

1997
Survey of
Credit Underwriting
Practices

National Credit Committee

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Introduction

The Office of the Comptroller of the Currency (OCC) conducted its third annual Survey of Credit Underwriting Practices during the second quarter of 1997 to identify trends in credit risk within the national banking system. The questionnaire-based survey addressed changes in lending standards over the previous year for the most common types of commercial and retail credit offered by national banks. The OCC examiners-in-charge of the 80 largest national banks were asked to respond to the survey based on their firsthand knowledge of the banks they supervise. The Comptroller's National Credit Committee then compiled and analyzed the results of the survey. This committee includes a cross section of the most experienced credit examiners from around the country, along with senior OCC staff representing a variety of policy disciplines within the agency. The committee's members have an average of 22 years experience in bank regulation.

Primary Findings

- **A discernable shift in underwriting standards has occurred since the 1996 survey, with most of the surveyed banks now described as having "moderate" or "liberal" underwriting standards.**

Across the 12 categories of credit covered by the survey, examiners described 38 percent of the surveyed banks as having "conservative" underwriting standards, down from 52 percent in the 1996 survey. "Moderate" standards were reported at 54 percent of the surveyed banks, compared with 45 percent a year earlier, and "liberal" standards were reported at 8 percent, up from 3 percent in 1996.

- **The trend toward eased standards for commercial loans noted in last year's survey has continued. Examiners reported competitive pressure was again the primary reason for easing of standards.**

A majority of banks (59 percent) were found to have eased lending standards for one or more types of commercial loans. The trend was most pronounced in middle market lending, syndicated and national credits, and commercial real estate lending.

Examiners reported loan pricing that was less favorable to banks in all categories of commercial loans. Structural concessions to borrowers, including financial covenant, guarantor and collateral requirements, and lengthened maturities were also cited as evidence of a continuing trend toward eased commercial loan standards. As with last year's survey, competitive pressure was again cited as the predominant reason for this continued easing of terms.

- **More banks are tightening their lending standards for retail loans.**

With the exception of home equity and residential real estate lending, more banks had tightened lending standards in their retail portfolios than had eased them. The tightening of retail lending standards was most pronounced in credit card portfolios, continuing and broadening what was predominantly a trend among just the largest banks in the 1996 survey.

- **The level of inherent credit risk continues to increase for most components of both commercial and retail portfolios.**

Compared with a year ago, examiners reported that the level of inherent credit risk in the portfolios of

most of the surveyed banks had increased for at least one, and generally more, of the loan product components.

In commercial loan portfolios, higher inherent risk was most frequently cited in the syndicated/national credit, commercial real estate, and middle market components. Examiners cited competition and the desire for loan growth as the principal causes of increased credit risk.

The retail components most frequently reported as having higher inherent risk were credit card, indirect consumer, and home equity loans. This was attributed to the combined effects of high growth, acquisitions, increasing levels of consumer delinquencies and bankruptcies, and higher loan-to-value ratios.

Survey Population and Scope

The 1997 survey covered national bank affiliates of the 80 largest bank holding companies. The previous survey, conducted in 1996, covered substantially the same group. The aggregate loan portfolios of banks covered by the 1997 survey was approximately \$1.5 trillion as of June 30, 1997, or 84 percent of all outstanding loans in national banks. Under the OCC's supervisory system, the surveyed banks are designated as either Tier I, Tier II, or Tier III banks. Tier I and II banks are owned by the largest bank holding companies. Tier III banks are owned by other bank holding companies having national bank assets greater than \$1 billion. Of the 80 companies covered by the 1997 survey, 34 companies with 237 national bank affiliates were in the Tier I or Tier II category. The remaining 46 companies with 127 national bank affiliates were in the Tier III category. The terms "bank" and "company" are used interchangeably in this

report, and refer to the 80 surveyed companies.

Examiners participating in the survey were asked to answer a series of questions concerning 12 common types of commercial and retail credit. For the purposes of this survey, there were six categories of commercial credit — syndicated/national credits, middle market loans, small business loans, international credits, commercial real estate loans, and agricultural loans. The six categories of retail credit were residential real estate loans, affordable housing loans, home equity loans, credit cards, other direct consumer loans, and indirect consumer paper (loans originated by others, e.g., car dealers).

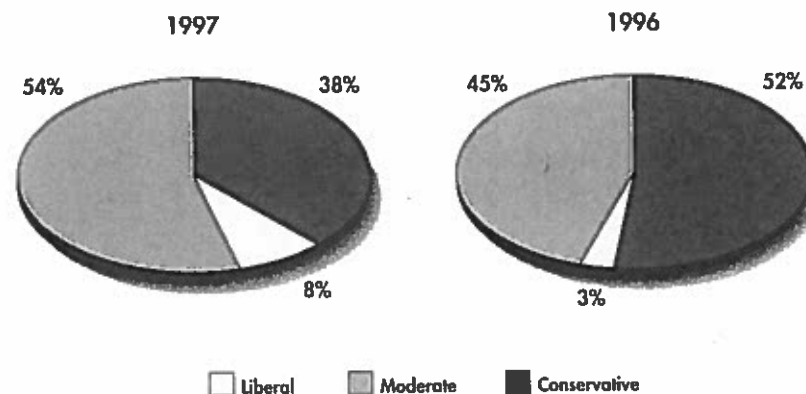
Part I of this report discusses in more detail the overall results of the survey. Part II contains the results of the survey by type of loan.

Part I — Overall Results

Underwriting Standards

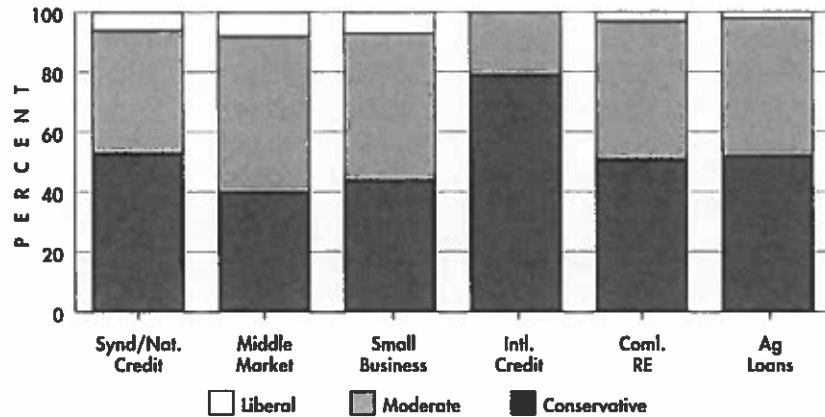
For each of the 12 categories of loans covered by the survey, OCC examiners were asked to characterize the underwriting standards of each bank as “conservative,” “moderate,” or “liberal.” This year’s survey revealed that national banks are now more likely to have moderate than conservative standards. In the following charts comparing 1996 and 1997 responses to the same question, the shift between conservative and moderate underwriting standards is readily apparent — in the 1997 survey, standards were characterized as moderate 54 percent of the time, as compared with 45 percent in the 1996 survey. Conversely, in the 1997 survey, standards were considered conservative 38 percent of the time, compared with 52 percent in 1996. In addition, standards were characterized as liberal 8 percent of the time, more than double the 3 percent noted in the 1996 survey.

