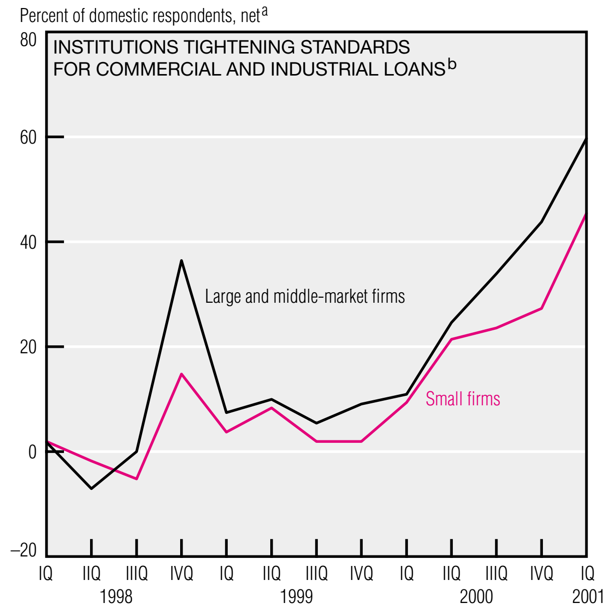
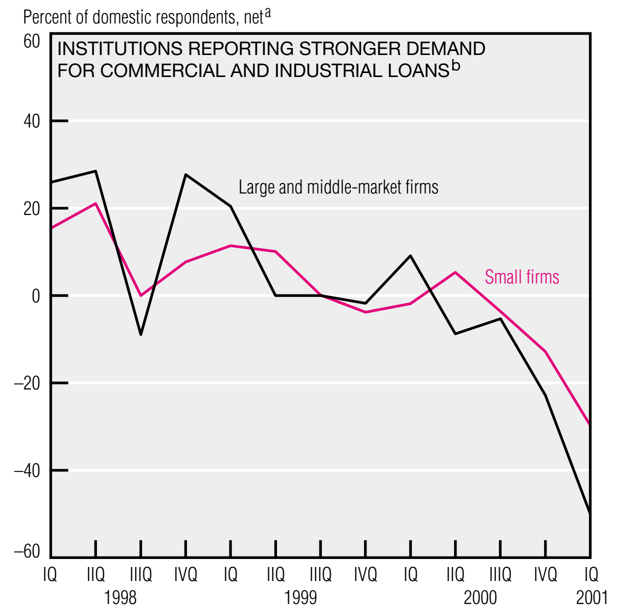
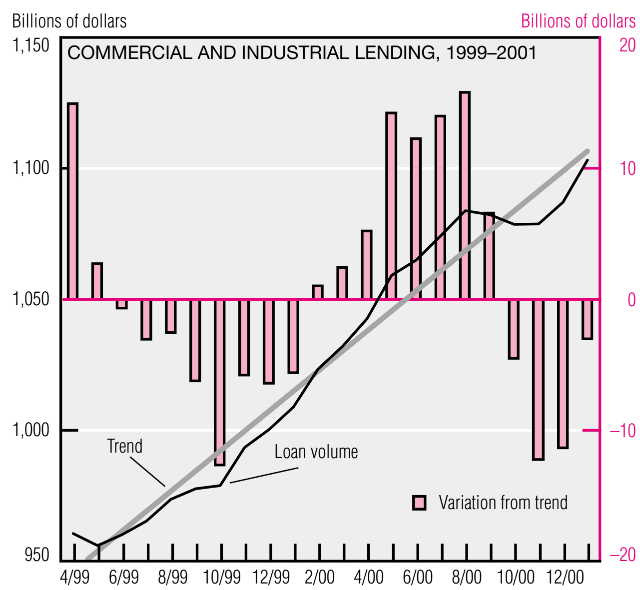
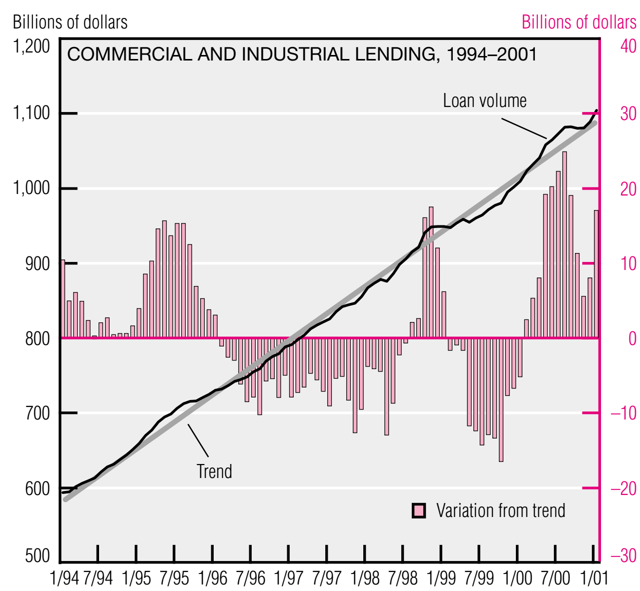
Lending by Depository Institutions









