



Banking Observatory

August 21st, 2009

Senior Loan Officer Survey 20093Q

- Demand for consumer loans halts upward trend despite commercial banks' easing of terms, reflecting consumers' newfound precautionary impulse
- Commercial real estate demand continues to decline given the troubled environment for such loans and the expected lengthy workout of existing investments

Consumer lending supply eases, but demand turns cautious

In the aftermath of the fall 2008 dislocations in the financial system, commercial banks benefited greatly from the demise of some of their traditional nonbank competitors, which was reflected in continued growth in consumer lending at commercial banks even with tighter terms for lending. However, the demand trend has reversed: despite a temporary increase in the willingness to finance consumer installment loans and also an easing in the terms for consumer lending on the supply side, the demand for consumer loans has halted its upward trend. This is also reflected in the slower growth of other consumer lending (mostly discretionary nonrevolving credit) and total consumer lending. There now appears to be a high risk that consumer lending will turn negative.

Commercial real estate lending remains weak

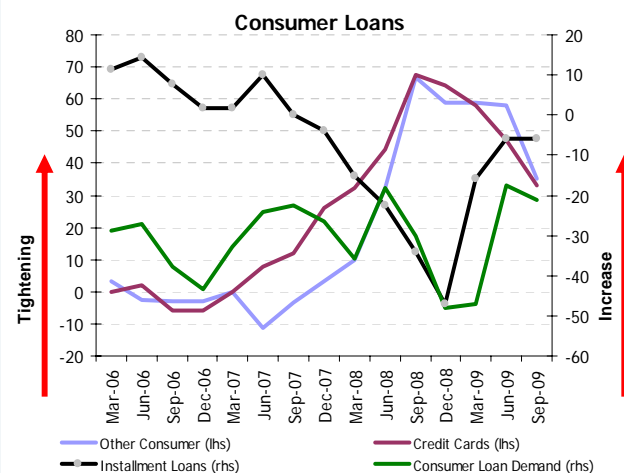
Commercial banks reported continuing anemic demand for commercial real estate loans (CRE), which is expected given national CRE delinquency rates of 7.92% according to the Federal Reserve and also high levels of exposure to CRE by small and medium-sized commercial banks. The Senior Loan Officer Survey also indicated that commercial banks somewhat loosened their terms for CRE lending, however, given the expectation that the CRE cycle will last longer than in previous recessions and also difficulties in restarting the secondary market for commercial mortgage-backed securities, terms of lending in this category are unlikely to loosen quickly.

Commercial and industrial lending tightness down from peak

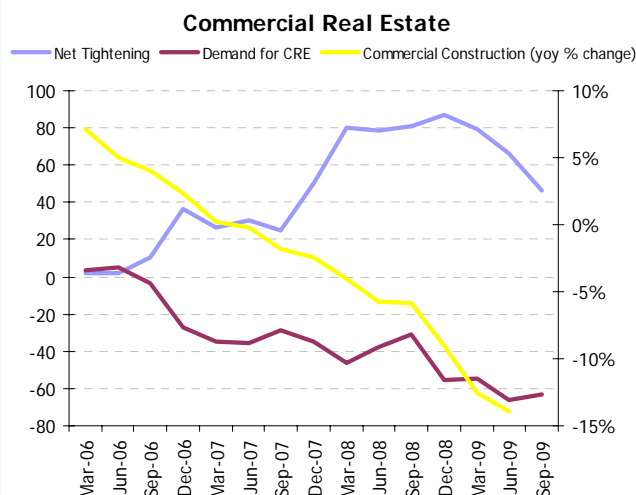
This week's latest survey on the terms of commercial and industrial lending demonstrates that terms have peaked, commensurate with a rebound in business confidence. The extension of commercial and industrial credit continues to decline on a weekly basis, indicative of a slower growth environment, but with terms more loose than in previous months the credit constrain on firms should bind less tightly than before.

Bottom line: Demand for CRE loans continues to decline, which is along expectations as this market features considerable distress across the financial system. Consumer borrowing, however, appears to be reversing its trend and becoming increasingly precautionary on the demand side despite light easing.

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Source: Survey on Bank Lending Practices, Federal Reserve



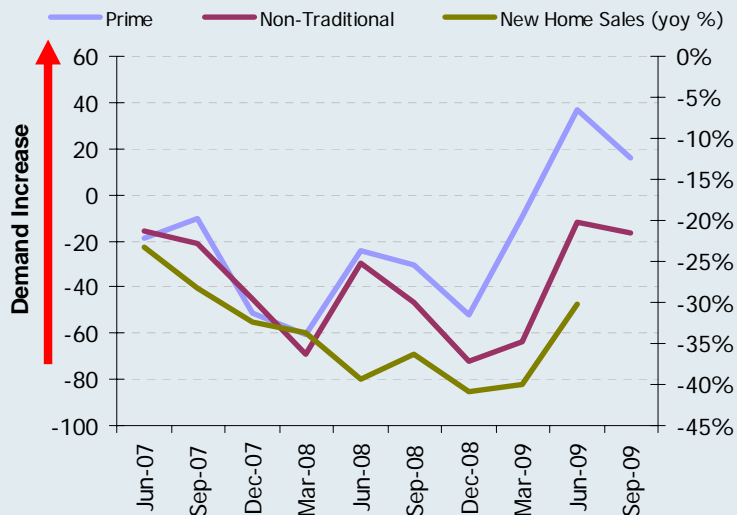
Source: Survey on Bank Lending Practices, Federal Reserve

