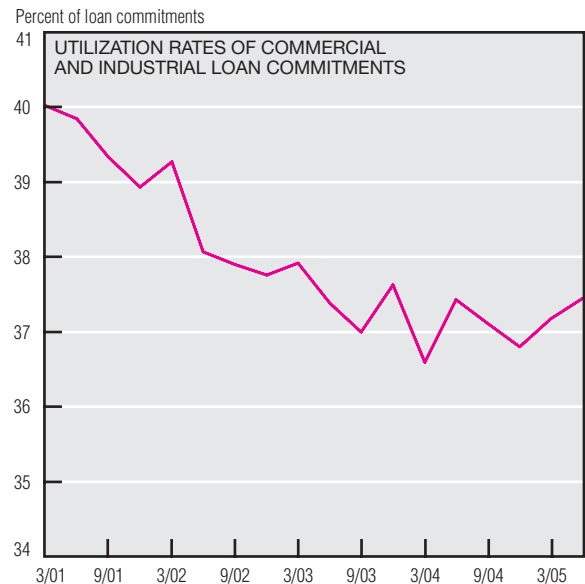
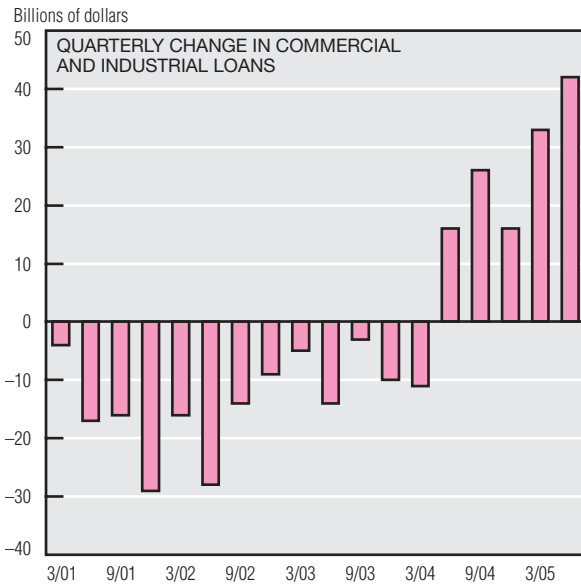
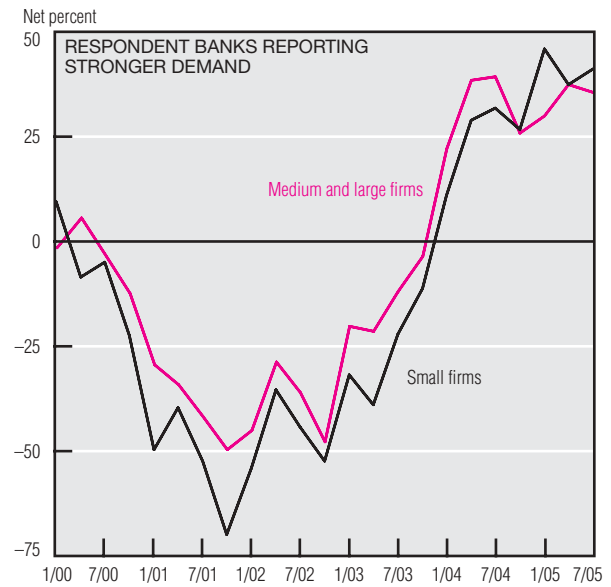
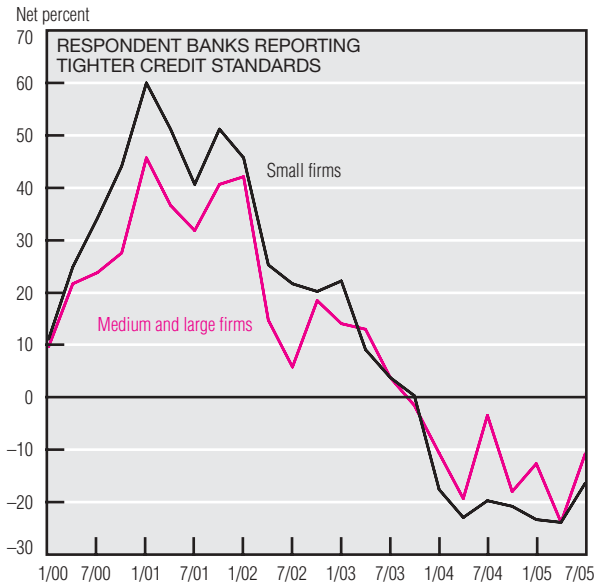


## Business Loan Markets



SOURCES: Board of Governors of the Federal Reserve System, *Senior Loan Officer Survey*, July 2005; and Federal Deposit Insurance Corporation, *Quarterly Banking Profile*, various issues.

Credit availability for businesses continued to improve in 2004, according to the Federal Reserve's *Senior Loan Officer Survey*. A positive net percentage indicates that, compared to the previous quarter, more banks reported higher standards than reported no change or easing standards. A negative net percentage means the opposite. In the July 2005 survey (covering May, June, and July), respondent banks reported further easing of lending standards for commercial and industrial loans, although a slightly smaller fraction reported easing credit standards than in recent surveys.

Respondents had narrowed their lending spreads, reduced collateral requirements, and increased the size of credit lines.

This relaxation of standards was partly a response to stronger competition from other banks and other sources of business credit. More important, perhaps, is that many respondents eased credit terms because of increased risk tolerance or a less uncertain economic outlook. While lending standards were relaxed, demand for commercial and industrial loans continued to be strong. Even with greater demand,

prices dropped, indicating a plentiful supply of business credit.

Relaxed lending standards continued to translate into more commercial and industrial loans. Bank and thrift holdings of such loans increased \$42 billion in 2005:IIQ, the fifth consecutive quarter of expanding business loan portfolios. This increase coincided with little change in the utilization rate of business loan commitments (credit lines extended by banks to commercial and industrial borrowers), further evidence of an increased supply of business credit.