Credit availability for businesses improved at a slower rate in 2006:IIQ, according to the Federal Reserve’s Senior Loan Officer Opinion Survey. In the October 2006 survey, domestic and foreign banks reported mixed changes in lending standards and terms for commercial and industrial (C&I) loans. However, domestic banks tightened standards and terms for commercial real estate loans.

Demand for C&I loans for businesses of all sizes has softened considerably since the beginning of the year. The share of respondent banks reporting stronger demand for business loans from medium and large firms fell from 16.1% in January 2006 to –3.7% in July, which indicates that more banks report weakening demand than strengthening or unchanged demand. Demand for small business loans also moderated, with the share of respondents who reported stronger demand falling to –13% (from 5.3% in January 2006). An increased need to finance mergers and acquisitions and to invest in plant or equipment heightened demand for C&I loan demand at some banks. Those that reported lower demand ascribed it to a decreased need to invest in plant or equipment, improvement in customers’ internally generated funds, and less need for inventory financing.

Relaxed lending standards continued to translate into more C&I loans. Bank and thrift holdings of such loans increased by $32 billion in 2006:IIQ, the ninth consecutive quarter of expanding business loan portfolios. Although the utilization rate of business loan commitments (credit lines extended by banks to commercial and industrial borrowers) edged down, it still shows an ample supply of business credit.