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Banking Watch
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Economic Analysis

U.S.
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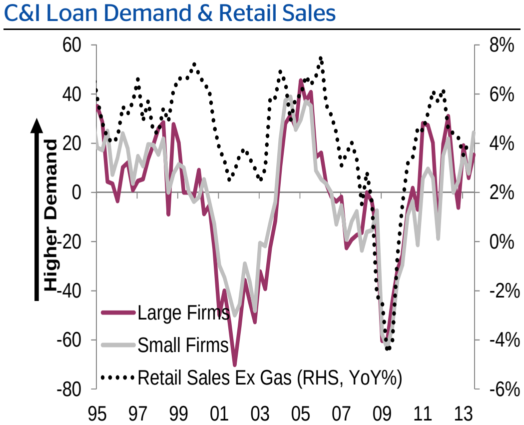
Senior Loan Officer Survey 2013Q3
Standards Continue to Ease as Loan Demand Rises

- **C&I and CRE standards ease as demand rises across most firm sizes**
- **Residential loan activity still favoring prime credit candidates**
- **Consumer lending standards ease on auto but little on credit cards**

C&I Credit: Easing of standards points toward better outlook for cash heavy companies

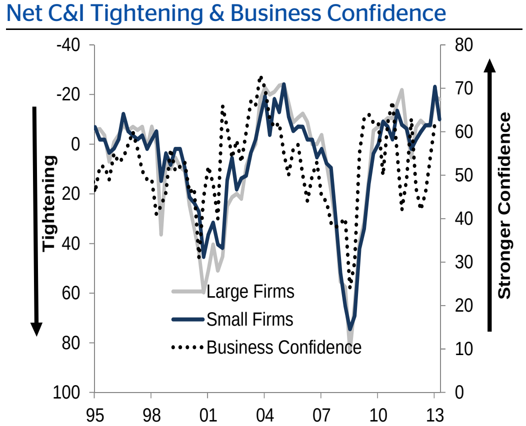
The Federal Reserve's Senior Loan Officer Survey (SLOS) for 3Q13 tells much the same story as earlier reports with standards easing across the board for most borrowers as both consumers and businesses have regained much of their confidence lost in both the financial crisis and the reoccurring spats of debt crisis. The survey this quarter showed that domestic banks, on balance, eased their standards on just about every category of loan which is more than can be said from prior surveys which stressed little easing of credit or auto loan standards. With regard to lending for businesses, in particular commercial and industrial (C&I) and commercial real estate (CRE), stronger demand fueled ongoing easing to most types of borrowers. With many multifamily units in construction as of late and companies finally unzipping cash-stuffed mattresses, it is likely this will continue as fear of rate increases becomes more present. With regard to C&I loans, a modest proportion of banks reported having eased loans due to a medley of increased competition and growing demand. Of the respondents, most reported growing demand for C&I loans although there were some larger banks, those with assets of $20bn or more, that reported a weakening in demand. As for foreign counterparts with operations in the U.S, most reported having eased standards on C&I loans as a moderate fraction noted stronger demand. This is in part due to the competitive nature of the domestic branches of foreign banks that have to compete with domestic behemoths. On the household front, the picture remains much the same, save for an easing in standards of most types of consumer loans. For real estate loans, a modest net fraction of respondents reported an easing in standards for prime and nontraditional loans which coincides with the strengthening of the housing market and home price appreciation. The easing of standards is most likely an attempt to capture more of the market for home mortgages with individual credit worthiness slowly recovering. Over the second quarter, these loans, along with auto and credit card loans, had an appreciable increase in demand according to domestic respondents, which is in line with the strengthening of the U.S. consumer post income tax increase.

Chart 1
C&I Loan Demand & Retail Sales



Source: Federal Reserve & BBVA Research

Chart 2
Net C&I Tightening & Business Confidence

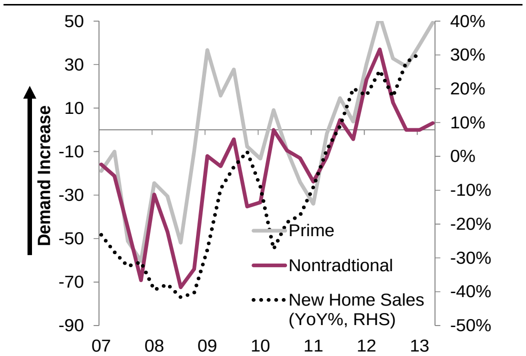


Source: Federal Reserve, CB, & BBVA Research

Real estate credit: Lenders ease standards as commercial and residential demand grows

The SLOS's CRE real estate portion was relatively unchanged in comparison to last quarter's results. The increased credit demand that has been seen across most of the real estate market has been focused primarily on multifamily units with starts increasing double digits year over year. This has heavily influenced banks willingness to lend and as of this survey, a moderate fraction of banks continued to ease their standards for approving CRE type applications. Although there are signs that the multifamily boom might have peaked in prior months, cash-heavy companies are beginning to contemplate expansion which explains why more than half of respondents reported higher demand.

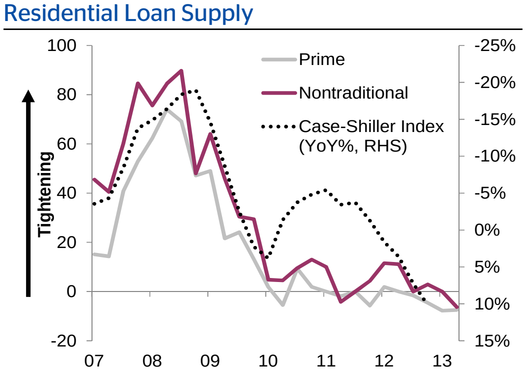
Chart 3
Residential Loan Demand Conditions



Source: Federal Reserve & BBVA Research

The residential real estate situation also remains much the same as last quarter's survey. As mentioned above, the housing market has been on a tear but banks have remained cautious in terms of lending standards. In this survey however, banks reported having eased their standards on prime and nontraditional loans. While demand was reportedly stronger for prime mortgage, banks reported weaker demand for nontraditional mortgages, which is interesting given the strength of the housing market in 2Q13. As for loan standards, banks continue to remain cautious, reporting no real change in standards for home equity lines of credit despite the increased demand.