Underwriting Standards for All Types of Loans

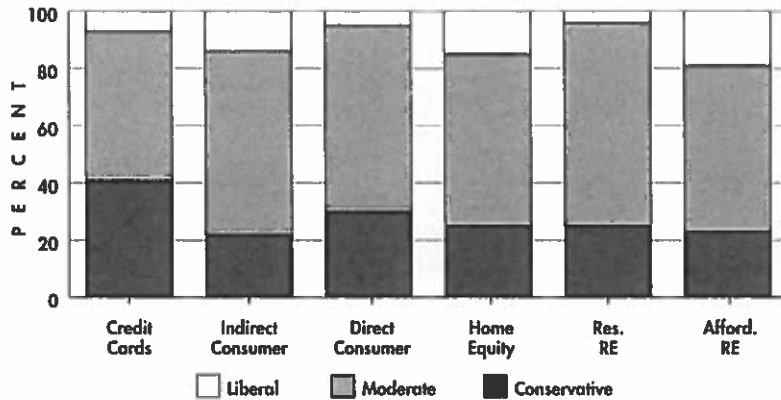


The next two charts reflect the distribution of examiners' characterizations of standards by type of loan.

Underwriting Standards for Commercial Loans
(By Category—All Surveyed Banks)



Underwriting Standards for Retail Loans
(By Category—All Surveyed Banks)



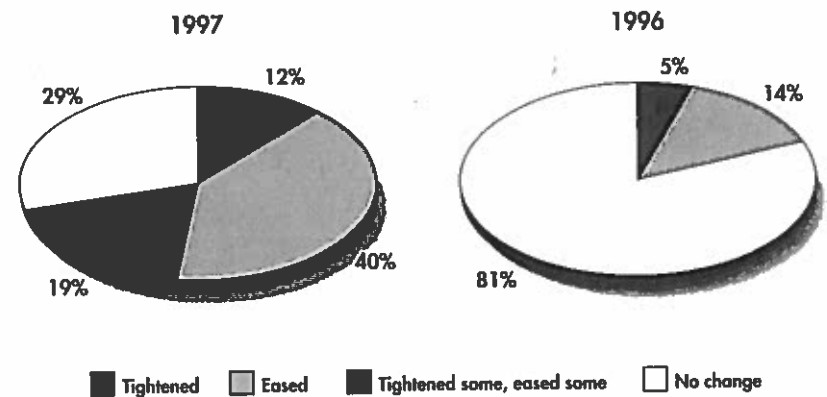
International credits were the only category of either commercial or retail loans for which examiners found a strong bias among the surveyed banks for conservative underwriting standards, although examiners reported

more banks had eased than tightened standards in 1997. Conservative lenders comprised a much smaller majority among syndicated/national, agricultural, and commercial real estate lenders (53 percent, 52 percent, and 51 percent respectively). Only 41 percent of the surveyed credit card lenders were characterized as conservative, despite a general continued tightening of standards since the 1996 survey. Fifty-two percent were considered moderate, and 7 percent liberal. For other categories of retail loans, the percentage of conservative lenders ranged from 30 percent for direct consumer loans down to 22 percent for indirect consumer loans.

Changes in Commercial Underwriting Standards

In a significant shift from prior years, the 1997 survey found that, in practice, a majority of the surveyed banks had made changes to their underwriting standards for one or more categories of commercial loans in the last year. As the following charts show, this finding differs from the 1996 survey, which

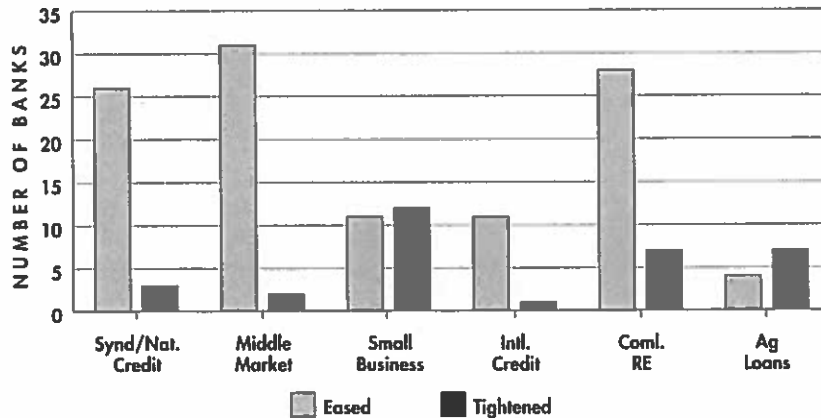
Commercial Underwriting Standards



indicated that standards at most banks, for most categories of commercial loans, had not changed over the previous year. The 1997 survey found that 40 percent of the banks had eased standards for one or more of the six categories of commercial credit, and an additional 19 percent had eased standards for some categories while tightening standards for others.

While the National Credit Committee did not identify any loan categories for which all banks had eased standards, the survey did indicate a predominantly easing trend in four of the six commercial loan categories. As reflected in the following chart, the most significant easing had occurred in middle market lending, closely followed by syndicated/national and commercial real estate loans. Agricultural and small business loans were the only categories of commercial loans that had experienced a net tightening of standards across the survey population.

Commercial Underwriting Standards
(By Type of Loan)

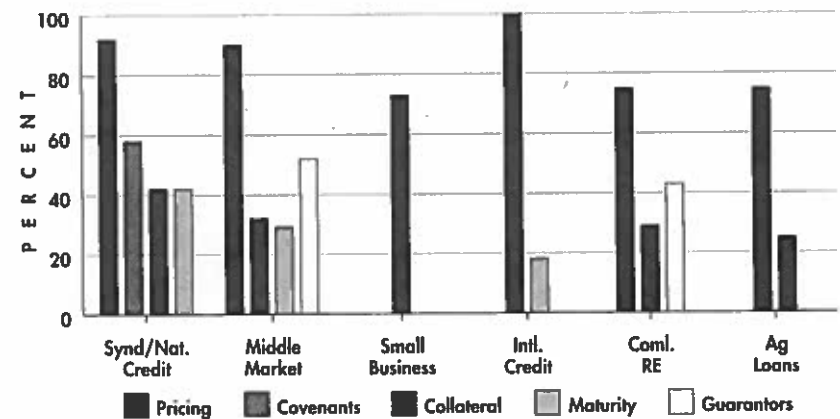


Types of Changes Made in Commercial Underwriting Standards

Across all categories of commercial loans, examiners cited cheaper pricing as the most common concession provided to borrowers. Eased pricing, in terms of loan fees and interest rates, was reported in 76 percent of the cases in which banks made changes in 1997, compared with 42 percent in 1996. Examiners also reported eased requirements for guarantors of commercial loans in 22 percent of the banks in the 1997 survey, compared with 11 percent in 1996. Lengthened maturities were cited in 25 percent of the cases where easing occurred in 1997, compared with 19 percent in 1996. Reports of relaxed financial covenants (25 percent) and collateral requirements (24 percent) were comparable to findings in the 1996 survey.

