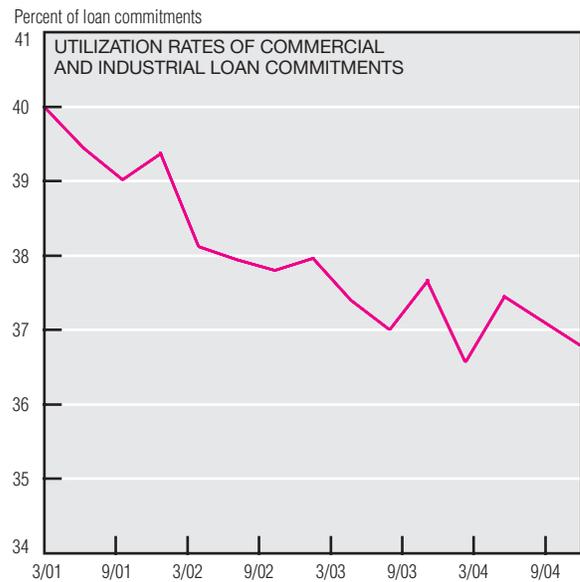
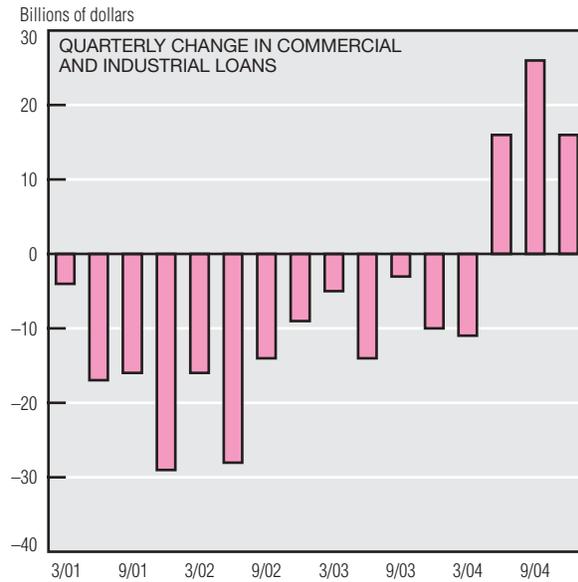
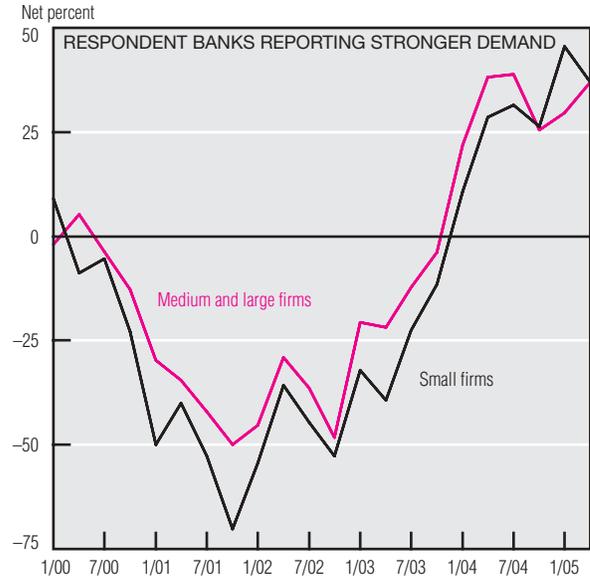
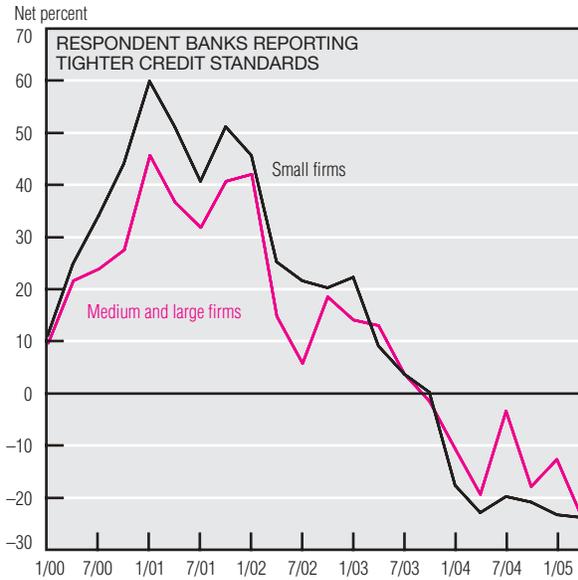


Business Loan Markets



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

Credit availability for businesses continued to improve throughout 2004, according to the Federal Reserve's *Senior Loan Officer Survey*. In the January 2005 survey (covering the months of November, December and January) respondent banks reported that they had further eased lending standards for commercial and industrial loans to borrowers of all sizes. They also indicated that they had narrowed their lending spreads, reduced collateral requirements, and increased the size of credit lines.

This relaxation in lending standards was partly a response to increased competition from other banks and

other sources of business credit. What may be more important is that many respondents said they eased credit terms because the economic outlook was more favorable or less uncertain. Lending standards were relaxed despite a reportedly increased demand for commercial and industrial loans by businesses of all sizes. Even with greater demand, prices dropped, indicating a plentiful supply of business credit.

The relaxation of bank lending standards in 2004 appeared to translate into increased bookings of commercial and industrial loans by depository institutions. Holdings of commercial

and industrial loans increased \$16 billion in 2004:IVQ, marking the third consecutive quarter of expanding business loan portfolios. Overall, holdings of commercial and industrial loans at the end of 2004 were up \$47 billion over the end of 2003. This is the first time since 2000 that FDIC-insured institutions' business loan portfolios have grown during a year. Interestingly, this increase in booked credits coincided with a decrease in the utilization rate of business loan commitments (credit lines extended by banks to commercial and industrial borrowers). This suggests an increase in the supply of business credit.