Credit availability for businesses continued to improve in 2005 and early 2006, according to the Federal Reserve’s Senior Loan Officer Survey. In the January 2006 survey (covering November, December, and January), respondent banks reported further easing of lending standards for commercial and industrial (C&I) loans. Respondents had narrowed their lending spreads, reduced collateral requirements, and increased the size of credit lines. This relaxation was due partly to stronger competition from other banks and other sources of business credit and partly to greater tolerance for risk and increased liquidity in the secondary market for C&I loans.

Demand for commercial and industrial loans by businesses of all sizes continues to be strong, but 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 a record high of 45.5% in the January 2005 survey to 16.1% in January 2006 (up from 14.3% in October 2005). Demand for small-business loans likewise declined, with the share of respondents who reported stronger demand falling from 29.6% in January 2005 to 5.3% in January 2006 (down from 8.9% in October 2005). Relaxed lending standards continued to translate into more commercial and industrial loans. Banks’ and thrifts’ holdings of such loans increased $36 billion in 2005: IVQ, the seventh consecutive quarter of expanding business loan portfolios. This increase coincided with only a slight change in the utilization rate of business loan commitments (credit lines extended by banks to commercial and industrial borrowers), further evidence that business credit is in ample supply.