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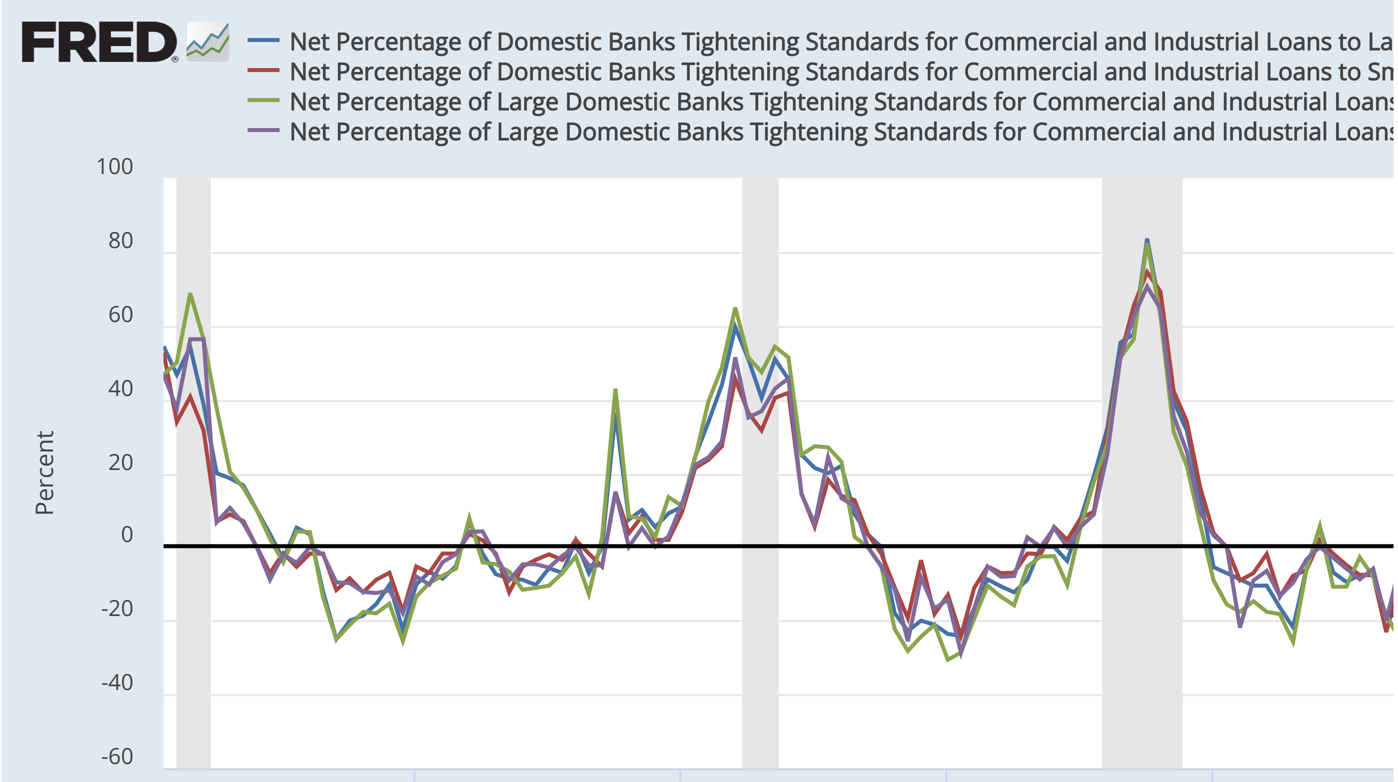
Cycles in lending standards

Data from the senior loan officer opinion survey

Posted on January 26, 2023



FRED recently added more data from the Senior Loan Officer Opinion Survey on Bank Lending Practices (SLOOS). The survey, conducted by the Board of Governors, is currently sent to 124 domestic banks and US branches and agencies of foreign banks. The senior loan officers at those organizations answer a series of questions about their opinions on current lending practices. This qualitative information is used by monetary policymakers to gauge credit market and banking conditions.

The FRED graph above shows the fraction of domestic banks that reported having *tightened* their lending standards minus the fraction of banks that reported having *eased* their lending standards on commercial loans to small firms and to large and middle-market firms. The graph shows data collected from all the surveyed domestic banks and those with large amounts of capital. When the data series is above the zero line, the majority of the surveyed banks are restricting lending; when it is below the zero line, the majority of the surveyed banks are easing lending.

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The data show easier lending conditions during economic expansions, which are the time periods between contractions in economic activity (known as recessions, which shaded areas in the FRED graph). The data also show markedly tighter lending standards ahead of and during recessions. Why do loan officers' perceptions about banking conditions change with the phases of the business cycle?

Research by Chen, Higgings, and Zha studied the relationship between perceived lending standards and uncertainty about the macroeconomic outlook: Uncertainty during recessions makes lending riskier and makes lenders more cautious. Earlier research by Maximiliano Dvorkin and Hannah Shell tapped into the SLOOS data to document the relationship between lending and borrowing perceptions and changes in actual bank lending during the 2001 and the 2007-2009 recessions, showing a direct correlation between opinions and actual loan growth.

How this graph was created: Search FRED for "Net Percentage of Domestic Banks Tightening Standards for Commercial and Industrial Loans to Large and Middle-Market Firms." Next, click the "Edit Graph" button and use the "Add Line" tab to add "Net Percentage of Domestic Banks Tightening Standards for Commercial and Industrial Loans to Small Firms." Repeat the last step to add the similarly named data series from large domestic banks.

Suggested by Diego Mendez-Carbajo.