For those banks that eased lending standards on commercial loans, the following chart summarizes, by loan category, the five most commonly noted methods used to ease standards. (Examiners reported only a few examples of tightened standards for commercial loans.)

Methods Used to Ease Commercial Underwriting Standards
(By Type of Loan—As Percent of All Banks Easing)

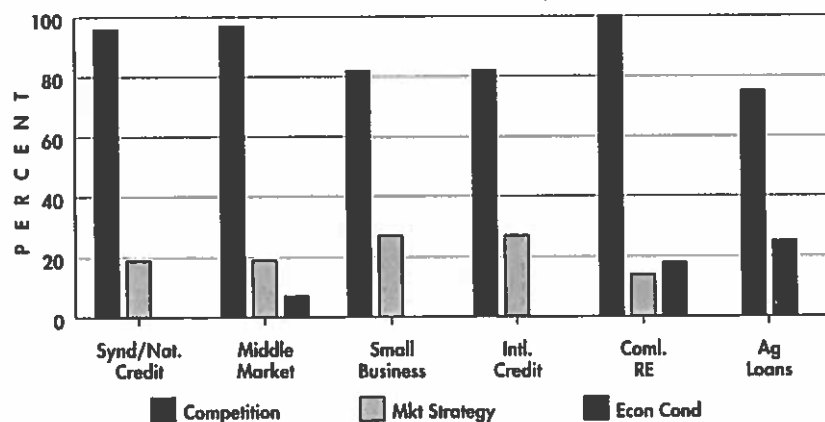


Reasons for Changes in Commercial Underwriting Standards

For those banks that changed their underwriting standards over the previous year, the survey also asked examiners to characterize why banks had tightened or eased their standards.

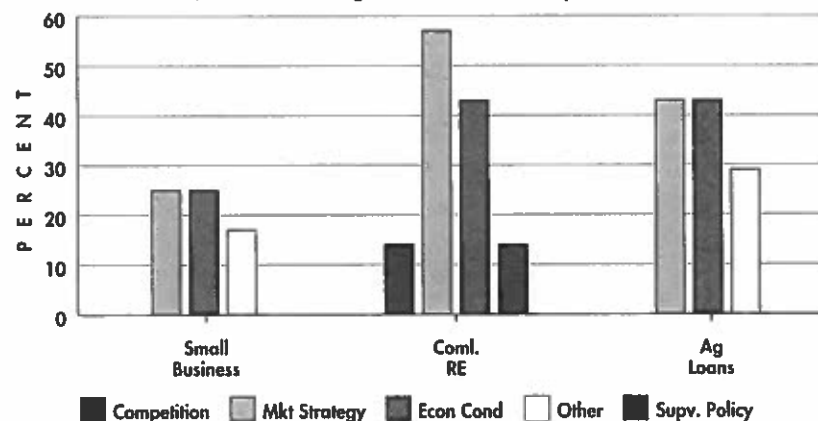
The following two charts depict, by loan category, the primary justifications examiners reported for the easing and tightening, respectively, of commercial lending standards in the surveyed banks. (The number of responses for loan categories not reflected in the charts were not statistically significant.)

Reasons for Easing Commercial Underwriting Standards
(All Banks with Eased Standards—by Product)



As in the 1996 survey, examiners identified competition as the predominant reason for eased commercial underwriting standards. In the few banks that tightened commercial standards, examiners most commonly reported "market strategy" as the reason. Other reasons cited for tightening commercial standards varied by loan category, but for all categories, economic conditions were cited as a contributing factor.

Reasons for Tightening Commercial Underwriting Standards
(All Banks with Tightened Standards—by Product)

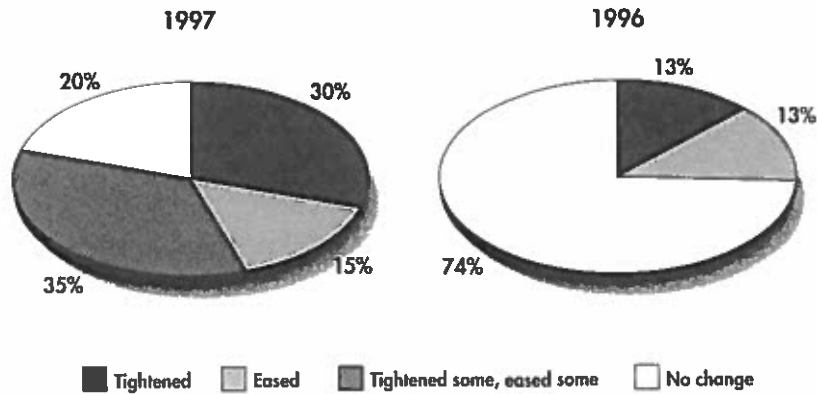


Changes in Retail Underwriting Standards

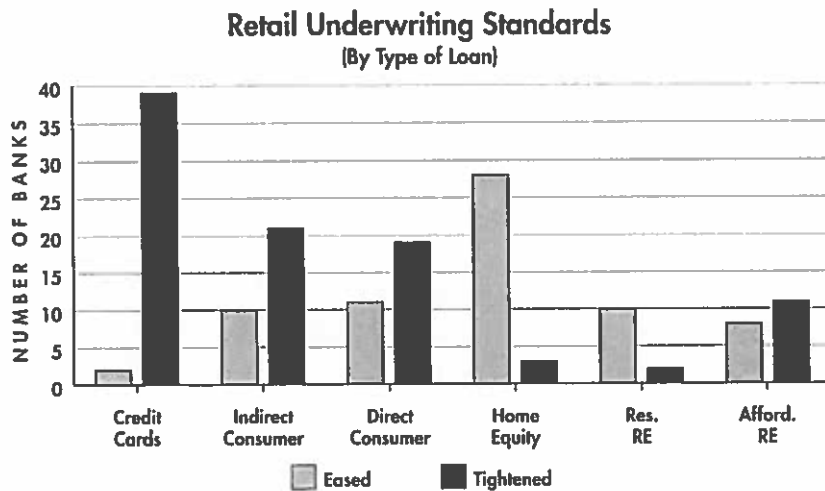
The 1997 survey found that 80 percent of surveyed banks had made changes in their standards for at least one of the retail lending categories over the last year. As the following charts show, this represented a significant change from the findings of the 1996 survey, which indicated that 74 percent of banks had made no changes to their retail standards over the previous year. Unlike most commercial loan products, where underwriting standards had been eased in 1997, 30 percent of the banks were found to have tightened standards in at least one retail loan category. An additional 35 percent had tightened standards for some retail products and eased them for others.