a. Net percent, excluding respondents reporting no change.

b. The quarters indicated correspond to the publication dates of the survey and include data from the previous quarter.

SOURCES: Board of Governors of the Federal Reserve System, "Senior Loan Officer Opinion Survey on Bank Lending Practices," Federal Reserve Surveys and Reports; and "Assets and Liabilities of Commercial Banks in the United States," Federal Reserve Statistical Release, H.8.

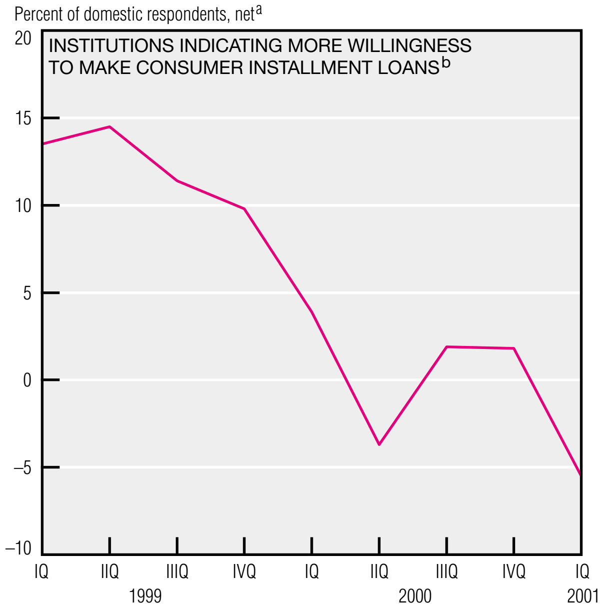
In the last quarter of 2000, the net share of commercial banks' senior loan officers (domestic and foreign) who reported tightening their lending standards on commercial and industrial loans reached 60% for loans to large and middle-market firms and 45% for loans to small firms. This is the latest and largest addition to the tightening trend that loan officers have been reporting since 1998:IVQ. Parallel to tighter standards, senior loan officers reported declining demand for commercial and industrial loans; 50% (net) reported weaker loan demand from large and middle-market firms and 30% reported weaker demand from small firms.

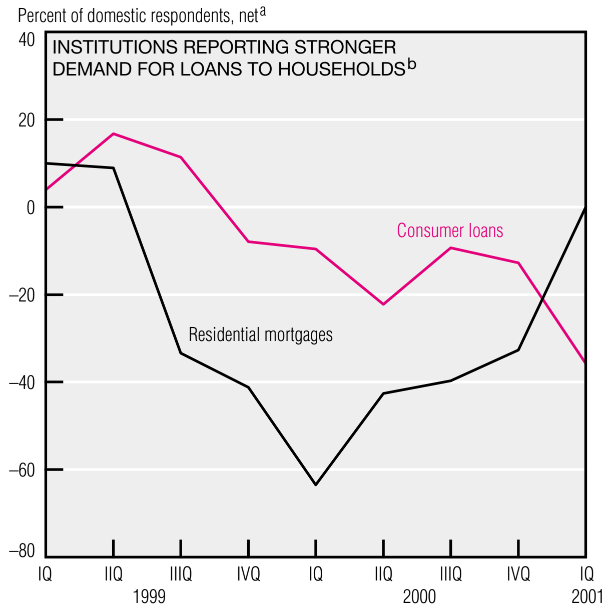
Commercial and industrial lending data for 1999–2001 seem to support the declining-demand argument. Although the dollar volume of commercial and industrial loans reached its highest-ever level of $1,104 billion in January 2001, it has been below trend since October 2000. The shortfall was $11 billion in December 2000 and is currently about $3 billion.

