For most of the past year, the Federal Reserve Board’s Senior Loan Officer Survey has shown continued improvement in credit availability for businesses. For the survey covering February, March, and April 2006, respondent banks reported further easing their lending standards for commercial and industrial loans to borrowers of all sizes, narrowing their lending spreads, and reducing the cost of credit lines. They attribute this to stronger competition (from other banks and other sources of business credit) and greater liquidity of business loans resulting from a deeper secondary market. Lending standards have relaxed despite a reported increase in demand for commercial and industrial loans by large and small businesses; this indicates that a plentiful supply of business credit is allowing prices to drop despite greater demand.

The relaxation of bank lending standards since the end of 2003 continues to be reflected in increased bookings of commercial and industrial loans by depository institutions. The $47 billion increase in banks’ and thrifts’ holdings of business loans in 2006:IQ marks the eighth consecutive quarter of growth, which is a strong reversal of the three-year trend of quarterly declines in commercial and industrial loan balances on the books of FDIC-insured institutions. The increase in booked credits coincides with a steady utilization rate of business loan commitments (credit lines extended by banks to commercial and industrial borrowers) since September 2004, further evidence of the increased supply of business credit.