The only retail loan categories in which more banks had eased than had tightened standards were residential real estate loans and, as in 1996, home equity loans. In the latter category, examiners reported that 28 banks (38 percent) had eased their standards, while only three banks had tightened them.

Retail Underwriting Standards



Tightened retail standards were noted in four loan categories. Credit card lending reflected by far the most pronounced tightening of standards, with 39 banks (59 percent) tightening and only two easing. Examiners also reported that more banks had tightened than had eased standards for direct and indirect consumer loans and affordable housing loans.

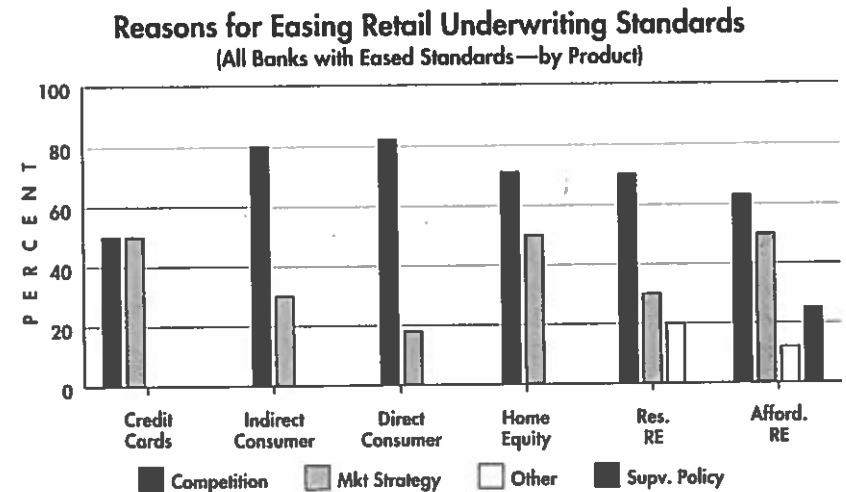


Types of Changes Made in Retail Underwriting Standards

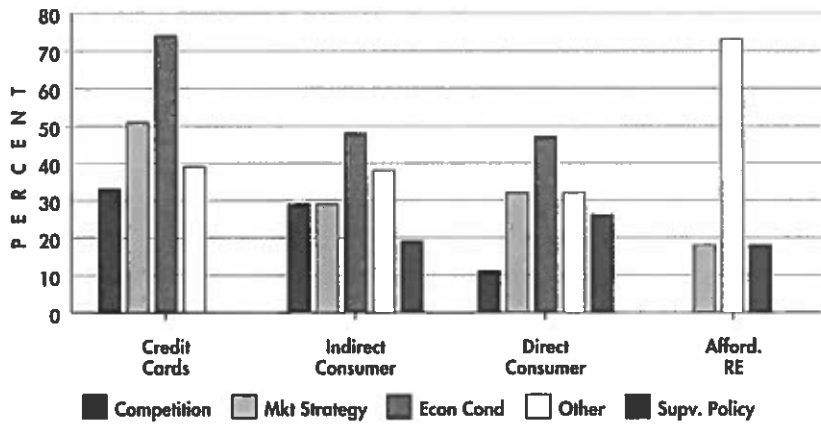
In describing the types of changes made to banks' retail lending standards, examiners selected the option of "Other" in 84 percent of the cases in which banks had tightened standards, and in 56 percent of the cases where standards had been eased. Within this option, examiners most frequently cited higher cut-off scores (for all types of credit-scored loans) and tightened requirements for credit card solicitations as techniques used to tighten standards. Collateral requirements (47 percent) and pricing (33 percent) were the standards most frequently identified as having been eased.

Reasons for Changes in Retail Underwriting Standards

The following two charts depict, by loan category, the primary justifications examiners reported for the easing and tightening, respectively, of retail underwriting standards in the surveyed banks. As with commercial loans, examiners cited competition as the primary



Reasons for Tightening Retail Underwriting Standards
(All Banks with Tightened Standards—by Product)



reason for eased retail loan standards. In banks that had tightened retail standards (particularly credit cards), economic conditions were the most frequently cited reason. Specific economic concerns mentioned were the overall consumer debt burden, accompanied by rising levels of delinquencies, bankruptcies, and charge-offs.

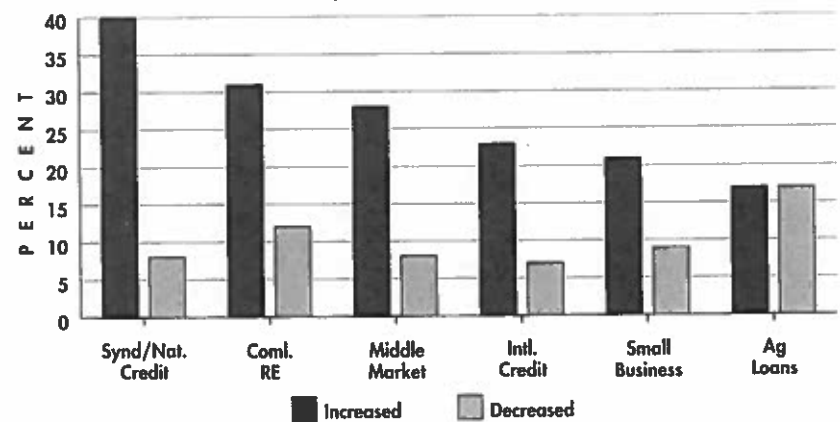
Portfolio Credit Risk

In addition to reporting on changes in underwriting, examiners were asked to characterize what had happened to the level of inherent credit risk in the bank's loan portfolio over two time frames — in the year since the June 1996 survey and in the three years since May 1994 (the baseline reference point for the OCC's first annual underwriting survey conducted in June 1995). In general, examiners reported that there had been a net increase in credit risk across almost all categories of commercial and retail credit over both time periods. Agricultural lending is the only category in which examiners did not see a net increase in inherent credit risk compared with a year ago.

