Fed: Loan standards relax

Businesses and consumers find it easier to borrow

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Construction of a commercial complex was underway in Springfield, Ill., in July as banks eased loan requirements.

The home mortgage market improved last quarter as demand increased and many banks eased their lending standards for the most creditworthy borrowers, the Federal Reserve said Monday.

Banks also loosened lending criteria for a variety of other consumer and business loans as the economy improved and demand picked up.

"The July survey results showed a continued easing of lending standards and terms for many types of loan categories, and a broad-based pickup in loan demand," the Fed said in its senior loan officer survey.

The developments could foreshadow a turnaround in the housing market, which has slowed this year amid last year's increases in mortgage rates and higher home prices.

4.12%
Average rate for a 30-year fixed mortgage

More favorable credit conditions have been cited as a key driver of stronger economic growth recently. Last week, the government said the economy grew at a better-than-expected annual rate of 4% in the second quarter.

Credit standards for many loans, including mortgages, are still more stringent than they were before the 2008 financial crisis, but they've eased in recent months, the survey shows.

Mortgage demand started to flag as borrowing costs edged up after Federal Reserve officials signaled in May 2013 that the central bank would soon wind down bond purchases holding down long-term interest rates.

Rates for 30-year fixed mortgages jumped nearly a percentage point to 4.46% by the end of last year. But rates have drifted down this year — and were 4.12% last week — in part because the Fed has indicated that it's in no rush to raise short-term interest rates.

Half the banks surveyed by the Fed in July said demand for prime mortgages was stronger in the past three months. Lenders had reported weakening demand the previous three quarters.

Even more encouraging, nearly a quarter of the banks said they eased credit standards for prime mortgages, the most since the 2007 housing crash. Only about 6% toughened their criteria.

Several large banks also loosened standards, boosted credit limits and reduced the minimum credit score required for credit card loans.

A surge in borrowing similarly boosted business loans, with more than 30% of banks citing stronger demand from small, midsize and large businesses and only about 5% reporting weaker demand.

About 11% of banks surveyed eased their standards for loans to midsize and large companies, and 8% did so for small businesses, while none tightened.

Banks cited more aggressive competition from other banks or lenders as the main reason for loosening their standards, along with a more favorable economic outlook.