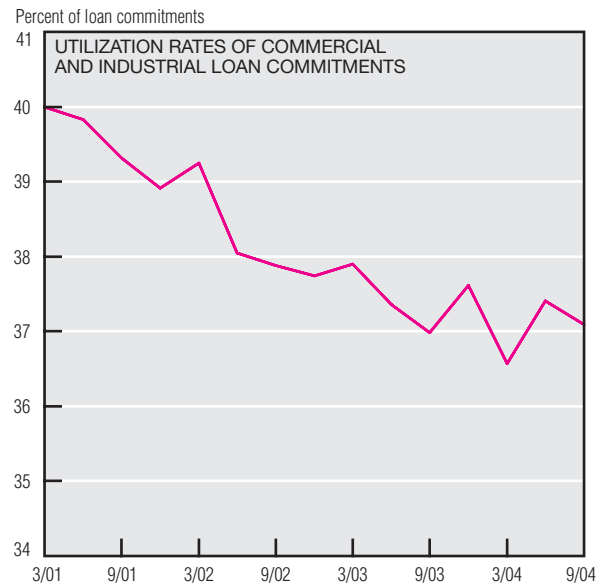
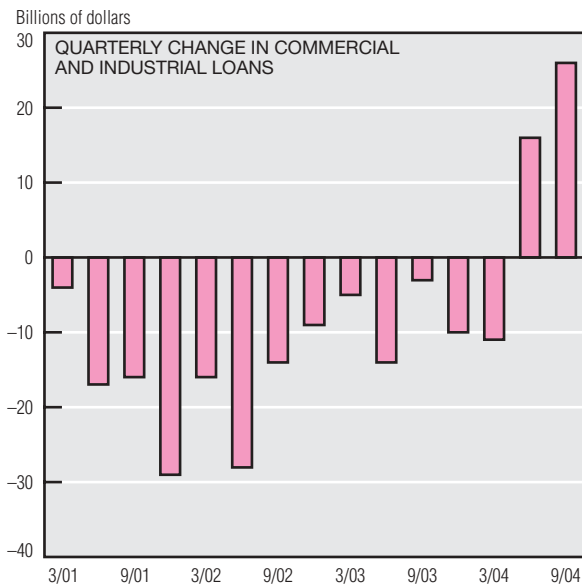
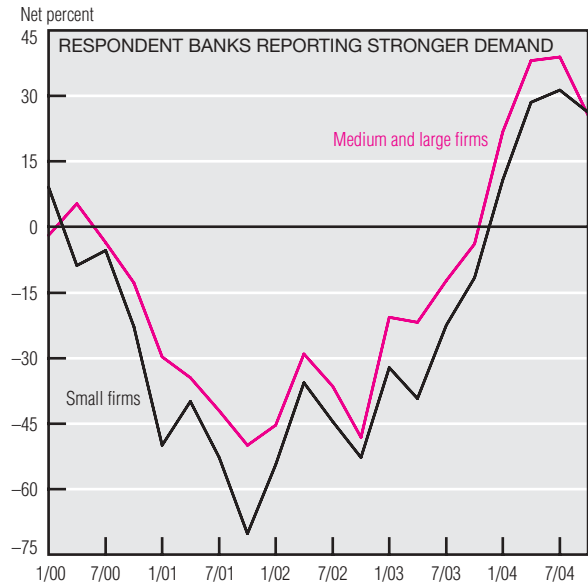
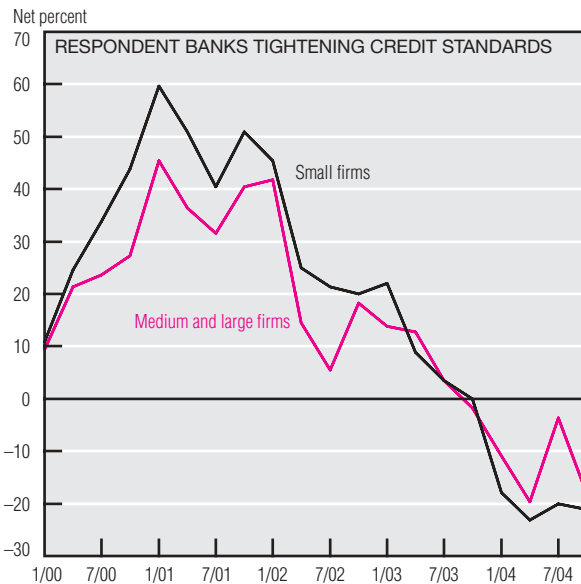


Business Loan Markets



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

Credit availability for businesses continued to improve for most of 2004, according to the Senior Loan Officer Survey. In the October survey (covering August, September, and October) 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. And even with greater demand, prices dropped, indicating that there was 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:IIQ and \$26 billion in 2004:IIIQ. This reversed 13 consecutive quarters of declines in commercial and industrial loan balances on the books of FDIC-insured institutions. The 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), another sign of an increase in the supply of business credit.