

## DAILY GLOBAL COMMENTARY

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### Credit Conditions Remain Unfavorable Despite Fed's Attempt to Ease Credit Conditions

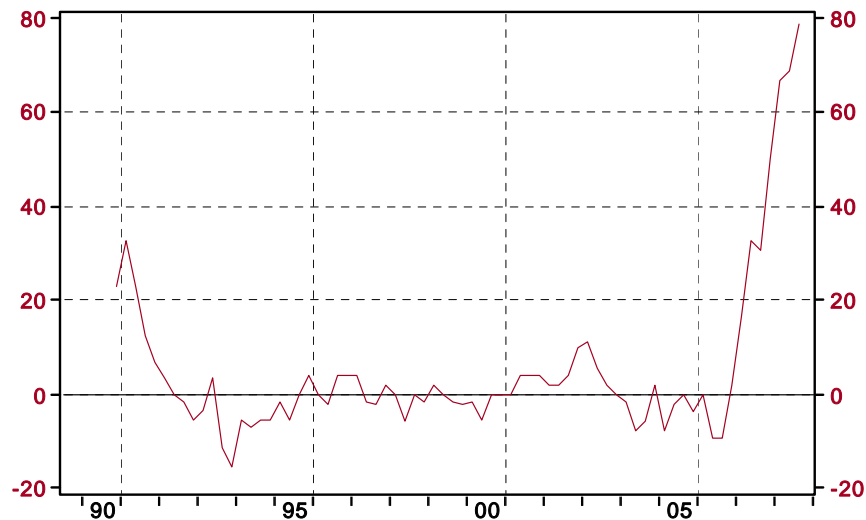
August 11, 2008

The Fed has lowered the federal funds rate 325 basis points since September and set up various programs to support fragile financial markets. According to the Senior Loan Officer Opinion Survey, despite these endeavors the credit crunch remains in place for the most part.

The details of the survey show that the housing market, which was the trigger for the current financial market crisis, is unlikely to stage a rebound in the near term. Almost 80% of respondents (78.7%) indicated that they have tightened mortgage underwriting standards, up from nearly 68.7% in the April 2008 survey.

Chart 1

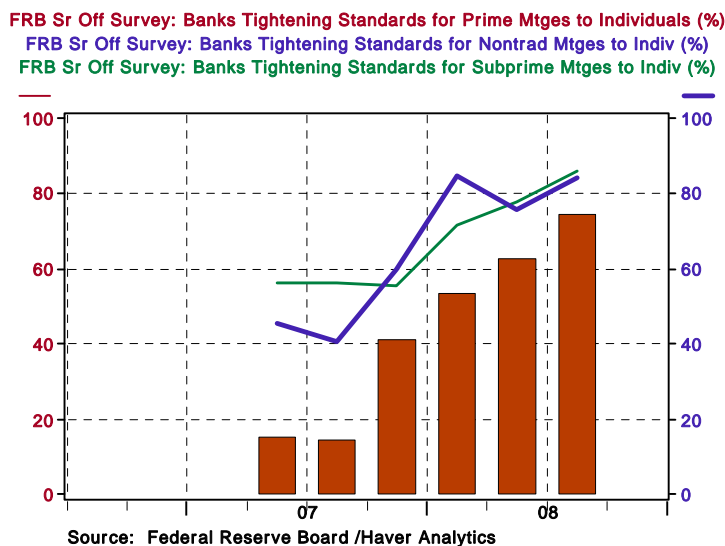
FRB Sr Loan Survey: Res Mortgages: Net Share, Banks Tightening  
Haver Est, %



