



### U.S. BANKS LENDING STANDARDS TIGHTENED AS THE ECONOMIC OUTLOOK BECAME LESS FAVORABLE AMID RISING RATES AND FUNDING COSTS

According to the Federal Reserve Board's April 2023 Senior Loan Officer Opinion Survey on Bank Lending Practices (SLOOS)<sup>1</sup>, banks reported tighter lending standards in the first quarter across commercial and most consumer loans (Figure 1); mid-size banks tightened more than large banks, likely in part reflecting the regional bank turmoil. Banks noted a less favorable or more uncertain economic outlook, reduced tolerance for risk, deterioration in collateral values, and concerns about banks' funding costs and liquidity positions as reasons for tightening. In addition, mid-size banks noted a deterioration in credit quality and deposit outflows as reasons for tightening more than large banks, according to additional text comments provided by the SLOOS. Banks tightened loan terms across loan categories, with tighter terms weighing on credit demand in 1Q23. Banks reported weaker loan demand across most loan categories except for some types of residential loans that improved from recent lows, and for credit cards that remained unchanged compared to the previous survey (Figure 2).

### FURTHER TIGHTENING IS EXPECTED IN 2023

Banks expect further tightening and weaker loan demand for the remainder of 2023 driven by deterioration in credit quality across loan types, deterioration in customers' collateral values, reduced risk tolerance, and concerns about funding costs, liquidity positions, and deposit outflows. Mid-size banks noted concerns about their capital positions, and the effects of future legislative changes, supervisory actions, or changes in accounting standards as reasons for further tightening. Also, banks attributed weaker demand for commercial and industrial (C&I) loans to declining need for investment in plant or equipment, mergers and acquisitions financing needs, inventory financing, and accounts receivable.

### MID-SIZE BANKS TIGHTENED LENDING STANDARDS FOR COMMERCIAL LOANS MORE THAN LARGE BANKS

Mid-size banks tightened lending standards for C&I loans to firms more compared to large banks. A more uncertain economic outlook, a reduced tolerance for risk, worsening of industry-specific problems, deterioration in the current or expected liquidity positions were the key contributors to continued tightening. Banks reported tightening all loan terms, and key tightening measures included an increase in the cost of credit lines, increase in the premium for riskier loans, and wider spreads of loan rates over the cost of funds (Figure 3). Mid-size banks noted the bank's liquidity position, industry-specific problems, reduced risk tolerance, and increased concerns about the effects of legislative changes, supervisory actions, or changes in accounting standards as key reasons for tightening.

Mid-size banks tightened lending standards for commercial real estate loans (CRE) more compared to large banks. All banks reported tighter lending standards for construction and development loans (C&D) than for nonfarm nonresidential loans (NFNR) and multifamily commercial real estate loans. Banks tightened all CRE loan terms, and key tightening measures included wider spread on loan rates, lower loan-to-value ratios, higher debt service coverage ratios, lower maximum loan size and market areas covered across loan types.

### FOR HOUSEHOLDS, LENDING STANDARDS FOR RESIDENTIAL REAL ESTATE LOANS TIGHTENED LESS THAN THOSE FOR CREDIT CARDS

Banks tightened lending standards for most residential real estate loans and for home equity lines of credit (HELOCs), except for GSE-eligible and government residential mortgages. Residential real estate loans include seven categories of residential home-purchase loans.<sup>2</sup> In contrast, a few mid-size banks reported easing standards for GSE-eligible and government contract loans.

Large banks tightened lending standards for credit cards more than mid-size banks. Lending standards tightened more for credit cards loans compared to auto and other consumer loans. Key tightening measures for credit cards included increasing the minimum credit score requirements and decreasing credit limits, wider interest rate spreads on auto loans for autos, and wider spreads over the cost of funds for other consumer loans (Figure 3).

<sup>1</sup> The survey is based on responses from 65 domestic banks and 19 U.S. branches and agencies of foreign banks and was conducted between March 27, 2023, and April 7, 2023. Mid-size banks are defined as those with total assets between \$50B and \$200B and large banks are those with total assets of \$250B or more as of December 31, 2022.

<sup>2</sup> The seven categories of residential home-purchase loans that banks are asked to consider are GSE-eligible, government, QM non-jumbo non-GSE-eligible, QM jumbo, non-QM jumbo, non-QM non-jumbo, and subprime.

Figure 1. All Banks Reported Tighter Lending Standards Across Most Loan Categories

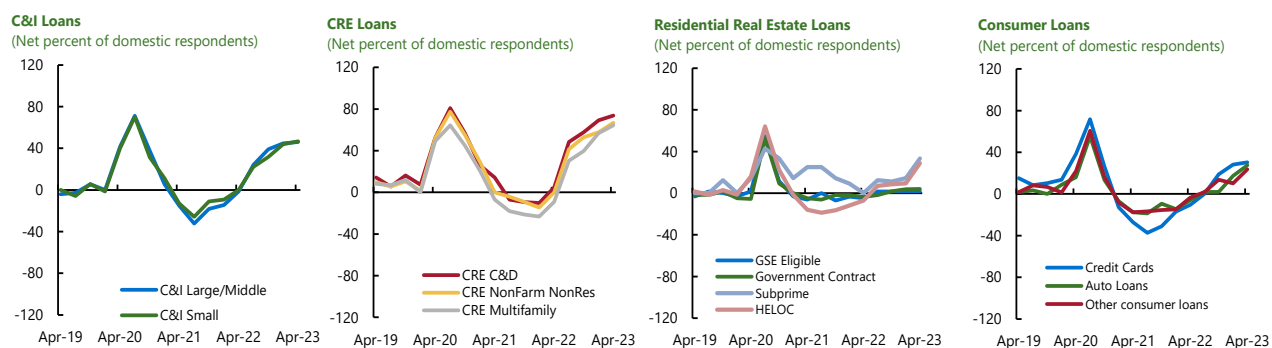


Figure 2. Demand for CRE Loans Dropped Sharply Compared to Other Loan Categories

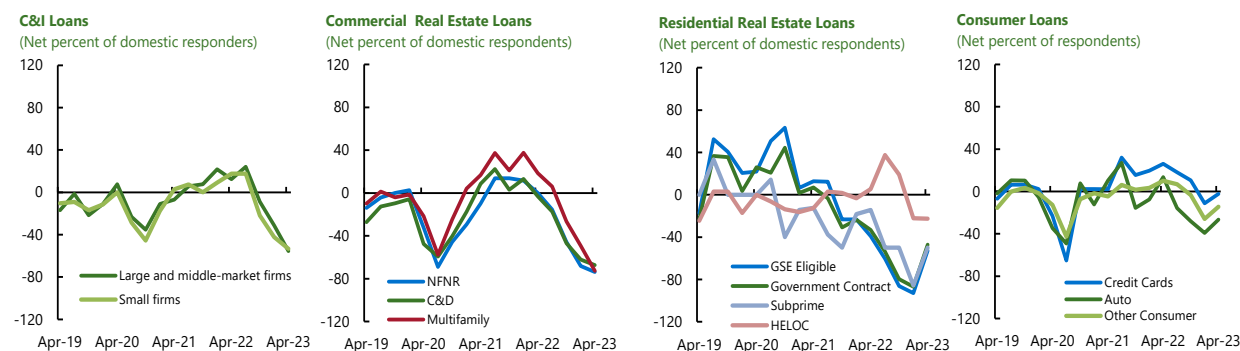


Figure 3. Lending Terms Tightened Across Loan Categories