Credit Risk in Commercial Portfolios

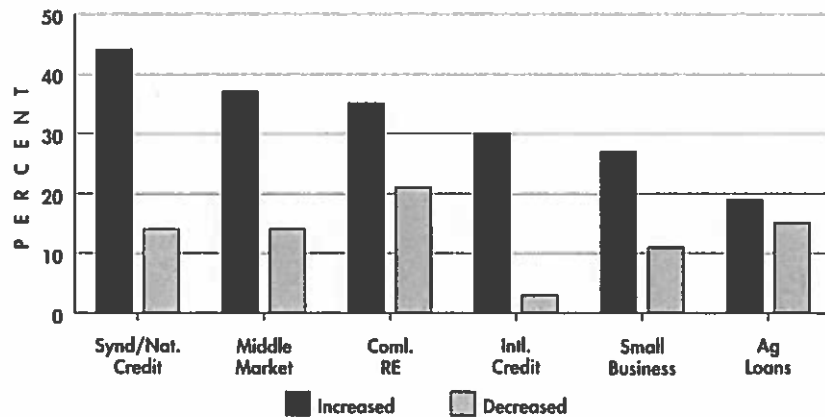
Since June 1996 — The following chart reflects that a significant percentage of surveyed examiners believe the inherent credit risk in their banks' commercial loan portfolios had increased since the 1996 survey. Increased risk was cited most frequently in syndicated/national loans (40 percent for banks active in that market); however, increased risk far exceeded decreases in all commercial categories except agricultural lending.

Changes in Credit Risk in Commercial Portfolios Since 1996
(by Product Component)



Since May 1994 — The following chart depicts inherent credit risk increases in all categories of commercial loans over the past three years.

Changes in Credit Risk in Commercial Portfolios Since 1994
(by Product Component)



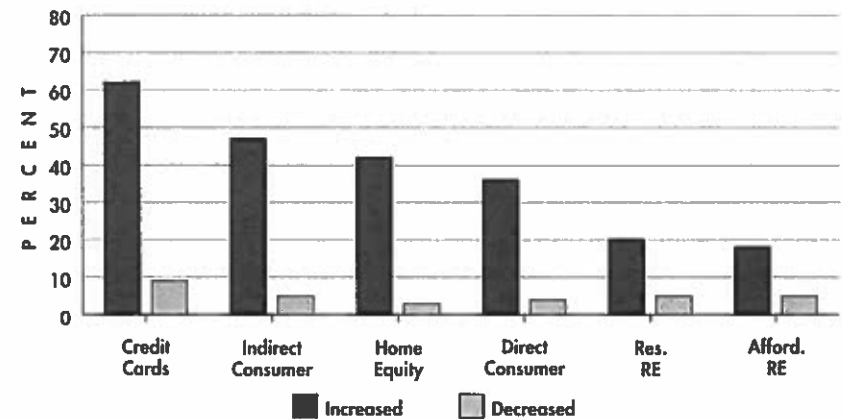
Credit Risk in Retail Portfolios

Since June 1996 — The following chart reflects examiners' assessments of the changes over the last year in the level of inherent credit risk in the retail portfolios of surveyed banks. Compared with a year ago, examiners found an increased level of credit risk in the retail portfolios of surveyed banks. Compared with a year ago, examiners found an increased level of credit risk in 62 percent of the credit card portfolios at the surveyed banks active in that market; 9 percent were considered to have a lower level of credit risk. Similarly, risk had increased in the indirect consumer loan component at 47 percent of the banks making such loans, and had decreased at 5 percent. Increases in risk were significantly greater than decreases across all categories of retail credit.

Although examiners noted tighter underwriting standards for many categories of retail credit, they cited other factors that have led to increases in overall credit risk in retail portfolios, namely — loan growth,

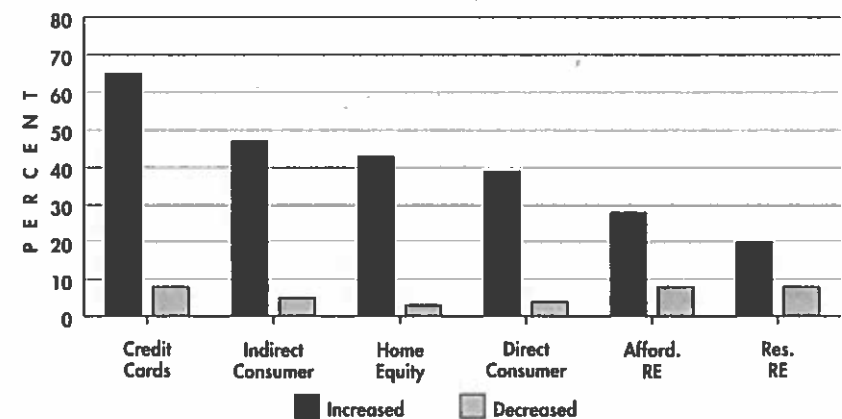
acquisitions, increasing levels of consumer delinquencies and bankruptcies, and higher loan-to-value ratios (e.g., home equity loans with loan-to-value ratios of 100 percent or more).

Changes in Credit Risk in Retail Portfolios Since 1996
(by Product Component)



Since May 1994 — The next chart reflects similar findings on retail credit risk over the past three years. Examiners reported greater increases than decreases in credit risk for all categories of retail credit.

Changes in Credit Risk in Retail Portfolios Since 1994
(by Product Component)



Part II — Results by Loan Type

Part II summarizes results of the survey by type of loan. Each section provides data on the number of surveyed banks engaged in a particular type of lending and discusses whether examiners believe banks have tightened or loosened underwriting standards since last year's survey and, if applicable, reasons for changing standards. Each section includes examiner assessments of the frequency of exceptions to formal lending policies. Each section further contains examiner characterizations of the banks as conservative, moderate, or liberal lenders in that particular product market.

Finally, each section contains a table reflecting examiner assessments of changes in the level of inherent credit risk in that particular type of loan. The tables reflect trends since the June 1996 survey as well as since May 1994, which was the baseline for the OCC's first annual underwriting survey in 1995.

Commercial Lending Portfolios

Syndicated/National Credits

Of the 80 banks included in the survey, 52 were active in the syndicated/national credit market, including 31 of the 34 larger Tier I and II banks, and 21 of the 46 smaller Tier III banks. Across this population, the 1997 survey found eased standards in 26 banks (50 percent), compared with 18 percent in the 1996 survey. Only three banks (6 percent) were found to have tightened standards in the 1997 survey, compared with 9 percent in 1996. For the larger Tier I and II banks, which are more active in the syndicated/national credit market, 68 percent had eased their standards, compared with 30 percent in the 1996 survey.

Easing occurred principally in pricing (24 banks),

financial covenants (15 banks) and collateral requirements and loan maturity (11 banks each). Examiners continued to cite competitive pressures (25 banks) as the predominant reason for easing pricing, followed to a lesser degree by changes in market strategy (five banks).