Source: Federal Reserve Board /Haver Analytics

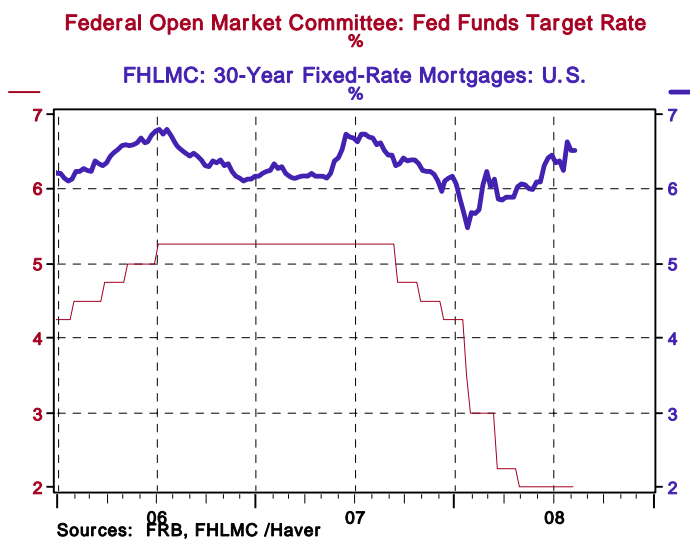
From the details, underwriting standards for mortgages were tightened for all categories of mortgages -- prime, nontraditional, and sub-prime -- in the latest survey period (see chart 2). The number of respondents tightening underwriting standards for prime mortgages (These are mortgages loans extended to borrowers with strong credit history and low debt-to-income ratio at the time of origination of loan) rose sharply in the latest survey compared with that of subprime and non-traditional mortgage loans.

Chart 2



The main conclusion from these results is that conditions remain unfavorable for households seeking mortgages from tightening loan underwriting standards to higher mortgage rates compared with readings a few months ago (see chart 3). The 30-year fixed rate mortgage was quoted at 6.52% for the week ended August 8, up 104 basis points from the low seen in the beginning of 2008.

Chart 3



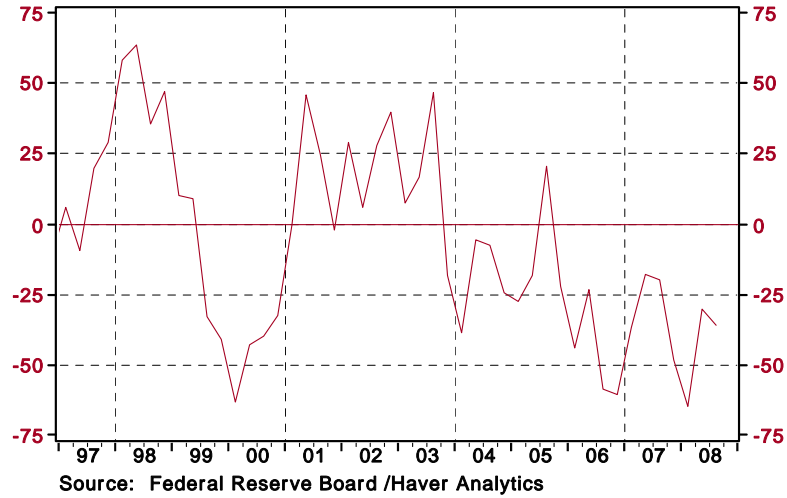
The demand for mortgage loans was weaker during three months ended July vs. the prior three-month period.

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Chart 4

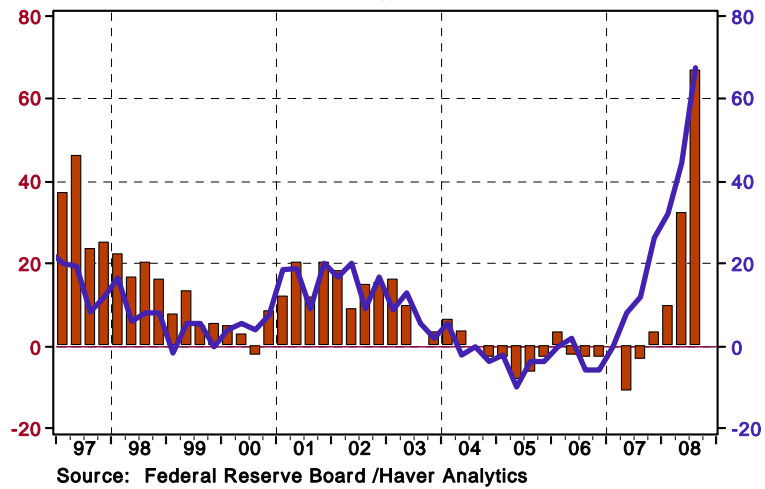
FRB Sr Loan Survey: Res Mortgages: Net Share, Banks w/ More Demand  
Haver Est, %



In addition to tightening underwriting standards for mortgages, the survey results show a significant tightening of standards for credit cards and other consumer loans (see chart 5). Several banks reported they had lowered credit limits on credit card loans in the past three months.

