds. About one third of respondents, on net, had experienced weaker demand for consumer loans of all types

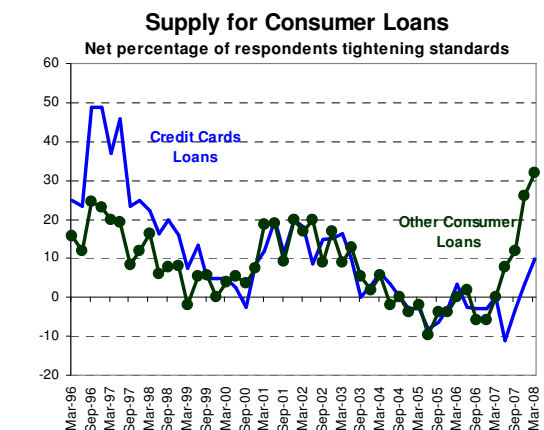
Bottom line, tougher credit supply conditions could lead to a lower expansion for firms and households financing, but it could help to reorganize the financial institutions portfolio. Prime mortgage contagion from the subprime meltdown could harm the residential market even further, while commercial real estate activity may be signaling.



Source: Survey on Bank Lending Practices, FED.



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