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Results of Chrostwaite Institute Survey of Pennsylvania's Senior Bank Loan Officers Released

For Immediate Release

HARRISBURG, PA (November 23, 2009) – A new survey commissioned by the Chrostwaite Institute, in cooperation with the Pennsylvania State Association of Boroughs, is an indicator that consumer demand for home purchase financing in Pennsylvania contracted in the third quarter of 2009, according to the senior bank loan officers participating in the study.

Sixteen senior bank loan officers responded to the survey, which found that 50% had experienced weaker demand for commercial real estate loans from July 1, 2009 through October 15, 2009. Consumer loan demand was classified as weaker during the period (68.75%) and a strong majority of the respondents said there was no change in their willingness to make consumer installment loans.

For commercial loans, a majority of the respondents (56%) widened their spreads on loan rates over their cost of funds. The survey also indicated that commercial real estate lending policies for Loan to Value (LTV) standards tightened (68.75% of respondents), while nearly 44% of the senior loan officers reported some tightening in their debt service coverage ratio requirements for commercial loans.

“Pennsylvania banks have been remarkably resilient during these latest economic conditions as compared to other regions of the country,” said Chrostwaite Institute Chairman Sam Worley. “Banks are actively reviewing and adjusting their underwriting policies in this volatile environment, yet lending capital is still finding its way into the Pennsylvania economy,” added Worley.

In the wake of the recently resolved Pennsylvania budget impasse, 37% of the senior loan officers reported that demand for loans by local governments and nonprofit organizations was stronger in 2009 than in 2008. A strong majority of the respondents further predicted that municipalities and nonprofits will have greater demand for loans in 2010 than in 2009.

“The survey results point to increased borrowing demand by municipalities and nonprofit organizations as federal, state, and local budget resources contract in this difficult economy. The outlook for greater

demand in 2010 is not surprising since local governments have significant infrastructure needs to finance and community service nonprofits are being fiscally challenged,” said Chris Cap, Deputy Executive VP of the Pennsylvania State Association of Boroughs.

“We believe a positive development has been the recent legislation passed by Congress enabling the Federal Home Loan Bank of Pittsburgh, through their local member banks, to extend letters of credit to local governments and nonprofits. Pennsylvania local banks serve a vital role in promoting liquidity and community lending in our local economies around Pennsylvania. The continued availability of credit is essential to preserving our local communities,” said Cap.

The Chrostwaite Institute initiated the Pennsylvania Senior Bank Loan Officer survey as part of its commitment to studying pertinent economic policy variables central to community development in Pennsylvania. The complete report can be found at www.chrostwaite.org. Chrostwaite Institute activities are funded by a diverse set of donors around the Commonwealth that share in its research mission.

Summary of Results:

Commercial lending

- A combined 37.5% of survey respondents reported some tightening of their underwriting standards for applications on commercial real estate loans in the third quarter of 2009. However, 62.5% reported no changes to their credit and underwriting standards for commercial applicants.
- Demand for commercial loans was either moderately or substantially weaker according to 37.5% of the respondents. A narrow 18.75% reported moderately stronger demand, while 47.5% responded that it remained about the same for the subject period.
- Commercial lending policies tightened somewhat for 25% of the banks surveyed, yet 75% reported no amendments.
- A majority of the respondents (56.25%) widened their spreads on loan rates over their cost of funds and therefore tightened rates considerably or somewhat. Spreads were narrowed by 43.75% of the respondents and eased commercial lending considerably.
- A combined 68.75% of the bank respondents reported some tightening of Loan to Value Standards (LTV) for the subject period and 37.5% said maximum loan size standards tightened considerably or somewhat.
- Fifty percent of the bank respondents reported that lending policies for Take-out financing contracted. Debt Service coverage ratios for commercial real estate loans were tightened by 43.75% of the respondents; however, 6.25% eased their ratio standards considerably. Debt ratios remained the same for 50% of the survey participants.

Residential Mortgages

- Credit standards on residential mortgages for home purchases tightened according to 31.25% of the responding loan officers and 68.75% responded their standards were unchanged during the

survey period. Fifty percent said that credit standards for nontraditional residential mortgages tightened to varied degrees.

- Apart from seasonal variation, 56.25% classified demand for home purchase financing as moderately or substantially weaker, while 12.5% responded that demand was moderately stronger. Demand was classified as unchanged by 31.25% of the survey respondents.
- The demand for residential mortgage refinance loans were weaker by varied degrees according to 37.5% of the surveyed senior loan officers. Demand was classified as moderately stronger by 25% of the respondents.
- Bank credit standards for revolving home equity lines were unchanged according to 68.75% of the respondents and 43.75% said consumer demand was unchanged for these transactions.
- A strong majority of the respondents (68.75%) said there was no change in their willingness to make consumer installment loans and 31.25% said they were somewhat or much less willing to approve these loans.
- Credit standards for consumer credit card applications tightened somewhat according to 81.25% of the senior loan officers that responded. Comparatively, standards for consumer loans other than credit cards were largely unchanged (75%). Consumer loan demand was classified as weaker (68.75%) during the period.

Local Governments & Nonprofits

- Over 37% reported that demand for all types of loans by local governments and nonprofits was stronger in 2009 than in 2008. Nearly 63% of the respondents predicted that municipalities and nonprofit organizations demand for loans would be stronger in 2010 than in 2009.

About the Chrostwaite Institute:

The Chrostwaite Institute is based in Harrisburg and was created in 2008 by the Pennsylvania State Association of Boroughs (PSAB) as a nonprofit organization. The intent behind its creation was to carry on the vision of Mr. Thomas Chrostwaite, who founded PSAB in 1911. He was widely recognized as a model Pennsylvanian who promoted a strong civic environment.

The Institute's activities are dedicated to improving areas such as government efficiency, investment in core communities, fiscal stability, transportation, water infrastructure, community and economic development. A core belief of the Institute is that Pennsylvania must also foster local leadership capacity, promote civic engagement and counter the growing crisis of young talent exiting our Commonwealth in favor of other state economies.