ECONOMIC UPDATE

REGIONS

February 6, 2024

Q1 2024 Loan Officer Survey: Little Change Expected In Standards, Performance In 2024

The Federal Reserve's quarterly Senior Loan Officer Opinion Survey on Bank Lending Practices (SLOOS) shows that, on net, banks further tightened lending standards across the commercial and consumer spaces over the final quarter of 2023, and at the same time reported further softening in loan demand. The extent of both further tightening in lending standards and falling loan demand, however, was fairly modest in Q4, which is not surprising given the extent to which both had been seen over the prior several quarters. In other words, with lending standards having been tightened significantly and loan demand having fallen significantly since mid-2022, any further changes in in Q4 2023 would have been expected to be marginal. The Fed also asked banks to look ahead to 2024, with the results showing few changes expected in lending standards in 2024 but perhaps some upside for loan demand.

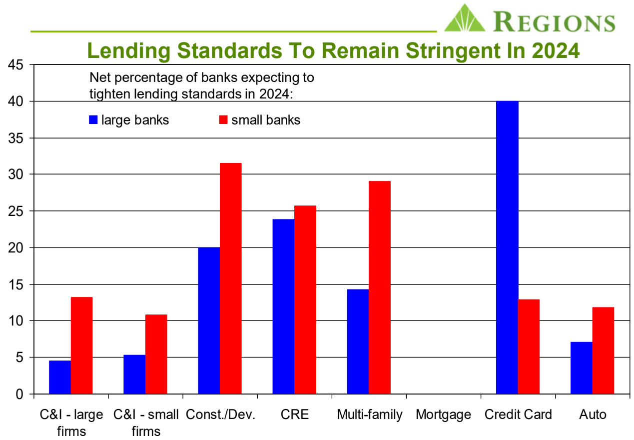
Before getting into the details of the latest survey, we'll offer the following notes. First, the "time stamp" the Fed puts on these quarterly surveys refers to the release date, though the reference period for the survey questions is always "the past three months." So, while banks replied to the latest survey between late-December 2023 and early-January 2024, the replies cover what banks saw in Q4 2023. Also, the survey results are reported as a net percentage; for questions on lending standards, the percentage of banks easing lending standards ("somewhat" or "considerably") is subtracted from the percentage tightening lending standards (somewhat or considerably); any net percentage above zero indicates lending standards having tightened and any net percentage below zero indicates easing lending standards. For questions on loan demand, it is a similar calculation; any net percentage below zero indicates falling loan demand and any net percentage above zero indicates rising loan demand. Important to note is that the net percentage does not account for banks reporting lending standards/loan demand were unchanged, important because it is often the case that either a plurality or a majority of responses fall into this category.

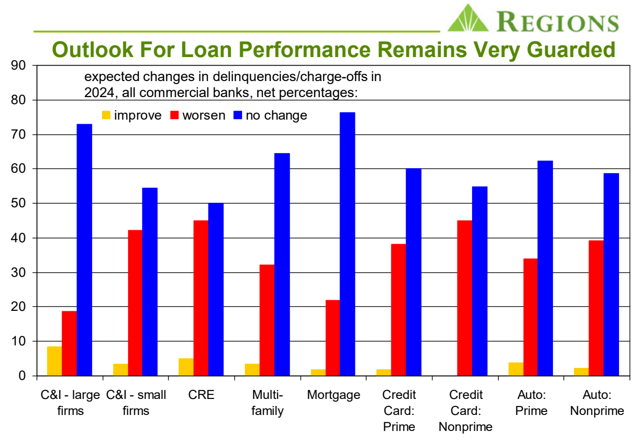
To that point, while on net banks raised lending standards on C&I loans further in Q4, the net percentage of banks that did so was the smallest since banks began pushing standards higher in mid-2022. As noted earlier, that makes sense given the cumulative extent to which standards had been raised prior to Q4 2023. Though the survey shows smaller net percentages of banks raising lending standards on commercial real estate and multi-family loans, the latter which are segregated out of the broader CRE category in the Fed's survey, than over prior quarters, that net percentage is far higher than on other loan types – commercial, consumer, and mortgage. It is also interesting to note that for C&I loans, most of the further tightening in lending standards came from "small" banks (those with assets of less than $100 billion, as delineated in the survey), while large banks continued to tighten standards on CRE/multi-family loans at a pace closer to that seen amongst small banks. Larger banks account for the bulk of further tightening of standards on credit card loans, but keep in mind many small banks do not offer credit card loans.

Actual or expected deterioration in capital positions was cited as a factor by over one-third of banks who reported tightening standards on C&I loans, while over three-quarters cited a less favorable or more uncertain economic outlook. Actual or expected deterioration in liquidity positions and reduced risk tolerance also factored in to further tightening of C&I lending standards. While the survey does not ask banks why lending standards on other loan types have changed, many, if not most, of the banks tightening standards would likely cite these same factors, while concerns over declining asset valuations are also likely contributing to further tightening in standards on CRE/multi-family loans.

There was little let-up in the decline in demand for C&I, CRE, mortgage, and multi-family loans in Q4, but at the same time the demand for consumer loans was much less pronounced than had been the case over prior quarters. Sharply lower shares of banks reported declines in demand for credit card, auto, and other consumer loans than had been the case, which seems consistent with the strength of consumer spending in Q4.

The charts below summarize expectations for lending standards and loan performance in 2024. Note that not a single bank expected to tighten mortgage lending standards further, but that in large measure reflects how stringent these standards have been for more than a decade now. Banks, large and small, remain wary in the CRE space, albeit to a lesser degree for multi-family. If there is a bright spot here, is it that many more banks expect to see loan demand pick over the coming year than was the case going into 2023. Lower interest rates over the course of 2024 would go a long way in seeing that increase in loan demand play out.





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