As a matter of current practice, examiners reported that 77 percent of the banks active in the market were "occasionally" making exceptions to formal lending standards for individual syndicated/national credits. Nineteen percent were reported to "never" make exceptions, and 4 percent were characterized as "often" making exceptions.

Examiners characterized current lending standards for syndicated/national credits as conservative at 53 percent of the surveyed banks, moderate at 41 percent, and liberal at the remaining 6 percent.

Changes in the Level of Credit Risk in Syndicated/National Credit Portfolios
(percent of banks)

June 1997 as compared with:	Declined Significantly	Declined Somewhat	Unchanged	Increased Somewhat	Increased Significantly	Not Reported
June 1996	0	8	52	40	0	0
May 1994	0	14	38	34	10	4

Middle Market Lending

Seventy-three of the 80 banks in the survey population were reported to be making middle market loans. Examiners at 50 of the banks reported that middle market loans represented 10 percent or more of their respective banks' loan portfolios.

Overall, 31 banks (42 percent) engaged in middle market lending were reported to have eased their standards in the 1997 survey, compared with 19 percent in 1996.

Two banks (3 percent) had tightened middle market standards, compared with 6 percent in the 1996 survey.

Twenty-eight of the banks that had eased their standards for middle market loans had made concessions on pricing. Sixteen banks had eased guarantor requirements and 10 had eased collateral requirements. Maturities and amortization requirements had both been eased by nine banks, and eight banks had eased financial covenant requirements.

At the banks that had eased middle market standards, competition was cited most often by examiners as a primary reason (30 banks). This was true for both the larger and smaller banks. Changes in the bank's marketing strategy, the next most common reason for easing, was cited by examiners at six banks.

All surveyed banks were reported to grant exceptions to formal policy standards for middle market loans at least "occasionally"; 10 percent of the banks were cited as "often" granting exceptions.

Examiners characterized standards for middle market loans as moderate at 52 percent of the banks, conservative at 40 percent, and liberal at the remaining 8 percent.

Changes in the Level of Credit Risk in Middle Market Loan Portfolios
(percent of banks)

June 1997 as compared with:	Declined Significantly	Declined Somewhat	Unchanged	Increased Somewhat	Increased Significantly	Not Reported
June 1996	0	8	64	28	0	0
May 1994	0	14	46	36	1	3

Small Business Lending

Seventy-five of the 80 banks covered by the 1997 survey were reported to be lending to the small business market. Eleven of the banks (15 percent) had eased their standards in the last year, compared with 13 percent in the 1996 survey. Twelve (16 percent) had tightened their standards in the last year, compared with 3 percent in 1996.

As in the prior two surveys, the main reasons examiners reported for eased standards were a desire to remain competitive in the marketplace (nine banks) and market strategies (three banks). The method most used to relax standards were reductions of fees and spreads (eight banks). In banks that had tightened standards, concerns about the economic outlook and marketing strategy were both cited as reasons in three banks. Underwriting standards for maturity, amortization, and collateral requirements were all tightened by four banks, and three banks tightened covenant requirements. Of the eight banks using "other" methods of tightening, higher cut-off score requirements were the most frequently mentioned.

The continuing trend of more banks using credit scoring as a tool to increase the efficiency of the approval process for small business lending was noted again in this year's survey. At some banks, the use of credit scoring was accompanied by an increase in the maximum amount for this type of loan. As reported in the previous survey, some banks also used credit cards in lieu of lines of credit for small business borrowers.

Examiners reported that 92 percent of the surveyed banks "occasionally" granted exceptions to formal policy standards when underwriting small business loans. Seven percent of the banks "often" granted exceptions, and 1 percent "never" granted exceptions.

Examiners characterized current lending standards for small business loans as moderate at 49 percent of the surveyed banks, conservative at 44 percent, and liberal at the remaining 7 percent.

Changes in the Level of Credit Risk in Small Business Loan Portfolios
(percent of banks)

June 1997 as compared with:	Declined Significantly	Declined Somewhat	Unchanged	Increased Somewhat	Increased Significantly	Not Reported
June 1996	0	9	70	20	1	0
May 1994	1	10	59	24	3	3

Commercial Real Estate Lending

Seventy-three of the 80 surveyed banks were engaged in commercial real estate lending. Of those banks, 28 (38 percent) were reported to have eased their standards in the last year, compared with 16 percent reported in the 1996 survey. Seven banks (10 percent) were reported to have tightened standards, compared with 11 percent in 1996.

Examiners identified reductions in loan fees or interest rates as the most frequent methods of easing standards (21 banks), up from 10 banks at the last survey. The next most common methods reported by examiners included easing of guarantor requirements (12 banks) and reducing collateral requirements (8 banks).

Examiners cited changes in the competitive environment as the main reason the banks had eased lending standards (28 banks), followed by changes in the economic outlook (five banks) and changes in market strategy (four banks).

Examiners reported that exceptions to formal policy standards for commercial real estate loans were "occasionally" granted at 89 percent of the surveyed banks. Seven percent of the banks were reported to

"often" make exceptions, and 4 percent reportedly "never" made exceptions.

Examiners characterized current lending standards for commercial real estate loans as conservative at 51 percent of the surveyed banks, moderate at 46 percent, and liberal at the remaining 3 percent.

Changes in the Level of Credit Risk in Commercial Real Estate Loan Portfolios
(percent of banks)

June 1997 as compared with:	Declined Significantly	Declined Somewhat	Unchanged	Increased Somewhat	Increased Significantly	Not Reported
June 1996	0	12	57	28	3	0
May 1994	10	11	44	32	3	0

International Lending

In the survey, 22 Tier I and II banks and 10 Tier III banks were reported to be engaged in international lending. Of those, 11 banks (34 percent) had eased their standards in the last year, up from 11 percent reported as easing in 1996. One bank was reported in this year's survey to have tightened standards; none were reported to have tightened in the 1996 survey.

Continuing a trend identified in the 1996 survey, several banks had targeted emerging Asian and Latin American economies for additional portfolio growth, in addition to credit-related capital markets activities.

Consistent with the findings for most other categories of lending covered by this survey, easing of underwriting standards for international credits occurred principally in pricing (12 banks), and to a much lesser degree, by extending maturities (two banks). Competitive considerations were the most frequently reported reason for easing standards for international credits (nine banks) followed by market strategy, which was cited in three banks.

Seventy percent of the surveyed banks were reported to have made "occasional" exceptions to their established loan policies for international credits. Twenty-four percent of the banks were identified as "never" granting exceptions, and 6 percent "often" provided them.