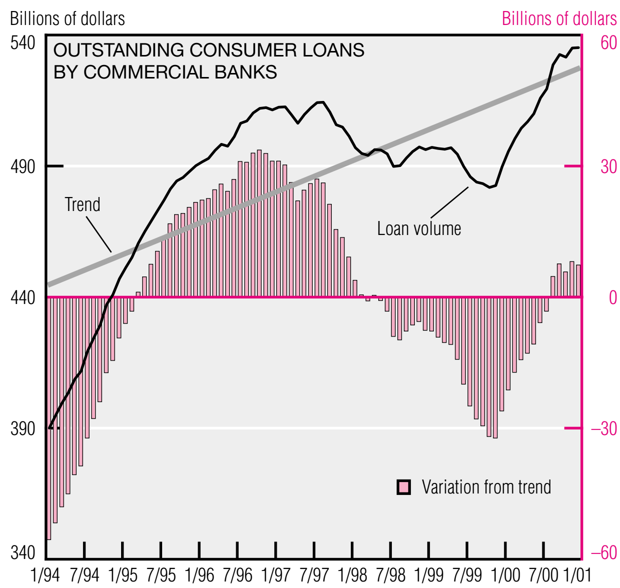
However, it is not clear whether these facts should be interpreted as signs of weak bank lending or merely a myopic comparison of current performance to the most recent data. When we compare the commercial and industrial loan volume in January 2001 to the trend over a longer period of time (1994–2001, for example) rather than just the last two years, the current volume is $17 billion above trend. From this longer-range perspective, the decline in loan demand in 2000:IVQ may

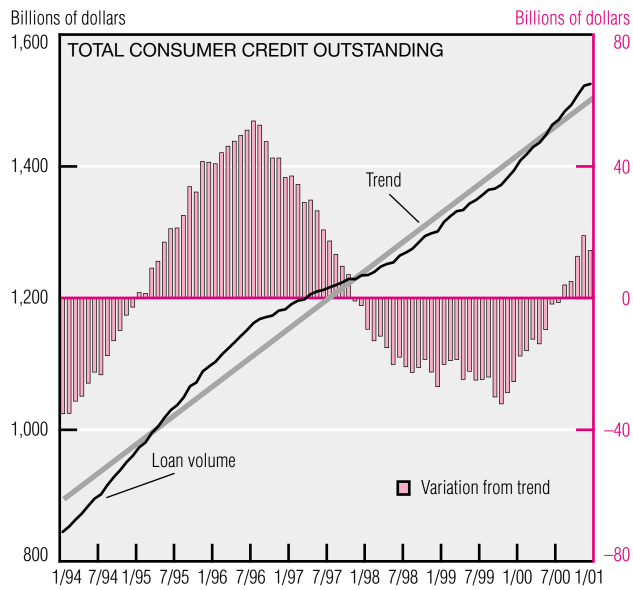
(continued on next page)

Lending by Depository Institutions (cont.)









a. Net percent, excluding respondents reporting no change.
b. The quarters indicated correspond to the publication dates of the survey and include data from the previous quarter.
SOURCES: Board of Governors of the Federal Reserve System, "Senior Loan Officer Opinion Survey on Bank Lending Practices," Federal Reserve Surveys and Reports; and "Consumer Credit," Federal Reserve Statistical Release, G.19.

be interpreted as a return to trend from the exuberance of early 2000.

On the consumer lending side, 6% (net) of senior loan officers surveyed in January 2001 reported that they are less willing to make consumer loans than they were in previous quarters. Their pessimism parallels the weakness in consumer loan demand that they have been reporting since 1999:IVQ. In 2000:IVQ, 36% (net) of the senior loan officers surveyed said that they faced a weaker consumer loan market. There has been no change in the demand for residential mortgages.

Supporting the reported decline in consumer loan demand, the dollar volume of consumer lending by commercial banks declined steadily from a high of $514 billion in August 1997 to a low of $482 billion in October 1999. The good news is that the volume of outstanding consumer loans by commercial banks has been increasing ever since. As of December 2000, commercial banks had $535 billion in outstanding consumer loans, which was $7 billion above trend.

It may be helpful to look at the size of the entire consumer loan market (such as commercial banks, finance companies, and credit unions) to understand why consumer lending by commercial banks dropped in 1998 and 1999. The data show that the size of outstanding loans has been increasing steadily in recent years. Therefore, the decline in commercial bank lending may be partly attributable to a loss of market share. As of December 2000, the dollar volume of total outstanding consumer loans was $15 billion above trend.