Credit availability for businesses continued to improve in 2005, according to the Federal Reserve’s Senior Loan Officer Survey. In the October 2005 survey (covering August, September, and October), respondent banks reported further easing of lending standards for commercial and industrial loans, although a slightly smaller fraction reported easing than in recent surveys. Respondents had narrowed their lending spreads, reduced collateral requirements, and increased the size of credit lines. This relaxation was partly due to stronger competition from other banks and other sources of business credit and partly due to credit terms that eased because of increased risk tolerance or a less uncertain economic outlook.

While demand for commercial and industrial loans by businesses of all sizes continues to be strong, there are signs that demand may be softening: The share of respondent banks reporting stronger demand for business loans from medium and large businesses has fallen from 40.8% in the July survey to 14.3% in October. Demand for small-business loans showed a similar decline, with the share of respondents who reported stronger demand falling from 35.2% to 8.9%.

Relaxed lending standards continued to translate into more commercial and industrial loans. Bank and thrift holdings of such loans increased $7 billion in 2005:IIIQ, the sixth consecutive quarter of expanding business loan portfolios, although the current gain was the smallest of the six quarters. 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 ample supply of business credit.