Examiners characterized standards for international credits as conservative at 79 percent of the surveyed banks and as moderate at the remaining 21 percent.

Changes in the Level of Credit Risk in International Loan Portfolios
(percent of banks)

June 1997 as compared with:	Declined Significantly	Declined Somewhat	Unchanged	Increased Somewhat	Increased Significantly	Not Reported
June 1996	0	7	70	23	0	0
May 1994	0	3	60	27	3	7

Agricultural Lending

Fifty-three of the 80 banks in the survey had been engaged in some form of agricultural lending, including 21 Tier I and II banks and 32 Tier III banks. Four banks (8 percent) had eased their lending standards for agricultural loans in the last year, a slight increase from the 2 percent reported as having eased in the 1996 survey. Seven banks (13 percent) had tightened standards, compared with 3 percent in the 1996 survey.

Changes in loan fees and interest rates were most frequently cited as the methods used for changing standards. Examiners reported that three banks had eased pricing, while one bank had raised pricing. In addition, examiners at three banks noted a tightening of both financial covenant and collateral requirements. Examiners did not cite any other lending standard for agricultural loans as having been changed by more than one bank. The economic outlook and market

strategy were both cited in three banks as reasons for tightening standards. Competitive considerations were cited in three of the four banks that had eased standards.

Eighty-six percent of the banks reportedly made "occasional" exceptions to their formal lending policies for agricultural loans, while 12 percent "never" granted exceptions. Two percent reportedly "often" made exceptions.

Lending standards for agricultural loans were characterized as conservative at 52 percent of the banks, moderate at 46 percent, and liberal at the remaining 2 percent.

Changes in the Level of Credit Risk in Agricultural Loan Portfolios
(percent of banks)

June 1997 as compared with:	Declined Significantly	Declined Somewhat	Unchanged	Increased Somewhat	Increased Significantly	Not Reported
June 1996	0	17	66	17	0	0
May 1994	0	15	62	19	0	4

Retail Lending Portfolios

Credit Card Lending

For the 66 surveyed banks that were engaged in credit card lending, including several monoline companies, the 1997 survey results parallel those from 1996, i.e., the overall level of inherent risk continues to increase despite tightened standards at most of the banks. Among the 31 Tier I and II and the 35 Tier III banks with credit card portfolios, 39 banks (59 percent) had tightened standards in the last year, compared with 30 percent that had tightened in the 1996 survey.

Examiners saw some evidence that growth in the bank credit card business had slowed slightly, as 32 percent

(21 banks) had greater than 10 percent growth in credit card outstandings over the previous year, compared with 34 percent of the banks growing more than 10 percent in 1996. Growth exceeding 10 percent for the coming year was projected for only 16 banks (including 11 that had greater than 10 percent growth in 1997).

Examiners cited increased score card minimums (25 banks) as the most common technique used to tighten standards. In addition, some examiners revealed that their banks had tightened specific scoring components, including debt-to-income, length of residency, and length of employment requirements. Other methods involved decreases in maximum lines (13 banks) and increases in fees and/or rates (12 banks), as well as tightening of guidelines for overlines, line increases, cash advance approvals, policy exceptions, and scorecard overrides. Some banks had opted to exit the card business entirely, sell off portions of existing portfolios, or change market strategy to restrict geographic distribution of new cards. Only two banks were reported to have eased credit card standards. Both had made pricing concessions and one had also made other adjustments.

According to the examiners, changes in economic outlook (29 banks), market strategy (20 banks), and the competitive environment (13 banks) were the primary reasons the banks had tightened standards. "Other" reasons reported in 15 banks centered on concerns about the level of delinquencies and losses and the desire to improve portfolio quality.

Eighty-eight percent of credit card lenders were identified as "occasionally" granting exceptions to their formal policies for credit card loans. Eight percent of banks were reported as "never" granting exceptions, while 4 percent "often" made exceptions to policy.

Examiners characterized current standards for credit

cards as moderate at 52 percent of the surveyed banks, conservative at 41 percent, and liberal at the remaining 7 percent.

Although many banks had tightened standards for credit cards, examiners cited other reasons for the increased level of credit risk, primarily trends in consumer delinquencies and bankruptcies.

Changes in the Level of Credit Risk in Credit Card Portfolios
(percent of banks)

June 1997 as compared with:	Declined Significantly	Declined Somewhat	Unchanged	Increased Somewhat	Increased Significantly	Not Reported
June 1996	1	8	27	47	15	2
May 1994	5	3	26	32	33	1

Home Equity Lending (HEL)

Among the 74 banks in the survey that had been engaged in home equity lending, examiners saw a continuing trend toward eased standards. The 1997 survey found easing at 28 HEL lenders (38 percent), compared with 16 percent in the 1996 survey. Three banks (4 percent) had tightened standards, similar to 1996 results.

Examiners reported that home equity loans remained one of the most popular product lines for the surveyed banks, especially the largest ones. Growth in these portfolios had been strong, with many banks having targeted this area for expansion. During the previous year, 27 percent of the surveyed banks reported HEL growth of 10 percent or more, and 27 percent of the banks were also planning growth of 10 percent or higher for the coming year.

Increased loan-to-value ratios (19 banks) and lower fees and interest rates (11 banks) were the options most commonly cited as methods used to ease underwriting

standards for HEL loans. Examiners continued to identify competition (20 banks) and market strategy (14 banks) as the major reasons for changing HEL lending standards.

Ninety-six percent of HEL lenders were reported to have "occasionally" made exceptions to their formal HEL lending policy. Three percent of the banks were identified as having "often" made exceptions to policy, while 1 percent reportedly "never" made exceptions.

Despite the continuing trend of eased HEL standards, examiners considered 60 percent of the surveyed banks to have moderate lending standards, with an additional 25 percent described as conservative. Fifteen percent were deemed to have liberal lending standards.

Changes in the Level of Credit Risk in HEL Portfolios
(percent of banks)

June 1997 as compared with:	Declined Significantly	Declined Somewhat	Unchanged	Increased Somewhat	Increased Significantly	Not Reported
June 1996	0	3	55	42	0	0
May 1994	0	3	53	42	1	1

Direct Consumer Lending

Seventy-four of the 80 banks surveyed in 1997 were engaged in direct consumer lending. The survey found eased standards for this portfolio at 11 banks (15 percent), compared with 16 percent in the 1996 survey. The current survey also found that 19 banks (26 percent) had tightened their standards, compared with 15 percent in 1996.

Survey results show that the methods used by banks to tighten standards included centralized underwriting, credit scoring, revised scorecards, and/or increased cut-off scores. Examiners also reported that many

banks had been stringently monitoring and limiting policy exceptions and scoring overrides, as well as tightening debt-to-income, loan-to-value, and equity requirements. Finally, some banks had been improving their loan approval function, implementing tiered pricing systems, and eliminating poorly performing lending campaigns and solicitations. Banks that tightened standards most often did so because of concerns about the economic outlook (nine banks) or because of a change in their marketing strategy (six banks).