Chart 5

FRB Sr Off Survey: Banks Tightening Standards: Consumer Credit Cards  
FRB Sr Off Survey: Banks Tightening Standards: Other Consumer Loans



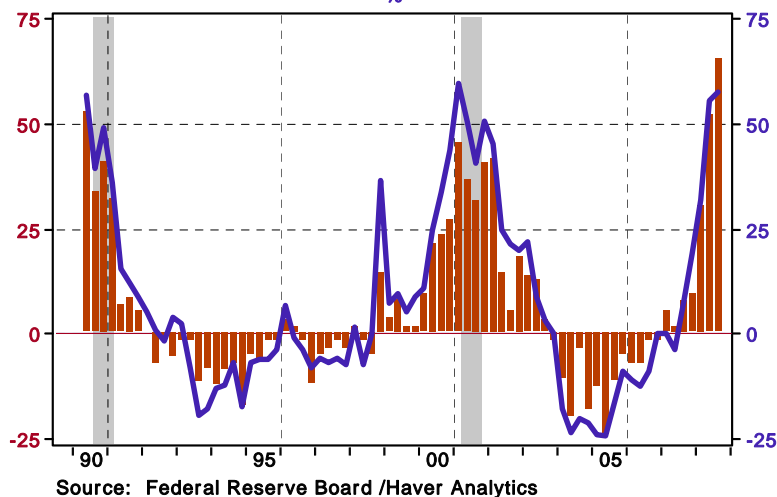
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On the business side, the fraction of banks indicating they had tightened lending standards for small firms hit a new high (see chart 6) at 65.3%, while the percentage of banks reporting tighter conditions for large firms rose to 57.6% from 55.4% in the April survey.

Chart 6

**FRB Sr Officers Survey: Banks Tightening C&I Loans to Small Firms**

**FRB Sr Officers Survey: Banks Tightening C&I Loans to Large Firms**

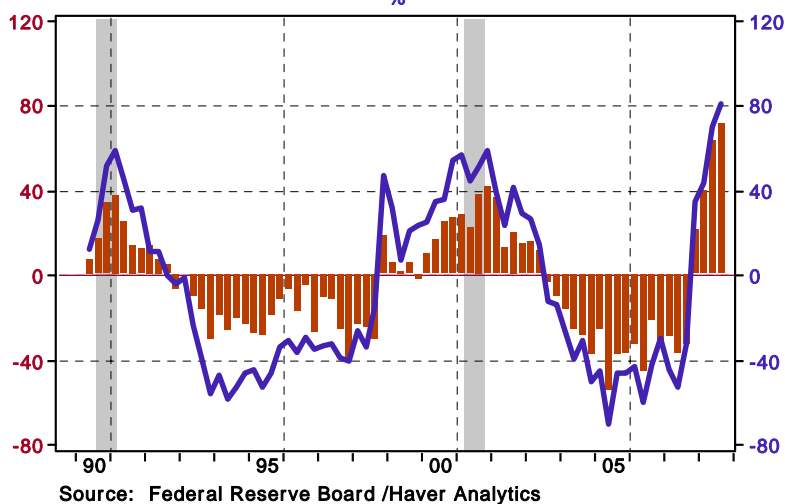


Banks also have raised the spread of loan rates for both large and small firms (see chart 7).


Chart 7

**FRB Sr Off Survey: Banks Incr Spreads of Loan Rates to Small Firms**

**FRB Sr Off Survey: Banks Incr Spreads of Loan Rates to Large Firms**



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The survey also included questions about the outlook for credit standards in the second-half of 2008 and the first-half of 2009. The main message from answers to these questions is that a large percentage of banks would be tightening standards in the latter half of 2008 and the fraction of banks indicating they would tighten standards in the first two quarters of 2009 showed a small decline. Response to another special question about securitizations and sales of conforming-jumbo mortgage loans showed that 45% of banks found the fees of GSEs or other pricing terms prohibitive and 50% of bank indicated a lack of demand.

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