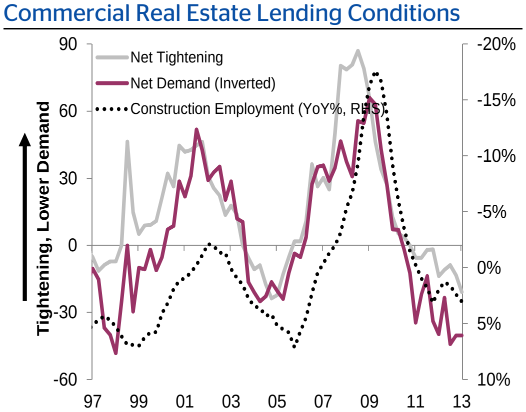
Chart 4
Residential Loan Supply



Source: Federal Reserve & BBVA Research

One of the special questions in the survey was for CRE lending with regard to the easing of standards for three types of CRE loans: construction and land development, nonfarm nonresidential properties and multifamily residential properties. Respondents noted that over the past twelve months their standards had eased for all three of the categories of CRE loans. However, there was a small proportion of the banks that reported less easing for construction and land development loans in comparison to the other two types. A moderate net fraction indicated that they had experienced higher demand for all three types of CRE loans over the period.

Chart 5
Commercial Real Estate Lending Conditions



Source: Federal Reserve & BBVA Research

Banks were also asked to consider their variation in standards since 2005 and how their current standards compare to the midpoint of that eight-year period. Concerning business loans, specifically C&I, banks reported that current standards were easier than the midpoint of the range. Foreign banks mimicked their domestic counterparts, saying their standards were easier too while loans to small firms were close to the midpoint. However, turning to CRE loans, a modest to moderate net fraction of domestic banks reported current standards are tighter.

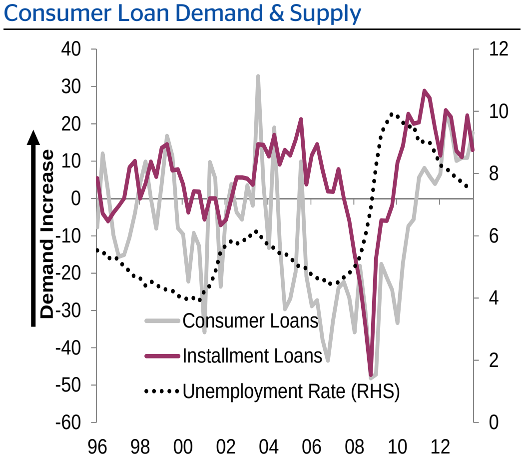
Consumer lending: Credit card standards ease slightly while auto loan demand grows

On the whole, it seems banks were more willing to engage in consumer lending than in previous quarters, a trend that has been ongoing but selective in terms of the type of loan. While a net fraction of banks reported having eased standards on auto loans, credit card loans and other consumer loans did not see much of a change. Auto loan spreads were reduced, coupled with an increase in maximum maturity, helping to bring in more auto loans as the industry itself continues to strengthen. Banks also reported an easing of standards on credit cards while terms across auto, credit and other consumer loans remained little changed. The revival of consumer credit, which has been prolific in terms of student loans, was noted by a moderate net fraction of banks that reported stronger demand for auto loans, while a small fraction reported increased demand for credit card and other consumer loans.

Bottom line: Credit market strengthening with consumer and business lending on the rise as standards ease for most borrowers

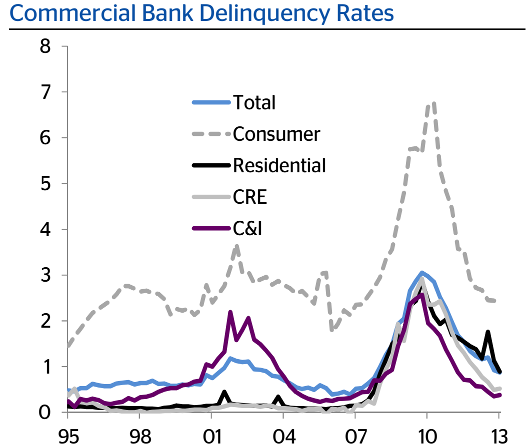
The SLOS survey for 3Q13 showed an overall more optimistic tone for credit standards and demand although easing continues to be at a moderated and cautious pace. Standards across most categories were reported to have eased especially with regard to stronger, prime credit holders and commercial businesses. Smaller consumer loans for credit cards and other loans continue to remain modestly guarded with standards little changed and terms equally as stagnant. This is not surprising as consumers remain tepid with regard to credit card use and taking on more debt, except maybe for auto loans which have been on the rise. Turning to real estate, the situation is what was expected with the housing market regaining its footing and growing at an accelerated pace. CRE continues to strengthen and with it, standards ease as do the standards of most prime mortgages. As consumers become more creditworthy we expect to see nontraditional loans ease slightly and demand continue to grow. Overall, the credit market seems to be on a steady path with business lending picking up momentum and consumer lending in the background recuperating.

Chart 6
Consumer Loan Demand & Supply



Source: Federal Reserve & BBVA Research

Chart 7
Commercial Bank Delinquency Rates



Source: Federal Reserve & BBVA Research