Methods used to ease standards included the introduction of subprime loan products, lowered cut-off scores, or increases in score and policy overrides. According to the examiners, the banks that had eased standards did so because of competition (nine banks) and changes in market strategy (two banks).

Ninety-two percent of the banks were reported to "occasionally" grant exceptions to formal policy on direct consumer loans, with 5 percent "often" granting exceptions. Three percent of the banks reportedly "never" permit exceptions.

Examiners characterized standards for direct consumer loans as moderate at 65 percent of the surveyed banks, conservative at 30 percent, and liberal at the remaining 5 percent.

Higher bankruptcy and consumer debt levels combined with increases in delinquencies and losses were cited as indications of the increased level of credit risk.

Changes in the Level of Credit Risk in Direct Consumer Lending Portfolios
(percent of banks)

June 1997 as compared with:	Declined Significantly	Declined Somewhat	Unchanged	Increased Somewhat	Increased Significantly	Not Reported
June 1996	0	4	60	34	2	0
May 1994	0	4	55	34	5	2

Indirect Consumer Lending

Sixty-four of the 80 banks surveyed in 1997 were engaged in indirect consumer lending. The survey found that 10 banks (16 percent) had eased lending standards for indirect consumer loans, compared with 21 percent in the 1996 survey. Twenty-one banks (33 percent) had tightened standards, compared with 19 percent in 1996.

Banks that had tightened their indirect lending standards typically had implemented a centralized approval process, adopted credit scoring, revised existing scorecards, and/or increased cut-off scores. As with direct consumer loans, many banks were stringently monitoring and limiting policy exceptions and scoring overrides, as well as tightening debt-to-income, loan-to-value, and equity requirements. Also, some banks had implemented tiered pricing systems and eliminated poorly performing lending campaigns and solicitations. Banks that had tightened standards most often did so because of concern about the economic outlook (10 banks). Market strategy and competitive considerations were each cited as reasons for tightening standards in six banks.

Of the banks that had eased standards, methods included offering subprime products and lowering cut-off scores or increasing score and policy overrides. Some banks had also relaxed debt-to-income ratios and provided 100 percent financing on certain products. Examiners reported that their banks had eased standards for indirect consumer loans primarily because of changes in the competitive environment (eight banks), and secondarily because of their market strategy (three banks).

Eighty-nine percent of the surveyed banks were reported to "occasionally" grant exceptions to formal lending policies when approving indirect consumer

loans. Eight percent of the banks reportedly "often" granted exceptions, and 3 percent "never" permitted exceptions.

Examiners characterized current lending standards for indirect consumer credits as moderate at 64 percent of the surveyed banks, conservative at 22 percent, and liberal at the remaining 14 percent.

Examiners cited the following factors as having contributed to increased risk in this product line: customer selection, increasing competition, high-volume growth objectives, and higher consumer debt levels. In addition, standards had been liberalized in some banks in order to expand the offering of subprime products to meet competition and increase market share.

Changes in the Level of Credit Risk in Indirect Consumer Loan Portfolios
(percent of banks)

June 1997 as compared with:	Declined Significantly	Declined Somewhat	Unchanged	Increased Somewhat	Increased Significantly	Not Reported
June 1996	2	3	45	42	5	3
May 1994	2	3	44	33	14	4

Residential Real Estate Lending

Seventy-four of the 80 surveyed banks were engaged in residential real estate lending. The 1997 survey found that 10 banks (14 percent) had eased standards for this category, compared with 5 percent in the 1996 survey. Two banks were found to have tightened standards, compared with three banks in 1996.

The survey indicates that in banks that eased standards, most did so by reducing fees and rates (five banks) or easing collateral requirements (three banks). Examiners believed eased standards were due primarily to competitive considerations (seven banks) and changes in market strategy (three banks).

Ninety-six percent of the surveyed banks were reported to “occasionally” make exceptions to their formal residential real estate loan policies. Three percent of the banks were identified as “never” granting exceptions, and 1 percent “often” permitted them.

Examiners characterized standards for residential real estate loans as moderate at 71 percent of the surveyed banks, conservative at 25 percent, and liberal at the remaining 4 percent.

Changes in the Level of Credit Risk in Residential Real Estate Loan Portfolios
(percent of banks)

June 1997 as compared with:	Declined Significantly	Declined Somewhat	Unchanged	Increased Somewhat	Increased Significantly	Not Reported
June 1996	0	5	73	20	0	2
May 1994	0	8	68	17	3	4

Affordable Housing Lending

For the purposes of this survey, affordable housing loans (AHL) included all types of loans on affordable housing for low- and moderate-income individuals and families, including both one-to-four family and multifamily dwellings. Seventy-three of the 80 banks covered by the 1997 survey were reported to be making affordable housing loans. Since the previous survey, one bank had introduced a new AHL program, and another bank had significantly expanded its AHL program.

The 1997 survey found that eight banks (11 percent) that offered affordable housing loans had eased underwriting standards, compared with 10 percent in the 1996 survey. Eleven banks (15 percent) were found to have tightened standards for affordable housing loans, compared with 8 percent in 1996.

The survey indicated tightened standards had most

frequently taken the form of revised collateral requirements such as lower loan-to-value ceilings (six banks), followed by higher fees and rates (five banks). “Other” instances of tightened standards were cited in seven banks, including more stringent debt-to-income standards, requirements for pre-loan counseling, and a lower per-loan limit on the number of judgmental overrides of credit standards. In the banks that had eased standards, loan-to-value ceilings were also the most frequently eased (five banks), followed by an increase in the maximum permissible loan size (three banks).

The prevalent reasons cited for tightening standards in this category of lending were attempts to address rising delinquencies and improve portfolio quality (six banks). Other frequently mentioned reasons for changing AHL standards included changes in market strategy (four banks eased and two tightened) and the competitive environment (five banks eased).

Eighty-six percent of the banks making affordable housing loans were described as “occasionally” making exceptions to formal standards. Thirteen percent of the banks were reported to “never” grant exceptions, and 1 percent “often” provided them.

Examiners characterized standards for affordable housing loans as moderate at 58 percent of the surveyed banks, conservative at 22 percent, and liberal at the remaining 20 percent.

Changes in the Level of Credit Risk in Affordable Housing Loan Portfolios
(percent of banks)

June 1997 as compared with:	Declined Significantly	Declined Somewhat	Unchanged	Increased Somewhat	Increased Significantly	Not Reported
June 1996	1	4	76	15	3	1
May 1994	1	7	59	22	6	5