Economic Research Department

BBVA

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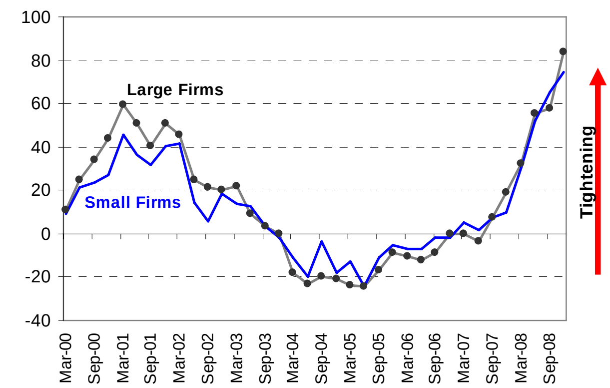
In 3Q08 lending standards tightened, interest rate spreads increased while credit demand decreased

- Lending to firms and households tightened on all major loan categories
- Credit demand is weakening for firms all sizes and for consumer loans of all types
- Credit limits on existing credit cards were reduced not only for non-prime, but also for prime borrowers

Supply for C&I Loans
Net percentage of respondents tightening standards



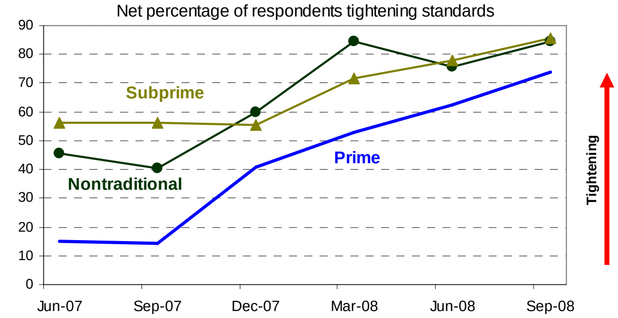
Source: Survey on Bank Lending Practices, FED.

Commercial & Industrial lending

Commercial banks tightened lending standards and terms on all major loan categories, according to the October 2008 Senior Loan Officer Survey on Bank Lending Practices. A less favorable or more uncertain economic outlook, lower tolerance for risk and a worsening of industry-specific problems have been the factors alleged for lending contraction on C&I loans to firms of all sizes. Despite current financial situation, more than 60% of banks responded that deterioration in their bank's current or expected capital position were not important reasons to tighten credit standards. However, 75% of foreign respondents noted that deterioration of capital position had contributed to the move toward more stringent lending policies.

Not only small banks, but also larger banks had tightened their lending standards and price terms. They also increased spreads of loan rates over their cost of funds on C&I loans as well as premiums charged on riskier loans to firms of all sizes. In addition, non-price-related lending terms increased significantly relative to previous survey, reducing both the maximum size and the maximum maturity of loans or credit lines.

Supply for Residential Loans
Net percentage of respondents tightening standards



Source: Survey on Bank Lending Practices, FED.

In such environment, about 40 of respondents reported an increase in the dollar amount of C&I loans drawn under pre-existing commitments. The percentage differed substantially by bank size, with nearly 65% of large banks reporting such an increase, compared with about 5% of smaller banks. With respect to C&I loans that were not previously commitments, roughly 25 percent of large banks reported an increase in the dollar volume of outstanding loans, slightly lower than the corresponding net percentage for smaller banks, 35 percent. About 65 percent of foreign banks indicated that the dollar amount of outstanding C&I loans drawn under preexisting commitments increased on net.

The current survey suggests that demand for C&I loans weakened further in 3Q08. Reasons for lower credit demand were: lower needs for inventory financing, limited investment in plant or equipment and decreasing needs for merger or acquisition financing. Among individual banks that reported an increase in demand, nearly all of them reported that customer borrowing had shifted to their bank from other bank or nonbank sources because these other sources had become less attractive

Mortgages and Consumer lending

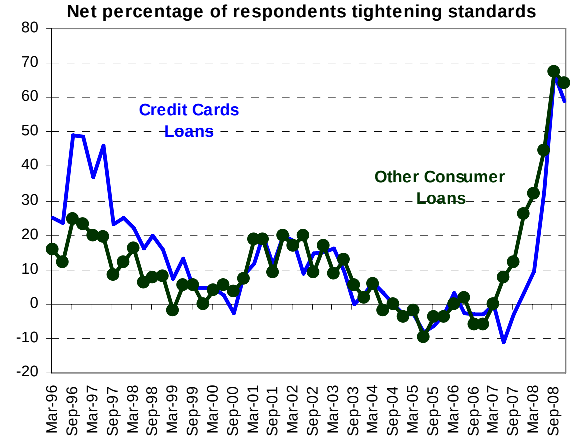
Lending to households has been tightened too. Most of the banks not only had tightened their lending standards on prime, nontraditional, and subprime residential mortgages over the previous three months, but also on both credit card and other consumer loans. Three out of four banks noted that they had tightened also their lending standards for approving applications for revolving home equity lines of credit (HELOCs). In 3Q08, mortgage and consumer credits demand weakened in relation with previous quarters.

Most of the banks had raised minimum required credit scores on credit card accounts and other consumer loans. They also reported having reduced the extent to which credit card accounts were granted to customers who did not meet their bank's credit-scoring thresholds. Finally, most of banks raised minimum required down payments, as well as spreads of loan rates on consumer loans other than credit card loans.

One out of five banks reported having reduced credit limits on existing credit card accounts to prime borrowers and three out of five banks had lowered limits on existing credit card accounts of nonprime borrowers due to a less favorable or more uncertain economic outlook, which has reduced their tolerance for risk.

Supply for Consumer Loans

Net percentage of respondents tightening standards



Source: Survey on Bank Lending Practices, FED.