Commercial and Industrial Lending



Source: Survey on Bank Lending Practices, Federal Reserve, OECD

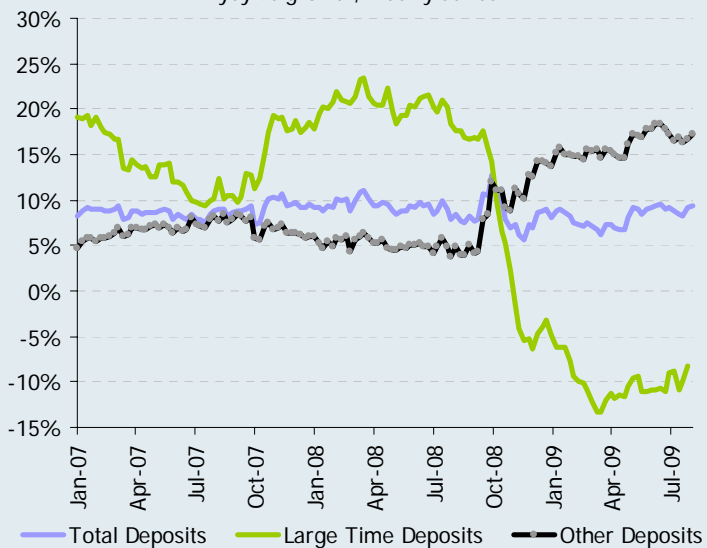
Demand for Residential Loans



Source: Survey on Bank Lending Practices, Federal Reserve

US Bank Deposits

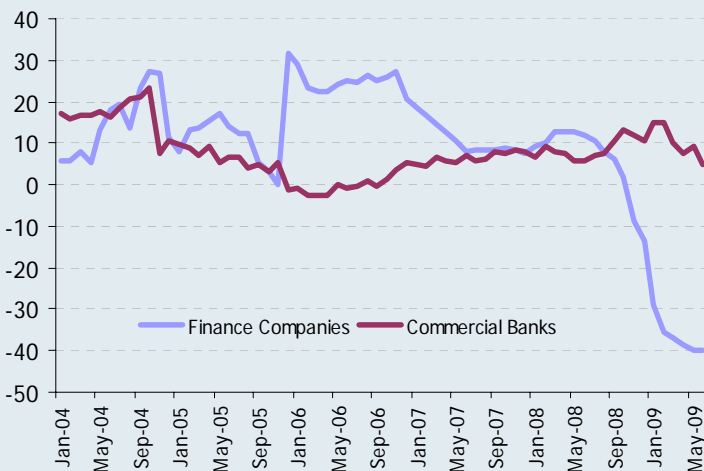
yoy % growth, weekly series



Source: Federal Reserve

Consumer Revolving Credit

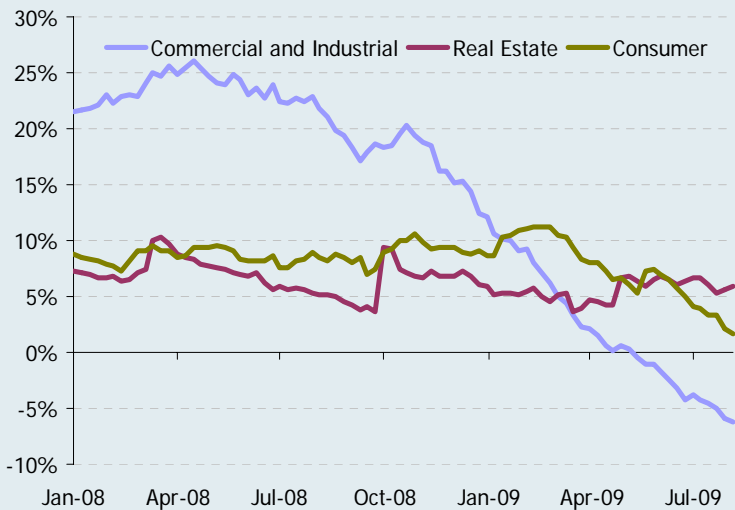
yoy % change



Source: Federal Reserve G.19 Release

Commercial Bank Lending

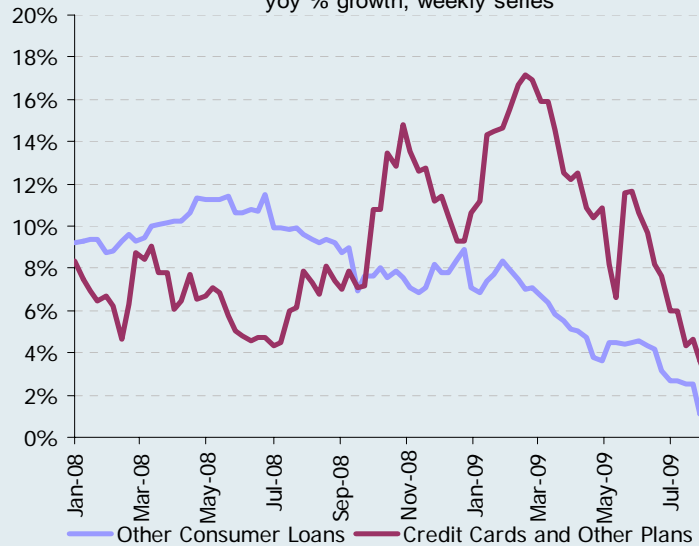
yoy % growth, weekly series



Source: Federal Reserve

Commercial Bank Consumer Lending

yoy % growth, weekly series



Source: Federal Reserve